



FOCUS STRATEGIES

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Dear Prospective Client,

The following information is a sample financial model for a growth capital transaction. It is critical to consider how capital moves through the income statement, balance sheet, and the statement of cash flows. The attached example also includes sources and uses, credit statistics, and returns to investors.

The attached analysis is an example of one of the services that Focus Strategies offers. Our merchant banking team at Focus Strategies would enjoy the opportunity to work with your company. Please feel free to give us a call.

Sincerely,

Gary Valdez
President

Focus Strategies is a merchant bank located in Austin, Texas that works with middle market operating and financial services companies. The firm has three lines of business:

- Corporate Finance Advisory Services
- Investment Banking Services
- Private Equity Capital / Mezzanine Debt Investments

PROJECT CHC

Case: Recapitalization Analysis -- Purchase of Stock
(\$000s)

FOCUS STRATEGIES, LLC

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**PRO FORMA
CAPITALIZATION**

SOURCES OF FUNDS				
	Total Facility	Amount	%	% EQUITY OWNED
Revolver	\$ 2,000	\$ 0	0.0%	N/A
Existing Debt		0	0.0%	N/A
Senior Bank Loan		0	0.0%	N/A
Tranche A Debt		0	0.0%	N/A
Tranche B Debt		0	0.0%	N/A
Senior Subordinated Debt		1,200	37.5%	5.0%
Mezzanine Loan		0	0.0%	0.0%
Preferred Stock		2,000	62.5%	44.0%
Equity - Sponsor		0	0.0%	0.0%
Equity - Management Rollover		0	0.0%	0.0%
Equity - Additional Management		0	0.0%	51.0%
Existing Excess Cash		0	0.0%	N/A
Asset Sales		0	0.0%	N/A
TOTAL SOURCES		\$ 3,200	100.0%	100.0%

USES OF FUNDS		
	Amount	%
Purchase of Stock	\$ 0	0.0%
Dividend	0	0.0%
Payoff Existing Debt	50	1.6%
Payoff Existing Preferred Stock	0	0.0%
Existing Debt - Assumed	0	0.0%
Transaction Fees	0	0.0%
Financing Fees	0	0.0%
Tender And/Or Consent Costs	0	0.0%
Other Amortizable Asset	0	0.0%
Excess Cash Reserve	3,150	98.4%
TOTAL USES	\$ 3,200	100.0%

DEBT CONFIGURATION							
	Amortization Period (Yrs)	Balloon Payment		Origination Fee	Cash Pay / Pay-In-Kind	LIBOR Sprd / Coupon	Simple / Cmpd Int.
		Month #	Month				
Revolver	Sweep	N/M	N/M	0.00%	Cash	3.50%	Cmpd
Existing Debt	3.0	N/M	N/M	N/A	Cash	3.50%	Cmpd
Senior Bank Loan	4.0	N/M	N/M	0.00%	Cash	3.00%	Cmpd
Tranche A Debt	4.0	N/M	N/M	0.00%	Cash	3.00%	Cmpd
Tranche B Debt	4.0	N/M	N/M	0.00%	Cash	3.00%	Cmpd
Senior Subordinated Debt	5.0	72	Past 2010	0.00%	Cash	11.00%	Cmpd
Mezzanine Loan	Balloon	72	Past 2010	0.00%	Cash	12.00%	Cmpd
Preferred Stock	Balloon	84	Past 2010	0.00%	PIK	8.00%	Simple
Cash Balance	N/A	N/M	N/M	N/A	N/A	2.50%	N/A

COVENANTS	
Minimum Cash	\$ 50
<u>Asset Collateral</u>	
Receivables	80.0%
Inventories	40.0%
Initial Availability	\$ 0
<u>Cash Flow Collateral</u>	
Mult. Of EBITDA	3.50 x
Initial Availability	\$ 1,295

PROJECT CHC

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**STATEMENT OF
OPERATIONS**

Fiscal Years Ending 12/31	2005P	PROJECTED				
		2006E	2007E	2008E	2009E	2010E
Revenue	\$ 10,000	\$ 14,000	\$ 18,200	\$ 21,840	\$ 24,024	\$ 26,426
COGS	<u>(7,500)</u>	<u>(10,500)</u>	<u>(13,650)</u>	<u>(16,380)</u>	<u>(18,018)</u>	<u>(19,820)</u>
Gross Margin	2,500	3,500	4,550	5,460	6,006	6,607
Salary Expense	(1,300)	(1,862)	(2,220)	(2,359)	(2,090)	(2,114)
G&A Expense	(150)	(280)	(218)	(262)	(240)	(264)
Dist and Delivery	(200)	(280)	(364)	(437)	(480)	(529)
Sales and Marketing	(100)	(210)	(364)	(328)	(360)	(396)
Data Processing	(100)	(70)	(91)	(109)	(120)	(132)
Occupancy	(280)	(280)	(364)	(382)	(360)	(396)
Other Expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
EBITDA	370	518	928	1,583	2,354	2,775
Depreciation	0	(136)	(386)	(636)	(886)	(1,000)
EBIT	370	382	542	947	1,468	1,775
<u>Interest Expense</u>						
Existing Debt	0	0	0	0	0	0
Revolver	0	0	(16)	(66)	(70)	(44)
Senior Bank Loan	0	0	0	0	0	0
Tranche A Debt	0	0	0	0	0	0
Tranche B Debt	0	0	0	0	0	0
Senior Subordinated Debt	0	(120)	(94)	(67)	(41)	(14)
Mezzanine Loan	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Interest	0	(120)	(110)	(133)	(111)	(58)
Interest Income	0	27	2	1	1	1
Other Income (Expense)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Pretax Income	370	289	434	816	1,358	1,718
Tax Benefit (Provision)	<u>(130)</u>	<u>(101)</u>	<u>(152)</u>	<u>(285)</u>	<u>(475)</u>	<u>(601)</u>
Net Income	<u>\$ 241</u>	<u>\$ 188</u>	<u>\$ 282</u>	<u>\$ 530</u>	<u>\$ 883</u>	<u>\$ 1,116</u>

PROJECT CHC

Case: Recapitalization Analysis -- Purchase of Stock
(\$000s)

FOCUS STRATEGIES, LLC

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OPERATING RATIOS	PROJECTED					
	2005P	2006E	2007E	2008E	2009E	2010E
<i>(annualized ratios)</i>						
Revenue Growth	N/A	40.0%	30.0%	20.0%	10.0%	10.0%
Gross Margin (Excl. Depr.)	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
As a percentage of revenue						
Salary Expense	13.0%	13.3%	12.2%	10.8%	8.7%	8.0%
G&A Expense	1.5%	2.0%	1.2%	1.2%	1.0%	1.0%
Dist and Delivery	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Sales and Marketing	1.0%	1.5%	2.0%	1.5%	1.5%	1.5%
Data Processing	1.0%	0.5%	0.5%	0.5%	0.5%	0.5%
Occupancy	2.8%	2.0%	2.0%	1.8%	1.5%	1.5%
Other Expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA Margin	3.7%	3.7%	5.1%	7.3%	9.8%	10.5%
EBIT Margin	3.7%	2.7%	3.0%	4.3%	6.1%	6.7%
Net Income Margin	2.4%	1.3%	1.6%	2.4%	3.7%	4.2%
Accounts Rec. (Days Of Revenue)	1.2	30.0	30.0	30.0	30.0	30.0
Inventories (Days Of COGS)	1.6	40.0	40.0	40.0	40.0	40.0
Prepaid & Others (% Of Revenue)	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%
Accounts Payable (Days Of COGS)	1.6	20.0	20.0	20.0	20.0	20.0
Accrued Liabilities (Days Of COGS)	0.1	0.0	0.0	0.0	0.0	0.0
Other Current Liab. (Days Of COGS)	0.0%	0.0	0.0	0.0	0.0	0.0
Depreciation & Amortization	\$ 0	(\$ 136)	(\$ 386)	(\$ 636)	(\$ 886)	(\$ 1,000)
Capital Expenditures	\$ 0	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000

**STATEMENT OF
FINANCIAL POSITION**

				PROJECTED				
	12/31/05	ADJ.	OPEN	2006E	2007E	2008E	2009E	2010E
ASSETS								
Cash & Equivalents	\$ 28	\$ 3,150	\$ 3,178	\$ 443	\$ 50	\$ 50	\$ 30	\$ 30
Accounts Receivable	46	0	46	1,151	1,496	1,795	1,975	2,172
Inventory	46	0	46	1,151	1,496	1,795	1,975	2,172
Prepaid Expenses & Other	3	0	3	140	0	0	0	0
Current Assets	123	3,150	3,273	2,884	3,042	3,640	3,979	4,374
PP&E, Net	4	0	4	868	1,481	1,845	1,958	1,958
TOTAL ASSETS	\$ 127	\$ 3,150	\$ 3,277	\$ 3,752	\$ 4,523	\$ 5,485	\$ 5,937	\$ 6,332
LIABILITIES & EQUITY								
Revolver	\$ 0	\$ 0	\$ 0	\$ 0	\$ 556	\$ 1,078	\$ 798	\$ 218
Accounts Payable	45	0	45	575	748	898	987	1,086
Accrued Expenses	3	0	3	0	0	0	0	0
Other Current Liabilities	0	0	0	0	0	0	0	0
Total Current Liabilities	48	0	48	575	1,304	1,976	1,786	1,304
<u>Long-Term Debt</u>								
Existing Debt	50	(50)	0	0	0	0	0	0
Senior Bank Loan	0	0	0	0	0	0	0	0
Tranche A Debt	0	0	0	0	0	0	0	0
Tranche B Debt	0	0	0	0	0	0	0	0
Senior Subordinated Debt	0	1,200	1,200	960	720	480	240	0
Mezzanine Loan	0	0	0	0	0	0	0	0
Total Long-Term Debt	50	1,150	1,200	960	720	480	240	0
Other Long-Term Liabilities	0	0	0	0	0	0	0	0
<u>Equity</u>								
Preferred Stock	0	2,000	2,000	2,160	2,320	2,480	2,640	2,800
Common Stock	74	0	74	74	74	74	74	74
Retained Earnings	(45)	0	(45)	(17)	105	475	1,198	2,154
Common Equity	29	0	29	57	179	549	1,272	2,228
Total Equity	29	2,000	2,029	2,217	2,499	3,029	3,912	5,028
TOTAL LIABILITIES & EQUITY	\$ 127	\$ 3,150	\$ 3,277	\$ 3,752	\$ 4,523	\$ 5,485	\$ 5,938	\$ 6,333
Working Capital	\$ 47	\$ 0	\$ 47	\$ 1,866	\$ 2,244	\$ 2,693	\$ 2,962	\$ 3,258
Increase/(Decrease)	47		N/M	1,819	378	449	269	296
Borrowing Base				\$ 1,381	\$ 1,795	\$ 2,154	\$ 2,369	\$ 2,606
Excess (Deficit) Borrowing Base				\$ 1,381	\$ 1,239	\$ 1,076	\$ 1,571	\$ 2,388

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**STATEMENT OF
CASH FLOWS**

	PROJECTED				
	2006E	2007E	2008E	2009E	2010E
CASH FLOWS FROM OPERATING					
Net Income To Common	\$ 28	\$ 122	\$ 370	\$ 723	\$ 956
Depreciation	136	386	636	886	1,000
Amortization	0	0	0	0	0
Cash Net Income	164	509	1,007	1,609	1,956
(Inc) Dec In Receivables	(1,105)	(345)	(299)	(180)	(197)
(Inc) Dec In Inventories	(1,105)	(345)	(299)	(180)	(197)
(Inc) Dec In Prepaids & Other	(137)	140	0	0	0
Inc (Dec) In Accounts Payable	530	173	150	90	99
Inc (Dec) In Accrued Expenses	(3)	0	0	0	0
Inc (Dec) In Other Curr. Liabilities	0	0	0	0	0
Net (Inc) Dec In Working Capital	(1,819)	(378)	(449)	(269)	(296)
Cash Provided (Used) -- Operating	(\$ 1,655)	\$ 131	\$ 558	\$ 1,340	\$ 1,660
CASH FLOWS FROM INVESTING					
Additions To PP&E	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Sale Of Equipment	0	0	0	0	0
Cash Provided (Used) -- Investing	(\$ 1,000)	(\$ 1,000)	(\$ 1,000)	(\$ 1,000)	(\$ 1,000)
CASH FLOWS FROM FINANCING					
(Inc) Dec In Other LT Assets	0	0	0	0	0
Inc (Dec) In Other LT Liabilities	0	0	0	0	0
Inc (Dec) In Revolver	0	556	522	(280)	(580)
Inc (Dec) In Existing Debt	0	0	0	0	0
Inc (Dec) In Senior Bank Loan	0	0	0	0	0
Inc (Dec) In Tranche A Debt	0	0	0	0	0
Inc (Dec) In Tranche B Debt	0	0	0	0	0
Inc (Dec) In Senior Subordinated Debt	(240)	(240)	(240)	(240)	(240)
Inc (Dec) In Mezzanine Loan	0	0	0	0	0
Inc (Dec) In Preferred Stock	160	160	160	160	160
Inc (Dec) In Common Equity	0	0	0	0	0
Common Dividends Paid	0	0	0	0	0
Cash Provided (Used) -- Financing	(\$ 80)	\$ 476	\$ 442	(\$ 360)	(\$ 660)
Total Increase (Decrease) in Cash	(\$ 2,735)	(\$ 393)	\$ 0	(\$ 20)	\$ 0
Beginning Cash	\$ 3,178	\$ 443	\$ 50	\$ 50	\$ 30
Ending Cash	443	50	50	30	30

PROJECT CHCCase: Recapitalization Analysis -- Purchase of Stock
(\$000s)

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CREDIT STATISTICS

	PROJECTED			
	2006E	2007E	2008E	2009E
(EBITDA - Taxes)/(Total Cash Interest + Principal)	1.2	2.2	3.5	5.4
Senior Debt/EBITDA	N/A	0.60 x	0.68 x	0.34 x
Subordinated Debt/EBITDA	1.85	0.78	0.30	0.10
Total Debt/EBITDA	1.85	1.37	0.98	0.44
Current Ratio	5.01 x	2.33 x	1.84 x	2.23 x
Quick Ratio	2.77	1.19	0.93	1.12

- (1) Pro Forma assuming capital structure for the year 2006 was in place in 2005 and LTM.
(2) Cash interest ratios include cash preferred dividend payments

RETURN ANALYSIS

NET TERMINAL VALUE	Various Multiple Sensitivites				
2010 EBITDA	\$ 2,775	\$ 2,775	\$ 2,775	\$ 2,775	\$ 2,775
Terminal Multiple	4.0 x	4.5 x	5.0 x	5.5 x	6.0 x
TERMINAL VALUE	\$ 11,099	\$ 12,486	\$ 13,874	\$ 15,261	\$ 16,649
Less: 2010 Outstanding Balances					
Revolver	(218)	(218)	(218)	(218)	(218)
Existing Debt	0	0	0	0	0
Senior Bank Loan	0	0	0	0	0
Tranche A Debt	0	0	0	0	0
Tranche B Debt	0	0	0	0	0
Senior Subordinated Debt	0	0	0	0	0
Mezzanine Loan	0	0	0	0	0
Preferred Stock	(2,800)	(2,800)	(2,800)	(2,800)	(2,800)
Plus: 2010 Excess Cash	(20)	(20)	(20)	(20)	(20)
NET TERMINAL VALUE	\$ 8,061	\$ 9,448	\$ 10,836	\$ 12,223	\$ 13,610

CASH FLOWS TO INVESTORS	Equity Ownership	Exit Multiple	Initial Investment	Interest And Principal Payments/(Draws)				2010E			All-In IRR	
				2006E	2007E	2008E	2009E	Interest	Principal	Equity		
Senior Subordinated Debt	5.0%	4.0 x	(\$ 1,200)	\$ 360	\$ 334	\$ 307	\$ 281	\$ 254	\$ 0	\$ 403	16.8%	1.62x
		4.5	(1,200)	360	334	307	281	254	0	472	17.8%	1.67x
		5.0	(1,200)	360	334	307	281	254	0	542	18.8%	1.73x
		5.5	(1,200)	360	334	307	281	254	0	611	19.7%	1.79x
		6.0	(1,200)	360	334	307	281	254	0	681	20.7%	1.85x
Preferred Stock	44.0%	4.0 x	(\$ 2,000)	(\$ 0)	(\$ 0)	(\$ 0)	(\$ 0)	(\$ 0)	\$ 2,800	\$ 3,547	26.0%	3.17x
		4.5	(2,000)	(0)	(0)	(0)	(0)	(0)	2,800	4,157	28.3%	3.48x
		5.0	(2,000)	(0)	(0)	(0)	(0)	(0)	2,800	4,768	30.5%	3.78x
		5.5	(2,000)	(0)	(0)	(0)	(0)	(0)	2,800	5,378	32.5%	4.09x
		6.0	(2,000)	(0)	(0)	(0)	(0)	(0)	2,800	5,989	34.5%	4.39x
Equity - Additional Management	51.0%	4.0 x	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	N/A	\$ 0	\$ 4,111	N/A	
		4.5	0	0	0	0	0	N/A	0	4,819	N/A	
		5.0	0	0	0	0	0	N/A	0	5,526	N/A	
		5.5	0	0	0	0	0	N/A	0	6,234	N/A	
		6.0	0	0	0	0	0	0	N/A	0	6,941	N/A