Middle Market Metrics

DRESNER PARTNERS
INVESTMENT BANKING

Spring 2011

20 N. Clark Street
Suite 3550
Chicago Illinois 60602

(312) 726-3600 (Office)

www.dresnerpartners.com

Steven Dresner
President
sdresner@dresnerco.com

Tim Coleman
Senior Managing Director
tcoleman@dresnerco.com

Kevin McMurchy
Senior Managing Director
kmcmurchy@dresnerco.com

Mitch Hara
Senior Managing Director
mhara@dresnerco.com

Gregg Pollack
Managing Director
gpollack@dresnerco.com

Omar Diaz
Managing Director
odiaz@dresnerco.com

Jamie Lisac
Managing Director
jlisac@dresnerco.com

Member: FINRA/SIPC

2011 is off and running and based on early indications, the disjointed momentum the economy experienced during 2010 has evolved into a more predictable and optimistic outlook for 2011 and beyond. Since our last Middle Market Metrics newsletter, there have been a number of significant developments with both near and longer term implications on our economy, the mergers & acquisitions market, and the financing environment. While quantifying the impact of these factors would be a Herculean task, the fundamentals are generally favorable and are driving the market's positive, methodical momentum. In this newsletter, we summarize some recent key events and trends, review the current M&A environment, and also analyze a growing valuation gap that has emerged in the middle market.

Recent Events & Trends

The following is a summary of key recent events along with some economic trends occurring in the U.S.:

GDP Growth: The U.S. economy ended 2010 on a strong note, growing at an annual rate of 2.8% in Q4 2010, up from 2.6% in the previous quarter. For the year, the economy grew at 2.8%, the strongest outcome since 2005 and a marked turnaround from 2009, when the U.S. suffered its worst GDP decline in more than 60 years. Minutes released from the Federal Reserve's January 25-26 meeting revealed growing optimism as their 2011 GDP growth projection was revised upward from a range of 3.0%-3.6% to a range of 3.4%-3.9%. Consumers are spending more on autos, appliances, furnishings, clothing and other goods, while businesses are capitalizing on tax breaks for new machinery and other big-ticket items.

Quantitative Easing II (QE2): The process of "creating" money in order to purchase $600 billion of Treasuries and Treasury inflation-protected securities through the middle of 2011 is intended to keep interest rates from rising too much and impeding an economic recovery. This is expected to hold borrowing costs for businesses at low levels and further drive improved financial performance. That said, there are rumblings that the program could be scaled back if GDP growth accelerates and/or inflation starts to take hold.

Elections: The midterm elections, in which Republicans gained 60 seats in the House of Representatives, has already had an impact on many policy making decisions and this is expected to continue. In addition to the extension of the Bush tax cuts, this change in balance will assuredly have an impact on federal budget allocation, deficit reduction initiatives and free trade.

Tax Rates: It was not a surprise that the elections ultimately resulted in an extension of the Bush tax cuts through 2012. The avoidance of higher ordinary income and capital gains rates will help fuel economic growth and job creation, and should also have a positive impact on the M&A market.

Manufacturing Activity: The Institute for Supply Management's manufacturing index reached 61.4 in February, indicating that U.S. manufacturing activity accelerated to its fastest pace since 2004 (a reading above 50 indicates that the manufacturing economy is generally expanding). Furthermore, U.S. factories continue to add jobs, with a gauge of employment growth in the report reaching its highest level since the 1970s. Rising industrial output has been a key driver for the economy since the recession ended in June 2009 and is expected to help drive stronger future employment growth.

Corporate Earnings: Total U.S. corporate profits in Q3 2010 grew 26% over the year earlier, reaching the highest level in four years ($1.64 trillion). With 73% of the S&P 500 having reported fourth-quarter results, earnings are up 28% from a year earlier and sales are up 7.7%. This improved performance has translated into more confidence in the Executive and Board Room when making decisions regarding initiatives such as product line expansion, geographic expansion, capital expenditures and acquisitions.

Equity Market: The equity market posted solid gains in 2010 with the S&P 500 increasing nearly 13% and the Dow Jones Industrial Average rising 11%. With generally strong year-end earnings currently being announced, the markets' momentum has continued into 2011.

Consumer Confidence: American consumers are more confident than at any time in the last three years given increased optimism about income and jobs, as well as current business conditions. Confidence has risen relating to both current expectations and expectations six months from now.

Consumer Spending: Consumer spending rose 0.2% in January, marking the seventh consecutive month of expansion. While core prices (excluding food and energy) have remained essentially unchanged in five of the last seven months, January's increase of 0.2% was its biggest increase in a year. However, this is still well within range of what the Federal Reserve considers acceptable for the health of the economy.

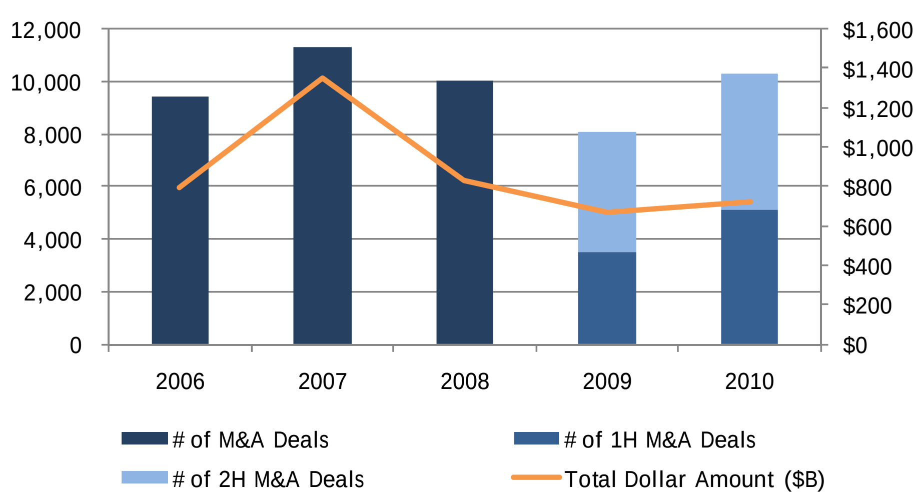
Unemployment: The U.S. job market continues to be one of the economy's problem areas. While the increase in nonfarm payrolls has consistently fallen short of expectations, the unemployment rate decreased to 9.0% in January, its lowest level since April 2009 (many analysts contend that the drop in unemployment was likely because severe winter weather kept people from seeking jobs, thus removing them from the workforce temporarily). Furthermore, many companies are dealing with sharply higher costs from spiking commodity prices, which is pressuring profit margins and keeping companies guarded about adding to labor costs. Given significant improvements in productivity over the past two years, economists estimate that GDP growth will need to approach 5% before the U.S. experiences a sustained improvement in unemployment. The good news is that two important precursors of job growth – slowing productivity and an increase in business lending – are starting to take effect.

Of course, there continue to be economic pressures and market dynamics that create some uncertainty regarding the longevity of our current upward swing. These include inflation fears in the U.S. and in emerging markets (fueled by rising food, oil and raw material prices), ongoing housing headwinds, the European sovereign and banking crisis, recent increasing tensions in the Middle East, and the uncertainty surrounding how our government will address the country's fiscal deficit and debt. While any of these factors could eventually cause a market correction, so far the economic rebound has been able to withstand these pressures.

M&A Market Update

As a result of many of the aforementioned factors, the M&A market experienced a resurgence in 2010, particularly in the second half of the year. These trends have continued so far in 2011 and have been evident both with large corporate transactions (e.g., Danaher's announced acquisition of Beckman Coulter for $6.8 billion and Ensco PLC's announced acquisition of Pride International for $7.3 billion) as well as in the middle market.

U.S. M&A Activity



Source: Capital IQ

MIDDLE MARKET METRICS

There are numerous factors that have driven and are expected to continue pushing M&A activity higher, including:

Record Corporate War Chest: According to the Federal Reserve, cash and cash equivalents on the balance sheets of U.S. companies grew to nearly $2.0 trillion in September of last year. This was more than 14% higher than a year earlier, though much of this cash is tied up overseas due to repatriation tax liabilities.

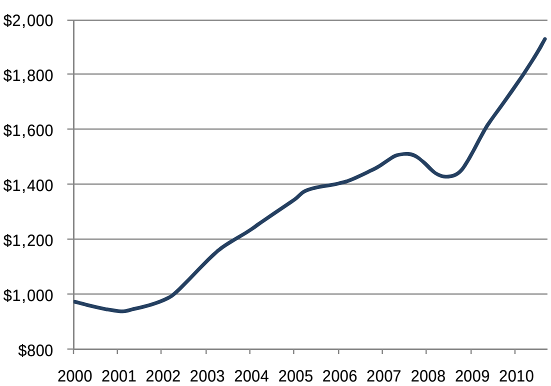
Renewed Confidence In and Need For Acquisitions: Strategic buyers continue to intensify their focus "outward" by using acquisitions to augment growth and drive higher stock prices.

Significant Capital Overhang for Private Equity Groups: U.S. financial buyers have amassed nearly $500 billion of dry powder.

Improving Lending Environment: With the economy strengthening and default rates continuing to fall, banks' health and propensity to lend are improving. This has resulted in more aggressive leverage levels, looser covenants and tightening spreads, particularly for companies with EBITDA exceeding $10 million. Premium companies in the upper middle market have been able to achieve total leverage at, and sometimes exceeding, 4.0x EBITDA.

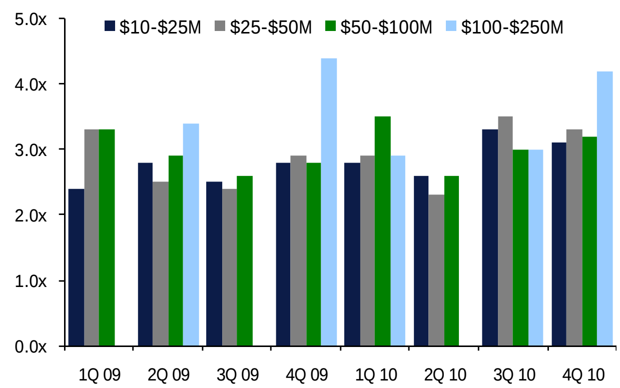
Financial Performance: Not only have most companies' financial performance turned the corner, but with many of the economy's drivers now acting in unison, companies have greater visibility and confidence about their growth and margin trajectory.

U.S. Corporate Cash & Cash Equivalents



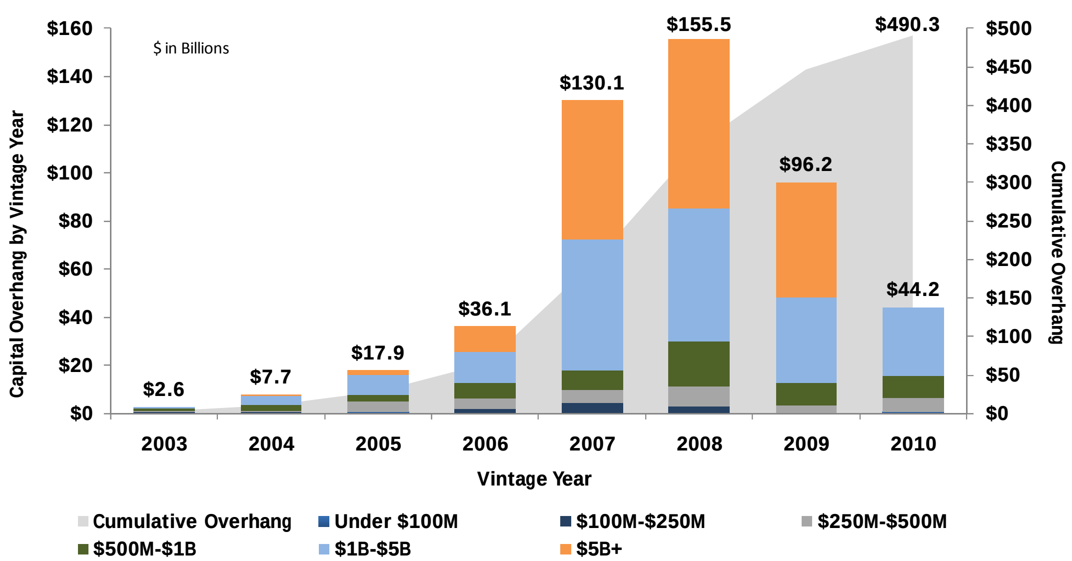
Excludes financial companies
Source: Federal Reserve Board

Total Debt/EBITDA by Transaction Size



Source: GF Data Resources

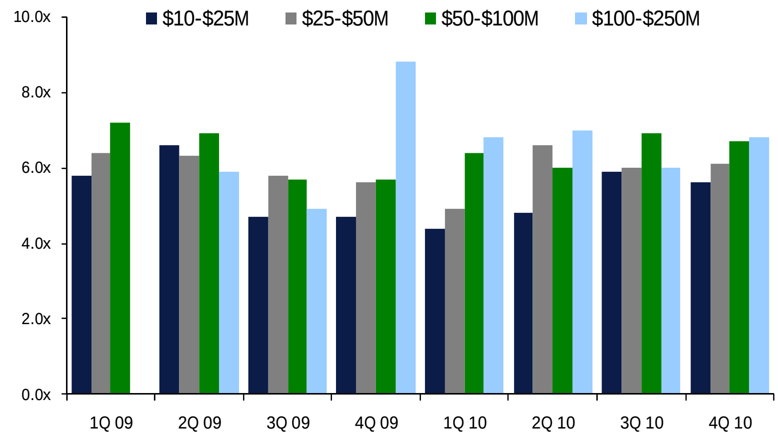
Build Up of U.S. Private Equity Investors' Dry Powder



Source: Pitchbook

During 2010, strategic buyers increased their acquisition pace and are currently well positioned to continue this trend given their strong balance sheets. Concurrently, financial buyers, after struggling with both portfolio challenges and a dearth of senior debt for the past two years, have also become more competitive as underwriting criteria has loosened and they come under increased pressure to put capital to work (even if at the expense of lower expected returns). As a result, there is heightened competition across the board for acquisitions, resulting in steadily rebounding valuations. The combination of these more aggressive buyers, increasing transaction multiples, and improving company performance has helped narrow the valuation gap between what sellers are demanding and what buyers are willing to pay. After experiencing a decline during 2009, average transaction multiples increased each quarter during 2010 and are now at the highest point since early 2009.

TEV/EBITDA by Transaction Size

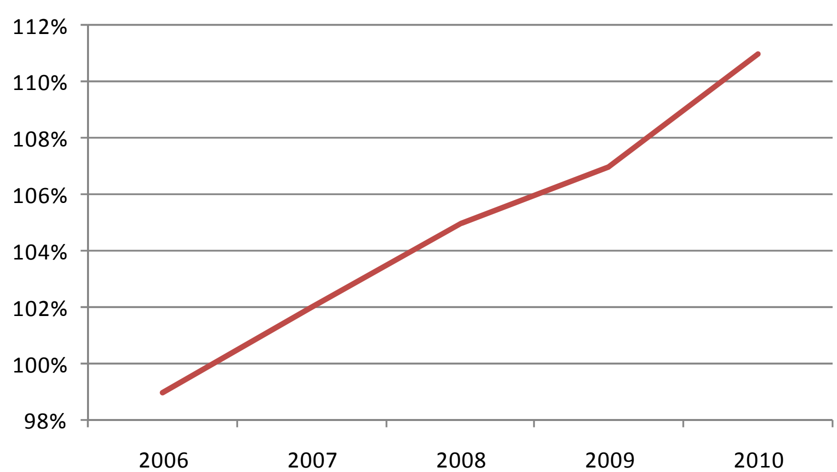


Source: GF Data Resources

Valuation Gap Continues to Widen

An interesting phenomenon that has accelerated over the past 18-24 months is a growing disparity in the valuation achieved by "premium" companies relative to "average" companies (note: the statistics used to qualify companies as "premium" in the chart below are based on tangible factors, namely growth and margins). This has been largely driven by the disproportionate lack of higher quality companies looking to sell. While competition from both strategic and financial buyers is increasing for deals in general, competition has been particularly intense for companies perceived to be well positioned in their particular niche and/or those that weathered the recession well.

Price Premium for Buyouts with Above-Average Financials



Source: GF Data Resources

In addition to growth and margins, there are a multitude of factors that enhance a target's appeal and drive a premium multiple. While some of these factors are out of shareholder/management's control (e.g. industry dynamics within the company's niche), there are numerous others that ownership/management can control or influence. Examples of such value-enhancing factors include:

Market Share	• How strong is your company's market position? • How defensible is your market position? • What is your company's market share trend?
Brand Equity/ Market Reputation	• How strong is your company's brand? • What is your company's reputation for quality products, on-time delivery, customer service, etc.?
Product/Service Offering	• How differentiated are your products/services? • How concentrated are your sales on certain products / services? • Do you have any intellectual property? • What are the barriers to entry?
Customer Relationships	• Do you have significant customer concentration (>20%)? • How diverse is your company's geographic footprint (regionally and internationally)? • What is the nature of your customer relationships (e.g., tenure, customer retention rates, etc.)?
Management Team	• How strong is your company's management team? • How deep is your management team? • Is your company knowledge "institutionalized" (i.e., what would be your company's ability to continue efficient and profitable operations if any of the senior management departed)?
Internal Controls/Integrity of Financial Results	• How strong are your internal controls (i.e., procedures for financial reporting, tracking inventory, etc.) • Are your financial results audited?
Scalability of Business	• How scalable is your company's platform? • Does your company have sufficient management team strength, manufacturing capacity, information systems, etc. to layer on additional products/services or a new leg to the business?

History clearly indicates a strong correlation between these factors and premium valuations. It's not rocket science. However, with much of your focus over the past two years likely concentrated on survival, you may not have had the luxury of worrying about new product development, product/customer concentration issues, or the scalability of your platform. The good news is that you're not alone. Most companies in the middle market arena face challenges in many of these areas. On the bright side, there are numerous initiatives that can be implemented to enhance your company's market position and, ultimately, build shareholder value.

As noted before, M&A activity bounced back strongly in 2010 and this activity is expected to accelerate in 2011 given rebounding valuations, the steadily improving economy, increased visibility in companies' financial performance, and more confident and aggressive buyers, among other factors. Whether a partial or full liquidity event is at the forefront of your thoughts or is something you believe is a possibility over the next few years, it's never too early to start preparing in an effort to maximize value when you decide that the time is right. We are happy to help you evaluate your strategic alternatives along with the risk/reward of implementing initiatives to drive shareholder value.

- Paul Hoffman, Vice President

eRAD

Has been acquired by

RADNET, inc.

NASDAQ: RDNT

The undersigned acted as exclusive financial advisor and negotiated the transaction on behalf of eRAD Inc.

DRESNER PARTNERS
INVESTMENT BANKING

October 2010 **Chicago, IL**

Healthcare	Family Business	Financial Services
Ejaz Elahi Director of Healthcare eelahi@dresnerco.com	**Timothy Coleman** Senior Managing Director tcoleman@dresnerco.com	**Kevin McMurchy** Senior Managing Director kmcmurchy@dresnerco.com

Retail & Consumer	Industrials & Chemicals	Financial Restructuring & Corporate Turnaround
Mitch Hara Senior Managing Director mhara@dresnerco.com	**Omar Diaz** Managing Director odiaz@dresnerco.com	**Jamie Lisac** Managing Director jlisac@dresnerco.com

Dresner Partners is a middle market investment bank founded in 1991, 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.