

Building Shareholder Value for Successful Exit



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Minuteman Ventures LLC

Boston • Washington • Huntsville • Dayton • Patuxent River • Colorado Springs

Minuteman Ventures LLC-Overview

- Mergers & Acquisitions (M&A) transaction advisory services firm
- Focus: aerospace, federal, defense, intelligence and homeland security markets
- Represent:
 - Smaller/mid-tier companies for sale
 - Mid-tier acquirers
- Principals: Senior executives who led M&A function at defense/federal contractors
- Team:
 - Nationally based at strategic defense locations
 - Former owners, CEOs, and senior executives in founder-led and larger companies, all with federal/defense sector background

Today's Topics

- Defense M&A Market Dynamics
 - M&A Drivers
- M&A Valuation
 - Metrics
 - Factors
- M&A Process
- Preparing for Sale

Defense Sector M&A Market Dynamics (1)

- Workforce:
 - Outsourcing accelerates
 - Aging federal employee base
- Contracts:
 - GWAC/GSA to agency-specific versions
- Technology:
 - Enterprise driven
 - Modernization and Sustainment
 - Net enabled, network-centric
- Consolidation
 - OCI - Conflict-driven opportunities

Defense Sector M&A Market Dynamics (2)

- Government Funding:
 - Accelerated budgets for intel, GWOT, Homeland Security
 - Growing IT budgets
 - Takeaway strategy from slowed overall DoD budgets
- Programs:
 - Shift from platforms to IT, O&M
 - Technology capture/transfer from smaller company to larger businesses
- Strong Capital Market Response to Budget Flows:
 - IPO Activity, particularly in IT services
 - Private equity active in defense, homeland security markets
 - New financing mechanisms – SPACs
- Macro:
 - Market fragmentation
 - Reasonably price cost of capital

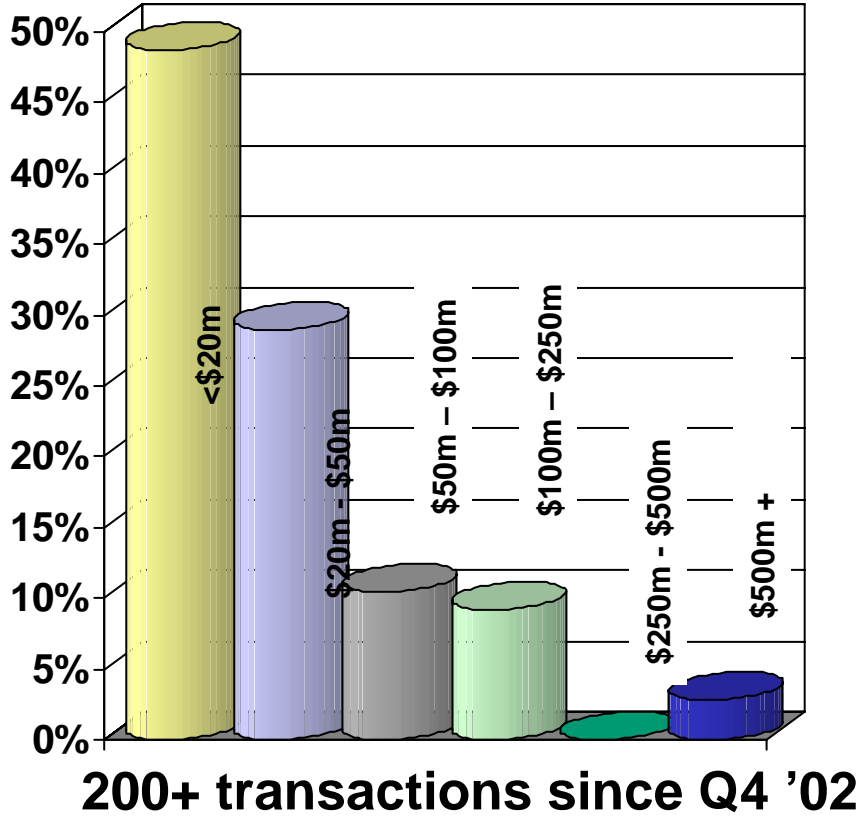
Representative Defense Sector M&A Transactions – March 2006

Defense M&A Transaction by Segment:

- Space/Satellites – 3
- Manufacturing – 5
- MRO – 2
- Components/subsystems – 8
- Software - 1
- Telecom – 1
- Sensors/Technology Equipment – 5
- System Integration/Engineering – 3
- IT Services/Consulting – 5

Total: 33

Defense/Federal M&A Market: Seller Transaction Profile (Services)



Defense M&A Valuation: Size Matters

Target Revenue	Transaction Value
Under \$20 million	4-6x EBITDA
\$20-50 million	6-8x EBITDA
\$50-100 million	8-10+x EBITDA

How is Value Determined

- Valuation tools buyers use
 - M&A Market comparables (adjusted for size, liquidity)
 - Public company comparables (adjusted for size, liquidity)
 - Discounted Cash flow (company projections)
 - Make v. buy analysis
- Always Company-specific
 - Price is based on investment value – what you must receive to justify giving up cash flows
- Timing is Critical
 - Best when owner(s), company and market interests are aligned

The 'Value Table' – 10 Leading Factors in Determining Value for Privately held Defense Companies

1. Contract Alignment with Critical Missions	Weak Alignment	- 1
	Strong Alignment	- 10
2. Cleared Employees	0-20% Employees Cleared	- 1
	20-60% Cleared	
	60% or Over Cleared	- 10
3. Recaptured Business	0-20% Recompete Revenue	- 1
	20-50% Recompete	
	50% or Over Recompete	- 10
4. Prime Contract Awards	0-20% Prime Contract Revenue	- 1
	20-70% Prime	
	70% or Over Prime	- 10
5. Small Business Set Aside (SBSA) Awards	70-100% SBSA Revenue	- 1
	30-70% SBSA	
	30% or Under SBSA	- 10

The 'Value Table' – 10 Leading Factors in Determining Firm Value in the Defense/Federal Sector (cont'd)

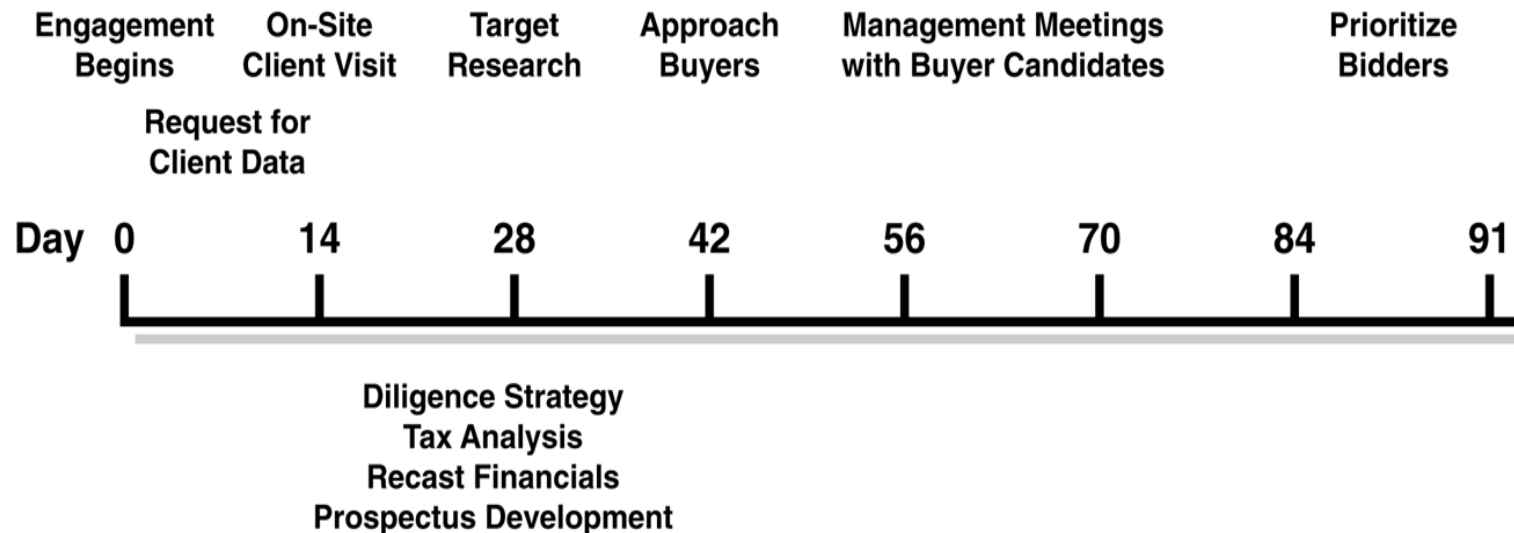
6. Time in Business	1-3 years	-	1
	4-6 years		
	7-10 years	-	10
7. Contract Concentration	60%+ revenue from 1 contract	-	1
	25-60%		
	less than 25%	-	10
8. 8a Revenue	50-100% rev. from 8(a)	-	1
	15-50% from 8(a)		
	Less than 15% from 8(a)	-	10
9. Competent Management	Lightly regarded management	-	1
	Highly regarded management	-	10
10. Sustained Revenue Growth	0-7% compounded ann. rev. growth	-	1
	8-15% growth		
	15%+ growth	-	10

Owner Options for Liquidity

- Employee Stock Ownership Plan (ESOP)
- ✓ Sale of entire company to third party
- Private equity investment (partial sale)
- Buy from/sell to other shareholders
- Family transfer

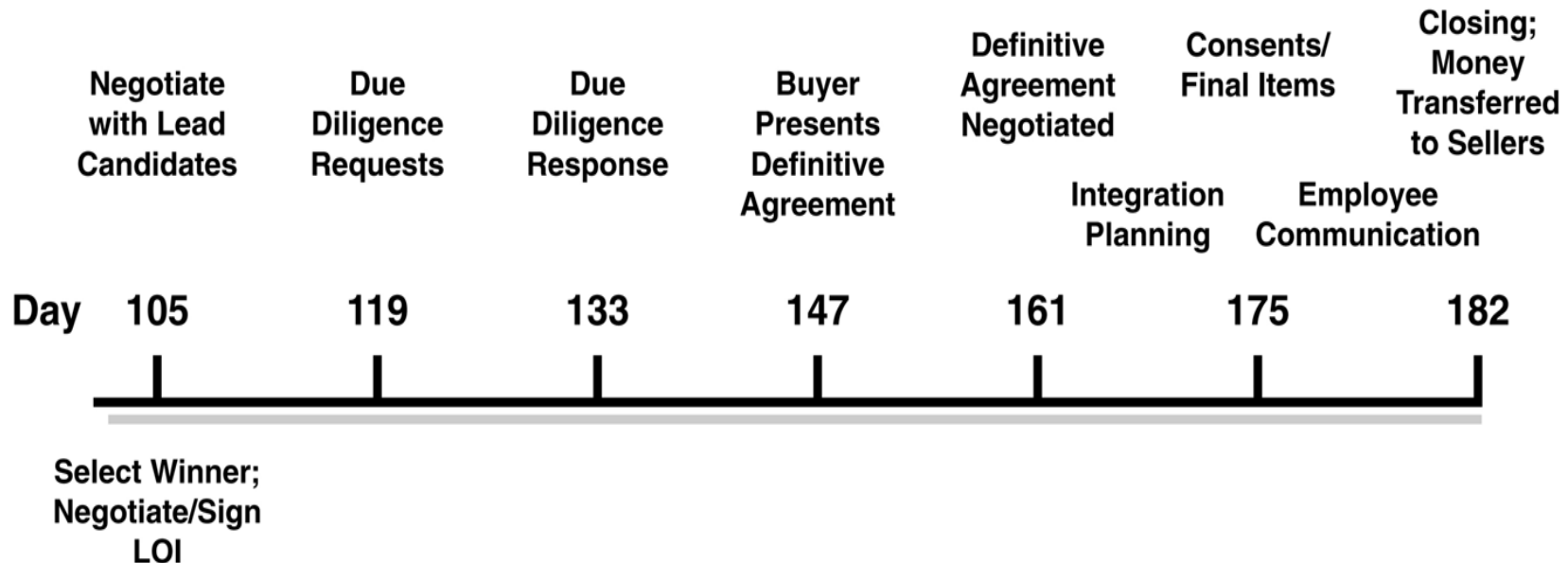
Optimizing M&A Success

Planning and Process Are Key to a Successful Transaction



Optimizing M&A Success

Planning and Process Are Key to a Successful Transaction (continued)



Preparing for Sale: The Readiness Cycle

Advanced Planning (in advance of 'formal' selling campaign)

- Auditor review of financial statements
- Current on obligations
- A/R in order
- Contract transition strategy set
- Equity allocation certain/estate planning in order
- Contract cycle timing

M&A Process Readiness (once 'formal' selling campaign commences)

- Recast financials
- Tax options at sale spelled out
- Acquisition attorney lined up
- Dedicated internal resources
- Customer communication
- Post-transaction owner position specified

Readying the M&A Team

- Internal Company Resources
 - Diligence requests
 - Cataloguing/managing data flows
 - Operating to plan during process
- Attorney
 - Corporate documents review
 - Purchase agreement negotiation
- Accountant/Tax Advisors
 - Year-end/mid-year financial statements
 - Analyzing tax impacts to shareholders
- M&A Advisors
 - Capture manager role :
 - Positioning company for sale/drafting prospectus
 - Valuation
 - Inducing bids/prioritizing bidders
 - Transaction negotiation

Thank You

- Q&A

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