HILLSIDE ADVISORS LLC

July 20, 2015

Hybrid Vigor℠

The Hillside Convertible Advisory Letter

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One Year On

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Investment Ideas

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This week marks the one-year anniversary of ***Hybrid Vigor***. We commemorate the momentous point in Hillside Advisors' young history with a review of our iconic (at least in our own minds) Ugly 20. While we think our HOCS methodology ultimately contributes more to the community—no matter how ugly certain names are, convertible managers are paid to invest client money in the best names they can find—the Ugly 20 nonetheless serves a unique purpose in warning investors about creeping risks. The chart we've been including in each week's Ugly 20 review should provide a quick snapshot of market tone. A picture can indeed be worth a thousand words.

If you're a fan of the Ugly 20 and our HARP scoring system but haven't yet embraced the brighter side with HOCS, which identifies more attractive convertibles with an emphasis on favorable risk-reward profiles, keep in mind that HARP, flipped on its head, is one of the key inputs we use in calculating HOCS.

More generally, we'd like to take this opportunity to thank everyone who's read ***Hybrid Vigor***, and especially those who have helped us keep the lights on here at Hillside by subscribing this year. We know first-hand that people are getting squeezed everywhere. Many are struggling to keep working in the asset class we all have come to love, hate and live with over the last several decades.

We know the convertible market will always be a pretty small corner of the capital-raising world, but we'll always believe it plays a role more critical than its size would suggest. Speaking of size, we still think the convertible market could and should be a multiple of its current size. That belief keeps us plugging away as self-appointed ambassadors for the asset class.

Please keep your comments coming. Your insights, corrections, criticism and encouragement all help us make ***Hybrid Vigor*** a better publication. Whether it's ***Hybrid Vigor*** or something else, we think this underappreciated asset class deserves a regular, analytical, creative, and unbiased periodical. We're honored and humbled to be leading the way, and we hope we'll be able to continue.

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July 20, 2015

Luminum Regali

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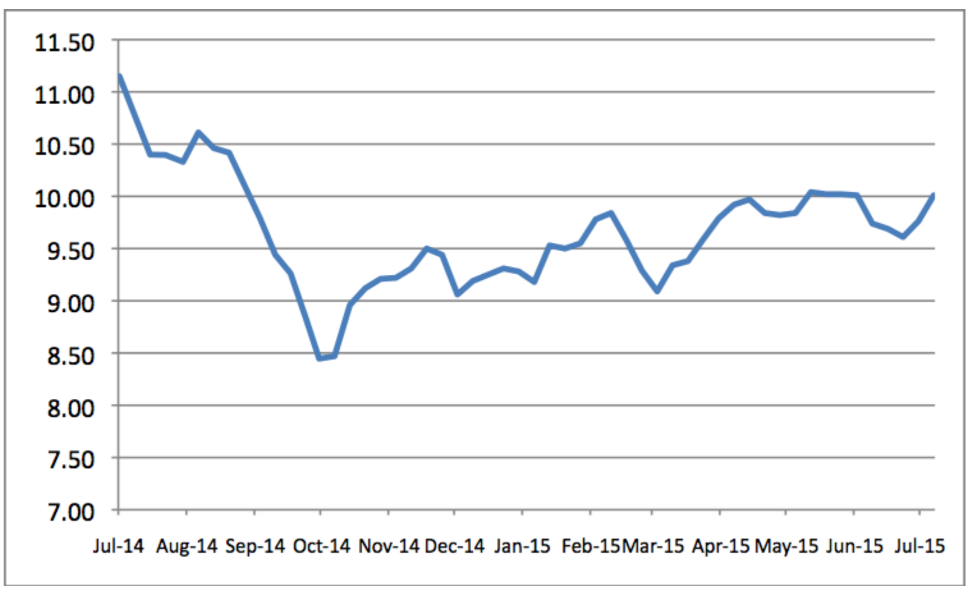
A quick refresher. HARP, or Hillside Adjusted Risk Points, is best thought of as a warning measure for bonds exposed to a blend of absolute price decline and premium decay. The higher the HARP, the more dangerous the bond. HARP tends to be highest for bonds in the 120-130 "death trap" range.

Inversion seems to rule the Ugly 20. At least it's seemed that way in recent weeks. When the markets are scared, the Ugly 20 has been a pole of stability and inertia. When complacency returns, the Ugly 20 moves violently. This week was one of those violent weeks for the Ugly 20. Average HARP increased from 9.76 to 10.01 – the biggest jump either direction in a month, and before that in five months. And all of that with only two new entrants, which means a lot of internal action obscured by a relatively benign average stock gain of 3.0% and bond gain of 1¾ points. Internal action driven by some very bright lights.



With the earnings spotlight on Illumina this coming week, the stock was on a tear last week – up 9.25%. For those two investment grade bonds, Illumina A 0% of 2019 and Illumina B 0.5% of 2021, the stock rally was nitrous to be ignited. Illumina A's were up 4 points, while B's were up 5 points. Oh sure, premium contracted for both the A's and B's, which usually sounds great, but in this case with both bonds sporting parity below par, things are a bit complicated with respect to HARP. Yes siree, HARP exploded for both bonds. Illumina B's have now reached the strata of HARP record holders – 15.88 HARP, up by 1.16 for the week. First place of course. With a bond price of 129 and parity of 94¼, the B's have a very large mouthful of potential losses – 29 points before coupons to be precise. For a review of what can happen to bonds like this, please see Bill Feingold's review of the Ugly 20's first year in this issue.

It's a regular alphabet city at the top of the Ugly 20. Joining the Illumina B's were the A's, up by 0.96 HARP to 12.87 and second place – nudging out RPM. Kind of like the 1948 Triple Crown, where the second-best horse, Coaltown, also lived in champion Citation's barn. The only difference is owning those horses, as legendary Calumet Farm did, was a good thing. Owning Illumina convertibles, not so much. A price of 122 and parity of 94¼ leaves a buyer with a shaky future somewhere between losing 22 points, break-even if the stock rises 29.5%, and profits if the stock does even better. HARP says the former is not getting the probability weighting it deserves.

RPM 2.25% of 2020 is losing HARP, something we like to see – down from 2nd to 3rd on a HARP contraction of 0.48 to 12.25. Something to celebrate? Certainly not if you are a recent (in the past 12 months) buyer. The stock was down 2.12%, which brought the bonds in by a full point. With a price of 114¾ and parity at 89, any bond price decline is a reduction in potential losses just like any increase in bond price is an increase in potential losses. RPM is simply stuck in this no-man's land between par and parity convergence. Less than 2½ years of hard call protection remain, though we concede that if the company calls the bonds, there will be at least a modest win from this point given the provisional 125 trigger, about 10 points above the current level. Still, things are not looking great. A provisional call means relative performance potentially as weak as a gain of less than 9% in the convertible versus over 40% in the shares. And don't forget, there's no income advantage in the convertible.

Last week it was ranked number 10, this week it's a 10 HARP, which naturally makes it number nine on the line – Priceline 0.35% of 2020. Stock up 6.37%, bond responds with a three- point gain – a touch short of delta-neutral. So why the outsize 0.96 HARP gain? The bond is priced at 115 with parity at 92½. That means, for HARP's sake, we don't care if it moves delta or shmelta neutral. What we do care about is potential loss, and moving up from 112 to 115 means that potential loss just increased by three big fat points to 15. Sure we can toss in the coupons for the next five years of call protection, but all it does is soften the blow to 13¼.

Travelling pairs. That what it looks like for Green Plains Renewable 3.25% of 2018 and Cepheid 1.25% of 2021. HARP-wise, the bonds started the week at 30th and 31st respectively, however they ended the week at 17th and 18th respectively. Looking back, GPRE was 7.03 and CPHD was 7.00. Closing the distance, they are now 8.16 and 8.15, respectively. Are they twins? Not at all.

Being an ethanol maker, GPRE 3.25% of 2018 can behave like a call option on oil. Which means it's a falling star. Down this week to 139 on the bond – a one point loss – on a 2.59% stock contraction. As the stock falls, the bond falls increasingly less than the stock – buoyed by the hope that par is terra firma and the decreasing likelihood of next year's 140 provisional trigger coming into play. And so premium expands and potential losses increase. Hence, the HARP expansion by 1.13 to 8.16. Put another way, it's now a 16 point drop buffeted by about four points of coupons for 12 bullets total. Toss in the 1½ points of lost dividends for good measure. Which way do you lean on this bond if you're a hedger? Long exposes you to plenty of downside from the 139 price point, while short means bigger losses if the bond gets called next year. Your macro view will have to guide you. For outright accounts, this bond is a shaky proposition at this price point. All that said, we do have one observation. In a previous life Hillside's founder met with Green Plains' CEO Todd Becker and has rarely, if ever, been so impressed with an executive. This guy knows his stuff. Macro factors notwithstanding, Becker is a guy you want on your side.

Coming from the other direction was CPHD 1.25% of 2021 – up 5¾ points on an 8.86% stock rally in anticipation of this week's earnings release. That's a change in bond price from 112¼ to 118. Since parity is at 97¼, all of that change counts towards potential loss. The bond has a long 5½ years of call protection to burn through the 21.45% premium. Nothing particularly abnormal about this as all bonds must cross through the 'death trap' zone of 110-130, if they are to make it to pay-dirt. We wish you well CPHD – carry on.

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July 20, 2015

Hillside Ugly 20 List (Prices as of July 17, 2015)

	Convertible	Price	Stock	Premium (%)	Premium (pts)	HARP
1	Illumina Tranche B 0.5% 2021-06-15	129.00	239.76	36.9	34.77	15.88
2	Illumina Tranche A 0% 2019-06-15	122.00	239.76	29.5	27.79	12.87
3	RPM International 2.25% 2020-12-15	114.75	47.09	29.0	25.80	12.25
4	Red Hat 0.25% 2019-10-01	125.75	79.06	16.7	18.00	11.70
5	Lam Research Tranche B 1.25% 2018-05-15	137.75	77.26	10.9	13.54	11.42
6	Emergent BioSolutions 2.875% 2021-01-15	127.00	34.44	19.4	20.63	10.82
7	SanDisk 1.5% 2017-08-15	125.75	55.39	15.7	17.06	10.44
8	Jazz Pharmaceuticals 1.875% 2021-08-15	119.25	183.92	29.4	27.09	10.08
9	Priceline.com 0.35% 2020-06-15	115.00	1216.00	24.5	22.63	10.00
10	Salesforce.com 0.25% 2018-04-01	125.25	72.81	14.3	15.67	9.48
11	Medidata Solutions 1% 2018-08-01	122.50	57.94	22.7	22.66	9.47
12	NVIDIA 1% 2018-12-01	115.00	20.07	15.6	15.52	9.00
13	Workday Tranche 1 0.75% 2018-07-15	120.00	84.70	18.0	18.31	8.72
14	Array Biopharma 3% 2020-06-01	123.25	6.92	25.7	25.20	8.64
15	ServiceNow 0% 2018-11-01	122.00	78.92	14.1	15.08	8.57
16	Workday Tranche 2 1.5% 2020-07-15	124.50	84.70	20.3	21.01	8.54
17	Green Plains Renewable 3.25% 2018-10-01	139.00	25.58	13.0	15.99	8.16
18	Cepheid 1.25% 2021-02-01	118.00	63.30	21.4	20.80	8.15
19	Trinity Industries 3.875% 2036-06-01	125.00	25.83	21.0	21.69	8.07
20	Rambus 1.125% 2018-08-15	123.75	13.03	14.8	15.95	8.03

Sources: Bloomberg, Kynex

HILLSIDE ADVISORS LLC

July 20, 2015

The Ugly 20, One Year On

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It's a year—just over a year—since we started publishing Hybrid Vigor. Since we first got attention with our Ugly 20 list, we thought this was a good time to go back and see how the original gang had done.

First, a housekeeping point. For this little bit of statistical analysis, the Ugly 20 became the Ugly 16. As we refined our process, four of the original names became ineligible either because of structural quirks that did not lend themselves to our methodology or because of issue-size limitations.

Now, to the not-so-sweet 16. We hope you'll forgive us, but there's a bit of good, some more bad, and, you guessed it, plenty of ugly.

The good came mostly in the form of Incyte, the one-time little biotech company that now sports a $21 billion market capitalization. If you stayed in this name over the years, your wait paid off big time, especially over the past year. Its ruxolitinib (Jakafi) bone-marrow treatment has led the way, with encouraging indications for efficacy with pancreatic cancer.

Incyte appeared twice in the original Ugly 20. Each bond has returned a bit over 80%, with the shares up 130% since our first issue. It's not quite the "two-thirds of the upside" we talk about, but it's close, and we doubt any holders are complaining. Performance like that obliterates a few points of richness here and there.

CSG Systems 3% also acquitted themselves well, returning a shade under 14% vs 22% for the underlying shares. Again, close enough to the two-thirds standard. The average premium in the group at the beginning was about 22%, suggesting hedge ratios in the 70's or 80's and outright participation rates north of 60%.

Thanks to these two names, the convertibles in the group returned just over 5% for the period, with the underlying shares gaining 9%. That's 55% participation, not bad at all, with a respectable absolute return.

That's where the good ends.

If you took out a single issuer—Incyte—the remaining names lost 6% versus a decline of 8.2% in their stocks. Three-quarters of the downside, with a significant absolute loss. It's the same, only a bit more so, if you take out CSGS. You get a loss of 7.6% with the underlying shares 10.6% in arrears.

Another way of looking at it: the median of the group (including Incyte and CSGS) was a 1.1% return, versus 8.2% for the shares. Brutal participation.

One of the worst offenders was SanDisk's 0.5%, down almost 24% in response to the stock's 46% loss. We got plenty of complaints from hedgers and outright accounts alike for putting this bond on the list, and frankly, the hedgers had opportunities. Both types of investors argued that the premium was reasonable given the name's history of volatility, and they weren't wrong. But as we have stressed, our HARP measure tries to capture bonds exposed to all manner of risk—sheer price decline from a weak stock, with enough excess premium to retard the "opening up" phenomenon. While equity investors who switched into SanDisk cut their losses in half, we think from experience they were a pretty rare breed.

Readers of this space know the travails of RPM 2.25%. On the year they lost 2.9% even though the stock returned 7%. You can't put a participation number on that. Original runner-up Helix Energy Solutions experienced more than half of the stock's 52% decline in a brutal energy tape.

Even Lam Research, everybody's favorite investment-grade issuer, proved disappointing. It had its moments, to be sure. But if you stayed in the B's the whole period, you only gained 1.9% versus a 9% return for the shares. The A's, not quite so ugly by HARP, did even worse, returning only 40 basis points. Just the coupon, ma'am (remember, the bonds are in the 120's). Yes, these premiums do come in.

What insights (pun intended) should you take away? The good news is that one or two big winners make up for a whole lot of moderate mistakes. That's the beauty of equity-based investing. At the same time, the numbers did not lie. Most of these bonds performed badly, in both absolute and relative terms. When you overpay for an investment, that's what you should expect.

		7/11/14	7/11/14	7/17/15	7/17/15	Returns	
	Description	CB	Stock	CB	Stock	Convertible	Stock
1	RPM INTERNATIONAL 2.25% 2020-12-15	120.50	45.00	114.75	47.09	-2.85%	6.96%
2	HELIX ENERGY SOLUTIONS 3.25% 2032-03-15	130.00	24.15	92.00	11.54	-26.65%	-52.22%
3	LAM RESEARCH 1.25% 2018-05-15	136.50	71.53	137.75	77.26	1.86%	9.18%
4	ON SEMICONDUCTOR 2.625% 2026-12-15	117.00	9.12	118.75	10.87	3.81%	19.19%
5	STANDARD PACIFIC 1.25% 2032-08-01	121.50	8.16	122.50	9.01	1.88%	10.42%
6	SANDISK 0.50% 2020-10-15	126.50	104.97	96.00	55.39	-23.70%	-46.09%
7	PRICELINE GROUP INC/THE 0.35% 2020-06-15	119.00	1214.92	115.00	1216.00	-3.06%	0.09%
8	INCYTE 0.375% 2018-11-15	126.00	50.83	228.50	117.04	81.66%	130.28%
9	CSG SYSTEMS INTL INC 3.00% 2017-03-01	126.00	26.41	140.25	31.60	13.76%	22.15%
10	BROOKDALE SENIOR LIVING 2.75% 2018-06-15	139.50	34.89	126.50	33.03	-7.29%	-5.33%
11	LAM RESEARCH 0.50% 2016-05-15	127.50	71.53	127.50	77.26	0.40%	9.18%
12	RYLAND GROUP 1.625% 2018-05-15	136.00	38.36	151.50	46.13	12.63%	20.57%
13	HORNBECK OFFSHORE 1.50% 2019-09-01	114.50	41.71	79.00	17.34	-29.65%	-58.14%
14	CHART INDUSTRIES 2.00% 2018-08-01	136.00	79.23	94.75	33.04	-28.82%	-58.30%
15	NVIDIA 1.00% 2018-12-01	112.50	19.05	115.00	20.07	3.14%	7.20%
16	INCYTE 1.25% 2020-11-15	127.00	50.83	231.75	117.04	83.49%	130.28%

Sources: Bloomberg

HILLSIDE ADVISORS LLC

July 20, 2015

HOCS℠ 20

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A quick refresher. HOCS, or Hillside Overall Convertible Score, measures the attractiveness of a bond, taking into account both upside potential and downside protection. HOCS is not a theoretical model but a rating system that assigns points to a number of different characteristics of each convertible. HOCS can theoretically lie anywhere from 0 to 100. In practice the average score for a broad group of convertibles is typically around 50. 60 is a good score, 70 is excellent, and 80 is exceptional.

Last week was good for big-cap stocks. The bigger, the better—Google's one-day market-cap increase on Friday set a record. The Nasdaq Composite flew and is now up 10% on the year. The S&P 500 is just a few upticks from its May all-time high. Even the laggard Dow Jones Industrial Average is just a percentage point and change away from its peak after last week's run.

In other words, last week was ripe for HOCS underperformance. And that's just what we got. Nothing disgraceful, nothing catastrophic—just underperformance.

The HOCS 100 returned 47 basis points on the week, bringing year-to-date performance to 4.10%. The villain in this play, the CWB, brought home 68 basis points to get to 2.34% on the year. Dragging the HOCS down was Whiting Petroleum's 1.25% deal amidst a bad week for oil after the controversial nuclear accord with Iran. Greenbrier, which we discussed last week, fell another 6%, the same as Whiting. Both of those bonds are in this week's HOCS 20—Greenbrier, as last week, because of its tiny premium thanks to borrow difficulties, and Whiting because of its return to a classic hybrid profile below par.

Speaking of the HOCS 20, it was even weaker than the 100. Greenbrier took a proportionately bigger toll, and the Chinese presence didn't help. HOCS 20 still managed a 30 basis point return on the week, with the underlying shares up 1.15%. Going China-free helped, with that version earning 50 basis points against underlying shares up 98 bps. Saving the day was Isis Pharmaceuticals 1%, gaining 4.6% and coming in third out of the HOCS' 100. Indeed, the top four performers in the HOCS 100 were all health-care names: ANI Pharmaceuticals, Allscripts, Isis and Molina. Kathy Schick reviews Isis this week (its gains knocked it off the basic HOCS 20 for this week, though it just barely remained in the China-free version). Restoration Hardware's new zero, reviled by the marketplace at issuance, continued to make money for those who go against the haters. Last week the bond returned 2.7% with the shares up nearly 6%--hardly brilliant participation, but a bond whose initial discounted pricing has led to meaningful gains following a stock that appears to be breaking out.

We have three families in this week's old-fashioned HOCS 20: Qihoo, Ctrip, and Tesla. In the China-free version, the Tesla brothers are joined by FireEye's 1.625% and 1%.   Twitter's 0.25% didn't miss the list by much, while Restoration Hardware's old zeroes are slipping further away after several good weeks.

Speaking of convertible stalwart Tesla, you can't keep the electric dream down. Both of the around-par issues did well last week, each hitting the top 15 of the HOCS 100' best performers, thanks to Elon Musk's "ludicrous mode" for the new Model S.

Going China-free this week means a loss of just over 3.5 overall HOCS points, with the average overall HOCS score in the basic version coming in at 72.1 and the China-free flavor 68.5. As for profiles, including Chinese names produces 2.69% up 53.6%, while going China-free gets you 1.71% up 45.9%. The average price in the China-free portfolio is almost two points higher, 99.71 versus 97.93. You pays your money and you takes your choice.

Hillside HOCS 20 List

	Description	Convert	Stock	HOCS Overall	HOCS Growth	HOCS Safety	Yield	Premium
1	QIHOO 0.50% 2020-08-15	91.25	62.22	81	76	91	5.02%	83.8%
2	QIHOO 2.50% 2018-09-15	97.25	62.22	80	75	89	4.99%	73.4%
3	QIHOO 1.75% 2021-08-15	88.50	62.22	78	79	75	4.91%	71.8%
4	INVENSENSE 1.75% 2018-11-01	97.50	13.33	77	76	81	2.55%	60.1%
5	CTRIP.COM INTER LTD. 1.99% 2025-07-01	95.75	71.88	77	88	55	2.92%	42.4%
6	WEB.COM 1.00% 2018-08-15	98.50	24.25	74	78	65	1.50%	42.2%
7	CALAMP 1.63% 2020-05-15	97.00	18.99	74	79	64	2.29%	40.9%
8	IGI 3.50% 2019-12-15	91.00	6.68	72	81	56	5.85%	53.8%
9	ENVESTNET 1.75% 2019-12-15	99.00	42.00	72	69	77	1.99%	48.2%
10	E-HOUSE 2.75% 2018-12-15	93.00	6.09	72	63	90	8.15%	130.1%
11	CTRIP.COM INTER LTD. 1.00% 2020-07-01	96.00	71.88	71	79	54	2.42%	45.3%
12	HERBALIFE 2.00% 2019-08-15	88.50	53.89	70	71	69	5.17%	41.7%
13	TESLA 1.25% 2021-03-01	99.75	274.66	70	76	57	1.30%	30.7%
14	FIREEYE 1.63% 2035-06-01	106.50	48.07	69	83	40	0.65%	34.6%
15	GREENBRIER COS INC 3.50% 2018-04-01	120.75	44.62	69	84	38	-3.75%	1.9%
16	WHITING 1.25% 2020-04-01	97.00	26.47	69	75	56	1.92%	42.9%
17	SOUFUN 2.00% 2018-12-15	93.75	7.53	68	57	91	6.76%	144.3%
18	RESTORATION 0.00% 2020-07-15	103.25	104.13	68	67	69	-0.64%	17.1%
19	TESLA 0.25% 2019-03-01	99.75	274.66	66	69	61	0.32%	30.7%
20	LINKEDIN 0.50% 2019-11-01	104.50	224.95	66	63	73	-0.54%	36.8%

Sources: Bloomberg, Kynex

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Hillside HOCS 20 List ex China

	Description	Convert	Stock	HOCS Overall	HOCS Growth	HOCS Safety	Yield	Premium
1	INVENSENSE 1.75% 2018-11-01	97.50	13.33	77	76	81	2.55%	60.1%
2	WEB.COM 1.00% 2018-08-15	98.50	24.25	74	78	65	1.50%	42.2%
3	CALAMP 1.63% 2020-05-15	97.00	18.99	74	79	64	2.29%	40.9%
4	IGI 3.50% 2019-12-15	91.00	6.68	72	81	56	5.85%	53.8%
5	ENVESTNET 1.75% 2019-12-15	99.00	42.00	72	69	77	1.99%	48.2%
6	HERBALIFE 2.00% 2019-08-15	88.50	53.89	70	71	69	5.17%	41.7%
7	TESLA 1.25% 2021-03-01	99.75	274.66	70	76	57	1.30%	30.7%
8	FIREEYE 1.63% 2035-06-01	106.50	48.07	69	83	40	0.65%	34.6%
9	GREENBRIER COS INC 3.50% 2018-04-01	120.75	44.62	69	84	38	-3.75%	1.9%
10	WHITING 1.25% 2020-04-01	97.00	26.47	69	75	56	1.92%	42.9%
11	CHART 2.00% 2018-08-01	94.75	33.04	64	55	81	3.86%	98.0%
12	RESTORATION 0.00% 2020-07-15	103.25	104.13	68	67	69	-0.64%	17.1%
13	TESLA 0.25% 2019-03-01	99.75	274.66	66	69	61	0.32%	30.7%
14	LINKEDIN 0.50% 2019-11-01	104.50	224.95	66	63	73	-0.54%	36.8%
15	RENEWABLE 2.75% 2019-06-15	103.75	11.01	66	75	50	1.75%	25.0%
16	HOMEAWAY 0.13% 2019-04-01	96.25	31.74	66	59	80	1.17%	58.2%
17	TWITTER 1.00% 2021-09-15	89.00	35.67	65	70	55	2.97%	93.7%
18	HELIX 3.25% 2032-03-15	92.00	11.54	65	56	83	6.59%	99.4%
19	ISIS PHARMACEUTICALS INC 1.00% 2021-11-15	109.00	57.23	64	79	35	-0.41%	27.2%
20	FIREEYE 1.00% 2035-06-01	106.50	48.07	64	72	46	-0.33%	34.6%

Sources: Bloomberg, Kynex

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July 20, 2015

Euro Gang of 20

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More Buyers than Sellers

The can of the Greek default is being kicked down the road with a mighty foot of Frau Merkel and that is definitely encouraging in the short term. As Germans warmed up to the idea of yet another Greece bail-out, the markets reacted as they were supposed to – the DAX was up 3.2% and the CAC 40 was up 4.5% for the week ending Friday. All is well that ends well, right? The problem here of course is that the Greek drama is far from over since the issue of the country's debt unsustainability is sure to bubble up at some point again. And perhaps again and again.

For now, however, all is quiet on the Euro Gang of 20 front. The average HARP score of the most expensive bonds, currently at 10.2, barely moved since last week. So the rich are not really getting richer, at least in the convert land. In addition, Euro Gang's constituents saw little change, although there was a bit of reshuffling.

Societa Iniz Autostradal 2.625% of 2017 joined the list for the first time, replacing Orpea 1.75% of 2020, which enjoyed the limelight for just one week. Cap Gemini Sogeti 0% 2019 experienced the biggest change with a 1.7 drop. This bond, having gone down all the way from second place last week to seventh as of last Friday, did not enjoy the runner-up status for long. Instead, our old friend Suez Environnement 0% of 2020 is now in second place. Rag-Stiftung 0% of 2021 (exchangeable into Evonik Industries) remained an unchallenged leader with a 14.7 HARP score.

Euro Gang of 20… so many names, so little time. Why are these bonds so expensive? Why do investors like them so much that they seem to disregard valuation risks? Previously, we alluded to the general overvaluation of the European convertible market looking at it with a top-down approach, playing strategist if you will. But we are very much hands-on people here at Hillside. So we also want to drill into individual issues and see what is what. We start with a long-standing member of the high HARP name list – Adidas AG 0.25% due 2019.

The iconic sports apparel and equipment manufacturer issued the 0.25% convertible bonds in the spring of 2012. Currently, we estimate that the instrument's HARP score is 10.5 using 114.79 vs. €70.96. This places the bond in the tenth place on our infamous list – there was no change in its rank since last week. The bond matures at par in June of 2019 but is soft-callable starting July 14, 2017. It also has a par put on June 14, 2017. The soft-call trigger is 130% of conversion price or €106.61 and with the stock at €70.96, it has a long way to go to exceed that threshold. Still, with less than two years remaining in hard-call protection and volatility in the mid-twenties, the current conversion premium of over 28 points seems a pretty high price to pay for the privilege of owning the bonds of this FIFA sponsor.

But wait. There is, of course, that coveted investment-grade rating. Isn't that the answer to the valuation conundrum? In our ever-unstable world, it may make sense to stick to better-credit names and pay a certain premium for that. (Of course, the exact opposite view is what made Michael Milken a very wealthy man before he got into trouble with the Feds). Even if you agree, that premium still has to be reasonable. Let's see if it is by looking at the instrument's risk/reward profile. Essentially, the bonds have around 15 points of the downside because of the A+ rating and the put. That is not a trivial number of points, in our humble view. What about the upside? If the stock begins to really rally, the chance of it being called will increase and theta will kick in with a vengeance. Thus, the 28 points of premium will aggressively dampen the returns as it evaporates while the stock price approaches the soft-call threshold. However, it is hard to get excited about the stock trading at 29 times trailing EPS, although we are not equity analysts.

Thus, yet again we fail to find valuation logic behind a high HARP name. It never fails with expensive bonds, right? I mean it does. Well, you know what I mean. And so we are back to the investment-grade as the single most important reason for the 0.25s overvaluation. The list of holders sheds additional light on the valuation, revealing few, if any, hedged holders. Since it's almost impossible to quantify the logic behind the price we'll guess that it's just more buyers than sellers. We mean that as a joke, but it is probably not that funny. And not just because it is overused. As we see in this week's one-year review of the Ugly 20, the joke usually ends up being on the bondholder.

Euro HARP 20 (Prices as of July 17, 2015)

	Convertible	Price	Stock	Premium (%)	Premium (pts)	HARP
1	Rag-Stiftung 0% 2021	119.74	36.10	22.2	21.73	14.74
2	Suez Environnement 0% 2020	22.06	17.77	24.2	4.29	13.16
3	Fresenius Medical Care A 1.125% 2020	127.06	80.46	16.3	17.79	13.10
4	Rag-Stiftung 0% 2018	117.16	36.10	22.5	21.49	12.68
5	Nexity SA 0.625% 2020	49.97	38.30	23.9	9.64	12.23
6	SAF-Holland Group 1% 2020	130.50	14.27	12.8	14.80	11.50
7	Cap Gemini Sogeti 0% 2019	95.83	87.99	8.9	7.84	11.37
8	Fresenius Se & Co KGAA 0% 2019	137.85	63.62	7.6	9.75	11.31
9	Buzzi Unicem SPA 1.375% 2019	118.18	14.08	34.2	30.10	10.74
10	Adidas AG 0.25% 2019	114.79	70.96	32.7	28.26	10.48
11	ACS Actividades Fin 2 1.625% 2019	114.00	6.40	14.3	14.23	9.79
12	ACS Actividades Finance 2.625% 2018	123.07	6.40	9.4	10.60	9.47
13	Prysmian SPA 1.25% 2018	113.18	20.67	22.2	20.55	8.50
14	Deutsche Post AG 0.6% 2019	141.46	28.65	1.9	2.60	8.37
15	OCI NV 3.875% 2018	116.85	27.00	23.2	22.01	8.14
16	Abengoa SA 6.25% 2019	120.15	2.78	27.1	25.59	8.12
17	Acciona S.A. 3% 2019	131.83	74.21	8.7	10.58	7.78
18	NH Hotel Group SA 4% 2018	133.75	5.84	12.7	15.03	7.60
19	Parpublica 5.25% 2017	109.74	10.91	51.9	37.49	7.51
20	Societa Iniz Autostradal 2.625% 2017	112.77	10.39	14.0	13.81	7.19

Sources: Bloomberg

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July 20, 2015

Whiting Petroleum Corporation (WLL): Climbing the Rocky Mountain

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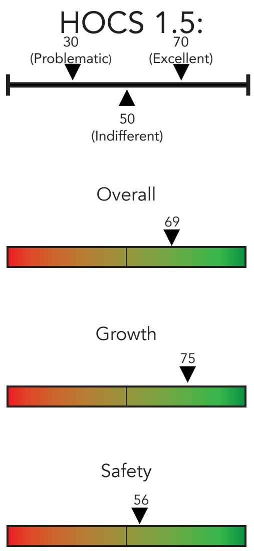
WLL

1.25% 2020/04/01
Price (Bond) = 97.00
Stock = $26.47
YTM = 1.92%
Premium = 42.9%
HOCS-Overall = 69
HOCS-Growth = 75
HOCS-Safety = 56

As of July 17, 2015



To say Whiting has been active over the last 12 months is a bit of an understatement. Almost one year ago to today, Whiting announced what many would consider an ill-timed $6 billion acquisition of Kodiak's Bakken oil and gas assets. At the time though, oil was trading around $100/barrel and the acquisition was looked upon with favor. Whiting stock surged to $90/share.

All that had changed by the time Whiting closed the acquisition last December. Oil had dropped to the $50 to $60 range and Whiting stock changed hands as low as $25. Next came rumors that Whiting was looking for a buyer. While that boosted the stock for a time, no one lifted the offer and Whiting took action to steady the ship. Whiting issued a $3 billion combined offering of common stock, convertible bonds and straight debt in March to replenish its coffers.

Today marks an even more monumental day for Whiting - the 1.25% convertible bond due April 1, 2020 has joined the HOCS 20 with a score 69 overall/75 growth/56 safety. With the stock trading back toward lows, closing at $26.47/share on Friday, the convertible bond, at 97, now offers energy investors an attractively balanced profile.

Company Description

Whiting Petroleum is an independent oil and gas producer mainly in North Dakota, Colorado and Texas. The company's largest projects are in the Bakken and Three Forks fields in North Dakota, the Redtail Nobrara field in Colorado and an enhanced oil recovery field in Texas. Whiting also owns and operates gas processing plants in North Dakota to convert natural gas into propane and butane for sale.

With the Kodiak acquisition, Whiting gained assets primarily in the North Dakota Bakken play. The deal resulted in Whiting becoming the largest Bakken-Three Forks producer and tilted Whiting's product mix more toward the oil sector. Whiting's production & sales in Q1 2015 were:

	Volume	Sales ($ million)	% Total Sales
Oil	12.2 (MMBbl)	478.1	92.0%
Natural Gas Liquids	1.1 (MMBbl)	14.6	2.5%
Natural Gas	10.4 (Bcf)	27.1	5.2%
Total	15 (MMBOE)	519.8	100%

MMBbl = 1 million barrels of oil, MMBOE = 1 million barrels oil equivalent, Bcf = one billion cubic feet
Source: Company Filings

Liquidity

To shore up liquidity, Whiting tapped the capital markets last March in a three-pronged offering including $1.25 billion in convertible senior notes due 2020, 35 million common shares for proceeds of $1 billion and $750 million in unsecured senior notes due 2023. The money was used to pay down the company's revolver and other debt resulting from the Kodiak acquisition.

The issuance left Whiting in reasonably strong financial position with $60 million in cash at the end of Q2 2015 and $4.5 billion in an undrawn revolver. Currently, about $2.25 billion in debt matures before the 2020 convertible security.

Capital expenditures were $1.59 billion in the first half of 2015 and company estimates call for a decrease to a range of $340 million to $380 million per quarter for the remainder of 2015.

To enhance liquidity, lower expenses and raise cash for drilling, Whiting is also selling its more expensive drilling assets. In the first half of 2015, Whiting sold assets worth $300 million.

Profitability

With oil prices tanking over the last nine months, Whiting has reduced its capital expenditure program to conserve cash and embarked on a cost containment program. During the last conference call, management commented that their objective for this year was to "run the company to prosper at $50 oil." The company offered guidance, which was updated last Friday, as follows:

	Q2 2015	2015 Full Year
Production (MMBOE)	15.5*	59.7*
Lease Operating Expense per BOE	$10.70-$11.30	$10.70 - $11.10
General and Administrative Expense per BOE	$2.90 - $3.10	$2.90 - $3.10
Interest Expense per BOE	$5.50 - $5.90	$5.50 - $5.90
Depreciation, Depletion & Amortization per BOE	$19.50 - $20.50	$19.50 - $20.50
Production Taxes (% of sales revenue)	8.5% - 8.70%	8.5% - 8.7%
Oil Price Differential to NYMEX per Bbl	($8.50) – ($9.50)	($8.25) - ($9.25)
Gas Price Premium (differential) to NYMEX per Mcf	($0.20) - $0.20	($0.25) - $0.15

Source: Whiting Petroleum July Investor Presentation

*Updated Guidance on 7-17-15 via company press release

The guidance allows investors to get a general, but not exact, production cost for the company. The guidance points to a mid-point production cost of about $43/barrel of oil before any price discount to NYMEX pricing. After an $8.75 discount, the guidance points to a $51.75 NYMEX oil break-even point. In Q1 2015, NYMEX oil averaged $48.57/barrel and natural gas was $2.99. For Whiting, that led to production revenue of $520 million and a net loss of $39.1 million, or ($0.23)/share.

On Friday, Whiting announced preliminary production results for Q2. Production increased 2% to 15.5 MMBOE. According to the US Energy Information Agency, NYMEX pricing averaged just under $58 in the second quarter, up 19% over Q1. Natural gas prices dropped slightly in the second quarter to $2.75 from $2.90 in the first quarter. Combined, we can make a back-of-the-envelope calculation and estimate revenue was up about 20%, or $104 million to $623 million for the quarter. Consensus estimates are for $644.3 million.

Combining that revenue estimate with the cost guidance leads us to believe that Whiting's profitability improved significantly compared to the first quarter. Currently, second quarter consensus estimates are for a loss of ($0.04)/share.

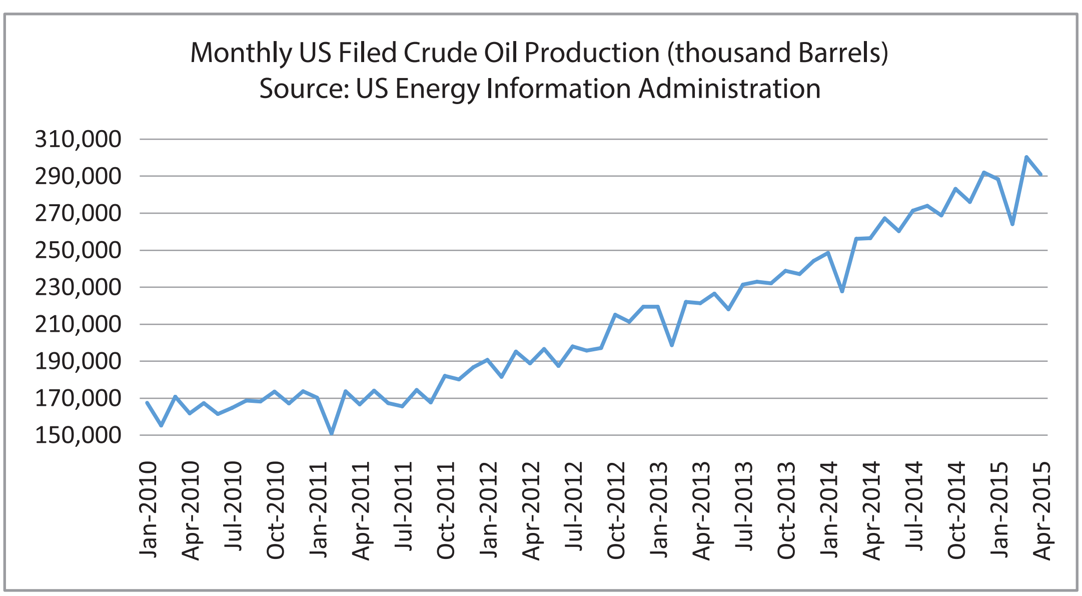
However, while Whiting is significantly leveraged to the price of oil and benefitted from that in the first quarter, the company's cost guidance indicates that oil would need to rise significantly more to support the current stock price. The market seems to agree. WLL fell $0.75, or 2.76%, on Friday after its pre-earnings announcement on a day when oil was down only 8 cents.

While our simplified analysis errs to the generous side, $60 oil could result in about $2/share in annualized pre-tax earnings for Whiting at the current 204.5 million share count. Applying a 15 multiple on the after-tax EPS results in a stock price well below $30. Consensus analyst earnings estimates for 2016 currently stand at only $0.70/share.

Continuing our analysis, $65 oil would lead to pre-tax profit of $3.54. $70 oil would lead to $5.01/share pre-tax profit. Those levels are probably necessary to move the dial on the stock.

In addition to an increase in the price of oil to boost the stock price, Whiting also has levers to pull in order to further reduce expenses. In the first quarter conference call, Whiting felt that oil-patch service providers may offer additional price discounts during 2015. Whiting is also selling more expensive drilling acreage in favor of acreage that has less expensive lease operating expense (LOE) such as in the Bakken where LOE is only $6.50 per BOE and in the Niobara where LOE is only 7.50 per BOE. Finally, drilling technology continues to advance. Whiting is experimenting with increased sand volumes and seeing encouraging results. Overall, Bakken wells are being completed for $6.5 million per well, down from $8.5 million in 2014. Niobrara wells are costing approximately $4.5 million, down from $6 million in 2014. Overall the company is guiding for well costs to drop an additional 20%.

Despite these encouraging signs, we see a difficult path back to anything over $65 oil in the near future. While it is true that the Baker Hughes North America Rotary Rig Count has dropped from 1,600 dedicated to oil to 645 from last December, oil production was still *increasing* recently thanks to advances in technology.

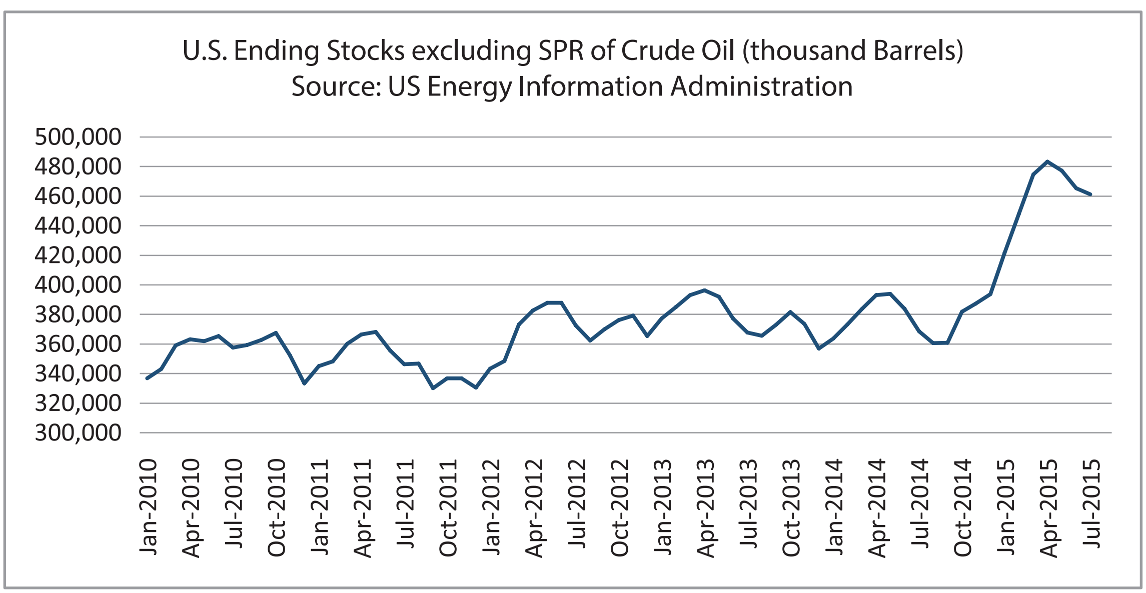


Recent monthly production increases on a year-over-year basis are:

Month	Production Increase over Previous Year
Jan-2014	13%
Feb-2014	15%
Mar-2014	15%
Apr-2014	16%
May-2014	18%
Jun-2014	19%
Jul-2014	17%
Aug-2014	18%
Sep-2014	16%
Oct-2014	19%
Nov-2014	16%
Dec-2014	20%
Jan-2015	16%
Feb-2015	16%
Mar-2015	17%
Apr-2015	13%

Source: US Energy Information Administration/Hillside

The result has been rapid increases in oil storage hoping for higher prices in the future:



With the possibility of Iran again free to sell its oil without restriction, pricing pressure seems to be coming from every corner of the oil market. It is difficult to see a clear path to a sustained $65 price for oil. $70 seem even more out of the question in the near term. That is especially true if companies like Whiting are able to "prosper" in the $50 range. As shale drilling technology has lowered break-even points, it appears even more improbable for oil prices to move up sharply over the intermediate-term.

We think that will make it hard for Whiting stock to make significant headway in today's environment.

The Whiting Convertible

Our conclusion, as many might expect, is for Whiting fans to take a long look at the convertible bond, especially as the price has dropped along with the stock. Should our thesis for depressed oil prices over the next few years prove inaccurate, convertible bondholders can participate in the majority of the increase in the price of the stock. If our thesis is completely wrong, $75 oil will probably put bond holders solidly in the money with the convertible's equity attributes in full play.

On the downside, Whiting's comparatively low-cost production should keep cash flow positive over the longer-term. That, and its current strong liquidity position, make the bond a less risky bet than the equity.

Disclaimer: A Hillside staff member holds a position in Whiting.

Credit Waterfall

Whiting Petroleum Corp (WLL) (Dollars in Millions)	3/31/2015	Total Debt (Cum. Bal.)	EBITDA Multiple	Net Debt (Cum. Bal.)	EBITDA Multiple
Current Share Price	$26.47				
Shares Out. (Millions)	204.1				
Latest Twelve Months:					
EBITDA (Adj.)	1,139				
Free Cash Flow	(1,652)				
Cash & Cash Equivalents	106				
Senior Unsecured Debt					
6.50% Senior Subordinated Notes (2018)	350	350	0.3x	244	0.2x
5.00% Senior Notes (2019)	1,100	1,450	1.3x	1,344	1.2x
8.13% Senior Notes (2019)	820	2,270	2.0x	2,164	1.9x
1.25% Cvt. Senior Notes (2020)	1,250	3,520	3.1x	3,414	3.0x
5.75% Senior Notes (2021)	1,203	4,723			
5.50% Senior Notes (2021)	4	4,727	4.1x	4,621	4.1x
5.50% Senior Notes (2022)	1	4,728	4.2x	4,622	4.1x
6.25% Senior Notes (2023)	750	5,478	4.8x	5,372	4.7x
Total Debt	5,478	5,478	4.8x	5,372	4.7x
Equity Market Cap.	5,403	---	---	---	---
Enterprise Value	10,774	---	---	---	9.5x

Source: Bloomberg/Hillside

HILLSIDE ADVISORS LLC

July 20, 2015

Financial Summary

WLL (Dollars in Millions)	Fiscal Years Ended 31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14	LTM 31-Mar-14	31-Mar-15	Quarter Ended 31-Mar-14	31-Mar-15
Revenues	1,498	1,869	2,140	2,665	3,025	2,781	2,823	721	520
Y / Y Change	----	24.7%	14.5%	24.5%	13.5%	----	1.5%	----	-27.9%
Gross Profit	732	956	907	1,117	1,185	1,176	900	311	26
Operating Profit	598	804	621	662	181	723	(159)	244	(96)
EBITDA	991	1,272	1,306	1,553	1,271	1,633	1,139	1,404	198
Interest Expense	59	63	75	113	171	134	203	42	74
Income Tax Expense	205	289	248	206	79	231	(51)	76	(54)
Capital Expenditures	924	1,804	2,171	2,818	2,968	2,891	3,346	655	1,032
% Revenues	61.6%	96.5%	101.5%	105.8%	98.1%	104.0%	118.5%	90.8%	198.5%
Free Cash Flow	74	(612)	(770)	(1,073)	(1,153)	(1,120)	(1,652)	(331)	(830)
Total Debt	800	1,380	1,800	2,654	5,629	2,654	5,236	2,654	5,236
% Total Debt	9.2%	-44.4%	-42.8%	-40.4%	-20.5%	-42.2%	-31.6%	-12.5%	-15.8%
Gross Margin	48.9%	51.2%	42.4%	41.9%	39.2%	42.3%	31.9%	43.1%	4.9%
Operating Margin	39.9%	43.0%	29.0%	24.8%	6.0%	26.0%	-5.6%	33.8%	-18.5%
EBITDA Margin	66.2%	68.0%	61.0%	58.3%	42.0%	58.7%	40.4%	194.7%	38.1%
EBITDA / Interest	16.8x	20.3x	17.4x	13.8x	7.4x	12.2x	5.6x	33.3x	2.7x
EBITDA - Capex / Interest	1.1x	-8.5x	-11.5x	-11.2x	-9.9x	-9.4x	-10.9x	17.8x	-11.2x

Source: Bloomberg/Hillside

July 20, 2015

ISIS Pharmaceuticals (ISIS): Another Entry Point

Kathy Schick
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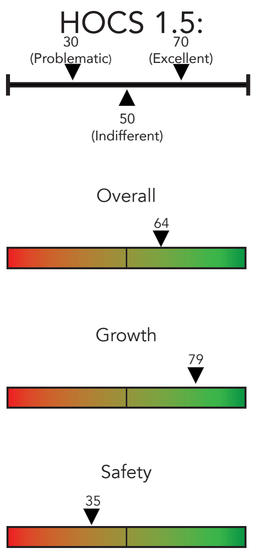
ISIS

1% 2021/11/15
Price (Bond) = 109.00
Stock = $57.23
YTM = -0.41%
Premium = 27.2%
HOCS-Overall = 64
HOCS-Growth = 79
HOCS-Safety = 35

As of July 17, 2015



After leaving the HOCS 20 late last year due to an upward moving stock and convertible bond price, ISIS landed back in the HOCS 20 a couple of weeks ago and is worth another look in our opinion. The stock and convertible bond both hit highs in mid-March driven by positive pipeline news and the addition of Janssen Biotech, a unit of J&J, as a partner. Since then the stock has trended lower and hit a bottom of $53.13 on July 8, down from its high of $77.08 in March. The 1% of 2021 convertible notes traded down from a high of 131.25 to its current level of 109.0 with the stock at $57.23. The convertible bonds now receive a HOCS slash line of 64 Overall / 79 Growth / 35 Safety which places it at number 19 on the China-free version of the HOCS 20.

Like most biotech companies with little-to-no product revenue stream, the stock is quite volatile and driven largely by news flow. The convertible bonds are already up several points from the recent bottom and there is reason to believe there will be good news in the intermediate term. ISIS has a large pipeline with three promising drugs in late stage development. The company also benefits from several large pharmaceutical partners including J&J, Biogen Idec, Glaxo Smith Kline, Bayer, and Astra Zeneca. Investors have a chance to get involved now with significant opportunity for upside and good downside protection.

Company Description

ISIS is a biotechnology company focused on antisene technology drugs primarily within cardiovascular, severe and rare, metabolic, and cancer space. The company has one marketed drug, Kynamro, a treatment for homozygous FH (HoFH), which results in very high cholesterol. Kynamro was approved by the FDA in early 2013 and is being commercialized by Genzyme. However, sales have not materialized and management does not break out or discuss product sales in its quarterly results. The real story here is the pipeline, which includes 38 drugs under development. We will focus on the three most promising drugs in Phase 3 development as well as recent partnerships and the creation of a new subsidiary to focus on lipid drugs.

2015 Good News

We should first begin in 2014. The company has a done a very good job with managing cash. Going into 2014, ISIS had $657 million of cash. During the year, payments from partners brought in about $230 million. The company issued $500 million of 1% convertible notes due 2021 in November. The bulk of the $487 million of net proceeds from the offering was used to repurchase $140 million face value of the 2.75% convertible notes due 2019 for $442 million of cash (the older converts were trading north of 300), leaving only $61.2 million of the 2.75% converts outstanding. ISIS entered 2015 with $729 million in cash and the bulk of the debt not maturing until 2021.

Management guided early in the year it would exit 2015 with about $630 million in cash.

Things have been going better than expected and while management has not provided new guidance, it indicated on the first quarter conference call that the company expects to exceed the original estimate with significantly more cash coming in during the early months.

As we reported in our January update, the company entered into a collaborative agreement with Janssen Biotech, a unit of J&J, in early January to develop drugs to treat autoimmune disorders of the gastrointestinal (GI) tract. ISIS received a $35 million upfront payment and can receive up to an additional $800 million in future milestone payments and license fees plus tiered royalties on any product that is successfully commercialized. The news of this agreement was greeted very favorably as not only did the company receive upfront cash, but it also brought another very large pharmaceutical company to the family, expanded into a new treatment area, and added the potential for additional large cash payments in the future.

In early May, ISIS announced a licensing agreement with Bayer Healthcare for ISIS-FXIrx, a treatment for clotting disorders. ISIS received an immediate upfront payment of $100 million and can receive a $55 million payment following the completion of the current Phase 2 study in patients with compromised kidney function. The company is also eligible to receive up to an additional $220 million in future milestone payments and tiered royalties in the low to high twenty percent range on gross margins for any commercialized product. Management believes the product has blockbuster potential. Bayer would appear to be an excellent choice of partner as the company is a leader in anti-coagulation and has an active thrombosis (blood clot formation that can lead to heart attacks and strokes) pipeline. The Bayer team that developed Xarelto will be working on the new ISIS drug.

To date in 2015, the company has received about $196 million of partner payments including the Janssen and Bayer payments discussed above. Most of the remaining payments came from Biogen and GSK as milestone payments.

Phase 3 Pipeline / Catalysts

Management expects to have Phase 3 data to report in the late 2016/early 2017 timeframe for three of the drugs in Phase 3 clinical studies. The first is ISIS-SMNRX, which is a treatment for spinal muscular atrophy (SMA) in infants and children. SMA is the leading genetic cause of infant mortality. The company entered into a partnership with Biogen Idec in January 2012. The FDA has granted Orphan Drug Designation with Fast Track Status to the drug. Two Phase 3 studies were initiated in 2014. The ENDEAR study began in August 2014 and involves infants. The CHERISH study began in November and is focused on children. Management expects to have results from both studies by early 2017. Biogen Idec is conducting two additional Phase 2 studies on the drug.

The second drug in Phase 3 development is ISIS-TTRRX a treatment for TTR amyloidosis, a severe and rare genetic disease that can lead to the loss of nerve function in the case of familial amyloid polyneuropathy (FAP) or heart failure in the case of familial amyloid cardiomyopathy (FAC). In February 2013 the company initiated a Phase 3 study in patients with FAP. Management expects to have data to report in the first half of 2017. GSK has partnered with ISIS on this product and is planning to initiate a Phase 3 study to evaluate ISIS-TTRRX in patients with FAC.

Management also expects to report results from two Phase 3 studies of ISIS-APOCIIIRX by early 2017. ISIS-APOCIIIRX is the most advanced drug in its lipid franchise and has been transferred to Akcea Therapeutics, a wholly owned subsidiary established in 2014 to develop and commercialize drugs from the lipid franchise. To date, three drugs under development have been transferred to Akcea. The company initiated a Phase 3 study in August 2014 to evaluate ISIS-APOCIIIRX in patients with very high triglyceride levels (FCS). The company has a second Phase 3 study planned to begin soon that will evaluate the drug as a treatment for partial lipodystrophy, which leads to diabetes and can increase the risk of pancreatitis. Management is also planning to initiate a Phase 1 study in the first half of 2016 for a follow-on drug.

News flow is very important with biotechs at this stage and it appears ISIS has the potential for significant positive news flow toward the end of 2016 and perhaps even sooner.

Liquidity, Debt, and the Future

As we already discussed, management has done an excellent job of managing cash. Aside from the convertible bonds, the other debt is comprised of $82 million of capital leases and a facility lease. There is $61 million outstanding of the 2.75% of 2019 converts (which would seem ripe for a flush-out) and the full $500 million of the 1% of 2021 converts. The company has enough cash to let the pipeline progress for quite some time and in the meantime continue to collect on partner agreements.

While the future looks bright with a significant cash cushion, a robust pipeline, and agreements with several large pharmaceutical companies, we have to remember this is a biotech company with no product revenue stream - the risks are real. The 1% convert is a great way to invest with downside protection.

The 1% Convert

As we discussed early on, the 1% senior convertible notes of 2021 receive a HOCS slash line of 64 Overall / 79 Growth / 35 Safety - a very good overall score and quite similar to some of the other early-stage biotechs we have looked at. The strong growth score reflects the prospects for growing revenue as the company continues to receive partner payments as the pipeline progresses and the future prospects for product revenue and royalties on commercialized products. The safety score is on the low side, not a surprise for a company with no product revenue and negative EBITDA. However, this combination is a good reason to invest in the convertible bond rather than the stock, and it helps show why biotechs and convertibles usually go well together.

Credit Waterfall

ISIS Pharmaceuticals (ISIS) (Dollars in Millions)	31-Mar-15	Total Debt (Cum. Bal.)	Adj. EBITDA Multiple	Net Debt (Cum. Bal.)	Adj. EBITDA Multiple
Current Share Price	$57.23				
Shares Out. (Millions)	119.7				
Latest Twelve Months:					
EBITDA (Adj.)	(18)				
Free Cash Flow	(11)				
Cash & Cash Equivalents	695				
Senior Secured Debt					
Cap Leases	10				
Facililty Lease	72	82		(613)	NA
Senior Unsecured Debt					
2.75% Senior Cvt. Notes due 2019 (1)	61		NA		NA
1.00% Senior Cvt. Notes due 2021 (1)	500	643	NA	-52	NA
Total Debt	643	643	NA	-52	NA
Equity Market Cap.	6,850	---	---	---	---
Enterprise Value	6,798	---	---	---	NA

(1) Reflects principal amount of convertible securities outstanding, unadjusted for unamortized debt discount.

Sources: Bloomberg, Company Filings

Financial Summary

ISIS (Dollars in Millions)	Fiscal Years Ended 31-Dec-12	Fiscal Years Ended 31-Dec-13	Fiscal Years Ended 31-Dec-14	LTM 31-Mar-14	LTM 31-Mar-15	Quarter Ended 31-Mar-14	Quarter Ended 31-Mar-15
Revenues	102	147	214	132	249	28	63
Y / Y Change	3.0%	44.3%	45.4%	----	88.2%	----	122.2%
Operating Profit	(69)	(52)	(48)	(83)	(27)	(30)	(9)
EBITDA	(58)	(42)	(38)	(27)	(18)	(27)	(7)
EBITDA (Adj.)	(58)	(42)	(38)	(27)	(18)	(27)	(7)
Interest Expense	21	19	22	20	26	5	9
Income Tax Expense	(9)	(6)	(15)	(8)	(14)	(2)	(1)
Capital Expenditures	1	2	8	3	7	1	1
% Revenues	1.4%	1.1%	3.5%	2.1%	2.8%	5.0%	1.4%
Free Cash Flow	0	62	(1)	39	(11)	(34)	(44)
Total Debt	227	233	458	233	462	233	462
% Total Debt	0.2%	26.6%	-0.3%	16.7%	-2.4%	-14.5%	-9.5%
Operating Margin	NA	NA	NA	NA	NA	NA	NA
EBITDA (Adj.) Margin	NA	NA	NA	NA	NA	NA	NA
EBITDA (Adj.) / Interest	NA	NA	NA	NA	NA	NA	NA
EBITDA (Adj.) - Capex / Interest	NA	NA	NA	NA	NA	NA	NA

Sources: Bloomberg, Company Filings

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