Widgeco Company
a Morewidge Company

Collateral Examination Report Prepared for

Lender Capital Finance, Inc

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Note: All dollar amounts are in 000's and are indicated by "M" unless otherwise noted.

Executive Summary

Transaction Summary

Lender Capital Finance, Inc is proposing a $35MM senior secured revolving credit facility to the Widgeco Company. The proposed financing is to be used for working capital purposes. The terms of the proposal include the following:

- An overall credit limit of $35MM
- A sublimit of $5MM for letters of credit
- The revolving loan and LC's will be subject to a borrowing base that includes the following restrictions:
  - Net eligible AR is to be advanced against at a rate of 85%
  - Inventory is to be advanced against at the lesser of:
    - A $17.5MM inventory sublimit
    - 65% of eligible inventory
    - 80% of the NOLV of the inventory
  - There is to be a 10% availability block calculated on net collateral availability
  - Applicable reserves, including a dilution reserve against the accounts receivable for dilution in excess of 5%.

Company Background

Morewidge USA Holdings, Inc or Widget Company, LTD. ("Widget") d/b/a Widgeco Company ("Widgeco") was acquired by The Morewidge effective September 4, 2008. The Morewidge, the widget, gear and cog company was formed in 1906. The acquisition allows Morewidge to expand its US distribution of its Gold brands and licensed brands D&G Widget and Cogs and Macho Widgets and Cogs. It also allows the company to increase its U.S. widget portfolio and global presence with key licensed brands including Tommy Tool, Classy Cog and major retail distribution to Cog Depot, Widgets and Gear-Up.

Widgeco has two business units: Status and Widget. Status makes and distributes its own brand (Widgetstyle) and licensed brands (Tommy Tool, Classy Cog, WGWC, etc). Widget serves major retailers such as GearStuff, Cog Depot, Garvey's, John Stores, Widgets and Gear-Up.

Widget Company, LTD was founded in 1974 by the Jones family of Sometown, ST. During February of 1999, Widget a $100MM company was acquired by Investment Partners, Inc. a private equity firm. During 2000 Investment added to its portfolio of widget companies by acquiring, Testa Industrials, Widgeco Co. and Sunburst. During 2002, Investment merged the widget companies that it had acquired into one entity, Widgeco Group. By this time, the company had grown into a $300MM business.

Investment went through several financing facilities with Bank1 and Bank2 and incurred several covenant violations based on debt, overspending and expansion. Investment began looking to sell the company and during 2006 hired Alvarez & Marsal to restructure the company and position it for a sale. A sale was completed in September of 2008 to The Morewidge an Italian company with consolidated sales including Widgeco ($190MM) of approximately $600MM.

During the year ending March 2008, Widgeco had revenue of $190MM and sold approximately 25 million Widgets. Its corporate offices are in New York City and they maintain a 150,000 square foot distribution center in Atown, ST and repair center in L.I.C. NY. Widgeco sources goods from the Far East (Hong Kong) and its subsidiary Widgeco Company Far East Ltd.

Scope of Field Examination

The field examination consisted of a review of accounts receivable, inventory, accounts payable, cash, and other miscellaneous items such as insurance and taxes. The review covered all periods from July 2007 through June 2009.

Significant Findings

General Items

- The examiners calculated net availability of $17,922M. This amount includes availability for in-transit inventory of $1,979M. In addition, it excludes a slow moving reserve of $6,123M. Per the Lender Capital Finance underwriting team and based on results of the audit and inventory appraisal in-transit inventory will be eligible. In addition, Appraisals R Us assigned a value to slow moving inventory during the appraisal; therefore, the ineligible for slow moving is not needed.
- The examiners noted that Widget Far East also sells to Gear-Up. As of 8/3/09 the total amount on the Widget Far East aging due from Gear-Up was $724M. The Company is paid via an LC for Far East sales to Gear-Up.

Accounts Receivable

- The top ten AR concentrations represent 61% of the total AR; however, the Company is currently in its slow season. 12 month sales to Gear-Up, G-mart and Widgets total 36% of the total sales.
- The examiners calculated dilution of 14.4% for the 12 months ended 6/30/09. Per the Lender Capital Finance term sheet a dilution reserve of 9.4% has been implemented for dilution in excess of 5%.
- The Company offers several different dating programs (up to 90 days). The examiner recommends that AR be reported to Lender Capital Finance via the invoice date aging and not the due date aging.
- Sales for the 12 months ended 6/30/09 totaled $132,436M, which are $336M, or 0.3% less than the sales for the twelve months ended 6/30/08; however, in April 2009 the Company had 4.5MM of promotional sales to Gear-Up that they do not normally receive.

Inventory

- Inventory includes private label items for Widgets, Gear-Up, G-mart and Cog Depot totaling $4.5MM which is 24% of the total inventory.
- The examiners noted that there is approximately $6.1MM (32%) of slow moving inventory as of 6/30/09. Slow moving inventory is defined as on hand quantities in excess of 12 months sales or usage. However; because slow moving inventory was accounted for by Appraisals R Us in arriving at the appraised NOLV a reserve has not been recommended by the examiners.
- As of 6/30/09, inventory is showing a 23% decrease compared to the same period in the prior year. The decrease is due to:
    - The slow economy and reduced consumer purchases of Widgets.

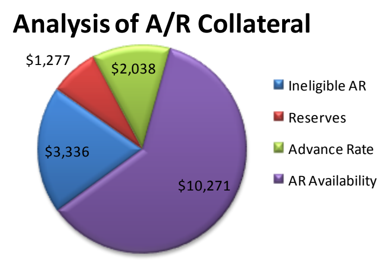
    - It has taken longer than expected to have working capital financing in place and the Company has seen its accounts payables become stretched.
- The Company leases the warehouse in Atown ST. The monthly lease payment is $89M. At the time of the audit, the lease payments were current. In addition, it was assumed by the examiners that Lender Capital Finance will be obtaining a landlord waiver; therefore, a reserve was not recommended. In the event that Lender Capital Finance is not able to obtain the waiver, the examiners would recommend a reserve of $267M ($89M x 3 months), or the total amount due, whichever is greater.

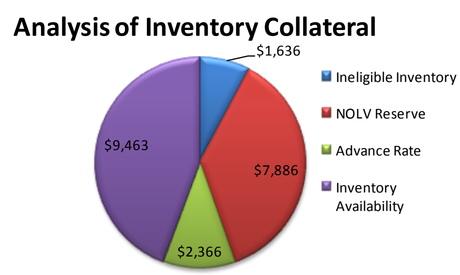
Accounts Payable

- As of 6/30/09, total AP stood at $9.991M. $3,840M of the balance or 38.4% is over 90 days old. This is due to the lack of working capital. The Company expects to clean up the trade AP once the financing is in place.
- Due to the lack of liquidity AP TO has increase from 28 days to 48 days for the 12 months ending 6/30/09 versus 6/30/08.
- Trade AP does not include inter-company purchases from advanced Widget Far East. As of 6/30/09 the “due to” balance for advanced Widget was $11,038M.
    - For the 12 months ended 6/30/09, purchases from advanced Widget Far East totaled $33,817M, or 46% of the $73,315M in total purchases
- All purchases are made on open account; the company is not currently required to open LC’s.

Availability

(000's)			
(a)	Accounts Receivable per the 6/09 aging.	$	16, 922
	Ineligibles		
(b)	Past Due (90 Days)		1,217
(c)	Credits in Past Due		188
(d)	Cross Aging		425
(e)	Charge backs		476
(f)	Tommy Tool		583
(g)	Sales Reps		8
(h)	Foreign		102
(i)	Open amount <> Original amount		16
(j)	License Fee Contra		96
(k)	Consignment		70
(l)	Co-op Advertising		155
	Total Ineligibles	$	3,336
	Eligible Accounts Receivable	$	13,586
(m)	Advance Rate		85.0%
	Available Accounts Receivable	$	11,548
	Reserves		
(n)	Dilution		1,277
	Net Accounts Receivable Availability	$	10,271
(o)	Inventory as of 6/09	$	21,351
	Ineligibles		
(p)	Displays		698
(q)	Catalogs		74
(r)	Packaging		5
(s)	Repair and Returned Inventory		859
(t)	Slow Moving		-
	Total Ineligible	$	1,636
	Eligible Inventory	$	19,715
(u)	Advance Rate		65.0%
	Available Inventory	$	12,815
(v)	Eligible Inventory		19,715
(w)	NOLV %		60.0%
	Eligible NOLV Inventory	$	11,829
(x)	Advance Rate		80.0%
	Inventory @ NOLV Availability	$	9,463
(y)	Inventory Sub Limit(s)		17,500
(z)	Net Inventory Availability	$	9,463
	Net Collateral Availability	$	19,734
(aa)	Availability Block		1,973
	Excess (Deficit) Availability	$	17,761





Notes to Availability

(a) **Accounts Receivable per the 6/30/09 Aging** – represents the grand total of the detailed accounts receivable aging from 6/30/09
(b) **Past Due (90 Days)** – represents all balances that are aged 90 days or more from the invoice or transaction date
(c) **Credits in Past Due** – represents customer credit balances that are aged 90 or more days from the transaction date and that can be used to offset eligible customer balances.
(d) **Cross Aging** – represents the eligible portion of customer balances, where the customer's past due balance is 25% or more than the total amount due.
(e) **Charge Backs** – represents customer deductions being researched by the Company. These transactions are coded as an "R6" on the detailed aging. The balance is for eligible balances only
(f) **Tommy Tool AR** – represents the lesser of the eligible Tommy Tool AR or the amounts payable to Tommy Tool as part of its royalty agreement with the Company. Per management, the amounts paid to Tommy Tool represent minimums as they will not meet the required sales levels for increased royalty payments. Furthermore, the quarterly minimum payments are prepaid each quarter.
(g) **Sales Reps** – represents the eligible accounts receivable balances due from sales representatives of the Company.
(h) **Foreign** – represents the eligible accounts receivable balances due from customers not domiciled in either the United States or Canada.
(i) **Original Invoice amount not equal to open amount** – represents invoices (transactions coded as "RI" and not "R6") that were originally for amounts different from the current open balance.
(j) **License Fee Contra** – represents the lesser of the eligible AR or the amounts due to the customer through a royalty and/or advertising agreement. Unlike the Tommy Tool reserve above, the amounts due to these customers are based actual sales results and represent a percentage of sales made. These amounts are paid to the customer in arrears.
(k) **Consignment** – represents balances due for consignment invoices. The Company has twp consignment arrangements. Product is billed when it is shipped, however the Company makes payments as the Widgets are sold.
(l) **Co-op Advertising** – The examiner noted that the Company has accrued $2,156M for co-op advertising. The $155M ineligible recommendation is for eligible AR balance that could be offset with credits issued for the co-op advertising. The balance of the accrual was for customers that were already ineligible or that did not have eligible AR open as of 6/30/09.
(m) **AR Advance Rate** – Per the Lender Capital Finance term sheet AR is to be advanced on at a rate of 85%.
(n) **Dilution Reserve** – per the Lender Capital Finance term sheet, a dilution reserve is required for dilution that is in excess of 5%. The examiner calculated a 14.4% dilution rate for the 12 months ended 6/30/09, resulting in a 9.4% dilution reserve. The

amount reserved is based on available AR of $13,586M times the 9.4% excess dilution. Due to the seasonality in the AR collateral, Lender Capital Finance may want to consider alternative methods in calculating this reserve. Please refer to the AR statistics section for further discussion.

(o) **Total Inventory** – Per the Company prepared 6/30/09 inventory perpetual

(p) **Displays** – represents the book value of store display apparatus included in the Company's perpetual. Displays are deducted from the total inventory to get to the beginning NOLV inventory as well.

(q) **Catalogs** – represents the book value of catalogs included in the Company's perpetual. Catalogs are deducted from the total inventory to get to the beginning NOLV inventory as well.

(r) **Packaging** – represents the book value of packaging included in the Company's perpetual. Packaging is deducted from the total inventory to get to the beginning NOLV inventory as well.

(s) **Repair and Returned Inventory** – represents inventory stored at the LIC repair facility.

(t) **Slow Moving** – the examiners noted $6,123M of inventory that is in excess of 12 months sales; however, since the appraisal assigned a value to the slow moving inventory the ineligible amount was deemed as not necessary.

(u) **Inventory Advance Rate** – Per the Lender Capital Finance term sheet, eligible inventory is to be advanced on at a rate 65% or 80% of the NOLV of inventory

(v) **Eligible Inventory** – per the appraisal performed by Appraisals R Us, represents inventory of $19,372M plus in-transit inventory of $1,979M and less ineligible inventory of $1,636M for displays, packaging, catalogs, repair and returned inventory.

(w) **NOLV % -** represents the ratio of the NOLV of the eligible inventory divided by the eligible inventory as determined by the appraisal performed by Appraisals R Us Group.

(x) **NOLV Advance Rate** – per the Lender Capital Finance term sheet, the NOLV of the inventory is to be advanced on at a rate of 80%.

(y) **Inventory Sublimit** – per the Lender Capital Finance term sheet there is a $17,500M sublimit on inventory

(z) **Net Inventory Availability** – per the Lender Capital Finance term sheet, inventory availability is the lesser of a 17.5MM sublimit, 65% of eligible inventory or 80% of the net recovery percentage (60% as determined by Appraisals R Us) of eligible inventory.

    a. According to the June 30, 2009 Appraisals R Us Inventory Appraisal, a net recovery value of 60% was shown for the low selling period (December-August) and 71% for the high selling period (September-November).

(aa) **Availability Block** – Per the Lender Capital Finance term sheet there is an availability block equal to 10% of borrowing availability.

Accounts Receivable

Overview

General

The Company maintains a due date aging; however, their system (JD Edwards) is capable of producing invoice date aging reports. The company maintains a copy of the month end summary and detailed AR aging. Aging buckets for the due date aging are Current, 1-30, 31-60 , 61-90 and 91 +.

The AR aging is reconciled to the general ledger monthly. The latest reconciliation is as of 6/30/09. Reconciliations are performed Derek Jeter (staff accountant). The reconciliation is then reviewed by Mark Texiera (credit manager) and/or Alex Rodriguez (controller).

The company on occasion will accept customer deposits; however, these are rare. Customer deposits are normally not required; however, if there is a need for a large outlay of funds for private label materials the customer may be asked to make a deposit. Deposits are reflected in the AR aging as credit items; therefore, additional ineligibles are not necessary.

The company creates and maintains credit files on all of its customers. In addition it has a tickler system for the review and updating of the credit files. Large chain and department stores are reviewed quarterly, other customers are reviewed every 6 months. The credit files contain financial statements, as well as bank and trade references.

The Company's system does not automatically block orders for customers that are past due or have an outstanding AR balance higher than the prescribed credit limit; however, all orders must be approved before the shipment is deemed "dropped to floor." Only those orders designated as "dropped to floor" are eligible for shipping and invoicing.

The Company's credit department will contact Customers with past due balances or higher than normal AR balances to inquire as to when a payment can be expected. Depending on the length and strength of the relationship the Company may release the order as is or they may insist on a payment being made prior to making the shipment.

Unapplied cash is maintained on the aging and is aged based on the application or receipt date.

Ordering and Shipping

Orders are received via EDI and in hard copy format from customers. EDI orders are entered directly into the JD Edwards ("JDE") system. Hard copy orders are forwarded to the order entry department where they are manually entered into the JDE system.

Throughout most of the year sales are made from stock items. Management monitors inventory levels of the stock items and orders additional quantities as needed. During the high shipping season in the fall, the planning department works in conjunction with the sales department to ensure that the Company has the necessary styles of Widgets available.

Shipments are made from the Atown Michigan warehouse. The shipments are made via FedEx, UPS, third party carriers or customer pickups. Terms of the shipment are "FOB dock."

If a customer changes an order, generally a new purchase order is required. The company will not ship substitutions. If a stock out occurs the customer is contacted prior to the Company making a partial shipment.

Invoicing

The JDE system tracks inventory movement as it goes through the various stages prior to shipping. Once the product reaches a "dropped to floor" status, the product is invoiced the next day. Product is only considered "dropped to floor" after it is ready for shipment and the order has been approved by the credit department.

Invoices are EDI transmitted to larger customers, and hard copies are mailed to smaller ones.

The company maintains customer purchase orders and shipping documents (signed and dated bills of lading) as support for all invoices created.

The company offers volume rebates of up to 1.5% in addition to coop advertising.

The company has several small consignment arrangements. One is with Starcrest Products, the other with Tournau. The company's system is not set up for consignment sales; therefore, product is billed as it is shipped to the customer, then the customer pays for the product as it is sold. The examiner noted that Starcrest AR is past due and that additional reserves are not needed; however, there is a $70M eligible balance from Tournau. The examiner has recommended a reserve for this balance.

Credits/Returns

Requests to return goods are made through the sales department. The sales executive will either approve the return or submit the request to the head of sales. The sales department prepares the return authorization and forwards them to the Atown location so that they can be matched up when the product comes in.

When Atown receives the returned product, it is counted, then the price billed is checked and a credit is processed through the JDE system.

If a product is received without an RA, generally the Company will accept it.

For volume rebates the sales department will track sales levels, once the sales level required for the rebate is reached, the sales department will initiate the credit request.

Credits are issued for returns, volume discounts, markdowns, shortages and billing errors.

For billing errors, the customer will generally pay what was on the purchase order and deduct for the difference.

The Company maintains an allowance for doubtful accounts. Mark Texiera approves all write-offs, but only after all other avenues have been exhausted.

Significant Transactions and Accounts

The examiner noted the following transaction types during the review of the accounts receivable

Category	Reserve	Comments
Guaranteed Sales	-	Nothing formal (i.e. not a term of sale per the customer's PO); however, the company accepts returns without RA's
Advertising Allowances	-	$155M reserved for in Co-op accrual (see below). Advertising allowances are not accrued for. This item is covered via the dilution reserve
Discounts	-	Credits are issued to offset the discount deduction. This item is covered via the dilution reserve
Consignment Sales	70	Starwidget and CamCams
Contra Accounts	-	All contra accounts reserved for in full with other categories
Volume Rebates	-	Company does not accrue for volume rebates, credits issued when earned. This item is covered via the dilution reserve
Dating Sales	-	Past dues are calculated using the invoice date
Foreign Sales	102	All eligible balances from non US or Canadian customers reserved for.
License or Royalty Charges	679	Eligible balance of customers accrued for.
Charge Backs	476	R6 transaction types.
Co-Op Advertising	155	Eligible balance of customers accrued for.
Warranty Expense		Company has accrued $500M for warranty expenses.

Accounts Receivable Statistics

	12 Month Comparison		Change	
	Current	Prior	Amount	Pct
Sales	$ 132,436	$ 132,773	$ (336)	-0.3%
Collections	116,864	123,270	(6,406)	-5.2%
Dilution	19,093	22,111	(3,019)	-13.7%
Dilution %	14.4%	16.7%	-2.3%	-13.8%
Turnover	60.2	60.0	0.2	0.4%

	6 Month Comparison		Change	
	Current	Prior	Amount	Pct
Sales	$ 58,443	$ 55,352	$ 3,091	5.6%
Collections	51,354	54,724	(3,370)	-6.2%
Dilution	9,713	10,378	(665)	-6.4%
Dilution %	16.6%	18.7%	-2.1%	-11.2%
Turnover	59.3	56.4	3.0	5.2%

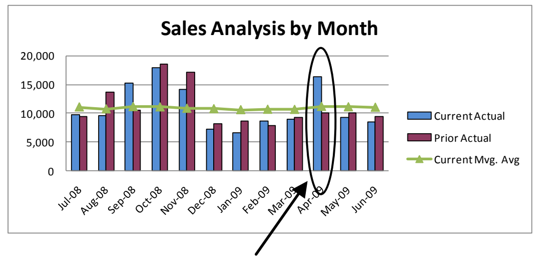
	3 Month Comparison		Change	
	Current	Prior	Amount	Pct
Sales	$ 34,107	$ 29,638	$ 4,468	15.1%
Collections	28,556	25,857	2,699	10.4%
Dilution	3,646	4,098	(452)	-11.0%
Dilution %	10.7%	13.8%	-3.1%	-22.5%
Turnover	55.5	58.7	(3.3)	-5.5%

General/Overview

The company prepared an accounts receivable roll forward for the 24 months ended 6/30/09. The examiner traced entries from the roll forward to the underlying detail reports maintained in the JD Edwards accounting software. No exceptions were noted by the examiner when comparing the detailed data to the roll forward entries prepared by the company. However, the examiner did note that the ending balances per the roll forward had small differences from historical aging balances. Per the Company this is due to corrections that are made to the system. The examiner reviewed several months that had differences in excess of $30M, and noted that the differences were caused by correcting entries.

Sales

For the 12 months ended 6/30/09 versus the 12 months ended 6/30/08, sales have been consistent declining a nominal $336M, or 0.3% from $132,773M to $132,436M. For the same two 12 month periods net sales (gross sales less dilution) have shown a small increase of 2.4% or $2,684M going from $110,661M to $113,344M.



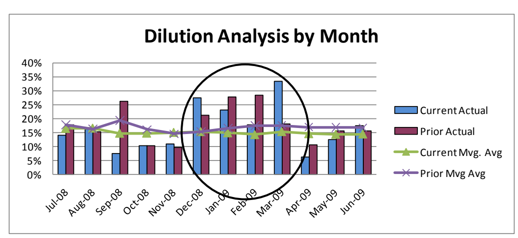
For the six and three month periods sales have shown material increases; rising by 5.6% and 15.1% respectively. The increases are caused by a spike in sales in April of 2009. According to management the spike was caused by:

- Special holiday promotion programs for mother and father's day entered into by Gear-Up.
- Liquidation of older slow moving inventory.

Sales have a strong seasonality component, with sales reaching their highest levels during the late summer and fall shipping seasons, just prior to the winter holidays. As noted earlier the Appraisals R Us appraisal allows for a 60% NOLV value during the "low" selling months of December through August and a 71% NOLV value during the high selling months of September through November.

Dilution

Dilution for the 12 months ended 6/30/09 averaged 14.4%, compared to 16.7% for the 12 months ended 6/30/08. Similar improvements for the three and six month comparative periods are noted. Management feels that the decrease is caused by a shift towards markdown allowances and away from acceptance of any and all returns.

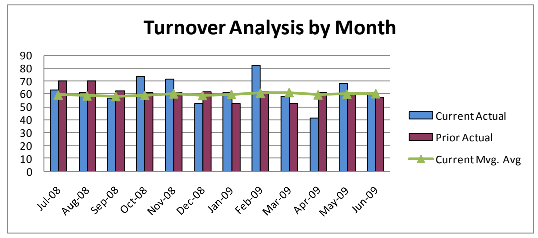


The examiner notes that the current 12 month dilution is high in relation to the 85% Widget rate that is to be applied to eligible AR. Per the Lender Capital Finance term sheet, a reserve for the dilution percentage in excess of 5% has been instituted by the examiner.

Due to the seasonality of sales, dilution also has a strong seasonality component. Dilution is at its highest during the months following the winter holidays. As seen in the chart above, monthly dilution is materially higher than the moving averages during the seasonal peaks and materially lower during the seasonal troughs. Due to the large seasonal swings in dilution, Lender Capital Finance may want to consider basing the dilution reserve on a time frame smaller than 12 months. Using a shorter time frame would have the impact of increasing the reserve during the higher periods of dilution and lowering the reserve during the lower periods of dilution. Alternatively, Lender Capital Finance may want to base the reserve on the coming months by using the dilution noted in the prior year for those months as the basis for a dilution reserve calculation.

Turnover

Turnover averaged 60 days for both the 12 months ended 6/30/09 and the 12 months ended 6/30/08. For the six and three month periods ending 6/30/09 and 6/30/08, AR turnover increased by three days and decreased by three days respectively.



AR TO can have fairly large swings from month to month (for example there was a high of 82 days in February 2009 and a low of 41 days in April of 2009); however, for the most part the AR TO is consistently in the 55 to 65 day range. Terms of sale range from net 30 to net 90 days.

Accounts Receivable Summaries

Accounts Receivable Aging Comparison

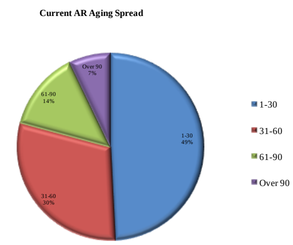
Below are comparative accounts receivable due date agings for the periods ended 6/30/08 and 6/30/09.

	Jun-09		Jun-08	
	Amount	**Pct**	**Amount**	**Pct**
Current	$ 11,591	68%	$ 11,960	73%
1-30	4,639	27%	4,100	25%
31-60	458	3%	578	4%
61-90	158	1%	60	0%
Over 90	76	0%	(220)	-1%
Total	**$ 16,922**	**100%**	**$ 16,478**	**100%**

The comparative AR balances from 6/30/09 and 6/30/08 are similar when aged by due date. For the period ended 6/30/09, 4% of the AR was past due over 30 days, while 3% was past due over 30 days as of 6/30/08.

The company offers several different dating programs; therefore the invoice date aging shows a larger aged/past due balance. Typically eligible AR is defined as invoices that are less than 90 days from the invoice date or less than 60 days past due. This treatment assumes that selling terms are predominantly net 30. Widgeco has several different dating programs ranging from net 30 to net 90. Below is the 6/30/09 re-aged by invoice date. As can be seen the past due balance when based on invoices being 90 or more days from the invoice date is materially higher at $1,217M, than they would be if based on 60 days past the due date ($234M).

	Jun-09	
	Amount	**Pct**
1-30	$ 8,325	49%
31-60	5,065	30%
61-90	2,315	14%
Over 90	1,217	7%
Total	**$ 16,922**	**100%**



Accounts Receivable Aging History

Below are the accounts receivable aging balances for the 24 months ended 6/30/09 based on due date (invoice date aging reports were not available for prior periods). The examiner notes the following:

- The AR reflects the seasonality of the Company's business, peaking during the late fall.
- The AR is generally paid by the due date or shortly thereafter. AR that is current or 1-30 days past due is consistently 96% or more than the total balance due.

			Actual					12 Mo. Moving Avg		
Month	**Total**	**Current**	**1-30**	**31-60**	**61-90**	**Over 90**	**P/D**	**Total**	**Elig.**	**P/D**
Jul-07	20,647	15,660	5,487	552	182	(1,234)	(500)	21,009	21,374	(365)
Aug-07	23,579	15,959	7,863	846	176	(1,265)	(243)	21,865	22,190	(324)
Sep-07	20,380	14,942	5,979	725	19	(1,285)	(541)	21,494	21,873	(379)
Oct-07	27,758	21,567	6,155	1,334	273	(1,571)	36	22,747	23,042	(296)
Nov-07	28,766	21,661	6,519	1,288	689	(1,391)	586	23,750	23,899	(149)
Dec-07	21,999	13,593	7,002	1,506	720	(822)	1,404	23,500	23,427	73
Jan-08	16,030	11,709	3,539	1,015	645	(878)	782	22,566	22,404	162
Feb-08	14,192	11,365	3,652	498	12	(1,335)	(825)	21,636	21,584	52
Mar-08	15,795	11,784	3,338	900	24	(251)	673	21,052	20,937	114
Apr-08	17,557	12,277	4,592	494	725	(531)	688	20,734	20,568	166
May-08	17,301	12,735	5,085	357	(312)	(564)	(519)	20,448	20,339	109
Jun-08	**16,478**	**11,960**	**4,100**	**578**	**60**	**(220)**	**418**	**20,040**	**19,877**	**163**
Jul-08	20,648	15,660	5,488	552	182	(1,234)	(500)	20,040	19,877	163
Aug-08	17,392	12,192	4,777	449	214	(240)	423	19,525	19,306	219
Sep-08	22,629	17,999	4,263	326	240	(199)	367	19,712	19,418	294
Oct-08	29,312	21,689	7,019	706	204	(306)	604	19,842	19,500	342
Nov-08	29,801	18,536	10,517	1,029	42	(323)	748	19,928	19,573	355
Dec-08	17,494	9,408	7,072	661	699	(346)	1,014	19,552	19,230	323
Jan-09	14,376	9,336	2,484	2,493	193	(130)	2,556	19,415	18,944	471
Feb-09	16,862	11,333	3,353	1,139	1,464	(427)	2,176	19,637	18,916	721
Mar-09	14,239	11,365	2,751	(46)	345	(176)	123	19,507	18,833	675

Apr-09	19,534	16,803	2,620	216	(137)	32	111	19,672	19,045	627
May-09	19,025	13,171	5,337	471	170	(124)	517	19,816	19,103	713
Jun-09	**16,922**	**11,591**	**4,639**	**458**	**158**	**76**	**692**	**19,853**	**19,117**	**736**

			Common					12 Mo. Moving Avg		
Month	**Total**	**Current**	**1-30**	**31-60**	**61-90**	**Over 90**	**P/D**	**Total**	**Elig.**	**P/D**
Jul-07	100%	76%	27%	3%	1%	-6%	-2%	100%	102%	-2%
Aug-07	100%	68%	33%	4%	1%	-5%	-1%	100%	101%	-1%
Sep-07	100%	73%	29%	4%	0%	-6%	-3%	100%	102%	-2%
Oct-07	100%	78%	22%	5%	1%	-6%	0%	100%	101%	-1%
Nov-07	100%	75%	23%	4%	2%	-5%	2%	100%	101%	-1%
Dec-07	100%	62%	32%	7%	3%	-4%	6%	100%	100%	0%
Jan-08	100%	73%	22%	6%	4%	-5%	5%	100%	99%	1%
Feb-08	100%	80%	26%	4%	0%	-9%	-6%	100%	100%	0%
Mar-08	100%	75%	21%	6%	0%	-2%	4%	100%	99%	1%
Apr-08	100%	70%	26%	3%	4%	-3%	4%	100%	99%	1%
May-08	100%	74%	29%	2%	-2%	-3%	-3%	100%	99%	1%
Jun-08	**100%**	**73%**	**25%**	**4%**	**0%**	**-1%**	**3%**	**100%**	**99%**	**1%**
Jul-08	100%	76%	27%	3%	1%	-6%	-2%	100%	99%	1%
Aug-08	100%	70%	27%	3%	1%	-1%	2%	100%	99%	1%
Sep-08	100%	80%	19%	1%	1%	-1%	2%	100%	99%	1%
Oct-08	100%	74%	24%	2%	1%	-1%	2%	100%	98%	2%
Nov-08	100%	62%	35%	3%	0%	-1%	3%	100%	98%	2%
Dec-08	100%	54%	40%	4%	4%	-2%	6%	100%	98%	2%
Jan-09	100%	65%	17%	17%	1%	-1%	18%	100%	98%	2%
Feb-09	100%	67%	20%	7%	9%	-3%	13%	100%	96%	4%
Mar-09	100%	80%	19%	0%	2%	-1%	1%	100%	97%	3%
Apr-09	100%	86%	13%	1%	-1%	0%	1%	100%	97%	3%
May-09	100%	69%	28%	2%	1%	-1%	3%	100%	96%	4%
Jun-09	**100%**	**68%**	**27%**	**3%**	**1%**	**0%**	**4%**	**100%**	**96%**	**4%**

Write-off Analysis

Write-off History

Below is the Company's write-off history for the years ended 3/31/08 and 3/31/09 as well as the three months ended 6/30/09.

Year Ended	Write Off $	% of Years Sales	% of Allowance for DA	FYE Sales $	FYE AD Balance $
3/31/2008	$ (54)	0.0%	-21.5%	$ 117,481 (1)	$ 251
3/31/2009	319	0.3%	87.6%	119,701 (2)	364
6/30/2009	10	0.0%	2.8%	32,319 (2)	354

(1) Per the Morewidge USA audited financials for the period of 7/31/07-3/31/08.
(2) Per the AR roll forward

Write-off Detail

Below are the larger write-offs incurred over the last 12 months. As can be seen, the majority of the write-offs have been caused by bankruptcy filings.

Customer Name	Month	Amount	Reason
VALUE CITY DEPT STORES, INC #	Nov-08	228,124	Ch.11 bad debt
KEY WEST # 2 # 002 *INTL*	Mar-08	9,980	BAD DEBT W/O
BOSCOV'S DEPARTMENT STORE # 3	Aug-08	11,593	CHAPTER 11
WHITTFIELD & CO # 2 # 002	Oct-08	6,314	Placed For Collection 10/31/08
TSIC, INC.FKA SHARPER IMAGE CO	Dec-08	11,040	Chapter 11
FASHION TIME INC. # 2 # 002-DO	Jan-09	57,895	filed bankruptcy
FILENE'S BASEMENT # 3 # 001	May-09	19,675	BAD DEBT INVOICE 4312971
WEST MARINE PRODUCTS, INC # 10	Jan-08	6,771	OLD BALANCE UNCOLLECTIBLE

Accounts Receivable Concentrations

Below are the concentrations as of 6/30/09, aged by due date.

Rank Last Year	Customer	City & State	%Total A/R	Total	Current	1-30	31-60	61-90	Over 90	Total PD	6/2008 Total	Past Due
	Tgears/AllCogs	Framingham, MA	14.4%	$2,430	$1,795	$625	$0	$0	$10	$10	$584	$12
1	Widgets Dist.	Minneapolis , MN	11.2%	1,901	1,451	369	1	8	72	80	2,238	8
2	Cog Depot	Cincinnati, OH	8.1%	1,378	682	464	73	22	137	159	2,167	(338)
3	Gear-Up	Bentonville, AR	7.7%	1,310	942	249	(8)	18	109	127	1,568	63
9	G-Mart	Hoffman Estates, Il	6.2%	1,041	651	371	5	5	9	14	546	5
6	Sam's Gear	Little Rock, AR	4.0%	672	102	499	-	3	68	71	669	58
	Tools n More	Seattle, WA	3.6%	606	340	266	-	-	-	-	176	(6)
4	Tommy Tool	New York, NY	3.5%	593	450	143	-	-	-	-	777	5
7	Gear World Ent.		2.8%	467	81	206	154	18	8	26	626	6
10	Philly Cog	Burlington, NJ	2.3%	394	363	22	2	5	2	7	590	(4)
5	John Stores	Pleasanton, CA	2.3%	393	303	90	-	-	-	-	94	10
8	AAFES	Dallas, TX	2.0%	337	308	31	(2)	-	-	-	670	-
	Total Top Ten Accounts Receivable Concentrations		**63.8%**	**$10,792**	**$6,857**	**$3,214**	**$227**	**$79**	**$415**	**$494**	**$9,945**	**-$187**
	Not Analyzed		36.2%	6,130	4,734	1,425	231	79	(339)	198	6,533	605
	Total Accounts Receivable		**100.0%**	**$16,922**	**$11,591**	**$4,639**	**$458**	**$158**	**$76**	**$692**	**$16,478**	**$418**

Accounts Receivable Concentrations Overview

The top ten concentration accounts equal 64% of the total A/R as of 6/30/09 in comparison to 60% as of 6/30/08. Based on Widgeco being in the off season the largest concentration account is Tgears/AllCogs who is sold overstock merchandise and slow moving styles. Gear-Up is Widgeco's largest customer at approximately 18% of sales while G-Mart and Widgets each account for 9% of sales.

Increases to Accounts Receivable Aging Concentrations

The increase in receivables to Tgears and Garvey's is related to Widgeco clearing out certain slow moving and obsolete inventory.

Decreases to Accounts Receivable Aging Concentrations

Reduction in A/R balances with Widgets, Cog Depot and Gear-Up is due to the overall economic slowdown.

Comments on Accounts Receivable Concentration Past Due Balances

The examiner noted the following during the review of past due balances that were 90 or more days from the invoice date:

- **Tgears/AllCogs: Tgears** –had $454M of invoices over 90 days from the invoice date as of 6/30/09. All of the invoices 90 or more days old have been paid. **AllCogs** –had $20M of invoices over 90 days from the invoice date as of 6/30/09. All of the invoices 90 or more days old have been paid
- **Widgets Distribution** - had $74M of invoices over 90 days from the invoice date as of 6/30/09. All of the invoices 90 or more days old have been paid
- **Cog Depot** - had a $134M balance over 90 days from the transaction date as of 6/30/09. The balance was caused by charge-backs
- **Gear-Up** – had a $109M balance over 90 days from the transaction date. Gear-Up receives terms of net 60 days. The Company considers the over 90 day balance as slow but collectible
- **G-Mart** – had a $20M balance over 90 days from the transaction date. G-Mart receives terms of net 60 days. The Company considers the over 90 day balance as slow but collectible
- **Sam's Gear** - had a $68Mbalance over 90 days from the transaction date as of 6/30/09. The balance was caused by charge-backs
- **Tommy Tool** - had a $74M balance over 90 days from the transaction date. Tommy Tool receives terms of net 60 days. The Company considers the over 90 day balance as slow but collectible
- **Gear World Enterprises** – had a $323M balance over 90 days old. The balance was credited by the Company. WT is a Duty free and International distributor of KC, Classy Cog, Widgetstyle and WGWC styles. The credits that went through were reimbursement for Co-op Advertising that was previously accrued for
- **Philly Cog** - had a $29M balance over 90 days from the transaction date. Burlington receives extended dating. The Company considers the over 90 day balance as slow but collectible

Sales Concentrations

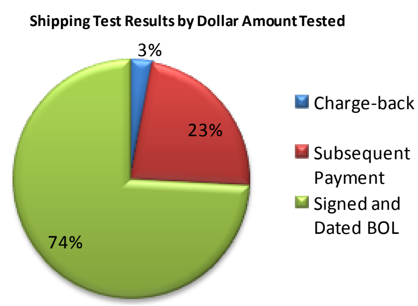
Below are the sales concentrations for the twelve months ended 6/30/09. The concentrations for the prior year were not available.

Customer	$	%
Gear-Up Stores, Inc.	$ 22,319	18.0%
G-Mart	11,358	9.2%
Widgets Distributing, Inc.	11,272	9.1%
GearStuff Wholesale	7,192	5.8%
Gears Stores, Inc.	4,782	3.9%
Cog Depot East, Inc.	4,207	3.4%
John Stores, Inc.	3,358	2.7%
Gears and Cogs	3,076	2.5%
AAFES (Headquarters)	3,010	2.4%
Cog Depot Merchandising Group	2,895	2.3%
Total Top Ten	$ 73,468	59.4%
Total Sales	$ 123,716	

Accounts Receivable Tests

Invoice/Aging Test

The examiner selected 30 invoices totaling $3,216M or 19% of the total AR balance as of 6/30/09 for the purposes of verifying invoices included on the aging. Each item selected was verified by tracing it to the appropriate proof of shipment (i.e. signed and dated bill of lading) or by reviewing the customer's payment for the invoice selected. 74% of the dollar amount tested was traced to the appropriate bills of lading, 23% was traced to the customer's remittance and 3% of the items selected were not invoices but charge-backs.



	Number	Amount	Pct
Signed and Dated BOL	13	$ 2,386	74%
Subsequent Payment	14	736	23%
Charge-backs	3	94	3%
Items Verified	30	$ 3,216	100%
Invoices Tested	30	$ 3,216	100%

Phone Verifications

At Lender Capital Finance's request the examiner selected 44 additional invoices totaling $2,041M or 12.1% of the $16,922M total AR balance. Below is a recap of the results.

Description	#	$	%
Subsequent Paid	37	$1,686	83%
Left Message	2	$66	3%
Foreign - ineligible	1	$66	3%
Phone Verified	2	$102	5%
E-Mail Verified	1	$65	3%
PO not completed	1	$56	3%

Analysis of Credits

The examiner selected 38 credits totaling $891M, or 49.8% of the credits issued from 4/1/09 through 6/30/09 for the purposes of analyzing credits issued. Below is a recap of the results:

Analysis Summary		Reason	Number	Amount	Percentage	Lag Days
Beg Date:	1-Apr	Royalty Offset	1	$ 209	23.5%	3.0
End Date:	30-Jun	Discount (1)	3	61	6.9%	51.1
Total Amount Issued	$ 1,788	Return	29	508	57.1%	14.1
Total Number Analyzed	38	Payment made to Far East	2	38	4.2%	6.1
Total Amount Analyzed	$ 891	Write-off of Bad Debt	2	40	4.5%	38.5
Percent Analyzed	49.8%	Anticipation (2)	1	34	3.8%	10.0
Weighted Issue Lag	14.7					
Weighted Assignment Lag	0.0					
Total Lag	14.7					
Lag Reserve	$0					
		Total Analyzed	**38**	**$ 891**	**100.0%**	**14.7**

(1) Per management some accounts that have pre-approved discounts. However, these discounts are not on the invoice and are taken based on contractual agreements. When an account takes a discount, collectors compare the amount taken to the contractual agreement. If they agree, the discount is given and the deduction is deemed a valid deduction and written off. Write offs are approved by the collector, the collection manager and finally the credit manager.

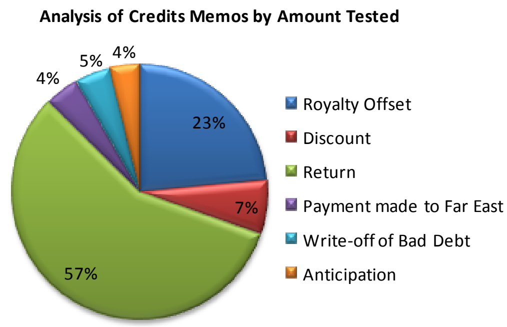
(2) Anticipation is a credit that may be taken by customers for payment of an invoice before its due date. The amount of this credit is based on:

   a. The annual interest rate (usually a rate that a financial institution would charge for a commercial loan).
   b. The number of days before the due date that the payment was made.

   Assuming a 10% rate of interest, a customer would compute anticipation for an invoice of $20,000 paid seven days early as follows:

      $20,000 x .000274 x 7=38.36
      The .000274 is the daily interest rate for a 10% annual rate (10%/365).

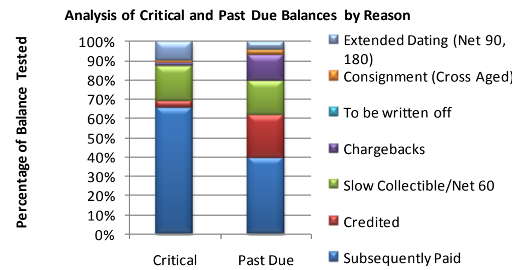
The examiner notes the following regarding the credits:



- On average it takes the Company 14.7 days to issue a credit once it is known that a credit is due to the customer.
- Most of the credits (57%) are the result of returns. On average it takes the company 14 days to issue a credit for a return
- The credit issued to offset royalty payments was issued to WGWC Maxima.

Analysis of Past Due Balances

The examiner selected 25 customers with material past due (over 90 days from invoice date) and critical (61-90 days old) for the purpose of analyzing the aged balances. Below are recaps of the result. The examiner notes the following:



- Most of the critical balance (60%) and a large portion of the past due balance (40%) was subsequently collected.
- 22% of the past due balance was credited.
- Based on the analysis the Company's "Allowance for Doubtful Accounts" balance of $354M appears adequate

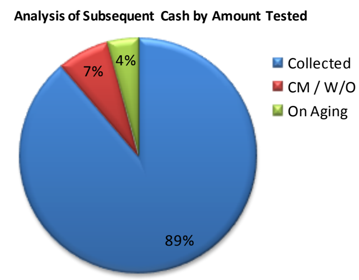
Below is a recap of the review of past due and critical balances.

	Critical		Past Due	
Reason	Amount	Percent	Amount	Percent
Subsequently Paid	$ 1,100	65.3%	$ 604	39.5%
Credited	61	3.6%	343	22.4%
Slow Collectible/Net 60	311	18.4%	274	17.9%
Chargebacks	26	1.5%	202	13.2%
To be written off	-	0.0%	5	0.3%
Consignment (ross Aged)	18	1.1%	40	2.6%
Extended Dating (Net 90, 180)	169	10.1%	63	4.1%
Total Analyzed	$ 1,685	**100.0%**	$ 1,531	**100.0%**
Total Analyzed	$ 1,685	72.8%	$ 1,531	125.8%
Not Analyzed	630	27.2%	(314)	-25.8%
Total Per Aging	$ 2,315	100.0%	$ 1,217	100.0%

Movement Test/Cash Application

The examiner selected 25 invoices from the 4/30/09 detailed aging and determined their status as of 6/30/09. The examiner noted the following:

- 22 items totaling $1,512M or 89% of the amount tested were subsequently paid and removed from the aging. The examiner reviewed customer remittance advices that showed the specific invoices selected as being paid.
    - 11 of the items had deductions for discounts. The company allows certain customers to deduct prompt pay discounts, even though the terms per the invoices are "net" and do not include discounts.



- 2 items were credited and removed from the aging.
    - Invoice number 4312971, dated 2/6/09, and issued to Filenes for $21,662M was a bad debt write-off.
    - Invoice 4355808 dated 3/23/09 to Hour Choice for $16,500was credited as payment was received in the Far East.
- 2 items were neither credited nor paid. These items remained on the aging and were properly aged as of 6/30/09.

Below is a recap of the results:

Audit Period Status	Number (1)	Amount	Pct.
Collected	22	$ 1,512	89%
CM / Charge backs (2)	13	121	7%
Aging	2	70	4%
Total Tested (1)	**25**	**$ 1,703**	**100%**
Verification			
Check	22	$ 1,597	94%
Credit Memo	2	36	2%
Current Aging	2	70	4%
Total Tested (1)	**25**	**$ 1,703**	100%

(1) If one or more invoices were partially collected, credited or written off, the sum of the categories will be greater than the number tested.
(2) 11 of the 13 items noted were charge backs. The verification for the charge backs were the customer remittance advices also used to verify the amount collected. The charge backs totaled $85M, credits totaled $36M.

Accounts Receivable Reconciliations

Accounts Receivable General Ledger Reconciliation

The examiner reconciled the AR aging as of 6/30/09 to the general ledger as follows:

Aging Date:	6/30/09		Amount
			$ 16,922
Additions:	Unapplied Receipts (1)	200	
Subtractions:	A/R Deductions (2)	(1,598)	
Adjusted Aging Balance:			$ 15,524
Balance per G/L			$ 15,524
Difference:			$ -

(1) Represents balances received into the lock box and depository accounts but not yet applied.
(2) AR Deductions represent charge backs which are ineligible. The amount shown as ineligible ($476M) is those charge backs aged less than 90 days from the transaction date.

Accounts Receivable Balance Sheet Reconciliation

The examiner reconciled the AR GL balance to the Balance Sheet as follows:

G/L Date:	6/30/2009		Amount
			$ 15,524
Additions:	Miscellaneous Receivable	68	
	AR Post Sale Pen Stuff	145	
	A/R Deductions	1,558	
	Miscellaneous Receivable	4	
	A/R Deductions	41	
Total Additions			1,816
Subtractions:	A/R Refunds	60	
	Unapplied Receipts	186	
	Credit Card Customer Refund	10	
	Credit Card Customer Refund	1	
	A/R Refunds	1	
	Unapplied Receipts	15	
Total Subtractions			273
Adjusted G/L Balance:			$ 17,067
Balance per Balance Sheet:			$ 17,067
Difference:			$ -

Inventory

Overview

General

The Company is a distributor of Men's and Woman's Widgets. Product is sourced from vendors overseas including its wholly owned subsidiary, Widget Company.

Inventory consists of branded and private label Widgets, and clocks. Key licensed brands include, Tommy Tool, Classy Cog, WGWC, D&G and Widgetstyle Widgets. Custom inventory is comprised of: Cog Depot (Style & Co.), G-Mart (Jaclyn Smith, Joe Boxer and Outpost), Widgets (Massimo, Maroni and Cherokee) and Gear-Up (George, Puritan and White Stag).

The examiner noted the following regarding the policies and procedures regarding inventory:

- The Company utilizes a perpetual for all inventory.
- The perpetual is reconciled monthly by the controller Frank Garafolo
- The company maintains a separate GL account for inventory in-transit.

- The I/T inventory account is debited when all relevant documentation (commercial invoice, bill of lading, etc.) has been received and title has passed.
- Upon delivery to the Atown Michigan warehouse, the on hand inventory is increased and the in-transit inventory account is relieved.

- Widgeco maintains numerous security cameras throughout the warehouse and secured areas. In addition, warehouse employees must go through a metal detector prior to taking breaks, lunch and leaving for the day. A security guard observes everyone going through the metal detector. Also in order to deter theft, the company allows employees to buy discontinued Widgets at $5.00 twice a year and also allows them to purchase existing styles at 50% off retail.

The Company leases the warehouse in Atown ST. The monthly lease payment is $89M. At the time of the audit, the lease payments were current. In addition, it was assumed by the examiners that Lender Capital Finance will be obtaining a landlord waiver; therefore, a reserve was not recommended. In the event that Lender Capital Finance is not able to obtain the waiver, the examiners would recommend a reserve of $267M ($89M x 3 months), or the total amount due, whichever is greater.

<u>Costing</u>

The examiner noted the following regarding the costing of the inventory:

- The Company values the inventory using a weighted average cost. This method approximates FIFO.
- The average cost is updated with every transaction.
- Unit costs on the perpetual include freight in and duty.
- Other overhead expenses are not capitalized into inventory

<u>Controls and Reserves</u>

The Company employs the following controls:

- Full physicals are taken twice a year
    - One is done at the parent's year end (12/31)
    - One is done at the Company's yearend (3/31)
- The company maintains a lower of cost or market reserve. The reserve includes allowances for shrink. As of 6/30/09 the GL markdown reserve was $2,059M.

<u>Increases and Relief</u>

The following is noted regarding the updating of inventory values and quantities:

- Inventory increases are at actual costs plus duty and freight
- When inventory is shipped it, the inventory is relieved at the average cost
- All product is shipped "FOB Origination;" therefore, title passes upon shipment.
- Returns go through Quality Control, if deemed good product, they are placed back into inventory. If not they are sent to LIC to be repaired.

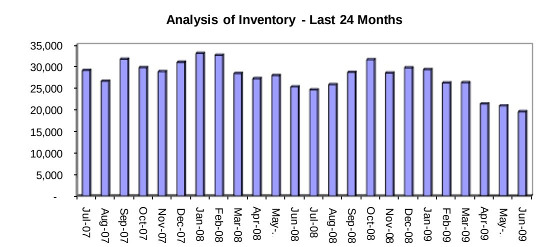
Significant Transactions and Accounts

Description	*Comments*
Consignment supplier or customer goods	The client has two consignment relationships, however, the inventory is relieved from the perpetual when it is shipped to the customer. The customer pays for the inventory as it is sold. The eligible AR balances have been deemed ineligible.
Defective Returns	Returns are repaired at the LIC location and returned to inventory. This location is ineligible.
In-Transit Goods	The Company purchases inventory from its subsidiary and other suppliers in the far east. The perpetual inventory is updated upon receipt of the inventory and does not reflect the I/T inventory.
Private Label Goods	As noted above the Company sells private label Widgets to several customers
Samples, loaners, rentals	The company has many sales reps. Samples are sent to the sales reps; however, the sales rep gets invoices and the inventory is relieved from the perpetual
Slow moving items	The examiners noted that there is $6,123M of Inventory in excess of 12 months sales/usage; however, due to slow moving inventory being included in the appraised value, a slow moving reserve has not been recommended.
Product Warranties	As noted above the Company as accrued $500M for warranty expenses.
Licensed Inventory	Several Licenses exist, the largest being with Tommy Tool.

Inventory Summaries

The company is a distributor and therefore only has finished goods

Inventory Summary History



As can be seen above, the inventory peaks during the build up to the strong fall selling season.

Inventory is showing a 23% decrease compared to the same period the prior year excluding in-transit inventory. The decrease is in part related to the slow economy and consumers purchases of Widgets. In addition, Widgeco since being purchased by Morewidge has taken longer than expected to have financing in place and has seen its accounts payables become stretched.

Inventory Book to Physical Adjustments

The warehouse does not perform regular cycle counts on a rotating basis, instead every day they run a report of everything picked the previous day and sample items with larger movement. On an annual basis 3/31 complete physical inventories are taken which is Widgeco's year end. The company also took a complete physical 12/31/08 which is Morewidge's Group's year end. The physical to perpetual variance was less than 1%.

Year	Inventory Adjustment	% of Inventory	% of Sales	EOM Inventory $	FYE Sales
12/31/2008	$ 4	0%	0%	$ 29,641	$ -
3/31/2009	14	0%	0%	26,180	117,481

Inventory Statistics

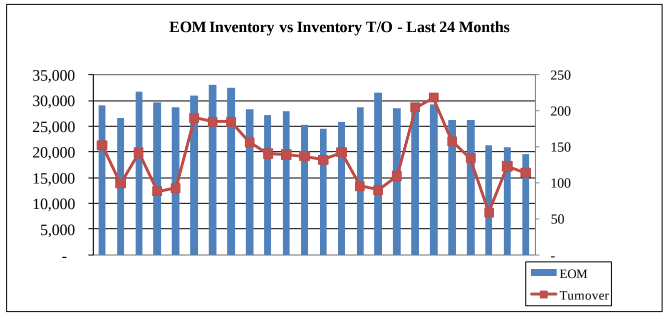
12 Month Comparison				
	Current	**Prior**	**Change**	**Pct**
Purchases	$ 65,122	$ 66,100	$ (978)	-1.5%
Labor	8,852	7,748	1,104	14.2%
Overhead	(3,015)	(2,115)	(900)	0.0%
Other	3,050	4,268	(1,218)	-28.5%
COGS	79,755	78,334	1,421	1.8%
Avg Inv	25,980	29,243	(3,263)	-11.2%
Inventory T/O Times	3.1	2.7	0.4	14.6%
Inventory T/O Days	117.3	134.4	(17.1)	-12.7%

6 Month Comparison				
	Current	**Prior**	**Change**	**Pct**
Purchases	$ 24,449	$ 25,066	$ (617)	-2.5%
Labor	3,320	2,946	374	12.7%
Overhead	(1,663)	(1,665)	2	0.0%
Other	1,507	1,536	(29)	-1.9%
COGS	37,769	33,573	4,196	12.5%
Avg Inv	23,867	29,042	(5,175)	-17.8%
Inventory T/O Times	3.2	2.3	0.9	36.9%
Inventory T/O Days	113.7	155.7	(42.0)	-26.9%

3 Month Comparison				
	Current	**Prior**	**Change**	**Pct**
Purchases	$ 14,356	$ 13,255	$ 1,101	8.3%
Labor	2,125	1,578	547	34.7%
Overhead	(1,070)	(721)	(349)	0.0%
Other	481	465	16	3.4%
COGS	22,601	17,694	4,907	27.7%

Avg Inv	20,528	26,776	(6,248)	-23.3%
Inventory T/O Times	4.4	2.6	1.8	66.6%
Inventory T/O Days	81.7	136.2	(54.4)	-40.0%

Inventory turnover of 3.1 times was shown for the current twelve month period ending 6/30/09. The prior period ending 6/30/08 inventory turnover of 2.7 times was shown. This compares to 3.2 times and 2.3 times to the comparative six month periods.



Inventory Item Analysis

FG's	Jun-09		Jun-08	
Item	**Amount**	**Pct**	**Amount**	**Pct**
IN58 - WC - New Reaction	$5,154	26.4%	$8,789	34.9%
IN14 - WIDGETS WIDGET	1,750	9.0%	2,102	8.3%
IN48 - Classy Cog	1,598	8.2%	1,385	5.5%
IN23 - OTHER GEAR	1,547	7.9%	1,933	7.7%
IN63 - Widgetstyle Inventory	1,104	5.7%	1,491	5.9%
IN72 - D&G Widget	1,050	5.4%	1,206	4.8%
IN12 - G-Mart WIDGET	906	4.6%	910	3.6%
IN48 - Classy Cog	899	4.6%	1,104	4.4%
IN23 - OTHER CLOCK	892	4.6%	528	2.1%
IN81 - Cog Depot (Syle&co,CC)	574	2.9%	909	3.6%
IN10 - GEAR-UP WIDGET	390	2.0%	1,137	4.5%
IN98 - Charlie Cog	352	1.8%	1,206	4.8%
IN87 – WGWC	15	0.1%	510	2.0%
Not Analyzed	3,256	16.7%	2,009	8.0%
Total Analyzed	**$19,487**	**100.0%**	**$25,219**	**100.0%**

Overall inventory levels have been reduced which is in line with the 15% reduction in sales for the three month period ending 6/30/09. In addition the company has had to delay purchases based on the lack of financing in place. Widgeco is no longer going to distribute the Charlie Cog line and thus the reduction in inventory levels. Gear-Up is timing regarding receiving Widgets.

Inventory Location Analysis

At 6/30/2008	Atown Warehouse	New York Warehouse	NY Returns Warehouse	Sometown Warehouse	Plant Id
Corporate Code - Gears	2,044	-	-	3	2,047
Corporate Code - Mass Widget	4,687	1	-	-	4,688
Corporate Code - Mid-Tier	662	23	0	-	685
Corporate Code - Special Market	-	10	3	-	13
Corporate Code - Status	3,140	14,077	598	17	17,832
Total	10,532	14,110	601	20	25,263

At 6/30/2009	Atown Warehouse	New York Warehouse	NY Returns Warehouse	Sometown Warehouse	Plant Id
Corporate Code - Gears	1,584	-	-	-	1,584
Corporate Code - Luxury	410	-	-	-	410
Corporate Code - Mass Widget	3,950	-	-	-	3,950
Corporate Code - Mid-Tier	99	-	-	-	99
Corporate Code - Special Market	1	-	5	-	6
Corporate Code - Status	12,470	-	854	-	13,324
Total	1 8,513	-	859	-	19,372

The majority of inventory is maintained in Atown, ST. During 2009, Widgeco closed its L.I.C. warehouse for distribution and also moved the corporate offices to New York City from L.I.C. Currently all returns and repairs are processed in L.I.C. Morewidge closed its Miami operations and moved the inventory to Atown and operations to New York City.

Base rent at the Atown ST. location is $89M/month; in addition, there are approximately $11M of additional charges for utilities and common area maintenance. *The examiners have not recommended a reserve, as it is anticipated that Lender Capital Finance will obtain a landlord waiver or Bailee Letter of No Offset. If these documents cannot be obtained, a reserve of 3 months' rent should be implemented by Lender Capital Finance.*

Inventory Tests

Inventory Test Counts

The examiner visited the Atown warehouse in Atown, ST, which held the bulk of the inventory as of 6/30/09, a total of $18,518M or 96% of the total inventory balance of $19,372M. The remaining $854M or 4% in inventory was at the repair center in L.I.C., NY. As of the review date 8/10/09, Widgeco had total inventory of $20,568M excluding in-transit inventory.

The 150,000 square foot Atown facility serves as a distribution operation as well as a re-packaging and re-labeling operation. The company maintains a perpetual system and utilizes the JDE One World Warehouse Management System. The system determines where inventory should be stored and generates pick slips, which show the location that should be picked when an order is ready for shipment.

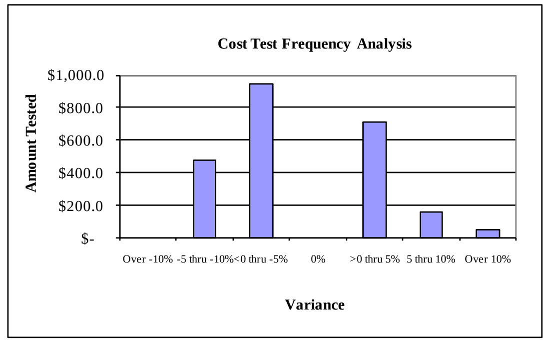
Inventory is stored in different areas based on style and price valuation. The Tommy Tool Swiss Widgets and Classy Cog Widgets are stored in a separate locked room. The remaining Tommy Tool inventory is maintained in a caged area. The Gold and D&G Widgets are also maintained in a locked cage area. The clock inventory is stored in the general warehouse and also inventory for distribution to Gear-Up, Widgets, Cog Depot, John Stores, and Fred Meyer etc. A pick and flow area contains partial cases for distribution/fulfillment to G-Mart Cog Depot, Widgets, John Stores, Fred Meyer. Widgeco only ships full cases to Gear-Up.

The warehouse uses a locator system to track and ship the inventory. As noted above the system determines the location to pick the inventory. The company values the inventory based on average cost including freight and duty.

Test counts at Atown, ST resulted in zero variance based on testing as of 8/10/09. Widgeco maintains a locator system throughout the warehouse. The majority of items are maintained in five to ten locations. The warehouse was found to be in a very neat and orderly condition.

Cost Test

The examiner selected 35 items from the Company's perpetual for the purpose of testing the inventory carrying values. Unit prices per the perpetual were compared to the latest vendor invoice. In addition, the examiner reviewed the amounts added to the inventory costs for duty and freight.



Results showed a net negative variance (vendor costs below carrying costs) of 0.8%. 22 items totaling $1,521M had negative variances totaling $57M, while 13 items totaling $919M had positive variances totaling $38M.

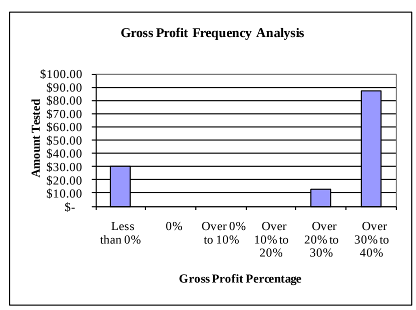
The chart to the right depicts the results of the cost test for the amounts tested. As can be seen, the vast majority of the items tested had variances between -5% and +5%.

Below is a recap of the cost test

Variance Analysis			Net Variance Frequency Analysis			
	Items	Amount		Items	Amt Tested	Percent
Negative Variances (1)	22	$ (57)	**Over -10%**	-	$ -	0.0%
Positive Variances (2)	13	38	**-5 thru -10%**	8	477.1	20.4%
			<0 thru -5%	14	944.1	40.3%
	Amount	Percent	**0%**	-	-	0.0%
Net Variance (3)	$ (19)	-0.8%	**>0 thru 5%**	9	713.3	30.5%
Absolute Variance (4)	95	4.1%	**5 thru 10%**	3	160.3	6.8%
			Over 10%	1	45.8	2.0%
(1) Negative variances occur when the cost per source documents is below the cost on the Company provided report.						
(2) Positive variances occur when the cost per source documents is above the cost on the Company provided report.						
(3) The net variance represents the actual sum of the variances.						
(4) The absolute variance represents the sum of the absolute value of all variances.						

Gross Profit Test

The examiner selected 27 items from invoices selected for the invoice/aging test for the purpose of calculating the gross profit of items sold and comparing the calculated gross profit to the reported gross profit.



The test resulted in a calculated gross profit of 37,2%; however, after adjusting the results for dilution, the net gross profit calculated was 26.6%. This compares favorably to the Company's reported gross profit of 26.4%

Two of the items selected were sold at a loss. The items that were sold for less than the average unit costs were:

- Item 724011 – Sold at a loss of 27%; however, as of 6/30/09 there were only 16 Widgets left in inventory valued at $162.00
- Item 52472 – Sold at a loss of 7%; however, as of 6/30/09 there were only 36 Widgets left in inventory valued at $502.00

Below is a recap of the results:

G/P Test Statistics				G/P Frequency Analysis			
G/P Per Company:	26.4%	Items Tested:	27		**Items**	**Sales Amt**	**Percent**
G/P per Test:	37.2%	Sales $ Tested:	$261	Less than 0%	2	$30.07	11.5%
Less Cash Dil:	14.4%	Cost $ Tested:	164	0%	-	-	0.0%
Less Misc Dil:	0.0%			Over 0% to 10%	-	-	0.0%
Net G/P Per Test:	26.6%	Avg Price/Unit:	$ 9.42	Over 10% to 20%	-	-	0.0%
Min G/P%:	-26.6%	Avg Cost/Unit:	5.91	Over 20% to 30%	2	13.20	5.1%
Max G/P%:	65.4%	Avg G/P per unit:	$ 3.50	Over 30% to 40%	8	87.27	33.4%
				Over 40%	15	130.42	50.0%

In-transit Inventory

As of 6/30/09, the Company reported $1,979M of inventory in-transit. This amount includes $94M for freight and duty. Per the reconciliation (see below) in-transit inventory per the general ledger is $1,885M. The examiner reviewed commercial invoices, packing lists, bills of lading, manifests, and air way-bills and proof of payments for 15 items totaling $1,507M. No exceptions were noted.

Inventory Slow Moving Analysis

In conjunction with the June inventory appraisal by Appraisals R Us, the company generated a slow moving inventory report. Slow-moving was determined to consist of goods with greater than 52 weeks of supply or no sales. AS of 6/30/09 this represented $6,123M or 32% of the $19,372M inventory balance.

Inventory Reconciliations

Inventory General Ledger Reconciliation

Below is the reconciliation for the perpetual and the general ledger.

G/L Date:	6/30/2009	Perpetual	G/L
	Balance	$ 19,372	$ 19,487
	Adjusted Balance	19,372	
	Difference	(115)	
	Reserve:	-	

Since the GL is above the perpetual, the examiner has not recommended a reserve.

Inventory Balance Sheet Reconciliation

Bal. Per General Ledger:	$ 19,487
FG's in Transit (1)	1,886
Inventory Markdowns	(2,059)
Adjusted GL Balance	$ 19,314
Balance per Financials	$ 19,314
Difference:	$ -

(1) The difference in the $1,886M I/T balance above and the $1,979M used in the borrowing base is caused by the inclusion of freight and duty for the borrowing base balance.

Cash

Overview

Bank statements are available on-line and are received electronically. The Bank accounts are reconciled monthly by a staff accountant. Sue Braun , an accounting manager, reviews the bank reconciliations. The latest reconciliation available was as of 6/30/09.

Customer payments are received through lockboxes. If checks are received at the company they are endorsed and deposited by Derek Jeter.

Deposit Statements are received twice a day. The Company applies all cash received the same day that they receive the statement. If a payment is received without an adequate remittance advice, the payment is put on the customer's account and the customer is contacted so that the check can be properly applied.

Bank Accounts

The company maintains four lockbox accounts with Chase including: Widgeco Luxury LTD, Widgeco Company, Inc., Sun Burst Products d/b/a Widgetstyle USA and Widget and Widget Company LTD. Nothing unusual was noted in the accounts as of 6/30/09.

Cash Disbursements

The examiner selected 25 disbursements for review. Each selected was supported by wire authorizations or cancelled checks and vendor invoices. There were no exceptions noted by the examiner.

	Total	Mar-09	Apr-09	May-09	Jun-09
Total $ Disbursed	$ 39,318	$ 7,033	$ 14,699	$ 8,556	$ 9,029
Total $ Analyzed	16,714	1,854	8,458	3,391	3,011
Total % Analyzed	42.5%	26.4%	57.5%	39.6%	33.3%
Total # Analyzed	25	5	9	4	7

The examiner noted the following during the review of disbursements:

- There was an average lag of 130 days from the invoice date to the cleared date. The lag was caused by the majority of payments being made to Widget Co. (Far East) LT., which is the Company's wholly owned subsidiary. 11 payments totaling $7,432M were for Widget Co. These payments had an average lag of 289 days.
- The average lag between the invoice date and for payees other than Widget Co. was 18 days.
- The examiner noted one payment for $2,300M to Morewidge USA. Per John Cuccurullo, CFO, this was for a short term loan from a Morewidge owned company. The amount was received from Morewidge on 4/19 and repaid on 4/30. Widgeco had planned on using the money to pay down the AP, but aborted that plan when Morewidge insisted on being paid back by 5/8/09
- Two interest rate swap/collar payments totaling $514M were noted to Morgan Stanley Capital Services. Per John Cuccurullo, Investment (previous owner) required the company have an LOC with Laminer. In addition to the LOC, Investment required that the interest costs be hedged. Per John Cuccurullo, all swap agreements have now been terminated.

Analysis of Bank Reconciliations

The examiner reviewed Widgeco's bank reconciliation for the month of June of 2009. The two accounts reviewed with Chase bank were found to be in agreement with the ledger balance. The accounts were concentration/disbursement accounts.

Open Orders

Overview

The company generates an open order report on a daily basis. The orders are broken down between: luxury, status and Widget.

Open Order Summaries

As of 8/6/09 the company showed $18.8MM in open orders of which $13MM for Widget and $5.8MM for status. Of the $5.8MM for status $4.2MM was for Tommy Tool. The open orders represent approximately two months sales.

Accounts Payable

Overview

<u>General</u>

The company can generate a due date or invoice date aging. Invoice date aging reports were provided to the examiner. Aging buckets for the invoice date aging reports are the following:

- Current
- 31-60
- 61-90
- Over 90

The company generally receives terms of net 30 and net 60 days. During the busy shipping season, the company does get some extended dating, usually an additional 30 days. Most of the purchasing is done through the wholly owned Far East subsidiary. Payments to the sub are made at the Company's convenience.

Purchasing/Receiving

The purchasing manager selects vendors, usually based on price. The Company does have some long time vendors for certain products. Purchases include finished Widgets and clocks. Some of the largest vendors are non trade including duty, freight, and royalties due to Tommy Tool ($7.3MM for the current year), Classy Cog ($2.1MM) and WGWC ($2.1MM).

The company does not have any purchase agreements; however, as mentioned above there are several licensing agreements that require minimum payments.

The company performs a three way match when receiving the inventory. The Receiving document is matched to both the PO and the invoice.

Vouching Payables/Making Payments

As noted above the Company performs a three way match. Once that occurs the inventory is booked and the AP recognized.

Currently the Company is paying its vendors on an as needed basis, as it has very little liquidity. The process is as follows:

- U.S. and Far East payables are combined so that a total cash requirement can be determined.
- Total cash available for payment is determined.
- The list and available cash is reviewed with Far East employees who are closer to the vendors and a determination is made as to who will get paid and how much.

AP is accrued when appropriate documentation is received and title has passed. When the goods are received into the Michigan warehouse, the accrued AP and in-transit inventory entries are reversed and the appropriate amounts are booked to inventory and AP.

Checklist

Other than the previously discussed contras, the examiner did not note any transaction types that require further explanation.

Accounts Payable Statistics

	12 Months			
	Current	Prior	Change	Percent
Purchases	$ 99,590	$ 159,054	$ (59,464)	-37.4%
Disbursements	76,043	133,227	(57,184)	-42.9%
Turnover	48.2	28.8	19.4	67.3%

	6 Months			
	Current	Prior	Change	Percent
Purchases	$ 45,422	$ 55,532	$ (10,110)	-18.2%
Disbursements	33,781	46,264	(12,483)	-27.0%
Turnover	43.9	37.1	6.8	18.3%

Purchases

Overall purchases have been reduced based on decreases sales volume and lack of financing and delays in purchases.

Turnover

Turnover has increased significantly as Widgeco was going through its acquisition by Morewidge and trying to see what the structure and financing of the company was going to be under Morewidge's control.

Accounts Payable Summary

Accounts Payable Summary Comparison

	Current		Prior	
	6/30/2009		6/30/2008	
Description	Amount	Percent	Amount	Percent
Current	$ 2,921	29.2%	$ 2,165	20.9%
31-60	1,668	16.7%	3,171	30.6%
61-90	1,562	15.6%	3,920	37.9%
Over 90	3,840	38.4%	1,095	10.6%
Total Per Aging	**$ 9,991**	**100.0%**	**$ 10,351**	**100.0%**

As explained above payables have begun to stretch under Morewidge's control and the lack of working capital financing in place.

Accounts Payable Summary History

	Actual				12 Mo. Moving Avg			
Month	Total	Current	P/D	% PD	Total	Current	P/D	% PD
Jul-07	12,747	10,403	2,344	18.4%	12,747	10,403	2,344	18.4%
Aug-07	10,647	6,980	3,667	34.4%	11,697	8,692	3,006	25.7%
Sep-07	9,923	8,509	1,414	14.2%	11,106	8,631	2,475	22.3%
Oct-07	12,627	9,825	2,802	22.2%	11,486	8,929	2,557	22.3%
Nov-07	11,983	9,462	2,521	21.0%	11,585	9,036	2,550	22.0%
Dec-07	12,346	10,107	2,239	18.1%	11,712	9,214	2,498	21.3%
Jan-08	10,481	9,242	1,239	11.8%	11,536	9,218	2,318	20.1%
Feb-08	8,489	5,092	3,397	40.0%	11,155	8,703	2,453	22.0%
Mar-08	4,576	470	4,106	89.7%	10,424	7,788	2,637	25.3%
Apr-08	8,299	6,124	2,175	26.2%	10,212	7,621	2,590	25.4%
May-08	8,174	7,108	1,066	13.0%	10,027	7,575	2,452	24.5%
Jun-08	10,351	5,336	5,015	48.4%	10,054	7,388	2,665	26.5%
Jul-08	15,477	7,647	7,830	50.6%	10,281	7,159	3,123	30.4%
Aug-08	8,260	5,189	3,071	37.2%	10,082	7,009	3,073	30.5%
Sep-08	12,520	10,909	1,611	12.9%	10,299	7,209	3,089	30.0%
Oct-08	12,965	9,546	3,419	26.4%	10,327	7,186	3,141	30.4%
Nov-08	10,530	6,601	3,929	37.3%	10,206	6,948	3,258	31.9%
Dec-08	8,496	4,899	3,597	42.3%	9,885	6,514	3,371	34.1%
Jan-09	7,528	3,885	3,643	48.4%	9,639	6,067	3,572	37.1%
Feb-09	5,410	2,583	2,827	52.3%	9,382	5,858	3,524	37.6%
Mar-09	9,030	5,153	3,877	42.9%	9,753	6,248	3,505	35.9%
Apr-09	9,518	7,195	2,323	24.4%	9,855	6,338	3,517	35.7%
May-09	10,679	5,309	5,370	50.3%	10,064	6,188	3,876	38.5%
Jun-09	9,991	4,589	5,402	54.1%	10,034	6,125	3,908	39.0%

See earlier comments above concerning the stretching of the accounts payable.

Accounts Payable Concentrations

Accounts Payable Aging Concentrations

Rank Last Year	Vendor	% Total A/P	Total	Current	31-60	61-90	Over 90	6/2008 Total	Past Due	Pct of Prior AP
5	Sun's Widget	20.3%	$2,027	$336	$229	$409	$1,053	$440	$282	4.3%
	Morewidge USA	19.6%	1,958	528	179	462	789	-	-	0.0%
6	Lucky Cog	7.1%	711	(146)	-	65	792	424	356	4.1%
2	Ultimate Cog Mfg	5.2%	517	86	114	85	232	1,662	698	16.1%
1	Widgets Ltd	5.0%	499	53	104	153	189	1,864	1,151	18.0%
4	Citizen Widget	4.7%	472	14	27	42	389	779	532	7.5%
3	Prime Gear Int	3.7%	368	224	62	48	34	783	165	7.6%
10	Gear Sheng	3.6%	361	65	126	129	41	90	-	0.9%
9	W&C Limited	2.9%	286	214	72	-	-	182	-	1.8%
8	National Widget	1.2%	118	79	39	-	-	275	152	2.7%
7	Widget Tech	0.3%	27	-	-	7	20	379	273	3.7%
	Total Top Ten Accounts Payable Concentrations	**73.2%**	**$7,317**	**$1,453**	**$952**	**$1,393**	**$3,519**	**$6,878**	**$3,609**	**66.4%**
	Total Accounts Payable		**$9,991**	**$2,921**	**$1,668**	**$1,562**	**$3,840**	**$10,351**	**$5,015**	
	Top Ten Percentage		73.2%	49.7%	57.1%	89.2%	91.6%	66.4%	72.0%	

General/Overview

The above A/P aging excludes inter-company payable Widget Far East. Per the Company's 6/30/09 the amount due to Widget Far East is $11,038M.

Increases to Accounts Payable Aging Concentrations

Morewidge USA relates to Widgeco purchasing D&G Widgets and Gold Widgets from its affiliate.

Decreases to Accounts Payable Aging Concentrations

The decrease in payables to certain vendors relates to deceased sales and not having proper financing in place and delaying purchases.

Purchase Concentrations

Last Year				7/08-6/09		7/07-6/08	
Rank	Vendor	Items Purchased	Terms	$	%	$	%
1	A1 Widget	Widgets	N/A	$ 33,817	46.1%	$ 24,688	34.4%
5	Union Widget	Widgets	Net 30	7,134	9.7%	4,033	5.6%
4	Lucky Gear	Gears	Net 30	5,931	8.1%	6,116	8.5%
2	Ultimate Cogs	Cogs	Net 30	3,274	4.5%	7,691	10.7%
3	Cogs LTD	Cogs	Net 30	2,434	3.3%	7,576	10.6%
-	Morewidge USA	Widgets	N/A	2,396	3.3%	-	0.0%
6	Prime Time	Widgets	Net 30	2,229	3.0%	3,885	5.4%
9	W&C Limited	Widgets	Net 30	2,119	2.9%	1,145	1.6%
8	Widge Seng	Widgets	Net 30	1,052	1.4%	1,198	1.7%
11	State Widgets	Widgets	Net 30	1,185	1.6%	511	0.7%
7	Cogs n Widgets	Cogs	Net 30	1,116	1.5%	3,214	4.5%
10	Widgets Int.	Widgets	Net 30	1,059	1.4%	1,029	1.4%
	Total Top Ten			$ 61,571	84.0%	$ 61,086	85.1%
	Total Purchase			$ 73,315		$ 71,789	
	Top Ten as a Percent of Total			84.0%		85.1%	

General/Overview

The majority of purchases are through its subsidiary in Hong Kong, Widget or Widgeco Far East. The company uses various suppliers and purchases certain widget timings from Citizens, but is not allowed to sell timings and can only use them in their Widgets.

Increases to Purchase Concentrations

The increase in purchases with Widget was due to Widgeco winning a Mother's Day and Father's day promotional sales program with Gear-Up.

Decreases to Purchase Concentrations

The decrease in purchases to certain vendors relates to deceased sales and not having proper financing in place and delaying purchases.

Accounts Payable Aging Test

	Number	Amount	Percentage
Agreed to Receiver	20	3,713	100.0%
Total Tested	20	$ 3,713	37.2%

The examiner selected 20 invoices from the detailed AP aging dated 6/30/09 totaling $3,713M or 37% of the total AP balance of $9,991M. All of the items reviewed were supported by vendor invoices and receiving information. All items were presented properly in the AP aging.

Accounts Payable Reconciliations

Accounts Payable General Ledger Reconciliation

Aging Date:	6/30/2009		$ 10,126
Additions:			
	BALTRAN	150	
	CO-TECH INDUSTRIAL (HOLDINGS)	4	
	BERDON LLP	10	
	LAM WIDGET CO, LTD	4	
	RETKIE INDUSTRIES LISTTED	16	
	Various	58	
Total Additions			242
Subtractions:			
	Intercompany Morewidge A/P	2,171	
Total Subtractions			2,171
Adjusted Aging Balance:			$ 8,197
Balance per G/L			$ 8,197
Difference:			$ -

Accounts Payable Balance Sheet Reconciliation

G/L Date:	6/30/2009	$ 8,197
Adjusted G/L Balance:		$ 8,197
Balance per Balance Sheet:		$ 8,198
Difference:		$ (1)

Taxes

The examiner reviewed taxes for the period 2/28/09 through 7/18/09. All taxes reviewed were found to be current including Federal Payroll Taxes, State Payroll Taxes, Sales Tax and property Taxes. Widgeco has minimal sales taxes related to internet sales in New York and Michigan. Property taxes are included as part of rental payments.

Insurance

Widgeco maintains insurance with CNA and the policy was recently renewed and expires May 30, 2010. They have a blanket real and personal property loss of $34MM.

The Company also has a Marine policy that covers the in-transit inventory. Per management, the coverage territory is "world to world." This covers the in-transit inventory anywhere in the world from the warehouse to the dock.