

U.S. Economy Improving Despite Global Events

In our last *Quarterly* we were concerned about the availability of bank credit to small to medium sized companies. That is still of concern to us as it is to many of you (see the results of last issue's survey on page 3), but we are increasingly seeing better availability and when good companies are being offered credit, it is on very favorable terms.

The better availability is the result of a more positive attitude in the economy in general, despite all of the gloomy global goings-on. First quarter GDP was originally reported as up 3.2% (later revised to 3.0% - but still up). Consumer confidence has been improving, corporate earnings are up (albeit against weak comparables last year) and unemployment conditions are improving slightly.

We had a general uptrend in the US equity markets for much of this year, although the performance in May was the worst since 1962 and early June wasn't much better. For historical perspective, in 1962 we were in recovery from a bear market when the Cuban Missile Crisis occurred. Because the underlying economy was gaining strength at the time, the 1962 downdraft in the equity markets was short lived. Our economy is growing now, so hopefully recent market fluctuations were just an aberration caused by the psychology of digesting pockets of turmoil in multiple parts of the globe.

In May, Greece blossomed into a full blown crisis and dragged Portugal and Spain to the edge of the abyss. While Greece created big problems for the EU and the Euro, it is important to remember that US exports to Europe account for only about 3% of US GDP. The turmoil may have even benefited the US. The Euro had been gaining steam as the only alternative to the US dollar as a reserve currency. That seems a fanciful thought at this point. Accordingly, interest rates in the US have remained at historical lows as investors have flocked to the safety of the US dollar.

The concern that China could cause problems by selling some of their horde of \$2 trillion US dollars also seems

fanciful at this point, without the alternative of another reserve currency.

Neither does gold offer an alternative safe haven to China. China has small existing gold reserves (1054 tons worth about \$39 billion) - equal to the gold reserves of Switzerland. In contrast, the US has 8,134 tons of gold (worth about \$300 billion). China simply cannot buy enough gold - it does not exist and will not be available unless China drives the price up to several thousand dollars per ounce.

In addition to the economic and market events of the last month, the world experienced an act of war by North
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Market Intelligence

The U.S. economy continues to grow despite global distractions.

- GDP was up 3.0% in Q1 (much slower than the 5.6% rate in Q4, but growth nonetheless)
- Corporate current production cash flow - the internal funds available to corporations for investment - increased \$30.8 billion in the first quarter, compared with an increase of \$69.1 billion in the fourth quarter

Concerns abound that growth is coming primarily from the public sector.

- Total nonfarm payroll employment grew by 431,000 in May, reducing the unemployment rate to 9.7% - but 411,000 temporary census job are included in the figures
- Government expenditures exceeded government receipts by \$1.31 trillion in Q1 - down from its peak in Q4 but up from \$730 billion in Q1 2009 and just \$266 billion in Q1 2008

Sources: U.S. Department of Commerce, Bureau of Labor Statistics. The ORG quarterly is printed four times a year. All rights reserved. ©2010 Owner Resource Group.

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Korea in the sinking of the South Korean military ship, the Cheonan. That act is still unanswered as China, the US, South Korea, Japan and Russia try to figure out what to do about a rogue country with the world's 4th-largest standing army. The Middle East remains a stage for untoward acts and to that end we were not disappointed in May. Ships sponsored by NGOs in Turkey attempted to run Israel's blockade of Gaza only to be stopped and boarded. And of course, we continue to fight two wars.

Finally we have the out-of control BP oil leak in the Gulf of Mexico that appears to be an ecological disaster and may also become an economic and international one. It may become an economic disaster if the US does not handle it correctly and puts our domestic energy resources at risk. It may become an international disaster if the spill spreads to other countries or if the US does something extra-legal to damage the largest company in the UK, which in turn, may harm our relations with the UK.

Having laid out the current state of affairs, we are nonetheless breathing a little easier this quarter than last – a trend that began in mid 2009 and we hope will continue. Remember all of those positive indicators we cited in the second paragraph? All of that positive economic data which indicates a continuation of the recovery, plus low interest rates and much more liquidity within US financial institutions makes the current environment much less distressing than what we faced in 2008. Additionally, the government life support systems extended to financial institutions and to the residential housing markets are slowly being withdrawn without causing immediate trauma. This does not mean we are in celebration mode – uncertainty and volatility we believe will be present for some time - but we do think it is time to focus on opportunities and begin to take well planned actions. Based on last issue's survey results (see next page), it appears that many of you are already on that path.

Owner Resource Group has expertise in multiple industries in addition to our core focus on corporate finance. We are always available to talk about opportunities with you. Besides discussing operational or strategic concepts, we have excellent relationships with

both regional and money-center banks and can work with you to help figure out the financial viability of your strategies and opportunities.

And don't forget - this is the year to save money on taxes. As we mentioned in our email in April, capital gains are expected to go up next year, as are gift taxes, making business and estate planning a must. ♦

Did You Know?

The partners of Owner Resource Group have an average of 19 years of experience in unlocking the value of small to medium-sized businesses. We partner with you and/or your management team while providing your business with the capital, resources, insights, strategies, tools, and access to expertise to grow the business and achieve your goals.

For more information go to
<http://orgroup.com/resources.html>

Making Private Equity More Approachable

-- A Fast Fact About Private Equity --

- Myth: All private equity firms plan to install new management teams after a transaction.
- Fact: Many private equity firms, including and especially ORG, only make investments contingent upon the existing, capable management team staying in place and being a long-term partner to us.

To learn more about what ORG looks for in a business, go to <http://orgroup.com/criteria.html>

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Survey Results from the Last Issue

Anecdotal evidence from your peers (91% of respondents were either owners, presidents, or CEOs) indicates that business is improving and expected to continue to improve.

- 82% of respondents had increased confidence in their business over the previous 3 months
- Net revenue increased from '08 to '09 for 32% of respondents. It decreased for 41% and remained flat for 27%
- 86% of respondents budgeted revenue to increase in 2010, with 46% budgeting an increase of 10% or greater
- As of March, 68% of respondents reported YTD revenue above 2009 levels
- 73% of respondents reported reacting to the economic environment by looking for growth opportunities and/or investing in the business. 32% reacted by getting leaner and reducing costs

While respondents found lender standards to have tightened, a majority were able to obtain a loan on favorable terms.

- 64% had pursued a bank loan in the previous 12 months (63% of those were able to obtain a loan on favorable terms)
- 79% felt lender standards had tightened over the last 12 to 18 months (21% felt there had been no change)

Would you like to know what your fellow business owners are thinking?

The ORG Quarterly reaches over 7,000 owners and executives of small to mid-sized businesses.

Every quarter we conduct a survey so that we can provide you an idea of how your colleagues are responding to the economic environment, and to the topics of this newsletter. Your participation is anonymous.

To participate in the 2 minute survey, please click this link. You will be able to view the results as soon as you complete the survey.

http://www.surveymonkey.com/s/ORG_Quarterly_2_Minute_Survey

Owner Resource Group was created to be a resource for business owners. We are a group of seasoned investors who support owners of good companies with capital and resources. We invest our capital and our partners' capital in companies to help them grow (organically and through acquisition) and/or to achieve a full or partial exit for existing ownership. Our core values inform everything we do in support of good companies. We aim to:

- Be fair and transparent
 - Be professional, yet friendly
 - Be approachable and likeable
 - Offer simple, yet thorough solutions
 - Be smart stewards of our investors' assets
 - And most importantly, listen...
- ...After all, it's your business, and no one knows it better than you

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Interested in learning more about ORG? Know a business owner who might benefit from speaking with us?

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