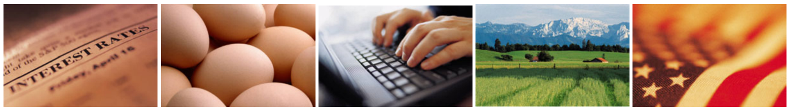

BRERETON AND COMPANY, INCORPORATED
Private Investment Banking

Middle Market M&A Review

March 2005

Introduction to the Brereton & Company Middle Market M&A Review

The Brereton Middle Market M&A Review is a periodic journal designed to assist management and investors in the middle market. The journal attempts to address and explain current and anticipated market influences, investor sentiment and the valuation implications of the economic environment; including private company acquisition activity. By introducing periodic data and highlighting critical market issues, we hope that the Brereton Middle Market M&A Review can help management and investors gain effective insight into the valuation and organization of their business.

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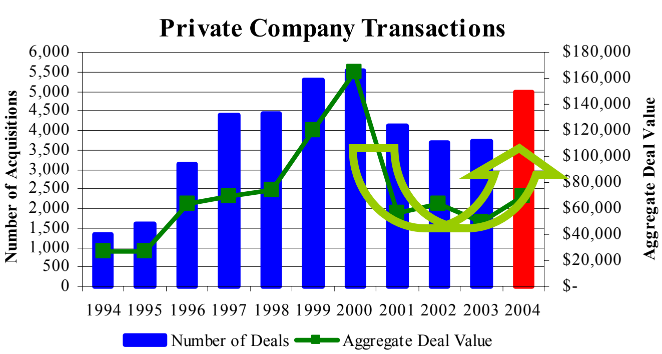
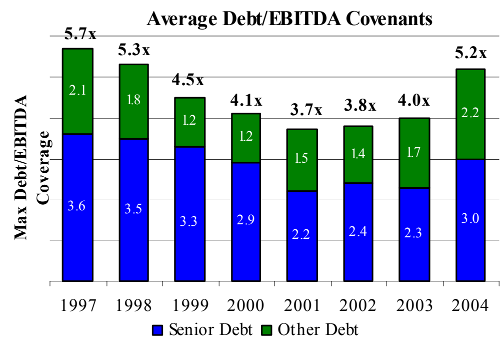
Review of Middle Market Trends and Influences: The 2004 Explosion

With a surge in merger and acquisition activity and rising valuations, 2004 was a year to remember for US and European dealmakers alike. In the US, the number of mergers and acquisition announcements rose 15% to 9,816 in 2004 and spending on deals shot up 44% to US$760.6 billion (Factset). It was the best overall performance for US M&A since the record-breaking market of 2000.

Private company transactions provided a major lift to M&A dealflow in the US. The number of private company announcements in the US climbed 25.9% to 4,989 in 2004. Again, it was the largest number of private company announcements since 2000, representing over half of all deal flow.



Much of the boon in deal flow for large deals and private company transactions was the result of dealmakers having **greater access to financing**. Through-out 2004, leverage multiples steadily increased, signaling that bankers were more willing to provide acquisition funds at a cheaper price than they had been during much of the 2001-2003 markets. Also aiding dealmakers in their pursuit of transactions this year was the fact that the lending environment became extremely competitive due to an enormous amount of liquidity in the capital markets at all levels, including greater access to high yield debt financing.



Company valuations in the mergers and acquisitions market are notably influenced by the availability of capital. The current favorable borrowing environment is the result of:

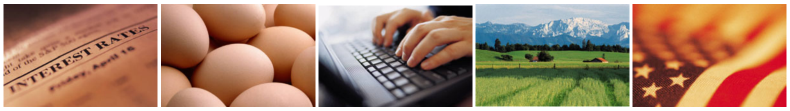
(i) loosening of banks' lending standards,

(ii) low interest rates, and

(iii) new, nontraditional lenders entering the market such as sub-debt funds and brokerage firms that are providing additional liquidity to the market.

This has strengthened valuations in the middle market. The availability of capital, specifically debt capital, affects investors' ability to raise funds and significantly impacts expected returns. The availability of debt capital enables buyers and investors to assume higher levels of leverage and, therefore, enables them to commit lower levels of equity capital to acquisitions.

Such market dynamics typically result in higher returns on investment, as less equity is required and the positive effects of leverage are utilized, enabling investors to "pay up" for acquisitions.



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Review of Major Middle Market Trends and Influences *(Continued)*

Competition may also be responsible for boosting the activity of another key segment of the M&A market: **strategic buyers**. Prior to 2004, many strategic buyers were either on the fence about making acquisitions or were simply not interested, but as competitive pressures in their respective industries have grown and shareholders have turned their attention from bookkeeping to stimulating growth and capturing market share, strategic buyers have been forced to look more seriously at doing deals in the M&A market.

That fact is evident from a recent FactSet Mergerstat study, in which the number of M&A transactions announced by S&P 500 companies in 2004 rose 2.8% to 913 and the total dollars spent by these companies on their transactions increased 31% to U.S.$355.8 billion. It was the first time in four years that year-over-year acquisition activity grew for this key strategic buyer group and the first time since 2001 that overall spending had surpassed U.S.$334.7 billion.

Another component of the increased competition is the massive amounts of cash held by private equity groups. According to Standard & Poor's, private equity groups have approximately $165 billion of capital available for investment.

The result of the increased availability of debt capital and increased competition is higher private company valuations. As we will detail in the *Annual IMAP Survey Results* later, among middle-market private companies, 2004 even surpassed extremes the late 1990's. Given the improving health of the overall M&A industry, the un-invested capital reserves of private equity firms, and the easing of lending standards, many analysts have been surprised that the growth of transactions in the middle market has not been even more extreme. This is commonly attributed to a lack of supply of high quality firms.

While most analysts expect robust valuations and deal volume in 2005, there are concerns over rising interest rates. In summary, current circumstances are highly attractive for proactive middle market companies to raise capital and/or benefit from a liquidity event.

We would like to invite your insight on these or other industry related topics. Our contact information is on the back cover.

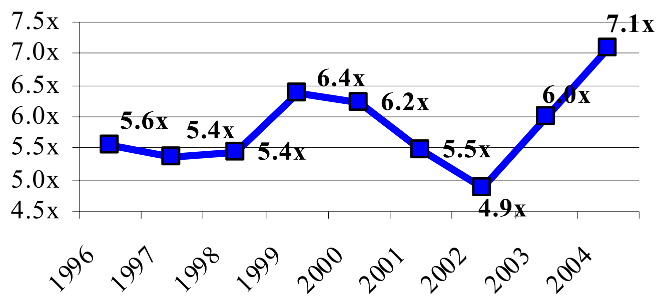
IMAP

Annual IMAP Survey Results

The International Merger and Acquisition Partners (IMAP), a global network of 60 investment banks of which Brereton and Company is a member, recently reported on their 190 transactions in 2004.

Median selling multiples increased noticeably over those of the prior two years. Eliminating outliers, the middle market saw an increase of 18%, from 6.0x EBIT to 7.1x.

IMAP MidMarket EBIT Index



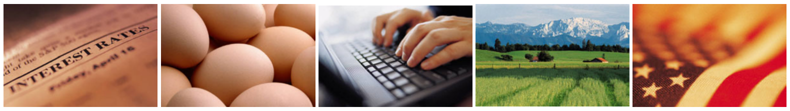
Multiples of Earnings Before Interest and Taxes (EBIT) were used in the comparisons above. EBIT was calculated using trailing 12 months earnings before interest and taxes, adjusted for non-recurring expenses and discretionary owner distributions including compensation in excess of market rates. Seller notes, etc., were discounted present values.

We recommend that this survey be used only as a general guide. Many factors influence selling price. insights will come from informed advisors who are currently active in mid-market transactions. What occurred as recently as 6 months ago may no longer apply.

As noted on the following page, there was dramatic variance in valuations between deal sizes and industries.

The IMAP partner firms were surveyed as to what they expect to encounter in the next twelve months and many of the issues discussed earlier were cited as reasons for continued strength in valuations. Also, 79% of Partner firms expect more buyers in the market in 2005 while only 50% expect bank financing to stay the same or improve.

The one other major trends emerging was the proliferation of cross-border deals. In 2004, almost 15% of all reported deals were cross-border.



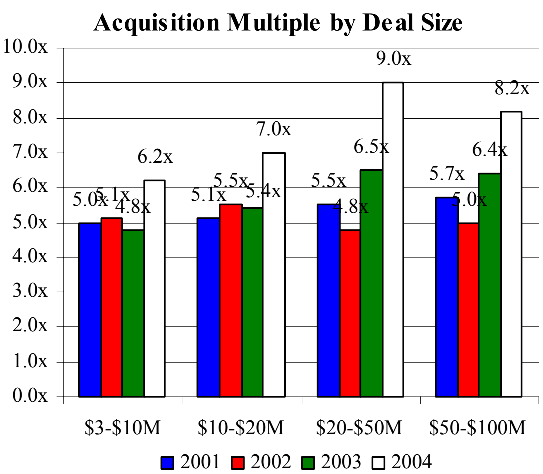
Annual IMAP Survey Results *(Continued)*

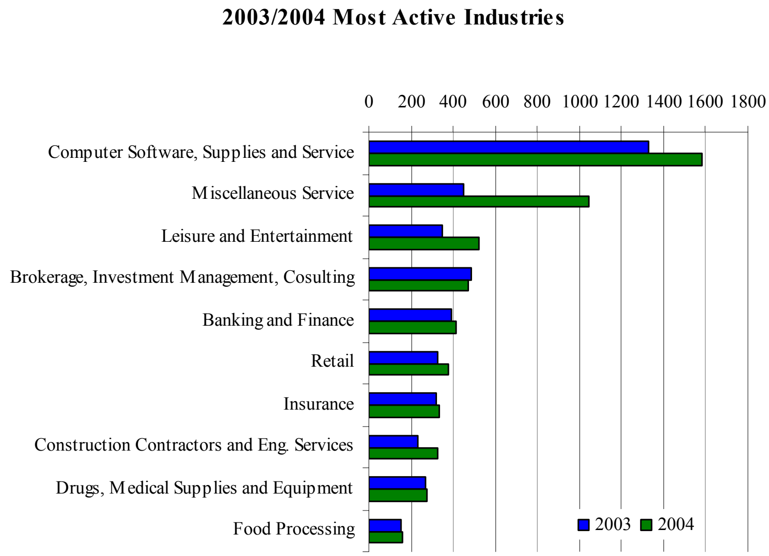
As seen below, among the IMAP member firms, the service, distribution and proprietary manufacturing segments were most active in the NAFTA trade zone. High-Tech proprietary manufacturing captured the highest median deal EBIT multiple at 8.7x.

NAFTA - All Manufacturing Companies by Revenue				
	# of	Median	Inner Quartiles(A)	
Annual Revenue	Trans.	Multiple	Low	High
$50 Million +	7	7.1x	5.8x	9.1x
$20 - $ 50 Million	7	8.4x	6.9x	21.1x
$10 - $ 20 Million	7	5.6x	4.2x	6.5x
Under $ 10 Million	18	5.6x	4.3x	11.9x
Total	**39**			
NAFTA - All Companies by Product or Type				
Non-Proprietary Mfg. (B)	11	6.3x	3.8x	7.0x
Proprietary Consumer Mfg.	6	5.1x	4.9x	6.5x
Proprietary Industrial Mfg.	13	6.9x	6.0x	13.6x
Hi-Tech, Non-Proprietary Mfg.	2	6.3x	5.2x	7.3x
Hi-Tech, Proprietary Mfg.	7	8.7x	6.7x	21.1x
Distribution	13	6.3x	3.6x	10.1x
Service, InfoTech (C)	10	7.6x	5.1x	11.2x
Service, Non- InfoTech	18	6.2x	4.6x	9.1x
Total	**80**			

Europe - All Manufacturing Companies by Revenue				
	# of	Median	Inner Quartiles(A)	
Annual Revenue	Trans.	Multiple	Low	High
$50 Million +	5	7.7x	5.8x	8.7x
$20 - $ 50 Million	4	6.8x	4.0x	10.6x
$10 - $ 20 Million	7	5.3x	4.7x	5.9x
Under $ 10 Million	9	6.0x	5.6x	9.0x
Total	**25**			
Europe - All Companies by Product or Type				
Non-Proprietary Mfg. (B)	6	7.7x	2.4x	8.9x
Proprietary Consumer Mfg.	5	7.7x	5.8x	8.6x
Proprietary Industrial Mfg.	13	5.6x	5.0x	6.0x
Hi-Tech, Non-Proprietary Mfg.	1	5.0x	5.0x	5.0x
Hi-Tech, Proprietary Mfg.	0	n/a	n/a	n/a
Distribution	17	6.4x	4.4x	6.2x
Service, InfoTech (C)	10	6.0x	5.0x	10.9x
Service, Non- InfoTech	27	6.2x	4.4x	8.7x
Total	**79**			

In addition to a general upward trend in multiples, as expected, deals of larger size continued to positively correlate with higher multiples.





(A) Multiple spread within the middle 50% of completed transactions.
(B) Contract manufacturers (e.g., stampers, molders, production fabricators).
(C) IT consulting, integration, software development, IT staffing.
Multiples of Earnings before Interest and Taxes were used in the comparisons above. EBIT was calculated as trailing 12 months earnings before interest and taxes, adjusted for non-recurring expenses and discretionary owner distributions including compensation in excess of market rates. Seller notes, etc., were discounted to present values. To compute the multiple, one divides the purchase price plus the assumption of any interest bearing debt by the adjusted EBIT.
We recommend that this survey be used only as a general guide. Many factors influence selling price. The best insights will come from informed advisors who are currently active in mid-market transactions. What was true as recently as 6 months ago may no longer apply.
** Source: Mergerstat Review 2004.*

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Private Investment Banking

Brereton and Company is a boutique investment bank dedicated to maximizing the value and liquidity of closely held businesses.

Attention

- Strategic and Financial advisors to businesses seeking value Maximization
- Hands-on attention from experienced senior dealmakers who stay with your deal to closing

Expertise

- Founded in 1995 drawing from prior investment banking experience
- Empathetic professionals who have acquired, operated and divested businesses for their own account
- Broad industry experience in middle market Mergers & Acquisitions

Process

- Strategic planning framework for evaluation of financial alternatives
- Structured timelines and processes for multiple bidder-based value maximization

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If you are:

- *Undercapitalized and experiencing explosive demand for your product*
- *Facing a difficult transition after many years at the helm*
- *Unsure about how to best maximize the value of your business for your heirs*
- *Ready to harvest your business investment to diversify your net worth*

Please give us a call. Our initial discussions and analysis are strictly confidential and complimentary.

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