



Second Quarter 2009

Middle-Market Transaction Update

W.Y. Campbell & Company is one of North America's premier specialty investment banking firms. W.Y. Campbell & Company provides a complete portfolio of services, including:

- Merger & Acquisition Advice
- Private Capital Raising
- Restructuring & Recapitalizations
- Financial Advisory Services

www.wycampbell.com

Ty T. Clutterbuck
tclutterbuck@wycampbell.com
(313) 496-9000 x237

Matthew K. Zwack
mzwack@wycampbell.com
(313) 496-9000 x229

No Signs of Deal Activity Recovering US Economy Still Searching for Stable Ground

Q1 Deal Volumes Continue Freefall

The rapid deterioration of the global economy and continued turmoil within the credit markets pushed already anemic transaction volumes lower in Q1 '09. Deal activity declined 39% from Q4 '08 and 57% from Q1 '08 for disclosed middle market transactions (Enterprise Value < \$500 million and > \$10 million). Limited credit availability, poor earnings and the inability to accurately forecast are forcing transactions to be postponed or completed at reduced purchase prices, thus driving down both volumes and multiples. Transaction multiples for Q1 '09 were down an astonishing 1.5x averaging 5.7x enterprise value to EBITDA compared to 7.2x for all of 2008. Distressed transactions are prevalent throughout all sectors as underperforming, overleveraged businesses struggle through the challenging economic environment. In addition, the imminent General Motors bankruptcy filing June 1 and the extended summer shutdowns in the automotive sector are expected to send shock waves through the already besieged industrial supplier base. We anticipate middle market activity will remain at depressed levels in Q2 '09 until the industrial sector begins to recover and credit constraints ease for middle market borrowers.

Lack of Q1 LBO Loan Statistics Reflects State of Credit

LBO loan volume for companies with EBITDA of \$50 million remained virtually unchanged in Q1 '09 at \$0.3 billion compared to \$0.3 billion in Q4 '08 and \$0.5 billion in Q3 '08. While it appears credit markets are easing somewhat for large corporate entities, credit remain frozen for most middle market businesses as banks continue to tighten credit standards to preserve capital. Due to the lack of activity in the first quarter, S&P did not publish first quarter debt statistics. Total debt-to-EBITDA was 4.3x for all of 2008 as mezzanine financing offset the steep decline in senior debt.

Pace of Decline for Economic Indicators Beginning to Slow

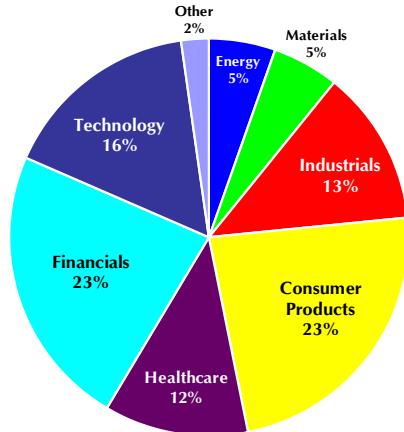
The pace of the decline in unemployment, GDP and various other economic indicators suggest we are nearing the bottom of the downturn. While the markets reflect cautious optimism that the economy may begin to recover, we anticipate that any recovery is most likely going to be protracted and potentially short lived. Banking problems are expected to persist as lenders struggle to combat rising default rates with commercial property portfolios. In addition, a decline in April consumer spending figures suggests consumers lack the spending power to spring the economy forward with tight credit and unemployment nearing double digits. Lastly, rather than encouraging job creation and long term growth, Washington's latest economic policies can best be described by George Bernard Shaw's famous quote "A government which robs Peter to pay Paul can always depend on the support of Paul."

TRANSACTION ENVIRONMENT

THE DATA

Deal Volume – Middle market M&A deal activity in Q1 '09 deteriorated further as the economic slowdown continued and the credit market showed few signs of easing. Middle market disclosed transactions (Enterprise Value < \$500 million and > \$10 million) declined 39% in Q1 '09 from Q4 '08. In addition, the total number of transactions fell 13% in Q1 '09 after falling nearly 20% in Q4 '08. One bright spot was transactions in which value metrics are not disclosed (predominately smaller transactions within the middle-market) declined only 0.5% in the first quarter reflecting overall M&A activity may be nearing the bottom. Given the continued instability within the credit markets, we anticipate Q2 '09 deal activity will most likely not improve from Q1 '09 levels. Figure I highlights middle market deal volume by industry sector based on data from Capital IQ. Activity in the financial sector remains robust due to the large of amount of distressed financial service providers and consolidation.

Figure I
U.S. Middle-Market Deal Statistics⁽¹⁾



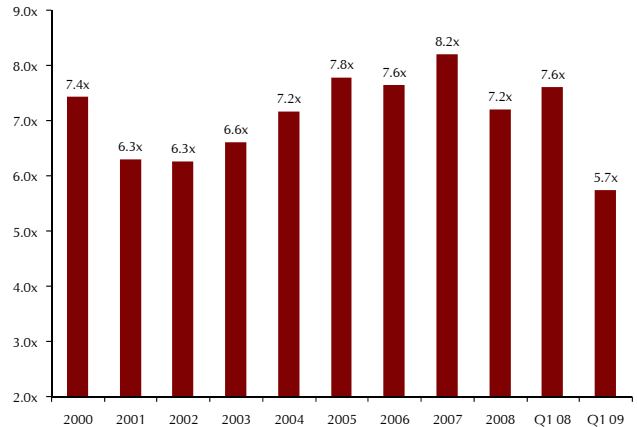
Source: Capital IQ
(1) Middle market disclosed transactions (Enterprise Value < \$500 million and > \$10 million)

Deal Value – Aggregate deal value for middle market transactions decreased 55% during the first quarter due to significantly lower deal volumes and average transaction multiples when compared to the fourth quarter. Total deal value in the middle-market approximated \$14.5 billion in Q1 '09 compared to \$32.4 billion during Q4 '08 and \$49.7 billion in Q1 '08.

Within the middle market, the average transaction size decreased 27% to \$64.1 million in Q1 '09 compared to \$88.1 million for Q4 '08 and \$93.8 million in Q4 '07. The declining trend in deal values reflects the tight credit markets and lower purchase price multiples.

Transaction Multiples – Middle market transaction multiples plummeted in Q1 '09 to 5.7x from 7.2x for all of 2008. The significant decrease reflects the full effects of the economic downturn and credit market constraints on transaction valuations. In addition, the negative impact from publically traded multiples and an increase in distressed transactions are also driving down multiples. Relative to previous periods, multiples have slipped well below averages for the past three years with enterprise value/EBITDA multiples averaging 7.2x for 2008 compared to 8.2x for 2007 and 7.6x for 2006 (see Figure II). For the second quarter, we believe that multiples will remain consistent with Q1 '09 levels as the credit markets have demonstrated few signs of unfreezing for middle market transactions and while up in recent weeks, publically-traded comps remain well off their 52-week highs.

Figure II
U.S. Middle-Market Deal Statistics⁽¹⁾



Source: WYCC Market Analysis
(1) Transactions between \$10 and \$250 million with EV/EBITDA multiples < 15x; excludes technology, media and telecom

Market Dynamics

Given the dramatic economic downturn and the faltering credit markets, it was fairly easy for us to predict steep declines in M&A transaction volumes and purchase price multiples for Q1 '09. The government's efforts to stabilize the banking system and the overall economy through the TARP program, aggressive monetary policy and a massive stimulus package appear to be slowing the pace of decline. Despite signs emerging that the economy may be close to turning the corner, we anticipate the credit market turbulence will persist through 2009, unemployment rates will climb to double-digit rates, housing prices will continue to fall and unrestrained fiscal policy will devalue the US dollar causing oil prices to rise. All of these factors lead us to believe that any perceived recovery is far from beginning or unsustainable at best and that rising gas will stall any consumer-driven recovery. As a result, transaction volumes and multiples will continue their slump as the economy remains stymied in a deep recession through most if not all of 2009.

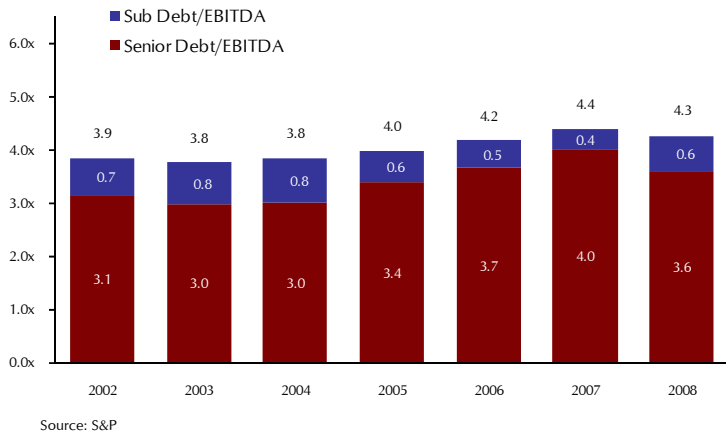
AVAILABILITY OF CAPITAL

Debt Capital

According to S&P, loan volume for issuers with less than \$50 million in EBITDA was virtually unchanged during the first quarter of 2009. The quarter ended at \$0.3 billion, equal to the fourth quarter and down from \$0.5 billion in the third quarter of 2008. The stagnate volume figures reflect the financing difficulties caused by the credit crisis and the global recession. S&P did not release leverage figures for Q1 '09 due to a lack of market activity. In 2008, the tightening of underwriting and credit standards caused a 72% decline in new debt issues compared to 2007. Private equity players have been increasing their average total equity contribution and utilizing mezzanine financing to offset the lack of senior debt availability. Subordinated debt-to-EBITDA increased to 1.2x during Q4 '08 compared to 0.3x for fiscal year 2007.

With the credit market crippling middle market loan activity, the average credit statistics for LBOs continued to fall from the previous highs. As indicated in Figure III, senior debt-to-EBITDA declined to 3.6x in 2008, down from 4.0x for fiscal year 2007. An increase in mezzanine debt during the second half of 2008 increased subordinated debt-to-EBITDA ratios to 0.6x in 2008 compared to 0.4x for all of 2007.

Figure III
Average Credit Statistics of Middle Market LBO Transactions (EBITDA \$50 mm or less)

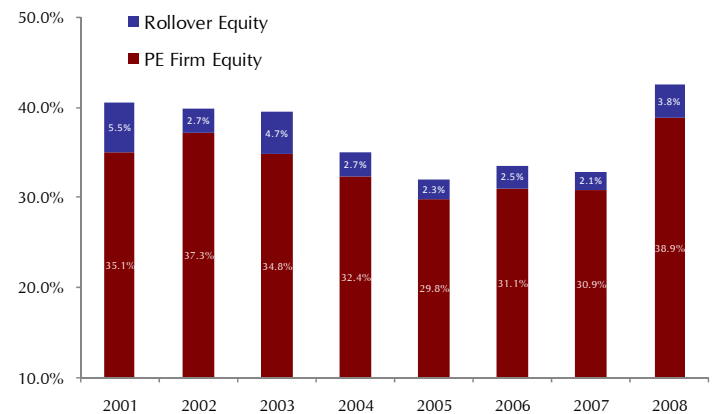


Consistent with previous periods, unlike larger transactions, highly leveraged lending at the upper margin within the middle market is restrained. Whereas almost 15.6% of the large corporate LBOs topped a debt-to-EBITDA ratio of 7.0x or greater in 2008, no middle market transactions reached 7.0x during 2008. However, no large corporate transactions exceeded 7.0x during the second half of 2008 due to tightening credit standards.

Equity Capital

While leverage ratios steadily declined throughout 2008, equity contributions increased significantly during the year to offset the contracting debt market. S&P reported that the overall LBO equity contribution for deals with EBITDA of \$50 mm or less averaged 42.6% of the total capital structure in 2008, up from 32.9% for calendar year 2007. Private equity firm average equity contributions increased to 38.9% in 2008 from 30.9% in 2007. The increasing trend reflects the lack of credit available for LBOs and the willingness of private equity to increase their percentage equity contribution in order to consummate deals (see Figure IV).

Figure IV
Average LBO Equity Contribution Deals with EBITDA of \$50 mm or Less*



Source: S&P
*Excludes Media, Telecom, Energy and Utility Deals

ECONOMIC FACTORS

As expected, the dramatic contraction of the US economy continued in Q1 '09 due to the ongoing housing correction, financial sector crisis and rising unemployment. Despite a slight rebound in previously record-low consumer confidence, consumer spending surprisingly fell in April. While the remarkable decline in commodity prices has provided relief for consumers, the weakening US dollar has pushed oil prices up over \$60 a barrel in recent weeks.

- **Gross Domestic Product (GDP)** – According to the BEA’s advance estimates, real gross domestic product declined at a 6.1% annual rate during Q1 '09 compared with a decline of 6.3% in the fourth quarter of 2008. The decrease primarily reflected negative contributions from exports, private inventory investment, equipment and software, nonresidential structures and residential fixed investment that were partially offset by a positive contribution from personal consumption expenditures and a decrease in imports. The slightly smaller decrease

in real GDP in Q1 '09 versus Q4 '08 reflected an upturn in personal consumption expenditures for durable and nondurable goods and a larger decrease in imports that were mostly offset by larger decreases in private inventory investment, nonresidential spending and federal government spending. The overall data implies that the ongoing housing correction and financial sector crisis continue to weigh heavily on the domestic economy.

- **Inflation** – U.S. consumer prices increased 0.2% in April before seasonal adjustment. The index has fallen 0.7% over the last 12 months, primarily due to a 25.2% drop in energy prices, which is the largest 12-month decline since June 1955. On a seasonally adjusted annual rate (SAAR), the CPI-U was unchanged in April after declining 0.1% in March. The energy index declined for the second straight month, falling 2.4% after declining 3.0% in March. The food index declined as well, falling 0.2% in April after a 0.1% decrease in March. Over the past year, the food index has risen 3.3% while the energy index has declined 25.2%. In a policy statement last month, Fed officials said they expect inflation will remain subdued.
- **New Housing** – Total housing starts fell a surprising 12.8% in April due to a sharp decline in the construction of apartment buildings and other multi-family homes. Single-family housing starts in April increased 2.8% above the revised March figures. Construction of new homes reached a seasonally adjusted annual rate of 458,000 units in April versus the revised March estimate of 525,000 units and 54% below the revised April 2008 estimate of 1.0 million units. Additionally, builders cut their requests for new construction permits by 3.3% to a 494,000 unit annual rate in April and 50.2% below the revised April 2008 estimate of 991,000 units.
- **Employment** – While the pace of job losses in the US slowed in April, the unemployment rate hit 8.9%, a twenty-five year high. Unemployment rose from 8.5% in March as nonfarm payrolls fell 539,000 in April. The US economy has lost 2.7 million jobs in the last four months and 5.7 million jobs since the recession started in December 2007. The sectors hardest hit by the current economic slowdown, manufacturing and construction, continued to lose jobs in April. Construction employment dropped by 110,000 jobs while

manufacturing fell by 149,000 jobs, bringing the total since the recession began to 1.6 million. Retail jobs dropped by 46,700 and temporary employment, which economists consider a leading indicator of future job prospects, fell by more than 62,000. Despite the declining pace of job losses, unemployment has the potential to reach double digits by the end of 2Q '09.


- **Consumer Confidence** – The Reuters/University of Michigan Index of Consumer Sentiment was 57.3 in the March survey, up from 56.3 in February, but 13.2 points below last March's 69.5 and the cyclical peak of 96.9 set in January 2007. The Sentiment Index has averaged 58.0 in the past six months, which represents a record decline of 40% from its cyclical peak. According to the survey, buying plans remained largely unchanged at depressed levels in March. Consumers favored postponing planned purchases because of their heightened uncertainty about the future of their jobs as well as income prospects despite the widespread recognition that steep price discounts are now available. Overall, the data indicates that total real personal consumption spending is expected to decline by 1.9% in 2009, more than twice as steep as the worst annual decline since WWII.

CONCLUSION

In our previous newsletter, we suggested that stabilization of the banking system through TARP combined with a stimulus package focused on tax cuts for individuals and businesses would hopefully begin to guide the economy toward a recovery during the second quarter of 2009. Unfortunately the \$787 billion stimulus package approved in Washington was centered on an expansion of government spending and the banking system struggles continue and may worsen due to deteriorating commercial property and business loan portfolios. As a result, recent economic indicators suggest the economy is still weakening, just not as quickly. We don't believe this "second derivative" concept is something to celebrate. In addition, the recent decline in the US dollar is pushing oil prices higher which will further strain consumers as wages fall and national unemployment levels approach double digits. Therefore, we anticipate M&A activity will remain at depressed levels through Q2 '09 as the economy sputters and the credit markets remain constrained.

W. Y. Campbell & Company is one the country's leading providers of middle-market merger advice, serving both public and privately-held corporations, as well as private equity firms since 1988.

RECENT TRANSACTIONS



vertex
DISTRIBUTION

a portfolio company of

W
WATERMILL VENTURES

has been acquired by

DXP

The undersigned acted as exclusive financial advisor to Watermill Ventures in the above transaction.

W. Y. CAMPBELL & COMPANY


August, 2008

In August 2008, PFI, LLC d/b/a Vertex Distribution (“Vertex” or the “Company”) was acquired by DXP Enterprises, Inc. (“DXP”). W.Y. Campbell & Company acted as the exclusive investment banking advisor to Vertex and its private equity owner, Watermill Ventures (“Watermill”).

Vertex is a leading North American master distributor of industrial bolts, screws, nuts, washers, rivets and hose clamps that are offered in both inch and metric dimensions. The Company’s inch products are comprised primarily of corrosion-resistant alloys, while the metric line includes both corrosion-resistant and ferrous fastener products. Vertex’s headquarters are located in Massachusetts, and the Company maintains additional distribution sites in Georgia, North Carolina, Illinois, Ohio, Texas, California and Florida.

DXP (NASDAQ: DXPE) is a publicly-traded industrial components distributor and service provider for MRO and OEM customers. The Company was founded in 1908 and is headquartered in Houston, Texas.

Watermill is a private equity firm specializing in the acquisition, turnaround and restructuring of middle-market distribution and manufacturing companies. Watermill is headquartered in Lexington, Massachusetts.



Western Emulsions, Inc.

has been recapitalized and acquired by

marwit
Collaborative Capital for Buyouts and Growth™

The undersigned acted as exclusive financial advisor to Western Emulsions, Inc. in the above transaction.

W. Y. CAMPBELL & COMPANY

July, 2008

In July 2008, Western Emulsions, Inc. (“Western Emulsions”) was acquired by Marwit Capital (“Marwit”) and company management. W.Y. Campbell & Company acted as the exclusive investment banking advisor to Western.

Western Emulsions is a full-service manufacturer, distributor, transporter and applicator of standard and patented asphalt emulsion products, and distributor of raw asphalt materials. Western Emulsions services a diverse array of customer including: (i) federal agencies; (ii) state and local agencies; (iii) private entities; and (iv) intermodal consultation groups. Western Emulsions operates from locations in Tucson, Arizona and Irwindale, California.

Marwit is one of the oldest and most experienced private equity firms in the United States. Founded in 1962, Marwit’s investment focus is on lower middle-market companies based in the Western U.S., with revenues of \$20 to \$150 million and enterprise values of generally less than \$100 million. Marwit is based in Newport Beach, California.

This material is for your private information, and we are not soliciting any action based upon it. This material is for general information only and should not be read as containing advice or recommendations. It has not been prepared taking into account any person’s particular objectives or needs. Any person should consider whether the information is appropriate to their needs or seek advice before making a decision based on this information. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without W. Y. Campbell & Company’s prior written consent.