Chain Restaurant Merger & Acquisition Census

2004 Summary Report

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2004 Census Overview

The Census captured 119 announced transactions, 53% more than in 2003. A near record of thirteen public and two going private transactions were recorded demonstrating the strengthening in public market activity. Equity funds and management teams found significant value in the industry this year accounting for almost one in four of all private company transactions. As last year, many of this year's transactions reflect troubled chains sold through court proceedings.

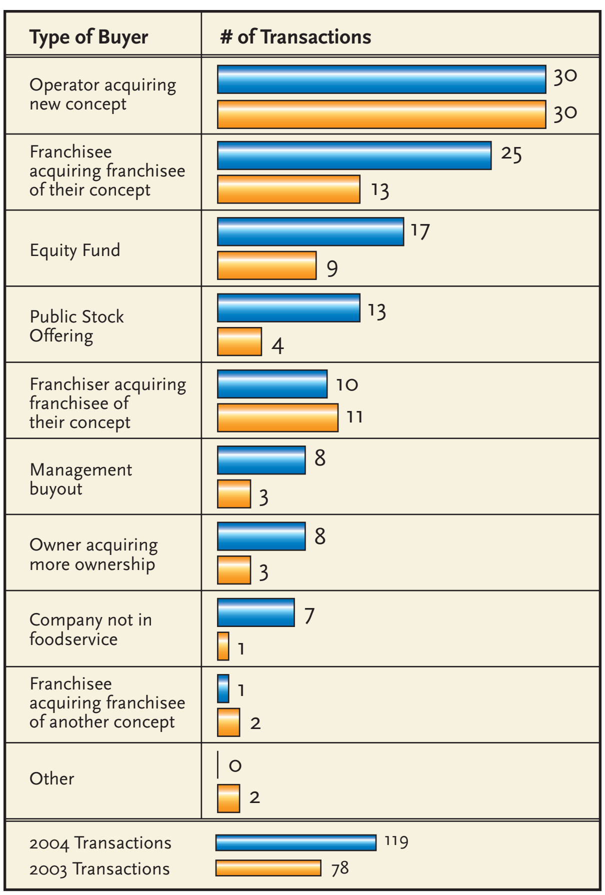
The Census reports change of ownership activity for chain restaurants in the United States. In order to be counted in the Census, a meaningful change of ownership must have been announced. The Census does not include routine trades of restaurant securities on a formal exchange, but does include initial public offerings, subsequent stock offerings, significant investments and, of course, traditional mergers and acquisitions.

Restaurant chains qualify for the Census if either the acquirer or the target are headquartered in the United States and have at least four separate foodservice establishments of the same or different concept. Qualifying candidates include quick service, fast casual, full service and cafeteria/buffet firms.

The Census lists those transactions which have been announced during the census year. Some of the transactions may not have been completed.

Type of Buyer

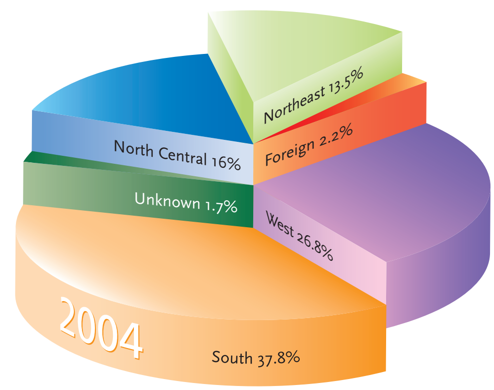
While operators acquiring a new concept continued to lead the Census with 25% of all activity, the most significant increase in activity was recorded by buyers not in the foodservice industry. Seven IPO filings and six secondary offerings and public company private placements were recorded compared to only four such transaction announcements last year. Buyers related in some way to either the target company or the concept were very active with eight management buyouts, 25 franchisees increasing the number of units in their existing brand, eight present owners acquiring more ownership, and in ten situations franchisers acquiring their own franchisees.



Geographical Region of Target Company

The Northeast region had the largest increase in activity from last year, yet the Southern region continued to host the largest number of transactions. Very few foreign buyers were attracted to U.S. restaurant chains despite the favorable currency exchange. Unlike in prior years, domestic multinational chains moved to buy back some of their foreign franchised markets.

Region	2004	%	2003	%
South	45	37.8	38	48.8
West	32	26.8	20	25.6
North Central	19	16.0	14	17.9
Northeast	16	13.5	4	5.1
Foreign	5	2.2	2	2.6
Unknown	2	1.7	0	0.0
Totals	**119**	**100.0**	**78**	**100.0**



Industry Segment

Segment	2004	%	2003	%
Burger	25	21.0	14	17.9
Midscale	17	14.3	10	12.8
Ethnic	13	10.9	11	14.1
Family/Coffee Shop	12	10.1	4	5.1
Sandwich	10	8.4	2	2.6
Bakery	8	6.7	5	6.4
Pizza	7	5.9	5	6.4
Steak House	5	4.2	8	10.3
Contract Feeder	5	4.2	4	5.1
Ice Cream	5	4.2	1	1.3
Seafood	4	3.4	1	1.3
Chicken	2	1.7	7	9.0
Cafeteria	2	1.7	3	3.8
Diversified	2	1.7	2	2.6
Dinner House	1	0.8	1	1.3
Juice Bar	1	0.8	0.0	0.0
Totals	**119**	**100.0**	**78**	**100.0**

The Burger segment once again led the Census reflecting eleven Burger King transactions. Both quick service and full service Mexican concepts scored the greatest number of transactions among the many ethnic transactions. Sandwich chains, which accounted for approximately 10% of transactions since 2001, dropped below historical levels. Quick service concepts captured almost 57% of all transactions.

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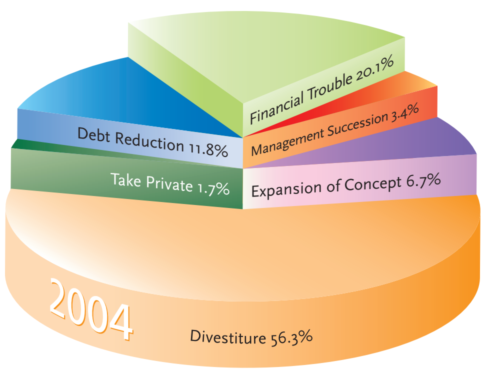
The goal of the Census is to provide restaurant executives with comparative industry information to assist in making major strategic growth decisions.
In addition to buyer, seller and target names and locations, the Census obtains the following information:

- The category of buyer (franchiser acquiring franchisee, foreign company, operator buying unrelated concept, public shareholders, present owner acquiring more stock, etc.).
- Asset acquired (capital stock, assets, expansion rights, etc.).
- Reason the seller was selling the target (financial difficulty, divestiture, cash for expansion, pay down debt, etc.).
- Principal reason the buyer acquired the target (investment, conversion, new concept, etc.).
- Geographical region of target company.
- Industry segment (burger, chicken, pizza, family, cafeteria, etc.).

Because the vast majority of the transactions are private and confidential, purchase price information is normally unavailable. While this information is useful, some buyers and sellers do not allow publication of this information in the Census.

Information is compared with prior years to assist in identifying trends. The following information summarizes the key statistics of the Census for 2003 and 2004.

Reason	2004	%	2003	%
Divestiture	67	56.3	51	65.4
Financial trouble	24	20.1	19	24.3
Debt reduction	14	11.8	3	3.8
Expansion of concept	8	6.7	1	1.3
Management succession	4	3.4	2	2.6
Take private	2	1.7	2	2.6
Totals	**119**	**100.0**	**78**	**100.0**



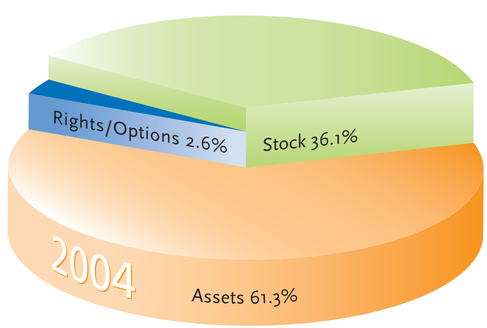
Reason for the Sale

Few large chains grew through new acquisitions while several divested marginal brands. Buyers of distressed and bankrupt companies continued to negotiate bargain prices. Public offerings and private equity placements listed the reduction of debt and new unit construction as the major reasons for the sale of their securities. Only two public companies went private, equal to last year.

Type of Deal

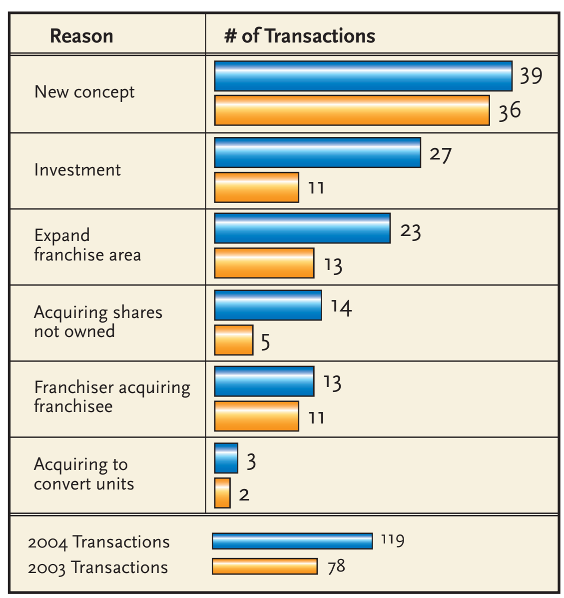
The large number of bankruptcy and troubled company sales produced the high percentage of assets sold for cash.
In 94% of the non-public market transactions, sellers insisted upon payment in cash, and in 69% of those transactions, buyers chose to buy assets rather than stock. Eleven of the thirteen public market stock and private placement offerings announced were completed.

Type	2004	%	2003	%
Assets	73	61.3	54	69.2
Stock	43	36.1	23	29.5
Rights/Options	3	2.6	1	1.3
Totals	**119**	**100.0**	**78**	**100.0**



Reason for the Purchase

Franchisees found their best targets among existing related brand franchisees thus expanding their franchise area. Equity funds and management teams responded to the availability of chains in bankruptcy and a favorable lending environment. In several joint venture or partial ownership situations, buyers saw value in buying out their partners. In one of the slimmest showings in many years, only three buyers listed conversion as their primary reason for purchase.



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J.H. Chapman Group, L.L.C.

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The firm was founded in 1982 to serve one under-represented niche – the food industry – and subsequently expanded to include apparel and other consumer products, retailing and services.

Our firm is comprised of eight experienced principals – all with impressive business credentials, particularly in the food industry. We specialize in transactions between $10 million and $500 million, working with clients ranging from established, closely held businesses to Fortune 500 companies. Headquartered in Chicago with our European office in Paris, we have established an enviable track record of success and an extensive network of contacts around the globe.

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