Stock Structure

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Message contains attachments Stock Option Deal What If 8 12 08 v2.xls (32KB)

The basic structure has been approved by our Board, but we have several limitations on what kind of deal we can put together.

1- Under New York Stock Exchange rules, we can only issue a certain percentage of our shares (including as options) while our stock is trading at these levels, without shareholder approval – a route we do not want to go down at this time.

2 – We only have roughly shares outstanding, and we have to be very aware of dilution of our existing shareholders. As our stock would increase, this would be less of a problem.

3 – The stock is artificially depressed now due to market conditions, trading at roughly % of book value, which is grossly understated from “realizable” value. There is obviously tremendous upside percentage potential with very little dollars and cents movement in our stock, at these levels, and from our perspective, also makes our stock very expensive currency at this time.

As I understand it, you do not want cash-type commissions (taxable) and would prefer options, where you could realize better growth in value (tax free, or at least deferred). Putting this together, we have come up with two scenarios to discuss. Both are based on 3 year options

To put that in perspective, that would immediately put you in the position of being one of our top dozen or so shareholders.

Going forward, we would propose a similar structure for similar quantities of business, but it would depend on the trading value of our stock at the time.

Of course, we would have to put parameters around the type of business that would qualify: likely a minimum gross margin of 25% according to our books and GAAP consistently applied, for business booked within the next six months and shipped and paid for within the next 24 months, out of existing plants. If we have to build a new plant to accommodate the orders, it strikes me that the best way to handle that is to net the costs of the new plant from the sales volumes that qualify – the lower the cost of the plant, the less impact on the qualifying sales.

Ultimately, also, under our current credit agreements, this structure has to pass approval by our banks, in order to issue the options.

If this is satisfactory, and we can get the appropriate due diligence accomplished as I discussed with you, we can move forward.