ScanlanKemperBard Companies
Information Memorandum

Opportunistic Real Estate Investment
in
VALENTEC BUILDING (Pullman Development)

Costa Mesa, CA
February 17, 1997 — closed 4/97

Transaction Summary:

SKB has negotiated to acquire a 129,169-square-foot (SF), Class A manufacturing/distribution building in the Irvine Business Complex (at John Wayne Airport) in Costa Mesa, California. The property is leased to a single tenant who has occupied the building since 1968. With the proper execution of SKB's business plan, the property is expected to produce an average, annual cash-on-cash return over a two-year hold of approximately 19.79% (not including sale proceeds), with an IRR of 38.81% (with sale proceeds) on a $1,425,000 investment.

Property Type: Manufacturing/Warehouse Facilities

Recommendation: This investment is recommended for the following reasons:

- Acquire a 100%-leased, Class "A" industrial building at an above-market capitalization rate through resolving tenant credit, deferred maintenance and environmental issues.
- Favorable third-party financing and current above-market lease rates provide a first year, cash-on-cash return of 19.68% to the investor. Based on SKB's expected scenario with a two-year hold, the IRR to the investor would be 38.81%. The IRR on SKB's downside scenario assuming a four-year hold would be 29.48%.
- The subject is located in the Airport Area sub-market of Orange County which is a mature office and industrial park located around the John Wayne Airport. The subject has excellent visibility and access as it is bordered by I-405 and Highway 55, two of the most heavily traveled highways in Orange County.
- The subject is located in an under-supplied market with significant barriers for new development. Through year-end 1996, the Airport Area had an overall vacancy rate of 7.3%, and rental rates have increased more than 10.0% over the last 12 months.
- The proposed manager/partner of the property originally built the property in 1968 and has over 30 years of real estate experience. John Hamilton of The Hamilton Company (Newport Beach, Calif.) has built over 1.5 million square feet of office and industrial space in Orange County over the past 15 years.

- PYJ IV Limited Partnership (PYJ) is the seller of the property. Our proposed partner/manager for the property has had a strong relationship with PYJ for a number of years and was able to negotiate the sale of the property before it was put on the market for sale. PYJ is extremely motivated to sell the property as they have financial obligations in two other proposed developments.

Investment Structure:

The proposed transaction calls for the formation of Pullman Investments, LLC, (PI) to invest approximately $1,425,000 in conjunction with a $5,500,000, non-recourse first mortgage from Resource Mortgage Capital in Virginia to acquire the above-referenced property. PI also would hire The Hamilton Company, through an incentive management agreement, to manage the property and execute PI's business plan. The costs of the acquisition, the first mortgage and distribution of cash flow are outlined as follows:

Transaction Costs:

Valentec Transaction Costs	
Purchase Price	$6,500,000
Closing Costs	84,500
Loan Fees (Resource Capital)	82,500
Hamilton Company Fee	100,000
SKB Acquisition Fee	100,000
Contingency	58,000
Total Transaction Costs	~~$6,925,000~~ 6,985,000

See closing stmt. these cost went ↑

Loan Summary:

Resource Capital Mortgage Loan Summary	
Loan Amount	$5,500,000
Interest Rate	LIBOR + 300 BP Adjustable Monthly 2/10/97-LIBOR-5.43%
Loan Fee	1.5%
Term	3 years
Debt Coverage Ratio	1.4 to 1
Prepayment Penalty	None
Extension Fee (included in closing costs)	1/2 percent on the second anniversary of the loan for an additional year
Liability	Non-recourse

Investment Structure Example:

The following table illustrates how the absolute dollars are distributed among the three parties:

Absolute Profit Participation Expected Scenario				
Party	Cashflow from Operations	Percentage of Total	Cashflow from Sale	Percentage of Total
Investor Cash Flow Participation	$563,975	73.36%	$647,762	40.0%
Hamilton Cash Flow Participation	$170,593	22.20%	$809,702	50.0%
SKB Cash Flow Participation	$34,118	2.18%	$161,940	10.0%
Total	768,686	100.0%	$1,619,404	100.0%

On a blended basis, the investor receives 50.7% of all the cash flow available after the investors' return of equity. Hamilton will receive 41.0% of all cash available and SKB will receive 8.3%. On the downside scenario, the investor would receive 70.6% of all the available cash flow after the investors' return of equity.

Investment Structure Terms:

PI will enter into an Incentive Management Agreement (IMA) with the Hamilton Company and an Asset Management Agreement with SKB. The purpose of the IMA is for PI to retain absolute control over the economic decisions that arise when managing the property. The Investment Structure terms are defined as follows:

Investment Structure Summary	
Total Capitalization	$6,925,000
PI Equity Investment	$1,425,000
First Mortgage Loan Amount	$5,500,000
PI Preferred Return (after debt service)	15.0% per annum Cumulative and Compounding
Cash Flow Distribution After Preferred Return (15%)	50.0% to Hamilton 40.0% to PI 10.0% to SKB
Sale or Refinance Proceeds	Repayment of Third Party Debt; Return of PI equity and any unpaid preferred returns; 50.0% to Hamilton; 40.0% to PI; 10.0% to SKB All profit distributions are subject to PI receiving a 30.0% Lookback IRR
Lookback IRR	Upon sale or refinance, if there are not enough proceeds for PI to receive a 30.0% IRR, then Hamilton reduces their participation from 50% to as little as 33% and SKB will reduce their participation from 10% to as little as 5.0% until PI achieves a 30.0% IRR
Control/Decision Making	All economic decisions relating to leasing, management, operations, capital contributions, sale or refinance must be approved by PI
Management	The Hamilton Company will manage the property for a fee equal to 2.5% of collected rents. Hamilton can be terminated for cause. If Hamilton is terminated, their cash flow and sale or refinance participation will be reduced to 33.0%

Property Description:

The proposed investment consists of two, concrete, tilt-up manufacturing/warehouse buildings totaling approximately 129,169 SF on 7.23 net useable acres. The buildings are summarized in the table below:

Valentec Building Summary		
Building size (SF)	70,369	58,800
Parking Ratio	2.0/1,000	2.0/1,000
Year Built	1968	1981
Percent Office Space	25%	6%
Roll-up Doors	6	4
Dock-high Doors	0	3
Clear Heights	24'	24'
Column Spacing	No Columns	32'

Critical Dates:

Release Contingencies	February 26, 1997
Closing Date	March 14, 1997

Projected Returns:

Valentec Building Projected Returns		
	Expected Scenario[1]	Downside Scenario[2]
Year One Cap Rate (Project)	13.56%	13.56%
Year One Return on Cost (Project)	12.73%	12.73%
Leveraged Year One Cash-on-Cash Returns (Project)	26.7%	26.7%
Year One Cash-on-Cash Returns (Investor)	19.68%	19.68%
Average Annual Cash-on-Cash over Term of Investment (Investor)	19.80%	13.90%
Investor IRR upon Disposition	38.81%	29.48%

[1] Valentec renews lease / sell the building end of year 2 at a 9.0% cap rate.

[2] Valentec vacates the building at the end of lease term / six months to release the space / sell the building in year 4 at 9.5% cap rate.

Tenant:

Valentec, Inc. is a privately held company and currently occupies 100% of the property. Valentec, or some other entity under the same ownership, has occupied the building since it was originally completed in 1968. Historically, a majority of Valentec's revenues came from defense contracts through the manufacturing and distribution of ammunition. However, in 1991, in response to reduced Department of Defense contracts, Valentec started exploring other avenues in the private sector where it could readily apply its manufacturing expertise. As a result of this strategic decision, Valentec started manufacturing airbags for the commercial automobile market. In 1994, Valentec created a new company through an initial public offering, Safety Components International, Inc. (SCI), for the specific purpose of expanding its automotive and airbag business. Valentec initially retained a 50% ownership interest in the new company and now owns a 27% stake in the company. Robert Zummo, the CEO of Valentec, is also the CEO of SCI. SCI has their corporate headquarters in the subject property. SCI sold 3.8 million airbags in 1996 and has orders to produce 5.0 million airbags in 1997. SCI clients include Mercedes, Nissan, Porsche, Honda and Renault. Currently SCI can say it produces airbags cheaper than any other company in the world.

Valentec's Fiscal Year (FY) ends in March. Valentec's FY 1996 gross revenue was $12.3 million with net income of approximately $200,000. Valentec's FY 1997 gross revenues are expected to be $22.9 million with net income of approximately $509,000. Valentec's net worth at the end of FY 1997 is expected to be approximately $2.5 million. Valentec's net worth includes $10 million book value of SCI stock (The current market value as of 2/10/96 is approximately $16 million). Without the SCI stock, Valentec would have a negative net worth of approximately -$7.5 million.

Due to shareholder disapproval of Mr. Zummo running two companies and the administrative costs of running two companies, SCI is currently in the process of doing a reverse merger to acquire Valentec. This transaction, which is expected to take place over the next six months, would produce a publicly traded company with a combined net worth of approximately $50 million within 12 months after the merger. This transaction already has received lender (Bank of America) approval. Oppenheimer has been retained to provide a fairness opinion on the transaction. This opinion is expected within the next 60 days.

Valentec recently moved a division from Milwaukee, Wis., into the subject property and still has room to grow in the building. During Hamilton Company's tenant interview, Mr. Zummo expressed significant interest in renegotiating a new 10-year to 15-year lease once the reverse merger is completed. The primary motivations for Valentec to renegotiate are the cost and loss of production time involved in moving, the ability to expand their operations within the subject building, and to reduce their annual occupancy costs by approximately $100,000 by bringing their current rental rate in line with the market. In addition, as explained below, Valentec plans to invest approximately $1,000,000 in the building over the next two years.

If the merger does not take place, it is SKB's opinion that Valentec would not go bankrupt before the end of its lease term due to its holdings in SCI. Under this scenario, SKB would probably not renew Valentec. SKB has assumed the property would be vacant for six months and over $1,000,000 would be invested in the property to re-lease the space through the lease performance deposit and additional $558,000 invested by the investors. No additional investor funds would be needed without a new tenant ready for occupancy. Even with this investment and down-time, SKB estimates the investor would achieve a 27.5% IRR.

Lease Summary:

The following is a summary of the terms of the lease currently in place in the subject property.

Rentable Area	129,169 SF
Lease Commencement	5/1/69
Lease Expiration	10/31/99
Current Rent	$75,358.17 Monthly ($0.5834 per SF)
Next Rent Increase	5/31/99 Minimum CPI 3%-8%
Taxes	Tenant Pays
Insurance	Tenant Pays
Common Area Maintenance	Tenant Pays
Structural Improvements	Tenant Pays
Management	Landlord Pays

In April 1993, Valentec was sold to its current owner. Robert Zummo was President of the company prior to its sale and currently owns 80% of the company. As part of Valentec's lease provision, the landlord has to approve any lease assignment when more than 33.0% of the company ownership changes hands. As a result of this event, in order approve the assignment, Valentec agreed to increase its lease performance deposit to $500,000. The funds have been in an interest-bearing account and the balance is currently at $568,000. These funds become the property of PI at closing. This deposit assures that all deferred maintenance and environmental issues will be fixed or remediated by the end of the lease term.

Physical Issues:

The following table identifies deferred maintenance and structural issues that were raised as a result of the April, 1993 lease assignment.

Valentec Deferred Maintenance Issues		
Problem	Expected Completion Date	Estimated Cost
Roof	Summer, 1997	$190,570
Parking Lots	Summer, 1998	$107,270
Return and Restore original tenant improvements	End of the lease	$46,000
HVAC Systems	Completed 1996	$89,000
Landscaping	Completed 1996	$15,000
Paint the exterior of the building	Completed 1996	$45,000
Seismic Retrofit	Summer 1999	$175,000
Total		**$667,840**

As indicated in the above table, Valentec already has invested approximately $150,000 in the building over the last year. On average, they plan on spending approximately $150,000 per year to finish the required work on the property (not including the deposit of $568,000).

Environmental Issues:

The tenant also has agreed to correct all environmental issues on the property. Currently, all the issues have been identified and a remediation plan has been approved and permitted by the California Regional Water Quality Control Board (CRWQCB). The budget for remediation has been approved by the tenant, and wells were installed earlier this month to begin remediation. The estimated cost for the implementation of the remediation plan and the ongoing monitoring should be approximately $300,000. A detailed budget is provided below.

Valentec Environmental Remediation Budget		
Activity	Completion Date	Estimated Cost
Design, Permitting and Well Design	December 1996	$55,500
System Construction and Start-up	January 1997	$100,000
Vapor and Groundwater Extraction	December 1999	$72,000
Verification Monitoring	December 2000	$25,000
Decommissioning and Closure	June 2001	$30,000
Total		**$282,500**

Valentec's environmental consultant has advised the remediation goal of 100 ug/L total VOCs will be achieved by the end of 1999. Active remediation will be followed by one year of verification monitoring. After remediation is deemed complete by the CRWQCB, the existing wells will be abandoned and the remediation system will be dismantled.

Market:

The Airport Area of the Orange County market area includes over 40 million SF of Manufacturing/Warehouse space. As of December, 1996, the market vacancy was 7.3% which is down from 10.5% in December of 1995. Currently, there is no new construction expected within the next twelve months. The range of rental rates for Class A industrial space is currently estimated at $0.52 per SF which is a 10.6% increase over a year ago. Currently, there are only seven other sites that can accommodate a tenant that needs 50,000 contiguous square feet. **There is no other space in the Airport Area that can accommodate a tenant/user with a space requirement of over 120,000 SF.**

SKB projects rental rates to increase 4.0% annually prior to expiration of the lease. If rates increase like those in 1996 (10.6%) or beyond, SKB's forecasts are conservative.

Documentation:

Prior to closing this transaction, Definitive Legal Documentation will be completed based on this Information Memorandum and any subsequently agreed amendments or negotiations, and shall include, without limitation, representations and warranties, conditions, covenants and indemnities which are customary to a transaction of the nature and size described herein.

Valentec Profit Analysis
Expected Scenario
Valentec Renegotiates Lease

Building Size		129,169
Existing Rental Rate		$0.58
Market Rental Rate		$0.52
Tenant Improvement Allowance		$0.00
Commissions		0.0%
Market Rent Growth Rate		4.0%
Replacement Reserves		5.0%
Acquisition Cost	$	6,985,000
Loan to Cost Ratio		78.74%
Debt	$	5,500,000
Interest Rate		8.75%
Annual Debt Service		($481,250)
Equity at Closing	$	1,907,800
Equity Interest Rate		15.0%
Annual Cost of Equity Year 1		$286,170

Annual Cashflow Distribution after Preferred Return	
Hamilton	0.00%
Investor	91.25%
SKB	8.75%

	Year 2 Sale Analysis		
Year 3 NOI	$	792,780	
Cap Rate		9.00%	
Sale Price	$	8,808,664	
Cost of Sale	$	(264,260)	3.00%
Sale Proceeds	$	8,544,405	
Less Loan Balance	$	5,500,000	
Less Equity Costs	$	1,907,800	
Less Unpaid Prefered Return	$	-	
Less Retenanting Costs	$	-	
Total Project Profit	$	1,136,605	
Partnership Profit Splits			
Hamilton Profit	$	-	0.00%
Investor Profit	$	852,453	75.00%
SKB Profit	$	284,151	25.00%

Year	0	1	2	3
Average Gross Rental Rate		$0.58	$0.56	$0.54
Average Annual Occupancy		100.0%	100.00%	100.00%
Annual Rent		$ 904,299	$ 871,277	$ 838,255
Vacancy & Collection	3.00%	$ -	$ -	$ (25,148)
Effective Gross Reveue		$ 904,299	$ 871,277	$ 813,107
Effective Gross Rent per SF		$0.58	$0.56	$0.52
Management Expenses	2.50%	$ (22,607)	$ (21,782)	$ (20,328)
Net Operating Income		$ 881,691	$ 849,495	$ 792,780
Unleveraged Cash Returns		12.62%	12.16%	11.35%
Annual Debt Service		$ (481,250)	$ (481,250)	$ (481,250)
Cash Flow after Debt Service (CFADS)		$ 400,441	$ 368,245	$ 311,530
Replacement Reserve		$ (20,022)	$ (18,412)	
Leasing Commisions		$ -	$ -	
Tenant Improvements		$ -	$ -	
Recapture of Replacement Reserves		$ -	$ 38,434	
Project Net Cash Flow		$ 380,419	$ 388,267	
Leveraged Cash Returns		19.94%	20.35%	
Project Net Equity Proceeds			$ 3,044,405	
Project IRR	**$ (1,907,800)**	**$ 380,419**	**$ 3,432,672**	
	44.48%			
Investor Preferred Return		$ 286,170	$ 286,170	
Investor Cash Flow Particpation Above Preferred Return		$ 86,002	$ 93,164	
Investor Cash on Cash Returns		19.51%	19.88%	
Investor Return of Capital			$ 1,907,800	
Investor Profit Participation			$ 852,453	
Investor IRR	**$ (1,907,800)**	**$ 372,173**	**$ 3,139,587**	
	38.41%			
				Sale
SKB Cashflow		**$ 8,247**	**$ 293,085**	
Hamilton Cashflow		$ -	$ -	

Pullman Investments, LLC
Valentec Sale Reconciliation

			Year to Date
Cash Paid to Investors to Date			$148,016.48
Cash Required to Service 15% Annualized Preferred Return (225 days * $610.27)			$137,311.64
Cash Available Above Preferred Return			$10,704.84
Investors	42.50%	$	4,550
The Hamilton Company	48.75%	$	5,219
SKB	8.75%	$	937
Sale Proceeds			$2,396,595.27
Pullman Checking Account			75,094.00
Pullman Reserve Account			7,784.28
Pullman Security Deposit Interest			12,189.49
Cash Available to Distribute			2,491,663.04
Less Investor Investment			($1,485,000.00)
Less Overpayment of Preferred Return			($6,155.28)
Less post closing expenses			($20,000.00)
Sale Proceeds available for distribution			$980,507.76
Investors	40.00%		$392,203.10
The Hamilton Company	50.00%		$490,253.88
SKB	10.00%		$98,050.78
Hamilton Company Total Proceeds Due			$495,472.49
Less Funds From Savings & Checking			(75,067.77)
Total Funds Due Hamilton Company From Escrow			$420,404.72