Small Business Lending
National Community Development Lending School
March 26th – 28th, 2012
Seattle, Washington

INTRODUCTION

Examples of loans. Small business lending includes microloans from $500 to a home-based sole proprietor so he can purchase equipment for a mobile carpet cleaning service, to $35,000 to a hair stylist so she can acquire from her employer the hair salon's business assets, to $100,000 to a business partnership so it can purchase a vacant theater and renovate it as the only movie house in a rural community, to $300,000 to a start-up corporation so it could borrow an additional $750,000 for the purchase equipment for this sand and gravel operation, to $500,000 to a nonprofit so it can provide its equity in a $5 million New Markets Tax Credit acquisition/rehab of its new corporate headquarters.

Borrowers not bankable, in whole or in part. These described loans share in advancing community development goals but also have traits that make such transactions a challenge to traditional lending institutions. Commercial banks declined all of these transactions but, through a community development corporation, banks were able to support these projects indirectly because their investments in the CDC (1) spread the risk, (2) spread the expense and (3) concentrated expertise to underwrite, originate and service the loans. In this course you will be introduced to the principles of small business lending and learn how to "critical path" the decision to lend or not lend.

Course Description. The course discusses the meaning of small business community development and effective ways to structure small business loans. It primarily focuses on credit and cash flow analysis but also talks about the role of technical assistance in the management of small business loan portfolios. Discussion in the course includes how commercial banks often view nonprofit small business lending, microenterprise lending, and small business loan funds.

OBJECTIVES

Through an active interaction process among participants and the instructor, participants will "get it" as it relates to underwriting small business community development loans. The course is designed for the participant to:

- gain a general understanding of the fundamentals of credit analysis,
- create a familiarity with small business financial statements and,
- embrace a conceptual framework for the identification of gaps and solutions for making loans, and
- stimulate an excitement for the utilization of financial analysis as an important tool in the structuring of community development projects.

FACULTY

Andrew W. Gordon, President
ARIZONA MULTIBANK
Community Development Corporation
101 North 1st Avenue, Suite 1880
Phoenix, Arizona 85003-1910
Phone: (602) 643-0030, Ext. 1
Email: agordon@multibank.org
Webpage: www.multibank.org

AGENDA

March 27th, 2010 (Tuesday Afternoon)

START	END	MINUTES	TOPIC	PAGE
1:30 p.m.	1:40 p.m.	10	▪ **Introductions**	☺
1:40 p.m.	1:50 p.m.	10	▪ **Course Outline and Objectives**	4
1:50 p.m.	2:30 p.m.	40	▪ **The 5 C's of Credit**	5
2:30 p.m.	3:15 p.m.	30 15	▪ **Initial Loan Interview Criteria** ▪ **Handout and Worksheet** ▪ **Financial Statement Overview** ▪ **Appendix A – Glossary of Terminology**	7 11 24
3:15 p.m.	3:30 p.m.	15	▪ **BREAK**	
3:30 p.m.	4:00 p.m.	5 25	▪ **Financial Statements** ▪ **Balance Sheet Asset and Liability Accounts** ▪ **Income Statement Accounts** ▪ **Appendix B – An Overview** ▪ **Appendix C – Personal Financial Statement**	 12 14 27 32
4:00 p.m.	4:35 p.m.	35	▪ **Case Study** ▪ **Financial Statement Analysis** ▪ **Worksheet**	15 18
4:35 p.m.	5:00 p.m.	25	▪ **Community Development Finance** ▪ **Addressing the Gap in Credit Analysis**	21 22
1:30 p.m.	5:00 p.m.	210	▪ **End of Class**	

= Handout and Worksheet

AGENDA

March 28th, 2010 (Wednesday Morning)

START	END	MINUTES	TOPIC	PAGE
⏲	⏲			
8:30 a.m.	8:40 a.m.	10	▪ **Introductions**	☺
8:40 a.m.	8:50 a.m.	10	▪ **Course Outline and Objectives**	4
8:50 a.m.	9:30 a.m.	40	▪ **The 5 C's of Credit**	5
9:30 a.m.	10:15 a.m.	30 15	▪ **Initial Loan Interview Criteria** ▪ **Worksheet** ▪ **Financial Statement Overview** ▪ **Appendix A – Glossary of Terminology**	7 ✍ 11 24
10:15 a.m.	10:30 a.m.	15	▪ **BREAK**	
10:30 a.m.	11:00 a.m.	5 25	▪ **Financial Statements** ▪ **Balance Sheet Asset and Liability Accounts** ▪ **Income Statement Accounts** ▪ **Appendix B – An Overview** ▪ **Appendix C – Personal Financial Statement**	 12 14 27 32
11:00 a.m.	11:35 a.m.	35	▪ **Case Study** ▪ **Financial Statement Analysis** ▪ **Handouts and Worksheets**	15 18 🗐 ✍
11:35 a.m.	12:00 p.m.	25	▪ **Community Development Finance** ▪ **Addressing the Gap in Credit Analysis**	22 23
8:30 a.m.	12:00 p.m.	210	▪ **End of Class**	✋

🗐 ✍ = Handout and Worksheet

COURSE OUTLINE and OBJECTIVES

TOPIC	OBJECTIVE	PAGE
▪ **Introductions**	**Warm-up exercise.** Obtain a slight familiarity with each participant and how this course relates to his/her interests.	
▪ **Course Outline and Objectives**	**Course outline and objectives.**	4
▪ **The 5 C's of Credit**	**5 factors that drive credit quality.** Gain an appreciation for 5 factors that can determine predictability of repayment.	5
▪ **Initial Loan Interview Criteria** ▪ **Worksheet**	***Information collection.*** Practice the primary technique for collecting basic information that supports the 5-Cs.	7
▪ **Financial Statement Overview**	***Information quality.*** Review the levels of financial statement preparation.	11
▪ **Appendix A -- Glossary**	**Financial statement *terminology*.** Refer to Glossary as needed.	24
▪ **BREAK**		
▪ **Financial Statements** ▪ **Balance Sheet Asset and Liability Accounts** ▪ **Income Statement Accounts**	**Financial statement *presentation*.** Examine standard format for presenting information and obtain a general curiosity for what business concepts can be revealed.	 12 14
▪ **Appendix B – Financial Statement Overview** ▪ **Appendix C – Personal Financial Statement**	**Financial statement *discussion.*** Refer to fuller description of Balance Sheet and Income Statement characteristics.	27 32
▪ **Case Study** ▪ **Financial Statement Analysis** ▪ **Handouts and Worksheets**	**Financial statement *diagnosis.*** Select relevant financial analysis ratios, perform calculations, cash flow analysis and interpret results appropriate to a credit assessment of the subject small business.	15 18
▪ **Community Development Finance** ▪ **Addressing the Gap in Credit Analysis**	**Conventional financial analysis *gaps*.** Apply freshly obtained credit perspective to conceptualize solutions to financing challenges for community development projects.	22 23
▪ **End of Class**		

= Handout and Worksheet

THE 5 C's OF CREDIT [1]

What they mean to your small business loan

It's one of the most common questions among small business owners seeking financing: "What will the bank be looking for from me and my business?" While each lending situation is unique, many banks utilize some variation of evaluating the five C's of credit when making credit decisions: character, capacity, capital, conditions and collateral. We'll take a look at each of these ingredients and how they may impact your funding request. Review each category and see how you stack up.

- **Character** -- What is the character of the management of the company? What is management's reputation in the industry and the community? Investors want to put their money with those who have impeccable credentials and references. The way you treat your employees and customers, the way you take responsibility, your timeliness in fulfilling your obligations — these are all part of the character question.

  This is really about you and your personal leadership. How you lead yourself and conduct both your business and personal life gives the lender a clue about how you are likely to handle leadership as a CEO. It's a banker's responsibility to look at the downside of making a loan. Your character immediately comes into play if there is a business crisis, for example. As small business owners, we place our personal stamp on everything that affects our companies. Often, banks do not even differentiate between us and our businesses. This is one of the reasons why the credit scoring process evolved, with a large component being our personal credit history.

- **Capacity** -- What is your company's borrowing history and track record of repayment? How much debt can your company handle? Will you be able to honor the obligation and repay the debt? There are numerous financial benchmarks, such as debt and liquidity ratios, that investors evaluate before advancing funds. Become familiar with the expected pattern in your industry. Some industries can take a higher debt load; others may operate with less liquidity.

- **Capital** — How well-capitalized is your company? How much money have you invested in the business? Investors often want to see that you have a financial commitment and that you have put yourself at risk in the company. Both your company's financial statements and your personal credit are keys to the capital question. If the company is operating with a negative net worth, for example, will you be prepared to add more of your own money? How far will your personal resources support both you and the business as it is growing? If the company has not yet made profits, this may be offset by an excellent customer list and payment history. All of these issues intertwine, and you want to ensure that the bank perceives the business as solid.

- **Conditions** — What are the current economic conditions and how does your company fit in? If your business is sensitive to economic downturns, for example, the bank wants a comfort level that you're managing productivity and expenses. What are the trends for your industry, and how does your company fit within them? Are there any economic or political hot potatoes that could negatively impact the growth of your business?

- **Collateral** — While cash flow will nearly always be the primary source of repayment of a loan, bankers look at what they call the secondary source of repayment. Collateral represents assets that the company pledges as an alternate repayment source for the loan. Most collateral is in the form of hard assets, such as real estate and office or manufacturing equipment. Alternatively, your accounts receivable and inventory can be pledged as collateral.

  The collateral issue is a bigger challenge for service businesses, as they have fewer hard assets to pledge. Until your business is proven, you're nearly always going to pledge collateral. If it doesn't come from your business, the bank will look to your personal assets. This clearly has its risks — you don't want to be in a situation where you can lose your house because a business loan has turned sour. If you want to be borrowing from banks or other lenders, you need to think long and hard about how you'll handle this collateral question.

Keep in mind that in evaluating the five C's of credit, investors don't give equal weight to each area. Lenders are cautious, and one weak area could offset all the other strengths you show. For example, if your industry is sensitive to economic swings, your company may have difficulty getting a loan during an economic downturn — even if all other factors are strong. And if you're not perceived as a person of character and integrity, there's little likelihood you'll receive a loan, no matter how good your financial statements may be. As you can see, lenders evaluate your company as a total package, which is often more than the sum of the parts. The biggest element, however, will always be you.

THE INITIAL LOAN INTERVIEW CRITERIA

QUESTIONS THAT SHOULD BE ASKED [2]

Even before the initial interview you can plan your call. Develop questions that let the potential borrower tell you about his/her business. You can develop these based upon your knowledge of the industry, the community or knowledge gained from business people that know the company.

It is usually not possible to obtain all the information necessary for a complete evaluation of a credit in the initial loan interview. The interviewer, however, should attempt to get as much as possible in the following major areas:

A. Amount and Purpose of the Loan
B. Primary and Secondary Sources of Repayment and Financing
C. Financial Data
D. Customers' payment history and reputation. Don't forget to ask permission to take notes during the interview.

The questions below are some which come up during the course of a loan interview. They are arranged under the major headings.

A. Amount and Purpose of the Loan

1. The basic loan request
   _______a. How much money does the borrower want/need?
   _______b. For how long does he want/need the money?
   _______c. For what does he want/need the money?

B. Primary and Secondary Sources of Repayment and Financing

2. Primary sources
   _______a. How does the borrower expect to obtain funds for repayment?
   _______b. What are the present main sources of financing? Banks? Supplies?
3. Secondary sources
   _______a. What other sources of repayment are available? Other financing? Sale of fixed assets?
   _______b. What are the secondary sources of financing? Sale of equity? Conversion to other types of debt?
   _______c. Are financing companies or factors used for funds?
   _______d. Do principal, relatives, friends, customers, or suppliers advance funds to the company?
   _______e. What is the nature and extent of these loans?
4. Suppliers
   _______a. Who are the major suppliers?
   _______b. What are the regular trade terms offered to the company?
   _______c. How good is their current relationship?
   _______d. Are discounts taken? Are payments prompt?
   _______e. Are any items currently in dispute or litigation?
   _______f. Are any special terms or relationships involved?
   _______g. Are any transactions with or through closed affiliated or mutually controlled enterprises?
   _______h. Are contracts or franchises involved? What are the details of these relationships?

C. Financial Data

5. Financial statements
_______a. Are prior years' figures readily available?
_______b. Can current interim data be obtained?
_______c. Who is the company's accountant? Is he or she a CPA?
_______d. How comprehensive are the auditing procedures?
_______e. How often does the accountant prepare figures?
_______f. Are tax payments current?
_______g. Are separate deposit accounts kept for taxes?
_______h. What are the company's selling terms to customers?
_______i. What are the company's credit and collection philosophies?
_______j. Are there any heavy customer concentrations?
_______k. What is the normal bad-debt charge-off experience?
_______l. What is the condition of inventory?
_______m. How is inventory valued? Any cushion in calculations?
_______n. How current is the company's IRS clearance?
_______o. Is "friendly" debt subordinated?
_______p. What has been the sales trend? What are future marketing plans?
_______q. Are costs under control? What are the problem areas?
_______r. To what extend are profits retained in the business?
_______s. How much do principals or their families take down in salaries, expenses, bonuses, etc.?
_______t. Are there any hidden or contingent liabilities?

6. Insurance
_______a. What kinds of coverage are maintained?
_______b. What is the extent of coverage?
_______c. Are all premiums current?
_______d. Who is the company's agent or broker?
_______e. What is the nature and extent of claims filed in recent years? Are there any pending settlements?

7. Plant and equipment
_______a. Are facilities owned or leased?
_______b. Location?
_______c. Lease terms? Options? Renewals?
_______d. Is any portion being financed?
_______e. If so, who has the security interest?
_______f. In terms of environmental hazard issues, has there been any history of toxic waste disposal or storage on the property?
_______g. To the borrower's knowledge, has there been any evidence of environmental on any of the surrounding properties within at least five miles?
_______h. Has the property ever had an environmental assessment? When and who performed it? Would a copy of the assessment be available to the bank?
_______i. Is the current situation adequate to meet future needs?
_______j. Has there been a recent appraisal? What value was given to the property and equipment?

D. Reliability

8. Business history
   _______a. How long has the business been in existence?
   _______b. What is its present legal form?
   _______c. How long has it been under present control?
   _______d. Who are its principal owners? What shares does each own?
   _______e. Is management separate from ownership?
9. Business nature
   _______a. Is this a manufacturing, trading, or service company?
   _______b. What are its products and services?
   _______c. Who are its customers?
   _______d. What market areas are involved?

10. Market environment
   _______a. Who are the borrower's direct competitors?
   _______b. Are there vendors, or customers of the borrower, who could become competitors?
   _______c. What are the barriers to others entering the borrower's market?
   _______d. How do successful competitors operate?
   _______e. Are there sure ways to fail in this market? How does one protect oneself from doing that?
11. Personnel
   _______a. How many persons does the business employ?
   _______b. How many persons are in various job categories?
   _______c. Are the workers unionized?
   _______d. To what extent is the owner's family involved?
   _______e. What are the various official duties? Who performs these duties?
   _______f. Is there sufficient depth to ensure management succession?
   _______g. What is the condition of the local labor market?
12. Principals
   _______a. Does it appear that any of the principals has health problems?
   _______b. Is there a succession plan in place?
   _______c. Does the company maintain key person insurance?
   _______d. What experience does management have in this industry?
   _______e. What interests do the principals have beyond the business?

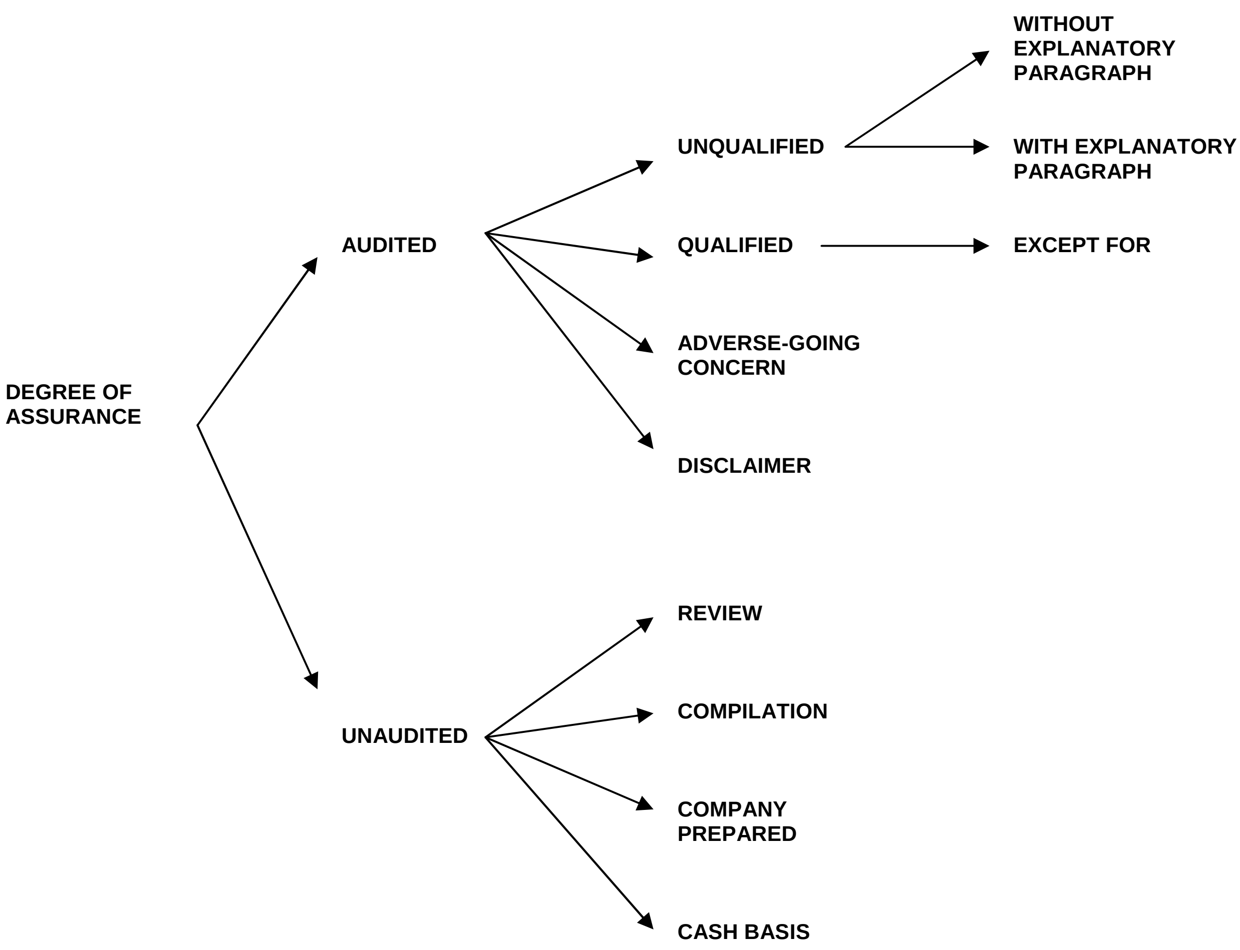
13. Principals worth outside business
   _______a. Will they provide personal financial statements?
   _______b. Where is personal banking done?
   _______c. Do they maintain savings accounts? Where?
   ______d. What is the extent of real estate? Are there outstanding mortgages against this property?
   _______e. What is the nature of investments?
   _______f. Are there any contingent liabilities (future liabilities subject to judgment) not in the financial statements?
   _______g. Are there any unrecorded tax liabilities?
   _______h. Are assets jointly owned? With whom?
   _______i. What is the extent of life insurance coverage?
   _______j. Are personal assets pledged to secure any business loans?

14. Business banking relationship
    _______a. What bank(s) are currently being used?
    _______b. Reasons for changing bank relationships?
    _______c. What is expected in average collected deposit balances?
    _______d. What is the company's borrowing pattern?
    _______e. Are loans subject to any form of collateral security?
    _______f. How much is outstanding now?
    _______g. How good is current relationship with present bank(s)?
    _______h. Are any company funds kept in savings? Why?

FINANCIAL STATEMENT PREPARATION [2]

A major determinant of reliability (and the first thing the analyst should question about financial statement quality) is the degree of assurance that the statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). You identify the degree of assurance by reading the auditor's opinion and establishing whether the financial statements are audited or unaudited and, if they are audited, what type of opinion the auditor has issued.

The chart below shows how audited and unaudited statements can each be broken down into four categories.



BALANCE SHEET – ASSET ACCOUNTS [2]

CURRENT ASSETS

Cash
Marketable Securities
Accounts Receivable
Allowance for uncollectible Accounts
Inventories
Other Current Assets
Total Current Assets

INVESTMENTS & OTHER LONG-TERM ASSETS

Investments in Affiliated Companies
Cash Value of Life Insurance
Rental Properties
Notes Receivable and "Due Froms"
Restricted Cash
Other Non-current Accounts
Total Investments,
Long-Term Receivables, and
Other Assets

FIXED ASSETS

Property and Equipment
Accumulated Depreciation

INTANGIBLES
Goodwill
Other Intangibles
Accumulated Amortization

Cash
Includes unrestricted cash and cash equivalents intended to be converted to cash; usually with original maturities of three months or less, such as commercial paper and short-term certificates of deposit.

Marketable Securities
Liquid and short-term investments such as listed stocks, T-bills. Companies often include marketable securities as cash and equivalents.

Accounts Receivable
Amounts due currently from customers, under standard invoice terms, in payment for goods and services; usually reported net of an allowance for uncollectible accounts.

Investments in Affiliated Companies
Cost of the company's ownership of other companies, not wholly owned and not consolidated; indicates more control but substantially less liquidity than investments in marketable securities.

Cash Value of Life Insurance
Amounts that could be realized by cashing in life insurance policies; often reclassified to current by bankers.

Rental Properties
Real estate or equipment held by the company to rent as income producing property, not used in the company's generation of products or services; usually reported net of accumulated depreciation.

Property and Equipment
Fixed assets used in the company's generation of goods and services, including land, buildings, machinery and equipment, and office furniture and equipment. Amounts, including both assets owned and those financed with capital leases, are shown "gross" and "net", after subtracting accumulated depreciation.

Goodwill
Cost in excess of net assets of businesses acquired net of accumulated amortization.

Other Intangibles
Assets such as patents, copyrights, trademarks, brands, formulas, franchises, and mailing lists, net of accumulated amortization.

Allowance for Uncollectible Accounts
Also called Allowance for Bad Debts, and amount management believes might not be collectible from customers; a contra account subtracted, from gross accounts receivable to yield is collectible.

Inventories
Merchandise purchased for resale, or finished goods manufactured and held for sale, together with related raw materials and work-in-process.

Other Current Assets
Accounts such as income tax refunds, receivable, current receivables from other than customers, certain prepaid expenses for which benefits will be realized in the current period. Bankers often classify some of these accounts to non-current.

Total Current Assets
Total of the above accounts.

Notes Receivable and "Due From"
Amounts owed to the company pursuant to promissory notes, such as notes due from officers, notes receivable from sales of assets.

Restricted Cash
Deposits not able to be withdrawn currently or not available for unrestricted use, such as escrow accounts, sinking funds, long-term certificates maturing after one year.

Other Non-current Accounts
Such as prepaid expenses for which benefits will be realized after one year, deferred income tax benefits applicable to future periods.

Total Investments, Long-Term Receivables, and Other Assets
Total of above accounts, beginning with investments in affiliated companies.

Accumulated Depreciation
The sum of amounts expensed to date as depreciation for each asset carried under property and equipment, except that land is never depreciated.

Accumulated Amortization
The sum of amounts expensed to date for amortization of intangible assets, similar to accumulated depreciation for fixed assets.

BALANCE SHEET – LIABILITY ACCOUNTS [2]

Overdrafts
A negative cash position at the bank on the company's books. Whenever the asset cash is reported negative, reclassify the amount to a current liability.

Notes Payable
Amounts owed to banks under promissory notes, commercial paper obligations, and sometimes to other creditors such as stockholders or suppliers.

Current Maturities of Long-Term Debt (CMLTD)
The portion of scheduled, long-term obligations that is due within a year.

Accounts Payable (Trade Payables)
Spontaneous credit, arising simultaneously with the shipment of goods from suppliers on open account.

Due To
Usually the liability counterparts of "Due Froms" on the asset side of the balance sheet. Sometimes displayed following notes payable, these amounts are owed to employees, officers, stockholders, subsidiaries, and parent or affiliate companies.

Overdrafts

Notes Payable

Current Maturities of Long-Term Debt

Accounts Payable (Trade Payables)

Due To

Accruals

Income Taxes Payable

Total Current Liabilities

Long-Term Debt (LTD)

Deferred Taxes

Accruals
Amounts expensed on the income statement but not yet paid.

Income Taxes Payable
Current taxes payable, sometimes broken down by the accountant into taxes payable on the present year's profits as well as the portion of deferred taxes that must be paid in the current year.

Total Current Liabilities
The total of the above accounts, due within one year of the statement date.

Long -Term Debt (LTD)
Amounts due after one year, including bank loans, mortgages, bonds, debentures, and obligations under capital leases.

Deferred Taxes
Taxes that have accrued on income reported in financial statements that have not yet been reported to the IRS.

INCOME STATEMENT ACCOUNTS [2]

Gross Sales (or Gross Revenues)
Total billings; receipts of cash or accounts receivable in exchange for the company's products or services.

Returns and Allowance
Discounts allowed and adjustments or refunds for goods returned by customers.

Net Sales
Gross sales, net of any returns and allowances.

Cost of Goods Sold (COGS)
The cost to produce the goods or services sold during the period, including materials, labor, other costs incurred directly in the production process, and sometimes depreciation.

Gross Profit
Net Sales minus **COGS** (when calculated as a % of net sales, the gross profit margin).

Operating Expenses
All selling, general and administrative expenses, and special classifications such as research and development. (Includes depreciation not in **COGS**; does not include interest expense.)

Operating Profit
Gross profit minus operating expense.

Income Statement

Gross Sales
-- Returns and Allowances
Net Sales

-- Cost of Goods Sold (COGS)
Gross Profit

Operating Expenses
Operating Profit

+ Other Income
-- Other Expense
Profit Before Tax

-- Income Tax
Profit After Tax

Extraordinary Income/ + or –
Expense and Cumulative Effects
Net Income

Other Income
Revenues for other than sales of goods and services, such as interest income, gain on sale of fixed assets.

Other Expense
Miscellaneous expenses, including interest, not classified elsewhere.

Profit Before Tax
Operating profit plus other income minus other expense.

Income Tax
Federal (and state, if any) taxes on income reported for the period, whether current or deferred.

Profit After Tax
Profit before tax minus income tax.

Extraordinary Income/Expense and Cumulative Effects
The after-tax effect of accounting changes or of income or expense clearly outside the ordinary course of business.

Net Income
The final, "bottom line" profit after accounting for all revenues, expenses, and taxes.

CASE STUDY

ROADRUNNER CUSTOM TRAILERS, INC.

Background. Roadrunner Custom Trailers, Inc. ("Roadrunner") was established to manufacture custom travel trailers in the early 1960's. In the early 1990's, a long-time employee purchased the founder's interest in the company. Roadrunner had operated for over 20 years at its current location, which is in a federally-designated Enterprise Community. Its sales growth was limited in their space, where the configuration of the manufacturing process was constrained.

Request. In 2004, with the opportunity to double their space by leasing an adjacent lot, Roadrunner requested financing to (1) make leasehold improvements to their existing and new facilities, and (2) support working capital requirement for anticipated growth in sales. A lender evaluated the request and provided the following:

- 5-year term loan in the medium five figures, with a 6-month interest-only period to draw funds for leasehold improvements, and
- Revolving line of credit in the low six figures, to support the manufacture of pre-ordered custom travel trailers.

Results. Since the making of the first loans, Roadrunner's annual sales increased from the high six figures to a moderate seven figures. Roadrunner paid off the term loan and the relvolving line of credit grew to high six figures.

Financial Statements. The following spreadsheets are attached and summarize Roadrunner's financial information:

- Balance Sheet (Page 15)
- Income Statement (Page 16)

Handout and Worksheet. Participants will perform Financial Ratio calculations from Roadrunner's financial statements.

BALANCE SHEET

1	**ROADRUNNER CUSTOMER TRAILERS, INC.**	**TAX RET**		**TAX RET**		**REVIEW**		**REVIEW**	
2		**Dec 31**		**Dec 31**		**Dec 31**		**Dec 31**	
3		**2007**		**2008**		**2009**		**2010**	
4	**Amounts in Thousands of Dollars**	**12 Months**		**12 Months**		**12 Months**		**12 Months**	
5	**A S S E T S**	$	%	$	%	$	%	$	%
6	Cash	114	8.3	139	8.1	44	2.3	28	1.4
7	Accounts Receivable	0	0.0	0	0.0	0	0.0	0	0.0
8	Inventory	599	43.7	953	55.2	0	0.0	0	0.0
9	Raw Materials	0	0.0	0	0.0	590	30.3	1,061	53.9
10	Work in Process	0	0.0	0	0.0	304	15.6	271	13.8
11	Finished Goods	0	0.0	0	0.0	330	17.0	0	0.0
12	Total Inventory	599	43.7	953	55.2	1,224	63.0	1,332	67.6
13	TOTAL CURRENT ASSETS	713	52.0	1,092	63.3	1,268	65.2	1,360	69.1
14	Other Depreciable Fixed Assets	842	61.5	924	53.5	713	36.7	828	42.1
15	Leasehold Improvements	0	0.0	0	0.0	322	16.6	322	16.4
16	Gross Fixed Assets	842	61.5	924	53.5	1,035	53.2	1,150	58.4
17	less: Accumulated Depreciation	189	13.8	290	16.8	359	18.5	541	27.5
18	Total Fixed Assets - Net	653	47.7	634	36.7	676	34.8	609	30.9
19	Deferred Income Tax Benefit	4	0.3	0	0.0	0	0.0	0	0.0
20	Intangibles	1	0.1	0	0.0	0	0.0	0	0.0
21	less: Accumulated Amortization	1	0.1	0	0.0	0	0.0	0	0.0
22	TOTAL NON-CURRENT ASSETS	657	48.0	634	36.7	676	34.8	609	30.9
23	TOTAL ASSETS	1,370	100.0	1,726	100.0	1,944	100.0	1,969	100.0
24	**LIABILITIES**	$	%	$	%	$	%	$	%
25	Notes Payable S/T	200	14.6	283	16.4	431	22.2	380	19.3
26	Notes Payable Other-Credit Cards	0	0.0	0	0.0	0	0.0	88	4.5
27	Current Maturities LTD-Financial Institutions	0	0.0	0	0.0	27	1.4	4	0.2
28	Accounts Payable - Trade	82	6.0	281	16.3	358	18.4	364	18.5
29	Accounts Payable - Other	3	0.2	21	1.2	0	0.0	0	0.0
30	Accrued Liabilities	0	0.0	0	0.0	0	0.0	11	0.6
31	Interest Payable	2	0.1	0	0.0	0	0.0	0	0.0
32	Customer Deposits	250	18.2	193	11.2	92	4.7	32	1.6
33	Total Accrued Liabilities	252	18.4	193	11.2	92	4.7	43	2.2
34	State/Federal Income Tax	6	0.4	1	0.1	45	2.3	50	2.5
35	Payroll Taxes Payable	1	0.1	5	0.3	0	0.0	0	0.0
36	Sales Tax Payable	25	1.8	25	1.4	31	1.6	29	1.5
37	TOTAL CURRENT LIABILITIES	569	41.5	809	46.9	984	50.6	958	48.7
38	Long Term Debt-Financial Institutions.	75	5.5	50	2.9	11	0.6	7	0.4
39	Due to Officers/Stockholders	72	5.3	170	9.8	145	7.5	145	7.4
40	TOTAL SENIOR LT LIABILITIES	147	10.7	220	12.7	156	8.0	152	7.7
41	TOTAL SENIOR LIABILITIES	716	52.3	1,029	59.6	1,140	58.6	1,110	56.4
42	TOTAL LIABILITIES	716	52.3	1,029	59.6	1,140	58.6	1,110	56.4
43	**N E T W O R T H**								
44	Common Stock	350	25.5	350	20.3	350	18.0	350	17.8
45	Paid In Capital	299	21.8	299	17.3	299	15.4	299	15.2
46	Retained Earnings	5	0.4	48	2.8	155	8.0	240	12.2
47	less: Treasury Stock	0	0.0	0	0.0	0	0.0	30	1.5
48	NET WORTH	654	47.7	697	40.4	804	41.4	859	43.6
49	TOTAL LIABILITIES & NET WORTH	1,370	100.0	1,726	100.0	1,944	100.0	1,969	100.0
50	TANGIBLE NET WORTH	654	47.7	697	40.4	804	41.4	859	43.6
51	NET WORKING CAPITAL	144	10.5	283	16.4	284	14.6	402	20.4

INCOME STATEMENT

52	**ROADRUNNER CUSTOMER TRAILERS, INC.**	**TAX RET**		**TAX RET**		**REVIEW**		**REVIEW**	
53		**Dec 31**		**Dec 31**		**Dec 31**		**Dec 31**	
54		**2007**		**2008**		**2009**		**2010**	
55	**Amounts in Thousands of Dollars**	**12 Months**		**12 Months**		**12 Months**		**12 Months**	
56	**INCOME STATEMENT**	$	%	$	%	$	%	$	%
57	Sales	1,749	100.1	2,778	100.1	3,929	100.0	3,907	100.7
58	less: Returns, Allow & Discounts	1	0.1	2	0.1	0	0.0	27	0.7
59	NET SALES	1,748	100.0	2,776	100.0	3,929	100.0	3,880	100.0
60	COG - Labor	147	8.4	212	7.6	569	14.5	336	8.7
61	COG - Materials	817	46.7	1,763	63.5	2,308	58.7	2,321	59.8
62	COG - Contract Service (Painter)	210	12.0	214	7.7	120	3.1	222	5.7
63	COG – Misc. allocated	47	2.7	37	1.3	220	5.6	217	5.6
64	COG - Rent	0	0.0	0	0.0	71	1.8	70	1.8
65	Depreciation in COGS	43	2.5	89	3.2	61	1.6	170	4.4
66	TOTAL COST OF GOODS SOLD (COGS)	1,264	72.3	2,315	83.4	3,349	85.2	3,336	86.0
67	GROSS PROFIT/REVENUES	484	27.7	461	16.6	580	14.8	544	14.0
68	General & Administrative Expense	103	5.9	129	4.6	83	2.1	76	2.0
69	Selling Expense	21	1.2	0	0.0	0	0.0	0	0.0
70	Wages & Salaries	16	0.9	15	0.5	0	0.0	0	0.0
71	Officers Compensation	83	4.7	101	3.6	125	3.2	148	3.8
72	Misc. Operating Expense	33	1.9	6	0.2	5	0.1	23	0.6
73	Rent	87	5.0	84	3.0	13	0.3	18	0.5
74	Advertising	46	2.6	52	1.9	128	3.3	84	2.2
75	Depreciation	7	0.4	11	0.4	9	0.2	12	0.3
76	TOTAL OPERATING EXPENSES	396	22.7	398	14.3	363	9.2	361	9.3
77	TOTAL OPERATING PROFIT	88	5.0	63	2.3	217	5.5	183	4.7
78	Other Income	0	0.0	24	0.9	0	0.0	0	0.0
79	EBITDA	138	7.9	187	6.7	287	7.3	365	9.4
80	EBIT	88	5.0	87	3.1	217	5.5	183	4.7
81	Interest Expense ST	41	2.3	36	1.3	53	1.3	48	1.2
82	INTEREST EXPENSE	41	2.3	36	1.3	53	1.3	48	1.2
83	PROFIT BEFORE TAXES & EXTR ITEM	47	2.7	51	1.8	164	4.2	135	3.5
84	Current Taxes	15	0.9	19	0.7	57	1.5	50	1.3
85	PROFIT BEFORE EXTR ITEMS	32	1.8	32	1.2	107	2.7	85	2.2
86	Extraordinary Gain/(Loss)	0	0.0	12	0.4	0	0.0	0	0.0
87	NET PROFIT	32	1.8	44	1.6	107	2.7	85	2.2
88	Caution: Net Worth out of balance!								
89	Retained Earnings is not reconciled.	0	0.0	(1)	0.0	0	0.0	0	0.0

FINANCIAL RATIO ANALYSIS [2]

The Balance Sheet and Income Statement are essential, but they are only the starting point for successful financial management. Applying ratio analysis to a company's financial statements can help to analyze its successes, failures and progress. Ratio analysis helps an analyst to spot trends in a company and to compare its performance and condition with the average performance of similar businesses in the same industry. Ratio analysis can provide the all-important early-warning indications of business problems as favorable trends.

PROFITABILITY INDICATORS

Cash flow statements are not the only analytical techniques a creditor should use to determine the financial strength of a business. They are meant to *supplement*, rather than replace, other analytical techniques. While spreadsheet software systems generate a great number of ratios, the following profitability measurements are considered to be among the most important.

1. **GROSS PROFIT.** Gross Profit is what remains after the company completes its most basic transaction – the sale of goods or services. It is calculated by subtracting the cost of goods sold (COGS) from net sales. This ratio is important to assist in the measurement of the financial health of a business because gross profit must be sufficient to pay all other expenses and still provide a reasonable return for the owners. This equation describes the difference between sales revenue (Net Sales) and the Cost of Goods Sold (COGS). (Note: COGS may include depreciation expense in certain types of companies).

Gross Profit = Net Sales –COGS (including depreciation)

2. **GROSS PROFIT MARGIN (%).** Describes gross profit expressed as a percentage of net sales.

$$\textit{Gross Profit Margin \%} = \frac{\textit{Gross Profit}}{\textit{Net Sales}}$$

3. **OPERATING EXPENSE PERCENTAGE (%).** SG&A and depreciation comprise operating expense. This ratio measures the percent of each sales dollar that is needed to meet the on going operating expenses of running a business, excluding interest expense. Depreciation of selling, delivery and administrative physical assets is included while depreciation of manufacturing equipment is not; it is included as a part of costs of goods sold. (Note: Operating expense includes salaries for officers, general office help, and sales staff; other sales expenses include such items as travel and advertising, office overhead, and utilities.)

$$\textit{Operating Expense Percentage \%} = \frac{\textit{Operating Expenses (Including depreciation)}}{\textit{Net Sales}}$$

4. **OPERATING PROFIT MARGIN (%)** Since both the gross profit margin and operating expenses are expressed as a percentage of sales, operating expenses should be subtracted from gross profit to determine what percent of each sales dollar will be available to meet taxes, interest, dividends, debt repayment needs, and additional capital expenditure requirement beyond those represented by the depreciation expense. This measurement proves an early indication of eventual cash surplus or shortage; a weak margin reflects an inability to generate sufficient cash from normal internal operations to meet these needs. In this event, the only way to meet all these claims on the company while exhibiting an inadequate operating margin is to rely on external sources of financing such as a bank loan or additional equity capital.

$$\textit{Operating Profit Margin \%} = \frac{\textit{Operating Profit}}{\textit{Net Sales}}$$

5. **NET PROFIT MARGIN.** Net profit after taxes expressed as a percentage of net sales. It is the "bottom line" measurement of the company's operating business. The ratio indicates what part of each sales dollar remains with the company after *all* sources of income and *all* expenses have been accounted for. This ratio is the profit margin after all expenses have been paid, but before dividends.

$$\textit{Net Profit Margin \%} = \frac{\textit{Net Profit}}{\textit{Net Sales}}$$

FINANCIAL POSITION INDICATORS

6. **ACCOUNTS RECEIVABLE (DAYS).** The result is the number of days from sale of goods to collection of the resulting receivables. Recognize the possibility for distortion if the receivables level at year-end is not representative of the entire year. Although some spreadsheet software programs compare sales with year-end receivables, a more accurate approach might be to use an average of the receivables found on all available interim and year-end statements in the numerator of the formula.

$$\textit{Accounts Receivable Days} = \frac{\textit{Accounts Receivable x 365}}{\textit{Net Sales}}$$

7. **INVENTORY (DAYS).** The measurement demonstrates the efficiencies in the way a company buys its raw materials and processes these raw materials and how quickly it can sell the resulting finished goods. The maintenance of a higher-than-necessary level of inventory removes cash from the business. This ratio measures the length of time on average between acquisition and sale of merchandise for a retailer or wholesaler. For a manufacturer, it covers the amount of time between purchase of raw materials, their production into finished goods, and finally their sale as completed goods.

   If detailed income statements are available, an analyst can extract the entry for purchases from the cost of good sold calculation: using this number in the denominator of the formula is more accurate. However, this is not often possible since the figure for raw materials purchases is not always made available. Further, in the case of a manufacturing company, add depreciation to COGS. A portion of depreciation will also be reflected in inventory at year-end. The use of cost of goods sold (rather than purchase) in the calculation should not be viewed negatively, since the formula's usefulness lies in the trends that it measures.

$$\textit{Inventory Days} = \frac{\textit{Inventory x 365}}{\textit{COGS (including depreciation)}}$$

8. **ACCOUNTS PAYABLE (DAYS).** The result measures the length of time on average that passes between purchase of goods and payment for them. It is an effective measure of the amount of credit a company can take from its suppliers. One company's receivable is another's payable. As with inventory, if detailed income statements are available, an analyst can extract the entry from purchases from the cost of goods sold calculation and use this number in the denominator of the formula. As with accounts receivable, the comments regarding the use of average accounts payable figures also apply.

$$\textit{Accounts Payable Days} = \frac{\textit{Accounts Payable x 365}}{\textit{COGS (excluding depreciation)}}$$

9. **WORKING CAPITAL** is more a measure of cash flow than a ratio. The result of this calculation must be a positive number. Bankers look at working capital over time to determine a company's ability to weather financial crises and loans are often tied to minimum working capital requirements.

Working Capital = Total Current Assets - Total Current Liabilities

10. **QUICK RATIO** provides an indication of the ability of a company to retire its current liabilities from current assets other than inventory and prepaid expenses (quick assets). Quick Assets are those assets that can be readily and consistently converted into cash at approximately their stated value. Since inventory is the least liquid current asset and the most difficult to evaluate in time of financial distress, an analyst needs to determine whether current liabilities can be retired from sources that are more liquid than inventory. Hence, the value attributed to inventory is subtracted from current assets before being divided by current liabilities. A resulting ratio of greater than 1:1 indicates no reliance on inventory liquidation to meet current indebtedness, assuming the remaining assets (quick assets) are liquidated at the value shown on the statement. This ratio, like the current ratio, also does not address the question of timing.

$$\textit{Quick Ratio} = \frac{\textit{Cash + Cash Equivalents + Receivables}}{\textit{Current Liabilities}}$$

11. **CURRENT RATIO** describes the relationship between a company's current assets and its current liabilities. The higher the ratio, the greater the relative amount of cash expected to become available within the following year to meet debts that will come due during the same period. This is a good point from which to start to analyze liquidity; however, it does not address any timing differences between cash realization, on one hand, and cash payment requirements, on the other. Nor does it address the quality of the assets, i.e., whether all the receivables are collectible and whether the inventory is saleable.

$$\textit{Current Ratio} = \frac{\textit{Current Assets}}{\textit{Current Liabilities}}$$

12. **DEBT/TANGILBE NET WORTH** measures the contribution to a company's funding from all sources except the owner(s) or shareholder(s) in relation to that provided by the owner(s) or shareholder(s). Thus, it measures the risk assumed by all groups of creditors (for example, suppliers, employees, the tax authorities, and lenders) versus that assumed by the owner(s) shareholder(s). Total liabilities is the sum of all liabilities, including the accounts payable, notes payable, and accrued expenses, as well as long-term debt and deferred taxes. Net worth is the sum of all owners' contributions in terms of capital and retained earnings (i.e., stock, retained earnings, treasury stock, capital surplus). Subtract intangible assets from total net worth to arrive at tangible net worth.

$$\textit{Debt/Tangible Net Worth} = \frac{\textit{Total Liabilities}}{\textit{Tangible Net Worth}}$$

13. **DEBT SERVICE COVERAGE RATIO** provides an indication of the ability of a company to provide sufficient cash flow to service its annual interest and principal payments on debt. A DSCR of less than 1:1 means a negative cash flow. The following DSCR calculation utilizes (a) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) in the numerator to determine cash flow available, and divides into it (b) Total Interest on debt plus Current Maturities of Long-Term Debt (CMLTD). Note: This calculation is somewhat flexible and additional material annual cash requirements may be included in the denominator, e.g., capital leases, long-term operating ceases and non-financed capital expenditures may be added.

$$\textit{Debt Service Coverage} = \frac{\textit{EBITDA}}{\textit{Total Interest + CMLTD}}$$

CASH RATIOS

There are two ratios that are particular to cash flow analysis because they use entries derived as part of the UCS direct cash flow calculations.

14. **CASH MARGIN RATIO** provides an indication of the percentage of each net sales dollar that remains *in cash* after payment of all production (for manufacturing company) or acquisition (for a wholesaler or retailer) costs.

$$\frac{\textbf{\textit{Gross Cash Profit}}}{\textbf{\textit{Net Sales}}}$$

15. **CASH COVERAGE RATIO** Error! Bookmark not defined. addresses the very important question of whether the borrower is able to meet its debt obligations, both principal and interest, as well as any dividend payments, from internally generated cash. It is best utilized when the Net Cash after Operations is a product of a cash flow analysis based on reliable financial information. A ratio of greater than 1:1 indicates no reliance on external financing to make the required payments. A ratio of less than 1:1 means that a company must raise external financing elsewhere (under its short-term line of credit, from new long-term debt, or from shareholders) to service its obligations to financial institutions and to stockholders and its capital expenditure requirements.

$$\frac{\textbf{\textit{Net Cash after Operations}}}{\textbf{\textit{Financing Costs + Current Maturities of Long-Term Debt (CMLTD)}}}$$

COMMUNITY DEVELOPMENT FINANCE

Principles and Practices of Community Development Lending -- *A Five Step Investment Model to Strengthen Bank Community Development Lending* [3]

“Principles and Practices of Community Development Lending” is written “to advance the practice of affirmative bank investment in and for low- and moderate- income communities, neighborhoods, and families." It is designed principally “for those who want to participate but do not fully understand community development lending.

- **A Model for Community Investment.** Creative community investing is more understandable if loan proposals are analyzed like other credits. The analytical process outlined here is simply an extension of the traditional private financial institution underwriting process; therefore, the model begins by applying generally accepted underwriting criteria. Lenders should begin analysis of community investment proposals in the same way they look at other loan requests – by applying established loan review processes. By beginning with a familiar process, it is easier then to add an adaptive public partnership component. Indeed, close examination reveals that the creative community investment process is really no different from the normal credit review process, except for the addition of a loop that identifies the financial gap often present in community loans and then seeks public enhancement as a co-investment.

  Another way to view community investment is that an underwriting process is fundamental to making any investment with the expectation of repayment. Credit analysis or investment underwriting rates the probability of repayment; that is the science of investment underwriting. The art of community investing is the creative application of community resources to meet credit quality standards.

- **Why is process Important.** Successful management of any investment decision is extremely difficult unless it is managed as part of a process. The process is like a road map -- without a map, one can improvise and make luck choices, but never really be knowledgeable or secure about the journey. Process is critical in community investment just as it is in any market investment decision. The underwriting and risk measurements are the same.

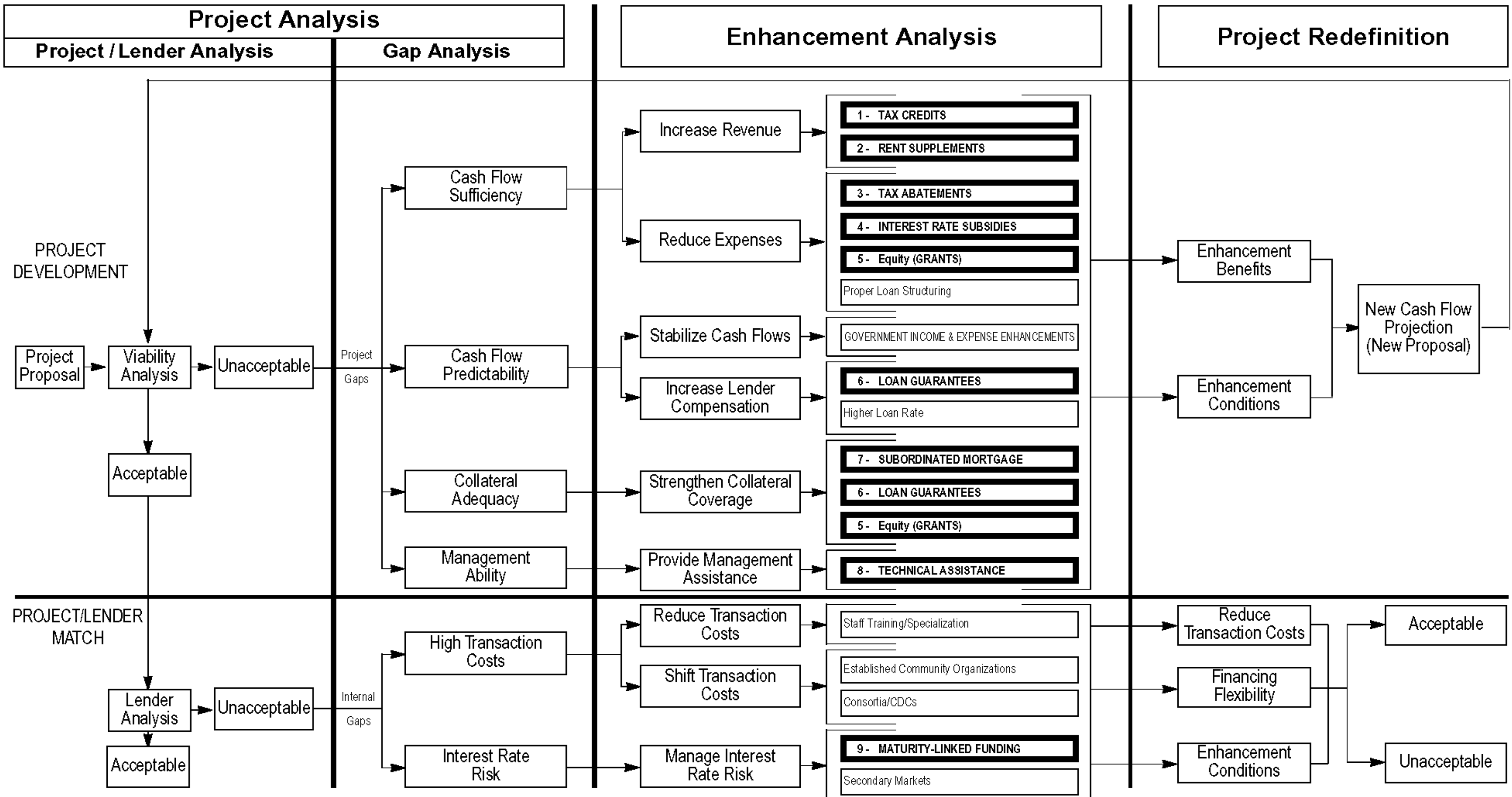
  The community investment model does, of course, add underwriting steps. Nevertheless, the model does not overhaul the traditional credit analysis process; rather, it complements and adds to the credit review system most lending institutions already practice.

“Principles and Practices of Community Development Lending” first addresses seven myths of community development lending, then offers a five-step model for community development lending. That model entails: (1) understanding credit analysis, (2) identification of financial and management gaps in underwriting, (3) assessing credit enhancement technique options for financial and management solutions, (4) matching community development assistance and financial investment programs to solutions, and (5) reviewing specific community assistance and financial investment programs.

Community Development Finance -- *The Enhancement Application Process*

The attached chart excerpts and summarizes the analysis process presented in “Principles and Practices of Community Development Lending”, by the Federal Reserve Bank of Minneapolis.

COMMUNITY DEVELOPMENT FINANCE – ENHANCEMENT APPLICATION PROCESS



Enhancements identified by all capital letters refer to government sponsored programs.
Enhancements with lower case letters denotes private sector initiatives.

APPENDIX A: GLOSSARY OF FINANCIAL TERMINOLOGY [4]

- **Accounts Payable:** Amount owing to creditors for goods and services on an open account.
- **Accounts Receivable:** Amount due from customers for merchandise or services purchased on an open account.
- **Asset:** Anything owned by a business or individual that has commercial or exchange value.
- **Balance Sheet:** Financial statement that presents a "snapshot" of what the business owns, what it owes, and what equity is has on a given date.
- **Capital:** See Equity.
- **Capital Expenditures:** Purchases of long-term assets, such as equipment, used in manufacturing a product.
- **Cash Flow:** Incoming cash to the business less the outgoing cash during a given period. Also used to refer to the figure derived from net income plus non-cash items charged off in the accrual accounting process.
- **Collateral:** Assets pledged to secure a loan.
- **Collection Period Ratio:** Indicates how quickly your customers pay you. Average accounts receivable divided by net sales, multiplied by 365.
- **Community Reinvestment Act (CRA):** Under provisions of the Community Reinvestment Act of 1977, banks and thrift institutions seek opportunities to help meet the credit needs of their local communities, including low and moderate income neighborhoods consistent with safe and sound operation of the institution.
- **Compensating Balance:** Money a bank requires a company to leave in a deposit account as part of a loan agreement.
- **Corporation:** Form of business ownership that is a legal entity on its own and puts stockholders and the board of directors in control. Owners have limited liability for the corporation's actions. A corporation has unlimited life and in most cases is taxed as an entity on its own.
- **Cost of Goods Sold (COGS):** Figure representing the cost of buying raw materials and producing finished goods.
- **Current Assets:** Cash or other assets you expect to use in the operation of the firm within one year.
- **Current Liabilities:** Debts you expect to pay within one year.
- **Current Ratio:** Shows the firm's ability to pay its current obligations from current assts. Current assets divided by current liabilities.
- **Days Purchases in Accounts Payable Ratio:** Indicates how quickly you pay your suppliers for inventory purchases. Average accounts payable divided by the cost of goods sold plus change in inventory, multiplied by 365.
- **Days to Sell Inventory Ratio:** Indicates the firm's efficiency at matching purchases to expected sales. Average inventory divided by the cost of goods sold, multiplied by 365.

- **Debt Ratio:** Indicates the firm's debt level, or leverage. Total liabilities divided by total liabilities plus capital.
- **Depreciation:** Amortization of the cost of a fixed asset, such as plant and equipment, over several years, or the "depreciable life."
- **Dividend:** Distribution of earnings to shareholders.
- **Equal Credit Opportunity Act (Federal Reserve Regulation B):** Prohibits lenders from denying your application on the basis of race, color, religion, national origin, sex, marital status, or age, or from discouraging you from applying, or giving you less favorable terms than any other applicant, on such a basis. Regulation B also contains specific rules governing credit transactions.
- **Equity:** The ownership interest in a business remaining after its liabilities are deducted. Also know as common stock plus retained earnings, or capital.
- **Extraordinary Items:** Unusual or nonrecurring event that must be explained to shareholders or investors, such as a manufacturer's sale of a building.
- **Finance Company:** Competitors of commercial banks in providing credit to households and firms. Unlike banks, they do not accept deposits.
- **Financial Projections:** Estimates of the future financial performance of a firm.
- **Financial Statements:** Written record of the financial status of an individual or organization. Commonly include profit and loss, or income statement; the balance sheet, which includes a statement of the company's retained earnings; and the cash flow statement.
- **Fixed Assets:** Long-term assets such as buildings, equipment, or property that are not expected to be converted to cash in the near term.
- **Gross Profit:** Indicates the revenues of the firm before consideration of its operating expenses. Net sales less cost of goods sold.
- **Gross Profit Margin:** Measures a firm's profitability. Gross profits divided by net sales.
- **Gross Income:** Net sales less cost of goods sold.
- **Income Statement:** Summary of the revenues, costs, and expenses for a business over a period of time, also called Profit and Loss Statement.
- **Installment Loan:** Loan type that is paid in periodic payments, such as an automobile loan.
- **Inventory:** Value of firm's raw materials, work in progress, supplies used in operations, and finished goods.
- **Investor:** An individual who takes an ownership position in a company, thus assuming risk of loss in exchange for anticipated returns.
- **Leverage:** Measures the firm's use of borrowed funds versus those funds provided by the shareholders or owners (equity).
- **Line of Credit:** Although not a contract, a bank's promise to lend to a specific borrower up to a pre-agreed amount during a specific time frame. Usually reviewed annually and subject to cancellation without notice.
- **Liquid Assets:** Those assets that can be readily turned into cash.

- **Liquidity:** Gauges firm's ability to quickly turn assets into cash.
- **Marketable Securities:** Securities that are easily sold.
- **Net Income:** The sum remaining after all expenses have been met or deducted. Also called profit.
- **Net Sales:** Gross sales minus returns and allowances.
- **Net Worth:** Excess of assets over debt.
- **Niche:** Particular specialty in which a firm has gained a large market share.
- **Operating Expenses:** Those costs associated with the day-to-day activities of the business.
- **Operating Profit (loss):** Income or loss before taxes and extraordinary items resulting from transactions other than those in the normal course of business.
- **Operating Profit Margin:** Measures a firm's profitability by examining the pre-tax profit generated from primary operations (versus extraordinary items) in relation to net sales. Operating profit divided by net sales.
- **Partnership:** Can be general or limited, but in either case the general partners are in control. The tax burden is shared by all the partners at their personal rate, and the general partners have unlimited liability. Limited partners have limited liability.
- **Principal:** The currently unpaid balance of a loan, not including interest owed. Also can refer to a primary owner or investor.
- **Profit:** Compensation an entrepreneur receives for the assumption of risk in a business venture. Also called net income.
- **Profit and Loss Statement:** Summary of the revenues, costs, and expenses for a business over a period of time, also called Income Statement.
- **Pro Forma Financial Statements:** Financial statements for a business where certain amounts shown are hypothetical, or estimated, for the period depicted.
- **Quick Ratio:** Liquidity ratio that focuses on the firm's most liquid assets by excluding inventory. Also known as the acid test ratio. Cash, marketable securities, and accounts receivable divided by current liabilities.
- **Retained Earnings:** Net profits kept to accumulate in a business after dividends are paid.
- **Seasonal Loan:** A loan made for the purpose of meeting predictable and periodic funding needs, such as funding of camping gear inventory before summer purchases.
- **Small Business Administration (SBA):** Federal agency, created in 1953 to provide management and financial assistance to small businesses. Mainly, the SBA guarantees loans through financial institutions. The loans may be used for working capital, machinery and equipment acquisition of real estate, and expansion.
- **Sole Proprietorship:** A type of business where the owner has full control and unlimited liability. A sole proprietorship is taxed at the personal income tax rate.

APPENDIX B: FINANCIAL STATEMENT OVERVIEW [5]

INCOME STATEMENT

Known also as the profit and loss statement, the income statement shows all income and expense accounts over a period of time. That is, it shows how profitable the business is. This financial statement shows how much money the company will make after all expenses are accounted for. Remember that an income statement does not reveal hidden problems like insufficient cash flow problems. Income statements are read from top to bottom and represent earnings and expenses over a period of time.

BALANCE SHEET

The balance sheet is a snapshot of the company's financial standing at an instant in time. The balance sheet shows the company's financial position, what it owns (assets) and what it owes (liabilities and net worth). The "bottom line" of a balance sheet must always balance (i.e. assets = liabilities + net worth). The individual elements of a balance sheet change from day to day and reflect the activities of the company. Analyzing how the balance sheet changes over time will reveal important information about the company's business trends. In this lesson we'll discover how you can monitor your ability to collect revenues, how well you manage your inventory, and even assess your ability to satisfy creditors and stockholders. Liabilities and net worth on the balance sheet represent the company's sources of funds. Liabilities and net worth are composed of creditors and investors who have provided cash or its equivalent to the company in the past. As a source of funds, they enable the company to continue in business or expand operations. If creditors and investors are unhappy and distrustful, the company's chances of survival are limited. Assets, on the other hand, represent the company's use of funds. The company uses cash or other funds provided by the creditor/investor to acquire assets. Assets include all the things of value that are owned or due to the business.

Liabilities represent a company's obligations to creditors while net worth represents the owner's investment in the company. In reality, both creditors and owners are "investors" in the company with the only difference being the degree of nervousness and the timeframe in which they expect repayment.

ASSETS

As noted previously, anything of value that is owned or due to the business is included under the Asset section of the Balance Sheet. Assets are shown at net book or net realizable value (more on this later), but appreciated values are not generally considered.

Current Assets. Current assets are those which mature in less than one year. They are the sum of the following categories:

- Cash
- Accounts Receivable (A/R)
- Inventory (Inv)
- Notes Receivable (N/R)
- Prepaid Expenses
- Other Current Assets

Cash. Cash is the only game in town. Cash pays bills and obligations. Inventory, receivables, land, building, machinery and equipment do not pay obligations even though they can be sold for cash and then used to pay bills. If cash is inadequate or improperly managed the company may become insolvent and be forced into bankruptcy. Include all checking, money market and short-term savings accounts under Cash.

Accounts Receivable (A/R). Accounts receivable are dollars due from customers. They arise as a result of the process of selling inventory or services on terms that allow delivery prior to the collection of cash. Inventory is sold and shipped, an invoice is sent to the customer, and later cash is collected. The receivable exists for the time period between the selling of the inventory and the receipt of cash receivables are proportional to sales. As sales rise, the investment you must make in receivables also rises.

Inventory. Inventory consists of the goods and materials a company purchases to re-sell at a profit. In the process, sales and receivables are generated. The company purchases raw material inventory that is processed (aka work-in-process inventory) to be sold as finished goods inventory. For a company that sells a product, inventory is often the first use of cash. Purchasing inventory to be sold at a profit is the first step in the profit making cycle (operating cycle) as illustrated previously. Selling inventory does not bring cash back into the company -- it creates a receivable. Only after a time lag equal to the receivable's collection period will cash return to the company. Thus, it is very important that the level of inventory be well managed so that the business does not keep too much cash tied up in inventory as this will reduce profits. At the same time, a company must keep sufficient inventory on hand to prevent stockouts (having nothing to sell) because this too will erode profits and may result in the loss of customers.

Notes Receivable (N/R). N/R is a receivable due the company, in the form of a promissory note, arising because the company made a loan. Making loans is the business of banks, not of an operating business, and particularly not the business of a small company with limited financial resources. Notes receivable is probably a note due from one of three sources:

- Customers,
- Employee, or
- Officers of the company.

Customer notes receivable is when the customer who borrowed from the company probably borrowed because he could not meet the accounts receivable terms. When the customer failed to pay the invoice according to the agreed upon payment terms. The customer's obligation may have been converted to a promissory note. Employee notes receivable may be for legitimate reasons, such as a down payment on a home, but the company is neither a charity nor a bank. If the company wants to help the employee, it can co-sign on the loan advanced by a bank.

An officer or owner borrowing from the company is the worst form of note receivable. If an officer takes money from the company, it should be declared as a dividend or withdrawal and reflected as a reduction in net worth. Treating it in any other way leads to possible manipulation of the company's stated net worth, and banks and other lending institutions frown greatly upon it.

Other Current Assets. Other Current Assets consist of prepaid expenses and other miscellaneous and current assets.

Fixed Assets. Fixed assets represent the use of cash to purchase physical assets whose life exceeds one year. They include assets such as:

- Land
- Building
- Machinery and Equipment
- Furniture and Fixtures
- Leasehold Improvements

Intangibles. Intangibles represent the use of cash to purchase assets with an undetermined life and they may never mature into cash. For most analysis purposes, intangibles are ignored as assets and are deducted from net worth because their value is difficult to determine. Intangibles consist of assets such as:

- Research and Development
- Patents
- Market Research
- Goodwill
- Organizational Expense

In several respects, intangibles are similar to prepaid expenses; the use of cash to purchase a benefit which will be expensed at a future date. Intangibles are recouped, like fixed assets, through incremental annual charges (amortization) against income. Standard accounting procedures require most intangibles to be expensed as purchased and never capitalized (put on the balance sheet). An exception to this is purchased patents that may be amortized over the life of the patent.

Other assets. Other assets consist of miscellaneous accounts such as deposits and long-term notes receivable from third parties. They are turned into cash when the asset is sold or when the note is repaid. Total Assets represent the sum of all the assets owned by or due to the business.

LIABILITIES and Net Worth

Liabilities and Net Worth are sources of cash listed in descending order from the most nervous creditors and soonest to mature obligations (current liabilities), to the least nervous and never due obligations (net worth). There are two sources of funds: lender-investor and owner-investor. Lender- investor consist of trade suppliers, employees, tax authorities and financial institutions. Owner-investor consists of stockholders and principals who loan cash to the business. Both lender-investor and owner investors have invested cash or its equivalent into the company. The only difference between the investors is the maturity date of their obligations and the degree of their nervousness.

Current Liabilities. Current liabilities are those obligations that will mature and must be paid within 12 months. These are liabilities that can create a company's insolvency if cash is inadequate. A happy and satisfied set of current creditors is a healthy and important source of credit for short-term uses of cash (inventory and receivables). An unhappy and dissatisfied set of current creditors can threaten the survival of the company. The best way to keep these creditors happy is to keep their obligations current.
Current liabilities consist of the following obligation accounts:

- Accounts Payable -- Trade (A/P)
- Accrued Expenses
- Notes Payable -- Bank (N/P Bank)
- Notes Payable -- Other (N/P Other)
- Current Portion of Long term Debt

Proper matching of sources and uses of funds requires that short term (current) liabilities must be used only to purchase short term assets (inventory and receivables).

Notes Payable. Notes payable are obligations in the form of promissory notes with short-term maturity dates of less than 12 months. Often, they are demand notes (payable upon demand). Other times they have specific maturity dates (30, 60, 90, 180, 270, 360 days maturities are typical). The notes payable always include only the principal amount of the debt. Any interest owed is listed under accruals.

The proceeds of notes payable should be used to finance current assets (inventory and receivables). The use of funds must be short term so that the asset matures into cash prior to the obligation's maturation. Proper matching would indicate borrowing for seasonal swings in sales which cause swings in inventory and receivables, or to repay accounts payable when attractive discount terms are offered for early payment.

Accounts Payable. Accounts Payable are obligations due to trade suppliers who have provided inventory or goods and services used in operating the business. Suppliers generally offer terms since the supplier's competition offers payment term. Whenever possible a business should take advantage of payment terms as this will help keep costs down.

If the company is paying its suppliers in a timely fashion, days payable will not exceed the terms of payment.

Accrued Expenses are obligations owed but not billed such as wages and payroll taxes, or obligations accruing, but not yet due, such as interest on a loan. Accruals consist chiefly of wages, payroll taxes, interest payable and employee benefits accruals such as pension funds. As a labor related category, it should vary in accordance with payroll policy (i.e., if wages are paid weekly, the accrual category should seldom exceed one week's payroll and payroll taxes).

Non-current Liabilities. Non-current liabilities are those obligations that will not become due and payable in the coming year. There are three types of non-current liabilities, only two of which are listed on the balance sheet:

- Non-current Portion of Long Term Debt (LTD)
- Subordinated Officer Loans (Sub-Off)
- Contingent Liabilities

Non-current portion of long-term debt is the principal portion of a term loan not payable in the coming year. Subordinated officer loans are treated as an item that lies between debt and equity. Contingent liabilities listed in the footnotes are potential liabilities, which hopefully never become due. Non-Current Portion of Long Term Debt (LTD) is the portion of a term loan that is not due within the next 12 months. It is listed below the current liability section to demonstrate that the loan does not have to be fully liquidated in the coming year. Long-term debt (LTD) provides cash to be used for a long-term asset purchase, either permanent working capital or fixed assets. Shareholder/Owner Loans (Subordinated).

Notes payable to officers, shareholders or owners represent cash which the shareholders or owners have put into the business. For tax reasons, owners may increase their equity investment, beyond the initial company capitalization, by making loans to the business rather than by purchasing additional stock. Any return on investment to the owners can therefore be paid as tax-deductible interest expense rather than as non-tax deductible dividends.

When a business borrows from a financial institution, it is common for the officer loans to be subordinated or put on standby. The subordination agreement prohibits the officer from collecting his or her loan prior to the repayment of the institution's loan. When on standby, the loan will be considered as equity by the financial institution. Notice than “notes receivable – officer” are considered a bad sign to lenders, while “notes payable – officer” are considered to be reassuring.

Contingent Liabilities are potential liabilities that are not listed on the balance sheet. They are listed in the footnotes because they may never become due and payable. Contingent liabilities include:

- Lawsuits
- Warranties
- Cross Guarantees

If the company has been sued, but the litigation has not been initiated, there is no way of knowing whether or not the suit will result in a liability to the company. It will be listed in the footnotes because while not a real liability, it does represent a potential liability which may impair the ability of the company to meet future obligations. Alternatively, if the company guarantees a loan made by a third party to an affiliate, the liability is contingent because it will never become due as long as the affiliate remains healthy and meets its obligations.

Total Liabilities. Total liabilities represent the sum of all monetary obligations of a business and all claims creditors have on its assets.

EQUITY

Equity is represented by total assets minus total liabilities. Equity or Net Worth is the most patient and last to mature source of funds. It represents the owners' share in the financing of all the assets.

APPENDIX C: PERSONAL FINANCIAL STATEMENT OVERVIEW

One needs to understand the absolute level and the valuation method of the "numbers" involved with a personal financial statement when an individual is either the borrower or the guarantor (indirect liability) on a loan.

When analyzing an individual's capacity to repay debt, there are a number of questions to consider, including the following:

1. How are the assets listed and titled on the personal financial statement and who is in control of their liquidation?
2. How are the assets valued (a personal financial statement usually reflects market values)?
3. What is the quality and liquidity of the assets?
4. Are all direct and indirect liabilities disclosed?
5. Is the personal financial statement signed and dated by the owner of the assets and obligor of the liabilities?

The personal financial statement should establish expectations about the individual's *capacity* to pay. One also needs to establish an individual's *willingness* to pay.

Personal financial statements can be prepared in a multitude of ways. The most common presentation formats are as follows:

1. Borrower's constructed balance sheet, with attached Income Tax Return(s).
2. Computer-generated balance sheet and cash flow from one of the personal financial management software programs currently available.
3. Borrower completes a bank or RMA generic personal financial statement form.
4. Accountant-prepared personal financial statement.

ARIZONA MULTIBANK
Community Development Corporation

Personal Financial Statement

Applicant Personal Profile

Financial Information as of ________ (Month) ____ (Day) ____ (Year)

Name		Date of Birth	Soc. Sec. Number
Street Address	City	State	Zip
Home Phone ( )	☐ Own ☐ Rent ☐ Other	How Long at Address: Yrs. Mos.	Ages of Dependents
Occupation	Employed By	How Long Yrs. Mos.	Employer Address & Phone
Spouse's Name		Date of Birth	Soc. Sec. Number
Spouse's Occupation	Employed By	How Long Yrs. Mos	Employer Address & Phone

ASSETS (List and describe all assets)	MARKET VALUE
Cash (checking & savings)	$
Personal accounts receivables (others who owe money to you)	
Marketable Securities (from Schedule A on page 2)	
Personal Residence owned	
Other real estate owned	
Businesses Owned (from Schedule B on page 2)	
Vehicles	
Retirement Accounts (Vested interest)	
Other Assets (Please itemize)	
Personal assets (furniture, jewelry, clothes, etc.)	
TOTAL ASSETS	$ 0.00

LIABILITIES (List Creditor Name)	Balance Owing	Monthly Payment
List credit cards, open lines of credit, and other liabilities (including alimony and child support) Also list loans with assets used as security.		
Credit Cards/Line of Credit (Please Itemize)	$	$
Vehicle Loans		
Real Estate Loans (Schedule C on page 2)		
Monthly Rent Payment		
Other Obligations (Please itemize)		
TOTAL LIABILITIES/PAYMENTS	0.00	0.00
Net Worth (Total Assets MINUS Total Liabilities)	0.00	
TOTAL (Total Liabilities PLUS Net Worth)	0.00	

Annual Income

Income Source	Income from alimony, child support or separate maintenance does not have to be stated unless you want it considered.
Your Gross Annual Salary	$
Your Spouse's Gross Annual Salary	$
Gross Annual Rental Income	$
OTHER INCOME (Please itemize)	$
TOTAL	$ 0.00

Is any of this income likely to be reduced or interrupted within the next year?
☐ Yes ☐ No If yes, how long will the interruption last? Describe

Annual Expenditures

Real Estate payment(s)	$
Rent/Lease payment(s)	$
Income Taxes	$
Insurance Premiums (all types)	$
Property Taxes	$
Alimony, Child Support or Separate Maintenance	$
Other (include installment payments other than real estate)	$
1.	$
2.	$
TOTAL EXPENDITURES	$ 0.00

CONTINGENT LIABILITIES (debts on which you or your spouse is co-maker, guarantor, or endorser, and obligations which either of you will have to pay if the person primarily liable does not pay)

1.

2.

TOTAL $

Page 1 of 2

Ownership Type: JT = Joint Tenancy TC=Tenants in Common
CP = Community Property SP=Separate Property

Schedule A – Marketable Securities

No. of Shares Amt. of Bonds	Description	Exchange Listed	Names of Owner(s)	*Ownership Type	Current Market on Listed or Estimated Value on Unlisted

Schedule B – Business(es) Owned

No. of Shares	Description	Name(s) of Owner(s)	*Ownership Type	Percentage Ownership	Current Value
				0.00%	
				0.00%	
				0.00%	

Schedule C – Real Estate

Property Address & Type of Improvement	Purchase Date	Name(s) of Owner(s)	*Ownership Type	Net Annual Rental Income	Estimated Value	Amount Owing	To Whom Payable

Credit Request (Complete only for personal credit requests)

PLEASE DESCRIBE THE PURPOSE OF YOUR LOAN REQUEST		
AMOUNT REQUESTED $	PRIMARY SOURCE OF REPAYMENT	SECONDARY SOURCE OF REPAYMENT
LOAN TERM		
COLLATERAL AVAILABLE FOR THIS LOAN		IF REAL ESTATE, PLEASE PROVIDE A COPY OF THE MOST RECENT PROPERTY TAX STATEMENT

General Information on Applicant and Spouse. (Provide full details on any "yes" answers to questions 2-6; attach separate sheet if necessary.)

1. Are your principal cash deposits held jointly with another person? ☐Yes ☐No If yes, with whom? ____________
2. Are any assets encumbered or debts secured except as indicated? ☐Yes ☐No
3. Are there any suits or unpaid judgments now pending against you? ☐Yes ☐No
4. Have you ever voluntarily surrendered or had a vehicle, or any other item repossessed? ☐Yes ☐No
5. Have you or your spouse ever been the subject of bankruptcy proceedings? ☐Yes ☐No
6. Have you ever applied for or obtained credit under another name? ☐Yes ☐No
7. Are you a U.S. citizen? ☐ Yes ☐ No If no, please give country or citizenship and visa status: ____________
8. Have you established a revocable or irrevocable trust? ☐Yes ☐No

Life Insurance $	Name of Insured	Name of Company
Beneficiary's name	Address	Relationship
Life Insurance $	Name of Insured	Name of Company
Beneficiary's name	Address	Relationship
Automobile Insurance – Public Liability -☐Yes ☐No	Property Damage -☐Yes ☐No	Comprehensive Personal Liability -☐Yes ☐No

YOUR SIGNATURE

By signing below, you certify that the statement above and on any attachment(s) are true and complete as the date given below. Applicant authorizes Arizona MultiBank Community Development Corporation ("MultiBank") to verify or check any of the information given, check Applicant's credit references verify employment and obtain credit reports (including your spouse, if you are married and live in a Community Property State). You also authorize MultiBank to provide credit information about you and your accounts to others.

__________ ____________________
Date Applicant

__________ ____________________
Date Applicant

FOR INTERNAL USE ONLY

STATEMENT FOR OFFICER:

I have reviewed this financial statement which has been signed by the person whose financial condition is shown above.

Arizona MultiBank Community Development Corporation

By: ____________________
AUTHORIZED SIGNATURE

REFERENCES

[1] Lonier, Terri, and Aldisert, Lonier *The Small Business Money Guide,* from which this article was excerpted.

[2] Copyright © 2002 by RMA. All rights reserved. Printed in USA. Used with permission. Source: Risk Management Association's *RMA Lending Academy -- Participant's Handbook*. See http://www.rmahq.org/events-training.

[3] Riesenberg, Charles E., and Line, Carolyn P. *Principles and Practices of Community Development Lending: A Five-Step Investment Model to Strengthen Bank Community Development Lending Programs*. Minneapolis, MN: Federal Reserve Bank of Minneapolis and First Bank System, 1989.

[4] Source: Federal Reserve Bank of New York website, http://www.newyorkfed.org/education/addpub/credit.html.

[5] U.S. Small Business Administration website, http://www.sba.gov/content/financial-statements

UNIFORM CREDIT ANALYSIS (UCA) - CASH FLOW

141	**ROADRUNNER CUSTOM TRAILERS, INC.**	**TAX RET**	**REVIEW**	**REVIEW**
142		**Dec 31**	**Dec 31**	**Dec 31**
143		**2008**	**2009**	**20010**
144	**Amounts in Thousands of Dollars**	**12 Months**	**12 Months**	**12 Months**
145	**C A S H F L O W**			
146	Sales - Net	2,776	3,929	3,880
147	CASH FROM SALES	2,776	3,929	3,880
148	Cost of Goods Sold	(2,226)	(3,288)	(3,166)
149	Change in Inventories	(354)	(271)	(108)
150	Change in Payables	199	77	6
151	CASH PRODUCTION COSTS	(2,381)	(3,482)	(3,268)
152	GROSS CASH PROFITS	395	447	612
153	SG & A Expense	(387)	(354)	(349)
154	Change in Accruals	0	0	11
155	Miscellaneous Transactions	42	(15)	(2)
156	Cash Operating Expense	(345)	(369)	(340)
157	CASH AFTER OPERATIONS	50	78	272
	Income Taxes Paid	(16)	(18)	(45)
158	NET CASH AFTER OPERATIONS	34	60	227
159	Interest Expense	(38)	(53)	(48)
160	Dividends Paid	(57)	(101)	(60)
161	Financing Costs	(95)	(154)	(108)
162	NET CASH INCOME	(61)	(94)	119
163	Current Portion Long Term Debt	0	0	(27)
164	CASH AFTER DEBT AMORTIZATION	(61)	(94)	92
165	Capital Expenditures - Tangible	(81)	(112)	(115)
166	CASH AFTER CAPITAL SPENDING & INVEST	(142)	(206)	(23)
167	Change-Intra company / Related Liabilities.	98	(25)	88
168	Extraordinary Transactions	12	0	0
169	FINANCING SURPLUS/(REQUIREMENTS)	(32)	(231)	65
170	Change in Short Term Debt	83	148	(51)
171	Change in Long Term Debt	(25)	(12)	0
172	Change in Equity	(1)	0	(30)
173	Total External Financing	57	136	(81)
174	Cash After Financing	25	(95)	(16)
175	Actual Change in Cash	25	(95)	(16)
176	Net Income + Depreciation	144	177	267

FINANCIAL RATIO WORKSHEET

RATIO	Line		TAX RET	TAX RET	REVIEW	REVIEW	CALCULATION
	90	**ROADRUNNER CUSTOM TRAILERS, INC.**	**TAX RET**	**TAX RET**	**REVIEW**	**REVIEW**	
	91		**Dec 31**	**Dec 31**	**Dec 31**	**Dec 31**	
	92		**2007**	**2008**	**2009**	**2010**	
	93	**Amounts in Thousands of Dollars**	**12 Months**	**12 Months**	**12 Months**	**12 Months**	
RATIO	94	**F I N A N C I A L R A T I O S**					**CALCULATION** (Using Line Numbers)
	95	GROWTH RATIOS:					
	96	Net Sales Growth, Composite %	N/A	58.81	41.53	(1.25)	
	97	Sales Growth, Sales %	N/A	58.83	41.43	(0.56)	
	98	Net Income Growth, %	N/A	37.50	143.18	(20.56)	
	99	Total Assets Growth, %	N/A	25.99	12.63	1.29	
	100	Total Liabilities Growth, %	N/A	43.72	10.79	(2.63)	
	101	Net Worth Growth, %	N/A	6.57	15.35	6.84	
	102	PROFITABILITY RATIOS:					
2	103	**Gross Margin %**	27.69	16.61	14.76	14.02	67 / 59
	104	Margin, Sales %	100.00	100.00	100.00	100.00	
3	105	**Operating Expense, %**	22.25	13.94	9.01	8.99	(76 – 75) / 59
	106	Cushion (Gross Margin - SG & A), %	7.89	5.87	7.30	9.41	
	107	Depreciation, Amortization, %	2.86	3.60	1.78	4.69	
4	108	**Operating Profit Margin, %**	5.03	2.27	5.52	4.72	76 / 59
	109	Interest Expense, %	2.35	1.30	1.35	1.24	
	110	Operating Margin, %	2.69	0.97	4.17	3.48	
5	111	**Net Profit Margin, %**	1.83	1.59	2.72	2.19	87 / 59
	112	Return on Average Assets, %	N/A	2.84	5.83	4.34	
	113	Return on Average Equity, %	N/A	6.51	14.26	10.22	
	114	ACTIVITY RATIOS:					
6	115	**Receivable Days**	N/A	N/A	N/A	N/A	(7 x 365*) / 59
7	116	**Inventory in Days**	179	156	136	154	(12 x 365 *) / 66
8	117	**Payables in Days**	25	46	40	42	(28 x 365*) / (66 – 65)
	118	Total Assets / Net Sales	0.78	0.62	0.49	0.51	
	119	LIQUIDITY RATIOS:					
9	120	**Working Capital**	144	283	284	402	13 – 37
10	121	**Quick Ratio**	0.20	0.17	0.04	0.03	(6 + 7) / 37
11	122	**Current Ratio**	1.25	1.35	1.29	1.42	13 / 37
	123	Sales / Net Working Capital	12.14	9.81	13.83	9.65	
	124	LEVERAGE RATIOS:					
12	125	**Total Liabilities / T Net Worth**	1.09	1.48	1.42	1.29	42 / 48
	126	Tot Senior Liabilities / TNW & Sub Debt	1.09	1.48	1.42	1.29	
	127	Borrowed Funds / TNW & Sub Debt	0.42	0.48	0.58	0.56	
	128	Long-Term Debt / Net Fixed Assets	0.11	0.08	0.06	0.02	
	129	COVERAGE RATIOS:					
13	130	**EBITDA / (Total Interest + CMLTD)**	N/A	5.19	5.42	4.87	79 / (82 + 27* *)
	131	Interest Coverage(EBIT/Total Interest)	2.15	2.42	4.09	3.81	
	132	Net Income + Depreciation / CMLTD	N/A	N/A	N/A	9.89	
	133	CASH POSITION:					
	134	Cash Margin, %	N/A	14.23	11.38	15.77	
	135	Cash Coverage	N/A	0.36	0.39	1.68	
	136	Net Cash Income	N/A	(61)	(94)	119	
	137	Net Income + Depreciation	82	144	177	267	
	138	SUSTAINABLE GROWTH & BANKRUPTCY:					
	139	Sustainable Growth, (N/(T-N)), %	5.14	6.74	15.35	10.98	
	140	Z=1.2x1 +1.4x2 +3.3x3 +.6x4 +.999x5	2.17	2.42	3.10	3.16	

*** 365 Days**
**** Prior Year's CMLTD**