

RENAISSANCE

The Newsletter for the North American Turnaround Management Industry

APRIL 2004

CHINA RISING: ONE WORLD, CONNECTED

By Paul Denlinger
China Business Strategy

The prevailing wisdom is that, although China is the fastest growing market in the world, it is a difficult market for non-Chinese companies to penetrate. Chinese companies have the home advantage, including language, culture, name recognition, marketing and distribution, not to mention lower labor and costs. Virtually all western companies want to go in, but the general media frightens us with endless stories about the piracy of intellectual property. Recently, US Commerce Secretary Don Evans, at a press conference in Beijing, held up a pirated DVD of the movie "Kill Bill," which had just been released in US theaters that week, and which he purchased on a Beijing street for one dollar.

Under those circumstances, how can western companies make money selling their products and services in China? Except for commodities, which Chinese factories want to turn into products, it seems that China just wants to sell to the west. Do western companies stand any chance at all of making money out of this tremendous growth market?

It depends.

The key is how you structure your business relationships. Most companies that enter the China market for the first time have starry-eyed ideas of selling their products to China's 1.3 billion consumers, and think that they will just live off their China earnings. Other technology companies—with their own patented technologies and copyrights—think that the Chinese government will license their products and chipsets, and their share price will go up nicely just on the basis of a deal.

... by 2020, the Chinese government hopes to resettle 300-500 million ...

Then, after spending years and millions of dollars, they resign themselves to failure, and say that the Chinese market is unfair because of piracy or unscrupulous partners. Never mind that there are Chinese software and technology companies that make money; this just proves the Chinese government gives Chinese companies preferable

EMPLOYEE INSURANCE: BEDEVILING A TURNAROUND

By Faye B. Feinstein and
Christopher Combest, Quarles & Brady LLP

Among the immediate priorities of an insolvency professional beginning work for a troubled company must be acquiring an understanding of the obligations owed to the employees. In part, this advice is self-protective: as soon as you are retained, management, in-house counsel, employee representatives, and—especially if you spend any time on site—employees themselves will deluge you with questions regarding their wages and benefits. More crucially, employee issues can be the source of unpleasant and expensive surprises if they are not addressed early in the process.

Given the cost of health-care in the United States and the consequences of being caught without a way of paying for necessary care, questions regarding health and workers' compensation insurance may well be foremost in the minds of employees of a company that has filed a bankruptcy case or that has begun a turnaround. What follows is a discussion of issues related to health and workers' compensation insurance that are important to employees and present special challenges to troubled companies.

Workers' Compensation

Workers' compensation acts are one of the earliest examples of tort reform laws in the United States. Lawsuits based on wrongful acts, such as negligence, that are dealt with as private injuries and not as crimes are expensive, unpredictable as to outcome, and heavily compensate the parties who bring them, without providing any compensation to similarly situated victims who do not or cannot make similar use of the judicial system and without necessarily deterring the behavior that created the risk of injury. In the area of workplace injuries, however, workers' compensation laws address these problems by imposing on employees and employers a trade-off: workers who are injured in the course of their employment are entitled to compensation, without having to go to court to prove fault on the parts of their respective employers. The amount of compensation is set by statute or regulation, eliminating the unpredictable aspect of jury trials. In exchange, the employee is deemed to have waived his or her right to sue the employer for damages and is barred from bringing such a suit.

MorrisAnderson & Associates is a highly specialized financial advisory and management consulting firm that provides experienced crisis and turnaround management and counsel to underperforming and financially troubled companies, their lenders and investors.

Since its founding in 1980, the firm has been involved in more than 1,400 turnaround situations and has completed more than \$1.5 billion in refinancings, acquisitions, and debt and equity placements on behalf of client companies.

The firm also provides litigation support, expert testimony and valuation services to the legal and government communities. Areas in which we have performed critical analyses, research, economic justifications and provided expert testimony include damage calculations, lost profits, fraud, contract disputes, purchase price disputes, solvency and preferences.

RENAISSANCE

Editor – Cheri Anderson (847) 768-4424
canderson@morris-anderson.com

Production Editor – Charlene Zielinski

Contributing Editors –

Paul Denlinger

Faye Feinstein

Christopher Combest

Morris-Anderson & Associates

Chicago

Daniel F. Dooley* (847) 768-4408

Robert A. Morris* (847) 945-0767

Howard Mullin (847) 475-0673

Daniel M. Morris (847) 768-4403

James P. Ross (847) 768-4410

New York

Alan J. Glazer (212) 867-6868

Andrew G. Barnett (212) 867-6868

John Battaglia (212) 867-6868

Robert Grbic (212) 867-6868

Atlanta

Baker A. Smith* (770) 984-3262

Richard Kazmier (770) 984-3262

John S. Kokoska* (770) 984-3262

Dallas

Robert J. Starzyk (972) 383-1240

Connecticut

David M. Weinstein (203) 762-3239

Milwaukee

Thomas F. Walker (262) 245-1088

Tampa

Robert Swett (813) 431-1300

Washington

Eric P. Murray (703) 760-7844

Houston –

Steve Fodo (713) 960-6624

*Certified Turnaround Professional

www.morris-anderson.com

CHINA RISING: ONE WORLD, CONNECTED

Continued from cover

treatment over western companies. And that is what most Americans and Europeans think.

But the reality is very different. The simple fact is that every major western company now has a significant manufacturing sales and marketing presence in China. If nobody is making money in China, then why do so many companies continue to spend money investing in China? Obviously some of them are making money, and they are making enough to justify continued investment in China.

China has long had a reputation as a difficult market to conquer. But, as China plugs into the global economy, and shows the most rapid growth of all the major economies, it's an economy businesses can no longer afford to ignore. While China is known best for its cheap exports, it is also a major importer of goods and services, with imports outpacing exports. Compared to the same period in 2002, imports in 2003 have risen 40.5%. To reduce the trade deficit with the US, China recently announced that it would send trade delegations to the US and step up imports of American products. For the first time, businesses that had never previously thought of selling to China have started thinking of it as a major market. In some sectors, China may become their single largest market, outpacing even the US market in size. In 2003, China became such a major importer of commodities that it was almost single-handedly responsible for the rise in commodity prices from Australia, Argentina and Brazil, and for major commodities such as steel.

Unlike Japan, China's economic growth is driven more by domestic infrastructure development, and less by exports. During the early phase of reform—from 1978 until now—China depended on foreign exchange and cheap labor to drive

demand for its products. Now, China is cutting back on export incentives, and is instead encouraging investment for China's domestic development.

The size and scope of China's development plans for the 21st century are breathtaking. By 2020, the Chinese government hopes to complete resettlement of 300-500 million Chinese from the countryside to cities, and shift the country from a largely rural economy to one which is roughly evenly balanced between rural and urban populations. This means that China will need to build and populate a city of 2-3 million every month until then.

In other areas as well, China is determined to show that it is a major player on the world stage. In 2008, Beijing will host the 2008 Olympics, and in 2010, Shanghai will host the World Expo. Recently, China launched its first manned space flight, and announced plans to make a manned journey and landing to the surface of the moon.

In 2001, China joined the World Trade Organization (WTO). The Chinese government, realizing that the reform and transformation of the Chinese economy from a socialist to market economy could not be done without the participation of western governments and companies, negotiated for more than 17 years before it won acceptance into the leading world trade body.

WHAT DO BUSINESSES NEED TO DO TO SUCCEED IN CHINA?

Get Local Knowledge

No matter what your products and services are, chances are that there already are other local companies in the same field, and you cannot beat them on price and distribution. If that is the case, then why get

CHINA RISING: ONE WORLD, CONNECTED

Continued from page 2

involved in an expensive and time-consuming marketing battle with them? What are your company's strengths, and how can you leverage them?

The first question you should ask is "Since we are outsiders, we are operating at a disadvantage selling in the Chinese local market. How can we get good business intelligence, so that we can minimize the disadvantage in the shortest possible time?" The simple answer is to get someone on your side who knows the language and culture, and has had a successful track record selling products and services in China. It's important to remember that knowing the language is not enough; after all, the Taiwan and Hong Kong markets are very different, even though a non-Chinese may think that they are similar.

Think About Your Strategy

The first question Chinese buyers ask is, "How long has your business been in China?" Your answer is an indicator of the commitment and importance you attach to the Chinese market, and will influence how you are perceived.

Short-term thinking will not work in China; the companies that have succeeded have spent considerable effort building up their network of partners and relationships. A lot of groundwork needs to be done first, including getting good on-the-ground intelligence before you make your first move.

Chinese routinely think long-term, and they don't forget anything. If you make a bad first move, you're going to spend a lot of valuable time just cleaning up your reputation. In the meantime, your competitors are racing ahead. Most western CEOs and boards do not have China experience, which is why they are reluctant to get involved in strategy formulation. The frequent result: short-term tactical moves, which often

play into the hands of competing Chinese, Japanese and European companies that think long-term.

Some companies think they can make up for lost time by greasing the palms of the right people. That approach may have worked 10 years ago, but now that China has a much more developed and open society, it is no longer the case. Nobody wants to take the blame for a project that went bad. And if the Chinese media finds about it, they will sound off about it.

If you build up a good China team, make sure that you offer good incentives for them to stay with you. Otherwise, they may join your competitor, or start their own business competing with you. And they will take all that valuable knowledge and experience with them.

When it comes to China, don't think short-term. You can't afford to.

Find a Local Partner You Can Trust

Most technology and entertainment companies see China as another distribution partner, and treat their Chinese partners as channels, licensees or customers. Then, they act surprised when their products are pirated.

The smartest firms instead get a Chinese partner (sometimes the government, or a government ministry), set up a joint venture, and develop new technology or standards that they license throughout China. And they make sure that their Chinese partner shares in the earnings. This changes the incentive: before the Chinese partner was just a channel distributor customer, but now shares in the earnings, and has a profit motive in pushing the new technology standard. At the same time, the western partner gains access to a low-cost, high-quality labor pool and growing consumer market. The companies most popular in China develop new infrastructure and technology standards that stand alone.

The magnetic levitation train connecting downtown Shanghai to Pudong International Airport is a great example. The Chinese government helped put together the financing package, Siemens of Germany was the lead contractor, and the 40-kilometer line was constructed in a record year and a half. Chinese premier Zhu Rongji and German chancellor Gerhard Schroder went to the dedication and took the first ride, which cut the trip from 40 minutes by taxi to less than seven minutes. Now, the German government is lobbying to get favorable consideration for German companies on other projects.

Hard vs. Soft Skills

China has a great pool of talent to draw from, and every year, more overseas Chinese return, bringing their capital, expertise and experience back to China.

It is overly simplistic to think that your functional experience will guarantee you a lead and help you

The first question Chinese buyers ask is, "How long has your business been in China?"

CHINA RISING: ONE WORLD, CONNECTED

Continued from page 3

to maintain your relationships. In high-tech industries, just to cite an example, the technology lead in the US is only 1-2 years ahead of China. In certain areas, such as SMS (short message services) for mobile phones, China is ahead of the US.

The trend is toward added importance for soft skills and personal skills to open up—and keep—relationships in China. Inevitably, this means understanding the local language and culture to maintain your business relationships.

Remember, if you have a good China team, be sure to keep them. Make sure that the key personnel have a chance to bring their talents up to the executive or board level.

You Can't Control Everything

China is a very frustrating market for companies with a corporate culture strong in dominance and

control. The companies that fare best are those that are nimble and good at exploiting opportunities when they come up. In such a dynamic environment, opportunities come and go quickly, which means that local management must have the full support and understanding of headquarters in their decisions.

Use China As Your Leading Test Market

European and Japanese retail multinationals routinely send their management track stars to China for training. International management teams work closely with Chinese staff and local management, and gain by learning from each other's experience. Compared to their home markets, China is growing much faster, and is much less regulated. This gives China a great advantage not only for developing international management stars, but as a market to develop and test new products. Then, if a product is successful there, it can be pushed out in other markets. The net effect is a win for everyone.

Technology Standards

While leading Japanese manufacturers such as Sony and Panasonic have been content to license technology standards for communications and computers from the West, the Chinese government is leveraging its huge domestic market to develop new technology standards that are partially or wholly owned by Chinese companies and do not need to pay royalties to non-Chinese companies.

In the late nineties, China was the battleground for CDMA, the mobile phone communications standard owned by Qualcomm of the USA, and WCDMA, backed by Nokia and Ericsson of Europe. Both sides spent a tremendous effort lobbying the Chinese government to adopt their standard. Eventually, China's powerful Ministry of Information Industry (MII) allowed both standards to partner with China's mobile carriers.

Then, MII invited western partners to help develop a new next-generation 3G mobile phone standard, TD-SCDMA. Only Siemens of Germany agreed to participate and help Chinese companies and the government develop this new standard.

At the time of writing, TD-SCDMA is undergoing trials in China, and the first TD-SCDMA commercial production handsets will be sold in China in the first half of 2005. The TD-SCDMA

technology and chipset is being offered royalty-free to all comers for deployment in the Chinese market. The consortium that owns the technology is offering it to all non-Chinese licensees at 30% less than whatever its competitors charge for their licenses.

While the exact terms for development and profit sharing of the new standard have not been disclosed, it would be safe to assume that Siemens will benefit from the success of the TD - S C D M A standard.

In addition, China's MII has taken an active role in the development of digital TV standards, electronic device communications protocols (IGRS), a

new enhanced DVD technology (EVD), and software licensing. While MII does not have the power to force technology standards, its "recommendations" carry great weight, especially when its minister calls in the CEOs of leading companies to discuss and make a decision.

When it comes to software licensing, the Chinese government, on the central, provincial and city

Paul Denlinger is a writer, speaker, and business consultant and analyst on China. He can be contacted by email at pdenlinger@china-ready.com.



CHINA RISING: ONE WORLD, CONNECTED

Continued from page 4

government levels, has thrown its weight behind Linux, and ordered that Microsoft software be removed from its products. The number of computers affected by this decision is more than two million. Microsoft has made an effort to woo the Chinese government by allowing selected parties to view the Windows source code, and by partnering with Chinese software companies, but it has been an uphill battle.

The lesson for foreign companies is that if the Chinese government asks a company to participate in the development of a new technology or standard, saying "No" can be very expensive.


Nortel Networks

While many technology companies entered China seeking to sell their products, they have come to rely on China now as a major global research and development center for new products.

Every year, Chinese universities graduate more than 600,000 hardware and software engineers. Starting wages usually are about US\$500 a month. When it comes to technological capability, most of them are on par with graduates of western universities. (Initially, many of these engineers were considered less creative than their western counterparts, but the Chinese have learned quickly.)

Nortel Network currently focuses its China research and development on IP-based voice and multimedia services, including SIP (session initialization protocol), 3G wireless services, next-generation networking and other products. It has also licensed the new China-developed TD-SCDMA technology for incorporation into some of its products. The technology developed in China is sold globally by Nortel in its products. The company will construct a new 592,000 square foot campus in Beijing's Chaoyang district, home to many embassies and the commercial district. The first phase is scheduled to be completed by the end of 2004.

Nortel Networks will invest more than US\$200 million over three years to add to its research and development capabilities in China. This is in addition to its current research and development investment in Beijing and Guangzhou, in southern China.

Even Microsoft, which is not yet profitable in China and has had more than its share of setbacks, has increased hiring at its global research center in Beijing. Other companies with global research and development centers in China are Motorola, Nokia and Sun Microsystems. 

EMPLOYEE INSURANCE: BEDEVILING A TURNAROUND

Continued from page 1

Of course, this system assumes that funds will be available to pay valid workers' compensation claims. Therefore, states require employers with some minimum number of employees to follow one of two courses: (1) purchase an insurance policy from a third-party insurer that provides coverage for statutory benefits or (2) qualify to self-insure for statutory benefits. In insolvency situations, states are likely to require that a self-insured employer post a surety bond, security deposit, and/or third-party excess or catastrophic insurance policy to secure the performance of its obligations as a self-insurer. This requirement may well be impossible for an already cash-poor company.

The struggling company, however, will be squeezed by the financial realities of the system. Without workers' compensation insurance, the business cannot operate. Moreover, the company's financial

difficulties may disqualify it from self-insurer status. To satisfy its state-law obligations in that case, the company can go out into the market and attempt to purchase private insurance, which, given the situation of the company, may not be available at an affordable price, or at all. That means the company will have to obtain insurance from a state pool or assigned-risk plan; such plans sometimes charge a premium above what private insurance would cost and, even if they charge the same standard premium as private insurance, the move from self-insurance to a large front-end premium payment can stress cash flow.

The bottom line on workers' compensation insurance, however, is that maintaining such insurance is of critical importance to an entity seeking to restructure, as operating without it may be illegal. If the company does not generate

EMPLOYEE INSURANCE: BEDEVILING A TURNAROUND

Continued from page 5

enough cash from operations to maintain the insurance, its secured lenders may be willing to advance funds in order to maintain the going-concern value of the business, in the interest of preserving their collateral.

General Health Insurance: The Self-Insurance Morass

Unlike workers' compensation insurance, neither federal nor state law requires employers to provide general health-insurance coverage to their employees. Those employers that do so have the same choice as they have for workers' compensation: fully insure their obligations for their employees' insurance costs via a third-party-provided insurance policy, or self-insure. Self-insurers decide for themselves which health-care costs they will cover and to what extent, and which they will not. They pay their employees' health-care costs as they go, from cash flow and,

“ . . . managers may persuade themselves that the oldest workout plan in the world—taking money from one pocket to put into the other—is a viable option, because, of course, it will be only a *one-time, stop-gap, emergency, never-to-be-repeated* measure . . . ”

often, from contributions made by employees from their wages. Their health plans are not regulated by the states, although they are supervised by the United States Department of Labor pursuant to the Employee Retirement Income Security Act (ERISA), which imposes fiduciary responsibilities upon those who administer such plans.

Approximately two-thirds of employer health plans are self-funded in whole or in

part. Some employers develop single-employer plans just for themselves; others band together with other employers (for example, through trade associations or unions) to create large, multi-employer plans. Self-insurers often use third-party administrators—which can themselves be insurance companies, although they are not acting as insurers—to administer self-insured plans by, for example, collecting premiums from employees, processing and paying claims, and negotiating with medical providers.

Self-insurance for health-care costs can create traps for the unwary restructuring officer. One such trap is the “secret” cost of claims. After

weeks of effort, the company may have created a workout plan that is both feasible and acceptable to its secured lender. This plan will include a budget, and the budget will include the projected costs of anticipated claims processed by the third-party administrator. However, administrators can process claims anywhere from 30 to 90 days *in arrears*—that is, at any given moment, there may be 30-90 days' worth of claims in the pipeline that have not been presented to the company for payment. If those are not addressed in a workout plan, a company may be thousands of dollars over budget at the outset.

Moreover, the administrator also receives fees for its services. If those fees are in arrears, the administrator may simply stop handling claims.

Another trap falls under the heading of “robbing Peter to pay Paul.” As economic storms roil the finances of a struggling company, its managers may persuade themselves that the oldest workout plan in the world—taking money from one pocket to put into the other—is a viable option, because, of course, it will be only a *one-time, stop-gap, emergency, never-to-be-repeated* measure to address a uniquely dire circumstance. A common mistake made by financially pressed companies is to use “trust fund” monies—amounts withheld from employees' paychecks and held in trust by the employer for the government or for health insurance or other benefits—to pay salaries or vendors—in effect, using the employee's monies or the federal treasury as the company's “lender of last resort.” In these cases, responsible officers and directors can be personally liable for the unpaid taxes and penalties. As noted above, ERISA imposes fiduciary duties upon the administrators of self-insured health-care plans. If employee health-plan contributions are used for purposes other than payment of claims, the directors and officers of the company, including its chief restructuring officer, and the plan trustees may be personally liable for the misappropriated funds.

Finally, in a bankruptcy case, all of these issues are further complicated by the distinction between prepetition and postpetition claims. As of the start of the case, there are bound to be some unpaid employee health-care claims that will have arisen prepetition; the administrator may also be owed fees and may resist handling claims without being brought current. However, bankruptcy law prevents a debtor from paying prepetition obligations

EMPLOYEE INSURANCE: BEDEVILING A TURNAROUND

Continued from page 6

without a court order. We addressed these exact issues several years ago for a large chapter 11 debtor. In that case, we were able (a) to persuade the postpetition financier to fund both the payment of claims pending but unpaid as of the start of the case and the unpaid fees of the administrator and (b) persuade the court to permit the payment of the prepetition amounts under the “doctrine of necessity,” a judge-made rule that allows courts to authorize targeted payment of prepetition claims, if necessary to preserve the reorganization and, thereby, to confer benefit on all creditors. Whether we would be successful again is questionable, however, because the Seventh Circuit Court of Appeals recently held that the “doctrine of necessity” does not permit the postpetition payment of any prepetition debt, including the “preferential” payment of the prepetition claims of so-called “critical vendors.” The same logic arguably applies to health-care claims, at least to the extent that the amount to be paid on account of employee medical claims, along with amounts paid for prepetition wages and other benefits, exceeds the maximum priority claim—currently \$4,650—to which each employee is entitled.

COBRA

The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) provides employees with the right to continue coverage under their employers’ health-insurance plans for themselves and their dependents, for limited periods of time, when such coverage is lost under certain circumstances. COBRA applies to most employers; exceptions include employers who normally employed fewer than 20 employees on a typical business day during the preceding calendar year. (The applicable regulations are complex; consult with counsel before assuming that an employer is or is not subject to COBRA.) Upon the occurrence of a “qualifying event,” which includes the voluntary or involuntary termination of an employee’s employment (other than for gross misconduct), the administrator of the plan must notify the employee, within 30 days after the qualifying event, of the employee’s right to

continue coverage. Although COBRA provides for exceptions, as a general rule, the employee may keep coverage in place for up to 18 months after a “qualifying event.” However, the company is not required to subsidize the terminated employee’s premiums, as it might do for continuing employees. The company may charge the terminated employee up to 102% of the applicable premium for the entire period of COBRA election.

COBRA can create a “catch-22” for the company. The unsubsidized cost of COBRA-elected insurance can be expensive, and relatively healthy individuals may forgo it and gamble that they will find cheaper insurance, perhaps through a new employer, before getting seriously sick. However, employees at high risk for health problems are likely to pay for COBRA coverage, which means that COBRA may produce for the self-insured company an unquantifiable risk of large claims from the self-selecting group of high-risk, terminated employees. You can eliminate that risk by eliminating COBRA rights, but, to do that, you have to terminate the health

plan for *all* employees, which will likely trigger an employee exodus. There may be no way out of that bind except to take the time to get the best actuarial advice you can, based on the individual employees being terminated, and try to build into the workout budget a cushion to cover potential COBRA liability.

Finally, COBRA also imposes personal liability on the company officer responsible for providing the statutory notice to terminated employees and who fails to do so: the penalty is \$100 per day per employee from the date notice was due and not given.

Conclusion

Insurance is about managing risk; but it also creates risks—of hidden claim costs, of penalties for failure to comply with statutes, and of unquantifiable COBRA liability—that can endanger a turnaround. An understanding of a client-company’s insurance commitments, its history of dealing with those commitments, and its current management of those commitments must be addressed before formulating a turnaround plan.



Faye Feinstein and Christopher Combest are partners based in Quarles & Brady's Chicago office. They can be reached at fbf@quarles.com and ccombest@quarles.com



Recent Morris-Anderson Engagements

Apparel Retailer – Debtor Representation – Business Assessment, Financial Modeling, Business Planning, Lender Negotiations

Injection Molder – Debtor Representation – Cash Management, Cost Reductions, Exit Strategy Analysis, Creditor Management

Fast Food Franchisee – Lender Representation – Cash and Financial Management, Business Brokerage

Metal Components Manufacturer – Debtor Representation – Cash Management, Assessment, Financial Projections, Business Brokerage

Mining and Shipping Company – Debtor Representation – Operations and Business Assessment, Turnaround Planning, Cost and Liquidity Improvements, Asset Sales, Creditor Negotiations, Interim Management (VP Operations and Operations Controller)

Agricultural Manufacturer – Debtor Representation – Business Assessment, Restructuring

Trucking and Truck Leasing Company – Debtor Representation – Operations and Business Assessment, Strategic Alternative Analysis, Financial Modeling, Creditor Negotiations

Electronics Assembly – Debtor Representation – Liquidation and Business Wind-Down, Asset Sales, Collateral Marshaling, Cost Minimization and Value Maximization

Tire Manufacturer – Debtor Representation – CRO, Crisis and Cash Management, Business Planning, Value Maximization Strategy

Telecommunications Service and Infrastructure – Lender Representation – Business Plan and Operations Assessment, Liquidation Analysis, Business Valuation, Market Assessment

High-End Travel Industry Retailer – Debtor Representation – Business Assessment, Refinancing

Plastics Molder – Lender Representation – Strategic and Business Assessment, Financial Projection Review, Operations Analysis and Financial Restructuring Analysis

Agricultural Conglomerate – Debtor Representation – Business Assessment, Debt Restructuring

Cellular Wireless Carrier – Debtor Representation – Business and Management Assessment, Financial Projection Review and Financial Restructuring Analysis/Negotiation

Distributor and Retailer of Feed and Farm Supply Products – Debtor Representation – Business Assessment, Cash Planning and Management, Turnaround and Refinancing

Chicken Processor – Debtor Representation – Financial Modeling, Cash Management, Financial Projection Review and Collateral Monitoring

Licensor of Mattresses and Bedding – Company Representation – Provided Business Assessment, Due Diligence and Strategic Analysis of Financial Alternatives

Manufacturer of Backyard Storage Sheds – Equity Fund Representation – Provided Due Diligence and Business Assessment Services, Sourced Debt and continue to provide interim CFO and CIO Management Consulting Services

Manufacturer of Cosmetic Packaging – Debtor Representation – Provided Risk Assessment Analysis and Prepared Cost Minimization and Value Maximization Models

Automotive Aftermarket Distribution – Debtor Representation – Financial/Cash Modeling, Asset Sales, Bankruptcy Management

Aerospace Metals Manufacturer – Debtor Representation – CEO, Business Assessment, Cost Reductions, Financial/Cash Modeling, Business Brokerage, Value Maximization Strategy

Convenience Store Retailer and Gas Wholesaler – Lender Representation – Business Assessment, Financial/Cash Modeling, Development of Risk Reduction Alternatives, Debtor/Collateral Monitoring

Marketing Communications Services Provider – Debtor Representation – Business Plan and Operations Assessment, Cost and Liquidity Improvements, Exit Strategy Analysis

Commercial Electrical Contractor – Debtor Representation – Business Assessment, Operations Analysis, Refinancing

Wholesale Distribution – Debtor Representation – CRO, Cash Management, Lender Negotiations, Exit Strategy Analysis and Sale Negotiations

Cabinet Hardware Company – Crisis Management, Cash Controls

Steel Fabrication and Erection Company – Chief Restructuring Officer – Plan Validation and Operating Improvements, Cash Forecasting and Management

MORRISANDERSON INDUSTRY EXPERIENCE (CONCENTRATIONS IN LAST TWO YEARS)

- Metal Stamping and Metal Fabrication
- Distribution of Commodity Products
- Plastics and Molding
- Telecommunications

- Steel and Furnace Melting Operations
- Transportation
- Die Casting
- Automotive

News Desk . . .

Our firm is happy to announce new Managing Directors **Bob Grbic** and **John Battaglia** to the NYC office. Please help us welcome them!

Atlanta-based **Baker Smith**, Morris-Anderson & Associates' President, is on the lecture circuit. He spoke at the ACG Atlanta Connection on February 18, and at Institutional Investor's Turnaround Management & Corporate Restructuring Summit that ran February 26-27 in NYC.

He'll participate in a panel discussion on "Consulting into the Storm: Opportunities for Non-turnaround Consultants in Crisis Situations" at the Institute of Management Consultants' North American Conference, which runs May 1-4 in Nashville. And May 25th, he'll cover the topic, "Integration: the Importance of Implementing the Turnaround Business Plan" at the Spring Venture Conference to be held at The Cloister on Sea Island, Georgia.

On top of that, he's published an article on "Maintaining the Support of the Bank Syndicate when Disaster Strikes" in the Spring 2004 issue of Institutional Investor's *Turnaround Management Guide*. As always, the article is available in the Resources section of our newly redesigned site, www.morris-anderson.com.

Midwest-based Managing Principal **Dan Dooley** is President-Elect of the Chicago/Midwest Chapter of TMA, but he still found time to write articles about "Moving from Defense to Offense" for the February issues of *President and CEO* magazine and *ABF Journal*.

And Dan will be busy in June. He'll speak on the 4th at ABI's 11th Annual Central States Bankruptcy Workshop in Traverse City, MI on a professional fee carve-outs panel. On the 24th, he'll moderate a panel discussion at Chicago's 7th Annual Conference on Corporate Reorganizations.

Chicago-based Principal **Jim Ross**, who currently is CRO of Fanny May's parent Archibald Candy, took the afternoon of February 25th to speak about IT turnarounds at National Manufacturing Week at McCormick Place. Consulting Manager Jim Wener also spoke.

Consulting Manager and Transaction Guru **Jacques Hopkins** was published in the January issue of U.K.-based *Financier Worldwide* magazine with, "Buying a Distressed Business: The Why, Where, How." See Jacques speak about managing distressed assets on June 24th at the 8th M&A Advisor Conference in Chicago.

Not to be outdone, Chicago-based Managing Director **Bob Morris** was published in the February issue of *Financier Worldwide*, with "Turnaround Solutions or Restructuring?" He spoke at ABI's 2004 Rocky Mountain Bankruptcy Conference February 6, where he participated in the panel discussion "Section 363 and the Emperor's New Clothes—the Good, the Bad and the Ugly of Asset Sales." And he spoke about the early stages of a turnaround at the Troubled Loan Workshop February 25th, which was organized by the TMA Chicago/Midwest chapter.

Bob's upcoming engagements include a presentation on "Nuts and Bolts of the Turnaround Process" at the Institute of Management Accountants' 85th Annual Conference & Exposition, which runs June 26-30 in Chicago.

Finally, all of us at Morris-Anderson & Associates are pleased to offer **Risk Reducer**. For more information about this affordable, one-week operational and financial analysis, visit www.risk-reducer.com.

INDUSTRY TREND METER



 **MORRISANDERSON**
& ASSOCIATES LTD.
1111 E. Touhy Avenue, Suite 286
Des Plaines, IL 60018

Return Service Requested

PRSRT STD
U.S. POSTAGE
PAID
PERMIT #4
ELK GROVE, IL