The TMA University Relations Committee
Welcomes TMA Members & Guests to a Special Educational & Networking Event
Thursday, February 11, 2010 – Triple Header
Attend one part or all three your choice!
The Gleacher Center
Celebrating Over 1,100 Interdisciplinary Members Served!
Part 1 - Turnaround Industry Overview and Key Tools

Moderator- Overview

William J. Hass, CEO, TeamWork Technologies

Presenting - TWCF (Thirteen Week Cash Flow)

David Johnson, Director, ACM Professional Services

Comments/Q & A

Members of the University Relations Committee

Agenda

4:15 p.m. Registration & Networking (Room 600)

4:30 p.m. – 6:00 p.m. Interactive Program including Q&A
William J. Hass, CTP
Board Level Strategist and Coach

- **Renewal Strategy, Valuation and Teamwork**
- **Consultant and Business Advisor:** Member, National Association of Corporate Directors
- **Turnaround Strategist and Manager:** Certified Turnaround Professional (CTP)
- **Entrepreneur**

**CEO, TeamWork Technologies** (Strategy, Teamwork, and Turnaround Consulting)
**Vice President, Deloitte/HoltValue Associates** (Corporate valuation and strategy consul)
**Community Leader**, Center for Corporate Financial Leadership a div. of the III. CPA So
**Past Chairman, Turnaround Management Association; CTP** (Certified Turnaround Professional – one of approximately 200 in the US)
**Partner, Ernst & Young, Special Services Group/Practice Leader, Midwest Strategy Services**
**President, CEO & Founder**, BFC (Holds international patents licensed to Toshiba, Sony, and others)
**MBA-Finance, University of Chicago GSB; BS-Engineering, University of Illinois-Chicago**
Companies of all types *can survive* if they create value:

- Set value oriented goals
- Create incentives that promote value
- Structure governance and monitoring to track value creation
- Report progress to the owners with better metrics
Quick Overview: Turnaround Tools

- **Frameworks:** Five Stages of Turnaround & More
  - Body of Knowledge(BOK) to Environment to Ed Altman’s Z Score
  - Disciplined Systems for Early Warning, Decisions & Beyond

- **Scenarios & Sensitivities**

- **Change Management**

- **Cut Losers** (People, Products, Processes & Customers)

- **Realistic Plans** and Assumptions

- **Cash Flow Projections** (TWCF and more)

- **Valuation** (Liquidation to Optimistic)

- **Formal Restructuring** (In or Out –of –Court)
We Will Touch on TMA’s 3 Part Body of Knowledge (BOK)
Chicago Full day Workshop Series in July, Aug. & Sept.
TMA’s “Management” Body of Knowledge (BOK)

✓ “Early Action” is Emphasized

• Causes
• Early Warning Signs
• Requirements of Success
• Characteristics of Turnaround Managers

✓ Outlines the 5 stages of a typical Turnaround
Five Stages of A Turnaround Are Outlined in ACTP Body of Knowledge

1. Analysis or Assessment
2. Stop the Bleeding
3. Change Management or “Change Management"
4. Restructuring
5. Return to Normal ...or Turnaround Management Everyday (Think Cash)
Lots of Clouds on Horizon Means Distress or Opportunity??

**Macro**
- **Impending Inflation**
- Markets aren’t working!
- Trade Restrictions
- Washington, DC and Health Care are the only growth markets!

**Industry**
- Some in deep distress!
- New proposed regulations look bad!
- Values have dropped dramatically!
- Competitor in Chapter 11

**Company**
- Strike threats by the union!
- Suppliers closing down!
- Deal flow?
- Retail Sales Down – Fewer Good Tenants
- Sales are Down 30% from Peaks!

100 more banks will fail in 2010!
Distress: You Know it...
When You See and Feel it!

- Bucking heads with:
  - Your Banker
  - Your Suppliers
  - Your Employees
  - Your Competitors
  - Your Key Customer
  - Your Owner
  - Your Parent
  - Your Boss

OUCH!!
Every Company Experiences Difficulties... Ups and Downs

• Ability to **Bounce Back is critical**
• **Early Warning** increases the chances of a timely **Bounce Back**
• **Management** and other stakeholders must face reality and embrace the brutal facts
• **“Red Flags”** pointed out early can save companies and jobs
• Ability to bounce back depends heavily on **Overcoming Denial** having the **right people in “the boat”**
What are some WARNING SIGNS?

TIME: Early? --- Mid? -- Late? -- Crisis?

1. Out of Cash ------------------ Crisis
2. Covenant Breaches ----------- Late
3. Years of Losses ----------- Mid
4. Not Earning C of C - Early
5. Loss of Mkt Share -- Early
6. _____________________ ___
7. _____________________ ___

KEY: Early: over 2 yrs, Mid: 1 to 2 yrs, Late: under 1 year
The TMA Lists the Following Signs of "Impending" Trouble

• Ineffective Management
• Poor Lender Relationships
• Family vs. Business Issues
• Weak financial Function
• Operating Without a Business Plan
• Lack of Operating Controls
• Changes in the Marketplace
• Explosive Growth
• Changing Customer Base
• Over diversification
Use the "E-A-R-S" Framework to understand the present

Environment → Action → Results → Systematically →

EARS™ - The Environmental Framework
Good Management Can Anticipate and Mitigate Many External Risks

- Economic or Weather Dependent
- Investment Intensive
- Customer or Fashion Dependent
- New or Technology Driven
- Interest Rate Sensitive
- Litigation prone
- Terrorism prone
- Other?
Trend Analysis is Basic & Critical

- Work with the numbers:
  - Financial statements
  - Operational
  - Environmental

- **Graph key ratios** and indicators to visually compare the trends

- Discuss the reasons for changes with management and industry experts

- **A company is usually its best benchmark “if” reporting is consistent**
NEW: Good Financial Systems May Save Your Company!

- Reduces chances of bad decisions
- Helps make needed changes
- Demonstrates good management
- You Can’t Manage, if You Don’t Measure
Environment → Actions → Results → Systems

Ed Altman's $Z''$ is a 4 Factor Model Predicting Bankruptcy for a Broader Range of Non-Manufacturing & Private Companies

• $Z''$ = The sum of the following factors:
  • $6.56 \times X_1 \Rightarrow WC / TA \sim$ Liquidity
  • $3.26 \times X_2 \Rightarrow RE / TA \sim$ Cumulative Profit
  • $6.72 \times X_3 \Rightarrow EBIT / TA \sim$ ROI and Profitability
  • $1.05 \times X_4 \Rightarrow BE / TL \sim$ Value to Liabilities
  • $+ 3.25$ $\Rightarrow$ scale factor to produce Score of “Zero”

for a D- (default rated bond)

Note: $Z''$ scores below Zero are likely to go bankrupt. Alarms sound as companies trend toward zero. See bond ratings for comparison on the next page. Source: p. 283 (1998: Caouette, Altman, and Narayanan)
Environment → Actions → Results → Systems

Z’’- Score & Corporate Bond Ratings

<table>
<thead>
<tr>
<th>Average S&amp;P Bond Rating</th>
<th>Sample Z’’ Score</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>8.15</td>
<td>8</td>
</tr>
<tr>
<td>A</td>
<td>6.65</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B–</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCC</td>
<td>2.50</td>
<td>10</td>
</tr>
<tr>
<td>D (default)</td>
<td>0.00</td>
<td>14</td>
</tr>
</tbody>
</table>

Sample Size

Predicting Directional Changes in Profitability (ROI)

- Served Market – Bad if declining (e.g. Dom. OEMs)
- Relative Quality -- Good if improving
- Relative Market Share – Good if high
- Relative Productivity – Good if improving
- Value- Added – Good if improving
- Investment Intensity – Best if declining

Source: The PIMS Program/Empirimetrics.com
Understanding the Viability and Risks of the Core Business

- Declining Market – How long will it continue?
- Quality Problems – Will they be overcome?
- Loss of Market Share – Can it be reversed?
- Low Productivity – How long to improve?
- Low Value-Added – What changes are possible?
- High Investment – What action will reduce it?
- Presence of Unions – Will they make concessions?
- Industry Price Decline – Is Overcapacity an Issue?
- ...and 25 other factors

Source: The PIMS Program/Empirimetrics.com
Scenario and Sensitivity Analysis is the “Best” Tool to Deal with an Uncertain Future

- When unexpected events make trends useless,
- When uncertainly about future events requires special analysis,
- **Ask: What if:**
  - Sales drop 20%?
  - Margins drop 2 points?
  - Downturn lasts 6 months? 12 Months? Etc.
  - What will be the impact on profitability and cash flow?
- **What contingency plans exist?**
- What’s your model and assumptions?
Be Disciplined – Turnarounds Require Extreme “Management” Discipline

- Disciplined **People**
- Disciplined **Thinking**
- Disciplined **Action**

…miss one element and you have the potential for distress  
... Jim Collins, Guru, In Good to Great

... Bill Hass
Metaphor: Successful Turnaround Managers (& Top Private Equity Players) are the “Fighter Pilots” of Change

• They *change* the business models to improve cash flow.
• They take advantage of changes in the environment.
• They Focus on Profitable Customer segments.
• They have a clear mission to create value.
• They adjust their Skills to the environment
• They have a Short and Long term Plan
Value Rebuilders Cut Losers Better and Faster! (Top Private Equity does it better than many)

15% is Just a Start!
Pilots Need Maps & a Realistic Plan

• “90% of Completing a Successful Mission is Planning and Holding People Accountable”

The Fog is Rolling in ...
...Move Quickly!
TMA’s BOK Turnaround Process Has 5 Steps

...“and is much much more than Financial Engineering”

per Don Bibeault, Author, TMA Classic

“Corporate Turnaround: How Managers Turn Losers into Winners”,

Basis for much of the TMA Body of Knowledge and the 5 Stages

Stages Can Occur at Same Time and in Any Order
Three Requirements For Successful Turnarounds

• **Viable Core Business** or Businesses

• **Adequate Financing or Cash**
  – Internal sources
    • Working Capital Reductions
    • Asset Sales
  – External Funding

• **Adequate Organizational Resources and Skills**
  – Internal Team Capability
  – Effective Turnaround Leadership
  – Effective **Legal Support and Advice**

Source: TMA’s BOK, 2004
## Five Stages of Turnaround Help Communicate What’s Changing?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>You really need to know the business</strong></td>
<td>More difficult with deep demand drops</td>
<td>Who to keep?</td>
<td>Less Chapter 11 More Chapter 7</td>
<td>Timing?</td>
</tr>
<tr>
<td><strong>Is there a reason to exist?</strong></td>
<td>More Idled assets and people</td>
<td>Exit Unprofitable Customers</td>
<td>More out of court liquidations</td>
<td>Each Industry will be different</td>
</tr>
<tr>
<td><strong>Profitable Core?</strong></td>
<td>Avoid adding capital</td>
<td></td>
<td>More 363 Sales &amp; Liquidations !</td>
<td></td>
</tr>
</tbody>
</table>

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Financial Analysis – Cash is King

- **Cash Flow Analysis and Projections**
- Break Even & Profitability Analysis
- Balance Sheet Analysis
- Information Systems Assessment

...the Cash Flow Projection is Key!

...the Cash Flow Projections are Key!

...the Cash Flow Projections Are The foundation of Communications!
THE 13 WEEK CASH FLOW (TWCF) is a Critical Communication and Planning Tool

• Keep it Simple but Action Orientated
• One Page Summary
• One Page of key assumptions
• One Page Spread Sheet with Appendicies
• Detail as needed to meet the expectations of all Stakeholders
• Think “CASH BOX” not GAAP Accounting
• Should Integrate to Monthly/Qtr. Financials
THE 5 YEAR CASH FLOW is a Critical Valuation, Communication & Planning Tool

- *Keep it Realistic* but Action Orientated
- One Page Summary
- One Page of Key Assumptions
- One Page Spread Sheet
- Detail as needed to meet the Expectations of all Stakeholders
- *Think “CASH” & Value not just GAAP*
Think Cash & Values

Liquidation
VALUE $$

OR

Going Concern
Enterprise
VALUE $$$$$

Ask what if ???
There Are Many Approaches
(Producing Wide Ranges of Value)

See Chapter 2
TMA Five Stage Turnaround Process

Step 4 – Restructuring

A Legal Overlay of the Turnaround Process

- Analyze
- Stop the Bleeding
- Stabilize
- Change Mgmt
- Restructure
- Return to Normal

Stages Can Occur at Same Time and in Any Order
Initial Considerations
Legal Aspects – In or Out of Court?

• The lender’s decision to support turnaround or to liquidate is influenced by:

  – **Viability** of the business based on an objective analysis of the plan

  – **Credibility of “Management”** based on the history of the lending relationship and the

• If lender supports restructuring, it can be done

  – *Out-of-court or*

  – *Through a “Formal” in-court process*
Out-of-Court Restructuring

Key advantages/disadvantages

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lower cost</strong> in money, time and stress on the business</td>
<td>Risk of reduction of resources, delay and absence of “automatic stay” can make things worse and bankruptcy may ensue anyway.</td>
</tr>
<tr>
<td><strong>Greater flexibility</strong> than rule-driven process of bankruptcy court</td>
<td>Success may require near unanimous observance of agreed upon rules</td>
</tr>
</tbody>
</table>

...Possible if management is credible & actions are early
Chapter 11 Timeline

Filing of the Petition

• Activates *automatic stay* against debt collection by creditors

• Establishes date for preference look back
  – *90-day* look back period for preferences
  – *One-year look back for insiders*

"The Estate"

365 Days 90 Days 120 Days- Exclusivity

FILING
Bankruptcy Reform Act of 2005 Forces Better Cash Flow Planning When in Distress

- More Difficult for Smaller Companies
- No KERPs for Key Employees
- Leases must be Accepted or Rejected sooner
- Vendors may recover goods shipped within 30 days of Filing
- Utilities must feel comfortable with a “High Assurance” of getting Paid

**NEW!**

More Liquidations, and Pre-arranged and Pre-Packaged CH 11 and 363 Sales
Chapter 11
Plan of Reorganization (POR)

• Debtor has exclusive right to file plan for only **120 days** following filing of petition
  – Frequently extended on motion to court

• Plan divides creditors into classes determined by similarity and priority of claims

• Impaired classes vote on plan
  – Approval by more than 50% in number and at least **2/3 in value** of allowed claims held by creditors voting within class

• **Cramdown of rejecting classes**
Chapter 11
Section 363 - Sale Of Assets

• More Common to meet New CH 11 Timelines
• Used in both reorganization and liquidation context
  – Can effect “going concern” sale
• Sale of some or all assets of debtor
  – Free and clear of liens/liens attached to proceeds
Share Fact Based Data: Ideally Early

Digging Deeper on Macro Economics: The Health and Wealth of Our Nation

**Figure I.1** Non-financial Indicators Suggest We Are Making Progress

- **A - Life Expectancy Chart:** Life expectancy at birth (Source: CDC)
- **B - Violation of Air Quality Standards:** Percent of days in violation of federal standards (Source: South Coast AQMD)
- **C - Ratio of Black to White Median Incomes:** (Annual - Source: U.S. Census Bureau)
- **D - Misery Index:** Inflation + Unemployment (Source: BLS)
- **E - Unemployment:** (Source: Federal Reserve FRED2)
- **F - Inflation:** (Source: Federal Reserve FRED2)

**Comment:** Life in the U.S. has improved tremendously on many fronts. Life expectancy (A) continues to increase (See [www.cdc.gov](http://www.cdc.gov)). Air and water pollution (B) in major cities is down. Intercultural income disparities (C) have steadily declined. The “Misery Index,” (D) which combines unemployment and inflation has dropped significantly from its peak in the early 1980s. A low unemployment rate (D) is a healthy economic driver. While there have been cyclical ups and downs, it has declined broadly to 1980s levels. Providing incentives for people to work is crucial to economic growth and political stability. Inflation (F) also peaked in the early 1980s. Diligence by the Fed has contained inflationary tendencies.

**Figure I.3 - Reagan Tax Cuts Improved Our Competitiveness as a Nation**

- **A - U.S. GDP as a % of Total OECD GDP:** (Annual through 2007, total OECD GDP of the member countries - Source: OECD)
- **B - Corporate Economic Profits as % of GDP:** (Quarterly through 3Q2007, NIPA after-tax corporate profits adjusted for capital consumption and inventory - Source: BEA)
- **C - Civilian Employment/Population Ratio:** (Age 16 years+, monthly through 2007 - Source: BLS)
- **D - Business Productivity:** Change in Output per Hour of All Persons (3-year moving average of yr/yr change, quarterly through 3Q2007 - Source: BLS)

**Comment:** Supply-side incentives ushered in an era of prosperity, putting people back to work and improving the competiveness of the U.S. This is despite the competitive threats from Europe and Japan, and military threats of the Soviet Union. The payoff has been enormous. Since 1983, the United States’ share of GDP in the OECD (A) has grown dramatically. Corporate profits (B) soared, providing growing employment opportunities (C). At the same time, productivity of the employment force grew, reinforcing the GDP and corporate profitability. Failure to maintain the economic incentives that made the U.S. competitive can lead to a lower share of global growth.

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## Digging Deeper on Decision Making

### Factors Analysis

<table>
<thead>
<tr>
<th>Factors</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINANCIAL</td>
<td></td>
</tr>
<tr>
<td>Intrinsic Value (stock price)</td>
<td>N</td>
</tr>
<tr>
<td>High leverage, high debt.</td>
<td>M</td>
</tr>
<tr>
<td>Value of foreign subsidiaries</td>
<td>L</td>
</tr>
<tr>
<td>OPERATIONAL</td>
<td></td>
</tr>
<tr>
<td>Change in raw material costs, energy costs</td>
<td>L</td>
</tr>
<tr>
<td>Labor related problems-- increase in labor costs, strike.</td>
<td>L</td>
</tr>
<tr>
<td>Fire or other plant outage</td>
<td>L</td>
</tr>
<tr>
<td>Ability to hire or keep critical people. Lose key contact with customer</td>
<td>L</td>
</tr>
<tr>
<td>Environmental and govt regulation</td>
<td>L</td>
</tr>
<tr>
<td>CUSTOMERS/MARKET</td>
<td></td>
</tr>
<tr>
<td>Introduce new products</td>
<td>H</td>
</tr>
<tr>
<td>Loss of key profitable customer</td>
<td>H</td>
</tr>
<tr>
<td>Total Weight</td>
<td>10</td>
</tr>
</tbody>
</table>

### Risk Scenarios

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASE CASE</td>
<td>2-3% GDP Growth, low inflation, slowly improving employment (reflected in current stock price)</td>
</tr>
<tr>
<td>Double Dip.</td>
<td>A second recession ahead by 2011, GDP drops 2-3%, stagnation. Dollar DROPS (20% hit in stock price)</td>
</tr>
<tr>
<td>Economic recovery, 4-5% GDP growth over 5 years, strong employment (20% increase in stock price)</td>
<td>9%</td>
</tr>
</tbody>
</table>

### Breakthrough

- **Kn-Unkn:** 0%
- **Unkn-Unkn:** 30%
NEW Tool:

Action on Decisions Requires Experience, Discipline & Consensus

• How to Dig Deeper & Minimize Personal Reactions?
• Blame it on the Software

Source: Copyright© Bill Zangwill, U of Chicago Patented Risk Decision Software
Digging Deeper on Value: The Value Audit Framework

**Figure III.1A**
Practitioners Use Discounted Cash Flow Spreadsheet Models

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case Sales</td>
<td>1,180</td>
<td>1,345</td>
<td>1,561</td>
<td>1,811</td>
<td>2,100</td>
</tr>
<tr>
<td>Less: Cost of Goods Sold</td>
<td>754</td>
<td>876</td>
<td>1,015</td>
<td>1,177</td>
<td>1,346</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>426</td>
<td>471</td>
<td>546</td>
<td>634</td>
<td>735</td>
</tr>
<tr>
<td>Less: SG&amp;A</td>
<td>145</td>
<td>168</td>
<td>195</td>
<td>226</td>
<td>283</td>
</tr>
<tr>
<td>Operating Earnings (EBIT)</td>
<td>281</td>
<td>393</td>
<td>541</td>
<td>707</td>
<td>973</td>
</tr>
<tr>
<td>Less: Cash Taxes</td>
<td>91</td>
<td>105</td>
<td>123</td>
<td>143</td>
<td>185</td>
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<tr>
<td>Operating Cash Flow</td>
<td>190</td>
<td>197</td>
<td>228</td>
<td>265</td>
<td>387</td>
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<tr>
<td>Fixed Asset Additions</td>
<td>14</td>
<td>17</td>
<td>19</td>
<td>22</td>
<td>26</td>
</tr>
<tr>
<td>Change in Working Capital</td>
<td></td>
<td></td>
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<tr>
<td>Free Cash Flow</td>
<td>131</td>
<td>152</td>
<td>177</td>
<td>205</td>
<td>238</td>
</tr>
<tr>
<td>Cost of Capital</td>
<td>12%</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Terminal Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2580</td>
</tr>
<tr>
<td>Totals</td>
<td>629</td>
<td>117</td>
<td>121</td>
<td>126</td>
<td>135</td>
</tr>
<tr>
<td>NPV of Cash Flows (years 1-5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPV of Terminal Value</td>
<td>1,652</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enterprise Value of Company</td>
<td>5,282</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Debt</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intrinsic Value of Equity</td>
<td>5,182</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assume Terminal Value (Zero Growth) = Operating Cash Flow x Cost of Capital

Total Enterprise Value = Discounted Cash Flow over the Life of the Company

**Figure III.1B**
Value Audits Identify Key Actions that Create Value

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Financial Results &amp; Projections</th>
<th>Long-Term Growth of Capital Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Strategy</td>
<td>Pricing, Sales Growth, After Tax Cash Flow from Operations</td>
<td></td>
</tr>
<tr>
<td>Market Strategy</td>
<td>COGS, Operating Costs, Cash Taxes</td>
<td></td>
</tr>
<tr>
<td>Execution Strategy</td>
<td>Receivables, Inventories, Free Cash Flow Forecast</td>
<td></td>
</tr>
<tr>
<td>People, Leadership, Processes</td>
<td>Receivables, Inventories &amp; Culture, Change in Fixed Assets</td>
<td></td>
</tr>
</tbody>
</table>

Management Will Make Better Strategic Decisions by Understanding the Links Between Environment, Strategic Actions, Tactical Drivers, Financial Drivers and Enterprise Value

**Comments:** Financial projections and valuation estimates (A) come from a detailed understanding of the business model and the environment (B). This analysis, in turn, serves as the basis for improving corporate strategy. Value audits identify strategic actions to create value. Management will make better strategic decisions by understanding the links between environment, strategic actions, value drivers, accounting results, and corporate value. (Source – Board Resources Copyright © 2007)
Critical Tool:

Intrinsic Value Waterfall Identifies Value & Risk and Value Losers

Management Will Make Better Strategic Decisions by Understanding the Links Between Environment, Strategic Actions, Tactical Drivers, Financial Drivers and Enterprise Value.
Understand Industry Issues & Complexities:

Differences between A, B & C Players (CRE)

- Interest rates likely to increase.
- Lenders look to lower loan to value.
- Loan term leases can help mitigate downturn.
- Fewer “A’ tenants (ie Circuit City is gone)
- Construction cost still high.
- Lots of CMBS Debt
- Opportunity for players with cash!

- Different CRE-Commercial Real Estate - Segments Impacted Differently:
  - Retail:
    - Mall
    - Big Box
    - Strip Centers
  - Office
  - Industrial
  - Apartments
  - Hotel
  - Storage
From 12 Principles to 2
Act Sooner & Dig Deeper

1. Understand SBU Value
2. Involved those accountable
3. Communicate Performance Measures
4. Adapt Processes to Capability
5. Encourage Open Debate
6. Quantify Magnitudes and Likelihood
7. Monitor Execution

8. **Renew Continuously**
9. Communicate Thoroughly
10. Recognize Owner Priorities
11. Focus on Strategic Initiatives
12. Monitor Results

Dig Deeper & Act Sooner
Be Disciplined – Turnarounds Require Extreme “Management” Discipline

- Disciplined **People**
- Disciplined **Thinking**
- Disciplined **Action**

...Jim Collins, Guru, *In Good to Great*

...miss one element and you have the potential for distress  

... Bill Hass
References & More Reading

- For More information on Turnarounds go to [www.turnaround.org](http://www.turnaround.org)
- For more on value building, go to: [www.TopValueBuilders.com](http://www.TopValueBuilders.com)
13wk Cash Flow (TWCF) and Borrowing Base Mechanics

David Johnson
Director
ACM Professional Services
Session Overview

- TWCF in the context of turnarounds
- TWCF Model Construction
- Borrowing Base
- Q&A
David Johnson, Professional Qualifications

- David Johnson has over 10 years of professional experience encompassing restructuring and turnaround, business process optimization and entrepreneurial ventures. David’s engagement experience has ranged from short-term assessments to complex debt restructurings, with companies ranging in size from $20MM to $900MM in sales, across a wide variety of industries. Prior to joining ACM, he was a Senior Consultant with CRG Partners and an Associate with Huron Consulting Group.

- David is a 2007 graduate of the University of Chicago Booth School of Business, with concentrations in accounting and finance. He is co-chair of the University Relations committee of the Chicago Chapter of the Turnaround Management Association.


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The Big Picture

• Turnarounds are about cash and time, and TWCFs provide turnaround professionals with the information to answer key questions
  – Are things getting better or worse?
  – What is the peak cash need (and is it in excess of current funding available)?
  – Is this a case of “good company, bad balance sheet” or is this just a bad company?
  – Is there time for a full sale process?

• A robust TWCF will answer these questions and in doing so guide key decision makers on the appropriate course of action
  – Pursue a turnaround
  – Seek to reorganize (either out-of-court or in chapter 11)
  – Seek a sale (either out-of-court or via a section 363 sale)
  – Liquidate
TWCF in Context

The turnaround of a company is based on assessing viability

- Viability is a function of three measures:
  - Liquidity, through the analysis of cash and working capital
  - Solvency, which can be assessed by an I/S and B/S, and
  - Positive cash flow, which can only be addressed by the TWCF

- How can more detail and visibility be provided?
- What immediate obligations can be addressed?
- How can the company be run differently?
- What can be done to conserve cash?
- How will the turnaround be financed?
- What factors can best catalyze a turnaround?
- How can the company best monitor performance?
TWCF: Comparative Analysis

• How is a TWCF different than other financial forecasts?
  – It is cash (not accrual) based

• Evaluate “Revenue” and “Cash Flow from Operations”
  – Revenue is based on the contractual commitment of another party
  – Cash flow from Operations relies on working capital assumptions

• Note the accounting triggers for each
  – Income Statement: Revenue is recognized at the point of an agreement to purchase
  – Balance Sheet: A/R recognized at the point of shipment
  – GAAP Statement of Cash Flows: Cash Flow from Operations may fall into the same “accrual” traps if the working capital estimates are not forecast as observed

• Contrast to Cash Inflows in the TWCF
  – TWCF requires documentation of observed A/R payment terms
  – Cash is measured on the singular basis as when it is available for use
TWCF: Comparative Analysis

• How is a TWCF different than other financial forecasts?
  – It offers specificity or disaggregation of activity:
    • Timing
      – Generally performed at weekly (daily) intervals
      – Highlights specific peak cash needs
      – Implies sources or instances for negotiation
    • Line Items
      – Delineation of line item activity from general account headings
      – Allows assessment of how critical/non-critical the obligation is
      – Signals if the amount is recurring or extraordinary
    • Business Unit / Product Line
      – Segregation of segments or business units aids visibility
      – Evaluation of a core business becomes easier
      – Enables different strategies for different segments to be evaluated and monitored
TWCF: Comparative Analysis

• How is a TWCF different than other financial forecasts?
  – It is the only source for assessing and tracking short-term viability
    • Liquidity and Solvency Ratios are not performed on a cash basis
    • General financial statements do not “time” cash needs
    • TWCF models can best be adjusted for up-to-minute activity
  – It is the ideal mechanism to individually track turnaround actions
    • TWCF can model and then be used to monitor specific actions
    • TWCF budget to actual variances can be very informative
    • TWCF often becomes or includes “vital signs” of the business
  – It is periodically recast to reflect actual activity
    • Models are constantly updated with new actual information
    • Inherent timing differences can be allow better management of cash flow and working capital
How does the TWCF fit into the financial forecasting process?
TWCF as a Business Tool

• TWCF often allows visibility and execution of management

• Visibility Considerations
  – Which initiatives provide the most return?
  – What can be done to demonstrate management actions?
  – Over what time and constraints can gains be achieved?

• Execution Considerations
  – Best assessment of the effectiveness of the turnaround plan
  – Permits detailed evaluation of operating results
  – Indicates relative strengths and weaknesses of business renewal

• Ideally, the cash flow model goes beyond “reporting”, it “informs”
TWCF Fosters Accountability

• Monitoring cash flow performance enhances visibility...
  – Cash inflows that fall below expectations of the turnaround plan
  – Cash outflows that exceed expectations of the turnaround plan

• ...and allows Management/Advisor to query accountable parties as to the existence, merit or success of the business strategy

- **Cash Inflows**
  - Are customers failing to pay according to terms?
  - Are higher than expected discounts being provided?
  - Is there a deterioration in the customer base?
  - Are competitive/pricing/position factors more influential than modeled?

- **Cash Outflows**
  - Are vendors accelerating payments (reduced terms, COD, deposits)?
  - Are material or supplier costs increasing?
  - Is a system of addressing vendor payments necessary/functioning?
  - Is inventory being managed in the most cost effective manner?
TWCF as a Turnaround Tool

TWCF integrates the “Who, “What” and “How” of the turnaround

<table>
<thead>
<tr>
<th>Key Consideration:</th>
<th>Who?</th>
<th>What?</th>
<th>How?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is management part of the problem or the solution?</td>
<td>Are the key turnaround initiatives visible and clear?</td>
<td>Is the plan free of bias and externally supported?</td>
<td></td>
</tr>
</tbody>
</table>

| Criteria or Basis of Evaluation: | Capabilities, awareness and commitment of management | Weekly status, “flash” reports or key metrics | Singular/accepted model for all potential users |

| Process: | Employing the capabilities of management and their understanding of the company's systems and financial information to produce a clear and accurate cash flow model | Establishing the key success criteria to engineer the turnaround, such as: new sales or shipments, cash balances (inflows and outflows), productivity / fulfillment, working capital position | Modeling and remodeling of the TWCF to add clarity and remove any biases or preferences for vendors or customers and to vet interests or objections of external stakeholders. |

| Potential Benefits: | Accountable, engaged and motivated management team | Enterprise-wide focus on the action steps required to meet turnaround goals | Cooperative relationship with stakeholders and the establishment of credibility |
Cash Flow Construction

The best model tracks the unique aspects of each company

• Simpler models may result in cases of simpler businesses
  – Homogeneous products
  – Singular product lines imply

• Complicated models may result from the following:
  – Seasonality of sales or cash receipts / disbursements
  – Extended or irregular procurement, cash conversion cycles
  – Unique customer payment terms
  – Unique vendor payment terms
  – Nature of competitive environment
  – Significant intercompany activity in accrual based financial data
  – Number of and differences within business units or product lines
Cash Flow Construction

In most cases, a TWCF plan is an organizational challenge

- Systems are often a weak link to addressing TWCF needs
  - Limited or less useful historic information impacts the plan process
  - Usually designed for financial reporting, not cash planning

- Management may present a challenge to a TWCF plan
  - Focus often on sales, operations and finance versus cash flow
  - Distracted by negotiations and discussions with constituencies

- The turnaround advisor/role often catalyzes the TWCF plan
  - Source of experience and creativity to overcome system limitations
  - Authority to influence management to commit necessary resources
  - Leadership role in developing the plan with company personnel
  - Stewardship of process until the company can manage the model
Cash Receipts

• In addition to the ordinary course items, other types of cash receipts may include:
  – Tax Refunds
  – Refinance Proceeds less Usage
  – Equity Contributions
  – Miscellaneous

• Importance of Timing Cash Receipt

• Strategic Considerations

• Velocity in the cash conversion cycle
  – Impact of DSO Ratio (high and low)
  – Other variants to the cycle and their impact
Cash Disbursements

• Many expenditures are based upon contractual obligations
  – Payroll and Payroll Taxes
  – Leases and Rent
  – Principal and Interest Payment
  – Workmen’s Compensation and other Insurance
  – Trust Accounts

• Other expenditures are estimated based on history and current knowledge
  – Repairs and Maintenance, as well as capital expenditures
  – Travel and Entertainment
  – Show and Sales Expense
  – Legal and Professional

• Some expenditures can be estimated based on sales volume, inventory turns, capital investments, etc.
  – Inventory Purchases
  – Machinery and Equipment Purchases
Cash Flow Presentation

• The aim of a TWCF is to capture and present the operational complexity of an organization and the assumptions necessary to create the forecast without sacrificing clarity

• Always aim for “elegant simplicity” in presentation

• Keep in mind, nobody is likely to ever know a given TWCF as well as the person who develops the forecast
  – Management has in many cases never seen a TWCF before
  – Private equity sponsors have other portfolio companies
  – Lenders have other troubled credits
Borrowing Base

• An Asset Based Loan (ABL) is a robust financing tool for companies with weaker cash flow but positive growth trends and a solid asset base

• By lending with an eye toward assets and not cash flow, ABL lenders are comfortable extending credit to companies that would not be attractive to cash-flow lenders

• The mechanics of an ABL increase availability as a company grows
  – Greater sales levels lead to increasing levels of Accounts Receivable and increasing inventories, which increase the availability under a standard borrowing base
Borrowing Base Calculation

• Loan Availability on Accounts Receivable
  – Beginning Balance (Accounts Receivable)
  – Add New Sales (and New Debts)
  – Less Collections, Discounts, Allowances, and other credits
  – Less Ineligible accounts (discussed below)
  – Multiply by set percentage of loan allowance on eligible accounts receivable

• Typical ineligible accounts (usually derived from loan agreement)
  – Foreign: any non-US entity sales
  – Overdue: often, >90 Days
  – Concentration: 30% Rule (if 30% of acct is >90 then entire account is excluded)
  – Other: Unapplied, Unbilled or Disputed A/R, Taint terms
Borrowing Base Calculation

• Loan Availability on Inventory
  – Beginning Balance (Eligible A/R)
  – Add Raw Materials, Work in Process, Finished Goods
  – Multiply by set percentage of loan allowance on eligible inventory
  – Use lessor of Inventory cap or calculated eligible inventory balance
  – Indicative Terms for Inventory eligibility
    – Eligible Inventory:
      » 10% of obsolete Inventory (but less than 90 days)
      » 50% of Raw Materials
      » 75% of Work in Process
      » 100% of Finished Goods
    – Ineligible Inventory:
      » All foreign inventory
      » All inventory greater than 90 days
Borrowing Base

- An ABL is a growth company’s best friend on the way up, but it can be unforgiving on the way down:

![Borrowing Base Availability Chart]

- **Sales ($)**: Year 1 (48,000), Year 2 (52,000), Year 3 (56,000), Year 4 (54,000), Year 5 (52,000)
- **Sales Growth Rate**: -14.0%, -12.0%, -10.0%, -8.0%, -6.0%, -4.0%, -2.0%, 0.0%, 2.0%, 4.0%, 6.0%
TWCF Recap

• A TWCF is a valuable tactical tool
  – Focus on cash cuts out the accounting “noise” that
    becomes irrelevant in distressed situations
  – Gives visibility to near-term issues and helps all parties
    understand the prospects of a distressed company

• In designing a TWCF the goal should be to clearly
  communicate the complex
  – Does the Company have the resources and time to
    execute?

• The mechanics of Asset Based Loans (ABLs) are
  troublesome to companies facing unanticipated sales
  declines
## Baseline Forecast Scenario

<table>
<thead>
<tr>
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<tr>
<td>Gross Sales</td>
<td>2,273</td>
<td>2,393</td>
<td>2,875</td>
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<td>Receipts</td>
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<tr>
<td>Trade Receipts</td>
<td>70.0%</td>
<td>2,000</td>
<td>650</td>
<td>650</td>
<td>2,423</td>
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<td>Cash Sales</td>
<td>30.0%</td>
<td>682</td>
<td>718</td>
<td>863</td>
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<td>Total Cash Receipts</td>
<td>2,682</td>
<td>1,368</td>
<td>1,513</td>
<td>3,286</td>
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<td>Operating Disbursements</td>
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<td>Material</td>
<td>1,600</td>
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<td>2,257</td>
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<td>Labor Costs</td>
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<td>85</td>
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<td>Equipment Leases</td>
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<td>Sales &amp; Use Tax</td>
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<td>239</td>
<td>-</td>
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<td>Property and Other Taxes</td>
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<td>Professional Fees</td>
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<tr>
<td>Capital Expenditures</td>
<td>25</td>
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<td>Other</td>
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<td>15</td>
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<td>Total Operating Disbursements</td>
<td>1,940</td>
<td>3,621</td>
<td>1,174</td>
<td>3,523</td>
<td>2,685</td>
<td>5,870</td>
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<td>Operating Cash Flow</td>
<td>742</td>
<td>(2,253)</td>
<td>339</td>
<td>(237)</td>
<td>601</td>
<td>(449)</td>
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<td>Non-Operating Disbursements</td>
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<td></td>
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<tr>
<td>Interest - Revolver</td>
<td>6.75%</td>
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<td>Other Bank Charges</td>
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<td>125</td>
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<td>Professional Fees - Restructuring</td>
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<td></td>
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<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Non-Operating Disbursements</td>
<td>65</td>
<td>65</td>
<td>190</td>
<td>65</td>
<td>65</td>
<td>65</td>
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<tr>
<td>Net Cash Flow</td>
<td>677</td>
<td>(2,318)</td>
<td>149</td>
<td>(302)</td>
<td>536</td>
<td>(514)</td>
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</table>
### Baseline Forecast Scenario

**Accounts Receivable**

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<tr>
<th>Week Number</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Accounts Receivable</td>
<td>12,500</td>
<td>13,675</td>
<td>16,429</td>
<td>16,018</td>
<td>15,607</td>
<td></td>
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<tr>
<td>Plus: Sales on Account</td>
<td>1,675</td>
<td>2,013</td>
<td>2,013</td>
<td>2,013</td>
<td>1,610</td>
<td></td>
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<tr>
<td>Less: Collections</td>
<td>(650)</td>
<td>(650)</td>
<td>(2,423)</td>
<td>(2,423)</td>
<td>(4,731)</td>
<td></td>
</tr>
<tr>
<td>Ending Accounts Receivable</td>
<td>12,500</td>
<td>13,675</td>
<td>16,429</td>
<td>16,018</td>
<td>15,607</td>
<td>12,486</td>
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<tr>
<td>Less: Ineligible Accounts Receivable</td>
<td>(625)</td>
<td>(684)</td>
<td>(821)</td>
<td>(801)</td>
<td>(780)</td>
<td>(624)</td>
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<td>Ineligible as % of Accounts Receivable</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
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<tr>
<td>Eligible Accounts Receivable</td>
<td>11,875</td>
<td>12,992</td>
<td>15,607</td>
<td>15,217</td>
<td>14,827</td>
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<tr>
<td>Advance rate</td>
<td>85.0%</td>
<td>85.0%</td>
<td>85.0%</td>
<td>85.0%</td>
<td>82.5%</td>
<td>82.5%</td>
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<tr>
<td>Accounts Receivable Availability</td>
<td>10,063</td>
<td>11,009</td>
<td>13,225</td>
<td>12,894</td>
<td>12,193</td>
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**Inventory**

<table>
<thead>
<tr>
<th>Week Number</th>
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<th>1</th>
<th>2</th>
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<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>Beginning Inventory</td>
<td>10,500</td>
<td>11,278</td>
<td>9,379</td>
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<tr>
<td>Plus: Purchases</td>
<td>2,692</td>
<td>359</td>
<td>2,257</td>
<td>2,257</td>
<td>5,030</td>
<td></td>
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<tr>
<td>Less: Cost of Sales</td>
<td>(1,915)</td>
<td>(2,257)</td>
<td>(2,257)</td>
<td>(2,257)</td>
<td>(1,806)</td>
<td></td>
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<tr>
<td>Ending Inventory</td>
<td>10,500</td>
<td>11,278</td>
<td>9,379</td>
<td>9,379</td>
<td>9,379</td>
<td>12,604</td>
</tr>
<tr>
<td>Less: Ineligible Inventory</td>
<td>(500)</td>
<td>(500)</td>
<td>(500)</td>
<td>(500)</td>
<td>(500)</td>
<td></td>
</tr>
<tr>
<td>Ineligible as % of Inventory</td>
<td>4.8%</td>
<td>4.4%</td>
<td>5.3%</td>
<td>5.3%</td>
<td>5.3%</td>
<td>4.0%</td>
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<tr>
<td>Eligible Inventory</td>
<td>10,000</td>
<td>10,778</td>
<td>8,879</td>
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<td>8,879</td>
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<tr>
<td>Advance rate</td>
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<td>60.0%</td>
<td>60.0%</td>
<td>55.0%</td>
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<tr>
<td>Inventory Availability</td>
<td>6,000</td>
<td>6,467</td>
<td>5,328</td>
<td>5,328</td>
<td>4,884</td>
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**Availability Reserves**

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<tr>
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<th>4</th>
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<tr>
<td>Letters of credit</td>
<td>500</td>
<td>500</td>
<td>500</td>
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<td>500</td>
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<tr>
<td>Swap settlement</td>
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<td>650</td>
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<tr>
<td>Total availability adjustment</td>
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<td>1,150</td>
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**Accounts Payable**

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<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>Beginning Accounts Payable</td>
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<td>14,222</td>
<td>16,121</td>
<td>16,121</td>
<td>16,121</td>
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</tr>
<tr>
<td>Plus: Purchases</td>
<td>1,915</td>
<td>2,257</td>
<td>2,257</td>
<td>2,257</td>
<td>1,806</td>
<td></td>
</tr>
<tr>
<td>Less: Vendor Payments</td>
<td>(2,692)</td>
<td>(359)</td>
<td>(2,257)</td>
<td>(2,257)</td>
<td>(5,030)</td>
<td></td>
</tr>
<tr>
<td>Ending Accounts Payable</td>
<td>15,000</td>
<td>14,222</td>
<td>16,121</td>
<td>16,121</td>
<td>16,121</td>
<td>12,896</td>
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</table>

**Total Availability**

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<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revolver Balance (book)</td>
<td>15,000</td>
<td>17,318</td>
<td>17,169</td>
<td>17,471</td>
<td>16,935</td>
<td>17,449</td>
</tr>
<tr>
<td>Less: Outstanding checks</td>
<td>(400)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revolver Balance (bank)</td>
<td>14,600</td>
<td>17,318</td>
<td>17,169</td>
<td>17,471</td>
<td>16,935</td>
<td>17,449</td>
</tr>
</tbody>
</table>

**Availability (Over Advance)**

<table>
<thead>
<tr>
<th>Week Number</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability (Over Advance)</td>
<td>313</td>
<td>993</td>
<td>234</td>
<td>399</td>
<td>1,008</td>
<td>2,187</td>
</tr>
</tbody>
</table>
Appendix – Variance Report

**Nonesuch Inc.**
Cash Flow Forecast
Variance Report
($000s)

<table>
<thead>
<tr>
<th>Week #</th>
<th>5/1/09</th>
</tr>
</thead>
</table>

## Gross Sales

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Budget</th>
<th>Variance</th>
<th>% Var</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Sales</td>
<td>$2,393</td>
<td>$2,393</td>
<td>$0</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

## Cash Receipts

<table>
<thead>
<tr>
<th>Source</th>
<th>Actual</th>
<th>Budget</th>
<th>Variance</th>
<th>% Var</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Receipts</td>
<td>684</td>
<td>650</td>
<td>34</td>
<td>5.2%</td>
</tr>
<tr>
<td>Cash Sales</td>
<td>718</td>
<td>718</td>
<td>-</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

**Total Cash Receipts**: 1,402

## Operating Disbursements

<table>
<thead>
<tr>
<th>Category</th>
<th>Actual</th>
<th>Budget</th>
<th>Variance</th>
<th>% Var</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory and Material Purchases</td>
<td>2,513</td>
<td>2,692</td>
<td>(179)</td>
<td>-6.7%</td>
</tr>
<tr>
<td>Labor Costs</td>
<td>653</td>
<td>650</td>
<td>3</td>
<td>0.5%</td>
</tr>
<tr>
<td>Real Estate Leases</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Equipment Leases</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Sales &amp; Use Tax</td>
<td>241</td>
<td>239</td>
<td>2</td>
<td>1.0%</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Property and Other Taxes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>18</td>
<td>25</td>
<td>(7)</td>
<td>-28.0%</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
<td>15</td>
<td>(5)</td>
<td>-33.3%</td>
</tr>
</tbody>
</table>

**Total Operating Disbursements**: 3,407

## Non-Operating Disbursements

<table>
<thead>
<tr>
<th>Source</th>
<th>Actual</th>
<th>Budget</th>
<th>Variance</th>
<th>% Var</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest - Revolver</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other Bank Charges</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Professional Fees - Restructuring</td>
<td>73</td>
<td>65</td>
<td>8</td>
<td>12.3%</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

**Total Non-Operating Disbursements**: 73

## Net Cash Flow

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Budget</th>
<th>Variance</th>
<th>% Var</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cash Flow</td>
<td>(2,078)</td>
<td>(2,278)</td>
<td>200</td>
<td>-8.8%</td>
</tr>
</tbody>
</table>
TMA’s Chicago/Midwest Chapter Provides a Local Forum for:

• Exceptional Networking --- Making Connections
• Professional Development and
• Public Awareness Building through *Education, Networking and Fun*

For *All Professionals* Engaged in
• Corporate Renewal
• Performance Improvement
• Value Creation and Recovery.
Membership Benefits
( It’s up to You !)

• Networking -- Connections
• Education – Ideas & Connections
• Publications: Journal of Corporate Renewal
• Chicago/Midwest Newsletters
• Internships and Paper Awards
• Website: www.turnaround.org
CTP- Certified Turnaround Professionals
(Almost 400 CTPs in US and Growing)

• Relatively New – Formed in 1993
• TMA/CTP develops, monitors and maintains a certification program for professionals in the corporate renewal industry
• Great way to “Get Noticed” and indicate interest in a career and learn the basics
Research Internships

Research Papers Due:
May 1, 2010 (Nik & Adi) and 2011 (You?)

Topics:
A. What are the sizes and the key segments for Turnaround Management & Renewal in Chicago and Nationally
B. Case Studies of Restructuring Success or Failure (Compare 3 to 10 companies) (2010 Team on DIP Loans)

APPLY: Submit a one-page Proposal for $5000 Internship Funds and enter National Paper Competition with $3000 first prize
Get Involved with TMA for Education, Networking & Fun

• Join a Committee like University Relations
  — Help Plan Fall Events
  — Help Guide $5,000 Research Internships

• Select Upcoming Educational Events:
  — April 7th, Kellogg Turnaround Conference
  — April 16, 5th Annual Booth Distressed Investing & Restructuring Conference
  — May 11th, TMA TWCF Extravaganza

• MORE AT: www.Turnaround.org
BREAK – MOVE TO ROOM 100

• Cash Bar (6:00 to 6:30)

• Part 2 STARTS @ 6:30 PM

• Ends at ~8:00 PM with move to Midway Club! (part 3) Fifth Floor!
The Role of Capital Markets in Turnarounds & Current Credit Market Trends
... Including DIP Lending