

FEDERAL CONTRACTING

After 'false starts,' Neosystems gets \$5.1M in funds

By Darlene Darcy
Staff Reporter

When Michael Tinsley started to look for cash to expand his Vienna-based accounting services business last summer, the economy was already slowing down — and the depths of the financial crisis were still ahead.

But after seven months of searching, pitching and negotiating, the accountant-turned-entrepreneur closed a \$5.1 million financing deal for Neosystems Inc. on Feb. 20. The investors are Winston-Salem, N.C.-based Salem Halifax Capital Partners LP and Reston-based Access National Bank.

Tinsley has self-funded Neosystems since 2000, when he started the company, whose customers primarily have been small and midsize government contractors.

Neosystems became profitable on revenue of \$333,599 in 2003 after Tinsley hired his first employee. Although the company was growing steadily, he needed a bigger funding source to expand the business further.

"We had several false starts," Tinsley said. "I'm sure that isn't unusual, but it was much more difficult [in this economy]."

He approached his existing lender, Provident Bank, but the Baltimore-based institution would not provide any more money and didn't have any suggestions on where to find other investors, Tinsley said.

Eventually Access National and Salem Halifax offered the \$5.1 million in bank credit and subordinate mezzanine funding



JOANNE S. LAWTON

OVERCOMING REJECTION: Beginning his quest for financing just the credit crisis took hold, Neosystems' Michael Tinsley was turned down by his bank, but eventually found money for his accounting services firm.

— consisting of debt and an equity stake in the company.

Although that amount was less than he was seeking, Tinsley said it is enough to execute his plans to expand the business.

Those plans include an investment of \$600,000 for licensing additional software to automate back-office functions for non-profit groups, a new market for Neosystems,

and hiring 40 more accountants this year with experience serving nonprofits. He currently has 99 employees.

Tinsley also said he intends to make an acquisition and is talking with potential targets but would need additional funding to close a deal.

He had hoped his company's track record of growth would be an advantage, but lend-

ers were looking for a larger net income-to-revenue ratio.

Neosystems' revenue grew 56.8 percent to more than \$10 million from 2005 to 2007; profit is now about 20 percent of revenue.

Access National's relationship with Salem Halifax enables companies to access investment capital from Salem's mezzanine fund for growth while the bank provides the working capital to maintain operations and help meet cash-flow needs.

"We think there are good credits for companies that are interested in this kind of financing package," said Dave Loughran, vice president of commercial lending for Access National.

The bank, which lends to companies with revenue up to \$75 million, examines borrowers from top to bottom including their profit, cash flow, client base, business owner's experience and personal investment in the company and the bank's asset coverage, he said. "We like to see companies that are not recession-proof but those that are not as likely to be affected by recessions."

Tinsley said he understands that investors are interested in seeing financial results but believes they also want to see that management cares about the value of the company's products.

"The economy is having a [negative] effect across the board," he said. "But it's exciting to have these kinds of expansion plans on the table."