ESI ENTERPRISE SERVICES, INC.

BEYOND THE NUMBER$

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Navigating your Valuation Report.

by Craig Olinger, Financial Consultant

Have you ever found the time to read our valuation report cover to cover? If not, we thought it would be beneficial to give you a brief rundown of the high points so that you have a better idea of what is enclosed.

First comes the *Executive Summary* page that recaps what's contained in the entire report, including how much the shares are worth.

After an *Introduction* outlining the purpose of the report is the *Company and Industry Background* section. This is information we'd like our clients to take time to review. In order for ESI to put an accurate value on a company we need to know all about it and we want to make sure that everything is recapped correctly. This section details what your organization does, who owns the stock, all about your facilities, and also lists any co-dependent subsidiaries or relationships.

An *Economic Review* is necessary to the entire valuation process because your ESI analysts want to understand the environment your company is operating in. We look at the economic impact from a macro-to-micro level. After the outlook of the National Economy is an examination of the firm's specific Industry Segments, followed by Company Prospects where specific details on your competition and overall outlook are outlined.

The *Financial Review* is devoted to examining your company's financial data looking for and analyzing trends. We also look at other closely held companies within the same industry to make the best comparisons possible with regard to balance sheet, income statement, turnover, and risk ratios.

Next, we dive deeper into the income statement to evaluate the *Earnings History and Prospects*. Our team reviews operating results over a period of time, usually five years. Trend patterns, management's outlook and earnings adjustments are used to determine earnings capacity.

The *Dividend History, Capacity, and Probability* are considered next. Dividends, as declared by public companies, are somewhat unusual in privately held firms because the cash used to pay dividends is often reinvested in the operations of the business. We identify any ownership changes in the *Recent Transactions of Company Stock* section, whether from shareholder to shareholder, into or out of the Plan, or changes in the treasury holdings. Any outside offers that could be indicative of the stock value are also examined in the recent transactions. Although the IRS requires an evaluation of both Dividend History and Recent Transactions, they typically have little impact on the valuation itself.

Another way to establish value of a closely held company is to compare it to similar companies that are publicly traded or to other private firms that have recently been sold. Our team researches *Comparable Companies* to gather as much information on financial ratios to apply to your firm.

How do we finally come up with a value? The *Valuation Process* is developed based on the circumstances and the type of industry in which your company operates. Using approaches that are income, asset, and market based provides us with a realistic range of values from which we can consider. We select the most appropriate methods that in our professional judgement reflects the fair market value of your firm's stock. It is during this analysis that we determine a value and make any adjustments for minority/controlling positions and lack of marketability discounts and consider any dilutive impacts to the stock, e.g., stock options.

Finally, our *Conclusion* recaps the different methodologies used in our analysis, the effective date, and the fair market value we have estimated.

At the end of the report are *Appendices* including financial information used in our analysis, a glossary of terms, our sources of information, certifications, and credentials of the ESI team who prepared the valuation.

Teamwork is the magic that turns dreams into reality and obstacles into success.

Creating and Communicating Ideas that Stick.

Adapted from NCEO.

Making core messages stick is a critical first step in maintaining an effective ownership plan. A new book, *Made to Stick*, illustrates 6 key concepts that can help companies make their communications more effective - and they spell out **SUCCES(S)**.

Simple: Memorable messages are simple. *ESOP example:* A company could say that ownership is about sharing the growth of the company, having a chance to have input into decisions about jobs, and getting information about how the company is doing. A company shouldn't say that it's about making people owners -- that's simple, but also too simplistic because it doesn't say what you mean by ownership.

Unexpected: Messages stick a lot better if they contain something unexpected. *ESOP example:* The idea that employees get stock for nothing is unexpected and worth stressing. However, the unexpected also leads to skepticism, which necessitates credibility.

Credible: Credibility typically comes from the source. *ESOP example:* The plan's credibility may get a boost if the CEO personally explains it in a meeting. Once the plan is established, having current and former employees explain the plan to their colleagues is often the best approach. They can speak the same language and are less likely to be seen as trying to sell the idea.

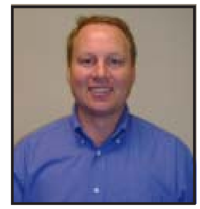
Concrete: Concrete is better than abstract. *ESOP example:* If you're explaining the rules for vesting, you can give the general rule but the message may stick better if you pick out a few well-known people in the company, each with differing years of service, and explain how much they would get based on how long they've been with the company.

Emotional: Strong emotions trigger stronger memories. *ESOP example:* Showing how ownership can change individuals' lives is a good way to evoke an emotional response.

Stories: Stories resonate. *ESOP example:* Former employees who come back to talke about a plan are more memorable than descriptions of what someone might get if they stay.

(S)o make those messages sticky, but make sure that you still provide comprehensive material explaining the plan and other matters.

Welcome Craig!



Some of you may have already had the pleasure of speaking with our newest team member, **Craig Olinger**. Craig joined ESI at the end of 2007 as a Financial Consultant where his focus will be on business development.

Craig comes to ESI with significant experience in sales, financial analysis and customer relations. His work experience is accompanied by an undergraduate degree from Creighton University and an MBA with a focus in finance from the Keller Graduate School of Management.

Since joining ESI, Craig has already been busy learning the ropes and assisting with valuation analysis, the writing of valuation reports, and talking and meeting with some of our customers.

We are very excited to have Craig on our team and are confident that, if you haven't already, you will enjoy working with him.

To reach the top of the highest peak you must first believe that you can.

Proposed DOL Regulation.

Adapted from Employee Benefit news.

Individuals who are Trustees of ESOP plans will want to know about a proposed Department of Labor regulation released in December 2007.

This regulation would require certain service providers to disclose all compensation and fees to their plan fiduciary regarding services rendered to the plan. The DOL also wants service providers to inform fiduciaries about any possible conflicts of interest that may influence plan services. This is part of a larger effort to increase transparency in health and retirement plans.

ESI already complies with this regulation via the proposal for services which is signed by your company representative upon retaining ESI as your valuation provider. However, plan Trustees may want to be aware of this regulation for other service providers.