

## CLIENT

A LEASING COMPANY THAT LEASED MAINFRAME COMPUTERS AND COMPONENTS TO FINANCIAL INSTITUTIONS, MANUFACTURERS, AND SERVICE FIRMS.

## COMPANY PROFILE

\$5 MILLION ANNUAL REVENUES

WEST MICHIGAN FAMILY OWNED ENTERPRISE

## CHALLENGE

CASH FLOW WAS NOTICEABLY ERODING DUE TO THE DETERIORATION OF RESIDUAL VALUE THAT AROSE FROM RAPIDLY ADVANCING TECHNOLOGICAL CHANGES. AS A RESULT, END OF LEASE SALES OF EQUIPMENT AT MARKET VALUE CAUSED CASH SHORTFALLS IN PAYING OFF BANK NOTES RELATING TO THOSE LEASED ITEMS AND REQUIRED ADDITIONAL BORROWINGS OR THE INABILITY TO PAY INVESTORS' NOTES.

## FINDINGS

IN SOME INSTANCES, DUPLICATE LOANS WERE OBTAINED ON THE SAME COLLATERAL, THEREBY WEAKENING THE SECURED POSITIONS OF CREDITORS. LEASE RATES HAD BEEN SEVERELY UNDERPRICED AS ESTIMATED RESIDUAL VALUES WERE THOUGHT TO BE HIGHER THAN WHAT WAS ACTUALLY BEING REALIZED. IN ADDITION, THE PRACTICES OF LEASE EXTENSIONS AND REMARKETING OF EQUIPMENT COMING OFF LEASES WERE NOT BEING OPTIMIZED.

## RESULTS

OPERATIONAL AUTHORITY OF THE COMPANY WAS ASSUMED BY A SECURED CREDITOR COMMITTEE WHO APPOINTED THE CONSULTANT TO OPERATE IT ON A DAY TO DAY BASIS. ALL UNNECESSARY OPERATIONAL AND INFRASTRUCTURE COSTS WERE ELIMINATED IN AN ORDERLY WIND DOWN STRATEGY THAT TOOK PLACE OVER A THREE YEAR PERIOD. WITH THE PARTICIPATION OF AN INDUSTRY EXPERT, LEASES WERE EXTENDED IN A CREATIVE MANNER. IN THE END, ALL BANKS WERE PAID IN FULL, SECURED CREDITORS RECOVERED ALL PRINCIPAL, AND UNSECURED CREDITORS RECEIVED A FIFTEEN PERCENT DIVIDEND.

### NOTES:

THE PREVIOUS CASE STUDY WAS DERIVED FROM ACTUAL ENGAGEMENTS IN WHICH LEVEL TEN PROFESSIONALS WERE ACTIVELY INVOLVED OVER THE COURSE OF THEIR CONSULTING CAREERS. THE LEVEL TEN PROFESSIONAL IS REFERRED TO AS "THE CONSULTANT". THE NAMES AND OTHER CONFIDENTIAL INFORMATION ARE NOT DISCLOSED.

