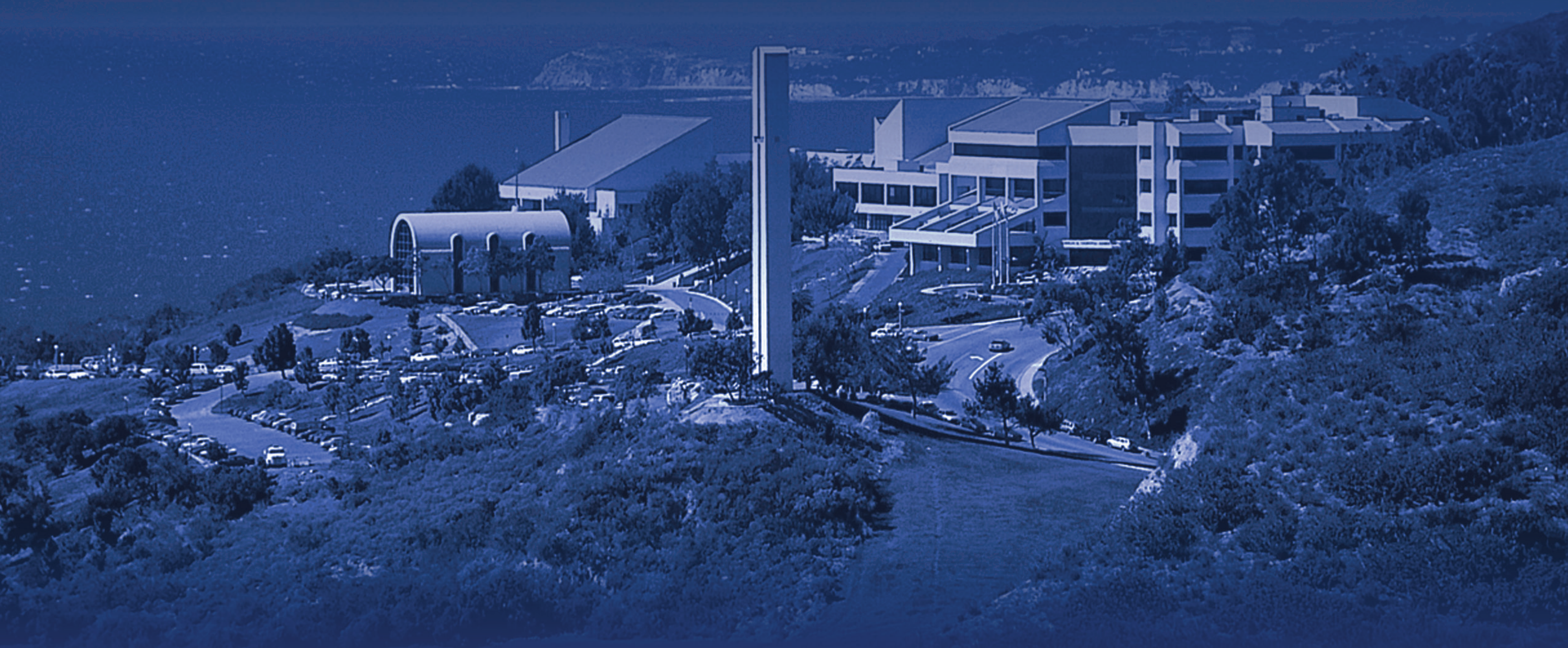
PEPPERDINE PRIVATE CAPITAL ACCESS INDEX



Quarterly Survey Report | Third Quarter 2014

PEPPERDINE PRIVATE CAPITAL MARKETS PROJECT
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Pepperdine Private Capital Index Survey Responses Third Quarter 2014

In an effort to gauge the demand of small and medium-sized businesses for financing needs, the level of accessibility of private capital, and the transparency and efficiency of private financing markets, Pepperdine University's Graziadio School of Business and Management and Dun & Bradstreet Credibility Corp. launched the Pepperdine Private Capital Access (PCA) and Private Capital Demand (PCD) Index. This index measures the demand for, activity and health of the privately-held businesses on a quarterly basis. This Index report was derived from survey results collected from July 22 to August 15, 2014 and contrasted with survey results collected from May 9 to May 17, 2014.

Third quarter survey results revealed that private capital access decreased for less than one percent (0.3%) comparing to the access three months ago. Private capital demand decreased for six percent (6.2%) since Q2. Fifty percent (50%) of respondents report the current business environment is restricting their growth opportunities for business and forty-two percent (42%) of respondents report the current business environment is restricting their ability to hire new employees. Twenty-nine percent (29%) of business owners said they transferred personal assets to their business over the last three months. Forty-four percent (44%) of respondents have financing coming from outside sources.

The results also showed that about fifty-eight percent (57.5%) of private businesses (who attempted to get financing) applied for a bank loan in the last three months and of this amount, fifty-four percent (54%) were successful. Twenty-six percent (26%) of those who attempted to get financing applied for asset-based loan and of this amount, only thirty-four percent (33.9%) of them were successful.

About Pepperdine Private Capital Access and Private Capital Demand Index

The Q3 2014 Private Capital Access and Private Capital Demand Index survey results were generated from responses by 2,361 business owners. Index weights were derived using factor analysis and then the resulting raw index values were scaled from zero to one hundred. The higher the value of the PCA Index or the PCD Index, the greater the access to capital or demand for capital, respectively. A value of less than fifty for an index represents a low level of access or demand, while a value greater than fifty can be interpreted as relatively high capital access or demand.

Businesses involved in services accounted for thirty-two percent (32%) of respondents followed by construction (10%), retail trade (9%) and finance & real estate (9%). Approximately sixty-one percent (61%) of respondents have less than or equal to $1 million in revenues, followed by twenty-three percent (23%) reporting between $1 million and $5 million. Thirty-two percent (32%) of businesses have no debt. Forty-six percent (46%) of respondents have businesses that are older than 20 years, twenty-three percent (23%) of respondents have firms with age between 10 and 20 years, and fourteen percent (14%) of respondents reporting their firm age between five and 10 years. Approximately sixty-two percent (62%) of respondents have less than or equal to five employees.

Q3-2014: Key Trends in the Private Capital Markets

In the past 3 months:

Private Capital Access decreased 0.3% compared to Q2

Private Capital Demand decreased 6.2% compared to Q2

42% of respondents report the current business environment restricting their ability to hire new employees

29% of business owners said they transferred personal assets to their business over the last 3 months

44% of respondents have financing coming from outside sources

57.5% of private businesses who attempted to get financing tried to get a bank loan; 54% were successful

26% of those who attempted to get financing applied for asset-based loan and of these, only 33.9% of them were successful

PCA and PCD Index Results – Whole Sample

Whole Sample	PCA Index	PCD INDEX
2012-Q2	27.8	37.0
2012-Q3	27.0	36.5
2012-Q4	27.3	35.1
2013-Q1	25.6	32.7
2013-Q2	26.8	33.4
2013-Q3	27.5	31.7
2013-Q4	27.8	32.8
2014-Q1	28.3	32.3
2014-Q2	28.9	31.1
2014-Q3	28.8	29.2
Change	-0.1	-1.9
Pct. Change	-0.3%	-6.2%

The Q3 2014 PCD Index number for the entire sample is 29.2, reflecting weakness in demand for external loans and other financing. This number represents a six percent (6.2%) decrease from the Q2 2014 demand indication of 31.1. The Q3 2014 PCA Index is 28.8, which is a decrease of less than one percent (0.3%) from the Q2 2014 index value of 28.9. The PCA numbers reflect a slight increase in difficulty securing loans and other business financing sources compare to PCA numbers in second quarter.

Small Business PCA and PCD Index Results (< $5M in Revenues)

The Q3 2014 PCD Index number for small businesses is 30.0, reflecting weakness in demand for external loans and other financing. This number represents a seven percent (6.6%) decrease from the Q2 2014 demand indication of 32.1. The Q3 2014 PCA Index for small businesses is 27.4, which is a decrease of almost one percent (0.9%) from the Q2 2014 index value of 27.7.

Small Business PCA and PCD Index Results (< $5M in Revenues) Continued

<$ 5M Revs	PCA Index	PCD INDEX
2012-Q2	26.6	38.8
2012-Q3	26.0	38.0
2012-Q4	26.3	36.5
2013-Q1	24.6	33.2
2013-Q2	26.3	34.3
2013-Q3	26.8	32.3
2013-Q4	26.6	33.9
2014-Q1	27.1	33.4
2014-Q2	27.7	32.1
2014-Q3	27.4	30.0
Change	-0.2	-2.1
Pct. Change	-0.9%	-6.6%

Lower Middle Market PCA and PCD Index Results ($5M – $100M in Revenues)

$5M-$100M	PCA Index	PCD INDEX
2012-Q2	34.7	32.3
2012-Q3	33.5	33.1
2012-Q4	32.7	31.5
2013-Q1	31.9	30.6
2013-Q2	34.3	28.7
2013-Q3	34.7	27.6
2013-Q4	33.7	26.3
2014-Q1	36.7	24.8
2014-Q2	37.0	24.9
2014-Q3	35.3	24.7
Change	-1.6	-0.2
Pct. Change	-4.4%	-0.6%

Lower Middle Market PCA and PCD Index Results ($5M – $100M in Revenues) Continued

The Q3 2014 PCD Index number for lower middle market companies is 24.7, reflecting continued weakness in demand for external loans and other financing. This number represents a decrease of less than one percent (0.6%) from the Q2 demand indication of 24.9. This is not a good sign for future growth. The Q3 2014 PCA Index for lower middle market companies is 35.3, which is a four percent (4.4%) decrease from the Q2 index value of 37.0. The PCA numbers reflect continued difficulty securing loans and other business financing sources. When compared to the small business indicators, lower middle market companies demonstrate lower demand (24.7 vs. 30.0) and higher access (35.3 vs. 27.4).

Current demand for external financing

Twenty-six percent (26%) of respondents attempted to raise external financing in the last three months. Forty-four percent (44%) of respondents have financing coming from outside source, and thirty-nine percent (39%) out of those respondents have business loans which required personal guarantee. About forty-nine percent (49.2%) of respondents indicated need for external financing due to planned growth or expansion including acquisitions (not yet realized), forty-eight percent (48.2%) of respondents indicated need for external financing due to working capital fluctuations, and forty percent (40.4%) of respondents indicated need for external financing due to increased demand already realized. Nearly thirty-eight percent (37.5%) of those who indicated need for external financing reporting high or extremely high need due to planned growth.

Accessibility rate

Nearly sixty-two percent (61.7%) of respondents characterize the current business environment as difficult to raise new business financing and only twenty-one percent (20.6%) of respondents characterize the current environment in regards to raise new financing as easy. Fifty-four percent (54%) of those who applied for bank business loan were successful. Thirty-four percent (34%) of respondents were successful obtaining asset based loans while thirty percent (30%) were able to raise private equity. Four percent (4%) of respondents had community development financial institution as a source of financing in the last three months. Forty-two percent (42%) of respondents indicated growth or expansion including acquisitions as their main purpose to raise external financing. Twenty-nine percent (29%) of business owners transferred personal assets to their business over the last three months.

Satisfaction rates

Respondents who raised financing from crowd funding, friends or family, grants, banks, leasing companies or trade credit are the most satisfied with pricing and contract terms, whereas respondents who raised financing through factor companies, venture capital firms, mezzanine lenders, and hedge funds are the least satisfied with pricing and contract terms. Respondents also indicated that raising financing from grants, friends and family, trade credit, banks, credit cards, and leasing companies have easier general financing process. Fifty-two percent (52%) of those respondents who were unsuccessful in raising capital feel their general category of financing is still a good fit for their business.

Expected demand for external financing

Twenty-six percent (26%) of respondents are planning to raise new financing in the next six months, fifty-nine percent (59%) of respondents are not planning to raise financing in the next six months and fifteen percent (15%) of respondents are unsure. The most popular reasons for not planning to raise financing are enough cash flow (67%), sufficient financing in place (33%), weak economy (12%), and business would be rejected (10%). Fifty percent (50%) of respondents indicated need for external financing due to planned future growth or expansion, forty-seven percent (47%) of respondents indicated need for external financing due to expected working capital fluctuations, and forty-three percent (43%) of respondents indicated need for external financing due to expected increase in demand.

Expected access rates

Nearly fifty-eight percent (57.6%) of respondents expect it would be a difficult business environment in which to raise new financing in the next six months, almost a quarter (24.8%) of respondents expect it would be the same, and only eighteen percent (17.6%) of respondents expect it would be easy. Sixty-six percent (66%) of respondents are planning to obtain a bank business loan, thirty-one percent (31%) of respondents are planning to apply for asset-based loan, and thirty-seven percent (37%) are planning to raise financing through business credit cards. Fifty-eight percent (58%) of respondents indicated growth or expansion (including acquisition) as a main purpose to raise financing and nineteen percent (19%) of respondents said the main purpose is working capital fluctuations. Respondents indicated higher confidence for successful financing from family and friends, credit cards, crowd funding, leasing and factor companies, and personal loans.

Hiring/growth outlooks and financing failure impacts

Forty-two percent (42%) of respondents are not planning to hire any additional employees in the next six months. Forty-six percent (46%) of respondents are planning to hire from one to five employees, and six percent (6%) of respondents are planning to hire from six to 10 employees. Sixty-six percent (66%) of respondents expect slower business growth if their business is unable to raise new external financing in the next six months, forty-six percent (46%) of respondents will reduce number of employees, and eighteen percent (18%) of respondents will sell the business or shut down. Six percent (6%) of respondents directly tie their growth plans (expansion, inventory, hiring, etc.) to 2014 holiday season expectations (versus just within the next six months). Eight percent (8%) of respondents plan to hire additional staff (including full-time, part-time, temporary, and contract worker) specifically for the upcoming holiday season, while only four percent (4%) of respondents did hire additional workers for the 2013 holiday season. The average revenue change expectation in the next 12 months is eight percent (7.8%), although the average last 12 months revenue change was two percent (2.4%).

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