WILLIAM FRUHAN
WEI WANG

Pinewood Mobile Homes, Inc.

In March 2011, Kenneth Walker, CEO of Pinewood Mobile Homes, sat in his office and considered a restructuring plan that his CFO had prepared with the assistance of the company's financial advisors. The restructuring proposal's key element was an exchange offer that would allow Pinewood's creditors to swap their existing claims for new securities. If the company was unable to obtain the necessary approval from its creditors, it would be at imminent risk of having either to file for Chapter 11 bankruptcy or to sell a majority of its assets. Walker knew that he had to act quickly. Pinewood had exhausted its credit lines, and it had to pay the principal on its short-term debt in the next month.

Company Background

Pinewood Mobile Homes, based in Dallas, Texas, was a large manufacturer of prefabricated homes. It manufactured one-story, ranch-style houses; two-story, single-section and Cape Cod modular homes; and townhomes, apartments, and duplexes. It also produced modular commercial structures, including two- and three-story buildings and barracks for U.S. military bases. Pinewood had 24 home-building facilities located in 10 states and two provinces in Canada and more than 3,000 employees.

Founded in 1952 by Walker's grandfather, Pinewood Mobile Homes had been exclusively family owned until 1997, when it filed for an initial public offering (IPO) and listed its stock on the NASDAQ stock exchange. Walker took over the company from his grandfather shortly before the IPO. After the IPO, Walker invested in energy-efficient products and expanded the company's geographic reach by building new production facilities in the southern United States. The expansion strategy worked well over the following few years and resulted in fast revenue growth and high profit margins. Meanwhile, Walker had adopted a conservative financial policy to support Pinewood's growth strategy. He maintained a low leverage ratio and financed investments through internally generated cash flows.

In 2000, Walker decided to raise debt for Pinewood's rising working capital and investment needs. He initiated a revolving credit facility of $110 million with a consortium of seven U.S. banks, led by National Bank of Dallas. The facility's interest rate was set at LIBOR plus 1%. Virtually all the assets of the company were pledged as collateral. The bank debt contained various restrictions, including (1)

HBS Professor Emeritus William Fruhan and Professor Wei Wang, Queen's School of Business, Kingston, Ontario, prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events, and despite occasional references to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

affirmative covenants pertaining to the company's net worth and liquidity position; (2) negative covenants restricting its ability to further issue debt with higher seniority than the bank debt; and (3) prohibitions to raise dividends before paying off the bank debt. Subsequently, Pinewood issued a ten-year, senior unsecured note with a face value of $285 million in 2004, and a ten-year, subordinated convertible debenture with a face value of $170 million in 2006, to finance its capital investments and acquisitions. In addition, Walker renewed the revolving credit facility in late 2005, while increasing the credit line to $215 million.

Between 2003 and 2006, Walker acquired several small- and medium-sized manufacturers in the western United States and Canada by using funds raised through debt issues. As a result, Pinewood's U.S. market share reached 18% by the end of 2006. However, the housing market crash of 2007–2008 hit the company hard. Pinewood's revenue declined by more than 40%, from its peak in 2006. Its financial condition deteriorated further after 2008, as the prefabricated home-manufacturing industry recovered slowly from the financial crisis. The company generated negative operating cash flows from 2006 through 2009. In 2009, Walker initiated an asset restructuring program that generated liquidity by divesting several non-core assets previously acquired by the company. (**Exhibit 1** presents the consolidated balance sheets and income statements of Pinewood from 2001 to 2010.)

Nonetheless, Pinewood was well-respected for its high-quality products and services by wholesale and retail customers. It won the Manufactured Housing Institute's Manufacturer of the Year award several times. Moreover, Pinewood was considered an innovator in the product market because of its line of energy-efficient homes, which included modular "green" homes with bamboo flooring and solar power. The company marketed its mobile-home products under several different brands, including Pinewood Homes, EcoLiving Homes, and Elite Homes.

Industry Background

The prefabricated home-manufacturing industry was severely affected by the housing market crash. The industry's sluggish recovery after the crisis was partly attributed to the slow recovery of housing prices and to a long-term shift in consumer preferences toward conventional housing. As a consequence, many small companies were forced to close operations and liquidate. Several large mobile-home producers either filed for bankruptcy or were acquired. Large, national companies acquired regional competitors to gain access to key markets and cheaper labor. There were more than $15 billion in deals completed between 2005 and 2010. As of 2011, there were fewer than 200 prefabricated home manufacturers in the United States. Many of these companies generated sales of less than $50 million.

Operating margins were low due to the industry's labor-intensive manufacturing processes and high material costs. Companies needed to develop new products in order to stay competitive. For example, many manufacturers added premium features to their products, such as high-end kitchen furnishings, and continued to improve product quality. Industry sales were expected to grow at an average annual rate of 3.6% from 2012 to 2019.[1] Further industry consolidation was also expected.

The Situation

Pinewood increased its revenue and operating margin from 2009 to 2010. The EcoLiving product line generated nearly half Pinewood's total sales in 2010. However, the company continued to generate

[1]Source: IBIS World industry report, 32199a – *Prefabricated Homes Manufacturing in the U.S.*

operating losses, which, along with limited proceeds from divestitures, undermined Walker's restructuring strategy. At the end of 2010, Pinewood's book common equity was negative $8 million. Preferred and common dividends had been suspended for six quarters. Debt service obligations, including interest and amortized debt principal payments, were substantially higher than the internally generated operating cash flows were. The ongoing cash drain resulted in further drawdowns of the revolving credit facility.

In late 2010, Pinewood reached the limit of its revolving credit facility. Walker could not negotiate an increase in the credit limit with bank lenders, who were concerned about Pinewood's leverage and its breached covenants. However, he did manage to obtain month-to-month waivers of breached covenants and a three-month renewal of outstanding loans due March 31, 2011. Further, the company had to cancel the issuance of new preferred stock due to a lack of interest from existing shareholders. (**Exhibit 2** presents the consolidated capitalization as of December 31, 2010.)

On March 1, 2011, it was clear that Pinewood would be unable to pay interest on its existing debt and on a $40.7 million sinking-fund payment due April 15 on its long-term senior unsecured notes, which were held by several life insurance companies and pension funds. Moreover, National Bank of Dallas informed Walker that it would not approve any more one-month extensions unless Pinewood immediately made a 10% principal payment or entered into a letter of intent for the sale of the company on terms satisfactory to the banks. Walker knew that the banks would oppose the company paying interest on the senior unsecured notes before it reduced the bank loan, but was not sure how the holders of the senior unsecured notes would react if they did not receive contractual payments.

National Bank of Dallas also disclosed that a few smaller banks in the syndicate had begun to lobby for foreclosure on the collateral. However, these lenders understood that such action would trigger a voluntary bankruptcy filing by Pinewood and that this filing would immediately impose a stay on foreclosures. Walker knew that the large lenders were opposed to forcing the company into Chapter 11 before efforts to reach an out-of-court restructuring were exhausted. In addition to debt service payments, Pinewood also needed about $50 million in cash by June 30, 2011, to finance an increase in seasonal inventory and receivables, as well as capital expenditures in new products. With cash on hand of $20 million, and proceeds from recent asset sales equaling approximately $35 million, Walker believed Pinewood could meet its cash needs. However, he saw no way for Pinewood both to service its debt and to invest in its operations. He believed Pinewood risked losing consumer confidence and revenue if it did not fund its working capital and new investment needs, but knew that the company would default if it did not service its debt. (**Exhibit 3** presents a summary of Pinewood's contractual debt service requirements for the subsequent 12 months.)

As of March 1, 2011, Pinewood's senior unsecured notes were trading at 65 ½ cents on the dollar. Its subordinated debenture was trading at 24 ¼ cents on the dollar. Its common shares were trading for $1.09 on the NASDAQ. Further, based on quotes from private transactions, its preferred shares were trading at $1.35.

Asset Sale and Chapter 11

In late 2010, a group of Wall Street investors proposed taking the company private by injecting fresh capital; the investors valued the company at $545 million. Because several of Pinewood's board members were not satisfied with the purchase price, the deal fell through. Nonetheless, the offer sparked interest in the EcoLiving Home division. Walker was approached by Dycon Industries, a medium-sized producer in the prefabricated home-manufacturing industry that was willing to pay $365 million to acquire the division. Dycon was primarily motivated by its desire to acquire Pinewood's technology in green home production. Several large bank lenders were advocating the sale because proceeds from it could be used to be used to pay down debt. However, the CFO and the board viewed the proposed purchase price for EcoLiving as too low, and believed it reflected Pinewood's current financial troubles rather than the true value of EcoLiving Home under effective management. They believed that first-class management and hard work could make Pinewood regain its competitive position, assuming the company retained all of its core assets.

If EcoLiving were sold, Walker could either continue running the company with its remaining, less promising brands, or liquidate the remaining assets to pay off other creditors and equity holders. Based on third-party appraisals, the sale of the remaining assets would yield about $230 million in proceeds over the next one- to two-year period. Administrative expenses associated with the sale would total $25 million. Walker also estimated that a quick sale through auctions, which would require minimum administrative efforts, would bring approximately $180 million to $200 million in proceeds. With the assistance of Pinewood's CFO, he drafted two cash flow projections for the next five years: one in which Pinewood kept the EcoLiving division, and another in which it was sold. The CFO also collected information about capital markets and comparable statistics for selected prefabricated home manufacturers. Further, Pinewood's financial advisors told Walker that the company's major assets would be sold for at least a 20% discount off their book value if they were sold piecemeal. (**Exhibit 4** presents the five-year cash flow projections for Pinewood. **Exhibit 5** presents information from selected capital markets and Pinewood's common equity beta. **Exhibit 6** presents comparable market and operating information for four prefabricated home producers.)

Walker considered a voluntary Chapter 11 filing as an alternative to an out-of-court debt restructuring. The management team expressed various opinions as to the potential benefits and costs of a formal bankruptcy filing.

Potential *benefits* included:

- an automatic stay on foreclosures would be triggered, and all interest and principal payments on pre-petition debt would be suspended until a reorganization or liquidation plan was confirmed by the bankruptcy court;

- management would continue to run the business as debtor-in-possession (DIP) and have 120 days of exclusivity to file a reorganization plan, with the possibility that the court would extend the exclusivity period to as long as 18 months;

- Pinewood could raise financing through super-seniority, DIP financing, which existing or new lenders could provide, to continue the business operations;

- the company would be able to close under-performing plants and reject or reassign undesirable leases and executory contracts;

- a majority vote by each class of creditors would confirm the plan of reorganization (the required majority was defined as a simple majority of the actual creditors *and* more than two-thirds of the face value of claims in each class). In contrast, an out-of-court restructuring would require virtually all of the debtor's principal creditors to accept the plan; and

- it would allow for the adoption of special retention and incentive plans to key employees to improve enterprise value and operating performance.

Potential *costs* and *risks* included:

- large legal and professional fees due to the bankruptcy proceedings; such fees might amount to $2 million to $3 million a month for paying services provided to the debtor and creditors;
- bankruptcy could cause damage to the company's reputation, which in turn could affect how the company would interact with suppliers and customers, potentially resulting in tightened credit terms and the loss of sales;
- management time and energy would be spent preparing court documents, participation in hearings, and gathering information for court-appointed official committees of creditors or shareholders; also, critical employees could be lost to competitors;
- it could lead to a substantial increase in the amount of allowed claims because claims that otherwise would not be immediately made, such as unfunded pensions, product liability, employee injuries, and disputed payments, would probably be filed;
- the board could lose some control over strategic decisions to both secured and unsecured creditors (e.g., strict covenants contained in DIP loans would impose restrictions on corporate investment policies; the official unsecured creditors' committees could scrutinize and file objections to management initiatives; both secured and unsecured creditors, if dissatisfied with the management, could file petitions to the court to replace the management and the board with a court-appointed trustee); and
- the outcome would be uncertain because of the broad discretion of the bankruptcy judge and each class of claim holders, which could be new activist hedge funds that challenged and frustrated management initiatives as they pursued their own interests (which could lead to fire sales and an inefficient liquidation of the company).

Walker felt that the potential costs of a Chapter 11 filing were not worth the benefits. However, a minority of the board members argued that a formal bankruptcy filing would shield management and the board from the banks' immense pressure. With more time, these members believed the company could find more buyers for the assets that it would consider selling.

The Exchange Offer

The restructuring proposal offered to exchange all of Pinewood's existing creditor claims for new secured debt, new unsecured debt, common stock, and warrants. The main purpose of the exchange offer was to reduce debt service requirement to a level that was consistent with cash flows and eliminate preferred equity from the capital structure. (**Exhibit 7** outlines the terms of this offer.)

If the company received 100% acceptance from all classes of debt, its debt would be reduced from $507 million to $346 million, and common equity would increase from a negative $8 million to a positive $228 million. The exchange offer would defer all principal payments for at least two years and would reduce the annual interest payments significantly. (**Exhibit 8** presents the pro forma effects of the proposed exchange offer on Pinewood's capitalization.)

Decisions about this plan depended largely on whether major creditors believed they could recover their claims and whether the management team could turn Pinewood around. A Chapter 11 filing or selling EcoLiving Homes would be unavoidable if an accord could not be reached. Walker wondered how the creditors would react, and how he might save the business his grandfather had begun.

Exhibit 1 Simplified Pinewood Mobile Homes Inc. Financial Statements, 2001–2010 (U.S. $ millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Income Statements										
Net sales	943.2	988.4	1,080.3	1,216.2	1,358.5	1,501.1	1,271.4	918.0	825.0	875.3
Cost of goods sold	784.7	823.3	898.8	1,016.7	1,131.6	1,265.4	1,143.0	832.6	746.6	775.5
Gross profit	158.5	165.1	181.5	199.5	226.9	235.7	128.4	85.4	78.4	99.8
SG&A	108.5	110.7	119.9	135.0	150.8	169.6	160.2	118.4	105.6	98.9
Depreciation and amortization	6.5	15.8	16.1	19.7	34.5	35.1	41.2	40.0	32.5	25.3
Operating profit	43.5	38.5	45.5	44.8	41.5	30.9	(73.0)	(73.1)	(59.7)	(24.4)
Restructuring charges	-	-	-	-	-	-	-	-	20.8	22.4
Loss on asset impairment	-	-	-	-	-	-	-	22.2	26.3	22.8
Interest expense	2.4	1.4	1.0	2.3	11.5	14.4	22.6	24.1	19.8	18.2
Income tax expense	14.4	13.0	15.6	14.9	10.5	5.8	(33.1)	(41.2)	(36.0)	(21.0)
Net income	26.7	24.1	28.9	27.6	19.5	10.7	(62.5)	(78.2)	(90.7)	(66.9)
Number of preferred shares outstanding (million)	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Preferred dividends (U.S. $ millions)	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$4.50	$2.25	-
Number of common shares outstanding (million)	64.8	64.8	64.8	64.8	64.8	64.8	64.8	64.8	64.8	64.8
EPS (common stock)	$0.34	$0.30	$0.38	$0.36	$0.23	$0.10	$(1.03)	$(1.28)	$(1.43)	$(1.03)
Common dividend per share	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10	$0.05	-
Share price	$10.50	$12.60	$13.41	$13.30	$12.70	$10.74	$8.40	$4.10	$1.54	$1.02

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Balance sheet										
Cash	50.5	44.2	43.7	70.8	77.2	103.3	63.2	45.6	32.6	20.3
Accounts receivable	73.7	76.4	89.7	103.4	125.0	151.6	179.3	148.7	137.8	130.4
Inventory	130.2	143.3	155.6	171.5	188.8	210.2	190.7	167.1	145.2	138.3
Other current assets	2.3	5.1	4.9	5.0	6.9	4.9	5.3	7.9	7.1	7.8
Current assets	256.6	269.0	293.9	350.7	397.9	470.0	438.5	369.3	322.7	296.9
Gross PP&E	237.5	257.3	321.0	538.7	580.8	697.4	722.8	662.7	598.9	558.8
Cumulative depreciation	26.5	42.3	58.4	78.1	112.7	147.8	189.0	229.0	261.6	286.9
Net PP&E	211.0	214.9	262.5	460.6	468.1	549.6	533.8	433.7	337.3	272.0
Investments and other assets	5.6	6.0	6.5	7.0	7.2	7.4	6.8	6.5	6.4	5.9
Total assets	473.2	490.0	562.9	818.2	873.2	1,027.0	979.1	809.4	666.4	574.7
Accounts payable	70.6	75.7	83.6	92.5	106.4	116.4	108.6	84.9	76.9	79.9
Accrued taxes	16.4	17.4	19.4	21.1	19.0	15.6	(21.1)	(41.5)	(67.3)	(79.2)
Short-term bank borrowing	49.5	47.0	92.1	35.2	69.9	47.3	158.2	162.5	190.1	215.0
Current portion of long-term debt	-	-	-	-	-	40.7	40.7	40.7	40.7	40.7
Current liabilities	136.5	140.1	195.1	148.8	195.3	220.0	286.4	246.6	240.4	256.4
Total long-term debt	-	-	-	285.0	285.0	414.3	373.6	332.9	292.1	251.4
LT Debt: 10-year bond (senior)	-	-	-	285.0	285.0	244.3	203.6	162.9	122.1	81.4
LT Debt: 7-year bond (junior)	-	-	-	-	-	170.0	170.0	170.0	170.0	170.0
Total liabilities	136.5	140.1	195.1	433.8	480.3	634.3	660.0	579.5	532.6	507.8
Preferred shareholders' equity	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Common shareholders' equity	261.7	274.9	292.8	309.4	317.9	317.7	244.2	155.0	58.8	(8.1)
Total liabilities and equity	473.2	490.0	562.9	818.2	873.2	1,027.0	979.1	809.4	666.4	574.7

Exhibit 2 Consolidated Capitalization, as of December 2010 (U.S. $ millions)

Short-term debt	
Variable/LIBOR +1% p.a., revolving loan facility, due 3/31/2011	$215.0
Current portion of senior unsecured notes, due 4/15/2011[a]	$40.7
Long-term debt	
Fixed/3.5% p.a., senior unsecured notes, due 4/15/2014	$81.4
Fixed/6.5% p.a., subordinated convertible debenture, due 6/15/2016	$170.0
Total Debt	$507.1
Equity	
$3.00 preferred stock[b]	$75.0
Common stock[c]	($8.1)
Total equity	$66.9
Total capitalization	**$574.0**

[a] Due date for current portion of long-term debt only

[b] Cumulative preferred stock; 25,000,000 shares outstanding; $75 million liquidation value

[c] 64,800,000 shares outstanding

Exhibit 3 Debt Service Requirement for Next 12 Months, as of December 2010 (U.S. $ millions)

	Interest	Principal	Total
Variable/LIBOR +1% p.a. of 3/31/2011[a]	0.8	215.0	215.8
Fixed/3.5% p.a. of 4/15/2014	2.9	40.7	43.6
Fixed/6.5% p.a. of 6/15/2016	11.1	-	11.1
Bank debt	0.8	215.0	215.8
Long-term debt	13.9	40.7	54.6
Total debt	**14.7**	**255.7**	**270.4**

[a] Principal repayments of revolving facility assume no extension of maturity

Exhibit 4a Five-Year Cash Flow Projection for Pinewood — Assuming No Sale of EcoLiving, 2011–2015 (U.S. $ millions)

	2011	2012	2013	2014	2015
Sales growth	6.8%	6.0%	5.5%	4.5%	3.5%
Gross margin	12.5%	13.0%	13.5%	13.5%	13.5%
Operating margin	2.0%	3.0%	4.0%	4.5%	4.5%
Sales	934.8	990.9	1,045.4	1,092.5	1,130.7
Gross profits	116.9	128.8	141.1	147.5	152.6
Operating profits	18.7	29.7	41.8	49.2	50.9
Income tax	6.5	10.4	14.6	17.2	17.8
Net operating profits after tax	12.2	19.3	27.2	32.0	33.1
Depreciation & amortization	26.6	27.8	29.9	30.8	31.1
Change in Net WC and accrued taxes	4.9	(9.7)	(9.6)	(5.9)	(5.1)
Capex	18.2	11.2	11.5	11.9	9.9
FCF[a]	15.7	45.6	55.2	56.8	59.4

[a] Perpetual growth of Free Cash Flow after 2015 is assumed to be 3.5%

Exhibit 4b Five-Year Cash Flow Projection for Pinewood — Assuming Sale of EcoLiving, 2011–2015 (U.S. $ millions)

	2011	2012	2013	2014	2015
Sales growth	3.5%	3.5%	3.0%	2.5%	2.5%
Gross margin	11.5%	11.5%	12.0%	12.0%	12.5%
Operating margin	1.0%	2.0%	2.5%	3.0%	3.0%
Sales	507.3	525.1	540.8	554.4	568.2
Gross profits	58.3	60.4	64.9	66.5	71.0
Operating profits	5.1	10.5	13.5	16.6	17.0
Income tax	1.8	3.7	4.7	5.8	6.0
Net operating profits after tax	3.3	6.8	8.8	10.8	11.1
Depreciation & amortization	12.2	13.0	13.5	13.8	14.0
Change in Net WC and accrued taxes	2.2	(3.5)	(3.3)	(2.2)	(1.4)
Capex	4.1	2.6	2.8	2.9	2.1
FCF[a]	9.2	20.7	22.8	25.7	26.2

[a] Perpetual growth of Free Cash Flow after 2015 is assumed to be 2.5%

Exhibit 5 Selected Capital Markets Information and Pinewood's Equity Beta, as of March 1, 2011

Treasury rates[a]	
3-month Treasury bill	0.14%
1-year Treasury note	0.23%
10-year Treasury note	3.41%
Corporate bond yields[b]	
Aaa	5.09%
Aa	5.31%
A	5.73%
Baa	6.00%
Ba	6.81%
Market risk premium[c]	6.10%
Pinewood common equity beta[d]	2.79

[a] Source: Federal Reserve System

[b] Source: Moody's

[c] Based on 30-year annualized S&P 500 return (dividends assumed reinvested)

[d] Equity beta is estimated based on daily equity returns over the previous 36 months

Exhibit 6 Comparative Market and Operating Data for Selected Prefabricated Home Manufacturers, as of the End of 2010

	Key financial ratios								
	Revenue (U.S. $ million)	**3-Yr. growth rate**	**Gross margin**	**Operating margin**	**Net profit margin**	**Debt to capitalization**	**Debt to equity**	**Market cap**	**Equity beta**
King Enterprises	$1,315.6	(9.7%)	10.4%	(1.3%)	(3.6%)	56.1%	127.8%	$995.2	*2.02*
Dycon Industries	$699.1	(11.9%)	12.2%	4.3%	1.2%	63.6%	174.7%	$558.4	*2.42*
Timeline Homes Inc.	$146.2	(22.8%)	7.5%	(6.3%)	(8.6%)	30.1%	43.1%	$111.5	*1.48*
Cove Harbor Homes Co.	$302.8	(15.6%)	19.6%	(1.6%)	(6.9%)	69.7%	230.0%	$238.9	*2.69*

Exhibit 7 Outline of the Proposed Exchange Offer

Old securities	Principal value	Original interest/ dividend rate	Maturity	Security	Market price as of March 2011	Proposed exchange offer	Required acceptance	Interest on new debt	Maturity of new debt
Revolving Loan Facility	$215.0	LIBOR plus 1%	03/31/11	First lien on virtually all assets	100	For each $1,000 face value of existing debt, receive $1,050 of new term loan. Principal terms of new debt: interest rate: LIBOR plus 1.5%; maturity, March 31, 2016; amortization schedule: equal annual amortization payments beginning March 31, 2013; optional redemption: permitted for whole principal at any time after March 31, 2013; security: first lien on virtually all assets; restrictive covenants: same as under old debt contract, but different thresholds.	100%	Libor plus 1.5%	03/31/16
Unsecured Senior Notes	$122.1	3.5%	04/15/14	None	65 ½	For each $1,000 face value of existing debt, receive $640 of new senior unsecured notes, plus 517 shares of new common stock, representing 21.32% of reorganized common equity. Principal terms of new bond: coupon rate: 5.5%; maturity: March, 31, 2018; amortization schedule: equal annual payments beginning March 31, 2013, to retire 75% of the principal before maturity; optional redemption: none; security: second lien on virtually all assets; restrictive covenants: identical to covenants in new bank debt.	85%	5.5%	03/31/18
Subordinated Convertible Debenture	$170.0	6.5%	06/15/16	None	24 ¼	For each $1,000 face value of existing debt, receive $250 of new subordinated bond, plus 644 shares of new common stock, representing 36.97% of the reorganized common stock, plus 10-year warrants to purchase 50 shares of new common stock with a strike price of $7. Principal terms of the new bond: interest rate: 7%; maturity: December, 15, 2019; principal due at maturity; optional redemption: permitted for whole principal at any time after December 31, 2015; security: not secured; restrictive covenants: none.	85%	7.0%	12/15/19
Preferred Equity[a]	$81.8	6.0%	n/a	None	$1.35/share	For each preferred share, receive 2.35 shares of new common stock, representing 19.84% of the reorganized common stock, plus 10-year warrants to purchase 1 share of new common stock with a strike price of $7.	67%	n/a	n/a
Common Equity	$129.6	n/a	n/a	None	$1.09/share	Retain 64.8 million outstanding common shares, representing 21.88% of the reorganized common stock.		n/a	n/a

[a] Principal value includes liquidation value, plus accumulated arrearage of $6.75 million.

Exhibit 8 Pro Forma Effects of Proposed Exchange Offer on Pinewood Capitalization (U.S. $ millions)

	Pre-Exchange	**100% Acceptance[a]**	**Minimum Needed Acceptance[b]**
Short-term debt			
Secured bank revolving facility	215.0	-	-
Current portion of senior unsecured notes[c]	40.7	-	6.1
Long-term debt			
Secured bank revolving facility	-	225.8	225.8
Senior unsecured notes	81.4	78.2	78.7
Subordinated convertible debenture	170.0	42.5	61.6
Total Debt	507.1	346.4	372.1
Equity			
$3.00 preferred stock	75.0	-	24.8
Common stock	(8.1)	227.6	177.1
Total equity	66.9	227.6	201.9
Total capitalization	**574.0**	**574.0**	**574.0**
Common shares (000)	64,800	296,156	250,877

[a] Assumes 100% acceptance of the exchange offer in **Exhibit 7** by holders of Pinewood debt

[b] Assumes acceptance by the minimum amounts of debt and preferred stock needed to make the exchange effective, per **Exhibit 7**

[c] Due date for current portion of long-term debt only