MADISON'S TIMBER PREVIEW

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A severe recession in the early 1980's, and resulting weak contractor balance sheets, made bank funding more difficult to access. In addition, revisions to the bank act in 1981 saw the disappearance of most commercial finance companies as they were acquired by banks, or converted into banks themselves. Forest & Marine Financial Group was established in 1983 as Forest & Marine Financial Corporation, with a capital base of $360,000, to provide a variety of financial services tailored to meet the needs of the British Columbia's forest and marine industries. In particular, to the many west coast logging and road building contractors. The company was one of the first non-banks to emerge to provide a replacement vehicle for the fast-disappearing asset-based financing at that time.

The F&M Group is engaged primarily in the financing of heavy mobile equipment, helicopters, tugs and barges utilized in the forest products and marine industries. F&M has extensive knowledge of the forestry and marine industries; its primary focus is to provide funding to independent logging contractors and marine operators. The F&M Group's geographic target markets are communities on Vancouver Island, the Queen Charlottes and throughout coastal British Columbia.

Since 1993 F&M has operated as a limited partnership with a permanent capital base in excess of $20 million. In March 2009, when F&M's main creditor, CIT Canada, could no longer focus on coming to a new financial agreement, F&M was providing access to funding for 75 smaller coastal forestry businesses which created 3,000 jobs in the coastal forest industry. These market loggers run independent businesses that generate 70 per cent of the forest economy on the coast. Until this sudden loss of financial backing by CIT Canada, caused by overwhelming asset problems of its own, F&M was assisting these small and medium sized independent companies to keep up payments on equipment, and with staff costs.

On November 22, 2005, F&M Group entered into a $50 million business combination agreement with Ubiquity Bank of Canada. By March 1, 2006 the parties had not yet agreed to terms for the partnership, thus extended the deadline to March 31, 2006. Meanwhile F&M started a partnership structuring process. The March 31 date passed without notice, and on April 29, 2005 F&M instead announced it had entered into a forbearance agreement with its credit facility lenders, CIT Canada, in order to allow F&M time to settle breaches in its financing agreement with CIT while F&M completed its structuring into a partnership.

It was business as usual for F&M until March 17, 2009, when the company announced that the forbearance agreement with CIT Canada, as extended by subsequent extensions to March 15, 2009, had expired. On March 12, 2009, CIT advised F&M that it had assigned all of its rights under the financing agreement to Asset Engineering Limited Partnership, out of Ontario. Asset Engineering made a formal demand for repayment of the outstanding balance of approximately $13.3 million owing, and gave notice to the company that the outstanding balance must be repaid by March 27, 2009. Asset bought the loan from CIT Canada after F&M defaulted, and demanded the equivalent of a 39 per cent interest rate in lieu of calling in the loan.

On May 2, 2009, after a three-day hearing, a BC Supreme Court judge ruled to allow F&M until July 31 to continue its restructuring plans under creditor protection. F&M had already paid down $870,000 on its loan to Asset since it was granted creditor protection in March. A monitor reported to the court that F&M's assets were worth between $22 million and $28.5 million.

Some background on Asset bears mentioning. On May 20, 2009 General Motors, Chrysler and three Magna International entities charged that a scheme to takeover struggling Ontario auto parts supplier Vannatter Group caused industry havoc. In separate lawsuits, the companies claimed that the scheme originated when Ontario-based Asset Engineering bought unidentified Vannatter debts from the National Bank of Canada in February 2008. Asset Engineering issued demand letters on the debt and a notice of intent to enforce its security on Vannatter six months later.

"The conspirators manufactured the situation to force GM to agree to the terms, even if that meant paying ransom prices," GM said in its claim.

A representative for Asset maintained that the claims are "fiction".

Despite serving a troubled industry, F&M's shares enjoyed an average of $1 from the end of 2006 to March 2008 before falling steeply toward the end of 2008. They dipped again after F&M sought creditor protection in May 2009 and currently sit at four cents. Company share trading on the TSX was suspended June 11, 2009.

On July 22, David Hitchcock, F&M president, told the Nanaimo News Bulletin, “We are striving to be a part of the solution in this industry rather than part of the problem,” said Hitchcock. “We are hopeful. I will add it’s fairly rare for a company working under [creditor protection] to make payments.”

On July 29 the company announced that funding from another source is not forthcoming, therefore F&M will not be eligible for essential funding from the Business Development Bank of Canada. Now it appears that F&M will not be able to continue to operate their business. F&M is seeking a 3 month extension to their creditor protection period, which expires July 31. During an extension, F&M plans to pursue self-liquidation initiatives to pay out its secured creditor Asset Engineering.

Then, the company plans to file a restructuring plan for self liquidation / downsizing.

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