

MEMORANDUM

TO: J. T. LUNDY
FROM: GARY R. MATTHEWS
RE: CASH FLOW REQUIREMENTS AND STATUS OF BANKING
TRANSACTIONS
DATE: SEPTEMBER 20, 1989

The immediate problem of achieving the revolver cleanup under the First City loan has been resolved by the bank granting a waiver. However, there are a number of transactions and cash needs which must be addressed over the next thirty to sixty day period. The following is an analysis of the present situation.

1. Bank One. On August 22, 1989, Calumet Farm borrowed \$2,200,000 from Bank One to cover the August 1, 1989 First City quarterly payment. This loan was secured with sales receivables from the July Keeneland and Fasig-Tipton sales. The sales proceeds should cover approximately \$1,900,000 of the loan. This leaves a deficit of approximately \$300,000. The due date of this loan is October 22, 1989. I would suggest that a strong attempt be made to raise the money to pay this loan. I don't think the farm needs problems with another bank.

2. Riggs Bank. Fred Gussin was able to obtain his letter of credit at the last possible moment thus avoiding a default and causing the bank to call the loan. The bank has agreed to amend the loan documents to give the bank the authority to call the L.C. without calling the loan. This amendment will permit the bank to deal with the L.C. on a separate basis.



The bank requested certain information, such as the 1989 designated foal shares, which I have provided. However, under the loan agreement, certain items still need to be furnished to the bank. For example, updated vet certificates are required on all the horses as well as the location of the partnership horses. If you would provide me with this information, I will make sure that it gets to Riggs Bank as soon as possible.

3. IBJ Schroder. As you are well aware, the Schroder loan is tied directly to the Axmar deal. The documents relating to the partnership termination have been prepared and reviewed. Austin Mittler has made the changes which I requested. The only documents needed to complete the deal are the Marcus releases being prepared by the bank. Drafts of these releases should be ready this week.

4. Mutual Benefit. I have written to Mutual Benefit requesting a change in the payment due date from October 1, 1989 until January 1, 1990. Alternatively, I have requested a deferral of the October 1 payment until December 1, 1989. The amount of the payment is approximately \$2,500,000. To date I have not received a response from Mutual Benefit regarding my request.

I have also thought about a roll up of the mortgage with the First City loan. If this would occur, then Caluset Farm would in effect refinance the mortgage through the LYON, thereby eliminating the issue regarding the payment. However, it would be prudent to plan to make the payment.

5. First City. My recent meetings with Frank Cihak, Kevin Hart and Napoleon Nobay have been very encouraging. They are using

... and resources to structure a workable deal for Calumet Farm. (See memo regarding September 18, 1989 Houston meeting). However, even with the waiver of the revolver pay down on November 1, 1989, the quarterly payment of \$2,200,000 is due. I feel that it is very important to meet this payment. It would only be counter productive if the farm has trouble meeting this payment. I do not want to taint our relationship and the efforts put forth by Frank because of the farm's inability to perform after the bank has waived the revolver pay down. I think this would be serious mistake.

6. Midlantic Bank. Jeff Schmidt has indicated to me that Midlantic will renew the note. He has requested a letter from you, which I have prepared, requesting the renewal and a plan for repayment. The letter simply provides that the farm desires to continue the existing relationship and expects to service the debt through the underlying ALYDAR breeding right notes owed to Calumet by Triple C and Kinderhill. In order for me to get a clear understanding of the payment schedule, I have requested a copy of the loan history from the bank. This history will indicate any variance in the amounts owed Calumet on the breeding rights and the \$2,464,159 owed by Calumet to Midlantic. If there is a shortfall, it will have to be made up by Calumet. Any recovery of such payments by Calumet would have to be made against the appropriate makers of the breeding rights notes.

Jeff indicated to me that he though you has made a deal with Tom martin regarding the payment of the Kinderhill note. I will

need to know the terms of any arrangement which varies the note repayment from that of Calumet's obligation to the bank.

7. White Birch/Peter Brant. On October 31, 1989 the annual principal payment of \$1,300,000 plus one quarters interest needs to be paid on the MOGAMBO note. Since the Pasig-Tipton Board has approved the buy out of Calumet Farm's Pasig-Tipton stock prior to November 1, 1989, I feel that Peter feels that this money could be used to help make this payment. Frankly, it is a good idea but it will not be enough money. There will probably be a \$400,000 to \$500,000 short fall.

8. Manganaro. Last December Marc Rash did a race horse deal for the farm with Manganaro Stables Limited. The deal in essence gave Manganaro the option to get out if he did not feel the race horses were living up to expectations. In fact, there were two option exercise dates. The first date is October 1, 1989 and the second date is in early 1990. Manganaro has notified Rash that he would like to exercise the option to get out of the deal on October 1, 1989. Rash has talked to Manganaro and has told him that for his particular tax position it would be beneficial if he waited until 1990 to exercise the option. If Manganaro will not defer the exercise until 1990, the farm will need to pay him \$345,000 on or before October 1, 1989.

9. Other Cash Needs. As usual the farm needs cash to operate. With the insurance premiums due and other operating expenses, the farm will most likely need at least \$1,500,000 over the next ninety days. Obviously, with the deaths this year to the

insured horses, it will be hard to get favorable terms in February when the policy is renewed. You may recall that the London underwriters were not too happy with the 1988 losses. I was able to convince them that it was an unusual year and the farm had been timely on its payments. If the farm continues to be delinquent on the premium payments, it will be difficult to negotiate with the underwriters in January and February. In addition, failure to pay breeds the risk of cancellation which would cause a default under the loan agreement. Of course, if the Japanese deal is completed, there will not be a need for so much insurance.

Finally, the farm owes the State of Kentucky approximately \$200,000 in corporate license tax. The farm has sat on this bill for lack of funds. However, since the payment is delinquent, it should be paid as soon as possible.

10. Accounts Receivable. A review of the account receivables does not give me any great confidence in their collectability. I have spoken to Fred Gussin and he tells me that he will talk to you about his notes. I do not know what that means, but I would suggest that if you do not hear from him very soon that you contact him to find out when he is going to pay.

Frank Cihak is forwarding approximately \$50,000 on his note. This is not a lot considering the amount he owes the farm. However, he has skillfully put himself into a position with Calumet which makes him a critical party in its transactions to reduce its debt. This position will enable him to defer payment as long as there is a chance that he can put together a deal. If the farm pushes him for

payment, he could conveniently drag his feet. I do not think that is his intention. While I was in Houston, I learned through Kevin Hart that Frank has his money tied up in two major deals. One deal in particular required him to place a significant amount of money with the company during June. He is making efforts to unwind these deals to free up his cash. I would suggest that the farm not push Frank but permit me to remind him of his obligations and let him know that it has not been forgotten. Alternatively, you may want to tell Frank that if he puts the deal together, the farm would forgive part of the note as a form of compensation or commission.

11. Alternatives. Unless I am mistaken, I do not think the farm has any alternative but to raise cash over the next thirty (30) days. Fortunately, the waiver of the pay down takes pressure off the farm to do a large deal during this time period. However, the Bank One note shortfall (\$300,000), the First City payment (\$2,200,000), the MOCAMCO shortfall (\$400,000) and the mortgage payment (\$2,500,000) require the farm to come up with at least \$5,400,000. In addition, Manganaro may want his payment.

The farm needs to put a deal together which would raise \$6,000,000 to \$7,000,000. The farm has not done a deal of this type since Axear in August of 1988 and that deal is unwinding. Maybe the farm could work with Rash or maybe you have some ideas, but something needs to be done soon.

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