

2018 Southeast Bankruptcy Workshop

Skills/Young Lawyer Track

Accounting in the Bankruptcy Context

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Accounting in the Bankruptcy Context

What the numbers mean,

Who cares about them,

Why do they care

(and Why You Should Care, too)

Gregory G. Hesse

ANDREWS KURTH







Part 1: What the Numbers Mean

A Financial Portrait of a Corporate Entity – Highlights

- **▶** Balance Sheet
- ► Income Statement
- ► Statement of Cash Flows
- ► Statement of Owner's Equity
- Footnotes

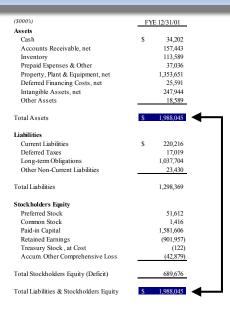
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Financial Statements: A Portrait of a Company

Financial Statement	Measurement Period	Purpose
Balance Sheet	Point in time	Snapshot of financial position
Income Statement	Period of time	Measures operating performance
Statement of Cash flows	Period of time	Measures cash inflows and outflows
Statement of Owner's Equity	Both	Details changes to equity balances
Footnotes	Both	Identify major accounting policies / methods & provide detail regarding balances in financial statements

- ▶ The financial statement components are interrelated:
 - Balance sheet equity section (retained earnings) summarizes income statement activity for an accounting period
 - Income statement activity often affects balance sheet accounts (e.g., sales that generate accounts receivable or expenses recorded through accruals)
 - Statements of cash flow and owner's equity present information from balance sheet and income statement

Balance Sheet



Assets = Liabilities + Stockholders' Equity

ALWAYS!

Balance Sheet

(\$000's)	FY	E 12/31/01
Assets		
Cash	\$	34,202
Accounts Receivable, net		157,443
Inventory		113,589
Prepaid Expenses & Other		37,036
		342,270
Property, Plant & Equipment, net		1,353,651
Deferred Financing Costs, net		25,591
Intangible Assets, net		247,944
Other Assets		18,589
Total Assets	\$	1,988,045
Liabilities		
Accounts Payable	\$	125,897
Accrued Expenses		90,502
Current Maturity of L-T Obligations		3,817
		220,216
Deferred Taxes		17,019
Long-term Obligations		1,037,704
Other Non-Current Liabilities		23,430
Total Liabilities		1,298,369
Stockholders Equity		
Common Stock		1,416
Paid-in Capital		1,581,606
Retained Earnings		(893,346)
Total Stockholders Equity (Deficit)		689,676
Total Liabilities & Stockholders Equity	s	1,988,045

Current Assets	
Cash	\$ 34,202
Accounts Receivable, net	157,443
Inventory, net	113,589
Prepaid Expenses & Other	37,036
	\$ 342,270

Can be converted to cash within a year.

Balance Sheet

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Non-Current Assets	
PP&E	\$ 1,631,520
Less: Accumulated Depreciation	(277,869)
PP&E, net	1,353,651
Deferred Financing Costs, net	25,591
Intangible Assets	294,518
Less: Amortization	(46,574)
Intangible Assets, net	247,944
Other Assets	18,589
	\$ 1,645,775

Expected life and holding period greater than one year.

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Due for payment within one year.

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Non-Current Liabilities	
Deferred Taxes	\$ 17,019
Long Term Obligations	1,037,704
Other Non-Current Liabilites	23,430
	\$ 1.078.153

Not due / maturing within one year.

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	_	

Records the book value ownership in the company.

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Income Statement

(\$000's)

	FYE 12/31/01
N + C 1	f 1706 526
Net Sales	\$ 1,706,536
Cost of Sales	1,042,886
Gross Margin	663,650
Operating Expenses	
Selling, General & Administrative	96,838
Depreciation	79,718
Amortization	46,574
Impairment Charges	281,374
	504,504
Operating Income (Loss)	159,146
Other Expenses	
Interest Expense	97,174
Amortization of Deferred Financing Costs	4,013
Other Expense, net	879
Income Tax Expense	24,789
	126,855
Net Income (Loss)	\$ 32,291

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Income Statement

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FYE 12/31/01

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Other Expenses
Interest Expense

Operating Income (Loss)

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Calculation of EBITDA

(\$000's)		% of Sales
Earnings =		
Net Income	\$ 32,291	1.9%
Before:		
Interest	97,174	
Taxes	24,789	
Depreciation	79,718	
Amortization	50,587	
	252,268	
EBITDA Before Adjustments for Non-Recurring Items	284,559	16.7%
Add: Non-Recurring Expenses		
Impairment Charges	281,374	
	281,374	
EBITDA (Normalized)	\$ 565,933	33.2%

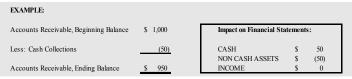
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Statement of Cash Flows

	FYE 12/31/01
Cash Flows from Operating Activities	
Net Income (Loss)	\$ 32,291
Changes in Assets & Liabilities	
Accounts Receivable	141,990
Inventories	98,386
Prepaid Expenses & Other	31,733
Accounts Payable & Accrued Liabilities	(189,770)
Depreciation & Amortization. Expense	126,292
Impairment	270,933
Other	11,276
Net Cash Provided by Operations Activities	523,131
Cash Flows from Investing Activities	
Acquisitions	(10,564)
Capital Expenditures	(554,001)
Net Cash Used in Investing Activities	(564,565)
Cash Flows from Financing Activities	
Proceeds from Issuance of L-T Obligations	289,250
Borrowing Under Senior Secured Notes	100,000
Net Repayments	(351,614)
Financing Fees and Other	(6,533)
Net Cash Provided by Financing Activities	31,103
Effect of Funkasian Data are Cook & Familiants	(1.142)
Effect of Exchange Rate on Cash & Equivalents	(1,143)
Change in Cash During Year	(11,474)
Beginning Cash Balance	45,676
Ending Cash Balance	\$ 34,202

Statement of Cash Flows Converts Net Income to Net Cash Generated or Used

- ▶ Net Income (Loss) DOES NOT EQUAL cash in the bank, lost, or made
- Cash vs. Non-Cash Items
 - Certain events impact Cash, but not Net Income



The other items impact Net Income, but not the Cash Balance

EXAMPLE:					
Property Plant and Equipment, net (Beginning Balance)	\$	2,000	Impact on Financial Sta	temen	ts:
Less: Depreciation Expense	_	(100)	CASH NON CASH ASSETS	\$	(100)
Property Plant and Equipment, net (Ending Balance)	\$	1,900	INCOME	\$	(100)

Both appear on the cash flow statement

Statement of Cash Flows

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<u>Cash Flow from Operating Activities</u> – inflows / outflows from income / loss; changes in working capital; adjustments for non-cash items.

Cash produced / consumed by core activities.

1:

Statement of Cash Flows

	2,291
Changes in Assets & Liabilities	
Accounts Receivable 14	1,990
Inventories 9	8,386
Prepaid Expenses & Other 3	1,733
Accounts Payable & Accrued Liabilities (18	7,562)
Income Tax Payable (2,208)
Depreciation & Amortization. Expense 12	6,292
Impairment 27	0,933
Other1	1,276
Net Cash Provided by Operations Activities 52	3,131
Cash Flows from Investing Activities	
Acquisitions (1	0,564)
Capital Expenditures (55	4,001)
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	9,250
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	1,474) 5,676

<u>Cash Flow from Investing Activities</u> – outflows from investing in assets (e.g., buildings) and inflows from selling assets.

Cash produced / consumed by investing in the company's operations.

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Statement of Cash Flows

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Cash produced / consumed by changes to the company's capital structure.

<u>Cash Flow from Financing Activities</u> –inflows from borrowings and investments in the company and outflows from paying debt, returning capital / distributing profits.

Statement of Cash Flows

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<u>Cash Balances</u> – Proves cashflow statement "works" – rolls forward beginning to ending cash.

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Ratio Analysis

			FYE 12/31/01
1)	Liquidity		
	Current Ratio	Current Assets / Current Liabilities	1.55
	Quick Ratio	(Current Assets - Inventory) / Current Liabilities	1.04
	Days Cash on Hand	Cash / ((Annual Operating Expenses + Interest) / 365)	20.87
2)	Asset Management		
	Receivables Turnover	Net Sales / Avg. Accounts Receivable	1.78
	Days Sales Outstanding	365 / Receivables Tumover	205
	Inventory Turnover	Cost of Goods Sold / Avg. Inventory	1.54
	Days in Inventory	365 / Inventory Turnover	237
3)	Leverage		
	Debt to EBITDA	Total Debt / EBITDA	6.50
	Debt to Equity	Total Debt / Total Equity	1.88
4)	Profitability / Efficiency		
	EBITDA Margin	EBITDA / Total Revenue	33.2%

Footnotes to Financial Statements

- Required by GAAP (FASB) or regulatory authorities (SEC)
- Integral to the financial statements and provide data such as:
 - Business segment detail
 - Financial position(s) of retirement plan(s)
 - Details of off-balance sheet obligations
 - Details of tax accounts
- Serve two purposes:
 - Identify major accounting policies and methods.
 - Revenue Recognition
 - Inventory Method (FIFO, LIFO)
 - Depreciation Method(s)
 - Provide additional information.
 - Pending lawsuits, litigation and investigations
 - Stock options awarded to executives
- Not sales literature. Unbiased statement of clarification

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Part 2: What Creditors Care About

Balance Sheet vs. Operational Restructuring

- **▶** Balance Sheet
 - To much debt
- Operational
 - Poorly performing parts of the business
- Liquidation
 - Selling it all

Creditor Classes and What They Look at

- ► Secured Lenders Senior & Junior
 - Balance Sheet speaks to value of collateral
 - Cash Flow Statement speaks to ability to service debt
 - EBITDA speaks to valuation

Creditor Classes – Post Filing

- Unsecured Creditors
 - Variety of creditors
 - Unsecured debt
 - Vendors
 - Current
 - Former
 - Benefit funds
 - Defined benefit pension plans
 - ► Single-employe
 - ► Multi-employer union contract/employee cost/industry standards
 - OPEB
 - Employees WARN Act Claims first \$12,850 per person have priority
 - Utilities Upfront orders to get protection
 - Executory Contracts
 - Leases

Numbers that matter

- Balance sheet Do assets exceed secured liabilities
- Cash flow Is the company operationally viable
- EBIDTA Drives valuation and recovery

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Creditor Classes - Post Filing

- **▶** Equity Holders
 - Valuation

Recap: Numbers People Care About

- Assets
 - for the collateral package
 - Outside the collateral package
- ▶ Unsecured Liabilities aka unsecured claim pool
- ► Cash Flow from Operations
 - Past liabilities
 - Future investments
- ► Leverage Ratios and Profitability
 - Valuation matters

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Part 3: Are Financial Statements Important in a Bankruptcy Case?

Are Financial Statements Important in a Bankruptcy Case?

- ▶ Purpose of bankruptcy How do financial issues come into play?
 - Reorganization
 - Cash flow analysis
 - Valuation of enterprise
 - Liquidation
 - No ongoing operation
 - Balance sheet focused
 - Maximize value of the assets through sale or litigation

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Bankruptcy General

- ► Schedule and SOFAs
 - Common disclosures made in every case
 - Schedules
 - Assets
 - Secured debt
 - Amount of debt
 - Disclosure of collateral
 - ► Estimate of value
 - Unsecured liabilities
 - ► Balance sheet liabilities
 - Off balance sheet
 - Guarantee
 - Tort claims
 - Contingent, unliquidated, disputed
 - Inventory contracts and leases
 - Exempt assets

Statement of Financial Affairs

- Disclosure of revenue
- Disclosure of payments to creditors
- Disclosure of payments to bankruptcy adversary
- Disclosure of books and records
- ► Disclosure of key people
 - Officers
 - Directors
 - Accountants

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Reorganization

- Cash collateral
 - Frequently secured lenders have a lien on the debtor's cash (i.e., cash collateral)
 - Proceeds from sale of inventory
 - Proceeds from collection of accounts receivable or notes
 - Proceeds from sale of other assets
 - The Bankruptcy Code prohibits a debtor from using cash collateral absent either the consent of the secured lender or without an order of court
 - A significant negotiation point is the cash collateral budget
 - Standard budget is 13 weeks
 - Compare budget to actual results
 - An example is a hotel case

World's Carl Time Turns of Technics Report			Current 9					live filling 6	Rh Gash Gallateral I				
	Foods.	Feeth.	1244			_	Completion	N Core.	Completive	Correcteding	Completive	N-fam.	-
	Budget	Budget LORGERA	Actual L/M/2018	Actual L/SAGROR	Verteros	Marketon III	Variance Direct Pitral	Verience	Budget (4th Budget)	Artual (Nth Resident)	Verlance (4th Budgett)	Variance	Community Sales Service
Nortes	200		Denie.	Distant.	24300	444	just mag		incompany.	(and analysis)	in make		415100
Soon former	5 16,540 5	16.560	5 56.989	5 54.829	5 2.100	0.55	5 13.107	1.7%	5 86,600	5 95,865	5 11,400	13.5%	
Sales Tax Receipts ¹⁰	2,430	2.418			0.698	0.68	05.070		12,684	4,007	(8,500)	41.7%	
Niv bushe	45	45			140	(85)	(3,479)	-135.7%	179	-	970	-100.0%	
toni ferrim	18,405	16.405	16,949	14,125	(80)	18,1795	E4.046		97,667	99,962	2,574	2.6%	
Dislayrusments													
stisges & Paynot Charges ²²	-	8,576	3.342	5,886	9,140	3.090	(34,696)		36,503	24,670	2,268	8.4%	
Other Expenses - Rooms	400	46.0		-	433	411	(4,360)	-07.2%	2,100	2,806	554	29.3%	
Complimentary Breakfast & Services	1,047	1,007	5,000		64	5,067	(5,344)		5,647	4,365	5,348	20.7%	
Travel Agent Commissions / Relates	948	545			5405	143	34,596	1,652,676	2,400	BUT	3,433	88.5%	
													Prior weeks: Permanent - Subtentiok and Verton
													Involves higher than hodget. Commit week: Subtlendish involves timing and permanent, budgeter
Telephone & Internet			3,798		(0.716)		(6,302)		1,690	3,893	(0,818)	1223,396	for payment 3/93
Utilities - Electricity, Gas & Saver			746		(246)		3,550	9.7%	4,467	1,896	911	15.4%	
Service Contracts, Pool & Other Maintenance	254	204	217		(810)	204	(31,870)	40.7%	3,087	1,491	736	10.7%	
Antonios.	2,800												Prior weeks: Permanent - Multiple invoices for
Advertising Other false & Marketing			3,314		(617)		8.50K	36.7%	2,469	5,400	04,5400	-225.4%	Millered creation and nestal
Other fides & Marketing							(1,471)	-011.2%		4.044	3.040	10.7%	
Install Services (M)	200	627	3,314		(0,546)	607	38,870		6,006				
			3,360		(0,544)		(3,100)		5,000	5,548		0.0%	Timing - Dos prior week
Professional Proc GEA	615		1,645		0,000		(3,304)		7,040	7,049	19	1.0%	Timing - Sax prior wank Prior weeks: Permanent - Reyelly Invoice in excess
Royalties & Franchise Pass	-	-	-	-			(7,874)	-9.3%	3,129	23,396	(4.76%)	46.6%	of budget
Business Unarrass & Farmits, Incurance & Leader							4,304	43.35	17		1.7	309.6%	
Management Wages (D. Holte)		5,504		3,530			(5,467)	-5.6%	4,615	4,625		0.0%	
													Timing - December Transfer was made in prior budg
Cash Reserve for Taxon and Cure Fayments								0.0%	10,000		101,000	300 0%	period
Sales, Tax Payments (1)							34,179	13.9%	5,625	54,287	39.425	4.7%	
Mor, Expenses	-	-	_	-	00.000	-	6.607	100.05	- 10			100.0%	
Total Spending Dishursements	6,845	13,380	28,866	T,ADS	(53,646)	6,679	14,817	3.1#	100,000	94,696	7,499	2.3%	
Other Cosh Flows													
(max (Repayment) on Orbits	-	-											
Noted Other Carls Floren	-	-		_	-		_						
													The ending cash belongs was adjusted in the weeks ended 1/6 and 1/62 by a total of 525,291 in cash belongs telephones to records to the Company's
Net Change in Easts	14,579	5,005	(800)	4,807	CULETO	5,866	inund	-0.8%	(4,402)	3,340	ULHE	2014%	books
Intercompany Transfers			-				40,007	73.8%	23,000	7.700	\$13,3000	47.4%	

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Reorganization

- **▶** DIP Financing
 - it is not uncommon for cash collateral to not provide sufficient liquidity for debtor to operate
 - To finance post-petition operations, the debtors frequently need access to debtor in possession financing
 - One of the critical negotiation is the DIP budget
 - An example is a retail case

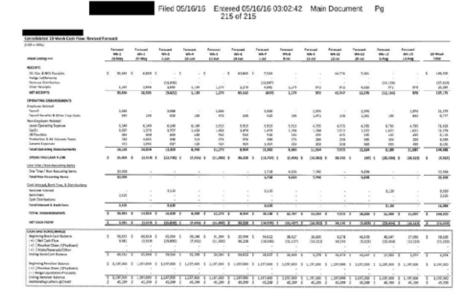
13 Week Cash Flow (\$ in millions)

	Manufacture of the Control of the Co				-			-				** / Marin	100.00	OCCUPATION AND ADDRESS OF THE PARTY OF THE P	Since of	Alladiana		-	-		-	_	-	-	-	-
	Period		P4	BEQ.	P4		P4	PS.	ugi	P5	βÜ	P5		PS		P6	,	SCS8		P6	Pi	4	P7		P7	THE CASE
	Actual/FCST		recast		recast	En	recast	Fores		Forecast		Forecast		precast		recast	Fore	-		recast	Forecas		Forecast		recast	4/4/18
	Week	PU	14		15	74	16	17	est.	18		19	re	20		21		2	ro	23	24	"[25	PC	26	Through
	Week Ending	4	/4/38		11/18	4/	18/18		18	5/2/18		5/9/18	5,	/16/18		23/18	5/30		6	/6/18	6/13/1	8	6/20/18	6,	/27/18	6/27/18
	Cosh Receipts																					_				
1)	Operating Receipts	5	204	5	189	5	169	5 1	64	5 168	5	169	5	170	5	168	5	176	5	173	5 16	35	\$ 170	\$	163	\$ 2,249
2)	Asset Sale/Other Proceeds				0		6		3					-		-										9
3)	Total Receipts		204		190	_	174	- 1	67	168		169		170		168		176		173	16	8	170		163	2,259
	Cosh Disbursements																									
4)	Operating Disbursements		(191)		(87)		(183)	(2	(101)	(151))	(166)		(168)		(172)		(175)		(168)	(15	(9)	(177)		(172)	(2,165)
5)	Financing Disbursements		(0)		(0)		(1)		(0)	(0	1	(0)		(0)		600		(0)		((0)		003	(0)		(0)	(5)
	Professional Fees and Bankruptcy																	-							4.0	
6)	Related Disbursements		(2)				(4)		-					(4)		-				-		(3)				(13)
7)	Total Disbursements		(193)		(87)	Г	(188)	(2	102)	(151)) "	(166)	Т	(169)		(173)		(175)	_	(166)	(16	3)	(177)	_	(173)	(2,183)
8)	Net Cash Flow		12		103		(14)		(35)	16		3		1		(5)		1		7		5	(8)		(10)	76
9)	Beginning Cash Balance		120		301		177	1	61	125		136		137		137		130		130	13	6	140		133	120
10}	Net Cash Flow		12		103		(14)		350	26		3		1		(5)		1		7		5	(8)		(10)	76
11)	ASIL Draw/(Paydown)		(30)		(27)		(3)		(0)	(5))	(2)		(0)		(2)		(1)		(1)		-			2.44	(72)
12)	Ending Cash Balance ¹	5	101	5	177	ś	161	\$ 1	25	5 136	ś	137	Ś	137	\$	130	\$	130	\$	136	5 14	0	5 133	5	123	\$ 123

¹Includes only excess cash available for use, Company also has additional cash in other bank accounts not available for immediate use

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Another example is an oil & gas producer's case



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Reorganization

- ► Monthly operating reports
 - On a monthly basis, a debtor is required to submit reports to the United States Trustee and creditors about its post-petition operations
 - Typically due on the 20th of the month.
 - The reports include financial statements
 - Balance sheet
 - Income statement
 - Cash flow statement

CAME NAME:								ACCRUAL I
CASE NUMBER								
COMPARATIVE BALANCE SHEET								
		CHEDULE	,	MONTH END HOLD?		NONTH END		IOATH END
ASSETS								
LINKESTRICTED CASH	5	56,979	5	46,578	18.	55,990	5	53,998
2. RESTRICTED CASH								
1 FOTAL CASH	5	50,950		48,578		55,990	5	52,900
ACCOUNTS RECEIVABLE (NET)	5	11,794	5	4,554	E	4,738	_	1,956
1. INVENTORY (ATTACH LIST)								
EMPLOYEE ADVANCES	-		_				_	-
1. PREPAID EXPENSES	-		1	2,246	18.	2,365	-	2,244
S OTHER (ATTACH LIST)	+	62.168	13-	58.54	и.	aria:	-	17,200
FOTAL CUBRENT ASSETS	1	5,106,643		3,532,347	ř	3,532,347	-	3.132,341
IL LISS ACCUMULATED DEPRECIATION?	+	3,190,60	-	3,502,947	⊢	3,302,947	-	2,100,140
11. LESS: ACCUMULATED DEPRECIATION /				(908210)		(508.514)		(568.714
12. NET PROPERTY, PLANTA EQUIPMENT	+	5.104.652	·	7 964 133	h	2 994 133	_	2,964,133
13 DUE FROM INSPERS	+	20174000	-	200000	۴	2,000	_	1500000
H OTHER ASSETS - NET OF AMORTICATION SATEACH LISTS	\top				Г			
IS OTHER (ATTACH LINE)	-		1	4.817	1	4.812	1	4.81
IL TOTAL ASSETS	15	5,176,617	4	3,654,313	1	3,431,990		3,604,167
POSTPETITION LIABILITIES								
17. ACCIDENTS PAYABLE.	$\overline{}$		3	21,325	1	22,176	3	13,362
H TAXES PAYABLE			3	45.626	3	54,391	3	36,066
17 NOTES PAYABLE								
20 PROFESSIONAL PRES	_				_		_	
D. BUCKBED DEBT	-		_				_	
22 OTHER GATTACH LISTS	-		1	78.04		11,677	5	73,600
25 FOTAL POSTPETITION LIABILITIES	-			30.04	1	85,444	5	73,919
PROPERTIES CLASSIFIES	15	3.096.091	-	3,013,634	Н	3.015.634		3,015,634
S PROBLEY DEST	+*	August 104		2,512,834	-	2,511,304		2012/00
S PROGRAMO DEST	1	97 1/16	_	103,826	-	103.626		103,424
22 OTHER CATTACH LINED	+-	91,514		70.175	-	80.175	4	88.130
OR TOTAL PROPERTIES LIABERTES	1	3.107.607	1	3.189.637	H-	3,199,407	1	3 507 504
N TOTAL LIABILITIES	1	3.127.627	1	3.268.071	ŧ.	3,298,091	1	3.289.612
DOUTY COMMITTEE		ALTERNATION IN	-	April 1	÷	A,144(181)	_	2,000,000
10 PROPERTITION OWNERS SOURTY	_		5	G40.6344	7	(90)4949	4	G42,614
H. PRE-PETERON RETAINED EARNINGS	_		-	1940.000	۴	1040000	-	gracino
DZ POST-PETITION RETAINED EARNINGS	_		1	(1,134)	T	(13,646)		(11,811
13 TOTAL EQUITY	_		1	G41796		(290,902)	1	(254,445
24. TOTAL LIABILITIES & OWNERS' EQUITY	-			3,604,513		Add No.		3,626,167

COL SAME		=			Monthly		uting Repo REAL BASE
CAL NUMBER			INTE END		OOVIH END		INTE END
PSCORIE STATI	DIENT	_	193617	_	110617	_	123417
REVENUES		1.	20.00		T. T.	_	41.480
	ROOM REVENUE	1	71,264	٠.	20,764	_	61,680
	FOCD & REVERAGE	-	114		-		_
1	SACES TAX RECEIPTS	3	35			_	-
	MISCINCOME	5	479	5	96	_	14
	LUSS: DISCOUNTS	-		_			
	NET REVENUES	5	75,774	5	70,913	5	61,96
COST OF COS		-		_		_	
	ROOM EVERNEE	3	9,998			5	11,61
	WAGES & PAYROLL CHARGES	3	17,580	3_	17,584	1	11.67
0.	DIRECT OVERHEAD	-		-		_	
10	SOUNT OF GOODS SOLD	1.	27,178			E.	26,110
	GROSS PROFIT	5	45,600	5	43,130	<u>. </u>	34,80
OPERATING E		7.	1477		1,459		1.00
12	OFFICER/NEIDER COMPENSATION	1				1	4,61
13	ACCOUNTING & LEGAL	5	500			1	
14	ACVERTEING	5	6,365		7,416	-	11,360
15.	SERVICE CONTRACTS, POOL & OTHER MAINTENANCE	5	3,400		3,541	1	2,764
16. 17.	SUSSESSI LICENSES A PERMITS, INSURANCE À LEASIS	5	204		330	_	
17	TILIPIONE A INTERNET	3	1,179		3,412	1	1,179
	DILECTRICITY, GAS, WATER & SUNER	1	3,594		3,756	1	1,99
19.	ROYALTES & PLANCHISE FILES	5	3,009		2,616	1	2,48
26.	TAXES - REAL PROPERTY & BUSINESS	5	8,667		1,647	1	[8]
21.	OTHER ADMINISTTACH LIST)	1	4,900		5,896	1	1,500
22	FORAL OPERATING EXPENSES	1	34,969		31,388		21,21
	SICCIAES BESTORS NON-OPERATING INCOME & EXPRINSE	15	11,450	5	3,940	1	6,531
	CE & EXPENSES	_		_		_	
	NON-OPERATING INCOME (ATTACH LIST) NON-OPERATING EXPENSE (ATTACH LIST)	-		-		_	
2 26	NUMBER SOMEON	-		\vdash	_	_	
	DEPENDATION (BEPLETION	-		-		_	
-	AMORTINATION	-		-	_	_	
3	OTHER EXPENSE / INCOME CATTACH LISTS	-		-	_	_	
10	NET OTHER INCOME & (DAPONSES)	_		-		_	
	HOY EXPENSES	_		-	_	_	
SECOND CARRY	PROFESSIONAL PIES	1	33,860	-	19,766		4,900
10	U.S. TRUSTIN PRES	-		-	10,000	-	
10	OTHER (ATTACH LIST)	_		-			
16.	TOTAL REGRESANZATION EXPENSES	1	21,880		19,196		4,900
10	NAME AND ADDRESS OF THE PARTY O	1	20,880	-		-	4,00
			-01 465				
14.	NET PROFIT (LOSS)		(23,452)		(12,334)	16	Lar

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Reorganization

- ► Confirmation process
 - Plan/ disclosure statement
 - Historical numbers
 - Information purposes
 - Projections
 - Used to evaluate feasibility of plan under Sec. 1129(a)(11)
 - Liquidation analysis
 - Used to evaluate whether the plan results in a higher recovery for creditors than would be received in a Chapter 7 (i.e., best interests of creditor's test) (See Sec. 1129(a)(7))

Example of projections for hotel case

Filed 1200k17 Entered 1200x17 12:05 08 Desc Exhibit D Financial Projections Flage 10 of 13

Performance							Fug	e 10 of 1	3	
Marchine	World Col Rev Arous									
March Marc	Dett Sometic By Dethy									
The of disabelined and provided					Aug 2017	54300	04.837	Grs 2017	Over SHEP.	Post library
Water Company 1987 1987 1988 198	had been a	60,974	86.134	100,962	SCMT	45,510	6,70	Pp.288	36,710	79,449
March Marc	Cert of Streets Sold									
March Marc	Wager & Faccal Charges	10.875	12.62	201206	10.094	180400	12,022	18324	36,639	104.90
Temple of Norwelle 1,000	Other Expenses - Posens									
Teach Performance Profession Performance Perform		3.000								
March Marc	Travel Agent Commissions / Ballates									
Content	Territorial of Goods Good	76 164								200
1 1 1 1 1 1 1 1 1 1	Crear Facility									
1386 1386	Counting Squares									
1286 1286	hispion & reing.	2.525	30	1.063	2,896	2510	2.104	2.361	1 800	15,500
American Company Profession (1982) 253 3640 273 5464 273 546 560 560 560 560 560 560 560 560 560 56	Critics - Factority, Co. & Source									
Martinary 1,000	Service Contracts, Politic Cities Staintanance									
1867 1869	Merrang			2000						
1964 1964				180						
Suppliers of the Control of the Cont	Other Salmia	2.662								
1.00 1.00										
Note 1975	Perfendenci Face - GEA									
1										
Page										
March Marc										
March Marc										
March Marc										
1271 1270		100,000	5,000	24,014	11,044	10,100	100	12,004		
### 15.00 \$1		10.471	10.50	40.114	W (2)	40111	Market 1	10.00		
1		100.0	10.700	40,000	mi, and	46,111	my na.	10,000	80,00	MALOV
Auto	B.Th.	26,304	26,429	51,694	23,766	(1) (40)	(MEN)	(18,421)	(0.00)	34,400
Mart Figures	NAME And ADD ADD TO LOT AND ADD TO AD					29,289	20,000	10,366	27,679	86.462
Section Sect	Manadikita	26,794	26,676	54,694	15,794	15,304	5524	6,815	20,400	13170
Section Sect	Other Seasons									
Name	(CON)	-								
No.										
Service Serv										
Vision Tomograms on Table 5,559.8 14,500.7 GLD30 12,598 23,198 70.0 Intelligence on Table Universities 5,559.8 14,500.7 GLD30 12,598 23,198 70.0 Intelligence on Table Universities 5,559.8 6,000.7 6,000.7 12,598 23,198 70.0 Intelligence on Table Universities 5,000.7 21,298 6,000.7 6,000.7 12,598 23,198 70.0 Intelligence on Table Universities 5,000.7 21,298	Samings before favor	26,336	28 09	54,894	25,786	03,069	(34,85)	08400	(91,85)	34,100
Proceedings	Name Challe to Gald Now									
Mild Printed Columb Resourcement Topic										-
Mil-Black Color Assurance Town	incrumper Tursles			0.019	14,100	G1218		10.000	20,000	790
9 MA 0,000 (M,745 - 10,000 (M,745 - 10,000 (M,745 - 10,000 (M,745) M,745 (M,	Put-D'erte Dedro Reservoiro - Difer Virgeweils									
and the ten our pass areas bean from telest telest toles	Limited			0,048						
Ming Carl Science 1,875 H250 75,996 40,986 41,640 43.988 95,996 95,970 12,970	Net Cash Flow	36,004	10,0%	45,010	(7),396	#LESS	DARKS	0.400	(MUM)	27,600
100 TOTAL PLAN SCHOOL S	Index Let Briton	188	17.194	Water	40.700	41.40		W.500	-	
		180	10.198	21,944	10,394	1001	10,550	N/MR	2010	12377

				Filed	12/20/17		d 12/20/ ge 11 of		Description	Exhibit (Financi	al Project	ions	
Monthly Cell Free Famous														
Debt Soonario: By Lettin														
	34303	No area	WEST	Apr 2008	May 22 St	M 303	M 208	Aug 2018	Depth 201	04308	New 2018	Owt 2018	Terral 2018	Tero! 201
Tetal income	15,519	75,529	135,000	94,106	99,704								46,86	
Contrat*Greats Sold														
Magne & Payor Designs	17,000	17.000	17.90	17.800	17.866									
Other Indianae - Basing	1,645	1,945	2178	2108									89,776	
Complementary Breakfast & Services	5,267	1,045	4.67	4,677	2,180								5,986	
Prised Sport Commissions / Solution	1,969	1,364		130	1,290								21,90	
Forte/Cent of Single Spirit	307	3.17	2.75 2.75	3576	36796			_	_			_	13,80	_
See Broke	45,612	45,862	11,410	97.796	67,765	_	-		_			-	111,698	_
	- 361	4,861	11,410	10,746	40,744								MUAD	
Spending Depends														
Silophana & Internet	1,542	1,542	1,90	1.972	1,972								5,600	
Jerse-Demoty Guill Sewer	420	4,300	4400	4.900	3.580	-							21,601	
Savin Centrado, Parel E. Dibar Wales savan	1,678	1,674	2,26	3390	2.146								5,750	
Nowling	2.554	4393	4,900	2,700	2,500	-							34,604	
Other Salva & Municipal														
When Arteston	5.465	5,465	5,48	5.465	5.465								21,827	
agai Services			KAL	9,700					-				21,794	
Pofesional Fees - G&A	5.890	625	9.736	1.000	615								25,473	
Insultino & Franchise Face	7,468	9,857	5,010	33,799	22,790	-							85,678	
Notices Stances & Permits, Insurance & Leases	1,343	1.343	1.30	3,189	1,145				-				6.750	
Variagement diagram	NAME OF TAXABLE PARTY.	3,671	3,50	3,800	3,877								15,865	
See: Residence to Because	28,000								-				31,330	
Sales for Payments	9,815	3.03	1.95	25.400	22,100								90,800	
Mac Esperoes	801	601	600	66.6	F1.5								4.00	
Total Operating Expenses	54,354	46,034	49/10	2075	10,667		- 1	-			-	-	18,78	_
Betta.	XX12	3,494	30,07	2,790	23,676								11,99	
Notification of Restructuring Costs			am	9100										
NOME OF TA	9.02	199	X.80	27,000					_	_			94,225	
-pass as an	9,012	1,000	X,Rt	27,104	2371	<u> </u>	_		_	<u> </u>	_	_	90,80	_
Mer Signices														
rived	-	11.954	19,554	19,660	20.004								54,255	
Depreciation					-						- 6		-	
Istal Other Expenses		23,994	23,554	13,554	30,554								54,200	
Dening Refere Years	8,712	0,000	3,80	(1,794)	8,529								6,880	
beam factor to fact flow														
Trickel Pagements on Judic														
Percentury Transfers		25,700			- 0									
had Effective Condition for payments - floors		2,22	- 1				-		- 1	- 1			10,000	
So Effective Coulder Assessments - Other University in				- 0										
Litted		10,000	- 1	- 1			-		-					
		20,000											10,000	
Rin Lain Flow	6,82	4,394	7.80	5.790	8,530								3,60	
ning fact below	1,500	11,454	52.480	11.666	30,364	XXX	32.00							19.7

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Example of projections in a retail case

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flow effects of the aforementioned items and the estimated effect of the Plan of the cash interest costs of the Debtors.

The Projections should be read in conjunction with the assumptions, qualifications, and explanations set forth in this Disclosure Statement, the Plan, and the Plan Supplement, in their entirety, and the historical consolidated financial statements (including the notes and schedules thereto)

PROJECTED INCOME STATEMENT

\$1000	FY17E	FY18E	FYISE
Net Sales	\$720,149	\$731,277	\$761,116
Cost of Sales and Occupancy Costs	(\$495,381)	(\$502,371)	(\$521,909)
Gross Profit	\$224,768	\$228,906	\$239,206
Direct Store Expenses	(\$159,842)	(\$169,157)	(\$178,629)
General and Administrative Expenses	(\$53,056)	(\$37,744)	(\$34,501)
Store Opening Costs	(\$3.010)	(\$2,960)	\$0
Depreciation and Amortization	(\$32,207)	(\$35,802)	(\$37,278)
Profit / (Loss) from Operations	(\$23,347)	(\$16,756)	(\$11,202)
Adjusted EBITDA Reconciliation			
Profit / (Loss from Operations)	(\$23,347)	(\$16,756)	(\$11,202)
Depreciation and Amortization	\$32,207	\$35,802	\$37,278
Non-Operating Expenses	\$13,612	\$2,400	\$2,400
Store Opening Costs	\$3,010	\$2,960	\$0
Adjusted EBITDA	\$25,482	\$24,405	\$28,476

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\$1000s	FY17E	FY18E	FY19E
Assets	A CONTRACTOR STATE OF	PERSONAL PROPERTY AND	CONTRACTOR AND ADDRESS OF THE PARTY OF THE P
Current Assets			
Cash and Cash Equivalents	\$30,491	\$14,887	\$27,786
Accounts Receivable, net	\$3,068	\$3,053	\$3,136
Merchandise Inventories	\$30,684	\$28,494	\$27,183
Prepaid Expenses and Other Current Assets	\$6,143	\$6,112	\$6,279
Total Current Assets	\$70,387	\$52,546	\$64,384
Property and Equipment, Net	\$117,873	\$111,005	\$80,128
Reorganized Value in Excess of Net Asset Value	\$68,701	\$68,701	\$68,701
Intangible Assets, Net	\$27,022	\$27,022	\$27,022
Other Assets	\$11,105	\$11,105	\$11,10
Total Assets	\$295,088	\$270,379	\$251,331
Liabilities and Shareholder's Equity			
Current Liabilities			
Accounts Payable	\$24,221	\$24,021	\$24,641
Accrued Expenses and Other	\$22,041	\$21,859	\$22,423
Total Current Liabilities	\$46,262	\$45,880	\$47,064
Borrowings	\$142,340	\$147,005	\$151,927
Other Long-Term Liabilities	\$77,919	\$80,187	\$81,206
Total Liabilities	\$266,522	\$273,073	\$280,196
Reorganized Shareholder's Equity	\$28,566	(\$2,694)	(\$28,857
Total Liabilities and Shareholder's Equity	\$295,088	\$270.379	\$251.339

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PROJECTED CASH FLOW STATEMENT					
\$ 0.00m		GEFFER	CHEWNS	FORE	
Cash Flows from Operating Activities					
Profit / (loss)/from Operations	(54,340)	(53,893)	(\$1,366)	(\$16,756)	di11.232
Deferred Plent	\$881	\$627	\$400	\$1,217	\$1,019
Depreciation and Amortization	\$1,979	\$8,204	\$8,318	\$36,802	\$37,278
Charges in Net Working Capital / Other Liabilities	6740)	\$741	\$110	\$1,854	\$1,045
Net Cosh Flow from Operating Activities	\$1,790	10,079	\$6,500	121,167	\$23,240
Cash Flows from Investing Activities					
Copial Expendiums	(\$4,317)	(\$11,189)	(\$1,666)	(\$25,994)	(91.400)
Net Cash Flow from Investing Activities	(\$4,317)	(\$11,160)	(81,000)	(836,814)	(\$11,400)
Cards Flows from Financing Activities					
Interest or New Debt	(\$2,469)	(\$2,481)	(\$2,492)	(\$6,817)	(\$10,000
Not Cook Flow from leveling Artistics	(\$1,410)	(62,481)	(61,412)	(\$1,817)	(\$11,0H0)
Net Change in Cosh	(\$4,000)	67,790	81,342	(515,694)	\$10,800
Opening Cash and Cash Equivalents	\$41,965	\$36,939	\$29,149	\$30,491	\$14,887
Gooing Gosh and Cash Squivalents Loss Coolt Card monishins	\$36,909	529,148	534.4H (4.900)	\$54,887 (0.505)	\$27,796
Closing Carls	529,974	\$19,164	521,536	\$1,602	\$29,825

B. Assumptions to the Projections

1. General Assumptions

The Projections assume that the Delters' hosiones strangy will not shange as a round of their recognizations and shange of constraintly, however the revised capital extractor of the Delters in a key delver of variatis inventiones initiatives assumed within the Projections. The Projections exclude any constitution from the Delters' Line Core solver from Jan 29, 2, 2014 errors, the Delters' Basal year ends on the Sanday closest to Manth J1 in the given year. The projection for French Year 2017 regions compared products for the partial feets to the assumed Effective Date, and includes the cross of the Colpute compared products for the partial feets to the assumed Effective Date, and includes the cross of the Colpute

The Projections assume that the Oubters upon two new stores is the Projection Period, both of which are already sociated by a signed lesser, one store is a situated as the store of the Footh quarter of Prical Visit 2017, and one store on which he assumed to spon at the store of the first quarter of Fiscal Visit 2017, the other three store openings or closures are assumed which the Description.

Management reports and uses the Adjusted EHITDA motifs to assess the ongoing performance of the Debroes' over consulting adjusted for costain non-consulting and store countries used.

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Example of liquidation analysis in a hotel case

	Page 6 of 15			
Liquidation Analysis November 7, 2017				
November 2, 2013				•
	Unaudited	-	tipuidation	-
		Adjustment	Yelve	Recovery
SOUNCES OF FURBIL				
OPERATIONS ^{III}				
OPUBLING RECEPTS - 6 MONTHS			476,404	
OPCOUTING DISCNOSTS - 6 MONTHS			[881,005]	
NET CAMPRION			30,309	
OPERATING PROBBLES & PROPICAL (County III)			GLASS	
TOTAL OPERATING INCOME			03,294	
CATH BALBICE	63,530	310%	63,538	
CASH PUNICABLE FROM DPERATIONS			\$6,874	
AUTT				
ACCOUNTS RECEIVABLE (MET)	4.315	80%	5.452	
PREPAID DIPPASES	2.285	05	-	
PROPULTY, PLANT & EQUIPMENT 19	4,240,300	70%	3,025,080	
OTHER ASSETS	1.300	05		
ROWN COSTS	1.117	25	-	
NTS JTY DEPOSITS.	2,700	10%	1,350	
101AL ASSETS ¹⁶	4,014,751		3,340,614	
TOTAL SOURCES OF FUNIOS			3,190,668	
USES OF FUNES.				
CHAPTER 7 & SUPERPROPETY ADMINISTRATIVE CLAMS				
CHAPTER TYPILITIES FDES ^{FM}			95,817	
OWPER IPROFESSIONALFILIS			25,000	
ASSET SALES CONT TO			121,000	
SWIFTOFAL LIQUIDATION & ADMINISTRATIVE COSTS			294,817	
Stockers sent **			3,035,634	94.75
FINES AVAILABLE FOR GLARIES				,
CHAPTER 13 ADMINISTRATIVE CLAIMS				
PROPESSIONAL FEED			84,512	
UK TRUKTITI FREE			1,960	
TOTAL LIQUIDATION & ADMINISTRATIVE COSTS ⁽⁶⁾			86,212	0%
PUNCS ATTALABLE FOR PROPERTY CLAMS				
PRICRITY CLANE				
PROPORTY TAX ⁽¹⁾			\$3,890	0.0%
			12,810	
TOTAL PROPETY CLAIMS			240011	

November 7, 2017 Unaudited Liquidation Book Value Adjustment Recovery UNSECURED CLAIMS
UNSECURED DEB 103,828 DUE TO/FROM DUE TO/FROM DUE TO/FROM DUE TO/FROM DUE TO/FROM DUE TO/FROM TOTAL UNSECURED CLAIMS [6] 0.0% 103,828 **EXCESS (DEFICIT) ON UNSECURED CLAIMS**

- NOTES:

 [1] Projected receipts/disbursements from November 2017 through April 2018, assuming a six-month sale process. Operating Receipts are shown in the financial projections as Total Income. Operating Disbursements are shown as Total Cost of Goods Sold plus Total Operating Expenses, excluding Restructuring Costs and Property Tax payments (which are shown separately in this exhibit).

 [2] PPE is based on a 2.75x multiple of estimated annual revenue.

 [3] Unaudited book values on assets are per Debtor's MOR, dated 9/30/17, unless otherwise noted

 [4] Assumes a fee of 3% of total sources of funds

 [5] Assumes a sulling cost of 4% of PDE

- [3] Assumes a selling cost of 4% of PPE
 [6] Asmounts per Debtor's MOR, dated 9/30/17. Unsecured Debt is not necessarily inclusive of all scheduled or filed claims.
 [7] Prepetition taxes due, per Debtor's MOR, dated 9/30/17, plus estimated 2017 property taxes due in January 2018.

Avoidance Actions

- ► Threshold issue is solvency at time of transfer
 - Balance sheet test
 - Cash flow test
- **▶** Preference
 - Transfer of debtor's property to or for the benefit of a creditor on account of an antecedent debt
 - Made 90 days prior to filing of case (1 year with regards to an insider)
 - Made while the debtor was insolvent
 - Enables creditors to recover more as a result of the transfer then the creditor could have received in a Chapter 7
- ► Fraudulent transfers
 - Transfer made by a debtor
 - When debtor is insolvent
 - Made in exchange for less than the reasonably equivalent value

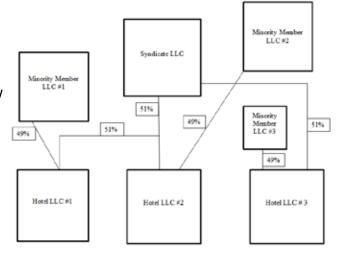
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Avoidance Action

- ► Solvency is a threshold question
 - Balance sheet analysis
 - Assets
 - Start at balance sheet
 - Adjustments for illiquid assets such as good will
 - Adjustment to fair market value
 - Add "off balance sheet" assets such as litigation claims
 - Liabilities
 - Start with balance sheet
 - Adjust for off balance sheet liabilities
 - Fair market value of lease liabilities
 - Litigation claims
 - Guarantees

Case Study - Hotel Syndication

- ► Small syndicator
- ► Three hotels, each owned in special purpose entity
- Each hotel has separate minority owner
- Each property has a separate lender



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Holdco Consolidated Financial Statements

Cash	30,000	Secured Debt	12,400,000
Hotels	10,000,000	Equity	(870,000)
FF&E	1,500,000	Total Debt & Equity	11,530,000
Total Assets	11,530,000		

Balance Sheets

► Hotel LLC #1

<u>Assets</u>		Liabilities & Equity	<u>Liabilities & Equity</u>		
Cash	10,000	Secured debt	4,400,000		
Hotel	5,000,000	Trade debt	0		
FF&E	500,000	Equity	1,610,000		
Inter-company	100,000	Total Liabilities and Equity	5,610,000		
Total Assets	5 610 000				

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Balance Sheets

► Hotel LLC #2

<u>Assets</u>		Liabilities & Equity	
Cash	10,000	Secured debt	4,000,000
Hotel	3,000,000	Trade debt	Current
FF&E	500,000	Equity	(390,000)
Inter-company	100,000	Total Liabilities and Equity	3,610,000
Total Assets	3 610 000		

Balance Sheets

► Hotel LLC #3

<u>Assets</u>		<u>Liabilities & Equity</u>	
Cash	10,000	Secured debt	4,000,000
Hotel	2,000,000	Trade debt	Current
FF&E	500,000	Intercompany	200,000
Total Assets	2,510,000	Equity	(1,690,000)
		Total Liabilities and Equity	2,510,000

6:

Issues to Consider

Accounting in the Bankruptcy Context





