Letter from the Dallas / Ft. Worth Chapter President

As it goes with great pleasure that the Dallas / Ft. Worth Chapter of the Turnaround Management Association brings this insert to readers of the Dallas Business Journal - now for the second consecutive year! This insert is designed to educate DBJ readers about the corporate renewal profession, just as the TMA and its mission. The DFW Chapter has become particularly active and visible within the national TMA organization.

Our members are working diligently to educate the business community about the TMA and how connections among TMA members can help troubled companies quickly turn the corner toward renewal and growth.

The TMA is an international non-profit professional association dedicated to corporate renewal and turnaround management. The TMA’s stated mission is “to serve as a forum for corporate renewal professionals from all disciplines to promote high standards, foster professional development and enhance the image of TMA members.” The TMA membership represents a diverse group of business interests. Our individual members are turnaround practitioners, attorneys, accountants, investors, lenders, venture capitalists, appraisers, liquidators, executive recruiters, and consultants.

The DFW Chapter’s regular monthly meeting is the second Thursday of each month. These monthly meetings provide a tremendous opportunity for you to network among this diverse group of business and legal practitioners. The TMA’s web site, www.turnaround.org, includes a search engine to locate the business professionals your business may need. Our DFW Chapter web site, www.dallas.turnaround.org, is regularly updated with specific news and events pertinent to the DFW area.

The TMA holds a number of annual regional and local workshops each year. Notable events in the Texas Region include the DFW Chapter’s annual Fall All-Day Workshop and a Spring Regional (Texas) Conference. These workshops provide continuing education and networking opportunities for members and non-members alike.

Our Fall All-Day Workshop, entitled “Business Survival during a Slow Economic Recovery,” is being held at Southern Methodist University on September 18, 2009. This year’s event will target small and mid-market businesses and will provide practical advice and action-oriented items from top business advisors in the region. Discussion will revolve around critical topics such as sources of capital, cash flow management, and options for restructuring. In an effort to help the North Texas business community at large, tickets are priced at only $25. Please see our full page ad for the agenda and registration details.

The DFW Chapter conducts an annual “boot camp” to educate young attorneys, turnaround practitioners and other professionals about the basics of business turn-arounds and restructuring.

The boot camp is held each spring and is well attended, with a growing attendance each year.

In particular, I want to thank our Public Relations Committee for their diligent work related to this year again this year. The role of our PR Committee is to promote the TMA and its mission throughout the DFW community. This committee has done an excellent job in 2009 and this insert is representative of the committee’s effort. I would like to thank our PR Chairman, Andrew Pendleton, and Fran Gallagher of Praestar Public Relations, for their hard work and energy to bring this insert to you, the readers of the Dallas Business Journal.

We hope you find this insert to be informative and insightful. I would like to personally invite you to visit our website, www.dallas.turnaround.org, and to join us at any of our meetings and events. We are certain you will be pleased at the breadth and depth of legal and business expertise our organization provides to the business community.

Warmest Regards,
Louis E. Robichaux IV
President, TMA Dallas-Fort Worth Chapter
Managing Director
Bridge Associates LLC

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Letter from the Editor

As head of the Public Relations Committee for the local chapter of the Turnaround Management Association, let me welcome you to our second annual publication in the Dallas Business Journal. We intend this to be a forum that allows us to share insights gained from many years of dealing with difficult business situations.

Given the current economic climate, it’s likely that many of you are trying to cope with difficult business situations yourselves. Your challenges probably stem from a downturn in business, inadequate financing, or both.

For some of you, the problems are not significant enough to require a drastic overhaul. Survival is not at stake. The company’s pulse is strong and surgery can be performed with a scalpel rather than a hacksaw. If you stayed at a Holiday Inn recently, you might even be able to perform the surgery yourself! And if done well, you’ll be in a better position for the long haul than had you not been forced to deal with these troubled times.

Others of you are wondering whether your business will be around to see an economic recovery. Perhaps you’re wondering how you’ll pay your employees next week, or worse, pay your shareholders. Your company’s level of distress requires immediate action in hopes of surviving.

Surgery requires a tourniquet, radical procedures, and maybe amputation.

It may be that your company is past the point of continuing as an operating entity. The economic crisis has taken too big a toll, and death is imminent. We hope this situation doesn’t apply to any of you, but if it does, the issues to discuss revolve around getting your plans in order and mitigating the pain as much as possible.

Whatever stage of distress you’re experiencing, we strongly encourage you to seek professional guidance. Even if you did stay at that Holiday Inn, you probably want to get some guidance from a well-respected doctor before performing the surgery.

As the saying goes among turnaround practitioners and bankruptcy lawyers, the call has never come too soon. Many deaths have occurred that didn’t have to, many extremely costly treatments could have been prevented, and many who have come out of surgery disfigured could have ended up with only a few scars. If the doctor had only been consulted sooner.

We hope the following articles will help you take stock of your company’s current condition and make you aware of issues and risks to consider in these troubled times.

We also hope you’ll contact one of our members if you feel you need outside expertise in assessing your situation or fixing a known problem.

We have professionals who provide a wide array of services and products, including turnaround and interim management, business and financial consulting, legal counseling, debt and equity financing, valuations, real estate services, and others. Please see this publication for a complete list of our chapter membership, as well as a listing of the TMA chapters throughout the U.S. and the rest of the world.

And finally, we hope to see some of you in the near future at a TMA event. For details, see this publication and our website (www.dallas.turnaround.org). Perhaps we’ll count you as one of our members soon!

Warmest Regards,
Andrew Pendleton
Grant Thornton
Corporate Advisory & Restructuring Services

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Paid Advertising Supplement
Unable to protect the broad expanse of their empire due to internal conflicts, the Romans were ill equipped to repel the continuous onslaught of marauding barbarians and were eventually overwhelmed. As companies at or near insolvency try to survive through one of the most difficult economic cycles in recent decades, many are equally ill equipped to address unanticipated challenges from litigation, regulatory actions and operational issues. In this environment, corporate action which results in adverse consequences to creditors or shareholders may expose its board members to claims or causes of action.

To further complicate matters, creditors and shareholders of an insolvent corporation have competing and often conflicting interests. It is beneficial for a secured creditor to institute foreclosure proceedings or seek stay relief in a bankruptcy case to acquire possession of its collateral. Similarly, shareholders have an incentive to keep the company, its assets and operations intact, which enhances the enterprise value of the company. The interests of unsecured creditors may fall somewhere along this continuum. Thus, the business judgment rule may not sufficiently protect a board of directors from lawsuits and may expose individual board members to personal economic losses even if such suits are successfully defended, particularly if there is insufficient or unavailable insurance coverage.

In today’s environment, a review of the insurance policies provided to directors and officers (D&O Policies) should be undertaken. These policies are intended to shift risks during tough economic cycles; however, many such policies today have riders or exclusions which have a heightened importance in times of financial distress. For example, D&O Policies may include policy riders to cover litigation costs the company may incur indemnifying board members. And in situations where corporate indemnification is unavailable, D&O Policies can be used to protect board members under the business judgment rule. Conversely, some policies exclude claims brought in bankruptcy by a creditors’ committee or a trustee.

Moreover, boards could consider amending corporate charters to include provisions relating to insolvency corporate decisions. If enforceable, such provisions may be sufficient to protect board members from personal liability under some state corporate laws and will likely encourage the retention of capable, ethical directors.

Last, corporate boards should create a restructuring committee to manage risks when a company nears insolvency. The restructuring committee should have the authority to retain, at the expense of the company, financial advisors, legal counsel, accountants and other advisors as it deems appropriate to advise the committee and to assist it in discharging its responsibilities.

Having a focus on the responsibilities which accompany financial distress will give the board additional avenues and abilities to respond to regulatory authorities, manage contentious litigation, and focus on the day to day operation of the business and may allow the company to successfully survive its financial crisis and repel the barbarians at the gate.

Jermaine Watson
Cox Smith Matthews Incorporated
Dallas, Texas

Thwarting Barbarians at the Gate: Protecting Board Members During Tough Economic Times

“In this environment, corporate action which results in adverse consequences to creditors or shareholders may expose its board members to claims or causes of action.”

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TMA invites you to attend a symposium designed for Small and Middle Market Companies to learn about:

■ Capital and Lending Sources
■ Cash Flow Management
■ Liquidity
■ Restructuring Options to Succeed

Turnaround Management Association D/FW, in conjunction with the North Dallas Chamber of Commerce and SMU’s Cox School of Business, will serve the community by hosting an ALL-DAY WORKSHOP for small and middle-market businesses in all sectors of the economy.

This event is targeted to Business Owners and Executives as well as Attorneys, Consultants, Accountants, Bankers and other professionals involved in Financial Consulting and Insolvency Practice. No prerequisite preparation required.

RECOMMENDED CPE IS 6 HOURS.
RECOMMENDED CLE IS 1 HOUR.

DATE: Friday, September 18, 2009
HOSTED AT: The Collins Executive Education Center, Southern Methodist University- located at the northeast corner of Ownby Drive and Binkley Avenue on the SMU campus. 3150 Binkley Avenue, Dallas, Texas, 75205 (www.cox.smu.edu/collinscenter).
COST: $25
FOR RESERVATIONS: Contact Maribeth Canole at canole1@verizon.net, 214-228-9706, or go to www.dallas.turnaround.org.
SCHEDULE
8:00 am Registration, Continental Breakfast, and Networking
9:00 am Panel Discussions
12:15 pm Lunch and Key Note Speaker
1:15 pm Panel Discussions
4:30 pm – 6:00 pm Reception

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SPECIAL THANKS TO NORTH DALLAS CHAMBER OF COMMERCE AND SOUTHERN METHODIST UNIVERSITY
Cash is King: Ten pointers for finding more of it

Under current market conditions, everybody is looking to increase cash flow from operations. The most common method of increasing operating cash flow is through reducing expenses. While reducing expenses is important, there are other methods of generating incremental cash that are less obvious but often more effective and long-lasting. This article points out ten ways to find cash by focusing on Inventory Management and Product Costing.

1. Inventory Value Analysis: Segregate inventory into the following categories: slow, dead, slow mover, high margin, fast mover, low margin, fast mover, high margin. Eliminate items in the ‘dead’ category. Using the following equation, analyze the remaining categories: Velocity of Inventory Profits (VIP) = Average Annual Inventory Turns * Gross Profit Percentage. Here’s a good Rule of Thumb: 1.5 or greater is decent. This number can be higher or lower depending on the industry.

2. Break-even Analysis: Calculate the break-even point of operations, excluding inventory yielding < 1.2. Break-even Analysis: Calculate for each process cycle per assembly and per order. Allocate scheduling, expediting, and material handling man-hours and indirect costs. Often these costs are buried in overhead. Don’t get caught up on Repetitive Motion Savings. Holding Costs for inventory often outweigh efficiencies associated with large production runs.

3. Total Customer Profitability Analysis: Calculate the total margin for each customer, factoring in the cost of financing receivables, warranties, product returns, engineering, and sales support. After factoring in all costs, pricing may need to be changed to generate acceptable margins. In other cases, processes may need to change to bring costs in line with pricing. Some customers may need to be dropped altogether.

4. Marginal Product Analysis: See if these products are part of package orders to customers. If so set different prices for package orders and piece meal orders. If not, consider eliminating these items.

5. Work in Process Inventory (WIP): Determine the process cycles for WIP. Then break down the cost for each process cycle per assembly and per order. Allocate scheduling, expediting, and material handling man-hours and indirect costs. Often these costs are buried in overhead. Don’t get caught up on Repetitive Motion Savings. Holding Costs for inventory often outweigh efficiencies associated with large production runs.

6. Low Turns Inventory: Analyze the average, minimum and maximum monthly consumption. Negotiate with vendors to reduce quantities per delivery and increase delivery frequency, which will improve cash flows.

7. High Turns Inventory: Analyze the average, minimum and maximum monthly consumption. These items can be a source of lost sales and / or expedited freight. You could find a hidden systemic problem such as corrupt bills of materials.

8. Damaged Product, Returns and Warranties: Process these items aggressively. Have someone doing this who really knows the production process, application, installation and handling. This person must be able to search for the root causes of problems and bring about closure without blaming the customer or operators.

9. Returns to Vendors: Appoint someone who knows the product well enough to understand in-depth reasons for non-conformance. Be careful not to blame the supplier without ruling out internal exposure. Indiscriminate returns can cause collection and purchasing problems.

10. King of Cash Drainage: Product shipped but not invoiced. This will only show as inventory shortage. Don’t rely on cycle counts to detect this problem. The best detection method is to audit every single sales order over a certain period of time.

Paul Ossa is President of IBE-International Business Enterprises. For the past twenty plus years, he has been devoted to Learning, Improving and Restructuring small and middle market privately held firms. He can be contacted at 214-360-9854 or by e-mail at possa@ibe.com.
Asset Sales in Bankruptcy: An Effective Means to Realize the Maximum Value of a Distressed Company

Despite certain recent and modest signs of improvements in the United States economy, many businesses continue to struggle financially and may be forced to explore every option to survive the economic downturn. When faced with tough challenges, one option a business may consider is the reorganization of the business, including the possibility of a sale of part or all of the business, through Chapter 11 of the United States Bankruptcy Code.

Chapter 11 can provide economically challenged companies the ability to restructure debts through a plan of reorganization and/or to sell unwanted assets through the asset sale provisions of the Bankruptcy Code. Asset sales, sometimes called “363 Sales” because they are governed by Section 363 of the United States Bankruptcy Code, have become increasingly used as a means for realizing the maximum value of a distressed company. The sales of “good assets” by General Motors and Chrysler Corporation in their respective Chapter 11 bankruptcy cases during the summer of 2009 were headline-making news. The size and complexity of these two automakers and the urgency of the survival of General Motors and Chrysler resulted in Court approved bankruptcy sales which took place at record-breaking speed. Sales of assets for other businesses may not take place so quickly, but can be carried out efficiently and can enable a struggling business to get its fresh start.

Section 363 of the Bankruptcy Code permits the bankrupt company, (known as the debtor or the debtor-in-possession) to sell some or all of its assets to the highest bidder. The Bankruptcy Code also permits the business owner to reject unfavorable contracts and/or leases or assign such contracts or leases that are economically unfavorable to a new purchaser. Asset sales allow the seller (identified in this article as the debtor) to realize the maximum value for any one of its assets or its entire business. The goal of a debtor’s asset sale should be to obtain the highest price for the property sold. The pool of money generated from an asset sale or series of sales enables the debtor to pay off its debts through a plan of reorganization. A sale of assets by a debtor in a Chapter 11 case differs from the sale of assets in a Chapter 7 case. Chapter 7 cases are liquidation cases administered by a Chapter 7 Bankruptcy Trustee. In a Chapter 7 case, the business owner simply files the case, no longer has any involvement with the business and the Chapter 7 Trustee takes possession of all the business assets and promptly liquidates them. In a Chapter 11 case, the business owner generally stays involved in the case overseeing the reorganization and/or sales process.

Procedures for Effectuating Asset Sales

Whether the sale is small or large, the procedures for effectuating the sale are similar. In order to sell assets (other than routine merchandise sold by a business), a debtor must obtain bankruptcy court approval. A debtor’s determination to sell its assets is governed by the “business judgment rule.” The debtor must determine, and the bankruptcy court must agree, that in the debtor’s business judgment, the proposed sale is fair and reasonable, that there has been adequate marketing of the assets to be sold, that the sale has been negotiated and proposed in good faith, and that the buyer is proceeding in good faith. In order to accomplish these objectives, bankruptcy courts typically require that the proposed sale be adequately exposed to the marketplace and subject to bids from other parties.

In the case of a larger business, the debtor may require the services of a financial advisor. A financial advisor is the business counterpart to the legal expertise of the debtor’s bankruptcy counsel. A financial advisor will analyze the debtor’s assets proposed to be sold and create a package of information about the assets. Next, the financial advisor will market the assets to a target market.

The debtor, with or without a financial advisor, then may attempt to locate a stalking horse bidder, which is an individual or entity who agrees to purchase the assets at an agreed upon price, signs a purchase agreement, and commits to close on the purchase of assets at that price. The stalking horse bidder eliminates uncertainty because the debtor knows that, in the worst case scenario, if the debtor does not receive another offer for the assets, the debtor has a buyer lined up and can move forward with the asset sale. If other bidders are located, the offer of the stalking horse bidder is considered the floor and an auction takes place. The stalking horse bidder typically receives a fee, called a break-up fee or stalking horse fee, for the reimbursement of its professional fees or other costs actually incurred if it is outbid at an auction. If an auction does take place, the high bid is presented to the bankruptcy court for approval and, if approved, the parties can close on the sale of the assets.

Asset Sales Free and Clear of Liens

The debtor’s assets are likely to be sold at a higher price if they can be sold without any liabilities. When a debtor files a motion seeking authorization to sell its assets, it typically asks the bankruptcy court to approve the sale of assets free and clear of liens. Such liens can include mortgages, liens and security interests of banks and other financial institutions, and even lawsuit judgments which attach to the assets of a debtor. Debtors seek authority to sell the assets free and clear of liens so that the buyer can obtain clear title to the assets, unencumbered with any secured lender’s liens and old debts.

In such a sale, the buyer acquires the asset free and clear of the lien holder’s interest, but the lien holder does not lose its lien. The lien holder’s interests attach to the proceeds of the sale and remain within the debtor’s bankruptcy estate.

Other Advantages to Asset Sales in Bankruptcy

As noted above, one of the most commonly utilized benefits of a Chapter 11 filing is the ability for the debtor to reject unfavorable contracts and leases and, of course, retain those contracts and leases they believe are favorable. In the situation where a sale of assets is taking place, any favorable contracts and leases can be assigned to the new owner if it so chooses. If the entire business is being sold, the prospective new owner can analyze and determine which contracts it seeks to have assigned to it, and those it does not need can be rejected.

Asset sales provide the debtor with an efficient and effective means to accomplish a reorganization of the business or a sale of the entire business. Whether the asset sale is achieved through a single sale or a series of sales, the ultimate goal of the sale is to obtain the highest and best purchase price for the benefit of the debtor and its creditors. Because asset sales provide the debtor with flexibility to achieve a successful reorganization, the number of asset sales conducted in the bankruptcy courts will continue to increase.

Raymond Urbank is a shareholder at Dallas based law firm Munsch Hardt Kopf and Harr. PC. He can be reached at rubank@munsch.com. Munsch Hardt Kopf and Harr is a full service business law firm with one of the largest bankruptcy and restructuring practices in Texas. It has offices in Austin and Houston in addition to the Dallas office.

Because asset sales provide the debtor with flexibility to achieve a successful reorganization, the number of asset sales conducted in the bankruptcy courts will continue to increase. In today’s troubled economy, it is an option that should not be overlooked.

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UPCOMING TMA EVENTS

DFW 2009 Fall Symposium: Business Survival During a Slow Economic Recovery
TMA Dallas/Ft. Worth
Friday, September 18, 2009 • 8:00AM – 6:00PM CST
SMU Collins Executive Education Center
3150 Binkley Avenue, Dallas, Texas, 75205
(See our ad in this insert for details.)

DFW Monthly Chapter Meeting - TMA Dallas/Ft. Worth
An Economic Briefing from the Dallas Federal Reserve Chief Economist
Thursday, October 1, 2009 • 5:30 – 8:00PM CST
CityPlace Conference Center
2711 N. Haskell Avenue
Dallas, TX 75204

TMA 2009 Annual Convention - TMA International
Wednesday–Friday, October 7–9, 2009
JW Marriott Desert Ridge, Phoenix, AZ

DFW Chapter Holiday Party - TMA Dallas/Ft. Worth
Wednesday, November 18, 2009 • 5:30 – 8:00PM CST
Belo Mansion
2101 Ross Avenue
Dallas, TX 75201
(See our ad in this insert for details.)

TMA 2010 Distressed Investing Conference - TMA International
Wednesday–Friday, January 27–29, 2010
Bellagio, Las Vegas, NV

Texas 2010 Spring Regional Conference
Dallas/Ft. Worth, Houston, and Central Texas Chapters
Dates and Location to be determined (Check our website for details as the date approaches.)

For additional information, visit our website at www.turnaround.org or www.dallas.turnaround.org or contact the DFW Chapter Admin. Maribeth Canole: 214-228-9706, fax 972-906-9436.
Workouts Outside Bankruptcy

A workout, in or out of bankruptcy, has different meanings depending on your position in the capital structure. Invariably, however, workout implies financial distress, negotiation and a positive resolution.

To a "Lender," a workout means getting repaid. In order of preference, Lenders will: A) get refinanced at par; B) forbear, most likely as a bridge to refinancing or repayment from a sale, often at a discount; C) sell debt at a discount; D) sell part of the company; E) restructure operations; F) file for bankruptcy and restart the process; or, G) liquidate for the benefit of creditors.

With limited credit available, workouts outside bankruptcy have become an endangered species. The need to quickly address operational issues, either preexisting or caused by the recession, minimal liquidity and limited time to gain consensus among all constituents make workouts outside bankruptcy daunting. The well publicized increase in hastily pre-arranged bankruptcies, orchestrated by senior secured lenders rushing to hash out deals before complete collapse, is evidence of the lack of credit and time available for a successful workout.

From a distressed investor’s perspective, a successful workout outside bankruptcy entails: A) a forbearance while the company is stabilized, often with assistance from a turnaround firm; B) reshaping the company’s capital structure, likely a transfer of equity control through some mechanism (conversion of debt to equity), and a restructure of remaining debt; C) an operational turnaround, rightsizing staff and cost structure, and D) systematically rebuilding operations and profitability.

"With limited credit available, workouts outside bankruptcy have become an endangered species."

The investor "to do" list above is simple to write, yet extremely difficult to orchestrate in today’s economy. Remember, Lenders want full repayment and, unless you control all the debt, the other Lenders must somehow be satisfied. With the Trade wanting full payment, moving them forward is problematic. The Employees, including management, must buy-in to the plan. The Equity, which either built the company or overpaid for it in "irrational exuberance," may be unable to accept relinquishing control as "the only way." The Customers must remain loyal or there is nothing to work out. And, most important, the ultimate investment of time and money must make sense in the context of potential realizable value.

Bankruptcy was created and has existed for many years because of the rules of absolute priority. It remains expensive, potentially stigmatic and is often "the court of unintended consequences," but it has attraction when "time is of the essence." Workouts, whether in or out of bankruptcy, must address the concerns of all constituents and many distressed investors do not have the luxury of time, money nor management effort to affect workouts outside of bankruptcy.

Gary P. Thomason has experience in all aspects of the acquisition, growth and disposition of businesses. He is an engineer by training and has direct operations experience.

Treadstone Partners, LLC is a Dallas-based private equity firm. Founded in 1993, the firm makes investments in lower-to-middle market operating companies that are typically overleveraged, under-managed or confronting some other event-driven development. The firm has a distinctive expertise with special situation, alternative investments. 214.220.1030; www.Treadstone.com

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Move Forward
Not Distressed or Troubled? It Could be Worse, You Could be CONFUSED.

Virtually every industry has been hit hard by the recession. Many companies, although not distressed, may still be at risk and need to take action now so they don’t become distressed later.

Even if a company is not “troubled”, it may not be acting to maximize shareholder value. Often, owners or managers of these companies “feel” something is wrong but are not sure what it is.

Doctors recommend a regular complete physical as a means of early detection of issues that can become major problems if not addressed. Similarly, companies should undertake regular assessments of their current conditions to determine if potential troubles lurk beneath the surface. Catching problems before they appear and in time to allow remedial action is just as important to a company’s health as it is to an individual’s.

To cope with the recession, many companies have taken aggressive cost cutting steps. With signs beginning to point to recovery, management and owners may wonder how the company will respond as markets improve.

The impact of cost-cutting decisions can fester like a disease waiting to break out, potentially leading to poor performance due to inadequate management depth, lagging product development, deferred capital expenditures and maintenance, or inability to scale production.

Companies that have survived the recession, but have not addressed root causes of poor performance and developed plans to regain profitability, run the risk of long-term underachievement.

A deep assessment of operations and financial results may indicate that problems are systemic, and mediocre results are not just a result of the poor economy. Companies that have survived the recession, but have not addressed root causes of poor performance and developed plans to regain profitability, run the risk of long-term underachievement.

The starting point for such an assessment is an examination of the company’s goals and objectives in the context of the company’s current financial, competitive and operational position. Realizing short and long term objectives with current realities is critical for setting realistic performance measures.

Next, a complete review of a broad base of financial and operating metrics should be applied to identify areas or trends that need attention. It is not sufficient to review short term financial results and run a few ratios. A deep analysis of financial and operational metrics should be pursued. Performance metrics should be applied not just at the company level but also at the customer, sales channel, product and facility level. Understanding which metrics to use and how each should be weighted requires a thorough understanding of the strategic and tactical drivers of revenue, costs and cash flows. Comparisons should also be made to industry results and standards, as well as those of key competitors and similarly situated firms.

The results of a physical are of no value if a plan is not implemented to address areas of concern. Where potential problems are identified, detailed plans should be developed with milestones and metrics to allow for monitoring of progress and accountability.

The tools and approaches used by turnaround professionals have value not only to distressed companies, but also to companies that are merely “confused” about their status and need help identifying and responding to risks.

Applying these tools and techniques can identify and mitigate problems that are lurking under the surface and threaten not only the performance of the enterprise, but also the maximization of shareholder value.

Robert W. Schleiter, Managing Director, BBK Dallas
David M. Maggio, Senior Director, BBK Dallas

BBK is an international business advisory firm that has helped business leaders optimize their organizations’ financial results, operational performance and strategic decisions for more than 30 years.

The Value of a CTP

Certified Turnaround Professional

“Whether guiding a company in crisis or refining a company’s business model to overcome less threatening challenges, CTPs consistently demonstrate their value by bringing a unique combination of credibility, experience and approach.”

It is probably an understatement to say the last twelve months have been very challenging times for businesses. The downturn in the housing markets, combined with the crisis in mortgage lending and significant price volatility in the commodities markets, helped push world economies into recession.

The resultant decrease in consumer spending, job losses and lack of available capital have led to numerous business failures and widespread corporate distress.

Leaders of troubled companies often turn to external turnaround advisors to help evaluate strategic and tactical alternatives for improving the health of their businesses. Such turnaround advisors can provide a fresh perspective in analyzing business as well as employing a number of techniques with proven success over years of application.

One of the turnaround industry’s pre-eminent professional organizations, the Turnaround Management Association (TMA) introduced the Certified Turnaround Professional (CTP) designation in 1993 with the goal of distinguishing professionals who demonstrated mastery within the field of corporate turnarounds and restructurings.

To be awarded the CTP designation, a turnaround professional must meet certain experience requirements as well as pass a comprehensive examination. Topics tested on the examination, often referred to as the “Body of Knowledge”, include corporate and bankruptcy law, accounting, finance and operations. Completion of the certification process arms a CTP with a basic framework to use on each client engagement as well as in depth knowledge of how to tackle the most acute problems faced by troubled companies.

A prime example of the value delivered by a CTP can be demonstrated by a recent case study. A large operating company was experiencing significant distress, having declining revenues along with increasing input costs. The company was severely cash constrained and rationing liquidity daily to “keep the lights on”. The basic framework mentioned above was employed by the CTP, tailored to address the specific facts and industry issues facing the client. This approach, in conjunction with certain tools and techniques used by experienced turnaround professionals, quickly generated operating cash that allowed time for the CTP to work with management on a detailed assessment of the business model. Such assessment led to a change in fundamental business practices and a redepolyment of the company’s financial and human resources, greatly improving the operating results of the business over a nine-month period.

While bankruptcy appeared imminent at the outset, the CTP, working closely with the company’s existing management team, was able to repay all creditors in full and return the company to profitability.

While some signs exist that the economy may be nearing a bottom, there remains little doubt that any recovery will be long and challenging. Capital providers are likely to employ a more fundamental approach to lending and investing, reverting back to more traditional risk reward equations than those seen during the boom years from 2003-2007. This will increasingly force companies to focus on operational efficiencies and continually reassess business practices and key value drivers.

CTPs play an important role in assisting companies during these difficult economic times. Whether guiding a company in crisis or refining a company’s business model to overcome less threatening challenges, CTPs consistently demonstrate their value by bringing a unique combination of credibility, experience and approach.

John D. Bittner, CTP
Partner, Grant Thornton
Corporate Advisory & Restructuring Services
Seven Oil & Gas Company Warning Signs

Oil & gas commodity prices have experienced significant, high-frequency fluctuations during the past 13 months — with a general downward trend. Producers have not only experienced a significant negative impact to revenues, but the recent commodity price environment has made it much more difficult to forecast and plan capital expenditures. A partial mitigant to fluctuating commodity prices is to hedge future production. Hedging is expensive and thus not always feasible for small producers or for companies where the most value is in non-producing assets.

The following are seven indicators that an oil & gas producer may be experiencing operational or cash flow issues:

1. The firm produces primarily natural gas. Depending on location and other intrinsic properties of the producing assets, natural gas producers have been negatively impacted by price declines greater than oil producers. Natural gas and oil prices have declined over 75% and 50% respectively from their peaks thirteen months ago.

2. Internal reserve reports are slow in coming or vary greatly from audit/bank reserve reports. Significant differences between reserve reports delivered by company engineers and bank engineers or other third parties may signal overly optimistic projections or flawed assumptions such as pricing, capital costs, production profiles and economic limits.

3. The company did not hedge production or hedged for short periods. Companies that hedge production, by design, may be able to weather a commodity price downturn better than unhedged companies or companies with a majority of its production sold at spot pricing. For many small companies, the cost of hedging has been viewed as too great to justify the benefit.

4. Information flow is slowing or has stopped. It’s never a positive sign if management has ‘shut down’, become uncooperative or is providing the very minimum required information. This may indicate the situation is worse than last quarter’s ‘stale’ reporting.

5. Management has not weathered a commodity price cycle before. Many new companies have formed around new management teams with private equity or hedge fund backing. These companies are typically comprised of industry veterans with experience, in many cases, primarily as part of larger organizations; but not as an independent operator. The lack of perspective inherent with inexperienced independent operators, coupled with the emergence of new unconventional shale play economics, may leave some management teams unable to navigate today’s choppy waters.

6. The company has significant debt above and beyond the traditional oil & gas borrowing base. Some smaller oil & gas companies have significant amounts of current-year, junior debt primarily as a result of aggressive lending by some traditional senior lenders as well as hedge funds and other institutional lenders. This ‘stretch debt’, which is typically underwritten based on development drilling or higher commodity prices, further stresses cash flow.

7. The company has not implemented strong cost controls. The costs of oilfield goods and services historically fall as demand decreases and commodity prices fall. Prudent operators will monitor those costs and renegotiate accordingly with suppliers, constantly re-pricing the economics of their capital expense activities, reevaluating their lifting cost margins and maintaining a constant understanding of market pricing for oilfield goods and services.

Working with the company/operator either directly or with a turnaround professional can yield a more favorable result in today’s liquidity-constrained markets where a forced sale may result in a recovery of pennies on the dollar for even the senior-most creditors.

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2009 – 2010 BODY OF KNOWLEDGE Courses and Certification Exams

2009 TMA Annual Convention – Phoenix, Arizona
Venue: J.W. Marriott Desert Ridge
Sunday, October 4 – Tuesday, October 6

2010 – Dallas, Texas
Venue: to be determined
Dates: to be determined
(visit www.dallas.turnaround.org for details, or contact DFW Chapter Admin. Maribeth Canole: 214-228-9706)

2010 TMA Spring Conference – New York, New York
Venue: Sheraton New York Hotel and Towers
Saturday, April 17 – Monday, April 19

2010 TMA Annual Convention
Venue: JW Marriott Grande Lakes, Orlando, FL
Sunday, October 3 – Tuesday October 5

Certification examinations for pre-approved candidates are administered each day following the Body of Knowledge courses. Please visit www.turnaround.org for additional course/exam dates as they are confirmed and for registration opportunities. For more information regarding fees, course registration, and the certification program, please contact certification@turnaround.org.
In these turbulent economic times, when everyone is anxious to collect on their receivables in an effort to keep their heads above water, most business owners will experience one or more aggressive creditors demanding payment. The resulting process of dealing with angry creditors can often lead down a tight spiral to the dreaded—and generally misunderstood—bankruptcy filing.

It is at the very beginning of the sometimes painful process of dealing with creditors—when it becomes difficult to pay vendors and/or maintain steady working capital—that business owners should contact competent counsel to discuss the issues, ramifications, and available options regarding bankruptcy planning. Waiting too long to contact counsel can not only severely weaken one’s position, but sometimes makes an otherwise avoidable bankruptcy unavoidable. Early attorney contact is especially helpful in that it can help the business avoid drowning its remaining resources: an often-fatal action for an already floundering company. That is, if a struggling business spends its last dime attempting to avoid a bankruptcy, and then enters bankruptcy only as a last ditch effort, said business may not have the resources necessary to fully recover.

"In addition to helping a business plan for bankruptcy, the experience and insight that bankruptcy counsel brings to the table can often help a business avoid bankruptcy altogether—but only if they are contacted before it's too late!"

Ensure the company fulfills its potential duties to creditors as well as shareholders. Additionally, all businesses must understand the realities of bankruptcy if they are to have a successful reorganization and come out stronger than they went in. Bankruptcy, unfortunately, is not a panacea; it is a long process and it has its limitations. Without a firm grasp of what a bankruptcy entails—including how long it may last and what it can and cannot fix—it is difficult for a business to determine whether filing bankruptcy is a good option. And bankruptcy is not just a one-trick pony; sometimes just the possibility of a bankruptcy filing can be enough to give a business the breathing room it needs to recover in tough times, and counsel may help one to understand and use this concept as a bargaining tool rather than just a last-ditch effort. However, if a business waits too late to contact counsel, the threat may not be as effective, or it may be too late to avoid bankruptcy even with the additional breathing room.

Finally, while contacting experienced counsel prior to filing bankruptcy is an obvious necessity if the business has no options left but to file, there are other benefits that should not be overlooked. Most notably, in addition to helping a business plan for bankruptcy, the experience and insight that bankruptcy counsel brings to the table can often help a business avoid bankruptcy altogether—but only if they are contacted before it’s too late!

Written by Stephanie D. Curtis, Managing Partner (pictured), Mark A. Castillo, Attorney (not pictured), Christopher W. Elsberry, Attorney (not pictured).

The Curtis Law Firm, PC is a boutique Dallas-based practice dedicated to providing legal solutions and guidance to individuals and business entities alike, in all aspects of commercial and bankruptcy litigation, as well as a wide variety of corporate matters. Founded in 1999, our attorneys are experienced in a range of matters related to Chapter 11 and Chapter 7, as well as many other Creditor and Debtor relationships. Phone: 214.752.2222; www.curtislaw.net
Lender Relationships are Critical

The importance of forming and maintaining strong lender relationships is critical in today’s challenging economic environment. Industry characteristics are changing rapidly and companies that are currently healthy could quickly be stretched.

Obviously, reduced operating performance and a leveraged balance sheet can be a lethal combination for a business. Maintaining strong, open and trusting relationships with lenders goes a long way in helping those lenders act with patience and flexibility, and can provide critical breathing room for a business while it works through a cyclical economic or industry downturn.

Lasting partnerships begin with management selecting the right lender(s) and then working diligently to build that relationship over time. Consider these steps to establish and strengthen your lender relationships:

- **Select the Right Partner.** Companies should view a lender as a financial partner and more than simply a source of capital. A key is to choose a lender that has a track record of maintaining long-term relationships with its portfolio companies and working with them during good and not so good times. Keep in mind, it’s easy to find a lender when a company is growing and profitable, but many lenders act to quickly reduce their portfolios when times get tough.

- **Get the Lender Up to Speed.** It is important to educate your lender on the company and its industry. Including the lender in certain strategic discussions and internal sales meetings, for example, allows the lender to be more knowledgeable of the company’s competitive advantages and disadvantages, and gain a better understanding of the general industry as well as unique corporate risk. Inviting the lender to trade shows and conferences is an easy way for the lender to obtain a better sense for industry trends, issues and competitive landscape. Education reduces the “surprise” element for lenders if industry conditions turn downward, or certain sales goals are not met, and allows lenders to be more thoughtful and reasonable in their responses to any resulting decline in financial performance.

- **Over-Communicate.** Lenders value information that helps them better gauge the risk of their loan and the future cash needs of the company, as well as assess the general health of the business. Go beyond the bare minimum of information disclosed in required monthly/quarterly reporting packages. Providing material information on a real-time basis, whether it constitutes good news or bad, allows lenders to build confidence and trust in management.

- **Ancillary Services.** If you treat your lender purely as a source of capital, the “lending institution” may not look at that as a valuable relationship. Treasury management, 401K etc. are services most lenders offer, and utilizing more than available capital from a lender better positions a company to be perceived by the institution as a valued customer.

- **Respond Quickly.** If a lender has a question, answer it completely and quickly. Think of a financial partner as if it was a major customer or supplier and provide the same level of honesty and responsiveness to the lender.

A long-standing, positive relationship with a lender can be critical for the survival of a troubled company. When times are good the opportunity to develop the relationship with your lender, so that when times are not so good you can utilize the previously established trust and goodwill and be in much better position to weather the storm.

John Grimes is a Managing Director at Growth Capital Partners, L.P. Growth Capital Partners is an investment bank focused exclusively on advising middle market, privately held firms with financial restructuring, capital raises and mergers & acquisitions.

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Ameri-Tech Industries, LLC has been acquired in a 363 sale by Growth Capital Partners.

Ameri-Tech Building Systems is a leading manufacturer of modular buildings serving the oilfield, remote workforce, general commercial and consumer markets. The Company designs, manufactures and markets its products under the “Ameri-Tech” brand name and has earned the reputation as the industry’s premier provider of durable quality, innovative style and reliable delivery of modular products.

Ameri-Tech Industries was formed by Management to acquire the assets of the company through a 363 sale. Management has operated the business since 1996 and grown the company by entering diverse market segments while maintaining a commitment to superior customer service.

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Paying Extra Attention to Your Insurance Program Pays Off!

In a tough economy, a long, hard look at your company’s insurance and risk management program can yield not only dollar savings in the form of premium and claims expenses, but also coverage benefits.

During harsh economic times, your insurance and risk management program should be reviewed with a critical eye to look for:
- gaps in coverage to prevent uncovered claims
- duplications in coverage resulting in unnecessary expense
- unnecessary policies and/or coverage extensions
- adjustment of retentions and deductibles to optimize costs
- options such as self-insuring / non-insuring (e.g. Auto Physical Damage)
- agent/broker costs (full commission vs. negotiated service fee)

Furthermore, it is always a good idea to review and, if appropriate, step up loss prevention and safety efforts. This can pay off in several ways, including lower premiums; reduced claims; adjustment costs and higher morale; especially when rewards and acknowledgments for good results are passed around.

Recommendations

When things got dicey, even the Lone Ranger needed a risk management consultant to protect the herd. If you have an experienced person on staff, the appropriate analysis and investigations can be done internally. An outside look, however, will usually provide a different perspective since it will not be influenced or bound by “the way we do things.”

A risk management review can be performed by your current agent or a competitor looking to create a relationship for an eventual opportunity to win your business. You should recognize that any agent will have an agenda which could cloud their findings—your incumbent will have turf to protect and a new party will tend to be overly critical.

An alternative is to bring in an independent risk management consultant who does not represent an insurance company, broker or agent. Although you will pay a fee for their service, their review will not be tainted by a desire to sell insurance. Check for firms with strong track records in your industry. The Society of Risk Management Consultants (SRMC) website is a good place to start. You can view its membership at www.srmcsociety.org.

Regardless of the industry or the size of your company, the following apply:

Do’s
- Be proactive - don’t wait for unacceptable renewal terms to arrive first
- Be creative - explore non-subscription for Texas Workers Comp, risk retention groups, group purchasing programs, etc.
- Self-assume all the predictable losses you can afford
- Purchase coverage above self-assumptions for corporate survival and balance sheet protection
- Contact a reputable outside resource if lacking internal expertise
- Consider a structured agent/broker competition 6 months prior to your next renewal

Don’ts
- Assume everything is ok (if it’s not broken, it can still be fixed)
- Panic by eliminating essential coverage to reduce costs
- Place coverage with low rated or unrated insurance companies just for the premium savings (note that they may be the only source in some cases)
- Allow more than one agent/broker into the marketplace to obtain quotations (it is usually preferable to select your agent first and allow them to market your program)
- During harsh economic times, your insurance and risk management program should be reviewed with a critical eye. Using an independent risk management consultant is an option to consider.

Bob Duty is president of Cardinal Risk Management, a Dallas-based consultancy serving clients from start-ups to multinational corporations. He can be reached at (214) 365-0055 or by e-mail at rduty@cardinalriskmanagement.com.

CORPORATE RENEWAL & RESTRUCTURING
BOOT CAMP

PRESENTED BY
The Dallas-Fort Worth Chapter of the Turnaround Management Association and the Honorable John C. Ford Inn of the American Inns of Court

This award-winning annual 10 week course features highly trained, experienced professionals teaching the basics of corporate renewal and restructurings.

Classes, which are always well attended, address the following topics.
- Accounting
- Business Valuation
- Real Estate Valuation
- Restructuring Professionals
- Secured Lending Strategies
- Working with Expert Witnesses
- Bankruptcy Tax Issues

For details about the upcoming Bootcamp in the Spring of 2010, visit www.dallas.turnaround.org or contact DFW Chapter Admin. Maribeth Canole at 214-228-9706.

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The end of the recession may be in sight. Guarded optimism is growing across America despite ongoing defaults, foreclosures, and growing unemployment. Let’s leave it to the economists to figure out when the recovery has actually started. The bigger question is this: What will the economy look like post-recession? What is the “new normal”? That question affects every aspect of business strategy planning and finance. Get it wrong and you can create your own personal recession.

Turnaround professionals must grapple with this issue as they help clients and customers improve their position for the future. Among the very best locally are members of the Dallas Ft. Worth chapter of the Turnaround Management Association (TMA). They are senior turnaround advisors, equity investors, bankers, asset-based lenders, lawyers, and tax specialists. Collectively, they feel the pulse of business as they work with hundreds of clients in dozens of industries. In an informal survey, these experts were unanimous that the post-recovery economy will be different than anything seen over the past fifteen years. In fact, the “new normal” may look a lot like an older normal. Here is a summary of what Dallas Ft. Worth TMA members expect:

• More saving and less spending on the part of consumers and businesses
• A protracted housing recovery, with impact on all businesses supplying residential construction
• More families may choose renting over home ownership
• Slow retail growth with more emphasis on increasing sales in existing locations and an absolute requirement for imaginative retailing and better service
• An investor preference for earnings quality and steady growth over rapid but unsustainable increases
• More cautious prices and structures in M&A transactions
• Tighter lending standards for both businesses and consumers
• Higher taxes, inflation, or both

It's Trendy to be Tight

American consumers supported the building booms that spanned much of the past two decades. Who can forget President Bush urging Americans to support the country after September 11th by going shopping? Consumers responded, and responded and responded. But something funny happened on the way to the mail. The recession seems to have come on a big “slip slide” for the public. Some were forced to cut back due to lost jobs or reduced income, others simply lost their heart for spending. Suddenly, the trendy are tight and the thoughtful are thirsty.

Will consumers backslide into their old habits? TMA experts don’t think so. They feel a growing sense across the country that we had been collectively out of control. This type of reaction is not unprecedented. Some of our parents, and most of our grandparents, were in deadly shaped by the Great Depression. Many spent a lifetime saving. A nest egg in case things went bad again.

Businesses who want to sell consumers anything from handbags to housing will do well to position themselves to serve this trend. Such consumer sentiments are generational in duration. Other major shifts, such as the Green movement will be subject to the sharp pencils of the newly thrifty public.

Credit Card? What Credit Card?

For over half a century, living the American Dream was identified with home ownership. However there are signs that the widespread foreclosures and loss of value are causing a profound reassessment of the benefits of ownership. Of course, there are already profound changes in credit availability that will block some families from the market, and reduce what others can afford to pay.

Whether or not we see a long-term move away from home ownership, TMA’s experts believe that the housing industry will face several difficult years before equilibrium is reached. As a result, not just homebuilders, but manufacturers and distributors of building materials, home furnishing retailers, appliance manufacturers, and many other home-related industries are unlikely to return to the growth levels seen in the past. On the other hand, smaller homes, renovations, and multi-family construction may benefit.

Bankers Acting Like Bankers?

Banks, mortgage companies and commercial lenders, have been through a wild and destructive storm. Fortunately, the banking system is still largely intact. Of course, some would argue that the major banks were the cause of much of their own problem and everyone else’s current distress. Regardless of who is to blame, the times, they are a changing. The relaxed lending standards prevalent during the boom years were abnormal. Our experts do not expect a return to abnormally loose lending, but a reversion to past practices.

Taxes or Inflation or Both?

Huge deficits, huge government spending increases, and more plans on the table. This is not the place to discuss the specifics. However, every business manager in America must begin to consider the long-term implications of mounting government debt. Somebody has to pay the debt service. Taxes are likely to both change and go up. The details of the change are not predictable. This indicates caution about any investment, business or financial, that depends on tax benefits to generate an acceptable rate of return. Likewise, businesses generating lower after-tax returns are likely to find those returns become lower yet. The only other way to service the debt is to make it go away through inflation. That is the tried and true method across our country’s long history and it around the world. It has been quite some time since business managers had to worry about inflation (aside from the commodities inflation of the last boom). It may be time to dust off those skills and keep a sharp eye peeled for general price increases.

The “new normal” will be much better than today even though it will probably look kind of slow to eyes accustomed to 15 years or so of boom times.

Prepared For The Shock of the "New Normal"

Contributed by the Board of the Dallas Fort Worth Turnaround Management Association.

The “new normal” will be much better than today even though it will probably look kind of slow to eyes accustomed to 15 years or so of boom times.
Message from 2009 TMA International Chairman Arthur T. Perkins, Jr.

Director, Deloitte Financial Advisory Services LLP, San Francisco, CA

On behalf of Turnaround Management Association (TMA), I congratulate the Dallas/Ft. Worth Chapter for contributing another remarkable compiliation of accumulated knowledge from among its 325 members about the current state of the turnaround profession. The local expertise represented in these articles clearly indicates why TMA’s nearly 9,000 members in 46 chapters worldwide are so valuable to the corporate world in applying their unique skills to restructuring troubled companies.

A global corporate renewal industry

TMA is the only international organization dedicated to corporate renewal and turnaround management. Just as the world of business has become increasingly globalized in the past few years, so has TMA continued to meet the professional development needs of restructuring professionals worldwide and to promote high standards of practice within its varied membership.

One of the strengths of TMA is this membership diversity with representation from all of the disciplines involved in corporate renewal and turnaround management including turnaround practitioners and consultants, crisis managers, financial advisors, attorneys, lenders, distressed investors, appraisers, auctioneers and liquidators. TMA is unified by the possibilities inherent in members using their expertise, honed by years of experience, to save companies, preserve employment and strengthen the business community—especially in a time of economic downturn, a continuing credit crisis, and the legal obstacles to restructuring created in the wake of the 2005 bankruptcy legislation. Each chapter, like Dallas/Ft. Worth, is comprised of a professional community representing the various disciplines previously described. It is often said that within TMA you will find everyone you need to know to restructure a company!

For individual members, this blend of disciplines makes for outstanding networking. And, it provides a means for members to contribute their varied talents to planning for and participating in continuing education opportunities at international conferences, webinars and on-demand training, and at regional and chapter conferences and programs.

This TMA chapter sets the standard

TMA’s success relies on its network of chapters and how they develop their communities. The Dallas/Ft. Worth Chapter was established in 1990 as the first TMA chapter in Texas and was selected as TMA Chapter of the Year in 1997. For its website redesign and efforts such as this business insert, the chapter was recognized at the TMA 2009 Spring Conference as Most Improved Chapter of the Year for 2008. Equally impressive is the fact that this year 71 new members joined the chapter.

Among the top 10 largest TMA chapters, Dallas/Ft. Worth members have achieved enormous respect for their hard work and contributions to the growth and stature of the industry. The chapter’s nationally recognized Corporate Renewal and Restructuring Boot Camp, which debuted in 2007 to help educate bankruptcy attorneys on all the aspects of restructuring a troubled business, is now in its third successful year. One of three Texas TMA chapters, Dallas/Ft. Worth joins the Central Texas and Houston Chapters, along with the Louisiana and Oklahoma Chapters, in planning an annual regional conference which it hosted in Dallas this year.

TMA International again takes pride in the contributions the Dallas/Ft. Worth Chapter and its leaders have made to the industry, to TMA’s growth and visibility and to its own vibrant and active community.

Carl Marks Student Paper Competition

ABOUT THE COMPETITION

The Carl Marks Student Paper Competition was established in 2003 to recognize outstanding student achievement in the field of corporate renewal and to expand TMA’s university outreach. The program also provides research that could offer new insight into the corporate renewal profession. Prizes are presented each year at TMA’s annual convention in October. The program is administered by TMA, the only international non-profit association dedicated to corporate renewal and turnaround management, and the cash prizes are funded by Carl Marks Advisory Group LLC in New York.

PAPER CATEGORIES

Papers will be judged in the two categories listed below. The judges, with their sole discretion, may reclassify an entry should an alternate category be more appropriate or advantageous.

• Case study - focus on a company or companies to see how they could be turned around.

• Theoretical/conceptual - focus on turnaround issues and theories; understanding the theoretical underpinnings of turnarounds.

CRITERIA

The papers will be evaluated using established judging criteria set by TMA. Judges will look for several elements in each paper including:

• Relevance to issues pertinent to corporate distress, financial restructuring and reorganization

• Well-written, clearly constructed and thorough treatment of the subject

• Originality of the subject and its interpretation

• Depth and quality of analysis

PRIZES

A first and second place prize will be given in each category - case study and general.

First place: $3,000 (USD), plus travel expenses to the Annual Convention
Second place: $1,500 (USD), plus travel expenses to the Annual Convention

In the case of a team-written winning paper, the prize money will be split among all members of the team. All members of the team will receive complimentary convention registration, but only one member of the team will receive reimbursement for travel to the annual convention, up to a maximum of $1,000 USD. That same team member will also receive one night’s lodging at the convention hotel.

Visit www.dallas.turnaround.org for details about the 2010 competition.
If you have an interest in participating, please contact DFW Chapter Admin, Maribeth Canole at 214-228-9706.
Causes of Business Decline and Failure

What factor or forces most often lead to financial distress and business failure? The pie chart below shows the most common causes of business failure.

As the pie chart suggests, the causes of failure can be separated into two broad categories: external and internal.

**EXTERNAL CAUSES OF FAILURE**

Broadly speaking, there are four main types of external change to monitor and anticipate.

1) **Economic Change**
   - One study finds only 9 per cent of all failures are chiefly caused by economic factors. The lesson is that good management can offset poor economic conditions.

2) **Competitive Change**
   - Thirty-five per cent of all business failures are related to competitive change (6 per cent competition plus 29 per cent loss of market). Competitive change most often takes the form of price competition. This trend is particularly common during downturns in the economy, as firms attempt to keep their factories at near-capacity production, despite declining aggregate demand. A more sudden and less predictable type of competition can come either from changes in other countries or as the result of new technologies.

3) **Societal Change**
   - Because social changes tend to occur slowly over long periods of time, reasonably astute managers should be able to keep up with such changes in most industries. They can adjust their product mix, employment practices, or pricing strategies to maintain their competitiveness.

4) **Technological Change**
   - The two main sources of technological change in the external environment are information technology and transportation technology. The increasing complexity and information availability that result from technological changes make it hard for managers to sort through all available information and to focus on relevant information.

**INTERNAL CAUSES OF FAILURE**

Somewhere between 65 per cent and 100 per cent of failures are attributable to internal problems. Failure is generally the result of non-constructive and/or non-responsive conduct by management.

1) **Poor working capital controls**
   - Shortages of working capital can force a company into disadvantageous borrowing (paying above-market interest rates), affect its ability to pay off debt on a timely basis, and risk the breach of loan covenants in its credit obligations.

2) **Excessive fixed costs**
   - Firms can be more expensive to work capital than working capital. A significant change in the business environment may reduce their value to less than the outstanding debt on assets.

3) **Excessive debt**
   - One path to excessive debt is through excessive investments in fixed assets. A second path arises when a loss of revenue from asset impairment threatens a firm’s ability to make its loan payments or meet its debt covenants. A third, if less obvious, path to excessive debt relates to the financing of growth. Increasing sales requires increased debt financing. Yet, companies stretched thin may not be allowed to add to their liabilities.

4) **Inadequate ownership capital**
   - Ownership capital is calculated by dividing common shareholders’ equity by total assets. A very high equity ratio indicates the firm may be unable to raise new funds for additional investment, while a very high equity ratio indicates the firm is using the costliest source of investment capital to finance the majority of its business operations.

Source: @Turnaround Management Association, Management Body of Knowledge 2007

**The causes of failure can be separated into two broad categories: external and internal. Somewhere between 65 % and 100% of failures are attributable to internal problems.**

**POOR MANAGEMENT**

So what management problems contribute to failure?

1) **Dictatorship**
   - This type of behavior can lead down two paths to failure: dominance and insulation. Dominance results when executives ignore input from others, while insulation occur when executives stop asking for or receiving input from others.

2) **Lack of managerial talent and depth**
   - A lack of management depth is often a by-product of dictatorial leadership.

3) **Lack of openness to change**
   - Another potential consequence of dictatorial leadership is that management becomes either averse to change or unable to effectively implement constructive change.

4) **Unbalanced top management team**
   - A top management team is unbalanced when one product area or functional area dominates the experience of the top management team or the board of directors.

5) **Ineffective board of directors**
   - To be effective, boards must have directors with the right experience, as well as the willingness and the power to do more than rubber-stamp management decisions.

6) **Pursuit of inappropriate or high-risk strategy**
   - A risky strategy often results when managers underestimate the many challenges to implementing a high-risk strategy. Another common pitfall is escalating commitment, which happens when CEOs feel the need to right past mistakes.

7) **Dishonesty or fraud**
   - Individual dishonesty and fraud are not common causes of business failure, even though they are highly visible in some recent cases.

**WEAK FINANCE FUNCTION**

A weak finance function represents a much greater risk to a corporation than any one individual does. A particular danger for firms with a weak financial function arises during economic downturns - creative accounting.
Restoring Business Performance

Sales and profits are down. Market share is slipping. These are symptoms of problems managers must find and fix if an organization is to succeed. Top managers must find a strategy or a combination of strategies that are feasible and that will stop the organization’s decline and put it back on a successful path to growth and profitability. There are two main types of renewal strategies to accomplish this: retrenchment and turnaround.

Retrenchment is a short-run renewal strategy designed to address organizational weaknesses that are leading to performance declines. When operational and financial performance measures reveal a more serious situation, more drastic action must be taken to restore performance. Both retrenchment and turnaround call for two primary actions: cost cutting and restructuring.

COST CUTTING
Rarely is it wise to use a single-minded, across-the-board cost-cutting program. Some departments or projects may actually need additional funding, while others need modest cuts; still others may need drastic cuts or perhaps elimination altogether.

STAGES OF THE TURNAROUND PROCESS

There are five distinct stages in a turnaround.

- Management change
- Evaluation
- Emergency action
- Stabilization
- Return to normal

Management change
Management change can begin only when company leaders have decided changes are necessary. The motivation for management to change very often comes from the board of directors. Even if current managers are willing to take some actions to turn a company around, they very often lack the credibility to implement changes because they are perceived to be part of the problem. More often than not, an experienced turnaround professional should be brought in.

Evaluation
The first three requirements for viability must be evaluated at this point: one or more viable core businesses; adequate bridge financing; and adequate organizational resources and skills.

The evaluation stage culminates in formulation of a preliminary action plan focused on the most pressing problems. This should be a strategic plan with specific goals and detailed functional actions. The next step is to communicate the plan to all key stakeholders.

Emergency action
The objective of the emergency action stage is to control cash. An appropriate action plan must be developed. The plan typically includes financial, marketing, and operational actions to restructure debt, enhance working capital management, reduce costs, improve budgeting practices, correct pricing, prune product lines, and accelerate high-potential products. While making cuts in one large step may risk making them too deep, it is better to cut too deeply all at once than to make small cuts repeatedly.

Stabilization
Following emergency action, turnaround efforts should be directed toward making remaining operations as effective and efficient as possible. The focus now is profits, not short-term cash balances. If this stage is not successful, odds are that the company will not emerge from crisis.

Return to normal
The objective now is to institutionalize a permanent change in corporate culture to focus the company on profits and return on investment. Financially, the emphasis shifts from cash flow concerns to maintaining a strong balance sheet, access to longer-term financing, and implementation of strategic accounting and control systems.

Return all items to Dallas Business Journal.

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“Both retrenchment and turnaround call for two primary actions: cost cutting and restructuring.”

5) Downsizing
Downsizing is a fancy term for a layoff. It is a good way to cut costs quickly. But unless downsizing is tied to a rational strategy, problems can result.

6) Bankruptcy
Bankruptcy is a last resort when a business fails. If the business is dissolved under Chapter 7 of the bankruptcy laws, a court will liquidate its assets and use the proceeds to pay off the firm’s outstanding debts. Under Chapter 11, the firm reorganizes its operations while it is legally protected from its creditors. If the firm can emerge from bankruptcy, it pays off its creditors as best it can.

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