



Third 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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Economic Uncertainty Threatens Middle Market *M&A Activity Robust but Turbulent Economic Environment Could Dampen Future Deal Activity*

Middle Market M&A Volumes Surge

Middle market transaction volume increased 41.4% from Q1 '11 and 46.1% from the same period a year ago. Middle market enterprise value/EBITDA transaction multiples remained healthy in Q2 '11 at 7.5x. Middle market transaction multiples were consistent quarter-over-quarter and up 10% from the same period a year ago. Strong financial performance from middle market companies, coupled with aggressive strategic buyers flush with cash and private equity firms hungry for quality transactions, resulted in a healthy market for transactions. However, given the economic slowdown and increased uncertainty in the economy, we expect middle market M&A activity to slow modestly during the second half of 2011 as dealmakers become more cautious.

Middle Market Lending Remains Strong

Middle market lending continued to demonstrate strength in Q2 '11. According to S&P, loan volume for issuers with less than \$50 million in EBITDA totaled \$4.1 billion in Q2 '11, down 17% from Q1 '11 but flat with Q2 '10 loan volumes. Loan volume associated with leveraged buyouts in 1H '11 totaled \$2.4 billion, an increase of 71% when compared to 1H '10. Total leverage/EBITDA increased from 4.0x in Q1 '11 to 4.4x in Q2 '11. Lending institutions continue to require equity contribution percentages in the low 40's as they continue to seek meaningful participation from equity investors. S&P reported that total LBO equity contribution for deals with EBITDA of \$50 million or less averaged 42.0% of the total capital structure in Q2 '11, up from 32.6% in Q1 '11. We anticipate the credit markets to remain attractive for quality companies as lenders continue to receive pressure to put money to work.

Uncertainty Surrounding U.S. Economy Increases

The recent S&P U.S. debt downgrade, coupled with the U.S. government officials' endless squabbling over the U.S. fiscal deficit and the European sovereign debt crisis has created significant economic uncertainty. GDP for Q2 '11 came in significantly lower than economists expected at 1.3%. This sluggish growth rate, coupled with the sharp downward revisions the BEA made to the Q1 '11 GDP figures (1.9% to 0.4%) escalated the uncertainty surrounding the U.S. economy. The debate over whether the U.S. is heading into a recession has reached full steam. Furthermore, unemployment remains dismal at 9.1% with no answer in sight. Consumer confidence, measured by the Reuters/University of Michigan Index of Consumer Sentiment, plunged from 74.3 in May 2011 to 54.9 in the first half of August 2011, the lowest level since May 1980. While the overall economic outlook is bleak, the drivers of middle market transaction activity are very healthy.

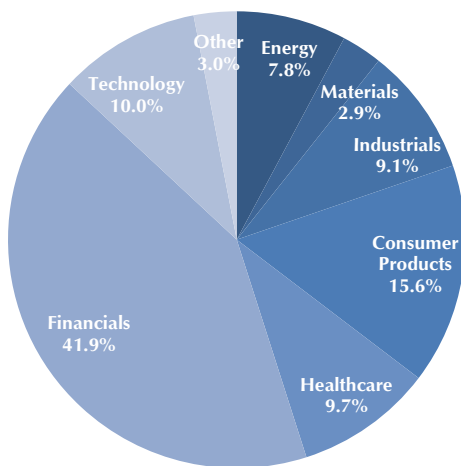
TRANSACTION ENVIRONMENT

The Data

Deal Volume – Middle market transaction activity was robust in Q2 '11. Middle market disclosed transaction volume (enterprise value < \$500 million and > \$10 million) increased 41.4% from Q1 '11 and 46.1% from the same period a year ago. The uptick in middle market activity was anticipated as many investors delayed plans to sell in 2008 and 2009 and used 2010 to enhance company earnings. Strong financial performance from middle market companies, coupled with aggressive strategic buyers flush with cash and private equity firms hungry for quality transactions resulted in a healthy market for middle market transactions. However, given the economic slowdown and increased uncertainty in the market, we anticipate middle market activity for remainder of 2011 to slow modestly as dealmakers become more cautious and attempt to gain stronger economic transparency before executing transactions.

Figure I highlights Q2 '11 middle market deal volume by industry sector based on data from Capital IQ. Activity in the financial industry increased significantly in Q2 '11, with activity rising 81% compared to Q1 '11. The energy and consumer products industries also showed growth, rising 45% and 44%, respectively. Utilities posted the most significant quarter-over-quarter decline of 20%.

Figure I
2nd Quarter U.S. Middle Market Transactions by Industry⁽¹⁾



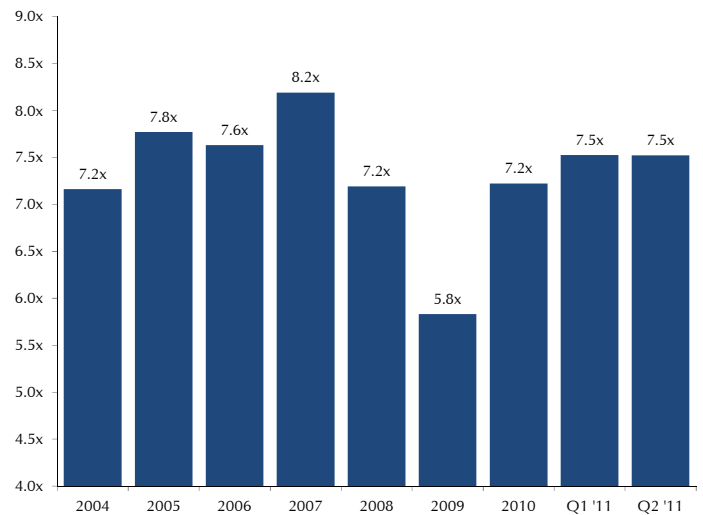
Source: Capital IQ
(1) Middle market disclosed transaction volume (Enterprise Value < \$500 million and > \$10 million)

Deal Value – Aggregate deal value of middle market transactions increased 36.5% in Q2 '11 due to increased deal volume and stable purchase multiples when compared

to Q1 '11. Total deal value in the middle market was \$52.2 billion in Q2 '11 compared to \$38.2 billion in Q1 '11. Average transaction size declined slightly for the second quarter in a row from \$84 million in Q1 '11 to \$82 million, in Q2 '11, representing a 2.4% quarter-over quarter decline.

Transaction Multiples – Middle market enterprise value/EBITDA transaction multiples remained healthy in Q2 '11 at 7.5x. Middle market transaction multiples were consistent quarter-over-quarter and up 10% from the same period a year ago. According to S&P, enterprise value/EBITDA for middle market LBO transactions increased from 6.5x in Q1 '11 to 8.4x in Q2 '11.

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

Market Dynamics

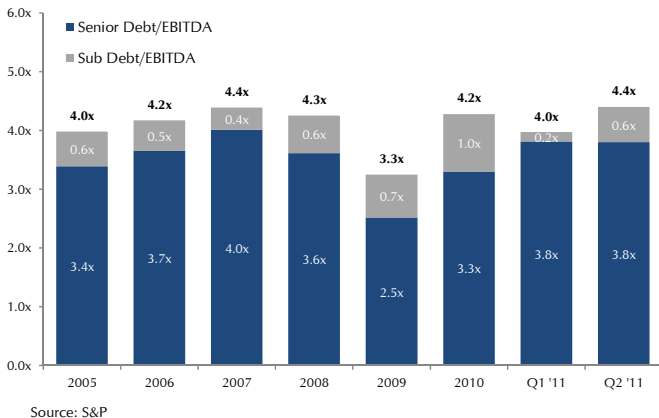
The second half of 2011 is facing significant economic headwinds. The prolonged U.S. debt ceiling negotiations and the resulting loss of confidence in U.S. government leadership has harmed our economy by creating significant uncertainty in the market and destroying consumer confidence. The high levels of uncertainty in the U.S. created by the lack of meaningful results towards the U.S. budget deficit and resulting S&P debt downgrade, coupled with the European sovereign debt crisis has created unprecedented times. For the second half of 2011, we anticipate a “flight to quality” as private equity and strategic buyers remain active in the market but become more cautious and focus on companies with strong competitive advantages and defensible market positions.

AVAILABILITY OF CAPITAL

Debt Capital

According to S&P, loan volume for issuers with less than \$50 million in EBITDA totaled \$4.1 billion in Q2 '11, down 17% from Q1 '11 but flat with Q2 '10 loan volumes. The decline comes after Q1 '11 loan volumes represented the highest quarter in terms of volume since Q3 '07. Loan volumes continue to be driven by debt refinancings and dividend recapitalizations, which combined accounted for 61% of the total loan volume. However, loan volume associated with leveraged buyouts in 1H '11 totaled \$2.4 billion, an increase of 71% when compared to 1H '10. Total leverage/EBITDA increased from 4.0x in Q1 '11 to 4.4x in Q2 '11. We anticipate the credit markets to remain attractive for quality companies as lenders continue to receive pressure to put money to work in order to increase revenue. Subordinated debt/EBITDA leverage increased from 0.2x to 0.6x as senior debt leverage held steady at 3.8x from the Q1 '11 to Q2 '11.

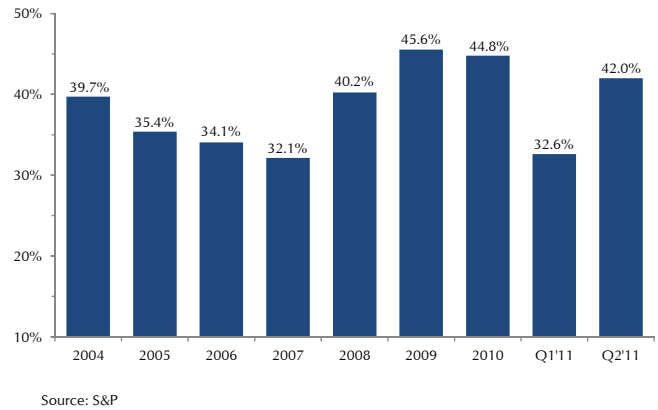
Figure III
Average Credit Statistics of Middle Market LBO Transactions (EBITDA \$50 mm or less)



Equity Capital

S&P reported that total LBO equity contribution for deals with EBITDA of \$50 million or less averaged 42.0% of the total capital structure in Q2 '11, up from 32.6% in Q1 '11. S&P's reported Q1 '11 equity participation figures appear artificially low. We suspect the low equity contribution as a percentage of the overall capital structure was due to the mix of reported transactions and lack of data points. Lending institutions continue to require equity contribution percentages of the overall capital structure in the low 40's as they continue to seek meaningful participation from equity investors.

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



ECONOMIC FACTORS

As U.S. government officials squabble over the U.S. fiscal deficit and the European sovereign debt crisis comes to a head, significant uncertainty surrounds the U.S. economy and the outlook is bleak. GDP for Q2 '11 came in significantly lower than economists expected. More importantly, economists have ramped up the pace of downward revisions for Q3 '11 and Q4 '11 GDP growth forecasts. The debate over whether the U.S. is heading into a recession has reached full steam. Furthermore, unemployment remains dismal with no answer in sight and consumer confidence was driven to a low not seen since May 1980.

Gross Domestic Product (GDP) – According to the U.S. Bureau of Economic Analysis (BEA) advanced estimate, real gross domestic product grew at a sluggish annual rate of 1.3% during Q2 '11. This is lower than anticipated and is a cause for concern considering the sharp downward revisions the BEA made to the Q1 '11 GDP figures. Originally estimated at 1.9%, the BEA revised Q1 '11 GDP annual rate of growth down to 0.4%. The slow pace of Q2 '11 growth is attributable to the decline in state and local government spending as well as the sharp deceleration in personal consumption expenditures. Consumers continued to feel the pinch at the gasoline pump and the national debate over the debt ceiling created significant uncertainty which caused real personal consumption expenditures to decelerate from 2.1% in Q1 '11 to 0.1% in Q2 '11. Real nonresidential fixed investment increased 6.3% in Q2 '11 compared to a 2.1% increase in Q1 '11. The change in real private inventories

contributed 0.18% to the second quarter change in real GDP. Private business non-farm inventories increased \$49.6 billion in Q2 '11.

Inflation – U.S. consumer received some price relief in the month of June as prices decreased 0.2% from the prior month (seasonally adjusted). This reported decrease is the first decrease in consumer prices in over a year. Driving the June decline was the gasoline index which fell 6.8% for the month. The index for household energy fell slightly in June as well. Conversely, the index for all items less food and energy increased 0.3%. The indexes for shelter, apparel, vehicles and medical care all experienced increases for the month. The food index also increased in June, though the 0.2% change was the smallest of the year for that index.

For the last twelve months the consumer price index has risen 3.6% (before seasonal adjustment). Over the same period, the food index has increased 3.7% and the energy index soared 20.7%. The continuing slowdown of the global economy is expected to keep inflation at moderate levels in the future months.

New Housing – According to the U.S. Census Bureau, privately-owned housing starts increased in June to an annual rate of 629,000, up 14.6% from the revised 549,000 in May and up 16.7% from the June 2010 estimate of 539,000. Private housing starts were up across the country, showing uncharacteristic strength in the Midwest and the South. Economists are attributing the housing strength in these regions to the rebuilding efforts caused by the tornadoes both regions experienced in the early spring. Single-family starts increased by 9.4% month-to-month. However, there was a considerable jump in multi-family housing starts. Between May 2011 and June 2011, multi-family housing starts (5 or more units) jumped by 31.8%, reflecting the nationwide trend towards renting housing.

Employment – Nonfarm payroll employment rose by 117,000 in July, creating a bright spot in an otherwise bleak economic quarter. Private employment rose by 154,000 from June to July, but growth was tempered by the continuing downward trend in the public sector. Government employment dropped by 37,000 in July, mostly due to the state government shut-down in Minnesota. The healthcare sector saw job gains of 31,000 and the retail trade added 26,000. Also showing positive movement were the manufacturing and mining areas, with 24,000 and 9,000 jobs added respectively. The unemployment rate fell slightly from 9.2% to 9.1% for the month, partially due to the

increase in hiring, but also because a number of unemployed workers became disenfranchised by their job prospects and stopped looking for work.

Consumer Confidence – Spurred by reduced home values, higher gas prices, marginal payroll gains and the ongoing “Debt Crisis,” consumer confidence, measured by the Reuters/University of Michigan Index of Consumer Sentiment, plunged in July. The Index dropped to 63.7 in July, and preliminary reports for the first half of August show sentiment dropping even further to 54.9, the lowest level since May 1980. In July, Americans viewed prospects for economic growth in a more negative light, and twice as many expected the unemployment rate to rise. One-third of all consumers felt uncertain about future income and job prospects. Looking forward, eight-in-ten consumers expected no improvement in their finances for the year ahead and six-in-ten saw no improvement over the next five years. While inflation expectations fell in July, 90% of consumers expected no inflation-adjusted income gains for the year ahead. Vehicle buying plans declined for the month, and consumers also stepped back on their plans to purchase household durables as favorable buying attitudes dropped to 53%.

CONCLUSION

Unfortunately, the U.S. economy has been significantly harmed by the U.S. debt ceiling debates, the lack of solution on the U.S. fiscal deficit and the European sovereign debt crisis. As a result, we anticipate a deceleration in U.S. economic growth. However, many indicators for middle market M&A remain strong. Financial institutions are well capitalized and are aggressively seeking lending opportunities. Strategic buyers are lean, cash rich and are actively seeking out acquisitions to supplement organic growth. In addition, private equity has increasingly been active due to large amounts of uncommitted capital. These market forces will create demand for middle market M&A. However, we do anticipate a flight to quality transactions until the fog of economic uncertainty is lifted.

RECENT TRANSACTIONS



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



CONTINENTAL PLASTICS • CO.

has been acquired by

MAGNA

The undersigned acted as exclusive financial advisor to Continental Plastics Company in the above transaction.

QUARTON PARTNERS

June 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.

In June 2011, Continental Plastics Company (“Continental Plastics”) was acquired by Magna International, Inc. (“Magna”). Quarton Partners acted as the exclusive investment banking advisor to Continental Plastics.

Continental Plastics is a leading supplier of highly engineered automotive interior components. The company supplies parts to OEMs and larger Tier I suppliers, including General Motors and Lear. The company's product line includes sidewall trim assemblies, interior panels and floor consoles, armrests and seatbacks, and interior lighting units. Continental Plastics operates five facilities located in Michigan and Georgia, comprising in total roughly 648,000 square feet.

Magna designs, develops and manufactures automotive systems, assemblies, modules and components. Magna's product lines include automotive interior systems, seating systems, closure systems, body and structural systems, vision systems, electronic systems, exterior systems, powertrain systems, roof systems and hybrid/electric systems. Magna operates 263 manufacturing operations and 84 product development, engineering and sales centers in 26 countries.

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