INFORMAL INTERPRETATION

(AW)

[redacted]

[redacted]

May 10, 1984

Addie Williams, Esquire
Premerger Notification Office
Room 301
Federal Trade Commission
Pennsylvania Avenue and Sixth Street, N.W.
Washington, DC 20580

Dear Ms. Williams:

Following is the outline of the transaction I discussed with you in our telephone conversation today. I would appreciate having a response as to the reportability of the transaction at your earliest convenience. My telephone number is provided below.

Company A, the acquiring person, intends to acquire 100 percent of the shares of Company B, the acquired person, an entity with annual net sales or total assets under $25 million. The consideration for the acquisition is in two parts:

1. $14.8 million for the stock at closing.

2. Payment of an amount equal to B's income before taxes (IBT) over a three-year period after acquisition, not to exceed $2 million in any one year and $5.2 million in total.

    a. The first $2 million in payments will be made to a group consisting of key management personnel which include present owners of B and will be earned by them as additional management compensation. These payments are contingent upon their continued employment.

    b. The remaining $3.2 million will be paid as an earn-out to the owners of B if B has earnings. If the owners leave after one year, they forfeit $2.1 million. They forfeit $1.2 million if they leave after year two.

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Company A does not guarantee that any of the $3.2 million earn-out will be paid. B must have earnings for payments to occur. Company B has had an erratic earning history and future earnings are not predictable:

FY '71 through FY '78	- less than $200,000/year
FY '79	- $0.5 million
FY '80	- $1.0 million
FY '81 and '82	- $.5 million/year
FY '84 (ending 4/30/84)	- $3.04 million

The payment of $5.2 million is partly compensation and partly dependent on future earnings, which could conceivably be zero, resulting in no payment at all. The only consideration of which we are certain is $14.8 million for the stock, which does not meet the reporting threshold.

Your comments will be appreciated.

Very truly yours,

[redacted]

NLC/dsm - 6304C

May 15, 1984

THIS IS EXEMPT UNDER 802.20 BECAUSE A IS ACQUIRING MORE THAN 15% OF B VALUED AT LESS THAN $15MM. SALES AND ASSETS OF B ARE LESS THAN $25 — EXEMPT UNDER 802.20. (CONFERRED WITH PATRICK SHARPE FOR HIS OPINION)

Addie Williams