
Maximizing Business Value and Asset Recoveries:

Putting Everything on the Table

Distressed Asset Panelists

- Moderator

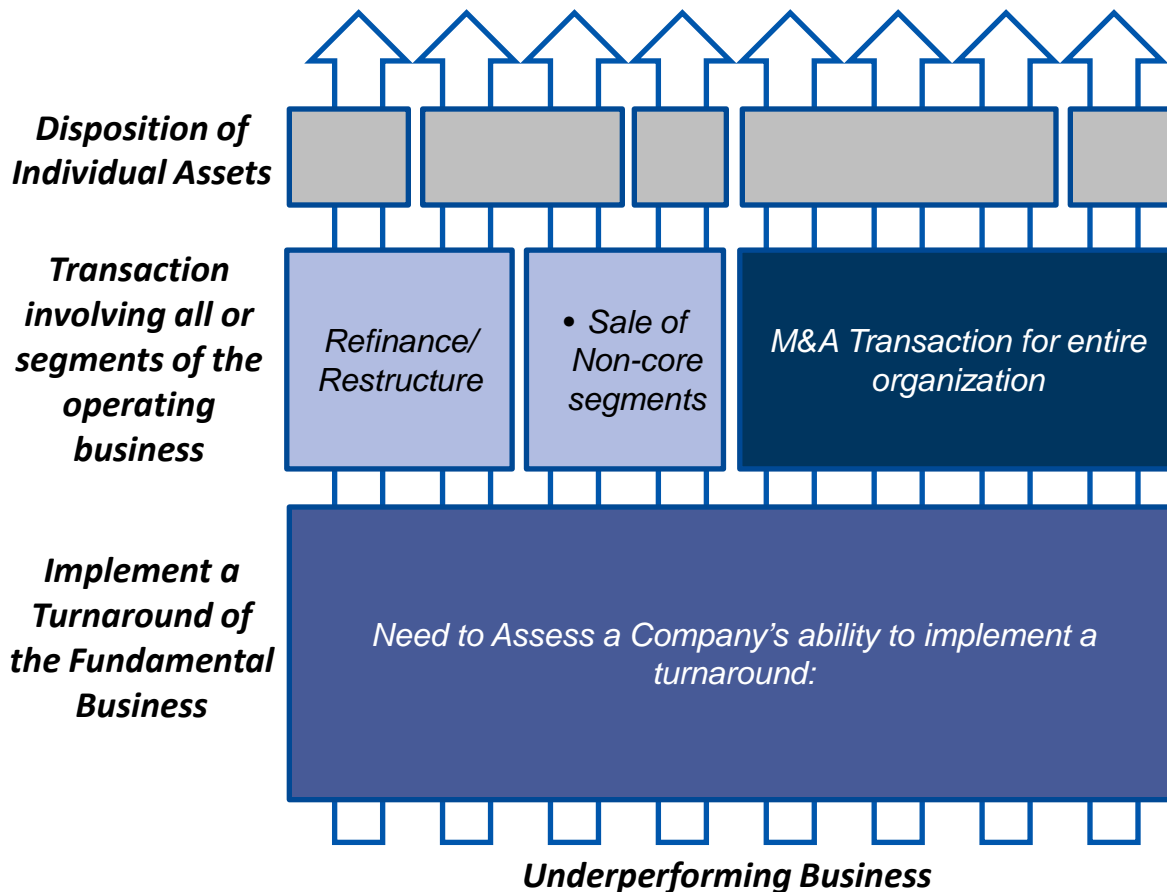
- Caroline C. Fuller, Managing Director – Fairfield and Woods, P.C.

- Panelists

- Adam Reich, Co-CEO – Reich Brothers LLC
- Richard Jenkins, Alvarez and Marsal
- Adam Dunayer, Managing Director – Houlihan Lokey

Options to Drive Value

Branch Operating Models



- Optimal approach may include a combination of all three primary approaches
- Need to assess key value drivers and determine whether those drivers are maximized in as a going concern versus or a liquidated asset (e.g. – is value in the name or the distribution/sales network?)
- It is critical to make an accurate assessment of optimal approach as quickly as possible. Steps taken towards one approach may hinder, if not, eliminate the option of pursuing the other approaches

Soul Glow: A case for discussion

Background and history - Soul Glow, a manufacturer of ethnic hair care products. Family owned for 50 years, the patriarch passed away suddenly. *All business deals, including sales and the books and records flowed through the patriarch.*

- The entire family works in the business, the children are primarily involved on the creative side of the business. *They have now been forced to take over the running of the Company.*
- Company maintains a very respected brand; primarily sold in mom and pop health and beauty stores *as opposed to large chains or box stores.*
- The Company expanded overseas and has numerous licensing agreements. *The licensees are primarily relatives.*
- Soul Glow operates out of 2 manufacturing sites, 150,000 sq ft and 250,000 sq ft. The real estate is owned by the family trust and leased back to the business. *The family trust also owns the stand alone office building leased back to the Company along with several raw land sites which were slated for future development of beauty salons to showcase new products.*

Soul Glow: A case for discussion

- The manufacturing sites sit in an area of downtown that is now being gentrified and has significant redevelopment value.
- A major local bank has a blanket lien on all assets and the company. The family has provided personal guaranties on the major loan.
- The company entered into leases for newer equipment, which has been intermingled with the company owned equipment. Lessors want their equipment back and are not consenting to sell them with the rest of the assets.
- Sales have plummeted since the children have taken over the day-to-day operation and they are now in default of their bank loan.
- Recently, there was an explosion at Plant 1, which led to a work stoppage as well as a chemical spill which is currently being assessed by the local environmental agency.

Soul Glow: A case for discussion

- Smaller creditors have now filed suit and obtained judgments and the Bank has moved the loan to “workout”. The matriarch has refused to put any new monies into the Company as her advisors have cautioned against depleting her savings.
- The Company has retained a national turnaround firm to explore new equity and/or a sale of the company.
- The largest competitors all want the brand and customer list but do not want the manufacturing sites.
- The children want to retain control of the company and find a new investor and have let it be known that they will not cooperate if the company is broken up. Intellectual property funds, equipment liquidators and real estate speculators are all clamoring to bid on the tangible assets.
- Appraisals on the tangible assets are available but outdated.

Soul Glow: A case for discussion

The restructuring officer has retained an investment banker which has put out a Sale Book and has now concluded that a sale of the assets, either on a going concern or “break up” basis, is the best way to maximize value to the creditors and the family.

SOUL GLOW FINANCIAL SYNOPSIS

(\$ In Millions)

Income Statement	2012	2013	Comments
Sales	100	70	Customers lost to competition
COGS (w/o Depreciation)	(73)	(61)	Higher costs and lower prices
Gross Margin (GM)	27	9	
– GM%	27%	13%	
SG&A	(15)	(15)	No cost structure changes despite lower sales
– SG&A%	15%	21%	
EBITDA	12	(6)	Losses that had to be funded
– EBITDA%	12%	-9%	
Balance Sheet			
Accounts Receivable (A/R)	15	15	DSO increased from 54 to 77 days
– A/R Over 90 Day	1	3	Old A/R tripled
Inventory	15	20	Inventory up 33% with sales down 30%
– Ineligible Inventory	1	4	Low quality inventory much higher
Accounts Payable (A/P)	8	10	A/P higher on lower sales
– A/P Over 90 Days	0	4	Suppliers stretched as source of funding
Commercial Loan	7	18	Lender funds losses and inventory increase
Factored A/R Value	13	11	95% of eligible A/R
Total Loan plus Factoring	20	29	

SOUL GLOW
FINANCIAL SYNOPSIS
(\$ In Millions)

Borrowing Base

Theoretical Borrowing Base	25	22	80% eligible A/R, 50% eligible inventory, \$4M fixed assets OLV Collateral position has deteriorated
Theoretical Availability	5	(7)	

Other Notes:

- 1. Manufacturing Plants may have \$5M more value because of regenderfication of areas where located**
- 2. Uninsured chemical spill costs estimates to remediate range from \$500K to \$3M**
- 3. Vendor lawsuits total \$200K so far in judgments**
- 4. Intellectual property (brands, customer lists, etc.) have a stand-alone value of at least \$3M**

Reich Brothers Strategy / Decision Matrix

- Who controls the disposition of the assets?
 - (a) Impact of Personal Guaranties
- Competitive Landscape
 - (a) strategic buyers
 - (b) bulk & end users
 - (c) IP buyers
 - (d) fellow liquidators
 - (e) real estate speculators
- Asset Valuation
 - (a) Inventory expiration/loss of shelf space
 - (b) Environmental/Hazardous Substance analysis for real property and equipment
 - (c) Accounts Receivable deterioration; set-offs; intra-company and insider loans
- Packaging an Offer
 - (a) strategic partners
 - (b) note purchase to control outcome and competition
 - (c) financing/leaseback to control outcome and competition

Considerations for Pursuing an Operational Turnaround

- Determine Key Value Drivers
- Evaluate current management team
 - (a) Do viable alternatives exist?
 - (b) Move quickly to get the right athletes on the field
- Prepare quantitative assessment of alternatives
 - (a) Calculate resource needs (time, dollars and people)
 - (b) Prepare model of potential benefits – scenarios of potential outcomes
 - (c) Gut feelings versus sound business decisions
- Develop an actionable plan
 - (a) Owned deep into the organization – Accountability critical
 - (b) Need to develop overarching objectives – Prioritization is needed
 - (c) Need to communicate with all key constituencies
- Go Big or Go Home
 - (a) Effective turnaround requires stamina – situation often worsens before it improves
 - (b) Possess a Willingness to take calculated risks

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Moderator

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Adam Dunayer

- Mr. Dunayer is a Managing Director in Houlihan Lokey's Dallas office, where he is a member of the Financial Restructuring Group. He leads the firm's regional financial restructuring and distressed-company M&A efforts. He has over two decades of experience consummating transactions and providing strategic advice to companies and creditors in connection with in- and out-of-court financial restructurings, mergers, acquisitions and dispositions. He also has extensive experience raising debt and equity capital in public and private markets.
- Mr. Dunayer's experience spans industries including consumer products, food, healthcare, building products, energy, general industrial, telecom and technology. His recent engagements include Spansion (secured creditors); American Safety Razor (secured creditors); Innovative Communication (company); Heartland Automotive (secured creditors); Pilgrim's Pride (equity committee) and Global Home Products (company). He speaks frequently on trends and issues in restructuring, distressed M&A and other topics. He has also testified as an expert witness on a variety of bankruptcy and restructuring issues.
- Before joining Houlihan Lokey, Mr. Dunayer was a managing director with Bear, Stearns & Co. He was also an executive vice president and chief financial officer with Miller Industries, where he also served as president of the company's largest subsidiary.
- Mr. Dunayer holds a B.B.A. from the University of Texas at Austin. He is a member of the American Bankruptcy Institute and the Turnaround Management Association. He is registered with FINRA as a General Securities Principal (Series 7, 24 and 63) and a Limited Representative – Investment Banking (Series 79).

Caroline C. Fuller

- Caroline C. Fuller is the firm's managing director, and practices in all aspects of commercial bankruptcy and out-of-court debt restructuring.
- Caroline regularly represents secured creditors, landlords, business debtors, creditors' committees, trustees, and indenture trustees in business reorganization and liquidation proceedings in bankruptcy court throughout the country. She also represents receivers in state and federal court receivership proceedings.
- Caroline routinely advises clients in anticipation of bankruptcy, including clients who are attempting to resolve their own financial difficulties without the need for a bankruptcy filing and clients who are creditors of companies that may be insolvent. She also has significant appellate experience, having represented clients in numerous bankruptcy appeals before federal district and appellate courts.
- Caroline also represents lenders and borrowers in real estate and asset-based lending transactions and workouts, and landlords and tenants in the negotiation of commercial leases.
- Caroline is a trained mediator and has been named to a panel of mediators selected by the Faculty of Federal Advocates to provide mediation services in disputes arising in bankruptcy proceedings.

Richard Jenkins

- Richard Jenkins is a Managing Director with Alvarez and Marsal Private Equity Services, focusing exclusively on performing C-level management for private equity-owned companies to develop and implement performance improvement initiatives. His work includes making strategic decisions for the businesses, identifying and implementing operational improvements, implementing improvements to organizational structures, developing mechanisms to monitor cash requirements and manage working capital, implementing functional improvements at the departmental level, directing significant management changes and developing comprehensive long-term strategic plans.
- Currently, Mr. Jenkins is serving as Interim COO of a publically traded medical service company, BioScrip.
- Prior to this engagement, Mr. Jenkins served as Interim CEO of a PE-owned manufacturing company, responsible for establishing a clear strategic direction, directing a plan to improve financial performance, streamlining the operations of the business, improving the processes of the organization and coordinating a significant reduction of debt for the business.
- He has served as Interim CFO of PE-owned companies ranging in revenue from \$700 million to \$1.5 billion. During these engagements, he has been responsible for evaluating and hiring personnel, establishing updated processes to improve departmental functionality, redesigning the senior management team, identifying and effectuating cost cutting opportunities, and establishing the strategic direction of the companies.
- With more than 21 years of experience, Mr. Jenkins' assignments have included working with numerous companies including Electromotive Diesel, Local Insight Media, Exodus Communications, Asarco Mining, Finova Capital and International Paper. He has also performed pre-acquisition assessments of the strategies, operational capabilities, integration potential and business plans of target companies.
- Before A&M, Mr. Jenkins was a director with the business recovery services practice of PricewaterhouseCoopers, where he evaluated and assisted companies with the development of strategic business plans, identified financing alternatives and managed debtor / creditor relationships for numerous clients. Earlier, he was a financial consultant with Peterson Consulting, where he developed a broad understanding of financial valuation concepts, investment strategies, forecasting and business plan development.
- Mr. Jenkins earned a bachelor's degree in finance from Colorado State University.

Adam Reich

- Adam Reich is Co-CEO and Co-Founder of Reich Brothers LLC. He is a former practicing bankruptcy attorney with extensive experience representing debtors and secured and unsecured creditors in assets sales. Adam received his Juris Doctor from the New York University School of Law. In 1991, Adam became an Associate with the law firm of Levene & Eisenberg, specializing in Chapter 11 bankruptcy reorganizations and workouts. In 1995, he became General Counsel at Rabin Brothers, a leading industrial equipment auctioneer, liquidator and appraiser. In 1999, Adam joined Michael Fox International as Principal and managed asset recovery programs in the US and internationally. He and his brother went on to form Greystone Private Equity LLC, an asset acquisition company of which he was Co-CEO. In March 2009, Adam and Jonathan Reich and partners acquired Greystone Private Equity LLC and formed Counsel RB Capital LLC a company specializing in the purchase and sale of distressed assets. This was the predecessor company for Reich Brothers LLC. Adam is an accredited lawyer, and is licensed in New York, California, and Connecticut. He is a member of the American Bankruptcy Institute, Commercial Finance Association, Turnaround Management Association, and National Association of Bankruptcy Trustees.