



# perform

HARBERT MANAGEMENT CORPORATION

2007  
ANNUAL  
REPORT

“However beautiful the strategy,  
you should occasionally  
look at the results.”

—Sir Winston Churchill

We invest considerable effort on strategy. In the world of alternative investments, the set of variables is unfixed, changing with each new opportunity. So we analyze. We measure. We calculate every move. But we live in a performance-based world.

In the end, no one cares about the strategy—only the results. Absolute results. We’re no different. We care about results as passionately as any of our investment partners, because we invest

our own money, on equal terms, in every fund we offer.

Harbert Management Corporation now manages more than \$20 billion in 19 funds, from real estate to distressed/event to venture capital.

What Mr. Churchill said, under the guise of jest, we believe with absolute certainty. With every investment we make, with every strategy we create—the only measure is the result.

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The annual report contains certain "forward-looking statements" that are based on our assumptions and judgments with respect to, among other things, future economic, competitive and market conditions, subjective evaluations of current investments and their prospects and future business decisions, all of which are difficult or impossible to predict or evaluate accurately and many of which are beyond our control. Because of the significant uncertainties inherent in these assumptions and evaluations, you should not place undue reliance on these forward-looking statements, nor should you regard the inclusion of these statements as our representation that any fund's strategy, objectives or other plans will be realized or successful. All forward-looking statements are made as of the date of this report. There is no obligation to update these forward-looking statements to reflect events or circumstances after the date hereof, nor is there any assurance that the policies, strategies or approaches discussed herein will not change.

Any referenced performance information has not been prepared to meet the reporting standards of the CFA Institute (AIMR-PPS and GIPS) or any other regulatory agency or trade organization. All performance information included in this report is unaudited and should not be viewed as predictions or representations as to actual future performance.

# HARBERT® MANAGEMENT CORPORATION

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# corporate profile

## *Real Estate:*

United States

European

## *Private Capital:*

Private Equity

Venture Capital

Mezzanine Capital

Independent Power

## *Absolute Return Strategies:*

Distressed/Event

Emerging Markets

Capital Structure/Convertible Arbitrage

Merger Arbitrage/Event Driven

Value

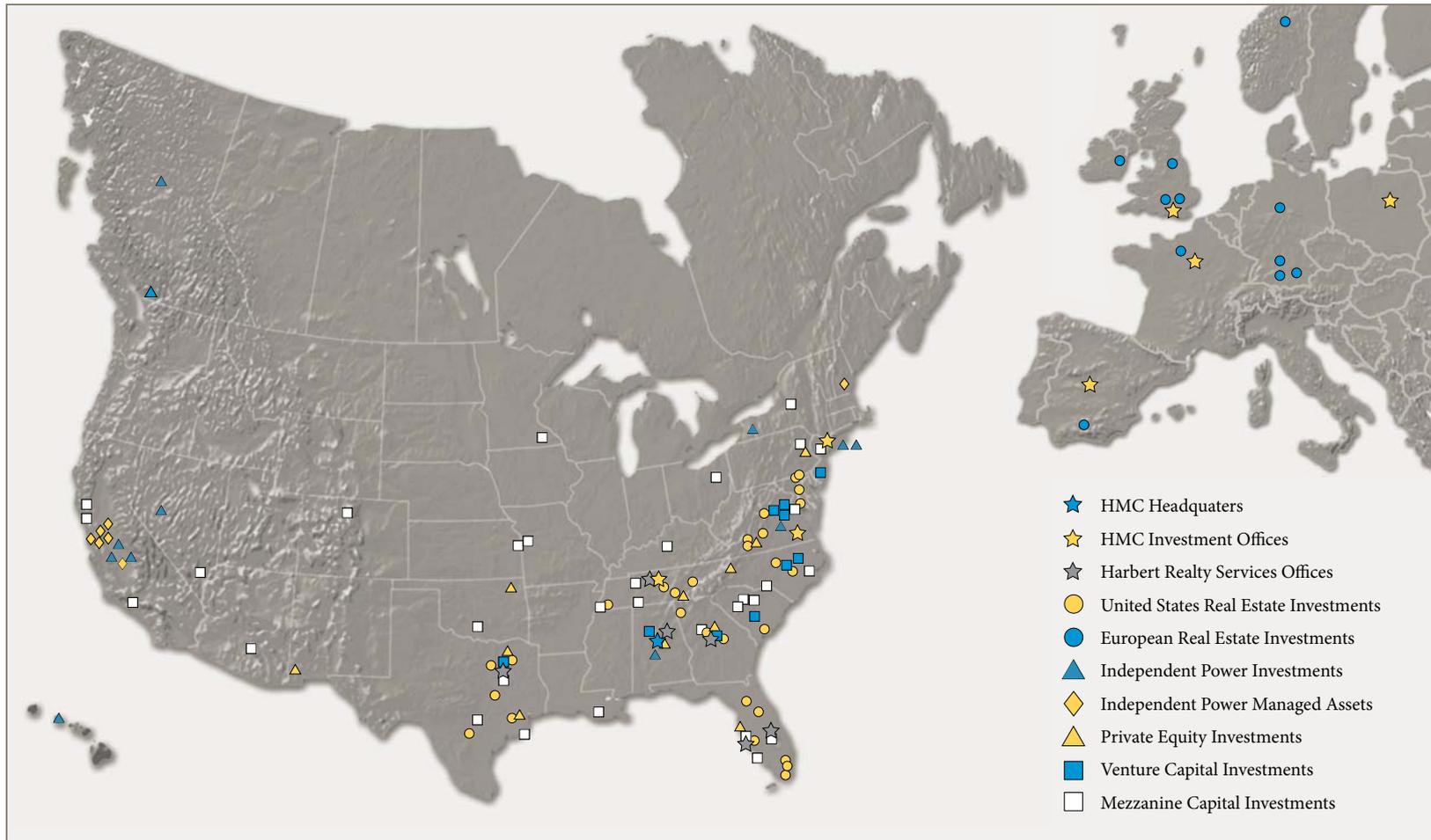
Harbert Management Corporation (HMC<sup>SM</sup>) is an investment firm managing more than \$20 billion in assets and committed capital in 11 alternative asset classes in three areas of concentration: real estate, private capital and absolute return strategies.

We (both HMC<sup>SM</sup> and our affiliates) make significant co-investments on a pari passu basis in each strategy offered to our investors. Our investors from around the world include endowments, foundations, fund of funds, family offices, pension plans, banks, insurance companies and high net worth individuals. We make each commitment of capital with a disciplined focus on risk, absolute return and diversification. We have in place an extensive risk management and

compliance infrastructure that supports the growth of our diverse set of investment strategies. We demonstrate our commitment to risk management and compliance through the breadth and professionalism of the legal, accounting, compliance and risk management teams centrally located at our headquarters in Birmingham, Alabama.

In addition to our headquarters in Birmingham, we have satellite offices in New York, London, Richmond, Nashville, Warsaw, Madrid and Paris. Our offices are close to the relevant markets for their respective strategies, while our centralized risk management and compliance programs enable these teams to concentrate on their goal of delivering superior risk-adjusted returns.

Harbert Management Corporation Locations and Private Capital Investments as of December 31, 2007



# 2007 the year in review

Ours is a performance-based world. From our back office to our people on the front line, absolute returns are our constant focus.

## LETTER TO PARTNERS, ASSOCIATES AND FRIENDS

As we look back on 2007, the two halves of the year could not have been more different. The first six months were simply a continuation of what we have seen (and complained about) for the last four or five years: excessive liquidity in all markets and an apparent disregard for risk. This caused virtually all asset classes/investments to be fundamentally mispriced and led to drastically reduced fear of losing capital.

In late July, that paradigm was turned upside down. Liquidity all but disappeared in a matter of days. As a general statement, the professional investment community could no longer price risk. We do not know if that was a function of the devaluation pain or if investors simply forgot how to fundamentally value an asset after all these years. Also, fear came sweeping in to banish greed from the investment landscape.

We are not unhappy about this dramatic shift in the investment environment; we just wish it had not taken so long to occur. It is our view that this environment plays to our strengths. When it becomes impossible to financially engineer an acceptable return via unlimited availability of credit and reliance on the “greater fool theory,” asset and securities prices

must return to levels that can be supported by fundamental underwriting. More on this point later.

Let’s move to Harbert Management Corporation’s performance in 2007. It would be an understatement to say we are pleased with the accomplishments this year of our investment management professionals, investor relations team and back office and administrative professionals. Harbert Management Corporation ended 2007 with over \$20 billion of assets under management. Moreover, 2007 returns in our funds continued a strong history of performance. The weighted average internal rate of return that an investor would have earned by allocating to every investment platform we have created since the close of our first fund in 1995, in the same proportion and at the same time as the HMC — affiliated entities, would be an estimated 18.8%, and that investor’s realized cash-on-cash return would be an estimated 18.5%, net of all fees and expenses. We are proud of not only the absolute level of these returns but also the fact that they: (1) were generated over a 12-year period; (2) by a diverse group of asset classes and investments; (3) include returns of both successful funds and those with substandard performance,

*It would be an understatement to say we are pleased with the accomplishments this year of our investment management professionals, investor relations team and back office and administrative professionals.*

which we closed, and (4) reflect the asset allocation decisions made by HMC — not the relative sizes of individual funds. We have not done this before in this letter, but we would like to personally thank the approximately 250 Harbert Management Corporation employees who are responsible for our performance this year.

How was that performance achieved? I have two engraved plaques on the credenza behind my desk. One belonged to my father, and it says: “The harder I work, the luckier I get.” The other is a statement I coined, which simply states: “It’s a performance-based world.”

I believe both of those statements are emblematic of what was collectively accomplished by Harbert Management Corporation’s investment teams this year. Our investment teams are responsible to deploy capital at expected returns at or above our absolute return threshold of midteens, net to the investor. In the first half of 2007, this had to be done in the context of markets for assets, equities and credit that were extremely undisciplined. Accomplishing this objective without compromising our bottoms-up investment discipline required hard work and “out of the box” creative thinking. Some notable examples of achievements in this regard include:

- The Harbinger Funds team’s capitalizing on the excesses in the housing, mortgage credit and securitization markets by shorting subprime loans and CDOs. This trade has served to hedge the long portfolio during volatile markets and generate outstanding absolute returns.

- The Independent Power group faced a market for power-generating assets that was priced to single-digit return levels. In response to these conditions, they leveraged their experience with project finance/management and utility



contract negotiating skills to purchase a partially completed wood pelletizing facility. This plant processes wood and wood waste generated in Southern timber operations for shipment to European utilities that are mandated to use renewable energy under the Kyoto Accords. We expect this to be the first of several such facilities owned by our investors.

- Our United States Real Estate group, confronted with mid-single digit cap rates on individual properties, was able to create an acceptable return profile by completing a purchase and partial leaseback transaction of 20 institutionally owned office buildings from a regional bank holding company. Our intimate knowledge of submarkets throughout the Southeast, combined with real estate operating and leasing expertise, enabled our team to underwrite this transaction, which financial engineers could not undertake.

We could go on with other examples, such as the Emerging Markets group’s shorting the carry trade as a portfolio hedge; or our venture team providing the capital to facilitate the spinout and launch of Agility Healthcare Solutions. Suffice it to say that every HMC investment group responded to

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*We have not done this before in this letter, but we would like to personally thank the approximately 250 Harbert Management Corporation employees who are responsible for our performance this year.*

*We hope to add two to four new strategies in 2008, as well as expand the scale of our existing strategies in anticipation of greater investment opportunities.*

2007's difficult and changing circumstances with hard work, discipline and creativity. Our firm never strayed from the investment principles that have guided us from the beginning: We commit our capital side by side with our investors, based on fundamental investment-by-investment analysis targeting absolute return thresholds. Market trends, mathematical models or other techniques are not a material part of either our investment or risk management discipline. We use leverage in some of our strategies, but not as a means to lever up low-return assets to achieve our return objective. Finally, investment portfolios are always diversified, and our capital is spread across multiple, alternative asset classes.

We avoided crippling losses as the markets seized up and then began to reprice risk. Measures have been put in place to maintain appropriate liquidity for our funds (relative to their strategies). All of our funds are positioned to capitalize on new opportunities and are working to do so as this letter is being written.

This has nothing to do with luck. These professionals were disciplined, worked hard and creatively, and consequently, they delivered. To sum it up, we cannot think of a better phrase to describe our investment teams' 2007 performance than the PGA's tagline: "These guys are good!"

Looking forward to 2008 and beyond, we believe value in virtually all asset classes will continue to be repriced

downward. We expect this to be particularly acute in the asset classes whose prices were most impacted by the availability of easy credit (i.e., the asset classes that strayed the furthest from their fundamentals). As the bubble deflates, we believe the environment for fundamental investors improves. For that reason, we believe that this is a propitious time to expand our offerings in both the public and private markets. We hope to add two to four new strategies in 2008, as well as expand the scale of our existing strategies in anticipation of greater investment opportunities.

We want to thank all of you for your continued confidence in Harbert Management Corporation, and we look forward to continuing to earn that confidence in 2008!



Raymond J. Harbert, *Chairman & CEO*



Michael D. Luce, *President & COO*

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Michael D. Luce  
*President & COO*

Raymond J. Harbert  
*Chairman & CEO*



real  
estate



# united states real estate

*Rather than follow trends or “hot markets,” we look at individual opportunities, scrutinizing the fundamental details of each proposed deal.*

Our United States Real Estate team launched our first real estate fund in 1995. We have developed an extensive network of professional relationships, through which we find most of our investment opportunities. Rather than follow trends



or “hot markets,” we look at individual opportunities, scrutinizing the fundamental details of each proposed deal. However, our experience as

developers, owners and managers of real estate yields the most influence on which opportunities we choose to pursue.

The United States Real Estate team targets midsize office and industrial properties, as well as opportunities in the

multifamily, retail and hospitality segments of the market. We typically invest in properties ranging in value from \$10 million to \$50 million. We believe this is a less efficient market where our skill set can have a meaningful impact.

We are not passive investors. When we consider an opportunity, we evaluate whether, through income growth and operational improvements, we can increase the property’s value. For each investment, we create a rigorous asset-specific management plan, designed to improve the property’s competitive position, with the intent of increasing the overall value of that property. We strive to mitigate risk through diversification by property type, geography and investment profile.

“The managers of the United States Real Estate team began honing their expertise years ago, as developers, owners and managers of real estate properties. Today that hands-on experience is invaluable when evaluating prospective investment opportunities.”

MICHAEL P. WHITE / VP & SENIOR MANAGING DIRECTOR / UNITED STATES REAL ESTATE



Alan C. Fuller  
VP & Senior Managing Director

Michael P. White  
VP & Senior Managing Director

## 2007 IN REVIEW

*We took advantage of our ability to invest in all types of real estate in order to construct a diversified portfolio for Harbert Real Estate Fund III (HREF III). Our team acquired more than 1.5 million square feet of office/flex space and invested in two new-construction, multifamily development deals totaling 552 units; we also invested in a mixed-use redevelopment project.*

*We formed strategic operating partnerships with two different groups to assist us in building a shadow-anchored retail development strategy and an industrial development strategy. These operating partnerships give us efficient vehicles to deploy capital with strong operators and developers.*

*To date, the HREF III portfolio consists of 13 investments across nine states in 27 different cities.*

*As of December 31, 2007, HREF III had committed \$142 million of its \$160 million. Of the \$142 million committed, we committed \$110 million in 2007.*

# 2007 United States Real Estate Transactions



Dry Creek Ranch

## *Acquisitions*

### **Gwinnett Corporate Center**

In June 2007, HREF III acquired a 66.7% interest in Gwinnett Corporate Center. This 1,181,022-square-foot shallow-bay distribution and single-story office park located in Atlanta, Georgia, was purchased in an off-market transaction with a local joint venture partner. In-place rental rates at the time of acquisition were below market, creating an opportunity to lease-up vacant and renewal space at higher rental rates in a recovering market.

### **Chalk Rock Canyon**

We acquired a 90% interest in this 264-unit luxury Class A multifamily, new-construction development in Austin, Texas. This investment provides an opportunity to capitalize on the dynamic job growth and housing demand in Austin. We invested in this property in May 2007.

### **Dry Creek Ranch**

Our team also acquired a 90% interest in this 288-unit luxury Class A multifamily, new-construction development in Fort Worth, Texas. The clubhouse and first five buildings were delivered through November 2007. We invested in this asset in May 2007.

### **Charleston Cigar Factory**

We acquired a 60% interest in this historic mixed-use redevelopment. The property is located in the historic district of Charleston, South Carolina, and will comprise residential lofts, office condominiums and boutique retail shops upon completion. We purchased this property in June 2007, and it represents an opportunity to reposition an architecturally significant building in a very dynamic, supply constrained market.

#### **HREF III/Giltz Joint Venture**

In July 2007, we entered into a joint venture with Giltz & Associates Inc. to develop a series of shadow-anchored retail centers across multiple locations in growth markets. Since 1991, Giltz & Associates has completed 2.4 million square feet of real estate developments across 96 locations.

#### **HREF III/Koll Joint Venture**

In September 2007, we entered into a joint venture with Koll Development Corporation, an industrial developer based in

Dallas, Texas. The joint venture will seek to take advantage of the strength in the industrial sector that results from increased international trade by developing a diversified portfolio of industrial space in the Sun Belt and Mid-Atlantic regions.

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### *Dispositions*

#### **HREF II**

##### **Morgan Falls Office Park**

In 2007, we continued to execute our disposition strategy through individual building sales of the five-building office park in Atlanta. We have completed the disposition of 82% of the property, and we are actively marketing for sale the remaining portion of the office park.

#### **HREF III**

##### **1001 West Loop South**

##### **2425 West Loop South**

In late 2006, we acquired a 95% interest in this 503,500-square-foot office portfolio in Houston, Texas. The properties provided an opportunity to increase rents and lease-up vacant space in the Galleria submarket. The property was sold in December 2007.

# european real estate

*We recognize that while capital is global, real estate is a local business.*

*We seek to join with local partners in each investment...*

In Europe, our real estate team targets acquisition and development opportunities in which we can add value through proactive management. We target opportunities in the office, retail, warehouse/distribution, hospitality and residential sectors ranging from \$10 million to \$150 million in size. In many cases, opportunities of this size are too small for the larger funds to pursue effectively and yet too large or complex for some of the local and smaller regional investors. Generally, there are more of these smaller transactions from which to select. Further, these smaller transactions are not typically sold through fully transparent, widely marketed auctions. Thus, by pursuing these opportunities, we increase the probability of successful acquisition and the potential to achieve superior risk-adjusted returns.

Other key elements of our investment philosophy include a disciplined focus on underlying real estate fundamentals, diversification, exit strategies and local knowledge. We are

real estate investors with operating expertise; we evaluate each transaction on the underlying returns we expect to be generated by the properties themselves. Although we will capitalize our transactions to enhance returns, we will not rely on leverage to justify our investment decisions. In order to reduce the overall risk within the portfolio, we believe in diversifying across property types, geography and investment risk.

Our strategy is to maximize value by active, hands-on asset management. This includes not only asset-specific business plans to improve leasing rates, but also management specifically designed to enhance the competitive position of each asset and, ultimately, its value as an investment.

We recognize that while capital is global, real estate is a local business. We seek to join with local partners in each investment, partners who have an established track record in both the relevant market and product type, and whose investment interests are aligned with our own.

“HMC puts great faith in talent. We consistently hire gifted people and provide them with the resources they need to perform well.”

SCOTT O'DONNELL / VP & SENIOR MANAGING DIRECTOR / EUROPEAN REAL ESTATE



Peter J. A. Land  
Principal & Director of Investments

Scott D. O'Donnell  
VP & Senior Managing Director

Roque I. Rotaeché  
Principal & Director of Investments

Eric R. Desautel  
Principal

## 207 IN REVIEW

*We successfully closed our second European real estate fund with total capital commitments of \$305 million, exceeding our initial expectations.*

*Our group acquired two different sites in Germany for development of approximately 550,000 square feet of logistics space.*

*We entered into a joint venture to develop a second-home project on one of the Norwegian fjords.*

*We completed construction of warehouse facilities in Munich and Dublin and commenced construction of an expansion of a Dublin warehouse facility.*

*Our team sold our interest in Arcos Gardens, a low-density second-home golf course community in southern Spain.*

*Lastly, we opened offices in Warsaw, Madrid and Paris.*

# European Real Estate Transactions



Esslingen Warehouse

## *Acquisitions*

### **Ostfildern Warehouse**

This investment involves the development of a 151,000-square-foot warehouse and 43,560-square-foot office building approximately 3.5 kilometers from the Stuttgart (Germany) international airport. The property has been fully leased to two separate divisions of DHL.

### **Esslingen Warehouse**

We acquired a former production facility for purposes of redevelopment into 350,000 square feet of warehouse and 85,000 square feet of offices. Roughly 57% of the area has been

preleased, and demolition, followed by construction of the new facilities, is scheduled to commence no later than January 2008.

### **Norwegian Residential**

Through a joint venture with a local Norwegian partner, we are developing a 160-unit second-home community on a fjord. The project will be marketed primarily in Norway, where there is a strong cultural tie to weekend cottages/homes. All planning consents for the project have been granted, and construction of the first phase is scheduled to commence in the first quarter of 2008.

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## *Dispositions*

### **Arcos Gardens**

We sold our interest in this joint venture in Andalucia, Spain. The project encompasses 404 acres located in Arcos de la Frontera and, upon completion, will consist of approximately

500 residential units, a small boutique hotel, a spa, an 18-hole championship golf course, a 10,000-square-foot clubhouse and other recreational facilities.

# Harbert European Real Estate Investments

Portfolio as of December 31, 2007 The portfolio also includes the 2007 acquisitions listed on page 16.

## Dublin, Leeds, Paris and Munich Warehouses

Through separate joint ventures with the same partners, we own a 75% interest in four warehouse properties. All of the properties are fully leased on a triple-net basis to the European arm of a financially strong tenant, on leases ranging from 12 to 25 years. The Dublin and Munich assets were build-to-suit projects for the tenant and total 37,000 and 35,000 square feet, respectively. During the year, we also exercised an option to acquire additional land for the expansion of the Dublin facility to a total of approximately 85,000 square feet; the expansion will be leased to the existing tenant. The Leeds and Paris investments involved the acquisition of vacant warehouses of 70,000 and 140,000 square feet, respectively. Both of the properties underwent a significant refurbishment prior to occupancy by the tenants.

## Spanish Residential

Through a 50/50 joint venture with a Spanish partner, we acquired two parcels of land, totaling approximately 1,350 acres. The properties are both located in southern Spain and are former olive groves. The objectives of the joint venture are to create well-designed master plans for low-density, golf-oriented communities and then to sell the parcels to a

third party, who will undertake the development. There is a growing demand among Northern Europeans for low-density developments centered around recreational facilities and in close proximity to international airports and cultural areas. The master plans for these properties are designed to meet those growing needs.

## Cadogan Hotel

In early 2004, we acquired, through a joint venture, the Cadogan, a 65-room hotel in Knightsbridge, London. In conjunction with our venture partners, we completed a planned renovation of all common areas and the first two floors of guest rooms. We opened a new restaurant, Langtry's, and the hotel was rebranded as a Leading Small Hotel of the World. The Cadogan is currently being repositioned as a luxury hotel that targets affluent business and leisure travelers.

## Clemenceau

This 70,000-square-foot office building, with renovated common areas (lobby, bathrooms, elevators), is located in Nanterre, a suburb of Paris. The team continues to manage the building's rent roll to maximize potential income.



Munich Warehouse



private  
capital



# private equity

*Our investment opportunities are often developed by directly contacting companies in targeted industries, bypassing intermediaries.*



Our Private Equity team identifies and invests in businesses that have experienced management teams in place and are positioned to grow. We typically look for opportunities in less

competitive sectors of the market, pursuing what we consider attractive investments at a significant discount to valuations in the broader private equity markets. Our investment

opportunities are often developed by directly contacting companies in targeted industries, bypassing intermediaries.

We look for investments in leveraged buyouts, recapitalizations and expansion projects, as well as select distressed opportunities. We target middle-market companies with valuations of \$10 million to \$100 million, with an

emphasis on \$20 million to \$50 million transactions. We attempt to invest in companies with quality management and superior competitive positions. Our goal is long-term capital appreciation. With each investment, we take an active role, using our experience to create value. We give our portfolio companies access to more than capital; we also bring to the table management experience, as well as legal, accounting, treasury and other support services as needed.

We have a disciplined and conservative approach for evaluating potential acquisitions and investments. Our goal in due diligence is to avoid surprises and identify ways in which we can contribute to the long-term success of the company after the acquisition closes. We believe strongly that there is no single road to success, and we are willing to work with the management team of each company in which we invest to develop and support a strategy that fits the company and the current situation.

“Our investment philosophy is simple — leverage our capital in collaboration with management teams to jointly maximize the value of their businesses. To accomplish this, we have assembled a team of professionals with the skills to contribute to the growth and performance of our portfolio companies.”

MICHAEL A. ROWLAND / VP & SENIOR MANAGING DIRECTOR / PRIVATE EQUITY



Michael A. Rowland  
VP & Senior Managing Director

Donald R. Beard  
VP & Senior Managing Director

## 207 IN REVIEW

*We completed two new platform acquisitions and two add-on acquisitions to existing platform companies, investing a total of \$19.6 million.*

*At year-end, we held positions in ten separate platform companies in various industries, including specialty finance, health care, media, transportation and logistics and manufacturing.*

*Our team completed the disposition of our debtor-in-possession lending relationship with Aerosol Packaging LLC.*

*We added a new Director of Investments and a new Senior Associate with significant middle-market transaction experience. Kevin P. Grebe, Director of Investments, was formerly a senior manager with KPMG, and Lee R. Bryan, Senior Associate, was formerly a management consultant with the Private Equity Practice Group of Bain & Co.*

# Private Equity Investments

Portfolio as of December 31, 2007

## **ECA Holding LLC**

A consumer finance company that operates payday-advance lending branches in seven states. Based in Chattanooga, Tennessee.

## **PFC Acquisition Company Inc.**

A commercial finance company that provides working capital financing to small businesses in the form of asset-based loans. Based in Atlanta, Georgia.

## **Winnercomm Holdings Inc.**

A diversified media company providing television production, remote event production and aerial camera systems, as well

as Web-site management, advertising sales and advertising agency services. Based in Tulsa, Oklahoma.

## **PWI Holdings Inc.**

Underwriter and administrator of vehicle extended-service agreements. Also offers sales finance contracts to subprime credit consumers through select independent automotive dealers. Based in Orwigsburg, Pennsylvania.

## **CF Holding Company Inc.**

The nation's largest less-than-truckload carrier and logistics manager; serves furniture manufacturers, importers and retailers exclusively. Based in Lenoir, North Carolina.



**Child Health Holdings Inc.**

Operator of day care and respite care facilities for children with acute medical conditions. Based in Tampa, Florida.

**TSF Holdings Inc.**

Manufacturer of polystyrene foam products used in the packaging and construction materials markets. Based in Martinsville, Virginia.

**Dent-A-Med Inc.**

Consumer finance company that funds retail purchases for consumers with less-than-perfect credit. Based in Springdale, Arkansas.

**Precision Alloys Corporation**

Value-added specialty stainless steel processor and distributor that specializes in the production of flat-rolled stainless strips and coils. Based in Dallas, Texas.

**TBT Holding Company Inc.**

Manufacturer of aluminum end-dump, bottom-dump and tipper trailers; dump truck bodies; and other customized aluminum trailers. Based in Houston, Texas.



# venture capital

*Our senior management team  
has more than 80 years of  
combined experience working with  
entrepreneurs in the Southeast region.*

Our Venture Capital strategy invests in early-stage information technology and health care companies. We seek to invest in the first or second institutional round of financing for companies with experienced management, a defensible strategy and unique technologies that address large and growing markets. A member of our Venture Capital team usually takes a seat on the board of each portfolio company, providing strategic value and perspective to the company's management.



Our team's target region, stretching from Maryland to Florida, encompasses the fourth-largest economy in the world and the fastest-growing economic region of

the nation. This dynamic area is home to numerous research universities, government and corporate research facilities, public companies and an active entrepreneurial community; despite that, it has suffered historically from a lack of local venture capital. We believe this disparity produces significant opportunities for quality investments at reasonable valuations.

Our senior management team has more than 80 years of combined experience working with entrepreneurs in the Southeast region. They bring together backgrounds in finance, law, business operations, information technology and life sciences to produce a valuable and coherent perspective on venture investing. Since 1999, members of the Venture Capital team have participated in more than 30 venture capital investments, which have, to date, produced four initial public offerings and several M&A transactions.

"We are as excited about the Southeastern venture capital markets as we have ever been and feel that we have the right team in place to exploit the opportunities at hand."

WILLIAM W. BROOKE / EVP & MANAGING PARTNER / VENTURE CAPITAL



William W. Brooke  
EVP & Managing Partner

Wayne L. Hunter  
Managing Partner

## 207 IN REVIEW

*We made initial investments in Agility Healthcare Solutions Inc, JackBe Corporation and nContact Surgical Inc. The team led or co-led all three transactions.*

*We made follow-on investments in Aldagen Inc, Innovative Biosensors Inc, Ion Healthcare Inc, MaxCyte Inc, Optimal Reading Services Group Inc, Privaris Inc, Unitrends Software Corporation and WindChannel Communications Inc.*

*Brian C. Carney joined the team as an Associate. He was formally an associate with Morgan Stanley.*

# Harbert Venture Partners Investments

Portfolio as of December 31, 2007

## **Agility Healthcare Solutions Inc.**

Provides business process optimization solutions for hospitals and other acute care facilities, using its domain expertise, proprietary software platform, RFID and other location awareness technologies to improve resource use and patient throughput. Based in Richmond, Virginia.

## **Aldagen Inc.**

Develops clinical-stage regenerative therapies related to the transplant of adult human stem cells for tissue regeneration and for treating blood diseases, cancer and genetic diseases. Based in Durham, North Carolina.

## **BroadSource Inc.**

Provides enterprise software solutions targeted at telecommunications cost management, enabling businesses to automate service order processing, track assets and inventory, consolidate and reconcile invoices and manage information flow, from network planning and engineering to operations. Based in Atlanta, Georgia.

## **Innovative Biosensors Inc.**

Involved in commercializing novel technology for the rapid detection of pathogens for military and homeland defense markets, food-safety testing and human diagnostics. Based in College Park, Maryland.

## **Ion Healthcare Inc.**

Provides respiratory disease management services to patients suffering from obstructive sleep apnea; using proprietary portable testing technologies, as well as “gold standard” in-lab polysomnograms. Provides therapeutic and compliance services to identified sufferers of OSA. Based in Richmond, Virginia.

## **JackBe Corporation**

Provides a Web 2.0 mashup platform that enables enterprises to improve the functionality and performance of Web applications, delivering data from any application to any user, while meeting enterprise-grade security and governance requirements. Based in Chevy Chase, Maryland.

## **MaxCyte Inc.**

Develops both proprietary and partnered therapeutics, taking advantage of advanced capabilities for development and manufacturing of cell-based therapies through its proprietary ex-vivo cell-loading platform technology. Based in Rockville, Maryland.

## **nContact Surgical Inc.**

Provides a minimally invasive surgical platform for treating atrial fibrillation without requiring an open-chest, stopped-heart procedure. Based in Morrisville, North Carolina.



**Optimal Reading Services Group Inc.**

Coordinates gathering and management of diagnostic images from hospitals and clinics in a digital format, and delivers them to independent radiologists for reading and diagnosis in order to optimize and improve the quality of radiology services for patient care in hospitals and radiology groups. Based in Birmingham, Alabama.

**Privaris Inc.**

Develops wireless biometric authentication devices using fingerprint recognition technology that can overlay onto existing security systems. Based in Charlottesville, Virginia.

**TapRoot Systems Inc.**

Provides software and services for mobile phone manufacturers and wireless operators worldwide specializing in developing off-the-shelf software subsystems that support a suite of communications protocols for smartphone operating systems. Based in Research Triangle Park, North Carolina.

**Unitrends Software Corporation**

Provides business system continuity solutions to small and medium-sized businesses, enabling them to get back in business fast when their systems and servers fail. Provides disk-to-disk, high-speed data backup and recovery capabilities in a neatly packaged and cost-effective appliance-based solution. Based in Columbia, South Carolina.

**WindChannel Communications Inc.**

Provides wireless broadband service, offering wireless connectivity and Internet access to municipalities and targeted multifamily communities. Based in Atlanta, Georgia.

# mezzanine capital

*We concentrate on opportunities where we believe the risk to principal is limited and the prospect for equity appreciation is high.*

Our Mezzanine Capital team invests in small to medium-sized businesses that have reached the lending limits of their commercial banks, or that have limited ability to borrow from traditional senior lenders. We typically provide between



\$3 million and \$15 million in subordinated debt to companies with revenues between \$10 million and \$100 million, management with significant ownership

and with a demonstrated track record. We also look for operating profitability, sufficient cash flow to service debt, growth potential and a viable exit strategy. While we focus on the service sector in compelling markets, we will consider opportunities in any market.

Several market conditions combine to create opportunities for our Mezzanine Capital team, including a lack of liquidity in the small capitalization public equity market, the conservative nature of senior credit markets and the larger “bite-size” of bigger mezzanine funds.

Our investments are typically structured as five-year interest-only loans that provide a layer of long-term capital to growing businesses. We concentrate on opportunities where we believe the risk to principal is limited and the prospect for equity appreciation is high. We pursue long-term returns competitive with those of venture capital and private equity transactions. Our returns are driven by a combination of leverage, current coupon interest, paid-in-kind interest and warrants with a nominal strike price.

“Having the full resources of Harbert Management Corporation available allows us as fund managers to be more focused, efficient and diligent than we could be as an independent fund.”

JOHN C. HARRISON / VP & SENIOR MANAGING DIRECTOR / MEZZANINE CAPITAL



Brent G. Ray  
Managing Director

John C. Harrison  
VP & Senior Managing Director

John S. Scott  
Managing Director

Robert A. Bourquin  
Managing Director

## 2017 IN REVIEW

*We closed eight new investments and eight add-on investments for a total of approximately \$52 million invested.*

*Our team exited four portfolio companies through sales to strategic and financial buyers or recapitalizations. All of these loans were repaid with warrant gains and/or paid-in-kind interest realized.*

*We ended the year with a portfolio of \$208 million of loans and equity investments and 39 portfolio companies.*

# Harbert Mezzanine Partners Investments

## New Investments in 2007



### **Worldwide Healthcare Communications Alliance LLC**

Outsourced provider of continuing medical education services to the pharmaceutical industry. Based in Atlanta, Georgia.

### **Sunbelt Chemicals Corporation**

Custom packager and distributor of branded and private label specialty chemical consumer products. Based in Palm Coast, Florida.

### **Terminal Trucking Company LLC**

Regional short-haul provider of same day or next day pick-up and delivery services. Based in Concord, North Carolina.

### **Newmar Holdings Inc.**

Manufacturer and distributor of electronic components to the marine and communications industries. Based in Santa Ana, California.

### **Avita Drugs Inc.**

Specialty pharmacy of prescription drugs primarily to the HIV/AIDS population. Based in New Orleans, Louisiana.

**Green Thumb Lawn & Garden LLC**

Landscape equipment dealer & service center for professional landscape companies. Based in Coral Gables, Florida.

**Back Yard Burgers Inc.**

Operator and franchisor of quick service restaurants. Based in Memphis, Tennessee.

**Delta CompuTec LLC**

Provides IT support professionals and IT management services. Based in Teterboro, New Jersey.



# independent power

*We believe our team's history of developing, building and operating power assets differentiates us from many of our competitors...*

Our Independent Power team invests in power generation and other power-related assets. Over the years, the independent power industry has matured. Other investors have also recognized the benefits of investments in power assets, which can include equity-like returns combined with bond-like risk. Therefore, competition for power assets has increased, which has driven returns down. We reacted to these changes in the market in three ways. First, we have lowered the debt coupon within our fund structure, thereby reducing our cost of capital and making us more competitive on acquisition opportunities. Second, we are pursuing earlier-stage projects that may have a higher risk profile but that also provide opportunity for a higher return. Finally, we have expanded the type of investments that

we are pursuing to include power-related projects. In this area, we seek assets that are not strictly power generation projects, but that are related to the power industry and have a similar structure (such as contracts for output). An example of the type of investments we now consider is the wood pellet plant (fuel for European electric power separation plants) under construction in Selma, Alabama.

We believe our team's history of developing, building and operating power assets differentiates us from many of our competitors and allows us to compete effectively for earlier-stage projects. This strategy has proven successful, and we expect to continue pursuing similar project development opportunities in selected markets.

“Few investment funds can match our experience in Independent Power. As this business continues to evolve, that experience is one of our greatest assets.”

WAYNE B. NELSON III / PRESIDENT & CEO / INDEPENDENT POWER



Patrick E. Molony  
EVP & COO  
Harbert Power LLC

Wayne B. Nelson III  
President & CEO  
Harbert Power LLC

## 2007 IN REVIEW

*The Dixie Pellets wood pellet plant in Selma, Alabama, is under construction; commercial operation is scheduled for Spring 2008.*

*Fund I and Fund II continue to meet or exceed financial goals.*

*The Lockport project in New York (Fund I) completed its 15-year contract with New York State Electric and Gas and began operating under a new contract with Coral Power.*

*Fund III held its final close with \$350 million in investor commitments.*

*Mackenzie Green Energy (55 MW biomass plant in British Columbia) continues in development. The environmental assessment was approved in November 2007.*

# Harbert Power Investments

Portfolio as of December 31, 2007

## *Investments*

**Kalaeloa** (50% ownership)

209 MW oil-fired plant

Oahu, Hawaii

**Lockport** (24.3% ownership)

200 MW gas-fired plant

Lockport, New York

**Soda Lake** (50% ownership)

14 MW geothermal plant

Fallon, Nevada

**GWF Energy** (40% ownership)

• **Phase I**

94 MW gas-fired plant

Hanford, California

• **Phase II**

96 MW gas-fired plant

Henrietta, California

• **Phase III**

170 MW gas-fired plant

Tracy, California

**Fluvanna** (30% ownership)

885 MW gas-fired plant

Fluvanna County, Virginia

**Freeport** (90% ownership)

47 MW gas-fired plant

Long Island, New York

**Pinelawn** (90% ownership)

80 MW gas-fired plant

Long Island, New York

**Mackenzie Green Energy** (50% ownership)

55 MW wood-fired plant

British Columbia (in development)

**Dixie Pellets** (74% ownership)

520,000 tons per year wood pellet fuel plant

Selma, Alabama

## *Managed Assets*

### **Bridgewater** (40% ownership)

17 MW wood-fired plant

Bridgewater, New Hampshire

### **GWF Power Systems** (50% ownership)

#### • **Site I - Site II - Site V**

18.5 MW petroleum coke plants

Pittsburg, California

#### • **Site III - Site IV**

18.5 MW petroleum coke plants

Antioch, California

#### • **Hanford** (50% ownership)

23 MW petroleum coke plant

Hanford, California



*Kalaeloa*



# absolute return strategies



# distressed/ event

*Our disciplined approach and reliance upon bottoms-up credit analysis have enabled the portfolio to weather a variety of market environments...*

Since its inception, the Harbinger Capital Partners® investment team has consistently used a long/short approach in order to generate alpha within our investment portfolio. The team's main strategy is to purchase undervalued distressed, stressed



or troubled assets or other undervalued assets, and to short heavily levered issuers in which we anticipate near-term fundamental deterioration. The strategy includes a focus

on restructuring/bankruptcies, liquidations, event-driven situations, turnarounds and short sales. We invest in all levels of the capital structure, selecting levels offering the most attractive risk/reward characteristics. We monitor our leverage as well as our exposure to individual issuers and industry sectors.

Our disciplined approach and reliance upon bottoms-up credit analysis have enabled the portfolio to weather a variety of

market environments over the past six and a half years. In fact, our profitability in 2007 is largely attributable to our balance. Market conditions turned seemingly overnight in the first part of the year, as a crisis in subprime mortgage lending sent shock waves through the markets globally. The ensuing dislocation facilitated new opportunity to create alpha on both the long and short sides of the portfolio.

Entering 2008, we have approximately \$18 billion in committed capital and assets under management between Harbinger Capital Partners Fund I and Harbinger Capital Partners Special Situations Fund. We view our size, much of which has been generated organically, as a strategic advantage in today's marketplace; it facilitates our focus on alpha. We temporarily closed the Special Situations Fund on July 1, 2007, when we reached its initial fund-raising target of \$1.5 billion. We anticipate reopening the Fund during the first quarter of 2008, provided attractive investment ideas and opportunities continue to materialize.

"It's impossible to overstate the importance of the legal, compliance and accounting support provided by HMC's back office professionals. It frees us to devote virtually every minute of every working day to investing and pursuing returns."

PHILIP A. FALCONE / SENIOR MANAGING DIRECTOR / HARBINGER CAPITAL PARTNERS® FUNDS



## 2007 IN REVIEW

*We added seven professionals to our team: Adam R. Zirkin, formerly of Libertas Partners; Robert J. Lambert, formerly of Royal Bank of Canada; Achur A. Iskounen, formerly of Merrill Lynch; Ritwick D. Chatterjee, formerly of Piper Jaffray & Company; Ashleigh T. Ross, formerly of Citigroup; David E. Klema, a recent graduate of Boston University; and Tyler S. Kolarik, a recent graduate of Harvard University.*

*Our profits came from both the long and short sides of the portfolio in 2007, as greater volatility in the capital markets enabled the portfolio to profit from mispricings and increased risk aversion in the markets.*

Howard P. Kagan  
Managing Director & Director  
of Investments

Ian W. Estus  
COO

Philip A. Falcone  
Senior Managing Director

Kathleen K. Murphy  
Senior VP & Product Specialist

Lawrence M. Clark, Jr.  
Managing Director & Director  
of Investments

# emerging markets

*Our investment team uses a combined macro and bottom-up approach when selecting countries in which to invest.*

Our Emerging Markets strategy seeks to uncover attractive opportunities for absolute returns in the financial markets in Latin America, Eastern and Central Europe, Africa and Asia (excluding Japan) through a hedged (long/short) format. We



We use a mix of financial instruments for our investments, including equity and fixed-income securities, as well as derivatives and options of both government and corporate issuers.

Our investment team uses a combined macro and bottom-up approach when selecting countries in which to invest. We first analyze the global economy and then compare economic

fundamentals, while assessing economic and political factors within the countries under consideration. We conduct our own research in-house when selecting countries in which to invest. To select particular equity issues for our investments, we conduct a fundamental bottom-up company analysis aimed at identifying companies that should benefit from changes in country conditions. We seek to address risk by managing the portfolio's exposure to macro themes relating to the country, currency and company. We also hedge interest rate and country risk through currency, interest rate and default swap markets. We generally do not borrow funds for our long positions, and we emphasize investing in liquid instruments, which gives us greater hedging options and enables us to better manage our positions when global and country conditions change.

“Emerging markets are set to continue to converge with the developed world, and this provides opportunities for investment. Finding them takes discipline, resources and connections, which HMC brings to the table every day.”

PETER S. LANNIGAN / VP & SENIOR MANAGING DIRECTOR / EMERGING MARKETS



Peter S. Lannigan  
VP & Senior Managing Director

Heather N. Leonard  
VP & Managing Director

Thomas A. Chyla  
Director of Investments

## 207 IN REVIEW

*We added one investment professional to our team: Tom Chyla, whose five years of experience in value chain analysis within investment-grade markets greatly enhanced our stock-picking ability in Asia. In addition, we added one operations staff member: Andrew Whyte, who is currently attending New York University.*

*Our profits came from the long side of the portfolio, primarily in Turkey, China, Brazil, Russia and South Korea. Though the markets were quite unpredictable, our portfolio experienced dampened volatility as a result of the hedging portfolio.*

# capital structure/ convertible arbitrage

*We use fundamental research to identify and manage opportunities we feel have attractive risk/reward profiles.*

Our Capital Structure and Convertible Arbitrage team pursues absolute returns by investing in securities across the capital structure and in related derivative securities, either long or short. We seek to generate returns by capitalizing on volatility



in securities pricing and by collecting positive cash flow from interest-bearing securities. We focus on liquid instruments and generally invest in investment-grade,

high-yield and convertible debt, credit derivatives, equities and equity derivatives.

We use fundamental research to identify and manage opportunities we feel have attractive risk/reward profiles.

Our securities selection process is based on bottom-up credit and equity analysis, which includes extensive documentation review. We may hold securities long or short, or in combination with other securities, to best express the underlying investment thesis. We use quantitative analysis to help refine our assessment of securities pricing and to determine optimal trade entry and exit points. Top-down macro analysis guides positioning of the portfolio's aggregate risk exposures.

We seek to control downside risk through diversification and by actively managing our position size. We also use futures, swaps, index and over-the-counter products to hedge unwanted risks.

"We believe that the environment in 2008 will be favorable for our disciplined investment process, and that we are positioned so we can pursue attractive risk/reward opportunities."

ERIC D. WONG / VP & SENIOR MANAGING DIRECTOR / CAPITAL STRUCTURE AND CONVERTIBLE ARBITRAGE



Eric D. Wong  
*VP & Senior Managing Director*

Charles E. Perilman  
*Managing Director*

Edward T. Wu  
*Managing Director*

## 2007 IN REVIEW

*We added two senior investment professionals to the team: Charles E. Perilman joined as Managing Director. He was formally a portfolio manager for Angelo, Gordon & Company.*

*Edward T. Wu joined as Managing Director. He was formally a research associate with Reservoir Capital.*

# merger arbitrage/ event driven

*We...invest in companies undergoing other types of significant change that we believe will lead to materially different valuations.*

Our Merger Arbitrage and Event Driven team seeks to generate superior risk-adjusted returns by taking advantage of the discrepancy between an equity's current price and the value implied by an announced transaction. We do not invest in every proposed merger; we are more selective, believing that every transaction must stand on its own merits.



We also invest in companies undergoing other types of significant change that we believe will lead to materially different valuations. These event-driven situations can include restructurings, management changes, regulatory changes, corporate auctions, spin-offs and the involvement of corporate activists.

Our research process combines a rigorous analysis of the fundamental and strategic benefits of a transaction with an intensive review of the regulatory landscape. We further seek to enhance returns and manage risk by optimizing position size at critical points throughout the merger process and, when appropriate, through the creative use of derivatives.

The second half of 2007 ushered in two changes in the merger and acquisitions market that are net positives for our strategy. We have seen a repricing of risk across all asset classes, which has caused a material widening of merger spreads. In addition, an increase in the cost of financing leveraged deals has opened the door for domestic and non-domestic strategic buyers, who we feel will drive strong levels of M&A activity in the months to come. These changes are welcome and will improve the risk/reward of our strategy going forward.

“We have built a team of experienced, highly motivated individuals and systems to monitor and screen for opportunities. When combined with the full support of the HMC infrastructure, this enables us to capitalize on the investment opportunities in the merger and event space.”

NEIL B. KENNEDY / VP & SENIOR MANAGING DIRECTOR / MERGER ARBITRAGE AND EVENT DRIVEN



John H. Frank  
Director of Investments

Niraj Gupta  
Director of Investments

Neil B. Kennedy  
VP & Senior Managing Director

Michael P. Reinking  
Trader

## 207 IN REVIEW

*We rounded out our investment team by adding two professionals. Michael P. Reinking, CFA, joined the firm as Head Trader in May. He was formerly a trader with Ladenburg Thalman.*

*Niraj Gupta joined the team as Director of Investments. He was formerly an investment banker with Innovation Advisors LLC.*

*We successfully navigated through some of the most turbulent investment environments in recent history. We feel we have the people, process and structure in place that will allow us to continue to focus all of our efforts on the most compelling risk/reward profiles in our investment universe.*

# value

*We often find opportunities in special situations, such as spin-offs, holding company discounts and stub discounts...*

We launched the Value Strategy in April 2007 with five core principles: a disciplined emphasis on absolute value; fundamentally based analysis of investment opportunities; a tightly focused portfolio; selective in our use of short-selling and



we maintain a long-term analytical view.

We use fundamental analysis to uncover opportunities where we believe the price of an investment appears materially different

from its worth. We measure value by comparing the price of a security against a series of fundamental analyses, including financial statements, industry, free cash flow or asset value. We place particular emphasis on free cash flow potential over the long term.

Opportunities often exist in special situations, such as spin-offs, holding company discounts and stub discounts, where we attempt to capitalize on valuation dislocations that result from corporate actions or structural complexity. Our portfolio is relatively concentrated, because our strategy demands that each opportunity stand on its own merits; we invest in an individual opportunity, not in a particular trend or sector.

Our strategy has a bias to the long side but employs selective short-selling. Our short-selling is not simply a portfolio hedge but, instead, is concentrated in positions that are expected to contribute positively to performance on a stand-alone basis. We are generalists, as it relates to sectors, market cap and geography, though most of our investments to date are in the U.S. We will, however, look at any opportunity with the potential for exceptional value.

“We completed a smooth and successful launch of the Harbert Value Fund this year and have a solid team and platform for executing our long-term strategy.”

TODD D. NUNNELLEY / VP & SENIOR MANAGING DIRECTOR / VALUE



## 2007 IN REVIEW

*We launched the Value Strategy in April 2007.*

*Todd D. Nunnolley was named Senior Managing Director.*

*A. Daniel Thomasson joined in April as Director of Investments. He was formerly a research analyst with AmSouth Asset Management.*

*Zachary P. Turnage joined in October as Director of Investments. Before joining Harbert, he was co-portfolio manager with the Retirement Systems of Alabama Small Cap Active Portfolio.*

A. Daniel Thomasson  
*Director of Investments*

Todd D. Nunnolley  
*VP & Senior Managing Director*

Zachary P. Turnage  
*Director of Investments*



support



## investor services and risk management

We support the various investment teams with investor reporting, accounting and tax services, risk management and internal audit services. This team of more than 40 qualified professionals includes approximately 20 CPAs. We follow established accounting and legal standards and operate independently of the investment teams. In addition, a staff of nine professionals supports the firm-wide IT infrastructure and business continuity plans.

**Private Capital and Real Estate Funds.** The accounting, tax and investor reporting groups handle reporting functions and communications for each investor's capital account in the private market funds, as well as capital calls and distributions. The group also provides quarterly and annual investment reports and tax information to our private market fund investors and independently calculates fund-level performance for all of the private market funds. Performance returns in the annual reports are reviewed by HMC's auditors annually.

**Absolute Return Strategies.** Hedge fund administration provides administrative and operational support functions for our absolute returns strategies. Their responsibilities include monitoring trade capture and settlement; preparing daily performance and risk reports for management; acting as liaison to prime brokers, custodians and the funds' administrators; and coordinating investor servicing functions with our administrator.

**Internal Audit.** This team monitors and assists due diligence efforts conducted by our private capital funds. In addition, they ensure compliance with policies and procedures adopted by HMC in various areas. Their responsibilities include audit review of performance returns and various compliance audits.

**Risk Management.** The independent risk management team monitors daily trading for our absolute return strategies through the use of guidelines specific to each fund for concentration, leverage and other portfolio parameters.

**Investment Committees.** A separate investment committee monitors each of HMC's private capital and real estate investment strategies. The committees include at least one member of the firm's Board of Directors who is not engaged in the day-to-day execution of each strategy. These investment committees must unanimously approve any commitment of capital.

**Regulatory Oversight.** Our affiliates — Harbert Fund Advisors Inc., HMC Investments Inc. and Harbert European Fund Advisors Ltd. — serve as investment advisors and domestic placement agents. Harbert Fund Advisors is registered as an investment advisor with the SEC. HMC Investments is a member of FINRA/SIPC. Harbert European Fund Advisors is authorized by the Financial Services Authority of the United Kingdom and provides advisory services by agreement with Harbert Fund Advisors.

“HMC believes in a strong, independent back office to support its fund strategies and protect its investments and its investors. We are guided by the principles of integrity, accuracy and timeliness — our people care about getting it right.”

DAVID A. BOUTWELL / EVP & CAO



Susan M. Shalhoop  
*Director of Hedge Fund Administration*

Darlene A. Hartmann  
*Director of Investor Reporting*

Christopher N. Jones  
*Director of Information Technology*

David A. Boutwell  
*EVP & CAO*

Thomas M. Hicks  
*Director of Risk Management*

Elizabeth A. Deuel  
*Director of Internal Audit*

Sonja J. Keeton  
*Controller & Director of Corporate Tax*

# legal and compliance

*Our team provides legal, compliance and risk management support to HMC, its affiliates and each of our individual funds.*

We have 16 professionals and support staff members in the legal and compliance department, including eight attorneys. Our team provides legal, compliance and risk management support to HMC, its affiliates and each of our individual funds. Our legal staff also manages our funds' relationships with their outside legal counsel and provides legal support, when needed, to our funds' portfolio companies.

Our compliance staff includes our chief compliance officer, two assistant directors of compliance and two support people. The compliance staff is responsible for implementing policies and procedures designed to ensure that HMC employees and its funds comply fully with all applicable laws and regulations, as well as our own Code of Ethics.

“Our goal is to serve HMC and its subsidiaries and affiliates by helping investment and management teams accomplish their objectives in full compliance with applicable legal requirements and HMC’s fiduciary duty to its investors.”

WILLIAM R. LUCAS, JR. / EVP & GENERAL COUNSEL



William R. Lucas, Jr.  
*EVP & General Counsel*

Michael C. Bauder  
*VP & Chief Compliance Officer*

# investor relations

*Each of our Investor Relations professionals is a registered representative with FINRA (formerly NASD)...*

Our Investor Relations group is structured to serve as the interface between our investors and the entire HMC organization. All of our Investor Relations professionals are knowledgeable about the full array of the firm's offerings and work with existing and prospective investors to understand their investment needs. Each of our Investor Relations professionals is a registered representative with FINRA (formerly NASD) and, where appropriate, the FSA. The group is headquartered in Birmingham but has fully staffed offices in New York and London to serve those vibrant markets.

Within Investor Relations, our Communications group produces and manages all of our marketing and investor relations material, including the HMC Web site ([www.harbert.net](http://www.harbert.net)) and this annual report. In addition, our Communications department maintains our intranet, produces a quarterly internal newsletter, manages certain investor communications and coordinates special communication needs for all of our offices.

“This proved to be a rewarding year for the Investor Relations group, as our investor base grew proportionately with our growth in assets. I am particularly pleased with the number and quality of the new institutional partners that chose to invest with us this year. These investors come from the four corners of the globe.”

CHARLES D. MILLER / EVP & CFO



Charles D. Miller  
*EVP & CFO*

Carlton M. Forrester  
*Managing Director*

Lynette P. Horton  
*Managing Director*

Rest B. Heppenstall  
*Managing Director*

Neal J. Howe  
*Managing Director*

Michael J. Larsen  
*Managing Director*

# harbert realty services inc.

Harbert Realty Services, a subsidiary of HMC, is a full-service, commercial real estate company. We are actively involved in development, leasing, market analysis, property management and finance.

We also provide support to broader HMC activities, including due diligence services, local market expertise and consulting support for strategic real estate needs and financial consolidation. We provide real estate management and leasing services for selected HMC properties and for the properties of other major corporate clients.

Our Corporate Services Group (CSG) is a commercial real estate service provider with transactional and advisory capabilities. Our various offices provide assistance nationwide to maximize the total portfolios of CSG's partners, rather than focusing on the singular-transactions approach of traditional brokerages.

**Commercial Services Group.** We represented the landlord of Regions/Harbert Plaza in new leases, renewal leases and expansions totaling over 385,000 rentable square feet. Regions/Harbert Plaza is currently 95% leased.

Our team represented the landlord in leasing two Montgomery, Alabama, office buildings to attain occupancy of 92% and 97%, respectively.

**Development Services.** We completed development of the Altamonte City Center, an office and retail project in Altamonte Springs, Florida. Occupancy is currently at 100%.

We acquired the former Regions Bank headquarters building in Birmingham, Alabama. In a joint venture with Concord Hospitality Group, we will convert this 190,000-square-foot, 17-story office building into a 255-room Marriott Renaissance hotel.

We began construction of the Solary I and II, a 10-acre retail development in Oviedo, Florida. This expanded opportunity is one of the last developable commercial parcels in the growing North Orlando market.

**Client Information Services.** Our Client Information Services group expanded operations to serve Vanity Fair Corporation's (NYSE: VF) portfolio administration needs in Europe and South America.

"Yet another banner year of providing real estate services for our corporate clients by executing 143 transactions in 23 states."

HARRY M. LYNCH / PRESIDENT & CEO / HARBERT REALTY SERVICES



David R. Williams  
*EVP & COO*

Mary C. Echols  
*EVP of Financial Services*

Harry M. Lynch  
*President & CEO*

Kenneth B. Findley  
*EVP of Marketing*

# Harbert Employees Reaching Out (HERO) Foundation

*Their story would break the hardest heart. Four boys, their parents divorced. Their mother, with full custody, couldn't escape the demons of drug addiction. Their father, frustrated by an unsympathetic court, shut out of their lives. The boys bounced around — separated for a while; together temporarily. Until the mother was arrested and the father, finally, was granted full custody. They continue to struggle, of course. But the battles now are fought by a family. The father, a steelworker, works the early shift so he can be home when the boys return from school. He works hard to do right by each of the boys. It's for families like this that we formed the HERO Foundation — to make a difference in peoples lives.*

Success in this life is measured in many ways. Business success and financial success, of course, are goals we all pursue. But doing well must never replace doing right. As we thrive, we have a responsibility to give to those people in the community in need. It's a responsibility we take seriously, and one our employees embrace with enthusiasm.

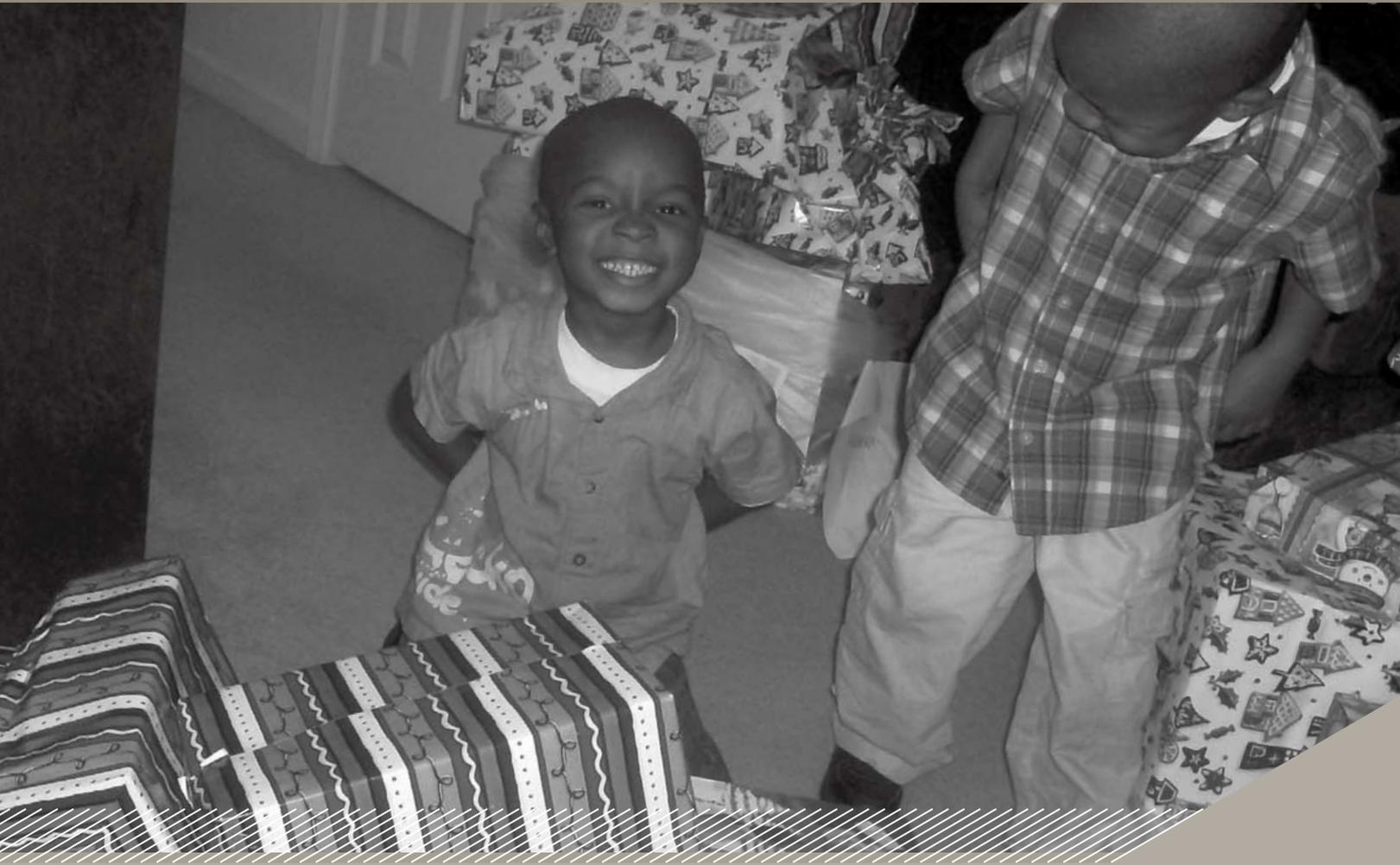
Several years ago, we created the HERO Foundation, to give our employees a vehicle for helping people in the communities where we live. Through the HERO Foundation, we provide direct financial assistance to people affected by natural disasters, medical conditions or temporary financial hardships. We help people regain their independence and self-sufficiency. Since 1998, our employees have helped many, many people when no other safety net was available.

The committees that manage the foundation are made up of employees from across the company. The foundation's resources come from HMC's employees and its affiliates and from money we collect during annual fund-raisers. We learn of people in need from employee referrals and from several partners in the community, including Children's Hospital, Alabama Children's Rehabilitation Services and the Alabama Head Injury Foundation, to name a few.

We have much to celebrate every year, but few successes create as much pride within our firm as the successes of the HERO Foundation.

“Our ten-year existence and over \$1 million in grants awarded are testament to the commitment and energy of our employees. HERO Foundation’s challenge for the upcoming year is to broaden employee participation and grow our resources to reach as many families as possible with financial assistance.”

MARGARET E. RUSSO / MANAGER / HEDGE FUND INVESTOR REPORTING



*Through the HERO Foundation, our employees help people in the community to manage the hardships of natural disasters and serious medical conditions — and simply to have a happy holiday season.*

# management

## EXECUTIVE OFFICERS

Raymond J. Harbert\*\*  
*Chairman & Chief Executive Officer*

Michael D. Luce\*\*  
*President & Chief Operating Officer*

David A. Boutwell\*\*  
*Executive Vice President & Chief  
Administrative Officer*

William W. Brooke\*  
*Executive Vice President & Managing Partner  
Venture Capital*

William R. Lucas, Jr.\*  
*Executive Vice President, General Counsel  
& Secretary*

Charles D. Miller\*  
*Executive Vice President & Chief  
Financial Officer*

Joel B. Piassick  
*Executive Vice President &  
Assistant Secretary*

## INVESTMENT PROFESSIONALS

### ABSOLUTE RETURN STRATEGIES

*Distressed/Event*  
Philip A. Falcone\*  
*Vice President & Senior Managing Director*

Lawrence M. Clark, Jr.  
*Managing Director & Director of Investments*

Howard P. Kagan  
*Managing Director & Director of Investments*

*Emerging Markets*  
Peter S. Lannigan  
*Vice President & Senior Managing Director*

Heather N. Leonard  
*Vice President & Managing Director*

*Capital Structure/Convertible Arbitrage*  
Eric D. Wong  
*Vice President & Senior Managing Director*

*Merger Arbitrage/Event Driven*  
Neil B. Kennedy  
*Vice President & Senior Managing Director*

*Value*  
Todd D. Nunnelley  
*Vice President & Senior Managing Director*

### REAL ESTATE

*United States Real Estate*  
Michael P. White  
*Vice President & Senior Managing Director*

Alan C. Fuller  
*Vice President & Senior Managing Director*

*European Real Estate*  
Scott D. O'Donnell  
*Vice President & Senior Managing Director*

Peter J. A. Land  
*Principal & Director of Investments*

### PRIVATE CAPITAL

*Private Equity*  
Donald R. Beard  
*Vice President & Senior Managing Director*

Michael A. Rowland  
*Vice President & Senior Managing Director*

*Venture Capital*  
William W. Brooke\*  
*Executive Vice President & Managing Partner*

Wayne L. Hunter  
*Managing Partner*

*Mezzanine Capital*  
John C. Harrison\*  
*Vice President & Senior Managing Director*

*Independent Power*  
Wayne B. Nelson III  
*President & Chief Executive Officer  
Harbert Power LLC*

Patrick E. Molony  
*Executive Vice President & Chief Operating Officer  
Harbert Power LLC*

### HARBERT REALTY SERVICES INC.

Harry M. Lynch  
*President & Chief Executive Officer  
Harbert Realty Services Inc.*

\* Board of Directors Member

\*\* Board of Directors and Executive Committee Member

# locations

Harbert Management Corporation  
*www.harbert.net*

Harbert Investor Relations  
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## **BIRMINGHAM**

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