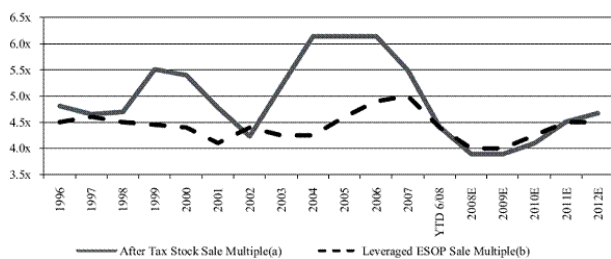


ESOPs Are Good Business, Not Just a Fable

Increasing regulations being placed on the banking sector, the wave of baby boomers retiring and selling their businesses, and entering an era of likely increased taxes, make ESOPs (employee stock ownership plans) much more interesting.

Currently, there are more than 11,000 ESOP owned companies in the U.S including General Mills, Men's Warehouse, Paychex, Round Table Pizza, Kelly-Moore Paint and the Principal Group. Still, many companies are not familiar or have not considered the ESOP option. This is largely driven by a misperception that ESOP transactions are more complex than others and the fact that until recently selling to a third party typically generated a higher multiple.

Comparative Middle Market After-Tax Sale Proceeds as a Multiple of EBITDA



(a) Based on IMAP Middle Market EBIT index less an assumed 15% capital gains tax and 10% depreciation and amortization discount.

(b) Total Leverage defined as Standard and Poor's historical Middle Market LBO average Senior Debt/EBITDA plus 1.0x.

Source: International Network of M&A Partners, Standard & Poors Inc. and Brereton, Hanley & Co. Inc.

Owners of privately held companies have historically relied on selling off their company in order to cash out of the business. This has usually been accomplished at favorable valuation multiples. However, given the shift in policy, demographics and the economy, it has become very difficult to find buyers and even tougher to achieve valuations anywhere near historic multiples.

Many middle market company owners face dilemmas including: no liquidity for their business investment; the majority of their net worth is tied up in the business; few investors are willing to buy a minority interest in a private company; the window on high valuations has closed; and there are limited options to business succession.

(See page 2, col. 1)

Worldwide Semiconductor Equipment Sales to Grow 53 Percent in 2010

SEMI's forecast indicates that, following a 31 percent decline in 2008 and another 46 percent decline in 2009, the equipment sector will grow approximately 53 percent in 2010 to US\$24.5 billion and to further increase about 28 percent in 2011 to US\$31.2 billion.

(See page 2, col. 2)

Exceptional Preparation Key to Successful Capital Raise

There is an often quoted but misguided thought... "Businesses are bought, they are not sold." This implies that investors will simply find your company in the vast ocean of investment opportunities and happily hand over their precious cash simply because it's needed.



In reality, it takes a great deal of well orchestrated strategic marketing and sales efforts to first, get a company ready to court investors and second, make the presentation and third, close the deal.

The process of attracting investment capital has always been challenging, but given the current market conditions it has become exponentially more difficult. Consequently, the key to success is to be properly positioned and prepared.

Two factors are driving the need for exceptional preparation before approaching an investor – tightening investment criteria and less available capital.

Both lenders and investors have tightened their criteria by which they judge the credit or investment worthiness of a company. Now companies are required to clear higher hurdles due to the downturn in the economy and collapse of the credit market.

At the same time, there is simply less money chasing fewer good deals. This means greater competition for investment capital and lower quality of investment opportunities. Only those who are well positioned and prepared, or extremely lucky, find the money they need.

(See page 2, col. 2)



INTERNATIONAL NETWORK OF M&A PARTNERS

Core Capital Group focuses on providing a full range of M&A services to middle market companies within the technology sector. We are a member company of the International Network of M&A Partners (IMAP), a global partnership of leading merger & acquisition advisory firms with over 45 offices located in 30 countries worldwide. We encourage you to visit our web site at www.esqibank.com to learn more about us and how we might be of service to you now or in the future. If you wish to subscribe to, or unsubscribe from, this newsletter please send an email to info@esqibank.com stating your name and your request.

ESOPs *(From page 1, col. 1)*

"If given the choice, most owners of privately-held businesses would like to liquefy some portion of the equity they have worked so hard to build," according to Loren Lancaster, managing director for the Electronics and Semiconductor Group of Core Capital Group. Ideally, this would be achieved without giving up control of the business, without changing the company identity and without the risk of losing loyal employees to cuts.

"The ESOP transaction can provide the optimal solution for business owners seeking to take cash out of the company while retaining control and improving company valuation," Lancaster added.

ESOPs offer many benefits allowing the company owner to:

- Sell stock of the company, pay no tax on the proceeds and still keep control
- Increase the company's working capital and cash flow with no cash expenditure and no productive effort
- Buy out minority or majority stockholders with pretax dollars
- Make acquisitions with pretax dollars that are tax free to the seller
- Cut the cost of borrowing loan principal nearly in half by deducting principal payments as well as interest
- Provide employees with equity upside with no cash outlay on their part or the owner's part

An additional lift to the company comes in the form of increased productivity. A 2008 ESOP Association study found that the majority of employee-owned businesses have a significant sales-per-employee advantage over their non-ESOP counterparts.

ESOPs are not a silver bullet solution and do pose possible disadvantages that need to be considered as well.

Cash flow benefits need to be weighed against the rate of dilution if the ESOP is used to purchase new shares of stock. The sale of an ESOP depends on the ability of the company to obtain financing. Additionally, leveraged ESOPs are required to record the bank loan as a liability which can reduce the company's net worth.

ESOP participants receive annual benefit statements from the plan showing the value of the company's stock held by the trust. However, they are not entitled to receive company financial statements or attend shareholder meetings as they are not direct shareholders. And, the stock must be valued annually in order to establish its value for purposes of purchasing and distributing stock.

As in many of Aesop's Fables, the wisest often reap the greatest rewards. ESOPs are no different. They do offer a number of compelling benefits for the seller, the company and the employees including tax advantages for the seller and company, increased productivity, succession strategies, and a new capital source for the company. However, ESOPs may not be right for all companies. Consulting a qualified advisor with experience in ESOP transactions is the best way to understand the most appropriate options for your company now and into the future.

Exceptional Preparation *(From page 1, col. 2)*

To be exceptionally well prepared, a company must have the following structure in place prior to any outreach efforts to potential investors.

- Assemble a mature, experienced and well-rounded management team
- Demonstrate financial stability through size and exhibited growth
- Draft a well articulated story illustrating how internal management and processes are well aligned with the strategy
- Have internal operations singing and humming
- Write and be ready to defend a concise business plan
- Be fully prepared to engage in a deep and detailed financial conversation
- Prepare in advance a general PE due diligence request form

It is also important to start the process as early as possible. It takes time to prepare the company, to go through the process of attracting investors and to close the deal. In most cases, the process requires at least six months from start to finish.

For the complete white paper go to

<http://www.esgibank.com/documents/CapitalRaise.pdf>

Worldwide Semiconductor *(From page 1, col. 1)*

"Worldwide semiconductor manufacturing equipment sales have declined to the lowest annual levels since 1994 as the global economic crisis and industry downturn caused the world's chip makers to significantly curtail spending and expansion," said Stanley T. Myers, president and CEO of SEMI. "There has been recent improvement in equipment bookings and we anticipate a significant growth off the bottom with expectations of double-digit growth in the next two years."

Freecom acquired by Verbatim

Core Capital Group's Electronics and Semiconductor Group announces Freecom has been acquired by Verbatim.

The Electronics and Semiconductor Group acted as advisors to the seller in the transaction.



www.esgibank.com

Our website contains additional information about Core Capital Group's Electronic and Semiconductor Group and the investment banking services we provide. Please take a moment to visit us on the web! You can also sign up to receive this newsletter by writing to info@esgibank.com.