

GREEN MANNING & BUNCH

INVESTMENT BANKING SERVICES

MERGERS & ACQUISITIONS | PRIVATE FINANCINGS | FINANCIAL ADVISORY SERVICES

A QUARTERLY REVIEW

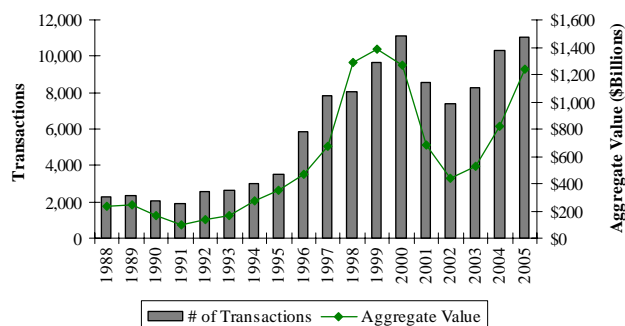
MERGERS & ACQUISITIONS OUTLOOK

Q4 2005

Q4 2005 Transaction Overview

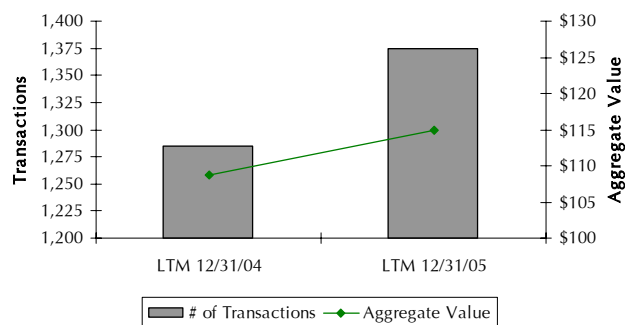
Q4 2005 rounded out a record-breaking year for domestic deal flow. 2,342 M&A deals were completed in Q4 2005, for an aggregate value of \$281.9 billion. While deal volume was down slightly from the 2,398 deals completed in Q4 2004, deal value increased significantly over Q4 2004's \$209.8 billion. In both cases, December was nearly double the deal value of each of the previous 2 months. Full year 2005 surpassed 2004's healthy volume and dollar values with 11,013 deals completed for a value of \$1,234.7 billion in 2005 compared to 10,296 deals valued at \$823.2 billion in 2004.

All M&A Transactions



Source: Mergerstat (January 2006)

U.S. Middle Market Aggregate Deal Growth



Source: Mergerstat (January 2006)
Dollar amounts in billions

Q4 2005 continued the trend in the middle market of higher deal value from lower deal volume. While Q4 2005 had 1,375 middle market (defined as \$25-\$250M) deals compared to 1,683 in Q4 2004, deal value was significantly higher. \$114.9 billion in deals were completed in Q4 2005 compared to \$108.7 billion in Q4 2004.

EBITDA multiples maintained their steady upward pace in 2005. After significant increases in 2001 through 2003, EBITDA multiples for middle market deals have maintained high levels. Although reported at an average of 9.5x EBITDA, GMB has experienced \$25-100mm transaction multiples between 6x to 10x EBITDA. Various factors can affect transaction multiples including size, industry, geography, and growth prospects of a company.

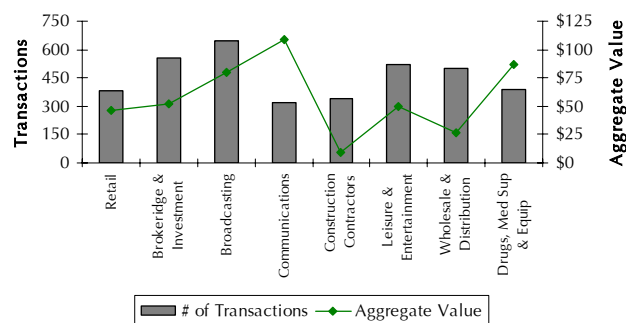
Average EBITDA Multiples by Size of Transaction LTM as of December 21, 2005

	<\$25	\$25-100	\$100-250	\$250-1,000	>\$1,000
EBIT	8.9x	10.0x	12.7x	16.2x	15.1x
EBITDA	5.8x	9.5x	7.8x	9.9x	10.1x

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

Communications and Medical Equipment industries brought 2005's highest multiples. While Brokerage and Finance and Broadcasting closed the largest number of transactions, those with the highest valuations remained in the Medical and Communications fields.

M&A Activity by Industry - 2005



Source: Mergerstat (January 2006)
Dollar amounts in billions

Q4 2005 Capital Markets Overview

The M&A market continues to be fueled by multiple factors. Over the past four years, debt-to-EBITDA multiples have risen steadily, while default rates continue to decline. These joint forces have compelled lending institutions to relax credit standards which has allowed more deals to be completed. Add an increase in demand from strategic and financial sources alike, and there is a recipe for M&A activity to continue to be strong.

Private equity spending in 2005 exceeded previous high water marks that seemed impossible 12 months ago. According to *Buyouts*, US-based private equity groups closed 845 transactions valued at \$197.8 billion. That is a 44% increase in value over

2004's \$136.5 billion from 752 transactions. Many of these transactions were the result of sponsor-to-sponsor deals, where one private equity group sells a portfolio company to another. There were 113 of these transactions in 2005, representing 13% of all private equity deals.

2005 also saw more private equity firms teaming up to complete 'club deals.' Groups of two or more private equity firms teamed up 125 times to complete a deal, and in the process shared the costs and responsibilities to enable a transaction to make it to completion. This team approach allows firms to work in markets that would otherwise be too large for one group alone. However, this practice also invites criticism from those who feel that the close nature of these relationships runs against the goal of those investors who invest in multiple funds in order to diversify their holdings.

Private equity fundraising in 2005 reached new heights far surpassing 2004's strong performance. Private equity groups raised \$109.1 billion in 2005. This total dwarfs the 2004 fundraising total of \$42.2 billion. This is largely due to the redefinition of the 'mega' fund. Once reserved for funds approaching the \$5 billion mark, mega funds now routinely surpass \$10 billion. However, as talk of a 'capital overhang' continues, it is prudent to note that \$139.7 billion was put to work in the form of completed deals.

Leveraged Buyout Market / Private Equity (\$ in billions)

	2001	2002	2003	2004	2005
LBO Funds Raised	\$36.9	\$29.0	\$24.0	\$42.2	\$173.5
LBO Deals Completed	\$23.1	\$44.0	\$94.6	\$136.5	\$197.8

Source: Buyouts, January 9, 2006

A weak IPO market sets the stage for increased M&A activity. The typical exit for a private equity firm from an investment includes selling their interest to another investor in a private sale or taking the company public through an IPO. Q4 2005 saw only 59 IPOs that raised about half the dollar volume of the 86 IPOs in Q4 2004. As long as the IPO market remains soft, firms will be more inclined to exit transactions through the M&A market.

Competition among buyers has forced them to offer legal and transaction terms that favor sellers in order to make their offers more attractive. According to Bank of America Business Capital, buyout shops have been waiving certain rights in an effort to distinguish their bids from those of their competitors. General indemnity, material adverse change, and financing contingency clauses have been the most frequent protections given up by buyers. It is not clear how far this trend will go, but as long as

there is substantial competition among the buyers, there will be a desire to find new ways to make their bids more attractive.

With private equity fundraising and capital investment at an all time high, some investors are preparing for a rainy day. Due to the high debt-to-EBITDA levels appearing in the M&A market place coupled with a long run of successful transactions, some buyout pros seem to think the party cannot last forever. Many firms have raised funds that will focus on distressed situations. Hedge funds may become a large player in this market because of their available capital, risk tolerance, and ability to invest over broad industries.

2006 M&A Outlook

2006 should continue the strong run of M&A:

- Even while some investment pros are forecasting a negative turn in the M&A market, there have not yet been any signs to indicate that this is happening;
- Strong operational performance of strategic buyers has left them with abundant sources of capital and continued attractive lending markets may entice more companies to put that capital to use in the M&A market;
- Until this current period of open lending markets and available capital shifts, the M&A market should remain strong throughout 2006.

2006 should continue to perform as a "seller's market" while maintaining appeal to buyers:

- Record fundraising continues to push deal multiples higher as more capital is competing for deals;
- The attractive market for sellers propels more sellers to go to market to capitalize on current high multiples, providing a deeper market for interested buyers;
- Increased efficiency in the private equity market assures continued quality transactions in the marketplace.

"While the fourth quarter of 2005 was strong for GMB, we also saw an increase in new opportunities. This has accelerated in the first part of 2006. This increased activity suggests to us that 2006 will be even more active than 2005."

Scott H. Maierhofer, Co-President, GMB

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

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

FOUNDERS
John R. Green • James T. Bunch

VICE PRESIDENTS
Monica L. Liley
Barry T. Capoot

SENIOR ASSOCIATES
Gregory V. Anderson
Ward V. S. Cemy

ASSOCIATE
Mark B. Langer

SENIOR ANALYSTS
Jeremy E. Barron • H. Anthony Holmes
W. Andrew Phipps

ANALYST
Jose Garcia

GREEN MANNING & BUNCH
INVESTMENT BANKING SERVICES