

SPG STRATEGIC PARTNERS GROUP

Turnaround and Growth

Southeast USA Multi-Division Manufacturing Company

Contracted Chief Executive Officer assignment for mature, diversified manufacturing company involving six (6) operating divisions and entities. North Carolina based sheet metal fabrication, CNC contract machining, manufacturing, assembly and distribution company in 160,000 sq ft facility.

Turnaround and Growth Situation – As a result of incurring major losses and cash flow shortages over its prior 3 years, falling significantly out of formula with working capital lender and in default on secured facility and equipment loans with major term lender, the ownership group had lost the confidence of its banking stakeholders. Initially, two turnaround firms had been engaged upon the recommendation of the financial institutions to perform feasibility assessments. Additionally, the working capital lender engaged a New York-based firm to evaluate and prepare for a liquidation plan and oversee the company and its secured assets. Upon referral by the Company’s attorneys, Thomas Kirkpatrick/SPG was engaged by the Company to meet with the major lenders, the New York-based firm, the Company’s owners and attorneys for the lenders to present and review an assessment plan that would be used as a basis for a turnaround plan.

Successful Chapter 11 Reorganization and Confirmation – SPG Action and Results

Within six weeks of engaging Kirkpatrick/SPG, Company filed for Chapter 11 Reorganization with Kirkpatrick/SPG taking over the leadership of the company and as Chief Restructuring Officer proceeding to complete development and implementation of a Plan of Reorganization, which resulted in a successful Plan Confirmation 9 months later.

During the Chapter 11 Reorganization period, Kirkpatrick/SPG lead the Company through and executed the following:

- Reorganized and restructured its major operating divisions by eliminating cash draining product lines and making significant organizational and personnel changes and reductions to align talent and create an “A Team” of key contributors throughout entire company.
- Re-focused marketing and sales efforts and developed new marketing and sales plans concentrating on higher margin, future-based customers in the sheet metal fabrication business segment and phasing out a large negative margin automotive intensive contract machining segment and other business segments not providing positive returns.
- Developed an overall marketing, sales, operational and financial strategic execution plan for the balance of the Reorganization period and beyond.
- Provided strong, proactive activity-based leadership throughout all areas of the business.
- Turned prior year significant operating losses into strong, positive EBIDA results.

Year leading up to Chapter 11 Reorganization – Sales of \$ 11,500,000, with EBIDA loss of (\$ 1,298,000).

During Chapter 11 Reorganization (8 months) and up to Plan Confirmation – Sales of \$ 6,971,000, with EBIDA earnings of \$ 557,600 (8.0%).

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- Upon successful Plan Confirmation, the entity exited Chapter 11 with existing ownership group being able to maintain a small minority % ownership, with the combination of the unsecured creditors and deficiency claim of secured term lender and others becoming the new company's largest group of shareholders.
- Despite formation of the reorganized entity into a new company upon Plan Confirmation, the Company remained burdened financially with the following adverse liquidity elements as it began its Post-Confirmation operations;
 - Unsecured over advance of \$ 1,700,000 with the working capital lender, along with structured pay down requirement covenants as part of a two year working lending facility in place upon confirmation.
 - Large debt of secured term lender, with structured amortization of equipment and facility loans over a 5-7 year period, with balloon provisions.
 - Large priority tax claims and debt service requirements to local and state tax authorities.
 - Very large, combined non-EBIDA debt service anticipated for the next 3-5-7 years.
 - Resulting in significant non-valued added cash outflow of operating earnings for debt payments to secured lenders and taxing authorities that carried over from the old companies and not removed by the Plan Confirmation.
 - No new equity from ownership group.

Post-Confirmation Growth Company - SPG Action and Results

Following Plan Confirmation, Kirkpatrick/SPG successfully implemented the following marketing, sales and operational improvements with performance and financial results as follows:

- Developed new marketing, branding methods to re-position the business into its niche sheet metal fabrication and state-of-the-art industrial powder coating segments.
- More than doubled its sheet metal fabrication business within 12 months from the filing of the Plan Confirmation.
- Increased level of sheet metal fabrication quoting by over four times within first 12 months of Plan Confirmation and expanded to much larger eastern half of USA market.
- Developed targeted marketing and constant contact sales follow up methods for all product lines, along with e-commerce applications for market development.
- Implemented activity-based management and operating methods throughout all areas of the business to transform culture to a performance-based environment.
- Materials department implemented multi-sourcing for more competitive pricing for all major components, along with certification programs for all major vendors.
- Developed comprehensive monthly financial reporting packages encompassing analysis, metrics and activity-based operating measures for management and all stakeholders.

Performance and financial results:

- Reduction in personnel levels from 135 in 2003 (prior to Chapter 11 Reorganization Plan) to 65 level during Reorganization period to 50 level Post-Confirmation period.
- Improving sales per employee metric from less than \$ 100,000 per employee to close to \$ 185,000 per employee.
- 1st full year Post-Confirmation, EBIDA 10.1% on \$ 9,200,000 of sales vs. projected 4.8%.

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- 2nd year results, YTD EBIDA 12.5%, leading to successful payoff of \$ 1,700,000 unsecured over advance of working capital lender in 18 months from the Plan Confirmation.

Despite operational improvements and strong cash flow for the two years subsequent to Plan Confirmation, the high degree of non value-added cash outflow to pay off the working capital lenders over advance, term debt of secured equipment and facility lender and the debt service for the priority tax claims continued to create a tight value-added cash flow environment for the new company.

Combined with working capital lender desiring not to renew working capital line of credit and/or to provide the new company with some additional over advance needs at the time of renewal, the Company quickly entered into a period of time whereby it had to present to all debt holders (working capital lender, term lender and tax authorities) various buy-out plans from a combination of newly interested working capital lenders and private equity parties offering refinancing and debt restructuring plans so the new company could continue operate and grow.

Over a four month period of time, none of debt refinancing and restructuring plans were accepted by all of the debt holders. As a result, and in combination without additional capital from the ownership segments or having sufficient time to raise private equity to continue to operate and meet customer requirements, the new Company's operations were halted and the Company and its assets were placed up for sale and were sold in a non-operating mode with the secured parties realizing their respective sales values for its underlying collateral.