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2010 Private Capital Markets Report (Summer)

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P E P P E R D I N E

PRIVATE CAPITAL MARKETS PROJECT

bschool.pepperdine.edu/privatecapital

SURVEY REPORT VOLUME III – SUMMER 2010

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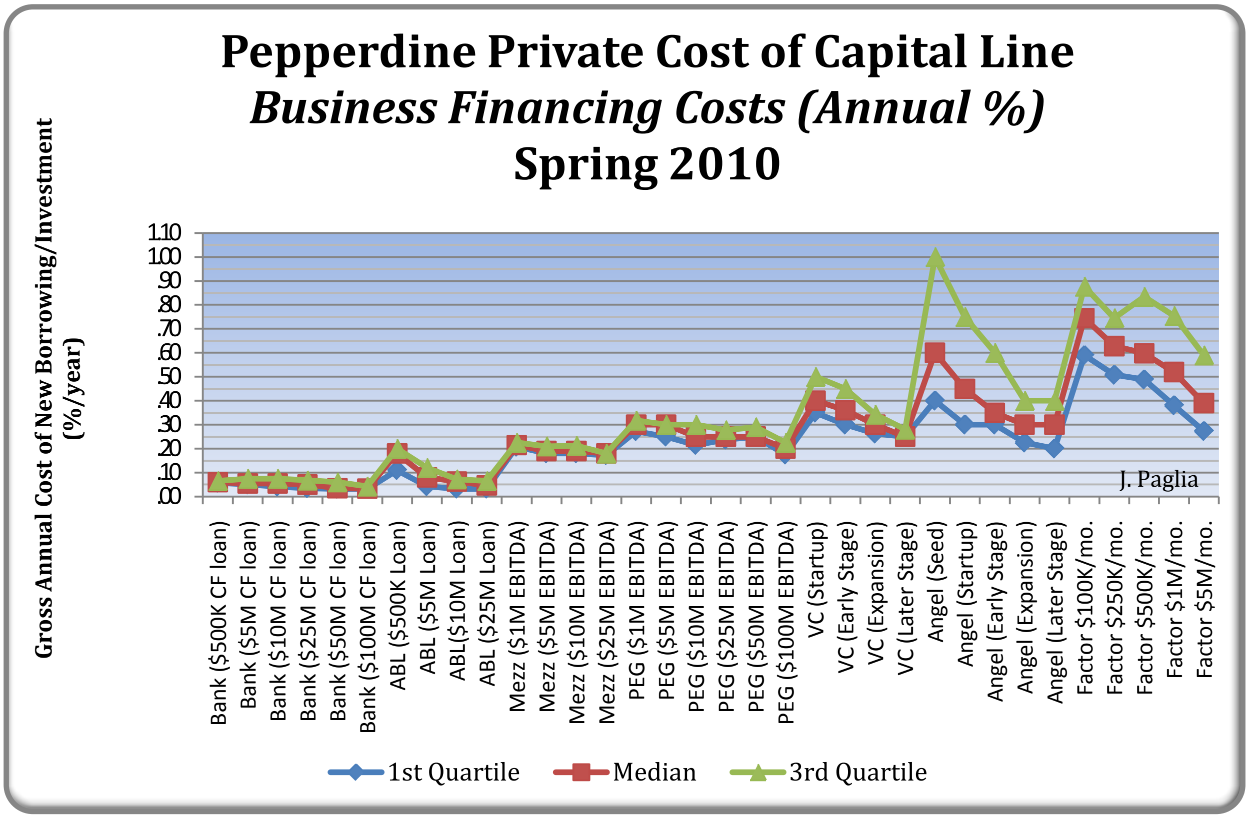
PEPPERDINE PRIVATE CAPITAL MARKETS SURVEY

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 March/April 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, 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 cash flow 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 (CF loan)	$500K	5.8%	6.0%	6.5%
	$5M	5.0%	5.5%	7.5%
	$10M	4.1%	5.5%	7.5%
	$25M	3.4%	5.0%	6.8%
	$50M	3.3%	3.5%	6.0%
	$100M	3.2%	3.4%	4.3%
ABL (loan)	$500K	11.0%	18.0%	20.0%
	$5M	4.3%	8.0%	12.0%
	$10M	3.3%	6.3%	7.3%
	$25M	3.3%	4.6%	6.5%
Mezz (EBITDA)	$1M	20.8%	21.5%	22.5%
	$5M	18.0%	19.0%	21.0%
	$10M	18.0%	19.0%	21.3%
	$25M	17.3%	18.0%	18.0%
PEG (EBITDA)	$1M	27.3%	30.0%	31.8%
	$5M	25.0%	30.0%	30.0%
	$10M	21.5%	25.0%	30.0%
	$25M	23.8%	25.0%	27.8%
	$50M	25.0%	25.0%	29.0%
	$100M	17.5%	20.0%	22.5%
VC	Startup	35.0%	40.0%	50.0%
	Early stage	30.0%	36.0%	45.0%
	Expansion	26.3%	30.0%	34.3%
	Later stage	25.0%	25.0%	28.0%
Angel	Seed	40.0%	60.0%	100.0%
	Startup	30.0%	45.0%	75.0%
	Early stage	30.0%	35.0%	60.0%
	Expansion	22.5%	30.0%	40.0%
	Later stage	20.0%	30.0%	40.0%
Factor	$100K/mo.	58.9%	74.5%	87.6%
	$250K/mo.	50.8%	62.8%	74.5%
	$500K/mo.	48.8%	59.8%	83.4%
	$1M/mo.	38.0%	52.0%	75.4%
	$5M/mo.	27.3%	39.0%	58.9%

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Association for Corporate Growth

The Association for Corporate Growth (ACG) is the global community for middle market M&A dealmakers and business leaders focused on driving growth. ACG members have access to data, content and networking to access capital, make deals and drive corporate growth. Founded in 1954, ACG has grown to more than 13,000 members organized in 55 chapters throughout North America, Europe and Asia. **www.acg.org.**

Los Angeles Venture Association

Founded in 1985, the Los Angeles Venture Association (LAVA) is the most successful and longest running organization of its kind in Southern California dedicated to the development and growth of entrepreneurial ventures from start-up to middle market. Through its educational programs and annual conferences, LAVA provides a forum where entrepreneurs meet and learn from fellow executives, investors, bankers, financial advisors and other professional advisors. **www.lava.org**

Lower Middle Market Transactions Group

Lower Middle Market Transactions is a monthly invitation-only group of professionals engaged in lower middle market mergers, acquisitions, dispositions and finance in Los Angeles. **www.socalmidmarket.com**

National Association of Small Business Investment Companies

The National Association of Small Business Investment Companies (NASBIC) is the professional association for the Small Business Investment Company (SBIC) industry. NASBIC is the oldest organization of venture capitalists in the world. Formed just months after the passage of the Small Business Investment Act of 1958, NASBIC has played a pivotal role in promoting the growth and vitality of the private equity industry and small business for more than half a century. **www.nasbic.org**

The Silicon Valley Small Business Development Center

The Silicon Valley Small Business Development Center offers a wide variety of services for present and potential small business owners. Services include no-charge expert consulting, low-cost training, information resources, and events and seminars. All consulting services are confidential and free of charge. **svsbdc.org/**

Venture Capital/Private Equity Roundtable

The VC-Private Equity Roundtable is an invitation-only organization that facilitates regular interaction among venture capitalist and private equity organizations for the educational, social and financial betterment of both groups. VCPE members represent over a trillion dollars under management at their firms.

Virginia Active Angel Network

Virginia Active Angel Network, VAAN, is a professionally managed club of angel investors who gather for ten dinner meetings from September through July in Charlottesville and Blacksburg/Roanoke, VA. Started in 2005 by a group of University of Virginia alumni, and joined by New Vantage Group of McLean, Virginia, VAAN seeks to bring energy, expertise and entrepreneurs together to create opportunities to invest and network with other like-minded angel investors throughout Virginia. **www.virginiaactiveangelnetwork.com**

TABLE OF CONTENTS

BANK SURVEY INFORMATION

Profile of Respondents

The following responses pertain to the Bank Survey. Results are based upon 56 responses to this survey. Commercial banks make up 49.0%, in terms of individual lending function. Respondents are geographically dispersed throughout the United States and among all respondents 40.4% are from the west. Around 85.1% of respondents participate in government loan programs (i.e., SBA).

Figure 2. Description of Entity of Individual Lending Function

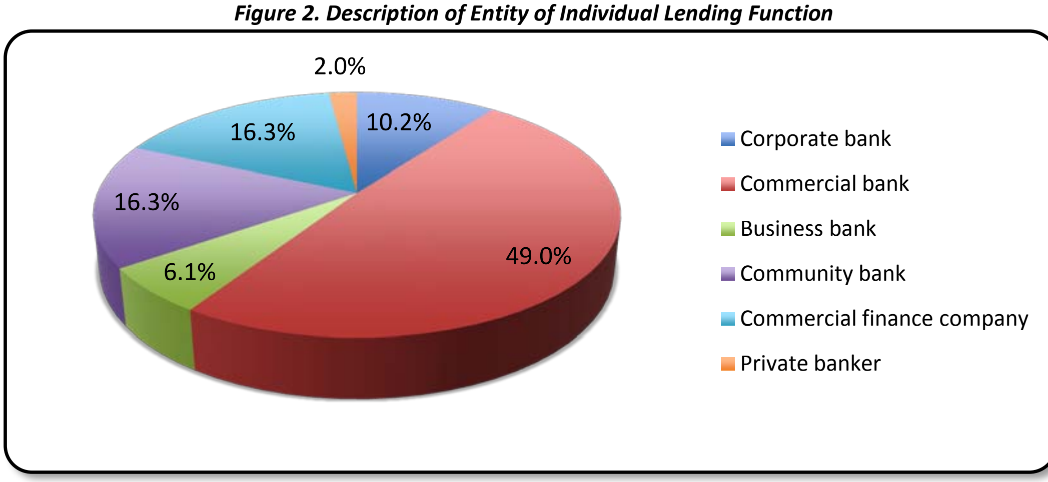


Figure 3. Geographic Distribution of Respondents

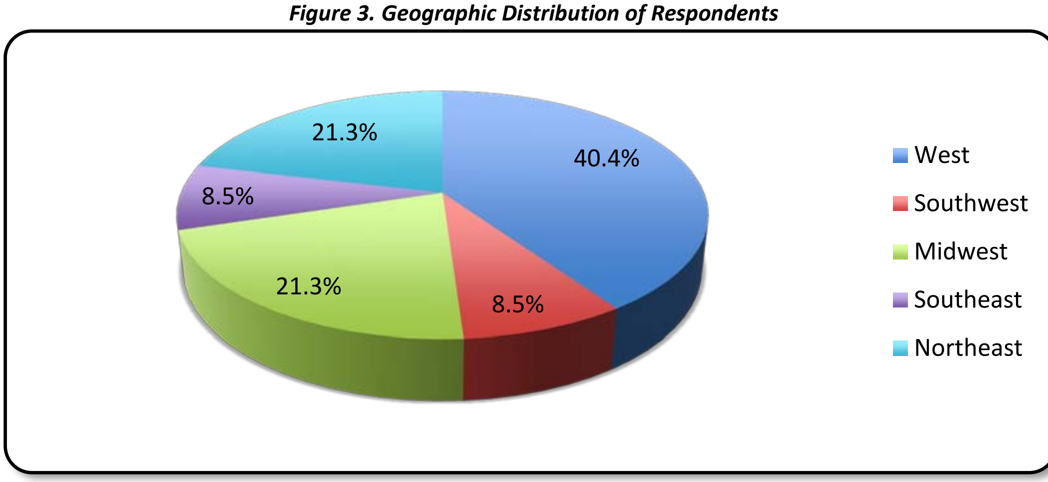
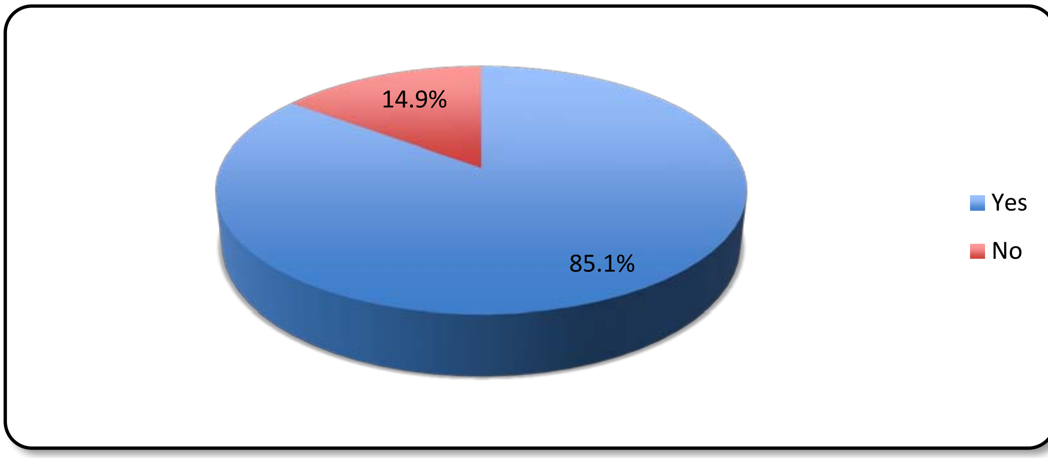
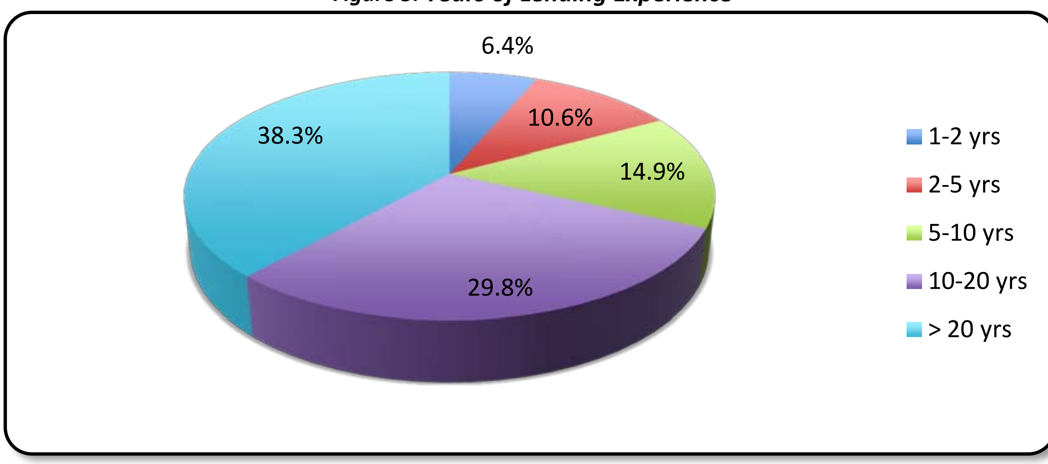


Figure 4. Government Loan Program Participation



Nearly 68.1% of respondents report having more than 10 years of experience as a senior lender. Another 14.9% of respondents report having five to 10 years of experience.

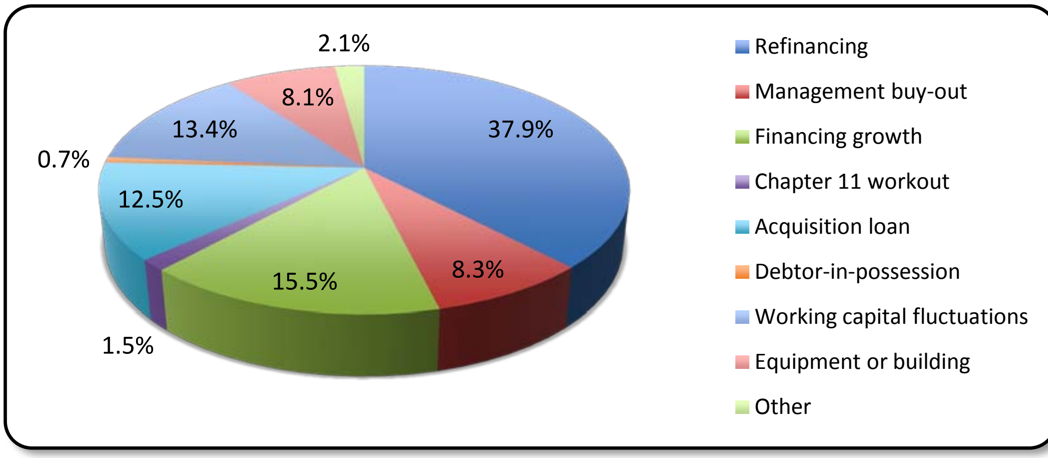
Figure 5. Years of Lending Experience



Operational and Lending Characteristics

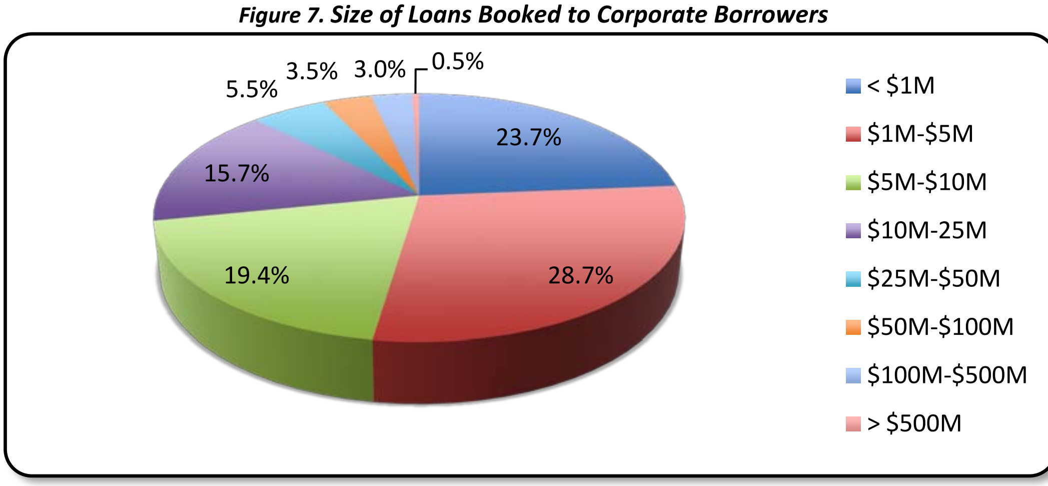
The most common motivation for securing lending was refinancing (37.9%), followed by financing growth (15.5%).

Figure 6. Motivations for Loans



Respondents reported the typical size of loans booked. Around 28.7% of loans were in the $1M - $5M range and 23.7% were less than $1M.

Figure 7. Size of Loans Booked to Corporate Borrowers



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

Table 2. Senior Leverage Multiples for Each Type of Industry by EBITDA

	$1M	$5M	$10M	$25M	$50M	$100M	$500M
Service							
1st quartile	1.5	1.5	2.0	2.0	2.4	2.4	3.0
Median	1.5	2.0	2.5	2.5	3.0	3.0	3.3
3rd quartile	2.8	2.8	2.8	3.0	3.0	3.3	3.5
Manufacturing							
1st quartile	1.5	1.5	2.0	2.5	2.5	2.5	n.a.
Median	1.5	2.0	2.3	2.5	2.8	2.8	n.a.
3rd quartile	3.0	3.0	2.8	3.0	3.0	3.0	n.a.
Retail							
1st quartile	1.4	1.4	1.5	1.8	2.3	n.a.	n.a.
Median	1.5	1.7	2.0	2.0	2.5	n.a.	n.a.
3rd quartile	1.8	2.1	2.3	2.5	2.8	n.a.	n.a.
Wholesale							
1st quartile	1.5	1.5	2.0	2.4	2.5	2.5	n.a.
Median	1.5	2.0	2.3	2.5	2.5	2.5	n.a.
3rd quartile	3.0	3.0	2.8	2.8	2.9	2.9	n.a.
Distribution							
1st quartile	1.5	1.5	2.0	2.5	2.5	2.3	n.a.
Median	1.5	2.0	2.0	2.5	2.5	2.6	n.a.
3rd quartile	2.8	2.8	2.8	2.5	3.0	3.1	n.a.

Respondents reported various industries to which they make loans. The industry most active according to respondents is manufacturing (69.6%) followed by wholesale (68.2%) and distribution (68.2%).

Table 3. Types of Industry Loans

	Yes	**No**
Service	59.1%	40.9%
Manufacturing	69.6%	30.4%
Retail	36.4%	63.6%
Wholesale	68.2%	31.8%
Distribution	68.2%	31.8%
Oil and gas	33.3%	66.7%
Restaurant	31.8%	68.2%
Real estate	42.9%	57.1%
Health care	42.9%	57.1%
Technology	42.9%	57.1%
Life sciences	42.9%	57.1%
Clean technology	38.1%	61.9%

Pricing and Returns

Respondents reported the spreads over prime for a five-year, fixed-rate, cash flow-based loans. Median, 1st quartile, and 3rd quartile data are shown as below for varied loan amounts and industries.

Table 4. Spreads over Prime by Industry and Size for Five-Year, Fixed-Rate Cash Flow Loan

	$0.5M	$1M	$5M	$10M
Service				
1st quartile	3.8%	3.4%	3.3%	1.5%
Median	4.0%	4.0%	4.0%	2.8%
3rd quartile	4.0%	4.6%	4.5%	4.0%
Manufacturing				
1st quartile	3.4%	3.0%	2.0%	1.5%
Median	4.0%	3.8%	3.5%	1.8%
3rd quartile	4.0%	4.0%	4.0%	3.5%
Retail				
1st quartile	3.8%	3.8%	2.5%	1.5%
Median	4.0%	4.0%	3.0%	1.5%
3rd quartile	4.0%	4.0%	3.5%	2.8%
Wholesale				
1st quartile	2.8%	2.6%	3.1%	1.5%
Median	3.8%	3.8%	3.8%	2.3%
3rd quartile	4.0%	4.0%	4.0%	4.0%
Distribution				
1st quartile	2.8%	3.0%	3.1%	1.5%
Median	4.0%	4.0%	3.8%	2.0%
3rd quartile	4.0%	4.6%	4.8%	4.0%

Respondents reported whether they would lend without personal guarantee to companies of various sizes (based upon annual revenues).

Table 5. Personal Guarantee Requirements

	Yes	No
$0.5 million	15.8%	84.2%
$1 million	25.0%	75.0%
$5 million	30.0%	70.0%
$10 million	45.0%	55.0%
$25 million	52.4%	47.6%
$50 million	58.8%	41.2%
$100 million	66.7%	33.3%
$500 million	64.7%	35.3%

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

Table 6. Lender Rankings of Borrower Statistics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0 to 4)
Current ratio	13.6%	22.7%	31.8%	27.3%	4.5%	1.9
Fixed-charge coverage ratio	9.1%	0.0%	13.6%	27.3%	50.0%	3.1
Senior-debt service ratio	0.0%	4.5%	31.8%	18.2%	45.5%	3.0
Total debt-service ratio	0.0%	0.0%	20.0%	15.0%	65.0%	3.5
Senior debt to EBITDA	9.1%	9.1%	13.6%	22.7%	45.5%	2.9
Total debt to EBITDA	9.1%	4.5%	18.2%	27.3%	40.9%	2.9
Debt to net worth	9.1%	22.7%	40.9%	9.1%	18.2%	2.0
Debt to tangible net worth	4.5%	22.7%	18.2%	27.3%	27.3%	2.5
Revenue growth rate	18.2%	9.1%	36.4%	31.8%	4.5%	2.0

Respondents reported a number of ratios used to evaluate average borrower data, minimum thresholds and covenants after booking loans.

Table 7. Average Borrower Data on New Loans

	1st quartile	Median	3rd quartile
Current ratio	1.2	1.4	1.5
Fixed-charge coverage	1.3	1.4	1.5
Senior debt service	1.4	1.7	2.0
Total debt service ratio	1.2	1.3	1.5
Senior debt to EBITDA	2.0	2.3	3.0
Total debt to EBITDA	3.0	3.5	3.9
Debt to net worth	1.1	1.3	1.4
Debt to tangible net worth	1.5	1.5	1.5

Table 8. Qualifying Minimum Threshold for Loan Approval

	1st quartile	Median	3rd quartile
Current Ratio	1.0	1.0	1.2
Fixed-charge coverage	1.1	1.2	1.4
Senior debt service	1.2	1.4	1.7
Total debt service ratio	1.2	1.3	1.4
Senior debt to EBITDA	2.3	2.8	3.0
Total debt to EBITDA	2.4	3.5	4.2
Debt to net worth	1.9	2.5	3.3
Debt to tangible net worth	2.0	2.5	3.0

Table 9. Financial Ratio Covenant After Booking

	1st quartile	Median	3rd quartile
Current ratio	1.2	1.3	1.3
Fixed-charge coverage	1.2	1.3	1.4
Senior debt service	1.3	1.5	1.8
Total debt service ratio	1.3	1.3	1.5
Senior debt to EBITDA	2.4	2.5	3.3
Total debt to EBITDA	3.5	4.5	4.5
Debt to net worth	2.0	2.0	2.0
Debt to tangible net worth	2.0	2.0	2.3

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

Table 10. Loan Fees

	1st quartile	Median	3rd quartile
Closing fee	0.5%	1.0%	2.0%
Modification fee	1.0%	0.5%	0.5%
Commitment fee	0.3%	0.5%	1.0%
Prepayment penalty (yr 1)	2.8%	3.0%	3.0%
Prepayment penalty (yr 2)	2.0%	2.0%	2.3%
Unused line fee	0.3%	0.3%	0.4%

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 11. All-in Rates on Various Types and Sizes of Loans

		Real estate	Working capital	Equipment	Cash flow loan
1st quartile	**$0.5M**	6.0%	4.7%	5.7%	5.8%
Median		6.0%	5.3%	6.0%	6.0%
3rd quartile		6.6%	6.0%	6.6%	6.5%
	$5M				
1st quartile		6.0%	3.3%	4.1%	5.0%
Median		6.0%	4.3%	5.0%	5.5%
3rd quartile		6.3%	5.0%	6.3%	7.5%
	$10M				
1st quartile		6.0%	3.1%	3.5%	4.1%
Median		6.0%	3.6%	4.8%	5.5%
3rd quartile		6.3%	6.3%	7.0%	7.5%
	$25M				
1st quartile		5.8%	2.5%	3.1%	3.4%
Median		5.9%	3.0%	3.1%	5.0%
3rd quartile		5.9%	3.3%	3.2%	6.8%
	$50M				
1st quartile		5.8%	2.5%	3.1%	3.3%
Median		5.9%	2.9%	3.1%	3.5%
3rd quartile		5.9%	3.4%	3.2%	6.0%
	$100M				
1st quartile		5.6%	2.3%	2.5%	3.2%
Median		5.8%	2.5%	2.8%	3.4%
3rd quartile		5.9%	2.9%	3.0%	4.3%

The median loan terms for booked deals are 54 months for real estate loans, 12 months for working capital loans, 60 months for equipment loans and 36 months for cash flow.

Table 12. Average Loan Terms (months)

	1st quartile	Median	3rd quartile
Real estate	39	54	105
Working capital	12	12	12
Equipment	60	60	60
Cash flow	18	36	60

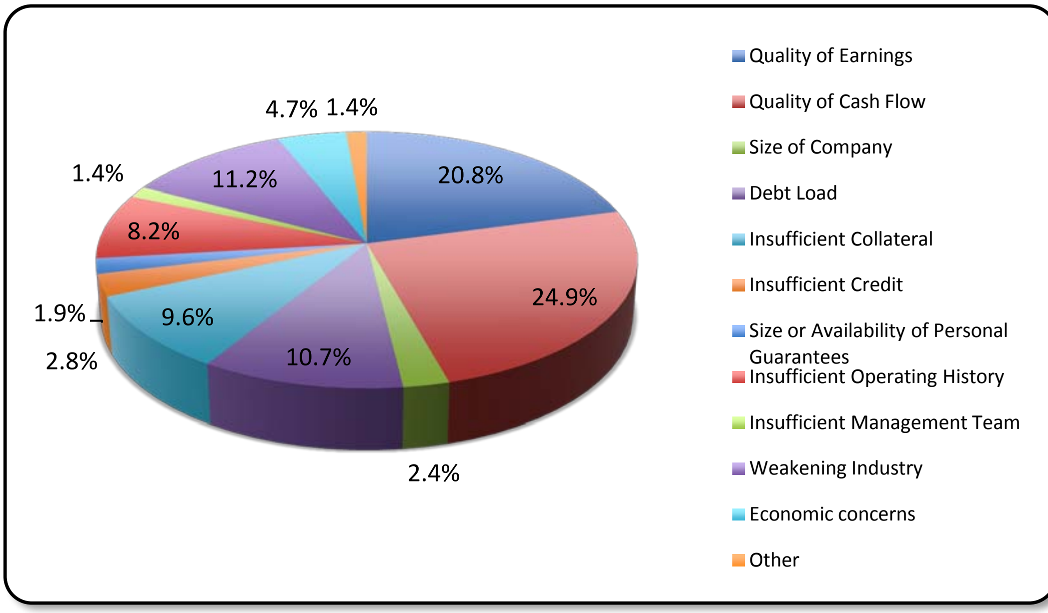
Respondents reported the action taken on loans over the last six months.

Table 13. Action Taken on Loans

	Declined %	Accept %	Booked %
Cash flow-based	72.5%	27.5%	40.0%
Collateral-based	46.7%	53.3%	62.5%
Real estate-based	90.0%	10.0%	66.7%

Quality of cash flow was reported by 24.9% of respondents as the reason for declining loan applications, followed by quality of earnings (20.8%).

Figure 8. Reasons for Declined Loan Applications



Industry and Economic Outlook

Respondents reported their assessments of loan submittals, operational characteristics, and industry standing today versus those six months ago. The number reporting loan application increases was 72.2%**.**

Table 14. General Operational Assessment Today Versus Six Months Ago

	Decreased	Stayed about the same	Increased
Number of loan applications	11.1%	16.7%	72.2%
Time to process loans	11.1%	50.0%	38.9%
Credit quality of borrowers applying for credit	22.2%	22.2%	55.6%
Credit quality of borrowers approved for credit	11.1%	38.9%	50.0%
Number of borrowers approved for credit	22.2%	22.2%	55.6%
Percentage of borrowers approved for credit	22.2%	27.8%	50.0%
Average loan size	22.2%	61.1%	16.7%
Senior leverage multiples	11.1%	50.0%	38.9%
Total leverage multiples	11.1%	50.0%	38.9%
Standard advance rates	11.1%	72.2%	16.7%
Loan maturity (months)	22.2%	61.1%	16.7%
Size of interest rate spreads (pricing)	44.4%	33.3%	22.2%
Loan fees	38.9%	55.6%	5.6%
Number of financial covenants (per loan)	11.1%	77.8%	11.1%
Tightness of financial covenants	11.1%	50.0%	38.9%
Percent of loans with personal guarantees	5.6%	77.8%	16.7%
Loan delinquency rates	44.4%	38.9%	16.7%
Loan charge-off rates	44.4%	33.3%	22.2%
Lending capacity of bank (capital ratio impacts)	5.6%	44.4%	50.0%
Number of loans being made by competitor banks	22.2%	33.3%	44.4%

Approximately 94.4% of respondents believe that the number of loan applications will increase over the next 12 months and 76.5% believe that the number of borrowers approved for credit will increase.

Table 15. 12-Month Outlook

	Decrease	Stay about the same	Increase
Number of loan applications	0.0%	5.6%	94.4%
Time to process loans	22.2%	66.7%	11.1%
Credit quality of borrowers applying for credit	5.6%	61.1%	33.3%
Credit quality of borrowers approved for credit	11.1%	61.1%	27.8%
Number of borrowers approved for credit	11.8%	11.8%	76.5%
Percentage of borrowers approved for credit	5.9%	35.3%	58.8%
Average loan size	5.6%	77.8%	16.7%
Senior leverage multiples	0.0%	66.7%	33.3%
Total leverage multiples	5.6%	61.1%	33.3%
Standard advance rates	0.0%	88.9%	11.1%
Loan maturity (months)	0.0%	88.9%	11.1%
Size of interest rate spreads (pricing)	38.9%	61.1%	0.0%
Loan fees	33.3%	55.6%	11.1%
Number of financial covenants (per loan)	22.2%	77.8%	0.0%
Tightness of financial covenants	22.2%	72.2%	5.6%
Percent of loans with personal guarantees	27.8%	55.6%	16.7%
Loan delinquency rates	38.9%	55.6%	5.6%
Loan charge-off rates	44.4%	50.0%	5.6%
Lending capacity of bank (capital ratio impacts)	0.0%	44.4%	55.6%
Number of loans being made by competitor banks	5.6%	33.3%	61.1%

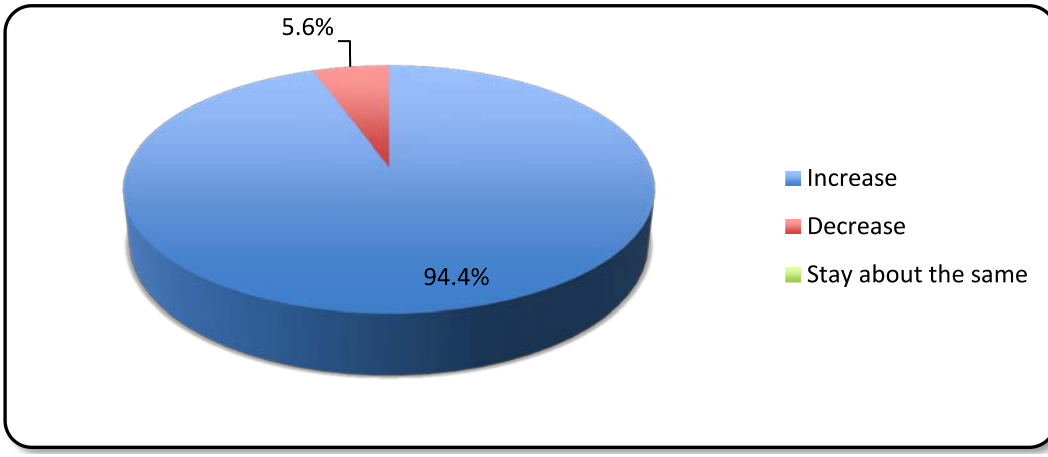
Around 88.9% respondents believe that prime interest rate will increase over the next 12 months, while 38.9% believe credit spreads will decline.

Table 16. Interest Rates over the Next 12 Months

	Increase	Decrease	Stay about the same
Prime	88.9%	11.1%	0.0%
LIBOR	83.3%	16.7%	0.0%
Credit spreads	16.7%	38.9%	44.4%

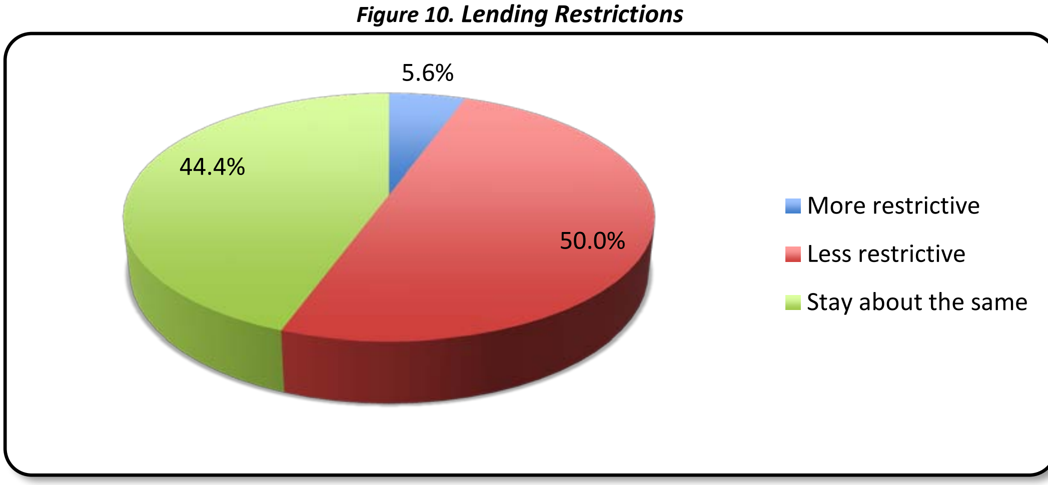
Around 94.4% respondents expect the demand for loans to increase in the next 12 months.

Figure 9. Demand for Business Loans over the Next 12 Months



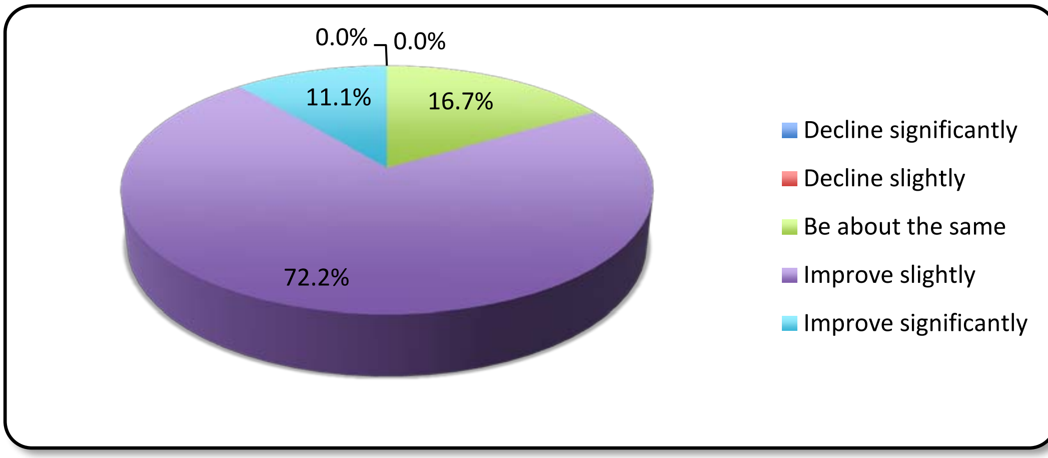
Around 50.0% respondents believe that lending will be less restrictive while 44.4% believe that lending restrictions will stay about the same.

Figure 10. Lending Restrictions



Around 72.2% respondents believe that business conditions will improve slightly in the next 12 months.

Figure 11. Business Conditions over the Next 12 Months



Respondents believe that overall gross domestic product will increase by 2.5% within next 12 months, while the privately-held company GDP equivalent is expected to increase by 3.2%.

Table 17. GDP Forecast (12-month)

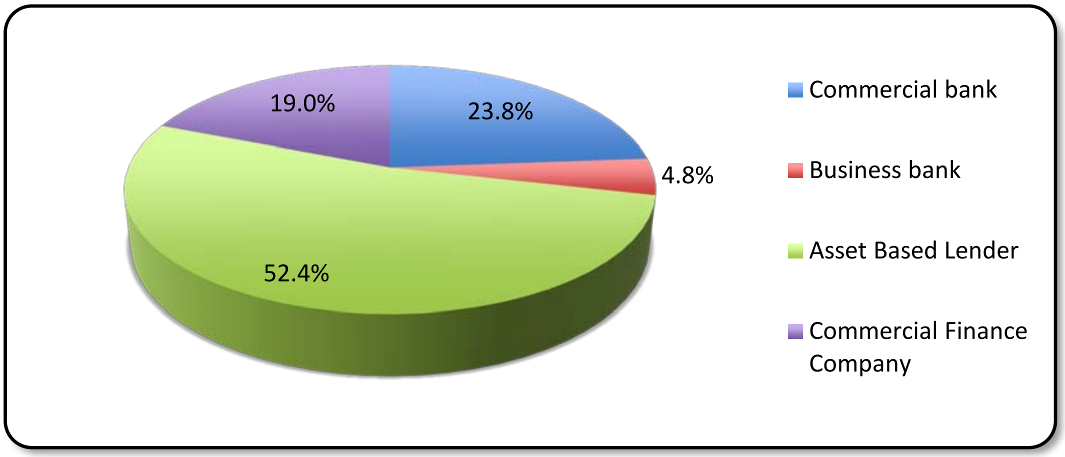
	Expected GDP change (%)
Overall GDP	2.5%
Privately-held company equivalent GDP	3.2%

ASSET-BASED LENDER SURVEY INFORMATION

Profile of Respondents

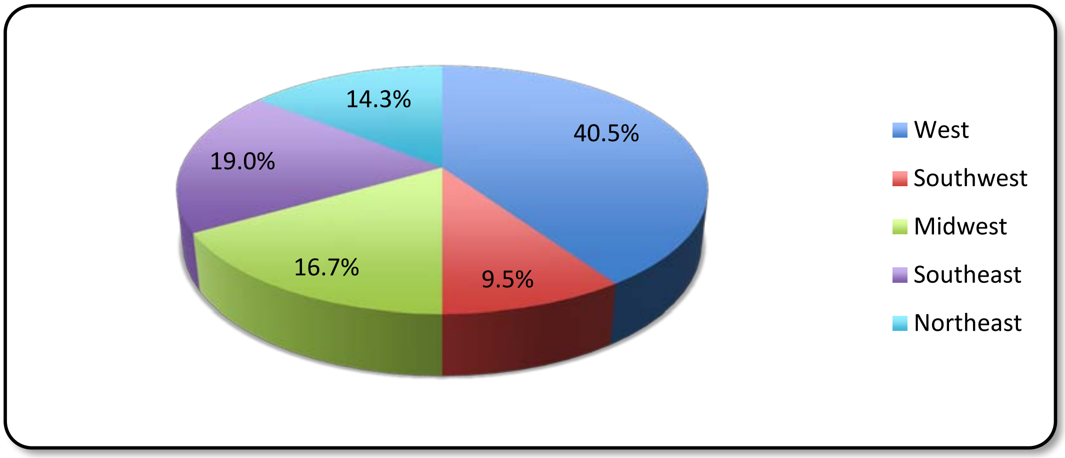
The results of the Asset–Based Lender Survey, derived from 52 participants, reflect that 52.4% of respondents classified their firm as asset-based lenders while 23.8% of respondents indicated this lending function in their firms was performed through commercial banks.

Figure 12. Firm Description



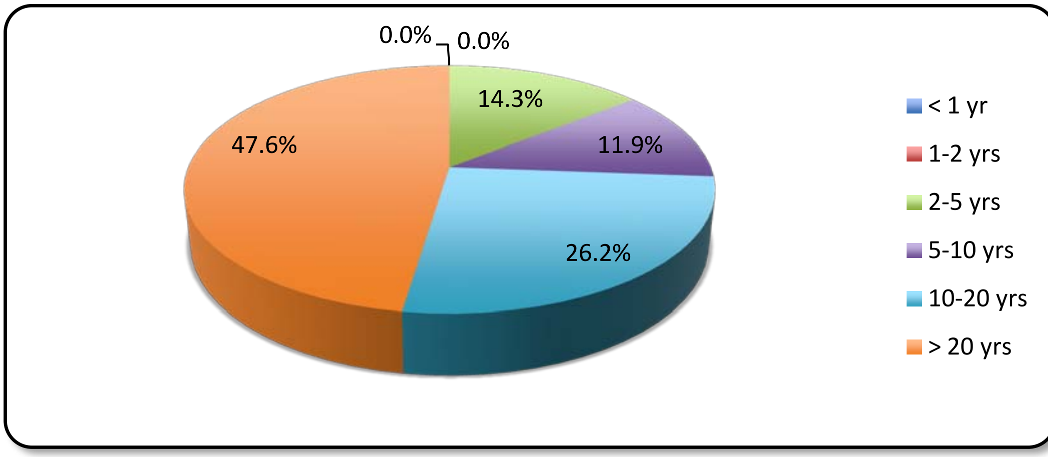
Approximately 40.5% of respondents identified their primary location as being in the western part of the country while 19.0% of respondents reported the southeast as their base.

Figure 13. Geographic Location



Nearly 74% of respondents reported having over 10 years of asset-based lending experience while another 11.9% of respondents reported having five to 10 years of such experience.

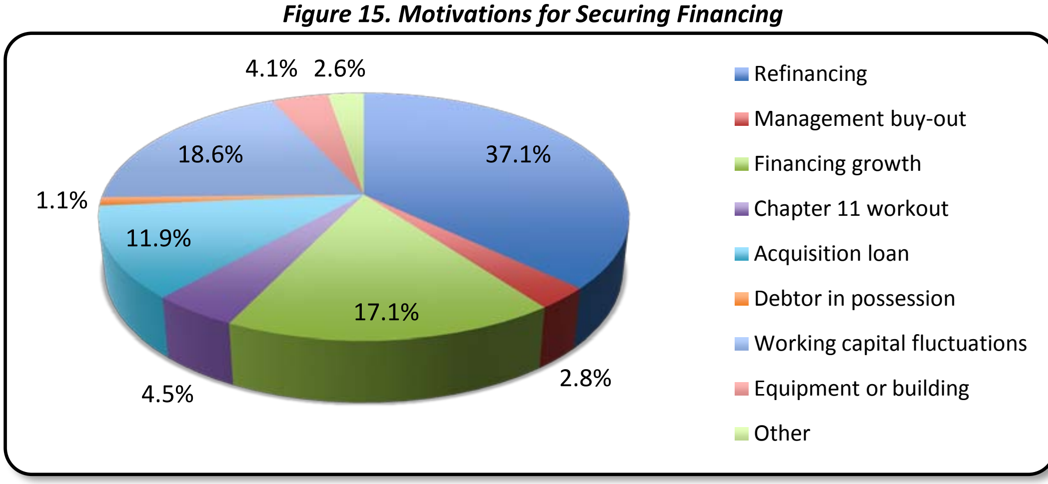
Figure 14. Asset-based Lending Experience



Operational and Lending Characteristics

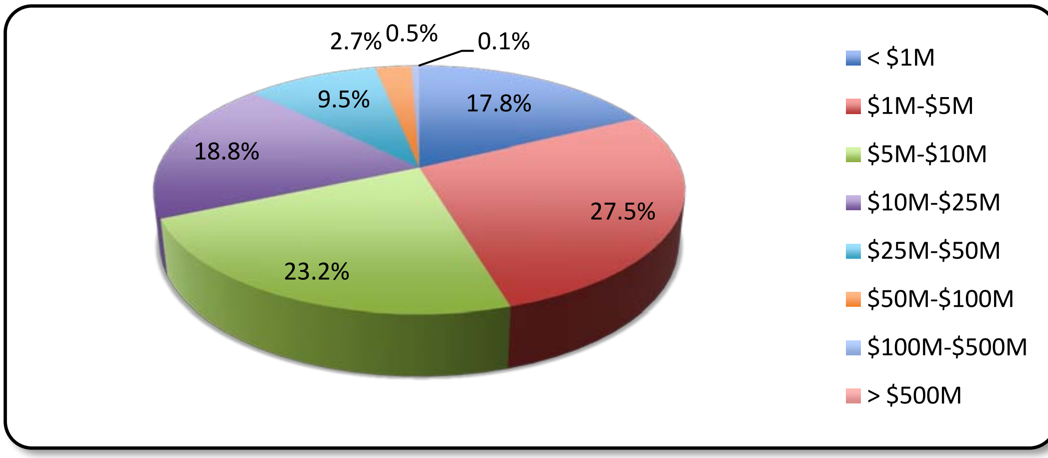
The most common motivation for securing financing is refinancing (37.1%) followed by working capital fluctuations (18.6%) and financing growth (17.1%).

Figure 15. Motivations for Securing Financing



Respondents reported that 27.5% of booked loans have values between $1M and $5M, followed by 23.2% loans with value between $5M and $10M and 18.8% loans with value between $10M and $25M.

Figure 16. ABL Size of Loans



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

Table 18. Standard Advance Rates

		1st quartile	Median	3rd quartile
Marketable securities	Typical	71.3%	80.0%	90.0%
	Max	80.0%	90.0%	95.0%
Accounts receivable	Typical	80.0%	80.0%	85.0%
	Max	85.0%	85.0%	90.0%
Inventory - low quality	Typical	20.0%	25.0%	37.5%
	Max	25.0%	30.0%	40.0%
Inventory - intermediate quality	Typical	25.0%	40.0%	50.0%
	Max	42.5%	50.0%	50.0%
Inventory - high quality	Typical	50.0%	52.5%	60.0%
	Max	55.0%	65.0%	67.5%
Equipment	Typical	50.0%	70.0%	85.0%
	Max	70.0%	80.0%	85.0%
Real estate	Typical	50.0%	57.5%	70.0%
	Max	65.0%	70.0%	75.0%
Land assets	Typical	20.0%	40.0%	65.0%
	Max	50.0%	62.5%	75.0%

When performing an asset-based lending function, the forced liquidation valuation standard is used by 48.3% of respondents when making equipment loans. For inventory credits, 44.8% of respondents rely on orderly liquidation. For equipment loans, 37.9% of respondents use orderly liquidation.

Table 19. Collateral Valuation Standards

	Purchase price	Depreciated value (book)	Face value	Fair market value	Orderly liquidation	Forced liquidation	Other
Accounts receivable	8.6%	5.7%	62.9%	2.9%	8.6%	5.7%	5.7%
Inventory	13.8%	0.0%	13.8%	3.4%	44.8%	24.1%	0.0%
Equipment	3.4%	0.0%	3.4%	6.9%	37.9%	48.3%	0.0%
Real estate	4.2%	0.0%	0.0%	62.5%	20.8%	12.5%	0.0%

Respondents were asked what their average spread (over/under) prime was for different asset classes and loan values. Median, 1st quartile, and 3rd quartile data are reported for each asset class and loan value as following.

Table 20. Average Spread over Prime for Various Loan Types

		1st quartile	Median	3rd quartile
Real estate	**$0.5M**	4.0%	6.0%	9.9%
	$1M	3.3%	5.0%	7.1%
	$5M	2.3%	4.0%	6.0%
	$10M	2.0%	2.3%	5.8%
	$25M	1.0%	1.5%	2.0%
Working capital	**$0.5M**	8.8%	10.0%	11.0%
	$1M	5.5%	7.3%	9.4%
	$5M	3.0%	4.0%	6.0%
	$10M	1.3%	3.0%	4.0%
	$25M	1.6%	2.5%	3.3%
Equipment	**$0.5M**	9.9%	12.3%	14.6%
	$1M	6.2%	7.3%	9.9%
	$5M	2.0%	3.0%	6.0%
	$10M	1.8%	2.0%	5.8%
	$25M	1.0%	1.3%	2.1%

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

Table 21. Level of Importance Placed on Lending Statistics

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0 to 4)
Current ratio	42.3%	11.5%	23.1%	11.5%	11.5%	1.4
Fixed-charge coverage ratio	17.9%	7.1%	3.6%	21.4%	50.0%	2.8
Senior debt service ratio	21.4%	10.7%	17.9%	35.7%	14.3%	2.1
Total debt service ratio	17.9%	14.3%	10.7%	32.1%	25.0%	2.3
Senior debt to EBITDA	27.6%	13.8%	17.2%	31.0%	10.3%	1.8
Total debt to EBITDA	31.0%	13.8%	17.2%	24.1%	13.8%	1.8
Debt to net worth	17.2%	13.8%	20.7%	31.0%	17.2%	2.2
Debt to tangible net worth	21.4%	7.1%	17.9%	39.3%	14.3%	2.2
Revenue growth rate	24.1%	24.1%	24.1%	13.8%	13.8%	1.7

Respondents were asked to identify relevant thresholds pertaining to new asset-based loans that are currently booked. The table below presents reported information for average thresholds. Median, 1st quartile, and 3rd quartile data are reported for each ratio as following.

Table 22. Average Relevant Thresholds on New Loans

	1st quartile	Median	3rd quartile
Current ratio	1.0	1.0	1.5
Fixed-charge coverage ratio	1.0	1.1	1.1
Senior debt service ratio	1.2	1.4	1.6
Total debt service ratio	1.1	1.2	1.4
Senior debt to EBITDA	2.5	3.0	4.5
Total debt to EBITDA	2.5	3.0	3.5
Debt to net worth	2.8	4.0	5.8
Debt to tangible net worth	2.3	4.0	6.5
Revenue growth rate	5.0	5.0	5.0

Pricing and Return Data

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

Table 23. Fees Charged to the Borrower

	1st Quartile	Median	3rd quartile
Closing fee-%	1.0%	1.0%	1.1%
Modification fee-%	0.3%	0.8%	1.0%
Commitment fee-%	0.5%	1.0%	1.0%
Prepayment penalty (yr 1)-%	2.8%	3.0%	3.0%
Prepayment penalty (yr 2)-%	1.5%	2.0%	2.0%
Unused line fee-%	0.3%	0.5%	0.5%

Note: In addition, ABLs may also charge collateral monitoring fees, audit fees, attorneys fees, annual facility fees, annual renewal fees, advance fees, service fees, documentation fees, and due diligence fees.

All-in-rate percentages vary considerably by size and type of loan. For real estate loans, all-in-rate medians ranged from 7% to 12%. For working capital loans, all-in-rate medians range from 4.6% to 18.0% and for equipment loans, all-in-rate medians range from 7.1% to 18.0%.

Table 24. All-in-Rates on Booked Loans

		1st quartile	Median	3rd quartile
Real estate all-in-rate (%)				
	$0.5M	10.1%	12.0%	16.0%
	$5M	7.5%	10.0%	14.8%
	$10M	4.9%	9.0%	12.8%
	$25M	6.3%	7.0%	12.8%
Working capital all-in-rate (%)				
	$0.5M	11.0%	18.0%	20.0%
	$5M	4.3%	8.0%	12.0%
	$10M	3.3%	6.3%	7.3%
	$25M	3.3%	4.6%	6.5%
Equipment all-in-rate (%)				
	$0.5M	12.0%	18.0%	20.0%
	$5M	9.5%	15.0%	19.5%
	$10M	3.4%	8.0%	15.0%
	$25M	4.9%	7.1%	9.0%

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 25. Average Loan Terms

	1st quartile	Median	3rd quartile
Average loan term (months) - real estate	48	72	96
Average loan term (months) - working capital	18	36	36
Average loan term (months) - equipment	48	60	60

Industry and Economic Outlook

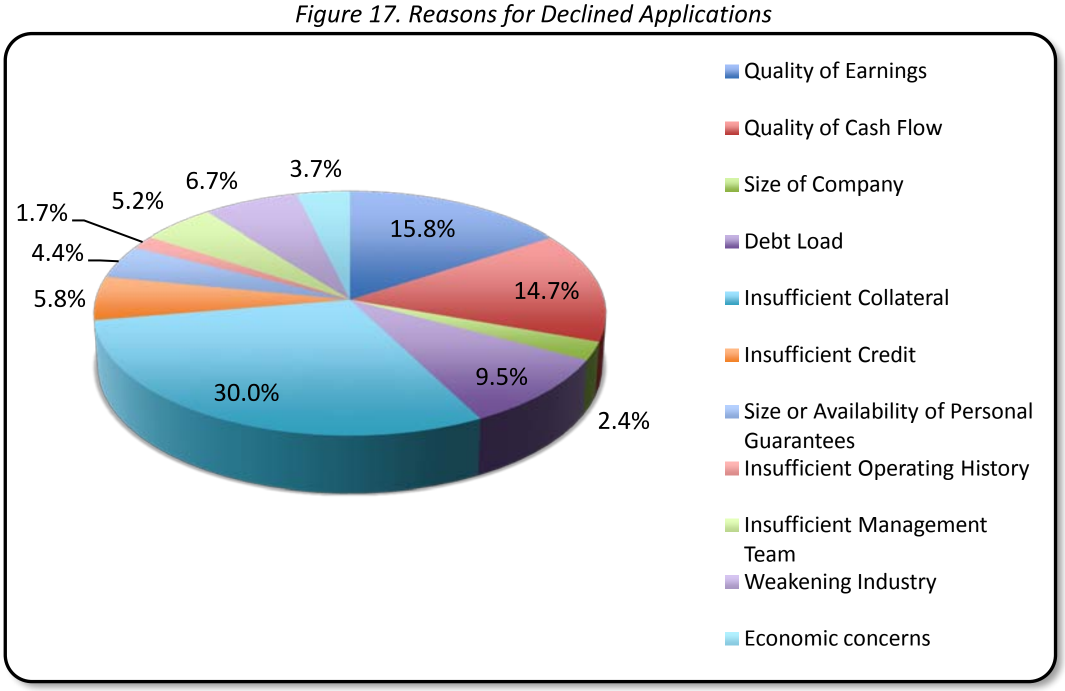
Respondents reported on submittals over the last six months of asset-backed loans that they reviewed, declined, offered, and booked.

Table 26. Statistics of Loan Submittals

Averages	Decline %	Offer %	Book/Offer %
Receivables-based	65.4%	34.6%	46.6%
Inventory-based	76.6%	24.5%	67.8%
Equipment-based	68.6%	31.4%	70.0%

Insufficient collateral (30.0%) was the primary reason for the decline of loan applications, followed by quality of earnings (15.8%) and quality of cash flow (14.7%).

Figure 17. Reasons for Declined Applications



Respondents reported their assessments of loan submittals, operational characteristics, and industry standing today versus those six months ago. Nearly 61% report that applications have increased while approximately 44% report increases in the average loan sizes.

Table 27. Operating Metrics Today Versus Six Months Ago

	Decreased	Stayed about the same	Increased
Number of loan applications	8.7%	30.4%	60.9%
Time to process loans	4.3%	47.8%	47.8%
Credit quality of borrowers applying for credit	43.5%	30.4%	26.1%
Credit quality of borrowers approved for credit	13.6%	40.9%	45.5%
Number of borrowers approved for credit	36.4%	31.8%	31.8%
Percentage of borrowers approved for credit	40.9%	50.0%	9.1%
Average loan size	8.7%	47.8%	43.5%
Senior leverage multiples	21.1%	68.4%	10.5%
Total leverage multiples	21.1%	63.2%	15.8%
Standard advance rates	15.0%	85.0%	0.0%
Loan maturity (months)	13.6%	86.4%	0.0%
Size of interest rate spreads (pricing)	17.4%	56.5%	26.1%
Loan fees	9.1%	68.2%	22.7%
Number of financial covenants (per loan)	0.0%	77.3%	22.7%
Tightness of financial covenants	0.0%	59.1%	40.9%
Percent of loans with personal guarantees	4.5%	68.2%	27.3%
Loan delinquency rates	13.6%	50.0%	36.4%
Loan charge-off rates	31.8%	27.3%	40.9%
Lending capacity of bank (capital ratio impacts)	13.6%	63.6%	22.7%
Number of loans being made by competitor banks	33.3%	28.6%	38.1%

Approximately 65% of respondents expect loans made by competitor institutions will increase over the next 12 months. Respondents also report an expectation of a significant increase in the number of loan applications.

Table 28. Expectations for the Next 12 Months

	Decrease	Stay the Same	Increase
Number of loan apps	9.5%	42.9%	47.6%
Time to process loans	9.5%	76.2%	14.3%
Credit quality of borrowers applying for credit	4.8%	61.9%	33.3%
Credit quality of borrowers approved for credit	4.8%	66.7%	28.6%
Number of borrowers approved for credit	4.8%	57.1%	38.1%
Percentage of borrowers approved for credit	9.5%	57.1%	33.3%
Average loan size	14.3%	47.6%	38.1%
Senior leverage multiples	5.3%	84.2%	10.5%
Total leverage multiples	5.6%	83.3%	11.1%
Standard advance rates	0.0%	100.0%	0.0%
Loan maturity (months)	0.0%	90.0%	10.0%
Size of interest rate spreads (pricing)	33.3%	57.1%	9.5%
Loan fees	19.0%	81.0%	0.0%
Number of financial covenants (per loan)	5.0%	85.0%	10.0%
Tightness of financial covenants	5.0%	85.0%	10.0%
Percent of loans with personal guarantees	10.0%	85.0%	5.0%
Loan delinquency rates	30.0%	55.0%	15.0%
Loan charge-off rates	26.3%	52.6%	21.1%
Lending capacity of bank (capital ratio impacts)	0.0%	78.9%	21.1%
Number of loans being made by competitor banks	5.0%	30.0%	65.0%

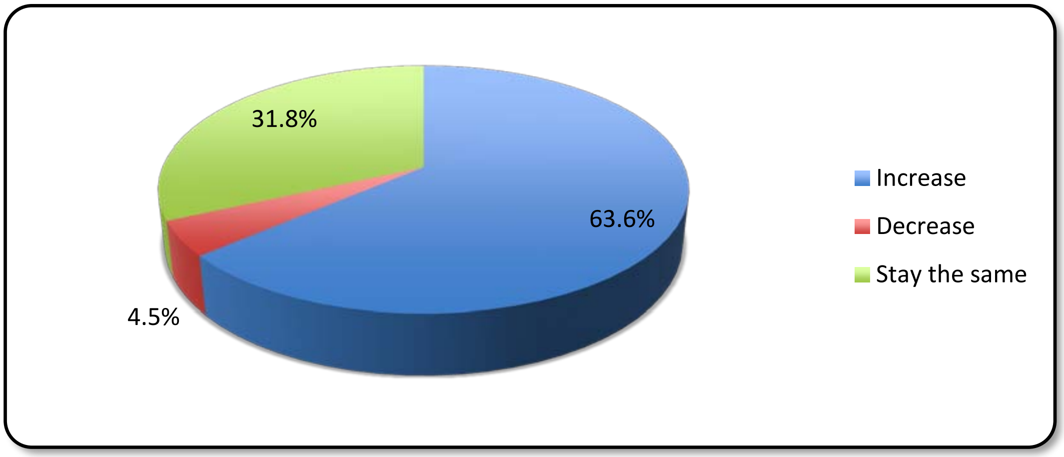
Over the next 12 months, 59.1% respondents believe the prime rate will increase and 63.6% respondents believe that the LIBOR interest rates will increase.

Table 29. Interest Rate Forecast (12-month)

	Increase	Decrease	Stay the same
Prime	59.1%	4.5%	36.4%
LIBOR	63.6%	9.1%	27.3%
Credit spreads	22.7%	27.3%	50.0%

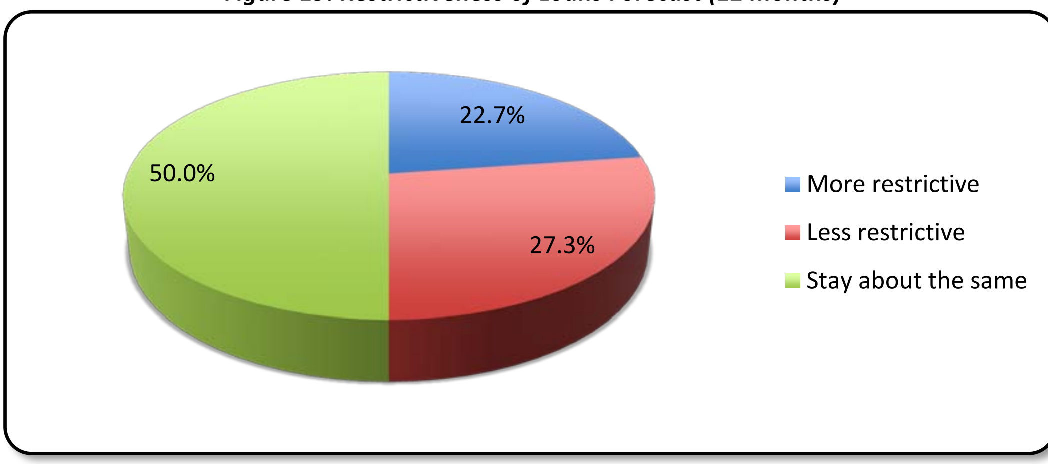
Respondents, on net, report an expected increase in demand for loans over the next 12 months.

Figure 18. Demand for Loans Forecast (12 months)



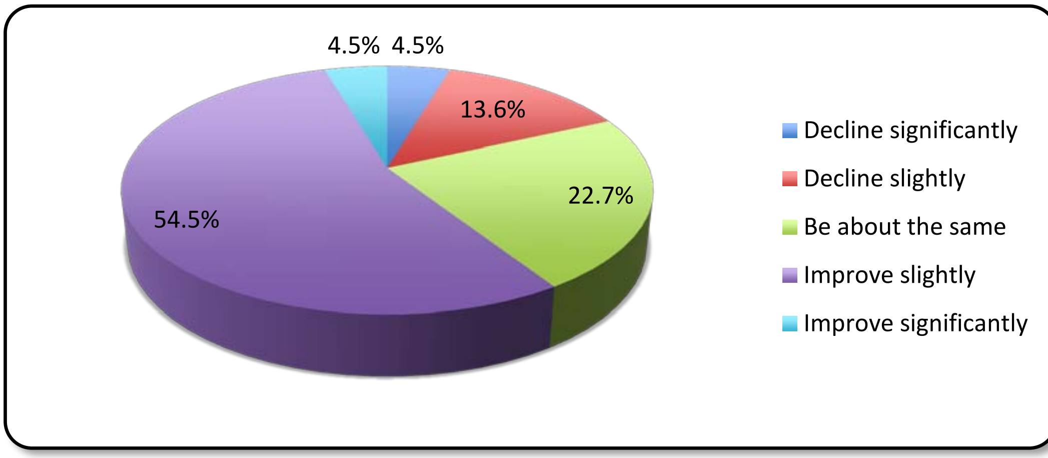
Respondents report a very slight expected net relaxation in loans over the next 12 months.

Figure 19. Restrictiveness of Loans Forecast (12 months)



Of the ABL participants, 54.4% reported that believe business conditions will improve slightly while 22.7% report they will be about the same.

Figure 20. Business Conditions Predictions (12 months)



Over the next 12 months, asset-based lenders believe that gross domestic product will change by 1.0% while an equivalent measure for privately-held companies also will change by 1.0%.

Table 30. GDP Forecast for the Next 12 Months

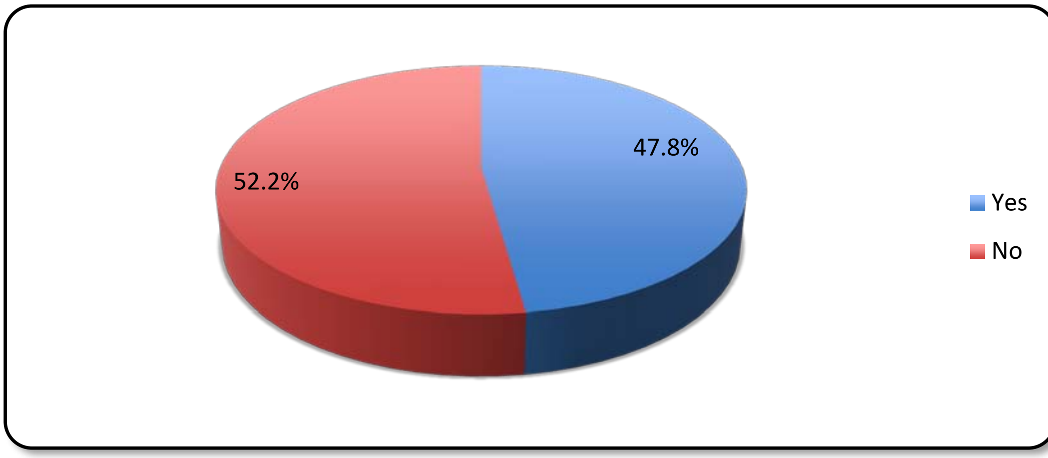
	Expected GDP change (%)
Overall GDP	1.0%
Privately-held company equivalent GDP	1.0%

MEZZANINE SURVEY INFORMATION

Profile of Respondents

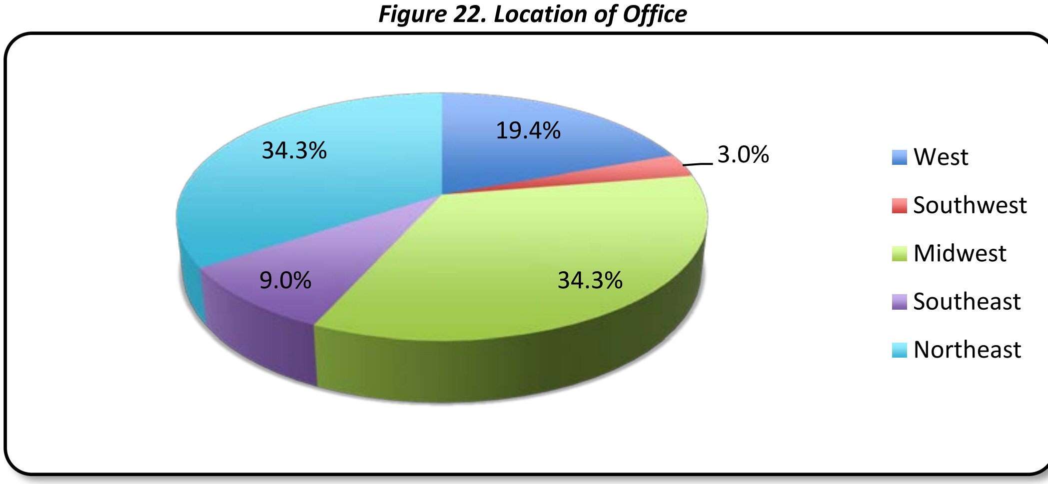
There were 72 participants who responded to the Mezzanine Survey. The respondents are geographically dispersed throughout the United States. Of those surveyed, 47.8% identified their firm as a small-business investment company (SBIC).

Figure 21. SBIC Classification



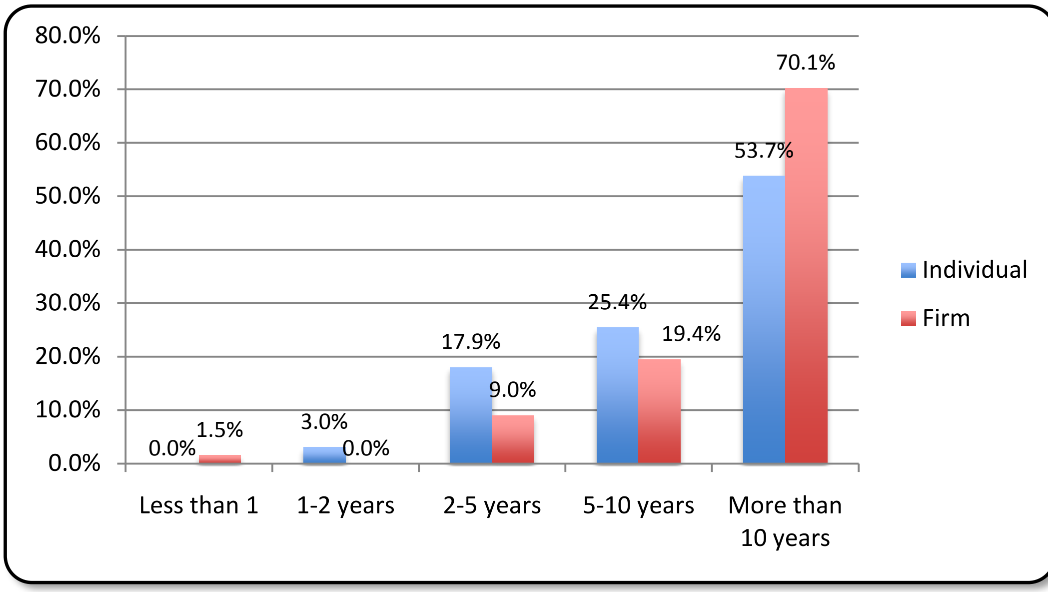
The largest concentration of respondents is split evenly between northeast (34.3%) and midwest (34.3%). Around 19.4% of respondents are located in the west.

Figure 22. Location of Office



Of the survey's individual respondents, 53.7% reported having over 10 years of experience in mezzanine investing. Another 25.4% reported having 5 to 10 years of experience.

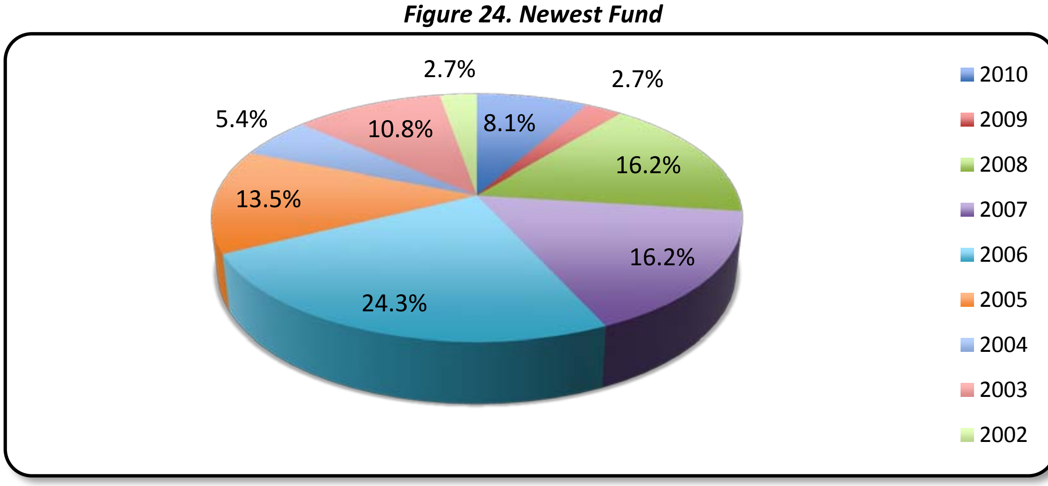
Figure 23. Years of Experience



Operational and Lending Characteristics

Respondents reported the following vintage years for the newest fund. The largest concentration occurred in 2006 when 24.3% of funds made their first investment.

Figure 24. Newest Fund



Respondents reported key statistics for new fund investments. Data for 1st quartile, medians, and 3rd quartiles are expressed for each statistic.

Table 31. Newest Fund Investment Statistics

	1st quartile	Median	3rd quartile
Size ($M)	$75M	$110M	$200M
General partner %	0.4%	1.0%	2.0%
Preferred return (%)	8.0%	8.0%	8.0%
Carry (%)	20.0%	20.0%	20.0%
Management fee (%)	2.0%	2.0%	2.0%
Number of investments made	7	13	24
Capital invested ($M)	$25M	$52M	$96M
Capital left ($M)	$13M	$45M	$77M
Months left to invest	18	30	40
Reserve %	0.3%	6.5%	10.0%
Targeted # of investments	14	20	26
Exits so far	0	2	8
IRR on exits	18.0%	20.5%	25.0%
Revenue size of investee companies at investment ($M)	$15M	$25M	$40M

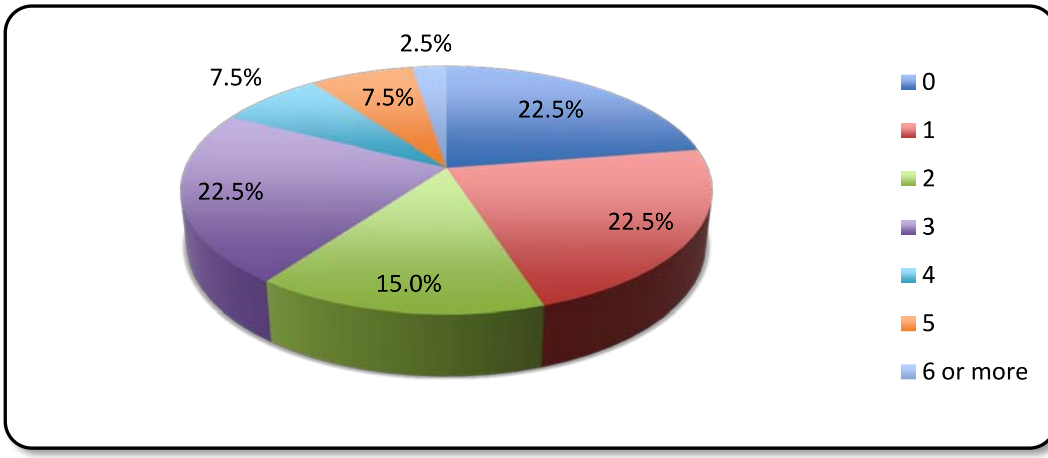
Respondents were asked to disclose several statistics for current investment funds. The reported data are shown in the table below.

Table 32. Current Investment Funds

	1st quartile	Median	3rd quartile
Firm's total assets under management? ($M)	$80M	$190M	$300M
Number of general partners (GPs) in the firm	3	3	4
Number of non-GP employees in firm	4	6	10
Target gross cash on cash IRR (pretax) for new investments	18.0%	19.0%	22.0%
Target net cash on cash IRR (pretax) for limited partners from new investments	14.0%	16.8%	18.8%
Firm's average cash on cash IRR (gross) for portfolio companies over the last five years	12.5%	19.0%	21.0%

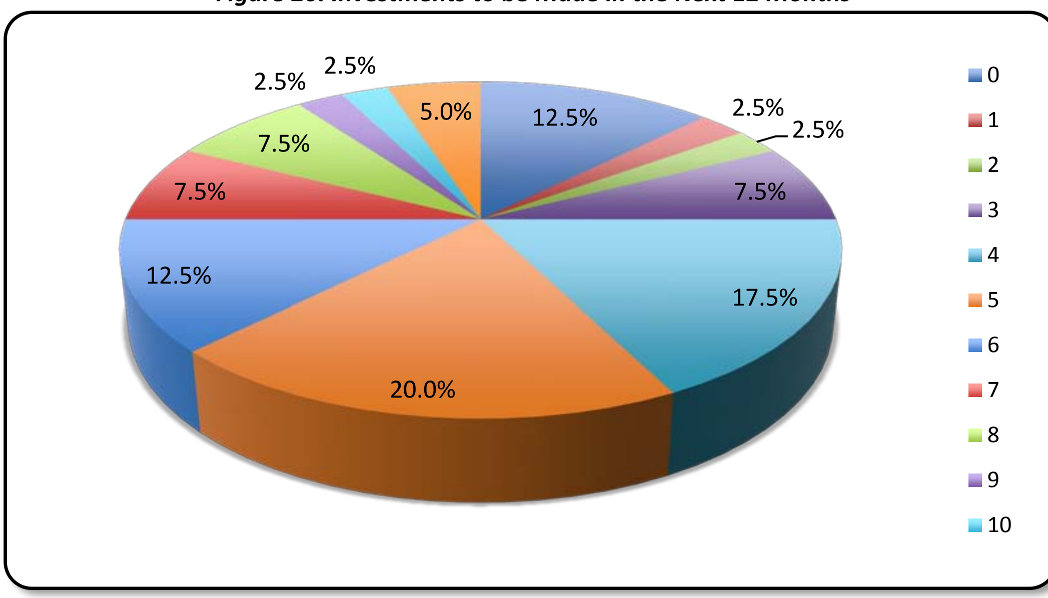
Over the last six months, investors have made a number of new investments. Around 22.5% of respondents have invested in one or three deals, while the same percentage (22.5%) of respondents did not invest at all.

Figure 25. Investments Made in the Last Six Months



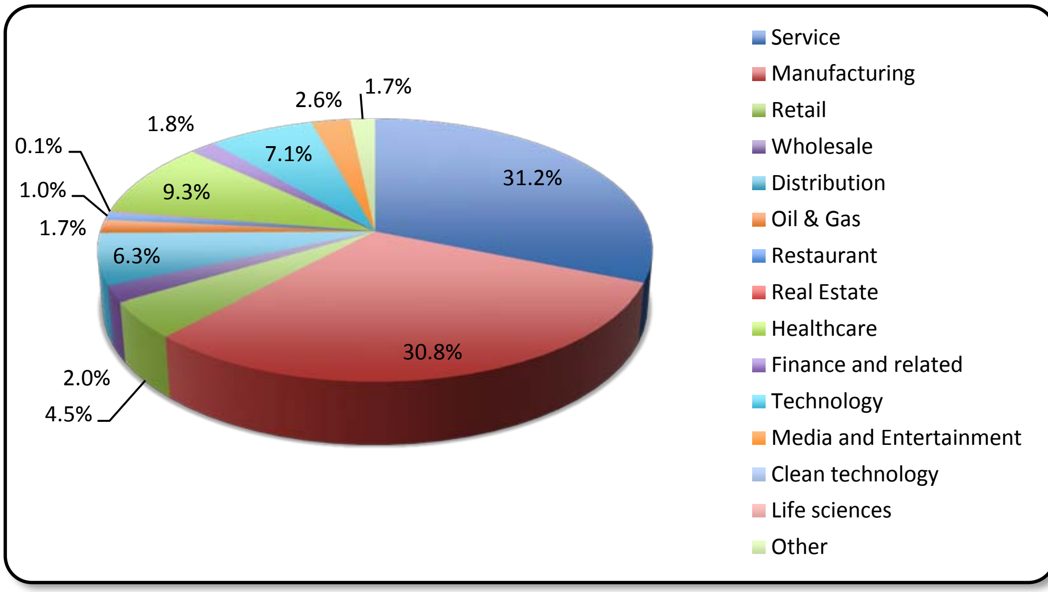
Over the next 12 months, investors expect to make a number of new investments. Twenty percent (20%) of respondents expect five new investments, while 17.5% expect to make four and 12.5% expect to make six investments.

Figure 26. Investments to be Made in the Next 12 Months



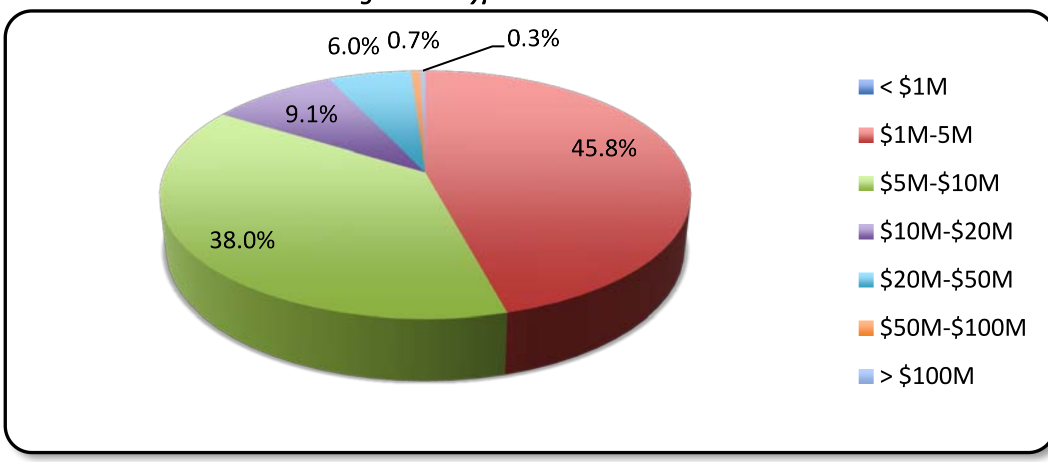
Mezzanine funds reported their largest investment in service (31.2%) followed by investment in manufacturing (30.8%).

Figure 27. Portfolio Company Industries



Respondents reported that 45.8% of current deals are in the $1 million to $5 million EBITDA range and 38% are in the $5 million to $10 million range.

Figure 28. Typical Investment Sizes



The median numbers reported for activities conducted to close a deal include the following: 83 (business plans reviewed), 10 (meetings with principals conducted), five (proposal letters issued), and two (letters of intent signed).

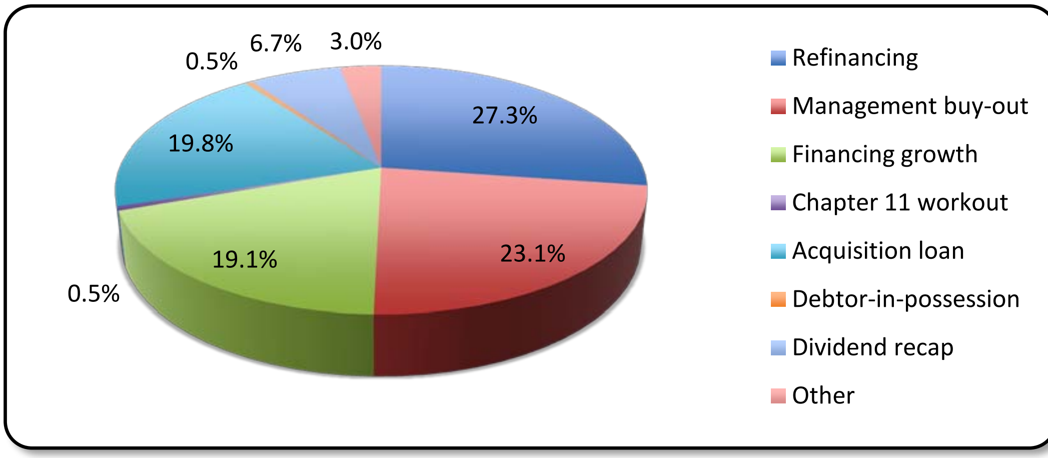
Table 33. Activities to Close One Deal

	Business plans are reviewed	Meetings with principals are conducted	Proposal letters are issued	Letters of intent are signed
1st quartile	33	6	3	1
Median	83	10	5	2
3rd quartile	100	15	9	2

 |

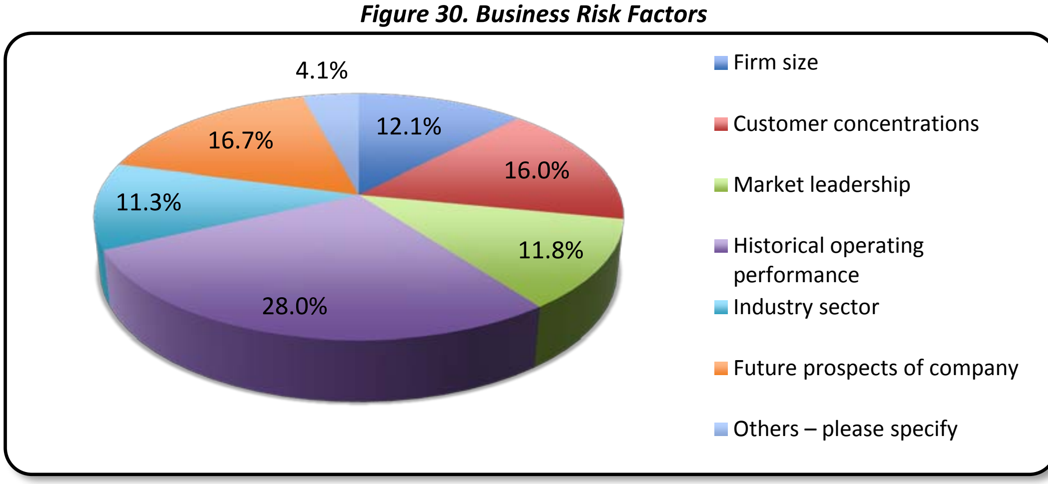
The most common motivation for securing investment was refinancing (27.3%), followed by management buyout (23.1%), acquisitions (19.8%), and financing growth (19.1%).

Figure 29. Motivation for Investment



The highest ranked business risk factor is historical operating performance (28.0%), followed by future prospects of company (16.7%), customer concentrations (16%), firm size and market leadership (12.1%), industry sector (11.3%), and other factors including management and recurring cash flow (4.1%).

Figure 30. Business Risk Factors



The most common financial covenant is the limit on level of distributions (90.5%), followed by total debt (90.1%), and limits on level of indebtedness (87.9%).

Table 34. Covenant Frequency

	Average
Limits on level of indebtedness	87.9%
Limits on distributions	90.5%
Limits on management compensation	45.8%
Acceleration on change of control	84.4%
Positive earnings	62.9%
Fixed-charge coverage	80.5%
Total debt/EBITDA	90.1%
Annual CAPEX limitations	76.3%

Respondents reported the level of importance of investment consideration factors. Total debt to EBITDA is the most important (79.2% cited this factor as very important), followed by the fixed-charge coverage ratio (63%).

Table 35. Importance of Investment Consideration Factors

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0 to 4)
Current ratio	20.8%	37.5%	33.3%	4.2%	4.2%	1.3
Fixed-charge coverage ratio	0.0%	0.0%	7.4%	29.6%	63.0%	3.6
Senior debt service ratio	4.0%	8.0%	44.0%	20.0%	24.0%	2.5
Total debt service ratio	0.0%	4.0%	24.0%	24.0%	48.0%	3.2
Senior debt to EBITDA	4.2%	4.2%	20.8%	25.0%	45.8%	3.0
Total debt to EBITDA	0.0%	0.0%	4.2%	16.7%	79.2%	3.8
Debt to net worth	16.7%	45.8%	29.2%	4.2%	4.2%	1.3
Debt to tangible net worth	21.7%	34.8%	34.8%	8.7%	0.0%	1.3
Revenue growth rate	8.3%	12.5%	33.3%	33.3%	12.5%	2.3

Respondents reported a variety of ratios for average borrower data, minimum thresholds for loan approval, and financial ratio covenants after booking.

Table 36. Average Borrower Data

	1st quartile	Median	3rd quartile
Current ratio	1.1	1.3	1.4
Fixed-charge coverage ratio	1.2	1.3	1.5
Senior debt service ratio	1.6	1.7	1.9
Total debt service ratio	1.4	1.5	1.5
Senior debt to EBITDA	1.8	1.9	2.6
Total debt to EBITDA	2.9	3.0	3.4
Debt to net worth	1.5	2.0	2.5
Debt to tangible net worth	1.3	1.5	1.8
Revenue growth rate	5.3	7.0	9.5

Table 37. Qualifying Minimum Threshold for Loan Approval

	1st quartile	Median	3rd quartile
Current ratio	0.8	1.0	1.2
Fixed-charge coverage ratio	1.1	1.2	1.3
Senior debt service ratio	1.5	1.8	2.0
Total debt service ratio	1.2	1.3	1.4
Senior debt to EBITDA	2.2	3.0	3.3
Total debt to EBITDA	3.5	4.0	4.0
Debt to net worth	1.8	2.5	3.3
Debt to tangible net worth	1.8	2.5	3.3
Revenue growth rate	3.0	5.0	5.0

Table 38. Financial Ratio Covenant after Booking

	1st quartile	Median	3rd quartile
Current ratio	1.0	1.0	1.0
Fixed-charge coverage ratio	1.1	1.2	1.5
Senior debt service ratio	1.3	1.6	2.0
Total debt service ratio	1.2	1.4	1.7
Senior debt to EBITDA	2.3	3.0	3.6
Total debt to EBITDA	3.6	4.0	4.3
Debt to net worth	1.5	2.0	2.5
Debt to tangible net worth	1.5	2.0	2.5
Revenue growth rate	4.3	4.5	4.8

A variety of investment analysis techniques are employed to evaluate potential investments. The most frequently used techniques include IRR (100%), market analysis (95.5%) multiple analysis (91.3%), and payback

(77.3%). Gut feel is used by 100% of respondents. Also, when evaluating an investment, nearly 96% of respondents claim that they assume the exit multiple is the same as the entry multiple.

Table 39. Investment Analysis Techniques Used

	Yes	No
Payback	77.3%	22.7%
Internal rate of return (IRR)	100.0%	0.0%
Discounted cash flow (DCF)	27.3%	72.7%
Multiple analysis	91.3%	8.7%
Market analysis	95.5%	4.5%
Option analysis	13.6%	86.4%
Decision trees	9.5%	90.5%
Simulation analysis (i.e., Monte Carlo methods)	4.5%	95.5%
Scenario analysis	73.9%	26.1%
Gut feel	100.0%	0.0%
Exit multiple is same as entry multiple	95.7%	4.3%

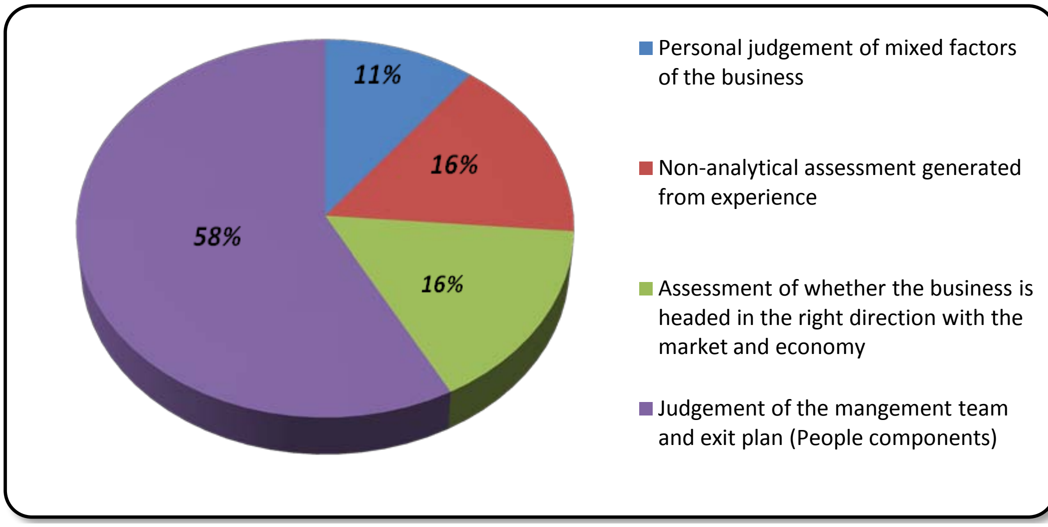
IRR was reported as the most important techniques used, followed by payback.

Table 40. Importance of Techniques

	Unimportant	Of little importance	Moderately important	Important	Very	Score (1 to 5)
Payback	4.2%	12.5%	16.7%	20.8%	45.8%	3.9
Internal rate of return (IRR)	0.0%	0.0%	3.8%	34.6%	61.5%	4.6
Discounted cash flow (DCF)	26.3%	31.6%	31.6%	5.3%	5.3%	2.3
Multiple analysis	0.0%	8.3%	29.2%	33.3%	29.2%	3.8
Market analysis	0.0%	12.5%	25.0%	45.8%	16.7%	3.7
Option analysis	53.3%	33.3%	13.3%	0.0%	0.0%	1.6
Decision trees	60.0%	20.0%	20.0%	0.0%	0.0%	1.6
Simulation analysis (i.e., Monte Carlo methods)	60.0%	26.7%	13.3%	0.0%	0.0%	1.5
Scenario analysis	14.3%	9.5%	14.3%	23.8%	38.1%	3.6
Gut feel	0.0%	8.0%	28.0%	40.0%	24.0%	3.8
Exit multiple is same as entry multiple	0.0%	16.7%	20.8%	33.3%	29.2%	3.8

Around 58% of respondents believe that gut feeling is the judgment of the management team and exit plan. Sixteen percent (16%) of respondents think of gut feeling as a type of nonanalytical assessment generated from experience and another 16% treat gut feeling as the assessment of whether the business is headed in the right direction with the market and economy.

Figure 31. Gut Feeling



Pricing and Returns

Respondents report a number of fees charged to the borrowers and fees include the following:

Table 41. Loan Fees

	1st quartile	Median	3rd quartile
Closing fee	2.0%	2.0%	2.5%
Modification fee	0.0%	0.0%	0.9%
Commitment fee	0.0%	0.3%	1.0%
Prepayment penalty (yr 1)	3.0%	5.0%	5.0%
Prepayment penalty (yr 2)	3.0%	3.5%	4.0%
Prepayment penalty (yr 3)	1.0%	3.0%	3.0%
Prepayment penalty (yr 4)	0.0%	2.0%	2.0%
Prepayment penalty (yr 5)	0.0%	0.8%	1.0%

Other fees included loan application fee.

For investments in sponsored deals over the past six months, respondents reported various rates and percentage of deals with warrants for loans from $1M to $50M.

Table 42. Sponsored Deals by Mezzanine Loan Size

	$1M	$5M	$10M	$25M	$50M
Cash interest rate (%)					
1st quartile	12.0%	12.0%	12.0%	12.0%	12.0%
Median	12.0%	12.0%	12.0%	12.0%	12.0%
3rd quartile	12.0%	13.0%	12.0%	13.0%	12.0%
PIK %					
1st quartile	1.0%	1.5%	3.0%	2.0%	3.0%
Median	2.0%	2.0%	3.3%	2.0%	3.0%
3rd quartile	3.0%	3.3%	4.0%	3.0%	3.0%
Total interest rate (%)					
1st quartile	12.0%	12.6%	15.1%	13.0%	15.0%
Median	14.0%	14.0%	16.0%	14.5%	15.0%
3rd quartile	14.0%	15.8%	16.0%	15.0%	15.0%
% of deals with warrants					
1st quartile	90.0%	80.0%	50.0%	5.0%	10.0%
Median	100.0%	90.0%	80.0%	25.0%	10.0%
3rd quartile	100.0%	100.0%	100.0%	80.0%	10.0%
Warrant coverage (% of total diluted equity)					
1st quartile	10.0%	5.0%	5.0%	4.3%	n.a.
Median	15.0%	8.0%	5.0%	5.0%	n.a.
3rd quartile	20.0%	10.0%	5.0%	5.3%	n.a.
Expected return kicker from warrants (%)					
1st quartile	6.0%	5.0%	3.0%	1.8%	n.a.
Median	9.0%	8.0%	4.0%	2.5%	n.a.
3rd quartile	10.0%	10.0%	10.0%	4.8%	n.a.

Respondents reported total model/expected returns (gross cash on cash pretax IRR) on new investments and minimum IRR and EBITDA multiples for investments from $1M to $25M.

Table 43. Returns on New Investment and Multiples

	$1M	$5M	$10M	$25M
Total model returns (gross cash on cash pretax IRR %) on new investments				
1st quartile	21.0%	19.0%	18.0%	15.0%
Median	22.0%	20.0%	18.0%	16.0%
3rd quartile	22.0%	21.0%	21.0%	17.0%
Total expected returns (gross cash on cash pretax IRR %) on new investments				
1st quartile	21.0%	18.0%	18.0%	17.0%
Median	22.0%	19.0%	20.0%	18.0%
3rd quartile	23.0%	21.0%	21.0%	18.0%
Minimum qualifying IRR for investment (%)				
1st quartile	18.0%	16.3%	15.3%	11.1%
Median	20.0%	18.0%	16.5%	13.8%
3rd quartile	20.0%	18.4%	18.0%	16.0%
Average funded debt leverage ratio (multiple of EBITDA)				
1st quartile	2.0	3.0	3.3	2.6
Median	3.0	3.3	3.4	3.5
3rd quartile	3.3	3.5	3.5	4.0
Maximum senior leverage ratio (multiple of EBITDA)				
1st quartile	2.1	2	2.3	2.6
Median	2.8	2.3	2.5	2.9
3rd quartile	3.0	2.5	2.9	3.1
Maximum total leverage ratio (multiple of EBITDA)				
1st quartile	2.5	3.3	3.5	4.2
Median	3.5	3.5	4.0	4.4
3rd quartile	4.0	3.8	4.0	4.5

Respondents reported on loan terms by size of investments.

Table 44. Loan Terms (in months) and Expected Exit Time

	$1M	$5M	$10M	$25M
Average loan terms (months)				
1st quartile	60	60	60	60
Median	60	60	60	60
3rd quartile	60	60	60	72
Expected time to exit (months)				
1st quartile	42	38	42	40
Median	60	48	48	48
3rd quartile	60	48	48	60

For non-sponsored deals, respondents reported expected rates and percentage of deals with warrants for loans from $1M to $50M.

Table 45. Nonsponsored Deals by Mezzanine Loan Size

	$1M	$5M	$10M	$25M
Cash interest rate %				
1st quartile	12.1%	12.0%	12.0%	12.0%
Median	12.5%	12.3%	12.0%	12.0%
3rd quartile	12.9%	13.0%	12.8%	12.0%
PIK %				
1st quartile	0.0%	1.8%	2.0%	2.0%
Median	0.0%	2.0%	2.0%	2.0%
3rd quartile	0.0%	3.1%	3.5%	2.0%
Total interest rate (%)				
1st quartile	12.5%	14.0%	14.0%	14.0%
Median	12.8%	14.0%	14.8%	14.0%
3rd quartile	13.8%	16.0%	16.0%	14.0%
% of deals with warrants				
1st quartile	81.3%	90.0%	98.8%	n.a.
Median	100.0%	90.0%	75.0%	n.a.
3rd quartile	100.0%	100.0%	100.0%	n.a.
Warrant coverage (% of total diluted equity)				
1st quartile	8.6%	8.0%	5.3%	7.0%
Median	16.0%	10.0%	8.8%	7.0%
3rd quartile	20.0%	10.0%	10.0%	7.0%
Expected return kicker from warrants (%)				
1st quartile	10.0%	5.0%	4.0%	3.0%
Median	10.0%	6.0%	5.0%	3.0%

3rd quartile	12.3%	10.0%	5.8%	3.0%
Total model return (gross cash on cash pretax IRR) on new investments				
1st quartile	23%	20%	20%	19%
Median	24%	21%	21%	19%
3rd quartile	25%	23%	22%	19%
Total expected return (gross cash on cash pretax IRR) on new investments				
1st quartile	21%	18%	20%	19%
Median	22%	20%	20%	19%
3rd quartile	23%	22%	21%	19%
Minimum qualifying IRR for investment (%)				
1st quartile	19%	18%	16%	18%
Median	21%	18%	18%	18%
3rd quartile	22%	20%	19%	18%
Average funded debt leverage ratio (multiple of EBITDA)				
1st quartile	2.1	3.0	2.5	n.a.
Median	2.6	3.0	3.0	n.a.
3rd quartile	3.0	3.2	3.5	n.a.
Maximum senior leverage ratio (multiple of EBITDA)				
1st quartile	1.5	2.0	1.6	2.0
Median	2.3	2.0	2.1	2.0
3rd quartile	3.0	2.5	2.7	2.0
Maximum total leverage ratio (multiple of EBITDA)				
1st quartile	2.4	3.0	3.5	3.5
Median	3.3	3.5	3.5	3.5
3rd quartile	3.9	3.5	3.9	3.5
Average loan term (months)				

1st quartile	60	60	60	60
Median	60	60	60	60
3rd quartile	60	60	60	60
Expected time to exit (months)				
1st quartile	44	44	41	60
Median	54	48	48	60
3rd quartile	60	48	48	60

Industry and Economic Outlook

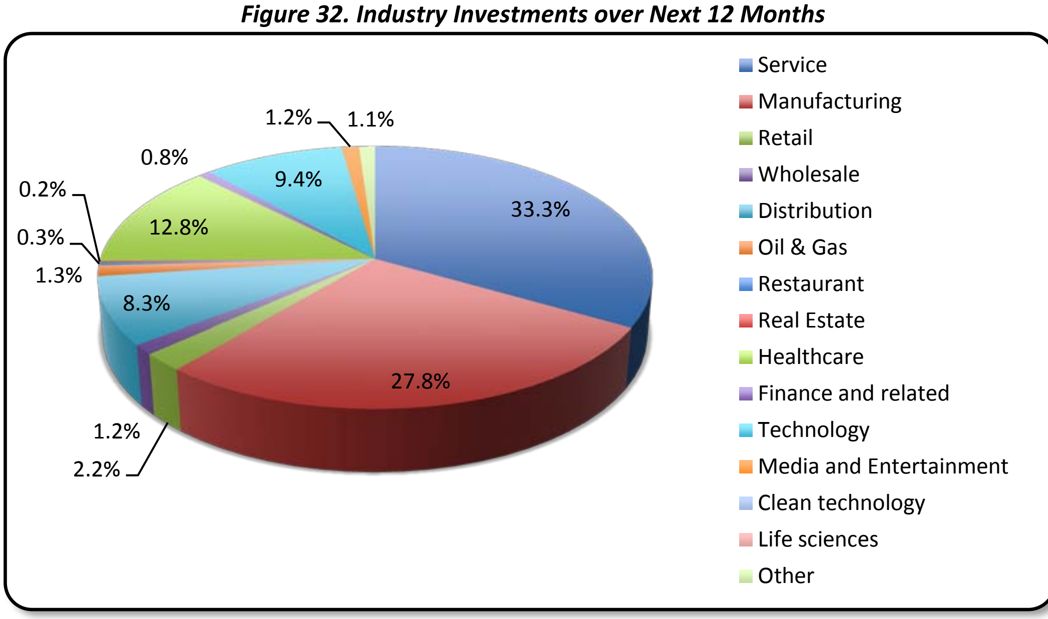
Around 87.5% of respondents believe that the prime and LIBOR rates will increase over the next 12 months and 47.8% reported that restrictiveness of mezzanine investing will decrease.

Table 46. 12-Month Predictions

	Increase	Decrease	Stay the same
Prime rate	87.5%	0.0%	12.5%
LIBOR rate	87.5%	0.0%	12.5%
Credit spreads	17.4%	56.5%	26.1%
Interest rates (all-in) for mezzanine loans	12.5%	29.2%	58.3%
Demand for mezzanine loans	70.8%	8.3%	20.8%
Restrictiveness of mezzanine lending in general	8.7%	47.8%	43.5%

Those industries, in which respondents expect to make investments over the next 12 months include service (33.3%), manufacturing (27.8%) and others as reported.

Figure 32. Industry Investments over Next 12 Months



Pretax returns (gross) to limited partners for the prior 12 months were 19.6% (median), while returns for the next 12 months are expected at 20.0%. Pretax returns (net) to limited partners for the prior 12 months were 14% (median), while net returns expected for the next 12 months are 14.5%.

Table 47. Returns to Limited Partners

	Gross returns last 12 mos. (historical)	Gross returns next 12 mos. (expected)	Net returns last 12 mos. (historical)	Net returns next 12 mos. (expected)
1st quartile	16.3%	18.0%	12.5%	12.0%
Median	19.6%	20.0%	14.0%	14.5%
3rd quartile	20.8%	21.5%	18.0%	18.0%

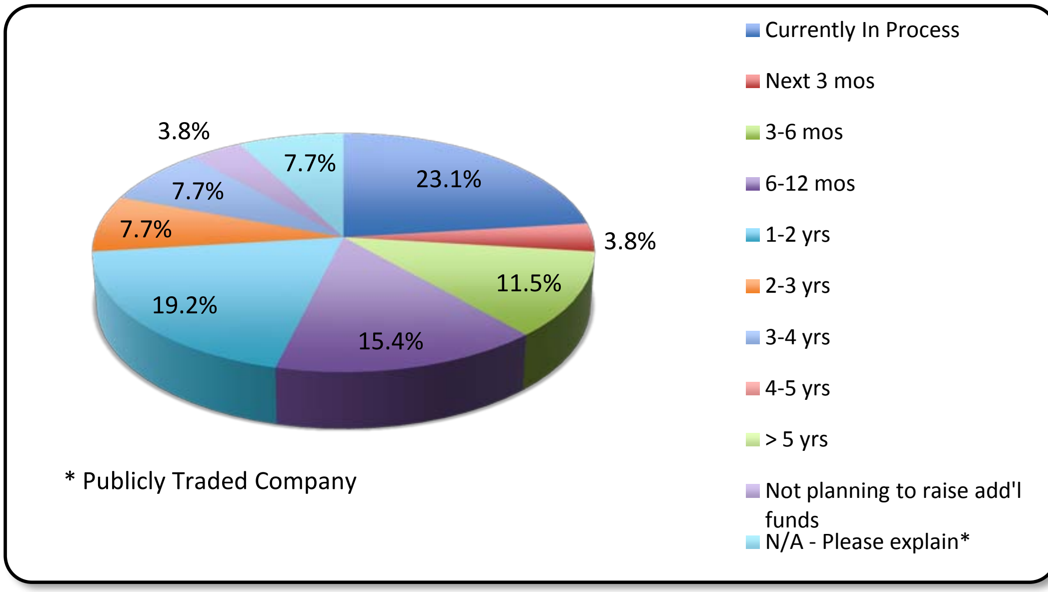
We asked respondents to report various operational and industry items as compared to those items six months ago. Significant increases were reported for: senior debt multiples, investments being made by competitor funds, credit quality of borrows, and total leverage multiples. Significant declines were reported for size of interest rate spreads and investment loss rates.

Table 48. General Operational Assessment Today Versus Six Months Ago

	Increased	Decreased	Stayed about the same
Number of business plans received	45.8%	8.3%	45.8%
Credit quality of borrowers applying for investment	52.2%	8.7%	39.1%
Number of investments being made	27.3%	27.3%	45.5%
Average investment size	34.8%	4.3%	60.9%
Appetite for risk	30.4%	8.7%	60.9%
Deal multiples	47.8%	8.7%	43.5%
Funded debt multiples	52.2%	0.0%	47.8%
Senior debt multiples	65.2%	13.0%	21.7%
Total leverage multiples	52.2%	13.0%	34.8%
Loan maturity (months)	13.0%	8.7%	78.3%
Time to exit deals	26.1%	13.0%	60.9%
Size of interest rate spreads (pricing)	18.2%	40.9%	40.9%
Loan fees	8.7%	17.4%	73.9%
Number of financial covenants (per loan)	4.3%	8.7%	87.0%
Tightness of financial covenants	8.7%	21.7%	69.6%
Warrant coverage	17.4%	26.1%	56.5%
PIK features	21.7%	8.7%	69.6%
Investment loss rates	13.6%	36.4%	50.0%
Number of investments being made by competitor funds	60.9%	8.7%	30.4%
Prospects for raising additional funds	26.1%	8.7%	65.2%
Power of LPs	17.4%	0.0%	82.6%
Communication with LPs	26.1%	4.3%	69.6%
Size of mezzanine industry	47.8%	17.4%	34.8%

Over half (53.8%) of respondents report the intent to raise additional funds in the next 12 months, while 19.2% are planning for a capital raise in one to two years. Only 3.8% of funds are not planning to raise additional funds in the foreseeable future.

Figure 33. Plans to Raise Additional Funds



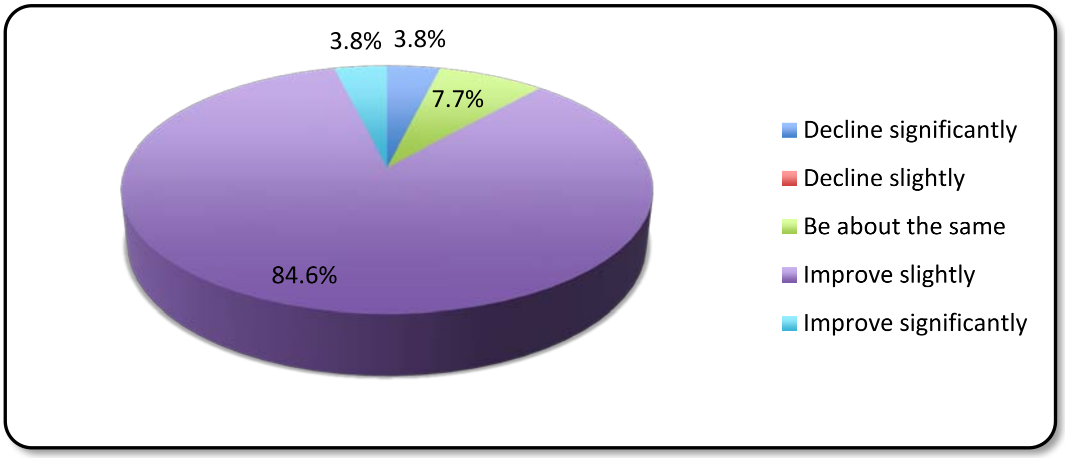
Respondents reported their outlooks for fundraising efforts over the next 12 months. The data for 1st quartile, medians, and 3rd quartile are presented below.

Table 49. Fundraising Efforts Predictions (Next 12 months)

	1st quartile	Median	3rd quartile
What is your total fund size goal? ($ millions)	$75M	$150M	$250M
What is your total estimated time (in months) to raise the fund?	12	15	18
What is your planned preferred return to LPs?	7.0%	8.0%	12.0%
What is your planned GP contribution (%)?	0.4%	1.0%	1.3%
What is your planned management fee? (%)	2.0%	2.0%	2.0%
How many investments do you plan to make with the new fund?	17	20	21
What is your planned carried interest? (%)	20.0%	20.0%	20.0%

Approximately 84.6% of respondents believe business conditions over the next 12 months will improve slightly while 3.8% believe they will decline significantly.

Figure 34. Business Conditions over the Next 12 Months



Expectation for the overall gross domestic product growth over the next year is 1.7% and for the private company equivalent growth is 2.3%.

Table 50. GDP Forecast (12 month)

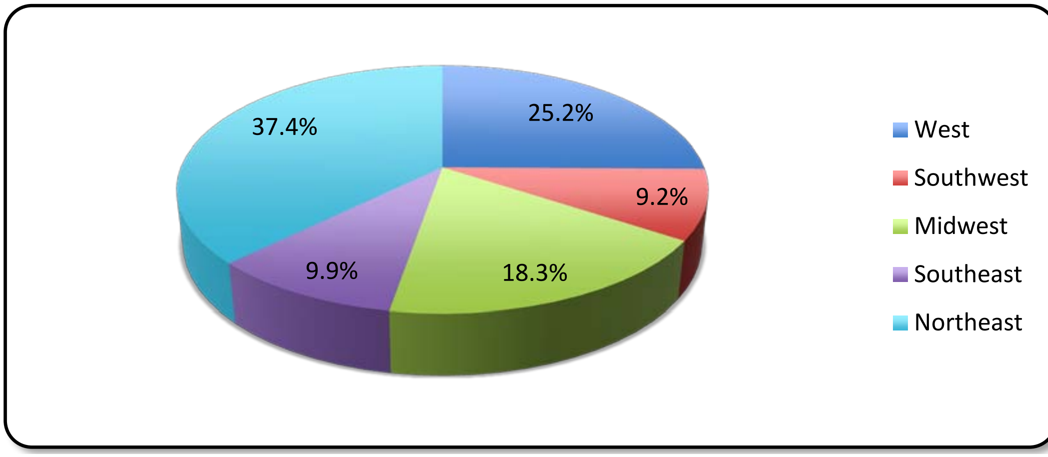
	Expected GDP change (%)
Overall GDP	1.7%
Privately-held company equivalent GDP	2.3%

PRIVATE EQUITY GROUPS SURVEY INFORMATION

Profile of Respondents

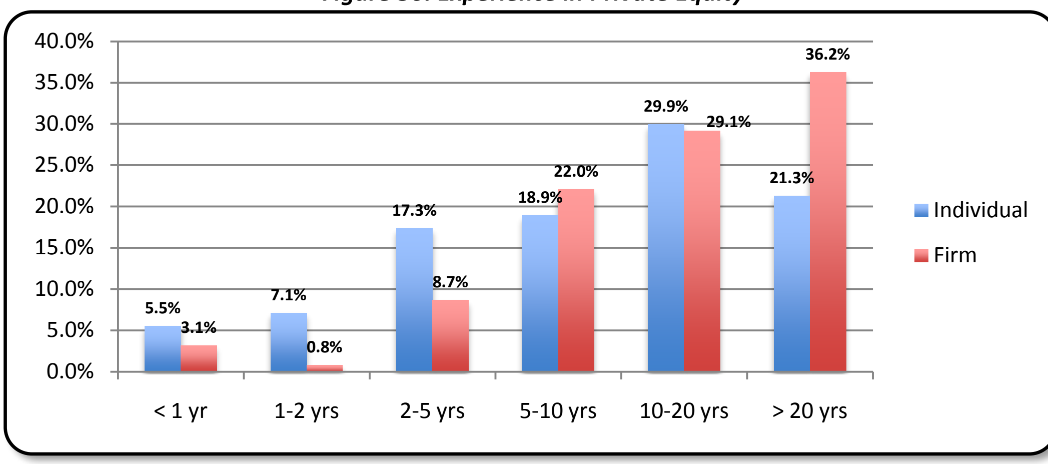
There were 177 participants who responded to the Private Equity Groups Survey. Around 37.4% of respondents reported that their businesses are located in the northeast, and 25.2% reported their business location in the west.

Figure 35. Location of Offices



Around 51.2% of respondents reported over 10 years of experience in private equity individually, and 65.3% of firms have more than 10 years experience in private equity.

Figure 36. Experience in Private Equity



Operational and Investment Characteristics

Around 25.0% of respondents prefer new investments to be in the $2M-$5M range.

Table 51. Investment Amounts for New Investments

	Minimum	Maximum	Preferred
< $1M	18.4%	0.0%	3.6%
$1M-$2M	16.3%	3.8%	8.9%
$2M-$5M	16.3%	7.7%	25.0%
$5M-$10M	22.4%	23.1%	19.6%
$10M-$20M	14.3%	19.2%	19.6%
$20M-$50M	10.2%	28.8%	14.3%
$50M-$100M	2.0%	7.7%	5.4%
$100M-$250M	0.0%	1.9%	1.8%
$250M-$500M	0.0%	3.8%	1.8%
> $500M	0.0%	3.8%	0.0%

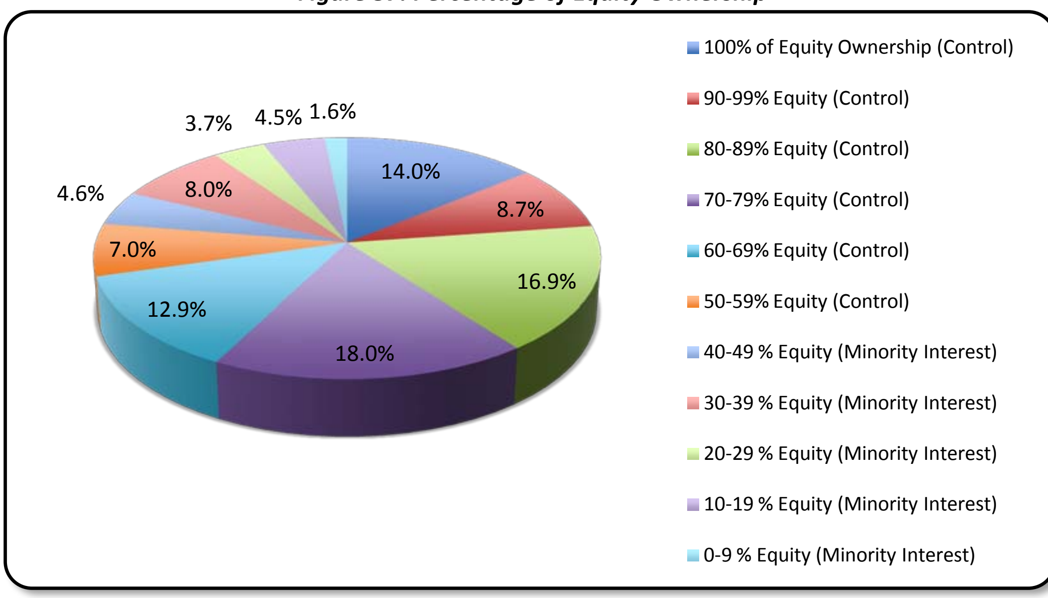
When considering investing in a company, respondents report their expectations for minimum required growth rates for revenues and EBITDA over the next five years. The median response for expected growth rates for revenues and EBITDA are 10% and 15%, respectively.

Table 52. Growth Rates over the Next Five Years

	1st quartile	Median	3rd quartile
Revenue growth rate (minimum)	5.0%	5.0%	10.0%
Revenue growth rate (expected)	9.0%	10.0%	15.0%
EBITDA growth rate (minimum)	7.0%	10.0%	10.0%
EBITDA growth rate (expected)	10.0%	15.0%	19.3%

Approximately 14% of investments are 100% equity ownership while 18% are 70-79% equity ownership, and 16.9% are 80-89% equity ownership.

Figure 37. Percentage of Equity Ownership



Respondents were asked whether they would invest in a non-control equity interest with and without investor protections (such as shareholder agreements, buy/sell agreements, and employment agreements). Approximately 61.1% reported that they would invest with investor protections but none of the respondents were interested in investing without protections.

Table 53. Minority Interest Investment Receptivity

	Yes	No
With investor protections (shareholder agreement, buy/sell, and employment agreements)	61.1%	38.9%
Without investor protections	0.0%	100.0%

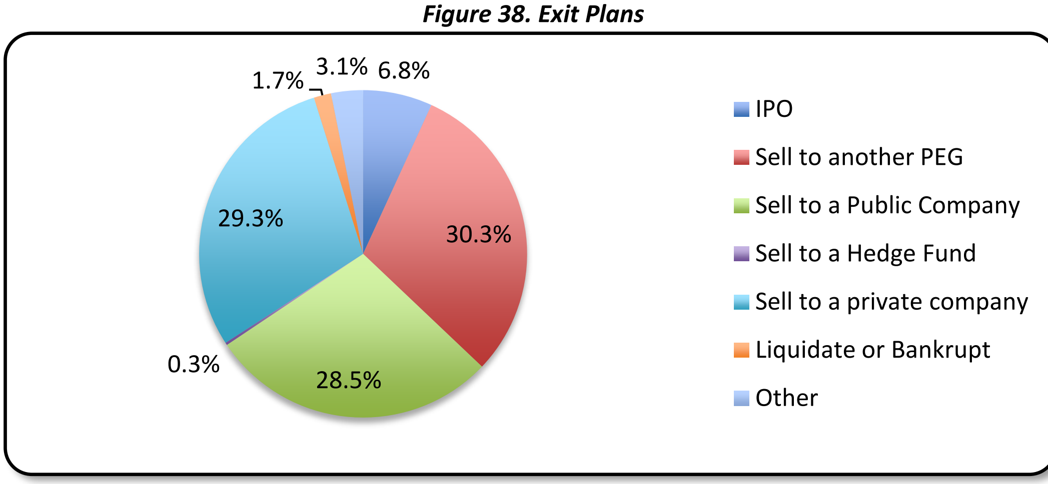
For those who indicated they would invest with investor protections, the median discount from pro rata equity value was 15%.

Table 54. Discount from Pro Rata for Investing in Minority Interests

Size of discount from pro rata (%)	
0%	1st quartile
15.0%	Median
20.0%	3rd quartile

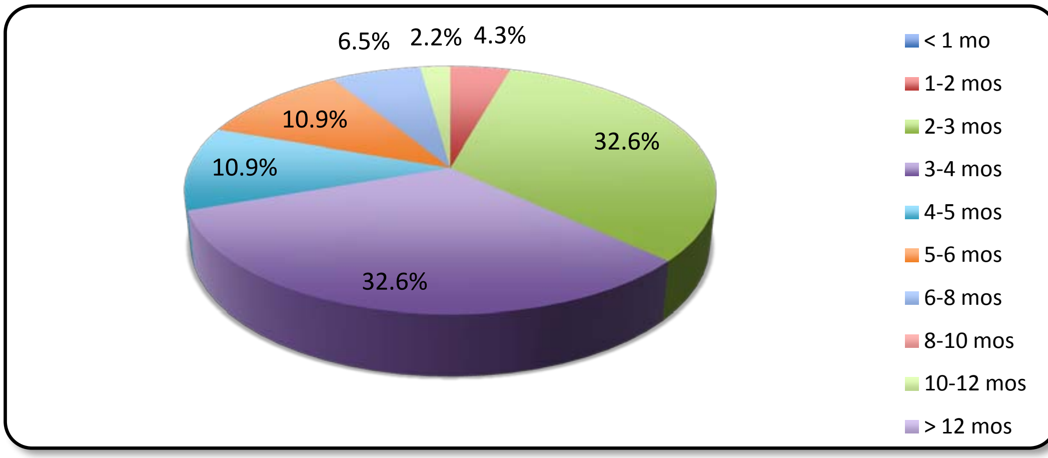
When asked about their exit plans for current portfolios across all funds, 30.3% of respondents plan to sell to another private equity group, 29.3% plan to sell to a private company and 28.5% plan to sell to a public company.

Figure 38. Exit Plans



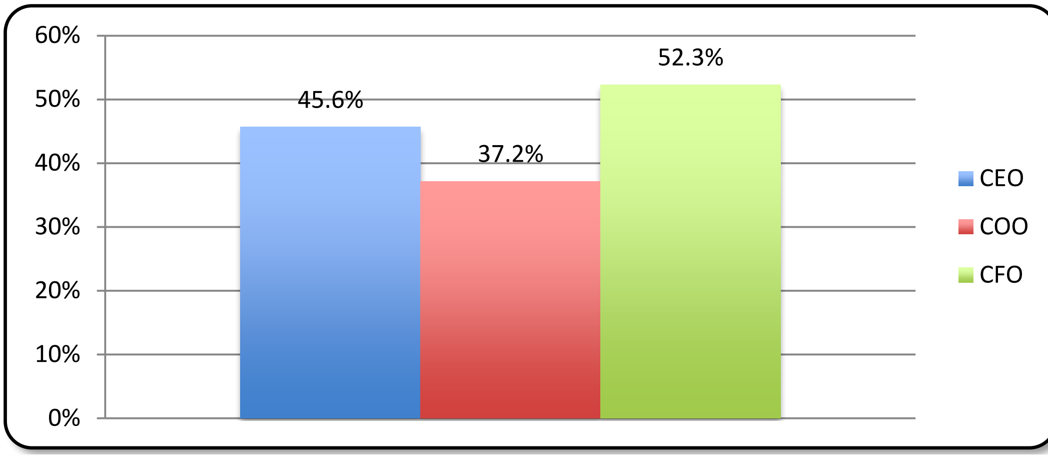
Approximately 32.6% of respondents reported an average time of three to four months to close a deal after the letter of intent was signed. Another 32.6% of respondents reported an average time of two to three months to close a deal after the letter of intent was signed.

Figure 39. Time to Close Deal after LOI is Signed



Key executives are frequently replaced when private equity funds acquire a company. Respondents report a change of CFO 52.3% of the time and the change of CEO approximately 45.6% of the time.

Figure 40. Management Changes



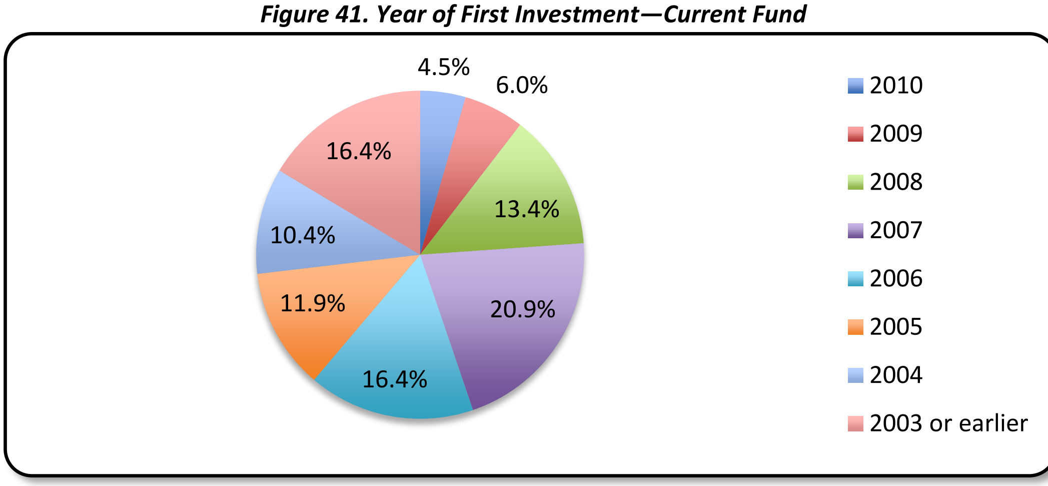
We asked respondents to report various operational and industry items as compared to those same items six months ago. Significant increases were reported in the time to exit deals. Significant declines were reported for the following categories: deal multiples, size of private equity industry, appetite for risk, number of investments being made by competitor funds, and prospects for raising additional funds.

Table 55. Conditions Now Versus Six Months Ago

	Increased	Decreased	Stayed about the same
Number of business plans submitted	61.4%	15.9%	22.7%
Quality of investee companies	65.1%	16.3%	18.6%
Number of investments being made	27.3%	25.0%	47.7%
Average investment size	25.0%	6.8%	68.2%
Leverage (multiple)	36.4%	29.5%	34.1%
Deal multiples	25.0%	27.3%	47.7%
Percent of stock option plans to entire capitalization	2.4%	7.1%	90.5%
Time to exit deals	42.9%	7.1%	50.0%
Size of private equity industry	7.3%	65.9%	26.8%
Carried interest	2.3%	15.9%	81.8%
Power of LPs	56.8%	0.0%	43.2%
Communication with LPs	59.1%	0.0%	40.9%
Condition of existing portfolio	70.5%	15.9%	13.6%
Appetite for risk	22.7%	20.5%	56.8%
Number of investments being made by competitor funds	39.0%	22.0%	39.0%
Offshore flow of capital	17.5%	17.5%	65.0%
Prospects for raising additional funds	36.4%	40.9%	22.7%

When asked about vintage years for their current funds, 20.9% of respondents reported making their first investment in 2007 and 4.5% made their first investment in 2010.

Figure 41. Year of First Investment—Current Fund



Respondents were asked about their newest fund, the size of the fund, number of investments made so far, targeted number of investments, and average gross pretax IRR on exits.

Table 56. Statistics for Newest Fund

	1st quartile	Median	3rd quartile
Newest fund size ($M)	$53.8M	$107.5M	$266.3M
GP %	1.0%	4.5%	8.3%
Preferred return to LPs (%)	8%	8%	8%
Carried interest (%)	20%	20%	20%
Management fee (%)	2%	2%	2%
Number of investments made so far	3	5	7
Reserve %	0%	7.1%	14.3%
Targeted number of total investments	6	8.5	11.3
Average gross pretax IRR on current fund exits (%)	18.6%	30%	40%
Average revenue size of investee company at time of investment ($ millions)	$12M	$25M	$55M

Respondents were asked about their firms' current funds and investments.

Table 57. Statistics for Current Fund

	1st quartile	Median	3rd quartile
Total number of funds in firm	1	2	2
Number of general partners in firm	3	4	5
Number of non-GP Employees	3	7	10
Number of boards on which a partner sits	2	3	4
Target gross cash on cash IRR (pretax) for LPs on new investments	25%	30%	30%
Target net cash on cash IRR (pretax) for limited partners on new investments	20%	22%	25%
Firm's average cash on cash IRR (gross) for portfolio companies over the last five years	19%	30%	35%

Respondents were asked to report the number of investments made in the last six months.

Table 58. Investments Made in the Last Six Months

	Number of Investments
1st quartile	1
Median	2
3rd quartile	3

Respondents were asked to report the number of investments they expect to make in the next 12 months.

Table 59. Investments Expected to Make in Next 12 Months

	Number of Investments
1st quartile	3
Median	4
3rd quartile	4

Respondents were asked to report the total debt as a percentage of purchase prices.

Table 60. Investee Company EBITDA (buyout transactions)

	$1M	$5M	$10M	$25M	$50M	$100M
1st quartile	27.5%	35.0%	37.3%	30.0%	50.0%	40.0%
Median	50.0%	50.0%	52.5%	50.0%	50.0%	50.0%
3rd quartile	60.0%	60.0%	60.0%	60.0%	60.0%	65.0%

Respondents reported the percentage of equity outstanding purchased in all their deals.

Table 61. Buyout Transactions – Percentage of all Equity Outstanding

	$1M	$5M	$10M	$25M	$50M	$100M
1st quartile	60.0%	60.0%	72.5%	65.0%	47.5%	51.3%
Median	75.0%	80.0%	80.0%	70.0%	67.5%	62.5%
3rd quartile	100.0%	95.0%	92.5%	85.0%	88.8%	73.8%

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

Table 62. Average Deal Multiple Paid

	$1M	$5M	$10M	$25M	$50M
1st quartile	3.5	4.5	4.9	4.9	5
Median	4	5	5.5	6.3	7.1
3rd quartile	4.3	5.5	6	7.4	8

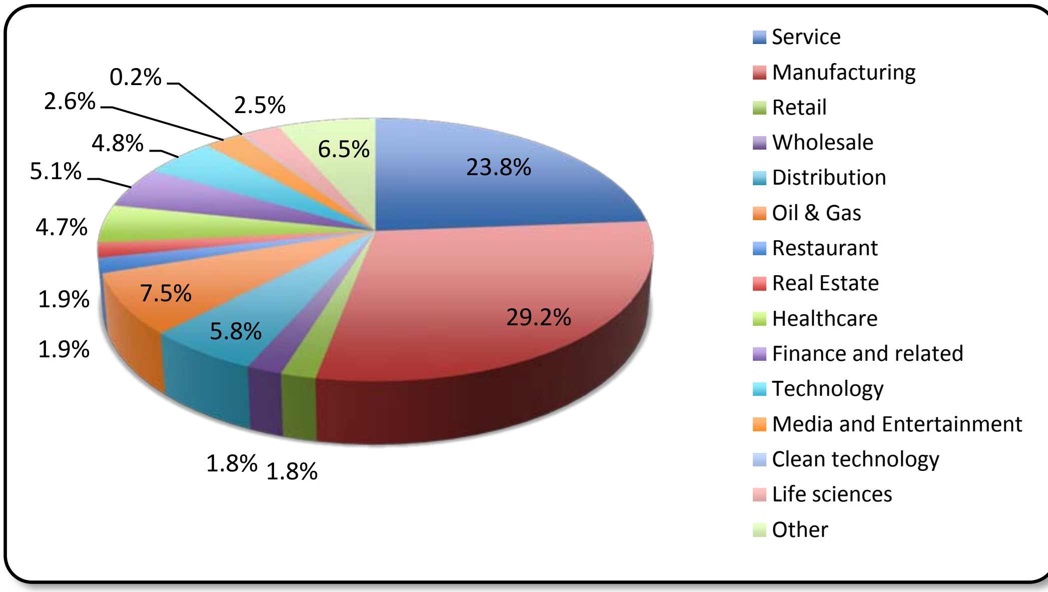
Respondents reported statistics on buyout transactions, including the total model returns, expected returns, minimum qualifying IRR, and exit time.

Table 63. Statistics on Buyout Transactions

	$1M	$5M	$10M	$25M	$50M	$100M
Total model returns (gross cash on cash pretax IRR) on new investments (%)						
1st quartile	30%	25%	25%	25%	25%	21%
Median	30%	30%	25%	25%	25%	22%
3rd quartile	35%	35%	30%	30%	29%	23%
Total expected returns (gross cash on cash pretax IRR) on new investments (%)						
1st quartile	27%	25%	21%	23%	25%	17%
Median	30%	30%	25%	25%	25%	20%
3rd quartile	31%	30%	30%	27%	29%	22%
Minimum qualifying IRR for investment (%)						
1st quartile	20%	20%	20%	20%	20%	10%
Median	25%	25%	20%	20%	20%	20%
3rd quartile	28%	25%	20%	25%	25%	22%
Modeled time to exit (months)						
1st quartile	60	60	60	48	48	36
Median	60	60	60	48	48	48
3rd quartile	60	60	60	60	60	54
Expected time to exit (months)						
1st quartile	48	48	48	48	42	30
Median	60	60	60	48	48	36
3rd quartile	71	60	60	72	60	54

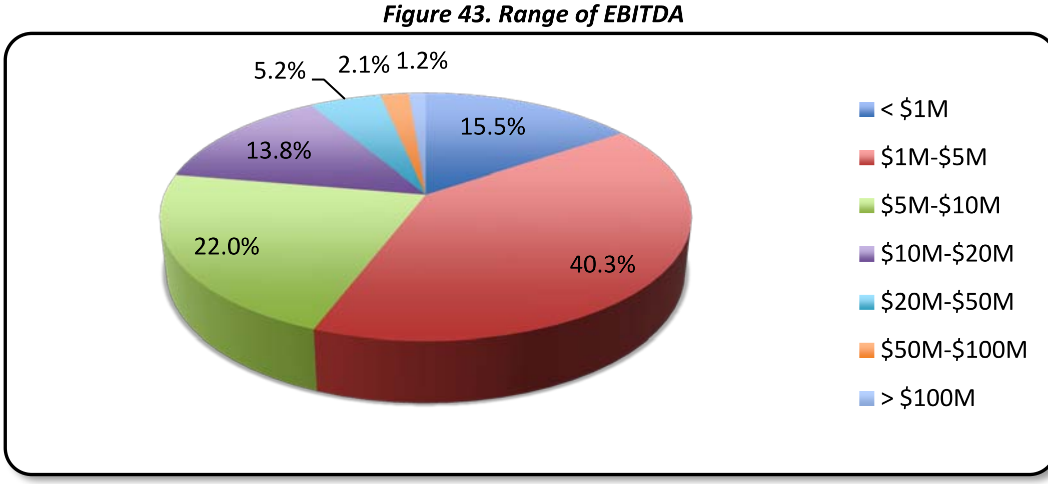
Respondents make investments in a variety of industries. Among all industries, manufacturing (29.2%) and service (23.8%) have the largest concentrations.

Figure 42. Industries Currently Represented by Portfolio Companies



Respondents reported 40.3% of companies had EBITDA in the $1M-$5M range at time of investment.

Figure 43. Range of EBITDA



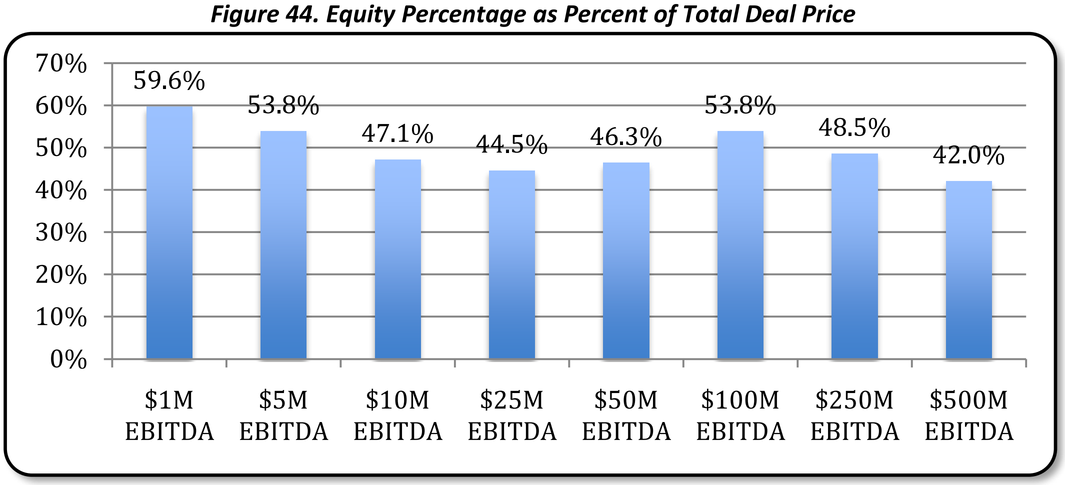
Respondents reported current deal multiples for service, manufacturing, retail, wholesale, and distribution.

Table 64. Deal Multiples

	$1M EBITDA	$5M EBITDA	$10M EBITDA	$25M EBITDA	$50M EBITDA	$100M EBITDA
Service						
1st quartile	3.6	5	5.3	5.5	6.5	6.5
Median	4	5	6	7	9	9
3rd quartile	4	5.6	6.8	8	9	9.5
Manufacturing						
1st quartile	3.5	5	5	6	6.5	6.8
Median	4	5	6	6	7	7.5
3rd quartile	4	5	6	7	7.5	8.3
Retail						
1st quartile	3	4	4.8	5.5	7.5	n.a.
Median	4	4.5	5.5	7	8	n.a.
3rd quartile	4	5	6.3	8	8.5	n.a.
Wholesale						
1st quartile	3.5	4.4	4.6	4.8	n.a.	n.a.
Median	4	5	5	6	n.a.	n.a.
3rd quartile	4	5	5.3	6.5	n.a.	n.a.
Distribution						
1st quartile	3	4.3	5	5	4.5	4.5
Median	3.8	5	5	5	6	6
3rd quartile	4	6	6.1	6.5	7.5	7.5

Respondents reported the amount of equity they have to put into a deal to get it done in the current economic environment.

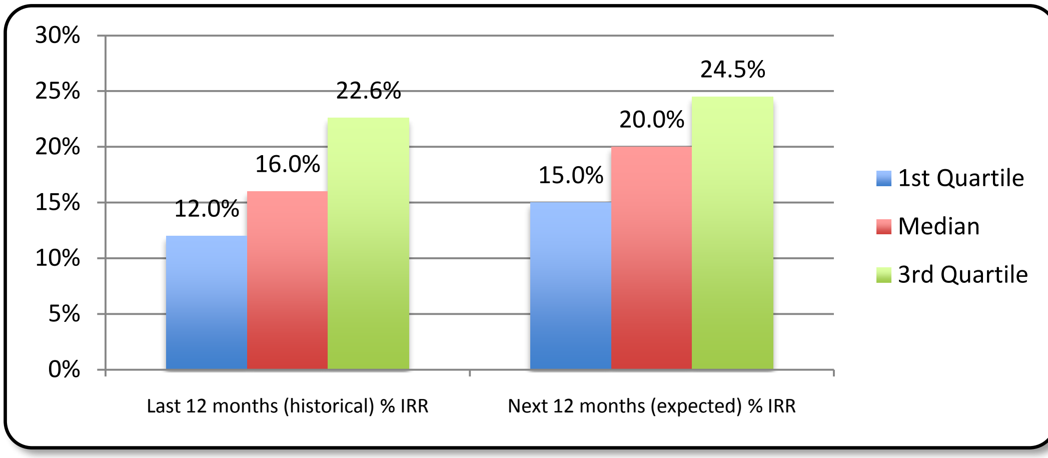
Figure 44. Equity Percentage as Percent of Total Deal Price



Returns

Respondents reported pretax returns to limited partners in the last 12 months, and expected returns to limited partners for the next 12 months.

Figure 45. Pretax Returns to Limited Partners



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

Table 65. Activities to Close One Deal

	Business plans or memorandums are reviewed	Meetings with principals are conducted	Proposal letters or term sheets are issued	Letters of intent are signed
1st quartile	50	10	4	1
Median	100	15	6	2
3rd quartile	125	30	15	3

A variety of investment analysis techniques are employed to evaluate potential investments. The techniques used most frequently include IRR (100%), multiple analysis (95.1%), and market analysis (87.2%). Gut feel is used by 82.4% of respondents. Also, when evaluating an investment, 85% indicate that they assume the exit multiple is the same as the entry multiple.

Table 66. Investment Analysis Techniques Used

Payback	63.2%
Internal rate of return (IRR)	100.0%
Discounted cash flow (DCF)	68.3%
Multiple analysis	95.1%
Market analysis	87.2%
Option analysis	16.1%
Decision trees	22.6%
Simulation analysis (i.e., Monte Carlo methods)	12.9%
Scenario analysis	75.7%
Gut feel	82.4%
Exit multiple is same as entry multiple	85.0%

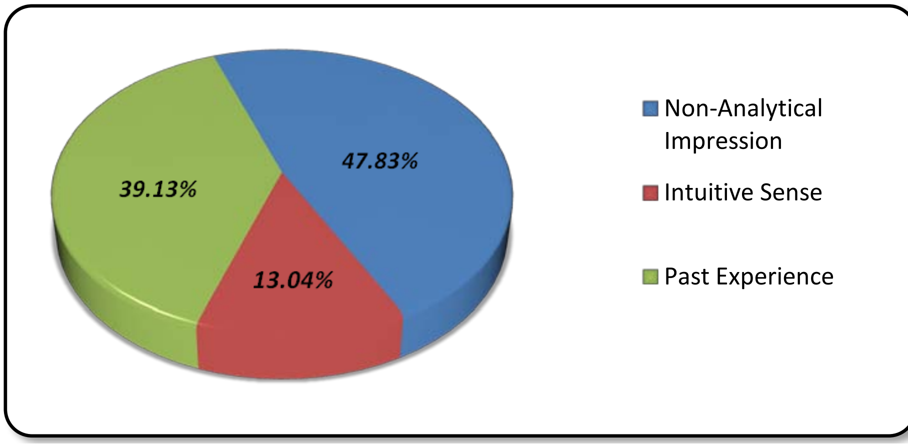
Respondents reported IRR as the most important analysis technique.

Table 67. Importance of Investment Analysis Techniques

	Unimportant	Of little Importance	Moderately Important	Important	Very important	Score (0-4)
Payback	6.9%	13.8%	24.1%	27.6%	27.6%	2.6
Internal rate of return (IRR)	0.0%	0.0%	7.1%	42.9%	50.0%	3.4
Discounted cash flow (DCF)	0.0%	20.0%	20.0%	33.3%	26.7%	2.7
Multiple analysis	0.0%	2.6%	25.6%	43.6%	28.2%	3.0
Market analysis	0.0%	0.0%	27.3%	45.5%	27.3%	3.0
Option analysis	16.7%	33.3%	16.7%	33.3%	0.0%	1.7
Decision trees	20.0%	20.0%	40.0%	13.3%	6.7%	1.7
Simulation analysis (i.e., Monte Carlo methods)	18.2%	36.4%	27.3%	9.1%	9.1%	1.6
Scenario analysis	0.0%	3.2%	22.6%	38.7%	35.5%	3.1
Gut feel	0.0%	16.1%	32.3%	32.3%	19.4%	2.6
Exit multiple is same as entry multiple	2.8%	5.6%	30.6%	33.3%	27.8%	2.8

Around 47.8% of respondents think that gut feeling is based on a nonanalytical impression and 39.1% believe that gut feeling is based on past experience. Another 13.0% of respondents think gut feeling is based on an individual's intuitive sense.

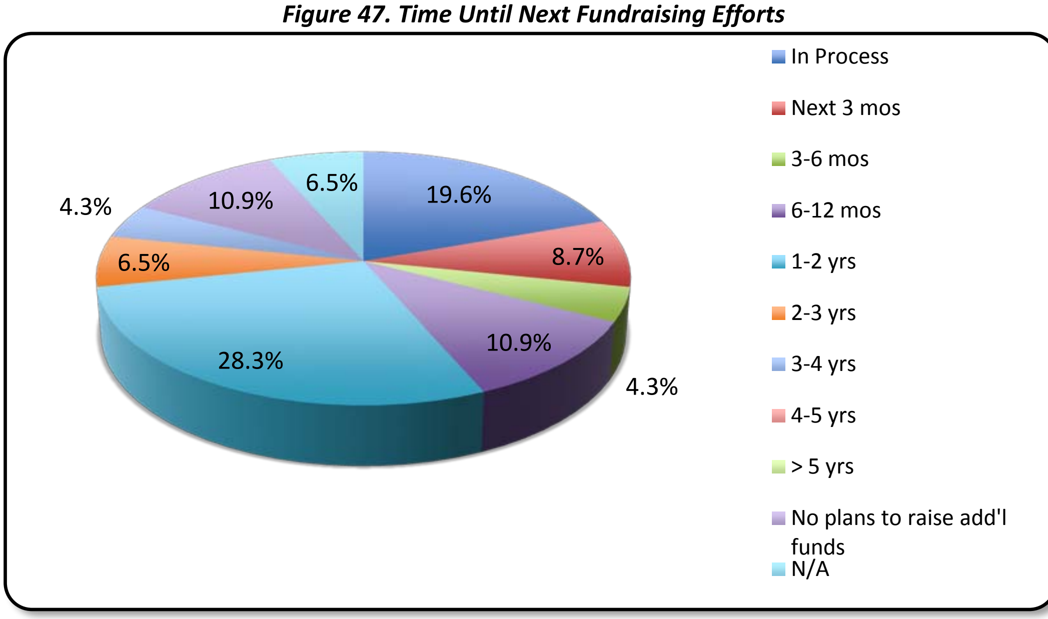
Figure 46. Gut Feeling



Industry and Economic Outlook

Approximately 10.9% of respondents reported no plans to raise additional funds while 8.7% report plans for a fundraising effort in the next three months. Another 4.3% report commencing a fundraising effort in the next three to six months and 10.9% indicate an attempt in six to 12 months. Also, 28.3% report their intent to launch a fundraising campaign in the next one to two years.

Figure 47. Time Until Next Fundraising Efforts



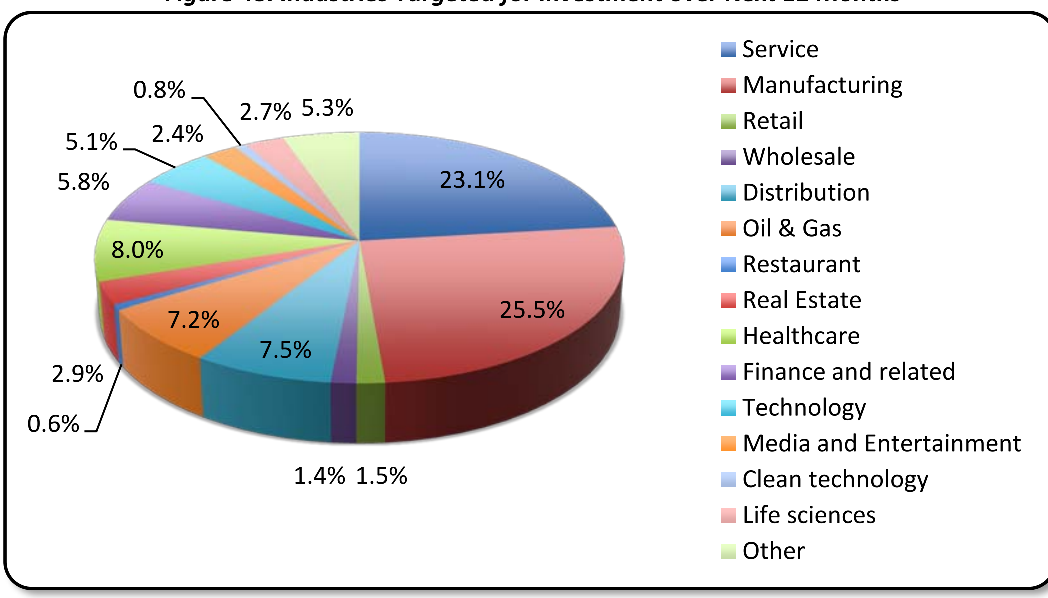
Respondents reported their fundraising efforts over the next 12 months, including fund size goal, estimated time to raise funds, management fees, and placement agent fees.

Table 68. Fundraising Efforts over the Next 12 Months

	1st quartile	Median	3rd quartile
Total fund size goal ($ millions)	$75M	$200M	$250M
Estimated time to raise funds (in months)	9	12	18
Planned preferred return to LPs	8.0%	8.0%	8.0%
Planned GP contribution (%)	2.0%	3.0%	7.3%
Planned management fee (%)	2.0%	2.0%	2.0%
Planned carried interest (%)	20.0%	20.0%	20.0%
Number of investments planned	6	10	12
Placement agent fee %	1.4%	1.9%	2.0%

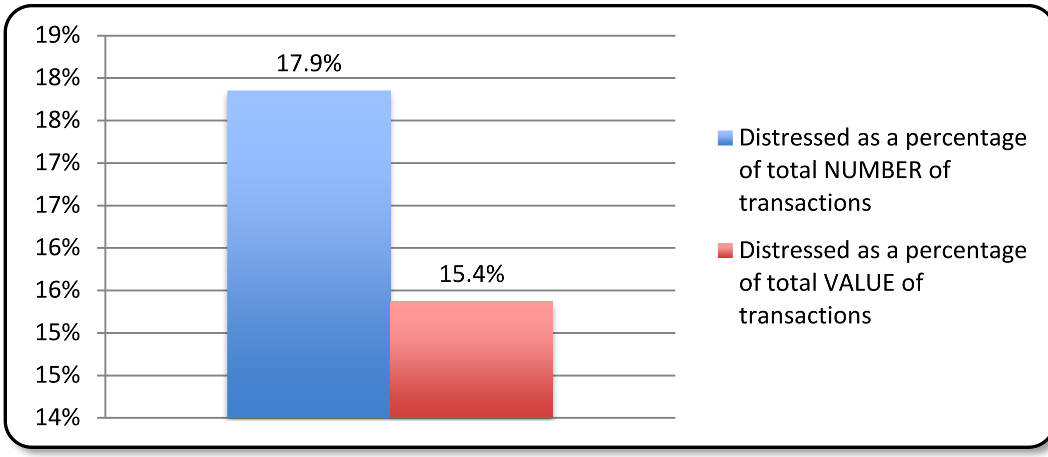
Service (23.1%) and manufacturing (25.5%) companies are likely to be the targets of private equity firm investment over the next 12 months, followed by health care, distribution, and oil and gas.

Figure 48. Industries Targeted for Investment over Next 12 Months



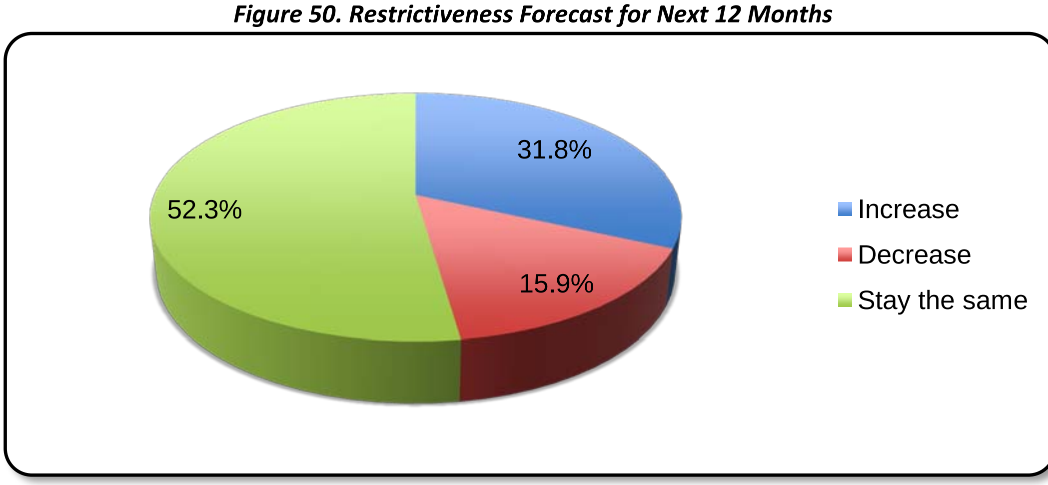
Respondents estimated that 17.9% of total assets purchased over the next 12 months will be distressed.

Figure 49. Percentage of Distressed Asset Purchases over the Next 12 Months



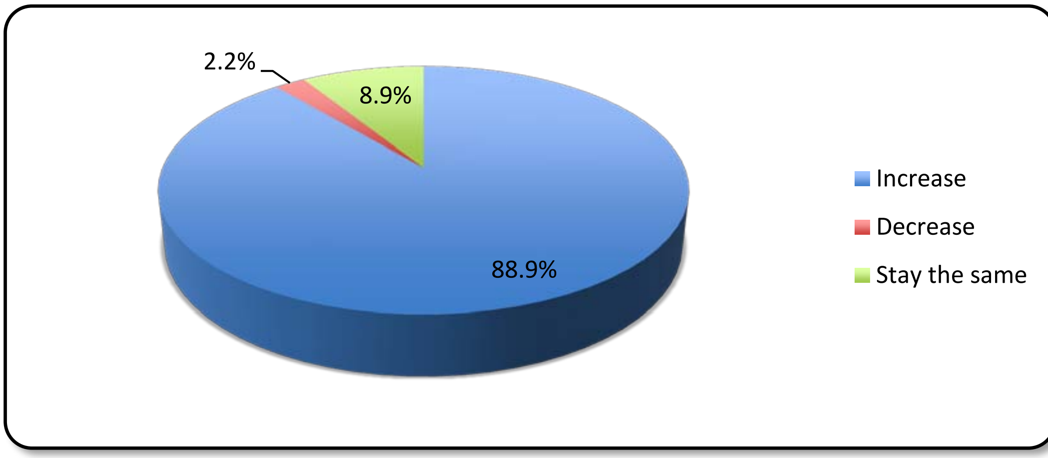
Around 31.8% of respondents report an expectation of more restrictive investment over the next 12 months, while 52.3% believe the restrictiveness will be approximately the same. Only 15.9% report expectation for less restrictive investment.

Figure 50. Restrictiveness Forecast for Next 12 Months



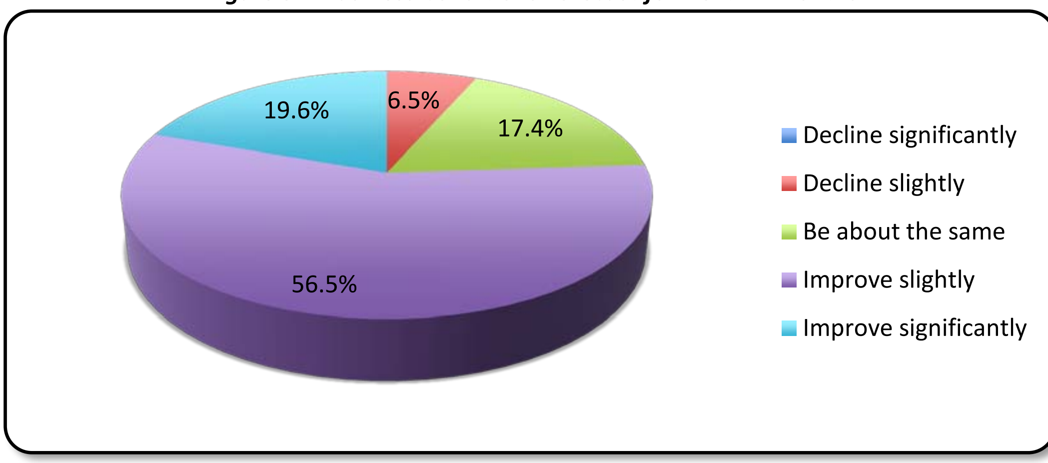
Around 88.9% of respondents report an expectation of an increase in the demand for private equity over the next 12 months, while only 2.2% believe that the demand will decrease. About 8.9% believe that the demand will remain the same.

Figure 51. Demand for Private Equity



Approximately 56.5% of respondents believe that business conditions over the next 12 months will improve slightly, 19.6% believe that business conditions will improve significantly, and 17.4% expect similar conditions.

Figure 52. Business Conditions Forecast for Next 12 Months



Overall gross domestic product is expected to grow by 2.2% for the next 12 months and the private company equivalent will grow by approximately 3.4%.

Table 69. GDP Forecast for Next 12 Months

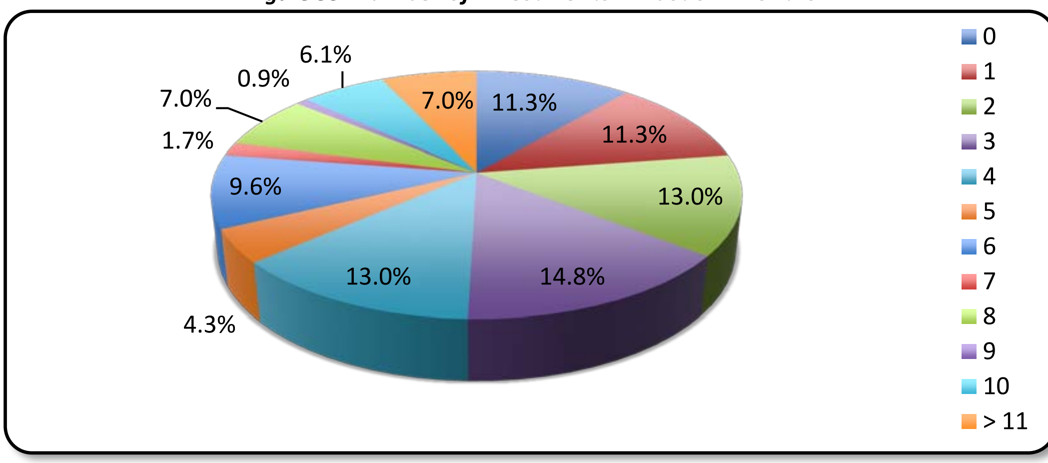
	Expected GDP change (%)
Overall GDP	2.2%
Privately-held company equivalent GDP	3.4%

VENTURE CAPITAL SURVEY INFORMATION

Profile of Respondents

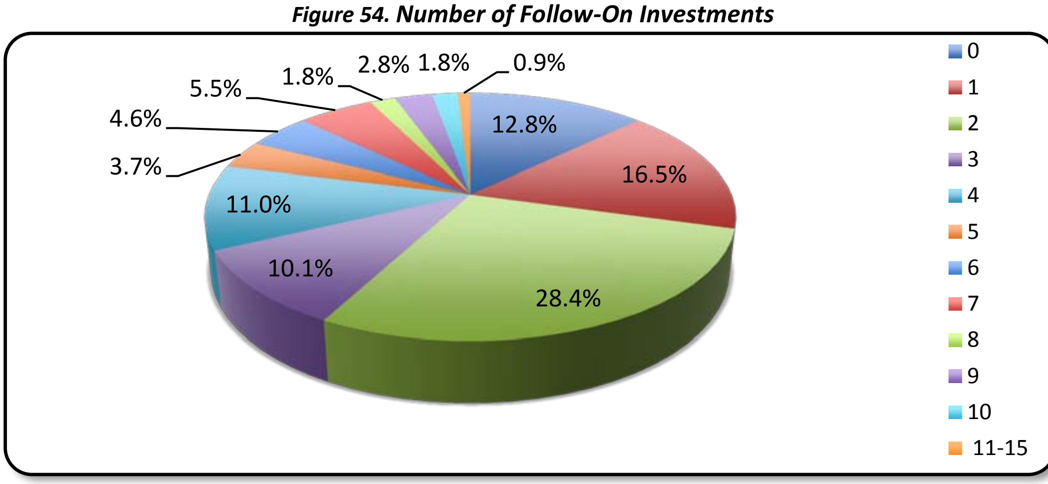
There were 133 participants who responded to Venture Capital Survey and all following results are based on responses from these participants. Most respondents reported fewer than three investments made in the prior six months. Around 11.3% of respondents reported no investments, another 11.3% made one investment, and 13% reported two investments in the past six months.

Figure 53. Number of Investments in Last Six Months



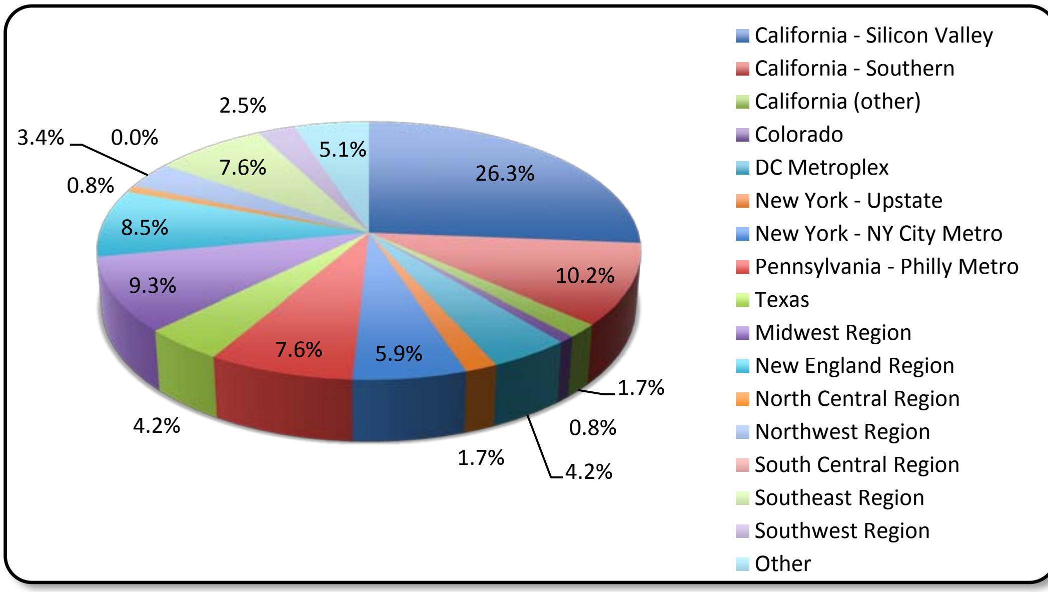
When asked the number of investments that were follow-on investments in companies they previously funded, 28.4% of respondents reported two investments and 16.5% reported one. The median percentage of follow-on investments over the past 6 months was 72.7%.

Figure 54. Number of Follow-On Investments



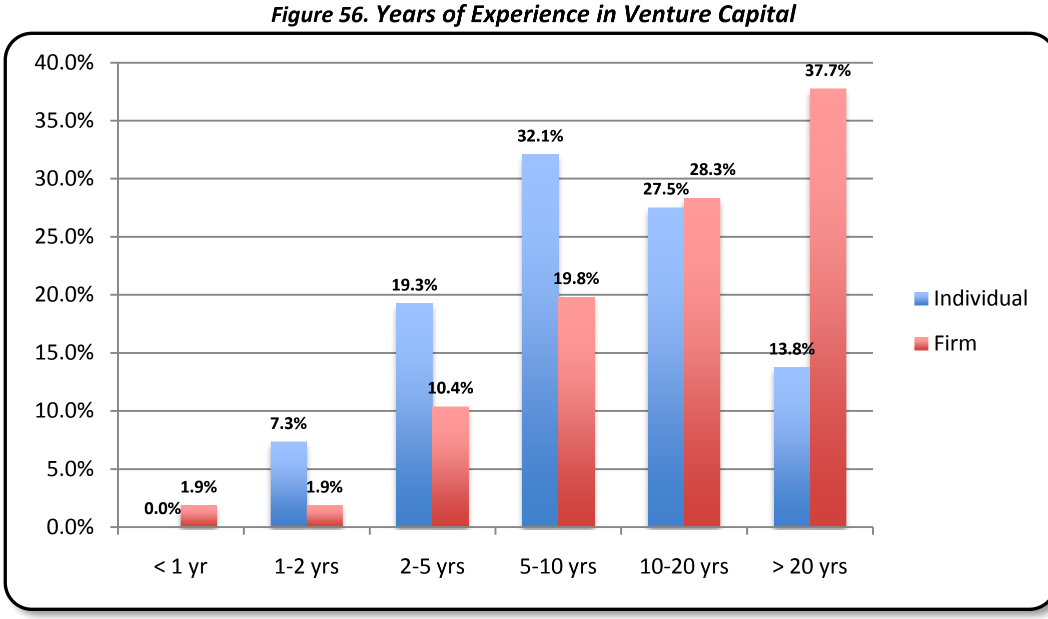
The largest concentration of survey participants (26.3%) is from Silicon Valley, California. About 10.2% of respondents report their location in Southern California.

Figure 55. Geographic Location of Venture Capital Office



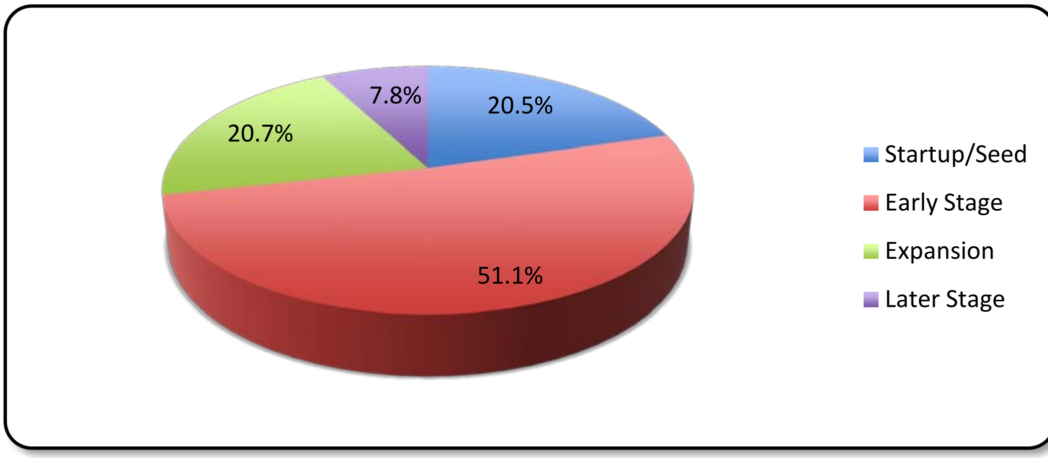
Respondents reported various levels of experience in the venture capital industry. Around 19.3% of respondents reported having venture capital experience of two to five years, 32.1% have five to 10 years of experience, and 27.5% have 10 to 20 years of experience.

Figure 56. Years of Experience in Venture Capital



Approximately 51.1% of respondents report that their current active funds are invested in companies at the early stage, followed by 20.7% of respondents, who invest in companies at the expansion stage. Around 20.5% of respondents invest in the companies at the startup stage.

Figure 57. Stages of Current Active Investments



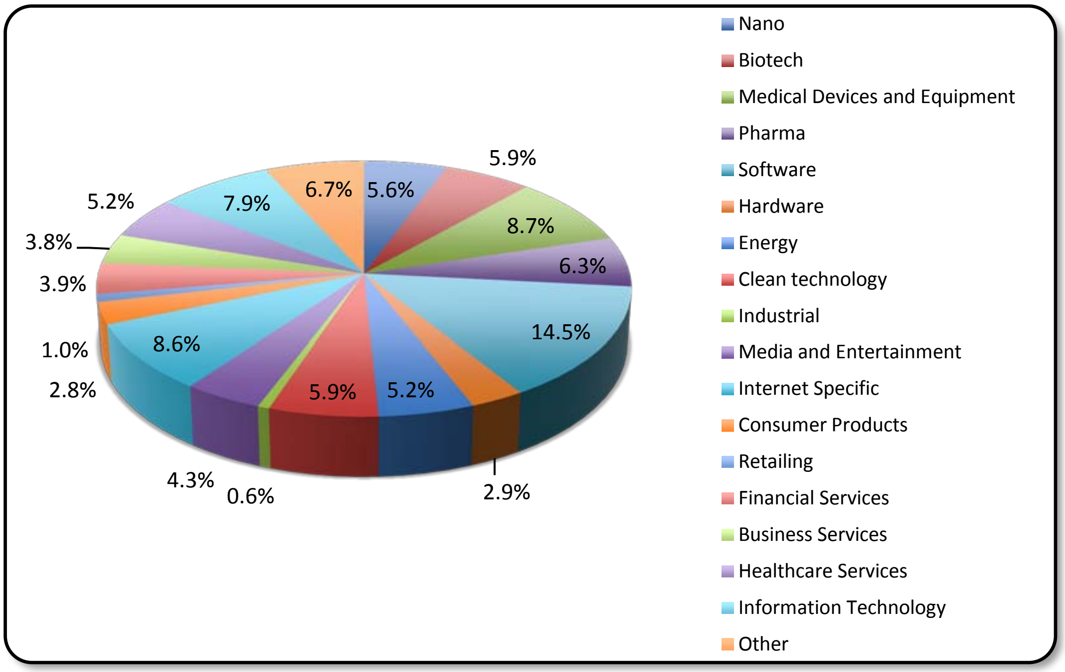
Around 31.0% of respondents prefer investment between $100,000 and $500,000, 21.6% of respondents prefer investment from $2 million to $5 million, and 13.5% prefer investment between $5 million and $10 million.

Table 70. Investment Amounts Per Deal

	Minimum	Maximum	Preferred
< $100,000	15.4%	3.4%	3.4%
$100,000 - $500,000	30.8%	13.8%	31.0%
$500,000-$1M	26.9%	17.2%	6.9%
$1M-$2M	9.5%	4.7%	8.1%
$2M-$5M	4.8%	7.0%	21.6%
$5M-$10M	2.4%	14.0%	13.5%
$10M-$20M	0.0%	14.0%	2.7%
$20M-$50M	0.0%	4.4%	0.0%

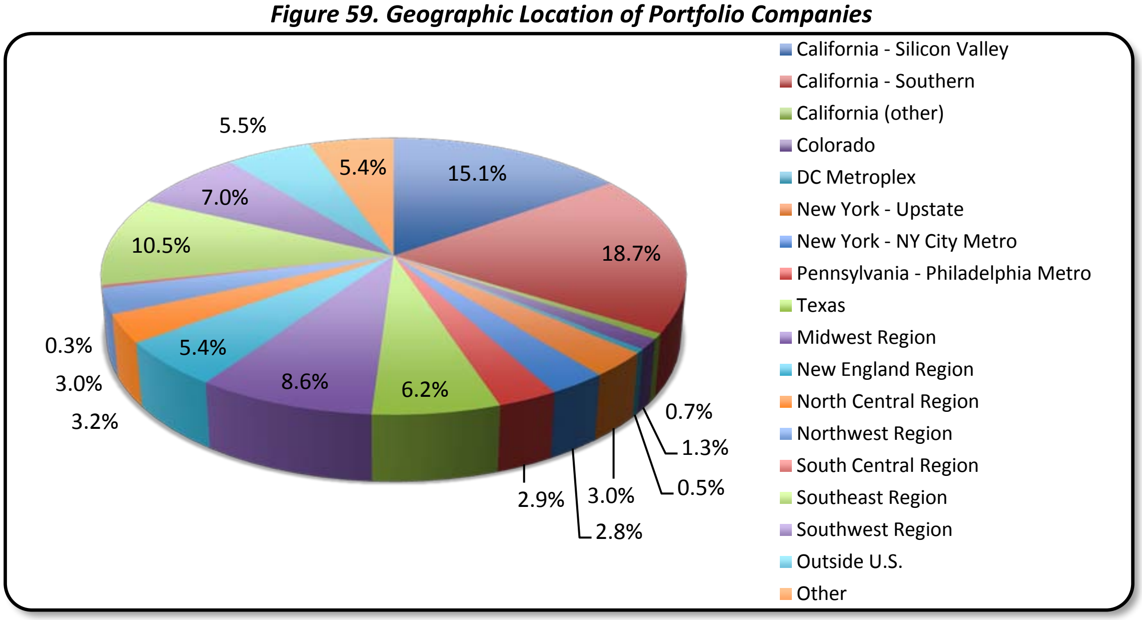
Respondents reported investments in a variety of business industries. Their current investments are in software (14.5%), medical devices (8.7%), Internet specific (8.6%), information technology (7.9%), and others.

Figure 58. Industries in Which VCs Are Invested



Approximately 18.7% of respondents report that their portfolio companies are located in Southern California, and 15.1% of respondents have their portfolios companies in Silicon Valley, California.

Figure 59. Geographic Location of Portfolio Companies



Operational and Investment Characteristics

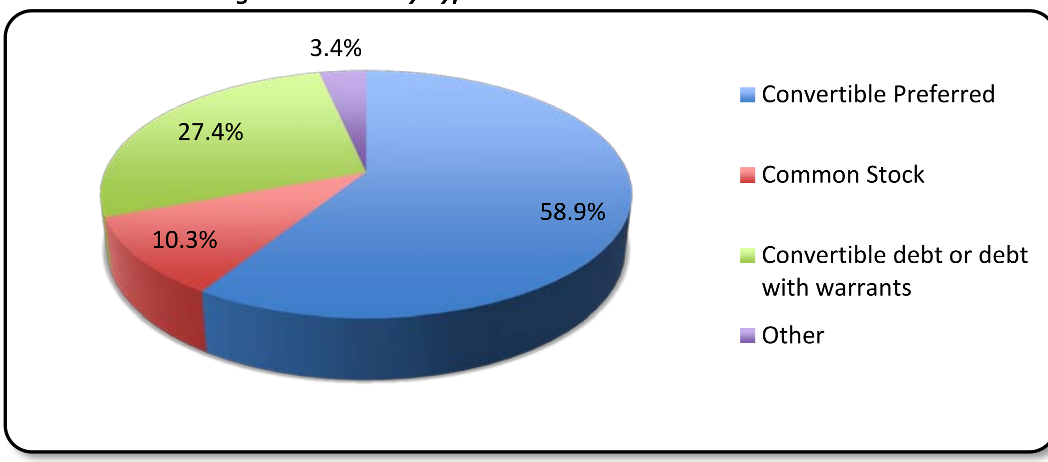
Respondents reported their expected annual revenue growth targets for portfolio companies over the next five years as below.

Table 71. Expected Revenue Growth Per Year

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	55.0%	48.5%	48.0%	29.5%
Median	100.0%	80.0%	60.0%	38.5%
3rd quartile	160.5%	105.5%	80.0%	54.3%

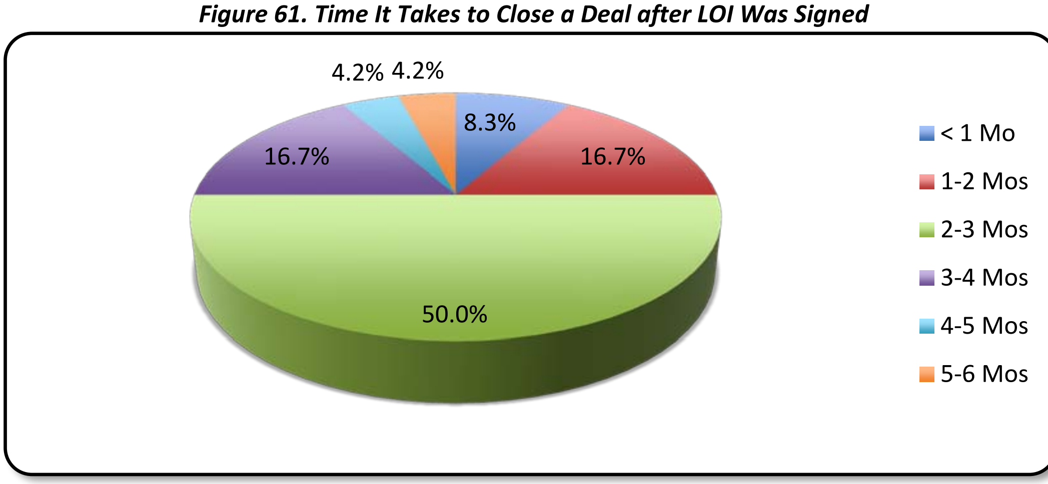
Approximately 58.9% of respondents report making their investments in convertible preferred stock while 10.3% of respondents report investments in common stock.

Figure 60. Security Types in Which Investments Are Made



Approximately 50.0% of respondents reported that it took two to three months to close a deal after the letter of intent was signed. Only 8.3% of respondents reported that they were able to close a deal within a month after the LOI was signed.

Figure 61. Time It Takes to Close a Deal after LOI Was Signed



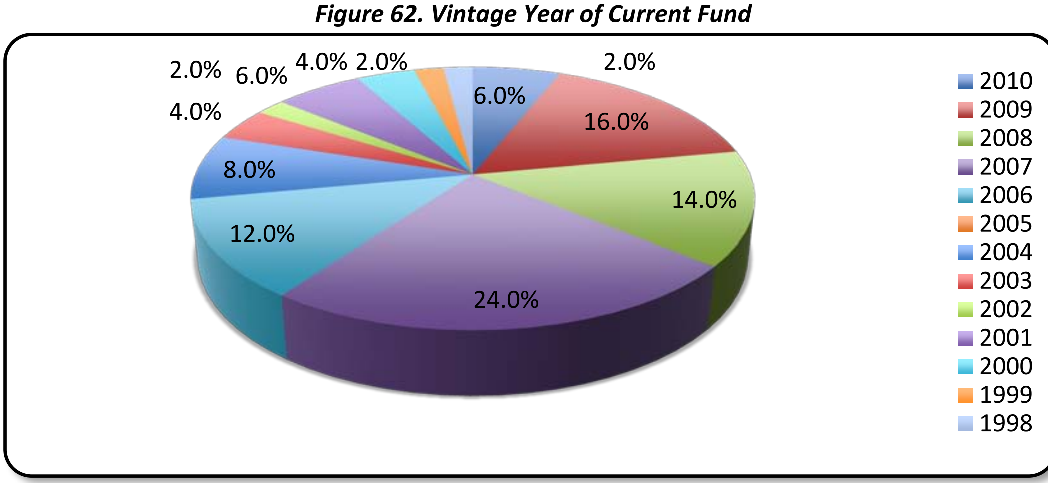
Respondents reported their level of activities today compared to those six months ago.

Table 72. Six-Month Comparison

	Increased	Decreased	Stayed about the same
Number of business plans received	63.2%	15.8%	21.1%
Number of high-quality investment prospects	78.9%	5.3%	15.8%
Percentage of "up" rounds	10.5%	57.9%	31.6%
Percentage of business plans funded	10.5%	63.2%	26.3%
Average investment size	21.1%	36.8%	42.1%
Expected exit multiples	10.5%	42.1%	47.4%
Expected exit time	57.9%	10.5%	31.6%
Size of venture capital industry	5.3%	94.7%	0.0%
Appetite for risk (general)	10.5%	63.2%	26.3%
Appetite for start-up risk	5.3%	63.2%	31.6%
Quality of portfolio	57.9%	26.3%	15.8%
Fundraising prospects	21.1%	57.9%	21.1%
Power of LPs	42.1%	15.8%	42.1%
International capital flight	35.3%	17.6%	47.1%
Competition from foreign investors	29.4%	29.4%	41.2%
Later stage investments	61.1%	5.6%	33.3%
Deals with consortiums	38.9%	11.1%	50.0%

Approximately 24.0% of respondents reported that the age of their current fund was three years old, 16.0% reported that their current funds were one year old, and 14.0% reported their fund as being two years old.

Figure 62. Vintage Year of Current Fund



Respondents were asked to report criteria for current fund

Table 73. Current Fund Criteria

	1st quartile	Median	3rd quartile
Fund size ($M)	$14M	$32M	$100M
GP %	0.3%	1.0%	5.0%
Preferred return to LPs (%)	0.0%	8.0%	15.0%
Carry (%)	20.0%	20.0%	20.0%
Management fee %	2.0%	2.0%	2.5%
Reserve %	0.0%	10.0%	20.3%
Targeted investments per fund	8	12	21
Exits so far	0.75	1.5	3
Returns on exits so far	0%	15.5%	26.5%

Respondents were asked about their firm's current funds and current investments.

Table 74. Statistics for Current Fund

	1st quartile	Median	3rd quartile
Total number of funds in firm	1	2	3
From how many funds are you currently making investments?	1	1	2
Number of portfolio companies firm has an investment in across all funds	6	13	22.5
Average size of portfolio company at time of investment ($M Revenues)	$0.1M	$2.2M	$5M
Firm's total assets under management? ($M)	$20M	$60M	$400M
Number of general partners in firm	2	3	4
Number of non-GP Employees	1	4	9
Number of boards on which the average partner sits	3	4	5
Target gross cash on cash IRR (pretax) for LPs on new investments	27.8%	30.0%	40.%
Target net cash on cash IRR (pretax) for limited partners on new investments	20.0%	25.0%	30.0%
Firm's average cash on cash IRR (gross) for portfolio companies over the last five years	5.6%	15.5%	30.0%

Respondents reported the various activities that took place to close one deal, such as number of business plans reviewed, meetings with principals, terms sheets issued and letters of intent signed.

Table 75. Activities to Close One Deal

	1st quartile	Median	3rd quartile
Business plans or memorandums are reviewed	50	100	143
Meetings with principals are conducted	10	16	26
Proposal letters or term sheets are issued	2	3	5
Letters of intent are signed	1	1	2

Respondents reported the investment analysis techniques used. Around 92.9% of respondents used market analysis and 96.2% used gut feel as analysis techniques.

Table 76. Investment Analysis Techniques Used

Payback	67.9%
Internal rate of return (IRR)	72.4%
Discounted cash flow (DCF)	38.5%
Multiple analysis	92.9%
Market analysis	92.9%
Option analysis	8.3%
Decision trees	16.7%
Simulation analysis (i.e., Monte Carlo methods)	4.2%
Scenario analysis	74.1%
Gut feel	96.2%
Exit multiple is same as entry multiple	54.5%

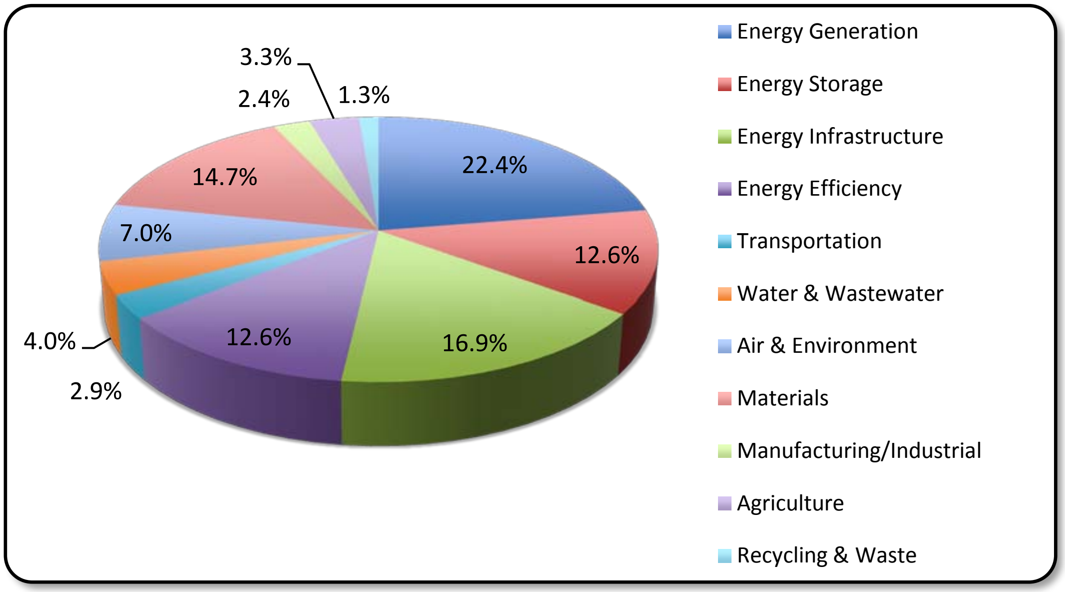
Respondents ranked the importance of investment analysis techniques and market analysis was reported as the most important followed by gut feel.

Table 77. Importance of Investment Analysis Techniques

	Unimportant	Of little Importance	Moderately Important	Important	Very important	Score (1-4)
Payback	8.7%	8.7%	8.7%	43.5%	30.4%	2.8
Internal rate of return (IRR)	0.0%	8.3%	16.7%	33.3%	41.7%	3.1
Discounted cash flow (DCF)	10.0%	45.0%	10.0%	25.0%	10.0%	1.8
Multiple analysis	0.0%	11.5%	3.8%	38.5%	46.2%	3.2
Market analysis	0.0%	0.0%	4.2%	33.3%	62.5%	3.6
Option analysis	46.7%	26.7%	20.0%	6.7%	0.0%	0.9
Decision trees	28.6%	35.7%	14.3%	14.3%	7.1%	1.4
Simulation analysis (i.e., Monte Carlo methods)	46.2%	38.5%	7.7%	7.7%	0.0%	0.8
Scenario analysis	5.0%	5.0%	10.0%	55.0%	25.0%	2.9
Gut feel	0.0%	0.0%	12.0%	32.0%	56.0%	3.4
Exit multiple is same as entry multiple	11.1%	16.7%	33.3%	27.8%	11.1%	2.1

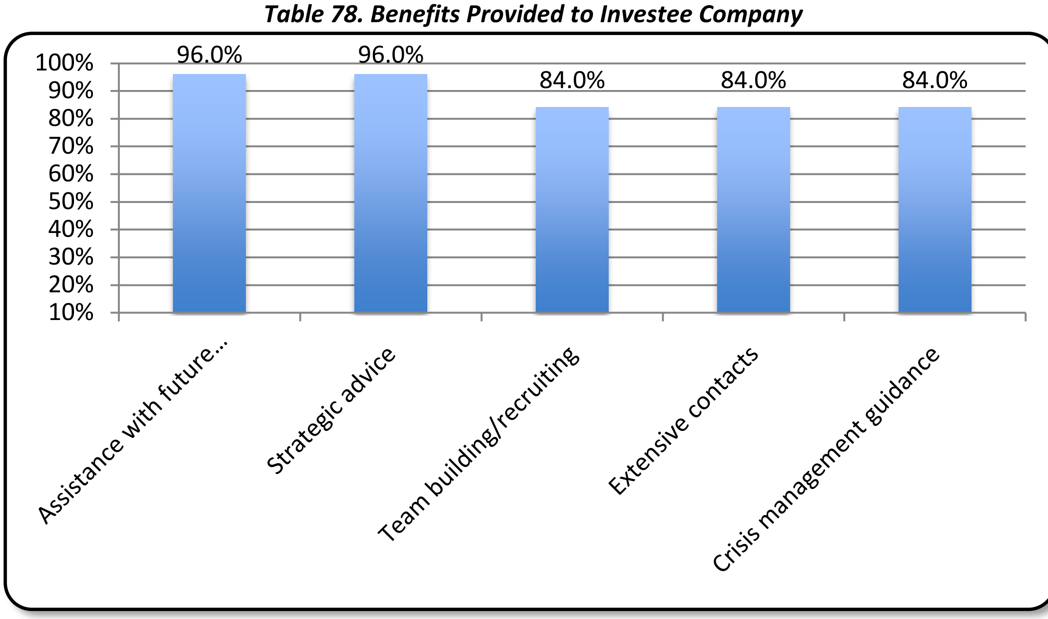
Many respondents reported plans to invest in clean tech areas. Of those, around 22.4% of respondents reported plans to invest in energy generation, followed by 16.9%, who planned to invest in energy infrastructure.

Figure 63. Planned Investments - Areas of Clean Tech



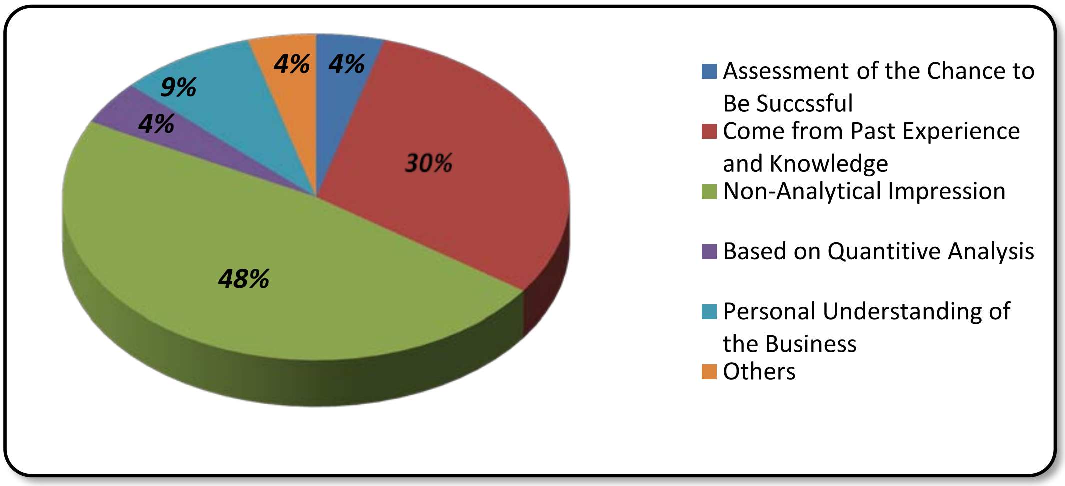
Respondents reported benefits provided to investee companies aside from a financial investment. Benefits include assistance with future financing or exit transactions, strategic advice, team-building, extensive contacts, and crisis management guidance.

Table 78. Benefits Provided to Investee Company



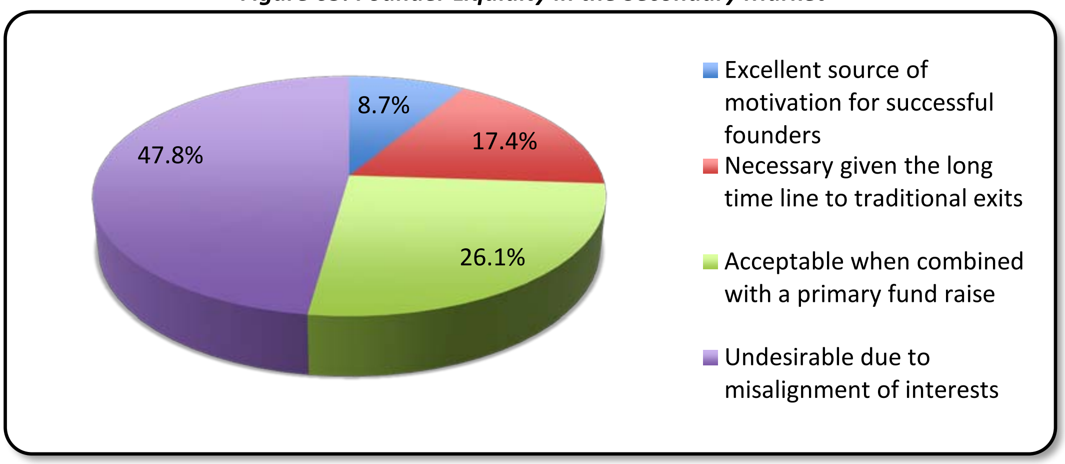
Around 48% of respondents believe that gut feeling is based on a nonanalytical impression and 30% believe that gut feeling comes from past experience and knowledge.

Figure 64. Gut Feelings



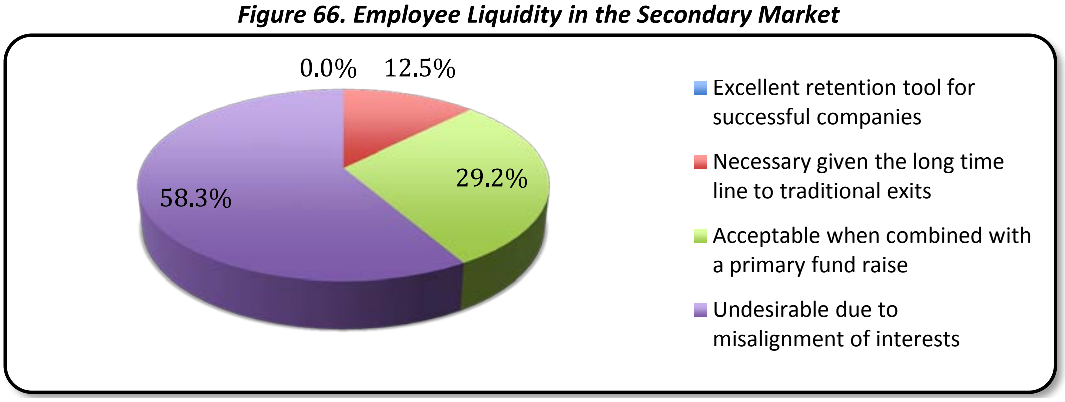
We also asked questions surrounding secondary markets. Around 47.8% of respondents reported that founder liquidity in the secondary market was undesirable due to misalignment of interests.

Figure 65. Founder Liquidity in the Secondary Market



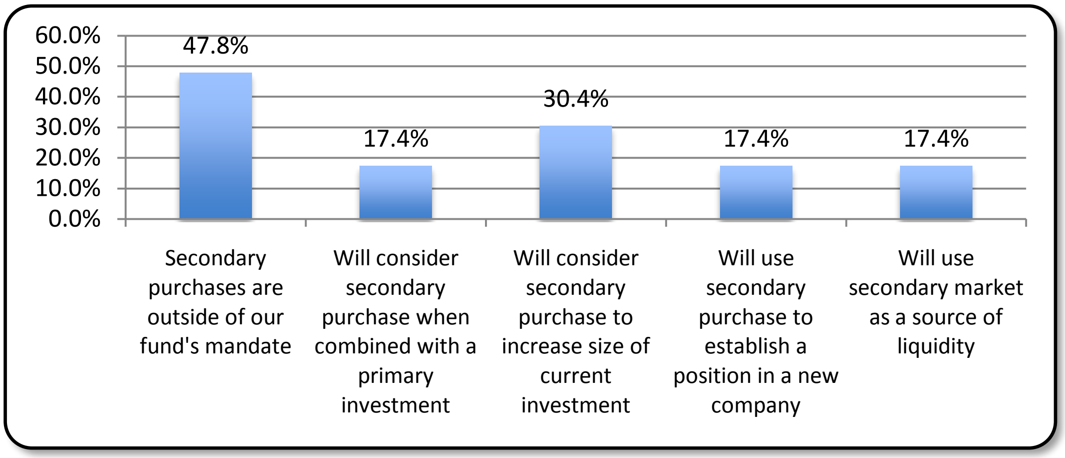
Around 58.3% of respondents reported that employee liquidity is undesirable due to misalignment of interests. None of the respondents felt that employee liquidity is an excellent retention tool.

Figure 66. Employee Liquidity in the Secondary Market



Approximately 47.8% of respondents reported that a secondary purchase was outside of their fund's mandate, and 30.4% of respondents would consider secondary purchases to increase the size of current investment.

Figure 67. Secondary Market for Direct Investments in Companies



Respondents ranked the level of importance of the criteria that LPs consider when evaluating investment in a new fund. Relationship with the GPs is the most important criteria followed by historical fund performance on all funds.

Table 79. Importance of Criteria When Evaluating a New Fund

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0-4)
Historical fund performance on all funds	0.0%	0.0%	6.3%	37.5%	56.3%	3.5
Prior fund performance (total value to paid-in or TVPI)	0.0%	6.7%	0.0%	40.0%	53.3%	3.4
Returned capital from most recent fund (distribution to paid-in or DPI)	0.0%	6.3%	18.8%	25.0%	50.0%	3.2
Residual value of most recent fund (residual value to paid-in or RVPI)	0.0%	6.3%	31.3%	37.5%	25.0%	2.8
Relationship with GPs	0.0%	0.0%	6.3%	31.3%	62.5%	3.6
Focus of new fund	0.0%	0.0%	31.3%	50.0%	18.8%	2.9

Respondents reported provisions that are typically included in term sheets.

Table 80. Typical Term Sheet Provisions

	1st quartile	Median	3rd quartile
Number of board seats	90.0%	100%	100%
Liquidation preference (preference multiple)	100%	100%	100%
Fully participating preferred	72.5%	100%	100%
Pay to play	15.0%	33.0%	62.5%
Drag along	50.0%	100%	100%
Anti-dilution protection (full ratchet)	15.0%	50.0%	100%
Redemption provision	75.0%	100%	100%
Dividend provision utilization	75.0%	100%	100%

Table 81. Number of Board Seats and Liquidation Preference Multiples

	Number of board seats	Liquidation preference (preference multiple)
1st quartile	1	1
Median	1	1
3rd quartile	2	1

Respondents reported the level of importance of various due diligence activities from 1 (unimportant) to 4 (very important). Interviewing management teams was considered the most important due diligence item.

Table 82. Importance of Due Diligence Activities

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (1-4)
Interview management teams	0.0%	0.0%	0.0%	4.3%	95.7%	4.0
Analyze industry and market	0.0%	0.0%	0.0%	26.1%	73.9%	3.7
Review financial plan	0.0%	4.2%	4.2%	50.0%	41.7%	3.3
Review business model	0.0%	0.0%	4.3%	26.1%	69.6%	3.7
Analyze product or service	0.0%	0.0%	4.3%	30.4%	65.2%	3.6
Perform reference calls	0.0%	0.0%	4.5%	36.4%	59.1%	3.6

Respondents ranked the level of importance of deal characteristics from 1 (most important) to 6 (unimportant). Top-tier management teams was considered the most important deal characteristic.

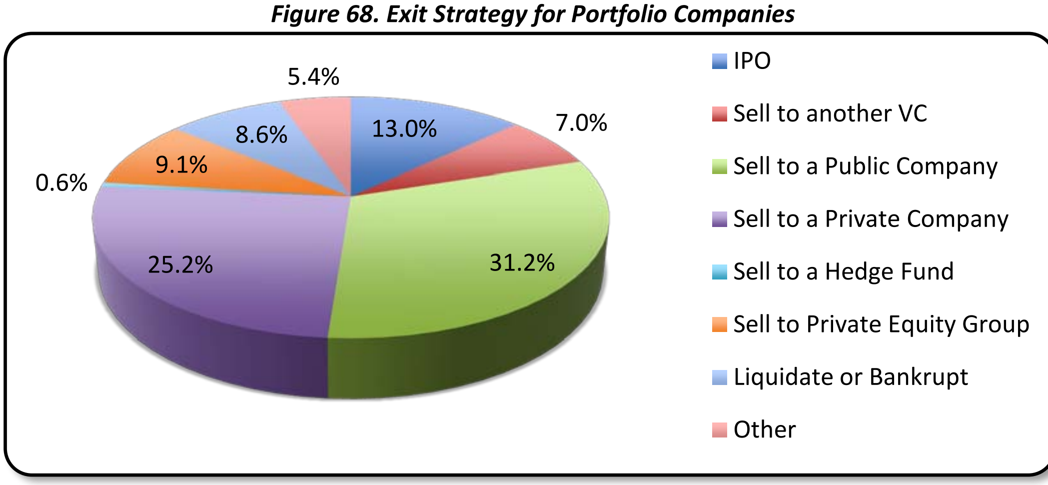
Table 83. Importance of Deal Characteristics

	Most important (6)					Least important (1)	Score (1-6)
Top tier management teams	52.6%	21.1%	0.0%	10.5%	5.3%	10.5%	4.3
Attractive addressable markets	5.3%	26.3%	31.6%	21.1%	5.3%	10.5%	3.0
Significant competitive advantages	5.6%	33.3%	27.8%	27.8%	5.6%	0.0%	3.1
Investment syndicates with aligned interests	0.0%	10.5%	0.0%	15.8%	63.2%	10.5%	0.6
Scalable and capital efficient business models	21.1%	10.5%	26.3%	31.6%	5.3%	5.3%	2.9
Deals that are not widely shopped	13.6%	4.5%	18.2%	4.5%	9.1%	50.0%	2.3

Returns and Exit Data

When asked about exit strategies for portfolio companies, 31.2% of respondents reported plans to sell to a public company, followed by 25.2%, who reported plans to sell to a private company. Only 0.6% of respondents reported plans to sell to a hedge fund.

Figure 68. Exit Strategy for Portfolio Companies



Respondents were asked 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. The data for 1st quartile, 3rd quartile, and Median for each new investment are presented below.

Table 84. Avg. % of Total Equity Purchased (fully diluted basis)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	30.0%	20.0%	10.0%	10.0%
Median	30.0%	25.0%	15.0%	12.5%
3rd quartile	33.0%	34.0%	20.0%	17.5%

Table 85. Total Model Returns (gross cash on cash pretax IRR) on New Investments (%)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	40.0%	35.0%	30.5%	28.0%
Median	55.0%	50.0%	37.5%	30.0%
3rd quartile	55.5%	50.0%	40.0%	30.0%

Table 86. Total Expected Returns (gross cash on cash pretax IRR) on New Investments (%)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	35.0%	30.0%	26.3%	25.0%
Median	40.0%	36.0%	30.0%	25.0%
3rd quartile	50.0%	45.0%	34.3%	28.0%

Table 87. Minimum Qualifying Gross pretax IRR for Investment (%)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	40.0%	25.0%	21.3%	20.0%
Median	40.0%	30.0%	30.0%	25.0%
3rd quartile	50.0%	40.0%	35.0%	31.3%

Table 88. Modeled Time to Exit (months)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	60	50	39	36
Median	66	60	48	36
3rd quartile	84	63	48	60

Table 89. Expected Time to Exit (months)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	60	50	48	33
Median	75	60	48	42
3rd quartile	87	72	59	51

Table 90. Average % of investments That Are Likely to Become Worthless (by number)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	30.0%	17.5%	10.0%	0.0%
Median	35.0%	25.0%	17.5%	10.0%
3rd quartile	50.0%	40.0%	26.3%	22.5%

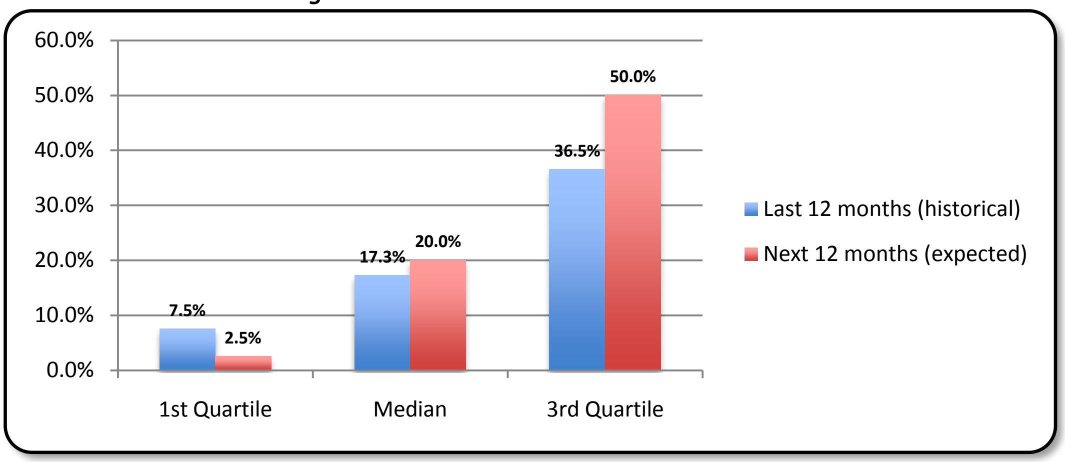
The values of companies at time of investment are reported as follows:

Table 91. Average Company Value at Time of Investment ($)

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	$1.4M	$3M	$7M	$8M
Median	$2M	$5M	$10M	$18M
3rd quartile	$4M	$7M	$15M	$25M

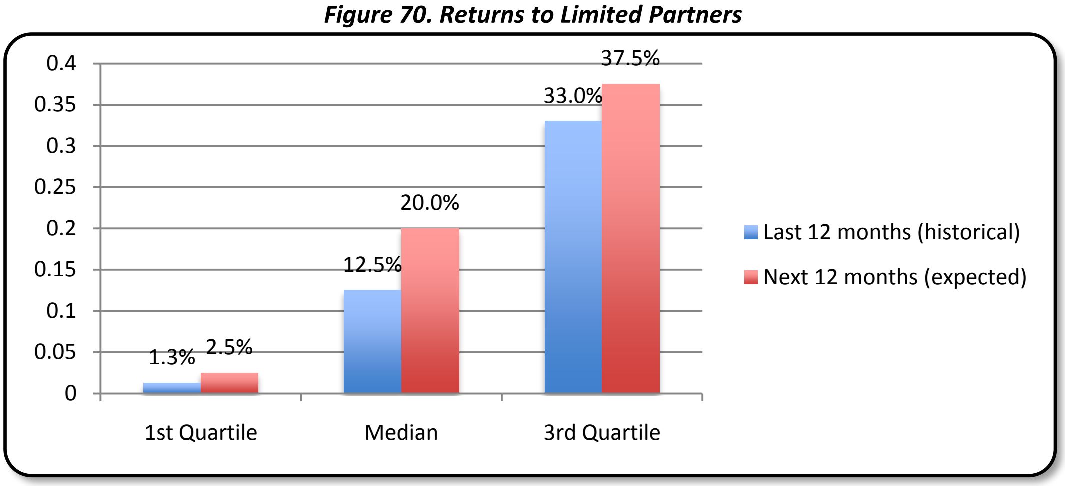
Respondents report an expected 20.0% gross return (median) to limited partners over the next 12 months.

Figure 69. Gross Returns to Limited Partners



Respondents expect a 20.0% net return to limited partners over the next 12 months.

Figure 70. Returns to Limited Partners



Respondents reported the average return multiple for a portfolio of investments as well as for a single new investment.

Table 92. Average Multiple for a New Investment

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	8.0	5.0	4.0	4.0
Median	10.0	8.0	6.0	4.0
3rd quartile	16.0	10.0	8.0	5.5

Table 93. Average Multiple for a Portfolio of Investments

	Startup/Seed	Early stage	Expansion	Later stage
1st quartile	5.3	3.0	2.8	3.0
Median	8.0	5.0	4.0	3.0
3rd quartile	10.0	8.0	6.0	4.0

Respondents reported the average amount of equity that was purchased with the investment.

Table 94. Equity Purchased with Investment

	Startup/Seed	Early stage	Expansion	Later stage
100% of equity ownership (control)	0.0%	0.0%	0.0%	0.0%
90-99% equity (control)	0.0%	0.0%	0.0%	0.0%
80-89% equity (control)	0.0%	0.0%	0.0%	0.0%
70-79% equity (control)	0.0%	0.0%	0.0%	0.0%
60-69% equity (control)	0.0%	0.0%	0.0%	0.0%
50-59% equity (control)	10.5%	0.0%	0.0%	0.0%
40-49 % equity (minority interest)	21.1%	9.1%	0.0%	9.1%
30-39 % equity (minority interest)	21.1%	18.2%	0.0%	0.0%
20-29 % equity (minority interest)	26.3%	27.3%	50.0%	0.0%
10-19 % equity (minority interest)	15.8%	27.3%	35.7%	45.5%
0-9 % equity (minority interest)	5.3%	18.2%	14.3%	45.5%

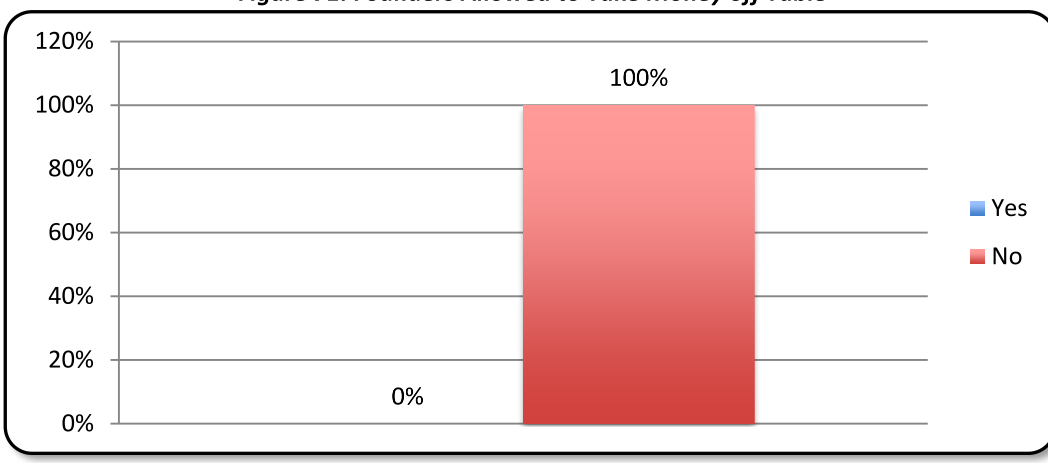
Respondents reported their expectations of return distributions on a portfolio of new investments. Median results are shown in the table below.

Table 95. Expected Distribution of Returns

	Total loss	Total loss to breakeven	Breakeven to 2X	2X to 5X	5X to 10X	Greater than 10X	Overall Expected Portfolio Return (IRR %)
Startup/Seed	30.0%	25.0%	20.0%	15.0%	10.0%	7.5%	50.0%
Early stage	20.0%	20.0%	20.0%	25.0%	10.0%	5.0%	45.0%
Expansion	10.0%	20.0%	30.0%	30.0%	10.0%	2.5%	35.5%
Later stage	2.0%	13.0%	30.0%	45.0%	10.0%	0.0%	25.5%

When asked if founders are allowed to take money off the table with investments from their funds, 100% of respondents answered no.

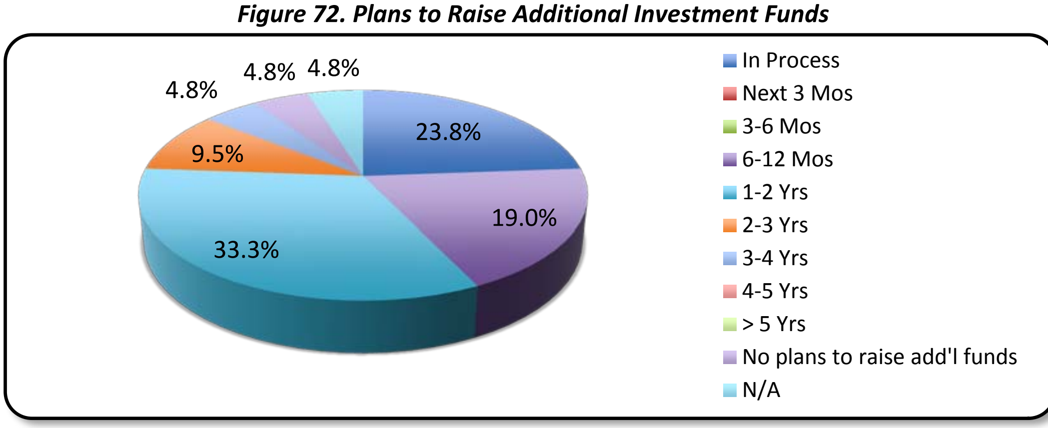
Figure 71. Founders Allowed to Take Money off Table



Industry and Economic Outlook

When asked about plans to raise additional investment funds, 33.3% of respondents planned to raise funds in one to two years, and 23.8% were currently in the process of raising funds.

Figure 72. Plans to Raise Additional Investment Funds



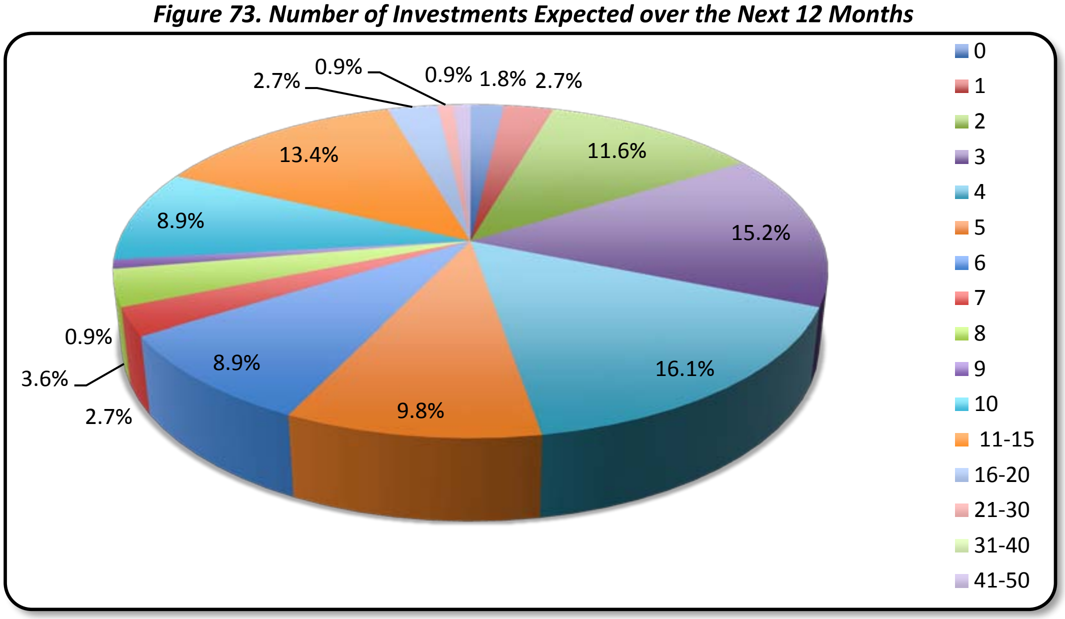
Respondents reported their fundraising efforts over the next 12 months, including fund size goal, estimated time to raise funds, management fees, and placement agent fees.

Table 96. Fundraising Efforts over the Next 12 Months

	1st quartile	Median	3rd quartile
Total fund size goal ($ millions)	$38M	$100M	$175M
Estimated number of months to raise funds	12	12	17
Planned management fee (%)	2	2.25	2.5
Planned carried interest (%)	20.0%	20.0%	20.0%
Targeted # of investments	15	18	20
Placement agent fee (%)	2	2	2

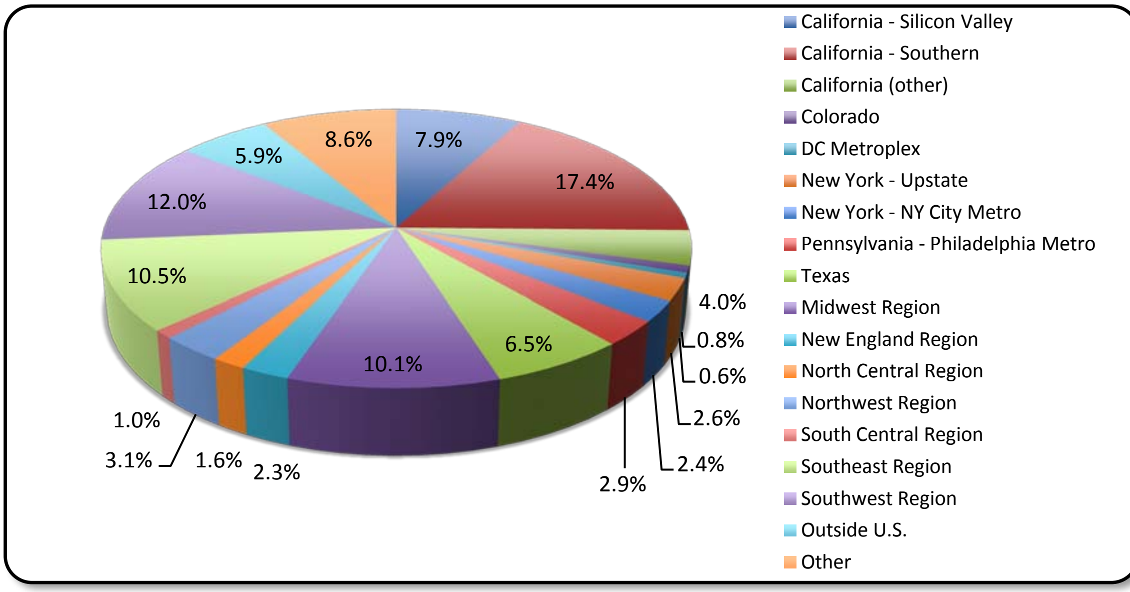
Approximately 16.1% of respondents report expectations of making four investments in the next 12 months and 15.2% expect three investments.

Figure 73. Number of Investments Expected over the Next 12 Months



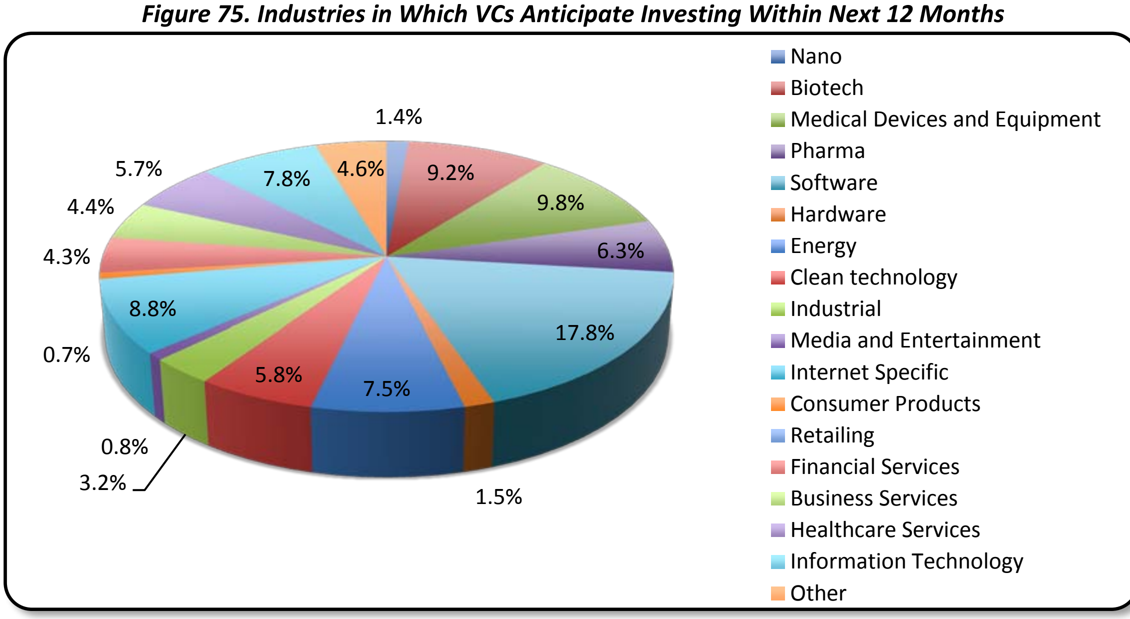
Around 17.4% of respondents reported future investment plans in Southern California, followed by 12.0%, who planned to invest in the southwest region, and 10.5%, who planned to invest in the southeast region.

Figure 74. Geographic Location of Future Investments



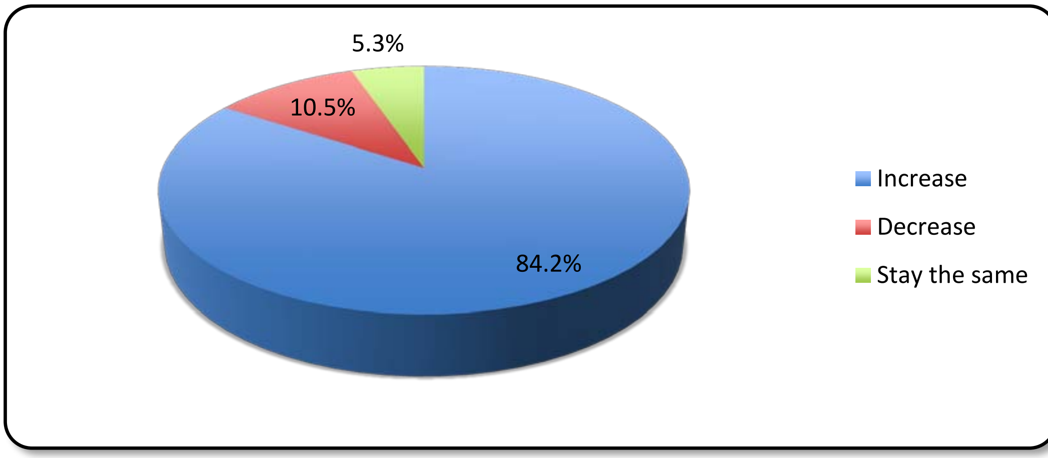
When asked about which industries in which they wanted to invest within the next 12 months, 17.8% of respondents reported software, 9.8% reported medical devices, and 9.2% reported biotech.

Figure 75. Industries in Which VCs Anticipate Investing Within Next 12 Months



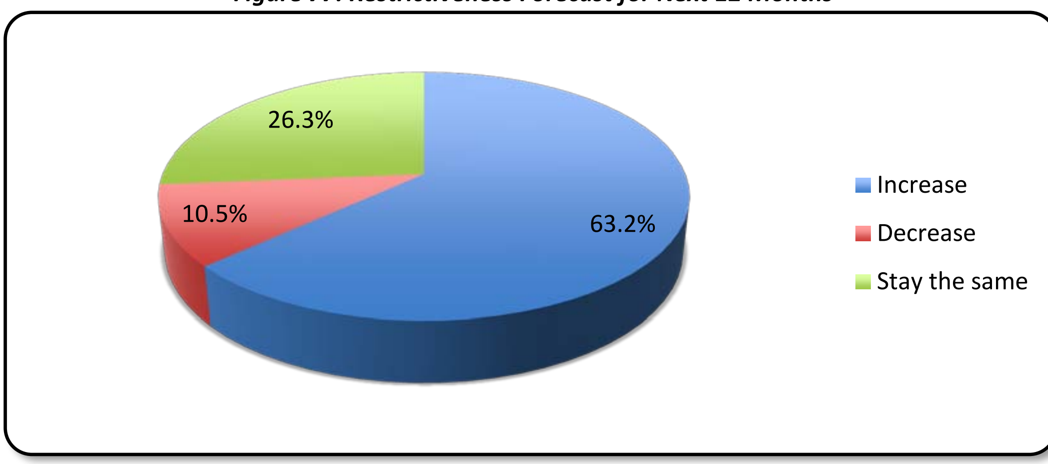
Around 84.2% of respondents report an expectation of an increase in the demand for venture capital over the next 12 months, while only 10.5% believe the demand will decrease. Around 5.3% of respondents believe that demand for venture capital will remain the same.

Figure 76. Demand for Venture Capital



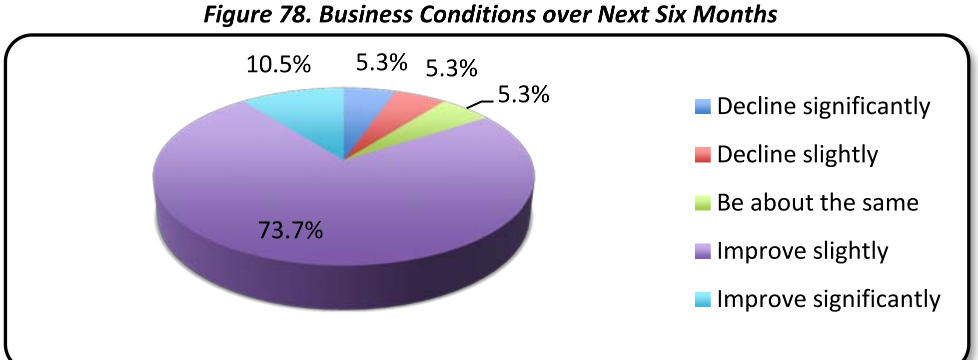
Approximately 63.2% of respondents report an expectation of a more restrictive investment environment over the next 12 months, while 26.3% believe the restrictiveness will be approximately the same. Only 10.5% of respondents expect less restrictive investment within next 12 months.

Figure 77. Restrictiveness Forecast for Next 12 Months



Approximately 73.7% of respondents believe that business conditions will improve slightly over the next six months, while 10.5% feel that conditions will improve significantly.

Figure 78. Business Conditions over Next Six Months



Respondents believe gross domestic product will increase by 1.1% over the next 12 months and an equivalent measure for privately-held companies is expected to rise by 2.2%.

Table 97. GDP Expectations over Next 12 Months

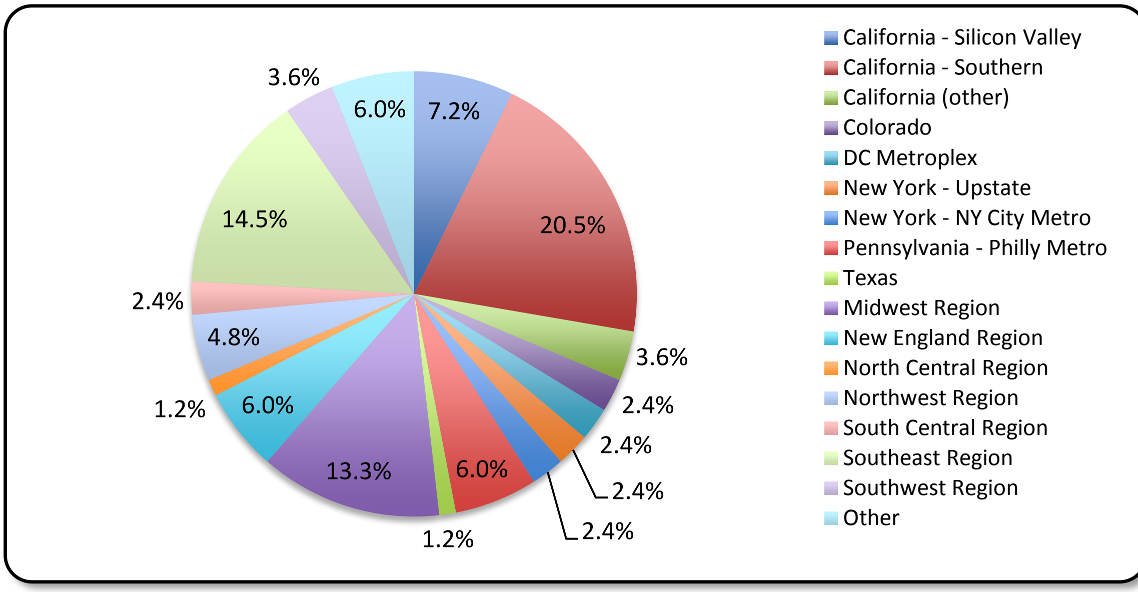
	Expected GDP change (%)
Overall GDP	1.1%
Privately-held company equivalent GDP	2.2%

ANGEL SURVEY INFORMATION

Profile of Respondents

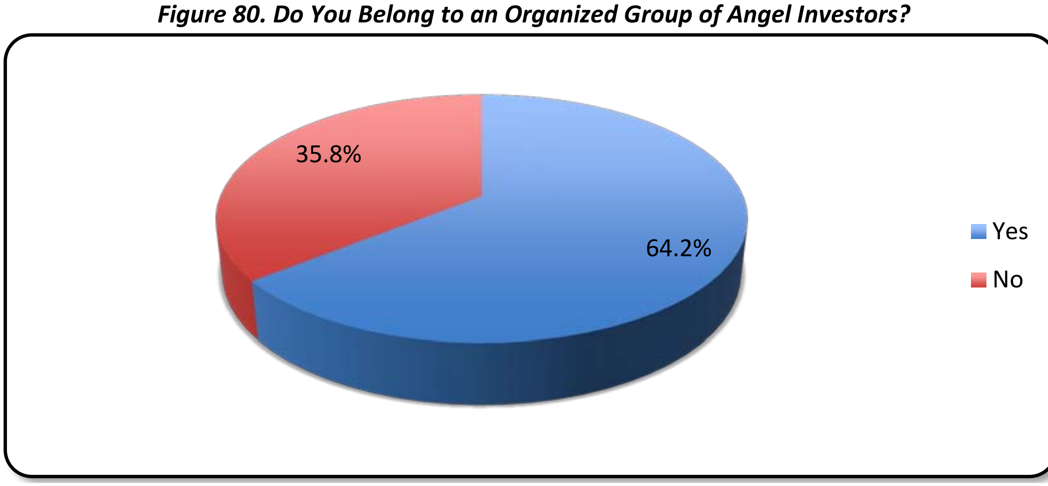
There were 92 respondents who took the Angel Survey. The Angel Survey results reflect that 20.5% of respondents have their business in Southern California, followed by 14.5% who have their business in the southeast region and 13.3% in the midwest.

Figure 79. Location of Offices



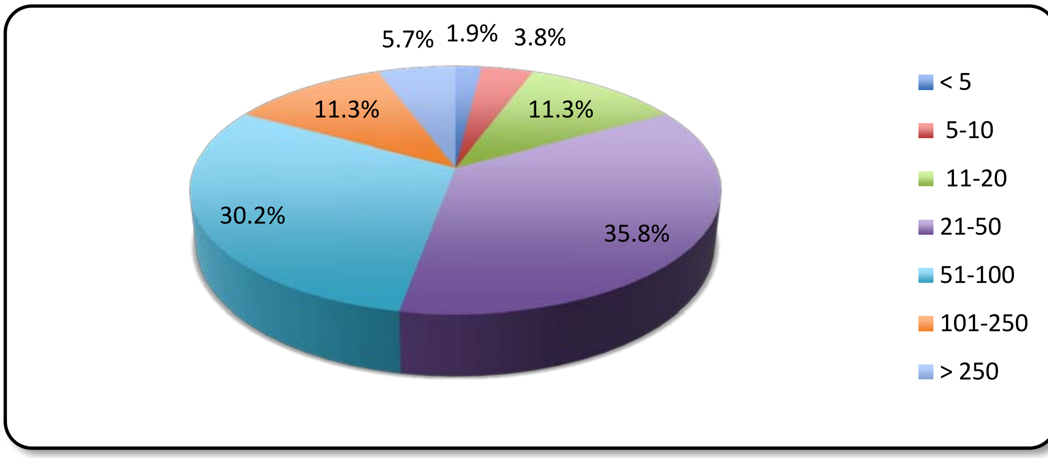
Around 64.2% of participants belong to an organized group of angel investors.

Figure 80. Do You Belong to an Organized Group of Angel Investors?



Nearly 36% of respondents reported having 21 to 50 investors in their group and 30.2% reported having 51 to 100 investors in their group.

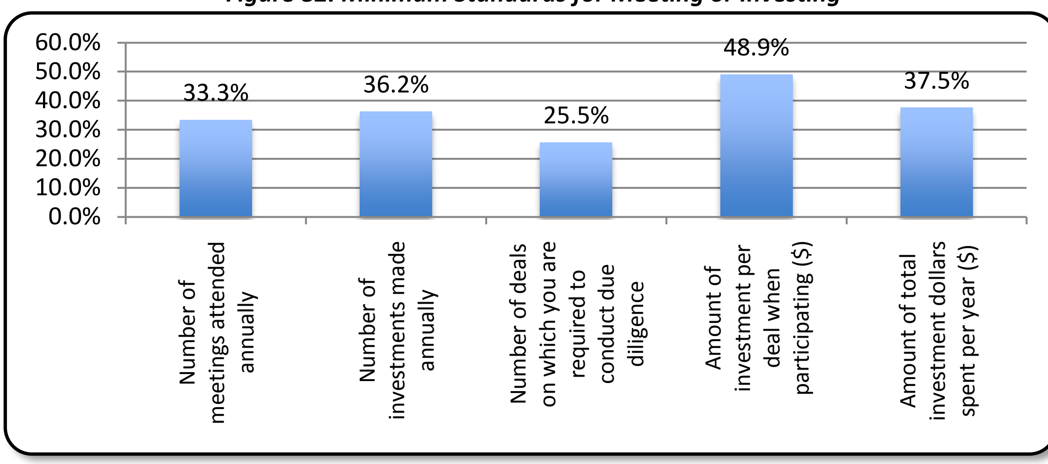
Figure 81. Number of Investors in Group



Operational and Investment Characteristics

Regarding minimum standards for meeting or investing when grouped, 48.9% of participants reported a minimum amount of investment per deal ($) when participating while 37.5% indicate annual minimums.

Figure 82. Minimum Standards for Meeting or Investing



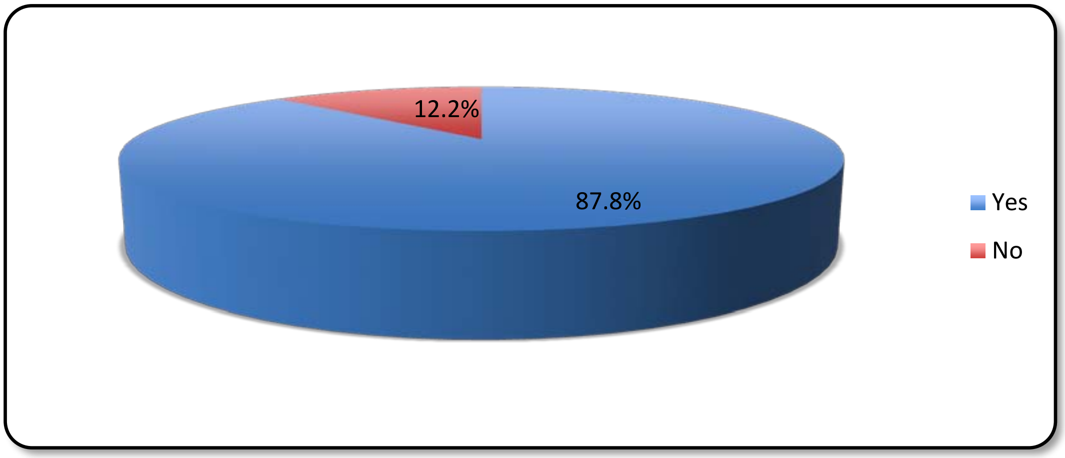
Respondents reported a variety of minimum requirements for meeting or investing, including number of meetings attended annually, number of investments made annually, dollar amount per investment, and dollars spent per year.

Table 98. Minimum Requirements

	1st quartile	Median	3rd quartile
Number of meetings attended annually	6	10	10
Number of investments made annually	1	2	4
Number of deals on which you are required to conduct due diligence	2	2	3
Amount of investment per deal when participating ($)	$10,000	$25,000	$25,000
Amount of total investment dollars spent per year ($)	$50,000	$50,000	$87,500

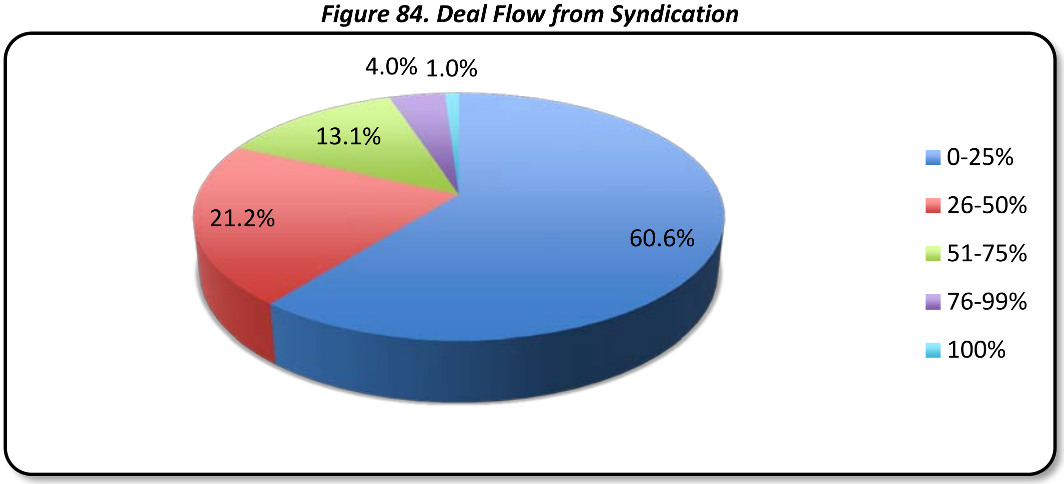
Around 87.8% participants reported that individually or as a group, they had participated in deals with other groups.

Figure 83. Participation in Deals with Other Groups



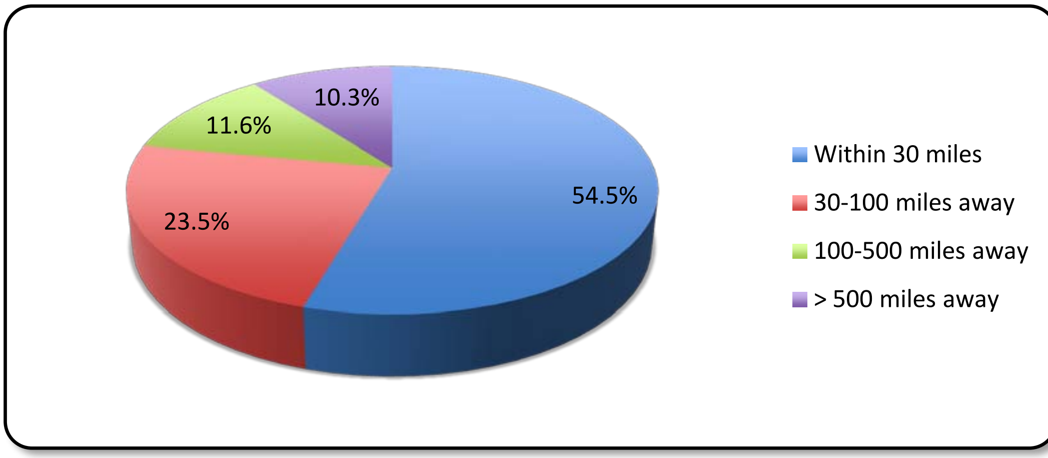
Nearly 61% of respondents reported that less than 25% of deal flow came from syndications and only 1% reported 100% of deal flow coming from syndications.

Figure 84. Deal Flow from Syndication



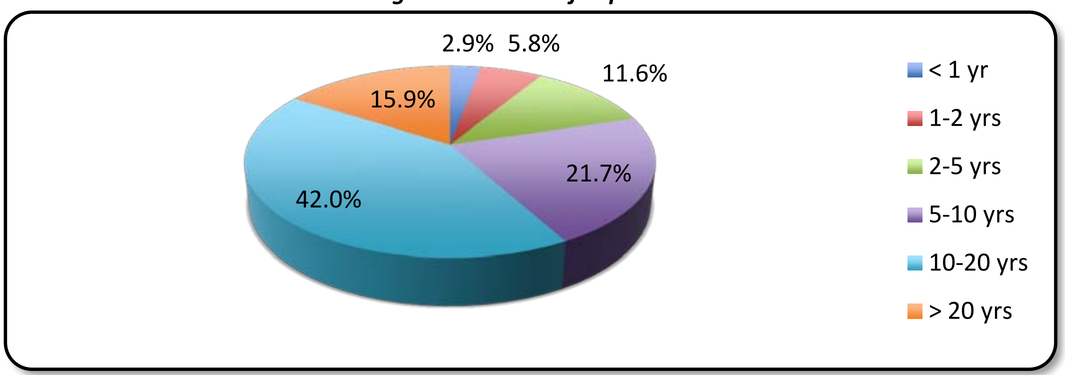
More than half of respondents (54.5%) reported that their investments were within 30 miles of their home of office location and only 10.3% reported their investments being over 500 miles away from their base.

Figure 85. Investment Range in Miles



Nearly 58% of respondents reported having more than 10 years experience in angel finance and venture capital and another 21.7% reported having five to 10 years of experience.

Figure 86. Years of Experience



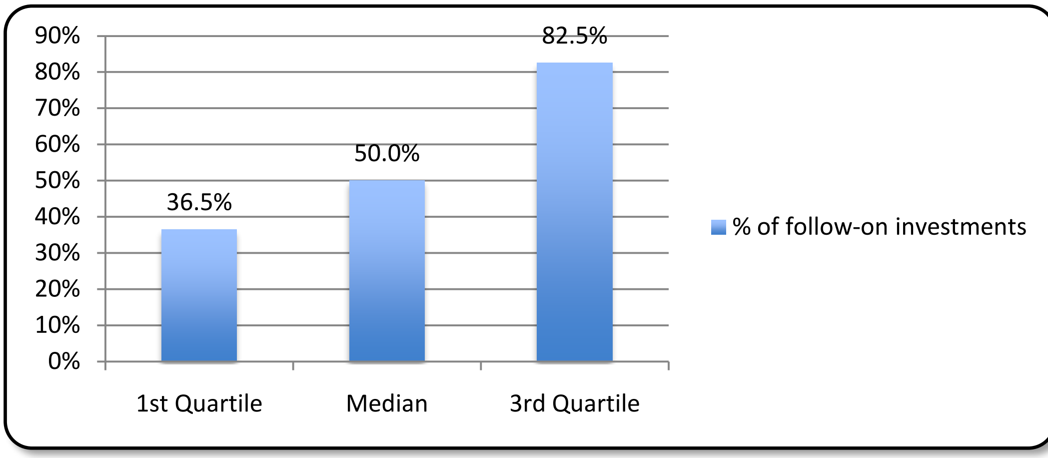
Respondents were asked about their activities over the last 12 months, regarding the number of business plans reviewed, the number of proposal letters or term sheets issued, the number of deals closed and meetings held with principals.

Table 99. Activities over the Last 12 Months

	1st quartile	Median	3rd quartile
Business plans or memorandums reviewed	19	75	200
Meetings with principals conducted	8	18	69
Proposal letters or term sheets issued	2	4	10
Deals closed	2	3	5

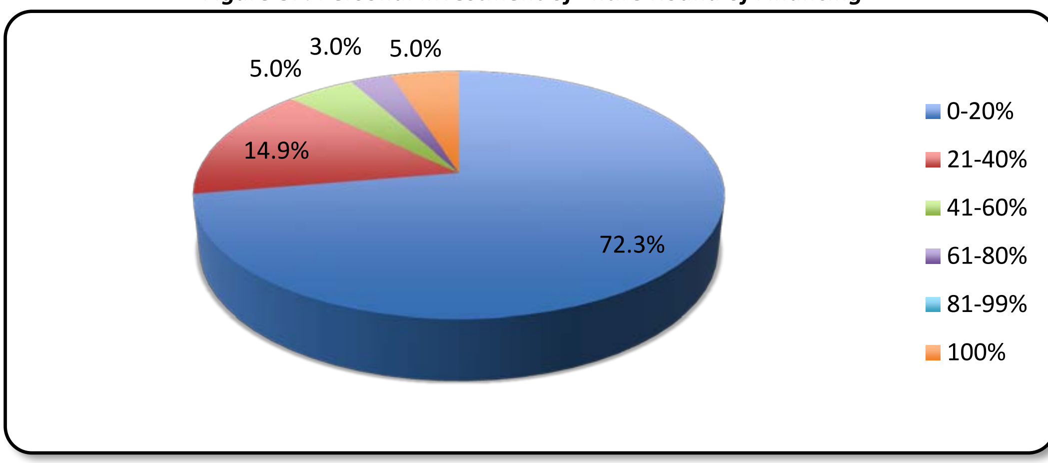
Respondents were asked the percentage of follow-on investments in companies they have previously funded.

Table 100. Investments in Previously Funded Companies



Approximately 72.3% of respondents reported that less than 20% of an entire round of financing was their personal investment (on average).

Figure 87. Personal Investment of Entire Round of Financing



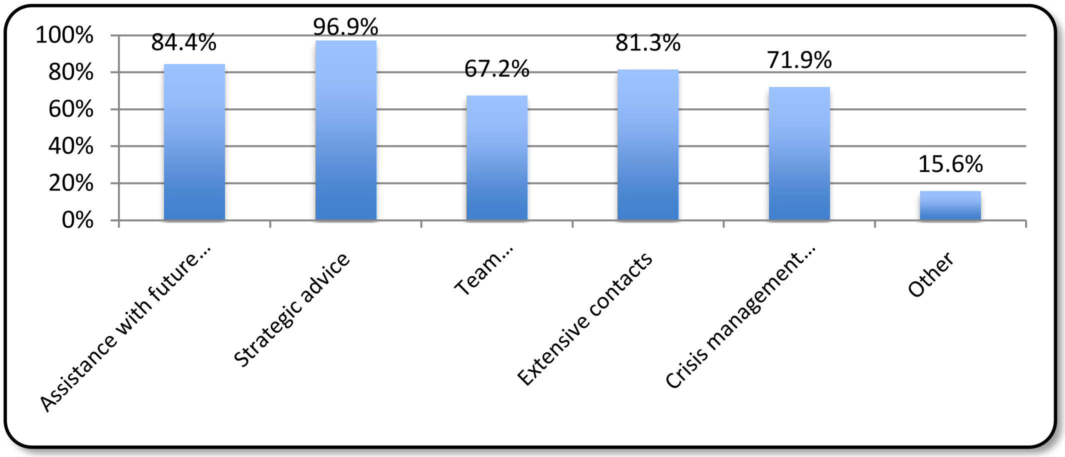
Respondents reported a variety of questions pertaining to the importance they place on how they approach investment decisions and being actively involved received the most importance.

Table 101. Investment Approach

Question	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0 to 4)
Being actively involved in learning about each company in which you invest	0.0%	0.0%	6.1%	22.7%	71.2%	3.7
Passively assembling a portfolio of companies	31.8%	25.8%	22.7%	12.1%	7.6%	1.4
Investing at home on your computer	51.5%	33.3%	10.6%	1.5%	3.0%	0.7
Making decisions as a group	6.1%	13.6%	27.3%	31.8%	21.2%	2.5

Respondents were asked the benefits they could personally provide to an investee company, aside from a financial investment. Approximately 84.4% offer assistance with future financing or exit transactions while 67.2% offer team building and recruiting services. Strategic advice topped the list, however and was reported by 96.9% of respondents.

Figure 88. Benefits Provided to Investee Company



Other benefits noted were business development, personal coaching, marketing, general management, CFO assistance, and technology strategy.

Respondents were asked the number of boards they currently were sitting on and how many angel investments were currently in their portfolio.

Table 102. Current Number of Boards

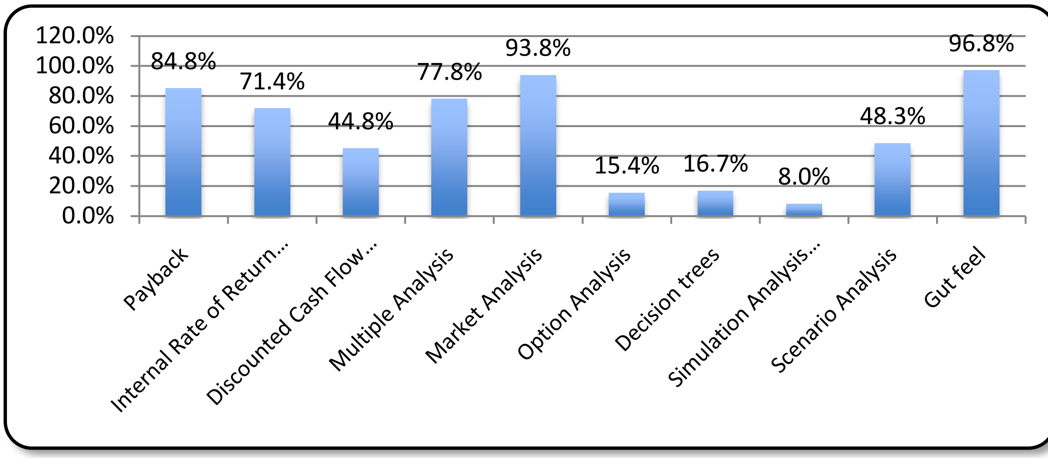
	Number of boards
1st quartile	1
Median	2
3rd quartile	3

Table 103. Current Number of Angel Investments

	Number of angel investments
1st quartile	3
Median	5
3rd quartile	10

Approximately 96.8% of respondents reported using their gut feel when analyzing investments, followed by 93.8% who use market analysis.

Figure 89. Investment Analysis Techniques



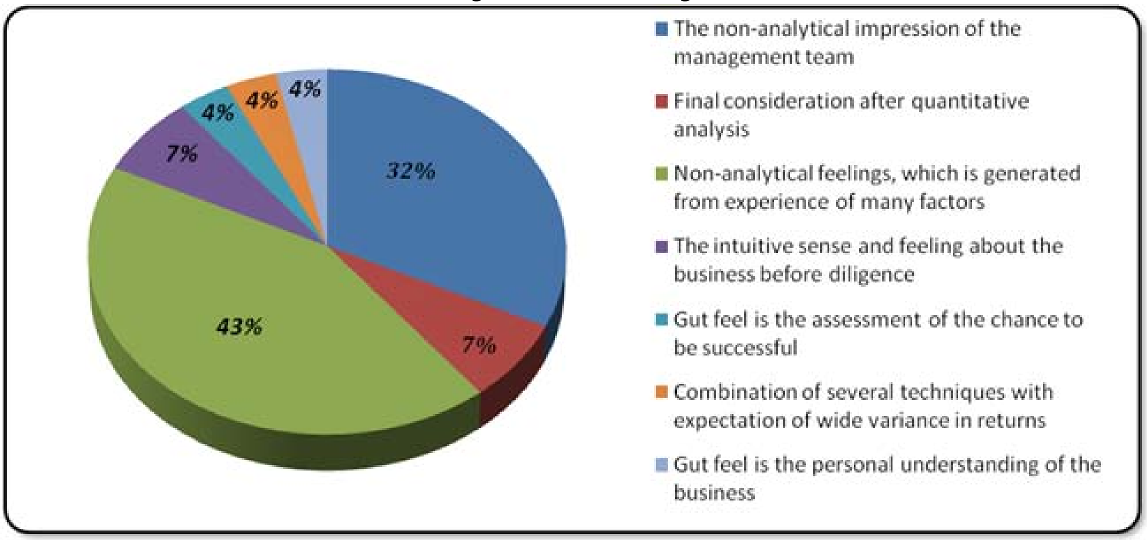
Respondents ranked the importance of investment analysis techniques and 53.3% believe payback is very important and 52.9% believe market analysis is very important.

Figure 90. Importance of Investment Analysis Techniques

	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0 to 4)
Payback	0.0%	0.0%	13.3%	33.3%	53.3%	3.4
Internal rate of return (IRR)	15.2%	0.0%	18.2%	24.2%	42.4%	2.8
Discounted cash flow (DCF)	33.3%	16.7%	20.8%	4.2%	25.0%	1.7
Multiple analysis	3.8%	3.8%	23.1%	46.2%	23.1%	2.8
Market analysis	2.9%	0.0%	11.8%	32.4%	52.9%	3.3
Option analysis	43.8%	25.0%	25.0%	6.3%	0.0%	0.9
Decision trees	38.5%	23.1%	23.1%	7.7%	7.7%	1.2
Simulation analysis	41.7%	16.7%	25.0%	16.7%	0.0%	1.2
Scenario analysis	13.6%	9.1%	18.2%	31.8%	27.3%	2.5
Gut feel	0.0%	2.9%	23.5%	41.2%	32.4%	3.0
Exit multiple is same as entry multiple	23.1%	15.4%	46.2%	15.4%	0.0%	1.5

Respondents who selected gut feel were asked to describe what it meant to them. Around 32% of respondents reported that gut feeling is the nonanalytical impression of the management team and 43% of respondents believe that gut feeling is the nonanalytical feeling that is generated from experience.

Figure 91. Gut Feeling



Pricing and Returns

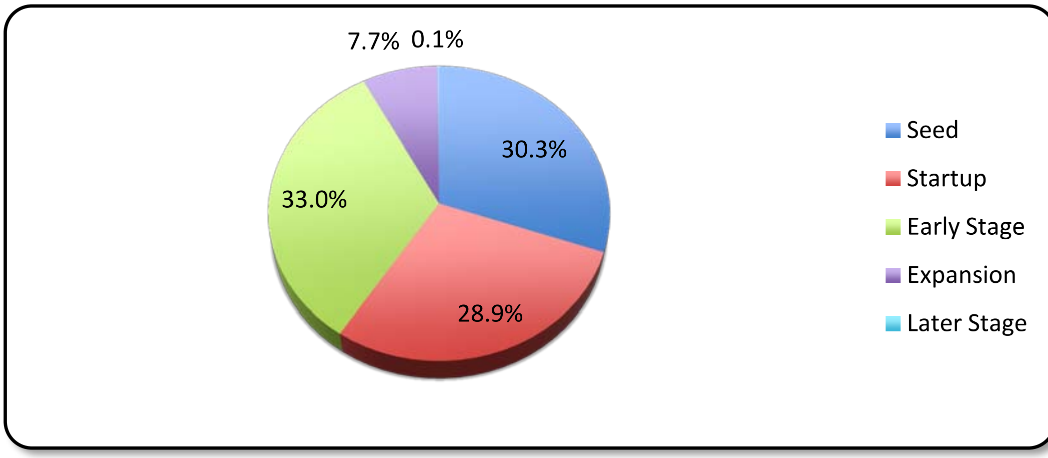
Respondents were asked a series of questions, pertaining to the stages of their investments. Results for Median, 1st quartile and 3rd quartile were reported below.

Table 104. Stage of Investment

	1st quartile	Median	3rd quartile
Avg. % of total equity purchased (or equivalent on fully diluted basis)			
Seed	10%	20%	34%
Startup	10%	20%	30%
Early stage	5%	20%	29%
Expansion	10%	15%	25%
Later stage	5%	10%	15%
Minimum qualifying gross pretax IRR for investment (%)			
Seed	33%	50%	88%
Startup	22%	40%	80%
Early stage	14%	30%	40%
Expansion	20%	23%	29%
Later stage	13%	20%	23%
Expected returns			
Seed	40%	60%	100%
Startup	30%	45%	75%
Early stage	30%	35%	60%
Expansion	23%	30%	40%
Later stage	20%	30%	40%
Modeled time to exit (months)			
Seed	60	72	84
Startup	58	60	72
Early stage	48	60	60
Expansion	36	44	53
Later stage	24	36	36
Average % of investments that are likely to become worthless			
Seed	50%	60%	70%
Startup	30%	50%	67%
Early stage	24%	40%	53%
Expansion	15%	20%	35%
Later stage	2%	5%	16%
Average company value at time of investment			
Seed ($ millions)	$0.5	$0.5	$1.0
Startup ($ millions)	$0.8	$1.3	$3.0
Early stage ($ millions)	$2.0	$2.5	$3.4
Expansion ($ millions)	$4.8	$5.0	$11.3
Later stage ($ millions)	$4.0	$12.5	$22.5

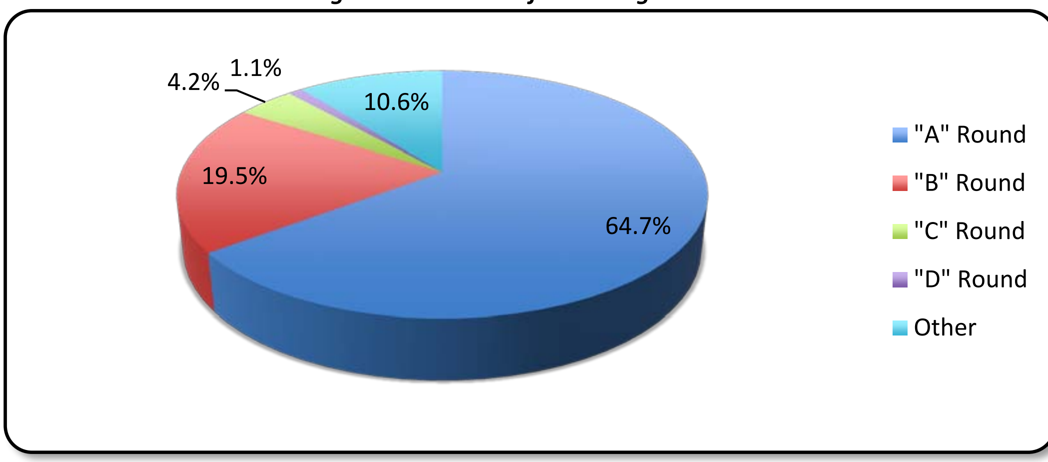
Approximately 33% of respondents reported that they invested in the early stage, 30.3% reported that they invested in seed and 28.9% reported that they invested at startup.

Figure 92. Stages of Investment



Approximately 64.7% of respondents reported that they invested in the “A” round of companies.

Figure 93. Rounds of Financing Provided



Approximately 32.4% of respondents report that their preferred investment amount is between $25,000 and $50,000 and 24.3% report that their preferred investment deals are less than $25,000.

Table 105. Ideal Investment Amount

	Minimum	Maximum	Preferred
< $25,000	51.5%	0.0%	24.3%
$25,000 - $50,000	21.2%	25.0%	32.4%
$50,000 - $100,000	6.1%	16.7%	21.6%
$100,000 - $250,000	15.2%	19.4%	5.4%
$250,000 - $500,000	6.1%	11.1%	5.4%
$500,000-$1M	0.0%	13.9%	8.1%
$1M-$2M	0.0%	5.6%	2.7%
$2M-$5M	0.0%	5.6%	0.0%
$5M-$10M	0.0%	2.8%	0.0%

Respondents were asked about their expected return multiples for one investment and for their portfolio.

Table 106. Expected Return Multiple – One Investment

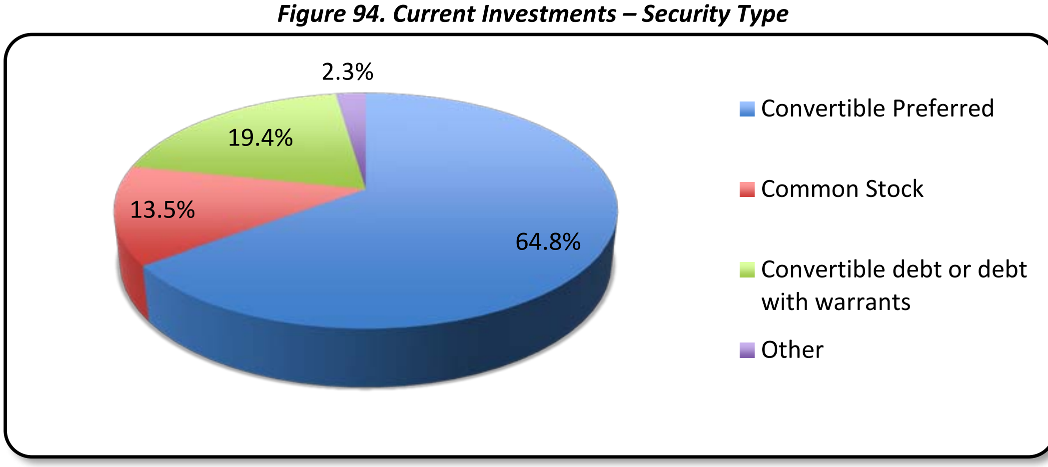
	Seed	Startup	Early stage	Expansion	Later stage
1st quartile	6.0	5.6	5.0	4.0	3.0
Median	10.0	10.0	7.0	5.0	3.5
3rd quartile	15.0	12.0	10.0	6.0	5.5

Table 107. Expected Return Multiple – Portfolio

	Seed	Startup	Early stage	Expansion	Later stage
1st quartile	4.5	3.0	3.0	2.3	2.5
Median	5.0	5.0	4.0	3.0	3.0
3rd quartile	10.0	7.0	5.0	4.8	3.5

Around 64.8% of respondents reported that their current investments were convertible preferred and 19.4% of respondents reported that their current investments were convertible debt or debt with warrants.

Figure 94. Current Investments – Security Type



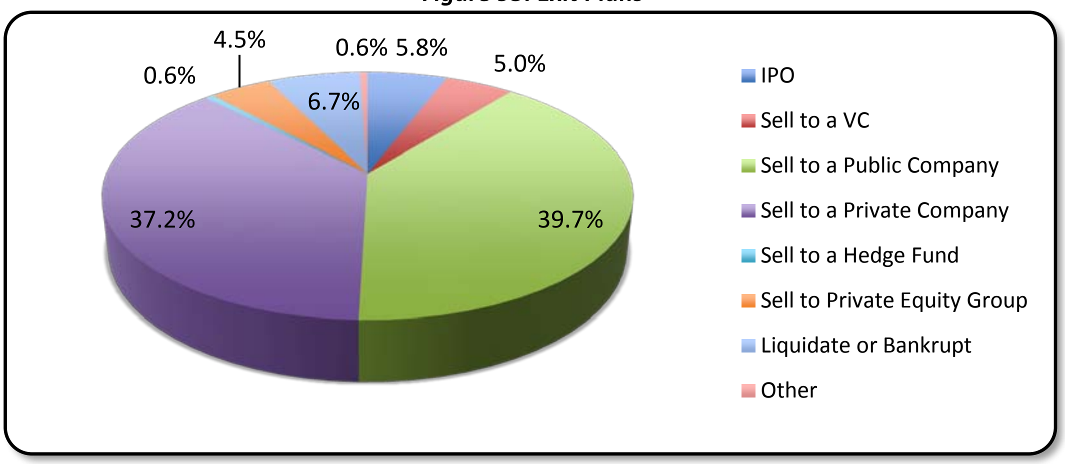
Respondents reported the average amount of equity purchased with their investment.

Table 108. Percent of Equity Purchased with Investment

Question	Seed	Startup	Early stage	Expansion	Later stage
100% of equity ownership (control)	0.0%	0.0%	0.0%	0.0%	0.0%
90-99% equity (control)	0.0%	0.0%	0.0%	0.0%	0.0%
80-89% equity (control)	0.0%	0.0%	0.0%	0.0%	0.0%
70-79% equity (control)	0.0%	0.0%	0.0%	0.0%	0.0%
60-69% equity (control)	0.0%	0.0%	0.0%	0.0%	0.0%
50-59% equity (control)	14.3%	6.1%	3.4%	0.0%	0.0%
40-49 % equity (minority interest)	3.6%	6.1%	10.3%	0.0%	0.0%
30-39 % equity (minority interest)	17.9%	15.2%	6.9%	7.1%	0.0%
20-29 % equity (minority interest)	21.4%	18.2%	13.8%	21.4%	12.5%
10-19 % equity (minority interest)	14.3%	24.2%	24.1%	21.4%	12.5%
0-9 % equity (minority interest)	28.6%	30.3%	41.4%	50.0%	75.0%

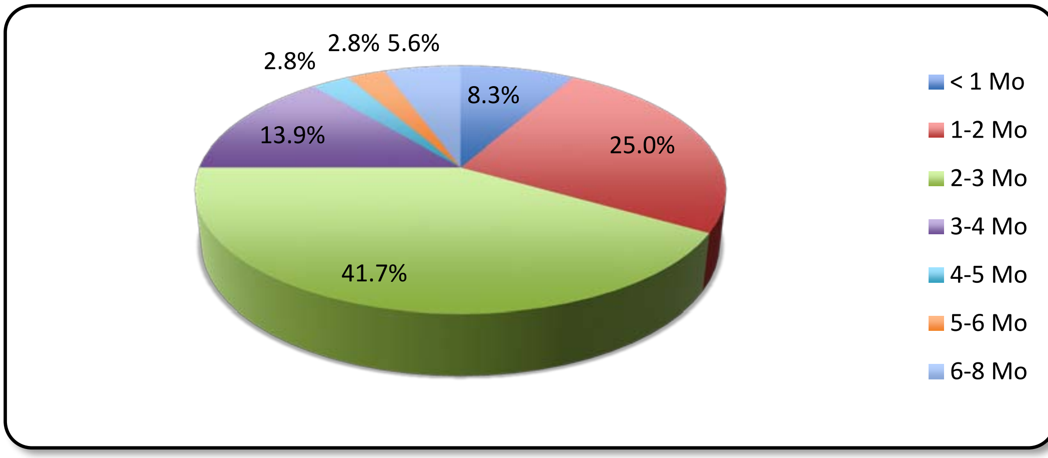
Respondents reported their exit plans for portfolio companies and 39.7% of respondents reported their plans to sell to a public company, and 37.2% reported their plan to sell to a private company.

Figure 95. Exit Plans



Around 41.7% of respondents reported that they could close a deal two to three months after the letter of intent was signed and 25.0% reported that they could close within one to two months after they signed a letter of intent.

Figure 96. Time to Close after LOI Was Signed



Respondents reported the percentage of time various provisions that are included in a typical term sheet.

Table 109. Typical Term Sheet Provisions

	1st quartile	Median	3rd quartile
Number of board seats	75%	100%	100%
Liquidation preference	75%	90%	100%
Fully participating	25%	80%	100%
Pay to play	0%	25%	50%
Drag along	31%	80%	100%
Anti-dilution protection (full ratchet)	0%	50%	80%
Redemption provision	25%	50%	90%
Dividend provision utilization	0%	28%	58%

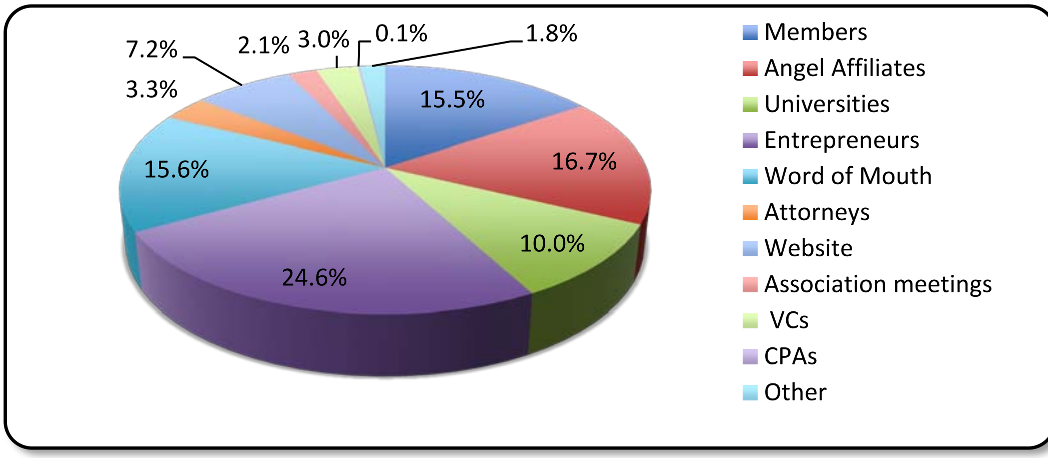
Respondents reported quantities of board seats and multiples of liquidation preference.

Table 110. Averages of Board Seats and Liquidation Preference

	1st quartile	Median	3rd quartile
Average number of board seats	1	1	2
Average multiple of liquidation preference	1	1	1.3

Respondents reported 24.6% of current deal flow came from entrepreneurs and 16.7% of deal flow came from angel affiliates.

Figure 97. Source of Current Deal Flow



Respondents reported the importance of certain due diligence activities and 88.2% reported that interviewing management teams was very important, 73.5% believe that analyzing industry and market experience was also very important.

Table 111. 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%	2.9%	8.8%	88.2%	3.9
Analyze industry and market	0.0%	2.9%	5.9%	17.6%	73.5%	3.6
Review financial plan	2.9%	5.9%	20.6%	23.5%	47.1%	3.1
Review business model	2.9%	2.9%	11.8%	20.6%	61.8%	3.4
Analyze product or service	0.0%	0.0%	6.1%	36.4%	57.6%	3.5
Perform reference calls	2.9%	5.9%	17.6%	29.4%	44.1%	3.1

Respondents ranked the importance of various deal attributes and 35.5% of respondents think that deals shopped widely are the least important while 37.0% believe that top tier management teams is the most important.

Table 112. Importance of Deal Attributes

Answer	Most important (6)					Least important (1)	Score (1 to 6)
Top tier management teams	37.0%	18.5%	11.1%	11.1%	7.4%	14.8%	4.2
Attractive addressable markets	18.2%	18.2%	13.6%	9.1%	22.7%	18.2%	3.5
Significant competitive advantages	14.8%	14.8%	25.9%	22.2%	14.8%	7.4%	3.7
Investment syndicates with aligned interests	14.8%	22.2%	11.1%	3.7%	37.0%	11.1%	3.4
Scalable and capital efficient business models	13.3%	16.7%	16.7%	36.7%	10.0%	6.7%	3.7
Deals that are not widely shopped	12.9%	16.1%	16.1%	12.9%	6.5%	35.5%	3.1

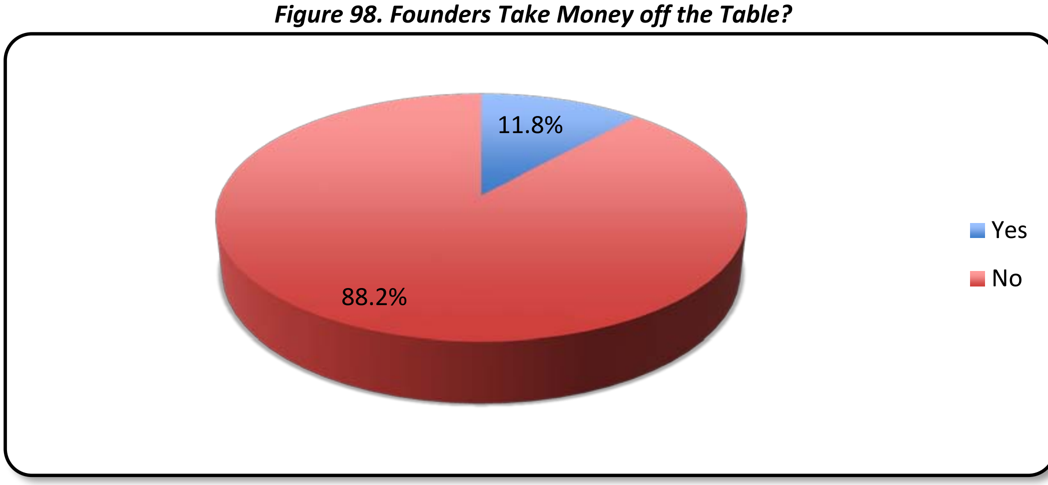
Respondents reported the distribution of expected returns by category on a portfolio of new investments deployed today. The median responses are reported in the table below.

Table 113. Distribution of Expected Returns on New Investments

	Total loss	Total loss to breakeven	Breakeven to 2X	2X to 5X	5X to 10X	Greater than 10X	Overall expected portfolio return (IRR %)
Seed	40.0%	20.0%	10.0%	10.0%	10.0%	10.0%	30%
Startup	30.0%	20.0%	17.5%	15.0%	12.5%	5.0%	30%
Early stage	20.0%	20.0%	25.0%	20.0%	10.0%	5.0%	30%
Expansion	10.0%	20.0%	40.0%	20.0%	7.0%	3.0%	15%
Later stage	2.5%	17.5%	30.0%	40.0%	10.0%	0.0%	12.5%

Around 88.2% of respondents do not allow the founder to take money off the table with a new investment.

Figure 98. Founders Take Money off the Table?



Business Conditions and Economic Outlook

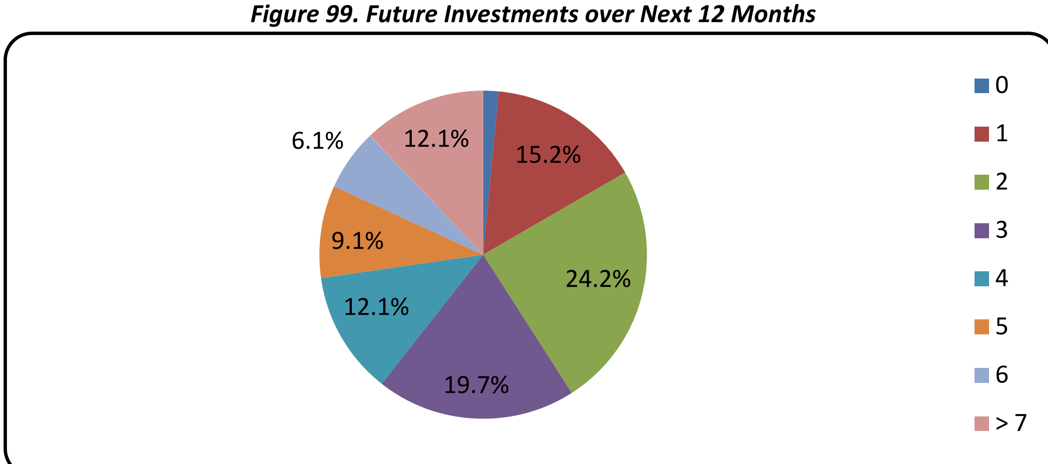
Respondents evaluated certain operational, business, and industry factors and compared those to the same factors from six months ago. A general appetite for risk has decreased while the expected exit times on new investment have increased significantly.

Table 114. Six-Month Evaluation

	Increased	Decreased	Stayed about the same
Number of business plans received	40.0%	16.7%	43.3%
Number of high-quality investment prospects	46.7%	33.3%	20.0%
Percentage of "up" rounds	10.3%	58.6%	31.0%
Percentage of business plans funded	10.7%	53.6%	35.7%
Average investment size	13.8%	37.9%	48.3%
Expected exit multiples	13.3%	36.7%	50.0%
Expected exit time	51.7%	17.2%	31.0%
Size of angel finance industry	29.6%	48.1%	22.2%
Appetite for risk (general)	14.3%	57.1%	28.6%
Appetite for start-up risk	14.3%	50.0%	35.7%
Quality of portfolio	34.5%	37.9%	27.6%
International capital flight	26.9%	11.5%	61.5%
Competition from foreign investors	32.0%	12.0%	56.0%
Later stage investments	46.2%	15.4%	38.5%
Deals with consortiums	52.0%	12.0%	36.0%
Due diligence activities	57.1%	3.6%	39.3%

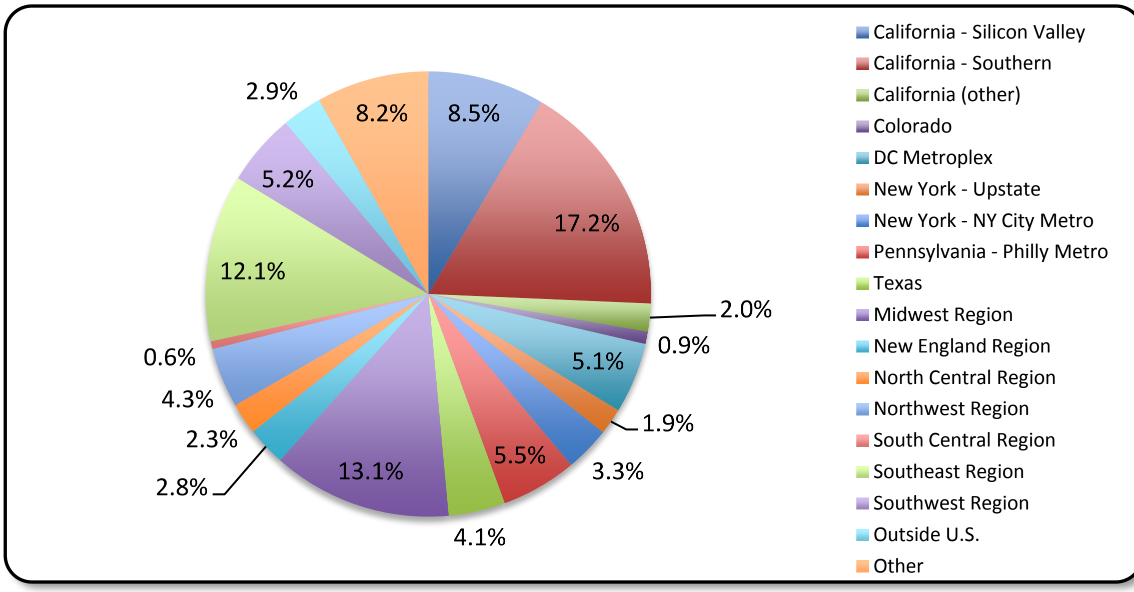
When asked about how many investments they planned to make over the next 12 months, 24.2% of respondents said they planned on making two investments, followed by 19.7% who claimed that they would make three investments over the next 12 months.

Figure 99. Future Investments over Next 12 Months



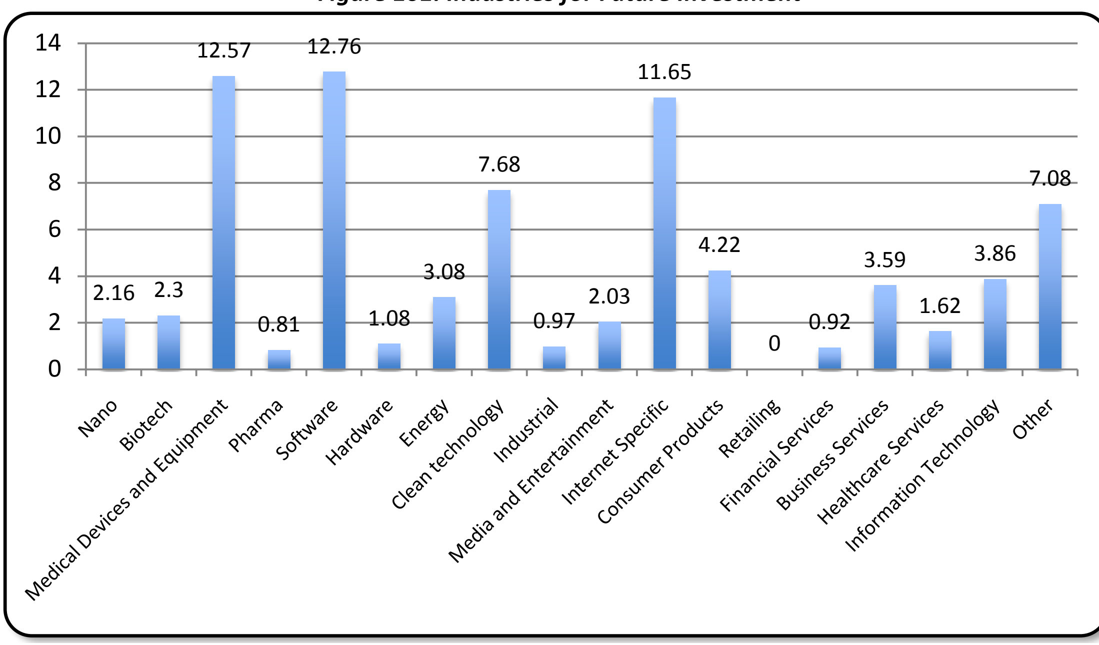
When asked about plans for future investments over the next 12 months, 17.2% of respondents reported plans to invest in Southern California, followed by 13.1% who reported plans to invest in the midwest.

Figure 100. Geographic Location of Future Investments



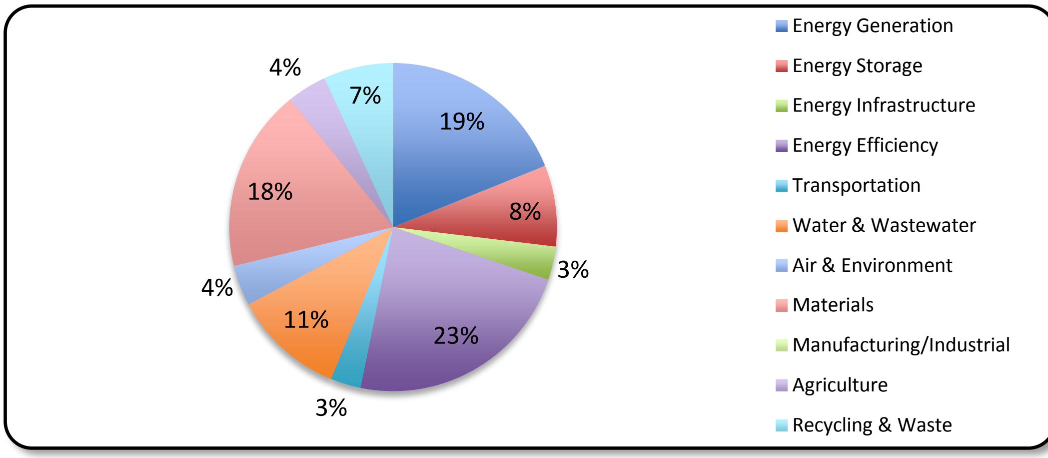
Respondents were asked in which industries they planned to invest over the next 12 months.

Figure 101. Industries for Future Investment



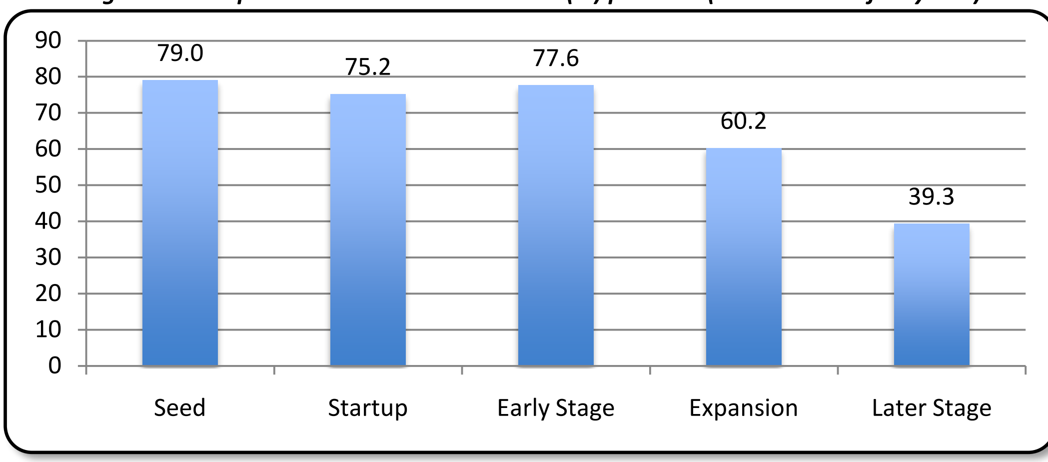
When asked about investing in areas of clean tech, 23% of respondents reported energy efficiency to be the top area for investment, followed by 19%, who plan to invest in energy generation and 18%, who are eyeing materials.

Figure 102. Investing in Areas of Clean Tech



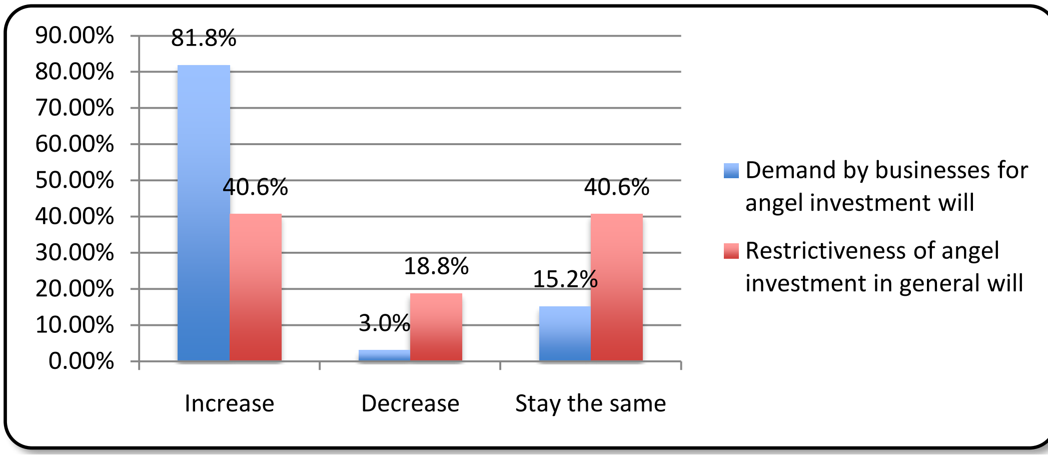
When asked about investments today, respondents reported their expected growth per year over the next five years. Average values are shown in the figure below.

Figure 103. Expected Revenue Growth Rate (%) per Year (over the next five years)



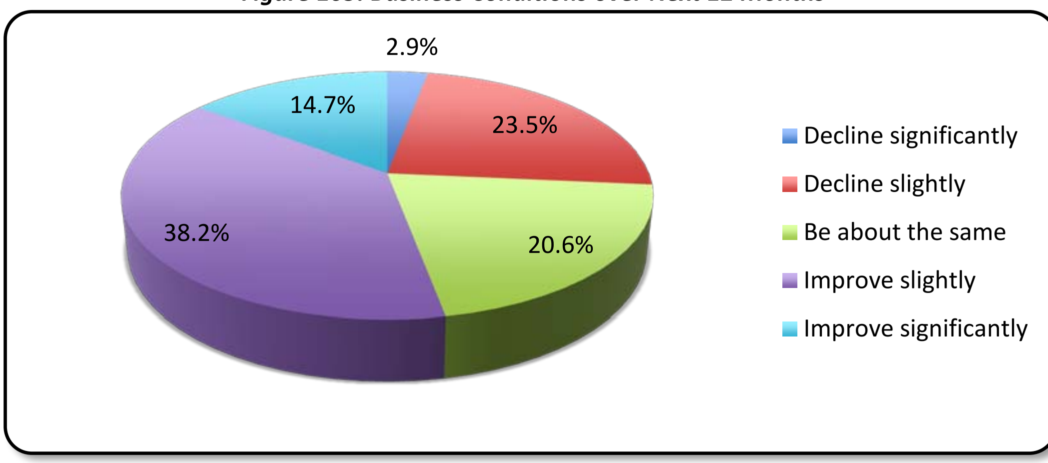
Around 81.8% of respondents predict that the demand from businesses for angel investment will increase over the next 12 months. In addition, around 40.6% of respondents believe that restrictiveness of angel investments will increase while another 40.6% of respondents believe that restrictiveness will stay the same.

Figure 104. 12-Month Predictions for Angel Investment



Around 38.2% of respondents believe that business conditions will improve slightly over the next 12 months, and 2.9% believe that business conditions will decline significantly over the next 12 months.

Figure 105. Business Conditions over Next 12 Months



Angel investors believe that overall gross domestic product will increase by 1.9% over the next 12 months, while the privately-held company gross domestic product equivalent is expected to rise by 2.5%.

Table 115. GDP Forecast (12-month)

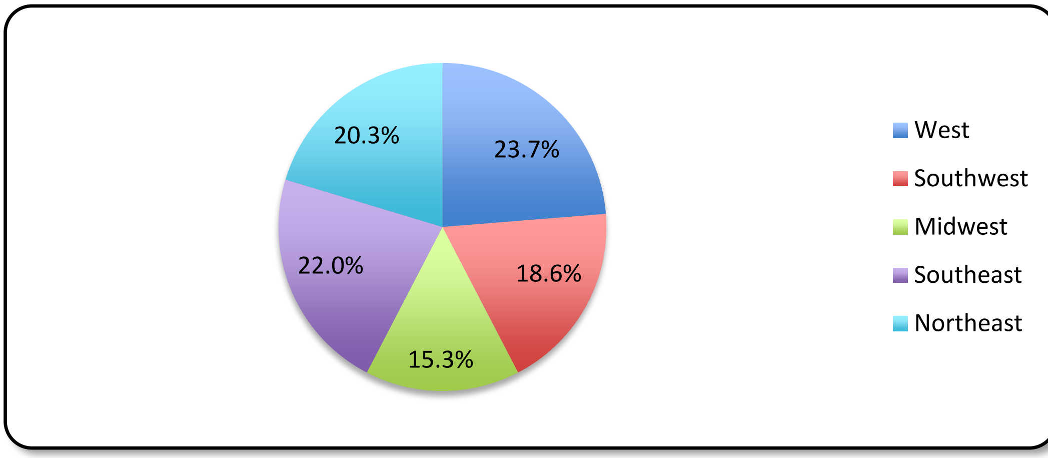
	Expected GDP change (%)
Overall GDP	1.9%
Privately-held company equivalent GDP	2.5%

FACTOR SURVEY INFORMATION

Profile of Respondents

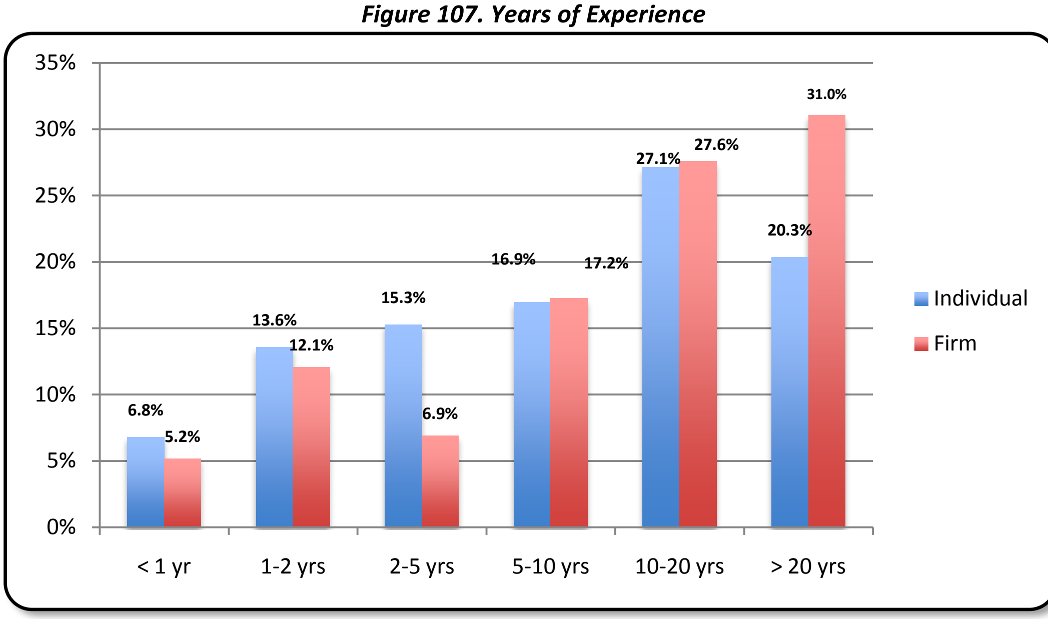
Based on 70 responses, the Factor Survey results reflect that 23.7% respondents have offices in the western area of the U.S., while 22% have their base in the southeast and 20.3% have businesses in the northeast.

Figure 106. Location of Office



Approximately 47.4% of individual respondents reported having over 10 years of experience in the factoring industry. Around 16.9% reported having five to 10 years of experience.

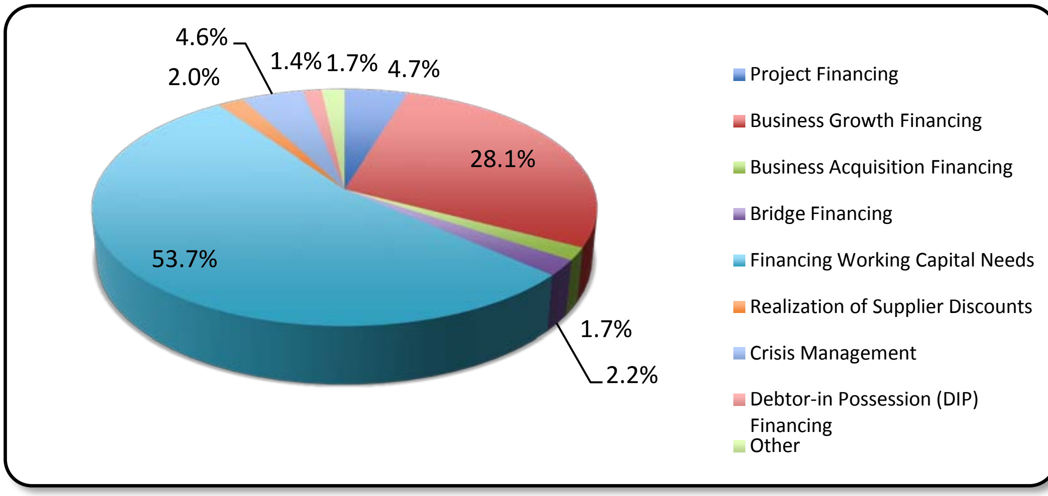
Figure 107. Years of Experience



Operational Characteristics

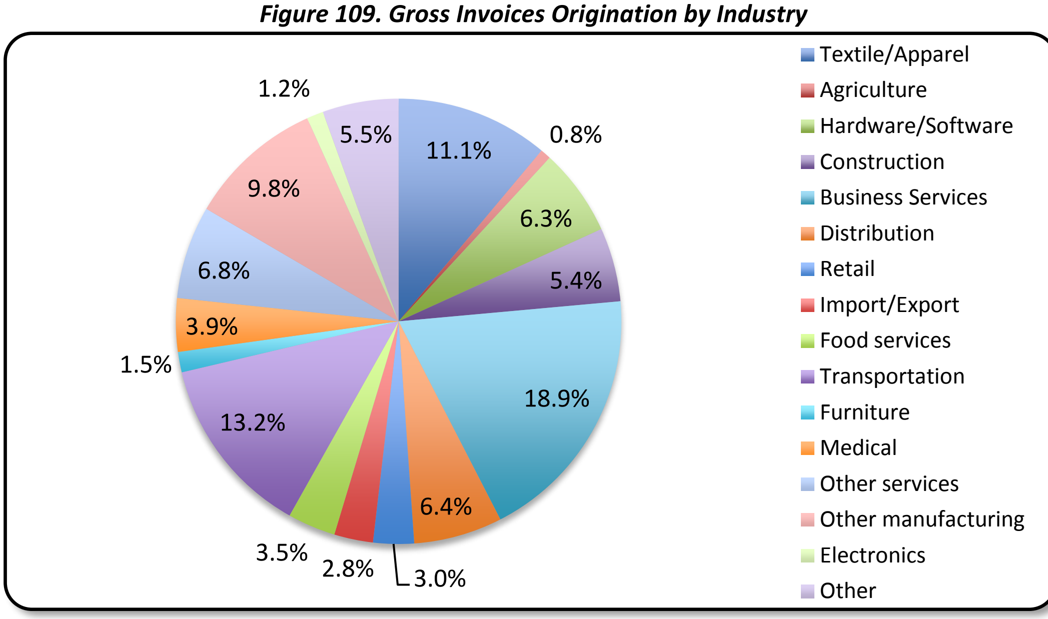
Respondents reported that the primary uses of factoring facilities include financing working capital needs (53.7%) and business growth financing (28.1%).

Figure 108. Motivation for Factoring Facilities over Last Six Months



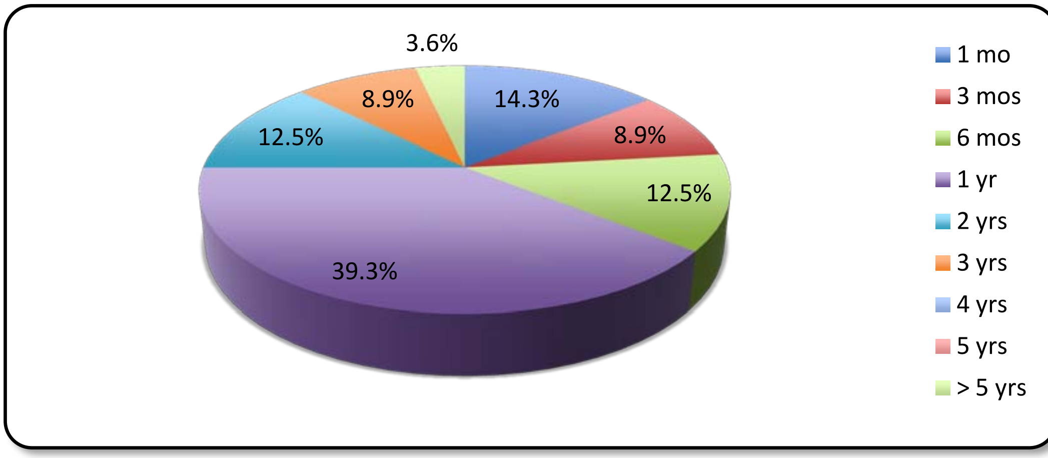
Respondents reported that 18.9% of their company's gross invoices were originated from business services over the last six months. Transportation was responsible for 13.2% of invoices, followed by textile and apparel at 11.1%.

Figure 109. Gross Invoices Origination by Industry



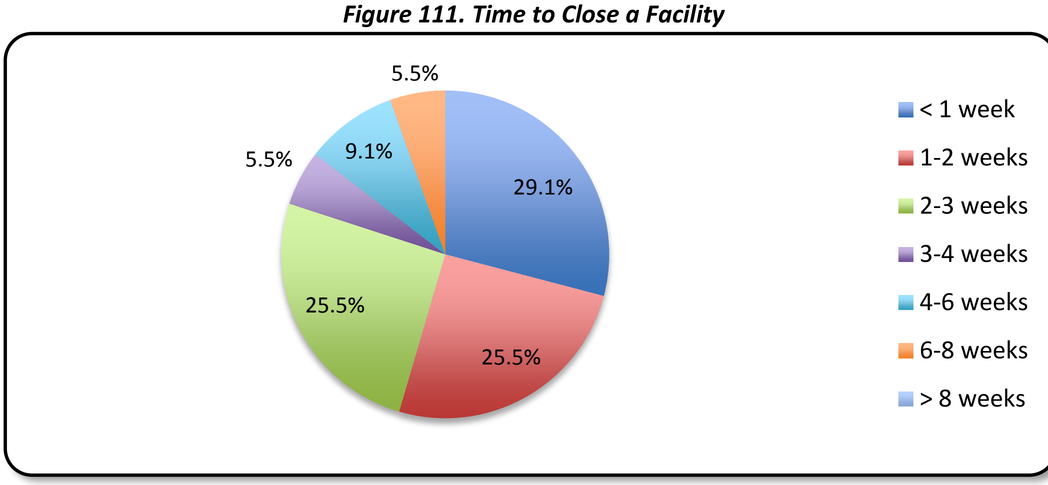
Respondents reported that 39.3% are one-year term current factoring facilities and 14.3% have a one-month term. None reported having four- or five-year terms.

Figure 110. Term of Current Typical Factoring Facility



Respondents reported that 29.1% take less than one week to close a facility, followed by 25.5% that take one to two weeks and 25.5% that take two to three weeks. None of the respondents reported taking more than eight weeks to close a facility.

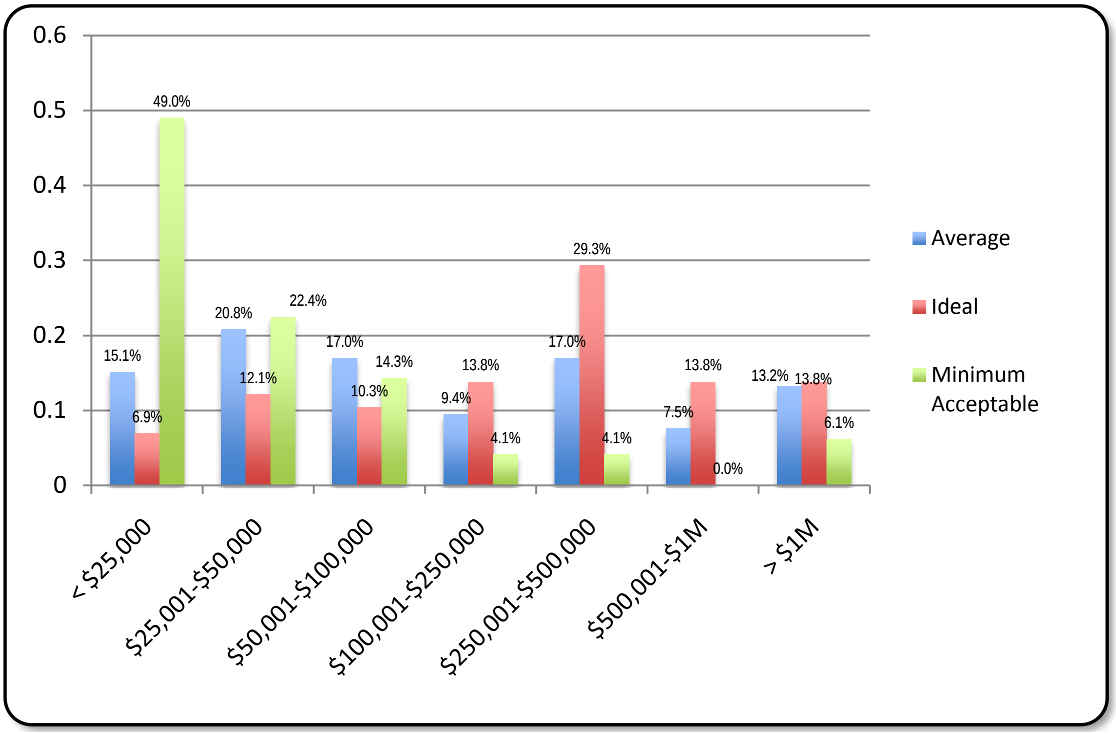
Figure 111. Time to Close a Facility



Pricing and Terms

The smallest minimal acceptable deal size reported by 49.0% of respondents was for those less than $25,000, while 29.3% reported their ideal size to be $250,000-$500,000 and 20.8% reported their average deal size to be $25,000-$50,000.

Figure 112. Monthly Deal Size over Last Six Months



The median average advance rates for monthly facilities are 80.0% from $25,000 facilities to $10M and starts increasing at $25M facilities.

Table 116. Average Advance Rates for Facilities (%)

	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

Discount fees for various sized invoices on both a non-notification and notification basis are reported for 1st quartile, median, and 3rd quartile.

Table 117. Current Discount Fees for Invoices on Non-Notification Basis (%) by Monthly Volume

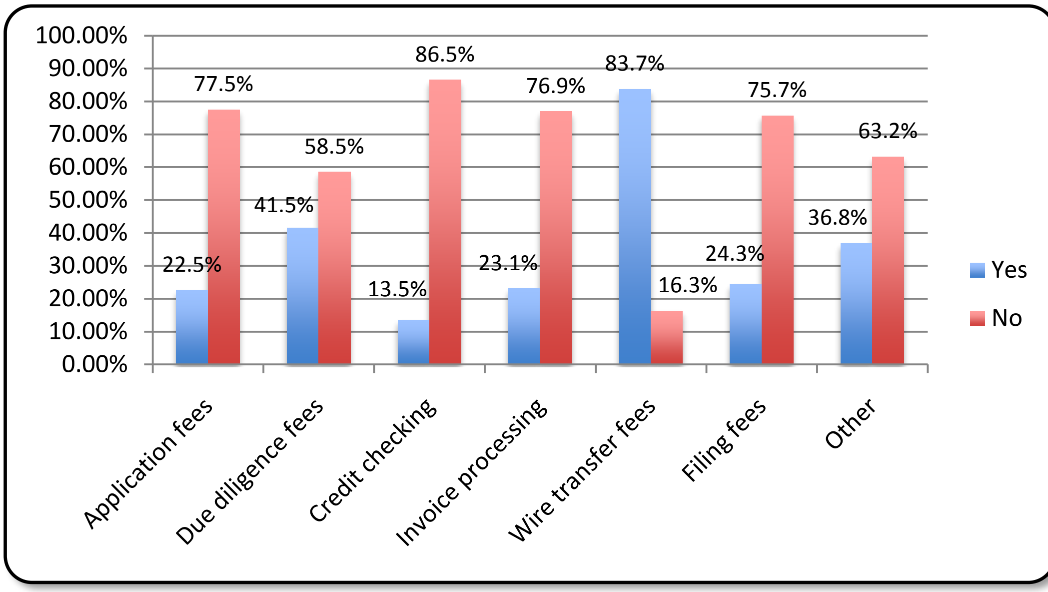
	$25,000	$50,000	$100,000	$250,000	$500,000	$1M	$5M
First 30 days							
1st quartile	2.9%	2.9%	2.2%	2.0%	1.8%	1.3%	1.0%
Median	3.0%	3.0%	3.0%	2.5%	2.3%	1.8%	1.3%
3rd quartile	5.0%	4.0%	3.0%	3.0%	3.0%	2.3%	1.9%
Next 15 days (31-45)							
1st quartile	1.3%	1.0%	1.0%	1.0%	0.8%	0.7%	0.5%
Median	1.5%	1.5%	1.5%	1.5%	1.5%	1.3%	0.5%
3rd quartile	2.4%	2.0%	2.1%	2.1%	2.2%	2.2%	2.0%
Next 15 days (46-60)							
1st quartile	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.5%
Median	1.5%	1.5%	1.5%	1.5%	1.5%	1.1%	1.0%
3rd quartile	2.5%	1.7%	2.1%	1.9%	2.3%	2.1%	1.9%

Table 118. Current Discount Fees for Invoices on Notification Basis (%) by Monthly Volume

	$25,000	$50,000	$100,000	$250,000	$500,000	$1M	$5M
First 30 days							
1st quartile	3.0%	2.8%	2.5%	2.1%	2.0%	1.5%	1.0%
Median	3.0%	3.0%	3.0%	2.5%	2.3%	2.0%	1.5%
3rd quartile	4.0%	4.0%	3.0%	3.0%	3.0%	2.5%	2.2%
Next 15 days (31-45)							
1st quartile	1.5%	1.4%	1.1%	1.0%	1.0%	0.8%	0.5%
Median	1.5%	1.5%	1.5%	1.4%	1.4%	1.2%	0.9%
3rd quartile	2.3%	2.2%	2.2%	1.5%	2.0%	2.1%	1.4%
Next 15 days (46-60)							
1st quartile	1.5%	1.4%	1.0%	1.0%	1.0%	0.8%	0.5%
Median	1.5%	1.5%	1.5%	1.4%	1.4%	1.2%	0.9%
3rd quartile	2.5%	2.3%	2.1%	1.8%	2.2%	2.3%	1.4%

Respondents reported on the various fees they charge. Credit checking is not charged by 86.5% of respondents, while 83.7% do charge for wire transfer fees.

Figure 113. Fees Charged



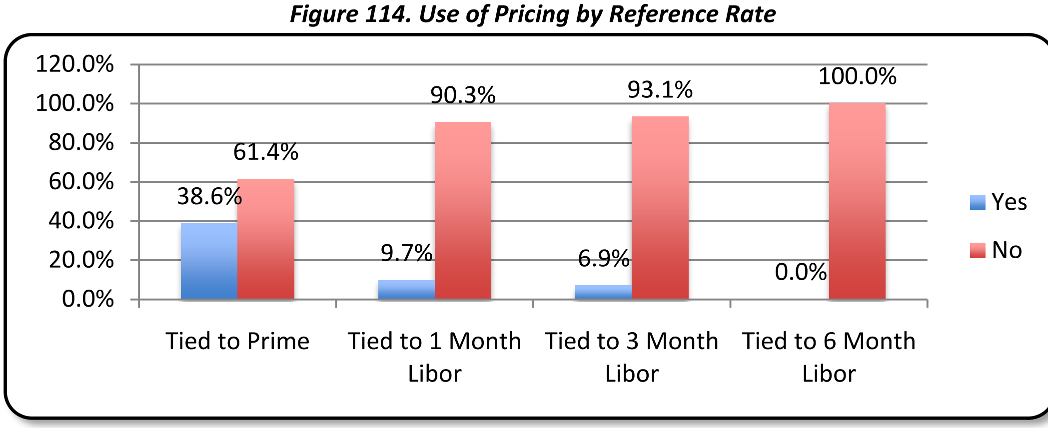
Respondents reported on the sizes of fees they charged. The data regarding various fees are displayed in 1st quartile, median, and 3rd quartiles.

Table 119. Amount of Fees Charged ($ or %)

	Application fee	Due diligence	Credit check	Invoice processing	Wire transfer	Filing fees
1st quartile	$361	$250	$21	0.8%	$15	$23
Median	$423	$400	$25	1.0%	$19	$28
3rd quartile	$488	$1,000	$27	1.3%	$25	$36

Respondents reported the extent to which pricing is based upon reference rates. Thirty-eight percent (38.6%) reported that their pricing strategies tied to the prime rate.

Figure 114. Use of Pricing by Reference Rate



The median spread tied to referencing prime was reported at 2.5%.

Table 120. Spread (%) Tied to Prime

1st quartile	**0.2%**
Median	2.5%
3rd quartile	3.4%

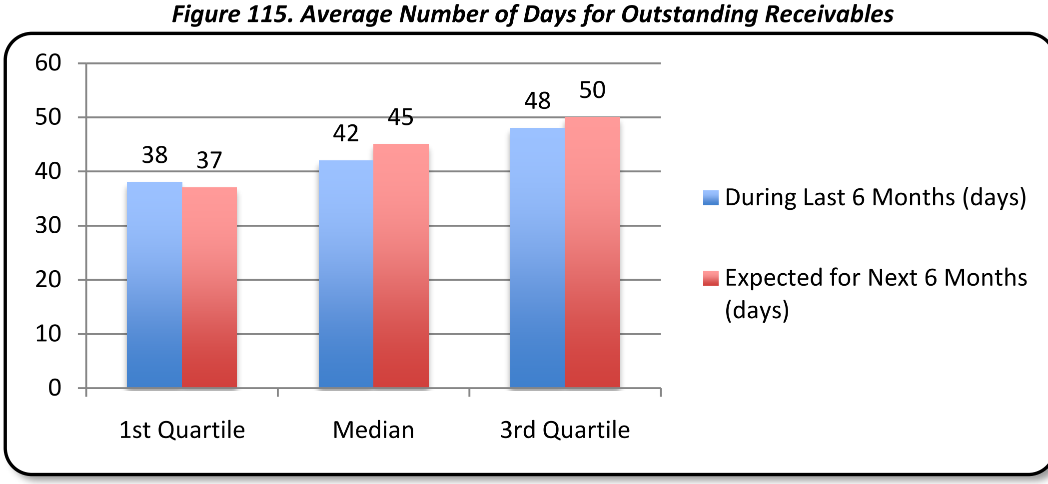
As a percentage of net funds employed on new arrangements, the median write-off amount expected is 1.0%.

Table 121. Expected Net Fund Write-Offs

1st quartile	**0.2%**
Median	1.0%
3rd quartile	3.2%

The median number of days for outstanding receivables was 42 days (during last six months) and 45 days is the expected median number for the next six months.

Figure 115. Average Number of Days for Outstanding Receivables



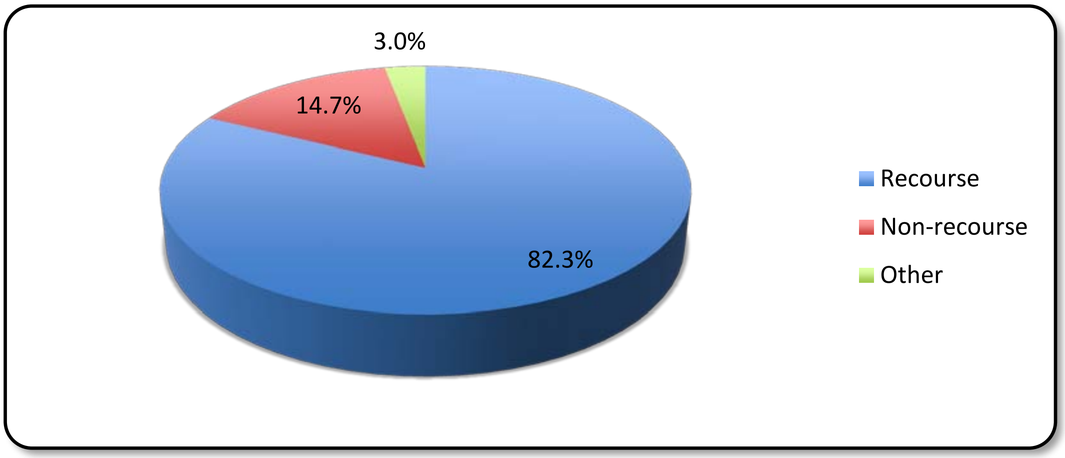
The median of clearance time reported was three days.

Table 122. Average "Clearance" Time in Days

	Number of days
1st quartile	2
Median	3
3rd quartile	3

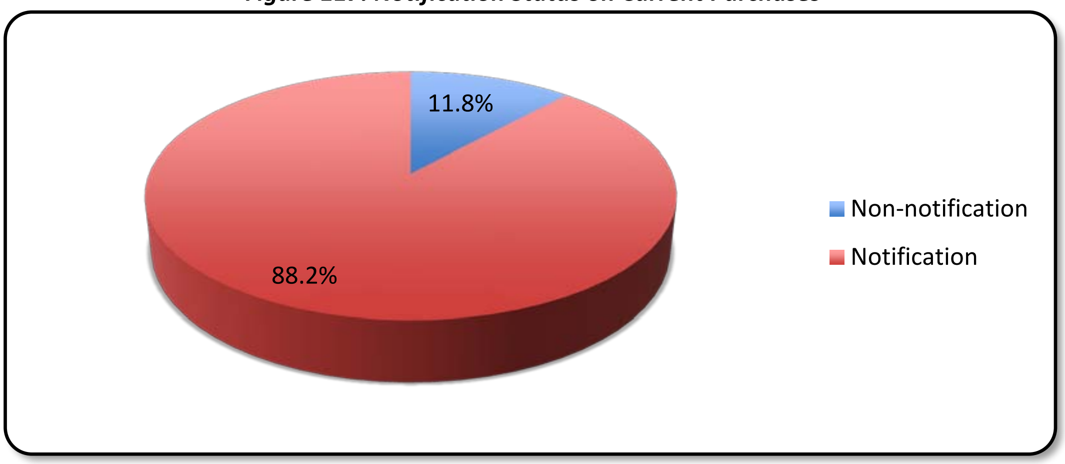
Respondents reported that 82.3% of current factoring business was recourse while only 14.7% was non-recourse.

Figure 116. Current Factoring Business: Recourse or Non-Recourse



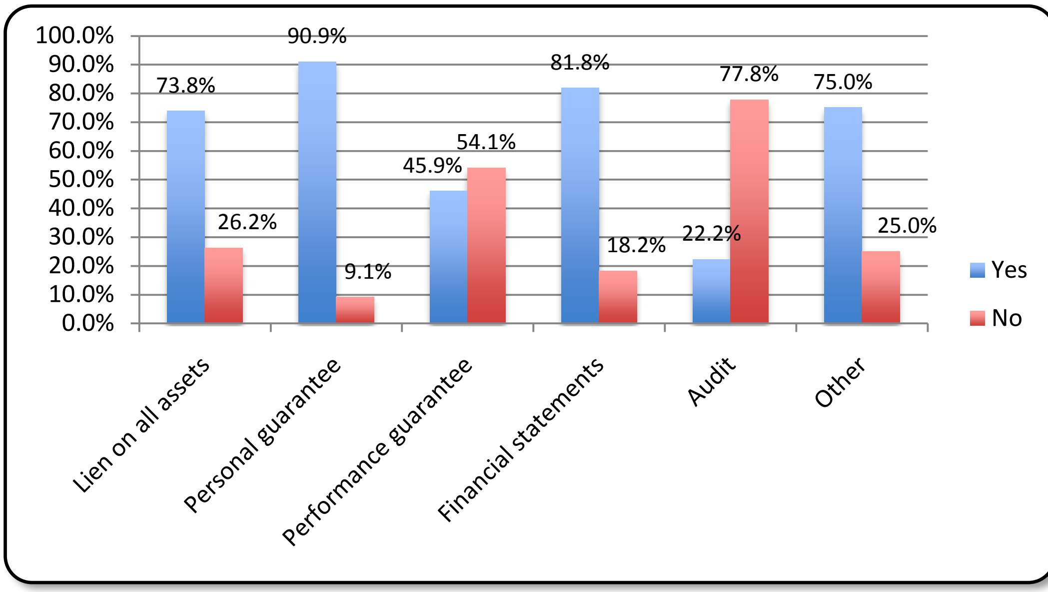
Respondents reported that 88.2% of their current purchases were on a notification basis.

Figure 117. Notification Status on Current Purchases



Respondents reported on current facility requirements. Around 90.9% require a personal guarantee, 81.8% require financial statements and 77.8% do not currently require an audit. "Other" category included: valid guarantee, lien on AR, proof of tax payments, and valid insurance and licenses.

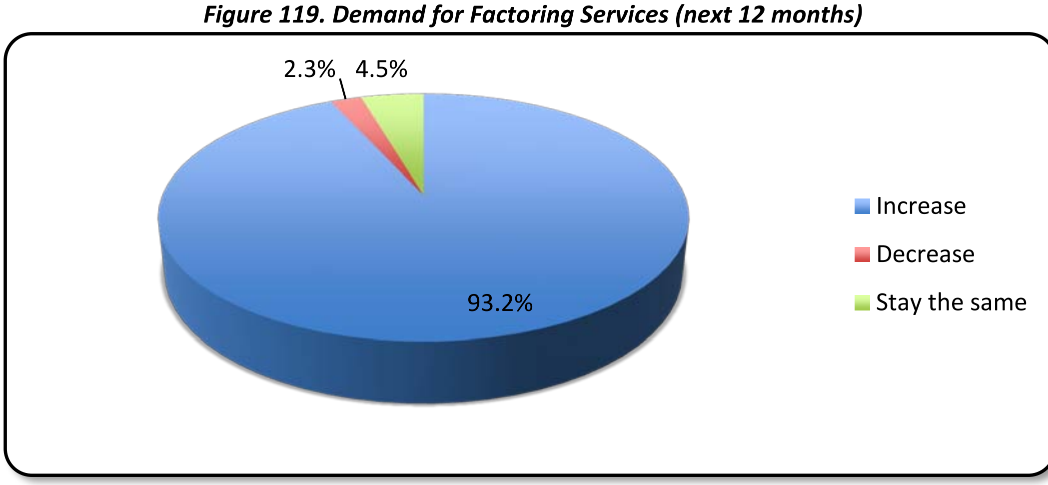
Figure 118. Current Requirements



Industry and Economic Outlook

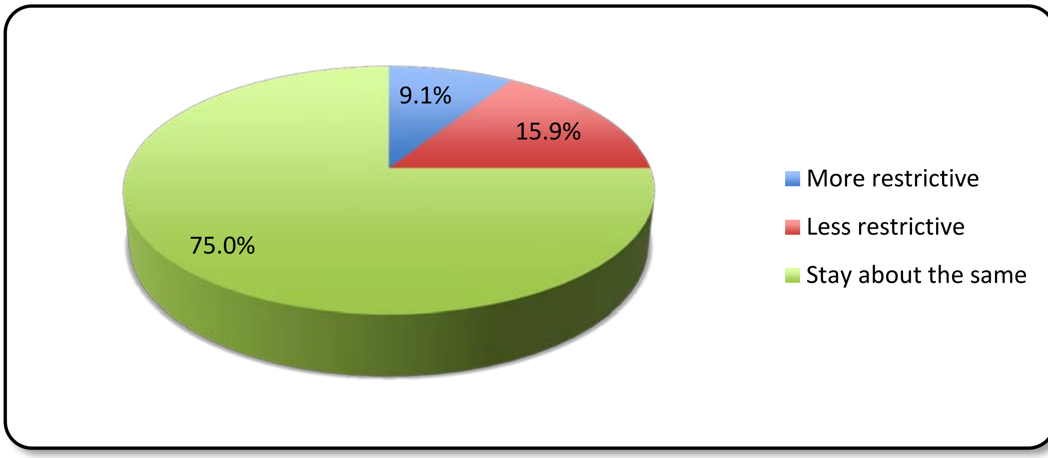
Respondents reported on their predictions for demand for factoring services. Around 93.2% believe that there will be an increase over the next 12 months.

Figure 119. Demand for Factoring Services (next 12 months)



Approximately 75% of respondents believe that restrictions on factoring services will remain about the same over the next 12 months.

Figure 120. Restrictiveness of Factoring Services (next 12 months)



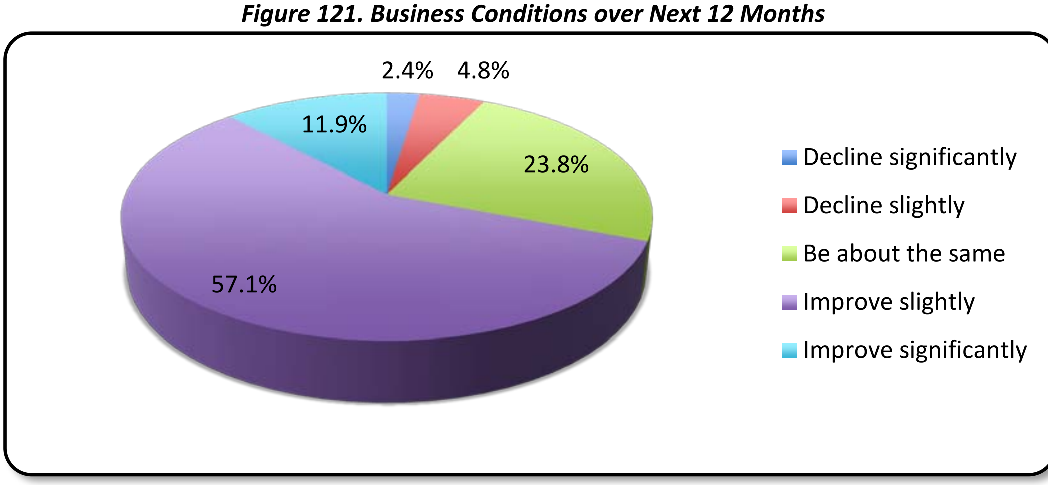
Over the next 12 months, respondents believe that overall gross domestic product will increase by 1.9% while the privately-held company GDP equivalent is expected to rise by 2.0%.

Table 123. GDP Forecast for Next 12 Months

	Expected GDP change (%)
Overall GDP	1.9%
Privately-held company equivalent GDP	2.0%

Around 57.1% of respondents predict that business conditions will improve slightly over the next 12 months, followed by 23.8% of respondents, who believe that conditions will be about the same.

Figure 121. Business Conditions over Next 12 Months

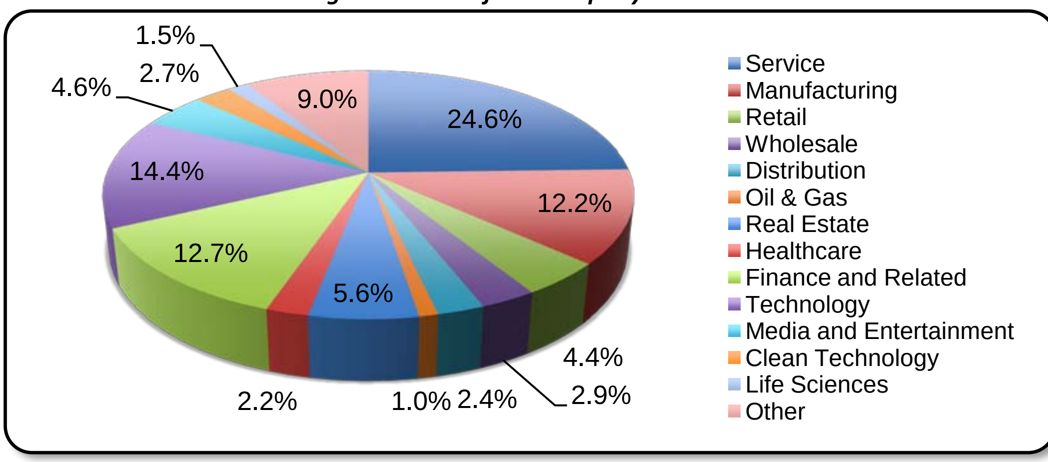


PRIVATELY-HELD BUSINESS SURVEY INFORMATION

Profile of Respondents

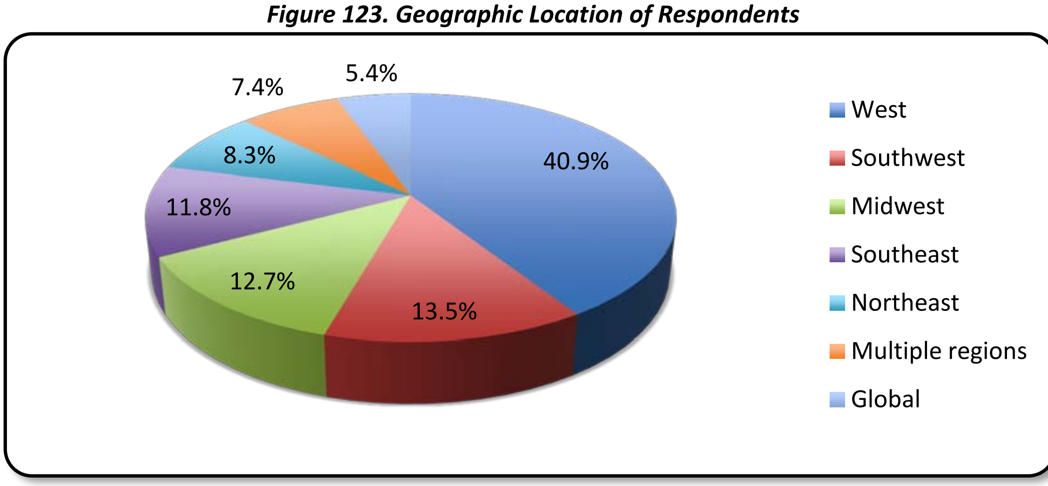
The privately-held business survey results were generated from 559 participants. Approximately twenty-five percent (24.6%) of businesses are in the service industry followed by technology (14.4%), finance (12.7%), and manufacturing (12.2%).

Figure 122. Portfolio Company Industries



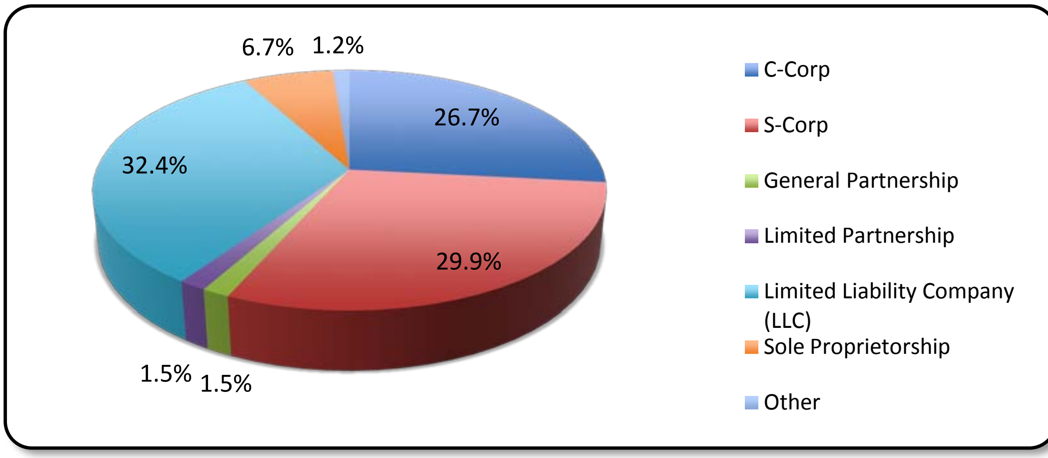
Respondents are geographically dispersed throughout the United States. The largest concentration of respondents are located in the west (40.9%) followed by the southwest (13.5%) and midwest (12.7%).

Figure 123. Geographic Location of Respondents



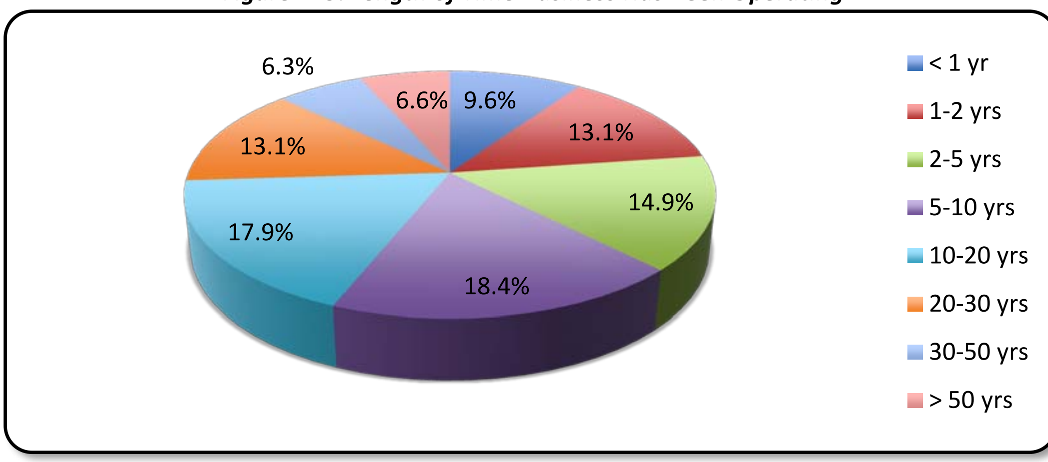
The largest concentration of businesses is limited liability companies (32.4%), followed by S-corporation (29.9%) and C-corporation (26.7%).

Figure 124. Legal Description of Business Type



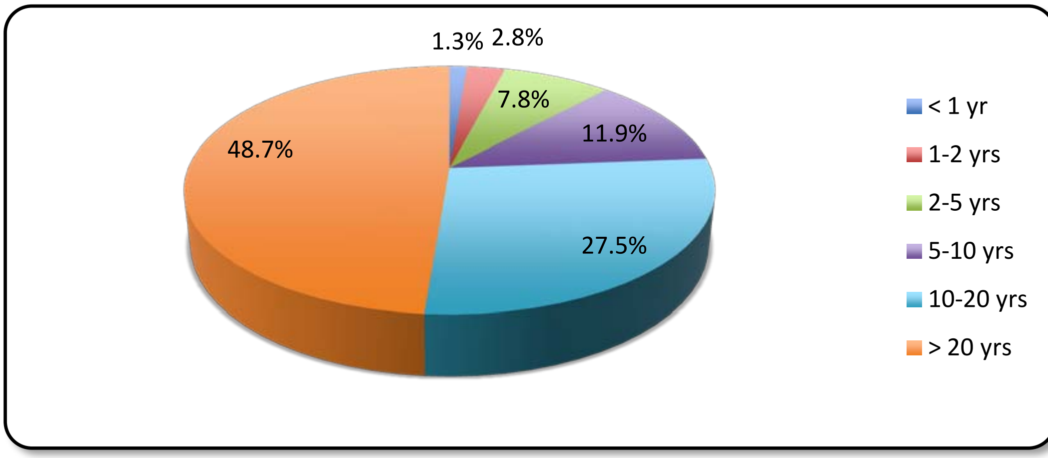
Over 26% of respondents report that their companies have been operating for more than 20 years followed by 17.9% with 10 to 20 years and 18.4% with five to 10 years of operation.

Figure 125. Length of Time Business Has Been Operating



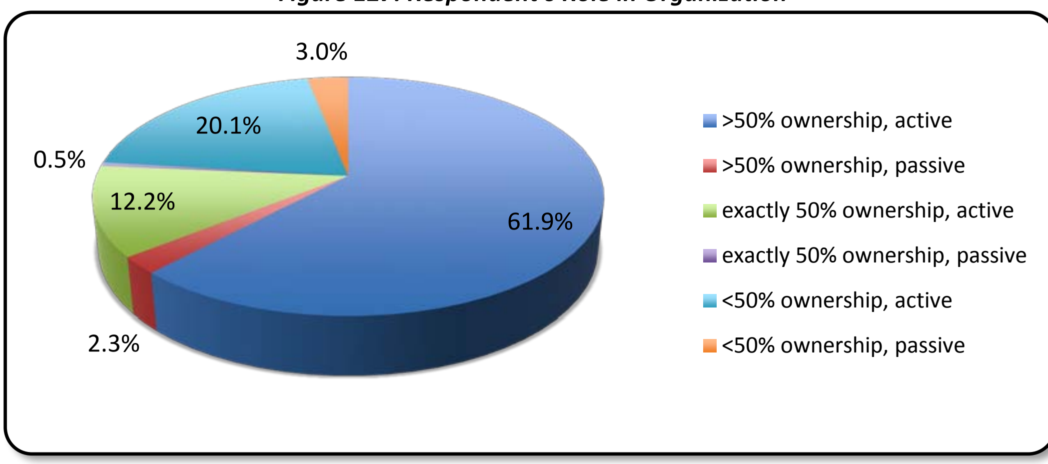
Nearly 48.7% of respondents reported that their companies have more than 20 years of experience in this industry. Approximately 27.5% of respondents reported experience from 10 to 20 years and 11.9% reported experience from five to 10 years.

Figure 126. Number of Years of Experience in This Industry



All respondents are owners of their companies and 61.9% of them are active owners with greater than 50% ownership.

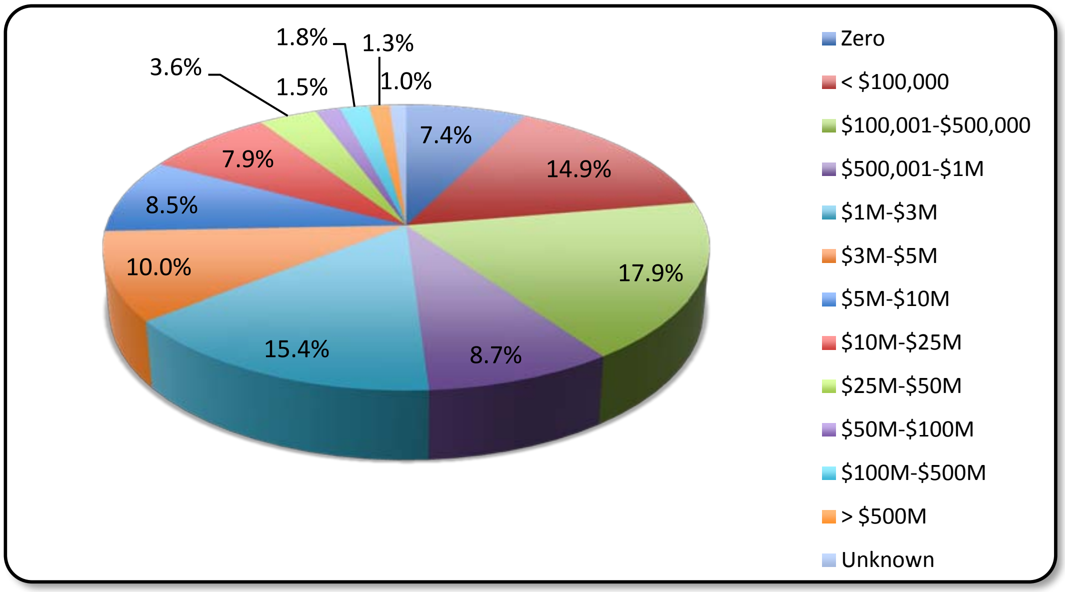
Figure 127. Respondent's Role in Organization



Operational Characteristics

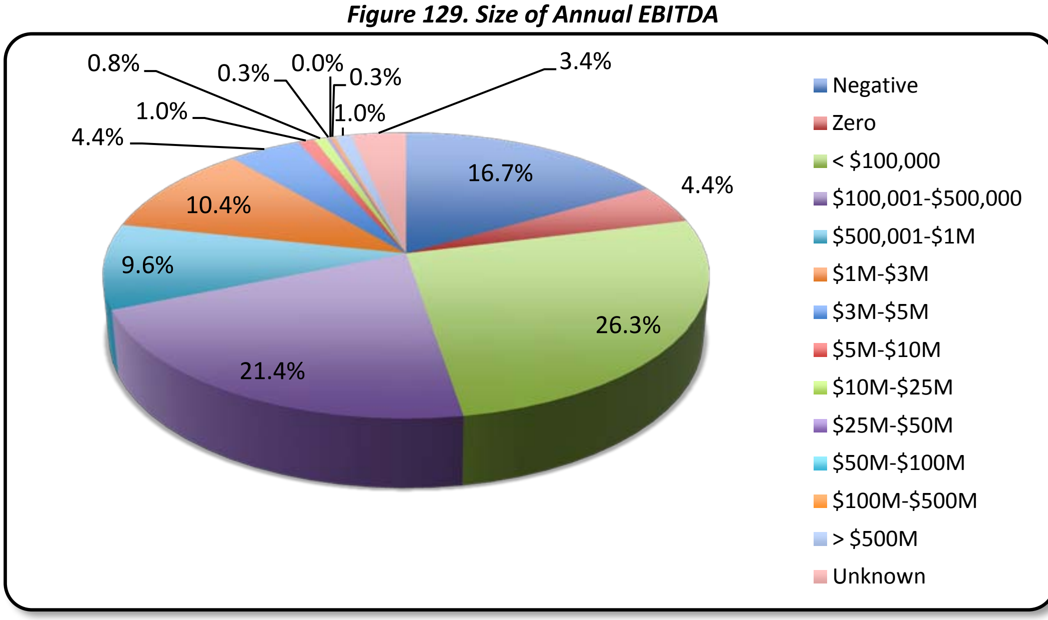
The largest concentration of business revenues exists in the range from $100,001 to $500,000 (17.9%) followed by $1M to $3M (15.4%) and less than $100,000 (14.9%).

Figure 128. Annual Revenues (latest 12 months)



The largest concentration of EBITDA exists in the range of $0 to $100,000 (26.3%) followed by $100,001 to $500,000 (21.4%) and then negative (16.7%).

Figure 129. Size of Annual EBITDA



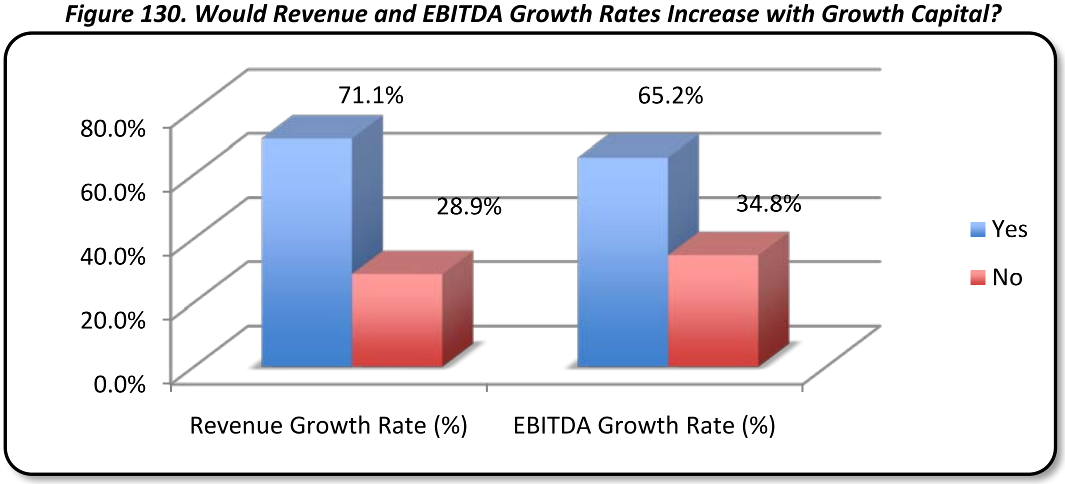
Business owners provided information on revenue and EBITDA growth rate expectations and current valuations based on revenue and EBITDA multipliers. Median, 1st quartile, and 3rd quartile data are reported for each as following.

Table 124. Current Growth Forecast and Self-Reported Valuation Multiples

	1st quartile	Median	3rd quartile
Revenue Growth Rate (%)	2.0%	10.0%	25.0%
EBITDA Growth Rate (%)	2.0%	9.0%	25.0%
Revenue growth rate expectations with additional growth capital (excluding acquisitions)	10.0%	25.0%	70.0%
EBITDA growth rate expectations with additional growth capital (excluding acquisitions	6.8%	20.0%	71.3%
Estimate of the current valuation multiple based upon annual revenues	1.2	3.0	5.0
Estimate of the current valuation multiple based upon annual EBITDA	3.0	5.0	8.0

Respondents were asked whether their revenue and EBITDA growth rates would change if they had additional growth capital. Around 71.1% of respondents expected enhanced revenue growth and 65.2% of respondents expected additional EBITDA growth with additional growth capital.

Figure 130. Would Revenue and EBITDA Growth Rates Increase with Growth Capital?



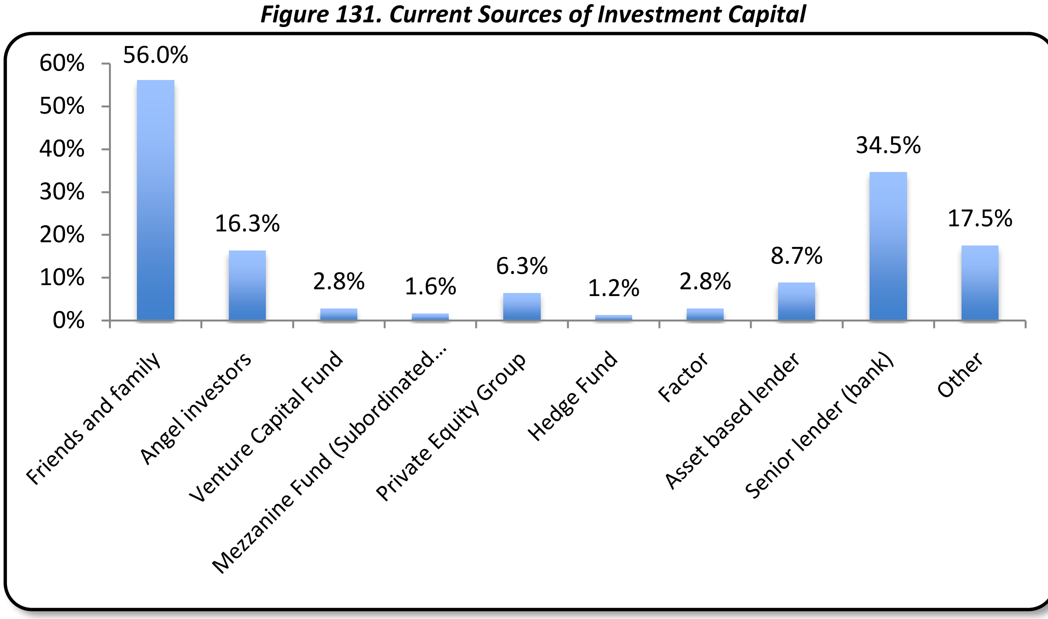
Respondents reported on questions related to business operation practices. Nearly all respondents (96.6%) report their company having the desire, drive, and enthusiasm to grow and execute growth strategies. Just 22.4% of respondents report having an outside board of directors to help guide their companies.

Table 125. Responses to "Does your company…"

	Yes	No
Prepare an annual budget?	76.5%	23.5%
Have financial statements audited or reviewed (not just compiled) by a CPA annually?	47.1%	52.9%
Have a mission and vision statement made known to your employees and customers?	77.0%	23.0%
Engage in planning beyond the current year?	80.1%	19.9%
Have an outside board of directors to help guide your company?	22.4%	77.6%
Have key performance indicators that are reviewed regularly?	75.8%	24.2%
Have a solid growth strategy?	78.1%	21.9%
Have necessary resources (people, money, etc.) to grow?	40.8%	59.2%
Have the desire, drive, and enthusiasm to grow and execute growth strategies?	96.6%	3.4%

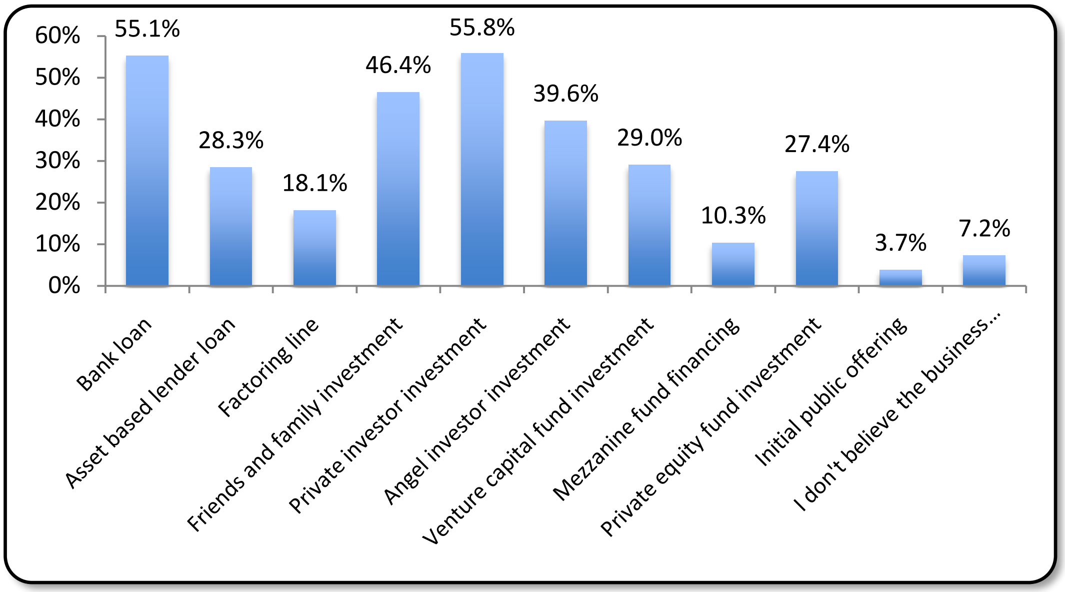
Approximately 56.0% of respondents reported that their companies had friends and family as an investment source. Roughly 34.5% of respondents used senior lenders (banks), while 16.3% reported angel investors as the source of investment.

Figure 131. Current Sources of Investment Capital



Approximately 55.8% of respondents reported that they believed they qualify for private investor investment. Around 55.1% of respondents reported that they were qualified for bank loans and 39.6% of respondents were qualified for angel investor investment. Just 7.2% believed they didn't currently qualify for any investment.

Figure 132. Which of the following do you think your company qualifies for?



Respondents were asked their thoughts on how many businesses out of 1,000 would qualify for the following investment types from any bank or investor type. Median, 1st quartile, and 3rd quartile estimates are reported for each below.

Table 126. Estimated Percentage of Businesses Qualifying for Investment

	1st quartile	Median	3rd quartile
Bank loan	7.5%	20.0%	40.0%
Asset-based lending	7.0%	20.0%	50.0%
Factoring line	5.0%	20.0%	50.0%
Angel investor	2.0%	5.0%	10.0%
Venture capital fund investment	1.0%	3.0%	10.0%
Mezzanine fund investment	1.0%	5.0%	10.0%
Private equity fund investment	1.0%	5.0%	10.0%

Respondents reported on their overall impressions of the different types of capital sources. Angel investors give the best impression, followed by senior lenders and then friends and family.

Table 127. Overall Impressions of the Following Capital Sources

	Very unfavorable	Unfavor-able	Slightly unfavor-able	Neutral	Slightly favor-able	Favorable	Very favor-able	Score (-3 to 3)
Friends and family	9.9%	11.6%	10.6%	20.9%	12.9%	23.8%	10.3%	0.28
Angel investor	4.7%	11.0%	10.3%	24.3%	22.0%	22.0%	5.7%	0.37
Venture capital fund	8.3%	17.9%	21.3%	16.3%	19.6%	13.3%	3.3%	-0.26
Mezzanine fund	5.9%	13.9%	14.6%	34.5%	17.4%	10.8%	2.9%	-0.13
Private equity fund	3.7%	11.2%	14.3%	27.2%	19.7%	19.0%	4.9%	0.24
Factor	14.7%	19.5%	15.7%	30.7%	10.9%	6.5%	2.0%	-0.69
Asset-based lender	4.7%	10.8%	13.9%	26.4%	22.0%	16.9%	5.3%	0.22
Senior lender (bank)	10.0%	12.0%	10.3%	17.3%	15.3%	21.6%	13.5%	0.35

In addition to their overall impressions of the different sources of capital, respondents also reported on their impressions on the costs of various capital sources. Venture capital was reported as the most expensive, followed by private equity funding and the least expensive source was friends and family.

Table 128. Impressions of the Costs of Various Capital Sources

	Very inexpensive	Inex-pensive	Slightly inexpensive	Neutral	Slightly expensive	Expen-sive	Very expensive	Score (-3 to 3)
Friends and family	11.3%	23.5%	16.4%	23.2%	15.0%	6.8%	3.8%	-0.57
Angel investor	1.0%	3.8%	7.3%	16.3%	24.2%	34.6%	12.8%	1.14
Venture capital fund	0.7%	2.1%	0.0%	6.9%	11.1%	31.1%	48.1%	2.11
Mezzanine Fund	0.7%	0.4%	1.1%	15.5%	18.3%	38.5%	25.5%	1.68
Private equity fund	0.7%	0.4%	2.5%	9.2%	21.1%	37.3%	28.9%	1.77
Factor	0.7%	0.7%	2.2%	16.5%	19.0%	30.8%	30.1%	1.65
Asset-based lender	0.7%	2.5%	7.4%	17.0%	36.2%	27.0%	9.2%	1.03
Senior lender (bank)	1.0%	9.3%	8.3%	21.7%	33.1%	17.9%	8.6%	0.65

Setting aside the cost of financing, venture capital funding was reported as the most beneficial source, followed by angel investor and private equity funding.

Table 129. Impressions of the Benefits Provided by the Following Capital Sources

	No benefits provided	Slightly beneficial	Moderately Beneficial	Very beneficial	Extremely beneficial	Score (0 to 4)
Friends and family	28.5%	28.1%	20.6%	14.2%	8.5%	1.46
Angel investor	10.0%	17.9%	38.7%	26.2%	7.2%	2.03
Venture capital fund	8.6%	18.0%	35.6%	31.3%	6.5%	2.09
Mezzanine Fund	17.0%	27.2%	35.5%	17.0%	3.4%	1.63
Private equity fund	10.0%	21.1%	33.3%	28.1%	7.4%	2.02
Factor	37.9%	29.2%	23.1%	8.0%	1.9%	1.07
Asset-based lender	24.6%	28.3%	28.3%	14.7%	4.0%	1.45
Senior lender (bank)	18.5%	27.9%	29.0%	17.8%	6.9%	1.67

Respondents were asked to share their annual pretax required rates of return (hurdle rates) for different investments. From the lowest (by median rate) to highest are the following: new phone system (10%), new computer system (10%), general investment in the business (20%), hiring a salesperson (20%), expanding a current market niche (20%), entering a new market niche (25%), and acquiring a competitor (25%).

Table 130. Annual Hurdle Rates for Various Investments

	1st quartile	Median	3rd quartile
New phone system	2.0%	10.0%	20.0%
New computer system	5.0%	10.0%	20.0%
Hiring a new sales person	10.0%	20.0%	35.0%
Acquiring a competitor	15.0%	25.0%	33.0%
Expanding a current market niche (product/service)	15.0%	20.0%	25.0%
Entering a new market niche	15.0%	25.0%	31.5%
General investment in your business	10.0%	20.0%	25.0%

Respondents were asked to estimate a pretax annual rate of return they would require for investing in another business identical to theirs. The median for a one-year investment was 15% annually, for a three-year investment was 18% annually, for a five-year investment was 18% annually, for a seven-year investment was 18% and for a 10-year investment return was 20% annually.

Table 131. Annual Return Requirements for Investment in Identical Business

	1st quartile	Median	3rd quartile
One-year investment	10.0%	15.0%	20.0%
Three-year investment	11.0%	18.0%	25.0%
Five-year investment	11.3%	18.0%	25.0%
Seven-year investment	11.0%	18.0%	25.0%
10-year investment	10.0%	20.0%	25.0%

Respondents were asked to estimate a pretax annual rate of return they would require for investing in another identical business with no debt outstanding. The median for a one-year investment was 15% annually, for a three-year investment was 15% annually, for a five-year investment was 16% annually, for a seven-year investment was 18% and for a 10-year investment was 19% annually.

Table 132. Annual Return Requirements for Investment with No Debt Outstanding

	1st quartile	Median	3rd quartile
One-year investment	10.0%	15.0%	20.0%
Three-year investment	12.0%	15.0%	20.0%
Five-year investment	12.0%	16.0%	25.0%
Seven-year investment	12.0%	18.0%	25.0%
10-year investment	11.3%	19.0%	25.0%

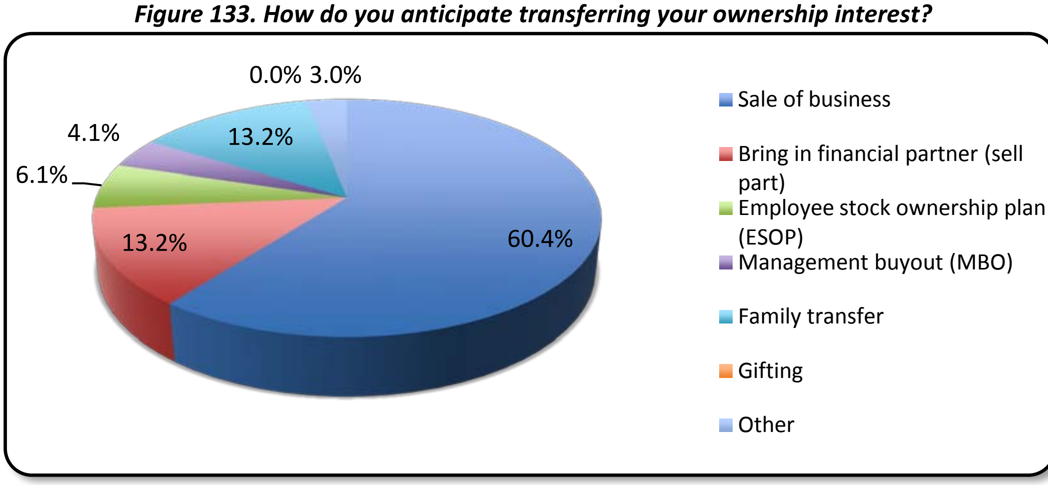
Respondents were asked to estimate a pretax annual rate of return they would require for investing in another identical business with 50% debt outstanding (as % of market value of business). The median for a one-year investment was 20% annually, a three-year investment was 20% annually, a five-year investment was 22% annually, a seven-year investment was 22% and a 10-year investment return was 23% annually.

Table 133. Annual Return Requirements for Investment with 50% Debt Outstanding

	1st quartile	Median	3rd quartile
One-year investment	10.5%	20.0%	30.0%
Three-year investment	15.0%	20.0%	30.0%
Five-year investment	15.0%	22.0%	30.0%
Seven-year investment	15.0%	22.0%	30.0%
10-year investment	15.0%	23.0%	30.0%

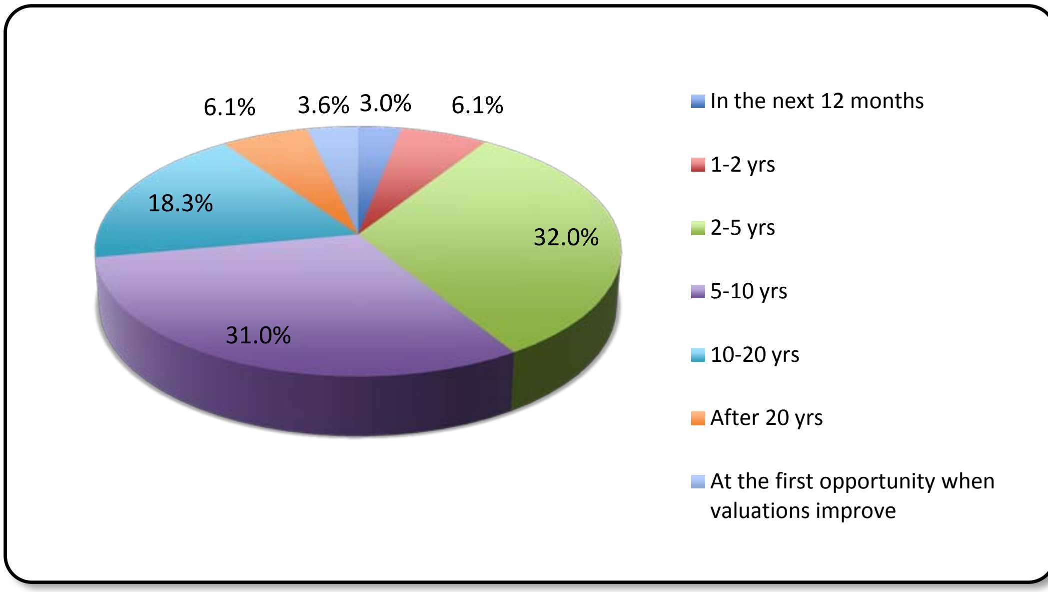
Respondents reported how they anticipated transferring ownership of their business. The majority (60.4%) planned to transfer via sale of business. Roughly 13.2% planned to transfer via bringing in a financial partner and another 13.2% planned to transfer via family.

Figure 133. How do you anticipate transferring your ownership interest?



Respondents reported the transfer would occur anytime from within the next 12 months to after 20 years. Approximately 32.0% of respondents reported that the transfer would occur in the next two to five years, 31.0% stated it would be within five to 10 years and 18.3% believed that it would be between 10 and 20 years.

Figure 134. When do you anticipate the transfer occurring?



Respondents were asked if they felt that they received non-economic rewards from owning their own businesses and if so what was the percentage of total financial compensation received they placed on the reward. Around 13.3% of respondents reported that they did not receive any non-economic rewards, 27.2% valued their rewards between 10%-25% and 20.0% of respondents valued the rewards between 25%-50%.

Figure 135. Do you feel like you receive non-economic rewards from owning your business? If answered yes, what percentage of total compensation?

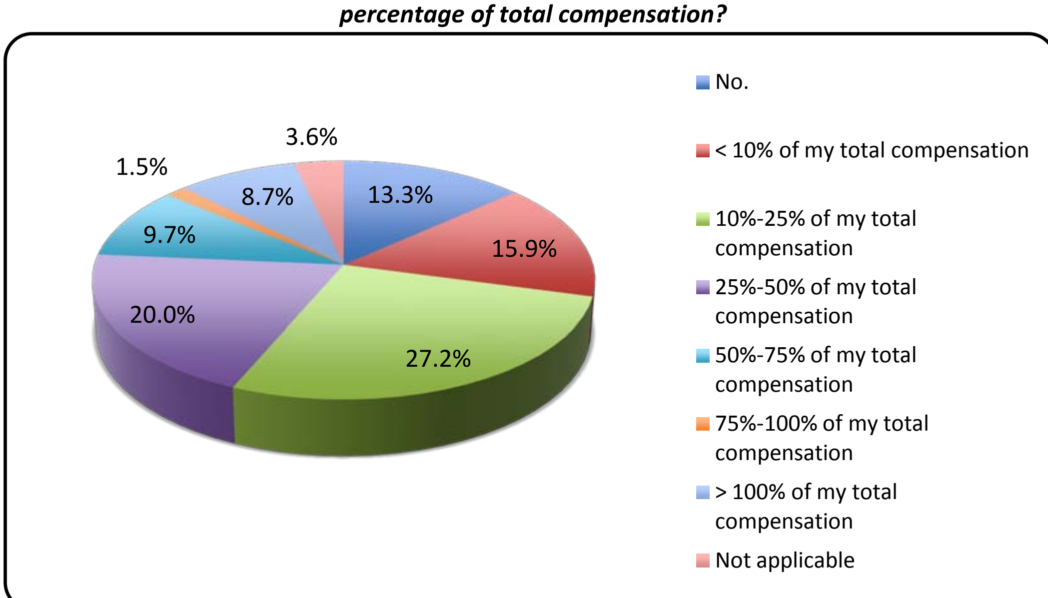


Table 134. If you had to list the major non-economic items from the prior question, what would they be?

	% of respondents
Independence and flexibility	54.1%
Ability to Positively Influence	20.3%
Recognition	12.8%
Complimentary benefits/perquisites	10.8%
Power and control	12.2%
Self-worth	15.5%
Job-satisfaction	12.2%
Enriched experiences	25.0%
Security	2.7%

Respondents were asked to report on various operational and industry items as compared to those six months ago. Significant increases were reported in opportunities for growth and competitive pressure. Significant declines were reported for the category of “confidence in the economy”. Respondents also reported relative declines in access to growth capital, capital expenditures, exit opportunities, and size of industry. Relative increases were identified in competitive pressures, revenues, net income, and probability of failure.

Table 135. General Business and Industry Assessment: Today Versus Six Months Ago

	Increased	**Decreased**	**Stayed about the same**
Revenues	52.9%	18.8%	28.3%
Expenses (as % of revenues)	30.7%	29.2%	40.1%
Pretax income	48.4%	25.8%	25.8%
Capital expenditures	27.2%	36.1%	36.6%
Exit opportunities	23.8%	36.0%	40.2%
Opportunities for growth	62.5%	21.9%	15.6%
Access to growth capital	17.4%	40.0%	42.6%
Prices of your products or services	22.5%	23.6%	53.9%
Number of employees	23.6%	29.3%	47.1%
Size of industry	31.7%	36.0%	32.3%
Competitive pressures	55.2%	9.9%	34.9%
Probability of failure	37.0%	26.6%	36.5%
Confidence in economy	26.6%	44.3%	29.2%

Respondents were asked to report on the top business issue today. Nearly 31% reported “access to growth capital” as being a primary concern while another 27% indicated the economic environment was their top business issue.

Table 136. What is the number one business issue today?

Government interference (tax, regulations, etc.)	16.2%
Labor (unemployment/quality of workforce)	4.5%
Access to capital	30.6%
Ethics	3.6%
Health care	2.3%
Economic environment	27.0%
Operation	13.5%
Financial management	2.3%

When respondents were asked what techniques, tools and assumptions were used to evaluate potential investments, payback ranked the highest at 90.4%, followed by gut feel at 87.7% and IRR at 82.1%.

Table 137. Techniques, Tools, and Assumptions Used When Evaluating Potential Investments

	Use
Payback	90.4%
Internal rate of return (IRR)	82.1%
Discounted cash flow (DCF)	60.6%
Multiple analysis	56.1%
Market analysis	79.4%
Option analysis	22.8%
Decision trees	33.9%
Simulation analysis (i.e., Monte Carlo methods)	19.3%
Scenario analysis	57.7%
Gut feel	87.7%
Exit multiple is same as entry multiple	29.7%

The category that carried the greatest importance by respondents was payback and the least important method reported was the simulation analysis.

Table 138. Importance of Each: Techniques, Tools and Assumptions

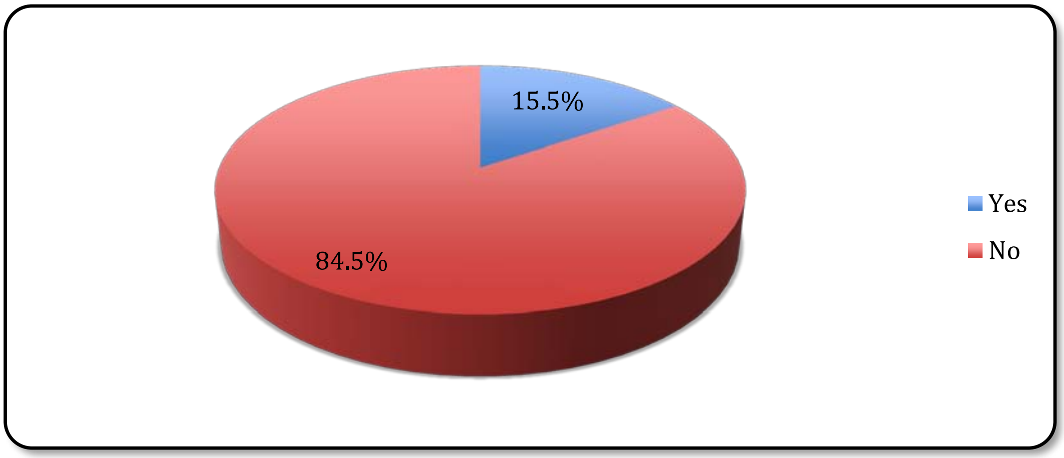
	Unimportant	Of little importance	Moderately important	Important	Very important	Score (0 to 4)
Payback	0.9%	4.7%	13.1%	37.6%	43.7%	3.2
Internal rate of return (IRR)	4.0%	5.5%	19.0%	37.5%	34.0%	2.9
Discounted cash flow (DCF)	9.6%	9.6%	21.5%	34.5%	24.9%	2.6
Multiple analysis	10.1%	16.0%	26.6%	32.0%	15.4%	2.3
Market analysis	4.1%	5.7%	20.6%	38.7%	30.9%	2.9
Option analysis	30.9%	25.7%	23.5%	14.7%	5.1%	1.4
Decision trees	27.9%	19.9%	24.3%	19.1%	8.8%	1.6
Simulation analysis (i.e., Monte Carlo methods)	33.3%	28.6%	22.2%	12.7%	3.2%	1.2
Scenario analysis	13.6%	11.7%	27.8%	36.4%	10.5%	2.2
Gut feel	3.6%	6.7%	26.7%	31.3%	31.8%	2.8
Exit multiple is same as entry multiple	24.8%	16.5%	25.6%	19.5%	13.5%	1.8

Respondents were also asked what gut feel meant to them. We classified the answers and report the following.

Classification	%
Intuition that precedes any analysis	27.7%
Fit with direction of industry/economy	6.4%
Feeling about chances of success	5.8%
Feeling based upon past experiences	24.3%
Feeling combined with data analysis	4.0%
Evaluating when data doesn't make sense or is unquantifiable	26.0%
Feeling about risk/return trade-offs	4.0%
Other	1.7%

Just 15.5% of respondents calculated their own WACC—weighted average cost of capital—for use in discounting cash flows.

Figure 136. Weighted Average Cost of Capital (WACC)



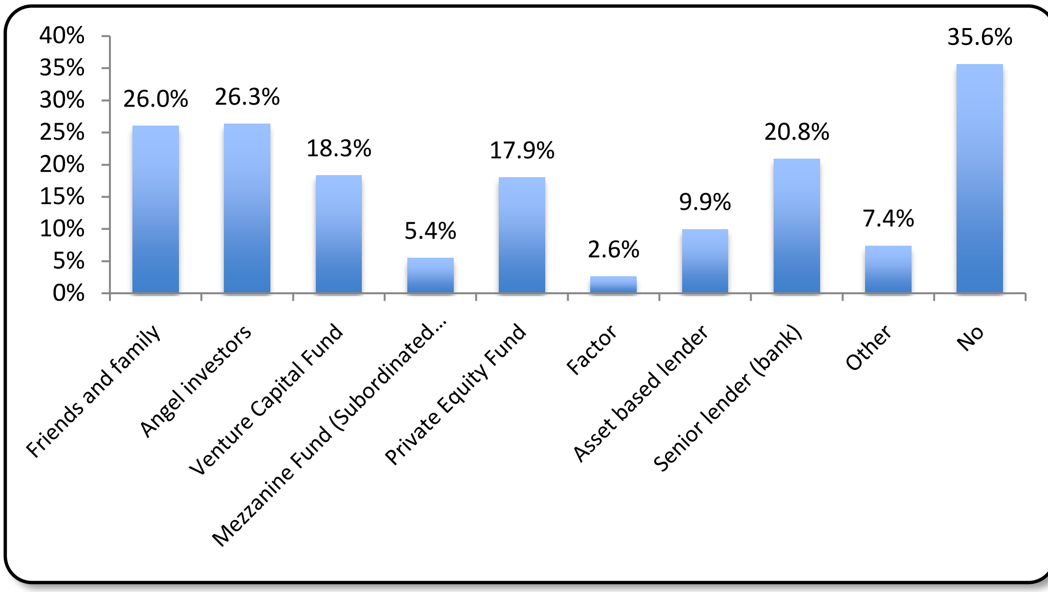
Respondents were asked a series of questions related to WACC. The median of their WACC was 14.0%, of cost of equity was 17.5%, of pretax cost of debt was 7.0%, and of tax rate used was 34.0%. The median of weight given to debt as a percentage of overall market value was 22.0%.

Figure 137. Related to the Weighted Average Cost of Capital (WACC) Please Answer the Following:

	1st quartile	Median	3rd quartile
What is your WACC? (%)	9.0%	14.0%	20.0%
What is your cost of equity? (%)	11.3%	17.5%	30.0%
What is your pretax cost of debt? (%)	5.0%	7.0%	10.5%
What tax rate do you use? (%)	28.0%	34.0%	37.0%
What weight do you give debt as a percentage of overall market value of business? (%)	10.0%	22.0%	36.0%

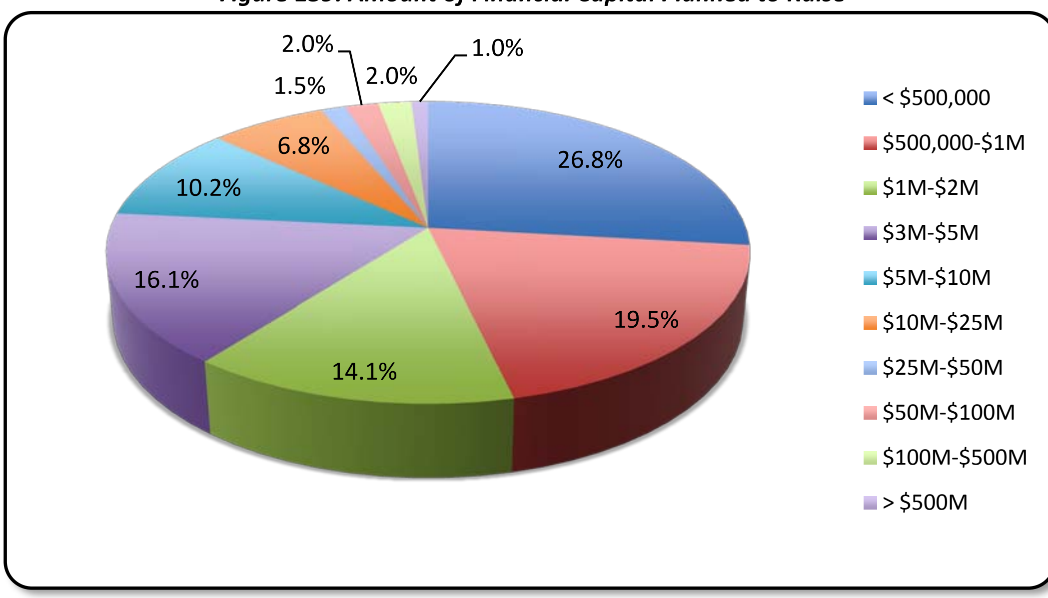
Approximately 35.6% of respondents reported that they did not anticipate raising funds in the next 12 months. However, 26.3% of respondents anticipated raising funds through angel investors and 26.0% of respondents anticipated raising funds from friends and family.

Figure 138. Anticipation of Raising Funds in the Next 12 Months



Among those who are planning to raise capital, 26.8% reported they were planning to raise less than $500,000; 19.5% planned to raise capital between $500,000 and $1M and 16.1% planned to raise between $3M and $5M.

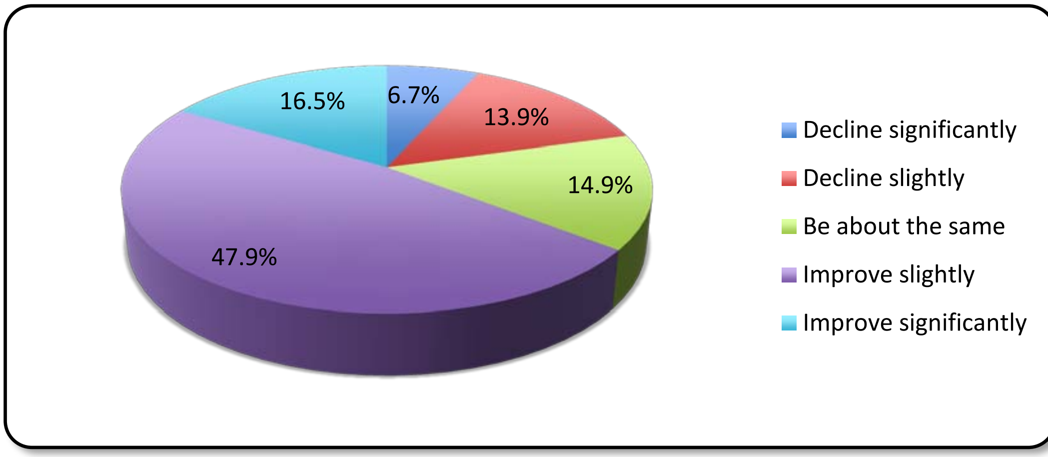
Figure 139. Amount of Financial Capital Planned to Raise



Industry and Economic Outlook

When asked about business conditions over the next 12 months, approximately 47.9% of respondents indicated an expectation for slight improvement.

Figure 140. Forecast of Business Conditions over the Next 12 Months



Respondents believe that gross domestic product will increase by 1.1% over the next 12 months while an equivalent measure for privately-held companies is expected to rise by 1.9%.

Table 139. GDP Forecast for the Next 12 Months

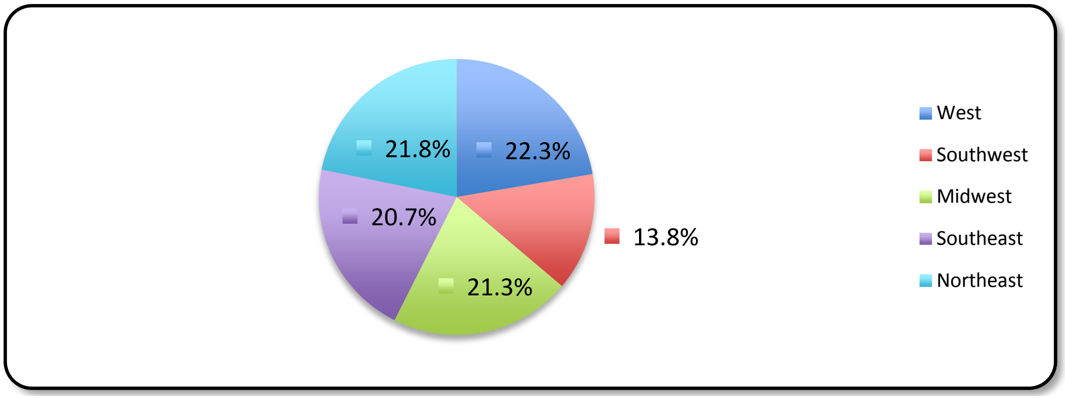
	Expected GDP change (%)
Overall GDP	1.1%
Privately-held company equivalent GDP	1.9%

BUSINESS APPRAISERS SURVEY INFORMATION

Profile of Respondents

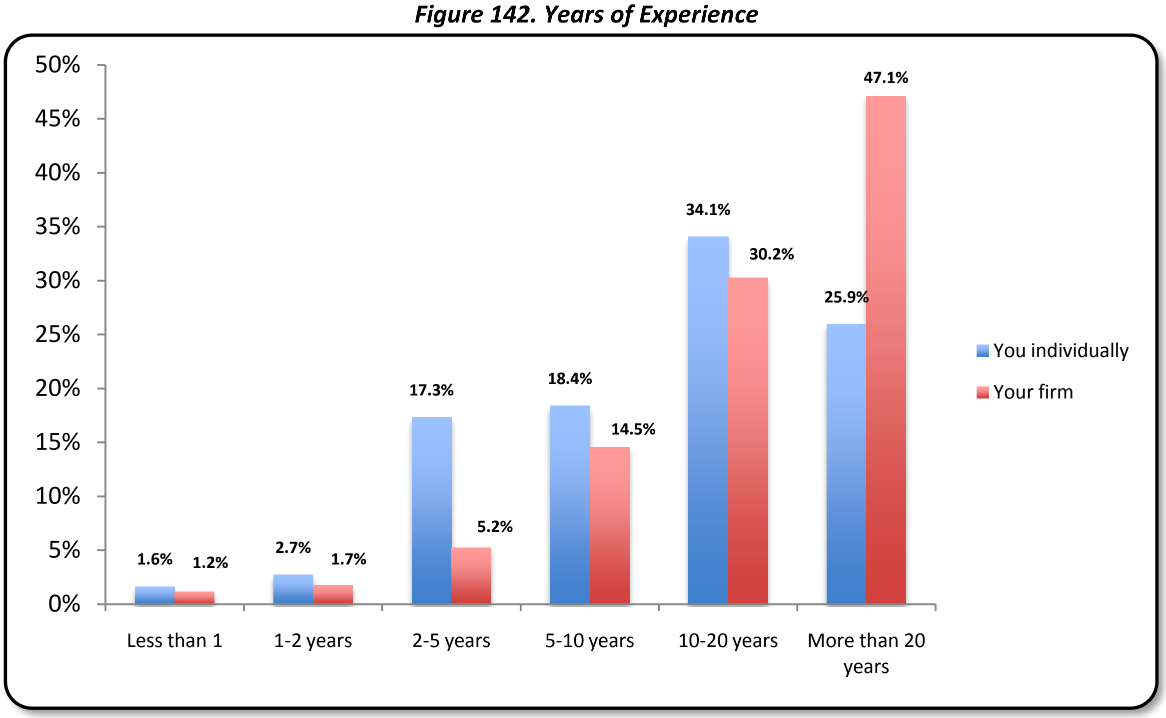
The Business Appraisers Survey results are derived from 225 participants located in the U.S. The respondents are geographically dispersed throughout the country. The largest concentration is in the west (22.3%) followed by the northeast (21.8%) and the midwest (21.3%).

Figure 141. Geographic Location of Respondents



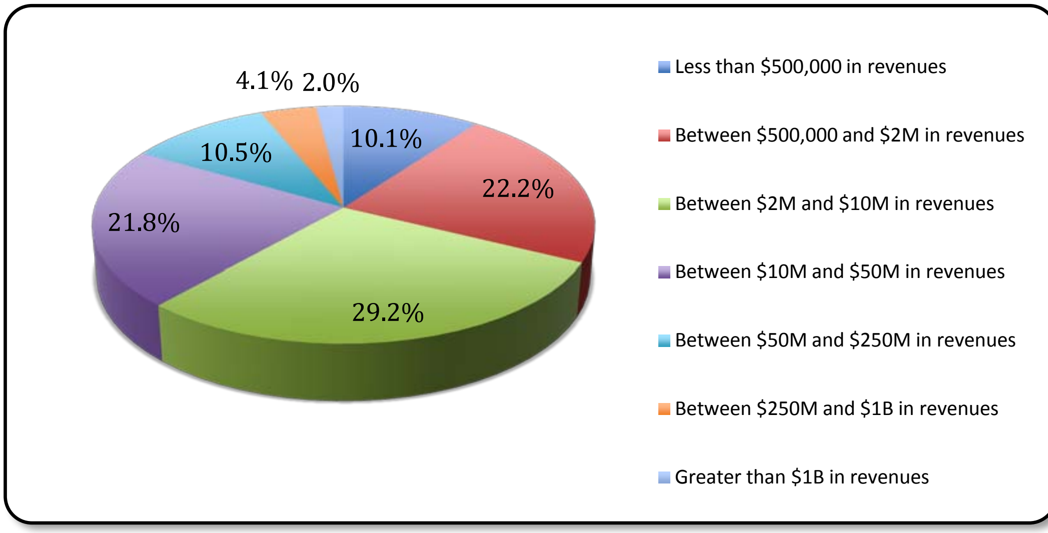
Approximately 60% of the individual respondents have over 10 years of experience in business valuation, while 18.4% of the individual respondents have between five and 10 years of experience.

Figure 142. Years of Experience



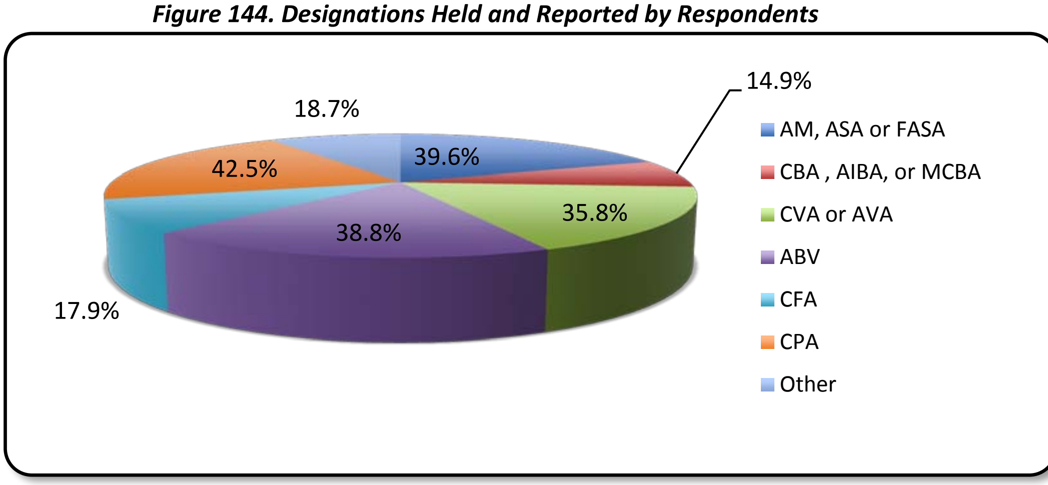
Respondents report valuing a broad range of companies (based on annual revenue), from companies that have less than $500,000 in annual revenue to companies that have over $1 billion in annual revenue. However, the majority of valuations are for companies that have revenue between $500,000 and $50 million.

Figure 143. Appraisals by Company Annual Revenue



Appraisers hold various certifications. The certification reported most frequently is the CPA designation (42.5%). Nearly 40% of respondents have a certification from the American Society of Appraisers. Besides the labeled certifications noted in the graph below, respondents also reported other types of qualifications.

Figure 144. Designations Held and Reported by Respondents



Other certifications and qualifications noted by appraisers include:

CFE	BVAL	ABAR
CFP	CFFA	CMC
CFF	MBA	PROFESSOR
CMEA	ACA	CRFA
CSBA	MAI	CAIA
MT	PhD	
ACFE	JD	

Operational and Assessment Characteristics

We collected respondents' reports on various industry practices and their individual practices to compare with those six months ago. The majority of engagement activities were either stable or significantly increased. Cost of capital, market risk premiums, DLOM and company specific premiums all experienced net increases as did a general reliance on the income approach.

Table 140. General Operational Assessment Today Versus Six Months Ago

	Decreased	Stayed about the same	Increased
Number of engagements	19.1%	40.5%	40.5%
Time to complete a typical appraisal	8.6%	68.0%	23.4%
Fees for services	23.1%	57.8%	19.1%
Time to receive payment for services	3.5%	70.2%	26.3%
Size of your BV department	12.9%	74.9%	12.3%
Cost of capital	21.6%	43.9%	34.5%
Market (equity) risk premiums	17.5%	42.1%	40.4%
Control premiums	14.3%	75.3%	10.4%
Minority discounts	9.7%	80.6%	9.7%
Discounts for lack of marketability or liquidity (DLOM)	11.2%	63.3%	25.4%
Company-specific risk premiums	10.0%	45.3%	44.7%
Reliance on income approach	6.9%	68.6%	24.6%
Reliance on market approach	22.7%	64.5%	12.8%
Reliance on asset approach	12.9%	74.7%	12.4%

Appraisers' comfort levels with applying cost of capital data, equity data, and cost-of-debt data from public companies to privately-held companies, generally increases incrementally as the size of the company's revenue increases. The greatest comfort factor resides with those businesses whose annual revenues exceed $1 billion.

Table 141. Overall Comfort Level Applying Public Company Cost-of-Capital Data to Privately-Held Businesses

	Very uncomfortable	Uncomfortable	Slightly uncomfortable	Neither comfortable nor uncomfortable	Slightly comfortable	Comfortable	Very comfortable	Score (-3 to 3)
Companies with less than $1M in revenues	33.7%	22.9%	18.1%	8.4%	3.0%	7.8%	6.0%	-1.28
Companies with between $1M and $5M in revenues	16.7%	28.0%	17.3%	17.3%	4.2%	9.5%	7.1%	-0.79
Companies with between $5M and $25M in revenues	4.7%	18.3%	22.5%	15.4%	14.8%	16.0%	8.3%	-0.02
Companies with between $25M and $100M in revenues	3.8%	2.5%	15.0%	19.4%	18.8%	25.0%	15.6%	0.84
Companies with between $100M and $500M in revenues	2.9%	2.2%	3.6%	11.7%	13.1%	42.3%	24.1%	1.53
Companies with between $500M and $1B in revenues	2.3%	2.3%	0.8%	4.7%	5.4%	37.2%	47.3%	2.09
Companies with over $1B in revenues	2.4%	2.4%	0.0%	5.6%	4.0%	23.4%	62.1%	2.25

Table 142. Comfort Level Applying Public Company Equity Data to Privately-Held Businesses

	Very uncomfortable	Uncomfortable	Slightly uncomfortable	Neither comfortable nor uncomfortable	Slightly comfortable	Comfortable	Very comfortable	Score (-3 to 3)
Companies with less than $1M in revenues	35.8%	20.1%	17.0%	8.2%	3.8%	8.2%	6.9%	-1.24
Companies with between $1M and $5M in revenues	17.9%	28.4%	16.0%	14.2%	6.2%	9.9%	7.4%	-0.78
Companies with between $5M and $25M in revenues	5.5%	19.5%	20.1%	17.7%	12.2%	14.6%	10.4%	-0.03
Companies with between $25M and $100M in revenues	3.9%	4.5%	16.9%	17.5%	16.9%	25.3%	14.9%	0.75
Companies with between $100M and $500M in revenues	3.7%	2.9%	2.2%	13.2%	19.1%	34.6%	24.3%	1.42
Companies with between $500M and $1B in revenues	4.0%	2.4%	0.0%	8.8%	4.0%	38.4%	42.4%	1.91
Companies with over $1B in revenues	3.4%	2.5%	0.8%	7.6%	3.4%	25.4%	56.8%	2.08

Table 143. Comfort Level Applying Public Company Cost-of-Debt Data to Privately-Held Businesses

	Very uncomfortable	Uncomfortable	Slightly uncomfortable	Neither comfortable nor uncomfortable	Slightly comfortable	Comfortable	Very comfortable	Score (-3 to 3)
Companies with less than $1M in revenues	36.4%	18.2%	13.0%	15.6%	5.8%	7.8%	3.2%	-1.27
Companies with between $1M and $5M in revenues	23.5%	22.9%	11.8%	19.6%	9.2%	9.2%	3.9%	-0.89
Companies with between $5M and $25M in revenues	12.3%	18.2%	16.9%	18.8%	14.3%	14.3%	5.2%	-0.32
Companies with between $25M and $100M in revenues	6.7%	7.4%	17.4%	19.5%	14.8%	20.8%	13.4%	0.44
Companies with between $100M and $500M in revenues	4.4%	3.7%	5.9%	13.3%	20.7%	27.4%	24.4%	1.22
Companies with between $500M and $1B in revenues	3.3%	2.4%	4.1%	12.2%	7.3%	35.0%	35.8%	1.66
Companies with over $1B in revenues	3.4%	2.5%	2.5%	9.2%	5.0%	26.1%	51.3%	1.93

Similarly, appraisers feel more comfortable applying discounts for lack of marketability/liquidity (DLOM) data from public businesses to privately-held companies when the subject businesses are larger. The conclusion is also true when applying control premiums/minority discounts data from public businesses to privately-held companies (the larger the amount of annual revenues the higher level of comfort).

Table 144. Comfort Level Applying Public Company DLOM Data to Privately-Held Businesses

	Very uncomfortable	Uncomfortable	Slightly uncomfortable	Neither comfortable nor uncomfortable	Slightly comfortable	Comfortable	Very comfortable	Score (-3 to 3)
Companies with less than $1M in revenues	21.8%	15.4%	18.6%	11.5%	9.0%	15.4%	8.3%	-0.50
Companies with between $1M and $5M in revenues	15.7%	16.4%	17.0%	16.4%	7.5%	18.9%	8.2%	-0.27
Companies with between $5M and $25M in revenues	9.5%	12.0%	15.2%	22.2%	11.4%	20.9%	8.9%	0.12
Companies with between $25M and $100M in revenues	3.4%	8.7%	16.8%	16.1%	15.4%	29.5%	10.1%	0.60
Companies with between $100M and $500M in revenues	2.3%	3.8%	10.8%	17.7%	11.5%	36.2%	17.7%	1.12
Companies with between $500M and $1B in revenues	2.4%	3.3%	8.9%	15.4%	6.5%	36.6%	26.8%	1.37
Companies with over $1B in revenues	2.6%	3.4%	8.5%	12.8%	6.0%	35.0%	31.6%	1.48

Table 145. Comfort Level Applying Public Company Control Premium Data to Privately-Held Businesses

	Very uncomfortable	Uncomfortable	Slightly uncomfortable	Neither comfortable nor uncomfortable	Slightly comfortable	Comfortable	Very comfortable	Score (-3 to 3)
Companies with less than $1M in revenues	29.4%	20.3%	15.0%	10.5%	9.2%	8.5%	7.2%	-0.96
Companies with between $1M and $5M in revenues	25.0%	16.7%	17.9%	13.5%	9.6%	10.3%	7.1%	-0.75
Companies with between $5M and $25M in revenues	13.4%	19.7%	16.6%	15.9%	13.4%	14.0%	7.0%	-0.34
Companies with between $25M and $100M in revenues	7.4%	12.8%	16.9%	18.2%	13.5%	22.3%	8.8%	0.20
Companies with between $100M and $500M in revenues	6.3%	8.6%	8.6%	19.5%	15.6%	24.2%	17.2%	0.71
Companies with between $500M and $1B in revenues	5.1%	8.5%	4.2%	13.6%	13.6%	33.1%	22.0%	1.09
Companies with over $1B in revenues	4.4%	8.8%	4.4%	12.3%	12.3%	29.8%	28.1%	1.21

Pricing and Rates

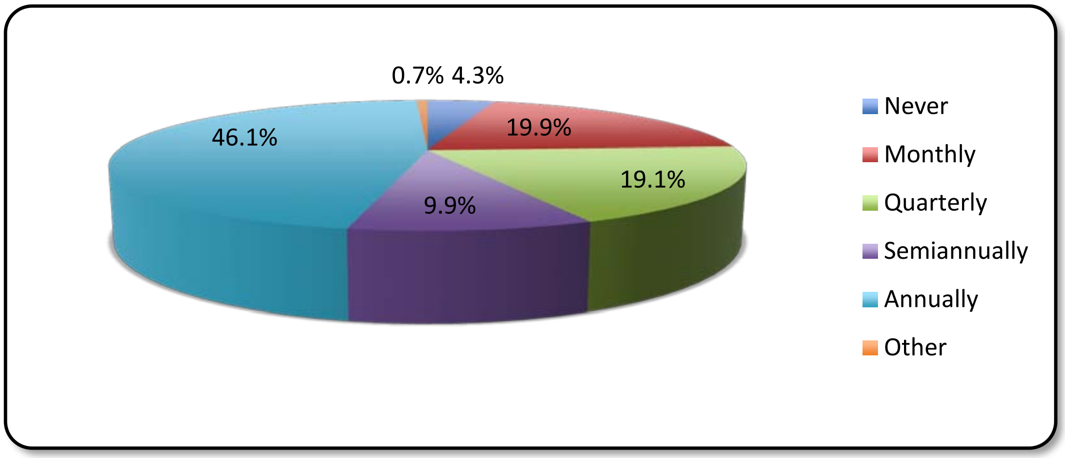
Appraisers provided information on rates and equity risk premiums used for their current engagements. Median, 1st quartile, and 3rd quartile data for each are reported as following.

Table 146. Premiums and Rates Used on Current Engagements

	1st quartile (%)	Median (%)	3rd quartile (%)
Market (equity) risk premium	5.5	6.0	7.0
Size premium for private company with $250M in revenues	2.1	3.5	5.0
Size premium for private company with $25M in revenues	4.2	5.5	6.3
Size premium for private company with $1M in revenues	5.8	6.9	9.0
Average company specific risk premium for private company with $250M in revenues	1.8	2.5	3.8
Average company specific risk premium for private company with $25M in revenues	3.0	4.0	5.0
Average company specific risk premium for private company with $1M in revenues	4.7	6.0	8.0
Industry risk premium for typical manufacturing company	1.0	2.5	4.1
Industry risk premium for typical service company	1.0	2.3	4.0
Risk-free rate	4.0	4.5	4.5

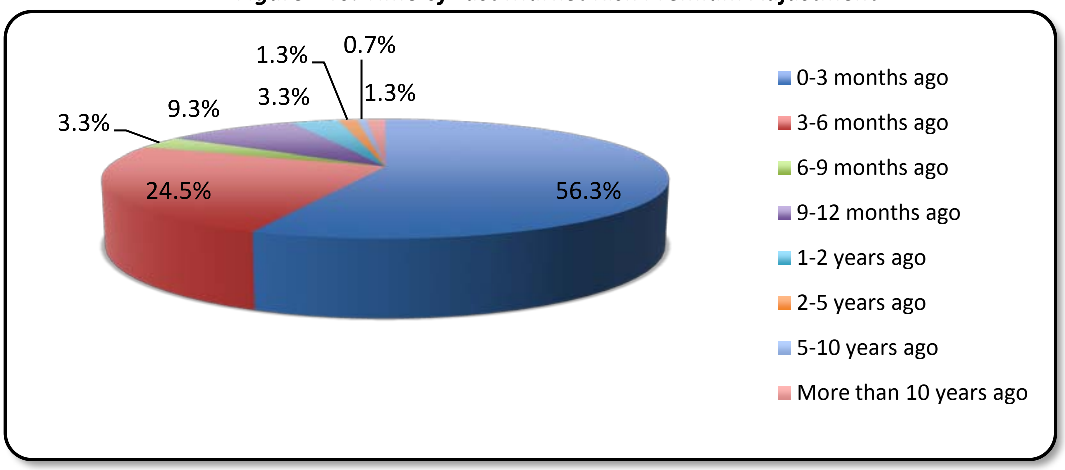
The largest proportion (46.1%) of appraisers reported that they evaluate their market (equity) risk premium annually. Only 4.3% of appraisers reported that they never evaluate their market risk premium.

Figure 145. Frequency of Market Risk Premium Evaluation



The largest proportion of appraisers (56.3%) reported that they updated their equity risk premium within the last three months. Approximately 24.5% of appraisers updated their premiums within the last six months.

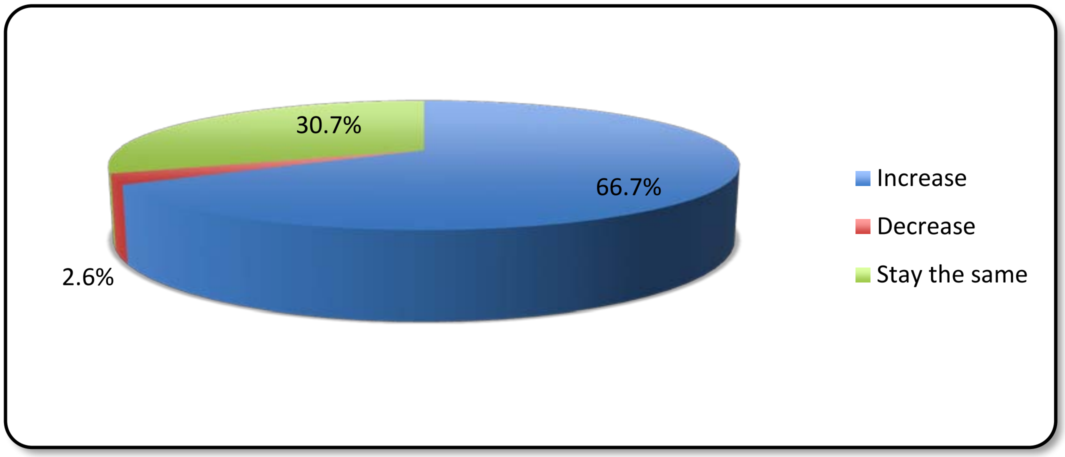
Figure 146. Time of Last Market Risk Premium Adjustment



Industry and Economic Outlook

The vast majority of Appraisers (66.7%) believe that over the next 12 months, demand for appraisal services will increase.

Figure 147. Demand for Appraisal Services



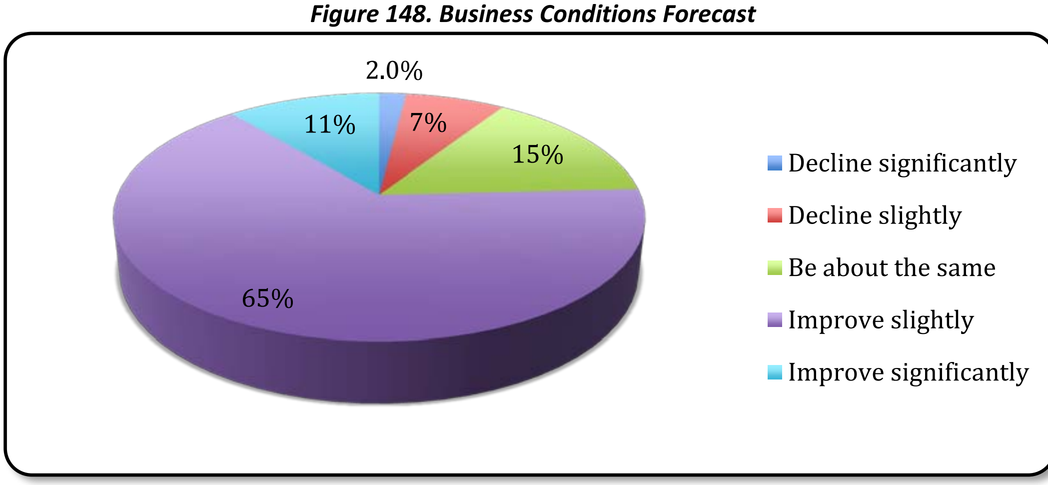
Appraisers believe that the gross domestic product will increase 2.4% and that the gross domestic product equivalent for privately-held companies will rise by 2.5%.

Table 147. GDP Forecasts for Next 12 Months

	Expected GDP change (%)
Overall GDP	2.4%
Privately-held company equivalent GDP	2.5%

Approximately 65% of the appraisers believe that business conditions will improve slightly over the next 12 months, while only 2% of the appraisers believe that conditions will decline significantly.

Figure 148. Business Conditions Forecast



INDEX OF FIGURES AND TABLES

FIGURES

TABLES

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Rob Slee is a business owner, author and speaker on the topic of private capital markets. He has owned equity stakes in more than a dozen mid-sized businesses. Rob has also managed a middle-market investment banking firm for 20 years. These experiences led him to write the pioneering work Private Capital Markets™, which launched the study of private finance as a research and practice discipline. His book Midas Managers™ shows how highly successful business owners have created tremendous value into their mid-sized businesses. Slee's latest book, Midas Marketing™, shows how Midas Managers have used value architecture to meet their goal of financial independence. Rob is widely published, having authored more than 150 articles on private finance topics. Rob is a Phi Beta Kappa graduate of Miami University. He holds a master's degree from the University of Chicago and an MBA degree from Case Western Reserve University.

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