CORPORATE
TURNAROUND
ARTISTRY
I’ve won life’s lottery in family, and friends. I love each of you and am forever grateful for your gifts. Especially you, Alex – you’re amazing.

To all the capitalists who serve humanity. May we have the courage to ensure that capitalism continues to serve humanity.
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ABOUT THE AUTHOR

Jeff Sands is a corporate turnaround specialist who has devoted his career to saving businesses, jobs, and the communities they support. He grew up in a family manufacturing business and returned in his thirties to run, grow, fix, grow again, fix again, and eventually lose that business in the wake of Hurricane Katrina. Since then, Jeff has focused solely on saving other businesses and has developed a reputation as the best guy to call in the worst situations.

Jeff is a Certified Turnaround Practitioner (CTP) who was awarded a coveted TMA Turnaround of the Year Award in each of 2017, 2018, and 2019 and also the 2020 Turnaround Consultant of the Year by M&A Advisor. He consults select clients through Dorset Partners LLC (www.DorsetPartners.com) and pursues distressed industrial acquisitions through American Industrial Acquisition Corp. (www.AIAC.com).

He actively seeks distressed industrial acquisitions on a global basis and pays healthy finder fees for businesses with the following criteria:

- Peak revenues between $50 million and $500 million
- Broken income statement or balance sheet or both
• Liabilities assumed: environmental, pension, litigation, tax, etc.

• Seller reps and warranties: minimal

He is fully funded, can deliver a letter of intent in 7 days, and transact in under 30.

Jeff married his college sweetheart and they raised three wonderful and independent children. Despite being impatient and relentless, Jeff is the happiest guy on Earth.
FOREWORD

It’s about time....

At some point in your business career you will own, or work for, do business with, buy from, sell to, finance, or advise a business in drastic need of a turnaround. With virtually similar certainty you will prove to be unprepared for such a challenge. It doesn’t matter what college you graduated from or what company you rose within. You will lack knowledge of even the most rudimentary facets of how to deal with such a reality. In fact, you won’t know where to turn for help … until now. The business world needs this book, and Jeff Sands is uniquely qualified to deliver its message.

Perhaps your interest in business turnarounds is sparked by the hard reality that you presently find yourself engaged in one; or maybe you’re impressively proactive and wish to forever avoid the need for one (bravo!); or maybe you wish to become a turnaround artist yourself. Happily, in these pages you will learn from someone who has played each of these roles. Not only will you learn the broad concepts of various approaches, but you can literally compile a to-do
list for first-day activities, staff management, leadership, cash-preservation methods, strategy development, stakeholder relations … all of it. Best yet, these recommendations and the entertaining war stories that portray them, are offered up by someone who has been there, done that.

Although I am presently a professor of entrepreneurial practice at Syracuse University’s Whitman School of Management, teaching has been a comparatively recent vocation. In the 20-plus years prior, I co-founded and built a commercial finance company from the ground up. I unexpectedly crossed paths with Jeff Sands while trying to find an acquirer for one of my client firms. My client had just notified me that their remaining corporate life expectancy was measured in just days. I didn’t fancy having to don my executioner's outfit (initiating the process of shutting them down), and I personally liked the firm’s owner. So I resolved to help find a solution. After networking with regional professionals for just half a day, the name Jeff Sands repeatedly arose. Like many, I knew that turnaround operators existed, but I knew little of this exotic practice or their methods.

With great speed and skill, Jeff engaged with my troubled client, conducted as much due diligence as could be readily completed, and within days had obtained a strong working knowledge of the problems facing this struggling company. With the agreement of my firm to forebear (a concept you’ll soon learn more about) and my commitment to continue to provide funding, Jeff got to work. In the coming weeks and months, he achieved Herculean results by studiously following the very principles outlined in this book.
Some time later, after I entered academia, my administrators graciously encouraged me to create a course of my choosing. We quickly seized upon the topic of “Entrepreneurial Turnarounds.” My premise was that many struggling enterprises could be successfully revived through the application of entrepreneurial principles. Surely, I thought, there must be many such business school courses around the country. As I began the task of laying out the curriculum, I quickly realized that (1) there are precious few university courses that focus on this topic anywhere in the world, (2) there is no publication or book designed as a text for such a course, and (3) in fact, there are hardly any publications anywhere that truly deliver the how-tos of turning a business around.

Undaunted, I immediately sought Jeff’s opinions. He confirmed all my observations about the dearth of practical knowledge in this industry, and graciously agreed to assist me in course development. He sat for recorded interviews and provided supportive counsel throughout. Whether that experience helped form the genesis of this book, only its author knows. But I can tell you that this book stands alone among others on the industry bookshelf. Of course you can buy tomes written by famous industry titans that regale readers of their abundant wisdom as they embellish their exploits in their career’s singular turnaround of a large company. Of interest is that these very same leaders were supported by legions of consultants and strategists, and they rarely dirtied their hands with the actual heavy lifting needed in a turnaround. Unfortunately, to glean practicable and implementable knowledge to create similar magic for your enterprise, you’d need to read dozens of such books.
FOREWORD

Instead, Jeff Sands has written a how-to book with his sleeves rolled up and a decade of experience dripping from every fast-turning page. He takes real-world business concepts, some of them esoteric, and with a humorous flair, implants the seeds of knowledge throughout. Herewith an industry practitioner has written a book that delivers abundant education to everyone fortunate enough to turn its pages. You will come to realize that many businesses left to die could have enjoyed a better fate had their leaders proved smarter, or more aware of the task before them. Jeff correctly points out that the dearth of true instructional material on this topic is profound. In writing this book, he pulls back the curtain to enable readers to see the mechanics of how true turnaround professionals operate. In sharing his wisdom, we now have the chance to learn turnaround intricacies from a national-caliber, award-winning practitioner.

Regardless of the circumstance that has brought you to these pages, I promise you that this book and the knowledge it imparts will make you a better business person in innumerable ways. It may end up saving your business, enabling you to avoid future crisis, or developing a turnaround strategy “for a friend.” It may even, as it does each year with my students, cause you to contemplate a career as a turnaround professional saving the jobs and careers of many.

Kenneth P. Walsleben
Professor of Entrepreneurial Practice
Whitman School of Management
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The ideal audience for this book is me 18 years ago: suddenly caught in a turnaround situation, confused as hell, banks calling the shots in their weird cryptic tones that I didn’t understand, employees looking at me bug-eyed, silently pleading for leadership and a swarm of foreign pressures I never learned about in my MBA courses or the years of work life that had brought me to this place. By extension, this book is written for the entrepreneurs or CEOs who find themselves restless and unable to sleep at 2:00 a.m. trying to understand the world of insolvency, workouts, and turnarounds.

I’m hoping to contribute to the limited information that exists on the topic of corporate turnarounds. Ideally entrepreneurs would understand the downside of a business cycle before they wagered their home and their kid’s college education on a new business venture. In my practice I’ve found the psychology of leaders dealing with stress and crisis to be one of the greatest influences on success and failure though I feel it has been greatly underdiscussed in the existing literature. Similarly, commercial debt restructuring lacks discussion in the literature out there.
Why artistry? Because turnarounds would be doomed to failure by the numbers. The businesses are out of cash and have been drained of value, and yet somehow a good turnaround artist can consistently win the game with this lousy poker hand. It’s a game of speed, confidence, and building alliances.

Key Terms

The following terms are used frequently throughout this text.

**Collateral**  The assets that back a loan. This is the car in your car loan, the house in your home mortgage.

**CRO (chief restructuring officer)**  Similar to a turnaround consultant but with control. Some CROs may be actual employees and corporate officers, whereas others might be independent consultants filling that role.

**Insolvency versus bankruptcy**  Insolvency is being broke and unable to pay your bills. Bankruptcy is a very specific legal process administered by the Federal Bankruptcy Court. Lay people use the word *bankruptcy* to mean broke or out of business, whereas I use it only in the strict legal definition.

**Owner/entrepreneur/debtor/CEO**  I use these terms somewhat interchangeably to represent the individual dealing with financial distress. It is the lead person who is responsible for addressing these issues.

**Secured creditors**  Usually your secured creditor is your bank, as well as lenders who have liened your assets and can foreclose on those assets in the event of a default. Secured creditors have the legal right to kill a business quickly, unsecured creditors cannot.
Unsecured creditors  Generally vendors, people who are legitimately owed money but don’t have liens filed against your assets (they can’t foreclose on you).

Upside down  This term usually refers to a balance sheet when liabilities are greater than the value of assets. It’s another way of describing an insolvent balance sheet.

Zone of insolvency  A somewhat nebulous zone when a company cannot foreseeably pay its current and future bills, or when the company’s balance sheet has negative value (upside down). When a company slips into the zone of insolvency, the legal fiduciary obligation of corporate officers expands to include creditors in addition to shareholders and the corporation.

Disclaimer

All stories retold here are true, but details have been obscured to protect client confidentiality. Most stories are mine and I’m relaying firsthand experience. A few of the cases are repeats that I’ve heard from trusted friends, or perhaps an industry legend.

I am not an attorney. I am not offering legal advice. Consult a legal professional before you try any of this at home. Additionally, I am not a tax advisor and am not offering tax advice.
ACKNOWLEDGMENTS

Writing a book is a tremendous challenge and was made possible by the help of many friends and mentors. I wish to thank the Honorable Judge James Tancredi, Professor Ken Walsleben, Attorneys Peter Tamposi, Terry Kirwan, Joe Selinger, Kristin Wainwright, and Martin Nussbaum. Thanks also to my turnaround mentors and colleagues: Dave Sands, Van Lanier, Leonard Levie, Larry Small, Paul Fioravanti, Harrison Sangster, and Dave Cryer. And fellow authors: Bobby Guy, Mark Filippell, Drew Rozell, Jim Shein, Francis Ignatius Mortimer, Jonathan Friedland, James Sprayregen, and Carley Adler Nussbaum, each of whom provided invaluable guidance as I was trying to find my way through this endeavor.

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Chapter 1

Understanding Corporate Turnarounds
If stupidity got us into this mess then why can’t it get us out?
—Will Rogers

The U.S. Federal Bankruptcy Court in New Orleans would never be described as regal or stately. Instead of marble floors and ornate molding it held all the charm of a Soviet era department of motor vehicle office: pale fluorescent lighting washed the stale air, dingy yellowing cinderblock walls sweated with the morning’s dew. Metal chairs were lined up in orderly rows across the dead linoleum tile. A judge and her clerks worked behind two large wooden tables stacked high with files. It was just me and all the other losers assembled there that day to file personal Chapter 7 bankruptcy. I had a 780 credit score but that was about to tank because I’d personally guaranteed corporate debt on our family business prior to Hurricane Katrina and was now at rock bottom of society surrendering my assets to the court in exchange for a release of my debts.

Forty years of my life had led me to this low point. Our family home and neighborhood were wrecked in the storm, so my wife, our three young children, and I spent eight months living in a small camper in the driveway while we rebuilt the house on nights and weekends. My participation trophy was this day in court. I’d reached bottom and it was time to push off and rebuild, but I had few options; no corporation would hire a failed entrepreneur and I was dead broke without money to start or buy another business, and my credibility and confidence were both pretty well shot. Metaphorically I was naked and alone, picking myself up from the dust of my
own failure. Every bone in my body yearned for security and comfort, and I dreamed of a cushy corporate job at a cushy company far away from the chaotic and punitive nature of insolvency. Well, almost every bone in my body yearned for that security and comfort, a small upset part of me wanted to stay right there in the dirt and fight my way back, which is ultimately what I did.

In those brief moments when my mind was not racing with anxiety, I reflected back ... I’d played my cards wrong. I zigged when I should have zagged. The bank and its attorneys always seemed to know what was happening, but I rarely did. My corporate attorney didn’t understand insolvency, whereas my bankruptcy attorney was a one-trick pony who only knew how to file bankruptcy. I’d been a checkers player trapped in a game of chess.

I’m a godawful loser, so I began to obsess about what could have been. I gave up hobbies and casual reading and churned through every book and article I could find on the topics of insolvency. I re-read all my college finance and accounting textbooks and obsessively relived the last five years of my life which had led me to this gut-wrenching failure. I sought out corporate turnaround pros and befriended them. I talked my way into interviews with most of the major East Coast restructuring firms, I helped friends with their challenged businesses and took a terrible job with a distressed art company just to get back in the arena (plus I desperately needed a paycheck). Eventually, my father gave me the boost of confidence I needed to launch my own consulting business focused strictly on corporate turnarounds. Five lean months
later I landed my first real assignment, a Detroit machining company whose sales had dropped 90% in nine months. The bank was hostile and moving aggressively toward liquidation, and the owner was leaving for three months of intensive cancer treatments. I hit that place with a vengeance and dug in for the battle of my life. For the creditors we were just another Detroit business going down the tubes in 2009, but for me and 80 families it was personal; this was the rematch I’d been obsessing over for years. I went straight for the jugular, every jugular, and they went straight for mine. I was there to save 80 jobs, but I was also there for vengeance, and this heartless, bureaucratic banker was merely a proxy for the heartless, bureaucratic bankers I had to deal with in my own insolvent company. I was punching through targets trying to reach back and alter history. It was a street fight, but it worked. We turned profitable in month two and stayed that way. The business healed me as much as I healed it and I left Detroit with a calm confidence that I hadn’t known in a very long time.

For 18 years now, I’ve worked exclusively in distressed businesses, five on my heels as an outgunned, stressed-out entrepreneur, and the last 13 on my toes as a corporate turnaround specialist helping entrepreneurs keep their businesses, wealth, and dignity intact. This book is written for the beleaguered entrepreneur that I once was and all the ones I hope to help over the rest of my career. This is the book I should have read before I first personally guaranteed corporate debt. It’s a complete primer on fighting your way out of corporate distress, saving jobs, fortunes, and the communities they support.
Turnarounds versus Corporate Change

In my MBA program, we studied corporate change agents, the people who initiated and championed change in big corporations – you know, the crowd celebrated in pop management literature. But this is as deep as our study went: heroic characters like the team who launched Post-it Notes off 3M’s massive and stable balance sheet. We never touched on insolvency or distress and we darn sure didn’t discuss personal guarantees and debt collection. It’s as if we studied life without ever considering illness and death.

Despite this failing in education, everyone pretty much knows that corporate turnarounds happen and are generally a good, though uncomfortable, thing. Turnaround is an imprecise term in corporate parlance. Sales managers claim a turnaround when they increase the top line. Presidents and general managers claim a turnaround when they produce significantly better profits and CEOs when they produce a significantly stronger balance sheet. Most mainstream business books and magazines have a loose definition of turnarounds ranging from banal change to trauma surgery, each associated with symptoms of decline.

Turnarounds are often like a corporate illness; sometimes a person or business just gets a bit of malaise and they need a little pick-me-up to regain focus and motivation. Sometimes the underlying issues are more serious, like flattening sales, where we just need to get the top line growing again. Turnarounds get interesting as the problems stack up; combine your malaise and softening sales with growing overhead.
Throw in margin compression and factory bottlenecks and you start needing some real turnaround expertise. The problem here is that the entrepreneur or CEO has probably never been through this before and probably doesn’t really understand the balance sheet as well as they should (I didn’t). So, the CEO bravely tinkers with the business but doesn’t move out ahead of the problems.

But imagine that, as a CEO, you’ve persevered in maintaining your entrepreneurial optimism and remained convinced that the angel of good fortune will return to you as she had at other critical times in the past. But this time she’s late and you just lost a key employee, customers have taken you off the bid list, and vendors are shutting you off. This is when you are sliding on ice, turning the wheel of your car, pumping the brakes but not changing the business’s dangerous trajectory.

At some point, you’ll trip one of the financial covenants in your loan agreement, which means it’s very late in the game, because these are backward-looking formulas. The game-changer is tripping the approximately 1.2 minimum debt service coverage ratio, which is a trailing 12-month calculation, so it’s old news by the time you trip it. When this happens, you’ll be called to the carpet at your friendly neighborhood bank. This is an awful experience, but in reality, it is great news because you now have concerned and committed partners focused on your business. They exert all sorts of pressure and may hand you the name of a turnaround consultant. Because they are a bank, the consultant they recommend will likely be a vetted and experienced professional who they trust in situations like yours.
You will suspect this person is an agent for the lender and working counter to your interests; it’s only natural to have that suspicion. I’ve found that most turnaround specialists are more like surgeons – trusted professionals who are fully committed to your long-term survival, regardless of your personality or how much near-term pain you’ll have to endure.

The worst crisis situations require a special breed of turnaround pro, someone with a perverse love of the challenge and a deep emotional commitment to their work (a grudge from prior failure helps). Imagine you’ve got all the troubles we’ve previously discussed and then federal agents raid the facility. Customers scatter, the lender calls the loan, the union is unpaid, the IRS is foreclosing, 401k trust funds are missing, your accounting is a disaster, and vendors all hold you hostage. There are actually people who can’t stop smiling when they get to fix these disasters. The higher the flames the happier they are walking in the front door.

This book discusses the techniques, tactics, and strategies deployed in the most pressing turnaround situations because a good crisis amplifies issues and brings about clarity. Collecting receivables more quickly is interesting in a huge corporation because you’re saving a few days of interest on the receivable balance. Failing to collect sooner has zero downside risk. Collecting receivables in a crisis might keep the lights on while your downside risk is oblivion. When the utility shut-off crew shows up in your parking lot you only have one option, you must write them a check on the spot – and then run to find the cash to fund that check within the next