



KENNETH J. DALTO

& ASSOCIATES

Management and Financial Consultants

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SOLUTIONS THAT KEEP WORKING

Although my firm is always applying the most current and timely solutions for our clients, I was compelled to republish an article that I wrote more than 5 years ago. It has been the theme most requested for training seminars and keynote speaking engagements at banks, lending corporations and key management teams. Our clients all have their own unique set of issues, but solutions to survival are seldom varied or new.

All one has to do is observe how successful comebacks are made and when you see enough of them (as we have) it becomes very clear that most obstacles and



Owner/President Ken Dalto

problematic situations originate and are solved pretty much the same way. It doesn't really matter what the industry is. When a situation becomes too overwhelming it is necessary to seek help and build a team from several sources and create a collective plan to recognize opportunities, do away with limitations and have a sense of urgency to protect your best options.

The foundation of our success is based on recognizing overlooked problems and using multiplicity of styles and solutions that pull our clients through. These are especially crucial in times of uncertainty.

FINANCIAL SURVIVAL IN TIMES OF TROUBLE

Most owners or managers of small and medium sized real estate and auto businesses experience troubled times in the life of their company. At these critical junctures, little time is available for blame, finger pointing and denial; time must be devoted to pragmatic analysis of the problems at hand and the implementation of concrete solutions.

Yet, solving problems can be nearly impossible when the owner and key managers are being beaten up by the company's angry creditors hungry for payment. In such situations, a company's assets, sales and even profits are no substitute for liquidity — an excess of cash or cash equivalents to meet current, critical operating payments. In such tough situations, Kenneth J. Dalto & Associates helps clients manage their two most precious commodities — time and cash— by advising and concretely handling the whole array of actions needed until full financial recovery, return to growth and profitability.

Actions to be considered include agreements with creditors to postpone payments on past due amounts for at least 90 days. All payments to trade creditors should be for going-forward jobs or work-in-progress. This policy conserves precious cash and gives

management time to analyze and implement short or long term solutions. It is impossible to solve deeper company problems when one is fighting fires all day.

Prepare weekly cash flow budgets of actual cash inflow and critical cash outflow. These reports should be monitored by management daily. The critical determinant will be the current cash resources available to meet current liabilities.

Critical payments should be prioritized. Taxes, secured bank notes, and those items that can shut the company down, such as utilities, phones and, of course, payroll, should be given priority.

Communication is essential; suppliers and subcontractors should be given straightforward explanations: difficulties are temporary; solutions are in progress; give us time to reorganize; we will pay you for jobs going-forward; we must conserve cash to be strong again and pay past due amounts.

The primary goal is to defer as many payments as possible to provide time to develop and implement a turnaround plan. Deferring creditors to such an extent is a delicate matter. But it can be successfully accomplished, if it is done properly.

AN INTERVIEW WITH GREGORY J. DEMARS



Gregory J. DeMars, Partner
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Gregory J. DeMars is an attorney with Honigman Miller Schwartz and Cohn LLP (“Honigman”) specializing in Real Estate and Commercial Lending Services. Mr. DeMars brings a myriad of experience to his firm such as advising and representing individuals and business clients in all types of business workouts, foreclosures, equity financing, real estate transactions and other secured and asset based lending. Greg joined Honigman 25 years ago and has become one of their premiere lawyers. He was recently listed in 2007 Michigan Super Lawyers and has the highest Martindale-Hubbell rating (AV).

Mr. DeMars’ representative clients include LNR Partners, MHT Housing Inc., MMA Financial, St. James Capital, Churchill Financial, Andiamo’s and National Coney Island. To review additional information about Greg, please visit www.honigman.com/attorneys/bio.asp

We recently interviewed Greg DeMars on some of Michigan’s most important issues. We feel the following Q & A’s bring value to our readership.

Q. Based on your experience is there anything a real estate developer could have done to shield himself from this downturn?

A. This was a very difficult crisis to predict for the average developer. In my opinion while options are still available, it would be wise for a client to be willing to work with a team of experts that know how to successfully negotiate with the bank and creditors.

Q. Many of our referrals are from bankers. In your opinion, what is the number one thing a banker is looking for during a workout?

A. Each bank is different and it all depends on where they are at in the cycle of the downturn and what their flexibility is. The bankers should sit down with the developer to find out if there is a reasonable exit strategy. A good banker should know that a good plan can bring a greater recovery in the long run.

Q. We find that many creditors are willing to settle for a discounted amount. Why do you think they do?

A. I represent developers, lenders and trade creditors. They all have to take an honest assessment of whom they are trying to collect from. I believe they are willing to settle because they realize if they wait longer the funds will no longer be available or there will be less funds for payment. One thing to consider right now is that everything is dictated by the economy.

Q. Do you find it helpful to work with a consultant? Please comment on the attorney/consultant team effort?

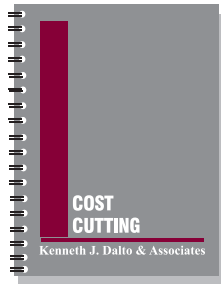
A. I think lenders are always smart to have a consultant to have a fresh set of eyes and look at things so the workout plan can be more flexible and focused by analyzing cash flows and developing an exit strategy. Many of the top consultants and attorneys have developed a good relationship with lenders that will trust their evaluation. Along with an attorney, a consultant can make sure the developer doesn’t have what I call the “debtor’s syndrome” where they believe everything is salvageable. We have been successful in preventing the loss of client’s property and personal assets.

Retaining a turnaround consultant sends your banker a positive signal regarding your genuine intention and ability to save your company.

Q. When do you believe this market will turn around?

A. I think in Michigan it could be three years for single family home developers. There’s still a lack of strength in Michigan because of the weak job structure and dwindling population. Nationally, I think we will have a better idea after the coming election. I don’t think the fallout from the subprime issue has made its way through the system as to commercial projects.

MICHIGAN REAL ESTATE (More than a credit crunch)



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Kenneth J. Dalto and Associates has consulted real estate developers totaling over 650 million in 2007 alone and we stand ready to face the further downturn that is projected in 2008

The financial news has been flooded with reports of institutional banks and investment firms writing off billions of dollars to account for their real or expected losses in the mortgage industry. These large firms have purchased and securitized mortgages for decades, but neither their analysts nor any savvy investor could predict such a crisis as this and now shareholders are paying for it. However, the national economy overall is still churning, but we all know that Detroit's economy is quite the opposite. In turn, developers of new homes nationwide are in trouble, but developers here in Southeastern Michigan have it even worse.

The national media reports daily about the problem, but they do not accurately explain it: Banks tend to have a certain set of core competencies, in that they specialize in a certain type of lending such as commercial real estate or working capital and not residential mortgages. However, there is no bank in the world that would turn away a customer looking for a mortgage. They will write the mortgage and then quickly sell the mortgage to a firm that specializes in servicing them.

These transactions have a period of recourse, but the mortgages written before the rate increases have gone beyond that and the institutional investors are stuck with the paper. They have quickly learned that the banks and boutique lenders they bought their mortgages from had no business lending to a great number of individuals. It has been reported that 6.6% of alt-A mortgages (those that do not require as much documentation from the borrower as a standard loan) are at least 60 days delinquent...if not in foreclosure. These "no W-2 necessary" mortgages allowed many people to get financed who would not have been able to before. These loans are less risky than subprime loans and are performing almost as poorly.

Nationally, this is a crisis, yet all signs point to the

rest of the economy booming. This is not the case in Michigan especially in Metro Detroit. With the auto industry restructuring, large firms leaving the area, overall population decline, and recent increases in state taxes, who wants to buy a new house? Who can afford to? Once those obstacles are overcome and someone decides to buy there is an even longer bridge to cross: Can they sell their current home? Or worse, can they get financed?

Developers of new homes and condominium conversions have been amongst the hardest hit in Metro Detroit. Our firm is the leading consulting firm in Michigan for distressed real estate and has the experience, the aptitude and the capability to perform the tasks necessary to carry developers into the next housing market and keep them out of court.

Our real estate specialists have helped developers deal with hefty interest payments from inventory and also delinquent trade payables, real estate taxes, and excessive overhead. Our consultants work directly with the client to understand the situation while simultaneously opening communication with their lender. From there, the goal is to eliminate negative cash flow and, more importantly, eliminate additional capital injections from owners.

Kenneth J. Dalto & Associates has negotiated with lenders and tax agencies to create new agreements in order to reduce, or temporarily stop, monthly obligations. Our firm has also negotiated settlements and payment plans with trades. We have settled many accounts for as low as 25 cents on the dollar or monthly payments over 24 months.

The bottom line is this: When a real estate developer is in distress, they need someone to support and guide them through to the next market. Kenneth J. Dalto and Associates has consulted real estate developers totaling over \$650 million in 2007 alone and we stand ready to face the further downturn that is projected in 2008.

KENNETH W. KILGORE - CONSULTANT PROFILE

Ken Kilgore has extensive experience in the areas of business restructuring, insolvency services and corporate finance. Over the last year alone, he has been on the front line in a number of real estate workouts totaling over \$650 million.

Prior to joining our firm, Ken worked in the automotive industry at Ford Motor Company in which he gained a strong knowledge of purchasing, supply chain management and cost analysis. He has also served as Senior Accounting Analyst for Community Bank of Dearborn specializing in financial and regulatory reporting.

Ken holds a Masters in Finance from the University of Michigan.



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“When confronted with challenging situations, many business owners feel as if they were in a dark room they had never seen before without knowing where the lights were. We know how it feels. We have seen that room numerous times, we know what it contains, and we know how to turn on the lights.” Kenneth J. Dalto.

We assist companies to **overcome the most challenging phases of their business life:** financial distress; access to capital investment; issues related to business development, growth,

market downturn, corporate crisis, restructuring, turnaround, and return to profitability.

The distinguishing characteristic of our firm is a tough hands on approach to solving problems that others would fear. Our professionals combine acute analytical skills, “street sense,” and years of business judgment.

As our primary place of business, our firm is focused and dedicated to strengthening and developing Michigan’s economy.



SOME SOLUTIONS:

- Strengthen financial and management control
- Reinforce marketing
- Speed up innovation
- Improve operations efficiency
- Develop management team

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