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SERVICE: Assessment and Consulting; Financial Restructuring

INDUSTRY: Power Test & Measurement

The Company. \$55 million manufacturer and distributor of proprietary power supplies for power reliability verification and process control. Markets include telecommunication, semiconductor and defense industries. Single manufacturing and distribution facility (142,000 sq. ft) in Southern California with 425 employees.

The Problem. The Company, acquired by a private equity firm in 1997, achieved record EBITDA in 2000. However, performance deteriorated significantly in 2001 as the customer base in most of its target markets sharply reduced capital spending. The Company's \$15 million senior debt was coming due and the lenders were demanding repayment. The upcoming semi-annual interest payment on \$90 million of public debt was in jeopardy. A distressed debt fund had accumulated a controlling position in the Company's public debt and recently approached the private equity firm to negotiate a restructuring.

The Engagement. Masson & Company was retained by the private equity firm to: (a) advise it on alternative courses of actions, including:

- (i) a Chapter 11 filing;
- (ii) securing new senior debt financing; or,
- (iii) a debt-equity swap with the public bond holders;

and (b) represent it in its negotiations with affected constituencies as plans were implemented.

The Results.

- We reviewed the Company's business plan, including on-site diligence with management.
- Our financial and business analysis showed that the Company could likely secure new senior secured financing to cover debt service and provide working capital coverage to survive the economic downturn.
- We assessed the management team and recommended the Company expedite replacement of the shortly-retiring CEO.
- To refinance the senior debt, we directed the Company's investment bankers to several sources with whom we have worked in the past. The Company agreed with one such source to provide a four-year term loan and working capital line that refinanced the existing senior lender and provided the Company with sufficient liquidity to operate and pay interest for the next few years.
- Concurrent with the refinancing, we prepared strategy and scripted dialogue for discussions with the distressed debt fund that had accumulated a controlling position in the Company's public debt.
- With the flexibility of the new senior debt facility in place, we initiated direct negotiation with the distressed debt fund on debt restructuring terms that the Company and the private equity firm would be prepared to accept. These terms were a significant improvement over those offered by the distressed debt fund before the new senior debt facility was secured.
- The distressed debt fund chose not to negotiate further on a debt restructuring. The Company replaced its CEO and CFO and continued to execute its three-year business plan.