

Middle Market M&A Review

Fourth Quarter 2007

Volume Q4 2007

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Elliott Davis Capital Partners is a regional investment banking firm providing a complete range of services including:

- Merger and Acquisition Advice
- Private Capital Raising
- Restructurings
- Recapitalization
- Corporate Advisory Services

Greenville Office

200 E. Broad Street
Suite 525
Greenville, SC 29601

Phone: (864) 242-3370
Fax: (864) 232-7161

Michael Hronchek
Managing Director
Mhronchek@elliottdaviscp.com

Ty Dealy
Managing Director
Tdealy@elliottdaviscp.com

Derik Reynecke
Vice President
dreyncke@elliottdaviscp.com

Elliott Davis Capital Partners, LLC - Managing Director Letter

Welcome to the Elliott Davis Capital Partners Quarterly Update. 2007 has been an exciting year for our team with the launch of Elliott Davis Capital Partners and the continued high level of activity in the M&A and capital markets. The purpose of this newsletter is to provide you with an update on the capital markets and corresponding M&A issues that influence your business.

Elliott Davis Capital Partners was established to assist clients with acquisitions, dispositions, recapitalizations, financing, debt restructuring and other business transactions. We provide our clients with investment banking services focused on small and mid-sized businesses and their investors. Because of our focus on private, closely-held businesses, we are acutely aware of their unique needs and the dynamics of transactions involving closely-held businesses. We manage the entire process, guiding management teams and shareholders while minimizing the disruption to the business. We deliver the highest level of service with unwavering integrity and consistently meet the goals of our clients.

Despite the recent volatility in the capital markets resulting from the down turn in the residential construction market and the subsequent tightening of commercial credit for large transactions, we continue to see a tremendous amount of activity in the lower middle market. Enterprise values remain high across many industries, with both strategic and financial buyers aggressively looking for acquisitions and lenders continuing to play an active role in facilitating these transactions. While there may be periods of reduced activity, we believe the long-term prospects for the middle-market are quite favorable as private equity funds continue to invest record amounts of capital, strategic buyers use acquisitions to fuel growth, and the lending environment remains favorable.

Working predominantly with privately-held businesses, the professionals of Elliott Davis Capital Partners recognize that the decision to raise capital or sell a company is a difficult one to make. Specifically, ownership needs to understand the benefits and disadvantages of these decisions as well as the impact they can have on their business. Working together with the tax, estate and wealth management professionals of Elliott Davis, Elliott Davis Capital Partners is uniquely positioned to help clients decipher the increasing complexities their businesses face. We hope you find this newsletter informative and will not hesitate to give us a call to answer any questions you may have.

Sincerely,

Michael Hronchek

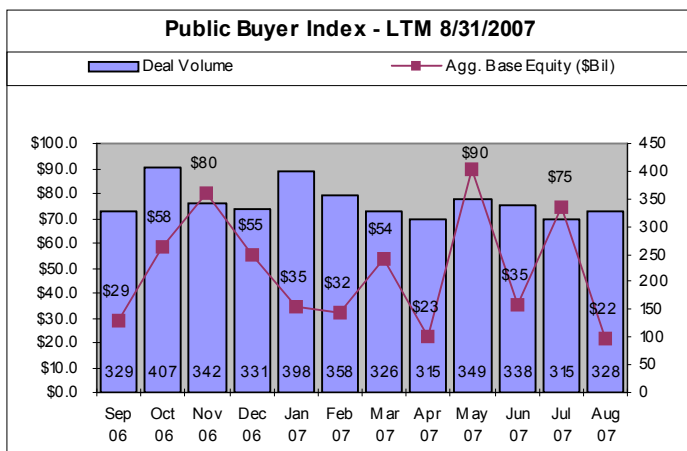
Managing Director

ElliottDavis
Capital Partners

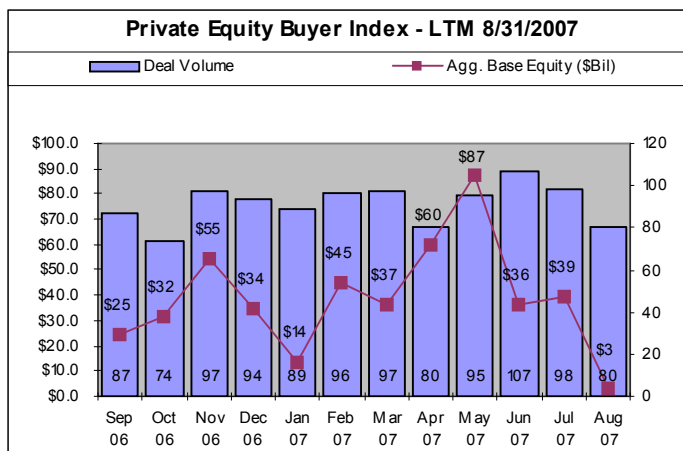
Middle Market Transaction Update and Overview

US Lower Middle Market M&A Transaction Metrics						
Deal Size (\$ mm)	Number of Transactions			Aggregate Base Equity (\$ mm)		
	TTM Ended			TTM Ended		
	8/31/07	8/31/06	Change	8/31/07	8/31/06	Change
\$100 - \$250	449	444	1%	\$71,800	\$69,600	3%
\$50 - \$100	427	493	-13%	\$29,900	\$34,800	-14%
\$25 - \$50	474	563	-16%	\$16,900	\$19,700	-14%
\$10 - \$25	578	714	-19%	\$9,400	\$11,500	-18%
Under \$10	860	1,089	-21%	\$3,500	\$4,600	-24%
Total	2,788	3,303	-16%	\$131,500	\$140,200	-6%

Source: FactSet MergerStat



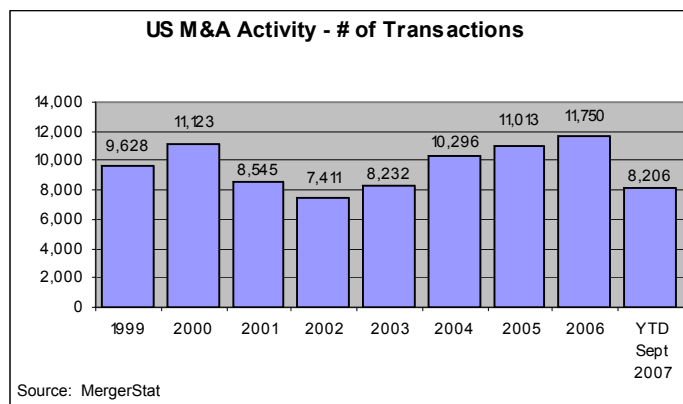
Source: FactSet MergerStat



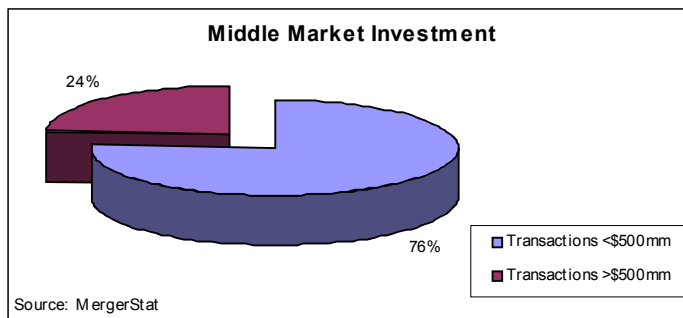
Source: FactSet MergerStat

Highlights

- For the first eight months of 2007, transaction activity under \$250 million was down 16% when compared to the strong deal activity over the same period in 2006. Total transaction values were lower by only 6% as larger deals pushed aggregate M&A dollar volumes up to compensate for lower activity.
- Activity by Private Equity buyers slowed, resulting in August being tied for the second-slowest month in the past year. M&A spending by PE buyers sank to its lowest level in the past 12 months. Some of this can be explained by the traditional end of summer slow-down, but the ongoing turmoil in the credit markets certainly had some impact.
- Middle market M&A investment activity (i.e. transactions less than \$500 million) continues to dominate the M&A market, representing approximately 76% of all transactions.
- The tables on page 4 indicate that EBITDA valuation multiples as well as leverage multiples for middle market M&A deals are still relatively high.



Source: MergerStat



Source: MergerStat

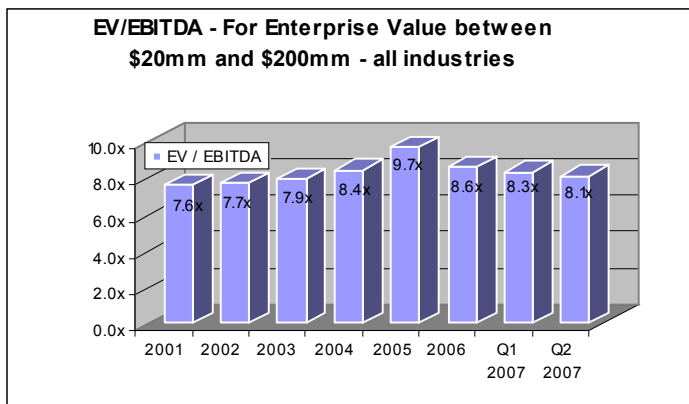
M&A Transaction Deal Volume and Valuation Statistics

A company's value is usually determined by its financial performance, relevant benchmark industry financial performance, capital expenditure intensity as well as numerous other external, non-controllable, factors such as the industry in which it operates, current economic conditions, restrictive regulations and relevant M&A activity. Strategic buyers are sometimes willing to pay significant premiums due to product and/or other synergies. These factors result in valuations that often vary significantly from company to company, even in the same industry. As such, average EBITDA multiples can be a bit misleading. Nonetheless, averages can help provide a meaningful historical perspective for business owners and their advisors. The following table outlines the deal volume for a wide range of industries as well as the range in average EBITDA multiples for these industries. The multiples are often skewed toward the higher end due to larger value deals with higher multiples. In general, lower middle market deals, that is, deals with transaction values less than \$50 million, tend not to be at the higher end of the range.

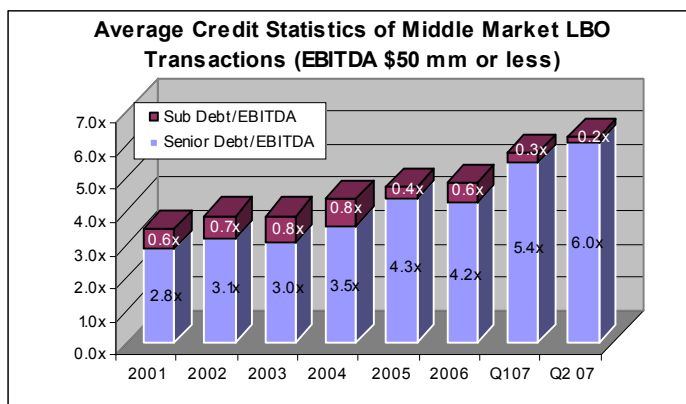
Industry by Activity - Deal Count - 8/31/2007										
Industry	Deal Count		Diff	52 Week Average	# Deals Reporting EBITDA	24 Month Multiple				
	YTD 8/31/2007	YTD 8/31/2006		EBITDA Multiple		Hi	Low			
Aerospace, Aircraft & Defense	28	26	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Agricultural Production	49	38	11	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Apparel	45	46	-1	14.19	4	17.35	5.32			
Automotive Products & Accessories	44	34	10	9.3	3	10.3	3.1			
Autos & Trucks	16	26	-10	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Banking & Finance	300	278	22	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Beverages	46	37	9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Broadcasting	98	370	-272	10.2	6	16.1	2.7			
Brokerage, Investment & Mgmt. Consulting	444	405	39	14.58	48	43.93	1.25			
Building Products	17	24	-7	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Chemicals, Paints & Coatings	136	138	-2	8.55	5	11.84	4.38			
Communications	150	162	-12	13.4	15	39.6	2.4			
Computer Software, Supplies & Services	1,079	1,135	-56	16.55	45	45.1	0			
Construction Contractors & Eng. Services	352	268	84	9.2	3	17.4	1.6			
Drugs, Medical Supplies & Equipment	235	254	-19	21.55	24	47.09	0.21			
Electric, Gas Water & Sanitary Services	136	145	-9	13.4	6	23.6	3.7			
Electrical Equipment	127	123	4	10.57	5	14.34	0.21			
Electronics	129	133	-4	15.1	9	32.0	4.9			
Energy Services	87	98	-11	9.86	8	19.14	2.54			
Fabricated Metal Products	88	97	-9	10.2	4	12.9	1.3			
Food Processing	96	110	-14	12.19	5	18.96	6.2			
Furniture	24	15	9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Health Services	201	230	-29	11.63	13	16.74	3.34			
Household Goods	38	30	8	15.1	5	44.3	0.0			
Industrial & Farm Equipment & Machinery	116	150	-34	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Instruments & Photographic Equipment	100	115	-15	12.8	7	22.8	2.1			
Leisure & Entertainment	342	371	-29	14.43	28	40.54	1.89			
Miscellaneous Manufacturing	25	39	-14	12.58	3	15.05	10.77			
Miscellaneous Services	815	905	-90	12.56	18	26.42	0.05			
Office Equipment & Computer Hardware	47	44	3	12.9	7	34.3	4.6			
Oil & Gas	62	86	-24	17.01	5	41.5	5.3			
Packaging and Containers	11	16	-5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Paper	37	54	-17	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plastics & Rubber	63	78	-15	11.9	5	22.3	3.3			
Primary Metal Processing	77	83	-6	7.49	7	12.65	0.65			
Printing & Publishing	165	184	-19	13.7	6	21.3	5.1			
Real Estate	89	111	-22	19.09	3	25.93	7.48			
Retail	208	262	-54	15.1	14	33.5	4.2			
Stone, Clay & Glass	77	74	3	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Textiles	22	27	-5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Timber & Forestry	20	25	-5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Toiletries & Cosmetics	15	6	9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Toys & Recreational Products	41	38	3	9.84	4	14.8	6.24			
Transportation	102	97	5	8.2	11	16.8	2.2			
Valves, Pumps & Hydraulics	18	13	5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wholesale & Distribution	367	386	-19	10.9	10	26.7	1.7			
	6,784	7,386	-602							

Source: FactSet MergerStat

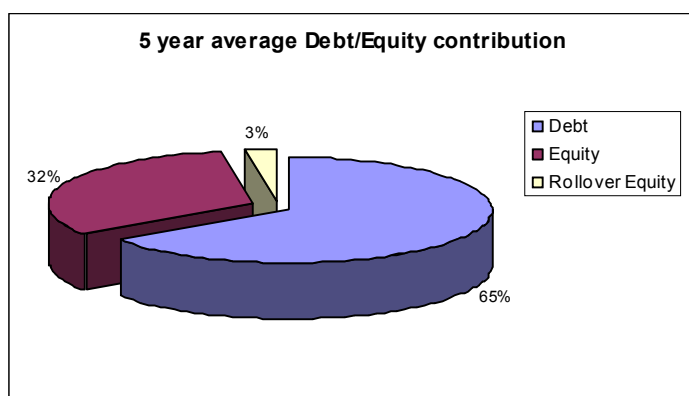
Valuation, Deal Structure and Leading Middle Market Industries Statistics



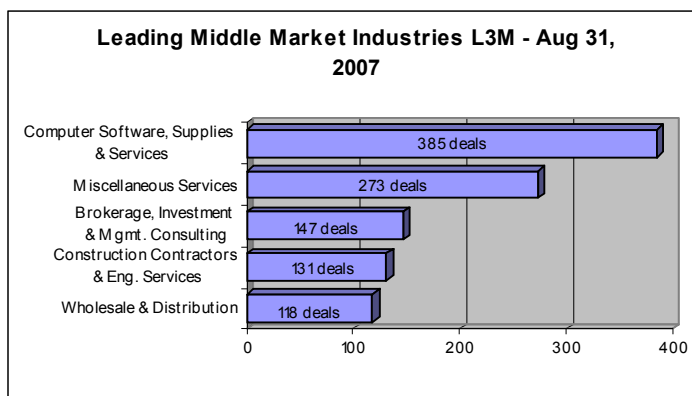
Source: FactSet MergerStat



Source: S&P



Source: Capital IQ



Source: FactSet MergerStat

Current Economic Conditions and the Effect on Middle Market M&A Activity

On September 18th, the Federal Reserve (“Fed”) lowered its target for the federal funds rate by 50 basis points from 5.25 percent to 4.75 percent. The Fed stated that economic growth has been moderate during the first half of the year, but the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally. The Fed’s action is intended to help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time. Readings on core inflation also improved modestly this year. However, the Fed stated that some inflation risks remain, and it will continue to monitor inflation developments carefully.

Developments in financial markets since the Fed’s previous meeting have increased the uncertainty surrounding the economic outlook. The Fed stated that it will continue to assess the effects of these and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth. An article published in the August *M&A Advisor’s Alert* indicated that despite tightening credit conditions, middle market dealmakers continue to make deals at a pace higher than the same time last year – even as one high-profile megadeal after another crumbles. Some 433 M&A deals valued between \$10 million and \$1 billion were announced the first three weeks of August, according to Capital IQ, up 7 per cent from the same period last year when 404 transactions were announced.

However, on page 2 of this publication, the *Private Equity Buyer Index—TTM 8/31/07*, indicated a slight downturn in private equity deal activity (all deal sizes) over the past 2 months in terms of value and deal volume. This could be caused by seasonality due to the vacation schedule of bankers and private equity firms during the month of August, but more likely it is due to some of the larger private equity deals that are locked-up in financing negotiations (e.g. Home Depot Supply deal). We continue to monitor the relevant M&A deal volume and economic indicators to learn how the latest rate cuts and tightening of credit conditions may impact the middle market M&A environment.

Considerations When Preparing to Sell Your Business

As M&A activity in the middle market sector remains strong, business owners are more likely to be presented with an opportunity to sell their company. A couple of elements with which many entrepreneurs may not be familiar are exit strategies, the universe of potential buyers, valuation approaches and deal structure. Over the next couple of issues we will present articles discussing these topics in more detail. In this issue we will broadly touch on items business owners should consider when preparing to sell their business.

If you are thinking about selling your business, consider that you only get one opportunity to maximize the value of your years of effort. Like almost every other successful process, a successful sale is a result of preparation. The better prepared you are, the better you will be able to negotiate from a position of strength, and not from weakness (due to necessity). Even if you are years away from selling, it pays to prepare both yourself and your business.

Prepare yourself – Start by planning for what you intend to do after the sale is complete. Are you ready for an identity which is separate from your business? What plans do you have to enjoy the rewards of your effort? Do not glance over this step. More than one seller has arrived at the closing table and decided not to sell at the last minute.

Next, make sure you have reasonable expectations as to the value of your business and the market terms for transactions involving similar businesses. Reasonable expectations will help you and your financial advisor generate sound plans for your financial life after the sale. Though every business is unique, there are guidelines for sales price and terms for similar size and industry businesses. The job of your M&A advisor is to properly position your company's strengths to justify a premium sales price.

Finally, allow yourself adequate time for the sales process. Be emotionally and mentally prepared for the length of time the sales process can take. Though some transactions close very quickly, it can take over a year to successfully close a deal. During the sales process, keep your time and attention focused on the business. Contracting a skilled M&A advisor will help you keep day-to-day distractions to a minimum to allow you to remain focused on the business.

Prepare your company – Your M&A advisor should work with you to understand your business, its differentiators and other factors which would justify the highest sales price. Your advisor should also anticipate and be prepared to respond to a buyer's questions and objections with sound arguments and data. Here are several things you can do to maximize your company's value to a buyer:

One of the first areas a buyer will examine is the existing management team. A purchaser is looking to buy an operating company, not necessarily an employment contract with the owner. Buyers fear that the owner may be irreplaceable and that the operations and cash flows of the company will be significantly impaired if the owner is no longer involved. If they believe this to be the case, they may structure a large percentage of the purchase price in the form of an earn-out, requiring the seller to work for several years after the closing in order to receive the balance of the sales proceeds. If your objective is to not work day-to-day at the company after the sale, you should start to delegate management activities to a successor. If you have a strong management team, you may consider employment contracts or non-compete agreements to protect the company.

The financial records are another immediate area of scrutiny for the buyer. Accurate books and records which reflect the complete operations of the company are a must. Financial buyers look at dozens of transactions and do not waste time and resources on companies that cannot produce timely and accurate financial information. The financial statements should reconcile to the company's tax returns. Financial statements which have been audited or reviewed by a reputable firm give a buyer greater comfort of completeness and accuracy. Consider working with your accountant to write-off any dubious amounts and to resolve any questionable items on the financial statements.

Address items which will be of significance to a buyer. Do you have a written lease? Are there minority shareholders with special rights and privileges that might impact a sale? Are there contracts, vendor agreements or other material items which would be impacted by a change in ownership? Does the business require special licenses or approvals which the buyer would have to obtain? Cleaning up these issues and/or being able to disclose them early not only avoids potential hurdles but demonstrates your integrity and helps build trust with the buyer. Also, show the buyer that your business has meaningful growth opportunities by writing a brief strategic plan detailing the growth opportunities by which the buyer can improve the value of their investment.

Surround yourself with a strong team of advisors that have relevant M&A experience. A financial buyer most likely has a staff that has been involved in dozens of transactions. This may be the only time in your life that you are involved in the sale of a business. Level the playing field by engaging the right team of advisors, including M&A, tax, and legal professionals.

Elliott Davis

Capital Partners

About us

Elliott Davis Capital Partners is a regional investment banking firm providing merger and acquisition, private placement, restructuring and corporate advisory services. We are focused on closely-held, mid-sized companies and their investors. For transactions involving these companies and their stakeholders, it is critical to bring investment banking, tax advisory and wealth management capabilities together as part of a single, cohesive team so that our client's objectives are met at the best possible terms.

Elliott Davis, one of the most respected professional service firms in the Southeast, complements our investment banking expertise and shares our commitment to client service.

The principals of Elliott Davis Capital Partners have transaction experience in a variety of industries including healthcare, manufacturing, distribution, retail, and information technology. Our experience ranges from start-up companies to public entities with enterprise values in excess of \$500 million. Depending on the service provided, Elliott Davis Capital Partners targets the following size transactions, but we will meet with any prospect regardless of industry or size to determine if we can be of service:

Merger & Acquisitions

- Assisting our clients with merger and acquisition services is at the heart of our practice and we specialize in transactions involving companies with enterprise values in excess of \$15 million

Private Placements

- Companies seeking to raise \$5 million or more in equity capital and/or raise or refinance \$10 million or more in debt or mezzanine capital.

"We understand the unique needs of closely held companies"

200 E. Broad Street
Suite 525
Greenville, SC 29601

Phone: (864) 242-3370
Fax: (864) 232-7161
Web: www.elliottdaviscp.com

"It is critical to bring investment banking, tax advisory and wealth management capabilities together as part of a single, cohesive team"

Our Role as Your Investment Banker

Our role as Investment Banker can be summarized by the following categories:

- Provide M&A, Private Placement, Restructuring or Corporate Advisory Services
We help position your company for a sale or private placement and will assist in the initial valuation of your company. As investment bankers we will also prepare the selling materials (Private Placement Memorandum, financial model, etc.) that will be provided to potential buyers or investors. As a team, Elliott Davis Capital Partners brings professional credibility to the process.
 - Maximize Management's Time and Focus
The sale or private placement process is very demanding of management's time. As your banker we will take on much of this workload so that you, as management, can continue to focus on what you do best—running your business!
 - Introduce New Buyers or Investors and Maintain Confidentiality
Often the eventual buyer or investor is unknown at the beginning of the sales or private placement process. As bankers we will present your company to a range of attractive buyers or investors. We do this in a very discreet and confidential way therefore protecting the interests of your employees and client/customers. As your banker we also require potential buyers or investors to reach the applicable agreements before sensitive information is released.
 - Drive the Sales Process, Negotiate and Evaluate Bids
To maximize value for you and your company, we create a competitive atmosphere and prepare the appropriate timeline for the transaction. We manage potential acquirers or investors to insure a timely close is achieved. In addition, we also negotiate the terms of the transaction on behalf of our clients and serve as a buffer ("the bad guy") in investor negotiations when appropriate.
 - Maximize Value to the Seller
Our primary goal is to maximize value through achieving the financial and non-financial objectives of the seller under the best possible terms.
-