

RENAISSANCE

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The Regulators Are Coming

By Alan Heyman, Managing Director, Cyber Security Auditors & Administrators LLC



Alan Heyman

Revolution seems to be inbred in the Massachusetts state personality, although laws on privacy and cyber data began early in the Federal Government and other states. It took the recent Massachusetts Privacy Law to galvanize people and have a reach beyond their state boundaries.

The stirring of Mass. Gen. Law Ch. 93 began from the data breach at TJX (TJ MAXX) in 2005, when 97 million personal records of customers were stolen with the use of computers. The scope of the Massachusetts regulation is broader than any other existing federal or state law to date; it requires public disclosure of a data security breach and provides for the implementation of security freezes to prevent further intrusion. Furthermore, companies outside of Massachusetts cannot ignore the regulations, because their effect is national and international in scope, as they apply to all companies that are public, private, professional and not for profit, wherever located, that maintain personal information of a Massachusetts resident.

Initiatives to Protect Individual Privacy

The concern is also from class action suits originating from private plaintiffs in data security breach litigation using the Mass. regulations as a standard of care for the purpose of asserting a negligence claim.

The biggest worry is what is coming next from other states seeking to correct the gaps in their commercial security laws. Will other states raise the bar even higher? Currently, 47 states have enacted similar laws and the Federal Government is becoming more involved with new initiatives to protect an individual's privacy. Examples include proposals from President Obama, a new privacy bill introduced by Senators McCain and Kerry, and the recent Federal Red Flag Act signed into law in December of 2010. The Red Flag Act applies to all entities that issue credit, except for attorneys, doctors or CPAs.

Written Information Security Program Plan

The Massachusetts Law titled, "Standards for Protection of Personal Information of Residents of the Commonwealth" (Chapter 93H), created a comprehensive set of data security requirements for

businesses, including the development and continual oversight of a "comprehensive Written Information Security Program" (WISP). The scope of the Massachusetts regulation is broader than any other existing federal or state law. It requires every entity to develop, implement and maintain a WISP plan. WISP plans must include administrative, technical and physical safeguards that are designed to meet the objectives of the regulations. The plan must reflect a risk-based approach that is appropriate to the size, scope and type of business handling the information; the amount of resources available to the business; the amount of stored data and the need for security and confidentiality of both consumer and employees' information.

A WISP must incorporate a process for how the company will oversee all its vendors and partners who have access to the company's private data, including customer non-public information in providing services to the firm. All companies subject to the regulations are required to maintain various computer security protocols for storage and transmittal of personal data, along with installation of anti-virus software and employer-led training in how to properly use the computer security system.

Furthermore, a business must maintain ongoing compliance with its WISP and it must be regularly monitored. The scope of security measures included must be reviewed at least annually or in connection with a material change to the company's business practices that may implicate the security or integrity of records containing personal information. If the business experiences a data breach affecting personal information, it must document any remedial or responsive action. The WISP must also include a mandatory procedure for post-breach review of events and actions taken to initiate the necessary changes in business practices.

Why should this be so important to you as legal counsel? Because you are your client's trusted advisor.

Your client calls and tells you he thinks he has had a cyber data breach. He is not sure if it was a computer hacker or a rogue employee, but knows there has been an unauthorized access to the computer system and to the personal data he maintains.

Questions to Ask Your Clients

What do you tell your clients? What is your advice to them? Where do you tell them to go?

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Do your clients' calls involve a real breach? What city, state or federal laws are your clients subject to? How many days do they have before they have to report to a state or federal agency?

What advice are you going to give your clients? What should they do? What do you do if you are their corporate advisor?

These are real questions to consider, since more and more data breaches are occurring every day. More than 500 million records of personal data have been stolen in the United States since 2005. In April 2011 alone, two breaches, Epsilon and Sony, exposed a total of 127 million records.

Usually at this point in the conversation, the question of insurance comes up and the advisor will normally say to his client, "Do you have P&C insurance coverage that protects your company in these types of situations?" The next step is to call the company's P&C insurance broker to ask about coverage. Please be aware that there is a trend in the states, which began in Connecticut and is gaining acceptance on a national basis.

Report Incidents Within Five Days

The Insurance Commissioner in Connecticut requires that any licensed insurance entity in the state, whether a person or a company, that learns there has been an "information security incident," must report the incident to the State Insurance Commissioner in writing within five days of learning of the incident in order to minimize penalties. Each case will be reviewed separately.

The evening news broadcasts are replete with stories about threats to consumer data privacy and identity theft. It's only a matter of time

before your clients call about a data breach and ask you what they should do.

Exposure of Customer Data Will Cost You

Even a moderate exposure of private customer data can cost a company millions of dollars in litigation, settlement fees, compliance costs and fines imposed by state regulatory agencies. Lawsuits may be filed by customers, company shareholders, vendors and other business partners. Even more costly (and more difficult to quantify) is the loss of public goodwill arising from a breach of data security.

Think about all those costs (not including fines from the regulators or the remediation cost), which could run into the millions. And that's even before adding in the actual financial losses from the cyber hackers themselves.

This is where a deep, specific expertise in data privacy issues comes in—before the problem manifests itself into a full-blown financial crisis for your clients. You need action plans implemented by a professional, experienced team in pre- and post-breach scenarios.

Reduce your exposure, reduce your clients' exposure and bring in the privacy cyber security professionals.

Mr. Alan Heyman, (alan@csa2llc.com), Managing Director of Cyber Security Auditors & Administrators LLC (CSA2) located at 1370 Broadway, NY, NY 10018. More than 20 years in the data communication world, having started one of the first online Electronic Data Interchange (EDI) companies in the late 80's. Alan is growing CSA2 on a national scale, focusing on security and privacy communication and all phases of Cyber Security. The company's focus is a holistic approach to privacy and cyber security needs encompassing legal, IT Engineering, software, Social Engineering, Cyber Insurance and online SmartRoom (data vault). Alan is fully certified by the IBM Internet Security Solution's Group in all phases of IT and cyber security.

A trusted business partner for companies nationwide, MorrisAnderson combines high-quality operational, financial and strategic consulting; deep industry experience; and collaborative leadership to generate quantifiable results and provide peace of mind for middle-market companies and their stakeholders.

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Warning: Telecom Landslide Zone

The fate of land-based telecom

By Kenneth R. Yager, Principal, MorrisAnderson



Kenneth Yager

“Do you have stock in the phone company?” irritated parents once asked as their teenagers gabbed away minutes on household landlines. Now, as those teenagers and their parents talk on cell phones and computers instead, those who really do hold stock in wired telecommunications carriers need to brace themselves for the industry’s rapid and permanent decline.

For most people, it is no surprise that the wired telecommunications industry is shrinking. The surprise is how

completely and how quickly the industry will disappear. Revenue has been dropping at an annual rate of 7.5 percent since 2006, according to IBISWorld, and it is expected to continue falling at a similar rate over the next five years. By 2016, IBISWorld predicts, the industry will be 31.3 percent smaller, in terms of revenue, than it is today.

Looking at residential subscriber rates, Craig Moffett, a Vice President and senior analyst of U.S. telecommunications, cable and satellite at Sanford C. Bernstein & Co., anticipates a similarly cataclysmic shift. In 1996, 97 percent of U.S. households had a landline phone; today only 75 percent do. Moffett told *The Financial Manager* magazine he expects that number to drop to just 36 percent by 2015.

The Cause of the Decline of Landlines

The most obvious cause of the decline is substitution; customers are increasingly turning to other industries for the services wired carriers once provided. Most notably, as wireless carriers have achieved substantial economies of scale, they have been able to drop prices. This has made it feasible for even price-sensitive customers to use cellular phones as their primary, or only, form of voice communication. Already there are more than twice as many wireless subscribers as wireline subscribers, according to IBISWorld.

Voice over internet protocol (VoIP) also poses an emerging threat to wireline communications. VoIP services transmit voice information as data packets, which allows calls to be made more cost effectively, especially over long distances. Because of quality issues, subscriber rates are still fairly low, but, as the technology improves, VoIP will offer a clear, less expensive alternative to wireline service. IBISWorld predicts that the number of VoIP subscribers will double in the next five years.

In addition to the competition from these new technologies, the overarching trend toward convergence in the telecommunications industry will have a pronounced impact on wired carriers. The rise of the Internet has made previously unrelated industries, particularly cable television carriers, into competitors. In the fight for broadband, the cable companies have the advantage that that they can provide their customers with a bundled group of services that includes video along with phone and Internet. As a result, cable companies have come to control a larger share of the broadband market and

are adding subscribers more quickly, according to the Leichtman Research Group. Until the last decade, wired telecom owned the last mile (the connection to the home), holding off this landslide. Cable has reached the tipping point now.

Acquisition a Landmark Event

Cable is also better poised to take the lead in the next round of convergence as the boundary between content and distribution collapses. Comcast’s recent acquisition of the majority stake in NBC Universal was a landmark event. By creating what Comcast Chief Executive Brian Roberts has called “the ideal entertainment and distribution company” Comcast has covered a metaphorical “last mile” to consumers.

The result is that wired carriers will soon be relegated to those rural areas where the literal “last mile” matters more than the metaphorical one. Large telecommunications companies, including the giants AT&T and Verizon, will sell off their wireline segments to smaller regional companies in remote places cable has not yet reached.

Far-reaching Consequences

The fall of the phone companies will have far-reaching consequences for related industries. Phone line construction and repair will virtually disappear as fields as will their supply chains. Printers and marketers of telephone directories also will risk becoming obsolete. As individuals switch to cell phones and VoIP lines, which aren’t connected to addresses, the usefulness of the white pages will evaporate. As I wrote in a Spring 2010 article in *Renaissance*, media companies of all sorts are struggling with the move into the digital era. While we can further anticipate even more cable-delivered outlets for media companies to reach consumers, mergers like Comcast/NBC show us that not everyone will be able to access this media that essentially will control entrance to our homes.

What Will the Future Hold?

Given the rapid advance of technology, it’s hard to predict exactly what the telecommunications industry of the future will look like; but it is clear that it will be very different from the way it was twenty or thirty years ago. Phones will still ring, and people will talk to one another, but the wired carriers, the titans of the last few decades, will be gone. It’s time to prepare for that future.

Kenneth R. Yager, II, is a Principal at MorrisAnderson. He has nearly two decades of executive leadership experience in stakeholder communication. Ken regularly takes on P&L and risk-management responsibility for cash-constrained companies in growth, leveraged-buyout and turnaround situations. He has also successfully worked on implementing dozens of initiatives involving operations and project management, team building, B2B marketing, and sales and joint-venture management. Ken has particular expertise helping companies in media, printing and construction materials supply chains. He can be reached at kyager@morrisanderson.com.

Promotions at MorrisAnderson



Edward Bidanset

MorrisAnderson Promotes Edward J. Bidanset to Managing Director.

MorrisAnderson has promoted Edward J. Bidanset, III, to the position of managing director. In this role, Bidanset will help grow the Atlanta office and will manage client relationships and the office's finances. Bidanset joined MorrisAnderson in 2008 as a consulting manager in its Atlanta office. He has more than 25 years of experience

in turnarounds, crisis management and investment banking with a focus on the consumer products, retail, printing, plastics and metal industries.



Howard Korenthal

MorrisAnderson Promotes Howard R. Korenthal to Chief Operating Officer.

MorrisAnderson has promoted Howard R. Korenthal to the position of chief operating officer (COO). In this role, Korenthal will oversee the operational side of MorrisAnderson which includes consultant scheduling, training, quality control and firm financial management. As COO, Korenthal will continue to consult for and advise

clients on turnarounds, workouts, restructurings and liquidations as well as manage MorrisAnderson's operations.

"Person to Watch" at MorrisAnderson



Mark Welch

Mark J. Welch named "Person to Watch 2011" by *The Deal*. Congratulations to MorrisAnderson Managing Director, Mark J. Welch. Mark was listed as a 2011 "Person to Watch" on *The Deal's* Special Report. The report appeared in the March 2011 issue of the *Turnarounds & Workouts* newsletter.

MorrisAnderson Ranked 5th

MorrisAnderson ranked 5th among Top Crisis

Management Firms. With 39 cases, including all debtor, creditor and other assignments within active bankruptcy cases as of Dec. 31, 2010, MorrisAnderson is ranked #5 among *The Deal's* Top Crisis Management Firms.

MorrisAnderson Team Members Ranked Among Top Crisis Management Professionals

MorrisAnderson Principals, Dan Dooley, Howard Korenthal and Domenic Aversa, appeared on *The Deal's* list of Top Crisis Management Professionals. Dan Dooley, CEO, is ranked #10, Howard Korenthal, COO, is ranked #14 and Domenic Aversa, head of our New York City office is ranked #16. Managing Directors, David Bagley and Mitch Kahn also appear on the list at #17.

Includes all debtor, creditor and other assignments within active bankruptcy cases as of Dec. 31, 2010.

Dooley Moderates Panel, "Controversial Issues Surrounding the CRO," at 2011 ABI Spring Meeting



Dan Dooley

Dan Dooley, CEO of MorrisAnderson, moderated a panel of CROs at the 2011 ABI Spring Meeting in National Harbor, Maryland on April 2, 2011. The panel discussed the challenges they face upon their appointment as CRO, including gaining the confidence of management and obtaining credibility. Panelists included: Thomas M. Kim of r2 advisors, Patrick C. Lagrange of Carl Marks, and Lisa M. Poulin of CRG Partners Group LLC.

Bagley Serves as Panelist at TMA Chicago/Midwest "Debt Restructuring Strategies Workshop"



Dave Bagley

MorrisAnderson Managing Director, Dave Bagley, joins a panel discussion entitled "The 4th of July Management Meeting—Where the Fireworks Really Fly" on May 26, 2011 to discuss the challenges surrounding family business turnarounds and workouts. Bagley is joined by: Anup Sathy of Kirkland & Ellis LLP, Todd Camp of One West Bank, Bruce Werner of Kona Advisors and Dan Loughman of Roman Inc.

MorrisAnderson Recent Engagements



Automotive

Loan due diligence services to a \$540-million automotive interior manufacturer in Michigan.



Consumer Products

Financial advisor to a \$140-million designer and manufacturer of footwear and apparel in California.



Franchise

Financial advisory and investment banking services to a \$75-million franchisor of pizza restaurants in Illinois.



Construction Materials

Served as Fee Examiner in the Palm Harbor Homes Inc. Chapter 11 in Delaware.



Real Estate

Real estate and investment banking advisor to potential buyer of a restaurant franchise in Illinois and Florida.

Master broker on disposition of assets for seven properties for a restaurant franchisee in Louisiana.

Chief Restructuring Officer of a \$300-million private equity firm.

Asset management services on a portfolio of five medical office properties in Arizona.

Valuation and strategic assessment of retail/warehouse facilities for a golf irrigation equipment company in Florida and Georgia.

Court-appointed receiver for an office property in suburban Chicago.

Expert witness testimony in a case regarding a private golf club in Arizona.



Other Industries

Provided preference analysis services to a \$150-million race track gaming company.

Assisted in the turnaround and workout of a \$60-million safety products and services company.

Industry Risk Ratings

Top 25 IBISWorld Industry Risk Scores

IBISWorld's industry risk rating determines how much risk an industry will face over the next 18 months by assessing the operating conditions for companies in the industry. Unlike traditional risk models that use historical information, IBISWorld uses a sophisticated process to create a forward-looking picture. The risk rating is a numerical score on a scale of 1–9 with 1 representing the lowest risk score and 9 the highest. The overall score is derived from three factor scores driven by an assessment of the industry's 1) macroeconomic environment (Sensitivity Score); 2) competition/life cycle/volatility (Structural Score); and 3) growth potential (Growth Score). Overall risk scores of 5.91–7.00 reflect a *High* risk operating environment over the next 12 to 18 months. Scores of 7.01–9.00 reflect a *Very High* degree of risk. All of IBISWorld's 691 industries are evaluated and re-scored monthly.

Top 25 IBISWorld Industry Risk Scores as of April 201

| Industry | Structure | Growth | Sensitivity | Overall |
|---|-----------|--------|-------------|---------|
| Recordable Media Manufacturing | 6.58 | 6.41 | 8.69 | 7.59 |
| Wired Telecommunications Carriers | 5.44 | 8.73 | 7.58 | 7.33 |
| Bridge & Tunnel Construction | 6.09 | 6.51 | 8.17 | 7.24 |
| Apiculture & Honey Production | 7.54 | 7.02 | 7.15 | 7.21 |
| Computer Manufacturing | 7.66 | 7.07 | 6.97 | 7.17 |
| Carpentry Contractors | 6.89 | 5.65 | 7.88 | 7.07 |
| DVD, Game & Video Rental | 5.85 | 7.06 | 7.64 | 7.05 |
| Coin-Operated Laundromats & Dry Cleaners | 6.89 | 5.55 | 7.85 | 7.03 |
| Road, Street & Highway Construction | 5.36 | 6.14 | 8.25 | 7.00 |
| Land Development | 7.29 | 5.87 | 7.25 | 6.92 |
| Cigarette & Tobacco Product Manufacturing | 5.47 | 6.19 | 8.01 | 6.92 |
| Record Stores | 6.37 | 8.66 | 6.30 | 6.90 |
| Drywall Contractors | 6.09 | 6.22 | 7.60 | 6.88 |
| Soft Drink, Baked Goods & Other Grocery Wholesaling | 6.09 | 7.11 | 6.97 | 6.79 |
| Employment & Recruiting Agencies | 6.56 | 5.97 | 7.25 | 6.76 |
| Money Market & Other Banking | 6.25 | 7.50 | 6.53 | 6.70 |
| Used Car Dealers | 6.09 | 6.02 | 7.33 | 6.69 |
| Asphalt Manufacturing | 5.64 | 5.88 | 7.48 | 6.62 |
| Cigarette & Tobacco Products Wholesaling | 5.85 | 6.54 | 7.04 | 6.62 |
| Photofinishing | 6.63 | 8.02 | 5.92 | 6.62 |
| Single-Family Home Building | 6.23 | 3.86 | 8.04 | 6.54 |
| Fence & Swimming Pool Contractors | 6.09 | 6.83 | 6.60 | 6.53 |
| Major Household Appliance Manufacturing | 5.94 | 5.69 | 7.24 | 6.53 |
| Household Furniture Manufacturing | 5.94 | 6.35 | 6.92 | 6.53 |
| Furniture Wholesaling | 6.37 | 5.92 | 6.93 | 6.53 |

Where is the Family Owned Business?

By Steve Agran, Managing Director, MorrisAnderson



Steve Agran

In 1969, Simon & Garfunkel asked, “Where have you gone, Joe DiMaggio, our nation turns its lonely eyes to you.” Fifty years later, we need to ask the same question of the family-owned business. The family-owned business has been the backbone of the American Dream and economy as entrepreneurs entered into businesses with low barriers, utilizing ambition and diligence to help those businesses grow and prosper.

Many of these businesses were sold during the 2000s as the 2nd and 3rd generation of owners chose to monetize their business investment. Those businesses that remained under family ownership were competing against companies where sales growth and EBITDA—not family, values and long-term profitability—were the overriding goals. The Great Recession impacted the family-owned businesses that remained. The growth that began with the 1980s economic expansion and seamlessly passed to the next generation has been rapidly undone during the past three years. Their accumulated wealth quickly vanished. How did this occur?

The Formula of a Family Business

I have worked with numerous family-owned distribution companies during the latest recession and the formula is eerily similar. The founding generation began the business after World War II as fathers and grandfathers returned from duty. The country was expanding and the opportunities were vast. Small distribution businesses were built and grown on personal relationships and service. Start-ups steadily grew and expanded. Children of the founders learned from their fathers and entered the business in the 1980s. For many, this was the business they had learned around the dinner table and the company was able to support two families. As other siblings joined the business, expansion was required and undertaken through organic growth and acquisition. By the mid-2000s, sales exceeded \$50 million, though margins were squeezed due to competition. The company was successful and multiple family members lived comfortably from the company's profits.

As the company expanded into new locations, the family purchased real estate for the business to rent. This became an investment strategy and a way to shift the tax burden. Though the businesses had provided for all the members of the family, profitability was not maximized and real estate became the investment strategy. The real estate explosion resulted in real estate equity often being greater than the equity of the business.

Flaws of the Business Model

The Great Recession exposed the flaws of the family-owned distribution business model:

1. Sacred cows of one member of the family had generated losses that were offset by other profitable business units diminished profitability, draining resources and equity.
2. Numerous family members were paid executive salaries from the company.
3. Founder buy-outs were being paid as the next generation took over.
4. Acquisition earn-outs were being paid, draining resources.
5. Real estate that had appreciated during the past ten years lost considerable value.
6. Inventory deemed to be usable was stale and had significantly depreciated.

While the rest of the economy showed growth in 2007, the distribution industry began to experience the downturn. As sales eroded, the dynamics of the family-owned business began to show. The new generation of owners had only experienced growth and believed the downturn would not last. They were slow to enact expense reductions and were not quick to reduce the corporate structure, even as sales declined 33% to 50%. The recessions of 1986, 1992 and 2001 were brief and followed by great expansion. The family believed this recession would follow the previous patterns, expansion was just around the corner, and that what they needed to do was reinvest in the business to offset the losses.

Continued Damage to Equity

During 2008 and 2009, while the company “re-invested,” it inadvertently damaged its owner's equity:

- » Selling to questionable customers
- » Purchasing inventory based on historical sales
- » Purchasing through vendor “new item” buying programs
- » Maintaining the overhead structure
- » Investing equity or debt to cover losses

By the end of 2009, liquidity was tight and the company's banking “partner” was not willing to expand risk. In fact, the company's bank was scrutinizing the collateral of their asset-based loans. Accounts receivable and inventory borrowing rates were reduced, eligibility requirements tightened and availability squeezed. Inventory value was reviewed as the liquidation market was saturated due to numerous bankruptcies and business closures. Liquidity continued to tighten, vendors were extended, and loans were not being renewed.

The only way for the family-owned business to survive was to pledge all family assets including its real estate, and provide personal guarantees as collateral for the current loans and for some additional availability. The owners rationalized their decisions with the beliefs:



1. The economic turnaround would soon begin and they didn't want to miss the "new" expansion.
2. Losing the family business would end the main income source for the family.
3. The owners felt a moral obligation to their employees, investors and vendors.

The problem was that sales did not improve and the business had not reduced costs to operate profitably at the current sales level. While the company did receive brief improved liquidity with the new loan guarantees and collateral, their losses continued to mount while vendors were paid down and once again liquidity was squeezed.

The company was told to find a new lender. The business was failing, the real estate market was collapsing and the family's real estate equity was no longer available to borrow against to cover losses. At the end of the day, many of these family-owned businesses were sold to strategic buyers at little more than liquidation value. The family members were able to get out from under their debt, have tenants for their real estate and a future job with the acquiring company. But this is certainly not where the family wanted to be. A turnaround professional should have been engaged earlier, when the liquidity of the business first began to be squeezed and did not have corresponding sales to counter.

A Turnaround Professional Can Help

In meeting with a family-owned business, the first item that a turnaround professional will address is whether the business can be cash flow positive at the current sales level and at lower levels, if sales continue to decline. It is imperative that overhead be reduced and fixed costs minimized, creating a much more variable cost model. I will often look at historical trends to determine if the company is viable at the current sales and gross margin levels. I will analyze and improve sales mix potentially reducing incremental profit dollars but improving overall profitability and liquidity. Extensive overhead reductions are implemented and the work force sized appropriately to control costs. Rent paid to the family is also slashed strictly to cover debt service and taxes to further reduce the cash burn. If the owners are correct about the worth of the inventory, liquidity can be quickly improved by selling ineligible inventory at reduced prices. If these concepts are not able to be completed, then an immediate sale process should be undertaken.

Alternatively, refinancing is almost always the most attractive option to the family because they believe in the business and feel the real estate value will prove to be the magic elixir they need. But the reality is that for refinancing to be feasible, the business will need to show profits for four to six months while having the equity to provide comfort to the new lender. In severe distress, refinancing will take six to nine months while a turnaround takes hold. Because the company has not been profitable for a long time, a turnaround professional should be utilized to initiate the changes and provide the stability that is required. The current lender will not expand its exposure, so losses and working capital

will need to be covered by family investments or reductions of ineligible assets on the borrowing base. The current asset-based lenders are hesitant to provide term loans backed by real estate. Banks providing real estate loans are advancing at 50% rates. The deterioration of the real estate market together with the low advance rates, does not provide the necessary equity to substantially increase available funds.

The Importance of Vendor Management

One of the most difficult issues to navigate is that the vendor base is stretched, stopped selling inventory and wants to be paid immediately. I have continually worked with vendors with great success. While the vendors will be looking to be paid down and brought current, the liquidity is not available to satisfy these debts. I have found that by opening communication, vendors are informed of the situation and are amenable to working with the company. Vendors that had refused to provide product often agree to provide product through COD payments for at least six months. Continued dialogue informs the vendor of the situation, providing the necessary time to re-establish profitability and re-finance the loans. While vendors are not being brought current, they do not increase their liabilities. They realize profits through sales with no increased exposure. This maintains the relationship with the family-owned business and restores the vendor's confidence in their customer. The family-owned business is now able to satisfy its customer's needs that were hindered while vendors refused to ship product. Most vendors will accept this situation, but a few may need to be appeased. In some instances, the liability will need to be converted to long-term notes, improving the current cash needs and establishing a fixed time-line for the vendor. It is only after returning to profitability and appeasing the vendor community that the business can complete the refinancing of the loans. A new lender will want to be confident that the previous overhang will not impact the new loan provided.

The previously difficult lending environment appears to be easing and improving. A business able to show sustained profitability will have the ability to refinance and should be ready to reach out to numerous lenders that are comfortable in working with distressed businesses, armed with a good story regarding the turnaround. The most important aspect to the turnaround and the saving of the family-owned business is to get help early to restructure the business for the new environment and not expect the current lender to accept additional risk. As the business improves, the equity in the real estate that the business worked to build will also reverse improve. At that point, the family-owned business will be able to change its tune and sing like Louis Armstrong, "What a Wonderful World!"

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