

Case Study: Valuing and Restructuring Distressed Companies in the Face of Financial and Operational Headwinds

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Avalanche Motorcycles

May 16,2018

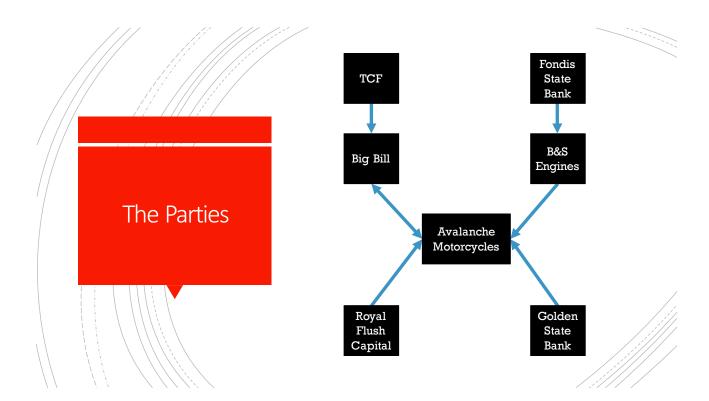
Michael Friedman / Larry Halperin / Randy Lewis / Morrie Ruttman



- Introductions of people and session plan (10 mins)
 - Handouts
- Presentation: Avalanche Motorcycle Company (15-20 mins)
 - History / Current Headwinds and Challenges
- Discussion (45 min)
- Questions and Conclusions (15 mins)



- Form up into groups of 12 people 6 teams of 2 people
- Groups will discuss their views on the company from their respective positions, focusing on
 - Identifying critical steps they believe the company or other groups should take, the timing of those actions the value of company now and in the near future to understand who is in and out of the money. (20 mins)
 - Convene the teams to discuss the company's situation, bring forward perspectives and action plans for the company (25 min)





- Avalanche Motorcycle Company was born from the cult of the big, all-American V-twin motorcycles immortalized in movies like "The Wild Ones", "Easy Rider" and "Electric Glide in Blue".
- Ivan Smith started Crazy Custom Cycles in 2003 while he
 was working on his Bachelor's Degree in Finance at the
 University of Colorado. Crazy Custom Cycles custom
 designed, assembled and rebuilt motorcycles.
- In 2004, Ivan expanded his business into an after-market motorcycle shop that specialized in after-market Harley Davidson customization, repairs and upgrades as well as the sale of optional equipment and parts for the Harley Davidson line.
- As part of the expansion, Ivan organized his company as a C Corporation and renamed it Avalanche Motorcycles.



- Avalanche developed a reputation for its award winning Harley customizations.
- Customizations would typically increase the motorcycle's market value by 50% to 100% of the original retail price.
- In the customization process, Avalanche built/rebuilt the cycles from the ground up using OEM and aftermarket parts. The initial design / building process lasted up to six months, with the completed bikes commanding prices in the \$40,000 to \$50,000 range.



- In late 2010, Ivan approached his father, John, about financing the expansion of Avalanche Motorcycles.
- Ivan wanted to create an integrated manufacturing company to dramatically reduce the cost of production while enhancing delivery for new and unique custom designed bikes.
- This partnership between John and Ivan brought together Ivan's well-established expertise in building customized, high quality, Vtwin motorcycles and the extensive management and business experience of his father. The two had a vision of providing the best machines of their kind, manufacturing them to the high quality standards demanded by the market.
- Avalanche adapted the "cell" production philosophy that John found successful in the electronics industry, the same philosophy used by high-end European motor vehicle manufacturers (i.e. Rolls Royce).
- Cell manufacturing process allows a small team or single individual artisan to build the custom motorcycle.



- Avalanche Motorcycles won immediate acceptance in the marketplace for price, quality, design and reliability. Their bikes were faster, more powerful and more desirable than the high-end offering of the leading name brands.
- Avalanche provides a three-year consumer warranty program for its motorcycles. The first six-month period covers all parts and labor with regard to its motorcycle products and the remaining 30 months only cover major parts (i.e. engine, transmission).
- Avalanche Motorcycles became highly prized and sought after.



- Avalanche's revenue consists primarily of motorcycle sales, but it also includes limited motorcycle parts and accessories, as well as a small amount of the company's clothing and accessories product line.
- Prior to John's investment, Avalanche was selling 15 customized motorcycles per year, employed 8 people and generated \$625,000 in annual revenues.
- By the end of 2013, Avalanche Motorcycles had annual revenues of \$4.9 million, 34 employees and sold 200 motorcycles.



- Avalanche offers seven custom model configurations. The retail price of the basic Avalanche custom models start between \$35,000 for the "Rainy" to \$36,500 for the "Tornado".
- Avalanche's limited edition and highly customized models retail between the base model prices and \$54,000. (\$35,500 for the "Roadrunner", \$37,000 for the "Fox", \$41,000 for the "Pinto", \$47,500 for the "Rattlesnake", \$54,000 for the "Black Widow")
- In early 2013, the company introduced a new line of motorcycles that includes four new standard models sold under the name "Windy by Avalanche". These cycles are put together on an assembly line rather than the "cell" approach, with prices ranging between \$20,000 and \$25,000 (i.e. \$20,000 for "Cool Breeze", \$21,000 for "Morning Mist", \$23,000 for "Windy", and \$25,000 for "Stormy")



- Sales in 2015 had doubled from \$12.1 to \$27.9 MM
- Growing recognition in industry and retail press.
- Moved to to new manufacturing facilities
- Secured a \$10 million line of credit with Golden State Bank, secured by all assets
- Fourth, Royal Flush Capital purchased \$3.5 million in redeemable preferred stock that is convertible into 4,500 shares of Avalanche Motorcycle common stock.

(Note: When Royal flush converts its preferred stock to common stock, it will own 45% of Avalanche Motorcycles. The other owners are as follows: John Smith – 25%; Ivan Smith – 20%; Beth Completely, Chief Financial Officer of Avalanche – 10%).

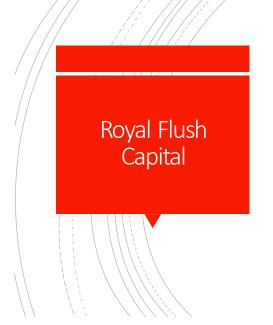


By the end of the second quarter of 2016, Ivan and John's optimism turned to worry.

- Avalanche began experiencing severe cash flow problems as the result of:
 - overstocking of raw material inventory
 - reduced sales because of limited finished goods inventory as well as longer delivery times for motorcycles;
 - excess manpower and overhead costs because of the inability to deliver motorcycles to dealers;
 - Golden State Bank's recent reluctance to lend more money because of poor financial results
- By the end of 2016
 - A/P ballooned to \$5.5MM and critical suppliers are withholding shipments,
 - The company was losing about \$600K per month



- Golden State Bank is part of a growing regional bank group that covers several western states.
- Avalanche's financial performance has been disappointing.
 - For fiscal year 2016, the company originally projected net income of \$2.287 million on sales of \$30.893 million, but actual results reported net income of \$0.240 million on sales of \$27.913 million.
 - Avalanche's cost structure has increased dramatically as the company ramped up its efforts to introduce its new product.
 - Avalanche experienced soft demand and production delays that led to sales being well below original projections. The sluggish sales in 2016, combined with the build-up in the expense structure, have led to a loss of \$8.05 million for 2016.
- Collateral shows the liquidation value of Avalanche's inventory is \$6,572,134. Avalanche had borrowed \$8,878,531 million against its inventory.



- Royal Flush is a private equity fund manager, with assets of about \$900MM under management. It recently closed out its second fund, and is starting to raise money for its third fund.
- Royal Flush focuses its investments in the retail apparel and food products industries. Avalanche is the first non-core investment and represents 10% of the Fund I
- Management is worried they are having trouble raising their second fund, the uncertainties in the economy and some investors are complaining about management's decision to invest outside its core areas.



- Big Bill's Dealership is an independent dealer that sells
 Avalanche motorcycles as well as Honda motorcycles.
 Big Bill's is the largest dealer for Avalanche
 motorcycles.
- Approximately 45% of Avalanche's motorcycle sales are through Big Bill's Dealership.
- Avalanche supplies motorcycles to its dealers in one of two ways: (1) the dealer can spec the motorcycle completely (customized paint and selected options) with lead time of 6-8 weeks, or (2) the dealer can select a completed bike from Avalanche's finished goods inventory list for immediate shipment or one from the current production schedule (2-4 weeks).



- Big Bill finances 100% of a bike's cost with a "Floor Plan" Term Loan provided by Transcontinental Financial Corporation (TCF)
- Under the plan, Avalanche receives payment from the for "floored" bikes within 2 weeks of shipment. TCF retains title to the motorcycles until the bike is sold, at which point the loan is repaid
- Bill's relationship with Transcontinental has not been easy. The loan is coming up for renewal and Transcontinental is evaluating its relationship with Bill and his dealership.



- B&S Engines specializes in designing and manufacturing motorcycle engines It is family-owned and all of its operations are located in eastern Colorado.
 B&S is one of the largest employers in the area.
- B&S is the sole supplier of engines to Avalanche, and Avalanche is their largest customer.
- B&S has discovered a defect in their 2016 engines, and has started a recall/repair & replace process, using Big Bill's Dealership to do all of the work.



- Fondis Bank is B&S's lender. Fondis Bank is a community with assets in excess of \$1B. It has a commercial loan portfolio of \$600MM, managed by six account officers.
- The bank has extended a \$6 million line of credit to B&S. Currently, B&S has drawn down \$5.5 million of this line. The line is secured by B&S's inventory and accounts receivable.
- Fondis is concerned about B&S's \$2.1 million accounts receivable balance from Avalanche.
- Under the loan docs, the bank classifies over 90-day portion of the receivables ineligible for borrowing (\$202,880), but in addition, once the over 90-day balance comprises 10% or more of its entire account balance, then the entire customer account is deemed ineligible. The 61-90 Days category will soon present a problem if amounts are not collected by B&S



Equity Sponsor –	Senior Company Lender –
Royal Flush Capital	Golden State Bank
Key Vendor –	Key Vendor Finance –
B&S Engines	Fondis State Bank
Key Retailer –	Key Retailer Finance –
Big Bill Motorcycles	Transcontinental Finance

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Avalanche Motorcycles ("AMC")

Exhibit 1
Avalanche Motorcycle Company of America
Balance Sheets - Assets

CURRENT ASSETS	FYE 12/31/2016	FYE 12/31/2015	FYE 12/31/2014	FYE 12/31/2013
Cash	533,700	8,398	85,418	836,779
Accounts Receivable	728,311	3,184,738	974,461	740,393
Notes Receivable Shareholder Ivan Smith	999,252	1,465,624	<i>77</i> -7,401	740,373
Inventory (Note 1)	17,451,996	11,838,002	6,635,917	1,622,130
Prepaid Expenses	<u>351,483</u>	718,459	_381,160	36,490
Total Current Assets	20,064,742	17,215,221	8,076,956	3,235,792
Total Carrent Assets	20,004,742	17,213,221	0,070,230	3,233,172
LONG TERM ASSETS				
Land & Buildings	443,226			
Autos & Trucks	246,522	234,165	228,017	13,068
Machinery & Equipment	1,116,318	787,397	410,721	46,360
Displays	52,834	42,834	41,534	
Leasehold Improvements	784,580	263,237	24,177	24,177
Less: Accumulated Depreciation	(629,575)	(244,854)	(121,749)	(31,755)
Total Long Term Assets	2,013,905	1,082,779	582,700	51,850
OTHER ASSETS				
Deposits	17,317	60,912	55,063	2,988
Trademarks	_85,481	_61,311	_54,288	27,659
Total Other Assets	102,798	122,223	109,351	30,647
TOTAL ASSETS	22,181,445	18,420,223	8,769,007	3,318,289
Note 1: Inventory				
Raw Materials & Supplies	10,607,330	7,780,800	4,141,247	1,209,443
Work-In-Process	2,461,800	2,462,837	816,127	199,498
Finished Goods	4,382,866	1,594,365	1,678,543	213,689
	17,451,996	11,838,002	6,635,917	1,622,130

Exhibit 2
Avalanche Motorcycle Company of America
Balance Sheets – Liabilities and Equity

	FYE 12/31/2016	FYE 12/31/2015	FYE 12/31/2014	FYE 12/31/2013
CURRENT LIABILITIES				
Book Overdraft	305,538	77,737		
Accounts Payable	5,491,287	3,681,992	2,052,731	465,201
Note Payable – Line of Credit	9,779,731	7,049,324		
Accrued Expenses	558,985	350,562	216,657	51,121
Deposits Payable			100,940	155,668
Current Portion Long Term Debt	<u>627,825</u>	599,993		
Total Current Liabilities	16,763,366	11,759,608	2,370,378	671,990
LONG TERM LIABILITIES				
Notes Payable Shareholder—John Smith	2,570,387	1,199,987	1,928,664	502,521
Other Long Term Liabilities	<u>76,782</u>			
	2,647,169	1,199,987	1,928,664	502,521
TOTAL LIABILITIES	19,410,535	12,959,595	4,298,992	1,174,511
Redeemable Preferred Stock, 3,537				
shares outstanding, \$.01 par value,				
including accrued dividends	3,536,739			
STOCKHOLDER'S EQUITY				
Common Stock	17,162	16,438	16,211	14,711
Additional Paid in Capital	9,098,252	7,272,417	6,480,769	2,482,289
Accumulated Deficit	(9,881,243)	(1,828,227)	(2,026,965)	(353,222)
Total Stockholder's Deficit	(765,829)	5,460,628	4,470,015	2,143,778
Total Liabilities and Equity	22,181,445	18,420,223	8,769,007	3,318,289

Exhibit 3 Avalanche Motorcycle Company of America Income Statement

INCOME STATEMENT	FYE 12/31/2016	FYE 12/31/2015	FYE 12/31/2014	FYE 12/31/2013
Net Sales	\$26,939,692	\$27,913,025	\$13,064,145	\$4,983,876
Cost of Goods Sold	27,278,623	23,719,621	12,630,723	3,683,728
Gross Profit	(338,931)	4,193,404	433,422	1,300,148
Gross Profit Margin	-1.26%	15.02%	3.32%	26.09%
OPERATING EXPENSES				
Selling, General & Administrative	6,024,875	3,017,075	1,752,527	1,279,281
Depreciation	384,721	123,105	89 994	29,178
Research and Development	465,705	301,184	<u>218,206</u>	76,196
Total Operating Expenses	6,875,301	3,441,364	2,060,727	1,384,655
Income (Loss) from Operations	(7,214,232)	752,040	(1,627,305)	(84,507)
OTHER INCOME/(EXPENSE)				
Other Income/(Expense)	97,216	(31,883)	79,725	4,787
Interest Expense	(933,528)	(476,765)	(126,163)	(15,776)
Total Other Income/(Expense)	(836,312)	(508,648)	(46,438)	(10,989)
Income/(Loss) Before Income Taxes	(8,050,544)	243,392	(1,673,743)	(95,496)
Cumulative Effect of Accounting Change		41,737		
Net Income	(\$8,050,544)	\$285,129	(\$1,673,743)	(\$95,496)
Selected Operating Data:				
Number of Motorcycles Sold	919	1001	500	200
Number of Employees	189	155	85	34

Exhibit 4 Avalanche Motorcycle Company of America Statement of Cash Flows

	FYE 12/31/2016	FYE 12/31/2015	FYE 12/31/2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (loss)	\$(8,050,544)	\$ 285,129	\$ (1,673,743)
Depreciation and Amortization	384,721	123,105	89,994
(Incr.)/Decr. In Accounts Receivable	2,456,427	(3,675,901)	(234,068)
(Incr.)/Decr. In Notes Receivable	466,372		
(Incr.)/Decr. In Inventory	(5,613,994)	(5,202,085)	(5,013,787)
(Incr.)/Decr. In Other Assets	410,571	(343,148)	(396,745)
Incr./(Decr.) In Accounts Payable	1,809,295	1,629,261	1,587,530
Incr./(Decr.) in Deposits Payable		(100,940)	(54,728)
Incr./(Decr.) in Accrued Expenses	208,423	133,905	<u>165,536</u>
Net Cash Used in Operating Activities	(7,928,729)	(7,150,674)	(5,530,011)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property and Equipment Purchase of Trademarks	(1,315,847) (24,170)	(623,184) (7,023)	(620,844) (26,629)
Net Cash Used in Investing Activities	(1,340,017)	(630,207)	(647,473)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank Overdraft	227,801	77,737	
Issuance of Common Stock	724	227	1,500
Paid in Capital	1,825,835	791,648	3,998,480
Dividends – Stock	(2,472)	(86,391)	
Issuance of Preferred Stock and Warrants	3,536,739		
Borrowings from Related Parties			
Proceeds from Notes Payable	1,475,014	(128,684)	1,426,143
Change in ST Loans Payable	2,730,407	7,049,324	<u></u>
Net Cash Provided by Financing Activities	9,794,048	7,703,861	5,426,123
Net Increase (Decrease) in Cash	525,302	(77,020)	(751,361)
Cash at Beginning of Year	8,398	<u>85,418</u>	836,779
Cash at End of Year	\$ 533,700	\$ 8,398	\$ 85,418

Exhibit 5 Avalanche Motorcycles - Sales Mix Information 2015 Sales Analysis

Model	Units Sold	Sales Mix	Price per Unit	Total Sales	Cost of Goods Sold Parts	Cost of Goods Sold Labor	Cost of Goods Sold Total	Gross Profit \$
Rainy	601	60.0%	24,710	14,850,710	8,458,505	3,268,645	11,727,150	3,123,560
Tornado	110	11.0%	26,370	2,900,700	1,623,016	738,154	2,361,170	539,530
Roadrunner	80	8.0%	28,019	2,241,520	1,443,539	672,456	2,115,995	125,525
Fox	40	4.0%	26,623	1,064,920	739,054	418,867	1,157,921	(93,001)
Pinto	30	3.0%	29,925	897,750	520,206	388,931	909,137	(11,387)
Rattlesnake	100	10.0%	34,114	3,411,400	2,367,512	635,728	3,003,240	408,160
Black Widow	40	4.0%	38,095	1,523,800	1,073,707	372,556	1,446,263	77,537
Cool Breeze	-	0.0%	-	-	-	-	-	-
Morning Mist	-	0.0%	-	-	-	-	-	-
Windy	-	0.0%	-	-	-	-	-	-
Stormy	-	0.0%	-	-	-	-	-	-
Merchandise			<u>-</u>	1,022,225	998,745	-	998,745	23,480
	1,001		=	27,913,025	17,224,284	6,495,337	23,719,621	4,193,404

Exhibit 5 cont'd
Avalanche Motorcycles - Sales Mix Information
2016 Sales Analysis

Model	Units Sold	Sales Mix	Price per Unit	Total Sales	Cost of Goods Sold Parts	Cost of Goods Sold Labor	Cost of Goods Sold Total	Gross Profit \$
Rainy	538	59.0%	28,562	15,366,485	8,405,233	3,134,292	11,5 39,525	3,826,960
Tornado	83	9.0	29,073	2,413,082	1,360,490	624,187	1,984,677	428,405
Roadrunner	28	3.0	30,542	855,172	554,730	213,525	768,255	86,917
Fox	18	2.0	30,035	540,684	373,234	221,844	595,078	(54,394)
Pinto	21	2.0	32,995	692,814	403,611	297,219	700,830	(8,016)
Rattlesnake	64	7.0	38,272	2,449,591	1,700,014	401,381	2,101,395	348,196
Black Widow	28	3.0	42,518	1,190,499	840,854	243,533	1,084,387	106,112
Cool Breeze	28	3.0	15,830	443,229	332,422	988,656	1,321,078	(877,849)
Morning Mist	46	5.0	16,680	767,219	583,086	2,154,344	2,737,430	(1,970,211)
Windy	28	3.0	18,570	519,928	384,746	1,003,897	1,388,643	(868,715)
Stormy	37	4.0	19,038	704,216	542,246	1,527,446	2,069,692	(1,365,476)
Merchandise				996,773	987,633	_	987,633	9,140
	919		=	26,939,692	16,468,299	10,810,324	27,278,623	(338,931)

Exhibit 6 Avalanche Motorcycle Detailed Revenues and Expenses

	2016		2015	
Motorcycle Sales	\$23,060,376	85.60%	\$23,738,999	85.05%
Option Sales	2,963,366	11.00%	3,228,365	11.57%
Parts Sales	390,626	1.45%	392,653	1.41%
Misc. Sales	242,541	0.90%	234,341	0.84%
Sales Discounts	-80,819	-0.30%	-74,401	-0.27%
Net Sales	26,576,090	98.65%	27,519,957	98.59%
Freight & Handling Income	363,602	1.35%	393,068	1.41%
Total Revenue	26,939,692	100.00%	\$27,913,025	100.00%
Cost of Goods Sold:				
Direct Materials-Std.	18,292,051	67.90%	18,829,338	67.46%
Materials Options	1,511,317	5.61%	1,568,590	5.62%
Materials Parts	353,100	1.31%	333,755	1.20%
Misc. Cost of Goods Sold	186,321	0.69%	175,755	0.63%
Total Materials	\$20,342,789	75.51%	20,907,438	74.90%
Gross Margin Before Labor & Other Costs	\$6,596,903	24.49%	7,005,587	25.10%
Direct Labor-Std.	2,289,874	8.50%	2,351,500	8.42%
Gross Margin Including Direct Labor	4,307,030	15.99%	4,654,087	16.67%
Other Cost of Goods:				
Material Variance	1,010,653	3.75%	-773,017	-2.77%
Labor Variance	2,425,800	9.00%	315,886	1.13%
Depreciation Depreciation	43,520	0.16%	42,355	0.15%
Materials Scrapped	-1,079	0.00%	-31,857	-0.11%
Warranty Work	415,000	1.54%	307,917	1.10%
Labor-QC	265,920	0.99%	144,049	0.52%
Taxes-Payroll	314,800	1.17%	251,525	0.90%
Mfgr's Paid Floor Plan	6,026	0.02%	9,721	0.03%
Freight-Shipping	165,321	0.61%	194,104	0.70%
Total Other Costs of Goods Sold	4,645,961	17.25%	460,683	1.65%
Total Cost of Goods Sold	27,278,623	101.26%	23,719,621	84.98%
Gross Profit	-\$338,931	-1.26%	\$4,193,404	15.02%
Expenses:				
Advertising	645,620	2.40%	344,655	1.23%
Depreciation	386,993	1.44%	167,621	0.60%
Freight	242,960	0.90%	244,515	0.88%
Fuel	25,874	0.10%	24,169	0.09%
Product Liability Insurance	227,589	0.84%	211,402	0.76%

Exhibit 6 (Cont'd)
Avalanche Motorcycle Detailed Revenues and Expenses

	2016		2015	
Extended Warranty Insurance	111,879	0.42%	106,517	0.38%
Employee Related Insurance	232,390	0.86%	193,658	0.69%
Other Insurance	69,842	0.26%	64,439	0.23%
Laundry Uniforms	44,236	0.16%	37,660	0.13%
Legal & Accounting	136,894	0.51%	125,546	0.45%
Meals & Entertainment	98,560	0.37%	90,683	0.32%
Outside Services	222,213	0.82%	193,229	0.69%
Postage Shipping	284,546	1.06%	272,827	0.98%
Printing & Copying	45,999	0.17%	36,989	0.13%
Promotion MaterialCatalogs & Flyers	255,942	0.95%	153,949	0.55%
Rent	540,000	2.00%	385,117	1.38%
Miscellaneous	136,998	0.51%	124,881	0.45%
Real Estate Taxes	47,873	0.18%	39,264	0.14%
Repairs & Maintenance	129,988	0.48%	124,713	0.45%
Sales Salaries	239,971	0.89%	198,323	0.71%
G&A Salaries	963,006	3.57%	789,348	2.83%
Engineering Salaries	603,965	2.24%	499,145	1.79%
Payroll Taxes	334,126	1.24%	155,797	0.56%
Trade Shows	211,451	0.78%	177,543	0.64%
Travel & Lodging	216,541	0.80%	191,562	0.69%
Telephone	103,555	0.38%	97,267	0.35%
Utilities	192,145	0.71%	125,852	0.45%
R&D Labor	113,335	0.42%	94,446	0.34%
R&D Parts	39,621	0.15%	33,208	0.12%
R&D Other	24,167	0.09%	18,515	0.07%
Shop Labor Indirect	395,001	1.47%	368,250	1.32%
Small Tools	47,159	0.18%	43,128	0.15%
Supplies	98,555	0.37%	93,133	0.33%
Allocated Overhead	-436,421	-1.62%	-1,841,471	-6.60%
Supplies	-154,800	-0.57%	-500,000	-1.79%
Total Operating Expenses	6,877,773	25.53%	3,485,880	12.49%
Income from Operations	-\$7,216,704	-26.79%	\$707,524	2.53%
Other Income/ (Expense)				
Other Income	120,000	0.45%	5,974	0.02%
Gain/Loss Currency Conversion	35,249	0.13%	22,273	0.08%
Loan Interest	-933,528	-3.47%	-476,765	-1.71%
Bad Debt Expense	-58,033	-0.22%	-60,130	-0.22%
Cumulative Effect of Accounting Change	0		41,737	0.15%
Total Other Income Expense	-836,312	-3.10%	-466,911	-1.67%
Net Income	-\$8,053,017	-29.89%	\$240,613	0.86%

Exhibit 7 Avalanche Borrowing Base 12//31/16

	Gross	Ineligible	Advance Rate	Available <u>Advance</u>	<u>Loan</u>	Estimated Liquidation
Accounts Receivable:	\$1,228,311	0	80%	982,648	901,200	\$1,149,329
Inventory – Raw Materials	10,607,300	607,300	55%	5,500,000	4,466,531	4,145,974
Inventory – WIP	2,461,800	0	75%	1,846,350	1,500,000	
Inventory – Finished Goods	4,382,866	500,000	75%	2,912,150	2,912,000	4,026,374
Subtotal – Inventory	17,451,966	1,107,300		10,258,500	8,878,531	8,172,348
Total	\$18,680,277	\$1,107,300		\$11,241,148	\$9,779,731	\$9,321,677

THIS IS AN INTERNALLY GENERATED ANALYSIS AS OF 12/31/16. AN APPRAISAL HAS BEEN ORDERED, BUT IT WILL TAKE TIME TO COMPLETE

	Collateral
Gross Receivables	1,228,311
Ineligible Per Golden State	0
Net Receivables	1,228,311
Dilution (7%)	78,982
A/R Value	\$1,149,329
Gross Inventory	17,451,996
Ineligible Per Golden State	1,107,300
Net Inventory	16,344,696
Estimated Liquidation Percentage	50.0%
Gross Liquidation Value	8,172,348
Total Collateral Value	\$9,321,677

Exhibit 8 Avalanche Motorcycles Inventory Appraisal and Projected Net Liquidation Value March 15, 2017

Executive Summary

GBA Consulting was retained by Golden State Bank to provide the net Orderly Liquidation Value (OLV) of the inventory of Avalanche Motorcycle Company. The information contained herein is based on the financial and/or operating information supplied by the company, which is believed to be accurate and reliable.

The information contained herein is based upon the company's inventory levels and composition as of December 31, 2016. The projected net Liquidation Value of the inventory as of December 31, 2016 was \$6,572,134.

Projected Net Liquidation Value

Finished Goods and Work-in-Process:

GBA projects gross recovery (sales) against the estimated wholesale value of the company's reported finished goods and work-in-process inventory as of December 31, 2016 ranging from 63% to 68%, with a median of 65%. Given the margin between the cost and estimated wholesale values, and after applying the projected expenses necessary to conduct an orderly liquidation sale, this equates to a Net Recovery (OLV) of between 56% and 61% with a median of 58.8% on a cost basis (refer to Schedule A: Recovery Summary – Finished Goods and Work-in-Process).

Raw Material

GBA projects gross recovery (sales) against the cost value of the company's raw material inventory as of December 31, 2016 ranging from 26% to 43% with a median of 29%. After applying the projected expenses necessary to conduct an orderly liquidation sale, this equates to a Net Recovery (OLV) of between 21.2% and 26.5%, with a median of 24% on a cost basis (refer to Schedule B: Recovery Summary – Raw Material).

Exhibit 8 (Cont'd) Avalanche Motorcycles Inventory Appraisal

Schedule A Recovery Summary Finished Goods and Work-in-Process as of December 31, 2016

Cost	\$6,844,666
Estimate Wholesale	8,658,502
Projected Gross Recovery – Median (%)	65%
Projected Gross Recovery	5,628,026
Projected Expenses:	
Operating (18.6% of cost)	1,273,108
Liquidating (4.8% of cost)	328,544
Total Expenses	\$1,601,652
Projected Net Recovery (OLV)	\$4,026,374

Schedule B Recovery Summary Raw Materials as of December 31, 2016

Cost	\$10,607,330
Projected Gross Recovery – Median (%)	29%
Projected Gross Recovery	3,076,126
Projected Expenses:	
Operating (1.6% of cost)	169,717
Liquidating (3.4% of cost)	<u>\$ 360,649</u>
Total Expenses	\$ 530,366
Projected Net Recovery (OLV)	\$2,545,760

Exhibit 8 (Cont'd) Avalanche Motorcycles Inventory Appraisal

Schedule C Finished Goods Inventory as of December 31, 2016

By Model

÷	<u>Number</u>	Model	<u>Cost</u>	Estimated Wholesale
	74	Rainy	\$1,929,032	\$2,256,967
	34	Tornado	919,870	1,076,248
	22	Roadrunner	634,859	749,134
	6	Fox	174,156	205,504
	3	Pinto	96,033	115,240
	2	Rattlesnake	72,000	84,240
	2	Black Widow	82,046	98,455
	6	Cool Breeze	93,360	107,364
	8	Morning Mist	128,800	148,120
	9	Windy	160,200	184,230
	5	Stormy	92,510	106,387
Total	171		\$4,382,866	\$5,131,889

By Year

Number	Year	Cost	Estimated Wholesale
5	2013	\$ 100,000	\$ 115,000
11	2014	271,866	312,646
57	2015	1,325,000	1,537,000
23	2016	636,000	748,243
<u>95</u>	2016	<u>2,050,000</u>	<u>2,419,000</u>

Total 171 \$4,382,866 \$5,131,889

Exhibit 9 B&S Engines 2016 Financials

Balance Sheet

Cash	100,000
Accounts Receivable	5,539,285
Inventories	3,555,183
Net Fixed Assets	7,000,000
Other Assets	1,000,000
Total Assets	17,194,468
Accounts Payable	1,194,468
Notes PayableFondis	6,000,000
Loans from Shareholders	7,000,000
Total Liabilities	14,194,468
Common Stock	2,000,000
Retained Earnings	1,000,000
Total Equity	3,000,000
Total Liabilities & Equity	17,194,468

Income Statement

Sales	30,000,000
Cost of Good Sold	23,400,000
Gross Profit	6,600,000
Operating Costs	6,025,000
Earnings Before Interest & Taxes	575,000
Interest Expense	600,000
Earnings Before Taxes	-25,000
Taxes	0
Net Income	-25,000

Exhibit 10 B&S Engine 12/31/16 Borrowing Base Submitted to Fondis State Bank

Accounts receivable aging:

By Invoice Date		Avalanche	
1-30 Days	\$2,267,477	1-30 Days	\$463,457
31 - 60 Days	1,596,598	31 - 60 Days	741,788
61 – 90 Days	1,200,345	61 – 90 Days	672,020
>90 Days	574,865	>90 Days	202,880
	\$5,539,285		\$2,080,145

Inventory:

Finished Goods:		Qty on Hand	Cost per unit
Engines - Harley	\$600,000	75	\$8,000
Engines - Indian	105,000	21	\$5,000
Engines - Avalanche	350,000	50	\$7,000
Engines – East Coast	162,000	36	\$4,500
Engines - Other	336,000	96	\$3,500
Total – Finished Engines	\$1,553,000	230	
Raw Material			
Parts	2,002,183		
Total Inventory	\$3,555,183		

Borrowing Base Certificate:

Accounts Receivable:	\$5,539,285
Less >90 Days	(574,865)
Eligible A/R	4,964,420
Advance Rate	75%
Available A/R	\$3,723,315
Inventory	\$3,555,183
Advance Rate	50%
Available Inventory	1,777,592
Total Available	\$5,500,907

Exhibit 11 Big Bill's 2016 Financials

Balance Sheet	
Cash	50,000
Accounts Receivable	625,000
Inventories	12,654,000
Net Fixed Assets	900,000
Other Assets	50,000
Total Assets	14,279,000
Accounts Payable	900,000
Notes PayableTCF	6,085,000
Notes PayableHonda	4,056,000
Loans from Shareholders	2,188,000
Total Liabilities	13,229,000
Common Stock	2,000,000
Retained Earnings	-950,000
Total Equity	1,050,000
Total Liabilities & Equity	14,279,000
Income Statement	
Sales	20,200,000
Cost of Good Sold	16,160,000
Gross Profit	4,040,000
Operating Costs	3,200,000
Earnings Before Interest & Taxes	840,000
Interest Expense	1014100
Earnings Before Taxes	-174,100
Taxes	0
Net Income	-174,100