1-2-2012

2012 Private Capital Markets Report

John K. Paglia
Pepperdine University

PEPPERDINE

PRIVATE CAPITAL MARKETS PROJECT

bschool.pepperdine.edu/privatecapital

SURVEY REPORT | 2011-2012

BY DR. JOHN K. PAGLIA

Denney Academic Chair and Associate Professor of Finance

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

Is your Business Ready to Access Capital?

Banks and lenders use the scores and ratings in your business credit file when making decisions about your credit.

Build and monitor your business credit with our SelfMonitor™ credit building solutions

Get 20% off any SelfMonitor solution when you use the promo code below

SelfMonitor helps businesses impact their D&B® scores and ratings with continuous monitoring and the ability to add good payment history.

- Unlimited access to your D&B scores and ratings
- Add credit references, pending verification by D&B
- Get email alerts when there are changes in your D&B business credit profile
- Receive notification and information on any suits, liens or judgments filed against your company

Call **877-572-6603** today and receive ***20% off the regular price*** of any SelfMonitor credit building solution or visit us online at **http://smallbusiness.dnb.com/manage/12303821-1.html**

Please use promo code: PEPPERDINE20OFF when you call or at checkout.

Offer good until March 31, 2012 on all purchases made with a credit card.

Dun & Bradstreet Credibility Corp

D&B

PEPPERDINE PRIVATE CAPITAL MARKETS PROJECT

Senior Researcher
JOHN PAGLIA, PhD, MBA, CPA, CFA

Research Support
IRINA SHAYKHUTDINOVA, MBA

Executive Officer
MICHAEL SIMS

Advisor to Project
RACHEL WILLIAMS

Public Relations
F. DOUGLASS GORE
KP PUBLIC AFFAIRS

Design
R&R PARTNERS

ACKNOWLEDGEMENTS

This research was made possible by the generous funding from the Denney Endowed Professorship.

PEPPERDINE UNIVERSITY

Dean Linda A. Livingstone, PhD
Associate Dean David M. Smith, PhD
Mark W. S. Chun, PhD, Director, Center for Applied Research
Dianne King
Michael Stamper
Darlene Kiloglu
Roger Lotho
Juan Mena
Jing Zhang
Doris Jones

DUN & BRADSTREET CREDIBILITY CORP.

Jeffrey Stibel, Chair and Chief Executive Officer
Aaron Stibel, Senior Vice President, Technology
Judy Hackett, Chief Marketing Officer
Erik Simon
Brenda Gary

ORGANIZATIONAL SUPPORT

Alliance for Mergers and Acquisitions Advisors (AM&AA)
Association for Corporate Growth (ACG)
Business Valuation Resources (BVR)
California Bankers Association (CBA)
California Mortgage Bankers Association (CMBA)
California Small Business Association (CSBA)
Commerical Finance Association (CFA)
Deal Flow Source Linkedin Group
Exit Planning Institute
Finance Club Linkedin Group
Graziadio Alumni Network (GAN)
Harvard/USC Business Growth Conference
International Business Broker Association (IBBA)
International Business Valuation Association Linkedin Group
International Factoring Association (IFA)
Linked Business Linkedin Group
Los Angeles Venture Association (LAVA)
National Association for Small Business Investment Companies (NASBIC)
National Association of Women Business Owners
PE/VC Roundtable
Pepperdine Private Capital Markets Project Linkedin Group
Risk Management Association (RMA)
Valuation Linkedin Group
Venture Capital Linkedin Group
Virginia Active Angel Network (VAAN)

SURVEY DESIGN, DISTRIBUTION, AND OTHER SUPPORT

Robert T. Slee
Michael McGregor
Tim Rhine
Barry D. Yelton
Everett Walker
Samir Desai
Richard J. Crosby
Leonard Lanzi
Gray DeFevere
Jan Hanssen
Robert Zielinski
Kevin D. Cantrell
Scott Jones
Deidre A. Brennan
Eric Nath
Gunther Hofmann
Michael Painter
James A. Nelson, MD
John Davis
Larry Gilson
Andrew Springer
Jeri Harmon
Letitia Green
Gloria Guenther
Steven Brandt
Dat T. Do
Andy Wilson
Yingping Huang
Jason Baum
Jason Kumpf
Hal Spice
Jane Pak
Ralph Adams
Eric Williams
Dan Deeney
John Graham
Jeff Nagle
Greg Howath
Nevena Orbach
John Dmohowski
Brad Triebsch
Gary W. Clark
M. Todd Stemler
Patrick George
Sean Samet
Mark Walker
Kelly Szejko
Kevin Halpin
Andre Suskavcevic
Chris M. Miller
Brian Cove
Jeff Thomas
John Lonergan
Rob Brougham
Brett Palmer
Gary LaBranche
Jamie Schneier
Troy Fukumoto
Dennis Gano
Linh Xavier Vuong
Chris de Vries
Tucker Herring
Michael Nall
Simon James, PhD

TABLE OF CONTENTS

EARN A CERTIFICATE IN PRIVATE CAPITAL MARKETS

PEPPERDINE
CERTIFICATE IN PRIVATE CAPITAL MARKETS
UNIVERSITY

The Certificate in Private Capital Markets (CIPCM) is a 3-day curriculum-based training program developed by Dr. John Paglia in association with his ground-breaking research, Pepperdine Private Capital Market Project.

- Designed for business owners and professionals employed within the finance, banking, investment, mergers and acquisitions, valuation, management consulting, legal, and accounting fields
- Learn in-depth critical analysis and evaluation skills necessary for successfully operating a business within the private capital markets
  - Overview of Private Capital Markets Theory and Sources of Capital
  - The Role of Intermediaries
  - Angel Investments, Venture Capital, and other Early Stage Financing Sources
  - Senior Debt, Cash Flow Based, Asset Based Lending and Factoring
  - Mezzanine and Private Equity Capital
  - Determining the Cost of Capital Using The Pepperdine Private Cost of Capital Model
- CPA, MCLE, CFP Continuing Education Credit Available

REGISTER: bschool.pepperdine.edu/cipcm

Building wealth by making better investment and financing decisions.

NOVEMBER 14-16, 2011
and
APRIL 18-20, 2012

PEPPERDINE UNIVERSITY
GRAZIADIO SCHOOL
OF BUSINESS
AND MANAGEMENT
6100 Center Drive
Los Angeles, CA 90045

For more information, visit:
http://bschool.pepperdine.edu/cipcm
or contact Rachel Williams at
Rachel.Williams@pepperdine.edu

PEPPERDINE UNIVERSITY
Graziadio School of Business and Management
Master the leader in you.

FOREWORD

Growth Capital Fixated on Large Companies

By JOHN PAGLIA

Since it's onset in late 2007, the Great Recession has created never-before-seen economic conditions for economies around the world. Private capital markets have endured significant turbulence during the economic downturn. From business closures to bank failures to financial service bailouts, we have seen some survivors and many, many losers.

Since the 2008 passage of the Troubled Asset Relief Program (TARP), we have seen rapid evolution of the capital providers industry. At the same time, capital seekers have struggled to secure funding. The era of effortless credit lines and bank loans for small businesses is little more than a fond memory. Venture capitalists have become more focused on investments in safer, more established companies. Angel Investors are increasingly taking up opportunities vacated by VCs. Private equity and investment bankers are enduring longer periods to profitably exit deals.

These rapid changes have left policy makers fumbling for hastily formed government based solutions to correct the markets. At the same time, overstretched business owners and capital providers are struggling to create workable market based solutions.

One thing is clear; businesses, capital providers, policy makers and economists would benefit from more up-to-date, precise information to aid the private capital markets. Improved understanding of the entire market, not just individual segments, from capital providers to individual businesses would improve operations and market efficiency. It also would save business owners incalculable hours spent chasing capital and capital providers' time reviewing only those companies that are deserving of investment.

The Pepperdine Private Capital Markets Project is the first comprehensive set of data to look at the market from businesses to capital provider's perspective. The Capital Markets 2011-2012 Report allows capital providers to better understand the issues as determined by peer lenders across the major capital segments. The report also shares behind-the-scenes insights into the minds of capital providers.

The Capital Markets 2011-2012 Report has uncovered data that highlights the state of the overall market. For example, Private equity firms and Investment bankers have closely matching points of view regarding accessibility of capital. According to the most recent data, 76% of the 253 investment bankers surveyed said that the number of companies with $1 million EBITDA (a company's earnings before the deduction of interest, tax and amortization expenses) who are worthy of investment exceeds the amount of capital available. Whereas, 58% of the investment banker respondents said the capital available exceeds the number of companies with $100 million EBITDA that meet investment criteria. In terms of private equity respondents, 63% of the 288 surveyed say that the number of companies with $5 million EBITDA that are investment worthy exceeds the capital available. On the other hand, 58% of private equity respondents said that the capital available exceeds the number of companies with over $100 million EBITDA who are worthy of investment.

Historically, agreement among investment bankers and private equity firms is uncommon but their agreement is corroborated by the fact that larger “safer” companies enjoy access to growth capital. However, smaller companies seeking capital greatly outweigh the available capital.

Other revealing findings include:

- **Deals are taking longer.** Respondents in private equity survey said only 12% planned IPOs. Respondents exit strategies include selling to a private company at 28%, another 26% of respondents plan to sell to another private equity group and 22% say they would sell to a public company. PE funders also said they are waiting 4 years or more to exit regardless of investment size.

- **Refinancing comprises almost half of bank loans.** Respondents to the banks survey said refinancing accounted for nearly 49% of all lending activity followed by expansion (22%) and working capital (11%). The largest concentration (58%) of loan sizes was between $1 million and $25 million.

- **Private equity fears future regulation.** While 11% said they feared government regulation and taxes today, 28% said it was an emerging issue. This could be in response to a recently approved rule from the Commodity Futures Trading Commission (CFTC) (October 31st) requiring the largest U.S. hedge funds and private equity funds to report financial information to the government starting next year. The CFTC rule was also passed by the Securities and Exchange Commission. The reporting requirements were mandated under the 2010 financial overhaul law.

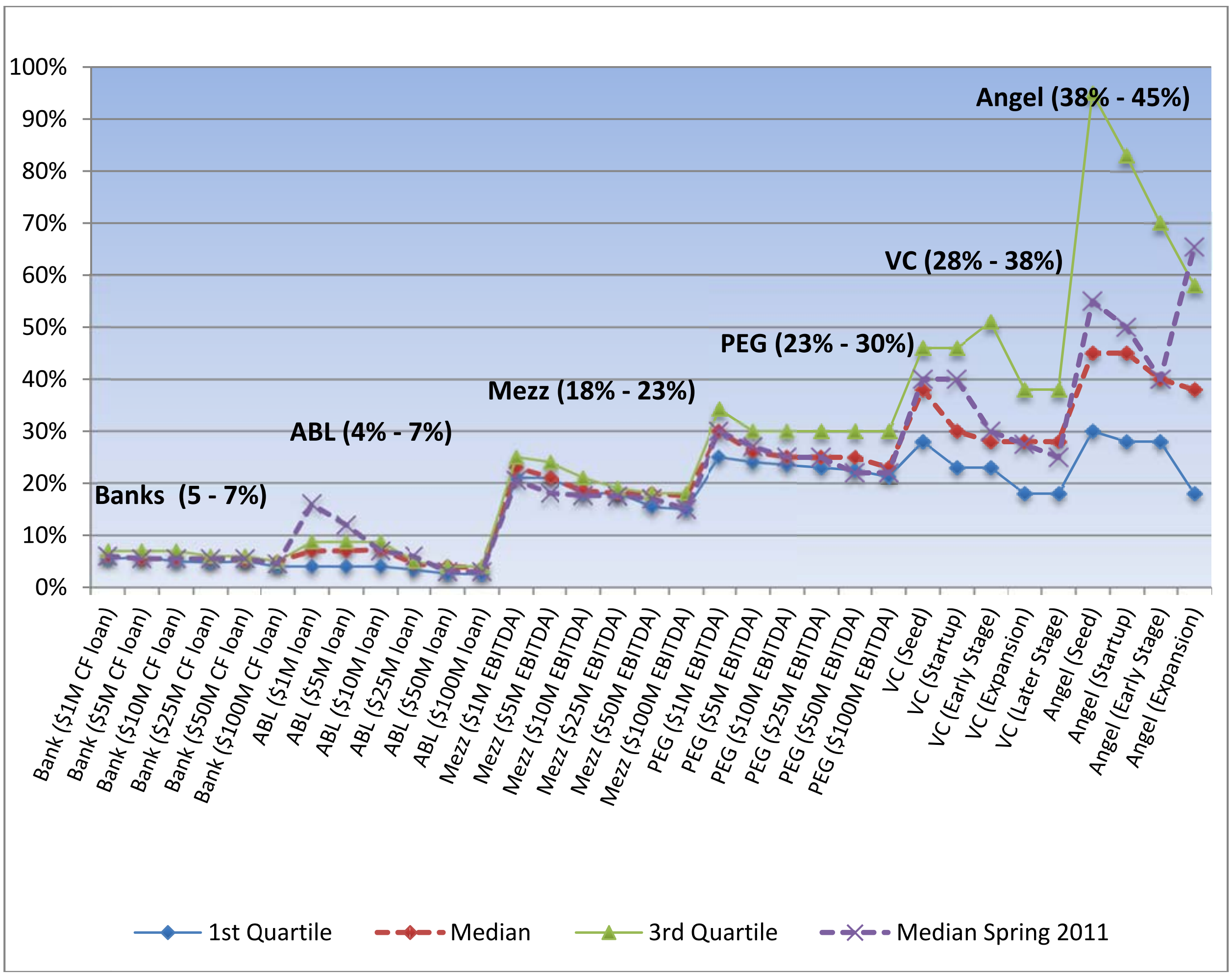
In 2004, Robert T. Slee wrote "Private Capital Markets: Valuation, Capitalization, and Transfer of Private Business Interests,” in which he discussed the importance of the private capital markets but relatively little market wide understanding or research. The Private Capital Markets Project’s Capital Markets 2011-2012 Report seeks to improve the inner-workings of the private capital markets based on real world responses and reactions from professionals. Through improved understanding of market wide conditions and interconnectedness based on responses from business owners and capital providers, public and policy makers will be better able to encourage market-driven solutions.

PEPPERDINE PRIVATE CAPITAL MARKETS SURVEY

The Pepperdine private cost of capital survey (PCOC) is the first comprehensive and simultaneous investigation of the major private capital market segments. The survey deployed in September 2011, specifically examined the behavior of senior lenders, asset-based lenders, mezzanine funds, private equity groups, venture capital firms, angel investors, privately-held businesses, investment bankers, business brokers, limited partners, and business appraisers. The Pepperdine PCOC survey investigated, for each private capital market segment, the important benchmarks that must be met in order to qualify for capital, how much capital is typically accessible, what the required returns are for extending capital in today's economic environment, and outlooks on demand for various capital types, interest rates, and the economy in general.

Our findings indicate that the cost of capital for privately-held businesses varies significantly by capital type, size, and risk assumed. This relationship is depicted in the Pepperdine Private Capital Market Line, which appears below.

Figure 1. Private Capital Market Required Rates of Return



The cost of capital data presented below identifies medians, 25th percentiles (1st quartile), and 75th percentiles (3rd quartile) of annualized gross financing costs for each major capital type and its segments. The data reveal that loans have the lowest average rates while capital obtained from angels has the highest average rates. As the size of loan or investment increases, the cost of borrowing or financing from any of the following sources decreases.

Table 1. Private Capital Market Required Rates of Return

	1st quartile	**Median**	**3rd quartile**
Bank ($1M CF loan)	6%	6%	7%
Bank ($5M CF loan)	6%	6%	7%
Bank ($10M CF loan)	5%	6%	7%
Bank ($25M CF loan)	5%	6%	6%
Bank ($50M CF loan)	5%	5%	6%
Bank ($100M CF loan)	4%	5%	5%
ABL ($1M loan)	4%	7%	9%
ABL ($5M loan)	4%	7%	9%
ABL ($10M loan)	4%	7%	9%
ABL ($25M loan)	3%	5%	5%
ABL ($50M loan)	3%	4%	4%
ABL ($100M loan)	3%	4%	4%
Mezz ($1M EBITDA)	21%	23%	25%
Mezz ($5M EBITDA)	21%	21%	24%
Mezz ($10M EBITDA)	18%	19%	21%
Mezz ($25M EBITDA)	18%	18%	19%
Mezz ($50M EBITDA)	16%	18%	18%
Mezz ($100M EBITDA)	15%	18%	18%
PEG ($1M EBITDA)	25%	30%	34%
PEG ($5M EBITDA)	24%	26%	30%
PEG ($10M EBITDA)	24%	25%	30%
PEG ($25M EBITDA)	23%	25%	30%
PEG ($50M EBITDA)	23%	25%	30%
PEG ($100M EBITDA)	21%	23%	30%
VC (seed)	28%	38%	46%
VC (startup)	23%	30%	46%
VC (early stage)	23%	28%	51%
VC (expansion)	18%	28%	38%
VC (later stage)	18%	28%	38%
Angel (seed)	30%	45%	95%
Angel (startup)	28%	45%	83%
Angel (early stage)	28%	40%	70%
Angel (expansion)	18%	38%	47%

EARN YOUR EDGE

The Certified Merger & Acquisition Advisor Certificate Program

DEC. 9-11, 2011
FEB. 13-17, 2012
or
DEC 3-7, 2012

PEPPERDINE UNIVERSITY
6100 Center Drive, Ste. 314
Los Angeles, California
90045

For any questions or a FREE
CM&AA Preview Video,
call or email AM&AA headquarters.
877.844.2535
info@amaaonline.org

Pepperdine University's Graziadio School of Business and Management, home of the Pepperdine Private Capital Markets Project, is proud to host the CM&AA Certification Program.

WHO SHOULD ATTEND:

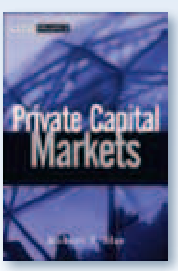
CPAs, M&A intermediaries, investment bankers, private equity professionals, attorneys, business valuators, management consultants, and financial advisors/executives focused on M&A corporate development.

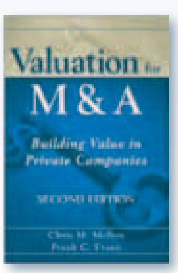
OBJECTIVES:

- Establish M&A advisory services as a recognized advanced professional business credential by identifying the role of the professional, the underlying body of knowledge, and a course of study by which such knowledge is acquired.
- Encourage higher educational standards in the middle market M&A and corporate financial advisory fields.
- Establish an objective measure of an individual's knowledge and competence in the fields of middle market M&A and corporate financial advisory fields.
- Encourage ethical conduct and continued professional growth and development.

REGISTER FOR CLASSES TODAY BY CALLING 1.877.844.2535

CM&AA SELF STUDY MATERIALS





SPONSORED BY

AM&AA
ALLIANCE OF MERGER AND ACQUISITION ADVISORS
A Quantum Alliance Company

PEPPERDINE UNIVERSITY
Graziadio School of Business and Management

BUSINESS APPRAISER SURVEY INFORMATION

According to the survey respondents the most important issues facing privately-held business today are domestic economic uncertainty and access to capital. Looking forward 12 months, however, they expect government regulations and taxes to emerge as the prevailing issue facing private businesses followed by domestic economic uncertainty. Over the last six months respondents indicated increases in cost of capital, risk premiums and DLOMs, worsened general business conditions and appetite for risk. They also expect to see increasing cost of capital, risk premiums, and slightly improving general business conditions over the next 12 months.

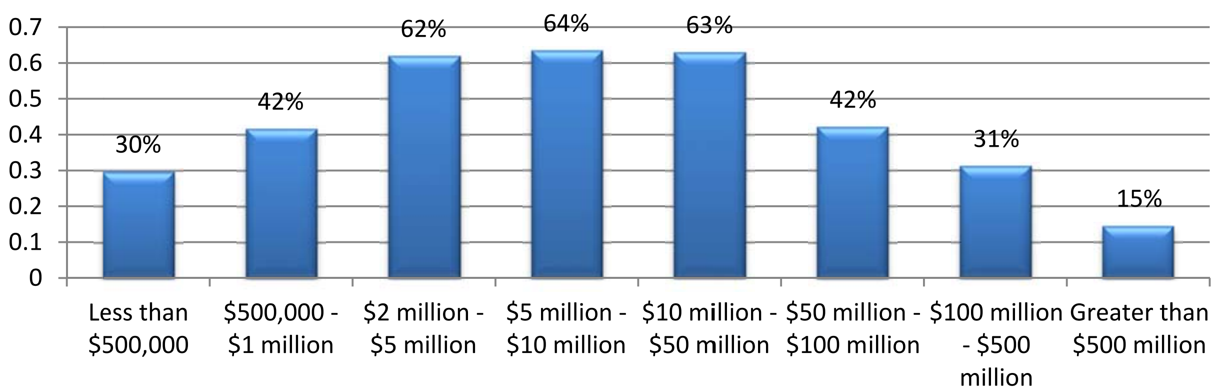
Other key findings include:

- Income valuation approach is the overwhelming favorite among respondents
- Respondents use an average risk-free rate of 3.9% and a market (equity) risk premium of 6.3%
- Average long-term terminal growth is estimated at 3.2%
- The majority of respondents anticipate an increase in business engagements over the next 12 months

Operational and Assessment Characteristics

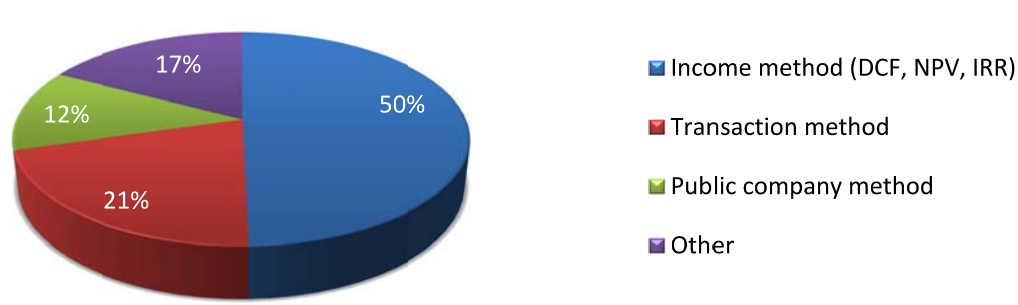
Most of the companies valued by respondents have annual revenues from $2,000,000 to $50,000,000.

Figure 2. Annual Revenues of Companies Valued



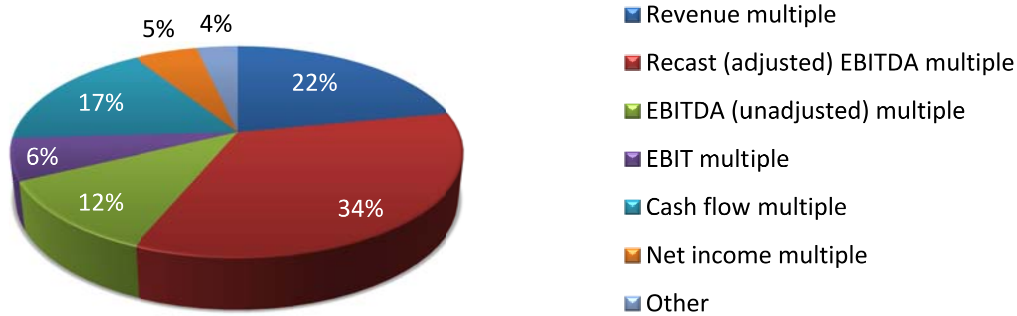
Appraisers, on average, apply a 50% weight to income approaches when valuing a privately-held business.

Figure 3. Usage of Valuation Approaches



Respondents using multiples-based approaches indicate a preference for using recast (adjusted) EBITDA multiples (34%), followed by revenue multiples (22%).

Figure 4. Usage of Multiples



Respondents indicated using an average risk-free rate of 3.9%, average market (equity) risk premium of 6.3% and average long-term growth rate of 3.2%. Figure 7 indicates considerable differences in DLOMs across sizes of companies and subject interests.

Figure 5. Average Risk-Free Rate, Market (equity) Risk Premium and Long-Term Growth Rate

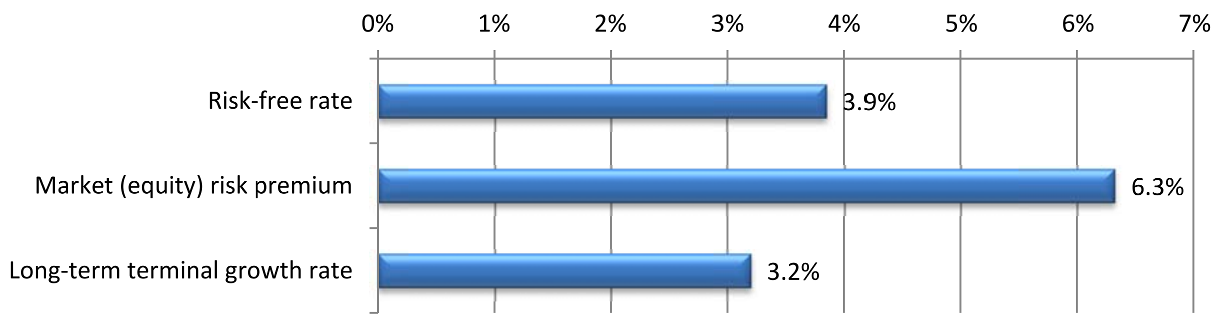
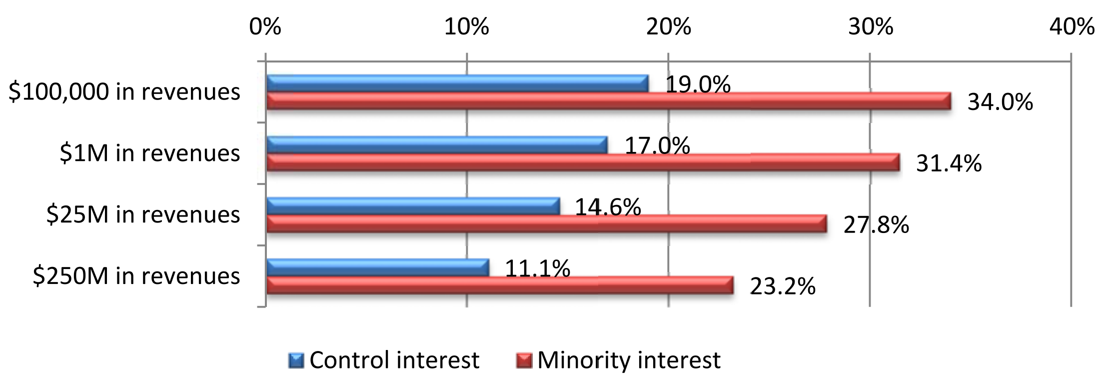
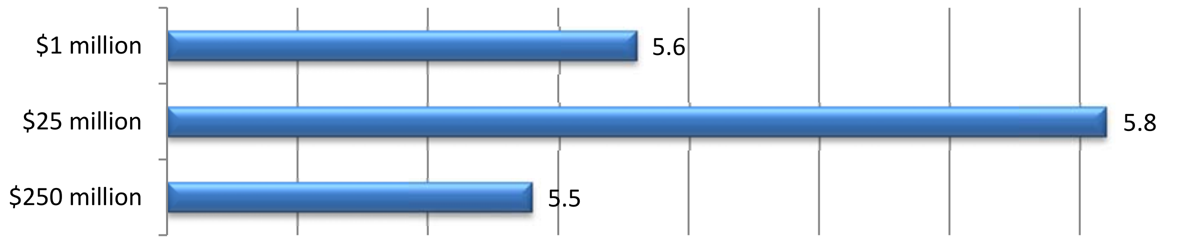


Figure 6. Discount for Lack of Marketability (DLOM) by Revenue Sizes



APPRAISERS cont.

Figure 7. Explicit Forecast Period for High-Growth Companies by Revenue Sizes (years)



Respondents indicated increases in cost of capital, risk premiums and DLOMs, and worsened general business conditions over the last six months.

Table 2. General Business and Industry Assessment: Today versus Six Months Ago

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	Net increase/ decrease
Number of engagements	3%	19%	27%	34%	17%	51%	22%	29%
Time to complete a typical appraisal	1%	11%	65%	19%	4%	23%	13%	10%
Fees for services	2%	18%	63%	15%	1%	16%	20%	-4%
Competition	0%	3%	63%	27%	7%	34%	3%	30%
Cost of capital	1%	18%	53%	27%	2%	28%	19%	9%
Market (equity) risk premiums	0%	11%	57%	29%	3%	32%	11%	21%
DLOM	0%	6%	73%	18%	3%	21%	6%	16%
Company specific risk premiums	1%	3%	54%	37%	4%	42%	4%	37%
General business conditions	3%	32%	40%	20%	5%	25%	35%	-10%

Respondents expect increasing cost of capital, risk premiums, and slightly improving general business conditions over the next year.

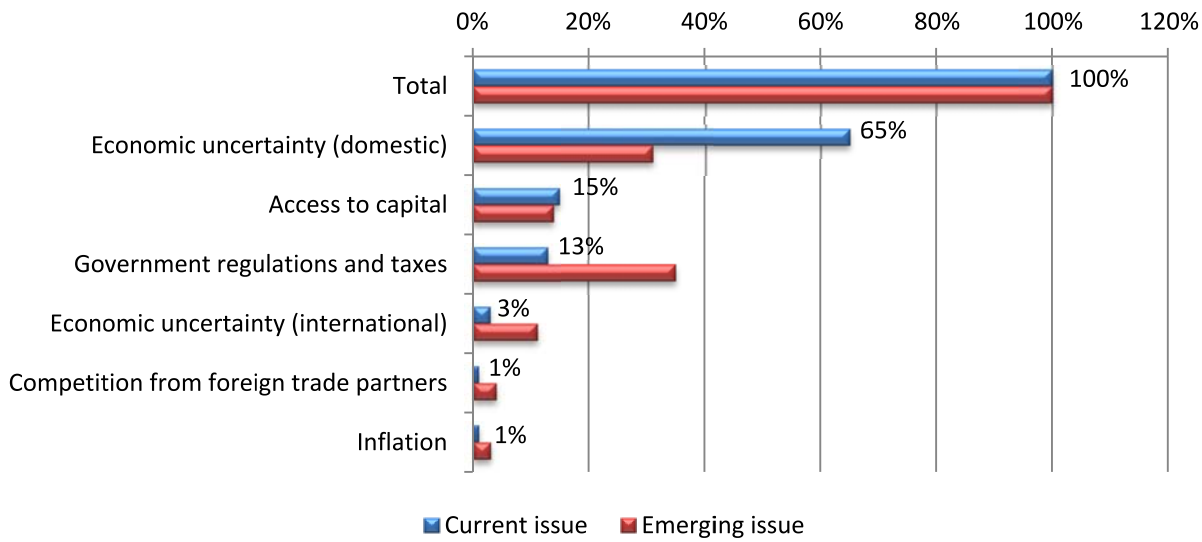
Table 3. General Business and Industry Assessment Expectations over the Next 12 Months

Characteristics	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	Net increase/ decrease
Number of engagements	1%	5%	36%	49%	8%	56%	6%	51%
Time to complete a typical appraisal	1%	10%	78%	9%	1%	10%	10%	-1%
Fees for services	0%	6%	63%	29%	1%	30%	6%	24%
Competition	0%	2%	72%	24%	1%	24%	2%	23%
Cost of capital	0%	7%	66%	24%	1%	25%	7%	19%
Market (equity) risk premiums	0%	7%	66%	25%	1%	26%	7%	19%
DLOM	0%	4%	78%	14%	1%	16%	4%	11%
Company-specific risk premiums	1%	6%	64%	26%	1%	26%	7%	19%
General business conditions	3%	19%	51%	23%	2%	25%	22%	3%

APPRAISERS cont.

Respondents believe economic uncertainty is the most important issue facing privately-held businesses today. Government regulations and taxes as a category is indicated as the most important emerging issue.

Figure 8. Issues Facing Privately-Held Businesses



INVESTMENT BANKER SURVEY INFORMATION

The majority of the 253 respondents to the investment banker survey indicated increasing margin pressure on companies over the last six months. They also reported slight increases in deal flow, relatively flat leverage and deal multiples, increased presence of strategic buyers, and worsened business conditions. Domestic economic uncertainty was identified as the most important issue facing privately-held businesses today. Government regulations and taxes were indicated as the most important emerging issue.

Other key findings include:

- Approximately 84% of respondents expect to close between one and five deals in the next 12 months. This is up from the roughly 72% of respondents in Spring 2011.

- The top three reasons for deals not closing were valuation gap (29%), economic uncertainty (18%), and unreasonable seller or buyer demand (17%).

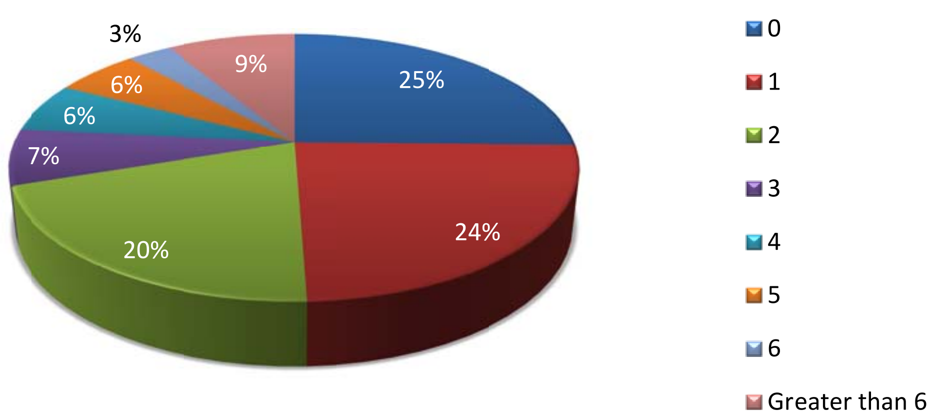
- Respondents indicated a general imbalance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than $10 million in EBITDA, but a general surplus for companies with $25 million in EBITDA or more.

- The most popular valuation approaches used by respondents when valuing privately-held businesses were income and transaction approaches.

Operational and Assessment Characteristics

Approximately 25% of the respondents didn't close any deals in the last six months; 57% closed between one and five deals, while 9% closed more than six.

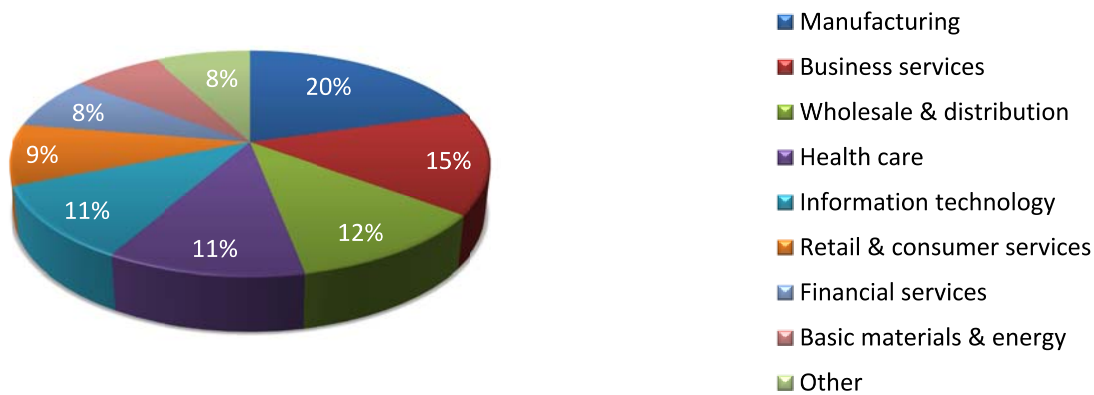
Figure 9. Private Business Sales Transactions Closed in the Last Six Months



I-BANKER cont.

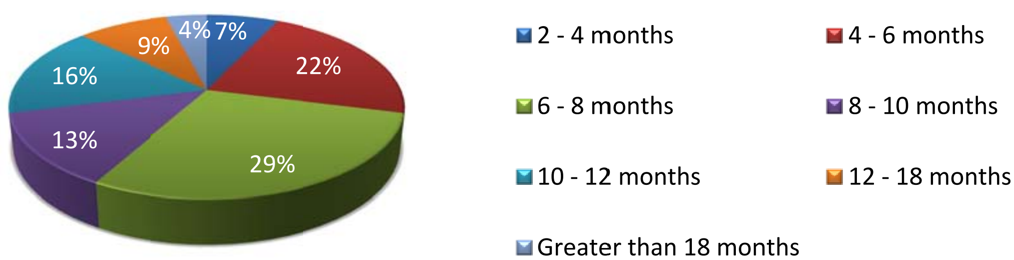
Approximately 20% of all transactions closed in the last six months involved manufacturing, followed by 15% that involved business services, and 12% that involved wholesale and manufacturing.

Figure 10. Business Types That Were Involved in the Transactions Closed in the Last Six Months



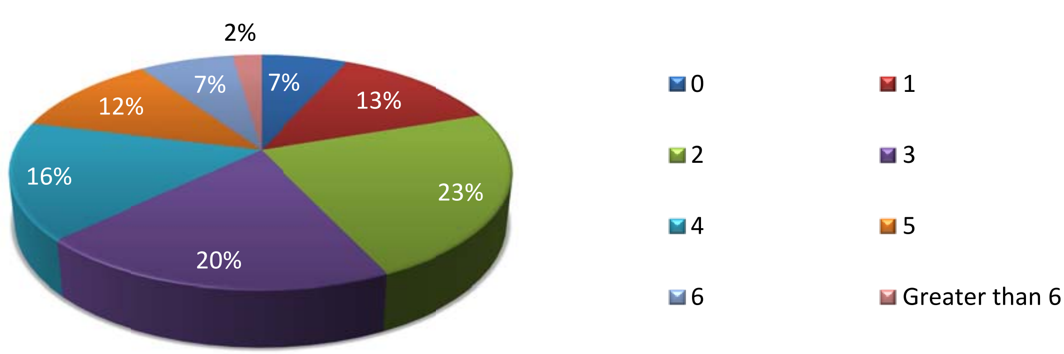
The majority of deals (58%) took six to 12 months to close. Rarely did any deal take more than one year to close (4%).

Figure 11. Average Number of Months to Close One Deal



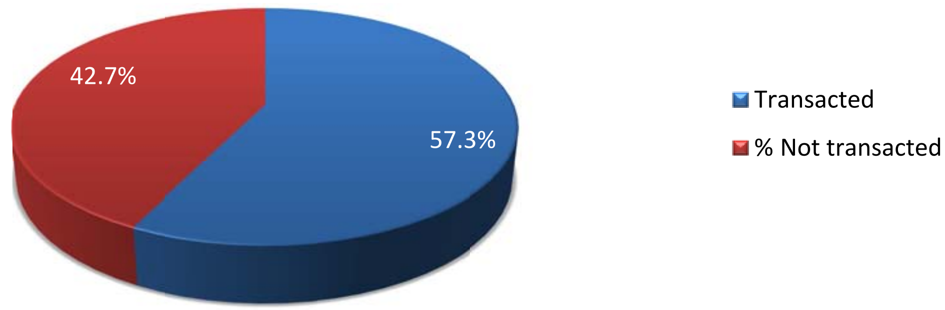
Nearly 7% of the respondents don't expect to close any deals in the next 12 months; 84% expect to close between one and five deals, while only 2% expect to close more than 6 deals.

Figure 12. Private Business Transactions Expected to Close in the Next 12 Months



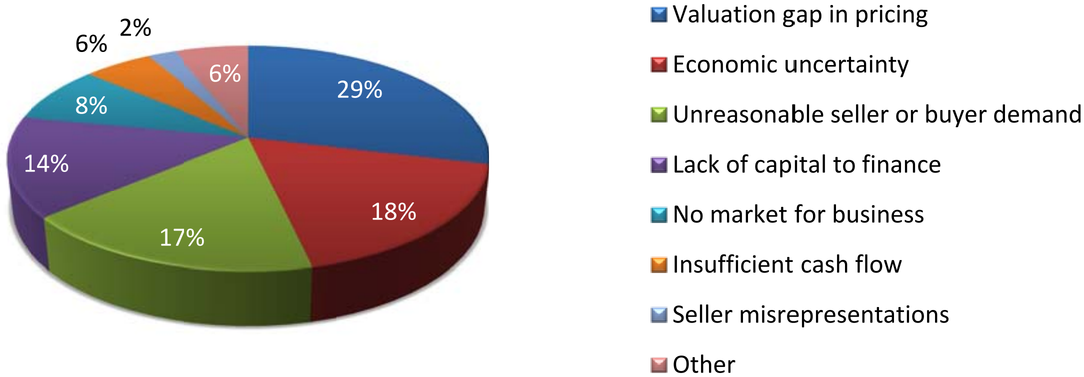
Approximately 42.7% of deals terminated without transacting over the past year.

Figure 13. Percentage of Business Sales Engagements Terminated Without Transacting



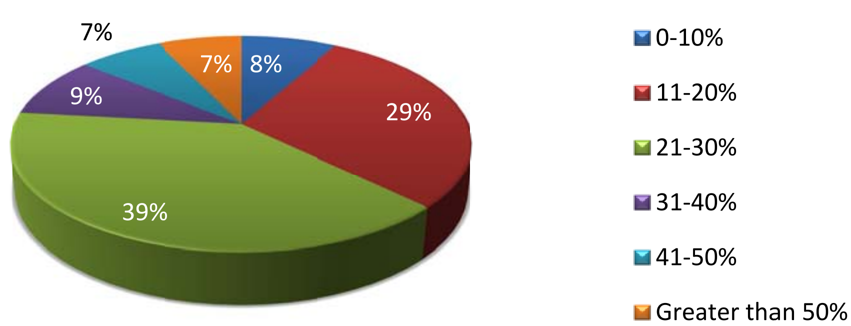
Top three reasons for deals not closing: valuation gap in pricing (29%), economic uncertainty (18%), and unreasonable Seller/buyer demands (17%).

Figure 14. Reasons for Business Sales Engagements Not Transacting



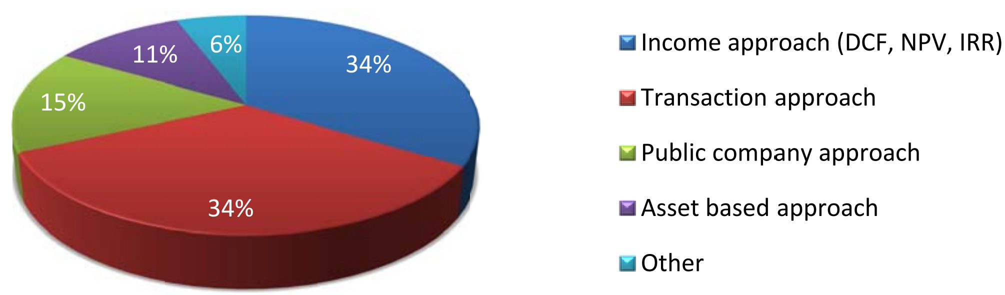
Of those transactions that didn't close due to a valuation gap in pricing, approximately 39% had a valuation gap in pricing between 21% and 30%.

Figure 15. Valuation Gap in Pricing for Transactions That Didn't Close



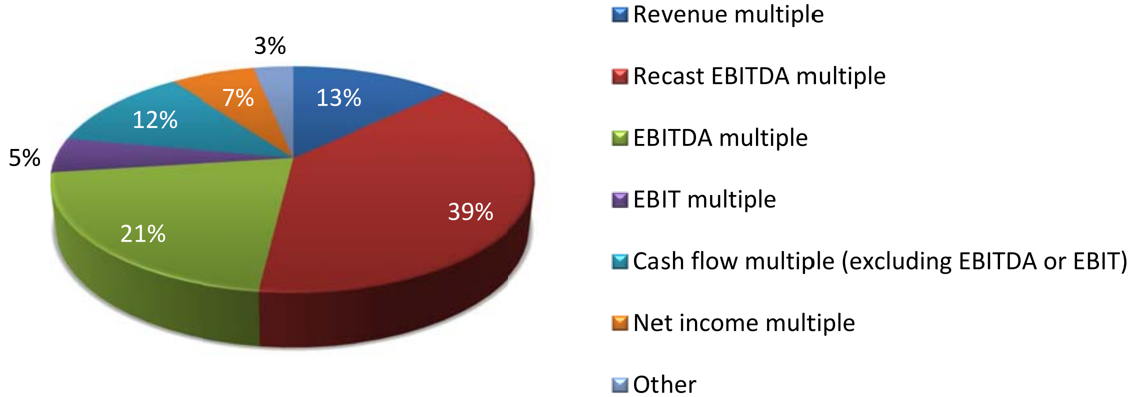
The weights of the various valuation approaches used by respondents when valuing privately-held businesses included 34% for both income and transaction approaches.

Figure 16. Usage of Valuation Approaches



Recast EBITDA multiples (39%) and EBITDA multiples (21%) carried the most weight when using multiples to determine valuations.

Figure 17. Usage of Multiples



Average deal multiples on transactions from the prior six months as observed by respondents varied from 2 to 9.

Table 4. Median Deal Multiples by EBITDA Size of Company

EBITDA	Manufacturing	Retail and consumer services	Wholesale & distribution	Business services	Basic materials & energy	Health care	Information technology	Financial services	**Average**
$1M	4	3.5	3.5	4	3.5	4	4.25	3.5	4
$5M	4.5	4	4.5	5	4	5	5.5	4	**5**
$10M	5.25	7	5.5	6	5	6	6	5	**6**
$25M	6	6.5	6	6	5	5.75	7.5	5.25	**6**
$50M	6.5	4.5	6.25	6	7.5	7	7.75	5	**6**
$100M	6.5	7.25	6	7.5	8	6.5	8.75	6.75	**7**

Average total leverage multiples observed by respondents varied from 1.5 to 6.

Table 5. Median Total Leverage Multiples by Size of Company

	Manufacturing	Retail & consumer services	Wholesale & distribution	Business services	Basic materials & energy	Health care	Information technology	Financial services	**Average**
$1M	3	2.75	2.5	3	2.5	2	3	3	**3**
$5M	3	3.5	3	2.5	2.75	3	2.5	3	**3**
$10M	3	4	3	3	2.5	3	3.75	3.5	**3**
$25M	3.25	2.75	2.5	4	2.5	3.5	3	3.25	**3**
$50M	4.5	3	3	4.75	5	3.75	5	3.5	**4**
$100M	5.75	5	3.5	5.5	6	5	5	3.5	**5**

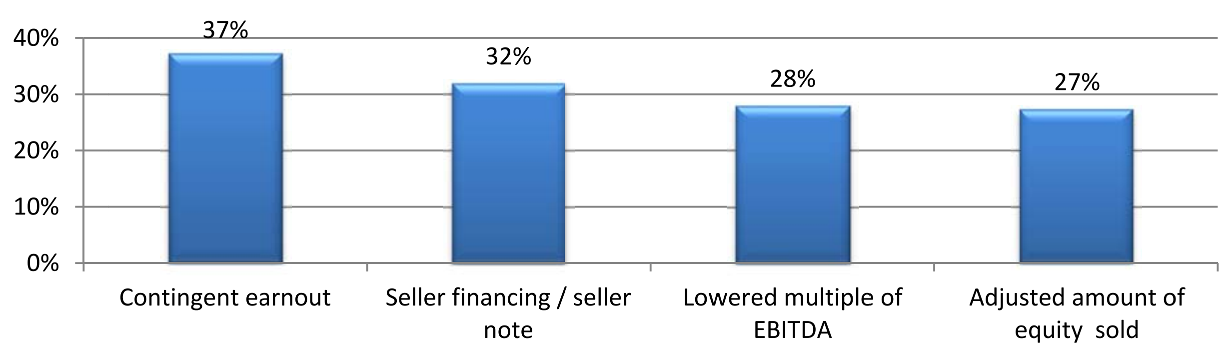
Average total leverage multiples observed by respondents varied from 1.5 to 6.

Table 6. Median Senior Leverage Multiples by Size of Company

	Manufacturing	Retail & consumer services	Wholesale & distribution	Business services	Basic materials & energy	Health care	Information technology	Financial services	**Average**
$1M	2	2	1.75	1.75	n/a	1.5	2.5	2	**2**
$5M	2.5	3	2	2.5	2.5	2.75	2	3.5	**3**
$10M	2	3	2	2.75	2	2.5	2.5	3.5	**3**
$25M	3.25	3	2	4	2	2.75	1.5	3.5	**3**
$50M	3	3	2.25	4.5	5	2.5	n/a	5	**4**
$100M	3.75	3.25	3	4	n/a	n/a	n/a	4	**4**

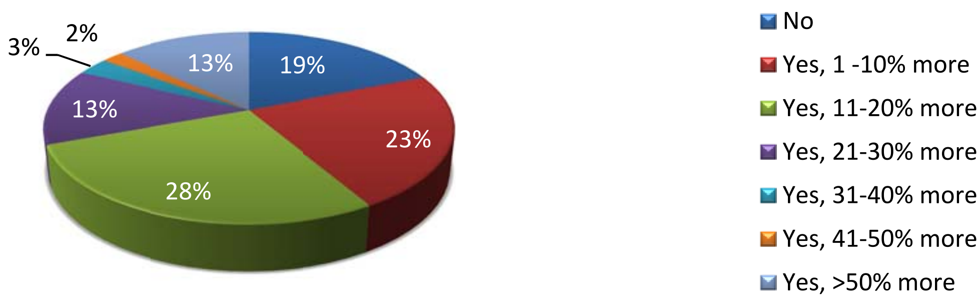
Approximately 37% of business sales transactions closed in the last 12 months involved contingent earnouts.

Figure 18. Components of Closed Deals



Approximately 19% of respondents didn't witness any premium paid by strategic buyers, while 51% saw premiums between 1% and 20%.

Figure 19. Premium Paid by Strategic Buyers Relative to Financial Buyers



Respondents indicated a general imbalance between companies worthy of financing and capital available for the same. There is a reported shortage of capital for those companies with less than $10 million in EBITDA but a general surplus for companies with $25 million in EBITDA or more.

Table 7. Balance of Available Capital with Quality Companies

EBITDA	Companies worthy of financing GREATLY exceed capital available	Companies worthy of financing exceed capital available	General balance	Capital available exceeds companies worthy of financing	Capital available GREATLY exceeds companies worthy of financing	**Score (-2 to 2)**
$1M	45%	31%	12%	8%	4%	**-1.04**
$5M	20%	39%	22%	13%	6%	**-0.55**
$10M	6%	31%	34%	22%	7%	**-0.07**
$25M	6%	25%	36%	25%	8%	**0.06**
$50M	5%	19%	32%	26%	18%	**0.33**
$100M	2%	11%	29%	35%	23%	**0.66**

Respondents indicated a general difficulty with arranging senior debt for businesses with less than $5 million in EBITDA.

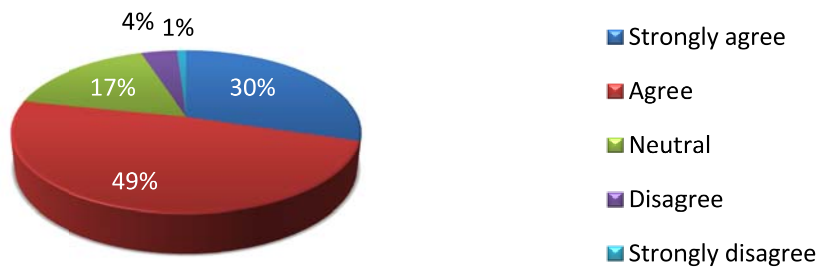
Table 8. How Difficult to Arrange Senior Debt for Transactions over the Past Six Months

EBITDA	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	**Score (-3 to 3)**
$1M	38%	34%	14%	8%	6%	0%	1%	**-1.9**
$5M	11%	19%	23%	22%	15%	8%	2%	**-0.6**
$10M	1%	19%	22%	20%	15%	15%	9%	**0.1**
$15M	2%	15%	20%	15%	23%	12%	13%	**0.3**
$25M	3%	12%	14%	21%	14%	14%	22%	**0.6**
$50M	4%	12%	10%	18%	10%	14%	33%	**0.9**
$100M	7%	7%	16%	7%	13%	18%	33%	**1.0**

I-BANKER cont.

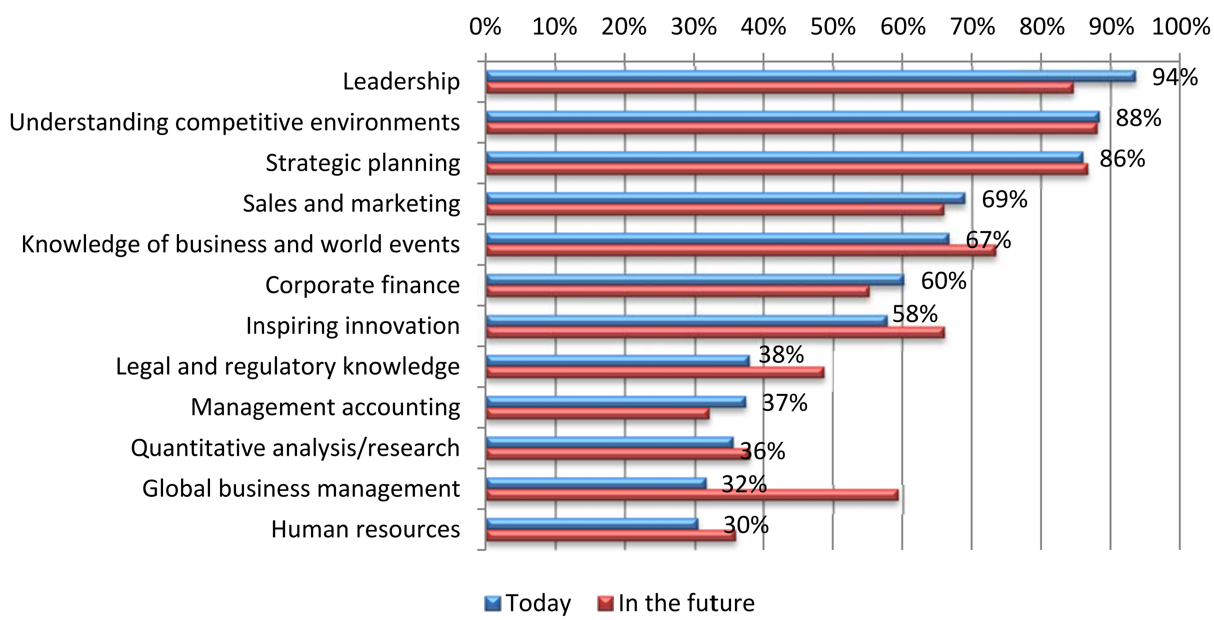
Approximately 79% of respondents agree that among companies that they have worked with, senior managers, such as chief executives, would benefit from additional leadership and skills training.

Figure 20. Would Senior Managers and Chief Executives Benefit from Additional Leadership and Skills Training?



According to respondents leadership skills are the most important for senior management to have.

Figure 21. Skills That Are Important for Senior Management to Have



I-BANKER cont.

Respondents indicated increases in deal flow, margin pressure on companies, strategic buyers making deals, and worsened general business conditions relative to six months ago.

Table 9. General Business and Industry Assessment: Today versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Deal flow	9%	21%	23%	32%	14%	46%	30%	**16%**
Leverage multiples	8%	15%	47%	29%	0%	29%	23%	**6%**
Deal multiples	5%	19%	42%	31%	2%	34%	24%	**9%**
Amount of time to sell business	2%	12%	47%	25%	14%	39%	13%	**26%**
Difficulty financing/selling business	2%	13%	50%	23%	11%	35%	15%	**20%**
General business conditions	10%	42%	29%	17%	2%	19%	52%	**-33%**
Strategic buyers making deals	3%	14%	35%	40%	7%	48%	17%	**31%**
Margin pressure on companies	2%	7%	34%	41%	16%	58%	9%	**49%**
Buyer interest in minority transactions	13%	20%	49%	16%	1%	17%	34%	**-16%**

During the next twelve months, respondents expect further increases in deal flow, margin pressure on companies, strategic buyers making deals, and worsening general business conditions.

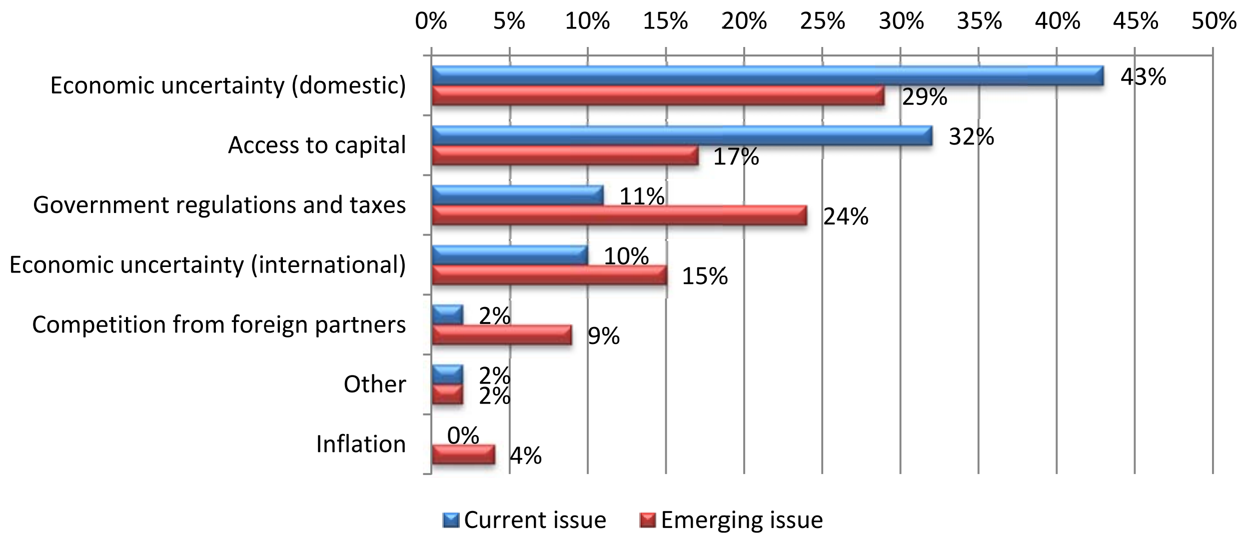
Table 10. General Business and Industry Assessment Expectations over the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Deal flow	2%	15%	27%	46%	9%	55%	17%	**38%**
Leverage multiples	4%	18%	43%	35%	0%	35%	22%	**13%**
Deal multiples	3%	24%	34%	39%	1%	39%	27%	**13%**
Amount of time to sell business	1%	20%	42%	29%	7%	37%	21%	**16%**
Difficulty financing/selling business	0%	24%	42%	26%	9%	35%	24%	**11%**
General business conditions	10%	28%	36%	25%	2%	27%	38%	**-11%**
Strategic buyers making deals	2%	10%	40%	40%	8%	48%	12%	**36%**
Margin pressure on companies	2%	9%	40%	38%	11%	49%	11%	**38%**
Buyer interest in minority transactions	8%	16%	55%	19%	3%	22%	23%	**-1%**

I-BANKER cont.

Respondents believe economic uncertainty is the most important issue facing privately-held businesses today. Government regulations and taxes are indicated as the most important emerging issue.

Figure 22. Issues Facing Privately-Held Businesses



BROKER SURVEY INFORMATION

Approximately 39% of the 99 participants in the broker survey said they expect to close more than five deals in the next 12 months. This is up from 25% of respondents in the Spring 2011 report. Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today. Government regulations and taxes and domestic economic uncertainty are indicated as the most important emerging issues.

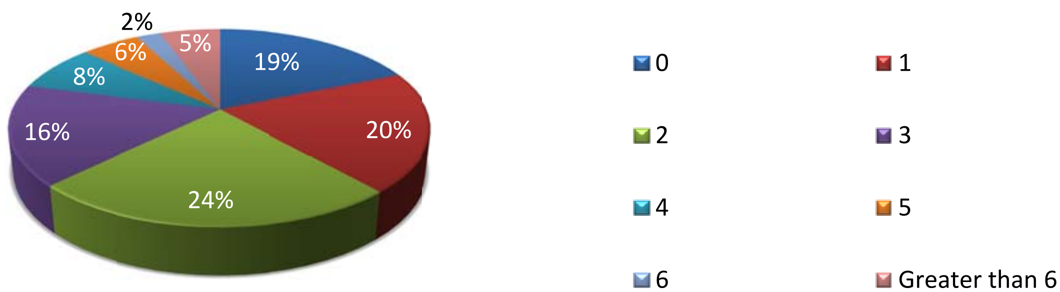
Other key findings include:

- The majority of deals (87%) took less than 1 year to close with the largest concentration being the in six to eight-month category. Another 9% took about a year and a half and rarely did a deal take more than one and a half years to close.
- Approximately 45% of respondents expect worsening business conditions in the next 12 months. Respondents also further increases in deal flow, margin pressure on companies, and strategic buyers making deals.
- Top three reasons for deals not closing: valuation gap in pricing (24%); lack of capital to finance (23%); economic uncertainty (19%).

Operational and Assessment Characteristics

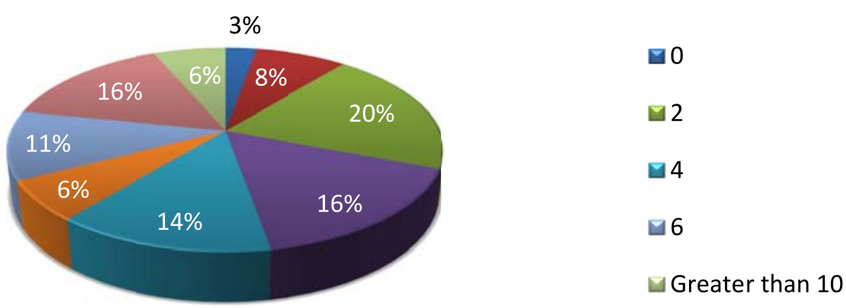
Approximately 25% of the respondents didn't close any deal in the last six months; 57% closed between one and five deals, while 9% closed more than six.

Figure 23. Private Business Sales Transactions Closed in the Last Six Months



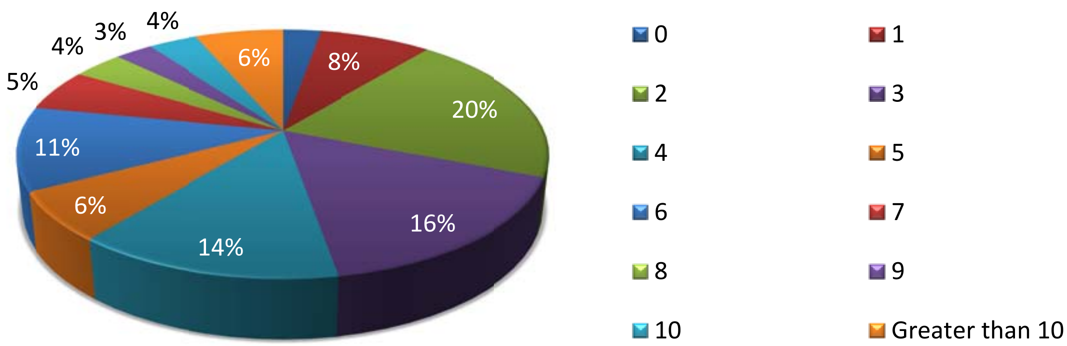
Approximately 20% of all transactions closed in the last six months involved manufacturing followed by 15% that involved business services and 12% that involved wholesale and manufacturing.

Figure 24. Private Business Sales Transactions Expected to bClose in the Next Twelve Months



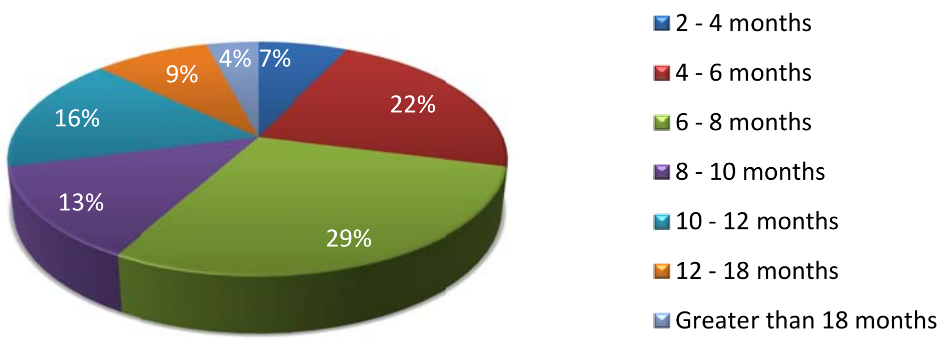
Approximately 58% of respondents are planning to close between one and five business sales transactions in the next 12 months.

Figure 25. Private Business Sales Transactions Expect to Close in the Next 12 Months



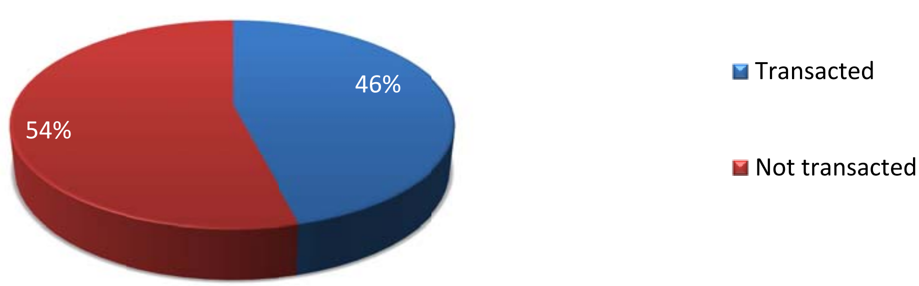
The majority of deals (51%) took four to eight months to close.

Figure 26. Average Number of Months to Close One Deal



Approximately 46% of deals terminated without transacting over the past year.

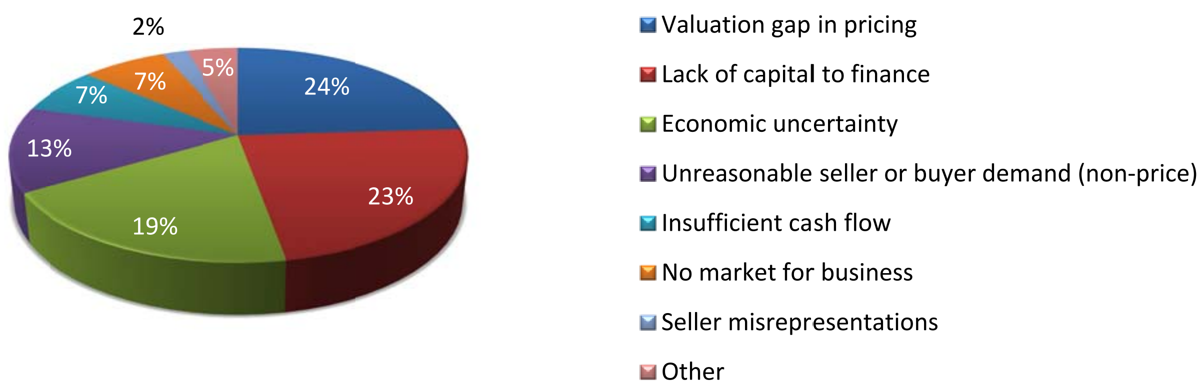
Figure 27. Percentage of Business Sales Engagements Terminated Without Transacting



BROKER cont.

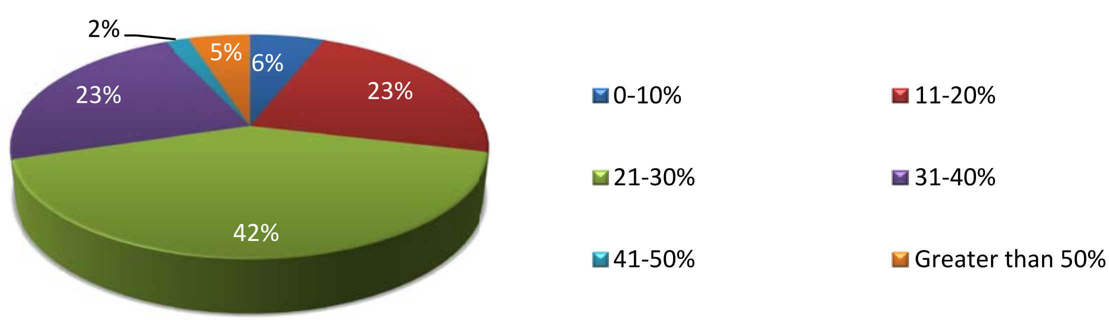
Top three reasons for deals not closing: valuation gap in pricing (24%), lack of capital to finance (23%), and economic uncertainty (19%).

Figure 28. Reasons for Business Sales Engagements Not Transacting



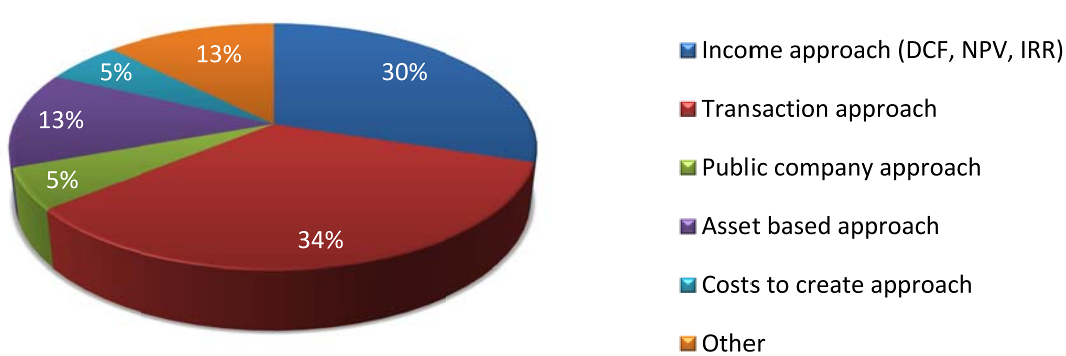
Of those deals that didn't close due to a valuation gap in pricing, approximately 42% had a valuation gap in pricing between 21% and 30%.

Figure 29. Valuation Gap in Pricing for Transactions That Didn't Close



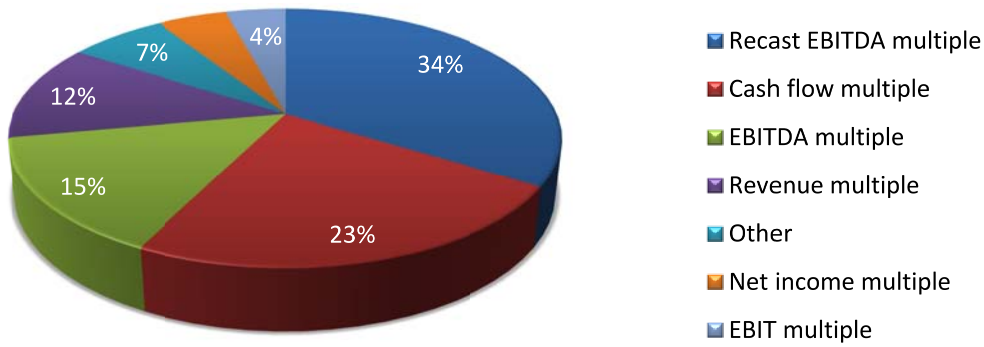
The most popular valuation approaches used (by weight) by respondents when valuing privately-held businesses were income and transaction approaches.

Figure 30. Usage of Valuation Approaches



Most of respondents use recast EBITDA multiples (34%) and cash flow multiples (23%).

Figure 31. Usage of Multiples



Average revenue multiples on deals observed by respondents varied from 1 to 3.

Table 11. Median Revenue Deal Multiples by Revenue Size of Company

Revenue	Manufacturing	Retail & consumer services	Wholesale & distribution	Business services	Basic materials & energy	Health care	Information technology	Financial services	**Average**
$100,000	1.9	1.4	1.3	1.5	2	2	2	1	**2**
$500,000	1	1.7	1.4	1.1	2	2.1	2.1	1.2	**2**
$1M	2	1.6	0.8	1.4	2.1	0.8	2.4	1.8	**2**
$5M	1.4	1.5	1	1	2	1.2	3	1.4	**2**
$10M	1.6	2	3	1	2.4	3	2.8	2.7	**2**
Greater than $10M	2.3	2	3	2	3	2.1	3	2.8	**3**

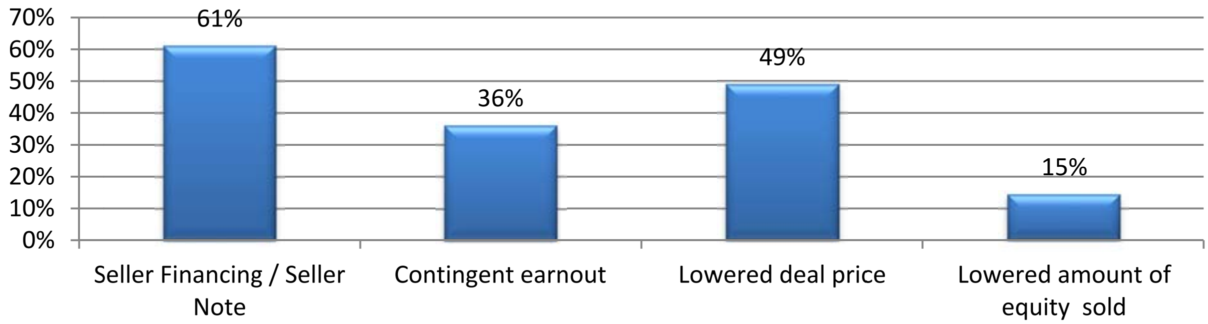
Average EBITDA multiples on deals observed by respondents varied from 2 to 7.

Table 12. Median EBITDA Deal Multiples by Revenue Size of Company

Revenue	Manufacturing	Retail & consumer services	Wholesale & distribution	Business services	Basic materials & energy	Health care	Information technology	Financial services	**Average**
$100,000	3	2	3.5	3	2.75	5.5	5	3.25	**3.5**
$500,000	3.25	3	3.25	3	4	4	3	3.75	**3.4**
$1M	3.5	3	3	3.5	3.5	4	4.75	5	**3.8**
$5M	4.5	4	4	4	4.5	7	5.5	2.5	**4.5**
$10M	4.75	5	4	4.75	7	6	7	5	**5.4**

Approximately 61% of business sales transactions closed in the last 12 months involved seller financing or seller note.

Figure 32. Components of Closed Deals



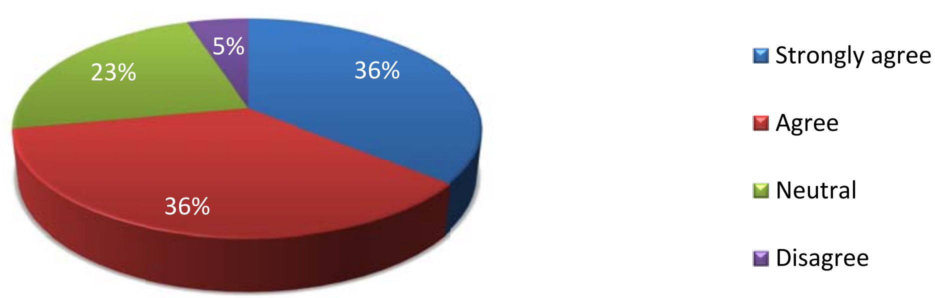
Respondents indicated a general difficulty with arranging senior debt for businesses with less than $1 million in revenues.

Figure 33. How Difficult to Arrange Senior Debt for Transactions over the Past Six Months

Revenue size	Extremely difficult	Difficult	Somewhat difficult	Neutral	Somewhat easy	Easy	Extremely easy	**Score (-2 to 2)**
$100K	71%	8%	3%	16%	0%	3%	0%	**-1.26**
$500K	41%	23%	9%	11%	7%	9%	0%	**-0.52**
$1M	31%	27%	10%	16%	10%	6%	0%	**-0.33**
$5M	14%	22%	19%	17%	14%	14%	0%	**0.36**
$10M	12%	19%	27%	12%	15%	8%	8%	**0.54**
$15M	13%	9%	22%	9%	26%	9%	13%	**1.04**
$25M+	12%	12%	18%	12%	29%	0%	18%	**1.06**

Approximately 72% of respondents agree that among companies that they have worked with, senior managers, such as chief executives, would benefit from additional leadership and skills training.

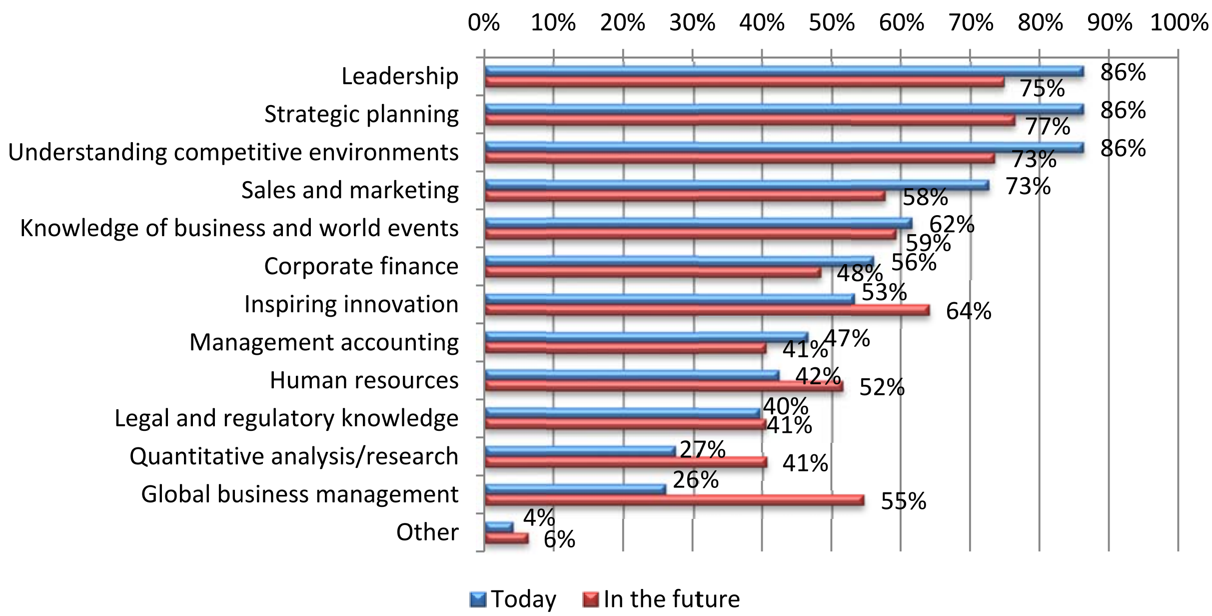
Figure 34. Would Senior Managers and Chief Executives Benefit from Additional Leadership and Skills Training?



BROKER cont.

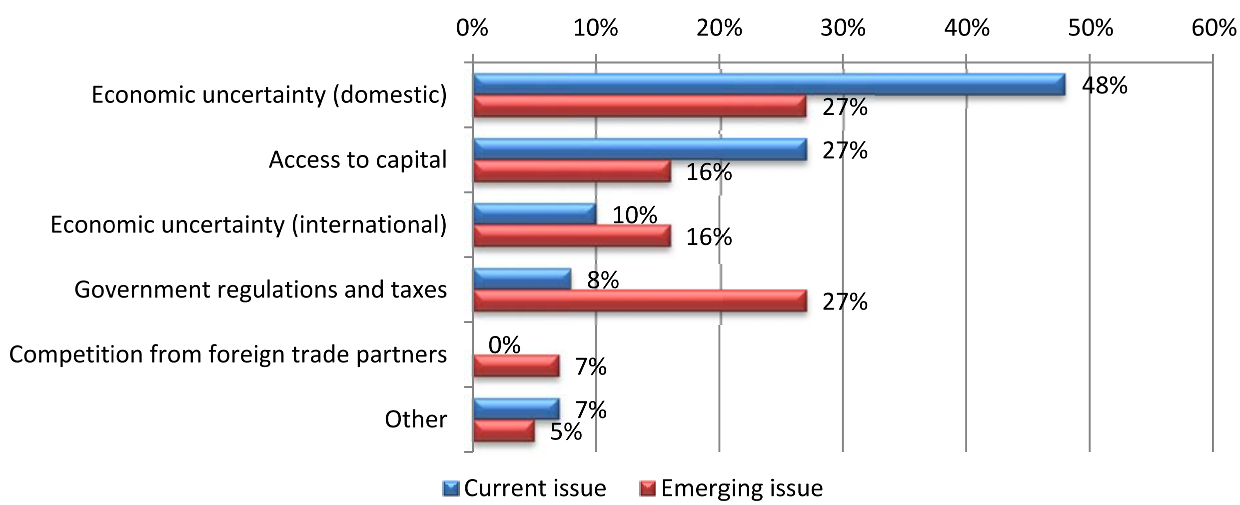
According to respondents, leadership skills, strategic planning, and understanding competitive environments are the most important for senior management to have.

Figure 35. Skills That Are Important for Senior Management to Have



Respondents believe economic uncertainty is the most important issue facing privately-held businesses today. Government regulations and taxes and economic uncertainty are indicated as the most important emerging issues.

Figure 36. Issues Facing Privately-Held Businesses



BROKER cont.

Compared to six months ago, respondents indicated increases in deal flow and difficulty financing or selling business, increase in margin pressure on companies and deteriorated general business conditions. Respondents also indicated decreased deal multiples.

Table 13. General Business and Industry Assessment: Today Versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Deal flow	11%	10%	32%	36%	11%	47%	21%	**26%**
Ratio of businesses sold/total listings	13%	4%	49%	28%	6%	33%	17%	**16%**
Deal multiples	3%	23%	59%	13%	3%	16%	26%	**-10%**
Business exit opportunities	6%	26%	30%	33%	6%	39%	31%	**7%**
Amount of time to sell business	0%	11%	39%	38%	11%	49%	11%	**38%**
Difficulty selling business	4%	16%	36%	24%	20%	44%	20%	**24%**
Business opportunities for growth	4%	20%	42%	28%	6%	33%	25%	**9%**
General business conditions	15%	33%	29%	22%	0%	22%	49%	**-26%**
Margin pressure on companies	1%	8%	37%	39%	14%	54%	10%	**44%**

During the next twelve months, respondents expect further increases in deal flow, margin pressure on companies, and worsening general business conditions.

Table 14. General Business and Industry Assessment Expectations over the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Deal flow	10%	14%	34%	32%	10%	42%	24%	**19%**
Ratio of businesses sold/total listings	12%	12%	47%	27%	2%	29%	24%	**5%**
Deal multiples	7%	24%	59%	9%	2%	10%	31%	**-21%**
Business exit opportunities	8%	28%	30%	30%	3%	33%	37%	**-3%**
Amount of time to sell business	2%	17%	37%	32%	13%	45%	18%	**27%**
Difficulty selling business	2%	15%	37%	25%	20%	46%	17%	**29%**
Business opportunities for growth	5%	24%	37%	29%	5%	34%	29%	**5%**
General business conditions	12%	33%	30%	25%	0%	25%	45%	**-20%**
Margin pressure on companies	2%	14%	41%	34%	10%	44%	15%	**29%**

LIMITED PARTNER SURVEY INFORMATION

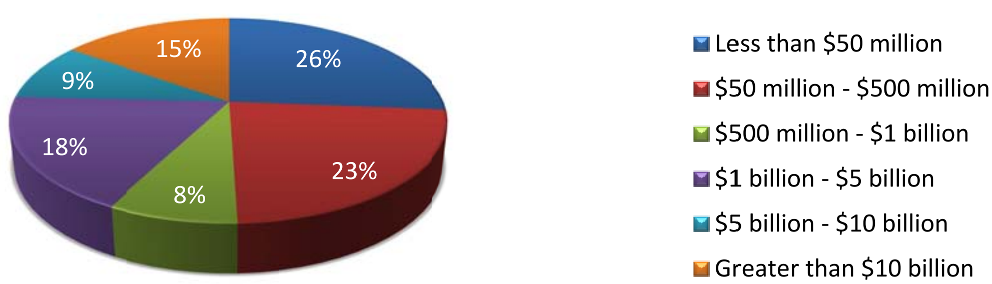
Approximately 20% of the 71 respondents in the limited partner survey reported buyout private equity as being the best risk/return trade-off investment class, followed by direct investments at 19%. When asked about which industry currently offers the best risk/return trade-off, 48% of respondents reported health care, followed by 36% reporting information technology. Confidence in the energy industry is down to 30% from 44% in the Spring 2011 report. Other key findings include:

- Approximately 26% of respondents reported their asset category being less than $50 million, while 23% were between $50 million and $500 million.
- On average respondents target to allocate 20% of their assets to venture capital, 19% to buyout private equity and 15% to direct investments. Respondents expect the highest returns of 20% from investments in venture capital, buyout private equity and direct investments.
- Respondents indicated increased allocation to direct investments and private equity and decreased allocation to all other alternative assets in the last six months. They also reported worsened business conditions but increased expected returns on new investments.
- Respondents see best domestic opportunities in California, Texas and New England states. They also expect increasing allocation to alternative assets, slightly improving business conditions, increase in direct investments and further increase in expected returns.

Operational and Assessment Characteristics

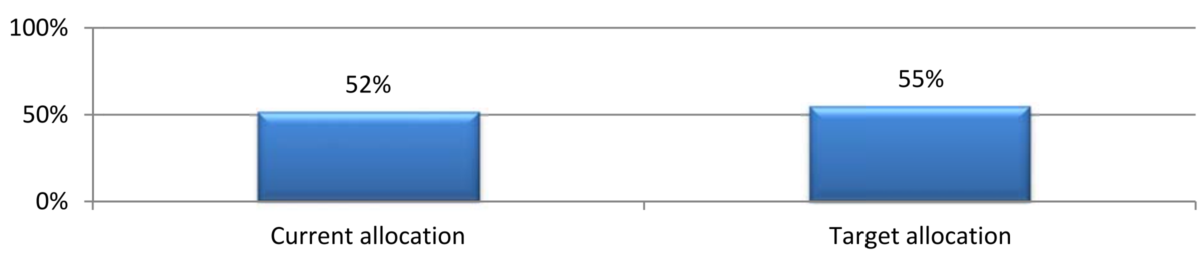
Approximately 26% of respondents reported their asset category being less than $50 million, while 23% were between $50 million and $500 million.

Figure 37. Assets under Management or Investable Funds



Respondents reported on their % of total asset allocations for “Alternative Assets”.

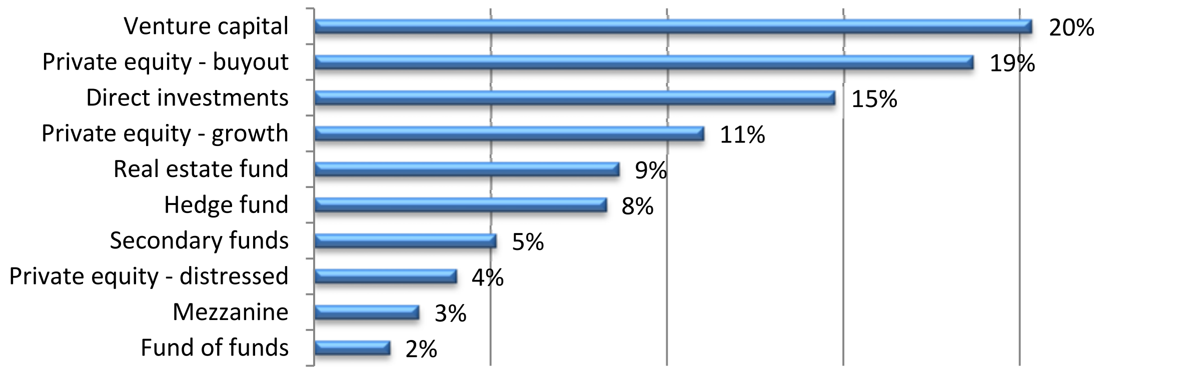
Figure 38. Current and Target Asset Allocations for "Alternative Assets" (% of total portfolio)



LP cont.

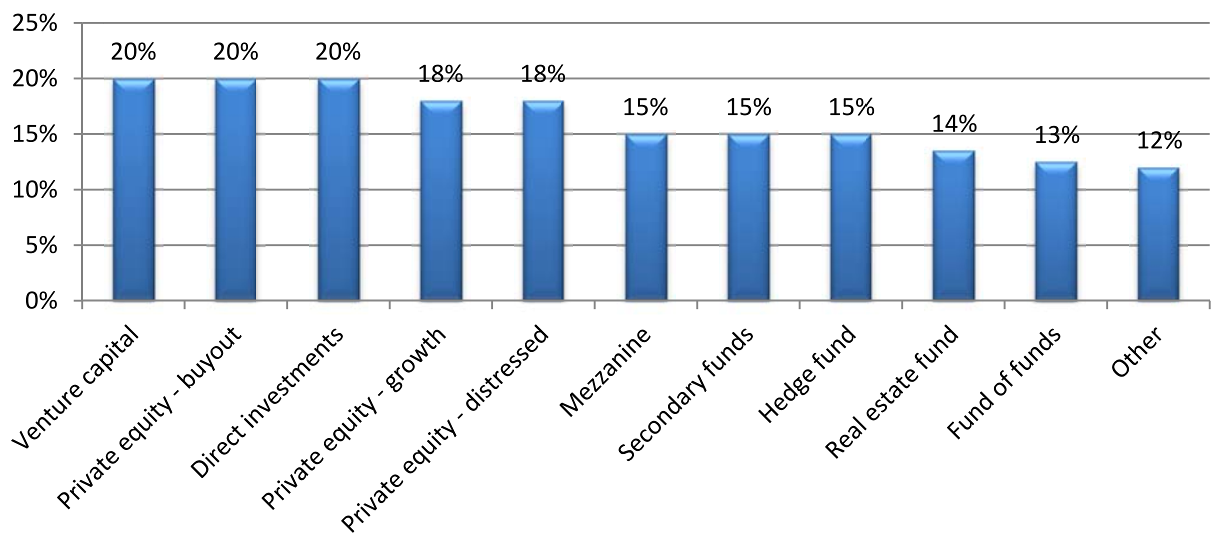
On average, respondents target to allocate 20% of their assets to venture capital, 19% to buyout private equity, and 15% to direct investments.

Figure 39. Current Target Asset Allocation



On average respondents expect the highest returns from investments in venture capital, buyout private equity and direct investments.

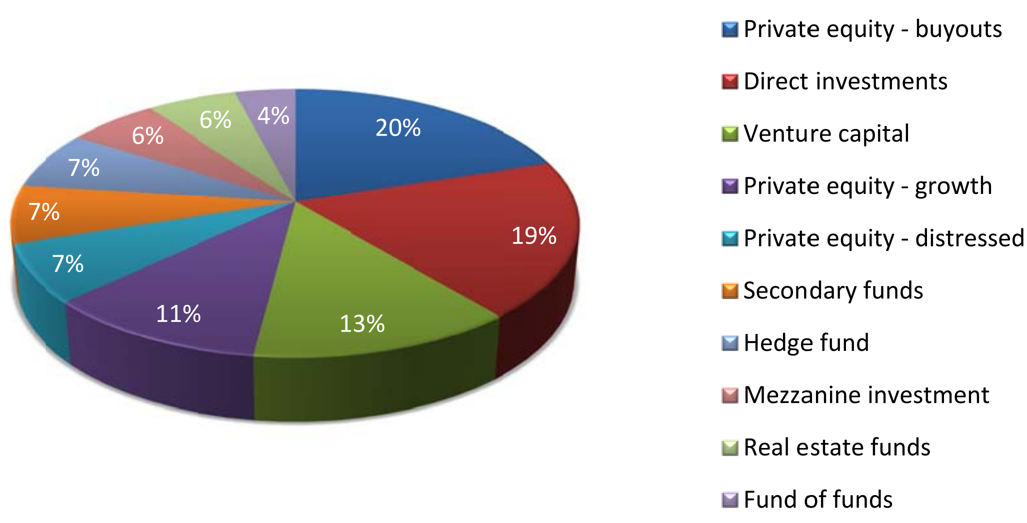
Figure 40. Annual Return Expectations for New Investments



LP cont.

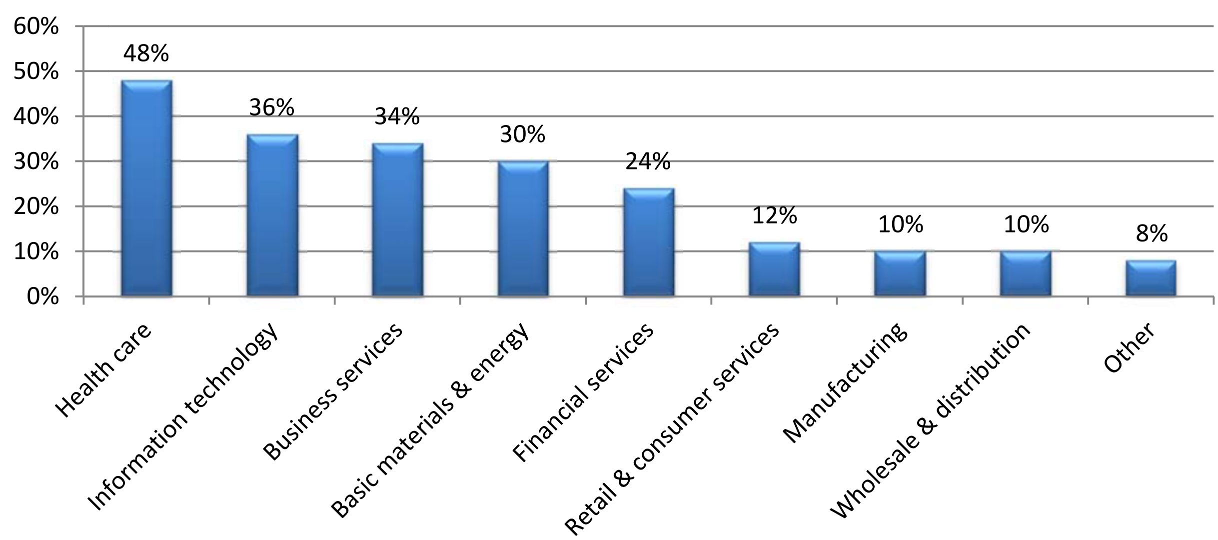
Approximately 20% of respondents reported buyout private equity as being the best risk/return trade-off investment class, followed by direct investments at 19%.

Figure 41. Assets with the Best Risk/Return Trade-off Currently



When asked about which industries currently offer the best risk/return trade offs, 48% of respondents reported health care, followed by 36% reporting information technology.

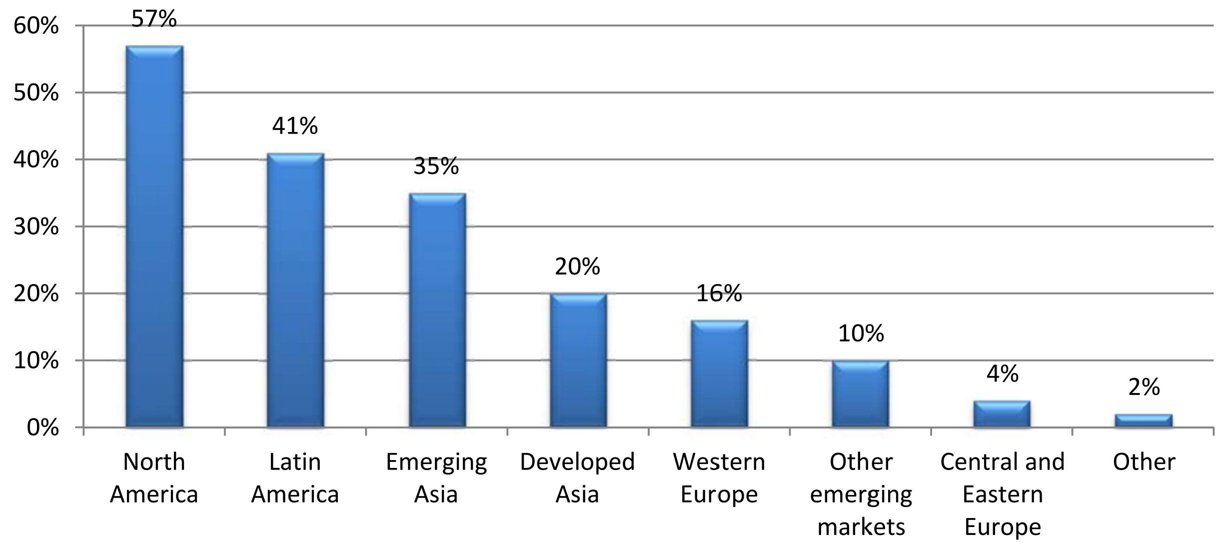
Figure 42. Industry with the Best Risk/Return



LP cont.

In regard to the geographic regions with the best risk/return trade-offs, 57% of respondents reported North America, followed by the Latin America (41%), and emerging Asia (35%) areas.

Figure 43. Geographic Regions of the World Offering the Best Risk/Return Tradeoff Currently



According to 38% of respondents the geographic region with best risk/return trade offs is Silicon Valley with another 24% selecting Bay Area, followed by Texas (35%), and New England (27%).

Figure 44. Geographic Regions of the USA with the Best Risk/Return Currently

LP cont.

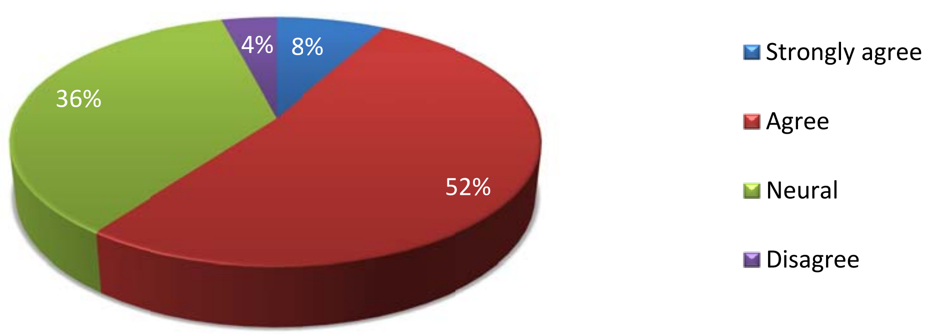
According to respondents, the general partner is the most important factor when evaluating investment followed by specific strategy and historical fund performance.

Table 15. Importance of Factors When Evaluating

Characteristics	Unimportant	Of little importance	Moderately Important	Important	Very important	**Score (1 to 5)**
General partner	2%	2%	2%	37%	58%	**4.46**
Specific strategy	0%	0%	8%	40%	52%	**4.44**
Historical fund performance on all funds	2%	2%	21%	42%	33%	**4.02**
Returned capital from most recent fund (distribution to paid-in or DPI)	22%	0%	0%	22%	56%	**3.54**
Residual value of most recent fund (residual value to paid-in or RVPI)	4%	10%	31%	40%	15%	**3.46**
Gut feel/instinct	6%	8%	29%	50%	8%	**3.31**
Specific location	6%	12%	38%	35%	10%	**3.17**
Other - please specify	4%	27%	29%	29%	12%	**3.89**

Approximately 60% of respondents agree that among companies that they have worked with, senior managers, such as chief executives, would benefit from additional leadership and skills training.

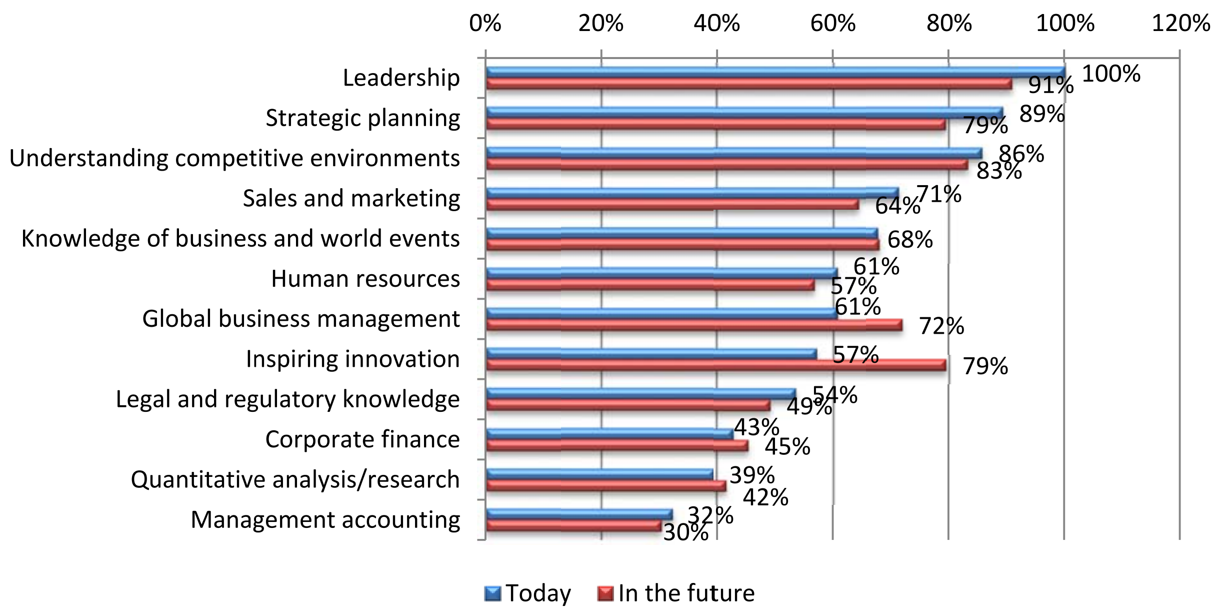
Figure 45. Would Senior Managers and Chief Executives Benefit from Additional Leadership and Skills Training?



LP cont.

According to respondents, important skills to have in senior management are leadership, strategic planning, and understanding competitive environments.

Figure 46. Skills That Are Important for Senior Management to Have



Respondents indicated increased allocations to direct investments and private equity and decreased allocations to all other alternative assets in the last six months. Respondents also indicated increased expected returns on new capital deployed but worsened general business conditions.

Table 16. General Business and Industry Assessment: Today versus Six Months Ago

Characteristics	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Allocation to venture capital	6%	15%	69%	10%	0%	10%	21%	**-10%**
Allocation to private equity	0%	11%	70%	15%	4%	19%	11%	**9%**
Allocation to mezzanine	4%	22%	67%	7%	0%	7%	27%	**-20%**
Allocation to hedge funds	11%	16%	68%	5%	0%	5%	27%	**-22%**
Allocation to secondary funds	8%	8%	77%	5%	3%	8%	15%	**-8%**
Allocation to real estate funds	8%	10%	74%	5%	3%	8%	18%	**-10%**
Direct investments	4%	6%	47%	23%	19%	43%	11%	**32%**
General business conditions	4%	43%	35%	17%	0%	17%	48%	**-30%**
Expected returns on new capital deployed	2%	19%	38%	38%	4%	42%	21%	**21%**

LP cont.

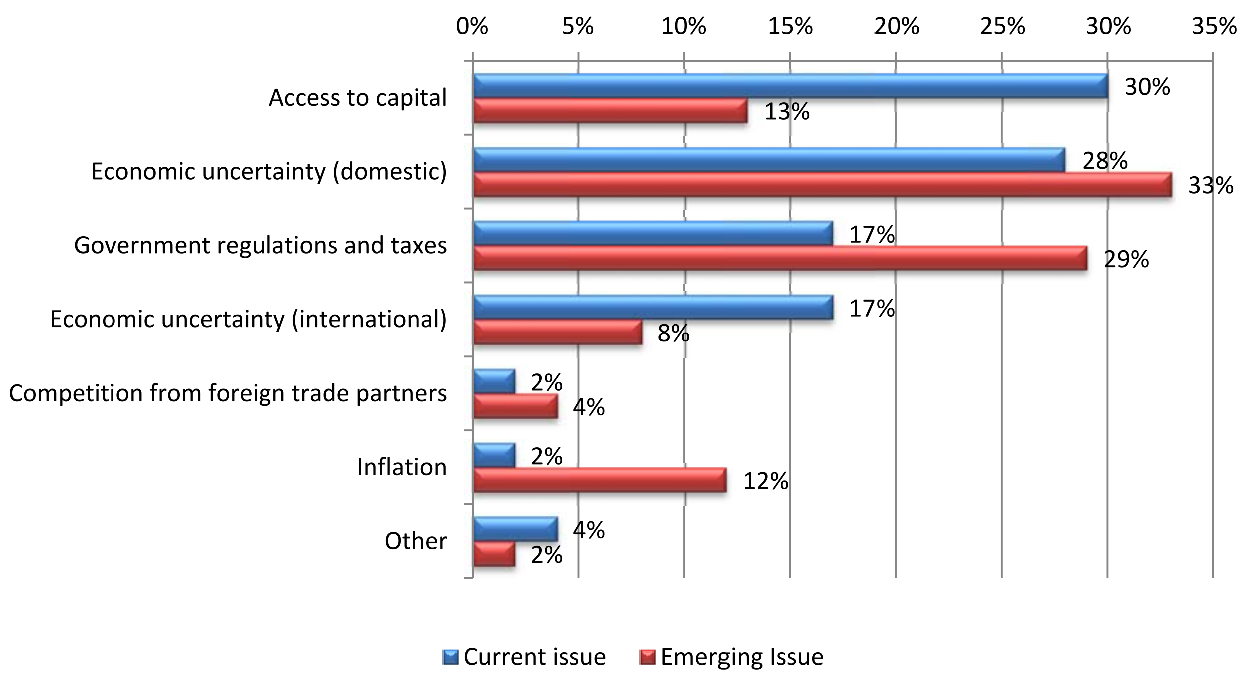
Respondents expect further increases in allocation to direct investments and private equity, as well as real estate funds.

Table 17. General Business and Industry Assessment Expectations over the Next 12 Months

Characteristics	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Allocation to venture capital	0%	13%	79%	8%	0%	8%	13%	**-4%**
Allocation to private equity	0%	6%	81%	11%	2%	13%	6%	**6%**
Allocation to mezzanine	2%	14%	74%	7%	2%	9%	16%	**-7%**
Allocation to hedge funds	5%	5%	78%	8%	3%	11%	11%	**0%**
Allocation to secondary funds	5%	13%	68%	8%	5%	13%	18%	**-5%**
Allocation to real estate funds	5%	13%	56%	23%	3%	26%	18%	**8%**
Direct investments	2%	4%	57%	26%	11%	37%	7%	**30%**
General business conditions	2%	22%	40%	30%	6%	36%	24%	**12%**
Expected returns on new capital deployed	2%	13%	54%	26%	4%	30%	15%	**15%**

Respondents believe access to capital and economic uncertainty are the most important issues facing privately-held businesses today. Government regulations and taxes and economic uncertainty are indicated as the most important emerging issues.

Figure 47. Issues Facing Privately-Held Businesses



ANGEL INVESTOR SURVEY INFORMATION

Approximately 14% of the 93 respondents to the angel investor survey plan to invest outside of the U.S. over the next 12 months, the majority (56%) of respondents plan to make between one and five investments. Other key findings include:

- Approximately 30% of respondents base valuations on a basic method (quick estimate) when valuing privately-held businesses.
- The types of businesses respondents plan to invest in over next 12 months are very diverse with over 34% targeting information technology and another 22% planning to invest in health care.
- Respondents indicated a sharp increase in demand for angel capital, and increases in size of angel industry, follow-on investments, and expected returns on new investments. They also reported increased quality of companies seeking investments and time to exit deals, decreased opportunities to exit, worsened general business conditions and appetite for risk.
- Respondents' exit strategies that include selling to a private company total 34%, while another 34% of respondents plan to sell to a public company.

Operational and Assessment Characteristics

Approximately 47% of respondents made either one or two investments over the last six months.

Figure 48. Total Number of Investments Made in the Last Six Months

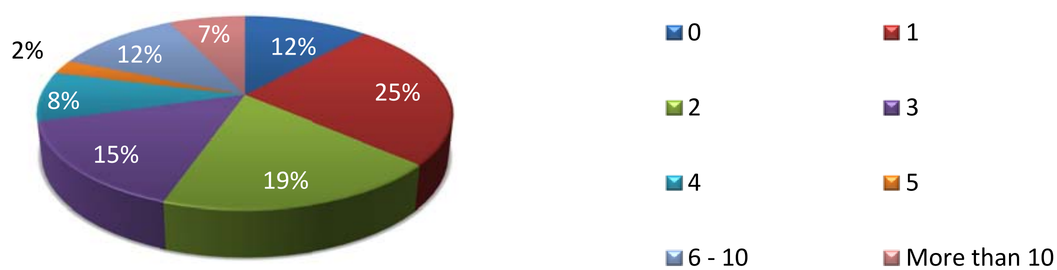
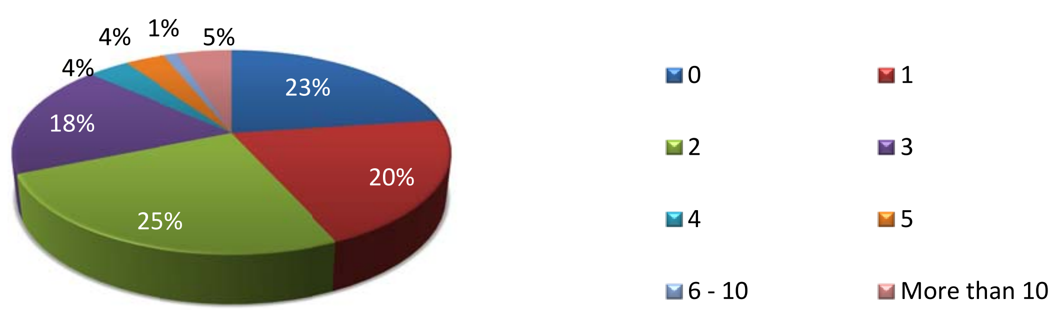


Figure 49. Number of Follow-on Investments Made in the Last Six Months



ANGEL cont.

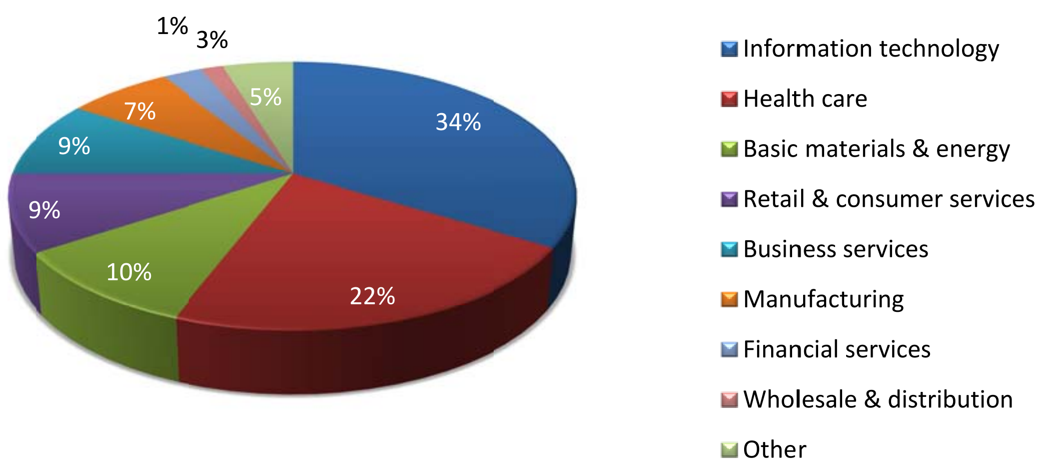
The majority (56%) of respondents plan to make between one and five investments over the next 12 months.

Figure 50. Number of Total Investments Planned over Next 12 Months

Figure 51. Number of Follow-on Investments Planned over Next 12 Months

The types of businesses respondents plan to invest in over next 12 months are very diverse with over 34% targeting information technology and another 22% planning to invest in health care.

Figure 52. Type of Business for Investments Planned over Next 12 Months



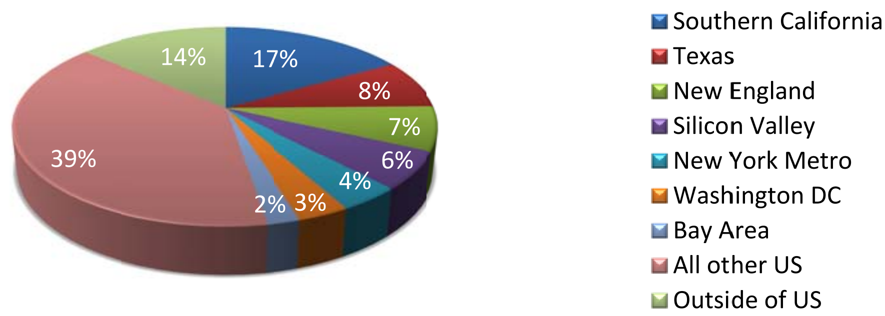
Respondents reported on a variety of stats pertaining to their investments.

Table 18. General Information on Investments by Company Stages

	Seed	Startup	Early stage	Expansion
Number of investments made in last six months				
1st quartile	1	1	1	1
Median	**1**	**2**	**1**	**2**
3rd Quartile	4	2	2	3
Average size of investment ($ thousands)				
1st quartile	$25	$75	$75	$75
Median	**$150**	**$150**	**$150**	**$150**
3rd quartile	$250	$150	$250	$250
Average % of total equity purchased (fully diluted basis)				
1st quartile	5%	4%	3%	1%
Median	**15%**	**6%**	**6%**	**2%**
3rd quartile	25%	20%	10%	9%
Total EXPECTED returns (gross cash on cash pretax IRR) on new investments (%)				
1st quartile	30%	28%	28%	18%
Median	45%	45%	40%	38%
3rd quartile	95%	83%	70%	58%
Expected time to exit (years)				
1st quartile	4	4	3	3
Median	**5**	**5**	**4**	**4**
3rd quartile	5	5	5	4
Average company "pre-money" value ($ millions)				
1st quartile	0.45	0.65	1.5	0.95
Median	**1.5**	**1.5**	**2.5**	**2.5**
3rd quartile	1.5	2.5	4.5	10
Average company value at time of investment (post-money $ millions)				
1st quartile	0.750	1	2	1.5
Median	**1.5**	**2**	**3**	3.5
3rd quartile	3.5	4.5	7	8

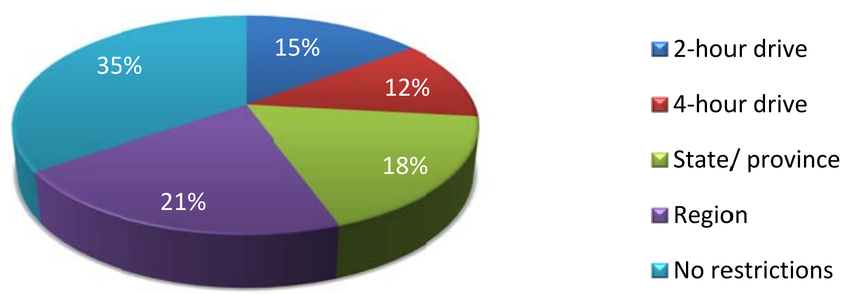
Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S., 14% of respondents are planning to invest outside of the U.S.

Figure 53. Geographic Location of Planned Investment over Next 12 Months



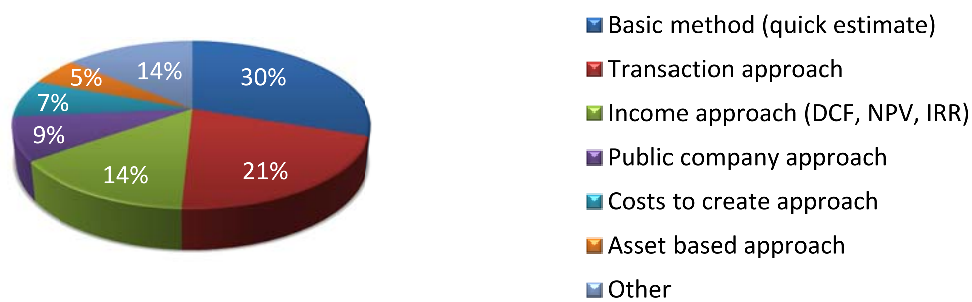
Approximately 35% of respondents don't have geographical restrictions for their future investments.

Figure 54. Geographical Limit for Investment



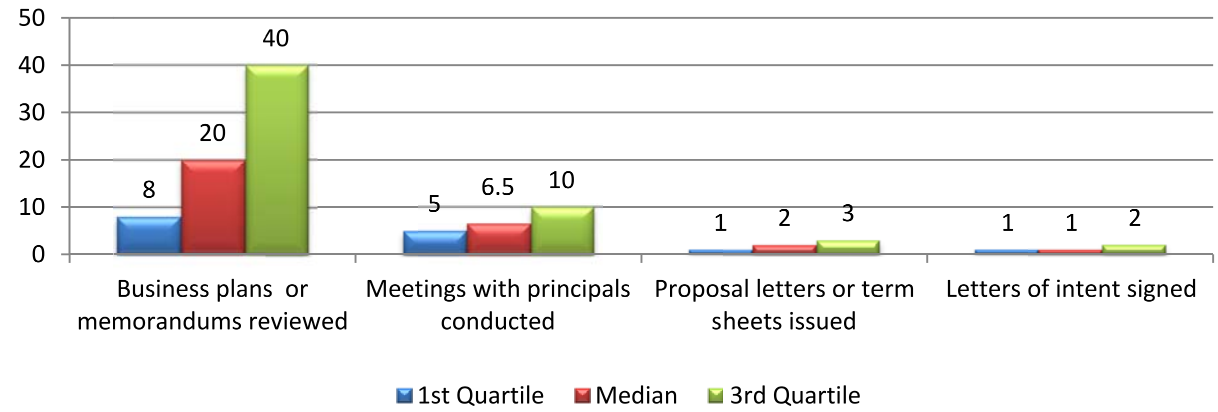
Approximately 30% of respondents base valuations on a basic method (quick estimate) when valuing privately-held businesses. Only 14% of respondents use an income approach.

Figure 55. Usage of Valuation Approaches



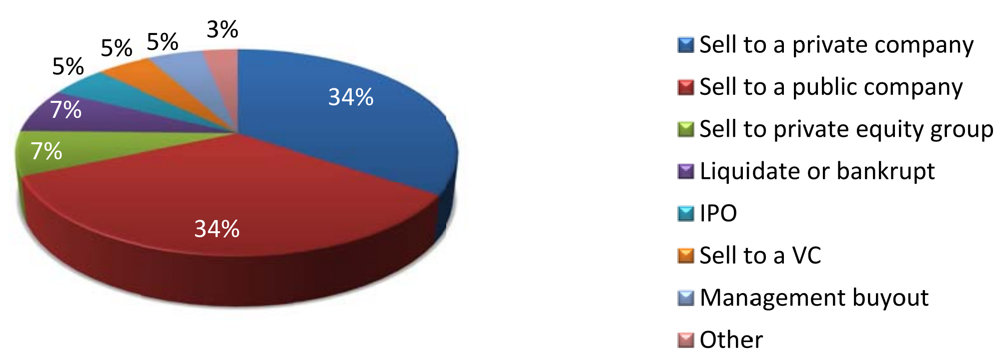
Respondents reported on items required to close one deal.

Figure 56. Items Required to Close One Deal



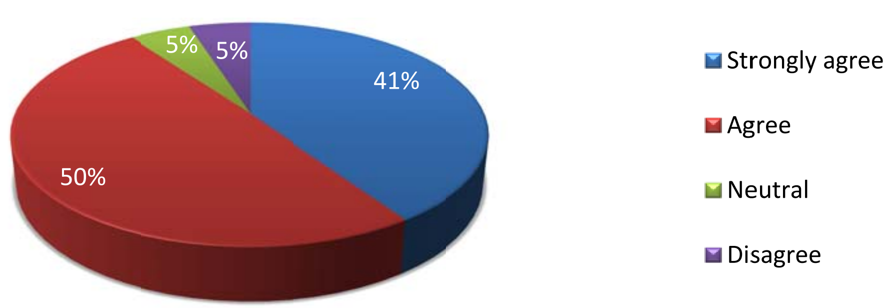
Respondents' exit strategies that include selling to a private company total 34%, while another 34% of respondents plan to sell to a public company.

Figure 57. Exit Plans for Portfolio Companies



Approximately 90% of respondents agree that among companies that they have worked with, senior managers, such as chief executives, would benefit from additional leadership and skills training.

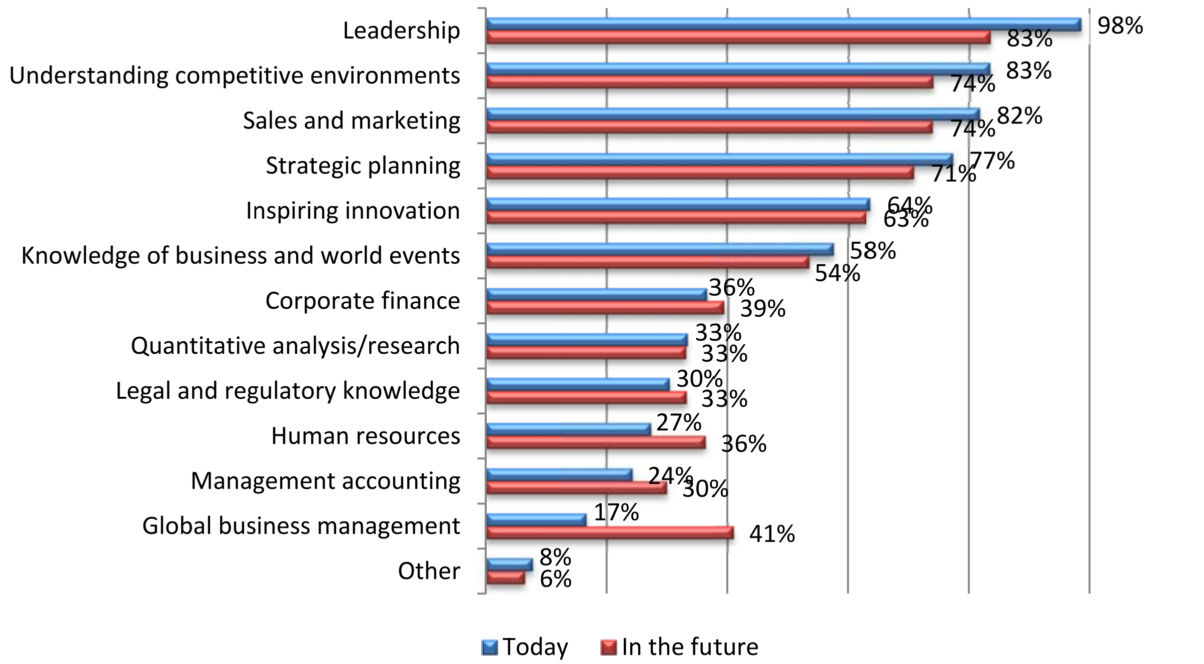
Figure 58. Would Senior Managers and Chief Executives Benefit from Additional Leadership and Skills Training?



ANGEL cont.

According to respondents, leadership skills, understanding competitive environments and strategic planning are the most important for senior management to have.

Figure 59. Skills That Are Important for Senior Management to Have



Respondents indicated a sharp increase in demand for angel capital, increases in size of angel industry, follow-on investments and expected returns on new investments. They also reported increased quality of companies seeking investments and time to exit deals, decreased opportunities to exit, worsened general business conditions, and appetite for risk.

Table 19. General Business and Industry Assessment: Today versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Demand for angel capital	2%	2%	32%	28%	37%	65%	3%	**62%**
Size of angel finance industry	3%	25%	25%	25%	22%	47%	28%	**19%**
Quality of companies seeking investment	0%	14%	43%	34%	9%	43%	14%	**29%**
Follow-on investments	0%	17%	43%	28%	12%	40%	17%	**23%**
Average investment size	3%	23%	45%	26%	3%	29%	26%	**3%**
Exit opportunities	6%	33%	43%	13%	5%	17%	40%	**-22%**
Time to exit deals	3%	14%	34%	27%	22%	48%	17%	**31%**
Expected returns on new investments	2%	9%	60%	25%	5%	29%	11%	**18%**
Value of portfolio companies	2%	28%	34%	34%	3%	37%	29%	**8%**
General business conditions	20%	31%	25%	20%	5%	25%	51%	**-26%**
Appetite for risk	15%	38%	31%	11%	5%	15%	54%	**-38%**

ANGEL cont.

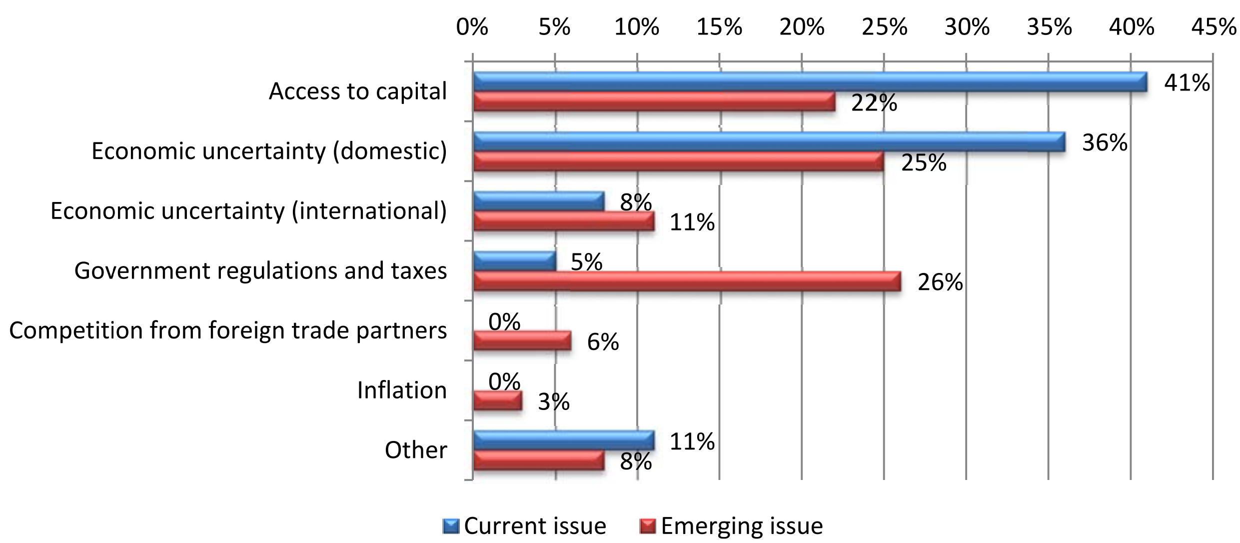
Respondents expect further increases in business characteristics except general business conditions.

Table 20. General Business and Industry Assessment Expectations over the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Demand for angel capital	0%	0%	20%	56%	23%	80%	0%	**80%**
Size of angel finance industry	5%	8%	35%	41%	11%	52%	13%	**40%**
Quality of companies seeking investment	5%	9%	48%	34%	3%	38%	14%	**23%**
Follow-on investments	0%	14%	38%	41%	6%	48%	14%	**33%**
Average investment size	0%	17%	48%	32%	3%	35%	17%	**17%**
Exit opportunities	6%	14%	47%	27%	6%	33%	20%	**13%**
Time to exit deals	3%	9%	47%	31%	9%	41%	13%	**28%**
Expected returns on new investments	3%	16%	52%	25%	5%	30%	19%	**11%**
Value of portfolio companies	2%	14%	36%	44%	5%	48%	16%	**33%**
General business conditions	16%	23%	28%	25%	8%	33%	39%	**-6%**
Appetite for risk	13%	28%	39%	17%	3%	20%	41%	**-20%**

Respondents believe access to capital is the most important issue facing privately-held businesses today. Government regulations and taxes are indicated as the most important emerging issue.

Figure 60. Issues Facing Privately-Held Businesses



VENTURE CAPITAL SURVEY INFORMATION

Of the 139 participants who responded to the venture capital survey, approximately 32% say that they expect worsening general business conditions over the next 12 months, 48% of respondents also expect a shrinking of the venture capital industry. The majority (52%) of respondents plans to make between two and five investments over the next 12 months.

Other key findings include:

- The types of businesses respondents plan to invest in the next 12 months are very diverse with over 43% targeting information technology and another 19% planning to invest in health care. Approximately 39% of respondents plan to make new investments outside of the U.S.
- Respondents' exit strategies that include selling to a public company total 41%, while another 27% of respondents plan to sell to a public company.
- Respondents believe access to capital is the most important issue facing privately-held businesses today. Domestic economic uncertainty is indicated as the most important emerging issue.

Operational and Assessment Characteristics

Approximately 47% of respondents made between one and three investments over the last six months.

Figure 61. Total Number of Investments Made in the Last Six Months

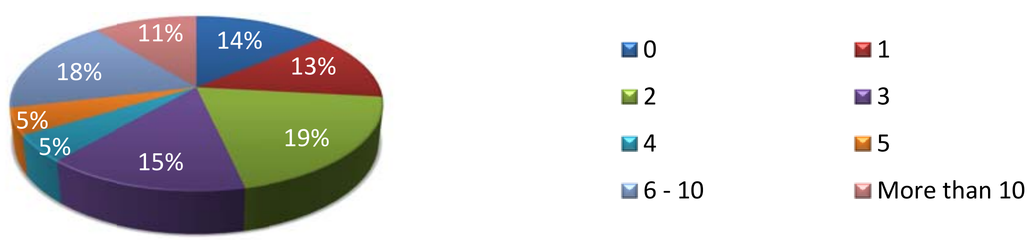
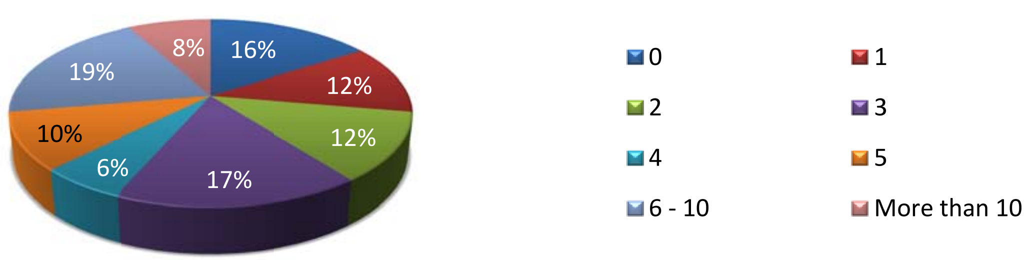


Figure 62. Number of Follow-on Investments Made in the Last Six Months



The majority (52%) of respondents plans to make between two and five investments over the next 12 months.

Figure 63. Number of Total Investments Planned over Next 12 Months

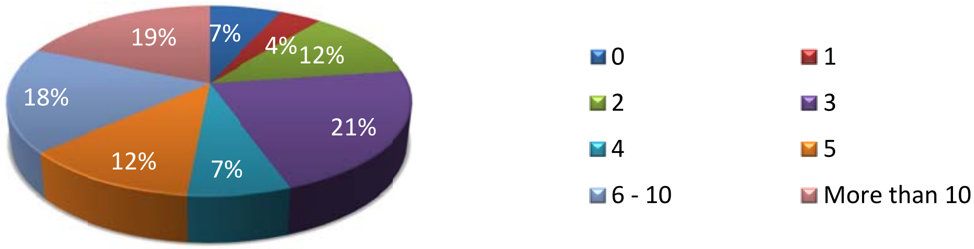
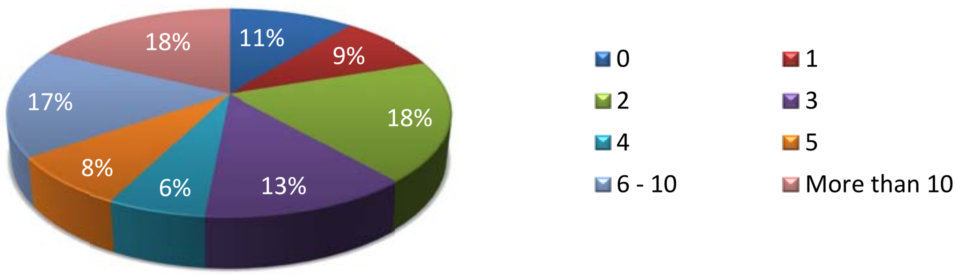


Figure 64. Number of Follow-on Investments Planned over Next 12 Months



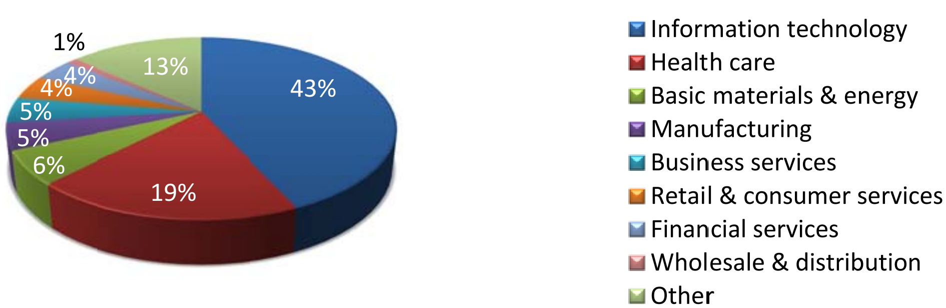
Respondents reported on business practices and the results are reflected below.

Table 21. VC Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2004	2007	2009
Size of fund ($ millions)	20	58	131
Targeted number of total investments	11	16	25
Target fund return (gross pretax cash on cash annual IRR %)	20	25	30
Expected fund return (gross pretax cash on cash annual IRR %)	15	21	30

The types of businesses respondents plan to invest in over next 12 months are very diverse with over 43% targeting Information technology and another 19% planning to invest in health care.

Figure 65. Type of Business for Investments Planned over Next 12 Months



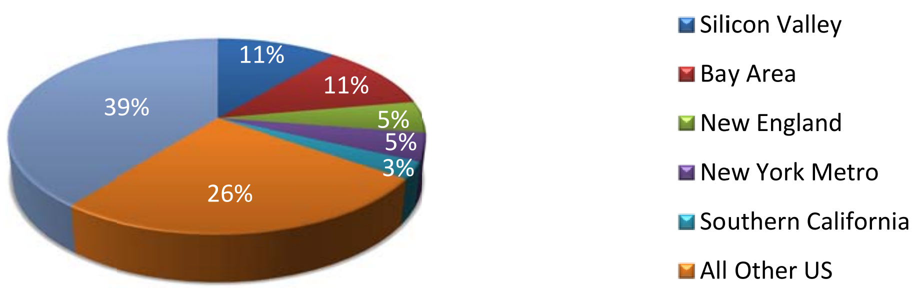
Respondents reported on a variety of stats pertaining to their investments.

Table 22. General Information on Investments by Company Stages

	Seed	Startup	Early stage	Expansion	Later stage
Number of investments made in last six months					
1st quartile	2	1	1	2	1
Median	**2**	**2**	**2**	**2**	1
3rd quartile	3	3	3	4	4
Average size of investment ($ millions)					
1st quartile	< 1	< 1	< 1	< 1	$3
Median	**< 1**	**$2**	**$2**	**$3**	**$3**
3rd quartile	< 1	$3	$3	$4	$8
Average % of total equity purchased (fully diluted basis)					
1st quartile	15%	15%	5%	5%	5%
Median	**25%**	**15%**	**15%**	**15%**	**5%**
3rd quartile	25%	25%	20%	15%	15%
Total expected returns (gross cash on cash pretax IRR) on new investments					
1st quartile	28%	23%	23%	18%	25%
Median	**38%**	**30%**	**28%**	**28%**	**28%**
3rd quartile	78%	45%	50%	38%	55%
Expected time to exit					
1st quartile	5	4	3	3	2
Median	**5**	**5**	**4**	**3**	**2**
3rd quartile	7	6	5	5	2
Average company "pre-money" value					
1st quartile	1.5	2.5	3.5	8.0	25.0
Median	**1.5**	**2.5**	**8.0**	**15.0**	**35.0**
3rd quartile	2.5	8.0	15.0	35.0	80.0
Average company value at time of investment (post-money $ millions)					
1st quartile	1.0	3.5	3.5	15.0	25.0
Median	**2.5**	**8.0**	**8.0**	**25.0**	**45.0**
3rd quartile	3.5	10.0	15.0	35.0	90.0

Respondents reported on where they plan to invest over the next 12 months. The results reflect investment throughout the U.S., 39% of respondents are planning to invest outside of the U.S.

Figure 66. Geographic Location of Planned Investment over Next 12 Months

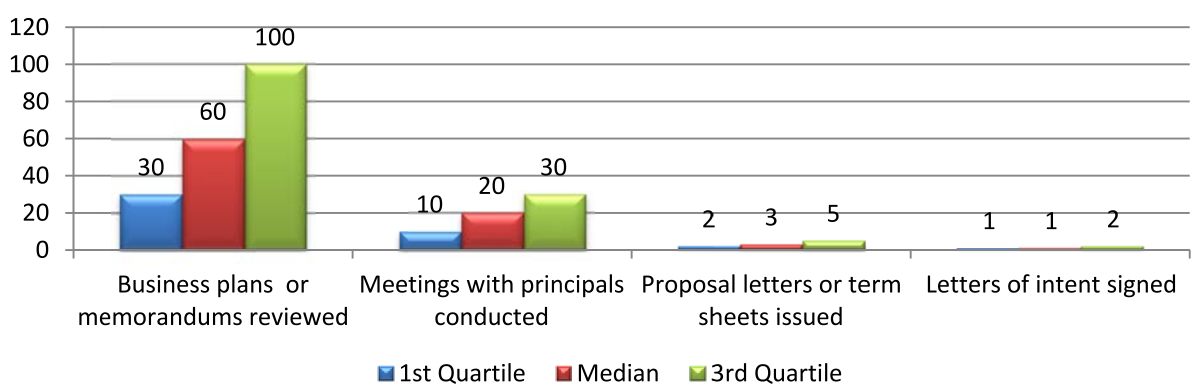


When valuing the company, approximately 40% of the weight of the valuation is put on a transaction approach when valuing privately-held businesses.

Figure 67. Usage of Valuation Approaches

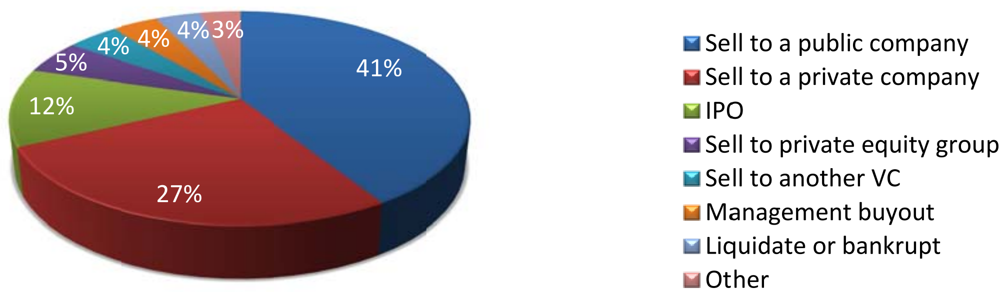
Respondents reported on items required to close one deal.

Figure 68. Items Required to Close One Deal



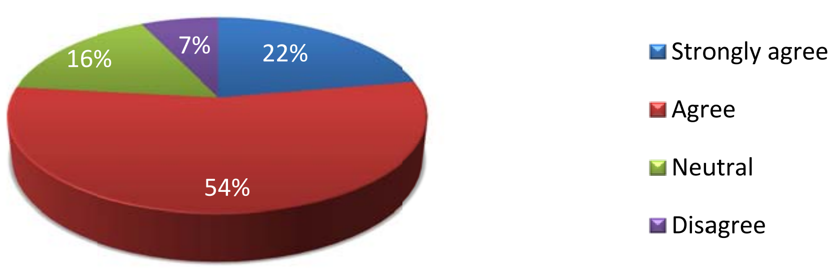
Respondents' exit strategies that include selling to a public company total 41%, while another 27% of respondents plan to sell to a private company.

Figure 69. Exit Plans for Portfolio Companies



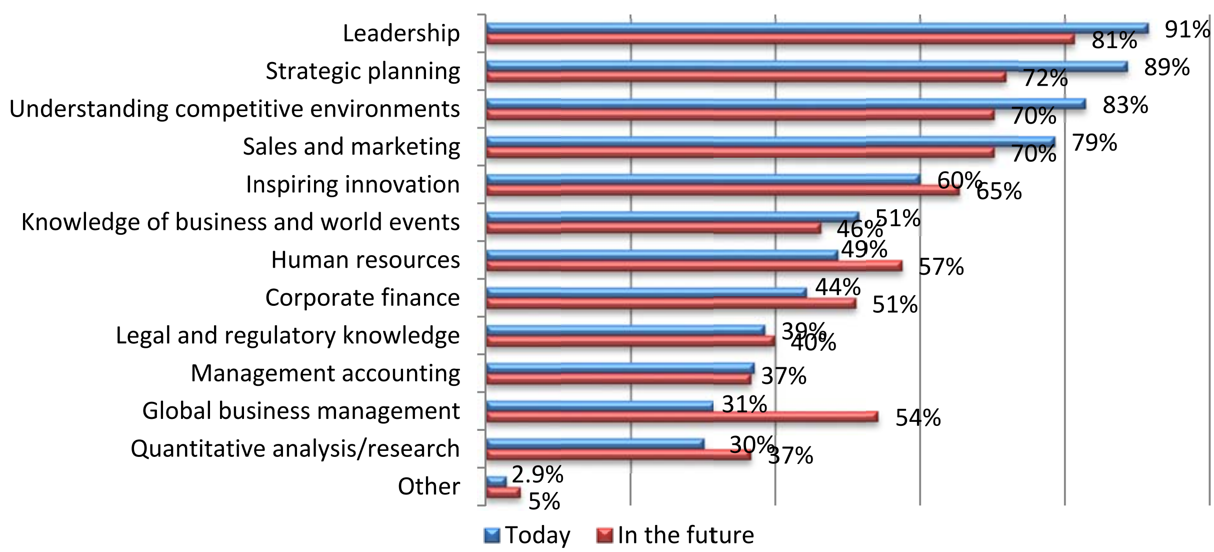
Approximately 76% of respondents agree that among companies that they have worked with, senior managers, such as chief executives, would benefit from additional leadership and skills training.

Figure 70. Would Senior Managers and Chief Executives Benefit from Additional Leadership and Skills Training?



According to respondents, leadership skills, strategic planning, and understanding competitive environments are the most important for senior management to have.

Figure 71. Skills That Are Important for Senior Management to Have



Respondents indicated increases in demand for venture capital, quality of companies seeking investment, follow-on investments, and presence of super angels in space formerly occupied by VCs. They also reported decreased size of venture capital industry and worsened general business conditions.

Table 23. General Business and Industry Assessment: Today versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Demand for venture capital	1%	10%	40%	30%	18%	48%	12%	**36%**
Quality of companies seeking investment	1%	7%	46%	34%	12%	46%	9%	**37%**
Follow-on investments	0%	5%	41%	33%	22%	55%	5%	**50%**
Average investment size	2%	9%	56%	26%	8%	33%	11%	**23%**
Exit opportunities	4%	34%	26%	25%	10%	35%	38%	**-3%**
Time to exit deals	0%	12%	32%	44%	12%	56%	12%	**44%**
Expected returns on new investments	0%	33%	43%	16%	7%	24%	33%	**-9%**
Value of portfolio companies	1%	28%	33%	30%	7%	37%	30%	**7%**
General business conditions	15%	36%	31%	16%	1%	18%	51%	**-33%**
Presence of super angels in space formerly occupied by VCs	0%	11%	26%	43%	20%	62%	11%	**51%**
Size of venture capital industry	14%	47%	29%	8%	3%	11%	61%	**-50%**

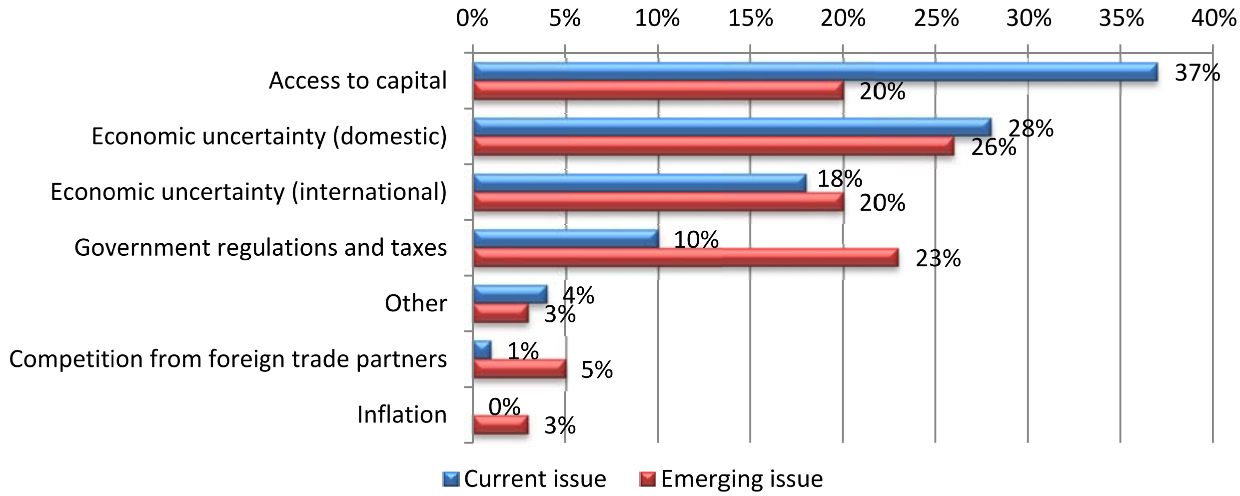
Respondents expect further increases in all business characteristics except general business conditions and size of venture capital industry.

Table 24. General Business and Industry Assessment Expectations over the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Demand for venture capital	3%	3%	27%	52%	15%	67%	6%	**61%**
Quality of companies seeking Investment	0%	5%	39%	48%	8%	56%	5%	**52%**
Follow-on investments	0%	5%	27%	48%	20%	69%	5%	**64%**
Average investment size	0%	5%	41%	47%	8%	55%	5%	**50%**
Exit opportunities	3%	21%	32%	35%	9%	44%	24%	**20%**
Time to exit deals	2%	3%	44%	41%	11%	52%	5%	**47%**
Expected returns on new investments	2%	25%	40%	29%	5%	34%	26%	**8%**
Value of portfolio companies	3%	14%	32%	40%	11%	51%	17%	**34%**
General business conditions	15%	17%	40%	23%	5%	28%	32%	**-5%**
Presence of super angels in space formerly occupied by VCs	3%	12%	55%	23%	7%	30%	15%	**15%**
Size of venture capital industry	8%	41%	38%	11%	3%	14%	48%	**-34%**

Respondents believe access to capital is the most important issue facing privately-held businesses today. Domestic economic uncertainty is indicated as the most important emerging issue.

Figure 72. Issues Facing Privately-Held Businesses



PRIVATE EQUITY SURVEY INFORMATION

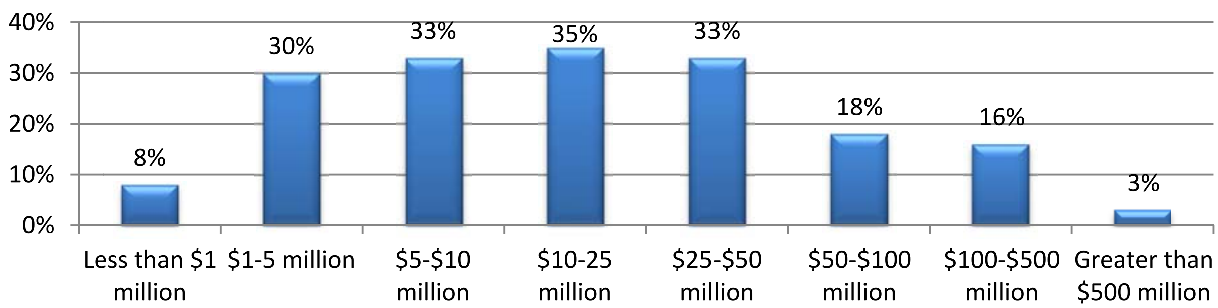
Consistent with previous iterations of the report, 43% of the 288 participants who responded to the private equity groups survey indicated that they make investments in the $10 million to $25 million range. Nearly 52% of respondents said that demand for private equity is up from six months ago, this is slightly down from 57% of respondents indicating increased demand in spring 2011. Other key findings include:

- Respondents indicated increases in the quality of companies seeking investment and the amount of non-control investments, as well as a slight increase in deal multiples. They also reported a decrease in expected returns on new investments and worsened general business conditions.
- Respondents expect further increasing demand for private equity and deal multiples, worsening business conditions, and a lower appetite for risk.
- The types of businesses respondents plan to invest in over next 12 months are very diverse with over 19% targeting manufacturing and another 16% planning to invest in business services.
- Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today. Nearly 28% of respondents indicated government regulations and taxes as the number one emerging issue.

Operational and Assessment Characteristics

The largest concentration of checks written was in the $10 - $25 million range (35%), followed by $25 - $50 million (33%), and $5 - $10 million (33%)

Figure 73. Typical Investment Size



Respondents reported on business practices and the results are reflected below.

Table 25. PEG Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2007	2008	2010
Size of fund ($ millions)	50	178	428
Targeted number of total investments	7	10	13
Target fund return (gross pretax cash on cash annual IRR %)	20	25	30
Expected fund return (gross pretax cash on cash annual IRR %)	20	25	30

RIVATE EQUITY cont.

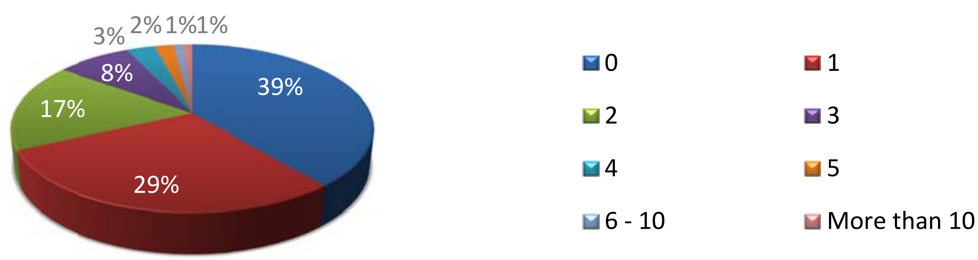
The types of businesses respondents plan to invest in over next 12 months are very diverse with over 19% targeting manufacturing and another 16% planning to invest in business services.

Figure 74. Type of Business for Investments Planned over Next 12 Months

Approximately 58% of respondents made between one and three investments over the last six months.

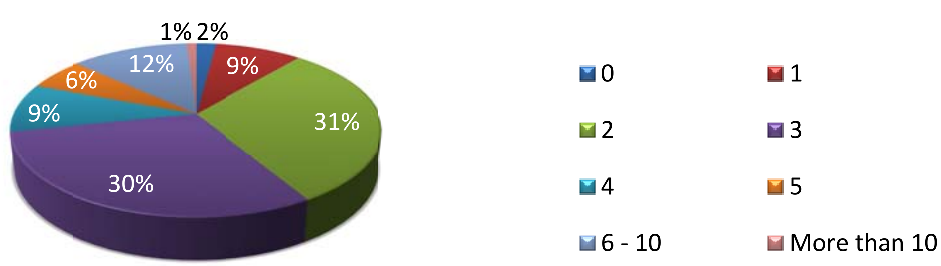
Figure 75. Total Number of Investments Made in the Last Six Months

Figure 76. Number of Follow-on Investments Made in the Last Six Months



The majority (61%) of respondents plans to make two or three investments over the next 12 months.

Figure 77. Number of Total Investments Planned over Next 12 Months



PRIVATE EQUITY cont.

Figure 78. Number of Follow-on Investments Planned over Next 12 Months

Average deal multiples for buyout deals for the prior six months vary from four to seven times EBITDA depending on the size of the company. Expected returns vary from 23% to 30%.

Table 26. General Characteristics – Buyout Transactions (medians)

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$100M EBITDA	> $100M EBITDA
Average size of investment ($ millions)	1	4	15	25	50	100+	100+
Expected time to exit (years, median)	4	5	5	4	4	4	4
Equity as % of new capital structure	45%	55%	50%	45%	35%	45%	35%
% of total equity purchased	95%	85%	75%	65%	75%	85%	85%
Average deal multiple (multiple of EBITDA)	4	5	6	6	7	7	7
Total expected returns (gross cash on cash pre-tax IRR)	30%	26%	25%	25%	25%	25%	23%

Average expected returns on non-buyout deals vary from 20% to 25%.

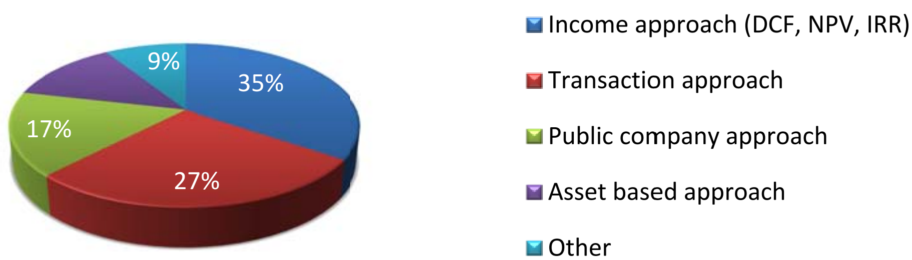
Table 27. General Characteristics – Non-Buyout Transactions (medians)

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$100M EBITDA	> $100M EBITDA
Average size of investment ($ millions)	1.5	4	15	25	45	75	60
Expected time to exit (years, median)	3.5	5	4	4	3	3	3.5
Equity as % of new capital structure	55%	35%	45%	35%	55%	45%	5%
% of total equity purchased	25%	20%	15%	15%	45%	25%	15%
Average deal multiple (multiple of EBITDA)	4	5	5	5.5	7.5	8	8
Total expected returns (gross cash on cash pre-tax IRR)	25%	25%	25%	22%	22%	22%	20%

PRIVATE EQUITY cont.

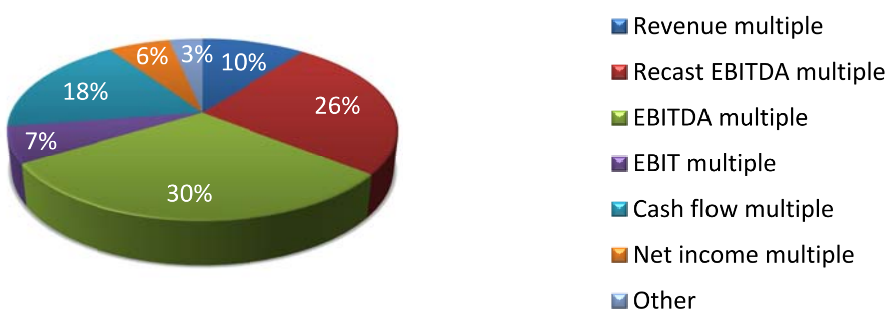
When valuing a business, approximately 35% of the weight is placed on an income approach.

Figure 79. Usage of Valuation Approaches



When respondents use a multiple-based approach, the multiple with the largest weight is the EBITDA multiple (30%) or recast (adjusted) EBITDA multiples (26%).

Figure 80. Usage of Multiples



Deal multiples vary from 3.5 to 9, the highest multiples are in health care industry with average at 7.2.

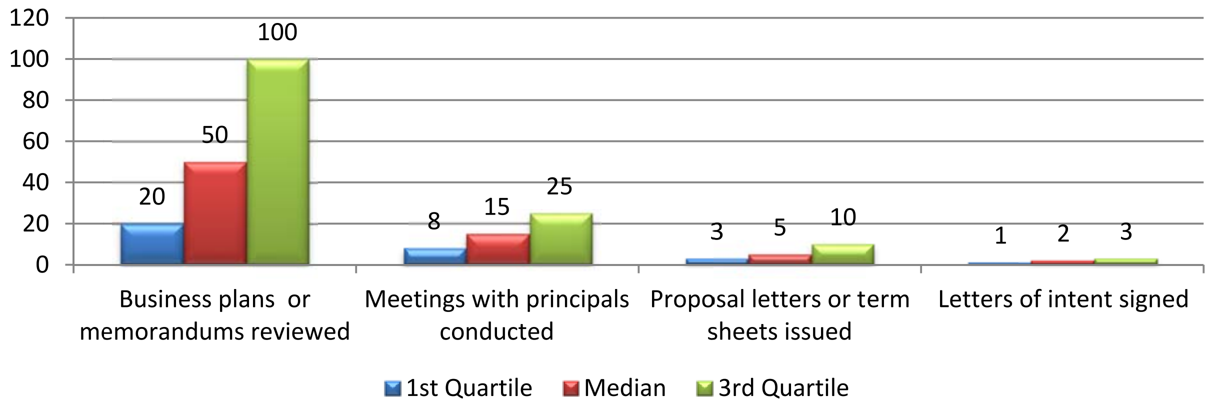
Table 28. Deal Multiples Among Industries (medians)

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$100M EBITDA	Average
Manufacturing	4	5	5	5	5.5	6.5	5.2
Retail & consumer services	4.5	5.5	6	6	7	8	6.2
Wholesale & distribution	4.5	5	5.5	n/a	n/a	5.5	5.1
Business services	4.5	4.5	5	6.5	7	7	5.8
Basic materials & energy	4	5	6	6	6	6	5.5
Health care	5	7	7.5	7.5	n/a	9	7.2
Information technology	7	7	n/a	7	n/a	7.5	7.1
Financial services	4.5	n/a	6.5	n/a	n/a	8.5	6.5
Average	4.8	5.6	5.9	6.3	6.4	7.3	6.0

PRIVATE EQUITY cont.

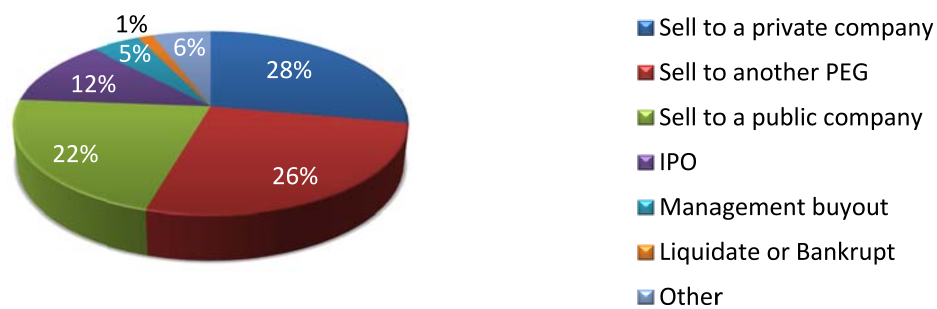
Respondents reported on items required to close one deal.

Figure 81. Items Required to Close One Deal



Respondents' exit strategies that include selling to a private company total 28%, while another 26% of respondents plan to sell to another private equity group.

Figure 82. Exit Plans for Portfolio Companies



Respondents reported on average it is easier for them to arrange senior debt for investments into companies with $5 million in EBITDA and more.

Table 29. The Ease to Arrange Senior Debt for Transactions over the Past Six Months

	Extremely difficult	Difficult	Somewhat Difficult	Neutral	Somewhat Easy	Easy	Extremely Easy	Score (-3 to 3)
$1M EBITDA	31%	26%	17%	12%	3%	5%	5%	**-1.5**
$5M EBITDA	13%	21%	28%	11%	12%	12%	4%	**-0.6**
$10M EBITDA	5%	7%	25%	16%	18%	25%	5%	**0.3**
$15M EBITDA	3%	8%	23%	13%	15%	23%	15%	**0.5**
$25M EBITDA	3%	3%	28%	19%	19%	14%	14%	**0.5**
$50M EBITDA	3%	7%	21%	17%	21%	17%	14%	**0.5**
$100M+ EBITDA	4%	0%	15%	15%	19%	23%	23%	**1.3**

PRIVATE EQUITY cont.

Most of the respondents believe "worthy of financing" exceeds "capital available" for the companies with less than $10M in EBITDA. Whereas for the larger companies, "capital available" exceeds "worthy of financing."

Table 30. The Balance of Available Capital with Quality Companies for the Following Size

	Companies worthy of financing GREATLY exceed capital available	Companies worthy of financing exceed capital available	General balance	Capital available exceeds companies worthy of financing	Capital available GREATLY exceeds companies worthy of financing	**Score (-2 to 2)**
$5M EBITDA	39%	24%	13%	17%	8%	**-0.7**
$10M EBITDA	17%	35%	22%	21%	4%	**-0.4**
$15M EBITDA	6%	24%	32%	29%	10%	**0.1**
$25M EBITDA	4%	20%	33%	26%	17%	**0.3**
$50M EBITDA	4%	12%	41%	28%	16%	**0.4**
$100M EBITDA	3%	14%	30%	39%	14%	**0.5**
> $100M EBITDA	4%	7%	32%	38%	20%	**0.6**

Average valuation discounts for lack of control implied to pro rata values for various sized minority stock interests in a typical privately-held company with a total equity value of $10 million vary from 10% to 25% for profitable business, and from 25% to 45% for unprofitable business depending on percentage of equity interest.

Table 31. Valuation Discount for Minority Stock Interests in a Typical Privately-Held Company with a Total Equity Value of $10 Million

	Profitable business			**Unprofitable business**		
	1st quartile	**Median**	**3rd quartile**	**1st quartile**	**Median**	**3rd quartile**
10% equity interest	15%	25%	35%	25%	45%	65%
20% equity interest	15%	20%	25%	24%	35%	50%
30% equity interest	11%	18%	24%	24%	25%	50%
40% equity interest	10%	15%	20%	20%	30%	55%
50% equity interest	2%	10%	19%	19%	25%	45%

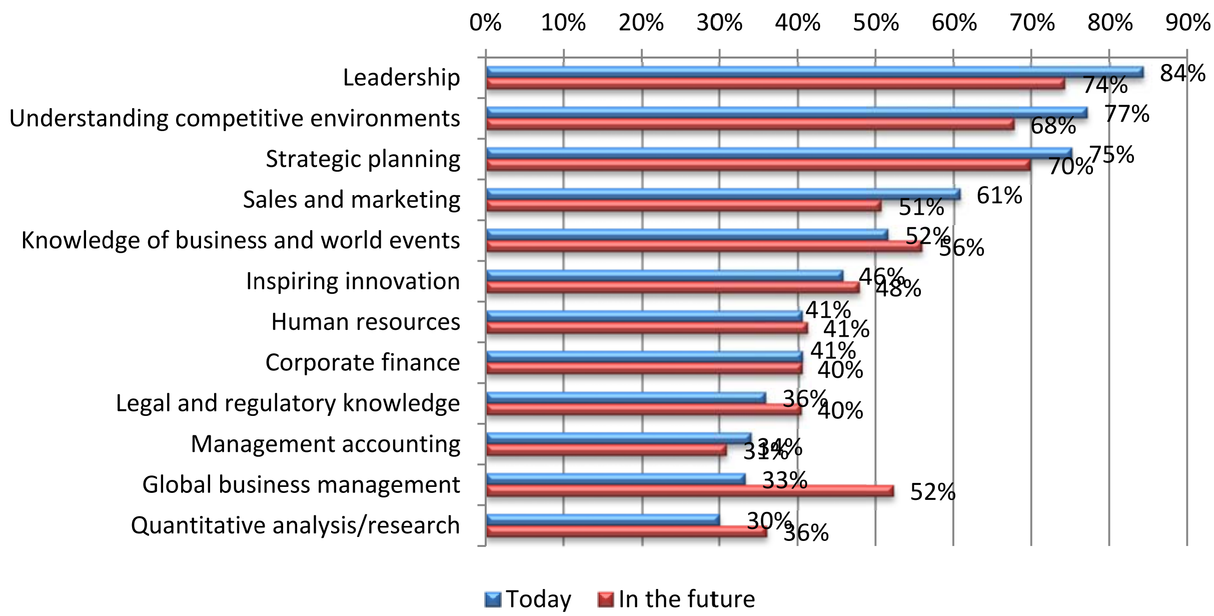
Approximately 79% of respondents agree that among companies that they have worked with, senior managers, such as chief executives, would benefit from additional leadership and skills training.

Figure 83. Would Senior Managers and Chief Executives Benefit from Additional Leadership and Skills Training?

PRIVATE EQUITY cont.

According to respondents leadership skills, strategic planning, and understanding competitive environments are the most important for senior management to have.

Figure 84. Skills That Are Important for Senior Management to Have



Relative to six months ago, respondents indicated increases in demand for private equity, quality of companies seeking investment, amount of non-control investments and slight increases in deal multiples. They also reported a decrease in expected returns on new investments and worsened general business conditions.

Table 32. General Business and Industry Assessment: Today versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Demand for private equity	1%	7%	41%	35%	17%	52%	8%	**44%**
Quality of companies seeking investment	1%	25%	29%	38%	7%	45%	26%	**19%**
Average investment size	1%	14%	52%	30%	3%	33%	15%	**18%**
Non-control investments	0%	9%	55%	28%	8%	36%	9%	**27%**
Expected investment holding period	0%	7%	40%	35%	18%	53%	7%	**46%**
Deal multiples	3%	25%	32%	31%	9%	40%	28%	**11%**
Exit opportunities	9%	34%	27%	25%	5%	30%	43%	**-13%**
Expected returns on new investments	2%	31%	45%	21%	1%	21%	34%	**-12%**
Value of portfolio companies	2%	32%	23%	38%	5%	43%	35%	**8%**
General business conditions	12%	47%	22%	17%	2%	19%	59%	**-40%**
Size of private equity industry	2%	27%	43%	22%	5%	28%	29%	**-2%**

PRIVATE EQUITY cont.

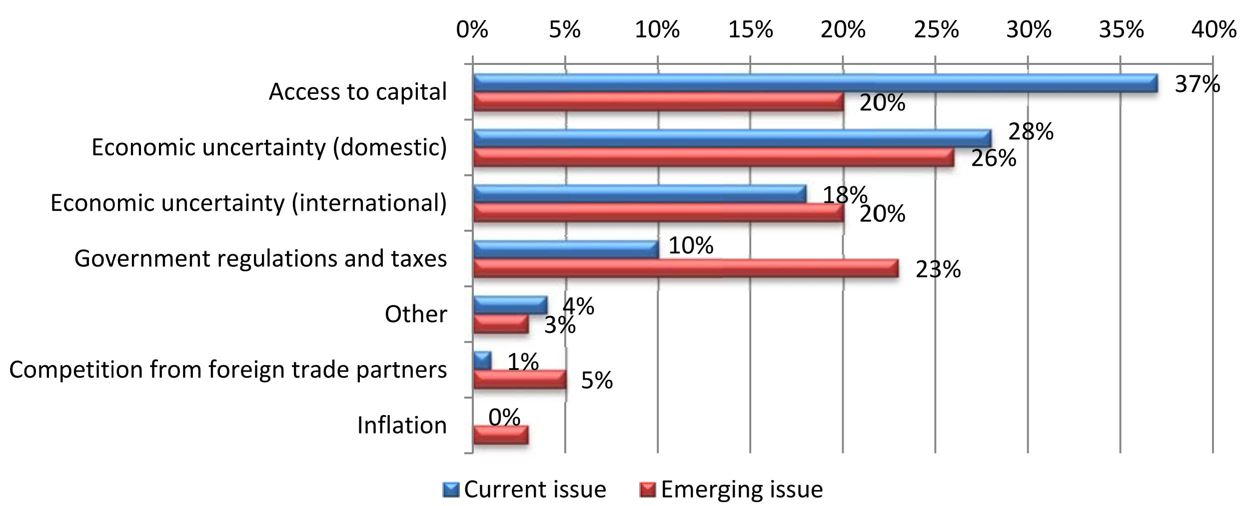
Respondents expect further increases in all business characteristics except general business conditions and size of private equity industry.

Table 33. General Business and Industry Assessment Expectations over the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Demand for private equity	0%	5%	32%	50%	13%	63%	5%	**58%**
Quality of companies seeking investment	1%	16%	32%	43%	9%	51%	17%	**35%**
Average investment size	0%	14%	46%	36%	5%	41%	14%	**27%**
Non-control investments	1%	12%	49%	32%	6%	39%	13%	**26%**
Expected investment holding period	0%	6%	48%	37%	9%	45%	6%	**39%**
Deal multiples	3%	25%	38%	31%	2%	34%	28%	**6%**
Exit opportunities	6%	27%	39%	25%	3%	29%	33%	**-4%**
Expected returns on new investments	2%	26%	47%	25%	1%	26%	27%	**-2%**
Value of portfolio companies	4%	22%	36%	32%	6%	38%	26%	**12%**
General business conditions	11%	33%	28%	25%	3%	28%	44%	**-17%**
Size of private equity industry	4%	23%	47%	20%	6%	26%	27%	**-1%**

Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today.

Figure 85. Issues Facing Privately-Held Businesses



MEZZANINE SURVEY INFORMATION

Of the 75 participants that responded to the mezzanine survey, 58% reported making deals over the past six months in the $5 million to $10 million range and 39% made investments in the $1 million to $5 million range. Over 22% plan on investing in business services over the next 12 months, followed by 21% in manufacturing. Other key findings include:

- Respondents indicated increases in demand for mezzanine capital, quality of borrowers seeking investment, average investment size, and leverage multiples. They also reported decreases in warrant coverage, PIK (payment in kind) features, expected returns on new investments, and worsened general business conditions.

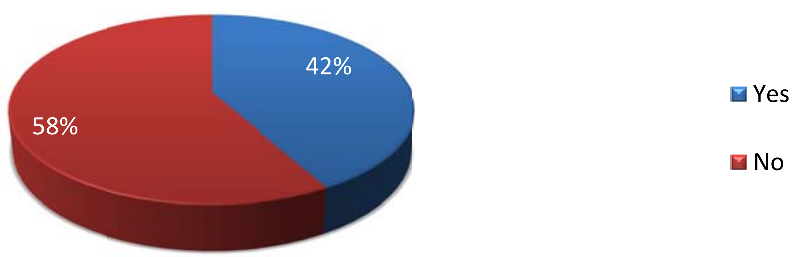
- Respondents expect further increase in demand for mezzanine capital, but flat leverage multiples; a slight increase in underwriting standards; relatively flat loan fees, PIK, and warrant coverage; a significant decrease in general business conditions; and Increasing size of mezzanine industry with additional competition from business development companies (BDCs) and SBIC (small business investment) funds.

- The majority of respondents (62%) believe domestic economic uncertainty is the most important issue facing privately-held businesses today.

Operational and Assessment Characteristics

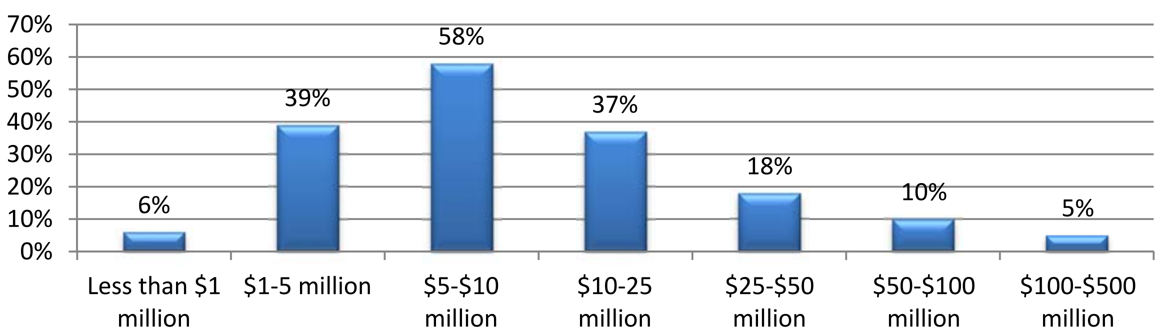
Approximately 42% of respondents are SBIC Firms.

Figure 86. SBIC (small business investment) Firms



The largest concentration of loan sizes was between $5 million and $10 million (58%).

Figure 87. Typical Investment Size



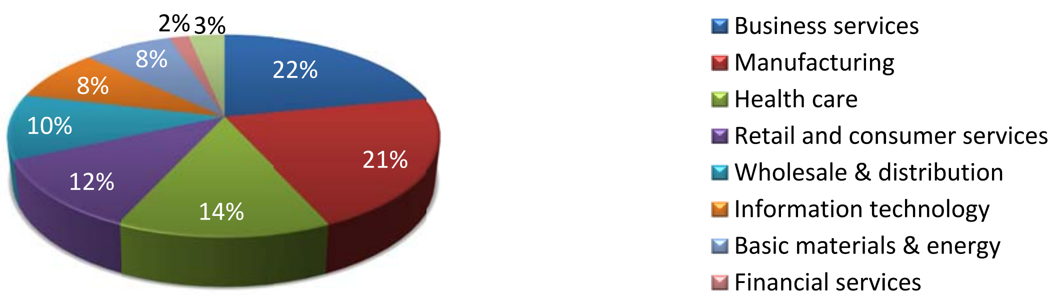
Respondents reported on business practices and the results are reflected below.

Table 34. Mezzanine Fund Data

	1st quartile	Median	3rd quartile
Vintage year (year in which first investment made)	2006	2007	2008
Size of fund ($ millions)	100	200	488
Targeted number of total investments	15	20	25
Target fund return (gross pretax cash on cash annual IRR %)	16	19	20
Expected fund return (gross pretax cash on cash annual IRR %)	15	18	20

The types of businesses respondents plan to invest in over next 12 months are very diverse with over 22% targeting business services, followed by 21% who plan to invest in manufacturing.

Figure 88. Type of Business for Investments Planned over Next 12 Months



Approximately 57% of respondents made between one and five loans over the last six months.

Figure 89. Total Number of Investments Made in the Last Six Months

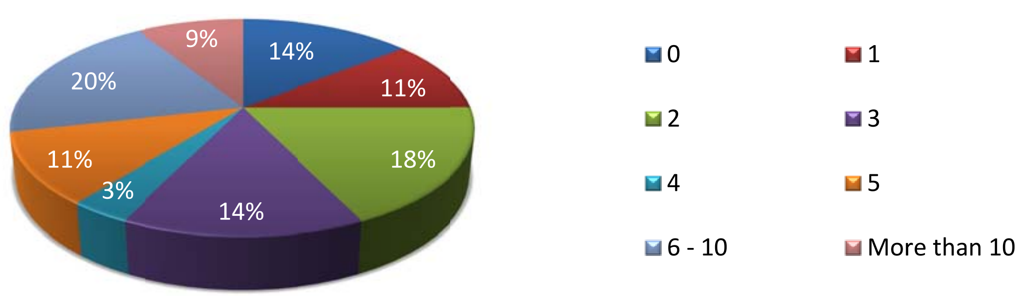
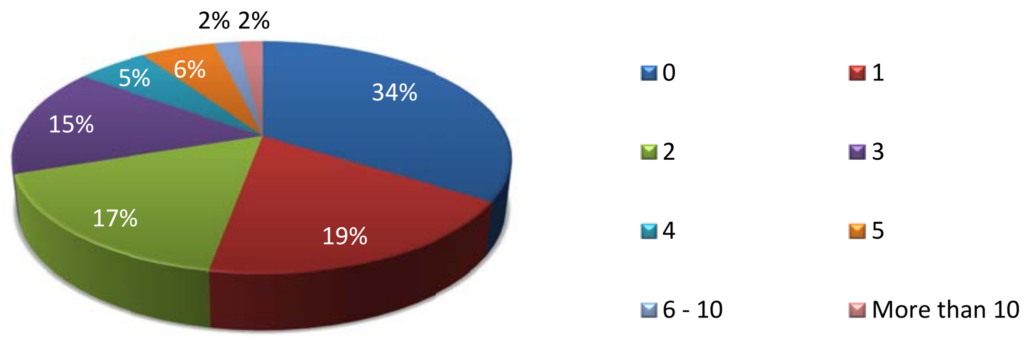


Figure 90. Number of Follow-on Investments Made in the Last Six Months



Approximately 32% of respondents plan to make between six and 10 investments over the next 12 months.

Figure 91. Number of Total Investments Planned over Next 12 Months

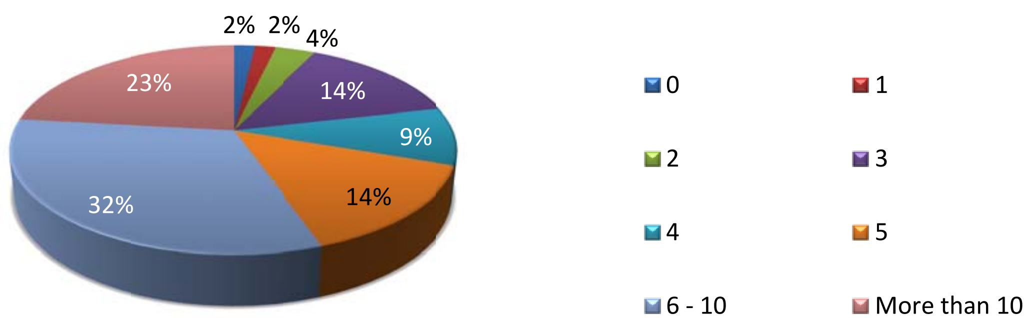
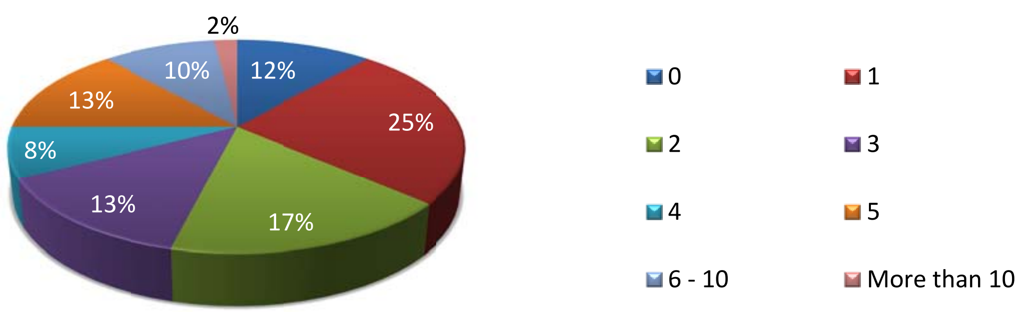


Figure 92. Number of Follow-on Investments Planned over Next 12 Months



MEZZANINE cont.

Results of responses to sponsored deals based on size of investee EBITDA are reported below.

Table 35. Sponsored Deals by Size of Investee Company EBITDA (medians)

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$100M EBITDA
% of deals with warrants	100%	100%	46%	30%	26%	7%
Average loan terms (years)	5	5	5	5	6	6.5
Senior leverage ratio (multiple of EBITDA)	2	2.25	2.5	3.25	3.25	4
Total leverage ratio (multiple of EBITDA)	3	3.25	3.5	4.25	4.75	5.25
Average loan size	4	4	7.5	15	25	90
Cash interest rate	12%	12%	12%	11%	11%	9.5%
PIK	0%	2%	3%	3%	3%	n/a
Warrants expected return (IRR contribution)	2%	7%	4%	2%	n/a	n/a
Total expected returns (gross cash on pre-tax IRR)	23%	21%	18.5%	18%	18%	17.5%

Table 36. Investment Type by Size of Investee Company, Sponsored Deals

	Senior debt only	Sub debt only	Blended Sr./Jr.	Other
$0M - $1M EBITDA	0%	67%	33%	0%
$1M - $5M EBITDA	0%	40%	60%	0%
$5M - $10M EBITDA	8%	33%	50%	8%
$10M - $25M EBITDA	10%	20%	60%	10%
$25M - $50M EBITDA	17%	17%	67%	0%
$50M+ EBITDA	25%	25%	50%	0%

Results of responses to non-sponsored deals based on size of investee EBITDA are reported below.

Table 37. Non-Sponsored Deals by Size of Investee Company EBITDA (medians)

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$100M EBITDA
% of deals with warrants	88%	83%	60%	75%	100%	100%
Average loan terms (years)	4	5	5	5	7	3
Senior leverage ratio (multiple of EBITDA)	2	2.5	3	3	n/a	n/a
Total leverage ratio (multiple of EBITDA)	4	3.5	3.5	4.25	n/a	n/a
Average loan size	4	4	7.5	15	100	n/a
Cash interest rate	11%	11%	11%	9%	9%	n/a
PIK	2%	2%	2%	3%	2%	0%
Warrants expected return (IRR contribution)	8%	10%	5%	8%	6%	6%
Total expected returns (gross cash on pre-tax IRR)	17.5%	18%	18%	18.5%	21%	23%

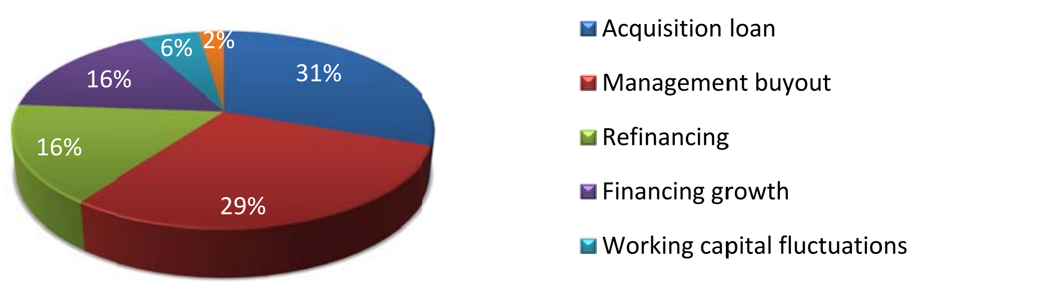
MEZZANINE cont.

Table 38. Investment Type by Size of Investee Company, Sponsored Deals

	Senior debt only	Sub debt only	Blended Sr./Jr.	Other
\$0M - \$1M EBITDA	0%	0%	100%	0%
\$1M - \$5M EBITDA	0%	53%	47%	0%
\$5M - \$10M EBITDA	20%	40%	40%	0%
\$10M - \$25M EBITDA	20%	20%	60%	0%
\$25M - \$50M EBITDA	0%	0%	100%	0%
\$50M+ EBITDA	100%	0%	0%	0%

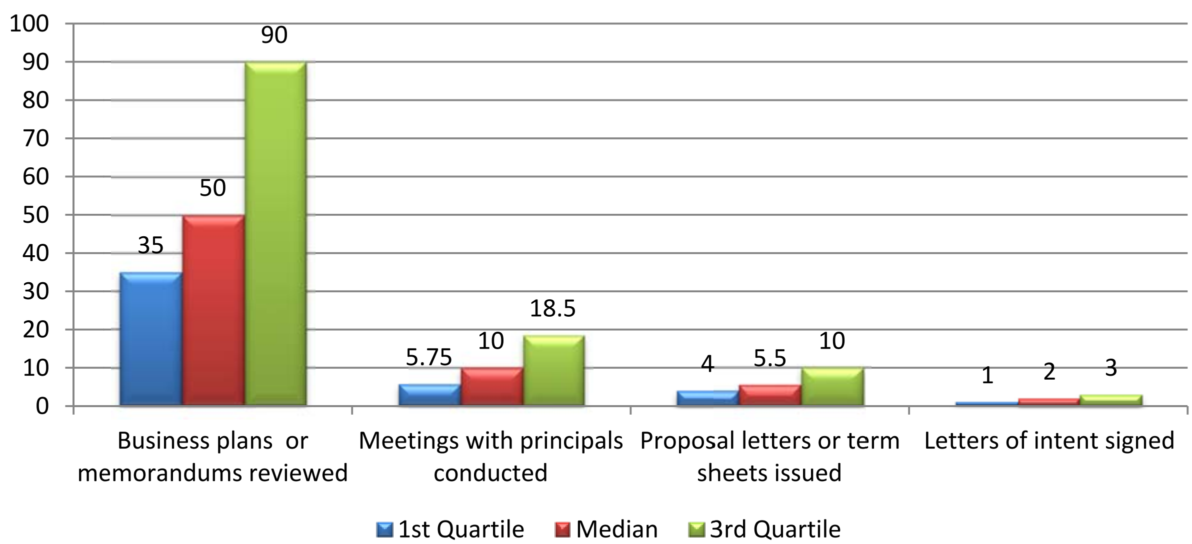
Acquisition loan was reported by 31% of respondents as borrower motivation, followed by management buyouts at 22.6%.

Figure 93. Borrower Motivation to Secure Mezzanine Funding (past six months)



Respondents reported on items required to close one deal.

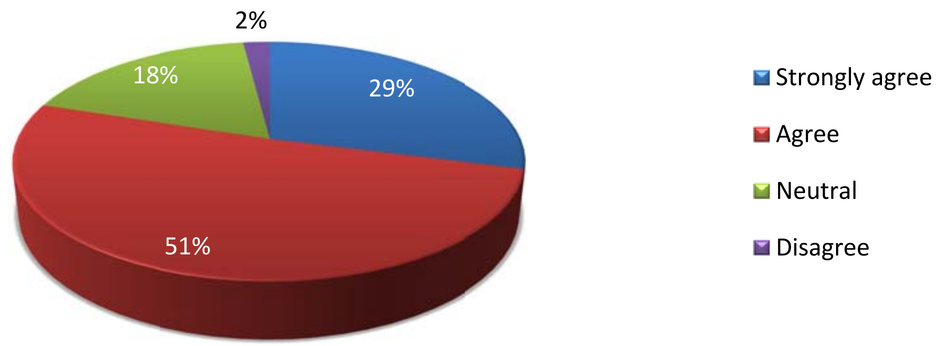
Figure 94. Items Required to Close One Deal



MEZZANINE cont.

Approximately 80% of respondents agree that among companies that they have worked with, senior managers, such as chief executives, would benefit from additional leadership and skills training.

Figure 95. Would Senior Managers and Chief Executives Benefit from Additional Leadership and Skills Training?



According to respondents, leadership skills, understanding competitive environments and strategic planning are the most important for senior management to have.

Figure 96. Skills That Are Important for Senior Management to Have

MEZZANINE cont.

Total debt-to-cash flow ratio was the most important factor when deciding whether to invest or not, followed by total debt service coverage ratio.

Table 39. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1 to 5)
Senior DSCR or FCC ratio	17%	6%	17%	37%	23%	3.43
Total DSCR or FCC ratio	3%	3%	6%	34%	54%	4.34
Senior debt-to-cash flow ratio	6%	0%	18%	47%	29%	3.94
Total debt-to-cash flow ratio	0%	0%	6%	24%	70%	4.64

Table 40. Financial Evaluation Metrics Average Data

	Average borrower data	**Limit not to be exceeded**	**Financial ratio covenant after booking**
Senior DSCR or FCC ratio	1.4	1.4	1.4
Total DSCR or FCC ratio	1.4	1.2	1.2
Senior debt to cash flow ratio	2.5	3	3
Total debt to cash flow ratio	4	4	4

Relative to six months ago, respondents indicated increases in demand for mezzanine capital, quality of borrowers seeking investment, average investment size, and leverage multiples. They also reported decreases in warrant coverage, PIK features, and expected returns on new investments, as well as worsened general business conditions.

Table 41. General Business and Industry Assessment: Today versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Demand for mezzanine capital	0%	12%	33%	47%	9%	56%	12%	**44%**
Credit quality of borrowers seeking investment	0%	19%	49%	28%	5%	33%	19%	**14%**
Average investment size	0%	7%	62%	29%	2%	31%	7%	**24%**
Average investment maturity	0%	0%	93%	7%	0%	7%	0%	**7%**
General underwriting standards	5%	19%	57%	17%	2%	19%	24%	**-5%**
Warrant coverage	8%	31%	46%	13%	3%	15%	38%	**-23%**
PIK features	0%	24%	63%	10%	2%	12%	24%	**-12%**
Loan fees	0%	12%	81%	7%	0%	7%	12%	**-5%**
Leverage multiples	0%	10%	20%	71%	0%	71%	10%	**61%**
Expected returns on new investments	2%	45%	26%	21%	5%	26%	48%	**-21%**
General business conditions	7%	45%	29%	14%	5%	19%	52%	**-33%**

MEZZANINE cont.

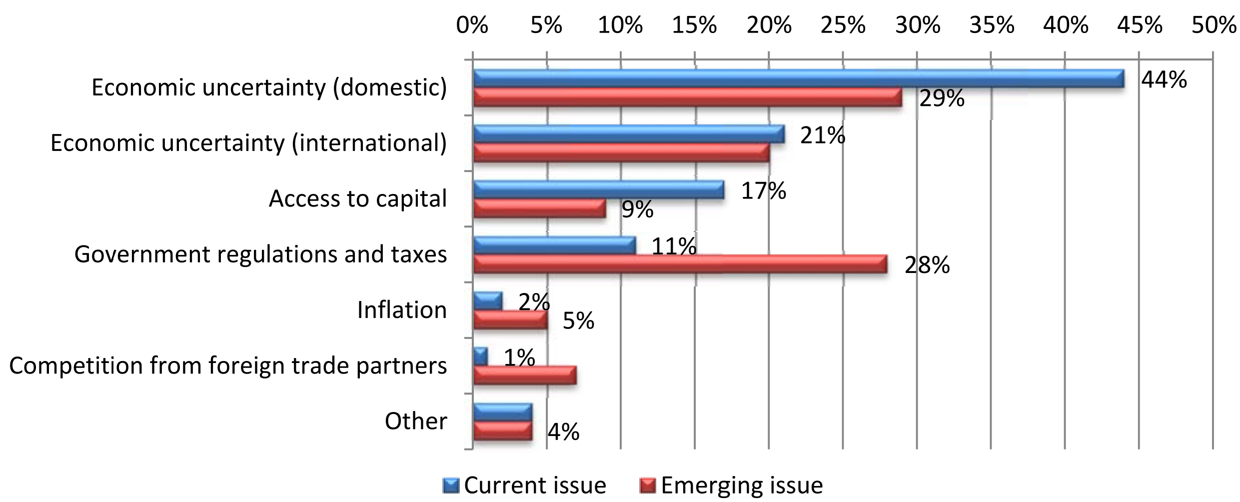
Respondents expect further increases in all business characteristics except general business conditions and credit quality of borrowers seeking investment.

Table 42. General Business and Industry Assessment Expectations over the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Demand for mezzanine capital	0%	2%	41%	37%	20%	56%	2%	**54%**
Credit quality of borrowers seeking investment	2%	29%	44%	22%	2%	24%	32%	**-7%**
Average investment size	0%	3%	80%	15%	3%	18%	3%	**15%**
Average investment maturity	0%	3%	93%	3%	3%	5%	3%	**3%**
General underwriting standards	0%	13%	65%	20%	3%	23%	13%	**10%**
Warrant coverage	0%	13%	68%	15%	5%	20%	13%	**8%**
PIK features	0%	10%	80%	5%	5%	10%	10%	**0%**
Loan fees	0%	5%	83%	10%	2%	12%	5%	**7%**
Leverage multiples	2%	27%	41%	29%	0%	29%	29%	**0%**
Expected returns on new investments	0%	20%	44%	29%	7%	37%	20%	**17%**
General business conditions	5%	51%	27%	17%	0%	17%	56%	**-39%**
Size of mezzanine industry	0%	10%	49%	34%	7%	41%	10%	**32%**

Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today.

Figure 97. Issues Facing Privately-Held Businesses



BANK AND ASSET-BASED LENDING SURVEY INFORMATION

There were 103 responses to the banks survey with commercial banks making up 35% in terms of individual lending function. Over 32% of respondents believe that general business conditions will improve over the next 12 months and over 51% said demand for loans will increase. Other key findings include:

- Over the last six months respondents were seeing worsened business conditions and appetite for risk, flat demand for loans and underwriting standards with slight increase in credit quality of borrowers, and focus on collateral as a backup means of payment.

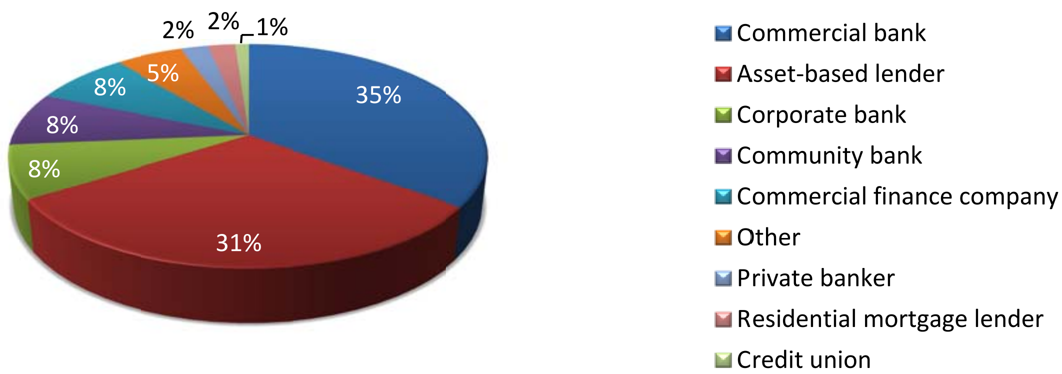
- Respondents also expect increase in lending capacity of banks and SBA lending, flat underwriting standards and credit quality of borrowers, slight increases in senior and total leverage multiples, increasing due diligence efforts, and further pricing compression.

- Currently, the majority of lenders (56%) see domestic economic uncertainty as the top issue facing privately-held businesses.

Operational and Assessment Characteristics

Respondents reported on the type of entity that best describes them and 55% report as being a commercial bank, followed by 15% as a corporate bank.

Figure 98. Description of Lending Entity



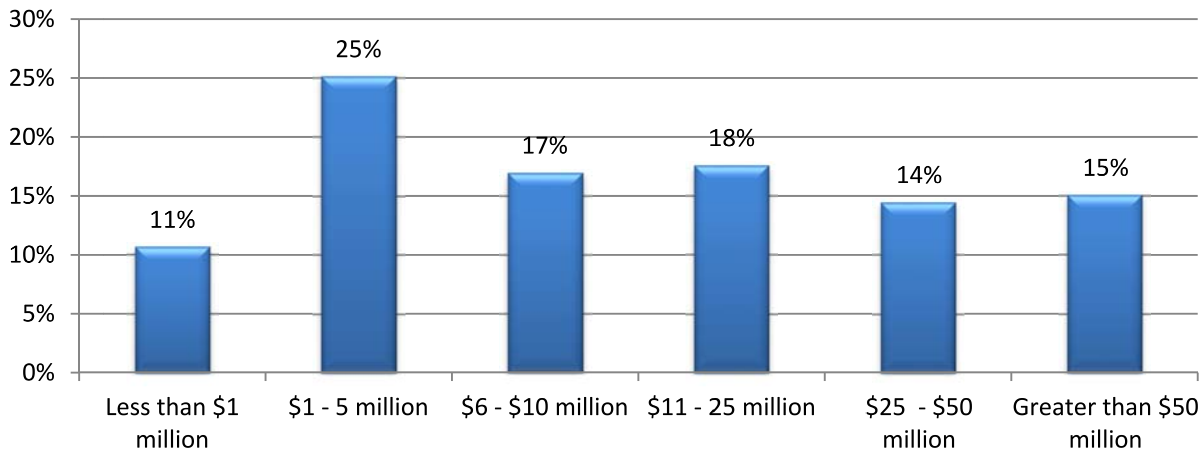
The majority (78%) report participating in government loan programs.

Figure 99. Participation in Government Loan Programs

BANKS cont.

The largest concentration of loan sizes was between $1 million and $25 million (58%).

Figure 100. Typical Investment Size



Respondents reported on all-in rates for various industries.

Table 43. All-in Rates by Industry

	$1M	$5M	$10M	$25M	$50M	$100M
Manufacturing	5.5%	5.8%	5.0%	4%	3.5%	3.3%
Retail and consumer services	6.3%	6%	5.8%	5.3%	5.0%	3.8%
Wholesale & distribution	6%	6%	5.3%	5.0%	3.8%	3%
Business services	6.3%	5.5%	5.3%	5.0%	3.5%	3.5%
Basic materials & energy	5.5%	5.3%	5%	5%	4.5%	3.8%
Health care	6%	6%	5.5%	5%	5%	5%
Information technology	6.3%	6%	6%	5.8%	4.5%	4.3%
Financial services	7%	6.3%	6%	5%	4.8%	4.0%

Table 44. All-in Rates by Loan Type

	$1M	$5M	$10M	$25M	$50M	$100M
Cash flow loan	6%	5.50%	5.50%	5.50%	5.25%	5%
Working capital loan	6%	5.5%	5.8%	5.5%	5.5%	5%
Equipment loan	6%	5%	4.8%	5.3%	3.5%	4.5%
Real estate loan	6%	6%	5%	5%	4.5%	5%
Typical fixed-rate loan term (years)	5.5	6	5	5	5	7

BANKS cont.

Senior leverage multiples are reported below for the various industries and EBITDA sizes.

Table 45. Senior Leverage Multiple by EBITDA Size

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$100M EBITDA
Manufacturing	1.25	1.25	1.25	1.25	1.75	1.75
Retail and consumer services	1.25	1.25	1.25	1.25	1.25	1.25
Wholesale & distribution	1.25	1.25	1.25	1.25	1.25	1.5
Business services	1.25	1.25	1.25	1.25	1.75	1.75
Basic materials & energy	1.5	1.25	1.25	1.25	1.25	1.75
Health care	1.25	1.5	1.75	2	1.75	1.75
Information technology	1.5	1.5	1.5	2	1.5	1.75
Financial services	1.25	1.25	1.5	1.75	1.75	1.75
Average	**1.3**	**1.3**	**1.4**	**1.5**	**1.5**	**1.7**

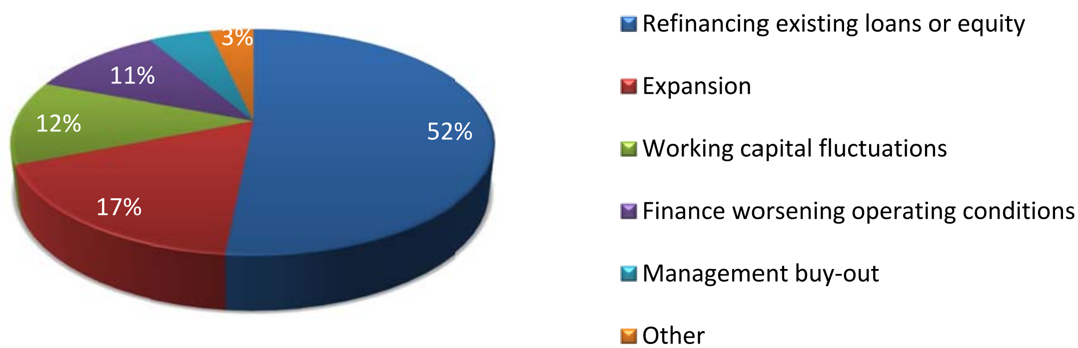
Various fees as reported by lenders are as follows.

Table 46. Fees Charged

	1st quartile	Median	3rd quartile	% reporting
Closing fee	0.5%	1.0%	1.5%	15%
Modification fee	0.2%	0.3%	0.5%	12%
Commitment fee	0.5%	0.5%	1.0%	14%
Underwriting fee	0.0%	0.5%	1.0%	11%
Arrangement fee	0.0%	0.5%	1.0%	11%
Prepayment penalty (yr 1)	1.0%	2.0%	3.0%	13%
Prepayment penalty (yr 2)	0.5%	1.0%	2.0%	13%
Unused line fee	0.3%	0.4%	0.5%	11%

Refinancing was the most commonly described financing by buyers at 52%, followed by expansion at 17%.

Figure 101. Borrower Motivation to Secure Financing (past six months)



BANKS cont.

Total debt service coverage ratio was the most important factor when deciding whether to invest or not, followed by total debt-to-cash flow.

Table 47. Importance of Financial Evaluation Metrics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0 to 4)
Current ratio	29%	24%	29%	13%	4%	1.4
Senior DSCR or FCC ratio	9%	15%	9%	15%	52%	2.9
Total DSCR or FCC ratio	9%	9%	2%	28%	52%	3.1
Senior debt-to-cash flow	7%	14%	16%	34%	30%	2.7
Total debt-to-cash flow	7%	11%	13%	42%	27%	2.7
Debt-to-net worth	16%	18%	29%	20%	18%	2.1
Revenue growth rate	6%	29%	29%	29%	6%	2.0

Table 48. Financial Evaluation Metrics Average Data

	Average borrower data	Limit not to be exceeded	Financial ratio covenant after booking
Current ratio	1.5	1.3	1.2
Senior DSCR or FCC ratio	1.3	1.3	1.2
Total DSCR or FCC ratio	1.2	1.25	1.1
Senior debt-to-cash flow	2.0	2.3	3
Total debt-to-cash flow	2.5	2.5	4
Debt-to-net worth	2	1.5	3
Revenue growth rate	5%	5%	n/a

Respondents reported on the percentage of loans (by size) that require personal guarantees..

Table 49. Personal Guarantee Percentage of Occurrence by Size of Loan (%)

	$1M loan	$5M loan	$10M loan	$25M loan	$50M loan	$100M loan
Personal guarantee	100%	100%	75%	25%	25%	25%

Approximately 63% of cash flow applications were declined.

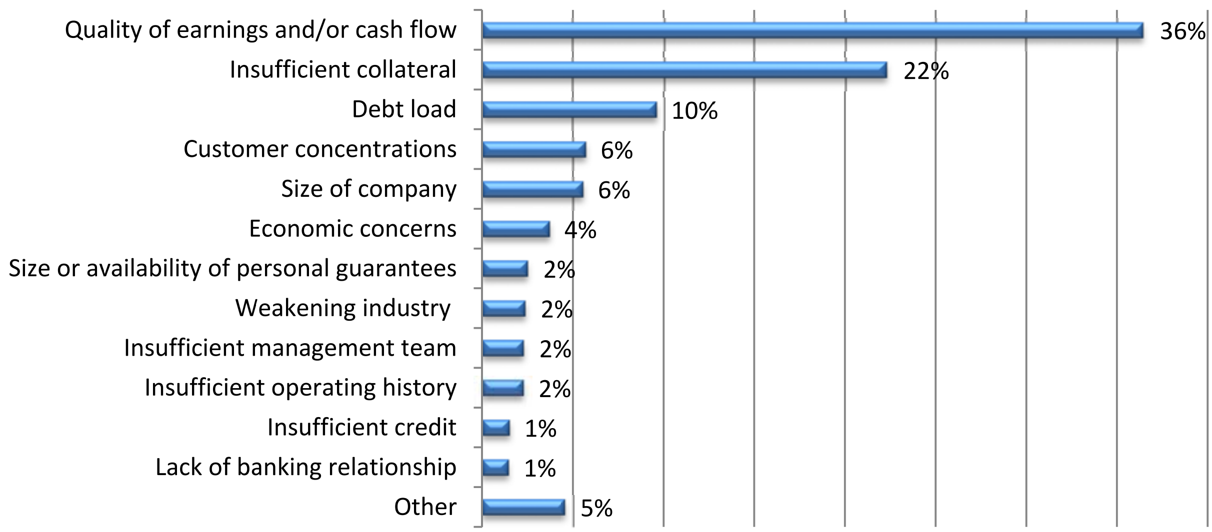
Table 50. Applications Data

	Declined
Cash flow-based	63%

BANKS cont.

Approximately 36% of applications were declined due to poor quality of earnings and/or cash flow followed by 22% that were declined due to insufficient collateral.

Figure 102. Reason for Declined Loans

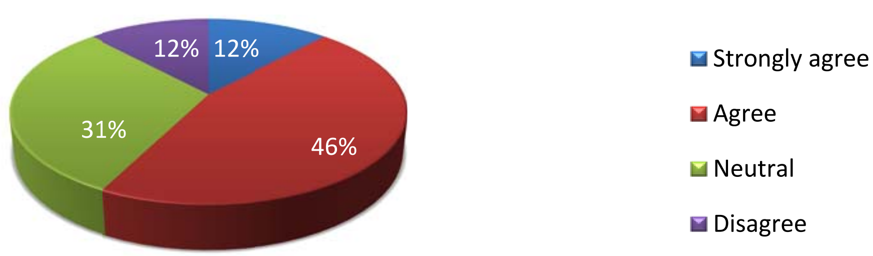


Respondents agree they are feeling increased pressure from regulators (72%) to avoid making risky loans.

Figure 103. Feeling Increased Pressure from Regulators to Avoid Making Risky Loans

Approximately 58% of respondents agree that among companies that they have worked with, senior managers, such as chief executives, would benefit from additional leadership and skills training.

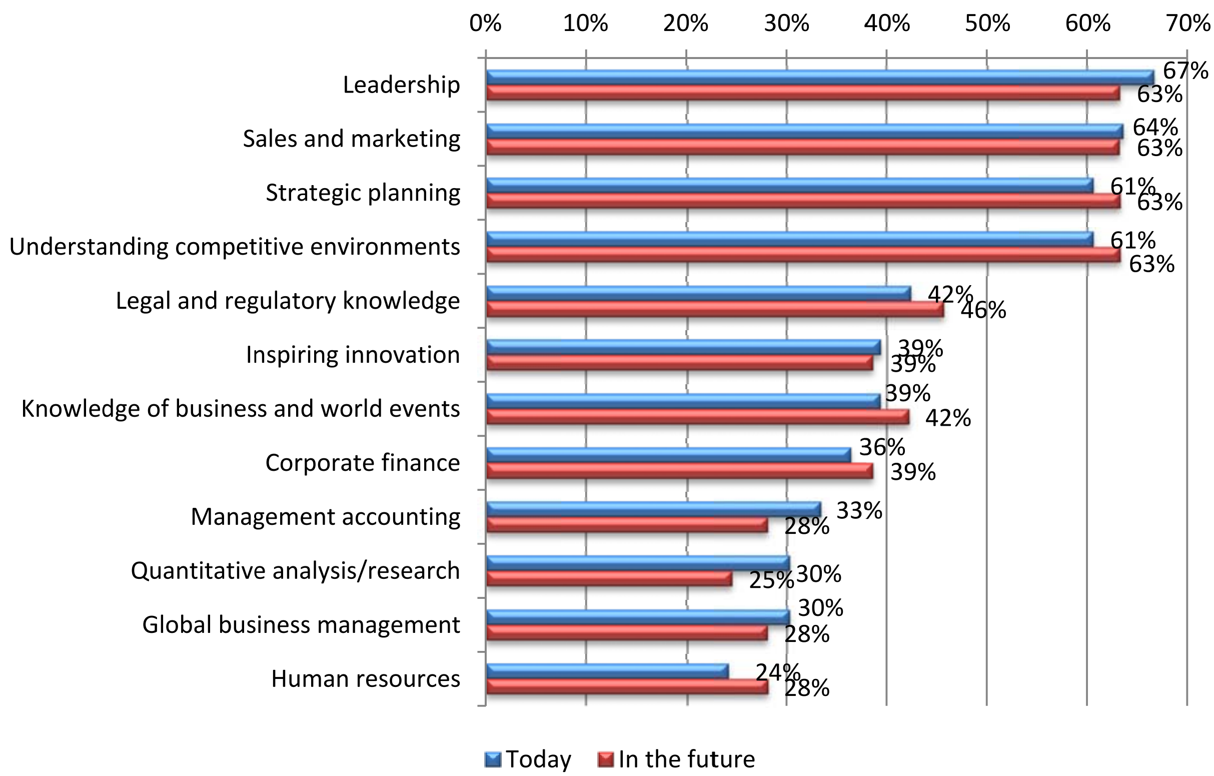
Figure 104. Would Senior Managers and Chief Executives Benefit from Additional Leadership and Skills Training?



BANKS cont.

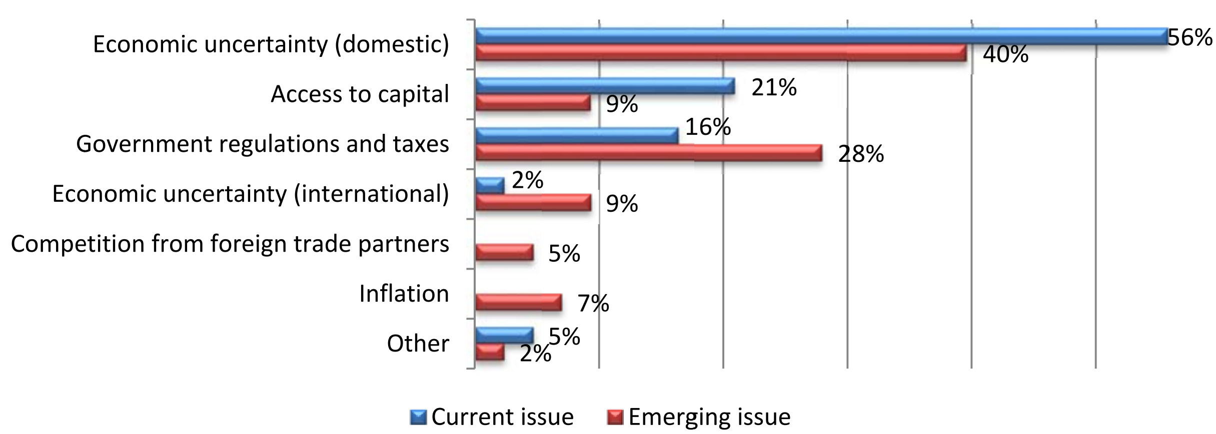
According to respondents, leadership skills, sales, marketing skills, and strategic planning are the most important for senior management to have.

Figure 105. Skills That Are Important for Senior Management to Have



Respondents believe domestic economic uncertainty is the most important issue facing privately-held businesses today.

Figure 106. Issues Facing Privately-Held Businesses



BANKS cont.

Respondents indicated increases in almost all general business characteristics except general underwriting standards, amount of nonaccrual loans, size of interest rate spreads, business conditions and appetite for risk.

Table 51. General Business and Industry Assessment: Today versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	% increase	% decrease	**Net increase/ decrease**
Demand for business loans (applications)	12%	12%	30%	35%	12%	47%	23%	**23%**
General underwriting standards	0%	20%	64%	12%	4%	16%	20%	**-4%**
Credit quality of borrowers applying for credit	7%	16%	37%	35%	5%	40%	23%	**16%**
Loans outstanding	0%	11%	17%	56%	17%	72%	11%	**61%**
Nonaccrual loans	25%	38%	38%	0%	0%	0%	63%	**-63%**
Number/ tightness of financial covenants	6%	11%	61%	17%	6%	22%	17%	**6%**
Due diligence efforts	0%	0%	48%	40%	12%	52%	0%	**52%**
Average loan size	0%	14%	49%	35%	2%	37%	14%	**23%**
Average loan maturity (months)	0%	7%	60%	28%	5%	33%	7%	**26%**
Percent of loans with personal guarantees	0%	10%	80%	5%	5%	10%	10%	**0%**
Percent of loans requiring collateral	0%	4%	76%	16%	4%	20%	4%	**16%**
Size of interest rate spreads (pricing)	0%	48%	24%	20%	8%	28%	48%	**-20%**
Loan fees	0%	42%	42%	14%	2%	16%	42%	**-26%**
Standard advance rates	0%	6%	61%	28%	6%	33%	6%	**28%**
Interest rate spread (pricing)	6%	56%	17%	17%	6%	22%	61%	**-39%**
Senior leverage multiples	0%	4%	58%	29%	8%	38%	4%	**33%**
Total leverage multiples	0%	8%	54%	29%	8%	38%	8%	**29%**
Focus on collateral as backup means of payment	0%	8%	58%	29%	4%	33%	8%	**25%**
SBA lending	10%	20%	35%	25%	10%	35%	30%	**5%**
Lending capacity of bank	8%	8%	17%	38%	29%	67%	17%	**50%**
General business conditions	7%	29%	43%	21%	0%	21%	36%	**-14%**
Appetite for risk	8%	36%	28%	20%	8%	28%	44%	**-16%**

BANKS cont.

Respondents expect further increases in all business characteristics except average loan size, loan fees, total leverage multiples, focus on collateral, and lending capacity of bank.

Table 52. General Business and Industry Assessment Expectations over the Next 12 Months

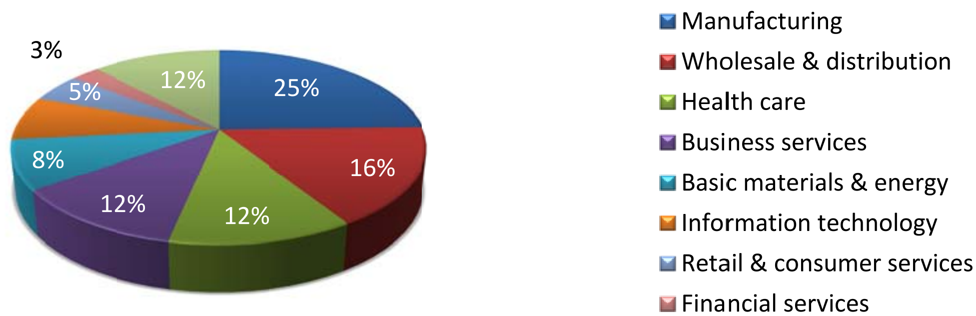
	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	% increase	% decrease	**Net increase/ decrease**
Demand for business loans (applications)	0%	5%	44%	37%	14%	51%	5%	**47%**
General underwriting standards	0%	8%	72%	16%	4%	20%	8%	**12%**
Credit quality of borrowers applying for credit	0%	16%	56%	26%	2%	28%	16%	**12%**
Due diligence efforts	0%	0%	22%	61%	17%	78%	0%	**78%**
Average loan size	0%	31%	56%	6%	6%	13%	31%	**-19%**
Average loan maturity (months)	0%	17%	61%	17%	6%	22%	17%	**6%**
Percent of loans with personal guarantees	0%	0%	68%	28%	4%	32%	0%	**32%**
Percent of loans requiring collateral	0%	0%	56%	42%	2%	44%	0%	**44%**
Size of interest rate spreads (pricing)	0%	5%	70%	21%	5%	26%	5%	**21%**
Loan fees	0%	14%	82%	0%	5%	5%	14%	**-9%**
Senior leverage multiples	0%	8%	80%	4%	8%	12%	8%	**4%**
Total leverage multiples	0%	38%	42%	17%	4%	21%	38%	**-17%**
Focus on collateral as backup means of payment	0%	23%	63%	12%	2%	14%	23%	**-9%**
SBA lending	0%	0%	89%	11%	0%	11%	0%	**11%**
Lending capacity of bank	0%	28%	50%	22%	0%	22%	28%	**-6%**
General business conditions	0%	4%	64%	28%	4%	32%	4%	**28%**
Appetite for risk	0%	4%	60%	32%	4%	36%	4%	**32%**

BANKS cont.

Asset-Based Lending Specific Characteristics

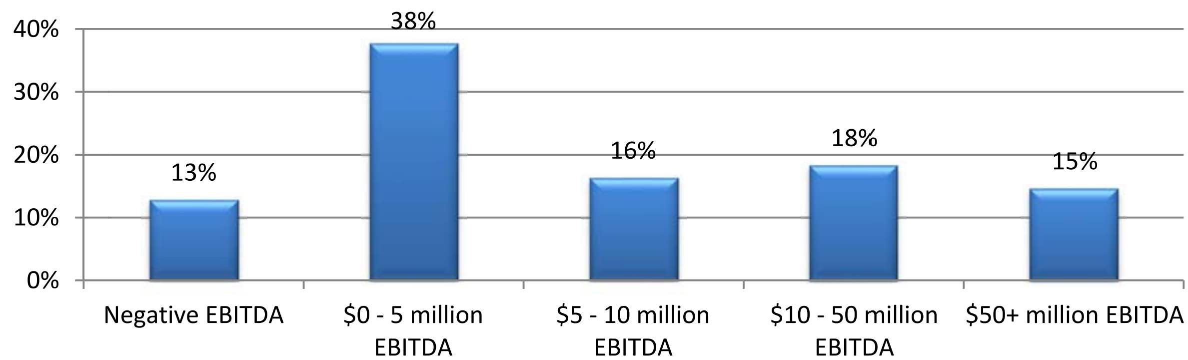
According to respondents approximately 25% of asset-based loans were issued for manufacturing companies.

Figure 107. Industries Served by Asset-Based Lenders



Approximately 38% of the companies that booked asset-based loans in the last six months had EBITDA size less than $5 million.

Figure 108. Typical EBITDA Sizes for Companies Booked



Respondents reported on all-in rates by type and size of current booked loans and the results are reported below.

Table 53. All-in Rates on Current Asset-Based Loans (medians)

	Accounts receivable	Inventory	Equipment	Real estate	Working capital
$5 million loan	11	12	6	7	10
$25 million loan	4	4	4	4	4
$50 million loan	3	3	3	3.5	3
$100 million loan	2.4	2.4	2.5	2.8	2.8
Average loan length (months)	42	42	42	39	48

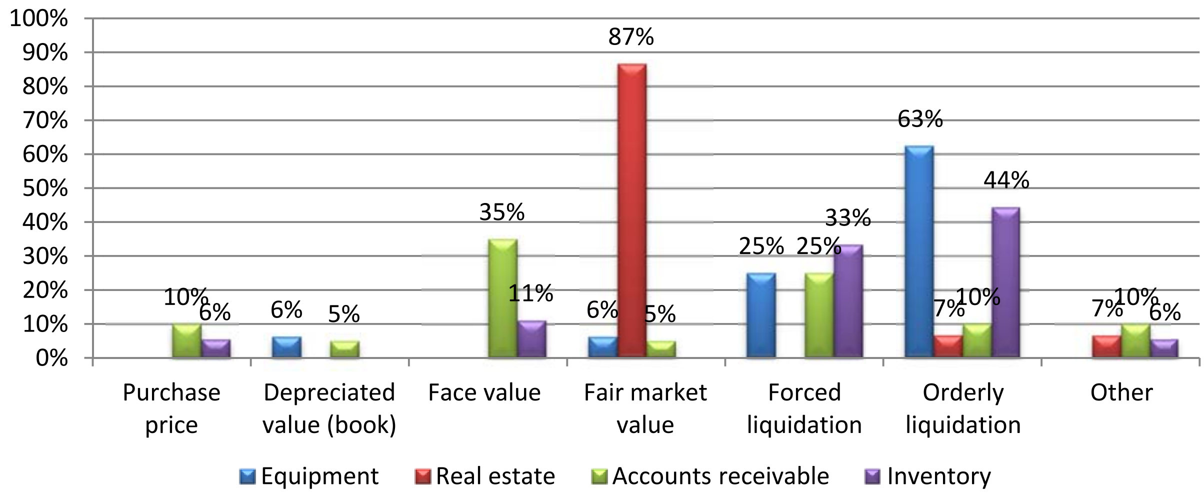
Respondents reported on standard advance rates and the results are reflected below.

Table 54. Standard Advance Rate (or LTV ratio) for Assets (%)

	Typical Loan			Upper Limit		
	1st quartile	Median	3rd quartile	1st quartile	Median	3rd quartile
Marketable securities	90	90	90	90	90	90
Accounts receivable	80	85	85	85	85	90
Inventory - low quality	25	30	31	21	30	46
Inventory - intermediate quality	40	45	50	40	50	60
Inventory - high quality	55	60	65	50	60	65
Equipment	59	75	80	75	75	78
Real estate	60	65	70	55	70	75
Land	35	40	45	37	42	44

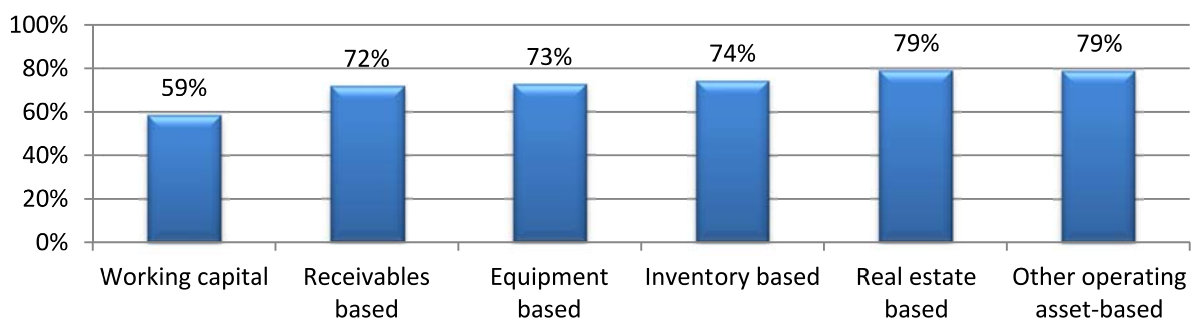
Respondents reported on valuation standards used to estimate LTV ratios.

Figure 109. Valuation Standards Used to Estimate LTV Ratio



According to respondents working capital-based loans had the smallest decline rate (59%) over the last six months.

Figure 110. Asset-Based Loans Decline Rate



ABOUT THE AUTHOR

John Paglia, PhD, MBA, CPA, CFA
Associate Professor of Finance and Senior Researcher
Pepperdine Private Capital Markets

Dr. Paglia, a former Julian Virtue and Denney Professorship recipient, is an associate professor of finance at Pepperdine University and directs the Pepperdine Private Capital Markets Project. He has over 10 years of university teaching experience in finance, performs business valuations for privately-held companies, and has testified as an expert on economic damage and valuation matters.

His work on the Pepperdine Private Capital Markets Project—the first simultaneous, comprehensive, and on-going investigation of the major private capital market segments—has resulted in over 20,000 report downloads in more than 70 countries and has earned him the 2011 George Award, which is given to the one faculty member annually who best leverages the business community to make a difference in the classroom.

His research has appeared in the *Wall Street Journal*, CNBC, *USA Today*, and the *New York Times*, been published in a number of journals and been presented at domestic and international conferences. Dr. Paglia holds a PhD in finance, an MBA, a BS in finance, and is a Certified Public Accountant (CPA) and Chartered Financial Analyst (CFA) charterholder.

Contact: privatecap@pepperdine.edu

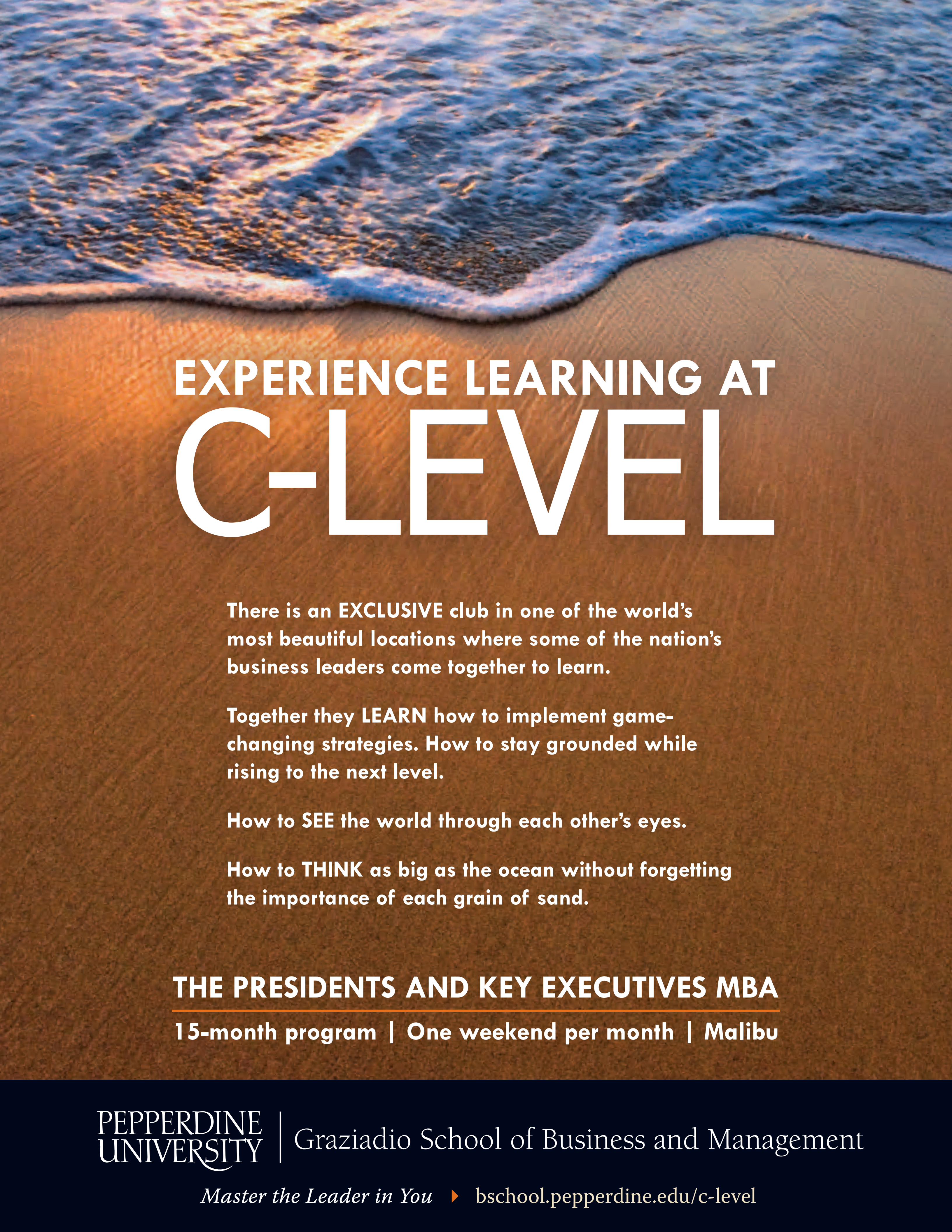
ABOUT PEPPERDINE UNIVERSITY'S GRAZIADIO SCHOOL OF BUSINESS AND MANAGEMENT

Founded on the core values of integrity, stewardship, courage, and compassion, Pepperdine University's Graziadio School of Business and Management has been developing values-centered leaders and advancing responsible business practice since 1969. Student-focused, experience-driven, and globally-oriented, the Graziadio School offers fully accredited MBA, master of science, and bachelor's completion business programs.

More information found at: bschool.pepperdine.edu/newsroom

INDEX OF TABLES

INDEX OF FIGURES



EXPERIENCE LEARNING AT
C-LEVEL
There is an EXCLUSIVE club in one of the world's most beautiful locations where some of the nation's business leaders come together to learn.
Together they LEARN how to implement game-changing strategies. How to stay grounded while rising to the next level.
How to SEE the world through each other's eyes.
How to THINK as big as the ocean without forgetting the importance of each grain of sand.
THE PRESIDENTS AND KEY EXECUTIVES MBA
15-month program | One weekend per month | Malibu
PEPPERDINE UNIVERSITY | Graziadio School of Business and Management
Master the Leader in You
bschool.pepperdine.edu/c-level

YOU ARE THE POWER BEHIND THE PROJECT

Take part in our economic outlook survey:

JANUARY 4-11, 2012

Who should participate?

- Business Owners
- Asset Based Lenders
- Senior Lenders (Bank)
- Mezzanine Funds
- Angel Funds
- Venture Capital Funds
- Private Equity Groups
- Factors
- Investment Bankers
- Business Appraisers

PEPPERDINE UNIVERSITY
Graziadio School of Business and Management