



# PRIVATE CAPITAL SOLUTIONS GROUP

---

## MARKET UPDATE

### Debt Capital Markets

PRIVATE CAPITAL OVERVIEW	2
INTRODUCTION	3
SENIOR DEBT AND PRICING	4
DEBT MARKET TRENDS	5
LEVERAGED BUYOUTS	6
CONCLUSION	6
RECENT ENGAGEMENTS	7

McCOLL | PARTNERS  
INVESTMENT BANKERS

CHARLOTTE

DALLAS

ATLANTA

McColl Partners' Services

Private Capital Solutions Group

MERGERS & ACQUISITIONS

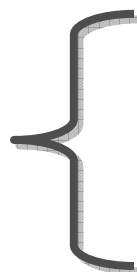
PRIVATE CAPITAL SOLUTIONS

STRATEGIC ADVISORY

McColl Partners' Private Capital Solutions Group has the requisite experience to deliver optimal results to its clients, having raised over \$2.0 billion of senior debt, subordinated debt, and preferred equity in the last four years. Representative current engaged transactions include a revolving credit raise to fund a shareholder dividend for a multi-level marketing company; a mezzanine raise to fund growth capital for an electronic medical records software provider; acquisition financing for a convenience store owner and operator; and a mezzanine raise to fund a dividend for a provider of engine parts for the motor sports industry.

McColl Partners' Private Capital Solutions Group leverages significant industry expertise to achieve premium outcomes for clients, with an emphasis on establishing long-term relationships. The Private Capital Solutions Group has also established a reputation for creating innovative financing structures and completing complex situations.

McColl Partners maintains regular dialogue with over 300 financing sources.



- International and U.S. commercial banks
- Finance companies
- Hedge funds
- Business development corporations
- Mezzanine funds
- Other unique sources of capital

Uses of Capital Placed by McColl Partners

SHAREHOLDER DIVIDEND

ACQUISITION FINANCING

GROWTH CAPITAL

RESCUE FINANCING

DEBT RECAPITALIZATION

SHAREHOLDER BUYOUT

WORKING CAPITAL

DEBT RESTRUCTURING

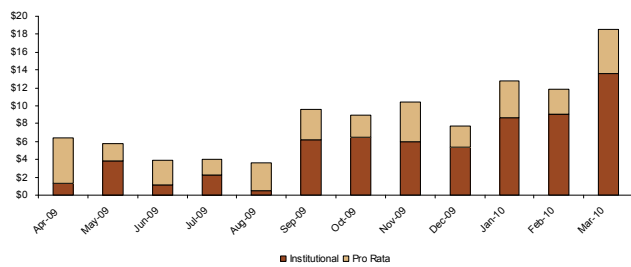
## Debt Capital Markets Update

### Introduction

Today's credit markets have improved considerably from the lending environment twelve months ago, primarily due to (i) more favorable economic conditions, (ii) improvement in company performance, and (iii) capital providers' willingness to deploy funds following a quiet 18 month period. Renewed confidence and increased risk appetite has resulted in market acceptance for improved terms, including a moderate increase in leverage multiples and pricing parameters. Furthermore, the market for dividend recapitalizations has resurfaced along with an increase in cash flow lending, particularly for businesses with greater than \$10 million of earnings before interest, taxes, depreciation, and amortization ("EBITDA"). Capital has also become available for industries that could not access the credit markets in 2009. Despite an overall improvement in the capital markets, lenders remain disciplined when evaluating credit quality, particularly as it relates to first time borrowers and aggressive credit asks. Lenders continue to require longer due diligence periods than two to three years ago and focus on downside risks in evaluating credits.

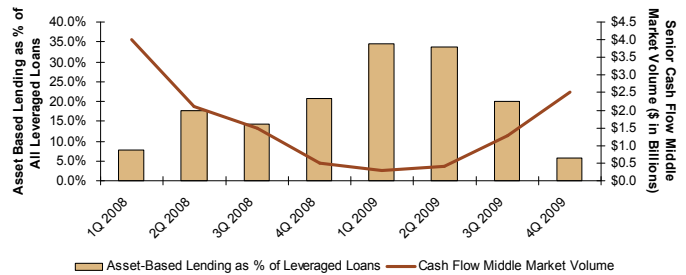
As displayed in Figure 1, the leveraged loan market has improved significantly in the past six months. New leveraged loan volume increased from approximately \$4 billion in August 2009 to over \$18 billion in March 2010. The decline in asset-based lending ("ABL") as a percentage of total leveraged loans in the second half of 2009 is indicative of the early recovery in the cash flow market. As displayed in Figure 2, the senior cash flow market has begun to show signs of life for both sponsor and non-sponsor driven deals, with middle-market cash flow volume increasing 525% from the second quarter to the fourth quarter of 2009. The ABL market also remains active, and these lenders have become more aggressive in pricing by reducing LIBOR floors and in considering term loan overadvances ("airballs") to compete with cash flow lenders.

Figure 1: New Issue Leveraged Loan Volume



Source: Standard & Poor's.

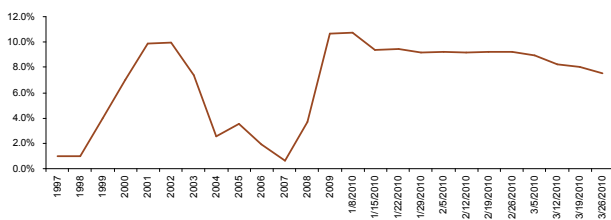
Figure 2: Cash Flow vs. Asset-Based Loans



Source: Standard & Poor's.

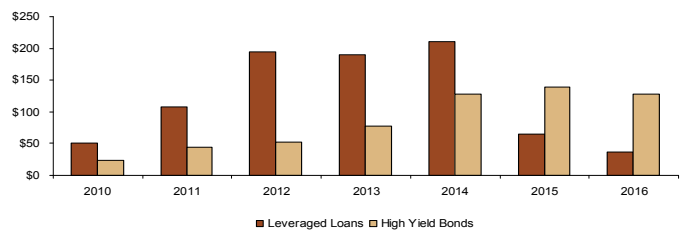
The highly leveraged, covenant-lite transactions underwritten in the previous free-flowing credit environment coupled with recessionary conditions resulted in companies increasingly defaulting on loans, as displayed in Figure 3. While default risk is still high, March represented the fourth consecutive monthly decline in defaults, with default rates dropping from approximately 11% in December 2009 to 7.5% in March 2010. The significant amount of credit extended in years past has also created a "refinancing wall," as companies end their terms of previous credit commitments. Approximately half of all lending activity in 2009 and through the first quarter of 2010 was related to refinancing. An estimated \$600 billion of leveraged loans are scheduled to mature between 2012 and 2014 and will likely be absorbed by amend-to-extend executions, high-yield bond takeouts, and pre-payments.

Figure 3: Default Rates



Source: Standard & Poor's.

Figure 4: Refinancing Wall



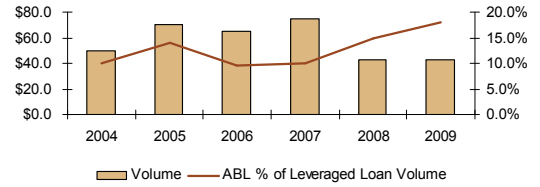
Source: Standard & Poor's.

## Senior Debt

### Asset-Based Lending

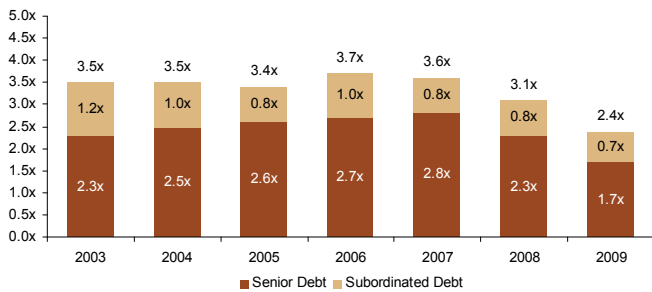
ABL deals drove liquidity in the senior debt market for much of 2009, providing over 18% of total leveraged loans for the year, as presented in Figure 5. The ABL market provides an attractive financing option for companies with strong asset bases, and traditional banks remain eager to participate in the ABL market as well as the new market entrants that emerged in 2009. High-quality ABL credits can now obtain “airball” term loans, as ABL players must now compete with the revitalized cash flow market. Airballs are being amortized for up to two years and limited to 15% of total senior debt exposure.

Figure 5: ABL Volume



Source: Standard & Poor's.

Figure 6: Leverage Multiples<sup>(1)</sup>



Source: GF Data Resources.

Footnote:  
(1) For LBOs between \$10 million and \$250 million.

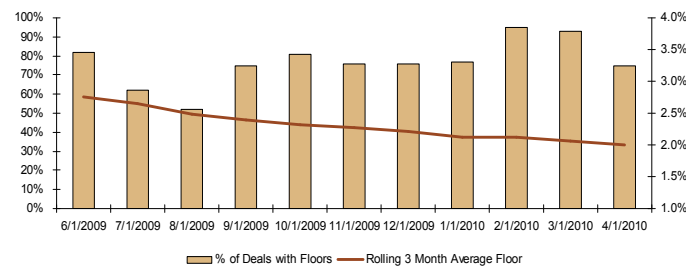
### Emergence of Cash Flow Market

The recent emergence of the senior cash flow loan market represents a key development in the past three to six months. Most notably, EBITDA thresholds for these transactions have decreased to \$5-\$10 million for sponsor-backed companies and \$10-\$15 million for non-sponsored companies. Banks are still cautious in committing to new deals but high-quality companies with consistent cash flow that meet the proper criteria are much more likely to obtain a cash flow loan today than in mid-2009. Additionally, senior leverage multiples have increased from 1.5x-2.0x EBITDA in mid-2009 to 2.0x-2.5x EBITDA in recent months, with private equity-backed companies demonstrating consistent EBITDA above \$20 million sometimes obtaining senior leverage up to 3.0x EBITDA. Companies with prior banking relationships have also been able to obtain “out-of-market” deal structures. Figure 6 presents average leverage levels for middle-market leveraged buyouts (“LBOs”) since 2003.

### Pricing

Pricing for both ABL and cash flow loans is much higher than in years past but has improved in recent months. ABL deals are currently being priced at LIBOR spreads of 250 - 400 basis points (“bps”). Cash flow loans are currently requiring spreads of LIBOR + 450 - 600. The market for all-in leverage is in the 3.0x-3.5x EBITDA range for middle market companies but has reached 4.0x for sponsor-backed businesses above \$20 million of EBITDA with strong historical cash flow. Figure 6 and Figure 7 outline the recent improvement in pricing and leverage parameters in the senior debt market.

Figure 7: Trends in LIBOR Floors



Source: Standard & Poor's.

Figure 8: Senior Debt Comparison - 1H 2009 vs. 1H 2010

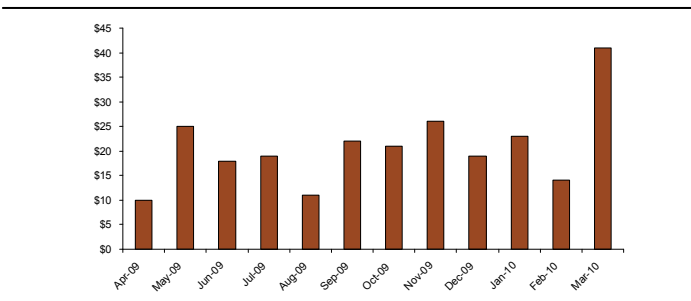
	Interest Rate	Leverage Level	Closing Fee	Fixed Charge
<b>1H 2010</b>				
ABL	Spread L+300 - 400	80% - 85% of A/R 50% - 60% of Inventory	1.0% - 2.0%	1.25x
Cash Flow	Spread L+500 - 600 Floor: 2.0% - 3.0%	2.0x - 3.0x EBITDA	1.0% - 2.0%	1.40x
<b>1H 2009</b>				
ABL	Spread L+350 - 500	80% - 85% of A/R 50% - 60% of Inventory	1.0% - 2.0%	1.25x
Cash Flow	Spread L+600 - 750 Floor: 2.5% - 3.5%	1.5x - 2.0x EBITDA	1.0% - 2.0%	1.40x

## Recent Debt Capital Markets Trends

### Thriving High Yield Market

The high yield bond market closed a record setting month and quarter ending March 2010 and is positioned to continue the momentum in the coming months. Sustained market strength has been characterized by growing transaction sizes, consistent oversubscriptions on offerings, and strong secondary market gains. Figure 9 displays new issue volume of high yield debt, including a record issuance of over \$40 billion in March 2010. With demand for the asset class remaining healthy, the forward calendar continues to build as issuers look to raise capital during the open window of opportunity. The strength of the high yield bond market represents a strong forward indicator for the broader capital markets environment.

Figure 9: New Issue High Yield Loan Volume

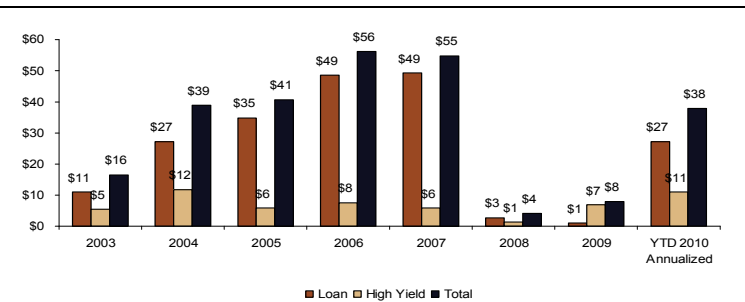


Source: Standard & Poors.

### Dividend Recapitalizations

In concert with the increased risk appetite of capital providers, the market for dividend recapitalizations has resurfaced for high-quality companies. As seen in Figure 10, the annualized pace of dividend financing based on activity in year-to-date (“YTD”) 2010 is \$38 billion, versus only \$9 billion for all of 2009. Financial sponsors are increasingly tapping the now-liquid debt markets to generate returns in a sluggish M&A and IPO environment. The dividend market has also opened for non-sponsored businesses, although most companies with less than \$10 million of EBITDA must tap the mezzanine market to obtain a dividend.

Figure 10: Dividend-Related Financing 2003–2010



Source: Standard & Poors.

### Continued Reliance On Mezzanine Capital

Mezzanine debt continues to be an important source of capital for all transactions and is still all but essential to completing any financing structure. As presented in Figure 12, subordinated debt has increased from 7.1% of the capital structure in middle market LBOs in 2007 to 28.5% in the fourth quarter of 2009. Many junior capital providers are sticking to financial sponsor deals but other groups continue to fill the gap in the non-sponsored senior financing market by taking on investments with senior-level risk and still obtaining traditional mezzanine terms. This strategy is particularly prevalent for companies with less than \$10 million of EBITDA without a substantial asset base, as these companies are still having difficulties accessing the senior cash flow market. Mezzanine lenders also continue to act as deleveraging tools to reduce levels of senior debt for over-leveraged companies.

As a result of the continued demand for flexible capital, mezzanine return requirements are still high and required warrant positions are very common. Figure 11 outlines the current pricing and structure of mezzanine investments.

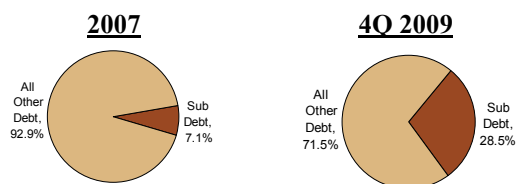
Figure 11: Current Mezzanine Debt Structure

	Interest Rate	Leverage Level	Closing Fee	All-In Return
Mezzanine Debt	12.0% - 13.0% Cash 2.0% - 3.0% PIK	3.0x - 4.0x EBITDA <sup>(1)</sup>	1.5% - 2.5%	16.0% - 20.0%

Footnote:

(1) All-in leverage dependent on EBITDA, asset base, enterprise value, and sponsorship.

Figure 12: Subordinated Debt as % of Middle Market LBOs

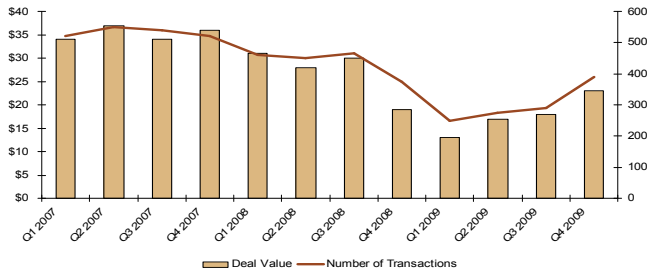


Source: Standard & Poors.

## Leveraged Buyouts

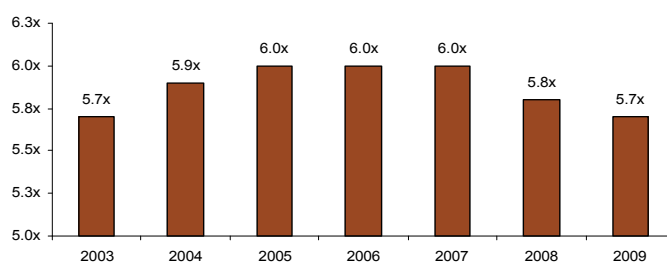
As financial sponsors attempt to put to work the estimated \$1.0 trillion of worldwide committed but uninvested capital and the economy rebounds from a global recession, middle market LBO transaction volume increased for the third consecutive quarter. The number of transactions in the fourth quarter of 2009 was 30% higher than the previous quarter and 63% higher than the first quarter of 2009, as displayed in Figure 13. A number of factors have contributed to an increase in deal volume, including improved company performance, looser credit markets, willingness for financial sponsors to over-equitize transactions, the convergence of buyer and seller valuation expectations, and approaching deadlines for sponsors to invest their committed capital.

Figure 13: Private Equity Deal Volume



Source: GF Data Resources.

Figure 14: Private Equity Purchase Price/EBITDA Multiples

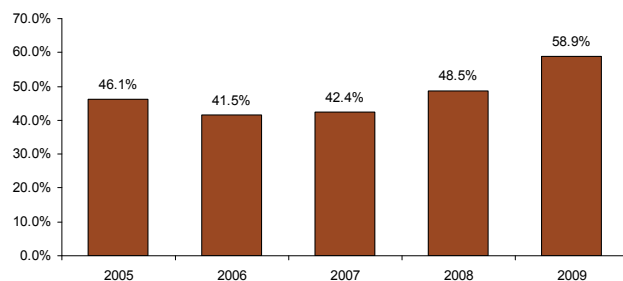


Source: GF Data Resources.

As displayed in Figure 14, the recent decline in purchase price multiples reflects a decrease in available leverage and a decline in seller valuation expectations. Private equity groups also continue to find creative ways of investing to offset lower leverage multiples. These structures include minority deals, distressed investments, seller notes, and earn outs. Seller financing is still a key trend, assisting sponsors in financing transactions at the expense of sellers, who receive less cash at close as a result.

Sponsors also continue to over-equitize transactions, contributing nearly 60% of the capital structure in 2009 for LBOs between \$10 million and \$250 million, as displayed in Figure 15.

Figure 15: Historical LBO Equity Contributions<sup>(1)</sup>



Source: GF Data Resources.

Footnote:  
(1) LBOs between \$10 million and \$250 million.

## Conclusion

As we move forward in 2010, McColl Partners anticipates a slow and steady ease in the credit markets that will make capital generally more available at slightly higher leverage multiples and more favorable pricing parameters. Many industries that could not access the credit markets in the last 18 months will find opportunities, and the emergence of the cash flow, high yield, and dividend recapitalization markets will noticeably increase capital availability for high-quality companies. ABL players will remain highly active, and mezzanine debt providers will play a significant role in almost any middle market transaction. Although lending sources will continue to increase overall activity, a focus on downside risk and lengthy due diligence periods will drive a conservative attitude and cautious approach to committing to new deals.

In this environment, extensive knowledge of appropriate capital structures that meet market expectations and relationships with active participants are essential for getting deals done. For further information on McColl Partners' capital raising capabilities, please contact John Deering at (704) 333 - 0574 or at [jdeering@mccollpartners.com](mailto:jdeering@mccollpartners.com).

### MCCOLL PARTNERS ENGAGEMENTS

McColl Partners has active conversations with over 300 financing sources and has multiple active engagements in market for both sponsored and non-sponsored deals. McColl Partners Private Capital Solutions Group has been particularly active of late, receiving aggressive term sheets for deals in 2010, as displayed in Figure 16.

Figure 16: Select McColl Partners Engagements

	Sponsored	Use of Funds	Proposed Leverage	Security	Cash Interest
Hitech		Growth Capital	3.2x	Mezzanine Debt	12.0%
Bobby		Dividend	2.3x	Mezzanine Debt	12.5%
Tira	<input checked="" type="checkbox"/>	LBO	3.8x	Senior Term; Mezzanine	L + 700 bps - 900 bps; 14%
Slurpee		Acquisition Financing	4.0x	Senior Term	L + 425 bps
Melania		Dividend	1.0x	Revolver	L + 275 bps - 300 bps
Debit	<input checked="" type="checkbox"/>	Minority Recapitalization	3.0x	Revolver; Term A; Term B	L + 750 - 950 bps
Encore		Plant Expansion	3.3x	Revolver; Equipment Loan	L + 275 bps - 300 bps

**Maple Leaf Heritage Investments**  
has acquired  
**Hbc**

*The undersigned facilitated bridge financing and permanent financing*

**MCCOLL PARTNERS**  
INVESTMENT BANKERS

“Over the course of a transaction that took almost two years to execute, McColl Partners repeatedly demonstrated its dedication to providing the highest level of client service and thoughtful strategic advice. The perseverance displayed by McColl Partners over such an extended time-frame says a great deal about the commitment and character of the professionals in the McColl Partners organization. I sincerely appreciate the tireless effort that McColl Partners put forth as part of my team to help make the Hbc acquisition a reality.”

**Jerry Zucker**  
Chief Executive Officer  
Maple Heritage Leaf Investments

### MCCOLL PARTNERS TRANSACTION EXPERIENCE

McColl Partners’ Private Capital Solutions Group has over 25 years of transaction experience with over 30 successfully closed transactions. McColl Partners has preeminent expertise in sourcing, negotiating, structuring, and executing successful private capital transactions.

<p>has obtained financing of \$20.0 million</p> <p><b>Senior Debt Facility</b></p> <p><i>The undersigned acted as financial advisor to Brady Holdings.</i></p> <p><b>MCCOLL PARTNERS</b> INVESTMENT BANKERS</p>	<p>has completed a recapitalization.</p> <p><b>Stonehenge Partners, Inc. and Primus Venture Partners, Inc.</b></p> <p><i>The undersigned acted as financial advisor to Installed Building Products, LLC.</i></p> <p><b>MCCOLL PARTNERS</b> INVESTMENT BANKERS</p>	<p><b>\$50,000,000</b></p> <p><b>Senior Debt Facilities</b></p> <p><i>The undersigned acted as financial advisor to Carolina Wholesale Group.</i></p> <p><b>MCCOLL PARTNERS</b> INVESTMENT BANKERS</p>	<p><b>DELLACASA</b></p> <p>has completed a <b>Private Financing</b></p> <p><i>The undersigned acted as financial advisor to Dellacasa, LLC.</i></p> <p><b>MCCOLL PARTNERS</b> INVESTMENT BANKERS</p>	<p>has obtained financing of \$38.0 million provided by</p> <p><b>Bank Syndicate</b></p> <p><i>The undersigned acted as financial advisor to Metro Cars.</i></p> <p><b>MCCOLL PARTNERS</b> INVESTMENT BANKERS</p>	<p><b>Revolving Credit Facility First Lien Term Loan</b></p> <p><i>The undersigned acted as financial advisor to Neways International.</i></p> <p><b>MCCOLL PARTNERS</b> INVESTMENT BANKERS</p>
---	---	--	--	---	---



INDEPENDENT  
UNBIASED ADVICE  
GLOBAL ACCESS  
CLIENT-FOCUSED RESULTS

McColl Partners provides investment banking services to owners and management of middle-market businesses and financial sponsors by combining experienced, dedicated professionals, unparalleled access to decision makers, and focused industry expertise.

**McCOLL | PARTNERS**  
INVESTMENT BANKERS

[WWW.MCCOLLPARTNERS.COM](http://WWW.MCCOLLPARTNERS.COM)

John D. Deering, Managing Director  
Private Capital Solutions Group  
704.333.0574  
[jdeering@mccollpartners.com](mailto:jdeering@mccollpartners.com)

Brian L. Davis, Managing Director  
Financial Sponsors Group  
704.333.0136  
[bdavis@mccollpartners.com](mailto:bdavis@mccollpartners.com)

McColl Partners' Private Capital Solutions Group combines significant industry expertise and extensive relationships to deliver innovative solutions to clients. McColl Partners' professionals work to deliver optimal results to fit each client's individual goals with an emphasis on long-term relationships.

© 2009 McColl Partners LLC. All rights reserved.

Disclaimer: This material was prepared by McColl Partners LLC, a Delaware limited liability company and a registered investment advisor and broker-dealer. This material is for informational purposes only and is not intended to be used as the basis of an investment decision. This material is not an offer or the solicitation of an offer to sell or buy any security. Information obtained from third-party sources is considered reliable, but we do not guarantee that the information herein is accurate or complete. The material presented reflects information known to the authors at the time this communication was written and is subject to change without notice.

100 NORTH TRYON STREET, 54TH FLOOR  
2100 MCKINNEY AVENUE, SUITE 1410  
3340 PEACHTREE ROAD N.E., SUITE 1828

CHARLOTTE, NORTH CAROLINA 28202  
DALLAS, TEXAS 75201  
ATLANTA, GEORGIA 30326

PHONE: 704.333.0525 / FAX: 704.333.0118  
PHONE: 214.451.5200 / FAX: 214.451.5238  
PHONE: 404.812.5327 / FAX: 404.812.5328