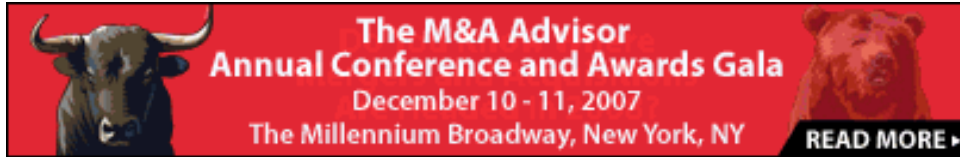


# M&A ALERTS™

The **Must Read** for the Middle-Market Finance Professional™



|| November 9, 2007 ||



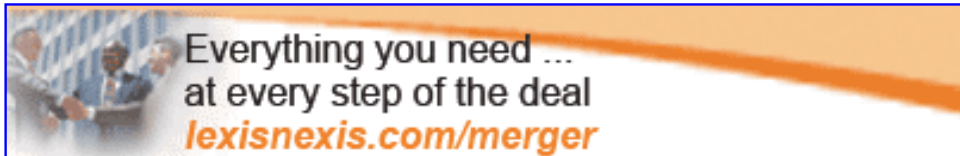
## Top Stories

### Dow Jones: \$300B Fund-Raising Record on Horizon

U.S. private equity firms have raised \$263 billion for 364 funds during the first 10 months of this year, surpassing the previous record of \$258 billion, set in 2006, Dow Jones Private Equity Analyst reported Wednesday. About 78 per cent of the funds raised this year went to buyout and corporate finance funds, said Jennifer Rossa, managing editor of the newsletter. Ms. Rossa forecast that fund-raising could break the \$300 billion mark in the closing weeks of 2007.

### From Russia, With Leverage

The use of debt instruments is on the rise in Russia, according to Squire, Sanders & Dempsey LLP, the international law firm. Once rare in Russia, private equity deals are growing in number, spurring the establishment of a debt market to support it, says Christopher A. Rose, a Squire Sanders attorney. The firm bases its observations on the results of a poll it took of over 200 participants at the recent C5 Private Equity and Venture Capital Forum in Moscow. "LBOs are a rare sight in the Russian market," said Mr. Rose. "Lion Capital's recent acquisition of Nidan Soki has been billed as the first and/or largest LBO in Russia, so the apparent interest in leveraged buyouts in Russian private equity is worth noting." Mr. Rose said about 80 percent of poll respondents said they use leverage occasionally or regularly.



### Rubin: Read My Lips, No Divestitures

In his first interview after being named interim chairman of Citigroup following the departure of Charles O. Prince, former U.S. treasury secretary and ex-Goldman chairman Robert Rubin declared he would effectively follow his predecessor's strategies, plans that do not include spinoffs or divestitures, he told the Wall Street Journal's David Enrich.

## Coming Events

[The M&A Advisor Conference and Awards Gala](#)  
December 10-11, 2007  
New York, NY

**Distressed Investing Conference and Turnaround Awards Dinner**  
February 24-25, 2008  
Palm Beach, FL

## Q&A

### David Morgenthaler, Venture capital pioneer

Warren Strugatch speaks with David Morgenthaler, founding partner of Morgenthaler Ventures. The firm, which has raised growth funds for such success stories as MDSI, Apple Corp. and Cambridge International, has its roots in the early-stage investments Mr. Morgenthaler made in several manufacturing companies in the years immediately after World War II, followed by operating experience with a portfolio company controlled by Jock Whitney. Mr. Morgenthaler helped organize the National Venture Capital Association and served as its first president ('77-'79). Mr. Morgenthaler also operates Morgenthaler Partners, a buyout group.



David Morgenthaler

"The direction that Chuck set is exactly where this institution needs to go," he said. That direction has led to slumping revenues, drooping profits, diminished capital and significant exposure to the subprime loan fiasco through investment products tied to such loans. What's up, Bob?

[More at Wall Street Journal \(subscription required\)](#)

### Middle Market Deals More 'Diversified,' Panelist Says

Middle-market deals have become more diversified in response to changing market conditions since the summer, according to Constantine S. Mihas, speaking Wednesday morning at the "Competing for Deals" panel at M&A East: The Middle Market Corporate Growth Conference. Mr. Mihas, a principal with the Chicago-based GTCR private equity firm, recalled that "90 per cent of our deals were buyouts" before the summer, a rate that has since dropped to about 30 percent. The slack has been taken up by minority investments, said Mr. Mihas, known as Dean. He went on to suggest that financial sponsors held an innate advantage in buyouts over their strategic rivals based on their ability to keep management in place fulfilling their presumed desire to stay involved in their company's continued growth. Pshaw, said the strategics on the panel. "We don't have to go hunting for deals," said David Senior, a senior vice president for acquisitions at AmeriSourceBergen. "Deals come to us."



Dean Mihas

### Darden's Smokey Bones BBQ on Block



The shrinking Smokey Bones Barbeque & Grill chain is on the block and Sun Capital Partners has first crack. Sun Capital has 30 days to close a deal with Darden Restaurants Inc (NYSE: DRI), the Orlando-based owner of the troubled chain, or the property goes out to bids. Darden closed 56 Smokey Bones locations this spring, contributing to a \$55.1 million loss for the fourth quarter. Darden is the world's largest casual dining company with almost \$6.7 billion in annual revenues. The Company owns and operates more than 1,700 restaurants including Red Lobster, Olive Garden, and LongHorn Steakhouse. Sun Capital is headquartered in Boca Raton and owns or manages more than 170 companies in businesses ranging from restaurants to manufacturing.

### Mergermarket: Shalimar Paints Faces Likely Buyout

Shalimar Paints, a publicly-traded paint manufacturer, is in the crosshairs of a private equity fund, Mergermarket reported Tuesday. Shalimar, valued at \$37 million, produced revenues of \$73 million in its 2007 fiscal year, ended March 31. Shalimar is controlled by the Jindal Group and the Jhunjnuwala Group. Mergermarket did not identify the P.E. firm, and cited two unnamed sources.

### More News

#### Catterton Partners Buy Restoration Hardware for \$267M

Restoration Hardware Inc., a home furnishings retailer based in Corte Madera, Calif., said Thursday it agreed to sell itself to private equity firm

D.M.: I wonder if you know how old I am?

M&A: Well, approximately. I –

D.M.: Recognize that I'm pretty old. I began making investments in companies right after World War II. I had a master's degree in mechanical engineering from M.I.T. and I became what you might call a serial entrepreneur. I helped start several companies with my own money and I helped run them. In one I put \$22,000 in and took \$3.6 million out. This was before venture capital really existed; people assumed I couldn't hold a job.

M&A: How did you get your start in formal venture capital investing?

D.M. From 1957 through 1968, I was chief executive of Foseco, Inc., a manufacturer of specialty chemicals. The company was financed by Jock Whitney, who had inherited about \$40 million of family money. He put about \$10 million into a fund called J. H. Whitney & Co. and started investing. They were looking for managers with entrepreneurial backgrounds, and found me in 1950. We talked for seven years before I took the offer. Ultimately we built the company into 57 corporations, manufacturing in 22 countries and selling in about 75 countries.

***In the 50s they thought operating people wouldn't make good investors. Tom Perkins and Don Valentine helped prove otherwise, I think.***

M&A: You brought an operations background to investing, rather than a financial background.

Catterton Partners for \$267 million. The buyout price is two and a half times the target company's stock price at close of trading Wednesday.

### **Fortress and EnergySouth Buy Natural Gas Storage Company**

The Mississippi Hub, a natural gas storage company, was acquired for \$140 million by a joint venture formed by Fortress Investment Group and EnergySouth Inc. EnergySouth's subsidiary, EnergySouth Midstream Inc, will control the investment with a 60 percent interest. Shearman & Sterling LLP represented certain affiliates of Fortress Investment Group LLC ("Fortress") in the creation of the joint venture.



### **Purepay Buys Controlling Stake in Netvantage**

Purepay, a private equity firm based in Columbus, Md., has bought a controlling interest in Netvantage, a company in Gaithersburg, Md. that handles payment transactions. It is the second sector acquisition for the firm, coming three months after its acquisition of Creditron, based in Santa Ana, Calif. Terms of the deal were not disclosed.

### **Promotions, Moves & New Locations**

Darryl Cooke, the U.K.-based co-head of DLA Piper's private equity practice, is departing to run Hill Dickinson's Manchester corporate practice... Richard Hays takes over as managing partner of Alston & Bird LLP, Atlanta's second largest law firm and one of the largest M&A practices in the southeast... Alan Muney has joined The Blackstone Group's private equity team as executive director. Dr. Muney will spearhead an effort across Blackstone's 52 portfolio companies aimed at managing healthcare benefits. This is a new position... Champ Private Equity, the Australian firm in which Castle Harlan, the New York private equity firm has a 50 per cent interest, will open an office in Singapore.

D.M.: In the 50s they thought operating people wouldn't make good investors. Tom Perkins and Don Valentine helped prove otherwise, I think.

*M&A: Your firm operates both as a venture capital investor and as a buyout shop. That's a very rare combination.*

D.M.: We operate with different teams of people who perform relatively independently. The venture capital people might call on one of our buyout people if a portfolio company is being bought by a private equity firm. I happen to be a person who has done both. We are all very used to all phases of the business. As we built our teams we brought in people who are versed in both sectors. We share office space and support functions.

*M&A: Are there problems operating a hybrid firm?*

D.M.: Some of the limited partners today feel that this hybrid results in our making asset allocation decisions for them. They would prefer we operate out of different funds.

*M&A: You were instrumental back in the 70s with the NVCA, getting the capital gains tax rolled back.*

D.M.: We were out there all alone, trying to reduce the carry tax with very little lobbying money – we spent less on lobbying than we spent on our I.T. systems. Reid Dennis and I went to the Carter White House in '78. They laughed us out. We said, 'We'll meet you on Capitol Hill and we'll beat you on Capitol Hill.' And we did. Our bill had 78 co-sponsors. Almost 30 years have passed and the tax has been reduced several more times.



## **Roger's Corner**

By Roger Aguinaldo

### **David Morgenthaler: Honoring A Lifetime of Achievement**

I met David Morgenthaler at Carnegie Mellon University about two decades ago. I was completing my undergrad work and Mr. Morgenthaler, M.I.T. Class of '41 was visiting with his wife who was on the Board of Trustees. This is a habit he continues to this day, cramming his visits with nearly non-stop meetings with deans, leading researchers and, often, the university president.

CMU assigned me the task of presenting, along with other students, an overview of the new computer operating system to the Trustees. After the presentation, Mr. Morgenthaler singled me out to give him and his wife a more detailed tour of this new operating system. It was a pleasant but fairly insignificant job in the grand scheme of things. Nevertheless, I remember Mr. Morgenthaler making me feel important as I "toured" him about. Like many influential people, he listened more than he talked. He was gracious from start to finish, inviting me to stay in touch and,

incidentally, rewarding me generously for my services. (We remember those things, don't we?)

**David Morgenthaler was instrumental in helping pass the ERISA legislation of 1979, allowing pension funds to invest in private equity.**

Indeed, I stayed in contact with him. After beginning my own career in finance I began to appreciate his prominence. As the founder in 1968 of a pioneering venture capital firm, he has made key early-stage investments in dozens of companies that have gone on to become technological leaders and employment generators, Apple Corp. foremost among them. He next moved into the buyout business, combining the two investment practices with an ease that belies the fact that nearly everyone else considers the combination unworkable.

Mr. Morgenthaler's career inspires engineers and operating managers to seek their fortunes in finance. A trained engineer, Mr. Morgenthaler never became the kind of investor who bets the ranch on flow charts or earnings projections. Rather, he investigates companies from the inside out, assessing the quality of the products and the caliber of the managers before investing a dime. This philosophy has served him well through the deployment of almost \$2.5 billion through nine funds.

Having helped create and lead the National Venture Capital Association in its early years, he spearheaded the effort to roll back the capital gains tax in 1978. He also was instrumental in helping pass the ERISA legislation of 1979, allowing pension funds to invest in private equity for the first time. That pair of contributions alone establishes Mr. Morgenthaler as a leader of the first rank in promoting American economic growth and prosperity in the 20th century.

A man whose unassuming manner belies his prominence, Mr. Morgenthaler is widely admired by his peers. In 1998, he received the first Lifetime Achievement Award by the N.V.C.A. and was elected to the Venture Capital Hall of Fame. In 2004 he received the first Lifetime Achievement Award granted by the International Business Forum and was named one of the first two Kaufman Foundation Honorary Fellows. He currently serves on the Science, Technology and Economic Board of the National Academies. I am proud to add a new honor to this impressive list: a Lifetime Achievement award from The M&A Advisor.

Please join us at our conference on Dec. 10-11 at the Millennium Hotel in Manhattan, when we honor this extraordinary man during lunch on the conference's second day. If you haven't made reservations yet, I recommend you do so today. Register online at [www.maadvisor.com/conference](http://www.maadvisor.com/conference) or call 718-997-7900.

See you there!

M&A Alerts are published weekly by [The M&A Advisor](#)  
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*M&A: Now, of course, the political winds are blowing in the opposite direction.*

D.M.: That's unfortunate. Many people just don't give enough credit to people who take risks, the way venture capitalists and private equity firms do. We need to encourage them to do that. We need huge incentives to encourage people to invest in illiquid situations. The government has to learn to reward what it wants to happen.

*For more about David Morgenthaler and Morgenthaler Ventures log onto [Morgenthaler.com](http://Morgenthaler.com)*

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