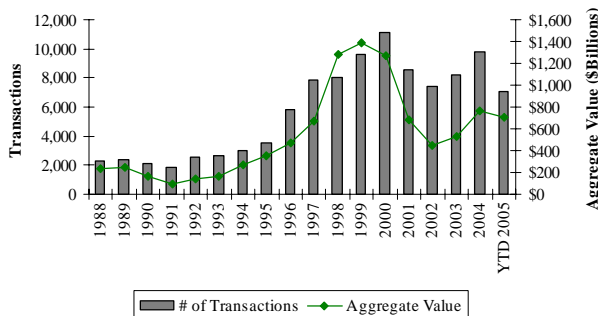


## Q3 2005 Transaction Overview

**Domestic M&A deal flow was 47% higher in Q3 2005 than Q3 2004.** 2,496 M&A deals were logged in Q3 2005, totaling \$211.9 billion. While deal volume was up dramatically in Q3 2005 compared to 2004, it was down slightly from Q2 2005. Overall, YTD 2005 is matching 2004's healthy volume and dollar values for closed transactions.

**"Megadeals" are a driving factor for dramatic increase in the total value of M&A deals completed to date in 2005.** Buyers closed 25% more deals in excess of \$1 billion for the 12 months ending 9/30/2005 compared to 9/30/2004. The increase in "megadeals" is due in large part to favorable debt markets, increased private equity fund sizes and the recent willingness of private equity groups to partner up in "club deals." The same factors that are facilitating "megadeals" are also fueling activity in the middle market.

### All M&A Transactions



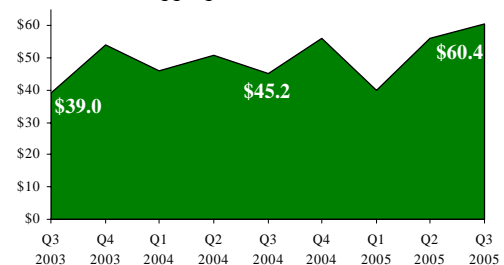
Source: Mergerstat (October 2005)

**Middle market deals in Colorado completed in Q3 2005 showed improvement over Q3 2004.** 87 middle market M&A deals involving Colorado-headquartered companies closed in Q3 2005, compared to 75 in Q3 2004. Despite the pickup in Q3 2005, the overall number of Colorado transactions is down slightly year to date compared to the first three quarters of 2004. Total deal value increased significantly in Q3 2005 over Q3 2004, due largely to Kinder Morgan Inc.'s acquisition of Terasen, Inc. (\$5.9 billion) and Liberty Global Inc.'s purchase of Cablecom Holdings (\$2.2 billion).

**After a period of limited activity, strategic buyers have been very active in 2005.** Overall strength in the equity markets has provided companies with more capital to fund acquisitions. Yet, learning from the recent difficulties of scattershot conglomerates like Vivendi and Tyco, current strategic buyers are very focused on making smart purchases that fit seamlessly into their current operations. Also of note, many Western European strategics are using the weak U.S. dollar to their advantage and competitively bidding on stateside companies.

**Aggregate deal value in the middle market posted a 34% gain in Q3 2005 over Q3 2004.** While Q3 in 2005 and 2004 saw essentially the same number of middle market deals (those with enterprise values between \$25 and \$250 million) close, the total value of those deals in 2005 was dramatically greater. Comparing the twelve months preceding 9/30/2005, there were modest gains in total volume and value compared to the same period ending 9/30/2004.

### U.S. Middle Market Aggregate Deal Value



Source: Mergerstat (October 2005)  
Dollar amounts in billions

**Middle market EBITDA multiples remain at strong levels.** Average enterprise value to EBITDA multiples for middle market transactions remained strong in Q3 2005. After significant increases in 2001 through 2003, EBITDA multiples for middle market deals have maintained high levels. Although reported at 10.1x EBITDA, GMB has experienced average \$25-100mm transaction multiples closer to 6 to 7x EBITDA.

### Average EBITDA Multiples by Size of Transaction LTM as of October 10, 2005

| EBITDA | ≤\$25 | \$25-100 | \$100-250 | \$250-1,000 |
|--------|-------|----------|-----------|-------------|
|        | 5.8x  | 10.1x    | 7.1x      | 9.9x        |

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

**Tech sector deals have posted strong gains over the past twelve months.** There have been 41 more transactions involving computer software, supplies and services companies over the last twelve months than the twelve months ending 9/30/2004. Medical equipment/supplies and communications companies have also seen strong increases in dealflow.

## Q3 2005 Capital Markets Overview

**Competition among asset-based and cash flow lenders has driven debt multiples higher in leveraged buyouts.** Due to many manufacturing companies moving overseas, there are now fewer asset-rich domestic borrowers, forcing asset-based lenders to pursue deals more aggressively. As a result, asset-based lenders are competing more closely with cash flow lenders, a boon for buyers, who are now obtaining average debt-to-EBITDA multiples of 5.0x, up from 3.7x in 2001.

### Borrower credit quality is stronger than it has been in years.

According to the American Bankruptcy Institute, business bankruptcies last year dropped to the lowest level since 1980. This is due in large part to companies that had spent the early 2000s being mindful of expenses now enjoying increased revenues and strong cash flows. While lenders are happy to see cleaner loans, there are also now fewer companies in need of loans, as many are generating enough money internally to not need outside financing. Lack of demand has created an imbalance that is forcing lenders to compete more aggressively for business.

**Private equity groups' search for investments is as focused as ever, enabling strong companies to achieve high valuation multiples.** With more groups competing for fewer deals, and debt readily accessible to all, private equity groups acknowledge that delivering strong returns to investors is no longer just a matter of creative financing. Instead, private equity groups are actively looking for companies on the cusp of improved performance, bidding up for companies where they know they will be able to deliver value through industry expertise, access to capital or the like.

**Private equity fundraising continues to be strong, maintaining a healthy "capital overhang."** 2005 fundraising is on pace to surpass the total amount raised in 2001 through 2004. While groups raising funds in excess of \$1 billion account for 63% of all raised capital this year, companies in the middle market should note that these groups account for only 11% of the total fundraisers. Given that the number of deals completed by private equity groups is up approximately 30% from 2004, the capital overhang is expected to close the year at approximately \$100 billion, compared to \$125 billion in 2004.

#### Leveraged Buyout Market (\$ in billions)

|                     | 2001   | 2002   | 2003   | 2004    | YTD 2005 |
|---------------------|--------|--------|--------|---------|----------|
| LBO Funds Raised    | \$36.9 | \$29.0 | \$24.0 | \$42.2  | \$103.9  |
| LBO Deals Completed | \$23.1 | \$44.0 | \$94.6 | \$136.5 | \$131.8  |

Source: Buyouts October 3, 2005

**With enormous amounts of capital to deploy, private equity groups and hedge funds are increasingly turning to PIPEs as a means to create return for investors.** After a period of slow growth, PIPEs - private investments in public equity - have exploded in 2005. So far in 2005, \$30.5 billion has been invested in PIPEs, compared to \$19.5 in 2004 total. This growth

is driven by investors' appetite for "control" investments, situations where private equity and hedge funds groups can actively work with management teams to aggressively drive change in companies.

### The dramatic growth of the hedge fund industry is beginning to impact M&A activity, particularly in the middle market.

According to *Investors Daily Digest*, there are approximately 9,000 hedge funds with nearly \$1 trillion in assets currently in the market. As more hedge funds have emerged, the opportunities for pricing inefficiencies - typical areas of strength for hedge funds - have lessened. As such, hedge funds are looking for other means to deploy capital and have become more aggressive in making buy-and-hold investments, including acquisitions of middle market companies.

**Second lien loans are gaining in popularity as a means to increase senior leverage.** In 2003, there was about \$3 billion in the second lien market, compared to last year's total of approximately \$12 billion. 2005 is expected to see further increases in the arena, up to a projected \$20 billion. Growth in this market is yet another example of how flexibility in the lending industry provides more access to capital for groups looking to make an acquisition using leverage.

## 2005 M&A Outlook

**We believe the strong M&A activity witnessed in 2005 will continue into the near future for the following reasons:**

- Access to capital is projected to remain strong for both strategic and financial buyers, making auctions run by investment banks even more competitive, delivering strong valuation multiples for sellers
- While the total impact of hedge funds on middle-market M&A activity has yet to be seen, auction processes in the short term will be more competitive with their presence

"The purchase price multiples for the sale of middle market companies are as high as I have seen them in my investment banking career. Financial buyers are extremely active, strategic buyers have returned to the market and debt financing is readily available."

*Warren R. Henson, Jr., Co-President, GMB*

CO-PRESIDENTS  
Warren R. Henson, Jr.  
Scott H. Maierhofer

MANAGING DIRECTORS  
Thomas J. Fencil (AZ)  
Alan L. Mayer  
Aaron B. Bachik

VICE PRESIDENTS  
Monica L. Liley  
Barry T. Capoot

SENIOR ASSOCIATE  
Gregory V. Anderson

SENIOR ANALYSTS  
Mark B. Langer  
Jeremy E. Barron  
H. Anthony Holmes

ANALYSTS  
W. Andrew Phipps  
Peter A. Eklund  
Jose Garcia

CO-FOUNDERS  
John R. Green  
James T. Bunch

**GREEN MANNING & BUNCH**  
INVESTMENT BANKING SERVICES