**CONFIDENTIAL BUSINESS REVIEW**

# SAMPLE Confidential Business Review

***Model Stage,* Inc.**

5678 Main Street Capital Building Suite 200

Anytown, ST 98765

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**CONFIDENTIAL BUSINESS REVIEW**

# PURPOSE, DISCLAIMER, ASSUMPTIONS, AND METHODS

This Confidential Business Review is intended to acquaint a prospective purchaser with preliminary information regarding Client Company, whose business is currently available through Any Business Brokers for acquisition, sale or merger. The format of the Confidential Business Review is designed to reflect to a prospective purchaser the factors that create value within the Client Company.

The value of a business is based on many different factors. While every effort has been made to gather all significant facts, the basic accounting, veracity, and forthrightness of management has a major impact on this representation.

This Confidential Business Review will be furnished only to pre-qualified prospective purchasers who have signed Confidentiality Agreements, and who have made specific requests for information regarding the Client Company for the purpose of determining any interest in submitting an offer to acquire the Company or its business. Each prospective purchaser is responsible for the performance and expense of its due diligence review prior to any acquisition.

Client Company has supplied the information contained in this Confidential Business Review, including but not limited to the Executive Summary, Business Description, Marketing/Sales, Facilities/Operations, Organization, Financial Data, etc. This information has not necessarily been audited or independently confirmed and no representations, expressed or implied, are made as to its accuracy or completeness, or to the conclusions drawn. Unless stated otherwise, the underlying assets have not been appraised. This Confidential Business Review may use the book value before depreciation as an approximate replacement cost, but should be carefully reviewed during recipient's due diligence prior to acquisition. Inventory is assumed to be at cost. Management's estimates of value are accepted unless reasons exist to use another value, which will be noted.

The parties providing such information shall in no way be responsible for the content, accuracy, and truthfulness of such information. Any and all representations shall be made solely by the Client Company as set for the in a signed acquisition agreement or purchase contract, which agreement or contract shall control as to representations and warranties, if any. By requesting this Confidential Business Review, the recipient acknowledges responsibility to perform a due diligence review prior to any acquisition of or business combination with Client Company.

Any Pro Forma Income Statements presuppose infusion of any necessary operating capital, adequacy of personnel, expertise at all levels of operations, and a firm dedication to attain growth. Such pro forma financial information and projections cannot anticipate economic, socioeconomic, and/or political factors, which might impact upon the expected growth.

This presentation assumes an acquisition of the assets of the business as the most common method of buying a business. While this eliminates many liabilities, some may be necessary to assume for the good of the business, i.e. warranty work, reworks, and product support.

These liabilities, if known, may affect the value of the business, but a buyer must analyze the true benefit or cost of these or other contingent liabilities for themselves.

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### Company History

In 1994, George and Will Peterson formed the company, *Model Stage, Inc.* At that time, the Petersons were working as project managers for DJ, Inc., an injection molding company.

While working for DJ, Inc., the Peterson brothers identified a need for readily available custom plastic vacuum molded and metal fabricated parts for prototype. They worked evenings and weekend the first year as a partnership entity, filling this need for area OEMs.

During the year that followed, *Model Stage* quickly from providing parts for prototypes to parts for production of final product as those prototypes went from concept, testing, to assembly. George's strength in the administration aspects contributed to his success in managing the office, sales and customer service. While Will's direct experience and interest in plastic molding and metal fabrication lent him to manage the shop. These complimentary strengths of these two brothers directly contributed to their decision to put their full-time efforts in *Model Stage.*

The company was incorporated in 1994 as a corporation under the laws of ldaho, (with S­ Corp status elected). Due to the company's efforts to provide quality and timely product, *Model Stage* has continued to grow, experiencing a XX percentage increase in sales. (Based upon $XXX,XXX in 1994 and $ 787,331 in 2000.)

The leading industry publication is Plastic News. This trade journal ranks all submitted businesses, according to reported annual sales. Although *Model Stage* did not report or submit its figures to Plastic News, the company's sales would rank 233rd among the 259 ranked plastics companies, and 166th among the 189 ranked heavy-gauge thermoforming companies.

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*Model Stage,* among those clients served is the leader in the southern Idaho and SMSA of Logan Utah region. Although a relatively small company in the national segment, *Model Stage* has a unique competitive strength likely to facilitate competitive growth. That uniqueness is the ability to participate in the design phase of client projects, thereby preventing competitors in all but the rarest occasions.

### Operations

##### Products & Services

Assisting in the design of prototype components, although not a direct revenue source, is critical to the attainment of prototype orders and production contracts. This flexibility and service exceeds customer expectations. Industry standard is to simply produce an ordered product. With this practice, customers may miss certain economies and practicalities of design and production that the vendor can offer. *Model Stage* prides itself in proactively seeking out such opportunities, regardless of how it impacts the customer's immediate order with their company.

For instance, a customer manufacturing a fountain machine had designed the components making up the promotional/visual elements of the machine. The Request For Quote (RFQ) called for a thermal form part to adjoin to an injection-molding component, to be manufactured by another of Customer's vendors. Time was of the essence. Given the initial design, the injection-molding component had a 18-week lead time for tooling the part at a cost of $250,000. Through synergies between the design team of *Model Stage* and the customer, *Model Stage* redesigned the entire promotional element of the fountain machine.

The new assembly eliminated the component on the RFQ. The innovative design noticeably improved the appearance and contained two newly designed parts - both vacuum molded. The vacuum molding had several benefits. The tooling has a four-week lead-time, at a cost of $6,000 resulting in the fountain machine hitting the market much sooner than the customer's competitors. Furthermore, the cost per piece for the customer was reduced by approximately 50%. *Model Stage's* efforts also resulted in bolstering the performance of the engineering and purchasing managers of client.

*Model Stage* specializes in producing vacuum molded plastic parts. The process has tremendous economies of scale, whether for a few dozen parts for a Client's model during the development stage, or for tens of thousands of parts for production.

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The following table shows a breakdown of sales by type of product/service:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2000** | **1999** | **1998** |
| Prototypes | XX% | XX% | XX% |
| Production components | XX% | XX% | XX% |

##### Prototypes

All projects for OEMs begin with*" Model Stage"* - design and testing. Essential to this phase is generating a model of the new concept. Where the equipment/product calls for a heavy gauge ABS molded plastic - injection molding offers the best long­ term solution. However, this mode of manufacturing the component requires expensive tooling and long lead times. The solution is to vacuum molded parts.

However, finding companies willing to economically design and produce parts in small quantities is cost prohibitive. Typically, vendors are not set up to handle the small quantity orders, and therefore increasing the cost for small quantity - prototype orders.

Enter *Model Stage.* The Petersons shrewdly set up *Model Stage* to effectively handle these prototype orders - for both design and fabrication. This permits *Model Stage* to provide an essential service to its clientele.

##### Production Components

*Model Stage* receives the orders for production because it provided creative solutions in making the prototype component. The engineering and purchasing managers of their clients remember this cooperation favorably, and place the ultimate production order for the component with *Model Stage.* Accordingly, the custom parts made by *Model Stage* for Client's production are the same as those made for prototyping - the only change may be minor design changes and dramatic increases in quantity.

##### Customer Service

The critical element of *Model Stage's* customer service is responsiveness, honesty, and creative solutions. All staff interacting with a Client is deemed integral to *Model Stage' s* customer service efforts. The company stands behind its products through a commitment to quality - in design and manufacture. The company prides itself in rapid responses to customer requests, providing innovative solutions - often not considered by the client.

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**Production**

Although *Model Stage* produces prototype components using both vacuum thermoforrn molding and sheet metal fabricated or machined parts, the process is the similar across all means of manufacture.

A component made by *Model Stage* for use in client OEM's production follows the process listed below and equipment listed in Appendix A. Shop personnel check compliance and quality throughout the course of production.

1. Design Phase: Open dialogue between the customer's engineers and *Model Stage*

design experts.

1. Mold Prepared: Constructed of plywood base and poplar wood for the mold. Mold is covered with protective shell.
2. Scheduling: Production time established.
3. Work Order Written: Provides shop personnel a step-by-step process, assuring quality.
4. Run Production:
	1. Forming: mold set in the oven, at a pre-determined cycle time. Load the heavy-gauge ABS plastic sheet stock in frame and start the vacuum former on the full-cycle.
	2. Once vacuum former cycle complete, remove molded plastic (setting in next sheet stock and starting next cycle).
	3. Blanking: cut the excess plastic away from component and put in part bin.
	4. Trim: using various means.
	5. De-burr: clean edges.
	6. Finish: blow off component to clean before packaging in shipping box.
5. Shop personnel turns in the work order with the inspection data.
6. Completed components are stored in warehouse for Just-In-Time shipping.

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Using the above method, *Model Stage* currently produces approximately 80,000 units per year, with the workforce working in one shift, Mondays-Fridays,6:00 a.m. to 3:00 p.m. The current owners estimate that, with current staff and equipment, 80,000 units is 30% capacity. Furthermore, the envision that with the same resources, the business would readily handle 80% capacity, or about 210,000 units per year.

There are no hazardous or toxic waste issues involved in any part of *Model Stage' s* activities. The primary materials used in production of the components include the following: ABS Plastic, plywood (for the mold base), poplar wood (for the mold), and epoxy. All materials are available from multiple vendors and are in ready supply. To save on warehouse space and effectively manage expenses, much of the material is delivered on a JIT basis.

As mentioned in the detailed production process above, *Model Stage* offers its clients JIT delivery of the completed parts. Customers receive the same benefits as *Model Stage* in receiving its materials JIT for production - reduction in required warehouse space thus reducing overhead costs, and effectively managing cash flow in paying for material when received. It is important to note that prototype products are shipped when finished.

Warehousing and subsequent JIT delivery is only used parts for Client OEMs for production of final manufactured good.

The personnel operating the machinery require training from *Model Stage.* This aspect of the plastics industry is a "black science" such that it is not part of the technical/vocational training curriculum or certifications.

**Facilities**

The Company operates in a leased facility located in an industrial area of Anytown, State. The lease space building has 1,000 SF of office space and 12,200 SF of shop and warehouse space. The rent is approximately $ 2,191 (NNN) per month (at about

$1.99/SF). The Landlord must consent to the assignment and requires disclosure of the proposed Assignee/Tenant.

#### Personnel

Both founders, George and Will Peterson, are actively involved in the management and operations of the Company, and are interested in continuing on in their current roles subsequent to acquisition or merger. They see partnering with a new owner with the financial skills and resources, marketing, sales, and management experience essential to the next stage of the company's development. Such a new owner would best compliment the Peterson's the skills and talents - which have lead to *Model Stage's* profitability each year since the company's inception in 1994.

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##### Organizational Chart

Model Stage, Inc.

George Peterson Owner, Admin Manger

Will Peterson Owner, Production Manger

Shop Supervisor

Office Assistant

Mold Building Staff

Production Staff

##### Key Management and Responsibilities

* George Peterson, Administration & Sales: performs much of customer service and interaction, manages accounts, vendors, and office staff.
* Will Peterson, Production Manager: shares in the customer service and manages the shop personnel.
* Jenna Arby, Shop Supervisor: handles the daily operations of the production floor, with close supervision by Will Peterson.

As mentioned above, the shop personnel performing the Mold Building or the Production capacities require special training from *Model Stage,* because the methods and skills used in vacuum forming plastic molds is not part of any technical or vocational training. Will Peterson or Jeremy Arvin take on training of all personnel.

##### Benefits

The company offers a competitive benefits package to its employees which includes health insurance, a profit sharing/401(k) or SIMPLE Retirement Accounts plan, standard 7-1/2 paid holidays, vacation, and sick leave. The company pays for 50% of the employee's health insurance premium and none of the premium for dependents.

*Model Stage* does match 100% of SIMPLE Retirement Accounts contributions by Employees of up to 3% of employee compensation.

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##### Marketing

The Company currently advertises very limitedly in publications and local events. George and Will Peterson share responsibility of serving as the inside sales force. Given the responsibility of running the company, and recognizing their strengths, they have not implemented a professional sales staff or affiliated with a network of independent sales representatives. *Model Stage* does not yet have an internet site, nor has it conducted any direct mail or sales calls thus far.

All sales have occurred through existing client relationships and referrals by clients. There is tremendous opportunity for a new owner to achieve the 80% production capacity of the design staff and shop. Should such capacity of 210,000 units per year be reached, sales might exceed $2 million.

##### Distribution

Most of the clients served by *Model Stage* are within driving distance from the facility.

For those outside the immediate service area, *Model Stage* uses standard shipping methods (i.e. UPS).

### The Market

##### State of the Industry

Increased cost of materials other than ABS plastic, and increased energy prices, impacted the plastics industry in 2000 according to Western Plastics News. However, such adjustment affected larger businesses, primarily injection-molding companies, which serve different markets and OEM industries. The increased cost of materials and energy did not impact the existing customer base of, nor the cost of materials for *Model Stage.*

##### Customers

Potential OEM market segments for vacuum thermoform light manufactures include: food and beverage equipment, medical/ pharmaceutical, house-hold/personal care packaging, plastic cups and lids, signage & displays, lawn & garden, recreational & sporting goods, electronics, office products, building construction, plumbing, swimming pools and spas, marine, aerospace, agricultural, automotive/transportation, industrial, horticultural, or appliance applications.

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*Model Stage* currently serves the food and beverage, lawn and garden, automotive, and sporting goods industries with the following breakdown:

|  |  |  |
| --- | --- | --- |
| **Industry** | # **Accounts** | **Est.% Sales** |
| Food & Beverage | 4 | 70% |
| Lawn & Garden | 4 | 5% |
| Automotive | 4 | 5% |
| Sporting Goods | 2 | 5% |
| Misc. | 15 | 5% |

One of the accounts in the Food & Beverage application accounted for the majority of sales in 2000. The reason one customer is a significant percentage of sales is due to the customer's proximity to *Model Stage,* and the limited sales and marketing efforts of the current owners. However, in 2001, a new major client will contribute significantly to sales, thus broadening the mix of clients. A new owner would certainly expand the customer base by conducting marketing and implementing a professional sales staff.

##### Geographic Territory

*Model Stage* currently sells all of its products domestically. Most customers of *Model Stage* are located in Southern Idaho and the SMSA of Louisville, Utah.

##### Competition

In the immediate niche market penetrated by *Model Stage,* the company typically competes with A Thermoforrn Company. In February 12, 2001, Western Plastics News, a trade publication, ranked the top thermoformers for 200I. A Thermoform Company was ranked 74th, with reported sales of $9.4 million. Curt Grimm, President of A Thermoform Company, runs the headquarters from Pocatello, Idaho.

The other competitor *Model Stage* encounters when bidding for contracts is Brad Owens Patterns located in southern Idaho. This firm, although using the same manufacturing process, seeks a slightly different market and contract size. Accordingly, business is often either referred between Brad Owens Patterns and *Model Stage,* or the two companies submit bids to purchasing managers for the client's price evaluation. The synergy between the two companies is such that when in the rare occurrence of a tight supply and ABS plastic material is needed, they call on one another's assistance.

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Some heavy-gauge thermofonners in Idaho are ranked by Western Plastics News in Idaho. The top ten heavy-gauge thermoformers, ranked by Western Plastics News, have some combined sales of over **$1** million per year. See Appendix C.

###### Growth Opportunities

Sales. Sales. Sales. The Peterson brothers are the first to recognize that the primary factor in the under-realization of *Model Stage's* potential is their limited sales efforts. Since founding the company in 1994, the company has run a profit every year. George and Will decided that their best efforts should concentrate on maintaining the existing client base rather than expanding it, which might have risked sacrificing existing sales.

A new owner with sales and management expertise could easily grasp the "black science" of the vacuum therrnofonn industry and handily increase profits with the existing staff and equipment.

Expanding sales in the existing areas of food and beverage, lawn and garden, automotive, and sporting goods industries while obtaining new customers in the medical/pharmaceutical, signage & displays, electronics, office products, building construction, plumbing, swimming pools and spas, marine, aerospace, agricultural, industrial, horticultural, and appliance applications is another opportunity for growth.

This would be achieved by implementing a professional sales staff - whether in-house or sales representatives.

Another unrealized opportunity is to improve Quality Control. Many OEMs are ISO (International Standards Organization) certified and require that the vendors also be certified. *Model Stage* has no such clients, but such certification bolsters existing quality procedures and helps open more doors.

Purchasing additional equipment is another way to increase productivity and profits. For example, purchase of a second 5-axis router will increase the rate to trim parts after vacuum forming. Purchasing a pressure former, a recent trend in the industry, may offer greater detail in the mold design.

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The following chart shows *Model Stage's* projected performance through 2003, with the above opportunities in place.

|  |
| --- |
| **Pro Forma Income Statements-for year ended December 31 ($000s)** |
|  | 2001 | 2002 | 2003 |
| Sales | $818,824 | $851,577 | $1,192,208 |
| Gross Profits | $695,235 | $723,044 | $1,012,262 |
| % of Sales | 15% | 15% | 15% |
| Earnings\* | $295,393 | $307,209 | $319,497 |  |
| % of Sales. | 64% | 64% | 73% |
| *Earnings* = *Seller's Discretionary Cash, interest, taxes, depreciation, extraordinary items, owner's compensation, and all other non-operating income/expense assume a 4% annual increase. See the financial statements, Appendix A, and seller's discretionary cash for the details. Theabove sales figures assumes 80% production realized by 2002 through improved sales & marketing, and additional equipment results in increased profitability (reduction of# of staff, increased production) in 2003.* . . *resulting in a sales increase of 4% annually. Any Business Brokers in no way guarantees the accuracy, nor does it warrant any assumptions regarding the degree to which it is valid, reliable, correct, or complete.* |

##### Regional Information

Southern Idaho and SMSA of Logan, Utah is centrally located in the U.S. The area has approximately .4 million people, and has consistently been recognized by Places Rated Almanac as one of the best places to live in the U.S. The community offers a mild climate, inexpensive living, world-class health care facilities, outstanding modes of transportation, a wide choice of recreational pursuits, an internationally renowned theater and arts community, and a healthy, expanding economy.

Key Cities include Pocatello (50-minute drive from *Model Stage),* Logan, Utah (1-1/2 hour drive from *Model Stage)* and Boise (1-1/2 hour drive from *Model Stage).*

##### Reasons for Selling

The owners feel like the company's potential for significant growth would be more effectively realized with a partner or new owner with greater capital resources and sales/marketing expertise.

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### Price

*Model Stage* is currently un-priced and open to all reasonable offers. The depression of the market in 2000 impacted the plastics industry, but the adjustment has affected those larger businesses, primarily injection molding companies, which serve different markets and OEM industries. Economic volatility is a primary driver of the enterprise value within the plastics industry. Strong performing plastics companies, such as *Model Stage,* have the characteristics most desired by strategic acquirers, including but not limited to:

* Critical sales mass.
* Specialization, especially within protected market niches.
* Streamlined and efficient processes that eliminate unnecessary complexities.
* Proprietary products offerings.
* Strong management team.
* Attractive and loyal customer base.

These characteristics are fundamental to the strategic acquisitions during any economic climate and are critical in today's market.

See Appendix D for proposed financial scenario.

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### Appendix A: Seller's Discretionary Cash

**Adjusted Earnings\***

For Year Ended December 31

2000 1999

1998

2000 P&L

Owners(s)/Officcrs Salary, if included in expenses Discretionary Expenses

Auto Expense Donations/Con tribut ions Entertainment

Gifts

Insurance (excess) Interest

Travel

Non-Recur ring Expenses Theft

Building Repair & Improvements Pagers

Double Rent Storage Electric Work

Building Tax (other building) Ameritech (other build ing) BFI

Labor

Non-Cash Expenses Depreciation

Amortization

44,249

187,983

43,802

94,023

64,484

57,401

1,307

25

1,350

837 J

20,583

3,130

3,418::::

2,855

1,2621::J

208

9,008

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4,396 J

1,633 J

15,000 J

195 J

873 J

450!J

25,ooon

h

12,542

01

990 •

3,000 J

oc 0 O IJ

0

11

1,070

Oh

2,50011

476rJ

0

350P

0 .

Oil

0 J

o

0

IJ

1,784

Total Adjustments

Adjusted P&L - Seller's Discretionary Cash

239,783

284,032

92,244

280,227

70,730

114,532

\* Any Business Brokers in no way guarantees the accuracy, nor does it warrant any assumptions regarding the degree to which it is valid, reliable, correct, or complete.

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### Appendix B: List of Assets

Fork lift (Big Joe) Shear (Sheetmetal) Pin Router Tables Work Tables Work stations Racking

Shaper Granulator

Misc. hand clamps Hand Grinders Table Saw

Drill Press Cabinets Shelves Band Saws

Brown Vac Former Prortype Vac Former 50 **HP** Compressor

200,000 BTU Furnaces Forklift

Office Equipment Office Furniture **Mill**

4 ' Break Knotcher Rotex Punch Planer Jointer

Rocker Arm Welder Small Lathe

Break Area Furniture 26 ft Box Truck FlOO Pick Up Truck

Misc. (drills, bits, hand tools)

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Appendix C: Competition

Idaho Heavy-Gauge Thermoformers - 2001

Originally published in December 2001, in Western Plastic News

|  |  |  |  |
| --- | --- | --- | --- |
| *Overall Rank* | *Company* | *Top thermoforming official* | *Sales ($Millions)* |
| 5 | A Thermoform Corp | Bill Smith President | 150 |
| 34 | B Thermoform Corp | John Jones CEO | 100 |
| 67 | C Thermoform Corp | Nancy Drew President | -70 |
| 177 | D Thermoform Corp | Sandy Ford VP | 22 |
| 190 | E Thermoform Corp | George Doe Plant Manager | 10 |
| 210 | F Thermoform Corp | Mike Black | 5 |
|  |  | President |
| 225 | G Thermoform Corp | Dave Hall General Manager | 2 |

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### Appendix D: Financing Scenario

(The below type of information is provided by one of Any's referral sources for financing. It would not be included on unpriced listings such as *"Model Stage.")*

**Financing Scenario** ...

**As Little as 10% Down!**

###### Oealmakers Distribution

|  |  |  |  |
| --- | --- | --- | --- |
| S,1,l P:,,.,.: |  | ' | l l" ( l ll l l• t |
| Estimated Working Capital |  |  | s 81,250[ |
| Estimated Closing Costs/Fees |  |  | s 21,125 |
| Total Project Cost |  |  | $ 752,375 |
| Borrower Down PaymentSeller Financing/Other Financing iv | 10 % |  | $ 75,237$ 65,000 |
| Loan Amount | 81% |  | $ 612,138 |
|  | \l<>t,ihl | P,l\11 t' | l t | ' |  | /, I | 1:: |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Current Prime** | + | **Annualized Rate** |
| Annual Percentage Rateii i | 8.00% | 1.75% | 9.75% |
| Estimated Term (in years) | 18 year term, fully amortized |
| Processing Time | 5 - IO days to commitment 30 - 60 days to closing |
| Balloon Payment | None |
| Prepayment Penalty | May Apply |
| Lender Points | None |
| Estimated Closing Costs/Fees(included abo,-cif:si,plicabk) | SBA Fee, Environmental, Appraisal, Other Related Costs |

For Financing For Sales/Marketing Broker Name

1 For Qualified Applicant. • Pricesubje<..110 change without notice. w Ex.ample, when:. Pnmc Rate =-8.0- /o md

applicablesp ad ..::2%, Annual Percentagt: Rate =100!. (8.0% + 2.0"/4). Rate subject lo change without notice. '." Pro p osed se llt r ond other firuincing tenm subjecttoprior approval by Lender.

Loan 1cm1S and condi tions may vary based upon lending program andapplicant qualificatio n. This announcement is for infonnation purposesanddoes constitute a binding a eeinent. This announcement is!!!!!an offer to scfl or a solicitation of an offer to buy

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