

**UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

Craftwood Lumber Company, individually and  
on behalf of all others similarly situated,

Plaintiff,

v.

Senco Brands, Inc.,

Defendant.

Case No. 1:14-cv-06866

**Hon. John Robert Blakey**

**Declaration of Robert A. Sherwin in Support of Final Approval of Settlement and  
Certification of Settlement Class**

I, Robert A. Sherwin, declare:

1. I am an Affiliate and former Managing Principal and Vice President of Analysis Group, Inc. Analysis Group was founded in 1981 and provides economic, financial, and business strategy consulting to law firms, corporations, and government agencies. In certain engagements, such as this one, I consult as an independent contractor and do not work with or through Analysis Group.

2. I submit this declaration in support of Plaintiff Craftwood Lumber Company's motion for final approval of the proposed class-wide settlement of the above-referenced litigation. I am informed that the settlement calls for the payment by defendant of \$3 million,

without the possibility of reversion. As used herein, "SBI" refers to Senco Brands, Inc.

3. I received a Bachelor's degree in Economics and Physics from Wabash College, and a J.D. from the University of Chicago. My areas of expertise include applied microeconomics and finance, and I have performed research and given expert testimony in matters involving valuation, tax, capital adequacy, and commercial damages. I am a Certified Public Accountant (Illinois), and a member of the American Economic Association and the American and Illinois Bar Associations.

4. I have often been called upon to give expert testimony in court on valuation, commercial damage, capital adequacy, reasonable royalty, and securities damage matters. My current curriculum vitae is attached to this Declaration. I charge \$685 per hour for my work on this matter. Payment of my fees is not contingent upon the outcome of this matter.

5. I have been retained by Craftwood to give Craftwood my opinion on the likely consequences of a judgment in this case after trial in the assumed amount of \$14 million.

6. In April 2016, I received certain financial data from SBI to analyze as part of a mediated settlement. I received SBI's recent financials and certain pro forma financials. In addition to this information, I performed internet research about SBI to see if there was any public information about SBI's finances. I located several articles about a purchase of assets of Senco Products by Wynnchurch Capital in 2009 that were ultimately provided to SBI. I also learned about a major loan SBI received in 2013, which cashed out the capital invested by Wynnchurch. I understand that SBI lost a large customer, Lowe's, in 2015. I have analyzed all

this information to form the opinions contained in this declaration.

7. Based on my analysis, I have concluded there is a real limitation on the amount SBI could reasonably pay in settlement. Indeed, based on the information I reviewed, it appears that the company could not sustain a \$14 million judgment without some additional injection of capital, but that \$3 million is quite possible.

8. The theoretical upper bound that a claimant can obtain via a judgment from a defendant is the total value of its assets (business) less any debt that is senior to all general obligations, that value further divided among all general obligations. (Judgment creditors are general, unsecured creditors.)

9. Based on the Senco financials that I reviewed and public information about comparable companies, SBI's equity has a market value of only about \$40 million to \$65 million. The ownership of SBI is highly concentrated and it is likely that the owners could coordinate a response to a large judgment. That response might well be to play the bankruptcy card. Further, to the extent those owners want to preserve the market value, they could seek a reorganization with a further injection of capital, in the process causing general creditors to be paid less than full value.

10. On a book value basis, an assumed judgment of \$14 million would likely cause a slightly negative book value of the stockholder's equity of SBI to become significantly negative. It is therefore my opinion that it is likely that SBI would commence a bankruptcy proceeding in the event of an assumed \$14 judgment. This is because the current owners of SBI would be

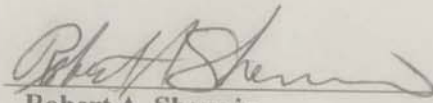
likely unwilling to allow such a substantial part of their equity to be transferred to the plaintiff class in this case.

11. There is a substantial likelihood that winning a judgment of \$14 million in this would result in little or no payment to the plaintiff class. The reason for this seeming paradox is that the larger the judgment, the more likely SBI would enter bankruptcy. In bankruptcy, the plaintiff class would receive little or no compensation. This is because in bankruptcy, the secured creditors would be given priority. One possible scenario is that secured creditors would be allowed to have the tangible assets liquidated to satisfy their claims. Such liquidation would thereby destroy SBI's business and perhaps all of the value of its intangible assets. Moreover, the value of SBI's tangible assets would be less than their book value in a liquidation scenario. For example, assets such as accounts receivable and inventory typically have a much reduced value in liquidation. Alternatively, in a non-liquidation scenario, the value of the secured interests would have to be maintained and that would likely result in a higher level of debt to compensate these secured creditors. In addition, because bankruptcy is costly in terms of both direct and indirect costs (such as loss of key employees and customer relationships) there would be less overall value in the firm to compensate its creditors. Whether in liquidation or a bankruptcy organization, the value of SBI's tangible assets would likely be less than what SBI owes on its debt and liabilities, and far less than the amount that it would owe if a \$14 million judgment were to be assessed.

12. Further, whatever might eventually be received by the plaintiff class here could well be years following the trial and the appeals, further reducing the present value of any such judgment. The importance of the time value of money (that is, the cost of delay in the receipt of

13. Thus, SBI had a very credible threat point of requiring the plaintiff class to go to trial. The proposed settlement of \$3 million is, in my opinion, in financial terms a superior solution to the plaintiff class compared with going through trial, appeal and a potential bankruptcy proceeding.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed April 4, 2017, at Chicago, Illinois.

  
Robert A. Sherwin

**CERTIFICATE OF SERVICE**

The undersigned, an attorney, states that on this fifth day of April, 2017, he caused the foregoing **Declaration of Robert A. Sherwin in Support of Plaintiff's Unopposed Motion for Preliminary Approval of Class Settlement** to be filed electronically with the Clerk of Court using the CM/ECF system, and which will send electronic notification to the following:

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*/s/ C. Darryl Cordero*  
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