

Alderman & Company Consulting

Business Valuation Practice



Financial Consultants to the Aerospace and Defense Industry

*Alderman & Company Consulting, LLC, is a boutique consulting firm
focused exclusively on the aerospace and defense industries.*

Qualifications

Alderman & Company Consulting is one of the world's most recognized and respected firms in the field of business valuations in the middle market of the aerospace and defense industry.

WILLIAM H. ALDERMAN



The firm's valuations are conducted under the direction of William Alderman. Mr. Alderman is a business valuation litigation expert who has been quoted in leading publications and networks, including CBS, CNN, Bloomberg, Dow Jones/*The Wall Street Journal*, *USA Today*, *Forbes*, *The Los Angeles Times*, and *The Washington Post*. Mr. Alderman has also been a keynote speaker about valuations and mergers and acquisitions in the aerospace and defense industry at leading conferences throughout Europe and the United States. As described below, Mr. Alderman has extensive training, expertise, and experience in the field of business valuations in the aerospace and defense industry. He started his career at Bankers Trust Company and has held senior positions in investment management and corporate development at GE Capital, Aviation Sales Company, and most recently as Managing Director of the aviation investment banking practice of Fieldstone. He also serves on the boards of Breeze-Eastern Corporation (NYSE AMEX: BZC) and TeamStaff (NASDAQ: TSTF). Mr. Alderman has been an FAA-licensed pilot since 1983, and a member of the Wings Club of New York since 1992. Mr. Alderman, age 48, resides in Ridgefield, Connecticut.

PROFESSIONAL LICENSES

NASD: Series 7, General Securities Representative

NASD: Series 24, General Securities Principal

NASD: Series 63, Uniform Securities Agent

NASD: Series 65, Investment Advisor Representative

FAA: Pilot's License (PPSEL) with complex and high-performance type ratings

EDUCATION

MBA, J. L. Kellogg Graduate School of Management, 1989. Majors in Finance and Marketing; Minor in Accounting.

AB Kenyon College, 1984. Major in History. Academic All-Ohio Soccer Team 1983, Kearney Award for outstanding sportsmanship 1981, 1982.

PROFESSIONAL EXPERIENCE

2001 – Present: *Alderman & Co.*

In March, 2001, Mr. Alderman founded Alderman & Company to serve the aerospace and defense industry, with a specialization in the middle market. His success is shown in the quality of the firm's clientele, which includes some of the world's most respected aerospace and defense companies.

PROFESSIONAL EXPERIENCE (continued)**1999 – 2001: *Fieldstone, New York, NY***

Mr. Alderman joined Fieldstone in 1999 as Managing Director of its Aviation Practice, responsible for securities transactions with North American clients in the aerospace and defense industry. Services provided included private placements, leveraged buyouts, mergers and acquisitions, strategic financial planning, and business valuations. His budget at Fieldstone was exceeded in each reporting period through the use of measures such as transaction originations and fee generation.

1996 – 1999: *Aviation Sales Company, Miami, FL*

Mr. Alderman joined Aviation Sales Company as Senior Vice President responsible for Sales & Marketing, Military Programs, Corporate Strategy, and Mergers and Acquisitions immediately following the initial public offering of the company and its listing on the New York Stock Exchange. By 1999, the company had completed 10 acquisitions, had total revenues in excess of \$700 million and nearly 3,000 employees. Mr. Alderman's specific responsibilities included business valuations, developing corporate strategy, presenting acquisition opportunities to the board of directors, and structuring, documenting and integration planning for mergers and acquisitions.

1991 – 1995: *General Electric Company, Stamford, CT*

Mr. Alderman joined GE Capital in 1991 as a Registered Securities Representative and Senior Associate. He continued working in investment banking, with a specific focus on the aviation industry. During his five-year career at GE Capital, more than \$1 billion in financings, private placements, and mergers and acquisitions in aerospace and defense industry were completed under his direction. Approximately every 18 months, Mr. Alderman was promoted, eventually rising to the position of Vice President in 1994. As evidence of excellence in his field, Mr. Alderman received the coveted GE Capital Circle of Excellence award in 1994.

1989 – 1990: *Bankers Trust Company, New York, NY*

Mr. Alderman gained his initial professional business valuation experience serving as a Registered Securities Representative and Investment Banking Associate of BT Securities, the securities unit of Bankers Trust Company. There, as a member of the Investment Banking Associates Training Program, he received extensive professional training in such areas as business valuations, securities regulation and gained substantial transaction experience in regard to private placements, leveraged buyouts and mergers and acquisitions.

Clients

Aerotron Limited
Alken Industries
Angelo Gordon
Birken Manufacturing
Dixie Aerospace
Fortress Capital
GenMech Aerospace
Hoffman Engineering
John Hassall
Kratz Wilde Machine
Loeb Partners
Marathon Capital
Mason Capital
Mellon Bank
Orn Capital
Reimer & Rosenthal
Ritchie Capital
S&L Aerospace
Sandell Asset Management
Strategic Value Partners
TecoMetrix
Wynnefield Capital

This is a partial list of clients who have had valuation reports produced by one or more of the following affiliated companies owned by William H. Alderman: Alderman & Co.; Alderman & Co., LLC; Alderman & Company, LLC; and Alderman & Company Consulting, LLC.

Valuation Methods

A business valuation is an analytical process for predicting the price at which a willing buyer and a willing seller would enter into a transaction to exchange the ownership of a business. Given that buying a business is a human endeavor, and future human behavior is impossible to predict with certainty, it is similarly impossible to predict the exact value at which a willing buyer and a willing seller will exchange a business. Furthermore, there are substantial non-cash costs and benefits to be negotiated and considered in the sale of any business, including but not limited to, the following:

- Employment, severance and non-compete agreements
- Structure (asset vs. stock sale)
- Taxation (338 elections)
- Transfer and assumption of contingent liabilities
- Representations and warranties
- Product and environmental liabilities
- Speed and certainty of closing

In developing a business valuation, the valuation firm seeks to predict the future behavior of likely buyers for the subject company. We utilize our staff's experience working with buyers and sellers of middle market aerospace companies to replicate the methods and models that will most likely be utilized by potential buyers to value the business. By using methods and models that match those used by likely buyers, Alderman & Company Consulting, LLC, is able to generate a prediction of the value that has a high level of correlation to actual market behavior. We note that until such time as a company is actually sold and definitive terms and conditions agreed upon, it is impossible to know with certainty what that company is truly worth to a willing seller and a willing buyer at any given time. Based upon our knowledge of the market for middle market aerospace and defense companies and staff's experience working with the buyers and sellers of these types of companies, we have developed a valuation approach that we believe most accurately replicates the behavior of the buyers. Accordingly, we use three separate valuation methods to develop a holistic view of the value of the business.

These three methods are described in detail on the following pages.

The Income Method

The Income Valuation Method is built on the assumption that investors in a business will formulate their view of the value of a business based upon their expectation of the future income (or free cash flow) that the business will generate. This method of valuation is highly sensitive to subjective assessments of the future performance of a business and to the discount rate to be used to discount those cash flows. This method is also sensitive to the expected holding period for the buyer (also called the life of the investment, which is often expressed mathematically via a perpetuity cash flow or exit multiple).

The company's future performance is the single most critical variable under the income valuation method. Accordingly, Income Method valuations are only as accurate as the underlying projections utilized to create them. Our substantial experience in working with middle market aerospace and defense companies enables us to optimally guide our clients in the development of their projections such that they accurately and objectively predict expected future cash flows.

Valuation Methods

There are a number of Income Valuation Method models used in the financial markets today, including IRR, ROI, ROA and others. Our experience is that a substantial majority of investors in the middle market of the aerospace and defense industry utilize the Discounted Cash Flow model as their model of choice in developing values under the income method. Our Discounted Cash Flow (“DCF”) model is proprietary and has been developed in-house and modified extensively during the eight years that we have been using it. The model, in base form, is roughly 20 pages in length and includes a complete forecast for balance sheets, income statements, and cash flow statements, typically for a five-year projection period. Our DCF models have been used to value, buy, and sell companies and for expert witness testimony in complex litigation. Sample DCF models can be provided to prospective clients, upon request, following execution of an agreement of confidentiality.

The Market Method

The Market Valuation Method assumes that there exists a market for companies similar to the subject company and that the subject company should trade at a comparable price. The greatest difficulty with this method is identifying and obtaining financial information about companies like the subject company that have recently been sold. While this information is typically available for public companies, it is often very difficult to obtain for private companies. We exert considerable effort to track mergers and acquisitions of middle market companies in the aerospace and defense industry to maintain a substantial database of these transactions. This valuation method is commonly referred to as the Comparable Transactions method, or “Comps.” Based upon the fact that most buyers of middle market aerospace companies tend to use multiples of trailing EBITDA (earnings before interest, taxes, depreciation and amortization) and multiples of trailing revenue, these are the two market value methods utilized by Alderman & Company Consulting, LLC, as follows:

EBITDA Multiple: $\text{Adjusted EBITDA} \times (\sum \text{Price} / \sum \text{EBITDA})$

Revenue Multiple: $\text{Revenue} \times (\sum \text{Price} / \sum \text{Revenue})$

Buyers seldom make adjustments to the seller’s trailing 12-month revenue figures. However, most buyers spend substantial time and effort analyzing the trailing 12-month EBITDA projections of a seller and typically make substantial adjustments to develop a view of the EBITDA that would have been available to them had they been the owner of the company during that period of time. Adjustments that are often made to EBITDA include, but are not limited to: officer/owner compensation and benefits, warranty costs, inventory and accounts receivable reserves, and transactions with affiliates. In our valuation reports, we clearly set forth the rationale for each of the adjustments that we find necessary for the seller. For private companies, these adjustments typically result in a restated EBITDA that is higher than the level reported in their GAAP financial statements.

Replacement Cost Method

The Replacement Cost Method is used less often than the other two methods to value companies in the middle market of the aerospace and defense industry because sellers usually are not motivated to sell their businesses at replacement cost levels. However, some buyers, especially strategic buyers, often consider the possibility of building the subject business organically/internally when considering acquisitions. When the replacement cost is substantially below the asking price for a business, we caution our clients that there is a risk that strategic buyers will opt to build the business internally rather than acquire the seller’s company at their asking price.

Valuation Costs & Services

Often, the most difficult part of developing a valuation under the replacement cost method is in dealing with intangible assets, including but not limited to: goodwill, trade names, intellectual property, patents, proprietary technology and knowledge, customer relationships and customer lists. Given our active and extensive knowledge of this market, we are extremely well positioned to provide expert guidance and financial advice to sellers in regard to the value of their intangible assets.

WEIGHTING

Most buyers will use one or more of the three valuation methods noted above. Which methods and exact models they use, and how they will be weighed, depends on numerous variables, including but not limited to: the type of buyer, buyer preferences and precedent, unique attributes of the seller, and current market conditions. Based upon our experience and knowledge of the client, the expected buyers, and market conditions, we develop a weighting that most accurately predicts the behavior that should be expected from likely buyers. While this weighting is subjective, based on our exceptional track record of accurately predicting value, we believe our performance in this area speaks for itself. Upon request, references will be provided to qualified parties.

VALUATION PROCESS

While each valuation engagement is tailored to the specific needs of the client and current market conditions, most of our valuations are performed according to the following procedures:

- Collecting historic financial data, including but not limited to:
 - Financial statements prepared under Generally Accepted Accounting Principles for prior 5 years. *Audited statements are preferred.*
 - Schedules of owner compensation and benefits
 - Reserves history
 - Schedules of transactions with affiliates
 - Projections for 5 years (not required for Level III valuations, see below)
- Collecting business data, including but not limited to:
 - Intellectual property
 - Backlog (by program, by customer)
 - New products under development
 - Product Liability/warranty claims
- Report Submission

VALUATION SERVICES

Depending upon client needs, Alderman & Company Consulting provides valuations in three levels, as follows.

Level I. A Level I valuation is our most comprehensive valuation and utilizes all three valuation methods to determine a holistic view of the fair market value of the business. Given that most buyers will utilize all three methods, only an in depth examination of all three methods can provide the client with a full picture of the potential bids the client might receive for the business. A Level I report is typically 75 pages in length and is presented in person by a member of our staff.

Pricing and Terms

VALUATION SERVICES *(continued)*

Level II. A Level II valuation is the same as a Level I, excluding the in-person presentation by a member of our staff.

Level III. For those clients who only need an estimate of the current fair market value of their business, we offer our Level III service. This valuation utilizes two of the three valuation methods noted above and provides a rough estimate of the value of a company. Excluded from a Level III report is the Income Method valuation method (the DCF). Because of the substantial amount of time and resources required to run our DCF models, by eliminating this one method from the process we can offer our clients a form of valuation at a substantially reduced cost. While the benefit in so doing is a cost savings, we note that Level III is not a certified valuation and the client assumes the risk that this form of valuation may not provide an accurate prediction of buyer behavior.

Pricing

Our pricing for each valuation level is based on an industry standard flat fee. Our fee ranges are shown below. The exact fee for a given engagement is based a number of factors, including the size of the company, the complexity of the valuation, the quality of their financial reporting systems, and third party reliance. Half of the fee is due in advance; the balance is due upon completion.

I	\$15,000 to \$20,000
II	\$12,500 to \$15,000
III	\$ 5,000 to \$7,500

Expenses

The client is responsible for out of pocket expenses, including but not limited to, printing, shipping, and travel. Our reports are provided in electronic format and may be printed and replicated in unlimited numbers, at no additional cost.

Client Obligations

The client is responsible for providing Alderman & Company Consulting, LLC, with sufficient access to company's accounting, tax, and legal professionals.

Alderman & Company Consulting

CONSULTANTS TO THE AEROSPACE & DEFENSE INDUSTRY

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