

LS Associates – Case Study

Primary Industry: Manufacturing

Company Overview: \$13 Million Manufacturer of Automobile Parts & Industrial Equipment

Secured Creditors: \$7.4 million bank debt including \$5.3 million owed to the secured lender on Revolving Line of Credit Agreement, secured and collateralized by inventory and trade receivable; \$2.1 million owed on bond obligation secured by fixed assets.

Unsecured General Creditors: Approximately \$1 million in unsecured trade debt.

Situation: The Company was closely held with two operating divisions in unrelated manufacturing business sectors. The company was in default on its revolving credit agreement, operating under a forbearance agreement. The owners of the company were positioning the auto stamping division for sale in response to the threat of losing its key customer representing 80% of division's revenue.

LS Objectives: Management hired LS primarily to assist in the negotiation and structure the sale of the auto stamping business and to examine the remaining industrial manufacturing division's operations for financial viability, restructure the remaining debt and return the industrial manufacturing division to profitability by reversing negative cash losses and generating positive cashflow to service the restructured debt.

Tasks Performed:

LS provided leadership in the negotiation and sale of the automobile parts stamping division, including structuring the sale / lease back transaction of the production equipment.

LS provided critical guidance in the development and execution of the auto division wind down strategy, including negotiations and coordination to secure critical vendor and customer support.

LS provided regular communication to lenders with routine reporting including sales, expenses cash and working capital summaries.

LS negotiated settlements with unsecured trade creditors during wind down of stamping division and assisted in the management of trade creditors including settlement of open and past due accounts.

LS provided daily wind down operational support with oversight and review that resulted in the successful execution of all four phases of the inventory bank build strategy while maintaining compliance with labor laws during employee termination and severances.

LS ensured the protection of collateral with implementation of enhanced control procedures over shipments to secure payment for all sales orders. LS implemented additional controls over the release and shipment of tool and dies. LS established policies and procedures to address inherent weaknesses in inventory management and material purchasing. LS

minimized excessive purchase orders by conducting daily purchasing reviews to satisfy production forecasts and meet sales objectives.

LS provided a financial viability review of remaining industrial division after sell of stamping division. LS performed turn around services including implementation of aggressive direct labor force reductions. LS inventory liquidation strategy resulted in the company's ability to maintain cash reserves by maximizing liquidation values.

LS implemented and provided on site management of 13 week cash budget that provided management the critical visibility well in advance to provided corrective measure to address projected negative cashflow. LS participated in management meetings to correct operational weaknesses of excess overhead, excess direct labor and provided guidance for improvements in work force planning. LS achieved reductions in general and administrative costs with detail examination of departmental expenses, controlled with the implementation of cash budgets.

LS operational analysis included a comprehensive review of job costing process and procedures that provided actionable measures to address weaknesses, including a gross profit analysis that delivered product line profitability metrics to facilitate margin expansion in new order price quotes.

Outcome: LS's involvement resulted in the Company's successful execution of sale\ lease back transaction. The key success included the significant reduction in the remaining debt and related monthly debt service requirements for the surviving business. LS's involvement resulted in the turnaround and survival of the Company's remaining division, achieving positive monthly cashflow with a more cost efficient operational structure, an expanded gross profit margin and the ability to service its remaining debt.