



Richard Andersen at Ajax Electronics & Logistics (A)

By Andrew C. Hafenbrack¹

With his heart noticeably pounding, Ajax Electronics & Logistics' CEO Richard Andersen speed-walked to a taxicab and slid into the back seat. Jim Lancefield, his longtime friend and CFO, got in on the other side, still sleepy eyed from their late-night strategy session. They were on their way to a meeting to close the buyout of Ajax's Joint Venture partner's 49% stake and they had not raised the financing they needed to continue operations. They had been up late the night before trying to produce a plan B but to no avail and they both felt a sense of impending doom. Richard had been working on buying out this stake ever since the relationship with the original joint venture partner had begun to deteriorate two years prior. The acquisition of the joint venture partner by a rival industry player had further delayed and complicated the negotiations to take over the company. Now that the acquisition had been completed, Richard had restarted talks with the new owners about the terms that he needed to move forward and had settled on a transaction. They would arrive just in time for a meeting where both sides expected the agreements to be signed. Richard hit the redial button on his cell phone and called his banker for the 10th time since he woke up that morning. Ralph finally answered.

Ralph picked up: "Hello?"

Richard responded: "Hey. We're about to go into the closing. Any news on the funding we need? Without it, I can't close the deal!"

Ralph: "What do you mean you can't close the deal?"

¹ This case was prepared by Andrew C. Hafenbrack, University of Washington Foster School of Business Associate Professor of Management & Organization, for the sole purpose of aiding classroom instructors. Funding for the development of this case was provided by the Consulting and Business Development Center, Ascend, and the Foster School of Business. This case was introduced at the Ascend National Cohort at the University of Washington Foster School of Business in Seattle in January 2024. This case was developed as the basis of class discussion. It is not meant to serve as an endorsement, source of primary data, or illustration of effective or ineffective management. This case is free to use in the classroom, but please email ahaf@uw.edu to let him know that you are using it because we want to keep track of its reach.

Richard: “We won’t have the capital to close the deal and continue operations. They are not going to give me their stock for free.”

Ralph: “Richard, don’t worry! God’s got you!”

Richard: “Right! I don’t see how this is gonna work if we don’t have the money at this meeting.”

Richard hung up the call and let Rafael’s words sink in. It had been a long road getting to this point. He took a deep breath and gathered himself as the taxi pulled in front of his new joint venture partner’s headquarters.

Early Career

Richard Andersen was a “child of the South”, having been born and raised in a rural area of Mississippi in the 50s. His family migrated to Detroit, where he finished High School. After serving three years in the Marine Corps, he found himself in Seattle; enrolled at the University of Washington’s school of business. He was in his early twenties, alone and a continent away from family. Yet, he graduated with a bachelor’s degree in business administration in 1975 and an MBA in 1977. He would boast about the school that was home to him and looks back fondly at his time as a student:

I didn’t expect to have as much care and support as I did at the University of Washington. For example, you might be able to hear a little of it when I talk, I was an adult stutterer. I recall going to my academic advisor in desperation and saying, “I’m getting an MBA, but I can’t talk!” She made a call to someone that she knew over at the medical school. Then that person put me in contact with a PhD student who was doing doctoral work on speech pathologies. And for the next year and half, I became that student’s project and a case study for his PhD dissertation. And in the process, I learned to talk without a stutter, an almost unheard-of result for an adult. I left U of W in 1977 with confidence, grateful, believing in myself and expecting to do well.

As he finished his MBA, Richard was immediately recruited by Ford Motor Company to join their highly regarded finance group at their headquarters in Detroit. While at Ford Motor, he worked in the Controller’s office of their Lincoln Mercury Division. This was the type of job many MBAs would have loved to have coming out of school. The size and sophistication of this company was impressive – internal financial calculations were rounded to the nearest 10th and that 10th represented \$100,000 (\$559,182.16 in 2024 dollars). It was exhilarating on the occasions that he was called over to the ‘Glass House’ - Ford’s Global Headquarters building - to present a case or analysis to executives steeped in organizational processes developed by the famous ‘Whiz Kids’ who were air force veterans from World War II, known for their progressive and innovative financial methodologies. However, he quickly realized that, overall, he did not

like the job, which he described as “we put out a 50-page executive report once a month and I was responsible for one page in it.” It just was not enough.

It didn't take long for him to leave Ford in order to transition into banking, where he worked for more than ten years across several firms. Initially at Citibank and then Seattle First National Bank where he rose quickly to become Vice President of Senior Lending. He later joined the Investment Banking Group (the rage of the 80s) as a Vice President at Bank of Boston in Boston, MA.

While he found banking to be rewarding and “a lot of fun”, Richard was persuaded to join a Boston based private equity firm with a portfolio of Radio and Television properties and the first Black owned sports franchise². The firm made him an offer to become their Vice president and CFO with the promise of becoming the firms' president (he was 39 years old), an offer that was very compelling. As CFO, Richard helped to negotiate a \$100 million dollar leveraged buyout fund with Drexel Burnham. But as they waited for the first installment of the proceeds that would fund their operations. The firm's chairman asked Richard:

“Can you arrange for us to get a working capital line until this thing is funded?”

Richard agreed and set about making arrangements with his former bank. They knew and trusted Richard and agreed to give him a bridge line of credit. But something, an instinct told Richard, “Go check the collateral!” So, he did. He called up the attorney and said he wanted to come over and see the collateral himself. The attorney replied, “What collateral? No, no... you can't do that. That stock is already pledged in another deal.”

Years later, Richard recalls: “I literally went back to the office, packed up my computer, and walked out the door. No job prospects in sight, no place to go; I just left. I was so shaken by the closeness of the legal jeopardy that I had almost stepped in!” That affront to him would become a long-term reminder of an absolute commitment to integrity in his dealings with others.

Richard found himself without a job and rather than return to banking he decided to try his hand at freelance consulting. He found that he was able to feed his family, pay his bills and maintain his living expenses. “I never looked back. That was when I became an entrepreneur”. He bought his first company a couple years later, an automotive industry MRO (Maintenance, Repair, and Operations) supply company with revenues of \$13.0 million (in 1991). He raised the capital by selling a 35% equity stake for \$400,000 and using his banking contacts to arrange for a \$2.5 million line of credit. Revenues fell in the first year by nearly \$6 million. While he was able to replace the lost business, he did so at lower margins. Not able to sustain the business, he finally

² See <https://www.encyclopedia.com/education/news-wires-white-papers-and-books/lee-bertram-m-sr-1939-2003>

closed the doors two years later and moved on; making sure that all his creditors were made whole. “I could have worked harder on that one,” he admits.

He went back to freelance consulting and landed at a small private equity fund in Detroit as the fund’s managing director and director of operations. This fund was arranged by a tight group of wealthy entrepreneurs, including a couple of prominent athletes. He led that group for seven years. This is where he began to develop a reputation for creating value with financial leverage and gained experience as an operating executive. The experience and range of transactions was broad: acquiring automobile dealerships, printing franchises, direct marketing companies, and entertainment businesses. In one case, they even licensed a well-known jewelry brand that was owned by Playboy magazine and set up operations in Providence, Rhode Island to support it.

It was during this time that Richard was introduced to the world of electronics manufacturing services³ and launched a start-up electronic manufacturing services company by acquiring manufacturing assets in a bankruptcy sale (2001). It was also during this time that he met Binny Jind, the owner and CEO of Compass International.

The Joint Venture Partner Experience

Richard joined Compass International in early 2004. The company was a mid-sized middle market Canadian company with operations throughout North America and contracts in Europe. This company had two divisions: a manufacturing division focused on electronic contract manufacturing, assembling printed circuit boards and electronic modules, and a Supply-Chain Logistics division. Richard’s initial goal was to acquire their electronics manufacturing division and he immersed himself in the details of the operations. At the time, he was still trying to find other deals to buy and grow but struggled to develop traction as a stand-alone “deal-guy” and after a year or so, the company asked Richard to come aboard and he said yes, joining as Vice President Global Sales and Marketing in late 2005.

Compass International had built a unique offering in their logistics division performing sophisticated “inbound to plant” Vendor Managed Inventory Solutions for highly demanding automotive original equipment manufacturing companies. This development was fueled by the industry’s gradual adoption of production materials “Just In Time” (JIT) systems pioneered by Toyota and other Asian manufacturers. The concept required disciplined operations and systems resulting in having as little inventory in the plant as necessary to support current production without interruptions or “line down” occurrences. This required automotive suppliers to warehouse production materials in nearby locations and then “flow” requirements into the plant based upon production forecasts. This early approach reduced overall costs by lowering working

³ Electronics manufacturing services (EMS) is a term used for companies that design, manufacture, test, distribute, and provide return/repair services for electronic components and assemblies for original equipment manufacturers (OEMs). The concept is also referred to as electronics contract manufacturing (ECM)

capital requirements by freeing up investment in inventory and by reallocating plant space to revenue producing operations. The industry basically had pushed the inventory investment back onto suppliers like Compass (increasing the financial risk to suppliers, resulting in higher margins).

Compass International was certified as a qualified Minority Business Enterprise (MBE). This designation is like federal Set-asides Programs of the 80s and 90s, a form of affirmative action in which a percentage of government contracts or funds are designated for minority-owned business. This practice was put into law by the US Congress in 1977 when they codified that 10% of federal public works funds must go towards minority-owned businesses, defined as a company where at least 51% of the ownership is held by African Americans, Hispanic Americans, Asian Americans (excluding Japanese), or Native Americans. Large companies in the private sector soon followed suit, *setting aside* a certain percentage of their procurement dollars for so-called “minority solutions” companies. Certainly, much has changed in the years since these programs were adopted as the mood of the country continues to shift regarding such practices.

In December of 2006, the owner of the company, Binny Jind, sold the company for 1.5X revenues (\$50 million) to UTi Worldwide Integrated Logistics, a large publicly traded global freight forwarding company with about \$3.3 billion in revenue at the time. The sale made void Compass’s MBE status, which immediately became an issue for many of its automotive clients with programs targeting MBE certified companies.

The Offer of a Lifetime

Within months of the sale, Binny called Richard at home one evening and said he needed a favor. Binny wanted Richard, an African American, to resign from his position with them and launch his own company, then come back with his new company to form a new Joint Venture with Compass International (now a subsidiary of UTi). He wanted to have a minority solution that wasn’t questionable as he was not comfortable with the minority solution that the new parent company offered. “I’m not sure how real it is,” Binny said, “I know you and I trust that you will do it the right way.”

At this point, Richard had found success as a member of the Compass team. His reputation and experience had led to immediate revenue gains for Compass. He felt that he had finally found his place and was not anxious to start another business venture. So, he initially declined the offer. However, after much persuasion and based on the trust he had with this team, he eventually accepted Binny’s offer. He resigned from his position, founded Ajax Electronics and Logistics, and in early 2007 he and Binny formed Ajax, with Compass International as Richard’s joint venture partner. He and Binny ensured the joint venture’s legitimacy by crafting an operating agreement that would pass scrutiny and give real control to the minority partner. Separate facilities were established. Systems and support were licensed with Richard having ultimate

control of operations and profit distributions. Richard subcontracted 500 square feet of warehouse space with his first contract, a small JIT sorting and inspecting contract for a Korean Tier one supplier in Belleville, Michigan. He invested his own money and got a personal loan for the equity for the start-up. As they were expecting to do business with large automotive clients, Binny and Richard ensured that the new business would be vetted by the local certifying council as a “Highly Visible MBE”. Often minority-owned businesses are set-up in such a way to make the affiliated company look good, rather than creating meaningful entities that are owned and run by people of color. In the words of Richard’s VP of Sales at the time,

“Personally, until meeting Richard I had only seen this in words (not actions), as many small businesses choose to make money at all costs first over ethics, even though they say otherwise.”

Ajax Electronics and Logistics, LLC

The logistics industry is highly fractured with many competitors across a broad spectrum of revenue levels. At the higher end were companies with revenues of more than \$25 billion dollars (i.e. DHL, FedEx, Ceva Logistics etc....), but many smaller companies with compelling offers competed with them. In 2009 UTi ranked 22nd at about \$3.0 billion among “Third Party Logistics companies (3PLs) in North America.

It was this fractured nature of the industry that Richard felt would give him the ability to compete. With very little legacy costs (HR, systems, and facilities) he could offer very competitive pricing from a financial strategy perspective. So, in the face of one of the biggest economic downturns in U.S. history, Richard launched Ajax operations in September 2007 with two customers. He was right – their first quarter of operations, which ended January 31, 2008, the company had \$875,000 in revenue. By January 31, 2011, they were at \$27.5 million.

Financial exhibit 1

INCOME STATEMENT				
	Year Ended	Year Ended	Year Ended	Year Ended
	January 31, 2008	January 31, 2009	January 31, 2010	January 31, 2011
BILLINGS	875,870	3,225,908	12,795,029	27,461,896
Korea Program Raw Material & Freight	-	-	4,919,391	16,355,318
INTERCOMPANY COSTS (Sub- Contract)	42,896	517,601	1,932,517	1,701,149
NET REVENUE	832,973	2,708,306	5,943,121	9,405,429
Operating Costs	879,627	2,484,608	4,991,322	7,356,535
Site Contribution Margin	(46,653)	223,698	951,799	2,048,894
Lease Interest (3rd Party Capital Leases)	2,400	6,630	149,570	130,097
UTi Support Charges	98,000	330,763	847,347	919,752
Net Profit before Taxes	(147,054)	(113,695)	(45,117)	999,044

Ajax launched a company defining strategy of pursuing Tier One suppliers solely in the automotive industry. Tier One status was assigned to those sub-suppliers that were contracted by the automotive original equipment manufacturing (OEM) company to provide production materials directly to their assembly plants; Tier Two companies provided materials into the Tier Ones' and so on down the supply chain. Richard chose to market to Tier One suppliers rather than direct to OEMs because he knew that the costs of quality assurance and project management costs to OEMs were much higher. Also, the risks associated with their volatile production schedules and the OEM's preference for variable volume pricing was too risky for his small business. Such pricing mechanisms gave the appearance of profitability on the upside but did not provide for Ajax's costs recovery if the projected volumes didn't materialize (which in his experience was often the case). His value proposition coupled with his experience with the language and discipline of manufacturing, with the complex requirement of supporting the sophisticated logistics requirements of a manufacturing plant gave his company a competitive advantage.

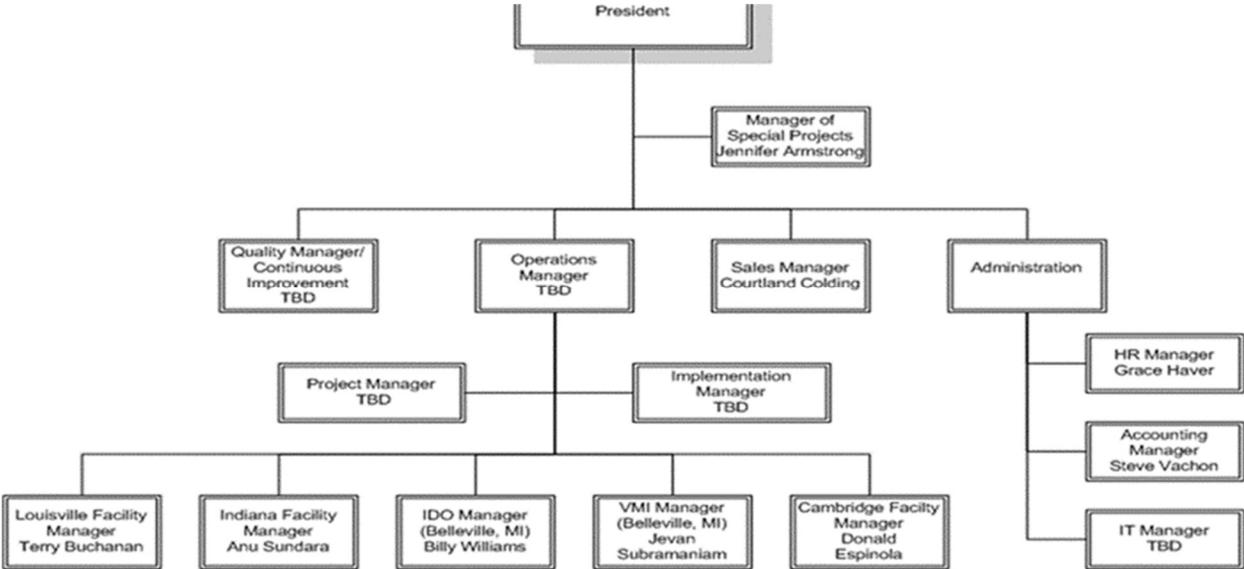
In mid-2007 Ajax won its second program with a contract with Kautex Textron, a Mercedes Benz Tier One supplier manufacturing polyethylene gas tanks for Mercedes' Vance AL manufacturing plant. The contract required a 6-month lead time for the launch of a new facility with dedicated staffing for operations and the implementation of a new materials sequencing software system which was a level of Information Technology (IT) Solutions that Compass-International did not have. Such software enabled Ajax to "sequence" material in-bound to the plant in an order that matched the unique features of the finished vehicles in the order being built on the assembly line. Richard believed that this new sequencing process was the next step in the evolution of Just in Time inventory management and would be important for Ajax's future. His friends on the Compass-International team vigorously supported the Joint Venture with Richard in what soon became a successful "flawless" launch.

During these years of rapid growth, Ajax leveraged Compass International's reputation for quality and performance as its own. The company began to win contracts in both Electronics Manufacturing and Supply-chain logistics divisions.

Following is a chronology of new business growth in the first 9 quarters of Ajax operations:

DATE	EVENT	NOTABLE ITEMS
Year end 2006	Partner loses MBE Status	Substantial impact to Customer portfolio
Feb 2007	Ajax formed	Primary purpose is to hold MBE ownership of JV
March 2007	Joint Venture formed	Vetted under SEC/MBE high profile guidelines
April 2007	Vance AL-Kautex/Mercedes	Requirement for MBE Solution
June 2007	Independent Leases Admin/Services Agreements	Formulize Joint Venture Model
July 2007	MMBDC Application	High Visibility Application
Sept. 2007	Launched Operations North America Headqtrs	Existing Customer (Woory)
Sept 2008	Louisville, KY-Delphi-Nissan/Toyota/Ford	Valued added services (ILVS-Sequencing)
Jan 2009	Markham, ON-Delphi (EMS)	Electronic Manufacturing
Feb 2009	Laird Technologies	Existing Customer-Distribution Services
May 2009	Plainfield IN-Delphi	Outbound Distribution Services
Feb 2009	Huntsville, AL Continental	Existing Customer –Dunnage Management
April 2009	Ajax	Received Delphi Pinnacle Award
June 2009	Cambridge ON Delphi/Ford/Toyota	
Sept 2009	Belleville MI FORD IDO	Integrated Solutions
Sept 2009	Louisville, KY-Delphi-Toyota	Additional ILVS services

Sales cycles in the industry are often long (9-18 months) and highly involved. There are usually several bidding rounds as potential suppliers are short-listed; then follow-up site visits and quality/technical or financial reviews occur prior to an award. Post awards activities include Pre-production approval (in the case of electronics) and Statement of Work reviews. All this was in addition to the contract negotiations and agreements around risk sharing and payment terms. This required minimal staffing at Ajax’s launch and by the end of 2009 Ajax had 129 team members and managed about 360,000 sq ft of warehouse space across 4 sites. Below is the company’s management organization after the launch of four facilities by the beginning of 2010.



Separate Paths

By mid-2010 Richard noticed troubling signs in the relationship as UTi became an industry “acquisition target” due to its struggling performance and questionable management decisions. There was substantial turnover in the leadership at UTi in the wake of intense territorial disputes, as the absence of a cohesive integration plan for UTi’s aggressive acquisition strategy began to show. Friends and associates who had been part of the formation and development of the joint venture had left. Binny announced his retirement and many of Richard's associates were moving on as well. The next two years were tumultuous as individuals vacated senior positions and others vied for positions in the new order. Richard found that the team that had helped to launch Ajax no longer existed; he was alone.

During this time Richard also noticed early signs that the UTi’s strategic directions were beginning to veer from Ajax’s core business model. His joint venture partner was beginning to falter as it continued to miss its earnings projections and analysts were questioning management’s ability to deliver financial performance. Areas of concern included:

1. Abandoned Electronic Contract Manufacturing, placing existing contracts in jeopardy and discouraging new business wins. Ajax’s solution was to form a Strategic Alliance with a small woman owned electronics manufacturing services (EMS) company to service existing contracts. Richard also hired outside sales support to continue product offering in the market. Nevertheless, Ajax began to lessen its attention in the EMS area, which was a great disappointment to Richard. However, outsourcing this business had the effect of ensuring business for the strategic alliance. Richard would learn years later that sharing his business in this way had stabilized the operations of that company and provided jobs and a base of business that allowed them to sustain their existence. After ten years and nearly \$35 million of subcontract EMS work, this alliance is still in place today.
2. Abandoned a lucrative contract with Richardson Controls, Inc (RCI). Later discovered that the motive for this was to “dress up” UTi’s balance sheet by reducing working capital requirements in preparation to be acquired.
3. UTi’s focus on developing proprietary warehousing IT software solutions in a market where such solutions no longer represented competitive advantages and with the growth and implementation of SAAS with competitors eroding market positions in the industry.

The botched IT Systems launch, and integration proved to be disastrous to the company’s existence. UTi had embarked upon a major redesign of its IT systems that it called “One World”; pouring millions of dollars into an effort to integrate the independent operating systems of its several acquisitions. The program was poorly conceived and implemented.

Ajax became an intractable thorn to UTi's new management; unable to control the MBE's business or to break the joint venture agreement. The relationship became contentious as Richard refused to execute amendments to the joint venture operating agreement which would effectively cede control to UTi. The relationship became difficult and even nasty at times. At one point a UTi manager threatened Richard saying 'I have my finger on the MBE button, and I can blow you up anytime! Richard recalls,

And so, this big company, you know, was like – 'why are we in this deal?' And so, the whole relationship shifted. It changed; I mean they would do things like call me up and say, 'we don't think you have the right salespeople; you should fire them.' I would say, 'no, I'm not going to.' They would say 'we think that you should do this or that...' and I would say, 'no, I won't do that.' I was very comfortable with the operating agreement that Binny and I had crafted. A good friend of ours happened to be one of the best attorneys structuring joint ventures and alliances in the minority space, and he had helped us to develop the operating agreement that was unbreakable. And they tried. They really did try to break it. It got nasty – literally.

In response, Richard and his team began to "inhouse" any remaining critical infrastructure; first accounting, then HR and Quality control, then finally engineering. Sales, program launch, and operations had long been under the Ajax roof. And by the beginning of 2012, the company was one critical function from being completely independent operationally; and that was its own warehousing IT system. Ajax had licensed Compass-International's "Global Inventory Control System" warehouse management system as part of its joint venture agreement and UTi was threatening to discontinue supporting the system.

The Opelika Experience

Just as Ajax landed its largest deal in its corporate history in early 2012, matters finally began to come to a head.

The company had been awarded a \$50 million multi-year contract to supply a complete end to end logistics solution for production materials for the manufacturing of seats to a Korean automotive OEM plant in West Point, Georgia. The customer was Richardson Controls, Inc., the second largest seat manufacturer in North America, for its customer Kia Automotive. The program would also include a secondary supply chain for seating materials inbound from central Mexico trucked daily. Daily receipts from both sources exceeded 25-30 cargo containers a day, seven days a week. This program would consume all of Ajax Compass's resources and know-how. The project would launch in early 2013.

The award included the sourcing (purchased by Ajax) of parts from Korean sub-Tier manufacturers, ocean, and air transportation from Korea where Ajax would take ownership-title

to the materials once manifested and bound for a new Ajax facility in North America yet to be developed. This was made more difficult to launch, for a variety of reasons. One reason was the difficulty in finding a suitable facility near the Kia assembly plant, due in part to the size of the operation (minimum of 500,000 sq ft). When Ajax finally did find a facility, it turned out to be an old Goodyear tire plant in Opelika, Alabama; across the state line and about 20 miles down the road. This facility had various contaminants, trash strewn about, and bad ventilation. One of the first steps was to turn that facility into a functional and safe workplace. Secondly, was the erratic nature of the OEMs' operations and its insistence in sourcing from Korea (its Keiretsu). Developing a viable workforce in the area was another challenge. However, the most important source of difficulty was the combative and dysfunctional relationship Ajax Compass had with UTi, who would be responsible for providing ocean and air transportation with the shipping lines into North America.

Once the project got off the ground, it was still not all smooth sailing. Ultimately the building was substandard for the intended use but was the only facility available. After substantial investments on the part of Ajax Compass to ready the facility, UTi began strategizing with local plant management to get Ajax Compass's contract reassigned for themselves. They were able to do so for about three months, but ultimately through Richard's lobbying with contacts and relationship with the customer (RCI), Ajax Compass was able to force the joint venture partner to abide by the Agreement (to ensure legitimate MBE content) and Richard and his team took back control of the operations. Despite these challenges, it felt good to be executing such a large deal and scaling up the company to do so.

But the launch was brutal, Richard recalls.

“This is where I earned the loyalty and respect of my team. Our teams worked 18-hour shifts and I worked alongside them, every day of the launch. It was a 24 hour, 7 days a week operation. It was July/August and the temperature inside the building was well above one hundred degrees and people were passing out from heat exhaustion. The start-up was plagued with mis-shipments, unexpected deliveries, and broken Wi-Fi networks, which led to massive amounts of rescanning labels into the inventory management system. As an executive, I knew very little about the intricacies of the warehouse; but I would stand in line at one of the many printers scattered throughout the warehouse getting just printed packaging labels to label inventory boxes, or I'd run reports for the inventory teams or make store runs for water, Gatorade, batteries, and whatever supplies were needed. I covered the late-night shifts so that my managers could get a few hours' sleep. We made this launch happen; these people would become lifelong friends, not employees, but family.”

But this was when Richard realized that it would not get better with UTi as a partner, and he began planning to buy out their 49% stake in the venture. After months of discussions and rebuffing attempts to intimidate him into amending the joint venture's operating agreement, on January 27, 2014, Richard flew to UTi's Headquarters in Long Beach, California to present his first offer to UTi's CFO to purchase their ownership stake. Just to get to this point had taken a year and would take nearly two more years of political intrigue, haggling, and delay to get a deal done. Unknown to them, since late 2012 Richard had already begun to map a strategy to reposition Ajax to "go-it alone. He called the plan "Next Leap" and began recruiting the team that he needed.

Ajax continued to win business, but Richard's next contract almost put him out of business. The Duncan project was launched while Richard was ramping-up the "go-it alone" plan and with the distractions of the growing animosity with UTi. One such event (unexplainable at the time) was the forced termination of the RCI program, which included not only Ocean transportation for the Opelika program, but an additional \$80.0 million in direct UTi contracts for ocean and air transportation in other global regions.

The Duncan Experience

Ajax Compass had been working well with the Lear Corporation for several years. Lear was a \$14.6 billion Tier One supplier to the automotive OEMs headquartered in Southfield, MI. The company served every major automaker in the world. Ajax had become a supplier to their Electrical division, sequencing production materials into Ford Motor Company's Louisville, KY car plant.

In September 2014, Richard received a call from his buyer telling him that his company was being recommended to Lear's Seating Division to step into a situation requiring emergency support. Lear would forgo the usual bidding process in order to replace a failing supplier immediately. It was an urgent need, so Richard had to hurry to develop and offer a tentative price and scrambled his team to put together a launch plan quickly. Ajax Compass was awarded the contract, which was anticipated to be about \$8 million annually, with the agreement that they would review pricing after 90 days of working together because they didn't have enough information yet to know exactly how much it would cost to uphold their obligations.

The seating division contract consisted of supplying parts that went into seats for the BMW plant in Greenville, North Carolina. Ajax Compass invested several hundreds of thousands of dollars in buying and moving a fleet of trucks, hiring people, and launching operations in a new location for the work to be done in less than 30 days.

When deciding whether to participate in this contract, Richard remembers asking himself: "how different can two divisions of the same company be?" He knew the people in the Electrical division and had won their respect as a "trusted advisor". However, the Seating division culture

seemed different from the Electrical division he had been working with. When 90 days had passed, Richard reported that he was losing more than \$200,000 per month on the project and needed to invoke the “Repricing Clause” in the contract. He told the Seating division leaders that he wanted to reprice the contract at the 90-day mark, as they had previously agreed upon, and was shocked when the Seating division representatives refused, citing new leadership that was unfamiliar with the agreement. He agreed to extend the repricing by another 90 days.

In spite of his advisors’ recommendations to “toss the keys on the floor” and quit the contract, Richard continued working with them for more than 18 months. This was largely because at any point in time, between the two divisions, Lear owed Ajax Compass more than \$2 million each month, which was also linked to his fledgling receivables financing arrangements. Richard was sure that if he walked away from the contract, that Lear would withhold payment, creating a domino effect that would tank his company. His prayer was that eventually he would be made whole, or close to it, if he stayed the course.

The company’s funding was very tight as UTi had long since capped the joint venture’s credit lines breaching the operating agreement. He and his CFO had filled the gap in funding the company with receivables financing. In the meantime, the monthly losses kept mounting and more than \$4 million of the company’s retained earnings had been depleted.