

Who is



**A White Paper Detailing Tieton Capital Management of Yakima,
Washington**

Our mission is to increase our clients' wealth.

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General Investment Philosophy: Tieton Capital Management is a boutique investment management firm headquartered in Yakima, Washington that has an unwavering commitment to its mission to increase its clients' wealth. The Investment Team consistently visits with companies owned in client portfolios and those that are being considered for purchase. We diligently work to understand the issues the companies are addressing, the industry dynamics, how the strategic plans are being executed, and progress made relative to Tieton's identified catalysts. Tieton avoids relying on Wall Street analysts for information; instead, we seek information directly ourselves.

Investment Style: Small Cap Value

Business Philosophy: Tieton Capital believes that clients, both institutional and individual, desire to work with a team that is trustworthy and has the depth of knowledge to invest their assets intelligently.

Founders: William J. Dezelle, CFA is co-founder, Chief Investment Officer, and President. Bill was the founding Portfolio Manager of the Davidson Investment Advisors' Small/Mid Cap Value Strategy where he was the lead Portfolio Manager from the strategy's inception in January 1998 through May 2005. With strong investment performance, assets grew from zero to \$125 million. From April 2000 until June 2004, Bill was also the firm's Chief Investment Officer, overseeing all the investment professionals that managed nearly \$1 billion of client assets. Prior to joining Davidson Investment Advisors, Bill was Vice President of Research and Senior Research Analyst at ICM Asset Management. During his tenure from 1990 to 1997, he participated in growing the firm from approximately \$100 million in assets under management to \$2 billion under management with strong investment performance.

In both 1999 and 2000 he was nominated for the Top Small to Mid Size Company Analyst Award in Reuters Investment Research Survey. He is Past President of the Spokane Chapter of Financial Analysts and the Spokane Stock & Bond Club. Bill has held the Chartered Financial Analyst designation since 1993. He graduated Magna Cum Laude from Central Washington University with double majors in Business Economics and Business Administration with a Finance emphasis.

Matthew W. Dhane, CFA is co-founder, Senior Research Analyst, and Principal. From June 2002 through July 2005 he was the Small/Mid Cap Value Strategy Research Analyst at Davidson Investment Advisors in Great Falls, Montana. With strong investment performance, assets under management grew from approximately \$90 million to \$125 million.

Matt visits with companies, analyzes the data gathered, and incorporates findings from corporate Securities and Exchange Commission filings, to reach decisions on specific companies' investment merits. Matt holds the Chartered Financial Analyst designation. He received a double major from Seattle University in Business Administration - Finance and Business Administration - Business Economics.

Why the “Tieton” Capital Management Name: Bill’s wife’s great-grandparents owned and operated the Tieton Dairy in the 1930s and 1940s. Also, Bill has whitewater rafted the Tieton River, which is near Tieton Peak and Yakima. “Tieton” satisfied the founders’ desire to identify a name that had local awareness, while also being unique enough to be differentiated from the national competition.

How Tieton Capital is Different: We understand that the investment industry may appear homogeneous at first glance. However, Tieton is uniquely different from the competition. The firm has an unwavering commitment to its mission to increase clients’ wealth. The Investment Team consistently visits with companies in the portfolio, those that are being considered for purchase, competitors, suppliers and customers. We diligently work to understand the issues the companies are addressing, the industry dynamics, how the strategic plans are being executed, and progress made relative to Tieton’s identified catalysts. Tieton avoids relying on Wall Street analysts for information; instead, we relentlessly seek information directly ourselves – “We Pack Our Own Parachute.”

It is understood that everyone has access to the same information. Finding that information, and what one does with that information, is what counts. The passion that the Investment Team has for the investment business, combined with the intense, proprietary research process, is a significant differentiator. Corporate officers often tell us the time devoted to understanding their business, and our detailed analysis, is different from the peers.

The low historic turnover is an indicator that the Investment Team focuses on buying and owning businesses, letting the management teams execute their strategic plans, and letting the identified catalysts develop. The competition generally has higher turnover, which indicates they may often lose patience and exit too soon.

Tieton Capital avoids handcuffing the portfolio by forcing the Investment Team to mimic the weightings of the respective indexes. Tieton believes this handcuffing is in effect “closet indexing” and near average results is the best that a client can ever expect to achieve. Because Tieton generally has weightings different from the indexes, it is expected that performance will be different from the indexes.

Tieton Capital is headquartered in Yakima, Washington, which allows the Investment Team to “Avoid the Noise of the Street” and focus on what we deem to be most important. The Team’s unique emphasis on each company’s competitive position and catalysts is anticipated to continue yielding positive results for clients.

Proactive service is provided with a helpful, constructive approach, which is designed to keep clients well informed and build long lasting client relationships.

Investment Philosophy: Tieton Capital continues the tradition of intensive research that Bill and Matt have employed for their careers. Tieton's investment philosophy is based off the premise of buying and owning quality businesses. The key points follow:

- ◆ **Buy businesses, we don't just trade stocks**
- ◆ **Catalysts identified to drive the company for the next two to four years**
- ◆ Prefer industries where companies have the ability to differentiate
- ◆ Solid competitive position
- ◆ Quality management team
- ◆ Prudent debt level
- ◆ Ability to earn sound return on capital
- ◆ Capable of solid cash flow generation
- ◆ Internally generated revenue growth is expected over time
- ◆ Product or service adds value
- ◆ Fully-invested
- ◆ Focused portfolio, own only our best ideas

Investment Process:

- ◆ Phase I: Initial screening of quantitative characteristics to narrow the field
- ◆ Phase II: Evaluate business relative to the investment philosophy
- ◆ Phase III: Financial analysis of the business with respect to the industry, its own history, and the future potential
- ◆ Phase IV: Price target evaluation, leading to portfolio purchase

The Investment Team talks to every company before buying for client accounts. Many times discussions also take place with competitors, customers, and suppliers.

Risk Control:

- ◆ Own 25 to 35 companies – allows for deeper understanding of each company
- ◆ Maximum sector weighting 35% of the portfolio, closely evaluated at 25%
- ◆ Maximum purchase size 5% of the portfolio
- ◆ Maximum position size 10% of the portfolio
- ◆ New accounts purchase positions at size of existing portfolios, even if weighting is greater than 5%
- ◆ Liquidity of individual positions and the overall portfolio are monitored closely and controlled

Sell Discipline:

- ◆ Company becomes fully valued
- ◆ Better alternative identified
- ◆ Successful company grows to 10% of the portfolio
- ◆ Impairment relative to investment philosophy fundamentals
- ◆ Catalysts fail to materialize

“Ugly Duckling Investing”: As a value investor, identification of catalysts is central to our investment philosophy and process. As the story of the Ugly Duckling goes, the Ugly Duckling was pushed aside because others on the pond did not take the time to understand that the Ugly Duckling really was a young swan. Only later, after the cygnet had matured, was it clear that he indeed was one of the most beautiful birds on the pond.

Tieton Capital looks for companies that other investors have passed over, or have not spent the time to decipher the catalysts that will allow the business to develop and mature into a company that resembles the beautiful swan. This process takes time and tremendous effort, but has been rewarding for clients over many years.

Client Service: A high level of service responding to client requests is considered a given. Additionally, Tieton provides thoughtful, proactive service to keep clients well informed with the intention of building long lasting client relationships. All accounts receive:

- ◆ Meaningful quarterly reports.
- ◆ E-mail updates of portfolio changes. These are sent out after noteworthy changes to portfolios are made. Each update details the thought process behind the change(s).
- ◆ E-mail *Tieton Capital Why We Own* in the middle of each quarter. *Tieton Capital Why We Own* details each company owned in the portfolio.
- ◆ Annually, or when there’s an appropriate topic, *Tieton Musings*, a commentary, is written and mailed.
- ◆ Thank you gift, on each anniversary of Tieton’s formation.

Telephone discussions and face-to-face meetings are conducted on a client specific, as needed, basis.

Client Reports: Quarterly reports will include:

- ◆ Report of positions in account
- ◆ Year-to-date realized capital gains report
- ◆ Performance report
- ◆ Account update letter
- ◆ Fee calculation notice
- ◆ Ask clients if circumstances have changed that may require a review of the suitability of their current asset allocation with each quarterly report

Custody of Assets: Tieton Capital does not custody client assets. If a client has no preference of a custodian, Tieton recommends Charles Schwab. However, if a client has a preexisting custodian (that is not a high cost custodian), then Tieton will manage assets using the client's custodian.

Minimum Account Size: \$2,000,000 is the current minimum account size. The minimum account size will be increasing in the future based on Tieton Capital's assets under management. The future minimum account size schedule follows:

- ◆ \$3 million at \$150 million under management
- ◆ \$4 million at \$200 million under management
- ◆ \$5 million at \$250 million under management
- ◆ \$10 million at \$300 million under management

The firm will close to new clients at \$350 million assets under management.

Maximum Account Size: \$50,000,000 is the maximum account size.

Maximum Assets Under Management: In order to maintain the ability to successfully increase clients' wealth, Tieton will close to new assets at \$350 million under management.

Fees: 1.00% of the assets under management.

Ownership: Tieton Capital is 100% employee owned.

Final note: Dave Cote, CEO of Honeywell, once said in a presentation to investors, "Business success is 10% strategy and 90% execution of the strategy." This white paper is the strategy. We understand that clients' success will be a function of the execution of this strategy. The Tieton Team is intensely focused on executing this strategy and increasing our clients' wealth.

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