CORE CAPITAL GROUP
INVESTMENT BANKING SERVICES

M&A REVIEW

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Core Capital Group
is celebrating our 19th year in investment banking services for middle market technology companies.

Whatever the stage of your company's lifecycle, we have the expertise and resources to deliver superior results for you.
www.corecapital.net

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Core Capital Group is a partner firm in the International Network of M&A Partners (IMAP). With 55 partner offices located in 40 countries, IMAP partners closed 252 transactions in 2008 with a combined value of $13 billion.

IMAP
INTERNATIONAL NETWORK OF M&A PARTNERS

CORE ONYX Alliance

Core Capital Group and Onyx Associates announce the formation of a strategic alliance to deliver joint M&A services to middle market technology companies. This alliance will benefit clients with innovative services, broader vertical market expertise, and extended worldwide reach.

The Core Capital Group and Onyx Associates strategic alliance will leverage both firms' experienced executives who have extensive operating and dealmaking expertise in multiple technology sectors including: Software, IT Consulting, Business Services, Telecommunications, Payment Technologies, Clean Energy, and Electronics & Semiconductors.

Increase in Global M&A Activity Continues

The fourth quarter of 2009 registered a 12 percent increase in global M&A deal activity. This represents the third consecutive quarter of double-digit growth. This growth builds on the 10 percent growth witnessed in the two previous quarters and represents a solid 12 percent year-over-year growth in global mergers and acquisitions activity compared to the same time period in 2008. The increase in overall M&A activity can be attributed to a significant resurgence in private equity activity, thawing credit markets, and the sharp rise and continued confidence in the public equity markets. All of these factors have helped to narrow the valuation gap between buyers and sellers contributing to more successful closings. (*Source: Intralinks*)

Time to Sell?

Accountants and other advisors are fond of counseling clients not to let taxes drive their investment decisions. But with the looming expiration of the Bush tax cuts at the end of 2010, plenty of business owners are worried they'll have to pay much higher capital-gains taxes if they sell their businesses in 2011 or later. If Congress doesn't act next year, the Bush-era tax cuts on long-term capital gains for individuals will expire and **the rate will rise to 20% on Jan. 1, 2011, up from 15% today. That's a 33% increase in long-term capital gains taxes.** Meanwhile, Congress is busy creating new entitlements, including a massive health-care bill. Businesses and wealthy individuals are concerned Congress will levy additional taxes on the sale of assets to pay for these programs, further driving up the long-term capital-gains tax rate. There are also generational pressures building. Baby Boomers will seek to sell 8 million privately held companies to fund their retirements over the next 12 to 15 years, according to Exit Planning Institute.

The recession has forced sellers to adjust their expectations of getting paid higher multiples of earnings for their companies while buyers have reduced their anticipated returns because they can't boost returns with as much leverage. **The spread between buyers and sellers is narrowing to five to seven times earnings before interest, taxes, depreciation and amortization (EBITDA)** returns are now below 30% compared to the 40% range a few years ago.

Private Equity Exits Rebounding

Exit activity was down significantly in 2009 from 2008 and 2007 levels by 50% and 67%, respectively. The decline was led by a 54% fall in sales to strategic acquirers and a 65% drop in secondary sales (where a PE firms sells directly to another PE firm). However, the 52 exits in the fourth quarter showed signs of life with a 30% increase over the previous quarter. With debt becoming more available, strategic M&A on the rise and IPO markets opening, the exit market is set for a much more robust 2010.

(OVER)

ESOP: *Is it the Right Alternative for You?*

Using an Employee Stock Ownership Program may not be the right alternative for everyone wishing to sell their business but the advantages may be growing for some. Here's the argument for using this approach.

The amount that an outside buyer of your business is willing, and able, to pay is primarily a function of how much they can borrow against the assets and future cash-flow of your business. When banks were able to lend, on average, 5x cash-flow, buyers could pay 7x to 8x cash-flow for the company. If banks can or will only lend 3x cash-flow, buyers will only pay 4x to 5x for businesses.

There are three important considerations when contemplating private company liquidity multiples from now through 2025. *First*, the Baby Boomer Retirement Wave of the 76 million Americans who were born between the years of 1946 and 1964 will see about three times the number of business owners sell their businesses each of those 16 years. The supply and demand imbalance caused by this unprecedented number of sellers flooding the private capital markets could keep purchase price multiples depressed during this period. *Second*, an upper limit on the amount of money a bank can lend to a particular company may well be limited by federal bank regulators to ensure that the American tax payer never has to bail out U.S. banks again. The effect of this permanent change could be the banks effective "capping" of private company purchase price multiples on a go forward basis. *Finally*, we believe that these next 15-17 years will be a period of rising tax rates in the U.S. as our government will need to fund the Social Security and Medicare dilemmas caused by the Baby Boomer Retirement Wave and pay down massive debt taken on during the recession of 2008.

The Business Owner(s) as Seller(s)

In certain sales to ESOPs the seller(s) may be eligible to defer the capital gains tax otherwise due from the sale.

The Company as a Sponsor

Companies can make annual tax-deductible contributions to ESOPs, resulting in a tax shield that creates value. The tax-deductible ESOP contributions enable the ESOP to make principal payments on the debt it incurred to purchase the stock in the company. This use of pretax dollars to repay indebtedness significantly enhances the value of the ESOP tax shield. Furthermore, contributions to pay interest on ESOP debt are generally tax-deductible, as are cash dividends paid on ESOP stock if such dividends are used to repay debt.

T***he Employees as Buyers***

Employees who purchase all or part of "their" company through an ESOP have a unique opportunity to build wealth via underlying stock appreciation without personal liability. In addition employees, through an ESOP, have some control over their destiny. Finally, the employees are not taxed on their benefits through the ESOP until they receive them. Employees do not have to have the money necessary to buy the stock nor do employees have the right to vote or exert control over the daily operations of the business as is a popular misconception.

The Productivity Benefit

A 2008 study funded by the ESOP Association found of the 328 ESOP-owned companies and over 2,000 matching non-ESOP-owned companies studied that majority employee-owned businesses have a significant sales-per-employee advantage over their non-ESOP counterpart.

Recent Transactions

Through December of 2009, merger and acquisition announcements targeting US electronics, information technology, and communication companies totaled 1,458 compared to 1,544 for the same period in 2008. In December, the Software sector accounted for 52% of all announced transactions followed by Hardware & Systems (23%), IT Services (17%) and Telecom Services (8%). US buyers accounted for 87% of the announced transactions. Countries with two or more announced transactions include Canada (4), Ireland (2) and Japan (2).

Oracle Corp. completes acquisition of Sun Microsystems, Inc. Oracle Corporation (NASDAQ: ORCL), the world's largest business software company, announced the completion of its acquisition of Sun Microsystems, Inc.

Investor Group acquires TASC Inc. An investor group, comprised of General Atlantic LLC and Kohlberg Roberts & Co LP, acquired TASC Inc, a provider of information technology solutions, from Northrop Grumman Corp.

International Business Machines Corp. to acquire Lombardi Software, Inc. International Business Machines Corp. signed a definitive agreement to acquire Lombardi Software, Inc., a company which provides a suite of business process management (BPM) software and services in the United States.

Deltek Inc. acquires MySBX Inc. Deltek Inc., a developer of project management software, acquired MySBX Inc, an operator of an online network for businesses and professionals.

CDC Software acquires Activplant. CDC Software, a provider of enterprise software applications and services, has acquired Activplant, a Canadian provider of manufacturing business intelligence solutions.

SAIC, Inc. to acquire CarScan product line from Spectrum San Diego, Inc. The CarScan product line of Spectrum San Diego, Inc. was acquired by SAIC, Inc. Spectrum San Diego, Inc., CarScan Product Line manufactures CarSCAN which is an imaging system that provides detection of explosives, contraband and stowaways in cars and light trucks.

ICF International Inc. acquires Jacob & Sundstrom Inc. ICF International Inc., a provider of policy, management, and technology consulting services, acquired Jacob & Sundstrom Inc, a developer of security software.

Harris Computer Corp. acquires Tailored Business Systems Inc. Harris Computer Corp, a developer of financial, customer and student information management software solutions, acquired Tailored Business Systems Inc, a developer of computer software for the governmental sector, from Constellation Software Inc.

Jacobs Engineering Group Inc. acquires TYBRIN Corp. Jacobs Engineering Group Inc., a provider of engineering, design, architecture, operations & maintenance services and scientific & systems consulting services, acquired TYBRIN Corp, a developer of a maturity model integration process-based system.