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# MERGERS & ACQUISITIONS

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## *insights*

Fall 2001

### **ENDANGERED SPECIES 2001**

Our annual analysis of the difficulties facing  
some of today's best small-cap public companies.

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## EXECUTIVE SUMMARY

For the last few years, U.S. Bancorp Piper Jaffray has been reporting on the difficulties that small public companies face in today's equity markets. Since the late 1990s many well-run, profitable companies with a market capitalization of less than \$250 million have watched their share prices underperform the rest of the stock market. With limited analyst coverage and low trading liquidity, many high-quality small companies are "lost in the shuffle" and trade at significantly lower valuation multiples than larger firms. Since our 1999 report "*Wall Street's Endangered Species*," we have held the position that:

*This is a secular, not cyclical, trend and the undervaluation will continue. The best strategic move to increase shareholder value is to pursue a change-of-control transaction. Company management and the Board should either sell their company to a large strategic acquirer with the hope of gaining the buyer's higher trading multiple, or take the company private.*

In the last few years, many small public companies identified this trend and agreed with the implications. Executives responded accordingly, and the number of strategic mergers and going-private transactions for small companies reached all-time highs. Shareholders of these companies were handsomely rewarded. The remaining companies, however, have watched their share prices stagnate.

Since the onset of the recent economic slowdown and the technology market correction, there has been much talk about a return to "value investing." Many of our clients and industry contacts have even suggested that as investors search for more stable investments, they will uncover previously ignored small cap companies and these shareholders will finally be rewarded. We disagree and the data supports us:

*Any recent increase in small-cap indices is misleading. Most of the smallest companies are still experiencing share price weakness and valuations continue to be well below their larger peers. We strongly believe that when the overall market rebounds, small-cap shareholders will experience significant underperformance unless their boards effect a change-of-control transaction.*

In this report we review and refresh some of our original analyses from our previous publications. We also follow the actions and performance of companies that we identified over the past two years as some of the most attractive yet undervalued small-cap companies. Our findings confirm that companies that pursued a sale rewarded their shareholders with above-average returns, while the remaining companies continue to be largely ignored by the market. Finally, we conclude with our third annual list of the most attractive small-cap companies: Darwin's Darlings Class of 2001.

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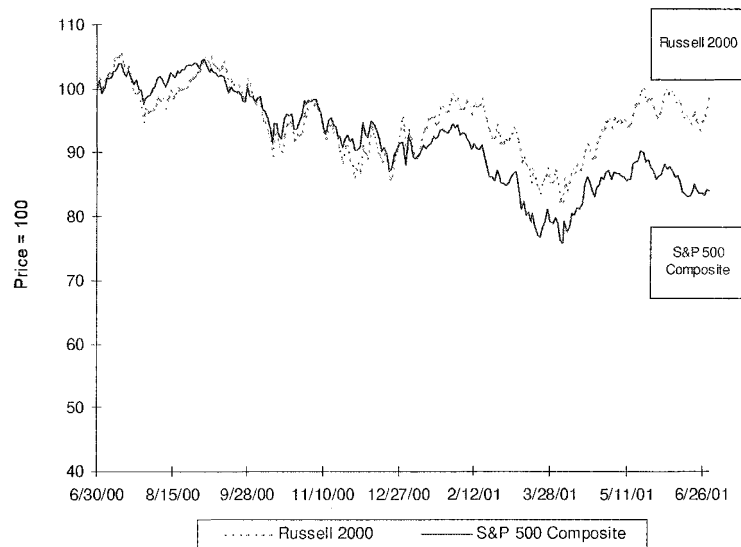
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## PART I: ENDANGERED CAT BOUNCE

The Russell 2000 Index outperformed the S&P 500 for the 12-month period ending June 30, 2001. Perhaps this recent performance was expected since small-cap returns tend to run in cycles. Since the Great Depression era, there have been five periods during which small-cap stocks are thought to have outperformed the S&P 500: 1932-37, 1940-45, 1963-68, 1975-83, and 1991-94. Is it not unreasonable to believe that small capitalization stocks, in general, are finally turning in strong performance that will continue?

Exhibit I

### ONE-YEAR PRICE CHART—S&P 500 VERSUS RUSSELL 2000

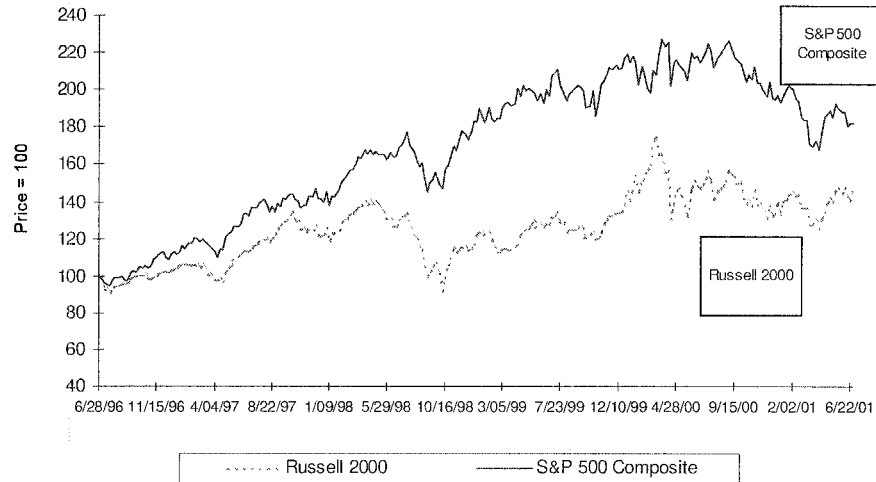


Source: FactSet

A longer time perspective must be considered before small-cap companies can boast about share price performance or become optimistic regarding future stock price appreciation. Looking back further than just the last 12 months, one finds that small-cap companies have severely lagged larger company indices for most periods. Exhibit II illustrates just how poorly the Russell 2000 compares to the S&P 500 during the longest bull market in history. In fact over the past five, seven and ten years, the Russell 2000 has underperformed the S&P 500. For the five, seven and 10 year periods, the S&P 500 rose 82.6 percent, 175.6 percent and 229.9 percent, respectively, while the Russell 2000 rose 47.9 percent, 113.4 percent, and 206.3 percent for the same periods.

Exhibit II

**FIVE-YEAR PRICE CHART--S&P 500 VERSUS RUSSELL 2000**



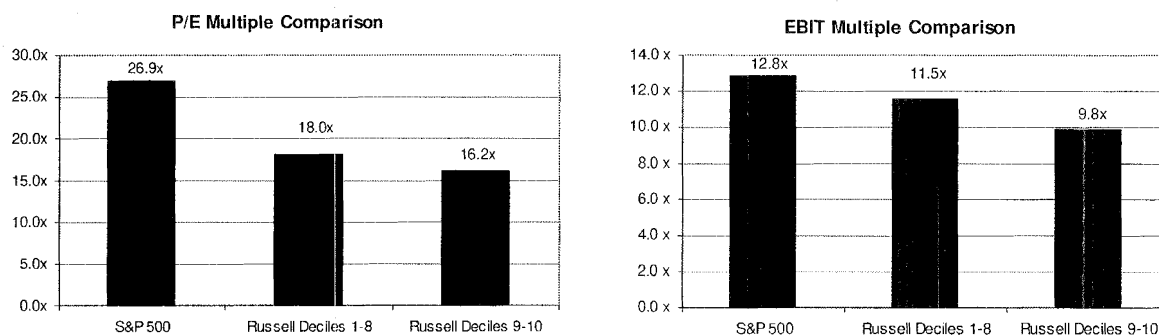
Source: FactSet

**All Small Caps Are Not Created Equal**

The poor performance turned in by the Russell 2000 can be attributed to the share price performance of the smallest companies in the index. Our previous analysis has shown that the smallest companies in the index have generally underperformed the larger companies (see *“Wall Street’s Endangered Species,”* spring 1999). To understand the reasons for this differential, one must appreciate the breadth of the index. There is a tremendous gap in the market cap between the top 10 percent of the companies in the index, as ranked by market cap (“the first decile”) and the last 10 percent (“the bottom decile”). The median market capitalization of the first decile is \$1.7 billion versus just \$201.0 million for the bottom decile. There is almost an 8.0x difference between what can be considered a small-cap company.

This distinction in size is important, because it is the smallest companies in the Russell 2000, and in the market as a whole, that have experienced the weakest share price performance and are the most undervalued. Exhibit III illustrates the valuation gap between the S&P 500 and the Russell 2000 indices. Even more noticeable is the discount experienced by the smallest companies. The bottom two deciles of the index are trading at nearly a 25 percent discount to the EBIT multiple of the S&P 500 and at nearly 40 percent below the P/E multiple on a trailing 12-month basis.

## Exhibit III

**VALUATION COMPARISONS**

Source: FactSet and U.S. Bancorp Piper Jaffray M&A Research

This valuation gap has been consistently present for the last several years, and we fully expect it to continue regardless of the direction of the overall market. This differential is being driven by a secular trend that is impacting the entire investing landscape. These changes are the result of:

- The increasing concentration of funds in the hands of institutional investors
- Institutional investors' demand for companies with greater market capitalization and liquidity
- The shift by investment banks away from small cap-companies with respect to research coverage and trading

On the next several pages, we analyze in greater detail each of these factors and its impact on small-cap stock performance and valuation.

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## PART II: LOST IN THE WILDERNESS

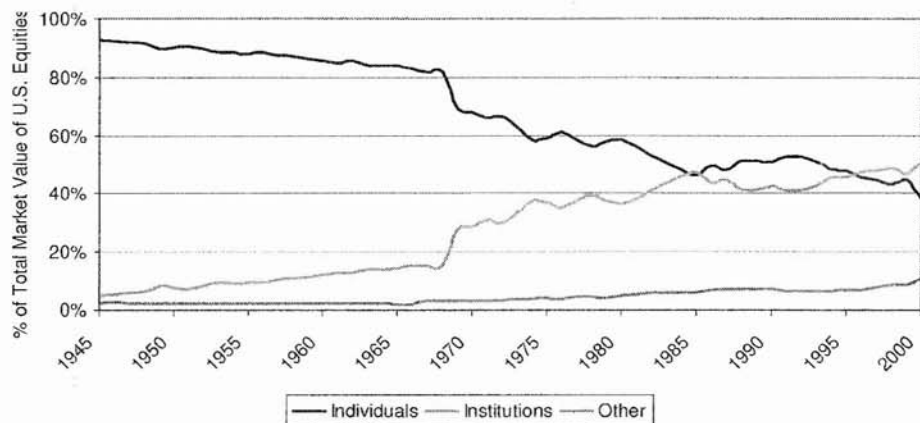
For smaller-cap companies with market cap of less than \$250 million, investor neglect and undervaluation are not temporary conditions. Our analysis has identified several long-term fundamental changes in the equity capital markets that are causing a shift away from small-cap stocks.

### Institutions Define The Investing Landscape

The bull market and economic prosperity of the 1990s have attracted such a large pool of capital that there is too much money to efficiently invest in small cap-stocks. Along with the stock market boom in the 1990s came a dramatic increase in the influence of mutual funds and other institutional investors. Exhibit IV illustrates the continuing trend toward the dominance of institutions versus retail investors. Furthermore, the wave of consolidation among money management firms has concentrated even more money into the hands of fewer firms. As these institutions have seen their assets increase dramatically, they have been forced to seek larger-capitalization companies for their investments. Money managers must look for stocks with ample trading liquidity and a large enough capital base to allow easy accumulation and disposal of shares and to prevent significant ownership of any one company.

Exhibit IV

### U.S. STOCK OWNERSHIP



Source: Board of Governors of the Federal Reserve

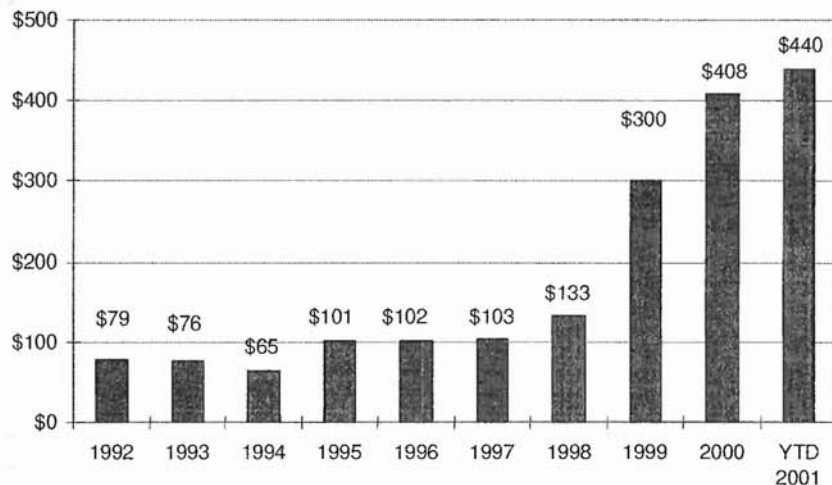
**Only The Big Are Being Born**

The IPO market is a good measure of what the stock market demands. By analyzing the characteristics of companies that successfully complete an offering, one can uncover trends for successful public companies. The following exhibit clearly demonstrates an upward shift in the size of IPOs. As recently as 1998, companies with a post-IPO market cap of approximately \$100 million were well received by the market. In the past two to three years, however, the median market cap has increased significantly and now exceeds \$400 million. Of note, this trend has continued through the boom of technology and telecom IPOs in 1999 and 2000 as well as the subsequent slowdown in late 2000 and 2001 year to date. This clearly underscores the trend toward size being a factor in attracting investor interest.

Exhibit V

**MEDIAN POST IPO MARKET CAP**

(\$ in Millions)



Source: CommScan, YTD data as of 6/30/01

**Research Coverage Is Waning**

Wall Street brokerage firms have capitalized on this trend by focusing greater attention and resources on the larger, more liquid companies. Investment banks tend to “follow the investors” and cater to the desires of their large customers, which in this case, means providing research coverage principally on large-cap stocks. There are two primary reasons for this. The first reason is that producing research reports leads to participating in the capital raising process. Since large-cap companies are the ones that are most often tapping the market, they will command the attention of research analysts. The second reason is that writing research leads to a greater amount of trading, but it is only worthwhile if there is sufficient trading volume. It is estimated that the average stock needs to trade in excess of 150,000 shares per day to support the overhead associated with providing research coverage. Exhibit VI shows the average daily trading volumes for our various deciles of the Russell 2000. The smallest of the small-caps have insufficient volume to generate profits for the typical investment banks, and as a result, many brokerage firms have reduced or abandoned their small-cap research effort.



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## Exhibit VI

**BREAKDOWN OF THE RUSSELL 2000 <sup>(1)</sup>**

		Mean Market Capitalization (\$ In Millions)	Average Daily Volume (000s)
<b>Decile</b>	<b>1:</b>	\$ 1,661.6	526.5
	<b>2:</b>	1,155.8	373.1
	<b>3:</b>	910.0	328.3
	<b>4:</b>	725.6	308.0
	<b>5:</b>	593.6	213.1
	<b>6:</b>	487.3	194.9
	<b>7:</b>	398.3	174.0
	<b>8:</b>	329.3	138.6
	<b>9:</b>	269.8	118.0
	<b>10:</b>	201.0	96.2
<b>Total Russell:</b>		\$ 668.6	245.8

<sup>(1)</sup> The 1,772 companies comprising the Russell 2000 as of June 29, 2000, ranked by equity market capitalization and divided into 10 deciles.

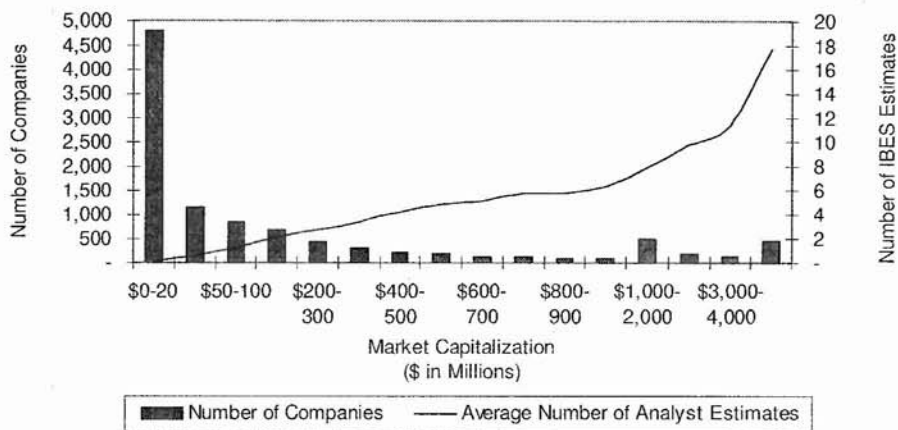
Source: U.S. Bancorp Piper Jaffray M&A research

In addition, the consolidation among brokerage firms required these newly combined entities to focus on larger companies and transactions to support the higher overhead. This consolidation also eliminated many of the top firms that focused on small-cap stocks. The increased volatility in the markets, reduced commissions, and tighter trading spreads led many firms to significantly cut back the number of stocks in which they made markets, further reducing liquidity.

All of these factors point to a decline in the number of research analysts following small-cap companies. Exhibit VII plots the average number of equity analysts providing earnings estimates on companies in various market capitalization levels, indicating the correlation between a company's market capitalization and the number of analysts following the stock. Companies in the \$50 million to \$250 million range have approximately 1.7 analysts covering their stock versus 8.2 analysts for companies with a market cap of more than \$250 million. Furthermore, analysts following the smaller companies are typically not the all-stars of their profession, limiting the likelihood that they will have a meaningful impact on valuation.

Exhibit VII

**ANALYST COVERAGE**



Source: FactSet

In fact, according to a recent report by *Corporate Communications Incorporated*, there are more than 2,600 public companies without any research coverage. The number of companies with at least one analyst has declined 27% in less than three years; almost all of these companies are small caps.

Simply put, as the overall size of the stock market has grown, investors, analysts, and market makers have set their sights on larger companies. Ten years ago the total market capitalization of publicly held firms totaled \$3.1 trillion versus \$13.7 trillion today. The vast majority of this growth has come from the performance of large cap stocks that now dominate the market. **In fact, firms with a market capitalization of less than \$250 million represent only 2 percent of current market value. Wall Street is largely ignoring this small sliver of the market, and all indications are that this trend will continue.**

**PART III: SOLUTIONS FOR SURVIVAL**

These secular trends will continue, and as a result, small caps face a future of chronic undervaluation. Removing this discount and reviving shareholder value require a fundamental change in ownership structure. Equity must be transferred out of the hands of an unadoring and disinterested public and into those of either: 1) managers backed by private capital, or 2) larger companies that can capture strategic benefits. Either remedy breathes new life into these companies by providing cheaper sources of equity capital and shifting the focus away from quarterly EPS to long-term growth.

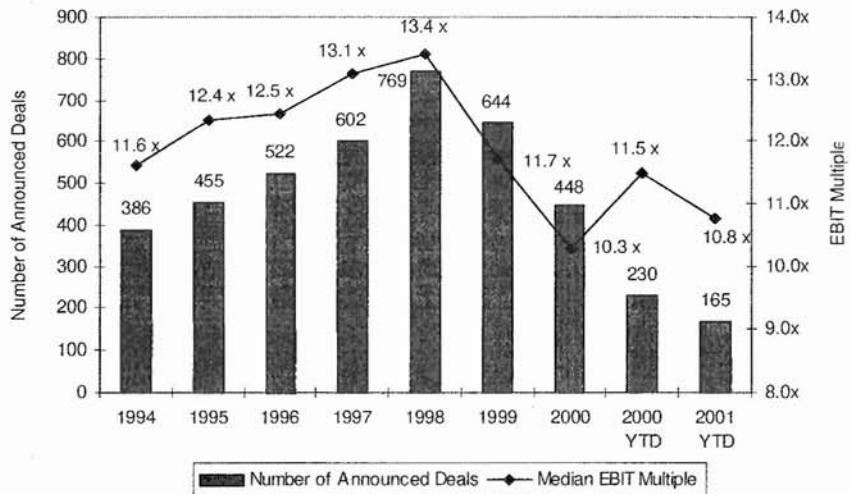
**Transactions Alive  
Despite Tough  
Environment**

Fortunately for shareholders, many companies have identified these issues and are taking action. Exhibit VIII highlights the recent trends in acquisitions of small-cap companies and the valuations they are commanding in these transactions. Although the number of deals has declined since peaking in 1998, there is still healthy activity in the group. Year to date through June 30, 2001, there were 165 transactions involving public companies with a market cap of between \$50 million and \$250 million. While this number represents a decline of nearly 30 percent compared to last year, it is in line with the overall decline in M&A activity, which is also down approximately 30 percent year to date.

Exhibit VII

**PUBLIC SMALL-CAP ACQUISITIONS**

\$50 Million - \$250 Million Market Cap

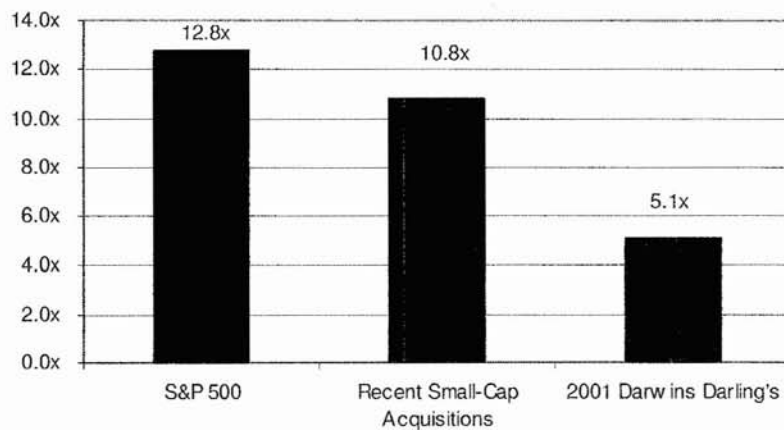


Source: Securities Data Corporation, YTD data as of 6/30/01

While transaction multiples have also declined in recent years, it is interesting to note that current acquisition multiples are still in the range of the S&P 500 multiple, as illustrated in Exhibit IX. Recently, transactions have been taking place with an EBIT multiple in the low double digits while the most attractive small caps trade in the public market at half that multiple at a mid single digit. Our compilation indicates that some of the fastest-growing but undervalued companies known as Darwin's Darlings (see Part IV, page 13, for a full description) have a median EBIT multiple of only 5.0x. This implies that a typical company in the S&P 500 could acquire one of these highly desirable companies for a 100 percent premium and still have the transaction be accretive to earnings.

Exhibit IX

**EBIT MULTIPLE COMPARISON**



Source: Factset and U.S. Bancorp Piper Jaffray M&A Research

Only recently have acquirers taken notice of the vast pool of public targets that are ignored by the markets. Many are becoming more proactive about making overtures to pursue a merger. Meanwhile, an increasing number of private equity firms are now calling on small caps to discuss going-private transactions, and corporate acquirers are becoming more proactive about making overtures to these companies. As a result, we expect the pace of acquisitions among these public orphans to remain robust for the foreseeable future.

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**Act Or Become A Target**

Unfortunately, many corporate executives continue to believe that if they stick to their business plan they will eventually be discovered by the financial community. Given the recent trends, this outcome is not likely. In fact, there is a growing trend toward shareholder activism to force these companies to seek strategic alternatives to unlock shareholder value. Corporate management is now facing a new peril—the dreaded proxy fight. Bouncing back from their lowest level in more than a decade, proxy fights have increased dramatically thus far in 2001 and are running at nearly twice the pace as they were last year, according to *Institutional Shareholder Services*. In fact, not since the late 1980s has there been such attention devoted to the shareholder activism movement.

As shown in our Darwin's Darlings list in Exhibit XX, page 23, management ownership varies widely among the typical undervalued small cap. For those that were IPOs of family-held businesses, management stakes are generally high. In these instances in which a group effectively controls the company, there will be little noise from activist shareholders. However, companies with broad ownership (i.e., a spinoff from a larger parent) are more susceptible to unfriendly actions. In fact, widely held small caps frequently have blocks held by the growing number of small-cap investment funds focused on likely takeover targets.

Regardless of ownership structure, these companies typically have the customary defensive mechanisms in place. They are also protected because they are so thinly traded. In most cases it can take more than six months to accumulate a 5 percent position in the stock without impacting the share price. While we expect most of the successful acquisitions in this sector to be friendly, small-cap companies will have to increasingly worry about these unfriendly suitors.

There are several consistent factors that are driving the increased frustration among shareholders and, consequently, the increased pressure on Management and Boards. These factors include the aforementioned depressed share prices, lack of trading liquidity, and research coverage. But also included are bloated executive compensation packages that are not tied to share price performance and a feeling that corporate boards are staffed with management allies rather than independent-minded executives. Given the continuing malaise in the public markets, we believe this heightened proxy activity will continue into the foreseeable future. Companies with less than \$250 million in market capitalization in low growth or cyclical markets are the most vulnerable to a potential proxy battle, particularly those companies whose shares are trading near their 52-week lows.

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**Aggressive Acquirers On The Prowl**

Given the growing acceptance of an aggressive strategy, we have noticed an increase in the number of groups willing to pursue a "non-friendly" investment strategy for small caps. Several funds have been formed to specifically identify a takeover target, invest significantly in the company, and force action by its own board. If an undervalued small cap chooses to ignore this possibility, it may soon find itself rushed into a defensive mode. Thwarting an unwanted takeover, answering to shareholders, and facing the distractions of the press may take precedence from the day-to-day actions of running the business.

A significant number of companies on our previously published Darwin's Darlings lists were subject to this increased shareholder activism. Companies that received unfriendly overtures and/or shareholder proposals to increase shareholder value included First Years, Media Arts Group, and Gehl.

### Orphan Case Study: Guest Supply Acquired By SYSCO Corporation

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Guest Supply, like other small capitalization public companies, had long struggled to capture the attention of Wall Street. The company is a leading distributor of nearly 2,500 different products to the lodging industry, providing items such as guest amenities, housekeeping supplies, and room accessories. From 1996 through 1999, Guest Supply's operating income grew at a compound annual growth rate of over 30 percent. Still, as of May 2000, Guest Supply's stock was at approximately \$17 per share versus nearly \$21 per share in 1996. With EBITDA of approximately \$27 million and a market capitalization of \$130 million, Guest Supply was prone to an unwanted takeover.

In June 2000, Guest Supply received an unwanted "bear-hug" letter from Marietta Corp., its principal competitor. Guest Supply was trading at a depressed valuation on the NYSE due to its relatively small size. Marietta saw an opportunity to buy the business cheaply, but the Guest Supply board believed the inherent value of the Company was far greater than the Marietta offer. Guest Supply retained U.S. Bancorp Piper Jaffray to help the board explore other alternatives.

Upon being hired, U.S. Bancorp Piper Jaffray immediately contacted alternative suitors. Finding a "white knight" proved to be a greater challenge than in typical transactions since Guest Supply was neither a pure distributor, nor a pure manufacturer. Broadline and specialty distributors did not have the in-house experience to appreciate the strength (and importance) of Guest Supply's manufacturing activities. Meanwhile, manufacturers were concerned that Guest Supply's distribution activities would be seen as a competitive threat to their own pre-existing customers/distributors.

Ultimately, U.S. Bancorp Piper Jaffray was able to persuade SYSCO (NYSE: SYY) and a manufacturing firm to look at the Guest Supply opportunity together with the idea of perhaps splitting the business. In the course of its due diligence, SYSCO came to realize the synergies that the manufacturing arm presented, not just to Guest Supply but to other areas of SYSCO as well. The result was that SYSCO decided to pursue the acquisition on its own.

One major obstacle remained. By this point, Marietta had launched a proxy fight to gain control of Guest Supply's board. The shareholder vote was slated for early 2001. It was not until January 22, 2001 that SYSCO and Guest Supply were prepared to announce a definitive purchase agreement. A traditional merger could have taken another three months (or more), which may have left shareholders concerned about risks to closing the transaction and uncertain over the implications for the upcoming proxy contest. Instead, the transaction was creatively structured as a tender offer to provide the opportunity to significantly reduce the time needed to close the transaction.

Shortly after announcement of the transaction, Marietta rescinded its proxy fight. The transaction closed March 15, 2001 at a price of \$26 per share, a 60 percent premium to the closing price one month prior to announcement of the transaction. Guest Supply now operates as an independent subsidiary of SYSCO with the pre-existing management team in tact.

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## PART IV: PREVIOUS DARWIN'S DARLINGS

Despite the large number of small-cap acquisitions in recent years, there remains a very large and attractive universe of small-cap companies. In each of the past two years, we sifted through the public markets, focusing on companies between \$50 million and \$250 million in value to come up with a list of the most appealing companies. This group of stocks was coined *Darwin's Darlings* to reflect our opinion that they needed to evolve to survive.

We narrowed our search by eliminating certain non-industrial sectors and ended up with more than 1,500 companies. We analyzed their valuations relative to the S&P 500 and honed in on those companies trading at an EBIT multiple less than 50 percent of the S&P 500. In 1999 companies had to trade at less than 7.0x EBIT to make the cut-off, and in 2000 the limit was lowered to 6.1x. Finally, we selected only those companies with five-year compounded annual EBIT growth of more than 10 percent.

In 1999 110 companies met our criteria, while just 48 names made our cut in 2000. The summary statistics for each year are shown below in Exhibit X; a complete list of all the companies is shown in Exhibit XX on page 23.

Exhibit X

### PREVIOUS DARWIN'S DARLINGS SUMMARY STATISTICS

(\$ in Millions)

#### CLASS OF 1999

	Market Capitalization	EBIT Multiple	5-Year EBIT CAGR	Analyst Coverage	Insider Holdings
<b>Mean</b>	\$115.2	5.6x	41.7%	3.1	46.8%
<b>Median</b>	105.0	5.8x	31.2%	3.0	48.7%

#### CLASS OF 2000

	Market Capitalization	EBIT Multiple	5-Year EBIT CAGR	Analyst Coverage	Insider Holdings
<b>Mean</b>	\$108.7	4.6x	44.2%	2.5	50.1%
<b>Median</b>	105.0	4.8x	24.1%	2.0	49.8%

Source: FactSet and U.S. Bancorp Piper Jaffray M&amp;A Research

## Evolving On Behalf Of Shareholders

We predicted that a meaningful number of Darwin's Darlings would pursue a major strategic or financial transaction. As a result of the dynamics we previously discussed, many of these well-run companies were valued in the market at trading multiples that were *lower* than typical valuation multiples seen in the private M&A market. With this arbitrage opportunity, and some concerned board members, many of these small caps were likely to evaluate their strategic alternatives. As shown below in Exhibit XI, that was indeed the case:

### Exhibit XI

#### DARWIN'S DARLINGS ACTIVITY

	Class of 1999			Class of 2000		
	Number of Companies	% of Total <sup>(1)</sup>	Median Return <sup>(2)</sup>	Number of Companies	% of Total <sup>(1)</sup>	Median Return <sup>(2)</sup>
<b>Sold</b>						
-Strategic Buyer	25	22.7%	39.1%	7	14.6%	68.1%
-Going Private Transaction	3	2.7%	62.4%	2	4.2%	61.0%
<b>Pursued Acquisition/Divestiture</b>	60	54.5%	3.4%	10	20.8%	9.8%
<b>Announced Share Repurchase</b>	38	34.5%	12.2%	5	10.4%	25.1%
<b>No Significant Action</b>	14	12.7%	(8.5%)	26	54.2%	11.1%
Russell 2000 Index Performance			21.7%			(0.9%)

<sup>(1)</sup>Total will not sum to 100% because some companies partook in more than one activity

<sup>(2)</sup>1999 returns calculated from 1/1/99-06/30/01; 2000 from 6/30/00-6/30/01

Source: FactSet and U.S. Bancorp Piper Jaffray M&A Research

Almost 90 percent of the 1999 class and about half of the 2000 class pursued some significant strategic alternative during the year. The results for the class of 1999 represent a two-year period so it is not surprising that this list generated significantly more activity than the 2000 list. This would indicate that we should see additional action from the class of 2000 in the coming year.

A significant percentage (23 percent of the total) pursued a sale or going-private transaction to provide immediate value to their shareholders. Others are attempting to "grow out of" their predicament by pursuing acquisitions and many are repurchasing shares. However, many of Darwin's Darlings have yet to take any significant action. Presumably, these companies are ignoring their current share price and assuming that patient shareholders will eventually be rewarded through a reversal in institutional investing trends, or perhaps, in a liquidity event at some later date.

The actual activity was, in fact, even greater than our data suggests as there were many transactions that were announced but failed to be consummated, particularly in light of the current difficult financing market. Chase Industries, Lodgian, Mesaba Holdings, and Chromcraft Revington all had announced transactions fall through. In addition, a large number of companies announced a decision to evaluate strategic alternatives, including Royal Appliance, Coastcast, and Play by Play Toys.

The path chosen by Darwin's Darlings had a significant impact on the a company's share price as some shareholders were rewarded and others were punished. The results are analyzed in the following sections.



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**PART V: THE SELLERS**

**Sellers Received  
Premiums Averaging  
Over 50 Percent**

Out of both classes, a grand total of 37 companies pursued a sale to enhance shareholder value—28 companies from the 1999 list and nine companies from the 2000 list. The returns generated by this group easily outperformed the other groups and the overall market averages. In general, the acquirers were large-cap public companies. By simply valuing the profits of a Darwin's Darling at their own market multiple, these buyers delivered to selling shareholders a valuation that far exceeded any share price the company might have independently achieved.

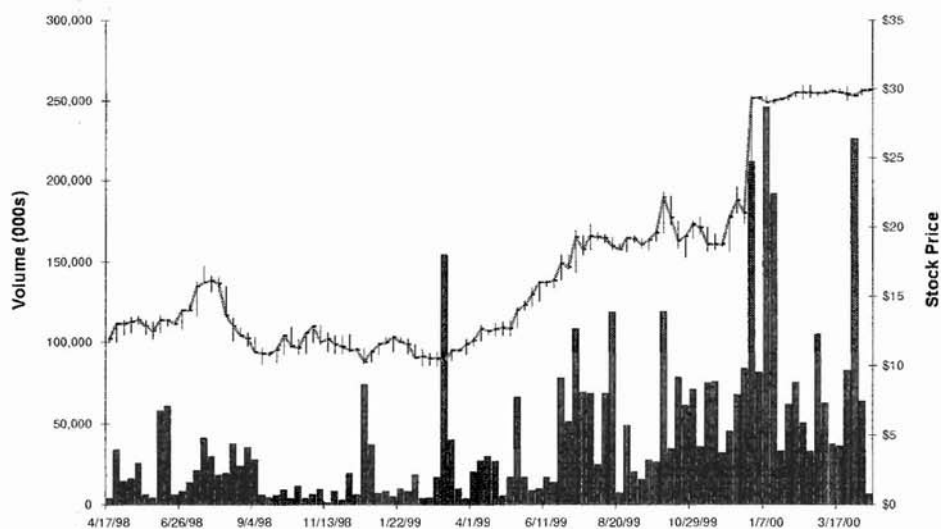
The 28 companies from 1999 that pursued a sale easily outperformed the Russell 2000, posting a median return of 40 percent compared to 21.7 percent for the Russell 2000 and -16.7 percent for the S&P 500. In addition, the group also achieved an average premium to its 4-week prior share price of 56.8 percent. The vast majority of companies were sold to strategic buyers, who were able to pay a handsome premium to the selling shareholders.

Examples of transactions include MYR Group (sold to GPU, Inc.), Jevic Transportation (sold to Yellow Corp.), and Gradall Industries (sold to JLG Industries). The returns to shareholders are evident in these sample share price graphs shown below.

Exhibit XII

**MYR GROUP INC.**

Weekly Stock Price/Volume Performance  
4/17/98 - 4/14/00



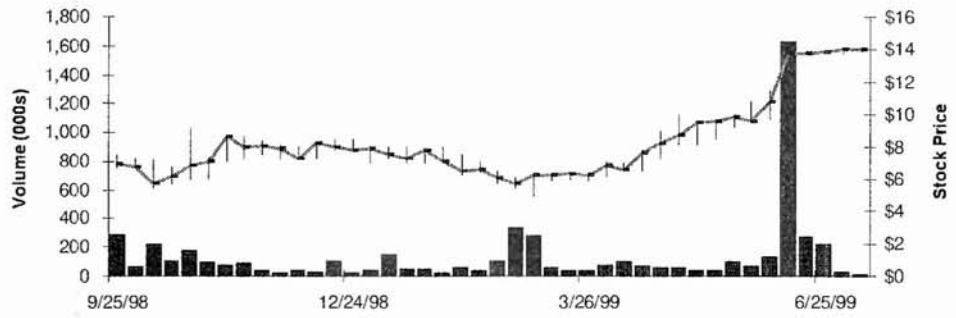
Source: FactSet

Exhibit XIII

**JEVIC TRANSPORTATION**

Weekly Stock Price/Volume Performance

9/25/98 - 7/9/99



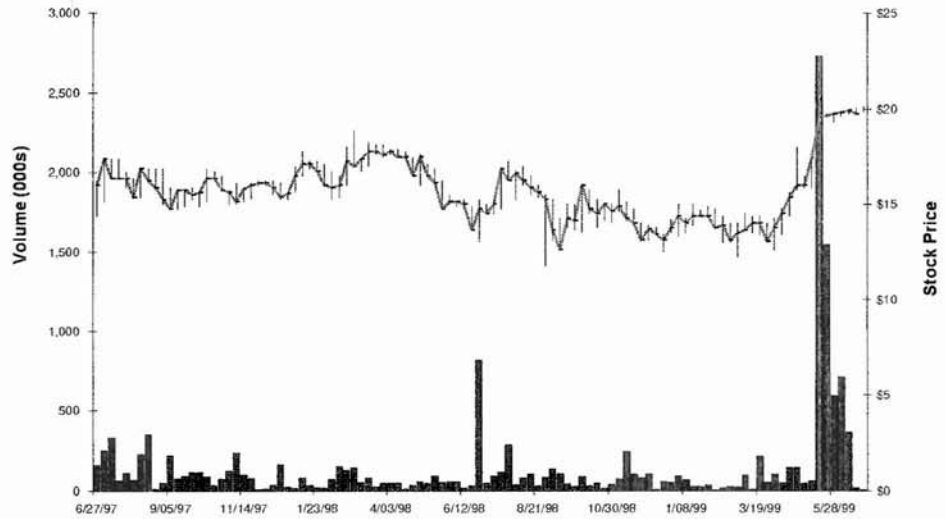
Source: FactSet

Exhibit XIV

**GRADALL INDUSTRIES INC.**

Weekly Stock Price/Volume Performance

6/27/97 - 6/25/99



Source: FactSet

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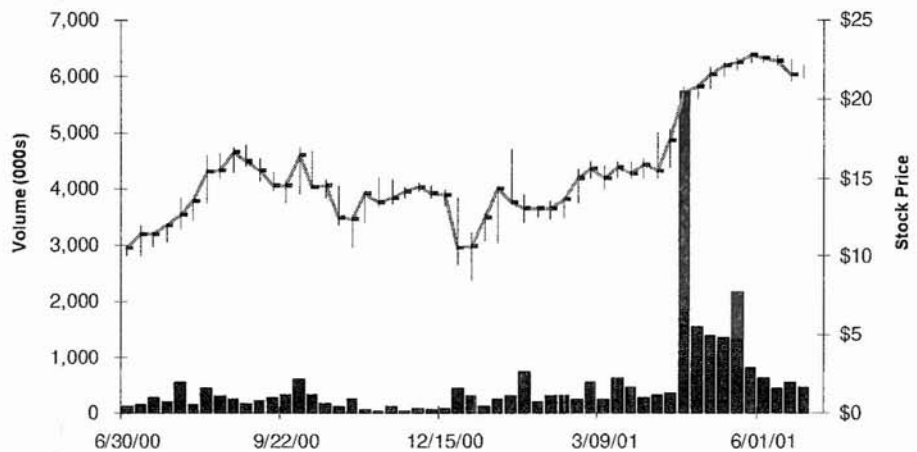
The nine companies from the 2000 list that pursued a sale performed even better. This group had a median return of 68.1 percent compared to a -0.9 percent return for the Russell 2000 and -15.8 percent for the S&P 500, while also achieving an average premium to its four-week prior share price of 57.6 percent.

Examples of transactions include Piercing Pagoda (Sold to Zale Corp.), Funco, Inc. (Sold to Babbage's Etc., Inc.), and McNaughton Apparel Group (Sold to Jones New York). The statistics shown in Exhibit XVI highlight the attractive multiples achieved for shareholders.

Exhibit XV

**MCNAUGHTON APPAREL GROUP INC.**

Weekly Stock Price/Volume Performance  
6/30/00 - 6/30/01



Source: FactSet

Exhibit XVI

**DARWIN'S DARLINGS SELLERS**

Transaction Averages (\$ in Millions)	Class of 1999	Class of 2000
Pre-Transaction Market Capitalization	\$110.4	\$157.4
Insider Holdings	15.6%	20.2%
Number of Equity Analysts	2.0	3.0
Premium - 1 Day	35.3%	42.8%
Premium - 1 Week	47.2%	54.3%
Premium - 4 Weeks	55.8%	57.6%
EBIT Multiple (LTM)	10.2x	7.1x
EBITDA Multiple (LTM)	8.6x	5.8x

Source: FactSet

## PART VI: FROM PUBLIC TO PRIVATE

### Can Orphans Hibernate From The Public Market?

Only five of Darwin's Darlings from our previous lists have announced a going-private transaction (three were in 1999). At first glance, this is a surprisingly low number given the group's low trading multiples. With private equity firms expressing a very high level of interest in these transactions, one might have expected more going-private transactions. However, this activity must be kept in perspective. There were a total of 102 going-private transactions from the beginning of 1999 to the middle of 2001. This number represented almost 6 percent of the 1,700 total companies with a market cap of \$50 million to \$250 million. Our list saw a similarly low percentage: the five going-private transactions accounted for about 3 percent of the Darwin's Darlings list.

Why aren't the percentages higher? In our opinion, it is a mix of economic reality and an ironic impact of corporate governance requirements. The financial sponsors typically involved in taking a company private are constrained with respect to the price they can pay for a company. With limits on prudent debt levels and minimum hurdle rates for equity investments, the typical financial engineer quickly reaches an upper limit on the price he can pay for a company. This limit has been compounded of late by the extremely tight financing market that has left many financial buyers on the sidelines. As a result, several factors come into play:

- A board will typically assume that if a financial buyer is willing to pay a certain price, a strategic buyer that can pay more must exist.
- Corporate governance rules are usually interpreted to mean that a board must pursue the highest price possible if a transaction is being evaluated.
- Management is reluctant to initiate a going-private opportunity for fear of putting the Company "in play."
- Financial buyers and management worry that an unwanted, strategic "interloper" can steal a transaction away from them when the board fulfills its fiduciary duty.

Therefore, oddly enough, the corporate governance structure built into the public markets prevents the initiation of a greater number of going-private transactions that could provide immediate value to shareholders. Although there are a limited number of examples, it is interesting to note that the stock price returns for shareholders in the going-private transactions were similar to the returns generated from strategic buyers. Our analysis suggests that for all of the going-private transactions, the ones that were successful were done at a premium valuation. The unsuccessful going-private transactions appeared to be when management attempted to "steal" the company from the public shareholders.

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## PART VII: REPURCHASING SHARES

To many of Darwin's Darlings, their undervaluation was perceived as a buying opportunity of their own. Forty-three companies (38 in 1999, five in 2000) announced a share repurchase, either through the open market or through more formalized programs such as Dutch Auction tender offers (see Mergers & Acquisitions Insights article "What About A Dutch Auction?," May 2000).

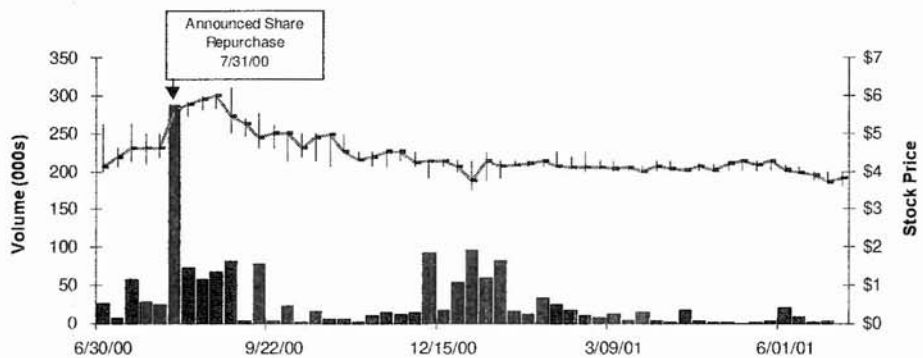
### Short Term Share Price Support

As expected, share repurchases had mixed results on companies' stock prices. Although some of the companies that repurchased shares (or announced their intention to do so) did outperform the market indices in each time period, the corresponding announcement was not necessarily the driver of the price appreciation. Companies from the class of 1999 that repurchased their stock saw a 12.2 percent return for the period, below the 21.7 percent return for the Russell 2000. The five companies in the more recent class of 2000 that announced a stock repurchase outperformed the Russell 2000, registering an average return of 25.1 percent. However, this will prove to be a temporary boost for most of these companies. The repurchase may have increased demand, and perhaps provided some price support to an infrequently traded stock. Our experience shows that this effect erodes over a period of several months, and the stock price fades. Furthermore, the decrease in shares outstanding served only to exacerbate trading liquidity challenges.

Some examples of the minimal long-term impact of share repurchases are shown in the following share price graphs.

Exhibit XVII

### BIG DOG HOLDINGS INC. Weekly Stock Price/Volume Performance 6/30/00 - 6/30/01



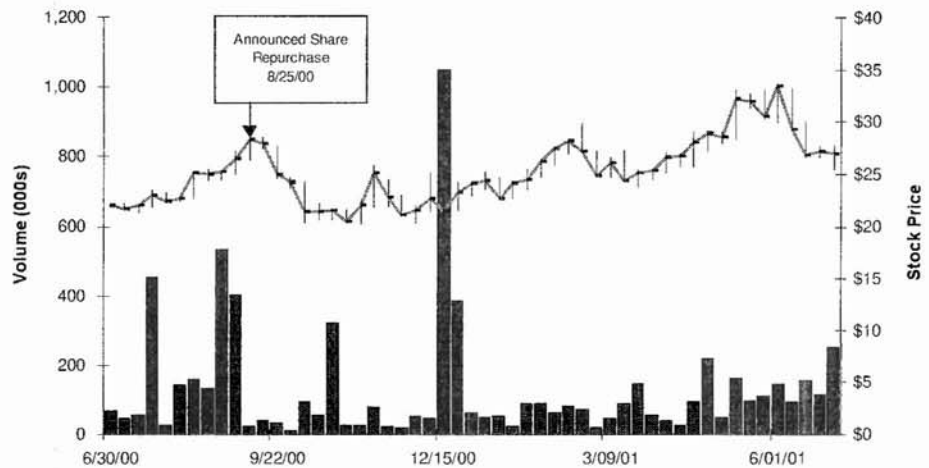
Source: FactSet

Exhibit XVIII

**STANLEY FURNITURE CO. INC.**

Weekly Stock Price/Volume Performance

6/30/00-6/30/01



Source: FactSet

**Increasing Shareholder Value Without Changing The Stock Price**

For many of Darwin's Darlings and other small-cap companies, the share repurchase may still have been an astute move. While share price support may not be permanent, the ownership of the company was consolidated as a result of buying in shares. The remaining shareholders were, in effect, "accreted up" in their percentage ownership. When a future event occurs to unlock value, these shareholders will reap the benefits of the repurchase program. Furthermore, the Company may have accommodated sellers desiring to exit their investment, thereby eliminating potentially troublesome, dissenting shareholders. There are circumstances when a repurchase makes good sense, but it should not be considered a mechanism to permanently boost share prices.

### Orphan Case Study: Todd Shipyards Dutch Auction

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Todd Shipyards (NYSE: TOD) is an 85-year-old company that derives a significant portion of its revenue from long-term United States Government contracts to convert, service and maintain Naval, Coast Guard and commercial marine vessels. As Todd transitioned its business from a capital-intensive new ship construction model to a service based business model, the Company's financial performance stabilized considerably, greatly enhancing the consistency and quality of its earnings. On January 17, 2001, Todd announced that it purchased an insurance policy that would greatly reduce the risk of an outstanding environmental liability. As a result, Todd Shipyards' management concluded that the Company no longer needed to maintain its substantial cash reserves.

To assist in deliberation of various strategic, shareholder value, and liquidity issues, Todd Shipyards engaged U.S. Bancorp Piper Jaffray to evaluate and assess its strategic and financial alternatives. Todd debated a number of topics confronting small capitalization public companies:

- The Company was not achieving full value recognition in the public markets as the stock was thinly traded and had minimal research coverage.
- There were no strategic acquisitions available because acquisition candidates could not provide the size and scale needed to garner meaningful Wall Street and institutional investor attention.
- A sale or "going-private" transaction was not feasible since the current market conditions for both strategic and financial buyers were unfavorable.
- Several substantial shareholders, including current directors, had been investors in the Company for a long period of time and desired meaningful liquidity for their investment.

After evaluating several strategic alternatives, Todd Shipyards ultimately decided to return excess cash to shareholders through a Dutch Auction, which was the most effective transaction to accomplish the Company's key objectives.

On June 28, 2001, Todd Shipyards commenced a Dutch Auction self-tender for up to 4,000,000 shares representing approximately 41 percent of the outstanding shares of the Company. The average stock price for the year prior to the announcement was \$7.32. The day prior to the announcement, Todd closed at \$7.55. The price range recommended by U.S. Bancorp Piper Jaffray was \$7.00 to \$8.25 (a total spread of 18 percent) representing a range of a 7 percent discount and 9 percent premium to the prior day pre-announcement price and a 3 percent discount and a 13 percent premium to the prior year average. The offer expired on July 31, 2001, at a clearing price of \$8.25 with a total of 4,136,334 shares tendered (44 percent of outstanding shares). The transaction successfully returned \$34.1 million to shareholders and afforded capital gains treatment to those participants meeting the 20 percent disproportionality test (see "M&A Monitor," February 12, 2001 issue). The Company was able to utilize a Dutch Auction as a highly efficient method to reacquire a significant amount of stock and provide an effective, tax-efficient means to distribute excess cash to shareholders.

## PART VIII: STATUS QUO, ACQUISITIONS AND DIVESTITURES

About one-quarter of Darwin's Darlings stayed on course and did not announce any significant event over the past year. Another 40 percent sought to outgrow the situation either by pursuing a meaningful acquisition or by divesting businesses. These divestitures were an attempt by the companies to eliminate non-core businesses and/or to improve the balance sheet, hoping to attract investor interest. Our findings indicate that this strategy did not lead to substantially better returns than the market, and in fact, those companies that divested operations actually underperformed those that made acquisitions. In many cases, a divestiture was an indicator of poor financial performance and a weak balance sheet. While those companies that pursued acquisitions did so for strategic reasons, they were presumably pursued in part to help these companies grow out of their small-cap valuation problems. As we have shown, larger firms will, in theory, gain more recognition, additional liquidity, and higher valuations. However, for both the acquirers and the firms without any deal activity, the result is largely the same: minimal benefit for shareholders. It is no longer the case that small-cap stocks can hope to grow out of this situation. Becoming large enough for investor attention would require these firms to double in size every year for four or five years in a row. Such an undertaking is completely unrealistic.

Companies that announced an acquisition or divestiture generated a mixed performance. The 3.4 percent median return for the 1999 class was significantly below the 21.7 percent median return for the Russell 2000 Index over the same time period. The group in 2000 did slightly better, generating a median return of 9.8 percent.

For the 40 Darwin's Darlings that did not pursue any major activity, many of them are trading near their 52-week lows. In fact, the 14 companies from the 1999 class that did nothing had a median return of -8.5 percent and more than one-half of them had a negative return for the period. The 26 companies from 2000 that did not pursue any activity had a median return of 11.0 percent—better than the overall market but nearly one-third of the group still generated a negative return to shareholders. Keep in mind, these are results for the **most attractive** small-cap firms.



## PART IX: 2001 DARWIN'S DARLINGS

U.S. Bancorp Piper Jaffray has compiled a new list of Darwin's Darlings for 2001. The maximum multiple to make our short list this year was 6.8x EBIT, which is 50 percent of the S&P 500. This multiple is slightly higher than the 6.1x EBIT used last year. The market capitalization screen remained at \$50 million to \$250 million, while the minimum annualized EBIT growth over five years remains at 10 percent. Our analysis was performed using data as of June 30, 2001. Exhibit XIX presents the summary statistics for the 51 companies selected for our Darwin's Darlings Class of 2001; some of the best performing, yet undervalued small capitalization companies in the United States.

Exhibit XIX

### DARWIN'S DARLINGS SUMMARY STATISTICS

(\$ in Millions)

	Market Capitalization	EBIT Multiple	5-Year EBIT CAGR	Analyst Coverage	Insider Holdings	Avg. Daily Volume (In 000s)
<i>Mean</i>	\$116.1	4.7x	36.0%	2.0	48.8%	110.2
<i>Median</i>	\$97.2	5.1x	23.8%	1.5	49.4%	38.5

Source: FactSet and U.S. Bancorp Piper Jaffray M&A Research

## Exhibit XX

## DARWIN'S DARLINGS CLASS OF 2001

Ticker	Company	Industry	Market Capitalization (\$ in Millions)	EBIT Multiple	5-Year EBIT CAGR <sup>(1)</sup>	Analyst Coverage	Insider Holdings	Avg. Daily Trading Volume (000)
CATS	CATALYST SEMICONDUCTOR INC.	SEMICONDUCTOR,RELATED DEVICE	\$72.2	1.3x	64.1%	1	43.2%	226.3
MFW	M & F WORLDWIDE CORP.	BEVERAGES	\$73.6	1.7x	10.5%	1	53.0%	38.5
USG	USG CORP.	CONCRETE, GYPSUM AND PLASTER	\$183.2	2.0x	22.2%	2	49.1%	675.6
MAIR	MESABA HOLDINGS INC.	AIR TRANSPORT, SCHEDULED	\$187.1	2.1x	21.8%	4	61.1%	100.9
ANK	ATLANTIC TELE-NETWORK INC.	PHONE COMM EX RADIOTELEPHONE	\$66.1	2.2x	14.3%	1	73.9%	2.4
DITC	DITECH COMMUNICATIONS CORP.	TELE & TELEGRAPH APPARATUS	\$220.3	2.4x	40.0%	4	43.1%	745.3
AMIE	AMBASSADORS INTERNATIONAL INC.	TRANSPORTATION SERVICES	\$239.2	3.1x	38.7%	1	55.6%	22.5
SFP	SALTON INC.	ELECTRIC HOUSEWARES AND FANS	\$203.7	3.4x	96.9%	3	17.0%	151.6
PMSI	PRIME MEDICAL SVCS INC.	SPEC OUTPATIENT FACILITY,NEC	\$70.2	3.6x	22.8%	2	58.2%	29.7
HA	HAWAIIAN AIRLINES INC.	AIR TRANSPORT, SCHEDULED	\$109.6	3.8x	17.9%	1	80.1%	40.9
VLGEA	VILLAGE SUPER MARKET	GROCERY STORES	\$52.3	3.8x	23.3%	1	66.9%	1.4
CLZR	CANDELA CORP.	ELECTROMEDICAL APPARATUS	\$70.7	3.9x	43.0%	3	31.4%	65.8
MERX	MERIX CORP.	PRINTED CIRCUIT BOARDS	\$237.9	4.1x	17.7%	5	30.9%	441.8
PCTY	PARTY CITY CORP.	MISC SHOPPING GOODS STORES	\$69.8	4.2x	51.8%	1	45.0%	2.7
SPEC	SPECTRUM CONTROL INC.	ELECTRONIC COMPONENTS, NEC	\$80.1	4.2x	27.1%	3	20.0%	120.6
INOD	INNODATA CORP.	CMP PROCESSING,DATA PREP SVC	\$65.8	4.3x	45.8%	1	35.1%	166.2
INTT	INTEST CORP.	ELEC MEAS & TEST INSTRUMENTS	\$54.6	4.4x	10.2%	2	68.8%	16.0
GAN	GARAN INC.	APPAREL & OTHER FINISHED PDS	\$173.6	4.4x	25.9%	1	64.6%	5.2
CBUK	CUTTER & BUCK INC.	MEN,YTH,BOYS FRNSH,WRK CLTHG	\$55.6	4.4x	58.0%	3	57.9%	104.4
PIII	PECO II INC.	PWR,DISTR,SPECL TRANSFORMERS	\$137.8	4.4x	67.8%	3	41.0%	228.9
AMK	G-III APPAREL GROUP LTD	APPAREL & OTHER FINISHED PDS	\$68.9	4.5x	74.8%	1	77.5%	13.1
GMI	AMERICAN TECH CERAMICS CORP.	ELECTRONIC COMP, ACCESSORIES	\$78.3	4.5x	37.4%	1	58.7%	38.8
ESCA	ESCALADE INC.	SPORTING & ATHLETIC GDS,NEC	\$50.9	4.7x	18.1%	1	53.9%	0.7
HAKI	HALL KINION & ASSOCIATES INC.	HELP SUPPLY SERVICES	\$106.4	4.9x	33.4%	4	25.8%	213.3
MAXS	MAXWELL SHOE CO INC.	FOOTWEAR, EXCEPT RUBBER	\$149.8	5.0x	15.9%	3	60.3%	33.3
PWEI	PW EAGLE INC.	MISC PLASTICS PRODUCTS	\$52.9	5.1x	54.7%	2	53.5%	35.7
XTRM	BRASS EAGLE INC.	SPORTING & ATHLETIC GDS,NEC	\$65.7	5.1x	32.1%	1	70.6%	16.2
CELL	BRIGHTPOINT INC.	ELECTRONIC PARTS,EQ-WHSL,NEC	\$161.8	5.1x	40.4%	4	7.0%	581.6
CYBE	CYBEROPTICS CORP.	OPTICAL INSTRUMENTS & LENSES	\$97.2	5.2x	13.7%	4	41.0%	72.8
GADZ	GADZOOKS INC.	FAMILY CLOTHING STORES	\$119.3	5.2x	21.0%	7	45.1%	151.1
STRT	STRATTEC SECURITY CORP.	MOTOR VEHICLE PART ACCESSORY	\$141.2	5.2x	14.6%	1	50.8%	6.4
MODT	MODTECH HOLDINGS INC.	PREFAB WOOD BLDGS & COMPONTS	\$91.5	5.3x	62.9%	1	47.7%	35.2
EXPO	EXPONENT INC.	MANAGEMENT CONSULTING SVCS	\$71.0	5.3x	18.8%	2	51.0%	21.9
CAE	CASCADE CORP.	INDL TRUCKS,TRACTORS,TRAILRS	\$114.4	5.3x	17.1%	2	48.4%	28.5
DRAM	DATARAM CORP.	COMPUTER STORAGE DEVICES	\$84.0	5.3x	35.2%	1	24.5%	82.8
REMX	REMEDYTEMP INC.	HELP SUPPLY SERVICES	\$127.1	5.3x	11.9%	2	63.0%	18.9
USAP	UNVL STAINLESS & ALLOY PRODS	STEEL WORKS & BLAST FURNACES	\$55.9	5.4x	23.4%	1	55.6%	24.5
EZMA	E-Z-EM-INC.	IN VITRO,IN VIVO DIAGNOSTICS	\$52.3	5.6x	24.5%	-	49.3%	0.6
PMRY	POMEROY COMPUTER RES INC.	COMPUTERS & SOFTWARE-WHSL	\$188.7	5.6x	33.7%	1	37.4%	68.6
WORK	WORKFLOW MGMT INC.	PAPER & PAPER PRODUCTS-WHSL	\$80.4	5.6x	21.8%	1	28.3%	94.8
BWLA	BOWL AMERICA INC.	AMUSEMENT & RECREATION SVCS	\$50.9	5.8x	10.6%	1	49.4%	1.9
BKST	BROOKSTONE INC.	RETAIL STORES	\$147.8	6.0x	23.9%	1	53.4%	33.5
CHTT	CHATTEM INC.	PHARMACEUTICAL PREPARATIONS	\$93.9	6.0x	23.1%	2	59.9%	50.7
TRKN	TRIKON TECHNOLOGIES INC.	SPECIAL INDUSTRY MACHY, NEC	\$166.2	6.1x	45.5%	2	40.3%	153.1
ARDNA	ARDEN GROUP INC.	GROCERY STORES	\$166.0	6.2x	23.8%	1	65.3%	1.4
SWW	SITEL CORP.	BUSINESS SERVICES, NEC	\$116.7	6.2x	17.8%	3	41.0%	141.9
KIDD	FIRST YEARS INC.	MISC PLASTICS PRODUCTS	\$102.8	6.3x	11.9%	1	60.8%	15.2
BNHNA	BENIHANA INC.	EATING PLACES	\$81.6	6.3x	16.0%	1	76.5%	9.9
VOXX	AUDIOVOX CORP.	ELECTRONIC PARTS,EQ-WHSL,NEC	\$240.2	6.4x	29.4%	1	40.6%	272.4
SHOO	MADDEN STEVEN LTD.	FOOTWEAR, EXCEPT RUBBER	\$206.3	6.4x	47.5%	2	32.1%	206.2
KWR	QUAKER CHEMICAL CORP.	MISC PDS OF PETROLEUM & COAL	\$170.0	6.4x	16.6%	2	26.0%	9.9

<sup>(1)</sup> Data from LTM five years ago, or latest available data.

Source: U.S. Bancorp Piper Jaffray M&A Research

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Exhibit XXI

## DARWIN'S DARLINGS CLASS OF 2000

Ticker	Company Name	Industry	Market Capitalization (\$ in Millions)	EBIT Multiple	5-Year EBIT CAGR <sup>(1)</sup>	Analyst Coverage	Insider Holdings	Action Taken (6/30/00-6/30/01)
MARK	MARKET AMERICA INC.	DURABLE GOODS-WHOLESALE	\$92.3	2.0x	21.3%	0	80.0%	None
NVH	NATIONAL R V HOLDINGS INC.	MOTOR HOMES	\$136.4	2.1x	50.7%	5	27.5%	None
FNCO	FUNCO INC.	HOBBY, TOY, AND GAME SHOPS	\$64.4	3.1x	76.4%	4	63.4%	Sold
MAIR	MESABA HOLDINGS INC.	AIR TRANSPORT, SCHEDULED	\$231.8	3.3x	51.8%	6	44.2%	None
CAV	CAVALIER HOMES INC.	MOBILE HOMES	\$65.8	3.5x	18.2%	1	17.8%	None
AMIE	AMBASSADORS INTERNATIONAL INC.	TRANSPORTATION SERVICES	\$116.1	3.5x	30.7%	3	49.7%	None
RHH	ROBERTSON CECO CORP.	PREFAB METAL BLDGS & COMP	\$158.1	3.6x	97.2%	1	73.9%	Sold
AFP	UNITED CAPITAL CORP.	MISC FABRICATED METAL PRODS	\$76.4	3.6x	13.6%	4	57.7%	None
SIDE	ASSOCIATED MATERIALS INC.	PLASTICS PRODUCTS, NEC	\$77.0	3.7x	12.0%	3	90.0%	Acquisition, Share repurchase
GEHL	GEHL CO.	CONSTRUCTION MACHINERY & EQ	\$105.2	3.9x	18.4%	4	31.7%	None
DCO	DUCOMMUN INC.	AIRCRAFT PARTS, AUX EQ, NEC	\$92.3	4.0x	34.5%	2	56.4%	Acquisition/Divestiture
AMTR	AMTRAN INC.	AIR TRANSPORT, NONSCHEDULED	\$208.5	4.2x	61.0%	4	86.8%	Sold
DW	DREW INDUSTRIES INC.	METAL DOORS, FRAMES, MOLD, TRIM	\$92.2	4.2x	26.8%	1	49.6%	Acquisition/Divestiture
GAN	GARAN INC.	APPAREL & OTHER FINISHED PDS	\$137.0	4.3x	22.4%	1	66.2%	Share repurchase
MLG	MUSICLAND STORES CORP.	RECORD AND TAPE STORES	\$246.4	4.3x	13.4%	4	36.0%	Sold
WAK	WACKENHUT CORP.	DETECT, GUARD, ARMOR CAR SVCS	\$194.3	4.4x	19.2%	4	49.3%	Acquisition/Divestiture
WN	WYNN'S INTERNATIONAL INC.	GASKETS, HOSE, BLTNG-RUBR, PLSTC	\$248.5	4.4x	14.1%	1	50.8%	Sold
ABFS	ARKANSAS BEST CORP.	TRUCKING, EXCEPT LOCAL	\$186.1	4.5x	14.4%	4	38.8%	None
ABL	AMERICAN BILTRITE INC.	PLASTICS PRODUCTS, NEC	\$50.9	4.5x	34.2%	0	80.1%	Acquisition/Divestiture
PDM	PITT-DES MOINES INC.	FABRICATED PLATE WORK	\$161.2	4.5x	17.8%	1	77.0%	Sold
PSCX	PSC INC.	COMPUTER PERIPHERAL EQ, NEC	\$60.4	4.6x	29.1%	1	46.8%	None
STLY	STANLEY FURNITURE CO. INC.	WOOD HSHLD FURN, EX UPHOLSRD	\$124.9	4.7x	29.5%	6	56.4%	Share repurchase
RAM	ROYAL APPLIANCE MFG. CO.	HOUSEHOLD APPLIANCES	\$89.4	4.7x	188.6%	1	50.3%	None
MDA	MEDIA ARTS GROUP INC.	COMMERCIAL PRINTING	\$108.4	4.7x	22.7%	1	55.3%	None
ACTN	ACTION PERFORMANCE COS. INC.	MISC DURABLE GOODS-WHSL	\$150.5	4.6x	107.8%	1	15.0%	None
IEE	INTEGRATED ELECTRICAL SVCS	ELECTRICAL WORK	\$237.2	4.8x	343.3%	6	40.9%	None
LYTS	LSI INDS INC.	ELECTRIC LIGHTING, WIRING EQ	\$165.0	4.9x	27.9%	3	32.5%	Acquisition/Divestiture
TBAC	TANDY BRANDS ACCESSORIES INC.	APPAREL & OTHER FINISHED PDS	\$54.0	4.9x	14.6%	4	41.5%	Acquisition/Divestiture
GDYS	GOODYS FAMILY CLOTHING INC.	FAMILY CLOTHING STORES	\$231.6	5.0x	17.6%	4	42.1%	None
ARDNA	ARDEN GROUP INC.	GROCERY STORES	\$110.2	5.0x	16.8%	1	60.9%	None
KIDD	FIRST YEARS INC.	MISC PLASTICS PRODUCTS	\$81.2	5.0x	22.6%	3	28.6%	None
STRT	STRATTEC SECURITY CORP	MOTOR VEHICLE PART, ACCESSORY	\$156.3	5.1x	25.4%	3	60.6%	None
ESCA	ESCALADE INC.	SPORTING & ATHLETIC GDS, NEC	\$51.6	5.1x	34.7%	1	58.3%	Acquisition, Share repurchase
MAGI	MCNAUGHTON APPAREL GROUP INC.	WOMENS, MISSES, JRS OUTERWEAR	\$64.7	5.1x	22.3%	1	57.7%	Sold
FGH	FRIEDE GOLDMAN HALTER INC.	OIL & GAS FIELD MACHY, EQUIP	\$123.0	5.2x	94.0%	2	49.9%	Acquisition/Divestiture
AP	AMPCO-PITTSBURGH CORP.	METAL FORGINGS AND STAMPINGS	\$116.3	5.2x	21.1%	1	61.5%	None
AMWD	AMERICAN WOODMARK CORP.	MILLWORK, VENEER, PLYWOOD	\$131.2	5.2x	20.5%	2	43.8%	None
HWKN	HAWKINS CHEMICAL INC.	CHEMICALS & ALLIED PDS-WHSL	\$89.0	5.2x	10.1%	1	36.1%	None
BDOG	BIG DOG HOLDINGS INC.	FAMILY CLOTHING STORES	\$51.0	5.3x	42.5%	1	74.1%	Share repurchase
ABTE	ABLE TELCOM HOLDING CORP	ELECTRICAL WORK	\$56.6	5.3x	98.5%	1	15.9%	Sold
PGDA	PIERCING PAGODA	JEWELRY STORES	\$109.0	5.3x	23.2%	5	64.0%	Sold
TAGS	TARRANT APPAREL GROUP	WOMENS, MISSES, JRS OUTERWEAR	\$116.5	5.4x	30.7%	2	60.8%	None
BOSA	BOSTON ACOUSTICS INC.	HOUSEHOLD AUDIO & VIDEO EQ	\$72.1	5.4x	13.6%	1	59.6%	None
HNFA	HANOVER FOODS CORP.	CAN FRUIT, VEG, PRESRV, JAM, JEL	\$50.4	5.7x	10.7%	0	44.1%	None
ALRC	ALTERNATIVE RESOURCES CORP.	HELP SUPPLY SERVICES	\$52.4	5.7x	13.2%	3	20.8%	Acquisition/Divestiture
EML	EASTERN CO.	CUTLERY, HAND TOOLS, GEN HRDWR	\$55.0	5.8x	25.0%	0	45.2%	None
CGX	CONSOLIDATED GRAPHICS INC.	COMMERCIAL PRINTING	\$208.4	5.8x	61.9%	5	34.0%	None
CBUK	CUTTER & BUCK INC.	MEN, YTH, BOYS FRNSH, WRK CLTHG	\$99.3	6.1x	103.6%	9	20.7%	None

<sup>(1)</sup> Data from LTM five years ago, or latest available data.

Source: U.S. Bancorp Piper Jaffray M&amp;A Research

## Exhibit XXII

## DARWIN'S DARLINGS CLASS OF 1999

Ticker	Company Name	Industry Name	Market Capitalization (\$ in Millions)	EBIT Multiple	5-Year EBIT CAGR <sup>(1)</sup>	Analyst Coverage	Insider Holdings	Action Taken (1/199-6/30/01)
PAR	COASTCAST CORP.	SPORTING & ATHLETIC GDS,NEC	\$70.1	2.3x	11.3%	1	32.4%	Acquisition/Divestiture, Share repurchase
FUTR	IFX CORP.	FUNCTIONS REL. TO DEP BKE,NEC	\$53.9	2.8x	43.6%	0	56.1%	Acquisition/Divestiture
GIFI	GULF ISLAND FABRICATION INC.	OIL & GAS FIELD MACHY, EQUIP	\$90.2	3.1x	140.5%	4	44.1%	None
DAVX	DAVOX CORP.	TELE & TELEGRAPH APPARATUS	\$108.7	3.1x	110.4%	6	62.8%	Share repurchase
INFM	INFINIUM SOFTWARE INC.	PREPACKAGED SOFTWARE	\$78.2	3.3x	15.8%	5	51.6%	Acquisition/Divestiture, Share repurchase
AP	AMPCO-PITTSBURGH CORP.	METAL FORGINGS AND STAMPINGS	\$104.2	3.5x	33.4%	0	61.4%	Acquisition/Divestiture
STBI	STB SYSTEMS INC.	COMPUTER PERIPHERAL EQ, NEC	\$88.9	3.5x	39.1%	4	19.1%	Sold
ONX	ONIX SYSTEMS INC.	INDUSTRIAL MEASUREMENT INSTR	\$95.7	3.7x	38.7%	3	88.2%	Sold, Share repurchase
IFR	IRI INTERNATIONAL CORP.	OIL & GAS FIELD MACHY, EQUIP	\$159.6	3.9x	85.6%	4	73.4%	Sold
SMCX	SPECIAL METALS CORP.	ROLLING & DRAW NONFER METAL	\$138.5	3.9x	18.1%	6	76.7%	None
BYX	BAYOU STEEL CORP.	STEEL WORKS & BLAST FURNACES	\$53.2	4.0x	65.3%	1	23.7%	None
LDSH	LADISH CO INC.	AIRCRAFT ENGINE,ENGINE PARTS	\$116.4	4.0x	117.4%	2	54.0%	Acquisition/Divestiture, Share repurchase
CTI	CHART INDUSTRIES INC.	FABRICATED PLATE WORK	\$181.5	4.2x	89.0%	3	39.9%	Acquisition/Divestiture
LUFK	LUFKIN INDUSTRIES INC.	PUMPS AND PUMPING EQUIPMENT	\$121.1	4.4x	80.6%	1	14.5%	Share repurchase
ICO	INACOM CORP.	CMP AND CMP SOFTWARE STORES	\$249.4	4.4x	29.9%	7	33.8%	Acquisition/Divestiture
LDRY	LANDRYS SEAFOOD RESTAURANTS	EATING PLACES	\$227.6	4.5x	61.3%	6	35.1%	None
LIND	LINDBERG CORP.	MISC PRIMARY METAL PRODUCTS	\$53.4	4.5x	36.2%	2	35.3%	Sold, Acquisition/Divestiture
COHU	COHU INC.	ELEC MEAS & TEST INSTRUMENTS	\$214.2	4.5x	23.9%	3	11.7%	Acquisition/Divestiture
HORC	HORIZON HEALTH CORP.	MANAGEMENT SERVICES	\$54.9	4.6x	80.2%	4	32.6%	Acquisition/Divestiture, Share repurchase
FOTO	SEATTLE FILMWORKS INC.	PHOTOFINISHING LABORATORIES	\$77.6	4.7x	22.4%	1	36.0%	Acquisition/Divestiture
MAXS	MAXWELL SHOE CO. INC.	FOOTWEAR, EXCEPT RUBBER	\$96.2	4.7x	26.1%	5	58.7%	Acquisition/Divestiture
FSCR	FEDERAL SCREW WORKS	BOLT,NUT,SCREW,RIVETS,WASHRS	\$54.0	4.7x	25.0%	0	54.0%	None
NMSS	NATURAL MICROSYSTEMS CORP.	TELE & TELEGRAPH APPARATUS	\$79.8	4.8x	62.9%	11	21.6%	Acquisition/Divestiture
GEHL	GEHL CO.	FARM MACHINERY AND EQUIPMENT	\$98.5	4.8x	29.5%	5	34.4%	Share repurchase
DCO	DUCCOMMUN INC.	AIRCRAFT PARTS, AUX EQ, NEC	\$153.9	4.8x	36.9%	2	43.4%	Acquisition/Divestiture, Share repurchase
ABL	AMERICAN BILTRITE INC.	PLASTICS PRODUCTS, NEC	\$74.8	4.8x	42.0%	0	75.3%	Acquisition/Divestiture
CSI	CHASE INDUSTRIES INC.	ROLLING & DRAW NONFER METAL	\$159.0	4.8x	27.2%	1	84.6%	Acquisition/Divestiture
LCSI	LCS INDUSTRIES INC.	DIRECT MAIL ADVERTISING SVCS	\$84.2	4.8x	45.3%	0	38.1%	Sold
VIAS	VIAISOFT INC.	PREPACKAGED SOFTWARE	\$127.0	4.8x	20.0%	5	26.0%	Sold
ONDI	ONTRACK DATA INTL. INC.	CMP PROGRAMMING,DATA PROCESS	\$61.9	4.9x	28.8%	6	70.0%	Acquisition/Divestiture
FINL	FINISH LINE INC.	SHOE STORES	\$187.8	4.9x	22.1%	14	31.8%	Share repurchase
GDI	GARDNER DENVER INC.	GENERAL INDUSTRIAL MACH & EQ	\$238.4	4.9x	57.1%	4	32.8%	Acquisition/Divestiture
RESC	ROANOKE ELECTRIC STEEL CORP.	STEEL WORKS & BLAST FURNACES	\$162.7	4.9x	26.5%	1	36.8%	None
AMIE	AMBASSADORS INTERNATIONAL INC.	TRANSPORTATION SERVICES	\$146.2	5.0x	47.4%	2	49.6%	Acquisition/Divestiture
TEC	COMMERCIAL INTERTECH	MISC INDL, COML, MACHY & EQ	\$184.6	5.0x	14.4%	2	22.2%	Sold, Share repurchase
WIRE	ENCORE WIRE CORP.	ROLLING & DRAW NONFER METAL	\$146.2	5.1x	54.9%	4	54.0%	None
CPAK	CPAK INC.	SPECIAL INDUSTRY MACHY, NEC	\$51.0	5.1x	20.1%	0	36.7%	Share repurchase
TDI	TWIN DISC INC.	GENERAL INDUSTRIAL MACH & EQ	\$58.5	5.1x	22.6%	0	47.1%	Acquisition/Divestiture
MASK	ALIGN-RITE INTERNATIONAL INC.	GLASS,GLASSWR,PRESSD,BLOWN	\$52.1	5.1x	19.8%	4	46.5%	Sold, Acquisition/Divestiture
HOTT	HOT TOPIC INC.	APPAREL AND ACCESSORY STORES	\$62.2	5.2x	43.6%	4	58.7%	Share repurchase
SYM	SYMS CORP.	FAMILY CLOTHING STORES	\$153.2	5.2x	11.1%	1	68.3%	Share repurchase
GX	GENCOR INDUSTRIES INC.	INDL PROCESS FURNACES, OVENS	\$80.0	5.2x	63.5%	2	37.3%	Acquisition/Divestiture
JAIL	JOHNSTOWN AMER INDS.	MOTOR VEHICLE PART,ACCESSORY	\$129.9	5.3x	40.5%	2	20.2%	Sold
SEHI	SOUTHERN ENERGY HOMES INC.	PREFAB WOOD BLDGS & COMPNOTS	\$79.6	5.3x	10.3%	2	32.0%	None
URGI	UNITED RETAIL GROUP INC.	WOMEN'S CLOTHING STORES	\$140.7	5.4x	28.5%	0	67.2%	Share repurchase
ESCA	ESCALADE INC.	SPORTING & ATHLETIC GDS,NEC	\$57.5	5.4x	16.1%	0	48.5%	Acquisition/Divestiture, Share repurchase
PLNR	PLANAR SYSTEMS INC.	ELECTRONIC COMPONENTS, NEC	\$73.5	5.4x	16.3%	5	28.8%	Acquisition/Divestiture
CRGO	MOTOR CARGO INDUSTRIES INC.	TRUCKING, EXCEPT LOCAL	\$55.9	5.4x	15.2%	2	65.7%	Share repurchase
AFP	UNITED CAPITAL CORP.	MISC FABRICATED METAL PRODS	\$88.4	5.4x	13.6%	0	58.2%	Share repurchase
SHS	SAUER INC.	MISC INDL, COML, MACHY & EQ	\$207.2	5.6x	18.0%	3	63.1%	Acquisition/Divestiture
MPP	GENERAL CIGAR HLDGS.	TOBACCO PRODUCTS	\$240.1	5.7x	46.5%	4	87.8%	Sold
CMPC	COMPUCOM SYSTEMS INC.	COMPUTERS & SOFTWARE-WHSL	\$164.3	5.7x	12.8%	6	67.0%	Acquisition/Divestiture
DTII	DT INDUSTRIES INC.	SPECIAL INDUSTRY MACHY, NEC	\$157.4	5.7x	47.5%	5	48.0%	Acquisition/Divestiture
ICST	INTEGRATED CIRCUIT SYSTEMS	SEMICONDUCTOR,RELATED DEVICE	\$217.2	5.8x	12.2%	6	5.3%	Acquisition/Divestiture
GRDL	GRADALL INDUSTRIES INC.	CONSTRUCTION MACHINERY & EQ	\$138.7	5.8x	21.5%	3	80.1%	Sold
PRMS	PREMSYS COMMUNICATIONS INC.	TELE & TELEGRAPH APPARATUS	\$221.5	5.8x	81.5%	8	48.0%	Sold
WLSN	WILSONS LEATHER EXPERTS INC.	APPAREL AND ACCESSORY STORES	\$119.1	5.9x	60.3%	2	61.0%	Acquisition/Divestiture
ADMS	ADVANCED MARKETING SERVICES	MISC NONDURABLE GOODS-WHSL	\$108.0	5.9x	57.8%	1	66.3%	Acquisition/Divestiture, Share repurchase
LENS	CONCORD CAMERA CORP.	PHOTOGRAPHIC EQUIP & SUPPL	\$54.9	5.9x	115.3%	0	50.1%	Acquisition/Divestiture, Share repurchase
OMOP	OMNIQUIP INTERNATIONAL INC.	INDL TRUCKS,TRACTORS,TRAILRS	\$214.1	5.9x	61.0%	6	31.3%	Sold
IVAC	INTEVAC INC.	SPECIAL INDUSTRY MACHY, NEC	\$76.4	5.9x	15.8%	3	55.0%	Sold
AGI	ALPINE GROUP INC.	DRAWNG,INSULATNG NONFER WIRE	\$245.2	5.9x	64.0%	1	48.1%	Acquisition/Divestiture
PNNA	PENN ENGR & MFG CORP.	BOLT,NUT,SCREW,RIVETS,WASHRS	\$170.1	6.0x	16.6%	2	52.6%	Acquisition/Divestiture, Share repurchase
TLCM	TELCOM SEMICONDUCTOR INC.	SEMICONDUCTOR,RELATED DEVICE	\$52.5	6.0x	72.1%	1	48.9%	Sold
SBSE	SBS TECHNOLOGIES INC.	INDUSTRIAL MEASUREMENT INSTR	\$107.8	6.0x	63.0%	4	26.4%	Acquisition/Divestiture
MAVK	MAVERICK TUBE CORP.	STEEL PIPE AND TUBES	\$85.9	6.0x	32.6%	6	2.2%	Acquisition/Divestiture
MKA	METRIKA SYSTEMS CORP.	INDUSTRIAL MEASUREMENT INSTR	\$70.2	6.0x	17.8%	1	61.6%	Sold, Share repurchase
AGY	ARGOSY GAMING CORP.	MISC AMUSEMENT & REC SERVICE	\$65.8	6.1x	32.9%	4	60.0%	Acquisition/Divestiture
RES	RPC INC.	SHIP & BOAT BLDG & REPAIRING	\$213.7	6.1x	31.5%	1	75.2%	Acquisition/Divestiture, Share repurchase
POWL	POWELL INDUSTRIES INC.	SWITCHGEAR & SWITCHBOARD APP	\$106.2	6.1x	33.7%	1	65.3%	Share repurchase
FMK	FIBERMARK INC.	CONVRT PAPER,PAPBRD,EX BOXES	\$105.9	6.1x	43.7%	4	34.4%	Acquisition/Divestiture, Share repurchase
TBW	TB WOODS	GENERAL INDUSTRIAL MACH & EQ	\$70.6	6.1x	14.0%	3	81.2%	Share repurchase
IAL	INTL ALUMINUM	METAL DOORS,FRAMES,MOLD,TRIM	\$126.9	6.2x	30.6%	0	67.4%	Acquisition/Divestiture, Share repurchase
REMX	REMEDYTEMP INC.	HELP SUPPLY SERVICES	\$136.3	6.2x	34.1%	7	63.9%	None
JEVC	JEVIC TRANSPORTATION	TRUCKING, EXCEPT LOCAL	\$84.2	6.3x	41.2%	2	77.6%	Sold

Fall 2001

Exhibit XXII

## DARWIN'S DARLINGS CLASS OF 1999, CONTINUED

Ticker	Company Name	Industry Name	Market Capitalization (\$ in Millions)	EBIT Multiple	5-Year EBIT CAGR <sup>(1)</sup>	Analyst Coverage	Insider Holdings	Action Taken (1/1/99-6/30/01)
PBYP	PLAY BY PLAY TOYS & NOVELTIES	DOLLS AND STUFFED TOYS	\$51.2	6.3x	38.6%	3	50.5%	Acquisition/Divestiture
RFMI	RF MONOLITHICS INC.	RADIO,TV BROADCAST, COMM EQ	\$53.0	6.4x	28.3%	4	47.8%	None
TMAR	TRICO MARINE SERVICES INC.	WATER TRANSPORTATION	\$99.3	6.4x	100.4%	8	6.8%	Acquisition/Divestiture
VIR	VIRCO MANUFACTURING	PUBLIC BLDG & REL FURNITURE	\$178.3	6.4x	25.8%	2	19.1%	Share repurchase
BDR	BLONDER TONGUE LABS INC.	RADIO,TV BROADCAST, COMM EQ	\$54.4	6.4x	20.8%	1	65.1%	None
DW	DREW INDUSTRIES INC.	METAL DOORS,FRAMES,MOLD,TRIM	\$131.9	6.4x	29.1%	2	50.4%	Acquisition/Divestiture, Share repurchase
PROI	CFI PROSERVICES INC.	PREPACKAGED SOFTWARE	\$58.5	6.4x	17.6%	4	32.4%	Sold, Acquisition, Share repurchase
LOD	LODGIAN INC.	HOTELS,MOTELS,TOURIST COURTS	\$90.0	6.5x	39.5%	3	20.8%	Acquisition/Divestiture/Divestiture
ITEQ	ITEQ INC.	FABRICATED PLATE WORK	\$59.8	6.5x	77.7%	4	21.9%	Sold, Acquisition/Divestiture
DAYR	DAY RUNNER INC.	BLANKBOOKS,BINDERS,BOOKBIND	\$122.3	6.5x	14.3%	4	55.4%	Acquisition/Divestiture
YRKG	YORK GROUP INC.	MISC MANUFACTURING INDUSTRIES	\$84.8	6.5x	14.1%	4	18.3%	Sold, Acquisition/Divestiture
SY	SHELBY WILLIAMS INDS. INC.	MISC FURNITURE AND FIXTURES	\$107.2	6.5x	19.0%	3	41.8%	Sold
SOSS	SOS STAFFING SERVICES INC.	HELP SUPPLY SERVICES	\$91.9	6.5x	68.3%	5	29.1%	Acquisition/Divestiture
GSCN	GENERAL SCANNING INC.	SPECIAL INDUSTRY MACHY, NEC	\$76.7	6.6x	24.1%	7	28.9%	Sold
OPTT	OPTEK TECHNOLOGY INC.	SEMICONDUCTOR,RELATED DEVICE	\$145.5	6.6x	12.0%	4	22.2%	Sold
ABCO	AMERICAN BUILDINGS COMPANY	PREFAB METAL BLDGS & COMP	\$130.0	6.6x	31.0%	2	54.8%	Sold, Acquisition/Divestiture
MSCC	MICROSEMI CORP.	SEMICONDUCTOR,RELATED DEVICE	\$129.5	6.6x	19.8%	1	59.4%	Acquisition/Divestiture
KTIC	KAYNAR TECHNOLOGIES INC.	BOLT,NUT,SCREW,RIVETS,WASHRS	\$138.1	6.6x	52.5%	2	70.4%	Sold
STLY	STANLEY FURNITURE CO. INC.	WOOD HSHLD FURN, EX UPHOLSRD	\$131.0	6.6x	34.0%	5	61.0%	Share repurchase
AZZ	AZTEC MANUFACTURING CO.	ELECTRIC LIGHTING,WIRING EQ	\$50.6	6.7x	19.5%	1	16.5%	Acquisition/Divestiture
GADZ	GADZOOKS INC.	FAMILY CLOTHING STORES	\$68.9	6.7x	26.5%	7	59.5%	None
MRVC	MRV COMMUNICATIONS INC.	COMPUTER COMMUNICATION EQUIP	\$164.9	6.7x	94.6%	3	23.1%	Acquisition/Divestiture
SVTG	SAVOIR TECHNOLOGY GROUP INC.	COMPUTERS & SOFTWARE-WHSL	\$86.9	6.7x	330.1%	3	49.1%	Sold, Acquisition/Divestiture
DUCK	DUCKWALL ALCO STORES INC.	VARIETY STORES	\$67.4	6.7x	18.5%	2	48.9%	Share repurchase
MYR	MYR GROUP INC.	WATER,SEWER,PIPE LINE CONSTR	\$64.6	6.9x	38.8%	1	73.3%	Sold, Share repurchase
RGB	BARRY (R G)	FOOTWEAR, EXCEPT RUBBER	\$107.2	6.9x	23.9%	0	33.3%	Share repurchase
GNWR	GENESEE & WYOMING INC.	RAILROADS,LINE-HAUL OPERATNG	\$63.1	6.9x	40.2%	2	59.6%	Acquisition/Divestiture, Share repurchase
NADX	NATIONAL DENTEX CORP.	HEALTH SERVICES	\$58.6	6.9x	21.7%	1	48.6%	Acquisition/Divestiture
LCUT	LIFETIME HOAN CORP.	CUTLERY,HAND TOOLS,GEN HRDWR	\$122.7	7.0x	11.1%	0	56.3%	Acquisition/Divestiture, Share repurchase
GMRK	GULFMARK OFFSHORE INC.	DEEP SEA FRN TRANS-FREIGHT	\$127.9	7.0x	51.7%	2	65.5%	Acquisition/Divestiture
NWK	NETWORK EQUIPMENT TECH INC.	COMPUTER COMMUNICATION EQUIP	\$218.7	7.0x	30.2%	5	24.1%	Acquisition/Divestiture
WOHD	WOODHEAD INDUSTRIES INC.	ELECTRIC LIGHTING,WIRING EQ	\$138.0	7.0x	15.9%	4	25.7%	None
CRC	CHROMCRAFT REVINGTON INC.	WOOD HSHLD FURN, EX UPHOLSRD	\$181.0	7.0x	10.9%	3	66.1%	Acquisition/Divestiture, Share repurchase
KTI	K-TRON INTERNATIONAL INC.	INDUSTRIAL MEASUREMENT INSTR	\$56.2	7.0x	34.3%	1	50.3%	Share repurchase
MPAA	MOTORCAR PTS & ACCESSORS INC.	MISC ELEC MACHY,EQ,SUPPLIES	\$73.6	7.0x	46.5%	2	34.7%	None

<sup>(1)</sup> Data from LTM five years ago, or latest available data.

Source: U.S. Bancorp Piper Jaffray M&amp;A Research

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