



Achieving Financial Excellence

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Agenda

I. What is “financial excellence”?

II. Why achieve financial excellence?

III. How is it achieved?

IV. Examples

V. Closing remarks

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I. What is “financial excellence”?

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What is financial excellence?

“Financial excellence” is having the processes in place to confidently make, on a timely basis, informed decisions regarding matters that significantly impact the cash-flow of your business

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Why achieve financial excellence?

1) To be able to quantify risks

- What would happen if we ship 15% less than forecast in the second-half of 2009?
- What would happen if there is a 2% decrease in pricing 2009?
- At what level of deferrals in 2010 would we start to have difficulty making loan payments to the bank?

To quantify the impact on cash flow

Why achieve financial excellence?

2) To be able to quantify opportunities

- We have an opportunity to acquire a used piece of equipment at a great price. Should we do it?
- If we pay for the NRE on a new assembly, we will get a 5-year exclusive. Should we do it?
- Prices on a key commodity for us is at a 6-year low. Should we overstock?
- A trusted vendor just made us a very attractive offer to take-over some processes that we currently do in-house. Should we outsource this process?

To quantify the impact on cash flow

Why achieve financial excellence?

3) To be able to set clear expectations

- Executive compensation
- Employee compensation
- Creditors (covenants & repayments)
- Shareholders (earnings, distributions, returns)
- Other stakeholders (governments, etc)

Most privately held aerospace companies do not hold managers accountable for cash flow targets

Why achieve financial excellence?

3) Setting expectations - *Continued*

Examples:

- We plan to distribute \$1.8 million to our shareholders in 2009
- Senior management will receive 35% bonuses if net cash-flow meets or exceeds \$4.25 million
- We will reduce our line of credit borrowings by \$2.5 million by year-end

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How to achieve financial excellence

Four steps to financial excellence:

1. Data capture
2. Financial planning
3. Financial analysis
4. Making informed decisions

Much of this is addressed in the SEA Roadmap
(Ref. 1.1.3 – balanced scorecard)

How to achieve financial excellence

1. Data capture

- You can't manage "it" if you don't measure "it" (just like 6σ)
- What is it?

"It" is your **CASH** - all aspects of your business that consume or generate cash. Note: there are very few aspects of any business that don't generate or use cash.

Financial excellence requires the capture of real time data regarding all activities that impact cash

How to achieve financial excellence

1. Data capture - *continued*

Establish processes to capture real time data

- ▶ This is usually the most difficult part of achieving financial excellence
- ▶ Timeliness: The closer to real time the better, but old data is better than no data
- ▶ Accuracy: 100% reliability is better, but data with estimates is better than no data

The more accurate the data, the greater the confidence you will have when you make decisions

How to achieve financial excellence

2. Financial planning (budgeting)

- Periodicity
 - ▶ Monthly (12x)
 - ▶ Yearly (3x)
- Format
 - ▶ Must include all aspects of the business that can impact (generate or consume) cash

Financial plans should include all factors that impact cash flow

How to achieve financial excellence

2. Financial planning - *continued*

There are numerous COTS planning programs

- Alight Planning Software www.alightplanning.com
- Budget Maestro www.centage.com
- Cash Flow XT2-2009 www.cashplan.com
- Ultimate Financial Forecaster 3.0 www.abs-usa.com
- Whitebirch Planning www.projectedfinancials.com

The above are a random sample of COTS financial planning software programs. There are many others. Alderman & Company Capital, LLC has no relationship with the above companies and does not support or recommend these programs. These have been provided only for example purposes.

How to achieve financial excellence

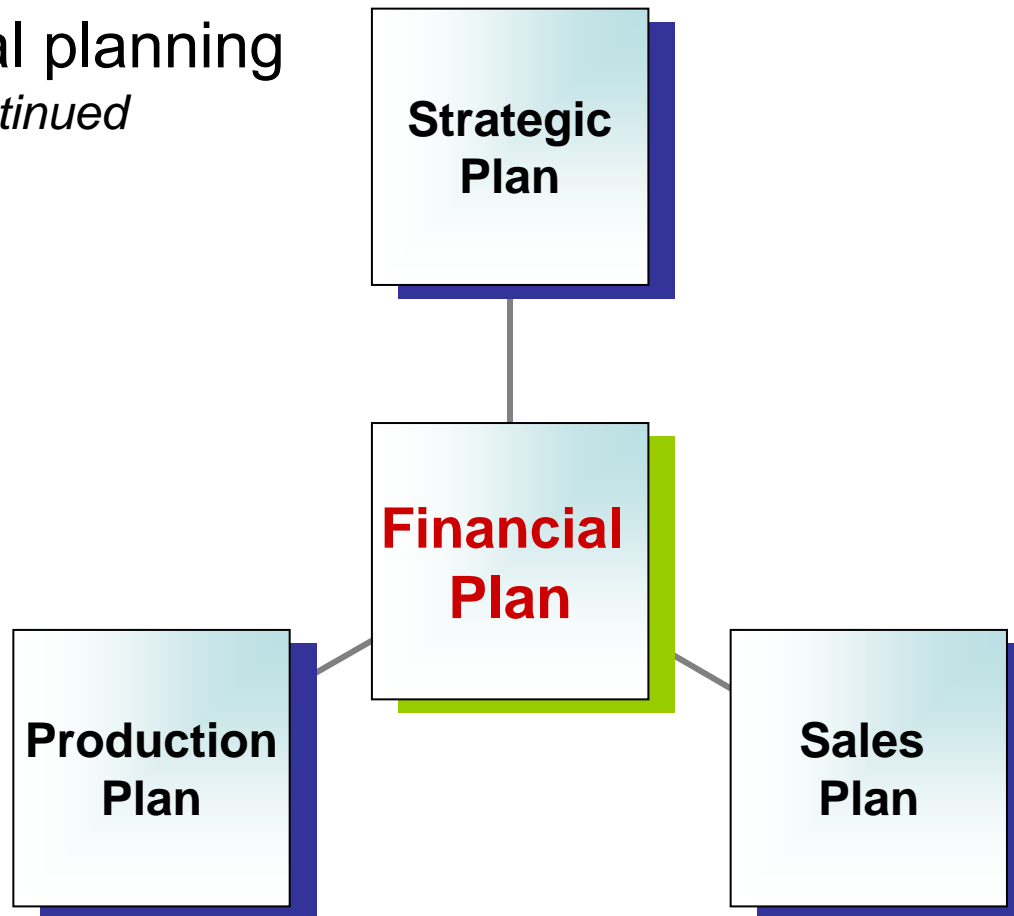
2. Financial planning – *Continued*

- Strike a reasonable balance between cost to implement and quality of data
- Don't try to make your plans '100% accurate', no one can predict the future perfectly
- If you spend too much time generating your budgets, you will stop doing them

**Sound financial planning facilitates
better decision making**

How to achieve financial excellence

2. Financial planning – Continued



The financial plan links all other corporate plans

How to achieve financial excellence

3. Financial analysis (variance to plan)

- Periodicity
 - ▶ Weekly – Level 1 Data
 - ▶ Monthly – Level 1 and 2 Data
 - ▶ Quarterly – All Data
- Organization
 - ▶ Who runs the meetings?
 - ▶ Who attends the meetings?
 - ▶ What information is 'not shared'

Analysis identifies risks and opportunities

How to achieve financial excellence

3. Financial analysis - *continued*

Financial analysis should be tailored to the unique attributes of your business

- ▶ What are the Level 1, 2 and 3 financial metrics for your business?
- ▶ How can your organization do financial analysis efficiently?
- ▶ Should/can financial analysis become a part of your corporate culture?

How to achieve financial excellence

4. Making informed decisions

Through financial excellence, management gains better insight into risks and opportunities facing the business and greater confidence to act quickly and decisively

Examples:

- ▶ Inventory is \$1.2MM over plan
 - What caused this?
 - What should we do in response?

- ▶ A customer pushed-out \$5MM in work by 26 weeks
 - What does this mean to our Op Plan?
 - Does this impact our ability to make the loan payment coming due in 8-months?

Financial Excellence empowers management to act faster and with greater confidence

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Example

Example: Financial Planning Model

[Financial Modeling Scenarios]

Sample Corporation

Financial Model

SUMMARY (\$000)	Historical 12/31/06	Historical 12/31/07	Historical 12/31/08	3 Year Average	Projected 12/31/09	Projected 12/31/10	Projected 12/31/11	Projected 12/31/12	Projected 12/31/13
Revenue	45,000	50,000	55,000	50,000	57,750	60,638	63,669	66,853	70,195
Growth		11%	10%		5%	5%	5%	5%	5%
Gross Profit	15,000	16,500	17,500	16,333	18,375	19,294	20,258	21,271	22,335
As % Rev.	33%	33%	32%	33%	32%	32%	32%	32%	32%
SG&A	9,000	9,500	10,000	9,500	10,500	11,025	11,576	12,155	12,763
As % Rev.	20%	19%	18%	19%	18%	18%	18%	18%	18%
EBITDA	6,300	7,325	7,875	7,167	7,575	7,919	8,307	8,716	9,122
As % Rev.	14%	15%	14%	14%	13%	13%	13%	13%	13%

BALANCE SHEETS

(\$000)

	Historical 12/31/06	Historical 12/31/07	Historical 12/31/08		Historical 12/31/06	Historical 12/31/07	Historical 12/31/08
ASSETS				LIABILITIES			
Cash & Mkt Sec.	500	650	750	Current Portion of LT Debt	500	550	650
Accounts Receivable	6,000	6,500	6,750	Short Term Borrowings	1,000	1,000	1,000
Inventory	15,000	15,500	16,000	Accounts Payable	5,000	5,250	5,500
Other	0	0	0	Accrued Expenses	1,200	1,300	1,400
Prepaid Expenses	1,000	1,100	1,200	Customer Deposits	0	0	0
Other	0	0	0	Other	0	0	0
Total Current Assets	22,500	23,750	24,700	Total Current Liabilities	7,700	8,100	8,550
Property & Equipment (net)	10,000	12,000	14,000				
				Long-term Debt	3,500	3,600	3,700
				Other	0	0	0
				Total Other Liabilities	3,500	3,600	3,700
Other Assets	0	0	0	TOTAL LIABILITIES	11,200	11,700	12,250
Total Other Assets	0	0	0				
				EQUITY	21,300	24,050	26,450
TOTAL ASSETS	32,500	35,750	38,700	TOTAL LIAB & EQUITY	32,500	35,750	38,700

HISTORICAL P&L

(\$000)

	12/31/06		12/31/07		12/31/08	
Net Sales (% Change)	45,000		50,000	11%	55,000	10%
Adjusted Cost of Goods Sold	30,000		33,500		37,500	
Gross Profit (% Sales)	15,000	33%	16,500	33%	17,500	32%
SG&A	9,000	20%	9,500	19%	10,000	18%
Operating Income	6,000	13%	7,000	14%	7,500	14%
Interest (Exp) Inc, Net	(250)		(350)		(450)	
Other (Losses) Gains	0		0		0	
Other (Exp) Inc	0		0		0	
Total Other Exp (Inc)	(250)		(350)		(450)	
Income Before Taxes	5,750		6,650		7,050	
Taxes	(2,243)		(2,594)		(2,750)	
Adjusted Net Income	3,507	8%	4,056	8%	4,300	8%

EBITDA

Net Income	3,507		4,056		4,300	
Interest Expense	250		350		450	
Taxes	2,243		2,594		2,750	
Depreciation	300		325		375	
EBITDA	6,300	14%	7,325	15%	7,875	14%

WORKING CAPITAL

(\$000, where applicable)

	HISTORICAL WORKING CAPITAL				PROJECTED WORKING CAPITAL				
	Historical 12/31/2006	Historical 12/31/2007	Historical 12/31/2008	Hist. Avg.	Projected 12/31/2009	Projected 12/31/2010	Projected 12/31/2011	Projected 12/31/2012	Projected 12/31/2013
<u>Accounts Receivable</u>									
Avg. Days Outstanding	49	47	45	47	47	47	47	47	47
Total Revenue	45,000	50,000	55,000		57,750	60,638	63,669	66,853	70,195
Receivables	6,000	6,500	6,750		7,432	7,803	8,193	8,603	9,033
<u>Owned Inventory</u>									
Avg. Days Outstanding	183	169	156	169	169	169	169	169	169
Cost of Good Sold	30,000	33,500	37,500		39,375	41,344	43,411	45,581	47,861
Inventory	15,000	15,500	16,000		18,235	19,147	20,104	21,110	22,165
<u>Prepaid & Other Current Assets</u>									
Total Revenue	45,000	50,000	55,000		57,750	60,638	63,669	66,853	70,195
% of Revenue	2.22%	2.20%	2.18%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%
Prepaid & Other	1,000	1,100	1,200		1,271	1,335	1,402	1,472	1,545
<u>Accounts Payable</u>									
Avg. Days Outstanding	61	57	54	57	57	57	57	57	57
Cost of Good Sold	30,000	33,500	37,500		39,375	41,344	43,411	45,581	47,861
Accounts Payable	5,000	5,250	5,500		6,169	6,478	6,802	7,142	7,499
<u>Accrued Expenses</u>									
Total Revenue	45,000	50,000	55,000		57,750	60,638	63,669	66,853	70,195
% of Revenue	2.67%	2.60%	2.55%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
Accrued Expenses	1,200	1,300	1,400		1,504	1,579	1,658	1,741	1,828
Total Working Capital	15,800	16,550	17,050		19,265	20,228	21,240	22,302	23,417
Change in Working Capital		750	500		2,215	963	1,011	1,062	1,115

CAP-X (\$000)	Projected 12/31/2009	Projected 12/31/2010	Projected 12/31/2011	Projected 12/31/2012	Projected 12/31/2013
Project 1	25	35	75	-	-
Project 2	50	75	15	-	-
Project 3	100	500	100	50	-
Project 4	-	35	65	25	-
Project 5	-	100	200	25	25
Project 6	-	50	50	50	-
Project 7	-	-	250	-	-
Project 8	-	-	-	200	-
Project 9	-	-	-	-	75
Project 10	-	-	-	-	-
Total	175	795	755	350	100

PROJECTED INCOME STATEMENTS

(\$000)

	Historical 12/31/2008	Projected 12/31/2009	Projected 12/31/2010	Projected 12/31/2011	Projected 12/31/2012	Projected 12/31/2013
Sales	55,000	57,750 5%	60,638 5%	63,669 5%	66,853 5%	70,195 5%
Cost of Goods Sold	37,500	39,375	41,344	43,411	45,581	47,861
Gross Profit	17,500 32%	18,375 32%	19,294 32%	20,258 32%	21,271 32%	22,335 32%
Operating Expenses	10,000 18%	10,500 18%	11,025 18%	11,576 18%	12,155 18%	12,763 # 18%
Operating Income	7,500 14%	7,875 14%	8,269 14%	8,682 14%	9,116 14%	9,572 14%
Other						
Interest (Exp) Inc, Net	(450)	(321)	(287)	(228)	(169)	(110)
Other (Losses) Gains	-	0	0	0	0	0
Total Other	(450)	(321)	(287)	(228)	(169)	(110)
Taxes	(2,750)	(3,314)	(3,473)	(3,621)	(3,777)	(3,951)
Net Income	4,300	4,240	4,508	4,833	5,170	5,511
EBITDA						
Net Income	4,300	4,240	4,508	4,833	5,170	5,511
Interest Expense	450	321	287	228	169	110
Income Taxes	2,750	3,314	3,473	3,621	3,777	3,951
Depreciation & Amort.	375	-300	-350	-375	-400	-450
EBITDA	7,875 14%	7,575 13%	7,919 13%	8,307 13%	8,716 13%	9,122 13%

PROJ. CASH FLOW (\$000)	Projected 12/31/2009	Projected 12/31/2010	Projected 12/31/2011	Projected 12/31/2012	Projected 12/31/2013
Opening Cash Balance	750	1,000	1,000	1,000	1,000
EBITDA	7,575	7,919	8,307	8,716	9,122
Working Capital Sources/(Uses)	(2,215)	(963)	(1,011)	(1,062)	(1,115)
CapX	(175)	(795)	(755)	(350)	(100)
Cash Available from Operations	5,935	7,161	7,541	8,304	8,907
Cash Taxes	(3,314)	(3,473)	(3,621)	(3,777)	(3,951)
Interest Expense	(321)	(287)	(228)	(169)	(110)
Revolver Borrowings/(Repayment)	0	0	0	0	0
Debt Borrowings/(Repayments)	(740)	(740)	(740)	(740)	(740)
	(4,375)	(4,501)	(4,589)	(4,686)	(4,801)
Cash Available for Distribution	1,560	2,660	2,952	3,618	4,106
Distributions to Shareholders	(560)	(1,660)	(1,952)	(2,618)	(3,106)
Ending Cash	1,000	1,000	1,000	1,000	1,000
Target Cash Balance	1,000	1,000	1,000	1,000	1,000

Proj. Bal Sheets

(\$000)

Assets

	Historical 12/31/2008	Projected 12/31/2009	Projected 12/31/2010	Projected 12/31/2011	Projected 12/31/2012	Projected 12/31/2013
Cash & Mkt Sec.	750	1,000	1,000	1,000	1,000	1,000
Accounts receivable	6,750	7,432	7,803	8,193	8,603	9,033
Inventory	16,000	18,235	19,147	20,104	21,110	22,165
Other	0	0	0	0	0	0
Prepaid Expenses	1,200	1,271	1,335	1,402	1,472	1,545
Total Current Assets	24,700	27,938	29,285	30,699	32,184	33,744
PP&E		14,175	14,970	15,725	16,075	16,175
Accumulated depreciation		300	650	1,025	1,425	1,875
Net PP&E	14,000	14,475	15,620	16,750	17,500	18,050
Goodwill	0	0	0	0	0	0
Due from Affiliates	0	0	0	0	0	0
Other Assets	0	0	0	0	0	0
Intangible Assets	0	0	0	0	0	0
Other Assets	0	0	0	0	0	0
TOTAL ASSETS	38,700	42,413	44,905	47,449	49,684	51,794

LIABILITIES

	Historical 12/31/2008	Projected 12/31/2009	Projected 12/31/2010	Projected 12/31/2011	Projected 12/31/2012	Projected 12/31/2013
Current Portion of LT Debt	650	650	650	650	650	650
Short Term Borrowings	1,000	1,000	1,000	1,000	1,000	1,000
Accounts Payable	5,500	6,169	6,478	6,802	7,142	7,499
Accrued Expenses	1,400	1,504	1,579	1,658	1,741	1,828
Customer Deposits	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total Current Liabilities	8,550	9,323	9,707	10,110	10,533	10,977
Other	0	0	0	0	0	0
Long-term debt	3,700	2,960	2,220	1,480	740	0
Other	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0
Total Long Term Liabilities	3,700	2,960	2,220	1,480	740	0
Total Liabilities	12,250	12,283	11,927	11,590	11,273	10,977
Starting Equity		26,450	30,130	32,978	35,860	38,412
+ Net Income - Distributions		3,680	2,848	2,881	2,552	2,405
Ending Equity	26,450	30,130	32,978	35,860	38,412	40,817
TOTAL LIAB & EQUITY	38,700	42,413	44,905	47,449	49,684	51,794
Balance Sheet Check	0.0	0.0	0.0	0.0	0.0	0.0
					Net Debt At Exit	650

DCF VALUATION

		(\$000)		Valuation Date		6/30/2009
IRR		15.25%				
Terminal Multiple		6.00				
Free Cash Flow		12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Distributions to Shareholders		560	1,660	1,952	2,618	3,106
Terminal Value						
		EBITDA				9,122
		Terminal Multiple				6.00
						54,733
		Net Debt at Exit				650
		Terminal Value				54,083
Discounted Values		12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Year		1	2	3	4	5
Discount Factors		1.07	1.24	1.43	1.64	1.90
Nominal Cash Flows		560	1,660	1,952	2,618	57,189
Discounted Free Cash Flow		\$521	\$1,341	\$1,368	\$1,592	\$30,178
Enterprise Value						\$35,001
- Net Debt at time zero						-\$4,610
= Value of Common Stock						\$30,391

Sample Corporation

Supporting Schedules

DEPRECIATION & TAXES**ASSUMPTIONS**

(\$000)

Depreciation Schedules

MACRS Schedule
 ADR Schedule
 Book Schedule

	Projected	Projected	Projected	Projected	Projected
Starting	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Tax Depreciation	-300	-350	-375	-400	-450
Book Depreciation	-300	-350	-375	-400	-450
TAXES	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Income Before Dep & Amort	8,196	8,556	8,910	9,285	9,682
<u>BOOK</u>					
Book Depreciation	-300	-350	-375	-400	-450
Taxable Income	8,496	8,906	9,285	9,685	10,132
Tax Rate	39.0%	39.0%	39.0%	39.0%	39.0%
Book taxes	3,314	3,473	3,621	3,777	3,951
<u>IRS TAXES</u>					
IRS Depreciation	-300	-350	-375	-400	-450
Other	0	0	0	0	0
Taxable Income	8,496	8,906	9,285	9,685	10,132
Tax Rate	39.0%	39.0%	39.0%	39.0%	39.0%
Cash Taxes	3,314	3,473	3,621	3,777	3,951
Increase (dec.) Deferred Taxes	0	0	0	0	0

PROJECTED DEBT SCHEDULES

(\$000)

LONG TERM DEBT

(\$000)

Long-term Debt	Adjusted 12/31/07	Estimated 12/31/08	Projected 12/31/09	Projected 12/31/10	Projected 12/31/11	Projected 12/31/12
Beginning Balance		3,700	2,960	2,220	1,480	740
Additions			0	0	0	0
Principal Payment		740	740	740	740	740
Ending Balance	3,700	2,960	2,220	1,480	740	0
Months Outstanding		12	12	12	12	12
Interest Expense		241	207	148	89	30
Avg. Interest		7.25%	8.00%	8.00%	8.00%	8.00%

Other

1

Beginning Balance		0	0	0	0	0
Additions		0	0	0	0	0
Principal Payment		0	0	0	0	0
Ending Balance	0	0	0	0	0	0
Months Outstanding		12	12	12	12	12
Interest Expense		0	0	0	0	0
Avg. Interest		8.00%	8.00%	8.00%	8.00%	8.00%

Revolver

Adjusted

	Adjusted 12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Revolver: Borrowing Base Analysis						
Accounts Receivable	6,750	7,432	7,803	8,193	8,603	9,033
Loan Advance Rate [1]	75%	75%	75%	75%	75%	75%
	5,063	5,574	5,852	6,145	6,452	6,775
Inventory	16,000	18,235	19,147	20,104	21,110	22,165
Loan Advance Rate	50%	50%	50%	50%	50%	50%
	8,000	9,118	9,574	10,052	10,555	11,083
Available Base	13,063	14,691	15,426	16,197	17,007	17,857
Beginning of Year Revolver Balance	0	0	1,000	1,000	1,000	1,000
Excess Revolver Availability	13,063	14,691	14,426	15,197	16,007	16,857

Revolving Line of Credit

Beginning Balance		1,000	1,000	1,000	1,000	1,000
New draws as % of Excess Borrowing Availabil		0.0%	0.0%	0.0%	0.0%	0.0%
New Borrowings		0	0	0	0	0
Ending Balance	1,000	1,000	1,000	1,000	1,000	1,000
Balance as % of Available Base	8%	7%	6%	6%	6%	6%
Avg. Interest		80	80	80	80	80

Total Interest Expense**321 287 228 169 110****Total Scheduled Principal Payments****740 740 740 740 740**

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Closing remarks

- Financial excellence is having the processes in place to confidently make, on a timely basis, informed decisions regarding matters that significantly impact the cash-flow of your business.
- Financial excellence is achieved through four steps:
 1. Capturing data that impacts cash flow
 2. Quantifying expected outcomes
 3. Analyzing actual performance versus plans
 4. Having confidence to act decisively

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