OCZ to File for Bankruptcy

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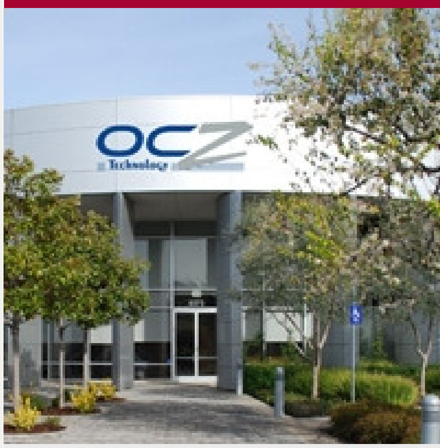

Lender Assumes Control of Bank Accounts

On November 27, SSD maker OCZ Technology Group, Inc. announced that on November 25 one of its lenders, Hercules Technology Growth Capital, Inc., took exclusive control of OCZ's depository accounts at Silicon Valley Bank and Wells Fargo. This action was in response to the company's failure to meet certain operating ratios and covenants specified in the loan agreement.

Silicon Valley-based OCZ has been a leader in high-performance client SSDs for a number of years, after starting life as a maker of performance DRAM modules for gamers and PC enthusiasts.

Toshiba Corporation has offered to acquire OCZ's assets via a bankruptcy proceeding, and both companies have agreed to an asset purchase agreement subject to various conditions:

- The value of the business must be preserved, including the retention of employees,
- Definitive documentation must be executed
- OCZ and certain of its subsidiaries must file bankruptcy petitions
- Toshiba's offer must be accepted by the bankruptcy court as the highest and best offer

The United States Bankruptcy Code specifies that an auction process is to be used to determine if Toshiba's offer is the highest.

OCZ expects to file a petition for bankruptcy shortly after completing final documentation with Toshiba and Hercules, and to conduct the court-supervised auction process to attempt to maximize the value of the company.

Should the Toshiba deal fall through, OCZ plans to liquidate.

How Did This Happen?

In September 2012 there was a management turnover at OCZ. The company's founder and president Ryan Peterson left and one month later was replaced by board member Ralph Schmitt. On the same day that Schmitt took over as president OCZ explained that it would need to re-state several quarters' financials and would not issue any new statements until the old statements and the company's internal ledgers were brought to accounting standards. This was completed almost a year later on October 7, 2013.

During that year creditors backed off from helping the company with muchneeded cash, and OCZ had to borrow from Hercules at a high interest rate with certain difficult terms which are now being executed.

In the mean time, OCZ had a recent stock slide, slipping from a relatively constant price of around $1.50 for the past year to around $0.60. This basically eliminated the option that the company could use a stock offering to extract itself from debt.

What Does This Mean to Stockholders?

Since both of the alternatives presented by OCZ involve bankruptcy then either would cause shareholders to lose all of their equity in the firm.

The only way that this could be avoided is if the bankruptcy court were to determine that OCZ did not require bankruptcy protection but simply needed to manage its finances differently.

Given that the company just went through a yearlong exercise of cleaning up its finances, and given that any errors in this process would most probably have resulted in a shareholder lawsuit, it is extraordinarily unlikely that the court could find any financial option that had not already been exhaustively examined by the auditors.

What Does This Mean to OCZ Customers?

The announcement spells out two ways that the deal could fall: Either Toshiba purchases OCZ, in which case it is likely that the company's products and support would continue in their current state, or OCZ would liquidate, leaving recent customers unable to get support or warranty service.

What Does This Mean to the Competition?

Over the past two years stiff competition has grown in the client SSD market partly from large firms like Samsung and other flash makers. Smaller SSD makers have been feeling significant pressure as these larger players use high quality, their strong names, and low prices to acquire market share. This is especially true in the client SSD market, which has moved from being exclusively a channel sale into installed PCs, to a market in which OEMs play an important role, largely due to the adoption of paired storage in Ultrabook PCs and Apple's headlong thrust into SSD-only notebooks.

Most SSD makers are under such intense competitive pressure from these large firms that they are unlikely to notice the loss of OCZ if it should liquidate. Their woes will not let up simply because this company has exited the market.

If the Toshiba acquisition proceeds the story will be different. Toshiba has not had as strong of a presence in the SSD market as the company would like, and OCZ would give it strong technology and a respected name in the retail market. Meanwhile, Toshiba would give OCZ something that the fledgling firm has so far been unable to attain: a steady source of NAND supply at competitive prices. OCZ has had a difficult history of having to pay price premiums during NAND shortages owing the company's consistently-poor credit ratings.

For both OCZ and Toshiba the synergies of a takeover are good. If the deal falls together Toshiba may become a real powerhouse in the SSD business. Objective Analysis certainly hopes that the company can achieve the takeover for the sake of its employees and existing customers.

Objective Analysis has published a report: ***Solid State Disk Market Outlook***, which outlines the SSD market and profiles its players, forecasting unit shipments and revenues over the following five years. The report can be purchased for immediate download from the Objective Analysis website.

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