Schneider Downs Corporate Finance

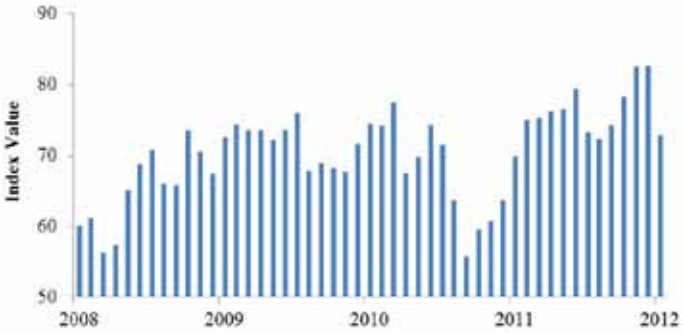
2012 Year in Review and Outlook for 2013

Despite economic and political uncertainties throughout much of the year, the mergers and acquisition ("M&A") market remained strong throughout 2012, picking up where 2011 left off. Much of the activity, particularly in the second half of the year, was attributed to sellers seeking to take advantage of tax rates in 2012, ahead of the planned increase in 2013. In addition, deal activity was driven by i) strong stock market performance, ii) continued improvement in the lending market and iii) high strategic buyer demand. For 2013, the current financial climate should continue to foster M&A activity; however, transaction volume is likely to decrease in the first part of 2013 since advisors were focused primarily on closing backlogged deals and delayed marketing new transactions in the final months of 2012.

Continued Recovery

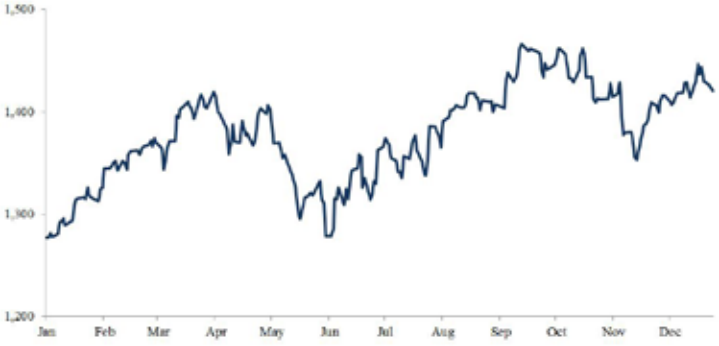
In general, the overall U.S. economy continued to rebound from the 2008-2009 recession. The S&P had an excellent year, rising more than 13%. Consumer sentiment increased throughout most of 2012 before falling at the end of the year as the "fiscal cliff threat" grew nearer. In all, consumer sentiment hovered around an index level of 80 for much of the year and posted its highest average in more than five years.

University of Michigan Consumer Sentiment Index
2008-2012



Source: http://www.sca.isr.umich.edu/

S&P 500 Index
January 1, 2012 - December 31, 2012



Source: Google Finance

According to *The M&A Advisor*, measures of corporate health, including earnings, dividends and cash reserves, have all climbed to record levels, leaving sellers with healthier financial results and giving buyers more ammunition to execute deals in both the short and long term. These indicators suggest that the foundation for M&A activity is sound, and deal volume should be on the rise in the near future. Although it did rise in 2012, the increase was modest, and the reduction in total deal value underscores what some industry experts considered a lackluster year. Going forward though, there is a solid financial foundation that should foster more activity in the coming years.

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Political Uncertainties Affected Volume

Several significant political factors were present in 2012. First, the presidential election cast uncertainty surrounding the political landscape and led many to postpone deals until a more definite situation could be forecast. Additionally, the looming "fiscal cliff," as well as the resulting changes to the American tax code, likely caused companies to hold onto cash rather than pursue acquisitons.

With the conclusion of the presidential election and because of the anticipated increase in capital gains taxes in 2013, there was an uptick in M&A activity in the last two months of the year, as sellers rushed to complete transactions in the more favorable tax environment.

Active M&A Market in 2012

Carrying on the momentum from 2011, deal volume remained high, showing a modest increase in 2012. Overall, the total number of transactions increased from 15,187 in 2011 to 16,652 in 2012. Although political factors resulted in some pessimism throughout the year, high stock market returns, an increasingly healthy lending market and the presence of cash-rich strategic buyers helped to sustain the previous year's momentum.

United States M&A Activity
(Dollar amounts in billions)

Source: S&P Capital IQ

Despite the increase in number of transactions, overall reported aggregate deal value decreased from $975 billion in 2011 to $901 billion in 2012. We believe the decrease in aggregate deal value resulted from i) strategic buyers focusing on add-on acquisitions versus new platform acquisitions and ii) buyer conservatism in the face of the uncertain political climate.

Transaction Size Range	Total Number of Transactions					% Change
($ in millions)	2008	2009	2010	2011	2012	'11 - '12
$0 - $25	2,654	2,660	3,412	4,022	4,133	3%
$25 - $100	979	688	1,163	1,453	1,612	11%
$100 - $500	550	377	673	805	766	-5%
$500 - $1,000	100	82	147	161	160	-1%
$1,000+	102	75	147	134	167	25%
Total Disclosed	4,385	3,882	5,542	6,575	6,838	4%
Total Undisclosed	6,240	5,645	7,899	8,612	9,814	14%
Total Transactions	10,625	9,527	13,441	15,187	16,652	10%

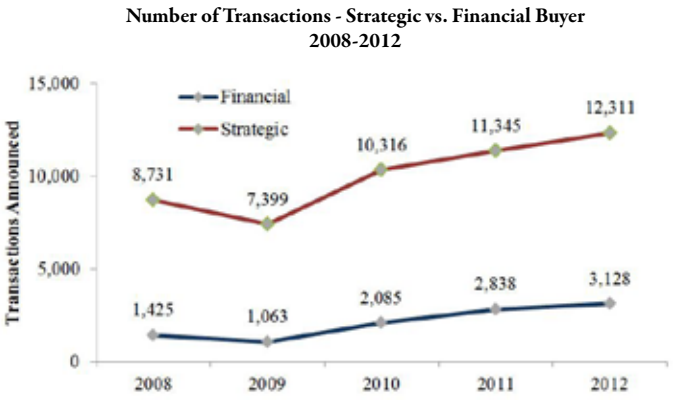
Source: S&P Capital IQ

Strategic Acquirers Continued to Be Active in 2012

Strategic acquirers made up the majority of transactions in 2012, seeking smaller companies to complement their existing offerings. Despite an improved financial climate in 2012, buyers were less willing to take risks on large-scale "transformational" deals and instead opted to target smaller companies in an effort to expand core product or service lines. In total, strategic buyers accounted for just over 80% of the total deal flow for the year.

Private Equity Firms Aggressively Sought Add-On Targets; Cautious with New Platforms

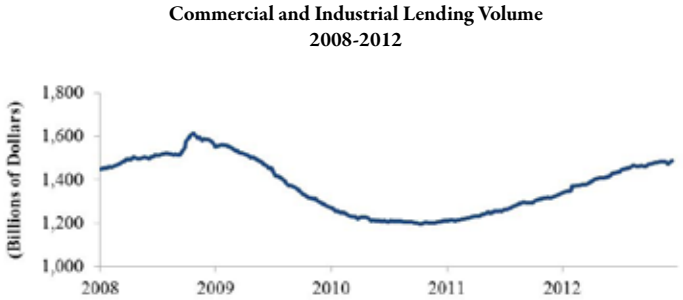
While they remained selective in choosing their targets throughout 2012, financial buyers actively sought acquisitions that presented attractive financial returns. They focused their efforts on acquiring small companies that were used as add-on acquisitions for current portfolio companies. Going forward, private equity firms will look to sell portfolio companies they acquired before the financial crisis now that those companies are more financially stable. This should generate additional sellers in the market.



Source: S&P Capital IQ

Lending Conditions Improving

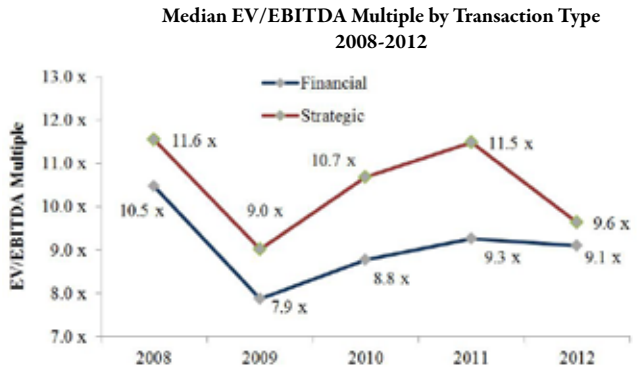
2012 saw a more relaxed lending climate, as the effects of the recession subsided in the first three quarters. According to a report from the Associated Press, bank earnings reached their highest point in six years, with Q3 earnings of $37.6 billion in 2012 – a 6.6% increase from the same quarter in 2011. Commercial and industrial lending also increased from 2011 levels and approached the five-year highpoint from 2008. Although demand for loans among small businesses declined slightly in the final months of the year, lending standards eased throughout 2012.



Source: Federal Reserve Bank of St. Louis

Transaction Multiples Declined in 2012

Median transaction enterprise value to EBITDA multiples declined for both strategic and financial buyers in 2012. The more pronounced drop came from strategic buyers, falling to 9.6x from 2011's three-year high of 11.5x. Financial buyers saw a more modest drop in multiples, declining from 9.3x in 2011 to 9.1x in 2012. The likely causes for the decreased multiples were i) seller earnings reaching a three-year high and ii) buyers taking a more conservative approach in acquiring companies.



Source: S&P Capital IQ

Optimism Ahead for 2013

Although the acceleration of deals in the final months of 2012 is expected to result in somewhat of a lull in M&A activity in the first quarter of 2013, the overall outlook for the 2013 M&A market is largely positive. The underlying financial markets continue to be positive, as the economy puts more distance between itself and the recession.

In general, the underlying financial foundation for M&A transactions is solid. Profitability increased across most industry sectors, cash reserves are plentiful and stocks continue to rise, as the economy returns to its pre-recession state. In addition, banks have lowered their standards for lending, allowing companies to once again gain access to capital and fund investment opportunities.

Strategic acquisitions will continue to drive the market in 2013. Strategic acquirers will continue to look for acquisitions that support and expand core product offering. On the flip side, companies will continue to look to divest non-core assets. One industry source reports that divestitures accounted for 43% of the total disclosed deal value and 30% of the total number of deals overall in 2012. As companies attempt to unload the value trapped within their assets, divestitures should continue, fueling a robust sell-side market into 2013.

Private equity deals also accounted for a significant portion of the 2012 deal flow and can be reasonably anticipated to continue into the new year. Last year, private equity transactions accounted for roughly 20% of the total deal value. With a significant amount of deployable funds and increased availability of high-yield debt, private equity aggressiveness should continue, particularly in the middle market.

Schneider Downs Corporate Finance, LP is a registered broker/dealer. Member FINRA/SIPC.

For more information about SDCF, visit our website at www.sdcorporatefinance.com.

About Schneider Downs

- Ranked as one of the top-60 accounting and business advisory firms in the United States
- Fourth-largest certified public accounting and business advisory firm in Western Pennsylvania and one of the ten-largest firms in Columbus, Ohio
- Registered with the PCAOB
- Member of the Center for Audit Quality
- Founding member of IGAF Polaris, now PrimeGlobal, providing representation and resources in principal cities around the globe

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Recent Transactions

2012

Snap-tite, Inc. was acquired by Parker Hannifin Corporation

The undersigned served as exclusive financial advisor to Snap-tite, Inc.
Schneider Downs Corporate Finance, LP

2012

Pontotoc Spring, a division of Union Spring & Manufacturing Corp., has been acquired by MW Industries, Inc., a portfolio company of Genstar Capital

The undersigned served as advisor to the seller.
Schneider Downs Corporate Finance, LP

2012

2D2C, Inc. has issued common stock

The undersigned served as placement agent and advisor to 2D2C, Inc.
Schneider Downs Corporate Finance, LP

2012

NTS Blue Jay 2012, LP, an affiliate of NTS Energy LLC, has issued units of general and limited partnership interest

The undersigned served as placement agent and advisor to NTS Energy LLC.
Schneider Downs Corporate Finance, LP

Schneider Downs Corporate Finance, LP Year in Review

Schneider Downs Corporate Finance (SDCF) enjoyed another active year in 2012. We were proud to announce the successful completion of two sell-side assignments and two capital raise transactions. In addition, we completed ten consulting assignments.

SDCF was pleased to announce that Graig T. O'Shane, Vice President of Schneider Downs Corporate Finance, LP, earned the Chartered Financial Analyst (CFA) designation administered by the CFA Institute.

2012 Transactions

SDCF advised Snap-tite, Inc. on its sale to Parker Hannifin Corporation. Snap-tite is a manufacturer of innovative, high-pressure fluid power components for oil and gas, industrial and research markets with revenue at the time of about $100 million. Snap-tite's ownership hired SDCF to develop marketing material, solicit indications of interest and negotiate transaction terms with potential buyers. SDCF had previously advised Snap-tite on the 2010 sale of Snap-tite Hose, a Snap-tite business unit, to All American Hose, LLC.

SDCF advised Union Spring & Manufacturing Corporation on the sale of its Pontotoc Spring division to MW Industries, Inc. Pontotoc Spring is a leading manufacturer of aftermarket coil springs used in car and light truck suspension systems. It also manufactures metal stampings for industrial, consumer and automotive applications. SDCF assisted Union Springs' owners in marketing the business to potential buyers, negotiating transaction terms and management of the due diligence process.

SDCF advised 2D2C, Inc. on its placement of equity. 2D2C, Inc. manufactures and sells outlets and receptacles used to make residential and commercial building "smarter" by improving energy efficiency, reducing carbon footprints, improving electrical safety, providing asset security and increasing daily operational convenience.

SDCF advised NTS Blue Jay 2012 on its sale of partnership units. The proceeds from the offering were used to fund the development and completion of oil and natural gas wells in Northwest Pennsylvania. The drilling program's operator, NTS Energy LLC, is an oil and gas exploration, drilling and operating company that focuses its efforts in Western Pennsylvania.

2013 Outlook

The underlying financial markets are relatively healthy as we enter into 2013, which should encourage continued strong M&A activity. Strategic buyers have large cash reserves, and financial buyers are actively seeking to put capital to use as well as sell portfolio companies that were acquired pre-recession. Additionally, banks continue to seek lending opportunities to companies with healthy credit. The combination of these factors should lead to another active year for SDCF.

About Schneider Downs Corporate Finance, LP

Schneider Downs Corporate Finance, LP can assist business owners with their investment banking, corporate finance and strategic advisory needs. We bring a powerful combination of deal experience, creativity and tenacity to every client engagement, taking a customized approach that not only reflects the needs of the owners, but also the business and industry parameters of each transaction.

If you're interested in learning more about what Schneider Downs Corporate Finance can do for you, please contact a member of our team for a confidential discussion.

Schneider Downs Corporate Finance, LP is a registered broker/dealer. Member FINRA/SIPC.

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