From: David Bonrouhi at Calabasas Capital <david@calabasascapital.ccsend.com> on behalf of David Bonrouhi at Calabasas Capital <david@calabasascapital.com>
Sent: Sunday, May 27, 2012 11:46 AM
To: David Bonrouhi
Subject: Calabasas Capital 1st Quarter 2012 Market Update

Dear David,

I hope you enjoy our latest market update as well as a view on growth vs. taxes.

Calabasas Capital believes that any business owners considering a sale within the next two to three years should consider pursuing a transaction in 2012 since according to many experts the tax on capital gains may increase in 2013 from 15% to 23.8% (including the healthcare tax). The following table demonstrates that a company would need to confidently be anticipating at least 21.5% percent annual growth to justify waiting to sell (see Alternative 3, which shows no difference in after-tax value of selling now as opposed to 2014 with fast growth). For more typical companies experiencing growth of say 8%, however, Sellers would see a 21% loss in value by waiting to sell (see Alternative 2).

$ in millions	**Alternative 1: Sell Business in 2012**	***Slow Growth*** **Alternative 2: Sell Business in 2014**	***Fast Growth*** **Alternative 3: Sell Business in 2014**
		8% Annual Growth	*21.5% Annual Growth*
Expected EBITDA	$4.0	$4.7	$5.9
x Sale Multiple	7.0x	7.0x	7.0x
Implied Enterprise Value	$28.0	$32.7	$41.3
Estimated Fees & Expenses	($1.0)	($1.1)	($1.4)
Value to Seller Before Tax	$27.0	$31.5	$39.9
Capital Gains Tax	15.0%	23.8%	23.8%
Value to Seller After Tax	$23.0	$24.0	$30.4
Net Present Value to Seller 15%	$23.0	$18.2	$23.0
Increase (Decrease) in Value ($)	-	($4.8)	$0.0
Increase (Decrease) in Value (%)	-	-21%	0%

Clearly taxes are not the only consideration when determining the optimal time of sale. There are too many other factors, many more important than taxes admittedly, to list them here. However, suffice it to say that in our opinion it is better to sell when a company's performance is improving as opposed to flat or declining so if the past two years have been strong growth years as they have for many companies we've seen, this year would be a good time to consider a transaction.

M&A Market Update:

- According to Capital IQ, mid-market M&A market activity softened considerably in the first quarter of 2012, with deal volume down 14% year over year.
    - In spite of significant potential tax increases, relatively high valuations and abundant capital, it appears that at least as of 1Q2012, sellers continued to take a cautious attitude in approaching a company sale.
    - However, most market participants expect a pickup in the middle of the year and Calabasas Capital itself has in fact seen a dramatic increase in new business activity in April and May.

Total U.S. M&A Deal Volume and Value (1Q 2009 - 1Q 2012)*

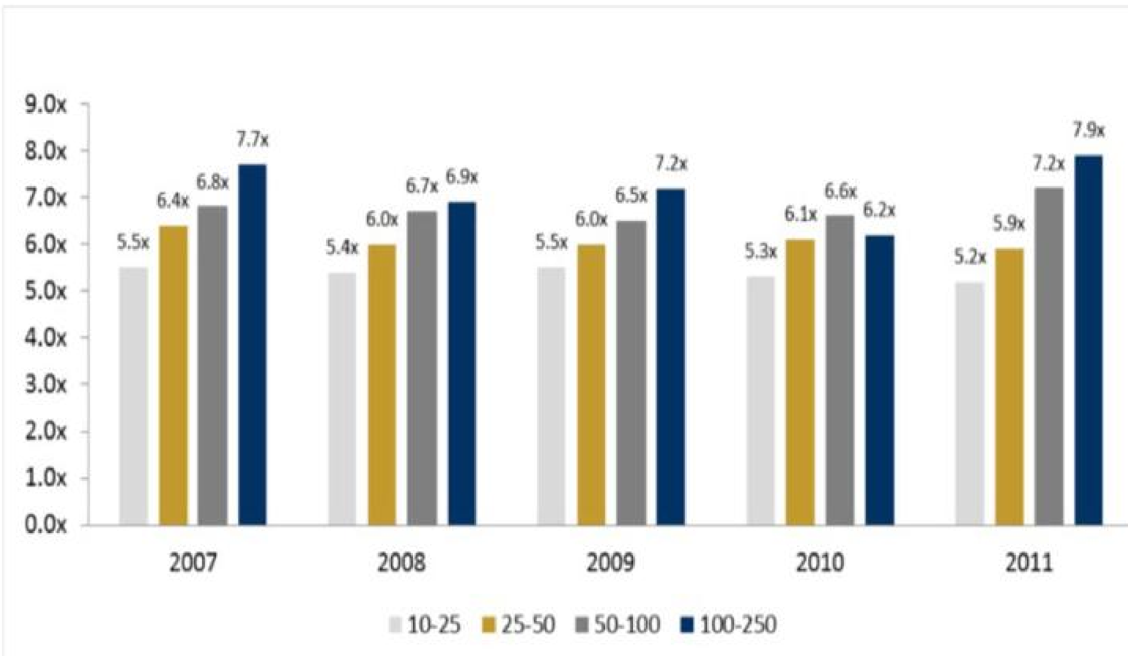
*Source: Capital IQ

Middle Market Deal Valuations:

- According to GF Data, middle market valuations have returned to pre-recession levels primarily due to the scarcity in supply of high quality, high growth companies on the market relative to the insatiable demand from both strategic and financial buyers.
    - Specifically, transactions with valuations of $50 million or more have bounced back quickly, and in a lower transaction volume environment, are seeing their valuations bid up by buyers.

- Transactions with valuations below $50 million, because of the more limited access to capital, have not quite reached the pre-recession valuation levels, however:
  - As we've seen in our own deal flow, those with strong growth rates and high margins are in fact getting valuations similar to those in 2007; and
  - Private equity groups that normally don't play at this lower end of the market are reaching down to bid up companies below the $50 million level causing an increase in valuations.

Total Enterprise Value / EBITDA by Deal Size (2007 - 2011)*



*Source: GF Data.

Calabasas Capital, LLC is a boutique financial advisory firm providing the following investment banking services primarily to lower-middle-market privately-held companies, business owners and entrepreneurs:

- Sell-Side and Buy-Side Mergers & Acquisitions
- Private Equity & Debt Capital Raising
- Acquisition Financing
- Financial Restructuring
- Late-stage Venture Capital Raising
- Sales of non-core assets/divisions of larger public and private companies

Our principals have significant investment banking and private equity experience working with companies in a broad range of manufacturing and services industries with particular expertise in consumer products and services (food, apparel, footwear, electronics, household goods), retail (including restaurant chains), business services (online and offline, including financial, marketing, and building maintenance, digital and traditional media, telecom, technology (eCommerce, software, IT services) and industrial manufacturing and distribution.

Thank you for continuing to keep us in mind for future opportunities.

Regards,

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