

Computer Software Innovations, Inc.  
Form SC TO-C  
October 02, 2012

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**SCHEDULE TO**

**Tender Offer Statement Under Section 14(d)(1) or 13(e)(1) of  
the Securities Exchange Act of 1934**

**COMPUTER SOFTWARE INNOVATIONS, INC.**

(Name of Subject Company)

**NHCC MERGER CORP.**

(Offeror)

**A Wholly-Owned Subsidiary of**

**N. HARRIS COMPUTER CORPORATION**

(Parent of Offeror)

(Names of Filing Persons)

**Common Stock, par value \$0.001 per share**

(Title of Class of Securities)

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205395106

(Cusip Number of Class of Securities)

**Mark Dennison  
General Counsel and Secretary  
Constellation Software Inc.  
20 Adelaide Street East, Suite 1200  
Toronto, Ontario  
Canada, M5C 2T6  
(416) 861-2279**

(Name, Address and Telephone Number of Person Authorized to Receive Notices  
and Communications on Behalf of Filing Persons)

**Copies to:  
Paul Hilton  
David Crandall  
Hogan Lovells US LLP  
One Tabor Center, Suite 1500  
1200 Seventeenth Street  
Denver, Colorado 80202  
(303) 899-7300**

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**CALCULATION OF FILING FEE**

**Transaction Value**  
N/A\*

**Amount of Filing Fee**  
N/A\*

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\*  A filing fee is not required in connection with this filing as it relates solely to preliminary communications made before the commencement of a tender offer.

Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

Amount Previously Paid: N/A  
Form of Registration No.: N/A

Filing Party: N/A  
Date Filed: N/A

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

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Check the appropriate boxes below to designate any transactions to which the statement relates:

- third-party tender offer subject to Rule 14d-1.
- issuer tender offer subject to Rule 13e-4.
- going-private transaction subject to Rule 13e-3.
- amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer.

If applicable, check the appropriate box(es) below to designate the appropriate rule provision(s) relied upon:

- Rule 13e-4(i) (Cross-Border Issuer Tender Offer)
  - Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)
-

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This filing relates solely to preliminary communications made before the commencement of a tender offer for the outstanding shares of capital stock of Computer Software Innovations, Inc., a Delaware corporation ( *CSWI* ), by NHCC Merger Corp., a Delaware corporation ( *Purchaser* ) and a direct, wholly-owned subsidiary of N. Harris Computer Corporation, a company organized under the Business Corporations Act (Ontario) ( *Harris* ) and a direct, wholly-owned subsidiary of Constellation Software Inc., a company organized under the Business Corporations Act (Ontario) ( *Constellation* ), pursuant to an Agreement and Plan of Merger, dated as of October 2, 2012, by and among CSWI, Purchaser, Harris and, solely with respect to Section 9.14 thereof, Constellation.

The tender offer for the purchase of the outstanding shares of CSWI's capital stock described in the attached exhibit has not yet commenced, and the exhibit is neither an offer to purchase nor a solicitation of an offer to sell securities. At the time the tender offer is commenced, Harris will file a tender offer statement on Schedule TO (including the offer to purchase, letter of transmittal and other tender offer materials) with the U.S. Securities and Exchange Commission ( *SEC* ) and CSWI will file with the SEC a solicitation/recommendation statement on Schedule 14D-9 with respect to the tender offer. Prior to making any decision regarding the tender offer, CSWI shareholders are strongly advised to read the tender offer statement (including the offer to purchase, letter of transmittal and other tender offer materials) and the related solicitation/recommendation statement on Schedule 14D-9 when they become available as they will contain important information. Once filed, CSWI shareholders will be able to obtain the tender offer statement (including the offer to purchase, letter of transmittal and other tender offer materials) and the related solicitation/recommendation statement at no charge on the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, the tender offer statement (including the offer to purchase, letter of transmittal and other tender offer materials) and the related solicitation/recommendation statement (when available) may be obtained free of charge from the information agent named in the tender offer materials.

The attached exhibit contains forward-looking statements that are not historical facts and are subject to risks and uncertainties that could cause actual results to differ materially from those described. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Forward-looking statements in the attached exhibit include statements regarding the anticipated benefits of the transaction; statements regarding the anticipated timing of filings; statements regarding the expected timing of the completion of the transaction; and any statements of assumptions underlying any of the foregoing. All forward-looking statements are based largely on current expectations and beliefs concerning future events, approvals and transactions that are subject to substantial risks and uncertainties. Factors that may cause or contribute to the actual results or outcomes being different from those contemplated by forward-looking statements include: risks and uncertainties associated with the tender offer, including uncertainties as to the timing of the tender offer and merger, uncertainties as to how many of CSWI's shareholders will tender their shares in the offer, the risk that competing offers will be made, and the possibility that various closing conditions for the transaction may not be satisfied or waived. These forward-looking statements speak only as of the date of the exhibit and none of Constellation, Harris or CSWI assumes any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or developments or otherwise, except as required by law.

### Exhibit Index

Exhibit No.	Description
99.1	1) 09/03/1999 Grant - The option vests 20% annually over a 5 year period beginning on 09/03/2000.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

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financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. CASH AND CASH EQUIVALENTS For financial statement reporting purposes, the Company considers cash and all highly liquid investments, including money market accounts and commercial paper, with a maturity of 90 days or less to be cash and cash equivalents. FIXED ASSETS Office equipment, including computer equipment, is depreciated over five years using the straight-line method. Office furniture is depreciated over seven years using the straight-line method. Leasehold improvements are depreciated over

the remaining life of the lease using the straight-line method. INVESTMENTS Investments in limited partnerships are accounted for under the equity method of accounting. Investments in preferred shares of CDOs are recorded at fair value, and classified as securities available-for-sale. Unrealized gains and losses on securities available-for-sale are recorded as a separate component of members' equity. 12 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) REVENUE RECOGNITION Management fees are received from the Funds and CDOs managed by the Company. These fees are paid periodically in accordance with the individual management agreements between the Company and the individual Funds and CDOs, and are based upon the net asset values of the Funds and aggregate collateral amount of the CDOs as defined in the individual management agreements. Management fees are recognized as revenue when earned. In accordance with Emerging Issues Task Force Topic D-96, 'Accounting for Management Fees Based on a Formula,' the Company does not recognize these fees as revenue until all contingencies have been removed. Incentive fees are received from the Funds and certain of the CDOs managed by the Company. These fees are paid periodically in accordance with the individual management agreements between the Company and the individual Funds and CDOs, and are based upon the performance of the funds and CDOs. Incentive fees are recognized as revenues when the amounts are fixed and determinable. Incentive income and other expenses include amounts earned or incurred under arrangements with certain investors or guarantors in the CDOs the Company manages. Income and expense is recorded when earned or incurred and is recorded gross, except under circumstances where the income and expense are contractually required to be settled with a net payment to or from the counterparty. Dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis and includes accretion of interest on certain investments in accordance with EITF Issue No. 99-20, 'Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets.' Other income primarily includes structuring and warehousing fees earned by the Company for services provided to CDOs or placement agents for the CDOs. These fees are recorded when earned. 13 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) INCOME TAXES Income taxes are not provided for as the income (loss) of the Company is includable in the returns of the Class A and Class B members. The Company records Illinois state replacement tax expense, as applicable, in the consolidated statement of operations. Pursuant to Treasury Regulation Section 301.7701, the subsidiaries of the Company have elected to be disregarded as separate entities for U.S. tax purposes and are, therefore, treated as branches of the Company. NEW ACCOUNTING PRONOUNCEMENTS In November 2002 the FASB issued Interpretation No. 45 (FIN 45), 'Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,' which expands the disclosure requirements to be made by a guarantor in its financial statements regarding its obligations under certain guarantees that it has issued. FIN 45 also requires, under certain circumstances, the recognition, at the inception of a guarantee, of a liability for the fair value of the obligation as a result of issuing the guarantee. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002, while the disclosure requirements are currently effective. The Company has adopted the disclosure requirements of FIN 45 and is in the process of evaluating the impact of the remaining provisions. In January 2003 the FASB issued Interpretation No. 46, 'Consolidation of Variable Interest Entities,' which provides new criteria for determining whether or not consolidation accounting is required by a variable interest holder in certain entities. The Interpretation may require the Company to consolidate financial information for certain of the Funds and CDOs it manages. This Interpretation is effective for Funds and CDOs created after January 31, 2003; otherwise, it is applicable for the annual reporting period beginning January 1, 2004. If applicable, the Interpretation would require the Company to consolidate a Fund or CDOs assets and liabilities, and results of operations, with a minority interest recorded for the ownership share applicable to other investors. The effect of such 14 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) consolidation would not change the net income or loss of the Company. Where consolidation is not required, additional disclosures may be required. FIN 46 is effective immediately for variable interest entities created after January 31, 2003, and on July 1, 2003, for investments in variable interest entities acquired before February 1, 2003. The Company is in the process of evaluating the impact of FIN 46. 3. INVESTMENTS The Company's investments at December 31, 2002, were comprised of an investment in a limited partnership and an investment in preferred shares of a CDO for which it provides management services. The following is a summary of the Company's investments at December 31, 2002:

VALUE ----- Available-for-sale: Investment in CDO preferred shares (cost \$4,250,000) \$3,341,412 Equity method: Investment in limited partnership 12,676 ----- \$3,354,088 -----

4. FIXED ASSETS The Company's fixed assets at December 31, 2002, are summarized as follows: Computer equipment and software \$ 3,189,815 Leasehold improvements 673,633 Office furniture and fixtures 664,374 ----- 4,527,822 Less: Accumulated depreciation and amortization (3,194,708) ----- \$ 1,333,114 -----

15 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 5. LEASE COMMITMENTS The Company has a sublease agreement (the agreement) to lease office facilities through May 30, 2007. In conjunction with the agreement, a standby letter of credit has been issued by a financial institution to the sublessor in the amount of \$600,000. The Company pledged a \$600,000 cash balance as collateral against the standby letter of credit. Under the agreement, beginning January 1, 1999, the standby letter of credit and related collateral can be reduced by \$50,000 per year until the standby letter of credit reaches \$400,000. At December 31, 2002, the pledged collateral was approximately \$404,000, and was included in cash and cash equivalents on the balance sheet. The balance of the letter of credit facility is \$400,000 as of December 31, 2002. Management does not believe the standby letter of credit will be utilized. Rent expense for 2002 was approximately \$485,000. Future base lease commitments on the Company's operating leases are as follows: 2003 \$ 468,236 2004 462,983 2005 472,730 2006 482,477 2007 205,093 ----- \$2,091,519 -----

6. NOTES RECEIVABLE AND NOTES PAYABLE The Company manages a private synthetic CLO for an investment banking firm (the Investor). A guarantor (the Guarantor), unrelated to the Company and the Investor, has provided a guarantee against losses in the CLO to the Investor (the guarantee agreement) for up to the first \$50 million of the Investor's principal losses. As a premium for the guarantee, the Guarantor receives all of the residual cash flows from the CLO. The Guarantor does not have any direct investment in the CLO and will only make payments in the event of a principal loss, as defined in the CLO's guarantee agreement with the Guarantor. As a condition of entering into a collateral management agreement with the CLO, the Company has entered into agreements with the Guarantor and another counterparty (the Counterparty) to share in the guarantee agreement with the 16 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 6. NOTES RECEIVABLE AND NOTES PAYABLE (CONTINUED) Guarantor up to 10% of the total guaranteed amount (e.g. maximum loss guarantee of \$5 million). The Company's share of the first \$50 million of losses in CDO will be on a pro rata basis, up to \$5 million. Under the agreement with the Guarantor, the Company has deposited \$5,000,000 in escrow (the escrow account) for the benefit of the Guarantor evidenced by a note receivable from the Guarantor with a principal amount of \$5,000,000, recorded as a note receivable on the consolidated balance sheet. Interest on the note receivable is equal to 10% of the Guarantor's guarantee fee premium and 100% of the amounts earned on the amount in escrow. In the event of any payment by the Guarantor under the guarantee agreement, the Company's share will be taken from the escrow account and the note receivable will be forgiven by the Company in the amount of 10% of the guarantee payments made by the Guarantor. To offset its exposure under the guarantee, the Company entered into a separate agreement with a third party counterparty (the Counterparty), under which the Counterparty agreed to make payments to the Company in the event it has to fund the Guarantor under the agreement described above. Under the agreement with the Counterparty, the Company received \$5,000,000, which was utilized to fund the escrow account and issued a note payable to the Counterparty in the amount of \$5,000,000. Interest on the note payable is equal to the interest on the note receivable from the Guarantor, except that only 50% of any amounts in excess of LIBOR plus 4% are payable to the Counterparty. In the event of any forgiveness of the note receivable from the Guarantor, as described above, an equal amount of the Company's note payable to the Counterparty will be forgiven by the Counterparty. The Company has pledged its future senior management fees from two other CDOs it manages as collateral for payment of any amounts owed to the Counterparty. Separate from the above transaction, during 2002, the Company financed its purchase of preferred shares of one of the CDOs for which it provides management services by issuing a non-recourse note to an investment banking firm for \$6,250,000, which bears interest at LIBOR, and has no stated maturity. The preferred shares are pledged as collateral against the note, and all management fees earned by the Company for managing the underlying assets of the CDO and any distributions received on the preferred shares will be remitted to the note holder until all principal and interest on the note are paid in full. 17 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 6. NOTES RECEIVABLE AND NOTES PAYABLE (CONTINUED) During 2002, the Company recorded interest on the note of \$57,944 and repaid \$2,409,753 of principal and interest. At December 31, 2002, the balance of the note was \$3,898,191. 7. MEMBERS'

EQUITY Effective January 1, 2001, a Class B member of the Company resigned and redeemed his 5.74% ownership interest in the Company. The Company paid the member \$2,230,460 in accordance with the terms of the Operating Agreement. The member was also paid \$769,540 to sign a three-year noncompete agreement, which is being amortized over three years. This amount is recorded as an intangible asset, net of accumulated amortization, on the consolidated balance sheet. As of December 31, 2002, the remaining amount due the member is \$750,000, which is recorded as a payable to former member on the consolidated balance sheet. The final redemption payment will be made on December 31, 2003. If the former member fails to abide by any covenant set forth in the noncompete agreement, any future redemption payment will no longer be due and the Company shall be entitled to the return of any previous redemption payments made. Effective January 1, 1999, an individual was granted a Class B interest constituting a .5% ownership interest in the Company. In accordance with Accounting Principles Bulletin No. 25, 'Accounting for Stock Issued to Employees' (APB 25), and FASB Interpretation No. 44, 'Accounting for Certain Transactions Involving Stock Compensation -- an interpretation of APB Opinion No. 25' (FIN 44), variable plan accounting applies to this grant, and noncash compensation expense is recorded for changes in the value of the grant, as determined by the Operating Agreement. During 2002, the value of the employee's interest decreased approximately \$72,000, which was recorded as a decrease to compensation expense and to the employee's member equity account. Effective January 1, 2002, Class B nonvoting Profits Only Interests representing an 11% membership interest in the Company were granted to two employees. The employees' interest in future profits was fully vested at the date of grant. The employees' earnings payout value, as defined in the Operating Agreement, cliff 18 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 7. MEMBERS' EQUITY (CONTINUED) vests on their 20th anniversary of employment with the Company. These grants are accounted for under the variable plan accounting rules of APB 25 and FIN 44, and amortized compensation expense is recorded for changes in the employees' earnings pay out value over 20 years. During 2002, approximately \$69,000 was recorded as non-cash compensation expense in the members' equity accounts related to the cliff vesting of the earnings payout value. 8. EMPLOYEE BENEFIT PLANS The Company has a voluntary contribution 401(k) plan (the Plan). Under the Plan, employees are eligible to contribute a percentage of their salary into the Plan after completing an initial employment period. The Company has the option to match a percentage of the employee contributions for the year. All Plan contributions are paid into the Deerfield & Company LLC 401(k) Savings Trust (the Trust). The Trust is allowed to invest the contributions in a variety of instruments defined in the Plan agreement. The Company's matching contribution for 2002 was approximately \$145,000. The Company sponsors a Key Employee Equity Participation Plan (KEEP Plan), which is a 'phantom' equity appreciation plan. Under the KEEP Plan, participants are awarded stock appreciation rights (SAR) by the Company. Upon redemption, the KEEP Plan provides participants with the positive difference, if any, between the value of a SAR and its strike price. The value of a SAR is defined in the KEEP Plan as the average of the three most recent year's annual net earnings multiplied by five and divided by the number of SARs authorized. The stock appreciation rights do not represent an equity interest in the Company. The Company retains the sole discretion to determine the employees who will receive awards under the KEEP Plan. The awards vest one fourth each year, on the first, second, third, and fourth anniversaries of the award date, and are not exercisable until the fourth anniversary of the award date. As of December 31, 2002, there were 291,000 SARs outstanding with a value of \$1.26 per award. Strike prices for the SARs were either \$4.00 or \$4.21 per award, depending on the date of the award. No SARs were granted or forfeited during 2002. Participants were either 25% or 50% vested in the KEEP Plan awards depending on the date of the award. The SARs are accounted for under the variable accounting rules of 19 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) APB25 and FIN 44 and the total compensation expense recognized related to the KEEP Plan during 2002 was \$(8,269). 9. CONTINGENT FEE ARRANGEMENTS The Company acts as collateral manager for various CDOs, capitalized by third party investors. Typically, the transactions are sponsored and underwritten by third party investment banks, who may warehouse the collateral and place the debt and equity of the CDOs with the ultimate investors. The underlying collateral of the CDOs, which is typically purchased in the open market, consists of corporate debt, structured notes, commercial loans, synthetic instruments, and the notional amount of credit default instruments, and is owned by separate special purpose entities for each CDO, which issue various classes of notes and beneficial interests to third party investors, including the Company or related entities in certain instances. The Company manages the underlying collateral on behalf of the investors under the terms of collateral management agreements. As of December 31, 2002, the Company managed 13 CDOs. The total par/notional value of

the underlying collateral under management was approximately \$6.5 billion at December 31, 2002. The total debt outstanding of the CDOs was approximately \$4.0 billion. TYPE OF CDO/ NUMBER OF CDOs PAR VALUE OF COLLATERAL MANAGED COLLATERAL ----- Bank loans 5 \$1,938,000,000 Credit default swaps 2 1,995,000,000 Corporate bonds 3 1,611,000,000 Asset-backed securities 3 939,000,000 ----- 13 \$6,483,000,000 ----- The CDOs have various terms/maturities, ranging from 5 to 35 years. Pursuant to the underlying collateral management agreements, the Company is compensated for managing the underlying collateral of the CDOs. The Company receives various fees for its services, as follows: (1) base collateral investment management fees (Senior), which are paid before interest to the debt holders in the transaction, and range from five to 31.5 basis points annually, (2) base 20 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 9. CONTINGENT FEE ARRANGEMENTS (CONTINUED) collateral investment management fees (Junior), which are subordinate to a certain return to the debt and/or equity holders in the CDO, and range from seven to 55 basis points annually, and in certain instances (3) incentive fees (Incentive) that are paid after certain investors' returns exceed a hurdle internal rate of return (IRR). The Incentive fees range from 25 to 38 basis points or 10-20% of residual cash flows above the hurdle IRR and vary by transaction. In accordance with the Company's accounting policies, management fees are accrued as Management Fee income is earned. Incentive fees, which are contingent upon achieving certain performance objectives, are recognized as income once the contingencies are resolved and the fees are fixed and determinable. From time to time, the Company enters into agreements with investors or providers of guarantees to the CDOs. In some of these agreements, the Company enters into contractual arrangements with the investor or guarantee provider whereby the Company is required to make payments upon the occurrence of certain events. In other agreements, the Company will provide credit enhancement to provide additional protection to a certain investor. These agreements vary by transaction. In instances where the Company is required pursuant to a contractual arrangement to make a payment to an investor or guarantee provider, the Company may subordinate receipt of all or a portion of its future Senior fees, Junior fees, if any, and Incentive fees, if any, until the Company's obligation to the investor or guarantee provider has been met. The Company typically records such amounts as other expenses. In all cases, the subordinated amounts are limited to the extent of future fees earned on specific CDOs. As of December 31, 2002, approximately \$509,000 in such payments were made and included in other expenses. In consideration of these agreements, the Company may share in the excess returns (as defined in the individual agreements) realized by the investor. The Company records any such shared excess amounts as incentive fee revenue. During 2002, approximately \$775,000 in such amounts were received and included in incentive fee revenue. In addition the Company has provided credit enhancement in the form of notes payable, and escrow deposits for \$5 million to various third parties (See Note 6). At December 31, 2002, the Company does not have a direct ownership interest in any of the CDOs, except for one, where its ownership of preferred shares is less than 5% of the CDO's total debt and equity. In addition, the Company has 21 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 9. CONTINGENT FEE ARRANGEMENTS (CONTINUED) determined that it does not have the substantive residual risks or substantially all of the residual rewards of the underlying assets and obligations imposed by the underlying debt. Pursuant to the provisions of EITF Issue 90-15, 'Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions,' the underlying assets and liabilities related to these transactions are not consolidated with Deerfield's financial statements. See Note 2 for a discussion of the recently issued FASB Interpretation No. 46 on Variable Interest Entities. 10. RELATED PARTIES An entity affiliated through common ownership owns 26.6%, and 4.3%, respectively, of the equity of two CDOs managed by the Company. The Company owns 15.8% of the equity of a CDO managed by the Company, as described in Note 3. A privately managed investment account managed by the Company owns 33.3% and 38.9%, respectively, of the equity of two CDOs managed by the Company. This managed account is also the Counterparty described in Note 6. The Company has provided two notes to an employee of the Company for \$250,000 each. The interest rate on the notes is equal to the Federal Funds Rate, and is calculated monthly. Each year on the employee's anniversary of employment with the Company, 20% of the balance of the note and all accrued interest is forgiven as long as the employee is still employed with the Company. During 2002 approximately \$143,000 in principal and interest on the note were forgiven. 22 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Financial Statements Year ended December 31, 2003 CONTENTS Report of Independent Registered Public Accounting Firm..... 24 Consolidated Financial Statements Consolidated Balance



Sheet..... 25 Consolidated Statement of Operations..... 26 Consolidated Statement of Members' Equity..... 27 Consolidated Statement of Cash Flows..... 28 Notes to Consolidated Financial Statements..... 29 23 Report of Independent Registered Public Accounting Firm To the Members of Deerfield & Company LLC We have audited the accompanying consolidated balance sheet of Deerfield & Company LLC (an Illinois limited liability company) as of December 31, 2003, and the related consolidated statements of operations, members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Deerfield & Company LLC at December 31, 2003, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles. /s/ Ernst & Young LLP Chicago, Illinois March 12, 2004 24 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Balance Sheet December 31, 2003 ASSETS Cash and cash equivalents \$ 6,338,353 Incentive and management fees receivable 8,860,136 Notes receivable 5,000,000 Notes receivable from employee 200,000 Investments, at fair value 15,033,675 Fixed assets (net of accumulated depreciation and amortization of \$1,939,208) 1,040,924 Prepaid expenses 945,307 Other assets 5,031 ----- Total assets \$37,423,426 ----- LIABILITIES AND MEMBERS' EQUITY Accrued expenses \$ 8,414,506 Notes payable 17,045,662 ----- Total liabilities 25,460,168 Members' equity (including accumulated other comprehensive loss of \$647,564) 11,963,258 ----- Total liabilities and members' equity \$37,423,426 ----- See accompanying notes. 25 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Statement of Operations Year ended December 31, 2003 Revenues: Management fees \$27,316,935 Incentive fees 7,621,458 Interest and dividends 1,598,541 Other income 351,193 ----- 36,888,127 Expenses: Compensation and benefits 19,464,136 Travel and promotional 1,349,410 Legal and professional 908,677 Data fees 776,582 Depreciation and amortization 721,009 Office and occupancy 627,865 Interest expense 502,576 Taxes 249,023 Other expenses 1,175,886 ----- Total expenses 25,775,164 ----- Net income \$11,112,963 ----- See accompanying notes. 26 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Statement of Members' Equity Year ended December 31, 2003 MEMBERS' EQUITY CLASS A CLASS B TOTAL ----- Balance, January 1, 2003 \$ 6,439,311 \$ 584,882 \$ 7,024,193 Capital distribution (6,000,161) (999,839) (7,000,000) Equity-based compensation -- 65,254 65,254 Change in unrealized appreciation on investments available for sale 636,136 124,712 760,848 Net income 9,321,201 1,791,762 11,112,963 ----- Balance, December 31, 2003 \$10,396,487 \$1,566,771 \$11,963,258 ----- See accompanying notes. 27 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Statement of Cash Flows Year ended December 31, 2003 CASH FLOWS FROM OPERATING ACTIVITIES Net income \$ 11,112,963 Adjustments to reconcile net income to net cash provided by operating activities: Accretion of interest income 467,461 Depreciation and amortization 721,009 Noncash compensation 172,595 Increase in incentive and management fees receivable (2,967,756) Increase in other assets and prepaid expenses (973,100) Increase in accrued expenses 1,116,650 Decrease in payable to former member (750,000) ----- Net cash provided by operating activities 8,899,822 CASH FLOWS FROM INVESTING ACTIVITIES Purchases of investments (11,386,200) Purchases of fixed assets (147,275) ----- Net cash used in investing activities (11,533,475) CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from issuance of notes payable 12,575,000 Repayment of notes payable (4,415,456) Distributions to members (7,000,000) ----- Net cash provided by financing activities 1,159,544 ----- Net decrease in cash and cash equivalents (1,474,109) Cash and cash equivalents, beginning of year 7,812,462 ----- Cash and cash equivalents, end of year \$ 6,338,353 ----- SUPPLEMENTAL INFORMATION Cash paid for interest \$ 211,572 ----- See accompanying notes. 28 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements 1. ORGANIZATION AND NATURE OF BUSINESS Deerfield & Company LLC (the

Company), an Illinois limited liability company, was organized on February 24, 1997, and commenced operations on March 1, 1997. The Company has two classes of membership interests, Class A and Class B, with rights as described in the third amended and restated operating agreement of Deerfield & Company LLC (the Operating Agreement). Class A is owned by Sachs Capital Management LLC (SCM), SLA Investments, Inc. (SLA), and Deerfield Partners Fund III and has 100% of the voting rights in the Company. As of December 31, 2003, there are three owners of Class B membership interests, which have no voting privileges. Two of the three Class B members have profits only interests. The Company is the parent of two wholly owned subsidiaries: Deerfield Capital Management LLC, (DCM) and Badger Protection Services, Ltd. (Badger). DCM serves as the trading advisor for five fixed income investment funds and three private investment accounts (hereafter referred to collectively as the Funds). Badger is a company which provides credit enhancement to investors in one of the Funds managed by the Company. Additionally, DCM is a collateral manager for 15 collateralized debt obligations (CDO), collateralized loan obligations (CLO), and collateralized bond obligations (CBO) (hereafter referred to collectively as the CDOs). DCM earns management and incentive fees for the services provided to the Funds and the CDOs. As of December 31, 2003, the Company had approximately \$8.1 billion in assets under management.

**2. SIGNIFICANT ACCOUNTING POLICIES USE OF ESTIMATES** The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States. Such preparation requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**29 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)** The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements.

**BASIS OF PRESENTATION** The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

**CASH AND CASH EQUIVALENTS** For financial statement reporting purposes, the Company considers cash and all highly liquid investments, including money market accounts and commercial paper, with a maturity of 90 days or less to be cash and cash equivalents.

**FIXED ASSETS** Office equipment, including computer equipment, is depreciated over five years using the straight-line method. Office furniture is depreciated over seven years using the straight-line method. Leasehold improvements are depreciated over the remaining life of the lease using the straight-line method.

**DEFERRED COSTS** Certain costs associated with the acquisition of CDO management contracts and debt financing of preferred share acquisitions are recorded as prepaid expenses in the consolidated balance sheet and amortized over the expected life of the related contract or loan.

**INVESTMENTS** Investments in limited partnerships are accounted for under the equity method of accounting. Investments in preferred shares of CDOs are recorded at fair value,

**30 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)** and classified as securities available-for-sale. Unrealized gains and losses on securities available-for-sale are recorded as a separate component of members' equity.

**REVENUE RECOGNITION** Management fees are received from the Funds and CDOs managed by the Company. These fees are paid periodically in accordance with the individual management agreements between the Company and the individual Funds and CDOs and are based upon the net asset values of the Funds and aggregate collateral amount of the CDOs as defined in the individual management agreements. Management fees are recognized as revenue when earned. In accordance with Emerging Issues Task Force Topic (EITF) D-96, 'Accounting for Management Fees Based on a Formula,' the Company does not recognize these fees as revenue until all contingencies have been removed. Incentive fees are received from the Funds and certain of the CDOs managed by the Company. These fees are paid periodically in accordance with the individual management agreements between the Company and the individual Funds and CDOs and are based upon the performance of the funds and CDOs. Incentive fees are recognized as revenues when the amounts are fixed and determinable. Incentive income and other expenses include amounts earned or incurred under arrangements with certain investors or guarantors in the CDOs the Company manages. Income and expense is recorded when earned or incurred and is recorded gross, except under circumstances where the income and expense are contractually required to be settled with a net payment to or from the counterparty. Dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis and includes accretion of interest on certain investments in accordance with EITF Issue No. 99-20, 'Recognition of Interest Income and Impairment on Purchased

and Retained Beneficial Interests in Securitized Financial Assets.' 31 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) Other income primarily includes structuring and warehousing fees earned by the Company for services provided to CDOs or placement agents for the CDOs. These fees are recorded when earned.

INCOME TAXES Income taxes are not provided for as the taxable income (loss) of the Company is includable in the returns of the Class A and Class B members. The Company records Illinois State replacement tax expense, as applicable, in the consolidated statement of operations. Pursuant to Treasury Regulation Section 301.7701, the subsidiaries of the Company have elected to be disregarded as separate entities for U.S. tax purposes and are, therefore, treated as branches of the Company.

NEW ACCOUNTING PRONOUNCEMENTS In November 2002, the FASB issued Interpretation No. 45 (FIN 45), 'Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,' which expands the disclosure requirements to be made by a guarantor in its financial statements regarding its obligations under certain guarantees that it has issued. FIN 45 also requires, under certain circumstances, the recognition, at the inception of a guarantee, of a liability for the fair value of the obligation as a result of issuing the guarantee. The adoption of FIN 45 has not had a material effect on the Company's financial statements. In December 2003, the FASB revised Interpretation No. 46, 'Consolidation of Variable Interest Entities,' which provides new criteria for determining whether or not consolidation accounting is required by a variable interest holder in certain entities. The Interpretation may require the Company to consolidate financial information for certain of the Funds and CDOs it manages. The Interpretation may require the Company to consolidate certain Funds' or CDOs' assets and liabilities, and results of operations, with a minority interest recorded for the 32 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) ownership share applicable to other investors. The effect of such consolidation would not change the net income or loss of the Company. Where consolidation is not required, additional disclosures may be required. FIN 46 is effective immediately for variable interest entities created after December 31, 2003, and as of the end of the first fiscal year beginning after December 15, 2004, to variable interest entities acquired before December 31, 2003 (December 31, 2005, for the Company). The Company is in the process of evaluating the impact of FIN 46.

3. INVESTMENTS The Company's investments at December 31, 2003, were comprised of an investment in a limited partnership and investments in the preferred shares of 3 CDOs for which it provides management services. The following is a summary of the Company's investments at December 31, 2003:

VALUE ----- Available for sale: Investment in CDO preferred shares (amortized cost	
\$15,667,839)	\$15,020,275
Equity method: Investment in limited partnership	13,400 -----
	\$15,033,675 -----

----- 4. FIXED ASSETS The Company's fixed assets at December 31, 2003, are summarized as follows:

Computer equipment and software	\$ 1,563,319	Leasehold improvements	685,477	Office furniture and fixtures	731,336 -----
	2,980,132	Less: Accumulated depreciation and amortization	(1,939,208) -----		\$ 1,040,924

----- 33 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 5. LEASE COMMITMENTS The Company has a sublease agreement (the agreement) to lease office facilities through May 30, 2007. In conjunction with the agreement, a standby letter of credit has been issued by a financial institution to the sublessor in the amount of \$600,000. The Company pledged a \$600,000 cash balance as collateral against the standby letter of credit. Under the agreement, beginning January 1, 1999, the standby letter of credit and related collateral can be reduced by \$50,000 per year until the standby letter of credit reaches \$400,000. At December 31, 2003, the pledged collateral was approximately \$409,000 and was included in cash and cash equivalents on the consolidated balance sheet. The balance of the letter of credit facility is \$400,000 as of December 31, 2003. Management believes the standby letter of credit will not be utilized. Rent expense for 2003 was approximately \$471,000. Future base lease commitments on the Company's operating leases are as follows: 2004 \$ 462,983 2005 472,730 2006 482,477 2007 205,093 ----- \$1,623,283 ----- 6. NOTES RECEIVABLE AND NOTES PAYABLE The Company manages a private synthetic CLO for an investment banking firm (the Investor). A guarantor (the Guarantor), unrelated to the Company and the Investor, has provided a guarantee against losses in the CLO to the Investor (the guarantee agreement) for up to the first \$50 million of the Investor's principal losses. As a premium for the guarantee, the Guarantor receives all of the residual cash flows from the CLO. The Guarantor does not have any direct investment in the CLO and will only make payments in the event of a principal loss, as defined in the CLO's guarantee agreement with the Guarantor. As a condition of entering into a collateral management agreement with the CLO, the Company has entered into agreements with the Guarantor and

another counterparty (the Counterparty) to share in the guarantee agreement with the 34 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 6. NOTES RECEIVABLE AND NOTES PAYABLE (CONTINUED) Guarantor up to 10% of the total guaranteed amount (e.g. maximum loss guarantee of \$5 million). The Company's share of the first \$50 million of losses in the CLO will be on a pro rata basis, up to \$5 million. Under the agreement with the Guarantor, the Company has deposited \$5,000,000 in escrow (the escrow account) for the benefit of the Guarantor evidenced by a note receivable from the Guarantor with a principal amount of \$5,000,000, recorded as a note receivable on the consolidated balance sheet. Interest on the note receivable is equal to 10% of the Guarantor's guarantee fee premium and 100% of the amounts earned on the amount in escrow. In the event of any payment by the Guarantor under the guarantee agreement, the Company's share will be taken from the escrow account and the note receivable will be forgiven by the Company in the amount of 10% of the guarantee payments made by the Guarantor. To offset its exposure under the guarantee, the Company entered into a separate agreement with a third party counterparty (the Counterparty), under which the Counterparty agreed to make payments to the Company in the event the Company has to fund the Guarantor under the agreement described above. Under the agreement with the Counterparty, the Company received \$5,000,000, which was utilized to fund the escrow account and issued a note payable to the Counterparty in the amount of \$5,000,000. Interest on the note payable is equal to the interest on the note receivable from the Guarantor, except that only 50% of any amounts in excess of LIBOR plus 4% are payable to the Counterparty. In the event of any forgiveness of the note receivable from the Guarantor, as described above, an equal amount of the Company's note payable to the Counterparty will be forgiven by the Counterparty. The Company has pledged its future senior management fees from two other CDOs it manages as collateral for payment of any amounts owed to the Counterparty. Separate from the above transaction, during 2002, the Company financed its purchase of 6,250,000 preferred shares of one of the CDOs for which it provides management services by issuing a nonrecourse note to an investment banking firm for \$6,250,000, which bears interest at LIBOR, and has no stated maturity. Concurrent with the Company's sale of 1,500,000 of these preferred shares soon after their purchase in 2002, the Company repaid \$1,500,000 of principal plus accrued interest on the note. The remaining 4,750,000 preferred shares are pledged as collateral against the note, and all management fees earned by the 35 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 6. NOTES RECEIVABLE AND NOTES PAYABLE (CONTINUED) Company for managing the underlying assets of the CDO and any distributions received on the preferred shares will be remitted to the note holder until all principal and interest on the note are paid in full. During 2003, the Company recorded interest on the note of \$59,619 and repaid \$2,530,137 of principal. At December 31, 2003, the balance of the note was \$1,371,170. During 2003, the Company financed its purchase of preferred shares of one of the CDOs for which it provides management services by issuing a nonrecourse note to an investment banking firm for \$8,000,000 (including \$888,800 of prepaid fees), which bears interest at LIBOR plus 100 basis points and has no stated maturity. The preferred shares are pledged as collateral against the note, and 62.5% of all management fees earned by the Company for managing the underlying assets of the CDO and of any distributions received on the preferred shares will be remitted to the note holder until all principal and interest on the note are paid in full. During 2003, the Company recorded interest on the note of \$108,739 and repaid \$375,698 of principal. At December 31, 2003, the balance of the note was \$7,624,302. Also during 2003, the Company financed its purchase of preferred shares of one of the CDOs for which provides management services by issuing a nonrecourse note to a large investment bank for \$4,575,000 (including \$300,000 of prepaid fees), which bears interest at LIBOR, plus 100 basis points and has no stated maturity. The preferred shares are pledged as collateral against the note, and 65% of all management fees earned by the Company for managing the underlying assets of the CDO and all distributions received on the preferred shares will be remitted to the note holder until all principal and interest on the note are paid in full. During 2003, the Company recorded interest on the note of \$75,780 and repaid \$1,524,811 of principal and interest. At December 31, 2003, the balance of the note was \$3,050,189. 7. MEMBERS' EQUITY Effective January 1, 2001, a Class B member of the Company resigned and redeemed his 5.74% ownership interest in the Company. The Company paid the member \$2,230,460 in accordance with the terms of the Operating Agreement. 36 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 7. MEMBERS' EQUITY (CONTINUED) The member was also paid \$769,540 to sign a three-year noncompete agreement, which is being amortized over three years. This amount was recorded as an intangible asset, net of accumulated amortization, on the consolidated balance sheet. The final redemption payment of \$750,000 was made on December 31, 2003. Effective

January 1, 1999, an individual was granted a Class B interest constituting a .5% ownership interest in the Company. In accordance with Accounting Principles Bulletin No. 25, 'Accounting for Stock Issued to Employees' (APB 25), and FASB Interpretation No. 44, 'Accounting for Certain Transactions involving Stock Compensation -- an interpretation of APB Opinion No. 25' (FIN 44), variable plan accounting applies to this grant, and noncash compensation expense is recorded for changes in the value of the grant, as determined by the Operating Agreement. During 2003, the value of the employee's interest decreased approximately \$4,100, which was recorded as a decrease to compensation expense and to Class B members' equity. Effective January 1, 2002, Class B nonvoting Profits Only Interests representing an 11% membership interest in the Company were granted to two employees. An additional 5% was granted to one of the employees on May 1, 2003. The employees' interest in future profits was fully vested at the date of grant. The employees' earnings payout value, as defined in the Operating Agreement, cliff vests on their 20th anniversary of employment with the Company. These grants are accounted for under the variable plan accounting rules of APB 25 and FIN 44, and amortized compensation expense is recorded for changes in the employees' earnings pay out value over 20 years. During 2003, approximately \$65,000 was recorded as noncash compensation expense in the members' equity accounts related to the cliff vesting of the earnings payout value.

8. EMPLOYEE BENEFIT PLANS The Company has a voluntary contribution 401(k) plan (the Plan). Under the Plan, employees are eligible to contribute a percentage of their salary into the Plan after completing an initial employment period. The Company has the option to match a percentage of the employee contributions for the year. All Plan 37 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 8. EMPLOYEE BENEFIT PLANS (CONTINUED) contributions are paid into the Deerfield & Company LLC 401(k) Savings Trust (the Trust). The Trust is allowed to invest the contributions in a variety of instruments defined in the Plan agreement. The Company's matching contribution for 2003 was approximately \$150,000. The Company sponsors a Key Employee Equity Participation Plan (KEEP Plan), which is a 'phantom' equity appreciation plan. Under the KEEP Plan, participants are awarded stock appreciation rights (SAR) by the Company. Upon redemption, the KEEP Plan provides participants with the positive difference, if any, between the value of a SAR and its strike price. The value of a SAR is defined in the KEEP Plan as the average of the three most recent year's annual net earnings multiplied by five and divided by the number of SARs authorized. The stock appreciation rights do not represent an equity interest in the Company. The Company retains the sole discretion to determine the employees who will receive awards under the KEEP Plan. The awards vest one fourth each year, on the first, second, third, and fourth anniversaries of the award date, and are not exercisable until the fifth anniversary of the award date. As of December 31, 2003, there were 241,500 SARs outstanding with a value of \$1.00 per award. Strike prices for the SARs were either \$4.00 or \$4.21 per award, depending on the date of the award. No SARs were granted during 2003. Participants were either 50% or 75% vested in the KEEP Plan awards depending on the date of the award. The SARs are accounted for under the variable accounting rules of APB 25 and FIN 44 and the total compensation expense recognized related to the KEEP Plan during 2003 was \$0.

9. CONTINGENT FEE ARRANGEMENTS The Company acts as collateral manager for various CDOs, capitalized by third-party investors. Typically, the transactions are sponsored and underwritten by third-party investment banks, who may warehouse the collateral and place the debt and equity of the CDOs with the ultimate investors. The underlying collateral of the CDOs, which is typically purchased in the open market, consists of corporate debt, structured notes, commercial loans, synthetic instruments, and the notional amount of credit default instruments, and is owned by separate special purpose entities for each CDO, which issue various classes of notes and 38 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 9. CONTINGENT FEE ARRANGEMENTS (CONTINUED) beneficial interests to third-party investors, including the Company or related entities in certain instances. The Company manages the underlying collateral on behalf of the investors under the terms of collateral management agreements. As of December 31, 2003, the Company managed 15 CDOs. The total par/notional value of the underlying collateral under management was approximately \$7 billion at December 31, 2003. The total debt outstanding of the CDOs was approximately \$4.6 billion. TYPE OF CDO/ NUMBER OF CDOs PAR VALUE OF COLLATERAL MANAGED COLLATERAL

-----	Bank loans	6	\$2,235,000,000	Credit default swaps	2	-----
2,005,000,000	Corporate bonds	3	1,545,000,000	Asset-backed securities	4	1,230,000,000 ----- 15
\$7,015,000,000	-----			The CDOs have various terms/maturities, ranging from 5 to 35 years. Pursuant to the underlying collateral management agreements, the Company is compensated for managing the underlying collateral of the CDOs. The Company earns various fees for its services, as follows: (1) base		

collateral investment management fees (Senior), which are paid before interest to the debt holders in the transaction, and range from five to 31.5 basis points annually, (2) base collateral investment management fees (Junior), which are subordinate to a certain return to the debt and/or equity holders in the CDO, and range from 7 to 55 basis points annually, and in certain instances, (3) incentive fees (Incentive) that are paid after certain investors' returns exceed a hurdle internal rate of return (IRR). The Incentive fees range from 25 to 38 basis points or 10-20% of residual cash flows above the hurdle IRR and vary by transaction. In accordance with the Company's accounting policies, management fees are accrued as earned. Incentive fees, which are contingent upon achieving certain performance objectives, are recognized as income once the contingencies are resolved and the fees are fixed and determinable. 39 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 9. CONTINGENT FEE ARRANGEMENTS (CONTINUED) From time to time, the Company enters into agreements with investors or providers of guarantees to the CDOs. In some of these agreements, the Company enters into contractual arrangements with the investor or guarantee provider whereby the Company is required to make payments upon the occurrence of certain events. In other agreements, the Company will provide credit enhancement to provide additional protection to a certain investor. These agreements vary by transaction. In instances where the Company is required pursuant to a contractual arrangement to make a payment to an investor or guarantee provider, the Company may subordinate receipt of all or a portion of its future Senior fees, Junior fees, if any, and Incentive fees, if any, until the Company's obligation to the investor or guarantee provider has been met. The Company typically records such amounts as other expenses. In all cases, the subordinated amounts are limited to the extent of future fees earned on specific CDOs. As of December 31, 2003, approximately \$185,705 in such payments were made and included in other expenses. In consideration of these agreements, the Company may share in the excess returns (as defined in the individual agreements) realized by the investor. The Company records any such shared excess amounts as incentive fee revenue. During 2003, approximately \$138,920 in such amounts were received and included in incentive fee revenue. In addition, the Company has provided credit enhancement in the form of notes payable, and escrow deposits for \$17,575,000 to various third parties (see Note 6). At December 31, 2003, the Company has a direct ownership interest in three CDOs, where its ownership of preferred shares is less than 5% of the CDOs' total debt and equity. In addition, the Company has determined that it does not have the substantive residual risks or substantially all of the residual rewards of the underlying assets and obligations imposed by the underlying debt. Pursuant to the provisions of EITF Issue 90-15, 'Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions,' the underlying assets and liabilities related to these transactions are not consolidated with the Company's financial statements. See Note 2 for a discussion of the recently issued FASB Interpretation No. 46 on Variable Interest Entities. 40 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 10. RELATED PARTIES An entity affiliated through common ownership and a related person own 38%, 4.3%, 3.0%, and 5.6%, respectively, of the equity of four CDOs managed by the Company. The Company owns 15.8%, 32%, and 27.8%, respectively, of the equity of three CDOs managed by the Company. A privately managed investment account managed by the Company owns 49.1% and 49.9%, respectively, of the equity of two CDOs managed by the Company. This managed account is also the Counterparty described in Note 6. The Company has provided two notes to an employee of the Company for \$250,000 each. The interest rate on the notes is equal to the Federal Funds Rate, and is calculated monthly. Each year on the employee's anniversary of employment with the Company, 20% of the balance of the note and all accrued interest is forgiven as long as the employee is still employed with the Company. During 2003, approximately \$107,000 in principal and interest on the note were forgiven. 41 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Financial Statements Six months ended June 30, 2003 (Unaudited) CONTENTS Consolidated Financial Statements Consolidated Balance Sheet..... 43 Consolidated Statement of Operations..... 44 Consolidated Statement of Members' Equity..... 45 Consolidated Statement of Cash Flows..... 46 Notes to Consolidated Financial Statements..... 47 42 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Balance Sheet June 30, 2003 (Unaudited) ASSETS Cash and cash equivalents \$ 4,652,009 Incentive and management fees receivable 5,275,057 Notes receivable 5,000,000 Notes receivable from employee 200,000 Investments, at fair value 15,104,600 Fixed assets (net of accumulated depreciation and amortization of \$1,724,061) 1,176,544 Prepaid expenses 1,097,437 Other assets 514,511 ----- Total assets \$33,020,158 ----- LIABILITIES AND MEMBERS' EQUITY Accrued expenses \$ 3,703,073 Notes payable 19,560,967 Payable to former member 750,000 ----- Total liabilities 24,014,040

Members' equity (including accumulated other comprehensive loss of \$736,478) 9,006,118 ----- Total liabilities and members' equity \$33,020,158 ----- See accompanying notes. 43 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Statement of Operations Six months ended June 30, 2003 (Unaudited) Revenues: Management fees \$12,187,491 Incentive fees 3,008,620 Interest and dividends 652,522 Other income 238,736 ----- 16,087,369 Expenses: Compensation and benefits 9,047,882 Travel and promotional 593,878 Legal and professional 285,730 Data fees 252,940 Depreciation and amortization 352,575 Office and occupancy 247,778 Interest expense 165,633 Taxes 79,456 Other expenses 781,733 ----- Total expenses 11,807,605 ----- Net income \$ 4,279,764 ----- See accompanying notes. 44 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Statement of Members' Equity Six months ended June 30, 2003 (Unaudited) MEMBERS' EQUITY CLASS A CLASS B TOTAL ----- Balance, January 1, 2003 \$ 6,439,311 \$ 584,882 \$ 7,024,193 Capital distribution (2,655,809) (344,191) (3,000,000) Equity-based compensation -- 30,227 30,227 Change in unrealized appreciation on investments available for sale 561,796 110,138 671,934 Net income 3,602,164 677,600 4,279,764 ----- Balance, June 30, 2003 \$ 7,947,462 \$ 1,058,656 \$ 9,006,118 ----- See accompanying notes. 45 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Statement of Cash Flows Six months ended June 30, 2003 (Unaudited) CASH FLOWS FROM OPERATING ACTIVITIES Net income \$ 4,279,764 Adjustments to reconcile net income to net cash provided by operating activities: Net accretion of interest income 308,523 Depreciation and amortization 352,575 Noncash compensation 137,568 Decrease in incentive and management fees receivable 617,323 Increase in other assets and prepaid expenses (1,481,423) Decrease in accrued expenses (3,582,710) ----- Net cash provided by operating activities 631,620 CASH FLOWS FROM INVESTING ACTIVITIES Purchases of investments (11,387,100) Purchases of fixed assets (67,749) ----- Net cash used in investing activities (11,454,849) CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from issuance of notes payable 12,575,000 Repayment of notes payable (1,912,224) Distributions to members (3,000,000) ----- Net cash provided by financing activities 7,662,776 ----- Net decrease in cash and cash equivalents (3,160,453) Cash and cash equivalents, beginning of period 7,812,462 ----- Cash and cash equivalents, end of period \$ 4,652,009 ----- SUPPLEMENTAL INFORMATION Cash paid for interest \$ 65,576 ----- See accompanying notes. 46 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements 1. ORGANIZATION AND NATURE OF BUSINESS Deerfield & Company LLC (the Company), an Illinois limited liability company, was organized on February 24, 1997, and commenced operations on March 1, 1997. The Company has two classes of membership interests, Class A and Class B, with rights as described in the third amended and restated operating agreement of Deerfield & Company LLC (the Operating Agreement). Class A is owned by Sachs Capital Management LLC (SCM), SLA Investments, Inc. (SLA), and Deerfield Partners Fund III and has 100% of the voting rights in the Company. As of June 30, 2003, there are three owners of Class B membership interests, which have no voting privileges. Two of the three Class B members have profits only interests. The Company is the parent of two wholly owned subsidiaries: Deerfield Capital Management LLC, (DCM) and Badger Protection Services, Ltd. (Badger). DCM serves as the trading advisor for five fixed income investment funds and three private investment accounts (hereafter referred to collectively as the Funds). Badger is a company which provides credit enhancement to investors in one of the Funds managed by the Company. Additionally, DCM is a collateral manager for 15 collateralized debt obligations (CDO), collateralized loan obligations (CLO), and collateralized bond obligations (CBO) (hereafter referred to collectively as the CDOs). DCM earns management and incentive fees for the services provided to the Funds and the CDOs. As of June 30, 2003, the Company had approximately \$8.03 billion in assets under management. 2. SIGNIFICANT ACCOUNTING POLICIES USE OF ESTIMATES The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States. Such preparation requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 47 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements. BASIS OF PRESENTATION The consolidated financial statements include the accounts of the Company and its subsidiaries. All

intercompany transactions and balances have been eliminated in consolidation. CASH AND CASH EQUIVALENTS For financial statement reporting purposes, the Company considers cash and all highly liquid investments, including money market accounts and commercial paper, with a maturity of 90 days or less to be cash and cash equivalents. FIXED ASSETS Office equipment, including computer equipment, is depreciated over five years using the straight-line method. Office furniture is depreciated over seven years using the straight-line method. Leasehold improvements are depreciated over the remaining life of the lease using the straight-line method. DEFERRED COSTS Certain costs associated with the acquisition of CDO management contracts and debt financing of preferred share acquisitions are recorded as prepaid expenses in the consolidated balance sheet and amortized over the expected life of the related contract or loan. 48 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) INVESTMENTS Investments in limited partnerships are accounted for under the equity method of accounting. Investments in preferred shares of CDOs are recorded at fair value and classified as securities available-for-sale. Unrealized gains and losses on securities available-for-sale are recorded as a separate component of members' equity. Interest income is accreted and investments are assessed for impairment in accordance with EITF Issue 99-20, 'Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets' (EITF 99-20). REVENUE RECOGNITION Management fees are received from the Funds and CDOs managed by the Company. These fees are paid periodically in accordance with the individual management agreements between the Company and the individual Funds and CDOs and are based upon the net asset values of the Funds and aggregate collateral amount of the CDOs as defined in the individual management agreements. Management fees are recognized as revenue when earned. In accordance with Emerging Issues Task Force Topic (EITF) D-96, 'Accounting for Management Fees Based on a Formula,' the Company does not recognize these fees as revenue until all contingencies have been removed. Incentive fees are received from the Funds and certain of the CDOs managed by the Company. These fees are paid periodically in accordance with the individual management agreements between the Company and the individual Funds and CDOs and are based upon the performance of the funds and CDOs. Incentive fees are recognized as revenues when the amounts are fixed and determinable. Incentive income and other expenses include amounts earned or incurred under arrangements with certain investors or guarantors in the CDOs the Company manages. Income and expense is recorded when earned or incurred and is recorded gross, except under circumstances where the income and expense are contractually required to be settled with a net payment to or from the counterparty. 49 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) Dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis and includes accretion of interest on certain investments in accordance with EITF 99-20. Other income primarily includes structuring and warehousing fees earned by the Company for services provided to CDOs or placement agents for the CDOs. These fees are recorded when earned. INCOME TAXES Income taxes are not provided for as the taxable income (loss) of the Company is includable in the returns of the Class A and Class B members. The Company records Illinois State replacement tax expense, as applicable, in the consolidated statement of operations. Pursuant to Treasury Regulation Section 301.7701, the subsidiaries of the Company have elected to be disregarded as separate entities for U.S. tax purposes and are, therefore, treated as branches of the Company. NEW ACCOUNTING PRONOUNCEMENTS In November 2002, the FASB issued Interpretation No. 45 (FIN 45), 'Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,' which expands the disclosure requirements to be made by a guarantor in its financial statements regarding its obligations under certain guarantees that it has issued. FIN 45 also requires, under certain circumstances, the recognition, at the inception of a guarantee, of a liability for the fair value of the obligation as a result of issuing the guarantee. The adoption of FIN 45 has not had a material effect on the Company's financial statements. In December 2003, the FASB revised Interpretation No. 46, 'Consolidation of Variable Interest Entities,' which provides new criteria for determining whether or not consolidation accounting is required by a variable interest holder in certain entities. The Interpretation may require the Company to consolidate financial 50 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) information for certain of the Funds and CDOs it manages. The Interpretation may require the Company to consolidate certain Funds' or CDOs' assets and liabilities, and results of operations, with a minority interest recorded for the ownership share applicable to other investors. The effect of such consolidation would not



change the net income or loss of the Company. Where consolidation is not required, additional disclosures may be required. FIN 46 is effective immediately for variable interest entities created after December 31, 2003, and as of the end of the first fiscal year beginning after December 31, 2004, to variable interest entities acquired before December 31, 2003 (December 31, 2005, for the Company). The Company has evaluated the impact of FIN 46 and does not believe that it will have a material impact on the financial statements.

3. INVESTMENTS The Company's investments at June 30, 2003, were comprised of an investment in a limited partnership and investments in the preferred shares of 3 CDOs for which it provides management services. The following is a summary of the Company's investments at June 30, 2003: VALUE ----- Available for sale: Investment in CDO preferred shares (amortized cost \$15,827,678) \$15,091,200 Equity method: Investment in limited partnership 13,400 ----- \$15,104,600 -----  
----- 51 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued)

4. FIXED ASSETS The Company's fixed assets at June 30, 2003, are summarized as follows: Computer equipment and software \$1,511,441 Leasehold improvements 681,832 Office furniture and fixtures 707,332 ----- 2,900,605 Less: Accumulated depreciation and amortization (1,724,061) ----- \$1,176,544 -----

5. LEASE COMMITMENTS The Company has a sublease agreement (the agreement) to lease office facilities through May 30, 2007. In conjunction with the agreement, a standby letter of credit has been issued by a financial institution to the sublessor in the amount of \$600,000. The Company pledged a \$600,000 cash balance as collateral against the standby letter of credit. Under the agreement, beginning January 1, 1999, the standby letter of credit and related collateral can be reduced by \$50,000 per year until the standby letter of credit reaches \$400,000. At June 30, 2003, the pledged collateral was approximately \$408,000 and was included in cash and cash equivalents on the consolidated balance sheet. The balance of the letter of credit facility is \$400,000 as of June 30, 2003. Management does not believe the standby letter of credit will be utilized. Rent expense for the first six months of 2003 was approximately \$234,000. Future base lease commitments on the Company's operating leases are as follows: 2004 \$ 462,983 2005 472,730 2006 482,477 2007 205,093 ----- \$1,623,283 -----  
----- 52 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued)

6. NOTES RECEIVABLE AND NOTES PAYABLE The Company manages a private synthetic CLO for an investment banking firm (the Investor). A guarantor (the Guarantor), unrelated to the Company and the Investor, has provided a guarantee against losses in the CLO to the Investor (the guarantee agreement) for up to the first \$50 million of the Investor's principal losses. As a premium for the guarantee, the Guarantor receives all of the residual cash flows from the CLO. The Guarantor does not have any direct investment in the CLO and will only make payments in the event of a principal loss, as defined in the CLO's guarantee agreement with the Guarantor. As a condition of entering into a collateral management agreement with the CLO, the Company has entered into agreements with the Guarantor and another counterparty (the Counterparty) to share in the guarantee agreement with the Guarantor up to 10% of the total guaranteed amount (e.g., maximum loss guarantee of \$5 million). The Company's share of the first \$50 million of losses in the CLO will be on a pro rata basis, up to \$5 million. Under the agreement with the Guarantor, the Company has deposited \$5,000,000 in escrow (the escrow account) for the benefit of the Guarantor evidenced by a note receivable from the Guarantor with a principal amount of \$5,000,000, recorded as a note receivable on the consolidated balance sheet. Interest on the note receivable is equal to 10% of the Guarantor's guarantee fee premium and 100% of the amounts earned on the amount in escrow. In the event of any payment by the Guarantor under the guarantee agreement, the Company's share will be taken from the escrow account and the note receivable will be forgiven by the Company in the amount of 10% of the guarantee payments made by the Guarantor. To offset its exposure under the guarantee, the Company entered into a separate agreement with a third-party counterparty (the Counterparty), under which the Counterparty agreed to make payments to the Company in the event the Company has to fund the Guarantor under the agreement described above. Under the agreement with the Counterparty, the Company received \$5,000,000, which was utilized to fund the escrow account and issued a note payable to the Counterparty in the amount of \$5,000,000. Interest on the note payable is equal to the interest on the note receivable from the Guarantor, except that only 50% of any amounts in excess of LIBOR plus 4% are payable to the Counterparty. In the event of any forgiveness of the note receivable from the Guarantor, as described above, an equal amount of the Company's note payable to the Counterparty will 53 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued)

6. NOTES RECEIVABLE AND NOTES PAYABLE (CONTINUED) be forgiven by the Counterparty. The Company has pledged its future senior management fees from two other CDOs it manages as collateral for payment of any amounts owed to the Counterparty. Separate

from the above transaction, during 2002, the Company financed its purchase of 6,250,000 preferred shares of one of the CDOs for which it provides management services by issuing a nonrecourse note to an investment banking firm for \$6,250,000, which bears interest at LIBOR, and has no stated maturity. Concurrent with the Company's sale of 1,500,000 of these preferred shares soon after their purchase in 2002, the Company repaid \$1,500,000 of principal plus accrued interest on the note. The remaining 4,750,000 preferred shares are pledged as collateral against the note, and all management fees earned and received by the Company for managing the underlying assets of the CDO and any distributions received on the preferred shares will be remitted to the note holder until all principal and interest on the note are paid in full. During the first six months of 2003, the Company recorded interest on the note of \$30,415 and repaid \$1,276,702 of principal. At June 30, 2003, the balance of the note was \$2,609,417. During 2003, the Company financed its purchase of preferred shares of one of the CDOs for which it provides management services by issuing a nonrecourse note to a large investment bank for \$8,000,000 (including \$888,800 of prepaid fees), which bears interest at LIBOR plus 100 basis points and has no stated maturity. The preferred shares are pledged as collateral against the note, and 62.5% of all management fees earned and received by the Company for managing the underlying assets of the CDO and all distributions received on the preferred shares will be remitted to the note holder until all principal and interest on the note are paid in full. During the first six months of 2003, the Company recorded interest on the note of \$20,113 and repaid \$0 of principal. At June 30, 2003, the balance of the note was \$8,000,000. Also during 2003, the Company financed its purchase of preferred shares of one of the CDOs for which it provides management services by issuing a nonrecourse note to an investment banking firm for \$4,575,000 (including \$300,000 of prepaid fees), which bears interest at LIBOR, plus 100 basis points and has no stated maturity. The preferred shares are pledged as collateral against the note, and 65% of all management fees earned and received by the Company for managing the 54 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 6. NOTES RECEIVABLE AND NOTES PAYABLE (CONTINUED) underlying assets of the CDO and all distributions received on the preferred shares will be remitted to the note holder until all principal and interest on the note are paid in full. During the first six months of 2003, the Company recorded interest on the note of \$35,814 and repaid \$623,450 of principal. At June 30, 2003, the balance of the note was \$3,951,550. 7. MEMBERS' EQUITY Effective January 1, 2001, a Class B member of the Company resigned and redeemed his 5.74% ownership interest in the Company. The Company paid the member \$2,230,460 in accordance with the terms of the Operating Agreement. The member was also paid \$769,540 to sign a three-year noncompete agreement, which is being amortized over three years. This amount was recorded as an intangible asset, net of accumulated amortization, on the consolidated balance sheet. The final redemption payment of \$750,000 is scheduled to be made on December 31, 2003. Effective January 1, 1999, an individual was granted a Class B interest constituting a .5% ownership interest in the Company. In accordance with Accounting Principles Bulletin No. 25, 'Accounting for Stock Issued to Employees' (APB 25), and FASB Interpretation No. 44, 'Accounting for Certain Transactions involving Stock Compensation -- an interpretation of APB Opinion No. 25' (FIN 44), variable plan accounting applies to this grant, and noncash compensation expense is recorded for changes in the value of the grant, as determined by the Operating Agreement. During the first six months of 2003, the value of the employee's interest decreased approximately \$4,400, which was recorded as a decrease to compensation expense and to Class B members' equity. Effective January 1, 2002, Class B nonvoting Profits Only Interests representing an 11% membership interest in the Company were granted to two employees. An additional 5% was granted to one of the employees on May 1, 2003. The employees' interest in future profits was fully vested at the date of grant. The employees' earnings payout value, as defined in the Operating Agreement, cliff vests on their 20th anniversary of employment with the Company. These grants are accounted for under the variable plan accounting rules of APB 25 and FIN 44, 55 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 7. MEMBERS' EQUITY (CONTINUED) and amortized compensation expense is recorded for changes in the employees' earnings payout value over 20 years. During the first six months of 2003, approximately \$30,000 was recorded as noncash compensation expense in the members' equity accounts related to the cliff vesting of the earnings payout value. 8. EMPLOYEE BENEFIT PLANS The Company has a voluntary contribution 401(k) plan (the Plan). Under the Plan, employees are eligible to contribute a percentage of their salary into the Plan after completing an initial employment period. The Company has the option to match a percentage of the employee contributions for the year. All Plan contributions are paid into the Deerfield & Company LLC 401(k) Savings Trust (the Trust). The Trust is allowed to invest the contributions in a variety of instruments defined in the Plan agreement. The Company's matching

contribution for 2003 is estimated to be approximately \$150,000. The Company sponsors a Key Employee Equity Participation Plan (KEEP Plan), which is a 'phantom' equity appreciation plan. Under the KEEP Plan, participants are awarded stock appreciation rights (SAR) by the Company. Upon redemption, the KEEP Plan provides participants with the positive difference, if any, between the value of a SAR and its strike price. The value of a SAR is defined in the KEEP Plan as the average of the three most recent years' annual net earnings multiplied by five and divided by the number of SARs authorized. The stock appreciation rights do not represent an equity interest in the Company. The Company retains the sole discretion to determine the employees who will receive awards under the KEEP Plan. The awards vest one fourth each year, on the first, second, third, and fourth anniversaries of the award date and are not exercisable until the fifth anniversary of the award date. As of June 30, 2003, there were 241,500 SARs outstanding with a value of \$1.00 per award. Strike prices for the SARs were either \$4.00 or \$4.21 per award, depending on the date of the award. No SARs were granted during 2003. Participants were either 50% or 75% vested in the KEEP Plan awards depending on the date of the award. The SARs are accounted for under the variable accounting rules of APB 25 and FIN 44, and the total compensation expense recognized related to the KEEP Plan during the first six months of 2003 was \$0.

56 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued)

9. CONTINGENT FEE ARRANGEMENTS The Company acts as collateral manager for various CDOs capitalized by third-party investors. Typically, the transactions are sponsored and underwritten by third-party investment banks, who may warehouse the collateral and place the debt and equity of the CDOs with the ultimate investors. The underlying collateral of the CDOs, which is typically purchased in the open market, consists of corporate debt, structured notes, commercial loans, synthetic instruments, and the notional amount of credit default instruments, and is owned by separate special purpose entities for each CDO, which issue various classes of notes and beneficial interests to third-party investors, including the Company or related entities in certain instances. The Company manages the underlying collateral on behalf of the investors under the terms of collateral management agreements. As of June 30, 2003, the Company managed 15 CDOs. The total par/notional value of the underlying collateral under management was approximately \$7.1 billion at June 30, 2003. The total debt outstanding of the CDOs was approximately \$4.3 billion.

TYPE OF CDO/	NUMBER OF CDOs	PAR VALUE OF COLLATERAL
MANAGED COLLATERAL -----		
Bank loans	6	\$2,345,000,000
Credit default swaps	2	2,000,000,000
Corporate bonds	3	1,500,000,000
Asset-backed securities	4	1,300,000,000
-----	15	\$7,145,000,000

The CDOs have various terms/maturities, ranging from 5 to 35 years. Pursuant to the underlying collateral management agreements, the Company is compensated for managing the underlying collateral of the CDOs. The Company earns various fees for its services, as follows: (1) base collateral investment management fees (Senior), which are paid before interest to the debt holders in the transaction, and range from five to 31.5 basis points annually, (2) base collateral investment management fees (Junior), which are subordinate to a certain return to the debt and/or equity holders in the CDO, and range from 7 to 55 basis points annually, and in certain instances, (3) incentive fees (Incentive) that are paid after certain investors' returns exceed a hurdle internal rate of 57 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued)

9. CONTINGENT FEE ARRANGEMENTS (CONTINUED) return (IRR). The Incentive fees range from 25 to 38 basis points or 10-20% of residual cash flows above the hurdle IRR and vary by transaction. In accordance with the Company's accounting policies, management fees are accrued as earned. Incentive fees, which are contingent upon achieving certain performance objectives, are recognized as income once the contingencies are resolved and the fees are fixed and determinable. From time to time, the Company enters into agreements with investors or providers of guarantees to the CDOs. In some of these agreements, the Company enters into contractual arrangements with the investor or guarantee provider whereby the Company is required to make payments upon the occurrence of certain events. In other agreements, the Company will provide credit enhancement to provide additional protection to a certain investor. These agreements vary by transaction. In instances where the Company is required pursuant to a contractual arrangement to make a payment to an investor or guarantee provider, the Company may subordinate receipt of all or a portion of its future Senior fees, Junior fees, if any, and Incentive fees, if any, until the Company's obligation to the investor or guarantee provider has been met. In all cases, the subordinated amounts are limited to the extent of future fees earned on specific CDOs. In addition, the Company has provided credit enhancement in the form of notes payable and escrow deposits for \$17,575,000 to various third parties (see Note 6). At June 30, 2003, the Company has a direct ownership interest in three CDOs, where its ownership of preferred shares is less than 5% of the CDOs' total debt and equity. In addition,

the Company has determined that it does not have the substantive residual risks or substantially all of the residual rewards of the underlying assets and obligations imposed by the underlying debt. Pursuant to the provisions of EITF Issue 90-15, 'Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions,' the underlying assets and liabilities related to these transactions are not consolidated with the Company's financial statements. See Note 2 for a discussion of the recently issued FASB Interpretation No. 46 on Variable Interest Entities. 58 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 10. RELATED PARTIES An entity affiliated through common ownership and a related person own 38%, 4.3%, 3.0%, and 5.6%, respectively, of the equity of four CDOs managed by the Company. The Company owns 15.8%, 32%, and 27.8%, respectively, of the equity of three CDOs managed by the Company. A privately managed investment account managed by the Company owns 33.3% and 38.9%, respectively, of the equity of two CDOs managed by the Company. This managed account is also the Counterparty described in Note 6. The Company has provided two notes to an employee of the Company for \$250,000 each. The interest rate on the notes is equal to the Federal Funds Rate and is calculated monthly. Each year on the employee's anniversary of employment with the Company, 20% of the balance of the note and all accrued interest is forgiven as long as the employee is still employed with the Company. During the first six months of 2003, approximately \$109,000 in principal and interest on the note was forgiven and recorded as compensation expense, and the balance of the notes outstanding as of June 30, 2003, was \$200,000. 59 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Financial Statements Six months ended June 30, 2004 (Unaudited) CONTENTS Consolidated Financial Statements Consolidated Balance Sheet..... 61 Consolidated Statement of Operations..... 62 Consolidated Statement of Members' Equity..... 63 Consolidated Statement of Cash Flows..... 64 Notes to Consolidated Financial Statements..... 65 60 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Balance Sheet June 30, 2004 (Unaudited) ASSETS Cash and cash equivalents \$ 3,021,232 Incentive and management fees receivable 4,829,122 Notes receivable 5,000,000 Investments, at fair value 17,750,018 Fixed assets (net of accumulated depreciation and amortization of \$1,824,933) 993,567 Prepaid expenses 760,082 Other assets 178,918 ----- Total assets \$32,532,939 ----- LIABILITIES AND MEMBERS' EQUITY Accrued expenses \$ 5,814,771 Notes payable 17,603,603 ----- Total liabilities 23,418,374 Members' equity (including accumulated other comprehensive loss of \$1,383,071) 9,114,565 ----- Total liabilities and members' equity \$32,532,939 ----- See accompanying notes. 61 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Statement of Operations Six months ended June 30, 2004 (Unaudited) Revenues: Management fees \$21,644,905 Incentive fees 2,243,207 Interest and dividends 1,531,974 Other income 2,184,168 ----- 27,604,254 Expenses: Compensation and benefits 11,086,879 Travel and promotional 1,070,042 Legal and professional 657,497 Data fees 323,158 Depreciation and amortization 231,094 Office and occupancy 261,299 Interest expense 276,007 Taxes 196,982 Other expenses 685,920 ----- Total expenses 14,788,878 ----- Net income \$12,815,376 ----- See accompanying notes. 62 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Statement of Members' Equity Six months ended June 30, 2004 (Unaudited) MEMBERS' EQUITY CLASS A CLASS B TOTAL ----- Balance, January 1, 2004 \$ 10,396,486 \$ 1,566,772 \$ 11,963,258 Capital distribution (12,541,318) (2,458,682) (15,000,000) Equity-based compensation -- 71,438 71,438 Change in unrealized appreciation on investments available for sale (614,947) (120,560) (735,507) Net income 10,714,780 2,100,596 12,815,376 ----- Balance, June 30, 2004 \$ 7,955,001 \$ 1,159,564 \$ 9,114,565 ----- See accompanying notes. 63 Deerfield & Company LLC (An Illinois Limited Liability Company) Consolidated Statement of Cash Flows Six months ended June 30, 2004 (Unaudited) CASH FLOWS FROM OPERATING ACTIVITIES Net income \$ 12,815,376 Adjustments to reconcile net income to net cash provided by operating activities: Net accretion of interest income (152,958) Depreciation and amortization 231,094 Noncash compensation 271,438 Decrease in incentive and management fees receivable 4,031,013 Decrease in other assets and prepaid expenses 11,339 Decrease in accrued expenses (2,599,735) ----- Net cash provided by operating activities 14,607,567 CASH FLOWS FROM INVESTING ACTIVITIES Purchases of investments (3,298,887) Purchases of fixed assets (183,737) ----- Net cash used in investing activities (3,482,624) CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from issuance of notes payable 3,266,000 Repayment of notes payable (2,708,064) Distributions to members (15,000,000) ----- Net cash used in financing activities (14,442,064) ----- Net decrease in cash and cash equivalents

(3,317,121) Cash and cash equivalents, beginning of period 6,338,353 ----- Cash and cash equivalents, end of period \$ 3,021,232 ----- SUPPLEMENTAL INFORMATION Cash paid for interest \$ 122,114 ----- See accompanying notes. 64 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements 1. ORGANIZATION AND NATURE OF BUSINESS Deerfield & Company LLC (the Company), an Illinois limited liability company, was organized on February 24, 1997, and commenced operations on March 1, 1997. The Company has two classes of membership interests, Class A and Class B, with rights as described in the third amended and restated operating agreement of Deerfield & Company LLC (the Operating Agreement). Class A is owned by Sachs Capital Management LLC (SCM), SLA Investments, Inc. (SLA), and Deerfield Partners Fund III and has 100% of the voting rights in the Company. As of June 30, 2004, there are three owners of Class B membership interests, which have no voting privileges. Two of the three Class B members have profits only interests. The Company is the parent of two wholly owned subsidiaries: Deerfield Capital Management LLC, (DCM) and Badger Protection Services, Ltd. (Badger). DCM serves as the trading advisor for five fixed income investment funds and three private investment accounts (hereafter referred to collectively as the Funds). Badger is a company which provides credit enhancement to investors in one of the Funds managed by the Company. Additionally, DCM is a collateral manager for 16 collateralized debt obligations (CDO), collateralized loan obligations (CLO), and collateralized bond obligations (CBO) (hereafter referred to collectively as the CDOs). DCM earns management and incentive fees for the services provided to the Funds and the CDOs. As of June 30, 2004, the Company had approximately \$8.1 billion in assets under management. The Company signed a definitive agreement (Sale Agreement) on June 26, 2004, to sell 63.6% of the Company. The closing is expected to occur on or about July 22, 2004. In connection with the proposed transaction, 61.33% of the SCM Class A interest, the SLA Class A interest, the Class B capital (ownership) interest and 43% of the Class B profits only interests will be sold to a third party (Buyer). After the closing, the Company will become a subsidiary of the Buyer and its financial statements will be consolidated with the Buyer's financial statements. 65 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES USE OF ESTIMATES The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States. 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Unrealized gains and losses on securities available-for-sale are recorded as a separate component of members' equity. Interest income is accreted and investments are assessed for impairment in accordance with EITF Issue 99-20, 'Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets' (EITF 99-20). REVENUE RECOGNITION Management fees are received from the Funds and CDOs managed by the Company. These fees are paid periodically in accordance with the individual management agreements between the Company and the individual Funds and CDOs and are based upon the net asset values of the Funds and aggregate collateral amount of the CDOs as defined in the individual management agreements. Management fees are recognized as revenue when earned. In accordance with Emerging Issues Task Force Topic (EITF) D-96, 'Accounting for Management Fees Based on a

Formula,' the Company does not recognize these fees as revenue until all contingencies have been removed. Incentive fees are received from the Funds and certain of the CDOs managed by the Company. These fees are paid periodically in accordance with the individual management agreements between the Company and the individual Funds and CDOs and are based upon the performance of the funds and CDOs. Incentive fees are recognized as revenues when the amounts are fixed and determinable. 67 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) Incentive income and other expenses include amounts earned or incurred under arrangements with certain investors or guarantors in the CDOs the Company manages. Income and expense is recorded when earned or incurred and is recorded gross, except under circumstances where the income and expense are contractually required to be settled with a net payment to or from the counterparty. Dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis and includes accretion of interest on certain investments in accordance with EITF 99-20. Other income primarily includes structuring and warehousing fees earned by the Company for services provided to CDOs or placement agents for the CDOs. These fees are recorded when earned. INCOME TAXES Income taxes are not provided for as the taxable income (loss) of the Company is includable in the returns of the Class A and Class B members. The Company records Illinois State replacement tax expense, as applicable, in the consolidated statement of operations. Pursuant to Treasury Regulation Section 301.7701, the subsidiaries of the Company have elected to be disregarded as separate entities for U.S. tax purposes and are, therefore, treated as branches of the Company. NEW ACCOUNTING PRONOUNCEMENTS In November 2002, the FASB issued Interpretation No. 45 (FIN 45), 'Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,' which expands the disclosure requirements to be made by a guarantor in its financial statements regarding its obligations under certain guarantees that it has issued. FIN 45 also requires, under certain circumstances, the recognition, at the inception of a guarantee, of a liability for the fair value of the obligation as a result of issuing the guarantee. 68 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) The adoption of FIN 45 has not had a material effect on the Company's financial statements. In December 2003, the FASB revised Interpretation No. 46, 'Consolidation of Variable Interest Entities,' which provides new criteria for determining whether or not consolidation accounting is required by a variable interest holder in certain entities. The Interpretation may require the Company to consolidate financial information for certain of the Funds and CDOs it manages. The Interpretation may require the Company to consolidate certain Funds' or CDOs' assets and liabilities, and results of operations, with a minority interest recorded for the ownership share applicable to other investors. The effect of such consolidation would not change the net income or loss of the Company. Where consolidation is not required, additional disclosures may be required. FIN 46 is effective immediately for variable interest entities created after December 31, 2003, and as of the end of the first fiscal year beginning after December 31, 2004, to variable interest entities acquired before December 31, 2003 (December 31, 2005, for the Company). The Company has evaluated the impact of FIN 46 and does not believe that it will have a material impact on the financial statements. 3. INVESTMENTS The Company's investments at June 30, 2004, were comprised of an investment in a limited partnership and investments in the preferred shares of 4 CDOs for which it provides management services. The following is a summary of the Company's investments at June 30, 2004: VALUE ----- Available for sale: Investment in CDO preferred shares (amortized cost \$19,086,799) \$17,703,728 Equity method: Investment in limited partnership 46,290 ----- \$17,750,018 ----- 69 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 4. FIXED ASSETS The Company's fixed assets at June 30, 2004, are summarized as follows: Computer equipment and software \$1,390,817 Leasehold improvements 687,771 Office furniture and fixtures 739,912 ----- 2,818,500 Less: Accumulated depreciation and amortization (1,824,933) ----- \$ 993,567 ----- 5. LEASE COMMITMENTS The Company has a sublease agreement (the agreement) to lease office facilities through May 30, 2007. In conjunction with the agreement, a standby letter of credit has been issued by a financial institution to the sublessor in the amount of \$600,000. The Company pledged a \$600,000 cash balance as collateral against the standby letter of credit. Under the agreement, beginning January 1, 1999, the standby letter of credit and related collateral can be reduced by \$50,000 per year until the standby letter of credit reaches \$400,000. At June 30, 2004, the pledged collateral was approximately \$400,000 and was included in cash and cash equivalents on the consolidated balance sheet. The balance of the letter of credit facility is \$400,000 as of June 30, 2004. Management does not believe the standby letter of credit will be

utilized. Rent expense for the first six months of 2004 was approximately \$242,000. Future base lease commitments on the Company's operating leases are as follows: 2005 \$ 472,730 2006 482,477 2007 205,093 ----- \$1,160,300 ----- 70 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 6. NOTES RECEIVABLE AND NOTES PAYABLE The Company manages a private synthetic CLO for an investment banking firm (the Investor). A guarantor (the Guarantor), unrelated to the Company and the Investor, has provided a guarantee against losses in the CLO to the Investor (the guarantee agreement) for up to the first \$50 million of the Investor's principal losses. As a premium for the guarantee, the Guarantor receives all of the residual cash flows from the CLO. The Guarantor does not have any direct investment in the CLO and will only make payments in the event of a principal loss, as defined in the CLO's guarantee agreement with the Guarantor. As a condition of entering into a collateral management agreement with the CLO, the Company has entered into agreements with the Guarantor and another counterparty (the Counterparty) to share in the guarantee agreement with the Guarantor up to 10% of the total guaranteed amount (e.g., maximum loss guarantee of \$5 million). The Company's share of the first \$50 million of losses in the CLO will be on a pro rata basis, up to \$5 million. Under the agreement with the Guarantor, the Company has deposited \$5,000,000 in escrow (the escrow account) for the benefit of the Guarantor evidenced by a note receivable from the Guarantor with a principal amount of \$5,000,000, recorded as a note receivable on the consolidated balance sheet. Interest on the note receivable is equal to 10% of the Guarantor's guarantee fee premium and 100% of the amounts earned on the amount in escrow. In the event of any payment by the Guarantor under the guarantee agreement, the Company's share will be taken from the escrow account and the note receivable will be forgiven by the Company in the amount of 10% of the guarantee payments made by the Guarantor. To offset its exposure under the guarantee, the Company entered into a separate agreement with a third-party counterparty (the Counterparty), under which the Counterparty agreed to make payments to the Company in the event the Company has to fund the Guarantor under the agreement described above. Under the agreement with the Counterparty, the Company received \$5,000,000, which was utilized to fund the escrow account and issued a note payable to the Counterparty in the amount of \$5,000,000. Interest on the note payable is equal to the interest on the note receivable from the Guarantor, except that only 50% of any amounts in excess of LIBOR plus 4% are payable to the Counterparty. In the event of any forgiveness of the note receivable from the Guarantor, as described above, an equal amount of the Company's note payable to the Counterparty will be forgiven by the Counterparty. The Company has pledged its future senior 71 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 6. NOTES RECEIVABLE AND NOTES PAYABLE (CONTINUED) management fees from two other CDOs it manages as collateral for payment of any amounts owed to the Counterparty. Separate from the above transaction, during 2002, the Company financed its purchase of 6,250,000 preferred shares of one of the CDOs for which it provides management services by issuing a nonrecourse note to an investment banking firm for \$6,250,000, which bears interest at LIBOR, and has no stated maturity. Concurrent with the Company's sale of 1,500,000 of these preferred shares soon after their purchase in 2002, the Company repaid \$1,500,000 of principal plus accrued interest on the note. The remaining 4,750,000 preferred shares are pledged as collateral against the note, and all management fees earned and received by the Company for managing the underlying assets of the CDO and any distributions received on the preferred shares will be remitted to the note holder until all principal and interest on the note are paid in full. During the first six months of 2004, the Company recorded interest on the note of \$6,025 and repaid \$1,232,486 of principal. At June 30, 2004, the balance of the note was \$138,684. During 2003, the Company financed its purchase of preferred shares of one of the CDOs for which it provides management services by issuing a nonrecourse note to an investment banking firm for \$8,000,000 (including \$888,800 of prepaid fees), which bears interest at LIBOR plus 100 basis points and has no stated maturity. The preferred shares are pledged as collateral against the note, and 62.5% of all management fees earned and received by the Company for managing the underlying assets of the CDO and of any distributions received on the preferred shares will be remitted to the note holder until all principal and interest on the note are paid in full. During the first six months of 2004, the Company recorded interest on the note of \$76,160 and repaid \$849,535 of principal. At June 30, 2004, the balance of the note was \$6,774,773. Also during 2003, the Company financed its purchase of preferred shares of one of the CDOs for which it provides management services by issuing a nonrecourse note to an investment banking firm for \$4,575,000 (including \$300,000 of prepaid fees), which bears interest at LIBOR, plus 100 basis points and has no stated maturity. The preferred shares are pledged as collateral against the note, and 65% of all management fees earned and received by the Company for managing the underlying assets of the CDO and all

distributions received on the preferred shares will be remitted to the note holder until all principal and interest on the 72 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 6. NOTES RECEIVABLE AND NOTES PAYABLE (CONTINUED) note are paid in full. During the first six months of 2004, the Company recorded interest on the note of \$30,306 and repaid \$626,043 of principal. At June 30, 2004, the balance of the note was \$2,424,146. During 2004, the Company financed its purchase of preferred shares of one of the CDOs for which provides management services by issuing a nonrecourse note to an investment banking firm for \$3,266,000, which bears interest at LIBOR, plus 75 basis points and has no stated maturity. The preferred shares are pledged as collateral against the note, and 70% of all management fees earned and received by the Company for managing the underlying assets of the CDO and all distributions received on the preferred shares will be remitted to the note holder until all principal and interest on the note are paid in full. During the first six months of 2004, the Company recorded interest on the note of \$20,318 and repaid \$0 of principal. At June 30, 2004, the balance of the note was \$3,266,000. 7. MEMBERS' EQUITY Effective January 1, 2002, Class B nonvoting Profits Only Interests representing an 11% membership interest in the Company were granted to two employees. An additional 5% was granted to one of the employees on May 1, 2003. The employees' earnings payout value, as defined in the Operating Agreement, cliff vests on their 20th anniversary of employment with the Company. These grants are accounted for under the variable plan accounting rules of APB 25 and FIN 44, and amortized compensation expense is recorded for changes in the employees' earnings payout value over 20 years. During the first six months of 2004, approximately \$71,000 was recorded as noncash compensation expense in the members' equity accounts related to the vesting of the earnings payout value. Approximately 43% of the Class B nonvoting Profits Only Interests will be sold to a third party as part of the Sale Agreement (see Note 1). The vesting period on the sold portion of the Class B nonvoting Profits Only Interests will be accelerated upon sale. 73 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 8. EMPLOYEE BENEFIT PLANS The Company has a voluntary contribution 401(k) plan (the Plan). Under the Plan, employees are eligible to contribute a percentage of their salary into the Plan after completing an initial employment period. The Company has the option to match a percentage of the employee contributions for the year. All Plan contributions are paid into the Deerfield & Company LLC 401(k) Savings Trust (the Trust). The Trust is allowed to invest the contributions in a variety of instruments defined in the Plan agreement. The Company sponsors a Key Employee Equity Participation Plan (KEEP Plan), which is a 'phantom' equity appreciation plan. Under the KEEP Plan, participants are awarded stock appreciation rights (SAR) by the Company. Upon redemption, the KEEP Plan provides participants with the positive difference, if any, between the value of a SAR and its strike price. The value of a SAR is defined in the KEEP Plan as the average of the three most recent years' annual net earnings multiplied by five and divided by the number of SARs authorized. The stock appreciation rights do not represent an equity interest in the Company. The Company retains the sole discretion to determine the employees who will receive awards under the KEEP Plan. The awards vest one fourth each year, on the first, second, third, and fourth anniversaries of the award date, and are not exercisable until the fifth anniversary of the award date. As of June 30, 2004, there were 241,500 SARs outstanding with a value of \$2.22 per award. Strike prices for the SARs were either \$4.00 or \$4.21 per award, depending on the date of the award. No SARs were granted during 2004. Participants were either 50% or 75% vested in the KEEP Plan awards depending on the date of the award. The SARs are accounted for under the variable accounting rules of APB 25 and FIN 44, and the total compensation expense recognized related to the KEEP Plan during 2004 was \$0. Effective July 7, 2004, the KEEP Plan was terminated, resulting in a total payout of \$118,000 which was recorded as compensation expense. 9. CONTINGENT FEE ARRANGEMENTS The Company acts as collateral manager for various CDOs capitalized by third-party investors. Typically, the transactions are sponsored and underwritten by third-party investment banks, who may warehouse the collateral and place the debt and equity of the CDOs with the ultimate investors. The underlying 74 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 9. CONTINGENT FEE ARRANGEMENTS (CONTINUED) collateral of the CDOs, which is typically purchased in the open market, consists of corporate debt, structured notes, commercial loans, synthetic instruments, and the notional amount of credit default instruments, and is owned by separate special purpose entities for each CDO, which issue various classes of notes and beneficial interests to third-party investors, including the Company or related entities in certain instances. The Company manages the underlying collateral on behalf of the investors under the terms of collateral management agreements. As of June 30, 2004, the Company managed 16 CDOs. The total par/notional value of the underlying collateral under management was approximately \$7.2 billion at June 30, 2004.



The total debt outstanding of the CDOs was approximately \$4.9 billion. TYPE OF CDO/ NUMBER OF CDOs PAR VALUE OF COLLATERAL MANAGED COLLATERAL -----

Bank loans 6 \$2,163,000,000 Credit default swaps 2 1,995,000,000 Corporate bonds 3 1,421,000,000 Asset-backed securities 5 1,574,000,000 ----- 16 \$7,153,000,000 -----

----- The CDOs have various terms/maturities, ranging from 5 to 35 years. Pursuant to the underlying collateral management agreements, the Company is compensated for managing the underlying collateral of the CDOs. The Company earns various fees for its services, as follows: (1) base collateral investment management fees (Senior), which are paid before interest to the debt holders in the transaction, and range from five to 31.5 basis points annually, (2) base collateral investment management fees (Junior), which are subordinate to a certain return to the debt and/or equity holders in the CDO, and range from 7 to 55 basis points annually, and in certain instances, (3) incentive fees (Incentive) that are paid after certain investors' returns exceed a hurdle internal rate of return (IRR). The Incentive fees range from 25 to 38 basis points or 10-20% of residual cash flows above the hurdle IRR and vary by transaction. In accordance with the Company's accounting policies, management fees are accrued as earned. Incentive fees, which are contingent upon achieving certain performance 75 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 9. CONTINGENT FEE

ARRANGEMENTS (CONTINUED) objectives, are recognized as income once the contingencies are resolved and the fees are fixed and determinable. From time to time, the Company enters into agreements with investors or providers of guarantees to the CDOs. In some of these agreements, the Company enters into contractual arrangements with the investor or guarantee provider whereby the Company is required to make payments upon the occurrence of certain events. In other agreements, the Company will provide credit enhancement to provide additional protection to a certain investor. These agreements vary by transaction. In instances where the Company is required pursuant to a contractual arrangement to make a payment to an investor or guarantee provider, the Company may subordinate receipt of all or a portion of its future Senior fees, Junior fees, if any, and Incentive fees, if any, until the Company's obligation to the investor or guarantee provider has been met. In all cases, the subordinated amounts are limited to the extent of future fees earned on specific CDOs. In addition, the Company has provided credit enhancement in the form of notes payable, escrow deposits, and/or deferred fees for \$16,573,000 to various third parties (see Note 6). At June 30, 2004, the Company has a direct ownership interest in four CDOs, where its ownership of preferred shares is less than 5% of the CDOs' total debt and equity. In addition, the Company has determined that it does not have the substantive residual risks or substantially all of the residual rewards of the underlying assets and obligations imposed by the underlying debt. Pursuant to the provisions of EITF Issue 90-15, 'Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions,' the underlying assets and liabilities related to these transactions are not consolidated with the Company's financial statements. See Note 2 for a discussion of the recently issued FASB Interpretation No. 46 on Variable Interest Entities. 10. RELATED PARTIES An entity affiliated through common ownership and a related person own 38%, 4.3%, 3.0%, and 5.6%, respectively, of the equity of four CDOs managed by the Company. 76 Deerfield & Company LLC (An Illinois Limited Liability Company) Notes to Consolidated Financial Statements (continued) 10. RELATED PARTIES (CONTINUED) The Company owns 15.8%, 32%, 27.8%, and 24.9%, respectively, of the equity of four CDOs managed by the Company. A privately managed investment account managed by the Company owns 33.3% and 38.9%, respectively, of the equity of two CDOs managed by the Company. This managed account is also the Counterparty described in Note 6. The Company has provided two notes to an employee of the Company for \$250,000 each. The interest rate on the notes is equal to the Federal Funds Rate and is calculated monthly. Each year on the employee's anniversary of employment with the Company, 20% of the balance of the note and all accrued interest is forgiven as long as the employee is still employed with the Company. During 2004, approximately \$201,000 in principal and interest on the note was forgiven and recorded as compensation expense, and the balance of the notes outstanding as of June 30, 2004, was \$0. 77 (b) PRO FORMA FINANCIAL INFORMATION UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma condensed consolidated balance sheet of Triarc Companies, Inc. ('Triarc' and, together with its subsidiaries, the 'Company') as of June 27, 2004 and unaudited pro forma condensed consolidated statements of operations of the Company for the year ended December 28, 2003 and for the six months ended June 27, 2004 have been prepared by adjusting those financial statements, as derived and condensed, as applicable, from (i) the consolidated financial statements of the Company in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2003 (the 'Form 10-K') audited by Deloitte & Touche

LLP and (ii) the unaudited condensed consolidated financial statements in Triarc's Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2004 (the 'Form 10-Q'), to reflect the acquisition (the 'Deerfield Acquisition') of a 63.6% interest in Deerfield on July 22, 2004 as previously reported in the Original Form 8-K. The consolidated balance sheet of Deerfield as of June 30, 2004 and the consolidated statements of operations of Deerfield for the year ended December 31, 2003 and for the six months ended June 30, 2004 included in the unaudited pro forma condensed consolidated financial statements have been derived and condensed, as applicable, from (i) the consolidated financial statements of Deerfield for the year ended December 31, 2003 audited by Ernst & Young LLP and (ii) the unaudited consolidated financial statements of Deerfield for the six months ended June 30, 2004, both included elsewhere herein. The pro forma adjustments reflecting the allocation of the purchase price of Deerfield on the pro forma condensed consolidated balance sheet and the effect thereof on pro forma adjustments to the pro forma condensed consolidated statements of operations are based on preliminary estimates and are subject to finalization. The pro forma condensed consolidated financial statements have been prepared as if the Deerfield Acquisition had occurred as of June 27, 2004 for the pro forma condensed consolidated balance sheet and as of December 30, 2002 for the pro forma condensed consolidated statements of operations. The pro forma adjustments are described in the accompanying notes to the pro forma condensed consolidated balance sheet and statements of operations, which should be read in conjunction with such statements. The unaudited pro forma condensed consolidated financial statements should also be read in conjunction with (i) the Company's audited consolidated financial statements and management's discussion and analysis of financial condition and results of operations contained in the Form 10-K, (ii) the Company's unaudited condensed consolidated financial statements and management's discussion and analysis of financial condition and results of operations contained in the Form 10-Q and (iii) the audited consolidated and unaudited consolidated financial statements of Deerfield for the year ended December 31, 2003 and the six months ended June 30, 2004, respectively, both included elsewhere herein. The unaudited pro forma condensed consolidated financial statements do not purport to be indicative of the actual financial position or results of operations of the Company had the Deerfield Acquisition actually been consummated on June 27, 2004 and December 30, 2002, respectively, or of the future financial position or results of operations of the Company.

78 TRIARC COMPANIES, INC. AND SUBSIDIARIES  
 UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET JUNE 27, 2004  
 RECLASSIFICATIONS AND AS ADJUSTMENTS FOR REPORTED DEERFIELD THE ACQUISITION PRO  
 FORMA ----- (IN THOUSANDS) ASSETS

Current assets: Cash and cash equivalents.....	\$ 493,993	\$ 3,021	\$ (94,782)(a)	\$ 402,232
Short-term investments.....	205,148	17,750	-- 222,898	Receivables..... 22,391 9,829
179 (1) 37,430 5,031 (b) Inventories.....	2,484	-- --	2,484	Deferred income tax benefit..... 11,751 -- -- 11,751
Prepaid expenses, restricted cash and other current assets.....	6,934	939 (179)(1)	6,964 (331)(b)	(399)(b) -----
Total current assets.....	742,701	31,539 (90,481)	683,759	Investment in Deerfield..... -- -- 94,782 (a) -- (94,782)(b)
Restricted cash equivalents.....	32,462	-- --	32,462	Investments..... 39,160 -- -- 39,160
Properties.....	102,273	994 (99)(1)	103,168	Goodwill..... 64,153 -- 57,153 (b) 121,306
Investment management contracts.....	-- --	27,199 (b) 27,199	Other intangible assets..... 7,838 -- 99 (1) 9,240 890 (b) 413 (b)	Deferred costs and other assets..... 20,937 -- 590 (b) 21,527 -----
	\$1,009,524	\$32,533	\$ (4,236)	\$1,037,821 -----
	----- LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities: Notes payable.....	\$ --	\$17,604	\$ (211)(b)	\$ 17,393
Current portion of long-term debt.....	36,296	-- --	36,296	Accounts payable..... 13,843 -- -- 13,843
Accrued expenses and other current liabilities.....	78,650	5,815 1,772 (b) 86,237	Current liabilities relating to discontinued operations..... 23,707 -- -- 23,707 -----	Total current liabilities..... 152,496 23,419 1,561 177,476
Long-term debt.....	465,278	-- --	465,278	Deferred compensation payable to related parties..... 30,694 -- -- 30,694
Deferred income taxes.....	45,048	-- --	45,048	Other liabilities, deferred income and minority interests in consolidated subsidiaries..... 31,305 -- 3,317 (b) 34,622
Stockholders' equity: Class A common stock.....	2,955	-- --	2,955	Class B common stock..... 5,910 -- -- 5,910
Additional paid-in capital.....	131,754	-- --	131,754	Retained earnings..... 328,314

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-- 328,314 Common stock held in treasury..... (227,463) -- (227,463) Deferred compensation payable in common stock..... 43,553 -- 43,553 Accumulated other comprehensive deficit..... (320) -- (320) Deerfield members' equity..... -- 9,114 (9,114)(b) -- ----- Total stockholders' equity..... 284,703 9,114 (9,114) 284,703 ----- \$1,009,524 \$32,533 \$ (4,236) \$1,037,821 ----- 79 NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET RECLASSIFICATIONS (1) To reclassify certain amounts derived from Deerfield's unclassified consolidated balance sheet as of June 30, 2004 to be consistent with the Company's classified condensed consolidated balance sheet presentation. PRO FORMA ADJUSTMENTS (a) To reflect the Company's investment in Deerfield of \$94,782,000 consisting of the purchase price of \$86,532,000 and estimated expenses of \$8,250,000, including expenses reimbursed to a seller. (b) To record the allocation of the purchase price of Deerfield, on a preliminary basis subject to finalization, as follows (in thousands): DEBIT (CREDIT) ----- Eliminate deferred financing costs included in 'Prepaid expenses, restricted cash and other current assets'..... \$ (331) Record the Company's 63.6% interest in adjustment of Deerfield's notes payable to fair value..... 211 Record the fair value of the Company's 63.6% interest in estimated contingent and incentive fees receivable under certain of Deerfield's investment management contracts in accordance with a preliminary independent appraisal, the amounts of which have not yet been recognized by Deerfield under Deerfield's revenue recognition accounting policy which is in accordance with accounting principles generally accepted in the United States of America and of which \$5,031 is expected to be collected within one year and \$590 is expected to be collected after one year..... 5,621 Eliminate deferred acquisition costs included in 'Prepaid expenses, restricted cash and other current assets'..... (399) Record the fair value of the Company's 63.6% interest in Deerfield's investment management contracts in accordance with a preliminary independent appraisal, consisting of \$14,946 for contracts to serve as the trading advisor for various fixed income and investment funds and private investment accounts (the 'Fund Contracts') and \$12,253 for contracts to manage the collateral for various collateralized debt, loan and bond obligations (the 'CDO contracts')..... 27,199 Record the fair value of the Company's 63.6% interest in Deerfield's investment management computer software systems in accordance with a preliminary independent appraisal..... 890 Record the fair value of the Company's 63.6% interest in Deerfield's non-compete agreements in accordance with a preliminary independent appraisal..... 413 Record accrued employee incentive compensation associated with the Company's interest in estimated contingent and incentive fees receivable referred to above, in accordance with an agreement..... (1,772) Record the 36.4% of minority interests in the reported Deerfield members' equity..... (3,317) Eliminate the Company's investment in Deerfield..... (94,782) Eliminate the reported Deerfield members' equity..... 9,114 Record the excess of the Company's investment in Deerfield over the Company's interest in the adjusted net assets of Deerfield as 'Goodwill'..... 57,153 ----- \$ -- ----- 80 TRIARC COMPANIES, INC. AND SUBSIDIARIES UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 28, 2003 RECLASSIFICATIONS AND AS ADJUSTMENTS FOR REPORTED DEERFIELD THE ACQUISITION PRO FORMA ----- (IN THOUSANDS EXCEPT PER SHARE AMOUNTS) Revenues: Net sales..... \$201,484 \$ -- \$ -- \$201,484 Royalties and franchise and related fees..... 92,136 -- 92,136 Investment management and related fees..... -- 34,938 343 (1) 35,281 ----- 293,620 34,938 343 328,901 ----- Costs and expenses: Cost of sales, excluding depreciation and amortization..... 151,612 -- 151,612 Cost of services, excluding depreciation and amortization..... -- 1,627 (1) 2,157 530 (a) Advertising and selling..... 16,115 -- 16,115 General and administrative..... 91,043 23,126 1,176 (1) 116,032 (1,627)(1) 2,314 (a) Depreciation and amortization, excluding amortization of deferred financing costs..... 14,051 721 (25)(b) 17,794 2,685 (c) 297 (d) 65 (e) Goodwill impairment..... 22,000 -- 22,000 ----- 294,821 23,847 7,042 325,710 ----- Operating profit (loss)..... (1,201) 11,091 (6,699) 3,191 Interest expense..... (37,225) (503) 271 (f) (37,629) (172)(g) Insurance expense related to long-term debt..... (4,177) -- (4,177) Investment income, net..... 17,251 1,599 (1,327)(h) 17,523 Gain related to proposed business acquisition not consummated..... 2,064 -- 2,064 Gain on sale of business..... 5,834 -- 5,834 Other income (expense), net..... 2,881 351 (343)(1) 2,889 (1,176) 1,176 (1) ----- Income (loss) from continuing operations before income taxes and minority interests..... (14,573) 11,362

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(7,094) (10,305) (Provision for) benefit from income taxes.....	1,371 (249) (2,544)	(i) 759 2,181 (j) Minority interests in (earnings) loss of consolidated subsidiaries.....	119 -- (4,045)(k) (2,891) 1,035 (1)
-----	-----	Income (loss) from continuing operations.....	\$(13,083) \$11,113 \$(10,467) \$(12,437)
-----	-----	Basic and diluted loss from continuing operations per share of class A common stock and class B common stock.....	\$.22) \$.21) -----

81 TRIARC COMPANIES, INC. AND SUBSIDIARIES UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS SIX MONTHS ENDED JUNE 27, 2004 RECLASSIFICATIONS AND AS ADJUSTMENTS FOR REPORTED DEERFIELD THE ACQUISITION PRO FORMA ----- (IN THOUSANDS EXCEPT PER SHARE AMOUNTS) Revenues: Net sales..... \$ 99,385 \$ -- \$ -- \$ 99,385 Royalties and franchise and related fees..... 47,271 -- -- 47,271 Investment management and related fees..... -- 23,888 2,115 (1) 26,003 ----- 146,656 23,888 2,115 172,659 ----- Costs and expenses: Cost of sales, excluding depreciation and amortization..... 78,989 -- -- 78,989 Cost of services, excluding depreciation and amortization..... -- -- 950 (1) 1,215 265 (a) Advertising and selling..... 8,796 -- -- 8,796 General and administrative..... 48,782 13,399 686 (1) 63,652 (950)(1) 1,735 (a) Depreciation and amortization, excluding amortization of deferred financing costs..... 6,815 231 (20)(b) 8,615 1,409 (c) 148 (d) 32 (e) ----- 143,382 13,630 4,255 161,267 ----- Operating profit..... 3,274 10,258 (2,140) 11,392 Interest expense..... (18,638) (276) 143 (f) (18,862) (91)(g) Insurance expense related to long-term debt..... (1,949) -- -- (1,949) Investment income, net..... 11,169 1,532 (1,232)(h) 11,469 Costs related to proposed business acquisition not consummated..... (767) -- -- (767) Other income (expense), net..... 1,528 2,184 (2,115)(1) 1,597 (686) 686 (1) ----- Income (loss) before income taxes and minority interests..... (5,383) 13,012 (4,749) 2,880 (Provision for) benefit from income taxes..... 941 (197) (2,934)(i) (742) 1,448 (j) Minority interests in (earnings) loss of consolidated subsidiaries..... 10 -- (4,665)(k) (3,927) 728 (1) ----- Net income (loss)..... \$ (4,432) \$12,815 \$(10,172) \$ (1,789) -----

----- Basic and diluted net loss per share of class A common stock and class B common stock..... \$ (.07) \$ (.03) -----

82 NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS RECLASSIFICATIONS (1) To reclassify certain amounts derived from Deerfield's consolidated statements of operations for the year ended December 31, 2003 and the six months ended June 30, 2004 to be consistent with the Company's condensed consolidated statement of operations presentation. PRO FORMA ADJUSTMENTS (a) To record the increase in salaries and bonuses associated with certain Deerfield employment contracts, the entrance into which is directly attributable to the Deerfield Acquisition. (b) To reverse Deerfield's reported amortization of deferred acquisition costs. (c) To record the amortization of investment management contracts recorded in the Deerfield Acquisition over the estimated remaining life of 15 years for the Fund Contracts and over the remaining respective lives ranging from less than one year to over 27 years for the CDO Contracts. (d) To record the amortization of investment management computer software systems recorded in the Deerfield Acquisition over their estimated remaining useful life of 3 years. (e) To record the amortization of non-compete agreements recorded in the Deerfield Acquisition over their respective useful lives ranging from 2 1/2 to 8 years. (f) To reverse Deerfield's reported amortization of deferred financing costs. (g) To record the amortization of the fair value adjustment to notes payable recorded in the Deerfield Acquisition over the expected remaining duration of the related notes. (h) To reverse interest income on the \$94,782,000 of cash and cash equivalents used by the Company in the Acquisition, consisting of purchase price and estimated expenses, computed using the Company's average rates on its interest-bearing investments of 1.4% and 2.6% per annum for the year ended December 28, 2003 and the six months ended June 27, 2004, respectively. (i) To reflect Triarc's income tax provision on Deerfield's reported net income, net of minority interests reflected in entry (k) below, at Triarc's incremental income tax rate of 36%. (j) To reflect the income tax provision on the net effect of the above adjustments, net of the effect of minority interests reflected in entry (l) below, at Triarc's incremental income tax rate of 36%. (k) To reflect the 36.4% of minority interests in Deerfield's reported net income. (l) To reflect the 36.4% of minority interests effect of entry (a) above. 83 (c) EXHIBITS EXHIBIT NO. DESCRIPTION ----- 10.6 Employment Agreement, dated as of June 26, 2004, by and among Deerfield & Company LLC, Deerfield Capital Management LLC and Gregory H. Sachs,

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previously filed as exhibit 10.6 to Triarc's Current Report on Form 8-K filed on July 22, 2004 (SEC file no. 1-2207). 10.7 Supplement, dated as of July 14, 2004, to the Employment Agreement, dated as of June 26, 2004, by and among Deerfield & Company LLC, Deerfield Capital Management LLC and Gregory H. Sachs, previously filed as exhibit 10.7 to Triarc's Current Report on Form 8-K filed on July 22, 2004 (SEC file no. 1-2207). 10.8 First Amendment to Purchase Agreement, dated as of July 22, 2004, by and among Triarc Companies, Inc., Sachs Capital Management LLC, Deerfield Partners Fund II LLC, Scott A. Roberts, Marvin Shrear and Gregory H. Sachs, previously filed as exhibit 10.8 to Triarc's Current Report on Form 8-K filed on July 22, 2004 (SEC file no. 1-2207). 10.9 First Supplement to Fourth Amended and Restated Operating Agreement of Deerfield & Company LLC, dated as of July 22, 2004, previously filed as exhibit 10.9 to Triarc's Current Report on Form 8-K filed on July 22, 2004 (SEC file no. 1-2207). 10.10 Second Supplement to Fourth Amended and Restated Operating Agreement of Deerfield & Company LLC, dated as of August 16, 2004. 10.11 Third Supplement to Fourth Amended and Restated Operating Agreement of Deerfield & Company LLC, dated as of August 20, 2004. 23.1 Consent of Independent Registered Public Accounting Firm. 99.1 Press release dated July 22, 2004, previously filed as exhibit 99.1 to Triarc's Current Report on Form 8-K filed on July 22, 2004 (SEC file no. 1-2207). 84 SIGNATURE Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized. TRIARC COMPANIES, INC. (Registrant) Date: October 5, 2004 By: /s/ Francis T. McCarron  
----- Francis T. McCarron Senior Vice President and Chief Financial Officer 85 EXHIBIT INDEX  
EXHIBIT NO. DESCRIPTION -----  
10.6 Employment Agreement, dated as of June 26, 2004, by and among Deerfield & Company LLC, Deerfield Capital Management LLC and Gregory H. Sachs, previously filed as exhibit 10.6 to Triarc's Current Report on Form 8-K filed on July 22, 2004 (SEC file no. 1-2207). 10.7 Supplement, dated as of July 14, 2004, to the Employment Agreement, dated as of June 26, 2004, by and among Deerfield & Company LLC, Deerfield Capital Management LLC and Gregory H. Sachs, previously filed as exhibit 10.7 to Triarc's Current Report on Form 8-K filed on July 22, 2004 (SEC file no. 1-2207). 10.8 First Amendment to Purchase Agreement, dated as of July 22, 2004, by and among Triarc Companies, Inc., Sachs Capital Management LLC, Deerfield Partners Fund II LLC, Scott A. Roberts, Marvin Shrear and Gregory H. Sachs, previously filed as exhibit 10.8 to Triarc's Current Report on Form 8-K filed on July 22, 2004 (SEC file no. 1-2207). 10.9 First Supplement to Fourth Amended and Restated Operating Agreement of Deerfield & Company LLC, dated as of July 22, 2004, previously filed as exhibit 10.9 to Triarc's Current Report on Form 8-K filed on July 22, 2004 (SEC file no. 1-2207). 10.10 Second Supplement to Fourth Amended and Restated Operating Agreement of Deerfield & Company LLC, dated as of August 16, 2004. 10.11 Third Supplement to Fourth Amended and Restated Operating Agreement of Deerfield & Company LLC, dated as of August 20, 2004. 23.1 Consent of Independent Registered Public Accounting Firm. 99.1 Press release dated July 22, 2004, previously filed as exhibit 99.1 to Triarc's Current Report on Form 8-K filed on July 22, 2004 (SEC file no. 1-2207). 86