

FINANCIAL TROUBLE SIGNS AND SOLUTIONS ON THE ROAD TO PROFITABILITY



INTRODUCING SILVERMAN CONSULTING, THE TURNAROUND SPECIALISTS



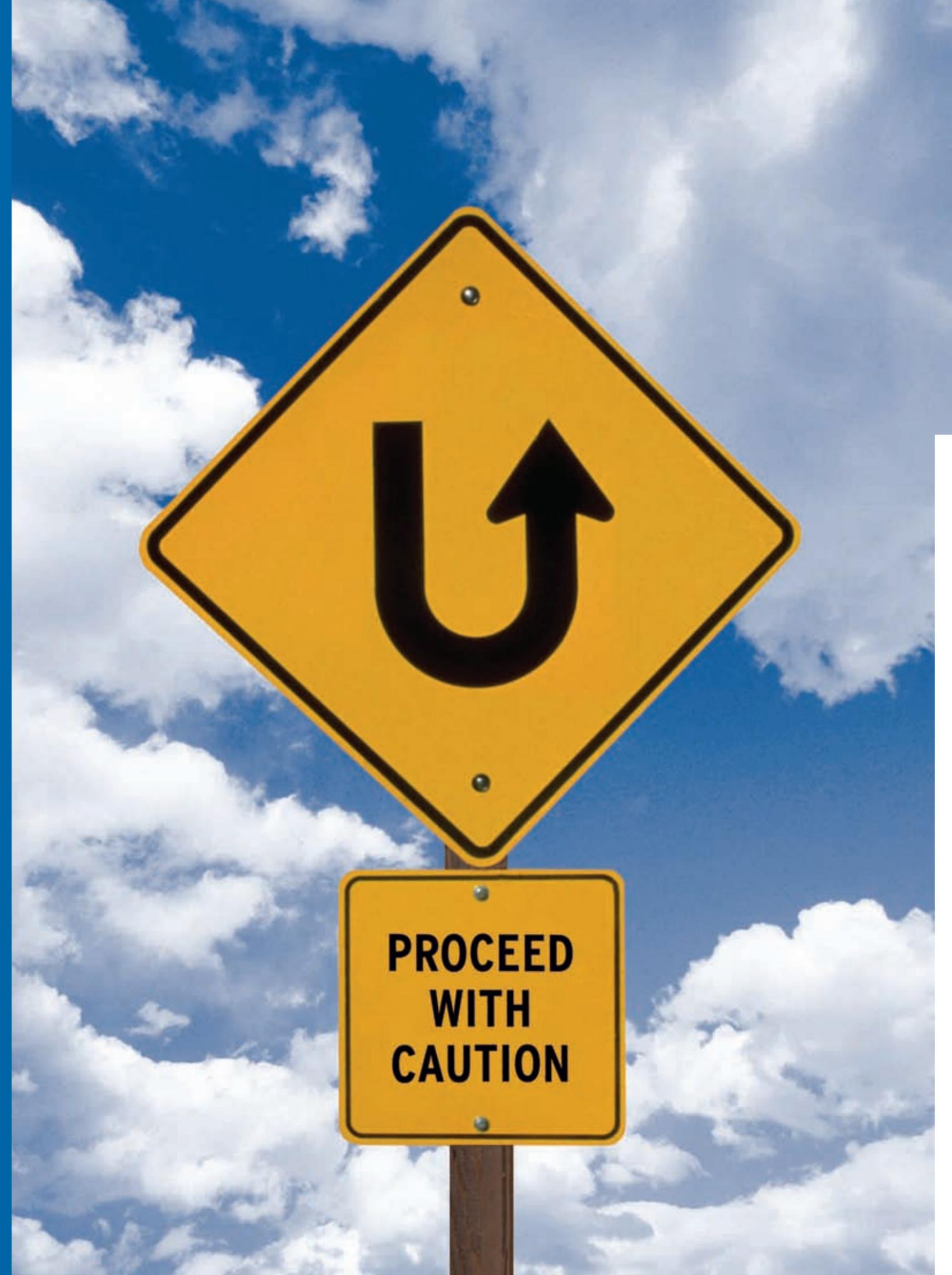
SILVERMAN CONSULTING IS A CHICAGO-BASED CONSULTING FIRM SERVING FINANCIALLY TROUBLED COMPANIES NATIONWIDE. SINCE OUR FOUNDING IN 1978, WE HAVE HELPED ENGINEER THE TURNAROUND OF MORE THAN 600 MANUFACTURING, DISTRIBUTION AND SERVICE FIRMS – PUBLIC AND PRIVATELY HELD BUSINESSES FROM \$5 MILLION TO \$750 MILLION – SIMILAR ONLY IN THAT THEY ARE UNDERPERFORMING AND EXPERIENCING VARYING DEGREES OF FINANCIAL DIFFICULTY. OUR EXPERTISE IS IN TRANSLATING MANAGERIAL AND FINANCIAL DISCIPLINES FROM INDUSTRY TO INDUSTRY, IDENTIFYING THE REASONS A BUSINESS IS IN TROUBLE, AND DEVELOPING SOLUTIONS THAT TURN THE BUSINESS AROUND.

BROAD EXPERIENCE ACROSS A WIDE RANGE OF INDUSTRIES

THE CONSULTING PROFESSIONALS AT SILVERMAN CONSULTING ARE DRAWN FROM LEADING NATIONAL PUBLIC ACCOUNTING AND MANAGEMENT CONSULTING FIRMS AND THE TOP RANKS OF CORPORATE FINANCIAL MANAGEMENT. EACH IS VERSED IN THE STRATEGIC, OPERATIONAL AND ORGANIZATIONAL ISSUES FACING TROUBLED BUSINESSES AND THE FINANCIAL AND ACCOUNTING DISCIPLINES REQUIRED TO ANALYZE THEM.

OVER THE LAST TWO AND A HALF DECADES, SILVERMAN CONSULTING HAS WORKED FOR HUNDREDS OF COMPANIES IN A DIVERSE ARRAY OF INDUSTRY SECTORS – MANUFACTURING, DISTRIBUTION, RETAIL, CONSTRUCTION AND SERVICES. WHILE WE HAVE ACCUMULATED A DEPTH OF UNDERSTANDING ABOUT MANY TYPES OF ENTERPRISES, WE ARE AT CORE GENERALISTS, OUR EXPERTISE DRAWN FROM A MYRIAD OF EXPERIENCES WITH UNDERPERFORMING COMPANIES OF ALL KINDS.

IN THE FOLLOWING PAGES, WE INVITE YOU TO BECOME ACQUAINTED WITH OUR TURNAROUND, REORGANIZATION, ASSET RECOVERY AND MANAGEMENT CONSULTING SERVICES. FOR ADDITIONAL INFORMATION ABOUT OUR STAFF, CASE HISTORIES AND PROFESSIONAL REFERENCES, PLEASE REFER TO THE ACCOMPANYING INFORMATION KIT.



Why good companies get in trouble

“DENIAL CAN BE A VERY POWERFUL FORCE. EVEN THE BEST RUN COMPANIES HAVE PROBLEMS, BUT YOU CAN'T SOLVE THEM UNTIL YOU ACKNOWLEDGE THEIR EXISTENCE. SOMETIMES IT TAKES AN OBJECTIVE THIRD PARTY TO HELP A COMPANY RECOGNIZE UNDERLYING PROBLEMS. THAT'S WHERE WE COME IN.”

Businesses are fragile organizations. Even a firm with a loyal customer base, competent management and a proven product can experience financial difficulties. A business can be knocked off stride by a variety of controllable and uncontrollable factors. Usually, the origins of financial problems are rooted in fundamental changes that have taken place in a company's business, marketplace, or industry — months or even years prior. They may be as basic as unfavorable economic conditions or a change in the cost of raw materials, consumer buying habits, or import/export regulations. Or as specific as the expansion of the business into non-mainstream activities, the loss of a key employee or customer, a move to larger quarters, a computer conversion, a problematic acquisition, ownership change, or refinancing.

Sooner or later, the impact of these changes is seen in spiraling operating losses and weakened financial condition. Some entrepreneurs react in the wrong direction and compound the problem. Profit and cash flow problems in a struggling company can be exacerbated by improper performance measures, erratic or untimely financial reporting, or dependence on numbers, projections, or assumptions that are no longer valid.

Whether a troubled company is suffering a temporary setback, experiencing persistent losses, or teetering on the brink of insolvency, recovery is usually possible. But the source of the company's problems must be pinpointed, the right controls put in place, the right tactics put into action. Silverman Consulting is in the business of helping companies do just that.

The need for turnaround consulting

Troubled companies are not always quick to react to early warning signs. As a result, Silverman Consulting is frequently brought in only after the company is in financial extremis. At that point, corporate management may view their problems as insurmountable. Fortunately, this is not usually the case.

Silverman Consulting understands that unprofitable companies usually have worthwhile aspects of their business which are overshadowed by negative factors that can be identified and eliminated. So our first challenge is often to help our client see the unvarnished reality of his situation and recognize that all is not lost — as long as they are willing to make hard decisions and take decisive action.

Thereafter, the turnaround process is akin to a leveraged buyout by the owner of his own company. With our help, the owner scrutinizes and analyzes his business as critically as if he or she were an outside buyer, then makes the changes necessary to render the company financially viable.

The mission of the turnaround consultant is to provide a resource of informed objectivity – a fresh view point which permits a company to see itself in a different and more pragmatic light. With astute, professional guidance, the company can confront past mistakes, abandon unrealistic expectations, and set itself on a clear-cut path back to profitability.



Working together to improve the P&L

In a very real sense, Silverman Consulting becomes an energetic and committed partner with its clients in the effort to uncover fundamental problems, understand their financial implications, and reverse the trend. The partnership process begins with an exhaustive, independent analysis of operations. If sufficient financial information is not available for proper diagnosis, it is developed from scratch.

We focus first on the client's Profit & Loss Statement. The immediate objective is to stop losses and gain staying power for the company, affording the firm time to formulate and implement a recovery strategy. Recognizing that operating losses, not cash flow, are usually the primary problem, every aspect of the P&L undergoes intense scrutiny.

In its review of the P&L, Silverman Consulting will examine, question and challenge any part of the product, service or management mix that adversely affect the bottom line. A zero-based budget approach is employed to determine a break-even level of operating expenses. Justification of every expense item, product line and division is required.

This no-holds-barred approach highlights unprofitable or underperforming segments of the business and pinpoints exactly where they are contributing to losses. If analysis indicates they should be spun off or eliminated, Silverman Consulting can help implement advantageous asset reduction or divestiture.



The turnaround plan as blueprint

Silverman Consulting helps a troubled company address three basic goals. The first is to strengthen the P&L by reducing expenses, turning around or eliminating unprofitable segments and stopping losses. The second goal is to stabilize the balance sheet by managing cash, preserving liquidity, reassuring creditors and lenders – in other words, buying staying power for recovery. And the third is to optimize opportunities for the company to express its abilities in the marketplace and move ahead profitably.

The turnaround plan is the blueprint for achieving these goals and is an essential product of the consulting relationship. It lays out the strategies required to turn the company around and the actions that will translate those strategies into realistic outcomes. All parts of the management mix are subject to scrutiny and change – corporate structure, organization, personnel, manufacturing, sales, distribution, labor, and financial controls. The new financial scenario is shown in detailed restatements of financial conditions and projections, without guesswork or wishful thinking.

Frequently key turnaround strategies are implemented while the turnaround plan is still in formulation. With both consultant and client as co-authors of the plan, opportunities to cut losses and increase liquidity can be put into action as they are recognized. The turnaround plan, therefore, becomes a working document and ongoing benchmark for the entire turnaround process.

“TURNAROUND PLANS HAVE TO BE SIMPLE. IF YOU CAN'T EXPRESS YOUR PLAN IN THREE COLUMNS OF NUMBERS – WHERE YOU ARE, WHERE YOU WANT TO BE, AND WHAT YOU HAVE TO DO TO GET THERE – THEN IT'S A MODELING EXERCISE, NOT A PLAN OF ACTION. MBA SPEAK DOESN'T GET IT DONE.”

A balanced approach to turnaround

“AT THE END OF THE DAY, IT’S THE RELATIONSHIPS WE HAVE FORGED WITH OUR CLIENTS THAT ARE THE MOST SATISFYING PART OF OUR BUSINESS. IT TAKES A LOT OF ENERGY AND COOPERATION TO PULL OFF A SUCCESSFUL TURNAROUND OR BRING A MAJOR DEAL TO A CLOSE. RELATIONSHIPS ARE THE GLUE THAT ALLOW THEM TO HAPPEN.”

To help a troubled company identify its underlying problems and make changes that turn the business around takes a unique combination of managerial, financial and interpersonal skills. But it also takes a very special cooperation between consultant and client. To make a turnaround really work, both consultant and client must strike a balance between a number of powerful and contradictory motivations...

- We must be tenacious in the face of adversity, yet remain objective and prudent in judgment.
- We must respect the tradition of the business, but be willing to change what doesn’t work.
- We must practice diplomacy and tact, yet take a tough, no-nonsense approach when necessary.
- We must demand a detailed accounting of affairs, while maintaining a global perspective.
- We must remain optimistic about the future, but confront difficult issues and make hard decisions.

Silverman Consulting is committed to maintaining this delicate balance while energetically supporting our clients’ return to fiscal health. We hold ourselves responsible for being partners with you in the implementation of a positive solution.



Legal reorganization options

Companies in financial distress sometimes resort to reorganization when deferral or avoidance through turnaround tactics would be more productive for all concerned. Filing for protection under bankruptcy laws is always an option, but one that should be considered carefully and exercised judiciously.

Silverman Consulting is experienced in guiding turnaround efforts, in or out of a court supervised environment. In fact, our turnaround approach is the same in both cases — a reflection of the fact that the fundamental problems leading to a company's distress are not usually the result of the courts.

When reorganization is appropriate, Silverman Consulting approaches bankruptcy as a means to an end, not an end in itself. A successful reorganization is one in which turnaround efforts do not take a back seat to legal proceedings. A turnaround plan that reverses operating losses and creates credible projections for lenders and creditors can provide the entire basis of a Chapter 11 reorganization.



Asset recovery strategies

Sometimes a company's financial problems are so severe that a successful turnaround plan cannot be implemented. When this is the situation, Silverman Consulting works closely with the management team to identify the company's underlying values and options for maximizing creditor and shareholder recovery.

Over the years, Silverman Consulting has worked with leading lenders and law firms on more than a hundred successful liquidations. The firm is widely recognized for its creativity in identifying potential buyers of assets, its aggressiveness in negotiating fair values, and its thoroughness in managing the overall process. We understand that speed, good communication, and attention to the concerns of all interested parties are key to the successful conclusion of any asset recovery strategy. Therefore, we work closely with client and creditor counsel to assure that the disposition of assets is conducted in the most orderly, open and forthright manner possible.

Asset recovery strategies may include sale of the entire company, an individual product line, customer base or other assets. In all cases, the approach is to treat the liquidation as the sale of a business, not just an aggregate of assets. From heavy equipment to real estate to intellectual property, Silverman Consulting has extensive experience in managing the liquidation of tangible and intangible assets, in and out of court. We have served clients in the capacity of:

- Interim Operating Manager in Liquidation
- Assignee for the Benefit of Creditors
- Liquidating Agent for Secured Creditors
- Trustee in Bankruptcy
- Receiver

“NOBODY SITS DOWN AND SAYS, ‘WHAT THE HECK, LET’S JUST FILE BANKRUPTCY’. REORGANIZATION IS ONLY ONE OF SEVERAL WAYS TO SOLVE A COMPANY’S FINANCIAL PROBLEMS. BUT SOMETIMES THE OPPORTUNITY COST OF NOT FILING IS TOO HIGH. THAT’S WHEN YOU KNOW THE CHAPTER 11 ALTERNATIVE HAS MERIT.”

Sale of distressed businesses

Selling a company in financial distress requires creativity, persistence and an intimate understanding of the company's true value and prospects – qualities Silverman Consulting has demonstrated time and again in facilitating the sale of numerous companies or company divisions.

In preparing a company for sale, Silverman Consulting first develops a financial model reflecting the current and future economics of the business, which may include a recast of historical financials to fairly portray the company's true value. This financial model, along with detailed information about the company's business, market and strategic direction, are then compiled into a comprehensive Sales Memorandum.

With the Sales Memorandum in hand, Silverman Consulting works with company management to identify a "short list" of strategic buyers while searching the market and its own databases for prospective industry and investment-oriented candidates. Once prospects are identified, we act as the company's agent in obtaining indications of interest, negotiating the terms and structure of a deal, facilitating due diligence, and assisting in the final closing.



Business advisory services

Silverman Consulting has found that the same tools and skill set used to revitalize underperforming companies are equally if not more effective in assisting profitable companies assess operations, correct problems and enhance profitability. In fact, corporations who are committed to continuous self improvement benefit the most from our services. Silverman Consulting adds value to company operations by bringing valuable outside perspective and disciplines such as:

- Profitability enhancement
- Business plan development and analysis
- Financial modeling and budgeting
- Viability appraisal
- Business sales, mergers and acquisitions
- Arranging new or restructured financing
- Family business solutions
- Interim management
- Board and executive committee service
- Executive recruitment
- CEO coaching



Profitability enhancement

Healthy companies stay that way by practicing financial and managerial disciplines that contribute to sales and profit growth. Silverman Consulting can help you enhance profitability through:

Profitability analysis – A technique for understanding the key contributors to a company's sales base, quantifying their profitability characteristics and adjusting their relationship.

Cost analysis – To be an effective management tool, cost system management must guide you in making good business decisions on what to offer and what to charge for it. Silverman Consulting helps you utilize this important accounting discipline.

Benchmarking and performance analysis – Realistic financial benchmarks help management interpret operating results and determine whether the company is operating above or below expectations. Silverman Consulting can help develop appropriate benchmarking and performance measurement systems.

Supplier analysis and negotiation – As customers squeeze margin out of company sales, companies must continuously leverage their position with suppliers. Silverman Consulting can help analyze vendor cost structures and obtain more favorable pricing agreements.

Implementation and execution – Once profitability by segment is understood, Silverman Consulting can assist in implementing strategies to maximize revenue from pricing policy, production scheduling and organizational structure.

“MAKING A MODEST PROFIT IS CERTAINLY BETTER THAN LOSING MONEY, BUT IT CAN ALSO BE VIEWED AS A WARNING SIGN. GOOD MANAGERS SHOULD ALWAYS BE ASKING THE QUESTION, ‘WHAT SHOULD WE BE DOING TO DO EVEN BETTER?’ IT’S THE BEST WAY TO MAKE SURE THOSE PROFITS DON’T TURN INTO LOSSES.”

Business plan development and analysis

In allocating resources to maximize sales and profitability, management requires a clear set of objectives and finely tuned plans for financing, capital expenditure, human resource and asset allocation – in short, a Business Plan. Silverman Consulting assists clients in developing and/or reviewing their annual Business Plan to assure optimal results.

Utilizing financial modeling applications to isolate business variables and forecast results under varying budgets, Silverman Consulting assists clients in defining sales, inventory, profit and liquidity targets. These dynamic guidelines help predict financing requirements and keep the company operating within its Business Plan. Should the ongoing viability of the company, a division or segment be unclear, Silverman Consulting can conduct an independent appraisal of current financials and business plans to evaluate expectations of future performance and results.

Family business solutions

Silverman Consulting is experienced in assisting family owned and other closely held companies in addressing a broad range of issues including the buyout of one or more owners, the restructuring of management responsibility among owners and insiders, the transfer of ownership from one generation to another, and the resolution of owner/family disputes.



Business sales, mergers and acquisitions

Silverman Consulting has helped facilitate sales or purchases for more than one hundred companies, transactions which involved the transfer of entire operations, divisions or just product lines. Our business sales services include:

- Determining ownership objectives
- Optimizing the company's financial profile
- Defining and identifying strategic targets
- Financial modeling
- Assessing value
- Developing a sale memorandum
- Soliciting and qualifying buyers
- Facilitating negotiations

Arranging new or restructured financing

Silverman Consulting assists companies in defining the financial requirements to execute their business plan and advises them in ways to secure, structure, and manage that financing, whether it is to restructure an existing loan or obtain new financing.

With over twenty-five years of working with borrowers and lending institutions, we can quickly identify the appropriate financing structure as well as potential financial resources. Silverman Consulting also helps prepare prospectuses or financial packages that illustrate the company's financing needs, and assists in negotiating loan terms.

“OPPORTUNITIES FOR US TO ADD VALUE ARE EVEN GREATER OUTSIDE OF TURNAROUND SITUATIONS. WE REALLY ENJOY LATER STAGE INVOLVEMENTS IN FAMILY OWNERSHIP ISSUES, SALES, MERGERS AND OTHER UNIQUE TRANSACTIONS, BECAUSE DONE RIGHT, EVERYBODY WINS.”

Interim management and board service

Companies sometimes require interim leadership due to the resignation, termination or loss of a key corporate executive; an acquisition or divestiture; shareholder deadlock; or a venture fund request for an alternate executive. In these and other scenarios, Silverman Consulting personnel, will, with agreement of the parties, accept the position of Acting CEO until a permanent, long-term management solution can be identified.

Silverman Consulting personnel have participated in meetings of a company's Executive Committee or Board of Directors. In this capacity, we provide an objective, outside viewpoint on financial matters and help interpret results.

Executive recruitment and coaching

Silverman Consulting frequently assists clients in searching for a chief financial officer or other key operating personnel. We help determine job qualifications and descriptions, identify qualified applicants, interview candidates, report to management on hiring alternatives, and negotiate compensation packages.

Occasionally Silverman Consulting is invited to work with Chief Executive Officers and other corporate leaders to help them enhance their management techniques and improve leadership ability. This personal, one-on-one consulting service provides the executive with a "mirror" to evaluate their proficiency in various management situations and learn more effective business and people handling skills.





5750 Old Orchard Road, Suite 520, Skokie, IL 60077

Tel: 847-470-0200 Fax: 847-470-0211

E-mail: info@silvermanconsulting.net

Web: www.silvermanconsulting.net