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Business

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Bankruptcy

Chapter 11: 2nd chance for survival

As a general rule, there are few happy endings for companies entering bankruptcy. Of the roughly 16,000 companies that file under Chapter 11 of the federal bankruptcy code every year, only an estimated 5 to 10 percent survive.

Why? The companies involved face extraordinary debt often brought on by mismanagement. The reasons vary from the inability to respond to a changing marketplace to legal judgments awarded as a result of an accident or crime.

"Chapter 11 isn't for everybody, and the only thing it really affords is relief from your creditors and the time to put things back together again. There are no guarantees," said Joseph M. Fischer, a partner with the law firm Carson, Potts, Fischer & Hyman in Birmingham, which has specialized in bankruptcy proceedings since 1972.

"For a company in Chapter 11, it's not the end of the world, but they do have to prove to a judge that they are reorganizing and consolidating their debts, paying off what they can and gearing up to get back to normal."

Because restructuring often involves substantial risks, where deciphering a company's finances and plans for reemergence is akin to penetrating a legal jungle, those in trouble may opt to sell or liquidate assets, Fischer said.

Still, in the face of incredible odds, once-beleaguered businesses can come back from bankruptcy.

Chapter 11 offered Sharco Express and Uni Boring Co. a second chance. — *R.J. King*

Twelve months after filing for protection from creditors, Harry Brandt was able to announce a profitable first quarter for 1990 for Sharco Express.

JOHN DISCHER/staff photographer

Communication

Workers, customers need it

By R.J. King
special writer

At ease in his Livonia office, Sharco Express president Harry Brandt reflects on the war that nearly cost him his truck shipping business.

His enemy: a mound of debt that threatened to cripple the company.

Brandt's is a weary smile, but a smile nonetheless. Because 12 months after filing for protection from creditors — Chapter 11 of the federal bankruptcy law — the company announced a profitable first quarter for 1990.

"Our biggest nightmare was telling our customers that we were in a black hole of debt," Brandt said, recalling when he faced the realities of bankruptcy in April 1989.

"We had our monthly operating expenses that were four times what we could bear while at the same time there was no way we could afford to lose a single client. If there was even the slightest exodus, we would have had to close the door."

A FARMINGTON HILLS resident, Brandt started Sharco Express in Lansing in 1984. The company's primary business was shipping food products and automotive parts.

"We were rolling along pretty well up until 1988 when our (annual) revenues dropped from a peak of $4.5 million to $2 million. The industry was changing all around us, and the debt started to mount like a tidal wave almost overnight."

The problems Sharco Express faced, as did many others in the trucking business at the time, was a deregulation of the industry that allowed for more control by individual shippers and the opening of tightly restricted shipping lanes.

Coupled with the greater competition deregulation brought, an increase of accidents across the country spurred insurance companies to raise

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Quality service keeps premier client satisfied

Never have the stakes in a company's survival been higher. Facundo Bravo, president of Uni Boring Co., an automotive supplier in Livonia, faced the unenviable task of informing his employees of a payless payday.

With its market share plummeting and its credit all but dried up, the machine tool builder was $1.5 million in debt in 1984.

Surely something was bound to change, especially with Bravo holding a $40,000 check — more than enough to cover his payroll the next day. But relief was temporary when a message from the bank arrived: It would take five business days for the check to clear.

"I couldn't believe it," the Argentine-born Bravo said of the incident just days after the company had filed for protection under Chapter 11 of the federal bankruptcy law. "The check was from Ford Motor Co. Certainly they were good for the money."

Exasperated, Bravo stared blankly at the check, wondering what he was going to tell his employees, when he noticed the payment was drawn on a bank in northern Carolina. Would they honor it sooner?

A phone call brought a quick answer. If Bravo would send the check by next-day delivery, it would be cleared in less than two hours. The crisis was avoided.

But shoring up the company's cash flow was just one of the numerous problems Bravo faced during the two years and three months the company was under the supervision of a federal bankruptcy court.

'I treated bankruptcy as a war.'
— Facundo Bravo
Uni Boring Co.

THE MOST DAUNTING task was trying to revive a revenue loss of more than $2 million in three years.

"The worst part of the whole situation was when I took over the company in 1983. It was already going down the tubes, and the banks were ready to put the padlock on the door," said Bravo, who started with Uni Boring in 1976 as a machine operator.

"But the minute we went into Chapter 11 to try to reorganize the company, they walked away and financing was next to impossible."

FOUNDED IN 1969 by Anthony Kamin, the company made its start supplying parts to machine tool builders, earning profits for the first 10 years of its existence until stiff foreign competition and a colossal downturn of the auto industry erased much of the demand for components.

"Our customer base seemed to dry up overnight. We were making money but not enough to cover the back debt, and I really didn't find out how bad things were until the books were opened."

In 1981 the company was employing 45 and had revenues of more than $3 million. By 1983, the staff had been cut to eight

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Auto seat belt use could save business big bucks

By Gerald Frawley
staff writer

Buckle up, corporate America — car accidents are costing you money.

National safety belt awareness week (May 21-28) applies to businesses just as much as it applies to the individual, according to Pat Harrington of the Michigan Coalition for Safety Belt Use located in Pontiac.

"Automobile accidents cost employers $1.9 billion a year," Harrington said. Employee safety belt programs are low cost and can reduce insurance premiums, work loss and retraining, and auto accident costs associated with personal injury.

Lost production from worker absenteeism, wasted supervisor time spent in rescheduling, overtime pay and decreased productivity from a hurried staff trying to make up work for absent employee is also avoided, she said.

THE COALITION is currently holding seminars throughout the state, inviting small, medium and large corporations to attend. Speakers, including notables like GM chairman-elect Roger Stempel, explain the importance of corporate safety belt programs. Response to the seminars has been good, she said, but the coalition intends to continue making followup calls on companies through the summer.

Harrington said risk management and health consulting companies offer predesigned and customized programs for companies that need help setting up their own program. A list of such companies can be obtained from the coalition at 674-4661.

Jerry Graczyk, vice president for loss control at Consolidated Risk Management Services in Farmington Hills, said employee safety belt use programs have grown in popularity in recent years in large corporations, but haven't been as prevalent in medium and small companies.

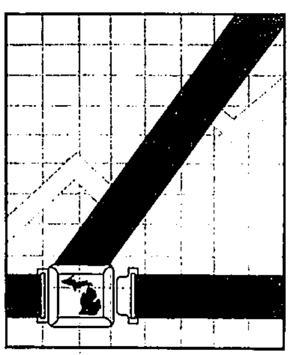
Large corporations have been able to run company programs, but small and medium-size companies haven't, he said.

Changing laws in the state, he continued, will make it a necessity. The Michigan Occupational Safety and Health Administration (MIOSHA) could make seat belt use mandatory for on-job workers as early as next year.

"That would make it a MIOSHA violation as well as a violation of state law." Graczyk said. Companies and employees could be fined for such violations.

Graczyk said employee safety belt programs include four components: the commitment, education, incentive/disincentive and evaluation phases.

IN THE COMMITMENT phase, top management personnel commit to and set overall direction and policies for the program, he said. "Unless the top people get it involved, it's not going to work." In the education or training phase, programs inform employees and management about the facts. Despite public awareness programs, there is still a need to dispel the numerous myths about safety belts.



"There's always someone with a second cousin that would have burned to death in a car fire," he said. The truth is, people are far safer with a safety belt than without, Graczyk said.

In the incentive phase, employees who show noticeable improvement should be rewarded. "We're not talking about one big reward for one person, but small rewards spread throughout the company."

More people would be encouraged to participate if they thought they had a good chance at a small reward, rather than a slim chance at a large award, he said. "It really does help."

Disincentives, or punishment for non-compliance, are also used. "It should be similar to punishments for other safety violations," he said.

The evaluation or followup phase, Graczyk said, would include a survey of program participants or even an observation by a manager in charge of the program, Harrington said. "He could stand in the parking lot before and after the sessions to gauge the results.

"YOU PROBABLY want to do a followup every three months or so after a program to see if it is effective in the long run," he said.

Employee safety-belt programs haven't been around long enough to quantify results, but early results indicate that 70 percent compliance is a reasonable expectation. "I think it's very reasonable — some of the larger companies have achieved as high as 100 percent."