

Real Estate Holdings, LLC

Balance Sheet

(At GAAP)

Assets:

1.	Cash	\$250,000	
2.	FF&E	\$300,000	
	Less Depr.	\$50,000	
	Net Book Value		\$250,000
3.	Buildings & Fixtures	\$1,500,000	
	Less Depr.	\$500,000	
	Net Book Value		<u>\$1,000,000</u>
	TOTAL ASSETS:		\$1,500,000

Liabilities:

	Vendor Debt	\$150,000
	Bank Mortgage	<u>\$25,000,000</u>
	TOTAL LIABILITIES	\$25,150,000
	Equity (Deficit)	(\$23,650,000)

- Would you give this Company a loan?
- Would you invest in this Company?
- Does the Company need to file bankruptcy?
- Should this Company's mortgage lender be worried?

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Balance Sheet

(At Fair Market Value)

Assets:

Cash	\$250,000
FF&E (at Fair Value)	\$200,000
Buildings & Fixtures (at Fair Value)	<u>\$50,000,000</u>
TOTAL ASSETS:	\$50,450,000

Liabilities:

Vendor Debt	\$150,000
Bank Mortgage	<u>\$25,000,000</u>
TOTAL LIABILITIES	\$25,150,000
Equity (Deficit)	\$25,300,000

- Now would you give this Company a loan?
- Now would you invest in this Company?
- Now should this Company's bank be worried?

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Annual Income Statement

(At GAAP)

Rents:	\$1,250,000
Annual Operating Expenses:	
Salaries	\$250,000
Insurance	\$75,000
Equipment Repair/Rental	\$15,000
Supplies	\$10,000
Building Maintenance	\$175,000
Computer Services	\$10,000
Utilities	\$50,000
Accounting	\$15,000
Legal	\$20,000
Interest Expenses	\$500,000
Depreciation	<u>\$30,000</u>
TOTAL EXPENSES:	\$1,120,000
Net Operating Profit	<u>\$130,000</u>

- Is this Company doing well?
- If we add back in depreciation is it even better?
- Does the Company need to file for bankruptcy protection?
- Should the Company's mortgage lender be worried?
- Would you invest in or make a loan to this Company?

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Adjustment to Income Statement and Cash Flow Analysis

Net Operating Income	\$130,000
Add Back Depreciation	\$30,000
 Total Available Cash to Pay Non-Operating Bills	 <u>\$160,000</u>
 Principal Due Mortgage Lender Annually	 (\$600,000)
 Net Cash Surplus (Deficit)	 <u>(\$440,000)</u>

- Now would you invest in this Company?
- Now would you give this Company a loan?
- Does this Company need to file for bankruptcy?
- Should the Company's mortgage lender be worried?

Gain or Losses on Sale (Analysis)

A. Cost

3 High Tech, Internet Integrated Printing Presses
and Computer Systems \$5,500,000 (each) \$16,500,000

B. Less Depreciation (\$1,500,000) <\$1,500,000>

C. Book Value \$15,000,000

D. Machines are sold – one a month for 3 months
in a row for \$4,000,000 each

E. Loss at GAAP (total of all three sales) (\$3,000,000)

F. Assumptions:

1. Suppose that prior to being sold, the Company files for Chapter 11.
2. Suppose further that the fair market value of each machine is \$3,000,000.
3. Suppose further that the Company made money on operations during each of the first 3 months in Chapter 11 of \$500,000, but showed a \$1,000,000 monthly loss on the sale of equipment, showing a net loss of \$500,000 per month during the Chapter 11.

	<u>Month 1 – Chapter 11</u>
Operating Income	\$500,000
Gain (Loss) from sale of Equipment #1(\$1,000,000)	<\$1,000,000>
Profit (Loss) (at GAAP)	(\$500,000)

	<u>Month 2 – Chapter 11</u>
Operating Income	\$500,000
Gain (Loss) from sale of Equipment #2	(\$1,000,000)
Profit (Loss) (at GAAP)	(\$500,000)

	<u>Month 2 – Chapter 11</u>
Operating Income	\$500,000
Gain (Loss) from sale of Equipment #2	(\$1,000,000)
Profit (Loss) (at GAAP)	\$500,000

TOTAL LOSSES (3 MONTHS)	(\$1,500,000)
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- This shows three straight months of losses. Losses are \$500,000 each month for total accumulated losses of \$1,500,000. Based upon this, how would you respond to the following:
- Should the Chapter 11 case be dismissed for continuing losses?
- What would you say to the Trustee when she brings motion to dismiss?
- Would you give this company a DIP loan?

Income Statement

Normalized/Sunk Costs

Equipment Value – (at Fair Market)	\$9,000,000
	<u>(\$3,000,000 each)</u>
Value	\$9,000,000
Sale \$12,000,000	
Gain/(Loss) on Sale	<u>\$3,000,000</u>

- There was, in fact, a gain of \$1,000,000 on the sale of equipment for the first 3 months in Chapter 11.
- The results in total profit of \$1,500,00 for each month or a total profit of \$4,500,000 during the Chapter 11.