Turnaround Process - Chapter 11

There are advisors who have extensive experience in financial reorganizations and can provide sound advice and assistance to stakeholders and companies in financial distress. There are alternatives to formal financial reorganizations including debt to equity conversion procedures, long term Trust Indentures, and other debt resolution methods. In most cases a professional advisor is needed to guide you and your company in selecting the most satisfactory solution.

Advisors will also guide financially distressed companies in "survival" techniques such as crisis cash management, customer and vendor relations and many other actions, allowing the company to continue operations until the problems are resolved.

Chapter 11 is an option if:

- You know the company is in trouble;
- You know you want to fight for its survival;
- You know bankruptcy, voluntary or involuntary, is at hand;
- You File for Bankruptcy Protection.

Now you are in the trenches! And to borrow a friendly quote, "and there's more!"

Mistakes:

1. You have time.

   - Creditors have stopped threatening;
   - Legal actions are frozen;
   - Necessary service shutoffs are halted.

   You do not have any time to waste! To do so becomes total chaos!

   The old issues are still there, and you have some new ones to deal with as well. Management must plan out, in advance of the filing, if at all possible, what the company will do once in Chapter 11 in order to make the most of the limited resources and time that the firm has.

   The Golden Rule of operating in Chapter 11 is "*CASHFLOW IS KING*"! Any action the company takes must be designed to increase cash flow and retain cash. Chapter 11 is an extraordinary situation and requires extraordinary measures to deal with the many problems at hand.

   Saving the core business <u>is the goal</u>.

2. My attorney and I can handle it! Your attorney and you cannot, and you need all the help you can get.

3. **<u>There is no mistake #3! You are converted to liquidation!</u>**

During a crisis and the need to develop strategies the following four areas are of great importance:

1. The legal proceedings of Chapter 11;
2. Day-to-day business operations;
3. Cash flow management "MAXIMUM RETENTION OF CASH;" and
4. Raising new capital.

Not one of these issues is more important than the other and all will require more attention than you have ever been given in the past.

Cause and Effect

Nine good reasons for hiring an advisor:

1. Time: You've run out of time.
2. The personal exposure of the owner(s): You could go down with the ship.
3. The existence of free cash flow: You need to find cash in your assets and overhead?
4. The crisis readiness of the management team: Get management battle ready?
5. The reputation of creditors with debtor companies: They are tired of the excuses.
6. The capitalization of the company: If you are a good manager, why are you in this current position?
7. The prospects of raising capital: You need help to develop a winning Redirect and Growth Plan?
8. The likelihood of being forced into Involuntary Bankruptcy Liquidation: Are you disliked and mistrusted by your creditors? Answer is probably Yes!
9. Experience: Have you been through the turnaround process in the past? Probably not!

A good advisor can walk you through a very difficult process and prevent costly mistakes that can cost you everything and then some.

Ten top reasons why businesses fail:

1. Excessive debt structure;
2. Inadequate sources of financing;
3. Breakdown in communication between debtor and creditor;
4. Management is not prepared for crisis;
5. Management waits too long to seek help;
6. Management does not know how to cut expenses;
7. Lack of sales;
8. Poor accounting records;

9. Neglect of marketing;
10. Sudden change in the market causing a company's product to become obsolete.

Management's reaction to crisis or distress?

1. Attempts to deny or ignore the problem;
2. Attempts to eliminate the problem;
3. Rapid slide to disorganization;
4. Attempts to reorganize based on flawed strategies;
5. Key personnel resign when management fails to recognize a full blown crisis;
6. Bankruptcy.

The sooner management recognizes problems the greater the chances for a complete turnaround and early diagnosis can prevent bankruptcy all together.

Turnaround Plan

Some of the steps to a turnaround plan:

Step One	Diagnosis
Step Two	Crisis Mitigation
Step Three	Generation of Cash
Step Four	Plan Preparation
Step Five	Plan Negotiation
Step Six	Plan Implementation
Step Seven	Plan Monitoring

Simple Chapter 11 Plan Outline:

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