Insighter

STORM™

1st Quarter
2004

KEY MANAGEMENT NEWSLETTER & UPDATES

Chairman's Review

A Recap of 2003

This past year was an interesting and most successful time for STORM and our clients. In the situations where we were responsible for **managing operations** and **providing operational expertise** we're proud to say that our clients successfully met their objectives. By working together, STORM helped various organizations avoid a potential loss and others were assisted by substantially reducing their acquisitions prices.

2003 was also a very busy year for STORM. Even with the addition of a new associate we were unable to accept assignments because we could not give them the attention they required to correct the situations. We declined several assignments because we either did not believe we could successfully turn the business around, meet our client's expectations, or the business was outside the areas of our specialization (business to business manufacturing, distribution, technology and services).

It is important to note that STORM will not take on an assignment where we do not believe we can contribute to a client's success or provide a substantial return for our client's investment in our services. Our model is based upon results, not just billing hours!

The focus of our attention during 2003 was on the management of four businesses. Three of these organizations were troubled and the fourth was an under performing acquisition that was in need of a CEO. With much hard work, investor confidence and financial support, STORM worked diligently with the companies to turn the three organizations into profitable businesses. The fourth, which was profitable but performing under its potential, was developed into an even more profitable and cash rich business. All of these businesses today are continuing to improve upon their profitability and have substantially increased their value.

STORM engaged in a number of other projects including feasibility studies, evaluations, due diligence and targeted operational improvement projects throughout the year. Unfortunately in a few situations where our advice was not followed, two clients continued investing in high-risk businesses which resulted in additional losses.

A brief recap of a few of these interim management situations reflects the essence of STORM's operational expertise and why we do not like to refer to ourselves as simply "consultants", but rather Operational Experts in our field.

Key Interim Management Assignments

Profile: Multinational Manufacturing Company
Revenues: $500 Million
Status: Purchased out of Bankruptcy
Operations: Three operating business units with operations in North America, Europe and Asia.

Assignment: A major investor looking to buy a half billion dollar, multinational, heavy manufacturing company out of bankruptcy engaged STORM to work with its due diligence team. After the acquisition, we were also given the assignment of either closing or turning around the most troubled operation of the business, which was a substantial cash drain on the company. The assignment was all the more challenging because of the negative financial impact of this specific operation, leaving our team only a couple of months in which to make this decision.

Results: With less than a month of due diligence and under an extremely tight timetable, STORM rendered evidence that the operating profits projected

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by management, the selling group and advisors were grossly overstated. The projections provided reflected in excess of $40 MM of operating income. Our analysis showed that two of the three operations would not be profitable and that overall, the company would likely be near or below breakeven. We also found that management has misrepresented several key reps and warranties, which would have had a substantial negative impact on the business.

The outcome? **The final purchase price was discounted by more than $30 MM dollars**.

After the due diligence we were tasked with either closing down or turning the most unprofitable operation of the company around into a viable business unit. The strategy to make this operation profitable was to *immediately* identify the true costs of products sold, increase prices, reduce overhead, consolidate operations, and reduce the uncompetitive wages and benefits of the *Unionized labor force.*

The STORM team took immediate action to close all operations and then reopen those remaining with *non-union workers* at substantially lower labor costs. After an arduous and complex series of planned situations and events with the ousted Steel Workers Union, we were able to *reduce the labor cost by more than 43% (from $32 per hour to $18 per hour).*

We moved then to identify costs and put in place different pricing strategies to significantly increase margins and restructured operations to reduce overhead and expenses. We also worked on the long-term position of the company, completing a detailed study – including process flow, construction and machine placement – on how we could consolidate two 250,000 sq. ft heavy-manufacturing facilities into one. The outcome was an annual savings of more than $2 MM giving our client less than a one year payback for the investment.

After just 6 weeks the operations turned from losing close to $1 MM per month to generating a positive EBITDA! The operations continued to increase in profitability and were turned over to a new management team.

Profile: North American Manufacturing Company
Revenues: $55 Million
Status: Cash-poor company without a CEO and struggling in all aspects of sales, manufacturing and control.
Operations: Multi-campus facility with out-of-date east and west coast operations.

Assignment: A $1 billion investment firm engaged STORM executives to manage a North American manufacturing company where the CEO was recently terminated. Our assignment was to assess the viability of the company and to stabilize the business. After our valuation of the company, we were then tasked with restructuring and changing the company's business model to make it a viable operation long term.

Results: The company was out of cash (and customers) when STORM began our assessment. It had stopped shipments and essentially was a dysfunctional organization. We found that it was losing more than $1.5 MM a month. We moved quickly from identifying problems and roadblocks to moving the organization ahead. The investors supported our immediate need for cash to energize the supply chain and restart production and customer shipments. In the first 60 days, we replaced almost the entire management team and had STORM team members fill the positions on an interim basis.

After eight months the company returned to generating positive cash flow (EBITDA) at the operating level. Furthermore, the company began making all shipments on time and the R&D and customer relationships were revitalized. We also changed the business model from primarily a supplier of capital equipment to an *Aftermarket Product and Services Provider* with a much more profitable and predictable revenue stream, thus significantly enhancing shareholder value and strategic positioning. A new CEO was recruited, and we transitioned over management to him while continuing to stay actively engaged at the Board level to oversee the fulfillment of our long-term strategy.

It is worthwhile noting that in all cases we work as a team with our clients who have provided invaluable support, guidance and financial resources, which has enabled us to fully utilize our operational and management expertise to achieve the desired results.

These are just a couple of examples of the **operations and interim management** value that STORM brings to our clients. We thank our clients and friends for making 2003 a most rewarding and successful year for STORM and the businesses we managed.

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