

# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

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**THE WALL STREET TRANSCRIPT**

## COMPANY INTERVIEW

**KRISTIN E. MUSCHETT**  
HABCO, Inc.

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# HABCO, Inc.



**KRISTIN E. MUSCHETT** has been President and CEO of HABCO, Inc., since 1998. Her company manufactures and supplies aerospace, industrial testing and ground support equipment for military and commercial aircraft around the world. Under Ms. Muschett's entrepreneurial leadership, HABCO grew 100% in the last five years by forming strategic business partnerships and pushing innovative engineering beyond traditional limits to provide testing and support equipment used by aerospace, fuel cell, automotive and medical industries. Ms. Muschett has fully integrated lean manufacturing throughout the organization and ensures that safety is the guiding principle behind everything HABCO does. She is shaping the future of the industry by staying focused on her end-user customers, pursuing mentor-protege partnerships and regularly initiating CEO visits with top officials to better understand the safety needs of the defense industry and medical community so HABCO can deliver. A graduate of the University of Hartford, Ms. Muschett is currently a member of the Aerospace Components Manufacturers group, serves on the CBIA Board of Directors and is a Board member for the Glastonbury Education Foundation.

## SECTOR - AEROSPACE/DEFENSE

**(AGM611) TWST: May we start with a brief introduction to HABCO?**

**Ms. Muschett:** HABCO is a company that designs and builds test equipment to do safety and quality assurance checking in different product parts. Those parts can be as diverse as jet engine components in the hot section of an engine, or a catheter used in the medical industry. Our expertise is in process control and testing of flow, pressure, temperature and energy. We use innovative engineering and rapid design prototyping to develop and produce products and maintenance tools for five vertical markets: military and commercial aviation, fuel cell, automotive, and medical.

**TWST: What are the current economic trends that are impacting your businesses?**

**Ms. Muschett:** Our roots are in aerospace, which is the bulk of our business, and the economic trends are quite positive for at least two to five years. The helicopter industry in particular, in which HABCO has a strong base both militarily and commercially, is expected to experience significant growth. Certainly the war has augmented some of the needs for maintenance and support equipment. However, when our troops eventually do come home, there is going to be a need for what they call "resets," which entails fixing up the helicopters and providing much-needed maintenance. There is a rule of thumb in the industry that one year in combat for a military helicopter is worth 10

years in peacetime, in terms of wear and tear on the engine and its different components. So a lot of aircraft and equipment maintenance is going to be needed when they get back. It will clearly factor into growing our business, regardless of what else happens with world events.

Our current global economy and the prominence of India and China keep global aerospace and the maintenance requirements for aircraft pretty strong in those areas of the world. In fact, right now we are focusing on Dubai and the Middle East in terms of getting representative support over there, and we expect some good growth in the commercial sector.

**TWST: Do you outsource your manufacturing?**

**Ms. Muschett:** Most of the manufacturing we do is highly skilled manufacturing, which we handle in-house. We are putting together complex electromechanical assemblies that have traditionally been difficult to outsource. We do outsource some of the simpler manufacturing done on sheet metal, for example, and have formed partnerships with suppliers that give us just-in-time material, such as welding and some plasma cutting of metals. So, yes, we have worked on a supply chain to help us, but the more complex manufacturing is one of our core competencies.

**TWST: As you look ahead, would you say that the helicopter segment of your business will be trending higher compared to your other markets?**

**Ms. Muschett:** Yes. Helicopters will be a huge part of our growth this year and probably for the next two years. Growth will come from developing new products and partnering with another company to provide reset services and training. Support and maintenance equipment for rotary

wing helicopters in the Army market alone is in the billions of dollars.

**TWST: How are you positioning HABCO to take advantage of this opportunity?**

**Ms. Muschett:** Our strategy for growing the helicopter segment of our business includes developing two new standard products a year. This makes customization an important market for HABCO, because it leads to expanding our standard product line. We currently have 20 standard product lines that exclusively deal with maintenance on Black Hawk, Chinook, Apache and Kiowa army helicopters. We actively sell our standard products, and our representative in Huntsville, Alabama, is instrumental in helping us qualify new products to fill safety or maintenance gaps in the aircraft industry.

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2007 will mark the first year HABCO has been involved in the DoD mentor-protégé program and we look forward to capitalizing on the benefits of that partnership. We are actively exploring partnerships and alliances with OEM and Tier 1 companies that complement our core competencies. And we also pursue set-aside contracts for small, woman-owned business, to compete with large OEM’s for military contracts.

**TWST: How many products do you design and manufacture at HABCO?**

**Ms. Muschett:** We have 20 standard product lines and over 200 part numbers. Our Website

has a complete listing, which we optimized for keyword searches. This has helped people find us. I've had e-mails from US soldiers stationed in Iraq who found us through Google searches when they were looking to purchase new maintenance products to service their helicopters. Along similar lines, we made our first medical product when Boston Scientific's R&D Group discovered us and asked if we could transfer the flow and pressure testing we do on aerospace parts to develop a medical catheter test stand that raised the bar on traditional limits for that product in the medical industry.

**TWST: Operationally as a small company, how do you manage and control the multitude of products that you manufacture?**

**Ms. Muschett:** We split our manufacturing between two production facilities. Most of our standard products, the SK product line, are manufactured in one building and our custom products are manufactured in the other.

Lean manufacturing is fully integrated throughout the organization. We are also adept at cellular manufacturing, which means we have designated areas for making certain product runs, for example 100 of our transmission servicing units. When that job is done, we quickly retrofit, take out all the material bins for that job, put in bins for the new job, set up stations with different tooling, and move ahead to make another product line. In many instances, our size is actually an advantage, since it allows us to be extremely flexible.

**TWST: How do you compete with the larger companies that are vying for the same markets?**

**Ms. Muschett:** Very few companies try to do what we do, because the barriers for entry are so high. We are not in a commodity market. We use our intellectual property and proprietary software to ensure the highest level of accuracy with

our products. Having the right workforce is another issue for the competition. Our workforce has the expertise and competence in process control and testing to engineer tests that ensure something as important as a critical flight system is in peak working order.

We also have an excellent reputation for rapid prototyping, meaning we can get a prototype to market very, very quickly. Our customers have repeatedly said they value HABCO's flexibility in giving the customer what they want and they value our ability to do it quickly. Our size makes us agile and flexible. We can cost-effectively take on new product development and turn it around on a dime. I believe we do rapid prototyping better than any competitor.

**TWST: Given the rise in industrial material prices over the last two years, how do you view the pricing environment and margins for your products?**

**Ms. Muschett:** Rising cost has been an issue not only with jet fuel prices getting higher, but also with raw materials. Metal, for example, has just skyrocketed. So far we've been able to pass on some of those costs, but it does force us to look at what we are doing on a more frequent basis than we needed to in the past. That said, HABCO is a sole source provider in a niche market for many of our products and our profit margins are still high enough to fund most of our own R & D.

**TWST: Are you looking for mergers and acquisitions to add to your product lines?**

**Ms. Muschett:** We are currently looking for growth by partnering with companies that have complementary competencies to HABCO's. That's a very active part of our business plan right now. I am also looking to buy companies that are complements to HABCO. So strategically, we are in an acquisition mode but it has to be the right fit.

**TWST: At what capacity is HABCO operating?**

**Ms. Muschett:** Right now our custom products building is operating at 90% capacity and our standard products area is at about 60%. Averaging the two, we are operating at about 75% capacity.

**TWST: What percentage of your revenues goes into R&D?**

**Ms. Muschett:** R&D is the lifeblood of our new product business and it's particularly been burning our growth in the military and commercial helicopter industry. Many times we fully fund the cost of the prototypes on these units until they get validated and bought. With the military, the cycle can be anywhere from 12 to 24 months before approval. That is the primary reason we are looking for some viable R&D funding partners.

**TWST: Besides acquisition, what is the strategy for growth as you look ahead?**

**Ms. Muschett:** My business goal is to double the company's size in four years, so we are looking for 20%-25% growth per year, which we have averaged since 2000.

My strategy is to develop two new standard products per year, which we've been able to do successfully for the past five years, and form smart partnerships and alliances with other companies in the army helicopter industry or in military and commercial aerospace. Our greatest partnership opportunity with OEM and 1st Tier companies is to handle their baseload manufacturing business. I also see tremendous opportunity for HABCO in outsource testing, where we perform final quality assurance testing on products. This could be so big, it could become a new division of HABCO and effectively double our size in a year.

**TWST: What are your major challenges and hurdles to success?**

**Ms. Muschett:** The biggest challenge we face in the military arena is the government approval process. Applying for a National Stock Number, or NSN, which military personnel need to order products through the system, can be long and arduous.

Also, funding our own R&D is proving to be expensive, particularly as we get involved in more complex pieces of equipment that require more funding. Companies are seeking us out to engineer new testing solutions to improve a product's performance, which is great in terms of developing our brand and image, but we have to be selective in terms of the R & D we can fund, even when we have the capacity to fill a gap.

**TWST: Would you introduce us to your management team including yourself?**

**Ms. Muschett:** Like our company, we are strong and lean, but deep in terms of experience. We have a talented Chief Operating Officer who has been with us 16 years. He came from the engineering side, and has degrees in Electrical and Mechanical Engineering as well as an MBA. He excels at sales, knows the industry, and understands the company inside and out.

Our Operations Manager is truly a gifted individual when it comes to maximizing efficiencies and capacity. He helped us harness the efficiencies of lean manufacturing so well that when we doubled our size in five years, from 2000-2005, we were able to do it with only a 20% increase in direct labor staff.

As for me, I grew up in the industry. This was a family business. I learned from my father, an engineer who started the company. I learned from mentors, listened to customers and tapped into my own leadership and business skills when I took the company over and decided to bring it to a higher competitive level.

**TWST: How is the company financed and what is your current annual revenue?**

**Ms. Muschett:** Our annual revenue is currently \$8 million and our business plan maps out a strategy to double to \$16 million in four years. One outsource testing contract or baseload manufacturing partnership could double the business even faster. Right now we are privately financed through a banking line of credit. We funnel a lot of our profit back into R&D.

**TWST: Do you see the need to raise additional capital?**

**Ms. Muschett:** Additional capital to fund research and development could open some new doors for us. It is not my only idea right now for revenue, but it is certainly something that I am open to and would seek out different options.

**TWST: Where do you see HABCO two to three years into the future?**

**Ms. Muschett:** My vision for HABCO over the next two to three years is to reach the milestones that position us to become the number one maintenance integrator for Black Hawk helicopters. This means forming a baseload manufacturing partnership with an OEM or 1st Tier company, capitalizing on a robust mentor-protege partnership, and developing large-scale, multi-year, sustainable support contracts.

Hopefully, two to three years down the road, we will be in a bigger building where everything we do is under one roof. I see us adding a key person to our management team to help drive partnerships and perhaps adding a continuous improvement position in the company to shore up what we are doing from a lean manufacturing point of view. In 2008 we will be competing for the Shingo Manufacturing Prize for quality, which, like the Malcolm Baldrige Award, is a quality-related measure of how well

integrated our company is with our strategic plan and goals.

**TWST: What else would you like to touch upon?**

**Ms. Muschett:** The majority of our discussion centered on the aerospace industry because it holds some golden opportunities for us to take advantage of over the next two years. However, in year two of our strategic sales plan we will branch out in our medical and fuel cell markets, which have tremendous growth opportunities for us as well. We currently make a lot of production test equipment for fuel cells; and as that industry matures, we can move from R & D into more of a production environment.

**TWST: What percentage of your overall business is aerospace and where do you see this ratio in the future?**

**Ms. Muschett:** Currently, we have nearly an 80-20 split between aerospace and our other industrial markets. I would like to bring that down to a 60-40 split in the next four years.

**TWST: What about the medical equipment?**

**Ms. Muschett:** Medical right now is less than 5% of the business. I am targeting to make that at least 10% in the next four years.

**TWST: So you will be de-emphasizing the aerospace business?**

**Ms. Muschett:** What we might do is spin it off into a separate division as it becomes more successful. There is so much untapped potential in aerospace, whether it is through acquisition or just organic growth. With the potential we have, we need to continue to focus on that as our primary source of income right now, and then leverage that success for additional revenue growth in these other industries.

We never lose sight of what we do well. HABCO pushes innovative engineering beyond es-

established limits to provide testing and support equipment that outperforms the status quo or fills a product gap. That is the common thread and need among all our vertical markets. The aerospace industry has extremely high testing standards we are accustomed to working with — savvy companies in other markets like the medical industry have sought us out to engineer new testing solutions that go beyond their current product performance standards.

**TWST: Thank you. (WT)**

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