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2011 Private Capital Markets Report

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SURVEY REPORT – WINTER 2011

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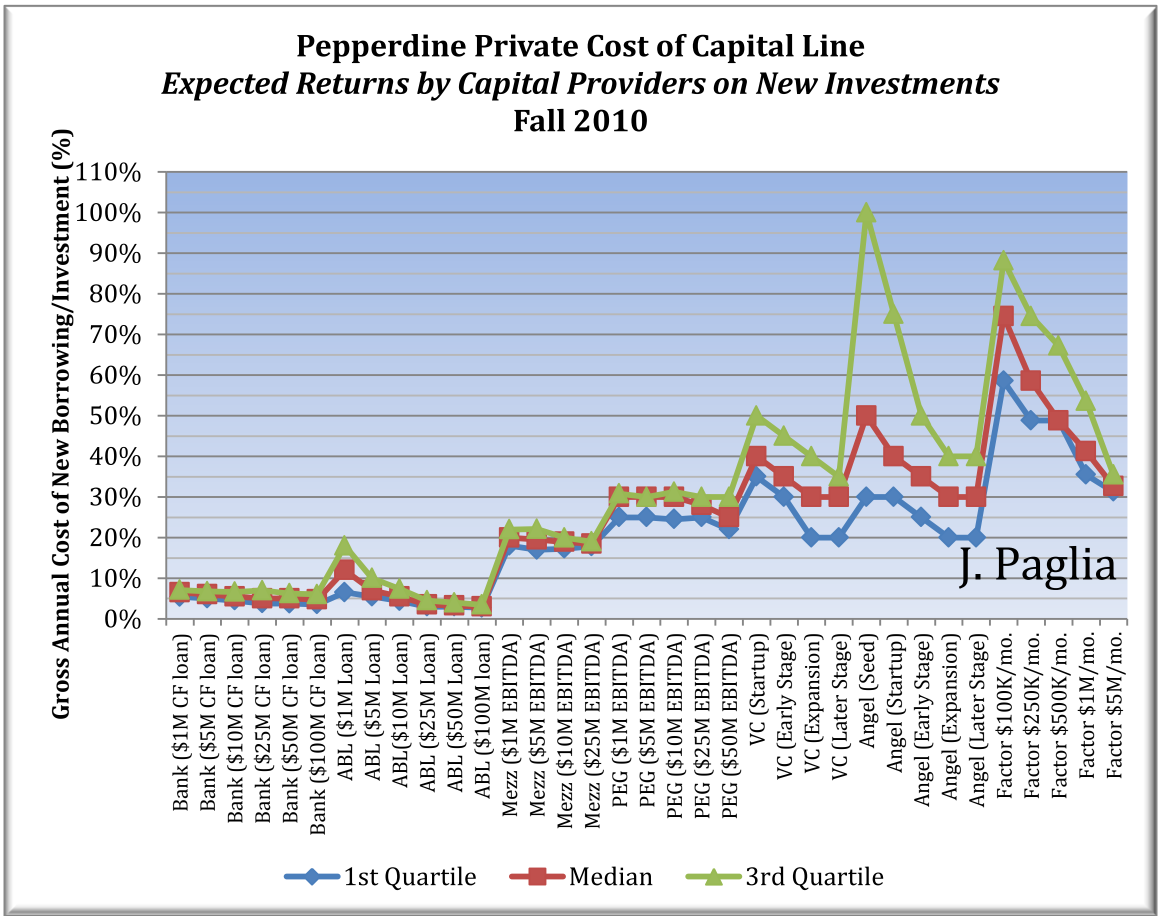
PEPPERDINE PRIVATE CAPITAL MARKETS SURVEY

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 2010, specifically examined the behavior of senior lenders, asset-based lenders, mezzanine funds, private equity groups, venture capital firms, angel investors, factors, 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. Pepperdine Private Cost of Capital Line



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 factors 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 Cost of Capital Data (gross annualized rates %)

	1st Quartile	Median	3rd Quartile
Bank ($1M CF loan)	5.4%	6.5%	7.1%
Bank ($5M CF loan)	5.0%	6.0%	6.8%
Bank ($10M CF loan)	4.5%	5.5%	6.6%
Bank ($25M CF loan)	3.8%	5.0%	7.0%
Bank ($50M CF loan)	3.8%	5.0%	6.3%
Bank ($100M CF loan)	3.6%	4.8%	6.1%
ABL ($1M Loan)	6.5%	12.0%	18.0%
ABL ($5M Loan)	5.5%	7.0%	10.0%
ABL($10M Loan)	4.4%	5.5%	7.4%
ABL ($25M Loan)	3.0%	3.5%	4.5%
ABL ($50M Loan)	3.0%	3.3%	4.0%
ABL ($100M loan)	2.8%	3.0%	3.5%
Mezz ($1M EBITDA)	18.0%	20.0%	22.0%
Mezz ($5M EBITDA)	17.0%	19.5%	22.1%
Mezz ($10M EBITDA)	17.3%	18.9%	20.0%
Mezz ($25M EBITDA)	17.9%	18.5%	19.0%
PEG ($1M EBITDA)	25.0%	30.0%	30.8%
PEG ($5M EBITDA)	25.0%	30.0%	30.0%
PEG ($10M EBITDA)	24.5%	30.0%	31.3%
PEG ($25M EBITDA)	25.0%	28.0%	30.0%
PEG ($50M EBITDA)	22.0%	25.0%	30.0%
VC (Startup)	35.0%	40.0%	50.0%
VC (Early Stage)	30.0%	35.0%	45.0%
VC (Expansion)	20.0%	30.0%	40.0%
VC (Later Stage)	20.0%	30.0%	35.0%
Angel (Seed)	30.0%	50.0%	100.0%
Angel (Startup)	30.0%	40.0%	75.0%
Angel (Early Stage)	25.0%	35.0%	50.0%
Angel (Expansion)	20.0%	30.0%	40.0%
Angel (Later Stage)	20.0%	30.0%	40.0%
Factor $100K/mo.	58.5%	74.5%	88.2%
Factor $250K/mo.	48.8%	58.5%	74.5%
Factor $500K/mo.	48.8%	48.8%	67.2%
Factor $1M/mo.	35.4%	41.2%	53.6%
Factor $5M/mo.	31.3%	32.7%	35.4%

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PRIVATELY-HELD BUSINESS SURVEY INFORMATION

Of the 388 privately-held businesses surveyed almost 35% of respondents reported "friends and family" are a current source for financing. This is down from the previous iteration of the survey where 56% of privately-held businesses highlighted "friends and family" as a financial source. This may be an indication that as the economy improves businesses are attempting to repay friends and family. While 40.3% of businesses reported they are not looking for financing, 34.9% said they are looking to angel investors as a source of capital. Approximately seventy-nine percent (79.4%) of privately-held businesses are confident that over the next 12 months they will have growth opportunities. Other key findings include:

- Of the businesses planning to raise capital, 20% reported they are planning to raise less than $500,000; 19% plan to raise capital between $3M and $5M.
- Respondents believe that overall gross domestic product will increase by 0.5% within the next 12 months, while the privately-held company GDP equivalent is expected to increase by 1.1%.
- Privately-held business respondents also believe the probability of a double-dip recession for the entire economy is 39.2% and 37.4% for the private economy.

Profile of Respondents

The privately-held business survey results were generated from 388 participants. Over 40% are located in the west. Approximately 21% of businesses are in the business service industry followed by technology at 17%.

Figure 2. Region Entity Is Located

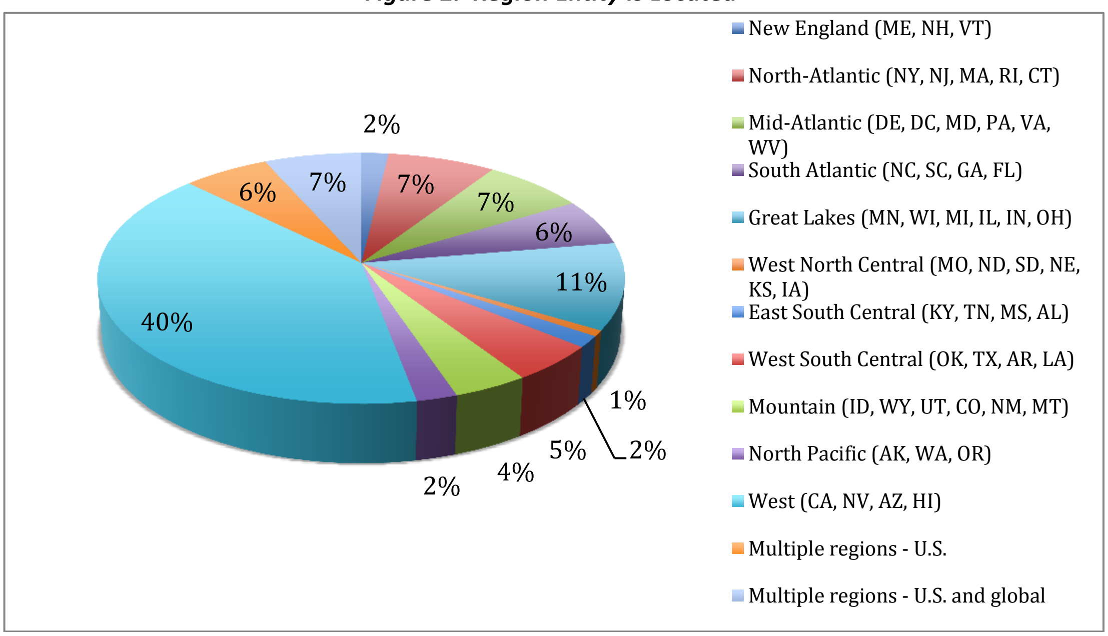
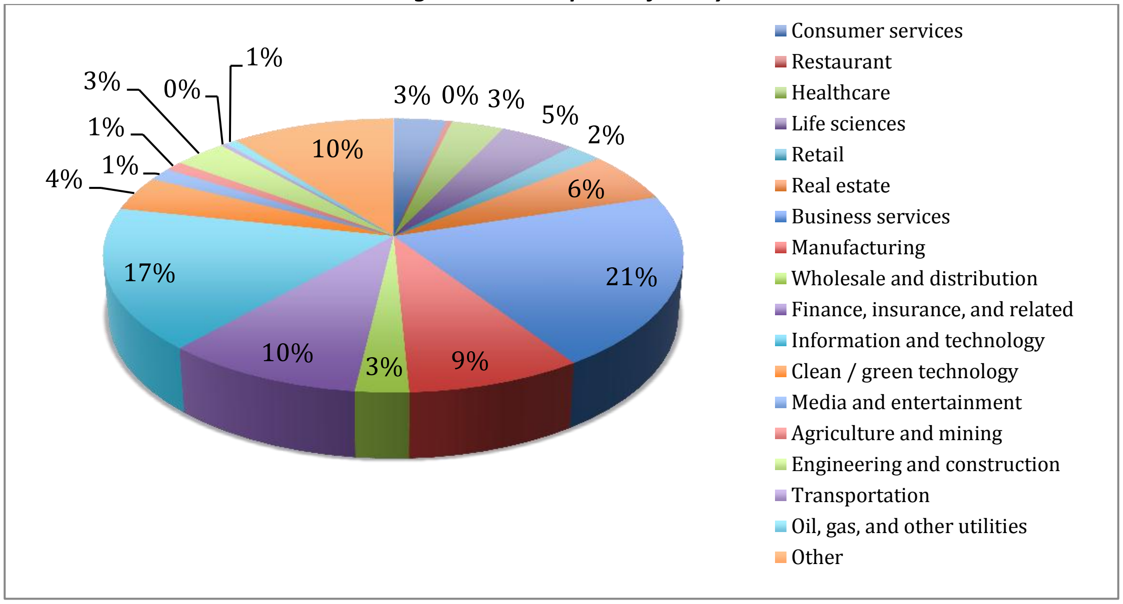
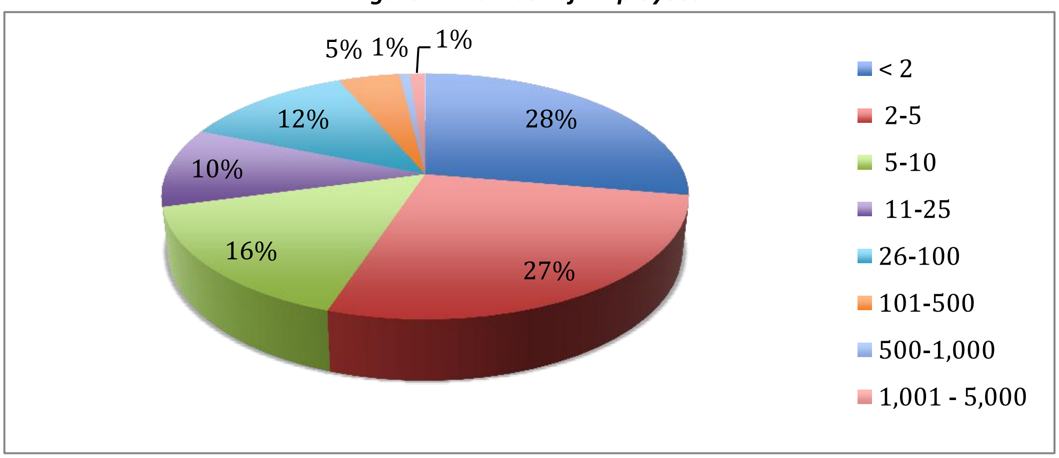


Figure 3. Description of Entity



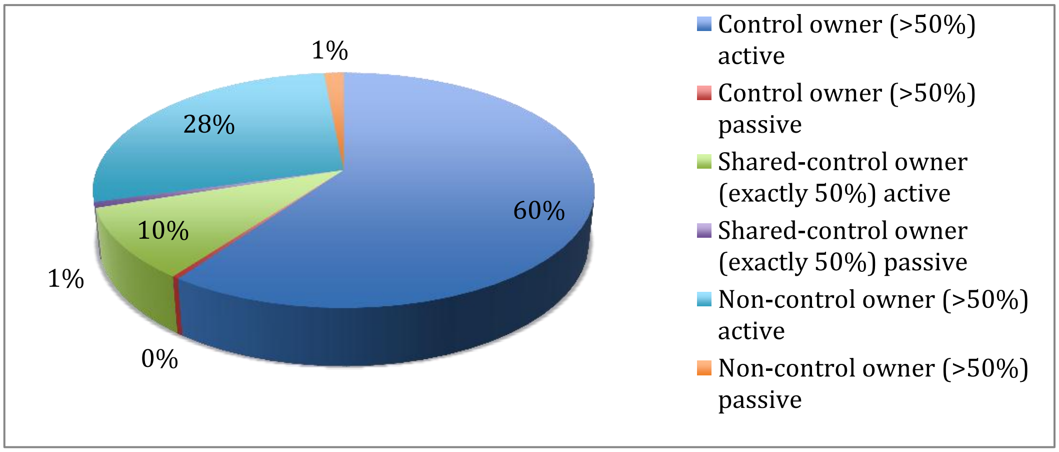
Roughly 55% of respondents have five or fewer employees while 28% report fewer than two.

Figure 4. Number of Employees



Roughly 60% of respondents reported having over 50% ownership and performing an active role in their business.

Figure 5. Ownership Role



Annual revenues and EBITDA from the prior 12 months are reflected below.

Figure 6. Annual Revenues (last 12 months)

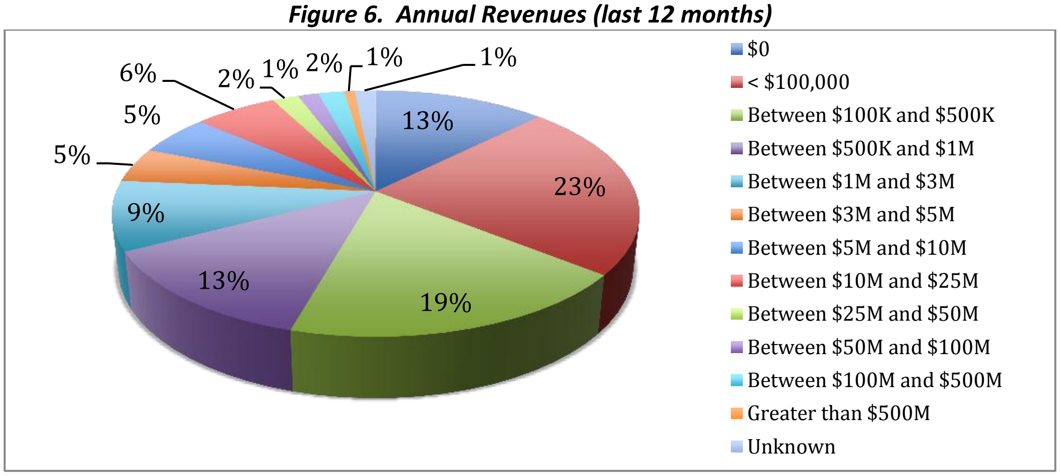
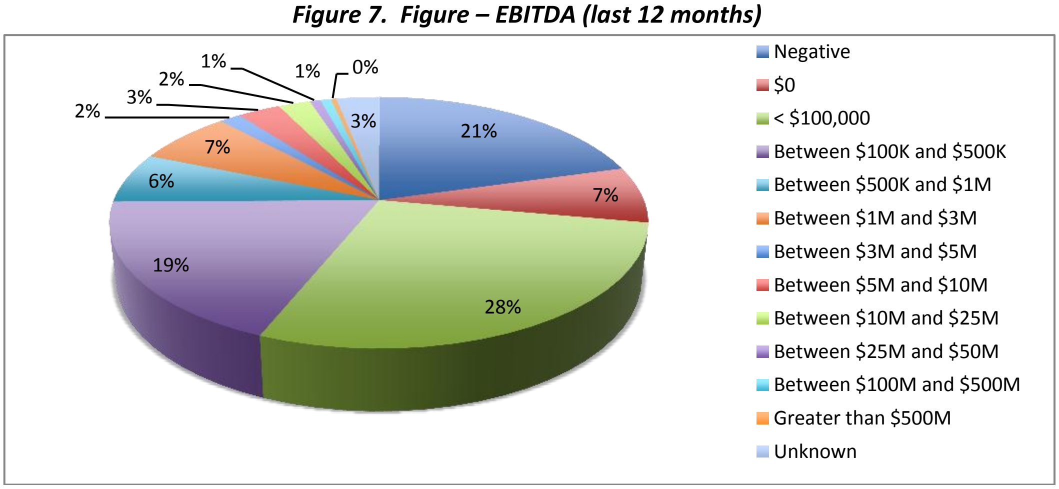
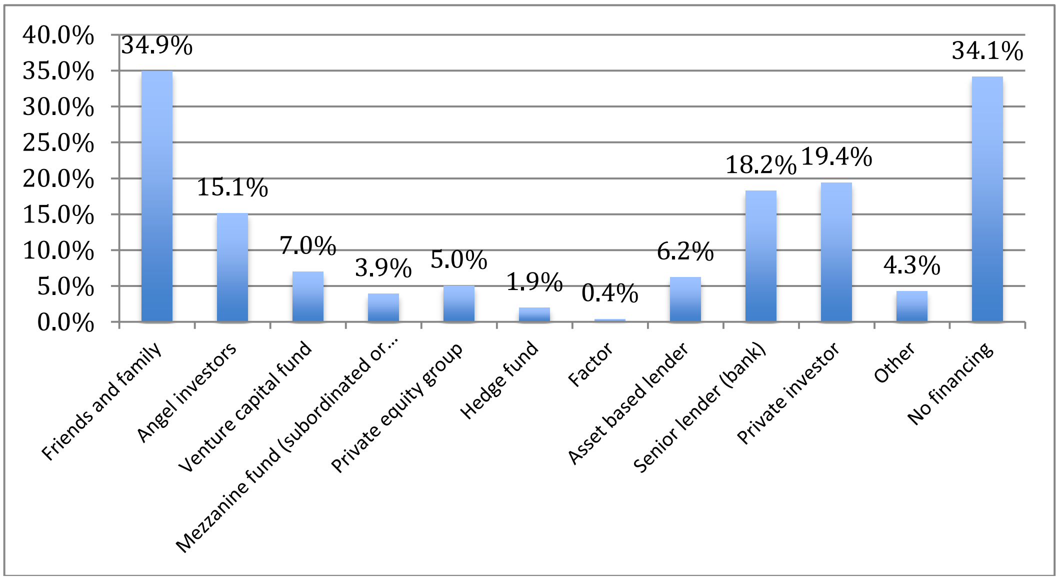


Figure 7. Figure – EBITDA (last 12 months)



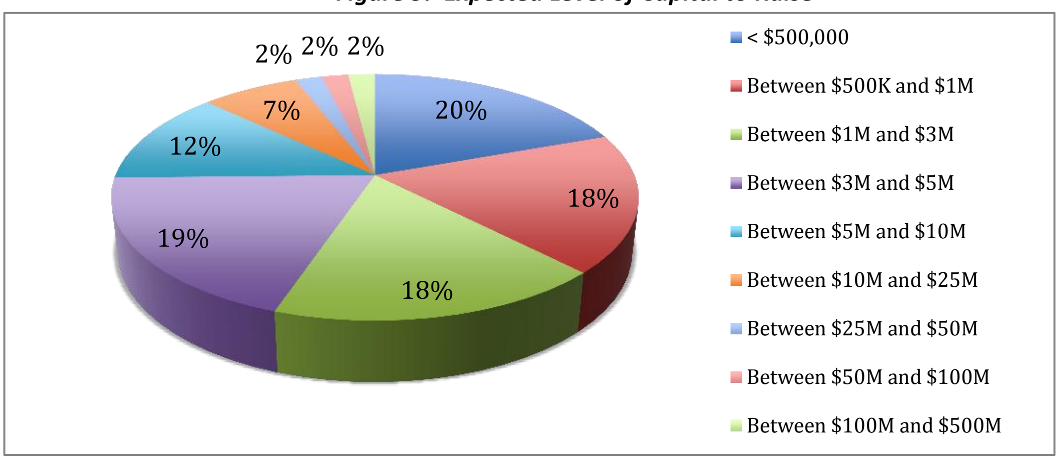
Almost 35% of respondents reported family and friends as a current source for financing.

Figure 8. Investment or Financing Source



Among those who are planning to raise capital, 20% reported they are planning to raise less than $500,000; 19% plan to raise capital between $3M and $5M.

Figure 9. Expected Level of Capital to Raise



Respondents reported on industry and business conditions as compared to six months ago.

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

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	Score(-2 to 2)
Expenses (as % of revenues)	10.4%	18.8%	38.8%	22.4%	9.6%	0.0
Pre-tax income	9.6%	16.5%	36.5%	24.1%	13.3%	0.2
Capital expenditures	10.4%	14.5%	47.0%	22.9%	5.2%	-0.0
Exit opportunities	11.4%	13.0%	45.1%	19.5%	11.0%	0.1
Opportunities for growth	4.8%	12.0%	14.0%	33.2%	36.0%	0.8
Access to growth capital	14.5%	15.3%	43.1%	19.4%	7.7%	-0.1
Prices of your products or services	1.6%	16.5%	59.7%	16.9%	5.2%	0.1
Time to collect receivables	0.6%	6.5%	64.9%	19.6%	8.3%	0.3
Number of employees	3.2%	11.2%	61.8%	19.7%	4.0%	0.1
Owner compensation	11.6%	18.5%	55.0%	10.8%	4.0%	-0.2
Size of industry in which you sell your products/services	2.8%	18.5%	38.6%	27.7%	12.4%	0.3
Competitive pressures	1.2%	6.9%	47.2%	30.2%	14.5%	0.5
Probability of failure	11.6%	14.5%	51.8%	17.7%	4.4%	-0.1
General business confidence	5.2%	18.5%	34.5%	28.1%	13.7%	0.3
General business conditions	12.0%	21.2%	33.2%	27.6%	6.0%	-0.1
Ability to assess and price risk on new investment opportunities	4.7%	9.4%	56.1%	21.6%	8.2%	0.2

The average increase to organic revenues over the last six months is 6.7%.

Table 3. Change to Organic Revenues over Last Six Months

	Change to organic revenues
Declined 80-100%	0.9%
Declined 60-80%	2.7%
Declined 40-60%	3.6%
Declined 30-40%	3.6%
Declined 20-30%	1.3%
Declined 15-20%	6.3%
Declined 10-15%	0.4%
Declined 5-10%	3.1%
Declined 3-5%	2.2%
Declined 1-3%	4.5%
Basically flat (+/- 1% growth)	28.3%
Increased 1-3%	2.2%
Increased 3-5%	5.8%
Increased 5-10%	5.8%
Increased 10-15%	4.9%
Increased 15-20%	5.4%
Increased 20-30%	4.5%
Increased 30-40%	2.7%
Increased 40-60%	2.7%
Increased 80-100%	2.7%
Increased more than 100%	6.3%
Average	6.7%

The average increase to organic EBITDA over the last six months is 5.2%.

Table 4. Change to Organic EBITDA over Last Six Months

	Change to organic EBITDA
Declined 80-100%	1.2%
Declined 60-80%	2.7%
Declined 40-60%	2.3%
Declined 30-40%	3.9%
Declined 20-30%	3.1%
Declined 15-20%	2.7%
Declined 10-15%	3.1%
Declined 5-10%	1.9%
Declined 3-5%	4.7%
Declined 1-3%	3.5%
Basically flat (+/- 1% growth)	22.9%
Increased 1-3%	3.9%
Increased 3-5%	5.0%
Increased 5-10%	2.7%
Increased 10-15%	3.9%
Increased 15-20%	1.2%
Increased 20-30%	5.0%
Increased 30-40%	1.9%
Increased 40-60%	2.7%
Increased 60-80%	1.6%
Increased 80-100%	1.2%
Increased more than 100%	5.4%
Not Applicable	13.6%
Average	5.2%

The expected increase to organic revenues over the next 12 months is 32.9%.

Table 5. Expected Change to Organic Revenues over Next 12 Months

	Change to organic revenues
Declined 80-100%	0.4%
Declined 60-80%	0.0%
Declined 40-60%	1.2%
Declined 30-40%	0.8%
Declined 20-30%	0.8%
Declined 15-20%	1.6%
Declined 10-15%	1.9%
Declined 5-10%	1.9%
Declined 3-5%	1.6%
Declined 1-3%	1.6%
Basically flat (+/- 1% growth)	10.5%
Increased 1-3%	4.3%
Increased 3-5%	6.6%
Increased 5-10%	4.3%
Increased 10-15%	10.1%
Increased 15-20%	6.2%
Increased 20-30%	8.5%
Increased 30-40%	3.9%
Increased 40-60%	4.3%
Increased 60-80%	0.4%
Increased 80-100%	4.3%
Increased more than 100%	20.9%
Not Applicable	4.3%
Average	32.9%

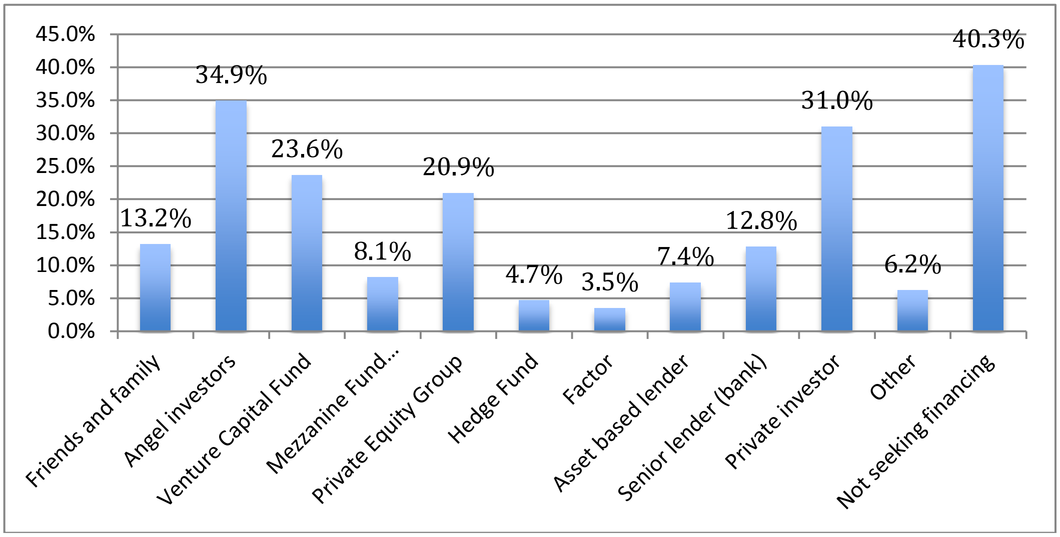
The expected increase to organic EBITDA over the next 12 months is 27.5%.

Table 6. Expected Change to Organic EBITDA over Next 12 Months

	Change to organic EBITDA
Declined 80-100%	1.2%
Declined 60-80%	0.0%
Declined 40-60%	1.2%
Declined 30-40%	0.8%
Declined 20-30%	0.8%
Declined 15-20%	2.4%
Declined 10-15%	0.8%
Declined 5-10%	3.1%
Declined 3-5%	1.6%
Declined 1-3%	2.0%
Basically flat (+/- 1% growth)	12.5%
Increased 1-3%	3.9%
Increased 3-5%	5.9%
Increased 5-10%	8.2%
Increased 10-15%	3.5%
Increased 15-20%	7.5%
Increased 20-30%	9.0%
Increased 30-40%	5.1%
Increased 40-60%	3.9%
Increased 60-80%	2.4%
Increased 80-100%	2.4%
Increased more than 100%	16.5%
Not Applicable	5.5%
Average	27.5%

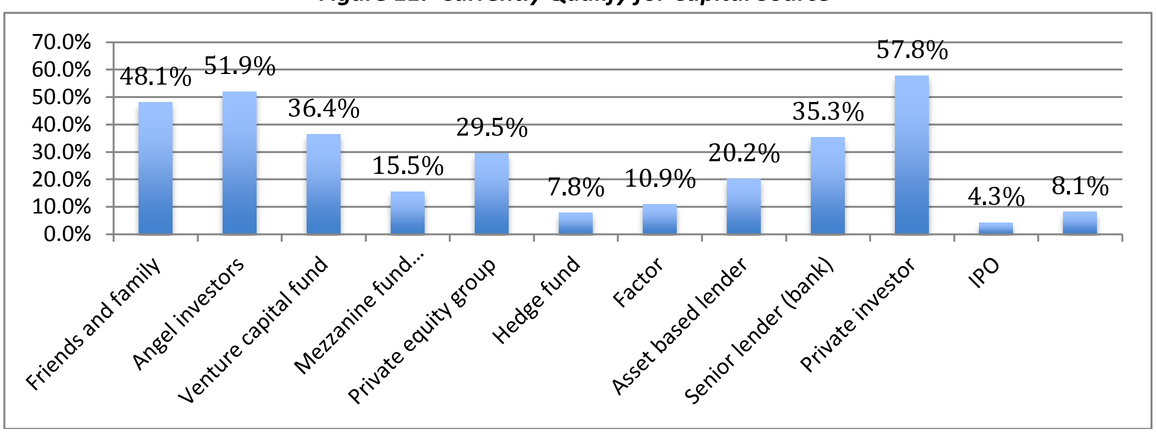
Respondents reported on where they are seeking investments. Approximately 34.9% are looking to Angel Investors, 31.0% from private investors, while 40.3% are not looking for any financing.

Figure 10. Investment or Financing Source



Over 58% of respondents feel they qualify for private investor capital while 51.9% believe they qualify for angel investor capital.

Figure 11. Currently Qualify for Capital Source



Respondents report on business and industry expectations 12 months into the future.

Table 7. General Business and Industry Assessment Expectations over Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	Score(-2 to 2)
Expenses (as % of revenues)	3.4%	20.9%	34.9%	26.8%	14.0%	0.3
Pre-tax income	3.0%	9.3%	25.3%	36.3%	26.2%	0.7
Capital expenditures	3.0%	7.6%	41.8%	35.4%	12.2%	0.5
Exit opportunities	3.4%	7.6%	43.6%	28.4%	16.9%	0.5
Opportunities for growth	0.4%	5.9%	14.3%	41.8%	37.6%	1.1
Access to growth capital	4.2%	9.3%	38.6%	33.1%	14.8%	0.5
Prices of your products or services	0.9%	6.0%	58.7%	30.6%	3.8%	0.3
Time to collect receivables	1.2%	9.9%	72.0%	13.0%	3.7%	0.1
Number of employees	1.7%	2.5%	46.0%	38.8%	11.0%	0.6
Owner compensation	0.8%	8.0%	42.6%	34.2%	14.3%	0.5
Size of industry in which you sell your products/services	0.4%	9.2%	46.2%	31.5%	12.6%	0.5
Competitive pressures	0.8%	4.2%	41.1%	40.7%	13.1%	0.6
Probability of failure	11.0%	24.9%	46.4%	14.8%	3.0%	-0.3
General business confidence	2.5%	8.9%	32.9%	40.1%	15.6%	0.6
General business conditions	4.2%	11.0%	36.4%	38.6%	9.7%	0.4
Ability to assess and price risk on new investment opportunities	1.3%	1.9%	60.0%	28.8%	8.1%	0.4

Respondents believe that overall gross domestic product will increase by 0.5% within the next 12 months, while the privately-held company GDP equivalent is expected to increase by 1.1%. Respondents also believe the probability of a double-dip recession for the entire economy is 39.2% and 37.4% for the private economy.

Table 8. GDP Forecast (12-month)

	Expected GDP change (%)
Overall GDP % change	0.5%
Privately-held company equivalent GDP	1.1%

Table 9. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	39.2%
Private economy	37.4%

BUSINESS APPRAISERS SURVEY INFORMATION

Approximately forty-two percent (42.5%) of the 252 participants in the business appraisers survey hold the Certified Public Accountant designation. Respondents believe that GDP will increase by 1.6% in the next 12 months. While this is a modest increase in GDP, business appraisers have more optimism in economic growth over the next 12 months than privately held business respondents. Other key findings include:

- The respondents are geographically dispersed throughout the country. The largest concentration is in the West (22.0%) followed by the Great Lakes (14.5%) and the North Atlantic (13.0%).

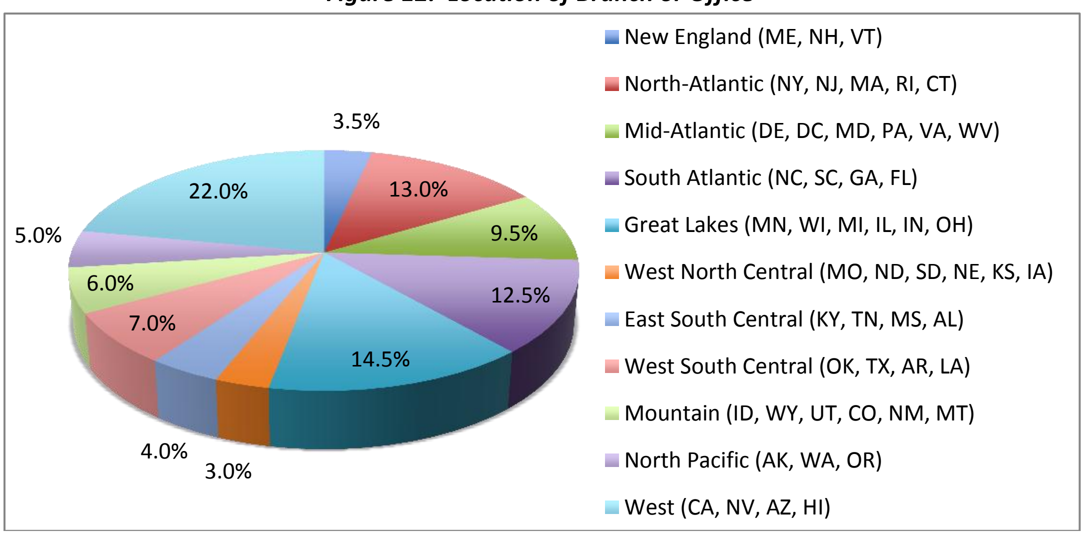
- Respondents report valuing a broad range of companies (based on annual revenue), from those that have less than $500,000 in annual revenue to companies that have over $1 billion in annual revenue. However, the majority of valuations are for companies that have revenue between $2 million and $50 million.

- Almost 75% of respondents use historical returns when determining equity risk premiums.

Profile of Respondents

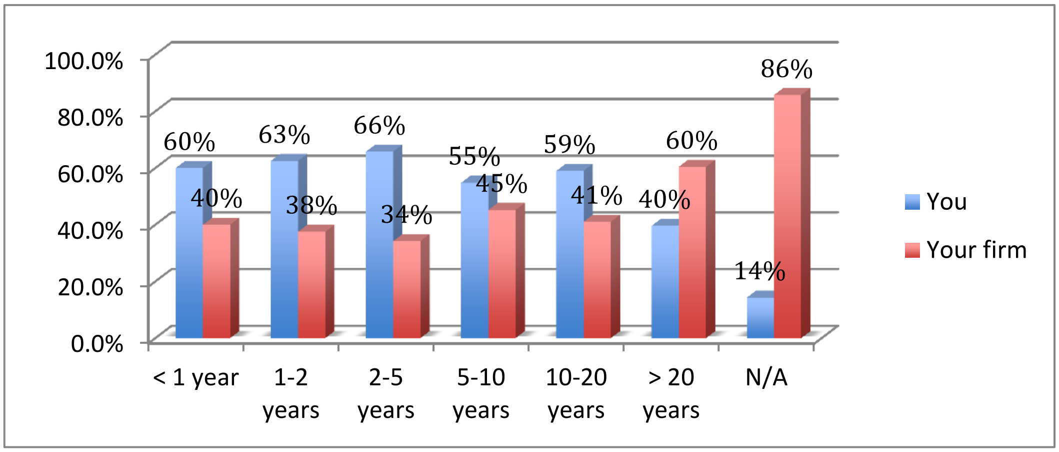
The Business Appraisers Survey results come from 252 participants located in the U.S. The respondents are geographically dispersed throughout the country. The largest concentration is in the West (22.0%) followed by the Great Lakes (14.5%) and the North Atlantic (13.0%).

Figure 12. Location of Branch or Office



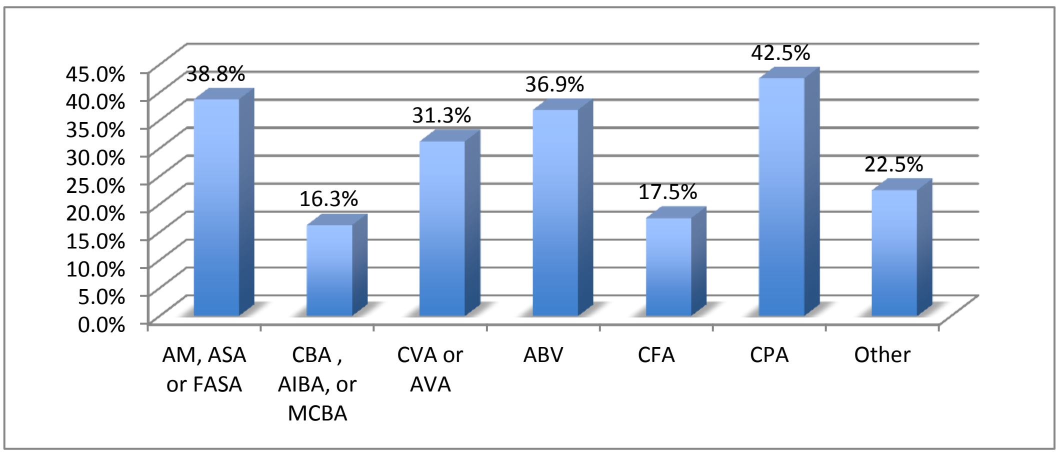
Approximately 59% of the individual respondents have over 10 years of experience in the business.

Figure 13. Years of Experience



Appraisers hold various certifications. The certification reported with greatest concentration is the CPA designation (42.5%) while nearly 39% have certifications provided by the American Society of Appraisers.

Figure 14. Professional Certifications Held



Respondents report valuing a broad range of companies (based on annual revenue), from those that have less than $500,000 in annual revenue to companies that have over $1 billion in annual revenue. However, the majority of valuations are for companies that have revenue between $2 million and $50 million.

Table 10. Size of Companies Valued

Company size	
< $500K	27.1%
$500K - $2M	43.2%
$2M - $10M	69.3%
$10M - $50M	56.8%
$50M - $250M	31.2%
$250M - $1,000M	12.1%
> $1,000M	6.5%

Operational and Assessment Characteristics

We collected respondents' reports on various individual and industry practices relative to those six months ago as well as expectations for the next 12 months. Results are reflected below.

Table 11. Comparison: Today Versus Six Months Ago

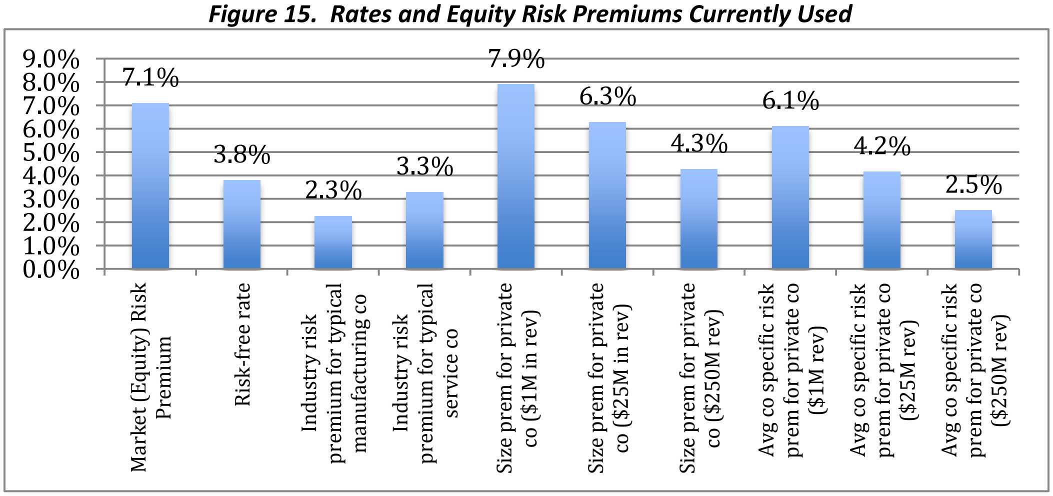
	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	Score (-2 to 2)
Number of engagements	10.7%	19.8%	28.4%	29.9%	11.2%	0.1
Time to complete a typical appraisal	0.5%	10.7%	65.0%	20.8%	3.0%	0.2
Fees for services	4.6%	21.9%	53.6%	19.4%	0.5%	-0.1
Time to receive payment for services	1.5%	9.7%	53.8%	29.7%	5.1%	0.3
Size of your BV department	1.5%	13.2%	70.6%	13.2%	1.5%	0.0
Cost of capital	0.5%	23.4%	42.2%	29.7%	4.2%	0.1
Market (equity) risk premiums	0.5%	13.8%	47.7%	32.8%	5.1%	0.3
Discounts for lack of marketability (DLOM)	1.0%	7.1%	64.3%	24.0%	3.6%	0.2
Company specific risk premiums	0.0%	4.1%	43.8%	45.4%	6.7%	0.5
General business confidence	15.3%	42.3%	23.0%	18.9%	0.5%	-0.5
General business conditions	14.7%	37.6%	25.4%	20.8%	1.5%	-0.4
Ability to assess and price risk	3.8%	26.3%	54.1%	15.8%	0.0%	-0.2

Table 12. Expectations for the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	Score (-2 to 2)
Number of engagements	0.0%	2.6%	28.6%	56.1%	12.8%	0.8
Time to complete a typical appraisal	0.0%	6.4%	83.0%	9.6%	1.1%	0.1
Fees for services	0.0%	3.1%	62.1%	34.9%	0.0%	0.3
Time to receive payment for services	0.0%	6.2%	84.0%	9.8%	0.0%	0.0
Size of your BV department	0.0%	2.0%	73.5%	23.5%	1.0%	0.2
Cost of capital	0.0%	11.4%	67.4%	21.2%	0.0%	0.1
Market (equity) risk premiums	0.0%	8.8%	70.6%	20.1%	0.5%	0.1
Discounts for lack of marketability (DLOM)	1.0%	7.2%	83.1%	8.2%	0.5%	0.0
Company specific risk premiums	0.0%	12.4%	73.2%	13.4%	1.0%	0.0
General business confidence	0.5%	12.8%	35.2%	50.5%	1.0%	0.4
General business conditions	1.0%	14.9%	32.8%	50.8%	0.5%	0.3
Ability to assess and price risk	0.8%	4.6%	70.2%	23.7%	0.8%	0.2

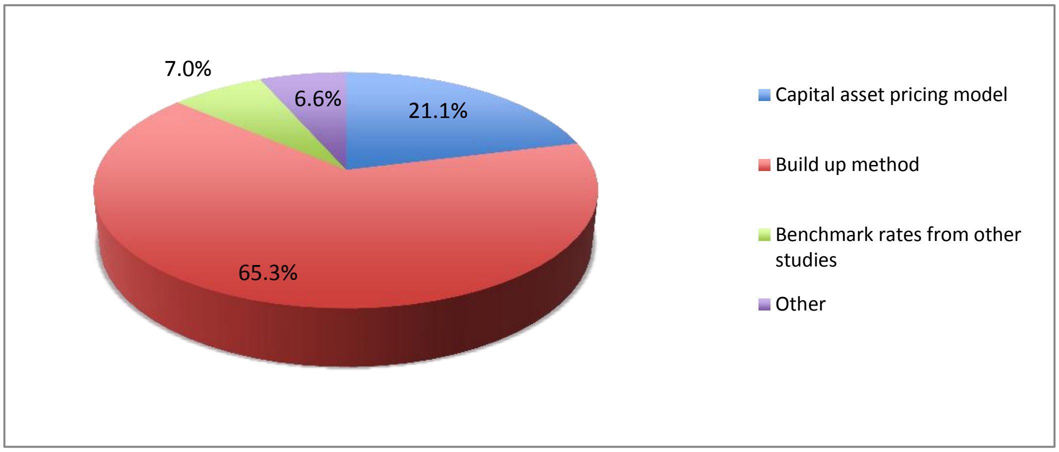
Respondents reported on rates and premiums used in appraisal assignments.

Figure 15. Rates and Equity Risk Premiums Currently Used



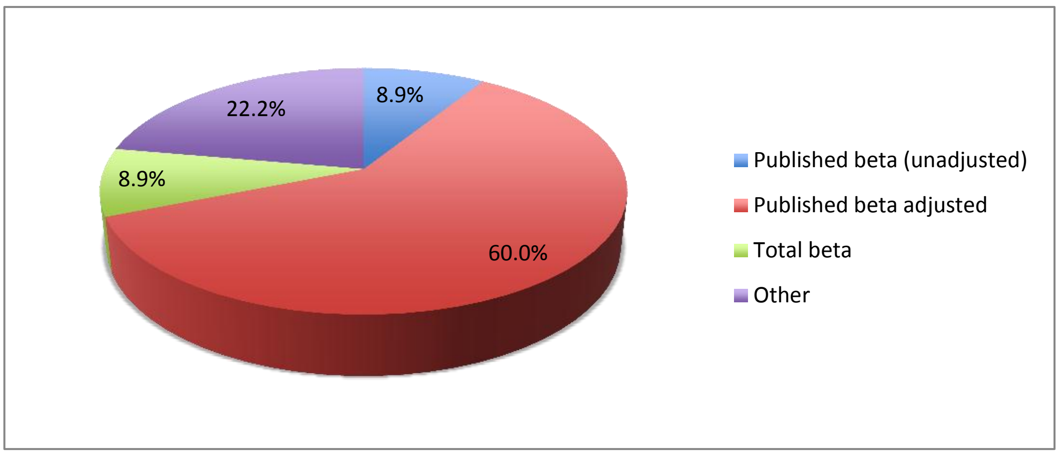
Over 65% of respondents use the build-up method when determining the equity discount rate.

Figure 16. Method of Equity Discount Rate Determination



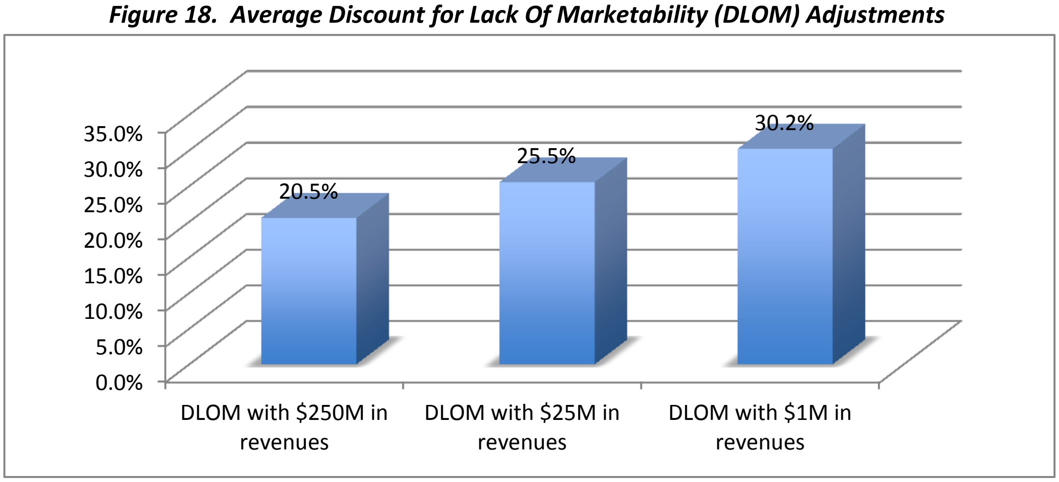
Among those using beta, approximately 60% of respondents reported using an adjusted beta to calculate an equity discount rate.

Figure 17. Beta Used



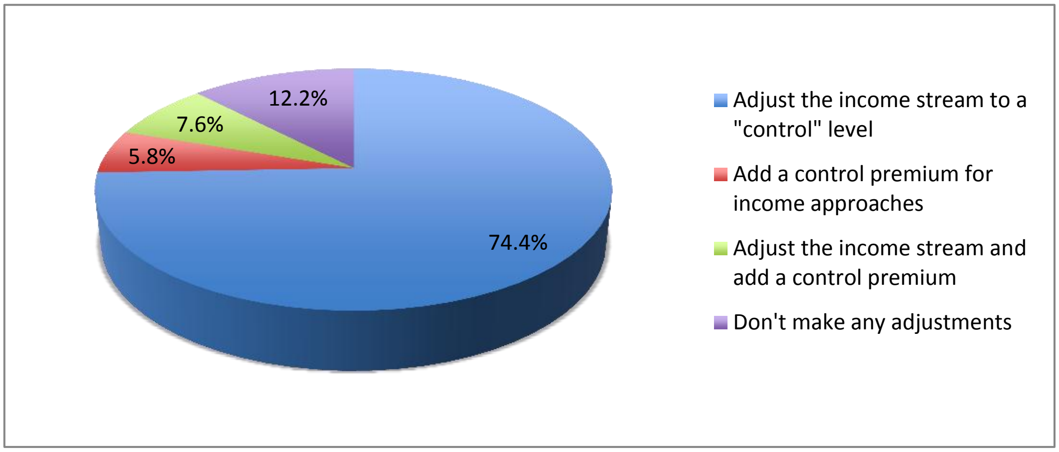
Respondents reported on various average DLOM adjustments. They range from 20.5% to 30.2%.

Figure 18. Average Discount for Lack Of Marketability (DLOM) Adjustments



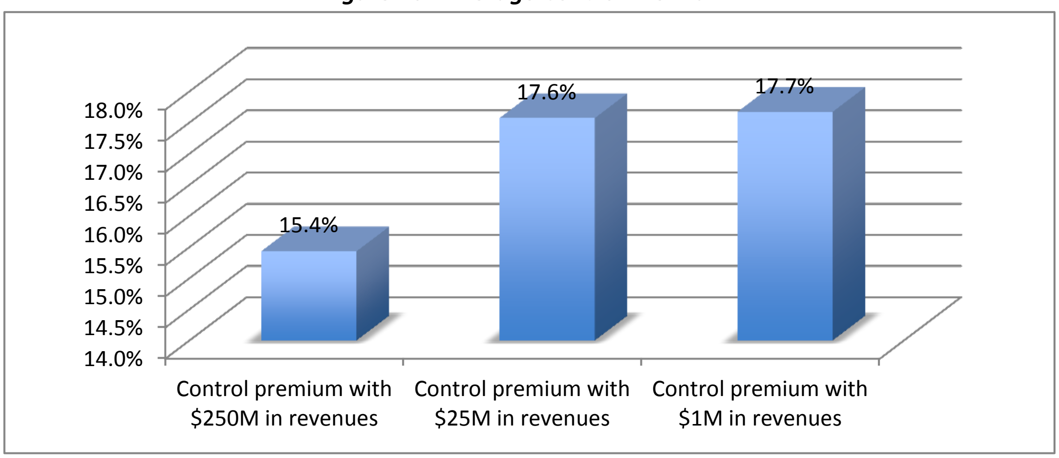
Respondents reported that 74.4% adjust the income stream to a "control" level when considering options for control adjustments.

Figure 19. Control Premium Adjustment Approaches



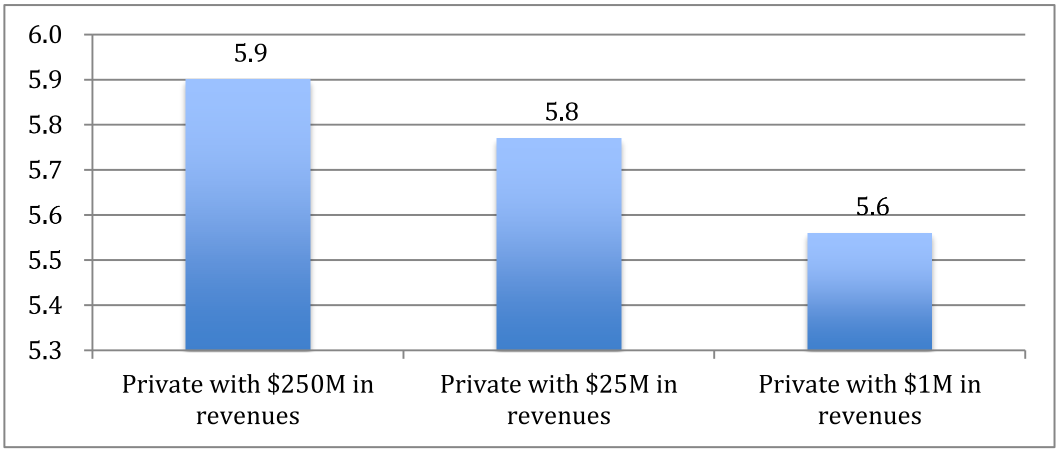
For those appraisers using control premiums, the average control premium ranges from 15.4% on companies with $250M in revenues to 17.7% on $1M revenues.

Figure 20. Average Control Premium



Respondents reported on the average high-growth period (years) used for forecasting cash flows on high growth companies.

Figure 21. Forecast Period Used (years)



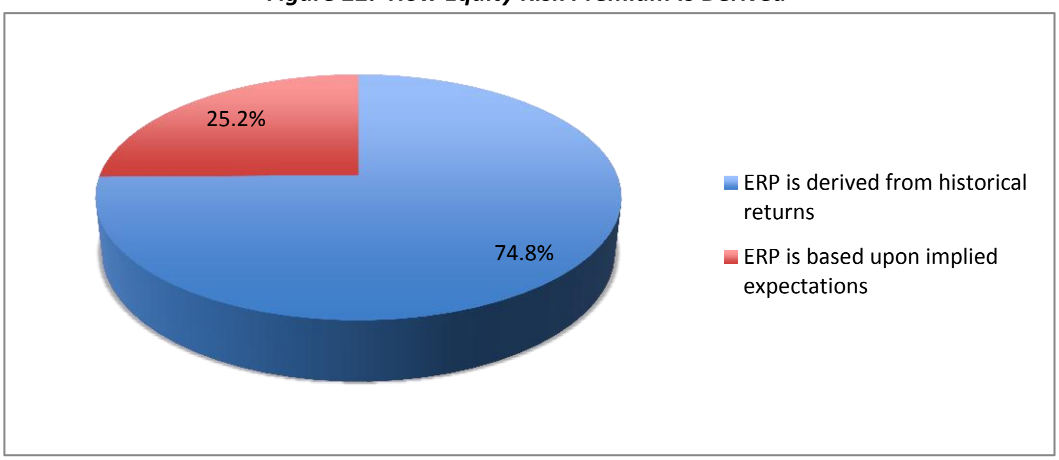
The average long-term terminal growth rate reported by respondents is 3.2%.

Table 13. Long-Term Terminal Growth Rate

Long-term terminal growth rate (%)	**3.2%**

Almost 75% of respondents use historical returns when determining equity risk premiums.

Figure 22. How Equity Risk Premium Is Derived



Respondents believe that overall gross domestic product will increase by 1.6% within next 12 months, while the privately-held company GDP equivalent is expected to increase by the same 1.6%. Respondents also believe the probability of a double-dip recession for the entire economy is 34.1% and 35.8% for the private economy.

Table 14. GDP Forecast (12-month)

	Expected GDP change (%)
Overall GDP % change	1.6%
Privately-held company equivalent GDP	1.6%

Table 15. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	34.1%
Private economy	35.8%

INVESTMENT BANKER SURVEY INFORMATION

Of the 245 respondents to the investment banker survey, 37% indicated limited access to capital as a significant issue facing private companies. 41% of respondents regard government regulation as an emerging issue facing private companies. If private business has an inability to raise capital but is increasingly regulated we may see a significant impact on the economy. While investment bankers highlighted concern and uncertainty in the market, 11% of respondents were optimistic and thought market conditions were improving while customer demand is increasing. Other key findings include:

- Approximately 38 % of respondents indicated that strategic buyers pay between 10-20% more in transactions than financial buyers.

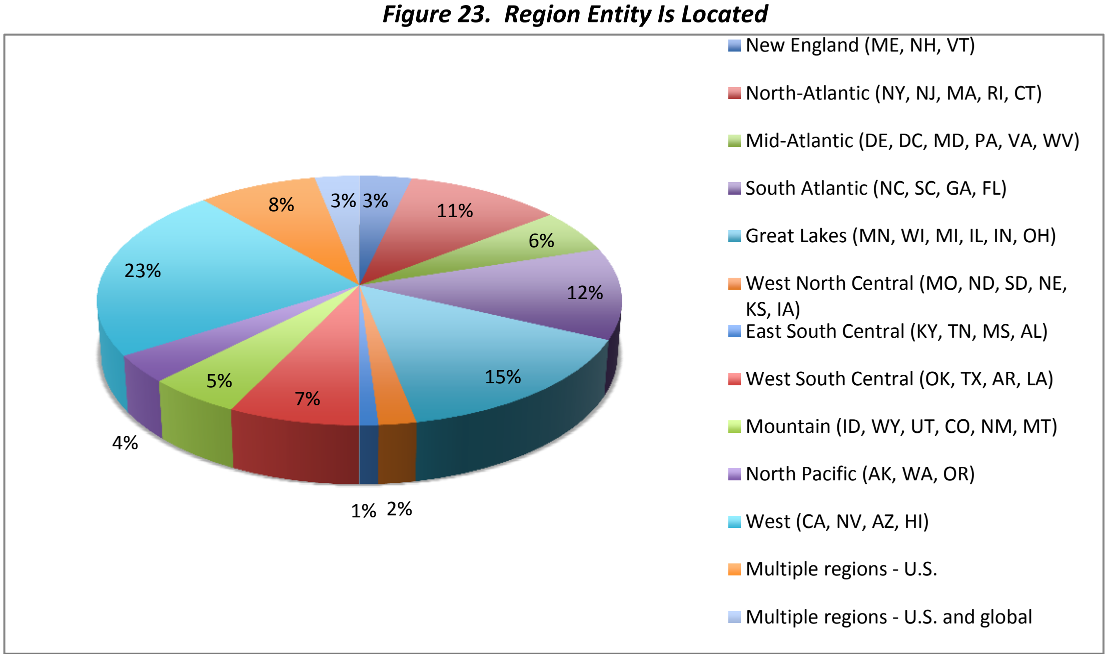
- Roughly 20% expect to close three transactions over the next 12 months. Nearly 41% of respondents reported that transactions took 6 to 9 months to close.

- Respondents reported a variety of reasons for businesses not transacting. Approximately 19% reported the business being over priced while nearly 15% indicated a general lack of capital to finance.

Profile of Respondents

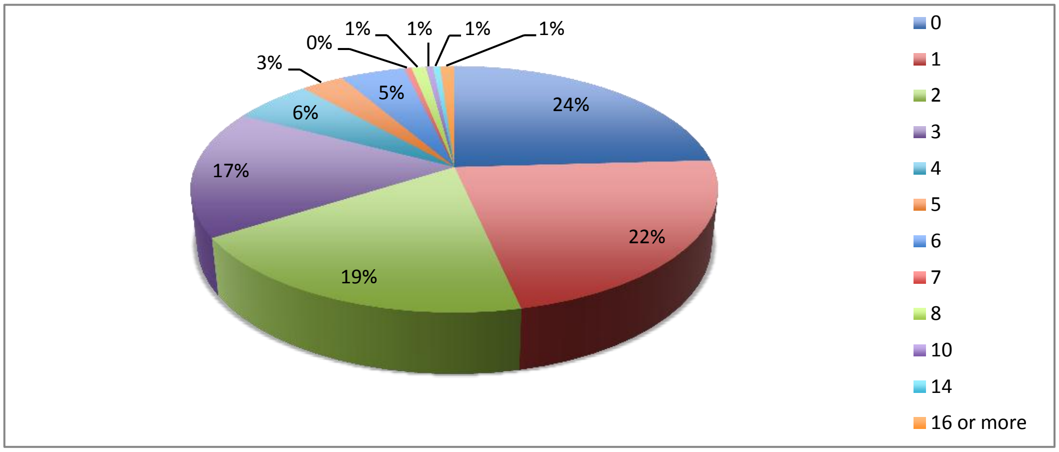
The following responses pertain to the Investment Banker Survey. Results are based upon 245 responses of this survey. Respondents are geographically dispersed throughout the United States and approximately 23% are from the west.

Figure 23. Region Entity Is Located



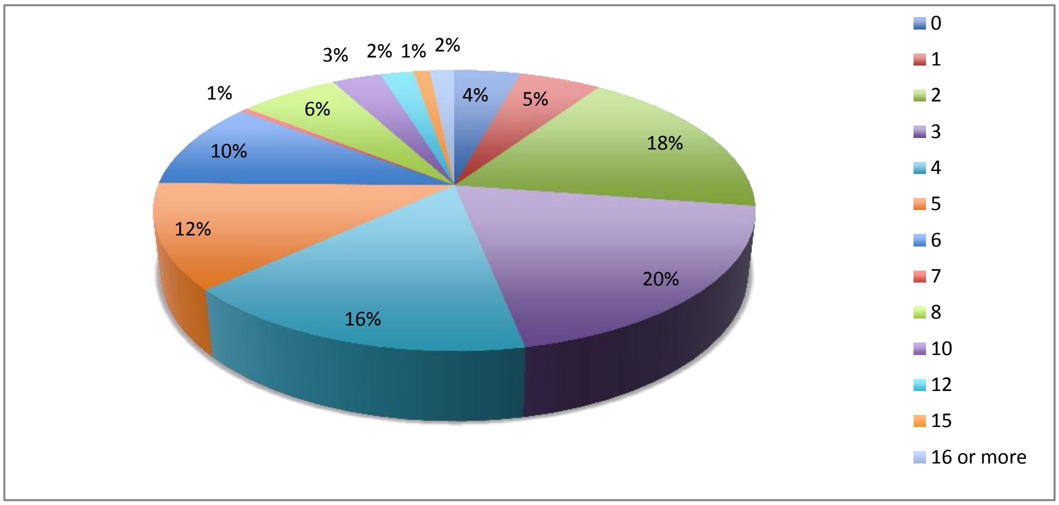
Over 24% of respondents reported not closing any transactions over the last six months while 22% closed one and another 19% closed two.

Figure 24. Business Sales Transactions Last Six Months



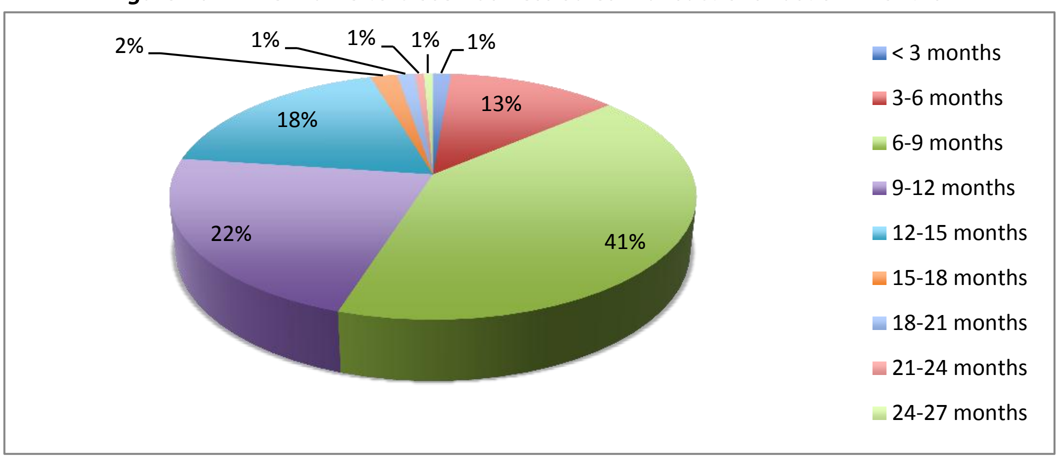
Roughly 20% expect to close three transactions over the next 12 months.

Figure 25. Business Sales Transactions Expected Next 12 Months



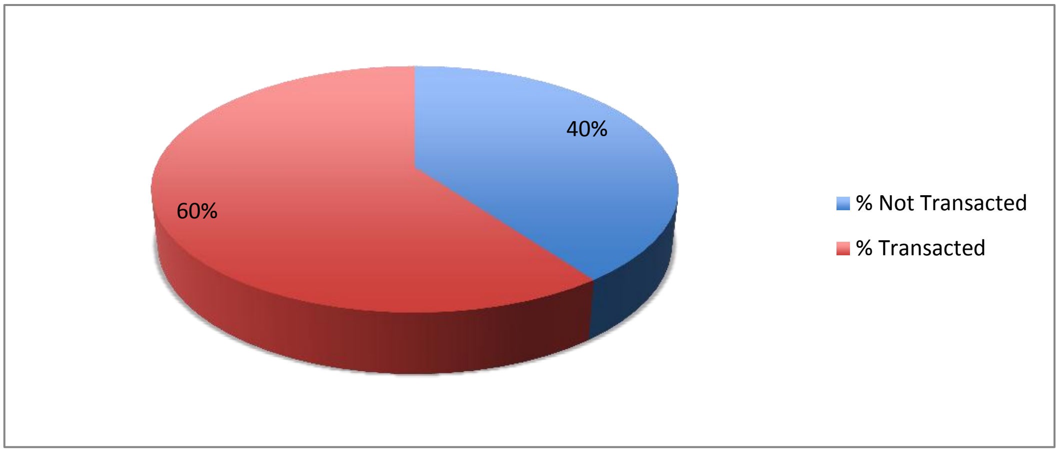
Nearly 41% of respondents reported that transactions took six to nine months to close.

Figure 26. Time Frame to Close Business Sales Transactions Last Six Months



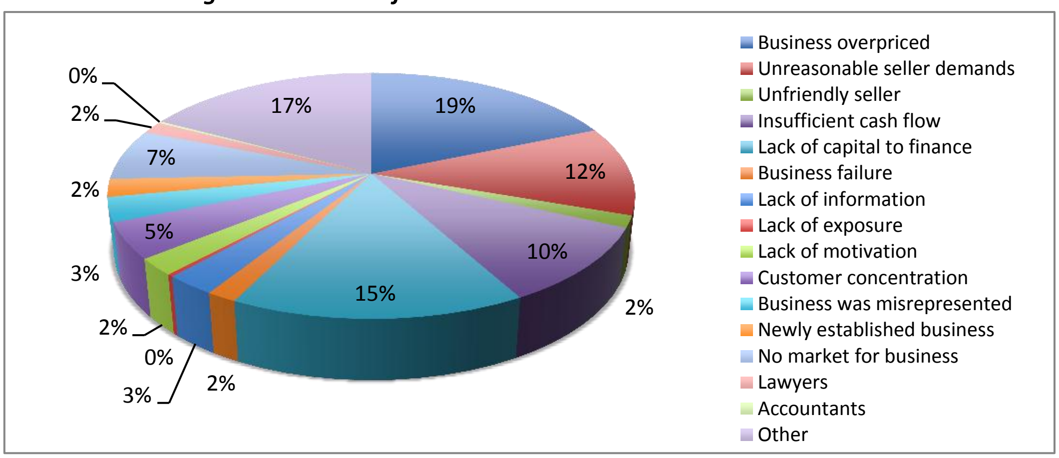
Respondents reported that 40% of their engagements were terminated without selling over the last 12 months.

Figure 27. Terminated Business Sales Transactions Last 12 Months



Respondents reported a variety of reasons for businesses not transacting. Approximately 19% reported the business being overpriced while nearly 15% indicated a general lack of capital to finance.

Figure 28. Reason for Terminated Business Sales Transactions



Respondents reported on various multiples and results are reported as 1st quartiles (25th percentile), medians, and 3rd quartiles (75th percentile).

Table 16. Deal Multiple by Size of Company

	$1M	$5M	$10M	$25M	$50M	$100M
Service						
1st Q	3.0	4.6	5.0	6.0	6.2	8.1
Med	**4.0**	**5.0**	**6.0**	**6.0**	**6.5**	**8.3**
3rd Q	4.0	5.9	6.0	6.5	6.8	8.4
Manufacturing						
1st Q	3.3	4.9	5.0	5.0	6.3	8.1
Med	**4.0**	**5.3**	**6.0**	**6.0**	**6.5**	**8.3**
3rd Q	4.5	6.0	7.0	7.2	7.3	8.4
Retail						
1st Q	1.8	4.5	4.9			
Med	**2.5**	**5.0**	**5.8**			
3rd Q	3.8	5.5	6.3			
Distribution						
1st Q	2.5	3.5	4.0	5.0	6.0	8.0
Med	**3.0**	**4.0**	**5.0**	**5.5**	**6.5**	**8.0**
3rd Q	3.4	5.0	6.0	6.0	6.8	8.0
Restaurant						
1st Q	1.0	4.0	5.1			
Med	**2.5**	**5.0**	**5.3**			
3rd Q	4.0	5.0	5.4			
Health care						
1st Q	5.0	5.0	6.3			
Med	**5.0**	**5.0**	**7.0**			
3rd Q	5.0	6.8	8.0			

	$1M	$5M	$10M	$25M	$50M	$100M
Technology						
1st Q	4.0	4.5	5.6	6.5	6.5	8.6
Med	**5.5**	**6.5**	**6.5**	**7.5**	**8.0**	**8.8**
3rd Q	11.8	7.0	9.3	12.0	11.0	8.9

Table 17. Senior Leverage Multiple by Size of Company

	$1M	$5M	$10M	$25M	$50M
Service					
1st Q	1.5	2.0	2.0	2.8	3.9
Med	2.0	2.0	2.5	3.0	4.6
3rd Q	2.3	3.9	3.0	4.3	5.3
Manufacturing					
1st Q	1.1	2.0	3.0		
Med	2.0	2.5	3.0		
3rd Q	2.5	3.0	4.0		

Health care	$1M	$5M	$10M
1st Q	2.5	2.4	2.8
Med	2.5	2.8	3.0
3rd Q	4.8	3.3	3.5
Technology			
1st Q	1.0	1.8	2.2
Med	2.5	2.5	3.0
3rd Q	4.6	3.4	5.1

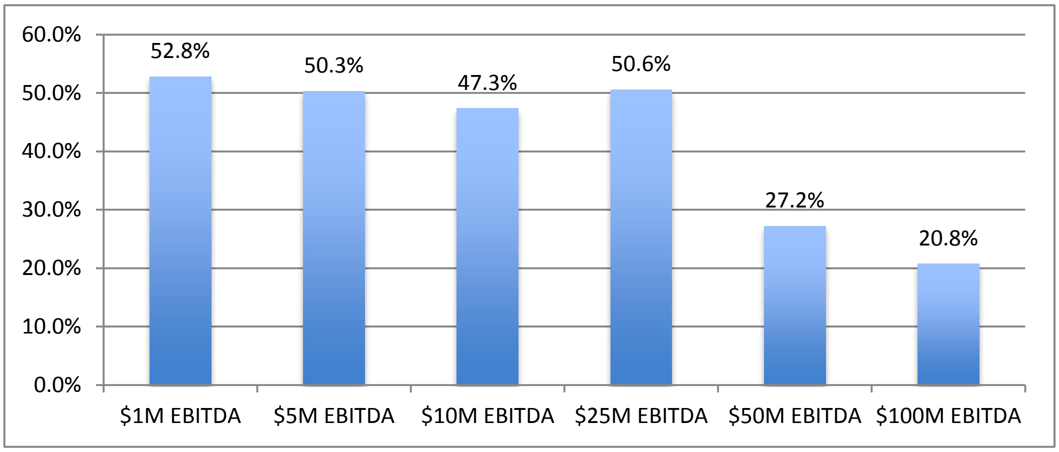
Table 18. Total Leverage Multiple by Size of Company

	$1M	$5M	$10M	$25M
Service				
1st Q	2.0	2.0	3.5	5.6
Med	3.0	3.0	3.8	5.8
3rd Q	3.8	3.8	4.8	5.9
Manufacturing				
1st Q	2.3	3.0	3.9	
Med	3.0	3.5	4.5	
3rd Q	3.5	4.0	5.0	

	$1M	$5M	$10M	$25M	$50M
Retail					
1st Q	1.8	3.3	4.6		
Med	2.5	4.5	4.8		
3rd Q	3.3	4.5	4.9		
Wholesale					
1st Q	1.5	2.0	5.0	5.1	
Med	2.0	3.0	5.0	5.3	
3rd Q	3.0	3.5	5.0	5.4	
Distribution					
1st Q	1.8	4.0	3.5		
Med	2.5	4.0	4.0		
3rd Q	3.3	4.1	4.5		
Oil and gas					
1st Q	1.1	2.8		4.4	
Med	1.8	3.0		4.8	
3rd Q	2.5	3.4		5.1	
Technology					
1st Q	0.3	2.0	3.6	4.8	4.9
Med	1.3	3.5	4.5	5.0	5.3
3rd Q	2.7	3.8	5.3	5.3	5.6
Media and entertainment					
1st Q	1.0	2.0	3.5		
Med	2.0	4.0	4.0		
3rd Q	4.0	5.0	4.5		
Clean technology					
1st Q	1.8	3.0	4.3		
Med	2.5	3.5	4.5		
3rd Q	3.3	4.0	4.8		

Respondents reported the level of equity required to close deals based on EBITDA.

Figure 29. Equity Required to Close Deals over Last Six Months



Respondents provided their assessment of business conditions over the last six months and their forecasts for the next 12 months.

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

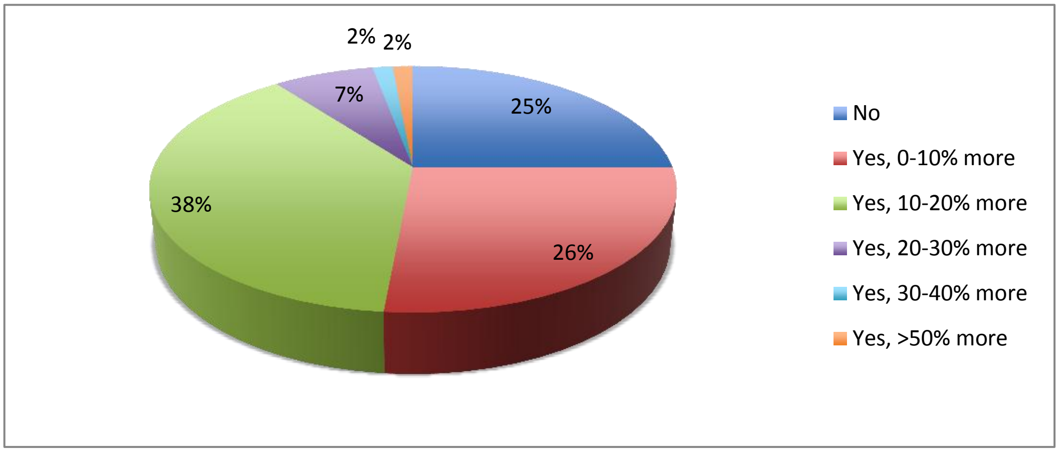
	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	Score (-2 to 2)
Deal flow	6.1%	9.9%	16.0%	42.7%	25.2%	0.7
Private business sales	7.2%	10.4%	20.8%	48.0%	13.6%	0.5
Private business sales by auction	8.6%	9.5%	38.8%	34.5%	8.6%	0.3
Ratio of businesses sold / total listings	7.8%	17.2%	37.1%	32.8%	5.2%	0.1
Senior leverage multiples	5.8%	15.0%	45.0%	33.3%	0.8%	0.1
Total leverage multiples	5.8%	14.0%	42.1%	37.2%	0.8%	0.1
Deal multiples	2.4%	17.1%	37.4%	39.0%	4.1%	0.3
Business exit opps	7.4%	18.0%	22.1%	43.4%	9.0%	0.3
Time to sell business	3.3%	13.9%	30.3%	37.7%	14.8%	0.5
Difficulty selling business	0.8%	23.0%	39.3%	23.8%	13.1%	0.3
Business opps for growth	4.2%	10.9%	40.3%	37.8%	6.7%	0.3
Business access to growth cap	14.8%	19.7%	32.0%	30.3%	3.3%	-0.1
Businesses probability of failure	1.7%	23.1%	40.5%	24.8%	9.9%	0.2
General business confidence	12.0%	24.8%	32.0%	29.6%	1.6%	-0.2
General business conditions	8.9%	25.0%	34.7%	30.6%	0.8%	-0.1
Strategic buyers	3.1%	8.3%	33.3%	51.0%	4.2%	0.5

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

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	Score (-2 to 2)
Deal flow	1.6%	4.7%	15.0%	51.2%	27.6%	1.0
Private business sales	1.6%	8.9%	17.1%	51.2%	21.1%	0.8
Private business sales by auction	0.8%	10.0%	31.7%	45.0%	12.5%	0.6
Ratio of businesses sold / total listings	1.7%	6.8%	30.5%	49.2%	11.9%	0.6
Senior leverage multiples	0.8%	5.8%	48.3%	40.8%	4.2%	0.4
Total leverage multiples	0.8%	5.9%	45.4%	43.7%	4.2%	0.5
Deal multiples	1.6%	8.1%	35.8%	50.4%	4.1%	0.5
Business exit opps	1.6%	6.6%	29.5%	49.2%	13.1%	0.7
Time to sell business	0.0%	18.5%	43.7%	27.7%	10.1%	0.3
Difficulty selling business	4.1%	25.2%	48.8%	18.7%	3.3%	-0.1
Business opps for growth	0.8%	5.0%	42.0%	42.9%	9.2%	0.6
Business access to growth cap	1.7%	9.1%	35.5%	47.9%	5.8%	0.5
Businesses probability of failure	5.0%	25.0%	45.0%	20.8%	4.2%	-0.1
General business confidence	4.9%	9.8%	35.8%	44.7%	4.9%	0.4
General business conditions	4.1%	13.1%	32.8%	46.7%	3.3%	0.3
Strategic buyers	2.2%	0.0%	45.1%	40.7%	12.1%	0.6

Approximately 38 % of respondents indicated that strategic buyers pay between 10-20% more in transactions than financial buyers.

Figure 30. Premiums Paid by Strategic Buyers When Competing with Financial Buyers over Last Six Months



Respondents believe that overall gross domestic product will increase by 1.0% in the next 12 months, while the privately-held company GDP equivalent is expected to increase by 1.0%. Respondents also believe the probability of a double-dip recession for the entire economy is 36.1% and 37.3% for the private economy.

Table 21. GDP Forecast (12-month)

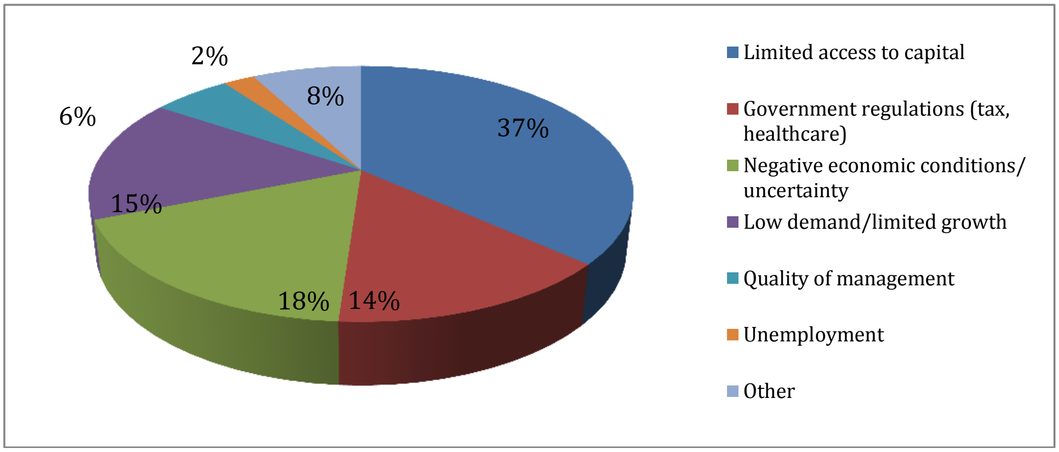
	Expected GDP change (%)
Overall GDP % change	1.0%
Privately-held company equivalent GDP	1.0%

Table 22. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	36.1%
Private economy	37.3%

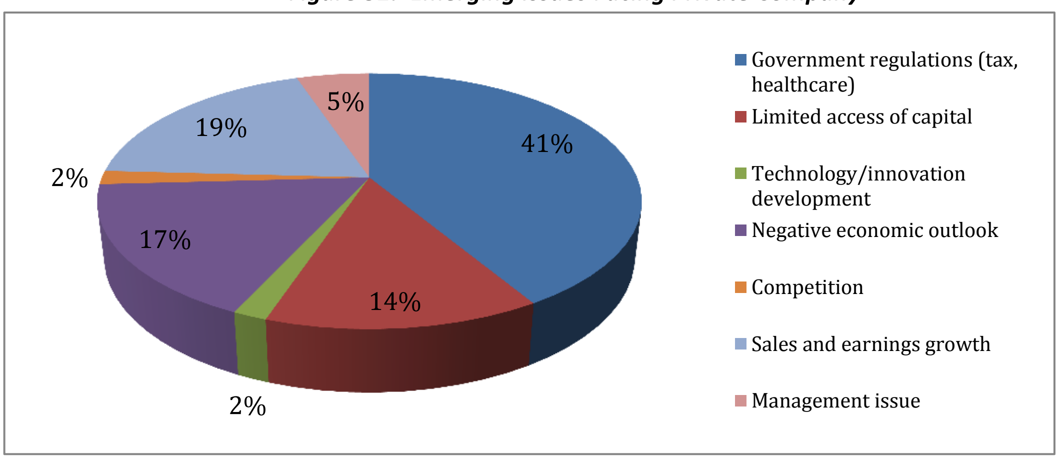
Approximately 37% of investment bankers regard limited access to capital as a prominent issue faced by private companies, while 18% choose negative economic conditions/uncertainty and 15% choose low-demand or limited-growth opportunities.

Figure 31. Issues Facing Private Company



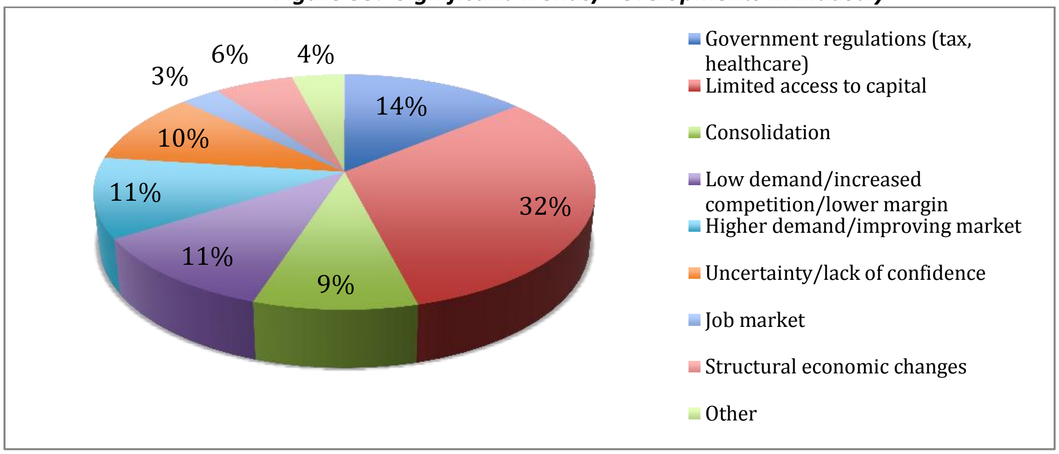
Investment bankers also pointed to government regulations as the biggest potential issue (41%). The second biggest worry of this group is sluggish sales and earnings growth (19%). Negative economic outlook got 17% of the votes, followed by limited capital access (14%).

Figure 32. Emerging Issues Facing Private Company



The top five trends identified by investment bankers are limited access to capital (32%), government regulations (14%), lower profit margin caused by increased competition and low demand (11%), and uncertainty and lack of confidence about economic future (10%). It is worth noticing that we still have 11% optimistic respondents, who think the market condition is improving and customer demand is increasing.

Figure 33. Significant Trends/Developments in Industry



BROKER SURVEY INFORMATION

Eighteen percent of the 71 participants in the Broker survey said they expect to close two transactions in the next 12 months. Twenty-nine percent of respondents said 3-6 months as the average time frame for transactions to close. Lack of capital to finance drove nearly 46% of reported engagements to be terminated without a transaction. Other factors that drove a high termination without a transaction rate were insufficient cash flow and overpriced businesses. Other key findings include:

- Respondents believe that overall gross domestic product will increase by 0.6% in the next 12 months, while the privately-held company GDP equivalent is expected to increase by 0.7%.
- 37% of respondents believe that "general business confidence" will increase slightly over the next 12 months.
- 71.1% of respondents have said that private business sales will "increase slightly" over the next 12 months.

Profile of Respondents

The broker survey results were generated from 71 participants. Over 28% are located in the west. Over 84% closed at least one transaction in the last six months.

Figure 34. Region Where Entity Is Located

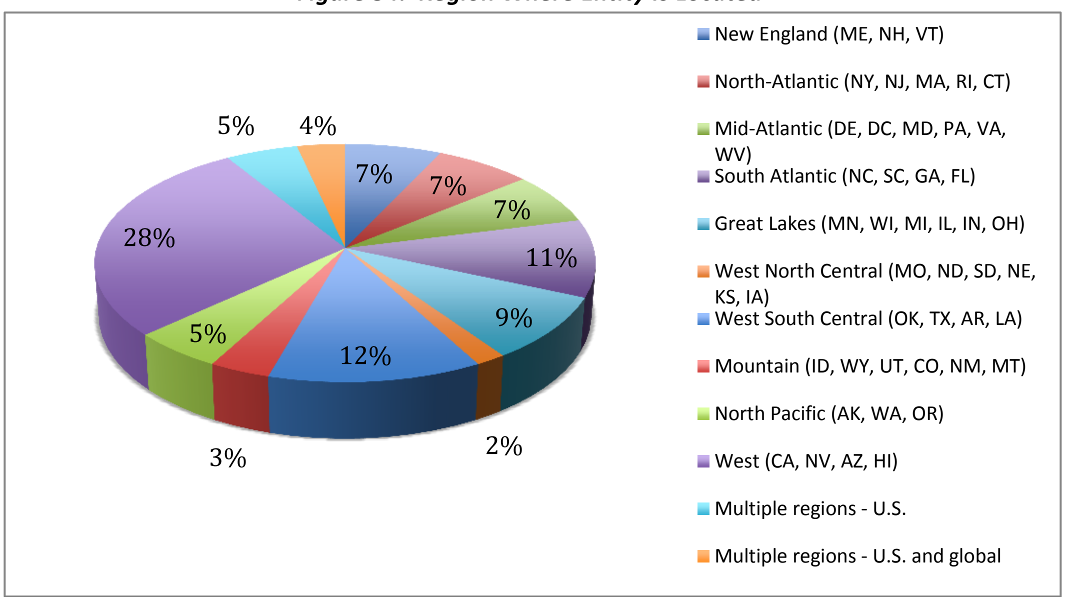
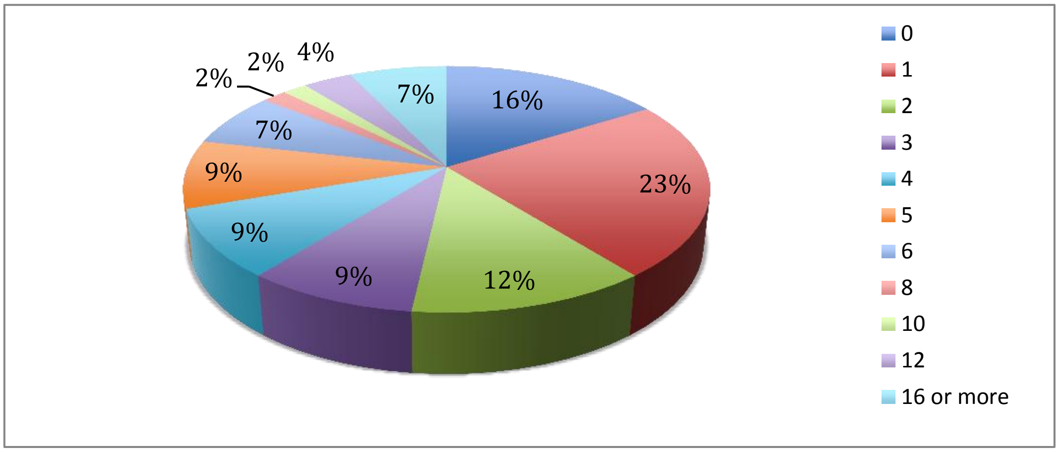
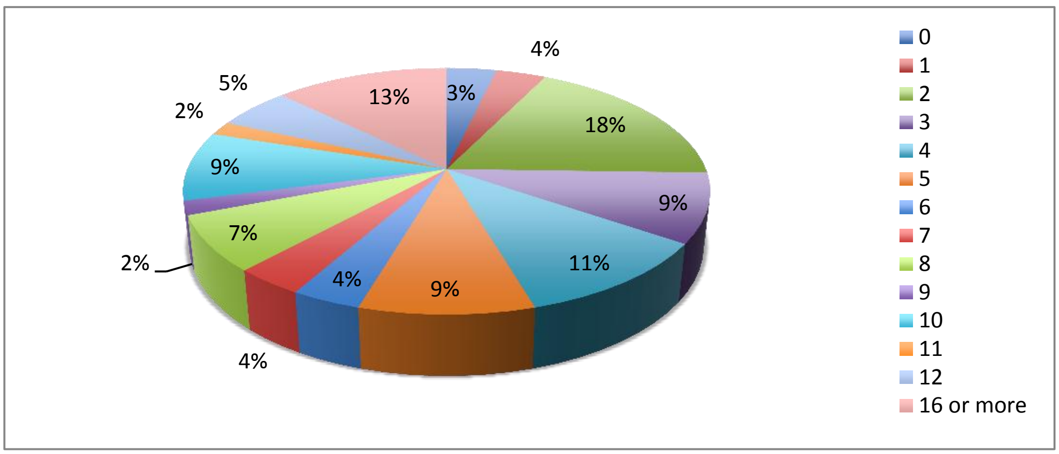


Figure 35. Business Sales Transactions Last Six Months



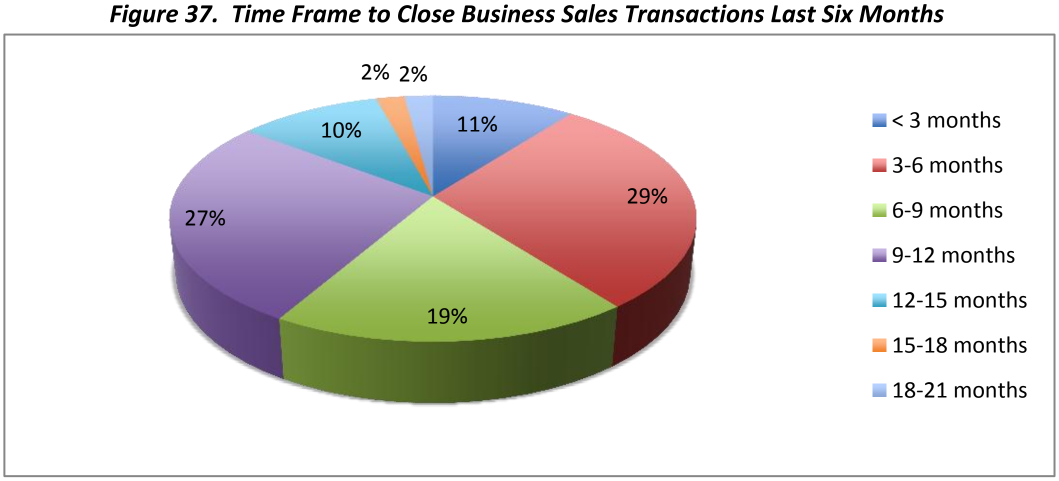
Approximately 18% of respondents anticipate they will close two transactions over the next 12 months.

Figure 36. Business Sales Transactions Expected Next 12 Months



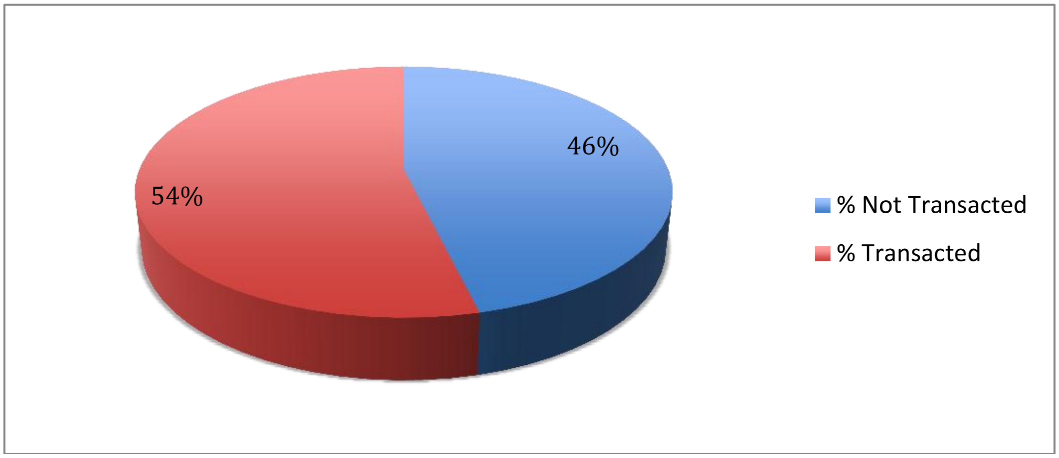
Respondents reported on the time it took to close transactions over the last six months. Approximately 29% stated it took three to six months to close a transaction on average.

Figure 37. Time Frame to Close Business Sales Transactions Last Six Months



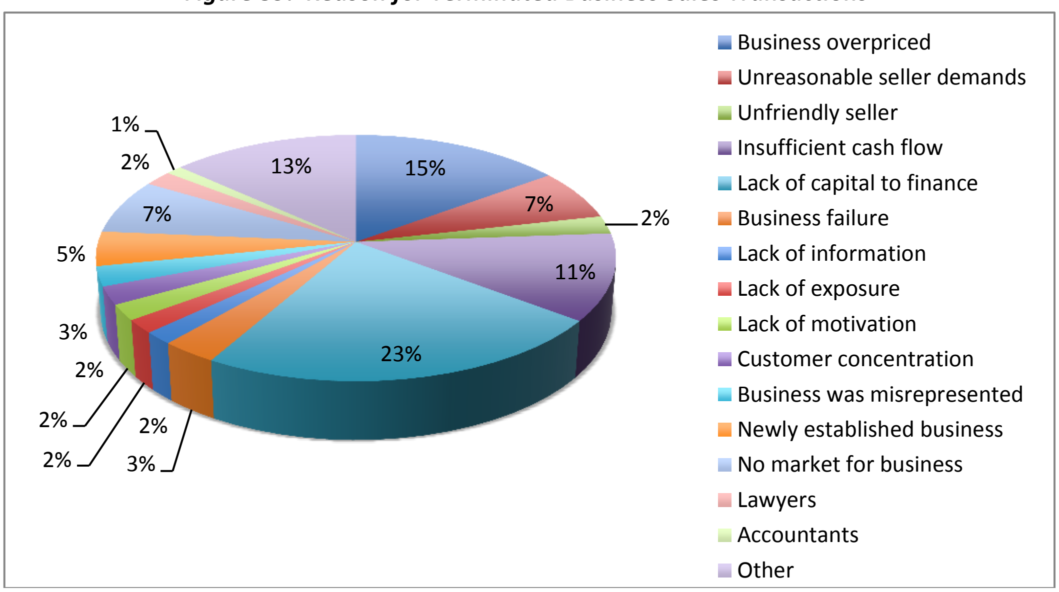
Of all the transactions respondents were working on over the last six months, over 46% of engagements terminated without a transaction.

Figure 38. Terminated Business Sales Transactions over Last 12 Months



One of the main reasons transactions terminated was due to a lack of capital to finance, followed by businesses being overpriced and insufficient cash flow.

Figure 39. Reason for Terminated Business Sales Transactions



Respondents reported on their view of business conditions over the last six months as well as expectations for the next 12 months.

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

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	Score (-2 to 2)
Deal flow	14.3%	6.1%	22.4%	44.9%	12.2%	0.4
Private business sales	12.8%	17.0%	21.3%	38.3%	10.6%	0.2
Ratio of businesses sold / total listings	6.4%	25.5%	40.4%	25.5%	2.1%	-0.1
Total leverage multiples	6.5%	28.3%	50.0%	13.0%	2.2%	-0.2
Deal multiples	6.3%	31.3%	41.7%	18.8%	2.1%	-0.2
Time to sell business	0.0%	8.3%	31.3%	50.0%	10.4%	0.6
Difficulty selling business	2.1%	14.6%	31.3%	35.4%	16.7%	0.5
Business exit opportunities	10.6%	25.5%	42.6%	17.0%	4.3%	-0.2
Business opportunities for growth	6.3%	25.0%	41.7%	22.9%	4.2%	-0.1
Business access to growth capital	22.9%	33.3%	27.1%	12.5%	4.2%	-0.6
Businesses probability of failure	8.5%	27.7%	27.7%	34.0%	2.1%	-0.1
General business confidence	14.6%	33.3%	25.0%	25.0%	2.1%	-0.3
General business conditions	10.4%	37.5%	29.2%	20.8%	2.1%	-0.3

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

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	Score (-2 to 2)
Deal flow	2.2%	6.5%	13.0%	65.2%	13.0%	0.8
Private business sales	0.0%	8.7%	15.2%	71.7%	4.3%	0.7
Ratio of businesses sold / total listings	0.0%	10.9%	30.4%	52.2%	6.5%	0.5
Total leverage multiples	0.0%	11.1%	64.4%	22.2%	2.2%	0.2
Deal multiples	0.0%	8.7%	63.0%	26.1%	2.2%	0.2
Time to sell business	0.0%	26.1%	54.3%	15.2%	4.3%	-0.0
Difficulty selling business	0.0%	30.4%	47.8%	17.4%	4.3%	-0.0
Business exit opportunities	2.2%	11.1%	42.2%	42.2%	2.2%	0.3
Business opportunities for growth	2.2%	13.0%	41.3%	43.5%	0.0%	0.3
Business access to growth capital	4.3%	23.9%	41.3%	28.3%	2.2%	0.0
Businesses probability of failure	6.5%	26.1%	50.0%	17.4%	0.0%	-0.2
General business confidence	2.2%	23.9%	32.6%	37.0%	4.3%	0.2
General business conditions	2.2%	21.7%	26.1%	43.5%	6.5%	0.3

Respondents believe that overall gross domestic product will increase by 0.6% in the next 12 months, while the privately-held company GDP equivalent is expected to increase by 0.7%. Respondents also believe the probability of a double-dip recession for the entire economy is 36.7% and 39.2% for the private economy.

Table 25. GDP Forecast (12-month)

	Expected GDP change (%)
Overall GDP % change	0.6%
Privately-held company equivalent GDP	0.7%

Table 26. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	36.7%
Private economy	39.2%

LIMITED PARTNER SURVEY INFORMATION

Fifty-four participants in the limited partner survey said that venture capital will enjoy 21.1% annual return expectations for new investment in alternative asset classes. While respondents suggest that private equity can expect to see a 17% return. Forty-eight percent of respondents said that PE provides the best risk/return trade-off investment class. When asked of specific industries 54% of respondent said that oil, gas and other utilities provide the best risk/return trade-off. While only 3.8% of respondents said that “general business conditions” will improve significantly over the next 12 months, 57.7% respondents expect conditions to improve slightly. Other key findings include:

- Approximately 47% of respondents reported their asset category to be in the $1B-$10B range. Regarding areas of investment, 86% of respondents report investing in private equity groups and venture capital funds.

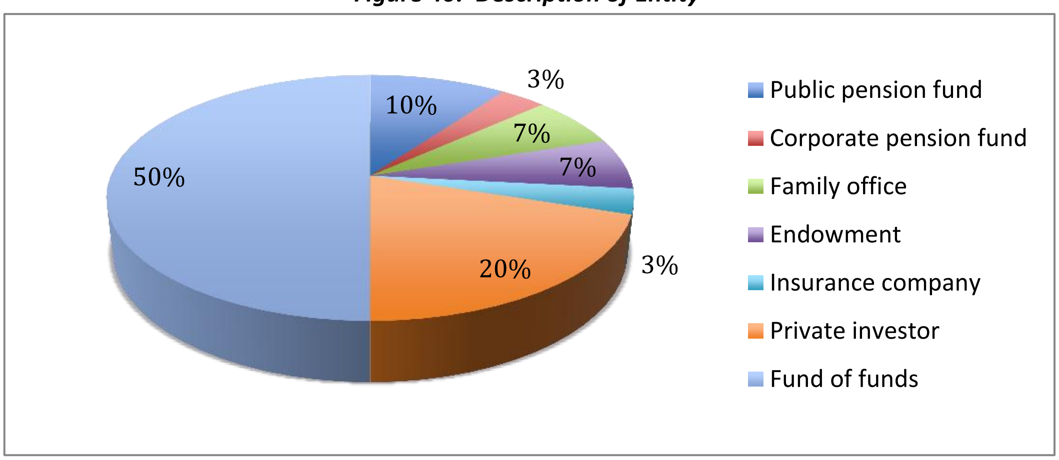
- In regard to the geographic region with the best risk/return trade-off, 56% of respondents reported the West, followed by the North-Atlantic (40%) and Mid-Atlantic (40%) areas.

- 9.5% of respondents expect returns on new capital deployed to “increase significantly.”

Profile of Respondents

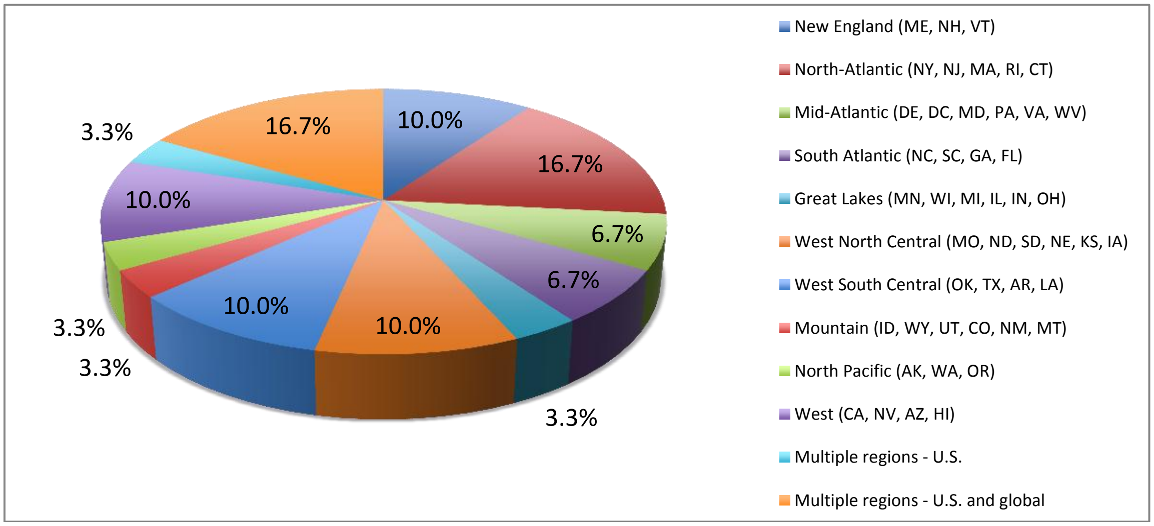
54 participants responded to the Limited Partner survey. They are geographically dispersed throughout the United States. Of those surveyed, 50% reported being a fund of funds, followed by 20% who are private investors.

Figure 40. Description of Entity



Respondents reported their location being in the North-Atlantic region (16.7%), while the same amount (16.7%) reported to being from multiple regions in the United States and globally.

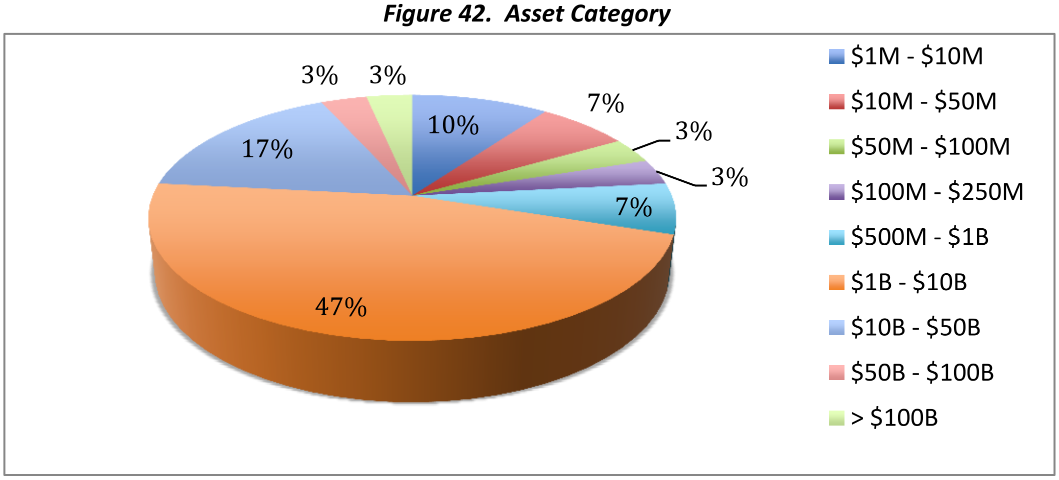
Figure 41. Region Entity Is Located



Operational Characteristics

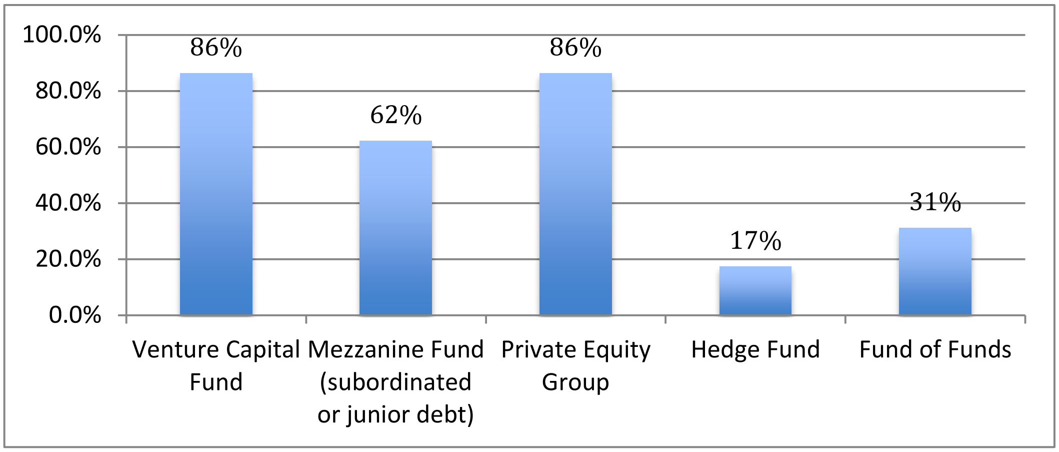
Approximately 47% of respondents reported their asset category to be in the $1B-$10B range.

Figure 42. Asset Category



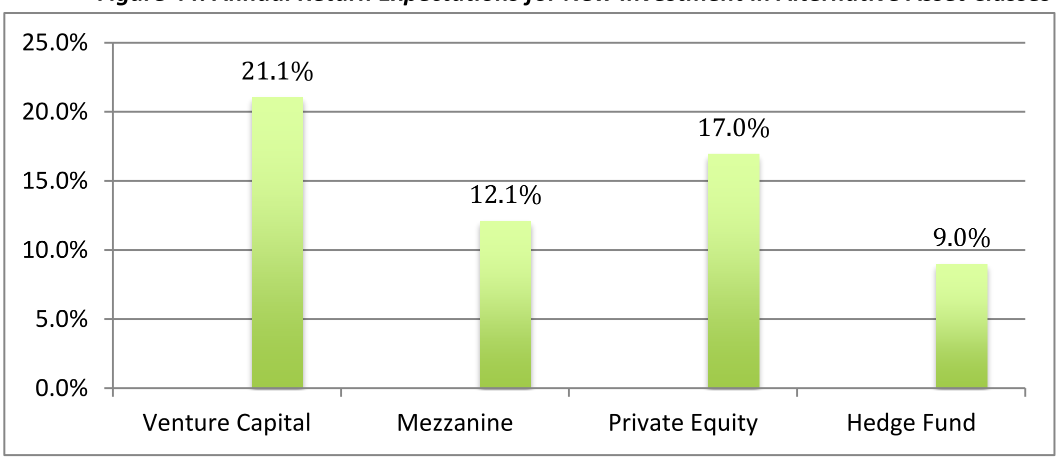
Regarding areas of investment, 86% of respondents report investing in private equity groups and venture capital funds.

Figure 43. Investment Classes



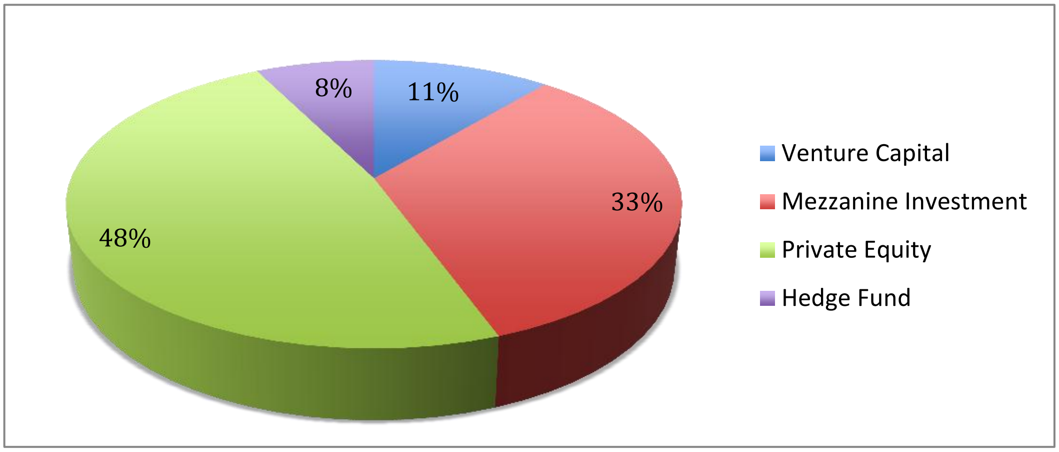
The expected returns on new investments are identified below. For venture capital investments, the expected return is 21.1%, followed by a return of 17.0% for private equity investments.

Figure 44. Annual Return Expectations for New Investment in Alternative Asset Classes



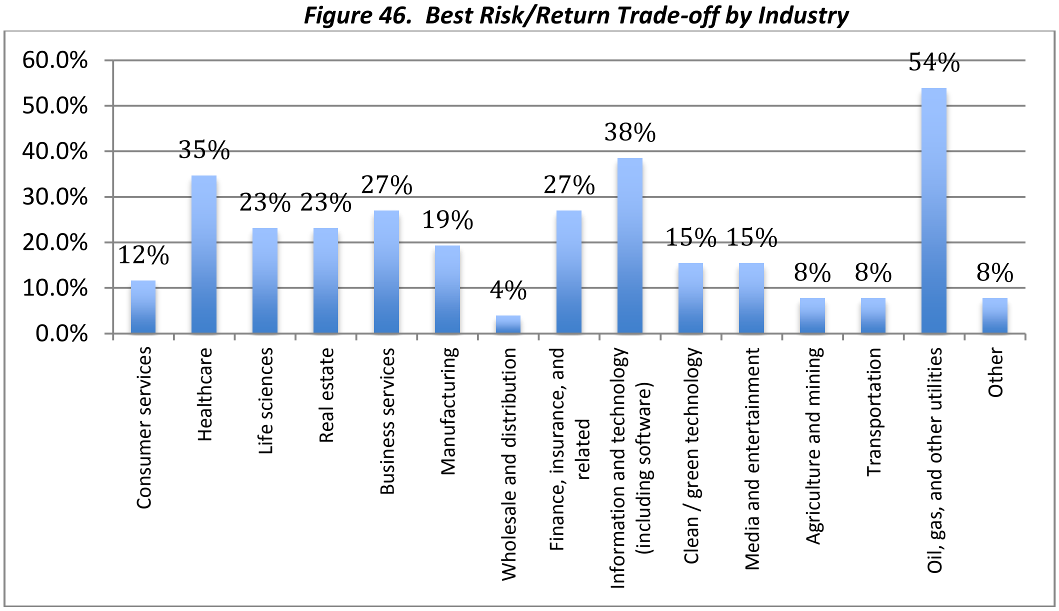
Approximately 48% of respondents reported private equity as being the best risk/return trade-off investment class, followed by mezzanine at 33%.

Figure 45. Best Risk/Return Trade-off by Asset Class



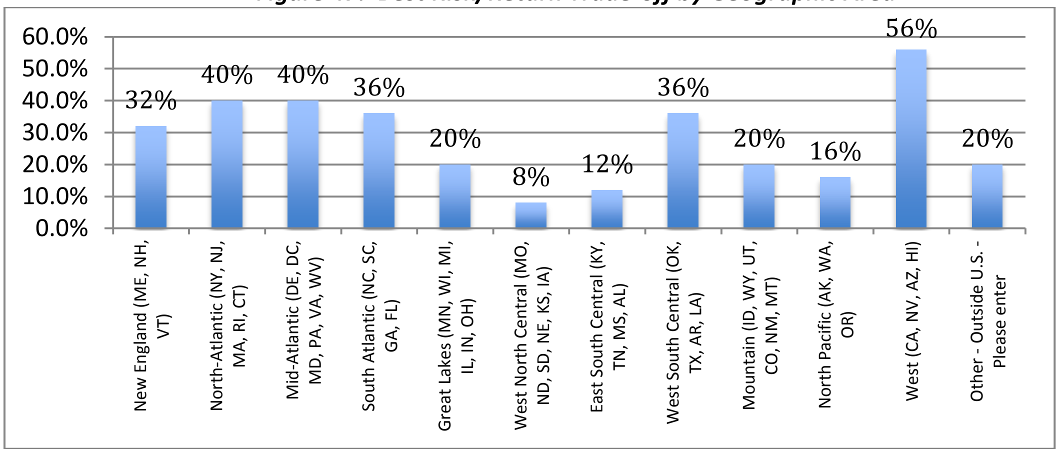
When asked about which industry currently offers the best risk/return trade-off, 54% of respondents reported oil, gas, and other utilities, followed by 38% reporting information and technology.

Figure 46. Best Risk/Return Trade-off by Industry



In regard to the geographic region with the best risk/return trade-off, 56% of respondents reported the West, followed by the North-Atlantic (40%) and Mid-Atlantic (40%) areas.

Figure 47. Best Risk/Return Trade-off by Geographic Area



Industry and Economic Outlook

We asked respondents to report various operational and industry items as compared to those items six months ago. Respondents reported as follows.

Table 27. General Operational Assessment Today Versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	Score (-2 to 2)
Allocation to venture capital	3.8%	11.5%	76.9%	7.7%	0.0%	-0.1
Allocation to private equity	0.0%	8.0%	84.0%	8.0%	0.0%	0.0
Allocation to mezzanine	0.0%	4.0%	84.0%	12.0%	0.0%	0.1
Allocation to hedge funds	0.0%	0.0%	93.8%	6.3%	0.0%	0.1
General business confidence	8.0%	16.0%	20.0%	56.0%	0.0%	0.2
General business conditions	0.0%	23.1%	19.2%	57.7%	0.0%	0.3
Expected returns	4.8%	9.5%	52.4%	33.3%	0.0%	0.1

Respondents reported their predictions over the next 12 months. Results are reported as follows.

Table 28. 12-Month Outlook

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	Score (-2 to 2)
Allocation to venture capital	7.7%	0.0%	73.1%	19.2%	0.0%	0.0
Allocation to private equity	4.0%	0.0%	76.0%	20.0%	0.0%	0.1
Allocation to mezzanine	8.0%	0.0%	72.0%	20.0%	0.0%	0.0
Allocation to hedge funds	5.6%	5.6%	72.2%	16.7%	0.0%	0.0
General business confidence	0.0%	7.7%	23.1%	65.4%	3.8%	0.7
General business conditions	3.8%	3.8%	30.8%	53.8%	7.7%	0.6
Expected returns on new capital deployed	0.0%	9.5%	42.9%	38.1%	9.5%	0.5

Respondents believe that overall gross domestic product will increase by 1.9% within next 12 months, while the privately-held company GDP equivalent is expected to increase by 2.6%. Respondents also believe the probability of a double-dip recession for the entire economy is 34.3% and 30.6% for the private economy.

Table 29. GDP Forecast (12-month)

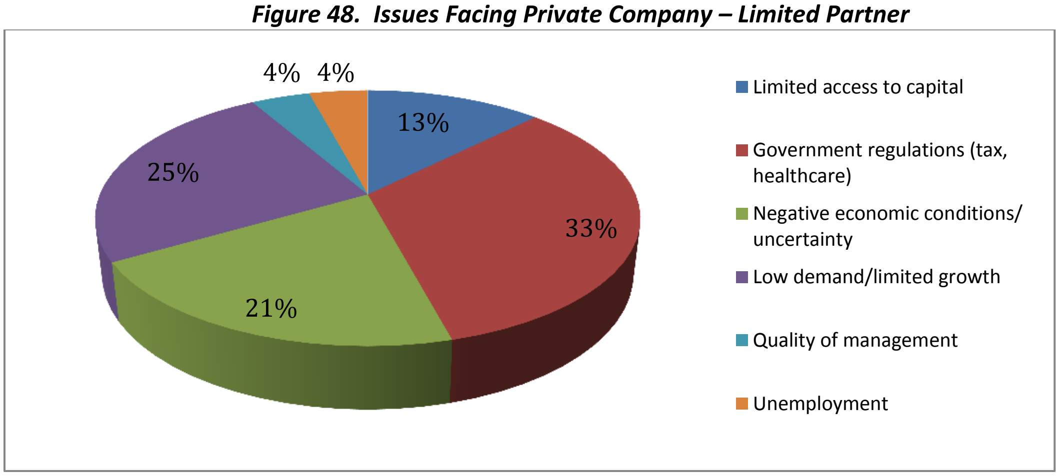
	Expected GDP change (%)
Overall GDP % change	1.9%
Privately-held company equivalent GDP	2.6%

Table 30. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	34.3%
Private economy	30.6%

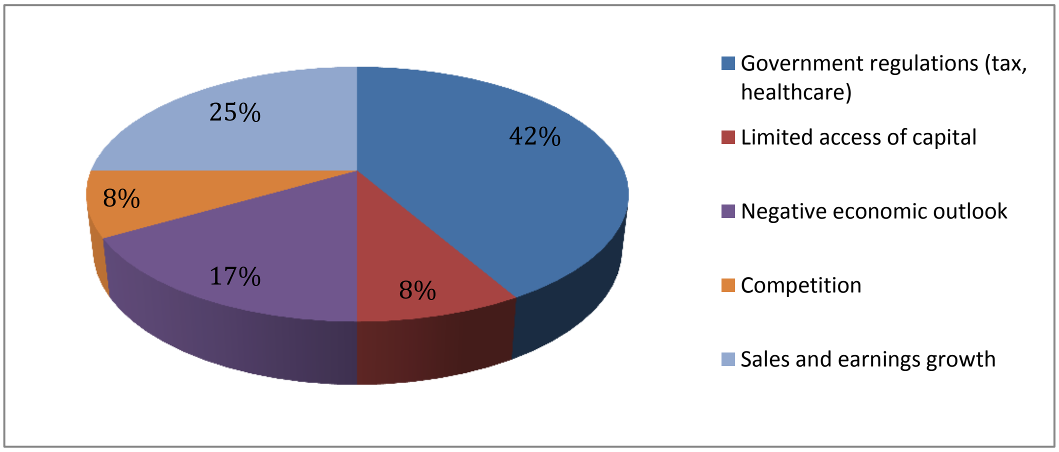
The top three issues that limited partners think private companies are facing include government regulations (33%), low demand/limited growth (25%), and negative economic conditions (21%). Only 13% of this group chose limited access to capital.

Figure 48. Issues Facing Private Company – Limited Partner



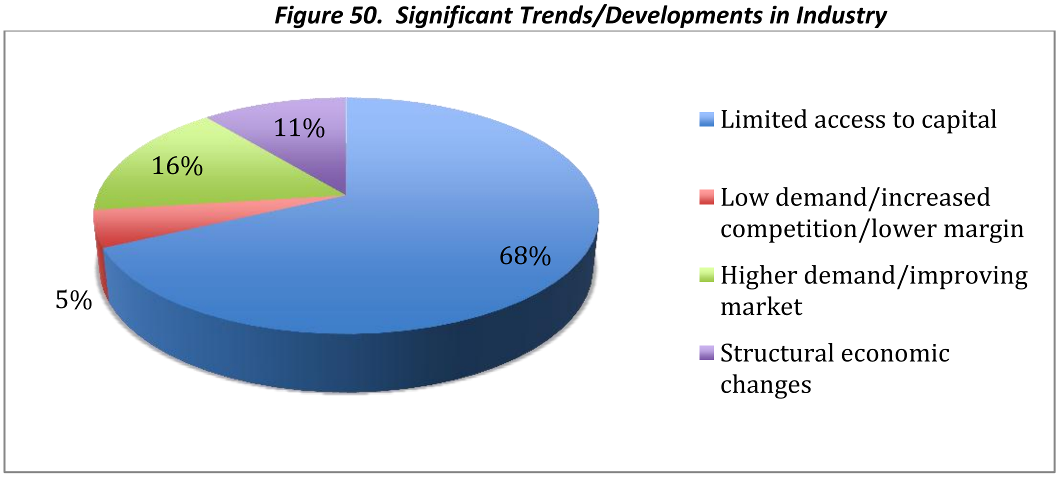
Top three emerging issues pointed out by limited partners are government regulations (42%), sales and earnings growth (25%), and negative economic outlook (17%). Eight percent thought increasingly fierce competition will be a potential issue, while another 8% selected limited access of capital.

Figure 49. Emerging Issues Facing Private Company



The vast majority of limited partners (68%) thought limited access to capital would become a trend. Sixteen percent of them are optimistic, as they believe the market is improving. Eleven percent thought structured economic changes will happen.

Figure 50. Significant Trends/Developments in Industry



ANGEL INVESTOR SURVEY INFORMATION

One hundred and fifty-two respondents to the angel investor survey were evenly spread over the United States. The vast majority (64.2) had 21 to 100 investors in their group. Respondents indicated 48% of their investments were made within 30 miles of their offices while 14.8% were more than 500 miles away. Respondents highlighted that 28.7% of their deal flow comes from entrepreneurs and 12.4% comes from angel affiliates. Other key findings include:

- Nearly 55% of respondents reported that less than 25% of deal flow comes from syndications and only 1.8% reported 100% of deal flow coming from syndications.

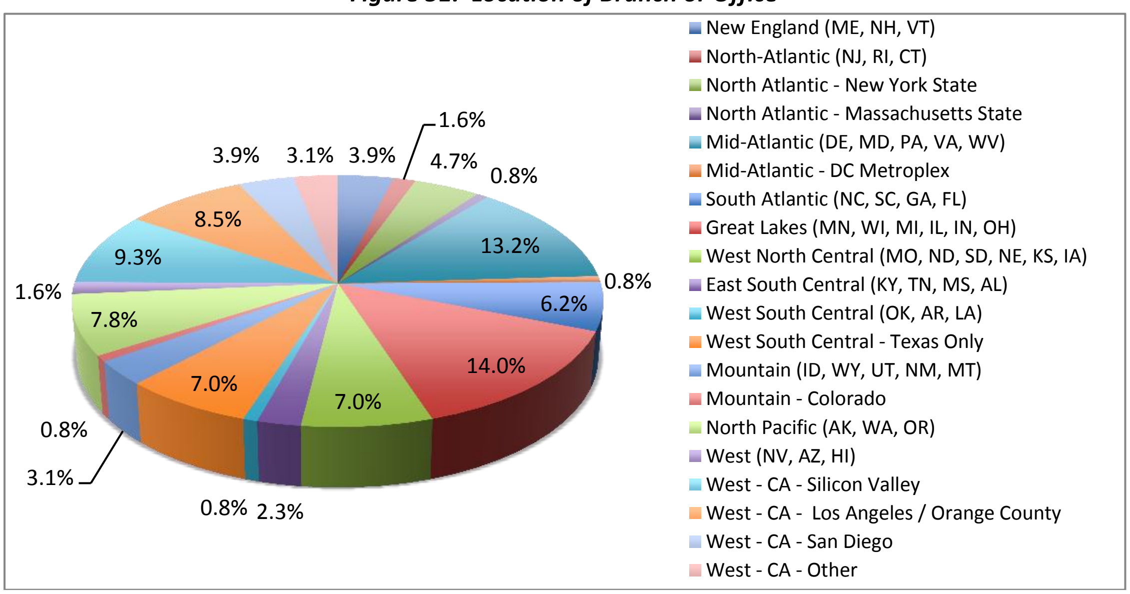
- Nearly 76% of respondents reported making at least one follow-on investment in a previously funded business.

- Respondents reported their exit plans for portfolio companies and 36.6% of respondents reported their plans to sell to a public company, and 30.8% reported their plan to sell to a private company.

Profile of Respondents

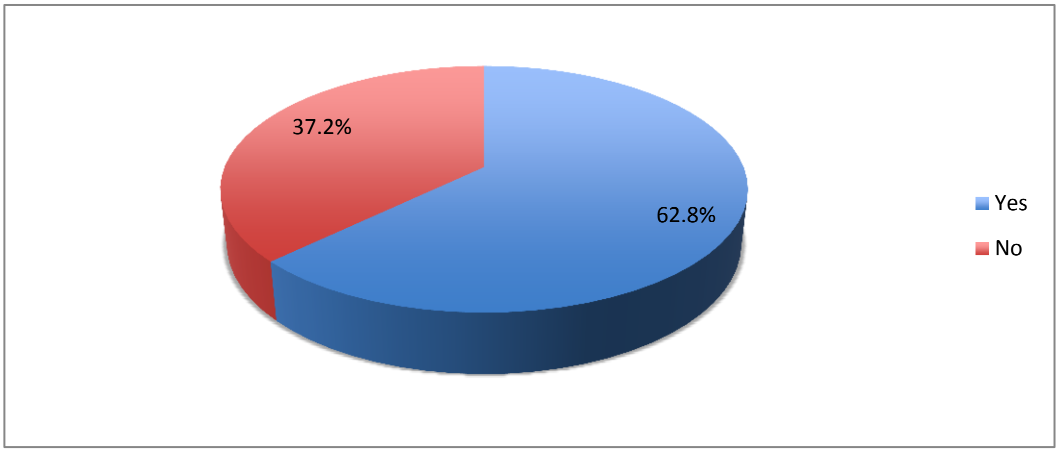
There were 152 participants in the Angel Survey. Respondents report their offices to be fairly evenly spread across the U.S.

Figure 51. Location of Branch or Office



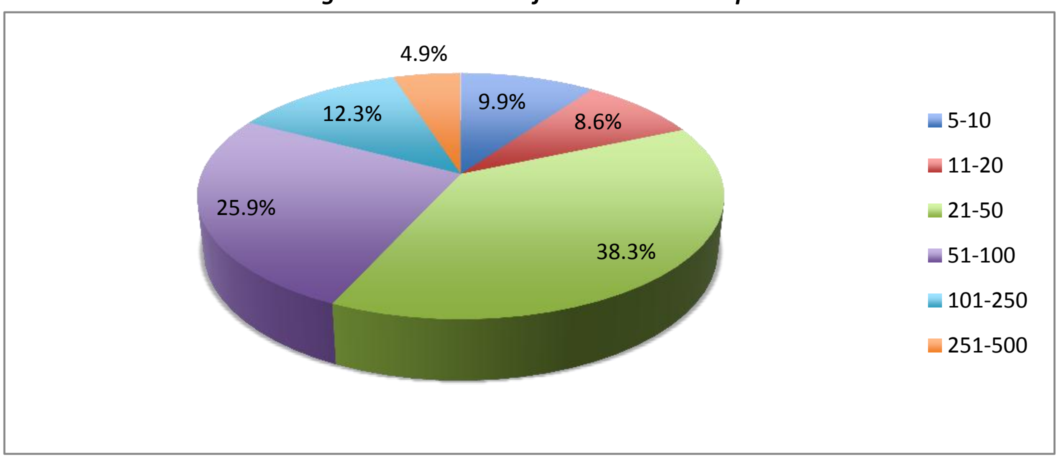
Around 62.8% of participants belong to an organized group of angel investors.

Figure 52. Belong to an Organized Group of Angel Investors



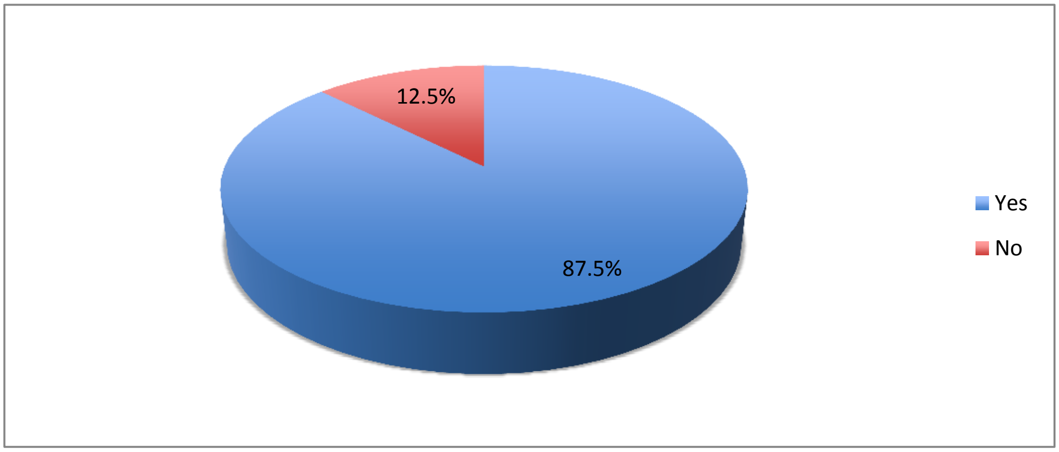
Roughly 38% of respondents reported having 21 to 50 investors in their group and 25.9% reported having 51 to 100 investors in their group.

Figure 53. Number of Investors in Group



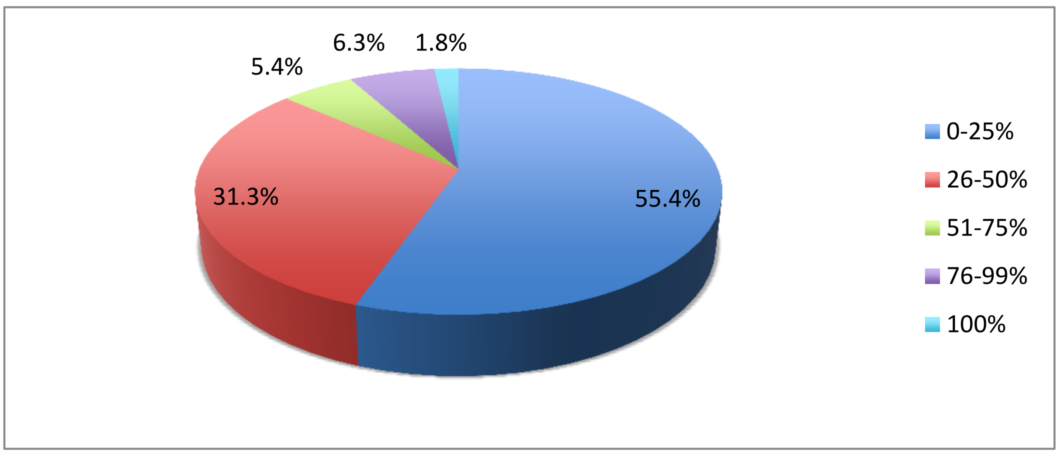
Around 87.5% participants reported that individually or as a group, they participate in deals with other groups.

Figure 54. Participation in Deals by Other Groups



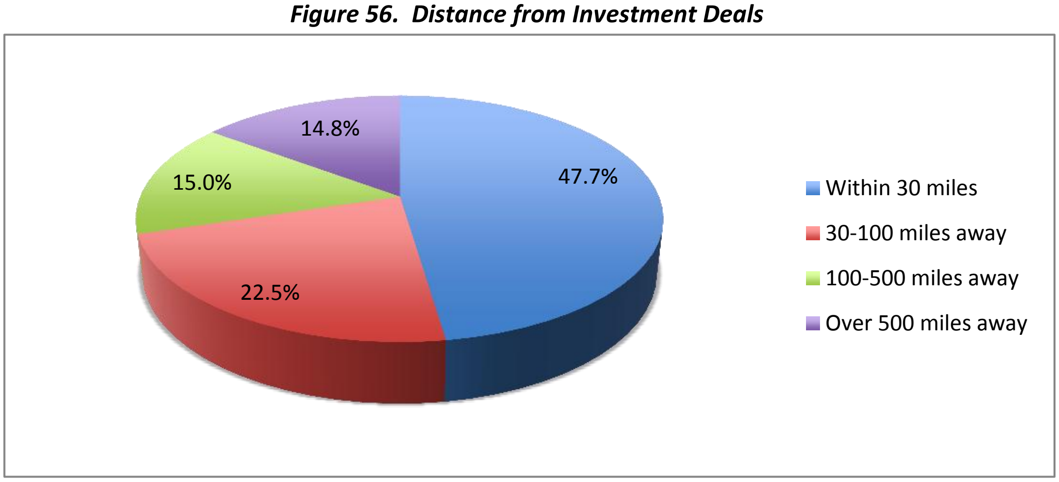
Nearly 55% of respondents reported that less than 25% of deal flow comes from syndications and only 1.8% reported 100% of deal flow coming from syndications.

Figure 55. Deal Flow from Syndications



Respondents indicate that roughly 48% of their investments were made within 30 miles of their office while 14.8% were over 500 miles away.

Figure 56. Distance from Investment Deals



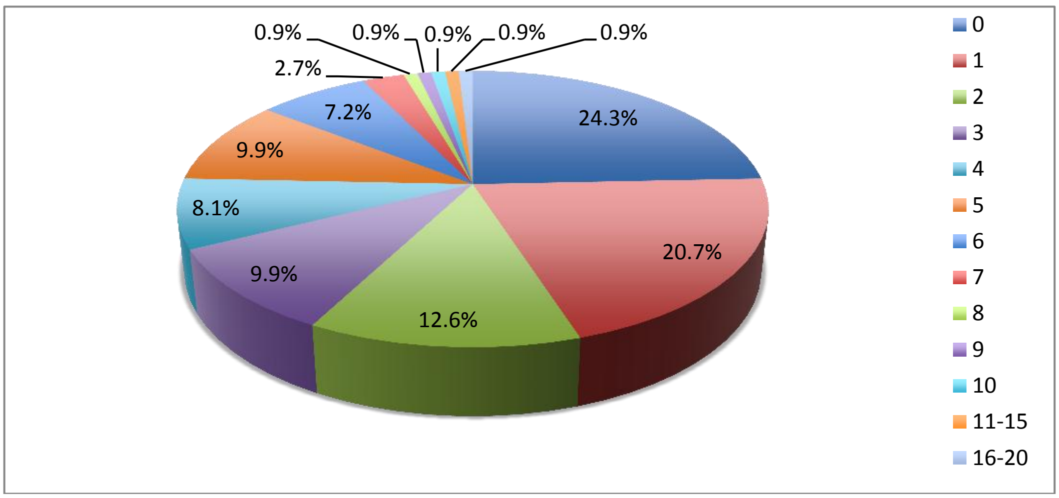
Respondents were asked about their activities over the last 12 months, regarding the number of business plans reviewed, the number of proposal letters or term sheets issued, the number of deals closed and meetings held with principals. A summary of those responses follow.

Table 31. Activities over The Last 12 Months

	1st quartile	Median	3rd quartile
Business plans or memorandums reviewed	25	65	200
Meetings with principals conducted	10	15	36
Proposal letters or term sheets issued	3	5	10
Deals closed	2	4	6

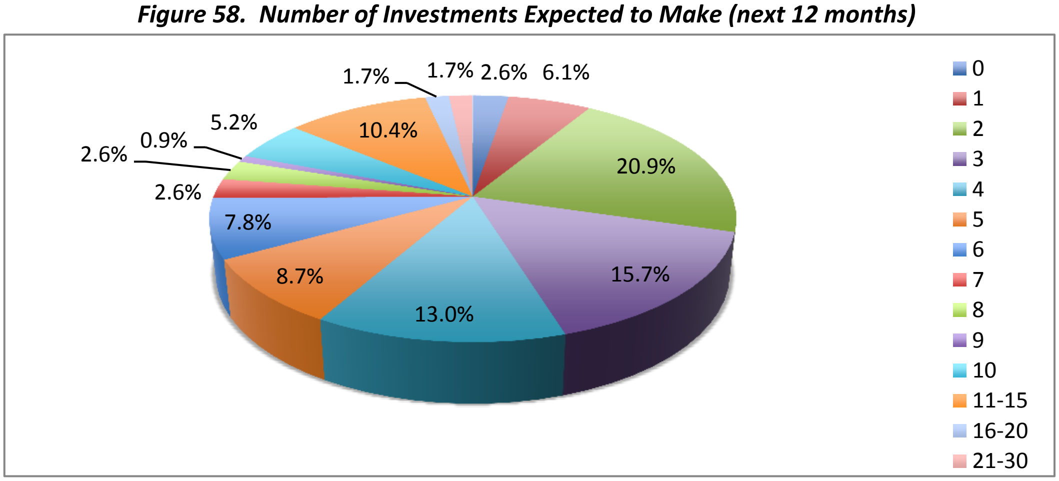
Nearly 76% of respondents reported making at least one follow-on investment in a previously funded business.

Figure 57. Number of Follow-on Investments



Almost 21% of respondents expect to make two investments over the next 12 months, followed by 16% making three.

Figure 58. Number of Investments Expected to Make (next 12 months)



Pricing and Returns

Respondents were asked a series of questions, pertaining to the stages of their investments. Regarding new investments, angel investors are seeking 10X on seed capital, followed by 8X on startup/early stage.

Table 32. Average Multiple for One New Investment

	1st quartile	Median	3rd quartile
Seed	4	10	15
Startup	4	8	10
Early stage	4	8	10
Expansion	3	5	6
Later stage	2	3	3

Table 33. Average Multiple for Portfolio of Investments

	1st quartile	Median	3rd quartile
Seed	3	4.5	6.25
Startup	3	4	7
Early stage	3	4	8
Expansion	2	3	5
Later stage	1.75	2	3

Table 34. Stage of Investment

Avg. % of total equity purchased	1st quartile	Median	3rd quartile
Seed	8.5	20.0	33.8
Startup	10.0	22.5	30.0
Early stage	5.0	20.0	45.0
Expansion	2.5	10.0	20.0
Later stage	0.5	5.0	7.5

Table 35. Expected Returns on New Investments

Total EXPECTED returns on new investments	1st quartile	Median	3rd quartile
Seed	30.0%	50.0%	100.0%
Startup	30.0%	40.0%	75.0%
Early stage	25.0%	35.0%	50.0%
Expansion	20.0%	30.0%	40.0%
Later stage	20.0%	30.0%	40.0%

Table 36. Minimum Qualifying Gross Pre-Tax IRR

	1st quartile	Median	3rd quartile
Seed	18	25	50
Startup	20	25	50
Early stage	20	25	40
Expansion	12	20	30
Later stage	10	15	25

Table 37. Expected Time to Exit (in months)

	1st Quartile	Median	3rd quartile
Seed	39	60	72
Startup	36	48	66
Early stage	30	48	60
Expansion	5	30	36
Later stage	13.5	24	44

Table 38. Average Company Value at Time of Investment

	1st quartile	Median	3rd quartile
Seed	$900,000	$1,000,000	$2,000,000
Startup	$1,200,000	$2,000,000	$2,500,000
Early stage	$2,000,000	$3,000,000	$6,000,000
Expansion	$3,000,000	$5,000,000	$10,000,000
Later stage	$2,500,000	$10,000,000	$20,000,000

Respondents reported on the types of current and future investment categories in which they would invest. Software is the most common business type held currently and sought over the next 12 months.

Figure 59. Business Type of Current Investments

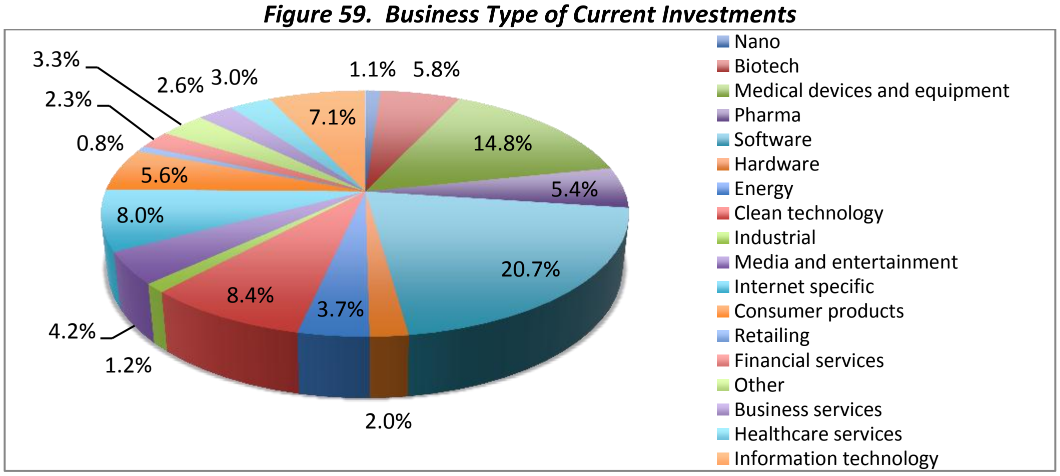
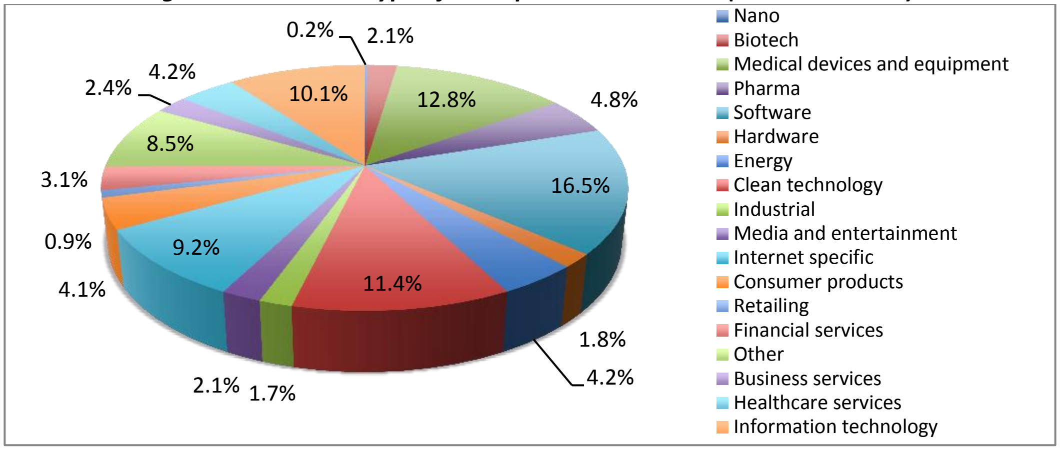
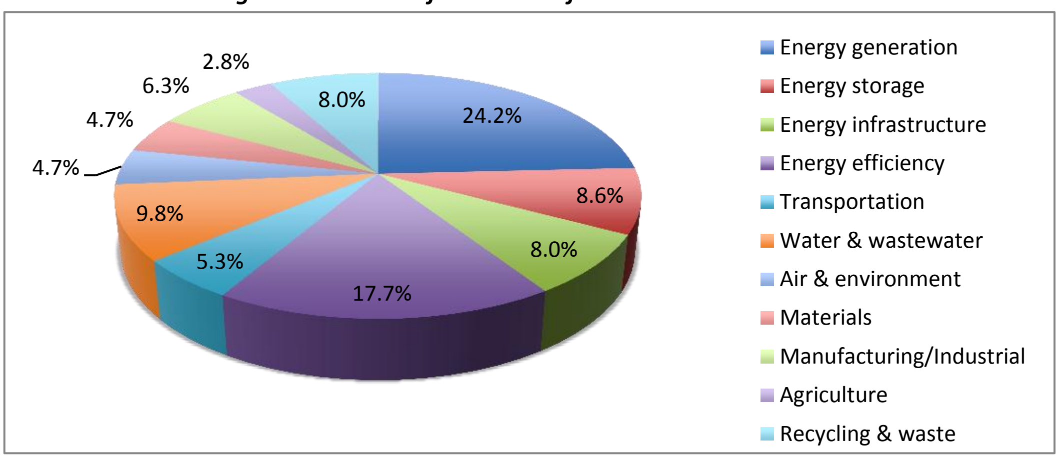


Figure 60. Business Type of Anticipated Investments (next 12 months)



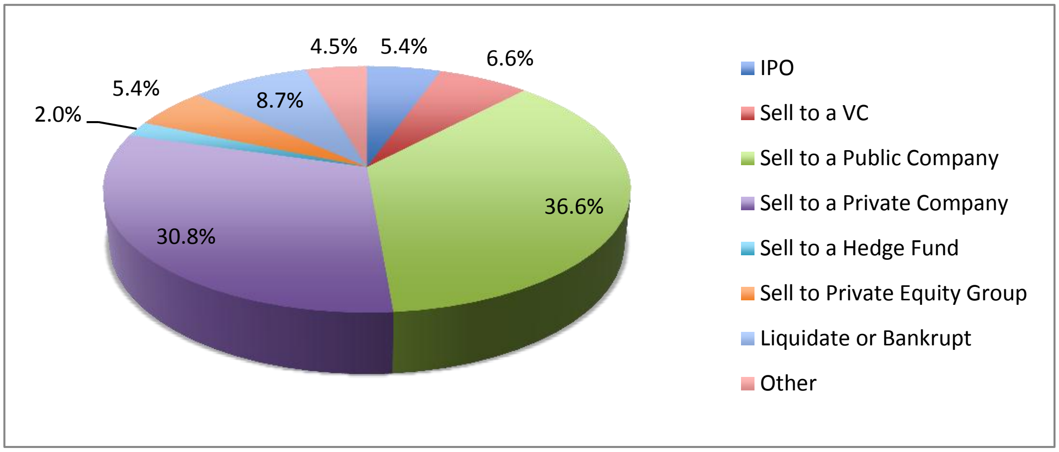
Of those indicating plans to invest in clean tech, energy generation emerged as the most popular choice (24.2%) followed by energy efficiency (17.7%).

Figure 61. Areas of Clean Tech for Planned Investments



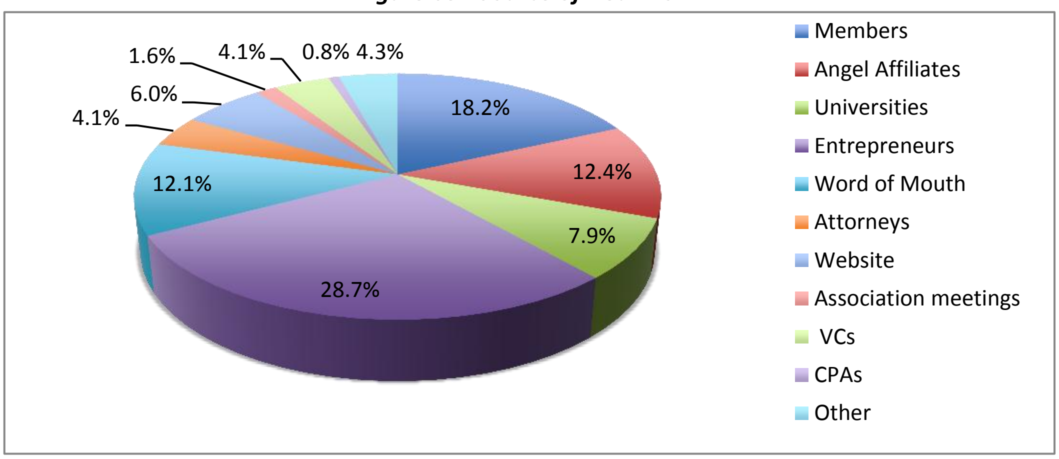
Respondents reported their exit plans for portfolio companies and 36.6% of respondents reported their plans to sell to a public company, and 30.8% reported their plan to sell to a private company.

Figure 62. Exit Plans for Portfolio Companies



Respondents reported 28.7% of current deal flow comes from entrepreneurs and 12.4% of deal flow comes from angel affiliates.

Figure 63. Source of Deal Flow



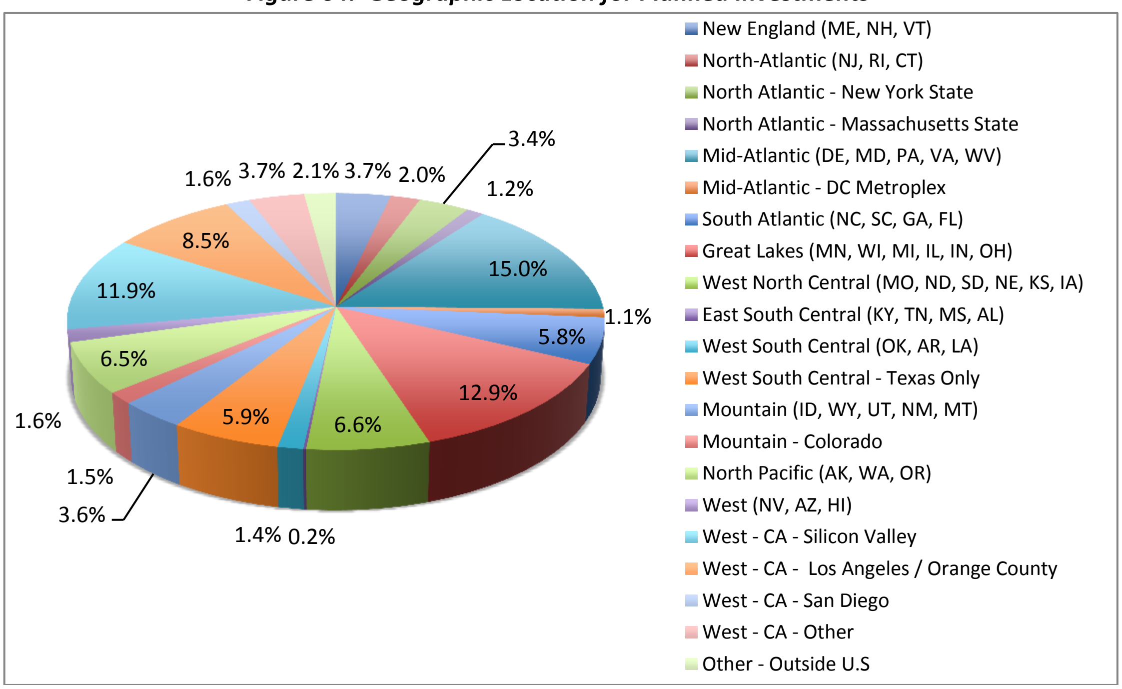
Respondents reported the importance of certain due diligence activities and 88.8% reported that interviewing management teams was very important, 53.8% believe that reviewing business models are also very important.

Table 39. Importance of Due Diligence Activities

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0 to 4)
Interview management teams	0.0%	0.0%	1.3%	10.0%	88.8%	3.9
Analyze industry and market	0.0%	0.0%	8.9%	43.0%	48.1%	3.4
Review financial plan	0.0%	6.3%	27.8%	36.7%	29.1%	2.9
Review business model	0.0%	0.0%	11.3%	35.0%	53.8%	3.4
Analyze product or service	0.0%	0.0%	5.1%	58.2%	36.7%	3.3
Perform reference calls	0.0%	6.3%	13.9%	40.5%	39.2%	3.1

When asked about plans for future investments over the next 12 months, 15.0% of respondents reported plans to invest in the Mid-Atlantic region, followed by 12.9% who reported plans to invest in the Great Lakes region.

Figure 64. Geographic Location for Planned Investments



Respondents ranked the importance of various deal attributes and 26.7% of respondents think that deals with no VCs involved are the least important while 65.0% believe that top-tier management teams is the most important.

Table 40. Importance of Characteristics

	Unimportant	Of little importance	Moderately Important	Important	Very important	Score (0 to 4)
Top-tier management teams	2.5%	0.0%	7.5%	25.0%	65.0%	3.5
Attractive addressable markets	0.0%	0.0%	2.5%	49.4%	48.1%	3.5
Significant competitive advantages	0.0%	0.0%	7.5%	41.3%	51.3%	3.4
Investment syndicates with aligned interests	6.3%	15.2%	38.0%	30.4%	10.1%	2.2
Scalable and capital efficient business models	1.3%	0.0%	16.3%	42.5%	40.0%	3.2
Deals that are not widely shopped	12.7%	29.1%	30.4%	20.3%	7.6%	1.8
Other	7.7%	7.7%	0.0%	38.5%	46.2%	3.1
No VCs involved	26.7%	35.6%	13.3%	22.2%	2.2%	1.4

Business Conditions and Economic Outlook

Respondents evaluated certain operational, business, and industry factors and compared those to factors from six months ago. A general appetite for risk has stayed about the same while the expected exit times on new investments have increased significantly. The outlook for the next 12 months follows.

Table 41. Comparison: Today Versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increase slightly	Increase significantly	Score (-2 to 2)
Demand for business investment (business plans)	2.6%	10.3%	33.3%	38.5%	15.4%	0.5
General investment standards	0.0%	3.9%	36.4%	45.5%	14.3%	0.7
Quality of companies seeking investment	1.3%	11.5%	44.9%	37.2%	5.1%	0.3
Average investment size	2.6%	23.1%	56.4%	14.1%	3.8%	-0.1
Appetite for risk	9.1%	24.7%	49.4%	15.6%	1.3%	-0.2
Investment in later stage companies	2.7%	16.2%	35.1%	36.5%	9.5%	0.3
Exit multiples	1.4%	30.0%	47.1%	18.6%	2.9%	-0.1
Time to exit deals	2.8%	12.7%	36.6%	23.9%	23.9%	0.5
Expected returns on new investments	1.3%	19.5%	55.8%	18.2%	5.2%	0.1
General business confidence	10.3%	35.9%	30.8%	20.5%	2.6%	-0.3
General business conditions	14.1%	38.5%	24.4%	19.2%	3.8%	-0.4
Size of angel finance industry	8.0%	20.0%	30.7%	29.3%	12.0%	0.2
Deals with consortiums	1.4%	8.6%	50.0%	31.4%	8.6%	0.4
Ability to assess and price risk on new investment opportunities	1.8%	19.3%	50.9%	21.1%	7.0%	0.1

Table 42. Comparison: Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	Score (-2 to 2)
Demand for business investment (business plans)	0.0%	4.0%	38.7%	30.7%	26.7%	0.8
General investment standards	0.0%	2.7%	53.3%	33.3%	10.7%	0.5
Quality of companies seeking investment	1.3%	5.3%	50.7%	37.3%	5.3%	0.4
Average investment size	0.0%	6.7%	62.7%	25.3%	5.3%	0.3
Appetite for risk	0.0%	18.9%	55.4%	25.7%	0.0%	0.1
Investment in later stage companies	2.7%	6.7%	44.0%	30.7%	12.0%	0.4
Exit multiples	0.0%	12.0%	64.0%	22.7%	0.0%	0.1
Time to exit deals	0.0%	9.3%	53.3%	32.0%	5.3%	0.3
Expected returns on new investments	0.0%	16.0%	61.3%	20.0%	2.7%	0.1
General business confidence	2.7%	16.0%	40.0%	41.3%	0.0%	0.2
General business conditions	1.3%	18.7%	37.3%	42.7%	0.0%	0.2
Size of angel finance industry	0.0%	14.9%	43.2%	33.8%	5.4%	0.3
Deals with consortiums	1.4%	8.1%	47.3%	33.8%	4.1%	0.3
Ability to assess and price risk on new investment opportunities	0.0%	3.6%	60.0%	27.3%	5.5%	0.3

Respondents believe that overall gross domestic product will increase by 1.1% within next 12 months, while the privately-held company GDP equivalent is expected to increase by 1.9%. Respondents also believe the probability of a double-dip recession for the entire economy is 33.2% and 28.4% for the private economy.

Table 43. GDP Forecast (12-month)

	Expected GDP change (%)
Overall GDP % change	1.1%
Privately-held company equivalent GDP	1.9%

Table 44. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	33.2%
Private economy	28.4%

VENTURE CAPITAL SURVEY INFORMATION

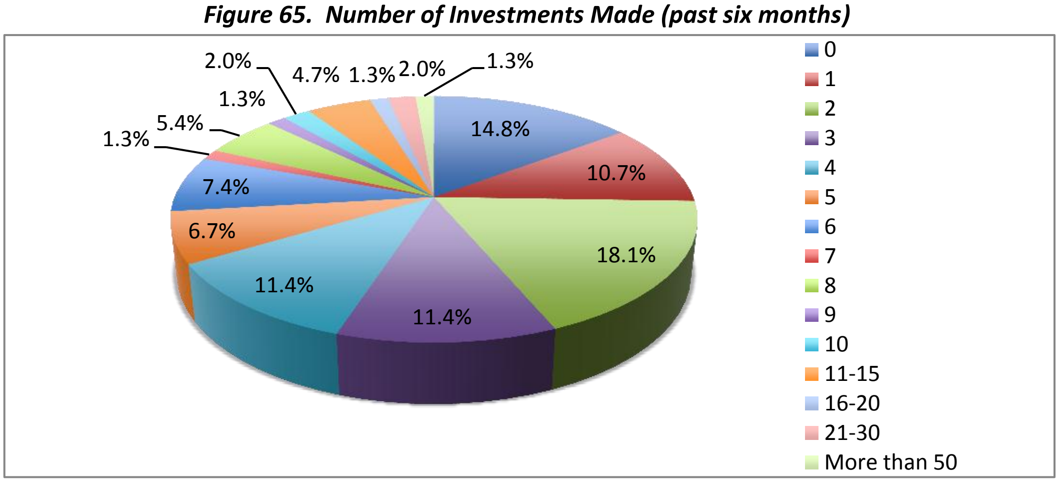
Of the 213 participants who responded to the venture capital survey more than 43% say that they expect general business confidence to increase over the next 12 months. This is good news for startup firms and small businesses with long-term growth potential especially those in the software industry as 17.7% of respondents said that they plan to invest in software over the next 12 months. A strong management team is particularly important to VCs as 93.9% of respondents said that the interview with the management team is a very important deal characteristic. Other key findings include:

- 22% of respondents indicated plans to invest in Silicon Valley over the next 12 months, followed by 10% of respondents who say they plan to invest outside of the U.S.
- Nearly 22% of respondents said they are currently raising funds and approximately 33% of respondents said that they expect to make two or three investments over the next 12 months.
- Government regulations topped the list of issues that venture capitalists think private companies face while 46% of respondents said that limited access of capital would be the most prominent emerging issue in the VC industry.

Profile of Respondents

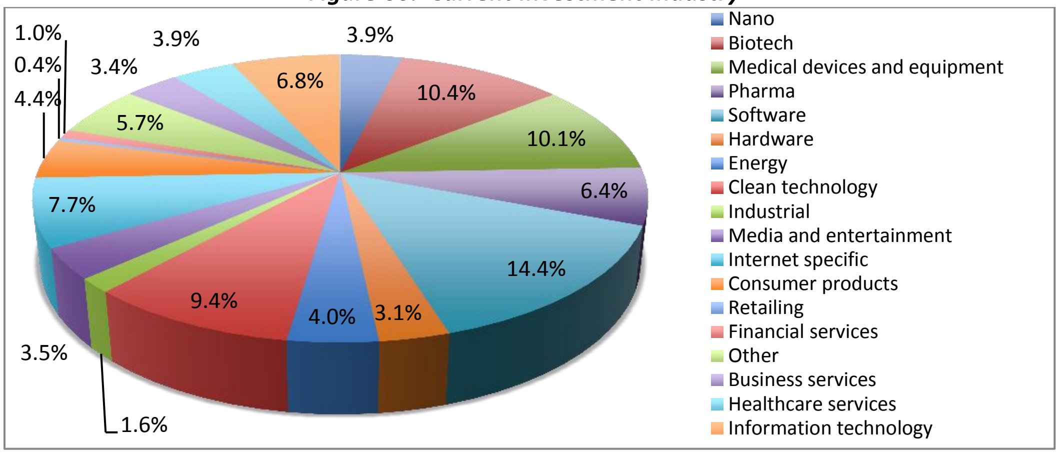
There were 213 participants who responded to the Venture Capital Survey. Most respondents reported fewer than four investments made in the prior six months. Around 15% of respondents reported no investments in the past six months.

Figure 65. Number of Investments Made (past six months)



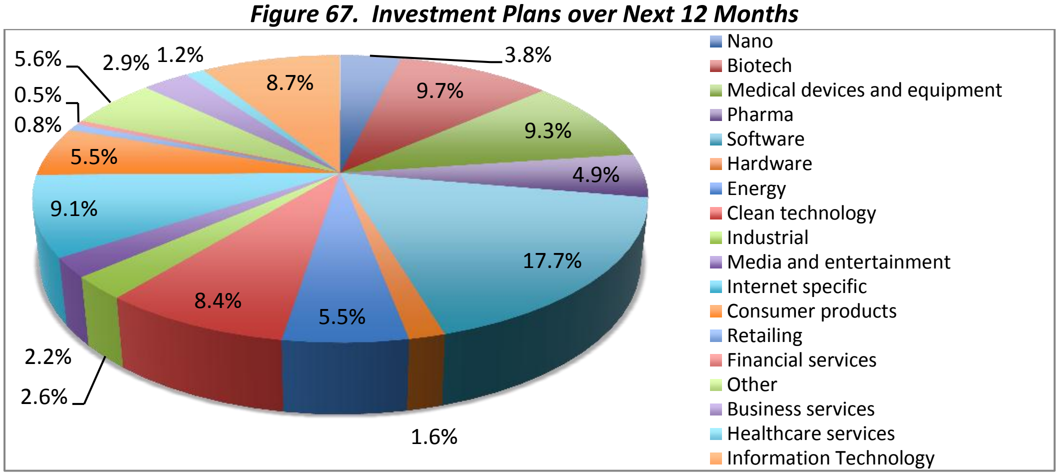
Respondents reported investments in a variety of business industries. Current investments are in software (14%), medical devices (10%), biotech (10%), and others.

Figure 66. Current Investment Industry



Respondents reported investments plans for the next 12 months. The segment with the largest concentration is software with 17.7% followed by biotech at 9.7%.

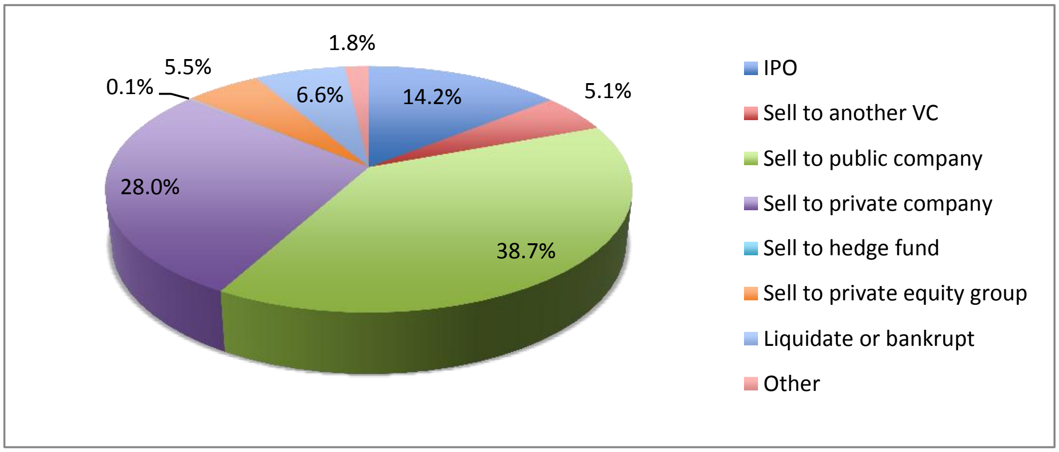
Figure 67. Investment Plans over Next 12 Months



Returns and Exit Data

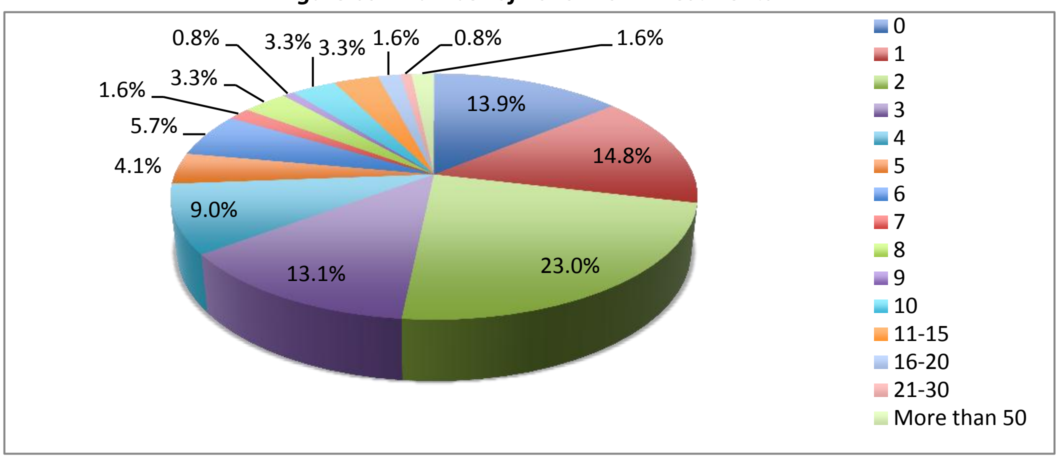
When asked about exit strategies for portfolio companies, 38.7% of respondents reported plans to sell to a public company, followed by 28.0%, who reported plans to sell to a private company.

Figure 68. Exit Plans for Portfolio Companies



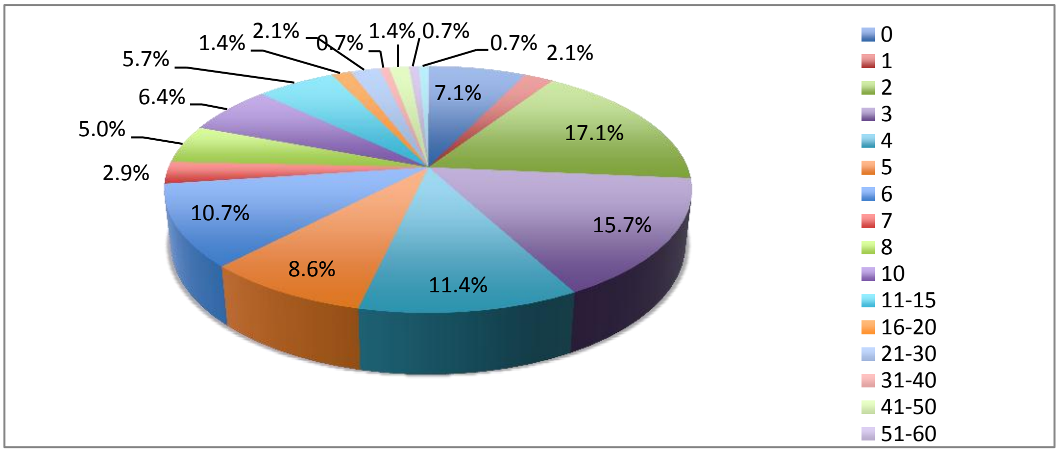
When asked the number of investments that were follow-on investments in companies they previously funded, 23% of respondents reported two investments and 15% reported one. Just 13.9% indicated no follow-on investments.

Figure 69. Number of Follow-on Investments



Respondents reported on the number of investments they expect to make over the next 12 months. Seventeen percent expect to make two investments while 16% plan to make three investments.

Figure 70. Investment Expectations over the Next 12 Months



Respondents reported on criteria for current fund.

Table 45. Current Fund Criteria

	1st quartile	Median	3rd quartile
Fund size ($M)	$30.0	$90.0	$170.0
Carried interest (%)	20.0%	20.0%	20.0%
Management fee (%)	2.0%	2.3%	2.5%
# of investments so far	7	12	17
Capital invested so far ($M)	$13.3	$35.0	$79.0
Remaining investment time period (mos.)	12	27	40
Targeted number of total investments	11	16	22
Exits so far	0.0	1.5	3.0
Average gross pre-tax IRR on exits (%)	11.5%	30.5%	50.5%

Respondents were asked questions about their new investments including model returns, expected returns, modeled time to exit, expected time to exit, and the average number of investments that are likely to become worthless

Table 46. Avg. % of Total Equity Purchased (fully diluted basis)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	10.0%	20.0%	12.0%	5.0%
Median	25.0%	21.0%	15.0%	12.0%
3rd quartile	35.0%	48.8%	20.0%	22.5%

Table 47. Total MODEL Returns (gross cash on cash pre-tax IRR) on New Investments (%)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	35.0%	30.0%	20.0%	20.0%
Median	40.0%	35.0%	30.0%	30.0%
3rd quartile	50.0%	45.0%	40.0%	35.0%

Table 48. Minimum Qualifying Gross Pre-Tax IRR for Investment (%)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	20.0%	20.0%	19.0%	15.0%
Median	25.0%	25.0%	20.0%	20.0%
3rd quartile	35.0%	33.8%	30.0%	25.0%

Table 49. Modeled Time to Exit (months)

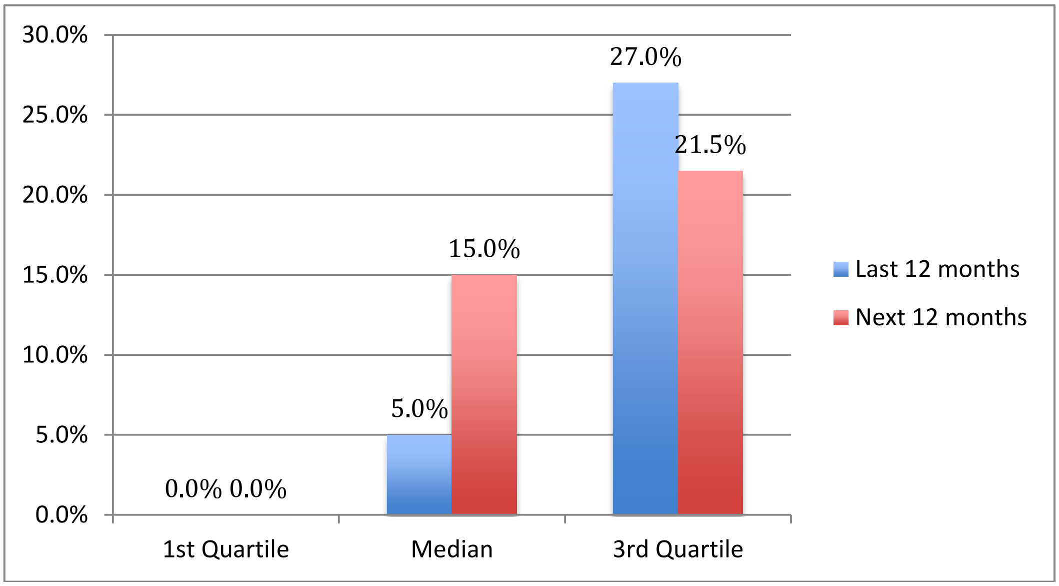
	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	48	40	36	24
Median	60	48	36	24
3rd quartile	72	60	48	36

Table 50. Average Company Value at Time of Investment ($M)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	$2.0	$4.0	$12.3	$25.0
Median	$3.0	$8.0	$20.0	$35.0
3rd quartile	$5.0	$10.5	$33.5	$75.0

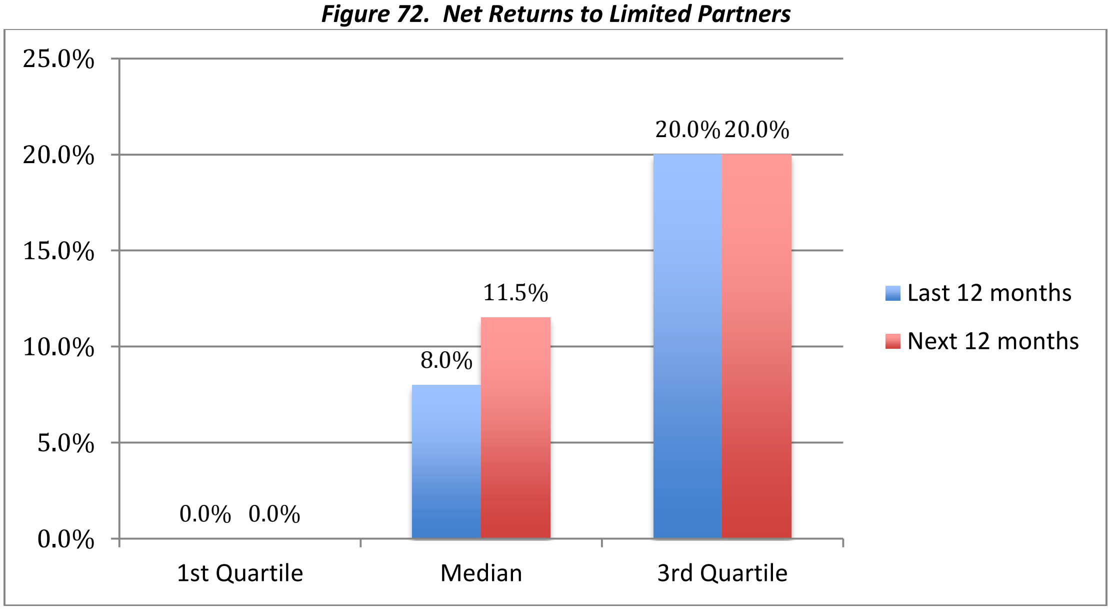
Respondents report a 15.0% gross return (median) to limited partners over the next 12 months.

Figure 71. Gross Returns to Limited Partners



Respondents report an 11.5% (median) net return to limited partners over the next 12 months.

Figure 72. Net Returns to Limited Partners



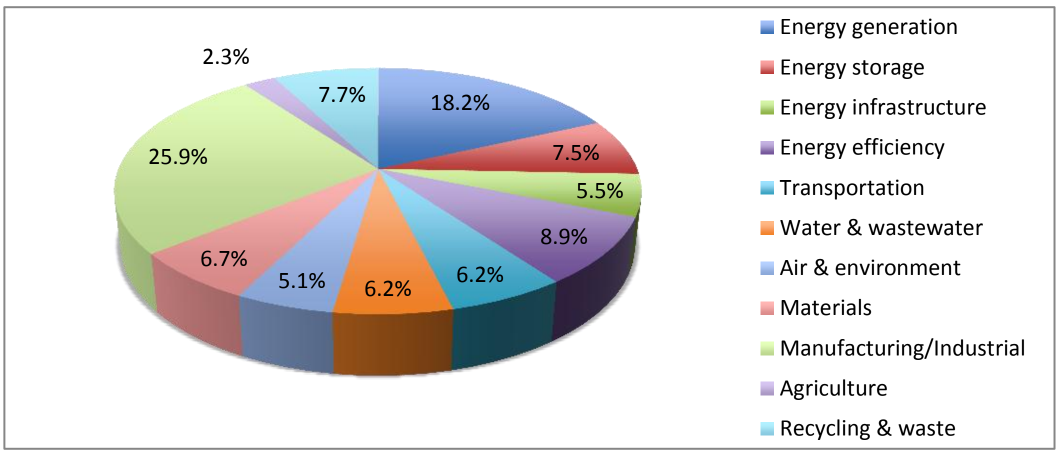
Respondents reported on activities to close one deal.

Table 51. Activities to Close One Deal

	1st quartile	Median	3rd quartile
Business plans or memorandums are reviewed	45	100	200
Meetings with principals are conducted	9	20	35
Proposal letters or term sheets are issued	2	3	5

Of those respondents that reported plans to invest in clean tech areas, around 25.9% of respondents reported plans to invest in manufacturing, followed by 18.2%, who planned to invest in energy generation.

Figure 73. Clean Tech Areas of Investment



Respondents ranked the importance of deal characteristics from 0 (least important) to 4 (most important).

Table 52. Importance of Deal Characteristics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0 to 4)
Top tier management teams	0.0%	2.0%	2.0%	36.7%	59.2%	3.5
Attractive addressable markets	0.0%	0.0%	6.1%	38.8%	55.1%	3.5
Significant competitive advantages	0.0%	2.0%	4.1%	34.7%	59.2%	3.5
Investment syndicates with aligned interests	2.1%	8.3%	25.0%	33.3%	31.3%	2.8
Scalable and capital efficient business models	0.0%	0.0%	4.1%	36.7%	59.2%	3.6
Deals that are not widely shopped	4.2%	12.5%	54.2%	22.9%	6.3%	2.1

Respondents rated the importance of deal characteristics from 0 (least important) to 4 (most important).

Table 53. Importance of Deal Characteristics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0 to 4)
Interview management teams	0.0%	0.0%	0.0%	6.1%	93.9%	3.9
Analyze industry and market	0.0%	0.0%	6.1%	32.7%	61.2%	3.6
Review financial plan	0.0%	2.0%	24.5%	34.7%	38.8%	3.1
Review business model	0.0%	2.0%	2.0%	28.6%	67.3%	3.6
Analyze product or service	0.0%	0.0%	8.2%	40.8%	51.0%	3.4
Perform reference calls	0.0%	4.1%	12.2%	34.7%	49.0%	3.3
Evaluate intellectual property	0.0%	6.1%	21.2%	30.3%	42.4%	3.1

Respondents reported on their assessment of previous and future business conditions.

Table 54. General Business Assessment for Last Six Months

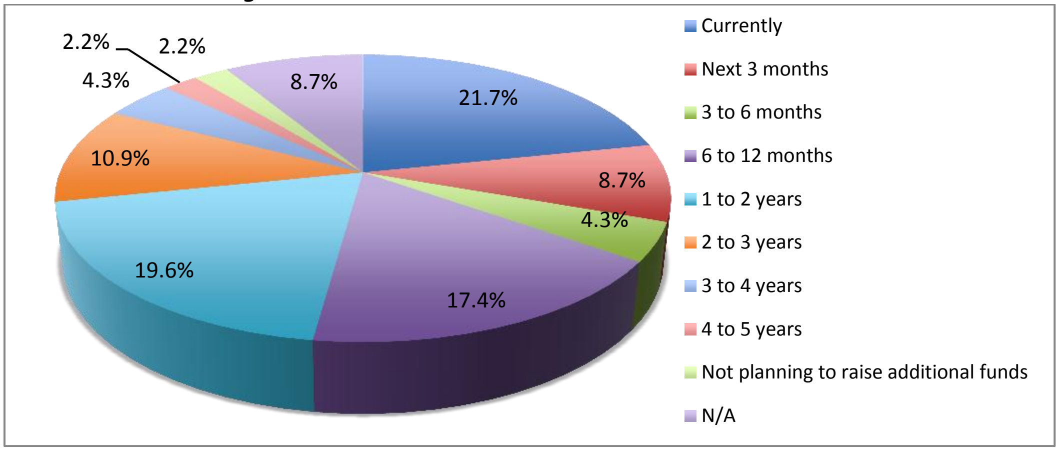
	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	Score (-2 to 2)
Demand for business investment (business plans)	0.0%	8.7%	37.0%	28.3%	26.1%	0.7
General investment standards	0.0%	6.7%	35.6%	31.1%	26.7%	0.8
Quality of companies seeking investment	0.0%	6.5%	60.9%	19.6%	13.0%	0.4
Average investment size	2.2%	26.7%	42.2%	26.7%	2.2%	0.0
Appetite for risk	8.7%	19.6%	45.7%	23.9%	2.2%	-0.1
Investment in later stage companies	0.0%	11.9%	38.1%	28.6%	21.4%	0.6
Exit multiples	4.7%	16.3%	48.8%	30.2%	0.0%	0.0
Time to exit deals	2.3%	11.6%	39.5%	27.9%	18.6%	0.5
Expected returns on new investments	0.0%	16.3%	55.8%	25.6%	2.3%	0.1
General business confidence	0.0%	24.4%	40.0%	31.1%	4.4%	0.2
General business conditions	8.7%	19.6%	30.4%	41.3%	0.0%	0.0
Size of venture capital industry	17.8%	51.1%	20.0%	8.9%	2.2%	-0.7
Communication with LPs	0.0%	0.0%	52.5%	32.5%	15.0%	0.6
Power of LPs	0.0%	2.5%	47.5%	32.5%	17.5%	0.7
Ability to assess and price risk on new investment opportunities	0.0%	3.1%	53.1%	37.5%	6.3%	0.5

Table 55. General Business Assessment Expectations for Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	Score (-2 to 2)
Demand for business investment (business plans)	0.0%	0.0%	45.5%	43.2%	11.4%	0.7
General investment standards	0.0%	2.3%	47.7%	47.7%	2.3%	0.5
Quality of companies seeking investment	0.0%	0.0%	50.0%	38.6%	11.4%	0.6
Average investment size	0.0%	6.8%	63.6%	27.3%	2.3%	0.3
Appetite for risk	0.0%	6.8%	59.1%	31.8%	2.3%	0.3
Investment in later stage companies	2.3%	4.7%	48.8%	27.9%	14.0%	0.5
Exit multiples	0.0%	11.6%	44.2%	41.9%	0.0%	0.3
Time to exit deals	0.0%	13.6%	56.8%	20.5%	9.1%	0.3
Expected returns on new investments	0.0%	11.6%	53.5%	32.6%	2.3%	0.3
General business Confidence	0.0%	9.1%	47.7%	36.4%	6.8%	0.4
General business conditions	0.0%	11.4%	45.5%	38.6%	4.5%	0.4
Size of venture capital industry	11.6%	44.2%	34.9%	9.3%	0.0%	-0.6
Communication with LPs	0.0%	2.4%	61.9%	19.0%	9.5%	0.4
Power of LPs	0.0%	2.3%	58.1%	23.3%	9.3%	0.4
Ability to assess and price risk on new investment opportunities	0.0%	0.0%	71.9%	28.1%	0.0%	0.3

Respondents reported on plans to raise additional funds and 21.7% are currently raising funds followed by 19.6% that plan to raise funds in the next one to two years.

Figure 74. Plans to Raise Additional Investment Funds



Respondents reported on current and future locations for investments, approximately 22% indicate plans to invest in Silicon Valley.

Figure 75. Current Portfolio Companies Location

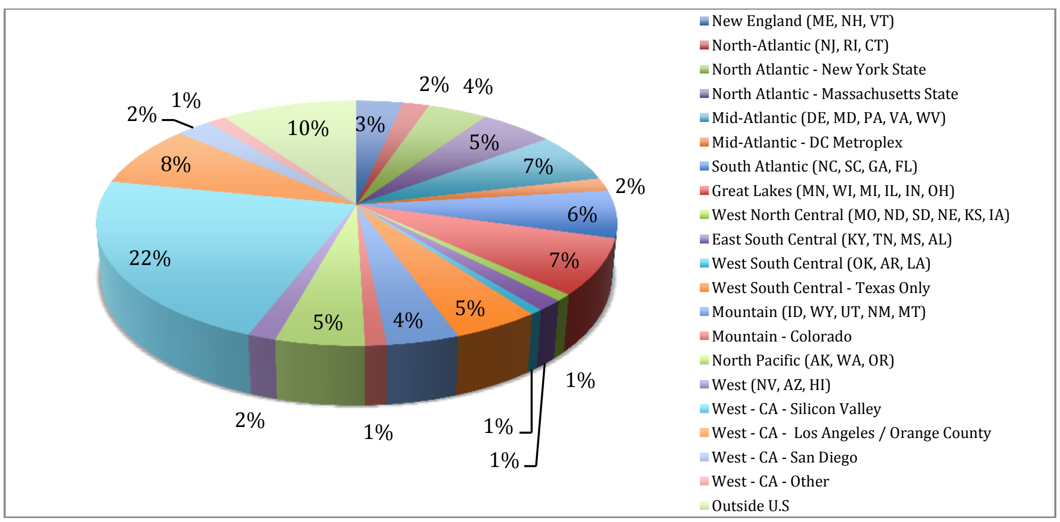
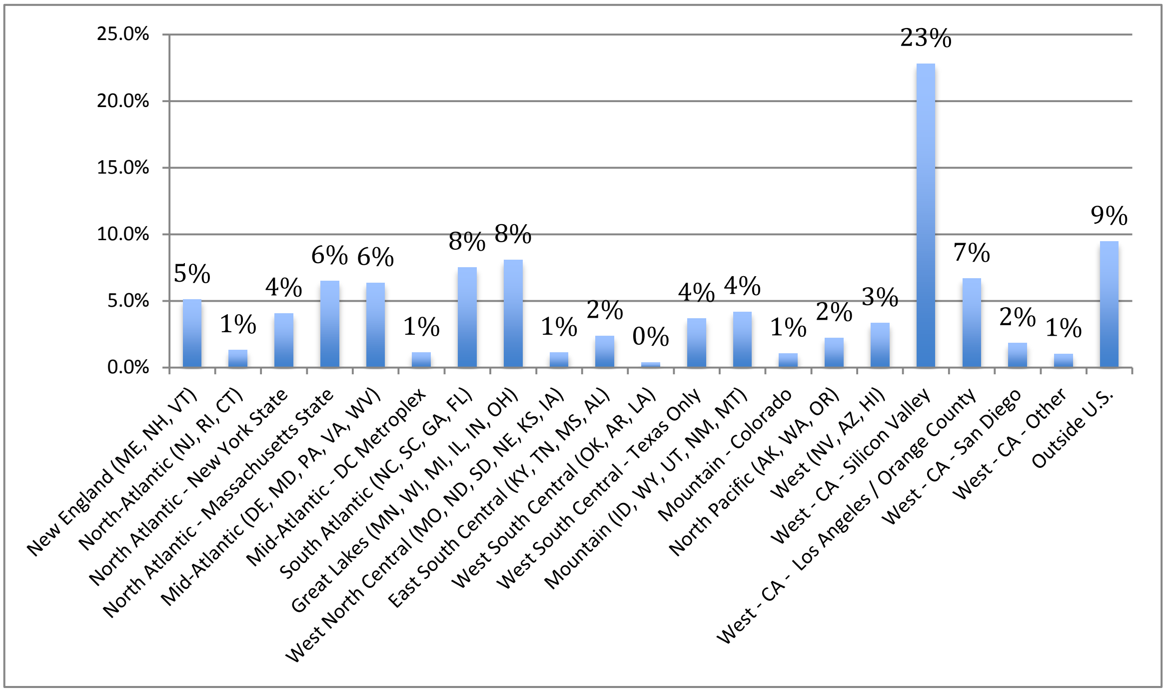


Figure 76. Anticipation of Location for Future Investments (next 12 months)



Respondents believe that overall gross domestic product will increase by 1.4% within the next 12 months, while the privately-held company GDP equivalent is expected to increase by 2.2%. Respondents also believe the probability of a double-dip recession for the entire economy is 42.0% and 37.7% for the private economy.

Table 56. GDP Forecast (12-month)

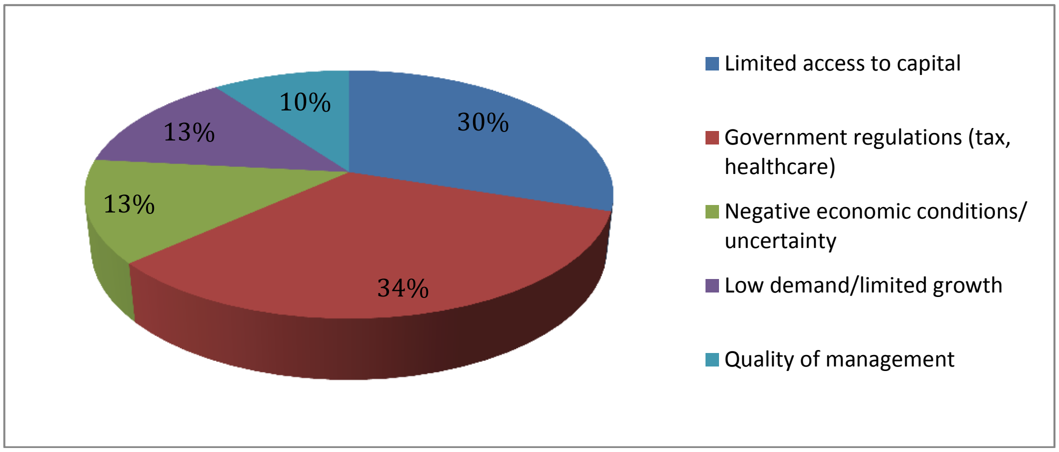
	Expected GDP change (%)
Overall GDP % Change	1.4%
Privately-held company equivalent GDP	2.2%

Table 57. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	42.0%
Private economy	37.7%

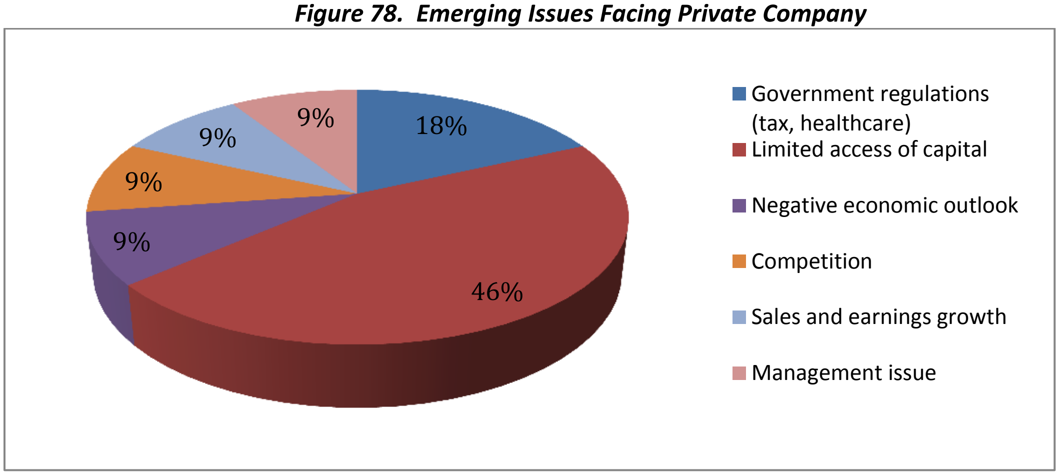
Thirty-four percent of venture capital regard government regulations as a prominent issue faced by private companies, while 30% chooses limited access to capital, 13% chose low demand or limited growth opportunities, and another 13% chose negative economic conditions/uncertainty.

Figure 77. Issues Facing Private Company



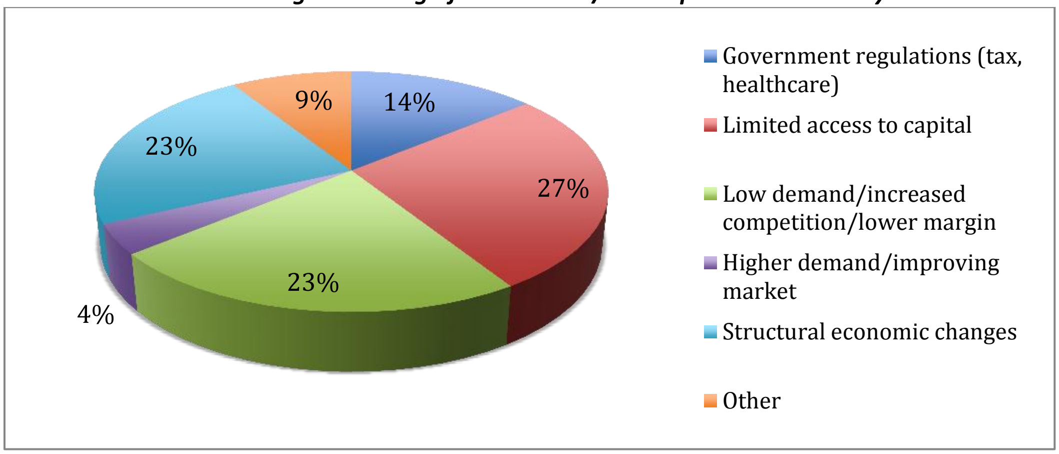
Forty-six percent of respondents in venture capital thought limited access of capital would be the most prominent emerging issue, while only 18% of them worried about government regulations. Management issue, slow sales and earnings growth, negative economic outlook and increased competition shared the remaining votes, while each of them received 9%.

Figure 78. Emerging Issues Facing Private Company



Participants shared significant trends and developments in the venture capital industry. Approximately 27 % indicated limited access to capital is the most significant item while 23% chose lower profit margin, 23% selected structural economic changes, and 14% reported on the significance of government regulation.

Figure 79. Significant Trends/Developments In Industry



PRIVATE EQUITY GROUP SURVEY INFORMATION

Approximately 43.5% of the 327 participants who responded to the private equity groups survey indicated that their typical investment size is in the $10 million to $25 million range. Nearly 70% of respondents said that demand for business investment is up from six months ago, as are investment standards, appetite for risk, and the quality of companies seeking investment. Other key findings include:

- Companies in the manufacturing (22.7%) and business services (16.7%) industries are likely to be the targets of private equity firm investment over the next 12 months. This is followed by investments in health care, wholesale and distribution, and oil, gas and other utilities.

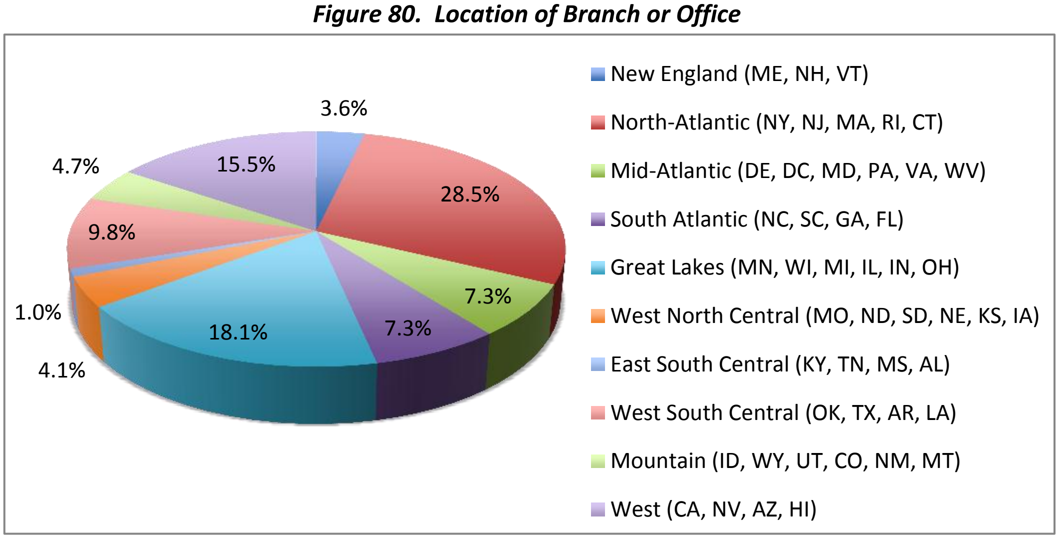
- Nearly two-thirds of respondents (approximately 64%) are looking to make two to four investments in the next year and approximately 12% of those will be distressed assets.

- Government regulations got the most votes from private equity groups (41%) when it came to emerging issues. Limited access to capital also got the highest votes from private equity groups (31%) when asked about significant trends or developments in the industry.

Profile of Respondents

There were 327 participants who responded to Private Equity Groups Survey and the following results are based those responses. Around 28.5% of respondents reported that their businesses are located in the Mid-Atlantic, and 18.1% reported their business location in the Great Lakes area.

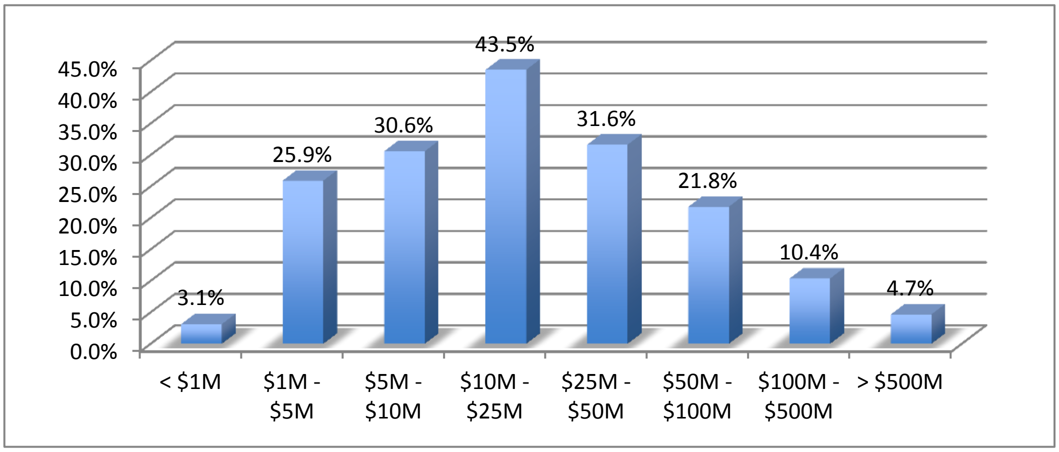
Figure 80. Location of Branch or Office



Operational and Investment Characteristics

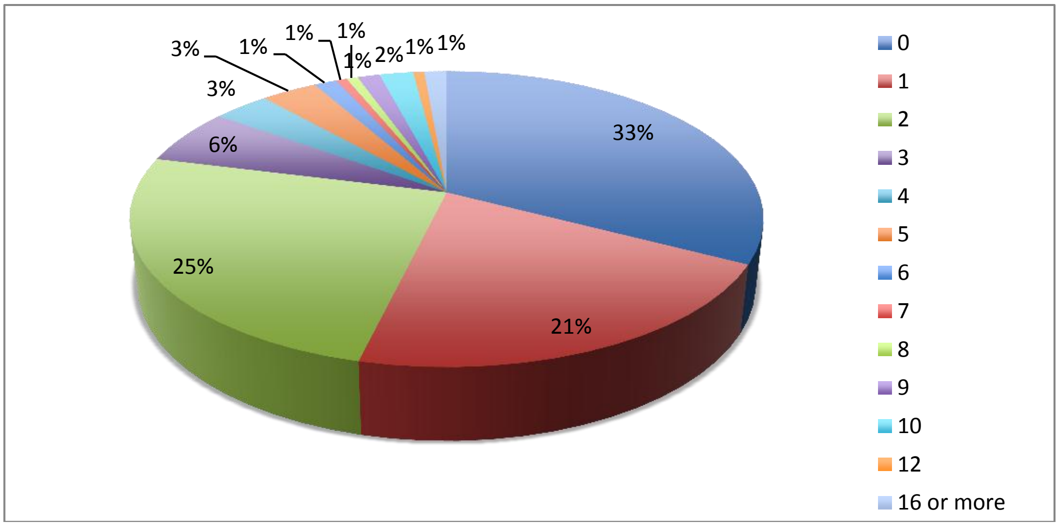
Around 43.5% of respondents report typical investment size to be in the $10M-$25M range.

Figure 81. Typical Investment Size



Almost 33% of respondents reported making zero investments in the prior six months, while 21% reported making one investment during the same time period.

Figure 82. Investments Made Prior Six Months



Respondents reported on criteria for current fund.

Table 58. Current Fund Criteria

	1st quartile	Median	3rd quartile
Fund size ($M)	$47.8	$155.0	$500.0
Preferred return to LPs (%)	8.0%	8.0%	8.0%
Carried interest (%)	20.0%	20.0%	20.0%
Management fee (%)	2.0%	2.0%	2.0%
# of investments so far	3	5	8
Capital invested so far ($M)	$14.5	$48.0	$160.0
Remaining investment time period (mos.)	12	36	60
Targeted number of total investments	6.75	10	15
Average gross pre-tax IRR on exits (%)	15.0%	26.0%	50.0%
Average EBITDA size of investee at time of investment ($ millions)	$2.5	$5.0	$10.0

Respondents were asked to report the total equity as a percentage of purchase price.

Table 59. Total Equity as % of Purchase Price

	1st quartile	Median	3rd quartile
$1M	38.8%	60.0%	82.5%
$5M	40.0%	60.0%	70.0%
$10M	50.0%	57.5%	61.6%
$25M	25.0%	47.5%	60.0%
$50M	21.3%	32.5%	40.0%
$100M	10.0%	20.0%	22.5%

Respondents were asked to report the percentage of all equity outstanding.

Table 60. % of All Equity Outstanding

	1st quartile	Median	3rd quartile
$1M	70.0%	80.0%	100.0%
$5M	75.0%	90.0%	100.0%
$10M	62.5%	90.0%	100.0%
$25M	31.3%	80.0%	97.5%
$50M	40.0%	90.0%	95.0%
$100M	12.5%	25.0%	62.5%

Respondents reported the average deal multiple paid (multiple of EBITDA).

Table 61. Average Deal Multiple

Multiple of EBITDA	1st quartile	Median	3rd quartile
$1M	3.9	4.0	5.3
$5M	4.5	5.0	5.7
$10M	5.0	6.0	7.0
$25M	5.5	6.0	7.8
$50M	7.5	7.5	8.0

Respondents were asked to report the total expected returns on new investments.

Table 62. Total Expected Returns on New Equity Investments

	1st quartile	Median	3rd quartile
$1M	25.0%	30.0%	35.0%
$5M	25.0%	30.0%	30.8%
$10M	24.5%	30.0%	31.3%
$25M	25.0%	28.0%	30.0%
$50M	22.0%	25.0%	30.0%

Respondents were asked to report the minimum qualifying IRR for investments.

Table 63. Minimum Qualifying IRR For Investment (%)

	1st quartile	Median	3rd quartile
$1M	20.0%	25.0%	25.0%
$5M	20.0%	25.0%	25.0%
$10M	20.0%	25.0%	27.5%
$25M	20.0%	20.0%	25.0%
$50M	15.0%	20.0%	22.0%

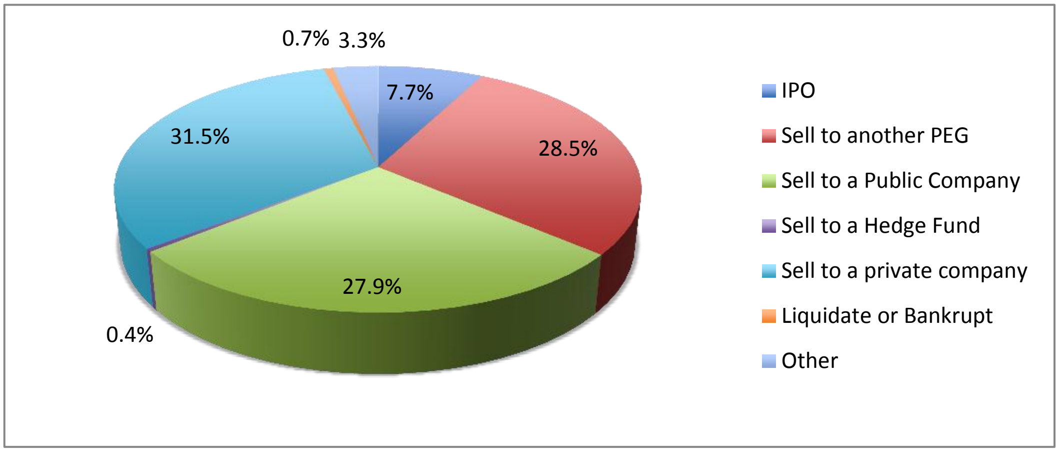
Respondents were asked to report the expected time to exit.

Table 64. Expected Time to Exit (in months)

	1st quartile	Median	3rd quartile
$1M	48.0	60.0	60.0
$5M	48.0	60.0	60.0
$10M	36.0	48.0	48.0
$25M	37.0	48.0	60.0
$50M	48.0	48.0	60.0
$100M	48.0	48.0	48.0

When asked about exit plans, 31.5% report plans to sell to a private company, followed by 28.5% reporting plans to sell to another private equity group.

Figure 83. Exit Plans



Respondents reported the average deal multiple paid in a variety of industries (multiple of EBITDA).

Table 65. Deal Multiple

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$100M EBITDA
Service						
1st quartile	4	5	5	5		
Median	4.5	5	5.5	7		
3rd quartile	5	5.8	6.5	9		
Manufacturing						
1st quartile	4	4.7	4.3	5		
Median	4	5	5	6		
3rd quartile	4.8	5	5	6		
Distribution						
1st quartile	3.9	4.1	4	4.9		
Median	4	4.4	4.5	5.8		
3rd quartile	4	4.5	5.0	6.6		

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$100M EBITDA
Oil and Gas						
1st quartile		3	5.3	5.5	6.5	8
Median		4	5.5	6	6.5	8
3rd quartile		4.5	5.8	6.5	6.5	8
Health care						
1st quartile	3.8	4.6	6.5	7.3		
Median	4.5	5.3	7	7.5		
3rd quartile	5.5	5.9	7	8.3		

Returns

Respondents were asked to report their gross and net returns for the last 12 months and for the next 12 months.

Table 66. Gross Returns

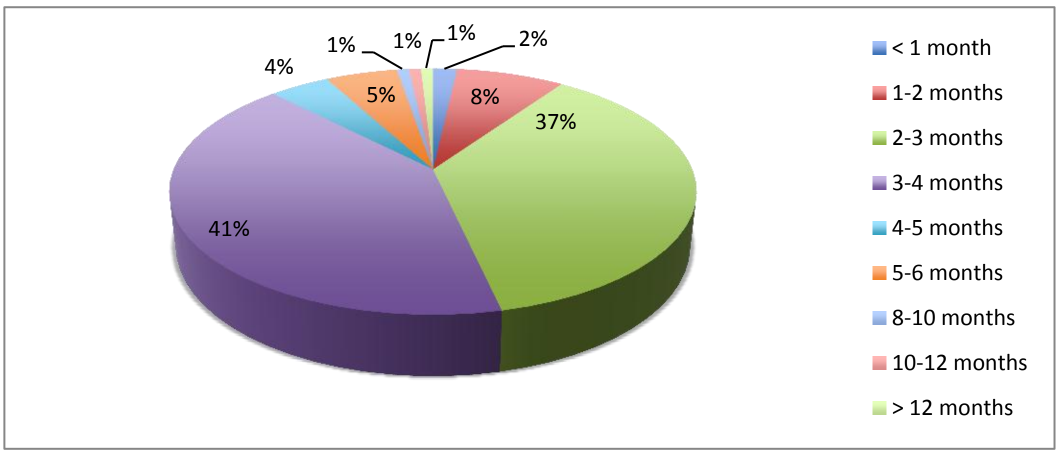
	Last 12 months	Next 12 months
1st quartile	18.0%	22.0%
Median	25.0%	27.0%
3rd quartile	35.5%	35.0%

Table 67. Net Returns

	Last 12 months	Next 12 months
1st quartile	12.4%	18.8%
Median	20.0%	22.0%
3rd quartile	30.8%	30.0%

Over 41% of respondents reported taking three to four months to close one deal.

Figure 84. Time to Close One Deal



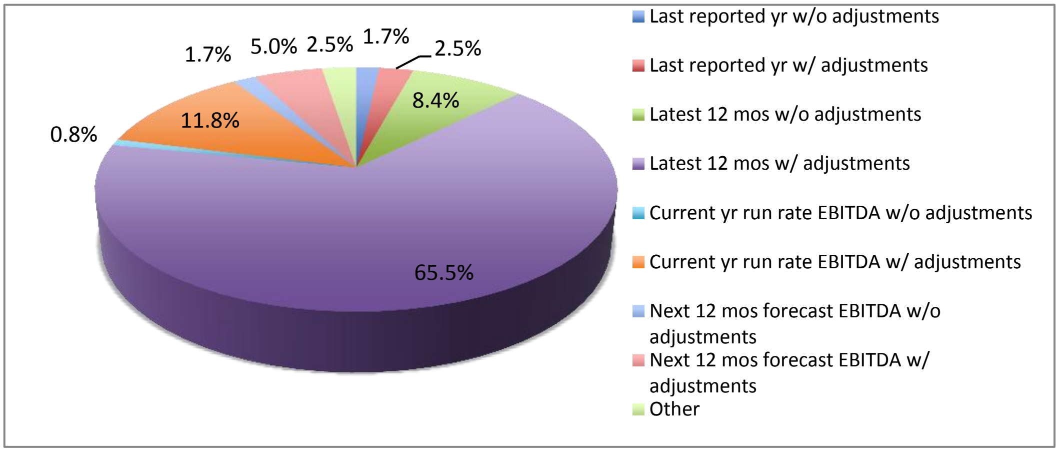
In order to close one deal, the following activities are conducted (medians reported). These activities include the review of business plans (100), meetings with principals (15), term sheets issued (6), and letters of intent signed (2).

Table 68. Number of Items to Close One Deal

	Business plans	Meetings with principals	Proposal letters or term sheets are issued	Letters of intent are signed
1st quartile	40	10	4	1
Median	100	15	6	2
3rd quartile	100	20	10	3

Approximately 65.5% of respondents reported using the latest 12 months with adjustments as their primary EBITDA base.

Figure 85. EBITDA Base Primarily Used



Respondents were asked to report on factors used when evaluating investment opportunities.

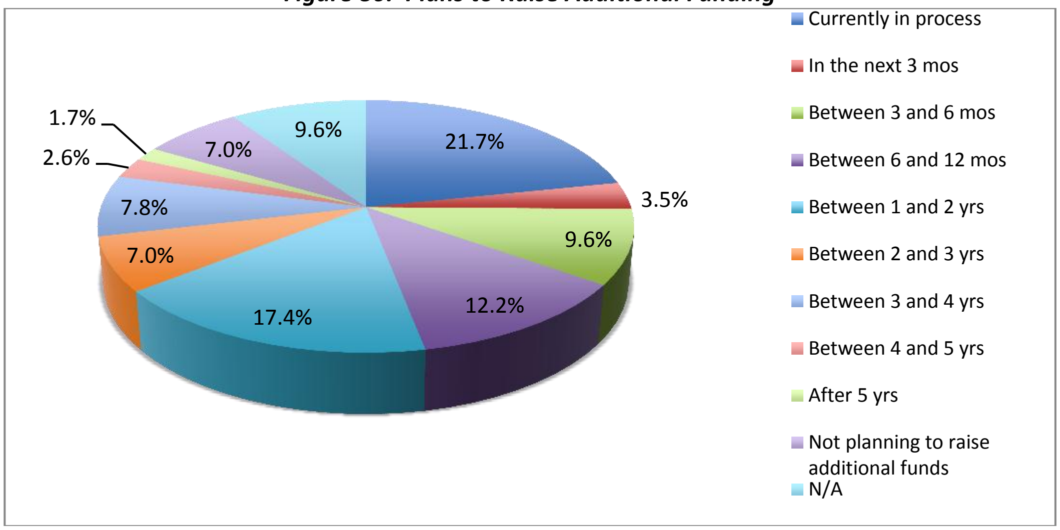
Table 69. Importance of Factors

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0-4)
Firm size	6.0%	10.3%	46.2%	29.9%	7.7%	2.2
Customer concentrations	0.8%	3.4%	13.4%	42.0%	40.3%	3.2
Market leadership	0.8%	5.9%	33.9%	40.7%	18.6%	2.7
Historical operating performance	0.0%	3.4%	13.6%	53.4%	29.7%	3.1
Industry sector	0.9%	5.1%	22.2%	41.9%	29.9%	2.9
Future prospects of company	0.0%	0.0%	3.4%	22.0%	74.6%	3.7
Management team	0.0%	0.0%	7.2%	25.3%	67.5%	3.6

Industry and Economic Outlook

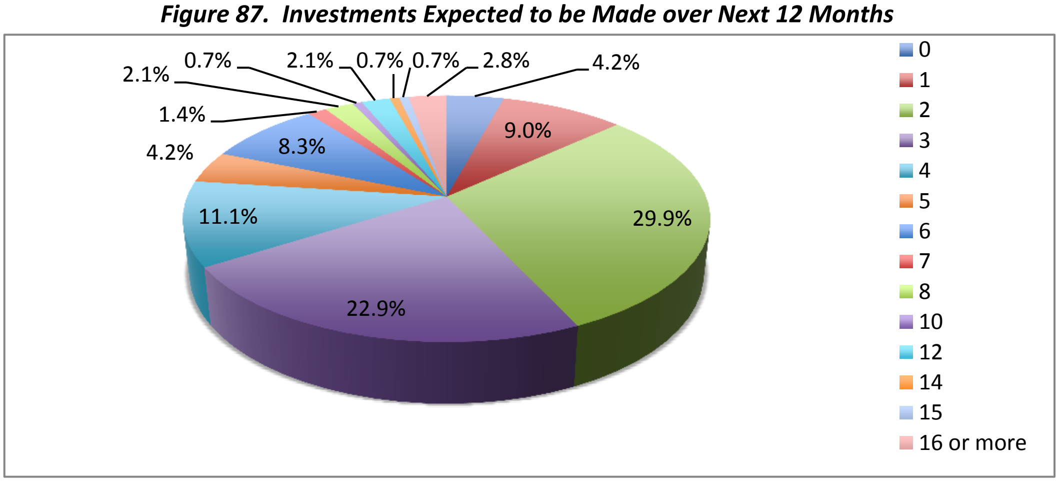
Around 21.7% of respondents are currently in process of raising additional funds. Approximately 7% of respondents reported no plans to raise additional funds while 3.5% report a fundraising effort in the next three months. Another 9.6% report commencing a fundraising effort in the next three to six months and 12.2% indicate an attempt in six to 12 months. In addition, 17.4% report their intent to launch a fundraising campaign in the next one to two years.

Figure 86. Plans to Raise Additional Funding



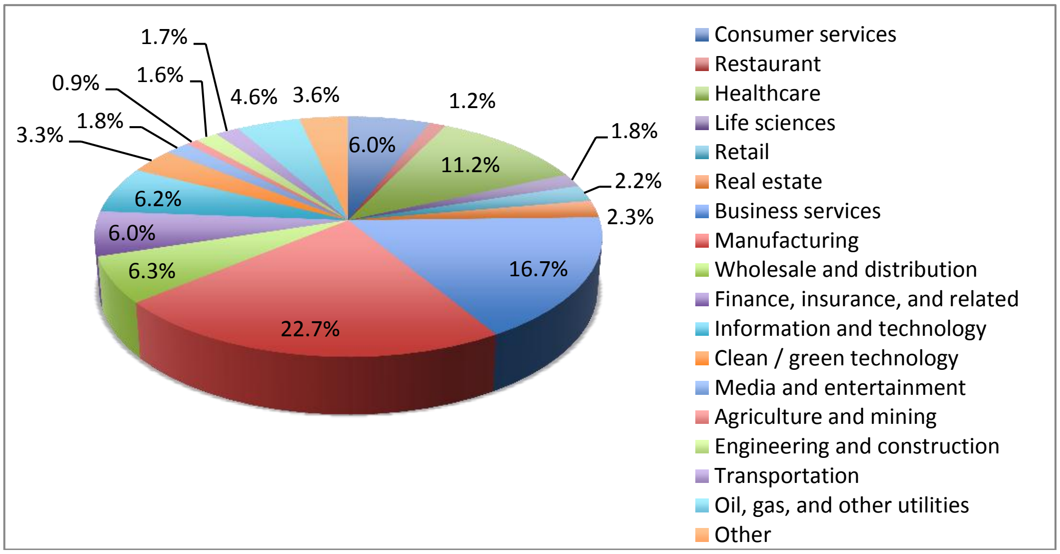
Approximately 30% plan to make two investments over the next 12 months, followed by 23% reporting plans to make three investments.

Figure 87. Investments Expected to be Made over Next 12 Months



Manufacturing (22.7%) and business services (16.7%) companies are likely to be the targets of private equity firm investment over the next 12 months, followed by health care, distribution, and oil and gas.

Figure 88. Type of Business for Expected Investments (next 12 months)



Respondents estimated that 12.3% of total assets purchased over the next 12 months will be distressed.

Table 70. Distressed Assets (next 12 months)

Distressed as a % of total # of transactions	12.3%
Distressed as a % of total VALUE of transactions	10.0%

Respondents were asked to compare conditions today versus six months ago.

Table 71. Comparison: Today Versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	Score (-2 to 2)
Demand for business investment	0.0%	5.7%	30.5%	41.0%	22.9%	0.8
General investment standards	1.0%	5.8%	52.4%	29.1%	11.7%	0.4
Quality of companies seeking investment	1.9%	7.8%	36.9%	41.7%	11.7%	0.5
Average investment size	1.0%	10.7%	60.2%	23.3%	4.9%	0.2
Appetite for risk	6.7%	16.2%	41.0%	33.3%	2.9%	0.1
Average investment maturity (months)	0.0%	6.4%	63.8%	17.0%	12.8%	0.4
Deal multiples	1.9%	13.5%	37.5%	36.5%	10.6%	0.4
Senior leverage multiples	2.0%	13.1%	27.3%	52.5%	5.1%	0.5
Total leverage multiples	2.0%	12.1%	26.3%	54.5%	5.1%	0.5
Time to exit deals	0.0%	9.1%	39.4%	36.4%	15.2%	0.6
Expected returns on new investments	2.9%	22.5%	53.9%	17.6%	2.9%	0.0
General business confidence	7.7%	24.0%	33.7%	31.7%	2.9%	0.0
General business conditions	7.7%	21.2%	37.5%	32.7%	1.0%	0.0
Size of private equity industry	2.9%	35.0%	51.5%	9.7%	1.0%	-0.3
Communication with LPs	0.0%	2.1%	59.4%	26.0%	12.5%	0.5
Power of LPs	0.0%	1.0%	57.1%	28.6%	13.3%	0.5
Ability to assess and price risk on new investment opportunities	1.4%	8.3%	58.3%	26.4%	5.6%	0.3

Respondents were asked about their expectations for the next 12 months.

Table 72. Expectations for the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	Score (-2 to 2)
Demand for business investment	1.1%	6.4%	28.6%	59.4%	7.4%	0.6
General investment standards	1.1%	4.3%	63.0%	33.1%	2.1%	0.3
Quality of companies seeking investment	0.0%	7.4%	41.3%	48.7%	6.4%	0.5
Average investment size	0.0%	1.1%	60.9%	36.3%	5.3%	0.4
Appetite for risk	0.0%	10.6%	51.8%	38.0%	3.2%	0.3
Average investment maturity (months)	0.0%	5.3%	73.6%	16.0%	4.3%	0.2
Deal multiples	1.1%	7.4%	48.6%	44.4%	2.1%	0.4
Senior leverage multiples	1.1%	6.4%	41.3%	50.8%	1.1%	0.4
Total leverage multiples	1.1%	6.4%	42.3%	48.7%	2.1%	0.4
Time to exit deals	0.0%	9.6%	66.1%	21.3%	3.2%	0.2
Expected returns on new investments	0.0%	13.7%	67.5%	19.0%	2.1%	0.1
General business confidence	3.2%	17.9%	39.0%	41.1%	2.1%	0.2
General business conditions	3.2%	15.8%	36.9%	45.4%	2.1%	0.3
Size of private equity industry	3.2%	23.1%	61.0%	14.7%	1.1%	-0.1
Communication with LPs	0.0%	1.1%	61.0%	27.8%	8.6%	0.4
Power of LPs	0.0%	2.1%	62.1%	26.7%	7.5%	0.4
Ability to assess and price risk on new investment opportunities	1.5%	1.5%	72.7%	23.2%	3.1%	0.2

Respondents believe that overall gross domestic product will increase by 1.2% within next 12 months, while the privately-held company GDP equivalent is expected to increase by 1.8%. Respondents also believe the probability of a double-dip recession for the entire economy is 35.5% and 34.1% for the private economy.

Table 73. GDP Forecast (12-month)

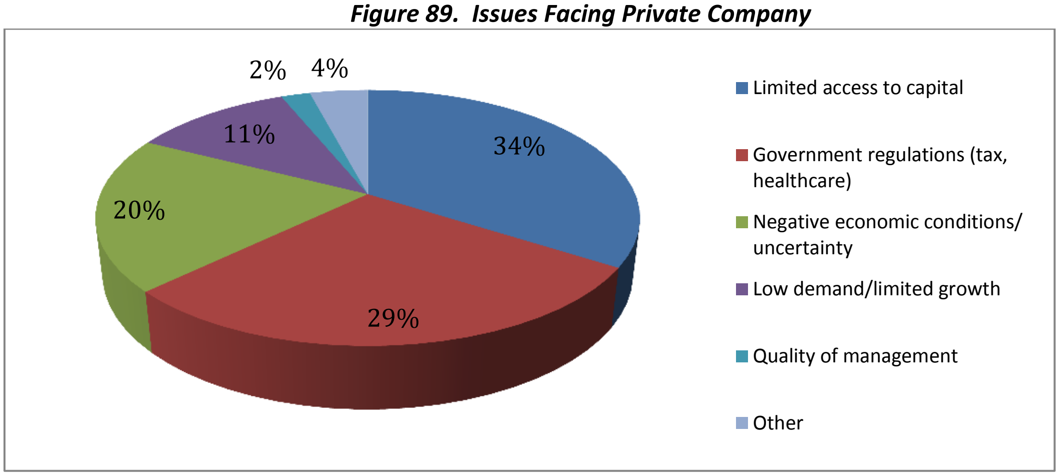
	Expected GDP change (%)
Overall GDP % change	1.2%
Privately-held company equivalent GDP	1.8%

Table 74. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	35.5%
Private economy	34.1%

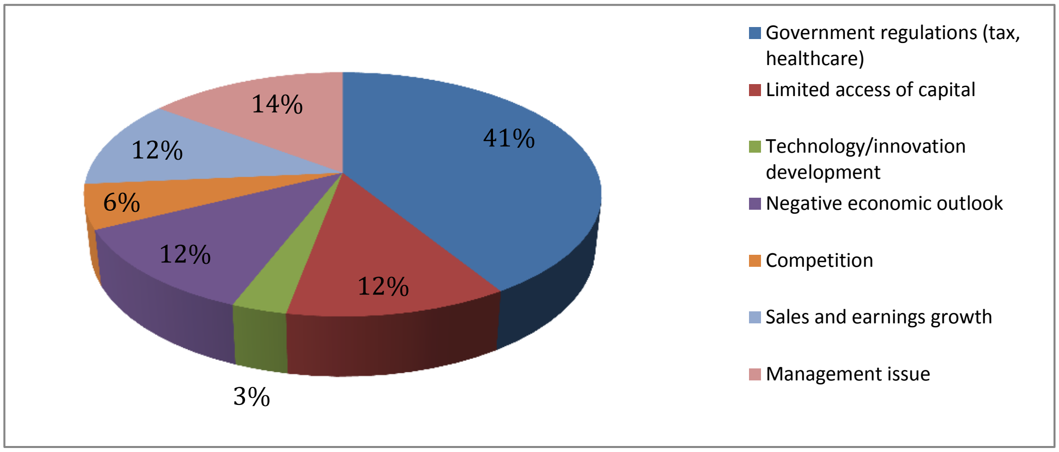
Thirty-four percent of private equity groups regard limited access to capital as the most prominent issue faced by private companies, while 29% chose government regulations and 20% chose negative economic conditions/uncertainty.

Figure 89. Issues Facing Private Company



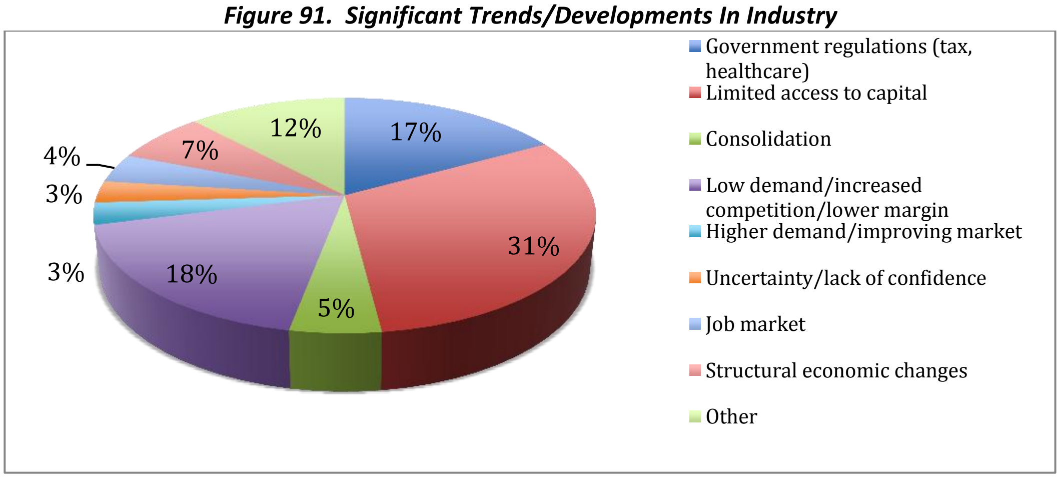
Government regulations got the most votes from private equity groups (41%) when it came to emerging issues. Issues in management and operation raised concern from 14% of all survey respondents, while sluggish sales and earnings growth, negative economic outlook and limited access of capital each got 12%.

Figure 90. Emerging Issues Facing Private Company



Limited access to capital also got the highest votes from private equity groups (31%), 18% are worried about lower profit margin, and another 17% thought government regulation would become a trend. Only 3% of this group is optimistic, believing consumer demand is increasing.

Figure 91. Significant Trends/Developments In Industry



MEZZANINE SURVEY INFORMATION

Of the 74 participants that responded to the mezzanine survey, 53.8% reported current deals in the $5 million to $10 million range and 47.7% had deals in the $1 million to $5 million range. Over the last six months approximately 14% of respondents invested in one to three deals. Fifty-six percent (56%) of respondents said they expect to make four to six new investments over the next 12 months which is good news since nearly 70% of investors anticipate an increased demand for business investment in the coming year. Other key findings include:

- Business services (25.4%), manufacturing (21.5%) and healthcare (12.2%) look to be areas targeted for mezzanine investment. While manufacturing is still at the top of the list, it is down from 27.8%.

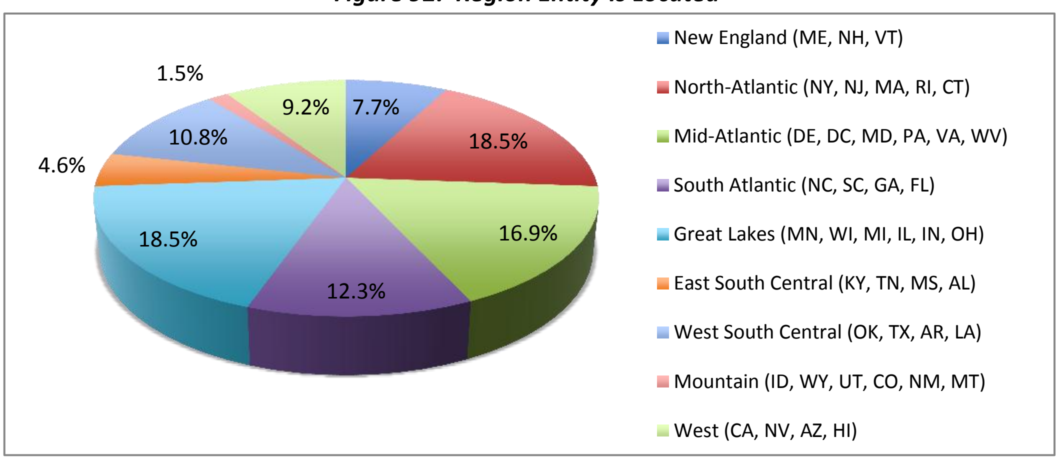
- 37.8% of respondents said that their appetite for risk increased over the last six months and 27.8% of respondents said they expect their likeliness to assume risk will increase over the next 12 months.

- Most mezzanine investors said limited access to capital would become a trend in the industry (40%), partly because of tightened lending requirements. Twenty-one (21%) percent worried about lower profit margin, while another 6% thought the lack of consumer confidence would persist in the future.

Profile of Respondents

There were 74 participants that responded to the Mezzanine Survey. Respondents are split evenly between the Great Lakes area (18.5%) and the North-Atlantic region (18.5%), followed by 16.9% located in the Mid-Atlantic region.

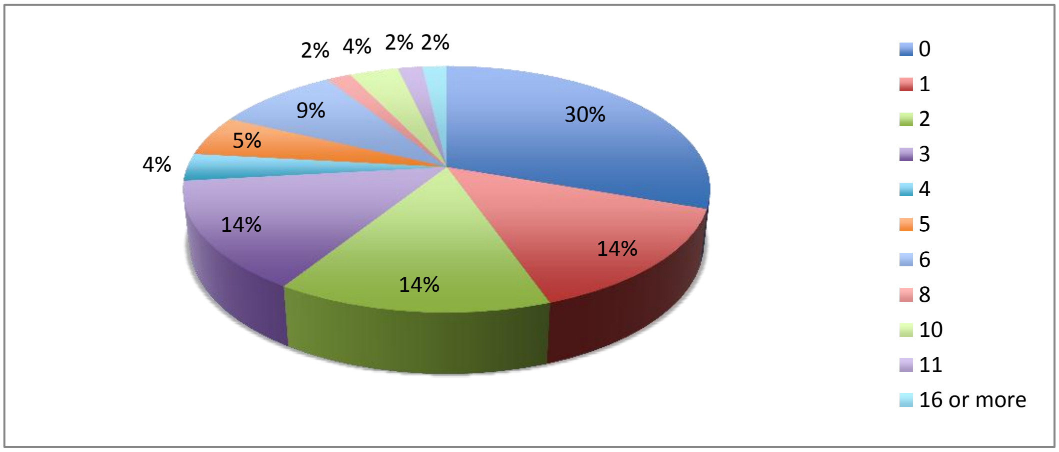
Figure 92. Region Entity Is Located



Operational and Lending Characteristics

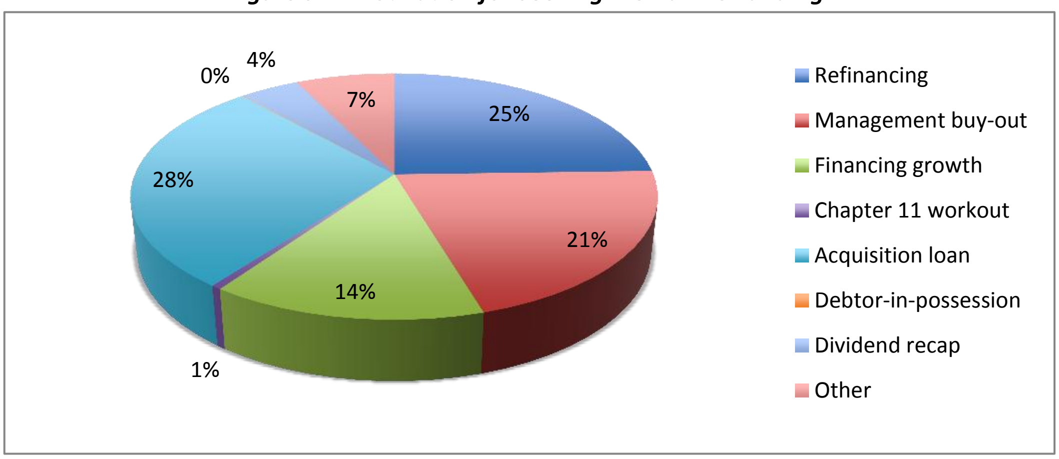
Over the last six months, investors have made a number of new investments. Around 14% of respondents have invested in one, two, or three deals, while 30% of respondents did not invest at all.

Figure 93. Investments Made over the Last Six Months



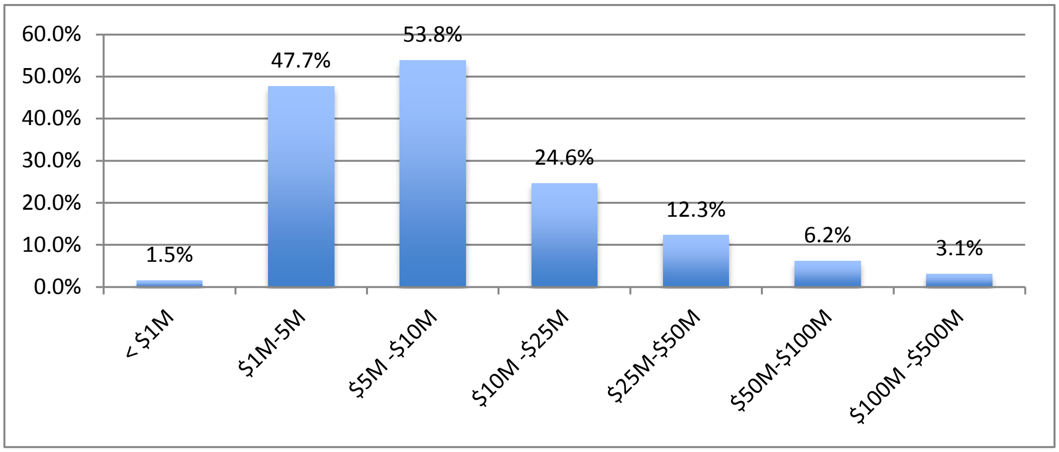
The most common motivation for securing investment was acquisitions (28%), followed by refinancing (25%), management buy-out (21%), and financing growth (14%).

Figure 94. Motivation for Seeking Mezzanine Funding



53.8% of respondents reported current deals in the $5 million to $10 million range and 47.7% had deals in the $1 million to $5 million range.

Figure 95. Typical Loan Size



Respondents reported on criteria for current fund.

Table 75. Current Fund Criteria

	1st quartile	Median	3rd quartile
Fund size ($M)	$75.0	$150.0	$200.0
Preferred return to LPs (%)	8.0%	8.0%	8.0%
Carried interest (%)	20.0%	20.0%	20.0%
Management fee (%)	2.0%	2.0%	2.0%
# of investments so far	6.5	11	21.5
Capital invested so far ($M)	$30.0	$53.5	$116.3
Remaining investment time period (mos.)	15	36	60
Targeted number of total investments	15	21.5	27.1
Exits so far	1.0	2.0	5.0
Average gross pre-tax IRR on exits (%)	12.5%	19.0%	25.0%
Average EBITDA size of investee at time of investment ($ millions)	$2.0	$3.0	$5.8

Respondents reported on various rates for sponsored deals based on loan size.

Table 76. Cash Interest Rate %

	$1M	$5M	$10M	$25M
1st Q	12.4%	12.0%	12.3%	12.0%
Median	13.3%	12.8%	13.0%	12.0%
3rd Q	13.6%	13.0%	13.0%	12.0%

Table 77. PIK Rate %

	$1M	$5M	$10M	$25M
1st Q	3.3%	2.0%	2.0%	2.6%
Median	3.5%	3.0%	2.0%	2.9%
3rd Q	3.8%	4.0%	3.0%	3.0%

Table 78. Total Expected Return on New Investments

(Gross cash on cash pre-tax IRR)	$1M	$5M	$10M	$25M
1st Q	18.0%	17.0%	17.3%	17.9%
Median	20.0%	19.5%	18.9%	18.5%
3rd Q	22.0%	22.1%	20.0%	19.0%

Table 79. Minimum Qualifying IRR for Investment

	$1M	$5M	$10M	$25M
1st Q	16.3%	16.0%	15.0%	14.8%
Median	18.5%	16.8%	16.0%	16.0%
3rd Q	20.5%	19.8%	18.0%	17.3%

Table 80. Maximum Total Leverage Ratio

(Multiple of EBITDA)	$1M	$5M	$10M	$25M
1st Q	2.9	3.5	3.5	4.4
Median	3.5	3.5	4.0	4.8
3rd Q	4.1	4.0	4.0	5.0

Table 81. Average Loan Term

(Months)	$1M	$5M	$10M	$25M
1st Q	60	60	60	32
Median	60	60	60	51
3rd Q	63	60	60	68

Table 82. Expected time to Exit

(Months)	$1M	$5M	$10M	$25M
1st Q	36	47	48	33
Median	48	54	60	36
3rd Q	63	60	60	42

Respondents reported on various rates for non-sponsored deals based on loan size.

Table 83. Cash Interest Rate %

	$1M	$5M	$10M	$25M
1st Q	13.3%	12.0%	12.0%	11.8%
Median	14.0%	14.0%	12.0%	12.0%
3rd Q	14.0%	14.0%	13.0%	12.8%

Table 84. PIK Rate %

	$1M	$5M	$10M	$25M
1st Q	2.0%	1.0%	2.0%	2.5%
Median	2.0%	2.0%	2.0%	3.0%
3rd Q	2.0%	2.0%	2.8%	3.0%

Table 85. % of Deals with Warrants

	$1M	$5M	$10M	$25M
1st Q	100.0%	100.0%	78.8%	100.0%
Median	100.0%	100.0%	100.0%	100.0%
3rd Q	100.0%	100.0%	100.0%	100.0%

Table 86. Warrant Coverage

(% of total diluted equity)	$1M	$5M	$10M	$25M
1st Q	10.8%	10.0%	10.0%	
Median	18.0%	11.0%	10.0%	
3rd Q	19.0%	15.0%	15.0%	

Table 87. Expected Return Kicker from Warrants

	$1M	$5M	$10M	$25M
1st Q	9.5%	10.0%	5.5%	4.5%
Median	11.0%	10.0%	8.0%	5.0%
3rd Q	11.5%	11.0%	8.0%	12.5%

Table 88. Total Expected Return on New Investments

(Gross cash on cash pre-tax IRR)	$1M	$5M	$10M	$25M
1st Q	23.0%	22.0%	20.0%	17.8%
Median	24.0%	22.0%	20.0%	18.0%
3rd Q	24.5%	24.0%	21.3%	18.5%

Table 89. Minimum Qualifying IRR for Investment

	$1M	$5M	$10M	$25M
1st Q	19.5%	18.0%	16.0%	14.0%
Median	21.0%	20.0%	16.5%	16.0%
3rd Q	21.5%	21.0%	18.1%	17.5%

Table 90. Maximum Total Leverage Ratio

(Multiple of EBITDA)	$1M	$5M	$10M	$25M
1st Q	2.5	3.0	3.2	3.9
Median	3.0	3.5	3.5	4.3
3rd Q	4.1	3.8	4.3	4.6

Table 91. Average Loan Term

(Months)	$1M	$5M	$10M	$25M
1st Q	60.0	60.0	60.0	48.0
Median	60.0	60.0	60.0	60.0
3rd Q	66.0	60.0	60.0	60.0

Table 92. Expected time to Exit

(Months)	$1M	$5M	$10M	$25M
1st Q	39.0	36.0	42.0	39.0
Median	42.0	42.0	48.0	42.0
3rd Q	57.0	48.0	60.0	45.0

Respondents reported on various borrower data.

Table 93. Borrower Data

	Median Ratio
Current ratio	2.0
Senior DSCR or FCC ratio	1.6
Funded DSCR or FCC ratio	1.3
Total DSCR or FCC ratio	1.3
Senior debt-to-cash flow	2.5
Total debt-to-cash flow	3.5
Debt-to-net worth	2.1
Revenue growth rate	10.0

Respondents reported on limits not to be exceeded data.

Table 94. Not to Exceed Limits

	Median Ratio
Current ratio	1.3
Senior DSCR or FCC ratio	1.3
Funded DSCR or FCC ratio	1.2
Total DSCR or FCC ratio	1.2
Senior debt-to-cash flow	3.0
Total debt-to-cash flow	4.0

Respondents were asked to report their gross and net returns for the last 12 months and for the next 12 months.

Table 95. Gross Returns

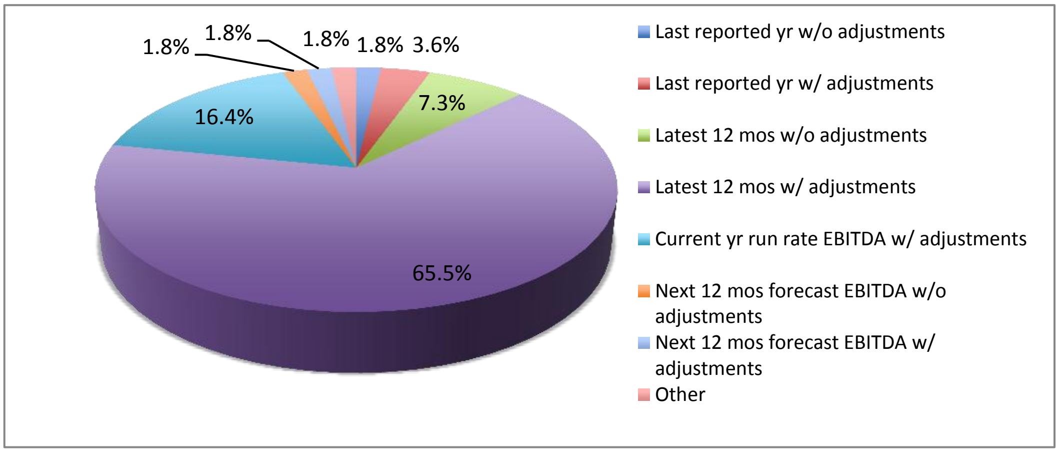
	Last 12 months	Next 12 months
1st quartile	7.3%	12.0%
Median	15.0%	18.0%
3rd quartile	19.3%	22.0%

Table 96. Net Returns

	Last 12 months	Next 12 months
1st quartile	8.0%	10.1%
Median	11.0%	14.0%
3rd quartile	15.0%	17.5%

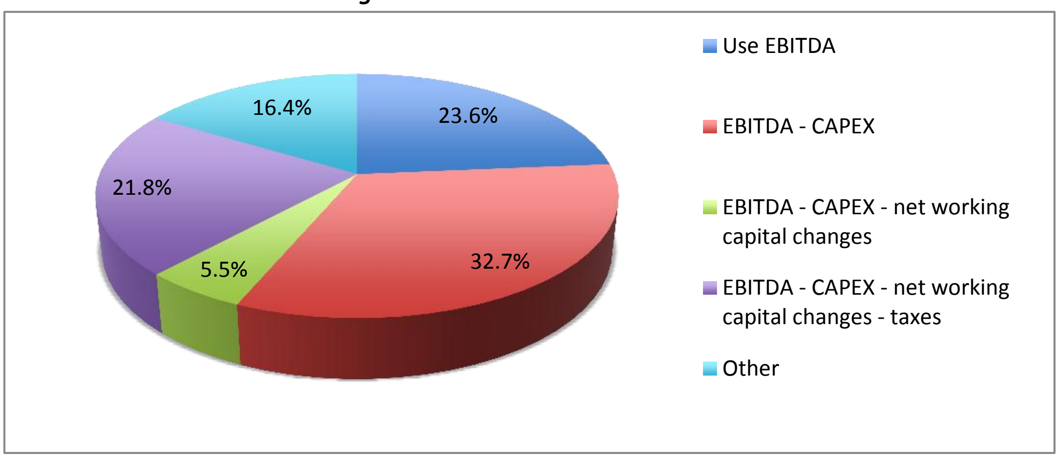
Approximately 65.5% of respondents reported using the latest 12 months with adjustments to determine the EBITDA base.

Figure 96. EBITDA Base Primarily Used



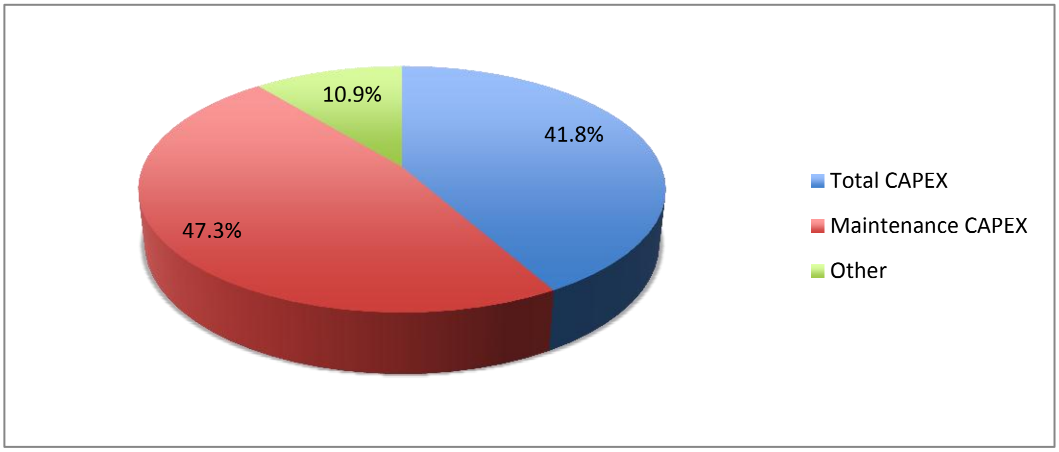
Approximately 32.7% of respondents reported using EBITDA – CAPEX for cash flow calculations, followed by 23.6% using EBITDA.

Figure 97. Cash Flow Calculations



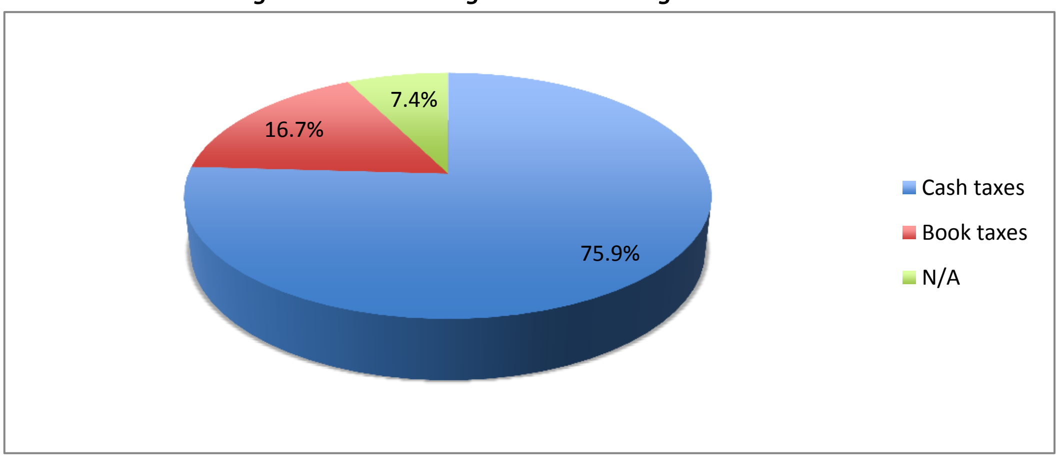
In regards to capital expenditures, 47.3% report using Maintenance CAPEX for calculating cash flow, followed by 41.8% using total CAPEX.

Figure 98. Calculating Cash Flow in Regards to Capital Expenditures



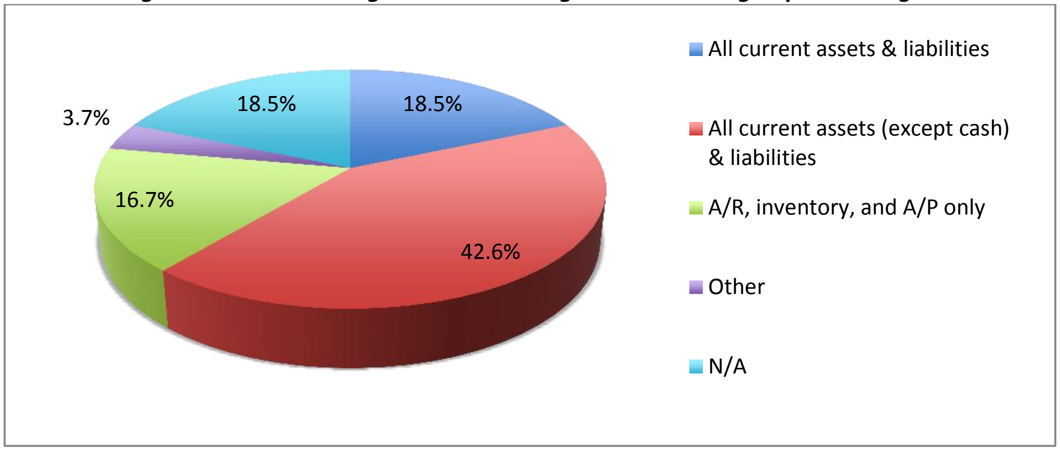
In regards to taxes, 75.9% report using cash taxes when calculating cash flow, followed by 16.7% using book taxes.

Figure 99. Calculating Cash Flow in Regards to Taxes



In regards to working capital changes, 42.6% report using all current assets (except cash) and liabilities when calculating cash flow, followed by 18.5% using both current assets and liabilities and N/A.

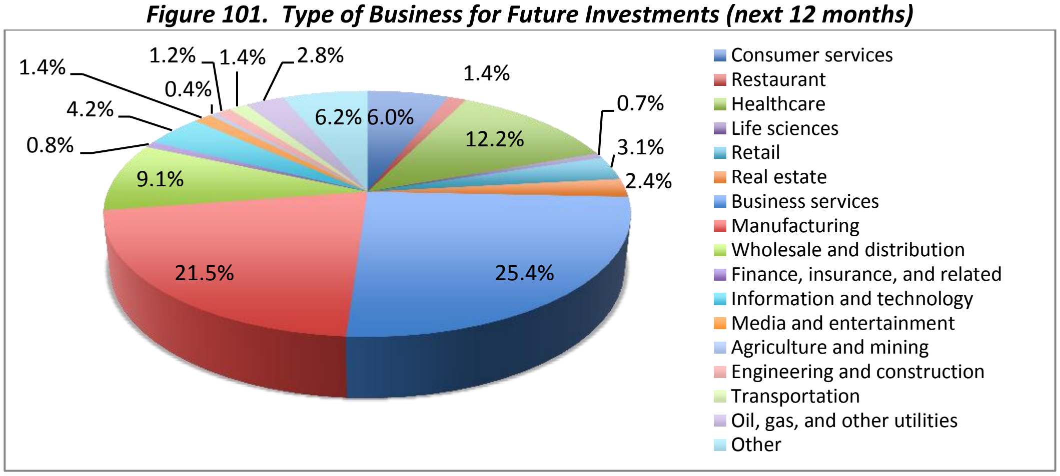
Figure 100. Calculating Cash Flow in Regards to Working Capital Changes



Industry and Economic Outlook

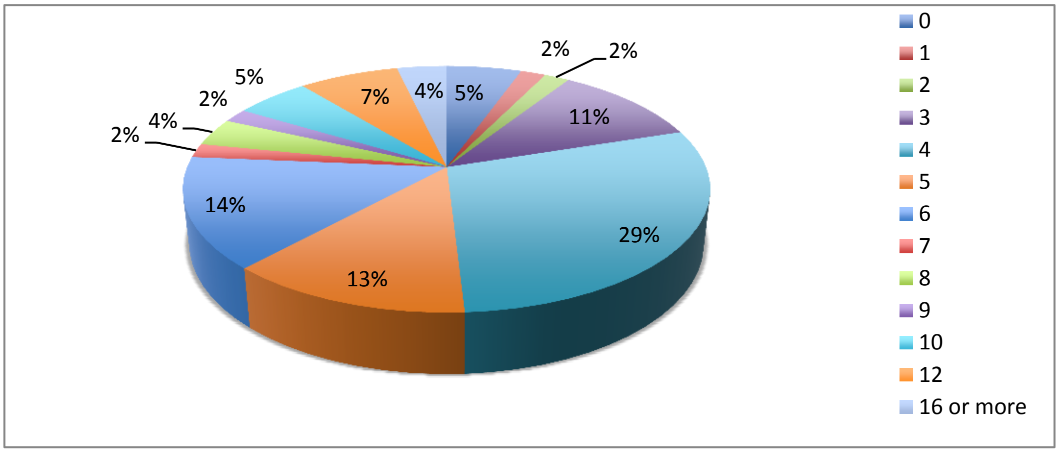
Those industries, in which respondents expect to make investments over the next 12 months include business services (25.4%), manufacturing (21.5%) and others as reported.

Figure 101. Type of Business for Future Investments (next 12 months)



Over the next 12 months, investors expect to make a number of new investments. Twenty-nine percent (29%) of respondents expect to make four new investments, while 14% expect to make six and 13% expect to make five investments.

Figure 102. Expected Number of Future Investments (over the next 12 months)



Respondents reported on their view of general business assessments comparing the previous six months to today as well as expectations for the next 12 months.

Table 97. Comparison: Today Versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	Score (-2 to 2)
Demand for business investment (business plans)	5.4%	0.0%	32.4%	37.8%	24.3%	0.8
General investment standards	0.0%	10.8%	48.6%	29.7%	10.8%	0.4
Credit Quality of borrowers seeking investment	0.0%	21.6%	32.4%	37.8%	8.1%	0.3
Average investment size	0.0%	2.7%	64.9%	27.0%	5.4%	0.4
Appetite for risk	0.0%	5.4%	56.8%	24.3%	13.5%	0.5
Average investment maturity (months)	0.0%	2.7%	89.2%	8.1%	0.0%	0.1
Number/Tightness of financial covenants	0.0%	5.4%	75.7%	16.2%	2.7%	0.2
Interest rates (Prime/LIBOR)	0.0%	29.7%	62.2%	8.1%	0.0%	-0.2
Size of interest rate spreads (pricing)	0.0%	30.6%	50.0%	19.4%	0.0%	-0.1
Warrant coverage	2.7%	21.6%	48.6%	24.3%	2.7%	0.0
PIK features	0.0%	5.6%	80.6%	13.9%	0.0%	0.1
Loan fees	0.0%	5.4%	83.8%	10.8%	0.0%	0.1
Deal multiples	0.0%	8.1%	37.8%	48.6%	5.4%	0.5
Senior leverage multiples	5.4%	2.7%	40.5%	48.6%	2.7%	0.4
Total leverage multiples	0.0%	8.1%	40.5%	48.6%	2.7%	0.5
Time to exit deals	0.0%	2.8%	75.0%	13.9%	8.3%	0.3
Expected returns on new investments	2.7%	32.4%	56.8%	8.1%	0.0%	-0.3
Attention on collateral as backup means of payment	0.0%	2.8%	83.3%	8.3%	5.6%	0.2
General business confidence	2.6%	36.8%	36.8%	23.7%	0.0%	-0.2
General business conditions	7.9%	31.6%	34.2%	26.3%	0.0%	-0.2
Size of mezzanine industry	2.7%	16.2%	51.4%	24.3%	5.4%	0.1
Ability to assess and price risk on new investment opportunities	0.0%	3.2%	67.7%	25.8%	3.2%	0.3

Table 98. Expectations for the Next 12 Months

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	Score (-2 to 2)
Demand for business investment (business plans)	0.0%	5.6%	25.0%	63.9%	5.6%	0.7
General investment standards	0.0%	5.6%	80.6%	11.1%	2.8%	0.1
Credit quality of borrowers seeking investment	0.0%	11.1%	47.2%	41.7%	0.0%	0.3
Average investment size	0.0%	0.0%	77.8%	22.2%	0.0%	0.2
Appetite for risk	0.0%	8.3%	63.9%	22.2%	5.6%	0.3
Average investment maturity (Months)	0.0%	2.9%	94.3%	2.9%	0.0%	0.0
Number/Tightness of financial covenants	0.0%	2.8%	88.9%	8.3%	0.0%	0.1
Interest rates (Prime/LIBOR)	0.0%	11.1%	80.6%	8.3%	0.0%	0.0
Size of interest rate spreads (pricing)	0.0%	2.9%	74.3%	22.9%	0.0%	0.2
Warrant coverage	5.6%	2.8%	83.3%	8.3%	0.0%	-0.1
PIK features	0.0%	2.9%	88.6%	8.6%	0.0%	0.1
Loan fees	0.0%	8.6%	85.7%	5.7%	0.0%	0.0
Deal multiples	0.0%	11.1%	55.6%	33.3%	0.0%	0.2
Senior leverage multiples	0.0%	5.6%	55.6%	38.9%	0.0%	0.3
Total leverage Multiples	0.0%	5.6%	63.9%	30.6%	0.0%	0.3
Time to exit deals	0.0%	2.8%	88.9%	5.6%	2.8%	0.1
Expected returns on new investments	0.0%	13.5%	78.4%	8.1%	0.0%	-0.1
Attention on collateral as backup means of payment	2.9%	0.0%	88.6%	8.6%	0.0%	0.0
General business confidence	2.7%	13.5%	56.8%	27.0%	0.0%	0.1
General business conditions	2.7%	16.2%	48.6%	32.4%	0.0%	0.1
Size of mezzanine industry	0.0%	10.8%	56.8%	27.0%	5.4%	0.3
Ability to assess and price risk on new investment opportunities	0.0%	7.1%	82.1%	10.7%	0.0%	0.0

Respondents believe that overall gross domestic product will increase by 1.1% within the next 12 months, while the privately-held company GDP equivalent is expected to increase by 1.3%. Respondents also believe the probability of a double-dip recession for the entire economy is 31.7% and 32.2% for the private economy.

Table 99. GDP Forecast (12-month)

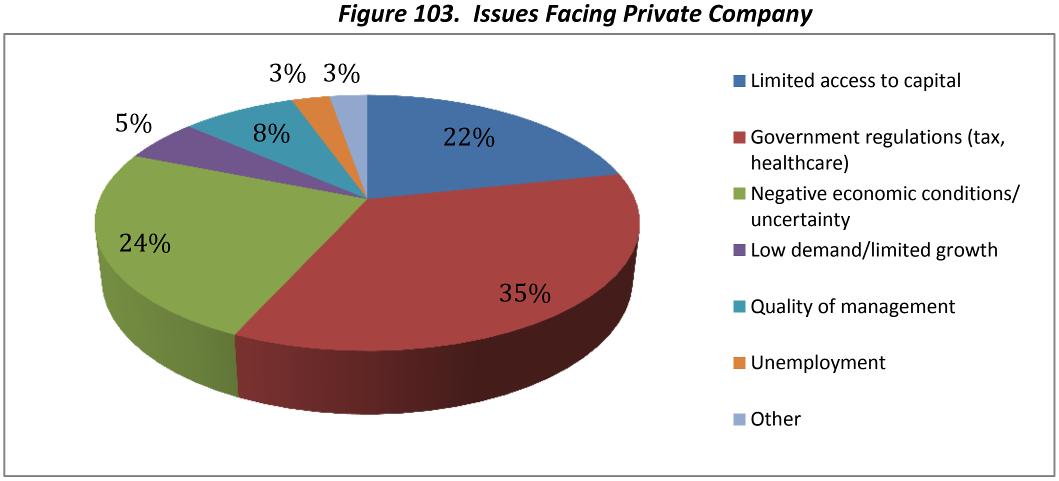
	Expected GDP change (%)
Overall GDP % Change	1.1%
Privately-held company equivalent GDP	1.3%

Table 100. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	31.7%
Private economy	32.2%

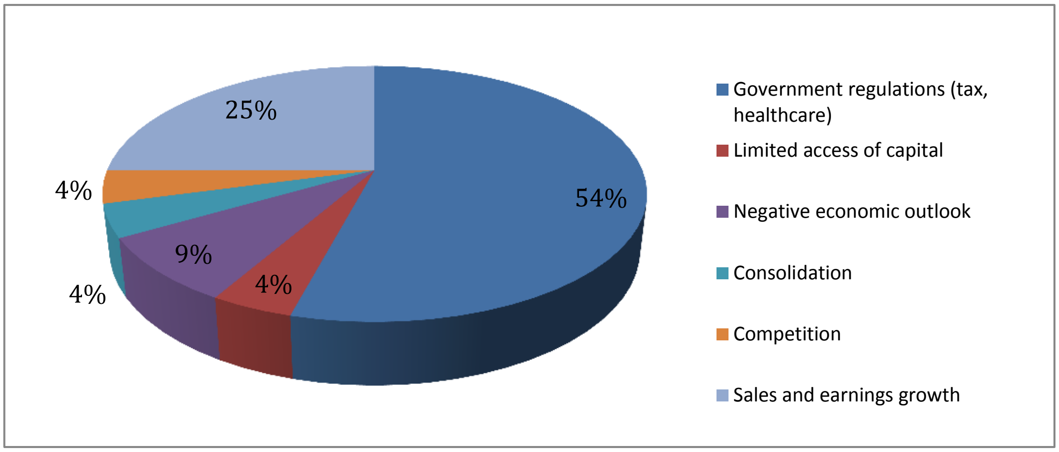
The top three issues that mezzanine investors think private companies are facing include government regulations (35%), negative economic conditions (24%), and limited access to capital (22%). Eight percent of this group regarded the quality of management is also an important issue.

Figure 103. Issues Facing Private Company



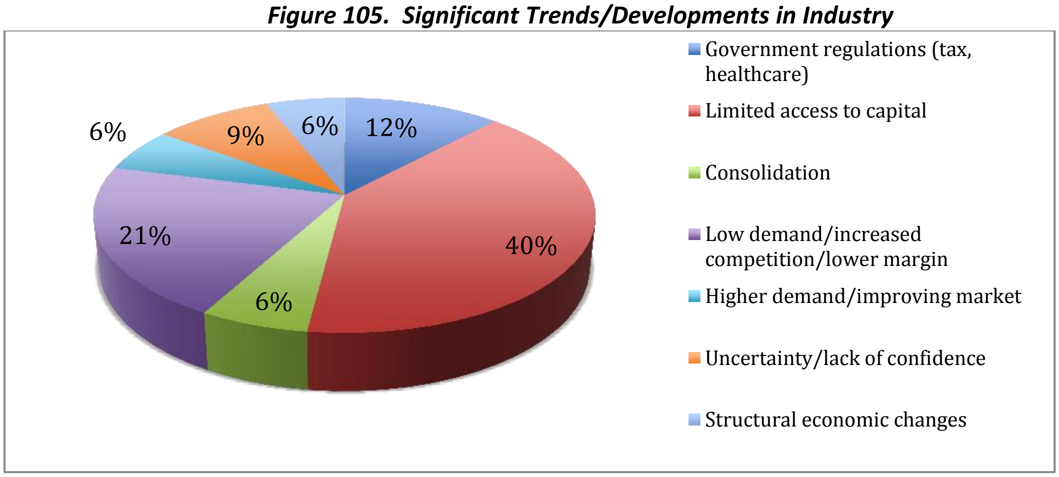
Mezzanine investors regarded government regulations as the most likely emerging issues facing private companies (54%). The difficulty in boosting sales and earnings became the next biggest concern (25%). Another 9% thought negative economic outlook would bother private companies the most in the future.

Figure 104. Emerging Issues Facing Private Company



Most mezzanine investors thought limited access to capital would become a trend in the industry (40%), partly because of tightened lending requirements. Twenty-one percent worried about lower profit margin, while another 6% thought the lack of consumer confidence would persist in the future.

Figure 105. Significant Trends/Developments in Industry



BANKS SURVEY INFORMATION

There were 68 responses to the banks survey with commercial banks making up 51.5% in terms of individual lending function. Over 65% of respondents believe that general business conditions will improve over the next 12 months and nearly 50% said the credit quality of borrowers will improve. Other key findings include:

- Refinancing accounted for 38.1% of all lending activity followed by acquisitions at 14.7%.
- When evaluating loan applications, banks placed high importance on the total debt-service coverage ratio (96.7%) and senior debt-service ratio (81.5%).
- The number of loan applications increased by 22.7% versus those from six months ago and approximately 56.5% of respondents believe that the number of loan applications will increase over the next 12 months.

Profile of Respondents

The following responses pertain to the Bank Survey. Results are based upon 68 responses of this survey. Commercial banks make up 51.5%, in terms of individual lending function. Respondents are geographically dispersed throughout the United States and among all respondents 45.5% are from the west. Around 63.6% of respondents participate in government loan programs (i.e., SBA).

Figure 106. Description of Entity

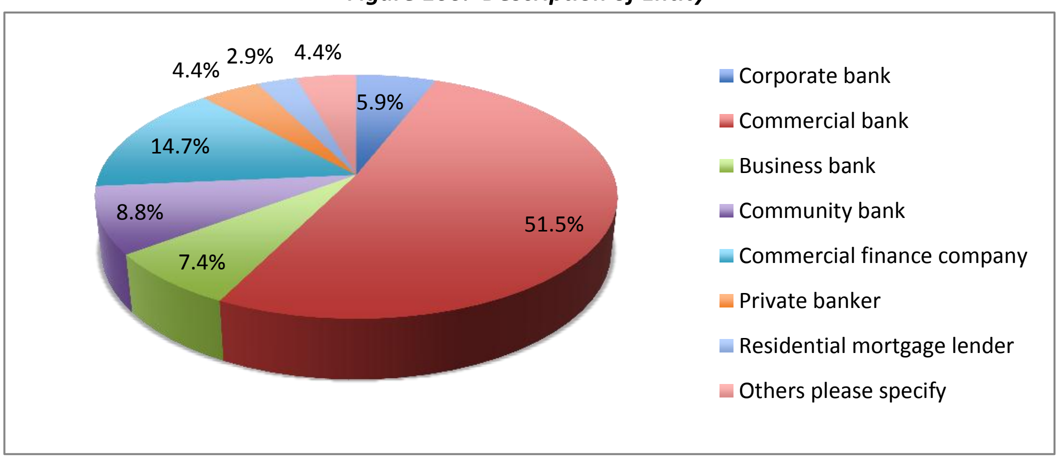


Figure 107. Location of Branch or Office

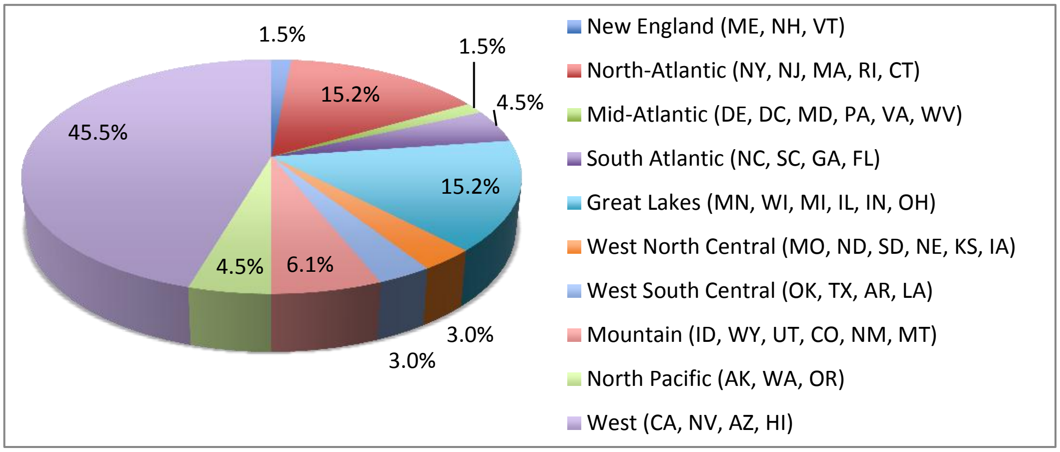
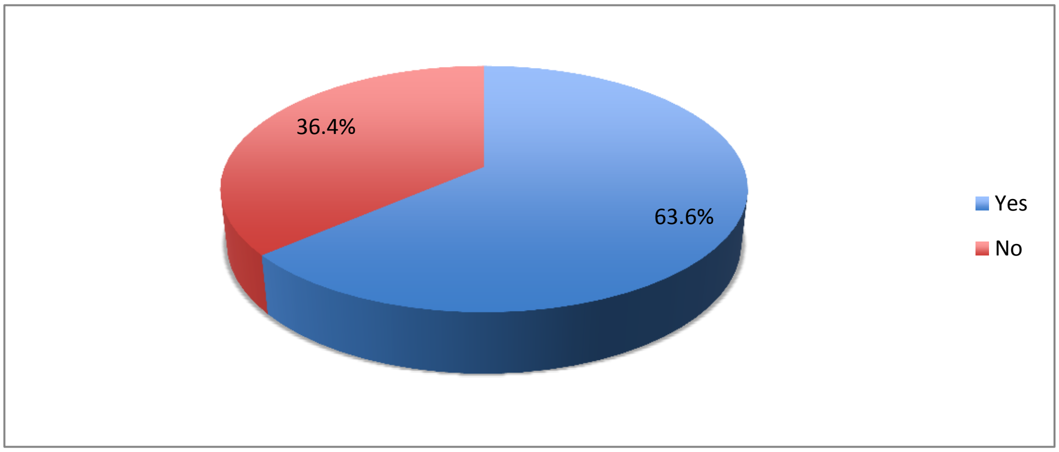


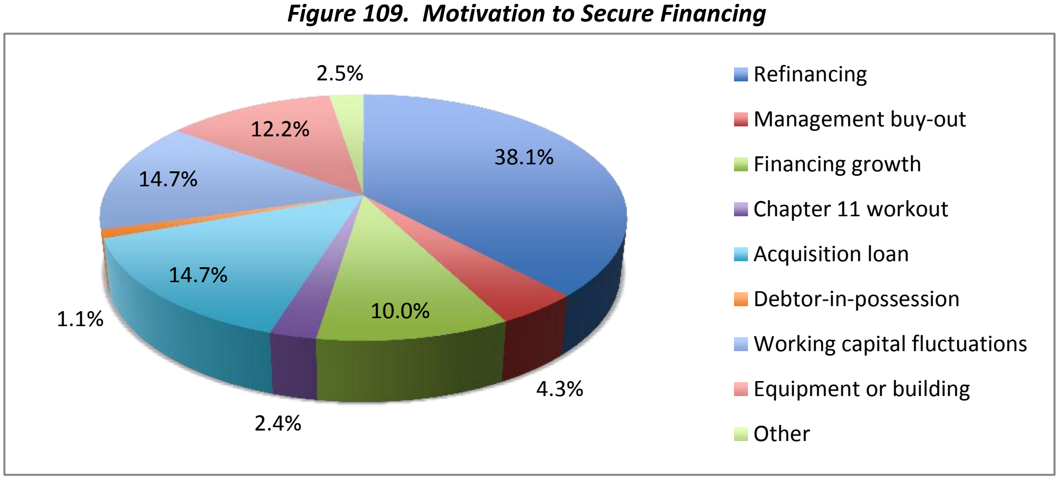
Figure 108. Participation in Government Loan Programs



Operational and Lending Characteristics

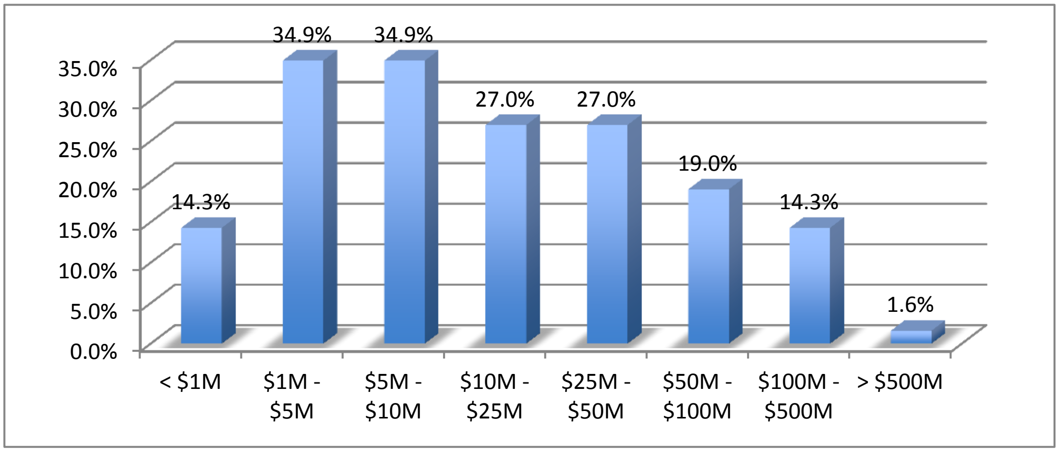
The most common motivation for securing lending was refinancing (38.1%), followed by acquisition loans (14.7%).

Figure 109. Motivation to Secure Financing



Respondents reported the typical size of loans booked. Around 34.9% of respondents reported making loans in the $1M - $5M range and the $5M - $10M range.

Figure 110. Typical Loan Size



Respondents reported on senior leverage multiples by industry and size of company (based upon EBITDA).

Table 101. Senior Leverage Multiple

Consumer service	1st quartile	Median	3rd quartile
$1M	1.2	1.4	3.0
$5M	1.3	2.5	3.0
$10M	2.0	2.5	3.0
$25M	2.1	2.6	3.0
$50M	2.0	2.8	2.9
$100M	3.0	3.0	3.1
$500M	3.0	3.0	3.3
Restaurant	1st quartile	Median	3rd quartile
$1M	0.6	0.9	1
$5M	0.5	1.0	1.3
$10M	0.5	1.0	1.3
$25M	1.1	1.8	2.0
$50M	1.3	2.0	2.8
Health care	1st quartile	Median	3rd quartile
$1M	1.2	1.5	2.3
$5M	2.0	2.5	2.8
$10M	2.0	2.8	3.0
$25M	2.1	2.8	3.0
$50M	3.0	3.0	3.1
$100M	3.0	3.0	3.3
Life sciences	1st quartile	Median	3rd quartile
$1M	1.1	1.2	1.6
$5M	2.0	2.0	2.3
$10M	2.0	2.0	2.4
$25M	2.3	2.5	2.8
Retail	1st quartile	Median	3rd quartile
$1M	1.0	1.2	1.2
$5M	1.0	2.0	2.4
$10M	1.9	2.0	2.4
$25M	2.0	2.0	3.0
$50M	2.0	2.0	5.0
Real estate	1st quartile	Median	3rd quartile
$1M	1.1	1.2	1.2
$5M	1.8	2.5	3.8
$10M	2.4	3.5	4.5

$25M	2.4	3.6	4.8
Business services	1st quartile	Median	3rd quartile
$1M	1.2	1.2	1.9
$5M	2.5	2.5	3.0
$10M	2.5	2.5	3.0
$25M	2.5	3.0	3.0
$50M	2.6	3.0	3.0
$100M	3.1	3.3	3.4
$500M	3.3	3.5	3.5

Manufacturing	**1st quartile**	**Median**	**3rd quartile**
$1M	1.3	1.3	2.0
$5M	2.1	2.5	3.0
$10M	2.4	2.5	3.0
$25M	2.6	3.0	3.0
$50M	2.8	3.0	3.0
$100M	2.7	3.0	3.2
$500M	2.8	3.3	3.5
Wholesale and distribution	1st quartile	Median	3rd quartile
$1M	1.2	1.4	2.6
$5M	2.0	2.5	3.0
$10M	2.1	2.6	3.0
$25M	2.8	3.0	3.0
$50M	2.9	3.0	3.0
$100M	3.1	3.3	3.4
$500M	3.3	3.5	3.5
Finance, insurance, and related	1st quartile	Median	3rd quartile
$1M	0.8	1.1	1.3
$5M	1.3	2.0	2.5
$10M	1.3	1.8	2.5
$25M	1.5	2.5	3.3
Information and technology	1st quartile	Median	3rd quartile
$1M	1.2	2.0	2.3
$5M	2.0	2.3	2.9
$10M	1.9	2.5	3.0
$25M	2.4	3.0	3.2
$50M	2.5	3.0	3.0

Clean / green technology	1st quartile	Median	3rd quartile
$1M	1.3	1.5	1.8
$5M	1.5	2.0	2.3
$10M	1.8	2.0	2.2
$25M	1.8	2.0	2.5
$50M	1.8	2.0	2.5

Oil, gas, and other utilities	1st quartile	Median	3rd quartile
$1M	1.2	1.4	1.6
$5M	2.3	2.5	2.8
$10M	2.4	2.5	2.9
$25M	2.4	2.5	3.0

When evaluating loan applications, banks placed high importance on the total debt-service coverage ratio (fixed charge coverage ratio), senior debt-service ratio, and fixed-charge coverage ratio when considering borrowers qualifications.

Table 102. Importance of Factors

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0-4)
Current ratio	34.5%	13.8%	10.3%	27.6%	13.8%	1.7
Senior DSCR or FCC ratio	7.4%	3.7%	7.4%	22.2%	59.3%	3.2
Total DSCR or FCC ratio	3.2%	0.0%	0.0%	16.1%	80.6%	3.7
Senior debt-to-cash flow	3.6%	7.1%	17.9%	25.0%	46.4%	3.0
Total debt-to-cash flow	7.1%	3.6%	10.7%	21.4%	57.1%	3.2
Debt-to-net worth	13.8%	6.9%	17.2%	41.4%	20.7%	2.5
Revenue growth rate	10.3%	24.1%	48.3%	6.9%	10.3%	1.8

Respondents reported a number of ratios used to evaluate average borrower data along with minimum thresholds.

Table 103. Average Borrower Data

	1st quartile	Median	3rd quartile
Current ratio	1.3	1.4	1.5
Senior DSCR	1.2	1.3	1.5
Total DSCR	1.2	1.3	1.5
Senior debt-to-cash flow	1.9	2.5	2.5
Debt-to-net worth	1.3	2	2.5
Revenue growth rate	0.8%	3%	4.5%

Table 104. Loan Approval Limits

	1st quartile	Median	3rd quartile
Current ratio	1.1	1.3	1.3
Senior DSCR	1.2	1.3	1.3
Total DSCR	1.2	1.3	1.3
Senior debt-to-cash flow	2	3	3
Debt-to-net worth	1.2	2.4	2.8
Revenue growth rate	0.8%	2.1%	8.5%

Banks report a number of fees charged to the borrower. The fees include the following:

Table 105. Fees Currently Charged to Borrower

Fee	Average
Closing fee	0.96%
Modification fee	0.53%
Commitment fee	0.90%
Prepayment penalty (yr. 1)	2.97%
Prepayment penalty (yr. 2)	2.20%
Unused line fee	0.44%

Respondents reported current rates charged for booked loans. Median, 1st quartile, and 3rd quartile data are reported for each type and size of loan.

Table 106. Average All-in-Rates on Current Booked Loans

	Cash flow loan all-in-rate(%)	Working capital all-in-rate (%)	Equipment all-in-rate (%)	Real estate all-in-rate (%)
$1 million				
1st quartile	5.4	4.0	5.0	5.5
Median	6.5	5.8	6.0	6.3
3rd quartile	7.1	6.5	7.0	6.5
$5 million				
1st quartile	5.0	3.9	4.5	5.2
Median	6.0	5.0	5.0	5.5
3rd quartile	6.8	5.8	6.0	6.5
$10 million				
1st quartile	4.5	3.5	4.3	4.8
Median	5.5	4.0	4.4	5.3
3rd quartile	6.6	6.0	5.3	6.3
$25 million				
1st quartile	3.8	3.1	3.4	3.8
Median	5.0	3.5	4.1	5.0
3rd quartile	7.0	5.9	5.6	6.0
$50 million				
1st quartile	3.8	3.0		
Median	5.0	3.3		
3rd quartile	6.3	6.0		
$100 million				
1st quartile	3.6	2.9		
Median	4.8	3.0		
3rd quartile	6.0	4.5		

The median loan terms for booked deals are 60 months for real estate loans, 24 months for working capital loans, 60 months for equipment loans and 36 months for cash flow loans.

Table 107. Average Loan Term

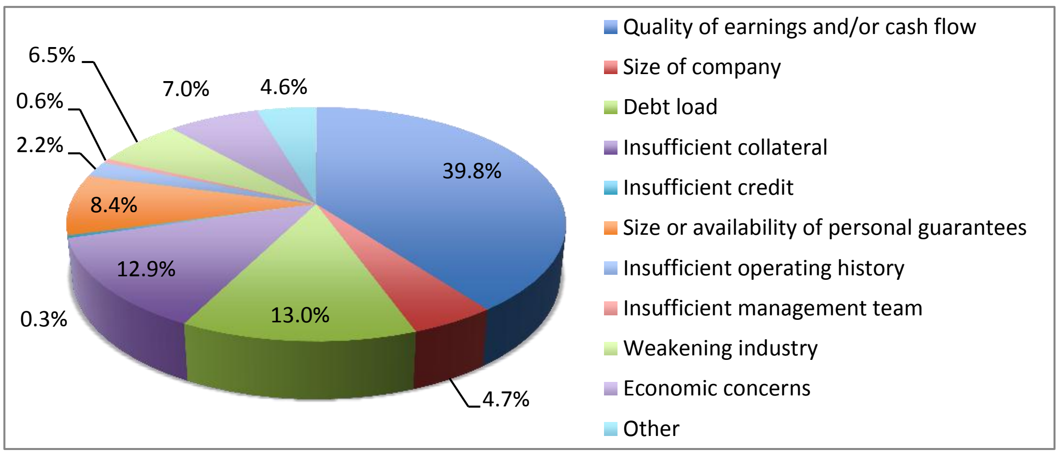
	1st quartile	Median	3rd quartile
Cash flow	30	36	60
Working capital	12	24	36
Equipment	51	60	60
Real estate	60	60	90

Table 108. Loans over Last Six Months

	Declined %	Offered %	Book/Offer %
Cash flow-based	66.7%	33.3%	71.5%
Collateral-based	59.8%	40.2%	80.0%
Real estate	50.0%	50.0%	71.9%

Quality of earnings and/or cash flow was reported by 39.8% of respondents as the reason for declining loan applications, followed by debt load (13.0%).

Figure 111. Reason for Declined Loans (past six months)



Industry and Economic Outlook

Respondents reported their assessments of loan submittals, operational characteristics, and industry standing today versus those six months ago. Notably, 59.1% indicated an increase in loan applications at the time of the survey verses six months ago.

Table 109. Today Versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	Score (-2 to 2)
Demand for business loans	4.5%	22.7%	13.6%	36.4%	22.7%	0.5
General underwriting standards	0.0%	21.7%	43.5%	21.7%	13.0%	0.3
Credit quality of borrowers	8.7%	17.4%	26.1%	47.8%	0.0%	0.1
Time to process loans	0.0%	13.6%	72.7%	9.1%	4.5%	0.0
Average loan size	4.3%	0.0%	69.6%	26.1%	0.0%	0.2
Average loan maturity	0.0%	8.7%	69.6%	17.4%	4.3%	0.2
Number/tightness of fin covenants	0.0%	9.1%	59.1%	22.7%	9.1%	0.3
% of loans with personal guarantees	0.0%	6.3%	87.5%	6.3%	0.0%	0.0
Size of interest rate spreads (pricing)	13.0%	21.7%	26.1%	39.1%	0.0%	-0.1
Loan fees	8.7%	21.7%	60.9%	8.7%	0.0%	-0.3
Senior leverage multiples	0.0%	5.0%	50.0%	40.0%	5.0%	0.5
Total leverage multiples	0.0%	4.8%	52.4%	33.3%	9.5%	0.5
Standard advance rates on collateral	5.3%	10.5%	78.9%	5.3%	0.0%	-0.2
Attention on collateral as backup means of payment	0.0%	10.0%	55.0%	35.0%	0.0%	0.3
SBA lending	0.0%	0.0%	69.2%	23.1%	7.7%	0.4
Lending capacity of bank	0.0%	5.0%	35.0%	50.0%	10.0%	0.7
General business confidence	0.0%	34.8%	34.8%	30.4%	0.0%	0.0
General business conditions	4.3%	30.4%	34.8%	26.1%	4.3%	0.0
Ability to assess and price risk on new investment opportunities	0.0%	16.7%	38.9%	38.9%	5.6%	0.3

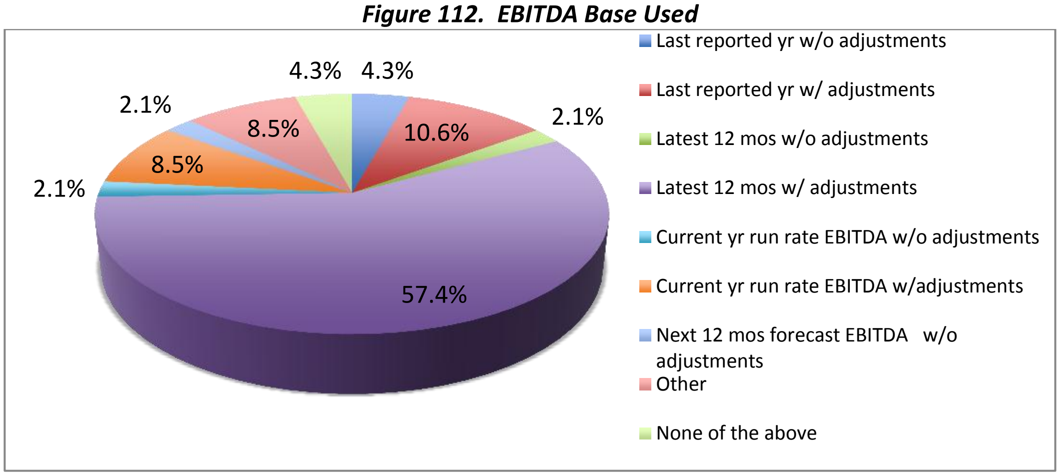
Respondents reported on the importance of EBITDA and Cash Flow for determining the basis of the senior leverage multiple.

Table 110. Basis of Senior Leverage Multiple

	EBITDA	Cash Flow
Consumer service	75.9%	24.1%
Restaurant	62.5%	37.5%
Health care	81.0%	19.0%
Life sciences	83.3%	16.7%
Retail	70.6%	29.4%
Real estate	60.0%	40.0%
Business services	69.6%	30.4%
Manufacturing	75.0%	25.0%
Wholesale and distribution	70.0%	30.0%
Finance, insurance, and related	73.3%	26.7%
Information and technology	82.4%	17.6%
Clean / green technology	81.8%	18.2%
Media and entertainment	78.6%	21.4%
Agriculture and mining	66.7%	33.3%
Engineering and construction	80.0%	20.0%
Transportation	86.7%	13.3%
Oil, gas, and other utilities	83.3%	16.7%

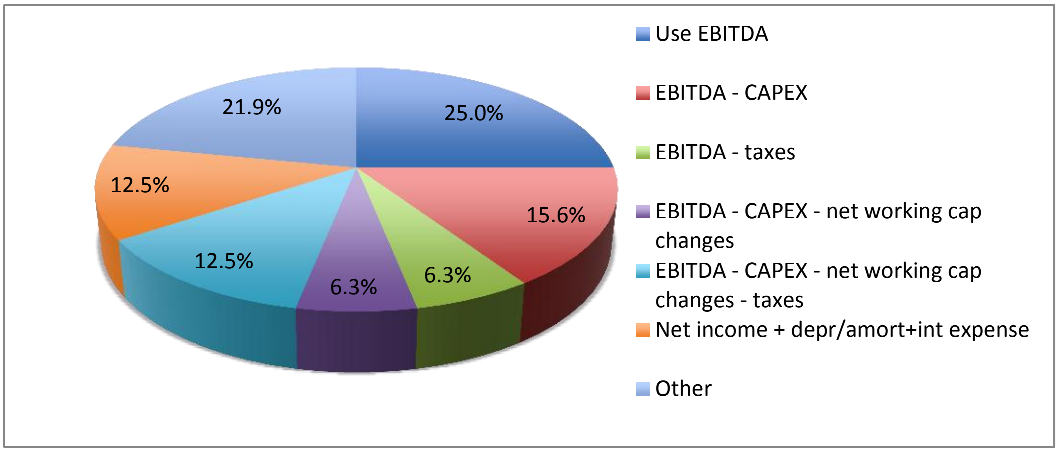
Over 57% of respondents use the latest 12 months with adjustments to guide their senior level multiples and cash flow calculations.

Figure 112. EBITDA Base Used



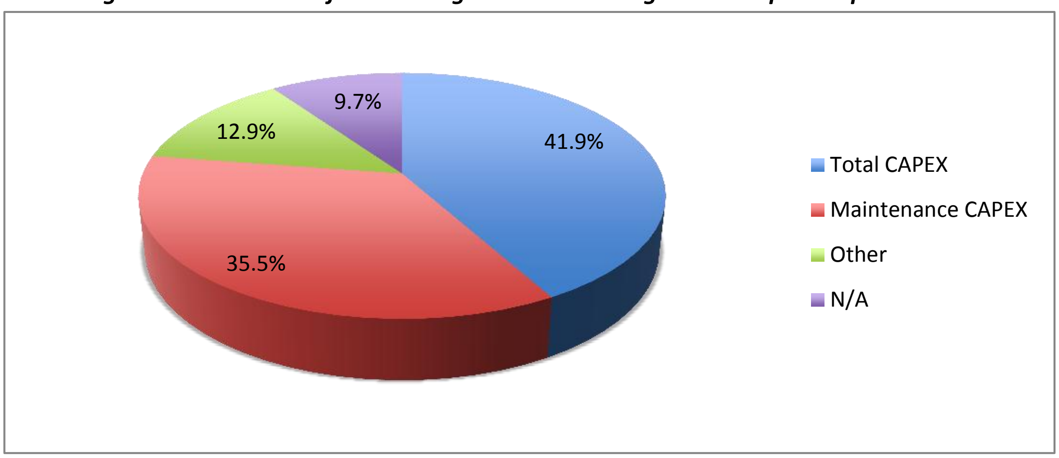
Respondents reported on how they calculate cash flow and 25% use EBITDA while 75% make other adjustments.

Figure 113. Method of Calculating Cash Flow



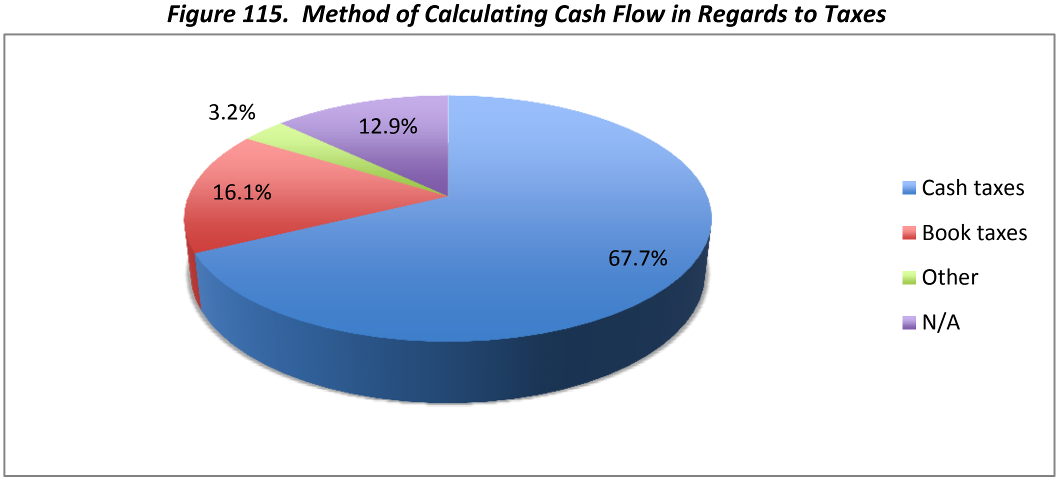
With regard to capital expenditures, almost 42% of respondents use total capital expenditures when calculating cash flow. Approximately 35.5% use maintenance capital expenditures.

Figure 114. Method of Calculating Cash Flow in Regards to Capital Expenditures



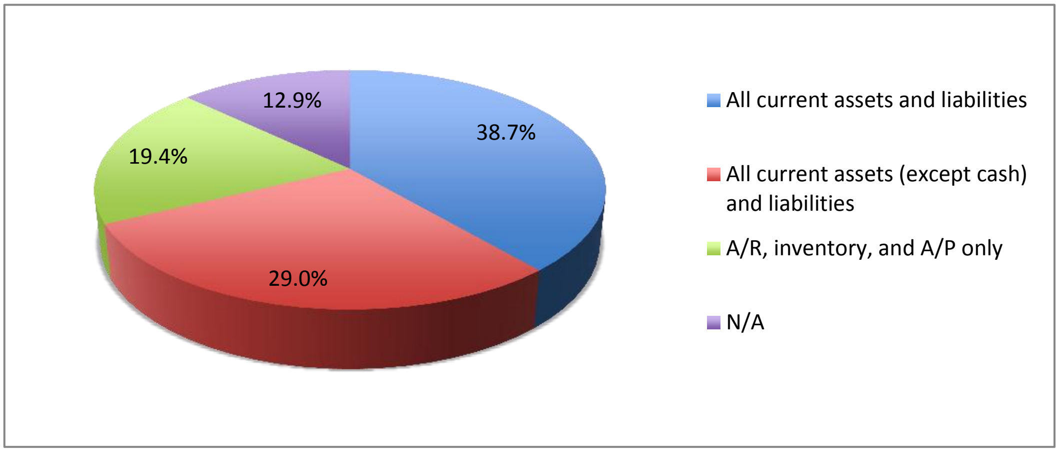
When calculating cash flow 67.7% use cash taxes while 16.1% use book taxes.

Figure 115. Method of Calculating Cash Flow in Regards to Taxes



For purposes of calculating cash flow, 38.7% report using all current assets and liabilities in regards to working capital.

Figure 116. Method of Calculating Cash Flow In Regards To Net Working Capital Changes



Respondents reported on rates used over prime on various size loans and for a variety of industries.

Table 111. Spread over Prime

	$1M	$5M	$10M	$25M	$50M
Consumer service					
1st quartile	3.0	2.5	2.3		
Median	3.0	3.0	2.5		
3rd quartile	3.8	3.0	2.8		
Health care					
1st quartile	2.1	1.5	1.0		
Median	2.8	2.3	2.0		
3rd quartile	3.6	3.9	2.3		
Business services					
1st quartile	1.3	0.8	0.3	0.8	-0.5
Median	2.3	1.5	1.4	1.1	0.5
3rd quartile	3.4	2.4	2.1	2.3	1.5
Manufacturing					
1st quartile	1.8	0.4	-0.1	-0.1	-0.6
Median	2.0	1.4	1.1	1.1	0.3
3rd quartile	2.8	1.9	2.0	4.0	1.1
Wholesale and distribution					
1st quartile	1.2	0.4	0.3	-0.4	-0.6
Median	1.9	1.0	0.5	0.3	0.3
3rd quartile	2.0	1.9	2.0	1.1	1.1
Information and technology					
1st quartile	0.8	0.8	0.6		
Median	1.8	1.8	1.3		
3rd quartile	2.5	2.5	1.9		
Engineering and construction					
1st quartile	1.9	1.3	1.3	1.1	
Median	3.0	1.9	1.9	1.8	
3rd quartile	3.4	2.4	2.4	2.4	
Transportation					
1st quartile	2.4	0.9	0.0	0.0	-0.4
Median	3.0	1.8	1.0	1.0	0.8
3rd quartile	3.4	2.4	2.0	2.0	1.9

Respondents reported on typical fixed-rate loan terms, 1st quartile, medians and 3rd quartiles are reflected.

Table 112. Typical Fixed-Rate Loan Term (in months)

	1st quartile	Median	3rd quartile
Consumer service	36	60	60
Restaurant	42	48	54
Health care	49	60	60
Life sciences	53	60	60
Retail	36	48	54
Real estate	60	60	60
Business services	45	48	60
Manufacturing	60	60	60
Wholesale and distribution	48	60	60
Finance, insurance, and related	36	36	48
Information and technology	40	60	60
Clean / green technology	36	36	36
Media and entertainment	38	41	43
Agriculture and mining	12	12	12
Engineering and construction	12	12	15
Transportation	54	60	60

Approximately 56.5% of respondents believe that the number of loan applications will increase over the next 12 months.

Table 113. Expectations for the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	Score (-2 to 2)
Demand for business loans	0.0%	8.7%	30.4%	34.8%	21.7%	0.7
General underwriting standards	0.0%	4.3%	78.3%	17.4%	0.0%	0.1
Credit quality of borrowers	4.3%	21.7%	26.1%	47.8%	0.0%	0.2
Time to process loans	0.0%	8.7%	78.3%	13.0%	0.0%	0.0
Average loan size	0.0%	0.0%	69.6%	26.1%	4.3%	0.3
Average loan maturity (mos.)	0.0%	0.0%	87.0%	13.0%	0.0%	0.1
Number/Tightness of financial covenants	0.0%	8.7%	69.6%	17.4%	0.0%	0.1
Percent of loans w/personal guarantees	0.0%	8.7%	60.9%	4.3%	0.0%	0.0
Size of interest rate spreads (pricing)	0.0%	30.4%	43.5%	26.1%	0.0%	0.0
Prime rate	0.0%	0.0%	82.6%	17.4%	0.0%	0.2
LIBOR	0.0%	4.3%	47.8%	43.5%	0.0%	0.4
Loan fees	0.0%	8.7%	73.9%	17.4%	0.0%	0.1
Senior leverage multiples	0.0%	4.3%	60.9%	21.7%	0.0%	0.2
Total leverage multiples	0.0%	4.3%	60.9%	26.1%	0.0%	0.2
Standard advance rates on collateral	0.0%	4.3%	82.6%	0.0%	0.0%	0.0
Attention on collateral as backup means of payment	0.0%	0.0%	78.3%	13.0%	4.3%	0.2
SBA lending	0.0%	0.0%	47.8%	17.4%	0.0%	0.2
Lending capacity of bank	0.0%	4.3%	56.5%	21.7%	8.7%	0.3
General business confidence	0.0%	17.4%	43.5%	26.1%	13.0%	0.3
General business conditions	0.0%	21.7%	39.1%	26.1%	13.0%	0.3
Ability to assess and price risk on new investment opportunities	0.0%	16.7%	50.0%	27.8%	5.6%	0.2

Respondents believe that overall gross domestic product will increase by 0.9% within next 12 months, while the privately-held company GDP equivalent is expected to increase by 1.3%. Respondents also believe the probability of a double-dip recession for the entire economy is 30.6% and 29.0% for the private economy.

Table 114. GDP Forecast (12-month)

	Expected GDP change (%)
Overall GDP % change	0.9%
Privately-held company equivalent GDP	1.3%

Table 115. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	30.6%
Private economy	29.0%

ASSET-BASED LENDER SURVEY INFORMATION

Half of the 74 participants who responded to the asset–based lender survey classified their firm as an asset-based lender while almost a quarter (23.2%) of respondents indicated that the lending function in their firm was performed through commercial banks. The typical loan size of asset-based lenders varied with 29.6% of respondents saying that it was $1 million to $5 million and 27.8% said it was in the $10 million to $25 million range. Other key findings include:

- When asked what the primary reason for the decline of loan applications was 32.6% of respondents said insufficient collateral and 30.2% said the quality of earnings and/or cash flow.

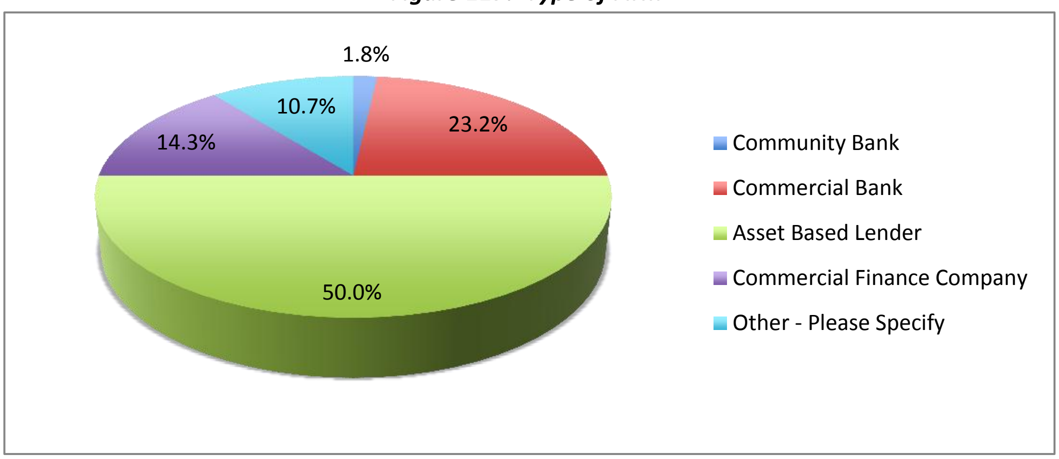
- Nearly 38% of respondents said that the demand for business loans increased over the last six months and approximately 73% of respondents predict that they will increase over the next 12 months.

- Approximately 36.7% of respondents said that they believe the lending capacity of banks will increase over the next 12 months and 34.4% believe that general business conditions will improve over the next year.

Profile of Respondents

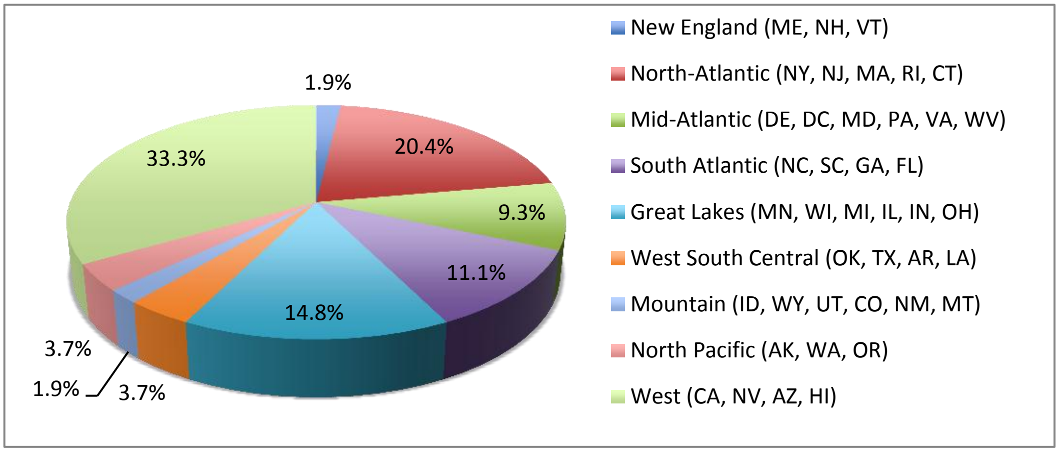
Results are derived from 74 responses. The results of the Asset–Based Lender Survey reflect that 50.0% of respondents classified their firm as asset-based lenders while 23.2% of respondents indicated this lending function in their firms was performed through commercial banks.

Figure 117. Type of Firm



Approximately 33.3% of respondents identified their primary location as being in the western part of the country while 20.4% of respondents reported the North-Atlantic as their base.

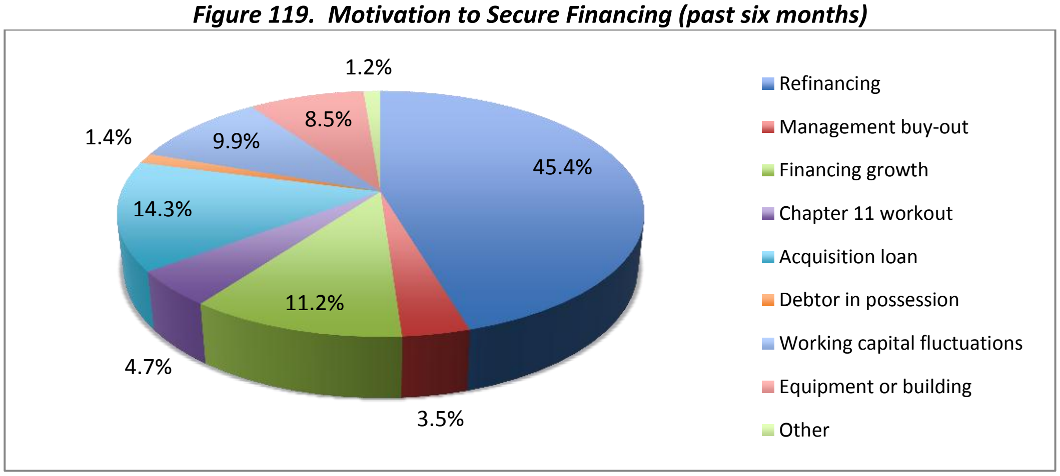
Figure 118. Location of Branch or Office



Operational and Lending Characteristics

The most common motivation for securing financing is refinancing (45.4%) followed by acquisition loan (14.3%) and financing growth (11.2%).

Figure 119. Motivation to Secure Financing (past six months)



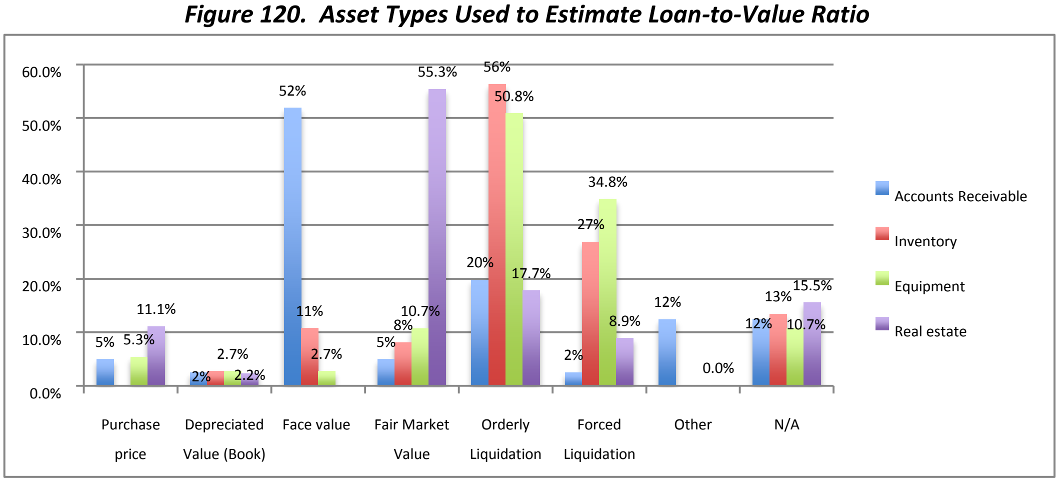
ABLs reported the standard advance rates (or loan-to-value ratio) for each type of asset as following:

Table 116. Standard Advance Rate (medians)

	Average loan (%)	Upper limit (%)
Marketable securities	80	90
Accounts receivable	80	85
Inventory - low quality	25	40
Inventory - intermediate quality	40	50
Inventory - high quality	55	60
Equipment	60	80
Real estate	60	70
Land	50	50

ABLs reported asset types used to estimate loan-to-value ratio (as following).

Figure 120. Asset Types Used to Estimate Loan-to-Value Ratio



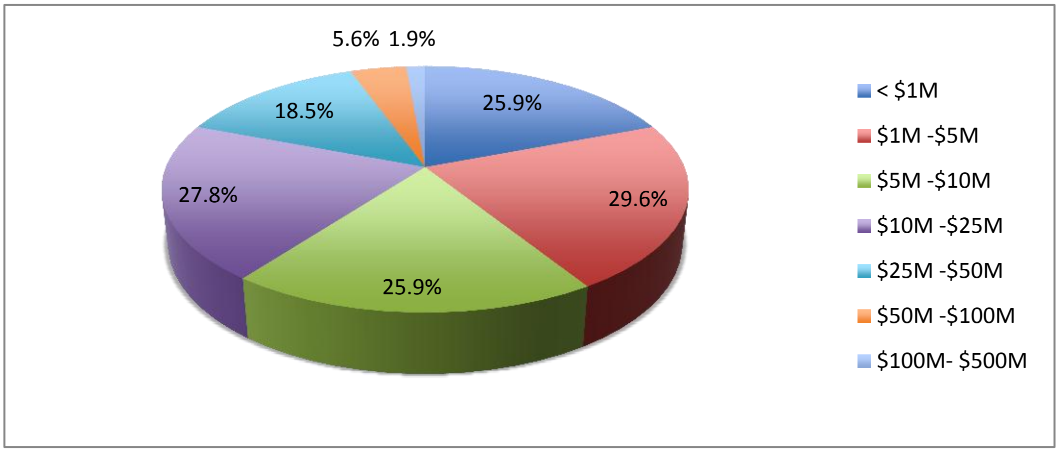
Respondents were asked to report on asset-backed loans for the past six months.

Table 117. Asset-Backed Loans (past six months)

	Declined %	Offered %	Book/Offer %
Receivables-based	73.4%	26.6%	40.0%
Inventory-based	60.0%	40.0%	50.0%
Equipment-based	82.0%	18.0%	50.0%
Real estate-based	80.0%	20.0%	70.0%

Approximately 29.6% reported typical loan size of \$1M-\$5M, followed by 27.8% reporting in the \$10M-\$25M range.

Figure 121. Typical Loan Size



Pricing and Return Data

ABLs reported a variety of fees that are charged to the borrower. Average fees include the following:

Table 118. Fees Currently Charged

Closing fee	1.2%
Modification fee	0.4%
Commitment fee	0.9%
Prepayment penalty (yr. 1)	2.6%
Prepayment penalty (yr. 2)	1.7%
Unused line fee	0.5%

All-in-rate percentages vary considerably by size and type of loan. A schedule of these rates follows.

Table 119. Average All-in-Rate for Currently Booked Loans

Working capital	**1st quartile**	**Median**	**3rd quartile**
$1M	6.5	12.0	18.0
$5M	5.5	7.0	10.0
$10M	4.4	5.5	7.4
$25M	3.0	3.5	4.5
$50M	3.0	3.3	4.0
$100M	2.8	3.0	3.5
Equipment			
$1M	7.0	9.0	17.5
$5M	5.3	7.3	8.9
$10M	3.9	5.8	7.1
$25M	3.5	4.0	5.6
$50M	3.4	4.0	4.6
$100M	3.0	3.8	5.8
Real estate			
$1M	12.7	7.0	10.3
$5M	5.0	6.4	8.0
$10M	5.0	5.8	7.0
$25M	3.9	4.5	6.1

ABLs reported median loan terms for real estate loans are 72 months, working capital loans are 36 months, and equipment loans are 60 months.

Table 120. Typical Fixed-Rate Loan Term (in months)

	1st quartile	**Median**	**3rd quartile**
Real estate	60	72	120
Working capital	33	36	36
Equipment	60	60	60

Respondents reported on the level of importance they placed on each criteria when evaluating loan requests. Of these, the fixed-charge coverage was deemed most important.

Table 121. Level of Importance Placed on Lending Statistics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0-4)
Current ratio	40.0%	25.7%	22.9%	2.9%	8.6%	1.1
Senior DSCR or FCC ratio	20.0%	11.4%	8.6%	31.4%	28.6%	2.4
Total DSCR or FCC ratio	16.7%	13.9%	8.3%	11.1%	50.0%	2.6
Senior debt–to-cash flow	17.1%	14.3%	14.3%	25.7%	28.6%	2.3
Total debt–to-cash flow	11.8%	14.7%	20.6%	26.5%	26.5%	2.4
Debt–to-net worth	9.4%	25.0%	28.1%	25.0%	12.5%	2.1
Revenue growth rate	22.6%	12.9%	54.8%	6.5%	3.2%	1.5

Respondents were asked to report their average borrower data ratios (as following).

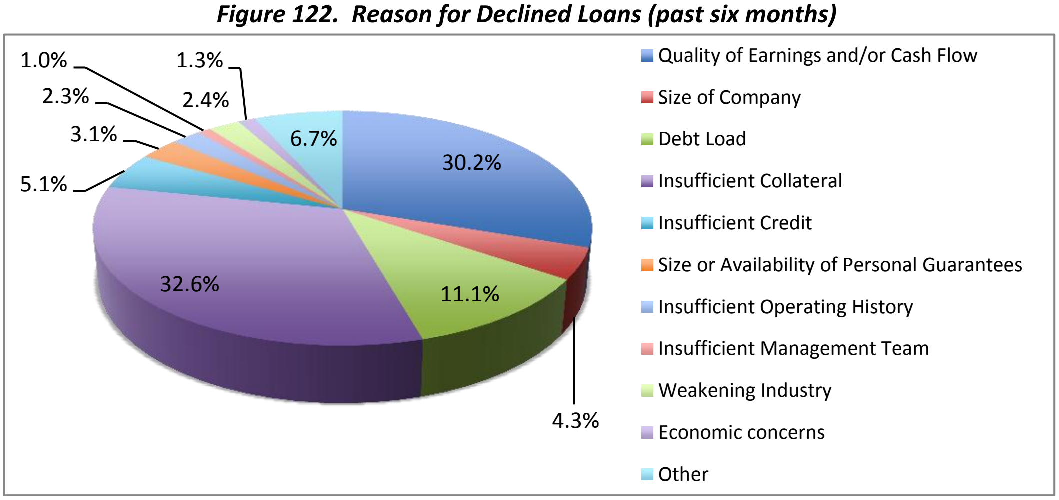
Table 122. Average Borrower Data

	Average Borrower	*Approval Limits*
Current ratio	***1.0***	***1.0***
Total debt service coverage ratio	***1.2***	***1.0***
Total debt to cash flow	***3.5***	***3.8***
Debt to net worth	***2.1***	***2.5***
Revenue growth rate	***1.1%***	***1.0%***

Industry and Economic Outlook

Insufficient collateral (32.6%) was the primary reason for the decline of loan applications, followed by quality of earnings and/or cash flow (30.2%).

Figure 122. Reason for Declined Loans (past six months)



Respondents were asked to report on how lending standards and the operating environment have changed from six months ago.

Table 123. Comparison of Six Months Ago Versus Today

	Decreased significantly	Decreased slightly	Stayed about same	Increased slightly	Increased significantly	Score (-2 to 2)
Demand for business loans (applications)	5.4%	24.3%	32.4%	29.7%	8.1%	0.1
General underwriting standards	5.3%	7.9%	42.1%	18.4%	26.3%	0.5
Credit Quality of borrowers applying for credit	7.9%	23.7%	34.2%	34.2%	0.0%	-0.1
Time to process loans	2.6%	7.9%	63.2%	15.8%	10.5%	0.2
Average loan size	0.0%	15.8%	60.5%	15.8%	7.9%	0.2
Average loan maturity (months)	0.0%	7.9%	71.1%	15.8%	5.3%	0.2
Number/Tightness of financial covenants	0.0%	12.1%	48.5%	24.2%	15.2%	0.4
Percent of loans with personal guarantees	0.0%	3.2%	74.2%	9.7%	12.9%	0.3
Size of interest rate spreads (pricing)	13.5%	24.3%	32.4%	24.3%	5.4%	-0.2
Loan fees	7.9%	26.3%	47.4%	15.8%	2.6%	-0.2
Senior leverage multiples	0.0%	3.7%	63.0%	33.3%	0.0%	0.3
Total leverage multiples	0.0%	3.7%	59.3%	33.3%	3.7%	0.4
Standard advance rates on collateral	0.0%	10.5%	78.9%	10.5%	0.0%	0.0
Attention on cash flow as means of payment	0.0%	3.0%	60.6%	30.3%	6.1%	0.4
Lending capacity of bank	2.9%	14.3%	48.6%	22.9%	11.4%	0.3
General business confidence	13.5%	35.1%	18.9%	29.7%	2.7%	-0.3
General business conditions	10.8%	32.4%	18.9%	35.1%	2.7%	-0.1
Ability to assess and price risk on new investment opportunities	4.5%	4.5%	63.6%	22.7%	4.5%	0.2

Approximately 65% of respondents expect an increase in loan applications over the next 12 months. Respondents also report an expectation of a slight increase in the average loan size.

Table 124. Prediction for Next 12 Months

	Decrease significantly	Decrease slightly	Stayed about same	Increase slightly	Increase significantly	Score (-2 to 2)
Demand for business loans (applications)	3.0%	3.0%	21.2%	57.6%	15.2%	0.8
General underwriting standards	0.0%	9.1%	66.7%	15.2%	9.1%	0.2
Credit quality of borrowers applying for credit	3.0%	27.3%	45.5%	24.2%	0.0%	-0.1
Time to process loans	0.0%	0.0%	81.8%	15.2%	3.0%	0.2
Average loan size	0.0%	0.0%	54.5%	45.5%	0.0%	0.5
Average loan maturity (months)	0.0%	6.1%	81.8%	12.1%	0.0%	0.1
Number/Tightness of financial covenants	0.0%	10.3%	62.1%	20.7%	6.9%	0.2
Percent of loans with personal guarantees	0.0%	3.8%	80.8%	11.5%	3.8%	0.2
Size of interest rate spreads (pricing)	0.0%	34.4%	40.6%	21.9%	3.1%	-0.1
Prime rate	0.0%	6.5%	74.2%	19.4%	0.0%	0.1
LIBOR	0.0%	6.3%	53.1%	37.5%	3.1%	0.4
Loan fees	0.0%	24.2%	48.5%	27.3%	0.0%	0.0
Senior leverage multiples	0.0%	0.0%	75.0%	25.0%	0.0%	0.3
Total leverage multiples	0.0%	0.0%	70.8%	29.2%	0.0%	0.3
Standard advance rates on collateral	0.0%	9.7%	74.2%	16.1%	0.0%	0.1
Attention on cash flow as means of payment	0.0%	3.6%	64.3%	25.0%	7.1%	0.4
Lending capacity of bank	3.3%	0.0%	60.0%	30.0%	6.7%	0.4
General business confidence	9.4%	9.4%	53.1%	28.1%	0.0%	0.0
General business conditions	6.3%	12.5%	46.9%	34.4%	0.0%	0.1
Ability to assess and price risk on new investment opportunities	0.0%	0.0%	65.0%	35.0%	0.0%	0.4

Respondents believe that overall gross domestic product will increase by 0.7% within next 12 months, while the privately-held company GDP equivalent is expected to increase by .7%. Respondents also believe the probability of a double-dip recession for the entire economy is 33.8% and 34.7% for the private economy.

Table 125. GDP Forecast (12-month)

	Expected GDP change (%)
Overall GDP % change	0.7%
Privately-held company equivalent GDP	0.7%

Table 126. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	33.8%
Private economy	34.7%

FACTOR SURVEY INFORMATION

The 47 respondents to the factor survey said that the primary uses of factoring facilities -- purchasing receivables from companies -- include financing working capital needs (59.5%) and business growth financing (24.3%). Factoring facilities are relatively short- term compared to other investments with respondents reporting that approximately 58% are for a one-year term and nearly 13% have a one-month term. Other key findings include:

- Respondents reported that 20.2% of their company's gross invoices were originated from transportation services over the last six months. Business services were responsible for 16% of invoices followed by distribution at 11.1%.

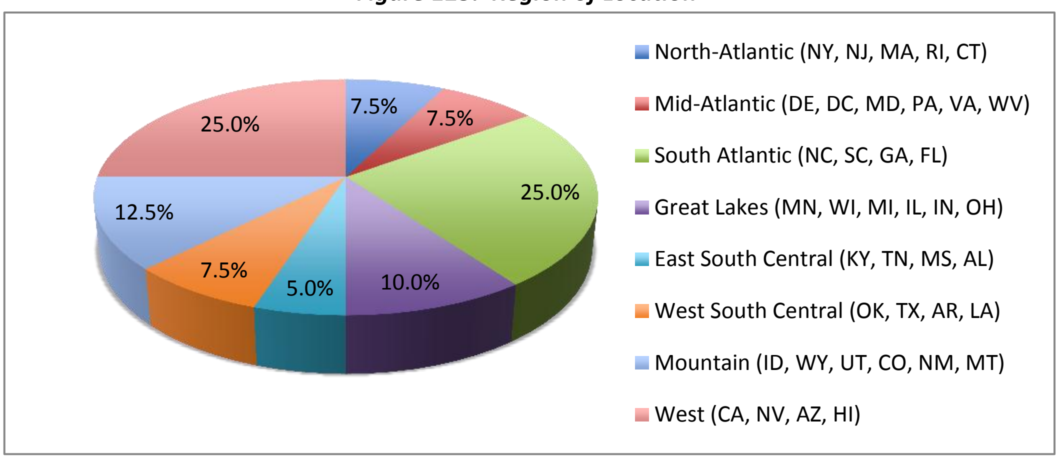
- When asked about current loan requirements 100% of respondents said that they require a personal guarantee and almost 85% require a lien on all assets.

- The majority of respondents said that they do not charge for credit checking, invoice processing, and application, filing and due diligence fees. However, over 90% of respondents say that they charge for wire transfer fees.

Profile of Respondents

Out of 47 responses, the Factor Survey results reflect 25.0% respondents have businesses in the western area of the U.S., while 25% have businesses in the South Atlantic.

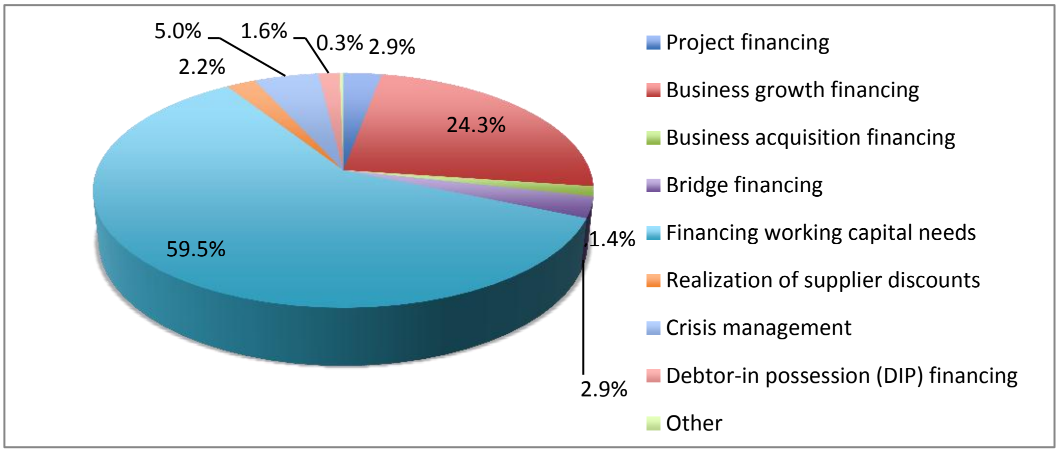
Figure 123. Region of Location



Operational and Lending Characteristics

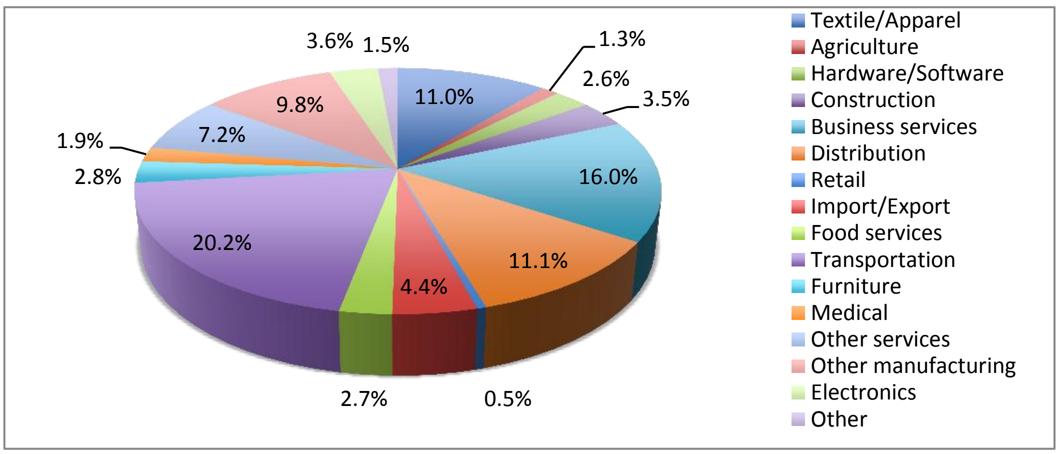
Respondents reported the primary uses of factoring facilities include financing working capital needs (59.5%) and business growth financing (24.3%).

Figure 124. Primary Use of Factoring Facilities (past six months)



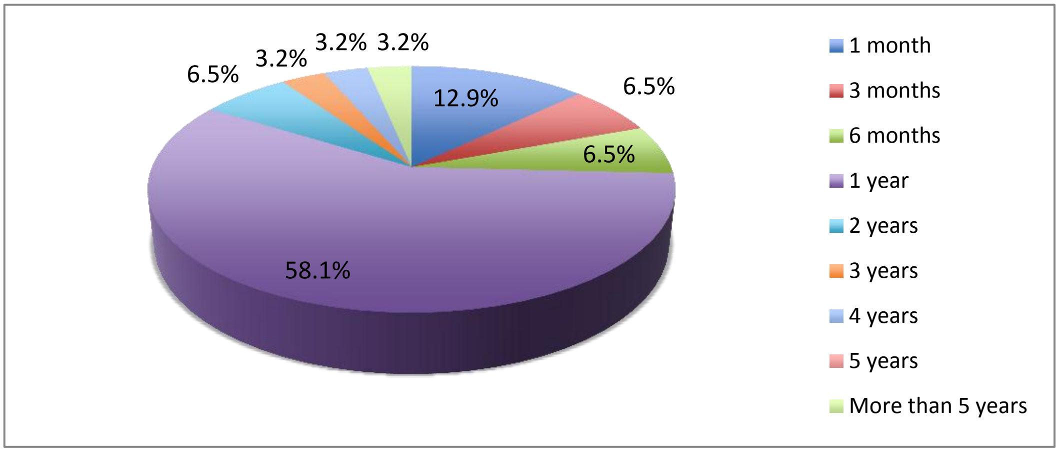
Respondents reported that 20.2% of their company's gross invoices were originated from transportation services over the last six months. Business services were responsible for 16.0% of invoices, followed by distribution at 11.1%.

Figure 125. Industry Type (past six months)



Respondents reported that 58.1% are one-year term factoring facilities and 12.9% have a one-month term.

Figure 126. Term of Current Factoring Facility



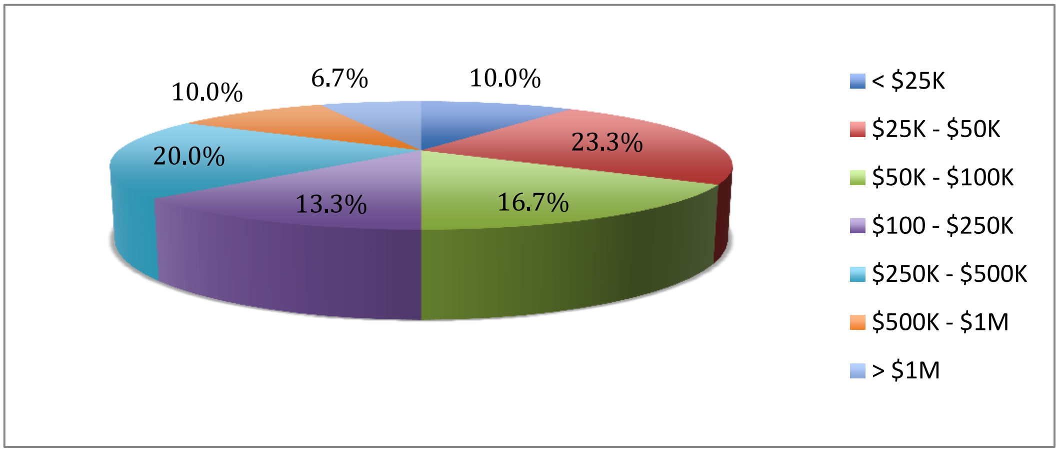
The average advance rates for monthly facilities are as follows.

Table 127. Current Average Advance Rates

	1st quartile	Median	3rd quartile
$25,000	80.0	80.0	89.0
$50,000	80.0	80.0	90.0
$100,000	80.0	80.0	86.0
$250,000	80.0	80.0	86.0
$500,000	80.0	80.0	85.0
$1M	80.0	80.0	85.0
$5M	80.0	80.0	85.0
$10M	80.0	80.0	87.5
$25M	79.8	82.5	90.0
$50M	78.5	85.0	90.0
$100M	87.5	90.0	90.0
> $100M	90.0	90.0	95.0

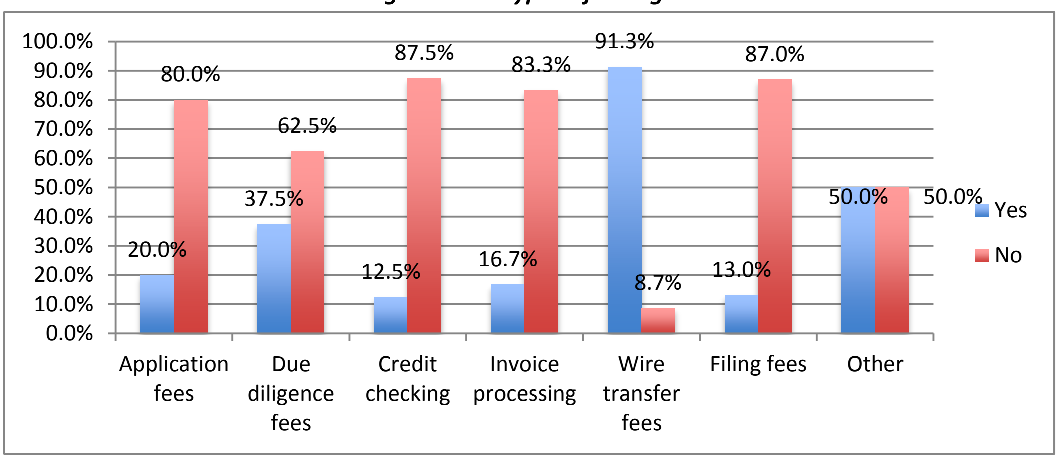
Respondents reported on their deal sizes over the last six months, 23.3% of them fall within $25K - $50K while 20.0% are in the range of $250K - $500K.

Figure 128. Deal Size over Last Six Months



Respondents reported on the various fees. Credit checking is not charged by 87.5% of respondents, while 91.3% do charge for wire transfer fees.

Figure 129. Types of Charges



Discount fees for invoices on both non-notification and notification basis are reported for 1st quartiles, medians, and 3rd quartiles.

Table 127. Current Discount Fees for Invoices on Non-Notification Basis (%)

	$25,000	$50,000	$100,000	$250,000	$500,000	$1M	$5M
First 30 days							
1st quartile	3.0%	2.7%	2.9%	2.5%	1.5%	1.3%	0.3%
Median	4.0%	3.8%	3.5%	2.8%	2.5%	2.0%	0.5%
3rd quartile	5.0%	5.0%	4.5%	4.0%	2.8%	2.5%	0.8%
Next 15 days (31-45)							
1st quartile	0.3%	1.9%	1.8%	1.5%	1.0%	0.9%	0.3%
Median	2.4%	2.6%	2.0%	2.0%	1.5%	1.3%	0.5%
3rd quartile	3.0%	3.3%	2.9%	2.0%	2.0%	2.0%	0.8%
Next 15 days (46-60)							
1st quartile	0.0%	1.9%	1.8%	1.5%	1.0%	0.9%	0.3%
Median	2.8%	2.6%	2.0%	2.0%	1.5%	1.3%	0.5%
3rd quartile	3.0%	3.8%	2.9%	2.0%	2.8%	2.5%	0.8%
After 60 days							
1st quartile	0.0%	1.0%	1.0%	1.0%	1.0%	0.9%	0.3%
Median	1.5%	2.1%	1.5%	1.0%	1.5%	1.3%	0.5%
3rd quartile	3.0%	4.3%	2.4%	1.8%	1.5%	1.5%	0.8%

Table 128. Current Discount Fees for Invoices on Notification Basis (%)

	$25,000	$50,000	$100,000	$250,000	$500,000	$1M	$5M
First 30 days							
1st quartile	3.0%	3.0%	2.5%	2.0%	2.0%	1.3%	1.1%
Median	3.8%	3.3%	3.0%	2.4%	2.0%	1.5%	1.1%
3rd quartile	4.0%	4.0%	3.3%	3.0%	2.6%	2.0%	1.2%
Next 15 days (31-45)							
1st quartile	1.3%	1.1%	1.1%	1.0%	1.0%	0.8%	0.7%
Median	1.5%	1.5%	1.5%	1.2%	1.0%	1.0%	0.8%
3rd quartile	1.9%	1.9%	1.9%	1.5%	1.5%	1.3%	0.9%
Next 15 days (46-60)							
1st quartile	1.3%	1.1%	1.1%	1.0%	1.0%	0.8%	0.7%
Median	1.5%	1.5%	1.5%	1.2%	1.0%	1.0%	0.8%
3rd quartile	1.9%	1.9%	4.8%	1.5%	1.5%	1.3%	0.9%
After 60 days							
1st quartile	1.0%	0.9%	0.9%	0.7%	0.9%	0.3%	0.7%
Median	1.5%	1.2%	1.1%	1.0%	1.0%	0.8%	0.8%
3rd quartile	2.0%	1.6%	1.6%	1.6%	1.5%	1.0%	0.9%

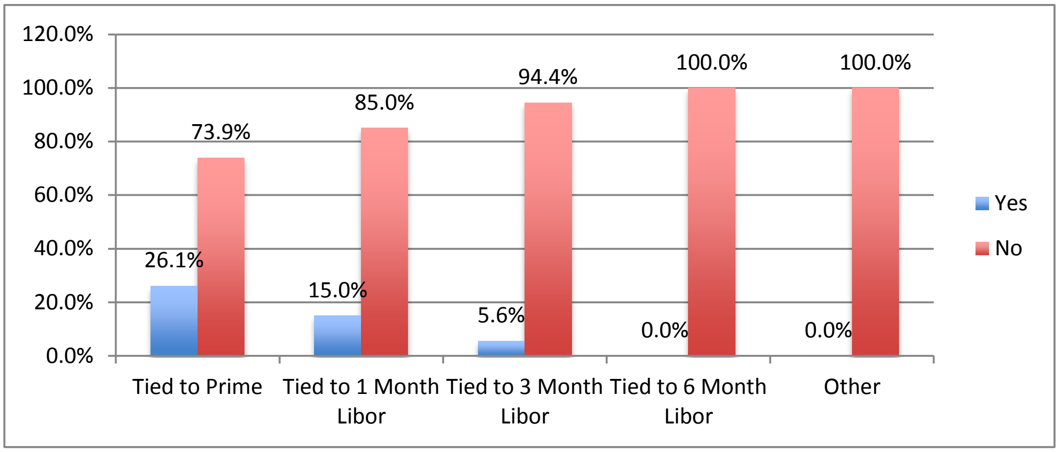
Respondents reported on fees they charged and they are expressed in 1st, median, and 3rd quartiles.

Table 129. Fees Charged ($ or %)

	Application Fee	Due diligence fees	Credit checking	Invoice processing	Wire transfer fees	Filing fees
1st quartile	$313	$375	$75	1.0%	$16	$25
Median	$373	$500	$100	1.0%	$20	$50
3rd quartile	$474	$1,750	$125	1.5%	$25	$50

Respondents reported how they price items, using referencing rates.

Figure 130. Use of Pricing by Reference Rate



Respondents reported other related data reported as 1st, median, and 3rd quartile.

Table 130. Points over Prime

	Points over Prime (%)
1st quartile	2.5%
Median	3.0%
3rd quartile	4.0%

Table 131. Expected Total Write-offs (New arrangements)

	(%)
1st quartile	0.1%
Median	0.5%
3rd quartile	1.5%

Table 132. Average Number of Days for Outstanding Receivables

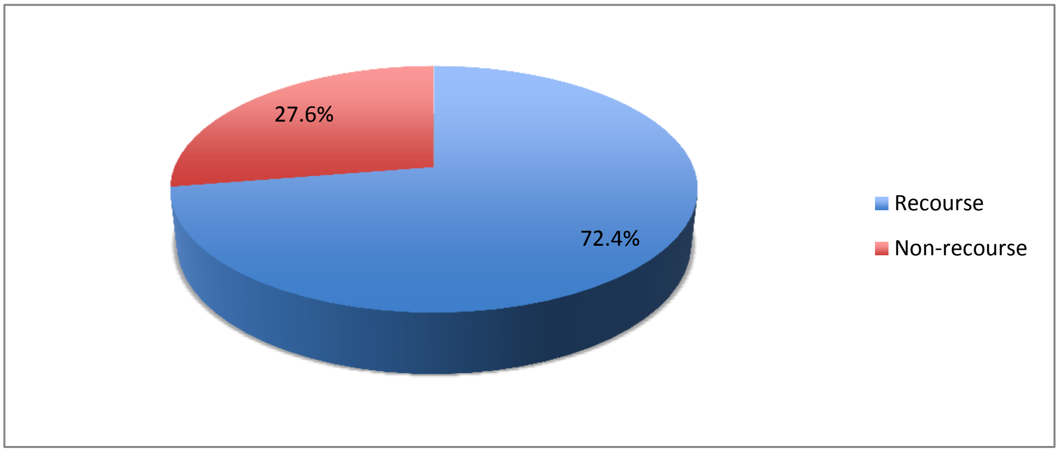
	Last Six Months (days)	Expected for Next Six Months (days)
1st quartile	37	37.5
Median	41	43
3rd quartile	47	51

Table 133. Average Clearance Time

	Average Clearance Time (days)
1st quartile	1
Median	3
3rd quartile	3

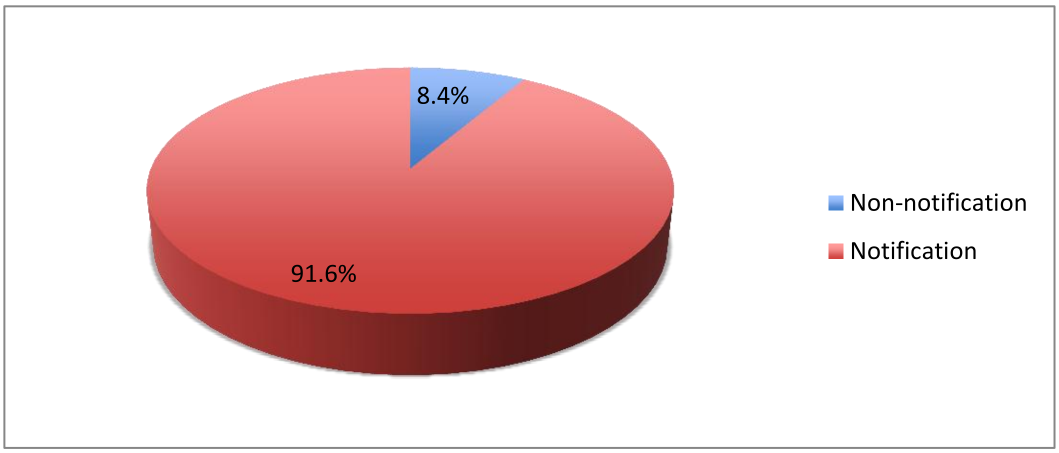
Respondents reported that 72.4% of current factoring business is recourse while only 27.6% is non-recourse.

Figure 131. Current Business Recourse Versus Non-recourse



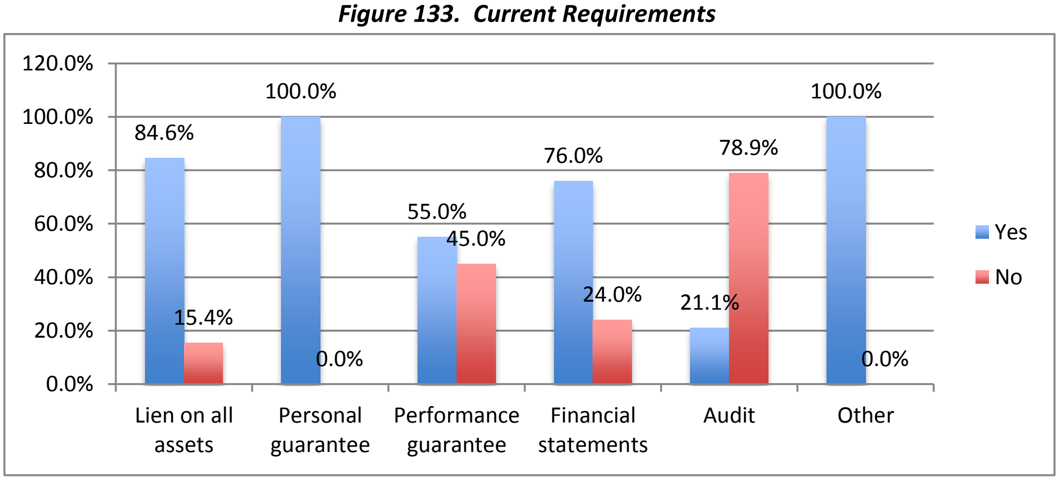
Respondents reported that 91.6% of their current purchases were on a notification basis.

Figure 132. Current Purchases



Respondents reported on current requirements. 100% require a personal guarantee and 84.6% require a lien on all assets.

Figure 133. Current Requirements



Respondents reported on business conditions today versus six months ago as well as expectations for the next 12 months.

Table 134. Comparison: Today Versus Six Months Ago

	Decreased significantly	Decreased slightly	Stayed about the same	Increased slightly	Increased significantly	Score (-2 to 2)
Demand for business factoring lines (apps)	3.7%	18.5%	14.8%	33.3%	29.6%	0.7
General underwriting standards	0.0%	0.0%	44.4%	29.6%	25.9%	0.8
Credit quality of borrowers applying for credit	3.7%	33.3%	40.7%	22.2%	0.0%	-0.2
Time to process facility	0.0%	11.1%	66.7%	14.8%	7.4%	0.2
Average facility size	0.0%	3.7%	55.6%	40.7%	0.0%	0.4
Average facility term (months)	0.0%	0.0%	80.8%	19.2%	0.0%	0.2
Size of interest rate spreads (pricing)	0.0%	4.2%	75.0%	20.8%	0.0%	0.2
Fees	0.0%	3.7%	77.8%	18.5%	0.0%	0.1
Standard advance rates on receivables	0.0%	7.4%	85.2%	7.4%	0.0%	0.0
Attention on collateral as backup means	0.0%	3.8%	65.4%	30.8%	0.0%	0.3
General business confidence	3.7%	40.7%	22.2%	33.3%	0.0%	-0.1
General business conditions	3.7%	37.0%	25.9%	29.6%	3.7%	-0.1
Ability to assess and price risk on new investment opportunities	5.3%	15.8%	68.4%	10.5%	0.0%	-0.2

Table 135. Expectations for the Next 12 Months

	Decrease significantly	Decrease slightly	Stay about the same	Increase slightly	Increase significantly	Score (-2 to 2)
Demand for business factoring lines (applications)	0.0%	3.8%	15.4%	61.5%	19.2%	1.0
General underwriting standards	0.0%	3.8%	69.2%	23.1%	3.8%	0.3
Credit quality of borrowers applying for credit	0.0%	32.0%	48.0%	20.0%	0.0%	-0.1
Time to process facility	0.0%	3.8%	92.3%	3.8%	0.0%	0.0
Average facility size	0.0%	3.8%	73.1%	19.2%	3.8%	0.2
Average facility term (months)	0.0%	4.2%	91.7%	4.2%	0.0%	0.0
Size of interest rate spreads (pricing)	0.0%	8.7%	82.6%	8.7%	0.0%	0.0
Fees	0.0%	3.8%	92.3%	3.8%	0.0%	0.0
Standard advance rates on receivables	0.0%	11.5%	80.8%	7.7%	0.0%	0.0
Attention on collateral as backup means of payment	0.0%	0.0%	73.1%	26.9%	0.0%	0.3
General business confidence	3.8%	26.9%	26.9%	38.5%	3.8%	0.1
General business conditions	3.8%	23.1%	30.8%	38.5%	3.8%	0.2
Ability to assess and price risk on new investment opportunities	0.0%	10.5%	84.2%	5.3%	0.0%	-0.1

Respondents believe that overall gross domestic product will increase by 1.0% within next 12 months, while the privately-held company GDP equivalent is expected to increase by 1.5%. Respondents also believe the probability of a double-dip recession for the entire economy is 38.0% and 37.6% for the private economy.

Table 136. GDP Forecast (12-month)

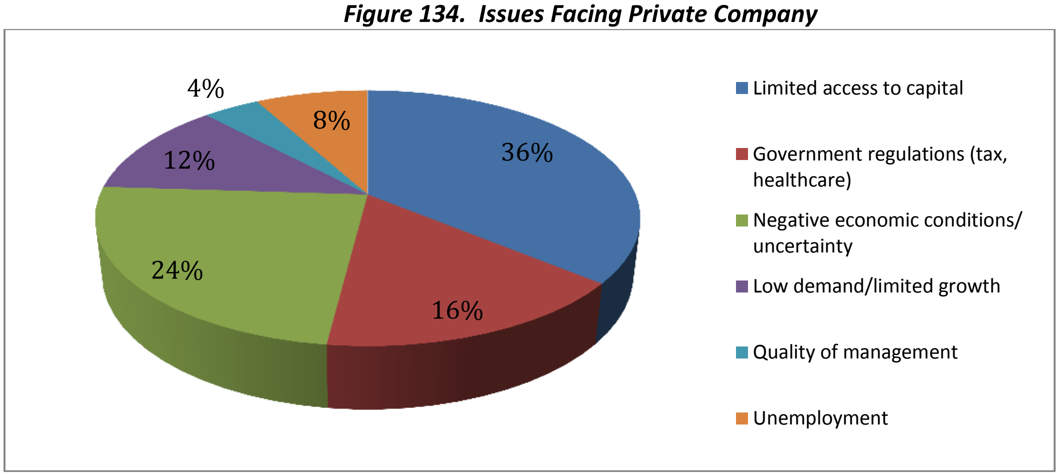
	Expected GDP change (%)
Overall GDP % change	1.0%
Privately-held company equivalent GDP	1.5%

Table 137. Probability of Double-Dip Recession (12-month)

	Probability (%)
Entire economy	38.0%
Private economy	37.6%

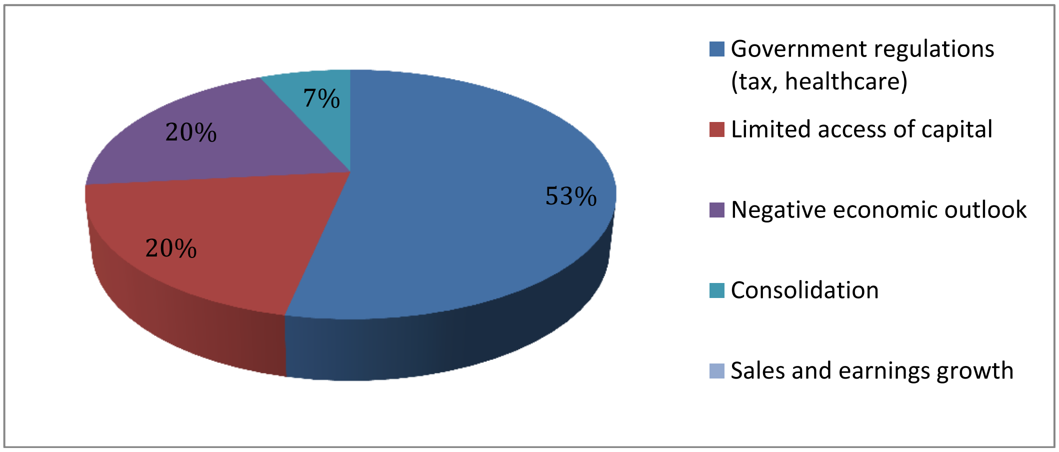
Thirty-six percent of factors who responded to our survey regard limited access to capital as a prominent issue faced by private companies, while 24% chooses negative economic conditions or uncertainty and 16% chose government regulations. Other concerns the factors group put forward includes low demand/low growth opportunities, high unemployment rate and quality of management.

Figure 134. Issues Facing Private Company



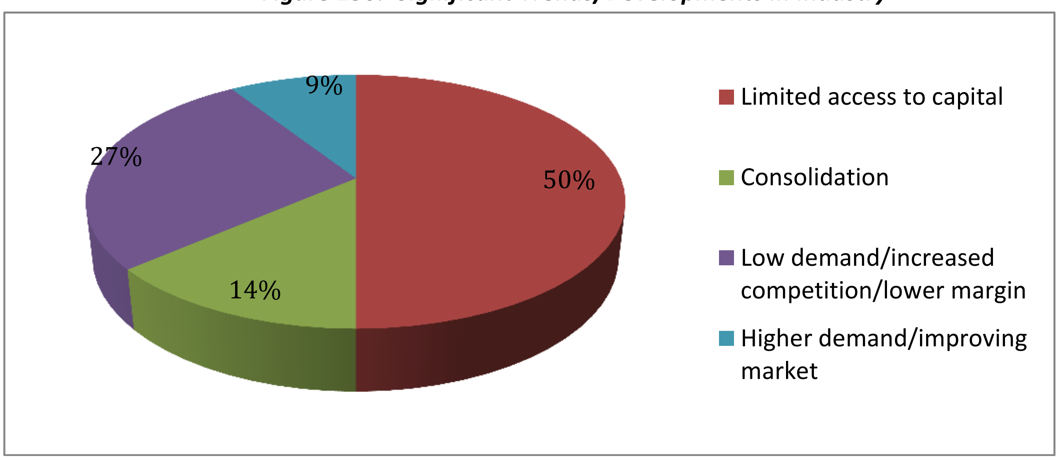
With regard to emerging issues facing private companies, the majority of factors chose government regulations (53%), with limited access of capital and negative economic outlook both got 20% votes. Obviously, taxes issues and the undergoing health care reform incurred many concerns.

Figure 135. Emerging Issues Facing Private Company



Approximately 50% of factors reported limited access to capital as the most significant development in the industry while another 27% indicated increased competition and low customer demand as a significant trend.

Figure 136. Significant Trends/Developments in Industry



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Presidential and Key Executive MBA Program

When You Get To the Top… Keep Climbing

By Linda A. Livingstone, Ph.D.
Dean, Graziadio School of Business and Management

As economic uncertainty continues, companies and their employees are in dire need of strong leaders; leaders who will listen to their concerns, help them grow and keep the company profitable. But who helps the leaders evolve to be better, stronger and smarter?

At Pepperdine University's Graziadio School of Business and Management, we strive to educate strong leaders who are values-driven. And while the marketplace changes daily with new trends and innovations, core leadership values such as integrity, stewardship, courage and compassion must continue if we are to thrive as a society. These leadership values are taught to back-to-school senior executives enrolled in our Presidential and Key Executive (PKE) MBA program (bschool.pepperdine.edu/pke).

The PKE MBA program is exclusive for chief executive officers, C-level executives and entrepreneurs managing their own businesses. Its high level of selectivity, depth and breadth of curriculum, and emphasis on individual growth, change management and civic leadership, sets it apart from traditional MBA and executive MBA programs.

LEAVING A LEGACY

Some might wonder why a mid-life professional who is already finding success in a career would go back to school at this juncture. With most bringing home well over $300K a year, these 40- and 50-somethings in our program are striving to leave a legacy – a lasting impression – professionally and personally. The program focuses on giving leaders the tools to assess and shape the culture of their organizations by inspiring others to follow and tapping into their own leadership strengths to produce business growth.

Many graduates of the program have called it invaluable. They are able to collaborate and share experiences with peers who have achieved similar professional accomplishments and a personal level of growth. To encourage communication and creativity, the program is ungraded so there is no incentive to focus solely on the "right" answers.

Furthermore, the students are each in a position of authority to take action outside the program. PKE students have established careers and don't necessarily need the degree. Rather, they have come to further develop their personal competencies and intellectual stimulation. Therefore, graduates are able to apply the skills and knowledge they've gained directly to their organizations and instantly make change happen.

The 20-month PKE program meets every three to four weeks for two, full day sessions at a time. Classes are kept small at approximately 18-24 students. Throughout the program, students partake in meticulous hands-on leadership modules to shift the culture of their companies while simultaneously fostering personal growth. Students advance their leadership competency, awareness, environmental sensitivity, analytical tools, and implementation skills necessary to effectively lead and inspire high-level performance.

The program also has a committed focus on "culture sensing" and overcoming obstacles to implementing strategy. For example, exercises are designed to help students learn how to effectively form relationships, frame appropriate and respectful questions, and show empathy.

LEAD WITH ACTIONS

A better company, a better organization and a better society are formed when a leader has the will and passion to drive change. I know this to be true simply by witnessing the growth of business professionals from managers to leaders here at the Graziadio School. And in the case of our Presidential and Key Executive program, we see how current business leaders are changed and invigorated in ways they never imagined.

At a time when many feel as though leadership is a lost art, it is encouraging to remind ourselves that some values do pass the test of time and there are always best practices that can lead us once again to greater achievements.

To learn more about the Graziadio School and its Presidential and Key Executive program, please visit bschool.pepperdine.edu/pke.

Linda Livingstone, Ph.D. Professor of Management, has served as the dean of the Pepperdine University Graziadio School of Business and Management since 2002.

YOU ARE THE POWER BEHIND THE PROJECT.

With deep appreciation, Pepperdine Private Capital Markets Project acknowledges the survey support and contributions of the following organizations:

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Commercial Finance Association
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Lower Middle Market Transactions Group
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National Funding Association
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Venture Capital/Private Equity Roundtable

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Take part in the next capital markets survey: March 2011

Contact us to include your network or organization,
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