Beane Associates, Inc.

Beane Associates News December 2009

A bimonthly collection of news and advice for stakeholders of financially and operationally challenged businesses

Welcome...

While 2009 has been a difficult year for many businesses, it has been an exceptionally busy year for Beane Associates. That's the nature of our work: when the economy starts dragging businesses down, we get more calls asking us to help get troubled companies back on the right track.

As an indication of how widespread the recession's wrath has been, our engagements this year have involved a range of industries — auto dealers, golf courses, trucking companies, and just about anything related to the real estate and housing market.

So it's appropriate that in this newsletter we continue our discussion of managing turnarounds, focusing this time on financial relationships with the troubled company's external customers. I hope you find this a helpful explanation of how we go about our work.

We hope you enjoy the holiday season and extend our wishes for a healthy and prosperous new year.

For additional information on us, visit

www.beaneassociates.com

Sincerely,
Tom Beane, *President CMC CIRA*

Beane Associates appointed receiver of two golf courses

Beane Associates was recently appointed receiver of golf courses in Delaware and Pennsylvania.

In Delaware, the Court of Chancery has named Beane Associates as receiver of The Creek Course, LLC. As receiver, Beane has taken possession of and will manage, operate and maintain the golf course and clubhouse facility known as Back Creek Golf Club in Middletown.

In Pennsylvania, the Monroe County Court designated Beane Associates as receiver of the Wild Pines Golf Club in Pocono Summit. The appointment took effect Oct. 31, 2009. As receiver, Beane Associates will take possession of and manage the property and clubhouse facility.

This recession has adversely impacted many industries and the downturn has been especially brutal to the golf industry. A renewed sense of expense reduction and deleveraging by both corporations and consumers severely impacts private and public clubs' ability to survive. Our focus will be to preserve the value of these properties and manage expenses to a level that will hopefully build a strong foundation for future success

Managing the Turnaround – Creditors and Customers

By Chris Todd

When we get the call to help a foundering business, we often encounter a wary management team that hopes to survive by exhibiting a strong measure of false bravado.

All too often we hear upper management protest, "if the bank would just give me a little more money and a little more time, I'll work my way out of this."

However, when the bank is unwilling to offer neither time nor money, it's the responsibility of the turnaround professional to demonstrate some unique skills and to show the business how to make good use of an attribute it thought it had lost when its profitability disappeared — its leverage.

That's right — a struggling company actually possesses far more leverage than its worried owners might believe it has; the challenge is to create a business environment that permits the company to use that leverage to maximize the likelihood of recovery.

Managers of troubled businesses, being unaccustomed to hard times, often can't recognize the leverage opportunities they have. Turnaround professionals, who deal with these situations regularly, understand how to work with creditors and customers to give the business a better shot at survival.

The business environment we seek to create is one where the company's managers once again have a good handle on their finances — knowing how much money is coming in and how much is going out — and are able to communicate that information, accurately and honestly, to their creditors. When they can achieve that objective, they're able to manage expectations and, then, rebuild their own credibility —an essential step in rebuilding the business itself.

The first step to regaining control of the company's finances is to develop a 13-week cash-flow projection. This involves pretty much starting from scratch — reviewing all accounts, projecting orders and expenses, determining who pays (or gets paid) in 30 days, in 45 days, and so on. Once we know how much cash is coming in, we can figure out how to cope with the liabilities.

Armed with that projection, management is positioned to meet with the banker and outline realistic expectations for recovery. That, of itself, is not enough to warrant new extensions of credit, but it will provide the bank with a benchmark for assessing progress. We will, of course, provide the bank with regular updates. Ideally, actual cash flow will closely track the projections; if it doesn't, it's crucial that we're able to explain any discrepancies.

Now it's time to start thinking about how to apply some leverage. Let's look at some situations as they apply to ordinary and unique suppliers, secured creditors and customers and see how they might play out under the guidance of an experienced turnaround professional. To

make the examples easier to follow, let's assume that our troubled business is a manufacturer of specialty hoses that are sold to manufacturers of various pumps.

For example, let's say the hose manufacturer has been buying $10,000 in couplings monthly from a vendor and can no longer make full payment within 30 days. The manufacturer tells the vendor it will pay in 60 days, or even 90. Since the manufacturer could find another coupling supplier without too much difficulty, the vendor's options are limited. If the vendor refuses to make future shipments, the manufacturer can order couplings elsewhere, causing the vendor to lose a customer. On top of that, if the manufacturer is no longer dealing with the vendor, it will move payments to that vendor to the bottom of its payment schedule — freeing up cash that can be used to pay more urgent bills or to use in negotiating a better price for similar couplings from a different vendor. Bottom line: in most cases, the couplings vendor would rather be paid a little bit later than a lot later — or not at all, and he'd rather keep the business, even if payments are delayed, than lose it altogether.

Because some vendors provide items that aren't available anywhere else, unique suppliers hold significant leverage over the troubled business, and that, in turn, can give the business some leverage in dealing with its creditors, even secured creditors. The reason: while creditors want to receive what they're owed, they realize they're more likely to collect if the company stays in business. And that means showing some patience while the company reworks its financial arrangements with its unique suppliers.

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Managing the Turnaround (continued)

Keep in mind, though, that we must negotiate carefully with secured creditors because they do have the power to shut the business down. Secured creditors will be looking at the company's balance sheets and cash-flow projections. If they're going to "feel the pain" by restructuring a payment schedule, they'll want to see that the unsecured creditors are feeling just as much, if not more pain.

How those agreements are reworked depends in part on the unique supplier's position, especially if the struggling business is one of their major clients. Consider this scenario: The hose manufacturer has a single source for a high-grade reinforced vinyl, which it molds to custom diameters and cuts to different lengths, depending on its customers' needs. Rather than tie up working capital in paying for the vinyl, the hose manufacturer negotiates to get the pump manufacturers to pay the vinyl manufacturer directly for the raw materials. Since the molding and custom cutting is where value is added to the product, the hose manufacturer can still maintain his profit margin, even if he loses the markup on the reinforced vinyl.

Making new arrangements with customers carries its own set of perils, and how much leverage the business has with the customer will depend on how much the customer depends on what the business provides. In this example, the tactic can be successful because the pump manufacturer needs those special reinforced vinyl hoses to keep its business going. However, if the pump manufacturer has other sources for hoses that meet its specifications, the tactic is less likely to be effective. That's why, in many situations, it's not a good idea for a troubled company to let its customers know of its difficulties., lest the companies decide to take their business elsewhere.

The arrangements vary case by case, but the principles we follow are the same, regardless of whether we're working on a 13-week cash flow plan, or the one-year, three-year or five-year plans that come along later.

If we succeed in improving collections, reducing expenses, increasing operational efficiency and stretching our payment schedules, we'll restore management's credibility and get the business back on track.

(Next: Our Exit Strategy)

To read more, go to:
http://www.beaneassociates.com/newsletters.asp

The Turnaround Program

First:

- Interview management
- Tour, Tour, Tour
- Choose internal turnaround manager and team
- Classify management: rank everyone 1, 2, 3 or 4

Next:

- Develop and implement 13-week true cash flow
- Develop and implement daily flash report
- Develop and implement weekly reporting discipline
- Creditor meeting within 30-45 days
- Develop short-term plan with one-year pro forma
- Execute, execute, execute

Finally:

- Develop long-term plan with three- and five-year pro forma
- Reassess management
- Implement advisory board
- Exit

News Briefs

As Recession Slows, Turnarounds Multiply

The recession may be winding down, but most turnaround professionals are handling more projects this year than last and expect that pace to hold through 2010, according to the Turnaround Management Association's Trend Watch Poll.

"Spending is still very restricted, asset values have not improved, credit markets are still tight and there is a tremendous amount of high-yield debt coming due over the next three to five years," said Arthur Perkins, TMA chairman and co-head of Deloitte Financial Advisory Services' Western Region Reorganization Services practice in San Francisco. "All of that is going to result in, at a minimum, a lot of debt restructuring, if not a lot of operational restructuring."

Decline Widespread

Like last year, most professionals said engagements typically center on the manufacturing (65 percent), construction (43 percent) and distribution (42 percent) sectors. Most engagements involve distressed companies in late decline, according to 61 percent of respondents, but they said healthier companies also are seeking help:

- Companies in early decline — 16 percent of respondents, up from 12 percent
- Companies in mid-decline — 45 percent of respondents, up from 31 percent

"Companies are realizing more and more that they are better off getting turnaround help earlier rather than waiting,'' said James B. Shein, professor of strategy and management at the Kellogg School of Management at Northwestern University.

The lack of financing available to distressed companies is propelling distressed business sales, especially those dictated by creditors who would lose the most if the company liquidates. As a result, buyers are selecting turnaround professionals for due diligence and negotiations work, respondents said.

With businesses hampered by an unfavorable credit climate, most respondents said they are generally finding solutions for troubled businesses outside bankruptcy court. Only 41 percent said in-court reorganizations or liquidations occur most often, compared to 78 percent last year.

Credit availability and the economy are top concerns of respondents, eager to deploy the full range of restructuring solutions to help troubled businesses get back on track. "The uncertainty of where the economy is going is keeping businesses from spending and hiring and consumers from buying. Until that confidence comes back, we're not going to see the real uptick to the economy that we need," Shein said.

Recession deepens in New Jersey

New Jersey's recession deepened in 2009 as individual companies, faced with plunging sales and profits, made dramatic cuts in spending and employment.

The 1,400 employers who painted this picture in their responses to the New Jersey Business and Industry Association's annual fall survey expressed little hope for a quick turnaround in 2010.

Forty-eight percent of survey respondents reduced employment over the past year, while only 8 percent hired more workers, making 2009 the worst year in a quarter century for this employment indicator. Most respondents said they do not plan to hire additional workers over the next 12 months.

Survey measures of sales, profits, and spending at individual companies fell to record low levels in 2009, and a majority of companies said they expect business conditions to remain at current low levels or to deteriorate in 2010. Most also said they expect to keep a tight lid on spending.

"Our member companies don't believe the economy is going to bounce back quickly from this terrible recession we're in," said NJBIA President Philip Kirschner.

The 1,400 member companies participating in the survey represented every major industry. Eighty-two percent of respondents were small companies with one to 49 employees. The survey is considered the state's most reliable barometer of business opinion.

In sales, profits and spending, seven in 10 companies reported drops in 2009, with two–thirds of the group reporting double-digit declines. For 2010, 41 percent expect improved sales, 36 percent expect improved profits and 30 percent expect to spend more.

About Beane Associates, Inc.

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, and Atlanta, GA.

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