

# Sweating over Equity

**Paying off debt by giving lenders a piece of the company may be a last resort, but it can provide a glimmer of hope for a restructuring.**

No matter how hard they fight to restructure, some companies have to take the nuclear option — a debt-for-equity swap. It's not impossible to corral support for this alternative to liquidation, despite lenders' aversion to being equity owners.

Private-equity firm The Riverside Co. bought QualServ, a major supplier of kitchen equipment to the top national food-service chains, in July 2004. Three years later, Qualserv's balance sheet was bloated beyond what its earnings could support. With the aid of a restructuring firm, QualServ closed down two of its three operating divisions (those geared to small restaurants), and Riverside, far out of the money, gave up all equity in exchange for lenders' forgiving the debt.

The turnaround plan presented by Rick Heller, a partner at Carl Marks Advisory Group, showed lenders that the slimmed-down firm could become EBITDA (earnings before interest, taxes, depreciation, and amortization)-positive. The banks now hope to sell off the company at a reasonable multiple in a few years to recover the written-off debt. "The execution was a lot of work," says Heller, who served as QualServ's CEO for most of 2008. "We had to take the modeling down to a great level of detail, and then the bankers had to sell [the plan] to their own management."

In short, as in other restructurings, the first prerequisite is a glimmer of hope. "The lenders have to believe the company has a future," Heller says.

By **Vincent Ryan - CFO Magazine** March 1, 2009