

Second Wind Cuts the Zeller's Balance Sheet by Nearly \$5MM

"After sinking \$20k into another consulting firm, we were frustrated and unsure who we could trust. Second Wind Consultants wasted no time making things happen, ensuring us we were in good hands."

-- Jim Zeller, CEO

Summary



The Zellers came to Second Wind Consultants ("SWC") with \$9,159,000 in debt spread across four companies operating in the commercial and retail tire industry. They attempted to remedy their unsupportable financial situation by selling off their companies, but discovered in the process that the sale price would not be sufficient to pay down the total balance of their financial obligations. Operations were grinding to a halt, and the partners were looking for a way to avoid losing their businesses through a formal liquidation process.

Liquidation would have proven the worst-case scenario for all parties involved. The Zellers would lose their family business, their employees would lose their jobs, and the banks would collect pennies on the dollar through public auction in an effort to mitigate their substantial losses.

Jim Zeller had been in the retail tire industry since 1969 and eventually partnered with his son David. Together they executed a plan to expand the company into commercial sales and tire retreading. In order to obtain the loans necessary to launch these new initiatives, they were required to provide “cross-guaranties” between all of their companies. This meant that each company was responsible for the other’s debt obligations; if something went wrong for one, it went wrong for all.

Despite the viability of their retail sector and a rosy outlook for retreading, the commercial side quickly drained the company’s capital. Vendor debts began piling up, and the Zellers acted swiftly. They soon found a buyer for the retail business and identified a group of parties interested in purchasing the commercial and retreading entities. They hoped they had averted their crisis.

Unfortunately, once they ran the numbers, it became evident that the money the Zellers would make from the sale of their four businesses was not enough to cover their combined debts. While the amount would have satisfied some of the bank debt, many secured obligations and vendor debts would remain. The possibility of collections, lawsuits and burned bridges was extremely worrisome for Jim and David.

At this point, all the Zellers wanted was an exit from both the retail and commercial operations, but the timing of the pending sales was extremely disruptive to their accounting department. As a last-ditch effort, the Zellers sought advice from a consulting firm whom they paid \$20k over the course of six months and received no results whatsoever. By the time the Zellers made contact with Second Wind, they were dubious about trusting another firm. The reality was that the bank had initiated the early stages of the liquidation process, which would have destroyed the entire enterprise, so they had to act quickly.



Business default typically creates an adversarial relationship between borrowers and lenders. SWC's involvement removes that adversity by working with all parties involved to create pragmatic and mutually beneficial solutions.

The fundamental concept is simple: if the business can be preserved, rather than shut down and liquidated, all parties will benefit.

SWC accomplishes this global benefit through a mechanism called a Uniform Commercial Code (UCC) Article 9 Sale. The Article 9 Sale is a form of asset sale conducted cooperatively between the bank and guarantor. Unlike in liquidation, this sale of business assets is conducted while a business is operational, rather than after it has shut down. Not only does this form of sale spare the bank the time and costs of liquidating used business assets at auction, but more importantly, it fully preserves the business operation itself, without interruption.

By result of the Article 9 Sale, debt is fully removed from the business operation. The defaulting borrower will continue to earn from the business, affording them the means to reasonably settle personal guaranties on debts removed from the business.



Second Wind began with an assessment of Zeller company financials for each of the four locations. After review and discussions with the Zellers, it was determined that two of the four locations were not viable business entities. SWC negotiated and collaborated with the creditors to close and liquidate those non-viable businesses.

Next, the SWC team put a reorganization plan in place for the remaining two viable operations. They reviewed the debt schedules for each business to corroborate the identity of the senior lender in order to determine who the reorganization plan would flow through.

SWC then found a buyer for the assets of these two viable businesses and engaged the first position lender to move forward with the Article 9 sale to separate the debt from the underlying business operation. Utilizing this process, the Zeller's remaining business' values and operations were preserved within a new, debt-free entity that would be both viable and financeable moving forward.

Furthermore, certain assets essential for daily operations were encumbered by Purchase Money Security Interests (PMSIs). These are seller-financed pieces of equipment that give the seller a super-priority lien on that particular asset. Under normal default situations, PMSI holders can either repossess the asset or demand a full cash repayment. SWC's process included these Purchase Money assets in the short sale, which provided a discount to the purchasing entity and an easy recovery for the PMSI lenders.

The client also owned commercial real estate in other holding companies out of which his businesses operated. Those properties had been leveraged by second and third mortgages for business operations, so SWC worked with the junior lien holders to release the property liens, leaving the first position mortgages in place.

Jim and David Zeller had personally guaranteed all of the business loans. SWC worked with each guarantor to determine the cost and strategies associated with personal guaranty settlements. Each guarantor came to their own conclusions regarding how they wanted to resolve their guaranties. One decided to have SWC settle the guaranties via a negotiated reduction of amounts owed; the other decided to file personal bankruptcy.

Results



With a clear roadmap in place, the Clients were able to close their non-profitable companies and reorganize the profitable ones in a way that avoided the trials of business bankruptcy. In total, nearly \$5MM was removed from the company balance sheet.

The debt-free, cash flow positive business would allow the Zellers to earn over the course of the debt-workout to provide for the ability to meet personal financial obligations as well as the settlement terms of all personal guaranties on defaulted loans made to the previous business entity.

Throughout the process, business operations remained uninterrupted, thereby shielding the company's distress and subsequent reorganization from public view.