TOBIN SOLITARIO
INVESTMENT BANKING Grp.

Street Wise

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tobinsolitario.com

WHAT IN THE WORLD IS GOING ON IN THE FINANCIAL MARKETS?

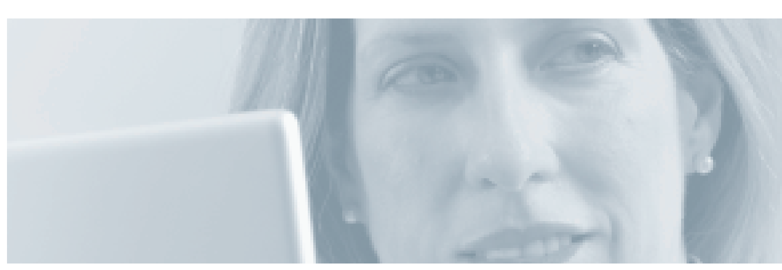
The most frequent question our firm hears these days from our clients, prospects and friends is regarding the condition of the M&A and financing markets in our marketplace.

Just to brush you up, Tobin Solitario executes M&A and financing transactions in the smaller end of the marketplace. We work on transactions generally in value of $100mm or less.

You, no less, have been reading of and experiencing the near chaos in the marketplace as a result of the recently coined “Subprime Mortgage Crisis.” But most of the information you read and see is about larger companies and larger deals. Tobin Solitario is asked about the impact of the gyrations in the financial markets because we operate in the “smaller” M&A marketplace. We execute at the smaller end of the financial markets and know, as well as anybody else, how it looks and feels out there.

In answer to the question, we haven’t seen a whole lot of impact from the subprime mortgage crisis in our marketplace. We find that the financial buyers with whom we work, the private equity groups who buy smaller companies, continue to have a strong appetite for acquisitions. We have had a couple of our financial buyer friends, who really leverage up their acquisitions, say that some transactions might be harder to close now. But not many.

Further, the strategic buyers are puttering right along, sometimes feeling a bit more confident in this environment that they can more readily win an acquisition over their financial buyer rivals.
So there is some good news, after all.



SERVICES: WHAT WE DO

Sell-Side M & A

CAPITAL GAINS TAX AND TIMING THE SALE OF YOUR BUSINESS: According to recent news articles, the leading Democratic candidates for president have said they’d favor higher investment taxes on upper-income taxpayers. While these tax increases will affect the average stock market investor, they may also become a contributing factor for individuals who have been contemplating the sale of their privately held businesses.

As a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003, most of the population is taxed at a maximum rate of 15% on appreciated capital assets that are sold by an individual after being held for more than one year. Under the current law’s “sunset” provision, previous capital gains rates (10% for the lower-bracket ordinary income tax taxpayers and 20% for everyone else) will apply beginning in 2011 unless the 2003 Act is extended or new rules are enacted before then.

Senators Clinton (D-NY) and Obama (D-Ill) have both said they would support letting the cuts expire for those with taxable incomes over $250,000, and Senator Edwards (D-NC) has said he’d like to do so for incomes in excess of $200,000. This apparent push to generate more tax revenue comes at a time when the federal budget faces challenges from three areas: the likely reform of the Alternative Minimum Tax, the rising costs of entitlement programs such as Medicare and Social Security, and the cost of the war.

While the full effects of this tax increase are unknown, individuals looking to sell their privately held business may want to consider accelerating the timing of the sale for a number of reasons. First, there has been some speculation that an anticipated tax increase could trigger a short-term sell-off of publicly traded securities thereby driving company valuations down. Second, many believe that recent LBO purchase multiples appear to have peaked. Third, a potential capital gains tax increase could impact what an individual will realize on his company’s eventual sale.

Now, while no one can possibly predict what will happen inside the Beltway or what effects Congress’ decisions will have on a company’s future value, we believe these issues are worth considering. Of course, tax decisions of this nature should always be made in consultation with your tax and financial planning professional. If you need help finding one, let us know. We can help.

WE’VE MOVED!

Tobin Solitario Investment Banking Group has moved to new offices. We are now located at **201 S. College Street, Suite 1610 in Charlotte, North Carolina, 28244.** Our new office space puts us in uptown Charlotte, which is the most important business center in this city which ranks as the second largest financial center in the United States.

Please be sure to update our address in your database and in your files. Also, when you are in Charlotte, please be sure to look us up.

“When we compare, therefore, the state of a nation at two different periods, and find, that the annual produce of its land and labour is evidently greater at the latter than at the former, that its lands are better cultivated, its manufactures more numerous and more flourishing, and its trade more extensive, we may be assured that its capital must have increased during the interval between those two periods, and that more must have been added to it by the good conduct of some, than had been taken from it either by the private misconduct of others, or by the public extravagance of government.”

ADAM SMITH, *An Inquiry into the Nature and Causes of the Wealth of Nations*
(Fifth Edition, 1789), Book II, Chapter III

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NEWS & TRENDS: What is your exit strategy?

DO YOU HAVE A HOUSE NUMBER ON THE DOOR? I recently went to a party on a dark, cold night. I was trying to find the house where the party was to take place in a dark, suburban neighborhood. I had such difficulty finding the party – neither my host's house nor any of the surrounding houses had features identifying the houses. Namely, there were no house numbers on the doors. It was terribly disconcerting as a guest to be attempting to find the house, much less to stand at the front door, with no house number, wondering if I was at the right place.

This experience rings true with me with our clients. We sometimes find ourselves, in helping our clients prepare for a sale or a money-raise, sprucing up the "outside of the house." In our last newsletter, we talked a bit about preparing the INSIDE of your house – i.e., having good, organized financial statements. But how does the outside of your company look?

Does your company have a strong, recognizable brand? Is the website substantial and informative? When a newcomer approaches your company via your website, can he figure out what your company is and what it does?

Further, does your company know what it does, and why? Does your company have a mission statement? Does every employee and owner of that company understand the mission statement? Can each of them execute on it?

A company is more readily saleable when it is easily identifiable and when there are defining characteristics such as a "house number" that the newcomer can visualize from the street. When prospective acquirors can readily understand what your company does and what its competitive advantages are, then your company is more attractive for acquisition.

To be prepared for a sale, your company should have an identity and a brand. Further, your company should have a mission statement. Your company should also have a business plan that is updated year to year and is used as a living document by which the leadership of the company is guided.

M&A Terminology

ASSET SALE:

In an Asset Sale, the buyer elects to purchase only specific assets of the selling company and may assume certain liabilities of the company, as well. In this scenario, some known assets may be left behind with the selling company, and unknown, or contingent, liabilities, also remain with the selling company. The buyer does not actually purchase the selling company. Rather the selling company remains in existence and is owned or wound down by the current shareholders. Any asset or liability not actually assumed by the buyer remains in the ownership of the seller.

STOCK SALE:

In a Stock Sale, the buyer takes ownership of the stock of the selling company. The buyer takes ownership of the entire company and all assets and liabilities, known and unknown, within the selling company. No wind-down is required by the selling company, since everything attached to the company is transferred to the buyer.

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ONLINE.WSJ.COM/MDC/PUBLIC/PAGE/2_3020-TREASURY.HTML?MOD=2_0031 – (even though we are M&A and equity guys, we like to catch up on spreads from time to time)
WWW.BOOKCROSSING.COM – (we use this site when we can't bear to actually throw away a book for which we no longer have room nor use)