INTERCAP M&A, LLC
NEWSLETTER

FALL 2006 NEWSLETTER
EXPERTS IN THE SALE OF PRIVATELY-HELD COMPANIES

The Top 10 Costliest Mistakes Owners Make When Selling Their Company

Each issue of our newsletter will present one of "The Top 10 Costliest Mistakes." The entire list may be viewed on our website at www.intercap.us.

MISTAKE #10:

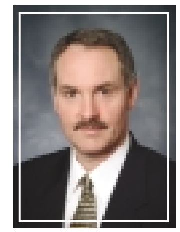
Not Preparing a Formal Exit Plan

Every business owner will someday exit his or her company — failing to proactively choose the time and circumstances can be costly. The M&A market, timing and internal dynamics of the company may be opportune even though the owner is not ready.

If an owner does not proactively prepare for the time when he or she will leave the business, the event is not likely to yield the expected or desired monetary return. Proper planning places the business owner in control of why, when and how to exit. Done poorly, or not at all, creates a risk of being controlled by circumstances and minimizing the financial rewards.

There Are Options Other Than Selling Your Company...

For some business owners, selling all of their company now may not be the right strategy at this time for good and valid reasons. In this and our next two newsletters, we will discuss three options that may be better for a private business owner rather than a full sale at this point in time. These three options are a recapitalization (recap; also known as a partial sale), a management buyout and a capital raise. Today's article focuses on the recap.



Mike Ryan

When business owners feel the need to reduce their risk of having so much of their personal wealth tied up in a privately-held company, but are reluctant to sell the entire company, a recap might be the solution. In simple terms, a recapitalization is a transaction that allows business owners to sell a portion of their company to a private equity group. The private equity group invests in the company, allowing the owner to partially cash out of the business and still retain some ownership. The retained ownership allows the owner to participate in the future of the business, teaming with an experienced financial partner capable of investing growth capital for expansion.

Recaps are a way to infuse the business with cash, without the seller giving up all their ownership, which could be worth substantially more as the environment improves and/or the business grows. Recaps create liquidity; i.e. cash for the owner/seller, but allow for upside potential, thus permitting the seller "two bites at the apple" when the business is subsequently sold.

A recapitalized company can also allow entrepreneurs to be more aggressive, since their personal wealth is no longer solely tied to the company. As a result, the aggressively grown company often becomes ripe for a future acquirer that will pay a proportionally higher price.

Advantages of Recapitalization

A properly structured recap with the appropriate private equity group can provide a business owner with additional flexibility and a broad range of advantages, both personal and financial, including the following:

Immediate Cash – a portion of the market value of the business will be paid at closing. This enables the owner to diversify his or her net worth, realize other business or personal goals, or pursue a lifestyle of change.

Ownership Retention – Retained equity in the business ensures a financial

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BRINGING WALL STREET RESOURCES AND EXPERTISE TO MIDDLE MARKET PRIVATELY OWNED COMPANIES

Other Options, continued

stake for the owner in the future of the business.

Experienced Financial Partner – the business will gain a financial partner and investor. These investors are often experienced in assisting entrepreneurs in realizing their ultimate and long-term goals for the business.

Operating Control – As the focus of the private equity partner is on the future of the business and potential return on investment, its primary interest is supporting management in achieving significant growth and profitability. The owner, on the other hand, often retains control of managing day-to-day operations and plays a key role in the implementation of growth strategies.

New Equity Capital – After years of taking risks to grow the business, entrepreneurs tend to become more conservative in their decision-making and reluctant in their actions — understandably so. Despite this, they know the potential of their business and understand what is necessary to reach that potential. The infusion of capital allows the owner to concentrate on growing the business backed by more financial resources.

Two-Step Strategy – Often referred to as "two bites of the apple", a recap presents a business owner with the opportunity to get paid twice, but potentially even more than in a conventional M&A transaction. The second payout will occur after the business has achieved a desired level of growth and increased value that it will often proportionally exceed the "first bite".

Corporate Culture – A recapitalization can allow the image and corporate culture of the company — carefully nurtured over many years by the owner — to remain intact.

A recap or partial sale is no different than a full sale in the method of choosing the private equity partner. The beginning of the process is the same as a full sale and the objective of attracting the greatest number of suitors and structuring the most lucrative deal is the same.

Private equity groups vary substantially in their expectations, motives, strategy and culture. The private equity group selected by the owner will have a significant influence on the future of the company. Therefore, the owner should carefully choose the private equity partner.

The key is to have the ability to choose the private equity partner that not only offers the best deal for the owner with the "first bite at the apple" but also shares a similar culture and vision as an operating partner such that the "second bite at the apple" is proportionally better than the first. ■ *Mike Ryan*

Frequently Asked Questions

Each issue of our newsletter will present one of several Frequently Asked Questions. The entire list may be viewed on our website at www.intercap.us.

How do I present my Company's financial information?

Proper analysis and presentation of financial information is a crucial step in The InterCap M&A Process. Financial statements are typically prepared for tax purposes, and do not accurately reflect the true profitability of the company. InterCap's M&A professionals work closely with owners to "recast" the Company's financial statements, so that potential buyers realize the true economic value of the company.

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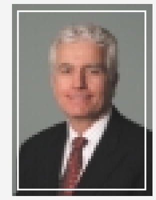
What's Happening in the M&A Market?


JOHN MULLEN

The number of M&A transactions in the US market for Q3 2006 came in softer than Q3 2005; however, overall M&A spending increased. The number of announced closed transactions fell to 2,632 in the third quarter of this year from 2,857 in the third quarter of 2005. However, M&A spending increased by $18.4 billion, from $213.4 billion to $231.8 billion.

The privately-held and middle-market sector closely followed the overall M&A markets in general, with one exception. While middle-market deals also decreased in number of closed announced transactions from Q3 2005 to Q3 2006, the average EBITDA multiple remained the same at 10X.

Leading industries for M&A activity in the middle-market for Q3 2006 were Computer Software, Supplies and Services, accounting for about 15% of closed transactions, followed by Miscellaneous Services at about 11.5%, with the remaining M&A activity spread over a variety of industry sectors.

■ *John Mullen*

