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# Watermark Windows

Summer 2011

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# Recently Closed Southeast U.S. Merger & Acquisition Transactions (March '11 – June '11)

| Closed    | Seller (Division/Target)                      | Target City      | Buyer                              | Buyer City    | Target Business Description:   | Enterprise Value \$(MM) | EV/ EBITDA | EV/ Sales |
|-----------|---|------------------|------------------------------------|---------------|--|-------------------------|------------|-----------|
| 22-Mar-11 | Teradyne, Inc.                                | North Reading    | SPX Corp.                          | Charlotte     | Creates original equipment manufacturer testing products                 | 38.8                    |            |           |
| 22-Mar-11 | Teleflex, Inc.                                | Limerick         | H.I.G. Capital Management, Inc.    | Miami         | Manufactures aftermarket steering and control products                   | 121.7                   |            |           |
| 28-Mar-11 | BornFree Holdings Ltd.                        | Boca Raton       | Summer Infant, Inc.                | Woonsocket    | Manufactures and markets baby feeding systems                            | 37.8                    |            | 2.4x      |
| 1-Apr-11  | Western Coal Corp.                            | Vancouver        | Walter Energy, Inc.                | Tampa         | Produces metallurgical coal from mines                                   | 2928.3                  | 12.8x      | 4.4x      |
| 1-Apr-11  | Exervio Management Consulting, Inc.           | Charlotte        | Perficient, Inc.                   | St. Louis     | Provides management consulting services                                  | 13.6                    |            | 2.0x      |
| 1-Apr-11  | Amper SA                                      | Madrid           | eLandia International, Inc.        | Coral Gables  | Provides internet services   | 74.0                    |            |           |
| 1-Apr-11  | One Communications Corp.                      | Burlington       | EarthLink, Inc.                    | Atlanta       | Provides telecommunication services                                      | 329.9                   |            | 0.4x      |
| 1-Apr-11  | CompuCredit Holdings Corp.                    | Atlanta          | Dollar Financial Corp.             | Berwyn        | Provides online payday loans   | 198.4                   |            |           |
| 1-Apr-11  | H.I.G. Capital Management (Allegient Systems) | Miami            | Bottomline Technologies, Inc.      | Portsmouth    | Provides software and related services                                   | 48.0                    |            |           |
| 4-Apr-11  | Ascent Aviation Group, Inc.                   | New York         | World Fuel Services Corp.          | Miami         | Distributes aviation fuel and deicing fluids                             | 42.4                    |            |           |
| 4-Apr-11  | All Children's Hospital, Inc.                 | St. Petersburg   | Johns Hopkins Medicine             | Baltimore     | Provides health care services  | 240.0                   |            | 6.2x      |
| 4-Apr-11  | Carefx Corp.                                  | Scottsdale       | Harris Corp.                       | Melbourne     | Provides information technology solutions for healthcare providers       | 155.0                   |            | 7.4x      |
| 4-Apr-11  | SpectraSite Communications, Inc.              | Cary             | Exchange Income Corp.              | Winnipeg      | Designs and builds communication towers                                  | 81.2                    |            | 0.4x      |
| 5-Apr-11  | Schlumberger Ltd. (GCS Business)              | Houston          | Harris Corp.                       | Melbourne     | Develops software solutions and provides information management services | 397.5                   |            |           |
| 8-Apr-11  | Duke Energy Corp. (KGEN Murray I & II LLC)    | Charlotte        | Oglethorpe Power Corp.             | Tucker        | Operates cycle generating facilities                                     | 531.3                   |            |           |
| 11-Apr-11 | Terremark Worldwide, Inc.                     | Miami            | Verizon Communications, Inc.       | New York      | Provides information technology infrastructure services                  | 1795.9                  | 23.5x      | 5.3x      |
| 11-Apr-11 | Rising Phoenix Co.                            | Highland Heights | Primo Water Corp.                  | Winston-Salem | Manufactures and retails beverage dispensers                             | 12.2                    |            |           |
| 12-Apr-11 | NeoSpine LLC                                  | Nashville        | Alliance HealthCare Services, Inc. | Newport Beach | Operates hospitals and surgery centers                                   | 54.0                    |            |           |
| 15-Apr-11 | CDC Brasil SA                                 | Tamboré          | ScanSource, Inc.                   | Greenville    | Distributes AIDC and point-of-sale products                              | 66.6                    |            | 0.4x      |
| 15-Apr-11 | Oxford Rise                                   | Glenmoore        | Preferred Apartment Communities    | Atlanta       | Operates a multifamily apartment community                               | 30.1                    |            |           |
| 15-Apr-11 | GoldToeMoretz LLC                             | Newton           | Gildan Activewear, Inc.            | Montreal      | Provides branded athletic, casual and dress socks                        | 350.0                   | 8.7x       | 1.3x      |
| 19-Apr-11 | Intcomex, Inc.                                | Miami            | Brightpoint, Inc.                  | Indianapolis  | Distributes computer and information technology components               | 38.0                    | 1.2x       | 0.0x      |
| 21-Apr-11 | Oxford Summit LLC                             | Cumming          | Preferred Apartment Communities    | Atlanta       | Provides real estate services  | 33.2                    |            |           |
| 26-Apr-11 | Fabcor TargetCo Ltd.                          | Clairmont        | MasTec, Inc.                       | Coral Gables  | Provides pipeline and facility construction services                     | 31.4                    |            |           |
| 27-Apr-11 | Bloodhound, Inc.                              | Durham           | Verisk Analytics, Inc.             | Jersey City   | Provides claims editing and business analytics services                  | 82.0                    |            |           |
| 29-Apr-11 | Sierra Pacific Packaging, Inc.                | Oroville         | Graphic Packaging Holding Co.      | Marietta      | Manufactures carton containers   | 53.5                    |            |           |
| 2-May-11  | Cascades, Inc.                                | Kingsey Falls    | The Reynolds Group, Inc.           | Atlanta       | Produces paper and packaging products                                    | 400.0                   |            |           |
| 2-May-11  | AirTran Holdings, Inc.                        | Orlando          | Southwest Airlines Co.             | Dallas        | Provides air passenger and freight services                              | 1591.8                  | 7.8x       | 0.6x      |
| 3-May-11  | DTS America, Inc.                             | East Dundee      | Transcend Services, Inc.           | Atlanta       | Provides medical transcription services                                  | 12.1                    |            | 1.0x      |
| 3-May-11  | EC Source Services LLC                        | Mesa             | MasTec, Inc.                       | Coral Gables  | Provides electrical work services  | 180.7                   |            |           |
| 3-May-11  | Multiplan Acquisition Holdings (EquiClaim)    | Dallas           | Emdeon, Inc.                       | Nashville     | Provides healthcare audit and recovery services                          | 41.0                    |            |           |
| 4-May-11  | NovaMed, Inc.                                 | Chicago          | Surgery Partners Holdings LLC      | Tampa         | Owens and operates ambulatory surgery centers                            | 206.3                   | 4.9x       | 1.4x      |
| 5-May-11  | MedCath Corp. (Medcath Partners)              | Charlotte        | LifePoint Hospitals, Inc.          | Durham        | Provides cardiac catheterization services                                | 25.0                    |            |           |

Source: Mergerstat, June 2011



# Recently Closed Southeast U.S. Merger & Acquisition Transactions Continued (March '11 – June '11)

| Closed    | Seller (Division/Target)                        | Target City       | Buyer                                  | Buyer City    | Target Business Description:   | Enterprise Value \$(MM) | EV/ EBITDA | EV/ Sales |
|-----------|---|-------------------|--|---------------|--|-------------------------|------------|-----------|
| 6-May-11  | MedCath Corp. (Coastal Carolina Heart)          | Charlotte         | New Hanover Regional Medical Center    | Wilmington    | Provides cardiovascular catheterization and laboratory management services | 54.3                    |            |           |
| 6-May-11  | Muzak Holdings LLC                              | Fort Mill         | Mood Media Corp.                       | Toronto       | Provides business music programming services                               | 345.0                   |            | 0.9x      |
| 9-May-11  | River Associates Investments (Coining, Inc.)    | Chattanooga       | AMETEK, Inc.                           | Paoli         | Manufactures solder and brazing preforms                                   | 148.0                   |            |           |
| 10-May-11 | Owens Holdings (Kirk Key Interlock)             | Dallas            | Halma PLC                              | Amersham      | Manufactures key interlock systems   | 14.7                    |            | 1.8x      |
| 10-May-11 | Premex Group Ltd.                               | Bolton            | ExamWorks Group, Inc.                  | Atlanta       | Provides medical data services   | 107.9                   |            | 1.2x      |
| 11-May-11 | Gulf & Ohio Railways, Inc.                      | Knoxville         | Fortress Investment Group LLC          | New York      | Operates railroads   | 12.7                    |            |           |
| 12-May-11 | Microtecnica SRL                                | Turin             | Goodrich Corp.                         | Charlotte     | Designs, manufactures and markets flight-critical aerospace components     | 466.8                   |            |           |
| 16-May-11 | Rowland Coffee Roasters, Inc.                   | Miami             | The J. M. Smucker Co.                  | Orrville      | Produces and distributes coffee products                                   | 360.0                   |            | 3.3x      |
| 16-May-11 | Technology Research Corp.                       | Clearwater        | Coleman Cable, Inc.                    | Waukegan      | Designs, manufactures and markets electrical safety products               | 39.2                    | 15.1x      | 1.1x      |
| 17-May-11 | CardioGenesis Corp.                             | Irvine            | CryoLife, Inc.                         | Kennesaw      | Designs, develops and distributes surgical and fiber optic lasers          | 19.6                    | -19.6x     | 1.7x      |
| 18-May-11 | Eola Capital (Merger)                           | Orlando           | Parkway Properties, Inc.               | Jackson       | Provides real estate services  | 462.0                   |            |           |
| 25-May-11 | Tasty Baking Co.                                | Philadelphia      | Flowers Foods, Inc.                    | Thomasville   | Manufactures single portion snack foods                                    | 147.7                   | -47.9x     | 0.5x      |
| 27-May-11 | Smurfit-Stone Container Corp. (Merger)          | Chicago           | Rock-Tenn Co.                          | Norcross      | Manufactures paper and paper-based   | 4158.9                  | 7.5x       | 0.7x      |
| 31-May-11 | Integrated Freight (Bruenger Trucking)          | Sarasota          | Roadrunner Transportation Systems      | Cudahy        | Provides freight trucking services   | 13.6                    |            |           |
| 31-May-11 | Blyth, Inc.                                     | Greenwich         | MVP Group International, Inc.          | Charleston    | Wholesales seasonal and home decorations                                   | 35.6                    |            |           |
| 31-May-11 | L.P. Shanks Co.                                 | Crossville        | AMCON Distributing Co.                 | Omaha         | Wholesales grocery supplies to retailers                                   | 16.4                    |            |           |
| 1-Jun-11  | Atlanta Spirit LLC                              | Atlanta           | True North Sports & Entertainment Ltd. | Winnipeg      | Operate sports clubs   | 170.0                   |            | 2.9x      |
| 1-Jun-11  | Bank of America Corp. (Balboa Insurance)        | Charlotte         | QBE Insurance Group Ltd.               | Sydney        | Provides insurance services  | 700.0                   |            | 0.8x      |
| 1-Jun-11  | First Financial Holdings, Inc. (South Carolina) | Charleston        | Maple Tree Acquisition Corp.           | New York      | Operates as an insurance brokerage   | 38.0                    |            |           |
| 1-Jun-11  | Talecris Biotherapeutics Holdings Corp.         | Research Triangle | Grifols SA                             | Barcelona     | Develops and markets plasma-derived protein therapy products               | 4156.0                  | 8.9x       | 2.7x      |
| 2-Jun-11  | Black Diamond Performance Reporting LLC         | Jacksonville      | Advent Software, Inc.                  | San Francisco | Provides web-based, outsourced portfolio                                   | 73.0                    |            |           |
| 3-Jun-11  | America Service Group, Inc.                     | Brentwood         | Valitas Health Services, Inc.          | St. Louis     | Provides health care services to inmates of                                | 202.2                   | 8.9x       | 0.3x      |
| 6-Jun-11  | Northern Digital, Inc.                          | Waterloo          | Roper Industries, Inc.                 | Sarasota      | Manufactures measuring equipment for medical and industrial applications   | 204.0                   |            |           |
| 6-Jun-11  | MACTEC, Inc.                                    | Alpharetta        | AMEC PLC                               | Knutsford     | Provides engineering, environmental and remedial construction services     | 280.0                   |            |           |
| 8-Jun-11  | Lloyds Banking Group (Hill Hire)                | London            | Ryder System, Inc.                     | Miami         | Provides trucks and trailers on rental basis                               | 247.2                   |            | 0.4x      |
| 10-Jun-11 | TradeStation Group, Inc.                        | Plantation        | Monex Group, Inc.                      | Tokyo         | Online broker-dealer   | 335.4                   |            | 3.1x      |
| 13-Jun-11 | APR Energy LLC                                  | Jacksonville      | Horizon Acquisition Co. PLC            | London        | Manufactures power generator equipments                                    | 850.0                   |            | 6.8x      |
| 14-Jun-11 | Cornell Dubilier Foil LLC                       | Liberty           | KEMET Corp.                            | Simpsonville  | Manufactures metallic capacitors   | 15.0                    |            |           |
| 16-Jun-11 | Equitrac Corp.                                  | Plantation        | Nuance Communications, Inc.            | Burlington    | Provides intelligent print management and cost recovery solutions          | 157.0                   |            |           |
| 16-Jun-11 | Halsted Communications Ltd.                     | New York          | MasTec, Inc.                           | Coral Gables  | Provides installation services   | 14.6                    |            |           |
| 17-Jun-11 | Masisa do Brasil Ltda.                          | Curitiba          | Louisiana-Pacific Corp.                | Nashville     | Manufactures wood panels and fittings                                      | 96.6                    |            |           |

Source: Mergerstat, June 2011



## Insights Into Capital Markets Today Vs. 6 Months Ago

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A recent survey conducted this summer by Pepperdine University sheds light on the health of the capital markets. The surveys, found on pages 5-9, are collective views of 284 investment bankers, 53 mezzanine debt specialists, 72 commercial banking specialists, 166 private equity specialists, and 104 venture capital specialists. Here are the highlights:

- **Investment Banking:** A majority are optimistic about deal flow and business sales transactions for the next 12 months. In the face of what is described as more favorable conditions, investment bankers do expect a tightening of due diligence efforts. Approximately one quarter of the respondents did not close any deals in the past six months, 68% closed five deals or fewer, and 5% closed between six and ten deals. Looking forward, 72% of respondents expect to close five or fewer deals in the next 12 months. This number is up from the only 20% of respondents in that range from Fall 2010. Only 3% of investment bankers surveyed do not expect to close any deals in the next 12 months.
- **Mezzanine debt:** 53% of deals over the past 6 months were in the \$5 million to \$10 million range and 35% are in the \$1 million to \$5 million range or \$10-\$25 million ranges. Over 26% plan on investing in business services over the next 12 months, followed by 25.2% in manufacturing. This is a slight increase in investment in these two sectors compared to the Fall 2010 survey.
- **Commercial Banking:** Over 51% of respondents believe that general business conditions will improve over the next 12 months and over 82% said demand for loans will increase.
- **Private Equity:** Nearly 57% of respondents said that demand for business investment is up from six months ago, which is down from 70% of respondents indicating increased demand in Fall 2010. Other industry indicators such as investment standards, appetite for risk, and the quality of companies seeking investment have increased slightly as compared to six months ago.
- **Venture Capital:** 67% say that they expect general business confidence to increase over the next 12 months. This is good news for startup firms and small businesses with long-term growth potential, especially for those in the Information Technology industry as 22% of respondents said that they plan to invest in IT over the next 12 months. A strong management team is particularly important to VCs as 97.4% of respondents said that the interview with the management team is a very important deal characteristic.



## Investment Banking Today Vs. 6 Months Ago Based on Responses of 284 Investment Bankers

|  | Decreased significantly | Decreased slightly | Stayed about the same | Increased slightly | Increased significantly |
|--|-------------------------|--------------------|-----------------------|--------------------|-------------------------|
| Deal flow  | 2%                      | 4%                 | 18%                   | 39%                | 37%                     |
| Private business sales                             | 4%                      | 6%                 | 31%                   | 40%                | 19%                     |
| Private business sales by auction process          | 6%                      | 12%                | 45%                   | 27%                | 10%                     |
| Ratio of businesses sold/total listings            | 5%                      | 10%                | 49%                   | 28%                | 8%                      |
| Senior leverage multiples                          | 2%                      | 10%                | 35%                   | 49%                | 4%                      |
| Total leverage multiples                           | 3%                      | 8%                 | 34%                   | 51%                | 3%                      |
| Deal multiples                                     | 4%                      | 6%                 | 34%                   | 53%                | 3%                      |
| Business exit opportunities                        | 3%                      | 7%                 | 26%                   | 52%                | 11%                     |
| Amount of time to sell business                    | 1%                      | 21%                | 51%                   | 17%                | 10%                     |
| Difficulty selling business                        | 2%                      | 28%                | 47%                   | 14%                | 9%                      |
| Business opportunities for growth                  | 1%                      | 5%                 | 26%                   | 61%                | 7%                      |
| Business access to growth capital                  | 3%                      | 9%                 | 38%                   | 44%                | 7%                      |
| Businesses probability of failure                  | 5%                      | 36%                | 39%                   | 17%                | 3%                      |
| General business confidence                        | 3%                      | 5%                 | 19%                   | 64%                | 9%                      |
| General business conditions                        | 1%                      | 9%                 | 14%                   | 72%                | 5%                      |
| Strategic buyers making deals                      | 1%                      | 2%                 | 28%                   | 58%                | 11%                     |
| Margin pressure on companies                       | 1%                      | 14%                | 46%                   | 31%                | 8%                      |
| Presence of foreign capital seeking deals          | 1%                      | 5%                 | 52%                   | 35%                | 8%                      |
| Buyers focusing on later stage companies           | 0%                      | 1%                 | 50%                   | 39%                | 10%                     |
| Financial buyers interest in minority transactions | 1%                      | 7%                 | 53%                   | 30%                | 9%                      |
| Efforts on due diligence by buyers                 | 0%                      | 1%                 | 48%                   | 36%                | 16%                     |
| Efforts on due diligence by banks                  | 0%                      | 1%                 | 53%                   | 30%                | 16%                     |

Source: Private Capital Markets Project - Summer 2011, Pepperdine University



## Mezzanine Financing Today Vs. 6 Months Ago Based on Responses of 53 Mezzanine Debt Specialists

|  | Decreased significantly | Decreased slightly | Stayed about the same | Increased slightly | Increased significantly |
|--|-------------------------|--------------------|-----------------------|--------------------|-------------------------|
| Demand for business investment                                   | 5%                      | 9%                 | 18%                   | 50%                | 18%                     |
| General investment standards                                     | 0%                      | 18%                | 50%                   | 32%                | 0%                      |
| Credit quality of borrowers seeking investment                   | 0%                      | 14%                | 32%                   | 50%                | 5%                      |
| Average investment size  | 0%                      | 0%                 | 68%                   | 27%                | 5%                      |
| Appetite for risk  | 0%                      | 0%                 | 50%                   | 50%                | 0%                      |
| Average investment maturity                                      | 0%                      | 0%                 | 86%                   | 14%                | 0%                      |
| Number/tightness of financial covenants                          | 0%                      | 23%                | 77%                   | 0%                 | 0%                      |
| Warranty coverage  | 0%                      | 50%                | 40%                   | 10%                | 0%                      |
| PIK features   | 0%                      | 9%                 | 73%                   | 18%                | 0%                      |
| Loan fees  | 0%                      | 5%                 | 95%                   | 0%                 | 0%                      |
| Senior leverage multiples  | 0%                      | 0%                 | 23%                   | 73%                | 5%                      |
| Total leverage multiples   | 0%                      | 0%                 | 14%                   | 86%                | 0%                      |
| Time to exit deals   | 0%                      | 0%                 | 91%                   | 5%                 | 5%                      |
| Expected returns on new investments                              | 0%                      | 50%                | 36%                   | 14%                | 0%                      |
| Attention on collateral as backup means of payment               | 0%                      | 5%                 | 85%                   | 10%                | 0%                      |
| General business confidence                                      | 0%                      | 0%                 | 9%                    | 91%                | 0%                      |
| General business conditions                                      | 0%                      | 0%                 | 10%                   | 86%                | 5%                      |
| Size of mezzanine industry                                       | 0%                      | 10%                | 14%                   | 43%                | 33%                     |
| Communication with LPs   | 0%                      | 0%                 | 68%                   | 18%                | 14%                     |
| Power of LPs   | 0%                      | 0%                 | 64%                   | 27%                | 9%                      |
| Ability to assess and price risk on new investment opportunities | 0%                      | 14%                | 68%                   | 18%                | 0%                      |

Source: Private Capital Markets Project - Summer 2011, Pepperdine University



## Commercial Banking Today Vs. 6 Months Ago Based on Responses of 72 Commercial Bankers

|   | Decreased significantly | Decreased slightly | Stayed about the same | Increased slightly | Increased significantly |
|---|-------------------------|--------------------|-----------------------|--------------------|-------------------------|
| Demand for business loans                       | 3%                      | 9%                 | 24%                   | 59%                | 6%                      |
| General underwriting standards                  | 3%                      | 15%                | 49%                   | 27%                | 6%                      |
| Credit quality of borrowers applying for credit | 6%                      | 9%                 | 33%                   | 49%                | 3%                      |
| Due diligence efforts                           | 0%                      | 3%                 | 31%                   | 31%                | 34%                     |
| Average loan size                               | 3%                      | 3%                 | 53%                   | 38%                | 3%                      |
| Average loan maturity                           | 0%                      | 3%                 | 61%                   | 33%                | 3%                      |
| Number/tightness of financial covenants         | 3%                      | 16%                | 52%                   | 16%                | 13%                     |
| Percent of loans with personal guarantees       | 0%                      | 7%                 | 76%                   | 10%                | 7%                      |
| Percent of loans requiring                      | 0%                      | 3%                 | 66%                   | 22%                | 9%                      |
| Size of interest rate spreads                   | 9%                      | 28%                | 34%                   | 22%                | 6%                      |
| Loan fees                                       | 7%                      | 26%                | 48%                   | 10%                | 10%                     |
| Senior leverage multiples                       | 3%                      | 10%                | 55%                   | 31%                | 0%                      |
| Total leverage multiples                        | 3%                      | 10%                | 58%                   | 26%                | 3%                      |
| Focus on collateral as backup means of payment  | 0%                      | 0%                 | 63%                   | 19%                | 19%                     |
| SBA lending                                     | 0%                      | 0%                 | 41%                   | 46%                | 14%                     |
| Lending capacity of bank                        | 10%                     | 16%                | 39%                   | 23%                | 13%                     |
| General business confidence                     | 3%                      | 9%                 | 36%                   | 49%                | 3%                      |
| General business conditions                     | 3%                      | 9%                 | 27%                   | 58%                | 3%                      |
| Ability to assess and price risk                | 3%                      | 10%                | 52%                   | 32%                | 3%                      |
| Regulatory pressure to avoid risky loans        | 0%                      | 7%                 | 48%                   | 36%                | 10%                     |

Source: Private Capital Markets Project - Summer 2011, Pepperdine University



## Private Equity Today Vs. 6 Months Ago Based on Responses of 166 Private Equity Specialists

|   | Decreased significantly | Decreased slightly | Stayed about the same | Increased slightly | Increased significantly |
|---|-------------------------|--------------------|-----------------------|--------------------|-------------------------|
| Demand for business investment (business plans) | 4%                      | 6%                 | 33%                   | 33%                | 24%                     |
| General investment standards                    | 0%                      | 12%                | 58%                   | 24%                | 6%                      |
| Credit quality of companies seeking investment  | 2%                      | 12%                | 46%                   | 37%                | 4%                      |
| Average investment size                         | 2%                      | 8%                 | 58%                   | 27%                | 6%                      |
| Appetite for risk                               | 6%                      | 8%                 | 40%                   | 44%                | 2%                      |
| Investments in earlier stage                    | 13%                     | 15%                | 55%                   | 18%                | 0%                      |
| Follow-on investments                           | 0%                      | 6%                 | 39%                   | 29%                | 25%                     |
| Non-control investments (<50%)                  | 0%                      | 7%                 | 73%                   | 20%                | 0%                      |
| Expected investment holding                     | 0%                      | 6%                 | 64%                   | 24%                | 6%                      |
| Deal multiples                                  | 0%                      | 12%                | 25%                   | 54%                | 10%                     |
| Senior leverage multiples                       | 6%                      | 6%                 | 23%                   | 60%                | 4%                      |
| Total leverage multiples                        | 6%                      | 6%                 | 21%                   | 58%                | 8%                      |
| Exit opportunities                              | 2%                      | 14%                | 26%                   | 42%                | 16%                     |
| Expected returns on new                         | 0%                      | 18%                | 55%                   | 27%                | 0%                      |
| Value of portfolio companies                    | 2%                      | 18%                | 24%                   | 43%                | 14%                     |
| General business confidence                     | 2%                      | 2%                 | 22%                   | 62%                | 12%                     |
| General business conditions                     | 2%                      | 4%                 | 20%                   | 71%                | 4%                      |
| Size of private equity industry                 | 2%                      | 25%                | 43%                   | 24%                | 6%                      |
| Communication with LPs                          | 0%                      | 2%                 | 64%                   | 28%                | 6%                      |
| Power of LPs                                    | 0%                      | 2%                 | 48%                   | 42%                | 8%                      |
| Ability to assess and price risk                | 0%                      | 6%                 | 71%                   | 24%                | 0%                      |



## Venture Capital Today Vs. 6 Months Ago Based on Responses of 104 Venture Capital Specialists

|  | Decreased significantly | Decreased slightly | Stayed about the same | Increased slightly | Increased significantly |
|--|-------------------------|--------------------|-----------------------|--------------------|-------------------------|
| Demand for business investment (business plans)            | 0%                      | 3%                 | 51%                   | 35%                | 11%                     |
| Quality of companies seeking investment                    | 0%                      | 3%                 | 41%                   | 41%                | 16%                     |
| Number of business plans reviewed to close one deal        | 0%                      | 8%                 | 61%                   | 25%                | 6%                      |
| General investment standards                               | 0%                      | 8%                 | 44%                   | 39%                | 8%                      |
| Average investment size                                    | 3%                      | 5%                 | 57%                   | 35%                | 0%                      |
| Appetite for risk  | 11%                     | 5%                 | 46%                   | 27%                | 11%                     |
| Investment in later stage                                  | 6%                      | 9%                 | 34%                   | 29%                | 23%                     |
| Follow-on investments                                      | 0%                      | 8%                 | 33%                   | 44%                | 14%                     |
| Exit opportunities   | 3%                      | 14%                | 22%                   | 50%                | 11%                     |
| Time to exit deals   | 0%                      | 19%                | 47%                   | 31%                | 3%                      |
| Expected returns on new investments                        | 0%                      | 11%                | 62%                   | 27%                | 0%                      |
| Value of portfolio companies                               | 3%                      | 11%                | 36%                   | 47%                | 3%                      |
| General business confidence                                | 3%                      | 5%                 | 38%                   | 43%                | 11%                     |
| General business conditions                                | 3%                      | 5%                 | 35%                   | 46%                | 11%                     |
| Size of venture capital industry                           | 11%                     | 43%                | 32%                   | 11%                | 3%                      |
| Presence of super angels in space formerly occupied by VCs | 0%                      | 11%                | 40%                   | 40%                | 9%                      |
| Communication with LPs                                     | 0%                      | 6%                 | 53%                   | 31%                | 11%                     |
| Power of LPs   | 0%                      | 0%                 | 56%                   | 36%                | 8%                      |
| Ability to assess and price risk on new investment ops     | 0%                      | 6%                 | 77%                   | 11%                | 6%                      |

Source: Private Capital Markets Project - Summer 2011, Pepperdine University



# 10-90's Darin Rowell Shares Insights Into How You Can Identify Trapped Value Within Your Company

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In continuing with our mission to enhance our clients' fundamental value drivers prior to entry into the capital markets, Watermark recently hosted a coffee shop event for business leaders where Darin Rowell, CEO of 10-90, based in Nashville, shared a presentation entitled "Capturing Trapped Value". Darin has worked as a CEO, consultant, manager and principle at companies ranging from entrepreneurial start-ups to global corporations. Among the companies he has served are names such as JC Penny, Shell Chemical, Cemex, and Temple Inland. Darin's mantra in his 10-90 leadership program is that success is 10% vision and 90% execution. An integral portion of Darin's approach is identifying and eliminating what he calls Trapped Value. Below are key questions to consider on trapped value from our June 23<sup>rd</sup> coffee shop.

## 1. Is your company operating at its full potential?

Darin- "Are you comprehensively converting the full knowledge and capabilities of your organization into shareholder value? The answer for most of us is simply - No. A more complete answer is that most of our companies operate with a significant amount of capability and potential that is never converted to shareholder value. This fact is no less true for successful companies than it is for those which are less fortunate."

## 2. What is trapped value?

Darin- "As someone who has spent 20 years in both leadership and consulting roles for companies ranging from start-ups to global corporations, I have found that most organizations have a significant amount of latent potential that is never converted to shareholder value - including those where I was the leader. I think about this as value that is trapped within the organization. This trapped value typically affects an organization in both its ability to execute and its ability to innovate."

## 3. How does trapped value develop?

Darin- "I believe that trapped value develops over time. Much like the parable of the frog that is boiled by slowly increasing the temperature of the water, by the time we recognize the situation, it's become more complex and challenging."



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## 4. How do you capture trapped value?

Darin- "The good news is that in order to capture trapped value, we typically don't have to develop a new strategy or make new capital investments. The bad news is that in order to capture the trapped value we are often required to see differently and to then act differently, which I believe is ultimately more difficult."

## 5. What are some examples of trapped value's impact on an organization?

### Execution Example

#### Situation

- A professional services firm was unable to sufficiently capture and share its technical and service knowledge, which led to teams "reinventing the wheel" when developing client proposals and delivering client projects

#### Reasons for Trapped Value

- Geographically diverse teams
- Subject matter expertise was a differentiator for promotions and status. This type of incentive program does not reward individuals to share their knowledge and help others develop similar capabilities

#### Solution Approach

- Company designed a hybrid knowledge management system – supported by technology and standard frameworks and templates but driven by collaboration
- Redesigned old processes and established new processes and forums to enable collaboration
- Company redesigned their performance management system to drive collaboration



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## Innovation Example

### Situation

- A healthcare company was not able to integrate operational practices across multiple locations which had the potential to create an innovative solution to quality and cost challenges

### Reasons for Trapped Value

- Growth had been both organic and through acquisitions
- An early history of encouraging entrepreneurial and local thinking often ran counter to any corporate-wide solutions
- Regions and locations were historically encouraged to compete against one another in terms of performance

### Solution Approach

- Company is using Healthcare Reform as the external factor that requires all stakeholders to fundamentally question their practices and interactions
- Redesigning leader performance metrics and compensation to align with greater collaboration and innovation
- Creating formal and informal opportunities for locations to connect and collaborate in a discrete and directive way
- Approaching success through quick successive "wins" rather than a "big bang" approach. The big bang approach places significant risk on the overall project success by not allowing for mid-course corrections

## 6. Why is trapped value an important concept for owners and senior leaders?

Darin- "I've found that when we become better attuned to the presence of trapped value within organizations, we begin to develop a mentality and a habit of seeking-out constraints and opportunities. This same mentality and habit, if nurtured and promoted by leadership, can spread within the organization and become the basis for ongoing innovation and the creation of future value. The challenge to us all is to take a step to the side and look into our organizations with fresh eyes. Where is value trapped within the organization? What must be done to capture the value? What is the direct and indirect ROI to the organization?"



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