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RYS & Co.

Small Public Company Soft-LBO

This business model is designed to take advantage of raising capital through equity sales and to provide an exit strategy for business owners.

This document contains the approach for two situations:

- For an established business that has been operating for approximately three years or more, and
- A start-up or a business in the early or development stage.

Basically this is how our SLBO program works.

- The Buyer and Seller negotiate and sign an exchange purchase agreement.
- The Public Company (Buyer) exchanges its non-voting Preferred Stock for the Sellers stock ownership.
- As the Buyer pays cash to the Seller, the Seller exchanges a like amount of the Public companies preferred stock.
- At the predefined exchange dates the Seller has the option to convert the preferred stock in free trading common stock in lieu of taking the cash. This could mean a great return for the Seller.

Benefit to Public Company (Buyer) and the Seller.

- The company doesn't corrupt it capital structure with "cheap stock", and
- The Buyer provides the Seller with a liquid exit from the business, and
- There is no risk to the Buyer or Seller because the Seller doesn't give up control until cash and equities are exchanged, and
- If the preferred stock is converted by the Seller it has the potential for greater return on the sale of the business, and
- The public company can program the conversion timing to creating less downward pressure on the stock, and
- Business owners can cash out and leave the business in three years, and
- During the three-year period, the acquired company operates autonomously and management continues to receive salary and bonuses.
- As the public company secures additional acquisitions and the stock price advances, creating additional value for the portfolio companies.

How it Works for Established Businesses

For the established businesses you need to have the following general profile.

- Growing sales of more than $5 million, and

- Break-even, profitable or operating with positive cash flow, and
- A strong management team that will stay a minimum of two years, and
- No litigation issues.

Terms of the transaction.

- Buyer and the business owners, agree to a set purchase price, and
- Purchase price is determined using a multiple of EBITDA, and
- Buyer purchases owners interest using a soft-leveraged with basic terms of:
  - 20% in short-term debt (12 months) payable in quarterly payments with interest, and
  - 80% in three year, convertible debt with interest (convertible into preferred any time during the three years) equity held in escrow.
- Acquired company is managed by current management as an autonomous operating division until the purchase is completely paid, and
- Current management can leave prior to completing the transaction provide both parties agree, and
- Acquired company must remain cash flow and income position, and
- Buyer maybe offered a seat on the Seller's board of directors, and
- The transaction is held in escrow until each condition is met.

Sequence of Events after the purchase agreement is signed.

- Immediately after Transaction signing:
  - Begin a non-toxic Investor Relations Program to expand the awareness of the acquisition, and
  - Begin the process to secure the transactions funding through a public-raise of equity options such as Regulation A, D, etc. or private equity.
- At the 12 month anniversary:
  - If Buyer has not paid the 20% portion, the Seller can elect to unwind the transaction. The Seller can retain any funds advanced by the Buyer.
  - If both parties meet all obligations the transaction continues.
- At the 36 month anniversary:

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    - If both parties meet all obligations the transaction continues.
- At the 36 month anniversary:
    - If the Buyer has completed its purchase obligations management of the company is turned over to the Buyer. Buyer could also negotiate with Seller's management to stay.
    - If the Buyer has not completed its purchase obligations, the deal may be "unwound" and ownership of the subsidiary will revert to its original owners.

How it Works for start-up and early stage development companies.

This model can be a vehicle to launch businesses that are start-ups or in the early development stage and have high potential for earnings growth. The program is designed to help entrepreneurs to obtain the capital they need to develop and grow their business.

How the program works.

- Capital requirements and related timeline is determined.
- The public company acquires 51% of the start-up company.
    - Public company has option to purchase the remaining 49% based on specific terms.
    - Start-up has option to repurchase 51% based on specific terms.
- The three-year future cash flow is use to calculate the acquisition price.

  - The startup will operate as a subsidiary of the public company and maintain separate financials.
  - The public company will receive any positive cash flow from the start-up based on the ownership percentage.

How it is implemented.

- The public company advances capital in the form of a debt instrument for the 51% ownership.
- As the start-up raises equity capital it is used to pay down the debt.
- The public company will provide fee based counseling as needed.

What do the companies can do after three years.

- The start-up company can repurchase the public company's 51% ownership, or
- The public company can purchase the remaining 49% of the subsidiary.
- In no event will the sum of the purchase price be less than what the public company originally advanced, plus any capital and capital costs provided for operations during the three year period, plus 10% interest on the capital and costs, less any profits the Company received from the subsidiary.
- The start-up will continue to operate as a stand-alone entity.