



**Creative Business Restructuring
Solutions to Save Your Customer**

October 23, 2009

Agenda

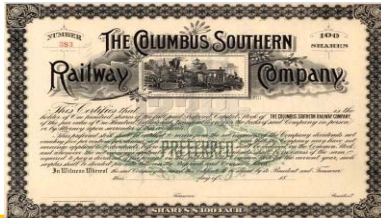
- ▶ The Stakeholders
- ▶ Psychology of Insolvency
- ▶ Common Causes of Insolvency
- ▶ Options for a Company in Trouble
- ▶ Some Insolvency Remedies
- ▶ Common Warning Signs
- ▶ Interaction Between Customer and Suppliers

Agenda

┌ The Stakeholders

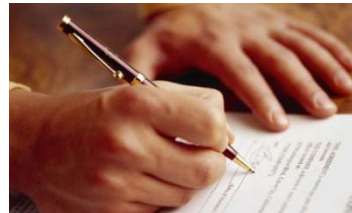
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The Stakeholders



Shareholders

- Loans
- Equity



Secured Creditors

- Banks
- Bonds
- Syndicated Debt
- Mortgage
- PMSI
- Specific Equipment Charge
- Unregistered



Management

The Stakeholders (cont'd)



Government

- Unpaid Taxes
- Legislative



Employees

- Wages/Commissions
- Vacation Pay
- Expenses
- Termination



Trade Creditors

- Raw Material Suppliers
- Tool Makers
- Service Providers
- Utilities
- Equipment Lessors
- Landlord

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Psychology of Insolvency



Denial and arrogance



Need to blame



Human greed



Gambler mentality – next
bet will be a winner

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Common Causes of Insolvency



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Options for a Company in Trouble

1

Sell

2

**Restructure/
Recapitalize/
Refinance**

3

Liquidate

Or

4

**“Soft Landing”
or wind down**

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Some Insolvency Remedies

**Informal Restructuring – Chief
Restructuring Officer**

**CCAA in Canada /
Chapter 11 in US**

Receivership

Bankruptcy

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Common Warnings Signals

1 Management

Management does not know its business

Lack of Structure

Inadequate Planning

Frequent Changes

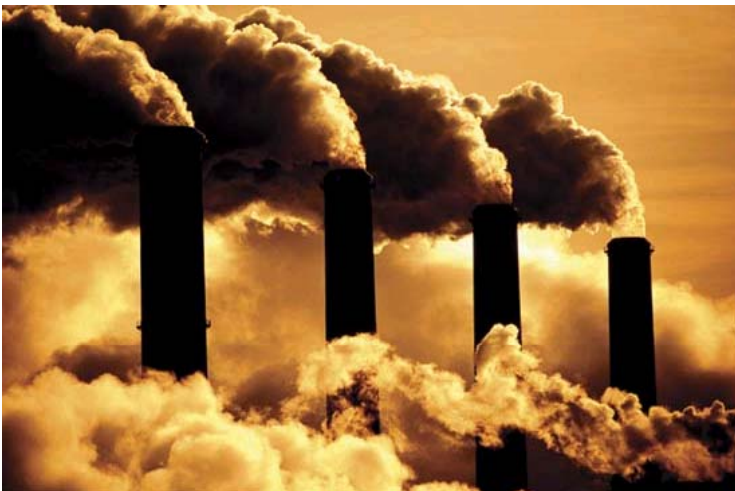
Salesmen as Managers

Excessive Remuneration

Common Warnings Signals (cont'd)

2 Market

Industry Problems



Too few customers



Common Warnings Signals (cont'd)

3 Financial Reporting

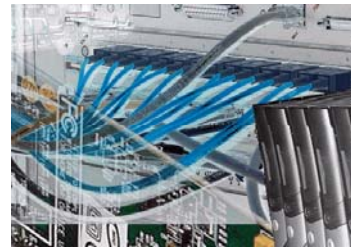
Qualified Audit Reports

Lack of adequate / timely information

Optimistic projections

AUDIT REPORT

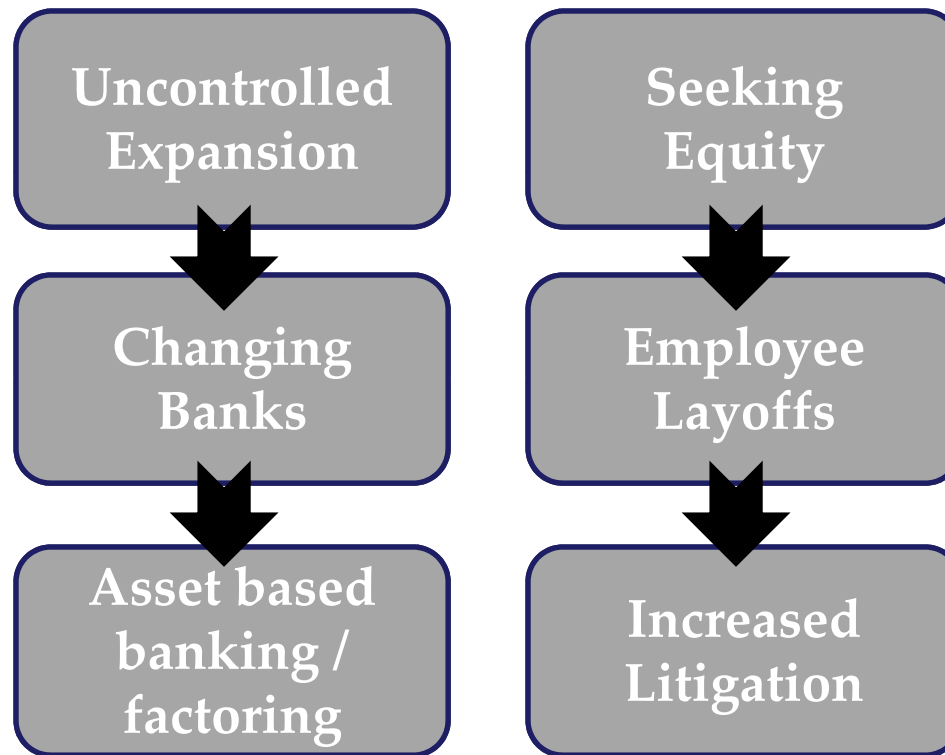
FOR THE YEAR ENDED DECEMBER 31, 2008



Common Warnings Signals (cont'd)

4

Financial Status



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Interaction between Customer and Supplier

Key questions to ask:

Suppliers

- Is one critical to the other?
- What is the production pipeline?
- How large is the debt?
- Is it insured?
- Leveraged?



Remember:

Loss of Customer = Loss of revenue as well as bad debt

Customers

- Is there a viable business to be salvaged?
- Are formal proceedings required?
- Availability of funding?
- Capability of management team?



Remember:

Indecision or inaction can be deadly; it is not an embarrassment to ask for help

Interaction between Customer and Supplier (cont'd)

Information is Power

- Obtain frequent formal reporting
- Understand the customers challenges
- Get involved if necessary

Interaction between Customer and Supplier (cont'd)

Secure the Relationship

- Preserve 30 day goods entitlement
- PMSI
- Mortgage/General Security Agreement
- Buy out Secured Debt
- Consider Consignment Shipping
- Consider Long Term Supply Arrangement



Manage the Relationship

- Demand surcharge on new shipments
- Apply payments against oldest invoices
- Control timing of shipments where practical
- Enter into 'Tolling' arrangements where possible (eg. Major raw material components such as steel)
- Become an outsourcing provider if practical
- Own the tooling



Interaction between Customer and Supplier (cont'd)

Conclusions:

- ▶ Working with the customer outside of any formal proceedings will invariably achieve a better result for the supplier
- ▶ Don't become a tipping point