



GROWTH CAPITAL PARTNERS

Newsletter

Spring 2006

Integrity • Teamwork • Client Focus

Recent Transactions



C&J Specialty Rental Tools, L.P. – Robstown, Texas – has sold an interest in its equity to Hammond, Kennedy, Whitney & Company. C&J Specialty Rental Tools is a provider of coiled tubing and pressure pumping services to the oil & gas industry in South Texas. Hammond, Kennedy, Whitney & Company, with offices in New York, Chicago and Indianapolis, is a private capital firm focused on sponsoring management buy-outs of middle-market companies.



Utex Industries, Inc. – Houston, Texas – has been acquired by Grey Mountain Partners. Utex Industries is a total solutions provider of fluid sealing products. The Company designs, manufactures and services molded packing and seals for reciprocating pumps, hydraulics, high-tech o-ring seals, custom rubber molded products, mechanical seals, compression packing, gaskets, sheet gasket products and maintenance products. Grey Mountain Partners, with offices in New York, New York and Boulder, Colorado, is a private equity firm that makes majority investments in smaller middle-market companies.



The Chippery – Austin, Texas – has been acquired by Otis Spunkmeyer, Inc. The Chippery manufactures frozen cookie dough and thaw-n-serve cookies in a single 97,000 square foot facility. The Chippery serves national and regional restaurants and hotel chains, stadiums and sports arenas, and is one of the largest suppliers of frozen cookie dough to schools and fundraising organizations. Otis Spunkmeyer is the largest manufacturer, distributor and marketer of frozen cookie dough and the second largest distributor of pre-baked muffins in North America.



Silver Eagle Distributors, L.P. – Houston, Texas – has completed an acquisition of incremental territory representing an approximate annual volume of 2,090,000 case equivalents. Silver Eagle is the nation's second largest distributor, and an exclusive wholesaler of Anheuser-Busch products. Silver Eagle serves more than 6,900 accounts in the greater Houston area, including Fort Bend and Montgomery counties.



Tech Spray, L.P. – Amarillo, Texas – has been acquired by Illinois Tool Works, Inc. Tech Spray is a world-class marketer and manufacturer of specialty repair, maintenance, and production support products for industrial, electronic and consumer markets worldwide. Illinois Tool Works (NYSE:ITW) is a fortune 200 diversified manufacturing company that designs and produces engineered fasteners and components, equipment and consumable systems and specialty products for customers around the world. ITW currently has 650 business units in 45 countries.

GCP acted as financial advisor to all of the companies listed above.



Top 10 Trends Supporting Private Company Liquidity Events

The majority of Growth Capital Partners' transaction activity in 2005 and the first quarter of 2006 was related to business owners seeking liquidity for their companies. They were seeking either a full liquidity event through a sale of 100% of their ownership or a partial liquidity event in which some portion of the company was sold to an outside financial partner.

As a retrospective, we have compiled our top 10 list describing the reasons for this strong interest in obtaining liquidity.

- **Valuations are high.** Sellers are receiving more for their companies than they were just a few years ago. Since 2002, in the depths of the recession, average EBITDA multiples have increased over 30%. They have gone from 5x-6x to 7x-8x, for companies with enterprise values less than \$100 million. Multiples have not been this high since 1997.
- **Substantial private equity capital surplus.** There is more than \$160 billion of equity capital committed to financial sponsors. Assuming that the equity capital can be leveraged at a 4-to-1 ratio, there is over \$800 billion of purchasing power. The demand for investments, in quality companies and quality deals, exceeds the supply.
- **Aggressive lending activity.** Lenders, both senior and junior, are aggressive. As of Q3/Q4 2005 and Q1 2006, lenders are structuring loans for up to 4.4x EBITDA. We have not seen this much liquidity in the market and this much leverage since 1999.
- **Low interest rates.** Although the Fed continues to increase short-term rates, short-term and long-term interest rates are still relatively low by historical standards.
- **Low inflation rate.** The Fed's ability to maintain control of inflation (Q4 2005 core CPI, which excludes food and energy, increased at an annual rate of 2.80%), even as commodity prices have increased, has resulted in general economic stability.
- **Strong operating company fundamentals.** Earnings continue to remain healthy across many industries and across many sizes of companies. Earnings in 2006 are expected to improve 8-10% for the S&P 500. Our experience with private companies is also very consistent with most producing strong earnings with a high probability of continued growth.
- **Accelerating strategic buyer activity.** Many large corporate buyers are flush with cash. In their attempt to meet Wall Street earnings expectations and generate growth in excess of organic rates, they turn to acquisitions to provide incremental revenues and earnings.
- **Favorable tax rates.** Until 2008, the long-term capital gains tax rate at 15%, is the lowest it has been since 1933.
- **Positive economic outlook.** By most accounts, economists generally agree that solid growth should continue through 2006 for the U.S.
- **Desire for liquidity by owners.** Given the positive market fundamentals, baby boomer business owners are thinking more seriously about selling some portion of their business as a way to prepare for retirement, diversify their holdings and plan for succession.

In summary, it is a seller's market. While we expect these trends to continue through 2006, any detrimental changes in the current political and/or economic environment may quickly hinder an owner's ability to capitalize on this potentially unique time in the M&A market.

We would welcome the opportunity to share our views with you and discuss your strategic alternatives. Please call.

GCP Welcomes Drew Sudduth as Managing Director of its Southwest Mezzanine Fund

Growth Capital Partners is pleased to announce a new addition to the firm. Drew Sudduth has joined as Managing Director of GCP's mezzanine fund, Southwest Mezzanine Investments (SMI), to manage and drive the marketing efforts for potential investments.

As Managing Director of SMI, Mr. Sudduth is responsible for sourcing and executing mezzanine investments in companies seeking capital funding for expansion, acquisitions and refinancing. Prior to joining GCP, Mr. Sudduth was a Managing Director with Medford Investments, L.P., the mezzanine arm of the Erving Wolf family office in Houston. Mr. Sudduth's investment banking experience includes assisting middle-market companies in raising mezzanine, equity, and debt capital with Coastal Banc Capital Corp. (CBCC), a subsidiary of Coastal Banc Corp. Inc.; Mezzanine Capital, Ltd., CBCC's predecessor; and Harris Webb & Garrison, Inc.

GCP Welcomes H. Rey Stroube IV as Senior Vice President

Growth Capital Partners, L.P. is pleased to announce that H. Rey Stroube IV has also joined the Firm as a Senior Vice President.

Mr. Stroube has come to GCP from the GulfStar Group where he worked as Senior Vice President responsible for leading middle-market mergers and acquisitions and private placement transactions, since 2003. Prior to that tenure, Mr. Stroube worked in American General's high yield investment group as Director in charge of distressed investments. His responsibilities included serving as a member of various creditors' committees as well as overseeing out-of-court restructurings. Mr. Stroube started his career in the Global Corporate Finance/Corporate Restructuring Group at Arthur Andersen in Houston, where he provided financial advisory services to both privately held and public companies for nine years. Mr. Stroube has a B.S. in Business Administration and Accounting from Washington and Lee University. He is a Certified Public Accountant in the State of Texas and is a Certified Turnaround Professional. Mr. Stroube is also a member of the Houston chapters of the Turnaround Management Association and the Association for Corporate Growth.

GCP SENIOR LEVEL TEAM

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Subordinated Debt Fund for Middle Market Companies

Southwest Mezzanine Investment's history of successful closings of subordinated debt with warrants transactions. These financings were completed to support growth for each company.



\$3,500,000

Subordinated Debt with Warrants

Growth Capital

SMI was the sole lender for this financing



\$3,000,000

Subordinated Debt with Warrants

Growth Capital

SMI was the sole lender for this financing



\$2,500,000

Subordinated Debt with Warrants

Recapitalization Financing

SMI was the lead investor on this transaction



\$4,350,000

Subordinated Debt with Warrants

Acquisition Financing

SMI was the lead investor on this transaction



\$4,500,000

Subordinated Debt with Warrants

Acquisition Financing

SMI was the lead investor in this transaction



\$4,000,000

Subordinated Debt with Warrants

Expansion Capital

SMI was the sole lender for this financing



Growth Capital Partners is pleased to announce that Southwest Mezzanine Investments ("SMI") is rolling out its second fund, SMI II. SMI II is targeting total commitments of \$75 to \$100 million and is one of two funds managed by GCP. SMI II seeks to make \$3 to \$5 million subordinated debt investments in middle-market companies, both equity sponsored and unsponsored, seeking capital to accelerate growth internally or finance add-on acquisitions.

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