

Infosmart Group, Inc.

A Severely Undervalued Stock that Commands Attention

At a Glance

Price & Valuation

Price	\$0.33
52-Week High	\$0.55
52-Week Low	\$0.22
Market Value (MV)	\$45.2M
Enterprise Value (EV)	\$56.9M
Book Value/Share	\$0.12
P/E 2007e*	7.9x
P/E to Common 2007e**	5.8x

Trading Information

Shares Out.	136.9M
Adjusted Shares Out.	191.7M
Float	29.6M
Institutional/Insider*	30.0%/55.9%

Financial, 2006

Revenue	\$27.1M
EBITDA ⁺ Margin	25.8%
EBIT ⁺ Margin	19.0%
Net Income ⁺ Margin	8.2%
Earnings ⁺	\$2.2M
Earnings to Common ⁺	\$2.0M
Assets (3/31/07)	\$44.7M
Debt/Equity (3/31/07)	53.2%

Financial, 2007e

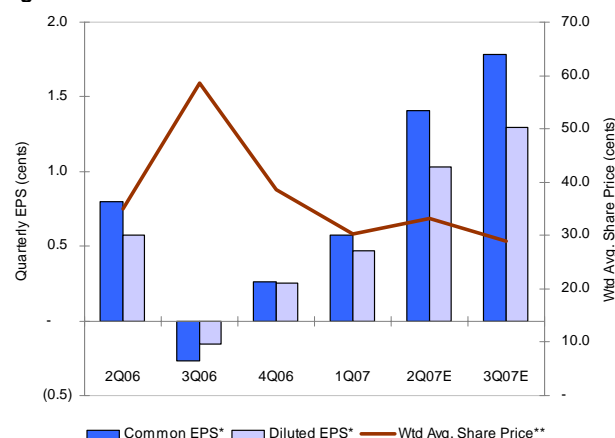
Revenue	\$43.3M
EBITDA Margin	35.0%
EBIT Margin	28.6%
Net Income Margin	18.5%
Earnings	\$8.0M
Earnings to Common	\$7.7M

*Based on 191.7M shares. **Based on 136.9M shares. ⁺Excludes the effect of non-cash expenses related to Infosmart's financing and reorganization.

Summary

- IFSG presents the strongest case of an undervalued stock that we've seen for some time. The stock has been detached from the fundamentals of Infosmart's business and earnings per share (EPS) by a motley crew of factors, mainly: motivated selling; the temporary impact on revenues and profits of relocating 40%-45% of capacity to the new factory in Brazil; the impact on 2006 earnings of one off non-cash expenses associated with Infosmart's financing and reorganization and deemed preferred dividends; and the perception that Infosmart participates in mature product markets suffering declining margins and threatened by substitutes.
- Meanwhile, Infosmart's revenues and gross profits are growing robustly. Infosmart has expanded capacity from 44 production lines to 52 lines. 20 of these lines, which were switched off in November 2006 and transferred to Brazil, have progressively been restarted since March 2007 and are fully operational as of. Although these lines were mostly offline in the first quarter of fiscal 2007 (1Q07), Infosmart grew revenues and gross profits by 23.5% in 1Q07 versus 1Q06. We project that the contribution of these lines will lift the Company's results in 2Q07 and particularly thereafter, driving full year 2007 (FY07) common earnings to \$7.7 million, equal to 5.7 cents per basic share. IFSG's trajectory will surely track these fundamentals as Infosmart's GAAP numbers begin to reflect its remarkable business transformation.
- Brazil is catalyzing the Company's profitability. Infosmart faces weaker competition inside Brazil than outside. Tariffs on imported optical discs shield the Company's production in Brazil from the full effects of global competition. As a result, the Company is able to offset lower margins on its international sales with higher margins on Brazilian sales, and scale gross profits in line with revenues. This effect will be seen most strongly after 1Q07.

Figure 1. IFSG: Adrift from Infosmart's EPS Fundamentals.



*Excludes non-cash expenses related to Infosmart's financing and reorganization in 2006. Common EPS calculated as earnings to common divided by 136.9M basic shares outstanding. Diluted EPS calculated as earnings divided by 191.7M fully dilutive shares. **2Q07E and 3Q07E share prices are weighted average actual prices for 2Q07 and July 2007, respectively. Source: Griffen-Rose

Infosmart EPS (cents), 2006-2007

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year
2006 Earnings ⁺ /191.7M Shares	0.5	0.6	(0.2)	0.3	1.2
2006 Earnings to Common ⁺ /136.9M Shares	0.7	0.8	(0.3)	0.3	1.5
2007e Earnings/191.7M Shares	0.5	1.0	1.3	1.4	4.2
2007e Earnings to Common/136.9M Shares	0.6	1.4	1.8	1.9	5.7

e = expected *Excludes the effect of non-cash expenses related to Infosmart's financing and reorganization in 2006.

Source: Griffen-Rose.

IFSG (OTC BB)

Rating: Severely Undervalued

Current Price	\$0.33
Recommended Base Case Value (191.7M Shares)	\$0.67 ⁽¹⁾
Recommended Base Case Value (136.9M Shares)	\$0.94 ⁽¹⁾
Recommended Conservative Value (191.7M Shares)	\$0.53 ⁽²⁾
Recommended Conservative Value (136.9M Shares)	\$0.74 ⁽²⁾
Recommended Aggressive Value (191.7M Shares)	\$0.80 ⁽³⁾
Recommended Aggressive Value (136.9M Shares)	\$1.11 ⁽³⁾

DCF/FCFE assumes: (1) 16.8% cost of equity and 15.5x FCFE terminal multiple; (2) 18.8% cost of equity and terminal value 20.0% below base case; (3) 15.8% cost of equity and terminal value 20.0% above base case.

Source: Griffen-Rose.

Summary (cont.)

- The HD DVD versus Blu-ray format war is holding back next generation replacements of recordable digital versatile discs (DVDRs) in advanced economies, and thereby supporting continuing demand for DVDRs. While the war rages, the Company can trade hi-definition discs profitably, and delay capital expenditure needed for the production of the new media until probably 2Q08/3Q08.
- Infosmart's single-minded focus on optical disc manufacturing and distribution has yielded exceptional results since its inception in terms of revenue growth, core profitability and asset utilization. The company has ridden several optical disc lifecycles. The recordable blue laser disc (HD DVDR, BDR) cycles are next in line. However, there is no reason why Infosmart should only ever be an optical disc company. It is a young, fast-growing business that is sure to be looking at ways of expanding its core product portfolio, as it has broadened its geographical reach.

1.0. Perspective**1.1. Background**

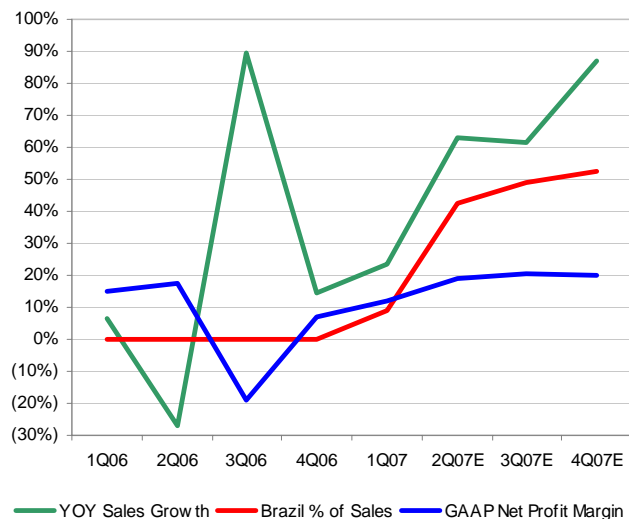
The product lifecycle of recordable optical discs is being extended by the geographical migration of demand and supply. Although Taiwanese firms collectively still dominate supply, the world's top producer is now India's Moser Baer, which benefits from low labor costs and immediate presence in India's burgeoning optical disc market. Manufacturers are increasingly locating capacity in areas that offer low manufacturing costs or ready access to emerging markets. Ritek, for example, is shifting some of its CDR and DVDR manufacturing equipment from Taiwan to its subsidiary in Vietnam. This move is expected to nearly double Ritek Vietnam's current output of 20 million CDR and 3 million DVDR discs. CMC and Gigastorage have started manufacturing CDR discs in Thailand; both companies plan to begin producing DVDRs in that country later this year. Infosmart's move to Brazil is part of this broader pattern.

The virulence of top-tier competition Infosmart faces in the internationally-traded disc market, which the Company supplies from its Hong Kong factory, has been moderating. Moser Baer's hands are full in India. Taiwan's Optodisc and Princo, hurt by overcapacity and price wars in 2004-2006, have been unable to keep their local stock market listings. CMC and Ritek, Taiwan's top two players, have been attempting to maintain some discipline in higher-end (that is, 8x/16x) DVDR supply, as they begin investing in recordable blue laser disc production. Partly as a result, prices of 8x/16x DVDRs, which are Infosmart's mainstay, have been holding steady so far this year. None of the world's leading players have actual or, to our knowledge, planned capacity in Brazil (Taiwan lacks diplomatic relations with Brazil).

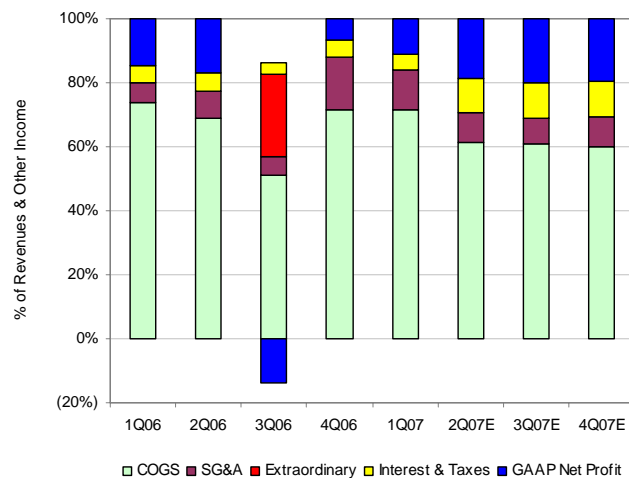
1.2. Infosmart's Expected Performance**Table 1. Infosmart: Expected Impact of Progressively Expanded Production in Brazil from 2Q07 (US\$'000 except EPS data).**

	1Q05	1Q06	1Q07	2Q07E	2007E
Revenues	5,841	6,232	7,698	10,327	43,303
Cost of Revenues	4,096	4,640	5,733	6,525	27,950
Gross Profit	1,745	1,591	1,965	3,803	15,353
Expenses					
Depreciation	49	58	154	143	584
Selling & Distribution	85	48	80	155	545
R&D	0	0	0	0	25
Administrative	95	274	777	689	3,076
Operating Profit	1,515	1,211	955	2,815	11,124
Other Income	131	52	309	307	1,248
EBIT	1,646	1,263	1,263	3,121	12,372
EBITDA	1,995	1,704	1,889	3,778	15,160
Interest Expense	68	148	143	133	491
Pre-tax Income	1,578	1,115	1,121	2,988	11,880
Income Taxes	275	195	216	1,016	3,874
GAAP Net Profit	1,303	920	905	1,972	8,007
Preferred Dividends	0	0	125	49	268
Net Income to Common	1,303	920	780	1,923	7,738
Common EPS* (cents)	1.0	0.8	0.6	1.4	5.4
EPS** (cents)	0.7	0.5	0.5	1.0	4.2
Year-Over-Year Trend					
Revenue		6.7%	23.5%	63.1%	59.8%
Gross Profit		(8.8%)	23.5%	100.8%	103.8%
Operating Profit		(25.0%)	(36.2%)	28.4%	44.0%
Core OPM		(23.3%)	0.1%	113.3%	134.1%
EBIT		(23.3%)	0.1%	113.3%	388.7%
EBITDA		(14.6%)	10.8%	97.7%	248.3%
Net Profit		(29.4%)	(1.5%)	80.3%	652.1%
Percentage of Revenue					
Brazil-made Disc Sales	0.0%	0.0%	9.2%	42.7%	41.5%
COGS	70.1%	74.5%	74.5%	63.2%	64.5%
GM	29.9%	25.5%	25.5%	36.8%	35.5%
D&A	6.0%	7.1%	8.1%	6.4%	6.4%
S&D	1.5%	0.8%	1.0%	1.5%	1.3%
R&D	0.0%	0.0%	0.0%	0.0%	0.1%
Admin	1.6%	4.4%	10.1%	6.7%	7.1%
OPM	25.9%	19.4%	12.4%	27.3%	25.7%
EBIT	28.2%	20.3%	16.4%	30.2%	28.6%
EBITDA	34.2%	27.4%	24.5%	36.6%	35.0%
EBITDA-Capex	32.6%	24.1%	16.2%	12.4%	27.7%
NPM	22.3%	14.8%	11.8%	19.1%	18.5%
NI to Common	22.3%	14.8%	10.1%	18.6%	17.9%

*Based on 136.9M shares currently outstanding **Based on fully dilutive 197.7M shares.
Source: Company, Griffen-Rose

Figure 2. Infosmart: The Impact of Restructuring in 3Q06 (1).

Source: Griffen-Rose

Figure 3. Infosmart: The Impact of Restructuring in 3Q06 (2).

Source: Griffen-Rose

Against this background, we believe the Company is on track to achieve its greatest ever revenues of over \$43 million in 2007, which would be 60% up on 2006 revenues and comfortably above March guidance. Infosmart's 1Q07 revenues of \$7.7 million were its highest ever, and represented an increase of 23.5% above the prior year period and 10.3% above the prior quarter. Infosmart has expanded capacity more rapidly, and its outsourced disc revenues are running three to four times higher, than our initial assumptions. The Company is on track to exceed our FY07 revenue and profit expectations, framed in March, by a very substantial margin because: firstly, Brazil is having a catalytic effect on its operations; secondly, it has begun trading recordable blue laser discs, whose unit profit is high.

We estimate that Infosmart's gross margins on sales of discs

made in Brazil are at least 70% higher than it is able to capture on sales of standard definition discs made in its Hong Kong factory. However our projections for FY08 have changed only modestly because we expect that Infosmart's higher standard definition and outsourced disc revenues will be offset by lower own-manufactured blue laser disc volume than we originally anticipated.

We expect that Infosmart's GAAP numbers throughout fiscal 2007 will reflect sustained revenue expansion and growth in operating and net profits, amounting to a transformation of its business. 2007 and 2008 earnings before dividend expenses are likely to be about \$8.0 million and \$10.0 million, respectively. This is equivalent to 4.2 cents and 5.2 cents diluted EPS, respectively, and compares favourably with our earlier expectation of 2.8 and 5.1 cents diluted EPS, respectively. We have computed the diluted EPS metric highly conservatively, by assuming: firstly, all conversions of convertible preferred stock and warrants, whether currently in the money or not; and, secondly, no investment of conversion proceeds in productive assets resulting in increased earnings.

1.3. Stock Price

IFSG currently trades at 33 cents, which is equivalent to 7.9x expected 2007 diluted EPS, and 5.8x projected 2007 earnings to common calculated on the basis of shares currently outstanding (see Table 2). This valuation bears scant relation to the stock's fundamentals.

Infosmart is on course to deliver over 110% compounded annual fully diluted earnings growth over the two years to December 2008. We think the balance of opportunities as well as risks in IFSG is better expressed at a base case fully diluted valuation of 67 cents per common share (102% above the current price), which is equivalent to about 94 cents in terms of shares currently outstanding.

Our recommended price still leaves significant potential upside in IFSG compared with U.S. computer storage device stocks and the world's top CDR/DVDR manufacturers. As Table 2 shows, the multiple of our recommended price to Infosmart's expected 2007 earnings to common shares currently outstanding is 16.5x; the multiple to expected 2007 fully diluted EPS is 16.0x. Although forward and trailing ratios are not directly comparable, it is noteworthy that the trailing 12 month (T12) P/E ratio for U.S. computer storage device companies has ranged between 11.5x and 53.7x over the last five years.

Table 3 compares Infosmart's ratio of enterprise value to expected 2007 earnings before interest, taxes, depreciation and amortization (EV/EBITDA), calculated using the fully dilutive share count and 33 and 67 cents per share, with the median EV/EBITDA T12 ratio of some of the world's leading CDR/DVDR manufacturers. It is again noteworthy that Infosmart's EV/EBITDA ratios at 33 and 67 cents are 55%

and 15% below the group median, respectively. EV/EBITDA is the most useful earnings metric for comparison purposes because it largely neutralizes differences between firms - in terms of capital structures, depreciation rates, income tax tariffs and sales calculation methods - which bedevil other metrics.

Table 2. Price/Earnings - Infosmart vs. U.S. Computer Storage Device Industry.

	IFSG @ \$0.33	IFSG @ \$0.67
P/EC* 2007e	5.8x	16.5x
P/E** 2007e	7.9x	16.0x
U.S. computer storage device industry - P/E T12 5yr range: 11.5x - 53.7x		

*Based on 136.9M basic shares outstanding. **Based on 191.7M fully dilutive shares.
Source: Reuters, Griffen-Rose.

Table 3. Enterprise Value/EBITDA – Infosmart vs. Leading Global CDR/DVDR Manufacturers.

	IFSG @ \$0.30	IFSG @ \$0.64
EV/EBITDA* 2007e	4.9x	9.1x
CDR/DVDR industry group** (excluding IFSG) - median EV/EBITDA T12: 10.9x		

*Adjusted EV based on 191.7M fully dilutive shares. **Industry group is comprised of CMC Magnetics, Moser Baer, Ritek Corp., Prodisc, Gigastorage Corp., and Lead Data. *Excludes effect of non-cash expenses related to Infosmart's financing and reorganization. Source: Griffen-Rose.

Infosmart is both young and relatively small by the standards of publicly owned optical disc manufacturers, but has been outperforming its peers in terms of organic revenue growth rate, efficiency and profitability since its first full year of operations in 2003. However the larger firms also have attributes that, together with Infosmart's existing attractions, would propel the Company beyond its peers, such as strong OEM relationships, broader product portfolios and, in the case of Moser Baer, significant intellectual property. A 15% discount from the median EV/EBITDA of larger but less profitable firms concedes the further distance Infosmart must travel, but a 55% discount is an unwarranted penalty.

Generally, constraints to IFSG value will ease further as the Company scales revenues and profits, and broadens its product portfolio. Specific catalysts for IFSG over the next 12 months will be triggered if Infosmart:

- Seizes 10% or more of Brazil's CDR/DVDR market.
- Resolves capital expenditure (capex), timing, and format choice issues relating to its intended production of recordable blue laser discs.
- Outperforms (or underperforms) our current profit expectations for 2007. The Company's March guidance, predicted net profits of \$8.5 million - \$9 million for 2007, and \$11 million - \$13 million for 2008. This guidance is about 6%-12% and 10%-30% above our projections for

2007 and 2008, respectively.

- Invests proceeds from future warrant exercises, which could total \$10.3 million, in productive assets, and thereby generate increased earnings without raising the dilutive share count.

2.0. Risk and Opportunity in IFSG

The principal factors constraining IFSG value are uncertainty over:

- Narrowness of Infosmart's product portfolio and the longevity of CDRs and DVDRs.
- The susceptibility of CDRs and DVDRs to sales price erosion, and the implications for the Company's profitability.
- When demand for recordable blue laser discs will take off, and whether 15GB blank HD DVDRs, which Infosmart can make by converting existing equipment rather than buying new equipment, will be a major component of that demand.
- How successful Infosmart's Brazilian operations will be. The Discobras business is only about four months old and has yet to settle down to a clear pattern of productivity, operating costs, receivables collection and taxation.
- How long Brazil's tariff wall will stand, how sustained and successful will Brazil's efforts be to stamp out blank media smuggling, and the rate at which competition will emerge to face Infosmart in Brazil.
- The potentially dilutive effect of unconverted debt and warrants that have not been exercised.

It is hard to see why the uncertainties outlined above justify the pessimism inherent in IFSG's current market valuation, given:

- Infosmart's excellent rate of sales growth. It is particularly striking that 1Q07 sales, up 23.5% year-over-year (YOY), were achieved despite the fact that about 40% of Infosmart's capacity, located in Brazil, only started coming online in March 2007.
- Indications of strong sales traction in Brazil. Infosmart's Brazilian subsidiary, Discobras, is now producing at 100% capacity, equivalent to about 6 million discs per month, and selling everything it makes. In June Discobras announced that it had entered into a long-term supply agreement within CDF Entretenimentos Limitada ("CDF"), of Bahia, Brazil. The agreement calls for Infosmart to supply to CDF 2.4 million discs annually. Like Infosmart, Discobras manufactures to order and holds minimal inventory levels. Discobras' production has scaled

steadily from 2.0 million discs in March, 3.4 million discs in April and 4.8 million discs in May. Discobras' sales are likely to generate higher gross margins than Infosmart's because optical disc wholesale prices in Brazil's south-eastern states are much higher than in Infosmart's traditional sales territories. The impact of these higher margin sales is likely to be seen in Infosmart's financials from 2Q07 onwards.

Table 4. Infosmart: Summary of Strengths and Weaknesses.

Key Strengths
Rapidly growing revenues and profits, up 23.5% year over year.
Catalytic effect of Brazilian sales: <ul style="list-style-type: none"> Growing Brazilian market position. Largest recordable blank media optical disc manufacturer in Brazil. Gaining long term supply contracts to major customers. Increasingly well-recognized local brands, namely "Hontek" and "Laserline". We project that Infosmart's gross margins on manufactured discs in Brazil are at least 70% greater than it achieves on its international sales. This counters the effects of price erosion, sustain gross profits, and support profitable capacity expansion.
In Brazil, distributes as well as manufactures. Able to exploit distribution system to expand sales of items sourced from third parties.
Broad geographical sales footprint – customers in Australia, Western Europe, North and South America, Asia, the Middle East.
Management dynamism and effectiveness. <ul style="list-style-type: none"> The most consistently profitable firm in its sector since inception; has never made an operating loss. Inventory turnover is double peer median. 100% capacity utilization. Manufacturing excellence and quality control to ISO 9000 standards Raw material wastage rates below 2%.
Flexible capacity – most of production capacity is CDR/DVDR or DVDR/HD DVDR capable.
Key Weaknesses
Narrow portfolio of data storage media products.
No technology leadership or intellectual property portfolio.
Weak cash position, negative working capital.
Size gives it leverage only with Hong Kong raw material suppliers.
Unknowns
Capex needs - Will market for 15GB HD DVDRs develop?

- Infosmart's consistent history of core profitability. The Company has never made a loss on core operations. Profitability dipped in 2006 because output was affected in 4Q06 by the relocation of 12 of Infosmart's production lines to Brazil and the consolidation of its Hong Kong production at two locations instead of three. In recent quarters, the Company's administrative expense has been negatively impacted by expenses associated with the process of becoming, and being, a public rather than private company (see Table 13). By the end of fiscal 2007, we expect the Company to have scaled revenues and gross profits to a level commensurate with its higher administrative expenses.

- The strong possibility that Infosmart may broaden its product portfolio, as discussed above.
- The vanishingly small prospect at the present time of any conclusion to the Doha round of trade talks, let alone one that will see reduction of Brazil's tariffs on disc imports. Brazil's anti-smuggling efforts are unlikely to stamp out the vice entirely but are currently effective since Brazilian optical disc prices remain two to three times higher than prices of internationally-traded discs.
- The strength of continuing global demand for high capacity blank recordable optical media. As discussed in our initiation report on Infosmart, DVDRs and their blue laser successors are forecast for the foreseeable future to remain the worldwide medium of choice for replicated entertainment content, especially movies and games. The reasons are: they are cheap, portable and easy to use; and the video players and gaming consoles they are played on are well established in developed economies and being enthusiastically adopted in developing countries, in which most of the world's population live. Globally speaking demand for CDRs is ebbing, but much of Brazil's demand was met by legal imports and smuggling. By producing high quality discs locally, Infosmart is able to buck the global trend and sell CDRs profitably in Brazil.
- Near term market conditions suggest DVDR supply and price discipline will hold. OEM prices for internationally-traded blank CDR discs in the second quarter of 2007 have dropped to below \$0.10 because supply overshot demand. Demand was lower than expected mainly because brand and retail channel clients in the U.S. and Europe replenished their inventories in the first quarter of 2007 and placed few OEM orders in the second quarter. This occurred, however, against a backdrop of strong sales of digital music players around the world, which is affecting CDR sales. In response second-tier makers in Taiwan cut CDR prices to compete for the reduced number of OEM orders, resulting in low OEM price levels. Taiwan's tier two firms also reduced OEM prices for blank 4-8x DVDRs discs to as low as \$0.12. Despite this, CMC Magnetics, Taiwan's largest maker of optical discs, has insisted that it will stick to its profit strategy and has declined low-price orders.
- As discussed in our initiation report, demand for blank recordable blue laser media will take off for the simple reason that people will want to make, buy, sell, lend or exchange copies of hi-definition entertainment content. Blank HD DVDRs and BDRs will be the cheapest and easiest media for doing these things. A key question is the extent to which 15GB HD DVDRs will be a feature of the replication and data archiving markets. There is a risk that the discs may not prove popular with replicators, forcing the Company to buy new blue laser lines, rather than upgrade its existing DVD lines. The 15GB HD DVDR

has enough space for video games, or up to 75 minutes of HD-quality video (or about 7 hours of standard DVD-quality video), depending upon the method of encoding used. Most U.S. feature films, however, are between 90 minutes and 120 minutes long, excluding extraneous material, and are first released on 25GB BD-ROMs or 30GB dual layer HD DVD-ROMs. The 15GB disc will be unable to hold such content unless consumers are willing to accept the inconvenience of a movie split over two discs.

Much will depend on price. Single layer DVDR manufacturing equipment that can be upgraded for HD DVDR production, like Infosmart's, can be used to make 15GB HD DVDRs, not 30GB DVDRs. If, as a result of mass conversions, blank media manufacturers make 15GB HD DVDRs available to replicators at a comparatively far lower cost than 30GB discs, and replicators pass the savings on to consumers, 15GB discs may be acceptable even for HD video that is over 75 minutes long. In any case, recordable blue laser disc demand is not expected to take off in a big way until 2008/9, and by then Infosmart may have a broader product portfolio and wider range of business development options.

3.0. Recent Results

3.1. Fiscal 2007 First Quarter Results

For Infosmart's 1Q07 ended March 31, 2007, net sales increased approximately 23.5% from \$6.2 million in the prior year quarter to \$7.7 million, as the Company largely shifted its sales focus away from Europe to Brazilian, Australian, North American and Asian markets.

Revenues and operating profit in 1Q07 were higher than we expected (see Table 5), because of a richer product mix and more stable pricing environment for Infosmart's Hong Kong-produced DVDRs than we anticipated. Infosmart's overall product mix improved in 1Q07 because the Company started trading hi-definition recordable discs and started winding down CDR production in Hong Kong. The Company's DVDR prices F.O.B. Hong Kong held firm because Taiwan's majors maintained supply discipline, despite the best efforts of some second and third tier producers in Taiwan and other East Asian countries.

Gross profit increased approximately 17.5% from \$1.7 million for 1Q06 to \$2.0 million for 1Q07, primarily due to higher margins from the richer product mix; we think the overall volume of Infosmart's manufactured and outsourced disc sales, and gross margins, were roughly the same in the two periods. Gross margin declined slightly from approximately 27.1% for 4Q06 to approximately 25.5% for 1Q07 because, in our opinion, Infosmart's 4Q06 outsourced disc volumes and margins were greater than in 1Q07, and impacted relative

profitability. Infosmart's domestic production in Brazil was smaller than we projected in February, because the Camaçari facility became operational at the end of 1Q07, but margins were higher and had a welcome impact on overall profitability.

Selling and distribution costs excluding depreciation have been controlled well and were 1.0% of revenues, compared with 0.8% of revenues in the prior year quarter and 1.7% of revenues in 4Q06, as management switched to a lower-cost freight forwarder during 1Q07.

Table 5. Infosmart: Expected Versus Actual Results (millions).

	4Q06E	4Q06A	1Q07E	1Q07A
Own-Manufactured Volume	23.2	23.3	27.9	26.2
Revenue	\$5.2	\$7.0	\$5.5	\$7.7
Operating Profit	\$0.8	\$0.7	\$0.7	\$1.0
Net Income	\$0.7	\$0.5	\$0.5	\$0.9
Earnings to Common	\$0.7	\$0.4	\$0.5	\$0.8
Net Income Margin	13.7%	7.0%	9.6%	11.8%
Inventory Turnover*	16.5	15.3	15.3	12.3
Long Term Debt/Equity	16.8%	40.6%	18.1%	39.5%
Interest-Bearing Debt/Equity	29.9%	49.7%	38.6%	53.2%
Current Ratio	1.5x	0.5x	1.2x	0.6x
Quick ratio	1.4x	0.4x	1.0x	0.5x
Times Interest Earned	5.9x	7.1x	5.4x	6.7x
Basic Shares Out. (million)	134.4	135.8	142.6	136.6

*Calculated as trailing twelve month cost of goods sold divided by trailing twelve month average quarterly inventory. Source: Griffen-Rose

Depreciation and amortization expense rose year over year from 0.9% of revenues to 2.0% of revenues mainly due to the amortization of license usage rights of approximately \$71,000 for the three months ended March 31, 2007. Excluding such depreciation and amortization, administrative expense increased approximately 175.6% year over year from about \$280,000 (4.4% of revenues) for 1Q06 to about \$780,000 (10.1% of revenues) for 1Q07. Of this \$500,000 increase: \$120,000 (24%) was accounted for by the write-off of leasehold improvements and fixed assets relating to leases terminated during the consolidation of the Company's Hong Kong facilities; approximately \$190,000 (37.6%) was accounted for by higher remuneration for Infosmart's top management and the employment of new administrative staff especially for its new Brazilian operation. The remainder was largely accounted for by additional expenses for business travel, advertisements and the provision of supporting services following Infosmart's reverse merger transaction and financing in 2006. Excluding the write of leasehold improvements, the run rate of administrative expense is approximately \$2.6 million per year. We believe that our projection of \$3.1 million in overall FY07 administrative expense (see Table 1) is therefore conservative.

As Table 5 shows, Infosmart's 4Q06 and 1Q07 operating profits were only, respectively, about \$100,000 lower and

\$290,000 higher than we projected. Earnings before interest and tax for 1Q07 were boosted by about \$310,000 in income not derived from core operations; non-core income was about \$50,000 and \$120,000 in 1Q06 and 4Q06, respectively. Net income decreased approximately 1.5% from about \$920,000 (14.8% of revenues) for 1Q06 to about \$905,000 for 1Q07 (11.8% of revenues), primarily due to the increase in administrative expenses. On a sequential basis, net income was up about \$420,000 (85.3%) largely because of higher gross profits and other income (about \$70,000 and \$190,000, respectively) and lower administrative expense (about \$230,000).

Our revised projections, set out in Table 13, assume higher DVDR and CDR production, lower blue laser production, and higher outsourced disc sales than our February forecast.

3.2. Liquidity and Capital Resources

As of March 31, 2007 Infosmart's cash balance, excluding restricted cash, was merely about \$160,000 (0.6% of trailing twelve month revenues). The Company's working capital was negative \$7.3 million, the current ratio 0.63x, and the acid ratio 0.55x. The median and mean current ratios in its industry group are 1.0x and 1.2x, respectively. Working capital has been negative and liquidity ratios below 1.0x for most of the Company's history, although the situation has improved from the negative \$8.6 million in working capital reached at the end of 2006. The Company's receivables collection period stood at about 122 days at the end of 1Q07, compared with averages of about 30 days for 2004, 48 days for 2005 and 83 days for 2006. The trade payables period also lengthened, from an average of about 59 days for 2006 to 110 days at the end of 1Q07.

Although Infosmart is experiencing tight liquidity the risk of financial distress is low, for three reasons. Firstly, the Company's capital structure is relatively sound. As of 1Q07, its ratios of total interest paying debt to equity and long term debt to equity stand at 53.2% and 39.5%, respectively; the latter metric is roughly in line with the industry group median. Infosmart's 1Q07 operating profit is 6.7 times greater than its interest expense, a comfortable margin.

Secondly, there is no question that, stripped of one-off costs associated with its reorganization last year, Infosmart's profitability was, and continues to be, strong. The Company's operating margin was 20.3% in 2005 and, excluding one off financing costs, 17.8% in 2006. In 2003, 2004 and 2005, the Company's net profit margin was 17.1% and, excluding non-cash financing and reorganization costs, 8.2% in 2006. As already noted, profitability dipped in 2006 because output was affected in 4Q06 by the relocation of 12 of Infosmart's production lines to Brazil and the consolidation of its Hong Kong production at two locations instead of three. The Company's lack of cash is therefore not the result of low cash generation; it largely stems from its bid for growth. In 4Q06

and 1Q07 the Company spent about \$7.4 million on plant and equipment, financed by \$2.7 million in cash from operations, \$1.3 million from shareholders and related parties, \$1.3 million in increased short term bank debt, and \$2 million from bank deposits as of the end of 3Q06.

Thirdly, the Company is able to bear a degree of illiquidity because of its very high rates of inventory turnover, which, calculated as a ratio of trailing twelve months' (TTM) manufactured cost of goods sold (COGS) to average year over year inventory, stands in our estimate at 10.7x, compared with 5.2x for its industry group. (Infosmart's inventory turnover ratio is even higher, at 12.3x, when calculated more accurately by using average TTM quarterly inventory as the denominator. This measure is however not useful for comparison with other, mainly Taiwanese, firms due to lack of quarterly information on them.) In short, Infosmart turns over inventory about once every four to five weeks; its peers, typically once every 10 weeks. Admittedly, the current run rate of Infosmart's inventory turnover, measured as annualized 1Q07 COGS divided by average 1Q07 inventory, stands at 9.5x (once every five and a half weeks), down from 16.1x and 11.4x in 3Q06 and 4Q06, respectively, and lower than at any time since 2005. Yet even by this measure Infosmart still achieves almost twice the industry group median inventory turnover rate. The Company has made no allowance for doubtful accounts and we expect a sharp improvement in the Company's working capital position over the next two quarters.

4.0. Infosmart's Long Term Success Factors

In this section we examine in greater detail the arguments for and against the long term profitability of a middle ranking optical disc manufacturer like Infosmart.

4.1. Competitive Environment

The manufacture of single layer DVDRs and CDRs is well understood, and undertaken by over 100 enterprises worldwide. Global supply is dominated by CMC Magnetics and Ritek in Taiwan and Moser Baer in India. There is no shortage of global capacity. To some degree manufacturing capacity can be shifted from one type of disc to the other, making global supply and pricing hard to forecast. The DVDR market was oversupplied in the first half of 2006 and the CDR market is given to unpredictable capacity swings and pricing volatility. Over the last three years the average net profit margin of the major Taiwanese firms has been between 0.3% and negative 39.7%, and 2.8% for Moser Baer.

It could be argued that Infosmart's long-term competitive position is weak because it: has no technological competitive advantage over other manufacturers; is too small to be able to secure raw materials on preferential terms from suppliers that would give it a pricing or supply advantage in the event of raw

material shortages; and cannot match the scale economies of the industry's leading players.

Theory must give way to reality and the argument above ignores Infosmart's demonstrated history of profitability since inception. Run by industry veterans who have a substantial ownership stake in the company, Infosmart's operating margin has fluctuated between 17.8% and 33.8%, and its net income between 8.2% (adjusted for non-cash one-off financing items; 3.9% unadjusted) and 31.4%. Execution matters, and, as we've noted before, for optical disc manufacturers size and profitability do not necessarily coincide. Distribution in many emerging markets is fragmented compared with North American patterns. Order sizes tend to be smaller, befitting manufacturers with the ability to handle heterogeneous or small to midsize orders (500,000 – 5 million discs). Smaller companies may in fact have a competitive advantage in meeting smaller orders. Furthermore, the world's top DVDR manufacturers have diversified into non-optical disc markets; their operating results do not purely reflect the results of their optical disc operations.

Market conditions for CDR and DVDR manufacturers will vary of course, as for any other market. CDR supply shortages prompted the Company to switch part of its Hong Kong capacity from DVDRs to CDRs last year. However, by the second quarter of calendar 2007, a CDR supply glut, caused by lower than anticipated European and North American demand, prompted the Company to rededicate all capacity to DVDRs. Taiwan's majors moved to discipline internationally-traded DVDR supply toward the end of 2006, and in the firmer pricing environment CMC's net income in the first quarter of 2007 rose 17.5% year-over-year. Infosmart has benefited from these developments.

It is possible that supply indiscipline could erupt again, but Infosmart has moved to shield itself from this risk by reducing the overall proportion of its output that is internationally traded. By the end of this year we expect that about 45%-50% of Infosmart's output, and well over half of its own-manufactured disc revenues will be coming from its domestic sales in Brazil, which are protected from legal imports by a tariff wall. With its greater DVDR manufacturing capacity, management expertise, and proximity to the major markets of Brazil's south-eastern states, Infosmart is well-placed to compete with other Brazilian manufacturers.

Finally, raw material supply markets are competitive, and there are no current or foreseeable near-term bottlenecks in polycarbonate (PCB) supplies that could cause price spikes or interrupted delivery (CDRs and DVDRs are made from PCB). Bayer estimates that global polycarbonate capacity utilization will be approximately 88% in 2007, as it was in 2006, and down from 91% and 90% in 2004 and 2005, respectively. That said, PCB is made from derivatives of crude oil, and its

pricing is therefore subject to crude oil prices over which optical disc manufacturers have no control. Polycarbonate prices have held steady at approximately \$2.75/kg CIF Hong Kong so far this year.

4.2. Risks of Product Obsolescence

It could be argued that Infosmart's products have no long term future. The Company manufactures blank single layer recordable compact discs and digital versatile discs (CDRs and DVDRs) that are primarily used for replication of entertainment content and software, and data backup. Over the next decade these media will probably be replaced by a variety of alternatives for digital content delivery and archiving, especially HD-DVDRs and BDRs; non-removable ("hard") optical discs, flash and solid state memory, and delivery via the Internet.

Handheld MP3 players are rapidly eliminating removable optical discs from the portable music market; personal video recorders and set-top boxes with recording capacity are increasingly a feature of many homes; music and video download services are proliferating as broadband and fibre-optic internet access takes hold. Pornographers are increasingly drawn to Web-based distribution as broadband users switch from DVDs and pay per view TV in favour of PC screens. According to the newspaper *USA Today*, overall sales and rentals of X-rated DVDs fell 15% in the year to June 2007, and 30% over the two years to June 2007, because of content availability (often free) on the Web. By contrast, in 2006, Internet-based porn sales grew 14%, to \$2.8 billion.

According to the International Federation of the Phonographic Industry (IFPI), the number of CDs shipped in the U.S. fell 12.8% in 2006 compared with 2005; and by 20.5% for January 1 - April 2, 2007, versus the prior year period. The trend is broadly global. According to the Recording Industry Association of Japan (RIAJ), Japan's music CD production fell 8% in January – May 2007 compared with January – May 2006. In 2006, IFPI figures show that legitimate physical trade sales of music fell by value in every major except Russia and South Africa. Global physical and digital music sales fell 5% by value compared with an 11% rise in purely digital music sales. This trend does not bode well for Infosmart's CDR business.

In Infosmart's case the product obsolescence risks are overstated in the medium term. The Company is not directly exposed to the decline in CDR demand in Europe and the U.S.A. Its CDR production is temporary and opportunistic in Hong Kong, in response to occasional excess demand, but strategic in Brazil, where CDRs are in strong demand as the carrying medium for cheaply replicated musical content for playback in CD or CD/MP3 players.

Table 6. Estimated World Internet Usage and Population Statistics, 2007

World Regions	Pop (M)	% World Pop.	Internet Usage	% Pop. Penetration
Africa	933	14.2%	34	3.6%
Asia	3,713	56.5%	437	11.8%
Europe	810	12.3%	322	39.8%
Middle East	193	2.9%	20	10.1%
North America	335	5.1%	233	69.5%
Latin America/ Caribbean	557	8.5%	110	19.8%
Oceania / Australia	34	0.5%	19	54.5%
World Total	6,575	100.0%	1,173	17.8%

Source: www.internetworldstats.com

Current generation DVDRs are globally the preferred medium of choice for replicated copies of filmed entertainment and video games and will remain so in the developing world for many years to come. PC and Internet penetration of households in the developing world lags far behind the developed. Today, 25 years after the start of the Web's commercialization, 5.4 billion people, representing over 82% of the world's population, lack any Internet access whatsoever, let alone broadband (see Table 6). At average penetration rates over the last seven years, it will take almost two more decades before the Web reaches half the world's population. In terms of volume, which is what matters to a company like Infosmart, physical media will continue to be the predominant, and in many cases exclusive, access point to digital information worldwide for a long time to come.

Demand for physical media in developing countries will be underpinned by their growing demand for PCs and DVDs. Gartner, a technology research firm, expects emerging markets to gain about 128 million new PC units in 2007 and 2008, representing about 25% of all PC units expected to be shipped. PriceWaterhouse Coopers, an accounting and consulting firm, has forecast that over the next two years the world's DVD households will rise by 150 million – 200 million.

According to Strategic Marketing Decisions (SMD), a U.S. writable optical media forecaster, demand for global writable DVD formats (DVDR and DVD-RW) grew by over 60% in 2006, and is expected to grow by over 40% in 2007. DVDRs account for the bulk of this demand. Understanding & Solutions ("U&S"), an international research firm focused on digital imaging and storage media markets, has projected that global DVDR demand will grow by about 1.4 billion discs annually from 6.4 billion in 2006 to 10.7 billion in 2009, equivalent to a compounded annual growth rate of almost 20%. Next generation high density optical media is being introduced in Japan, the U.S. and Western Europe but progress is slow (see section 6.3.). Blue laser discs are a far more distant prospect in developing countries such as Brazil, whose GDP per capita on a purchasing power parity basis is about 20% of the U.S. level.

Nevertheless, the Company is facing the prospect of a shift away from current generation optical discs in the U.S., Europe and Australia over the coming decade, although demand for DVDRs will remain popular for many years. As the switch to blue laser discs occurs standard definition DVDR (SD DVDR) manufacturers are likely to: shed capacity by not replacing worn-out machinery; sell production lines to other manufacturers with stronger customer relationships and distribution systems; intensify their search for opportunities in the many largely untapped consumer electronics markets of the world, particularly in Africa and Asia; and intensify their rivalry in existing markets. The interplay of these factors on DVDR market prices is difficult to predict.

Whether production of blank HD DVDRs will be lucrative for firms like Infosmart will depend on whether content replicators can make attractive returns by selling content on 15GB HD DVDRs. The unknown answers to three key questions will determine this.

Firstly, will the installed base of HD DVD hardware be sufficient to support demand for content replicated onto blank HD DVDR discs? These issues in turn depend on the "format wars" and likely impact of BD-ROM and HD DVD-ROM content on hardware demand, and whether dual format drives such as the LG BH100 will soon be priced competitively with single format drives. Because of Sony's Playstation 3 (PS3), Blu-ray seems to have the immediate advantage over HD-DVD in the battle to decide the optical disc format that will carry hi-definition video content (see section 6).

Secondly, will it be easier and cheaper for replicators, particularly illicit ones, to duplicate material onto 15 GB HD DVDR discs, versus 30 GB HD DVDR discs or 25 GB BDR discs, irrespective of the format in which the original was encoded?

Thirdly, will the cost of blank 15GB HD DVDRs be so much cheaper than alternative blue laser media that replicators and consumers will be persuaded to use them?

Infosmart will face significant capital outlays for blue laser production lines if the replication market bypasses 15 gigabyte (GB) HD DVDRs in favor of 30 GB dual layer HD DVDRs or 25 GB BDRs. At present, Infosmart is monitoring market developments by profitably supplying customers with recordable blue laser discs on an outsourced basis. By the time it decides to produce its own, new equipment prices may have declined or used equipment become available.

In conclusion, Infosmart isn't directly exposed to the decline of CDR demand in advanced economies and it should enjoy many years of robust demand for CDRs and DVDRs, especially in developing countries, like Brazil, where systems of electronic distribution and payment for digital content are relatively underdeveloped and music and video must be physically distributed. Meanwhile, the Company is able to

participate profitably in the early stage of demand for blue laser discs on a merchant basis until it decides to manufacture them.

5.0. Developments in the Physical Media Market

Optical discs, which are currently at the core of Infosmart's existence, will remain a key part of the entertainment and data archiving landscape for the foreseeable future.

5.1. Future of Optical Discs

Today, the explosive growth of digital content continues to pervade our daily lives. To store and manage the growing quantity of personal content, there are three primary storage media used in consumer electronic (CE) devices: hard-disk drive technology, flash memory and DVD optical media, each of which has its own unique pros and cons in different applications.

While all three storage media will continue to co-exist in the consumer electronics marketplace, DVD optical media is the unchallenged winner for permanent storage of personal content. Why? Hard-disk drive technology is the clear leader in capacity and is easy to rewrite, but its overkill in many popular CE devices. Flash memory offers rewrite capabilities and is highly-portable, but can be higher-cost for a given capacity. Both hard-disk drive and flash memory technologies are good solutions for temporary storage where rewriting is an important feature.

DVD optical media, on the other hand, has for many years been the ideal solution for the permanent archiving and storage of digital content. DVD has had the right balance of capacity (4.7GB to 9.4GB), low blank-media cost, portability, and a huge installed base of DVD players, rendering it the best medium for general-purpose storage of valued personal content.

Technology has evolved since the days of early photography, but people still keep permanent physical copies of pictures of family, friends, and memorable events. That strong desire to keep a physical "library" hasn't changed; most people prefer the physical form-factor, rather than keeping their precious memories on a server, or a PC which might become obsolete, or a less permanent storage device. Optical discs offer that physical reassurance. Couple that desire with the increasing amount of content. Today, there is an abundance of content, originating from different sources, such as digital camcorders and cameras, old home movies and photos, the Internet, and broadcast video.

Demand for storage continues to grow rapidly for consumer and professional applications. In the consumer arena, CDs and DVDs are becoming unsuitable for high volume storage needs, and consumers have started turning to PVRs and

Media Centre PCs, which use fixed hard drives with a finite capacity. Yet there's still a need for users to archive content, which requires copying to a removable medium, which, ironically, tends to be optical disc. Optical discs are evolving, and third generation discs, based on blue laser technologies, can store up to 50GB, with future potential to provide a 200GB disc to consumer markets. In the medium term, this should be adequate for consumer use. Professional storage capacity needs exceed 200GB, and to a great extent businesses continue to rely on tape for high volume data storage and archiving. Tape is cost-effective but access times are slow when compared with optical disc. This is opening the way to fourth generation optical media formats, which are being developed with a one terabyte-per-disc capacity.

Table 7. Optical Disc Strengths and Threats.

Strengths	Threats
Low cost per GB	Online content delivery
Proven reliability	In-home HDD servers
Easy to use	Solid state storage media
Consumer familiarity	

According to Understanding & Solutions, the blue laser optical disc could possibly be the last generation of physical media, but it will have a product life cycle of at least 10 years in advanced countries. U&S believes that the long term trend shows a move toward networked delivery of content on demand, with local storage needs being fulfilled using HDD-based servers. The ability to store content electronically will drive the growth of higher capacity hard drive based servers, whilst at the same time acting as a break on demand for removable recordable media. Emerging economies will lag advanced countries in this development. However, because HDD capacity is finite, and off-site storage is not always the optimal solution, removable media will still be required for archiving purposes, particularly when a lot of "download-to-own" movies have been bought. Blue laser discs will fulfill this demand. In recent years Flash memory has begun competing with optical discs because price points for Flash have now dropped to a level which is allowing PC manufacturers to offer products with hybrid/Flash drives, or in some cases Flash only drives.

CDRs and DVDRs have replaced paper and microfilm systems in banking and payroll processing applications in developed economies and will do the same in developing countries. DVDRs are already a key feature of on-demand publishing services with consumer retail, medical and business to business applications in advanced countries. Such services will continue to support writable optical disc demand, and include:

- Wal-Mart's and Wallgreens' in-store publishing of photos on CDs. FedEx Kinko's publishing services, of customers' documents on discs.
- GE Medical's publishing services for patient scans, on

discs instead of conventional film.

- Microsoft's software publishing of new product releases, beta and other low-volume products on disc, and source code archiving.
- 8,500 MRI and PET machines in the U.S. make 25 million scans annually. CD/DVD is the cost-effective alternative to film-based CT, MRI and other imaging modalities. Their use in this regard is likely to grow with improvements in healthcare delivery around the world.

Demand for optical discs may be boosted by digital distribution, as it becomes possible for stores - both online and off - to burn DVDs on demand. A kiosk at Target or Wal-Mart may one day be able to offer hundreds of thousands of movies, instead of the thousand that currently fight for space on store shelves. Amazon may be able to burn discs as customers order them, thereby reducing inventory costs and boosting margins.

5.2. Advanced Countries Will be at the Forefront of Hi-Definition Disc Adoption

As Table 8 shows, 2% of studios' worldwide revenues came from video on demand (VOD) in 2006 (3% domestically and 1% internationally). This excludes subscription VOD revenues, which are regarded as pay TV revenues. Internet-delivered movies represented less than 0.1% of U.S. studio revenues. In comparison, U.S. studio majors derived 59% of their U.S. revenues from DVD movie sell-through and rentals, two and a half times as much as from domestic theatrical releases.

Given the industry's wariness of digital distribution, this revenue pattern cannot be sustained without the uptake of HD formats, so the industry is relying on HD content to boost consumer video spending, first in developed countries, later across the globe. The root of enthusiasm in America for bigger, higher resolution televisions can be traced back to Americans' long-standing quest for a theater-like experience in the home. HDTV adoption in America is taking off. The HDTV household is the main environment for hi-definition media players and media. According to the Digital Entertainment Group (DEG), since launch in 1998, more than 34.5 million HDTV sets have been sold to U.S. consumers in 31 million households (11% of households have more than one HDTV set). Of these, an estimated 12.5 million HDTVs (36.2%) were sold to U.S. consumers in 2006, nearly 5 million in the fourth quarter alone.

Screen Digest anticipates mid single digit CAGR of consumer spending on video sales between 2007 and 2010, in the U.S., Europe and Japan, which will be driven by rising HD disc purchases. The Entertainment Merchants' Association expects that HD discs will help rentals and sales of physical media grow as a percentage of U.S. consumer movie

spending, from 59% in 2006 to 64% in 2010 before falling back to 55% in 2015 (see Tables 10 and 11).

Table 8. U.S. Major Studio Revenues from Movies in 2006.

	U.S.	International
Video Sales	46%	39%
Video Rental	13%	11%
Theatrical	24%	23%
Pay TV	11%	14%
Free TV	3%	12%
VOD	3%	1%

Source: "Film Entertainment Worldwide: The Impact of New Technologies", Adams Media Research/Screen Digest 2007

Table 9. Projected U.S. Home Movie Spending, 2006-2015.

Year	Rentals	Sell-Through	Total
2006	\$8.1	\$16.8	\$24.9
2007	\$8.2	\$17.9	\$26.1
2008	\$8.3	\$18.7	\$27.0
2009	\$8.3	\$19.8	\$28.1
2010	\$8.5	\$20.4	\$28.9
2011	\$8.4	\$20.7	\$29.1
2012	\$8.0	\$21.0	\$29.0
2013	\$7.6	\$21.9	\$29.5
2014	\$7.1	\$22.8	\$29.9
2015	\$6.7	\$23.6	\$30.3

Source: Entertainment Merchants' Association, 2006

Table 10. Projected U.S. Consumer Movie Spending, 2010.

Rank	Media	Revenue (billions)
1	Home Entertainment	\$28.9
2	Box Office	\$10.1
3	VOD	\$4.2
4	Cable/Telco/ALC	\$1.7
	Total	\$44.9

Source: Entertainment Merchants' Association, 2006

Table 11. Projected U.S. Consumer Movie Spending, 2015.

Rank	Media	Revenue (billions)
1	Home Entertainment	\$30.3
2	Box Office	\$11.7
3	VOD	\$9.8
4	Cable/Telco/ALC	\$3.0
	Total	\$54.8

Source: Entertainment Merchants' Association, 2006

Digital delivery will be important in the long term, but packaged media will continue to rule, as long as security, compatibility and affordability issues hold digital delivery back. Furthermore, since revenues from new delivery channels are still mainly incremental rather than cannibalistic of physical sales, it is possible that digital distribution will expand the market for filmed home entertainment. As Tables 9, 10 and 11 show, the pattern of physical media dominance is set to

continue for the foreseeable future. VOD is expected to take market share by enlarging the home entertainment market rather than diminishing sales of physical media.'

6.0. Update on Format Wars

6.1. Infosmart's Vulnerability to Format War

One of Infosmart's medium term objectives for offsetting declining margins on DVDR sales in advanced countries is to introduce writable high density discs, preferably HD DVDRs, into its manufacturing product mix. The Company has postponed its anticipated launch date from 3Q07 to 1H08 while it waits for demand for next generation discs to pick up. In this, the Company is closely following news from Taiwan, whose majors have been cautious in creating writable blue laser disc capacity. Meanwhile, Infosmart supplies orders for HD discs on an outsourced basis.

Infosmart's plans are affected by the format war on two levels. Firstly, the war is hampering acceptance of blue laser packaged media. One view is that the war may be helping consumer acceptance, by putting pressure on hardware manufacturers to drop prices and on both camps to step up promotional efforts. However on balance, according to Sony Pictures Home Entertainment, the cost of consumer confusion and slower adoption probably outweighs the argument for the accelerating drop in hardware pricing. Secondly, the war's outcome will decide the extent to which the installed hardware base of standalone players and console and PC drives will support demand for HD DVDRs as opposed to BDRs.

6.2. Blu-ray Ahead of HD DVD in Console Market

In the format war, Toshiba had the head start with the introduction of its HD DVD player in March 2006. However, since then, the greater number of movie releases on BD than HD DVD has been reflected in disc sales. Seven out of the eight Hollywood majors support Blu-ray, five of them exclusively. Only Universal exclusively supports HD DVD. Mini-major Lionsgate also is part of the Blu-ray camp while The Weinstein Co. has aligned itself with HD DVD; New Line has announced (but not yet released) titles on both formats. Of the half-dozen smaller independents publishing in high-def, three are releasing on both formats and three are exclusive to HD DVD. According to the Daily Variety, in the U.S. last year 18 of the 20 top selling DVD titles were available on Blu-ray, whereas only four were available on HD-DVD.

U&S believes that Blu-ray has the strongest possibility to "win" the format war, thanks mostly to Sony's PlayStation 3 (PS3), which is poised to be in virtually 25 million to 35 million homes in the next two to three years. U&S expects that about 8 million hi-definition units will be sold in the U.S. in 2007 across all product types and formats. By the end of 2007/early 2008, about 5%-6% of U.S. homes will own a hi-definition playback

device; of these, about 80% are expected to be Blu-ray.

The PS3 finally launched in Europe in late March 2007 and, as anticipated, immediately dwarfed all previous sales of hi-definition video hardware. Meanwhile, HD DVD is building relationships with Europe's independent publishers, authoring houses and replicators as it waits for the price of its hardware to fall. According to U&S, the current balance of Blu-ray to HD gaming consoles and standalone players in Europe is about 4:1. Excluding consoles, however, according to Screen Digest, the situation is precisely reversed; by the end of March HD DVD accounted for around 80% of the installed base of standalone hi-definition players.

Table 12. Number of Installed Players and Drives and Media Sales in the U.S., June 2007 ('000).

	Blu-ray	HD DVD	BD/HD DVD Ratio
Players	100	150	
Game Consoles HD Drives	1,600	143	
Total Hardware	1,700	293	5.80
Media Sales Since Inception	1,200	938	1.28
Media Sales Since 1Q07	833	359	2.32
1Q07 Media/Hardware Ratio	0.49	1.23	0.40
Media Sales Since Inception/ Player Ratio	0.71	3.20	0.22

Source: Video Business, 6/15/2007; Vgchartz.com

This suggests that price does matter, at least for some early adopters. Following the development of a 'system on a chip' solution for HD DVD production by Broadcom and Microsoft, several new manufacturers pledged support for the Toshiba-backed format, and Chinese companies LiteOn, JK, Alco and Shinco have all stated that they plan to launch affordable HD DVD players this year. It seems inevitable that HD DVD will maintain its position as the cheapest way to buy into hi-definition video.

6.3. Consumer Uptake of Both Formats is Currently Lackluster

Early adopters, many of whom are less price sensitive than mass-market consumers, are currently in the market for HD players. Sony's BDP-S300 retails for about \$500; the 60GB PS3 now costs about \$500, although its game-oriented wireless controller and relatively loud fan makes it a less than ideal movie player. Microsoft's Xbox 360 plus HD DVD add-on retails for about \$500 - \$680 depending on configuration.

Neither Blu-ray nor HD DVD players have yet caught on strongly with mass-market consumers because of: the relatively high price of HD players and titles; the wide availability of DVD-Video players that have the ability to upscale standard definition DVDs to a form of HD; the lack of HD recording units with the ability to access, edit and archive recorded material; and the fact that commercial HD titles can't

yet be easily backed up.

The picture from a \$49 DVD player will look "good enough" to many consumers facing prices for hi-definition televisions and disc players that cost hundreds of dollars more than their standard definition counterparts. Even if the two hi-definition formats take less than the nine years that DVD took to surpass the VCR, they are still far behind DVD. As a further point of comparison, total sales of hi-definition discs in any format - Blu-ray or HD DVD - is far lower than the number of Xbox 360 owners who have purchased the game "Gears of War" since its introduction in November 2006.

6.4. Hi-Definition Movie Sales and Rentals, and the Blockbuster Announcement

The BD camp scored a major coup when, in June 2007, Blockbuster announced that its next batch of 170 hi-definition DVDs would be exclusively offered in the BD format in 1,700 Blockbuster-owned stores. According to Blockbuster, the decision reflected the fact that rental transactions in its 250 stores that initially offered hi-definition product strongly favored BD by a ratio of almost 3:1. Blockbuster will continue to rent the HD DVD titles it already offers in the 250 stores and, crucially, its online operation will offer both formats.

Blockbuster's decision sparked a flurry of commentary hailing it as a decisive step in the format war, despite the fact that the company's own statement acknowledged that "it is still too early to say which hi-definition format will become the industry standard".

BD's 70%-plus domination of Blockbuster's retail business is more extreme than the 65%/35% split currently recorded in the U.S. movie sell-through retail market. However, BD currently accounts for about 85% of U.S. hi-definition video households. If we assume similar retail and rental tie ratios in the 100,000 homes that currently own a standalone BD as in the 300,000 that have either a standalone HD DVD player or an X-box add-on, it is clear that average purchase and rental rates among the 1.6m PS3 households in the U.S. are extremely low. Furthermore, the higher Blockbuster rental rate compared with the sell-through rate seems to indicate that at least some BD households are actively opting to rent rather than buy, which may be good for Blockbuster, but is less good for Sony and its allies. And this is before there is a strong slate of exclusive games for the PS3, which will inevitably reduce demand among gamers for Blu-ray discs.

The actual impact of Blockbuster's decision on the hi-definition rental business will probably be minimal. The rental of hi-definition formats is still in its infancy, and according to Screen Digest the vast majority of rentals of either format are being made online rather than in-store. Blockbuster will continue to offer both formats online, meaning that any HD DVD owners unable to rent product in their local store will be directed to the online service, which the company is actively

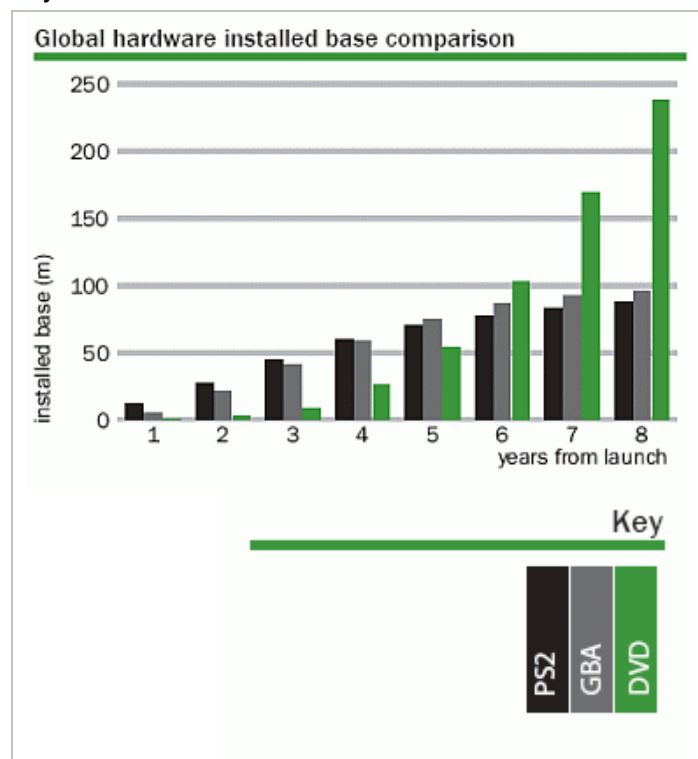
promoting. Blockbuster's decision has probably been motivated by inventory management considerations. By rolling out one rather than two formats, Blockbuster will significantly reduce the inventory costs associated with stocking over 170 titles in 1,700 outlets. At this early stage, generating a return on such costs is by no means guaranteed, so avoiding them makes sense. This is not such an issue online, where each unit of inventory can achieve satisfactory turnover rates in a much larger single market.

The Blockbuster announcement and the subsequent reaction to it had the effect of positioning Blockbuster as an influential player in the video industry, generating more positive PR for the company than it has had for some time. There is also no doubt that the publicity generated and the increased exposure BD will now receive in the wider Blockbuster store base may help convince some as-yet-undecided consumers that the Sony-backed format is the safer bet.

6.5. HD DVD Should Gain Long-Term Advantage from Standalone Player Sales

Consoles such as the PS2 and PS3 have an immediate but short-term impact on the hardware market, whilst the impact of DVD players is slower but more enduring (Figure 4).

Figure 4. Pattern of Hardware Expansion: Consoles vs. Standalone Players.

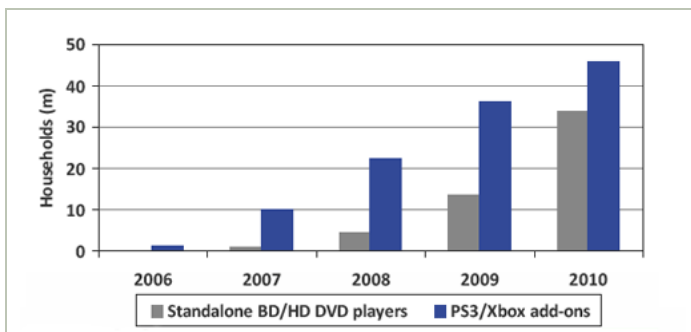


Source: Screen Digest

Released in 2000, the PS2 and Game Boy Advantage (GBA)

each attained a global installed base of almost 60m within four years of launch. Conversely DVD, which was launched in 1997, failed to achieve half the installed base of these gaming platforms after four years on the market; it had only 25.5 million equipped households by 2000. However by 2004, eight years after the launch of DVD, the global installed base of DVD hardware was greater than the combined PS2/GBA base, and was still growing, whereas the number of these gaming households eight years after launch began to flatten in advance of new model introductions. This shows that in the West, the DVD has become much more of a mass-market consumer electronics device, whereas the demographic appeal of gaming consoles has remained limited.

Figure 5. Projected Installed base of BD/HD DVD Hardware – U.S., Europe, and Japan.



Source: Screen Digest

Screen Digest believes that the adoption of hi-definition disc technology will follow a similar curve to that of DVD (Figure 5), within the constraints of the HDTV household base, as pressure from retailers causes price depreciation and accelerating customer adoption in the U.S. and Europe. In the long term the number of player households will greatly exceed the number of console households.

This means that there is all to play for in the HD DVD/Blu-ray battle for the player market. U&S predicts that, by the end of 2008, more than half of all U.S. homes will have HD TV sets. Large size LCD and plasma screens stimulate demand for HD media because they magnify imperfections in standard definition transmissions when compared to older cathode ray tube displays. Furthermore, console households will buy fewer discs than standalone player households. The PS3 is likely to continue to outsell standalone hi-definition players (of both formats) over the next couple of years, as a result of which U.S. and European high-def-enabled console households are likely to continue to outnumber homes with a standalone hi-definition player until, in Screen Digest's view, 2011. The lower cost of HD DVDs should enable the latter format to keep the pressure on Blu-ray over the next few years if sufficient content, whether licit or not, is available to consumers.

The real importance of the PS3 launch is that it marks the first time the video industry has managed to harness the huge volume of sales that often characterize game console launches. Sony's PS2 and Microsoft's Xbox play DVDs, but their launches post-dated that of DVD by two or three years. So the consoles had no impact on early format adoption. This time, however, Sony is taking every opportunity to reinforce the PS3/Blu-ray link. And with Microsoft's hardware support for HD DVD limited to an optional add-on drive for the Xbox 360, Blu-ray is dominating the format. U&S reports that more than 70% of people buying a PS3 have a strong interest in acquiring movies for it.

While price may not be a key consideration for most early adopters, falling hardware prices have a demonstrable effect in stimulating mass market adoption. In the U.S., players have to be less than \$200 for mass appeal and less than \$100 for impulse purchases. Mass-market adoption of HD players in the U.S. is probably about eighteen months to two years away. U&S expects HD players to drop to \$200 in 2008; ABI Research believes that this will happen by 2009. It is likely that HD DVD players will breach the \$200 barrier well before BD players because their components are less expensive. If so, HD DVD could dominate, rather than merely lead, standalone player sales and, in the long term, overall hardware sales. Alternatively, dual format solutions will become cost-effective and dominate the player market.

In the meantime, HD DVD consumers will be too significant a group to ignore, and content owners are likely to become increasingly format agnostic; where they are not, replication may fill the gap. Screen Digest believes that average software prices will remain similar for both formats, and HD DVD will continue to lead in standalone player sales in the near future due to the cannibalization of BD player sales by the PS3 and the continuing HD DVD price advantage over BD.

6.6. Market for Recordable Blue Laser Media Still Nascent

The cost of BD and HD DVD burners remains high, impeding consumer adoption of the two blue laser recordable standards. Hitachi-LG Data Storage (HLDS), Toshiba-Samsung Storage Technology (TSST), Taiwan-based Lite-On IT and other Japanese brands have been making efforts to lower production costs of blue laser burners, but burner prices currently retail for about between \$450 and \$950 in the U.S.

BD burners are available to consumers; HD DVD burners are not. Toshiba's SD-H903A and SaHD DVD burner, announced in January 2007, is not yet in the shops. A LiteOn manufactured HD DVD burner is expected sometime in the second half of 2007. With no burners available, not many retailers are stocking recordable HD DVD blank media. HD DVD-R media might drop in pricing more rapidly as the burners become available.

In the light of these conditions, CMC Magnetics and Ritek, the top two makers of optical discs in Taiwan, have been conservative about investing in the production of blank BDR and HD DVDR discs to match the potential demand for such burners. While CMC and Ritek are capable of producing blank BDRs and HD DVDRs, Sony, Mitsubishi Kagaku Media (MKM) and TDK currently dominate the global supply of such discs. Taiwanese companies including Ritek and rival CMC Magnetics license disc technology from technology developers such as Japan's Mitsubishi Chemicals Media and then use their high production capacity to drive down the cost of each disc and earn as much revenue as possible. HD DVDR and BDR prices will start coming down when more mass disc producers in Taiwan win accreditation to make the discs, and ramp up volumes.

Writing speeds of BD and HD DVD burners are expected to be upgraded from 2.4x-4x currently to 6x-8x. Major brands may launch price competition in the second half of 2007 to liquidate 2.4x-4x inventory; this may spur demand.

6.7. Will Hi-Definition Hardware Stimulate Strong Disc Demand?

The likely impact of hi - definition hardware on disc demand is controversial. On one view, hi-definition technology will not recreate the DVD boom, which reflected changing consumer behavior; instead of replacing existing DVD collections, consumers will 'cherry - pick' from new releases and favorite catalogue choices. On another view, consumers will be increasingly dissatisfied with the quality of SD images on their LCD and plasma screens and seek to replace their libraries. Suppliers of high density blank recordable media face two particularly strong near-term E.U. and U.S. opportunities.

- U&S predicts that, by 2010, there will be 115 million homes with HD displays in Western Europe, but only 17m Western European homes will be receiving HD broadcasting. This will create a "content gap", which can be filled by HD discs and players. Pre-recorded (BD-ROM, HD DVD-ROM) and blank (BD-R, HD DVD-R) media manufacturers could be facing a particularly strong growth opportunity in Western Europe's high density (HD) disc market.
- According to Price Waterhouse, prices for download-to-own movies in the U.S. are expected to start falling in 2009, while sales expand rapidly to 80 million movies at an average price of \$7 per film by 2011. Total spending on download-to-own movies will grow to an estimated \$560 million from \$32 million in 2006, while sales of download-to-own TV shows are expected to rise to \$600 million, the report said. Purchasers will want to archive the content onto optical discs because they are cheap, well understood, reliable and portable.

6.8. Archiving, Adult and Replication Markets

The format war is less directly relevant to the archiving and replication industries. For archiving, storage costs per megabyte, convenience and reliability are the key criteria. Producers of adult entertainment are utilizing both formats. Replicators that utilize blank media are format agnostic in the sense that content (especially movies, music and games) originally on from BD-ROM and HD DVD-ROM discs can be copied onto either blank HD DVD-R or BD-R discs. The greater support BD is receiving from Hollywood's majors is therefore irrelevant in this regard.

Replicators will output content onto both formats, according to calculations based on: content length; blank media capacity, write speeds and costs; and format demand. Content may be compressed using various codecs. Blank media properties and costs will result from the output of HD-convertible DVD-R production lines and new HD DVD-R and BD-R lines. In this regard, blank media from the many HD convertible DVD-R lines already in operation may be significantly cheaper than from new HD DVD-R or BD-R lines. Format demand will in turn be based on the number of installed players and content costs, which will vary by geography and be affected by developments in the console and home video markets.

It is entirely possible that cheaply replicated content could become an important driver of HD player sales. HD DVD-s could be far more prominent in the replication market for blank media than HD DVD-ROMs in the original content market. There could well be a cost-driven replication market for 15GB HD DVD discs, even if movies have to be copied onto more than one disc.

7.0 Valuation

The key operating assumptions underlying our discounted free cash flow (DCF) to equity model are set out in Table 19. Our forecasts for 2007-2008 assume that:

- Infosmart will maintain its historical manufacturing yields or its established CD-R and DVDR product lines. However its HD DVDR production yields next year will start significantly lower and rise gently thereafter as the Company's production know-how for that product improves.
- The effect of production in Brazil and richer product mix will raise Infosmart's average sales price per manufactured disc by about a third in fiscal 2007. The impact of HD DVDR production will offset price erosion on standard definition discs in 2008.
- Infosmart's product mix will be optimized to maximize overall gross profits over the forecast horizon; in particular the Company will gradually increase the proportion of its DVDR compared with CDR output in

Brazil and HD DVDR output versus DVDR output in Hong Kong.

- Infosmart's working capital management will gradually improve. We project that days in trade receivables and trade payables outstanding will gradually decline to about 47 and 45 days, respectively, which are not inconsistent with past patterns and in line with management objectives. Infosmart has always manufactured to order, never to replenish inventory. Its capacity utilization has always been roughly 100% and we have assumed that this pattern will continue except in the first six months of Brazilian production.

Our 2009-2013 forecasts assume that:

- Infosmart will make modest HD DVDR capacity increases in Hong Kong.
- Market prices for HD DVDRs will drop as HDTV gains mass-market acceptance in the U.S. DVDR prices will also drop, more sharply with respect to the Company's Hong Kong than Brazilian production.
- Infosmart's overall revenue will grow, albeit far more slowly than in the 2005-2007, because its Hong Kong plant will overwhelmingly be devoted to HD DVDR production by 2013.
- The Company's operating profit will increase but its operating profit margin will decline.
- Infosmart's working capital management will be in line with the pattern established as of 4Q08.
- Infosmart's operations will be in steady state by the 2012-2013 period. Incremental HD DVDR sales volume will be driven by the adoption of hi-definition content and hardware in more countries across the globe.

Using free cash flow-to-equity (FCFE) projections through fiscal 2013, a DCF value was used to determine our base case price of about \$0.67 per share, a 102% improvement on the current \$0.33 share price.

Critical assumptions for the DCF included an unlevered 16.8% cost of equity, 15.5x FCFE terminal multiple, and 191.7 million shares outstanding. In calculating the debt shield, we estimated: an optimal capital debt to equity ratio of 29.4%; 7.9% to 9.0% interest rates over the forecast period; and a blend of Hong Kong and Brazilian statutory tax rates. Conservative leverage is justified by the volatility of Infosmart's historical operating profit margins and the potential vulnerability of its operations in the event of financial distress. Given the conservatism of our leverage assumption, we discounted the tax shield stream at the cost of debt. We added the present value of the tax shield result to the net present value of the equity FCF to arrive at the adjusted net present value of \$0.67 per share. This is equivalent to \$0.94

per share at the current 136.9 million share count. The capital asset pricing model (CAPM) suggested 14.3% unlevered cost of equity but conservatism leads us to prefer the higher cost of equity resulting from bond yield plus risk premium approach. We derived the terminal value multiple by applying the median EV/EBITDA T12 ratios of a group of leading manufacturers of CDRs and DVDRs, including Infosmart. The implication is that Infosmart will broadly resemble others in its industry group in the terminal year.

If we flex the critical assumptions underlying the DCF to a more conservative 18.8% cost of equity and a terminal value 20% below the base case projection, we arrive at a valuation of \$0.53 share, which is 60% above the current price. This scenario may appeal to those less sanguine about Infosmart's near-term constraints on valuation, such as the early stage of the Company's Brazilian operations, uncertainties surrounding the market acceptance of 15GB HD DVDRs and currently high level of insider holdings.

Conversely, if we use more aggressive assumptions of a 15.8% cost of equity and terminal value 20% above the base case, we arrive at a valuation of \$0.80 per share, which is 141% above the current price. This scenario may appeal to those bullish about the prospects of a company, which: (1) is bringing Hong Kong levels of efficiency in the manufacture and marketing of standard products to Brazil, a country that represents half the continent's population and GDP, has a large replication industry, and currently imports about 90% of its DVDR requirement; (2) should be capable of making new generation optical media – HD DVDR preferably, BDR if necessary - that are required for hi-definition content on the brink of mass adoption in advanced economies; (3) has been one of the best performing firms in its industry; (4) should be capable of exploiting its Brazilian distribution business to broaden its product offering.

Table 13. Infosmart Group, Inc. - Income Statement (\$, '000 except EPS data)

	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07E	3Q07E	4Q07E	2007E	2008E
Total sales	12,444	22,422	24,577	6,232	6,330	7,561	6,980	27,102	7,698	10,327	12,219	13,059	43,303	59,016
Cost of sales	7,095	17,282	18,046	4,640	4,437	5,405	5,088	19,571	5,733	6,525	7,651	8,040	27,950	40,311
Gross profit	5,349	5,140	6,531	1,591	1,894	2,155	1,892	7,532	1,965	3,803	4,567	5,018	15,353	18,705
Gross profit margin	43%	23%	27%	26%	30%	29%	27%	28%	26%	37%	37%	38%	35%	32%
Expenses														
Depreciation	29	178	215	58	63	63	40	224	154	143	143	143	584	573
Selling & distribution	775	887	583	48	150	158	119	476	80	155	155	155	545	733
R&D	0	0	0	0	0	0	0	0	0	0	0	25	25	200
Administrative	344	674	740	274	337	385	1,002	1,997	777	689	689	919	3,076	3,156
Operating profit	4,201	3,401	4,993	1,211	1,344	1,550	730	4,835	955	2,815	3,579	3,775	11,124	14,043
Operating profit margin	34%	15%	20%	19%	21%	20%	10%	18%	12%	27%	29%	29%	26%	24%
Commission reversal	0	0	(718)	0	0	0	0	0	0	0	0	0	0	0
Financial raise expenses	0	0	321	0	0	2,753	0	2,753	0	0	0	0	0	0
Other income	507	680	303	52	120	160	119	450	309	307	309	324	1,248	1,369
EBIT	4,708	4,080	5,694	1,263	1,463	(1,044)	849	2,531	1,263	3,121	3,888	4,099	12,372	15,412
EBITDA	5,701	6,049	7,389	1,704	1,911	(589)	1,325	4,352	1,889	3,778	4,617	4,876	15,160	19,875
Interest expenses	45	320	521	148	127	132	104	511	143	133	116	100	491	260
Pre-tax income	4,663	3,761	5,173	1,115	1,336	(1,176)	746	2,020	1,121	2,988	3,772	3,999	11,880	15,152
Income taxes	750	736	958	195	242	261	257	956	216	1,016	1,282	1,360	3,874	5,152
Net income	3,913	3,024	4,215	920	1,094	(1,437)	489	1,065	905	1,972	2,489	2,640	8,007	10,000
Net income margin	31%	13%	17%	15%	17%	(19%)	7%	4%	12%	19%	20%	20%	18%	17%
Preferred dividends	0	0	0	0	0	2,364	135	2,499	125	49	48	46	268	167
Income to common	3,913	3,024	4,215	920	1,094	(3,802)	353	(1,435)	780	1,923	2,442	2,594	7,738	9,833
Common EPS* (cents)	2.9	2.2	3.1	0.7	0.8	(2.8)	0.3	(1.0)	0.6	1.4	1.8	1.9	5.7	7.2
EPS** (cents)	2.0	1.6	2.2	0.5	0.6	(0.7)	0.3	0.6	0.5	1.0	1.3	1.4	4.2	5.2

*Calculated using 136.9M shares currently outstanding ** Calculated using 191.7M fully dilutive shares. Source: Company, Griffen-Rose.

Table 14. Infosmart Group, Inc. – Pro Forma Normalized Income Statement

(\$, 000)	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07E	3Q07E	4Q07E	2007E	2008E
Revenue	12,444	22,422	24,577	6,232	6,330	7,561	6,980	27,102	7,698	10,327	12,219	13,059	43,303	59,016
GM	5,349	5,140	6,531	1,591	1,894	2,155	1,892	7,532	1,965	3,803	4,567	5,018	15,353	18,705
Operating Profit	4,201	3,401	4,993	1,211	1,344	1,550	730	4,835	955	2,815	3,579	3,775	11,124	14,043
Commission reversal	0	0	(718)	0	0	0	0	0	0	0	0	0	0	0
Other Income	507	680	303	52	120	160	119	450	309	307	309	324	1,248	1,369
PF EBIT	4,708	4,080	6,015	1,263	1,463	1,709	849	5,285	1,263	3,121	3,888	4,099	12,372	15,412
D&A	993	1,968	1,696	442	448	455	476	1,821	625	657	729	777	2,788	4,463
PF EBITDA	5,701	6,049	7,710	1,704	1,911	2,165	1,325	7,105	1,889	3,778	4,617	4,876	15,160	19,875
CAPEX	4,618	3,646	1,455	202	1,184	525	6,744	8,655	644	2,500	0	0	3,144	6,400
PF EBITDA - CAPEX	1,082	2,403	6,256	1,503	727	1,639	(5,418)	(1,549)	1,244	1,278	4,617	4,876	12,016	13,475
Interest expense	45	320	521	148	127	132	104	511	143	133	116	100	491	260
Non-recur/other income	507	680	(18)	52	120	(2,594)	119	(2,303)	309	307	309	324	1,248	1,369
PF normalized core EBT	4,663	3,761	5,494	1,115	1,336	1,577	746	4,774	1,121	2,988	3,772	3,999	11,880	15,152
PF tax	746	658	961	379	454	536	254	1,623	381	1,016	1,282	1,360	4,039	5,152
PF NI	3,917	3,103	4,532	736	882	1,041	492	3,151	740	1,972	2,489	2,640	7,841	10,000
Non-cash pref. dividends	0	0	0	0	0	2,297	0	2,297	0	0	0	0	0	0
PF NI to common	3,917	3,103	4,532	736	882	974	357	2,948	614	1,923	2,442	2,594	7,573	9,833
PF Common EPS (cents)	2.9	2.3	3.3	0.5	0.6	0.7	0.3	2.2	0.4	1.4	1.8	1.9	5.5	7.2
PF Diluted EPS (cents)	2.0	1.6	2.4	0.4	0.5	0.5	0.3	1.6	0.4	1.0	1.3	1.4	4.1	5.2
YOY Trend														
Revenue		80.2%	9.6%	6.7%	(26.8%)	89.5%	14.5%	10.3%	23.5%	63.1%	61.6%	87.1%	59.8%	36.3%
Gross Profit		(3.9%)	27.1%	(8.8%)	(16.7%)	98.2%	32.9%	15.3%	23.5%	100.8%	111.9%	165.3%	103.8%	21.8%
Operating Profit		(55.1%)	34.0%	(25.0%)	(6.7%)	21.2%	(23.7%)	(12.2%)	(36.2%)	28.4%	42.9%	176.3%	44.0%	(7.4%)
Core OPM		(13.3%)	47.4%	(23.3%)	(46.8%)	139.2%	(5.7%)	(12.1%)	0.1%	113.3%	127.4%	382.6%	134.1%	24.6%
EBIT		nc	39.5%	(23.3%)	(46.8%)	(290.1%)	13.9%	(55.5%)	0.1%	113.3%	nc	382.6%	388.7%	24.6%
EBITDA		6.1%	22.2%	(14.6%)	(39.6%)	(160.9%)	5.0%	(41.1%)	10.8%	97.7%	nc	268.0%	248.3%	31.1%
Net Profit		(22.7%)	39.4%	(29.4%)	(48.8%)	(519.7%)	12.8%	(74.7%)	(1.5%)	80.3%	nc	440.3%	652.1%	24.9%
PF NPM		(20.8%)	46.1%	(43.5%)	(58.7%)	117.2%	(19.8%)	(30.5%)	0.6%	123.7%	139.1%	436.2%	148.9%	27.5%

Source: Company, Griffen-Rose.

Table 15. Infosmart Group, Inc. - GAAP & Pro Forma Normalized Margin Analysis

	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07E	3Q07E	4Q07E	2007E	2008E
GAAP Margins														
COGS	57.0%	77.1%	73.4%	74.5%	70.1%	71.5%	72.9%	72.2%	74.5%	63.2%	62.6%	61.6%	64.5%	68.3%
GM	43.0%	22.9%	26.6%	25.5%	29.9%	28.5%	27.1%	27.8%	25.5%	36.8%	37.4%	38.4%	35.5%	31.7%
D&A	8.0%	8.8%	6.9%	7.1%	7.1%	6.0%	6.8%	6.7%	8.1%	6.4%	6.0%	5.9%	6.4%	7.6%
S&D	6.2%	4.0%	2.4%	0.8%	2.4%	2.1%	1.7%	1.8%	1.0%	1.5%	1.3%	1.2%	1.3%	1.2%
R&D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.1%	0.3%
Admin	2.8%	3.0%	3.0%	4.4%	5.3%	5.1%	14.4%	7.4%	10.1%	6.7%	5.6%	7.0%	7.1%	5.3%
OPM	33.8%	15.2%	20.3%	19.4%	21.2%	20.5%	10.5%	17.8%	12.4%	27.3%	29.3%	28.9%	25.7%	23.8%
EBIT	37.8%	18.2%	23.2%	20.3%	23.1%	(13.8%)	12.2%	9.3%	16.4%	30.2%	31.8%	31.4%	28.6%	26.1%
EBITDA	45.8%	27.0%	30.1%	27.4%	30.2%	(7.8%)	19.0%	16.1%	24.5%	36.6%	37.8%	37.3%	35.0%	33.7%
EBITDA-Capex	8.7%	10.7%	24.1%	24.1%	11.5%	(14.7%)	(77.6%)	(15.9%)	16.2%	12.4%	37.8%	37.3%	27.7%	22.8%
NI	31.4%	13.5%	17.1%	14.8%	17.3%	(19.0%)	7.0%	3.9%	11.8%	19.1%	20.4%	20.2%	18.5%	16.9%
NI to common	31.4%	13.5%	17.1%	14.8%	17.3%	(50.3%)	5.1%	(5.3%)	10.1%	18.6%	20.0%	19.9%	17.9%	16.7%
PF Normalized Margins														
OPM	33.8%	15.2%	20.3%	19.4%	21.2%	20.5%	10.5%	17.8%	12.4%	27.3%	29.3%	28.9%	25.7%	23.8%
EBIT	37.8%	18.2%	24.5%	20.3%	23.1%	22.6%	12.2%	19.5%	16.4%	30.2%	31.8%	31.4%	28.6%	26.1%
EBITDA	45.8%	27.0%	31.4%	27.4%	30.2%	28.6%	19.0%	26.2%	24.5%	36.6%	37.8%	37.3%	35.0%	33.7%
EBITDA-Capex	8.7%	10.7%	25.5%	24.1%	11.5%	21.7%	(77.6%)	(5.7%)	16.2%	12.4%	37.8%	37.3%	27.7%	22.8%
NI	31.5%	13.8%	18.4%	11.8%	13.9%	13.8%	7.1%	11.6%	9.6%	19.1%	20.4%	20.2%	18.1%	16.9%
NI to common	31.5%	13.8%	18.4%	11.8%	13.9%	12.9%	5.1%	10.9%	8.0%	18.6%	20.0%	19.9%	17.5%	16.7%
Multiples														
EV/Sales						2.9x	2.8x	2.8x	2.6x	2.3x	2.0x	1.7x	1.7x	1.3x
EV/PF EBIT						14.1x	14.2x	14.2x	14.2x	10.8x	8.2x	6.1x	6.1x	4.9x
EV/PF EBITDA						10.4x	10.6x	10.6x	10.3x	8.2x	6.5x	5.0x	5.0x	3.8x
EV/PF EBITDA - Capex						18.0x	nc	nc	nc	nc	43.7x	6.3x	6.3x	5.6x
MV/PF NI						13.8x	14.3x	14.3x	14.3x	10.6x	7.9x	5.8x	5.8x	4.5x
PF tax rate	16.0%	17.5%	17.5%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%

Source: Company, Griffen-Rose.

Table 16. Infosmart Group, Inc. - Ratio Analysis

	2003	2004	2005	1Q06	2Q06	3Q06	4Q06	2006E	1Q07	2Q07	3Q07	4Q07	2007E	2008E
Year-over-Year Growth Trends														
Manufactured Disc Output	nm	257.0%	75.1%	0.0%	0.0%	0.0%	0.0%	7.5%	(27.1%)	9.4%	14.5%	92.8%	15.4%	31.4%
Revenue	nm	80.2%	9.6%	6.7%	(26.8%)	89.5%	14.5%	10.3%	23.5%	63.1%	61.6%	87.1%	59.8%	36.3%
COGS	nm	143.6%	4.4%	13.3%	(30.4%)	86.2%	8.9%	8.4%	23.5%	47.1%	41.6%	58.0%	42.8%	44.2%
Gross profit	nm	(3.9%)	27.1%	(8.8%)	(16.7%)	98.2%	32.9%	15.3%	23.5%	100.8%	111.9%	165.3%	103.8%	21.8%
SG&A	nm	51.4%	(11.6%)	65.0%	79.0%	46.7%	97.8%	75.4%	166.0%	79.6%	63.1%	7.0%	56.8%	10.2%
Operating profit	nm	(19.0%)	46.8%	(20.0%)	(31.7%)	129.6%	(12.7%)	(3.2%)	(21.2%)	109.5%	131.0%	416.9%	130.1%	26.2%
Adjusted earnings*	nm	(22.7%)	39.4%	(29.4%)	(48.8%)	(186.0%)	13.4%	(47.6%)	(1.5%)	80.3%	nc	437.9%	262.3%	24.9%
Adjusted EBITDA*	nm	6.1%	22.2%	(14.6%)	(39.6%)	110.5%	5.4%	(5.5%)	10.8%	97.7%	126.8%	266.5%	117.2%	31.1%
Value Creation*														
Return on assets (ROA)	33.8%	17.7%	17.8%	15.5%	10.5%	7.4%	6.3%	6.3%	6.0%	8.3%	14.9%	17.3%	17.3%	19.4%
Return on common equity (ROE) ⁽¹⁾	99.2%	62.8%	57.3%	45.3%	27.7%	16.7%	15.7%	15.7%	13.9%	18.1%	29.9%	37.7%	37.7%	33.3%
Return on capital employed (ROCE) ⁽²⁾	64.4%	34.7%	28.7%	25.8%	19.1%	14.7%	12.1%	12.1%	11.6%	13.9%	23.0%	29.7%	29.7%	29.9%
Return on invested capital (ROIC) ⁽³⁾	105.8%	72.5%	60.8%	54.6%	39.9%	38.9%	36.8%	36.8%	37.4%	43.5%	47.9%	55.8%	55.8%	59.8%
Efficiency														
Inventory turnover	5.1x	8.6x	10.0x	10.4x	15.8x	11.2x	13.0x	13.0x	10.7x	10.5x	11.8x	13.2x	13.2x	14.0x
Trade receivables collection (days)	41.7	26.7	38.0	38.1	78.6	59.3	63.5	63.5	88.7	68.6	63.5	57.2	57.2	47.6
Trade payables settlement (days)	135.4	73.4	63.5	40.9	66.0	58.5	48.0	48.0	71.7	59.4	51.9	50.8	50.8	44.9
Days sales in cash	10.6	1.6	2.3	2.4	2.7	26.3	2.7	2.8	1.9	3.4	15.5	26.4	31.8	51.7
Purchase/sales	62.3%	81.8%	72.3%	69.0%	70.5%	69.6%	74.1%	70.8%	82.3%	64.1%	63.4%	62.3%	66.6%	69.0%
Capital structure														
Total (interest-bearing) debt/assets	27.1%	32.6%	33.2%	33.1%	29.8%	18.2%	21.4%	21.4%	21.4%	20.2%	18.1%	16.2%	16.2%	8.8%
Long-term debt/equity	74.9%	75.8%	42.0%	37.6%	33.9%	17.4%	40.6%	40.6%	39.5%	31.6%	24.9%	18.8%	18.8%	5.4%
Total debt/equity	79.7%	129.5%	91.4%	85.6%	76.1%	31.0%	49.7%	49.7%	53.2%	44.0%	36.0%	29.2%	29.2%	13.3%
Interest-paying debt/total liabilities	41.1%	43.6%	52.0%	54.0%	49.0%	43.9%	37.4%	37.4%	35.9%	37.5%	36.6%	36.6%	36.6%	26.6%
Liquidity														
Current ratio	0.6x	0.4x	0.7x	0.8x	0.9x	1.4x	0.5x	0.5x	0.6x	0.6x	0.8x	0.9x	0.9x	1.3x
Quick ratio	0.5x	0.2x	0.5x	0.7x	0.8x	1.3x	0.4x	0.4x	0.5x	0.5x	0.6x	0.7x	0.7x	1.1x
Times interest earned	93.9x	10.6x	9.6x	8.2x	10.6x	11.7x	7.1x	9.5x	6.7x	21.2x	30.9x	37.7x	22.6x	54.0x

*Calculations exclude financing expenses paid for in stock and (1) deemed preferred dividends. (2) The sum of net income plus after tax interest expense, divided by the sum of net working capital plus net fixed assets. (3) Earnings before interest, tax, depreciation & amortization divided by long-term debt and total shareholders' equity. Source: Griffen-Rose.

Table 17. Infosmart Group, Inc. – Summary of Key Metrics

I. EV Calculation (in millions except per share data)		III. Income Statement Summary (in millions)			IV. Working Capital Mgmt & Liquidity		
Analysis price (cents)	66.8	Revenues	2006	\$27.1	Trade receivables (days)	MRQ	88
Current price (cents)	33.0		2007e	\$43.3	Inventory held (days)	MRQ	23
TTM high	55.0		2008e	\$59.0	Trade payables (days)	MRQ	67
TTM low	22.0	EBIT*	2006	\$5.2	Current ratio	MRQ	0.6x
Basic shares outstanding (common)	136.9		2007e	\$12.4	Times interest earned	MRQ	6.7x
Market value (common)	\$45.2		2008e	\$15.4	Long-term debt/equity	MRQ	39.5%
Stock equiv. pref. & options out.	55.1	EBITDA*	2006	\$7.0	NWC/revenue	MRQx4	(24.9%)
Market value (warrants/options)	\$18.2		2007e	\$15.2			
Adjusted market value	\$63.4		2008e	\$19.9			
Less: cash	\$0.2	EBITDA*-Capex	2006	\$(1.7)	V. Value Creation Statistics		
Plus: debt & other loans	\$11.9		2007e	\$11.6	Return on equity:	2005	57.3%
Plus: minority interest	\$0.0		2008e	\$13.5		2006*	15.7%
Enterprise value	\$56.9	Net income*	2006	\$2.2		2007e	37.7%
Adjusted enterprise value	\$75.1		2007e	\$8.0	Return on assets:	2005	17.8%
			2008E	\$10.0		2006*	6.3%
			3yr High	\$4.2		2007e	17.3%
II. Balance Sheet Summary as of 3/31/07 (in millions)		Net income (common)*	2006	\$2.0		2008e	19.4%
Cash	\$0.2		2007e	\$7.7	Return on invested capital:	2005	60.8%
Trade receivables	\$9.6		2008e	\$9.8		2006*	36.8%
Inventory	\$1.7	EPS (cents)*	2006	1.8		2007e	55.8%
Current assets	\$12.7		2007e	5.4		2008e	59.8%
PP&E (net)	\$33.1	EBIT* margin	2006	19%			
Total assets	\$48.0		2007e	29%	VI. Valuation Information		
			2008e	26%	P/E:	P/2005 Earnings	10.7x
Trade payables	\$5.7	EBITDA* margin	2006	26%		P/2006 Earnings*	22.5x
Short-term debt & CP of LTD	\$6.6		2007e	35%		P/2007e Earnings	5.8x
Current liabilities	\$20.4		2008e	34%		Adj. P/2006 Earnings*	28.7x
Long-term debt (excl. CP)	\$4.4	EBITDA*-Capex margin	2006	-16%		Adj. P/2007e Earnings	7.9x
Deferred tax liability	\$2.9		2007e	27%	BV:	P/Book	2.7x
Total liabilities	\$28.7		2008e	23%		Adj. P/Book	3.3x
Preferred equity	\$2.5	Net income* margin	2006	8%	Adjusted EV:	Adj. EV/IC	2.4x
Book value (common)	\$16.8		2007e	18%		Adj. EV/Assets	1.6x
			2008e	17%		Adj. EV/2006 EBIT*	14.6x
Net liquidation value	(\$16.0)		3yr High	31%		Adj. EV/2007e EBIT	6.1x
Net net asset value	(\$12.1)					Adj. EV/2006 EBITDA*	10.8x
Net working capital	(\$7.7)					Adj. EV/2007e EBITDA	5.0x
Net debt	\$11.8						

*Calculation excludes one-off expenses associated with reverse merger and recapitalization in 2006. Net income to Common and EPS excludes deemed preferred dividends. Source: Griffen-Rose.

Table 18. Infosmart Group, Inc. – Selected Industry Group Valuation Metrics

	Mean	Median	High	Low	IFSG	MBI	2323	2349	2396	2406	2443	Ticker	Company	Country
Total Debt/Equity	0.7x	0.6x	1.0x	0.4x	0.5x	0.9x	0.6x	0.8x	1.0x	0.4x	0.5x	IFSG	Infosmart	U.S.
Beta	1.9	1.6	4.4	0.8	4.4	0.8	1.4	1.5	1.6	1.9	2.0	MBI	Moser Baer	India
Unlevered Beta	1.4	1.0	3.3	0.5	3.3	0.5	1.0	1.0	0.9	1.5	1.5	2323	CMC Magnetics	Taiwan
												2349	Ritek	Taiwan
												2396	Prodisc	Taiwan
												2406	Gigastorage	Taiwan
												2443	Lead Data	Taiwan
Valuation Metrics														
EV/Sales	2.0x	1.7x	3.3x	1.2x	2.6x	3.3x	1.7x	1.4x	2.2x	1.5x	1.2x			
EV/EBITDA	15.9x	10.8x	37.3x	6.4x	10.5x	10.9x	6.4x	10.7x	37.3x	NA	19.5x			
EV/EBIT	27.0x	26.8x	39.6x	14.6x	14.6x	26.8x	39.6x	N/A	NA	NA	NA			
EV/Invested capital	1.3x	1.0x	3.0x	0.6x	3.0x	1.6x	0.8x	0.6x	0.8x	1.0x	1.0x			

Source: Bloomberg, Reuters, Griffen-Rose

Table 19. Infosmart Group, Inc. – Summary of Discounted Cash Flow Forecast Assumptions

Projections	2003	2004	2005	2006	2007e	2008e	2009e	2010e	2011e	2012e	2013e
Sales growth	nm	80.2%	9.6%	10.3%	59.8%	36.3%	25.0%	17.5%	10.0%	7.5%	7.5%
Core EBIT margin	33.8%	15.2%	23.2%	17.8%	25.7%	23.8%	23.2%	22.2%	21.2%	20.2%	19.2%
HK contribution to EBIT	100.0%	100.0%	100.0%	101.0%	24.4%	31.2%	50.0%	50.0%	50.0%	50.0%	50.0%
Brazil contribution to EBIT	0.0%	0.0%	0.0%	(1.0%)	75.6%	68.8%	50.0%	50.0%	50.0%	50.0%	50.0%
Effective tax rate	16.1%	19.6%	18.5%	47.3%	32.6%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
Statutory tax rate	16.0%	17.5%	17.5%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
WC/sales	4.0%	(2.7%)	14.9%	(14.0%)	8.0%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
Gross PPE/sales	75.7%	95.9%	93.7%	150.4%	98.8%	83.3%	71.7%	65.0%	61.4%	58.8%	56.3%
Expected cost of borrowing	0.0%	0.0%	0.0%	#DIV/0!	8.3%	9.0%	7.9%	7.9%	7.9%	7.9%	7.9%
Income Statement											
Net sales	12.4	22.4	24.6	27.1	43.3	59.0	73.8	86.7	95.3	102.5	110.2
Core EBIT	4.2	3.4	5.7	4.8	11.1	14.0	17.2	19.3	20.3	20.8	21.2
Pro forma NOPAT	3.5	2.7	4.7	2.5	7.5	9.3	11.3	12.7	13.4	13.7	14.0
Balance Sheet											
Net working capital (excl STD)	0.5	(0.6)	3.7	(3.8)	3.4	5.1	6.3	7.4	8.2	8.8	9.5
Gross PPE	9.4	21.5	23.0	40.8	42.8	49.2	52.9	56.3	58.5	60.2	62.1
Cumulative depreciation	1.0	3.0	4.7	6.9	10.4	15.2	19.3	23.7	28.4	33.4	38.4

Source: Company, Griffen-Rose.

Table 20. Infosmart Group, Inc. – Discounted Cash Flows to Equity

FCF (\$, million)	2003	2004	2005	2006	2007e	2008e	2009e	2010e	2011e	2012e	2013e
NOPAT	3.5	2.7	4.7	2.5	7.5	9.3	11.3	12.7	13.4	13.7	14.0
+Depreciation	1.0	2.0	1.7	1.8	2.8	4.5	4.1	4.4	4.7	4.9	5.1
-Increase in working capital	(0.5)	1.1	(4.3)	7.5	(7.2)	(1.6)	(1.3)	(1.1)	(0.7)	(0.6)	(0.7)
-Capex	(4.6)	(3.7)	(1.5)	(8.7)	(3.5)	(6.4)	(3.7)	(3.5)	(2.2)	(1.7)	(1.8)
+Deferred taxes	0.8	0.7	1.0	0.6	0.1	(0.2)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
-Cash preferred dividends	0.0	0.0	0.0	0.8	0.3	0.2	0.0	0.0	0.0	0.0	0.0
Free cash flows	0.2	2.8	1.6	3.0	(0.7)	5.4	10.0	12.1	14.7	15.8	16.1
											Terminal Value
2007 Industry median EV/EBITDA				10.8x							283.4
Minus debt											(33.8)
Equity terminal value											249.6
Present values of FCF & TV (million)					(0.6)	3.9	6.2	6.5	6.7	6.2	89.6
Sum of PVs of FCF & TV (million)					\$118.5						
Cost of Equity Calculation					2007e	2008e	2009e	2010e	2011e	2012e	2013e
Bond yield + risk premium approach:											
10-year U.S. Treasury					4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Country risk premium - Hong Kong*				5.8%	1.4%	1.8%	2.9%	2.9%	2.9%	2.9%	2.9%
Country risk premium - Brazil*				8.7%	6.5%	6.0%	4.3%	4.3%	4.3%	4.3%	4.3%
Small stock premium					4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%
Cost of equity					17.4%	17.2%	16.6%	16.6%	16.6%	16.6%	16.6%
Average cost of equity					16.8%						
											*Adjusted for contribution to Group EBIT
CAPM:											
10-year U.S. Treasury					4.8%						
Unlevered beta					1.4						
Market risk premium					7.0%						
Cost of equity (kE)					14.3%						

Source: Bloomberg, Reuters, Griffen-Rose.

Table 21. Infosmart Group, Inc. – Discount Cash Flows to Debt and Summary

Optimal Capital Structure	2003	2004	2005	2006e							
Sales	12.4	22.4	24.6	27.1							
EBIT	4.2	3.4	5.7	4.8	Average	STDEV	EBITRWC Margin				
EBIT margin	33.8%	15.2%	23.2%	17.8%	22.5%	8.2%	6.1%				
Coverage ratio	2.5										
Interest covered (% of revenues)	2.4%										
Average borrowing costs, 2007-2013	8.1%										
Maximum feasible debt, 2007e (million)	\$12.9										
Optimal Capital Structure											
Debt (million)	\$12.9										
Equity (million)	\$44.0										
Enterprise value (million)	\$56.9 Based on current shares outstanding										
Debt/equity	29.4%										
Tax Shield FCF					2007e	2008e	2009e	2010e	2011e	2012e	2013e
Interest					0.5	0.3	1.8	2.1	2.3	2.5	2.7
Tax shield					0.2	0.1	0.6	0.7	0.8	0.8	0.9
TV of tax shield											11.5
PVs of tax shield (discounted at rD)					0.2	0.1	0.5	0.5	0.5	0.5	7.2
Sum of present values					9.5						
Summary											
Present value of equity FCF	\$118.5					Current	Dilutive				
Present value of tax shield FCF	\$9.5			Shares (millions)		136.9	191.7				
Value of equity	\$128.0			Price/share		\$0.94	\$0.67				

Source: Griffen-Rose.

Table 22. Infosmart Group, Inc. – Valuation Stresses

Implied Present Value of Free Cash Flow per Share Stresses

Price/Share (191.7m shares)			Cost of Equity						
			\$0.55	15.3%	15.8%	16.3%	16.8%	18.8%	20.8%
Terminal Value Adjustment	-30%	-30.0%		0.58	0.56	0.55	0.54	0.49	0.45
	-20%	-20.0%		0.62	0.61	0.59	0.58	0.53	0.48
	-10%	-10.0%		0.67	0.66	0.64	0.62	0.57	0.52
	-	0.0%		0.72	0.70	0.68	0.67	0.61	0.55
	+10%	10.0%		0.77	0.75	0.73	0.71	0.64	0.58
	+20%	20.0%		0.82	0.80	0.78	0.76	0.68	0.62
	+30%	30.0%		0.86	0.84	0.82	0.80	0.72	0.65

Price/Share (191.7m shares)			Cost of Equity						
			\$0.55	15.3%	15.8%	16.3%	16.8%	18.8%	20.8%
FCF Adjustment	-30%	-30.0%		0.66	0.65	0.63	0.61	0.56	0.50
	-20%	-20.0%		0.68	0.66	0.65	0.63	0.57	0.52
	-10%	-10.0%		0.70	0.68	0.67	0.65	0.59	0.53
	-	0.0%		0.72	0.70	0.68	0.67	0.61	0.55
	+10%	10.0%		0.74	0.72	0.70	0.69	0.62	0.57
	+20%	20.0%		0.76	0.74	0.72	0.70	0.64	0.58
	+30%	30.0%		0.78	0.76	0.74	0.72	0.65	0.60

Price/Share (191.7m shares) @kE 16.8%			FCF Adjustment						
			\$0.55	-30.0%	-20.0%	-10.0%	0.0%	10.0%	20.0%
Terminal Value Adjustment	-30%	-30.0%		0.48	0.50	0.52	0.54	0.55	0.57
	-20%	-20.0%		0.53	0.54	0.56	0.58	0.60	0.62
	-10%	-10.0%		0.57	0.59	0.61	0.62	0.64	0.66
	-	0.0%		0.61	0.63	0.65	0.67	0.69	0.70
	+10%	10.0%		0.66	0.68	0.69	0.71	0.73	0.75
	+20%	20.0%		0.70	0.72	0.74	0.76	0.77	0.79
	+30%	30.0%		0.75	0.76	0.78	0.80	0.82	0.84

Source: Griffen-Rose.

Disclosure

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