

Welcome...

Welcome to the first edition of Beane Associates News, a bi-monthly collection of news and advice of interest to all stakeholders of financially and operationally challenged businesses.



This month's topic focuses on avoiding disaster. Our experience has shown that recognition of early warning signs and a proactive approach at remediation can significantly reduce the chance of financial distress in corporations.

We hope that you will find our commentary meaningful. Let us know what you think of this newsletter. Feel free to forward it to any other business you know, and don't hesitate to offer suggestions of topics that interest you. Write to me at tjbeane@beaneassociates.com

Sincerely,
Tom Beane, President CMC CIRA

Tip Sheet

When all else fails, remember these 5 things:

1 Cash, Cash Cash:

Generate it, track it and save it. It *is* King!

2 Your #1 asset is not on your balance sheet

It's your employees. Educate them, nurture them, put them in position to succeed and if that doesn't work—replace them.

3 Run your business as if it were for sale:

Strong Balance Sheets and ROE are what builds value. Why wait until you want (or have) to sell? Focus on this now!

4 Go visit your customers:

Remember the airline commercial a few years back where the CEO handed out tickets to everyone, including himself, to reconnect with its customers? Check your schedule, if you are not in front of customers 25% of your time, you are risking the relationship.

5 Get outside opinions:

Recruit a strong, talented advisory board, or join a group such as VISTAGE (www.vistage.com). Challenge the group to challenge you.



Avoiding Trouble Ahead—Yes, That Is An Iceberg

By Tom Beane

As a turnaround and restructuring professional, I'm often asked how you can tell when a company is headed for trouble. But the cold reality of turnaround consulting is that by the time I'm called in to help, the company is already in deep trouble. Management didn't hear or didn't respond to the warning bells when they sounded, and my job is to develop the most appropriate plan to get the company back on its feet.

Nonetheless, in my work at restructuring and salvaging troubled businesses, I've seen and heard a lot about what goes wrong inside companies before they're placed on life support. I believe my observations will be helpful to creditors and other stakeholders, and even to the owners and management of struggling businesses, provided that they're willing to look closely, and honestly, at their own operation before it becomes too late.

Numbers can tell a lot about a company, so let's look first at figures and procedures related to company's financial management. Does it use standard accounting procedures to accurately record information and protect against embezzlement? Does it track cash flow on a daily, weekly and monthly basis? Does the company have timely reporting procedures, closing the books no more than 10 days after the end of each month? Does management track "non-financial" indicators, such as customer satisfaction and operations, on a monthly basis? Does the company have a financial plan that includes forecasts of its balance sheet, income statement and cash-flow statement? Does the company forecast future working capital needs and begin looking for capital before it's actually needed? The answer to all these questions should be "yes." A "no" indicates a serious problem.

Next, look at the company's operational management, marketing and sales. Does the company have a clearly defined mission, goal statement and business strategy? Do employees know and understand that mission and strategy? Does the company have training programs for key staff? Does the company know its target market and customers? Does the company know its competitors' strengths and weaknesses? Is the company looking for new markets and distribution channels? Does the company track the number of its new customers? Does the



company track the customers it loses, and know why they were lost? Again, if the company is running well, the answer to all these questions should be "yes." If the answer to any of these questions is "no," the company could well be headed for trouble because it lacks identifiable goals, doesn't understand its market and customers and isn't paying attention to its competition.

There are a lot of reasons why businesses fail—and many of them are avoidable. Here are a couple, provided by the Wharton Small Business Development Center at the University of Pennsylvania:

- Thinking they're smarter than the competition.
- Trying to beat bigger competitors on price.
- Not seeking, or listening to, outside advisors.
- Not paying attention to how your competition is changing.
- Relying too heavily on one or two customers.

Even the best of companies sometimes hit bumps in the road. But one way to avoid them is for the owners and management team to make a thorough and honest assessment of their financial and operational practices—at least on a yearly basis.

It is far better to identify potential trouble spots before problems get out of hand than to deal with the prospect of restructuring, bankruptcy or liquidation because the early warning signs were ignored.

Success Stories

Turbomachinery Manufacturer

A manufacturer of replacement turbine blades for jet engines with annual revenues of \$15 million found itself \$15 million in debt after a three-year down cycle.

Beane Associates Inc. reduced overhead, consolidated credit lines, restructured debt and arranged for reorganization to occur outside of bankruptcy proceedings. Then we helped the company obtain a new financing package. Within six months, the company was profitable.



In The News

Beane Earns Certification

Thomas J. Beane, president of Beane Associates Inc., has been accredited as a Certified Insolvency and Restructuring Advisor (CIRA) by the Association of Insolvency and Restructuring Advisors. The association grants certification to professionals who demonstrate a high level of competency in more than 4,000 hours of specialized experience in business turnaround, restructuring and bankruptcy cases. Tom has more than 20 years of business experience, including more than a decade in turnaround and crisis-management consulting.

Bankruptcy Business Back In Delaware

Delaware is poised to regain its national stature as a top jurisdiction for bankruptcy filings, according to recent newspaper reports.

Law firms whose Wilmington offices do a significant amount of bankruptcy work are noticing, after two down years, an upturn in filings, the Philadelphia Business Journal recently reported.

"With interest rates and oil prices high, I think you are going to see a number of mid-market companies file for Chapter 11," said Peter Clark, the Philadelphia-based chairman of Reed Smith's bankruptcy department.

"Things happening in the economy are going to drive a lot more filings," Laura Davis Jones, managing partner of the Wilmington office of Pachulski Stang Ziehl Young Jones & Weintraub, the nation's largest bankruptcy law firm, said at a conference for bankruptcy lawyers reported in the Wilmington News Journal.

Delaware's federal Bankruptcy Court tripled in size this spring, as four new bankruptcy judges began 14-year terms on the bench. The new judges are Kevin J. Carey, Kevin Gross, Brendan L. Shannon and Christopher S. Sontchi.

Delaware became a hot spot for bankruptcy filings in the mid-1990s as its judges developed a reputation for efficiency and business-friendly rulings. In 2001, a majority of the nation's major Chapter 11 cases were filed in Delaware. The heavy caseload then became a burden, and judges were borrowed from other courts to help reduce the backlog.

"Having six permanent judges will stabilize things, and we're going to see more of the big cases come back," Saul Ewing bankruptcy chairman Norman Pernick told the Philadelphia Business Journal.

Beane Associates was recently featured in the Wilmington (DE) News Journal as "The 'go-to' guys for troubled businesses." To read the article, go to: www.delawareonline.com/apps/pbcs.dll/article?AID=/20060616/BUSINESS/606160321/1003

Staying Ahead Of The Curve

While we're talking here about warning signs that a business might be in trouble, we should note some practices adopted by well-managed companies to stay ahead of the curve. Some of the most important are:

- Develop a flexible business plan, and review it as your market changes.
- Build stronger relationships with your customers and your suppliers. It's always easier to keep your current customers than to find new ones. You'll get even more cooperation from your suppliers when you let them know they're essential to making your business succeed.
- Watch your competition – its quality, pricing and services. Stay ahead – and make clear the reasons your company is better than, and different from, the competition.
- Plan expansions and diversifications carefully. Be certain that your employees can handle the demands that growth brings, and that you've got the cash to finance the expansion.

About Beane Associates, Inc.



Founded in 1984, Beane Associates, Inc. continues to build an impressive track record in helping private and publicly owned companies improve operational effectiveness and profitability during a time of financial challenge. The company has offices in Wilmington, DE, Charlotte, NC, and Atlanta, GA.