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Core Capital Group is a partner firm in the International Network of M&A Partners (IMAP). With 60 partner offices located in 40 countries, we closed 252 transactions in 2008 with a combined value of \$13 billion.

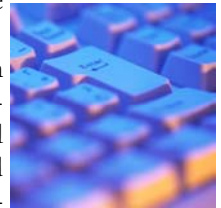


INTERNATIONAL NETWORK OF M&A PARTNERS

Will the Acquisition Work? What to Watch Out For.

Numerous studies have shown that many acquisitions fail to create real value. By “fail” we mean that the price paid is higher than the value the transaction ultimately creates for the acquirer. The executives in most acquiring firms realize this fact but feel that they can do better, and they can if they know what to watch out for. The experiences of many have shown the following to be warning signs that a deal may not produce the desired results for the acquirer.

- ◆ **Deal size as the primary driver:** While using acquisition as a substitute for organic growth will increase a company’s size, it will not necessarily increase its value. Value is created when the strategic fit is right and where “one plus one equals more than two”.
- ◆ **Over eager executives:** In the heat of a competitive acquisition battle, it’s not unusual for the “thrill of the chase” to cause a potential acquirer to lose track of the factors that constitute real success. It’s easy to understand why. Investors, the media, and others praise the “successful acquirer” and we proclaim the person making the highest bid as “the winner” without regard to whether the deal will create real value. It’s the cautious acquirer that seeks to stimulate organic growth as the result of an acquisition who has proven to have the best chance of creating value.
- ◆ **Binary view of integration:** Acquirers have a tendency to develop a preference to either completely and quickly integrate an acquired company or they leave the acquired company completely autonomous. While both approaches represent efforts to minimize integration stress, they also tend to hamper value creation.
- ◆ **Lack of strategic rationale:** A sound strategic plan for an acquisition will explicitly state how the two entities together will be able to accomplish something important in the marketplace that neither company could have achieved alone. Developing the strategic plan after a deal is deemed to be desirable gets the “cart before the horse,” as the old saying goes. Having a clear strategic plan is also an essential condition to developing a sound valuation for the deal.



A Different Type of Cycle?

McKinsey reports that during the previous M&A cycle, volumes peaked in 1999 and then fell almost by half during the following year before they hit bottom, in 2002 with the cycle ending suddenly and decisively. It’s impossible to say where the M&A market will go in the short term, and nobody is anticipating a fast recovery. But when you think about the trends in the previous cycle and the market’s performance in 2008, the picture that emerges is quite different from the traditional boom-and-bust pattern of previous cycles. Certain characteristics of deal activity in the previous up cycle suggest that M&A may be more resilient and more relevant to the general economy in this downturn than in previous ones. Key amongst these are 1) M&A is increasingly global rather than dominated by a few countries with little linkage among them, 2) Private equity reached unprecedented levels of activity and importance during this cycle, expanding from 4 percent of the global M&A market in 2000 to a staggering 20 percent in the first half of 2007, and 3) Strategic buyers, showing discipline, didn’t lose sight of value.

(OVER)

M&A Sound Bites

- ◆ **Small Business Prognosis:** Woman- and veteran-owned small businesses look to gain ground under the Obama administration. During his campaign, the President said he would strengthen federal small business programs and focus on women, service-disabled veterans and minority business owners. To help with that, the Administration plans to restore SBA's budget and strengthen its position within the government. Recent Administration guidance to Executive departments expresses the President's intent to reduce sole source contracts and re-examine outsourcing of "inherently Governmental functions". If implemented, this direction could change the valuations of firms whose work is awarded non-competitively, and for firms whose contracts support acquisition and administrative functions.
- ◆ **Federal Acquisition Patterns:** The historical slow rate of change in federal acquisition patterns would argue that no revolutionary adjustments are on the near horizon.
- ◆ **The Federal M&A Condition:** While the Federal market hasn't been totally immune to the economic turmoil, it is in better shape than other sectors of the economy. While decreased availability of capital combined with its increased cost is changing both growth strategies and valuation decisions, many publicly traded companies have strong balance sheets and substantial cash reserves. Commercial companies and private equity firms are also showing more interest in the government market.
- ◆ **2008 Federal Services M&A Market:** Eighty Three (83) deals were completed in this sector. Sixty Five percent (65%) had valuation under \$50 million, 14% in the \$50-\$100 million range and 21% above \$100 million.
- ◆ **Some Predictions for 2009:** premium valuations will continue to be driven by positioning. Firms heavily involved in cybersecurity, intelligence services, IT infrastructure, health care technology and logistics will receive valuations well above the average for the sector. Tax policy will continue to be beneficial to sellers—but don't wait too long!
- ◆ **The *Global M&A Predictor*** from KPMG Corporate Finance forecasts that the remainder of 2009 will see a continued fall in global mergers and acquisitions (M&A). *The good news:* This same survey also suggests that deal activity should slowly return late in the year as liquidity improves and investors recognize attractive value in certain sectors. KPMG's findings are based on a forward looking survey of 1,000 leading companies.
- ◆ **Executives' economic expectations,** though gloomy, don't appear to have worsened notably over the past six weeks, according to a *McKinsey Quarterly* survey in the field from January 27, 2009, to February 2, 2009, during another round of significant layoffs and falling stock prices. Many respondents say government action has made the economic situation better than it would have been.

Recent Transactions

CIBER, Inc. acquired Canon Technology Solutions from Canon U.S.A., Inc. Canon Technology Solutions provides technology solutions and was owned by Canon U.S.A., Inc.

Astronics Corp. (NasdaqGM: ATRO) signed a definitive agreement to acquire DME Corporation. Astronics Corp. signed a definitive agreement to acquire DME Corporation, which manufactures aviation and defense safety and test products for the United States military, Federal Aviation Administration, Homeland Security Administration, and aviation industry. The consideration consists of \$45 million in cash, 0.5 million Astronics's common stock and an additional \$2 million subject to meeting revenue performance criteria in 2009.

Swedish Space Corporation signed an agreement to acquire the remaining 90% stake in Universal Space Network, Inc. from Warburg Pincus LLC, Hallador Venture Partners, LLC, Cycad Group, LLC, Falcon Fund and Frost Group, LLC for SEK 350 million.

Lockheed Martin Corp [MD] acquires UNITECH [VA] Lockheed Martin Corp (New York:LMT), a manufacturer of guided missiles & space vehicles, radar systems, military communications and information systems, acquired Universal Systems & Technology Inc. (UNITECH), a provider of interactive training and simulation, homeland security, and technical solutions services.

Favrille Inc. [CA] acquires MyMedicalRecords.com Inc [CA] Favril Inc (OTC:FVRL) (FI), a biopharmaceutical company, acquired all the outstanding stock of MyMedicalRecords.com Inc (MM), a provider of web-based personal health and medical records storage services, in exchange for 92.599mn FI common shares valued at USD 3.7mn.

Cisco Systems Inc [CA] acquires Richards-Zeta Building [CA] Cisco Systems Inc (Nasdaq:CSCO), which manufactures and wholesales networking and communications products with specialization in education, government and home communications, acquired Richards-Zeta Building Intelligence Inc, a manufacturer of hardware and developer of software.

Riverbed Technology, Inc. (NasdaqGS: RVBD) entered into an agreement to acquire Mazu Networks, Inc. Riverbed Technology, Inc. entered into an agreement to acquire Mazu Networks, Inc., a company which offers solutions that enable IT organizations to manage, secure, and optimize the availability and performance of business services, in cash. The consideration includes a cash payment of \$25 million at closing and a payment of up to \$22 million in cash based on achievement of certain bookings targets in a defined twelve month period following the closing.