Yellow Media's Proposed Recapitalization

"A Plan to Default on Our Equity Obligations"

Produced by

ARM Holdings LLC

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Abstract:

The Proposed Recapitalization by Yellow Media Inc. on the date of July 23, 2012 constitutes a breach of fiduciary duty by the directors of the corporation, namely:

Marc P. Tellier, Bruce K. Robertson, Michael E. Roach, Marc L. Reisch, Martin Nisenholtz, Anthony G. Miller, David G Leith, Michael R. Lambert, John R. Gaulding, Craig Forman and Michael T. Boychuk.

Aug 9 (Reuters) – "Canadian telephone directory publisher **Yellow Media** Inc reported quarterly revenue above analysts' estimates…"

(they beat analysts by 59% on EPS)

(it is these UNFAIR assumptions by analysts that are driving the recapitalization plan!!!!)

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Summary

I intend to vote no on the recapitalization as I believe that it is written by and for the benefit of the MTN holders, the BOD and with the intent to protect Mr. Telliers position with unfair representation for the shareholders. Not only that, but I want to bring into question the legitimacy of the proposed recapitalization because there appears to be a breach of fiduciary responsibility.

We agree with the banks:

> The banks object to the restructuring, arguing that despite a challenging year ahead as debt comes due there is no need for it at the moment because the company is generating enough cash to pay its obligations as they come due.

The largest question that remains to be unanswered, why is the company purposely not mentioning that revenues and EBITDA only decreased 1% last quarter and instead is exaggerating the print decline by publishing YOY statistics when it appears that the rate of decline is slowing? I am referencing page 10 of 2012's Q2 MD&A.

I also want to reference Point 2 of Page 3 of the 2012 Q2 MD&A. Do these numbers look like they are coming from a company in distress?

No. Then why are we recapitalizing using a distressed framework!!?? To me, this looks like a slow, moderate decline at **WORST**. If you read into the statements by management regarding the underlying business, one would believe, correctly I might add, that the business really is fairly robust and the declines in print will eventually be mitigated, perhaps in the near term, and offset by digital gains.

Proposal

The recapitalization purposely fails to ignore the FACT that the company can retire debt at a discount to par. At the time of writing this, the company has the financial capacity to pay back the revolver to increase the undrawn availability to $125M per Section 9.9 in the credit agreement. Details below:

> As at August 9, 2012, Yellow Media Inc. has in place a senior unsecured credit facility consisting of:
>
> ƒ - $250 million revolving tranche maturing in February 2013; and
>
> ƒ - $130 million non-revolving tranche maturing in February 2013.

From their 2012 Q2 MD&A: As of August 9, 2012, $130 million was outstanding on the non-revolving tranche of the credit facility and $239 million was drawn on the revolving tranche. The Company has approximately $325 million of cash as at August 8, 2012.

The fiduciary responsible thing to do that creates an 81% return on equity is:

1. Use $114M to pay down their revolving credit facility down to $125M. This takes their cash balance down to $211M.
2. Using the cash leftover, they can retire $383M of par value of MTN's at market prices.
3. Convert the A's to common.
4. The company should continue to do this until February 2013. Then they should go into CCAA.
5. The amount of Free Cash Flow between now and February is set to be an additional $150M.
6. This would retire another $272M of debt from the MTN's at market price.

Upon entering CCAA, you would have:

1. A company who now has a net debt of $1B, after retiring $655M of debt.
2. A company with a net debt of $1B with EBITDA of $494 projected by analysts is a SOLVENT company and should be Refinanced and NOT Recapitalized.
3. THE ANALYSTS WILL HAVE RAISED THEIR ESTIMATES FOR EARNINGS AND REVENUES TO REFLECT THE BETTER BUSINESS TRENDS REFLECTED IN Q2!!!

The proposed recapitalization IS NOT in the best interest of the OWNERS of the company. It is, however, in the best interest of the bondholders. The purpose of this document is to prove that this IS the case and this DOES represent a breach of fiduciary responsibility.

The Legitimacy of The Fairness Opinion

I want to bring into question the legitimacy of the fairness opinion provided by BMO capital provided by BMO Capital Markets and Cannacord Genuity.

It is my understanding that the EPS for Q2 2012 was 54.6% above analyst estimates. These are the same estimates that are driving the recapitalization allocation valuation percentages. **It is not FAIR to equity holders to recapitalize a company using estimates for revenues, ebitda, and earnings that are FAR below the reality of the situation.**

Not only that, but if you use more reasonable estimates for the reality of the situation, I question the legitimacy of the argument that the company has an unsustainable amount of debt and NEEDS to be recapitalized. It is my opinion that the company can handle a much larger debt burden than it presently is carrying and the market is simply operating from a very scared frame of reference. This IS NOT FAIR to equity holders to allow debt holders to take over the company when the company can continue to meet all of its obligations, indefinitely into the future.

If you study the cash flows of Yellow Media, the company is not facing a liquidity or an insolvency crisis. Yet, management has entered into what amounts to a criminal recapitalization plan that defrauds equity holders of the ownership of the business that they are entitled to and have elected management to defend, manage and increase.

Breach of Fiduciary Duty Defined

It is our belief at ARM Holdings LLC that the purpose of management is to act in the best interest of ownership. In the case of a private company, the owner makes decisions in his best interest. He owns the company and he seeks to increase the value of his ownership. In the case of a public company, the owners set up an organizational structure designed such that management makes decisions in the best interests of those that own the company.

The Fiduciary Duties

> The fiduciary duties expected of directors and officers under the Acts are, simply stated, that the directors and officers must act honestly, in good faith and with a view to the best interests of the corporation.

So, who owns a corporation?

> The shareholders own a corporation. There are a variety of types of shares that can be issued by a corporation, e.g., common and preferred, and within these shares there are different classes as well.

So, in theory, the directors and officers would be breaching their fiduciary duty IF they are not working in the best interests of the equity shareholders.

Let's talk about that in the scope of this recapitalization plan. Let's start out with some facts.

1. Analysts are forecasting EBITDA at $539M in 2012 and $452M in 2013. Remember that these estimates all came from their historical earnings statements and do not take into account the blowout numbers in Q2 2012.
2. The company is estimating cash taxes of $125M in 2012 and $140M in 2013.
3. The company presently has net debt of $1610M as of June 2012. The Market value of this debt is around $950M.
4. The present interest expense on this net debt is at a run rate of $118M/year.

From these numbers you can figure out by subtracting the cash taxes from the EBITDA:

For the year 2012, after the company meets its tax obligations, the company has $414M of cash produced from operations to deal with debt.

For the year 2013, after the company meets its tax obligations, the company has $312M of cash produced from operations to deal with debt.

Thus, not only is the company capable of meeting their $118M of interest obligation, but also they are able to pay down their debt in a meaningful way for the next two years.

Furthermore, I want to point out just how nasty and purposefully negative these analyst estimates are:

> If you are looking at my worksheet at http://www.glenbradford.com/files/Stocks/YLO.xls you will find that the company beat my estimates for Q2. My estimate for EBITDA 2012 is $557M. My estimate for EBITDA 2013 is $494M. This is before I have revised my rates of decline in overall revenues to reflect the fact that the company is doing better than my projections. I was categorized as optimistic, and the company exceeded my estimates.

I think that various sources of the negativity for analyst estimates originate from:

1. The misunderstanding of top line revenue decreases that come from businesses that have been sold off.
2. The purposeful largely negative trending to support investment arguments to reflect the lower prices brought on by the market.
    a. The lower prices in the market place have originated from:
        i. Investor sales due to the cut in dividend to increase the company's ability to pay down debt at sub-par prices.
        ii. The fact that people are afraid of phone book companies that have penny stock stock market prices.
        iii. The fact that the company has been recording non-cash write downs during the last year to make earnings look FAR WORSE than they actually are. These are OVER. The company is HUGELY PROFITABLE.

Breach of Fiduciary Tests

I think that there is reason to believe that the analysts or the firms that they represent own MTNs. I also think that Yellow Media's management has a position in the MTNs.

IF either of the parties above own Yellow Media debt, then there is a conflict of interest when they claim to represent the equity holders (management) or give a fairness opinion (BMO and Canaccord). They would have MUCH to gain if they just give away the company to the MTN holders if they OWN the MTNs!!!

Marc Tellier, I want to know what you own. Do you own any debt in Yellow Media? If you do, then you have a conflict of interest and DO NOT comply with the law in regards to meeting the qualifications to represent me, an equity holder.

I would also love to see a FULL audit of the email chain between management, MTN's and analysts covering the last 12 months. This can be done via any eDiscovery firm.

Where We Stand Today

The company is presently voting on a recapitalization that is based on unfair assumptions resulting in the criminal behavior of giving away the company from its owners to its debt holders.

If you can pay your bills, why should the bank take over your house and kick you out?

This recapitalization effectively sets a precedent such that:

If you own a home, and you can pay your bills and are presently paying your bills and can pay all of your future bills as they come due:

Your debt holders now can take over ownership of your residence.

So, your argument is that the debtholders are being treated unfairly?

Look, it's not our fault that they are selling their debt at sub-par prices when the company can continue to pay them off at par.

Here is my argument:

> **Q:** What exactly do the debtholders stand to lose if the company does not recapitalize using these horrendous terms and simply instead converts the preferred A's and B's to common and then cuts out all dividend payment for the foreseeable future on commons and preferreds?
>
> **A:** Nothing.

Nothing you say? You mean to tell me that the cash outflows of the business would continue to go off to pay off the debt holders until they are paid off and what is left would belong to the equity holders?

So, they would get all of their money back if they didn't panic? Yes!!! That is what I am saying.

So, why should we reward them for choosing to panic? I think if anything, they should be penalized for their own ignorance of cash flows.

Refinancing is what SHOULD be happening

This company is RIPE for a refinancing. This is materially different from a recapitalization. This recapitalization is criminal in spirit as it defaults on the company's equity obligations to shareholders. The claim is that they need to default on the equity obligations to meet their debt obligations. That is a lie. It is a very good lie.

The debtholders and shorts have done an excellent job adhering to a simple principle:

1. Make the lie.
2. Make it simple.
3. Keep saying it.
4. Eventually they will believe it.

And so, you have a situation where everyone is in a state of panic and unnecessary confusion about what is worth what. When you have a company that can pay off all of its obligations as they come due, that should be EXACTLY what they do. That's what I want them to do! I think that anyone who does not see this should not hold a position of management in a public company. Since when does giving away what you own for no reason count as fiduciary responsible behavior?