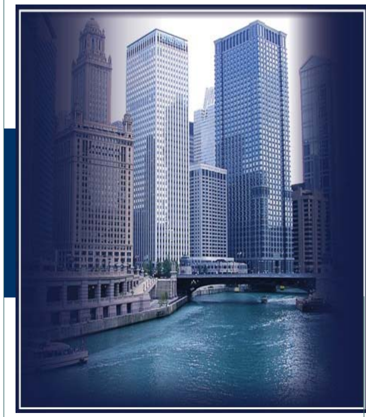


DRESNER PARTNERS
INVESTMENT BANKING

Family Matters

Family Matters, is a financial newsletter published quarterly by Dresner Partners with the goal of giving family-owned and closely-held private companies and their trusted advisors a quick, early and easily accessible look at the opportunities available to them in the capital and M&A markets.

Volume 2, Issue 1 — July 2009

Minority Investments: A Liquidity Solution

It is an issue that is arising at family owned and closely held private companies throughout America: an owner who last year was contemplating retirement and a liquidity event, only to have those thoughts disintegrate with the collapse of the financial markets. Today, four months later and with the company still profitable, a sale transaction is still an option, but at a lower valuation. The prospect of selling the company at what the owner believes to be an artificially low value is not particularly appealing, but neither is the prospect of spending three to five years at the helm of the company waiting for conditions to improve. The business owner is in a quandary, but it is a quandary that may be solved by a minority investment.

A number of equity investors focus exclusively on minority investments. Dave Christopher, a founder at Peachtree Equity Partners in Atlanta, has been concentrating on non-control capital for the past ten years. Christopher explains that "most of the owner operators we meet are not aware of this option. They think they either have to sell their business completely or try to raise senior debt to meet their capital needs." In many instances, these companies initially go down a sale route but aren't satisfied with the values submitted. "We provide a valuable solution to the owner in these cases," says Christopher.

Some control-oriented private equity groups are also now giving serious consideration to minority investments. Jeff Webb, a partner at Industrial Growth Partners, a private equity group that has historically focused on control transactions in the manufacturing sector, sees minority investments as an opportunity to build both a relationship and value. "If we can partner with a solid operating company and add value in anticipation of ultimately putting more capital to work in a transaction that gives the owner a second bite of the apple further down the road, it's a win-win for everyone involved."

A minority investment will provide a business owner with some liquidity and the opportunity to create a diversified investment portfolio at a time when most investment markets are coming off of historical lows. At the same time, the minority investor, if properly selected, will be able to provide the owner with succession assistance to free up more of his time. As in more traditional recapitalization transactions, the "fit" with the junior capital partner is extremely important. Matthew Hook, a managing director at Centerfield Capital in Indianapolis, says minority investors should be viewed as more than just a source of capital: "Our relationships with business owners are based on a common vision of the owner's objectives and the future of the company."

A minority investment may not always be the ideal or preferred transaction, but in the current environment we know that ideal transactions are often very hard to find. For business owners who are not in a position to wait for current conditions to improve, a minority investment is an opportunity that may be worth consideration.

Why family-owned and closely-held private companies?

Because they are an integral part of our nation's economy, accounting for over 50% of U.S. GDP and generating over 60% of U.S. employment. Family-owned and closely-held private companies also have unique issues to address, one of which is succession. In the next decade, an estimated 30% of family-owned businesses will experience a change in leadership due to retirement or semi-retirement, creating the largest intergenerational transfer of wealth in U.S. history.

At Dresner Partners, we utilize our investment banking resources to address the very needs of family-owned and closely-held private companies. We believe that by providing a full-suite of investment banking services to our clients, we can help them address issues specific to their companies and create optimal results to satisfy their concerns.

Sources: Institute for Family Owned Businesses, University of North Carolina, Ashville, and University of Southern Maine

Inside this issue:

Minority Investments: A Liquidity Solution	1
Less is More: Smaller Transactions Take Center Stage	2
Transaction Multiples: Down But Not Out	2
Eye on the Economy: Current Indicators Impacting Middle Market Companies	3
Capital Gains Update	5

Less is More: Smaller Transactions Take Center Stage

In an interesting anomaly, bigger is no longer better in the M&A market for private equity transactions. Historically, larger transactions backed by larger private equity groups have had access to a broad range of financing sources ranging from high yield debt markets to hedge funds to providers of Term B senior debt. But for the past six months, all of these financing vehicles have been either unavailable or drastically cut back. The high yield markets have supported very few large transactions, many hedge funds are faced with both deteriorating results and significant redemptions, and large senior lenders are proceeding extremely cautiously, even with the availability of TARP money. All this has left many large private equity funds on the sideline, while middle market funds have dominated transaction activity.

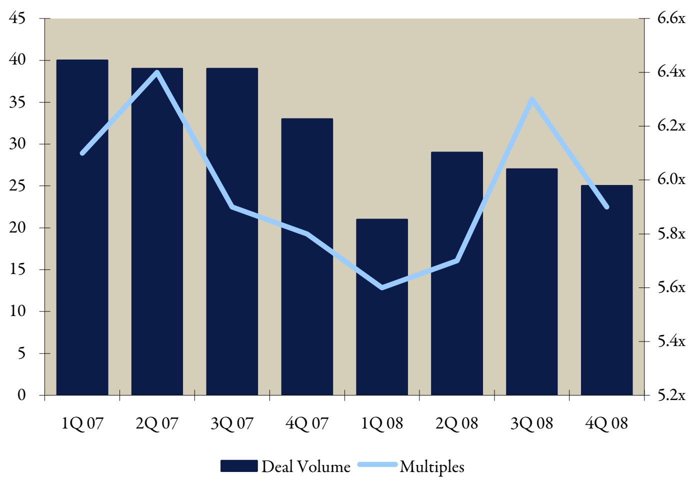
According to PitchBook Data, Inc., 82% of private equity transactions in the first quarter of this year were less than $250 million in value. The median dollar amount invested in private equity transactions in the first three months of 2009 was $25.3 million, as compared to a median investment of $50.0 million in the first quarter of 2008 and $74.5 million in the first quarter of 2007.

So who are the financing sources funding these middle market transactions? At the small end, we are seeing local banks becoming increasingly active. These are small banks that did not take TARP money and are lending off of solid balance sheets. At the larger end of the middle market, some of the traditional private equity lenders that have been very quiet for the past four to five months are now venturing back into market. As an example, Wind Point Partners' recent acquisition of Roskam Baking, a Michigan based food company now named Hearthside Food Solutions, was funded with a $115 million senior facility led by GE Antares and CIT with participation from Fifth Third Bank, GMAC, and Bank of America. Pricing on the loan was LIBOR plus 650 with a 3.25% LIBOR floor, and the loan was issued at an original-issue discount of 97, providing a 300 basis point upfront fee to the lenders.

Transaction Multiples: Down But Not Out

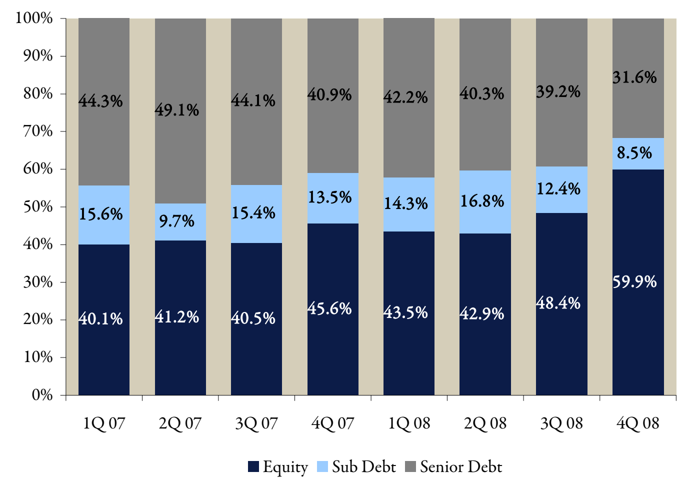
M&A transaction activity in the private equity community has slowed across the board. The most recent results from GF Data Resources show the volume of private equity transactions in the fourth quarter of last year down nearly 25% from a year earlier, and all anecdotal evidence indicates that trend continuing during the first quarter of this year. Transaction volume has been significantly reduced by a lack of financing availability. When financing is available, it is often at reduced levels that require equity contributions that can be well in excess of 50% of the transaction value. Nonetheless, GF Data Resources reported average valuations in the fourth quarter of last year were 5.9x trailing twelve month adjusted EBITDA, which is not an excessively low trading multiple by historical standards. This valuation level appears to be holding, as our two most recently completed transactions at Dresner Partners both closed with trading multiples of 5.5 to 6.0x trailing twelve month adjusted EBITDA.

Deal Multiples & Actvity



Source: GF Data Resources

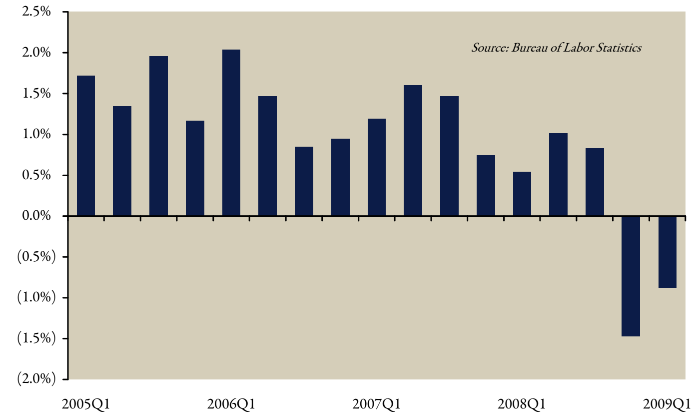
Equity & Debt Contributions



Source: GF Data Resources

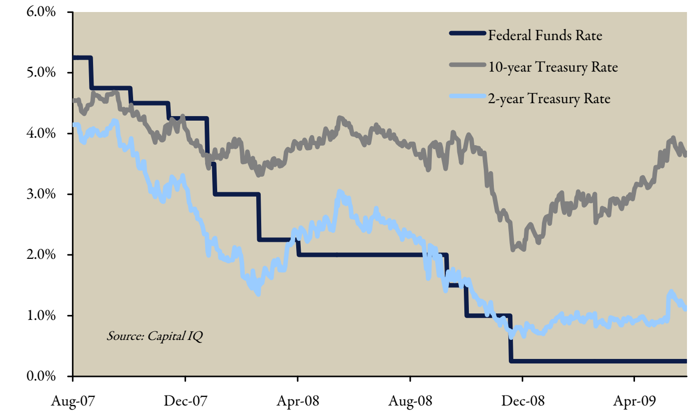
Eye on the Economy: Current Indicators Impacting Middle Market Companies

U.S. GDP Growth by Quarter



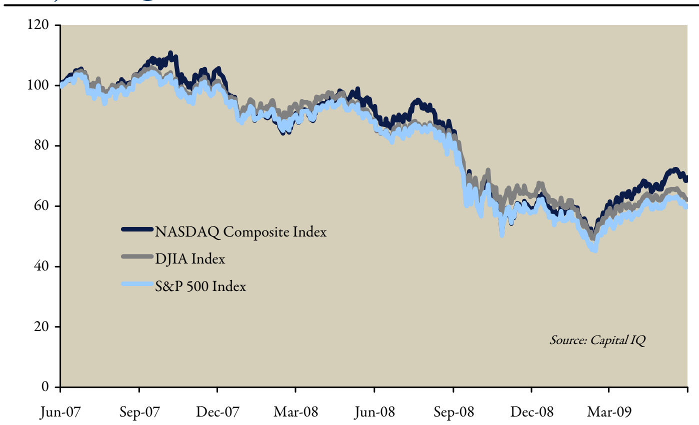
GDP declined at a 6.1% annual rate in the first quarter of 2009. Overall, consumption turned positive and inventories dropped sharply, while weak government spending - which won't be a problem once stimulus dollars start circulating - depressed growth, and capital investment inevitably plummeted. The figures suggest the economy may be nearing the bottom.

Benchmark Fed Rates



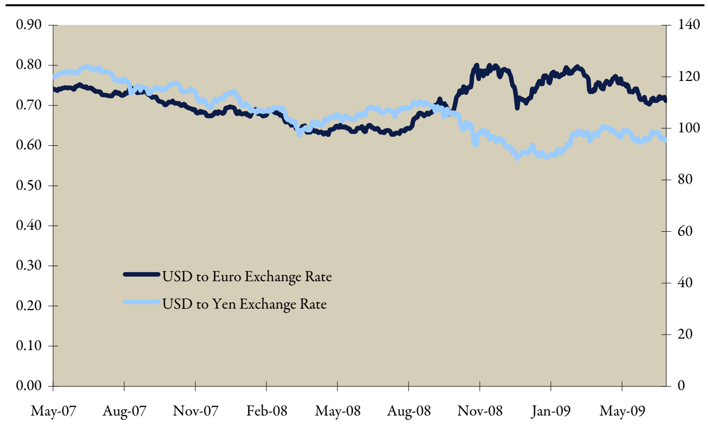
Although Treasury yields have dipped in early 2008, this is believed to be more a function of the market's expectation regarding a potential rate hike than a reflection of concerns about the recovery of the U.S. economy.

Major Equity Indexes



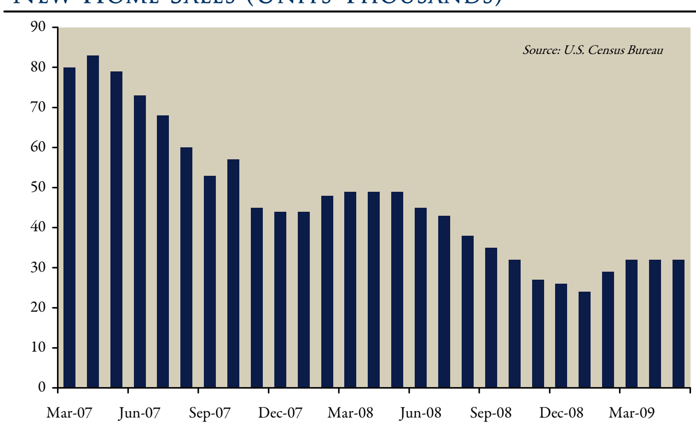
All three major equity indices have gained over 20% since the beginning of March driven by confidence that the economy and financial sector are closer to stabilizing.

Exchange Rates (U.S. vs. Euro and Yen)



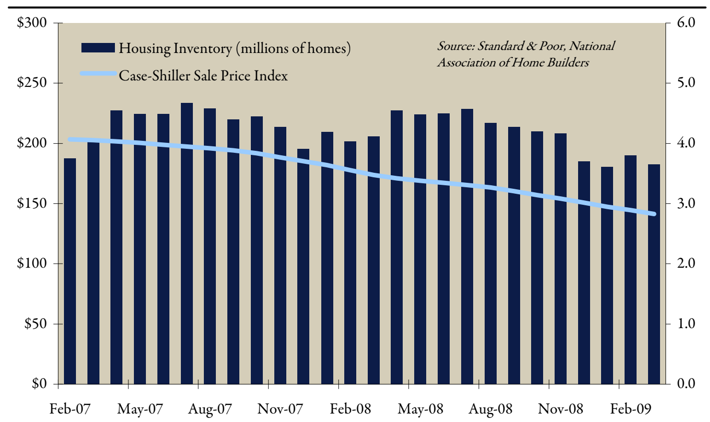
Increased confidence that the recession is easing has weakened the demand for the U.S. dollar, which is a safe-haven for investors in times of increased volatility and risk. As equity markets continue to recover and risk appetite

New Home Sales (Units Thousands)



Recovering from a trough in January 2009, unit sales of new homes were flat for the third consecutive month in May 2009. This is most likely a result of the government's efforts to free up mortgage lending to consumers.

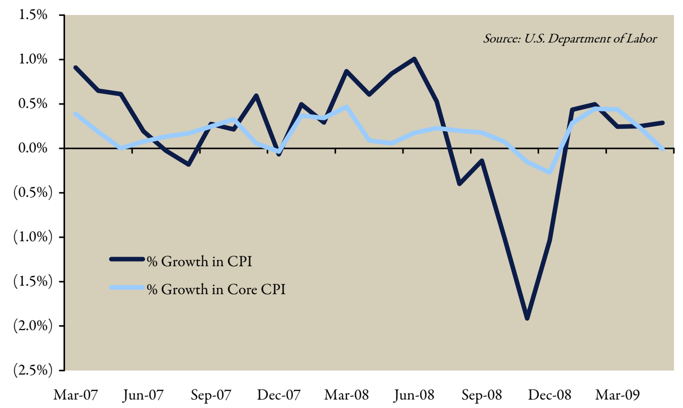
Housing Invenotry & Prices



With historically low interest rates, stabilizing prices and tax credit refund incentives in place, optimism surrounding the housing market is increasing. An April 16 Gallup Poll found that 71%of Americans said that now is a "good time" to buy a house, an 18 point increase from one year ago and the highest level in four years.

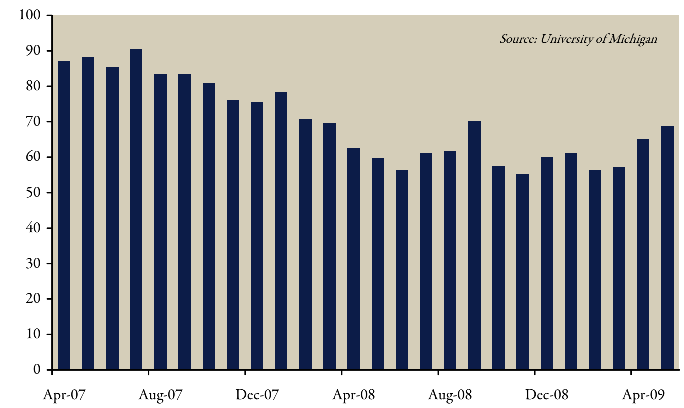
Eye on the Economy: Current Indicators Impacting Middle Market Companies

Consumer Price Index



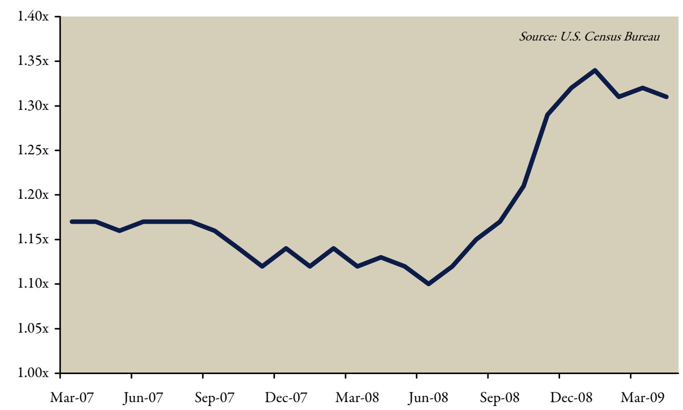
The Consumer Price Index was down 1.3% in May 2009 versus last year, largely driven by substantial decreases in energy prices. Conversely, the Core CPI was up 1.8% in May, mostly driven by large increases in the price of tobacco products.

Consumer Sentiment Index



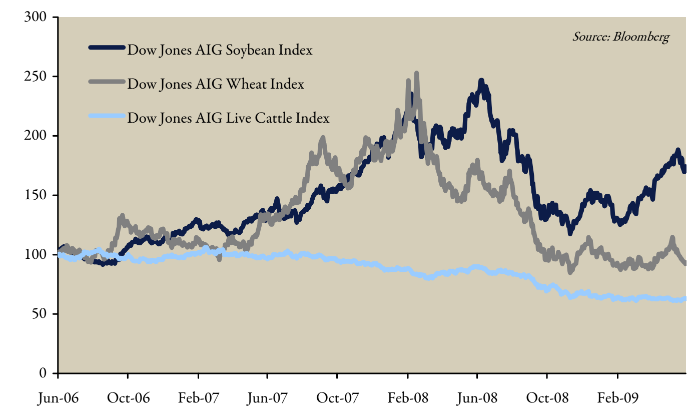
In May, consumer confidence rose to its highest level since the collapse of the credit markets in October 2008. Surging stock prices and a stabilizing economy were key drivers of the increase.

Total Business Inventory/Sales Ratio



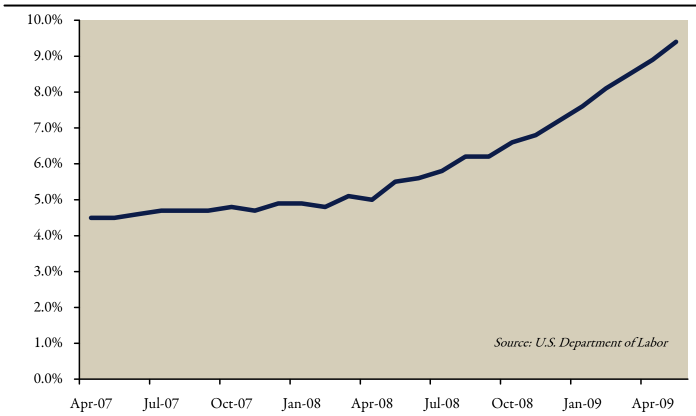
Total business inventory to sales ratio is showing signs of stabilization and recovery, after increasing every month from June 2008 to January 2009. With consumer confidence increasing, consumer spending may increase in the near future and help alleviate built-up inventories.

Select Commodity Prices



Prices have increased slightly in recent weeks due to anticipated increases in global demand, which will further reduce U.S. agricultural inventories.

National Unemployment Rate



Active Unemployment Claims (In Millions)

The unemployment rate and active jobless claims have remained at high levels driven largely by auto-related claims. Active unemployment claims appeared to be stabilizing, but the near-term employment outlook is not particularly bright with Chrysler and General Motors entering bankruptcy.

Capital Gains Update

The prospect of an increase in the capital gains tax rate continues to be monitored very closely by private company owners, and particularly those contemplating an ownership transition in the next five years.

The current capital gains tax rate of 15% is set to expire at the end of 2010, at which time the rate would increase to 20%.

President Obama's current budget proposal calls for an increase in capital gains taxes, with individuals earning more than $200,000 and families with incomes greater than $250,000 paying 20% vs. the current rate of 15%. President Obama's economic staff estimates that the increase will reduce the nation's budget deficit by more than $12 billion over a five year period, but the budget proposal does not indicate when the increase would go into effect. Current expectations are that the increase would take effect at the end of 2010 when the current 15% rate is set to expire.

With the projected increase 20 months away, business owners faced with the prospect of an ownership transition have sufficient time to evaluate the merits of a liquidity event at the current rate in the current economic environment versus the prospect of a potential liquidity event three to four years from now at a higher tax rate and what will presumably be a different economic and business climate.

While we would never suggest that tax considerations should drive business decisions, the prospect of a 33% increase in capital gains taxes cannot be ignored. In a market where transactions continue to occur, albeit at a slower pace (see accompanying articles), family owned and closely held private companies addressing ownership transition would be well advised to proactively evaluate whether to move forward with a potential transaction today or wait for operating and economic conditions to improve at some point in the future.

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Dresner Partners is a middle market investment bank founded in 1991 and specializing in merger & acquisition advisory, institutional private placements of debt and equity, valuation and financial consulting. We are deeply committed to exceeding client expectations and maintaining the highest levels of integrity. Our experienced professionals have the foresight necessary to navigate through highly complicated transactions to maximize value for our clients.

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Recent transactions closed by Dresner Partners:

HLS

Hospital Laundry Services, Inc.

has been acquired by

BLUEWOLF

Blue Wolf Capital Fund II, L.P.

The undersigned acted as exclusive financial advisor to Hospital Laundry Services, Inc.

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SEMX

SEMX Corporation (OTCPK:SEMX)
a portfolio company of ACI Capital

has been acquired by

COINING

a portfolio company of
River Associates Investments, LLC

The undersigned acted as exclusive financial advisor to SEMX Corporation and ACI Capital

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