

“ a firm belief in the entrepreneurial spirit ”

CLEARY GULL

MARKET MONITOR

FINANCING UPDATE



2ND QUARTER 2010

THE ECONOMY, LENDING MARKET AND M&A MARKET ARE ALL IMPROVING

2010: Better than Expected

During the first quarter of 2010, GDP grew at a compound annual rate of 3.0%, personal consumption increased 3.6% and industrial production soared 7.8%. Based on these recent growth statistics, the risks of a “double dip” recession have significantly declined.

Corporate profits outpaced expectations, increasing 22% during the first quarter of 2010 following a 30.6% increase in the fourth quarter of 2009. Sales growth, not just expense cuts, is beginning to drive higher earnings.

The capital markets reacted favorably and, despite the recent equity market pull-back, both the equity and financing markets appear to be open for business.

Storm Clouds Still on the Horizon

A tidal wave of government debt, a sovereign debt crisis and increasing taxes remain long-term concerns for the economy and the M&A market.

Federal, state and local budgets are more stretched than ever, and the U.S. Federal deficit is expected to exceed 10% of GDP in 2010.

The sovereign debt crisis has resulted in the equity, high yield and currency markets giving back almost all of this year’s gains.

The phasing in of increased taxes is also weighing on the markets. The repeal of the Bush tax cuts and the new health care tax are likely to be only the beginning of what is necessary to reduce the budget deficit.

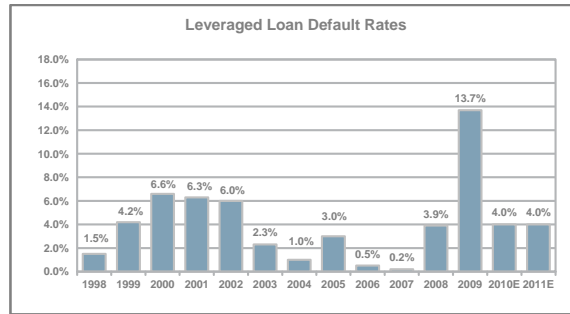
These problems are real and, although they may take years to play out, they are ultimately likely to result in further increases in taxes, higher interest rates and increased M&A activity.

KEY U.S. INTEREST RATES

	6/1/2010	12/31/2009	6/1/2009
3-Month T Bill	0.16%	0.06%	0.14%
2-Year UST	0.78%	1.14%	0.96%
5-Year UST	2.09%	2.69%	2.52%
10-Year UST	3.29%	3.85%	3.65%
30-Year UST	4.19%	4.63%	4.50%
EUR/USD	\$1.23	\$1.43	\$1.42
1-Month LIBOR	0.35%	0.23%	0.32%
6-Month LIBOR	0.76%	0.43%	1.23%
Prime	3.25%	3.25%	3.25%

Source: Capital IQ, St. Louis Fed

DEFAULT RATES DECLINING



Source: J.P. Morgan, Moody's Investors Service

The Banks are Back!

Many U.S. banks made an “about face” in their approach to lending during the first quarter. Improving bank balance sheets, contracting loan portfolios and pressures to increase lending are resulting in a dramatic improvement in lenders’ appetite for new loans.

Lenders of all shapes and sizes are gradually returning to the market. The landscape is changing with certain banks aggressively expanding their footprints and other lenders remaining cautious. Non-bank lenders are also reentering the market with several new entrants also having recently raised fresh capital to invest.

While availability of funds has increased, the pricing for borrowers is improving as well. Banks which were charging LIBOR + 550 – 650 bps one year ago, are now quoting comparable credits at LIBOR + 225 – 375 bps. Non-bank lenders which were quoting 650 – 800 bps over LIBOR, are now at 450 – 600 bps over LIBOR for comparable credits.

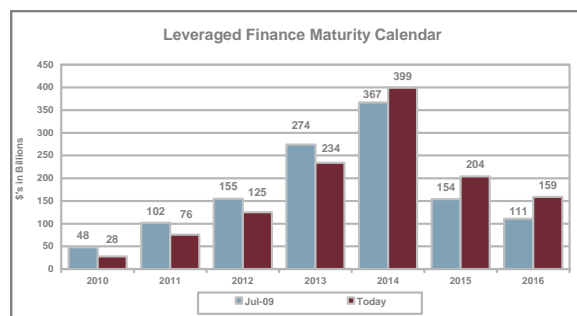
Broader Debt Markets Improving

The general credit quality of corporate loans has improved dramatically. According to J.P. Morgan and S&P LCD, leveraged loan default rates are expected to decline from 13.7% in 2009 to 4.0% in 2010. Standard & Poor’s U.S. distressed debt ratio has already declined from 9.7% in March to 6.7% in April.

The decline in default rates is due in part to improved corporate performance but also to a significant amount of refinancings and restructurings. During 2009, banks amended credit agreements and termed out impending maturities. The amount of debt maturing in 2011 and 2012 declined almost 28% from \$257 billion to \$201 billion.

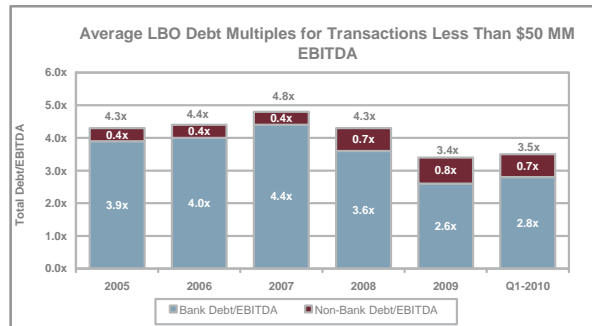
Although many companies still face credit maturities which will be difficult to refinance, the credit markets seem to be handling much of the work.

LOAN MATURITIES EXTENDING



Source: J.P. Morgan, S&P LCD (4/12/2010)

DEBT MULTIPLES BEGINNING TO REBOUND



Source: S&P

The Debt Markets are Better than the Data Suggests

Average total debt/EBITDA multiples for small LBOs (borrowers with less than \$50 million in EBITDA) increased 0.1x to 3.5x during the first quarter of 2010 compared to 2009. Senior debt/EBITDA increased 0.2x from 2.6x to 2.8x.

Although the data is only beginning to show improvement, we are seeing senior debt for companies with less than \$10 million in EBITDA in the range of over 2.0x to nearly 3.0x EBITDA range. For companies with stable cash flow and EBITDA greater than \$10 million, senior debt is approaching 3.5x.

Total debt remains at 3.50x to 3.75x for companies with less than \$10 million in EBITDA compared to 4.0x, or even 4.5x, for companies with greater than \$10 million in EBITDA.

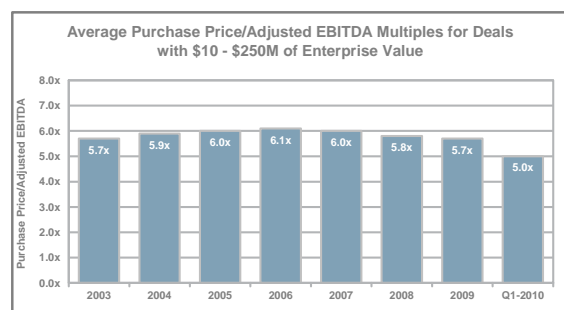
M&A Volume and Pricing Improving

The first quarter of 2010 was the fourth consecutive quarter of increased middle market deal volume. However, average EBITDA purchase price multiples reported for leveraged buyout transactions with enterprise values less than \$250 million decreased by 0.7x to 5.0x EBITDA compared to 5.7x EBITDA for all of 2009.

These averages, while presumably accurate, mask a sharply bifurcated market. Transactions for companies with greater than \$10 million in EBITDA are attracting higher prices and more generous financing than smaller companies.

We believe the lower average multiples in Q1 are due to increased M&A activity involving underperforming businesses compared to 2009, a year when only businesses with very strong financial characteristics were able to consummate transactions.

“REPORTED” PURCHASE PRICE MULTIPLES DECLINED



Source: GF Data Resources

FIRM OVERVIEW

Cleary Gull Inc. is an employee-owned firm providing specialized financial services since 1987 to individuals, institutional investors, and middle market companies through two operating divisions: Investment Banking and Investment Management Services. *"A Firm Belief in the Entrepreneurial Spirit"* is our core ideology and the foundation for all of our client engagements.

Cleary Gull's investment bankers help our clients achieve their financial and business goals with advice on exclusive sales, mergers, acquisitions, raising debt and equity in private capital markets and other transactions, working through complex financial, legal, tax, accounting and other technical issues, and delivering superior results.

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International Association
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CONTACT

The Cleary Gull Investment Banking team has completed more than 120 transactions since 1995, representing approximately \$6 billion in transaction value. We are dedicated to providing unbiased, conflict-free advice to middle market companies.

Contact us for more information on Cleary Gull and our Investment Banking services.

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