

Porter, White & Company

Forward-looking Financials for Companies in Distress

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Forward-looking financial statements are associated with many significant financial transactions. Credible financial projections are particularly important when a business encounters financial difficulty, and frequently become a necessary condition of forbearance by a creditor, or of new or additional financing by an investor. Since the finance and accounting areas of middle market companies are usually overworked and understaffed at the time of maximum need for financial analysis, an outside consultant often assists with the projections and can add significant value to the process. Creditors often insist that the company retain an independent consultant to prepare projections.

Porter, White & Company excels at the preparation of forward-looking financial statements, having prepared over the years hundreds of such statements across a broad range of businesses. In a number of cases, our work has made the difference between financial success and failure and we pride ourselves on doing financial analysis in difficult circumstances, including for companies in financial straits.

I. Overview of Key Forward-looking Statements

The basic tool requested by creditors of a company in financial distress is a projection of near term cash flow, usually for a period of 13 weeks. Work on this projection usually starts as soon as preliminary information is available, including recent audits, interim unaudited statements, aged receivables, and aged payables. As this work proceeds, a series of information requests will be prepared, with the most critical information listed in the initial request, and other items necessary for a more complete understanding of the company coming later.

Basic 13-week and 15-month statements of projected cash flow and loan availability for a hypothetical company operating with a line of credit secured by inventory and receivables are attached as Appendix A, tables A-1 and A-2.¹ The straightforward appearance of the statements obscures a large effort to consolidate financial statements of a company with several subsidiaries and affiliates. Many private middle market companies have one or more subsidiaries or affiliates, but do not prepare consolidated statements monthly or even quarterly. To the extent that the subsidiaries or affiliates generate or use cash or provide collateral for the loan facility, it is necessary to include their activity in statements of projected cash flow and loan availability.

Since cash is the first priority for a company under financial pressure, a 13-week statement of projected cash flow and loan availability brings greater transparency to the situation for the benefit of all parties. For lenders, it eases anxiety because it lessens uncertainty about the immediate future. For managers and consultants, it provides a clear picture by which to understand the immediate situation and identify opportunities to improve cash flow, including potential accelera-

¹ These are “direct” projections of cash flow, in a format that is not in accordance with generally accepted accounting principles, or “GAAP.” We will explain the relative benefits of direct and indirect cash flow statements below.

tion of payments on receivables and classification and cessation of non critical expenditures.² A 13-week and 15-month direct cash flow and loan availability projection is a powerful tool for evaluating plans, budgets, and cash needs under different scenarios, and for bringing clarity to the management of working capital.

It is not possible to produce a useful projection of cash flow without considering the major elements that enter into the income statement and the balance sheet. Explicitly tying the statement of projected cash flow and loan availability to historical and projected income statements and balance sheets leads to greater accuracy and ensures that no cash flow goes unconsidered. Reviewing a cash flow statement without the benefit of the associated income statement and balance sheet is like driving an automobile with no peripheral vision: it is easy to get blindsided. For this reason, PW&Co typically prepares a package of projected statements as listed in the following table. Examples of these statements are included in Appendix A.

The Financial Projection Package

| | Weeks | Months | Years | Found in Appendix Tables |
|---|-------|--------|-------|--------------------------|
| 1. Direct cash flow and loan availability | 13 | 15 | | A-1, A-2 |
| 2. Income statement | 13 | 15 | 3-5 | A-3, A-6 |
| 3. Balance sheet | 13 | 15 | 3-5 | A-4, A-7 |
| 4. GAAP-compliant cash flow statement | 13 | 15 | 3-5 | A-5, A-8 |

The projections for the out years do not help much with assessing near term cash flow, but they are useful in making the case for additional investment in the company in order to achieve anticipated financial benefits. Of course, they can also reveal that the company is a lost cause. Not every rescue effort is successful.

II. Benefits of the Direct Cash Flow Projection

It is not uncommon for the cash flow contributions of specific products, services, entire departments to be unknown or misunderstood by key decision makers because of inadequate cash flow reporting that is not included in GAAP financial statements. PW&Co increases cash flow transparency beyond the limits of GAAP through two primary processes: (1) modeling cash flows directly and (2) breaking the projection out into activities that are understandable and predictable.

The preferred format for the statement of cash flow and loan availability (item 1 in the table above) varies from the indirect cash flow statement (item 4 above) as usually presented under GAAP. The weakness of GAAP as a tool for understanding cash flow can be traced to two cornerstones of accrual accounting: the revenue recognition principle and the matching principle. The revenue recognition principle requires that revenue be recognized when earned, not when cash is actually received. Likewise, the matching principle mandates that expenses are recognized not when paid, but as they are “matched” to the revenues they helped to generate. Under

² For suggestions on how to use cash flow forecasts see Hass, William J. and Pryor IV, Shepherd G., "12 Basic Principles for better Cash Flow Planning and Forecasting," 2006, <http://board-resources.com/articles/Hass-Pryor-CashFlowPrinciples-reprint.pdf>, accessed July 7, 2009.

GAAP, revenues may be recognized well in advance of the receipt of cash, and expenses may be incurred at a time very different from when cash is spent to pay for the incurred expense. In an indirect cash flow statement, these timing differences are “reconciled” to net income as changes in asset and liability accounts on the balance sheet. In contrast, a *direct* cash flow statement details cash receipts and disbursements by category as they occur. (See the comparison table on the next page.) Banks dealing with distressed situations often require a direct cash flow projection because it assists them in real time monitoring of payments by purpose and receipts by source.

A direct cash flow statement also has greater flexibility to break out activities related to products, services, or departments. Audited financial statements (though usually not internal statements) report aggregate numbers and are therefore less effective tools for identifying users and abusers of cash. In conjunction with management, we use the direct cash flow statement as an opportunity to break out activities that simply and sensibly highlight cash flow contributors, for example: cash receipts by factor, inventory payments by supplier, payroll by employee type, interest payments by loan facility. This process is effective in identifying areas that are abusers of cash and opportunities to improve cash flow. For the projected income statement, balance sheet, indirect cash flow statement, and statement of loan availability, we seek to match the company’s customary formats so that management has the clearest picture possible of what current assumptions mean for their financial statements in the future.

See how the monthly cash flow statements in tables A-2 (direct, non-GAAP) and A-8 (indirect, GAAP-compliant) of Appendix A detail the same total cash flows, but are otherwise very different in ease of use. Comparative formats are displayed through the comparison table on the next page.

Indirect Cash Flow Statement (GAAP)

Cash flow from operating activities:

Net income

Adjustments to reconcile profit before tax with net cash flow from operations:

Depreciation

(Increase)/decrease in:

Accounts receivable

Inventory

Increase/(decrease) in:

Accounts payable

Accrued income taxes

Other current liabilities

Total cash flow from operating activities

Cash flow from investing activities:

(Increase)/decrease in:

Capital expenditures

Total cash flow from investing activities

Cash flow from financing activities:

Term loan (Principal payments)

Change in note payable - Bank

Total cash flow from financing activities

Net cash flow

Cash - Beginning of period

Cash - End of period

Direct Cash Flow Statement

Cash Receipts

Cash Receipts - A/R

Total cash receipts

Cash Disbursements

Supplier Payments

Payroll & Fringes

Manufacturing / SG&A / Utilities

Capital Expenditures

Interest Expense (Revolver)

Interest Expense (Term loan)

Debt Principal

Total cash disbursements

Net cash flow

Cumulative cash flow

The hypothetical XYZ Company, Inc. in Appendix A is a seasonal business with the height of its selling season in fall and winter and a build-up of inventory and receivables in late summer as it prepares for the selling season. In the fall of 2009 management may celebrate survival of its slow season (its period of tightest availability). Even in a bad economy the business can be expected to provide enough sales to keep it comfortably in compliance with bank covenants through the winter.

This short-term comfort masks the direction the business is heading, as well as significant risks to the company's survival. Because of the cumulative effects of sales missed or money wasted (underperformance relative to expectations in one month increases the revolver loan balance, an effect that is only reversed through subsequent outperformance), the management of XYZ may be blind to the risk of lower sales or the effect of maintaining excess capacity until it is too late.

Tables A-1 and A-2 project that the company will remain in compliance with its availability covenant, given current assumptions. But sensitivity analysis (not shown) reveals that the company could expect in September 2010 to be in default of its availability covenant with 10% lower sales (relative to projections) per month during 2010. If it maintained its labor cost structure at its October 2009 level rather than make an 11% cut in December, the model indicates the company could expect to reach default in September if sales per month were merely 2% lower than expected during 2010. The model clarifies and quantifies the need to trim costs and capacity in order to provide a cushion to survive if sales projections are too optimistic in a deteriorating economy.

III. Mitigating Challenges in Generating Credible Forward-looking Financials

A significant cause of delay and cost in the preparation of financial projections and other analyses is the lack of reliable information. In the case of a middle market company this can be due to poor information and financial systems, or it may be due to the fact that access to the information is obtainable only from an individual who is snowed under by other work. Aggressive but sympathetic pursuit of necessary information is usually required. Ability of the company to provide necessary information quickly is critical to completing credible projections at reasonable cost.

Pressure to produce projections quickly increases the possibility of error. PW&Co works as rapidly and carefully as possible, and our experience has been that problems with our projections have usually been the result of bad information or bad assumptions, both of which are more likely to occur in an environment of financial distress. In conjunction with management, we continually improve projections over time by tracking errors and sources of errors and implementing corrections going forward.

Tying projections to historical results is important to the reduction of errors. Projections are not usefully created out of whole cloth. To be realistic, they must be connected to past history. Projected statements are preferably presented alongside historical statements. Variances from long term trends should be explored and understood. Dramatic change is cause for suspicion. On the other hand, historical or projected financial statements revealing *no change* are also cause for suspicion.

Assumptions should be explicitly stated, analyzed in terms of historical results and the prevailing business environment, and highlighted for the users of the report. It is usually important to analyze the projections to determine the sensitivity of the projected results to changes in key assumptions and then to prepare a sensitivity analysis showing the results of alternate assumptions.³ This is particularly true for projections over months or years rather than weeks.

It is necessary to be alert to the probability of error in the design or construction of the spreadsheet models used to generate projections. Research indicates that computer programmers experience an error rate of approximately 3% (three errors per hundred lines of code) and spend 40%

³ See PW&Co White Paper: “*Managing in Troubled Times: A Survival Guide for Middle-Market Companies in a Liquidity Crisis*” for more on common biases in management assumptions and the importance of scenario planning with a focus on revenues. The White Paper is available for download at <http://www.pwco.com>.

of their time checking for errors.⁴ This being the case, preparers or users of projections should "run scared."

A requirement for weekly projections means that everything is material and unusual care is required. Changes in the company and changes in the market affect financial results in unanticipated ways and require frequent recalibration of models. Actual results will vary from projections and some variances will be material. Inevitably some variances will be the result of mistakes in information received, assumptions made, or calculations employed. Projections should improve in accuracy as time goes by. Expectations of creditors should be managed by explaining the uncertainty of the projections, introducing a measure of conservatism in the assumptions, or both. Lenders have a habit of treating projections as firm representations of what will occur in the future, rather than as "best estimates."

IV. Who Prepares Forward-looking Financials?

Large companies typically have a budgeting and planning function that produces projections for use of management. Smaller companies may do planning more informally and may have to out-source financial planning work when heavy lifting is required. When this happens the planners may be accountants, engineers, consultants or bankers.

Certified public accountants who are the regular auditors of a company may have a problem with independence if they engage in substantial planning work for an audit client. They will become particularly nervous about independence as the client approaches the zone of insolvency.

The engineering profession prepares technical reports on engineered projects, providing analyses and opinions on all aspects of projects, including the reasonableness of capital budgets and financial forecasts. However, it is unusual for an engineer to prepare projections for an operating business, other than one engaged in running a single project.

It is our observation that consultants and bankers do most of the financial projections for businesses in financial distress. This is probably because speed is essential and specific standards are beside the point. The goal is not the analysis, but to save the business, or, if this is not possible, to save as much value for the creditors and the owners as possible. Consultants and bankers are evaluated on the basis of their success in achieving these goals.

⁴ Swan, Jonathan, *Practical Financial Modeling*, 2nd Ed., Oxford: Elsevier, 2008, pp. xx-xxi.

V. Conclusion

It is important to remember that financial models, even in their manifestation as financial statements, are not reality but characterizations of reality. At Porter, White & Company, we think of them as pictures drawn with numbers, pictures that capture important aspects of reality but by no means all of reality. In recent years, failure to understand the limitations of models (even financial statements) has led many prestigious financial institutions to disaster as they relied on inadequate or inappropriate financial models to inform them about the risk of their investments.

Modeling "seems to be one of just a few fundamental ways in which human beings understand the world."⁵ Financial modeling is necessary in many contexts, including helping companies in financial distress deal with their challenges. Experience teaches, however, that it is best to approach the modeling task with both competence and humility.

James H. White, III
July 30, 2009

⁵ Powell, Stephen G. and Baker, Kenneth R., *The Art of Modeling with Spreadsheets*, Hoboken: John Wiley & Sons, 2004, p. 1.

Appendix A: Sample Financial Projection Package

Table A-1: 13-Week Direct Cash Flow & Loan Availability Projection (Non-GAAP)

Table A-2: 15-Month Direct Cash Flow & Loan Availability Projection (Non-GAAP)

Table A-3: 13-Week Projected Income Statement

Table A-4: 13-Week Projected Balance Sheet

Table A-5: 13-Week Projected Cash Flow Statement (GAAP-Compliant)

Table A-6: 15-Month Projected Income Statement

Table A-7: 15-Month Projected Balance Sheet

Table A-8: 15-Month Projected Cash Flow Statement (GAAP-Compliant)

Table A-1: 13-Week Direct Cash Flow & Loan Availability Projection (Non-GAAP)

XYZ Company, Inc.

Cash Flow & Loan Availability Projection (Consolidated)

(Weekly, \$000s)

| Week #: | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|--|---------|----------|----------|----------|---------|----------|----------|----------|---------|----------|----------|----------|---------|
| Week ending: | 10/9/09 | 10/16/09 | 10/23/09 | 10/30/09 | 11/6/09 | 11/13/09 | 11/20/09 | 11/27/09 | 12/4/09 | 12/11/09 | 12/18/09 | 12/25/09 | 1/1/10 |
| <u>Cash Flow Projection</u> | | | | | | | | | | | | | |
| <u>Cash Receipts</u> | | | | | | | | | | | | | |
| Cash Receipts - A/R | 1,552 | 2,329 | 2,018 | 1,087 | 1,552 | 2,639 | 1,863 | 2,484 | 1,500 | 1,750 | 2,250 | 2,500 | 2,000 |
| Total cash receipts | 1,552 | 2,329 | 2,018 | 1,087 | 1,552 | 2,639 | 1,863 | 2,484 | 1,500 | 1,750 | 2,250 | 2,500 | 2,000 |
| <u>Cash Disbursements</u> | | | | | | | | | | | | | |
| Supplier Payments | 820 | 729 | 1,267 | 1,072 | 605 | 288 | 794 | 1,897 | 1,642 | 500 | 1,410 | 1,191 | 196 |
| Payroll & Fringes | - | 435 | - | 691 | - | 435 | - | 691 | - | 317 | - | 317 | 364 |
| Manufacturing / SG&A / Utilities | 389 | 454 | 584 | 649 | 519 | 649 | 649 | 649 | 519 | 584 | 649 | 649 | 325 |
| Capital Expenditures | - | - | 24 | - | - | - | - | 10 | - | - | - | 44 | 22 |
| Interest Expense (Revolver) | - | - | - | 104 | - | - | - | 103 | - | - | - | - | 112 |
| Interest Expense (Term loan) | - | - | - | 7 | - | - | - | 6 | - | - | - | - | 8 |
| Debt Principal | - | - | - | 19 | - | - | - | 19 | - | - | - | - | 19 |
| Total cash disbursements | 1,209 | 1,619 | 1,875 | 2,542 | 1,124 | 1,372 | 1,443 | 3,375 | 2,161 | 1,402 | 2,059 | 2,202 | 1,045 |
| Net cash flow | 343 | 710 | 143 | (1,455) | 428 | 1,267 | 420 | (892) | (661) | 348 | 191 | 298 | 955 |
| Cumulative cash flow | 343 | 1,053 | 1,196 | (259) | 169 | 1,436 | 1,856 | 964 | 303 | 651 | 842 | 1,141 | 2,096 |
| <u>Loan Availability Projection</u> | | | | | | | | | | | | | |
| <u>Accounts receivable</u> | | | | | | | | | | | | | |
| Beginning | 15,524 | 15,472 | 14,893 | 15,125 | 16,538 | 16,986 | 16,847 | 17,484 | 17,500 | 18,000 | 18,500 | 18,750 | 18,750 |
| Invoices | 1,500 | 1,750 | 2,250 | 2,500 | 2,000 | 2,500 | 2,500 | 2,500 | 2,000 | 2,250 | 2,500 | 2,500 | 1,250 |
| Collections | (1,552) | (2,329) | (2,018) | (1,087) | (1,552) | (2,639) | (1,863) | (2,484) | (1,500) | (1,750) | (2,250) | (2,500) | (2,000) |
| Ending | 15,472 | 14,893 | 15,125 | 16,538 | 16,986 | 16,847 | 17,484 | 17,500 | 18,000 | 18,500 | 18,750 | 18,750 | 18,000 |
| Ineligibles | (410) | (395) | (401) | (438) | (450) | (446) | (463) | (464) | (477) | (490) | (497) | (497) | (477) |
| Eligible A/R | 15,062 | 14,498 | 14,724 | 16,100 | 16,536 | 16,400 | 17,021 | 17,036 | 17,523 | 18,010 | 18,253 | 18,253 | 17,523 |
| A/R availability (85%) | 12,802 | 12,324 | 12,515 | 13,685 | 14,055 | 13,940 | 14,467 | 14,481 | 14,895 | 15,308 | 15,515 | 15,515 | 14,895 |
| <u>Inventory</u> | | | | | | | | | | | | | |
| Beginning | 16,876 | 16,581 | 15,819 | 15,263 | 15,660 | 16,102 | 15,102 | 15,012 | 14,703 | 15,588 | 15,332 | 15,752 | 14,275 |
| Inventory receipts | 605 | 288 | 794 | 1,897 | 1,642 | 500 | 1,410 | 1,191 | 2,085 | 1,094 | 1,920 | 23 | 1,013 |
| Inventory shipments | (900) | (1,050) | (1,350) | (1,500) | (1,200) | (1,500) | (1,500) | (1,500) | (1,200) | (1,350) | (1,500) | (1,500) | (750) |
| Ending | 16,581 | 15,819 | 15,263 | 15,660 | 16,102 | 15,102 | 15,012 | 14,703 | 15,588 | 15,332 | 15,752 | 14,275 | 14,539 |
| Ineligibles | (365) | (348) | (336) | (345) | (354) | (332) | (330) | (323) | (343) | (337) | (347) | (314) | (320) |
| Eligible inventory | 16,216 | 15,471 | 14,927 | 15,315 | 15,747 | 14,770 | 14,682 | 14,380 | 15,245 | 14,995 | 15,406 | 13,961 | 14,219 |
| Inventory availability (50%) | 8,108 | 7,735 | 7,464 | 7,658 | 7,874 | 7,385 | 7,341 | 7,190 | 7,622 | 7,498 | 7,703 | 6,981 | 7,109 |
| Total gross availability | 20,911 | 20,059 | 19,979 | 21,342 | 21,929 | 21,325 | 21,808 | 21,671 | 22,517 | 22,806 | 23,218 | 22,496 | 22,004 |
| <u>Revolver</u> | | | | | | | | | | | | | |
| Revolver balance, beginning | 20,008 | 19,665 | 18,955 | 18,812 | 20,267 | 19,839 | 18,572 | 18,152 | 19,044 | 19,705 | 19,357 | 19,166 | 18,867 |
| Net borrowing / (repayment) | (343) | (710) | (143) | 1,455 | (428) | (1,267) | (420) | 892 | 661 | (348) | (191) | (298) | (955) |
| Revolver balance, ending | 19,665 | 18,955 | 18,812 | 20,267 | 19,839 | 18,572 | 18,152 | 19,044 | 19,705 | 19,357 | 19,166 | 18,867 | 17,912 |
| Excess availability | 1,246 | 1,104 | 1,167 | 1,075 | 2,090 | 2,754 | 3,656 | 2,627 | 2,812 | 3,449 | 4,052 | 3,628 | 4,092 |

Table A-2: 15-Month Direct Cash Flow & Loan Availability Projection (Non-GAAP)

XYZ Company, Inc.

Cash Flow & Loan Availability Projection (Consolidated)

(Monthly, \$000s)

| Month #: | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | |
|--|---------|---------|----------|----------|----------|----------|----------|---------|---------|---------|---------|----------|---------|----------|----------|--|
| Month: | Oct 09 | Nov 09 | Dec 09 | Jan 10 | Feb 10 | Mar 10 | Apr 10 | May 10 | Jun 10 | Jul 10 | Aug 10 | Sep 10 | Oct 10 | Nov 10 | Dec 10 | |
| <u>Cash Flow Projection</u> | | | | | | | | | | | | | | | | |
| <u>Cash Receipts</u> | | | | | | | | | | | | | | | | |
| Cash Receipts - A/R | 6,986 | 8,538 | 10,000 | 12,750 | 10,750 | 11,250 | 11,500 | 5,750 | 5,000 | 5,000 | 9,000 | 16,500 | 9,500 | 10,500 | 16,250 | |
| Total cash receipts | 6,986 | 8,538 | 10,000 | 12,750 | 10,750 | 11,250 | 11,500 | 5,750 | 5,000 | 5,000 | 9,000 | 16,500 | 9,500 | 10,500 | 16,250 | |
| <u>Cash Disbursements</u> | | | | | | | | | | | | | | | | |
| Supplier Payments | 3,888 | 3,584 | 4,940 | 6,136 | 5,861 | 6,000 | 5,400 | 5,100 | 7,650 | 6,000 | 9,450 | 6,900 | 3,600 | 5,500 | 6,400 | |
| Payroll & Fringes | 1,126 | 1,126 | 998 | 998 | 998 | 998 | 998 | 998 | 998 | 998 | 998 | 998 | 998 | 998 | 998 | |
| Manufacturing / SG&A / Utilities | 2,077 | 2,466 | 2,726 | 2,772 | 2,829 | 2,829 | 2,656 | 2,540 | 2,483 | 2,425 | 2,598 | 2,714 | 2,714 | 2,829 | 2,887 | |
| Capital Expenditures | 24 | 10 | 66 | 20 | 24 | 64 | 80 | 24 | 16 | 20 | 24 | 28 | 24 | 24 | 24 | |
| Interest Expense (Revolver) | 104 | 103 | 112 | 104 | 89 | 83 | 76 | 63 | 80 | 117 | 144 | 168 | 135 | 124 | 118 | |
| Interest Expense (Term loan) | 7 | 6 | 8 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 5 | 5 | 5 | 5 | |
| Debt Principal | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 20 | 20 | 20 | 20 | 20 | 20 | |
| Total cash disbursements | 7,245 | 7,315 | 8,869 | 10,055 | 9,827 | 10,000 | 9,236 | 8,751 | 11,253 | 9,585 | 13,239 | 10,834 | 7,497 | 9,501 | 10,453 | |
| Net cash flow | (259) | 1,223 | 1,131 | 2,695 | 923 | 1,250 | 2,264 | (3,001) | (6,253) | (4,585) | (4,239) | 5,666 | 2,003 | 999 | 5,797 | |
| Cumulative cash flow | (259) | 964 | 2,096 | 4,790 | 5,713 | 6,963 | 9,227 | 6,226 | (26) | (4,612) | (8,851) | (3,185) | (1,182) | (182) | 5,615 | |
| <u>Loan Availability Projection</u> | | | | | | | | | | | | | | | | |
| <u>Accounts receivable</u> | | | | | | | | | | | | | | | | |
| Beginning | 15,524 | 16,538 | 17,500 | 18,000 | 16,250 | 17,000 | 17,250 | 15,750 | 19,000 | 22,500 | 25,500 | 26,000 | 20,000 | 21,000 | 22,000 | |
| Invoices | 8,000 | 9,500 | 10,500 | 11,000 | 11,500 | 11,500 | 10,000 | 9,000 | 8,500 | 8,000 | 9,500 | 10,500 | 10,500 | 11,500 | 12,000 | |
| Collections | (6,986) | (8,538) | (10,000) | (12,750) | (10,750) | (11,250) | (11,500) | (5,750) | (5,000) | (5,000) | (9,000) | (16,500) | (9,500) | (10,500) | (16,250) | |
| Ending | 16,538 | 17,500 | 18,000 | 16,250 | 17,000 | 17,250 | 15,750 | 19,000 | 22,500 | 25,500 | 26,000 | 20,000 | 21,000 | 22,000 | 17,750 | |
| Ineligibles | (438) | (464) | (477) | (431) | (451) | (457) | (417) | (504) | (596) | (676) | (689) | (530) | (557) | (583) | (470) | |
| Eligible A/R | 16,100 | 17,036 | 17,523 | 15,819 | 16,550 | 16,793 | 15,333 | 18,497 | 21,904 | 24,824 | 25,311 | 19,470 | 20,444 | 21,417 | 17,280 | |
| A/R availability (85%) | 13,685 | 14,481 | 14,895 | 13,446 | 14,067 | 14,274 | 13,033 | 15,722 | 18,618 | 21,101 | 21,514 | 16,550 | 17,377 | 18,204 | 14,688 | |
| <u>Inventory</u> | | | | | | | | | | | | | | | | |
| Beginning | 16,876 | 15,660 | 14,703 | 14,539 | 13,800 | 12,900 | 11,400 | 10,500 | 12,750 | 13,650 | 18,300 | 19,500 | 16,800 | 16,000 | 15,500 | |
| Inventory receipts | 3,584 | 4,744 | 6,136 | 5,861 | 6,000 | 5,400 | 5,100 | 7,650 | 6,000 | 9,450 | 6,900 | 3,600 | 5,500 | 6,400 | 6,700 | |
| Inventory shipments | (4,800) | (5,700) | (6,300) | (6,600) | (6,900) | (6,900) | (6,000) | (5,400) | (5,100) | (4,800) | (5,700) | (6,300) | (6,300) | (6,900) | (7,200) | |
| Ending | 15,660 | 14,703 | 14,539 | 13,800 | 12,900 | 11,400 | 10,500 | 12,750 | 13,650 | 18,300 | 19,500 | 16,800 | 16,000 | 15,500 | 15,000 | |
| Ineligibles | (345) | (323) | (320) | (304) | (284) | (251) | (231) | (281) | (300) | (403) | (429) | (370) | (352) | (341) | (330) | |
| Eligible inventory | 15,315 | 14,380 | 14,219 | 13,496 | 12,616 | 11,149 | 10,269 | 12,470 | 13,350 | 17,897 | 19,071 | 16,430 | 15,648 | 15,159 | 14,670 | |
| Inventory availability (50%) | 7,658 | 7,190 | 7,109 | 6,748 | 6,308 | 5,575 | 5,135 | 6,235 | 6,675 | 8,949 | 9,536 | 8,215 | 7,824 | 7,580 | 7,335 | |
| Total gross availability | 21,342 | 21,671 | 22,004 | 20,195 | 20,375 | 19,849 | 18,167 | 21,957 | 25,293 | 30,049 | 31,050 | 24,765 | 25,201 | 25,784 | 22,023 | |
| <u>Revolver</u> | | | | | | | | | | | | | | | | |
| Revolver balance, beginning | 20,008 | 20,267 | 19,044 | 17,912 | 15,218 | 14,295 | 13,045 | 10,781 | 13,782 | 20,034 | 24,620 | 28,859 | 23,193 | 21,190 | 20,190 | |
| Net borrowing / (repayment) | 259 | (1,223) | (1,131) | (2,695) | (923) | (1,250) | (2,264) | 3,001 | 6,253 | 4,585 | 4,239 | (5,666) | (2,003) | (999) | (5,797) | |
| Revolver balance, ending | 20,267 | 19,044 | 17,912 | 15,218 | 14,295 | 13,045 | 10,781 | 13,782 | 20,034 | 24,620 | 28,859 | 23,193 | 21,190 | 20,190 | 14,393 | |
| Excess availability | 1,075 | 2,627 | 4,092 | 4,977 | 6,080 | 6,803 | 7,386 | 8,175 | 5,259 | 5,430 | 2,191 | 1,572 | 4,011 | 5,594 | 7,630 | |

Table A-3: 13-Week Projected Income Statement

XYZ Company, Inc.**Projected Income Statement***(Weekly, \$000s)*

| Week #: | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|-----------------------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|------------|------------|------------|
| Week ending: | 10/9/09 | 10/16/09 | 10/23/09 | 10/30/09 | 11/6/09 | 11/13/09 | 11/20/09 | 11/27/09 | 12/4/09 | 12/11/09 | 12/18/09 | 12/25/09 | 1/1/10 |
| Net sales | 1,500 | 1,750 | 2,250 | 2,500 | 2,000 | 2,500 | 2,500 | 2,500 | 2,000 | 2,250 | 2,500 | 2,500 | 1,250 |
| Cost of sales | | | | | | | | | | | | | |
| Product costs | 900 | 1,050 | 1,350 | 1,500 | 1,200 | 1,500 | 1,500 | 1,500 | 1,200 | 1,350 | 1,500 | 1,500 | 750 |
| SPREAD | 600 | 700 | 900 | 1,000 | 800 | 1,000 | 1,000 | 1,000 | 800 | 900 | 1,000 | 1,000 | 500 |
| Other cost of sales | | | | | | | | | | | | | |
| Direct & Indirect Labor | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 124 | 124 | 124 | 124 | 124 |
| Fringes | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 35 | 35 | 35 | 35 | 35 |
| Freight | 24 | 28 | 36 | 40 | 32 | 40 | 40 | 40 | 32 | 36 | 40 | 40 | 20 |
| Packaging supplies | 12 | 14 | 18 | 20 | 16 | 20 | 20 | 20 | 16 | 18 | 20 | 20 | 10 |
| Total other cost of sales | 254 | 260 | 272 | 278 | 266 | 278 | 278 | 278 | 207 | 213 | 219 | 219 | 189 |
| GROSS PROFIT | 346 | 440 | 628 | 722 | 534 | 722 | 722 | 722 | 593 | 687 | 781 | 781 | 311 |
| Selling, general & administrative | | | | | | | | | | | | | |
| Salaries | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 32 | 32 | 32 | 32 | 32 |
| Fringes | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 9 | 9 | 9 | 9 | 9 |
| Depreciation | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 19 | 19 | 19 | 19 | 19 |
| Utilities | 39 | 46 | 59 | 65 | 52 | 65 | 65 | 65 | 52 | 59 | 65 | 65 | 33 |
| Repair & maintenance | 14 | 17 | 22 | 24 | 19 | 24 | 24 | 24 | 19 | 22 | 24 | 24 | 12 |
| Other SG&A | 300 | 350 | 450 | 500 | 400 | 500 | 500 | 500 | 400 | 450 | 500 | 500 | 250 |
| Total SG&A | 441 | 500 | 618 | 677 | 559 | 677 | 677 | 677 | 531 | 590 | 649 | 649 | 355 |
| OPERATING PROFIT | (95) | (60) | 10 | 45 | (25) | 45 | 45 | 45 | 62 | 97 | 132 | 132 | (43) |
| Other income / (expense) | | | | | | | | | | | | | |
| Interest expense (Term loan) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) |
| Interest expense (Revolver) | (27) | (26) | (26) | (25) | (27) | (27) | (25) | (24) | (22) | (23) | (23) | (22) | (22) |
| PROFIT BEFORE TAX | (124) | (88) | (17) | 18 | (54) | 17 | 19 | 19 | 38 | 72 | 108 | 108 | (67) |
| Income tax | 47 | 33 | 6 | (7) | 20 | (6) | (7) | (7) | (14) | (28) | (41) | (41) | 25 |
| NET INCOME | (77) | (55) | (10) | 11 | (33) | 10 | 12 | 12 | 24 | 45 | 67 | 67 | (42) |
| EBITDA | (71) | (36) | 34 | 69 | (1) | 69 | 69 | 69 | 81 | 116 | 151 | 151 | (24) |
| <i>Cumulative Net Income:</i> | <i>(77)</i> | <i>(131)</i> | <i>(142)</i> | <i>(130)</i> | <i>(164)</i> | <i>(153)</i> | <i>(142)</i> | <i>(130)</i> | <i>(106)</i> | <i>(61)</i> | <i>6</i> | <i>73</i> | <i>31</i> |
| <i>Cumulative EBITDA</i> | <i>(71)</i> | <i>(107)</i> | <i>(73)</i> | <i>(3)</i> | <i>(4)</i> | <i>65</i> | <i>135</i> | <i>204</i> | <i>285</i> | <i>402</i> | <i>553</i> | <i>704</i> | <i>680</i> |
| Margin analysis | | | | | | | | | | | | | |
| Spread margin | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% |
| Gross margin | 23.1% | 25.2% | 27.9% | 28.9% | 26.7% | 28.9% | 28.9% | 28.9% | 29.7% | 30.5% | 31.3% | 31.3% | 24.9% |
| Operating margin | -6.3% | -3.4% | 0.5% | 1.8% | -1.2% | 1.8% | 1.8% | 1.8% | 3.1% | 4.3% | 5.3% | 5.3% | -3.5% |
| EBITDA margin | -4.7% | -2.1% | 1.5% | 2.8% | 0.0% | 2.8% | 2.8% | 2.8% | 4.1% | 5.2% | 6.1% | 6.1% | -1.9% |
| Net margin | -5.1% | -3.1% | -0.5% | 0.5% | -1.7% | 0.4% | 0.5% | 0.5% | 1.2% | 2.0% | 2.7% | 2.7% | -3.3% |

Table A-4: 13-Week Projected Balance Sheet

XYZ Company, Inc.
Projected Balance Sheet
(Weekly, \$000s)

| Week #: | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Week ending: | 10/2/09 | 10/9/09 | 10/16/09 | 10/23/09 | 10/30/09 | 11/6/09 | 11/13/09 | 11/20/09 | 11/27/09 | 12/4/09 | 12/11/09 | 12/18/09 | 12/25/09 | 1/1/10 |
| ASSETS | | | | | | | | | | | | | | |
| Current assets | | | | | | | | | | | | | | |
| Cash | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 |
| Accounts receivable | 15,524 | 15,472 | 14,893 | 15,125 | 16,538 | 16,986 | 16,847 | 17,484 | 17,500 | 18,000 | 18,500 | 18,750 | 18,750 | 18,000 |
| Inventory | 16,876 | 16,581 | 15,819 | 15,263 | 15,660 | 16,102 | 15,102 | 15,012 | 14,703 | 15,588 | 15,332 | 15,752 | 14,275 | 14,539 |
| Total current assets | 32,446 | 32,099 | 30,758 | 30,434 | 32,244 | 33,133 | 31,995 | 32,542 | 32,249 | 33,634 | 33,878 | 34,548 | 33,071 | 32,585 |
| Construction in progress | | | | | | | | | | | | | | |
| Fixed assets | 36,462 | 36,462 | 36,462 | 36,486 | 36,486 | 36,486 | 36,486 | 36,486 | 36,496 | 36,496 | 36,496 | 36,496 | 36,540 | 36,562 |
| Less: Acc. depreciation | (30,642) | (30,666) | (30,690) | (30,714) | (30,738) | (30,762) | (30,787) | (30,811) | (30,835) | (30,854) | (30,873) | (30,893) | (30,912) | (30,931) |
| Fixed assets, net | 5,820 | 5,796 | 5,772 | 5,772 | 5,748 | 5,724 | 5,699 | 5,675 | 5,661 | 5,642 | 5,623 | 5,603 | 5,628 | 5,631 |
| Other assets | | | | | | | | | | | | | | |
| Goodwill | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 |
| Total other assets | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 |
| Total assets | 40,809 | 40,437 | 39,072 | 38,748 | 40,534 | 41,400 | 40,237 | 40,760 | 40,453 | 41,819 | 42,044 | 42,695 | 41,242 | 40,759 |
| LIABILITIES & EQUITY | | | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | | | |
| Accounts payable | 4,370 | 4,156 | 3,714 | 3,241 | 4,066 | 5,103 | 5,316 | 5,931 | 5,226 | 5,668 | 6,262 | 6,772 | 5,604 | 6,422 |
| Note payable - Bank | 20,008 | 19,665 | 18,955 | 18,812 | 20,267 | 19,839 | 18,572 | 18,152 | 19,044 | 19,705 | 19,357 | 19,166 | 18,867 | 17,912 |
| Accrued income taxes | 156 | 109 | 76 | 69 | 76 | 56 | 62 | 69 | 77 | 91 | 119 | 160 | 201 | 175 |
| Other current liabilities | - | 310 | 185 | 493 | - | 310 | 185 | 493 | - | 223 | 130 | 354 | 260 | - |
| Total current liabilities | 24,534 | 24,240 | 22,929 | 22,616 | 24,409 | 25,308 | 24,135 | 24,646 | 24,346 | 25,688 | 25,868 | 26,452 | 24,933 | 24,510 |
| Other Liabilities | | | | | | | | | | | | | | |
| Term loan | 1,304 | 1,304 | 1,304 | 1,304 | 1,285 | 1,285 | 1,285 | 1,285 | 1,267 | 1,267 | 1,267 | 1,267 | 1,267 | 1,248 |
| Total liabilities | 25,838 | 25,544 | 24,233 | 23,920 | 25,694 | 26,593 | 25,420 | 25,931 | 25,613 | 26,954 | 27,135 | 27,719 | 26,199 | 25,757 |
| Stockholder's Equity | | | | | | | | | | | | | | |
| Capital stock | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 |
| Additional paid-in capital | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 |
| Retained earnings | 8,658 | 8,582 | 8,527 | 8,517 | 8,528 | 8,495 | 8,505 | 8,517 | 8,529 | 8,552 | 8,597 | 8,664 | 8,731 | 8,690 |
| Total equity | 14,970 | 14,893 | 14,839 | 14,828 | 14,840 | 14,806 | 14,817 | 14,828 | 14,840 | 14,864 | 14,909 | 14,976 | 15,043 | 15,001 |
| Total liabilities & equity | 40,809 | 40,437 | 39,072 | 38,748 | 40,534 | 41,400 | 40,237 | 40,760 | 40,453 | 41,818 | 42,044 | 42,695 | 41,242 | 40,759 |

Table A-5: 13-Week Projected Cash Flow Statement (GAAP-Compliant)

XYZ Company, Inc.
Projected Cash Flow Statement
(Weekly, \$000s)

| Week #: Week ending: | 1 10/9/09 | 2 10/16/09 | 3 10/23/09 | 4 10/30/09 | 5 11/6/09 | 6 11/13/09 | 7 11/20/09 | 8 11/27/09 | 9 12/4/09 | 10 12/11/09 | 11 12/18/09 | 12 12/25/09 | 13 1/1/10 |
|---|--------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|--------------|----------------|----------------|----------------|--------------|
| Cash flow from operating activities: | | | | | | | | | | | | | |
| Net income | (77) | (55) | (10) | 11 | (33) | 10 | 12 | 12 | 24 | 45 | 67 | 67 | (42) |
| Adjustments to reconcile profit before tax with net cash flow from operations: | | | | | | | | | | | | | |
| Depreciation | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 19 | 19 | 19 | 19 | 19 |
| (Increase)/decrease in: | | | | | | | | | | | | | |
| Accounts receivable | 52 | 579 | (232) | (1,413) | (448) | 139 | (637) | (16) | (500) | (500) | (250) | - | 750 |
| Inventory | 295 | 762 | 556 | (397) | (442) | 1,000 | 90 | 309 | (885) | 256 | (420) | 1,477 | (263) |
| Increase/(decrease) in: | | | | | | | | | | | | | |
| Accounts payable | (215) | (442) | (473) | 825 | 1,037 | 213 | 616 | (705) | 443 | 594 | 510 | (1,168) | 817 |
| Accrued income taxes | (47) | (33) | (6) | 7 | (20) | 6 | 7 | 7 | 14 | 28 | 41 | 41 | (25) |
| Other current liabilities | 310 | (125) | 309 | (493) | 310 | (125) | 308 | (493) | 223 | (93) | 224 | (94) | (260) |
| Net cash flow from operating activities | 343 | 710 | 167 | (1,436) | 428 | 1,267 | 420 | (863) | (661) | 348 | 191 | 342 | 996 |
| Cash flow from investing activities: | | | | | | | | | | | | | |
| (Increase)/decrease in: | | | | | | | | | | | | | |
| Capital expenditures | - | - | (24) | - | - | - | - | (10) | - | - | - | (44) | (22) |
| Net cash flow from investing activities | - | - | (24) | - | - | - | - | (10) | - | - | - | (44) | (22) |
| Cash flow from financing activities: | | | | | | | | | | | | | |
| Term loan (Principal payments) | - | - | - | (19) | - | - | - | (19) | - | - | - | - | (19) |
| Change in note payable - Bank | (343) | (710) | (143) | 1,455 | (428) | (1,267) | (420) | 892 | 661 | (348) | (191) | (298) | (955) |
| Net cash flow from financing activities | (343) | (710) | (143) | 1,436 | (428) | (1,267) | (420) | 873 | 661 | (348) | (191) | (298) | (974) |
| Net change in cash | (0) | 0 | 0 | 0 | 0 | - | (0) | (0) | - | 0 | 0 | - | - |
| Cash - Beginning of period | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 |
| Cash - End of period | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 |

Table A-6: 15-Month Projected Income Statement

XYZ Company, Inc.**Projected Income Statement***(Monthly, \$000s)*

| Month #: | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
|-----------------------------------|--------------|--------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Week ending: | Oct 09 | Nov 09 | Dec 09 | Jan 10 | Feb 10 | Mar 10 | Apr 10 | May 10 | Jun 10 | Jul 10 | Aug 10 | Sep 10 | Oct 10 | Nov 10 | Dec 10 |
| Net sales | 8,000 | 9,500 | 10,500 | 11,000 | 11,500 | 11,500 | 10,000 | 9,000 | 8,500 | 8,000 | 9,500 | 10,500 | 10,500 | 11,500 | 12,000 |
| Cost of sales | | | | | | | | | | | | | | | |
| Product costs | 4,800 | 5,700 | 6,300 | 6,600 | 6,900 | 6,900 | 6,000 | 5,400 | 5,100 | 4,800 | 5,700 | 6,300 | 6,300 | 6,900 | 7,200 |
| SPREAD | 3,200 | 3,800 | 4,200 | 4,400 | 4,600 | 4,600 | 4,000 | 3,600 | 3,400 | 3,200 | 3,800 | 4,200 | 4,200 | 4,600 | 4,800 |
| Other cost of sales | | | | | | | | | | | | | | | |
| Direct & Indirect Labor | 680 | 680 | 620 | 620 | 620 | 620 | 620 | 620 | 620 | 620 | 620 | 620 | 620 | 620 | 620 |
| Fringes | 190 | 190 | 174 | 174 | 174 | 174 | 174 | 174 | 174 | 174 | 174 | 174 | 174 | 174 | 174 |
| Freight | 128 | 152 | 168 | 176 | 184 | 184 | 160 | 144 | 136 | 128 | 152 | 168 | 168 | 184 | 192 |
| Packaging supplies | 64 | 76 | 84 | 88 | 92 | 92 | 80 | 72 | 68 | 64 | 76 | 84 | 84 | 92 | 96 |
| Total other cost of sales | 1,062 | 1,098 | 1,046 | 1,058 | 1,070 | 1,070 | 1,034 | 1,010 | 998 | 986 | 1,022 | 1,046 | 1,046 | 1,070 | 1,082 |
| GROSS PROFIT | 2,138 | 2,702 | 3,154 | 3,342 | 3,530 | 3,530 | 2,966 | 2,590 | 2,402 | 2,214 | 2,778 | 3,154 | 3,154 | 3,530 | 3,718 |
| Selling, general & administrative | | | | | | | | | | | | | | | |
| Salaries | 200 | 200 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 | 160 |
| Fringes | 56 | 56 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 |
| Depreciation | 96 | 97 | 96 | 96 | 96 | 97 | 98 | 98 | 98 | 98 | 98 | 99 | 99 | 99 | 99 |
| Utilities | 208 | 247 | 273 | 286 | 299 | 299 | 260 | 234 | 221 | 208 | 247 | 273 | 273 | 299 | 312 |
| Repair & maintenance | 77 | 91 | 101 | 106 | 110 | 110 | 96 | 86 | 82 | 77 | 91 | 101 | 101 | 110 | 115 |
| Other SG&A | 1,600 | 1,900 | 2,100 | 2,116 | 2,144 | 2,144 | 2,060 | 2,004 | 1,976 | 1,948 | 2,032 | 2,088 | 2,088 | 2,144 | 2,172 |
| Total SG&A | 2,237 | 2,591 | 2,775 | 2,809 | 2,855 | 2,855 | 2,718 | 2,627 | 2,581 | 2,536 | 2,673 | 2,765 | 2,765 | 2,857 | 2,903 |
| OPERATING PROFIT | (99) | 111 | 380 | 534 | 676 | 675 | 248 | (37) | (179) | (321) | 105 | 389 | 389 | 673 | 815 |
| Other income / (expense) | | | | | | | | | | | | | | | |
| Interest expense (Term loan) | (7) | (6) | (8) | (6) | (6) | (6) | (6) | (6) | (6) | (6) | (6) | (5) | (5) | (5) | (5) |
| Interest expense (Revolver) | (104) | (103) | (112) | (104) | (89) | (83) | (76) | (63) | (80) | (117) | (144) | (168) | (135) | (124) | (118) |
| PROFIT BEFORE TAX | (210) | 1 | 260 | 423 | 581 | 586 | 166 | (105) | (265) | (444) | (44) | 215 | 248 | 544 | 692 |
| Income tax | 80 | (0) | (99) | (161) | (221) | (223) | (63) | 40 | 101 | 169 | 17 | (82) | (94) | (207) | (263) |
| NET INCOME | (130) | 1 | 161 | 262 | 360 | 363 | 103 | (65) | (164) | (275) | (27) | 134 | 154 | 338 | 429 |
| EBITDA | (3) | 207 | 476 | 630 | 772 | 772 | 346 | 61 | (81) | (223) | 203 | 488 | 488 | 772 | 914 |
| <i>Cumulative Net Income:</i> | <i>(130)</i> | <i>(130)</i> | <i>31</i> | <i>294</i> | <i>654</i> | <i>1,017</i> | <i>1,120</i> | <i>1,055</i> | <i>890</i> | <i>615</i> | <i>588</i> | <i>722</i> | <i>876</i> | <i>1,213</i> | <i>1,642</i> |
| <i>Cumulative EBITDA</i> | <i>(3)</i> | <i>204</i> | <i>680</i> | <i>1,310</i> | <i>2,082</i> | <i>2,854</i> | <i>3,200</i> | <i>3,261</i> | <i>3,180</i> | <i>2,957</i> | <i>3,160</i> | <i>3,648</i> | <i>4,136</i> | <i>4,908</i> | <i>5,823</i> |
| Margin analysis | | | | | | | | | | | | | | | |
| Spread margin | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% |
| Gross margin | 26.7% | 28.4% | 30.0% | 30.4% | 30.7% | 30.7% | 29.7% | 28.8% | 28.3% | 27.7% | 29.2% | 30.0% | 30.0% | 30.7% | 31.0% |
| Operating margin | -1.2% | 1.2% | 3.6% | 4.9% | 5.9% | 5.9% | 2.5% | -0.4% | -2.1% | -4.0% | 1.1% | 3.7% | 3.7% | 5.9% | 6.8% |
| EBITDA margin | 0.0% | 2.2% | 4.5% | 5.7% | 6.7% | 6.7% | 3.5% | 0.7% | -1.0% | -2.8% | 2.1% | 4.6% | 4.6% | 6.7% | 7.6% |
| Net margin | -1.6% | 0.0% | 1.5% | 2.4% | 3.1% | 3.2% | 1.0% | -0.7% | -1.9% | -3.4% | -0.3% | 1.3% | 1.5% | 2.9% | 3.6% |

Table A-7: 15-Month Projected Balance Sheet

XYZ Company, Inc.
Projected Balance Sheet
(Monthly, \$000s)

| Month #: Month: | 0 Sep 09 | 1 Oct 09 | 2 Nov 09 | 3 Dec 09 | 4 Jan 10 | 5 Feb 10 | 6 Mar 10 | 7 Apr 10 | 8 May 10 | 9 Jun 10 | 10 Jul 10 | 11 Aug 10 | 12 Sep 10 | 13 Oct 10 | 14 Nov 10 | 15 Dec 10 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| ASSETS | | | | | | | | | | | | | | | | |
| Current assets | | | | | | | | | | | | | | | | |
| Cash | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 |
| Accounts receivable | 15,524 | 16,538 | 17,500 | 18,000 | 16,250 | 17,000 | 17,250 | 15,750 | 19,000 | 22,500 | 25,500 | 26,000 | 20,000 | 21,000 | 22,000 | 17,750 |
| Inventory | 16,876 | 15,660 | 14,703 | 14,539 | 13,800 | 12,900 | 11,400 | 10,500 | 12,750 | 13,650 | 18,300 | 19,500 | 16,800 | 16,000 | 15,500 | 15,000 |
| Total current assets | 32,446 | 32,244 | 32,249 | 32,585 | 30,096 | 29,946 | 28,696 | 26,296 | 31,796 | 36,196 | 43,846 | 45,546 | 36,846 | 37,046 | 37,546 | 32,796 |
| Construction in progress | | | | | | | | | | | | | | | | |
| Fixed assets | 36,462 | 36,486 | 36,496 | 36,562 | 36,582 | 36,606 | 36,670 | 36,750 | 36,774 | 36,790 | 36,810 | 36,834 | 36,862 | 36,886 | 36,910 | 36,934 |
| Less: Acc. depreciation | (30,642) | (30,738) | (30,835) | (30,931) | (31,027) | (31,123) | (31,220) | (31,318) | (31,416) | (31,514) | (31,612) | (31,710) | (31,808) | (31,907) | (32,006) | (32,105) |
| Fixed assets, net | 5,820 | 5,748 | 5,661 | 5,631 | 5,555 | 5,483 | 5,450 | 5,432 | 5,358 | 5,276 | 5,198 | 5,124 | 5,054 | 4,979 | 4,904 | 4,829 |
| Other assets | | | | | | | | | | | | | | | | |
| Goodwill | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 |
| Total other assets | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 | 2,543 |
| Total assets | 40,809 | 40,534 | 40,453 | 40,759 | 38,194 | 37,971 | 36,688 | 34,271 | 39,697 | 44,015 | 51,587 | 53,213 | 44,442 | 44,568 | 44,993 | 40,168 |
| LIABILITIES & EQUITY | | | | | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | | | | | |
| A/P - Copper | 4,370 | 4,066 | 5,226 | 6,422 | 6,147 | 6,286 | 5,686 | 5,386 | 7,936 | 6,286 | 9,736 | 7,186 | 3,886 | 5,786 | 6,686 | 6,986 |
| Note payable - Bank | 20,008 | 20,267 | 19,044 | 17,912 | 15,218 | 14,295 | 13,045 | 10,781 | 13,782 | 20,034 | 24,620 | 28,859 | 23,193 | 21,190 | 20,190 | 14,393 |
| Accrued income taxes | 156 | 76 | 77 | 175 | 336 | 557 | 779 | 842 | 802 | 702 | 533 | 516 | 598 | 693 | 900 | 1,163 |
| Other current liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total current liabilities | 24,534 | 24,409 | 24,346 | 24,510 | 21,701 | 21,138 | 19,511 | 17,010 | 22,520 | 27,022 | 34,889 | 36,562 | 27,677 | 27,668 | 27,776 | 22,542 |
| Other Liabilities | | | | | | | | | | | | | | | | |
| Term loan | 1,304 | 1,285 | 1,267 | 1,248 | 1,229 | 1,210 | 1,190 | 1,171 | 1,152 | 1,132 | 1,113 | 1,093 | 1,073 | 1,054 | 1,034 | 1,014 |
| Total liabilities | 25,838 | 25,694 | 25,613 | 25,757 | 22,930 | 22,347 | 20,701 | 18,181 | 23,672 | 28,155 | 36,002 | 37,655 | 28,751 | 28,722 | 28,810 | 23,555 |
| Stockholder's Equity | | | | | | | | | | | | | | | | |
| Capital stock | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 |
| Additional paid-in capital | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 | 6,112 |
| Retained earnings | 8,658 | 8,528 | 8,529 | 8,690 | 8,952 | 9,312 | 9,675 | 9,778 | 9,713 | 9,549 | 9,273 | 9,246 | 9,380 | 9,534 | 9,871 | 10,301 |
| Total equity | 14,970 | 14,840 | 14,840 | 15,001 | 15,264 | 15,624 | 15,987 | 16,090 | 16,025 | 15,860 | 15,585 | 15,558 | 15,692 | 15,846 | 16,183 | 16,612 |
| Total liabilities & equity | 40,809 | 40,534 | 40,453 | 40,759 | 38,194 | 37,971 | 36,688 | 34,271 | 39,697 | 44,015 | 51,587 | 53,213 | 44,442 | 44,568 | 44,993 | 40,168 |

Table A-8: 15-Month Projected Cash Flow Statement (GAAP-Compliant)

XYZ Company, Inc.
Projected Cash Flow Statement
(Monthly, \$000s)

| Month #: Month: | 1 Oct 09 | 2 Nov 09 | 3 Dec 09 | 4 Jan 10 | 5 Feb 10 | 6 Mar 10 | 7 Apr 10 | 8 May 10 | 9 Jun 10 | 10 Jul 10 | 11 Aug 10 | 12 Sep 10 | 13 Oct 10 | 14 Nov 10 | 15 Dec 10 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cash flow from operating activities: | | | | | | | | | | | | | | | |
| Net income | (130) | 1 | 161 | 262 | 360 | 363 | 103 | (65) | (164) | (275) | (27) | 134 | 154 | 338 | 429 |
| Adjustments to reconcile profit before tax with net cash flow from operations: | | | | | | | | | | | | | | | |
| Depreciation | 96 | 97 | 96 | 96 | 96 | 97 | 98 | 98 | 98 | 98 | 98 | 99 | 99 | 99 | 99 |
| (Increase)/decrease in: | | | | | | | | | | | | | | | |
| Accounts receivable | (1,014) | (962) | (500) | 1,750 | (750) | (250) | 1,500 | (3,250) | (3,500) | (3,000) | (500) | 6,000 | (1,000) | (1,000) | 4,250 |
| Inventory | 1,216 | 956 | 164 | 739 | 900 | 1,500 | 900 | (2,250) | (900) | (4,650) | (1,200) | 2,700 | 800 | 500 | 500 |
| Increase/(decrease) in: | | | | | | | | | | | | | | | |
| Accounts payable | (305) | 1,160 | 1,196 | (274) | 139 | (600) | (300) | 2,550 | (1,650) | 3,450 | (2,550) | (3,300) | 1,900 | 900 | 300 |
| Accrued income taxes | (80) | 0 | 99 | 161 | 221 | 223 | 63 | (40) | (101) | (169) | (17) | 82 | 94 | 207 | 263 |
| Other current liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net cash flow from operating activities | (216) | 1,252 | 1,216 | 2,734 | 966 | 1,333 | 2,364 | (2,958) | (6,217) | (4,546) | (4,196) | 5,714 | 2,047 | 1,043 | 5,841 |
| Cash flow from investing activities: | | | | | | | | | | | | | | | |
| (Increase)/decrease in: | | | | | | | | | | | | | | | |
| Capital expenditures | (24) | (10) | (66) | (20) | (24) | (64) | (80) | (24) | (16) | (20) | (24) | (28) | (24) | (24) | (24) |
| Net cash flow from investing activities | (24) | (10) | (66) | (20) | (24) | (64) | (80) | (24) | (16) | (20) | (24) | (28) | (24) | (24) | (24) |
| Cash flow from financing activities: | | | | | | | | | | | | | | | |
| Term loan (Principal payments) | (19) | (19) | (19) | (19) | (19) | (19) | (19) | (19) | (19) | (20) | (20) | (20) | (20) | (20) | (20) |
| Change in note payable - Bank | 259 | (1,223) | (1,131) | (2,695) | (923) | (1,250) | (2,264) | 3,001 | 6,253 | 4,585 | 4,239 | (5,666) | (2,003) | (999) | (5,797) |
| Net cash flow from financing activities | 240 | (1,242) | (1,150) | (2,714) | (942) | (1,269) | (2,284) | 2,982 | 6,233 | 4,566 | 4,220 | (5,686) | (2,023) | (1,019) | (5,817) |
| Net change in cash | 0 | - | 0 | (0) | (0) | - | - | - | - | - | - | - | - | (0) | - |
| Cash - Beginning of period | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 |
| Cash - End of period | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 |

Appendix B: Sample Assumptions

The accompanying financial model projects financial statements for XYZ Company, Inc. for the months ending October 31, 2009 to December 31, 2010. The projections represent the company's best estimate of future events, and are included as Tables A-1 through A-8. Actual results will likely vary from those projected and variances may be material.

The actual balance sheet as of September 30, 2009 is included. Revenue and expense projections are based on the company's current expectations and are detailed below.

VI. Key Revenue Assumptions

XYZ Company, Inc. is a seasonal business with the height of its selling season in fall and winter. Customers include "big-box" and "mom-and-pop" retailers (the majority of which are hardware or home-improvement stores), who then sell the company's products directly to the end user. XYZ has significant supplier relationships with several blue-chip companies including Home Depot, Lowe's and Wal-Mart. The company has been successful in limiting customer concentration for any single customer to no more than 15% of sales.

Projections incorporate a projected 20% drop in sales from the prior twelve months.

Sales growth comes from growth in same-store sales and growth in the customer base. The projections assume that the company maintains its current network of big-box and mom-and-pop retailers, but that no additional customers are added through 2010.

VII. Key Expense Assumptions

Management has prepared projections for expense items based on historical results and the relationship of expenses to sales (for variable costs) or projected growth rates (for fixed costs). Variable costs tied to production are based on actual operating experience at the current facility; any adjustments are noted in the assumptions.

A. Cost of Sales

Product costs include materials and freight paid on delivery. Historically, spread margin at the company has averaged 43%. Because of planned sales and lower pricing as a result of the current economy, projection of spread margin is 40%, so that product costs are projected at 60% of sales.

Direct & indirect labor expense is derived from current hourly wage rates. Weighted-average wage rates for direct and indirect laborers are expected to equal \$15.10. Labor expense is estimated as a component of (1) average hourly wage rate and (2) hours per period. Hours are calculated as normal production plus overtime work. There are currently 228 hourly employees

who comprise direct & indirect labor. After planned labor cuts in November, the company expects to employ 182 employees.

Fringes - XYZ maintains full medical, dental and life insurance plans for all of its full-time employees. XYZ also matches employee 401(k) contributions up to specified levels, at the discretion of the Board of Directors, currently 3%. Fringe benefits for direct & indirect laborers are estimate to equal 28% of total direct and indirect labor wages.

Freight expense includes the expense that XYZ incurs in shipping its products to customers and is projected to equal 1.6% of sales.

Packaging supplies - Expense for packaging supplies includes expense for pallets, wrapping materials, and other supplied used in packaging the end product for delivery to customers. Packaging supplies expense varies with production, and is projected to equal 0.8% of sales.

B. Selling, General & Administrative Expenses (SG&A)

Salaries - SG&A salaries include salaries for fixed positions in company administration. SG&A Salaries are considered to be fixed during the next 15 months. The company is anticipating a decrease in salaried employees from 43 to 34 in November 2009.

Fringes for salaried positions include life insurance, health insurance, social security, employment taxes, and 401(k) contributions. Fringes are projected to equal 28% of SG&A salaries each period.

Depreciation - Depreciation is estimated using a combination of an existing schedule and a new schedule to account for the company's capital budget plan. Fixed assets acquired as part of the capital budget plan are depreciated straight-line assuming no residual value according to an estimated average 10-year useful life.

Utilities - There are four main components to utilities costs: (1) the costs to heat, cool, and otherwise operate the building - also known as building overhead, (2) costs that vary with production, and (3) water used in production. Utilities are estimated at 2.6% of sales.

Repair & maintenance - Expense for repair and maintenance is a function of the level of production and includes expense required to repair and maintain factory equipment. Repair and maintenance is projected to equal 1.0% of sales.

Other SG&A includes automobile expense, business insurance, dues and subscriptions, professional fees, and expenses for computers, training, safety programs, landscaping, licensing, meal/entertainment, office maintenance, office supplies, samples, telephone, and travel. Non-cash expenses include bad debt expense and an obsolete inventory allowance. Other SG&A costs contain a fixed component of \$1.5 million per month to account for fixed components, including projected property taxes. The variable component is projected to equal 5.6% of sales.

C. Other Income & Expense

Interest expense on the working capital line is assumed at a 7.0% annual rate, paid monthly. Interest expense also includes 6.0% interest paid on existing long-term debt that matures in 2014.

Income tax expense is projected at 38% of profit before tax, and is accrued as a liability on the balance sheet.

VIII. Balance Sheet Assumptions

A. Assets

Accounts receivable - Management has provided a week-by-week budget of expected accounts receivable collections over the next three months (October-December 2009). Through 2010, a measure of days on hand (DOH) is used to project receivables accounts into the future. During the summer, XYZ makes “early” sales to dealers who are stocking up for the height of the season. These sales are made using longer, 3-5 month payment terms, causing the average “days on hand” of XYZ’s receivables to rise during the summer and fall.

The projected accounts receivable balance for 2010 is based on the historical average DOH during each month and detailed as Table 1.

Table 1: Projected Accounts Receivable Days on Hand

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| A/R DOH | 45 | 45 | 45 | 45 | 60 | 75 | 90 | 90 | 60 | 60 | 60 | 45 |

Inventory - Management has provided a week-by-week budget of inventory receipts for the next three months (October-December 2009). The inventory balance is drawn down by projected sales/shipments. Through 2010, inventory is best projected using a forward-looking days on hand measure. For example, at the end of April we project that the factory will have enough inventory on hand to satisfy the next 60 days’ projected sales.

Management builds its inventory to a peak level in the late summer to prepare for the fall and winter, and maintains a lower level during the spring. Assumptions are detailed in Table 2 below.

Table 2: Projected Inventory Forward-looking Days on Hand

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Fwd DOH | 60 | 60 | 60 | 60 | 75 | 75 | 90 | 90 | 75 | 75 | 75 | 75 |

Fixed assets - Capital expenditures are based on a preexisting budget detailed as Table 3. Expenditures are highest in December 2009 and in March-April 2010 due to expected roof repairs and basement repairs and waterproofing.

Fixed assets acquired as part of the capital budget plan are depreciated straight-line assuming no residual value according to an estimated average 10-year useful life.

Table 3: Capital Expenditures Budget (\$000s)

| CapEx | 2009 | | | 2010 | | | | | | | | | | | |
|-------|------|-----|-----|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| | 24 | 10 | 66 | 20 | 24 | 64 | 80 | 24 | 16 | 20 | 24 | 28 | 24 | 24 | 24 |

B. Liabilities

Accounts payable - Expected payments to suppliers for the first four weeks are provided in a budget by management. Thereafter, payments are projected to be made on 30-day terms.

Working capital line (Note payable - Bank) - The borrowing base on the working capital line of credit is calculated to be 85% of the accounts receivable and 50% of the inventory balance. Interest paid on borrowings is at a 7.0% annual rate, paid monthly.

Other current liabilities include accrued interest and accrued payroll. Interest is accrued over the course of the month and paid at month's end. Direct & indirect labor (including fringes) is paid bi-monthly, while salaried positions are paid monthly. Therefore, the liability account is essentially debited in full at the end of each month. Other expenses, including freight, packaging supplies, utilities, repair and maintenance, and other SG&A is paid as expensed.

Term loan - The company borrowed \$1.7 million in October 2007 in connection with an equipment purchase. The loan is being paid at 6.0% interest, amortized over seven years (through 2014).

C. Stockholder's Equity

Retained earnings is credited and debited according to the amount of net income in each period. No distributions to stockholders are expected or assumed through 2010.

Appendix C: A Taxonomy of Forward-looking Financials

Accounting literature distinguishes among different types of forward looking financial statements. While such distinctions are not usually drawn by consultants or bankers working on projections for companies in distress, they do help to put their work in perspective.

A Taxonomy of Forward-Looking Financial Statements

- Historical financial statements
- Subsidiary financial analyses
 - Aged receivables
 - Aged payables
 - Debt service schedules
 - Lease schedules
 - Other schedules
- Financial projections
- Financial forecasts
- Pro forma financial statements

Historical financial statements are mentioned, not because they are forward-looking, but because they are essential to interpretation of forward-looking statements. Annual audited and regular interim statements are necessary to provide context to the forward-looking statements. Subsidiary financial analyses are important building blocks supporting the forward-looking statements.

The AICPA *Guide for Prospective Financial Information* defines a **Financial Forecast** as

Prospective financial statements that present, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and cash flows. A financial forecast is based on the responsible party's assumptions reflecting conditions it expects to exist and the course of action it expects to take.

A **Financial Projection** is defined as

Prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and cash flows. A financial projection is sometimes prepared to present one or more hypothetical courses of action for evaluation, as in response to a question that begins, for instance, "What would happen if ...?"

Pro Forma Financial Statements are essentially historical statements and do not purport to be prospective financial statements. The objective of some "pro forma information" is to show what the significant effects on historical financial information might have been, had a consummated or proposed transaction (or event) occurred at an earlier date.

Forward-looking Financials
Appendix

Forward-looking financial statements prepared in connection with businesses in distress are usually projections rather than forecasts, as at least some of the assumptions are hypothetical rather than based on expectations.

Porter White and Company