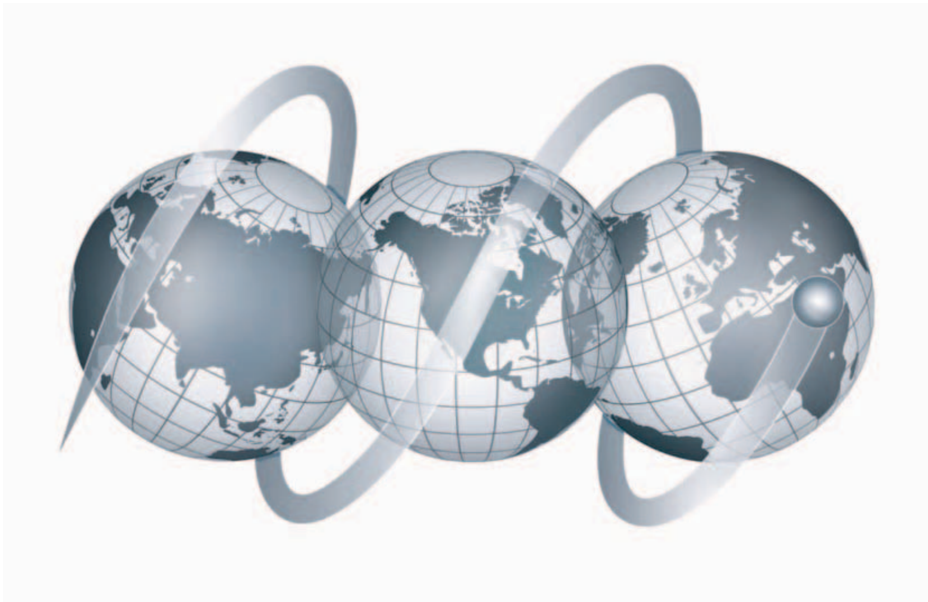


BUILDING WORLD CLASS PROJECTIONS

Alderman & Company Capital

INVESTMENT BANKERS TO THE AEROSPACE & DEFENSE INDUSTRY

Member Financial Industry Regulatory Authority

I. The Role of Financial Projections

THE ROLE OF PROJECTIONS

In most third-party arms-length transactions, the rationale for buying a company is to generate income, often expressed as Cash Flow or EBITDA. While there are always unique circumstances, especially in non-public markets, most buyers of companies are doing so in an effort to create wealth for themselves (where 'they' are shareholders), which is usually expressed as earnings, income, cash flow, or EBITDA.

While "your" projections may not be the ultimate set of projections that the buyer uses to make their price assessments and set their bidding, buyers in almost every case will look to your projections as an integral part (or starting place) for their own projections. While they may include various opportunities to increase revenues or decrease costs (commonly referred to as synergies), the basis of their work will almost always be your projections.

YOUR PROJECTIONS ASSUMPTIONS

Listed below are the primary business assumptions that we will need to provide to us so that we can build-out the detailed financial projections that will be included in the Information Memorandum (for each of the 5-years in the forecast period):

INCOME STATEMENTS

- Revenue growth
- Gross profit margin
- Operating expenses

BALANCE SHEETS

- Debt principal repayments
- Capital expenditures

WORKING CAPITAL

- Days inventory
- Days receivable
- Days payable

DUE DILIGENCE - TESTING YOUR PROJECTION ASSUMPTIONS

The purpose of due diligence is to provide the buyer an opportunity to test the validity and accuracy of everything that has been conveyed during the sale process, whether in writing or made orally (e.g in person during the Management Presentations). While many buyers will accept your projections at face value early in the sale process (such as during initial bidding), almost every buyer will go to extended lengths to test and challenge your projections during detailed due diligence (typically following the execution of a Letter of Intent and an agreement to a 30-90 day period of exclusive dealings with that buyer).

In due diligence, you should expect the buyer to use their in-house staff and/or retained third party experts (such as industry consultants, operations experts, accountants, and attorneys) to go through your projections in an extremely detailed manner. While not all buyers will go into the same level of analysis and depth of challenging your projections, almost all will make "testing your projections" one of their highest priorities during the due diligence phase.

In due diligence, most buyers typically use some form of the following process to test the reasonableness of your projections:

REVENUES

1. Comparing revenue growth to past years and current industry trends

2. Building 'bottom-up' forecasts based on the following:
    - Reviewing pricing in all of your major customer contracts
    - Confirming firm/committed orders in hand
    - Studying historic release trends and release dates
    - Reviewing outstanding purchase orders
    - Analyzing material, WIP, and finished goods on hand (and on order)
    - Assessing your capacity and historic through-put
    - Studying historic sales for each major class of revenue, such as: i) true (legal) backlog, ii) expected (likely) backlog, and iii) unproven backlog (speculative) or spot sales.

3. Analyzing historic unit sales and unit pricing by: i) customer and ii) product (line) and comparing these to projected sales by: a) customer and b) product line.

GROSS MARGINS

1. Comparing past years Gross Margins and competitor margins

2. Any changes in forecast gross margin will be specifically tested for
    - Documented changes in purchasing or in-house costs to prove a reduction in the cost of goods sold

3. Documented changes in customer contracts to support specific price increases and a modeling of each line item by forecast units under each contract to support the forecasted rise in pricing

SELLING GENERAL & ADMINISTRATIVE EXPENSES

1. Comparing past years SG&A and competitor SG&A levels

2. Any changes in forecast SG&A levels (as a percentage of sales) will be tested for specific line items against revenues and detailed cost analysis to study the reasonableness of your forecast.

INVENTORY LEVELS AND TURNS

1. In almost every case, the buyer will seek to prove that your stated inventory is too high and that you have excess and obsolete inventory.

2. In almost every case, they buyer will also seek to argument that your inventory cannot move any faster than history levels.

3. If your projections include a reduction in days inventory (e.g. an improvement in inventory turns), the buyer will want to see substantial documentation and analysis supporting your argument.

ACCOUNTS RECEIVABLE LEVELS AND TURNS

1. In almost every case, the buyer will seek to prove that your stated Accounts Receivable is too high and that you have some level of uncollected receivables.

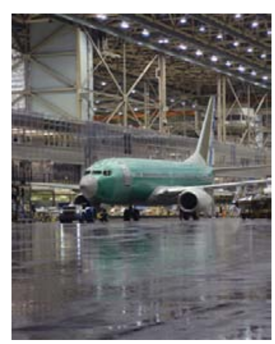
2. If your projections include a reduction in collection days receivable (e.g. a decrease in days receivable), the buyer will want to see substantial documentation and analysis supporting your argument.

DEFENDING YOUR PROJECTIONS

There is no better way to defend the projections than with detailed financial analysis and specific written factual supporting data. The greater the level of detail that you can provide to support your projection assumptions the better you will be able to "defend them" in due diligence. If you are projecting essentially flat revenue and stable margins, then it is easier to "defend" your projections. But if you are forecasting a meaningful increase to any one of: i) revenue, ii) EBITDA or income, or iii) cash flow (e.g. working capital improvements), then you will need to produce credible substantial detailed analysis, facts, and figures to support your assumptions.

The following are a few good examples of how to support projection assumptions:

> *"We are forecasting a $12MM increase in revenue next year because we just won a major contract with customer XYZ. Under this contract, we start shipping on January 1 and ship $1MM per month through December - on a firm committed backlog basis. The contractual pricing in the contract provides to us a 30% Gross Profit Margin based on our standard costing from last year with a 3.5% escalation included for increased labor costs. An analysis of our costing for this contract is set forth in schedule A1. A copy of the contract with customer XYZ, including unit shipment dates and unit pricing is set forth in schedule A2."*



"We are forecasting a reduction in Days Inventory from 145 days last year to 141 days next year as a result of changing our procurement practices whereby we are no longer sending the major assemblies 1526-7, 1345-8, 1456-9, and 1877-9 out for anodizing. This is because we have just completed the construction of our in-house anodize line. While the total cost of anodizing is expected to remain constant (see cost analysis schedule D3), our in-house time studies show that this in-sourcing will result in a net savings of more than 21 days saved on these 4 major items which will have an aggregate impact on system-wide inventory turns of 4 days. A detailed analysis of this time savings and its impact on aggregate inventory turns is set forth in schedule C3."

DEFINING FAILURE AND SUCCESS

Failure in this regard is losing the argument that your projections are reasonable. Failure is having the buyer convince you that there are meaningful flaws in your projection assumptions and that it is unlikely that future actual results will match your projections. This would typically result in the buyer demanding a reduction in the purchase price - which all too often results in the buyer and seller walking away from the deal (after spending considerable time and money).

Success in this regard is winning the argument with the buyer that your original set of projections is fair, balanced, and reasonable. If you win this argument with the buyer, than it is likely that the buyer will remain committed to buying your company at the price they set forth in the Letter of Intent and you are likely to consummate a successful sale of the business.

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