



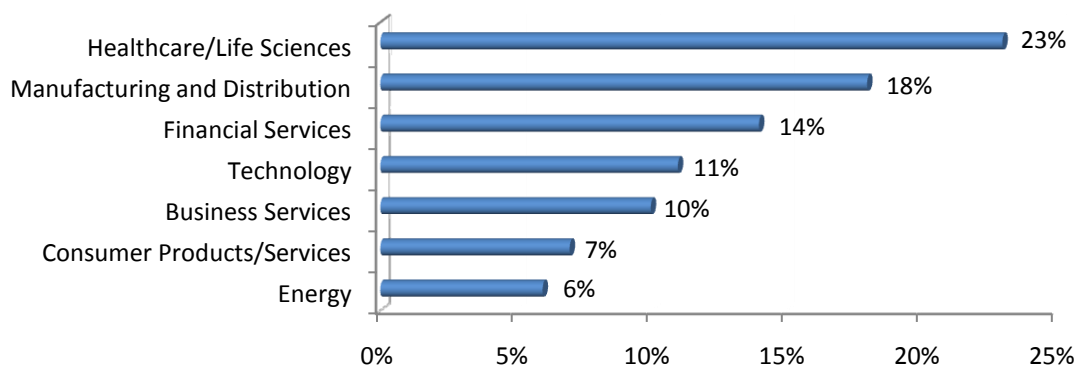
Merger & Acquisition Market Overview 2010

The current economic environment has created uncertainty for nearly every sector, and trying to predict what the Mergers & Acquisitions (M&A) market will bring in 2010 is plagued by the same uncertainty. While it may be difficult to forecast, analysts are expecting several factors to drive an increase in merger and acquisition activity in 2010. While the financial crisis has had a fundamental impact on every industry and generally resulted in lower multiples, the second half of 2009 has shown noticeable signs of improvement, particularly in the middle-market arena.

Never before have American companies stockpiled more cash than they are now, setting the stage for a surge in mergers and acquisitions. Cash relative to share prices is forecasted to be near a 20 year high by the end of 2009. Historically, this supply of cash has corresponded with a pronounced increase in M&A activity. With the worst of the economic malaise generally thought to have passed, corporate shareholders are putting increasing pressures on corporations to fuel growth through acquisitions. For many of these well funded companies, inorganic growth – growth through strategic acquisitions – will be as important as organic growth. These corporate acquirers will be targeting companies that help fill a missing product/service offering, allow entry into adjacent markets, expand geographic footprint, increase customer base or simply accelerate the acquirer’s revenue profile.

A survey conducted in October/November 2009 by the Association for Corporate Growth (ACG) and Thomson Reuters polled 921 investment bankers, private equity professionals, corporate development officers, lawyers and accountants from the United States and fourteen other countries. According to the survey, the sectors most expected to benefit from this surge in M&A activity are as follows:

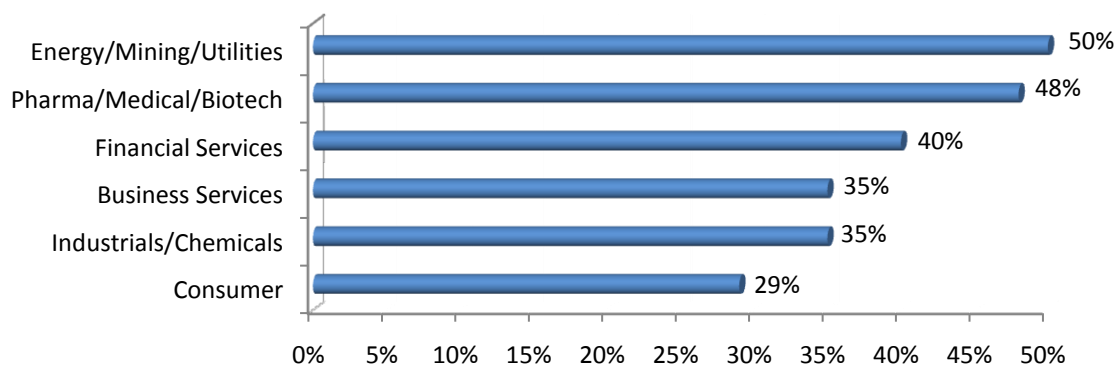
Which sectors will experience the most M&A activity in first half of 2010?



Source: ACG-Thomson Reuters Year-End 2009 DealMakers Survey Results

Additionally, Private Equity (PE) firms are also expected to help fuel M&A activity. Despite the challenging economic environment, PE firms have continued to raise substantial funds for acquisitions. While 2009 saw substantial decrease in M&A activity from these PE firms, there is now an increasing sense of urgency and pressure by their investors to put the newly raised capital to work through corporate acquisitions. These PE firms are looking to acquire companies across a number of sectors.

**Which sectors do you expect to see significant levels of private equity investment over the next 12 months?
(percentages indicate number of respondents that chose that sector)**



Source: mergermarket and Merrill Datasite, August 2009

Of course, M&A requires both a willing buyer and seller. From a seller's perspective, there appears to be a general change in attitude, where business owners seem more receptive now to entertaining a sale or partial sale (a.k.a. recapitalization) of their company.

With valuations at historic lows over the last 12-18 months, many "aging" owners were effectively forced to stay in control of the company for longer than they may have otherwise planned. Some owners decided to hold onto the reigns for a while longer in hopes of expanding their businesses. Other owners may have decided to wait out the financial crisis, deferring a sale until the market outlook improved and valuations increased. Whatever the reason, the economic environment forced business owners from the Baby Boomer generation to reconsider their retirement plans entirely. These business owners that "stayed the course" and continued to grow their businesses, take market share from weaker competitors and streamline costs, are now well positioned to capitalize from the expected increase in M&A demand. Analysts expect that as we move into 2010, more and more sellers will begin to emerge as the economy slowly improves.

Additionally, many businesses have seen their growth stifled/impeded by a credit environment that made it impossible for them to find the necessary financing to grow to the next level. These companies now have an opportunity to find strategic and opportunistic investors/acquirers eager to participate in the funding of their business growth. In fact, ninety-four percent of ACG survey respondents expect strategic investments to increase in 2010. For the middle-market business owner who is not yet ready to retire from the business but looking for growth capital numerous options exist. A variety of structures are available to these business owner that allows him to partner with well funded investors while maintaining equity in the business and at the same time taking "chips off the table". Further, according to the ACG survey, 74 percent expect debt markets to continue to rebound over the next six months which will once again increase the availability of debt financing in transactions.

Changing tax laws is also expected to lead to an increase in merger and acquisition activity. Proposals to increase tax rates on capital gains will likely be enacted and become effective in 2011. This provides a window of opportunity for business owners to sell in 2010 ahead of these changes. The current administration's agenda includes an increase in the capital gains tax from fifteen to twenty percent, plus an additional 5.4% surtax for certain households which would result in a 25.4% capital gains tax. Business owners looking to sell within the next couple of years should seriously consider selling earlier to avoid this higher tax.

M&A activity decreased substantially during the last 12-18 months, as companies focused internally. Now, as the economy turns the corner, there are many signs that suggest M&A activity could be on the rebound driven by equally motivated buyers and sellers.