# Dresner Partners
# Middle Market Metrics

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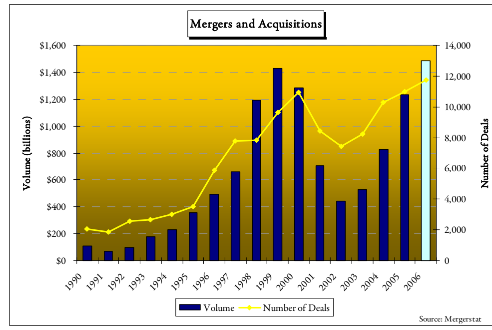
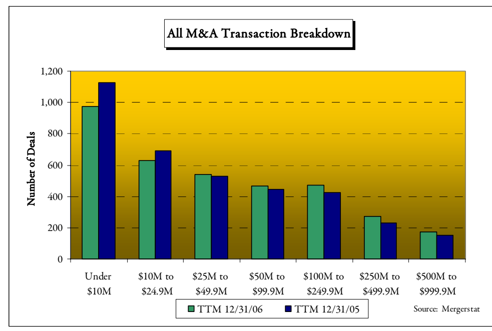
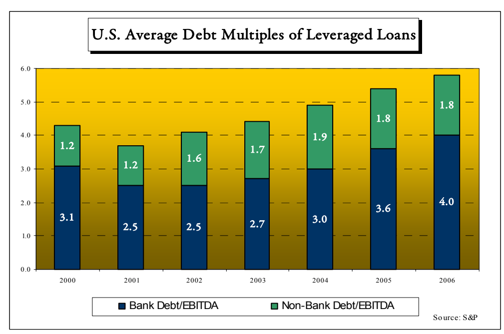
While statisticians are still compiling the final figures for 2006, there is no question in anyone's mind that the year just ended will be a record year for the M&A industry in all respects. Number of deals, deal value, transaction multiples, volume of leveraged finance, leverage multiples, private equity raised and just about any other measure you can think of will all come in at record levels for 2006. So what does all of this mean for those of us operating in the middle market? Certainly, multiples in the middle market have remained attractive for sellers and debt financing has been relatively accessible to buyers. What we don't know, however, is whether the euphoria of the large cap market will continue to trickle down into the middle market. Furthermore, if the large cap buyout market falters, is that more likely to lead to a shift of assets into the middle market or an overall contraction of liquidity throughout the M&A world?

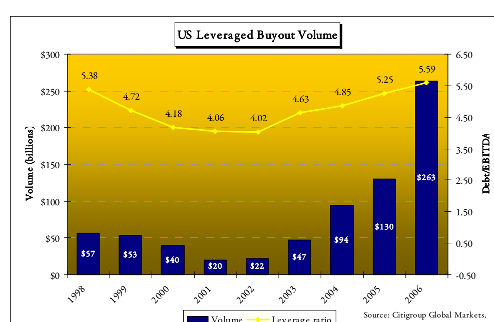



Let's start by looking at some middle market stats for completed transactions (as defined by Mergerstat, these are deals up to $500 million in value). Key measures include aggregate deal value, which has been trending slightly upward over the past 12 months; number of deals, which has been trending down since a peak in the second quarter of 2006; and enterprise value to EBITDA, which has been fairly stable between 9.8 and 10.0 throughout the year. Another way to try to get a handle on the health of the middle market is to focus on private company transactions, which are typically smaller than public company transactions. In this market, year-over-year aggregate value is up about 14% and number of deals is relatively flat. A quick conclusion would be that values are continuing to inch up while transaction volume may have peaked. That being said, buyout funds have raised a record amount of new capital in 2006 (estimated to be as much as $400 billion globally) that they will need to deploy over the next 2-4 years.




Given the large amount of liquidity in the buyout markets, we are optimistic that private equity funds and their lenders will continue to spend aggressively to make acquisitions. With stock prices up and profits rising, publicly traded strategic buyers are also well positioned to be aggressive buyers. Looming on the horizon, however, are concerns about rising leverage ratios, especially in some of the higher profile larger cap deals. According to the *Wall Street Journal*, S&P measured debt to EBITDA at 5.7x in the fourth quarter, is on par with levels of the mid-to-late 90's. At the moment, default rates on leveraged loans have not yet begun to rise; as of June 30 they were a meager 3% according to S&P. This could be due in large part to the continued stability of the U.S. economy and relatively low interest rates (with the Fed now taking a breather on further rate hikes). On the other side of the equation, rising leverage and higher interest rates over the past two years have led to a steady decline in debt service coverage ratios since 2004, dropping to levels that are also reminiscent of the late 90's (around 2x) from a much healthier level of 3.4x (source: *WSJ*). Many analysts are becoming concerned that this tight coverage could lead to higher default rates if the economy begins to slow. If lenders then pull back, valuations could take a hit as well.

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# The Education Industry: A Vibrant Transaction Environment

Dresner Partners is very active in the for-profit education industry. The industry is continually evolving, generating steady, long-term growth. This growth is being driven by innovative discoveries in the learning process, productivity enhancing technology trends, cultural and demographic changes, privatization and new educational venues, among others. Transaction multiples have been rising and firms in the industry need to be prepared to react quickly should a generous buyout offer appear on their doorstep.

Hundreds of small companies have been formed to address the growing demand for educational products and services. Many of these innovative firms, taking advantage of readily available and inexpensive capital, have grown into middle market companies capable of competing effectively against much larger multinational organizations. This growth in middle market competitors is now attracting interest from both larger strategic players and private equity funds, fueling a new wave of M&A activity in the industry. Larger strategic players are buying innovative companies rather than increasing their R&D spending. Private equity firms have been keeping pace, often resulting in a horse race between these separate classes of buyers.

Based on our conversations with both education industry executives and private equity funds, we believe middle market operating companies in this industry need to be well-informed to respond quickly to overtures from larger, more sophisticated buyers. There is a limited window to obtain your "right price" and, as we found in early 2000, the window can close very quickly. Dresner Partners has successfully teamed with companies in the education industry to develop prudent strategies to meet the goals of shareholders. These strategies range from a simple valuation with an action plan to a full blown sell side process. While markets may maintain their positive momentum, they could also change direction without warning. Like the Boy Scouts, we advise: Be Prepared!

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So what's our conclusion? At the moment, the buyout markets – both large cap and middle market - remain very healthy, and the first half of 2007 should be a great time for closely held business owners to pursue liquidity alternatives and diversification of net worth. Furthermore, the relative abundance of leveraged financing, including second lien loans, has allowed private equity funds to compete more aggressively with strategic buyers, which helps to make for more competitive transaction processes and better outcomes for sellers. Many transactions with private equity funds have the added benefit of being recapitalizations, which enable business owners to take significant amounts of money off the table, yet retain a sizable minority stake to allow for a "second bite at the apple" 3 to 5 years down the road. We look forward to exploring the range of liquidity opportunities available to you in the near future to help you objectively evaluate your alternatives. We wish all of you a happy, healthy and prosperous new year!

Regards,

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**Recently, Dresner Partners acted as the exclusive financial advisor in the following middle market M&A transactions:**

LEARNING RESOURCES®
has acquired
Educational Insights®

BILTRITE®
has sold its sheet rubber business to an affiliate of
West American Rubber Co., LLC WARCO®