UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

In re:	)	Chapter 11
	)	
SCHWAB INDUSTRIES, INC., *et al*.,	)	
	)	Jointly Administered Under
	)	Case No. 10-60702-rk
	)	
Debtors.	)	Judge Russ Kendig

OUTLINE OF DEBTORS' CLOSING ARGUMENT ON MOTION FOR DIP FINANCING

Debtors hereby submit the following outline of closing arguments in connection with the Motion for Approval of DIP Financing:

I. Presence of Equity Cushion.

A. Fair market value is the appropriate valuation method for this purpose.

1. The Debtors' businesses as operating units are projected to generate positive EBIDTA and net positive cash flow after restructuring expenses/professional fee and prior to debt service.

2. The Corkscrew Quarry is functioning as an operating farm and orange grove and with positive cash flow, so there is no reason to use liquidation value.

a) The Debtors' projections do not contemplate or project income or expense for mining operations.

b) As expensive and time consuming as the permit process is, the large amounts of high quality aggregate/limestone deposits suggests it has some value above that of an orange grove or potato farm.

c) Testimony of Neale Montgomery who is seeking a similar mining permit for Cemex, a major competitor of the Debtors, suggests that neither she nor other parties believe a permit is impossible to obtain. In fact, she is working hard to obtain a permit for Cemex and did not even acknowledge that Cemex is a competitor of Schwab.

d) Debtors already have an offer from a mining company in the area for $10 million for a 10% interest in the property (which suggests a total value in excess of $100 million).

3. The appraisers for Prepetition Lenders artificially deflated the value of the real estate.

a) The appraisers used substantial discount for economic obsolescence on the theory that businesses aren't viable (which is inconsistent with the testimony)

b) They used a 50% discount for the current economic conditions and ignored evidence that concrete demand is expected to improve. In fact, Prepetition Lenders' expert, Professor Simons, used extensive data from the Chief Economist of Portland Cement in reaching his conclusions (since Professor Simons has no experience or expertise in construction or concrete), but then unexplainably rejected the data from Portland Cement predicting a increase in consumption of concrete starting in 2010 and growing through 2014.

c) They also assumed separate sale of the machinery and equipment leaving only the "shell building" for sale rather than considering highest and best and in place use

d) The Debtors' appraisers, on the other hand, discounted their findings by 10% even after taking into account a 30-35% economic downturn discount and an additional 10% after bankruptcy

4. Application of Debt to Value Demonstrates Equity Cushion

Debt

Prepetion secured debt	$57.0 MM
Proposed DIP loan facility	$18.0 MM
Total Debt	$75.0 MM

Less projected working capital buildup of between $9.2 – 11.1 MM

Net amount of Secured Debt-	$65.0 MM
20% equity cushion	$13.0 MM
Total Required Value:	$78.0 MM

ALTERNATIVE #1

Working Capital	$ 8.5 MM
Machinery & Equipment	$16.1 MM
Real Estate (exclusive of Port & Corkscrew Rd.)	$31.4 MM
Port	$28 MM
Corkscrew Road	$33.6 MM

TOTAL FMV $117.6 MM
(ascribes no value to mineral rights)
(ascribes orderly liquidation value to equipment)

ALTERNATIVE #2 – mid-point ranges

Working Capital	$ 8.5 MM
Machinery & Equipment	$14.4 MM
Real Estate	$20.0 MM
(exclusive of Port & Corkscrew Rd.)	
Port	$14.0 MM
Corkscrew Road	$33.0 MM
TOTAL FMV	$89.9 MM

(ascribes no value to mineral rights)
(ascribes only orderly liquidation value to equipment)

ALTERNATIVE #3 – worst case scenario suggested by lenders

Working Capital	$ 8.0 MM
Machinery & Equipment	$12.7 MM
Real Estate	$12.8 MM
(exclusive of Port & Corkscrew Rd.)	
Port	$1.3 MM
Corkscrew Road	$18.0 MM
TOTAL FMV	$52.8 MM

(ascribes no value to mineral rights)
(ascribes only orderly liquidaton value to equipment)
(ascribes no value to ongoing operations)
(assumes all assets to be sold in 90 days)

None of these scenarios even include substantial unvalued assets on the Debtors' financial statement including cash value of life insurance of $3.3 million, prepaid expenses, investments in various joint ventures, and substantial net operating losses for tax purposes.

II. The Debtors' businesses are viable and should be restructured or sold as going concerns in the context of the Chapter 11 proceedings.

A. Larry Goddard's testimony and cash flow projections were unchallenged by any testimony offered by the prepetition lenders and reflect that the companies are cash flow positive and EBITDA positive after restructuring and bankruptcy professional fees and costs and before required debt service.

1. Because these cases are in Chapter 11, a purchaser or equity investor can acquire the businesses for their fair market value without having to assume all of the Debtors' liabilities, accordingly the fact that the businesses are overleveraged will not reduce their value to a buyer in either a plan or Section 363 sale context.

2. The Debtors testified that in addition to the fact that they are currently forecasting cash flow positive operations before restructuring and debt service costs, continued cost cutting measures are in the process of being implemented by the Debtors will build even greater positive cash flow. Goddard testified that conservative expense reductions of $4.5 MM per year already implemented and another $5.3 million in process.

3. Despite assertions by the lender that the Debtors are bleeding cash by virtue of the need to borrow the DIP Loan, the testimony was clear that the DIP Loan is to be used primarily to fund the bankruptcy and restructuring costs and the necessary working capital buildup, resulting in higher levels of accounts receivable and inventory as the Debtors enter their busy construction season. The working capital buildup adds to and does not deteriorate the Prepetition Lenders' equity cushion. Goddard projected an increase in working capital of $11.1 MM. Morris Anderson used $9.2 million.

4. Although there was testimony suggesting that the construction industry has bottomed out and will show some improvement in the demand for concrete over the next several years, the Debtors' professionals and turn around advisors are not relying upon on any increased business or increase in sales in order to arrive at the cash flow projections forming the bases of their proposed operation in Chapter 11.

5. Actual evidence suggested that construction industry has bottomed out and slight increases in demand for concrete forecasted. Ted Curtis, who is on the ground rather than in the classroom, bolstered the argument that heavy construction appears to be recovering.

III. The viability report prepared by the lender's financial advisor is inaccurate and not credible.

A. In concluding that the businesses of the Debtor are not viable, Mr. Wanat described his six scenarios in his testimony as the "wind down scenarios." He never contemplated or considered the sale or reorganization of the business as a going concern.

1. The calculation of free cash flow available to service debt as calculated by Mr. Wanat is inaccurate.

a) He did not take into account the positive EBITDA forecast by the Debtors, and his figures on net cash flow are in error because:

(1) He included no cost savings initiatives in his calculations despite his admission that every company can cut expenses

(2) He continues to include in his model about $2.0 million in professional fees/ restructuring costs and $1.5 million in pension costs in his calculations despite the fact that no purchaser of these assets or sponsor of a plan would incur those expenses on a going forward basis.

2. Mr. Wanat's assumptions on asset sales used the lowest possible value.

3. Mr. Wanat did not consider at all in his report the possibility of raising equity capital (whether from existing equity holders or third parties) as part of a reorganization.

4. The amount of debt calculated by Mr. Wanat to need to be serviced is grossly overstated.

a) Wanat assumes a total of $81 MM in debt consisting of the prepetition debt, plus the $11.5 MM on the DIP Loan plus a fully drawn revolving credit facility of $14 MM to finance the working capital. But since the working capital buildup is funded by the DIP Loan, there is no testimony or evidence on why the Debtors need a fully drawn revolving credit facility.

b) Wanat ignores the cash buildup projected by Goddard. Mr. Goddard testified that his projections (which were not challenged) projected cash of $6 million by the end of October, 2010, which could be used, in whole or in part, to reduce debt.

c) Wanat assumes all debt would be amortized over 7 years. This is not a reasonable assumption on real estate loans which can carry 10-30 year amortizations, especially for long term real estate assets like the Port and the Corkscrew Road property.

5. Wanat's assumptions and mathematics in his report are inconsistent and illogical. In his scenario 1, where he assumes no assets will be sold and debt would be $81.8 million (already grossly overstated), he concludes required debt service would be a negative $322,000. In his wind down scenario 6, where he assumes everything but the Ohio operations will be sold and debt on exit from bankruptcy would be $44 million, he concludes debt service in 2011 will be $32 million. How on earth can $32 million annually be required to service $44 million in total debt. The

numbers and calculations are so patently erroneous and unexplainable so as to be meaningless.

6. Wanat comes to the conclusion that the businesses are not viable based on the assumption that the businesses are not viable and cannot be sold or reorganized as going concerns. This is an illogical circuitous argument. His testimony is at odds with Mr. Goddard and Mr. Hirsch, each of whom testified to receiving numerous inquiries already from interested parties.

IV. Balancing the interest of all parties and constituencies.

A. The Debtors' plan for purposes of the Chapter 11 is a reasonable and viable alternative for maximization of value.

1. Lenders experts and Debtors' experts all agree that a forced sale will yield the lowest possible value and result in minimal if any distribution to any constituency other than secured lenders.

2. Professional fees will be incurred at some level whether the case proceeds in Chapter 11 as a winddown and sale/auction process or whether it proceeds on the duel track suggested by the Debtors and their professional advisors. In fact, the Morris Anderson report suggests auctioneer fees of an additional $6 million for the auction sale of the Debtors' assets.

3. The duel track process suggested by the Debtors helps to establish the market for the liquidation sale in the event that the Debtors cannot meet the obligations and forecast set forth in their budget. If the Debtors are able to meet their forecast and keep within their budget, then the case will generate positive cash exclusive of restructuring fees and debt service, and the interest of all creditors will be preserved, but

the Court will be able to move the case quickly to a sale process if it appears that the Debtors' forecasts are inaccurate and the Debtors cannot meet their budget, or raise the necessary exit capital or financing, thereby protecting the lenders.[1]

SUBMITTED BY:

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[1] At the conclusion of Mr. Wanat's testimony, the Court inquired of Mr. Wanat about what may have happened to the company's cash and earnings in its profitable years. Wanat speculated that the earnings were taken from the company in the form of millions of dollars of dividends and excess salaries. Though this issue is not relevant to the DIP Motion, the Debtors dispute Wanat's assumptions, and if evidence would be required, would provide evidence of the use of earnings to reduce the total secured bank debt from approximately $103 million to $57 million.

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