Perspective on Middle Market M&A Activity in 2008

March 11, 2008

FOLEY

FOLEY & LARDNER LLP

Executive Briefing Series

BROWN BROTHERS HARRIMAN

Brown Brothers Harriman & Co. - Overview

BROWN BROTHERS HARRIMAN

- Founded in 1818, Brown Brothers Harriman is America's oldest and largest merchant bank, and among the oldest continuous private partnerships
- 3,700 employees globally across 15 offices
  - New York, Boston, Philadelphia, Chicago, Dallas, Palm Beach, Charlotte, London, Luxembourg, Zurich, Tokyo, Hong Kong, Grand Cayman, and Dublin
- The firm is owned by 40 general partners and operates in three key lines of business:
  - Banking ($4.0 billion in assets) and Advisory
  - Investment Management ($45.5 billion in discretionary assets under management)
  - Investor Services and Markets ($2.0 trillion in assets under custody)
- Corporate finance advisory business focused on providing M&A and private placement services through industry specialization and strong contacts at leading strategic and financial acquirors
  - Advisory team draws from firm's experience in investing over $2 billion of equity capital in an array of industries

Banking & Advisory Group Structure

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BBH's Banking & Advisory group is focused on providing strategic advice and senior debt capital to exceptional owner-managed firms worldwide. The group is structured as follows:

Banking & Advisory
Boston ● New York
Philadelphia ● Zurich

Advisory Services

Mergers & Acquisitions

- Evaluation of ownership alternatives
- Recapitalizations/leverage buyouts
- Private placements and capital raises
- Sell-side advisory
- Buy-side advisory
- Capital structure issues
- Valuation and fairness opinions

Corporate Banking

Corporate Banking

- Term loans / revolving lines of credit
- Tax-exempt financing / industrial revenue bonds
- Trade services
- Electronic funds transfer / ACH service
- Accounts receivable collection service
- Accounts payable services

Notable M&A Transactions Over the Last Twelve Months

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- ***Home Depot Supply, Inc.***
  - Synopsis: Bain Capital, The Carlyle Group, and Clayton, Dubilier and Rice announced bid of $10.3 billion on June 19, 2007, funded with $8.3 billion of senior debt
  - Transaction size: $10.3 billion
  - Resolution: Price renegotiated down to $8.5 billion (-17.7%), closed on August 30, 2007, funded with $6.1 billion of senior bank debt
- ***Harmon International Industries Inc.***
  - Synopsis: KKR and GS Capital Partners announced bid of $8.1 billion on April 26, 2007, funded with $5.2 billion of total debt or approximately 10x fiscal year 2007 EBITDA
  - Transaction size: $8.1 billion
  - Resolution: Financial sponsors cancelled offer on September 21, 2007 citing material adverse change (MAC), settled for investment of $400 million of convertible senior notes in Harmon in lieu of $225 million break up fee
- ***United Rentals, Inc.***
  - Synopsis: Cerberus Capital Management announced bid of $3.1 billion on July 22, 2007 and the assumption of approximately $3.9 billion of total debt or 5.4x EBITDA for the twelve month period ending June 30, 2007
  - Transaction size: $7.0 billion
  - Resolution: Cerberus cancelled offer on November 14, 2007 citing uncertainty in the financial markets, paid $100 million break up fee

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LBO Activity Slows as Institutional Investors Pull Back

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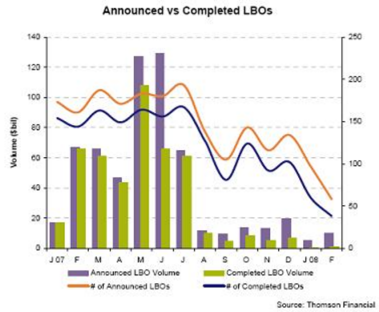
- Institutional demand for high interest debt drops over credit risk concerns, reducing liquidity
  - Structured Investment Vehicles (CMOs, CDOs, CLOs), and non-bank investors pull back
  - Investment banks tap sovereign wealth funds to shore up balance sheets while they work to reduce overhang from debt commitments



Cost of Debt Rising for Large M&A Transactions

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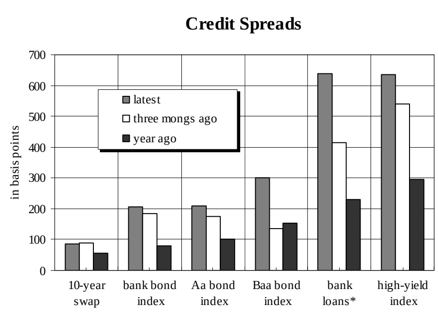
- Leveraged loans are senior secured floating rate paper made to speculative grade borrowers, and are commonly used to finance leveraged buyouts, recapitalizations and refinancings
  - By 2007 institutional investors were providing 74%, or $400 billion, of the capital backing leveraged loans, up from 33%, or $35 billion, in 1997
  - Spreads for leveraged loans and high yield debt have risen sharply over concerns about default risk and credit quality



Notes:
Spreads: over 10-year treasuries, bank loans over 3-mo Libor
Bank Loans: Leveraged loans, $50 mm - $10 b, S&P/LSTA Index
Sources: Bloomberg, Standard & Poors LCD

Middle Market M&A is Less Dependent Upon Institutional Debt, Remains Steady

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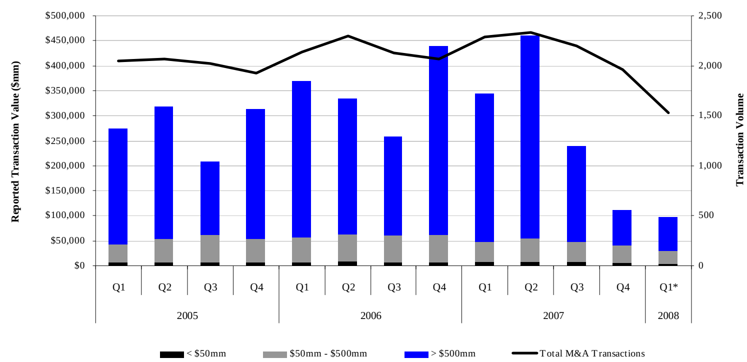
- *The slowdown in M&A activity over the second half of 2007 was driven primarily by a relative absence of leverage fueled 'mega-deals'*

North American Total M&A Activity by Quarter



Source: SDC Platinum.
Notes: Transaction Volume represents all closed transactions, including deals where transaction value was not disclosed
** Q1'08 through 3/4/08.*

Middle Market M&A Activity Remains Steady, Supported by Traditional Bank Financing

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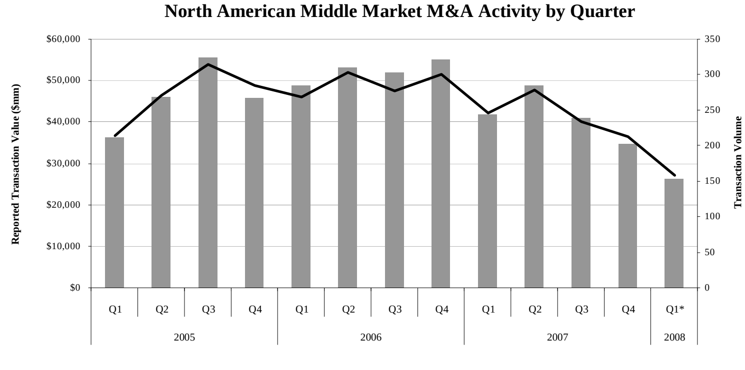
- *The Middle Market continues to be supported by traditional bank lenders who remain willing to finance great companies with stable cash flow, and/or solid asset base*
  - Large financial sponsors are considering moving down market, attracted by reasonable valuations and access to debt

North American Middle Market M&A Activity by Quarter



Source: SDC Platinum.
Notes: Transaction Volume only includes closed transactions where transaction value was disclosed.
** Q1'08 through 3/4/08.*

U.S. Middle Market M&A Remains Strong by Historic Measures

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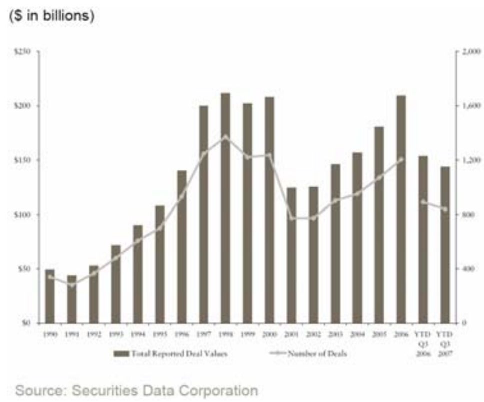
U.S. Middle Market M&A Activity by Year
1990 – Q3 '07



General Market / Middle Market Credit Update

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Credit markets have been negatively impacted by the subprime lending ramifications and the significant amount of committed debt for leveraged M&A transactions

GENERAL LENDING ENVIRONMENT

- Lenders continue to struggle to unload debt from last year's record $438 billion of leveraged buyouts after losses from securities linked to subprime mortgages reduced demand for higher-yielding assets
- Despite reducing the overhang by 32 percent since July, banks still have $161.9 billion of loans and $69.6 billion of bonds left to distribute, according to JPMorgan data
- The market dislocations caused by the U.S. housing recession and subprime write-downs have shaken investors' confidence. Investors are worried about the creditworthiness of certain short-term debt issuances, such as the asset-backed commercial paper, and have avoided such issues in favor of higher-quality debt such as U.S. Treasuries.
- This flight to quality led to a severe drop off in commercial paper activity and prompted the central banks to cut rates and instill liquidity into the markets. A prolonged tightening of financing conditions poses a real risk to global GDP growth.
- Large leveraged M&A transactions are virtually impossible to complete due to the overhang from committed transactions.

Middle Market deals remain active; pricing increases and leverage ratios fall

MIDDLE MARKET LENDING TRENDS

- Deal flow in the middle market kept up a steady pace through the summer and fall. In general, the number of announced deals with disclosed values of less than $1 billion have exhibited few changes since July.
- Middle-market debt pricing has increased approximately 100-200bps since the summer credit crunch. Lenders are requiring tighter covenants and lower leverage structures.
- In general, lending leverage ratios are ½ to one (1) turn less than in Q2 2007.

General outlook remains steady

THE OUTLOOK

- Middle market lending remains active as commercial lenders have significant capital to deploy for good growth companies with stable recurring cash flow and/or a solid asset base.
- Oil prices, interest rates, earnings results and financial guidance continue to pose a negative threat in 2008.

Representative Credit Terms for Private Middle Market Financings in the U.S.

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- Representative leveraged cash flow and mezzanine lending terms for companies with less than $50 million of EBITDA

Deal Component	*March '08*	*December '07*	*September '07*	*June '07*
Senior Debt (X EBITDA):	2.0-3.0X	2.5-3.25X	2.5-3.0X	3.0-4.0X
Total Debt Limit (X EBITDA)	3.0-4.5X	3.5-4.5X	3.5-4.0X	4.5-5.5X
Senior Cash Flow Pricing:	L+ 3.5%-4.5%	L+3.5%-4.0%	L+3.5%-4.0%	L+3.0%-3.5%
Second Lien Pricing (Avg):	L+8%-10%	L+6%-10%	L+7%-12%	L+4.5%-8%
Subordinated Debt Pricing:	15%-17%	13%-17%	15%-18%	12%-16%
Warrants Feature:	Increasingly Requested	Potentially	Potentially	Very Unusual
Toggle Feature (cash/PIK)	Unavailable	Very Unusual	Very Unusual	Potentially
Mezzanine Opt. Pre-Payment (first 3 years)	2nd Lien: 102,101,Par Sub: 103,102, 101	2nd Lien: 102,101,Par Sub: 103,102, 101	2nd Lien: 102,101,Par Sub: 103,102, 101	2nd Lien: 102,101,Par Sub: 103,102, 101
Minimum Equity Contribution	30%-40%	25%-30%	30%-40%	15%-20%
Recap Liquidity	Available but w. limited leverage	Available	Limited	Abundant
"Story" Receptivity	Available on a limited basis	Available	Limited	Abundant
Investors	BDCs, SBICs, Traditional LPs, Hedge Funds (limited), Finance Company Alternative Asset Groups	BDCs, SBICs, Traditional LPs, Hedge Funds (limited), Finance Company Alternative Asset Groups	BDCs, SBICs, Traditional LPs	BDCs, SBICs, Traditional LPs, Hedge Funds, CLO/ CDOs, Finance Company Alternative Asset Groups

Source: SPP Capital Partners, LLC, March 2008

Total M&A Activity by Sector Over the Last Twelve Months

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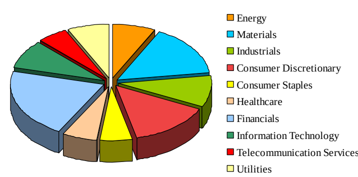

LTM M&A Transactions ($mm)

Industry	Size ($mm)	%	# of Transactions	%
Energy	$264,097	7.5%	1544	4.8%
Materials	542,115	15.4%	3160	9.7%
Industrials	330,060	9.4%	6663	20.5%
Consumer Discretionary	497,341	14.1%	7182	22.1%
Consumer Staples	196,118	5.6%	1907	5.9%
Healthcare	215,980	6.1%	2012	6.2%
Financials	733,599	20.8%	3641	11.2%
Information Technology	306,664	8.7%	4942	15.2%
Telecommunication Services	186,606	5.3%	638	2.0%
Utilities	252,178	7.2%	774	2.4%
Total	**$3,524,758**	**100.0%**	**32,463**	**100.0%**

Source: CapitalIQ; LTM as of 3/3/08.

North American M&A Valuation by Sector and Deal Size Over the Last Twelve Months

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Median Implied Enterprise Value / EBITDA (North American Targets)

(As of 2/29/08)

	Last Twelve Months Ending February 29 of:							
	2005		2006		2007		2008	
Target's Sector	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M
Consumer Discretionary	9.5x	10.0x	9.5x	10.5x	10.2x	11.7x	9.3x	11.6x
Consumer Staples	7.8x	14.7x	14.5x	6.6x	10.6x	12.7x	8.7x	10.3x
Energy	8.7x	9.2x	7.9x	7.4x	8.5x	9.7x	6.3x	11.0x
Financials	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Healthcare	10.6x	12.7x	11.9x	16.7x	13.9x	17.8x	13.6x	16.6x
Industrials	9.2x	13.8x	8.9x	10.9x	7.3x	10.3x	9.4x	12.0x
Information Technology	12.7x	12.0x	14.3x	17.3x	11.4x	16.8x	15.7x	16.2x
Materials	8.7x	8.8x	6.1x	9.4x	6.7x	9.3x	10.2x	8.8x
Telecommunication Services	5.9x	8.6x	8.5x	10.1x	8.7x	11.0x	8.2x	10.8x
Utilities	3.5x	10.5x	6.2x	9.8x	8.0x	11.1x	18.5x	8.4x

Median Implied Equity Value / LTM Net Income (North American Targets)

(As of 2/29/08)

	Last Twelve Months Ending February 29 of:							
	2005		2006		2007		2008	
Target's Sector	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M	Less Than $500M	Greater Than $500M
Consumer Discretionary	16.0x	23.3x	20.0x	23.2x	17.6x	31.6x	17.1x	24.4x
Consumer Staples	16.1x	31.8x	22.0x	19.9x	18.9x	34.2x	33.8x	21.6x
Energy	22.9x	23.4x	20.9x	14.8x	20.3x	19.6x	17.6x	21.9x
Financials	24.3x	20.5x	25.6x	23.9x	22.8x	27.5x	21.9x	24.4x
Healthcare	15.5x	27.0x	22.5x	37.8x	24.7x	33.9x	22.6x	40.1x
Industrials	15.5x	30.0x	12.2x	22.8x	16.3x	25.7x	16.7x	24.2x
Information Technology	22.7x	27.4x	21.9x	34.5x	20.8x	35.3x	24.0x	33.9x
Materials	16.2x	14.6x	7.9x	24.2x	15.6x	19.8x	19.0x	15.0x
Telecommunication Services	11.1x	18.7x	0.2x	9.5x	25.3x	20.0x	17.1x	22.3x
Utilities	0.8x	39.6x	5.7x	22.5x	20.1x	18.5x	70.5x	18.1x

Notes: Figures are based on transaction announce dates.

Source: CapitalIQ

Considerations for Closing a Successful M&A Transaction in 2008

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- Manage your business as if a transaction were not going to happen
- Maintain operational focus on achieving budgeted financial targets
  - Stability of earnings and future visibility drive premiums
- Target a closing date for your transaction, but allow flexibility for unexpected developments
- Engage professional advisors early, leverage your bandwidth
  - Financial: Marketing, negotiating and structuring terms
  - Legal: Negotiating and drafting legal documentation
  - Accounting: Tax structuring, due diligence
- Manage transaction risk
  - Engage multiple buyers through a competitive process
  - Negotiate protective clauses in agreements as appropriate (no financing contingency, break-up fees, etc.)
  - Set realistic value expectations, recognize a fair deal
  - Move expeditiously through the sale process, maintain a competitive dynamic

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Case Study - ICS Logistics

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January 2008

ICS Logistics

has been acquired by

BABCOCK & BROWN INFRASTRUCTURE

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TRANSACTION SUMMARY

ICS Logistics, a leading U.S. port service operator with terminals at three Southeast and Gulf Coast ports, engaged BBH's Infrastructure M&A Advisory team to evaluate strategic alternatives for the business. Transaction objectives required a buyer who could provide liquidity for the founding family and commit capital to fund future growth.

BBH evaluated both strategic and financial partners and received a number of bids following a limited competitive process. Babcock and Brown Infrastructure was ultimately selected as the favored financial bidder due to their buy-and-hold investment model, existing portfolio of port terminal operators (providing significant operational synergies and expertise), and a commitment to fund future growth initiatives.

Despite challenging financial markets following the subprime mortgage crisis in late 2007, BBH successfully negotiated and structured a transaction for the sale of ICS that included substantial leverage and exceeded the sellers financial and strategic expectations.

ABOUT ICS LOGISITICS

Headquartered in Jacksonville, FL, ICS Logistics is a port terminal operator providing integrated stevedoring, ambient and refrigerated warehousing, and overland transportation services for the import/export of bulk and breakbulk goods. ICS operates terminals in Jacksonville, FL, Mobile, AL and New Orleans, LA. The Company was founded in 1974 and is one of the largest exporters of refrigerated cargo on the East and Gulf Coasts. ICS also handles significant volumes of forestry and bulk paper products, as well as steel and non-perishable commodities.

In 2007, ICS handled over 2.6 million tonnes of cargo and expects to handle 3.1 million tonnes in 2008. The Company operates over 15 million cubic feet of refrigerated and 700 thousand square feet of ambient warehouse space, including one of the largest portside ambient warehouses on the East Coast.

BBH M&A Advisory Group

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- *For more information or a confidential review of M&A opportunities in your sector contact:*

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