STRATEGIC ADVISORS
Middle Market Investment Bankers
Bringing Efficiency to Inefficient Markets

2009

M&A AND CORPORATE FINANCE OVERVIEW

Second Quarter

Merger & Acquisition
Corporate Finance Advisory
Strategic Consulting

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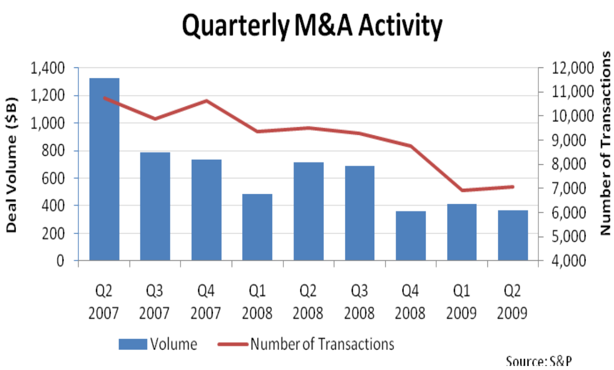
Strategic Advisors is a middle market investment banking firm that helps clients achieve financial and business goals by providing merger and acquisition advisory, corporate finance advisory and strategic consulting services. Our company is one of the few middle market investment banking firms whose Managing Directors have had experience investing in and managing their own companies. As a result, Strategic Advisors not only has expertise in advisory services but also firsthand knowledge of what stakeholders, investors and lenders expect and desire.

Merger and Acquisition Overview

- Global M&A volume in 2Q 2009 remained near the levels exhibited the past two quarters. The $367 billion registered by S&P represents a slight decrease from 1Q 2009; however, the number of M&A transactions increased for the first time since 2Q 2008. The resulting lower average deal size is partially due to the difficulty in financing larger transactions.

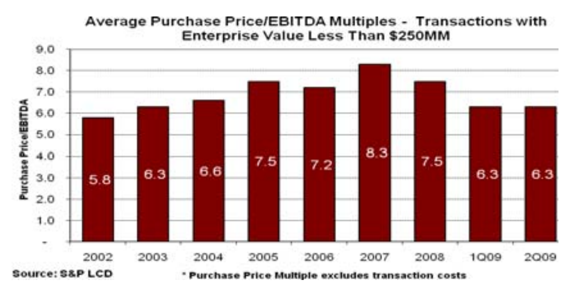


- Globally, new-issue leveraged loan volume rebounded from a rather sluggish 1st quarter ($12 billion) to $33 billion in the 2nd quarter. While dealmakers see this as a positive sign, the $45 billion of leveraged loans issued in 1H 2009 represent only a third of the amount issued in 1H 2008. Just over half of the loans made in 1H 2009 were in the U.S.

- Strategic buyers with cash on their balance sheets maintain that the high degree of economic uncertainty is the chief hindrance in acquiring companies. They are posed with the question of whether to pursue new markets or to preserve cash and focus on core operations. As such, it is difficult for deal teams to convince internal decision makers to take action when the confidence level in forecasting how a potential acquisition's business will perform is lower than it has been historically.

- From 2005 to 2007, B+/B rated companies borrowed, on average, around LIBOR+250 on leveraged loans. In 1H 2009, companies with similar ratings were hard-pressed to find leveraged financing below LIBOR+400. Moreover, most of these borrowers were restricted to three-year terms in the first half of 2009 as opposed to the five-year terms they generally had received in previous years.

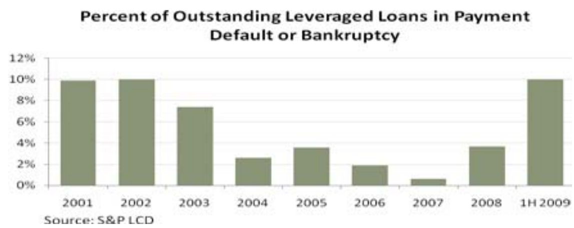
- Middle market transaction multiples stabilized in the second quarter of 2009 at the 6.3x level experienced in the prior quarter. Valuations remain lower than in prior years due to weakened earnings and reduced forecasts. Increased equity requirements, driven by a weak debt market, have also resulted in lower purchase price multiples.



- One trend that has continued is transactions involving bankrupt and distressed companies. According to Dealogic, the $167 billion reported in the first half of 2009 for this type of deal was the second highest half-year on record, falling behind only the second half of 2008. This trend will likely remain strong as companies will continue to buy up not only weaker competitors but also suppliers on the brink of failure that are critical to their supply chain.

Capital Markets Overview

- Lenders continued to lament some of the leveraged loans they have issued the past few years. The par amount of these loans in default or bankruptcy soared to $57 billion in the first half of 2009, representing approximately 10% of all outstanding leveraged loans.



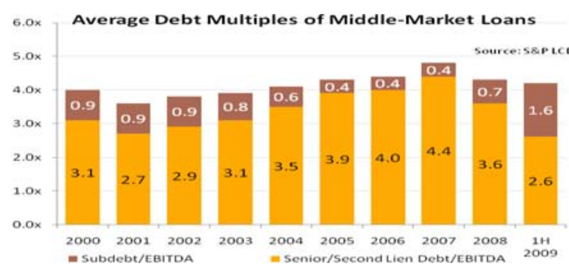
- The exit of institutional investors from the primary market for highly leveraged loans continued through the first half of 2009. Their share of the market declined below 50%, a level not exhibited since 2000. U.S. banks continued to expand their presence in this market, increasing their share from just over 5% in 2007 to nearly 30% through the first half of 2009.

- Midway through 2009, private equity fundraising in the U.S. was just a third of the amount raised over the same period in 2008, according to Dow Jones Private Equity Analyst. The $55 billion raised in 1H 2009 was also the lowest mid-year total since 2005. Venture capital funds saw a similar decrease; 1H 2009 fundraising decreased to $5 billion from over $13 billion in 1H 2008.

- McKinsey & Co estimated that at the end of the first half of 2009, private equity groups (PEGs) had approximately $535 billion of uninvested capital. While PEGs typically use these funds to acquire companies for their portfolios, many sellers who would otherwise be in the market are struggling to accept that the valuations they received for their company a few years ago are significantly above current market value. With a smaller pool of companies for sale, some PEGs are diversifying their investments into mezzanine debt, distressed debt, infrastructure, growth capital deals and emerging markets rather than leaving cash on the sidelines. Furthermore, many PEGs are taking advantage of opportunities to repurchase the debt at their portfolio companies at a discount.

- According to S&P, the par amount of outstanding leveraged loans at the end of June 2009, ($564 billion) was below the level outstanding at the end of 2008. If the end-of-year 2009 level does not eclipse the $596 billion at the end of 2008, which is the likely result due to fairly tight credit markets, it will be the first time in over a dozen years there will not be an annual increase in outstanding leveraged loans.

- With incidence of covenant violations increasing, senior lenders are placing less value on operational results and are focusing more on the assets on the balance sheet when evaluating prospective loan issues. Therefore, companies competing in industries that are not asset intensive have been increasingly turning to higher cost mezzanine sources to bridge their financing gap. As seen below, mezzanine groups are being relied upon more now than any time since the turn of the century.



- Many economists have stated that the U.S. is no longer in a recession or that it will be out of the recession in the coming months. This is supported by increases in The Conference Board Leading Economic Index, which increased each of the three months in the 2nd quarter. However, unemployment continues to rise and is forecasted to hit double digits within months, reducing the likelihood of a rapid recovery. With a modest improvement in the economy as well as potential loosening of the credit markets, Strategic Advisors believes deal pace will be stronger in the second half of this year. Multiples will not likely make more than a modest advance, however, because banks are mostly balking at highly leveraged deals and bridging the price gap with subordinated debt or equity reduces buyers' returns, making deals less attractive.

For more information, please contact any of the professionals listed below or visit our website at www.strategicad.com

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When considering a sale of your business, the acquisition of a business, or the restructuring or recapitalization of your balance sheet, the best pathway for achieving your expectations is a well-run sale process that addresses all your business and personal goals. Strategic Advisors is accustomed to working with business owners to determine the best pathway to achieve their goals and objectives. Give us a call to discuss your possibilities.

News Briefs:

The founding members of Strategic Advisors, Andy Hays and Andy Bianco, have rejoined the company on a full-time basis. Strategic Advisors also recently hired two new Associates: Matt Dalton and Matt Steve.