



Second Quarter 2011

Middle Market Transaction Update

Quarton Partners is one of North America's premier specialty investment banking firms. Quarton Partners provides a complete portfolio of services, including:

- Merger & Acquisition Advisory Services
- Private Capital Raising
- Restructuring & Recapitalizations
- Financial Advisory Services

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Middle Market M&A Softens Credit Markets Continue to Improve

Middle Market M&A Volumes Decline

Middle market M&A volumes declined 33.5% in Q1 '11. We believe the large decline is primarily attributed to the volume of transactions that were "pulled ahead" into 2010 due the uncertainty at the time surrounding future tax rates. Despite the decline in M&A volumes, middle market transaction multiples remained robust in Q1 '11 at 7.5x, a slight uptick compared to Q4 '10 multiples of 7.4x. We anticipated stronger activity from the private equity universe as LBO lending (according to S&P) in the middle market recorded moderate gains increasing 6% in Q1 '11 to \$1.3 billion from Q4 '10. There is a significant build-up of future M&A activity from the private equity universe as they race to put "dry powder" to work before they are forced to give it back to limited partners. This dynamic, coupled with strong activity from strategic buyers and private business owners' desire to take "chips of the table" after the extended downturn, should create an optimal environment for M&A activity for the remainder of 2011.

Middle Market Lending Is Back

Middle market lending activity posted the strongest quarter since Q3 '07. Unfortunately, the devil is in the details, as the increase in loan volume in Q1 '11 was fueled by dividend recapitalizations and debt refinancings which accounted for 55% of the total loan volume. Lending activity on LBO transactions as percentage of total volume declined from 37% in Q4 '10 to 27% in Q1 '11. According to S&P data, senior debt multiples for middle market LBO transactions in Q1 '11 increased to 3.8x senior debt/EBITDA compared to 3.4x senior debt/EBITDA in Q4 '10.

S&P also reported that total LBO equity contribution for deals with EBITDA of \$50 million or less averaged 32.6% of the total capital structure in Q1 '11. The decline to 32.6%, which is only slightly higher than 2007 equity contributions, was a surprise. Our data points deviate from the S&P reported figures as we continue to see private equity funding approximately 40% of the capital structure in order to consummate deals.

U.S. Economic Recovery Remains Uncertain

Real gross domestic product increased at an anemic annual rate of 1.8% during Q1 '11, the sharpest decline since Q2 '10. This deceleration was due to significant increases in food and energy costs for the consumer, less defense spending by the federal government and declines in construction spending. While the lackluster results are being chalked up by many economists as temporary, the rise in food and gasoline prices is troublesome as the U.S. consumer remains fragile. However, there are positive economic signals that indicate the U.S. economic recovery is still on track. March housing starts increased on a month-over-month basis and U.S. non-farm private employers added more than 200,000 jobs for the third month in a row in April.

TRANSACTION ENVIRONMENT

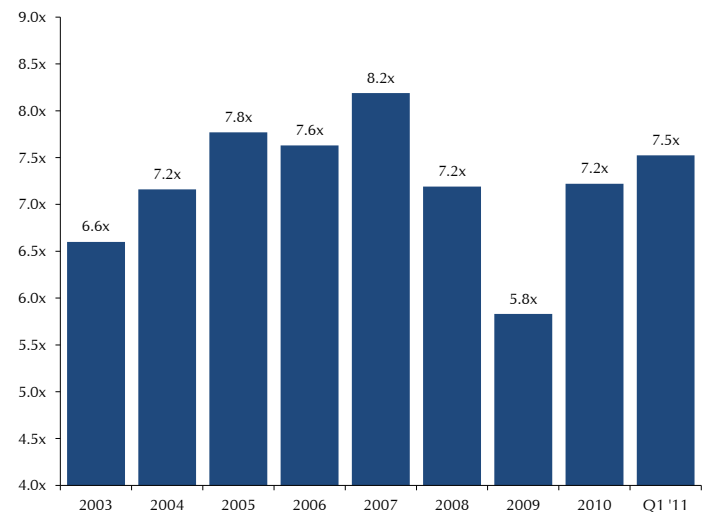
The Data

Deal Volume – Transaction activity in the middle market decreased in Q1 '11, the first quarterly decline in activity in over a year. Middle market disclosed transactions (Enterprise Value < \$500 million and > \$10 million) declined 33.5% in Q1 '11 from Q4 '10, but was up 6% from the same period a year ago. We believe middle market M&A will be strong throughout 2011 and Q1 '11 figures represent a hangover from the solid volume figures posted in Q4 '10 caused by the uncertainty in future tax rates. In addition, deal makers were more cautious at the end of the quarter due to geopolitical events in the Middle East, and the earthquake/tsunami in Japan.

Figure I highlights Q1 '11 middle market deal volume by industry sector based on data from Capital IQ. Activity in the materials industry increased 41% from the previous quarter, while financials and utilities posted the most significant declines quarter-over-quarter of -39% and -62%, respectively.

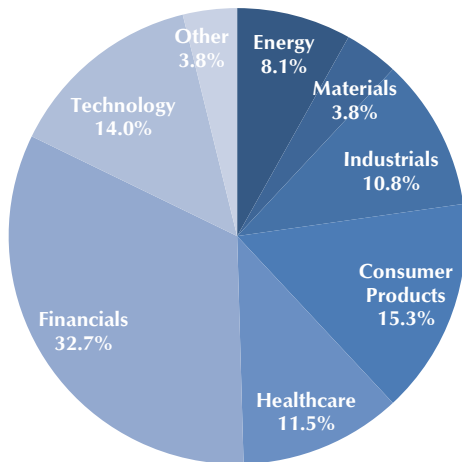
Transaction Multiples – Middle market enterprise Value/EBITDA transaction multiples remained relatively consistent in Q1 '11 at 7.5x, a slight uptick compared to Q4 '10 multiples of 7.4x. According to S&P, Enterprise value/EBITDA transaction multiples in Q1 '11 for middle market LBO transactions declined from 8.4x for full-year 2010 to 6.5x. This decrease in LBO transaction multiples indicates overall middle market transaction multiples remained relatively consistent quarter-over-quarter due to aggressive strategic buyers with strong balance sheets and not the private equity universe. A greater access to debt financing and an increase in transaction activity from financial acquirers should drive transaction multiples higher for the remainder of year.

Figure II
Middle Market Average EV/EBITDA Transaction Multiples⁽¹⁾



Source: Quarton Partners Research
(1) Transactions between \$10 and \$250 million with EV/EBITDA multiples < 15x; excludes technology, media and telecom

Figure I
1st Quarter U.S. Middle Market Transactions by Industry⁽¹⁾



Source: Capital IQ
(1) Middle market disclosed transaction volume (Enterprise Value < \$500 million and > \$10 million)

Deal Value – Aggregate deal value of middle market transactions for Q1 '11 decreased 32.7% from Q4 '10, but increased 29.5% from Q1 '10. The quarter-over-quarter decline was due to significantly lower deal volumes. Total deal value in the middle market was \$38.2 billion in Q1 '11 compared to \$56.7 billion Q4 '10 and \$29.5 in Q1 '10. Average transaction size declined slightly quarter-over-quarter to \$84 million in Q1 '11 from \$85 million in Q4 '10. Average transaction size increased 19% from the same period a year ago.

Market Dynamics

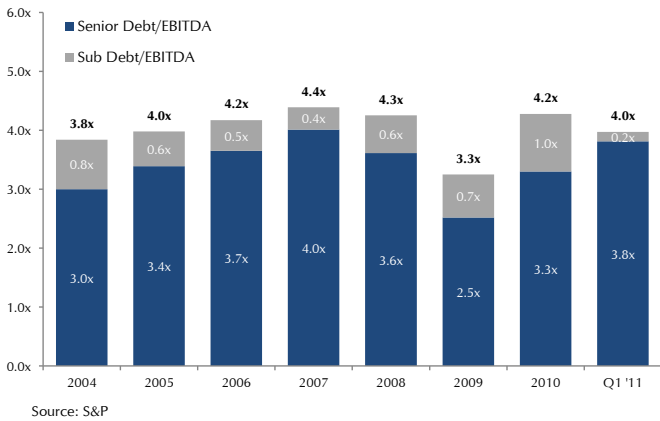
For the remainder of the year, we anticipate strategic buyers to be increasingly active as they become more bullish and utilize substantial cash reserves. The private equity universe has been a bit of an enigma, while activity has been moderate; we have anticipated a stronger resurgence in transaction activity from the financial buyer universe. Regardless, we still anticipate, due to the vast amount of “dry powder” (approximately \$221 billion as of March '11 according to Prequin) and the negative implications of having to return the funds back to the limited partners, that LBO activity will contribute significantly to middle market transaction volumes during the last three quarters of 2011.

AVAILABILITY OF CAPITAL

Debt Capital

According to S&P, loan volume for issuers with less than \$50 million in EBITDA totaled \$4.6 billion in Q1 '11, up 45% from Q4 '10, and up 119% from Q1'10. The increase in Q1 '11 middle market loan volumes represented the strongest quarter in terms of volume since Q3 '07. Unfortunately, the increase in loan volume in Q1 '11 was primarily driven by an increase in dividend recapitalizations and debt refinancings which accounted for 55% of the total loan volume. Middle market loan volume growth associated with leveraged buyouts was more tame in Q1 '11 totaling \$1.3 billion, a 6% increase from Q4 '10 figures. Senior lenders anxious to put money to work continued to be more aggressive in the middle market LBO arena as senior debt multiples for LBO transactions in Q1 '11 increased to 3.8x senior debt/EBITDA compared to 3.4x senior debt/EBITDA in Q4 '10. Subordinated debt/EBITDA leverage decreased to 0.2x after increasing to 1.0x in Q4 '10.

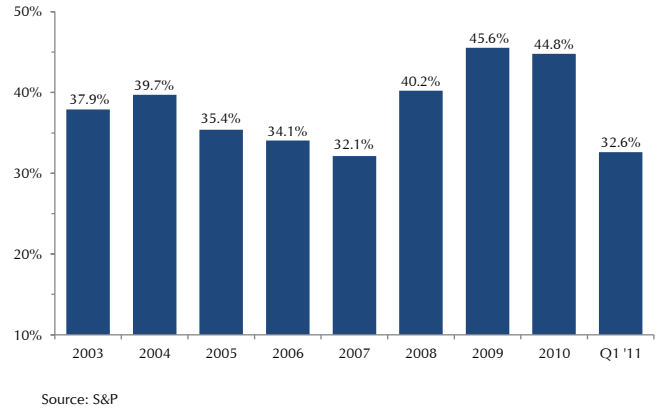
Figure III
Average Credit Statistics of Middle Market LBO Transactions (EBITDA \$50 mm or less)



Equity Capital

S&P reported that total LBO equity contribution for deals with EBITDA of \$50 million or less averaged 32.6% of the total capital structure in Q1 '11, down from 43.8% in Q4 '10. While we anticipated a slight decline in LBO equity contribution as credit market continued to improve, the decline to 32.6%, which is only slightly higher than 2007 equity contributions, was a surprise. Our data points deviate from the S&P reported figures as we continue to observe equity contributions on leveraged buyouts accounting for approximately 40% of the capital structure. We suspect the reported figures were impacted by the Q1 '11 decline in LBO purchase price multiples and a transaction mix of more asset rich companies with strong collateral.

Figure IV
Average Equity Contribution of Middle Market LBO Transactions (EBITDA \$50 mm or less)



ECONOMIC FACTORS

The U.S. economy decelerated in Q1 '11 due to significant increases in food and energy costs for the consumer, less defense spending by the federal government and declines in construction spending. While economic growth definitely hit a wall in the Q1 '11, the decline in federal defense spending is seen as temporary and inclement weather was the primary driver behind the drop in construction spending. In addition, positive signals can be gleaned from April employment metrics where U.S. non-farm private employers added more than 200,000 jobs for the third month in a row. Inflation, specifically food and gasoline price increases, remains a major concern and could weigh on the U.S. economic recovery if gasoline prices don't begin to subside.

Gross Domestic Product (GDP) – According to the BEA's advanced estimate, real gross domestic product increased at an annual rate of 1.8% during Q1 '11, the sharpest decline since Q2 '10 and disappointing considering we ended the year with a Q4 '10 real GDP annual rate of 3.1%. The deceleration was largely attributable to significant increases in energy prices which negatively impacted consumer spending and severe winter weather that delayed construction projects. In addition, state, local and federal government spending were all down for the quarter. Defense spending was the largest contributor to the decline in federal government spending, decreasing 11.7% in Q1 '11. Consumers feeling the pinch at the gasoline pump caused real personal consumption expenditures to decelerate from 4.0% in Q4 '10 to 2.7% in Q1 '11. Real nonresidential fixed investment increased 1.8% in Q1 '11 compared to a 7.7% increase in Q4 '10. The change in real private inventories contributed .93% to the first quarter

change in real GDP. Private business non-farm inventories increased \$45.8 billion in Q1'10.

Inflation – U.S. consumer prices increased 0.5% in March from February in line with the prior month's growth and increased on an annualized basis by 2.7% (before seasonal adjustment). Once again, increases in gasoline and food prices increases were key drivers to the rise in inflation, comprising nearly 75% of the CPI's monthly increase. The energy price index rose 3.5% in March. The energy price index has risen nine months in a row, rising 23.7% since June '10. Over the last twelve months the gasoline price index on an unadjusted basis increased 27.5%. Furthermore, over the last twelve months the index for food at home has increased 3.6%. The increase in energy and food costs has put significant pressure on the U.S. consumer.

On a positive note, the core March CPI index (excluding food and energy) increased 0.1%, lower than the February gains, and below the industry consensus expectation of 0.2%. Outside of food and energy, index changes were comparatively minor. Both shelter and medical care costs rose slightly while apparel and household furnishings and operations declined somewhat.

New Housing – Privately-owned housing starts rose 7.2% in March to a seasonally adjusted annual rate of 549,000, up from the revised 512,000 in February according to the U.S. Census Bureau. While the increase in housing starts can be perceived optimistically, some indicators suggest the increase might be attributable to a rebound from February's sharp decline due to bad weather. March '11 numbers are still down 13.4% from the same period a year ago. Housing starts of single-family homes, which account for approximately 80% of the housing market, increased 7.7% in March to a rate of 422,000. The market for apartments appears to be strong as the number of multi-family homes starts rose 14.7% in March and is 28.6% above starts in March 2010. Building permit rates are up across the board compared to February '11, but are still depressed when compared with the same period a year ago.

Employment – Nonfarm payroll employment rose by 244,000 in April, echoing the strong upward trend that started in February. April was the third month in a row with payroll numbers rising more than 200,000 (after revisions). The majority of the gains were seen in the private sector as state and local governments continued to cut jobs, mostly in the non-educational areas. Construction payrolls were relatively unchanged in April. The national unemployment rate hovered around 8.9% and 8.8% in February and March respectively, edging back up to 9.0% in April, representing

the first increase in unemployment since November '10. The professional and business services sectors collectively grew by 51,000 in April with strong gains in the technical services sector.

Consumer Confidence – Consumer confidence, measured by the Reuters/University of Michigan Index of Consumer Sentiment, edged higher in April to 69.8 after an inflation driven ten-point drop to 67.5 in March. Half of the consumers surveyed reported that the surging prices of food and gasoline had severely affected their financial situation. However, fears of long-term inflation escalations were eased by anticipation that the price increases are temporary. The Consumer Expectations Index saw a larger increase over the Sentiment Index mostly due to stabilized views on employment and continued, albeit more modest, economic growth.

CONCLUSION

While economic indicators signal a difficult road ahead, we are encouraged by the recent employment figures and improvements in consumer confidence. Despite possible economic headwinds, we maintain a bullish stance on middle market M&A activity. We are encouraged by the health of the credit markets. While M&A activity declined in Q1' 11, we do not believe this is the beginning of a trend. Strategic buyers are very active in the M&A market as they continue to generate record cash flow and look for acquisitions to bolster growth and enhance shareholder value. In addition, we anticipate a significant pick-up in private equity activity due the large amount "dry powder" and the unfavorable alternative of returning the capital to limited partners draws closer for the those funds raised in the 2006/2007 timeframe.

RECENT TRANSACTIONS



**STEEL PARTS
MANUFACTURING INC.**

a portfolio company of



**RESILIENCE
CAPITAL PARTNERS**

has been acquired by



**MONOMOY
CAPITAL PARTNERS**

*The undersigned acted as exclusive financial advisor to
Steel Parts Manufacturing, Inc. in the above transaction.*



QUARTON PARTNERS

April 2011

In April 2011, Steel Parts Manufacturing, Inc. ("Steel Parts"), a portfolio company of Resilience Capital Partners ("Resilience"), was acquired by Monomoy Capital Partners. Quarton Partners acted as exclusive investment banking advisor to Steel Parts and its private equity owner Resilience.

Steel Parts is a leading supplier of tight-tolerance precision metal stamped and formed components for light, medium and heavy-duty vehicle transmission applications. Steel Parts has developed a leading market share position in North America and a blue chip customer base that includes a number of leading original equipment manufacturers and Tier I suppliers.

Resilience Capital Partners, headquartered in Cleveland, Ohio, is a leading private equity firm which invests in lower middle market companies in a broad range of industries. Since its inception in 2001, Resilience has acquired 21 companies with total revenue in excess of \$1.5 billion.

Monomoy Capital Partners is a private equity firm with \$700 million of assets under management that makes controlling investments in middle-market companies. The Fund has completed 33 transactions in the smaller end of the middle-market over the past five years and currently owns 11 businesses that collectively employ more than 5,000 people.



IMPULSE

a wholly owned subsidiary of



Stardock

has been acquired by



GameStop™

*The undersigned acted as exclusive financial advisor to
Stardock Systems, Inc. in the above transaction.*



QUARTON PARTNERS

May 2011

In May 2011, GameStop Corp., ("GameStop") the world's largest multichannel video game retailer, acquired Impulse, Inc., a subsidiary of Stardock Systems, Inc., ("Stardock") and a leader in digital distribution. The acquisition of Impulse will provide GameStop leading technology and a robust infrastructure from which it can expand its presence in the digital gaming market. Quarton Partners acted as exclusive investment banking advisor to Stardock.

Impulse, Inc. provides a proven digital distribution platform that allows users to quickly and easily find their favorite games and download them to their Internet-connected devices.

Stardock is one of the world's leading developers and publishers of PC games and desktop software. Its PC games include Sins of a Solar Empire as well as the critically acclaimed Galactic Civilizations series. Its desktop software includes Object Desktop, WindowBlinds, and a host of other programs for customizing the Windows experience.

GameStop is a Fortune 500 and S&P 500 company headquartered in Grapevine, Texas, is the world's largest multichannel video game retailer. GameStop's retail network and family of brands include more than 6,670 company-operated stores in 17 countries worldwide.

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