

The Good Old Days - Replayed

A recent appointment as Joint Administrator of a CD and DVD replicator in Wales threw up a number of issues which I thought you might find interesting.

The company employed 90 staff and was owned by a large Pan-European Group. The industry in which it operated is over-populated and margins are constantly squeezed, especially due to overseas competition. In addition, technological advances mean that today's plant and machinery may be obsolete within three years.

The company took over an existing operation and commenced trading in 2003. It was loss making from the start, each financial year showing a significant increase in the recorded loss. The group had tried to address the spiralling debts, first themselves then with the appointment of third parties as potential saviours. These saviours did very well for themselves; the losses increased.

Eventually, in February 2006 the group found a willing purchaser for its shares. It had funded losses of approximately £100,000 per month and now had to write off most of this accumulated debt to make the company balance sheet neutral. The shares were transferred for £1.00

To everyone's surprise, the new owners did nothing. Very few visits to Wales, no direction, no strategy and, crucially, no investment.

It only took three weeks for everything to go wrong.

I met one of the new owners on 1 March. It had snowed heavily in Wales overnight and I was concerned at the prospects of returning to England (the A470 on which I travelled was littered with abandoned vehicles and was closed later that afternoon).

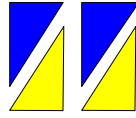
I did not have to worry – the business plan I was presented with did not require painstaking analysis. It fell apart under the most cursory examination. It was enough to determine that the new owner had no strategy and that the charge holder (who had asked me to review the business) should not advance one penny more.

Within five days my appointment as Joint Administrator (with Geoffrey Martin) had been made. Half an hour later a bailiff acting on behalf of HM Revenue & Customs attended the company's premises to complete distraint proceedings. We had been appointed in the nick of time.

The appointment was really a throwback, reminiscent of the "hostile" appointments of the 1980's and early 1990's when insolvency practitioners were thrown into situations with little time for planning to determine the optimum manner of realising assets.

On appointment my team and I found:-

- Another outstanding distraint, this one by the landlord
- Minimal stock or raw materials
- Production lines down due to the lack of materials
- The company on stop with virtually all of its key suppliers
- Angry customers demanding their orders
- Transport companies claiming liens



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- A very anxious workforce

It was, to say the least, an eye opener for the younger members of my team, brought up on extensive planning and pre-appointment strategy meetings.

No time for such niceties now and most of the next few days was spent with a telephone glued to each of our ears as accounts were opened with suppliers, orders sorted, potential buyers courted, creditors' pacified and staff reassured.

Finance company creditors were given the stark ultimatum of removing their goods, thereby writing off their value, or allowing the company in Administration to use them, free of charge, in an attempt to find a buyer for the business who might also take over the agreements and secure future income.

Some creditors were distraught, being owed huge sums (over £500,000 in some cases), a situation they allowed to develop in the mistaken belief that the original parent would underwrite all liabilities.

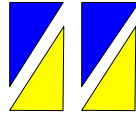
The sale of the company's business and assets too was fraught with problems. One of the main finance creditors made it clear they would refuse to deal with at least one of the potential purchasers. The holder of a Royalties licence were even more aggressive, effectively vetoing any entry into the industry.

The eventual purchasers were cautious too; their solicitors had not dealt with an insolvency practitioner before and were suspicious of everything I said, even when it helped them!

Eventually, six weeks after my appointment, a sale was concluded and I could sleep again, free from worrying about trading losses, discharging post appointment invoices, paying employees and collecting debts.

An old fashioned assignment successfully concluded – but I'm so glad that as a profession we have moved on!

Stephen Goderski



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Who are we?

The firm was formed in 1983 by Geoffrey Martin, who was until then a partner with Arthur Andersen. It now operates from offices in Leeds and London which collectively employ 5 partners and 30 staff.

We are business recovery professionals (the new term for what used to be called insolvency practitioners). We have no audit or corporate finance arms or associations and are solely dedicated to assisting companies, partnerships or individuals with financial or cash flow difficulties.

We would welcome the opportunity of working alongside you to provide bespoke solutions to the needs of your clients. These would not necessarily be formal insolvency procedures.

For further information, please contact:

*Geoffrey Martin
Stephen Hull
John Twizell*

*Stephen Goderski
James Sleight*

*Geoffrey Martin & Co
4th Floor, St Andrew House
119-121 The Headrow
Leeds
LS1 5JW*

*Geoffrey Martin & Co
7-8 Conduit Street
London
W1S 2XF*

Telephone 0113 244 5141

Fax: 0113 242 3851

www.geoffreymartin.co.uk

Telephone: 020 7495 1100

Fax: 020 7495 1144

www.geoffreymartin.co.uk