

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

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

Michael Hronchek, Managing Director
MHronchek@elliottdaviscp.com

Ty Dealy, Managing Director
TDealy@elliottdaviscp.com

Derik Reynecke, Vice President
DReynecke@elliottdaviscp.com

Aaron Zeide, Associate
AZeide@elliottdaviscp.com

Greenville Office:
200 E. Broad Street, Suite 525
Greenville, SC 29601
Phone: (864) 242-3370
Fax: (864) 232-7161

Member [FINRA](#), [SIPC](#), [NCEO](#)

From the Managing Director

I hope this newsletter finds you well and having enjoyed a great summer. I wanted to share a few summary thoughts on several topics about which we have been frequently asked.

The economy is fascinating (perhaps a poor choice of words, especially if your business is in a struggling sector of the economy). How did the Soviets ever believe they could plan something as massive and dynamic as an economy? There are industries doing extremely well and those that are suffering. We have clients in each category, who in turn have customers in each, and we hear stories on all points in the spectrum. "Are we in a recession?" is a difficult question to answer. Though there may still be some debate on whether we are in a recession, if the perception is that the economy is in a recession, then reality will soon follow. I recently read a summary of a study, one conclusion of which was that the public's sentiments toward the economy can predict economic performance. In light of this, the requests of multiple business leaders asking our White House nominees to not talk us into a (further) recession via their election rhetoric make sense.

There is no question that credit availability has worsened which is traditionally an early step on the path to a recession. Our simple explanation for the tightening credit follows. As banks incur losses, they have an impaired ability to lend. They either have to find new capital or reduce lending in order to maintain their capital ratios, or some combination of both. Raising capital as a financial institution in today's environment is not easy. Public knowledge of the bank's need to raise equity causes the share price to go down. The falling price makes it harder to raise the money, creating a liquidity trap. This trap can be exacerbated by a run on the bank by its depositors which can quickly create a liquidity crisis as experienced recently by IndyMac Bancorp. Furthermore, raising capital takes time, more time than it takes for a senior officer of a bank to send out an edict to the loan officers that the bank will be very selective with any new opportunities (read: lending will decrease). So it is easier for a bank to take the latter course of action. And that is what we are seeing; lending is starting to decrease.

The real estate portfolios of banks are full of troubled loans which ultimately will create a great buying opportunity. There is plenty of capital available for purchasing these portfolios. The problem is that the market is frozen. The capital is waiting for the prices to hit bottom, but since no one is buying it is hard to see the pricing patterns which can help determine whether or not prices have hit bottom. The rule of thumb used to be that the deal was a good deal once the bank owned it; now it seems the market is waiting for the regulators to own the banks before the deals are considered good ones.

As for taxes, the consensus is that tax rates will increase whether McCain or Obama is elected to the White House. We are going to have a Democratically controlled Congress and the Bush tax cuts are going to expire. How high may they be? There is a proposed

39.6 percent top income rate, plus no cap on the 15% FICA/Medicare tax. Add state and local taxes and in some jurisdictions the highest income tax rate can exceed 60%. What can this do to the economy? Over the past 60 years, the top Federal income tax rate has been increased six times and lowered ten times. GDP grew by an average of 3.7% for the two years after a tax cut, and rose 0.8% after a tax increase.

How do these global concerns translate into M&A activity? Though the data in this newsletter show overall transaction volume decreasing, it is our experience that the decrease has not been as great in our middle market segment. Transactions are still getting closed at very fair prices. Of the transactions in which we are and have recently been involved, a high percentage involve(d) a strategic buyer. This makes complete sense. A strategic buyer most likely has a solid lending relationship in place so financing the transaction is much easier than it would be for a private equity buyer without such a relationship.

We still believe that the core drivers of activity in the lower middle market, including the record availability of equity capital, the desire of baby boomers to diversify from a single-stock concentration (i.e. their business), and a closing capital gains tax window, remain unchanged.

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, owners need to understand the benefits and disadvantages of these decisions, as well as the impact they can have on a 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

Recent Transactions



has acquired the
common stock of



has completed an
offering of Common Units



has acquired the
assets of

Commonwealth Bolt, Inc.



Elliott Davis Capital Partners
served as financial advisor to
Rioux Vision, Inc.

Elliott Davis Capital Partners
served as financial advisor to
Innegrity, LLC

Elliott Davis Capital Partners
served as financial advisor to
Commonwealth



www.elliottdaviscp.com
Member: FINRA, SPC, NCEO



www.elliottdaviscp.com
Member: FINRA, SPC, NCEO



www.elliottdaviscp.com
Member: FINRA, SPC, NCEO



Dedicated. Expert. Results.

Elliott Davis Capital Partners is dedicated to ensuring our clients' success by providing a full range of investment banking services, including merger and acquisition, private placement, restructuring and valuation services. Whether your company is in need of growth capital to ensure its continued success, or you have received an unsolicited merger proposal, the corporate finance professionals at Elliott Davis Capital Partners can help you achieve your goals. For more information, please contact Michael Hronchek at 800-503-4721 or email mhronchek@elliottdaviscp.com.



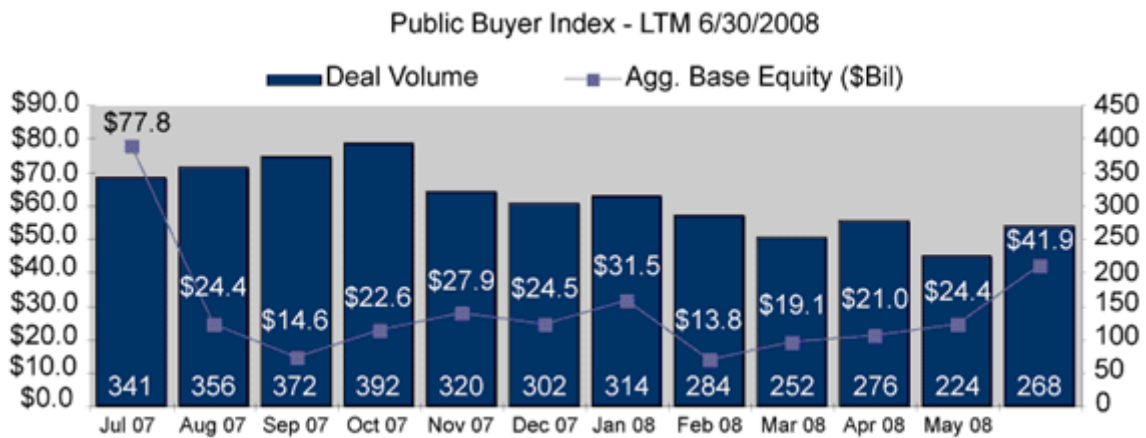
www.elliottdavis.com
© 2008 Elliott Davis, LLC

Middle Market Transaction Highlights

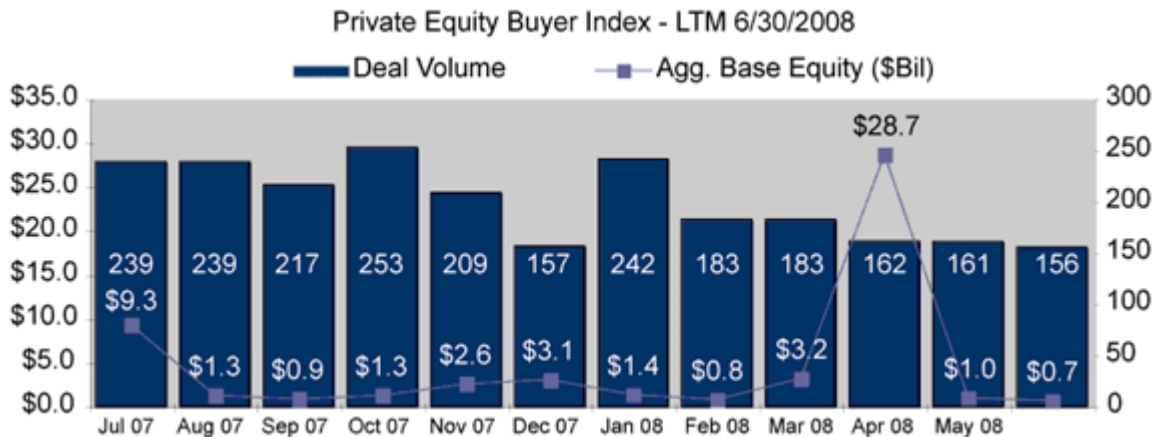
US Lower Middle Market M&A Transaction Metrics

Deal Size (\$ mm)	Number of Transactions			Aggregate Base Equity (\$ mm)		
	TTM Ended			TTM Ended		
	6/30/08	6/30/07	Change	6/30/08	6/30/07	Change
\$100 - \$250	369	475	-22%	\$59,200	\$75,800	-22%
\$50 - \$100	436	470	-7%	\$30,600	\$32,600	-6%
\$25 - \$50	446	538	-17%	\$16,000	\$19,100	-16%
\$10 - \$25	510	679	-25%	\$8,300	\$11,000	-25%
Under \$10	824	996	-17%	\$3,500	\$4,200	-17%
Total	2,585	3,158	-18%	\$117,600	\$142,700	-18%

Source: FactSet MergerStat



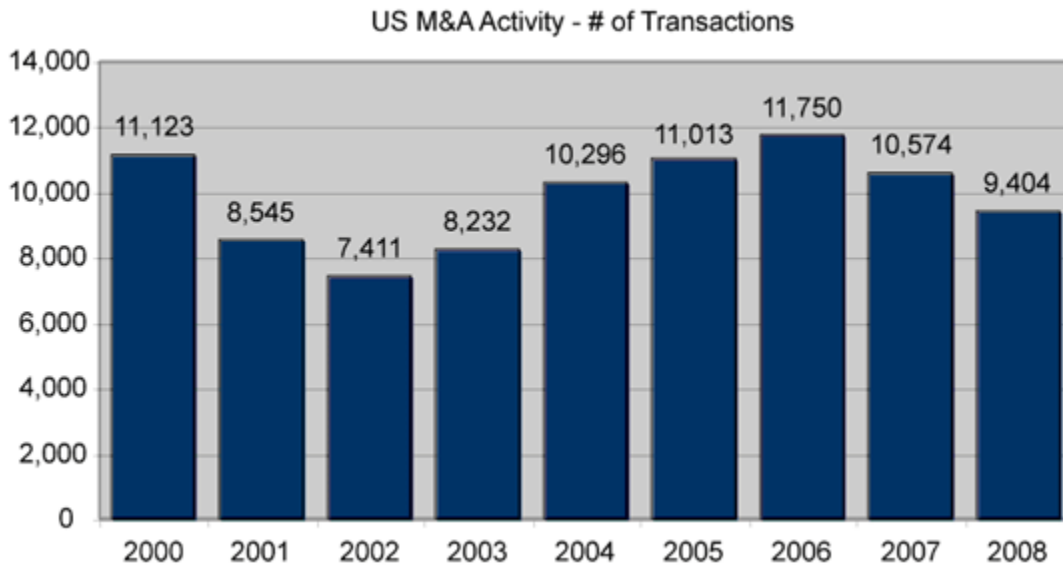
Source: FactSet MergerStat



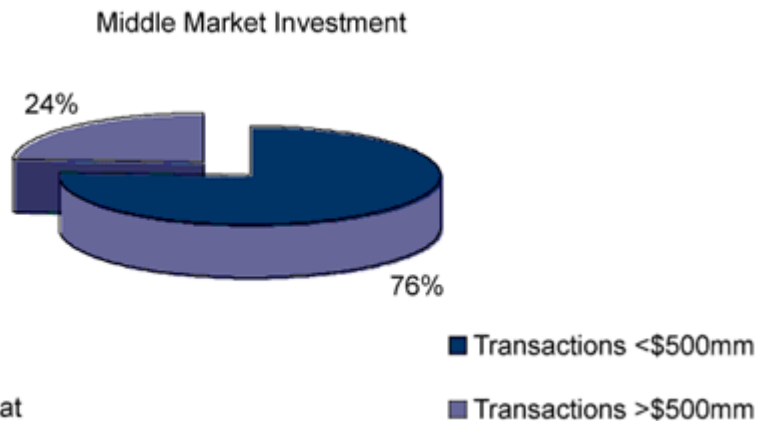
Source: FactSet MergerStat

Highlights

- Despite a precipitous drop in overall deal volume for the twelve months ending June 30, 2008 over the previous twelve month period, the month of June itself was relatively strong. A handful of industries tracked by FactSet MergerStat even reported an increase in deal flow.
- Thomson Reuters reported that middle market M&A investment activity (defined as transactions under \$500 million) during the first half of 2008 fared better than the overall market, experiencing a decline of 18.2%, with a total value of \$368.9 billion. This is due to a lesser reliance on the global credit markets, which have been in turmoil.
- Two interesting trends in the M&A marketplace during the second quarter included an increase in the number of cross-border deals and increased buy-out activity by U.S. publicly traded strategic companies.



Source: FactSet MergerStat



Source: MergerStat

M&A Transaction Deal Volume and Valuation Statistics

Industry	Deal Count		Diff	52 Week Average EBITDA Multiple	# Deals Reporting EBITDA	24 Month Multiple	
	TTM 6/30/08	TTM 6/30/07				Hi	Low
Aerospace, Aircraft & Defense	37	48	-11	N/A	N/A	N/A	N/A
Agricultural Production	46	73	-27	N/A	N/A	N/A	N/A
Apparel	65	76	-11	20	5	44	7
Automotive Products & Accessories	66	71	-5	9	3	10	3
Autos & Trucks	17	35	-18	N/A	N/A	N/A	N/A
Banking & Finance	267	453	-186	N/A	N/A	N/A	N/A
Beverages	65	66	-1	N/A	N/A	N/A	N/A
Broadcasting	106	370	-264	12	3	16	3
Brokerage, Investment & Mgmt. Consulting	621	675	-54	14	13	38	1
Building Products	10	25	-15	N/A	N/A	N/A	N/A
Chemicals, Paints & Coatings	169	232	-63	8	3	12	4
Communications	198	234	-36	9	10	39	1
Computer Software, Supplies & Services	1,538	1,709	-171	16	32	44	2
Construction Contractors & Eng. Svcs.	429	493	-64	10	3	18	5
Construction Mining & Oil Equip & Mach.	40	42	-2	NA	NA	NA	NA
Drugs, Medical Supplies & Equipment	342	373	-31	21	21	47	2
Electric, Gas Water & Sanitary Services	143	236	-93	14	3	29	6
Electrical Equipment	195	188	7	21	4	48	9
Electronics	187	192	-5	12	7	34	1
Energy Services	130	136	-6	6	8	14	2
Fabricated Metal Products	135	134	1	9	3	13	5
Food Processing	131	165	-34	13	5	22	5
Furniture	40	35	5	N/A	N/A	N/A	N/A
Health Services	279	354	-75	17	10	49	4
Household Goods	55	60	-5	15	5	44	0
Industrial & Farm Equipment & Machinery	184	220	-36	22	3	44	7
Instruments & Photographic Equipment	146	170	-24	10	7	36	2
Insurance	328	350	-22	NA	NA	NA	NA
Leisure & Entertainment	359	610	-251	12	12	41	2
Mining & Minerals	81	106	-25	NA	NA	NA	NA
Miscellaneous Manufacturing	52	48	4	13	3	15	11
Miscellaneous Services	1,050	1,386	-336	16.03	11	28.87	2.62
Office Equipment & Computer Hardware	62	76	-14	17	4	27	5
Oil & Gas	77	103	-26	16	4	29	5
Packaging & Containers	14	14	0	N/A	N/A	N/A	N/A
Paper	53	69	-16	N/A	N/A	N/A	N/A
Plastics & Rubber	80	109	-29	10	3	22	3
Primary Metal Processing	85	116	-31	9	5	14	2
Printing & Publishing	160	327	-167	19	5	31	5
Real Estate	109	172	-63	18	5	31	5
Retail	305	371	-66	10	10	33	4
Stone, Clay & Glass	79	81	-2	18	3	33	10
Textiles	26	40	-14	N/A	N/A	N/A	N/A
Timber & Forest Products	27	31	-4	N/A	N/A	N/A	N/A
Toiletries & Cosmetics	19	22	-3	N/A	N/A	N/A	N/A
Toys & Recreational Products	45	62	-17	11	3	16	6
Transportation	133	175	-42	8	4	46	2
Valves, Pumps & Hydraulics	26	24	2	N/A	N/A	N/A	N/A
Wholesale & Distribution	444	578	-134	12	13	43	2
	481	626	-145				

Source: FactSet MergerStat

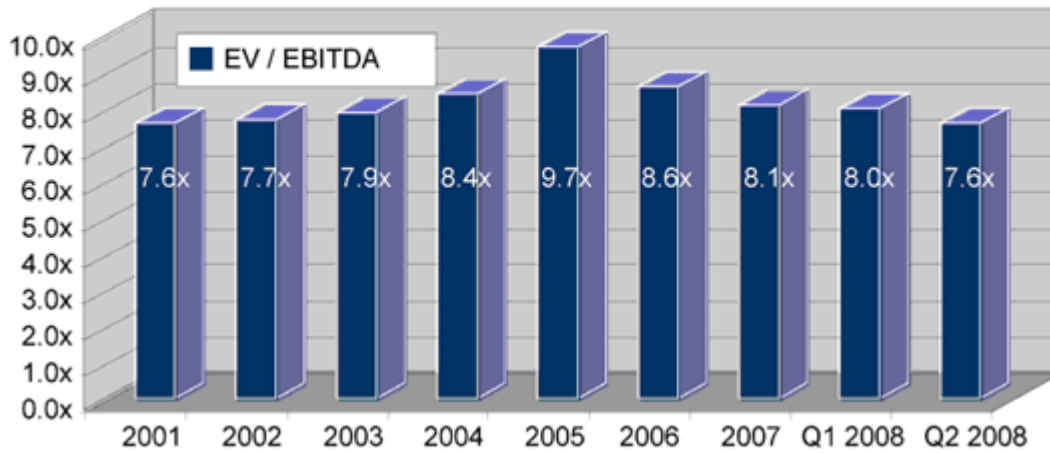
A company's value is usually determined by its financial performance, relevant benchmark industry financial performance, capital expenditure intensity as well as numerous other external, non-controllable factors, such as the industry in which it operates, current economic conditions, restrictive regulations 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.

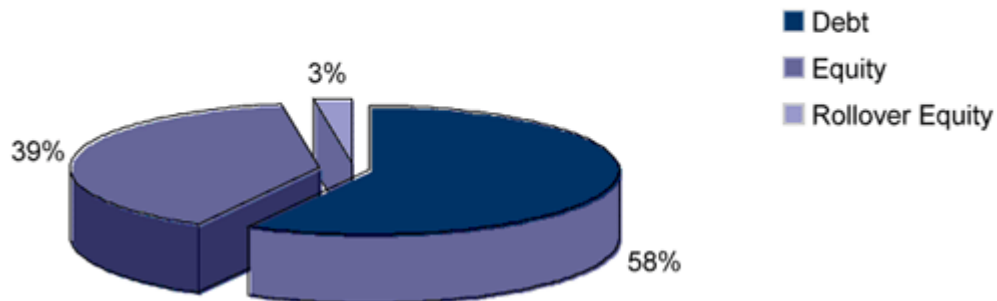
Valuation, Deal Structure and Leading Middle Market Industries Statistics

EV/EBITDA - For EV between \$20mm and \$200mm all industries



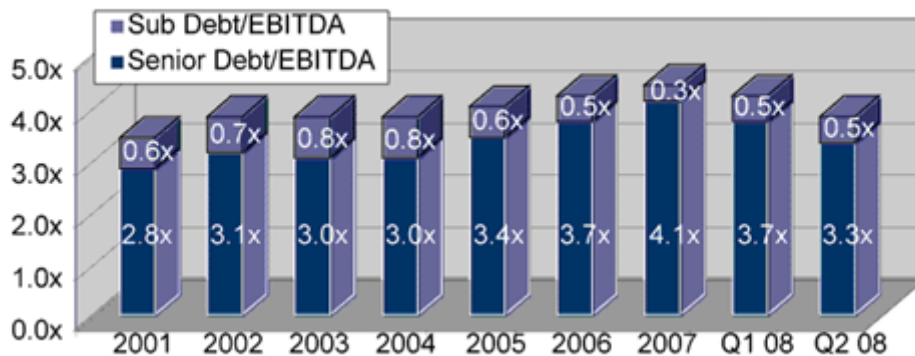
Source: Grant Thornton DealMaker

Current Debt/Equity Contribution

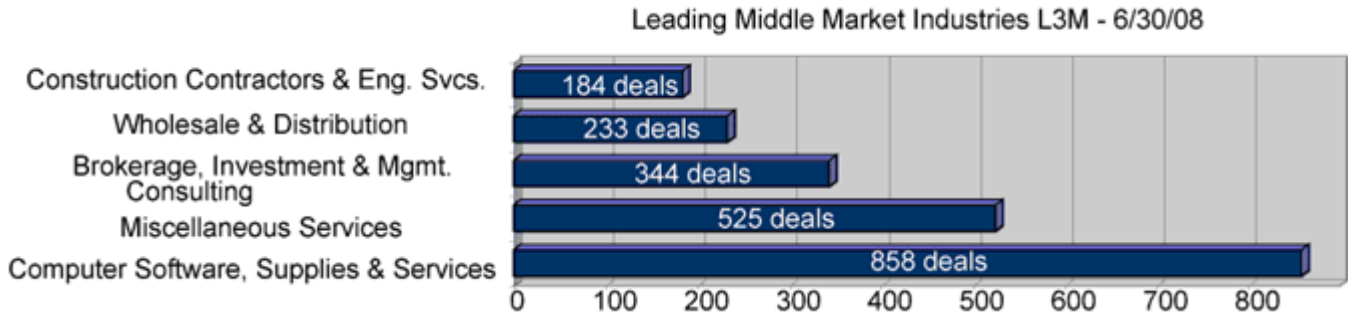


Source: Capital IQ

Average Credit Statistics of Middle Market LBO Transactions (EBITDA \$50 mm or less)



Source: S&P



Source: FactSet MergerStat

Highlights

- Despite a precipitous drop in overall deal volume for the twelve months ending June 30, 2008 over the previous twelve month period, the month of June itself was relatively strong. A handful of industries tracked by FactSet MergerStat even reported an increase in deal flow.
- Thomson Reuters reported that middle market M&A investment activity (defined as transactions under \$500 million) during the first half of 2008 fared better than the overall market, experiencing a decline of 18.2%, with a total value of \$368.9 billion. This is due to a lesser reliance on the global credit markets, which have been in turmoil.

Two interesting trends in the M&A marketplace during the second quarter included an increase in the number of cross-border deals and increased buy-out activity by U.S. publicly traded strategic companies.

Current Economic Conditions

According to the Federal Reserve, the pace of economic activity slowed somewhat as the second quarter drew to a close. Indicators of economic strength, such as consumer spending, were sluggish or slowing, despite the effect of tax rebate checks on the sales of some items. Sales of high-end electronics experienced an uptick as taxpayers received rebate checks. Generally, sales at discount stores grew, while discretionary and housing-related stores suffered.

High energy prices and a weak US dollar lead to a mixed reaction across industry sectors. The domestic energy sector reported solid growth, as did manufacturers of goods for export. In the services sector, strength in the IT and health care industries somewhat off-set the weakness in other sectors.

On a positive note, while banks elsewhere were tightening credit terms, those in the Atlanta Federal Reserve District were reported to be competing more intensely for business customers with good credit histories.

What began as a US housing slump a year ago quickly escalated to a worldwide credit crisis that wiped out some \$3.3 trillion in wealth from global stock market in the first half of this year.

The losses can be felt everywhere – the MSCI All-World Index has fallen 11.9 percent in the first half of the year, with comparables pains felt by Japan's Nikkei 225 and the US Nasdaq. Losses have been more pronounced in Europe's FTSEurofirst 300, Hong Kong's Hang Seng, India's BSE Index, and especially China's Shanghai Composite, which was off of its January 1 high by about 48 percent.

Some investors view the world's current financial predicament as an opportunity to buy. Firms such as InBev have lead the way across borders in pursuit of attractive consolidation opportunities. Financial investors, who have sat by the sideline during the past eight months, are beginning to wonder whether the market has hit bottom. When this happens, the US may experience a swift resurgence in M&A activity.

SELLING YOUR BUSINESS OR OBTAINING LIQUIDITY IN A CHALLENGING ECONOMY -- THE ESOP ALTERNATIVE

J. Todd Butler, Esq.
Partner, National ESOP Team Leader
Holland & Knight LLP – Atlanta
404.817.8594
todd.butler@hklaw.com

There may be no better time for shareholders of privately held companies who are considering selling their businesses or obtaining some liquidity to consider an employee stock ownership plan transaction. Selling shareholders might be able to achieve the best possible results while the potential strategic and private equity buyers wait on the sideline for the current economic conditions to improve. Further, if the transaction is completed this year, the tax environment uncertainty that may affect transactions completed on and after January 1, 2009 could be avoided.

Exit Strategy Overview

For shareholders wanting liquidity, the possible transactions are as follows: initial public offering (“IPO”), sale to a third-party buyer (i.e., strategic or financial buyer), recapitalization, sale to insiders (e.g., management team), sale to an employee stock ownership plan (“ESOP”), or a combination of one or more of the foregoing. Of course, if a strategic buyer (e.g., a competitor, supplier or customer) knocks on the shareholder's door and offers a premium over fair market value for the business and agrees to pay all or most of the purchase price in cash, then the shareholder should probably take such an offer and run. Unfortunately, credit-market conditions, economic sluggishness and other macroeconomic forces are currently negatively impacting most of the potential exit strategies. The IPO market is essentially non-existent right now due to suppressed equity prices and the high cost of going and staying public. Further, banks are only offering dramatically less palatable financing terms than they were a few months ago, which is negatively impacting offers from strategic and private equity buyers and the attractiveness of bank-financed recapitalizations. Due to the tax benefits that are available when a shareholder sells to an ESOP and certain other potential benefits of ESOPs that are not available with the other exit strategies, the leveraged ESOP transaction currently compares very favorably. Moreover, unless the dream strategic sale scenario discussed above occurs (i.e., premium over fair market value and all cash at closing), taking into consideration all of its potential benefits, a leveraged ESOP may be the selling shareholder's best exit under any macroeconomic scenario.

What is an ESOP?

An ESOP is a qualified retirement plan, like a 401(k), except that an ESOP must invest its assets primarily in the sponsoring company's stock. If the ESOP transaction is structured properly, the major benefits to a business owner in selling stock to an ESOP are the following: (1) the amount of interest sold to the ESOP is determined by the seller and not the buyer (e.g., the ESOP trust could purchase as little as 30% of the company), (2) the seller receives fair market value for the shares sold to the ESOP (due to recent macroeconomic effects, we have seen many transactions in which the ESOP valuation was 10-20% higher than the highest third-party offer for the same company), (3) the seller may defer (permanently, if structured properly) capital gains taxes that would normally be due upon the sale (i.e., a savings of up to 23% of the sale price, depending on the state of residency of the seller), (4) regardless of the number of shares sold, the seller can continue to control the day-to-day operations of the business post-closing or the seller can vest control in other parties (e.g., a management team or next generation family members), (5) the seller can get cash at closing (typically up to 4.5x EBITDA in the current credit market, assuming senior and mezzanine financing are used) and (6) the repayment of the loan borrowed by the company to provide the seller with cash at closing is tax deductible (not just the interest as in other transactions, but the principal as well). Also, the ESOP transaction can usually be completed much more quickly than locating and selling to a third-party buyer, confidentiality of trade secrets can be maintained and the due diligence process is much less disruptive to the company.

Why an ESOP Now?

Even under good economic conditions an ESOP is a terrific partial or complete exit strategy for shareholders of private companies, but under more challenging economic conditions, the ESOP typically gets even better relative to other potential exits.

First, the valuation of the shares being sold to the ESOP will be equal to fair market value even at a time when no third-party buyers may be available. At a time when the company's negative characteristics (e.g., high customer concentration, litigation, foreign competition) might prevent any sale to a third-party, the ESOP trustee will pay fair market value for the shares. The ESOP trustee understands that the transaction will not occur and, as a result the employees will not receive the terrific retirement benefits associated with an ESOP, unless the ESOP trust agrees to pay fair market value for the shares. It is simply a question of determining what that value is at the time the shareholder sells (do not believe the nonsense that fair market value cannot be obtained if you sell to an ESOP). Further, the ESOP trustee, unlike some third-party buyers in this market, is not trying to take advantage of sellers in the current macroeconomic conditions (i.e., they are not out there looking only for “good deals”). We have recently seen numerous instances in which private equity buyers have attempted to gain leverage and renegotiate transaction terms late in a sales process because of macroeconomic sluggishness and the target company having one soft quarter. The trustee will not be permitted to play such games. The price the ESOP trust pays is determined by a third-party early in the ESOP transaction process and, if the selling shareholder agrees to such price, the trust will pay that price at closing.

Another reason an ESOP is even better now is a function of how quickly the ESOP transaction can be completed. An ESOP transaction can be closed in as little as 4 to 5 weeks after the ESOP trustee is engaged, which of course means that the selling shareholder could have his "chips off the table" in 2008. Nobody knows with certainty what the tax environment will look like in 2009, but the general consensus seems to be that we are likely headed for higher taxes. If the transaction is structured properly, we know that capital gains deferment (which may be permanent if structured correctly) is available to shareholders who sell to ESOPs in 2008. While ESOPs have friends in Congress on both sides of the aisle and it remains likely that the capital gains deferment will be available next year, there is always the risk that it will not be and an even greater risk that taxes will be higher in future years. Any of the other potential exits, except the recapitalization or the sale to insiders (both of which can be accomplished much more efficiently from a tax perspective using an ESOP), typically take much longer to accomplish than the leveraged ESOP transaction (and that is assuming a buyer willing to pay an acceptable price can be located at all).

Conclusion

Leveraged ESOPs are terrific liquidity strategies for shareholders of privately held companies under any macroeconomic conditions, but in times of economic uncertainty, the leveraged ESOP typically looks even better relative to other potential exit strategies. Tax benefits, valuation considerations and transaction timing are just some of the reasons selling shareholders should consider leveraged ESOP transactions. If you are a shareholder of a privately held company and considering exit strategies or you are advising such a person, I encourage you to locate a professional to assist you who is knowledgeable about leveraged ESOPs.

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.

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 sale 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 clients/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 ensure 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.

- **Maximizes 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.