



FACT SHEET

Umorni Company, candidate for reorganization
For the seminar for bankruptcy trustees, *October 2005*

All data is given as of the date of the filing of the petition to open a bankruptcy case.

Umorni Company is a state-owned business entity. Several of its creditors filed a petition to open a bankruptcy case and the case was opened. The debtor's managers are contemplating the filing of a plan of reorganization. They are negotiating with several creditors and a possible investor.

Umorni Company manufactured metal parts at two locations in Sarajevo and Banja Luka, BiH. It owns the real estate and plant at both locations; its headquarters is in Sarajevo. It also owns parcel of undeveloped real estate next to its headquarters. Since the independence of BiH, it has lost 90 percent of its business in the former Yugoslavia. It has the possibility of developing new business *in Germany and* several of the new member states of the EU, and has several prospective customers there. Because lower wage scales in BiH may permit Umorni Corp. to offer a competitive price, these new customers might enter longer-term supply contracts. However, they want the assurance that Umorni Company's creditors will not be able to shut it down.

Umorni Company's managers have prepared a preliminary business plan. The plan includes abandoning certain product lines, and concentrating on other existing product lines for these new markets. Some of its machinery is specialized for the lines that they expect to abandon. They think that Umorni Company can meet expanded production with the rest of its existing equipment, which it has not used to full capacity for years due to the lack of customers and operating capital. Much of this machinery is getting older but with ongoing maintenance it will keep operating. *The managers have also identified the raw materials that will be necessary to meet the needs of the potential new customers, and the sources of supply and pricing for them.*

Umorni Company has operated at a loss of 1.5 million KM/year for two years. This led to it not being able to pay its employees' wages and associated obligations for *the five months* preceding its bankruptcy filing. (It has a total of 170 employees, 100 at its larger plant in Banja Luka and 70 at its plant and headquarters in Sarajevo.) It also fell into arrears on its obligations to its suppliers, *on some expenses of daily operation*, and on payment of taxes. *Some of the debts to suppliers are old, going back to obsolete product lines that will now be discontinued.* It has kept current on one of its secured bank loans. It is in arrears on three other bank loans. Its employees have obtained a judgment for their past-due wages but they have not commenced an enforcement procedure or obtained any security for their judgment. The Social Funds have claims for the unmatured obligations associated with these unpaid wages.

45 days before the date of the bankruptcy petition, the state made an assessment for the unpaid taxes. It did not register a notice of lien by the date of the filing. **[NOTE: REMAINDER OF THIS PARAGRAPH DELETED.]**

Srec'ko Company, Umorni Company's main *raw materials* supplier, values Umorni Company as a customer, and wants to see it remain in business. It was not paid on its last six deliveries to Umorni Company. However, seeing a large potential in Umorni Company's plans to expand into new markets, Srec'ko Company is willing to make significant concessions on its claim to get the benefit of future sales of raw material to Umorni Company.

Gundjelo Company is Umorni Company's main customer. Before the bankruptcy filing Gundjelo Company alleged that Umorni Company's failure to deliver on an order caused it to lose a profitable contract with one of its own larger customers. It obtained a judgment against Umorni Company on this claim, in the amount of 300,000 KM. Gundjelo Company filed a proof of this claim and no party objected to it. Because Umorni Company has been its main supplier and was almost always able to deliver product quickly at a favorable price, Gundjelo Company's executive director thinks that he can convince his governing board to make significant concessions on its claim. He is sure that Gundjelo Company's board will require an assurance that Umorni Company will survive bankruptcy and will continue to deliver its products.

Twenty unsecured trade claims, totalling about 510,000 KM, have been filed against Umorni Company. These unsecured claims include ***the following***: a claim ***by Elektroprivreda Utility*** for past-due charges for utility service to the plants (***about 230,000 KM***); ***claims from trade suppliers that will provide materials for the future product lines (total 120,000 KM)***; ***claims from trade suppliers that the debtor's management will not to do business with in the future (total 150,000 KM)***; and ***ten holders of very small claims (for office supplies, water for the cooler in the company headquarters, etc.), none of which are larger than 1,000 KM and which total less than 10,000 KM. The holders of these ten small claims would continue to do business with the debtor or its successor, though not all of their goods and services are essential to an operation that would produce the new product lines.*** No party objected to ***any of*** these ***unsecured*** claims.

Mr. Sposko Spasic' of Zenica, BiH, used to manage a similar operation for one of Umorni Company's competitors, but he lost his job when his employer went into liquidation in bankruptcy. He wants to get back into this line of work. He thinks that Umorni Company has significant potential for expansion. He ***thinks he can*** obtain 450,000 KM to enable him to buy into such a business in BiH. ***Part of this will come from his relatives in Germany and he has applied for a bank loan for the rest.***

Spasic' has consulted with Umorni Company's current managers about future business prospects. They have identified current contracts that can be completed after reorganization. They also have information about the new contracts that Spasic' thinks he can obtain for a reorganized and stable enterprise.

DEBTOR'S ASSET STRUCTURE

VALUES IN KM, on basis of:	Going concern	Liquidation
Real estate, three different parcels:		
#1 Plant #1 (Banja Luka)	1,000,000	300,000
#2 Plant #2 and offices (Sarajevo)	700,000	200,000
#3 Undeveloped, next to #2	300,000	150,000
Machinery and equipment, at #1 and #2 (total)		
Machinery for lines to be abandoned	150,000	50,000
Machinery for continuing production	250,000	85,000
Accounts receivable, all against bankrupt customers		[negligible value]

DEBTOR'S DEBT STRUCTURE

AMOUNTS IN KM:

Debt held by creditors with right of separate settlement/security:		
Bank A First priority lien against R.E. parcel #1		700,000
Bank B Second priority lien against R.E. parcel #1		600,000
Bank C Lien against R.E. Parcel #2		150,000
Bank D Lien against machinery and equipment		225,000
Unsecured claims:		
Employees: judgment for unpaid wages		425,000
Employees: Social Fund claims		200,000
Trade supplier Srec'ko Company		300,000
Dissatisfied trade customer Gundjelo Company		300,000
Assessed taxes		70,000
Trade claimants with whom Spasic' will continue business		120,000
Trade claimants with whom Spasic' will no longer do business [including Supplier Company G, claim of 30,000 KM]		150,000
Ten <i>very small</i> trade claims (total)		< 10,000
Social Funds		178,500