



Summer Highlights

This fall issue of our newsletter highlights some of the trends and activity we have observed over the summer months.

M&A

Deals over \$50 million are closing, deals under \$20 million are still tough to do.

Liquidity in the mid-cap markets has been increasing, allowing for an increase in M&A activity in this market. The exception has been in small-cap deals, specifically micro-cap (deals under \$10 million), as lenders have continued to view smaller companies as still risky in this economy.

Lenders are slowly gravitating back into the market though, companies are optimistic that this increased interest will soon translate into more lending for small companies.

Most of the Private Equity deals

in the small-cap space have been add-on transactions to existing portfolio companies.

Contingency payments and escrow contributions are increasingly at risk.

Contingency payments and escrow hold-backs are less likely to be realized, as purchase structures become more sophisticated. At risk are any claims for escrowed funds or monetization that have not yet happened.

Among the situations that are increasingly at risk are net working capital adjustments,, undisclosed liabilities, financial statement adjustments, intellectual property claims, employment issues and earn-outs that fail to materialize.

More companies seeking to raise capital than sell outright, a good time for partial

recaps?

While over-all M&A activity is down among smaller companies, more business owners are seeking to raise equity capital and pursue strategic partnerships to achieve their growth objectives than in past years. This is largely due to the lack of debt financing to fuel growth.

With valuations are improving, the prices owner's seek are still eluding them, causing many to put off selling their company in the near future. A good strategy in today's market for companies that see growth potential is a partial re-capitalization.

Some of the advantages to a partial re-cap (where a portion of the company is sold)

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Investment Banking

Mergers & Acquisitions
 Restructurings
 Workouts
 Recapitalizations
 Corporate Finance
 Value Enhancement

Management Advisory

Corporate Leadership
 Turnaround Management
 Exit Planning
 Succession Planning
 Strategic Planning
 Interim Management

Company Performance and the Economy

Economic problems still effecting small-cap companies.

The economic upheaval is still adversely affecting many small-cap companies. Sales are flat, or even down, and borrowing is difficult. The double whammy of the slow economy and lack of liquidity often pushes companies

into a downward spiral. Customers take longer to pay, stretching out receivables as inventory levels climb, slowing the cash cycle and increasing the need to borrow at a time when funding is tough to obtain.

More bankruptcies in sight for So Cal companies

Over the last few years, bankers have continued to "kick the can down the road", amending and extending loan agreements in hopes that the economy will turn around and have a positive effect on borrowers.

However, as the economy continues to limp along, many lend-

ers are growing impatient with their customers, especially those who have not created a meaningful turnaround plan.

As lenders begin to call loans due, borrowers are increasingly starting to face bankruptcy as the (continued on Page 2)



Highlights Continued



It all adds up to a tougher deal environment. Call and advisor today.

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Lazarus Real Estate Group, Inc. offers real estate services

<p>are that the seller can obtain growth capital; often they are able to take some money off the table and re-invest elsewhere in preparation for an eventual sale</p> <p>Private Equity firms usually provide professional management assistance, and likely are a ready buyer when the time is right.</p> <p>More Due Diligence While deals are getting done, they are taking more time to close, as investors and lenders are performing more stringent due diligence than in the past.</p>	<p>Some of this is due to increase sophistication in deal structure, intellectual property, and the recent economic down turn.</p> <p>A company seeking to raise capital, obtain a loan, or sell would be well advised to take extra time preparing for due diligence before going to market. A well prepared client is more likely to obtain the best pricing, and increase the odds of successfully closing their transaction.</p> <p>Lending is still tight in the</p>	<p>small-cap market Business loans for operating capital are still difficult to close. Leverage is generally down, and many lenders are hesitant to lend on inventory, often a large part of a small company's current asset base.</p> <p>Companies are finding it increasingly necessary to engage financial advisors to help them navigate the difficult waters of debt and equity financing. A good advisor can help ensure success in raising capital.</p>
<p>only alternative for survival.</p> <p>While bankruptcy filings for small-cap companies have been down lately, we expect to see an increase in activity in the next 6-9 months. Companies with strong balance sheets and a solid plan will still be able to find alternative financing. But those with no other lender in the wings will face the unpleasant decision.</p>	<p>If bankruptcy is to be a successful option for a company, they will need to have plenty of cash available and a good plan of action going forward. The longer a company lingers in re-organization, the less likely they are to successfully emerge.</p> <p>Smart companies are seeking the advice of turnaround specialists much earlier in the process .</p>	<p>Engaging an advisor before a company is in crisis can mean a greater chance of avoiding crisis. Some owners have even opted to get advice while the company is doing relatively well, as a precautionary measure to identify any potential problems before they occur.</p>
<p>Southern California Real Estate Market still slow, more foreclosures on horizon</p> <p>The real estate market in Southern California will continue to struggle in the near future. As loans come due, and few lenders available for refinancing, we see foreclosure activity will increase as defaults rise. Values are soft,</p>	<p>but it may well be advisable to sell now before prices tumble further.</p> <p>Lazarus Resources Group continues to be active.</p> <p>The summer has been busy for Lazarus Resources Group, LLC. Our projects have included bankruptcies, turnarounds, strategic planning, capitalizations,</p>	<p>M&A, and real estate sales. If we can be of assistance to you in these areas, please contact us.</p> <p>For more information about Lazarus Resources Group, LLC, visit our website at: www.lazarusresources.com</p>