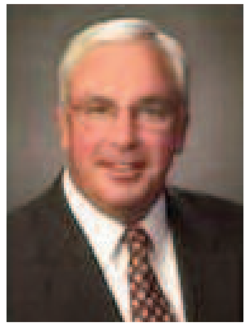
Volume 2, Issue 1 • WINTER 2010



“I Used to Have Money One Time”

Cadillacs in my future: Until last autumn, ample funding for middle market transactions was provided by private equity investors, financial buyers and strategic acquisitions. These transactions were supported to a large extent by cheap and available debt capital from the banking community and strong equity markets, despite an economy entering a recession. Transaction pricing multiples – and their inverse, required rates of return – reflected confidence in buyers’ ability to gauge the economic climate over a reasonable investment time horizon.

I made a deal with the devil for a whole lot of money: All this changed in October 2008 with the disintegration of Lehman Brothers and the near collapse of the nation’s largest commercial banks. Many private and public transactions were aborted due to an economy in free fall and lack of liquidity in the capital markets. Sellers’ valuation expectations experienced a perfect-storm trifecta with declining operating performance in most sectors, evaporation of credit, and the erosion of valuation pricing multiples.

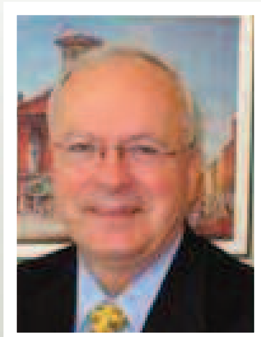
Keep your feet on solid ground: We have seen increased activity in the market during the second half of 2009. Liquidity is beginning to return for middle market merger and acquisition activity. Financial buyers and private equity groups have slowly emerged from a year of near inactivity. Although market pricing multiples for private company transactions have not returned to pre-October 2008 levels, the fact that transactions are happening at all reflects sellers' acceptance that current economic conditions have impacted valuation.

Take care of your needs; watch out for your greeds: From a valuation perspective, lower transaction multiples reflect higher, risk-adjusted rates of return required by buyers to accommodate the volatility in the market place and the restricted availability of credit facilities to finance transactions. When and where commercial banks have been willing or able to finance transactions, the percentage of equity supporting the transaction has escalated resulting in higher costs of capital. This has driven valuations down and in many cases, compelled sellers to “roll the dice” and negotiate contingent payouts based on future performance.

Keeping the wolf from your door: During these transitory times, owners of middle market companies will need to carefully monitor those factors affecting enterprise valuation. Among others, these include the availability and cost of credit, the impact of government stimulus programs, and developments in the competitive landscape, as competitors struggle with the new economic realities.

Evergreen Capital has an experienced group of advisors who can guide you through these uncertainties. We welcome the opportunity to work with you. Give us a call.

“Bank of Bad Habits”



Since our theme this month is the Wisdom of Buffett (Jimmy – not Warren), I am reminded of a line from one of Jimmy’s songs, “Bank of Bad Habits.” That line is “The wrong thing is the right thing until you lose control.” It doesn’t take long for me to recognize how true that can be in my life, but it is equally applicable to our businesses as well.

It is not unusual for us to be engaged in a corporate finance or M&A engagement for a client whose business is under the gun. And usually the stress on the business is the result of circumstances beyond the control of our client, such as changes in market conditions, a global financial meltdown, or changes in government regulations. We currently have several engagements for clients who need to refinance their bank lines even thought they have never missed a payment and have sufficient collateral. The financial market turmoil is causing a bank to call their line even though our client’s business has no connection to the underlying causes of that turmoil. Simply put, the situation is beyond our client’s control. The point is that a business needs to be prepared even if it appears that things are going well. Many a transaction dies during due diligence when “problems” appear that were not apparent when the checkbook was flush. There are systems and processes that are the “right thing” for a business to follow that often seem cumbersome and unnecessary when we think we are in control. These include budgets, monthly comparisons of actual performance to budgets, forecasts based on those comparisons, and analysis of the balance sheet as well as income statements, just to name a few. Skipping these steps might seem like the right thing as it appears to save time and money in the short run, but that all changes when we lose control. So remember the wrong thing seems like the right thing until you lose control.

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Evergreen News

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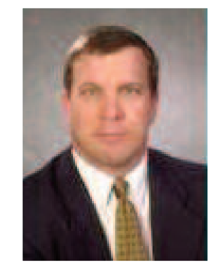
"What Would Jimmy Buffett Do?"

2010: Market Conditions will be better for selling a company

Mike Gill, *Chairman*, Evergreen Capital
Rick Kohr, *President*, Evergreen Capital



We're excited to bring you our final "Evergreen News" for 2009. Most of our Friends of Evergreen are somewhere between thankful and euphoric when they think of having 2009 in their rearview mirror. From the inauguration of a new president in January, the first quarter meltdown of the stock market to its comeback over the second half of the year, 10% unemployment while gold was blowing past a $1,000 an ounce........2009 has been a "character builder" for everyone.

"What would Jimmy Buffett do", is our way of connecting the dots to a decision that many business owners will consider in 2010 - To Sell or Not to Sell their business. At Evergreen Capital we anticipate that M&A activity will be up significantly over 2009. Though the banks remain cautious, well run companies in the middle market sector are anxious to expand their footprint; the capital to do acquisitions will be there. We're also seeing strong signs that business valuations are rising, offering encouragement to business owners who want to spend more time in "Margaritaville." 2009 has been a year of "growth and development" for us at Evergreen. We've added a number of key team members over the last twelve months and expect to add at least two more in the next thirty days. Team Evergreen has never been stronger; we're deep and look forward to working with you in 2010. In the mid 80's U.S. West ran an ad that showed cowboys on a hard trail drive, the caption under the ad read, "In business you either make dust or you eat dust." 2009 has created a greater sense of urgency for all of us.

We want to wish everyone a safe and joyous holiday and a fantastic start to the new year. We thank you for your friendship and support and look forward to helping you "make dust" in 2010.

Happy Holidays from your friends at Evergreen

A Conversation with Richard Berkeley, Managing Member of Camden Partners, About the Current State of the Private Equity Industry

Our special guest for this year end edition of Evergreen News is Richard Berkeley, Managing Member of Camden Partners, headquartered in Baltimore. Mike interviewed Richard on the current state of the Private Equity industry as well as what Richard sees for the future. We hope you'll enjoy the conversation.

{Mike} Camden Partners was founded in 1995 and you joined in 2002. What attracted you to join the firm?

{Richard} I was delighted to join Camden Partners in 2002 after over 19 years at Alex. Brown and its successor organizations, Bankers Trust and Deutsche Bank. I was particularly attracted to the demonstrated success of the investment strategy architected by David Warnock, a co-founder of the firm, and Dick Johnston to invest in later stage private companies in the target markets of education, business services, and healthcare. We make significant control- oriented investments in these companies so that we can partner with the senior executive team to provide growth equity to help them expand their existing business, acquire additional companies to add products or customers, or to facilitate ownership transfers for retiring or departing shareholders by recapitalizing the company.

{Mike} What advice would you give to a young person who wants to be in the private equity industry?

{Richard} The goal in the private equity industry is to make smart investments and to help build successful and valuable enterprises. Working backwards from that objective, there are multiple skill sets required to add value in the process of sourcing and making the investments and then contributing to the successful building up of the company and achieving liquidity. I particularly like to see job applicants with industry specialization and operating expertise because these insights are highly valued at all stages of the private equity decision cycle. Also, it is necessary to develop the judgment to identify attractive markets segments, to select promising companies and to persuade the boards and the CEO to partner with our firm . Therefore, I think working in an operating company or bringing an industry specialization from such activities as public market investing, management consulting or investment banking can provide a good foundation to hit the ground running.

{Mike} What is Camden's special sauce?

{Richard} A significant part of our success has resulted from our commitment to industry focus and specialization in our target markets of education, business services and health care. We are the lead investor in the vast majority of our transactions and we have major influence or control on the main events in each company's lifecycle . Therefore industry specialization is critical to delivering on our role as partners with our portfolio companies. Another important contributor is that we insist that each senior investing partner on each deal actually perform the due diligence so that they can deliver informed and solid advice and direction starting at the first board meeting.

{Mike} Its' 2020 and you are looking back on the decade 2010 to 2020…Describe the decade after the meltdown of 2007-2009.

{Richard} Wow.. a very tough question. I wish I could have had clear anticipation just 12 – 24 months into the future when I was in the summer of 2007! Well, here goes. I think the target markets that we focus on here at Camden will continue to thrive. The end markets have real needs to address and technological innovation will continue at a rapid pace. Federal stimulus funding will ultimately make its way to address at least partially the shortcomings in the availability and effectiveness of education, access to healthcare, and the technology enablement of many business service functions based on internet and wireless technologies. The banking crisis will take a long time to resolve so equity dominated deals will prevail and leverage levels will be much lower. The number of venture firms will shrink dramatically as will the number of LBO firms.

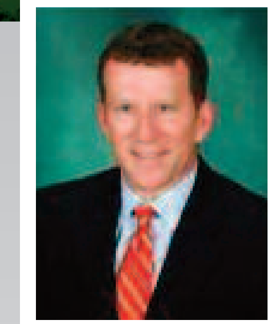
{Mike} One of the themes at Camden Partners is "The Art of Private Equity Investing." Please describe what that means.

{Richard} This is a short hand way to explain that success in private equity investing goes way beyond the quantitative and financial metrics (the science) and really involves applying judgment and industry expertise for decision making as to market opportunities, evaluating executives' ability to lead a management team and to evaluate and formulate strategy at many levels (the art). Importantly, we have to be prepared to be a "change agent" and provide leadership to the company CEO and its board on such topics as reviewing the market and product strategy, improving financial performance, initiatives to acquire other companies, recruiting new executives or board members, or raising money in the public or private markets. In almost all cases, the "art" is more determinative of success than the "science."

{Mike} Private Equity is history! Private Equity will recover and be stronger! How do you see the industry?

{Richard} I am very bullish on the continued maturation and evolution of the private equity industry. Some time ago I saw numbers indicating that there are over 250,000 companies in the U.S. with between $10 million and $250 million in revenues. A very small fraction of these are public companies. For these companies to expand, transfer ownership, or acquire other companies, they often require outside equity capital. Of course, that is only one segment of the economy that private equity investors target. I am also quite enthusiastic about the broad based innovation and technology developments taking place in so many sectors of the U.S. and world economies.

My principal concerns are poorly conceived government policies and expanding regulation which impact negatively capital formation in this country. One example is the continuing declining availability of institutional research on Wall Street for small and midcap companies. Another example are SEC and accounting reporting burdens that fall disproportionately on young companies that act as a disincentive for companies seeking equity financing in the public markets. It is important to have robust public markets for financing these companies in addition to having larger corporate buyers building cash reserves to deploy in acquiring PE backed companies. Many corporations in fact are "re-equitizing" their balance sheets with a vengeance. But at the end of the day, I have a tremendous faith in the strength of the capitalist model to encourage innovation and to reward entrepreneurs.



"A Pirate Looks At 40"

The whimsical and philosophic lyrics of Jimmy Buffett provide us with some real food for thought as business owners, entrepreneurs, investors and others evaluate their station in life and the direction to lead their business in 2010. A Pirate Looks at 40 is a classic and contains several points of reflection.

The opening stanza is as follows: "Mother, mother ocean, I have heard you call; Wanted to sail upon your waters since I was three feet tall; You've seen it all, you've seen it all; Watched the men who rode you switch from sails to steam; And in your belly you hold the treasures few have ever seen; Most of 'em dream, most of 'em dream." Most entrepreneurs and business leaders have a vision and passion that has been nurtured over time. Great ideas were fostered from years of experience, observation and sweat equity. As innovation brings change to your business like the transformation to steam from wind powering ships, owners and operators need to insure that they are not dreaming away while value is diminishing, especially in these uncertain economic times.

The next stanza of lyrics continues: "Yes I am a pirate, two hundred years too late; The cannons don't thunder, there's nothin' to plunder; I'm an over-forty victim of fate; Arriving too late, arriving too late." Again, the simplistic message of Buffett's imagery is to pursue your vision, but do not forget to act now before opportunities pass you by. While the end of 2008 through 2009 saw decreasing valuation multiples and financing constraints from all sources, 2010 will provide opportunities for buyers and sellers of businesses. From our perspective, business transactions that make financial and strategic sense should and will move forward. In the words of Jimmy Buffett, ***do not arrive too late.***