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SURVIVING...AND THRIVING...
IN A DIFFICULT ECONOMIC CLIMATE

There is little question that most businesses are being affected to varying degrees by the current economic climate. Some characterize the current economic malaise as the "housing crisis" or the "credit crisis." Others believe that the real economic impact, whatever the name, is being driven by a real and absolute reduction in both consumer sentiment and consumer buying power.

For years, consumers have been able to overspend their current earning power by tapping into artificially inflating property values with low-interest second mortgages and equity lines of credit. This allowed consumer spending to rise at unnatural levels during the last several years. This, in turn, trickled down to many businesses who either directly or indirectly benefited from this consumer spending spree, which led to good times. During good times, most businesses reward key employees who contribute to their success with nice bonuses or generous wage increases. But then, the credit market dries up, housing values plummet, consumer debt is at all time highs, oil prices skyrocket, food costs escalate, and consumers become much more discriminating about where and how they spend their money.

How a company responds to such a dramatic and abrupt change in economic climate is driven largely by the organization's culture, market positioning, and financial strength. The focus for some companies will be to simply survive through this difficult cycle, while others will seek to develop strategies to allow

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"While many companies batten down the hatches and try to survive, our experience is that, for prepared companies, economic slowdowns can provide significant opportunities to improve their positions and accelerate into the next up cycle"

Mark Gottfredson and Steve Schaubert, Bain & Company
As published in Forbes Magazine

LEADERS IN THE COMMUNITY

Jon Gregory, President & CEO of Golden Capital Network

"...we get to chart a new course every day as one of the few...groups that serves as a bridge between public economic development and private wealth creation."

- Mr. Gregory on what he likes most about his job.

Who is he?

Founder, President and CEO of Golden Capital Network, a Chico based non-profit organization that fosters entrepreneurship and early stage investing as an engine for economic growth through education, networking and showcasing events. Companies featured at Golden Capital Network events have gone on to raise well over $1 billion in angel or venture capital investments. Mr. Gregory is also a member of the Angel Capital Association and is a referral source for growth companies to various angel groups and venture capital firms throughout the western U.S. He also serves on the Executive Committee of SARTA, the Board of Directors of the California Association for Local Economic Development, the Board of Directors of the Entrepreneurs Foundation of the Capital Region, and the Board of Directors of the Butte County Economic Development Corporation.

What did you do prior to founding the Golden Capital Network?

I started at the Butte County Economic Development Corporation in 1984, becoming General Manager in 1986. I continued there until 1988 before becoming Deputy Director of Tri-County Economic Development Corp. until 1998. I left in late 1998 to form the Golden Capital Network after meeting a number of leaders in the Sacramento region who were involved with Access Capital. Essentially, we merged the two groups.

What provided you with the inspiration to start the non-profit organization?

Two things really. First - we had a lot of different programs

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and tools at our disposal (at the Tri-County Economic Development Corporation) to help grow the economy and help the business sector – but predominately focused on small businesses with regional markets or manufacturing firms. However, periodically we would have start-up entrepreneurs come through our doors asking for our help and/or capital. We had no expertise in this area, no referral network, no capital product and proved to be of little or no value to those companies. It was striking to me that those entrepreneurs were typically more sophisticated than the average person that walked through our doors, and had the most potential economic impact, yet we could add no value to them. Second – at that point in my career I had almost entirely been exposed to cities, counties, states and non-profit entities. I found myself getting frustrated because I wanted to constantly grow and innovate but was being constrained by geopolitical boundaries involved in publicly focused economic development that often curtail economic opportunity. It prompted me to move out from that path and create something new that attempted to achieve the same goals of raising the standard of living of individuals in the region, but working through different channels and methods.

What do you like most about your job? What do you dislike most?

I like that we get to chart a new course every day as one of the few multi-regional groups (if not the only) in the United States that serves as a bridge between public economic development and private wealth creation. The fact that we have deep domain expertise on both sides of that equation enables us to have a unique perspective and to some degree a comparative advantage in the market. We think that there is a whole new industry and market demand that we can fill by serving as that bridge. However, in doing this, I also have to simultaneously continue to serve as a non-profit executive director that accepts public money. This means that there is a level of bureaucratic, administrative and regulatory responsibilities that come with the territory. The notion of trying to be innovative while also trying to understand bureaucracy can be challenging….but one I'm glad to manage.

Is there a gap between the supply and demand of capital for early-stage companies in the greater Sacramento region? Has the gap been closing over the past few years or becoming wider?

I sense that the situation is getting better on both fronts. We now have more quality start-ups and more sources of capital. However, I would say that we still need to improve our efforts to educate the civic and political leadership among the cities and counties that represent the greater Sacramento area about why it is so important to make fostering homegrown, high impact entrepreneurship and private equity investing a top priority. I truly believe there is a unique opportunity for Sacramento to serve as a leading center of entrepreneurial activity not just in inland California, but throughout the U.S.. Unfortunately, however, I think that the public leadership is too focused on near-term goals and is not trying to create the long-term infrastructure necessary to support high growth ventures. This infrastructure is somewhat different than the traditional infrastructure public leaders often associate with economic growth.

Just in the last couple years, the greater Sacramento region has finally developed its own resident sources of venture capital, private equity and mezzanine debt lenders. How do you think this increase in the availability of risk capital will increase the development of headquarter companies within the region?

I do not think that we have enough information to know yet, though I am optimistic that more world-class headquarter companies will emerge within the region. I believe the first positive ramification has been that indigenous entrepreneurs now have more resources locally and do not have to look elsewhere for capital (and possibly move their businesses). Secondly, there is a stream of extremely talented people that move to Sacramento for the quality of life and this gives them another way to become financially integrated into the community – either as a member of an angel group, an LP in a private equity fund or a founder of a new company.

What is your outlook for economic development and growth in the greater Sacramento region over the next five to ten years?

I think we will continue to see the in-migration of people out of the Bay Area seeking a better quality of life. Sacramento is still the most logical destination for them and, fortunately for the region, they usually come with discretionary capital, extensive business connections and industry expertise. However, I am becoming increasingly concerned that traffic in Sacramento could prove to be an impediment. There is a real quality of life advantage to living in Sacramento and we need to maintain it – people get frustrated when they are sitting in bottlenecks. Finally, I am hopeful that the right type of attention emerges around how to drive economic growth in the region going forward. It needs to be focused on building an infrastructure for innovation and entrepreneurship. I believe that the right market forces, political forces and civic forces will come together over the next five years to accelerate this process and economic growth. •

Hometown

Born in Laguna Beach, California; raised in San Jose, California.

Education

Bachelor's degree in Journalism from CSU Chico with a minor in Political Science.

Hobbies

Enjoys all kinds of sporting events, fishing at Lake Almanor, walking in Chico's Bidwell Park with his wife and Welsh Corgy, and spending time with his family – including 3 teenage daughters.

Most influential people

His drill sergeant from Army basic training who taught him to have a sense of urgency, an understanding of teamwork, intensity and focus when the time is called for, and how to stick it out until the end.

Most influential books

Atlas Shrugged by Ayn Rand and *The Power Broker* by Robert A. Caro

Favorite Restaurant

New Moon Cafe in Nevada City, CA; The Ledford House Restaurant in Albion, CA; and Red Tavern Restaurant in Chico, CA.

themselves to thrive despite the ailing economy, while the soundest and best positioned companies will seek to capitalize on such a market downturn.

It is important, however, that companies approach all four stages of managing their business in difficult economic times in their appropriate sequence:

1. SURVIVING

For most companies, the most important primary objective is to ensure they survive the downturn to enjoy the improved economic cycle that is bound to unfold down the road. In order to do this, organizations need to:

- Know the financials intimately and actively manage them
  - > Fixed costs
  - > Variable costs
  - > Post-sale costs (installation, warranty, insurance, etc.)
  - > Capacity
- Manage cash aggressively
  - > Take control of all purchasing and cash flow decisions
  - > Offer discounts to accelerate A/R payments
  - > Defer capital expenditures
  - > Convert passive assets to cash
- Minimize debt service costs; communicate actively with bank
- Reduce other fixed expenses
- Monitor accounts receivable and customer credit risk
- Proactively negotiate extended vendor terms (or reduced lease rate)
- Simplify: Identify non-essential initiatives and activities
- Cut costs where possible
- Minimize owners' personal cash flow needs
- Develop contingency plans (e.g. add'l financing sources, sale of assets, etc.)

2. STABILIZING

Once this is completed, companies can move on to ensure that their business is stabilized. Much of this part of the process moves from financial drivers to ensuring effective communication, both internally and externally:

- Establish "normalized" revenue level
- Ensure expenses are in line with actual (and not hopeful) revenue
- Establish key milestones for measuring progress and triggering further adjustments
- Communicate with employees
  - > Here is where we are
  - > Here is where we are going
  - > Here are what I see as our main challenges
  - > Here are where I see our main opportunities
  - > Here is what I am committed to do
  - > Here is what your role in this effort is
  - > Here is how we will measure our progress
- Communicate with customers
  - > How is your business doing?
  - > What are your primary needs and challenges?
  - > How can we best assist you in meeting your goals?
  - > Do you know anyone else who could benefit from our services?
- Continue all activities listed under "Survive"

3. THRIVING

Once you have developed and implemented your sustainability strategy (above), you are ready to shift from defense to offense. In the thriving stage, you should begin to develop your strategy for exploiting the unique market dynamics in your industry. This process should include:

- Assess your market position
  - > Are you a market leader or follower?
  - > Are you a price setter or a price follower?
  - > How strong is your balance sheet and cash flow?
- Capitalize on customer flight to quality
- Understand your strengths and competitors' vulnerabilities
- Add new products or services to exploit new market opportunities
- Recruit employees from weaker (or failing) competitors
- Aggressively target new customers
- Increase marketing and public relations efforts

4. CAPITALIZING

If you have effectively completed the first three stages, you will be uniquely positioned to capitalize on the economic downturn and emerge from these tough times with a dominant market position - stronger and more profitable than you were even during the previous boom years. While there are many ways to capitalize on the current economic cycle, you should consider the following:

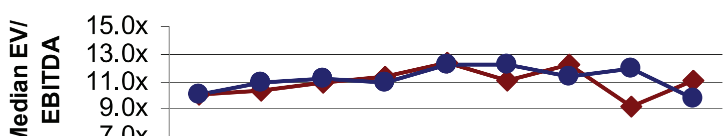
- Develop optimal pricing strategy
  - > If price setter, consider predatory pricing to increase market share and further weaken competition
- Leverage market and financial strength to negotiate aggressively with landlords, vendors, customers
- Gear marketing to exploit fear, uncertainty and doubt
- Provide solutions that smaller, or weaker competitors can not match
- Expand into new geographies where competition has weakened
- Acquire competitors for bargain prices, or recruit their key employees (since everyone wants to work for a winner!)

In summary, by following this simple (simple to articulate; not so simple to execute) four step process, you can maximize the likelihood of your company's ability to not only survive, but thrive, in the coming years. As you might imagine, this process does not happen overnight. We encourage companies to begin this process immediately to ensure that you are ready to capitalize on the market downturn before you miss this unique opportunity to do so. •

REGIONAL M&A MARKET

Merger and acquisition activity among middle-market companies (less than $500M firm value) in the California and Greater Southwest region has paused somewhat in 2008, with just 234 deals closed so far in the first half, the slowest pace in the last 5 years. Tightening credit markets and general weakness in consumer spending have contributed to this slowing M&A environment as well as to lower average valuations, particularly in the Consumer sectors. The sectors that witnessed positive M&A valuation trends included Materials, IT, and Healthcare. Interestingly, valuations from financial (LBO) buyers have largely been in line with strategic (company) buyers over recent years, a departure from the premium valuations historically experienced with strategic buyers, which we view as a product of the credit availability during that period. Over the coming year, while we expect valuation multiples overall to continue to moderate and strategic buyer premiums to re-emerge as credit tightens, we continue to believe the regional M&A market remains healthy and the timing is favorable for well-positioned sellers. •

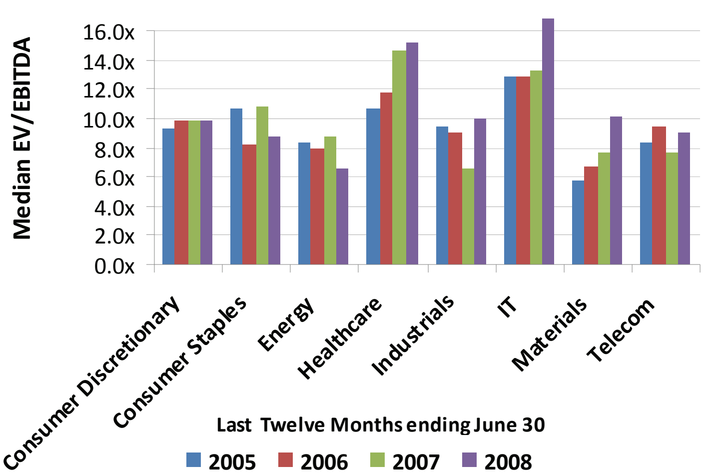
M&A Valuation by Quarter



	Q206	Q306	Q406	Q107	Q207	Q307	Q407	Q108	Q208
LBO	10.0x	10.3x	11.0x	11.3x	12.4x	11.1x	12.3x	9.2x	11.1x
Strategic	10.1x	10.9x	11.2x	11.0x	12.3x	12.3x	11.3x	12.0x	9.7x

Source: Capital IQ, North America only

M&A Valuation by Sector



Source: Capital IQ, North America only

ABOUT DCA PARTNERS

Since 2001, DCA Partners has earned its reputation as one of the nation's finest middle market investment banking firms, delivering exceptional results for clients in a wide variety of industry sectors. With offices in Roseville, CA and Phoenix, AZ, DCA works primarily with companies in the broader Northern and Central California regions, as well as certain adjacent underserved markets across the western U.S. We will also advise and invest in companies outside our targeted geography where our Partners possess particular industry expertise.

Investment Banking The firm specializes in providing private and public growth companies with both buy-side and sell-side merger and acquisitions advisory services, as well as financial advisory and opinion services.

Private Equity Through the firm's affiliated private equity fund, DCA Capital Partners, the firm also makes direct investments in promising middle–market growth businesses in DCA's defined areas of focus.

DCA PARTNERS

3721 Douglas Blvd., Suite 350
Roseville, CA 95661
(916) 960-5355 main
contact@dcapartners.com
www.dcapartners.com