2010 Capital Markets Update

Implications to Small Business Owners

VISTA Private Equity Group

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Overview of Vista Private Equity Group, LLP

- **<u>Investment Strategy</u>**
  - Acquire, Build and Hold Small to Medium Size Businesses with Attractive Long-Term Execution Strategies---Primarily Manufacturing, Distribution and Business Services
- **<u>Transaction Types</u>**
  - Buyouts of Family-Owned Businesses
  - Management Buyout Transactions
  - Growth Capital to Support Expanding Businesses
  - Distressed Investments
- **<u>Investment Size of $3 to $20 Million Equity Investments</u>**
- **<u>Investment Criteria</u>**
  - Minimum Revenues of $15 Million
  - Prefer Businesses with Positive Cash Flow Margins of 10% or Greater
  - Management Teams with Ownership Positions
  - Majority Investment Ownership Positions
  - Primarily Texas and the Southwest U.S.
  - No Startups; Financial Institutions; Oil and Gas Exploration
- **<u>Other Service Offerings Include Business Advisory and Turnaround Management</u>**
- **<u>Vista RED (VPEG's Real Estate Affiliate)----Led by Brent Mann</u>**
  - Commercial Real Estate Development and Acquisition of Existing Properties

Overview of the 2010 Capital Markets

Credit Markets Crash
Purchase Price Multiples Tumble
Gridlock Between Buyers and Sellers
Major Governmental Regulation "Unknowns"
Small Business Cash Flows Fall
Cash Flow Lending Non-Existent
The Perfect Storm

Impact of the "Perfect Storm" on Business Valuations

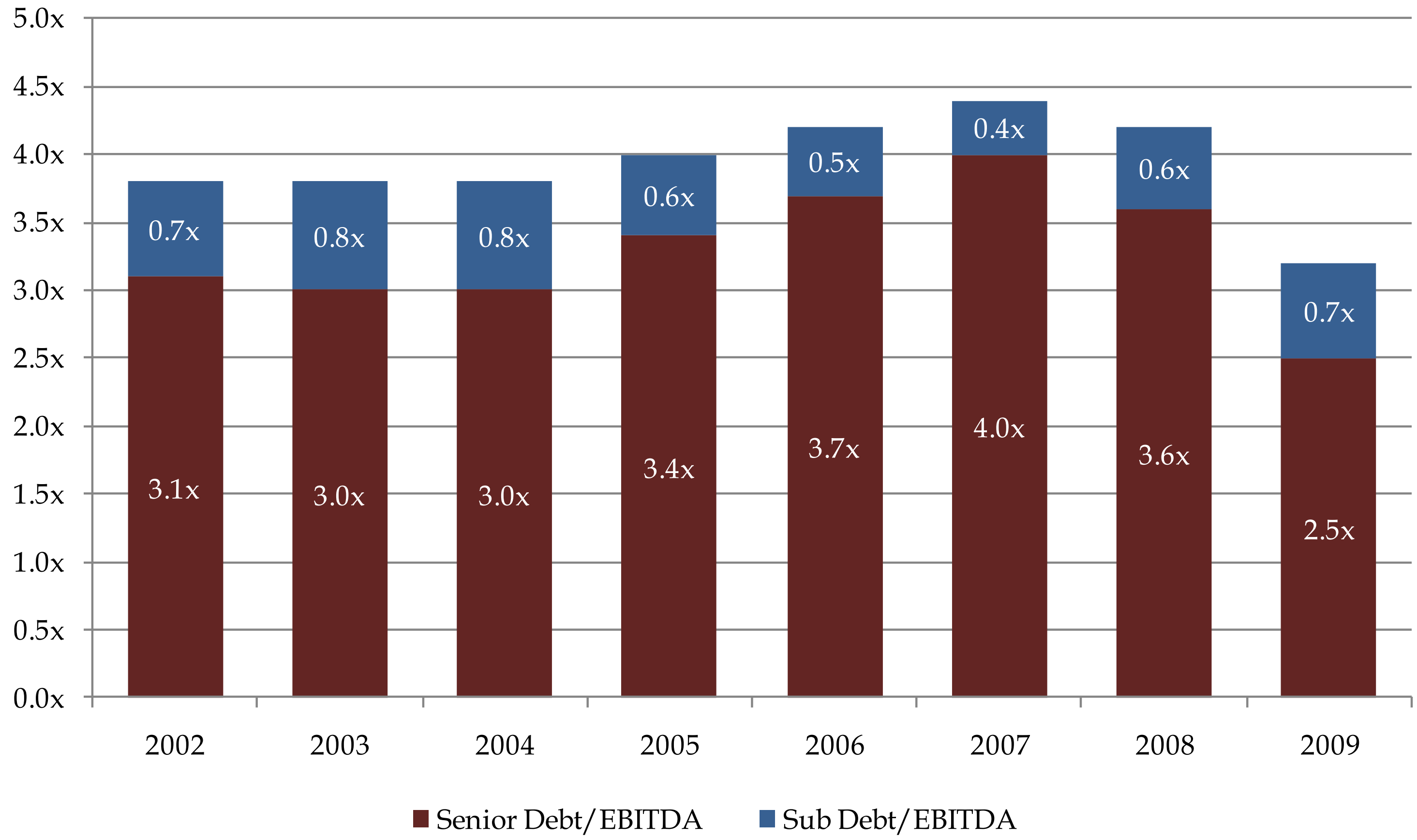
	2008	2009
Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")	$ 5,000,000	$ 4,000,000
Purchase Price Multiple	7.2	5.8
Enterprise Value	$ 36,000,000	$ 23,200,000

This Represents a 35.6% Reduction in Value!!

	2008	2009
Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")	$ 5,000,000	$ 5,000,000
Purchase Price Multiple	7.2	5.8
Enterprise Value	$ 36,000,000	$ 29,000,000

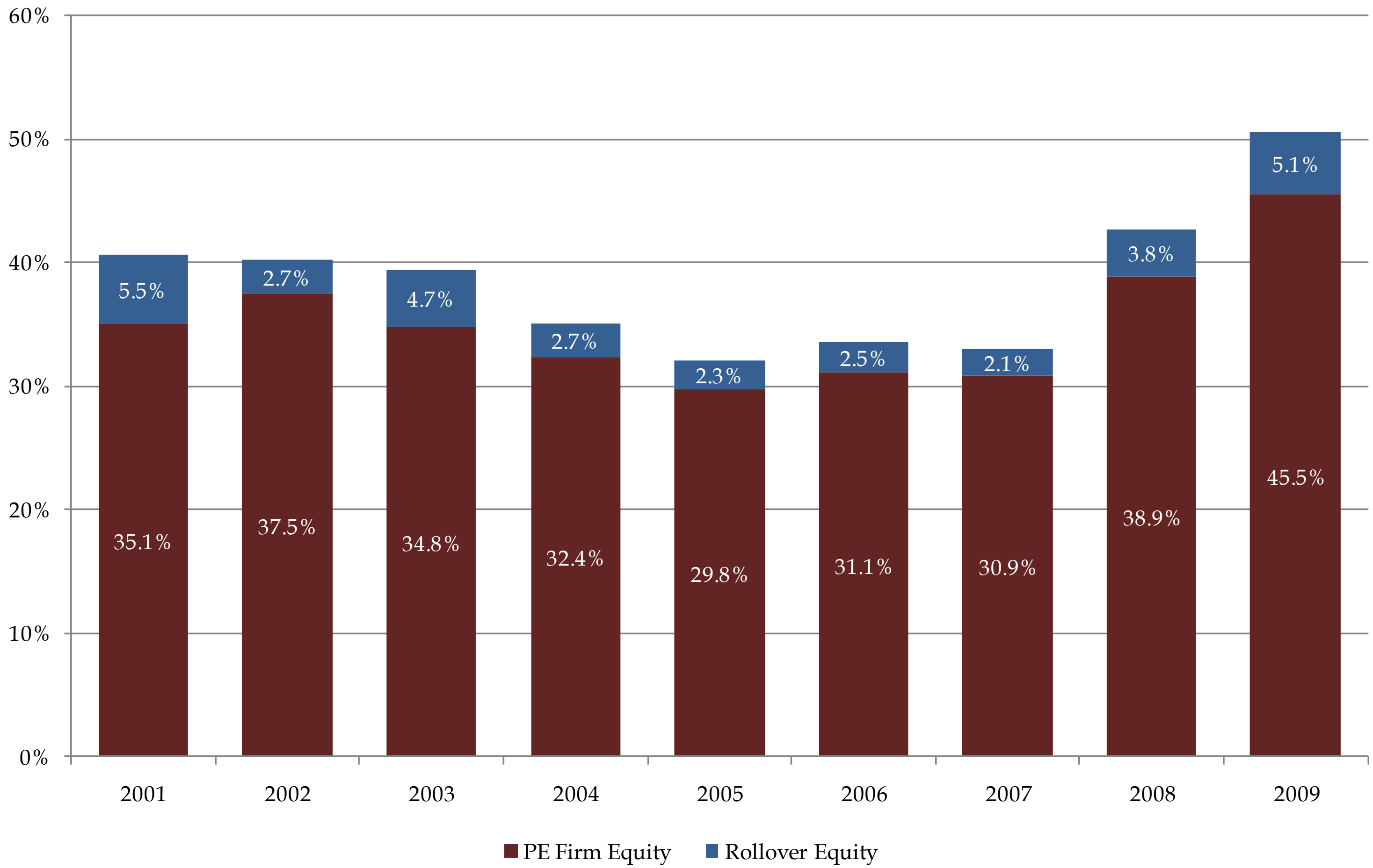
This Represents a 19.4% Reduction in Value!!

Average Credit Statistics of Middle Market LBO Transactions[1]



(1) Deals with EBITDA $50 million or less
Source: S&P

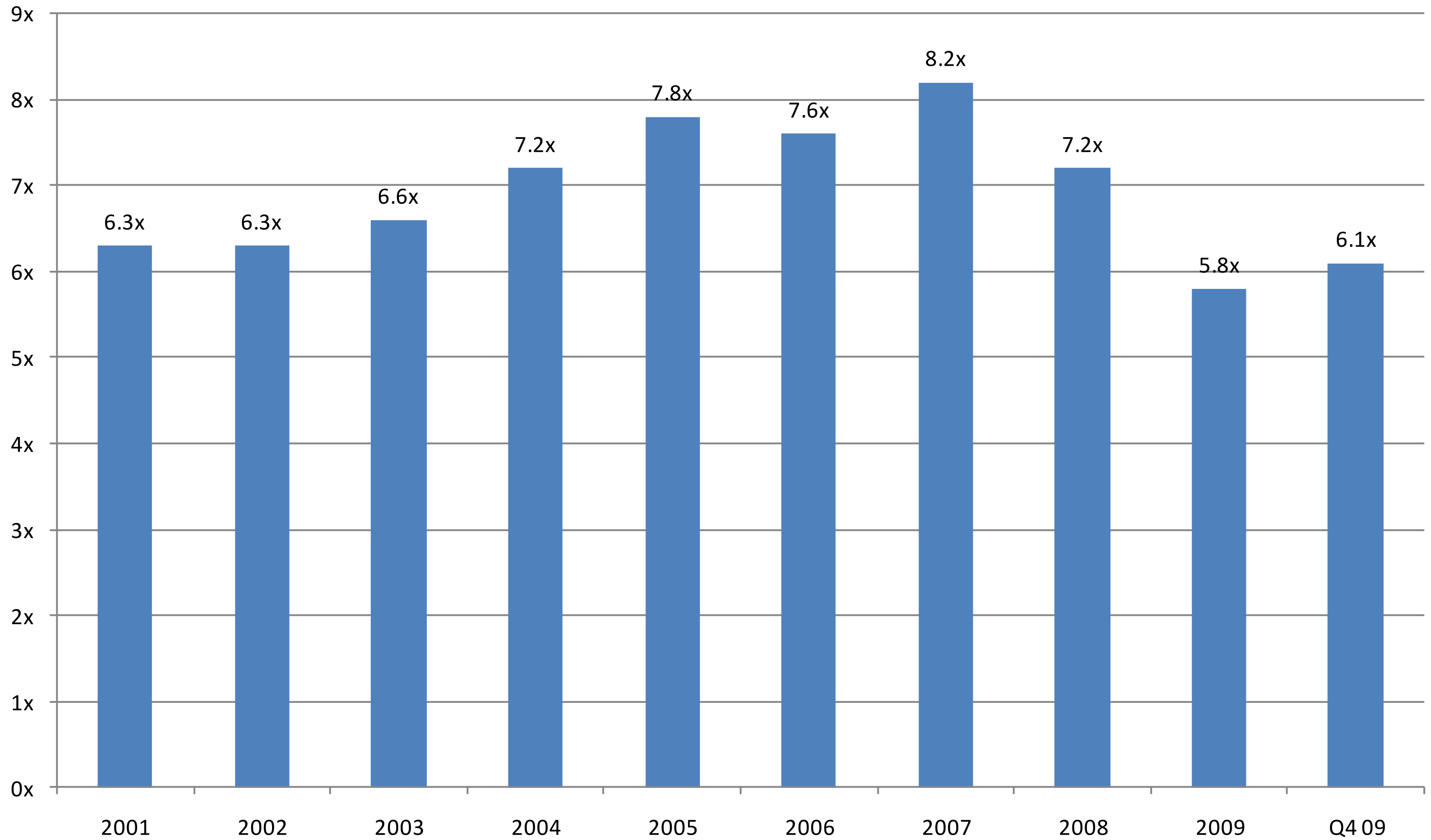
Average LBO Equity Contribution(1)



(1) Deals with EBITDA $50 million or less - Excludes Media, Telecom, Energy and Utility Deals
Source: S&P

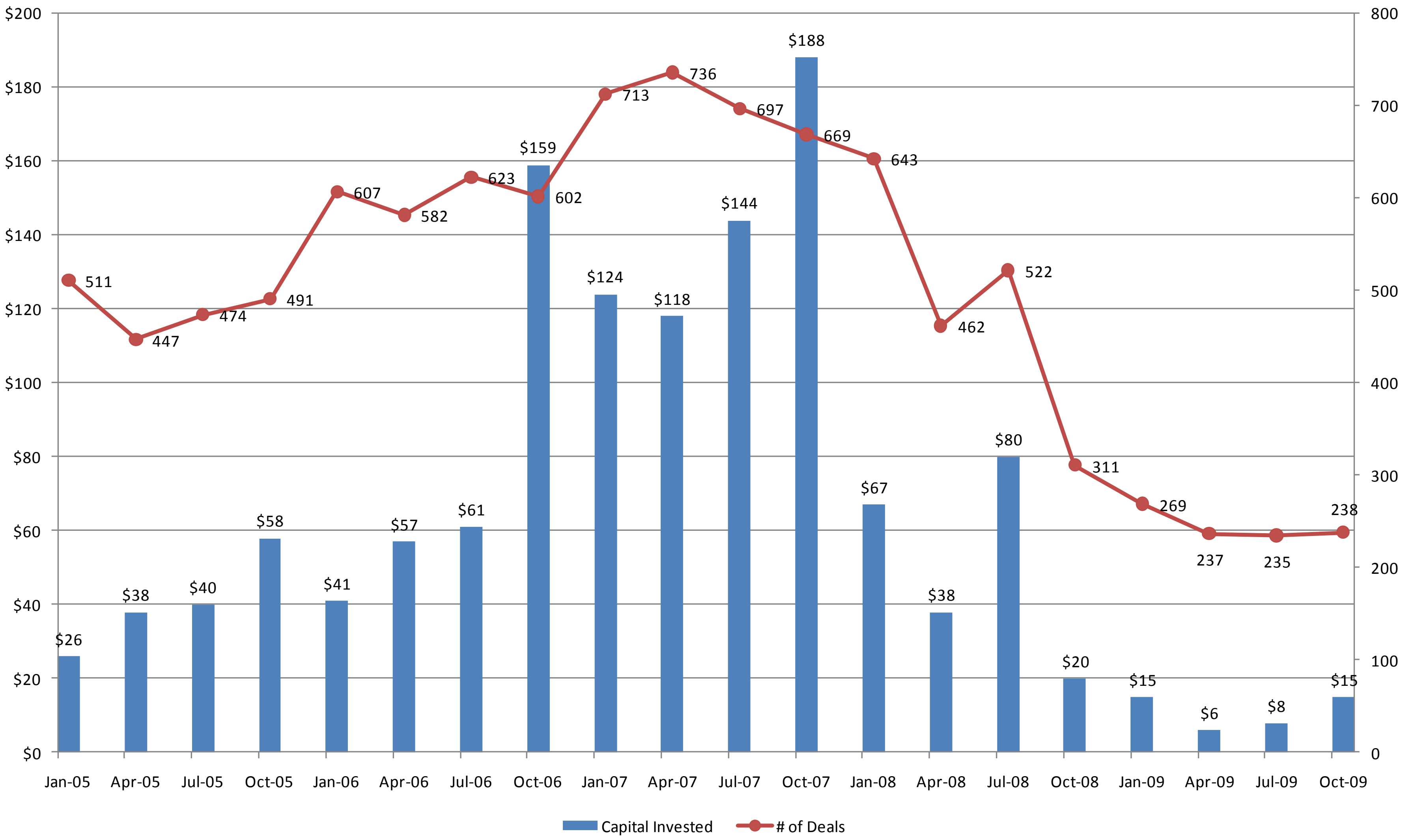
Transaction Multiples

Reduced Availability of Debt and Increased Equity Financing Results in Smaller Purchase Multiples to Achieve Desired Investment Returns



Source: WYCC Market Analysis

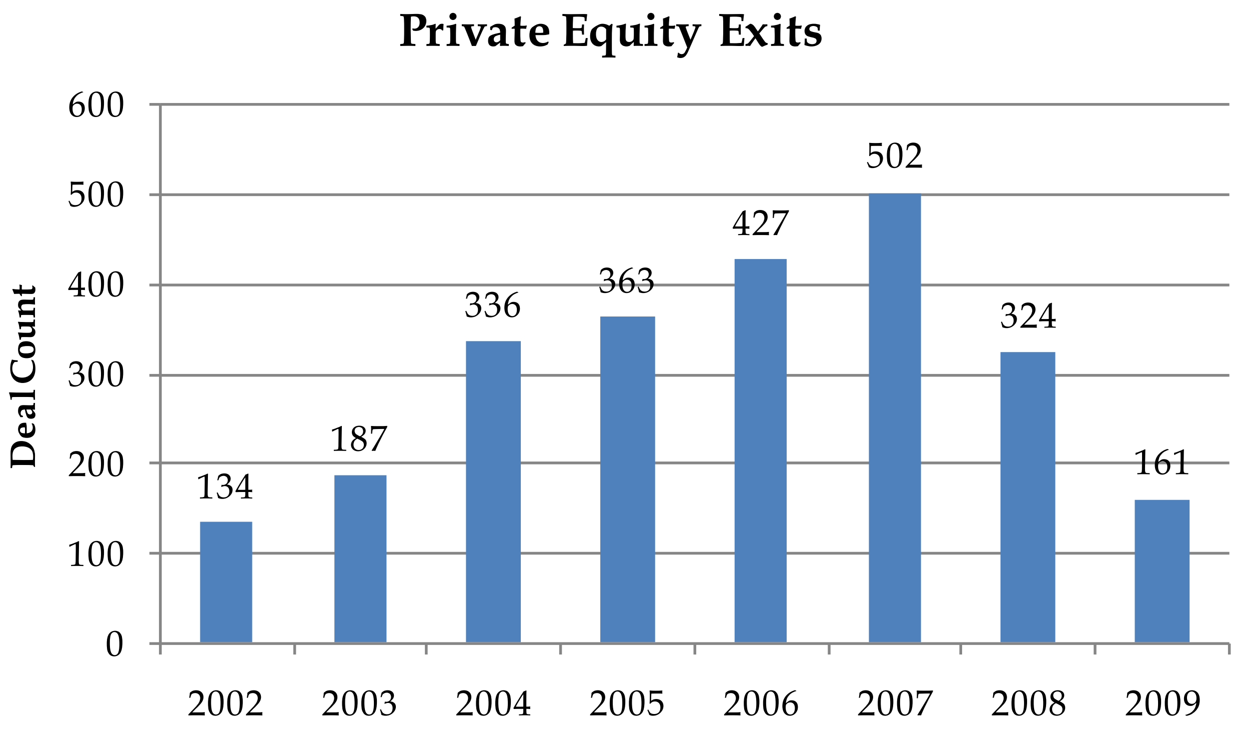
U.S. Private Equity Deal Flow – Quarterly



Source: Pitchbook 2010

U.S. Private Equity Exits Per Year

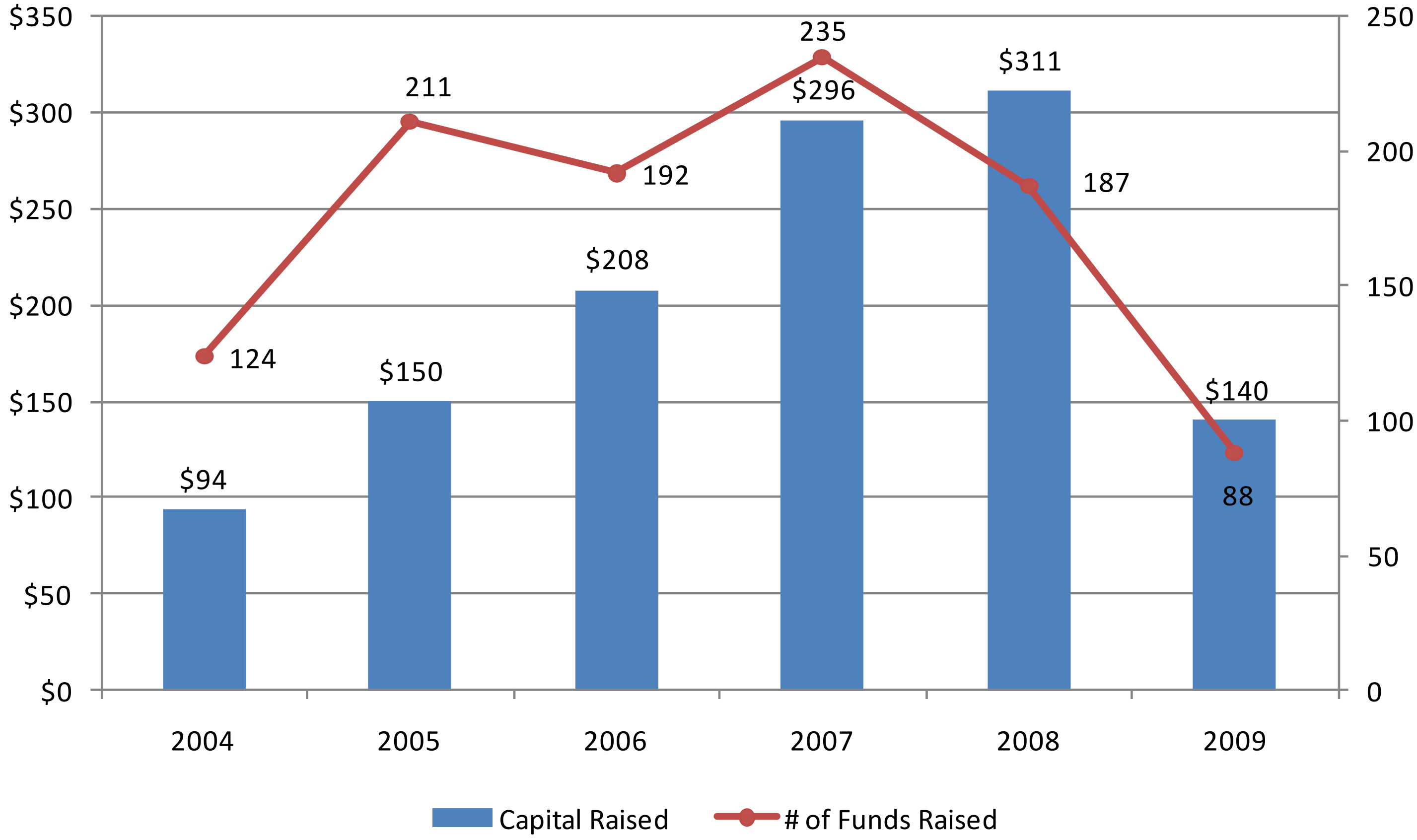
Credit Market Upheaval and Lower Valuations Have Significantly Reduced M&A Transaction Activity during 2009



Source: Pitchbook 2010

Private Equity Fundraising by Year

Private Equity Fundraising has Slowed Considerably due to the Capital Overhang (Estimated at $400 Billion) Resulting From Reduced M&A Activity

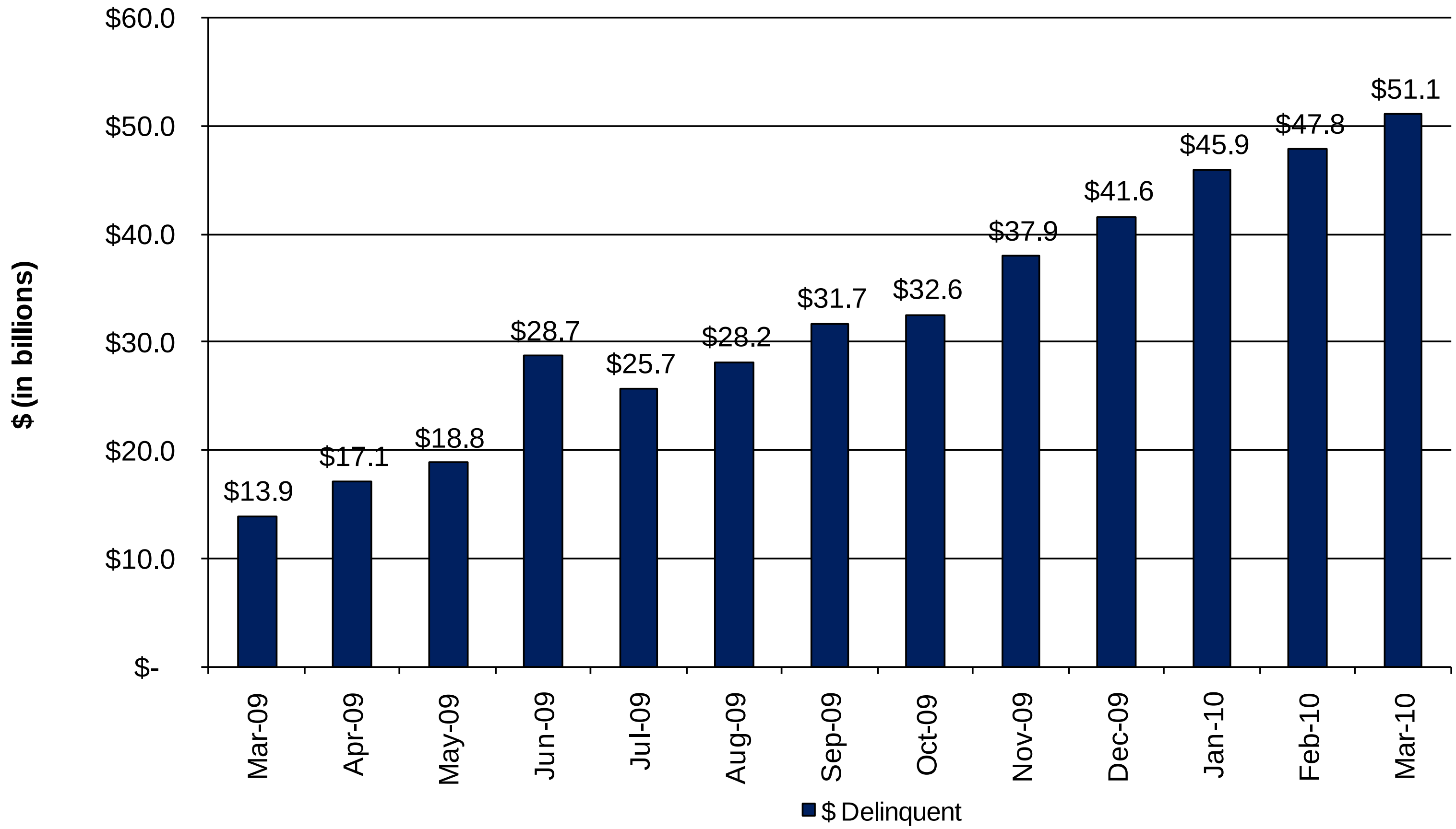


Source: Pitchbook 2010

Current Assessment of Real Estate Market

Monthly CMBS Delinquency - March 2009 through March 2010

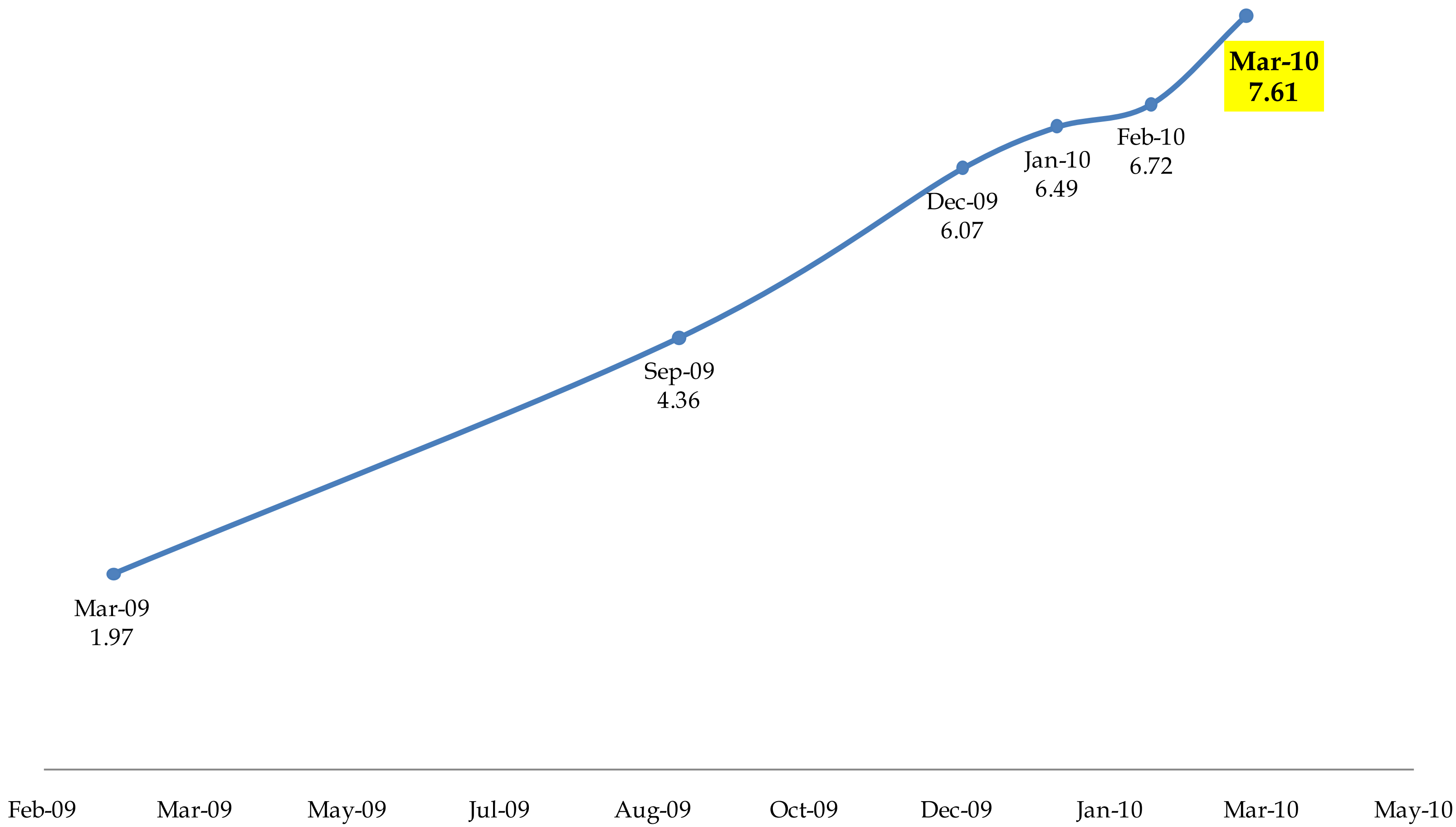
Over $750 Billion of CMBS Loans are Outstanding with a Large Percentage Maturing Through 2012



Source: RealPoint Research April 2010

Commercial Mortgage Backed Securities ("CMBS") Delinquency Rates

RealPoint Research Projects the Delinquency Percentage to Approach 11%-12% by Year-End 2010



Source: Treppwire, April 2010

All Major Property Types Weaker

- Multifamily rate up 332 Bps in March – delinquency rate now 13.19%
- Hotel delinquencies up 124 Bps in March – rate near 17%
- Industrial rate cracks 5% level – up 64 Bps
- Office rate remains lowest of major property types at 4.73% - up 40 Bps in March
- Retail rate up 29 Bps – now over 6%

Property Types - % 30 Days +						
	Mar-10	**Feb-10**	**Jan-10**	**Dec-09**	**Sep-09**	**Mar-09**
Industrial	5.39	4.75	4.54	3.98	2.97	1.43
Lodging	16.89	15.65	15.32	13.87	6.72	2.19
Multifamily	13.19	9.87	9.71	6.27	7.05	3.86
Office	4.73	4.33	3.90	3.42	2.70	1.27
Retail	6.03	5.74	5.69	5.50	4.41	2.11

Source: Treppwire, April 2010

From a Historical Perspective

- One year ago, the delinquency rate was under 2%
- Since March 2009, delinquency rate up almost 400%
- The adjusted increase of 49 basis points in March is the largest increase since mid 2009
- March 2010 CMBS delinquency rate of 7.61% is the highest ever recorded

Source: Treppwire, April 2010

What is Driving the CMBS Delinquencies?

- Falling Commercial Real Estate Values
  - Lower Rental Rates
  - Higher Vacancies
  - Appraisals Beginning to Reflect Reduced Valuations
- Buyers Paid Too Much—Oversupply of Capital
- Excess Supply of Properties
- Loans Maturing
- Very Limited Refinancing Opportunities
- Owners "Underwater" and Walk
- Impact of Non-Recourse Financing

Real Estate Summary

- Commercial Banks Continue to Reduce Their Exposure to Commercial Real Estate
  - The Smaller the Bank, the Greater Concentration in Real Estate Lending
- Limited Ability to Refinance Problem Real Estate Loans—Limited Capacity in the System
- Increased CMBS and Other Commercial Real Estate Defaults (“Tsunami of Debt Defaults”)
  - Future Projected Bank and CMBS Losses on the $3.5 Trillion of Real Estate Debt Outstanding will be 10%-15% or $350-$500 Billion.
- “Cash is King”……Eventually
  - Cash Buyer’s can buy Quality Assets at Discount to Replacement Cost with Good Positive Cash Flow after Debt Service
  - Distressed Assets Require Cash Buyers to Move Quickly

Real Estate Summary (continued)

- New Construction of almost any Type has Slowed Significantly and Will Eventually Result in Increased Rents and Absorption

- Cap Rates have Stabilized After Steep Increases Over the last Two Years----- Expect Future Increases in Cap Rates as Interest Rates Move up

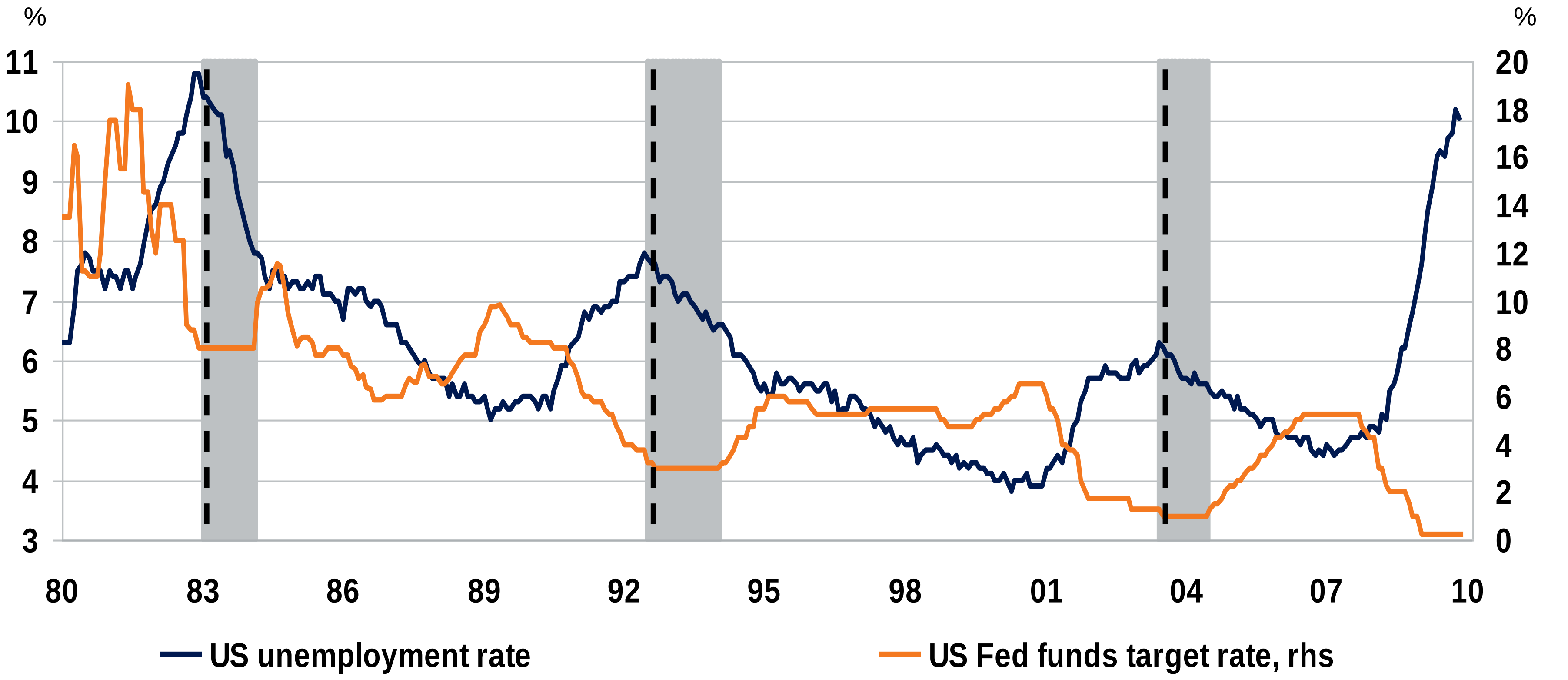
- Job Growth and Credit Availability Very Important to Stabilize the Real Estate Markets

- "Extend and Pretend" Lender Mentality Resulting in Limited Investment Opportunity for Hard Real Estate Assets—Significant REIT and Private Equity Cash on the Sidelines

Outlook for the Economy

When Will Interest Rates Rise?

Rates normally rise after the peak in unemployment

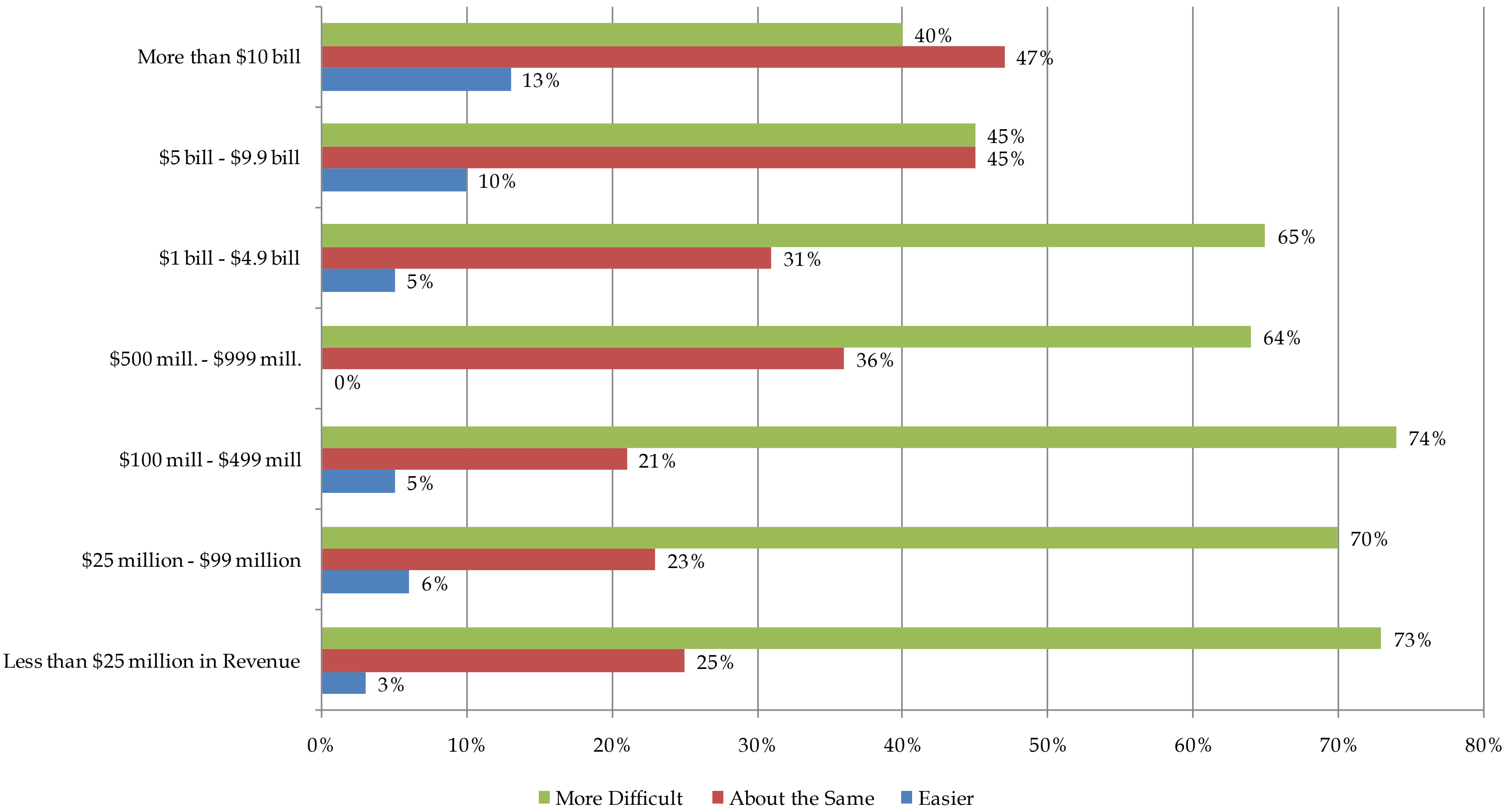


Vertical dotted lines indicate peak in unemployment rate

Source: Thomson Datastream, January 6, 2010.
Shaded areas show the period between the peak in the unemployment rate and the first interest rates rise. Chart is shown for illustrative purposes.
The opinions stated include some forecasted views. We believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know. However, there is no guarantee that any forecasts or opinions will be realized.

Credit Crunch

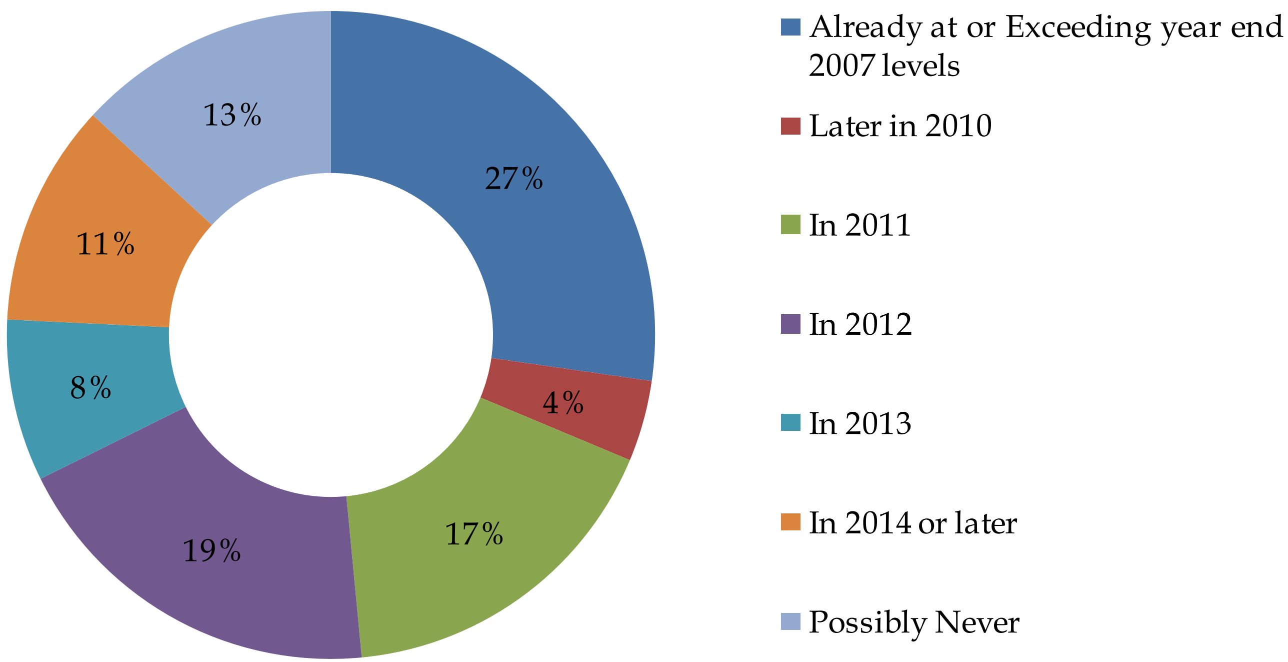
Ease of Raising Capital Compared to Summer 2008



Source: Duke University/CFO Magazine Global Business Outlook World-wide Survey of 1,389 CFOs

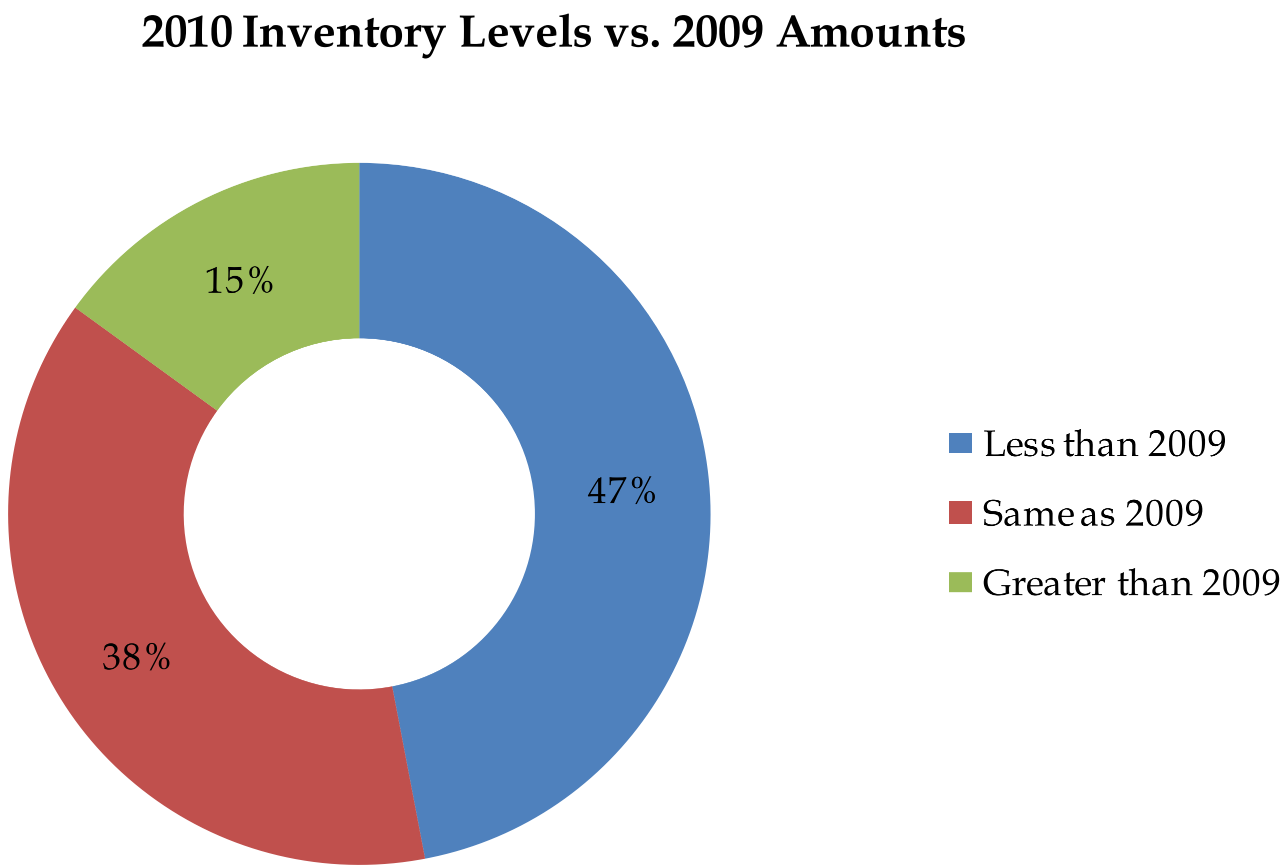
Employment Outlook

When Will Employment Return to Pre-recession Levels?



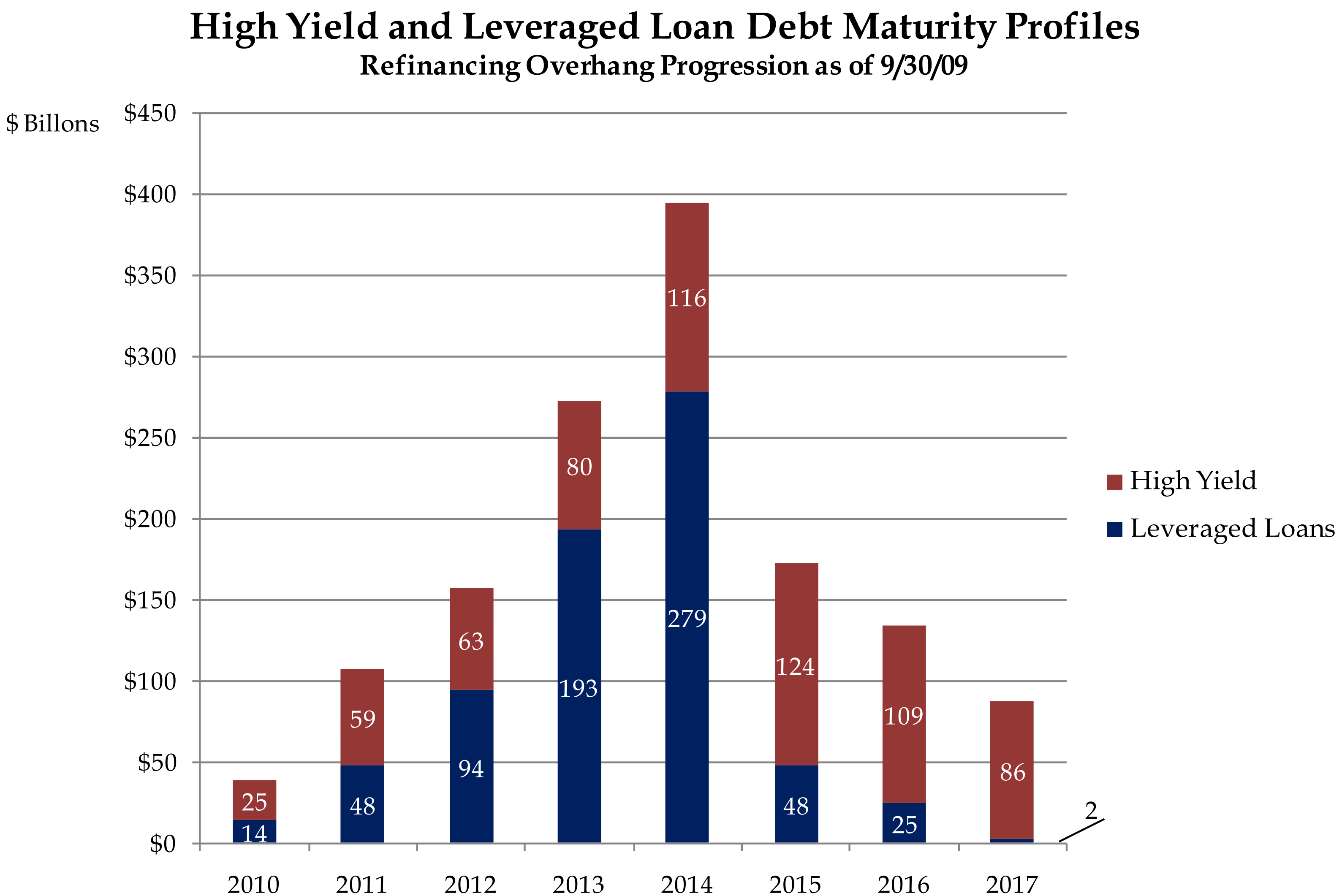
Source: Duke University/CFO Magazine Global Business Outlook World-wide Survey of 1,389 CFOs

Inventory Outlook



Source: Duke University/CFO Magazine Global Business Outlook World-wide Survey of 1,389 CFOs

Debt Maturity Profiles



Source: Neuberger Berman, Credit Suisse – As of 9/30/09

Near-Term Trends/Risks

- National Debt Increasing to Unsustainable Levels, and Ongoing Concerns About Global "Debt" Shocks to the System
- Interest Rates Heading Higher (Potentially MUCH Higher)
- Inflation Pressure Due to Growth in Money Supply to Fund Deficit
- Job Growth and Credit Availability Will Continue to Improve—But it Will be Slower than Anticipated
- Tax Rates are Heading Higher—Bush Tax Cuts Rescinded and Higher Capital Gains Rates
- National Value-Added Tax ("VAT")—Don't be Surprised!
- Increased State and Local Bond Defaults/Bankruptcy Risk---What happens when the TARP Money is Spent?

Planning for the Exit Strategy

Prelude

- The transaction process can be very time-intensive

- A well-orchestrated transaction process requires good planning and good partners / resources to:
  - Allow management to run the daily business; and
  - Conduct the transaction process effectively

- Continual delays in the transaction process can often lead to substantial excess costs and frustrations for the Company as well as its advisors / attorneys

Typical Transaction Timeline

(After Receiving Initial Buyer Inquiry)

- Four main phases of Transaction process
- Process typically takes 4-5 months to complete (in total)
- Once owners have prepared and made decisions, process should generally only take 3-4 months

Phase1– the Preparation Phase	Phase 2– the Decision Phase	Phase 3– the Execution Phase	Phase 4– the Closing Phase
•Get all financial data and corporate records organized •Resolve corporate governance and structural issues •Finalize business plan / equity story •Initial evaluation by investors, and determine the proceeds /structure	•Owners evaluate alternatives •Owners decide •Investors prepare Letter of Intent •Negotiate terms of Letter of Intent •Execute LOI •Owners get "data room" ready for due diligence	•Legal, financial and business due diligence •Financial modeling and capital structure •Solicit proposed financing sources and terms •Meetings with management team •Execute financing term sheets	•Complete any final due diligence •Deliver / negotiate definitive agreements with Owners •Preparation and negotiation of agreements with financing sources •Finalize agreements •Closing & funding
3-4 Weeks	3-4 Weeks	8-10 Weeks	4 Weeks

General Comments

- The biggest variables in timing normally depend upon: (i) the general state of preparedness by the Company for diligence, and (ii) the time required by the Owners to make initial decisions
- Generally require 3-4 months following Owner decision to Transact
- Efficiency of each phase depends on execution of prior phases
- Owners/Company should plan to identify and select an experienced M&A attorney, tax advisor, and estate planning expert

Exit Strategy: Proactive or Reactive?

- Start Thinking About Your Exit Strategy When You Write the Business Plan
  - Exit Strategy is Different for each Person Depending on Circumstances
    - Pass Business to Children
    - Sell Business to Employees
    - Sell to a Third Party and Pocket the Cash

- Consider a Sell-Side Due Diligence Review Prior to A Sale
  - Allows Current Management to Focus on Day-to-Day Operations While Outside Professionals Review the Business for Operational and Accounting Issues
  - Allows for Clean-up and Formatting of the Financial Statements to Ensure a Buyer can Quickly Understand Key Financial Information
  - Transparency is the Key to Sell-Side Due Diligence
    - Uncover Issues that need to be Corrected Prior to a Sale Process or Communicated to the Buyer Early in the Process---NO SURPRISES
  - Sell-Side Due Diligence is Cost Effective and Will Result in a Higher Sales Price

Exit Strategy: Proactive or Reactive?

- Key Areas of Focus in a Sell-Side Due Diligence Review
  - Trailing Twelve Months Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")
  - Identification and Presentation of Non-Recurring Items ("Addbacks")
    - Personal Expenses Not Associated with the Business
    - Insurance Settlement/Litigation/Environmental Cleanup/Excess Compensation
    - Large Inventory or Receivable Write-offs
  - Quality of Earnings
  - Gross Margins
  - Profitability by Product/Customer
  - Customer Concentration Issues
  - Management Succession Planning Issues
  - Outstanding Litigation
  - Environmental Exposure

Exit Strategy: Proactive or Reactive?

- A Proactive, Highly Managed Exit Will Result in:
  - Less Disruptive Impact to the Business
  - Clearer Understanding of Value Expectations
  - Knowledge of the Business Issues and Ability to Respond Prior to Buyer Raising Concerns
  - Quicker Close

ULTIMATELY

MAXIMIZING THE SALES PRICE

Questions