

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re: BOOMERANG TUBE, LLC, a Delaware limited liability company, <i>et al.</i> , ¹ <p style="text-align: center;">Debtors.</p>	Chapter 11 Case No. 15-11247 (MFW) Jointly Administered REDACTED VERSION
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**APPENDIX TO POST-CONFIRMATION HEARING BRIEF OF THE
OFFICIAL COMMITTEE OF UNSECURED CREDITORS IN FURTHER
OPPOSITION TO CONFIRMATION OF DEBTORS' AMENDED
JOINT PREARRANGED CHAPTER 11 PLAN**

TAB NO.	EXHIBIT NO.	DOCUMENT
1	N/A	Selections of Transcript of September 21, 2015 Hearing [D.I. 568] (the "9.21 Hr'g Tr.")
2	N/A	Selections of Transcript of September 22, 2015 Hearing [D.I. 572] (the "9.22 Hr'g Tr.")
3	N/A	Selections of Transcript of September 24, 2015 Hearing [D.I. 577] (the "9.24 Hr'g Tr.")
4	N/A	Selections of Wagner Deposition Transcript

¹ The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: Boomerang Tube, LLC (9415); BTCSP, LLC (7632); and BT Financing, Inc. (6671). The location of the Debtors' corporate headquarters is 14567 North Outer Forty, Suite 500, Chesterfield, Missouri 63017.

Tab 1

Transcript of September 21, 2015 Hearing

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UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

IN RE:)	Case No. 15-11247 (MFW)
	)	Chapter 11
BOOMERANG TUBE, LLC, a Delaware)	
Limited Liability Company,)	
<i>et al.</i> ,)	
Debtors.	)	Courtroom No. 4
	)	824 Market Street
	)	Wilmington, Delaware 19801
)	
	)	September 21, 2015
	)	9:30 A.M.

TRANSCRIPT OF HEARING
BEFORE HONORABLE MARY F. WALRATH
UNITED STATES BANKRUPTCY JUDGE

-- [UNDER SEAL] --

APPEARANCES:

For the Debtors:	Young Conaway Stargatt & Taylor, LLP
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Proceedings recorded by electronic sound recording:
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1 proposed release and we'll make that decision prior to the
2 end of this confirmation hearing.

3 Your Honor, as a result of the Committee's lien
4 review, the Debtors will modify the plan to include the
5 following assets that will be transferred to the GUC
6 [phonetic] trust on the effective date. GUC is G-u-c.
7 Certain vehicles owned by the Debtors whose certificate of
8 title do not notate a lien in favor of the secured creditor,
9 either the vehicles or the value of those vehicles will be
10 sent to the GUC trust. Unscheduled commercial tort claims
11 that have not been or are not being settled under this plan
12 would go to the GUC trust and a certain life insurance policy
13 in which the Debtors hold a beneficial interest also will go
14 to the GUC trust under the plan.

15 And, finally, Your Honor, Access who is both a term
16 lender and the Equity sponsor. They have agreed to fund
17 \$250,000.00 to the Debtors. Those funds to be used to cover
18 employee benefit programs as determined by the CRO, so that's
19 a cash contribution to the Debtors by Access. Your Honor, as
20 we indicated in our brief filed on Friday, the Debtors will
21 provide testimony and argument on valuation and some of the
22 other confirmation issues raised by the Creditors Committee.
23 And also separate testimony and argument on the Debtors'
24 proposed recharacterization of the putative lease with SBI
25 recharacterizing it as secured financing transaction.

1 A. No we do not.

2 Q. Does the fact that Boomerang -- can Boomerang produce
3 seamless pipe?

4 A. No not with my facility. I'd probably have to build a
5 whole new facility to make seamless pipe. You got to handle
6 malt and steel and the extrusion equipment.

7 Q. What practical effect do you think this has on the --
8 strike that. What practical effect do you think it has on
9 the Debtors' business that it only makes welded pipe as
10 opposed to seamless?

11 A. I don't have a wide array of products and there's certain
12 customers, especially offshore, that I don't sell to. Now I
13 do try to sell my premium alloy as a substitute to seamless
14 in certain situations. Seamless typically is a \$100 to \$200
15 dollars more expensive per ton. And to date, I've really
16 only been successful in one program in swapping out an E&P
17 customer seamless for my premium alloy that was EOG. We try
18 all the time, but we've only had really one success in
19 swapping out pipe out for seamless.

20 Q. Do you have a sense of what the size of both Vallourec
21 and Tenaris in comparison to the Debtors?

22 A. They're larger. I don't know their particular size or
23 their domestic sales.

24 Q. But I believe you've testified they sell to both domestic
25 and international?

1 to have projections from three to five years in a business
2 plan; our projection for three and a half years. But when I
3 sat down and looked at all of the management team in the eyes
4 and said are you confident with these assumptions they said
5 yes we are, but 2019 is a bit far out. We don't feel
6 comfortable projecting 2019.

7 Now since then, our July revenues were almost dead on. We
8 projected 12,000 tons in a \$1300 price. And July came in at
9 11,894 and our price was like 1290, so we were very close in
10 July. August and September are a different story and a lot
11 of that I think just because of the volatility of oil prices
12 in August it has caused a lot of the E&P companies to be very
13 cautious about their drilling programs. And so I tell you in
14 August I sold rather than 12,000 tons projected I sold 9700
15 tons and my price dropped down to 1275. And if I look at
16 September I'm probably going to be at about 10,500 tons
17 versus the 12,000 projected and my price is going to be short
18 of 1250 rather than the 1300 per ton price on projected.

19 Another thing I tell you is that we look at, I mention we
20 look at the projections of capex spend of the E&P companies
21 that are our end customers and a lot of them they projected
22 it in 22 but they came back and revisited it in 23. And many
23 of them project a decline in capex spending from 2015 to 2016
24 so that may not be a good omen to my projections or to my
25 2016 business.

1 MR. POHL: It's in his book but I wasn't going to
2 ask him to start reading it, Your Honor, but it's Tab 1 in
3 his book if he wants to read it.

4 THE WITNESS: That's good to know; thanks.

5 THE COURT: All right if he needs to refer to it he
6 can.

7 BY MR. POHL:

8 Q. Now is it fair to say that if you achieve the deal you're
9 aiming to reach with the foreign steel supplier that you'll
10 save somewhere between \$45 and \$50 a ton for your steel
11 purchases?

12 A. Yes.

13 Q. You are also, at least at the time of your deposition,
14 you were considering a corporate office move that would save
15 approximately \$30,000 a month in rent, right?

16 A. At that time, it's working out to \$25,000 a month.

17 Q. Okay. Now you testified in your direct testimony that
18 the so-called debt hurdle that we're dealing with today by
19 way of valuation is \$312 million dollars, right?

20 A. Before any; if we go with domestic steel suppliers and
21 owe them about \$8 million pursuant to their settlement.

22 Q. Okay let's come back to that. In your prior testimony I
23 think this was at the DIP hearing the time you had projected
24 about a \$320 million dollar hurdle, right?

25 A. I don't remember specifically. I don't doubt you, but.

1 Q. Okay that's the vendor we were talking about before,
2 right?

3 A. Right.

4 Q. And is it correct that they have not supplied you with
5 steel during the case?

6 A. Yes.

7 Q. Okay. So the fact that you haven't received goods from
8 them so far on the day of confirmation has it resulted
9 interruption of your operations?

10 A. No nor have I paid that amount.

11 Q. Okay has it impaired your ability to service your
12 customers?

13 A. Correct and nor have I paid that amount.

14 Q. It hasn't caused you a problem in the period immediately
15 after the petition was filed the failure to pay?

16 A. No.

17 Q. Has not caused the value of the estate to decline?

18 A. No, no. It would enhance the value if I could swing a
19 deal and they gave me credit.

20 Q. Okay but they haven't supplied goods during the case and
21 that has not caused the value of the estate to decline,
22 right?

23 A. Correct and nor have I paid the amount.

24 Q. And it hasn't caused significant disruption -- well let
25 me rephrase it. The fact that you haven't paid the amount

1 hasn't caused significant disruption in the Debtors'
2 operation or finances, right?

3 A. No.

4 Q. And if you're to turn to the second page of this exhibit
5 and at the bottom or I should say underneath all of the
6 numbers there's a gray shaded area, do you see that? It says
7 pay and looks like four entities?

8 A. Yeah, yeah.

9 Q. And that gray shaded area corresponds to the gray shaded
10 areas in the August column, right?

11 A. Right.

12 Q. So if I look at August I'll see four numbers that are
13 shaded gray, right?

14 A. Yes.

15 Q. And those are all companies that you are in discussions
16 with or maybe you've come close to retaining a deal but you
17 don't have a signed agreement, right?

18 A. Correct.

19 Q. And so the indication is here don't pay this August
20 because you don't have a signed deal yet, right?

21 A. Yes.

22 Q. And then to the extent that the Court was looking for any
23 more information, it could look in the status column and if
24 it doesn't say part of corporate negotiations and it doesn't
25 say completed, need to sign contract, it will be, and I

1 believe it's all on page 2, several line items where offers
2 have gone out and you are still waiting for responses and
3 further discussions, right?

4 A. Yes.

5 Q. You can set that aside, sir. Going to the perpetuation
6 sale process that you covered, a little bit on your direct
7 testimony, you recall that it was early May that the board
8 authorized Lazard to undertake what was described as a 30 day
9 sale process, right?

10 A. Yes.

11 Q. And you would agree with me that that was not going to be
12 the so called full blown CIM process to be associated with
13 such a sale?

14 A. Correct.

15 Q. And that 30 days, in your view, and I think you said this
16 in one of your depositions, is not enough time to sell a
17 company, right?

18 A. Yes.

19 Q. And we talked about this when we went through some of the
20 exhibits that Lazard prepared a teaser, so called Project
21 Brisbane, right?

22 A. Yes.

23 Q. And then if you signed an NDA, then you got the more
24 fulsome confidential information memo, right?

25 A. Yes, the investor kind.

1 Q. Have you ever seen a release provided in a plan that
2 didn't fit that description, one that was the product of
3 arm's length negotiations?

4 A. Not that I recall.

5 Q. Paragraph 37, you go on to further justify the releases
6 by telling the Court that the release parties share a common
7 goal of successfully reorganizing, do you see that? I have
8 paraphrased the last sentence.

9 A. Restructuring, yes.

10 Q. Okay. Again, have you ever seen a release approved in a
11 plan that didn't fit into that category?

12 A. Not that I recall, no.

13 Q. Paragraph 37, you also mention that there are release
14 parties that are beneficiaries of, excuse me; that are
15 entitled to indemnification, do you see that? First
16 sentence, paragraph 37.

17 A. Yes.

18 Q. Okay and who is it that you are referring to?

19 A. If this is referring to the Debtor release, I think we
20 are generally referring to officers and directors.

21 Q. Okay and are you aware of whether they have filed any
22 claims in the case?

23 A. I'm not sure I'm following.

24 Q. Are you aware of whether any director or officer has
25 filed a proof of claim in the case?

1 rejected, wouldn't that be an unsecured claim?

2 A. Access did waive the majority of the dollar amounts due
3 under that management agreement. Access, as we indicated
4 before, participated in support of the plan, threw out a
5 couple out of Court restructuring officers, provided
6 \$500,000.00 for me to make payroll in April, released their
7 or gave up their deficiency claims to their share of the term
8 debt; so they gave quite a bit.

9 Q. Okay. Let me go back to my question because, I think,
10 you sort of went off on a speech, not answering my question.
11 Let me try to clarify my question. You recall that Access
12 has a prepetition management agreement that was amended?

13 A. Yes.

14 Q. Okay. It included an indemnity obligation, right?

15 A. Yes.

16 Q. If that, based upon your experience, CRO, player in the
17 industry, if that management agreement had been rejected as
18 part of the bankruptcy case, the indemnity claim would be an
19 unsecured claim, right?

20 A. Yes.

21 Q. Okay and that is also a class six claim, subject to the
22 same question I just asked you, right?

23 A. Yes.

24 Q. Now, instead, you agreed to modify that agreement, right?

25 A. Yes.

1 Q. The purpose of that modification was to narrow the
2 indemnity, right?

3 A. Yes.

4 Q. And you agreed, though, that with the narrowed indemnity,
5 you would assume that agreement, right?

6 A. Yes.

7 Q. Now is Access, post-effective date, going to be providing
8 any management services?

9 A. No.

10 Q. And you said that they agreed to waive their prepetition
11 claims, do you know where they evidenced that waiver? It
12 wasn't in the PSA, was it?

13 A. No, I don't recall the document where they agreed to
14 waive the amounts owed.

15 Q. And that amount owed, whatever it might be, would be a
16 class six unsecured claim, right?

17 A. Unsecured claim.

18 Q. Now, I recognize and I believe you say this in paragraph
19 38 of your declaration that Access, like other parties,
20 signed the PSA and a release was part of the PSA, right?

21 A. Yes.

22 Q. Okay. But you are not saying that if a release is
23 included in a term sheet that is stapled to the back of a
24 plan support agreement that the Court approves, plan support
25 agreement, not the term sheet, that that alone should trump

1 Q. Okay and, again, at least until this morning, that
2 included Mr. Eisenberg, right?

3 A. Yes.

4 Q. Mr. Eisenberg was terminated in February by the board,
5 right?

6 A. Yes.

7 Q. And Mr. Eisenberg didn't participate in the plan process,
8 did he?

9 A. No.

10 Q. He didn't make a monetary contribution to the plan,
11 right?

12 A. No.

13 Q. Now isn't it also the case that Mr. Eisenberg is a part
14 owner of Pinnacle Machine Works, are you aware of that?

15 A. Yes.

16 Q. And Pinnacle Machine Works, just to connect the dots, is
17 an affiliate of SBI Boomerang, the party your counsel talked
18 about this morning, that it's having a fairly contentious
19 equipment lease litigation with, right?

20 A. Yes.

21 Q. And the Debtor is also party to a supply agreement with
22 Pinnacle Machine Works, right?

23 A. The coupling supply agreement is with Pinnacle, yes.

24 Q. And isn't it the case that Mr. Eisenberg, that while he
25 was CEO and a member of the board, did not disclose to the

1 board his ownership in Pinnacle Machine Works?

2 A. That is my understanding.

3 Q. And, in fact, he held that ownership interest while
4 Boomerang was negotiating its deal with Pinnacle Machine
5 Works, right?

6 A. I think the timing was such that his actual ownership
7 happened at the end or during those negotiations.

8 Q. Okay. Now Mr. Eisenberg, as we said, has now been
9 removed from the release provision, but I want to ask you
10 some related questions with respect to the company's chief
11 operating officer. If you would do me a favor because I am
12 not good at pronouncing the name, could you, at least,
13 pronounce the name and then I am going to state for the
14 record that I will refer to him as [REDACTED]

15 MR. BEACH: Your Honor, prior to the witness
16 answering this question, can counsel just approach the bench
17 for a moment so we can talk about some sensitive issues
18 related to this line of questioning?

19 THE COURT: You may.

20 BY MR. POHL:

21 Q. Mr. Nystrom, the release also covers the ABL lenders,
22 right?

23 A. Yes.

24 Q. Okay and the ABL was rolled up as part of the DIP?

25 A. Yes, they offered a DIP and then upon emergence, extend

1 the revolving credit facility after emergence.

2 Q. Okay and other than the fact that they have, in effect,
3 rolled their prepetition debt into the DIP, and then they are
4 rolling their DIP into an exit, perhaps through some other
5 documents, they have not made any other monetary contribution
6 to the case, have they, post-petition?

7 A. They provided me a five year post-petition revolving
8 facility and they had agreed that they would not adjust the
9 value of the collateral until July 2016.

10 Q. Okay. Let's move along to Access. I believe you were
11 here when counsel described some modifications to the plan
12 and that Access would fund \$250,000.00 to the Debtor, right?

13 A. I think the requirement of this is used to fund employee
14 obligations.

15 Q. It goes to the Debtor, right?

16 A. No, I heard with you this morning, so I don't know the
17 specifics, but I thought I heard this morning that the
18 purpose of the money is to reimburse employee obligations.

19 Q. Okay. Employee obligations of the Debtor?

20 A. Of the Debtor. I'm sorry, I thought you said debt.

21 Q. No, the Debtor.

22 A. Debtor, yes.

23 Q. So, I think we have covered this, but let's just set the
24 stage, Access is the private equity sponsor here, right?

25 A. They own 90 percent of the company. Today they own 90

1 Q. Now to be clear, Access is both an equity holder in one
2 of its capacities and, I believe, in a separate entity it is
3 a holder of term debt, right?

4 A. Yes.

5 Q. In that same term debt capacity, it participated in the
6 DIP, right?

7 A. Yes.

8 Q. In that capacity, the DIP facility, the DIP order,
9 subject to Committee objections or challenges affords the DIP
10 lenders a release, right?

11 A. Yes.

12 Q. Okay. Separate and apart from that, Access is the equity
13 holder, right?

14 A. Yes.

15 Q. And your declaration, not your testimony that you just
16 went through, your declaration doesn't provide anything
17 specific as to the reasons why Access, the equity holder,
18 should get a release, right?

19 A. I don't think so, no.

20 Q. And, again, separate and apart from any consideration
21 provided by Access, the lender, to the DIP, and separate and
22 apart from what we heard this morning about what Access was
23 going to put in, there is no other monetary consideration
24 that Access equity is providing to the plan, right?

25 A. No.

1 Q. You indicated earlier that you know Don Wagner, a board
2 member, and an Access employee, right?

3 A. Yes.

4 Q. Did Mr. Wagner ever tell you that one of the reasons that
5 he thought Access was entitled to a release was that they
6 were waiving management fees?

7 A. No, I never had a conversation like that with Wagner.

8 Q. Okay. So he didn't tell you any reasons, ever, for why
9 Access believed it was entitled to a release, right?

10 A. Yeah, I haven't had discussions like that with Don.

11 Q. All right, I just referred to what Debtors' counsel told
12 the Court and the parties in the room this morning about the
13 modifications to the plan and my question to you, sir, is did
14 you participate in the negotiations over that \$250,000.00?

15 A. No.

16 Q. Do you know who had those negotiations on behalf of the
17 Debtor?

18 A. I don't know if anybody did. I don't know if anyone from
19 the Debtor had those "negotiations." It may be an offer from
20 Access.

21 Q. I see. Do you believe that, in your capacity as the CRO
22 of the company that a \$250,000.00 contribution by Access is
23 sufficient to entitle it to a release?

24 A. I am not aware of any claims against Access. Compared to
25 no claims, I think, just based on what I know today, it's

1 Lazard for the last almost seven years there have been, at
2 least, five or six matters that I led where there was
3 significant valuation work involved under my supervision.

4 Q. I think you mentioned a few minutes ago that you were in
5 charge of the Lazard team that worked on the Boomerang
6 assignment, is that correct?

7 A. I am.

8 Q. And can you give the Court, please, the names of the
9 other team members that assisted you?

10 A. I can. In my group, Chris Langbein who works in our
11 Chicago office with me, in Houston there is a managing
12 director named Doug Fordyce, he works in our oil and gas
13 group and he heads the firm's oil field services practice,
14 which is a robust industry group in Houston. He works with a
15 team of people; Andrew Chang who is a director in that group,
16 John Taplett who is either a vice president or an associate
17 in that group and then their analysts beneath him.

18 Q. So to make sure the record is clear, who on your team, if
19 anyone, do you consider an expert in the oil and gas
20 industry?

21 A. Doug Fordyce, Andrew Chang, John Taplett and their team
22 in Houston are day to day M&A capital markets, oil field
23 services, bankruptcy.

24 Q. Thank you. I want to talk to you, a little bit,
25 generally, about the opinion of valuation you reached in this

1 industry group is they have deep wealth of knowledge about
2 the industry in which the target company that you're talking
3 about operates. They are responsible, initially, for forming
4 the thesis of what types of comparable companies one might be
5 looking for. Usually they will put together a list of
6 companies that they have analyzed, that they believe are
7 comparable. We will all get on the phone. We will talk
8 about it. We will iterate that process a few times back and
9 forth, and at some point we will land on a comp set that we
10 are all comfortable with as a collaborative matter.

11 Q. Can you walk us through how you identified the companies
12 that you, ultimately, determined to be comparable to
13 Boomerang in this case?

14 A. I can. It's probably worth saying, initially, that there
15 are not any public pure play OCTG (ERW) pipe manufacturers.
16 So there is not a perfect comp out there. There is somebody
17 who looks exactly like Boomerang. At first blush, we
18 identified public companies that do sell the same product
19 that Boomerang does. There are public companies, a
20 component, who have as a component of their business the sale
21 of products that are similar to Boomerang.

22 Those companies have significant differences to
23 Boomerang. Those differences are large and significantly
24 affect the actual comparability, from a financial point of
25 view, of those companies. So our group also looked at other

1 companies in the oil field services space that we,
2 ultimately, concluded are more comparable, from a financial
3 point of view, then, you know, companies that happen to
4 necessarily make pipe.

5 Boomerang is an oil field services company and the
6 product that it makes happens to be steel tubes. There are
7 other companies that are oil field service providers that
8 make other things, but their companies, in terms of who they
9 sell to, what part of the world they sell to, macroeconomic
10 drivers, industry drivers that drive their business are very
11 similar to Boomerang.

12 Q. What do you mean they are macroeconomic drivers are
13 similar to Boomerang?

14 A. Well, Boomerang, as I said before, 100 percent of its
15 product is sold to customers who drill oil wells on land in
16 the United States. So there are other companies that all or
17 most of what they sell, they sell to companies that drill for
18 oil on land in the United States. Companies that sell
19 products to drillers that drill for oil on land in the United
20 States have very similar business characteristics because
21 their revenues, and their profits, and their financial
22 performance is very closely tied to how many rigs there
23 drilling for oil on land in the United States, which, in
24 turn, is very closely correlated the price of oil.

25 Q. Just backing up for a minute, you said that there were

1 some large companies who sold OCTG product in the same space
2 as Boomerang, but that they were not similar to Boomerang, in
3 your opinion?

4 A. That's right.

5 Q. Would those companies subject to the same macroeconomic
6 drivers as Boomerang?

7 A. Well those companies tend to be large international steel
8 companies that have multiple products, some portion of which
9 is EOW pipe, in most cases. They are certainly effected by
10 the price of oil and rig count, but they are not nearly as
11 closely correlated because they are not directly correlated
12 to rig count here, which operates differently compared to in
13 other places in the world, relative to the price of oil or
14 only dedicated to selling products to on shore drillers.

15 Off shore drilling is a different type of a project. Its
16 rig counts for off shore drillers respond differently to the
17 price of oil then on shore drillers in North America. So
18 they may have similarities in terms of they have a product
19 line, but they are not, when you peel back the layers of the
20 onion, they have more financial dissimilarities then
21 similarities. Sort of like is my company is a hot dog stand
22 on the highway, you know, of a full service restaurant that
23 puts a sign in the window that says two hot dogs for 99
24 cents, so if the kids want to go there. They both sell hot
25 dogs, but the other guy is a completely different business.

1 what's called, the CAPM formula, the capital asset pricing
2 model. That formula is on page 19. It has a number of
3 component parts. One is, and all the assumptions that we
4 used are, actually, on this page and the following pages.
5 One is what is your assumption about the risk free rate for
6 investments, for companies, generally, what is your risk
7 premium for equity capital off of the risk free rate, what is
8 your size premium, if there is a size premium, what is your
9 beta, which is intended to be a measure of go forward
10 volatility for the target company's theoretical equity.

11 You can see the formula on this page. You, at some
12 point, add that up and you end up with the cost of equity.
13 There is a little bit more to it than that because as you
14 asked me earlier about comparable companies and how they play
15 into a DCF, there are two data points in this formula that
16 you need to rely on looking at comparable companies in order
17 to derive the data. One is beta and the other your target
18 debt to capital issue.

19 Q. You jumped ahead a little bit. You are talking about the
20 inputs for the cost of equity calculation where you look at
21 comparable companies, right?

22 A. That's right.

23 Q. Okay. Well, before we get there, can you just tell the
24 Court, what did Lazard use as the equity risk premium?

25 A. We used an equity risk premium of 7 percent.

1 Q. Where did you get that?

2 A. That comes from an independent third party that publishes
3 a market report called Ibbotson. That report publishes
4 historical equity risk premiums over time. I believe the
5 timeframe is, I'm doing this from memory, is 1923 or 1924 and
6 it's the most current date is in the most recent report. So
7 its current and that is a third party source that is, you
8 know, widely utilized, highly respected and is the source
9 utilized by most large investment banks for most valuations.
10 It's the Lazard state of the art practice to use that.

11 Q. You mentioned beta as one of the inputs that relies on
12 the selection of comparable companies. What is beta, by the
13 way?

14 A. So beta is a measure of a stocks volatility, relative to
15 whatever index it's derived from. So beta's can be derived
16 from regressions against the S&P 500 or a world index,
17 whatever index you are regressing the companies stock's
18 volatility against, that index has a beta of one. So a beta
19 of higher than one means a stock that's more volatile and a
20 beta of lower than one means a stock that is less volatile.

21 Q. I understand from your report that Lazard used a type of
22 beta called BARRA predicted beta?

23 A. We did.

24 Q. What is that?

25 A. So there are historical betas, which are actual observed

1 levered predicted beta as published by BARRA and then un-
2 levered, pursuant, to the formula. If you follow that column
3 down to the bottom, you see a mean and a median of our peer
4 set, un-levered beta. You see --

5 Q. That would be the 1.35 and the 1.42?

6 A. Correct.

7 Q. Okay.

8 A. You then, what you do is you take, we took the median of
9 the un-levered betas. We didn't take the mean, the average
10 because if you look up the column, you see some outliers, if
11 we had a large enough comp-set, median, at least in our view
12 tends to be a more accurate reflection of, sort of, what you
13 are trying to get at because it filters out the outliers
14 better than average does.

15 If you look at the top you see fair amount with kind of a
16 low beta relative to the others and you see Carbo Ceramics a
17 little bit on the high side. So we took the median beta of
18 1.42; that's the first thing you have to do. The second
19 thing you have to do is you have to decide, and this is the
20 second data point that you pull in a DCF or a cost of equity
21 calculation, the second thing you pull from the comparable
22 companies is, what is your target capitalization structure?

23 Q. And is that what you used to re-lever the betas?

24 A. That is what you use to re-lever the beta, that's
25 correct.

1 Q. So we will talk more, in a minute, separately, about how
2 you determined the target capital structure, but for now can
3 you tell us what the target capital structure you used was?

4 A. We used a target capital structure range. You know, our
5 valuation, like most valuations, is done at a range. You
6 create that range by sensitizing around certain metrics, not
7 every metric where you have a ridiculously wide range. One
8 of the metrics that we sensitive is debt to cap, companies
9 can make different decisions. There is not just one perfect
10 debt to capitalization ratio. We ended up with a target debt
11 to cap range for Boomerang, in our view, of 10 to 40 percent.

12 Q. Now, walk us through how you then used that range to re-
13 lever the betas?

14 A. So if you look at the row beneath where you see the
15 average and median data for all these other things above it,
16 you see on the left our target debt to cap ratio of 10 to 40
17 percent. You see, I guess, another metric of debt to equity;
18 that's just math. Un-levered beta 1.42, so that is the
19 median that we chose and then you re-lever that 1.42,
20 depending on how much leverage you are putting in your
21 capital structure. So at 10 percent debt to cap, you have a
22 different re-levered beta then you do at 40 percent debt to
23 cap. So it's a function of the debt to cap assumption you
24 are making across the range. So you can see the 1.42 re-
25 levered up to the range of 1.52 to 2 in the next column.

1 A. Okay. It's pretty similar to beta. So if you look at
2 page 22 and you see the debt; these are the actual debt to
3 cap ratios of these companies in the column that is third
4 from the left on the page. You see an average and a mean of
5 23/24 percent. If you look up the column and you see that,
6 you know, five of these companies are sort of right in the
7 sweet spot of that range or right around it, there is a
8 couple of outliers, Carbo has got very low leverage,
9 Fairmount has very high leverage, Flotech has very low
10 leverage.

11 The other five are right around the same area and as the
12 average or the mean; that's in the 23, 24/25 percent range.
13 That is, relatively, low leverage. Does that make sense?
14 That makes a lot of sense. These are, again, companies that
15 are very closely tied to a very particular segment of the oil
16 and gas industry, very volatile, subject to big peaks and
17 valleys. We were just coming out of, hopefully, well, I'm
18 not sure we're out of it, but we are in a valley and what
19 happens to these companies when there is a crash in oil
20 prices and oil rig activity shuts down is severe. It's a
21 severe impact on liquidity. They lose a lot of money and
22 investors, whether its equity investors or debt investors,
23 they are looking at that.

24 So if you over-lever a company in this industry too much,
25 you end up here, you end up in Chapter 11. So it is not

1 surprising, at all, that these companies, all of which are
2 healthy, all of which are surviving the down turn, almost all
3 have relatively low levels of debt and, you know, that makes
4 perfect sense.

5 Q. They seem to have low levels of debt, but a relatively
6 high cost of capital, is that right?

7 A. Yeah and its sort of the same thing. So you would expect
8 to see companies that function in an industry; that has a lot
9 of volatility, that have significant challenges in the down
10 turn. How do those companies survive? They survive with
11 relatively low leverage and they have high cost of capital.

12 Q. Okay. So we talked for a while now about how you derived
13 the WACC or the discount rate for your analysis, correct?

14 A. Yes.

15 Q. Discounted cash flow?

16 A. Yes.

17 Q. We are still talking about that?

18 A. Yes.

19 Q. Now that you have your WACC and you talked about the
20 range of 12 to 14 percent, you can see page 26. Now that you
21 have it, what do you do with it to get a value in your DCF?

22 A. So now you come up with the discount rate that you're
23 going to apply to the company's projections. The company's
24 projections, in summary fashion, are laid out on page 26.

25 You are going to apply your WACC to the un-levered free cash

1 geographic and the other is product mix, what they sell.

2 Q. Tell us about the differences in the product mix and why
3 that matters?

4 A. Okay. So there are a couple differences in product mix.
5 Of course, as I said earlier, our peer group or at least our
6 downhole consumable peer group, which is our primary peer
7 group, they don't make pipe. They make other things, sand,
8 chemicals, tooling, as we talked about earlier. The A&M peer
9 set, while there are companies that make OCTG product, in
10 large part, most of their business is derived from the sale
11 of product that is not welded steel, casing and pipe.

12 If you look at Tenaris, for example, in their tier one
13 peer set, only 19 percent of Tenaris revenue, as a company,
14 is derived from the sale of ERW pipe. The rest is derived
15 from the sale of seamless pipe, which is different in a lot
16 of ways and some other miscellaneous. You also see that 10
17 percent of their revenue, not a huge number, but not a
18 meaningless number is derived from the sale of whatever they
19 sell to customers that aren't even in the oil and gas, the
20 upstream oil and gas industry. They are not sold to
21 drillers, they are sold to other types of companies.

22 Vallourec, next on the page. Almost all of Vallourec's
23 OCTG product is seamless pipe. There is a little bit of seam
24 that is probably too statistically insignificant to show up
25 in Vallourec's own reported data, but, basically, all of what

1 from the A&M peer set. Tenaris, 52 percent non-North
2 America. Vallourec, 69 percent non-North American. OAO, 71
3 percent non-North America and right on down the line. On an
4 average basis, these companies, 69/70 percent of what they
5 sell, they don't sell to customers in North America.

6 The downhole peers, same thing at the bottom of the page,
7 exactly the opposite, 74 percent sold to North America on a
8 blended average basis. Only a quarter of the business sold
9 outside North America. That is a very, very important
10 distinction because geography matters. So you have to ask
11 yourself who is drilling for oil in North America vs. who is
12 drilling for oil outside of North America.

13 Q. Why don't I ask you that?

14 A. You can.

15 Q. Who is drilling for oil in North America vs. who is
16 drilling outside of North America?

17 A. So outside North America, on land and off shore for that
18 matter, drilling activity is dominated by large multinational
19 corporations like Shell, Exxon, Mobile, companies like that
20 and national oil companies, national oil company in China,
21 national oil company of whatever they call themselves,
22 country to country. Those are large, large well capitalized
23 companies that invest in large capital projects designed to
24 last for many, many years. Those companies tend to be
25 willing to spend through the down cycles. So they don't

1 dollar rig that you put up in East Texas. So it's a
2 completely different correlation between the price of oil and
3 rig activity, North American on shore vs. worldwide off shore
4 or non-U.S. based on shore. Their peer set, most of their
5 business comes from those other places and our peer set comes
6 mostly here.

7 The relationship to seamed vs. seamless is that seamless
8 product is the premium product. It's thicker. It's more
9 expensive. It's less of a commodity. So if you're the
10 National Oil Company of China, you don't mind spending the
11 extra money for what you perceive as the better product. So
12 there is very little ERW pipe going down the hole in an on
13 land drilling application in Saudi Arabia. It just doesn't
14 happen. So you sell seamless pipe on shore around the world
15 and off shore around the world and you sell it in some places
16 on land in the United States that compete with us a little
17 bit, but in most places that its sold ERW pipe either can't
18 be used or isn't used.

19 Q. When you say can't be used, what do you mean?

20 A. You know, for most off shore drilling applications, for
21 example, there is just too much pressure for, you know,
22 welded steel to withstand it.

23 Q. Another question about the peer set A&M used and here I
24 want to refer, briefly, to the fact that they had a tier one
25 and a tier two peer set. From what you can tell, did they

1 factors, everybody knows what the factors are because they
2 are public, but what you can't tell when you look at a BARRA
3 beta is how they make those factors. You can't reverse
4 engineer because they view that weighting formula as
5 proprietary. So it has been subject to criticism on that
6 basis.

7 Lazard's view, we have an opinion committee made up of
8 people that this is their job, to spend time thinking about
9 these issues, staying current on the academic literature,
10 reading the case law, participating in panels, participating,
11 talking to Judges, etc., etc. That is their job, is to
12 promulgate valuation guidelines that we all follow, across
13 the firm, across the world that are intended to be state of
14 the art based on the state of the art view by that group.
15 That group's guidance, for all Lazard bankers, is the BARRA
16 predicted. While it may be a little bit of a black box and
17 you can't reverse engineer it, that doesn't mean that they
18 are practicing witch craft. We know what the factors are
19 that they look at and it's relied upon by most major
20 investment banks valuation as a result.

21 Q. Can you please turn, in your book, to Defendants
22 Demonstrative D?

23 A. I can.

24 Q. This is a three page exhibit.

25 A. Okay.

1 Q. Can you start with page 1 and tell us what this page
2 shows?

3 A. Sure. So to try to isolate down where we really have a
4 disagreement that matters, we have run a couple of WACC
5 sensitivities and we iterated our way through it, layering on
6 one at a time, three different changes to what we did based
7 on what Alvarez & Marsal did.

8 Q. With respect to beta?

9 A. With respect to the WACC calculation. So first, on the
10 first page what did we do? This is our page from our deck,
11 with the downhole peers, running our DCF analysis that we
12 went through.

13 Q. What does the red type face manifest?

14 A. The red is what we changed.

15 Q. Okay.

16 A. We said, well, we believe, what I just said, the downhole
17 peers are the best comp set. We did look at the steel peers
18 with OCTG exposure. We modified what would have otherwise
19 been our conclusion if we had only looked at the downhole
20 peers. So we did give mathematical credit, to some degree,
21 to that data. Tenaris and Vallourec, I think one place where
22 we seem to agree is that among all those steel companies,
23 ours or theirs, Vallourec and Tenaris, on a relative basis,
24 relative to those other steel companies, they are the best
25 comps.

1 Q. Were those their tier one comps?

2 A. Those are their tier one comps.

3 Q. The two?

4 A. Those are their tier one comps. They were in our data
5 set. We agree that those are far better comps relative to
6 their other three companies.

7 Q. When you said they were in your data set, you meant your
8 steel peers, not your downhole peers?

9 A. Correct, they are in our steel peer's data set.

10 Q. So this page is a page from your Lazard report, modified
11 only to add those two companies?

12 A. Right. So another thing that one could have done, which
13 would not have been completely irrational, in our view, would
14 be we separated our peer set between the downhole peers who
15 don't make pipe and the steel companies that do make pipe.
16 You could have looked at that steel peer set and said well
17 Vallourec and Tenaris, they are not terrible comps. There is
18 only two companies, so that can't be your comp set because
19 the data you pull from that is not going to be very reliable
20 or very probative, but what if you added them into your comp
21 set. The downhole peers are good comps, Tenaris and
22 Vallourec, I mean they are not as good comps in our view.

23 Q. But you were curious what the WACC would give you?

24 A. What would it do? So the red is adding those two
25 companies, using all of our methodology. So our BARRA

1 predicted betas and all of our other WACC assumptions. What
2 would the output be? That is what is on this page.

3 Q. Okay and what was it?

4 A. So if you run that with all of our assumptions, the cost
5 of capital analysis that you would pull from that expanded
6 peer set, from eight to ten, adding their tier one peers is
7 actually about the same. So if you look at the bottom of the
8 page, three quarters of the way over, you see an implied cost
9 of capital that is the same range you saw just from our peer
10 set. The reason for that is not complicated. We used a
11 median, un-levered beta of 1.42. In the middle of this page
12 in blue you see exactly the same number, blending Tenaris and
13 Vallourec in. One is higher, one is lower, didn't change the
14 median. That is using BARRA predicted beta.

15 The one thing that I would point out that's different
16 here, compared to what we did, is this is the cost of capital
17 page for the downhole peers, now adding Vallourec and
18 Tenaris. The 13.1 to 14.4 cost of capital range, we then
19 adjusted downward because we looked at the steel peers. If
20 we had blended Tenaris and Vallourec into our comp set, there
21 would have been no need to blend down any further. So you
22 would have seen, and you see on this page, we would have
23 ended up with an implied cost of capital with this ten
24 company tier set of 13.1 to 14.4. That is higher than what
25 we used in our valuation of 12 to 14. We would have had

1 lower valuation if we did a DCF off of this ten company peer
2 set and this ten company peer set only.

3 Q. Okay. Let's look at the next page of this exhibit. What
4 does this tell us?

5 A. Now we just made one more change. Now, same ten company
6 peer set, Vallourec and Tenaris that is why they are still in
7 red, look at the levered beta column, now it's in red. We
8 just used their levered beta. Theirs meaning Alvarez &
9 Marsal. We don't think they are right. We think they pulled
10 them from Capital IQ. We don't think that's the right way to
11 look at beta for the analysis, but let's assume, for the sake
12 of illustration, that we used their betas, their levered
13 betas. This is straight out of their deck for all ten of
14 these companies.

15 Q. Still adding their two peers to your downhole peers?

16 A. Still adding their two peers to our eight company
17 downhole peers.

18 Q. Their two tier one peers?

19 A. Their two tier one peers. Now we are going to use their
20 beta. All of the other assumptions going to the WACC are
21 assumptions, okay. You see a difference. You now see an
22 implied cost of capital ranging from 11.5 to 12.6. You see
23 that corresponds on the right to a value range of between
24 1.79 and 233. Our value range, again, because we blended
25 down by looking at the peer set, which this, effectively,

1 does if you also use their beta data, which we don't agree
2 with. But you end up with a range, it's a little bit of a
3 wider range, but its, basically, the same range. We are 180
4 to 230, is basically the same range as 200 to 220. So that is
5 what comes out of this page.

6 Q. And what does the third page tell us?

7 A. So the third page, just to take the comparison, one final
8 turn of the screw further, we said if we had a ten company
9 peer set, our downhole peers plus Tenaris and Vallourec, we
10 used all of their beta data, which we don't agree with and
11 all of their other assumptions, theirs, not ours, theirs, in
12 the WACC calculation. What would the output be? So they had
13 a different pre-cap, pre-tax cost of debt assumption that we
14 did. They had a slightly different risk free rate assumption
15 then we did. They had a different lower long term equity
16 risk premium then we did. They had a different higher sized
17 premium then we did.

18 So the prior page, ten company peer set, including their
19 tier ones, their beta data, our remaining data as a group,
20 the next page, and their remaining data as a group. Output
21 exactly the same. Some of those differences on the other
22 factors, they are a little higher than us on some, we are
23 little higher than them on some. I guess either one of us
24 could cherry pick our favorite assumptions to try to
25 manipulate the math and use our sometimes and their

1 sometimes. We thought it was informative to illustrate if we
2 just took all of theirs in a lump sum vs. taking all of ours
3 in a lump sum, what would the effect be? You find out that
4 you are in exactly the same range, \$176 to \$233 million
5 dollars.

6 What that shows you is that the only reason, what this
7 debate is primarily about is whether you should have a two
8 company peer set, based on two multi-national steel companies
9 that do a minority of their business in the United States
10 with on shore land drilling application and use for their
11 products or whether you should have a peer set that is of the
12 kind that I just described.

13 Q. One criticism of your report that A&M made in its report
14 is some sort of comparison of the WACC you derived to the
15 companies ROIC?

16 A. Yeah.

17 Q. Can you take a look at Exhibit C of your book and can you
18 describe, first, before looking at the exhibit, can you just
19 summarize, briefly, for the Court what that criticism of your
20 report is and then I will ask you your reaction to it?

21 A. Yes, I can. So ROIC, return on invested capital, is a
22 metric that is derived from looking at a company's gap
23 balance sheet. So a ROIC has a numerator and a denominator
24 in any given year. The numerator is that year's NOPAT, which
25 is the accounting term net operating profit after taxes, it's

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Tab 2

Transcript of September 22, 2015 Hearing

UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

IN RE: BOOMERANG TUBE, LLC, a Delaware Limited Liability Company, et al, <p style="text-align: right;">Debtors.</p> <p>.....</p>	. .	Chapter 11 Case No. 05-11247 (MFW) Courtroom No. 4 824 Market Street Wilmington, Delaware 19801 Tuesday, September 22, 2015
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TRANSCRIPT CONTINUATION OF CONFIRMATION HEARING
BEFORE THE HONORABLE MARY F. WALRATH
UNITED STATES BANKRUPTCY JUDGE

APPEARANCES:

For the Debtors:	Robert S. Brady, Esq. Sean M. Beach, Esq. Elena Norman, Esq. Ryan Bartley, Esq. Margaret Greecher, Esq. Patrick Jackson, Esq. YOUNG, CONAWAY, STARGATT & TAYLOR, LLP Rodney Square 1000 North King Street Wilmington, Delaware 19801
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(Appearances Continued)

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Proceedings recorded by electronic sound recording, transcript produced by transcription service.

1 know exactly where this came from, but I don't -- I don't think
2 there's any disagreement that there's a portion of these
3 companies' businesses that competes in the United States.

4 Q Right.

5 And in fact, in May -- I think you testified to this
6 yesterday -- Lazard led a truncated, thirty-day market test, or
7 market search, to look for potential buyers for the company,
8 right?

9 A That's right.

10 Q And Lazard prepared, with the company, marketing materials
11 that were provided to prospective buyers, right?

12 A We prepared a limited set of materials that primarily came
13 from the company, yes.

14 Q And if you'd turn to Tab 3 of your binder.

15 A Uh-huh.

16 (Witness reviews exhibits)

17 I'm there.

18 Q Let me get the exhibit number for the record here. Exhibit
19 C-8. These are the marketing materials that were provided to
20 prospective purchasers or interested parties in May of 2015,
21 right?

22 A They were.

23 Q And if you were to turn to Page 30 of that document, which,
24 if it's helpful, has a Bates Number of 1993 at the bottom.

25 A That's better. Hold on.

1 (Witness reviews exhibit)

2 I'm there.

3 Q Okay. And again, there, we see the same pie chart,
4 actually, that's in your report, only in an enlarged form,
5 right?

6 A That's right.

7 Q Okay. So there's no question in your mind that the company
8 considers Tenaris, Vallourec, TMK, and U.S. Steel to be their
9 competitors, right?

10 A To be their competitors --

11 Q Uh-huh.

12 A -- in North America? Yes.

13 Q Okay. Now you've testified -- you testified yesterday
14 that, when you went to do your comparable company analysis, you
15 ultimately didn't use those companies as your primary
16 comparable set, right?

17 A For financial analysis? That's right.

18 Q Right. Okay.

19 And the first thing you did, in order to determine who was
20 an appropriate comparable company, is you developed what I
21 would call a "screen," or a set of conditions that you began to
22 filter possible companies through. Does that make sense to
23 you?

24 A I'm not sure of the mechanic -- I mean, that's a
25 description of mechanics. We looked at a lot of things to try

1 to reach a conclusion as to what companies would bear similar
2 financial characteristics to Boomerang.

3 Q Well, and I said it that way because I was trying to
4 interpret your report. So, if you could, turn back to Tab 1,
5 Exhibit C-31.

6 A Okay.

7 Q And if you'd turn to Page 28.

8 A Okay.

9 Q And at the top of Page 28, in bold print, there's an
10 introductory paragraph which I'll say is written in the
11 negative. I don't mean it in a pejorative way, but it starts
12 with the word "despite." So it says -- and I'll read it into
13 the record:

14 "Despite a lack of peer companies on which Lazard can
15 rely to derive a comparable set of publicly traded,
16 pure play, OCTG manufacturers, focused on the North
17 America market, Lazard has identified two groups of
18 peer companies with characteristics relevant to
19 valuing reorganized Boomerang."

20 Did I read that correctly?

21 A That's what it says.

22 Q And the next line down, you state:

23 "Reorganized Boomerang is a pure play, OCTG pipe
24 manufacturer, focused on the U.S. on-shore E&P
25 market."

1 even though the seamless product is superior, that it doesn't
2 compete directly with Boomerang's product; that's not your
3 testimony.

4 A There are customers for which those products can compete
5 with one another; there just don't happen to be very many of
6 them.

7 Q Well, there's enough that Boomerang, starting in 2010,
8 could garner eight percent of the North America Market against
9 the likes of U.S. Steel, Tenaris, and Vallourec, right?

10 A I did hear Mr. Nystrom's testimony, and I thought that was
11 one customer, right? That doesn't make the companies
12 comparable.

13 Q No, no --

14 A It means that there was one customer that he had success in
15 convincing to use his product, instead of seamless, that's what
16 it was.

17 Q Well, that's not what I was asking, so let me try it again.

18 A Okay.

19 Q And I wasn't talking about migrating a customer from
20 seamless to alloy or welded products. What I said was, between
21 2010, when they had their first sales, to 2014, Boomerang was
22 able to garner eight percent of the North American market
23 against the likes of U.S. Steel, Tenaris, Vallourec, and TMK,
24 right?

25 A If you say so.

1 Q Okay. So -- but at least the company is representing to
2 people who it's trying to sell itself to that it does compete
3 -- not only compete with seamless technology, but that it has
4 competitive advantages to seamless technology, right?

5 A They would like people to believe that, yes.

6 Q Okay. Now, that wasn't the only reason that you thought
7 that the OCTG companies were not optimal comparable companies,
8 right?

9 A The steel companies with OCTG exposure; that's right.

10 Q You also thought that one significant distinguishing factor
11 was some of these OCTG companies had offshore capabilities that
12 Boomerang did not have, right?

13 A That's right.

14 Q Okay. And, again, if you look back to Tab 3, Page 11 --

15 A 1974 Bates number?

16 Q Yes.

17 A Okay.

18 Q At the bottom of that page, Enabling high value added
19 applications.

20 Do you see that?

21 A I do.

22 Q The company represents that it has applications for natural
23 gas wells, oil wells, offshore, high fracture pressure wells.

24 Do you see that?

25 A I do.

1 Q So at least the company is representing that its product is
2 -- has an application for offshore, right?

3 A They think it might.

4 Q But to the extent that it doesn't actually have offshore
5 sales or that other companies do have offshore shales --
6 offshore sales --

7 THE COURT: Seashells, right.

8 BY MR. STOLL:

9 Q -- that was a distinguishing factor for you, right? That
10 made it less comparable.

11 A It is a distinguishing factor, yes.

12 Q Okay. And the other distinguishing factor that I think you
13 testified to was the geographic mix of sales for -- between
14 Boomerang on the one hand solely in North America and the other
15 OCTG companies which had a more worldwide footprint; is that
16 right?

17 A That's right. That's right.

18 Q And the combination of those factors led you to conclude
19 that the OCTG companies were not optimal comparables, right?

20 A Correct. The steel companies, yes.

21 Q And, instead, what you decided to do or what your team came
22 up with as comparables were nine companies, three of whom are I
23 guess you call them "sand companies," right?

24 A I think it's eight in total, but, yes.

25 Q Excuse me?

1 A I think it's eight in total, but, yes.

2 Q Yes, three that manufacture or mine sand?

3 A Essentially, so --

4 Q And that would be CARBO, Fairmount, and U.S. Silica?

5 A Right.

6 Q And three companies that manufacture and sell chemicals?

7 A I think there are two chemical companies.

8 Q Oh, two, you're right; Flotek and was it Newport or

9 Newpark? Newpark Resources?

10 A Newpark, yeah. Yes.

11 Q And three companies that make tools for use in well

12 drilling, right?

13 A Correct.

14 Q Forum Energy, Hunter, and Schoeller-Bleckmann, right?

15 A Right.

16 Q Okay. And you ultimately found that those companies were

17 more comparable even though they don't make OCTG pipe at all,

18 right?

19 A That's right. Financially more comparable, yes.

20 Q Now, if you would turn to page -- Tab 1 again, Exhibit

21 C-31, that's your --

22 A Okay.

23 Q -- report.

24 A Yes.

25 Q And if you would turn to Page 43 -- actually, 44, if you

1 public companies. So, by definition, every company in every
2 peer set that anybody could create has some differences
3 compared to Boomerang.

4 Q Sure. But you've testified that differences like
5 geographical sales and offshore sales are reasons why the OCTG
6 public steel companies are not good comparables, right?

7 A There is a combination of factors, not one factor, not two
8 factors, not three factors, that result in some companies being
9 more comparable than others.

10 Q Okay. And just so there's not a confusion in the record
11 after this is over, your demonstrative that you used yesterday
12 with the pie charts, Demonstrative A, when it came to
13 identifying Forum Energy, the distribution of products between
14 drilling and subsea was not noted, right? It just is all
15 colored in and says, oil and gas, right?

16 A Yes, that's right.

17 Q And so as you testified yesterday, your primary reason for
18 ultimately deriving the comparables was that the companies that
19 you believed were comparable -- the sand companies, the
20 chemical companies, and the tooling companies -- were more
21 sensitive to the drop in oil rig count caused by a drop in oil
22 prices than were the OCTG steel companies, right?

23 A I think what I testified to is that you can see a very
24 close correlation between the equity performance of those
25 companies and those two factors that you just mentioned, a much

1 stronger correlation than with respect to the other companies;
2 that's right.

3 Q And you're not testifying, are you, that the OCTG oil
4 companies are not impacted by oil prices and the pressure of
5 oil prices on business, are you?

6 A The steel companies?

7 Q Yes.

8 A No, not at all, I'm not testifying that.

9 Q And I can't tell if you testified to this yesterday but I'm
10 going to try it anyway, is are you testifying that oil prices
11 only impact people in the oil and gas industry in the United
12 States?

13 A No, that's not my testimony.

14 Q Okay. But you utilized the sand companies, the chemical
15 companies, and the tooling companies as your primary metric for
16 determining what we've talked about as a levered beta, right?

17 A We utilized the eight company downhole peer set as our
18 primary peer set. We also looked at our steel company with
19 OCTG exposure peer set for all metrics, including beta.

20 Q Yes, I'm just -- I wasn't saying exclusively -- I was just
21 trying to start there.

22 A Okay.

23 Q Okay. So -- and the levered beta, again, if you wanted to
24 look to Tab 1, which is Exhibit C-31, and go back to Page 50 of
25 your report --

1 Q That's right.

2 And you, personally, can't replicate that, can you?

3 A I don't believe anybody can.

4 Q That's right.

5 Because it's proprietary, right?

6 A That's what proprietary means.

7 Q I think colorfully you referred to it yesterday as a "black
8 box," right?

9 A Some people call it that.

10 Q And do you know how many variables there are that they use?

11 A It's 12 or 13 categories, and I've seen some -- some
12 materials that suggest there are 142 that vary -- you know, 142
13 data points.

14 Q But you don't know how they're weighted, how they interact,
15 and how they produce the predicted beta, right?

16 A I am not a Barra beta expert, no.

17 Q Right. And the predicted beta is not the actual beta of a
18 company, it's what Barra thinks in their professional opinion,
19 will be the risk for that particular company going forward,
20 right?

21 A The volatility, yes.

22 Q Right. So, you're relying on the professional judgment and
23 expertise of Barra in utilizing that particular metric in your
24 weighted average cost of capital calculation?

25 A We are.

1 Q Now, you testified that in your view, investment banking
2 houses are using Barra betas on a regular basis, right?

3 A That is correct.

4 Q And were you told that by someone?

5 A We have -- yes. The answer is yes.

6 Q Okay. And when the Debtors filed their objection on, I
7 guess it was Friday, the Debtors cited to an article by a
8 Professor Scott Widen regarding valuation principles in
9 Delaware.

10 Did you read that article?

11 A No.

12 Q I'd like to take a look at it with you now.

13 A Okay.

14 Q If you'd turn to Tab 7 in your book --

15 A Okay.

16 Q -- this is the article that is cited at Page 36 of the
17 Debtors' objection. And if you'd like to just turn back to
18 page -- to Tab 6 in your book, you see that's the copy of the
19 direct -- Debtors' corrected memorandum of law.

20 A Okay.

21 Q And if you turn to Page 36, this excerpted version,
22 Paragraph 76 on the bottom, proper selection of beta, there's a
23 statement there that Lazard properly used Barra predictive
24 betas and that those are widely used by Wall Street.

25 Do you see that?

1 Do you see that?

2 A I do.

3 Q And, of course, the judge here will make her own decision
4 as to what is reliable or not, but you can't tell the Court how
5 the Barra formula works, right?

6 A Nobody can.

7 Q Nobody can.

8 And it's predicted, it's not actual, right?

9 A It's predictive. It's not historical.

10 Q It's predicted, right, but it's not -- but it's not -- it
11 can't be calculated from past results?

12 A No predictions can --

13 Q Right.

14 A -- of any kind.

15 Q But the Barra predictions are not your judgment. They're
16 the judgment of the Barra company and their proprietary
17 algorithm?

18 A That's right.

19 Q Okay. Now, if you would turn back to Tab 7.

20 A Okay.

21 Q This is back to the Widen article.

22 If you go to Page 586, the Footnote 31 lists the 13 factors

23 --

24 A Okay.

25 Q -- including volatility.

1 A I know what growth means. Growth means how a company is
2 projected to grow.

3 Q Okay. A forward-looking estimate?

4 A A forward-looking --

5 Q Okay. How about dividend yield and certain -- dividend
6 yield; do you know what that --

7 A I do.

8 Q Okay.

9 A Dividends.

10 Q Yes.

11 A Some companies pay dividends.

12 Q And do you know --

13 A What's the dividend yield off of their stock price? You
14 can calculate a yield by dividing the dollar amount of the
15 dividend on an annual basis divided by the stock price.

16 Q Okay. And -- but you don't know how all of these go into a
17 mix and how they end up influencing the ultimate beta number?

18 A I just know that Barra is looking at these factors as
19 relevant to predicting how volatile a public company stock is
20 expected to be, going forward.

21 Q Okay. And just as a matter of impact on the math, the
22 higher the beta in your cost of equity formula, ultimately the
23 higher your weighted average cost of capital, all other things
24 being held equal?

25 A Correct.

1 categories?

2 A Right.

3 Q And then there's a breakdown of the deciles, 1 to 10.

4 Do you see that?

5 A I do.

6 Q And then there are percentages over on the right side of
7 the page which correspond with a particular decile, right?

8 A Right.

9 Q And the deciles go from, I guess, a negative number,
10 depending on if you're super big, to a number approaching 5.7
11 percent if you're very, very small.

12 A Right.

13 Q Okay. And you ultimately used a decile figure of -- or a
14 size premium figure of 2.64, right?

15 A Yes.

16 Q All right.

17 A If it's exactly the same report -- sometimes those numbers
18 move a little bit -- but that looks about right.

19 Q Okay. Now -- and the size fact -- premium is -- the
20 purpose of that is to reflect the size of the company in a
21 weighted average cost of capital formula to compensate for the
22 difference between the size of the small private company,
23 perhaps it's small, and the larger public company if it, in
24 fact, is what your comparable is, right?

25 A I wouldn't describe it that way. It's designed to

1 compensate for the type of equity return that investors demand
2 in the marketplace when investing in smaller companies versus
3 larger companies; the same concept -- similar concept.

4 Q Okay. Now, we've already seen in the Barra discussion, in
5 the Barra model, that one of their many, many factors is size,
6 market capitalization, right?

7 A I saw that in the list, yes.

8 Q And so Barra factors size into how they calculate their
9 betas, right? To some --

10 A In some way.

11 Q In some way. We don't know how, but they do it, right?

12 A Right.

13 Q And in the weighted average cost of capital formula,
14 traditionally, there's a variable for size premium, right?

15 A Right.

16 Q So when utilizing the Barra predictive beta and a size
17 premium, you may be, in fact, double counting the size premium
18 and, therefore, increasing your cost of equity and overall
19 weighted average cost of capital, right?

20 A I don't know that that's true.

21 Q If you would turn back to Tab 7 of your binder --

22 A Yes.

23 Q -- and back to the article by Mr. Widen --

24 A Right.

25 Q -- immediately following the sentence where he says --

1 was 7 percent, right?

2 A Correct.

3 Q And the risk premium used in the Alvarez report was 6
4 percent, right?

5 A They used 6. We used 7. That's right.

6 Q Right. And size premiums are -- excuse me -- equity risk
7 premiums are historic -- based on historic data, right?

8 A They are.

9 Q And you drive your size premium from the same Ibbotson
10 report that you derived your size premium from, right?

11 MR. STOLL: Did I say that -- did I say size twice?

12 THE COURT: Yes.

13 BY MR. STOLL:

14 Q Let me try that again.

15 You derived your equity premium from the same source,
16 Ibbotson 2015 report, that you derived your size premium from,
17 correct?

18 A We used Ibbotson for both, yes.

19 Q Right. And, again, that's Exhibit 38, I believe.

20 A Right.

21 Q Hold on. Let me make sure I'm right -- Exhibit 39 in the
22 record.

23 A Tab 9.

24 Q Tab 9.

25 A Right.

1 A We applied Lazard policy. It's promulgated on a worldwide
2 basis by our Opinion Committee for use by bankers around the
3 world.

4 Q Okay. And the objection goes on to say, This conclusion is
5 consistent with applicable case law, and then it also says --
6 cites to the Pablo Fernandez article, the equity premium in 150
7 textbooks, and parenthetically says reflecting that a majority
8 of 150 finance and valuation textbooks use historical ERP.

9 Do you see that?

10 A I do.

11 Q And if you would turn to Tab 11 in your binder.

12 A I see it.

13 Q The equity premium in 150 books by Pablo Fernandez, that
14 appears there in that article in that tab?

15 A I see it.

16 Q And the author says in the opening paragraph, I reviewed
17 150 textbooks on corporate finance and valuation published
18 between 1979 and 2009 by authors such as -- he lists a bunch of
19 authors -- and find that their recommendations regarding the
20 equity premium range from 3 percent to 10 percent and that 51
21 books use different equity premium in various pages.

22 Do you see that?

23 A I see it.

24 Q And he also says that the five-year moving average has
25 declined from 8.4 percent in 1990 to 5.7 percent in 2008 to

1 2009.

2 Do you see that?

3 A I do.

4 Q So the size premium that you used, you used because it's
5 standard Lazard practice, but you're not asserting that it's a
6 standard size premium recognized by everyone in the industry,
7 right?

8 A I'm not sure I know what you just asked me.

9 Q Let me try it again. I don't want to confuse you.

10 A Okay.

11 Q You said that you used the 7 percent equity premium --
12 equity risk premium because -- from Ibbotson's because that's
13 what Lazard's policy is, right?

14 A That's right.

15 Q You're not saying that 7 percent is the only risk premium
16 that publish sources say is appropriate, right?

17 A No. Of course not. No.

18 Q And that there are a variety of equity risk premiums that
19 scholars and others who work in the field have analyzed,
20 evaluated, and think are appropriate, right?

21 A According to Pablo Fernandez, the equity premium ranges
22 from 3 to 10 percent based on his survey of 150 textbooks, yes.

23 Q Okay. All right. So -- and so all three of those
24 variables that we just discussed, they go into your WACC
25 formula, and that becomes the cost -- along with the risk-free

1 Q So -- and you have a sense of whether --

2 A I'm sorry, can I clarify that answer? I'm not testifying
3 that it is in the future going to be subject to a six-year
4 cycle.

5 Q All right.

6 A It was, looking backwards, in fact, subject to a six-year
7 cycle.

8 Q Now, the purpose of -- one of the purposes of performing a
9 comparable company analysis --

10 A I'm sorry, I didn't hear you.

11 Q I'm sorry. I said one of the purposes of performing a
12 comparable company analysis is to compare it with your DCF
13 valuation result to make sure that there's no particular
14 deviations that look so large as to cause you to have concern
15 that one or the other of your approaches is incorrect, right?

16 A Yes. Again, I wouldn't describe it quite that way. I
17 think it's true in both directions, so depending on, you know,
18 which one is corroborating the other depends probably on your
19 threshold used to which one is your better methodology under
20 your particular circumstances.

21 Q But you're relying predominantly on your discounted cash
22 flow analysis, right?

23 A Here we are.

24 Q Right.

25 A That's not always the case.

1 multiple.

2 A Uh-huh.

3 Q If you took the midpoint -- because you used 13 percent in
4 your capitalization rate and your discount rate, and you take
5 that middle point of 4.8 multiple, that's implied from dividing
6 the -- the EBITDA into the cash flow, right? Total free cash
7 flow?

8 A It's the terminal -- this is the terminal value multiple,
9 not the --

10 Q Yes.

11 A -- not the whole valuation multiple. So this is the
12 terminal value divided by your -- the company's projected 2018
13 EBITDA.

14 Q Right. And the terminal value multiple is, in the sense a
15 proxy, for what a company would sell itself for if it were
16 selling itself, right?

17 A I don't know if I would say that completely. It's -- the
18 reason that you put this data on the page is to, you know, see
19 if you think that it is loosely corroborative with observed
20 trading comparables, not M&A comparables, trading comparables.

21 M&A multiples are different than trading multiples.

22 Q Well, let's take a look at the end of your comparable
23 company analysis.

24 A Okay.

25 Q I'm sorry, the precedent transaction analysis.

Tab 3

Transcript of September 24, 2015 Hearing

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UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

IN RE:)	Case No. 15-11247 (MFW)
	)	Chapter 11
BOOMERANG TUBE, LLC, a Delaware)	
Limited Liability Company,)	
<i>et al.</i> ,)	
Debtors.	)	Courtroom No. 4
	)	824 Market Street
	)	Wilmington, Delaware 19801
)	
	)	September 24, 2015
	)	9:30 A.M.

TRANSCRIPT OF HEARING
BEFORE HONORABLE MARY F. WALRATH
UNITED STATES BANKRUPTCY JUDGE

APPEARANCES:

For the Debtors:	Young Conaway Stargatt & Taylor, LLP
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1 walk us through the portion of that report that states what
2 your ultimate opinion as to value is.

3 A. That would be the fourth primary bullet. So A&M's range
4 of enterprise value for Boomerang is \$312 to \$361 million
5 with a midpoint of approximately \$335 million as of the
6 valuation date, September 10.

7 Q. If you turn to Page 8, again, very briefly if you'd just
8 identify the valuation approaches that you took in ultimately
9 deriving your opinion.

10 A. Page 8 sets forth three customary approaches: income-
11 based methodology, often referred to as the discounted cash
12 flow analysis; one version of the market approach, which is
13 the select public company analysis; and another version of a
14 market-based approach, which is the select M&A transaction
15 analysis.

16 Q. I'm going to try to expedite things because we've already
17 heard lots of testimony about what the discounted cash flow
18 approach is and the market approach. But generically,
19 without regard to specific inputs, generically, did you
20 follow the same methodology in terms of discounted cash flow,
21 market approach, and precedent transaction approach that you
22 heard Mr. Pohl testify about?

23 A. We considered the same three general approaches to
24 valuation.

25 Q. So I'm going to try to skip over actually describing --

1 return expectations or a return thesis for companies, you
2 benchmark against similar companies.

3 Q. So that was your operating thesis. Let's now back up and
4 talk about some of the distinguishing characteristics that
5 Mr. Pohl found disqualify the OCTG companies from his
6 comparable analysis. You were in Court on Monday and Tuesday
7 when Mr. Pohl testified?

8 A. I was.

9 Q. And you heard his testimony regarding the distinction
10 between seamless and welded pipe?

11 A. I did.

12 Q. And in your opinion is the distinction between seamless
13 and welded pipe a distinction of such significance that other
14 OCTG companies that manufacture all or primarily seamless
15 pipe should not be used as a comparable company to those like
16 the subject company who manufactured welded pipe?

17 A. No. I don't think that's -- I don't think it's a
18 distinction or a difference -- you know, a distinction with a
19 difference. Essentially, you have two types of methodologies
20 for creating these pipes. One is to extrude material into a
21 pipe length. One is to melt, whether it's steel fragments or
22 steel, recycled steel products or bill it. They melt it and
23 extrude it like -- picture a plastic straw being extruded
24 through an extrusion machine.

25 They're both commodities. The seamless -- and I think

1 all the market participants would love to characterize them
2 one way or another to try to gain market share or market
3 preference for one versus the other. But they're both --
4 these are pipes and tubes. They're commodity products. And
5 when you think about -- back to my philosophy about return
6 invested capital. It's adjusted for there.

7 If a company makes primarily seamless, it's going to have
8 additional capital required to provide furnaces that actually
9 melt the metal. And it may get a higher return on that
10 seamless product, but at the end of the day, return on
11 invested capital in the sector still behaves as one would
12 expect it would, would expect it to.

13 Q. With respect to the company's view as you perceived it as
14 to the significance of the distinction between seamless and
15 welded pipe, did you see anything that indicated that the
16 company itself did not believe that was a significant
17 distinction?

18 A. Let me go back to certainly for me the investor
19 presentation. There were certainly materials in there that
20 described that philosophy that their technology -- again,
21 it's not technology they created but it's technology that
22 Boomerang uses. The ERW technology they believe that there's
23 factors that help them to argue or not argue but to compel
24 customers to believe that there are applications that are
25 currently using seamless that could employ the welded

1 technology successfully.

2 Q. And just for the record to point to investor
3 presentation, the company records, would you turn to Tab 3,
4 which is Exhibit C-8. And begin, if you will, with Page 5.
5 And we'll walk through a few pages that hopefully you'll
6 identify. So start with Page 5 and tell us on Page 5 where
7 you see an indication of the company's views as to the
8 distinction between seamless and welded technology.

9 A. They obviously highlight the fact that they've got new,
10 highly-automated, market-leading production facilities, that
11 they provide premium products that their facility has created
12 a new industry standard with, in this case, the inline
13 integrated third-party inspections. They've got the types of
14 equipment that allows them to be nimble and responsive to
15 their customers. But, again, they highlight here that
16 automated, market-leading production facility.

17 Q. And in bullet two -- and we heard testimony on this on
18 Monday -- do you see where they highlight their professed
19 success moving seamless users of premium alloy pipes?

20 A. Yes, I think that's -- I do see that, yes.

21 Q. If you look at Page 28 of Exhibit C-8, looking at that
22 page, do you see anything that indicates, again, sort of the
23 relationship, if you will, or the distinction between
24 seamless and welded pipe?

25 A. Well, yes. I think you can look at the chart on the

1 bottom left-hand side of that page and see that, in fact,
2 seamless pipe, based on the pipe logic seamless and pipe
3 logic -- these are data providers -- commands a premium. But
4 that premium, you'll follow it across the table. I mean, the
5 seamless pipe and welded pipe tend to move in a fairly step-
6 wise fashion. In fact, as you get out to April 15, it looks
7 to me like the price preference or the price differential is
8 compressing.

9 But, again, back to my return on invested capital thesis,
10 if you want to create or make seamless, you're going to have
11 to invest in the machinery and equipment to do so. That
12 raises your invested capital. Your returns are higher. But
13 at the end of the day these are commodity products and the
14 returns generally over time should be relatively low.

15 Q. Okay. So let's turn to another disqualifying factor that
16 Mr. Pohl identified in his reasons for rejecting other OCTG
17 companies as comparable to Boomerang. And that is the
18 geographical disbursement or segmentation of their product
19 sales. Did you look at and take into consideration the
20 geographic footprint of sales of the various companies that
21 you used as comparable companies?

22 A. I mean, we certainly did. We include that information in
23 our report. But, again --

24 Q. Would you tell us where in your report?

25 A. Go to -- I'm on Slide 49.

1 Q. 38, 39?

2 A. 39, 39. Thank you.

3 Q. I'm trying to be helpful.

4 A. I appreciate that. So if you look at Slides 38 and 39,
5 sifting through all or a lot of material about each of the
6 companies in the public domain, Capital IQ, company filings,
7 we developed these tables that you see on Slide 38 and 39.
8 Firstly, you'll see that each of the selected companies that
9 we've used derives a majority 80 percent plus of its revenue
10 from steel pile and tubular goods, again, sort of a global
11 commodity, steel pipe, tubular goods: Vallourec, Tenaris,
12 TMK, Tubos, Tubacex, all generate -- if not all, a
13 significant portion of their product portfolio is in those
14 goods.

15 If you move to the second slide, you'll see sort of the
16 geographical composition. And North America is the largest
17 identified geographic end market for both Vallourec and
18 Tenaris, which helped us to form them or categorize them as
19 our Tier 1 comparables.

20 Q. I think one of the other criticisms that Mr. Pohl -- not
21 criticisms, but one of the other criteria that Mr. Pohl found
22 disqualifying OCTG companies from Boomerang was that those
23 OCTG companies were larger and more diversified than
24 Boomerang itself. Did you consider that and, if so, how did
25 that factor into your analysis?

1 predictive betas utilizing assumptions and adjustment factors
2 that lack transparency and, therefore, we just don't have the
3 ability. For example, you see here that we sanity checked
4 our betas with historical data. We just don't have the
5 ability to reverse engineer the Barra beta because of its
6 proprietary nature.

7 Q. It was pointed out in Mr. Pohl's testimony that the betas
8 derived from the comparable companies that you selected seem
9 to be lower than the Barras or the betas, excuse me, derived
10 from this comparable selection and that -- what's your
11 reaction to that?

12 A. Again, this is a central issue here, which is the
13 selection of the right set of comparables to evaluate
14 investor expected returns.

15 Q. How does the Barra -- how does the beta do that?

16 A. Well, the beta will analyze, for example, one set of
17 comparable companies one by one. It will look at their stock
18 price performance and returns relative to an index or you can
19 have a separate set of comparable companies. And the
20 calculation, the beta, will measure the correlation between
21 investor returns or price and a market index. It's a central
22 calculation.

23 Q. And then, again, maybe this is a good place just to stop
24 in your report. Do you show your ultimate build-up formula
25 for the weighted average cost of capital on Page 32 of your

1 Q. And why did you end up using six percent?

2 A. In our model we will synthesize views of equity risk
3 premium because as a practical matter, when you look to the
4 literature over time, the trajectory of equity risk premiums
5 has been declining over time. In other words, academics who
6 spend their time studying this particular topic believe that
7 the equity risk premium has been coming down over time. So
8 to try to incorporate those sentiments, we look at a couple
9 of different what we believe to be reputable sources of
10 equity risk premium data. And, quite frankly, we take the --
11 we look at the average and means of those and in this case
12 that suggested six percent. And it's a critical input.

13 Q. I want to take a moment here and ask you to look at Page
14 62 of your report because we've just discussed the beta input
15 that you derived from historical betas and now we've talked
16 about the risk premium. And I want you to take the Court
17 through what the significance of those inputs are in terms of
18 the calculation of weighted average cost of capital and its
19 impact on value.

20 A. Well, Appendix C incorporated some critiques that we had
21 with Mr. Pohl's valuation. And to provide a bit of context
22 for the discussion around equity risk premium selection, we
23 created some calculations. They're at the bottom of the
24 table there where you look at the sensitivity of the result
25 to, for example, revising beta, or sensitivity to result to

1 Lazard -- to Mr. Pohl's report of revising ERP. These aren't
2 additive. They're sort of mutually exclusive sensitivities.
3 But you can see that, for example, a revision of beta to the
4 1.13 level where we've set it and largely keeping all the
5 other factors constant, it has a very significant impact on
6 value indications or enterprise value.

7 Q. Just so I understand it, with respect to the beta and the
8 sensitivity, you utilized the beta that you derived into
9 whose calculations?

10 A. You can see through the table here that these are the
11 settings for the additional factors as provided in Mr. Pohl's
12 report.

13 Q. And so once you've just changed that one sensitivity on
14 beta, how does that impact value in a dollar sense?

15 A. Well, rerunning the calculations at the newly-calculated
16 WACC using the beta change changes the enterprise value by
17 \$119 million dollars.

18 Q. On the right column with respect to the equity premium,
19 is that the same approach, Lazard's report and the changed
20 equity premium?

21 A. Yes.

22 Q. And, again, how does that impact value, that one percent
23 change?

24 A. The change of that variable in isolation causes a \$25
25 million change in value.

1 consistent with the micro cap segment which includes deciles
2 nine and ten. If you look to the right, you'll see the
3 smallest company in that portfolio and the largest company in
4 that portfolio.

5 Q. Now, with respect to the size premium that you've
6 identified and the discussion that we had previously with
7 respect to Barra beta, do you have a view as to whether there
8 may be a conflict in using Barra beta and size premium in the
9 WACC formula?

10 A. Well, I think there were -- I recall hearing testimony on
11 this topic, which is size is one factor or one dimension that
12 Barra incorporates into its proprietary formulas. And I
13 think it's just not clear whether or not size is discretely -
14 - I mean, they say size is a factor considered but you can't
15 see how it's considered it. So that certainly opens the
16 prospect for double counting and that's particularly why we
17 reject the use of the Barra -- it's one of the reasons why we
18 reject the use of Barra betas in the first place.

19 Q. Okay. So again, now that you have your -- well, why
20 don't you, first of all, tell us, just to complete Page 32,
21 what's the actual weighted average cost of capital number
22 that you come up with?

23 A. So the calculation displayed there based on the
24 parameters set forth above is 9.73. So we conclude on a
25 selected WACC range of 9.5 to 10.

1 Q. And I skipped over it so I don't want to skip over it,
2 but there's a component of the cost of debt. Can you explain
3 that to us?

4 A. Again, this is the other portion of the weighted average
5 cost of capital. We talked about equity. This is the debt
6 component weighted by its relative portion of debt in the
7 capital structure, in the subject company capital structure.
8 So you start with a cost of debt assumption. Here we've used
9 20-year BB corporate bonds, and we've tax effected it because
10 there is a tax shield available to the companies. So we used
11 the after tax cost of debt. We multiplied that by the
12 industry debt to capital structure for debt of 40 percent to
13 get a cost of debt portion of 1.8 percent in the weighted
14 average cost of capital.

15 Q. And it's that last point that I want you to explain
16 further, which is you used a 40 percent debt-to-equity ratio.
17 Do you remember hearing Mr. Pohl saying that he used a 25
18 percent debt-to-equity ratio because the Debtors' goal or
19 aspiration was to get to a 25 percent debt load. Do you
20 remember that testimony?

21 A. I do.

22 Q. And so hearing that testimony, why is it that you used 40
23 percent as your debt-to-equity calculation?

24 A. Well, I believe the correct way to do this is to assign
25 an industry normalized or industry debt-to-equity or debt-to-

1 total capital ratio as opposed to using a company's target,
2 which is -- you know, target is a nice thing to have but I
3 don't know that the company has ever been at 25 percent debt
4 to equity or debt to total capital. We believe that the
5 calculations suggest you should be looking at -- I mean, the
6 calculation should be an industry normalized capital
7 structure and that's why we have reference to the guideline
8 public companies here looking at their capital structures.
9 Q. Okay. So once you now have your capital rate again, on
10 Page 33, just very quickly, just run us through the inputs
11 and the ultimate calculation that you end up as your final
12 derivation of value?

13 A. Sure. Slide 33 reflects management's forecast through
14 December 2018. We then calculate a terminal value based on
15 the Gordon Growth Model. We inflate revenues by three
16 percent and assume long-term growth rate. We fix EBITDA
17 margin at the 2018 level at 10.1 percent. We use our
18 normalized depreciation level, calculate taxes. We arrive at
19 a net profit, net operating profit, profit after tax, add
20 back non-cash depreciation, adjust for capital expenditures
21 and adjustments for working capital, current assets, current
22 liabilities, to get to a debt-free cash flow parameter of 23
23 million in the terminal value.

24 And again applying the formula we discussed earlier, we
25 capitalized that 23 million at the weighted average cost of

1 A. I think that's true.

2 Q. And because the identification of comparable companies
3 impacts different aspects of the valuation, right?

4 A. It's an important factor to be considered. A lot of data
5 points derived from comparable companies.

6 Q. Can you look at tab 4 of the binder in front of you?

7 A. Sure. Okay, tab 4.

8 Q. Remember we talked about this book at your deposition?
9 This is a book you edited?

10 A. I was an author, co-author of Philip J. Clements.

11 Q. Right and that was in 1995, I believe?

12 A. That was 2005.

13 Q. 2005. And we talked at your deposition about the fact
14 that you reviewed the chapters in the book before they were
15 finalized and included in the edition? Do you remember
16 telling me that?

17 A. Not specifically but, I mean, that's a true statement.

18 Q. And can you please turn to page 44 of this excerpt? Let
19 me know when you're there.

20 A. Okay. I'm on page 44.

21 Q. And here this page lists factors -- and I'm reading the
22 last sentence before the bullet, "Factors that often guide
23 the identification and selection of market analogs for the
24 subject business or asset," correct?

25 A. I see that, yes.

Tab 4

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