

INTERVIEW

# Cliff Cooke

Chairman and CEO  
SYS Technologies, Inc.



**DM&A:** Why did SYS wait until 2004 to commence its M&A program?

CC: We needed to grow organically to reach a size where we controlled sufficient discretionary resources. When I arrived, the share price was \$.50 per share. It took some time to build the company internally, expand the infrastructure and articulate a strategy to investors in which M&A made sense.

**DM&A:** SYS sold engineering services exclusively when you arrived. How has that model evolved?

CC: There are three ways we sell our offerings.

First, we provide wide capability of engineering services sold to a limited set of clients, such as SPAWAR. Usually long-term contacts built on strong personal relationships, this work typically derives margins of 6-10%.

We also sell solutions built around our product offerings and technologies, typically at higher margins than the engineering services. An

**O**ne block at a time.

That's the way defense industry veteran Cliff Cooke is building San Diego-based SYS Technologies, Inc. (AMEX:SYS), with a revenue run rate of \$60 million. That reflects nearly 6x growth since he assumed the CEO role in 2001.

Joining SYS from his position as an entrepreneur and former executive vice president of Titan Systems, Cooke found SYS with \$8M in revenue and an undefined strategy.

Following a period of organic growth, SYS in 2004 embarked on an aggressive program of acquiring small, complementary businesses. Now, with seven transactions during the last 26 months, it sits as one of the most active acquirers in the defense sector. SYS reported \$49.7 million in revenue for 2005.

The company's strategy is focused on three markets – military C4ISR, public safety and security and industrial.

Having seen M&A as both buyer and seller (he started and sold two companies, including VisiCom to Titan), Cliff's observations hold particular merit.

Writing for **DM&A**, Paul Serotkin, President of investment bank Minuteman Ventures LLC, spoke recently with Cooke.

example is our TAPS solution. [Ed. note: SYS was awarded a \$75 million IDIQ contact under a Phase III SBIR Award this year this to develop applications around this proprietary decision support system. The Assessment Profiling System (TAPS) is a cornerstone of SYS' family of decision support tools that enable customers to gather and analyze diverse information required to make informed, strategic decisions.]

Third, we offer product solutions, such as the integrated digital video application software acquired in our buy of cVideo, Inc. in Dec. 2005.

Our acquisitions have tended to focus on the latter two areas, where potential for higher margins exists. Vigily's (SYS' interoperability backbone for public safety clients), for example, grew out of products derived from two of our acquired companies.

**DM&A:** How does the M&A strategy tie into the SYS Strategy?

CC: On arrival at SYS, we realized that despite the fact that we provided real value to our customer by selling a broad range of services there were also some drawbacks; low margins and the inability to differentiate ourselves even to long term customers. We had to grow beyond the pure services mentality, and begin to add value to these services which will, over time, allow us to improve margins dramatically.

After nearly a year in developing a strategy, we settled on one that "connected data to decisions," speaking to common needs among our three core markets – C4ISR, public safety and industrial.

**DM&A:** What does a candidate have to bring to SYS to become a worthy

.....Continued on page 7



Paul Serotkin is President of Minuteman Ventures LLC, an investment bank focused on sell- and buy-side M&A for defense, federal, intelligence and homeland security companies. Reach him at: paulserotkin@minutemanventures.com; tel: (781) 750-8065.

# Cliff Cooke

Continued from page 6

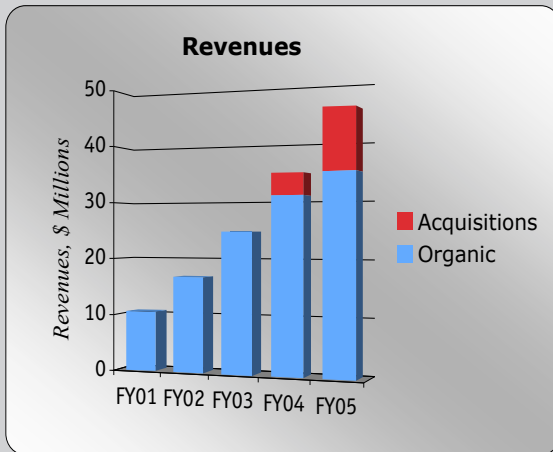
## M&A target?

CC: First, it must be able to stand alone. In other words, its product and solution set must be sufficiently mature so that SYS does not have to invest considerable funds to bring them to market.

*shares are off nearly 50% since last October. Are you concerned that the market has lost faith in the company's ability to execute on its growth plans—particularly its M&A program?*

CC: Not at all. We've consistently

As our story becomes better understood, we expect to gain more visibility from investors and analysts, which in turn should create a larger trading base in SYS stock. For any public company our size that is growing so fast, it is a challenge to balance the interests of our various



## SYS Technologies, Completed M&A Transactions

Acquired	Date	Rev's (\$M)
Reality Based IT Services, Ltd.	Apr. 2006	\$8.4
cVideo, Inc.	Dec. 2005	\$3.0
Logic Innovations, Inc.	Nov. 2005	\$3.5
Web Technologies, LLC	Oct. 2005	\$2.5
Antin Engineering, Inc.	Jan. 2005	\$4.0
Xsilogy, Inc.	Dec. 2004	N/D
Polexis, Inc.	Mar. 2004	\$8.0

Second, the acquired firm must be able to add new customers for existing SYS business entities.

Third, SYS must be able to add value to the company through its products and services.

**DM&A:** *Since M&A is core to the growth plan, the success rate on completed deals needs to be high. How have you made out so far?*

CC: We periodically rank each acquisition to see how they are performing. To date, we only have one transaction graded as a 'C.' All others are higher. So we are pleased to date.

**DM&A:** *Results for your fiscal third quarter ending March 31 showed a 23% increase in revenue year over year—but also included an operating loss of \$1.8 million. And your*

indicated to our investors that our strategy would require us to invest in the business via product development and sales and marketing.

The loss resulted from our decision to book the entirety of the anticipated 2006 negative indirect expense variance in Q3. This variance results directly from those investments in the business. And like many defense companies, we also had some customers lose anticipated funding for SYS projects through the delayed government budget process.

Our shares still trade in the range of 23 times our trailing twelve net income (based on 12/31/05), right in line with better covered, much larger publicly traded comparable firms. Indeed, we were able to raise \$6.25 million in a private placement (mostly from existing investors and management) at the current market price this February.

constituencies, including customers, investors, the SEC and other regulatory agencies. We believe we are well on the way to doing that as our growth record indicates

**DM&A:** *What advice do you have for smaller defense companies looking to sell or become acquirers?*

CC: The answer is the same for both. We practice 'Maneuver Control,' a term coined by Retired USMC General Al Gray. All of our people at every level of operation should know the 'commander's intent.' What is the CEO vision and how does it translate to operational and strategic decisions?

In other words, company personnel need to know what the finished picture should look like, whether a buyer or a seller. It makes success more readily achievable. ♦