

Making an Acquisition in a Troubled Market: Panel Discussion



ElliottDavis

Capital Partners, LLC

INVESTMENT BANKING

Member FINRA, SIPC

Michael Hronchek
mhronchek@elliottdaviscp.com • 864.552.4864

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121 West Trade Street
Suite 3100
Charlotte, NC

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Panelists

Bob Anders, Plexus Capital – Mr. Anders is the founder of and Managing Partner with Plexus Capital which provides growth capital to middle market companies through investments in subordinated debt and equity. Mr. Anders has 31 years experience investing in and advising companies needing capital for growth, acquisitions, recapitalizations and transfer of ownership.

Charlie Arndt, RBC Bank – Mr. Arndt is a Senior Vice President with RBC Bank in its Commercial Markets group. Mr. Arndt has provided senior capital, from traditional working capital facilities to more complex financings, to companies to support their strategies for growth.

Tom Barr, TestAmerica – Mr. Barr is an entrepreneur and the founder of TestAmerica, an environmental services company which grew substantially, both organically and via acquisition. During his tenure, Mr. Barr purchased and integrated over 30 companies into his firm and also successfully sold certain divisions.

Rick Hewitt, Elliott Davis – Mr. Hewitt is a Principal with the Transaction Services Group of Elliott Davis. Mr. Hewitt has worked with financial and strategic buyers, providing financial due diligence assistance on companies.

Michael Hronchek, Elliott Davis Capital Partners, (moderator) – Mr. Hronchek is a Managing Director of Elliott Davis Capital Partners, the investment banking affiliate of Elliott Davis. Mr. Hronchek advises companies and their shareholders on mergers and acquisitions, private placements, structured financings and ESOPs.

Introduction

MR. HRONCHEK: Companies often behave in counter-productive ways. I am sure everybody is reading the headlines and one of the themes I see a lot is that companies are writing down goodwill, and most of that goodwill was as a result of transactions that happened in a pretty robust market. The theme of today is making an acquisition in a troubled market and why you would even entertain it. Boston Consulting Group, McKinsey & Co, and some of the other larger consultant firms have done numerous studies on mergers and acquisitions. A conclusion from these studies is that transactions that are consummated in a downturn tend to be the most valuable to the buyer. One of the reasons is clearly that prices of target companies are lower, and one of drivers of lower prices is there is just not as much competition for a target in a down market. Another reason, based on our experience, is that management appears to us to be more focused on a strategic acquisition made in a down market. But whether you buy low or whether you pay a premium, you still create value in an acquisition based on the strict fundamentals. Does the deal make sense? Is there a strategic reason to do it? Are there real synergies?

So the first question I want to ask the panel, and I'll start with Tom Barr, is, when the economy is not doing well and you're in a down market, do the rules of M&A from the buyer's perspective change?

Do the rules of M&A change in a down market?

MR. BARR: I think there are a number of areas, some are pluses, and some are minuses. I definitely think there are fewer buyers out there. So that's a challenge. I also think that on the seller's side, some sellers who don't need to sell in a bad market take their companies off the market. They just don't even go through the process of trying to sell because they don't need to. I think that there's more due diligence required, particularly on the part of cash flow looking back historically because you've got two things off the top. One is you've got a tough economy, which means that businesses themselves could be challenged, and the second is you just have to work harder to look at a transaction because lenders -- you won't hear it from them -- are just requiring more documentation.

I like this kind of market, personally. I think it's a great time to do an add-on, do a bolt-on, or do a regional expansion, whatever. I think it's great. I think this is perfect timing, but the challenge is the financing. It's an overriding issue that our banker friends here can help us understand. So that's my philosophy.

MR. ANDERS: I would say that if you subscribe to the theory that you cannot save your way to prosperity, then you've got to grow at some time. You've got to increase your top line. Increasing the top line today is difficult, if not impossible, from an organic stance. So we see a lot of our businesses who built up good staffs and good infrastructures and good systems and procedures but have a difficult time growing their existing business. They find themselves seeking acquisitions simply because they need to keep the engine flowing and need to keep the fuel going through the engine, and so I think acquisitions absolutely make sense in this market.

You've got to be very careful, clearly. You've got to do your diligence. But I think these are the times that, as you've said, Michael, the acquisitions you make today might be your best investment, and conversely, from a lending standpoint, I think the loans and the investments that one makes today might be your best investments four, five years down the road. I believe everyone's attention is heightened. I believe that we have gone through a "right-sizing" with respect to valuations, and I think that people's projections are becoming more reasonable. We don't see many top line projections of 15 or 20 percent just through osmosis anymore. You've got to earn your increases today. And so I think those that are focused on acquisitions and do it in a very disciplined way and maintain good relationships with ones lenders and investors really do have a competitive advantage in this market.

MR. HRONCHEK: Charlie, when you and I were speaking about the subject, you mentioned that, from your perspective, the equation is different in this market.

MR. ARNDT: Yes. I would like to echo my colleagues' sentiments that really bolt-on acquisitions are ones that we're seeing the most of right now in our markets. The leverage has really become a key component, especially with revenues being much softer. As Bob was saying, the investment models are dramatically different. The leverage that can be sustained is lower; you just have to be a lot more careful what you're putting out there. Right now what we're seeing is we're paying a lot more attention to management teams. For us, management is what is going to lead us out of issues where we're not finding top line growth. And good management is able to manage through more difficult circumstances.

Why consider an acquisition in this market?

MR. HRONCHEK: Bob, you hit on it a minute ago, but what are some of the reasons for considering an acquisition? If you have a portfolio company, why would they even consider an acquisition?

MR. ANDERS: Well, I think you can arbitrage value -- there is a value of getting bigger. Our portfolio companies want to not only grow their EBITDA, but they also want to grow their scale. If you believe that there's more value to a larger company than a smaller company, clearly you have to transition and the arbitrage is growing. It can be effected either through organic growth, which I said is difficult, if not impossible today, or growing through acquisitions, and if you believe that your management team is superior and you feel like your infrastructure that you've developed and built and your business model is superior, this may be an opportunity to pick up something at maybe four-and-a-half times earnings, put it within your own corporate entity and ultimately dispose of it at six times earnings. And if you can do that over and over again, you've created wealth.

What is the first question an acquirer should ask?

MR. HRONCHEK: Tom, you've orchestrated 40 plus acquisitions at TestAmerica. What was the first question you asked yourself when you said we need to or why should we make an acquisition?

MR. BARR: We had a company that was in two parts. There was a water treatment division and there was a lab division. We sold the water treatment division. So we did several acquisitions in that marketplace. And on the lab side we wanted to be the biggest in the country. The company is now six times bigger than anyone else. We wanted a full footprint across the nation which no one else had. We specifically wanted to have a certain amount of testing opportunities because a lot of companies don't. So we had several things we wanted to accomplish over the 20-year period, and there were years that weren't as good as others, like everything, but the plans stuck together, and we achieved. I had the goal of being the biggest in the industry, and I told that to one of the employees about ten years ago, and they came back and reminded me of that, saying to me "you know, you said it, no one else did it". So we had a plan from the beginning.

If I can comment on something -- one of the advantages of buying companies today is there's a pool of talent out there that's better than normal. You've got a workforce that is under-utilized, so you can put better management teams in place. You can put people in place at a lower cost. So another advantage of acquiring companies today is you can put these special management teams together.

MR. HRONCHEK: Rick, when you're asked to do due diligence, do you get much involved in kind of critiquing management or is it focused on more just financial due diligence?

MR. HEWITT: Yes, we do -- let me answer that, and then is it okay if we ask questions to the panel?

MR. HRONCHEK: Sure.

MR. HEWITT: We do. When we go into the due diligence, the acquirer will ask our assessment, obviously, of the financial staff, the accounting staff.

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What is the first question an acquirer should ask? (continued)

MR. HEWITT: But for so many of these companies, we're getting the answers from the president and the owner. They're the ones that really know the business, so -- especially if they're staying on board - - we'll assess their ability to execute the plan.

I worked I guess it was about nine months ago on a joint venture. We were doing the due diligence for the group that was going to put some debt into this joint venture and the projections all showed this thing was going to be a home run. Anytime I see something that says it's going to be a home run it raises your eyebrows. What we did question was the ability of this team to execute it, and that's for several reasons. One, the operations of the joint venture were going to be in one part of the country and this management team was going to be on the East coast, and they had a little start-up company. We looked at some of the numbers of the start-up company and realized they still have a mess on their hands with their start-up company. So were they really going to have the ability, one, to manage their start-up company, and, two, to also oversee this joint venture? So, yes, we'll make an assessment of whether or not we think management can execute their plans as well as talking just to the accounting staff and give an assessment on how good we think they are.

MR. HRONCHEK: And you had a question for --

Should an acquirer postpone buying a “good” target in the hopes of finding a better target?

MR. HEWITT: Yes, I had a question. In a situation like this, when you're looking at a company which looks like a good fit, do you wait because there might be a better fit that you're not aware might come along?

MR. BARR: I think the answer is it just depends on your plan and your timing. I don't know that you're going to see that much better deals six months from now, nine months from now. I just don't know. I would say when you find a good deal and you want to do it, do it and not wait for the one down the road.

MR. ANDERS: Well, from the perspective of a private equity investor, clearly everybody is a little bit hesitant today to pull the trigger. I know at Plexus we look at somewhere between 300 and 350 business plans every year, and we typically close eight to ten transactions a year. So we look at a lot of opportunities before we close anything. And I guess in the last three months we've had two add-on acquisitions and one new transaction. Things have clearly slowed down. I think they've slowed down because everybody in the room is more cautious today; you just are. It's part of your psyche. I think if you compare the numbers and the very objective parameters that you might be evaluating, they might be the same as some kind of parameter that you may have evaluated three years ago. However, if you are disciplined, you do question a lot of the assumptions being made today. Are they valid? Can you really push the top line? What kind of competitive advantages do you have? And all those questions come into mind. From our perspective, just very selfishly from the perspective of a subordinated debt lender, what we see as the biggest difference in this market than in any other market that we've seen is how restrictive the senior banks have become.

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Should an acquirer postpone buying a “good” target in the hopes of finding a better target? (continued)

MR. ANDERS: That's created a huge opportunity for a long-term investor like Plexus, and at the same time, it's created a lot of headaches for companies that typically push the envelope a little bit with their senior lenders. They may have stretched and redlined a little bit with the typical senior lending parameters. But the senior lender always looked the other way, and you say: this company is growing, so let's continue to support them. I think the senior lenders today are becoming much more restrictive clearly. The covenant waivers that used to be granted very easily are not granted very easily today, and so that's restrictive, and that's caused people not to grow as quickly. But I think the opportunities are there. You've got to have the right financing in place, and you've got to have the right diligence to understand the projections.

Buy or build?

MR. HRONCHEK: Charlie, I won't ask you to defend the banking community now. We'll do that later. Tom and Bob, you and I were speaking earlier and Tom, you specifically mentioned that one reason maybe to do an acquisition is because there's access to management talent. Why not just go ahead and poach them? Why not just say I have a competitor with a really good sales guy and I've heard the company may be struggling. I'm just going to offer this sales guy more money and see if I can't just poach him that way.

MR. BARR: I think that that's a very logical approach. Acquisitions, when you do them, there's risks obviously of the transaction. You go hire somebody and pay them \$100,000 a year to get a good salesperson. You might get there pretty quickly. So I don't disagree with that. I just think acquisitions get you there probably faster.

MR. HRONCHEK: Is that part of the normal buy versus build decision? Grow it organically or build it internally? But is part of that goal finding the right people and the probability of finding them?

MR. BARR: Yes. Of course it would have to be part of the normal conversation. What talent is out there and how do you work that into the fold.

MR. ANDERS: I will be glad to comment on that a little bit. I jokingly say when we look at a transaction we really focus on three things. It's management, management and management. And so you've got to pay attention to that. I'm going to differ with Tom just a little bit in that I think the hiring of new talent and the acquiring of new talent simply when they are an employee is not something that I look for as I invest in small businesses. I'm more interested in the CEO / shareholder that has all of their chips on the table and is as financially committed to making this company work as possible. And it's just difficult, if not impossible, to do that in an employee-type relationship, particularly in times like today when things clearly are, or can be, very difficult. You want to make sure that you are investing in and lending to a business where the management staff, not only the CEO, but hopefully all of the executive management have their chips on the table and they're deeply financially invested in the same operation you are.

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Buy or build? (continued)

MR. HEWITT: We had a situation last year in which we were looking at a company for a client. I met with the management team after the private equity group expressed their interest but before a letter of intent was signed, and one of the questions we asked to the management team or to the present CEO who had been there about three to five years and was the one that had really grown this company. We asked him “Would you be willing to keep some of your stake in the company?”, and he danced around the issue basically saying no. He really couldn't give us a concrete answer as to why he wouldn't, and our client pretty much concluded they didn't want to go further with the transaction.

Who is on the acquisition team?

MR. HRONCHEK: So if it makes sense to do an acquisition and it could be -- let's assume it's for geographic expansion, what would be the next step in the process? Who internally within the company would you get involved to try to ultimately effect a strategy, buy the company, mold it into a successful acquisition? I'll start with Tom.

MR. BARR: Well, it depends on the stage of the company. If it's for a small company, you've got two or three people who all pitch in. If you can get more mature of course you bring in your accounting team, you bring in your sales team, and you bring in your finance team, your banking team, and everybody sort of participates and goes through the due diligence process, but you should have that in place and hopefully have had some experience in doing that together. One thing that's interesting to me is that, particularly with some of the larger deals, it's fairly confidential, and a lot of people don't want folks to know. So your team is limited just by that fact. I had a situation over the last deal we did before I stepped out of TestAmerica where I was the only person that was allowed physically in the laboratories, and there were 50 of them, and that was very awkward because I knew several people in the industry. I couldn't tell the team. It was just a very difficult thing to do. That's not uncommon.

MR. ANDERS: When you make the decision to go through acquisition, to me the first thing you've got to do is interview and then engage some kind of professionals. Clearly most of those small, middle market businesses with which we deal have their plate full. They're busy 105 percent of the time running their business. I'm just not sure that in today's world when you really ought to be running a lean staff you've got the expertise inside of your business to go out and perform the kind of searches that you need to perform, but given the fact that you do that, I think that your best salespeople might be the best liaisons with the buy-side investment banker that you might engage, and your salespeople know who the better competition is out there. They're out in the marketplace. They're calling on the customers. They know who they may be losing bids or losing opportunities to. So I think you can really filter through yourselves but then I'm also an advocate for having some kind of an outside engaged professionals.

MR. HRONCHEK: Just to expand on that, typically when we are engaged on the buy-side engagement, though we can we do not start by bringing thousands of names of prospects to the client.

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Who is on the acquisition team? (continued)

MR. HRONCHEK: Normally, as Bob said, we sit down with the management team and ask who do you think makes sense first? Here are some of our ideas. Let's hear from you. And it normally works that way. Who are you seeing in the marketplace and losing business to, are competing with? And it leads to another question that we've talked about off-line, but normally when we have a conversation with someone who is serious about selling, it's not the first time that the seller has thought about selling, and one of the questions I had for Bob or Tom is "How do you convince somebody to sell?" So you have a conversation with a prospect, they say they have heard of your company, it's well-known in the industry. The seller is intrigued and would like to hear more. How do you ultimately convince them to sell?

How can an owner be convinced to sell?

MR. BARR: I tend to agree with what you just said about most of the sellers are mentally thinking about it. It's not likely for one to walk in the door and say do you want to sell your business? "Sure, if you pay me enough" is not the right way to approach it. So I think that most sellers, from my experience of particular individuals, are at some stage of their life; maybe want to liquify their investment, they're curious about getting with a larger company, potentially there is some benefit of cross-selling and other opportunities and financing availability when part of a larger company. They may have a health problem that has come up and they've got to do something. They may have an issue with their family. There are all these different reasons, but nine times out of ten you don't convince them to sell. You might convince them to sell **to you**, which is a different thing, but at least that's been my experience.

MR. ANDERS: Sure, I think that's a good point. I can't remember a time that I called a company or on behalf of a company and asked if they might want to at least engage in some kind of merger conversations and them to say, yes, I'd like to talk to you. That just doesn't happen to me. But I have had occasions when I've explained the situation, and I said if you're interested, we have a willing buyer with appropriate financing, and I think we could consummate a transaction. Three or four months later this person might call you back and say, if you're still interested, I'm ready to talk. Most small business owners and middle market business owners don't think about some kind of liquidity event. You've got to bring the idea to them, but once you do bring the idea to them and then they talk to their financial advisors, I think they might see that there is no harm in having a conversation and so conversations can begin, but it's a very long, tedious process. And to your point, Michael, when you do go out on some kind of search, you've got to have very rigid parameters that you're searching within, either geographic or size or product orientation, and you've got to have a very focused search.

What size of a target is reasonable?

MR. HRONCHEK: Charlie, I have some questions for you. The first one is if you are advising a company or if your client comes to you and says we're contemplating making an acquisition, what size target relative to the buyer is going to just scare you or is it a function of absolute size or what's going to make you nervous and what's going to make you say this is something we can probably finance?

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What size of a target is reasonable? (continued)

MR. ARNDT: It goes really back to what Bob said. I think that while size is certainly a factor, it's how confident are you in the management team that is represented. Are you acquiring a niche, are you acquiring a product line or are you acquiring a management team? Getting back to the other question that we just answered by the panel, I think succession planning has really become more of an underwriting aspect of banks where we have many of these middle markets companies who have maybe first or second generation owners, trying to convince them that they have already created a lot of wealth internally for their owners but asking how they are trying to create wealth within the family for the next generations. Many of these companies are finding it difficult in this marketplace to go out and find representation and be able to look at opportunities to acquire other businesses, and it's become more of an aspect of ours because a lot of these companies have younger, junior supervisors who are just not prepared to run these businesses.

MR. BARR: You cannot pursue an acquisition of such size that, if it were to fail, it would take down your company. I do not have a rule of thumb, but I am not a believer in pursuing something larger than 20 to 25 percent of the size of the buyer's company.

What information should be shared with the bank?

MR. HRONCHEK: So if you're sitting with your client, when do you want to know that they're contemplating an acquisition? And it's a loaded question because one fear I hear a lot from our clients is, I don't want the senior lender to know until we kind of have a deal ready and then I'll call Charlie. When do you want to hear?

MR. ARNDT: We always like to be up-front. I mean, the earlier the better. We don't run the business, but we want to make sure we keep them out of the ditch. We've seen many acquisitions go wrong because the interest level of growing from a 25 to a 50 million dollar company is appealing, especially in times like these, but do you just grow for the sake of growing or do you grow for profit?

MR. HRONCHEK: Tom, you're shaking your head. You were venture backed when you were at TestAmerica. But was there a good relationship with your senior lender where you could have a candid conversation.

MR. BARR: With the exception of this most recent time, generally bankers were wanting us to do things -- they were encouraged so that if you brought them in early, they were just fine with that. At least that was where they wanted to go. Today I think it's slightly different. But I tend to bring people in early, particularly professionals, your lawyers, your accountants or your bankers, I think you bring them in early as long as you don't have significant confidentiality issues.

How attractive are financially troubled targets?

MR. HRONCHEK: Would you ever look, entertain, and acquire a troubled company? These are troubled times and a company might be troubled because of the financial leverage or troubled just because of their operating margins are getting squeezed.

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How attractive are financially troubled targets? (continued)

MR. BARR: Of course we've looked at that, but generally speaking I'm not a really great turnaround guy. It takes a lot of time and a lot of attention. And I think if a company is in business, doing well, making a profit and hopefully what you can do is take your company and their company and synergistically blend them and take costs out and operate more efficient. So the answer is a lot of people do buy troubled companies. It's just not my background.

MR. HRONCHEK: Bob, if a portfolio company of yours is looking at an acquisition and that the target may have been troubled, does it factored heavily in your decision?

MR. ANDERS: Yeah. That's not something that we typically promote. I think clearly it increases the financial and the strategic risk within the end price. There may be opportunities to do that, but the financing of it is very problematic. If it's a troubled company, typically the management you're acquiring either is about to leave or it proves to be not as great as you might have thought. And if you're simply buying a product line or a new client, then you can do that cheaper ways.

How are term sheets changing in this market?

MR. HRONCHEK: We've talked about prices and how there seems to be a correction with respect to the EBITDA multiples and end price values you're seeing. But I want to talk a little bit about some of the other terms that might be changing in the term sheet or letter of intent. For example, this is one thing I've never seen other than in the paper and I'm always jealous of people that are able to get them – break-up fees paid to the seller. Do you ever see breakup fees with respect to the buyer or with respect to the seller in the term sheet?

MR. BARR: Yes, we've definitely see them, and it gets particularly important when you have a big deal that's going to take a lot of time and a lot of outside professionals and you're going to spend \$200,000 or \$300,000 in just a quickie look.

MR. HRONCHEK: But those would be on behalf of the buyer predominantly?

MR. BARR: It benefits the buyer.

MR. ANDERS: I think it's the exception and not the rule, particularly in the small, middle market areas in which Plexus operates. The equity teams that we support will try and get some kind of breakup fee; typically they do not. We always like to have our expenses covered by the equity team. Of course they don't like that, but it's the business model. We are particularly disciplined in that regard in these times. I guess on more than four or five occasions we've gotten all the way to the finish line with a substantial financial commitment and something is found at the latest stages that caused us to back away. If that's the case, there's a lot of expense money on the table at risk. What we try and do is identify the easily identifiable things very early in the process, and the first thing we always do in the diligence process is engage some kind of objective third-party financial diligence team like what Rick's. That's typically the largest part of our expense - diligence - so we get that out of the way early. Do all your background checks, do all your client references, and then you get into the more subjective parts of your diligence, but the easy things, the more expensive things if you can do them early, I think it behooves everyone.

How is the value of a potential synergy determined?

MR. HRONCHEK: When you're going to value a company, synergies are going to be a significant part of the value. Rick, if you're doing due diligence, do you get involved in trying to scrutinize some of those synergies and assumptions: if they think they can eliminate head count or they think that they're going to get growth through a certain distribution channel?

MR. HEWITT: We do. It depends. And I know we'll talk about some of the elements of due diligence later on, but each financial due diligence engagement we get involved in is different, and in some we're looking more at the projections and what management of the company is saying they're going to be able to do. I haven't seen too many deals where it's one company that's acquiring another one for a strategic fit where there are the synergies. I mean, usually the private equity firm is making the investment in the company and so there's not going to be a lot of changes. What you're scrutinizing there is management saying, okay, we're going in this new direction and we need this debt to be able to take on this strategy and here is our pipeline. So you've got a set of projections there, and then management says these are our add-backs to normalize the earnings and you'll scrutinize those, and if they do say we think we're going to get some cost savings here, we want to certainly look at the assumptions and give our assessment on the validity of those assumptions – are they just pulling them out of the air or is there some basis for it?

How are synergies shared in an acquisition?

MR. HRONCHEK: When you're negotiating a deal -- I guess I'll start this with Tom – and you've talk to the seller and explained that there are great synergies, there are reasons to do this deal, the two companies will be healthier together. When you're negotiating value, do you share the value created by the synergies? Or is it your position that these synergies are mine? How does that play into the value conversation with the buyer?

MR. BARR: It depends on how strong the seller's personality is as far as the management team if you want to keep him or have got to keep him. I wouldn't get into the detail of synergistic discussions if you're not going to keep that person as part of the team going forward. The second thing you run the risk of -- say I pay you five times EBITDA, and you say with the synergistic benefits it will be another 10 million in EBITDA. Well, the seller is going to want part of that. So you've got to be cautious. Maybe it's because they were always in the same industry and maybe we kind of knew what we were going to do going in as opposed to different kinds of investments. It's funny I was saying -- you asked the question before about what were the five biggest mistakes in acquisitions, and I jotted them down, and part of this is kind of coming out, but the first one in my mind is *never fall in love with the deal*. Just don't get blindsided because you just love the deal so much, you just want the deal so much, you're just excited about it, just don't. You've got to be real neutral about that.

How skeptical should an acquirer be of synergies?

MR. HRONCHEK: Charlie, you mentioned to me that you're always skeptical of synergistic benefits, and you may look at other factors in trying to underwrite a deal. Tell us a little bit more about that.

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How skeptical should an acquirer be of synergies? (continued)

MR. ARNDT: We've seen a lot of books in the last couple years that, as Bob said, the forecast and the revenue line has always been 10, 15, 20 percent growth. But in looking back we've always taken a sharp pencil to the add-backs, just not knowing exactly if it's coming from a strategic or if it's coming from a financial; to me you've got to look at it differently from a strategic standpoint. If it's geographical, obviously, there are some add-backs that are pretty simple, whether it's administrative or accounting. If it's financial, depending on whether or not, as Rick said, you have management that stays on board and they're going to stay within the business, the add-backs that are associated typically come from the owner and what kind of other benefits are being taken out of that business.

MR. HRONCHEK: But in terms of synergies you made the comment to me earlier that you just don't see that they materialize much.

MR. ARNDT: Not many. Not many. It's on the expense side it seems to be a real easy way of making the deal work, but on the revenue side is really where you're going to get your value.

What makes a deal financeable?

MR. HRONCHEK: The next question I'm going to ask to Mr. Arndt: if a client brings you a financing need for an acquisition, what enhances the lendability of that financing in your terms?

MR. ARNDT: I'll put my credit hat on. What we've always seen in the past is everything has been driven by cash flow, and while that's still our overriding predominant piece that we're looking at, right now balance sheets are being stressed. So capital going in, capital staying in has become more and more a factor for us in underwriting. We've seen over the past year collateral deterioration where I think many of us now have had a false sense of security of what collateral was worth, so focusing on cash flow continues to be a true test of a company's ability to repay because collateral is just not worth what it was once.

MR. HRONCHEK: And, Bob, as you look at a transaction, what are the criteria you have to have in order to underwrite a transaction?

MR. ANDERS: Well, we may be a little bit different from most traditional private equity funds that are more equity-oriented, but we typically make our investment in the form of subordinated debt or preferred stock, so we're long-term investors but we have characteristics of debt and characteristics of equity, and we obviously underwrite cash flow. We're not collateral based. We want to underwrite a good predictable recurring cash flow. We're looking for the appropriate structure. We're looking for enterprise value.

I jokingly tell people that our target clients are dull, boring businesses that you've never heard of, and we look for relatively mature companies. We look for companies where the product has been tested in the marketplace. We spent a lot of time on understanding what the competitive advantages of our company are, and then when we propose some kind of structure or transaction, we clearly look at the right-hand side of the balance sheet, it's important that we partner with a good senior lender.

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What makes a deal financeable? (continued)

MR. ANDERS: That senior lender, in my mind, should understand what a subordination agreement is all about, ought to understand the relationship with the junior lender, understand that it's a partnership. We ought to agree on certain loan agreement covenants. And what is really important to a subordinated debt lender or a private equity investor like ourselves is that there really are two covenants.

We spend a lot of time on the leverage of the company, and leverage to me is the funded debt. And the cash flow is what I'm looking at, not necessarily the equity of the company, but the cash flow of the company, and where we may a couple years ago have seen leverage covenants up in the three-and-half to four range, typically today we're in the three to three-and-half range and, again, depending upon the recurring nature of the revenue and the EBITDA. Then we spend a lot of time on our fixed-charge coverage and understand what kind of amortization the company can afford and satisfy and we'd like to see fixed-charge coverages in the 1.25 to 1.35 ranges. That's really important to us because that means that the company can persevere and protect what ultimately will enhance our return, and that is the enterprise value.

We also want to see the structure of a transaction where the seller has some skin remaining in the game. We think that's really important, and there are a couple ways you can do that. Obviously there's a seller note. There's some kind of earn-out over time based on the future cash flow or the future of revenue from certain clients that might be preserved. The seller might come back in and buy equity in the new transaction, but when we support a new acquisition, we like to see the acquirer have at least 10 or 15 percent of the new capital structure as new money. We like to have the seller roll over anywhere from 10 to 25 percent of the ultimate price of the transaction and some kind of seller paper or seller note, and in that way we know when we sit around the table we have everybody with all of the financial incentives aligned, and that is the seller needs to be incented to make sure the transaction is a good one, and he not only got a good price -- initial price, but he also gets a second bite at the apple. The new acquirer is financially invested and will support the transaction with additional equity when the inevitable downturn occurs. And then we've created an opportunity where we've underwritten cash flow but we've got the upside that we're looking for.

At what stage should an acquirer begin worrying about financing a deal?

MR. HRONCHEK: I asked Charlie the question when is it too early to get him involved or to talk to your financing source. But if you're a buyer and you have an acquisition plan and you think you've got the target lined up, and I know that term sheets traditionally have financing outs, but when is it appropriate to start rallying the troops and saying, I need to be serious about the financing of it?

MR. BARR: I think in this market you've got to start earlier than you did in the past for sure. So in the past, within four months of the close is about the time. We used to have at least 90 days of time before we could get something closed. So anytime between 90 days and six months before you think it's going to close. The bigger the deal the more time you need with your banker.

How effective are earn-outs at aligning incentives?

MR. HRONCHEK: When we're structuring a deal I think most contentious part of our negotiation is the earn-out piece. This question is for both Bob and Tom. How successful have you been in structuring or have you seen earn-outs structured where the incentives are truly aligned?

MR. BARR: Earn-outs have not worked all that well in my experience. For others it does work well. And part of the problem has been, in my experience, is that if you pay somebody five or ten million dollars, they've got a different attitude toward their future, and so earn-outs get kind of complicated. So I'm not a big fan of them, but most of the deals that we've done we've put one in of some form or we put in stock options through the parent company. We've done that, and that's been more successful really for incentivizing the parties in my experience.

MR. ANDERS: I would answer that by saying I think the earn-outs are really appropriate when there's customer concentration issues or there may be a handful of very, very important clients that might be able to go to a competitor, and clearly you want to understand all those dynamics when you evaluate their competitive advantage. And to the extent that the company that you may be buying or financing sells a commodity product where their clients might be able to transition to another provider easily, I think those earn-outs are really critical, and it might be as simple as having the owner or the management team earn future compensation or the earn-outs tied to the revenue from one or two specific clients just to make sure those clients remain with the business. I think that's really important.

MR. HRONCHEK: Ultimately the risk you're trying to design around is the transition risk that the business you're buying is the one that you're getting.

MR. ANDERS: Well, absolutely. I think your entire focus needs to be on minimizing your risk. And I had an old corporate finance professor that beat into me years ago that if you didn't do a bad deal, you've got a greater likelihood of doing a good deal. And so the first thing you need to do is make darn sure you don't do a bad deal, and there's a couple basic things you can do, and I think to properly align the financial incentives is absolutely critical, and by way of I think either a seller note or seller earn-out. And, yes, as Tom said, it's difficult to do, but I think you've got to have some kind of incentive -- and I think it's probably more important the smaller the business is. The more critical the selling CEO, assuming the CEO is the shareholder of the seller, is to the operation the more important it is for you to have him or her aligned with the enterprise going forward. If it's a larger company, clearly you might be able to do without that, but if the CEO and the salesperson are the same person and you've got some customer concentration issues, you better lock that person up.

What is the financial due diligence process?

MR. HRONCHEK: So you have a deal you believe you can finance. You've received some indications from Charlie or from Bob that this is a deal I think we can finance, normally the next call might be to someone like Rick. So, Rick, now you get a phone call from Bob or it could be Charlie. So what happens once you get the phone call with respect to due diligence?

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What is the financial due diligence process? (continued)

MR. HEWITT: Usually the first thing they ask is “What's your availability tomorrow?” My response is, we'll make it happen. I try to get some background on the company, where they are in the process and then figure out what will be the scope of procedures, what the objectives are going to be and each transaction is different. To give you kind of a general overview, when we start off obviously we want to see some financial information first, so we'll get balance sheets and income statements, and this is usually coming from someone like Bob or whoever has called us. They've got that, and they'll send that to us, and so I get a little bit of flavor for the company and what we're looking at and then get back to them and ask what are their hot issues? Are there some key points that you're already aware of that you really want us to focus on? And usually at that point they respond with we want you to look at the revenue or the projections or we're concerned a little bit about this item, so focus on that. I'll send them sort of a draft scope of procedures for them to take a look at it, and then we'll tailor it from there.

Has the due diligence process changed in the down market?

MR. HRONCHEK: Have the requests of you changed since the economy is on a downturn or are the items that you're asked to scrutinize different?

MR. HEWITT: No, I haven't really seen that because we've only had a handful of deals since all the news about the economy changing. So I haven't really seen a change in my procedure. The nuts and bolts of financial due diligence are still the same. What we're doing is maybe unique to each engagement because of the industry that they're in, how long the company has been around, their results. There's a uniqueness to the scope, but I have not seen a change in what we're doing just because of where the economy is.

How difficult or disruptive is the due diligence process?

MR. HRONCHEK: Whenever we have a seller, they're always nervous. Their anxiety is heightened when they hear the term due diligence. But from your perspective, what's the feel for the process? Is it combative or is it more of the feeling “we're here to facilitate a transaction?”

MR. HEWITT: No, I've never been in a hostile or combative situation. Where you might get a little bit defensive is in a reaction to some things. You're looking at their records, and you're questioning something, especially if it's an owner of a company and he's been there for years and you start questioning some things or the validity of it, they may be a little bit defensive. But it's not combative, it's not hostile. One of the things that is tricky, though, is finding out early on who knows about the potential transaction, and sometimes it's just a select few. It's the owner, might be a key salesperson, generally the controller if there's a controller or a CFO has to know, but, a lot of the other employees don't. So you've got to be a little bit careful about who you're talking with, why you're asking these questions, why you're walking around touring the facility. If I can, I like to talk to some of the employees because you're going to get a feel for the business and how they're doing. You get a perspective that management may not give you, that you can kind of digest what they say and play into your assessment on things, but if they don't know what's going on you've got to be careful about that.

What should be considered before hiring a due diligence firm?

MR. HRONCHEK: The buyer of your services is probably someone like Bob, but Charlie, do you have any input with respect to the due diligence services or at least would it give you cause of alarm if they hired a firm you hadn't heard of?

MR. ARNDT: We're paying more and more attention to who's performing the due diligence and the quality of the work. As the panel said, the attention that's given to this information now it's become more and more a hot button for us.

How are due diligence reports interpreted and used?

MR. HRONCHEK: The other time of heightened anxiety is after the due diligence team leaves. There's anxiety as to what happens next. So, Rick, you hand off your report to Bob or Tom or Charlie, and, Tom, how do you look at that report? What do you do with it from there?

MR. BARR: The one thing that has changed a great deal that I think makes the due diligence process better is the electronic data rooms. So instead of having to go physically into someone's office and make copies of everything and I've got rooms full of people, you do it online, and therefore the accountant and you do it. I can look at certain things. And it's just -- I really encourage that if you get down the line as to do that electronically. There are services that do that. Bob, you use them. It helps this whole concept. What was the rest of your question?

MR. HRONCHEK: From the seller's perspective sometimes it's a black box. Due diligence is done. Rick is not showing up anymore. What happens now? There are a lot of anxious nerves on the selling side. So how do you use the report?

MR. BARR: You've got different people that need different things. Your accountants need certain things. Your operational people need certain things to look at. We basically break it up into pieces as to who looks at what in the data room. And we also have restricted data rooms that certain people can look at certain things like employment contracts that might exist, but you can't have that out there where someone is running around in your organization looking at employment contracts. So you just have to go back and forth. What was funny about what you said was -- and I'm not sure the analogy is exactly right, but I've always kind of experienced that you get to the first stage, which is the dating stage, with the seller you're kind of liking each other and you become buddies in a way. Then you get to the stage where you're getting into due diligence, and he and his staff are copying all this stuff, and they just go nuts: I need six more of this, I need four more of that. Suddenly you get almost like you're breaking up. You almost get to the divorce stage, and then somehow magically at the end in some closing room at some law office -- although you don't even have to do that now; you can do that electronically -- it all comes together. But there's just an emotional process that this goes through. It just reminds me of dating and marrying and getting a divorce almost.

MR. HRONCHEK: Charlie, you mentioned that this is a time when communication works the other way, because, again, you have an anxious person who wants to know whether they have a deal or don't have a deal. How do you manage that with your clients?

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How are due diligence reports interpreted and used? (continued)

MR. ARNDT: From the seller's perspective?

MR. HRONCHEK: Or if you're financing the buyer. I need to know whether or not I have a financeable deal. You've given me a term sheet and maybe a strongly-worded expression of interest, but it's not closed until it's closed. How are you communicating back to me that we have a deal that's going to get funded?

MR. ARNDT: Well, you know, communication is the key as is being able to gather all the information necessary. Right now in this day and age there are so few transactions that are being done, and you do have a heightened sense of awareness and anxiety, especially from a buyer's perspective on whether a deal can get done. A lot of that is driven by expiration dates of letters of intent, but being able to communicate, get that information all together. What we've seen in the past is there was information was provided in stages; whereas now, we really like to have everything put in front of us all together so that we can make an informed decision by having all the information at once.

MR. HRONCHEK: And, Bob, how are you using the due diligence report?

MR. ANDERS: It's typically the first thing that we do when we get a term sheet signed, and it's the most expensive part of our diligence. It's what we outsource. We've done 22 transactions in the last four years. We've used two different firms, and so we like to think that we're an important client to the firm that we engage, first of all, and we like to know the people that are doing the work for us. We want them to know what our expectations are because we don't want to be surprised. And so we spend a lot of time on those kinds of relationships under the premise that you want to know the kind of person you're doing business with.

So we've got two firms that we use. They know exactly the kind of information that we like to prove out. We focus a lot of our work on add-backs, if there are substantial add-backs. We clearly want to follow the cash all the way through the operating cycle. We want to understand who's got control of the cash at each touch point. We want to do some work on the receivables and the quality of the receivables. We want to do a lot of work on the inventory if there is a lot of inventory. If it's a manufacturing company, we want to understand the components of the raw material, the WIP, the finished goods. We want to know what kind of finished goods are there, how long they've been there.

All those things are important, and that's what we engage an outside third party to do, and we want to make sure that these people that we have engaged are out in the marketplace and they can bring us market data. Once we get the report -- and it typically takes ten days to two weeks to get that report -- we have a philosophy of open communication. So we share that with everybody. And we'll send it out to the banker on the deal. We'll send it out to our equity team if there's an equity team. We want everybody to see it, and we'll give everybody three or four days to read it and understand it and have their questions, and then we always schedule a conference call, and it typically takes three or four hours, and we'll go through the report almost page by page and question things. And the job of the diligence report is to make you aware of certain questions and issues that you need to fully understand.

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How are due diligence reports interpreted and used? (continued)

Mr. Anders: And if this conference call is productive and it's used right, yes, you may be asking some contentious questions, but they're questions that you've got to ask and you've got to get to the bottom of things, and so we do that. And so once you come to the conclusion after this conference call you've got most of the real objective financial issues on the table to either agree upon or to disagree upon and if you disagree upon you've got to have a strategy of how you're going to align yourselves, and then after you do that, you can get into the more subjective points of the whole diligence process.

How can the target's management team be successful integrated?

MR. HRONCHEK: Tom, you mentioned that one reason to do an acquisition is to buy management talent. How do you, assuming you have access to them, embrace them and how do you comfort them and let them know that they're a valuable part of the team?

MR. BARR: We just tell them that. We just tell them up-front if we're going to keep them or if we're not. Sometimes you couldn't be totally straight completely, but I just believe in telling people exactly what's going to happen. You're going to say, "we want you here." That you need to go down the next tier of two or three people in the organization and just be up-front. Just like the other process -- and I'm sure you guys do the same thing. We sit the seller down and tell them just how painful this process is going to be, and so we do that right away, and we say that you're going to hate our guts for one more time, I need this one document, but again, if you communicate that up-front it's going to be a much more successful process.

How can an acquirer avoid "falling in love"?

MR. HRONCHEK: If you were to say when there's an opportunity to fall in love with the deal, when is it more likely that you can fall in love with the deal or should be aware of that happening?

MR. BARR: In my case I just try to use a rule not to do that, but, you're right, there are some deals you just want that you just. But you've got to be disciplined just like with anything else, you have to go through the same process. You can't cut corners just because you like something better. And so we always had the same checklist.

How can an acquirer determine whether an acquisition is a success?

MR. HRONCHEK: I'd be curious on everyone's perspective here. How do you know the transaction is working? It may be 50 days from now, it may be 100 days from now, but how do you get a sense that this transaction is on the right direction?

MR. BARR: You track the numbers as tightly as you can. The first thing you do is get in control of the numbers. That's my personal recommendation, and then you just put together management reports that you can use.

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How can an acquirer determine whether an acquisition is a success? (continued)

MR. BARR: We used to have a lot of templates that give you valuable information. In the lab business we tracked check-ins where lab samples come in and you can check them in. We get that report every morning so I could track it every morning, which labs we're doing what and so we got better at it over a long period of time.

MR. ANDERS: When we close a transaction, we've typically got a 90-day plan that spells out exactly what needs to be done for the first three months, and we want to agree on that before we close the transaction, and so that becomes the strategy and the game plan. Then the monthly reporting is very important. To Tom's point, the numbers are what the numbers are. There's always a story behind the numbers, but you need to understand it. So we devised a very simple one page we call it a dashboard report that the CEO or the CFO will send to us, and it has all the metrics that we want to measure, and hopefully we've identified some metrics that might be early warning signals of trouble down the road. So we'll get that report on a monthly basis, and then we just always communicate as best we can, and that means not only with the CEO or the CFO, but it means with the mid-level managers going out on sales calls, understanding how the large clients are adapting or even if they know that there's a change in ownership; often they don't even know, but you just want to understand what the marketplace is telling you. And I believe a good way to know that is to go out with the salespeople.

MR. HRONCHEK: So I guess if you see staff leaving or salespeople leaving or customers falling off, it's a problem?

MR. BARR: Yeah, I mean, absolutely. I have seen that when you do an acquisition your competitors try to poach on you, and they do it in a real simple way. They go to people and say, oh, gosh, you know, you being in this bigger company, you're just going to get squeezed out, and they go and take several people. You've got to watch it like a hawk. It's very easy to happen and so once you do a deal, you've got to stop the rumor mill in the company. We would have town hall meetings every single time and have all the employees if they were available on one phone call and say, okay, let's get all the questions on the table. We'll tell you what we're going to do, and that helps, too. It's just proper open communication from day one.

Who should be responsible for realizing synergies?

MR. HRONCHEK: When you are planning the acquisition as well as going through the closing stage, is it typical that you would assign one person and charter him or her with not only spearheading the search process, but ultimately for achieving synergies? Is it normal to have one person kind of quarterback that process internally to the company, or is it something that you would distribute throughout the team?

MR. ANDERS: From our perspective at Plexus, we typically assign two people to each of our companies. Those people are responsible for talking to the CEO probably every two weeks, attending all the board meetings, knowing as much about that company as you can, adherence with the 90-day plan, reviewing the strategy, the budget, things like that, and then they report back to our team.

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Who should be responsible for realizing synergies? (continued)

MR. ANDERS: I think when Company A is buying Company B, the management of Company A needs to be very transparent and very open about what the reporting lines are, who's responsible for what. I think the organizational structure needs to be fully understood before the transaction closes. You need to know upon what of kind metrics or benchmarks your performance is going to be gauged and evaluated, and then I think after that fact you need to follow up the lines of communication and the lines of authority up and down, and the CEO of Company A then has got to make sure that each of the employees of Company B fully understands what their role is and how they're going to be deemed to be successful.

MR. HRONCHEK: Rick, do you have any post-closing involvement with either the company or your client?

MR. HEWITT: It depends. In some we have a fair amount; some we don't have any. In some cases we are also engaged to do the audit and tax work of the target company. So we stay on after that. A lot of times we will help them go through the purchase accounting through the setting up the opening balance sheet. The controller or financial person in a lot of these companies is just not sophisticated enough to understand how to do that when you've got to change control. So we'll help them go through that. In some cases there's going to be a purchase price true-up after the fact that's usually in the form of where did working capital actually shake out. So the buyer may have 60 days to do a purchase price true-up. We may go in and do some work on the working capital, for example. So I would say in helping them with the purchase accounting and if there's any purchase price true-up stuff after that is usually what we'll be involved in a lot of times after the close.

What are potential pitfalls in closing a transaction?

MR. HRONCHEK: I wanted to ask each of you: Is there one key learning that you need to make sure, one mistake you need to make sure you avoid or one action you need to make sure you do with contemplating and ultimately closing a transaction?

MR. BARR: As I mentioned earlier, you cannot allow yourself to fall in love with the deal. Poor due diligence - that's just got to be 110 percent. If you don't do that, you know, it gets bad. Lack of professionalism, that goes back to the conversation you've got to get outside professionals normally to help you looking at the transaction. The other one -- or one of the last two I have is you need to walk in that day you close and know exactly what you're going to do the next six months or a year. I mean, you can't sort of hit it on the run and do a deal, get the numbers, look at EBITDA and say, oh, yeah, after six months we'll look at synergistic benefits. You need to be prepared to walk in the door on the first day to do that. The last point is I always had a rule that we never would change a penny of the income of the employees out of the box, and I mean a penny. We didn't change the benefits, we didn't change the contributions, we kept their salary the same, and over a period of six months to a year or two years you can work through all of that. In some cases we actually took like three years to make the transition because it was going to cost them money. So I've learned that one a long time ago. Just don't do that. I'm not sure what you guys' experience consists of, but it's just been a policy of mine.

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What are potential pitfalls in closing a transaction? (continued)

MR. ANDERS: I'm not sure I could say just one thing. I will say that just over the years I've learned that personalities and culture are so important, and a junior analyst can analyze the numbers, but you really have to develop an intuitive feel for if the team of A is going to mesh well with the team of B or if these are honest and reputable people with whom you want to do business, and I know that what we strive to do at Plexus is really understand the inner personal dynamics of the management team. In all cases we like to have dinner two or three times with any kind of CEO, and that is without the equity group. We like to have business conferences with people in one room and share ideas, but we also like to get apart from people and we like to get apart from them individually. In other words, if there are two partners, we'd like to take each of them to dinner individually and just make sure they each have a couple martinis and then you learn a lot. But we just want to really understand the inner personal dynamics and what drives someone because you can spend all your time making sure that the financial structure is right, but you've got to really have confidence in the people with whom you do business. So it comes back to management, management, management.

MR. HRONCHEK: Charlie, anything you've observed that you might want to share?

MR. ARNDT: A little bit to what Bob said. You can do a lot of due diligence -- you could spend a month or six months, but it's not until you actually own it you know what you have. What we've done in the past is we've tried to look at organizations or deals that are within a geography where we can get in the car and go look at it. There's nothing like walking the plant with the supervisor, and while getting to know management is key, being able to see the attitude of the employees, because the transition, while it may be difficult until the closing, the transition really doesn't take place until you actually turn the key in or turn the keys over.

MR. HEWITT: I'm sure I'll probably think of some things after the fact after we leave here that I should have said. People in our audit staff come and ask me and say, Rick, what do you really do, and I'm trying to explain to them the process, it's fairly easy to go in and look at the balance sheet, look at the income statement, beat those up pretty heavily, and that's a part of what we do, and that's what we kind of call the mini audit, the test work on the numbers. But the difficult part and the part that you really want to make sure, in my opinion, that I get right is, now I feel comfortable with the numbers, now what are the numbers telling you? What's it telling you about the business? What are the trends? Where is this thing going? And so, you've got to make sure you look beyond the numbers, and I want to make sure that our report reflects that, that it kind of opens up the business and there's some transparency into the business. So that's one thing.

Another thing -- and then it goes back to the management -- is making sure that you're comfortable in their ability to execute what they say they're going to be able to execute, but also find out where their loyalty is, where the loyalty of certain employees are. I've seen some situations where the controller had been with the owner for 10, 15 years, and the seller's got that controller. When that acquisition is done, that controller needs to understand that his loyalty is now with the new owners and not with the seller, and so if you're going through a purchase price true-up or you're having to look at the working capital or some things, you know, his loyalty is now with the new owner and not with the seller, because if it's not, then you may run into some problems.

MR. HRONCHEK: It sounds like the theme is just coming back to people and the basics of acquisitions whether troubled or not and that is people, people, people.

Audience Questions

MR. HRONCHEK: We do have time for a few questions before we adjourn.

AUDIENCE MEMBER: I have one actually for Tom. He said something that was pretty interesting earlier, but regarding the transition of the management team and keeping them informed, do you ever run into situations where the seller has got such a strong personality and they're planning on leaving the business obviously at some period of time, either immediately or within six months or so, how do you deal with kind of transitioning that management team into yours given how strong that seller's personality might have been before? Does that make sense?

MR. BARR: I think it makes sense. Again, depending over the years the size of TestAmerica and where we got to because we had more depth, so if I had a problem, I could drop somebody in there at least temporarily. But the first thing is back to what we were talking about earlier, which is you need to know that next tier of managers. Before you close, whether it's two weeks before, whatever, you need to meet them, spend time with them, take them to dinner and find out the real story and their level of satisfaction. The best example I can give you is we bought a company, and it was a husband and wife team, and she worked in the office, and he ran it. They had several employees, a bunch of field stuff. Well, she was supposed to stay with the business going forward. And I took one of the subordinates out to dinner and found out the woman was just a total witch, that half the people wanted to leave, and they said, don't let her stay. So I had to go cut a deal with the owner to say your wife is going to have to kind of move aside. But I wouldn't have known that if I hadn't burrowed deep into questions about the nature of the business. Does that answer your question?

How long is the acquisition process?

MR. ANDERS: I think it's a very, very long process, and I would say that if someone wants to sell their business that they need to be in planning mode for a couple years before that. You need to make sure the company doesn't depend on you individually. You need to diversify your client base. You need to make sure that the management team is informed. You need to make sure that all of your governance issues are taken care of. You need to make sure that you've got good service providers, that your legal counsel, and that your accounting staff is up to speed. And I always tell small businesses that one of our goals is to enable you to run your business as if it's a public company with full reporting. And it's probably going to enhance one's value if you begin to think like that before you want to sell, and conversely, when you look to buy somebody, you need to buy somebody who already has gone through all of the risk management analysis of all the various disciplines that you need to evaluate and then have a good governance practice in place.

Conclusion

MR. HRONCHEK: It makes sense. I promised that we'd adjourn at 10. So I wanted to thank the panelists for attending this morning. Tom, thank you very much. Charlie. I think the panelists will stay a few more minutes if you have a specific question for one, but thank you for attending as well. I hope you enjoyed it. Thank you.