

## REVERSE MERGER HAS AEROSPACE COMPANY POISED FOR TAKEOFF

### *Air Industries Machining Corporation*



Gales Industries, Inc. is an operating/holding and management services integrator group within the aerospace and defense industries. Its principal business activity is the manufacture of aircraft structural parts and assemblies for prime defense contractors in the aerospace industry. The way Gales came into being as a public company, says Louis Giusto, its chief financial officer, is “a real New York story,” and one in which a reverse merger played a critical role.

About three years ago, Giusto was working at home and flirting with the idea of retirement. He struck up a conversation with Michael Gales (who today is the company’s executive chairman) in a chance encounter on a Manhattan street corner. “Mike had lost a son at the World Trade Center, and he was deeply disturbed by it. He couldn’t work; he just meandered around town. We made an immediate connection with each other,” says Giusto, who has more than 30 years of financial control experience, both with major banking firms such as Fleet Bank and with entrepreneurial organizations such as Credit2B.com, a Web-based lending services venture.

During the course of that conversation, Gales mentioned he was interested in aerospace. It was an industry Giusto had never given much thought to, but he told Gales he would be “the financial guy” if Gales ever wanted to pursue something. “We got together again the next day, at a diner,” Giusto recalls. “From that point on, we worked intensively for a year-and-a-half.” During that time, they developed a plan to build a \$300 million company in a specialized sector of the aerospace industry using a roll-up strategy, and they set a time frame of about five years to achieve their goal.

### HONING IN ON A TARGET ACQUISITION

The partners began evaluating target companies they might acquire, and after a lot of dead ends, they came across a company called [Air Industries Machining Corporation](#) (AIM). Gales, who had aerospace industry experience, was familiar with the company and remembered having met some of its principals in the late ‘90s. Privately-held AIM was generating revenue of about \$25 million a year by producing aircraft structural parts and assemblies for companies such as Sikorsky, Lockheed Martin, Boeing and Northrop Grumman. Its primary market was parts for military aircraft, including Sikorsky’s Black Hawk helicopter and Lockheed Martin’s F-35 Joint Strike Fighters.

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“We were searching for a target with enough muscle to serve as a platform for what we wanted to do and enough legs to carry the plan forward,” Giusto relates. “AIM was not perfect, but it was adequate. The key things we were looking for in a target were profitability, sufficient infrastructure and the right technology to deal with the very tight tolerances that are the rule of thumb in this industry.”

AIM was sophisticated enough from an engineering standpoint, but from a financial, structural and operational perspective, it was strictly mom-and-pop. “We had state-of-the-art CAD (computer-assisted-design) equipment in the back of the operation and an abacus up front,” Giusto deadpans.

## ACHIEVING LIFT-OFF WITH A REVERSE MERGER

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The challenge they faced was pulling AIM, which operated as a Subchapter S corporation, into the 21<sup>st</sup> century in terms of its financial architecture and getting a reporting structure in place that would comply with SEC regulations. The solution they devised was a reverse merger.

In a [reverse merger](#), a private company becomes public through a combination with an existing public company (usually a “shell” company with no operating business or significant assets), and the private company controls the combined entity. A reverse merger can offer several important advantages over a conventional IPO, including potentially lower costs and faster time to market.

Gales Industries executed a reverse merger with Ashlin Development Corp. (the “shell” company) and through a newly-formed subsidiary acquired AIM. “The financial architecture of this deal was extraordinarily complex. We had six separate closings,” Giusto says. “It involved purchasing real estate from two companies. Ashlin was not as clean as we had hoped it would be; we sold \$9 million of convertible preferred, and we secured a \$14 million line of credit.”

The only way to get the deal done was by assembling a team of players, which included [Geller & Company](#), Gales Industries’ principals and outside accountants, and the acquired company’s outside accountants. “It was like leading an orchestra, and I was the conductor,” Giusto laughs. “But we did it. We have executed the plan and are on our mark. Everybody learned a lot through the whole process, and now our executive chairman is busy putting together a new financial package to do more acquisitions.”

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