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CT Inc: Zygo Corp.

Zygo Plans To Merge With Oregon Company

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When it comes to measuring materials thinner than a hair follicle, bigger, it turns out, is better — at least for the companies making the measuring tools.

That's the thinking behind a proposed merger of Zygo Corp. of Middlefield and Electro Scientific Industries Inc., based in Portland, Ore. The companies make products that work together in the manufacture of silicon wafers.

Zygo is among the more successful Connecticut-bred tech firms, with 375 local employees and a solid market niche.

Its merger — which is being contested in court by a shareholder group — would leave Zygo under the control of another company. But that is the best plan for nurturing the business, Zygo officials said.

"In these tough times, for a smaller company being part of a bigger company is not a bad thing," said Walter Shephard, Zygo's chief financial officer. "A public company has to grow. ... A merger was how we thought we should do it."

Zygo, with sales of \$159 million in its most recent fiscal year, makes precision, specialized optical glass and instruments for a field known as metrology, the science of measurement. Zygo's equipment uses light to measure surface imperfections in materials such as lenses.

Electro Scientific, which had \$247 million in sales in its latest year, builds devices that use lasers to affect the surface of materials, such as a machine that uses lasers to zap away imperfections in silicon wafers — the building blocks of computer chips.

"These two companies have very complementary but not overlapping technology," said Brian Smith, director of investor relations for Electro Scientific.

The companies announced plans to merge in October. A group of shareholders has filed a lawsuit against Zygo and its directors, alleging that the purchase price is too low.



The deal would give Zygo shareholders 1.0233 shares of Electro Scientific's stock for each Zygo share. At Wednesday's closing prices, that would mean \$7.42 a share for Zygo, for a total deal value of \$124.5 million. Both companies closed Wednesday at \$7.25.

On the day when the deal was announced, it would have meant \$10.30 a share for Zygo, which traded at \$13.15 on Sept. 18 before falling sharply.

The former Zygo shareholders would hold a 40 percent stake in the combined company.

Both companies declined to comment directly on the suit, as did the plaintiffs' law firm, Levi & Korsinsky.

Zygo's most recent financial statements show growth, but Shephard said orders going forward show potential weakness in 2009. The companies hope to close the merger in the first three months of the year.

Electro Scientific CEO Nicholas Konidaris and CFO Paul Oldham would continue in those positions at the combined company, Smith said. Board members from Zygo would hold three of 11 seats on the board of the combined company.

Zygo, which employs about 600 people at more than a dozen locations, compared with Electro Scientific's 700 employees, would expect to see its Connecticut operations remain strong.

"They want Zygo to succeed," Shephard said. "From their standpoint, Middlefield is a critical area for them in terms of this acquisition."

There would be some overlapping jobs that would be eliminated, Smith said.

The deal is typical of a market where tech companies are searching for growth and capital, said Matthew Nemerson, president and CEO of the Connecticut Technology Council.

"Connecticut is a small place, and it's a big world," he said. In terms of keeping companies in the state, he said, "the trick is to build unique relationships that, when an acquisition like this comes, no one would want to break."

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