

River Forest vs. Heartland

Reasons for needing additional information as requested

Given:

- Monthly Income Statements for period 07/26/08 to 08/01/09
- Sales of Units by product line without names of customers 07/19/08 to 04/04/09

These two items are not enough information to do a proper analysis for the following reasons:

1. To determine amount of sales that were stolen
  - a. Requires that we have a sales ledger with customer names by product for the relevant period
  - b. Requires historical sales by customer to distinguish regular customers sales volume from stolen sales
2. To determine value of stolen sales
  - a. Requires knowledge of financial condition of the company and this is reflected in the Balance Sheet
  - b. Requires knowledge of financial constraints under which the company operates, therefore need to know loan covenants, working capital requirements as reflected in the borrowing base certificates.
  - c. Requires knowledge of how cash was functioning in the operation and therefore the stresses from economic conditions, this is reflected in the Statement of Cash Flows.
  - d. Requires knowledge of other obligations of the company that could use cash and therefore put pressure on sales, these items are reflected in the Balance Sheet and the Statement of Cash Flows.
  - e. Requires knowledge of inventory levels, which is reflected in the Balance Sheet
3. To determine the value of marginal cost
  - a. Requires clarity of manufacturing costs. Books are kept on the accrual basis and the income statement has revealed that some accruals were reversed, therefore need the Balance Sheets to apply the reversals retroactively to the correct time period.
  - b. Requires accrual work papers to understand the timing of the expense so as to apply to the correct time period.
  - c. Requires payroll records to determine difference between base pay and performance pay
4. To determine effect sales had on financial condition and valuation of the company
  - a. Requires Balance Sheets
  - b. Requires copies of any valuation studies done before, during and after period