

Figure 2

CHEM-MED COMPANY
Balance Sheets

	As of Dec. 31, years ended:			Pro Forma Balance Sheets As of Dec. 31, years ended:		
	2001	2002	2000 200	2004	2005	2006
Assets:						
Cash and equivalents.....	\$ 124	\$ 103	\$ 167	\$ 205	\$ 422	\$ 101
Accounts receivable.....	100	409	564	907	1,495	2,351
Inventories.....	151	302	960	1,102	1,443	798
Other current.....	28	59	29	41	57	11
Total current assets.....	403	873	1,720	2,255	3,417	3,261
Property, plant, and equipment.....	1,901	2,298	2,917	4,301	5,531	8,923
Less: accumulated depreciation.....	81	82	346	413	522	588
Property, plant, and equipment, net.....	1,820	2,216	2,571	3,888	5,009	8,335
Other fixed assets.....	0	101	200	200	215	399
Total assets.....	<u>\$2,223</u>	<u>\$3,190</u>	<u>\$4,491</u>	<u>\$6,343</u>	<u>\$8,641</u>	<u>\$11,995</u>
Liabilities:						
Accounts payable.....	210	\$ 405	\$ 551	\$ 771	\$1,080	\$1,512
Short-term debt.....	35	39	42	59	82	135
Total current liabilities.....	245	444	593	830	1,162	1,647
Long-term debt.....	17	19	21	27	50	17
Total liabilities.....	262	463	614	857	1,212	1,664
Equity:						
Common stock.....	2,062	2,062	2,062	2,062	2,062	2,062
Retained earnings.....	(101)	665	1,815	3,424	5,366	8,269
Total equity.....	1,961	2,727	3,877	5,486	7,428	10,331
Total liabilities and equity.....	<u>\$2,223</u>	<u>\$3,190</u>	<u>\$4,491</u>	<u>\$6,343</u>	<u>\$8,641</u>	<u>\$11,995</u>

Dr. Swan had lunch with his banker just recently, and the banker mentioned several restrictive covenants that the company would have to meet if it came to the bank for financing. Dr. Swan pulled a sheet of paper from his desk drawer and glanced at it. There were three covenants listed:

- The current ratio must be maintained above 2.25 to 1.
- The debt-to-assets ratio must be less than .3 to 1.
- Dividends cannot be paid unless earnings are positive.

Dr. Swan didn't think he would have any trouble with those, but he wasn't sure. Then he suddenly remembered he was supposed to meet a representative from one of the local supermarket chains (who supplied Chem-Med with rooster combs) in five minutes. He hurriedly put his papers away and wished he had more time to analyze the numbers before the next board of directors meeting. (The financial information is presented in Figures 1, 2, and 3.)