

## Letter from the Chairman

### Business Building Knowledge: *Examining Options*

As the economy continues to lag and cash flow tightens, many struggling businesses look at the high-profile bankruptcy cases like K-Mart and Federal Mogul and wonder if this is an avenue worth pursuing. When is bankruptcy (Chapter 11) the best business solution? Do companies truly recover from bankruptcy? What kind of goals or expectations can you expect from Chapter 11? These are the kind of questions we at BBK face everyday. For the past few months we have made a special effort to help our customers and the media understand the complex process of bankruptcy. In this newsletter several BBK principals (including our new addition, retired bankruptcy judge Ray Graves) will address this issue in depth.

One important point to keep in mind is that bankruptcy is a reprieve, not a panacea. Chapter 11 will never fix processes, or pricing or customer service problems, which are often the root cause of a company's troubles. Every company needs a plan for stable, profitable business.



B.N. Bahadur  
Chairman & CEO, BBK, Ltd.

### A Look Inside the Bankruptcy Process

*An interview with Ray Graves, BBK Principal*

*Quarterly Review: When is Chapter 11 the best answer for a business?*

**Graves:** Companies file for Chapter 11 because they can't pay their debt and they are looking for some relief. The soul-searching question that a business owner must ask is whether or not the business is worth saving. Is the business viable? Is it worth more rehabilitated than liquidated? Of course, for some larger companies, Chapter 11 is the way to work through a "crisis" creditor. Litigation may bring on a creditor or creditors apart from those of everyday business. The Chapter 11 filed by Federal Mogul was clearly a way to manage the debt caused by asbestos litigation.

*Continued on Page 3*



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*B.N. Bahadur, Chairman & CEO*



Detroit-area reporters gathered May 15th to learn more about the complex issue of bankruptcy from Judge Ray Graves, BBK Principal and retired U.S. Bankruptcy Judge, and several other bankruptcy experts.

*Clockwise from bottom right:* Mike Strong, Crain's Detroit Business; B.N. Bahadur, Judge Graves, BBK, Ltd.; Barbara Rom, Pepper Hamilton LLP; and Don Baty Jr., Honigman Miller Schwartz & Cohn LLP.

# When the Storm is Upon You: *First Steps*

by Michael Boudreau, *BBK Director*

Rarely does a company “hit the wall” due to totally unexpected and unforeseen circumstances. In fact, warning signals like falling stock prices, financial losses, liquidity issues, stockpiled debt and eroding equity are often prevalent for months or in some cases years. Often these issues are dealt with by stretching the trade, burning collateral, or recapitalizing debt and equity structures.

However, sooner or later the company will meet its moment of truth when daily operations are jeopardized. At this point several crucial steps must be taken immediately.

## KEEPING THE DOORS OPEN

Short-term cash planning is critical to the enterprise. Trade vendors are out of patience and demanding their money. Before you make any additional promises, weekly projected cash flows should be prepared in order to understand what cash is available to pay vendors. Product procurement is the lifeblood of the organization and managing this aspect is critical to maintaining operations.

Outstanding accounts receivable must be collected as quickly as possible. Additional focus should be placed on ineligible receivables because collection of these accounts can provide a 100% increase to borrowing availability. Inventory reductions and SKU eliminations will also help free-up additional cash. Additional initiatives might include eliminating unprofitable product lines, closing and consolidating real estate, selling non-core assets and identifying any unencumbered assets that could be pledged as collateral for additional funds. Also, cash should be reserved to cover payroll at all times. Unpaid payroll and taxes

can carry personal liability to senior managers, shareholders and board members.

## COMMUNICATE

Vendors, secured and subordinated creditors, employees and customers should be informed on the status and progress of the turnaround effort. When vendors call for payment, at minimum take the call. Telling them you can't pay them now, but you are formulating a plan, is better than making promises that cannot be kept. Customers should be reassured that you can supply them product on a timely basis. In some instances, they may even be able to help with faster payment terms, pricing accommodations and payment of old outstanding invoices.

Employees should also be well informed, since they may be required to work longer hours or take on additional projects. It is easier to solicit additional work from employees who fully understand the company's position. A certain percentage of your employees will be looking for another job whether or not you inform them on current issues. However, employees are generally much more loyal to the organization than management realizes.

Finally, secured lenders should also be well informed, since their support will probably be required in the short and long term.



**Mike Boudreau**

*A Director with BBK, Mike is a CPA as well as a CTP and has over 13 years' experience working on turnarounds and corporate restructurings. His areas of expertise include strategy, leadership and consensus building.*



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# QUARTERLY REVIEW

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To:

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## Need to KNOW

### Elias Brothers Big Boy Ready for Second Life

**A** solid core business worth saving and a buyer willing to purchase the Big Boy restaurant chain out of bankruptcy were key factors in BBK's successful workout of the company.

BBK Principal Tim Skillman and Big Boy President and CEO Tony Michaels told the story of the Big Boy turnaround for the first time publicly at the Detroit area chapter of the Turnaround Management Association's (TMA) May meeting.

In an effort to grow the company, Elias Brothers had expanded into the St. Louis and Kansas City areas. The move proved to be too difficult to manage from the Detroit headquarters. "The Big Boy situation was fairly typical when BBK was first engaged," Skillman told the group. "There was a large group of unpaid creditors; suppliers were threatening not to deliver products, and liens were being filed against the company. The company was facing a liquidity crisis."



As BBK began to develop a workout strategy for Big Boy, Skillman says two things became apparent: there was a solid core business which could make the company viable, but a new management team led by a person who knew the restaurant business was essential. Restaurant industry experts and Big Boy franchise owners recommended Tony Michaels, a marketing executive with 20-plus years of service with Elias Brothers Big Boy.

A giant step in cutting costs and streamlining the company was the simultaneous closing of all 24 Big Boy restaurants in St. Louis and Kansas City – a massive undertaking which was carried out without a bankruptcy filing partly because a single landlord controlled all locations. The need for a cash infusion made it necessary to find a buyer for the Elias Brothers properties. Michaels, now president and CEO, was able, in Skillman's words, "to single-handedly bring a potential buyer to the table."

With all the pieces in place, the turnaround team was able to present the court a pre-packaged Chapter 11 strategy, and the prospective buyer, broadcast entrepreneur Bob Liggett, was able to purchase the company out of bankruptcy.

The new company is in its second year of operation under Michaels' leadership. "We have a good brand, a good product, a good owner and a vendor group that stuck with Big Boy through the hard times," Michaels said. "We're returning the restaurants to the Big Boy we all grew up with."

The new company is changing about 350 products and concentrating on long-time Big Boy favorites like the Slim Jim sandwich, Big Boy ice cream and the company's signature desserts. There's also a new emphasis on satisfying its customers. Among other things, Michaels says, the company has increased menu portions and cut the prices it charges franchisees for commissary items.

In addition to the traditional Big Boy restaurants, the company is planning a new "fast, casual" line called Big Boy Originals, designed to compete in food courts, movie theaters and strip malls. Michaels says this new concept may offer the company's biggest opportunity for growth.

"We've had a good first year," Michaels says. "We will grow the new company, but this time it will be planned, controlled growth."

## UPCOMING CALENDAR OF EVENTS 3RD QUARTER 2002

### JULY

11 - 14

American Bankruptcy Institute:  
9th Annual Northeast Conference  
- Cape Cod, MA [www.abiworld.com](http://www.abiworld.com)

13 - 17

Commercial Law League of  
America: National Convention  
- Park City, UT [www.clla.org](http://www.clla.org)

### AUGUST

4 - 9

Association of Certified Fraud  
Examiners 13th Annual Fraud  
Conference & Trade Show  
- Hollywood, CA  
[www.fraudconference.com](http://www.fraudconference.com)

7 - 10

American Bankruptcy Institute:  
7th Annual Southeast Conference  
- Kiawah Island, SC [www.abiworld.com](http://www.abiworld.com)

5 - 9

U of M Center for Automotive  
Research Management Briefing  
Seminars - Traverse City, MI  
[www.mbs2002.org](http://www.mbs2002.org)

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## A Look Inside the Bankruptcy Process

An interview with Ray Graves *(continued from page 1)*

**QR:** *It sounds like Bankruptcy may actually be part of the business plan.*

**Graves:** In some cases it is, and that is something new we have seen in the past 10 years. Chapter 11 doesn't have the stigma that it once did. Banks, OEMs and customers in general are not fearful of doing business with a company that has been in Chapter 11. That's because Chapter 11 forces everything to the surface...the good and the bad. The process forces a company to have a plan. And, companies who emerge from bankruptcy are often stronger, more efficient, better managed.

**QR:** *But most companies don't make it. What is the success rate for companies in Chapter 11?*

**Graves:** That is not an easy question because we all differ on what we call a success. For many people success is a company that comes through the process viable and unscathed (without closing facilities, without losing employees, etc). That doesn't happen very often. Remember, companies don't file Chapter 11 because everything is going great. A realistic view of success is for a company to come out of Chapter 11 viable and on the right track to grow. Many companies come through leaner and more efficient and that's a good thing. The sale of a large part of the assets can also be considered a success. A business may have one area that is dragging the whole company down. In Chapter 11 we may be able to find a buyer for the part of the business that is viable.

**QR:** *If I own a struggling business, what are realistic goals or expectations for Chapter 11?*

**Graves:** For the struggling business owner, Chapter 11 provides a cooling off period, which gives everyone involved a chance to consider all the options. Companies don't wake up one day in trouble, rather, the owner and/or senior management team have seen signs of trouble but often don't realize the gravity of the situation until the first crisis hits. When this

happens the first impulse is often panic. Chapter 11 gives the management team a chance to take a deep breath and look more closely at what's going on. Those who make it through the process will already be putting together a plan to make changes, to get the operation in line before it gets to the bankruptcy stage. Another important aspect of Chapter 11 is that it allows companies to reject contracts. Sometimes a bad contract or lease is a key part of the problem.

**QR:** *If Chapter 11 freezes all the debt, how can a company keep operating without paying the critical suppliers?*

**Graves:** The court can step in and allow a company to pay only those suppliers who are critical to keeping the business open. Sometimes this gets tricky when these "critical suppliers" want back payments or all debts cleared to continue business.

**QR:** *Is Chapter 11 best for larger companies?*

**Graves:** The key factor is expense. Filing Chapter 11 costs money... money from a company's cash flow. For a small company or a large company, first try to work it out with your creditors without the court. BBK works with many companies who are able to find new funding, negotiate with debtors and implement new ways of doing business that will turn the company around.



**Ray Graves**

*Prior to joining BBK this past January, Ray Graves was a U.S. Bankruptcy Judge for the Eastern District of Michigan for 20 years. A frequent speaker on bankruptcy law around the country, Judge Graves is a Fellow of the American College of Bankruptcy and has served on the Board of Governors of the National Conference of Bankruptcy Judges. He holds a Juris Doctor from Wayne State University.*

**BBK, Ltd.**  
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## It isn't always *the Economy's* fault

"In **struggling companies** we often find that management has strayed from what they do best," said BBK principal Randy Patterson in a recent television interview for the Chicago TV show "Moneyline". The interview by CLTV reporter Bill Moller was part of a story on the successful turnaround of Chicago business Air Comfort Corporation. Patterson worked closely

with Air Comfort to facilitate the turnaround. "One of the things we (turnaround management consultants) can do is lay out the facts," Randy continued. "For Air Comfort, we looked at the profitability of all areas of the business, then worked to bring the company back to its core competencies."



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