



**NCS**  
Securing Your Tomorrow®

# UCC Benefits: A Case Study

## THE KICHLER LIGHTING STORY...

David Feigenbaum is the Director of Corporate Credit at Kichler Lighting. Kichler is a family owned, Cleveland based, lighting manufacturer. They are one of the largest residential manufacturers of lighting in the country and have been in business over 75 years.

David has been with Kichler for 16 years and in the credit profession for 42. He knows things you'll find beneficial.

### THE CHALLENGE

Several years ago David attended a NCS seminar that covered the benefits of UCC Article 9. A light bulb went on in his head. Could the UCC filing process be the solution to the challenge of securing receivables that credit professionals face every day?

"I went into the seminar wanting to discover a tool that would protect us if a customer defaults or files bankruptcy. When I learned UCCs provide an opportunity to repossess inventory when a customer defaults, I wanted to learn more! I realized we may even be able to sell more as a result of this secured position," David said.

### THE SOLUTION

The security agreement is where it all starts. That's where the customer grants you the secured interest. David needed to decide if Kichler would use a separate stand-alone security agreement or include the verbiage in another document they have the customer sign.

"We made it part of our credit application about 10 years ago. Nearly all our customers sign it without hesitation. It allows us to file when we see the need. We'll also approach long time existing customers as well. We'll do this if we want to increase their credit lines, but need some insurance to justify the increase." David explained.

"We've had a lot of success. There have been years where we collected, between inventory and cash, over six figures through our filings" David reports.

### THE APPROACH

We asked David how he approaches his customers about signing a security agreement. "Our sales force is willing to help us. They're happy to present it to the customer, at least in layman's terms, and then we come in and make the actual explanation to the customer" David responded. "What I'll say to the customer is 'We'd love to sell you more product, we're happy that you want to buy more product, but an increase in your credit line requires some assurance for us. We'd like you to sign this security agreement. It's similar to an auto insurance policy. If you don't go out of business, if you don't go bankrupt, it's as if you didn't have a car accident. The filing never comes into play. Kichler pays the premium. If you do go bankrupt, the equivalent of a car accident in this analogy, the policy pays off for Kichler. It allows us to extend additional credit, for you to buy additional product, and all of us to benefit."

The next step is for David to decide between the two primary types of transactions under Article 9 of the Uniform Commercial Code: Blanket Filing and Purchase Money Security Interest (PMSI) Filing.

Blanket filings apply when providing financing, selling services, or in situations when your customer does not stock your goods.

A PMSI filing provides the same benefits as the blanket filing with the addition of the priority of repossession of specific identifiable goods, primarily inventory or equipment that your company would provide. Since their customers stock the goods, Kichler has application for PMSI filings.



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## UCCs ARE BENEFICIAL BECAUSE...

- UCCs put you in the best possible position to get paid when a customer defaults or files bankruptcy
- UCCs provide the opportunity to repossess your inventory when a customer defaults or files bankruptcy
- UCCs enable you to sell more because of your secured position

### SUCCESS STORY

#### GETTING PAID IN A LIQUIDATION BANKRUPTCY

*"We had a customer who filed a chapter 7 liquidation bankruptcy. Our inventory was part of the bankruptcy estate. The trustee offered our inventory back to us because we were a secured creditor. The inventory wasn't worth anything to us at this stage. The trustee agreed to sell the inventory as part of the auction of bankruptcy assets. We received the benefit of the sale of the goods. We were paid in full after the auction. The unsecured creditors received the pro-rata that remained."*

### SUCCESS STORY

#### UCC FILING PREVENTS POTENTIAL \$26,000 LOSS

*"We had a customer sell their business through a bulk sale, an asset sale, in a state that allowed them to walk away from the liabilities. Because we had a UCC filing, they had to pay us in full \$26,000. We were paid ahead of the bank! The bank was also secured. The bank's attorney commented this was the first time he'd seen a trade creditor file the paperwork properly to secure their lien. NCS wrote our document."*

### SUCCESS STORY

#### \$30,000 IN INVENTORY RECOVERED

*"We had a client who closed their doors and went out of business. They had \$30,000 of our inventory in their warehouse. We negotiated with our leverage as a secured creditor. That enabled us to secure the inventory and bring it back into our warehouse. The merchandise was in good condition and we were able to resell it."*