DCA PARTNERS

STRATEGIC ADVISORY | MERGERS & AQUISITIONS | PRIVATE EQUITY

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UPCOMING EVENT
DECEMBER 5

HOSTED BY DCA CAPITAL, GOLDMAN SACHS & HAMILTON LANE

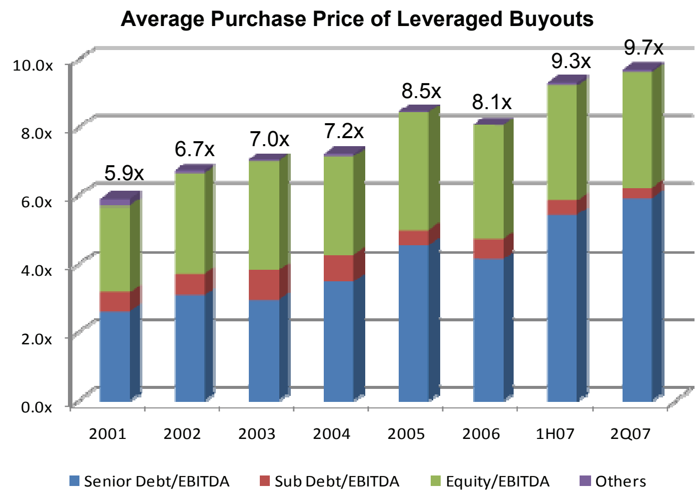
DETAILS ON PAGE 4

GIVING CREDIT WHERE CREDIT IS DUE

A Look at Recent Changes in the Commercial Lending Market

On July 26, senior loan officers across the nation sent in their responses to The Federal Reserve Board's *Senior Loan Officer Opinion Survey on Bank Lending Practices*. When the report was released on August 13, it revealed that while banks had significantly tightened lending standards for residential mortgages, lending practices for commercial and industrial loans remained business as usual. Not only had credit terms held relatively constant, but application approval standards were also unchanged for 89% of the domestic banks participating in the study. Things sure can change quickly. The continued meltdown in sub-prime mortgages has triggered a worldwide lending crisis. Central banks have flooded the money market with tens of billions of dollars in an attempt to restore confidence in a market that is suffering from a severe lack of liquidity. The Federal Reserve recently made borrowing cheaper and easier by lowering its discount rate on August

CREDIT, Click here



Source: Standard and Poor's. Data includes leveraged buyouts involving issuers with $50 million or less in EBITDA. Excludes media, telecom, energy and utility deals.

LEADERS IN THE COMMUNITY

Chris Friedland, Founder, CEO & President of Home Improvement Direct

"You have to be relentless." Chris Friedland, on being an entrepreneur

Who is he: Founder of Faucet Direct, Inc, an online faucet and accessory retailer. As the President and CEO of Faucet Direct (later renamed Home Improvement Direct), Chris grew the business to approximately $55 million in annual revenue in its first six years. On March 1, 2007, Chris successfully negotiated the sale of Home Improvement Direct to Wolseley PLC, a supplier of construction products, materials and services across Europe and North America.

As an entrepreneur, what is the most difficult part in taking a company from an idea to its inception?

Getting the first dollar of revenue is always the biggest challenge. That is usually where a lot of entrepreneurs lose their nerve and their business ideas fall apart. All of the initial ground work that has to be done leads up to getting that first customer. After getting that first dollar, the momentum kicks in. I wouldn't say that it gets easier, but it is nice to have proof of concept when your first customer agrees to pay you for your service or product.

When starting a company, is it important to have a fixed business model or a model that is constantly adapting to the environment?

I was told once by a venture capitalist that there

FRIEDLAND, Click here

FRIEDLAND are two different philosophies when it comes to investment and I believe these same strategies are relevant in how you focus your energies as an entrepreneur. The first is the "Venrock" approach and the second is the "Sequoia" approach. Don Valentine's "Sequoia" approach is that if the market is right for a product, you can find the team to make it happen – you just have to have the market. Not that the team doesn't matter, but it is more of a commodity. While the "Venrock" approach is that even if the business model is imperfect, if you have the right team in place, they will see themselves to success regardless. I tend to be more of the "Venrock" persuasion, in the sense that I believe the team is incredibly important to success, more so than a concrete plan. I apply this to my take on entrepreneurship. I strongly value the team since I know the model will continue to evolve over time, its just important you have a bright and motivated team in place which can adapt quickly to change. I don't know one successful entrepreneur whose business went exactly to plan and I think that it is very important not to have a rigid business model.

You tried to get several other companies up and running before Home Improvement Direct…

Yes. There are two things to being an entrepreneur – the first is that you have to never say die. You have to be relentless. When everybody tells you that something is a poor idea and that it is not going to work, you have to see past that. I cannot count how many people told me that selling faucets online was the worst idea that they had ever heard of. On the same note though, you have to know when to throw in the towel. Sometimes the people that told you it couldn't be done were right. It is a fine balance. Never let an idea that you really believe in die without birthing it. Get to revenue dollar one, get the product complete and get the product to market. But if it fails, you have to be willing to walk away from it.

So how do you go about getting that first dollar of revenue? How did you think about marketing to potential customers?

That has to be visualized as a part of the idea. Having a great product that no one wants is not a business idea – it is more of a thesis for a Masters. For a business, you have to already have a target customer in mind. You have to get the product to a point where you would buy it yourself, that you see value in it and that if you were looking for faucets, this is the place where you would shop for them. You have to be able to sell yourself as a customer first. Then the specific marketing channel is dependent on the idea.

Are there any new technologies or industries that you are particularly interested in?

A business model that I really like, from an investment perspective, is software as a service. It is all browser-based and you don't have to deploy the software. I see everything moving toward software as a service. This is the trend and the future. You are not going to see software deployed anymore and the operating system is not going to matter. It is all going to be based on what is in the browser. If I was to invest, that is what I would be looking for.

Do you have a routine that you go through when evaluating potential investment opportunities?

First, I run my ideas by my closest advisors and let them tear into them. This is where most of the ideas get flushed out to the wayside. After that I have what I call a three day rule. If I am still talking about the idea for three days I start to run some numbers and do more analysis. Then I apply the two week rule – if something is still on mind and still of interest after two weeks, I really start doing deep due diligence. If I am still interested after that is complete, I start taking the steps to building the company and launching the product or service.

You just recently finished selling your company earlier this year. How come you are still evaluating potential opportunities and not spending your days on a golf course?

As an entrepreneur, it's either in you or it's not. People who end up retiring on a golf course either had corporate lives and hated their jobs, got lucky or won the lottery. The entrepreneurs that I have met traditionally don't ever quit. If you want to become an entrepreneur because you like the flexibility in schedule and calling the shots, in most cases you are going to fail miserably. You need to be the hardest working person in your organization. Even after the liquidity event you need to be ready to keep moving. If you don't have that mentality, you might as well be hoping to win the lottery by starting a company. Take your paychecks and invest them in lottery tickets, your odds are probably better for achieving the results you are looking for. •

Hometown
Weed, California; currently resides in Chico, California

Education
BA in Political Science and MS in Computer Science (incomplete), Chico State

Hobbies
Investment analysis, spending time with family, running and clubbing

Most influential people
Ben Friedland (grandfather) and Melissa Friedland (wife)

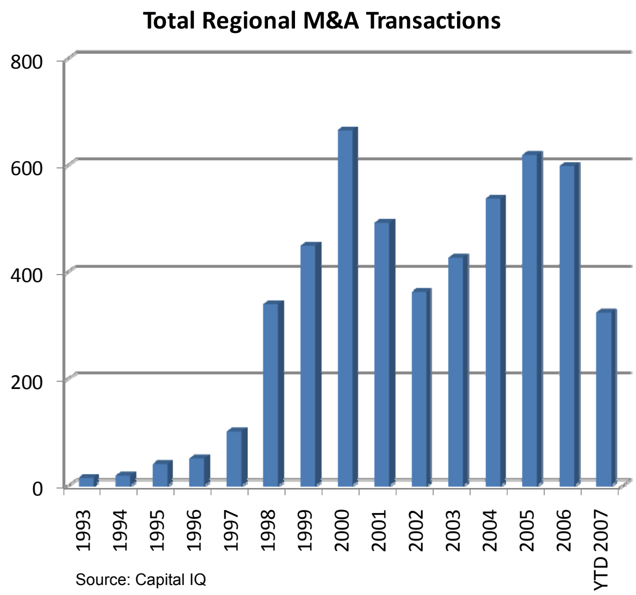
Most influential books
The Intelligent Investor by Benjamin Graham, *Rich Dad, Poor Dad* by Robert Kiyosaki and *The Prince* by Niccolo Machiavelli

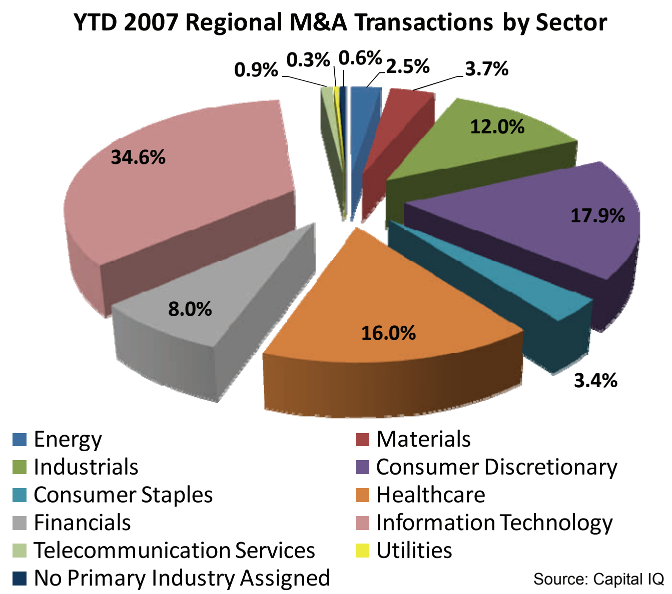
Favorite Restaurant
5^{th} Street Steakhouse, Downtown Chico

First Job
Computer sciences tutor at the College of the Siskiyous at age 14

REGIONAL M&A MARKET

Merger and acquisition activity in the California and Greater Southwest region has grown at an average rate of 33.5% per annum since 1993. While regional M&A activity has recently begun to decelerate from 2004–2006 levels, 2007 M&A activity has been robust year-to-date and is on track for more than 450 deals this year. So far this year, the most active sector in the region has been Technology (about 35% of closed deals), followed by the Consumer Discretionary and Healthcare industries (which accounted for 18% and 16% of closed transactions, respectively).





CREDIT: RELATIONSHIPS MORE IMPORTANT THAN EVER

17 and, in its most aggressive step yet, reducing both the federal-funds rate and discount rate by 0.50% on September 18.

What does this mean for local businesses?

"The current deal market will probably get more conservative as lenders become less optimistic" says Dan Guth, a Vice President at Guaranty Bank. "Our commercial clients will feel the trickle down from the housing market problems." In fact, the tightening credit markets have already begun to affect financially sound companies, who are finding it harder to roll over existing debt programs and raise new financing as banks become more risk averse. Banks, hedge funds, mutual funds and other investors have experienced significant losses from plummeting subprime mortgage values and have elected to take a much more conservative wait-and-see approach with their capital. As Tim King, US Bank's President of the Sacramento region, warns, "As the cost of borrowing has widened across virtually all markets, it is important that business owners are aware of the heightened sensitivity banks have evaluating risk and capturing the appropriate credit spreads that the banks deem appropriate. This may result in 'sticker shock' for some business owners."

What are the broader economic implications?

Despite the Federal Reserve's recent actions, many on Wall Street believe it will have to cut rates further to improve economic stability. While the Federal Reserve cites that economic growth has been moderate in the first six months of the year, it also acknowledges that credit conditions have deteriorated to the extent that they may restrain future economic growth. Patrick Gainer, a Senior Vice President with Wachovia Securities, informs us that his firm believes, "Most people can hold their breath for a minute or two without any harm. Similarly, the economy can survive without thriving credit markets for a limited period of time. However…the economy must soon begin receiving a free flow of credit, or it is likely to fall into recession." Mr. Guth thinks that the mergers and acquisitions market will also be significantly impacted. As leverage becomes less readily available, acquirers will be forced to contribute larger portions of equity, which will drive down purchase prices. "Lenders are beginning to pull their horns in, which is not a bad thing since their horns were pretty far out there to begin with." In fact, senior lenders have been exceptionally aggressive in recent years, allowing senior debt availability to balloon from less than 3x EBITDA in 2001 to approximately 6x EBITDA in the second quarter of 2007 (see chart on pg. 1).

How can local companies mitigate the impact on their business?

In times of tightening credit conditions, companies need to be open-minded with regard to their optimal capital structure and nurture relationships with loan officers. As Gary Orr, Regional Vice President at Wells Fargo, advises, "Relationships with loan officers are as important as ever. Deals on the margin will either get done or not get done based on the company's relationship with the bank." Kingman Tsang, a Senior Vice President with First Bank, echoes that sentiment, suggesting that local companies place a premium on experience. "My advice to business owners is to look for experienced commercial bankers and banks that have been established in this market. As the current economic condition plays out, it would be wise to have a banking relationship that will be there for you when you need it." •

BRIAN LEU JOINS DCA PARTNERS

SACRAMENTO-REGION'S LEADING INVESTMENT BANKING FIRM EXPANDS

DCA Partners announces today the addition of Brian M. Leu to expand the Firm's reach within its investment banking and private equity investing efforts. DCA specializes in providing private and public growth companies with mergers and acquisitions advisory services, equity and debt capital, as well as strategic, financial and business development services. With Leu's primary focus on the private equity fund, he supports general fund networking, deal sourcing and execution, and ongoing monitoring and management of the fund portfolio.

"We are thrilled to have Brian join our private equity fund," said Curt Rocca, DCA's Managing Partner. "His skills, experience and professionalism are world-class, and adding someone with Brian's talent has made an immediate positive impact to our investment process."

Prior to joining DCA, he was a member of the Equity Research team at Deutsche Bank Securities in San Francisco covering the technology sector. In this role, he was responsible for performing in-depth analysis on industry and market trends, building detailed company financial models, valuing firms using a variety of techniques (DCF, multiples, LBO, EVA, and proprietary models), and broadly evaluating the investment worthiness of companies under coverage. Prior to working in San Francisco, Leu was an equity research associate with Deutsche Bank in New York City covering the Telecommunication and Food Manufacturing industries. During his tenure at the investment bank, he also completed the rigorous Global Equity and Debt Training Program in New York and London.

Prior to Deutsche Bank, Leu was an investment analyst at Bayes Capital, a New York City-based long-short equity hedge fund focused on small-cap companies with significant growth potential. In this role, he was broadly responsible for fundamental company analysis on investment opportunities and exploring a variety of trading strategies, including the extensive use of derivatives. While earning his graduate degree in Business Administration, Leu was the Growth Portfolio Manager of the Michael Price Student Investment Fund, a $2.0 million university endowment fund focused on long-term capital appreciation.

Leu began his career at AT&T Corporation in New Jersey within Corporate Finance as a member of the Financial Leadership Program where he worked in a variety of roles, including competitive and industry analysis, capital budgeting, and strategic planning.

Leu earned his Master's degree in Business Administration with distinction from the NYU Stern School of Business. He also holds an undergraduate degree in Economics from Duke University where he graduated Magna Cum Laude and was elected to Phi Beta Kappa. Leu has also earned the Chartered Financial Analyst (CFA) designation and is a member of the CFA Society of Sacramento and the New York Society of Security Analysts. •

ABOUT DCA PARTNERS

DCA Partners is one of Northern California's premier advisory firms serving growth-oriented private and public companies throughout the region. Unlike traditional investment banks, DCA not only assists client companies in completing transactions and financings, but also provides strategic and operational consulting services to ensure that the company is taking the right steps to maximize shareholder value - whether in the near or long-term.

DCA PARTNERS

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"PRIVATE EQUITY IN UNDERSERVED MARKETS: FUNDING GROWTH, PROVIDING LIQUIDITY"

DECEMBER 5, 2007

HYATT REGENCY
DOWNTOWN SACRAMENTO
7:30 AM TO 10:00 AM

AGENDA

- Overview of private equity - Where and how it is used
- Presentation by Goldman Sachs - Investment in underserved geographic and demographic markets
- Private equity panel - Q&A on topics relevant to financing growth and liquidity in the current market environment

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