



Presentation to the American Bar Association Committee on Negotiated Acquisitions

**2007 M&A Market Highlights
August 12, 2007**

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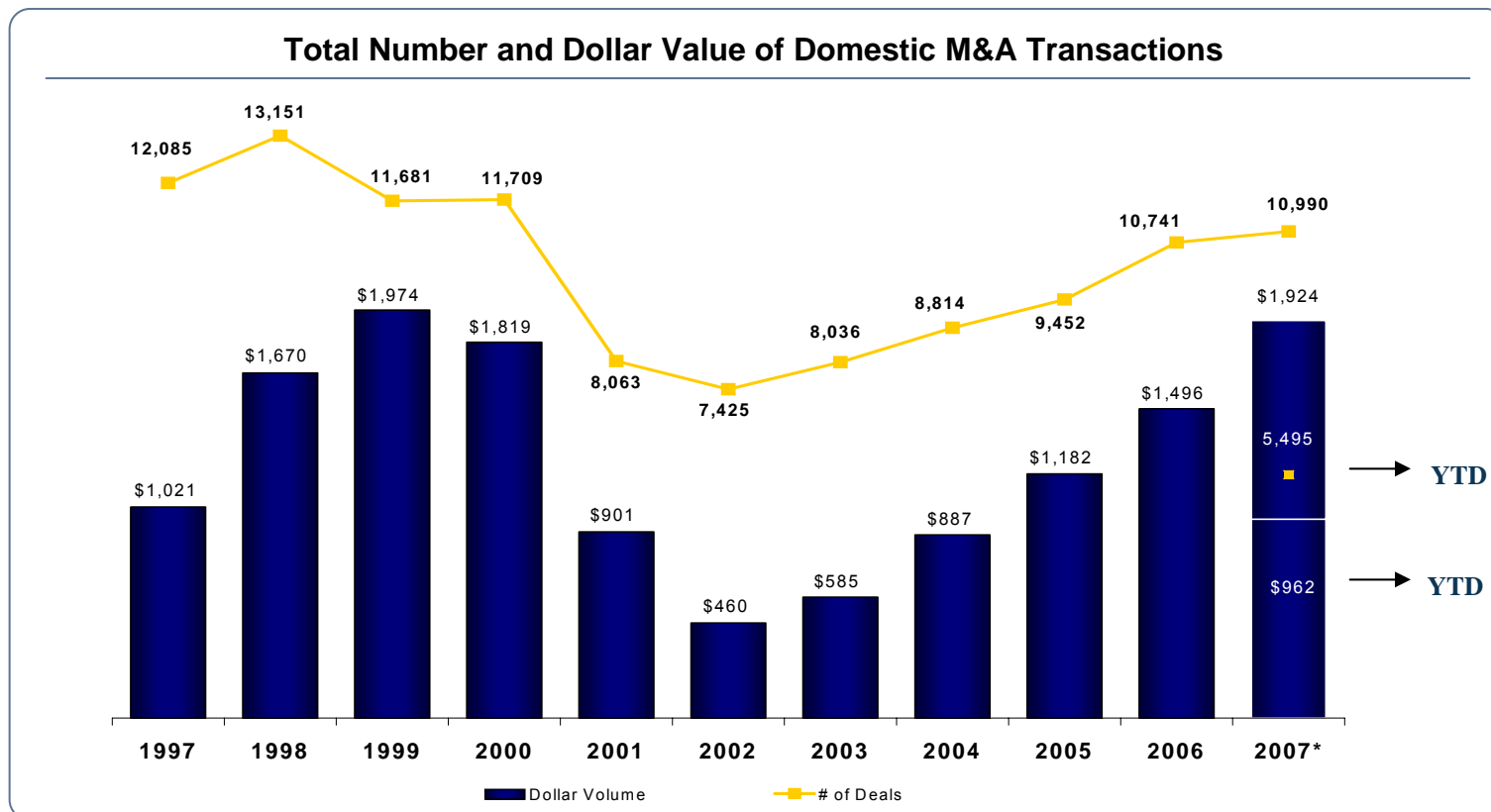


M&A Market Highlights

M&A Market Highlights

Domestic M&A Activity Remains Strong

- ❖ Transaction volume rose approximately 2.3% between 2006 and 2007, while the value of transactions climbed approximately 28.6%.



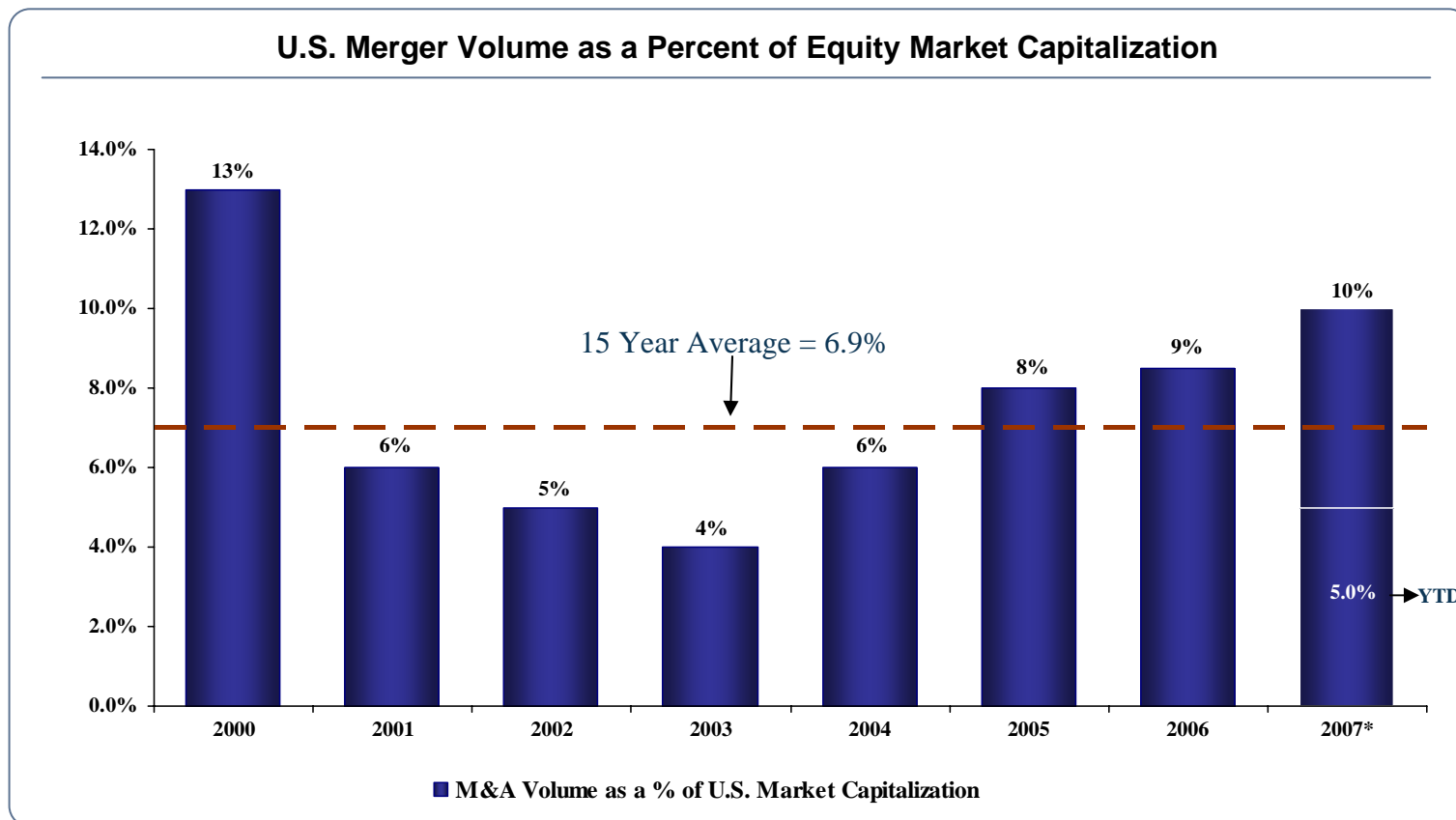
Source: Thomson Financial

* YTD figures as of June 30, 2007 have been annualized.

M&A Market Highlights

Domestic M&A Activity as a Percentage of Market Capitalization

- ❖ Transaction volume as a percentage of equity market capitalization is 45% above the 15 year average.



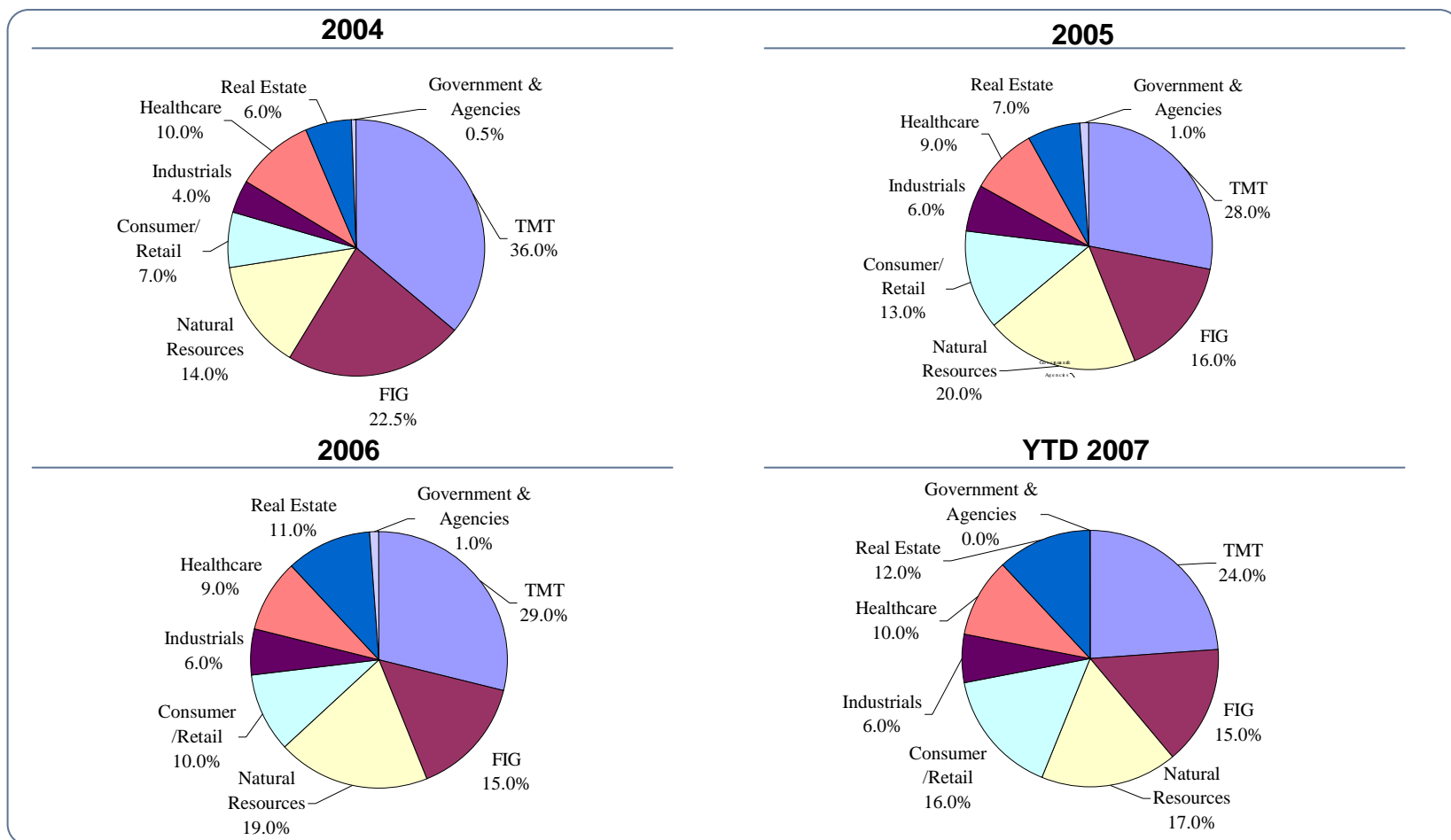
Source: Thomson Financial Securities Data

*YTD figures as of June 30, 2007 have been annualized

M&A Market Highlights

Domestic M&A Activity by Industry

- ❖ TMT, Natural Resources and Consumer Retail continue to dominate M&A activity.

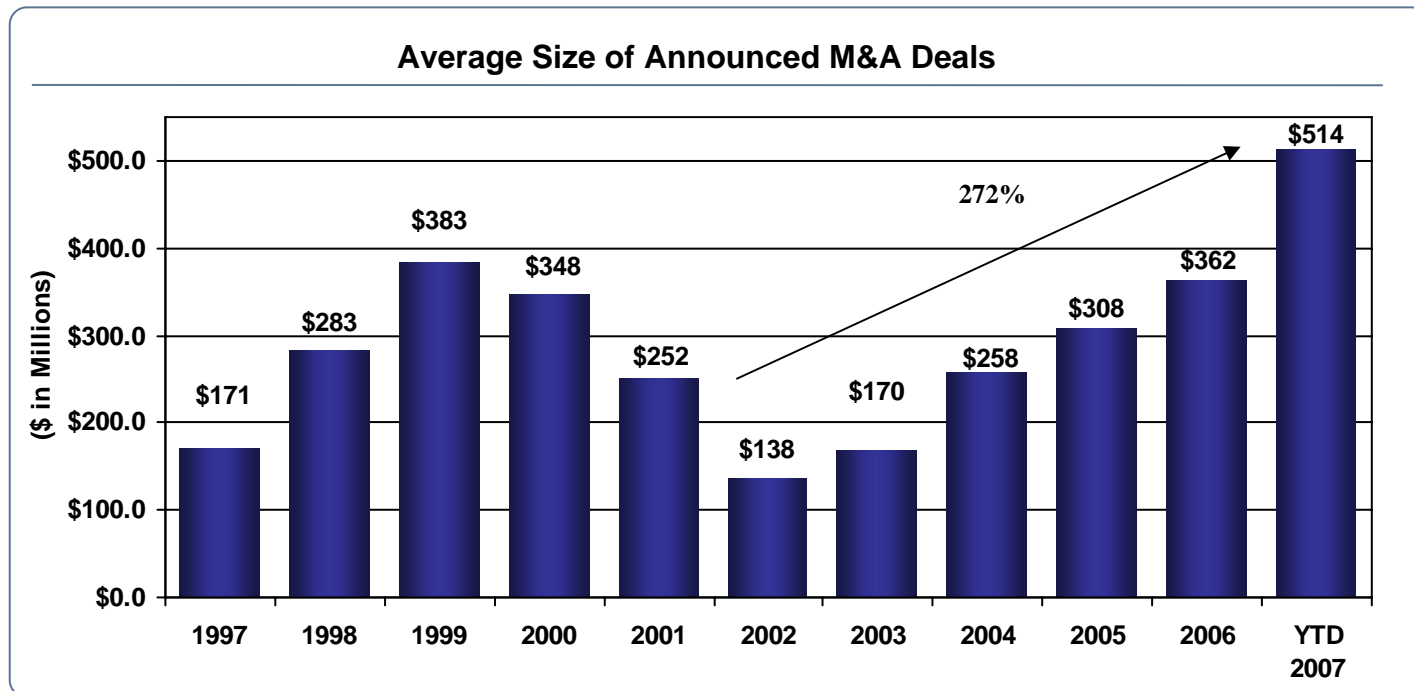


Source: Thomson Financial Securities Data.

M&A Market Highlights

Average Deal Size Continues to Increase

- ❖ Average transaction size has risen by 272% since 2002 and 42.0% from year end 2006 to the second quarter of 2007.






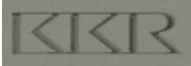





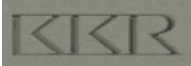



Source: Thomson Financial. Includes only transactions for which values were disclosed.

M&A Market Highlights

Mega-Deals Are Driving Transaction Values

- ❖ 10 largest deals in 2007 accounted for almost 31.8% of YTD 2007 domestic M&A volume.

2Q 2007 Top 10 Announced U.S. Transactions

Acquirer	Target	Value (\$bn)	Industry
Shareholders		\$45.5	Packaged Foods & Meats*
Multiple Acquirers		\$43.2	Power Producer and Energy Trader*
Multiple Acquirers		\$42.4	Integrated Telecommunications *
		\$27.5	Data Processing*
Multiple Acquirers		\$27.1	Wireless Telecommunication*
The Blackstone Group*		\$26.2	Hotels and Resorts*
Multiple Acquirers		\$25.4	Consumer Finance*
Multiple Acquirers		\$24.5	Diversified Banks*
		\$23.4	Drug Retail*
		\$21.0	Diversified Banks*

Source: Bloomberg.

*Intended / Pending transactions.

M&A Market Highlights

Mega-Deals Are Driving Transaction Values

- ❖ 10 largest deals in 2006 accounted for almost 22% of the year's domestic M&A volume.

YTD 2006 Top 10 Announced U.S. Transactions

Acquirer	Target	Value (\$bn)	Industry
 AT&T	 BELLSOUTH	\$83.1	Telecom
The Blackstone Group* Consortium	 Equity Office	\$32.5	Real Estate*
Consortium	 HCA	\$32.2	Healthcare
Knight Holdco LLC Consortium	 KINDER MORGAN	\$27.4	Energy*
Consortium	 Harrah's	\$27.2	Gaming*
Consortium	 Clear Channel	\$26.7	Broadcasting*
 EXPRESS SCRIPTS	 CAREMARK <i>It all starts with care™</i>	\$24.6	Healthcare*
 WACHOVIA	 GOLDEN WEST FINANCIAL CORPORATION	\$24.6	Financial Institutions
 FM	 phelps dodge	\$22.9	Metal and Mining*
 CVS	 CAREMARK <i>It all starts with care™</i>	\$21.7	Pharmacy*

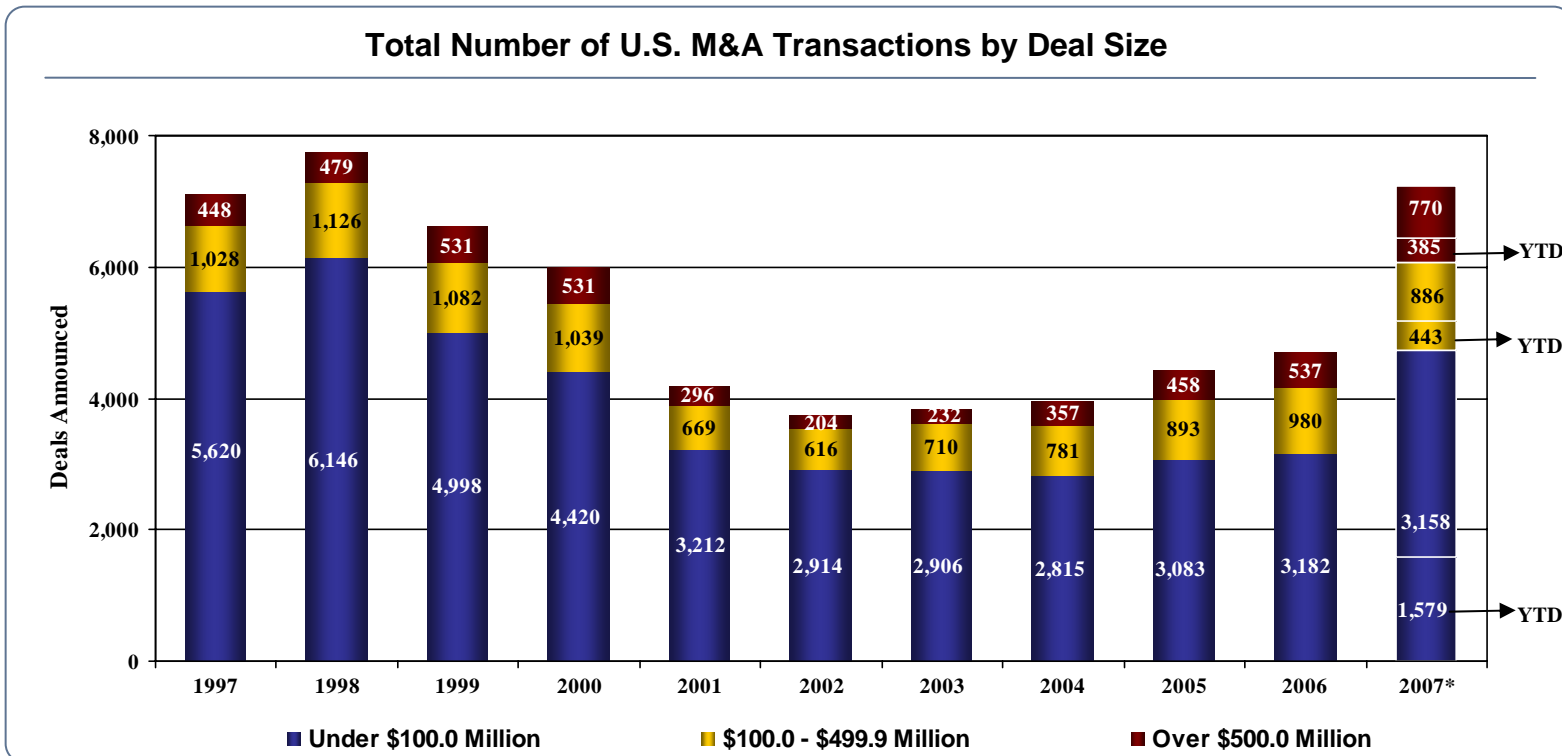
Source: Bloomberg.

*Intended / Pending transactions.

M&A Market Highlights

Mega-Deals Get Headlines, But Middle Market Transactions Predominate

- ❖ Over 90% of all M&A transactions since 1997 have been under \$500 million.
- ❖ Transactions over \$500 million have increased from 5.4% of total in 2002 to 16.0% in 2007.

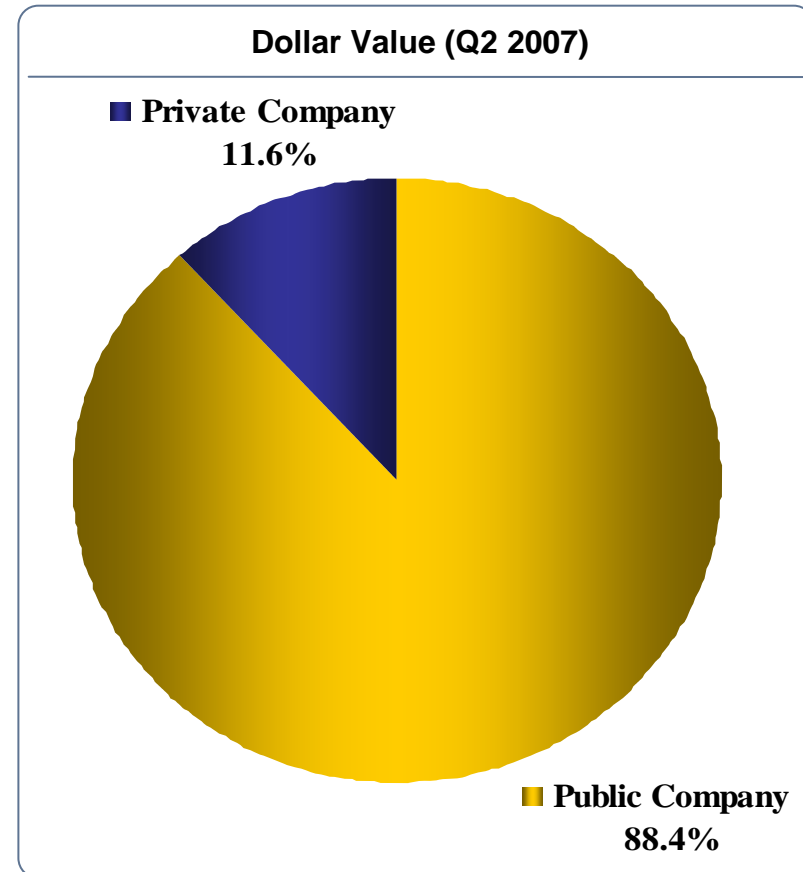
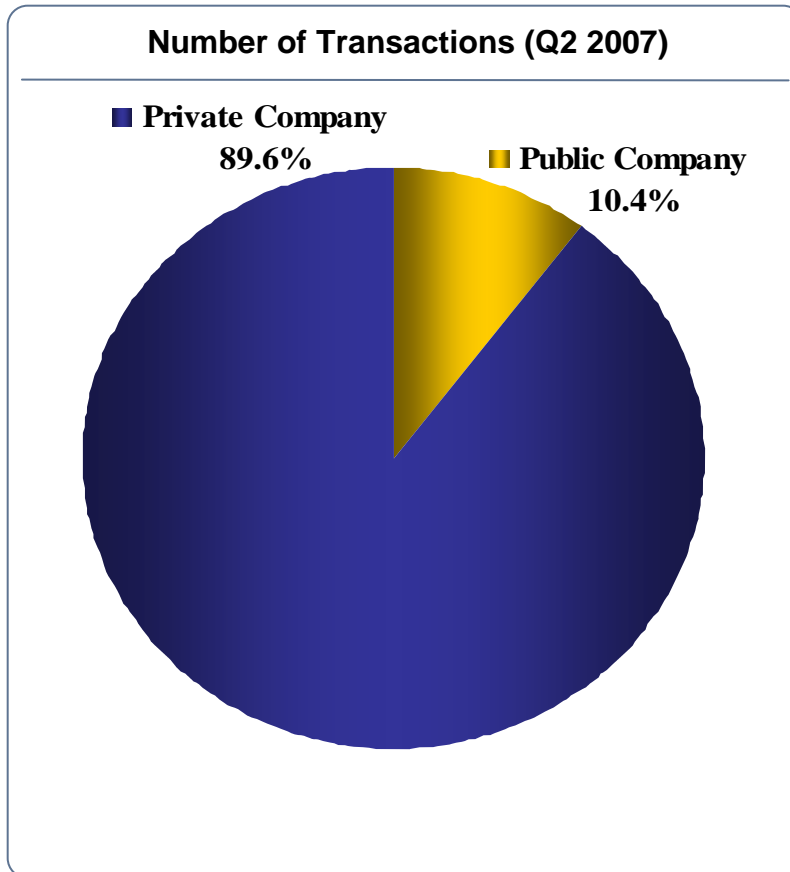


Source: Thomson Financial. Includes only transactions for which values were disclosed.

*YTD figures as of June 30, 2007 have been annualized.

M&A Market Highlights

Private Company Transactions Dominate in Number, But Trail in Value

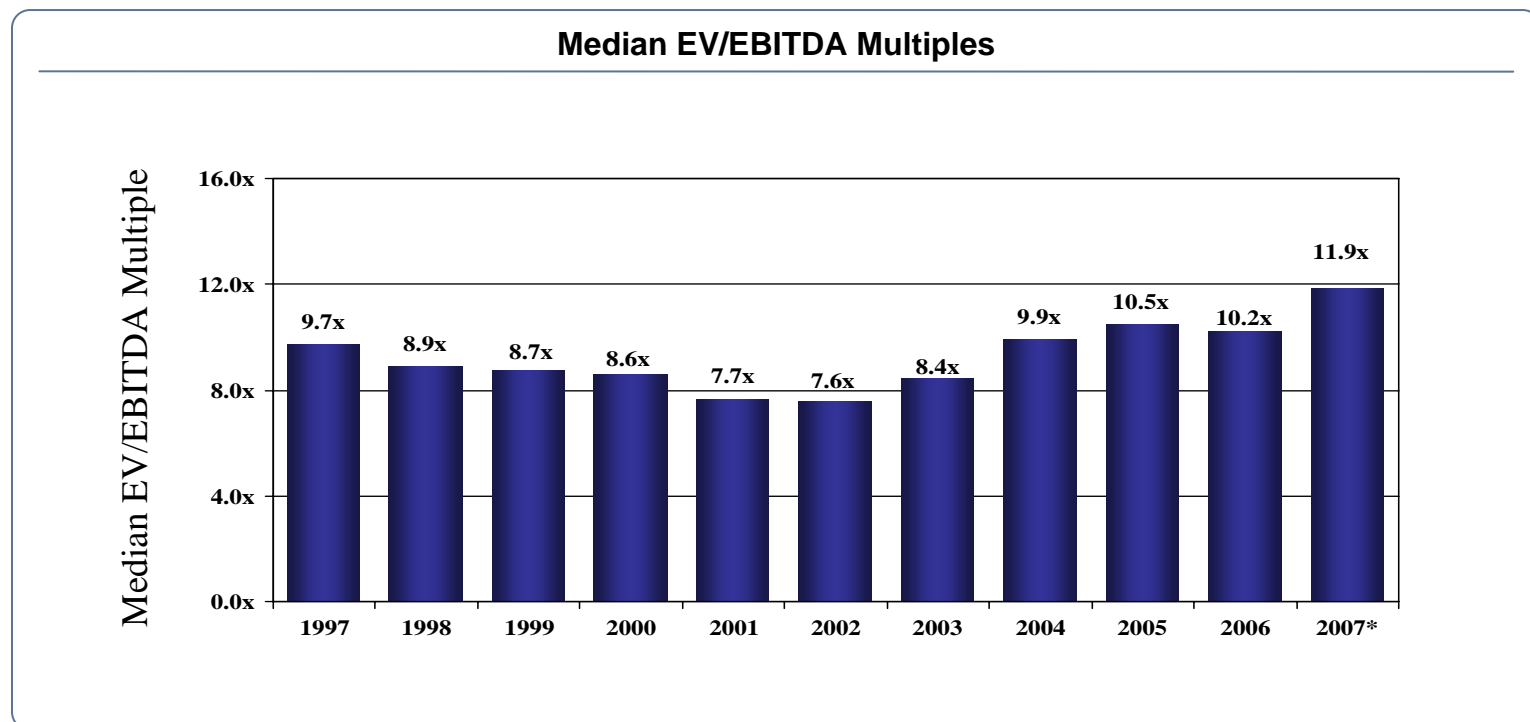


Source: Mergerstat.
Data based on public and private buyers.

M&A Market Highlights

Transaction Multiples on the Rise

- ❖ Enterprise Value / EBITDA transaction multiples remain well above historical averages.
- ❖ Competition among private equity and strategic buyers has driven the multiples being paid for attractive targets.



* YTD as of June 30, 2007.

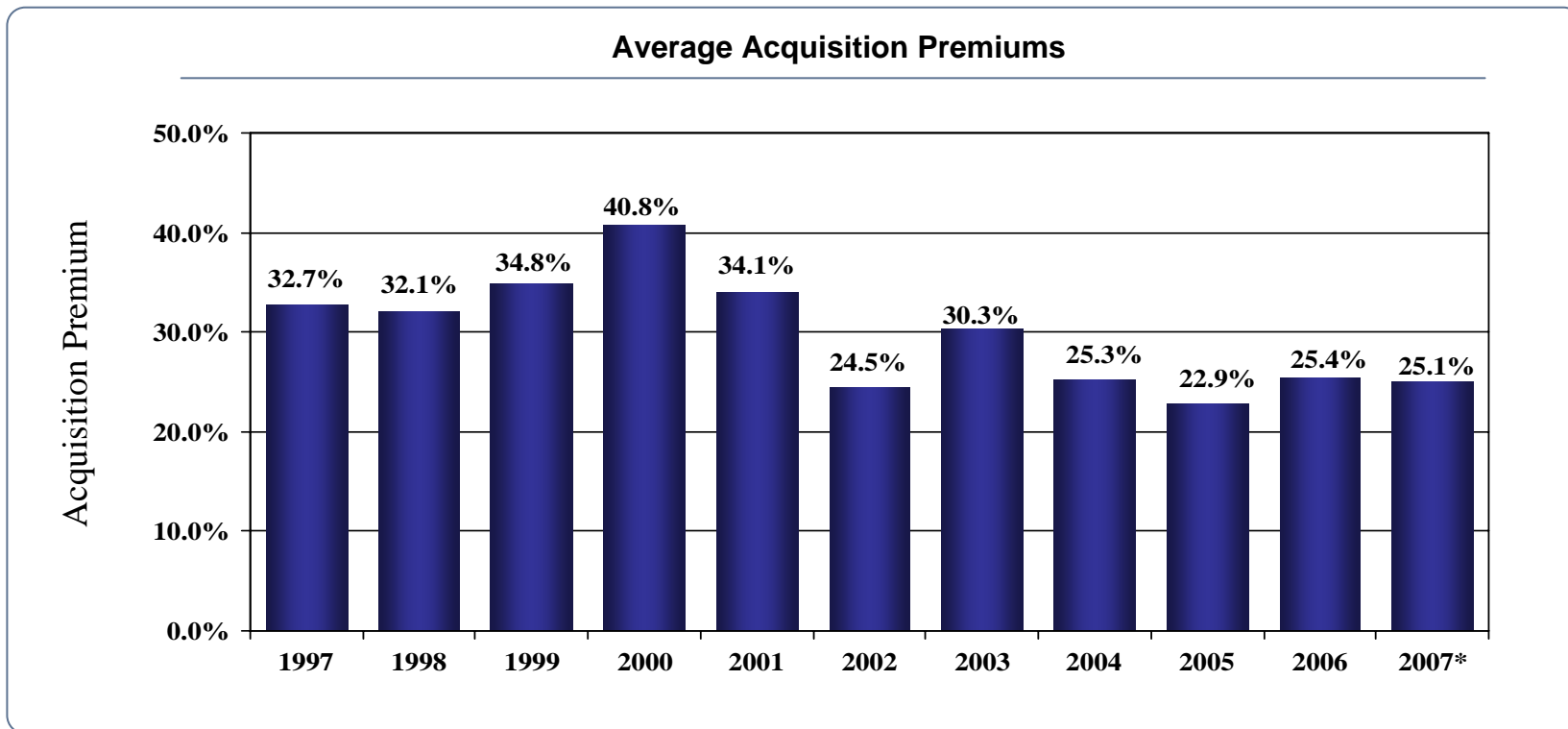
Source: Mergerstat.

Excludes negative EV/EBITDA multiples and multiples larger than 25.0x.

M&A Market Highlights

But Acquisition Premiums Have Moderated

- ❖ Though transaction multiples have risen, premiums paid remain well below the 1997-2001 period.



* YTD as of June 30, 2007.

Source: Mergerstat.

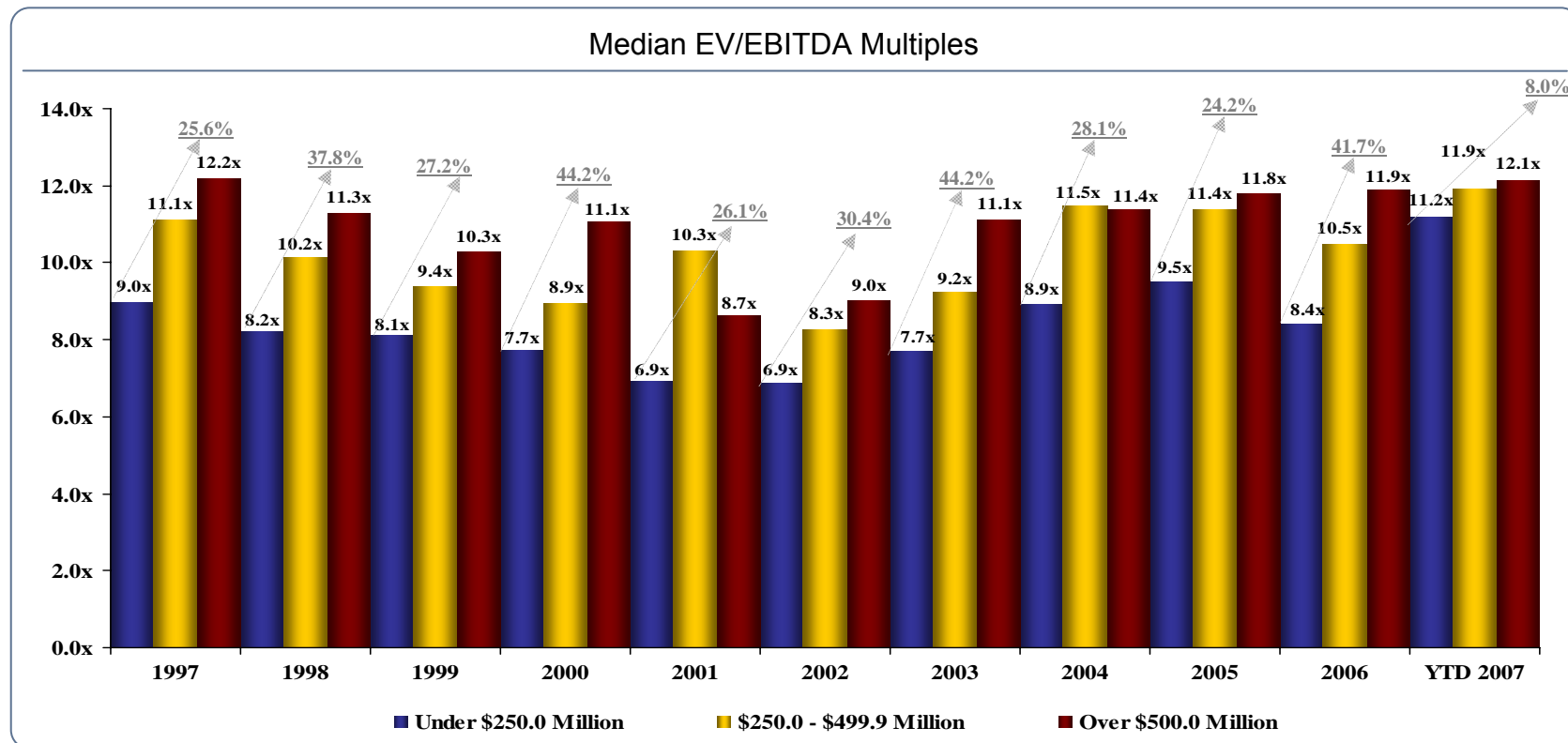
Premium is relative to target share price 4 weeks prior to announcement for deals with U.S. targets valued over \$50 million.

Excludes negative premiums and premiums over 100%.

M&A Market Highlights

Size Matters

- ❖ Larger companies continue to be valued at a premium to middle market companies.

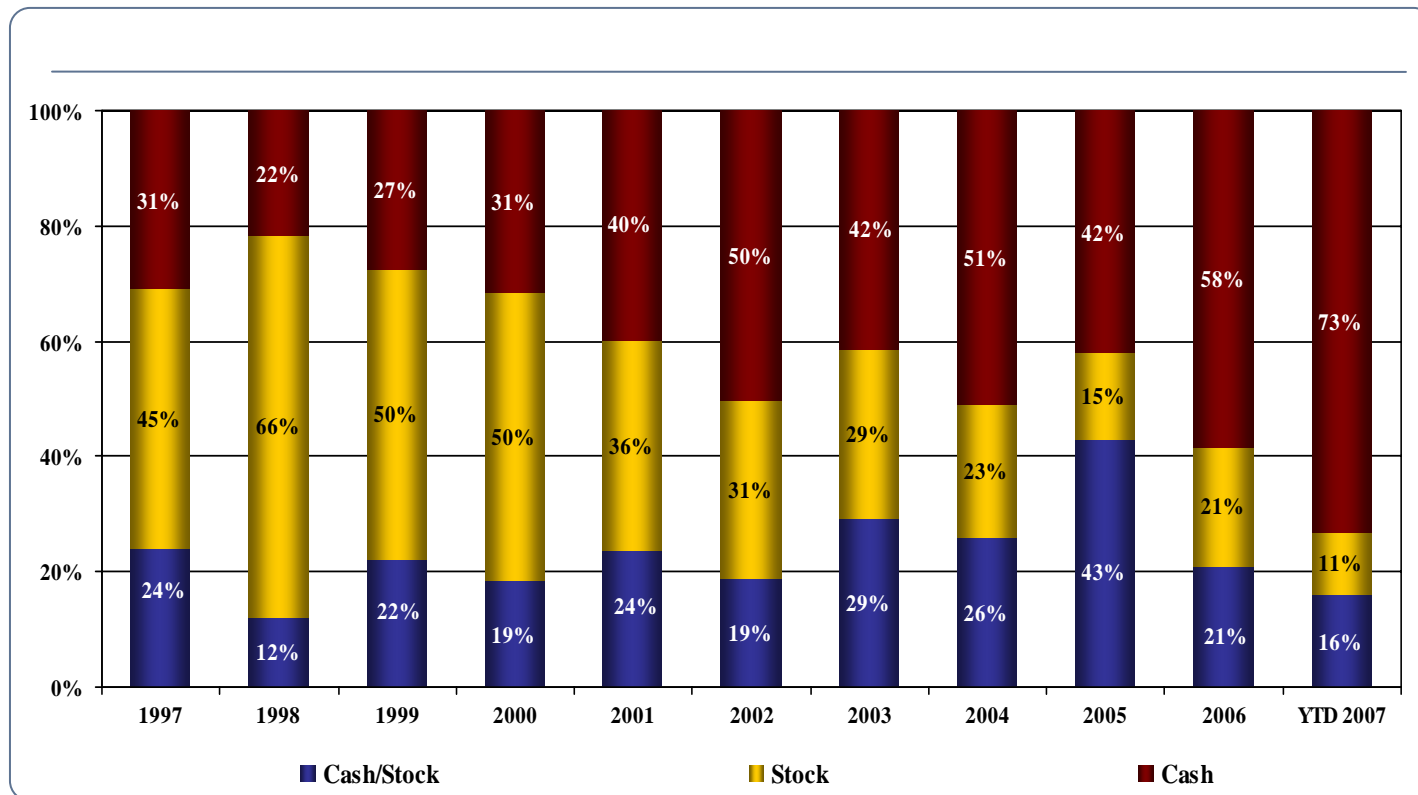


Source: Mergerstat.
Excludes negative EV/EBITDA multiples and multiples larger than 25.0x.

M&A Market Highlights

Cash Continues to be the Favored Form of Consideration

- ❖ The demise of “pooling-of-interests,” coupled with the ready availability of low-cost debt financing, have reduced the attractiveness of stock-for-stock transactions.



Source: Mergerstat.



Private Equity Activity



Private Equity Activity

Private Equity Purchasing Power

- ❖ Evolution from small entrepreneurial firms to institutional asset managers with diverse investment strategies, styles and degree of industry specialization.
 - ◆ Over 1,800 buyout firms.
 - ◆ Over 200+ firms have over \$1 billion in capital.
- ❖ Capital availability fostering competitive environment, especially for large deals.
 - ◆ Consortium bidding on the rise as investors pool resources to pursue larger targets.
 - ◆ 9 of the top 10 leveraged buyouts ever were announced in 2006.
 - ◆ Approximately \$200.0 billion in new money raised in 2006.
 - Equates to approximately \$600 billion of “buying power.”
- ❖ Hedge funds are increasing their participation in the private equity market.



Private Equity Activity

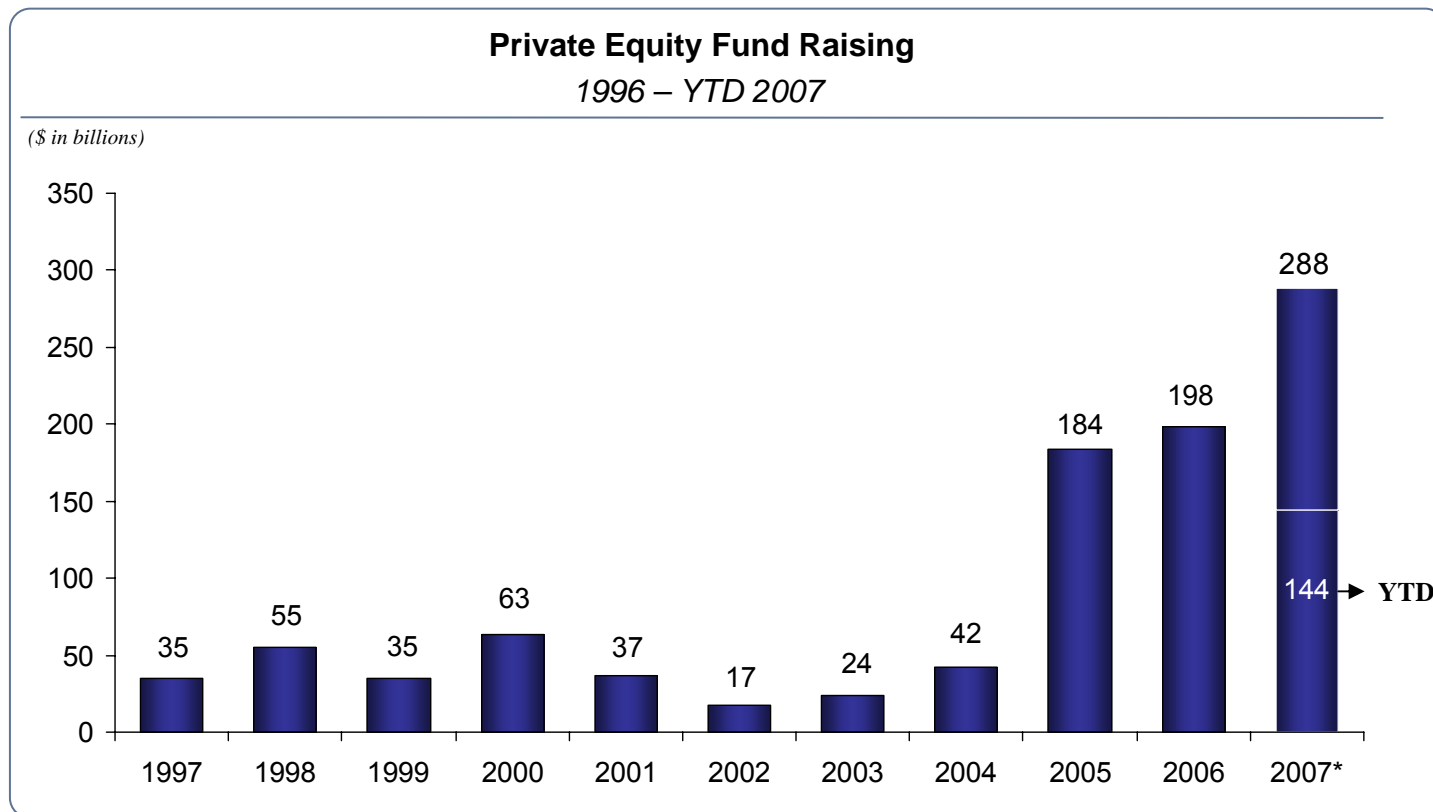
Private Equity M&A Dynamics

- ❖ Buy-side
 - ◆ Pressure to deploy capital
 - ◆ Public companies shedding non-core operations
 - ◆ Private companies with shareholder liquidity and estate-planning issues
 - ◆ Consortium deals reduce exposure and increase the universe of targets
- ❖ Sell-side
 - ◆ Attractive valuations
 - ◆ Aging portfolios
 - ◆ Return of strategic buyers
 - ◆ Desire to enhance returns to aid fund raising

Private Equity Activity

Private Equity Purchasing Power (continued)

- ❖ While private equity is being used at record rates, new fund raising is more than refilling the coffers.



Source: Buyouts Magazine.

*YTD figures as of June 30, 2007 have been annualized.



Private Equity Activity

Private Equity Purchasing Power (continued)

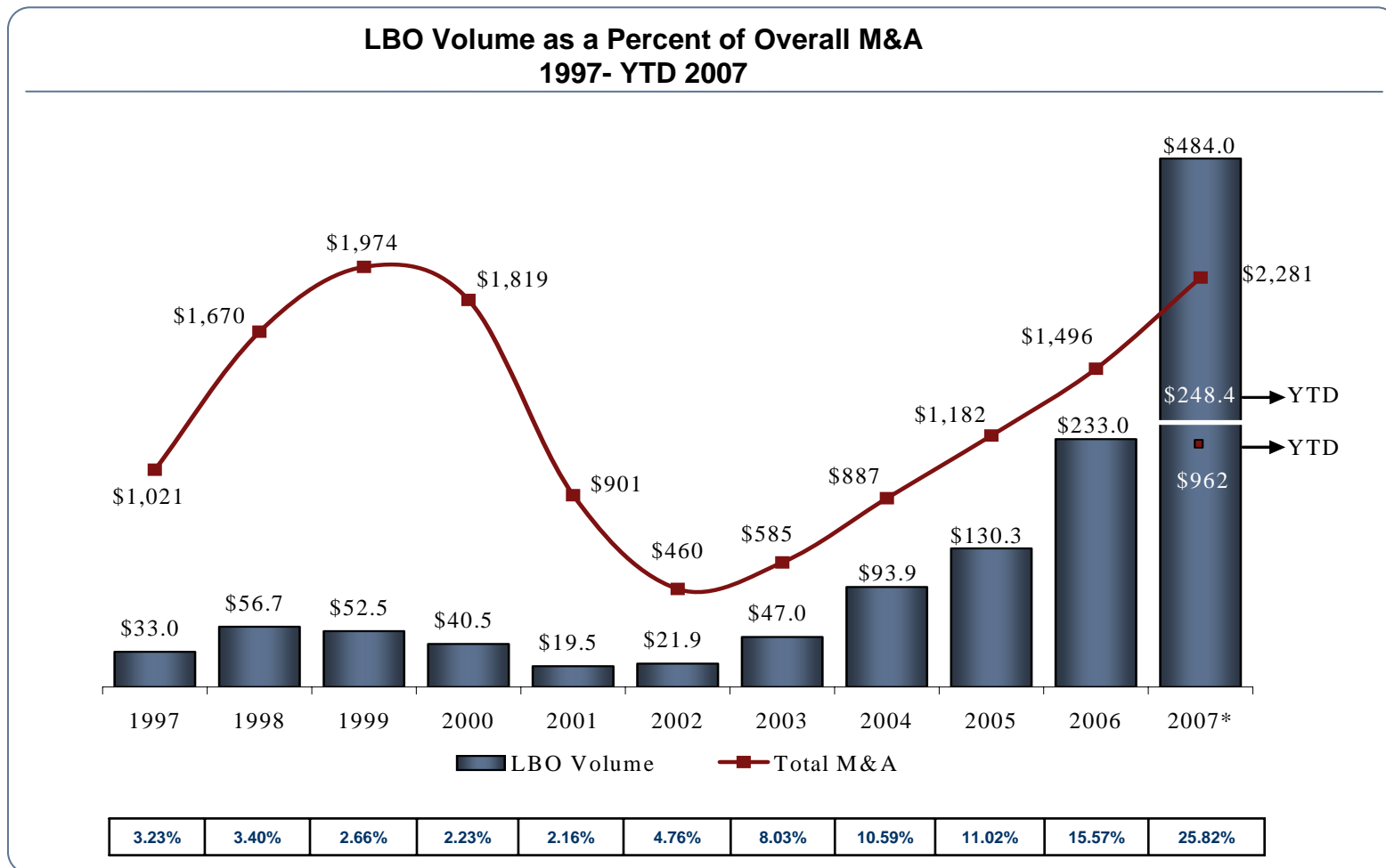
Selected Recently Reported Fund Raises

<u>Company</u>	<u>Fund</u>	<u>Amount (billions)</u>
Blackstone Group	Fifth	\$21.70
Kohlberg Kravis Roberts & Co.	N/A	\$16.60
Texas Pacific Group	N/A	\$15.20
Permira	Fourth	\$12.80
Apollo Management LP	Sixth	\$15.00
Goldman, Sachs & Co.	Fifth	\$8.50
Cinven Ltd.	Fourth	\$8.20
Bain Capital	Ninth	\$8.00
Warburg Pincus LLC	Fifth	\$8.00
Carlyle Group	Fourth	\$7.85
First Reserve Corp.	Eleventh	\$7.80
CVC Capital Partners Ltd.	Fourth	\$7.50
Cerberus Capital Management	N/A	\$7.50
BC Partners	Eighth	\$7.00
Madison Dearborn Partners LLC	Fifth	\$6.50
Leonard Green	N/A	\$5.30
Blackston Group LP (Real Estate)	Fifth	\$5.25
Apax Partners Worldwide LLP	Sixth	\$5.20
Fortress Investment Group LLC	N/A	\$5.00
Carlyle/Riverstone	Third	\$3.80
Vestar Capital Partners	Fifth	\$3.70
Welsh, Carson, Anderson & Stove	Tenth	\$3.50
PAI Partners	Fourth	\$3.50
Advent International	Fifth	\$3.30
Bear Stearns Merchant Banking	Third	\$2.70
Energy Capital Partners	First	\$2.25
Diamond Castle Holdings	N/A	\$1.83
Quantum Resources	N/A	\$1.20

Source: The Deal, Capital IQ, Buyouts Magazine

Private Equity Activity

Private Equity Deal Activity



Source: Mergerstat and Capital IQ

*YTD figures as of June 30, 2007 have been annualized.



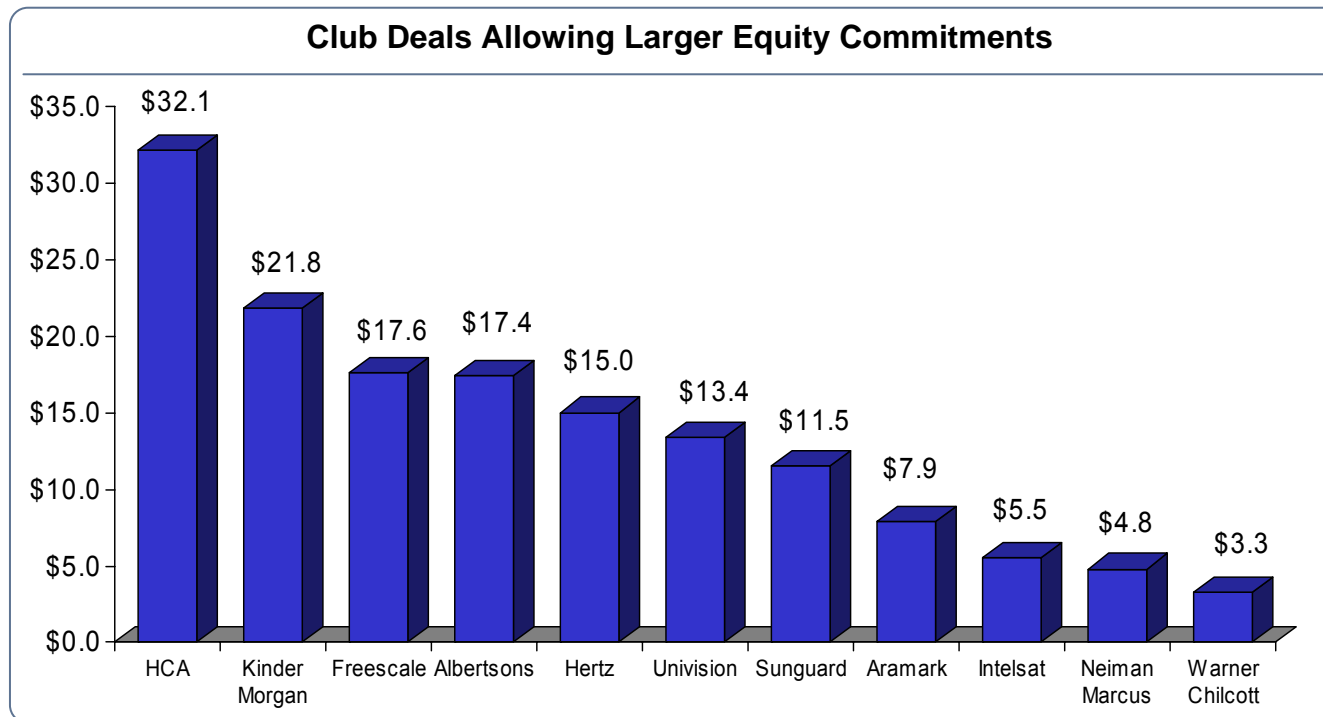
Private Equity Activity

Consortium Transactions

- ❖ Consortium bidding has become more prevalent as investor groups pool their equity to pursue larger targets.
- ❖ Advantages
 - ◆ Increases aggregate bid price and diversifies risk
 - ◆ Enhances ability to raise financing
 - ◆ Supplements expertise in specific industries
- ❖ Disadvantages
 - ◆ Dampens competition
 - ◆ Increased complexity of due diligence, negotiations etc., due to multiple parties
 - ◆ Issues between partners with respect to lead position, governance, etc.

Private Equity Activity

Consortium Transactions (continued)



# of Sponsors:	3	4	4	5 ⁽¹⁾	3	4	7	4	4	2	4
Year	2006 ⁽²⁾	2006 ⁽²⁾	2006 ⁽²⁾	2006 ⁽²⁾	2005	2006 ⁽²⁾	2005	2006 ⁽²⁾	2005	2005	2005
Total Leverage	6.5x	8.3x	NA	NA	4.6x	NA	7.0x	6.8x	6.3x	6.2x	7.3x
Purchase Price Multiple:	7.8x	12.6x	10.7x	7.6x	5.5x	17.2x	10.1x	8.6x	6.9x	9.0x	12.1x

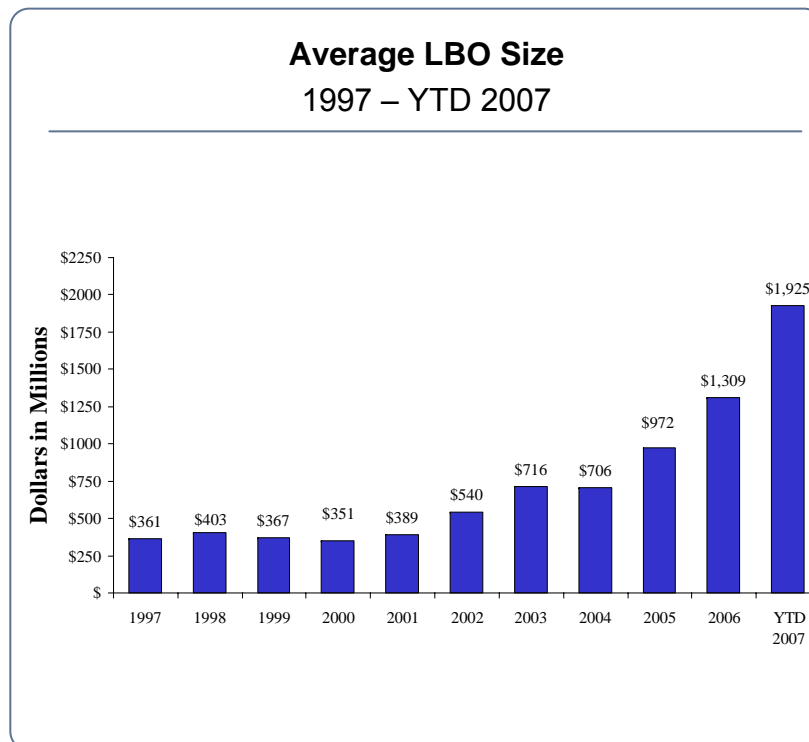
⁽¹⁾ Cerberus led group including Kimko, Schottenstein Realty, Lubert-Adler Partners & Klaff Realty. CVS acquired stand alone drug business & SuperValu acquired core food retailing.

⁽²⁾ Dates reflect announcement date. All other dates reflect closing.

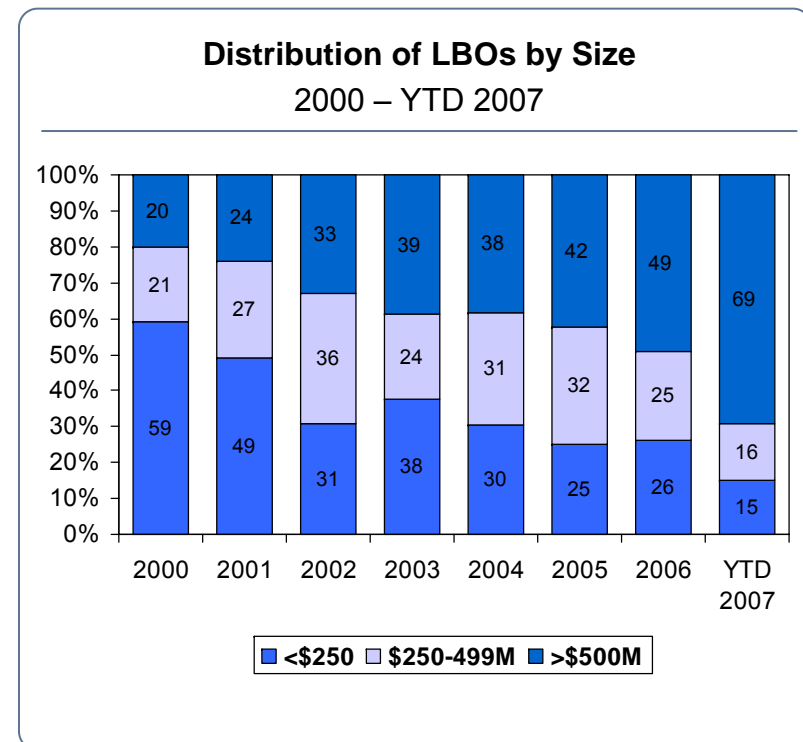
Private Equity Activity

Average Deal Size

- ❖ The average size of buyouts has grown substantially.



Source: Standard & Poor's Q2 2007 Leveraged Buyout Review.



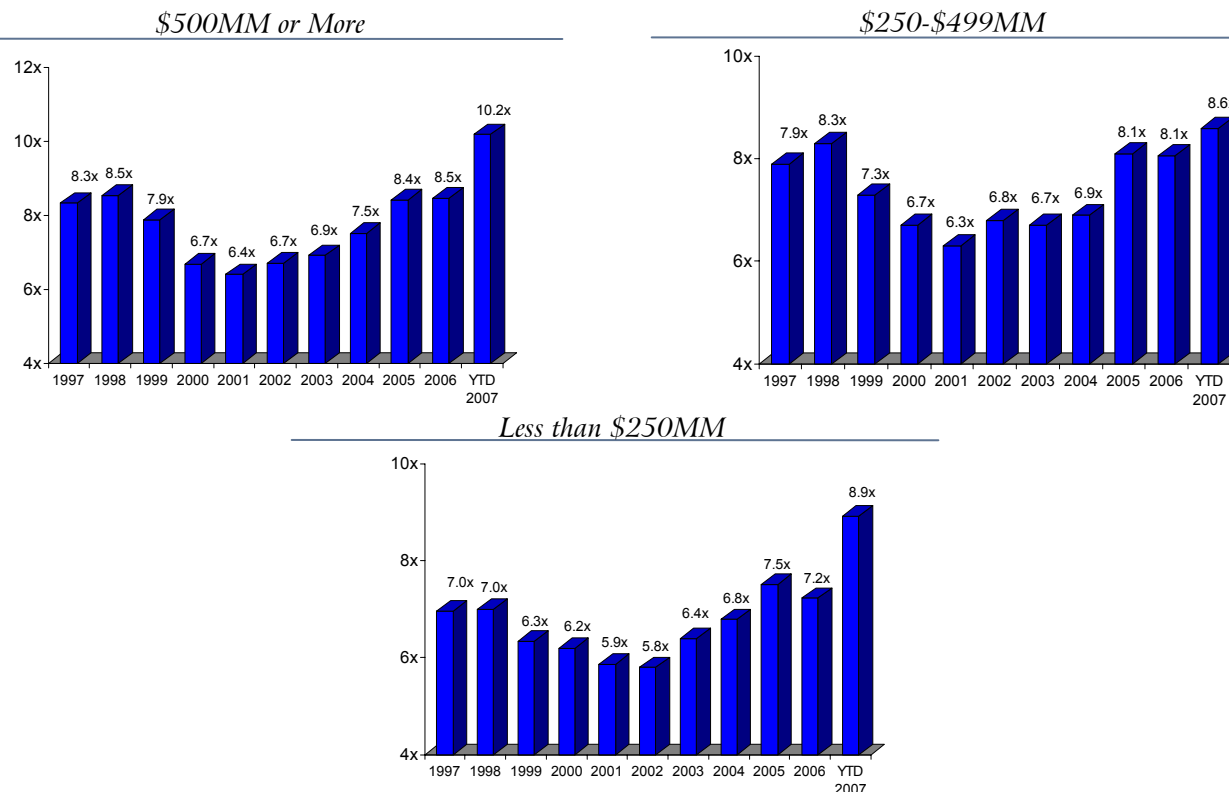
Source: Standard & Poor's Q2 2007 Leveraged Buyout Review.

Private Equity Activity

Leveraged Buyout Valuation Multiples

- ❖ Abundant private equity capital and competition from strategic buyers are driving valuation multiples.

Average Leveraged Buyout Purchase Price as a Multiple of LTM EBITDA¹

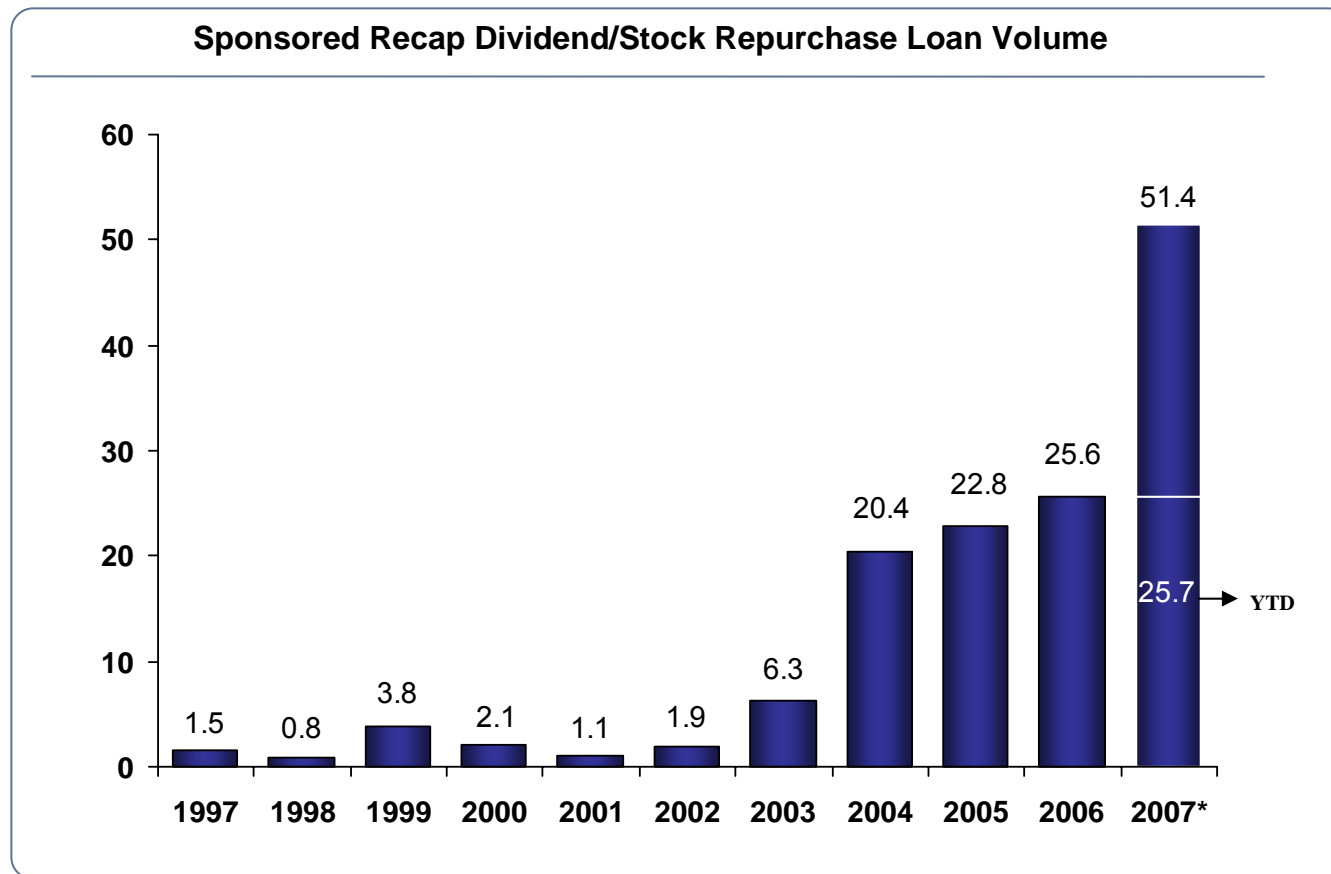


Source: Standard & Poor's.
 (1) Excludes fees/expenses.

Private Equity Activity

Leveraged Recapitalization

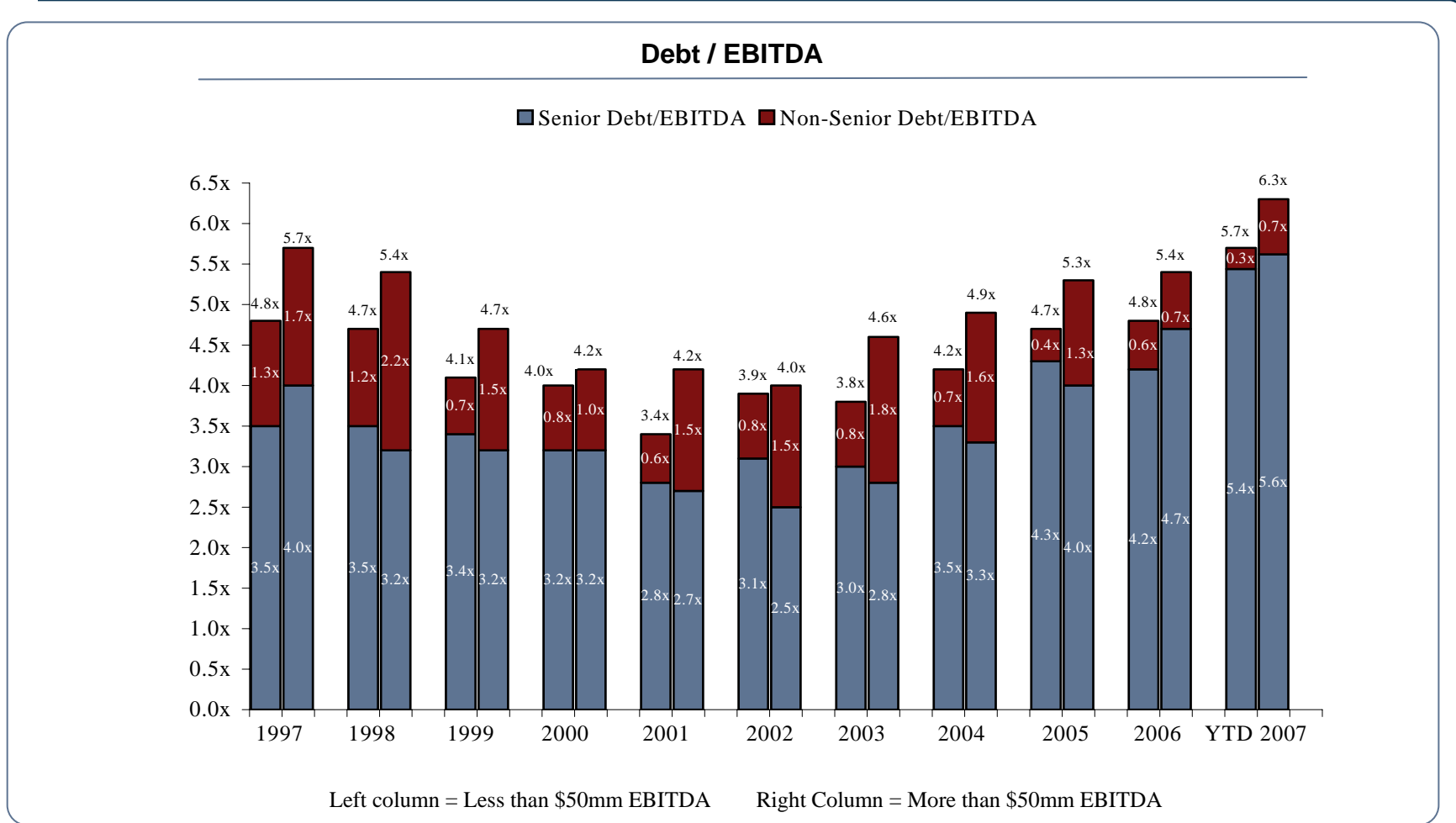
- ❖ Leveraged recapitalizations continue as an attractive alternative to a sale transaction.



Source: Standard & Poor's Q2 2007 Leveraged Buyout Review.
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Private Equity Activity

Leverage Multiples on the Rise



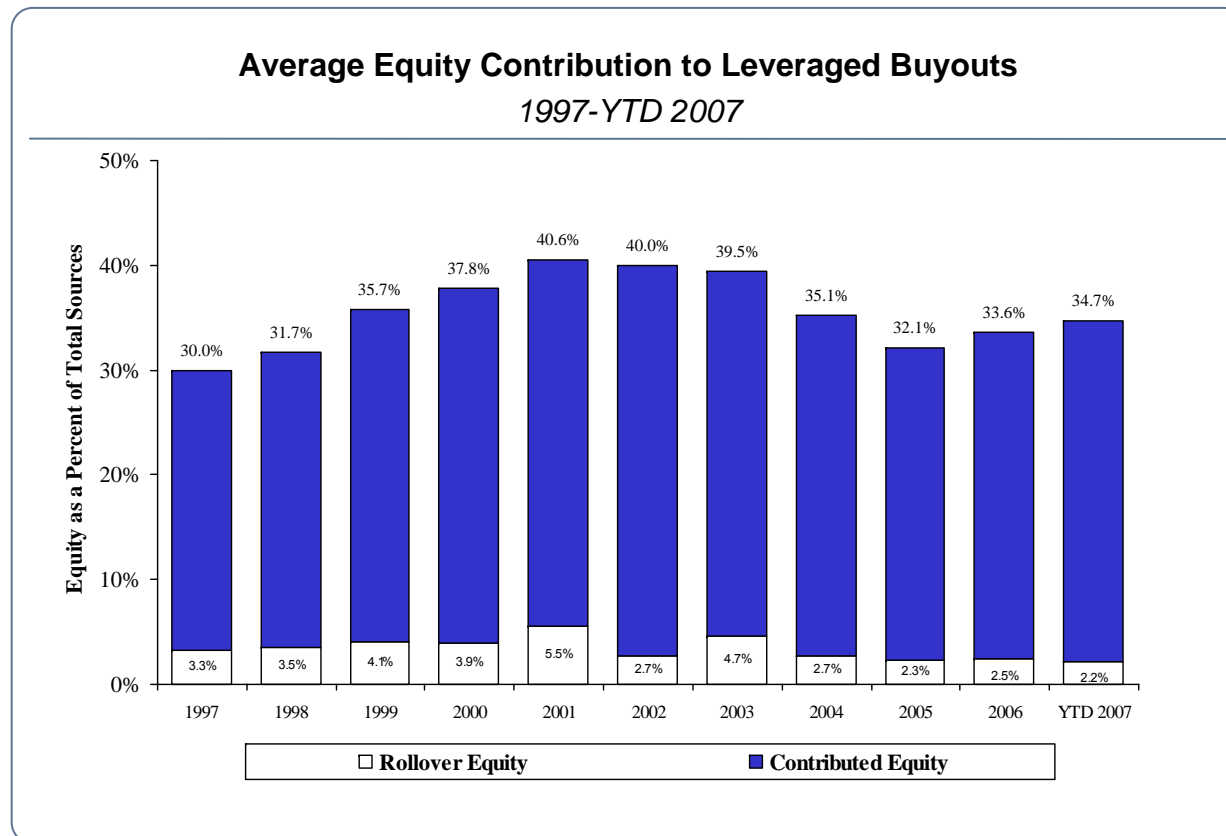
Source: S&P's LCD.

Note: Excludes telecommunications and media transactions.

Private Equity Activity

Lower Equity Contributions Enhance Returns

- ❖ Given the steady increase in available leverage, private equity firms have been able to reduce the amount of equity contributed to transactions.



Source: Standard & Poor's Q2 2007 Leveraged Buyout Review.



Private Equity Activity

Sponsor-to-Sponsor Deals

❖ Sponsor-to-Sponsor deals are becoming increasingly prominent.

In the Upper Middle Market Selected Recent Sponsor-to-Sponsor Deals ≥ \$500mm

<u>Target</u>	<u>Seller</u>	<u>Buyer</u>	<u>Size (\$mm)</u>
VWR International Inc.	Multiple Sellers	Madison Dearborn Partners, LLC	\$3,171.6
PQ Corporation	Multiple Sellers	The Carlyle Group	2179.5
Herbalife Ltd.	Golden Gate Capital	J.H. Whitney & Co., LLC	2162.6
Pinnacle Foods Group Inc.	Multiple Sellers	The Blackstone Group, Private Equity Group	2154.2
Guitar Center Inc.	Sageview Capital LLC	Bain Capital, LLC	2093.4
Advanstar Inc.	CSFB Private Equity	Multiple Buyers	1763.7
GNC Corp.	Apollo Management, L.P.	Ares Management LLC, Teachers' Private Capital	1650.2
U.S. Investigations Services, Inc.	The Carlyle Group, Welsh, Carson, Anderson & Stowe	Providence Equity Partners, Inc.	1500.0
USI Holdings Corp.	Capital Z Partners, MSD Capital, L.P.	Goldman Sachs Group, Merchant Banking Division	1410.1
Coinmach Service Corp.	GTCR Golder Rauner, LLC	Babcock & Brown Capital Limited	1370.5
Universal Hospital Services Inc.	J.W. Childs Associates, L.P., The Halifax Group	Bear Stearns Merchant Banking	1027.8
Neff Corp.	Odyssey Investment Partners, LLC	Multiple Buyers	928.6
TRANSFIRST, Inc.	Multiple Sellers	Welsh, Carson, Anderson & Stowe	683.0
RathGibson, Inc.	Castle Harlan, Inc.	DLJ Merchant Banking Partners	668.3
Symbion Inc.	Richland Ventures, South Atlantic Venture Funds	Crestview Advisors, LLC	662.6
Regency Energy Partners LP	HM Capital Partners LLC	GE Energy Financial Services	603.0
L.A. Fitness International, LLC	CIVC Partners, L.P., Seidler Equity Partners	Madison Dearborn Partners, LLC	600.0

Source: Capital IQ



Private Equity Activity

Sponsor-to-Sponsor Deals

❖ Sponsor-to-Sponsor deals are becoming increasingly prominent.

And in the Lower Middle Market Selected Recent Sponsor-to-Sponsor Deals < \$500mm

Target	Seller	Buyer	Size (\$mm)
Mattress Firm, Inc.	Sun Capital Partners, Inc.	J.W. Childs Associates, L.P.	\$450.0
Raci Holding, Inc	Multiple Sellers	Cerberus Capital Management, L.P.	370.0
Global Design Technologies LLC	Stirling Square Capital Partners LLP	Bridgepoint Capital Limited	343.0
Cambium Learning, Inc.	J.H. Whitney & Co., LLC	Veronis Suhler Stevenson, Investment Arm	325.0
Werner Holding Co. (DE), Inc.	Multiple Sellers	Multiple Buyers	270.0
Werner Holding Co. (DE), Inc.	Multiple Sellers	Multiple Buyers	262.0
Evenflo Company, Inc.	Multiple Sellers	Weston Presidio	260.0
CiCi Enterprises, L.P.	Levine Leichtman Capital Partners, Inc.	ONCAP	250.0
Eurazeo S.A., 28 Private Equity Funds	Eurazeo	AIG Global Investment Group, Inc.	214.0
AmerCable, Inc.	Industrial Growth Partners	Quintana Capital Group	212.0
Beverages & More, Inc.	Multiple Sellers	TowerBrook Capital Partners, L.P.	205.0
Alere Medical, Inc.	MTS Health Investors, LLC	TA Associates, Inc.	175.0
Alliance Imaging Inc.	Kohlberg Kravis Roberts & Co.	Multiple Buyers	153.1
Manhattan Beach Studios	Oaktree Capital Management, LLC	The Carlyle Group	150.0
Crosman Corporation	Multiple Sellers	Wachovia Capital Partners	143.0
Quovadx Inc.	Multiple Sellers	Battery Ventures	139.4
National Veterinary Associates, Inc.	Willis Stein & Partners, L.L.C.	Summit Partners	128.0
TwinMed, LLC	Bison Capital Asset Management, LLC	TA Associates, Inc.	102.5
Mace Security International Inc.	Multiple Sellers	Kelly Capital	60.2
AVP Inc.	Multiple Sellers	Shamrock Holdings, Inc.	24.4
O'Curran Teleservices, Inc.	Wasatch Venture Fund	Riverlake Partners, LLC	24.1
Pacific Title & Art Studio, Inc.	Safeguard Scientifics, Inc.	Celerity Partners, Ticonderoga Capital Inc.	23.0

Source: Capital IQ

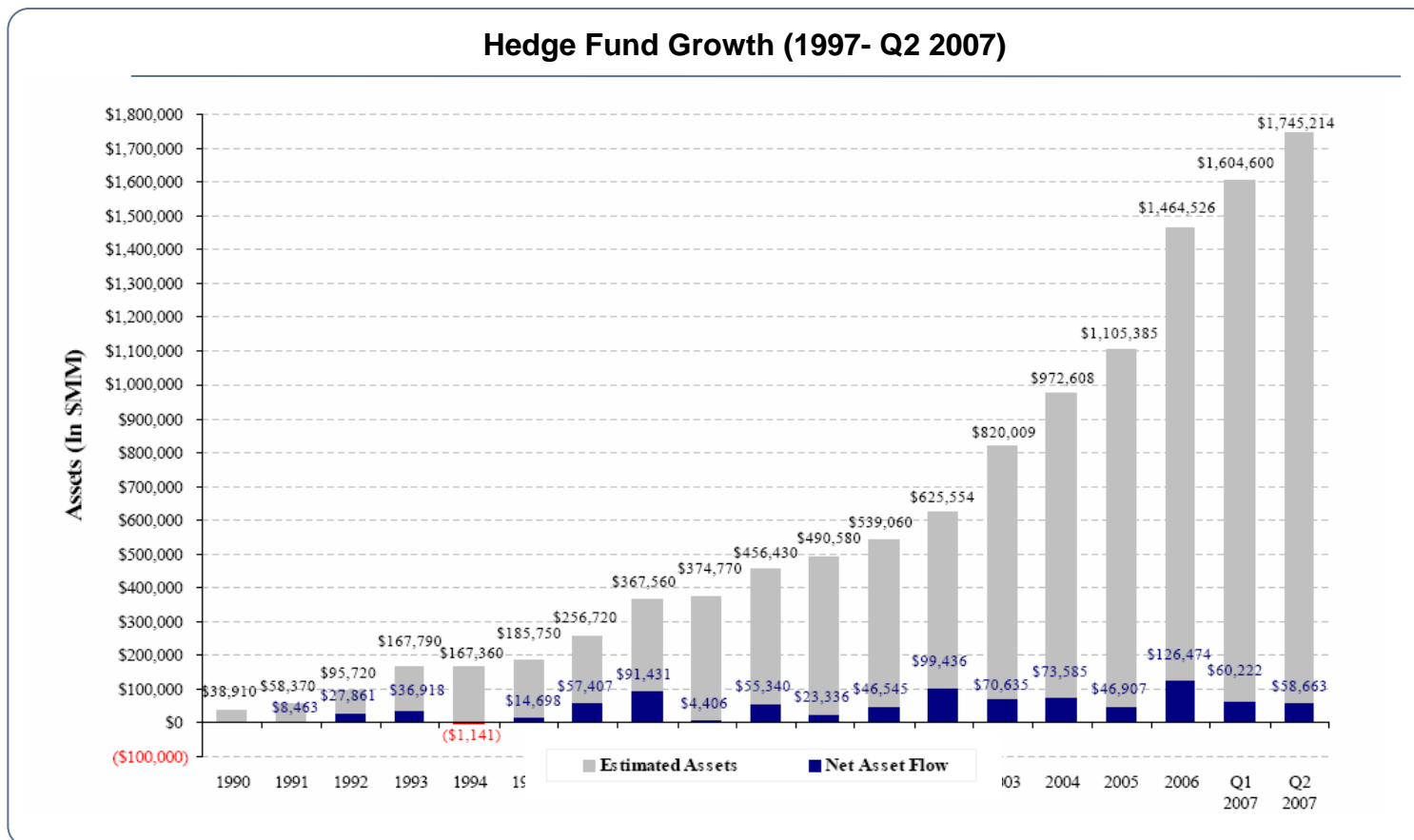


Hedge Fund Activity

Hedge Fund Activity

Hedge Fund Growth

- ❖ Hedge fund growth has been unrelenting over the past decade. Assets now exceed \$1.7 trillion.



Source: HFRI.

Hedge Fund Activity

Hedge Fund / Private Equity Convergence

- ❖ Hedge funds have become increasingly active players in the buyout market.

Select Hedge Funds Active in Control Equity Market

<u>Fund</u>	<u>Size (\$BB)</u>
Angelo Gordon	11.5
Citadel	11.0
Cerberus	9.3
Soros	8.0
Fortress	5.0

Source: HLHZ.

Select Hedge Funds Active in Financing Others' Buyouts

<u>Fund</u>	<u>Size (\$BB)</u>
Angelo Gordon	11.5
Goldman Sachs Asset Management	11.2
Citadel	11.0
Cerberus	9.3
Soros	8.0
Highbridge	7.4
Canyon Partners	7.0
Amaranth Advisors	6.7

Source: HLHZ.



Hedge Fund Activity

Hedge Fund Activism

- ❖ Activist hedge funds are increasingly advocating for corporate actions including:
 - ◆ Significant share buybacks or an extraordinary dividend.
 - ◆ Sale or spin-off of an underperforming or non-strategic business.
 - ◆ Corporate governance changes including change in management and Board seats.
 - ◆ Sale of target company to them or the highest bidder.
- ❖ Factors attracting hedge funds include:
 - ◆ Large cash balances.
 - ◆ Actual or perceived inefficient use of capital.
 - ◆ Undervaluation (absolute, relative to comparables/indices).
 - ◆ Board and/or management weakness.



Hedge Fund Activity

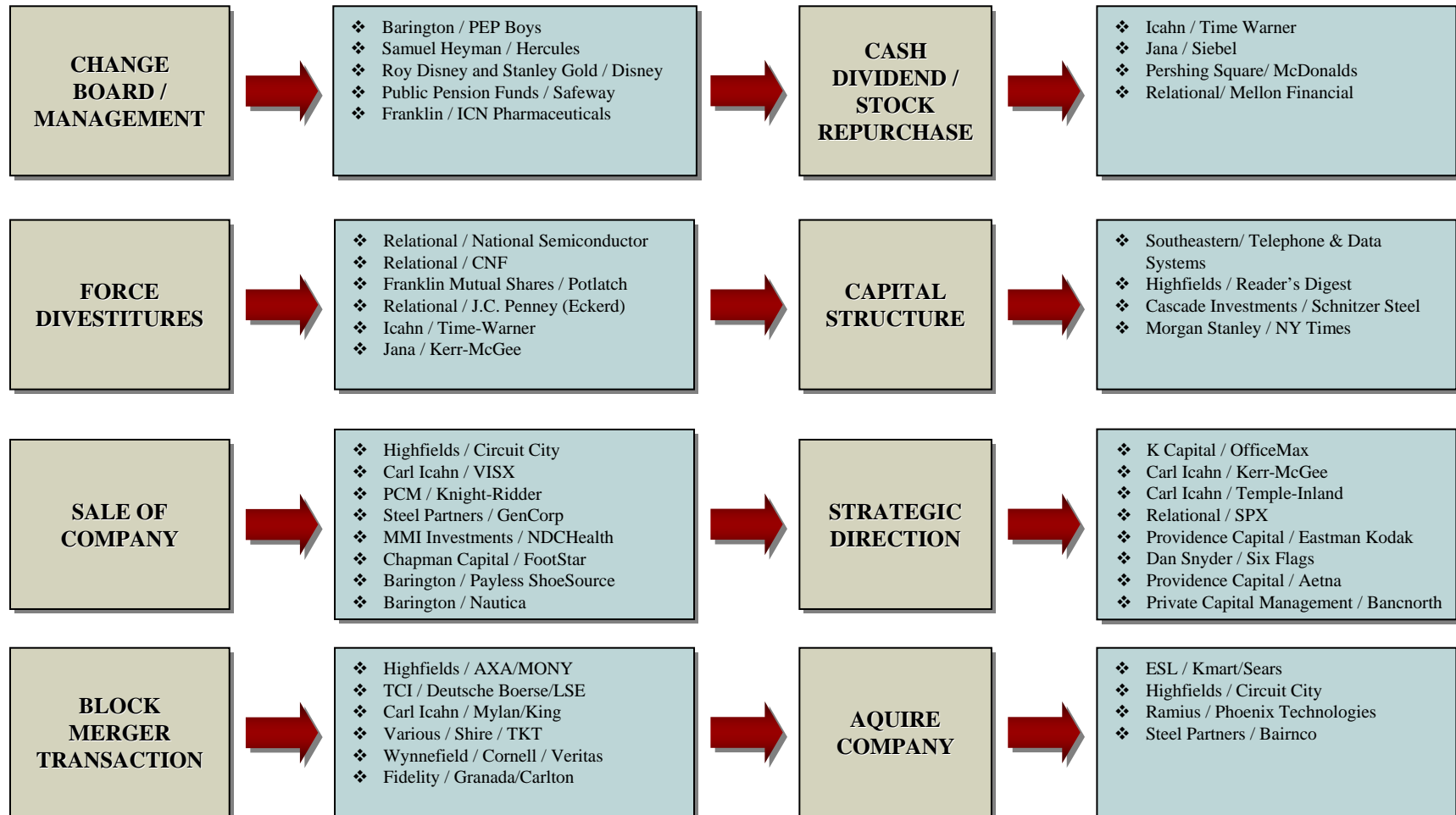
Hedge Fund Activism (continued)

- ❖ Common features of Shareholder Activism
 - ◆ Acquisition of significant “toehold” positions, quickly and with stealth.
 - ◆ Use of derivatives and hedging to minimize economic exposure and increased leverage.
 - ◆ Sophisticated understanding of target’s strengths and vulnerabilities.
 - ◆ Parallel investing by unrelated funds.
 - ◆ Challenges to announced transactions.
 - ◆ Attempts to influence press, research analyst, ISS and other proxy voting organizations.
 - ◆ Willingness to pursue aggressive tactics.
 - ◆ Acquisition of entire company is often not ultimate goal.



Hedge Fund Activity

Activism to Force Change





Leveraged Loan Market Update



Leveraged Loan Market Update

Market Commentary

Q2'07

- ❖ Through Q2'07, new issuance in the US Leverage Loan market grew year over year 52%, to \$403B
- ❖ 60% of loans, \$239B, were “mega” deals (>\$1B)
- ❖ Volatility increasing due to aggressive structures: Covenant Lite, PIK Toggle, and High Leverage
- ❖ Firm Commitments, (“No Outs”), required for many large cap deals in 2006, now common for all deals
- ❖ Private equity firms took \$112B of public companies private in the first half of 2007 compared to \$36B for same period in 2006 and \$128B for full year 2006

Since Q2'07

- ❖ Institutional investors remain on the sidelines waiting for the bottom
- ❖ Only 8 CLO vehicles for \$3.5B were priced in July compared to a total of 114 for \$62.3B year to date
- ❖ 27 institutional loans (20 in last 2 weeks) totaling \$34.8B have been delayed or cancelled since June
- ❖ Leverage levels are showing pullback with covenant requirements strengthening
- ❖ Spreads have risen 50-75 bps across the entire leveraged loan market since early July and there is no firm consensus where deals will clear



Leveraged Loan Market Update

Leveraged Finance Universe, By Debt Type

Leveraged Finance New-Issue Volume

	YTD 2006	% of Market	YTD 2007	% of Market	YoY Change
First-lien institutional	\$178.7B	67%	\$278.8B	69%	56%
Second-lien institutional	\$15.6B	6%	\$27.5B	7%	77%
Sub-Total Bank Debt	\$194.3B	73%	\$306.4B	76%	56%
Senior secured bonds	\$7.7B	3%	\$11.1B	3%	45%
Senior unsecured bonds	\$52.9B	20%	\$76.2B	19%	44%
Subordinated bonds	\$10.4B	4%	\$10.0B	2%	-4%
Sub-Total Bonds	\$71.0B	27%	\$97.3B	24%	37%
Total	\$265.2B		\$403.7B		52%

Source: Standard & Poor's, a division of The McGraw-Hill Companies, Inc.



Leveraged Loan Market Update

Key Contributing Factors

- ❖ Credit concerns about the Sub Prime mortgages
 - ◆ There is an overall focus on credit in both prime and sub prime mortgages. Many investors participate in both mortgage-related and corporate market loans.

- ❖ Fatigue with aggressive transaction structures
 - ◆ Including PIK/Toggle, Covenant-Lite, very High Leverage and Dividend Recaps

- ❖ Stricter terms from warehouse providers
 - ◆ CLOs cannot get financing for new vehicles and face increased scrutiny on existing transactions. Banks that fund CLO warehouses are burdened by hung deals
 - *CLOs represent up to 70% of money supply in the institutional market and were the fastest growing source of capital in the last 3 years*
 - CLOs creation in July slowed significantly and is expected to decline significantly in 2H 07



Leveraged Loan Market Update

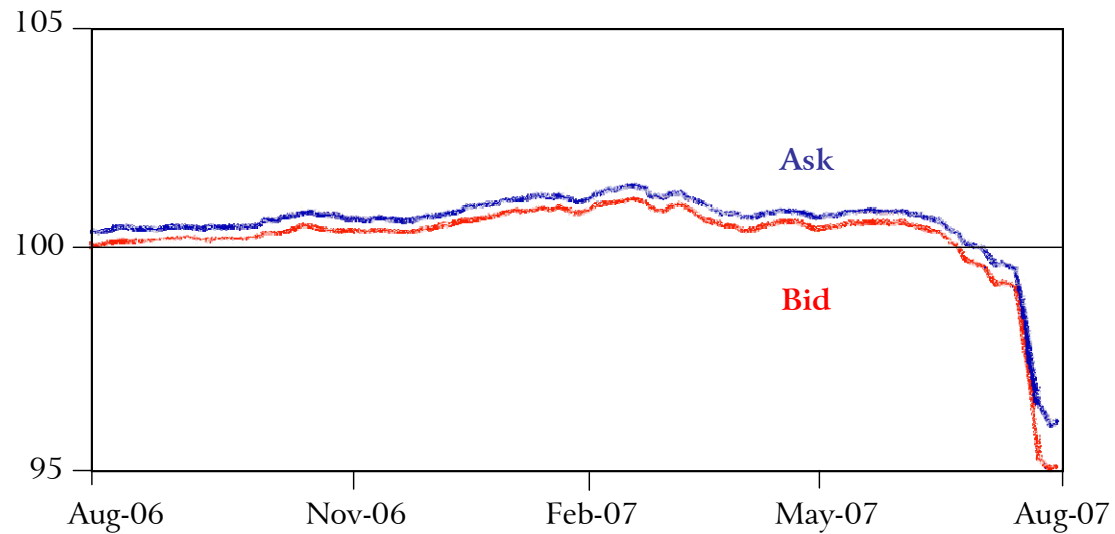
Leveraged Loan Market Experiencing Significant Correction

- ❖ Issuer demand is at record levels
 - ◆ \$250 billion now in pipeline compared with \$70 billion last year; pipeline represents nearly 25% of leveraged loans outstanding
- ❖ Supply has been unable to keep pace and is now contracting
 - ◆ Many investors sitting on sidelines due to sustained price drops; secondary market bids for first lien debt fell to 95.6 on August 3rd down from 99.8 at June 30th
 - ◆ A significant portion of the new issuance is funding for Acquisition Related underwritings; as such delay will do little to reduce the overhang
- ❖ Currently does not indicate a turn in the credit cycle
 - ◆ Defaults now low at < 1%, compared with a historical peak of ~ 7% in 2001 – 2002
- ❖ Market is in Price Discovery Mode
 - ◆ Higher issuance cost (loan spreads, upfronts, OID and call protection)
 - ◆ More conservative structures
 - ◆ Of 29 deals flexed during July 2007, 27 were flexed upwards

Technical issues putting pressure on loan market

Leveraged Loan Market Update

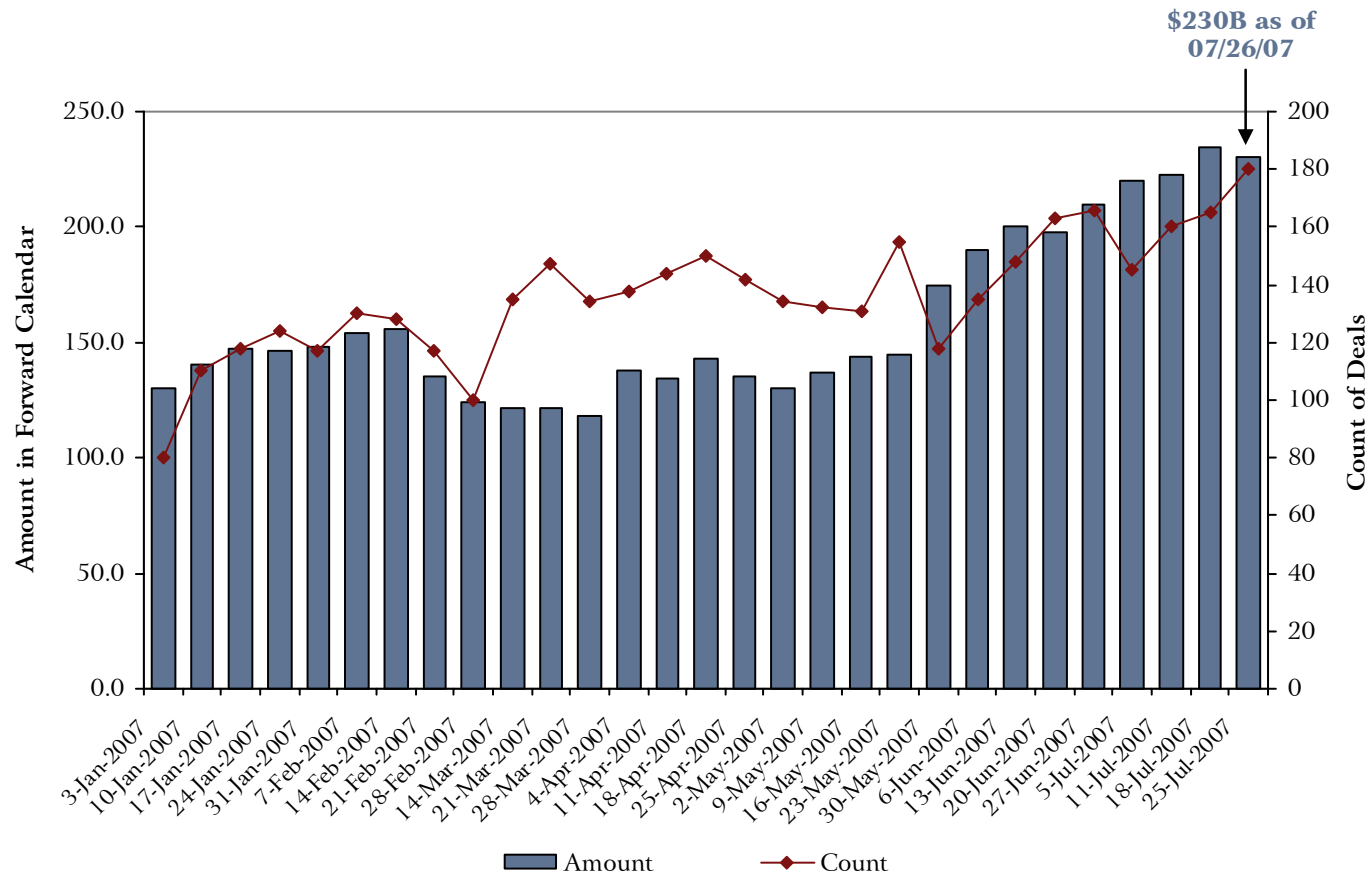
Average Institutional Flow Name Loan Bid



Source: Standard & Poor's LCD

Leveraged Loan Market Update

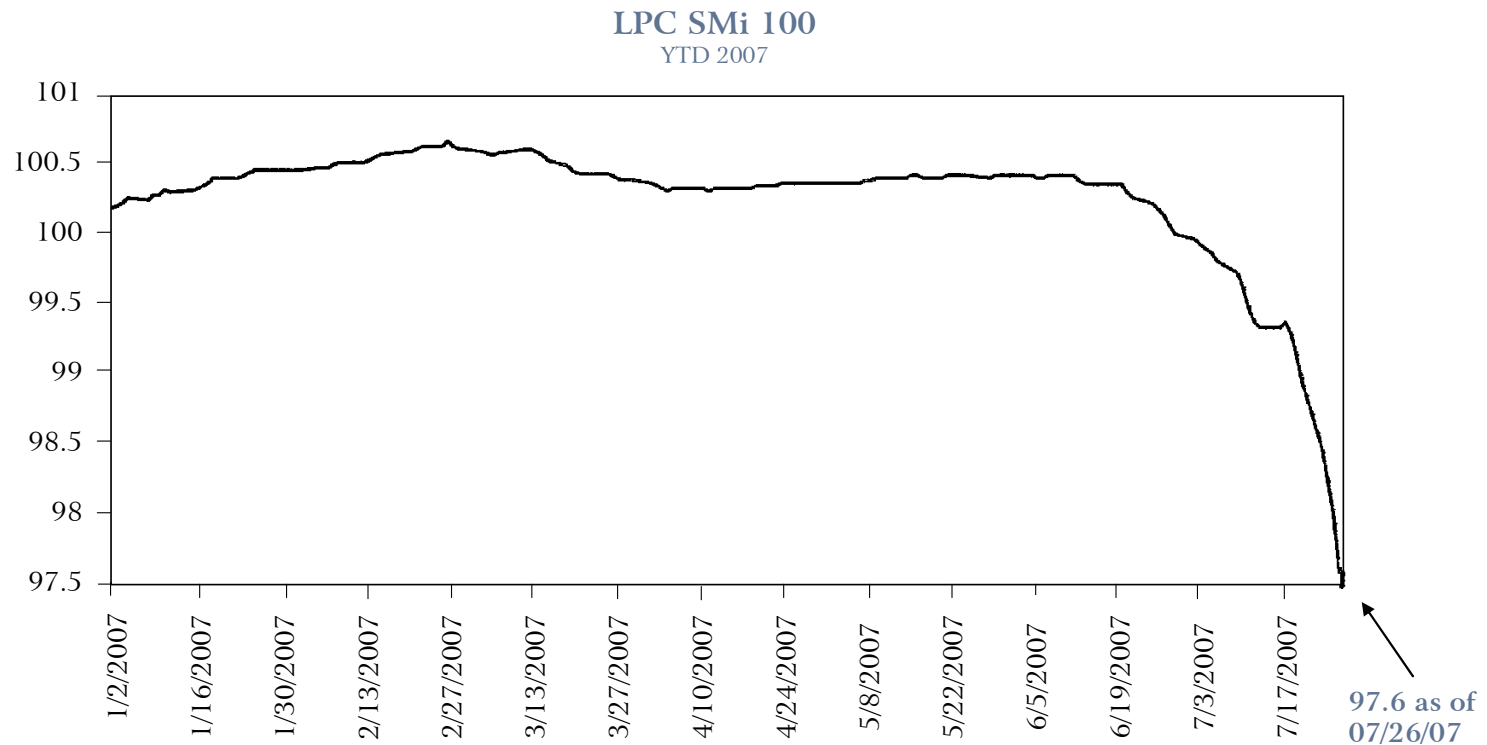
US Loan Forward Calendar



Source: S&P LCD

Leveraged Loan Market Update

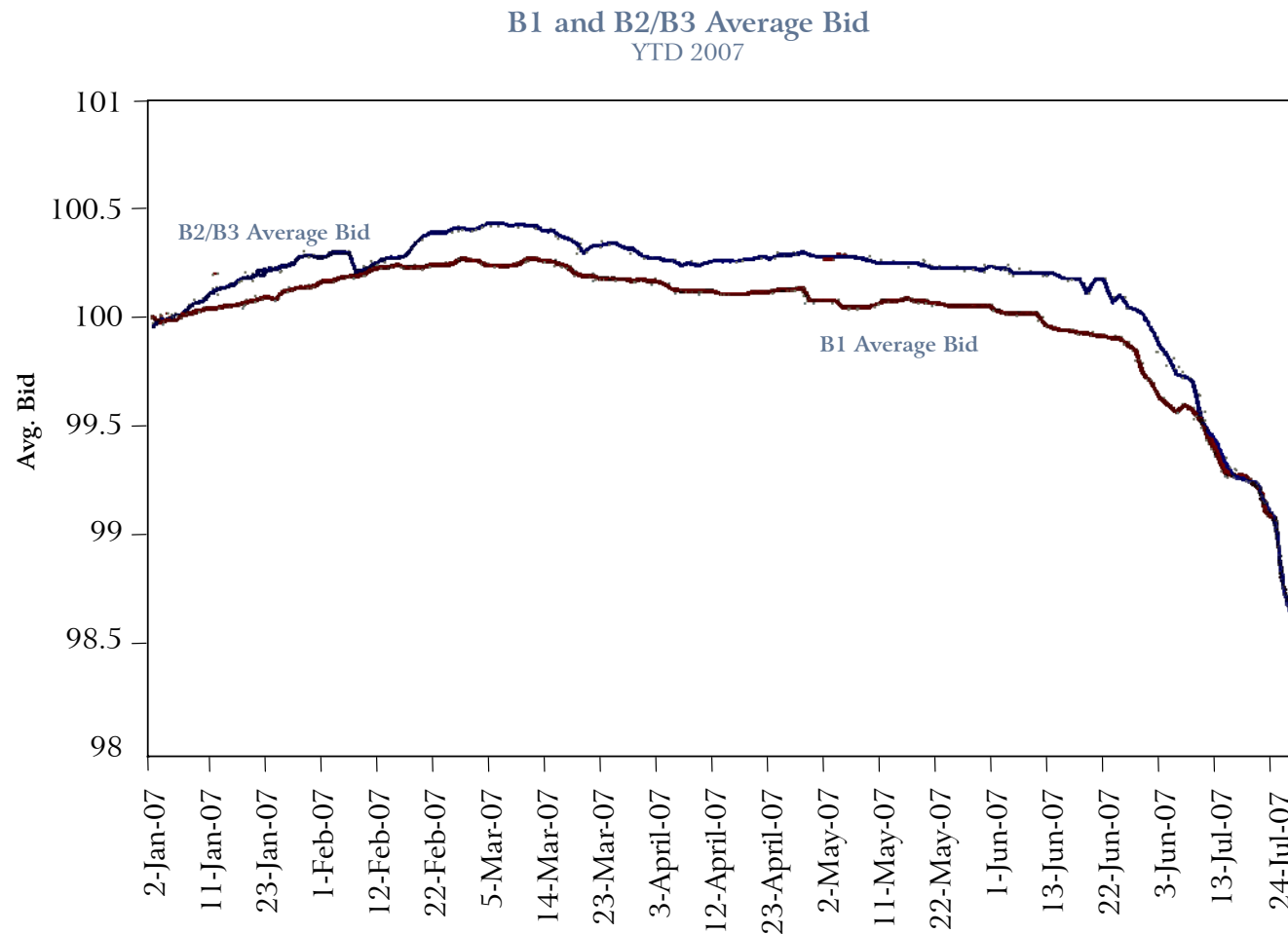
Pricing on 100 Most Widely Held Loans: Drops Significantly in July



Source: Reuters LPC

Leveraged Loan Market Update

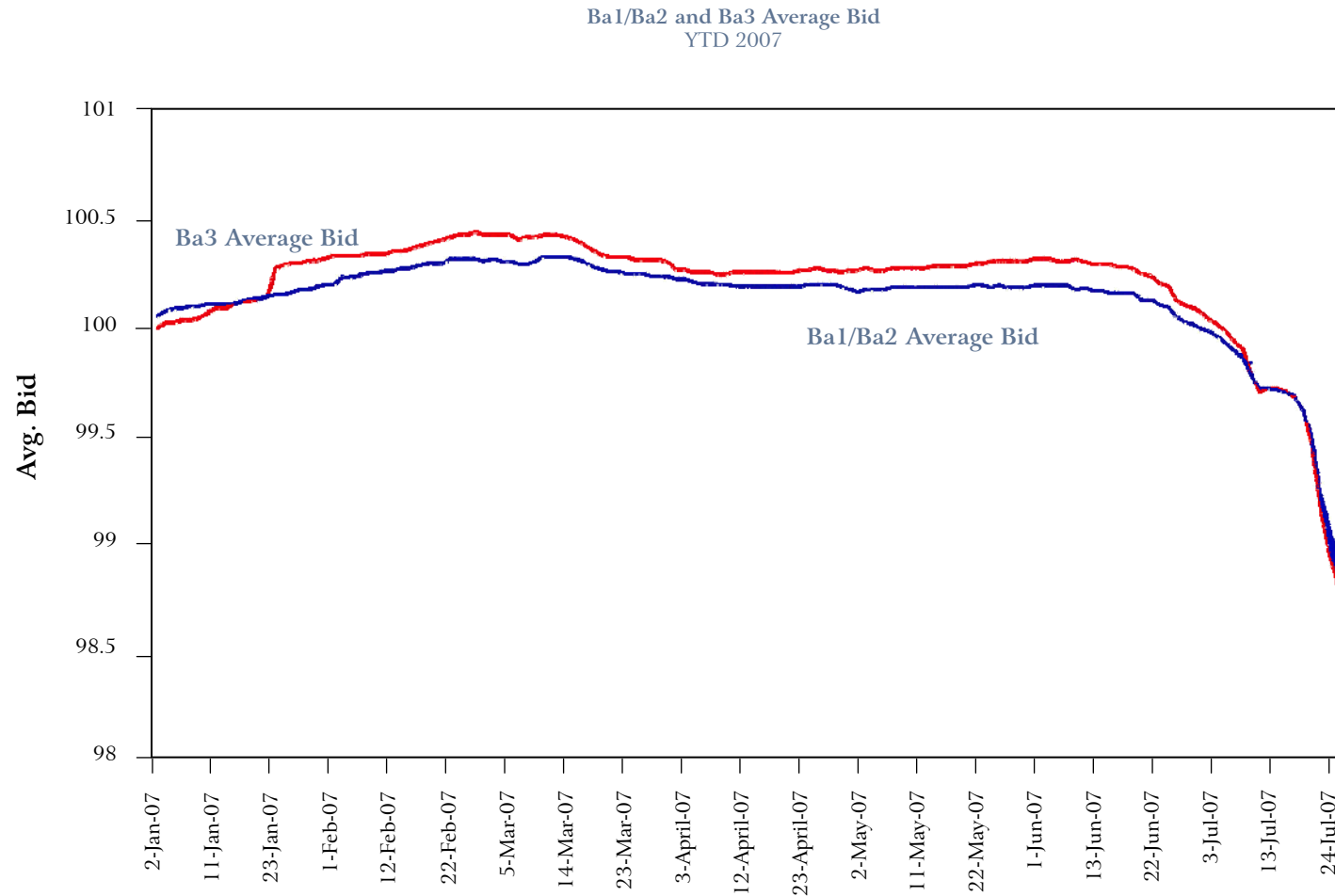
Pricing on B Grade Loans: Leads Market Decline



Source: Reuters LPC

Leveraged Loan Market Update

Pricing on BA Grade Loans: Follows Decline in B Rated Deals



Source: Reuters LPC



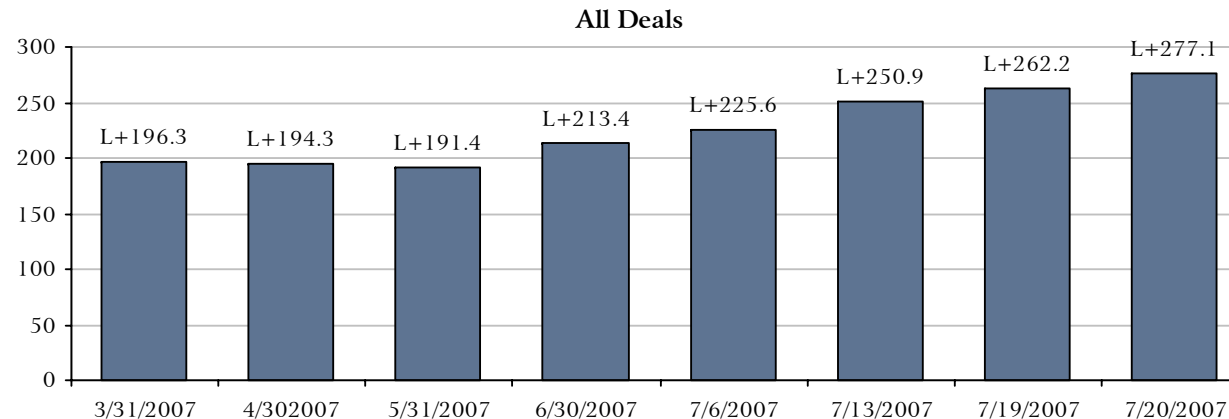
Leveraged Loan Market Update

Transaction Structures Have Tightened

- ❖ Investors are now rejecting aggressive structures
 - ◆ Covenant Lite – most deals launched as Covenant-Lite are adding one or more maintenance covenants
 - ◆ PIK/Toggle (Service Master, Dollar General)
 - ◆ Very Highly Leveraged transaction (Service Master, US Food Service, and Thomson Learning)
 - ◆ Dividend Recaps less achievable
 - ◆ Financing Contingencies may be returning to LBO bids
- ❖ Credit quality, free cash flow and relative value drives successful syndication:
 - ◆ The credit story must be solid / defensible
 - ◆ Price and enterprise value will not overcome credit concerns
- ❖ Caps on flex are now broader for underwriters in terms of spreads, OID, call protection and retransching of facilities

Leveraged Loan Market Update

The Resulting Impact on Pricing has been Dramatic



- ❖ **Loan Spreads** have risen significantly:
 - ◆ BB/BB+: L+225-275 – formerly L+150-200
 - ◆ B+: L+275-350 bps – formerly L+200-250
 - ◆ B: L+350-400 bps – formerly L+250-300
- ❖ **Upfront Fees (OID) and Call Protection** has been added to entice reluctant investors

Chrysler Financial (B/B1 corp)

\$4B first lien TL at **L+400 and 95 OID**, up from original talk of L+275 (effective yield of L+5.67%)

\$2B 2nd lien priced at **L+650 with 98.5 OID**, up from original talk of L+500 (effective yield of L+8.17%)

First Lien call protection upped to 102, 101 from original 101; Second lien at 103, 102, 101



Leveraged Loan Market Update

Changes in the Broader Leveraged Market Have Also Affected the Middle Market

- ❖ The excesses of the Large Cap Leveraged Market were not widespread in the Middle Market nor on ABL transactions
- ❖ Middle Market Transactions are not as reliant on CLOs for funding
- ❖ As a result, the pullback has not been as dramatic
- ❖ Well priced and structured transactions should sell
- ❖ Non-rated paper less well received than rated paper
- ❖ But investors are beginning to selectively push back on structure and pricing
 - ◆ Loan spreads are increasing, unrated loans require in excess of LIBOR + 3%
 - ◆ ABL lenders will favor funded R/Cs
 - ◆ Senior leverage may decline further, but the junior capital market (second lien, mezzanine) is expected to provide the liquidity to moderate the decline in total leverage



Leveraged Loan Market Update

Near Term Prospects

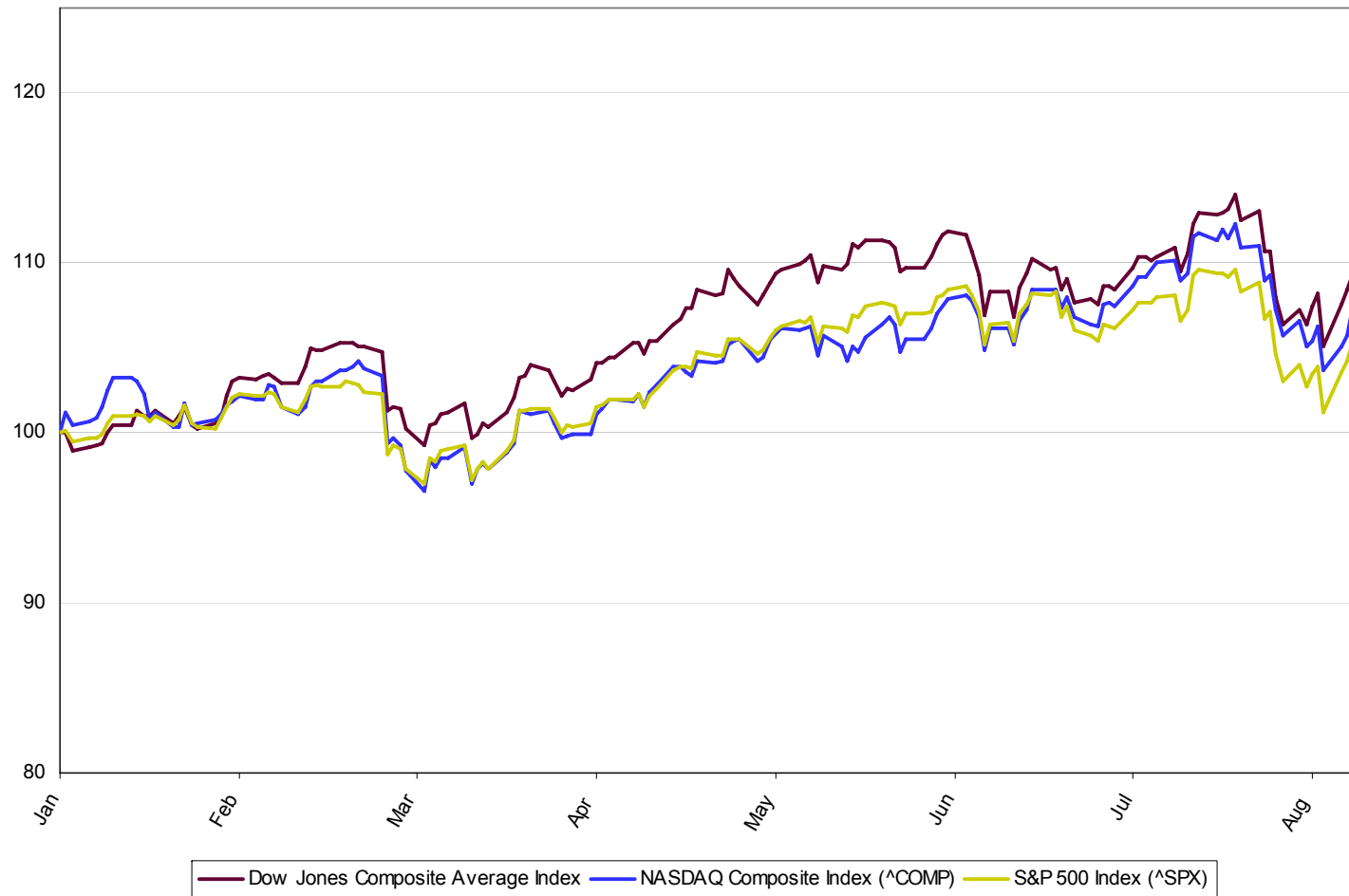
- ❖ Expect the market to remain volatile with pricing increasing, leverage decreasing and more junior capital being required to support transactions
- ❖ Large mega-deals (in excess of \$10 billion) likely to hold indefinitely due to market conditions, in particular reluctance on the part of large underwriters to significantly support transactions given level of “hung” deals
- ❖ Purchase price multiples likely to fall given higher cost of debt and reduced leverage
- ❖ Stability will return once the forward market overhang has been absorbed through (i) delay or cancellation of deals; (ii) repricings; (iii) rebound in supply; (iv) utilization of other markets (e.g. Europe). Many analysts do not believe this will occur before the end of 2007 or early 2008. Regardless, it is not expected that the market will rebound to the frothy conditions seen during the first half of 2007.
- ❖ Middle market transactions not requiring institutional support should be impacted less than larger deals albeit expect the following changes:
 - ◆ Level of club transactions will increase significantly
 - ◆ Flex language in underwritings will be broader and include structure and pricing flex
 - ◆ Leverage levels will decrease and there will be more junior capital support required
 - ◆ Pricing will likely return to historical levels – LIBOR + 4% for senior debt and LIBOR + 7% for second lien
 - ◆ Dividend recaps will become less attractive to lenders and considerably more difficult in the absence of an equity sponsor



Public Equity and Venture Capital Financing

Public Equity and Venture Capital Financing

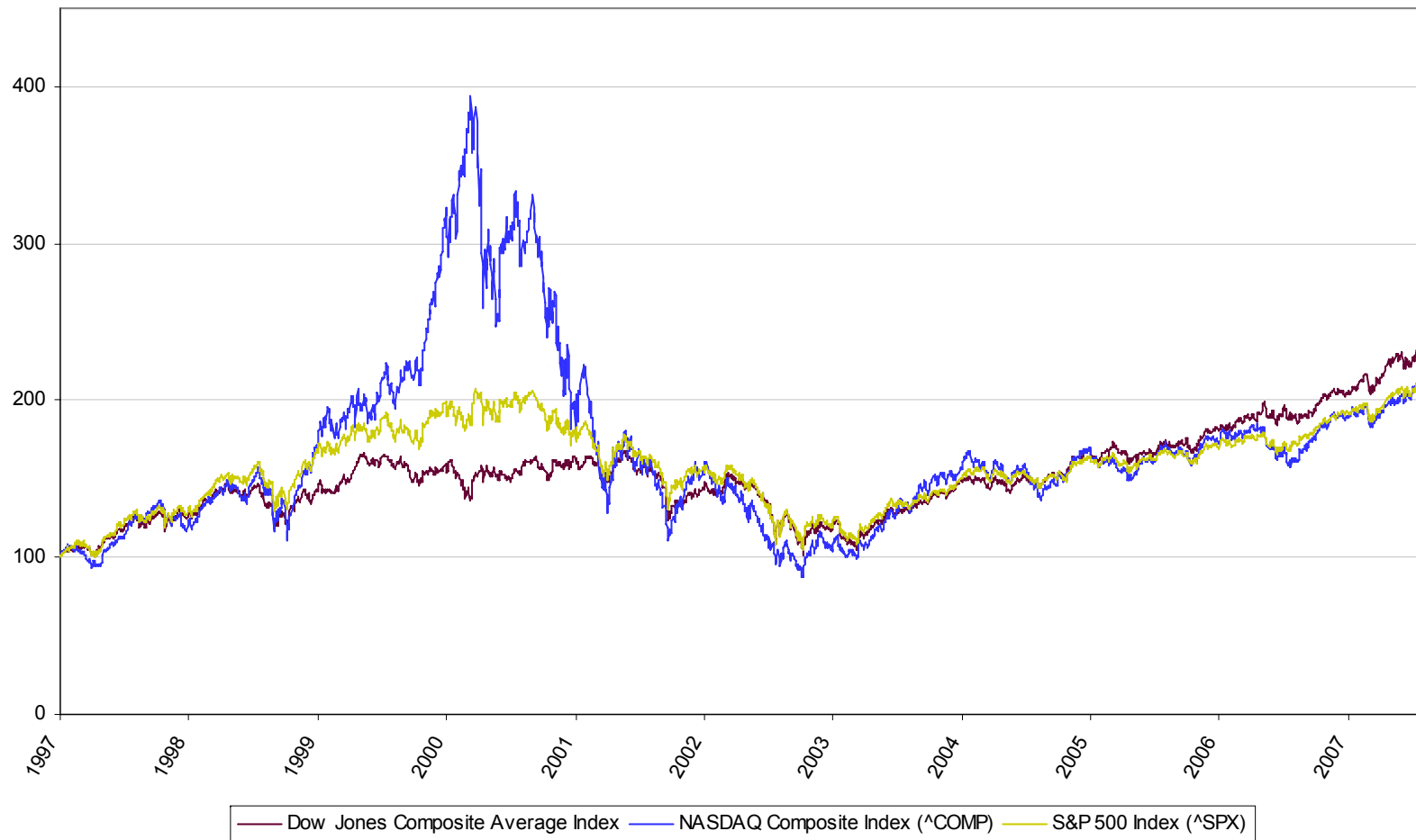
Market Indices Relative Performance (%) Year-To-Date



Source: Capital IQ

Public Equity and Venture Capital Financing

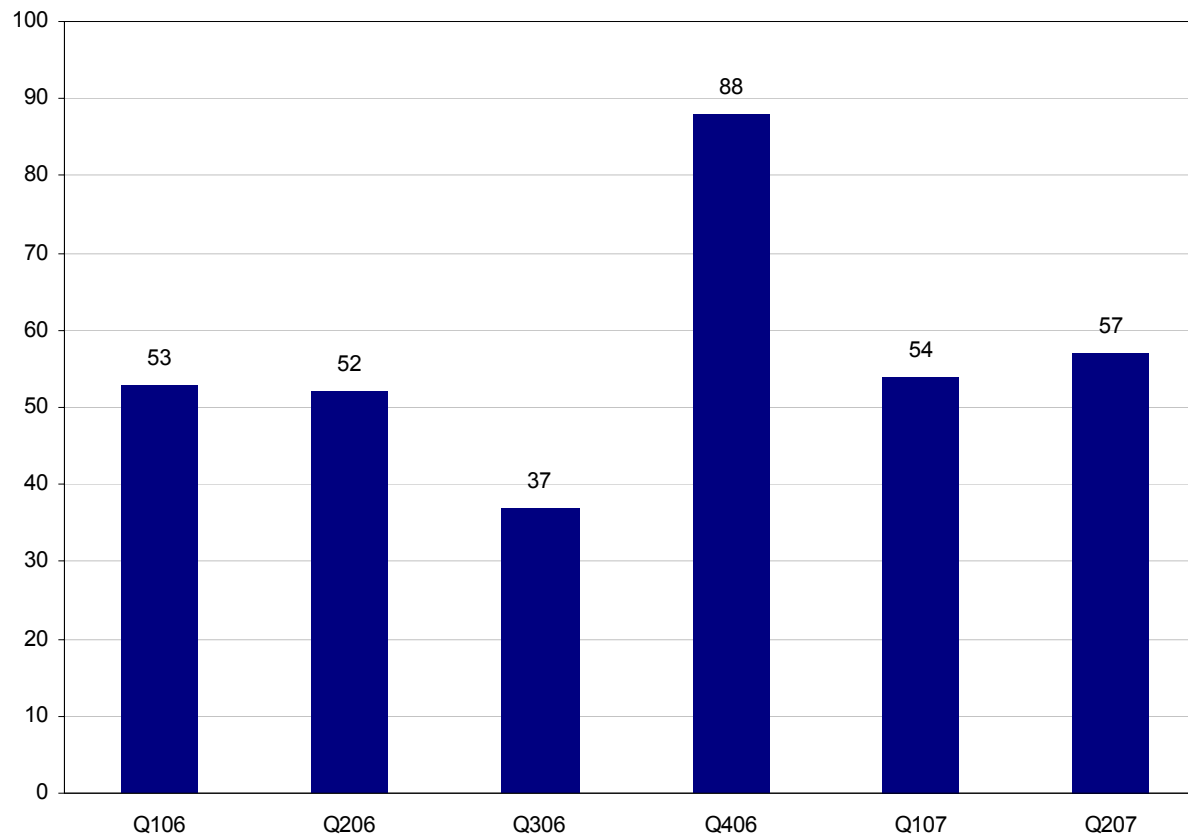
Market Indices Relative Performance (%) (1997 – Current)



Source: Capital IQ

Public Equity and Venture Capital Financing

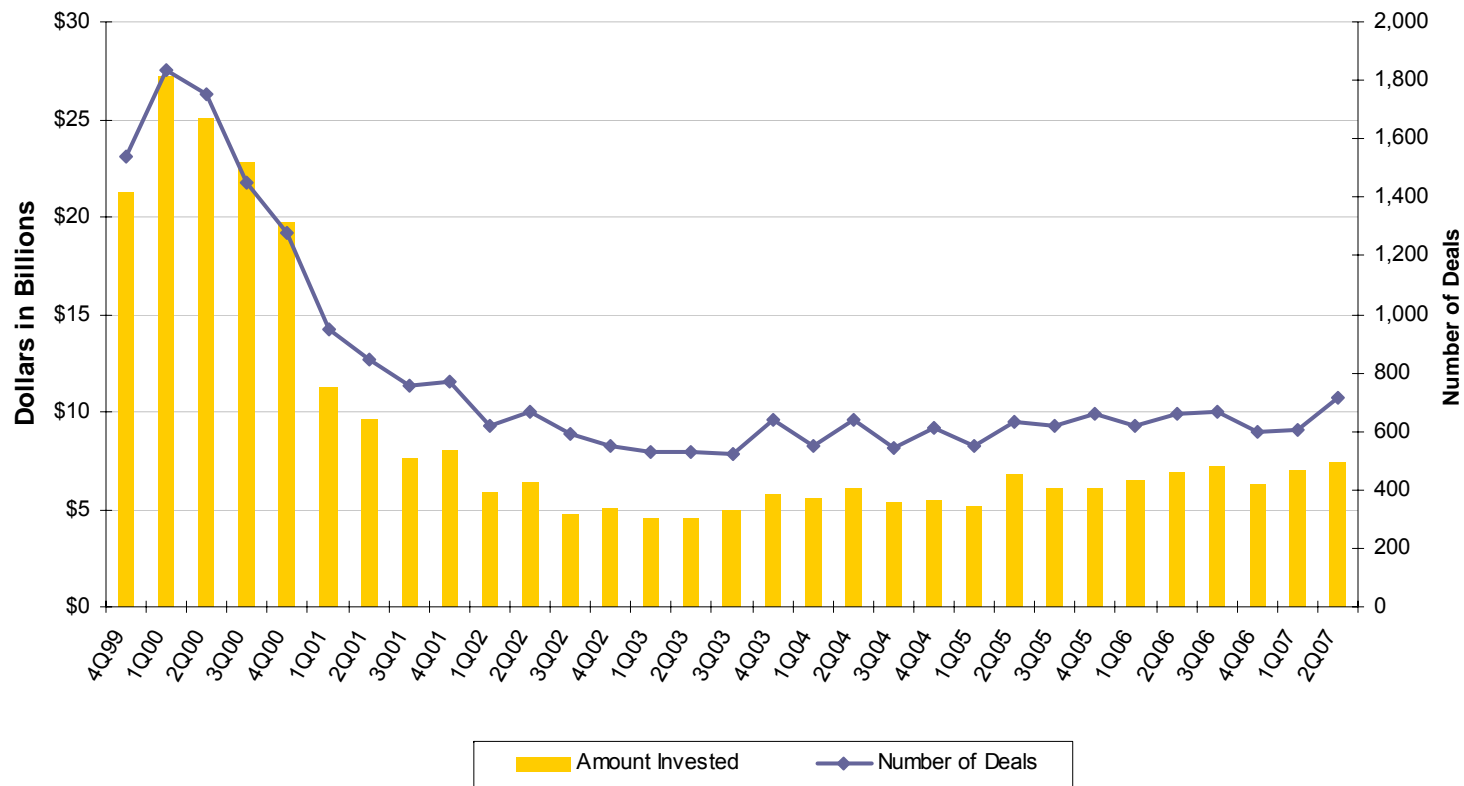
IPOs Effective: Q106 – Q207



Source: Capital IQ

Public Equity and Venture Capital Financing

Venture Capital Investments



Source: Capital IQ