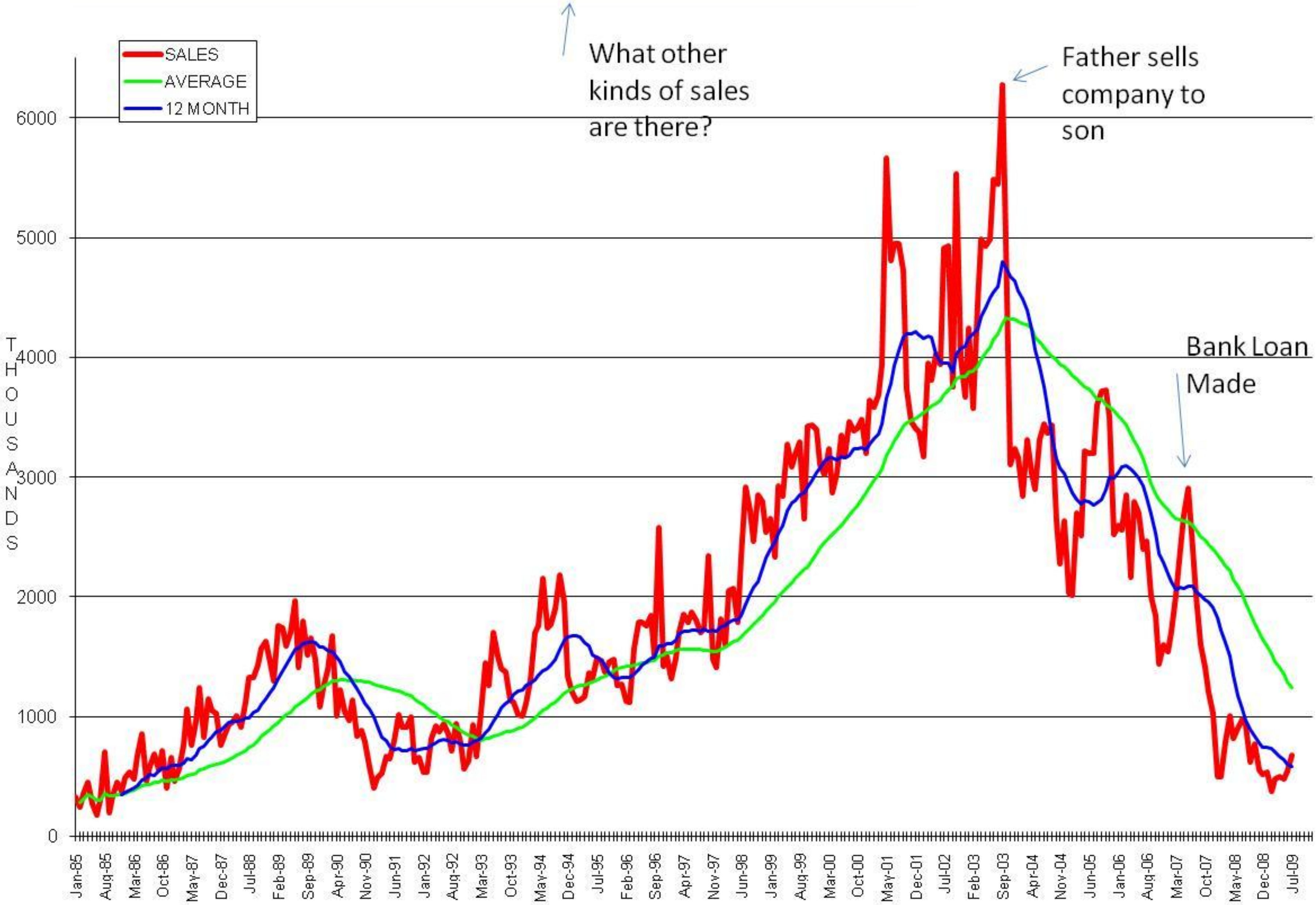
The RMA Chicago Chapter presents...

SCARY LENDING STORIES

Financial Statement Review

- The financials trended poorly with significant losses in two consecutive year ends.

WINDOW COMPANY INVOICED SALES



Fixed Assets

- **The term loan facility is secured with production machinery, support equipment, plant vehicles and rolling stock. .... The appraisal was last performed by zzz as of 6/17/08.**

Corporate Structure

Parent Company

Retail Sales Company

Manufacturing Company

Builder Sales Company

Management Payroll Co.

Transportation Company

part of bank loan

Another Company that was not part of the borrowing group and that had the **same name** as the brand name that the above companies sold their windows under

Predecessor Company with a **very similar name**
Still owned some of the fixed assets

bank did not know about these

Accounts Receivable

- As of June 30, 2009, the accounts receivable aging balance decreased by $1,744K or 49% … in comparison to the accounts receivable balance of $3,528K at June 30, 2008.
- Revenue is down $2,004K or 42.1% for the six months year to date in comparison to the prior year.
- The Company attributes this loss to the economic slowdown in the residential real estate market. The vast majority of the Company’s revenue base is derived from residential housing builders of new construction.

Accounts Receivable

- The examiner performed a shipping test on twenty (20) invoices. All shipments were delivered by Company vehicles because they are designed to transport the windows. The results of the shipping test are as followed: 18 invoices were signed and 2 were not, 9 invoices were pre-billed by an average of 3 days.

Accounts Receivable

- **The examiner reviewed ten (10) credit memos that were issued during the examination period. There was a 241 day lag time between the invoice date and the credit memo date.**
- **The examiner advised the Company to investigate why there is such a long lag time and to shorten this period as much as possible.**
- **Dilution for the trailing twelve month period was 1.9% so there is no dilution reserve recommended.**

Accounts Receivable

- The examiner performed a cash remittance test on twenty (20) accounts receivable payments that were remitted (deposited) between April 1, 2009 and June 30, 2009. The result of this test was satisfactory.

Accounts Receivable

- The examiner reviewed 59% of the $740K of past due invoices as of June 30, 2009.
- Several of the builders listed on the accounts receivable aging have balances greater than 180 days and the Company is actively pursuing these customers through their local attorneys and they have filed a mechanics liens against the respective property.

Accounts Receivable

- As of May 31, 2009, the accounts receivable aging, borrowing base report and general ledger all reconciled using normal end of month in-transit items that posted to the general ledger on June 17, 2009. The financial statements and general ledger report had an unexplained $7K variance.

Inventory

- The annual physical count as of 12/31/08 had not been performed.

Inventory

- The accounting system does not support a full “flow through” of the materials from each stage of completion to the next stage; ie, from Raw Materials to Work In Process to Finished Goods. This was noted in the initial survey and was funded with that knowledge.

Inventory

- The inventory count test yielded a 53% variance due to many factors ....
- ... the effective advance rate is 17% due to the $750K inventory sub-limit. This helps reduce the bank's exposure.

Inventory

- There is no information available to calculate the slow moving material amounts but there is $900K in suppressed availability due to line limitations.

Inventory

- As per the Company President, the Company relieves inventory at a higher amount than the actual COGS. All vinyl, aluminum and glass is relieved with an additional 25% above the actual COGS to account for scrap in production. This was the Company's only explanation of the variance between the perpetual inventory and the financial (book) inventory balance. The bank is lending on the lower (perpetual) inventory balance.

Inventory

- **The Examiner performed a test count of 29 items pulled from the 7/16/09 perpetual inventory report for the xxx, Ca. warehouse. The items pulled were raw material high dollar values and represented the quantity and standard cost when the item was purchased. The President of the Company had to identify for the Examiner the "off-set" or corresponding item# where the same items in our test had been relieved. The dollar values had to be netted in order to extrapolate a quantity on hand. This calculated quantity on hand had to be used as the perpetual quantity amount.**

Inventory

- The inventory test count confirmed that there is no sound system that can be relied upon for a true value of physical inventory at the company. The Examiner performed an inventory roll-forward using the gross profit method. As per the analysis an estimated inventory level at 5/31/09 was determined to be $4,417K. The inventory level reported on the 6/1/09 balance sheet was $4,846K. The roll-forward was within 8.8% of the reported inventory level.

Inventory

- Due to the inventory being priced out based on standard costs, this test was deemed both not necessary nor viable to complete within the time frame of the exam. .... This would be a very time consuming process to complete and in light of the minimal effective advance rate on the inventory, this test was not performed.

Inventory

- There is no way to adequately estimate the actual amount of WIP inventory in the work areas so this number is adequate for reporting purposes.
- At the June 30, 2009 month end, the General Ledger amount for inventory is $637K greater than the perpetual inventory report. The Company's president identifies this variance as a 25% scrap allowance on the vinyl, aluminum and glass

Accounts Payable

- The inventory has shown a reduction in the past year ($858K or 16.6% in the 12 month period).
- Although the accounts payable balance has increased by $246K or 100% to $417K at June 30, 2009, the total vendor payables is still insignificant to the $4.2M in inventory listed on the perpetual report.

Accounts Payable

- The examiner did not have the accounts payable statistics from the previous examination and due to time constraints did not have the opportunity to begin this process.

Exit Interview

- Although the Company was performing poorly financially, the accounts receivable and account payable testing of the collateral was satisfactory. There continues to be issues with the inventory. …. No reserves were recommended because …