

CLIFF BEACHAM

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Loadlifters (Pty) Ltd

Cliff was the auditor of this private company. The law at that time allowed an auditor to perform accounting work for a private company (provided all the shareholders agreed to this challenge to independence in writing).

The situation:

- a. The company was transporting steel from the Republic of South Africa to destinations in Namibia.
- b. They started with two trucks and expanded to 7 trucks within 2 years.
- c. Joan, the managing director, called Cliff and said, "You're going to hate me but I have just purchased another 12 trucks." Cliff advised that this would put them into a dangerously leveraged situation.
- d. Inevitably, the company got into a Cashflow problem and found itself unable to meet their obligations. They declared bankruptcy with the stinger that the shareholders had guaranteed the lease agreements personally and so were 'on the hook' for the balances outstanding.

What Cliff did:

The priority was to protect the shareholders. Cliff negotiated on their behalf and made agreements with the leasing companies to hold off while the company attempted to find a buyer that would take over the trucks and leases. This was done and then the problem arose to negotiate settlement amounts such that a win-win was achieved for all parties. The asset that was realizable was the tax losses that had been incurred by the company. Cliff arranged an 'Offer of Compromise' takeover that resulted in the NOLs being utilizable by the buyers and the release of the shareholders from their liabilities.

Lessons learned

Some of the lessons Cliff learned from this appointment were:

- Be very forceful with your clients. In this case the situation was handled correctly and the clients were strongly warned. Unfortunately clients do not always listen and then all you can do is stand by and help with the pieces of what is left.
- Sticking with your clients is very satisfying and they really appreciate your efforts when they are in trouble (A friend in need!)
- Financial risk is insidious but very strong

Results achieved included:

- The clients/shareholders were able to survive the ordeal and lived to 'fight another day'