TOOLING & EQUIPMENT
CAPITAL SOLUTIONS INC.

# Tooling Proposal for Government Loan Proceeds to OEMs

## ~ Feb. 2009 ~

*Thinking outside the box...*
*...Working inside the box !*

# Issues

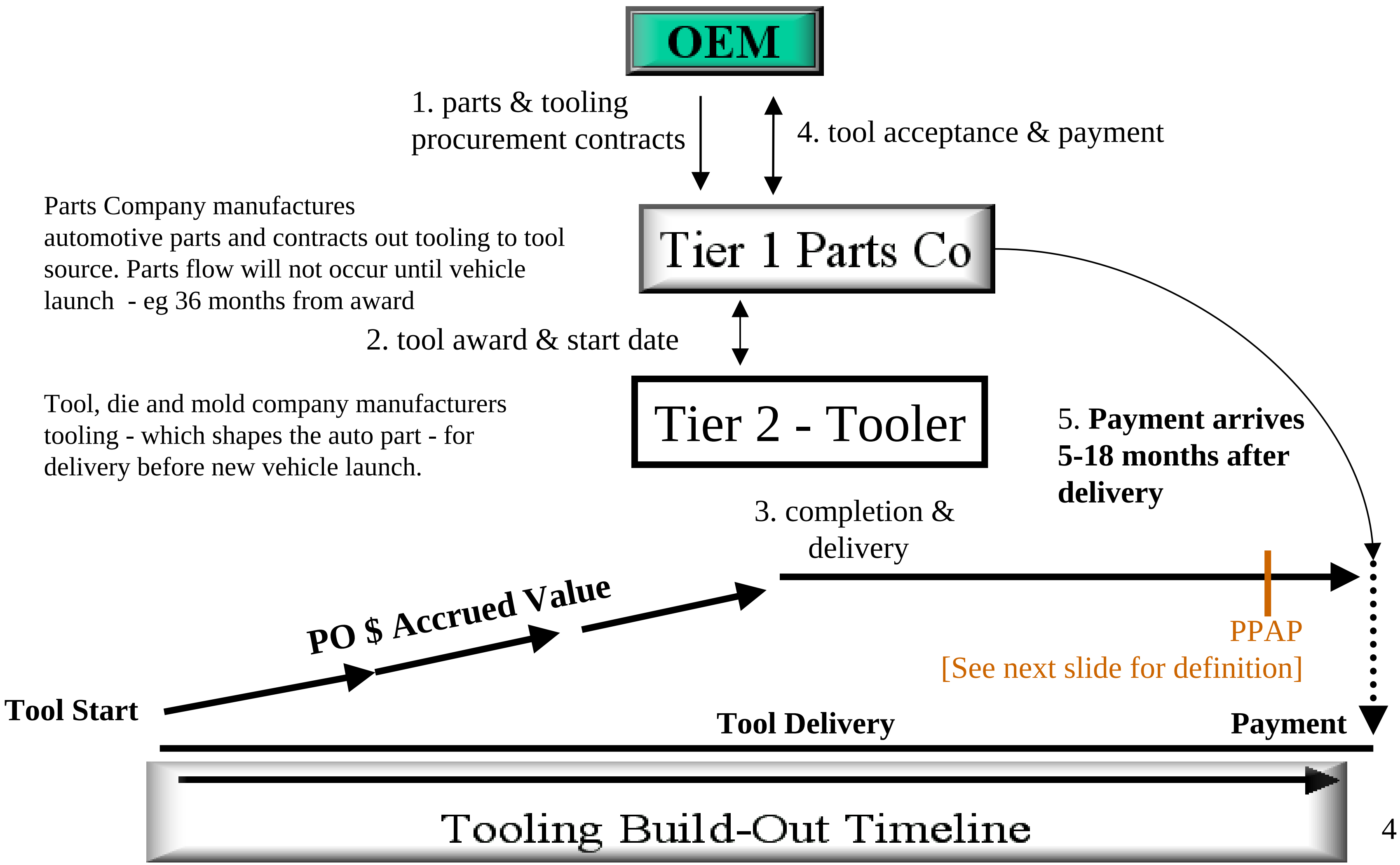
1. Vehicle mfg [OEM] rules have led to Tool, Die and Mold mfgs [TDM] being paid 5-18 months after they have delivered their finished goods to the parts mfgr [Tier 1]:
   – D3 are "off balance sheet financing" hundreds of millions of dollars of their production tooling off the backs of small businesses.
2. Cash strapped parts makers, <u>who act as middle-men for OEM tooling proceeds</u>, have filed CCAA & C11 ensuring the OEM tool proceeds did not make it to their intended destination-the tool source:
   – Resulting in <u>***avoidable bankruptcies of TDMs***</u>

# Proposal

The Tooling Proposal recommends the following:

1. Gov't loan proceeds to OEMs are earmarked for tooling for all 2009 and 2010 launches
2. While gov't loans are outstanding, OEM will:
   - Pay for tooling when it is substantially complete
   - If they cancel, or delay a vehicle launch more than 90 days, the OEM will settle tooling accounts
3. A mechanism to ensure that OEM tooling payments navigate through cash strapped Tier 1's is instituted to ensure "100% trickle down".

# Process Flow ~ Present ~

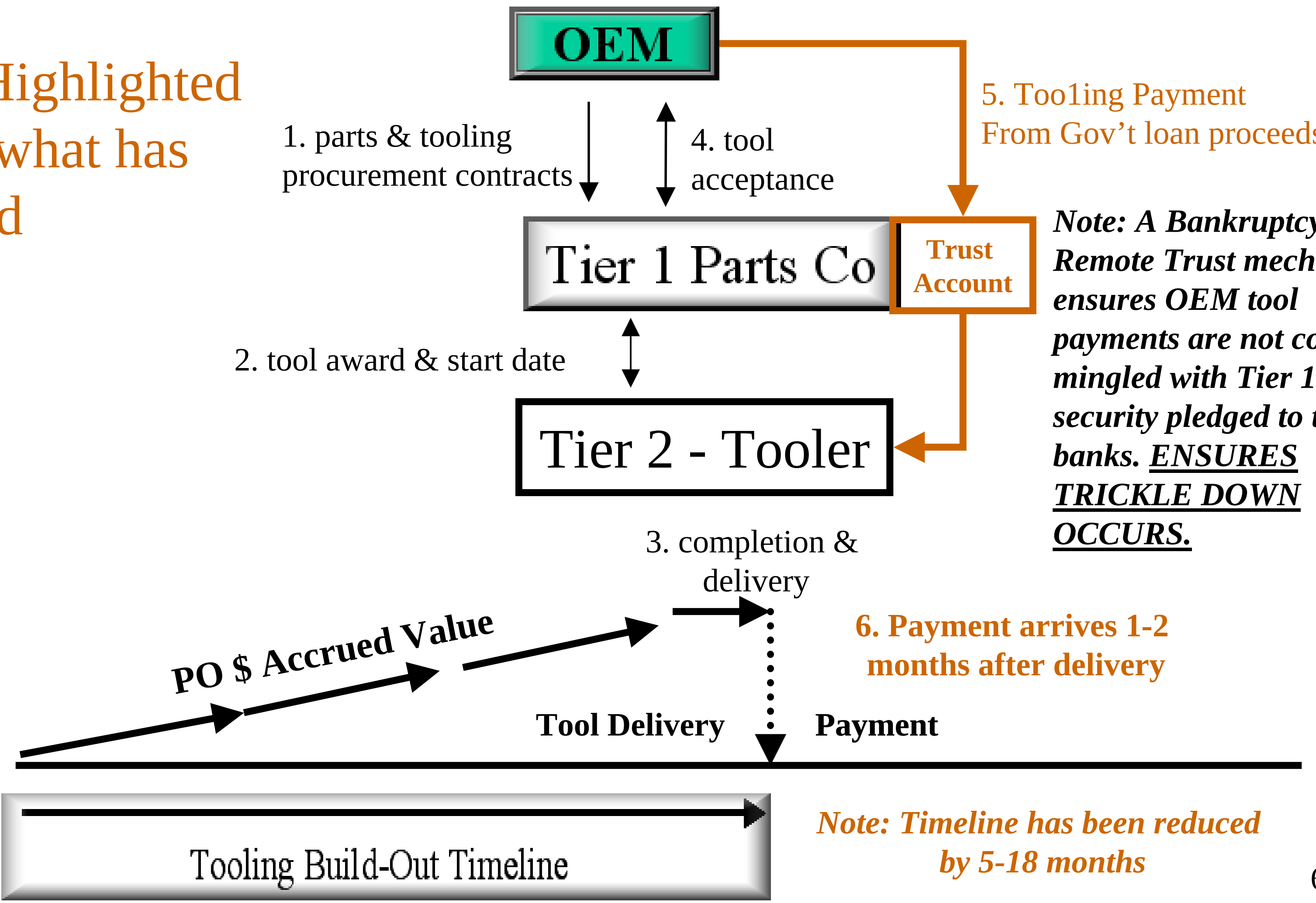


# Production Part Approval Process

- Unilaterally controlled by OEM
- PPAP is a manufacturing milestone
    - Confirms part tolerances and
    - Confirms the robustness of the manufacturing process
- PPAP also is event that triggers accounting recognition and ultimately payment
    – Before PPAP: Off Balance Sheet at OEM & Tier 1
        - Unless they have given a progress payment
    – After PPAP: On Balance sheet with payment 60 days after event to Tier 1 to forward to TDM.

# Process Flow ~ Proposal ~

Note: Highlighted info is what has changed




***Note: A Bankruptcy Remote Trust mechanism ensures OEM tool payments are not co-mingled with Tier 1's security pledged to their banks. <u>ENSURES TRICKLE DOWN OCCURS.</u>***

# TDM Balance Sheet ~ Before & After ~

| | BEFORE PROPOSAL | | |
|---|---|---|---|
| **Balance Sheet TDM Dec. 31/08** | | | |
| Work In Progress | | Bank Operating Line | $4,050,000 |
| Job 1 | $800,000 | | |
| Job 2 | $500,000 | | |
| Accounts Receivable | | | |
| Delivered Jan/08 | $1,000,000 | | |
| Delivered June/08 | $1,000,000 | | |
| Delivered Dec/08 | $1,000,000 | | |
| | | | |
| Total Current Assets | $4,300,000 | | |
| | | | |
| Long Term Assets | $2,000,000 | Long Term Debt | $750,000 |
| | | | |
| | | Equity | $1,500,000 |
| | | | |
| Total Assets | $6,300,000 | Total Debt & Equity | $6,300,000 |
| | | | |
| **Current Ratio** | **1.06** | **EDC Coverage required** | |
| **Debt to Equity** | **3.20** | 90% of A/R and WIP | **$3,870,000** |
| **Operating Line Limit** | **$4,500,000** | | |
| **Available O/L** | **$450,000** | | |

| | AFTER PROPOSAL | | |
|---|---|---|---|
| **Balance Sheet TDM Dec. 31/08** | | | |
| Work In Progress | | Bank Operating Line | **$2,050,000** |
| Job 1 | $800,000 | | |
| Job 2 | $500,000 | | |
| Accounts Receivable | | | |
| **Delivered Jan/08** | **$0** | | |
| **Delivered June/08** | **$0** | | |
| Delivered Dec/08 | $1,000,000 | | |
| | | | |
| Total Current Assets | $2,300,000 | | |
| | | | |
| Long Term Assets | $2,000,000 | Long Term Debt | $750,000 |
| | | | |
| | | Equity | $1,500,000 |
| | | | |
| Total Assets | $4,300,000 | Total Debt & Equity | $4,300,000 |
| | | | |
| **Current Ratio** | **1.12** | **EDC Coverage required** | |
| **Debt to Equity** | **1.87** | 90% of A/R and WIP | **$2,070,000** |
| **Operating Line Limit** | **$4,500,000** | | |
| **Available O/L** | **$2,450,000** | | |

**By accelerating tooling payments from the OEM to 60 days from delivery of the tooling a SUBSTANTIAL improvement in ALL FINANCIAL METRICS of TDM company are realized. EXISTING bank credit facilities are sufficient. EDC usage decreases $1.8 million [60% reduction!!!].**

# Common Sense to Support Proposal

- When the D3 and JCI "bailed-out" Plastech their loan agreement to Plastech required:
  - Funds to be reserved from overall loan amount to pay for tooling
  - An escrow/trust mechanism to ensure toolers were paid and Plastech could not divert proceeds
- The government will be getting a security interest in Cdn tools when the OEM pays the Tier 1
  - DESPITE the Cdn tool source not having yet received proceeds

# Benefits of T&E Proposal

- 3 times DIRECT leverage of gov't funds
  - 1) at OEM for their investment; 2) at Tool Source; 3) EDC insurance capacity can be redeployed to other TDMs
- Existing bank accommodations of TDM are now sufficient!!!
- Cdn tool source now have the financial capacity to win new tooling contracts
- Risk of taxpayer paying twice (once at bailout and <u>second time as EDC pays avoidable insurance claims</u>) is mitigated

# Benefit to Canadian & Ontario Taxpayers

If the Government <u>follows</u> our Proposal their DIRECT ACTIONS will:

- Avoid avoidable bankruptcies in TDM sector;
- Save and increase jobs in TDM sector;
- Not have to rely on the banks to increase credit/liquidity to finance TDMs while their Tier 1 customers are going bankrupt;
- Have protected taxpayer funds EXACTLY the way the D3 do to protect themselves when they are bailing out a Tier 1;
- Ensure the Cdn TDM supplier gets paid when the Gov't get benefit of security in Cdn tools to protect their loans; AND
- Not pay twice for the bailout: now and when TDMs fail or claim under EDC insurance.

# US Implications

- US TDMs and T&E Capital launched US Tooling Proposal in Jan/09
  - The two largest US national tooling associations have supported US Proposal
- T&E has been asked to go to Washington D.C. in Feb/09 to meet with Senators and Congressmen

USE the opportunity to have Cdn TDMs, Cdn & On. Gov't meet with US TDM's and US Treasury and US "Car Czar" to discuss implementation of a <u>North American Tooling Solution</u>.

- ***Canada should show leadership and reciprocity to avoid US protectionism!***

# Contact Information

Solutions,
Strategy,
Execution!

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