UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN

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CHAPTER 11 ROUNDTABLE PROGRAM PART II – ALTERNATIVES TO CHAPTER 11

FINANCIAL TOOLS

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When dealing with a distressed company, Chapter 11 is just one of many options to consider. The decision-making process is driven by a series of important questions that must be answered correctly. The financial analyses described below are the some of the tools used by restructuring professionals to answer those questions, and also represent the reporting requirements needed to facilitate the various options.

Assessing the Problem – When Chapter 11 Isn't the Answer, and Finding Out What Is

Question: Do you really need the automatic stay?

These analyses are used to determine if an out of court agreement with creditors is feasible:

- **Cash Flow Projections** – *drives the creditor payment plan*
- **Creditor Payment Plan** - *the basis for obtaining cooperation (buy time/stand down)*
- **Income Statement Projections** - *indicate whether the Company can be restructured and return to profitability – determines Company viability – a key consideration for creditors*
- **Liquidation Analysis** – *quantify expected recoveries for creditors under various scenarios*

Question: Do you cash flow?

These analyses are used to determine whether the Company can survive through a restructuring process, either in or out of court:

- **Cash Flow Projections** – *detailed weekly, and sometimes daily, analysis that takes into account all cash receipts and disbursements to determine whether there is enough working capital to continue operations – start with 13-weeks (1 quarter) – includes these sub-analyses:*
    - **Sales Projections** – *by customer, including backlog timing and expected sales*
    - **Collateral Analysis** – *expected receivables from sales and inventory movement drive projected collateral levels and availability of debt funding*

  Note: If there's not enough working capital, these analyses quantify how much additional funding is needed and when, and also help determine what sources of funding may be available.

Question: Do you have an exit strategy?

These analyses quantify the expected outcomes for options under consideration:

- **Restructuring Plan** – *Necessary if goal is to restructure the business - incorporates all of the financial analyses described above, plus relevant analysis of business issues, and operational risks and opportunities, to determine whether the Company can be successfully restructured – also serves as a "road map" for executing the turnaround*
  - Cash Flow Projections – weekly detail (used for day-to-day cash management)
  - Creditor Payment Plan – fundamental component of restructuring plan
  - Income Statement Projections – monthly for 2-years, 5-year annual projections
  - Other relevant analyses – *for example: profitability by customer and by product, inventory reduction plan, employee utilization, overhead expense reductions, etc.*
- **Liquidation Analysis** – *includes a detailed wind-down budget*

Forbearance Agreements – Out of Court Secured Creditor Workout

Negotiations for concessions from secured creditors require ALL of the financial analyses described above. In addition, lenders pay close attention to collateral trends in relation to loan balances, and expected covenant compliance, so these analyses are also typically required:

- **Loan Usage Analysis** – *detailed weekly schedule incorporated into the Cash Flow Projections – indicates projected loan draws, pay downs, collateral, loan balances and quantification of collateral excess/deficits – serves as projected borrowing base analysis*
- **Covenant Compliance Analysis** – *covenant calculations are incorporated into the monthly income statement projections (and balance sheet projections, if required)*

Distressed companies face pressures and resource constraints that cause regular financial reporting tasks to become exceedingly burdensome. It is not uncommon for the quality and timeliness of financial reporting to secured creditors to deteriorate under these circumstances. This leads to a lack of transparency, and ultimately a lack of confidence in the Company's management team – both posing clear barriers to a Company's ability to negotiate a beneficial agreement with a creditor. An already overwhelmed management team is typically unable to prepare the extensive financial analyses required to negotiate with creditor, or to meet the intensified ongoing reporting requirements that are required under creditor agreements. Financial advisors provide an effective support system to distressed companies, ensuring that financial reporting requirements are being properly met, restoring credibility and cooperative relations with creditors, and providing experienced restructuring guidance to maximize value.