

FAQs

Describe the model.

After performing initial due diligence on a flagship IT security company and soliciting interest, we will craft a LOI (letter of intent). After additional due diligence is completed, we will build a definitive agreement and solicit a shareholder vote. After the business combination is approved, the companies will merge, with \$20 million in growth capital available. Based on market response, an increase in share price will trigger warrant execution, resulting in an additional \$40 million in capital. As market cap increases, additional investments and expansion will be considered.

How does this work?

The equity interests of your company will be converted into shares of common stock of SHS. The owners of your company will own a significant percent of the outstanding common stock of the combined company. The owners of your company will collectively receive two warrants exercisable at \$5.00 per share for each SHS share currently outstanding, of which there are 4,000,000.

Who else has done this?

In August 2003, Millstream Acquisition Corporation announced its IPO, consisting of 4,025,000 units, including 525,000 units subject to the underwriters' over-allotment option.

The units were sold at an offering price of \$6.00 per unit, generating gross proceeds of \$24,150,000 to the Company. EarlyBirdCapital, Inc. acted as managing underwriter for the initial public offering.

Separate trading of common stock and warrants underlying the units commenced September 2003. In March 2004, Millstream Acquisition Corporation and privately held

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NationsHealth Holdings, L.L.C. (a provider of medical products and pharmacy benefits to Medicare participants and other seniors) announced a merger agreement pursuant to which NationsHealth merged with a wholly owned subsidiary of Millstream.

As a result of the merger, the equity interests in NationsHealth will be converted into shares of common stock of Millstream. Following the merger, the owners of NationsHealth will own approximately 80% of the outstanding common stock of the combined company.

The owners of NationsHealth will collectively receive one warrant exercisable at \$8.50 per share for each Millstream warrant currently outstanding, of which there are 8,050,000. An additional 1,050,000 warrants will be issued to existing NationsHealth owners exercisable at \$11.00 per share.

As of August 9, 2004, Millstream stock was trading at the following: MSTMU \$10.50 per unit, MSTM \$6.20 per unit, MSTMW \$2.09 per unit.

Where have you done this?

Collectively our team has completed over 20 M&A transactions and 50 equity investments. Examples:

- Led Tandem's International Ventures Group – over 10 investments
- Acquisition by Heritage of \$40M bank – 2001
- Participated in 35 investments and managed private equity fund with \$200M invested capital
- Private equity backed buyout from US Liquids
- Arranged buyout of 3 businesses – \$70M revenues

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Why did you choose us?

Your company shows market leadership in a targeted and growing segment. The company's management team, experience, accomplishments and successful record of revenue growth indicates huge potential for expansion which makes the \$40 million follow on capital through the exercise of publicly traded warrants especially beneficial for the company.

Will we have to compete for the \$40 million or for your attention after the warrants are exercised?

Use of the \$40 million will be a joint decision. An investment committee will be formed – comprised of both SHS and members of your company's management team. We will also be happy to enter into an agreement with you to put off other transactions or potential mergers until we finalize out merger and go public.

What if only half of the warrants are exercised?

The market can change. If we perform and execute the warrants will be called. The warrants are good for 4 years. If the market does take a turn for the worse, this will provide us the time to take advantage of the warrants' opportunity further down the road.

How much is it going to cost me?

Nothing. A merger will ensure that your business is adequately capitalized for future expansion.

Why should I do this?

Private IT Security companies are in the best position to take advantage of our offering. In addition to substantive operations and intellectual property, your company has a basis of value in a market segment that is of great interest to the investment community. Most important, a merger will bring value to our combined business' balance sheet.

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What is the most important reason for merging?

A merger will bring value to our combined business' balance sheet. Our merger model provides a low risk, low cost way for a company to start trading their shares in the US market.

What other benefits are there?

Having additional capital available will greatly accelerate your business objectives. There will be less dilution of funds since they will be coming from only one source (Sand Hill IT Security). There will be instant liquidity for management and investors, with no preferred stock premiums. You will have more ways to raise money (secondary offering, debt financing) and access to a wealth of potential partners and investors. The bottom line: Management stays in better control of the business.

How long will it take?

A challenge to say because it depends on length of time to prepare a registration statement and how long it will take for the SEC to respond. The time to listing generally is 45-90 days after filing.

Do we run the risk of assuming unknown liabilities?

No. SHS is a newly formed corporate entity without any operational history. As such, there are no pending liabilities that would be assumed.

Will our financials be audited?

The SEC requires audited financials for public companies. The minimum requirement for most companies is two years of operating statements and one year end balance sheet.

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On what exchange will we be listed?

For now, SHS is traded on the OTCBB because it has no operations. At the completion of a merger, the operating company will become combined with SHS and the combined company will qualify for a NASDAQ listing.

Why is this better than an IPO?

Performing an IPO is a lengthy and demanding process. The company must present a history of successful operations and command substantial resources required to complete the transaction. An IPO can also be very costly and complex with no guarantee of success, especially if market conditions change. The process may be terminated at any point, leaving the company bearing the expense.

Perhaps the greatest cost to a company of a traditional IPO is the distraction and time and effort required by the management team.

How does timing come in to play?

Sand Hill IT Security's merger model limits the impact of market conditions, whereas with an IPO timing the offering is usually the biggest challenge. A typical IPO usually requires at least 3-6 months, sometimes more than a year, to reach completion. If the market falters, the underwriter may pull the plug. Or if the technology or company receives any unfavorable headlines, investors may shy away.

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What other advantages are there to being public?

A public company has further opportunities for raising capital through additional stock offerings or debt. Going public can increase a company's equity base, creating more favorable terms for borrowing additional funds. Publicly traded stock can be also used as a form of currency when making key acquisitions, allowing a company to make such purchases without incurring further debt or selling assets.

Are there additional requirements to being a public company?

Management is obliged to disclose certain information. These obligations include preparing and distributing reports and proxies. Additional resources may also be required to satisfy legal, accounting, and filing requirements.