



Volume Q4 2008

Inside this issue:

Letter from our team	1
M&A Middle Market Observations	2
M&A Middle Market Statistics	3
Valuation Statistics	4
Current Economic Conditions	4
How Will TARP Affect Liquidity?	5
About Us	6

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

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

Atlanta Office

One Overton Park
3625 Cumberland Blvd.
Suite 1050
Atlanta, GA, 30339

Phone: 678-990-2188
Fax: 678-218-4609

Ty Dealy
Managing Director
TDealy@btcapitalpartners.com

Michael Hronchek
Managing Director
MHronchek@btcapitalpartners.com

Derik Reynecke
Vice President
DReynecke@btcapitalpartners.com

Aaron Zeide
Analyst
AZeide@btcapitalpartners.com

Middle Market M&A Review Fourth Quarter 2008

BT Capital Partners, LLC - Fourth Quarter 2008 Newsletter

Welcome to the BT Capital Partners Fourth Quarter 2008 Newsletter. It goes without saying that it has been a tough 2008 for almost everyone. The precipitous decline of the real estate market has led to a chain of events impacting all of us personally and professionally. I agree with my associate, Steve Barth of our BT Wealth Management group, that "to suggest that we completely understand the forces that have gotten us to this point would be a gross overstatement of our abilities." However, if you want to explore the causes, take your pick of the following:

- (a) [An explanation](#) from Christopher Waller, Chair of Economics at Notre Dame
- (b) [Insights](#) from Bremner, Bird and Fortune
- (c) Blame it on the Harvard MBAs

Andrew Lahde might pick "C". His well-circulated diatribe upon liquidating his hedge fund and retiring is interesting reading and can be found here: <http://ftalphaville.ft.com/blog/2008/10/17/17194/andrew-lahde-bows-out-in-style/>. But then Andrew could be the person who, out of a room of 1,024 people, if each person was given a coin to flip, would have his land heads-up 10 times in a row. Most of the rest of us are not that lucky, or do not have the luxury or the desire to quit right now, so we will have to make due with what the economy and the markets bring us.

Last quarter, I wrote that there appeared to be some debate on whether we were in a recession. Today, there appears little doubt that we are headed in that direction. (As Warren Buffet has said, "In the business world, the rearview mirror is always clearer than the windshield.") Household debt has doubled this decade. With no more housing gains forecasted for some time and job losses rising into the foreseeable future, consumer spending may slow year over year. Along with this, though interest rates are low, credit is tightening. How many of your suppliers and customers have had to manage through this type of environment before? How many lenders have experience with this confluence of events? Does this put your business at risk?

As you can see from the accompanying statistics in this Newsletter, the deal business has been clearly impacted by the current economic conditions, specifically the banking crisis and its impact on funding. We believe that the government's recent steps will help to improve this over time and our friends at Powell Goldstein offer their insights on this situation and specifically how the Troubled Assets Relief Program ("TARP") will impact our banking landscape (See page 5).

Although the short term will be challenging for almost all businesses, we still believe that the core drivers of activity in the lower middle-market mean favorable long term prospects. Large amounts of available equity capital, the desire of baby boomers to cash out and the rapidly closing capital gains tax window will lead to increased transaction volume once the credit window reopens.

I hope you enjoy our newsletter. Best wishes for the remainder of the year.

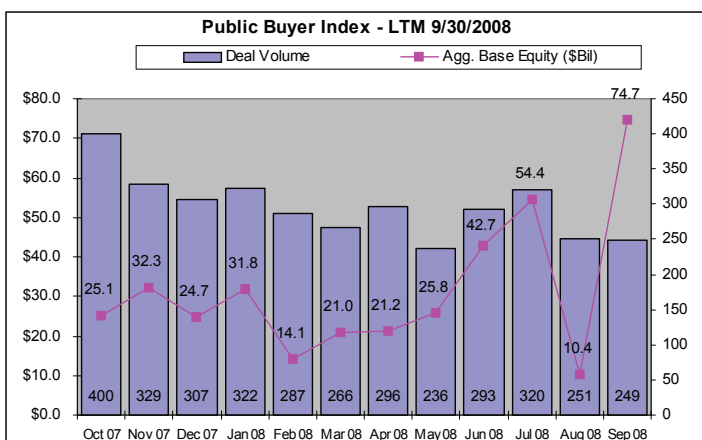
Sincerely,

Ty Dealy
Managing Director

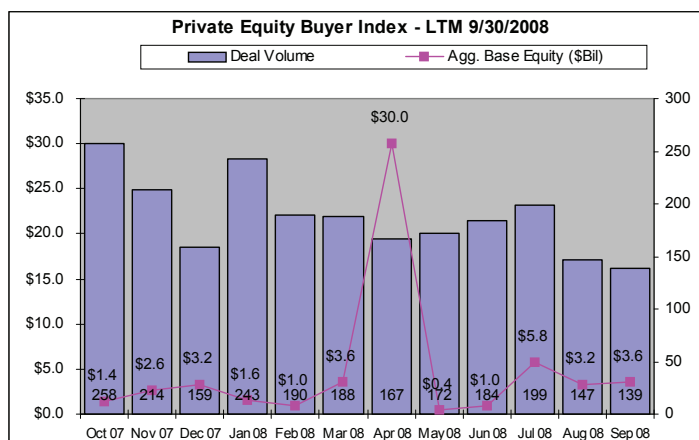
Middle Market Transaction Update and Overview

US Lower Middle Market M&A Transaction Metrics						
Deal Size (\$ mm)	Number of Transactions			Aggregate Base Equity (\$ mm)		
	TTM Ended			TTM Ended		
	9/30/2008	9/30/2007	Change	9/30/2008	9/30/2007	Change
\$100 - \$250	334	466	-28%	\$53,800	\$74,800	-28%
\$50 - \$100	372	448	-17%	\$26,500	\$31,400	-16%
\$25 - \$50	366	509	-28%	\$13,100	\$18,100	-28%
\$10 - \$25	436	636	-31%	\$7,100	\$10,400	-32%
Under \$10	710	973	-27%	\$3,100	\$4,100	-24%
Total	2,218	3,032	-27%	\$103,600	\$138,800	-25%

Source: FactSet MergerStat



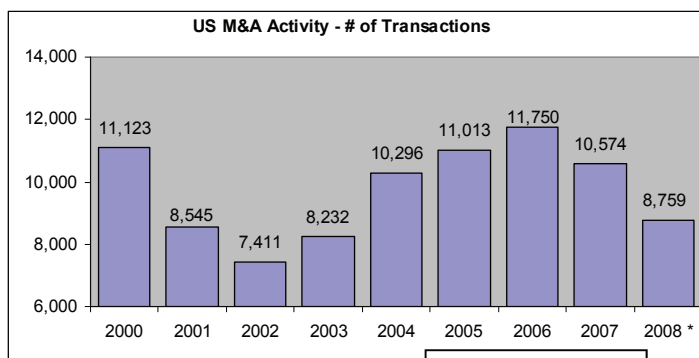
Source: FactSet MergerStat



Source: FactSet MergerStat

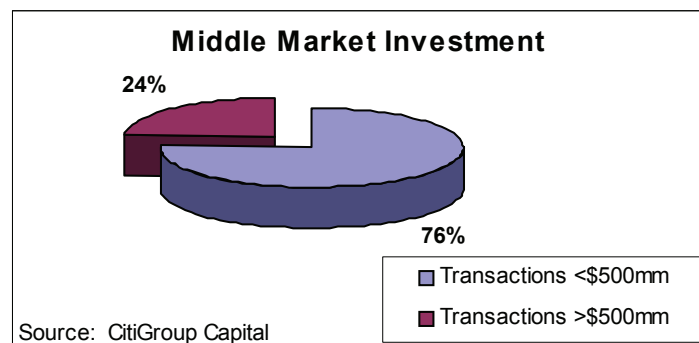
Highlights

- According to the Wall Street Journal, the first three quarters of 2008 saw a 72% decrease in private equity deals, vividly illustrating how particularly sensitive this segment of the M&A market is to the availability of cheap debt and perpetually sunny growth projections.
- While they to date have been able to remain going concerns, the businesses of AIG, Morgan Stanley, Goldman Sachs, Fannie Mae, and Freddie Mac were all changed dramatically and with a great deal of publicity. The third quarter brought on the end of the era of lightly regulated Wall Street investment banks (paraphrasing *The Guardian*).
- While the Treasury's new Troubled Assets Relief Program (TARP) placed a safety net under many troubled financial institutions, in the short-run, at least, it had no perceptible pacifying affect on the public markets, which have had an unbelievably volatile few weeks.
- Investors with less-leveraged capital structures, such as Bank of America, CitiGroup, Mitsubishi UJF, Nomura Holdings, and Berkshire Hathaway were able to make substantial acquisitions at historically low prices.



Source: MergerStat

* 2008 Value is annualized



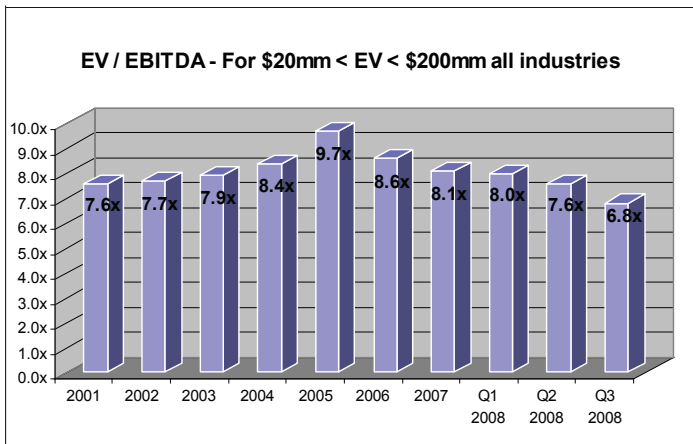
Source: CitiGroup Capital

M&A Transaction Deal Volume and Valuation Statistics

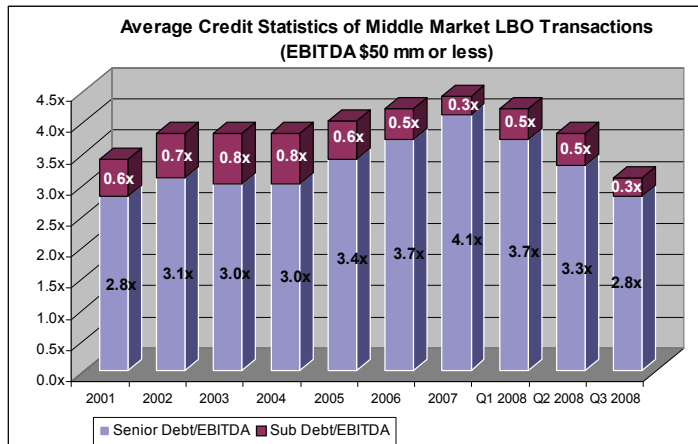
A company's value is usually determined by its financial performance, relevant benchmark industry financial performance, capital expenditure intensity as well as numerous other external, non-controllable factors, such as the industry in which it operates, current economic conditions, restrictive regulations 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	Deal Count		Diff	52 Week Average EBITDA Multiple	# Deals Reporting EBITDA	24 Month Multiple		
	TTM 9/30/2008	TTM 9/30/2007				HI	Low	
Aerospace, Aircraft & Defense	35	46	-11	N/A	N/A	N/A	N/A	N/A
Agricultural Production	40	79	-39	N/A	N/A	N/A	N/A	N/A
Apparel	57	78	-21	16	5	44		1
Automotive Products & Accessories	55	76	-21	N/A	N/A	N/A	N/A	N/A
Autos & Trucks	13	30	-17	N/A	N/A	N/A	N/A	N/A
Banking & Finance	215	430	-215	N/A	N/A	N/A	N/A	N/A
Beverages	59	66	-7	N/A	N/A	N/A	N/A	N/A
Broadcasting	95	276	-181	N/A	N/A	N/A	N/A	N/A
Brokerage, Investment & Mgmt. Consulting	588	692	-104	13	13	38		1
Building Products	8	26	-18	N/A	N/A	N/A	N/A	N/A
Chemicals, Paints & Coatings	155	234	-79	10	4	12		4
Communications	177	242	-65	8	5	24		1
Computer Software, Supplies & Services	1,533	1,686	-153	16	34	44		1
Construction Contractors & Eng. Svcs.	346	521	-175	7	4	18		3
Construction Mining & Oil Equip & Mach.	38	48	-10	N/A	N/A	N/A	N/A	N/A
Drugs, Medical Supplies & Equipment	334	382	-48	17	24	47		2
Electric, Gas Water & Sanitary Services	164	221	-57	12	5	29		5
Electrical Equipment	179	198	-19	N/A	N/A	N/A	N/A	N/A
Electronics	182	194	-12	11	9	34		1
Energy Services	113	139	-26	5	5	13		2
Fabricated Metal Products	117	154	-37	N/A	N/A	N/A	N/A	N/A
Food Processing	134	157	-23	13	5	22		5
Furniture	34	38	-4	N/A	N/A	N/A	N/A	N/A
Health Services	270	336	-66	20	7	49		5
Household Goods	47	65	-18	N/A	N/A	N/A	N/A	N/A
Industrial & Farm Equipment & Machinery	205	198	7	18	5	44		9
Instruments & Photographic Equipment	143	157	-14	11	8	36		2
Insurance	330	355	-25	N/A	N/A	N/A	N/A	N/A
Leisure & Entertainment	298	574	-276	10	8	41		2
Mining & Minerals	85	96	-11	N/A	N/A	N/A	N/A	N/A
Miscellaneous Manufacturing	51	52	-1	N/A	N/A	N/A	N/A	N/A
Miscellaneous Services	982	1,351	-369	13	10	29		3
Office Equipment & Computer Hardware	59	71	-12	13	3	27		5
Oil & Gas	77	92	-15	N/A	N/A	N/A	N/A	N/A
Packaging & Containers	14	14	0	N/A	N/A	N/A	N/A	N/A
Paper	47	59	-12	N/A	N/A	N/A	N/A	N/A
Plastics & Rubber	75	101	-26	N/A	N/A	N/A	N/A	N/A
Primary Metal Processing	81	115	-34	8	4	14		2
Printing & Publishing	143	288	-145	N/A	N/A	N/A	N/A	N/A
Real Estate	104	151	-47	N/A	N/A	N/A	N/A	N/A
Retail	290	367	-77	9	9	21		2
Stone, Clay & Glass	57	103	-46	N/A	N/A	N/A	N/A	N/A
Textiles	20	35	-15	N/A	N/A	N/A	N/A	N/A
Timber & Forest Products	23	32	-9	N/A	N/A	N/A	N/A	N/A
Toiletries & Cosmetics	19	22	-3	N/A	N/A	N/A	N/A	N/A
Toys & Recreational Products	43	60	-17	N/A	N/A	N/A	N/A	N/A
Transportation	121	171	-50	8	6	46		3
Valves, Pumps & Hydraulics	21	31	-10	N/A	N/A	N/A	N/A	N/A
Wholesale & Distribution	427	586	-159	14	8	43		2
	462	632	-170					

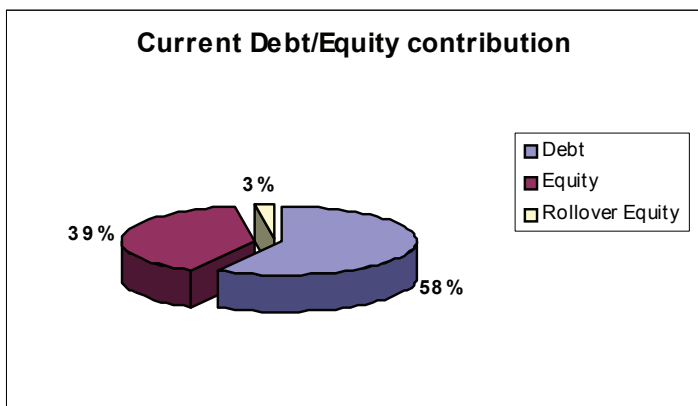
Valuation, Deal Structure and Leading Middle Market Industries Statistics



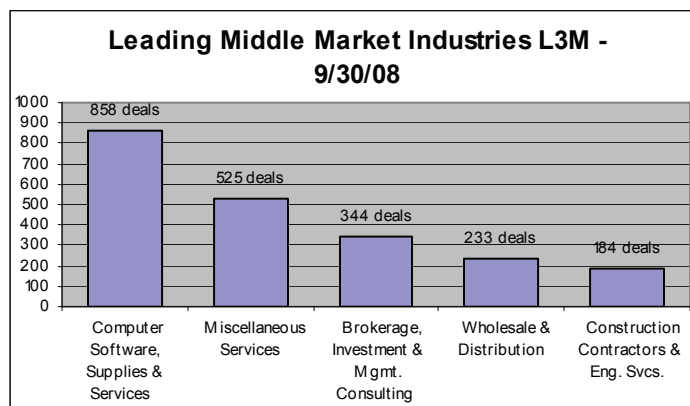
Source: S&P



Source: S&P



Source: Capital IQ



Source: FactSet MergerStat

Current Economic Conditions

In the coming quarters, we can expect the US government to aggressively pursue two goals— winning the battle against currency deflation in the face of a burst, or bursting, commodities bubble (cf. the prices of oil and gold), and the gradual, painful deleveraging of financial institutions and large corporations, both in the US and abroad. Even ardent supporters of a free market agree that government intervention is necessary in the short-run to avert a panic or catastrophe. We hope that the Federal Reserve Board, the Treasury, President Bush, President-elect Obama, and a new Congress and can put aside their differences and make a smooth transition, all while continuing to walk the tight-rope between deflation and inflation over the next few fragile quarters.

Although history teaches us that low GDP growth has a strong correlation with the volume of M&A transaction consummated, the following statistics were nonetheless a surprise. Of the 49 industries tracked by FactSet Mergerstat, only Industrial & Farm Equipment & Machinery was able to show an increase in number of deals announced compared to the same nine month period in 2007. Others, such as Computer Software, Supplies & Services, Instruments & Photographic Equipment, Insurance, Electronics, Miscellaneous Manufacturing, Packaging & Containers, showed either a zero or single digit percentage declines in this year-on-year measure. The rest of the 41 industries had very poor showings indeed.

The era of unrestrained lending has ended, and the associated fallout for businesses has affected everything from the debt-to-equity contribution ratios used in buy-outs (see above) to the ability of early-stage companies to secure funding. Businesses of all sizes are finding their lines of credit reduced and the debt covenants more stringent on revolvers, term loans, senior subordinated notes, and mezzanine debt. And that's for companies with solid earnings and long-standing relationships with banks!

As a result, anecdotal evidence suggests that personal guarantees, subordinated debt, and seller financing are terms that business owners will get to know well over the next few quarters. Some banks are shying away from all manner of cash-flow loans, and the icy and uneven credit environment has caused some prudent business owners to start shopping around for banks with lending guidelines that are more aligned with their businesses.

How Will TARP Affect Liquidity?

Like many of you, we at BT Capital Partners have tried to gain a greater understanding of the recent (and ongoing) financial turmoil that seemingly has affected all participants in the world economy. Although the turmoil and subsequent US government action has been on everyone's mind, few in the media are able to analyze the situation as well as our friend Jim Wheeler, a partner at Powell Goldstein. Jim is active in the business community, and specializes in transactions involving financial institutions and the areas of mergers and acquisitions, corporate finance, and business law.

James C. Wheeler
Partner—Banking, Business and Finance
Powell Goldstein LLP
404.572.4561
jwheeler@pogolaw.com

We asked him to share his thoughts on the present situation, and he obliged by presenting his view of how the US federal government's recent actions will affect liquidity. He has prepared the following article for our readers.

When the Treasury Department announced its ambitious, and (as we go to press) still-evolving, Emergency Economic Stabilization Act of 2008 / Troubled Assets Relief Program / Capital Purchase Program ("TARP"), the legislation claimed as its two chief aims (1) the restoration of confidence and stability in the financial system and (2) to provide liquidity to the marketplace.

The jury is still out, and is likely to remain out for some time to come, as to whether we have indeed restored stability or confidence in our existing financial system. The failures of several pillars of the financial community, from Lehman Brothers and Wachovia on down the line, and the wild volatility of the stock market seem to indicate that, at best, we still have quite a bit of work to do in order to restore confidence and stability. We should also figure in the effects of the proposed tax structure of the new administration, which will almost certainly slow growth, at least in the short term.

But what of liquidity? Everyone, from George W. Bush to the small business owner, is adamant that they expect banks receiving TARP payments to use the new capital to lend money into the system, to spur growth, to point us to a resolution of the current financial crisis. Although a noble goal, the reality of the situation poses a number of problems.

The primary problem with opening up the coffers for lending, of course, is that general economic conditions have damaged many businesses, making them poor candidates for credit-worthy loans.

An equally important factor that has not received much press is the paradigm shift in lending caused by the deleveraging of Wall Street. With all of the large Wall Street investment banks now conspicuously absent from the landscape, we have lost all of those major lenders who leveraged their assets 40:1 and who were willing to aggressively price car loans, credit card receivables, and home mortgages, based on their model of packaging them and selling them, without regard to credit quality, since they were backed with credit default guarantees. Those packages and re-sales are no longer viable. All of the capital that was available just months ago is no longer available, and most eyes are turning to the banks who are lining up to receive the TARP capital payments as the likely suspects for injecting capital into our economy.

Although our crystal ball is a little hazy, we certainly see deleveraging, coupled with the loss of some of the more aggressive lenders, such as Wachovia and Washington Mutual, causing the pricing pressures that many smaller banks have felt for years to be alleviated. We have heard, however, that aggressive pricing has continued to pop up in pockets, offered by banks desperate for deposits.

Compound deleveraging and serious scaling back by many aggressive banks with the complete re-thinking of the banking industry, and we predict that we have witnessed the end of The Borrower Era. New loans will necessarily be written more carefully, be more heavily documented, carry tougher capital and covenant requirements, and carry higher interest rates.

Even the most optimistic projections point to a prolonged recession stretching out over years rather than months. Banking regulators are repeating the adage that Capital is King and we can't disagree with that. Hoarding capital for the long winter seems to be a prudent business plan. Although we may have a better understanding once the TARP applications get further down the review to approval cycle, the deadlines for which will soon be extended for privately held banks, there are no current official requirements for the use of proceeds and it does not seem practical for many banks to voluntarily deplete a large percentage of capital on lending.

In order to successfully navigate these turbulent economic waters, I recommend turning to finance professionals, such as BT Capital Partners, for support. When credit is in short supply, an advisor is especially important to help you optimize your capital structure, obtain external financing, and understand your options when contemplating the sale of your business.

TARP KEY POINTS

- Managed by Treasury Secretary through newly-created Office of Financial Stability.
- Overseen by Federal Reserve Board, FDIC, Comptroller of Currency, Director of the Office of Thrift Supervision, and Secretary of Housing and Urban Development.
- A total of \$700 billion was authorized. \$250 billion are immediately accessible. The next \$100 billion is authorized by the President. The remainder is authorized by Congress.
- Treasury must take warrants for non-voting stock or senior debt from participating companies.
- No new golden parachutes for participating companies.
- FDIC insurance increased from \$100,000 to \$250,000 through December 31, 2009.



About us

BT 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.

Bennett Thrasher, one of the most respected professional service firms in Georgia, complements our investment banking expertise and shares our commitment to client service.

The principals of BT 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, BT 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 \$20 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" - Rick Bennett, co-founding shareholder of Bennett Thrasher

One Overton Park
3625 Cumberland Blvd.
Suite 1050
Atlanta, GA, 30339

Phone: 678-990-2189
Fax: 678-218-4609
E-mail: info@btcapitalpartners.com
Web: www.btcapitalpartners.com

"Together with BT Capital Partners, we bring investment banking, tax advisory and wealth management capabilities together as part of a single, cohesive team" - Ken Thrasher, co-founding shareholder of Bennett Thrasher

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, BT 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.
-