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**Deloitte Touche
Tohmatsu**



***Slovak Republic Restructuring
for Privatization Course***

***Module III: Restructuring
Techniques***

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Privatization Project*



*U.S. Agency for International Development
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*Bratislava, Slovak Republic
November 6 - 10, 1995*

**Deloitte Touche
Tohmatsu
International**



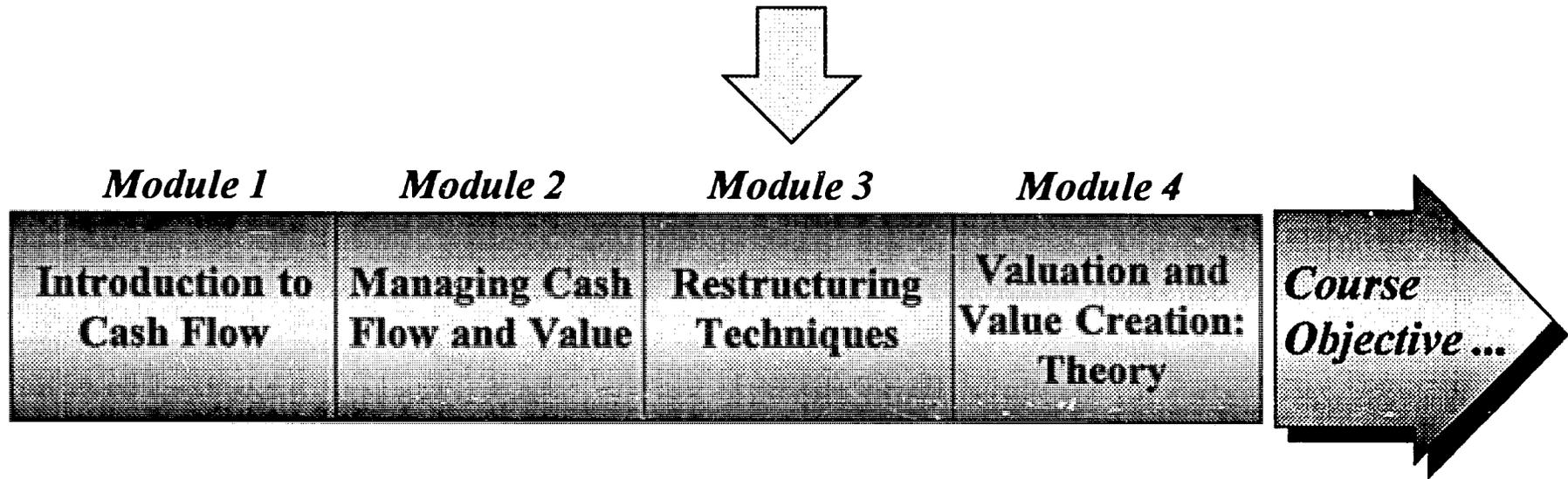
Restructuring for Privatization: Module III: Restructuring Techniques

***Sponsored by the U.S. Agency for
International Development***

Bratislava, Slovak Republic

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Restructuring for Privatization - Courses Offered



.... to provide an understanding of the importance of managing cash flow and its impact on value, value creation and restructuring alternatives...



Module 3

Module Objective:

**Restructuring
Techniques
for
Companies**

... to provide participants with an understanding of turnaround techniques and how to apply them. The techniques cover financial restructuring, operational restructuring, asset dispositions, mergers/joint ventures as well as developing a turnaround plan, and negotiating with borrowers and creditors.

Major Topics Covered

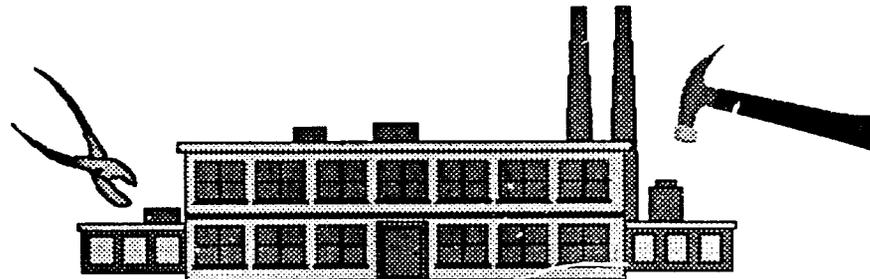
- ✓ **Motives for Restructuring**
- ✓ **Recognizing and Analyzing Distressed Companies**
- ✓ **Restructuring Techniques**
- ✓ **Other Aspects of Implementing Changes**
- ✓ **Case Studies - Capital Structure, Asset and Business Dispositions, Acquisitions and Joint Ventures**



Module III: Restructuring Techniques

Course outline...

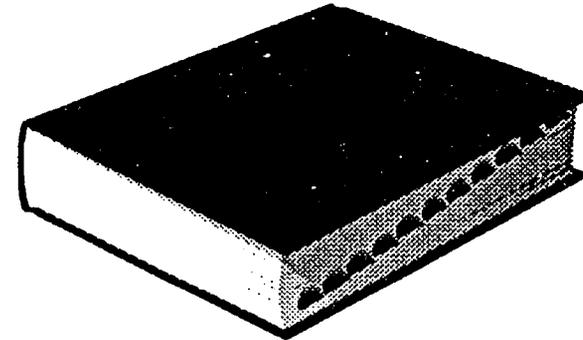
- Restructuring defined***
- Motives for restructuring***
- Restructuring techniques***
- Recognizing and analyzing distressed companies***
- Restructuring techniques-distressed companies***





Restructuring Defined

- **Corporate restructuring** is a broad term that includes, for example, mergers and consolidations, divestitures and liquidations, and various battles for corporate control.



- At the most general level, the term *corporate restructuring* refers to any change in operations, capital structure, or ownership, that is not part of the firm's ordinary course of business.



Corporate restructuring can also be defined as any substantial change in a firm's asset portfolio or capital structure, with the objectives of:

- ***Increasing value to the owners***
- ***Improving operating efficiency***
- ***Exploiting debt capacity***
- ***Redeploying assets***
- ***Changing or "defending" corporate control***

Restructuring can involve a diverse set of activities, such as:

- ***Divesting of underperforming business units***
- ***"Spin-offs" of assets/business units to shareholders***
- ***Acquisitions and joint ventures***
- ***Stock repurchases***
- ***Debt swaps***

For purposes of this course, we will separate restructuring activities into two groups:

Strategic Restructuring

- *This type of restructuring is aimed at improving shareholder value, maintaining corporate ownership, and other strategic plans associated with a “going concern” business.*

Distressed Company Restructuring

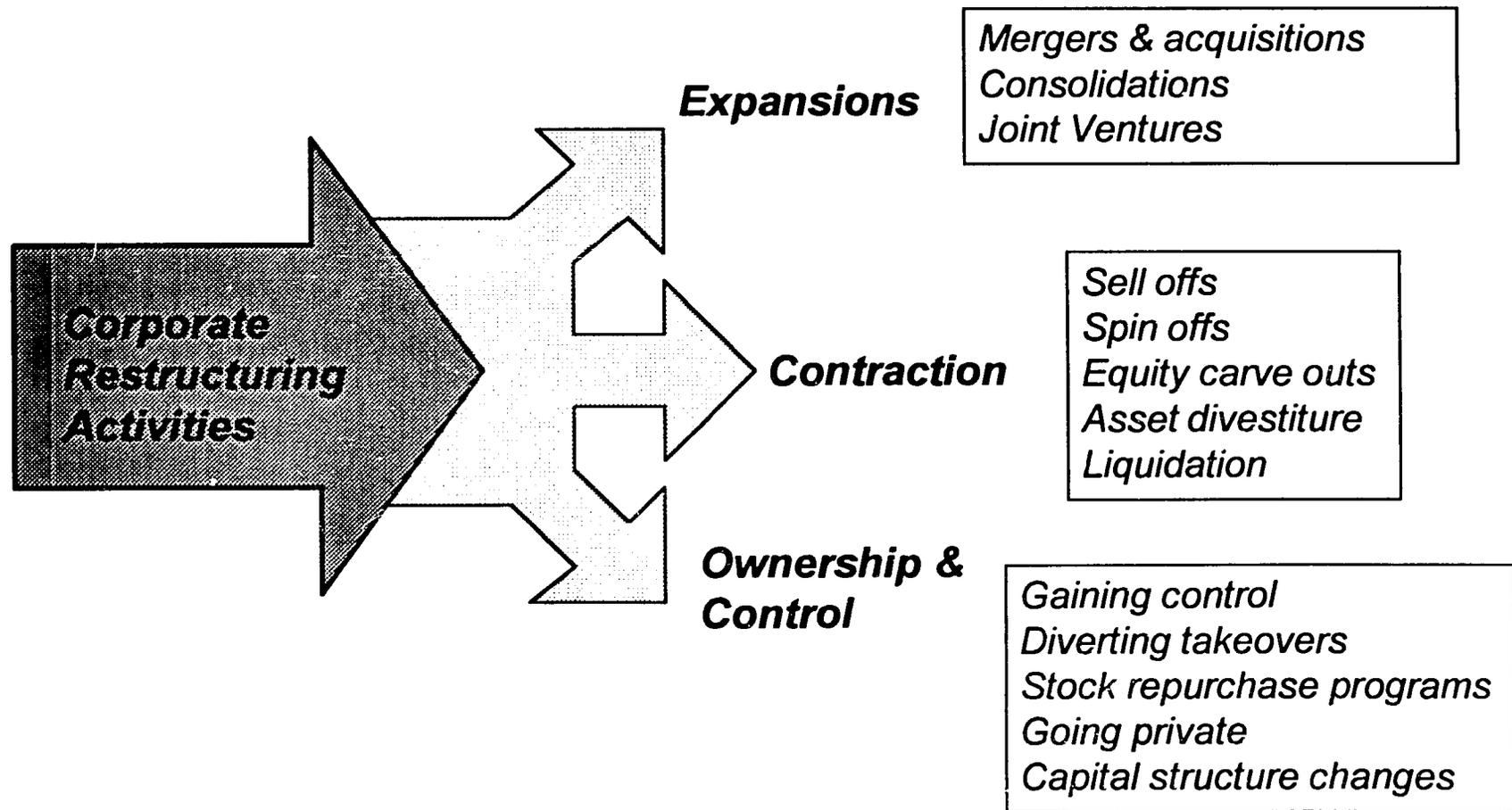
- *This type of restructuring focuses on decisions and strategies aimed at reorganizing a financially distressed or even bankrupt company, to once again make it a “going concern.”*

Both methods rely on many of the same restructuring techniques to achieve their goals



Restructuring Defined

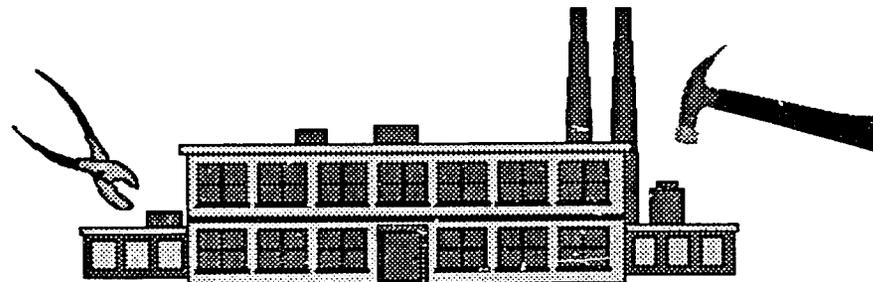
Corporate restructuring can be separated into 3 distinct, yet related groups of activities...





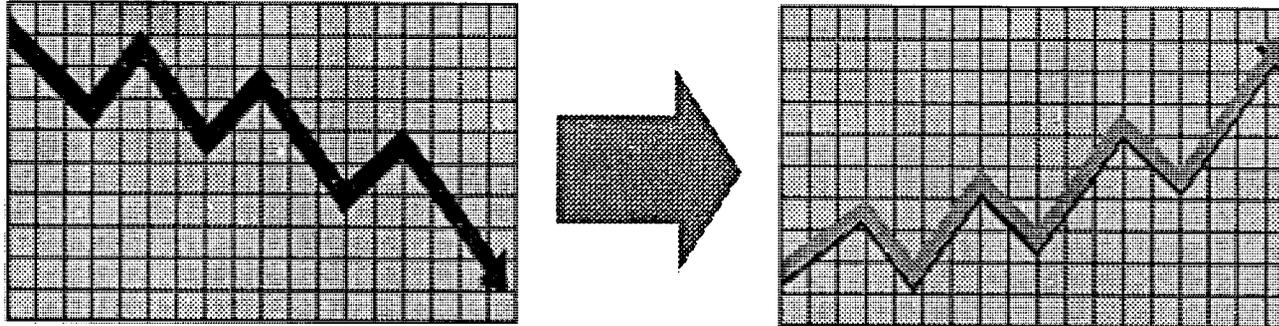
Course outline...

- ☒ *Restructuring defined***
- ☒ *Motives for restructuring***
- ☒ *Restructuring techniques***
- ☒ *Recognizing and analyzing distressed companies***
- ☒ *Restructuring techniques-distressed companies***





1. Distressed company turnaround



A distressed company can be defined as:

- 💣 A company unable to meet current obligations**
- 💣 A company whose total liabilities exceed the fair valuation of its total assets**

Restructuring may be the only way to avoid bankruptcy and liquidation of the company...



2. Value creation



One clear reason to focus on restructuring is to create value for the “stakeholders” of the company:

- Management**
- Shareholders**
- Lenders**
- Customers**
- Suppliers**
- Employees**
- Government**

As stated earlier, this type of restructuring is called “strategic restructuring”



3. Takeover threat



In many cases, restructurings are motivated by a desire to prevent a takeover bid by corporate “raiders” who look for:

- (1) undermanaged, (and undervalued), companies where changes in strategic direction could dramatically increase the value of the shares of the company, and
- (2) companies with high liquidation values relative to their current share price.

Thus, one way to avoid a takeover is to increase the price of the shares (or the value of the company).

Which means that increasing the share price becomes a fundamental purpose of corporate restructuring.

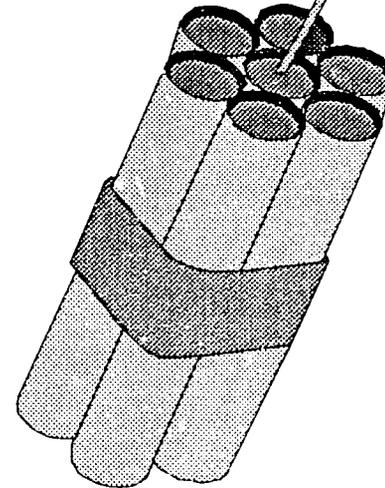
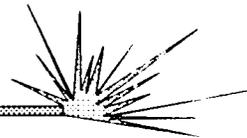
Government intervention in the business affairs of a distressed company could also occur...



4. To avoid future problems

**Financial problems
Legal problems
Problems for the “stakeholders”**

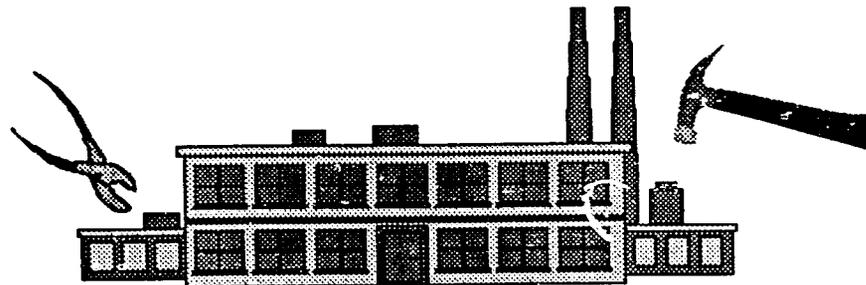
**It is easier to prevent problems
before they occur than to try
to reverse the problems in a
distressed company.**





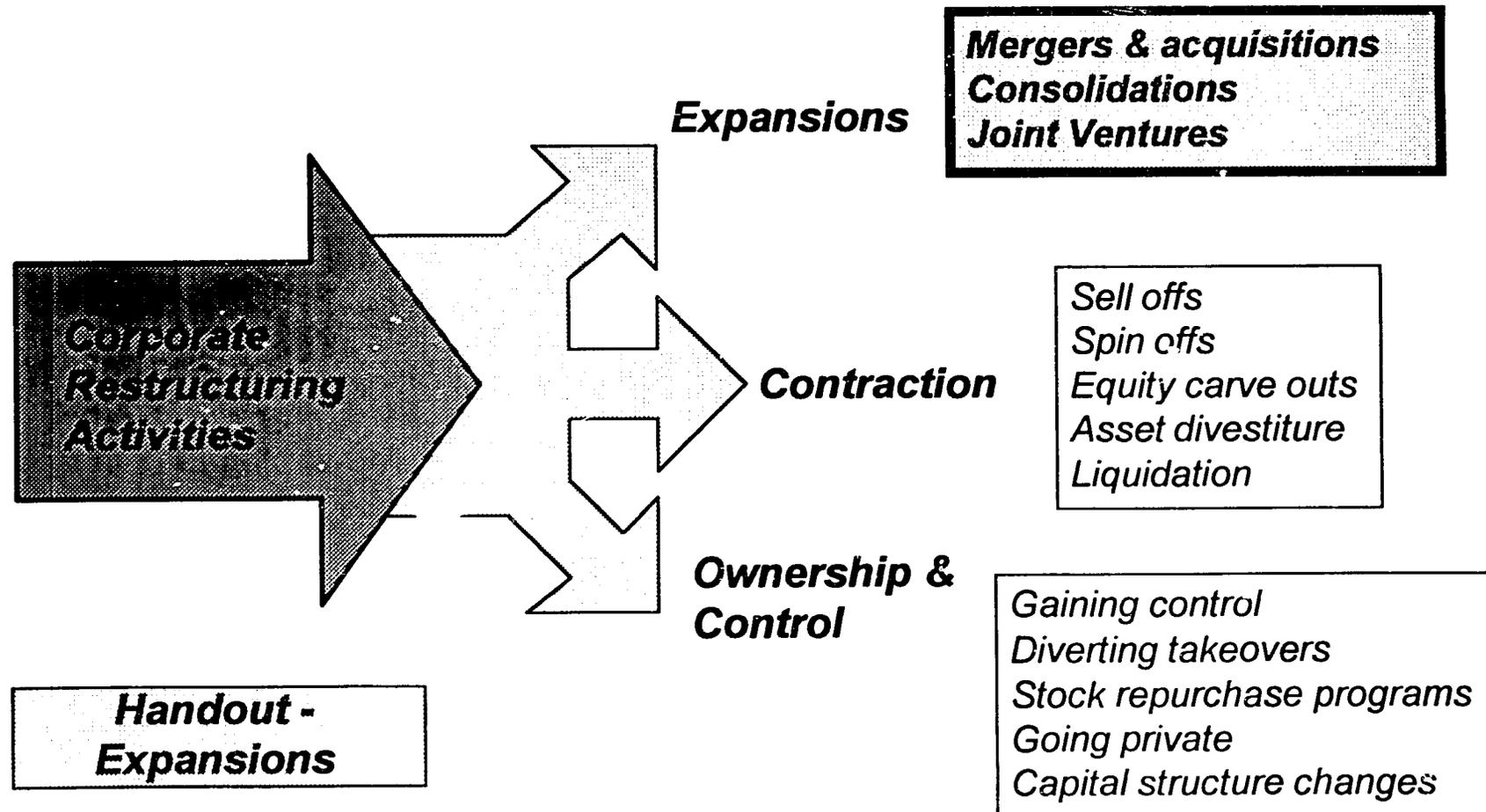
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Restructuring Techniques

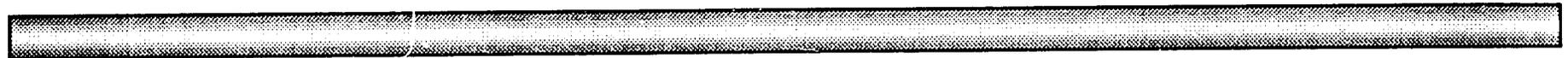
As stated previously, corporate restructuring can be separated into 3 distinct, yet related groups of activities...



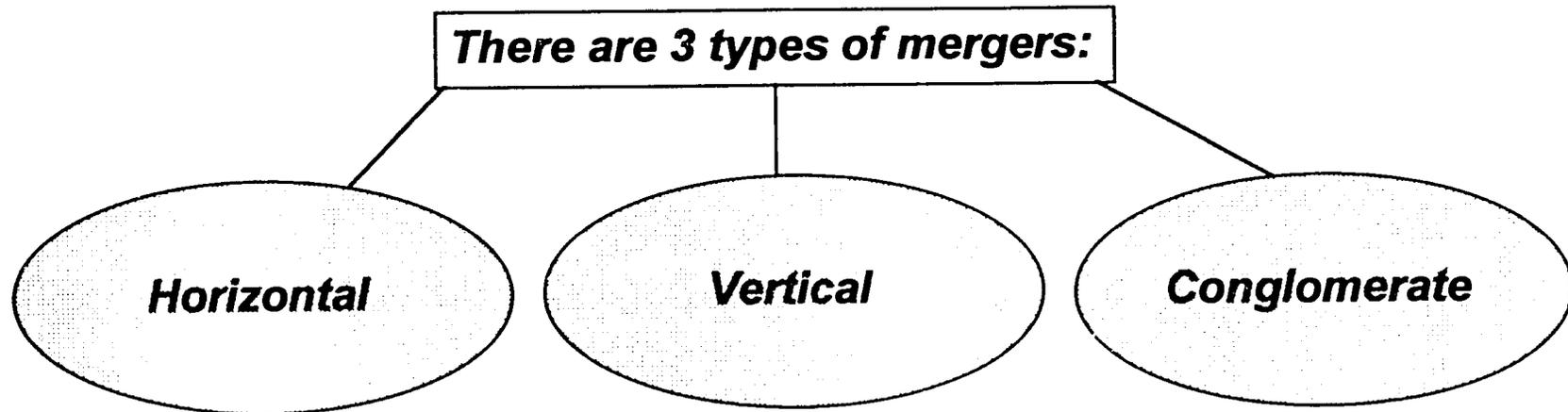


Discussion of corporate restructuring techniques...

Expansions



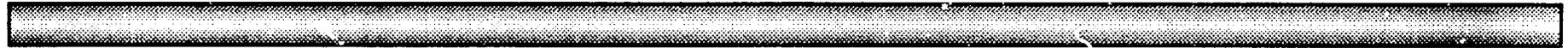
Merger: a combination of two firms such that only one survives. Mergers tend to occur when one firm is significantly larger than the other and the survivor is usually the larger of the two.



Discussion of corporate restructuring techniques...

Mergers

Expansions - continued



Horizontal

Involves two firms in similar businesses; for example, two oil companies

Vertical

Involves two firms involved in different stages of production of the same end product or related end products. For example, an oil producer and an oil refiner.

Conglomerate

Involves two firms in unrelated business activities. For example, an oil refiner and a waste disposal company.

These distinctions can be important in understanding the sources of value in business combinations.

Motives for entering into mergers/acquisitions...

- **Synergies** - if the value of the combined companies exceeds the value of the individual two firms before the merger, then synergy is said to exist. There are 4 reasons synergies can occur:
 - *Operating economies of scale (cost reductions)*
 - *Financial economies (higher P/Es, lower debt cost, greater debt capacity)*
 - *Improved management (the management of one firm is better than the other and can improve return on assets)*
 - *Increased market power (from reduced competition).*
- **Tax Considerations** - a profitable firm may acquire a firm with tax losses.



Motives for entering into mergers/acquisitions, (continued)...

- **To purchase assets below their replacement cost - it may be cheaper to purchase assets through a merger than to build a new factory.**
- **Diversification - is viewed as a means of stabilizing a firm's earnings and reducing corporate risk. (for example, geographical, product or customer diversification). Stability is important to the firm's stakeholders.**
- **Maintaining control - a company who is the target of a takeover may merge with another company to increase their size and make takeover more difficult.**
- **Technological and managerial skill transfer - operating benefits may occur when when the technical or managerial skills of one firm can be advantageously applied to the other.**



Discussion of corporate restructuring techniques...

Expansions - continued

***A merger/acquisition has several advantages of over
“internal growth” strategies:***

- ***Entry in a product market via acquisition may take weeks or months while internal development typically takes years.***
- ***Acquiring a business with a strong market position is often less costly than a competitive battle to achieve market entry or market share.***
- ***Strategic assets such as brand names, distribution channels, proprietary technology, patents, trademarks, and experienced management are often difficult, if not impossible, to develop internally.***
- ***An existing, proven business is typically less risky than developing a new one.***



Discussion of corporate restructuring techniques...

Expansions - continued

Acquisition: generally means an attempt by one firm (the acquiring firm), to gain a majority ownership interest in another firm (the target firm). Could lead to a merger or combination. Can be “friendly” or “hostile.”

Overview of the merger/acquisition process:

- ***Establish the merger/acquisition objectives***
- ***Identify potential candidates***
- ***Narrow the list of candidates by using screening procedures***
- ***Interview management and obtain financial and operational data***
- ***Perform a due diligence of the company***
- ***Perform a valuation of the company “as is” & combined***
- ***Establish an offer price and negotiate the acquisition***
- ***Determine methods and sources of financing***
- ***Close the deal***



Discussion of corporate restructuring techniques...

Expansions - continued

Why mergers/acquisitions may fail

- ***Overpaying for the company***
- ***Lack of experience in managing the process***
- ***Failure to keep key personnel of the acquired/merged company***
- ***Purchase of a company that is too big for the resources of the buyer***
- ***Incompatibility of corporate cultures***
- ***Fraud on the part of the seller***
- ***Failure of favorable forecasts to occur***
- ***Unforeseen disasters***

Discussion of corporate restructuring techniques...

Expansions - continued

Consolidation: involves the creation of an altogether new firm owning the assets of both of the first two firms--and neither of the first two firms survive. Typically the firms are of about the same size.

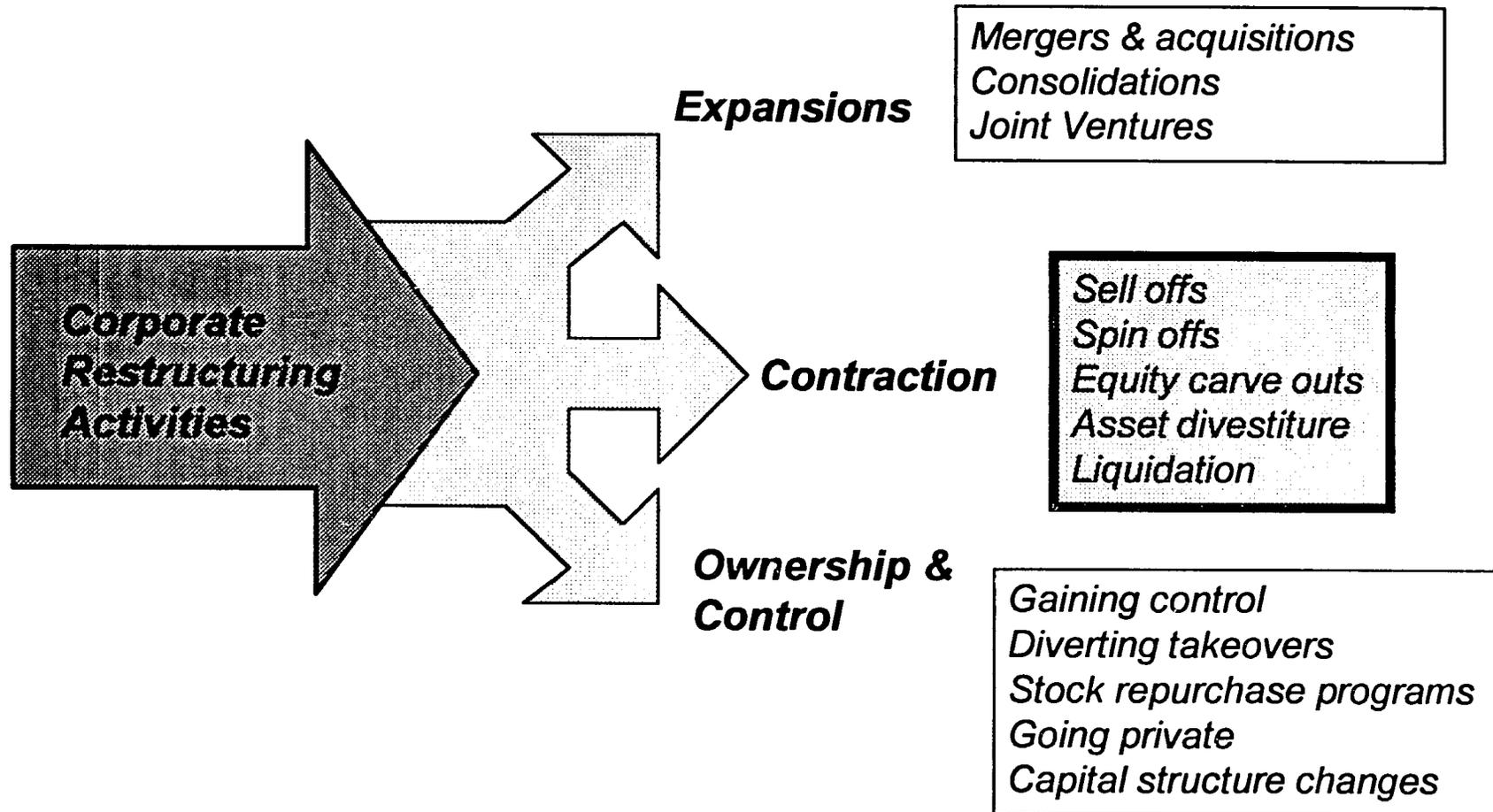
In the case of the merger and consolidation, one or both of the companies is dissolved.

Joint Venture: involves two separate firms which pool some of their resources that does not lead to the dissolution of either firm. Such ventures typically involve only a small portion of the cooperating firms' overall business and sometimes have limited lives.

- ***To be successful, a structure for effective control must be in place, and both partners should be strong.***
- ***50/50 ownership has proven more successful than uneven ownership. (60% vs. 31%)***
- ***Flexibility to accommodate future changes is important.***

**Case Study
Joint Venture**

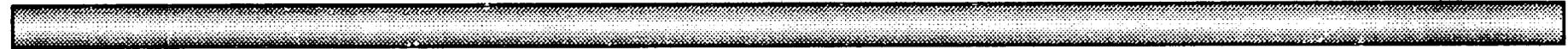
Discussion of restructuring through "contraction."





Discussion of corporate restructuring techniques...

Contraction



Contraction activities result in a smaller firm, resulting from the sale or abandonment of assets. The disposition of assets (also called “sell-offs”) can take either of 3 broad forms:

Spin-offs

Divestitures

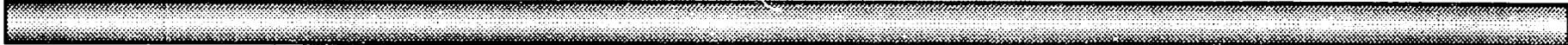
Equity carve-outs

Spin-offs and carve-outs create new legal entities, while divestitures do not.



Discussion of corporate restructuring techniques...

Contraction - continued



Spin-offs

In a spin-off, the parent company transfers some of its assets and liabilities to a new firm. The shareholders of the original firm are then given shares in the new firm on a proportional basis to their ownership in the original firm.

After the spin-off, the original shareholders have the same equity interest but now it is divided between two separate entities. The shareholders are free to keep or sell their shares in the new entity.

By creating a new firm with its own assets, its own management, and separate ownership, the spin-off represents a transfer of control.

A “split-off” is a variation of the spin-off: some of the shareholders are given an equity interest in the new firm in exchange for their shares in the old firm.



Discussion of corporate restructuring techniques...

Contraction - continued

Spin-offs

Two variations of spin-offs exist...

In a “split-off” some of the shareholders are given an equity interest in the new firm in exchange for their shares in the old firm.

In a “split-up” all of the assets of the parent company are divided among the spin-off companies and the original parent company ceases to exist.

It is important to note that in all forms of spin-offs, the parent company receives no cash from its transfer of assets to the new firm(s).

Discussion of corporate restructuring techniques...

Contraction - continued

Divestitures

A divestiture involves the outright sale of assets, usually for cash consideration. In most cases, no new legal entity results from the transaction.

A divestiture could be made of individual assets (equipment, real estate, intangible assets) or entire divisions or subsidiaries.

A manager is faced with three central questions regarding divesting assets:

Which assets may be used to generate capital?

How much capital will they generate?

What effect will a proposed transaction have on the company?



Divestitures

General considerations

The selected divestiture of assets should serve the purposes of :

- 1. Raising necessary funds.***
- 2. Preventing unnecessary losses and expenses relating to the business operations.***
- 3. Fitting with the overall corporate strategic plan.***

Asset divestiture options:

- Sales of the whole or part of a division on a going-concern basis, or liquidation basis.**
- Sale of certain assets of the business (non-operating or excess).**
- Reorganization and redeployment of the existing assets in an effort to establish a feasible business operation.**



Divestitures

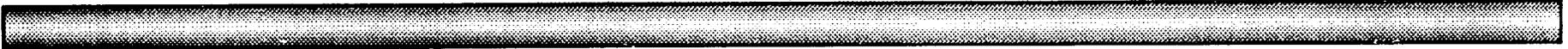
Divestiture options specific to real estate assets

- The property may be sold outright.**
- The property may be refinanced.**
- The owner may enter into a sale leaseback.**
- The owner may find a partner and develop the property to its most advantageous use.**



Discussion of corporate restructuring techniques...

Contraction - continued

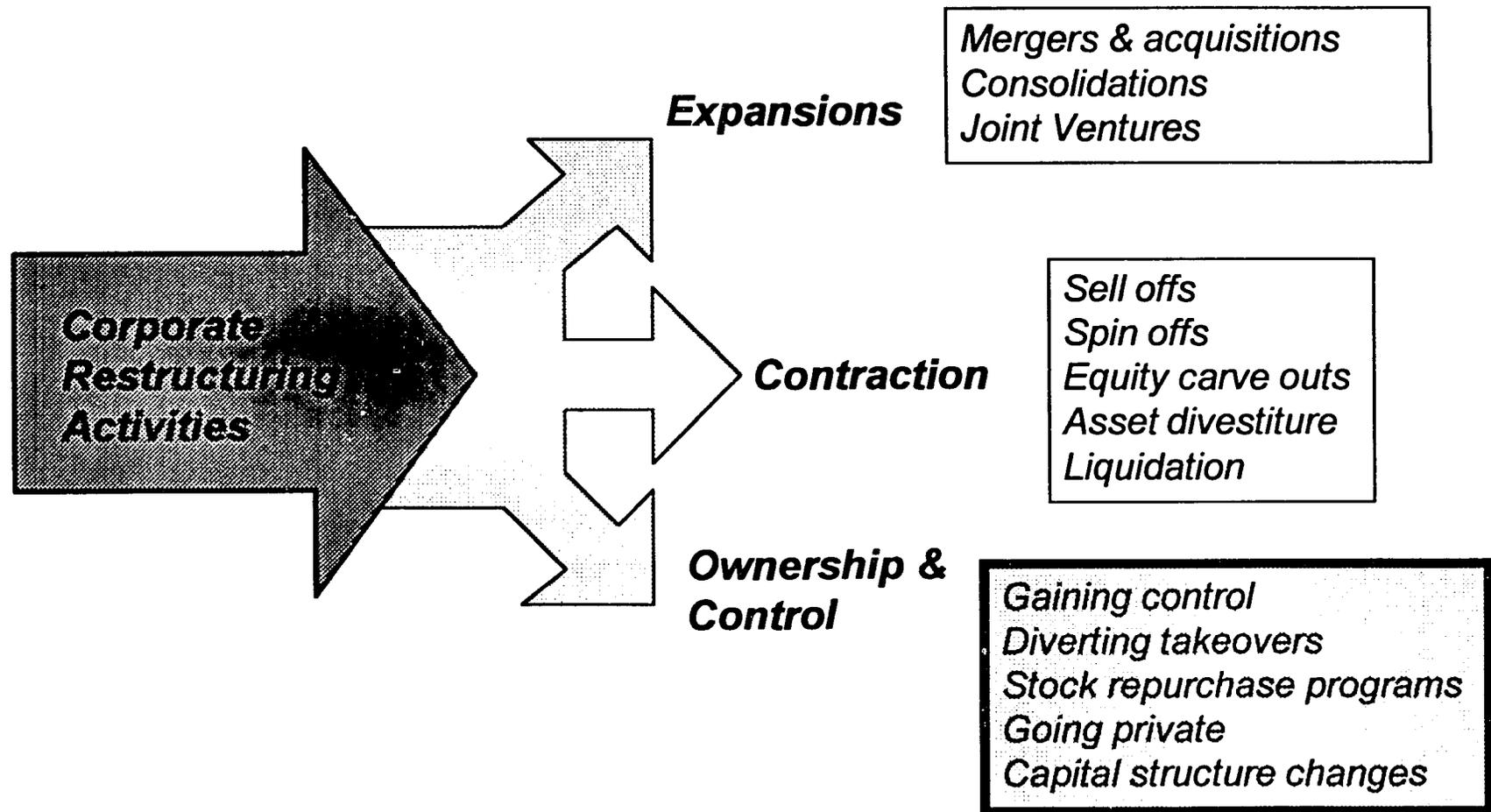


A form of contraction between a spin-off and divestiture - it brings cash to the firm, and disperses assets (and asset ownership) to a new firm.

Equity carve-outs

The original firm forms a new firm and transfers assets to it, and then sells shares in that firm.

Discussion of restructuring through changes in ownership and control.





Discussion of corporate restructuring techniques...

Ownership & Control

As stated earlier, one motivation for restructuring is to avoid an “unfriendly” takeover of your company. In addition to increasing the value of the company there are other ways to maintain control:

- **Staggering board member terms;**
- **Supermajority voting provisions involving a merger (75/80%);**
- **Sizeable termination payments to management in the event management is terminated following a change in control.**
- **Repurchasing shares in the market so that control is held by management**
- **Going private**

Going private tools include: leveraged buy-outs, management buy-outs bank loans and private placement debt.

Most of these strategies apply to companies whose shares are publicly traded...



Discussion of corporate restructuring techniques...

Ownership & Control

Capital structure changes - involves changes in the debt and equity securities.

Changing the debt structure of a company as a restructuring activity is most often associated with distressed companies.

Altering the debt structure is included in the "Ownership & Control" restructuring category for several reasons:

- ***Debt for equity exchanges can impact who controls the company.***
- ***Distressed companies are often targets for "turnaround" specialists
The government may also take over management.***
- ***Also, if a company goes bankrupt and is restructured or liquidated,
loss or change of ownership occurs.***

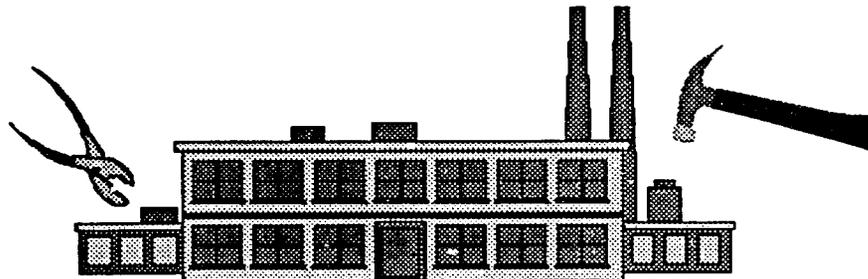
Changing the equity structure will almost always result in a change in ownership, and perhaps control.



Module III: Restructuring Techniques

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Causes of distressed company problems...



Internal causes

- *Ineffective management*
- *Undercapitalization*
- *Excessive debt*
- *Failure to penetrate key markets*
- *Lack of product innovation*
- *Large concentration of customers*
- *Limited sources for strategic or scarce materials*
- *Poor incentives to retain key people*
- *Lack of planning or budgeting*
- *Lack of management information systems*
- *Lack of timely internal reporting*

External causes

- *Legislation or politics*
- *Industry conditions*
- *General economic conditions*
- *Labor problems*
- *Regulatory issues*
- *Foreign competition*
- *Innovative technology leading to obsolescence*
- *Natural disaster*
- *Shifting customer preferences*
- *Decreasing market for products or services*

Quantitative indicators - based on a financial analysis of the firm

There are a number of quantitative tools to assess and predict the financial health of a firm.

Debt to worth ratio

- *Indicates the amount of debt relative to equity value. A higher ratio indicates more debt.*
- *An increasing ratio generally indicates a pattern of losses or increased borrowing and is a cause for concern.*

Example ratios:

***Current ratio
Working capital/sales***



Working capital

- *Determines the extent to which the company is able to meet its current obligations.*
- *Low or negative working capital indicates an inability to meet current obligations as they come due, which is one definition of insolvency.*
- *A trend of declining working capital, or deteriorating working capital ratios, is a certain predictor of financial distress.*

Quantitative indicators...

Increased aging of receivables and payables.

- *Measured by the “days receivable” and “days payable” ratios.*
- *An increase in the “days receivable” ratio indicates a longer collection time, and a deterioration in the manner in which the firm is managing its receivables, which is its second most liquid asset.*
- *This also might indicate a decline in the financial health of the firm’s customer base.*
- *Increases in the “days payable” ratio indicates the firm is taking a longer time to pay due to cash constraints, which could have serious implications about the firm’s ability to obtain further credit.*

Financing long-term assets with short-term funds.

- *When this practice is observed it generally indicates a problem either from bad management or the inability to obtain appropriate financing.*

Quantitative indicators...

Inordinately high financing costs.

- *Extremely high costs of debt are an indicator that lenders perceive the company to have financial problems or are heading in that direction, increasing the risk of collection.*
- *It is true that those who need the financing the most, the more they pay for it.*

Slower turnover of inventories.

- *Increasing inventory levels can reflect:*
 - *Obsolescence*
 - *Declining sales*
- *Increasing inventories can be a predictor of future cash problems.*
- *The financing cost of carrying excessive inventory further accelerates a company's deterioration.*

Quantitative indicators...

Profitability measures.

- *Declining gross profit margins - could indicate costs are not being effectively controlled, or that prices cannot keep up with increases in the cost to produce the product. Management may not be doing a good job at controlling costs. (Gross profit = sales minus cost of goods sold).*
- *Declining net profits - could be declining as a result of the decline in gross profit margins, but also due to high selling and administrative costs or interest costs.*
- *Declining sales - this can result from a number of reasons including decreased demand, quality problems and delivery problems. Any of these reasons, if not cured, could lead the company to financial distress.*

Quantitative indicators...

Ratio Analysis - Z Score

The Z Score was developed to predict bankruptcy in the short term (one to two years). It is based on historical studies of financial data for companies that later went bankrupt. It has shown a high success rate of predicting which companies will go bankrupt within two years.

The Z Score is based on 5 ratios with formulas developed for the following types of companies:

**Publicly-traded
manufacturing**

**Private
manufacturing**

Non-manufacturing

The weighting of each of the ratios (e.g., the coefficient) is different for each of the types of companies listed above, and was determined by a combined process of empirical and statistical procedures.

The Z Score cannot be used for construction, real estate, banking or insurance companies.

Ratio Analysis - Z Score

The Z Score relies on five ratios to predict bankruptcy:

**Working capital to
total assets**

A measure of the net liquid assets of the company relative to the total capital. Usually, a company experiencing consistent operating losses will have shrinking current assets relative to total assets

**Retained earnings to
total assets**

A measure of a company's cumulative profits. A new firm is likely to have a lower ratio than an older company, and thus a lower Z Score. In reality, new firms fail more often.

**Income before interest
and taxes to total assets**

A measure of the true productivity of the company's assets, excluding any tax effects or the effects of debt.

**Market value of equity to
book value of total liabilities**

An indicator of how much the company's net worth can decline in value before the liabilities exceed the assets and the company becomes insolvent.

**Sales to
total assets**

A measure of the sales generating ability of the company's assets and management's ability to deal with competitive conditions.



Ratio Analysis - Z Score

Publicly-traded manufacturing

$$\frac{\text{Working Capital}}{\text{Total Assets}} \times 1.2$$

+ PLUS +

$$\frac{\text{Retained Earnings}}{\text{Total Assets}} \times 1.4$$

+ PLUS +

$$\frac{\text{EBIT}^*}{\text{Total Assets}} \times 3.3$$

**EBIT = earnings before interest and tax*

+ PLUS +

$$\frac{\text{Market Value of Equity}}{\text{Total Debt}} \times 0.6$$

+ PLUS +

$$\frac{\text{Sales}}{\text{Total Assets}} \times 1.0$$

EQUALS

Z Score

**Z > 3
Bankruptcy Unlikely**

**Z < 1.8
Bankruptcy Probable**



Ratio Analysis - Z Score

Private manufacturing

$$\frac{\text{Working Capital}}{\text{Total Assets}} \times .72$$

+ PLUS +

$$\frac{\text{Retained Earnings}}{\text{Total Assets}} \times .85$$

+ PLUS +

$$\frac{\text{EBIT*}}{\text{Total Assets}} \times 3.11$$

+ PLUS +

$$\frac{\text{Book Value of Equity}}{\text{Total Debt}} \times 0.42$$

+ PLUS +

$$\frac{\text{Sales}}{\text{Total Assets}} \times 1.0$$

EQUALS

Z Score

**Z > 3
Bankruptcy Unlikely**

**Z < 1.2
Bankruptcy Probable**

**EBIT = earnings before interest and tax*

Note: book value is used rather than market value of the equity.

Ratio Analysis - Z Score

Non-manufacturing

$$\frac{\text{Working Capital}}{\text{Total Assets}} \times 6.56$$

+ PLUS +

$$\frac{\text{Retained Earnings}}{\text{Total Assets}} \times 3.26$$

+ PLUS +

$$\frac{\text{EBIT}^*}{\text{Total Assets}} \times 6.72$$

+ PLUS +

$$\frac{\text{Book Value of Net Worth}}{\text{Total Debt}} \times 1.05$$

**EBIT = earnings before interest and tax*

Note: book value is used rather than market value of the equity.

**Z > 2.6
 Bankruptcy
 Unlikely**

**Z < 1.1
 Bankruptcy
 Probable**

EQUALS

Z Score

Note that the Sales/asset ratio is not used for non-manufacturing firms.



**Z Score Calculation
Non-manufacturing**

$$6.56 \times \underline{\mathbf{A}} + 3.26 \times \underline{\mathbf{B}} + 6.72 \times \underline{\mathbf{C}} + 1.05 \times \underline{\mathbf{D}}$$

=

=

A = (Current assets - Current liabilities) / Total assets

B = Retained earnings / Total assets

C = Earnings before interest and tax / Total assets

D = Book value of net worth / Total debt

**Z Score Calculation
 Non-manufacturing**

$$\frac{(594 - 764)}{2,570} \times 6.56$$

= -.47

+ PLUS +

$$\frac{(739)}{2,570} \times 3.26$$

= -.1.02

+ PLUS +

$$\frac{281}{2,570} \times 6.72$$

= .80

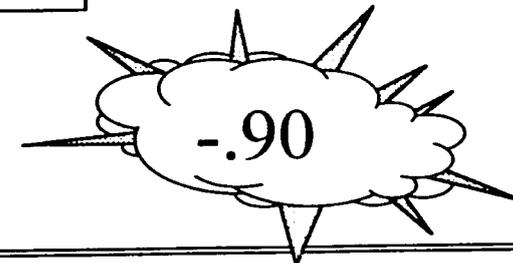
+ PLUS +

$$\frac{(449)}{2,268} \times 1.05$$

= -.21

EQUALS

Z Score



**Results of the Z Score in predicting bankruptcy
in the U.S.**

One Year Before Failure	
Failed firms	98%
Non-failed firms	72
Two Years Before Failure	
Failed firms	88%
Non-failed firms	76

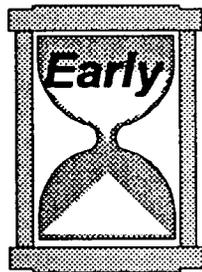
Qualitative indicators

These factors affect the efficiency with which the company pursues its objectives, strategies, the relationships it has with customers and suppliers, and the manner in which it deals with its employees. None of these factors, analyzed on an individual basis, is a predictor of financial distress. But when observed over time and in connection with several other factors, financial problems in the future are predictable.

- **Production problems**
- **Late shipments**
- **Incorrect shipments**
- **High number of returns**
- **Rework**
- **Lack of timely and accurate operating and financial data**
- **Customer dissatisfaction with products or services**
- **Deferred maintenance**
- **Low morale**
- **High employee turnover rate**
- **Management becomes reactive instead of proactive**



Stages of a troubled company...



Isolated inefficiencies in the production and distribution begin to occur more frequently.

Shipments slow down and quality slips.

Inventory builds or remains constant while sales are stagnant or declining.

Margins may be declining.

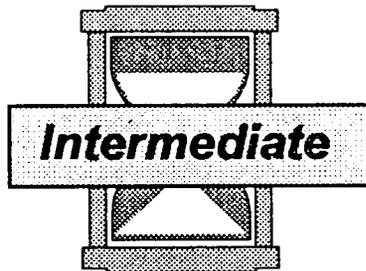
Payables may begin to be extended.

Cash balances may be falling, but not yet causing problems

Stages of a troubled company...

Production problems become more acute.

Material shortages may be occurring as management attempts to conserve cash by reducing inventories.



Quality problems are more frequent.

Gross margins are slipping noticeably.

Payables are falling much further behind. Some vendors may be demanding cash on delivery. Debt may be in default.

Cash is low, meeting payroll may be a challenge.

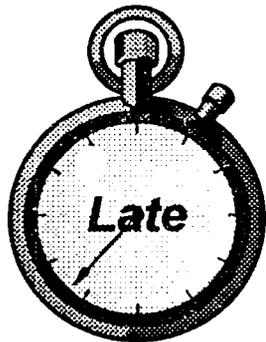
Employee moral may be low, and some employees may be looking for jobs, or have already left.



Stages of a troubled company...

A company in late decline is generally in chaos.

Production schedules are routinely not met...orders are rescheduled to customers with better paying habits, or to those who are threatening to purchase elsewhere.



Quality problems are prevalent, and returns are rising.

Chronic shortage of materials also hampers production.

***Collections slow due to dissatisfied customers.
Severe working capital shortages exist.***

All suppliers may be demanding cash on delivery.

Layoffs may be occurring in large numbers.

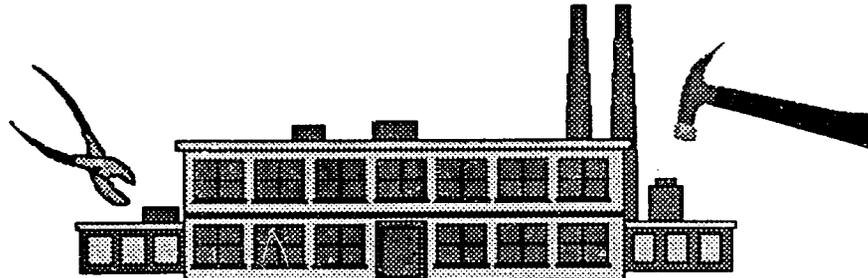
Lenders may want to renegotiate loan terms.



Module III: Restructuring Techniques

Course outline...

- Restructuring defined***
- Motives for restructuring***
- Restructuring techniques***
- Recognizing and analyzing distressed companies***
- Restructuring techniques-distressed companies***





Restructuring alternatives for distressed companies

The are many restructuring alternatives for distressed companies. Most of those previously discussed can be applied to distressed companies.

The management team must decide which alternative is best, in order to achieve a successful turnaround of the company.

In assessing the advantages and disadvantages of each alternative, quantitative analysis is critical in reaching the right decision.

In this section, we will focus on the following restructuring options:

- **Secured financing**
- **Sale of assets (or division)**
- **Exchange offer**
- **Capital structure changes**



Distressed Company Restructuring

Restructuring alternatives for distressed companies

Secured financing

If some assets are not pledged as collateral on loans, it may be feasible to use them as collateral to obtain additional secured debt. Attention must be paid to the existence and priority of existing liens, and the covenants on existing debt.

Sale of asset or division

To refocus the business (and raise cash), the sale of certain assets or divisions may allow management to turn its attention to the company's core business.

Care must be taken however, to avoid impairing the viability of the surviving entity.

Restructuring alternatives for distressed companies

**Exchange
offer**

An exchange offer entails the voluntary exchange of the debtor's old securities for new ones (which might be new debt, equity or a combination of both).

- ***A debt for debt exchange typically involves the issuance of new debt with a lower interest rate, an extended repayment schedule or other terms less stringent to the debtor.***
- ***In an equity for debt exchange, existing creditors are offered common or preferred shares for their debt securities.***
- ***In the U.S., typically 85 to 90 percent of the holders must accept the exchange offer for it to take place. For those who reject the offer, the debtor remains liable to those debt holders under the original terms of the debt security.***

Restructuring alternatives for distressed companies

Capital structure changes

Capital restructuring alternatives:

- **Issue debt**
- **Reduce debt**
 - **Swaps (debt for debt, equity for debt)**
 - **Pay off principal when due**
 - **Negotiate with creditors**
- **Issue or repurchase common shares**
- **Issue preferred shares**

Debt saves taxes, and provides a lower cost of capital than equity.

The dilutive effect of issuing more shares must be considered. Does the gain in value exceed the dilution that occurs due to more shares outstanding?

In a repurchase of shares, does the reduction in shares offset the cost to acquire the shares?

Preferred shares are a mixture of debt and equity. Preferred shares have a stated dividend (similar to interest costs on debt), but have prior claims (over common and debt holders) to assets.

Restructuring alternatives for distressed companies

Capital structure changes

Determining Debt Capacity

- ***Strive to achieve a capitalization structure that provides adequate cushion and flexibility.***
- ***Analyze competitors to determine what their capitalization structures are and what will be required to enable the company to compete.***
- ***Determine what interest coverage ratios are appropriate.***
- ***A general rule of thumb is that the company's plan would show debt coverage of one and a half times its annual interest charges.***
- ***Consider if there is enough capacity to service principal payments.***

Restructuring alternatives for distressed companies

Capital structure changes

Checklist for capital structure decisions...

- Sales stability - a firm with stable sales can safely take on more debt and incur higher fixed charges. (e.g., utility companies).**
- Asset structure - firms whose assets are suitable as security for loans are able to borrow more. For example, real estate companies versus companies involved in technological research.**
- Operating leverage - a firm with less operating leverage is better able to utilize higher levels of debt.**
- Growth rate - faster growing firms typically must rely more heavily on external capital.**
- Financial condition - the financial condition of the firm will have an impact on the amount and terms of debt allowed by lenders.**

**Szczecin and Gdansk Shipyards
Case Study**

***Gdansk and Szczecin Shipyards
Alternative approaches to state enterprise restructuring***

<i>Management \ Challenge</i>	<i>Approach of Szczecin Shipyard</i>	<i>Approach of Gdansk Shipyard</i>
Debt overhang	Radical restructuring	Inaction
Financing	Innovative buyer	Inaction
Product mix	Focused	Diffuse
Production methods	Restructured	Unchanged
Labor relations	Consensus for rationalization	Resistance to rationalization
Compensation	Redesigned system	Unchanged system
Modernization	Likely	Unlikely
Strategy	Competitiveness	State intervention
Leadership	Visionary and consensual	Protective and backward looking

Performance of Gdansk and Szczecin Shipyards, 1990-1993

Gdansk

Year	Ships Built	Sales	Profit
1990	6	\$55 million	Negative
1991	NA	77	Negative
1992a	7	171	Negative

Szczecin

Year	Ships Built	Sales	Profit
1991	5	\$46 million	Negative
1992	13	185	Negative
1993a	14	260	Positive

a = projected



Restructuring alternatives for distressed companies

Valuation analysis of restructuring alternatives

- ***The first step is to identify the problems the company faces and develop restructuring alternatives that will alleviate those problems.***
- ***The second step is to determine the value of the business enterprise (equity and debt) based on the terms of the restructuring plan and allocate the value to each class of claims (equity, debt holders).***
- ***This step must be repeated for each of the restructuring alternatives being considered.***
- ***A variety of security combinations should be examined to determine which offers the greatest and most equitable recovery to all involved (both equity and debt holders).***

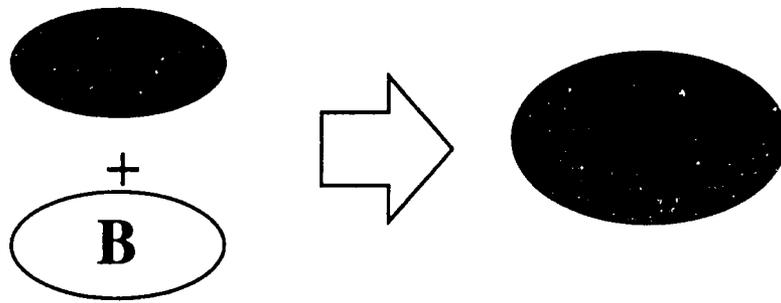
Exercise

Module 3
Handouts and Exercises

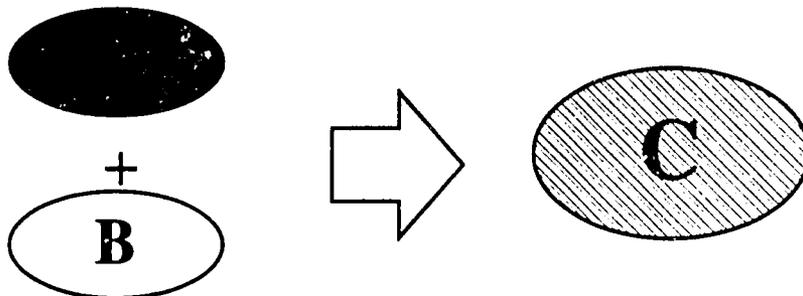
Document	File
Merger/acquisition diagrams	m3merg.ppt
Xerox and Fuji Xerox case study	usafuji.doc
Z score exercise	usazsc.xls
The Szczecin Shipyard case study	ilaship.doc
XYZ Corporation case study	x-corp.doc
XYZ Corporation case study	x-corp.xls
XYZ Corporation case study - base case	base.xls
XYZ Corporation case study - sale of division scenario	sale.xls
XYZ Corporation case study - debt for debt exchange scenario	debtexch.xls
XYZ Corporation case study - equity for debt exchange scenario	eqex90.xls

Expansions

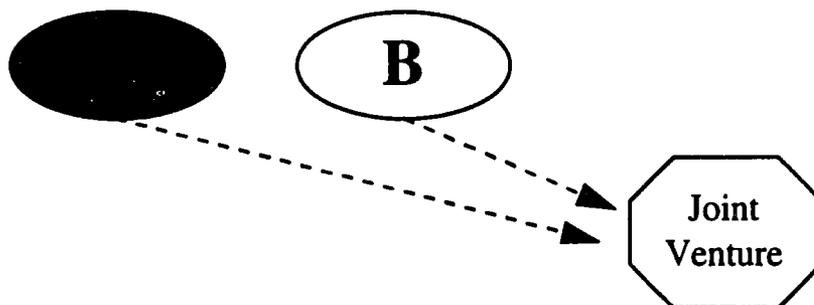
Merger:



Consolidation:

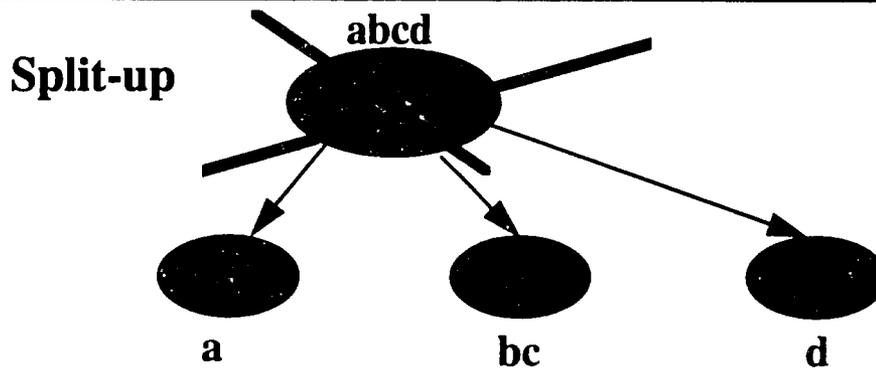
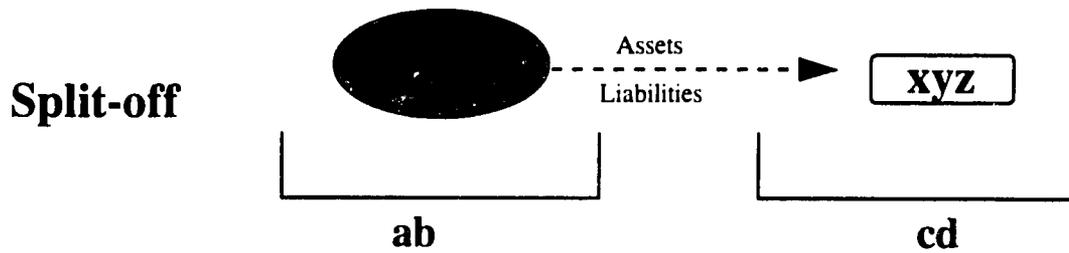
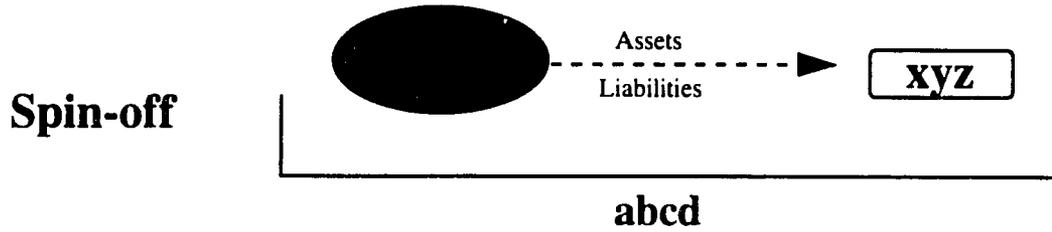


Joint Venture:

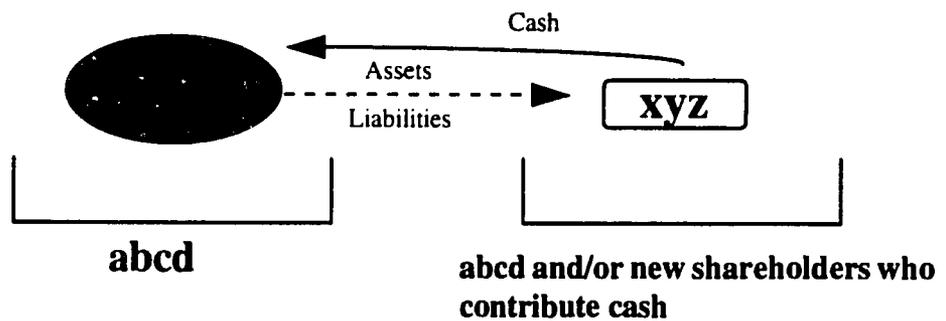


Contractions

Spin-offs:



Equity Carve-out:



Xerox and Fuji Xerox

A Joint Venture Analysis

This case describes the 30-year history of Fuji Xerox, a joint venture in Japan between Xerox (a leading manufacturer of photocopiers) and Fuji Photo Film. This joint venture is, by most accounts, one of the most successful United States- Japanese partnerships on record; by 1990 Fuji Xerox had sales of about \$4 billion and it was an integral part of Xerox's global strategy. This case provides a condensed history of the relationship and the key challenges going forward.

Establishment of Fuji Xerox

Fuji Xerox was established in 1962 as a 50/50 joint venture between Fuji Photo Film and Rank Xerox, the 50/50 U.K. joint venture formed in 1956 between Xerox in the U.S. and the Rank Organization of Britain (U.K.) Fuji Xerox was originally intended to only be a marketing organization for Xerox in Japan. However, the Japanese government refused to approve a joint venture intended only as a sales organization, leading Rank Xerox to provide Fuji Xerox (and not Fuji Photo Film) with manufacturing rights. As part of the technology licensing agreements, Fuji Xerox had the exclusive rights to sell the machines in Japan and most areas in Asia (except for certain major markets like China, Malaysia, Hong Kong, and Australia). In return, Fuji Xerox would pay Rank Xerox a royalty of 5% of sales of photocopiers, and Rank Xerox would also be entitled to 50% of Fuji Xerox's profits.

The management structure was such that daily operations were controlled by Japanese managers (mostly from Fuji Photo Film), while a board of directors composed of representatives from Rank Xerox and Fuji Photo Film decided on broad policy matters.

Development of Fuji Xerox

Fuji Xerox's first sales plan targeted financial institutions, large manufacturing corporations, and central government agencies. At the time that Fuji Xerox began selling the Xerox model 914 in the early 1960's, 75% of the Japanese copier market was held by Ricoh. Within a year, the back-order list for the 914 was five months long. Output rose fivefold in five years, and Fuji Photo Film soon built a second production facility. In 1967, Fuji Xerox's sales passed those of Rank Xerox's French and German subsidiaries. Fuji Xerox thus gained a dominant position in the Japanese market.

Product Development at Fuji Xerox

The transfer of production facilities to Fuji Xerox and the direct relationship established between Fuji Xerox and Xerox contributed to a continued strengthening of Fuji Xerox's technical capabilities. Soon Nobuo Shono, managing director of Fuji Xerox, advocated the development of long term research and development (R&D) capabilities that would enable the company to develop its own products. In particular Shono

envisioned a high performance, inexpensive, compact machine for use in the Japanese market.

When Shono's development group produced an experimental compact copier (the future FX2200) and showed it to Xerox executives in 1970, the Xerox executives were amazed. Consequently, for the first time, Fuji Xerox was given a small budget for R&D and allowed to produce a product developed by itself.

Increased Competition

The compact FX2200 copiers appeared just in time to face an avalanche of new and serious competition. By 1975, eleven companies competed in the Japanese market. Fuji Xerox responded with aggressive sales tactics, offering one and three year rental contracts. However, Xerox prohibited Fuji Xerox from using these sales tactics. Xerox didn't use these tactics in the U.S. and insisted on uniform policies- every country had to be managed like the U.S. firm. Fuji Xerox had wanted to gain market share and promote low-end (and low profit) products like the FX2200, while Xerox was concerned with promoting high-end products with high profit margins. This lack of flexibility was a lost opportunity for Fuji Xerox and Fuji Xerox consequently fell behind Canon in the market segment.

Fuji Xerox's TQM Program

Partly as a response to the new competition, as well as the oil shock and recession of 1973-1975, Fuji Xerox launched a total management (TQM) program. The program involved three goals: to speed up the development of products that matched customer needs; to reduce costs and eliminate waste; and to adopt aggressively the latest technologies.

As a result, the FX3500 copier was produced and broke the sales record in Japan for copiers sold in a year. This was an especially good success for Fuji Xerox since: 1) Fuji Xerox performed all the basic research; 2) Xerox had not wanted to develop a low-end copier such as the FX3500; and 3) Xerox ended up adopting some of the elements of the TQM program for its own use.

Meanwhile... Xerox's Lost Decade

During the 1970's, competition in the U.S. and European copier markets changed radically. Prior to that period, Xerox had had a virtual monopoly because of its technology patents. But beginning in 1970, one competitor after another entered the industry, often with new and improved technologies. The Xerox Group share of worldwide copier revenues fell from 93% in 1971 to 40% in 1985. This was Xerox's "lost decade"- an era of increasing competition, stagnating product development, costly litigation, and Xerox's own slowness in responding.

Adjusting the Relationship between Xerox and Fuji Xerox

As Fuji Xerox's business grew and Xerox came under increasing pressure at home, the relationship between the two companies changed. The original joint venture and

technology assistance agreements of the early 1960's were updated in 1976 and in 1983. Bob Meredith, Xerox's resident director in Tokyo, described the role of these contracts:

"The legal contracts are flexible. We don't follow an adversarial, arm's length approach, where you might try to gain short-term advantage or act opportunistically. The equity commitment focuses our relationship on one main objective: What is the profit-maximizing thing to do?"

However, David Kearns, a former Xerox executive, recalled how he tried unsuccessfully to give Fuji Xerox more autonomy. "Xerox was attempting to control so many aspects of Fuji Xerox's operations. We were reviewing their marketing strategies, what products they were going to develop, and so on. But it didn't make sense to me to try to run the business from thousands of miles away."

Xerox and Fuji Xerox in the 1990's

Going forward, Xerox strategists saw the relationship between Xerox and Fuji Xerox as a critical element in competing worldwide against Canon, their strongest competitor. However, Fuji valued some type of independence.

The central question facing Xerox and Fuji Xerox was: How should the relationship between the two companies be structured and managed in the new global environment of the 1990's?

You should focus on the areas of marketing, research, and manufacturing. Use the information in the case as well as common sense in deciding what would work best. See Exhibits 1, 2, and 3 for the relationship options identified for Fuji Xerox and Xerox.

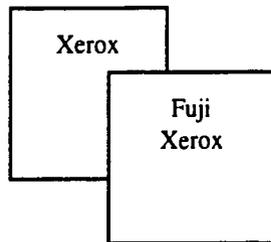
Note: This is a Harvard Business School case study, "Xerox and Fuji Xerox", which has been adapted for the purposes of this course.

Xerox and Fuji Xerox

Exhibit 1

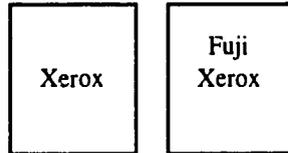
Marketing Options

A. Independent and overlapping



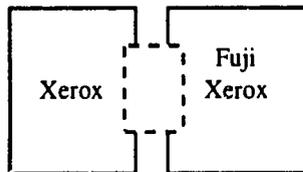
Act as two separate companies serving the world market, with some coordination on business direction and strategy. No geographic constraints.

B. Independent and separate



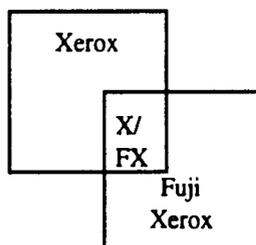
Concentrate efforts on licensed territories for core products, with multinational business as required.

C. Separate with exceptions



Same as B, but with joint or overlapping activities across territorial boundaries on case by case basis.

D. Coordinated global product mandates



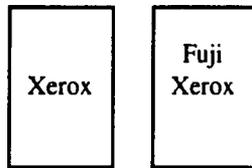
Worldwide and exclusive responsibility for products or product ranges manufactured under special licenses.

Xerox and Fuji Xerox

Exhibit 2

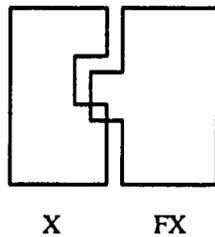
Research Options

A. Independent



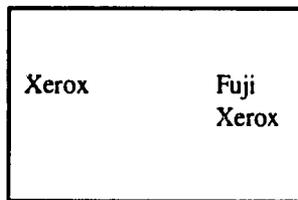
Each pursues own interest and becomes self-sufficient

B. Coordinated



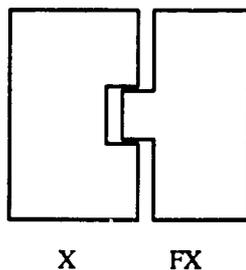
Coordinated group research programs of Xerox and Fuji Xerox, with both self-sufficiency and overlap

C. Joint



Single research organization without overlap

D. Complementary



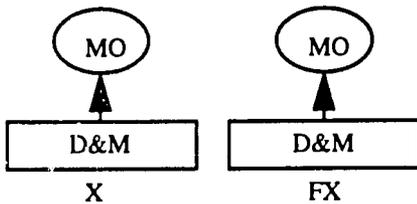
Separate organizations operating on exclusive projects

Xerox and Fuji Xerox

Exhibit 3

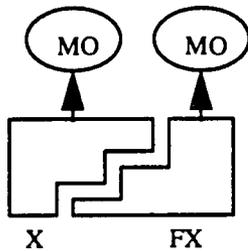
Development and Manufacturing Options

A. Independent



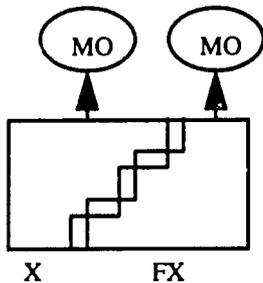
Each development and manufacturing (D&M) organization supplies its own marketing organization (MO)

B. Complementary without overlap



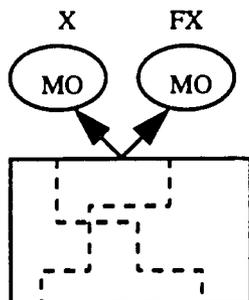
Assign development roles to each organization, with no overlap allowed in development

C. Complementary with overlap



Same as B, but with overlap in development projects

D. Joint



Single development and manufacturing organization with individual projects targeted to needs of separate marketing organizations

Analysis of Options

Marketing Options

A. Independent and overlapping:

- Attractive option because accommodates Fuji Xerox's niche strategy while benefiting the organization
- However, goes against a key success factor that worked in the past: market segmentation
- Market segmentation avoided conflicts and helped cooperation

B. Independent and separate:

- This is the current situation
- However, this situation doesn't deal very well with issues of:
 - multinational buyers
 - global scale economies
- Problems with transferpricing could arise if one company manufactures the product and the other sells it

C. Separate with exceptions:

- Attractive option
- However, exceptions may be difficult to agree on. For example, if Fuji Xerox wants to market in the U.S., should the U.S. market be an exception?

D. Coordinated global products:

- This would be a good plan if product lines could be neatly separated
- However, for example, some low-end copiers may be substitutes for mid-range copiers. This could create problems
- Furthermore, licensing of same products under different brand names could create confusion with buyers

Research Options

A. Independent:

- This will lead to duplication and waste
- This is clearly not the response to the greater need for cooperation and synergies
- However, in the 1970's, this model did work well when Fuji Xerox developed successful products like the FX2200 against the wishes of Xerox

B. Coordinated:

- This is what Fuji Xerox and Xerox were doing in the late 1980's and what they later decided to continue
- The difficulty here is, again, in the details of deciding who should do what
- In certain areas of research it may be good to have duplication (for example, where there is great uncertainty about results), and in other areas it may be best to avoid duplication

C. Joint:

- This would be very difficult to implement because of the geographic distance
- Also, differences in individual markets could make this difficult to implement

D. Complementary:

- This is close to option B., except that it attempts to avoid all duplication
- Two problems with this approach:
 - 1) Technology transfer between the companies might be difficult, unless there are specific departments in each company to acquire and learn how to use the other company's technology
 - 2) This means that the firms are highly dependent on each other for key inputs
- For these reasons, this is the least popular option

Development and Manufacturing Options

A. Independent:

- Duplication is likely to be even more costly than the duplication in independent research (option A. in research)
- There are likely to be greater economies of scale in production
- There are fewer uncertainties in development

B. Complementary without overlap:

- This creates serious dependence of one firm on the other
- With international trade, the percentage of certain products made locally could be very low. This could cause political problems

C. Complementary with overlap:

- This solves some of the problems in option B.
- One practical approach Xerox and Fuji Xerox could take here is to centralize production when economies of scale are high, and allowing duplication when economies of scale are low
- The main disadvantage is that there could be political problems if it were decided that it would be more efficient to close down an American plant and let Fuji Xerox manufacture the product, especially when Xerox only receives 1/4 of Fuji Xerox's profits

- There are additional problems in transferring sensitive technology and in figuring out which company is actually better able to produce a certain product

D. Joint:

- This is the least realistic option for the same reasons as the “joint” research option

Z Score Exercise
Southeast Publishing Company

Balance Sheet

Assets

	1991	1992	1993	1994
Total current assets	\$ 674,499	\$ 611,540	\$ 593,707	\$ 354,177
Property, plant, and equipment	31,643	33,808	62,087	78,535
Intangible assets	2,131,026	1,894,459	1,711,415	1,577,503
Other assets	70,702	-	2,372	50,000
Total Assets	\$ 2,907,870	\$ 2,539,807	\$ 2,369,581	\$ 2,060,215

Liabilities and Shareholders' Equity

Current portion of long term debt	\$ 252,209	\$ 180,000	\$ 213,333	\$ 1,215,556
Total current liabilities	1,084,530	832,859	763,973	1,766,299
Long term debt	2,392,481	2,227,649	2,054,669	820,773
Total Liabilities	3,477,011	3,060,508	2,818,642	2,587,072
Common stock	265,402	241,835	290,402	337,828
Retained earnings	(834,543)	(762,536)	(739,403)	(864,685)
Total Equity	(569,141)	(520,701)	(449,061)	(526,857)
Total Liabilities and Shareholders' Equity	\$ 2,907,870	\$ 2,539,807	\$ 2,369,581	\$ 2,060,215

Income Statement

	Actual				Forecast		
	1991	1992	1993	1994	1995	1996	1997
Net sales	\$ 3,795,146	\$ 3,818,872	\$ 3,956,741	\$ 3,635,796	\$ 3,822,519	\$ 4,008,418	\$ 4,176,989
Operating expenses	3,611,240	3,263,444	3,471,184	3,331,574	3,143,247	3,371,993	3,530,178
EBITDA	183,906	555,428	485,557	304,222	679,272	636,425	646,811
EBIT	(13,653)	349,085	281,324	146,463	629,199	584,210	608,172
Net income	\$ (317,063)	\$ 72,007	\$ 23,073	\$ (53,096)	\$ 370,639	\$ 343,311	\$ 357,385

**Z Score Worksheet
Nonmanufacturing
Southeastern Publishing Company**

Z Score

$$= 6.56 \times \underline{\text{A}} + 3.26 \times \underline{\text{B}} + 6.72 \times \underline{\text{C}} + 1.05 \times \underline{\text{D}}$$

$$= \underline{\hspace{2cm}} + \underline{\hspace{2cm}} + \underline{\hspace{2cm}} + \underline{\hspace{2cm}}$$

$$= \boxed{\hspace{2cm}}$$

A (Current assets - Current liabilities) / Total assets

$$= \underline{\hspace{2cm}} - \underline{\hspace{2cm}} / \underline{\hspace{2cm}}$$

$$= \underline{\hspace{2cm}}$$

B Retained earnings / Total assets

$$= \underline{\hspace{2cm}} / \underline{\hspace{2cm}}$$

$$= \underline{\hspace{2cm}}$$

C EBIT / Total assets

$$= \underline{\hspace{2cm}} / \underline{\hspace{2cm}}$$

$$= \underline{\hspace{2cm}}$$

D Book value of net worth / Total debt

$$= \underline{\hspace{2cm}} / \underline{\hspace{2cm}}$$

$$= \underline{\hspace{2cm}}$$

Z Score Test:
Score of 2.6 or more, bankruptcy unlikely
Score of 1.1 or less, bankruptcy probable

77

Z Score Worksheet
Nonmanufacturing
Southeastern Publishing Company
1993

$$\begin{aligned}
 \text{Z Score} &= 6.56 \times \underline{\text{A}} + 3.26 \times \underline{\text{B}} + 6.72 \times \underline{\text{C}} + 1.05 \times \underline{\text{D}} \\
 &= \underline{(0.47)} + \underline{(1.02)} + \underline{0.80} + \underline{(0.21)} \\
 &= \boxed{(0.90)}
 \end{aligned}$$

A (Current assets - Current liabilities) / Total assets

$$\begin{aligned}
 &= \underline{593,707} - \underline{763,973} / \underline{2,369,581} \\
 &= \underline{(0.07)}
 \end{aligned}$$

B Retained earnings / Total assets

$$\begin{aligned}
 &= \underline{(739,463)} / \underline{2,369,581} \\
 &= \underline{(0.31)}
 \end{aligned}$$

C EBIT / Total assets

$$\begin{aligned}
 &= \underline{281,324} / \underline{2,369,581} \\
 &= \underline{0.12}
 \end{aligned}$$

D Book value of net worth / Total debt

$$\begin{aligned}
 &= \underline{(449,061)} / \underline{2,268,002} \\
 &= \underline{(0.20)}
 \end{aligned}$$

Z Score Test:

Score of 2.6 or more, bankruptcy unlikely

Score of 1.1 or less, bankruptcy probable

Case Study

The Szczecin Shipyard

Goal

The goal of this exercise is to help Krzysztof Piotrowski, the new managing director of the Szczecin Shipyard, develop a plan for the company to survive.

Situation

Since 1948, the Polish-owned Szczecin Shipyard flourished to become Poland's third largest shipyard, producing up to 18 ships a year by the late 1970's and employing up to 13,000 people at some of the highest wages in Poland.

However, after years of receiving government subsidies, which could often account for up to 50% of a ship's construction costs, the new Solidarity government canceled all the company's subsidies in 1990. Unwilling to abandon its customers or to sacrifice its strong reputation, the shipyard began to finance its projects with bank debt, which had previously been minimal.

Before long, however, the company's debt grew to 1.1 trillion zlotys (\$116 million)(at the historical exchange rate). Compounding the situation, the company lost its biggest customers with the economic and political collapse of the Soviet Union. Before the Soviet market had disintegrated, 8 of 11 ships under construction in the production bay had been ordered by Soviet clients. All these orders were canceled. Furthermore, the shipyard had already completed 3 ships for Soviet customers, who were unable to pay. Because of the highly technical specifications, the shipyard was unable to sell them, even at prices far below production costs. The disappearance of the Soviet market thus resulted in staggering losses at the Szczecin Shipyard, adding an additional 700 billion zlotys (\$74 million) to the shipyard's total debt.

By 1991, chaos erupted at the shipyard. From a debt level of nearly zero in 1990, expensive bank loans and Soviet insolvency pushed the yard's total debt to \$190 million in 1991. Management was forced to delay payments to over 1,500 suppliers and to a number of banks. Uneasy creditors began to threaten legal action when it appeared that the company would be unable to pay its debts. Prospective international ship fleet owners had begun to express significant doubts about placing orders for fear that the business would be shut down in the middle of a shipbuilding project. Rather than attempting to implement reforms, Zenon Grabowski, the shipyard's Communist manager, appealed to old tactics and demanded that the Polish government bail out the company with unconditional cash transfers. The government didn't respond.

Piotrowski Emerges

Faced with a crisis, major players in Poland's shipbuilding industry moved quickly to revitalize the loss-producing, state-run giant. The Ministry of Industry assembled a search

committee consisting of representatives from various government ministries, several shipyard creditors, and a panel of shipyard union members to locate a market-oriented managing director who would replace Zenon Grabowski. After narrowing the choice to three candidates and evaluating their proposals for free-market change, the committee selected Krzysztof Piotrowski, a long-time union leader, to fill the position of managing director.

Piotrowski was a fortunate choice. Not only was he a skillful manager, but he had established a high level of credibility with shipyard employees. He had been fired from his job at the yard in 1985 as a result of his pro-union activities. Thus, when he returned as the yard's director in 1991, he had the full support of the shipyard workers, who were well aware of the sacrifices he had made for the labor movement in the 1980's. However, although Piotrowski was committed to his workers (whose numbers had fallen to 6,000 with the difficult conditions), he did not allow his labor sympathies to impede his vision for an efficient shipbuilding operation that would be able to compete profitably on world markets.

Now that Piotrowski is managing director, how should he proceed in order to save the company? In particular, how can he restructure the debt to satisfy the major creditor groups and how can he carry out an operational restructuring to stop the losses. (See Exhibit 1 for certain detailed information.)

Exhibit 1

Debt: There is approximately \$190 million in total debt, which is owed to over 1,500 suppliers, banks, and government revenue departments.

Product Mix: The shipyard is involved in almost every segment of the shipbuilding industry and its product line contains over 30 ships, including cargo ships, research vessels, bulk carriers, ferries, tankers, and hospital ships. There is no marketing department in the company.

Cycle: The average amount of time spent on producing a ship is 2 to 3 years.

Compensation: All workers are paid at a piece-wage rate, that is, they are paid for each task accomplished rather than for the total number of hours worked. Although workers work quickly under this system, they also work carelessly, and poor quality craftsmanship often results in costly rework. Under this compensation system physical labor is valued and production workers often earned more than managers, engineers, and even members of the supervisory board.

The shipyard's wages were two to three times the national average, and many benefits like company housing and transportation were provided for free.

Inventories: Materials are ordered months in advance and stored in shipyard warehouses. This practice originated when the company had to rely on the inefficient central allocation system under the Communist party.

Financing: Typically Soviet customers paid a lump sum amount upon delivery of a completed ship.

Sales:

Year	Sales	Profit
1991	\$ 46 million	Negative
1992	\$185 million	Negative

Note: This is a Harvard Business School study ("The Szczecin Shipyard") which has been adapted for the purposes of this course.

Restructuring Plan Implemented

Operational Restructuring

I. Product Mix:

- Before there were too many ship designs with over 30.
- The problem with such a diverse product portfolio was that the company was not able to focus its manufacturing operations, resulting in a good deal of inefficiency.
- The advantage of a similar design is that workers and engineers can learn a great deal from working repeatedly on the same type of ship and could introduce substantial efficiencies in design and construction.
- Thus, Piotrowski decided to develop a specialty.
- In order to accomplish this, he put together a market research team to carefully analyze the trends in the shipbuilding industry.
- Piotrowski decided to focus almost all production on container ships, for which there was a strong demand.
- **Result:** Within a few years Szczecin gained 40% of the international market for 12,500 ton container ships and has become the world's dominant producer of vessels in this category.

II. Reducing the Product Cycle:

- When Piotrowski started as managing director, it took 2 to 3 years to produce a ship.
- This created two difficulties. First, it meant that more capital was required to finance a ship, adding to interest expense. Second, some potential customers placed orders with other companies who could produce a ship more quickly.
- Thus, Piotrowski made some significant changes to the operating process to accomplish this.
- **Result:** The cycle time was reduced to 11 months, which set a new standard in the shipbuilding industry and helped to bring in new business.

III. A New Compensation Structure:

- In order to improve employee productivity, Piotrowski made radical changes to the compensation system.
- In the new system, Piotrowski and J. Kiryluk, the director of human resources and compensation, assigned each shipyard worker to a professional qualification category that reflected occupational training and total years of work experience. An hourly wage was then assigned to employees in each qualification category, with higher wages being allocated to more highly qualified workers. Employees could advance to higher qualification classes by passing a series of occupational exams. Each advance in professional qualification resulted in an automatic 50% increase in a worker's hourly wage, while each additional year of work experience resulted in a 10% increase through the eighth year of employment.

- Previously physical labor was valued more than intellectual labor. With the new system, however, managers and engineers attained higher professional qualification ratings, and the compensation hierarchy at the shipyard was reversed.
- To Piotrowski's credit, he was able to persuade the shipyard's four employee unions to agree to this change in relative wages and thus avoid the strikes that had paralyzed Poland's shipyard's during wage negotiations in the past.
- **Result:** Significant productivity gains were achieved, providing justification for the employees high wages.

IV. Cost Control:

- For starters, Piotrowski eliminated many of the employee amenities that the yard's Communist leadership had provided in the past. These included fully paid vacations at shipyard-owned vacation resorts, free employee housing, and highly subsidized meal plans. In addition, he sold an entire transportation fleet of buses and cars that shipyard management had used for personal travel.
- He also brought labor costs under control by eliminating 700 jobs, bringing employment close to 5,000. This move did not hurt output. Piotrowski was able to successfully curb employee privileges and reduce employment because he had established a high level of credibility with the shipyard's four employee unions. By virtue of his past, he was in a position to convince workers that changes which benefited the shipyard also benefited its employees.
- Piotrowski also reduced the huge inventories that had been hoarded in the past. Piotrowski was careful to order materials only as they were needed, rather than acquiring them months in advance and storing them in shipyard warehouses where they would tie up precious capital.
- Finally, as he eliminated unnecessary shipyard services and removed costly production facilities from operation, unused space became available on the shipyard's extensive property. Piotrowski decided that rather than allow the space to remain idle, he would lease it to other companies. Thus, Piotrowski made an attractive deal with a Danish shipyard to lease two idle production halls, invest \$500,000 of modern equipment, and spend another \$500,000 training Szczecin Shipyard employees.
- **Result:** Working capital financing costs were lower, and unused space was turned into a valuable asset which brought in rental payments, capital investment, and training from a foreign company.

Other Areas

Marketing

New clients were crucial for the Szczecin Shipyard at a time when the company's new orders had declined by 50%. During Poland's Communist era, the shipyard's marketing function had been performed by a government-controlled trade monopoly called Centromor. Centromor had located all customers and negotiated all contracts for the shipyard, eliminated the need for the yard to develop a marketing department. However, with the introduction of market economy in Poland, Centromor lost its monopoly on

foreign trade, and the Szczecin Shipyard was left to pursue clients on its own. The Szczecin Shipyard thus created its own marketing department and quickly began to pursue Western clients.

In developing a new client base in the West, the Szczecin Shipyard's geographic location proved to be an advantage. Located near the German border, Szczecin was easily accessible to German ship owners. After the first four container ships were delivered to Germany, the company soon became recognized for its container ship expertise, strong technology, and fast production cycles. These became selling points for the new marketing department, and new orders followed rapidly. In the first 10 months of 1992, the shipyard signed contracts with German ship owners for an additional 13 container ships worth \$300 million. As the shipyard's German business continued to expand, Piotrowski made plans to open a trade office in Hamburg.

Ship Construction Financing

With a restructured debt portfolio, a vastly improved production system, and a tightly controlled cost structure, Piotrowski turned his attention to locating sources of financing for new ship construction. Instead of receiving a single payment once the ship was completed, Piotrowski adopted Western financing techniques. Thus, the Western fleet owner paid the shipyard 10% of the total fee to be charged for the new ship before construction, 15% once the design was completed, 20% once the hull was completed, and the remaining 55% at the end. With the customer financing a significant portion of the business, Piotrowski found Polish banks more willing to approve loans.

Financial Restructuring: Debt Reduction

One early proposal for debt restructuring was a debt-for-equity swap. However, it became apparent that this **would not work**. **First**, the shipyard had so much debt that its shares would be worth very little and it would be difficult to convince creditors to accept the trade. **Second**, all shares in the shipyard belonged to the State Treasury, which would have to approve the transaction. **Finally**, Polish law stipulated that shares in Polish companies could only be transferred through a direct sale.

After a process lasting over a year, Szczecin finally worked out a complex restructuring arrangement, which included the following primary components:

- An overall **reduction** in total debt of **33%**. Originally Bank Gdanski, the largest creditor, refused to attend the negotiations because it claimed that as a mortgage-secured lender, it could not be forced to accept any sort of a reduction in its claim. This could have put the entire debt restructuring arrangement in jeopardy because without the bank's participation in the arrangement proceedings, the shipyard would not have received the necessary approval from creditors holding 2/3 of the outstanding debt. However, the Polish Development Bank stepped in and held secret negotiations

with Bank Gdanski and Szczecin management. Finally, Bank Gdanski sold its claim to the development bank at a significant discount.

- **An arrangement with suppliers** whereby smaller suppliers would receive payment within 1 month of the debt restructuring agreement. For larger suppliers, they would be paid in 20 quarterly payments starting in December of 1993. The shipyard was able to convince its suppliers that it was in their best interest to renegotiate their credit claims for two reasons. **First**, if suppliers were to sue the shipyard rather than negotiate a settlement, the yard would be able to meet only a small number of its total obligations, and most suppliers, whose claims were subordinated to those of higher-priority creditors, would receive nothing. **Second**, if a restructuring plan were successful, the shipyard would be able to provide suppliers with profitable orders in the future.

The Gdansk Shipyard

At the same time the Szczecin Shipyard was struggling, the Gdansk Shipyard also tried to adapt to the new environment without government subsidies and without the Soviet customers who had been important in sustaining business in the past. However, management of Gdansk Shipyard pursued a very different approach to dealing with its problems and trying to restructure.

Brief History

Once a thriving company supported by central plans, government subsidies, and Soviet clients, through the 1980's the shipyard suffered the consequences of government retaliation against the shipyard's famous Solidarity movement. Total employment fell from over 15,000 in 1980 to 12,000 in 1985, while the value of total ship production dropped from \$196 million to \$111 million. In a final act of political vengeance, the government issued a liquidation order to the shipyard in 1988.

Fortunately, the rise of Solidarity brought an opportunity for recovery to the shipyard. In January 1990, the new Solidarity government rescinded the 1988 liquidation order and embarked on a program of free market reforms. Yet, despite this second life, the shipyard's managing director, Hans Szyg, had to deal with same problems as Piotrowski did at Szczecin: the cessation of government subsidies, the loss of key Soviet customers, and a large debt load.

Restructuring Efforts

The following elements comprise the key components of Szyg's strategy.

Product Mix

Gdansk Shipyards had historically built over 30 different kinds of ships (as Szczecin had in the past), and Szyg intended to continue producing as many of these models as possible. He wanted the shipyard to remain versatile and not to become dependent on a single type of client.

Result:

Cost Control

Szyg was convinced that high gross income was the most important indicator of industrial success. He believed that if he could increase his order book to achieve \$300 million in annual sales, that the high costs and inefficient operations would not be a problem. He said, "At this level (\$300 million sales), the shipyard will surely break even." Thus, Szyg concentrated his managerial efforts on increasing production.

Result:

Compensation

Having been a long-time union member, the worker was of fundamental importance for Szyc. Szyc had fought hard for high employment levels and high wages. Thus, for example, Szyc maintained a staff of 100 accountants rather than computerizing the shipyard's bookkeeping operations. On the welding floor he hired 300 Russian migrants because it was more cost effective than buying new machines. The danger of this strategy, of course, was that by neglecting investments in modern equipment, the Gdansk Shipyard risked ceding significant technological advantages to more progressive producers.

Result:

Inventory

Gdansk Shipyards had operated as a city by itself and the strategy was to manufacture whatever could be produced on-site, and to hoard large inventories of whatever could be obtained from outside suppliers. There were two consequences to this approach. First, the cost of supplies was often higher than if they purchased them from outside. Second, much of what was produced on the shipyard grounds was not intended for ship construction, but was required simply to maintain the shipyard's equipment.

Result:

Debt

Szyc spent all his energies attempting to obtain government assistance to cover the shipyard's debt.

Result:

Marketing

The company did make an effort at marketing.

Result:

Leadership

Szyc pursued a protective and backward-looking leadership style, reminiscent of the Communist era of which he was a product.

Result:

Note: This is a Harvard Business School study ("The Gdansk Shipyard") which has been adapted for the purposes of this course.

The Gdansk Shipyard

Results

Product Mix

Result: The product mix caused the operations to remain complex and costly, and the shipyard developed no specialty or lasting competitive advantage.

Cost Control

Result: Ships produced that are not price competitive for the level of quality.

Compensation

Result: Low productivity and unsustainably high labor costs.

Inventory

Result: The shipyard was slow to develop a network of suppliers who could provide cost effective parts and who could help ship customers with maintenance.

Debt

Result: Szyc made no plans for financial restructuring and financial survival.

Marketing

Result: With the inefficient, high cost production process, it was difficult to attract buyers willing to pay the high price for the level of quality

Leadership

Result: This style was not a formula for success in a free market economy.

Managerial Challenges Faced by Piotrowski and Szyk

Both shipyards faced overwhelming management challenges as they restructured to operate in a market economy. The table below shows the areas in which they faced challenges.

Planned Economy	Market Economy
<ul style="list-style-type: none">• Pervasive monopoly power• Output targets• Input allocations and hoarding• Vertical integration• Product orientation• Broad, fixed product offerings• State financing• Workers and ministries as clients	<ul style="list-style-type: none">• Competition• Profit• Cost minimization• Competition among suppliers• Innovation, marketing, and sales• Focused, flexible product offerings• Private financing• Customers and shareholders as clients

Final Results

Gdansk Shipyard is on its way to the grave, with the loss of thousands of jobs.

Szczecin Shipyard is a world leader in its area of shipbuilding and can support thousands of high paying jobs into the future.

CASE STUDY: XYZ-Corporation: Analysis of Financial Restructuring Alternatives

XYZ-Corporation ("XYZ-Corp.")

Purpose of the Case Study:

The purpose of the case study is to analyze different financial restructuring alternatives for XYZ-Corp. (the "Company"), a company under financial distress due to a leveraged buyout by management two years earlier.

Company History

XYZ-Corp. has three stand alone divisions: Largeco, Cashcow, and Newco.

- Largeco is a strong division that manufactures consumer products. It is a major supplier to Cashcow. Its success largely depends on just-in-time inventory management and short manufacturing lead times.
- Cashcow is a retailer in a specialty niche. It operates sport fitness centers in the southwestern and central United States. Cashcow's growth has been significant during the past five years and it has generated substantial cash while growing.
- Newco is a manufacturer of specialty consumer products. It manufactures unique outerwear fabric with enhanced water resistant fabric. Newco is working on a product fabric that will perhaps revolutionize the water resistant sports industry, but processing problems are delaying its development and the product is not yet profitable.

The Leveraged Buyout ("LBO")

XYZ-Corp. was purchased in 1992 for \$280 million plus assumption of current liabilities in a management-sponsored LBO. The post-LBO capital structure as of December 31, 1994 is presented below:

(\$000s)

<i>Assets</i>		<i>Liabilities and Stockholders' Equity</i>	
Current assets	\$66,000	Current liabilities	\$22,000
Fixed assets	210,000	Secured loan	150,000
Goodwill	16,000	Subordinated debt	100,000
Other assets	10,000	Common stock	30,000
Total	<u>\$302,000</u>	Total	<u>\$302,000</u>

1,000,000 common shares outstanding

The substantial depreciation deductions resulting from the write up of assets, coupled with the interest from the deal's debt, provided a significant tax shield for the company. However, the company's earnings have fallen short of projections. Furthermore, shortly after the LBO, some unfavorable events occurred. First, interest rates began to rise, increasing the interest expense on XYZ-Corp's floating-rate debt (both the secured loan and the subordinated debt

have variable interest rates). Interest rates are anticipated to continue to increase on the Company's debt as presented in the following chart.

	<u>Current</u> <u>Rate</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Secured loan	10%	10%	11%	12%	12%	12%
Subordinated debt	12%	12%	13%	14%	14%	14%

The subordinated debt is publicly-traded whereas the secured debt is bank loans.

As a second problem, Largeco has required significant unexpected capital expenditures to maintain its market position. XYZ-Corp. anticipates that it will be required to spend \$5.0 million in capital expenditures in 1995 and 1996 and \$6.0 million in 1997 through 1999 in order to maintain its projected market share.

XYZ-Corp. in Financial Distress

As of December 31, 1994, XYZ-Corp. is in technical default on its secured loan covenants and projects that it will have insufficient cash to meet its payments on its bonds and bank debt. XYZ-Corp.'s capital structure is no longer viable. The Company realizes that it is not generating enough money to meet principal and interest payments or to provide sufficient funds to satisfy XYZ-Corp.'s critical needs for maintenance and replacement of plant and equipment. The banks will not advance additional funds. Neither the LBO sponsor nor management are prepared to invest additional funds.

Restructuring

After discussions with management as to the remaining solutions, you develop a chart with XYZ-Corp.'s restructuring alternatives (Exhibit 1).

Part A

Your first task is to value the Company's equity "as is" using the information in Exhibit 2 (as well as in the text of this exercise) and using the discounted cash flow model (NOTE: input all unit assumptions, dollar account assumptions, and shares outstanding in 000s). Complete all the blanks in Section A based on your calculations.

Part B

Using the discounted cash flow model, value the company using the valuation assumptions in the presented restructuring scenarios (1 through 5) and complete Section B in Exhibit 1 (new handout). Solutions for *Liquidation* and *Bankruptcy (Voluntary Bankruptcy)* options are provided with explanations below. Evaluate each of the restructuring scenarios based upon your completed analysis.

1. *Liquidation* - After discussions with management, you decide that XYZ-Corp. is not only in financial distress, but also no longer a viable operating entity. The creditors are informed and a trustee is appointed to liquidate the Company. The proceeds from the liquidation amount to \$115 million. The senior secured debtholders are completely paid off while the subordinated debtholders receive 20 percent of the face value and the equity holders receive nothing.
2. *Bankruptcy (Voluntary Bankruptcy)* - Because the debt and equity shareholders are a cohesive group and they decide the Company is worth more alive than dead, the shareholders voluntarily submit the Company to the court for reorganization as a going-concern. The delegated recoveries are presented in Exhibit 1, with more of the recovery attributed to the subordinated debtholders and common shareholders than under liquidation.
3. *Sale of Division and Reduction in Debt* - You decide as an alternative to sell the Newco division and use the proceeds to retire subordinated debt. Newco can be sold for \$20 million (assume that \$20 million equals the book value of the Newco assets). (Assume that beginning year debt is reduced by (\$33.333 million or \$20 million/0.6 and that the new value of the remaining subordinated debt is equal to 60 percent of the remaining principal outstanding). The remaining debt will be paid off in 5 equal payments of principal.
4. *Debt for Debt Exchange* - You decide to issue new debt at a lower, fixed interest rate and with extended repayment schedules in the early years. The debt swap is made possible by altering the covenants of the debt instruments to allow for greater collateral security to the debtholders. The terms of the new debt are as follows:

	<u>New interest rate</u>	<u>Payment terms</u>
Secured loan, new	Fixed rate at 9%	Pay \$15 million/year in principal (1995-1998) with a \$90 million balloon in 1999
Subordinated debt, new	Fixed rate at 11%	Pay \$10 million/year in principal (1995-1998) with a \$60 million balloon in 1999

5. *Equity for Debt Exchange* - In your recapitalization plan, you decide to offer the subordinated debtholders equity to replace their current debt. Under the recapitalization, the Company attempts to issue 3.5 million shares of common at the current market value of the stock to replace the existing common stock and retire subordinated debt. The old common stock disappears and the existing shareholders receive 1 share of the new

stock for each share of the old stock. You analyze the exchange assuming that 90 percent of the new stock issue is successfully exchanged to the debtholders as follows:

- Issue 1 million new shares, at the current market value per share, to existing shareholders and 2.25 million new shares (90 percent of 2.5 million) to exchange for subordinated debt (input shares outstanding in 000s). Total outstanding shares is 3.25 million shares.
- Use the proceeds from 2.25 million shares to exchange for the subordinated debt (assume debtholders exchange debt at 60 percent of face value so that the current year debt balance is reduced by an amount = $(2.25 \text{ million} * \text{current share price}) / 0.6$).
- The remaining debt will be paid off in 5 equal payments of principal.
- Assume that the market value of the remaining subordinated debt is equal to 60 percent of the remaining principal outstanding.
- Assume that due to the decreased leverage risk, the cost of equity decreases to 20 percent from 30 percent.

Exhibit 1
Case Study
Analysis of Financial Restructuring Alternatives

(\$000s)			
Section A			
	Face Value	Current Fair Market Value	Current FMV/ Face Value
Senior Secured <i>Percent of face value</i>	\$150,000	\$135,000	90.0%
Subordinated Debt <i>Percent of face value</i>	100,000	60,000	60.0%
Common Equity <i>Percent of face value</i>	30,000		
Common Equity			
Shares Outstanding	1,000	1,000	1,000
Value Per Share	\$30.00		
Total Value <i>Percent of face value</i>	\$280,000		

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Exhibit 1
XYZ Corporation
Case Study
Analysis of Financial Restructuring Alternatives

(S000s)				Fair Market Values				
Section A				Section B		Sale of Division to		Equity for Debt Exchange Offer
	Face Value	Current Fair Market Value	Current FMV/ Face Value	Liquidation	Bankruptcy	Pay down Sub. Debt	Debt for Debt Exchange Offer	90 percent Acceptance
Senior Secured	\$150,000	\$135,000	90.0%	\$115,000	\$125,000	\$140,000	\$130,000	\$140,000
<i>Percent of face value</i>				76.7%	83.3%	93.3%	86.7%	93.3%
Subordinated Debt	100,000	60,000	60.0%	0	59,000		55,000	
<i>Percent of face value</i>				0.0%	59.0%		55.0%	
Common Equity	30,000	25,853	86.2%	0	3,000			
<i>Percent of face value</i>				0.0%	10.0%			
Common Equity								
Shares Outstanding	1,000	1,000	1,000	1,000	1,000	1,000	1,000	3,250
Value Per Share	\$30.00	\$25.85		\$0.00	\$3.00			
Total Value	\$280,000	\$220,853		\$115,000	\$187,000			
<i>Percent of face value</i>		78.9%		41.1%	66.8%			

Exhibit I
XYZ Corporation
Case Study
Analysis of Financial Restructuring Alternatives

(S000s)				Fair Market Values					
Section A				Section B		Sale of Division to		Equity for Debt Exchange Offer	
	Face Value	Current Fair Market Value	Current FMV/ Face	Liquidation	Bankruptcy	Pay down Sub. Debt	Debt for Debt Exchange Offer	90 percent Acceptance	
Senior Secured	\$150,000	\$135,000	90.0%	\$115,000	\$125,000	\$140,000	\$130,000	\$140,000	
<i>Percent of face value</i>				76.7%	83.3%	93.3%	86.7%	93.3%	
Subordinated Debt	100,000	60,000	60.0%	0	59,000	40,000	55,000	1,838	
<i>Percent of face value</i>				0.0%	59.0%	60.0%	55.0%	60.0%	
Common Equity, existing	30,000	25,853	86.2%	0	3,000	48,498	50,969		
<i>Percent of face value</i>				0.0%	10.0%	161.7%	169.9%		
Common Equity, new issue								176,701	
Shares Outstanding	1,000	1,000	1,000	1,000	1,000	1,000	1,000	3,250	
Value Per Share	\$30.00	\$25.85		\$0.00	\$3.00	\$48.50	\$50.97	\$54.37	
Total Value	\$280,000	\$220,853		\$115,000	\$187,000	\$228,498	\$235,969	\$318,539	
<i>Percent of face value</i>		78.9%		41.1%	66.8%	81.6%	84.3%	113.8%	

Exhibit 2
XYZ Corporation
Case Study
Analysis of Financial Restructuring Alternatives

		1994	1995	1996	1997	1998	1999
Unit Sales (000s)	Unit Capacity						
Largeco	3,000	2,582	2,632	2,683	2,735	2,788	2,843
Cashcow	800	742	742	742	742	742	742
Newco	1,500	880	944	1,012	1,091	1,154	1,219
Unit Price	Forecasted Percent Growth						
Largeco	3 0%	\$100	\$103	\$106	\$109	\$113	\$116
Cashcow	3 0%	120	124	127	131	135	139
Newco	3 0%	50	52	53	55	56	58
Unit Cost	Forecasted Percent Growth						
Largeco	3 0%	\$79	\$81	\$84	\$86	\$89	\$92
Cashcow	3 0%	96	99	102	105	108	111
Newco	0 0%	53	53	53	53	53	53

Other Assumptions

Current year fixed costs (000s)	\$1,570
Forecasted percent growth in fixed costs	3 0%
Tax Rate (current and projected)	35 0%
Depreciable life of fixed assets (years)	20
Depreciable life of capital expenditures (years)	20
Working capital requirement/sales	10 0%
Residual growth rate	3 0%

Current year depreciation expense	10,750
Current year interest expense	27,000
Debt amortization	
Secured loan	Equal installments over 5 years
Subordinated debt	Equal installments over 5 years
Cost of Equity	30 0%

X Corporation
Restructuring Analysis
As of December 31, 1994

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (I or U)	U	(If T is selected, proceed to #1C. If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
INPUT Product Names and Forecasted Unit Production						
Product #1	2,532	2,632	2,653	2,755	2,768	2,843
Product #2	742	742	742	742	742	742
Product #3	889	944	1,012	1,094	1,154	1,219
		25,855				
INPUT Product Groups Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Product #1	3,000	3,000	3,000	3,000	3,000	3,000
Product #2	800	800	800	800	800	800
Product #3	1,500	1,500	1,500	1,500	1,500	1,500
INPUT Unit Sales Prices	INPUT Current year Unit Prices	INPUT Forecasted Unit Price Growth Rates				
Product #1	100	3.0%	3.0%	3.0%	3.0%	3.0%
Product #2	120	3.0%	3.0%	3.0%	3.0%	3.0%
Product #3	50	3.0%	3.0%	3.0%	3.0%	3.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Product #1	79	3.0%	3.0%	3.0%	3.0%	3.0%
Product #2	90	3.0%	3.0%	3.0%	3.0%	3.0%
Product #3	55	0.0%	0.0%	0.0%	0.0%	0.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	0	0.0%	0.0%	0.0%	0.0%	0.0%
Marketing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
<i>OPTIONAL: INPUT TOTAL VARIABLE COSTS</i>	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	0	0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
<i>OPTIONAL: INPUT TOTAL FIXED COSTS</i>	1,570	3.0%	3.0%	3.0%	3.0%	3.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%

INPUT SECTION

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Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures	
A INPUT Current Year Depreciation Expense	10,750
B INPUT Current Depreciable Assets	
Short depreciable life (1-5 years)	0
Medium depreciable life (6-19 years)	0
Long depreciable life (20+)	210,000
Total	210,000
C INPUT Capital Expenditures	
Depreciable Years	Year 1 Year 2 Year 3 Year 4 Year 5
Short depreciable life (1-5 years)	0 0 0 0 0
Medium depreciable life (6-19 years)	0 0 0 0 0
Long depreciable life (20+)	25 5,000 5,000 6,000 6,000 6,000

Step 4. INPUTS for FORECASTED Long Term Financing	
A INPUTS for Current and Forecasted Long Term Debt Financing	
INPUT Current Year Interest Expense (In Currency)	27,000
Secured Loan	
INPUT Fixed or Variable Interest Rate (F or V)	V
INPUT Fixed Interest Rate (F)	0.0%
INPUT Forecasted Variable Interest Rates (V)	10.0% 11.0% 12.0% 12.0% 12.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	150,000 120,000 80,000 60,000 30,000
INPUT Additional Debt	0 0 0 0 0
INPUT Principal Payments	30,000 30,000 30,000 30,000 30,000
Ending Debt Balance	120,000 80,000 60,000 30,000 0
Subordinated Debt	25,855
INPUT Fixed or Variable Interest Rate (F or V)	V
INPUT Fixed Interest Rate (F)	0.0%
INPUT Forecasted Variable Interest Rates (V)	12.0% 13.0% 14.0% 14.0% 14.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	100,000 80,000 60,000 40,000 20,000
INPUT Additional Debt	0 0 0 0 0
INPUT Principal Payments	20,000 20,000 20,000 20,000 20,000
Ending Debt Balance	80,000 60,000 40,000 20,000 0
Debt Instrument #3	
INPUT Fixed or Variable Interest Rate (F or V)	F
INPUT Fixed Interest Rate (F)	0.0%
INPUT Forecasted Variable Interest Rates (V)	0.0% 0.0% 0.0% 0.0% 0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	0 0 0 0 0
INPUT Additional Debt	0 0 0 0 0
INPUT Principal Payments	0 0 0 0 0
Ending Debt Balance	0 0 0 0 0
Debt Instrument #4	
INPUT Fixed or Variable Interest Rate (F or V)	F
INPUT Fixed Interest Rate (F)	0.0%
INPUT Forecasted Variable Interest Rates (V)	0.0% 0.0% 0.0% 0.0% 0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	0 0 0 0 0
INPUT Additional Debt	0 0 0 0 0
INPUT Principal Payments	0 0 0 0 0
Ending Debt Balance	0 0 0 0 0
Debt Instrument #5	
INPUT Fixed or Variable Interest Rate (F or V)	F
INPUT Fixed Interest Rate (F)	0.0%
INPUT Forecasted Variable Interest Rates (V)	0.0% 0.0% 0.0% 0.0% 0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	0 0 0 0 0
INPUT Additional Debt	0 0 0 0 0
INPUT Principal Payments	0 0 0 0 0
Ending Debt Balance	0 0 0 0 0
B INPUTS for Forecasted Equity Financing	
INPUT Discret Equity Issues Repurchases	Year 1 Year 2 Year 3 Year 4 Year 5
INPUT New Equity Issues (In Currency)	0 0 0 0 0
INPUT Equity Repurchases (In Currency)	0 0 0 0 0
INPUT Total Shares Issued (Repurchased)	0 0 0 0 0
INPUT Current Shares Outstanding	1,000

Step 5. INPUT Valuation Assumptions			
Working capital/sales	10.0%	Cost of Equity	10.0%
Current year working capital	44,000	Fair Market Value of Non-operating assets	0
Residual Growth Rate	3.0%		

Discounted Net Cash Flow Model

X-Corporation
Restructuring Analysis
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OUTPUT SECTION PAGE 1

	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Discounted Net Cash Flow						
Total Sales (PAGE 2)	391,240	411,423	432,784	455,766	478,949	503,461
Cost of Goods Sold (Cost of Service) (PAGE 2)	321,850	337,567	354,071	371,760	389,230	407,554
Gross Margin	69,390	73,856	78,712	84,005	89,719	95,907
Variable and Fixed Costs (PAGE 3)						
Total variable costs	0	0	0	0	0	0
Total fixed costs	1,570	1,617	1,666	1,716	1,767	1,820
Total variable and fixed costs	1,570	1,617	1,666	1,716	1,767	1,820
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	67,820	72,239	77,047	82,290	87,952	94,087
Depreciation (PAGE 5)	10,750	10,750	11,000	11,300	11,600	11,900
Earnings Before Interest and Taxes (EBIT)	57,070	61,489	66,047	70,990	76,352	82,187
Interest Expense (PAGE 4)	27,000	24,300	20,650	16,000	9,600	3,200
Profit Before Tax	30,070	37,189	45,397	54,990	66,752	78,987
Tax Provision	10,525	13,016	15,889	19,246	23,363	27,646
Profit After Tax	19,546	24,173	29,508	35,743	43,389	51,342
Free Cash Flow						
Profit After Tax		24,173	29,508	35,743	43,389	51,342
Depreciation		10,750	11,000	11,300	11,600	11,900
Additional working capital requirements		(2,018)	(2,136)	(2,298)	(2,318)	(2,451)
Capital investment		(5,000)	(5,000)	(6,000)	(6,000)	(6,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		(22,095)	(16,628)	(11,255)	(3,329)	4,790
Present Value Factor		0.8771	0.6747	0.5190	0.3992	0.3071
Present Value of Cash Flow		(19,379)	(11,218)	(5,841)	(1,329)	1,471
				Residual Value		186,508
Sum of Present Value of Cash Flows	(36,296)					
Present Value of Residual	57,273					
Preliminary Value	20,977					
Working capital (deficiency) surplus	4,876					
Non-operating assets	0					
Equity value indication	25,853					
Total shares outstanding	1,000					
Equity value per share	25.85					

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Discounted Net Cash Flow Model

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Restructuring Analysis

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SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Product #1	2,582	2,632	2,683	2,735	2,788	2,843
Product #2	742	742	742	742	742	742
Product #3	880	944	1,012	1,091	1,154	1,219
Unit Capacity						
Product #1	3,000	3,000	3,000	3,000	3,000	3,000
Product #2	800	800	800	800	800	800
Product #3	1,500	1,500	1,500	1,500	1,500	1,500
Percent of Capacity						
Product #1	86.1%	87.7%	89.4%	91.2%	92.9%	94.8%
Product #2	92.8%	92.8%	92.8%	92.8%	92.8%	92.8%
Product #3	58.7%	62.9%	67.5%	72.7%	76.9%	81.3%
Price per Unit						
Product #1	100	103	106	109	113	116
Product #2	120	124	127	131	135	139
Product #3	50	52	53	55	56	58
Total Sales by Product						
Product #1	258,200	271,096	284,639	298,861	313,792	329,582
Product #2	89,040	91,711	94,463	97,296	100,215	103,222
Product #3	44,000	48,616	53,682	59,608	64,942	70,658
Cost per Unit						
Product #1	79	81	84	86	89	92
Product #2	96	99	102	105	108	111
Product #3	53	53	53	53	53	53
Total Costs by Product						
Product #1	203,978	214,166	224,865	236,100	247,896	260,369
Product #2	71,232	73,369	75,570	77,837	80,172	82,577
Product #3	46,640	50,032	53,636	57,823	61,162	64,607
Profit per Unit						
Product #1	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Product #2	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Product #3	-6.0%	-2.9%	0.1%	3.0%	5.8%	8.6%
TOTAL SALES	391,240	411,423	432,784	455,766	478,949	503,461
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	321,850	337,567	354,071	371,760	389,230	407,554

X-Corporation

Restructuring Analysis

As of December 31, 1994

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
<u>Variable Costs</u>						
Administrative	0	0	0	0	0	0
Marketing	0	0	0	0	0	0
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
<i>TOTAL VARIABLE COSTS</i>	0	0	0	0	0	0
Total Variable Costs	0	0	0	0	0	0
<u>Fixed Costs</u>						
Rent	0	0	0	0	0	0
Salaries	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
<i>TOTAL FIXED COSTS</i>	1,570	1,617	1,666	1,716	1,767	1,820
Total Fixed Costs	1,570	1,617	1,666	1,716	1,767	1,820
<u>Variable Costs (as a percent of sales)</u>						
Administrative	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Marketing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<i>TOTAL VARIABLE COSTS</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Fixed Costs (percent growth)</u>						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
<i>TOTAL FIXED COSTS</i>		3.0%	3.0%	3.0%	3.0%	3.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	0	0	0	0	0	0
TOTAL FIXED COSTS	1,570	1,617	1,666	1,716	1,767	1,820

OUTPUT SECTION PAGE 4

Discounted Net Cash Flow Model

N-Corporation

Restructuring Analysis

As of December 31, 1994

**FORECASTED INTEREST PAYMENTS AND NET CHANGES
IN LONG TERM FINANCING REQUIREMENTS**

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
TOTAL INTEREST PAYMENTS					
Secured Loan	13,500	11,550	9,000	5,400	1,800
Subordinated Debt	10,800	9,100	7,000	4,200	1,400
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	24,300	20,650	16,000	9,600	3,200
TOTAL ADDITIONAL DEBT FINANCING					
Secured Loan	0	0	0	0	0
Subordinated Debt	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Secured Loan	30,000	30,000	30,000	30,000	30,000
Subordinated Debt	20,000	20,000	20,000	20,000	20,000
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	50,000	50,000	50,000	50,000	50,000
<i>TOTAL ENDING DEBT</i>	200,000	150,000	100,000	50,000	0
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	2.53	3.20	4.44	7.95	25.68

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 Restructuring Analysis
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FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
	Net Fixed Assets					
<u>Fixed Asset Depreciation - Existing Assets</u>						
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	0	0	0	0	0	0
Depreciation for long term depreciable assets	210,000	10,500	10,500	10,500	10,500	10,500
<u>Capital Expenditure Depreciation</u>						
Depreciation for short term depreciable assets		0	0	0	0	0
		0	0	0	0	0
		0	0	0	0	0
		0	0	0	0	0
Depreciation for medium term depreciable assets		0	0	0	0	0
		0	0	0	0	0
		0	0	0	0	0
		0	0	0	0	0
Depreciation for long term depreciable assets		250	250	250	250	250
		250	250	250	250	250
		300	300	300	300	300
		300	300	300	300	300
		300	300	300	300	300
TOTAL DEPRECIATION EXPENSE		10,750	11,000	11,300	11,600	11,900

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X-Corporation
Restructuring Analysis
As of December 31, 1994

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	U	(If T is selected, proceed to #1C. If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Product #1	2,582	2,642	2,683	2,735	2,788	2,843
Product #2	742	742	742	742	742	742
Product #3	880	0	0	0	0	0
		48,498				
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Product #1	3,000	3,000	3,000	3,000	3,000	3,000
Product #2	800	800	800	800	800	800
Product #3	1,500	1,500	1,500	1,500	1,500	1,500
INPUT Unit Sales Prices	INPUT Current year Unit Prices	INPUT Forecasted Unit Price Growth Rates				
Product #1	100	3.0%	3.0%	3.0%	3.0%	3.0%
Product #2	120	3.0%	3.0%	3.0%	3.0%	3.0%
Product #3	50	3.0%	3.0%	3.0%	3.0%	3.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Product #1	79	3.0%	3.0%	3.0%	3.0%	3.0%
Product #2	90	3.0%	3.0%	3.0%	3.0%	3.0%
Product #3	53	0.0%	0.0%	0.0%	0.0%	0.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	0	0.0%	0.0%	0.0%	0.0%	0.0%
Marketing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
<i>OPTIONAL: INPUT TOTAL VARIABLE COSTS</i>	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	0	0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
<i>OPTIONAL: INPUT TOTAL FIXED COSTS</i>	1,570	3.0%	3.0%	3.0%	3.0%	3.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%

INPUT SECTION

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Step 3: INPUTS for FORECASTED Depreciation and Capital Expenditures						
A	INPUT Current Year Depreciation Expense	10.0%				
		INPUT Current Year Existing Net Fixed Assets		INPUT Depreciable Years		
B	INPUT Current Depreciable Assets					
	Short depreciable life (1-5 years)	0		0		
	Medium depreciable life (6-19 years)	0		0		
	Long depreciable life (20+)	190,000		20		
	Total	190,000				
C	INPUT Capital Expenditures in Depreciable Years	INPUT Forecasted Capital Expenditures				
		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
	Short depreciable life (1-5 years)	0	0	0	0	0
	Medium depreciable life (6-19 years)	0	0	0	0	0
	Long depreciable life (20+)	20	5,000	5,000	5,000	5,000

Step 4: INPUTS for FORECASTED Long Term Financing						
A	INPUTS for Current and Forecasted Long Term Debt Financing					
	INPUT Current Year Interest Expense (in Currency)	27,000				
	Secured Loan					
	INPUT Fixed or Variable Interest Rate (F or V)	V	INPUT Forecasted Variable Interest Rates			
	INPUT Fixed Interest Rate (F)	0.0%	10.0%	11.0%	12.0%	12.0%
	INPUT Forecasted Variable Interest Rates (V)		10.0%	11.0%	12.0%	12.0%
	INPUT Beginning of Year Debt Balance (Year 1 only)		150,000	120,000	90,000	60,000
	INPUT Additional Debt		0	0	0	0
	INPUT Principal Payments		30,000	30,000	30,000	30,000
	Ending Debt Balance		120,000	90,000	60,000	30,000
	Subordinated Debt		48,498	48,500		
	INPUT Fixed or Variable Interest Rate (F or V)	V	INPUT Forecasted Variable Interest Rates			
	INPUT Fixed Interest Rate (F)	0.0%	12.0%	13.0%	14.0%	14.0%
	INPUT Forecasted Variable Interest Rates (V)		12.0%	13.0%	14.0%	14.0%
	INPUT Beginning of Year Debt Balance (Year 1 only)		66,667	53,333	40,000	26,667
	INPUT Additional Debt		0	0	0	0
	INPUT Principal Payments		13,333	13,333	13,333	13,333
	Ending Debt Balance		53,333	40,000	26,667	13,333
	Debt Instrument #3					
	INPUT Fixed or Variable Interest Rate (F or V)	F	INPUT Forecasted Variable Interest Rates			
	INPUT Fixed Interest Rate (F)	0.0%	0.0%	0.0%	0.0%	0.0%
	INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%
	INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0
	INPUT Additional Debt		0	0	0	0
	INPUT Principal Payments		0	0	0	0
	Ending Debt Balance		0	0	0	0
	Debt Instrument #4					
	INPUT Fixed or Variable Interest Rate (F or V)	F	INPUT Forecasted Variable Interest Rates			
	INPUT Fixed Interest Rate (F)	0.0%	0.0%	0.0%	0.0%	0.0%
	INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%
	INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0
	INPUT Additional Debt		0	0	0	0
	INPUT Principal Payments		0	0	0	0
	Ending Debt Balance		0	0	0	0
	Debt Instrument #5					
	INPUT Fixed or Variable Interest Rate (F or V)	F	INPUT Forecasted Variable Interest Rates			
	INPUT Fixed Interest Rate (F)	0.0%	0.0%	0.0%	0.0%	0.0%
	INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%
	INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0
	INPUT Additional Debt		0	0	0	0
	INPUT Principal Payments		0	0	0	0
	Ending Debt Balance		0	0	0	0
B	INPUTS for Forecasted Equity Financing	INPUT Interest Equity Issues Repurchases				
		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
	INPUT New Equity Issues (in Currency)	0	0	0	0	0
	INPUT Equity Repurchases (in Currency)	0	0	0	0	0
	INPUT Total Shares Issued (Repurchased)	0	0	0	0	0
	INPUT Current Shares Outstanding	1,000				

Step 5: INPUT Valuation Assumptions			
Working capital/sales	10.0%	Cost of Equity	10.0%
Current year working capital	44,000	Fair Market Value of Non-operating assets	0
Residual Growth Rate	3.0%		

Discounted Net Cash Flow Model

X-Corporation
Restructuring Analysis
As of December 31, 1994

OUTPUT SECTION PAGE 1

	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Discounted Net Cash Flow						
Total Sales (PAGE 2)	391,240	362,807	379,102	396,157	414,007	432,803
Cost of Goods Sold (Cost of Service) (PAGE 2)	321,850	287,535	300,435	313,937	328,068	342,947
Gross Margin	69,390	75,272	78,667	82,220	85,939	89,856
Variable and Fixed Costs (PAGE 3)						
Total variable costs	0	0	0	0	0	0
Total fixed costs	1,570	1,617	1,666	1,716	1,767	1,820
Total variable and fixed costs	1,570	1,617	1,666	1,716	1,767	1,820
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	67,820	73,655	77,001	80,504	84,172	88,036
Depreciation (PAGE 5)	10,750	9,750	10,000	10,300	10,600	10,900
Earnings Before Interest and Taxes (EBIT)	57,070	63,905	67,001	70,204	73,572	77,136
Interest Expense (PAGE 4)	27,000	20,700	17,617	13,667	8,200	2,733
Profit Before Tax	30,070	43,205	49,385	56,538	65,372	74,403
Tax Provision	10,525	15,122	17,285	19,788	22,880	26,041
Profit After Tax	19,546	28,083	32,100	36,750	42,492	48,362
Free Cash Flow						
Profit After Tax		28,083	32,100	36,750	42,492	48,362
Depreciation		9,750	10,000	10,300	10,600	10,900
Additional working capital requirements		2,843	(1,629)	(1,706)	(1,785)	(1,880)
Capital investment		(5,000)	(5,000)	(6,000)	(6,000)	(6,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		(43,333)	(43,333)	(43,333)	(43,333)	(43,333)
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		(7,657)	(7,863)	(3,989)	1,974	8,049
Present Value Factor		0.8771	0.6747	0.5190	0.3992	0.3071
Present Value of Cash Flow		(6,715)	(5,305)	(2,070)	788	2,472
				Residual Value		177,322
Sum of Present Value of Cash Flows	(10,831)					
Present Value of Residual	54,452					
Preliminary Value	43,622					
Working capital (deficiency) surplus	4,876					
Non-operating assets	0					
Equity value indication	48,498					
Total shares outstanding	1,000					
Equity value per share	48.50					

X-Corporation

Restructuring Analysis

As of December 31, 1994

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Product #1	2,582	2,632	2,683	2,735	2,788	2,843
Product #2	742	742	742	742	742	742
Product #3	880	0	0	0	0	0
Unit Capacity						
Product #1	3,000	3,000	3,000	3,000	3,000	3,000
Product #2	800	800	800	800	800	800
Product #3	1,500	1,500	1,500	1,500	1,500	1,500
Percent of Capacity						
Product #1	86.1%	87.7%	89.4%	91.2%	92.9%	94.8%
Product #2	92.8%	92.8%	92.8%	92.8%	92.8%	92.8%
Product #3	58.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Price per Unit						
Product #1	100	103	106	109	113	116
Product #2	120	124	127	131	135	139
Product #3	50	52	53	55	56	58
Total Sales by Product						
Product #1	258,200	271,096	284,639	298,861	313,792	329,582
Product #2	89,040	91,711	94,463	97,296	100,215	103,222
Product #3	44,000	0	0	0	0	0
Cost per Unit						
Product #1	79	81	84	86	89	92
Product #2	96	99	102	105	108	111
Product #3	53	53	53	53	53	53
Total Costs by Product						
Product #1	203,978	214,166	224,865	236,100	247,896	260,369
Product #2	71,232	73,369	75,570	77,837	80,172	82,577
Product #3	46,640	0	0	0	0	0
Profit per Unit						
Product #1	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Product #2	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Product #3	-6.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL SALES	391,240	362,807	379,102	396,157	414,007	432,803
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	321,850	287,535	300,435	313,937	328,068	342,947

X-Corporation

Restructuring Analysis

As of December 31, 1994

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
<u>Variable Costs</u>						
Administrative	0	0	0	0	0	0
Marketing	0	0	0	0	0	0
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	0	0	0	0	0	0
<u>Fixed Costs</u>						
Rent	0	0	0	0	0	0
Salaries	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	1,570	1,617	1,666	1,716	1,767	1,820
Total Fixed Costs	1,570	1,617	1,666	1,716	1,767	1,820
<u>Variable Costs (as a percent of sales)</u>						
Administrative	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Marketing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Fixed Costs (percent growth)</u>						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		3.0%	3.0%	3.0%	3.0%	3.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	0	0	0	0	0	0
TOTAL FIXED COSTS	1,570	1,617	1,666	1,716	1,767	1,820

OUTPUT SECTION PAGE 4

Discounted Net Cash Flow Model

X-Corporation

Restructuring Analysis

As of December 31, 1994

**FORECASTED INTEREST PAYMENTS AND NET CHANGES
IN LONG TERM FINANCING REQUIREMENTS**

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
	1995	1996	1997	1998	1999
TOTAL INTEREST PAYMENTS					
Secured Loan	13,500	11,550	9,000	5,400	1,800
Subordinated Debt	7,200	6,067	4,667	2,800	933
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	20,700	17,617	13,667	8,200	2,733
TOTAL ADDITIONAL DEBT FINANCING					
Secured Loan	0	0	0	0	0
Subordinated Debt	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Secured Loan	30,000	30,000	30,000	30,000	30,000
Subordinated Debt	13,333	13,333	13,333	13,333	13,333
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	43,333	43,333	43,333	43,333	43,333
TOTAL ENDING DEBT	173,333	130,000	86,667	43,333	0
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	3.09	3.80	5.14	8.97	28.22

OUTPUT SECTION PAGE 5

Discounted Net Cash Flow Model
 X-Corporation
 Restructuring Analysis
 As of December 31, 1994

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
	Net Fixed Assets					
Fixed Asset Depreciation - Existing Assets						
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	0	0	0	0	0	0
Depreciation for long term depreciable assets	190,000	9,500	9,500	9,500	9,500	9,500
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for long term depreciable assets		250	250	250	250	250
			250	250	250	250
				300	300	300
					300	300
						300
TOTAL DEPRECIATION EXPENSE		9,750	10,000	10,300	10,600	10,900

Discounted Net Cash Flow Model

INPUT SECTION

<input checked="" type="checkbox"/> Corporation
<input type="checkbox"/> Restructuring Analysis
<input type="checkbox"/> of December 31, 1994

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS		Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year		1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?		U	(If T is selected, proceed to #1C, If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast							
INPUT Current year sales		0					
INPUT Current year cost of goods sold (or cost of service)		0					
INPUT Sales growth rates for years 1-5			0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5			0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast							
INPUT Product Names and Forecasted Unit Production			INPUT Forecasted Units Sold				
Product #1	2,582	2,632	2,683	2,735	2,788	2,843	
Product #2	742	742	742	742	742	742	
Product #3	880	944	1,012	1,091	1,154	1,219	
		50,969					
INPUT Product Groups-Unit Capacity			INPUT Forecasted Unit Capacity				
Product #1	3,000	3,000	3,000	3,000	3,000	3,000	
Product #2	800	800	800	800	800	800	
Product #3	1,500	1,500	1,500	1,500	1,500	1,500	
INPUT Unit Sales Prices			INPUT Forecasted Unit Price Growth Rates				
Product #1	100	3.0%	3.0%	3.0%	3.0%	3.0%	
Product #2	120	3.0%	3.0%	3.0%	3.0%	3.0%	
Product #3	50	3.0%	3.0%	3.0%	3.0%	3.0%	
INPUT Product Cost per Unit			INPUT Forecasted Unit Cost Growth Rates				
Product #1	79	3.0%	3.0%	3.0%	3.0%	3.0%	
Product #2	96	3.0%	3.0%	3.0%	3.0%	3.0%	
Product #3	53	0.0%	0.0%	0.0%	0.0%	0.0%	

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS		Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts			INPUT Variable Costs as a Percent of Sales				
Administrative	0	0.0%	0.0%	0.0%	0.0%	0.0%	
Marketing	0	0.0%	0.0%	0.0%	0.0%	0.0%	
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%	
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%	
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%	
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%	
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%	
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%	
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%	
B INPUT for Fixed Cost forecasts			INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%	
Salaries	0	0.0%	0.0%	0.0%	0.0%	0.0%	
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%	
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%	
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%	
OPTIONAL: INPUT TOTAL FIXED COSTS	1,570	3.0%	3.0%	3.0%	3.0%	3.0%	
C INPUT Current Year Taxes and Forecasted Tax Rates			INPUT Forecasted Tax Rates				
Tax Rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	

INPUT SECTION

X-Corporation
Restructuring Analysis
As of December 31, 1994

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

A INPUT Current Year Depreciation Expense		10,750					
B INPUT Current Depreciable Assets			INPUT				
Short depreciable life (1-5 years)			Current Year	INPUT			
Medium depreciable life (6-19 years)			Expiring	Depreciable			
Long depreciable life (20-)			Net Fixed Assets	Years			
Total							
C INPUT Capital Expenditures in			INPUT Forecasted Capital Expenditures				
Short depreciable life (1-5 years)			Year 1	Year 2	Year 3	Year 4	Year 5
Medium depreciable life (6-19 years)			1995	1996	1997	1998	1999
Long depreciable life (20-)							
Total							

Step 4. INPUTS for FORECASTED Long Term Financing

A INPUTS for Current and Forecasted Long Term Debt Financing							
INPUT Current Year Interest Expense (In Currency)		27,000					
Secured Loan			Year 1	Year 2	Year 3	Year 4	Year 5
INPUT Fixed or Variable Interest Rate (F or V)		F	1995	1996	1997	1998	1999
INPUT Fixed Interest Rate (F)		9.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)			10.0%	11.0%	12.0%	12.0%	12.0%
INPUT Beginning of Year Debt Balance (Year 1 only)			150,000	135,000	120,000	105,000	90,000
INPUT Additional Debt			0	0	0	0	0
INPUT Principal Payments			15,000	15,000	15,000	15,000	90,000
Ending Debt Balance			135,000	120,000	105,000	90,000	0
Subordinated Debt		30,969					
INPUT Fixed or Variable Interest Rate (F or V)		F	INPUT Forecasted Variable Interest Rates				
INPUT Fixed Interest Rate (F)		11.0%	12.0%	13.0%	14.0%	14.0%	14.0%
INPUT Forecasted Variable Interest Rates (V)			100,000	90,000	80,000	70,000	60,000
INPUT Beginning of Year Debt Balance (Year 1 only)			0	0	0	0	0
INPUT Additional Debt			10,000	10,000	10,000	10,000	60,000
INPUT Principal Payments			90,000	80,000	70,000	60,000	0
Ending Debt Balance							
Debt Instrument #3							
INPUT Fixed or Variable Interest Rate (F or V)		F	INPUT Forecasted Variable Interest Rates				
INPUT Fixed Interest Rate (F)		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Forecasted Variable Interest Rates (V)			0	0	0	0	0
INPUT Beginning of Year Debt Balance (Year 1 only)			0	0	0	0	0
INPUT Additional Debt			0	0	0	0	0
INPUT Principal Payments			0	0	0	0	0
Ending Debt Balance			0	0	0	0	0
Debt Instrument #4							
INPUT Fixed or Variable Interest Rate (F or V)		F	INPUT Forecasted Variable Interest Rates				
INPUT Fixed Interest Rate (F)		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Forecasted Variable Interest Rates (V)			0	0	0	0	0
INPUT Beginning of Year Debt Balance (Year 1 only)			0	0	0	0	0
INPUT Additional Debt			0	0	0	0	0
INPUT Principal Payments			0	0	0	0	0
Ending Debt Balance			0	0	0	0	0
Debt Instrument #5							
INPUT Fixed or Variable Interest Rate (F or V)		F	INPUT Forecasted Variable Interest Rates				
INPUT Fixed Interest Rate (F)		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Forecasted Variable Interest Rates (V)			0	0	0	0	0
INPUT Beginning of Year Debt Balance (Year 1 only)			0	0	0	0	0
INPUT Additional Debt			0	0	0	0	0
INPUT Principal Payments			0	0	0	0	0
Ending Debt Balance			0	0	0	0	0
B INPUTS for Forecasted Equity Financing			INPUT Discret Equity Issues/Repurchases				
INPUT New Equity Issues (In Currency)			Year 1	Year 2	Year 3	Year 4	Year 5
INPUT Equity Repurchases (In Currency)			1995	1996	1997	1998	1999
INPUT Total Shares Issued (Repurchased)							
INPUT Current Shares Outstanding		1,000	0	0	0	0	0

Step 5. INPUT Valuation Assumptions

Working capital/notes	10.0%	Cost of Equity	30.0%
Current year working capital	44,000	Fair Market Value of Non-operating assets	0
Residual Growth Rate	3.0%		

Discounted Net Cash Flow Model

OUTPUT SECTION PAGE 1

Corporation
Restructuring Analysis
As of December 31, 1994

	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Discounted Net Cash Flow						
Total Sales (PAGE 2)	391,240	411,423	432,784	455,766	478,949	503,461
Cost of Goods Sold (Cost of Service) (PAGE 2)	321,850	337,567	354,071	371,760	389,230	407,554
	82.3%	82.0%	81.5%	81.6%	81.3%	81.0%
Gross Margin	69,390	73,856	78,712	84,005	89,719	95,907
	17.7%	18.0%	18.2%	18.4%	18.7%	19.0%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	0	0	0	0	0	0
Total fixed costs	1,570	1,617	1,666	1,716	1,767	1,820
Total variable and fixed costs	1,570	1,617	1,666	1,716	1,767	1,820
	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	67,820	72,239	77,047	82,290	87,952	94,087
	17.3%	17.6%	17.8%	18.1%	18.4%	18.7%
Depreciation (PAGE 5)	10,750	10,750	11,000	11,300	11,600	11,900
Earnings Before Interest and Taxes (EBIT)	57,070	61,489	66,047	70,990	76,352	82,187
Interest Expense (PAGE 4)	27,000	23,275	20,825	18,375	15,925	7,350
Profit Before Tax	30,070	38,214	45,222	52,615	60,427	74,837
	7.7%	9.3%	10.4%	11.5%	12.6%	14.9%
Tax Provision	10,525	13,375	15,828	18,415	21,150	26,193
Profit After Tax	19,546	24,839	29,394	34,200	39,278	48,644
	5.0%	6.0%	6.8%	7.5%	8.2%	9.7%
Free Cash Flow						
Profit After Tax		24,839	29,394	34,200	39,278	48,644
Depreciation		10,750	11,000	11,300	11,600	11,900
Additional working capital requirements		(2,018)	(2,136)	(2,298)	(2,318)	(2,451)
Capital investment		(5,000)	(5,000)	(6,000)	(6,000)	(6,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		(25,000)	(25,000)	(25,000)	(25,000)	(150,000)
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		3,571	8,258	12,201	17,559	(97,907)
Present Value Factor		0.8771	0.6747	0.5190	0.3992	0.3071
Present Value of Cash Flow		3,132	5,571	6,332	7,010	(30,066)
				Residual Value		176,218
Sum of Present Value of Cash Flows	(8,020)					
Present Value of Residual	54,113					
Preliminary Value	46,093					
Working capital (deficiency) surplus	4,876					
Non-operating assets	0					
Equity value indication	50,969					
Total shares outstanding	1,000					
Equity value per share	50.97					

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X-Corporation
Restructuring Analysis
As of December 31, 1994

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Product #1	2,582	2,632	2,683	2,735	2,788	2,843
Product #2	742	742	742	742	742	742
Product #3	880	944	1,012	1,091	1,154	1,219
Unit Capacity						
Product #1	3,000	3,000	3,000	3,000	3,000	3,000
Product #2	800	800	800	800	800	800
Product #3	1,500	1,500	1,500	1,500	1,500	1,500
Percent of Capacity						
Product #1	86.1%	87.7%	89.4%	91.2%	92.9%	94.8%
Product #2	92.8%	92.8%	92.8%	92.8%	92.8%	92.8%
Product #3	58.7%	62.9%	67.5%	72.7%	76.9%	81.3%
Price per Unit						
Product #1	100	103	106	109	113	116
Product #2	120	124	127	131	135	139
Product #3	50	52	53	55	56	58
Total Sales by Product						
Product #1	258,200	271,096	284,639	298,861	313,792	329,582
Product #2	89,040	91,711	94,463	97,296	100,215	103,222
Product #3	44,000	48,616	53,682	59,608	64,942	70,658
Cost per Unit						
Product #1	79	81	84	86	89	92
Product #2	96	99	102	105	108	111
Product #3	53	53	53	53	53	53
Total Costs by Product						
Product #1	203,978	214,166	224,865	236,100	247,896	260,369
Product #2	71,232	73,369	75,570	77,837	80,172	82,577
Product #3	46,640	50,032	53,636	57,823	61,162	64,607
Profit per Unit						
Product #1	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Product #2	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Product #3	-6.0%	-2.9%	0.1%	3.0%	5.8%	8.6%
TOTAL SALES	391,240	411,423	432,784	455,766	478,949	503,461
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	321,850	337,567	354,071	371,760	389,230	407,554

X-Corporation
Restructuring Analysis
As of December 31, 1994

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	0	0	0	0	0	0
Marketing	0	0	0	0	0	0
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	0	0	0	0	0	0
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	1,570	1,617	1,666	1,716	1,767	1,820
Total Fixed Costs	1,570	1,617	1,666	1,716	1,767	1,820
Variable Costs (as a percent of sales)						
Administrative	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Marketing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		3.0%	3.0%	3.0%	3.0%	3.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	0	0	0	0	0	0
TOTAL FIXED COSTS	1,570	1,617	1,666	1,716	1,767	1,820

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing					
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TOTAL INTEREST PAYMENTS					
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	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Secured Loan	12,825	11,475	10,125	8,775	4,050
Subordinated Debt	10,450	9,350	8,250	7,150	3,300
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0

TOTAL INTEREST PAYMENTS	23,275	20,825	18,375	15,925	7,350
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TOTAL ADDITIONAL DEBT FINANCING					
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Secured Loan	0	0	0	0	0
Subordinated Debt	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0

TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
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TOTAL PRINCIPAL PAYMENTS					
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Secured Loan	15,000	15,000	15,000	15,000	90,000
Subordinated Debt	10,000	10,000	10,000	10,000	60,000
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0

TOTAL PRINCIPAL PAYMENTS	25,000	25,000	25,000	25,000	150,000
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TOTAL ENDING DEBT	225,000	200,000	175,000	150,000	0
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TOTAL CHANGE IN EQUITY FINANCING					
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New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0

TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
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EBIT to INTEREST	2.64	3.17	3.86	4.79	11.18
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OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
	Net Fixed Assets					
Fixed Asset Depreciation - Existing Assets						
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	0	0	0	0	0	0
Depreciation for long term depreciable assets	210,000	10,500	10,500	10,500	10,500	10,500
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
		0	0	0	0	0
		0	0	0	0	0
		0	0	0	0	0
		0	0	0	0	0
Depreciation for medium term depreciable assets		0	0	0	0	0
		0	0	0	0	0
		0	0	0	0	0
		0	0	0	0	0
		0	0	0	0	0
Depreciation for long term depreciable assets		250	250	250	250	250
		250	250	250	250	250
		300	300	300	300	300
		300	300	300	300	300
		300	300	300	300	300
		300	300	300	300	300
TOTAL DEPRECIATION EXPENSE		10,750	11,000	11,300	11,600	11,900

Discounted Net Cash Flow Model

INPUT SECTION

X-Corporation
Restructuring Analysis
As of December 31, 1994

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	T	(If T is selected, proceed to #1C. If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Product #1	2,582	2,632	2,683	2,735	2,788	2,843
Product #2	742	742	742	742	742	742
Product #3	880	944	1,012	1,091	1,154	1,219
		176,701				
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Product #1	3,000	3,000	3,000	3,000	3,000	3,000
Product #2	800	800	800	800	800	800
Product #3	1,500	1,500	1,500	1,500	1,500	1,500
INPUT Unit Sales Prices	INPUT Current year Unit Prices	INPUT Forecasted Unit Price Growth Rates				
Product #1	1.00	3.0%	3.0%	3.0%	3.0%	3.0%
Product #2	1.20	3.0%	3.0%	3.0%	3.0%	3.0%
Product #3	.50	3.0%	3.0%	3.0%	3.0%	3.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Product #1	.79	3.0%	3.0%	3.0%	3.0%	3.0%
Product #2	.96	3.0%	3.0%	3.0%	3.0%	3.0%
Product #3	.53	0.0%	0.0%	0.0%	0.0%	0.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	0	0.0%	0.0%	0.0%	0.0%	0.0%
Marketing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	0	0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	1,570	3.0%	3.0%	3.0%	3.0%	3.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%

X-Corporation
Restructuring Analysis
As of December 31, 1994

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures		INPUT				
		Current Year	INPUT			
		Existing	Depreciable			
		Net Fixed Assets	Years			
A INPUT Current Year Depreciation Expense	10,750					
B INPUT Current Depreciable Assets						
Short depreciable life (1-5 years)		0	0			
Medium depreciable life (6-19 years)		0	0			
Long depreciable life (20+)		210,000	20			
Total		210,000				
C INPUT Capital Expenditures in		INPUT Forecasted Capital Expenditures				
	INPUT Depreciable Years	Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Short depreciable life (1-5 years)		0	0	0	0	0
Medium depreciable life (6-19 years)		0	0	0	0	0
Long depreciable life (20+)		20	5,000	5,000	6,000	6,000

Step 4. INPUTS for FORECASTED Long Term Financing		INPUT				
A INPUTS for Current and Forecasted Long Term Debt Financing						
INPUT Current Year Interest Expense (In Currency)		27,000				
Secured Loan		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
INPUT Fixed or Variable Interest Rate (F or V)	V	INPUT Forecasted Variable Interest Rates				
INPUT Fixed Interest Rate (F)	0.0%	10.0%	11.0%	12.0%	12.0%	12.0%
INPUT Forecasted Variable Interest Rates (V)		150,000	120,000	90,000	60,000	30,000
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		30,000	30,000	30,000	30,000	30,000
INPUT Principal Payments		120,000	90,000	60,000	30,000	0
Ending Debt Balance						
Subordinated Debt	176,701 share	2,500 shares potential 2,250 90% issued 58,163 times current 96,938 retire at 60%				
INPUT Fixed or Variable Interest Rate (F or V)	V	INPUT Forecasted Variable Interest Rates				
INPUT Fixed Interest Rate (F)	0.0%	12.0%	13.0%	14.0%	14.0%	14.0%
INPUT Forecasted Variable Interest Rates (V)		3,063	2,450	1,838	1,225	613
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		613	613	613	613	613
INPUT Principal Payments		2,450	1,838	1,225	613	0
Ending Debt Balance						
Debt Instrument #3	F	INPUT Forecasted Variable Interest Rates				
INPUT Fixed or Variable Interest Rate (F or V)	F	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Fixed Interest Rate (F)	0.0%	0	0	0	0	0
INPUT Forecasted Variable Interest Rates (V)		0	0	0	0	0
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #4	F	INPUT Forecasted Variable Interest Rates				
INPUT Fixed or Variable Interest Rate (F or V)	F	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Fixed Interest Rate (F)	0.0%	0	0	0	0	0
INPUT Forecasted Variable Interest Rates (V)		0	0	0	0	0
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #5	F	INPUT Forecasted Variable Interest Rates				
INPUT Fixed or Variable Interest Rate (F or V)	F	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Fixed Interest Rate (F)	0.0%	0	0	0	0	0
INPUT Forecasted Variable Interest Rates (V)		0	0	0	0	0
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
B INPUTS for Forecasted Equity Financing		INPUT Dividend Equity Issues/Repurchases				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	3,250					

Step 5. INPUT Valuation Assumptions			
Working capital/sales	10.0%	Cost of Equity	20.0%
Current year working capital	44,000	Fair Market Value of Non-operating assets	0
Residual Growth Rate	3.0%		

Discounted Net Cash Flow Model

X-Corporation
Restructuring Analysis
As of December 31, 1994

OUTPUT SECTION PAGE 1

	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Discounted Net Cash Flow						
Total Sales (PAGE 2)	391,240	411,423	432,784	455,766	478,949	503,461
Cost of Goods Sold (Cost of Service) (PAGE 2)	321,850	337,567	354,071	371,760	389,230	407,554
Gross Margin	69,390	73,856	78,712	84,005	89,719	95,907
Variable and Fixed Costs (PAGE 3)						
Total variable costs	0	0	0	0	0	0
Total fixed costs	1,570	1,617	1,666	1,716	1,767	1,820
Total variable and fixed costs	1,570	1,617	1,666	1,716	1,767	1,820
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	67,820	72,239	77,047	82,290	87,952	94,087
Depreciation (PAGE 5)	10,750	10,750	11,000	11,300	11,600	11,900
Earnings Before Interest and Taxes (EBIT)	57,070	61,489	66,047	70,990	76,352	82,187
Interest Expense (PAGE 4)	27,000	13,831	11,829	9,214	5,529	1,843
Profit Before Tax	30,070	47,659	54,218	61,775	70,824	80,344
Tax Provision	10,525	16,680	18,976	21,621	24,788	28,121
Profit After Tax	19,546	30,978	35,242	40,154	46,035	52,224
Free Cash Flow						
Profit After Tax		30,978	35,242	40,154	46,035	52,224
Depreciation		10,750	11,000	11,300	11,600	11,900
Additional working capital requirements		(2,018)	(2,136)	(2,298)	(2,318)	(2,451)
Capital investment		(5,000)	(5,000)	(6,000)	(6,000)	(6,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		(30,613)	(30,613)	(30,613)	(30,613)	(30,613)
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		4,097	8,493	12,543	18,704	25,060
Present Value Factor		0.9129	0.7607	0.6339	0.5283	0.4402
Present Value of Cash Flow		3,740	6,461	7,952	9,881	11,032
				Residual Value		301,563
Sum of Present Value of Cash Flows	39,066					
Present Value of Residual	132,759					
Preliminary Value	171,825					
Working capital (deficiency) surplus	4,876					
Non-operating assets	0					
Equity value indication	176,701					
Total shares outstanding	3,250					
Equity value per share	54.37					

X-Corporation

Restructuring Analysis

As of December 31, 1994

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Product #1	2,582	2,632	2,683	2,735	2,788	2,843
Product #2	742	742	742	742	742	742
Product #3	880	944	1,012	1,091	1,154	1,219
Unit Capacity						
Product #1	3,000	3,000	3,000	3,000	3,000	3,000
Product #2	800	800	800	800	800	800
Product #3	1,500	1,500	1,500	1,500	1,500	1,500
Percent of Capacity						
Product #1	86.1%	87.7%	89.4%	91.2%	92.9%	94.8%
Product #2	92.8%	92.8%	92.8%	92.8%	92.8%	92.8%
Product #3	58.7%	62.9%	67.5%	72.7%	76.9%	81.3%
Price per Unit						
Product #1	100	103	106	109	113	116
Product #2	120	124	127	131	135	139
Product #3	50	52	53	55	56	58
Total Sales by Product						
Product #1	258,200	271,096	284,639	298,861	313,792	329,582
Product #2	89,040	91,711	94,463	97,296	100,215	103,222
Product #3	44,000	48,616	53,682	59,608	64,942	70,658
Cost per Unit						
Product #1	79	81	84	86	89	92
Product #2	96	99	102	105	108	111
Product #3	53	53	53	53	53	53
Total Costs by Product						
Product #1	203,978	214,166	224,865	236,100	247,896	260,369
Product #2	71,232	73,369	75,570	77,837	80,172	82,577
Product #3	46,640	50,032	53,636	57,823	61,162	64,607
Profit per Unit						
Product #1	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Product #2	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Product #3	-6.0%	-2.9%	0.1%	3.0%	5.8%	8.6%
TOTAL SALES	391,240	411,423	432,784	455,766	478,949	503,461
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	321,850	337,567	354,071	371,760	389,230	407,554

X-Corporation
 Restructuring Analysis
 As of December 31, 1994

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	0	0	0	0	0	0
Marketing	0	0	0	0	0	0
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	0	0	0	0	0	0
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	1,570	1,617	1,666	1,716	1,767	1,820
Total Fixed Costs	1,570	1,617	1,666	1,716	1,767	1,820
Variable Costs (as a percent of sales)						
Administrative	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Marketing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		3.0%	3.0%	3.0%	3.0%	3.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	0	0	0	0	0	0
TOTAL FIXED COSTS	1,570	1,617	1,666	1,716	1,767	1,820

**FORECASTED INTEREST PAYMENTS AND NET CHANGES
IN LONG TERM FINANCING REQUIREMENTS**
A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
	1995	1996	1997	1998	1999
TOTAL INTEREST PAYMENTS					
Secured Loan	13,500	11,550	9,000	5,400	1,800
Subordinated Debt	331	279	214	129	43
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	13,831	11,829	9,214	5,529	1,843
TOTAL ADDITIONAL DEBT FINANCING					
Secured Loan	0	0	0	0	0
Subordinated Debt	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Secured Loan	30,000	30,000	30,000	30,000	30,000
Subordinated Debt	613	613	613	613	613
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	30,613	30,613	30,613	30,613	30,613
TOTAL ENDING DEBT	122,450	91,838	61,225	30,613	0
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	4.45	5.58	7.70	13.81	44.60

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X-Corporation
Restructuring Analysis
As of December 31, 1994

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
	Net Fixed Assets					
<u>Fixed Asset Depreciation - Existing Assets</u>						
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	0	0	0	0	0	0
Depreciation for long term depreciable assets	210,000	10,500	10,500	10,500	10,500	10,500
<u>Capital Expenditure Depreciation</u>						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
			0	0	0	0
				0	0	0
					0	0
Depreciation for medium term depreciable assets		0	0	0	0	0
			0	0	0	0
			0	0	0	0
				0	0	0
					0	0
Depreciation for long term depreciable assets		250	250	250	250	250
			250	250	250	250
				300	300	300
					300	300
						300
TOTAL DEPRECIATION EXPENSE		10,750	11,000	11,300	11,600	11,900

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