

company purchase. Both the private lender and the City of Youngstown have indicated their willingness to provide their portion of the financing plan and are awaiting the CLF's decision before making a final commitment.

Financial Projections

The projected balance sheet and income statements for Phoenix Forge during its first 3 years as an employee-owned firm are attached as Exhibits 6.1 and 6.2. The assumptions used to prepare these projections include

- Raw material cost projected at 50% of net revenue, based on current experience without assuming savings from higher yield rates
- Hourly labor costs of \$7 unskilled to \$11 skilled. Salaried labor and fringe benefits projected at 5% below forging industry averages
- Taxes are not paid until year three when they total \$150,000. Initial losses and investment tax credits shelter taxable income through the first 30 months of operations
- Operating levels: one shift during the first 15 months, two shifts during the second 15 months, and three shifts thereafter.

Exhibit 6.1 Phoenix Forge Projected Income Statements Years 1 Through 3
(figures in \$ thousands)

	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>
Gross Sales	\$3,365	6,260	9,900
Bad Debt Allowance	34	63	99
Net Sales	3,331	6,197	9,801
Cost of Goods Sold	2,924	5,366	8,347
<i>Operating Costs</i>			
Utilities	200	200	215
Other	120	114	116
Operating Profit/(Loss)	87	517	1,123
Interest Expense	132	136	163
Depreciation	124	180	352
Taxes	0	0	150
Net Income	\$(169)	\$201	\$458

Assignment

As the loan officer for the Community Loan Fund, prepare an analysis and recommendation to the CLF board on the requested \$200,000 loan. The analysis should address the following issues: