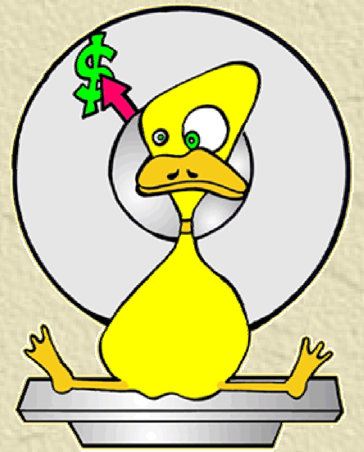

How to sell an Ugly Duckling Company

A step by step method for
Defining and selling a company

Roadmap

- Selling Process
  - ‘Seven Lively Wins’
    - Status & Plan
    - Best Fit Purchasers
    - Valuation
    - Pricing & Packaging
    - Finding Purchaser
    - Negotiating the Sale
    - Managing the Sale
- Including
  - Impact of Technology, Economy & 9/11
  - Some War Stories/Case Studies
- Q&A

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The Presenters

- Edward A. Story
  - Managing Partner, Ironwood Advisory, LLC.
  - 30 Years Operational, Start-up & Turnaround Experience
  - Health Care, Financial and Stock Markets, Technology
- Robert P. Mosier
  - President & Managing Partner, Mosier & Co.
  - Late Stage Turnaround firm
  - President/CEO Chapter 11 Debtors, Trustee and Receiver.

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Definitions/Assumptions

- DEFINITIONS
  - DUCKLING
  - UGLY
  - TIMING
  - SELLING
  - “ELEMENT(S)”
- ASSUMPTIONS

Element One: Status & Plan

- Who are you working for?
- How ugly is the duckling?
- What's the cause of the distress?
- How long will it take? Do you have the time?
- Turnaround Plan? Sale Plan? Biz-Sale Plan

Biz & Sale Plan A

- Who is the customer?
- Unique Selling Proposition
- Inventory all assets
- Sell in whole or part?
- Synthesis: Right assets with right buyer(s)

Biz & Sale Plan B (cont'd)

- First class financial statements
- Public Relations
- Creditor, Customers, Suppliers..Stakeholders
- Key Employees

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Biz & Sale Plan C (cont'd)

- WHO assists? WHO resists?
- Determine Team composition; Meet regularly
- Make a critical path as part of the biz&sale plan
- KEY: A study in parallel processing

Element Two: Defining Best Fit Purchasers

- Why does someone want to buy it?
- Basically: Financial or Strategic – but many variations
- Is the product ascending or descending vs. the industry?
- KEY: Value will depend on purchaser and purchaser's needs.

Element Three: Valuation

- What is the company worth?
- Value of fix-ups? – OR -
- “As is/where is”?
- Best fit (who and what)?
- Management’s role (key or not)?
- KEY: Company needs to be understood

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Valuation Alternatives

- Industry Comparable via Multiple
- Book Value – if carried by larger company
- Asset(s) Valuation
- Impact of Debt
- Tax Implications of the Sale
- Complementing or Strategic Value
- KEY: Don’t fool self or others

Element Four: Pricing Strategy

- Don’t be afraid to aggressively price but…
- Valuation based, but with add-ons and subtractions. Variables:
- Representations and Warranties?
- Indemnifications

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Debt Structure of Newco: Funding the Purchase

- Will the purchase require financing?
- Who is the lender? Or provider of new equity? (Contact early!)

Increasing the Price

- All of the above, yet…
- KEYS: Reduce risks & increase value
- Know and polish the balance sheet: Reduce Liabilities – most likely
- Know and polish the balance sheet: Focus on Assets
- Know and polish the future and potential: Focus on Earnings
- Get competitive bids! – More than one potential buyer.

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Packaging & Warranties

- Fundamentals: more important that "packaging"
- With all former steps – much of packaging is done!
- Don't forget solidly constructed financials
- And: what will make the buyer a "willing buyer"?
- Selection of "Salesmen" (Element Seven)
- Weaknesses & Warranties (vs. "As is, where is")

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Element Five: Finding Purchasers

- Private or Public Sale?
- Potential Purchasers:
- Networking Sources
- The goal: determine
- Multiple suitors ~ competition & safety

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Element Six: Negotiating the Transaction

- Strong preparation
- Who’s the decision maker?
- How create urgency?
- BATNA & Walk-Away Power

Element Six: Negotiating the Transaction (cont'd)

- There are other matters than price!
- Let Interests dominate Positions (not other way around)
- Resolution of disagreements
- Persistence
- "Getting to Yes"

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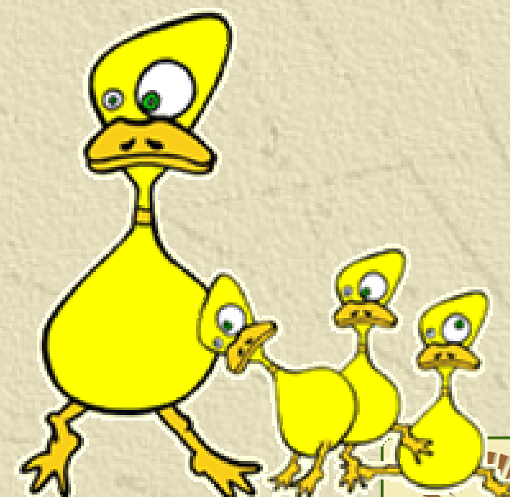
Element Seven: Managing the Sale

- Who handles the sale?
- Who Manages the company? (Keep that Going Concern Value)
- Who Manages the law for BK? (or is managed by it)
- KEY: Parallel processing



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Case Study One: Airline Training School

- Grand history of revenues/profits
- More recently, competition and declining interest.
- Loss of revenue, losses.
- Best fit: a school business with overhead in place.
- Price $2,300,000 all cash.
- Sold: $4,500,000 (the buyer set the price).
- **KEY LESSONS**: Finding right fit. Negotiating process. Pricing may be better than seller thinks.

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Case Study Two: Cruise Business

- Recovering from bad revenues, profits
- Unproven track record
- Selling the asset from a public company
- Solution: stock spin off
- Passing the risk and the future gain to the owners, but segregating the assets/liabilities.
- Going public at $2.40 per share. Topping out at $15.50.
- **KEY LESSONS**: How to maximize the value of assets. Thinking outside the box.

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Case Study Three: Merger Medical Tech Stocks

- Company A has 13,000 shareholders.
- Company A is in BK and liquidating (creditors are being paid).
- Company B is ongoing, but has limited distribution of shares.
- Merger: 11 USC Section 1145: Distribute 1MM share of stock from Co. B. to Co A without an SEC registration statement.
- Issued stock in one month and $20K vs. nine months and $500K (if normal, SEC'd)
- **KEY LESSONS**: Note the 1145 Exemption. Marry an asset (shell) with right buyer.

Case Study Four: Private Multimedia Design Company

- Losing money
- No proven profitability in business plan
- Highly respected creative executives
- No meaningful tangible assets - services contracts, some receivables
- Solution: sell the "talent" of company management in new media industries
- Solution: "sell the future" - ground floor in new industry
- Solution; find buyer willing to take risk - not a "bet the company" proposition
- Sold to media conglomerate for $5+ million

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Case Study Five: Telco Sale

- Co recovered from $11M loss because founding shareholder created fictitious assets
- Started a new business with same distribution sources
- Losses continued for 3 more years after fraud cleaned up
- Found a buyer needing our customer base to justify expansion to telcom switch carrier
- Buyer referred to us by our largest creditor
- Shareholders were in Europe and the buyer was in the Carolinas and vendor was in Oklahoma
- Due diligence and an agreement was completed in

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Lessons of An Ironwood Consultant

- You run out of time quicker than you think. Process parallel. ‘Do it early.’
- Each deal gets harder the closer you get to bankruptcy (leverage this?)
- Know asset values + true liquidation scenarios as early as possible
- Understand bankruptcy process implications; involve good BK attorney
- Understand well the burn rate; try to staunch blood flow EARLY
- Remember: a company can be profitable yet still go bankrupt IF no working capital

Conclusions:

- Ugly ducklings can be sold.
- The worse the company, the less risk the buyer is willing to take, the lower the price.
- Defining who you are working for is important.
- Thinking outside the box in valuing and identifying candidates is important.
- Choosing a venue can add to the value.
- Value is defined by willing buyer and willing seller on open/level field
- Good deal has to be a good deal for both sides

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Impact of Technology & the Web

- Technology in General
- Web in particular
- KEY: Make optimal use of technology

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Impact of Economy & 9/11

- Money is cheaper? But certainly harder to get.
- Back to basics -- Focus on core businesses
- Most anything travel related – down, etc
- Most anything security related – up, etc.
- Slowdown of decision making
- Business is coming back, but slowly.

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Spare Graphics

- Spare Graphics