RKJ PARTNERS

LOWER MIDDLE-MARKET INVESTMENT BANKING

Q1 2011 LOWER MIDDLE MARKET TRENDS REPORT

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RKJ Partners, LLC is an investment banking firm specifically designed to assist lower middle-market growth companies in executing transactions between $2MM to $75MM.

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RKJ Partners, LLC – Managing Partner Letter

Welcome to the RKJ Partners' Q1 2011 Lower Middle Market Trends Report. We at RKJ Partners hope you had a healthy and successful 2010 with continued success in 2011.

Lower Middle Market M&A activity in Q1 2011 was relatively quiet when compared to Q4 2010 and Q1 2010. The drop in activity was likely due to uncertainty surrounding tax law changes that probably pushed deals into the second half of 2011. However, companies looking to raise funds for growth initiatives in the latter portion of 2010 found a receptive audience with investors and lenders who were committed to working with established lower middle-market businesses offering compelling growth prospects.

RKJ Partners continues to expect a gradual increase in deal activity in 2011 and beyond driven by - not only an existing capital overhang - but also a deep supply of sellers ranging from private equity groups ("PEGs") to family owned businesses. In the current market environment, private equity firms are now faced with the dilemma of managing longer than normal investment hold times. In 2010, the average hold time for companies sold as private equity-owned companies increased to over 5 years from 3.5 years in 2007. Consequently, this imbalance between new investments and exits is expected to continue, but the imbalance should drive strategic buyers to be more active while financial buyers cautiously loosen their purse strings as the economy improves. As data is presented in this report indicates, sequential growth in activity will be choppy at best in the first half of 2011 but should accelerate through the remainder of the year and into 2012. However, there is still reason for caution given ongoing concern as to state and federal budget issues, commodity prices, inflation and global conflicts.

Working exclusively with lower middle market growth companies, RKJ Partners recognizes that the decision to raise capital, buy a company or sell a company is a difficult one to make. Specifically, business owners need to understand the advantages and disadvantages of these strategic decisions, as well as the financial impact they can have on a business. RKJ Partners is uniquely positioned to help clients decipher the increasing complexities their businesses face. Unlike other investment banking firms that altered their target market focus over the years, RKJ Partners was formed to specifically address the strategic issues faced by lower middle-market growth companies. As a result of our consistent focus, RKJ's bankers have developed an extensive database of senior lenders, mezzanine/subordinated debt lenders and private equity providers that focus exclusively on the lower middle-market.

We hope you find this report informative and will not hesitate to contact us with any questions you may have.

Sincerely,

Cyril Jones

Managing Partner

Brighter Days Are Near Again

Author: Augustine Okwu, Managing Director

Section I - Economic Commentary and Updates

- S&P, although confirming its AAA rating, for the first time announced that a negative outlook for the US public debt market as a result of the ongoing wrangling between the administration and Congress.

- US housing starts rose 7.2% in March (month-over-month) to 549k houses while existing home sales increased 3.7% to a seasonally adjusted annual rate of 5.1 million. Results continue to indicate only a slow and modest recovery in the home building sector.

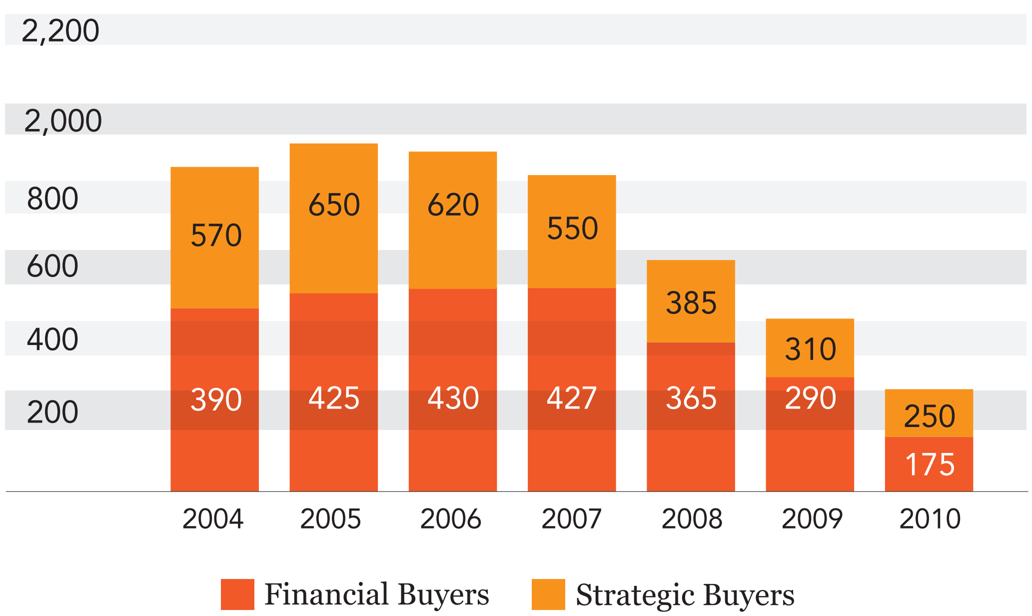
- Initial jobless claims decreased by 13k to 403k for the week ending April 16th holding above the 400k mark.

Summary:

Performance in Q1 2011 could be viewed as the last dance for the sputtering recovery in mature economies as deeper austerity measures are needed to contain fiscal imbalances and the banking sector purges its balance sheets. A spate of data has come under expectations and persistently high oil prices are starting to dent consumer spending. Furthermore, worldwide sentiment seems to be that China needs to decelerate its breakneck expansion pace while India - with inflation close to double digit - has to tighten monetary policy aggressively.

Section II - Summary of RKJ's 2011 Lower Middle Market M&A Outlook Report

Deals Closed - Transaction Value Less Than $50MM



In our initial report (titled The Lost Years of 2008, 2009 and 2010), RKJ stated the belief that an increasing supply of deals will come to market in 2011 after a decline in deal activity over the prior three years. Data trends imply that a capital overhang currently exists that far exceeds the supply of companies that will be brought to market in 2011 due to several factors:

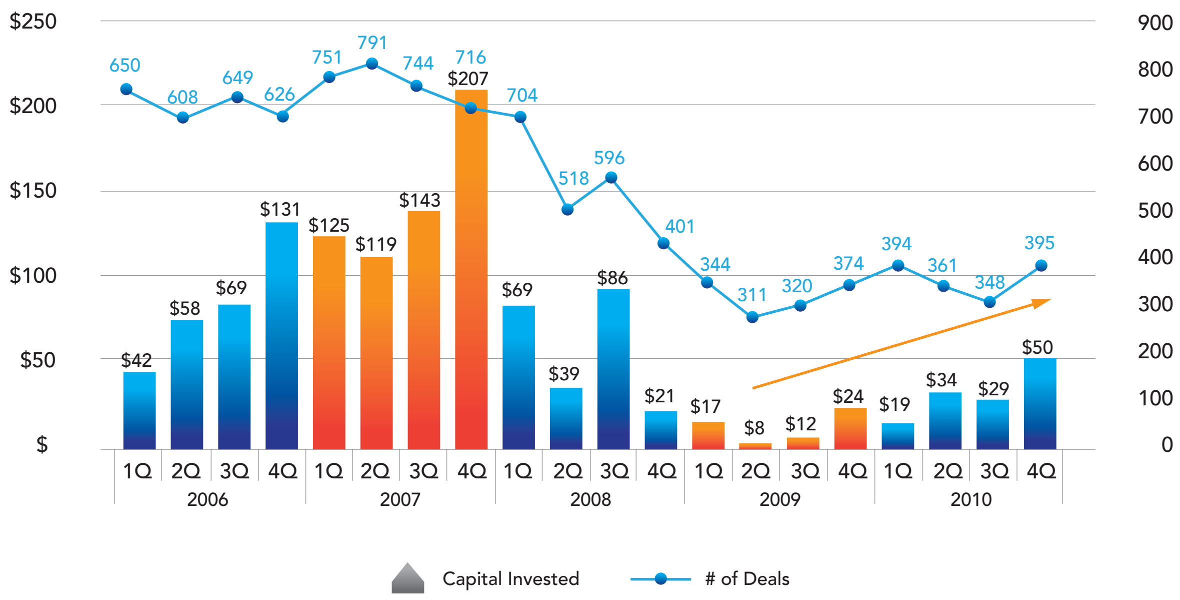
- Over the last three years, financial buyers have accumulated $500 billion of uninvested capital representing two and a half years of fundraising.

- During the same period, and in light of government scrutiny and economic uncertainty, banks reduced their lending activities and accumulated approximately $1.2 trillion of cash on their balance sheets; an amount almost $900 billion more than was available at the end of 2008.

With trailing earnings dropping to dramatically low levels, sellers held back on coming to market until the economic outlook and earnings began to demonstrate some improvement. These factors have contributed in creating an environment that we believe will result in an initially choppy escalation in deal activity in 2011 and beyond.

Section III - Deal Activity Trends:

2010 Deals Closed and Total Capital Invested



As shown in the chart above, deal flow improved in 2010 compared to 2009 from a deal count and total value basis. In fact, the total capital invested in deals in Q4 2010 was more than the total for the final three quarters of 2009 and represented the highest quarterly accumulation since Q3 2008. Factors that contributed to a return in deal volume include the continued recovery in corporate profits, growing confidence in the economy, low interest rates, an improving credit environment and, ultimately, an increase in M&A interest primarily from strategic buyers. Purchase prices and transaction multiples are increasing with the growing interest from prospective buyers. These factors should continue to drive interest in deals in the near term; especially, in the event private equity fundraising remains difficult as existing commitments run up to their expiration term.

Quarterly Activity - Deals Between $10-$100 Million

$ in MM

Q1 2010

	DEAL COUNT	TOTAL VALUE	AVG DEAL SIZE
JANUARY	19	$821.1	$43.2
FEBRUARY	7	$342.6	$48.9
MARCH	16	$532.1	$33.3
Q1	42	$1,695.8	$40.4

Q2 2010

	DEAL COUNT	TOTAL VALUE	AVG DEAL SIZE
APRIL	8	$239.1	$29.9
MAY	8	$414.0	$51.7
JUNE	15	$519.0	$34.6
Q2	31	$1,172.1	$37.8

Q3 2010

	DEAL COUNT	TOTAL VALUE	AVG DEAL SIZE
JULY	12	$529.2	$44.1
AUGUST	12	$663.6	$55.3
SEPTEMBER	12	$401.0	$33.4
Q3	36	$1,593.7	$44.3

Q4 2010

	DEAL COUNT	TOTAL VALUE	AVG DEAL SIZE
OCTOBER	14	$607.6	$43.4
NOVEMBER	15	$568.3	$37.9
DECEMBER	18	$1,045.9	$58.1
Q4	47	$2,221.8	$47.3

Q1 2011

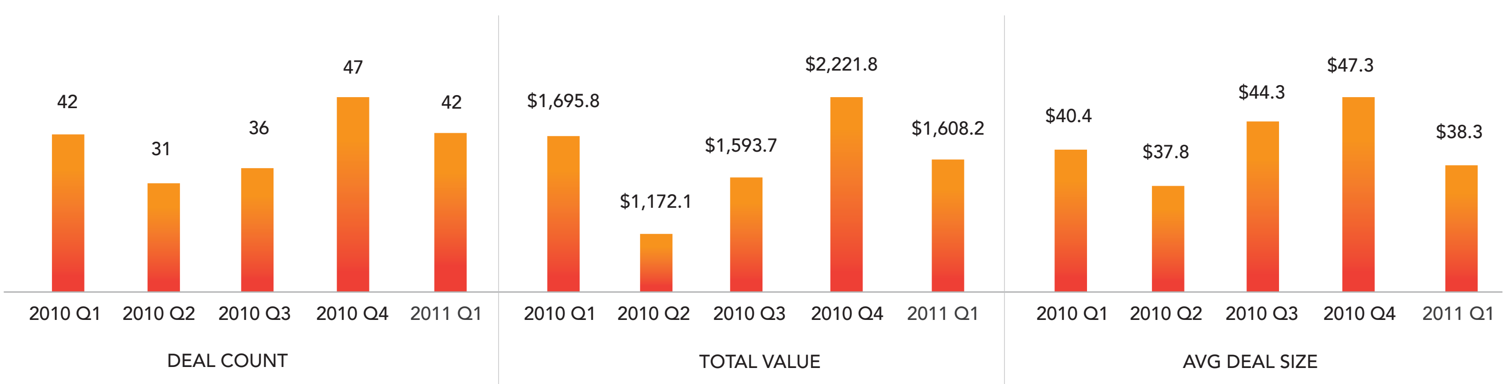
	DEAL COUNT	TOTAL VALUE	AVG DEAL SIZE
JANUARY	17	$768.0	$45.2
FEBRUARY	7	$288.6	$41.2
MARCH	18	$551.5	$30.6
Q1	42	$1,608.2	$38.3

TOTAL

DEAL COUNT	156
TOTAL VALUE	$6,683.5
AVG DEAL SIZE	$42.8

Quarterly Comparison

$ in MM



Deal flow in the lower and traditional middle market (deal size of between $10 million and $100 million) was relatively quiet in Q1 2011 compared to the prior quarter and year-over-year comparison. The drop-off in activity was likely due to uncertainty surrounding tax law changes that probably pushed deals into the second half of 2011. In Q1 2011, there were 42 deals amounting to $1.6 billion in cumulative transaction value compared to 47 deals that accounted for $2.2 billion in cumulative transaction value in Q4 2010, and 42 deals that accounted for $1.7 billion in cumulative transaction value in Q1 2010.

Private Equity Transaction Count by Deal Size

	2005	2006	2007	2008	2009	2010
Under $50 Million	51%	46%	42%	49%	60%	40%
$50 - $250 Million	32%	33%	31%	32%	27%	34%
$250 - $500 Million	9%	9%	11%	8%	6%	10%
$500 Million - $1Billion	4%	6%	6%	5%	4%	12%
$1 Billion - $2.5 Billion	3%	4%	5%	4%	2%	3%
$2.5 Billion Plus	1%	2%	4%	2%	1%	1%

Source: PitchBook

On a higher level, deals less than $250 million in transaction value accounted for 74% of total deal flow in 2010; still the majority of total deals but the lowest portion of middle market deal flow since 2005. Deals over $250 million in transaction value accounted for 26% of total deal flow in 2010 representing the largest accumulation since 2007. RKJ views the shift away from smaller deals as indicative of more available leverage for larger transactions.

Private Equity Investments By Industry Tables

Q1 2010

	DEAL COUNT	DEAL VALUE ($MM)
B2B ■	12	$545.8
B2C ■	12	507.2
FIN. SERVICES ■	5	238.8
IT ■	5	109.2
MATERIALS ■	4	192.4
HEALTHCARE ■	3	79.4
ENERGY ■	1	23.0
TOTAL	42	$1,695.8

Q2 2010

	DEAL COUNT	DEAL VALUE ($MM)
B2C ▲	10	$358.0
B2B ▼	5	220.1
FIN. SERVICES ■	5	216.0
ENERGY ▲	3	122.4
HEALTHCARE ▲	3	83.5
MATERIALS ▼	3	66.6
IT ▼	2	105.5
TOTAL	31	$1,172.1

Q3 2010

	DEAL COUNT	DEAL VALUE ($MM)
B2C ■	9	$500.9
IT ▲	9	$318.4
B2B ▼	5	$170.6
MATERIALS ▲	4	$179.0
FIN. SERVICES ▼	3	$165.0
HEALTHCARE ▼	3	$152.1
ENERGY ▼	3	$108.0
TOTAL	36	$1,594.0

Q4 2010

	DEAL COUNT	DEAL VALUE ($MM)
B2C ■	13	$572.6
HEALTHCARE ▲	9	$444.8
B2B ■	8	$404.8
ENERGY ▲	6	$210.6
IT ▼	4	$293.8
MATERIALS ▼	4	$236.7
FIN. SERVICES ▼	3	$58.6
TOTAL	47	$2,221.9

Q1 2011

	DEAL COUNT	DEAL VALUE ($MM)
IT ▲	15	$487.2
B2C ▼	8	$232.2
HEALTHCARE ▼	7	$380.7
B2B ▼	5	$163.5
MATERIALS ▲	4	$196.3
ENERGY ▼	2	$106.0
FIN. SERVICES ■	1	$42.5
	41	$1,608.4

▲ ▼ ■ COMPARED TO PREVIOUS QUARTER

Market Share By Industry Tables

FY 2010

	DEAL COUNT	DEAL VALUE
B2C	28.2%	29.0%
B2B	19.2%	20.1%
IT	12.8%	12.4%
HEALTHCARE	11.5%	11.4%
FIN. SERVICES	10.3%	10.1%
MINERALS	9.6%	10.1%
ENERGY	8.3%	6.9%
TOTAL	100%	100%

Q1 2011

	DEAL COUNT	DEAL VALUE
IT	36.6%	30.3%
B2C	19.5%	14.4%
HEALTHCARE	17.1%	23.7%
B2B	12.2%	10.2%
MATERIALS	9.8%	12.2%
ENERGY	4.9%	6.6%
FIN. SERVICES	0%	2.6%
TOTAL	100%	100%

IT businesses accounted for 36.6% of total deal flow for transactions valued between $10 million and $100 million in Q1 2011 representing an increase from 12.8% in 2010. From a strategic perspective, this may imply an acknowledgement on the part of some buyers that developing a technological platform can be done more prudently at this time through acquisition rather than the “build” model. Adopting the “buy” model minimizes execution risk and time-to-market inefficiencies built into a “build” strategy. In 2010, B2C businesses represented 28.2% of total deals with transaction values between $10 million and $100 million with B2B and IT trailing at 19.2% and 12.8%, respectively.

Regulatory uncertainty clouds several sectors that have historically contributed heavily to the U.S. economy. There are proposed and existing legislation relating to financial services, healthcare and defense that may ultimately lower deal activity within those sectors. However, it would not be surprising if the eventual implementation of rules and policy boosted deal activity, as long-term uncertainty would finally be eliminated.

Section IV - Purchase Price Multiples:

AVG. PURCHASE PRICE/ADJUSTED EBITDA MULTIPLES DEALS $10MM - $250MM ENTERPRISE VALUE							
2003	2004	2005	2006	2007	2008	2009	2010
5.7x	5.9x	6.0x	6.0x	6.0x	5.8x	5.7x	5.9x

Source: GF Data Resources

AVG. PURCHASE PRICE/ADJUSTED EBITDA MULTIPLES DEALS LESS THAN $250MM ENTERPRISE VALUE								
Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
5.9x	6.2x	6.5x	5.1x	5.4x	5.2x	5.5x	6.1x	6.1x

Source: GF Data Resources

In 2010, the average EBITDA transaction multiple for lower middle market leveraged buy-out ("LBO") deals (transaction values between $10 million and $250 million) increased slightly to 5.9x from the prior year's level of 5.7x. Delving deeper into 2010 shows sequential quarterly improvement throughout the year with a final average transaction multiple of 6.1x in Q4 2010. Further analysis indicates that a company's size continues to be an important determinant and reflective of the additional leverage available for companies with more than $10 million in EBITDA. Transactions that closed in 2010 with an enterprise value of between $100 million and $250 million bore an average leverage multiple (total debt divided by EBITDA) of 6.9x in 2010. During the same time frame, deals with an enterprise value of between $10 million and $25 million bore an average leverage multiple of 5.4x.

Section V - Equity Contribution:

AVERAGE EQUITY CONTRIBUTION FOR M&A DEALS $10 - $250 MILLION ENTERPRISE VALUE										
Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
41.7%	49.1%	57.5%	54.5%	58.7%	52.7%	48.3%	44.4%	55.4%	48.4%	49.7%

Source: GF Data Resources

Further confirmation of cautious optimism on the part of investors was reflected by trends in the level of equity being contributed to the capital structure of deals with transaction values between $10 million and $250 million. As shown in the table above, the average equity contribution was 49.7% in Q4 2010 compared to a recent high of 58.7% in Q2 2009 and to an average of 51.5% over the last two calendar years. Additionally, and not surprisingly, smaller transactions required approximately 10% more equity than larger transactions. Accordingly, the percentage of equity contributed in deals with transaction values of less than $1 billion was 43% during 2010.

Smaller middle market deals tend to be more difficult to finance and therefore, less likely to close than larger deals. While the debt environment surrounding the middle market has improved over the last six months, the situation still remains somewhat uncertain for deals where the target company's EBITDA is less than $10 million. In these instances, the trend continues to be utilizing equity in place of debt.

Section VI - Debt Multiple / Pricing Trends:

Leveraged Middle Market Loan Data

	2008	2009	2010	LTM 3/31/11
NEW ISSUE LOANS (IN PIPELINE)	51	52	97	81
NEW LEVERAGED LOAN VOLUME (IN PIPELINE, $BN)	$20.69	$30.16	$48.55	$34.21
LIBOR (90 DAYS)	0.29%	0.29%	0.31%	0.30%
# OF DEFAULTS (LTM)	59	33	11	11

Source: Standard & Poors Leveraged Commentary & Data

Average LBO Debt Multiples For Deals $10mm - $250 Mm Enterprise Value

	2003	2004	2005	2006	2007	2008	2009	2010
BANK DEBT	2.3x	2.5x	2.5x	2.6x	2.8x	2.3x	1.7x	2.3x
NON-BANK DEBT	1.2x	1.0x	0.9x	1.1x	0.9x	1.0x	1.0x	0.8x
TOTAL	**3.5x**	**3.5x**	**3.4x**	**3.7x**	**3.7x**	**3.3x**	**2.7x**	**3.1x**

Source: GF Data Resources

Over the last several years, and as addressed earlier, the average Total Debt/EBITDA multiple has decreased from a peak of 3.7x in 2007 to 3.1x in 2010. During that same period, the average Senior Debt/EBITDA multiple decreased from 2.8x to 2.3x. Despite the lower debt multiples, there is increasing interest and activity on the part of lenders. On a trailing twelve months basis as of 3/31/11, new loans in the pipeline represented almost 80% of the total accounted for in 2008 and 2009.

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LOWER MIDDLE-MARKET INVESTMENT BANKING

RKJ is an established advisor to leading lower middle-market growth companies. We provide our clients with experienced-based solutions and unbiased advice. Our comprehensive array of strategic advisory and execution capabilities allows us to meet the needs of our clients and provide an outstanding level of service in connection with a variety of transaction processes, including:

- **CAPITAL ADVISORY:** RKJ possesses substantial expertise in assisting lower middle-market clients raise capital to fund growth strategies. Whether the capital source is senior debt, mezzanine/subordinated debt, private equity, or venture capital, RKJ has both extensive and relevant relationships within the capital community to enable the deployment of optimal solutions for our clients.

- **MERGERS & ACQUISITIONS:** RKJ serves as a trusted advisor in executing merger and acquisition transactions for lower middle-market clients. In addition to our significant investment banking transactional experience, RKJ's bankers have owned businesses and have served in interim CFO roles for clients. As a result of our experiences as business owners and senior level managers, RKJ's bankers are able to bring a unique perspective to the mergers and acquisitions process. RKJ's mergers and acquisitions services include:

    - Buy-side and Sell-side Advisory
    - Divestitures
    - Leveraged & Management Buyouts

- **STRATEGIC ADVISORY:** RKJ provides financial advisory services to owners, management, shareholders and their boards to assist in the evaluation strategic alternatives and options for extending and/or maximizing shareholder value. RKJ's advisory services include:

    - Business Valuations
    - Capital Structuring & Planning
    - Negotiating Joint Ventures
    - Strategic Business Development

Case Study

Advanced Engineering Design, Inc.

Advanced Engineering Design Inc.	
$2,250,000	
SECURED NOTE - MEZZANINE CAPITAL	
October 2009	Atlanta, GA

Advanced Engineering Design Inc.	
HAS ACQUIRED 100% OF THE MEMBERSHIP INTEREST OF	
STRATECON Contract Strategies	
August 2010	Atlanta, GA

Client Overview

AED, Inc is a multi-discipline engineering, construction services and information technology firm headquartered in Hyattsville, Maryland. Specifically, AED provides Professional Services (architecture, facilities management, inspection and testing services); CME Services (cost estimating, project controls, value engineering services); and IT Services (database development, security solutions, software development services).

The Situation

Following the award of a significant contract with the General Services Administration ("GSA"), AED was in need of a capital injection to fund its working capital requirements. In conjunction with AED's growth plan, the company employed RKJ to indentify a suitable acquisition target that would add strategic value to the company's service offering.

The Solution

Through RKJ's extensive network of senior debt, mezzanine and equity capital providers, we were able to source $2.25MM of mezzanine financing that AED used to finance the working capital component of the recently awarded GSA contract. To address AED's desire to grow via external means, RKJ successfully identified a strategic target company – Stratecon, LLC. Throughout the Stratecon transaction, RKJ operated as AED's sole buy-side advisor.