



BUSINESS
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ESOPs Provide Acquisition Advantages

Most business owners are aware of a variety of advantages associated with ESOP (Employee Stock Ownership Plan) ownership. These include: (a) sale of stock in a C corporation with 30 percent or more of the shares owned by the ESOP can create tax deferral opportunities for the seller, (b) ESOPs can borrow money to purchase company shares and allow the company to obtain both interest and principal repayment deductions when made as ESOP contributions, (c) the company generates retirement benefits for employees that are vested in the success of the company, and (d) companies that elect S corporation tax treatment can minimize or eliminate one level of taxation.

Some of these attributes can be leveraged substantially to create acquisition advantages for ESOP-owned companies. In particular, the S election for companies that are owned 100 percent by an ESOP generates a strong advantage when competing with general corporate buyers. An S corporation with 100 percent ESOP ownership does not have to pay income taxes (federal and most states) at the corporate level. Taxes "pass through" from the company to the shareholders. Since the shareholder is a non-taxable employee trust, there are no income taxes incurred by companies organized in this manner.

This advantage may enable an ESOP-owned buyer to approach an acquisition valuation using a pretax earnings base versus after-tax earnings (as is typical for most buyers). For stable and profitable selling companies this can often generate a higher value than what a typical financial buyer might pay. While ESOPs cannot pay more than Fair Market Value for shares of the sponsoring company, there is flexibility in purchasing the assets (or stock) of another business at a more synergistic value (if it is believed that the transaction will result in

continued value appreciation for the acquiring company's shareholders).

Combining the valuation advantage with the debt service advantage available to ESOPs (deductibility of both interest and principal) can result in an even more favorable position for an ESOP acquirer vis-à-vis a regular corporate buyer.

Finally, selling to an ESOP company often satisfies a major objective of a selling entity's controlling party: to take care of the employees that helped build the business.

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By Mark Esbeck

Our society has created a small and powerful privileged class of leaders which run our nation's largest companies. The top people at these companies earn millions of dollars, sit on each other's boards and interact with each other socially (further reinforcing these personal relationships and further distancing themselves from the rest of the masses). No one really begrudges this. It is part of the rewards of our free market system and a necessary part of business development and collaboration.

However, these leaders have a deep and continuing responsibility in our free society to review the conditions of their employees, their shareholders, their customers and their community to ensure that the resources they control and manage can best be utilized to maintain or improve the conditions of their constituencies. Big business should not be exclusively responsible for the conditions of these various segments, but it occupies such a large and powerful position within our society today that it is imperative that our top business managers provide leadership that will assist the collective whole versus ignoring it, or worse, abusing it.

Our companies and their directors should not encourage a "win at all cost" attitude, but rather foster attitudes of winning by competing ethically and

morally. Examples to avoid: hiring illegal workers to save costs, encouraging employees to use government programs for benefits they don't want to provide, seeking to keep people in part-time positions so they don't have to provide benefits, and not getting actively involved in programs that will help people help themselves.

We have to grow better people and better workers in order for everyone to have better opportunities. Other countries are progressing in free market development by exploiting their own unique advantages. America's overriding strength is its commitment to individual freedoms and personal choice.

Our companies and their directors should not encourage a "win at all cost" attitude, but rather foster attitudes of winning by competing ethically and morally.

Our form of democracy leads from the bully pulpit whereas dictatorships lead from the threat of ruthless force. Absence of leadership from the democratic bully pulpits will eventually threaten the survival of the democratic system that has built the world's most powerful economic engine.

Our nation's problems should not just be dealt with by our politicians, our churches and synagogues, or the news media. This then leaves us with corporate America to assume a powerful and altruistic role in helping to shape our society for future generations. The majority of our nation's great companies understand how influential they can be in shaping and influencing the political process. Some time and effort should be dedicated in helping to make America better. If it doesn't come from our business leaders, where will it come from?

Forty Under Forty Recognizes Greg Weber

Once a year, the *Des Moines Business Record* acknowledges 40 central Iowa leaders under the age of 40 by naming a new "Forty Under 40" class. Honorees work as professionals and volunteers in a wide range of fields to improve their community. Greg Weber, Vice President of Business Capital Corporation, was selected into the 2006 class. His accomplishments were celebrated with a reception at the Polk County Convention Complex in Des Moines on March 28, 2006.

A partner and shareholder at BCC, Greg's work primarily involves business valuations, but also includes a range of activities from helping companies with financial difficulties restructure their operations to assisting with management buyouts. His work also includes advising an insurance company regarding its venture capital investment portfolio. "Greg is very thorough



Greg Weber

in his approach to valuation, very cognizant of what the customer wants and diligent in everything that he does," says Steve Jacobs, president of BCC, adding that "he is a great partner and a great person, and he really takes care of our firm's clients." Greg's proven expertise in the business valuation arena has long been recognized by BCC and its clients.

ESOPs Provide Acquisition Advantages

(continued from cover)

Dealing with ESOP buyers (and their familiarity with employee issues, rewards and incentives) provides an excellent opportunity to structure a transaction that addresses a multitude of fairness and equity issues to the ultimate benefit of both current and future employees.

ESOP rules provide significant

flexibility that allows the buyer and seller to craft a transaction that can be (1) advantageous to the seller, (2) fair to the buyer, and (3) beneficial to both sets of employees. It can truly be a win, win, win situation. Give us a call to learn more about how ESOPs work and how one might help you in your business planning.

Our Newest Acquisitions



Lindy Ireland joined Business Capital Corporation in January of 2006 as Senior Financial Analyst. Lindy brings a wealth of experience from the insurance, government, banking and public accounting sectors, most recently at KPMG. Lindy received her Bachelor of Arts from Stevens College and continued studies at Texas A&M, West Texas University and Drake University. Lindy is married and has two sons.



Matthew Paul, CPA joined Business Capital Corporation in November of 2005 as Financial Analyst following a successful career in public accounting with McGladrey and Pullen. Matthew received his Masters of Accountancy from the University of Iowa and is a member of the AICPA and ISCPA.



Lisa Chavez is Executive Assistant to the Chairman and President and joined Business Capital Corporation in December of 2005. Lisa has more than 20 years of experience in the financial services industry in the areas of trust, investments, financial planning and retirement plan consulting. Lisa has two sons and lives in Indianola.

AFII / BCC Joint Venture



Mark Esbeck visited AFII's office in Delhi, India in January. He is shown with AFII's Managing Director, Dr. Mahesh P.S. Gandhi, (far right) and his colleague, Payal Jain, (center).

During the last year, representatives from BCC have had discussions with a prestigious corporate finance boutique in Delhi, India (AFII Corporate Advisors Limited). This relationship expanded with a visit from BCC's Chairman, Mark Esbeck, to AFII's office in January and a visit by AFII's Managing Director, Dr. Mahesh P.S. Gandhi, and his colleague, Payal Jain, to BCC in April. The result of these meetings and discussions has been the formation of a joint venture company where AFII and BCC will collaborate on India/U.S. business development opportunities relating to M&A advisory, Knowledge Process Outsourcing (KPO) and Corporate Finance. Current projects include companies involved in the automotive, finance, aviation and general manufacturing industries.



The new AFII/BCC joint venture allows BCC clients significant access to one of the world's most rapidly growing markets and financial centers. If you have an interest in learning more about India or exploring business relationships in this country, please give us a call at BCC. We would be pleased to provide some local perspective to your thoughts.

BCC Hosts Iowa/Nebraska ESOP Association Chapter Meeting

On May 5, 2006, Business Capital Corporation hosted the program for the Iowa/Nebraska Chapter of the ESOP Association. The program topics included the Anatomy of an ESOP (from an Investment Banking Perspective), An Insider's Look at Acquisitions in an ESOP Environment and a Fiduciary's View of Valuation & Transactional Issues/Responsibilities.

More than 40 members participated in a full day of presentations and panel discussions on the benefits and challenges facing employee-owned companies in the acquisition marketplace. After the meeting, several foursomes enjoyed a round of golf and refreshments at Des Moines Golf and Country Club.



Mark Esbeck recently completed the necessary classes and testing to become a licensed registered representative with Stock Sales Compliance (SSC), a licensed broker/dealer located in Tampa, Florida. SSC is a NASD member firm created specifically to work with representatives that assist clients in the M&A advisory business. SSC and its registered representatives are licensed to deal in securities relating to business transfer sales, corporate finance, limited partnerships and private placements. Esbeck passed both his Series 7 and Series 63 exams as part of becoming licensed to work for SSC on the aforementioned security transactions.

STOCK SALE COMPLIANCE

C. William Eastwood Doering, van den Heever & Eastwood, Ltd.



C. William Eastwood

With a background in food, distribution and agriculture, ties to the Midwest and more than 25 years of experience in mergers and acquisitions, C. William (Bill) Eastwood of Doering, van den Heever & Eastwood, Ltd. (DV&E) is a valued IMAP (International Network of M&A Partners) colleague of Business Capital Corporation (BCC).

Established in 1992 and located in Fort Collins and Greeley, Colorado, four M&A professionals and their staff at DV&E work exclusively on mergers and acquisitions, and have successfully closed deals in the manufacturing, distribution, food and agriculture, technology, financial services, and medical and health care industries. DV&E is currently working on two projects with BCC, which are

anticipated to close within the next few months.

Raised on a cattle farm in Virginia, Bill's professional career began with a Wall Street law firm. Bill later became Executive Vice President and Chief Financial Officer for Spencer Foods, Inc. located in Spencer, Iowa. After Spencer Foods was sold, Bill added to his experience in the food processing, agricultural and distribution arenas with his tenure at ConAgra Foods. He had an exciting opportunity to negotiate acquisitions (and sell some non-core businesses) to a company whose sales grew from \$500 million to \$20 billion.

Bill likes to partner with firms like BCC because it has particular expertise or relationships, which adds value for his client. "With our two current projects BCC had industry experience in the one case and a strong pre-existing relationship with a buyer prospect in the other." Also, when working with clients, DV&E shares BCC's commitment to ethical standards and confidentiality, which are essential qualities among all IMAP members. Bill perceives the most critical points in the M&A process to be educating clients on how the process works and what the market is. "You must go to market in the manner which is best for the client," Bill says.

We value the professionalism of the IMAP organization, and benefit

on the dotted line

Some recent Business Capital Corporation transactions:

Advised the buyer of a printing company regarding the acquisition of a competitor.



Advised the seller of a manufacturing company in the sale of its assets.



Prepared a fair market valuation of a service provider for a management buy-in.



Prepared a fair market valuation of a bank for purposes of annual ESOP plan administration.



Prepared a fair market valuation of an engineering firm for purposes of annual ESOP plan administration.



Prepared a fair market valuation of a manufacturer for purposes of annual ESOP plan administration.

The Market Front

Some opportunities available through Business Capital Corporation:

U.S. Recreational Vehicle Manufacturer – is seeking a buyer.

Iowa Specialty "Trades" Contractor – is seeking a buyer.

U.S. Electronic Sign Manufacturer – is seeking a buyer.

Latin American Market Leader of Plastic Sandwich/Kitchen Bags – is seeking a buyer.

Brazilian Fruit Juice Company – is seeking a buyer.

Indian Company – is looking to invest in a U.S. gearbox manufacturing company.

Indian Company – is looking for a joint venture in auto assembly with OEM sales (engines, engine components or auto-electrical components).

from best practices, access to global information, and the camaraderie of those in similar positions. Bill shares that "An IMAP colleague is a good sounding board, and this collaboration

provides better end results for clients." He anticipates IMAP's focus over the next few years will include more cross border collaboration and better utilization of resources.

For mergers and acquisitions, contact Mark Esbeck or Steve Jacobs. For valuations, contact Al Ryerson or Greg Weber.
515-282-8019 • www.businesscapitalcorp.com

INTERNATIONAL NETWORK OF MERGER AND ACQUISITION PARTNERS

The International Network of M&A Partners (IMAP) is an exclusive global partnership of leading Merger & Acquisition advisory firms. Formed in 1971, IMAP unites a select group of professional organizations active in international transactions into a seamless global partnership. Each member firm shares a mutual commitment to delivering the highest caliber advisory services for middle-market transactions across the globe. IMAP advisors provide strategic merger, acquisition, divestiture and related corporate finance services. Sellers of mid-size companies and corporate acquirers alike rely upon IMAP for essential local market knowledge and industry expertise delivered with unparalleled global reach. Through their global partnership, IMAP firms are able to access strategic buyers, merger candidates and financial resources around the world to deliver exceptional results for their clients.



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