

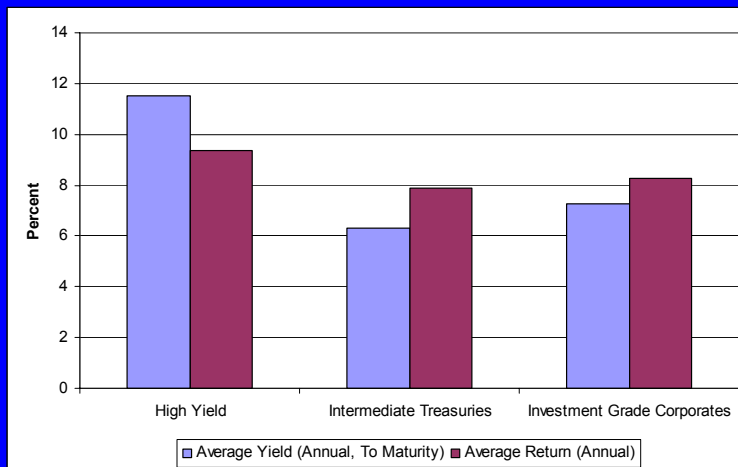
# High Yield Bonds: The Growing Challenge

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## Fallacy of Composition

1987-2005

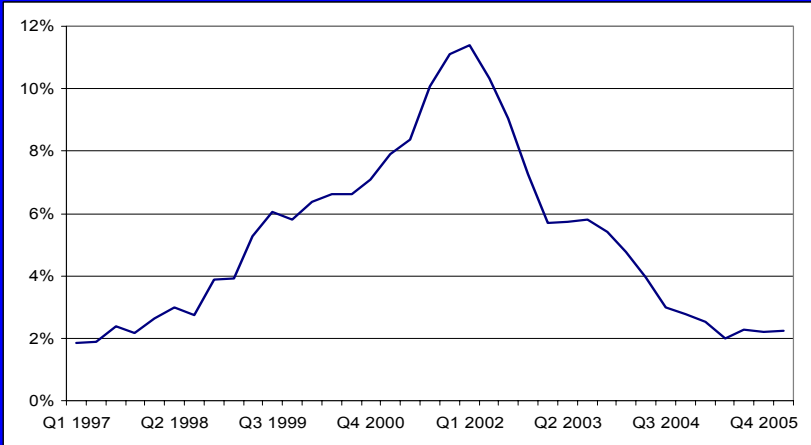


Source: Merrill Lynch & Co.



# Default Rate

Moody's Speculative Grade Default Rate, Trailing-Twelve-Months  
U.S. Percentage of Issuers, Q1 1997 – Q1 2006, Quarterly

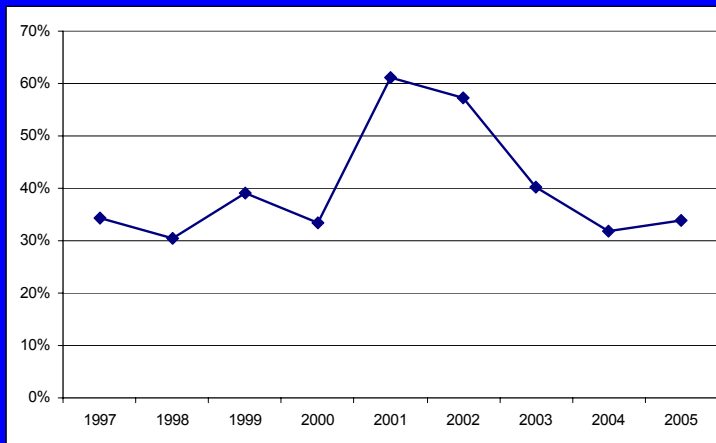


Source: Moody's Investors Service.

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# New Issuance Quality

Percentage of New Issuance Rated BB- and Higher by Senior-Equivalent Rating  
By Number of Issues, 1997-2005

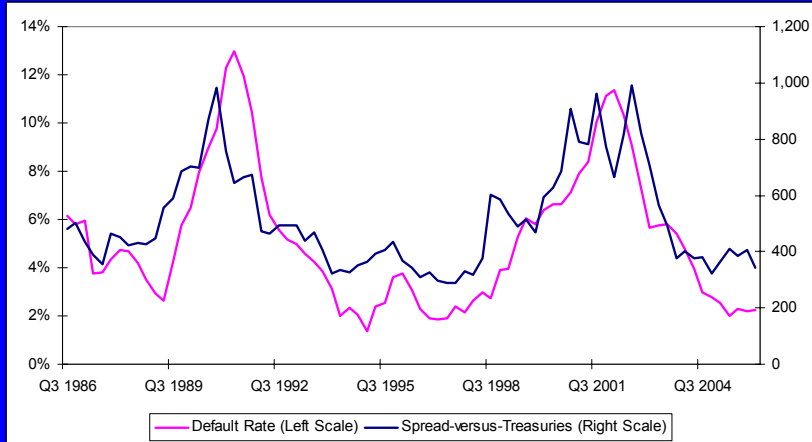


Sources: Advantage Data, Bloomberg.

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# Default Rate and Risk Premium

Default Rate\* versus High Yield Spread-versus-Treasuries\*\*  
 Q3 1986 – Q1 2006, Quarterly

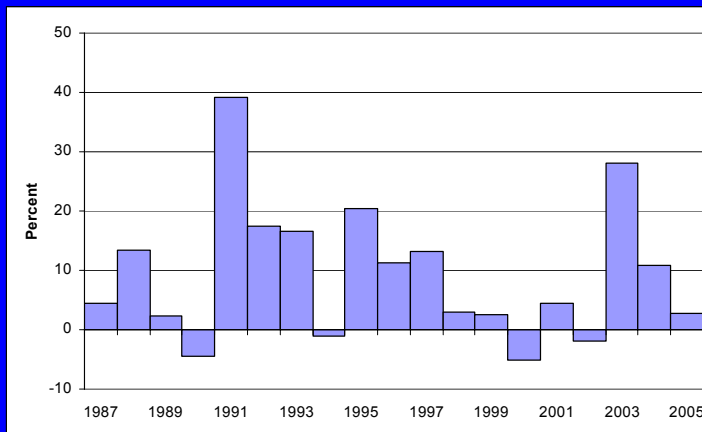


\* Moody's Speculative Grade Default Rate, Trailing-Twelve-Months, U.S. % of issuers.  
 \*\* U.S. High Yield Master II Index (H0A0) YTM minus U.S. Treasury, Current 10-Yr (GA10) YTM.  
 Sources: Merrill Lynch & Co., Moody's Investors Service.



# High Yield Index Total Return

1987-2005



Source: Merrill Lynch & Co.



# High Yield Total Return and Total Return Premium

Years between Trough and Peak Default Rate

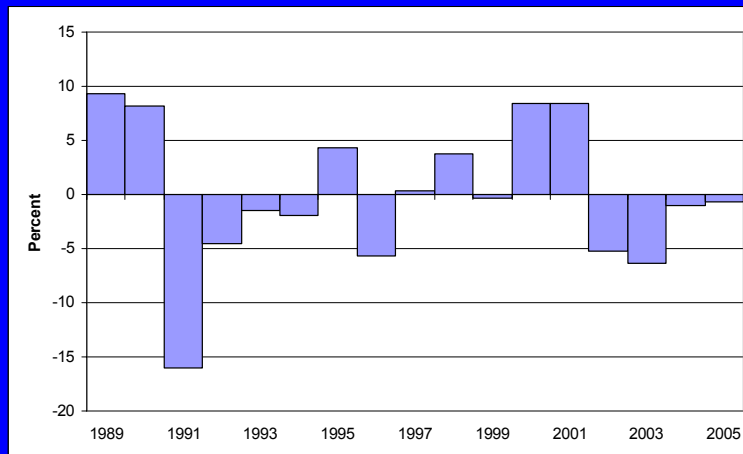
Year	Total Return	Total Return Premium (basis points)
1989	2.31%	-1,441
1990	-4.36%	-1,124
1997	13.27%	211
1998	2.95%	-981
1999	2.51%	1,076
2000	-5.12%	-1,998

Source: Merrill Lynch & Co.

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# BB vs. B: Total Return Differential

1989-2005



Source: Merrill Lynch & Co.

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# Dynamics of Industry Returns

Transition of Industry Rankings by Total Return  
Semiannual Basis

Period	New in Top 10	From Middle to Top 10	From Bottom 10 to Top 10	New in Bottom 10
1H 1997	na	na	na	na
2H 1997	5	3	2	5
1H 1998	4	3	1	3
2H 1998	6	6	0	6
1H 1999	9	3	6	9
2H 1999	6	4	2	5
1H 2000	7	5	2	5
2H 2000	6	5	1	6
1H 2001	9	4	5	6
2H 2001	4	2	2	5
1H 2002	7	2	5	7
2H 2002	6	3	3	8
1H 2003	8	3	5	9
2H 2003	4	3	1	4
1H 2004	8	5	3	8
<b>Average</b>	<b>6.36</b>	<b>3.64</b>	<b>2.71</b>	<b>6.14</b>

Source: Merrill Lynch & Co.

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# Industry Returns

Industry Rankings by Total Return  
Second Half of 2005

Industry	Total Return
<b>Top 10</b>	
Airlines	5.70%
Entertainment	5.54%
Wirelines	5.29%
Transportation Services	5.14%
Environmental	5.04%
Other Industrial	4.18%
Wireless	4.06%
Construction Machinery	3.84%
Textile	3.72%
Oil Field Services	3.70%
<b>Bottom 10</b>	
Automotive	-3.62%
Paper	-3.16%
Electric Utility	-0.31%
Home Construction	0.24%
Packaging	0.47%
Retailers	0.90%
Media Cable	1.08%
Consumer Products	1.60%
Aerospace/Defense	1.75%
Natural Gas Pipelines	1.86%

Note: Only industries with 10 or more issues are shown.

Source: Lehman Brothers.

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## Industry Value Tracker



Industry	% Trading Wider than Estimated	Total # of Issues
Paper	88.89%	18
Media Non-Cable	81.48%	27
Automotive	77.78%	18
Independent Energy	71.11%	45
Wirelines	67.86%	28
Metals/Mining	66.67%	12
Health Care	58.82%	51
Chemicals	57.14%	21
Consumer Cyclical Services	56.00%	25
Retailers	55.00%	40
Packaging	53.33%	15
Environmental	46.67%	15
Food & Beverage	46.67%	15
Consumer Products	46.15%	13
Media Cable	46.15%	13
Technology	43.59%	39
Transportation Services	42.86%	14
Aerospace/Defense	29.41%	17
Industrial Other	28.57%	14
Pipelines	25.49%	51
Gaming	17.65%	17
Electric	16.95%	59
Oil Field Services	15.79%	19
Wireless	14.29%	14
Lodging	7.14%	14

Note: Based on Spreads as of April 24, 2006  
Sources: Advantage Data, FridsonVision LLC, Lehman Brothers.

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## Industry Value Tracker Performance

Total Returns Relative to High Yield Index  
August 20, 2003 to March 9, 2006, Monthly Basis

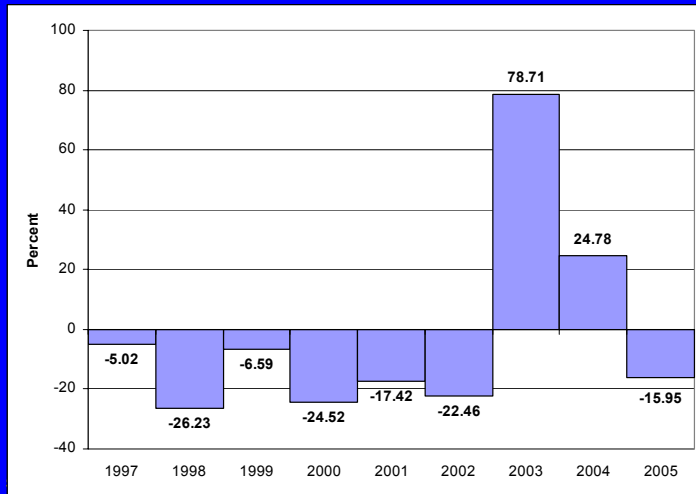
Category	# of Cases	Average Outperformance
Cheap	241	0.09%
Neutral	2,150	-0.01%
Rich	589	-0.10%
Total	2,980	-0.02%

Sources: Advantage Data, FridsonVision LLC, Lehman Brothers.

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# Distressed Index Total Return

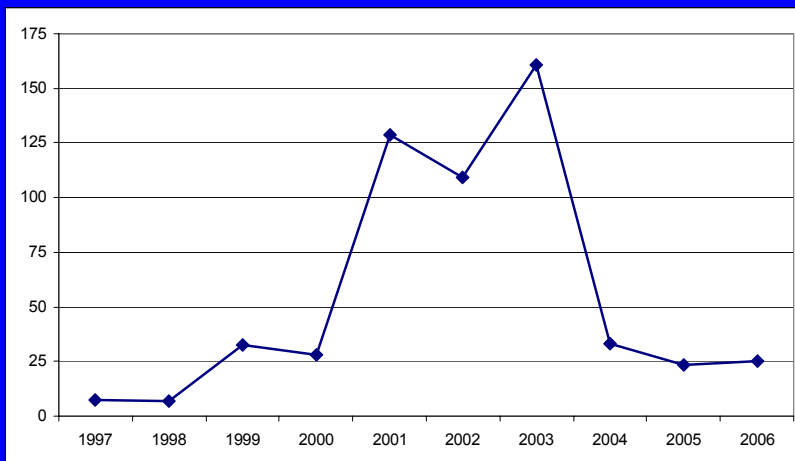
1997-2005



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# Distressed Debt Index Face Value

At Beginning of Year, \$ Billion

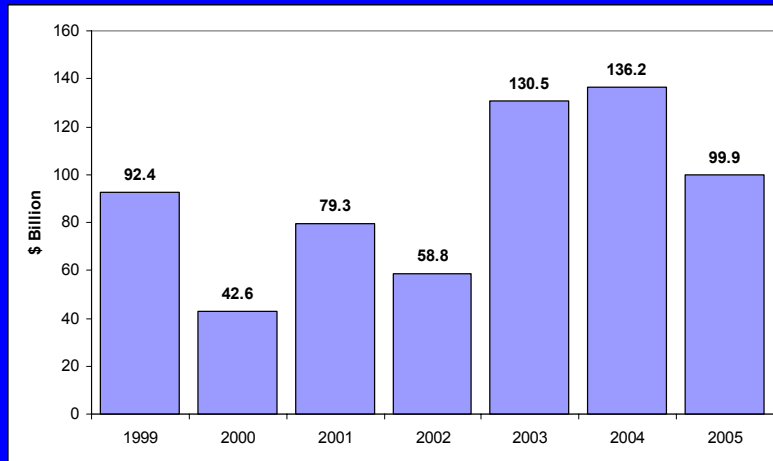


Source: Merrill Lynch & Co.

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# New Issuance Volume

1999-2005



Source: Bloomberg.

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# U.S. Debt versus Equity

Equity outperforming Debt  
April 12, 2006 to April 19, 2006

Issuer	Coupon (%)	Maturity	Stock Ticker	Bond Price Change	Stock Price Change	Difference
ETHYL CORPORATION	8.875	05/01/10	NEU US	0.73%	26.98%	-26.25%
VISTEON CORP	7.000	03/10/14	VC US	0.00%	25.31%	-25.31%
VALMONT INDUSTRIES INC	6.875	05/01/14	VMI US	-0.50%	23.32%	-23.82%
CONSTAR INTERNATIONAL	11.000	12/01/12	CNST US	-3.85%	17.90%	-21.75%
AMKOR TECHNOLOGIES INC	9.250	02/15/08	AMKR US	0.49%	21.45%	-20.96%
TENNECO AUTOMOTIVE INC	8.625	11/15/14	TEN US	0.00%	20.77%	-20.77%
GRANT PRIDECO INC	6.125	08/15/15	GRP US	-1.16%	18.09%	-19.25%
PEABODY ENERGY CORP	5.875	04/15/16	BTU US	-0.13%	18.93%	-19.06%
FREEPORT-MCMORAN C & G	6.875	02/01/14	FCX US	-0.75%	16.99%	-17.74%
ENERGY PARTNERS LTD	8.750	08/01/10	EPL US	0.24%	17.14%	-16.90%

Sources: Bloomberg, Lehman Brothers.

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# U.S. Debt versus Equity

Debt outperforming Equity  
April 12, 2006 to April 19, 2006

Issuer	Coupon (%)	Maturity	Stock Ticker	Bond Price Change	Stock Price Change	Difference
WOLVERINE TUBE	7.375	08/01/08	WLV US	3.40%	-20.27%	23.68%
EMMIS OPERATING CO	6.875	05/15/12	EMMS US	0.00%	-12.90%	12.90%
MILACRON ESCROW CORP	11.500	05/15/11	MZ US	0.00%	-10.96%	10.96%
DANKA BUSINESS SYSTEMS	11.000	06/15/10	DNK LN	1.23%	-9.33%	10.56%
DURA OPERATING	9.000	05/01/09	DRRA US	9.23%	0.86%	8.37%
ADVANCED MICRO DEVICES INC	7.750	11/01/12	AMD US	0.00%	-8.18%	8.18%
GLOBAL CROSSING UK FINANCE	10.750	12/15/14	GLBC US	0.24%	-7.48%	7.72%
CSK AUTO INC	7.000	01/15/14	CAO US	1.05%	-6.64%	7.69%
TEMBEC INDUSTRIES INC	7.750	03/15/12	TBC CN	-2.78%	-10.00%	7.22%
HANGER ORTHOPED GROUP	10.375	02/15/09	HGR US	0.37%	-5.92%	6.29%

Sources: Bloomberg, Lehman Brothers.

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# U.S. Debt versus Equity Performance

Relative Performance versus Lehman Brothers U.S. Corporate High Yield Index  
Price Returns, Monthly Basis, December 1, 2004 to March 14, 2006

Group	# of Cases	Average Price Return	Average Index Price Return	Difference
Buys	620	2.06%	0.41%	1.65%
Sells	620	-1.70%	0.41%	-2.11%

Sources: Advantage Data, FridsonVision LLC, Lehman Brothers.

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