Major Restructuring and Turnaround

Portfolio Companies of a Private Equity Firm

Contracted Chief Executive Officer assignment for two portfolio companies of national private equity firm based in Chattanooga, Tennessee. Private equity firm had purchased a growth-oriented, yet significantly unprofitable industrial market contract manufacturing company in Atlanta and added a long-time, stable non-industrial market contract manufacturing company in Memphis. With over 300,000 sq ft of combined facilities and after experiencing a period of large continuing losses at Atlanta firm, the private equity firm approved a facility consolidation and integration plan of all company operations into the Memphis manufacturing facility.

Major Restructuring and Turnaround Situation – As a result of the large losses at the Atlanta facility and its pending crippling business impact on related Memphis facility, Thomas Kirkpatrick/SPG was engaged to assume the leadership role and responsibility for development and execution of business steps to complete the consolidation of facilities along with preparation of a consolidated strategic marketing, sales, operational and financial plan and development of a restructured and a potentially re-capitalized entity.

SPG Action and Results

Replacing two previously hired consulting firms and in an attempt to stabilize and rebuild a dramatically deteriorating consolidated entity with its working capital banking facility about to terminated, Thomas Kirkpatrick/SPG proceeded to develop a restructuring plan for the business and a re-capitalization and go-forward plan for the private equity firm, its senior secured lender and a secured convertible debt holder, (another participating private equity firm based in Denver) consisting of the following:

- Consolidation of facilities and restructuring of multi-location operation into single integrated facility, with the following prospective modeling impacts:

  - Reshaping a significantly unprofitable multi-location consolidated entity with sales of \$ 26,226,000 into a prospective profitable single location facility with sales level of \$ 24,963,000 through the elimination of unprofitable customers, run sizes and product applications using capacity unproductively.
  - Improvement of gross margins from 10.8% to 15.7% through establishment of proactive material procurement methods and increased labor utilization methods.
  - Reduced operating overheads and general/administrative expense levels by over \$ 2,624,000 by elimination of multi-location facility and restructured organizational changes.
  - Targeted resultant improvement from an EBIDA loss of (\$ 2,843,000) to EBIDA earnings of \$ 866,000.

- Consolidated strategic marketing, sales, operations and financial plan encompassed the following aspects:

  - Creating new branding and market place positioning for “consolidated entity”.
  - Developed out-bound marketing strategies for identification of new prospective customers and marketing tools to provide constant communication resulting in dramatically higher RFQ’s.

- Created new technical inside sales concept.
- Developed strategy for supplemental industry-wide sales representative network.
- Developed targeted sales plan and coordinated sales methods.
- Developed sales and margin quoting and costing models.
- Developed operational restructuring programs to improve manufacturing capabilities and efficiencies and continuous improvement programs to streamline processes and product throughput.
- Developed performance measures, metrics and benchmarks for all operating areas to lay foundation for a performance-based operational environment.
- Developed cash flow forecasting and financial liquidity management models.

Upon completion of the consolidated strategic marketing, sales, operations and financial plan and during the early stages of implementation, the private equity firm informed the senior lender and convertible debt holder that its investment fund equity holders were electing not to proceed with the necessary and expected re-capitalization needed for 2009 and beyond.

At that point and with the newly restructured single location facility facing immediate capital and financing needs and a potential liquidation scenario, Thomas Kirkpatrick/SPG quickly developed a restructuring and downsizing plan that would create an immediate cash flow positive operating environment which won the support of both the senior secured lender and convertible secured debt holder in order to maximize corporate value via sale of a going concern business or sale of assets to strategic buyers should the efforts to sale the business be unsuccessful.

The developed pre-packaged restructuring plan entailed the following aspects:

- Building relationships with key customers to continue to source orders into the facility.
- Upon losing credit with key suppliers, successfully having key customers purchase material components and drop-ship components to facility for “value-added production” as opposed to a turn-key product.
- Development of a flexible down-sized, multi-tasked production and overall operational team of key “A players”.
- Creation of an immediate operating entity capable of providing cash flow positive operating results needed to service the working capital debt facility and provide solid pay down of respective loan positions.
- Development of a 4-6 month operating and financial plan that would allow for the working capital lender and senior lender to achieve close to a 100% recovery.
- Re-development of overall single facility entity attractive to a potential strategic and/or financial buyer in the applicable market.

In January 2009, as a result of a involuntary bankruptcy petition filed by a group of unsecured creditors, the company was converted into a Chapter 11 reorganization filing in order to continue to operate and execute the various elements of the restructuring plan.

Thomas Kirkpatrick/SPG was appointed the Chief Restructuring Officer for the Chapter 11 reorganization. During a 6 month period within the Chapter 11, the restructured entity achieved a 15.0% positive operating income level vs. negative (12.5%) operating loss prior to restructuring. Negotiated DIP financing with senior secured lender and successfully worked with working capital lender to confidently work in over advance situation, developed cash flow and liquidity model, built customer relationships and sales efforts with key customers, created a down-sized flexible production and operational team resulting in significant loan recovery for working capital lender ahead of a pending 363 sale to a strategic buyer.