

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

John Fruehwirth, a principal at Allied Capital, glanced at his watch and then at the tombstones that filled the dark mahogany shelves of the conference room. He hoped his team's current proposal would soon be commemorated in Lucite, but first he would have to gain the approval of Allied's investment committee, a group he knew going into the meeting was divided on the investment.

In November 2003, Fruehwirth's team was proposing a \$20 million mezzanine debt investment in the Elephant Bar Restaurant Company, a chain of restaurants in California with significant growth potential. Fruehwirth knew from experience that members of the investment committee were skeptical of investments in the restaurant business. The restaurant industry traditionally had high turnover, and individual restaurant chains were exposed to many risks that were outside of management's control. Furthermore, just because a restaurant was successful in one part of the country did not mean that its concept would transfer easily to other regions. Elephant Bar had had some initial success in California, but now the committee had to wrestle with the question of whether the restaurant concept was strong enough to travel and become a national brand or whether it was mainly a "California concept." And if the concept was strong enough to travel, would Allied Capital be able to meet its underwriting standards?

Mezzanine Private Equity

Mezzanine investments were developed to fill the gap between traditional senior secured debt and straight equity. As a result, they tended to have elements of both debt and equity, and to have returns greater than straight debt, but to have less risk and accordingly lower returns than straight equity. Mezzanine investors were concerned with both preserving capital (i.e., a credit mentality) and capturing the upside from their investments (i.e., an equity mentality). Target companies were interested in mezzanine investments when senior debt was unavailable, but management wanted to avoid the significant dilution of an equity investment. As highly customized securities, mezzanine investments could meet the specific needs of both the investors and the target companies.

This case was prepared by Kristina Anderson (MBA '07) and Susan Chaplinsky, Professor of Business Administration. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2007 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to sales@ardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation. ◇

Mezzanine investments could take the form of second-liens, senior subordinated debt, junior subordinated debt, or preferred stock. Although the investments were usually subordinated to senior debt such as bank debt, they were senior to preferred or common stock. The investments were generally structured with a coupon payment (i.e., a debt component), and the investor could also receive an equity kicker or warrants to enhance returns.

Allied Capital

Allied Capital had a long history in mezzanine investments. It was founded in 1958 to provide both debt and equity investments to primarily private, middle-market companies. In 1960, Allied initially went public on the over-the-counter market and later listed on the New York Stock Exchange in 2001. As a “public private equity firm,” Allied Capital was structured as a business development company (BDC). Congress created BDCs “to encourage the flow of capital to companies that [had] limited access to long-term investment capital and other needed resources.”¹ Individual investors participated in these investments through the dividends paid by the BDC. The company had performed well since its inception, and had earned an average annual total return of 18.3% for its shareholders.² In 2003, Allied’s portfolio consisted of 122 companies and its total assets were worth more than \$3 billion.

Allied focused on companies in less cyclical industries, with business services and consumer products accounting for the majority of its investments. It was willing to consider investments to support companies in a variety of transactions, including buyouts, acquisitions, growth capital, and recapitalizations. Its debt investments generally ranged in size from \$10 million to \$100 million; its buyout investments ranged from \$50 million to \$250 million.

The Restaurant Industry

Overview

In 2003, the restaurant industry as a whole accounted for approximately 4% of U.S. GDP, which translated into approximately \$300 billion in annual sales.³ Nominal sales had grown at a rate of 7.3% between 1981 and 2001. Sales were projected to grow at a nominal compounded annual growth rate of 5.2% between 2001 and 2006, reaching a total of \$387 billion by 2006.

Although the overall economy had experienced a downturn in 2001 and 2002, the restaurant industry continued to perform well and experienced real sales growth of 0.5% to 1.5%.

¹ “The BCD Platform,” Allied Capital, <http://www.alliedcapital.com/who/bdcplatform.asp> (accessed November 26, 2007).

² Allied Capital 2003 annual report.

³ Much of the information for the “Restaurant Industry” section comes from Allied Capital’s Elephant Bar Restaurant Company Due Diligence binder. Used with permission.

Actually, there were only three years in which the industry had negative real sales growth (**Exhibit 1**). The strong performance was attributed to the aging Baby Boomer generation, to an increase in the number of dual-income households, and to consumers' increased desire for convenience. Restaurants had also captured a greater percentage of total food dollars; in 2001, the "food-away-from-home" expense had grown to 45% of total food expenditures, up from 26.2% in 1971, and was projected to reach 53% by 2010.

That said, events outside the control of the restaurant industry had created a turbulent year in 2003. The Iraq War created jitters in the economy and politics crept into the restaurant industry. In a patriotic outburst following the French government's refusal to back U.S. military efforts in Iraq, french fries were dubbed "freedom fries" and consumers refused to drink French wines. Consumers also became increasingly concerned about how safe from terrorist attacks their food was. In May 2003, North America reported its first case of mad cow disease in more than 10 years, which led to increased public concern about food safety. In response, the United States banned meat imports from Canada. Further fueling consumers' concerns, a study of restaurant employees in July 2003 found that a large number of them knowingly had served contaminated food to customers.⁴

Industry segmentation

For the purposes of this deal, Allied Capital divided the restaurant industry into three categories: quick-service restaurants (QSRs), family dining, and casual dining. Of these three categories, the casual dining segment had experienced an average quarterly growth rate of 2.9% over the past 14 quarters, far outpacing the other categories. **Exhibit 2** gives the quarterly same-store sales growth rates and comparables for the three categories.

Quick service restaurants were fast-food restaurants that competed largely on price and the speed of service. The average cost per person was \$2 to \$5. Traditional quick service restaurants included McDonald's, Wendy's, and Burger King. Recently, a subsegment called "fast casual" had developed (e.g., Panera Bread, Baja Fresh, and Chipotle). By combining higher-quality food usually associated with casual dining and the convenience of quick-service restaurants, the fast-casual restaurants had captured market share from traditional QSRs.

Family dining restaurants offered customers value, consistency, and variety. The average cost per person ranged from \$6 to \$9. The restaurant concepts tended to be older and more mature and were losing share to the casual dining concepts. Traditional family dining restaurants included eateries such as Denny's and IHOP.

Casual dining. This segment was highly fragmented, with chains accounting for less than 29% of sales. Casual dining was divided into two subsegments, "mid-end casual" and "high-end casual," that differentiated between older and newer concepts, respectively. The "mid-end casual" restaurants (e.g., Applebee's, Chili's, Olive Garden, and Red Lobster) had average per-

⁴ Ron Ruggless, "The Year in Review 2003," *Nation's Restaurant News* (December 22, 2003).

person prices between \$10 and \$13, while the “high-end casual” restaurants (e.g., the Cheesecake Factory, P.F. Chang’s China Bistro, Outback Steakhouse, and Elephant Bar) were more expensive per person in the range of \$13 to \$17. Although independent operators had traditionally dominated the high-end casual subsegment, newer chain concepts such as the Cheesecake Factory, Outback Steakhouse, and P.F. Chang’s had grown significantly over the last decade. High-end casual dining concepts also had a higher percentage of alcohol sales. See **Exhibit 3** for a comparison of the high-end casual market.

The high-end casual subsegment was an area that had seen explosive growth. The Cheesecake Factory, for example, quickly expanded into new regions in the late 1990s and became a household name across the country. By the end of 2002, it had 60-plus stores in more than 20 different states. It also planned to open another 14 stores in 2003. The Cheesecake Factory was certainly the poster child for successful expansion across the country. In 2003, the median enterprise multiple for publicly held restaurant chains with national footprints was 9.4×. But the Cheesecake Factory and P.F. Chang’s, each boasting enterprise multiples of 18× EBITDA, were clearly standouts in the industry.⁵ See **Exhibit 4** for industry valuation data.

Elephant Bar

Company background

Elephant Bar Restaurant, headquartered in Santa Barbara, California, consisted of 23 casual dining restaurants in California and Arizona in September 2003.⁶ The African-themed full-service restaurant served both lunch and dinner entrées seven days a week. Elephant Bar had a diverse menu, consisting of traditional American-style entrées, fish, pasta, salads, and Asian-inspired wok dishes. Entrée prices ranged from \$5 to \$16; the majority of entrées were priced under \$10. The average total check was \$14.55. Given its “elephant-sized” individual servings, Elephant Bar offered a strong value proposition to customers. The Elephant Bar dinner and lunch menus were the same and the menus were consistent across stores. See **Exhibit 5** for a selected portion of a sample menu.

Elephant Bar focused more on the lunch segment than most restaurants did. Nancarrow explained:

One of the hardest parts of being in the restaurant business was attracting top-talent managers who would stick with the company. We decided that we could get around that problem by giving managers a better quality of life. We focused a lot of energy on getting the lunch customers. Then, instead of staying open until 2:00 a.m., we closed by 11:00 p.m. on weekends and by 10:00 p.m. on weekdays.

⁵ Industry practice was to calculate EBITDA multiples based on EBITDA before preopening expenses.

⁶ Much of the information for the Elephant Bar section comes from Allied Capital’s Elephant Bar Restaurant Company Due Diligence binder. Used with permission.

Given the company's lunch focus, Elephant Bar leveraged its fixed costs across both lunch and dinner. Approximately 40% of Elephant Bar's food revenues were from lunch and approximately 25% of overall sales were from alcohol.

Although Nancarrow opened the first restaurant in 1979, the majority of the company's growth had occurred after 1997 when the management team reformulated the restaurant's concept. Through this process, the management team created a more exciting atmosphere and a standard prototype. As a result of the expansion, the chain grew from eight stores in 1997 to 23 stores in September 2003. See **Exhibit 6** for a history of store openings. As shown in **Exhibit 7**, the "new units" had significantly outperformed the "old units."

The new store prototype accentuated the restaurant's African theme. Each store had a large circular bar in the front of the restaurant with booths and tables in the back and middle. The circular bar improved the customer experience by making it more dynamic—patrons could watch people come and go and easily move around the bar. The average store could seat 210 in the dining areas and 70 in the bar area. Many stores also had a patio that could seat 50 patrons. There was a large display kitchen with a glass wall to enhance visibility. One wall was covered with a waterfall, out of which emerged a large elephant head. The theme was topped off with dark woods, plants, striped and spotted carpeting and upholstery, and tropical ceiling fans. A frequent patron of the restaurant described the experience:

The Elephant Bar Restaurant is a favorite of mine; I tend to look for any excuse to go there. "Got your hair cut, let's go to Elephant Bar!" "Got a good grade on that quiz, let's go to the Elephant Bar!" We call it the E-Bar...for short.

The local Elephant Bar that we like to go to is a renovated hangar. It is situated right on the airport in Santa Barbara. It looks like a restaurant on the outside, but inside it still has the similar shape of a hangar. There are bamboo fans wafting the air above the bar. There are lots of palms and ferns. The decor reminds you of the jungle and being on safari. The carpeting and dinner plates have a leopard look to them...I recently ordered a "Jungle Colada" there, a bit unusual for me, but I decided to splurge.⁷

Costs

Food costs as a percentage of sales. Food costs comprised approximately 29% of Elephant Bar's total revenues. Although Elephant Bar's small scale hindered its ability to capture purchasing efficiencies, its food costs as a percentage of sales were still in the mid-range of comparable restaurants. Comparables such as the Cheesecake Factory and California Pizza Kitchen had advantages in their menu mixes. For example, the Cheesecake Factory had a large percentage of high-margin desserts, and California Pizza Kitchen had a small percentage of meat

⁷ http://www.epinions.com/content_85111443076, "Elephant Bar Restaurant: A Dining Adventure Because It's a Jungle Out There," December 29, 2003 (accessed August 3, 2007).

purchases that drove down their overall food costs as a percentage of sales. **Exhibit 8** shows the food cost comparisons for the comparables.

Elephant Bar was actively seeking ways to decrease food costs. Half the restaurants were already using a new point-of-sale (POS) system (an IT system that tracked costs at the individual store level and streamlined processes and communications with headquarters), and the rest were expected to be using the system by the end of 2003. The company's food costs as a percentage of sales had already decreased from 29.8% in 2000 to 28.4% in 2002. Although Elephant Bar had signed a new purchasing agreement projected to save \$1.25 million in food costs over the next three years, the chain was still too small to have a national food distribution contract. Finally, management was exploring ways to redesign the menu to decrease food costs.

Labor costs as a percentage of sales. Elephant Bar's concentration in California drove its labor costs significantly higher than those of comparable restaurants (see **Exhibit 8**). In 2002, California changed its minimum wage law to prohibit "tip credits" in calculating the minimum wage. In most other states, tip credits accounted for 30% to 40% of the wage, and management believed that the new law increased California labor costs by 300 basis points.

Elephant Bar's labor costs were also higher than that of competitors due to its larger mix of new versus old stores. New stores were generally overstaffed in the first few months while store management tried to determine traffic patterns and adjust the staffing accordingly. Once the new stores developed more predictable patterns, labor costs would decline. But as the stores became more geographically dispersed, it took more managers to oversee the same number of stores because it was harder to travel between them and keep close tabs on operations.

Other costs. For most restaurants, maintenance and remodeling were critical costs to ensure that stores appeared "fresh." Allied Capital had learned this firsthand in a prior restaurant investment that had required larger than expected capital expenditures for this purpose, resulting in disappointing returns. Fruehwirth, however, believed that because Elephant Bar's restaurant portfolio consisted largely of new stores, the company would not need significant maintenance capital expenditures going forward. Elephant Bar also employed a preventative maintenance program. Each year, management set aside \$50,000 per restaurant for cosmetic upgrades. Every seven years, they spent \$175,000 per restaurant to refresh the stores. As a result, the restaurants continuously looked bright and sales never dropped due to a run-down appearance.

Through its growth, Elephant Bar had been able to spread its general and administrative expenses across more stores. Some of the potential cost savings resulting from reduced overhead, however, were offset by the need to hire new regional and district managers and additional training costs associated with opening new stores.

Management

Chris Nancarrow, CEO of Elephant Bar, started the restaurant in 1979 as a test concept of Carrow's Restaurants, a chain of more than 150 full-service restaurants his family founded. Carrow's was sold to W. R. Grace in 1985, and Nancarrow purchased the Elephant Bar restaurants in 1993. Nancarrow's strengths lay in developing innovative concepts and translating them into interesting menu items. But this meant that the menu featured complicated dishes, often with one unusual ingredient necessary for a particular dish. Nancarrow had recently hired Bob Holden, former CEO of Pat & Oscar's (a California restaurant chain and division of Sizzler, Inc.), as COO. As a result of that hire, Nancarrow planned to focus more on strategy, expansion, and cost-cutting. On average, the senior management team had more than 25 years of experience in the restaurant industry (see **Exhibit 9**).

Nancarrow alone owned a 25.0% stake in Elephant Bar, and management as a whole accounted for another 14.8% of the total shares outstanding. Nancarrow was insistent on funding his expansion plans without experiencing significant further dilution. Given his large ownership position, Nancarrow was able to put pressure on private equity investors to explore mezzanine financing to fund the expansion plans so he and management could limit further dilution.

Equity sponsor

Elephant Bar was a portfolio company of Saunders Karp & Megrue, LLC (SKM). Through a recapitalization in 2000, SKM had invested \$15.5 million in Elephant Bar for a majority position in the company. The price per share for the round was approximately \$2.50.⁸ The transaction provided Elephant Bar with capital to fuel its expansion plans and Nancarrow with some liquidity. At the time of the investment, Elephant Bar had 12 stores, and since had expanded to 23 stores. SKM had made prior investments in restaurants and was a knowledgeable investor in the industry. Past investments included Souper Salad (1995), Mimi's Café (1996), Constellation Concepts (1997), and Marie Callender's (1997). SKM continued to support Elephant Bar's growth prospects.

Growth strategy

As of September 2003, 20 of Elephant Bar's 23 stores were located in California. As a result, it was highly susceptible to microeconomic changes in the state. As part of his growth strategy, Nancarrow planned to open stores in four new states (Colorado, Texas, Kansas, and Missouri) by the end of 2003 to increase the company's regional diversification (see **Table 1**). By 2004, Nancarrow expected to increase the company's percentage of out-of-state stores to 31.6% from 13% in September 2003. Nancarrow was confident about the proposed expansion given the performance of the newer stores in Northern California and Arizona, where Elephant Bar was relatively unknown prior to opening the stores.

⁸ As of September 2003, SKM Equity Fund II and III held 6,192,411 shares of the 11,516,223 total shares outstanding, giving SKM a 53.8% stake in the restaurant.

Table 1. Geographic concentration.

	2001	2002	9/30/2003	2003	2004
Total # stores (end of year)	16	20	23	26	38
Total # non-California stores (end of year)	0	2	3	7	12
% of non-California stores (end of year)	0%	10%	13%	27%	32%

Not only was Elephant Bar concentrated by geography, but it was also concentrated by revenue. In 2000, five old stores (Citrus Heights, Concord, Fremont, Burlington, and Campbell) generated 62% of Elephant Bar's store cash flow. In 2002, Elephant Bar opened four new stores (two in California and two in Arizona), thereby increasing the diversity of its store portfolio. Old stores continued to generate strong profits, but their percentage contribution decreased due to the inclusion of the new stores. By 2002, the five old stores had declined to 44.2% of store cash flow and the four new stores had grown to 25.1%.

During their due diligence, Fruehwirth and his team studied the company's expansion experience to date. They found that the new restaurants experienced a "honeymoon effect." Sales were higher in the first few months of operations and then stabilized between months 8 and 10. Sales in the second year tended to be approximately 90% to 92% of those in the first year. That said, the new stores were usually profitable in their first or second month of operations.

Given Elephant Bar's emphasis on the lunchtime segment, restaurants were generally located in areas that had more than 30,000 employees within a three mile radius. The restaurants were usually free-standing with good visibility and were located on main roads where at least 60,000 cars passed each day. The restaurants were also typically near a mall or a string of other restaurants or retailers. The communities the company chose consisted of middle-income families to fit Elephant Bar's strong value proposition.

Elephant Bar had lower costs to open new stores than comparable companies. The average cash investment cost, including pre-opening expenses, buildout, and equipment costs net of landlord allowances, came to \$1.9 million. By comparison, the Cheesecake Factory and P.F. Chang's had average total cash investments of \$3.9 million and \$2.6 million per new store, respectively.

The Proposed Transaction

SKM had approached Allied Capital earlier in 2003 about a potential investment opportunity in Elephant Bar. Allied had invested with SKM in the past and the two companies had a good working relationship.

Elephant Bar needed the capital for its aggressive expansion strategy. The company planned to open 12 stores per year in 2004, 2005, and 2006. Because Elephant Bar would only need the capital as it opened new stores, SKM insisted that the company be able to draw the

capital in stages. Through negotiations, Allied Capital and SKM had decided on an aggregate investment of \$20 million of subordinated notes (secured by a second lien) that would mature five years after close.⁹ The investment would pay 13% cash interest and 2% paid-in-kind (PIK) interest. **Exhibit 10** contains the deal structure and investment terms and **Exhibit 11** shows the historical financial statements.

Due to Elephant Bar's growth strategy, the company would have negative free cash flow for several years and, as a result, would not be able to repay the debt for a number of years. Allied Capital usually funded investments with this profile with some form of equity as opposed to the proposed debt investment. But Fruehwirth and his team believed that Elephant Bar had sufficient financial strength to implement the expansion strategy and meet the interest payments. Given the risks and the potential upside of the deal, Allied Capital had tentatively negotiated to receive a 2.5% equity stake through warrants to be issued in full at the time the first \$5 million tranche was drawn.

The Investment Committee Decision

Fruehwirth knew going into the meeting of Allied's investment committee that at least one committee member had reservations:

I think the concept is kitschy. All I can think of is the Rainforest Café. Why do we think this will appeal to anyone outside of California? Even if the concept travels, will the menu? It seems there's a new dish every other day. Some of these dishes require one ingredient that isn't used in any other dish—how are we going to capture economies of scale?

Compounding the problem was news received several days earlier of an outbreak of Hepatitis A at the Elephant Bar's Arden restaurant. One employee who had prepared the food was currently being treated and it was unclear if the outbreak had spread to any customers. Even if the accusation proved unfounded, Elephant Bar could experience public relations damage. Unfortunately, the incident was likely to underscore the investment committee's concerns about the uncontrollable risks of restaurants.

To gain approval, an investment had to pass both an internal-rate-of-return (IRR) and cash-on-cash-return threshold. Given the negative cash flow, lack of scale outside of California, and high growth prospects, some people on the committee would likely view Elephant Bar as an equity investment. But if Fruehwirth could persuade them the risks were manageable, then a target IRR somewhere in the 18% to 19% range, and a ratio of 1.5× to 2.0× total cash received to total cash invested should be acceptable.

⁹ Because Elephant Bar already had existing senior debt from Wells Fargo, Allied Capital's claims to the existing store assets were subordinated to those of Wells Fargo. Allied had a first lien on the assets of all new stores.

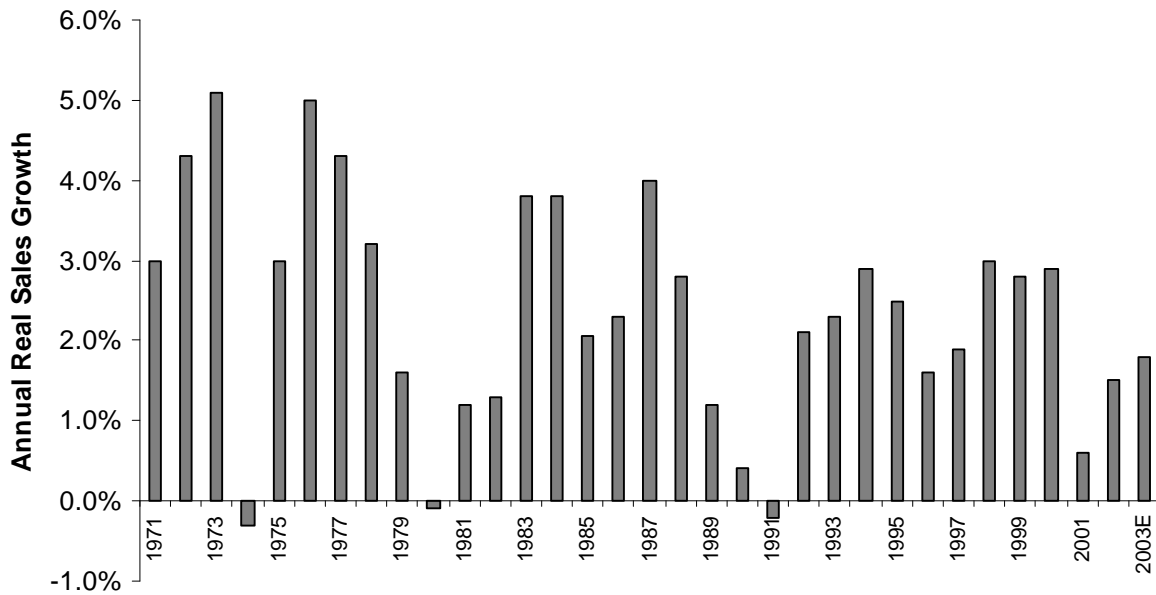
Fruehwirth and his team had assessed a number of scenarios for Elephant Bar's future performance. **Exhibits 12a** and **12b** contain the projected financial statements for a management case and base case. Because management's projections were frequently optimistic, he and his team had adjusted management's projections downward to create a base case. The base case assumed that the same number of restaurants would be opened but that the company would realize somewhat lower sales and be less successful decreasing expenses, which in turn, would result in increased use of the revolver loan. The key here was whether the returns would be adequate if management failed to meet its projections. In addition, given the equity risk certain committee members were likely to see, the adequacy of warrant coverage would also draw special scrutiny.

Of course, if management were able to achieve its projections, Allied Capital could be looking at the next Cheesecake Factory. While that outcome would be a tremendous boon to Allied, the reality for a mezzanine investor was that the upside was not as important as protecting the downside against the loss of principal.

Exhibit 1

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

U.S. Restaurant Industry: Real Sales Growth (1971–2003E)



Data source: National Restaurant Association.

Exhibit 2

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

Segment Growth by Types of Restaurant

	3Q99	4Q99	1Q00	2Q00	3Q00	4Q00	1Q01	2Q01	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02	Mean
QSR Mean (n = 21)	2.7%	2.1%	3.1%	2.4%	2.1%	1.1%	1.9%	1.8%	1.9%	2.9%	2.9%	2.2%	1.1%	-2.7%	1.8%
Family Dining Mean (n = 11)	0.9%	0.2%	0.7%	0.1%	-0.5%	-0.8%	0.0%	0.1%	0.8%	1.9%	1.0%	-0.3%	-2.1%	-0.9%	0.1%
Casual Dining Mean (n = 22)	3.7%	3.6%	4.9%	3.9%	4.4%	3.5%	3.9%	1.7%	0.7%	1.9%	2.0%	2.2%	1.5%	2.8%	2.9%

QSR comps: Church's, Dunkin Donuts, Schlotsky's, Carl's Jr, Hardee's, Burger King, Einstein's, Jack in the Box, Krispy Kreme, Krystal, McDonald's, Pizza Hut, Panera, Sbarro, Starbuck's, Steak n Shake, Sonic, Arby's, Wendy's, KFC, and Taco Bell.

Family Dining Comps: Bob Evans, Cracker Barrel, Denny's, Friendly's, IHOP, Luby's, Pcadelly's, Ryan's, Shoney's, Bakers Square, and Village Inn.

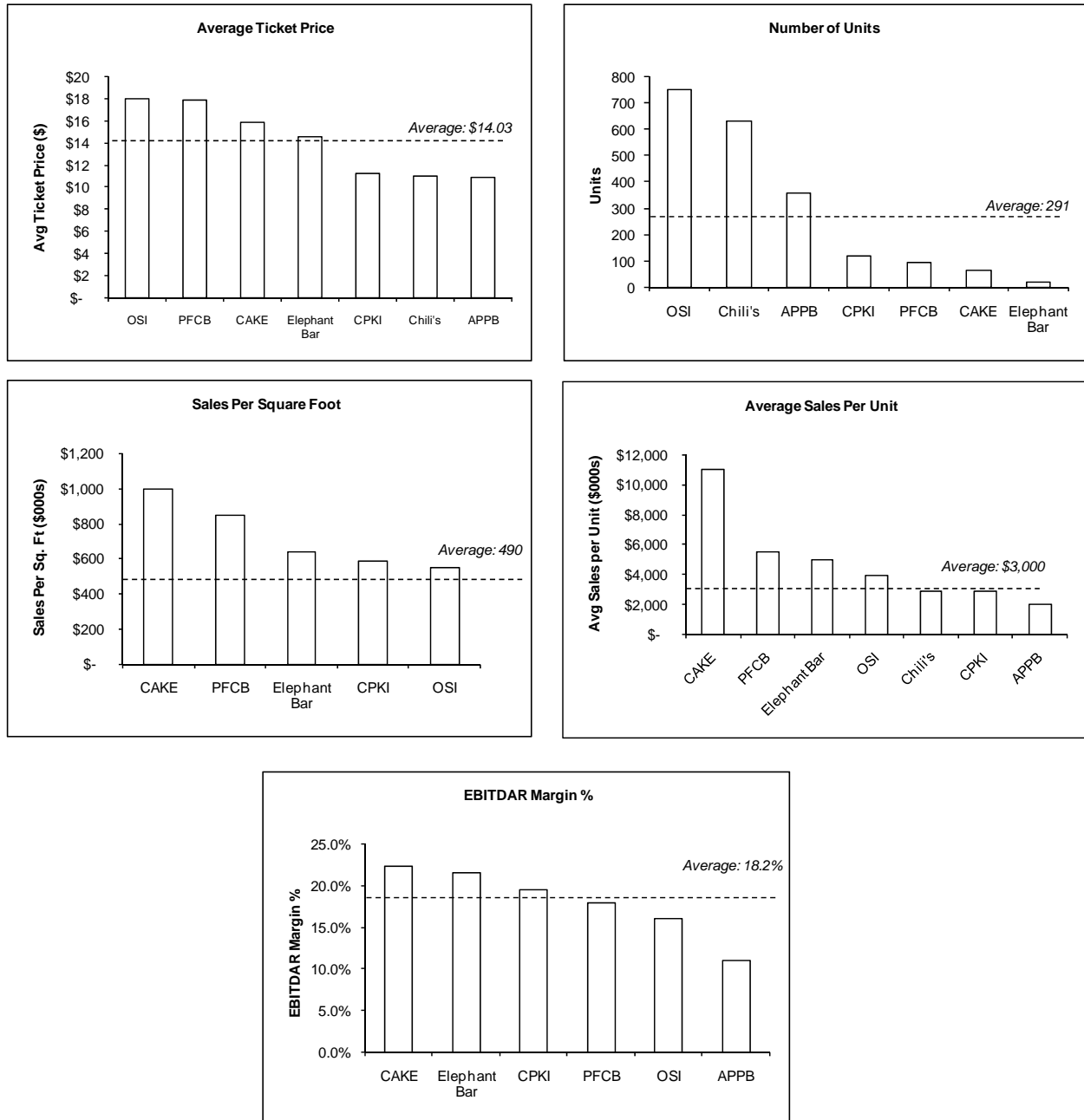
Casual Dining Comps: Applebee's, Cheesecake Facotry, Logan's Roadhouse, Chuck E Cheese, O'Charley's, California Pizza Kitchen, Olive Garden, Red Lobster, Chili's, Landry's Seafood, Morton's, Outback Steakhouse, Carraba's, P.F. Chang's, Rainforest Café, Longhorn Steakhouse, Capital Grille, Bugaboo Steakhouse, Ruby Tuesday's, Lone Star Steakhouse, TGI Friday's, and Uno's Pizza. (For Q402, a smaller subset of comps was used since complete data was not available.)

Data source: Merrill Lynch.

Exhibit 3

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

High-End Casual Dining Comparables



Source: Allied Capital company due diligence documents.

Exhibit 4

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

Market Data

High-End Casual Dining Market Segment

	EBITDA		
	Multiple	Volatility	Beta
P.F. Chang's (PFCB)	18.2	62%	1.37
Cheesecake Factory (CAKE)	18.0	38%	1.28
Applebee's (APPB)	10.0	45%	1.12
Chili's	8.7		
Outback Steakhouse (OSI)	7.3	31%	1.01
California Pizza Kitchen (CPKI)	7.3	47%	0.97
All Comparables			
Mean	11.6	45%	1.15
Median	9.4	45%	1.12
Excluding PFCB and CAKE			
Mean	8.3	41%	1.03
Median	8.0	45%	1.01

Treasury Rates	September 2003	November 2003
1-year	1.34%	1.34%
5-year	3.61%	3.05%
10-year	4.71%	4.30%

Data source: U.S. Federal Reserve.

Exhibit 5

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

Sample Menu



We know it's a jungle out there...
escape to the Elephant Bar Restaurant...
the best dining adventure in town!

◆ Appetizers ◆

Quick-Fried Soy-Ginger Calamari	\$6.95	Vietnamese Shrimp Spring Rolls	\$6.95
Niu, Niu Coconut Fried Shrimp Skewers	\$7.95	E-Bar "Famous" Artichoke Dip	\$7.50
Wok-Fired Chicken and Lettuce Wrap	\$7.50	Hand-Breaded Chicken Tenders	\$5.95
Wok Seared Vegetable Lettuce Wrap	\$5.95	Potato Skins	\$5.95
The Steamer Trunk "Super Sampler"	\$12.95	Tempura Salmon Roll	\$7.25
		Our Own Baked Garlic Bread	\$2.95

◆ Salads & Soups ◆

Single order garlic bread with any salad or soup for 95c

Soups

Homemade Chicken Noodle Soup	\$2.95	Mixed Baby Greens and Chicken Noodle	\$7.25
Baked Onion Soup With Melted Swiss Cheese	\$3.95	Soup Combo	
		With baked Onion Soup add \$1.00	

Adventure Side Salads

Tropical Citrus Salad	\$4.20	Fresh Mixed Baby Greens	\$3.95
JamaicaMojo Side Salad	\$3.95	Garden Side Salad	\$2.95
Iceberg Wedge Salad	\$4.20	Caesar Side Salad	\$3.20

Entree Salads

Fire Grilled Chicken Citrus Salad	\$8.95	Grilled Teriyaki Chicken Caesar Salad	\$7.95
Oriental Chicken Salad	\$8.75	E-Bar Caesar w/o Chicken \$5.95	
Thai-High Sweet and Spicy Chicken Salad	\$8.75	Santa Fe BBQ Chicken Salad	\$7.95
JamaicaMojo Grilled Shrimp Salad	\$9.95	Honey Mustard Chicken Salad	\$8.25
		Mixed Baby Greens Salad	\$5.95

◆ Sandwiches ◆

Sandwiches served with your choice of French fries, coleslaw, garden salad or Caesar salad.

Smokehouse BBQ Chicken Sandwich	\$7.95	Roasted French Dip	\$7.45
Philly Cheese Steak Sandwich	\$7.75	With cheese add 75c	
New York Steak Sandwich	\$10.50	Soup and Sandwich	\$7.25
With Grilled Onions and Mushrooms		A bowl of homemade chicken noodle soup and one-half Country Club sandwich.	
add \$1.00		With baked Onion Soup add \$1.00	
Country Club	\$6.95	BBQ Pork Sandwich	\$6.95
Fire Grilled Mahi-Mahi Sandwich	\$7.45		

Exhibit 5 (continued)

Sample Menu

◆ Fresh Big "E" Burgers ◆

Our Big "E" Burgers are 1/2 pound, fresh 100% U.S.D.A. Choice ground beef... cooked medium well.

Big "E" Classic Burger	\$7.25	Santa Barbara Burger	\$7.75
With cheese add 75c		Veggie Burger	\$5.95
E-Bar BBQ Burger	\$7.75		

◆ Pacific Rim Specialties ◆

Add an "Adventure Side Salad" at a very special price

Pan Asian Vegetable and Noodle Soup	\$8.75	Tempura Salmon Roll and Pan Asian	\$9.75
with Teriyaki Chicken Skewers		Soup with Teriyaki Chicken Skewer	
Bangkok Stir-Fried Pad Thai with	\$7.95	Vegetable Stir-Fry with Tofu	\$6.95
Vegetables & Tofu		With Chicken add \$2.25	
With Chicken add \$2.25		With Shrimp add \$3.50	
With Shrimp add \$3.50		Crispy Honey Orange Shrimp	\$11.25
Crispy Teriyaki Chicken	\$10.25	Wok-Fired Sweet & Sour Chicken	\$9.95
MisoYaki Pork Loin Steaks	\$10.95	Fiery Kung Pao Chicken	\$9.95
MisoYaki Fire Grilled Salmon	\$14.25	Fiery Kung Pao Shrimp	\$11.95
Shrimp Adventure Platter	\$13.95	Shrimp and Chicken FirePot	\$11.95
Fresh Macadamia Nut Salmon	\$13.95	Chicken FirePot	\$9.95

◆ Regional Favorites ◆

Add an "Adventure Side Salad" at a very special price

Kona BBQ Pork Ribs	\$15.95	Hand-Breaded Fried Shrimp	\$10.95
Half Rack \$9.75		Macadamia Nut Chicken Breast with Fire	\$13.20
Braised Lamb Shanks	\$12.95	Grilled Shrimp	
One lamb shank \$7.95		Fire Roasted Lemon Herb Chicken Breast	\$12.25
Shrimp and Chicken Jambalaya	\$11.95	Fire Grilled Beef Tri-Tip	\$10.50
Blackened Catfish with Shrimp	\$14.65	Fire Grilled Beef Tri-Tip and BBQ Shrimp	\$13.50
Jambalaya		Chicken Tender Platter	\$8.95
Macadamia Nut Crusted Fish and Chips	\$9.95	Chicken & Mushroom Fettuccinni	\$9.50
Center Cut New York Steak	\$17.50		

Elephant Bar Lo'Carb Platters

Watching your carbs? We have prepared several great tasting Lo'Carb Adventure Platters. Each served with sautéed spinach, grilled parmesan tomato and whole sautéed mushrooms. (Ask us to leave off the grilled tomato to lower the carbs even more.)

Grilled Fresh Fish Platter	Market Price	Fire Grilled Beef Tri-Tip	\$10.50
Lemon-Herb Chicken	\$12.25	Center Cut New York Steak	\$17.50

Source: Elephant Bar Restaurant Company. Used with permission.

Exhibit 6

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

History of Store Openings (1996–2004E)

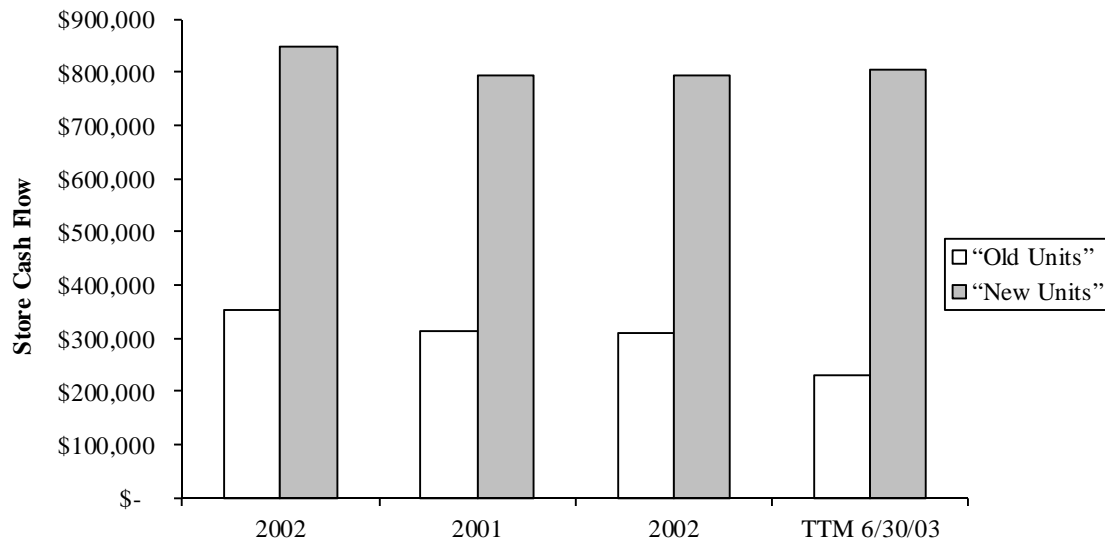
Year	# Opened	Location
1996	1	Burlingame, CA
1998	2	Campbell, CA; Fremont, CA
1999	2	Concord, CA; Burbank, CA
2000	2	Sacramento (Citrus Heights), CA; Irvine, CA
2001	2	Valencia, CA; Montclair, CA
2002	4	Fresno, CA; Sacramento (Arden Fair), CA; Chandler (Phoenix), AZ; Peoria (Arrowhead), AZ
2003 YTD	3	Torrence, CA; Ladewood, CA; Scottsdale, AZ
2002E	4	Overland Park, KS (Nov.); Dallas, TX (Nov.); St. Louis, MO (Nov.); Colorado Springs, CO (Nov.)

Source: Allied Capital company due diligence documents.

Exhibit 7

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

Average Store Cash Flow, “Old Units” versus “New Units”



Source: Allied Capital company due diligence documents.

Exhibit 8

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

Cost Comparisons

Food Cost Comparisons			
	Food Costs as a % of Sales		
	2000	2001	2002
Cheesecake Factory	25.3%	25.4%	23.7%
California Pizza Kitchen	24.5%	24.5%	24.1%
Applebee's	27.4%	27.0%	26.6%
P.F. Chang's	27.6%	27.1%	26.7%
Elephant Bar	29.8%	29.2%	28.4%
Darden (Olive Garden & Red Lobster)	32.6%	31.7%	31.1%
Outback Steakhouse	37.9%	38.3%	36.7%

Labor Cost Comparisons			
	Labor Costs as a % of Sales		
	2000	2001	2002
Outback Steakhouse	23.9%	24.1%	24.4%
P.F. Chang's	29.7%	30.5%	31.6%
Darden (Olive Garden & Red Lobster)	31.6%	31.5%	31.9%
Applebee's	31.6%	32.1%	32.9%
Cheesecake Factory	23.8%	32.9%	32.2%
California Pizza Kitchen	35.3%	35.7%	36.0%
Elephant Bar	34.8%	36.0%	36.6%

Source: Allied Capital company due diligence documents.

Exhibit 9

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

Management Biographies

Chris Nancarrow—*CEO and Chairman*—Mr. Nancarrow had been in the restaurant business for the past 26 years. He was the son of David Nancarrow, who founded Carrow's Restaurants ("Carrow's"), a chain of more than 150 full-service restaurants in the western United States. Mr. Nancarrow stayed with Carrow's after the family sold the restaurant to W. R. Grace and worked in various management positions from 1985 to 1993. In 1993, he left Carrow's and purchased seven Elephant Bar units. Between 1994 and 1996, Mr. Nancarrow refined the Elephant Bar store concept and menu and worked with his operating partners in an effort to standardize both the concept and the new store prototype. Since 1993, he has served as CEO and chairman of Elephant Bar.

Robert (Bob) Holden—*COO/President*—Mr. Holden joined Elephant Bar in September 2003, and assumed control of Operations, Human Resources, Sales and Marketing, and Finance. Everything internal to the operations of the existing store base was under Mr. Holden's jurisdiction, which allowed Mr. Nancarrow to focus on real estate site selection, growth opportunities, and strategic planning. Prior to joining Elephant Bar, in 2000–03, Mr. Holden was president and CEO of Pat & Oscar's, a division of Worldwide Restaurants, which had 21 restaurants in Southern California. Before joining Pat & Oscar's, he was COO of Johnny Rockets, where he held an active role in the company's expansion strategy and successfully doubled the number of units. From 1994 to 1998, Mr. Holden worked as VP of Operations for El Torito, a Mexican family dining chain.

Dennis Jones—*CFO*—Mr. Jones had more than 23 years of financial management experience in the restaurant industry, including as CFO for Great Circle Family Foods, the largest franchisee of Krispy Kreme Doughnut Corp. Prior to joining Great Circles, Mr. Jones was CFO of Acapulco Restaurants.

Reinhard Dorfhuber—*VP of Food and Beverage*—Mr. Dorfhuber had more than 28 years of experience in restaurant operations, including completing a chef's apprenticeship program in Germany and further study at the Business Hotel and Management school in Lucerne, Switzerland. Mr. Dorfhuber had also worked at various fine dining restaurants throughout Europe, Asia, and North America in chef positions as well at Saga Foods and the American Restaurant Corp.

Source: Allied Capital company due diligence documents.

Exhibit 10

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

Deal Structure

Structure	Senior Subordinated Note / Second Lien
Commitment Amount	\$20,000,000
Minimum Initial Draw	\$5,000,000
Future Draws	Minimum of \$2,500,000 increments, subject to pro forma leverage test
Maturity	Five years from close
Coupon	13.0% cash, 2.0% PIK
Warrants	2.5%, issued in full upon drawing the first \$5.0 million tranche
Amortization	Bullet at maturity
Prepayment Penalty	4.0% in Year 1, 2.0% in Year 2, and 1.0% in Year 3
Fees	2.5% (1.0% commitment fee and 1.5% drawdown fee)

Source: Allied Capital company due diligence documents.

Exhibit 11

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

Historical Financial Statements, Balance Sheet

	December 30, 2002	December 31, 2001
Assets		
Current assets:		
Cash and cash equivalents	\$1,376,600	\$3,810,300
Receivables	375,100	138,600
Inventories	418,500	377,500
Prepays and other current assets	449,000	190,100
Total current assets	\$2,619,200	\$4,516,500
Property and equipment, net	19,618,900	14,357,400
Goodwill, net	990,200	1,071,400
Deferred tax asset	495,200	509,200
Loans to stockholders	194,900	—
Other	655,600	597,500
Total assets	\$24,574,000	\$21,052,000
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$4,012,600	\$3,137,500
Accrued construction payables	641,700	168,500
Income taxes payable	71,400	54,900
Unearned revenue	502,900	339,600
Line of credit	600,000	—
Current portion of long-term debt and capital lease obligations	377,800	470,400
Total current liabilities	6,206,400	4,170,900
Long-term debt and capital lease obligations, less current portion	610,100	1,119,600
Deferred rent	3,589,800	2,090,300
Total liabilities	10,406,300	7,380,800
Stockholders' equity:		
Series A convertible preferred Stock, no par value, 1,000,000 shares authorized, 61,311 shares issued and outstanding	18,027,900	15,906,800
Series A Common Stock, no par value, 50,000,000 shares authorized, 1,982,731 shares issued and outstanding	—	—
Series B Common Stock, no par value, 50,000,000 shares authorized, 1394,204 shares issued and outstanding	—	—
Accumulated deficit	(3,860,200)	(2,235,600)
Total stockholder's equity	14,167,700	13,671,200
Total liabilities and stockholders' equity	\$24,574,000	\$21,052,000

Exhibit 11 (continued)

Historical Financial Statements, Consolidated Income Statement

Revenues	52,098,000	45,093,900
Cost and expenses:		
Restaurant operation costs:		
Cost of sales	15,210,800	13,420,600
Labor	18,730,300	15,704,500
Operating	7,117,900	6,263,900
Occupancy	3,438,800	3,008,500
Total restaurant operating costs	44,497,800	38,397,500
General and administrative	4,572,800	3,478,300
Depreciation and amortization	1,768,900	1,288,000
Pre-opening costs	350,500	504,200
Income from operations	908,000	1,425,900
Interest income	94,900	109,300
Interest expense	(148,800)	(202,600)
Lost on disposal of property and equipment	(2,200)	(97,500)
Minority interest	—	(258,200)
Income before provision for income taxes	851,900	976,900
Provision for income taxes	355,400	279,000
Net income	\$496,500	\$697,900

Source: Allied Capital company due diligence documents.

Exhibit 12a

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

Projected Financial Statements: Management Case

Pricing Assumptions							
Total Commitment (000s)	20,000						
Total Interest	15.0%						
Cash Interest	13.0%						
PIK Interest	2.0%						
Warrant	2.5%						
Fees							
Upfront Fee	1.0%						
Drawdown	1.5%						
Store Count		2003	2004	2005	2006	2007	2008
BOP		20	26	38	50	62	67
Additions		7	12	12	12	5	5
Closures		1	-	-	-	-	-
EOP		26	38	50	62	67	72
Projected Income Statement							
(\$000s)		2003	2004	2005	2006	2007	2008
Total Sales		87,653	130,338	183,492	233,892	269,592	290,592
Less: G&A Attributable to Running Stores		(74,877)	(110,358)	(154,104)	(195,055)	(224,919)	(241,996)
Store Cash Flow ("4 Wall EBITDA")		12,776	19,980	29,388	38,837	44,673	48,596
Corporate G&A Expense		(7,202)	(9,384)	(12,844)	(16,372)	(18,871)	(20,341)
Nonrecurring Legal Expense (add-back)		143	-	-	-	-	-
EBITDA		5,717	10,596	16,544	22,465	25,802	28,255
Pre-Opening Expenses		(2,458)	(2,541)	(3,013)	(2,946)	(1,250)	(1,250)
EBITDA Post POE		3,259	8,055	13,531	19,519	24,552	27,005
Amortization		(176)	(300)	(334)	(334)	(334)	(334)
Depreciation		(2,809)	(5,049)	(8,171)	(10,528)	(10,370)	(10,370)
EBIT		274	2,706	5,026	8,657	13,848	16,301
Interest Income		-	-	-	-	-	-
Other Income		-	-	-	-	-	-
SKM Management Fee		(152)	(150)	(150)	(150)	(150)	(150)
Interest Expense:							
Existing Debt		(74)	(79)	-	-	-	-
Revolver		-	-	(99)	(339)	(375)	(265)
Seasonal Interest		-	-	-	-	-	-
Wells Fargo Loan		(150)	(609)	(624)	(602)	(626)	(523)
Term Loan B		-	-	-	-	-	-
Capital Leases		(183)	(133)	(92)	(47)	(14)	(4)
Subordinated Note		-	(2,625)	(3,053)	(3,114)	(3,176)	(3,239)
Seller Notes		-	-	-	-	-	-
Holding Co. Notes		-	-	-	-	-	-
Total Interest Expense		(407)	(3,446)	(3,868)	(4,102)	(4,191)	(4,031)
Pretax Income		(285)	(890)	1,009	4,405	9,507	12,120
Tax Provision		284	(100)	(363)	(1,540)	(3,336)	(4,250)
Net Income		(1)	(990)	646	2,865	6,171	7,870

Exhibit 12a (continued)
Projected Financial Statements: Management Case

Projected Balance Sheet							
(\$000s)		2003	2004	2005	2006	2007	2008
ASSETS							
Operating Cash		-	-	-	-	-	-
Excess Cash		4,017	2,217	-	-	-	-
Accounts Receivables		-	-	-	-	-	-
Inventory		-	-	-	-	-	-
Prepaid Expenses & Other		-	-	-	-	-	-
Other Current		1,573	2,319	3,065	3,811	4,062	4,379
Total Current Assets		5,590	4,536	3,065	3,811	4,062	4,379
Fixed Assets		54,079	72,452	100,194	125,470	137,184	148,898
Accumulated Depreciation		(10,357)	(15,470)	(23,521)	(33,891)	(44,261)	(54,631)
Net Fixed Assets		43,722	56,982	76,673	91,579	92,923	94,267
Deferred Tax Asset		247	247	247	247	247	247
Shareholder Loans		195	195	195	195	195	195
Other Assets		1,620	2,388	3,157	3,926	4,223	4,520
Capitalized Transaction Costs		516	580	460	302	302	302
Existing Goodwill		990	990	990	990	990	990
New Goodwill		-	-	-	-	-	-
Other Intangibles (finite life)		-	-	-	-	-	-
Other Intangibles (indefinite life)		-	-	-	-	-	-
Total Assets		52,880	65,918	84,787	101,050	102,942	104,900
LIABILITIES & OWNERS' EQUITY							
Accounts Payable		4,770	7,033	9,297	11,560	12,435	13,310
Accrued Expenses		3,733	5,505	7,276	9,048	9,643	10,394
Reserve for Warranty		-	-	-	-	-	-
Other Current Liabilities		455	671	887	1,103	1,176	1,267
Total Current Liabilities		8,958	13,209	17,460	21,711	23,254	24,971
Deferred Taxes		-	-	-	-	-	-
Deferred Rent		6,240	6,327	6,408	6,488	6,979	7,470
Deferred Compensation		30	30	30	30	30	30
Existing Debt		7,000	-	-	-	-	-
Revolver		-	-	12,124	21,999	17,446	10,483
Wells Fargo Loan		8,666	12,304	11,905	11,469	9,735	8,002
Term Loan B		-	-	-	-	-	-
Capital Leases		2,974	2,199	1,357	471	-	124
Subordinated Note		17,500	20,350	20,757	21,172	21,596	22,027
Seller Notes		-	-	-	-	-	-
Holding Co. Note		-	-	-	-	-	-
Total Debt		36,140	34,853	46,143	55,111	48,777	40,636
Total Liabilities		51,368	54,419	70,041	83,340	79,040	73,107
ALD Preferred Equity		-	-	-	-	-	-
Sponsors Preferred Equity (SKM and Others)		21,095	21,095	21,095	21,095	21,095	21,095
Seller Preferred Equity		-	-	-	-	-	-
Common Equity		-	-	-	-	-	-
Retained Earnings		(7,086)	(6,941)	(6,189)	(3,226)	2,969	10,862
Total Equity		14,009	14,154	14,906	17,869	24,064	31,957
Total Liabilities and Shareholders' Equity		65,377	68,573	84,947	101,209	103,104	105,064
Note: Balance sheet does not balance due to rounding.							

Exhibit 12a (continued)
Projected Financial Statements: Management Case

ALLIED Subordinated Note Detail							
		2003	2004	2005	2006	2007	2008
BOP Balance		-	17,500	20,350	20,757	21,172	21,596
Total Interest Earned		-	2,625	3,053	3,114	3,176	3,239
Cash Interest Earned		-	2,275	2,646	2,698	2,752	2,807
PIK Interest Earned		-	350	407	415	423	432
Principal Drawdown*		17,500	2,500	-	-	-	-
Principal Repayment**		-	-	-	-	-	22,027
EOP Balance		17,500	20,350	20,757	21,172	21,596	-
* Drawdown is assumed to occur on December 31 of the given year.							
** The Principal Repayment is coincident with the end of the year. The balance sheet shows debt levels immediately before repayment.							
Source: Allied Capital company due diligence documents.							

Exhibit 12b

ELEPHANT BAR RESTAURANT: MEZZANINE FINANCING

Projected Financial Statements: Base Case

Pricing Assumptions							
Total Commitment (000s)	20,000						
Total Interest	15.0%						
Cash Interest	13.0%						
PIK Interest	2.0%						
Warrant	2.5%						
Fees							
Upfront Fee	1.0%						
Drawdown	1.5%						
Store Count							
BOP	20	26	38	50	62	67	
Additions	7	12	12	12	5	5	
Closures	1	-	-	-	-	-	
EOP	26	38	50	62	67	72	
Projected Income Statement							
(\$000s)		2003	2004	2005	2006	2007	2008
Total Sales		87,653	128,747	178,751	228,793	264,493	285,493
Less: G&A Attributable to Running Stores		(74,877)	(109,519)	(151,806)	(193,460)	(223,474)	(240,550)
Store Cash Flow ("4 Wall EBITDA")		12,776	19,228	26,945	35,333	41,019	44,943
Corporate G&A Expense		(7,202)	(10,300)	(14,300)	(18,303)	(21,159)	(22,839)
Nonrecurring Legal Expense (add-back)		143	-	-	-	-	-
EBITDA		5,717	8,928	12,645	17,030	19,860	22,104
Pre-Opening Expenses		(2,458)	(2,541)	(3,013)	(2,946)	(1,250)	(1,250)
EBITDA Post POE		3,259	6,387	9,632	14,084	18,610	20,854
Amortization		(176)	(300)	(334)	(334)	(334)	(334)
Depreciation		(2,809)	(5,049)	(8,171)	(10,528)	(10,370)	(10,370)
EBIT		274	1,038	1,127	3,222	7,906	10,150
Interest Income		-	-	-	-	-	-
Other Income		-	-	-	-	-	-
SKM Management Fee		(152)	(150)	(150)	(150)	(150)	(150)
Interest Expense:							
Existing Debt		(74)	(79)	-	-	-	-
Revolver		-	-	(139)	(442)	(549)	(515)
Seasonal Interest		-	-	-	-	-	-
Wells Fargo Loan		(150)	(609)	(624)	(602)	(626)	(523)
Term Loan B		-	-	-	-	-	-
Capital Leases		(183)	(133)	(92)	(47)	(14)	(4)
Subordinated Note							
Seller Notes		-	-	-	-	-	-
Holding Co. Notes		-	-	-	-	-	-
Total Interest Expense		(407)	(821)	(855)	(1,091)	(1,189)	(1,042)
Pretax Income		(285)	67	122	1,981	6,567	8,958
Tax Provision		284	482	1,016	398	(1,195)	(2,010)
Net Income		(1)	549	1,138	2,379	5,372	6,948

Exhibit 12b (continued)
Projected Financial Statements: Base Case

Projected Balance Sheet							
(\$000s)		2003	2004	2005	2006	2007	2008
ASSETS							
Operating Cash		-	-	-	-	-	-
Excess Cash		4,017	1,133	-	-	-	-
Accounts Receivables		-	-	-	-	-	-
Inventory		-	-	-	-	-	-
Prepaid Expenses & Other		-	-	-	-	-	-
Other Current		1,573	2,319	3,065	3,811	4,067	4,390
Total Current Assets		5,590	3,452	3,065	3,811	4,067	4,390
Fixed Assets		54,078	72,452	100,194	125,470	137,184	148,898
Accumulated Depreciation		(10,357)	(15,470)	(23,521)	(33,891)	(44,261)	(54,631)
Net Fixed Assets		43,721	56,982	76,673	91,579	92,923	94,267
Deferred Tax Asset		247	247	247	247	247	247
Shareholder Loans		195	195	195	195	195	195
Other Assets		1,620	2,388	3,157	3,926	4,248	4,571
Capitalized Transaction Costs		516	580	460	302	302	302
Existing Goodwill		990	990	990	990	990	990
New Goodwill		-	-	-	-	-	-
Other Intangibles (finite life)		-	-	-	-	-	-
Other Intangibles (indefinite life)		-	-	-	-	-	-
Total Assets		52,879	64,834	84,787	101,050	102,972	104,962
LIABILITIES & OWNERS' EQUITY							
Accounts Payable		4,770	7,033	9,297	11,560	12,511	13,462
Accrued Expenses		3,733	5,505	7,276	9,048	9,656	10,422
Reserve for Warranty		-	-	-	-	-	-
Other Current Liabilities		455	671	887	1,103	1,177	1,271
Total Current Liabilities		8,958	13,209	17,460	21,711	23,344	25,155
Deferred Taxes		-	-	-	-	-	-
Deferred Rent		6,240	6,327	6,408	6,488	7,021	7,555
Deferred Compensation		30	30	30	30	30	30
Existing Debt		7,000	-	-	-	-	-
Revolver		-	-	15,768	29,244	28,565	25,659
Wells Fargo Loan		8,666	12,304	11,905	11,469	9,735	8,002
Term Loan B		-	-	-	-	-	-
Capital Leases		2,974	2,199	1,357	471	-	124
Subordinated Note		17,500	20,350	20,757	21,172	21,596	22,027
Seller Notes		-	-	-	-	-	-
Holding Co. Note		-	-	-	-	-	-
Total Debt		36,140	34,853	49,787	62,356	59,896	55,812
Total Liabilities		51,368	54,419	73,685	90,585	90,291	88,552
ALD Preferred Equity		-	-	-	-	-	-
Sponsors Preferred Equity (SKM and Others)		21,095	21,095	21,095	21,095	21,095	21,095
Seller Preferred Equity		-	-	-	-	-	-
Common Equity		-	-	-	-	-	-
Retained Earnings		(7,086)	(8,025)	(9,834)	(10,471)	(8,251)	(4,519)
Total Equity		14,009	13,070	11,261	10,624	12,844	16,576
Total Liabilities and Shareholders' Equity		65,377	67,489	84,946	101,209	103,135	105,128
Note: Balance sheet does not balance due to rounding.							

Exhibit 12b (continued)
Projected Financial Statements: Base Case

ALLIED Subordinated Note Detail							
		2,003	2,004	2,004	2,006	2,007	2,008
BOP Balance		-	17,500	20,350	20,757	21,172	21,596
Total Interest Earned		-	2,625	3,053	3,114	3,176	3,239
Cash Interest Earned		-	2,275	2,646	2,698	2,752	2,807
PIK Interest Earned		-	350	407	415	423	432
Principal Drawdown*		17,500	2,500	-	-	-	-
Principal Repayment**		-	-	-	-	-	22,027
EOP Balance		17,500	20,350	20,757	21,172	21,596	-
* Drawdown is assumed to occur on December 31 of the given year.							
** The Principal Repayment is coincident with the end of the year. The balance sheet shows debt levels immediately before repayment.							
Source: Allied Capital company due diligence documents.							