KIBEL GREEN INC.

PERSPECTIVE

Report to Clients and Friends

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Getting Help When Your Company Is In Distress

Do You Want Your Internist to Perform Your Heart Bypass Surgery?

After three recessions, many turnaround consulting and CEO engagements, and helping over 1000 companies in financial or strategic distress, we are still surprised and disappointed that many Middle Market CEOs are reluctant to seek outside professional advise when their companies are in trouble.

We often find that CEOs, when faced with the potential downfall of their companies, experience the five stages of grief: Denial, Anger, Bargaining, Depression and Acceptance. The problem is that the process of dealing with the five stages of grief is slow, and a distressed company's need for financial, strategic and operational remedial action is usually immediate.

We believe that outside, competent intervention is required to assist the distressed CEO to move quickly to "Acceptance" and turn the company around.

It is not important whether the reasons for the company's distress are external or internal. What is important is that the financial or strategic distress occurred on the CEO's watch, and it is his responsibility to take the most immediate and effective action to turn the company around.

By the time a distressed company CEO moves through the first two stages of Denial (Something will come up!) or Anger (at his CFO, lending institutions or creditors), it is usually too late. We find that when CEOs are faced with this degree of stress, they often provide a myriad of reasons (barriers) as to why they do not need professional intervention and advice in the areas of savings breakthroughs, turnaround, restructure or strategic breakthrough problems.

This Middle Market CEO reaction to company distress is not often found in the Fortune 500. Xerox is an uncommon example of corporate, "not born here" intransigence, but normally larger companies are famous for seeking outside specialized professional advise when it is time to restructure or reinvent themselves. Conversely, Middle Market CEOs are infamous for trying to "go it alone."

We have pondered the reasons for this phenomenon and believe it is important to shed light on the most common barriers to accepting specialized advice when a company faces financial or strategic distress.

We normally do not find these same barriers to seeking outside special skills in other times of distress. When we have medical problems, it is perfectly normal to seek doctors with specialized skills. When we have legal problems, it is normal to seek legal help from a lawyer with specialized skills. When a company has IT networking or personnel problems, it is normal to seek IT networking or personnel consultants with specialized skills. Yet when many Middle Market CEOs experience financial or strategic problems in their companies, they believe that they are not fully actualized CEOs unless they perform the turnaround or restructure alone. We believe that this failing is a significant reason for such high CEO turnover in Middle Market companies.

When a company is in financial and/or strategic crisis, asking internal management to execute the necessary breakthrough savings, turnaround, restructure or strategic breakthroughs is like asking one's internist to perform heart bypass surgery. The internist may have the theoretical knowledge to accomplish the task, but the probability of success is low unless an experienced heart surgeon performs the procedure. A medical crisis is not a great time for on the job training. The same is true when a company is in crisis. A CEO or CFO may possess the theoretical knowledge to accomplish the task, but the probability of success is low unless an experienced, "street-wise" breakthrough savings, turnaround, restructure or strategic breakthrough professional is engaged in the process. Financial or strategic crisis is also not the time for on the job training.

Out of every public company in California, Nevada, New Mexico and Arizona with Market Capitalizations (total number of shares times the share price) between $25.0 million and $250.0 million., 307 fall under our definition of crisis. Even more striking, the distressed companies all offered similar reasons for failing to solicit help from an outside turnaround and restructure specialist.

We thought it would be valuable to list these reasons. We also thought it would be useful to provide answers as to why these reasons may not be based upon sound logic or good management practice:

Reason #1 – "I Am An Experienced CEO. I Was Hired to Manage This Company Through The Good Times and The Bad. I Don't Need Help!

This reason for not seeking specialized help is based on "Alpha Male" behavior - not good sense. The best leaders are those that do not attempt to be all things to all people. Great presidents let their military advisors run the military. Great leaders utilize as many good minds as possible. Great Fortune 500 CEOs depend upon specialized advice usually not resident inside their companies. They bring in as many good advisors as possible, and they listen to them. We find that those CEOs who believe they should possess all the answers are limiting their companies to an inevitable level of incompetency. It is the Peter Principle at the highest level. A single mind is too limited to have all the answers. The best CEOs possess a humility about their strengths and their weaknesses. They capitalize on their areas of strength and seek advice and assistance in their areas of weakness.

Reason #2 – "Managing Our Company Through Financial Crisis Is My Chief Financial Officer's Job!"

Many CEOs turn only to their Chief Financial Officers for leadership in a financial crisis. Although many CFOs are a valuable resource, we consistently find that most internal management does not possess the highly specialized skills to quickly provide breakthrough savings or turnaround, restructure and strategic breakthrough expertise for a company in financial or strategic crisis. Many times, internal management becomes "married" to certain lines of business, programs, methods, incumbents, etc. Outside crisis management professionals are less encumbered by what is; they are more concerned with what can be. There is a certain street sense present in an experienced professional based upon studying many problems in many different industries. An outside savings breakthrough, turnaround, restructure and strategic breakthrough professional is trained to look beyond normal cost reduction options and is able to find breakthrough savings in organizational structure, strategic alliances, operating process, project management, compensation, technology, consolidation of operations, financing, etc.

Also creditors are normally more comfortable with outside restructure professionals because they view the professional as more balanced. Restructure professionals are knowledgeable about how a lending institution or credit officer may react to certain solutions. And it is important that the outside restructure professional keep everyone calm while collectively executing the turnaround or restructure plan.

Reason #3 – "Turnaround Consultants are "Slash and Burn" Cost Cutting People Like Chainsaw Al Dunlop. We Don't Need That Kind of Advise. We Can Cut Costs on Our Own!"

Chainsaw Al Dunlop gave turnaround and restructure consulting an undeservedly bad name. Although turnarounds many times require cost reductions, the skill is much deeper and more holistic. Often, no matter how deeply the cost reduction effort goes, the company still may not generate sufficient cash. In that case, the company must develop strategic breakthroughs and/or breakthrough savings that may be outside the knowledge base of the management team. A qualified outside turnaround or strategic breakthrough consultant can provide new ways to view the company's strategy, operations and manner of doing things. A skilled turnaround consultant is concerned with leadership, stability, strategy, fairness, best practices, operational excellence, marketing and sales, financial structure, etc. No experienced turnaround professional is a "slash and burn" cost cutter only. It is important to remember that Al Dunlop was fired from Sunbeam because his "slash and burn" style was completely inappropriate in a company where strategic and marketing issues were the central problems. His type of "turnaround artist" is an anachronism.

Reason #4 – "I Have the Best Attorneys and Accountants Money Can Buy to Help Me Through This Crisis!"

Many CEOs turn to their attorneys or accounting firms for leadership in a financial crisis. Although attorneys and accountants are valuable resources, we consistently find that most are not fully skilled in the specialized craft of breakthrough savings, turnaround, restructure or strategic breakthroughs. More times than not, a turnaround or restructure requires out-of-the-box strategic breakthroughs or savings. Most accountants and attorneys are not wired that way.

In addition, many accountants and attorneys are perceived by creditors as too allied with shareholders and management. If they do not realize that a true restructure requires the consensus of all parties including secured and unsecured creditors, they can polarize negotiating positions with creditors, when the goal is to seek "win-win" consensus, assistance and understanding from all of the financial constituencies. Accountants and attorneys are valuable in the restructure process but less so in the strategic, operating and negotiating phases. And it is important to not have management or company accountants and attorneys front the negotiations. It is also best to remember that creditors are usually more comfortable with outside turnaround professionals because creditors view company attorneys and accountants as espousing the interests of management and shareholders. Creditors view the turnaround and restructure professional as balanced, that is, interested in meeting the needs of ALL financial constituents. The lenders' perception about internal management, attorneys and accountants may be incorrect. But it is still their perception, and, to them, perception is truth.

Reason #5 – "All I Need is More Capital to Get Through This Financial Crisis!"

We constantly tell CEOs the following:

- ➲ The Myth is to Create a Company and Sell it to the Capital Markets
- ➲ The Goal is to Create a Company that the Capital Markets Want

We find that few distressed companies are immediately attractive to the Capital Markets. We also find that most pools of capital utilize sophisticated Return on Investment (ROI) analytical tools to analyze an investment opportunity. An outsiders' opinion (a "new pair of glasses"), is of critical importance to give the distressed company CEO an objective view of what might be wrong and what might be in need of remedial action prior to burning out all of the company's capital sources. In our many years of experience, the company's lenders, clients, suppliers and shareholders (already in place) often provide the best opportunities for restructuring and new capital, but normally it takes a third party professional to broker a consensus driven restructure.

Reason #6 – "Our Cashflow Is Already Short. We Cannot Afford Any More Expense!"

We believe that if a company is in a negative Cashflow position, the CEO cannot afford to postpone definitive action. In our experience, turnaround and restructure professionals usually cover their direct cost to the company by ten times. As stated above, these savings are derived from breakthrough savings and strategic breakthroughs more than the obvious cost reductions. Also, as already stated, most restructures cannot be executed by sitting managements, because many times the management's currency of credibility may have already been spent. In that case, the cost of never coming to a consensus for a restructuring plan is infinitely more expensive than hiring a restructure professional. Heart surgeons cost money, and so do crisis professionals, but they are not more expensive than not saving the company.

Reason #7 – "Things Are Hectic Around Here. We Don't Have Time to Work with Outside Consultants!"

We find that the psychology of managements in financial or strategic crisis is to work harder rather than smarter. We find that the psychology of the CEO in crisis is fear and disappointment acted out in some other way. If we think about it, a CEO that at one time was publicly celebrating company milestones, is now leading a company in distress where his hopes and dreams are in jeopardy. We believe that such a time is ideal for a CEO in personal distress to seek a crisis coach. The experienced crisis manager is there, in part, to calm and focus management. Experienced crisis managers facilitate the creation of a more efficient, more effective working environment, where people have more time to calmly execute an agreed upon plan. We usually stop the "Hail Mary Passes" and get management back to "blocking and tackling". We create time to plan and execute properly. We mitigate stress and create an environment for strategic breakthrough thinking.

Reason #8 – "My People Won't Respond Well!"

Employees in a company undergoing financial or strategic stress, experience fears concerning Maslow's Hierarchy of Needs i.e., the potential loss of food and shelter. In such an environment, management and employees are not normally in a good place to plan and execute properly. Unless a CEO demonstrates that he is attacking the turnaround issues head-on, it is more likely that the best employees will spend their time looking for new jobs. Bringing in a turnaround professional is usually an indication that the CEO is no longer in a state of denial. Such a move can buy critical time with employees.

We have never seen a case where the employees are not enthusiastic about a turnaround expert entering the battle.

Reason #9 – "You Don't Know My Business!"

We believe that one of the benefits is that the turnaround or restructure consultant is not encumbered by how things are done in the industry. It is this lack of encumbered thinking that allows us to assist our clients with breakthrough savings and strategic breakthroughs that management may have overlooked.

After years of experience with dozens of industries and hundreds of companies, we know how to create a business model that creates profits, cashflow and revenue growth. Experienced breakthrough savings, turnaround, restructure and strategic breakthrough professionals work in collaboration with management, which does know the business. Collaboration is key.

Reason #10 – "Afraid of the Message!"

It is vitally important to reiterate that very few companies in financial or strategic crisis find themselves in distress because of external economic factors. In most cases, it is an inside job. Most financial or strategic distress situations occur on the CEO's watch, and he is responsible. This fact is very difficult for CEOs to admit. It is one of the reasons most distressed company CEOs' denial is so deep.

On this issue there is one central point. If the "message" is that the strategy, the business plan or the tactical plans are flawed, it is better for the CEO to seek outside help to fix the problems on the CEO's watch, so that the accolades accrue to the sitting CEO and not to his replacement. In business and in most endeavors, the truth is the truth and there is no escape. We find that Darwin's Laws of Natural Selection are alive and well in corporate America. The strong survive and the weak get eaten. The "message" may be that the strategy or operations or certain incumbents are weak. We believe that it is better to receive such a message sooner than later, and a second opinion is always of value. Such a message is designed to benefit the sitting CEO, not threaten him.

Reason #11 – "A Turnaround or Restructure Consultant Is a Threat to My Leadership Position as Chief Executive Officer!"

A turnaround or restructure consultant that threatens the CEO's leadership position quickly learns that his engagement at the company will be shortlived. If he knows what he is doing, he leaves the position of advisor to the CEO. Future engagements for this highly specialized professional service of breakthrough savings, turnaround, restructure and strategic breakthroughs is based upon word of mouth recommendations. Threatening a CEO's leadership position is a very poor method of ensuring future engagements. As a result, it does not often happen.

Reason #12 – "All We Need Is for Our Sales Force to Bring More Sales!"

When a company is in financial stress, it is rare that it can sell its way out of the problem because, once again, employees experience fears concerning the loss of food and shelter, and they are usually not in a good place to execute a vigorous sales effort. As stated above, unless a CEO demonstrates that he is attacking the turnaround issues head-on, the sales staff is usually loath to make promises to customers, which the company may not be able to keep. Therefore we seldom see a company sell its way out of financial or strategic distress.

In Summary

Aldous Huxley said, "No One Can Lead Others without Giving Them a Sense of the Future. A Leader is a Merchant of Hope."

A CEO in denial does not give his constituency (management, customers, employees, lenders, suppliers, etc.) "a Sense of the Future." Admitting the limits of his skills and experience, and taking definitive action by seeking experienced professional advise is being "a Merchant of Hope."

Dealing with one's limits and seeking the advice of experienced advisors is the mark of a great leader. If one does not agree, he need only look at the current leadership of the United States during one of the most trying periods in our history. President Bush is not the most intelligent president in our history, but he is willing to take the advice of experienced advisors, and he has the highest approval rating since FDR.

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Value Creation Stabilization

Sometimes a company finds itself in crisis, when it is confronted with serious financial or operational problems. When a company is in crisis, it becomes necessary to abandon some of the more traditional business approaches and employ a methodology, which we call Value Creation Stabilization – Crisis Management and Turnaround. Since 1984, Kibel Green has established itself as one of the preeminent providers of turnaround and crises management advisory services in the United States.

Goal

Kibel Green brings businesses back to health so that dramatic Value Creation can be achieved. It is our objective to develop a turnaround and financial restructuring plan which works in the best interests of all parties.

Process

The Value Creation Stabilization process takes a business, the value of which has significantly deteriorated, and increases the value to a new baseline level. The process involves developing a turnaround plan and driving negotiations to meet the needs of all financial constituents.

Value Creation Stabilization Services

- **Turnaround and Crisis Management**
- **Financial Restructuring**
- **Debt and Equity Sourcing**
- **Interim CEO Management**
- **Bankruptcy and Reorganization**
- **Expert Witness Testimony**

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