

(Business Sensitive & Proprietary Information in PASS for Official Use Only.)**General Information**

CAGE Code:	1P6M1	Solicitation Number:	W52PJ06R0129
Company Name:	AEY INC	Request Date:	22 DEC 2006
Company Address:	925 41ST, SUITE 306 MIAMI BEACH, FL 33140-3319	Surveying Activity:	DCMA ATLANTA (S1103A)

I. Recommendation**Recommendation:** Complete Award**On-Site Survey:****Total Offered** 29/8824919**Price:****Narration**

(Provide full substantiation of recommendation, including special requirements. If NO AWARD recommendation, provide explanation of deficiencies).

In accordance with the US Army, Rock Island, IL request, a Financial Capability Review has been conducted regarding AEY, Inc's ability to perform on the subject solicitation. This procurement is intended to establish a Requirements contract for the supply of various ammunition items identified in the solicitation for use by the Afghanistan National Security Forces. The contract will be awarded for two years at a firm fixed price. The contractor will be required to deliver in three to six months from receipt of task orders. Task orders will be issued on a quarterly basis in accordance to the required ammunition needed at that particular time.

The Progress Payment Clause (52.232-16) is included in the solicitation. The US Army has requested that an Accounting System Review be conducted. According to information provided by the contractor to the Financial Analyst, the company has not previously received Progress Payments and their current accounting system will require adjustments to support Progress Payment Requests. DCAA Tampa Bay Branch Office has been requested to conduct the Accounting System Review. According to DCAA, their initial contractor visit was completed on January 4, 2007. All fieldwork is scheduled for completion by January 23, 2007, with a final report to be issued no later than January 30, 2007. A verbal report will be provided to the Financial Analyst as soon as available. The Analyst will forward all information and the completed DCAA Report following receipt. Discussions with the contractor has indicated that the company will be using Quick Books Accounting software in support of their Progress Payment Requests. Assuming that DCAA will approve the accounting system, the contractor fully intends to submit payment requests. The Financial Analyst recommends that the initial Progress Payment submission from the contractor be reviewed allowability and accuracy prior to payment.

The Financial Analyst has reviewed the contractor's interim financial statement for the 11 month period ended November 30, 2006, along with the fiscal year end financial statements for the periods December 31, 2003, 2004, and 2005. In addition, the evaluation included the company's projected cash flow schedule, aged accounts payable and receivable, projected Government sales, sales backlog and forecast, bank statements, investment capital resources, vendor invoice data, anticipated capital expenditures, customer base, employee staffing, plus company and management profiles. Supplemental information was secured from Dun & Bradstreet Reporting Service, GSA Excluded List Systems, Risk Management Association (RMA) Statement Studies, and CCR.

According to information provided, AEY, Inc. and its principal managers, Efraim and Michael Diveroli, began providing equipment to state and local law enforcement organizations with its inception in 1999. The company has evolved from a local specialized trading company in the field of small arms and ammunition to competing in the Federal marketplace in 2004 as a provider of defense materials to the US Government, specializing in the international movement of arms and ammunition. Since 2005, AEY has completed more than 50 aircraft deliveries of military equipment in support of US Government efforts in Iraq. During fiscal year 2006, the contractor's top 4 customers and the related percentage of sales are recorded as follows: US Army-55%; US State Department-15%; US Air Force-5%; and PAE Government Services-15%. If awarded the contract, the contractor does not require additional employees. All efforts are handled by subcontracting related contract work to outside personnel and business entities.

Based on the analysis of all available information, AEY, Inc. is financially capable of successful performance on the subject solicitation in its dealer type effort. The contractor has arrangements with OCONUS suppliers to provide the required ammunition. In addition, all transportation will be OCONUS to OCONUS. Review of the contractor's financial statements and liquidity position indicates adequate cash reserves of \$5,372,226, sufficient internal working capital of \$7,763,837, and positive net worth of \$7,763,837. The contractor has arranged for substantial additional working capital support through venture capital funding from Quinn's Junction Partnership in the amount of \$35,000,000 and Vector Arms, Inc. for \$1,000,000. (See Section VI-1 Comments of Prospective Contractor's Bank for specific details). The full credit facilities will be made available to support working capital if required. During its initial phase of operations from 1999 through 2004, the company recorded limited sales and small profitability. However, starting in 2005, sales have substantially increased to \$13,461,562 with a recorded 18.2% profit margin and during the first 11 months in 2006 sales are recorded at \$13,348,265 with a 22.1% profit margin. The substantial growth of sales and profits are based on sales of arms and ammunition to support the US Government efforts in Iraq and Afghanistan. The

company has generated substantial internal working capital support through profitable operations and is supported by adequate bank credit line provisions and venture financial funding. Overall, the company maintains a moderate debt structure and the amounts are reasonable when compared to industry expectations. An evaluation of the firm's accounts payable and vendor credit experiences reflects timely liquidation of payables. Several of the contractor's proposed vendors for the subject solicitation have provided quotations with very favorable terms. Quotations from ammunition suppliers (Talon Security and Yugo Import), along with the transportation company (AAG Industries), have all granted AEY, Inc very favorable 60 day terms from delivery. The contractor should have no difficulty in liquidating vendor payment requirements in a timely manner under Government furnished invoice payments or Progress Payments. (See Section VI-2 Comments of Trade Creditors for specific details). Cash flow analysis projects positive working capital during the performance period. Ratio analysis compares favorably with industry standards. The contractor has stated that no additional capital equipment is required to perform on the subject solicitation. The Analyst is of the opinion that the company would have no difficulty securing any required financing if capital expenditures are required at some future date. The contractor has certified that all local, State, and Federal tax accounts are current. The contractor also stated that there are no anticipated changes in the industry, technology, or management that would affect future business performance. Review of the GSA Excluded Parties Listing System failed to disclose the subject company, any related affiliates, or any company official, listed on the D&B Report, as being debarred.

The Analyst considers AEY, Inc as a LOW financial risk regarding performance on the subject solicitation based on the company's current and strong financial position. The contractor's cash reserves, internal working capital generated through profitable operations, bank line of credit, venture funding support, and Progress Payments will provide the company with sufficient cash flow during the entire performance period to fund all requirements. The company has a history of favorable sales growth, profitability, and adequate working capital generation. Liabilities are being liquidated in a timely manner and the company maintains an adequate cash support position. The firm appears to be well managed, efficient, and experienced. Based on the overall analysis, the contractor has sufficient financial resources to fund the requirements of this solicitation and all backlog contracts. Full award is recommended.

(Business Sensitive & Proprietary Information in PASS for Official Use Only.)

II. General

Type of Company: Corporation
Year Established: 1999

Company Information

Category	Company Name Phone	Address 1 Address 2 City, STATE ZIP/Postal Code Country
Parent	None	
Subsidiary	None	

(Business Sensitive & Proprietary Information in PASS for Official Use Only.)

III. Balance Sheet / Profit & Loss Statement

Historic Ratios (? : 1)	FY (2007)	FY (2006)	FY (2005)	FY (2004)	FY (2003)
Current Ratio					
Quick (Acid Test) Ratio					
Debt/Worth Ratio					
Profit/Sales Ratio					

Latest Balance Sheet for the Period Ending: 30 Nov 2006
Filed With: DCMA Fin Analysis Ctr

Assets	Totals	Liabilities	Totals
Cash and Marketable Securities	\$5,372,226		
Accounts Receivable	\$315,756		
Inventory	\$2,090,000		
Other Current Assets	\$0		
Total Current Assets	\$7,777,982		
Fixed Assets	\$0		
All Other Assets	\$0	Current Liabilities	\$14,145
Total Long-Term Assets	\$0	Long-Term Liabilities	\$0
Total Assets	\$7,777,982	Total Liabilities	\$14,145

Financial Status	Totals	Name	Ratios
Working Capital	\$7,763,837	Current Ratio	549.88 : 1
Net Worth	\$7,763,837	Acid Test Ratio	99.99 : 1
		Debt / Worth Ratio	0.00 : 1

(Business Sensitive & Proprietary Information in PASS for Official Use Only.)**III. (Continued)**

Profit / Loss Statement for the Current		01 Jan 2006	To: 30 Nov 2006
Period:			
Filed With:		DCMA Fin Analysis Ctr	
Fiscal Year	Net Sales	Net Profit Before Taxes	
Current Period	\$13,348,265	\$2,953,460	
1st Prior FY	\$13,461,562	\$2,455,841	
2nd Prior FY	\$1,231,581	\$1,886	
Fiscal Year Ends: 31 Dec			
Balance Sheet and Profit / Loss Statement have been			Yes
Certified:			
Through Date:	30 Nov 2006	Certified By:	E. Diveroli, Pres.
Narration			
<i>(Provide other pertinent data).</i>			

(Business Sensitive & Proprietary Information in PASS for Official Use Only.)

IV. Prospective Contractor's Financial Arrangements

Use of own resources:	Yes	Use of bank credits:	Yes
Other (specify):	Yes		
Other Narration			
Independent analysis of Financial Position supports the above statements:			Yes
Narration			
<i>(If 'No' is marked, please explain).</i>			

(Business Sensitive & Proprietary Information in PASS for Official Use Only.)

V. Government Financial Aid

Use of progress payments:	Yes	Use of guaranteed loans:	No	Use of advanced payments:	No
Narration					
<i>(Provide additional details for any "Yes" responses).</i>					
Progress Payments are authorized in the solicitation. DCAA Accounting System Review has been requested.					
Contractor currently receives Gov't financing:			No	Is Liquidation current: N/A	
Unliquidated Progress Payments Outstanding:			None		

Item	Authorized	In Use	Government Agencies Involved	Applicable Contract Number
Guaranteed Loans	\$0	\$0		
Advance Payments	\$0	\$0	None	None

(Business Sensitive & Proprietary Information in PASS for Official Use Only.)**VI. Business & Financial Reputation****Most Recent Credit Rating:** 26 Dec 2006**Credit Rated By:** Other**Other (Specify.):** Dun & Bradstreet "2R3"**Credit Rated:****Does price appear unrealistically low? (If Yes, please explain):** N/A**Narration and Reports of Financial Services / Credit Organizations:**

Information provided in the Dun & Bradstreet Report (11-684-1466), dated December 26, 2006, indicates that the company was established in 1999 and history is clear. D&B has assigned a rating of 2R3 that indicates 1 to 9 employees and a fair Composite Credit Appraisal. 100% of the capital stock is held by Efraim Diveroli, President. Information provided by the contractor indicates that officially, AEY, Inc. has only one employee, the owner, President and Principal Manager, Efraim Diveroli. He is assisted by his father, Michael Diveroli, who is a co-owner of AEY and serves as acting Secretary. All other assistance is subcontracted. AEY does not have any parent or intermediary companies.

Narration of Prospective Contractor's Bank:

Direct comments from the contractor's banking institution were provided to this office. Bank of America (Bank of America Investment Services, Inc.) provided correspondence dated December 28, 2006 and signed by Douglas Schwartz, Vice President/Financial Advisor. As quoted from the letter, "This is to verify that AEY, Inc. residing at 925 41st Street, Suite #306 has an account with Bank of America. The following information applies to this account as of 12/28/06: Account Type-Money Manager/Brokerage; Current Balance \$5,469,668.95, Date Opened 11/14/05." A copy of the corporation's account statement, dated November 2006, was also provided to support the bank correspondence.

Man Financial Services, Chicago, IL also provided a direct statement to this office. The correspondence is dated December 29, 2006 and signed by Chuck Bohm, Man Financial, Inc. The financial investment statement indicates that AEY, Inc. purchased a \$200,000 Treasury Bill on December 20, 2006 for \$195,298 which will expire on June 14, 2007 and will be worth the full \$200,000. The Treasury Bill is liquid and can be sold anytime before that date and will accrue interest up until that time. The correspondence also confirmed that a cash balance of \$8,452 is also available for withdraw.

Quinn's Junction Partnership, LLC, Bountiful, UT, provided correspondence dated December 28, 2006 and signed by Ralph Merrill, Principal. According to Mr. Merrill's statement, "I hereby declare that Quinn's Junction Partnership, LLC can support AEY's efforts under the above noted ammunition solicitation (W52PJ-06-R-0129), by reserving \$35,000,000 as working capital to be dispensed against purchase orders

within this contract. These funds will be derived from a 30 acre parcel of commercial property valued and described in the enclosed documents. As we discussed previously, our interest rate is 2% monthly on the unpaid balance." The Special Warranty Deed has been verified by the Analyst, and Greg S. Ericksen, Attorney at Law for Quinn's Junction Partnership, LLC has provided certification and valuation of the property to be sold in January 2007.

Vector Arms, Inc, North Salt Lake, UT provided correspondence to this office dated January 3, 2007 and signed by Ralph Merrill, President. The letter states, "I hereby declare that Vector Arms, Inc. can support AEY's efforts to perform under the above noted ammunition solicitation (W52P1J-06-R-0129), by reserving \$1,000,000 as working capital to be dispensed against purchase orders within this contract. These funds are on hand within the two accounts reflected on the attached bank statement. As we discussed previously, our interest rate is 2% monthly on the unpaid balance." The Financial Analyst has verified the Wells Fargo Bank Statement in the name of Vector Arms, Inc. with a total balance available of \$1,032,141.57.

The contractor also maintains a \$150,000 Bank of America Visa Card Line of Credit. Interest rate is reported at 1.5% over prime. The full credit line is available for working capital support.

Narration of Trade Creditors:

Limited vendor payment experiences were provided in the Dun & Bradstreet Report (11-684-1466) dated December 26, 2006. A total of 8 vendor credit reports have been received between December 2005 and November 2006. Trade creditor payment experiences have been reported as follows: Prompt-5, Prompt/Slow-2, and Slow-1. There are no unfavorable or placed for collection comments. D&B has assigned the company a PAYDEX Score of 57 that indicates when weighted by dollar amount, payments to suppliers average 25 days beyond terms. When dollar amounts are not considered, then approximately 78% of the company's payments are within terms. In addition, the Financial Analyst has reviewed the contractor's aged accounts payable records. As of January 2, 2007, all balances due are considered current.

Several of the contractor's proposed vendors for the subject solicitation have provided quotations directly to this office. Talon Security Consulting and Trade, Ltd., Ramt-Gan, Israel provided quotes dated September 7, 2006 and signed by Shmuel Avivi, General Manager. The Year 1 quotation is in the amount of \$199,536,546 for various ammunition with terms of 60 days after delivery. The Year 2 quotation is in the amount of \$105,392,820 with terms of also 60 days after delivery. Yugo Import, Yugoslavia provided a quotation, dated December 27, 2006 and signed by Branko Djuric, in excess of \$200,000,000 with terms of 60 days after delivery. AAG Industries, LLC, Phoenix, AZ provided a transportation quote dated January 4, 2007 and signed by Benjamin R. Tousley. The OCONUS shipments will be made by charter aircraft at a cost of \$77,000 per flight. Year 1 shipments are

estimated at 284 and Year 2 are estimated at 462 flights. All terms listed as 60 days net.

Description of any Outstanding Liens or Judgments:

As of November 17, 2006 a search of Dun & Bradstreet Public Records database found no open suits, liens, judgements or UCC's to which AEY, Inc was named defendant or debtor. The corporate president has also certified that there are no pending lawsuits, liens or judgements either by or against the company.

(Business Sensitive & Proprietary Information in PASS for Official Use Only.)

VII. Sales

Sales (000's) for Next Six Quarters	1	2	3	4	5	6	Totals
Current Contract Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$3,668
A. Government	\$0	\$0	\$0	\$0	\$0	\$0	\$3,347
B. Commercial	\$0	\$0	\$0	\$0	\$0	\$0	\$321
Anticipated Additional Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$13,348
A. Government	\$0	\$0	\$0	\$0	\$0	\$0	\$12,013
B. Commercial	\$0	\$0	\$0	\$0	\$0	\$0	\$1,335
Totals	\$0	\$0	\$0	\$0	\$0	\$0	\$0