

Case Illustration: Subordinated Debt Financing

	100% Equity	\$3.5 M Subdebt
	(\$000s)	(\$000s)
Receivables	5,000	5,000
Inventory	1,000	1,000
Current assets	6,000	6,000
Capital assets	500	500
Goodwill	4,500	4,500
Total Assets	11,000	11,000
Operating line	3,500	3,500
Trade & accrued liabilities	750	750
Current portion long-term debt	50	50
Current portion subdebt	0	500
Total current liabilities	4,300	4,800
Long-term debt	200	200
Subdebt	0	3,000
Total liabilities	4,500	8,000
Shareholders' equity	6,500	3,000
Liabilities and Equity	11,000	11,000
Revenues	30,000	30,000
Operating costs	(27,750)	(27,750)
EBIT	2,250	2,250
Interest:		
Operating line	(245)	(245)
Long-term debt	(18)	(18)
Subdebt	0	(613)
Earnings before taxes	1,987	1,374
Taxes	(497)	(344)
Net earnings	1,490	1,031
Financial Statistics & Ratios:		
EBIT	\$2,250	\$2,250
Funded debt	\$3,750	\$7,250
Funded debt to equity	0.58x	2.42x
Total liabilities to equity	0.69x	2.67x
Funded debt to EBIT	1.67x	3.22x
Working capital ratio	1.40x	1.25x
Net working capital	\$1,700	\$1,200
Debt service	\$313	\$1,426
EBIT to debt service	7.19x	1.58x
Return on equity	22.9%	34.4%
Increase in return on equity		49.8%