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QUARTERLY REVIEW

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LETTER FROM THE CHAIRMAN

Business Building Knowledge:

Probability of Maintaining Viability

From world events to global economics, instability and uncertainty seem to be the 'buzz words' de jour in these often turbulent times.

The automotive and related industries are certainly far from immune to such conditions. From supply to production to distribution, the auto realm is continually looking to refine best practices while enhancing productivity.



What does the future hold? In an era of consolidation and competitive pricing pressure, is it possible for the supplier base to continue meeting demand while remaining profitable?

BBK, Ltd. has intensely scrutinized such questions in response to market conditions and customer demand. In fact, these factors were the impetus for the development of BBK Ratings—an innovative, new tool designed to assist our clients in proactively monitoring their suppliers and/or borrowers by expertly and accurately determining their financial strength and viability.

We invite you to explore BBK Ratings and welcome your input. The goal of this proactive service is true to ours at BBK, Ltd.—to look ahead and help your interests remain strong regardless of how bright or cloudy that future may currently appear.

We wish you continued success in 2003.

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

Service Overview:

BBK Client Credit & Accounts Receivable Services Group

Today, businesses of all types are paying closer attention to accounts receivable to maximize cash flow, as well as monitor financial health. Roger M. Schultz, Manager of BBK, Ltd.'s Client Credit and A/R Services Group explains why.

QR: Define accounts receivable.

Schultz: It is a debt owed to an entity, which is not supported by negotiable paper. Accounts receivable can be subject to negotiated payment terms—most of us are familiar with early payment discounts—and in some cases they are secured by a lien or letter of credit.

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BBK UPDATE CENTER

Supplier-Specific Risk Factors

**From an article written for
Institutional Investor's
Turnaround Management Guide**

By Nancy Colab, BBK Director

Several primary risk factors that may indicate the potential for supplier financial distress are especially apparent in the automotive sector. One is high levels of debt. The auto industry has recently been witness to a merger & acquisition spree among the supplier base in response to competitive pressures. Some of this consolidation activity has proved ill fated, resulting in excessive leverage and numerous turnaround situations, as evidenced by the significant Chapter 11 filings in the last several years such as Key Plastics, Breed, Harvard Industries, Hayes Lemmerz, and Federal Mogul.

Also, due to the capital-intensive nature of auto parts manufacturing, many suppliers increased their leverage during times when credit was easier to obtain. Now, with fixed assets values somewhat depressed in this segment due to the economic downturn and excess capacity, lenders are finding their loans may not be fully secured. The use of asset based lending may also send a strong signal of trouble as such lenders are looking to the liquid assets of a company to cover their loans rather than relying on ongoing cash flow.

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Supplier-Specific Risk Factors

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Other suppliers that can pose a risk are those with low margins. Increased competition and excess capacity in the automotive industry has tended to shrink margins; putting certain commodity businesses that offer low value added content at particular risk.

These companies cannot afford a misstep because they are not in a position to charge a premium for their product. Some suppliers have been known to even “buy business” (i.e. sell at a loss after fixed costs) so that when profitable programs build out or are moved by the automotive manufacturer, the supplier is left with an unprofitable book of business. At times, the best solution to the supplier’s problems is to cease producing a certain product if mispricing and/or a non-competitive price structure exists.



Finally, one must pay close attention when companies have very tight working capital structures. An example of such a situation comes from one of our firm’s cases where a company’s weekly payrolls were the largest single cash outflow while its receivables were on net 60-day terms. This operation developed cash shortfall problems that threatened production at a number of automotive assembly plants. The solution to the supplier’s problems not only involved restructuring its operations to run more efficiently, but also correcting the cash flow mismatch it was experiencing.

To help identify supplier risk factors early on, BBK, Ltd. has developed a new supply risk management service, BBK Ratings, so you can expertly evaluate and accurately determine the financial strength of a supply base before the production line becomes threatened.

To learn more about BBK Ratings, call Principal Alicia Masse at 1-800-634-4722 or visit BBKRatings.com.

BBK Hosts Auto Show Charity Preview Event

More than 80 guests from the banking, law, and automotive industries donned their best evening attire and mingled at BBK’s 2003 International Auto Show Charity Preview Dinner. The event featured pre-show cocktails and hors d’oeuvres and a post-show supper at the exclusive Renaissance Club in Detroit’s Renaissance Center.



Ray Green (center) of GMAC and his wife, Rosemary (left), enjoy the company of Don Baty (right) of Honigman, Miller, Swartz and Cohn.



Following the Charity Preview, guests prepare for a late night dinner at the Renaissance Club. Shown are Jeff Higgs of BBK and his wife, Ronnie (left), and Van Bussman of J.D. Power & Associates and his wife, Lynn (right).

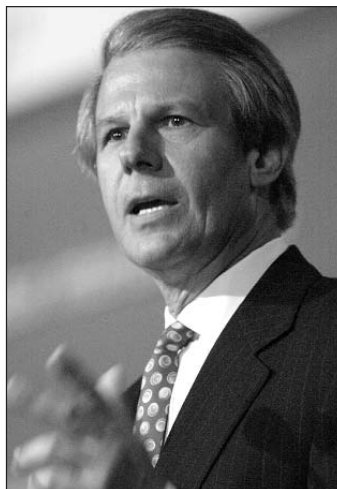
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A Case Study:

“Where’s the Beef?”

By Pete Pappas, BBK Principal

A privately owned food processing/wholesale distribution company—which we’ll call “Beef Company”—seemed to have some enterprise value but shareholders had not been able to capitalize on the investment. Two venture capital firms owned the majority of the Beef Company and were seeking a way to exit with a return on their capital. The Company’s Board of Directors decided to retain BBK with the key objective of facilitating the sale of the Company by increasing cash flow and profit.



At the time, the Beef Company had already accumulated a sizable loss due to intense pricing pressure from key customers. Other customers were disappointed in the lack of new product innovation and weak marketing programs over the previous six years. On the upside, the Company was serving 1,400 retail stores.

The sales executives thought they could substantially increase sales if they were given more freedom. To help ensure that profits would also increase, BBK developed a management system that was fundamentally based on a contribution margin analysis of those incremental sales. The sales team quickly implemented the new program, and sales and profits began to increase, ending the fiscal year on a positive note.

However, something still needed to be done about the lack of product innovation. BBK organized a brainstorming session with employees and identified a number of creative ideas, which were then ranked. A new hot dog product was at the top of the list, so the Beef Company focused its resources on the development and introduction of this project. When the launch date arrived, the sales force hit the streets with the new product and received rave reviews from customers.

The next issue to address was the weakness of the Company’s marketing programs. BBK retained a public relations firm that developed and implemented a major media campaign, garnering positive press across the country. Next, they took the Company’s story directly to top customers and promised to get them actively involved as partners. The customers eagerly accepted the proposal.

Within a few months, the Beef Company received three purchase offers from large buyout firms. After conducting intensive due diligence, the first firm concluded that the beef industry would be too much of a challenge. BBK then went back to one of the other firms and created a new transaction on terms that were still beneficial to stockholders.

Along the way, the Beef Company was keeping both of its lenders aware of its plans and performance. One of the lenders was particularly interested because the Company’s balloon note was due a few weeks prior to the scheduled closing on the sale of the Company. To bridge the gap, BBK negotiated a forbearance agreement that provided enough time for the Company to meet profit goals, as well as time to select a new lender in the event that the sale did not close.

At the end of day, BBK successfully resolved the Beef Company’s issues and was able to meet profit goals with cash to spare. In fact, the Beef Company’s working capital had improved dramatically and the closing price was adjusted upward in favor of stockholders. At the closing, BBK transferred proceeds to shareholders, fully repaid lenders and turned over the Beef Company to the buyout firm.

CALENDAR 2003

Upcoming Calendar of Events 2nd Quarter 2003

April 10-13

American Bankruptcy Institute Annual Spring Meeting – Washington D.C.

April 11

Commercial Law League of America Mid-Year Meeting – Chicago

May 19

2003 YMCA Legacy Golf Classic – Bloomfield Hills

June 1-3

Detroit Chamber of Commerce Conference – Mackinac Island

June 5-8

American Bankruptcy Institute’s Central States Bankruptcy Conference – Traverse City

June 7

Barbara Ann Karmanos Cancer Foundation’s 21st Annual Dinner – Detroit

June 9

Michigan Minority Business Development Council 19th Annual Golf Tournament – Detroit

June 12-13

Turnaround Management Association 2003 Advanced Education Workshop – Chicago

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BBK Client Credit & Accounts Receivable Services Group

QR: What are the most widely used A/R benchmarks?

Schultz: The most important, Days Sales Outstanding (DSO), indicates how quickly a company collects its receivables. We can benchmark a company's DSO against its peer group, and many Credit and A/R Departments set a DSO Goal to measure their own performance. Other common analyses are the Current Ratio, a measure of the ability to use current assets to meet current liabilities as they become due; the Acid Test Ratio, a more refined measure of liquidity; and the Z Score, a popular index of potential business failure.

QR: When should a company seek out help in accounts receivable?

Schultz: It is often possible to intercede and reverse negative trends before they reach crisis stage. A strong Credit Policy and prompt follow-up on open A/R situations can help ensure ongoing success for all companies. Warning signs include increasing interest costs, financing long-term assets with short-term debt, technical or payment defaults under loan agreements, deteriorating working capital and leverage ratios, deteriorating aging of trade payables and receivables, and financial covenant defaults, just to name a few.

QR: There are a lot of Credit Service firms out there. What are some of the benefits of working with BBK's A/R Service Group?

BBK enjoys a long-standing and valued reputation for providing sound solutions to business problems in diverse industries. As a recognized leader in implementing corporate renewal, operations improvement and turnaround management services, we are uniquely positioned to leverage our strategic resources and service capabilities in the accounts receivable/credit management arenas to all of our clients, including OEMs, Tier 1s, lenders, attorneys, Trustees and company management. We offer a wide range of services that can provide an immediate benefit through improved cash flow, increased working capital, reduced bad debt and increased bottom line profits. We also have the proven skills and expertise to intervene quickly and professionally in crisis situations when each day factors into business survival. For example, a West Coast asset based lender was informed by their borrower they were closing operations effective immediately. BBK was engaged by the lender to manage the A/R billing and collection process. Due to our hands-on approach and experience, our team was on site within 24 hours, and had established and initiated the necessary procedures to preserve value for our client.

For more information or case studies on BBK's A/R Services Group, contact Roger Schultz at (248) 603-6317 or rschultz@e-bbk.com.



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