Prepare a memo addressing the following questions:

1. Suppose that you are considering purchasing UST’s bonds. Briefly describe the attributes and business risks associated with UST that you would find of interest.

2. UST Inc. has a long history of conservative debt policy. Briefly describe why they are considering a recapitalization that involves issuing debt and repurchasing equity?

3. Should UST Inc. undertake the $1 Billion recapitalization? Calculate the effect on stock price assuming that the entire recapitalization is done immediately (January 1, 1999).
   
   a. In this calculation, assume the following:
      
      i. Corporate tax rate is 38%
      ii. All equity is bought back at a price that reflects the added value of the tax shield.

   b. Prepare a Pro Forma Statement to analyze whether UST will be able to make the interest payments.
      
      i. Use Exhibit 8 to determine UST’s credit rating and interest rate.
      ii. State your assumptions clearly.