

SURVIVING THE DOWNTURN

Fix Your Balance Sheet Now to Be in Position for the Upturn

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A fundamental step in any survival strategy you are planning or about to implement is to fix your company's balance sheet. If you haven't conducted a serious review of your cash position, asset values and cash projections — and you haven't held realistic discussions with your banks and lenders — you need to do these things *now*.

If you don't address your balance sheet issues as part of your strategic plan, you are only delaying action on a potential problem that could cause you to close down your business.

If your assets aren't priced to realistic market values you won't be able to compete — and you'll have a very difficult time generating sales and revenue to service your debt. In addition, you will have difficulty attracting new capital, debt or equity when they eventually become available.

Fixing your balance sheet is the most important step you can take today.

Be Disciplined and Honest About Your Business

Fixing a balance sheet is not complicated. However, it does require you to be disciplined and brutally honest about your business.

You must be clear about the current condition of your business — the value of all of your assets, including land, inventory and work in process; overheads; current and future cash needs; and your current and future competitive position.

Your business plan must be realistic and include at least a 12-month cash flow — 24 months would be better. Your plan also should encompass working with your bank to re-price assets — land, lots and inventory — to realistic values so that you are competitive.

Any plan presented to your bank must be reasonable and supported by the facts on current market conditions and land and house values.

Finally, make sure you also review your personal planning to determine if your personal assets are protected, particularly if you have recourse loans.

Think You Can't Fix Your Balance Sheet? Read on...

If your loans are non-recourse, your assets are over-valued and your bank won't re-price your loan, you should consider turning the assets back over to the bank.

If your debt is recourse, the bank won't re-price your loan and your personal assets are protected, it's time to consider a possible Chapter 11 strategy. While Chapter 11 is a last resort, the threat of bankruptcy just may get your bank to negotiate with you.

In any case, you should put a plan in place that has honestly analyzed every element of your business — with the help of legal counsel and financial advisors who can help assure that your family and personal assets are protected.

Above All, Conserve Your Cash

If you are putting your own cash into your business — stop immediately. Don't put any more of your cash into the business until you've fixed your balance sheet.

Conserve your cash while you are negotiating with your banks. It will be critical to you and your business until construction financing becomes more readily available.

You will need it to fund your business in the future or to take advantage of

new opportunities that might arise. The cash you hold today will give you leverage in your bank negotiations and the flexibility to pursue several different strategies.

It will enable you to wind down your business if you can't structure an alternative agreement and business strategy with your lenders, and it will provide you with the flexibility to re-enter the business when conditions improve.

Conserve your cash because it's your best survival tool. If you use it all now essentially funding a business that's no longer competitive, you will never get it back.

So, before you do anything else, fix your balance sheet to determine how viable and competitive your business is and can be in the future. If you don't fix it now, you won't be able to attract new capital — equity and debt capital will only be available to builders with new opportunities or old projects that have been re-priced to the market.

If you don't fix your balance sheet now, you won't be in business when the housing market improves.

The Algon Group is a financial advisor and investment banking firm based in Atlanta that specializes in distressed situations.

During the last 12 months, the Algon Group has successfully advised home builders and developers on restructuring a combined debt of more than \$3 billion.

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