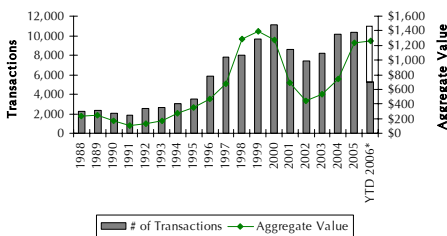


## Q2 2006 Transaction Overview

Q2 2006 was the third busiest quarter for M&A transactions ever, trailing only Q4 1999 and Q1 2000. M&A spending worldwide reached over \$1.3 trillion in the first half of 2006, a 46% increase over the comparable period in 2005. In the US, deal value rose to \$355.8 billion in the second quarter of 2006 compared to \$258.2 billion in the second quarter of 2005. Meanwhile, US transactions announced increased from 2,476 to 2,637 over the same period. For the first half of 2006, total US deal value was \$628.9 billion compared to \$507.6 billion for the same period last year. This substantial increase in deal value was fueled by a surge in “mega-deals”, with 233 deals each valued at over \$1 billion completed worldwide in the first half of 2006. Over the last 12 months, the aggregate number of deals across all value ranges has increased, with 10,631 deals completed as of 6/30/06 compared to 10,482 deals in the 12 months ending 6/30/05. Aggregate deal value over these periods was \$1,112 billion and \$854 billion, respectively.

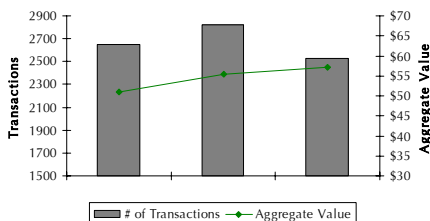
Behind the strength of the second quarter, 2006 is on pace to be the strongest M&A market since 2000, a banner year. Q2 US deal volume increased 7% and deal value increased 38% over the same period last year. For the first half of 2006, aggregate deal value is up 24% from this time last year. The average transaction value of a U.S. deal has increased from \$286.4 million to \$324.6 million.

### US Domestic and Cross-Border Transactions



Source: Mergerstat (July 2006)  
Dollar amounts in billions  
YTD 2006 aggregate value figures are annualized; # of transactions shows both YTD and annualized figures

### US Middle Market Aggregate Deal Growth



Source: Mergerstat (July 2006)  
Dollar amounts in billions

The number of US middle market<sup>(1)</sup> deals in Q2 2006 decreased from Q2 2005, but the total deal value increased. 2,526 transactions worth \$57.2 billion in value were announced in the quarter, in comparison to 2,825 deals worth \$55.4 billion in Q2

2005. Average deal value increased from \$19.6 million to \$22.6 million, a 15% increase. 33% of private equity professionals polled in the ACG/Thomson Mid-Year 2006 Dealmakers Survey said middle market buyouts are the deal type that holds the most promise; this was the largest group identified.

**LTM EBITDA multiples across all value ranges compressed from the previous year's levels.** Despite the year over year decrease, multiples continue to be higher than historical levels. The decrease in multiples may be attributable to mean reversion or the increased presence of financial buyers who have historically paid less than strategic buyers. GMB Business Advisors believes the multiple for the <\$25mm market is 4-6x EBITDA. GMB generally closes transactions for its clients at multiples ranging from 6x to 10x EBITDA.

### LTM EBITDA as of June 27, 2006<sup>(2)</sup>

	\$25-\$100	\$100-\$250	\$250-\$1000
2006	8.3x	7.5x	7.7x
2005	8.6x	8.5x	9.9x

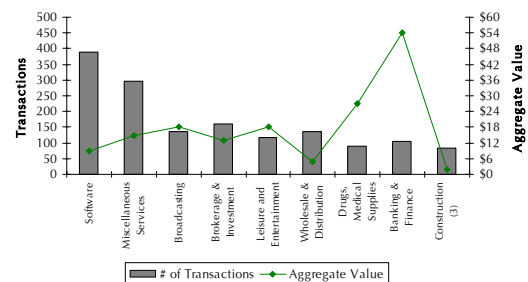
### LTM EBIT as of June 27, 2006<sup>(2)</sup>

	\$25-\$100	\$100-\$250	\$250-\$1000
2006	12.0x	13.4x	12.3x
2005	11.7x	13.5x	15.8x

LTM: Last twelve months  
Source: Thompson Financial Securities Data Corp.  
Dollar amounts in millions

As was the case in Q1 2006, both the Software and Miscellaneous Services industries saw the most deals announced in Q2 2006 at 389 and 295, respectively. The industry with the greatest deal value was Banking & Finance with \$54 billion as the trend of bank consolidation continues. Broadcasting and Drugs & Medical Supplies experienced the greatest increase in aggregate transaction value with increases of 350% and 170%, respectively.

### M&A Activity by Industry – Q2 2006



Source: Mergerstat (July 2006)  
Dollar amounts in billions

## Q2 2006 Capital Markets Overview

The first half of 2006 was characterized by big appetites as evidenced by the prevalence of “mega-mergers” between strategic buyers. In less than four days at the end of June, \$110 billion in global M&A deals made it to the definitive agreement stage across a span of industries. Deals included: the merger of

1. Middle market defined as deals from \$1mm to \$500mm. Mergerstat (July 2006).  
2. Based on multiples between 0x and 25x; excluding media and telecom.  
3. Construction includes: Building Products and Construction Contractors & Engineering Services.

Arcelor and Mittal Steel, which will create by far the largest player in the global steel market; the merger of Inco Ltd. into Phelps Dodge with plans for the combined entity to acquire Falconbridge Ltd.; and Johnson & Johnson's acquisition of the consumer brands division of Pfizer. Also, bank consolidation continues, with the two largest bank deals being Wachovia's \$25 billion acquisition of Golden West Financial Corp. and Regions Financial's \$9 billion acquisition of Amsouth Bancorp. According to the *Wall Street Journal*, acquirers are offering takeover premiums of about 20%, the lowest level of the past ten years, as they are looking to compete globally, but are disciplined in how much they will pay.

**Financial buyers have also shown their ability to compete for the big deals, in many cases teaming up in "club deals" to outbid a potential strategic buyer.** In fact, deal volume in the first half of this year represented the strongest first half in private equity's history. As of June 30, 2006, private equity firms had completed \$110 billion in deals compared to \$82 billion in the same period last year, a 34% increase. In US deals completed in the first half of 2006, financial buyers accounted for 27% of total M&A volume, compared to 17% for the second half of 2005.

Private equity activity last quarter was led by the \$22 billion Kinder Morgan management led buyout in which Goldman Sachs, the Carlyle Group, Riverstone Holdings and AIG will provide \$9.5 billion in equity, along with management's \$4 billion, to take the pipeline company private. Other Q2 private equity mega-deals include both the \$13.6 billion buyout of Univision Communications led by Texas Pacific Group and Thomas H. Lee Partners and the \$6 billion taking private transaction of Michaels Stores by Bain Capital and The Blackstone Group.

**Another contributing factor to private equity firms' ability to complete such big deals is the record amount of capital firms have been able to raise recently.** While completing such impressive deals, private equity firms have been busy raising new funds for the future. The industry raised \$78 billion in the first half of 2006, while mezzanine funds raised \$4.4 billion. Seven "mega-funds" (>\$3 billion) alone have raised \$44 billion, more than half of the fundraising dollars captured by 74 buyout funds so far this year. Two weeks ago, The Blackstone Group completed fundraising on its latest \$15.6 billion fund. Texas Pacific Group and KKR are also targeting funds of the same size. The continued fundraising ensures that the capital overhang which has been one of the main factors pushing M&A activity will continue.

**Despite the continued rise in interest rates, debt markets remain accommodative, with dealmakers able to source various classes of debt.** Across categories, the debt markets remain competitive,

prompting lenders to pursue aggressive deals. Also, many companies are still sporting healthy, cash-rich balance sheets which they have built up over the past few years, increasing their ability to handle additional debt. As of June 27, 2006, the average Total Debt / EBITDA multiple for middle market LBO's<sup>4</sup> was 4.5x, compared to 4.4x one year ago. During Q1 2006, leveraged lending activity, or speculative grade corporate loans, was at its highest level since S&P began tracking the data in 1997, at \$109 billion. This record level of leveraged bank loans occurred despite the average rate on leveraged loans having increased approximately 250 basis points over the past year.

The mezzanine debt market is making a comeback after having taken a back seat to second lien debt over the past couple of years. This comeback is occurring because: 1) increasing interest rates have narrowed the gap between rates on second lien and mezz debt and 2) private equity firms have decided that the lower price on second lien debt (currently about 100 basis points cheaper than mezz), is not worth having a lien on assets.

**The M&A market remains very healthy despite recent concerns over the macroeconomic environment.** Overall, the uncertainty present in the public equity markets, with concerns including the Fed's interest rate policy, rising oil prices, a perceived cooling of the US economy and war in the Middle East, has not carried over to the global M&A market, which remains very healthy and on pace for a record year. While experts acknowledge that current M&A market conditions will not last forever, these parties are not predicting a slowdown in the near future.

## Q2 2006 M&A Outlook

**We expect M&A activity to remain strong in the near future for the following reasons:**

- Strategic buyers are still flush with cash and under pressure to grow via acquisitions.
- Private equity groups have raised ample capital to invest and are continuing to do so.
- Greater efficiency and availability of debt will continue to fuel strategic and leveraged transactions.
- Demand for the companies we sell remains strong.

*"With an extremely active M&A market and a lot of capital waiting to be deployed, it is a great time to be a seller. Although the mega-deals are grabbing headlines, we have also seen a significant increase in capital earmarked for the middle market."*

**Greg Anderson, Vice President  
GMB Healthcare Industry Practice**

4. Less than \$50 million of EBITDA. The Wall Street Journal.

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