

## FAMILY MATTERS

*Family Matters is a financial newsletter published by Dresner Partners with the goal of giving family-owned and closely-held private companies and their trusted advisors a quick, early and easily accessible look at the opportunities available to them in the capital and M&A markets.*

### **Why family-owned and closely-held private companies?**

*Because they are an integral part of our nation's economy, accounting for over 50% of U.S. GDP and generating over 60% of U.S. employment. Family-owned and closely-held private companies also have unique issues to address, one of which is succession. In the next decade, an estimated 30% of family-owned businesses will experience a change in leadership due to retirement or semi-retirement, creating the largest intergenerational transfer of wealth in U.S. history.*

*At Dresner Partners, we utilize our investment banking resources to address the very needs of family-owned and closely-held private companies. We believe that by providing a full-suite of investment banking services to our clients, we can help them address issues specific to their companies and create optimal results to satisfy their concerns.*

*Sources: Institute for Family Owned Businesses, University of North Carolina, Asheville, and University of Southern Maine*

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### MIDDLE MARKET PLANNING FOR 2011: THE FOUR "B'S"

As many of our clients begin to wind down what for them has been a relatively successful 2010 and start to plan their goals and objectives for 2011, we are being asked a number of questions. These questions, while situation specific to each business and its owners, do have some common themes, and these themes do warrant some thought. They are, in our parlance, the Four "B's": business, budget, buyers and bucks.

#### **Business**

Business in 2010 for middle market companies has been largely positive. Most have experienced an across-the-board improvement over 2009, with many expecting to post operating results that will exceed 2008 results as well. The prevailing tone among business owners, however, is one of cautious optimism. As an example, a client company that we are currently advising in a sale process has increased its 2010 operating projections twice since the 2010 operating budget was put in place last November. This reflects an initial concern that improved operating results were coming from customer restocking rather than a true increase in demand, but it is also indicative of an air of caution that we have seen throughout the middle market. The reasons for this caution are two-fold. First, the severe and immediate downturn created by the collapse of the global financial markets in 2008 has changed the perspective of many business owners and will likely be a risk factor in the back of their minds for some time to come. And secondly, while our clients are producing positive operating results, the overall economy in which they operate is still fragile, and one of the causes of the fragile economy- persistently high unemployment- is a factor that many business owners understand very well. Many cut back their work forces in 2008 and 2009 and initiated significant production improvements. As these improvements gain traction, which they have, companies have continued to operate at employment levels that are well below what they were going into the recession. The issue that has many business owners concerned is whether employment will increase at a pace that will allow the economy to expand and support continued top line growth at their businesses.

#### **Budget**

The budget we're talking about here is not the operating budget for our client companies. The budget our clients are focused on is the federal budget and, more importantly, the tax revenue that will be utilized to fund the budget.

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## MIDDLE MARKET PLANNING FOR 2011: THE FOUR "B'S"

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The tax question that remained an open item for private equity groups, during the latter part of 2010 was whether their carried interest in portfolio companies would continue to be taxed at capital gains rates or whether the rate applied to carried interest will move to a much higher ordinary income tax rate. This uncertainty led many private equity firms to try to exit some of their better performing portfolio companies before year end.

The tax perspective for our private company clients, however, has changed dramatically over the course of this year. At the start of the year, the overriding assumption was that Congress would allow capital gains taxes to increase from the current 15% rate to 20% at the end of the year. Today, after a tumultuous mid-term election, it is clear that Congress is finding any increase in capital gains taxes to be politically difficult. As a result, the race among private companies to complete sale transactions by December 31st of this year, which many of us had anticipated, did not occur. Many of our clients have moved beyond the question of capital gains taxes and have become more concerned about the prospect of future increases in income tax rates. A good percentage of our clients are Sub-Chapter S Corporations where taxable income passes through the company and becomes ordinary income for shareholders. As a result, an increase in income tax rates would mean less money available to shareholders to support their lifestyle, and less capital available to their companies to support continued growth. Our clients view this as a real risk and some are evaluating transaction strategies as a means of addressing this risk.

### **Buyers**

As operating results improve, some of our clients are evaluating potential ownership transition strategies. The first question they ask is: What about buyers? Are they active or opportunistic? Will I get a fair and appropriate value or a low-ball bid? Our transaction experience to date in 2010 indicates that there is a solid universe of proactive buyers who are looking for successful operating companies and are willing to pay a premium multiple to close a transaction. This is particularly true of strategic acquirers who are seeing marginal top line growth and are viewing acquisitions as an operating imperative to enhance this growth. As an example, we recently requested indications of interest ("IOI's") from potential buyers for a middle market metals manufacturing company, and we received 8 IOI's from strategic acquirers, all of which reflected operating synergies to be garnered from the proposed transaction. We are also finding strategic acquirers to be increasingly flexible in their pursuit of potential acquisitions. From Bill Harlow, vice president of corporate development at HEICO Corp. in Hollywood, Florida: "Many private company owners want to continue to be involved in some fashion and we are willing to let them operate autonomously". HEICO Corp. has a significant presence in aftermarket aerospace, and utilizing the operating leverage from this presence is also an important part of their acquisition initiative: "There are a finite number of airlines and we have deep relationships with all of them". Finally, foreign buyers have also become increasingly active in the U.S. Filtrona plc, a UK based manufacturer and supplier of specialty plastic and fiber products for consumer and industrial markets, is targeting acquisitions on a global basis but continues to have a keen interest in North America. From Matthew Gregory, Director of Corporate Development: "We want to build market share and add complementary products in markets like the U.S. where we have a strong existing footprint". Filtrona, has found that closely held private companies in the middle market fit best with its acquisition criteria: "We target companies with strong management teams that are looking to stay with the company post-transaction".

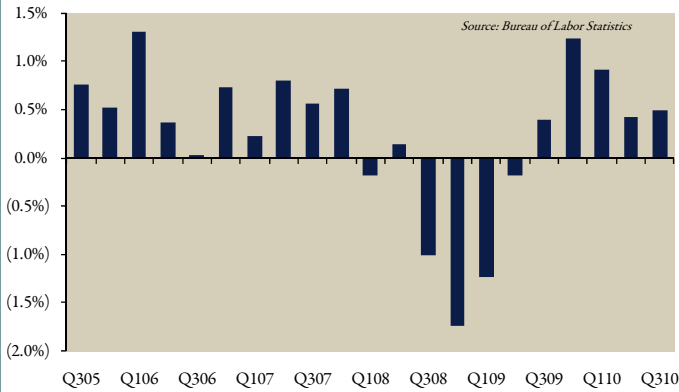
### **Bucks**

The "bucks" we are talking about here are the dollars that acquirers must raise to finance a transaction. Our recent experience with strategic acquirers indicates that this is typically not a problem for them. Most responded to the recessionary conditions in 2008 by cutting costs very quickly. They have successfully reduced debt or increased cash accounts and today have the ability to finance middle market acquisitions without new financing. In private equity, senior debt markets are becoming increasingly accessible, particularly for larger transactions. For middle market transactions with EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization) less than \$10 million, cash flow senior financing is still somewhat limited, but there are alternative financing sources that are now very active in pursuing transactions. From John O'Hare at Saybrook Capital in Santa Monica, California: "The opportunity for us is to fill the gap created by conservative senior lenders with both mezzanine and equity." In the middle market, we are seeing a bifurcated universe of financial buyers. Private equity buyers with keen interest or expertise in a particular operating segment have shown a willingness to overequitize a transaction to reach a premium value.

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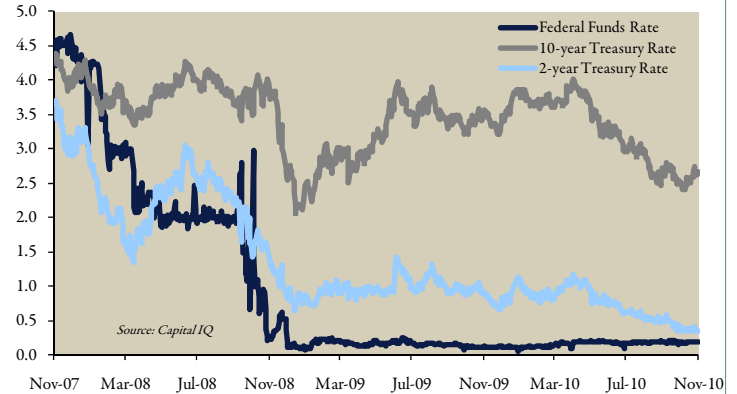
# EYE ON THE ECONOMY: CURRENT INDICATORS IMPACTING MIDDLE MARKET COMPANIES

## U.S. GDP GROWTH BY QUARTER



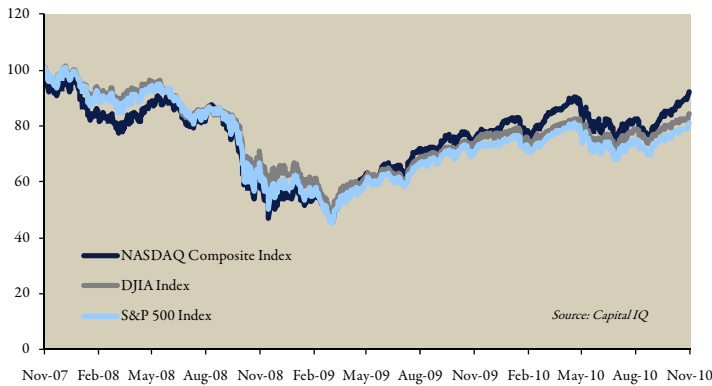
The Gross Domestic Product (GDP) rose at an inflation adjusted rate of 2% in the 3rd quarter, that is an improvement over the 1.7% increase in the 2nd quarter, but not enough to create sufficient jobs to bring down unemployment.

## BENCHMARK FED RATES



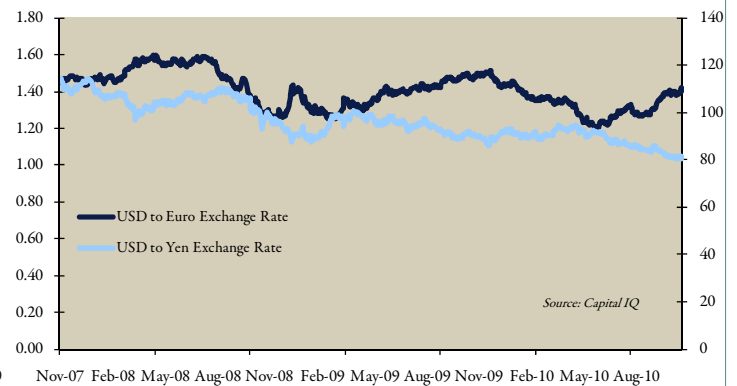
The Federal Reserve has announced a plan to buy more government bonds. The Fed's explanation is that this will lower long-term interest rates and encourage more borrowing and spending.

## MAJOR EQUITY INDICES



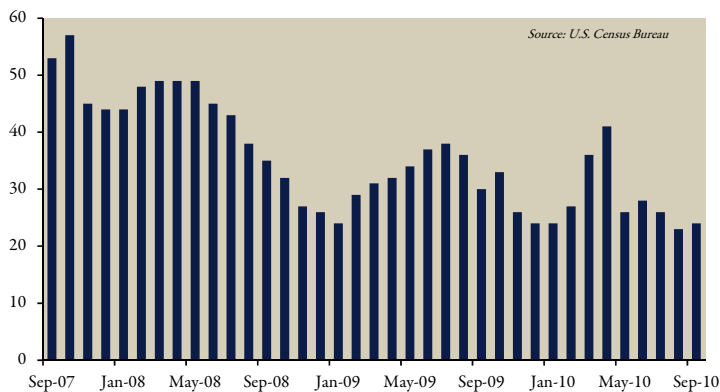
Equity markets moved higher in the third quarter on the expectation of continued stimulus from the Federal Reserve and the hope that the stimulus will boost the economy.

## EXCHANGE RATES (U.S. VS. EURO AND YEN)



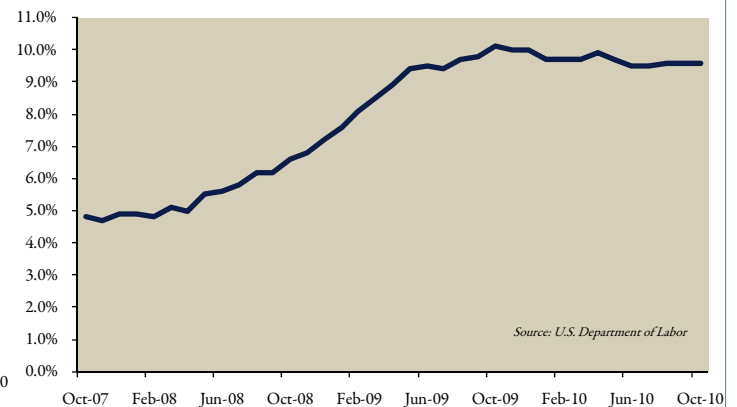
Despite continued stimulus from the fed, the U.S. dollar continues to remain strong relative to the Euro, but the Yen is a different story. The dollar has fallen below 81 Yen, its lowest level in 15 years.

## NEW HOME SALES (UNITS THOUSANDS)



New residential home sales increased in September, but are still near the lowest level on record, down over 21% from one year earlier.

## NATIONAL UNEMPLOYMENT RATE

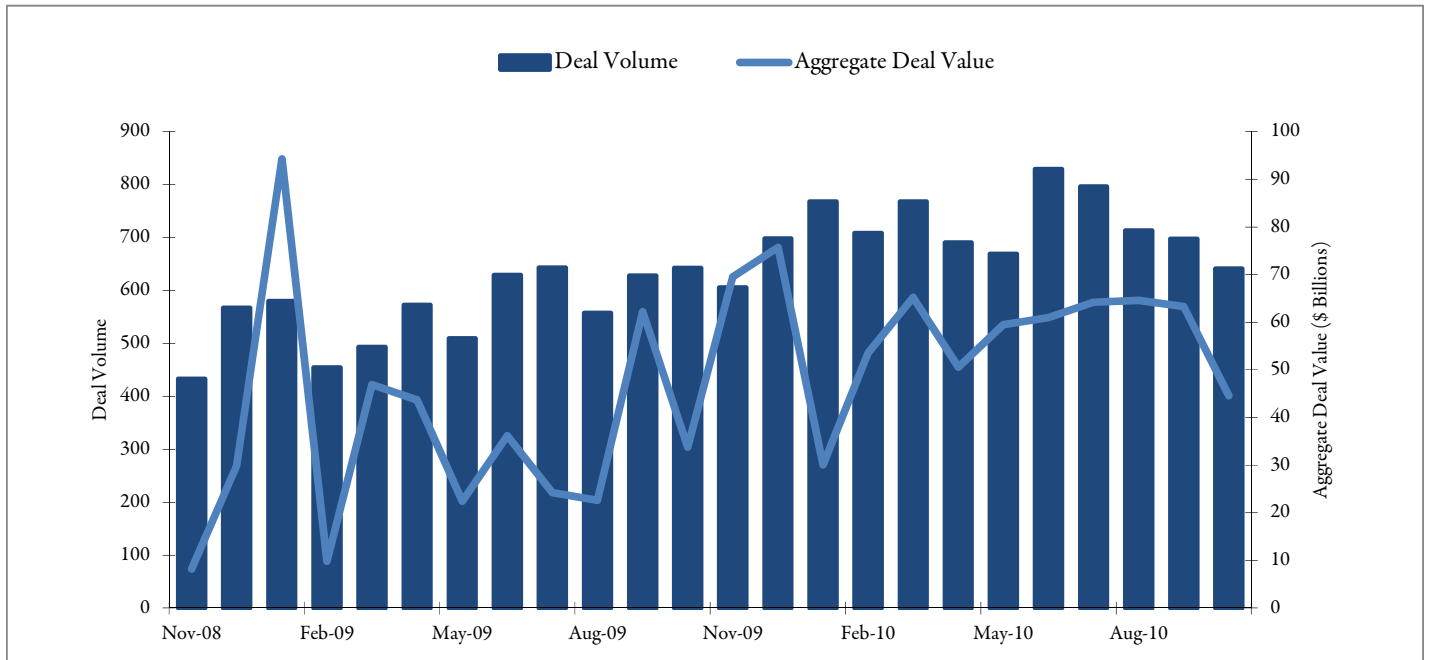


The prospect of any material near term improvement in the nations 9.6% unemployment rate is not likely. Economists say the GDP must grow close to 3% to absorb new entrants into the workforce and up to 5% to lower the existing unemployment rate. GDP growth for the 3rd quarter was 2%.

## RECENT U.S. TRANSACTION ACTIVITY

Date Closed	Target	Acquirer	Target Business Description	EV (\$USDmm)
9-Nov	Atlas Material Testing Technology LLC	Ametek Inc.	Atlas Material Testing Technology LLC designs and manufactures natural and laboratory weathering, and material testing instruments.	\$159.0
8-Nov	Auntie Anne's, Inc.	FOCUS Brands, Inc.	Auntie Anne's, Inc. manufactures and sells pretzels.	-
4-Nov	Live Nation Entertainment, Inc.	Liberty Media Corporation	Live Nation Entertainment, Inc. produces live music concerts worldwide.	\$2,629.1
2-Nov	Diamond Management & Technology Consultants	PricewaterhouseCoopers LLP	Diamond Management & Technology Consultants, Inc. and its subsidiaries provide management and technology consulting services.	\$314.9
1-Nov	DTE Rail Services, Inc.	FreightCar America Inc.	FreightCar Rail Services, LLC provides railcar maintenance and management services.	\$23.2
27-Oct	OMNI Energy Services Corp.	Wellspring Capital Management LLC	OMNI Energy Services Corp., an integrated oilfield service company.	\$110.9
22-Oct	ATC Technology Corporation	Genco Holdings I, Inc.	ATC Technology Corporation, provides outsourced supply chain logistics services and engineering solutions.	\$417.1
22-Oct	Global Ethanol LLC	Green Plains Renewable Energy, Inc.	Global Ethanol LLC engages in the production of ethanol.	\$188.3
22-Oct	Barjan, LLC	TSC Group, LLC	Barjan, LLC distributes general merchandise in North America.	-
21-Oct	TAMCO Steel, Inc.	Gerdau Ameristeed US, Inc.	TAMCO Steel, Inc. operates as a steel mini-mill that recycles ferrous scrap metal into concrete reinforcing bars.	\$165.0
15-Oct	Aspen Holdings, Inc.	Markel Corp.	Aspen Holdings, Inc., through its subsidiaries, provides workers' compensation insurance for small- and medium-sized businesses.	\$182.3
14-Oct	Burger King Holdings Inc.	3G Capital Management, LLC	Burger King Holdings, Inc., through its subsidiaries, owns and franchises 'Burger King' fast food hamburger restaurants.	\$4,020.0
14-Oct	General Monitors, Inc.	Mine Safety Appliances Co.	General Monitors, Inc. designs, develops, and manufactures gas monitoring and flame detection instrumentation.	\$280.0
14-Oct	Winona Lighting Inc.	Acuity Brands, Inc.	Winona Lighting Inc. designs, develops, manufactures, and sells architectural and performance lighting products.	-
4-Oct	Duncan Industrial Solutions Inc.	Brazos Private Equity Partners, LLC	Duncan Industrial Solutions supplies industrial equipment and MRO supplies.	-
4-Oct	Trail King Industries, Inc.	CC Industries, Inc.	Trail King Industries, Inc. manufactures trailers in the United States.	\$40.0
4-Oct	Capital Fulfillment Group Inc.	DST Output Inc.	Capital Fulfillment Group, Inc. provides fulfillment solutions to the mutual fund, investment, and insurance industries.	-
1-Oct	Continental Airlines, Inc.	UAL Corporation	Continental Airlines, Inc., an air carrier, engages in the transportation of passengers, cargo, and mail.	\$6,142.2
1-Oct	Hewitt Associates Inc.	Aon Corporation	Hewitt Associates, Inc. provides human resources benefits, outsourcing, and consulting services.	\$4,837.6
1-Oct	ICx Technologies, Inc.	FLIR Systems, Inc.	ICx Technologies, Inc. engages in the development and integration of advanced sensor technologies.	\$226.2
1-Oct	National Pump Company, LLC	Gorman-Rupp Co.	National Pump Company, LLC engages in the research and development, design and production of industrial pumps.	\$41.5
30-Sep	Advance Food Company, Inc.	Pierre Foods, Inc.	Advance Food Company, Inc. manufactures, distributes, and sells portion-controlled food products for the foodservice industry.	-
30-Sep	Ames True Temper Inc.	Griffon Corporation	Ames True Temper, Inc. engages in the manufacture and marketing of non-powered landscaping products.	-
30-Sep	Salary.com, Inc.	Kenexa Corp.	Salary.com, Inc. provides on-demand human resource solutions.	\$74.1
27-Sep	Advanced Drainage Systems, Inc.	American Securities	Advanced Drainage Systems, Inc. manufactures corrugated high density polyethylene pipe products.	-
24-Sep	3PAR, Inc.	Hewlett-Packard Company	3PAR Inc., together with its subsidiaries, provides utility storage systems in the United States and internationally.	\$2,215.8
24-Sep	Carex Health Brands, Inc.	Ancor Capital Partners	Carex Health Brands, Inc. offers home self-care medical products.	-
23-Sep	Liquid Container, LP	Graham Packaging Acquisition Corp.	Liquid Container, LP manufactures and supplies stock and custom plastic packaging solutions in North America.	\$568.0
21-Sep	Hospitality Staffing Solutions, LLC	Frontenac Company	Hospitality Staffing Solutions, LLC provides staffing services for the hospitality and resort industry.	\$80.0
17-Sep	Boots & Coots, Inc.	Halliburton Company	Boots & Coots, Inc. provides a suite of integrated pressure control and related services.	\$288.9
3-Sep	Senco Instruments Inc.	TransDigm Group Incorporated	Senco Instruments, Inc. engages in the design, manufacture, and sale of precision sensors, molded cables, and wiring harnesses.	\$73.1
31-Aug	TestPak, Inc.	PrePak Holdings, Inc.	TestPak, Inc. provides contract packaging, and development and compliance services for the pharmaceutical and nutritional industries.	-
25-Aug	Wright Line, LLC	Eaton Corporation	Wright Line, LLC designs, manufactures, distributes, markets, and installs consoles, enclosures, and furniture for data centers centers.	-
25-Aug	Swisher Mower & Machine Company, Inc.	Blackstreet Capital Management, LLC	Swisher Mower & Machine Company, Inc. manufactures mowers, edgers, trimmers, and trailcutters.	-
24-Aug	Edipys Corporation	Allscripts-Misys Healthcare Solutions, Inc.	Edipys Corporation operates as a healthcare information technology company in North America, the AsiaPacific, and the Middle East.	\$1,169.8
24-Aug	Rubio's Restaurants Inc.	Mill Road Capital; Mill Road Capital I, LP.	Rubio's Restaurants, Inc., together with its subsidiaries, owns and operates a chain of Mexican restaurants in the United States.	\$80.9
17-Aug	Cliffstar Corporation	Cott Corporation	Cliffstar Corporation, together with its subsidiaries, engages in the manufacture, sale, and distribution of non-alcoholic beverages.	\$667.6
17-Aug	21st Century Grain Processing Co.	Viterra, Inc.	21st Century Grain Processing Co. operates as an oat, wheat, corn, and custom coated whole grains processor in North America.	\$90.5
10-Aug	Carolina Beer & Beverage Company, LLC	SunTx Capital Partners	Carolina Beer & Beverage Company, LLC engages in producing, blending, filling, packaging, and distributing beers in Mid-Atlantic States.	-
10-Aug	SpecCo, Inc.	Blount, Inc.	SpecCo, Inc. manufactures tractor linkage parts and farm accessories.	\$90.0
6-Aug	World Data Products, Inc.	Prospect Partners, LLC	World Data Products, Inc. engages in reselling and leasing refurbished, used, and new server, storage, and network equipment.	-
5-Aug	Argon ST, Inc.	Boeing Co.	Argon ST, Inc. and its subsidiaries provide systems engineering, development, and services in the United States and internationally.	\$774.7
5-Aug	Sport Supply Group, Inc.	ONCAP; Andell Holdings, LLC	Sport Supply Group, Inc. manufactures, markets, and distributes recreational and leisure products.	\$184.0
4-Aug	inVentiv Health, Inc.	Thomas H. Lee Partners, LP.	inVentiv Health, Inc. provides value-added services to the pharmaceutical, life sciences, and healthcare industries.	\$1,189.0
4-Aug	Forward Logistics Group, Inc.	Trans-Trade, Inc.	Forward Logistics Group, Inc., an international freight forwarder and customs broker.	-
4-Aug	Crissair, Inc.	ESCO Technologies Inc.	Crissair, Inc. develops and manufactures hydraulic, fuel, and pneumatic system components.	-
4-Aug	Airborne Technologies, Inc.	L-3 Communications Holdings Inc.	Airborne Technologies, Inc. provides aeronautical engineering services.	-
27-Jul	Somanetics Corp.	United States Surgical Corporation	Somanetics Corporation develops, manufactures, and markets medical devices.	\$291.3
26-Jul	Sybase, Inc.	SAP America, Inc.	Sybase, Inc. provides enterprise and mobile software solutions for information management, development, and integration worldwide.	\$5,422.8
22-Jul	American Italian Pasta Co.	Ralcorp Holdings Inc.	American Italian Pasta Company engages in the production and marketing of dry pasta in North America.	\$1,223.1
21-Jul	CyberSource Corporation	Visa, Inc.	CyberSource Corporation provides electronic payment and risk management solutions to enterprise and small business merchants.	\$1,842.6
13-Jul	Atlantic Marine Property Holding Company, Inc.	BAE Systems, Inc.	Atlantic Marine Property Holding Company, Inc. owns and operates shipyards.	\$352.0
12-Jul	CKE Restaurants Inc.	Apollo Management, L.P.	CKE Restaurants, Inc. through its subsidiaries, owns, operates, franchises, and/or licenses quick-service restaurants.	\$1,028.7
12-Jul	HealthTronics, Inc.	Endo Pharmaceuticals Holdings Inc.	HealthTronics, Inc. provides urological services. The company also engages in the manufacture and distribution of urology products.	\$303.6
12-Jul	Virtual Radiologic Corporation	Providence Equity Partners LLC	Virtual Radiologic Corporation provides teleradiology services for hospitals, clinics, radiology practices, and diagnostic imaging centers.	\$241.1
7-Jul	DynCorp International Inc.	Cerberus Capital Management, LP.	DynCorp International Inc. operates as a government services provider in support of U.S. national security and foreign policy objectives.	\$1,439.2
6-Jul	Bell Microproducts Inc.	Avnet Inc.	Bell Microproducts Inc. distributes storage products and systems, computer products and peripherals.	\$592.8
6-Jul	SenoRx, Inc.	CR Bard Inc.	SenoRx, Inc. engages in the development, manufacture, and sale of devices for the diagnosis and treatment of breast cancer.	\$193.2
6-Jul	Abrasive Products & Equipment, LP	ShoreView Industries	Abrasive Products & Equipment, LP engages in the sale, service, and rental of portable air blast and related equipment.	-
1-Jul	Palm, Inc.	Hewlett-Packard Company	Palm, Inc. provides mobile products for individual users and business customers.	\$1,216.3
1-Jul	InfrastruX Group, Inc.	Willbros Group Inc.	InfrastruX Group, Inc. provides design, construction, maintenance, engineering, and other services to the utility industry.	\$859.0
1-Jul	infoGROUP, Inc.	CCMP Capital Advisors, LLC	infoGROUP Inc. and its subsidiaries provide business and consumer databases.	\$637.4
1-Jul	Bison Building Materials, Ltd.	Stock Building Supply LLC	Bison Building Materials, Ltd. offers engineered wood products.	\$45.0
1-Jul	NAU Country Insurance Company	QBE Insurance Group Ltd.	NAU Country Insurance Company provides crop insurance solutions for farmers in the U.S.	\$666.0
1-Jul	Symyx Technologies Inc.	Acelrys Inc.	Symyx Technologies, Inc. provides software and services to enhance and integrate research data management worldwide.	\$100.5
1-Jul	Connexions Loyalty Travel Solutions LLC	Affinion Group, Inc.	Connexions Loyalty Travel Solutions LLC provides travel solutions for loyalty programs in the United States.	\$145.1
1-Jul	Smashbox Beauty Cosmetics, Inc.	Estee Lauder Companies Inc.	Smashbox Beauty Cosmetics, Inc. offers beauty care products.	\$250.0

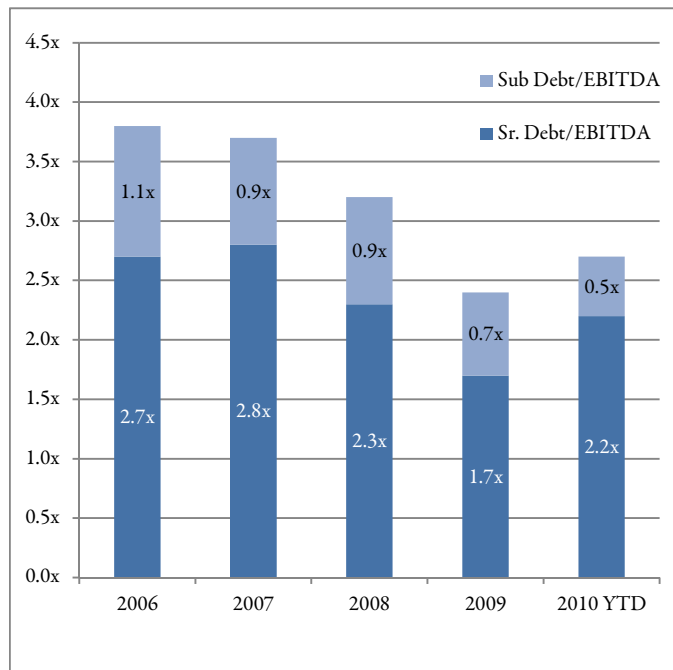
# U.S. M&A ACTIVITY FOR NOVEMBER 2008-OCTOBER 2010



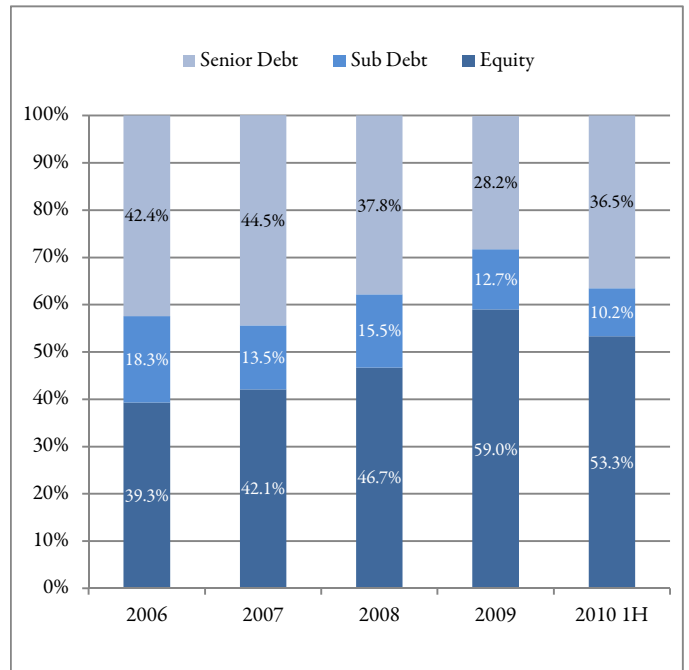
Source: Factset

## PRIVATE EQUITY SPONSORED M&A TRANSACTIONS

### LEVERAGE MULTIPLES



### EQUITY AND DEBT CONTRIBUTIONS



Source: GF Data Resources

## MIDDLE MARKET PLANNING FOR 2011: THE FOUR "B'S"

*(continued from page 2)*

Private equity buyers that don't have this industry expertise and interest have, to date, not demonstrated to us a willingness to put forth a premium value.

### Catalysts and Confidence

Once business owners address the questions of business, budget, buyers and bucks, they then are in a position to examine their personal objectives, including the prospect of an ownership transition. The two most common themes we have seen in this process are catalysts and confidence.

The catalysts for ownership transition are no different today than they have been in the past. They relate to the age of owners, the availability of a successor, the need to diversify an owner's net worth and the desire to reduce an owner's risk profile relative to the future of the business. This last point has become increasingly salient in the past 12 months as owners reflect upon the impact the recession has had on their businesses. The confidence that owners are seeking as they evaluate a liquidity event is that a transaction can be structured at a value that meets their personal goals and objectives. Positive operating performance is an important element in this regard, and so is the buyer universe for a particular company. Our recent experience is that the more interest we can generate from strategic acquirers, the higher the value that can be achieved in a sale transaction, even if the ultimate buyer is a financial buyer and not an operating company.



## DRESNER PARTNERS

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*Dresner Partners is a middle market investment bank founded in 1991 and specializing in merger & acquisition advisory, institutional private placements of debt and equity, valuation and financial consulting. We are deeply committed to exceeding client expectations and maintaining the highest levels of integrity. Our experienced professionals have the foresight necessary to navigate through highly complicated transactions to maximize value for our clients.*

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### Recent transactions closed by Dresner Partners:



has sold its skilled nursing and dementia care businesses to:



*(Nasdaq:DCAI)*

has been acquired by



has been acquired by

