

GROWERTALKS

GT in Brief

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Color Spot Files Chapter 11

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On Tuesday, May 29, Color Spot Holdings filed for Chapter 11 bankruptcy protection in U.S. court in Delaware. Color Spot Holdings includes the four Color Spot divisions: Color Spot West, Hines Growers, Inc., Color Spot Southwest (Lone Star Growers, Inc.) and a merchandising division that provides in-store service to Color Spot's customers (which include The Home Depot, Lowe's, Walmart, Kmart, Rite Aid, Orchard Supply and Kroger).

Filings indicate that Color Spot has approximately \$117.5 million in bank debt, plus about \$20.7 million in unsecured trade debt. Top unsecured creditors include Express Seed; Ball Horticultural Company; Nursery Supplies, Inc.; Summit Plastics; The HC Companies, Inc. and Container Centralen. The first four are owed more than \$1 million each.

In the filing, Color Spot reports having less than \$50,000 in assets, and \$100 million to \$500 million in liabilities, on sales of about \$268 million in 2016 and \$248 million in 2017.

Raymond James & Associates was hired in February to attempt to sell the company, with some 37 parties executing non-disclosure agreements and three expressing interest in purchasing all or part of the company. Color Spot is hoping to sell the business to pay off most of its debt and has asked the court to set July 16 as a bid deadline.

Events leading to Chapter 11

Paul W. Russo, a former VP of tool manufacturer The Stanley Works, was appointed CEO of Color Spot in March 2017 after serving as COO in 2014 and on the Board of Directors for seven years. He stated in the court filing that Color Spot had suffered from declining market share and revenues since 2014. He blamed the six-year drought and accompanying water restrictions in California and adverse weather events in Texas.

Most telling, however, is the statement, "[Color Spot's] focus on customer service waned as [the company] grew in size, which translated into losses of certain markets with key customers."

According to the filing, after his appointment as CEO, Mr. Russo began implementing a restructuring plan, which included:

- Negotiating an amendment and restatement of the existing revolving credit facility with Wells Fargo
- Soliciting customer support by meeting with the leadership of key customers to identify and address problem areas
- Right-sizing production capacity to match revenues, including closing four of 13 nurseries in the first nine months of his tenure

- Simplifying the product mix to improve production efficiency and increasing inventory investment in best sellers, eliminating production of 40% of the genera grown, which were contributing less than 10% of sales
- Eliminating layers of management to improve responsiveness, which, along with facility closures, generated a 30% reduction in employee headcount in nine months

Apparently, those efforts weren't enough to prevent the bankruptcy filing.

Founded in 1983 by Michael Vukelich and Jerry Halamuda, Color Spot grew organically and through acquisition to six nurseries in California, two in Texas and one in Oregon, comprising 11 million sq. ft. of greenhouse, 6 million sq. ft. of shadehouse and 83 million sq. ft. of outdoor production, with 1,600 full-time employees. Michael passed away in 2011; Jerry retired as CEO and President in 2017. He could not be immediately reached for comment. **GT**