



Industry Spotlight

June 2010



Gift and Home Accessory Industry Spotlight



Selected Consumer Products Experience



has completed a
recapitalization with



has been acquired by



has completed a
recapitalization with



has acquired



exclusive marketer of



has been acquired by



Church & Dwight Co., Inc.



has acquired



has been acquired by
a consortium led by



a division of



Martin Himmel, Inc.

has sold



to



Church & Dwight Co., Inc.



has acquired



and other household brands from



(See back cover for additional transactions)

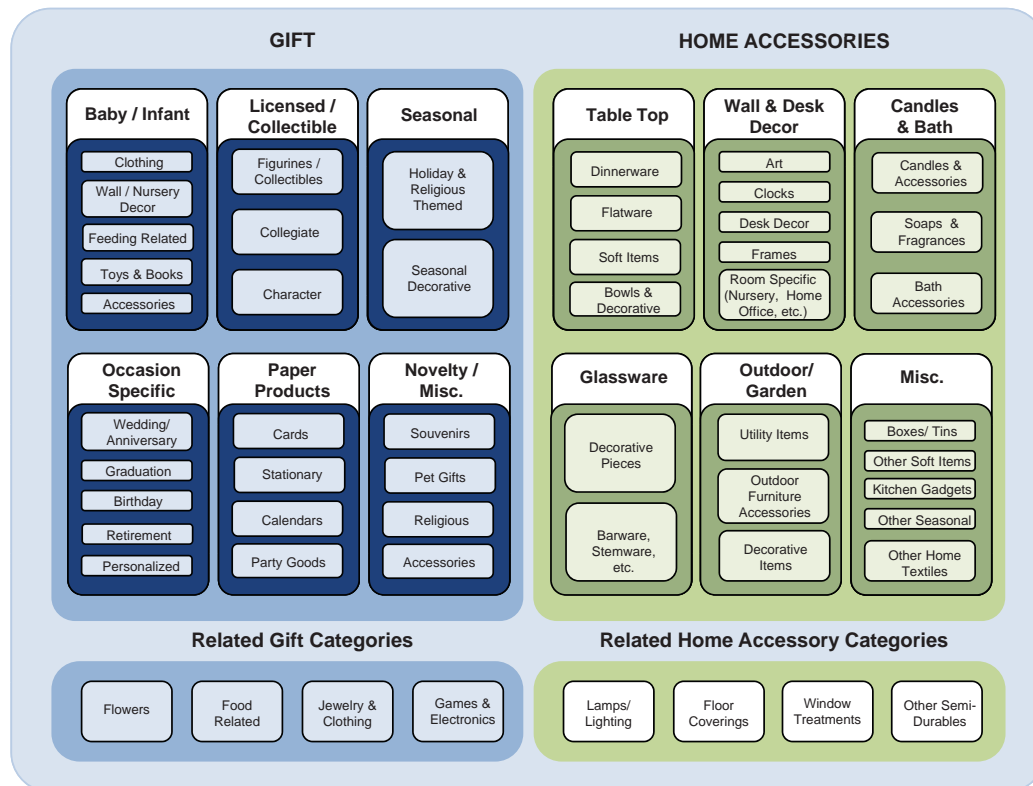
Finding the Right Path

In today's tumultuous economy, gift and home accessory ("GHA") vendors are re-thinking their strategies for 2010 and beyond. Some healthy GHA vendors have sought to win market share and displace troubled competitors by aggressively introducing new products. Conversely, the majority of GHA vendors have retrenched and continue to proceed with caution in an attempt to "batten down the hatches" and survive what has proven to be a prolonged market downturn. For GHA vendors, a cautious stance implies restraint in product introductions - both in numbers of new products and the degree of design "risk". Vendor caution also implies conservatism in pre-committing to manufacturing re-order quantities and in extending credit to retailers. While 2009 was a difficult year for the global economy as a whole and for the GHA industry in particular, we believe that there are meaningful signs of renewed growth in the sector that will begin to be apparent in the second half of 2010. We also believe that there are multiple opportunities for GHA vendors to consider strategic initiatives, including acquisitions or capital formation transactions to build on favorable momentum. *TM Capital's Gift and Home Accessory Industry Spotlight* examines the current dynamics of the gift market.

The GHA Industry Landscape - Many Products, Many Players

TM Capital's GHA industry overview is presented in **Figure 1**. The Gift segment consists of items that are designed and manufactured with the intention of being presented as a gift whereas the Home Accessory segment consists of both decorative and utilitarian items typically purchased by the consumer for her own use in the home environment. While the GHA market is bifurcated between the Gift and Home Accessory segments, there is considerable overlap between the two. We see multiple examples of Gift companies repositioning products that have historically been considered home accessories as "giftable". For example, **Designs by Lolita's** line of painted glassware showcases a vendor's ability to take a traditionally utilitarian home accessory and transform it into a unique gift item. Many companies straddle both the Gift and Home Accessory market - such as **Mariposa**, whose line of tabletop goods is purchased by both gift givers and by direct home users.

Figure 1. Gift and Home Accessory Industry Landscape



Source: TM Capital

Market Participants - The Barbell Market

The GHA landscape is highly fragmented and nuanced, with vendors ranging from large publicly traded players such as **CSS** (NYSE:CSS) and **Blyth** (NYSE:BTH), which have diversified product portfolios cutting across multiple sub-sectors, to small independent vendors that are often family owned and niche focused. TM Capital maintains a database of over 500 GHA vendors. From a revenue perspective, the GHA market is barbell in shape, particularly in the gift sector as depicted in **Figure 2**. The large public gift vendors on the right hand side of the barbell are few in number compared to the large population of sub \$75 million revenue vendors shown to the left. There are very few independent gift vendors in the middle of the barbell. Those players that achieve revenue scale and find themselves approaching the middle of the barbell frequently become acquisition targets for both strategic and financial investors.

Pricing Pressure

Given the diversity of products in the GHA landscape, price points vary widely. The majority of GHA vendors position themselves at mid-market prices, although there are a number of firms that have differentiated themselves at the low and high ends of the market. For example, **Oriental Trading**, which offers its party, craft and novelty products direct – to – consumer at aggressive price points and with volume discounts set at minimal levels, has gained market share. Conversely, players like **Simon Pearce**, well known for its domestically manufactured, artisan quality glass and tabletop products, sell

at premium prices. In today's environment, price pressure has impacted players across the board, but higher priced manufacturers and distributors have been disproportionately affected.

Broadening the Product Portfolio

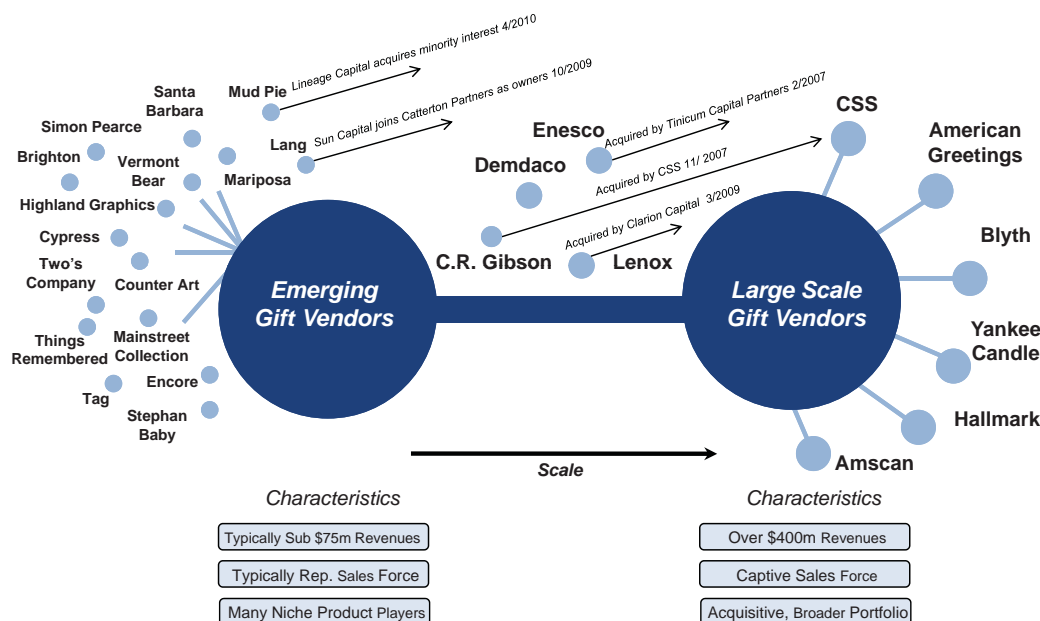
Increasingly, the healthy and more aggressive GHA vendors have been expanding their portfolios in an effort to reduce product concentration risk and capture greater shelf space at retail. **Figure 3** captures the most popular vendors in eight leading gift categories according to *Giftbeat* and highlights those that have been able to build leading positions in four or more of the segments shown, such as **Ganz**, **Mud Pie** and **Grasslands Road**. Others - such as **Santa Barbara Design**, which licenses *Lolita*, have leveraged their leadership in the wine-themed segment to expand into related tabletop and accessory segments – and appear in more than a single category.

Impressively Sized Market

The GHA market is large, estimated by Unity Marketing at a whopping \$65.2 billion as of 2007. This compares favorably to markets for various other categories of household products, as shown in **Figure 4**.

Through 2007, the GHA market exhibited strong historical growth as the overall market expanded at a CAGR of 11.5% since 2002, up from \$37.9 billion as shown in **Figure 5**. The Giftware segment is estimated to have grown at a CAGR of

Figure 2. Gift Sector Barbell-Shaped Market (Representative Vendors and Transactions)



Source: TM Capital

Figure 3. Leading Gift Vendors by Segment as Ranked by *Giftbeat*, 2009

Baby Gifts		Wedding Gifts		Wine-Themed		Tabletop/Accessories	
Rank	Vendor/Line	Rank	Vendor/Line	Rank	Vendor/Line	Rank	Vendor/Line
1	Mud Pie	1	Malden	1	Santa Barbara Design	1	Cypress Home
2	Stephan Baby	2	Mud Pie	2	Mud Pie	2	Santa Barbara Design
3	Ganz	3	Demdaco	3	Cypress Home	3	Highland Graphics
4	Gund	4	Russ	4	Highland Graphics	4	Mud Pie
5	C.R. Gibson	5	C.R. Gibson	5	Ganz	5	Grasslands Road/AmScan
6	TY	6	Beatriz Ball	6	Keller-Charles	6	Counter Art
7	Russ	7	Brighton	7	Direct Connection	7	Tag
8	Grasslands Road/AmScan	8	India Handicrafts	8	Counter Art	8	India Handicraft
9	Bearington	9	Hortense Hewitt	9	Grasslands Road/AmScan	9	Heritage Lace
10	Malden	10	Grasslands Road/AmScan	10	Mainstreet Coll.	10	Ganz

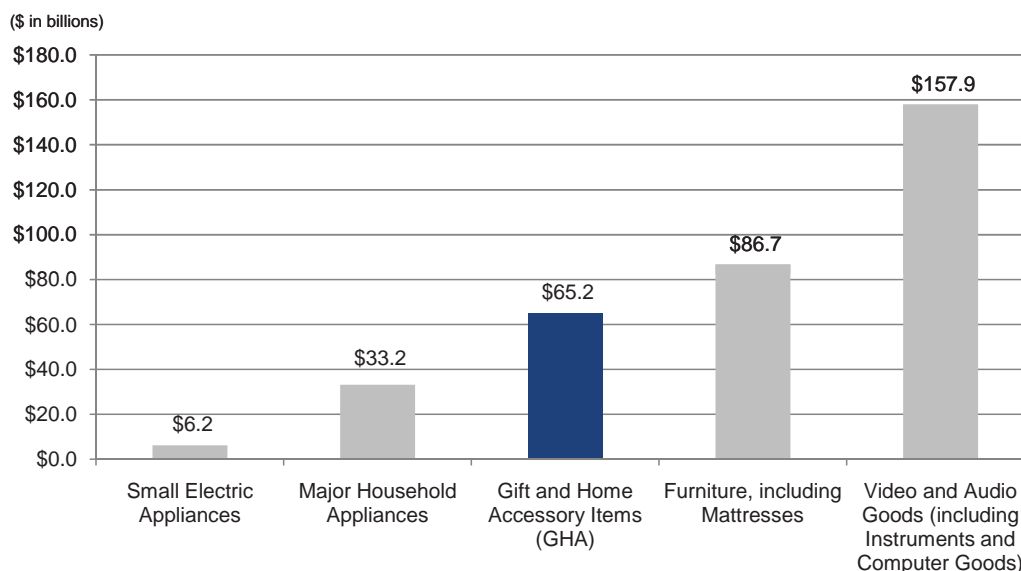
Fabric Themed		Monograms		Candles		Plush	
Rank	Vendor/Line	Rank	Vendor/Line	Rank	Vendor/Line	Rank	Vendor/Line
1	Vera Bradley	1	Mainstreet Coll.	1	Yankee	1	Ganz
2	Park Designs	2	Mud Pie	2	Colonial	2	TY
3	Manual Wood	3	Ganz	3	Virginia Candle	3	Gund
4	Donna Sharp	4	Punch Studio	4	Soy Basics	4	Russ
5	Heritage Lace	5	DM Merch.	5	Tyler Candle	5	Jellycat
6	C&F Enterprises	6	Evergreen	6	Ganz	6	Aurora
7	Kay Dee Designs	7	Mee Too	7	Root	7	Stephan Baby
8	Tag	8	Lady Jayne	8	Vance Kitira	8	Uglydoll
9	Ganz	9	Tervis Tumblers	9	Northern Lights	9	First & Main
10	Peking Handicraft	10	Alexx	10	Bridgewater	10	Wishpets

Source: *Giftbeat*

14.8% from 2002 to 2007. Home decorative accents represent a larger percentage of the market and grew at a still impressive CAGR of 9.4% during the same period. Although there is no published consensus industry estimate for growth from 2008 to 2010, TM Capital believes that industry growth has substantially moderated – and that the industry contracted between mid 2008 and year end 2009. Despite overall weakness driven

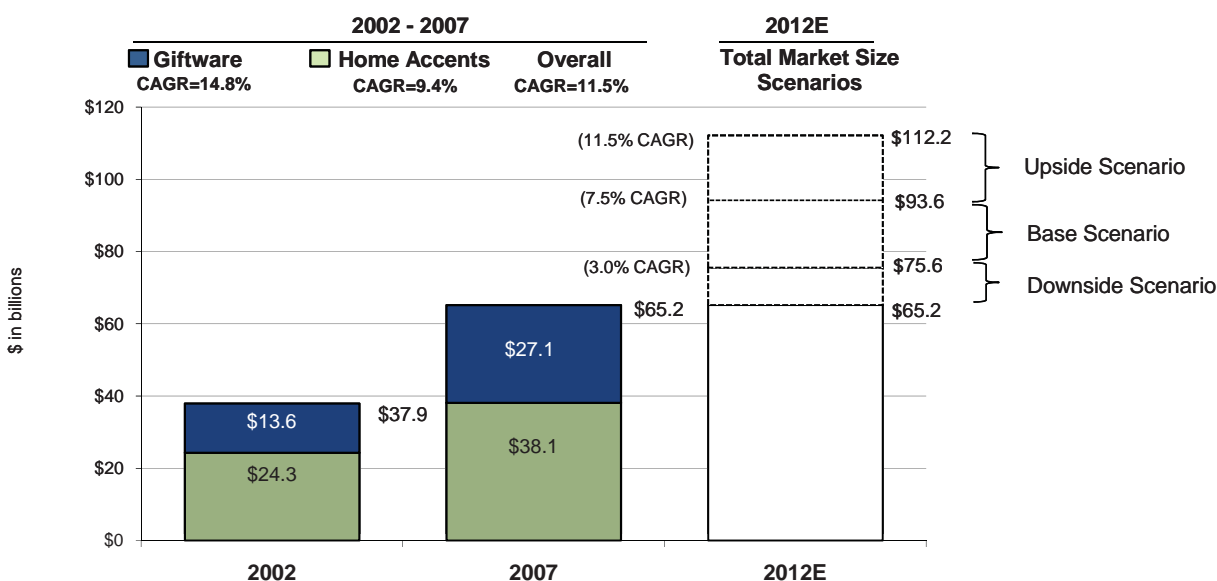
by unrelenting pressures on consumer discretionary spending, value product offerings and basic consumer habit have served to counterbalance these trends in certain categories – such as the market for occasion specific gifts, which we believe has continued to expand in the face of recessionary pressures and a significant contraction in the number of independent gift retail doors.

Figure 4. Market Size of Leading Household Product Categories, 2007



Source: TM Capital, Unity Marketing

Figure 5. GHA Market Size and Growth



Source: TM Capital, Unity Marketing

TM Capital believes that overall growth in the GHA market will resume in 2010. **Figure 5** presents three growth scenarios for the GHA sector through 2012.

Distribution Channels – Opportunities and Potential Conflicts

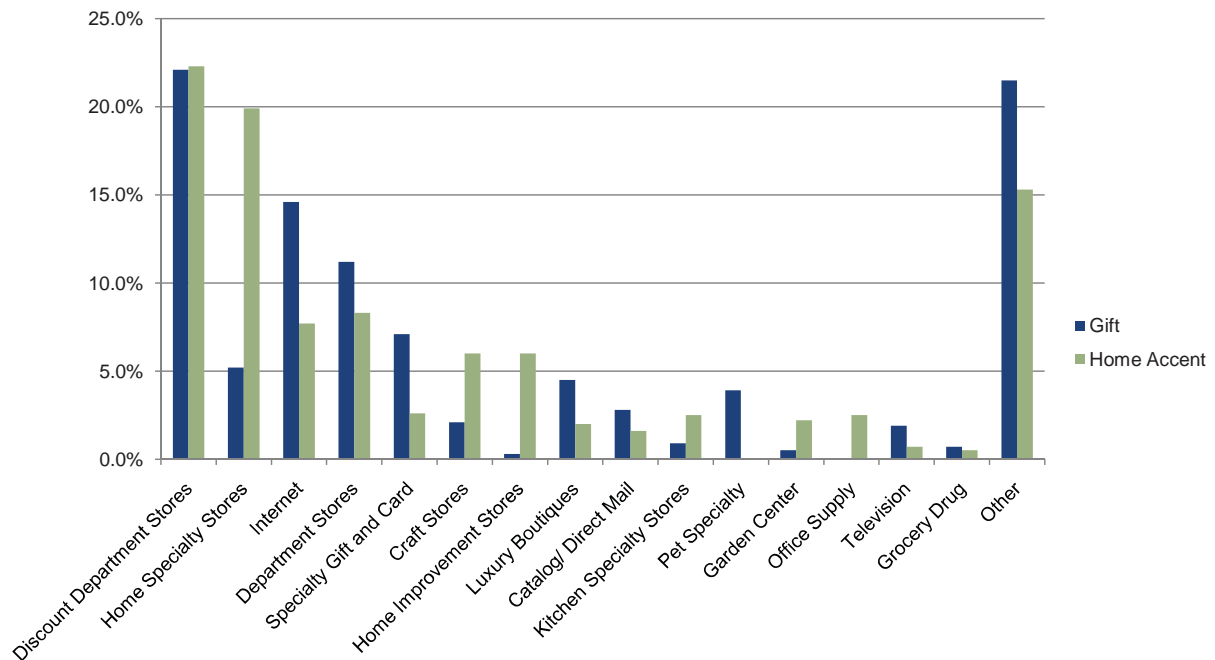
Discount department stores are the leading outlets for both gift and home accessory purchases – accounting for between 20% and 25% of total GHA sales, as shown in **Figure 6**. In the gift segment, giftware specialty stores account for the largest number of outlets, numbering over 59,000 domestically as of 2007. While the number of specialty outlets is impressive, the number of storefronts through 2007 had decreased by 21% from approximately 75,000 in 2002, according to Unity Marketing. TM Capital believes that there has been significant further storefront contraction through 2009. The recent reduction in storefronts has primarily come at the expense of undercapitalized, independent giftware specialty stores while stronger, well differentiated and adequately capitalized independent and multi store retailers have survived.

The independent and specialty gift retail marketplace is highly susceptible to broader market conditions. This retail landscape is characterized by high concentrations of second career entrepreneurs and empty nesters who tend to enter the business following recessions during which they confront job

insecurities. We believe that the current economic recovery phase may spur a particularly robust rebound in the number of independent outlets, given the compelling opportunities created by high vacancy rates to populate attractive locations at low occupancy costs.

Many retailers focused on GHA Sales have succumbed to the pressures of the current economic environment. The most recent victim is **Swoozie's**, a giftware retailer with 43 locations across 14 states and 350 employees, which filed for bankruptcy in March 2010 and is currently being liquidated as of the date of this publication. To many outsiders, the failure of Swoozie's was both surprising and unnerving, as the company has enjoyed a high profile in the Gift segment and had recently acquired 13 **Blue Tulip** locations in the Northeast, following Blue Tulip's own Chapter 11 filing. Equally sobering, given the high regional visibility of the Swoozie's brand, is the fact that no acquiror put forward a viable going concern offer for the business. Nevertheless, TM Capital believes that the liquidation may not reflect a perceived lack of value in the brand. Rather, we believe it is a result of the relatively high level of inventory remaining in stores at the filing date and the fact that the company's secured creditors saw an opportunity for a complete recovery through a low risk, rapid liquidation process.

Figure 6. GHA Distribution Channels, Percentage of Total GHA Sales

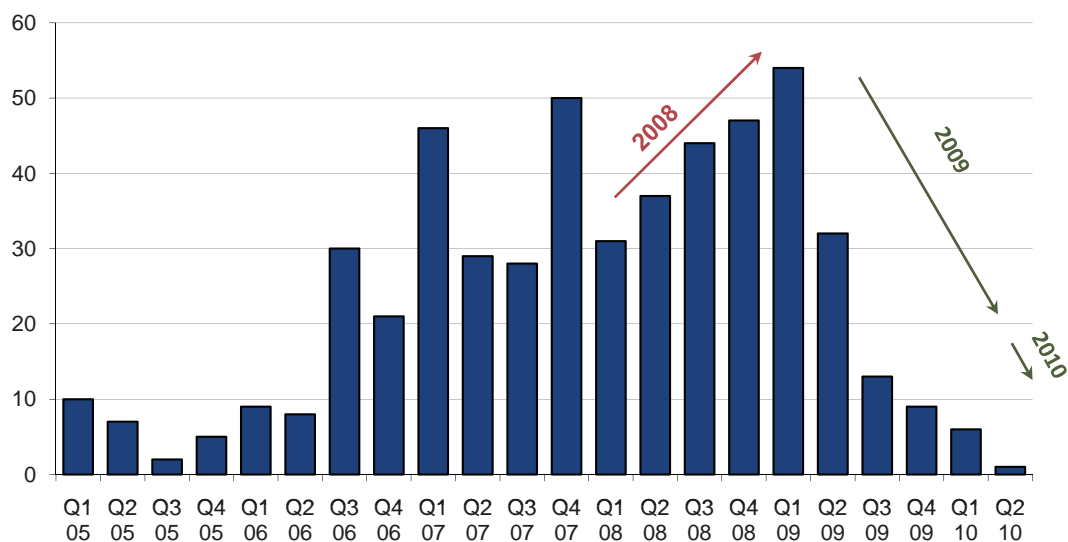


Source: TM Capital, Unity Marketing

While there have been many high profile bankruptcies in the industry, **Figure 7** shows that since peaking in the first quarter of 2009, the number of specialty, internet and catalog retailer bankruptcies has declined precipitously.

In order to confront the near-term shrinking base of specialty retail doors, GHA vendors should be carefully cultivating alternative channels of distribution. However, vendors must be vigilant regarding perceived conflicts among these channels.

Figure 7. Announced Specialty, Internet and Catalog Retailer Bankruptcies by Quarter, Q1 05 to Q1 10



Source: TM Capital, Capital IQ

Specialty retailers often seek to create a unique buying experience through their differentiated product assortments and react violently if discount department stores are able to display the same products. While volume opportunities for GHA vendors may be greater within the department store channel, vendors to the discounters will also face compressed margins on sales and more erratic order patterns. Some vendors have been successful in creating private label product assortments specifically designed for the discount segment, to avoid cannibalizing their specialty retail channel sales.

Additionally, all distribution channels are experiencing competitive pressure from the internet. As discussed in **Figure 8**, internet GHA sales are the fastest growing segment of the market, and GHA vendors should clearly be considering a multifaceted web-based sales strategy. Retailers are seeking web-based purchasing and payment portals and consumers are increasingly shopping for GHA wares online.

One potential conflict emerging in the online world relates to a trend among previously terrestrial-only specialty retailers that are beginning to offer an increasing selection of their catalogs online. These items appear on individually branded sites and on commerce amalgamation sites like **Amazon**. This trend is facilitating comparison shopping and price disintermediation, which generally has a negative impact on smaller retailers by compressing margins.

GHA manufacturers, which have traditionally not pursued the direct-to-consumer model for fear of alienating loyal retailer customers, are rethinking their approach. With multiple online outlets already offering their products, many vendors are establishing their own direct – to – consumer presence, having concluded that they would prefer to control the message and branding behind the online merchandising of their products. Further, companies operating online are exploring methods of increasing product customization and customer interaction. These factors, combined with the attractive margins afforded by the direct model, have motivated many vendors to create their own consumer focused online storefronts. For example, **Midwest CBK**, a subsidiary of Blyth, has built a multi-pronged online strategy. The company maintains both a B2B site (www.mwcbk.com) with a retailer portal as well as a limited B2C site focused solely on the company's candle line (www.colonialcandle.com). The company's evolving internet strategy has resulted in double digit online sales growth for the last several years. Benefiting its retailer base, the company offers a drop ship service for orders placed at local retailer websites.

For many vendors, the risk of not having a direct-to-consumer presence online is beginning to outweigh the potential risk of cannibalization of their historical wholesale business.

Figure 8. GHA Retail Outlets, Market Share Trends

Type of Outlet	Gaining/ Losing Market Share	TM Capital Commentary
Discount Department Stores	↑	Benefitting from lower discretionary spending levels among consumers Able to negotiate increasingly favorable terms on close-outs and overstocks from vendors Winning market share from Specialty and Traditional Department Stores
Internet	↑	Fastest growing segment winning market share from all other categories Benefitting from price disintermediation Attracting niche focus shoppers Shipping and handling rates remain obstacles; partially offset by sales tax advantages "Touch and Quality" shoppers sticking to known brands
Department Stores	↓	Price points have been impacted by Internet and Discounters resulting in lower average prices Increasing online presence - the combined online and store concept is appealing, especially for returns Can have challenging sales terms for smaller gift vendors to meet
Specialty and Independents	↓	Shrinking number of stores with multiple closings and bankruptcies Comparison shopping afforded by increasing availability of goods online will depress margins Decreasing the number of vendors, allowing for market share gains among stronger vendors
Other	↑	"Practical Gifts" are more popular in economic downturns, benefitting Home Improvement Stores and Grocery/ Drug Stores "Other" outlets are increasingly being targeted by GHA vendors due to the shrinking base of independents and specialty players

Source: TM Capital

Similarly, GHA vendors and the retail community are also exploring ways to leverage email marketing and online social media outlets such as **Facebook** and **Twitter** to develop brand buzz and increase store traffic. Specialty firms which seek to facilitate this process are also emerging. For example, the owners of **OneCoast**, a leading national rep firm in the gift space, recently formed **Snap Retail**, an independent provider of e-marketing services to specialty retailers. Snap Retail builds e-marketing campaigns for retailers that leverage various forms of new media to help increase store traffic and product sell through. Snap Retail's proprietary automated marketing tool, *TrafficBuilder*, gives independent retailers an easy way to communicate with their customers using customizable marketing content from favored vendors.

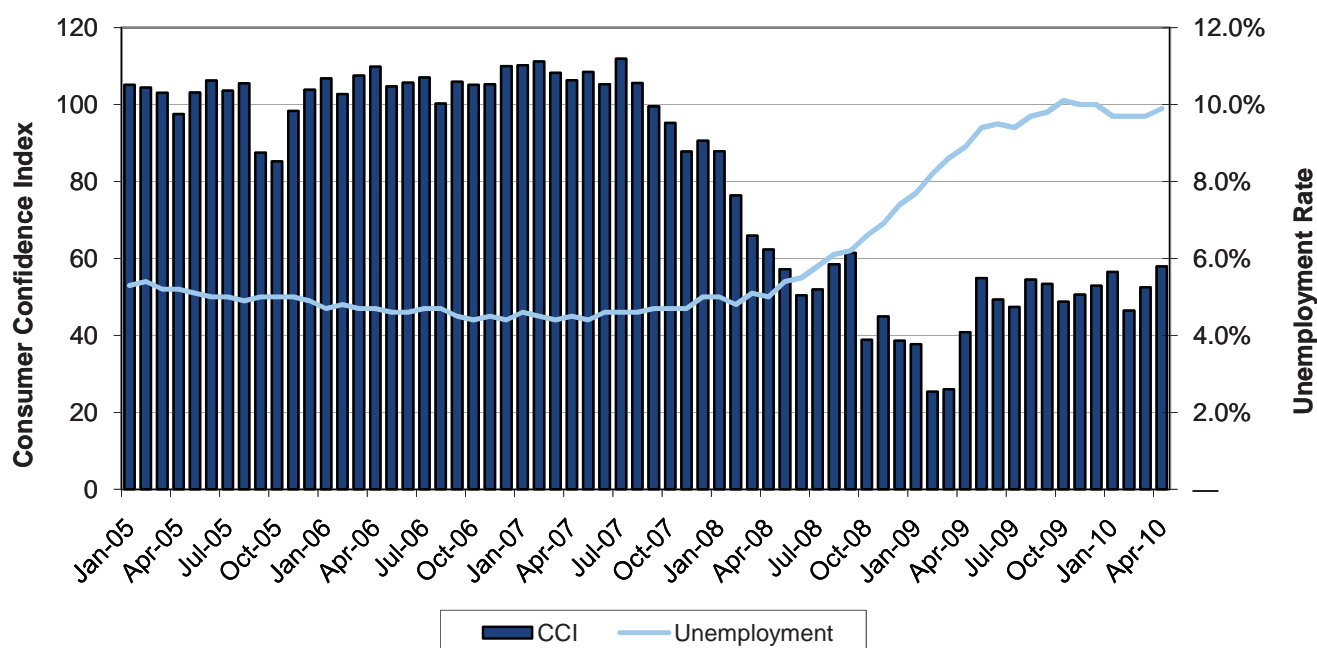
Macroeconomic Indicators and Stock Performance – Finding Green Shoots?

The retail world is enduring significant macroeconomic pressure. In the face of declining home values and investment portfolios, mounting debt levels and rising unemployment rates, consumer confidence fell to historic lows in 2009 and consumer spending is likely to remain challenged through 2010. As shown in **Figure 9**, both the Consumer Confidence Index (CCI) and unemployment rates have been sending negative

signals since mid 2007. Today, the unemployment rate is over 9% nationally – a troublesome figure for GHA vendors. Market optimists will, however, point to the improvement in the unemployment rate in the new year and healthy recent increases in consumer confidence as positive indications. Consumer confidence, which had rebounded in March, gained further ground in April 2010. The Index is now at its highest reading in about 18 months.

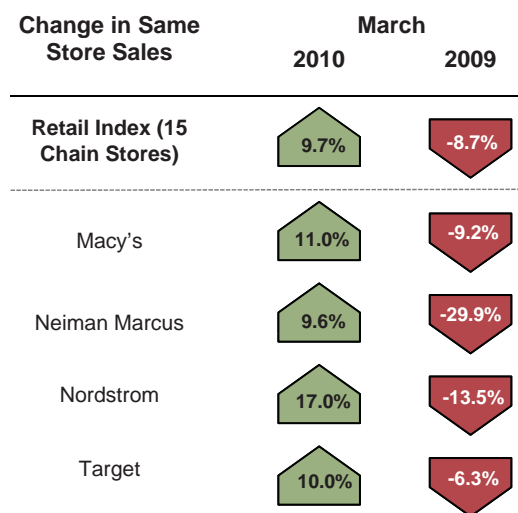
While the overall macroeconomic picture remains cloudy, positive indicators are emerging. In fact, the broader retail market appears to be thawing after its deep freeze, and early results in 2010 are encouraging. For example, over 75% of the publicly listed retailers who published February results beat analyst expectations. Continuing this momentum, as shown in **Figure 10**, same store sales on average increased 9.7% in March 2010 compared to March 2009, according to Retail Metrics. Department store bellwethers **Macy's** and **Nordstrom** posted healthy gains. Macy's sales increased 11.0% in March 2010 compared to a decline of 9.2% last March. Nordstrom's sales achieved doubled digit growth of 17.0% in March compared to a plunge of 13.5% in the same month last year. Companies are also reporting margin increases due in part to lower levels of promotional pricing.

Figure 9. Consumer Confidence Index and Unemployment Rates, 2005-2010



Source: TM Capital, Capital IQ

Figure 10. Major Retailer Same Store Sales Statistics



Source: Wall Street Journal, Retail Metrics

Mirroring the improvement on the retail front, TM Capital's GHA Index, as shown in **Figure 11**, has enjoyed a healthy uptick, having nearly tripled since hitting a trough about a year ago.

Attractive GHA Segments and Trends

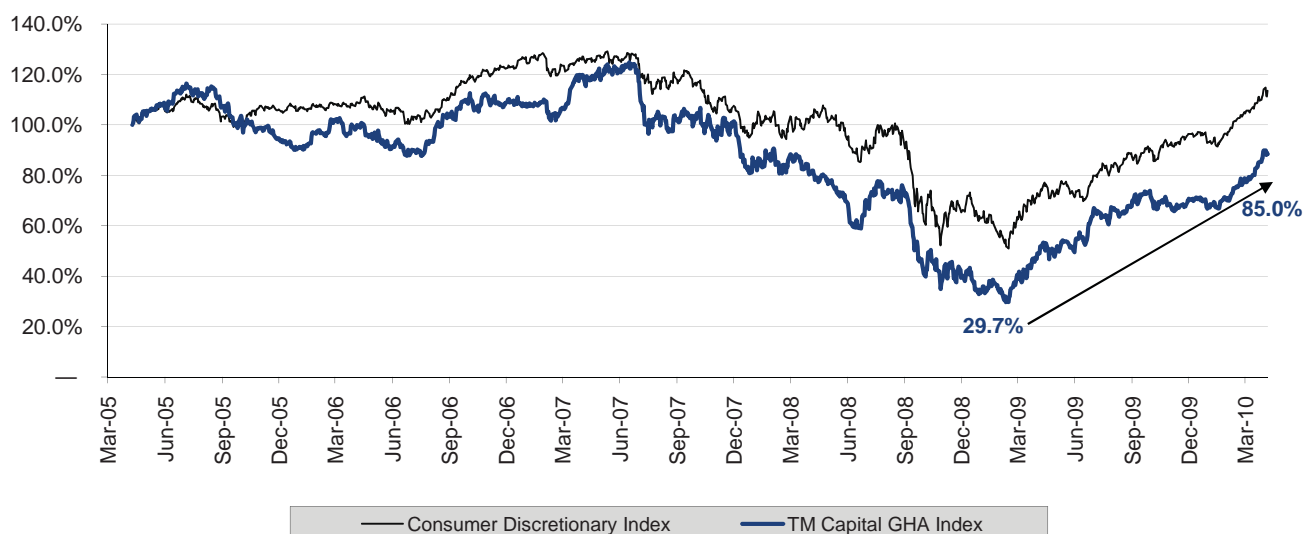
Several market niches in the GHA segment continue to provide attractive growth opportunities including: "small rewards" gifts and accessory purchases, occasion specific gifts and baby gifts.

Rather than ceasing all gift spending, consumers in economically challenging times tend to significantly adjust the character of their purchases. Today, TM Capital believes that there is ongoing, significant downward demand pressure on big ticket purchases in favor of "small rewards" or "inexpensive luxury" products. For example, a homeowner may choose to defer a big screen TV purchase in favor of affordable home décor items which improve her living space. GHA customers are seeking "inexpensive rewards" during more austere times, and a key to meeting the demands of today's increasingly cost conscious consumer is providing products that are emotionally evocative and have a high perceived value.

Occasion specific gifts and party favors, such as bridal gifts, hostess gifts, graduation gifts, birthday gifts, baby gifts and holiday gifts, are also proving to be resilient in the face of cyclical market swings. According to Packaged Facts, Americans spent over \$133 billion on the holidays in 2008. About 58% of this spending occurred around the winter holidays, with the remainder spent year round from Valentine's Day to Halloween, suggesting that there are untapped opportunities for GHA vendors outside of the winter holiday season.

With over four million babies born each year in the United States, the Baby market continues to be an important and economically resilient category in the GHA market. Recently, consumer tastes in baby gifts and decorative accessories have migrated from "cutesy" to highly designed, stylistic and even edgy products, which has provided design innovators with an advantage in the market.

Figure 11. TM Capital GHA Stock Index, March 2005 – March 2010



Source: TM Capital, Capital IQ

Market Valuations and Consolidation

Figure 12 provides operating and valuation data for TM Capital's GHA Index. The index is comprised of significantly scaled public companies with minimum revenues of \$200 million. While nearly all of the companies in this index have faltered over the last five years, as evidenced by the many negative five year sales CAGRs, operating performance has generally improved in the last 12 to 18 months. The median enterprise value for the group is 0.83 times last twelve month sales and 7.1 times last twelve month EBITDA. As shown in **Figure 13**, EBITDA multiples remain low relative to historical levels. However, there has been a noteworthy improvement since the beginning of 2009 when public comparable companies were trading at 5.4 times EBITDA.

As shown in **Figure 14**, there has been considerable M&A and financing activity in the GHA sector since the beginning

of 2008. Certain notable transactions include the acquisition of the **Lenox Group** out of bankruptcy by **Clarion Capital Partners**; the acquisition of **Lang Holdings**, now known as **Perfect Timing**, out of bankruptcy by **Sun Capital Partners** and **Catterton Partners**, and the acquisition of **Schurman Fine Papers**, doing business as **Papyrus**, by **American Greetings**. Many financial investors and strategic buyers have taken advantage of the down market to acquire valuable brands at discounted prices. However, business results appear to be on the upswing and the window for opportunistic acquisitions at discounted prices is closing. Today, stronger companies are being brought to market and their healthy operational performance is warranting premium valuations. A prime example is Mud Pie, a well known producer of occasion specific gifts, which recently announced a non control investment by **Lineage Capital**. The deal was completed at an attractive valuation and is representative of the confidence that sophisticated financial investors have in leading players in the sector.

Figure 12. TM Capital GHA Index, Operating and Valuation Data

Selected GHA Company Operating Data

(\$ in millions, except per share data)

Company	Price Per Share 5/25/2010	% of 52- Week High	Cash	Net Debt	5 Year Sales CAGR	Net Sales	LTM Margins			
							Gross Profit	EBITDA	EBIT	EPS
American Greetings Corp.	\$22.51	85.9%	\$137.9	\$191.8	(4.0%)	\$1,635.9	57.7%	14.4%	11.7%	\$2.03
Blyth, Inc.	48.99	81.7%	212.4	(101.9)	(6.5%)	958.1	55.0%	6.8%	5.0%	1.98
CSS Industries Inc.	18.71	68.6%	4.6	42.1	(3.5%)	452.7	25.7%	7.3%	4.6%	1.21
Jarden Corp.	27.00	76.9%	951.0	1,973.2	12.2%	5,202.8	27.7%	10.0%	7.5%	0.69
Kid Brands, Inc.	8.30	79.0%	2.7	72.6	(3.5%)	249.1	31.0%	13.3%	11.8%	0.64
Lancaster Colony Corporation	54.67	88.8%	95.7	(95.7)	0.7%	1,062.0	26.0%	19.4%	17.4%	4.28
RC2 Corp.	18.58	92.6%	101.0	(59.7)	(3.5%)	423.0	44.7%	14.3%	11.5%	1.39
Median		81.7%	\$101.0	\$42.1	(3.5%)	\$958.1	31.0%	13.3%	11.5%	\$1.39
Mean		81.9%	\$215.0	\$288.9	(1.2%)	\$1,426.2	38.3%	12.2%	9.9%	\$1.75
High		92.6%	\$951.0	\$1,973.2	12.2%	\$5,202.8	57.7%	19.4%	17.4%	\$4.28
Low		68.6%	\$2.7	(\$101.9)	(6.5%)	\$249.1	25.7%	6.8%	4.6%	\$0.64

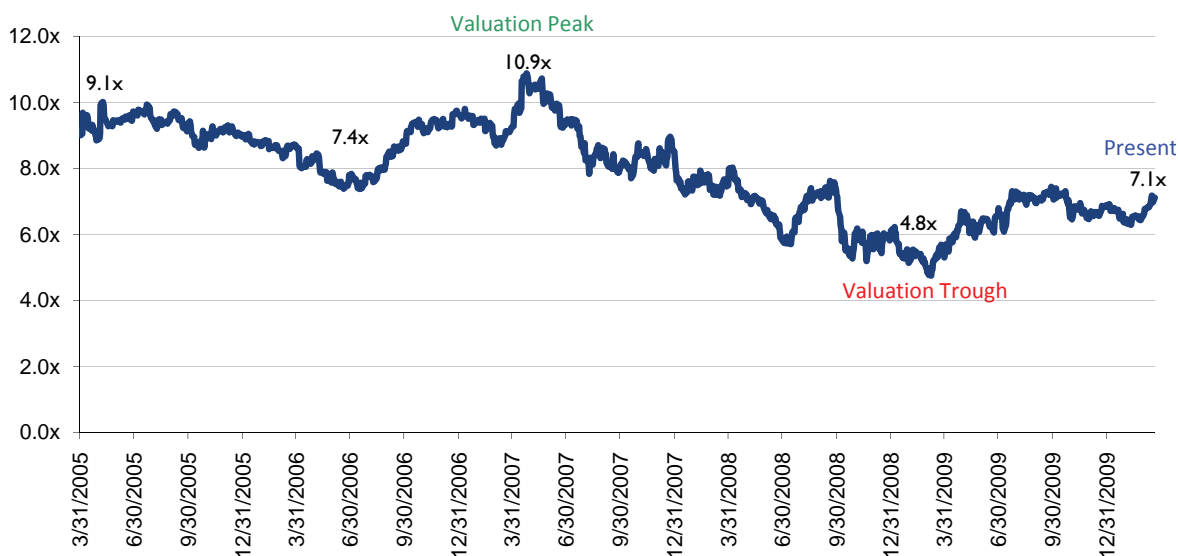
Selected GHA Company Valuation Data

(\$ in millions)

Company	Market Value of Equity	Enterprise Value	Enterprise Value Multiples				Market / Book Value	P/E
			LTM		FY 2010E			
			Net Sales	EBITDA	Net Sales	EBITDA		
American Greetings Corp.	\$894.3	\$1,086.0	0.7x	4.6x	0.7x	NA	1.4x	11.1x
Blyth, Inc.	431.0	327.6	0.3	5.1	0.3	5.0x	1.7	24.7
CSS Industries Inc.	180.9	223.0	0.5	6.8	NA	NA	0.7	15.5
Jarden Corp.	2,515.5	4,488.7	0.9	8.6	0.8	6.7	1.5	39.1
Kid Brands, Inc.	178.8	251.4	1.0	7.6	1.0	NA	1.9	13.0
Lancaster Colony Corporation	1,549.2	1,453.5	1.4	7.1	1.4	NA	3.3	12.8
RC2 Corp.	417.4	357.7	0.8	5.9	0.8	5.7	1.7	13.4
Median	\$431.0	\$357.7	0.85x	6.8x	0.82x	5.7x	1.7x	13.4x
Mean	\$881.0	\$1,169.7	0.80x	6.5x	0.82x	5.8x	1.7x	18.5x
High	\$2,515.5	\$4,488.7	1.37x	8.6x	1.35x	6.7x	3.3x	39.1x
Low	\$178.8	\$223.0	0.34x	4.6x	0.34x	5.0x	0.7x	11.1x

Source: TM Capital, Capital IQ

Figure 13. TM Capital GHA Index, Historical LTM EV / EBITDA



Source: TM Capital, Capital IQ

Case Study: Mud Pie, LLC

Mud Pie's CEO Marcia Miller has coined a phrase to summarize the Company's 20 years of success - "The right product, at the right price and at the right time." Today, Mud Pie is a leading designer of innovative giftware that has redefined the GHA space by offering a continuously refreshed product line that infuses high design and consumer value with mass affordability. With over 3,000 proprietary SKUs that are all designed internally, Mud Pie has achieved explosive growth while providing unparalleled customer service.



In 2009, Mud Pie engaged TM Capital to help explore financial alternatives for the business and its owner. Marcia, and her husband, CFO Mark Miller, ultimately chose to partner with Lineage Capital, a leading private equity firm dealing with owner-managed and family-controlled businesses. As part of the transaction Lineage acquired a non-controlling equity position in Mud Pie and the existing management team will both continue to lead the Company and maintain a controlling ownership interest. The transaction created shareholder liquidity while bringing on board the strategic and financial resources necessary to help Mud Pie to continue on its steep growth trajectory. Jim Grien, president of TM Capital, commented, "Mud Pie's growth and profitability in a weak economy has been nothing short of extraordinary. It is rewarding to collaborate with individuals when you know that what you are doing will make a real difference in the evolution of their business."



Figure 14. M&A and Financings in the GHS Sector, 2008-2010

Closed	Target	Acquirer	Target Business Description	Enterprise Value
04/01/10	Mud Pie, LLC	Lineage Capital, LLC	Designer and marketer of innovative branded giftware and home accessories	NA
03/25/10	Swoozie's	Hilco Merchant Resources	Retailer of gift products, greeting cards, custom printed items	\$7
03/23/10	Provo Craft and Novelty, Inc.	BAML Capital Partners	Manufacturer and distributor of craft, hobby, and education products for school projects.	NA
03/11/10	Waterleaf Studios Inc.	Trevelyan Ltd.	Manufacturer of certificate and diploma frames	NA
03/11/10	Lee Middleton Original Dolls, Inc.	The Alexander Doll Company, Inc.	Manufacturer and marketer of collectible dolls for babies	NA
01/03/10	The Trophy Center, Inc.	Holmes Stamp Company	Produces awards and promotional materials	NA
12/30/09	Soft Sight, Inc. db/a ThreadSmith	Vistaprint N.V. (NasdaqGS:VPR)	Offers self-service customized embroidered apparel	NA
11/25/09	Inola Casting Works, Inc.	Craig Fry (an individual)	Manufacturer of pewter items such as lapel pins, key chains, and memorabilia	NA
11/19/09	Classy Kid, Inc.	Summer Infant, Inc. (NasdaqCM:SUMF)	Manufacturer and marketer of accessories for baby and toddler healthcare	NA
11/19/09	Michael Taylor Designs, Inc.	Lee Pierce	Designer and marketer of residential furniture and decorative accessories	NA
10/19/09	Mystica Candle, Inc.	Jon Suk (Board Member of LIS Energie, Inc.)	Manufacturer, marketer and distributor of soy blend scented candles and oils	NA
10/13/09	Lang Holdings, Inc.	Catterton Partners; Sun Capital Partners, Inc.	Distributors of art, design and sports driven calendars, stationery, and specialty gifts	\$25
10/06/09	Tera International Inc.	Edward Loyst, Chairman of Franchise Bancorp Inc.	Importer of gift and decorative ware products	NA
08/31/09	The Gail Hall Gift Company	Azcor Electronics Inc.	Wholesaler and retailer of pet items, novelty giftware, country furniture and chocolates	NA
08/21/09	Columbus Florists and Gifts, Inc.	Patty Portman and Patty Selden (individuals)	Provider of fresh flower arrangements, fruit, candy, gourmet foods, and bath & body products	NA
08/04/09	Paddywax, Inc.	DesignWorks Investments LLC	Provider of hand-poured glasses, tins, pillars and glass and travel tin candles	NA
07/31/09	Spencer N. Enterprises, Inc.	21st Century Group, LLC; Ancor Capital Partners	Designer, manufacturer, importer and marketer of soft home decor products	\$50
07/06/09	Charity Sports Distributors, Inc.	Artfest International, Inc. (OTCBB:ARTS)	Manufacturer and producer of frames and authentic sports memorabilia	\$4
06/30/09	Innovative Designs	Blue Earth Solutions, Inc. (OTCBB:BESN)	Manufacturer of servingware, partyware, and food service products	\$2
06/24/09	Successories, LLC	TWS Partnership	Designer and producer of motivational products	NA
06/09/09	Heritage Creations USA, LLC	Eighth Floor Promotions, LLC	Manufacturer of tournament awards and tee prizes for awards and recognition industry	NA
04/24/09	Department 56 Retail, Inc.	Enesco, LLC	Operator of home decorative retail stores. Previously a subsidiary of Lenox Group Inc	NA
04/17/09	Schurman Fine Papers, Inc. (Papyrus)	American Greetings Corp. (NYSE:AM)	Retailer of gift products, greeting cards, custom printed items	\$13
04/14/09	JK Worthy Direct Inc.	Campania International, Inc.	Manufacturer and marketer of garden fountains and other garden products	NA
04/06/09	BabyLegs, LLC	United Legwear Company, LLC	Produces products for keeping children warm, protected, and stylish	NA
03/26/09	Waterford Wedgwood Plc	KPS Capital Partners, LP	Produces luxury home and lifestyle products	NA
03/16/09	Lenox Group Inc.	Claron Capital Partners, LLC	Designer, wholesaler and retailer of tableware, collectibles, and other giftware products	NA
02/28/09	We R Inc. db/a We R Memory Keepers	Mariner Capital Partners, LLC	Manufacturer of paper and sticker products	NA
02/24/09	Recycled Paper Greetings, Inc.	American Greetings Corp. (NYSE:AM)	Markets greeting cards with funny and affectionate designs	\$117
12/23/08	Russ Berrie & Co., Inc., Gift Business	The Encore Group, Inc.	Manufacturer of gifts and toys	NA
12/22/08	THI Designs, Inc.	THI Designs Management	Producer and distributor of home decor and giftware products	NA
12/19/08	Art In Motion Income Fund	ICA Home Décor	Publisher, framer, and licensor of images and fine-art reproductions	NA
10/31/08	The Paragon Gifts, Inc.	Gardens Alive, Inc.	Markets special occasion, collectible, and seasonal gifts through its website	NA
10/15/08	Cottage Garden, Inc.	Roman, Inc.	Manufacturer of music boxes, jewelry boxes and musical frames	NA
08/26/08	FTD Group Inc.	United Online Inc. (NasdaqGS:UNTD)	Marketer of floral and specialty gift products and services to consumers and retail florists	\$701
08/01/08	Steuben Glass LLC	Schottenstein Stores Corporation	Producer of glassware such as bowls, drinking glasses, candlesticks, and more	NA
07/21/08	Napco Marketing Corp.	1-800-Flowers.com Inc. (NasdaqGS:FLWS)	Importer and distributor of floral, gift, and home decor products	\$11
07/10/08	Crane & Co., Inc.	Lindsay Goldberg LLC	Markets personalized stationery products	NA
07/01/08	GUND, Inc.	Enesco, LLC	Manufacturer and distributor of soft and huggable plush designs, and gift products	NA
06/17/08	GagWorks	Outrageous Ventures, Inc.	Markets pranks, gags, fun stuff, gifts, and magic products online	NA
05/27/08	RedEnvelope, Inc.	Provide Commerce Inc.	Markets branded gifts like jewelry and home products and accessories online	NA
05/22/08	Bits and Pieces, Inc.	Gardens Alive, Inc.	Online catalog retailer of puzzles and gifts	NA
05/19/08	Iota	C.R. Gibson Company	Designer and marketer of stationery essentials and other paper goods	NA
05/16/08	E&B Giftware, LLC	Cortec Group; Midwest Mezzanine Funds	Designer, manufacturer and marketer of fitness and gift products, and travel accessories.	\$9
05/07/08	Mackenzie-Childs, LLC	Hamilton Investment Partners, LLC; Twin Lakes Capital	Markets handmade and hand-decorated majolica pottery, tile, and home furnishings	NA
04/30/08	DesignPac Gifts LLC	1-800-Flowers.com Inc. (NasdaqGS:FLWS)	Designer and producer of specialty gifts and home decor products	\$38
04/02/08	CoCaLo, Inc.	Russ Berrie & Co., Inc. (NYSE:RUS)	Manufactures and distributor of infant bedding and decorative accessory products	\$21
03/10/08	Courage International Inc.	UltraPRO, LP	Designer and marketer of novelty, gift, and collectible pens	NA
02/06/08	Vandor, LLC	The Randolph Group, Inc.	Designer and manufacturer of gift and home decor products	NA

Conclusions

Despite rapidly changing tastes in the GHA sector, suppliers have generally been slow to refresh their product lines, choosing instead to rely on historically strong selling products while playing “defense” to weather the current economic slump. In order to drive foot traffic and entice customers away from the big box and discount retailers, specialty stores are demanding that GHA vendors continue to refresh existing product assortments and explore new product categories, themes, and progressive designs. Today’s more successful gift companies are characterized by continuous design cycles and rapid product rollouts. Less successful players have been sidetracked by design exhaustion, supply chain inefficiencies and quality issues. Some have simply proven to be “one hit wonders”.

Giftware companies must not only demonstrate continuous product refreshment but must be flexible in how they sell to the consumer. While discount stores and specialty giftware shops account for the bulk of GHA sales, the internet is now the third most important GHA sales channel. A well-designed web strategy that capitalizes on the direct-to-consumer opportunity while “respecting” existing channel partners is imperative.

GHA retailers, both large and small, appear to be consolidating their giftware supplier rosters to narrow their product offerings. This allows retailers to devote more shelf space to items with high sell through rates and strong margins, inherently favoring stronger giftware producers while placing additional pressure on weaker performers. Due to this market shift, strong suppliers with diverse product portfolios have experienced growth even in a declining market, as they increase their market share and shelf space.

As evidenced by recent positive retail sales performance referenced in **Figure 10**, the continued strength of certain GHA segments such as occasion specific gifts and the uptick of public GHA vendors, the prospects for the GHA market are encouraging. The current GHA market landscape affords significant opportunities for growth and market share gain through organic product development and via acquisition initiatives. Vendors that can leverage operating efficiencies and continue to launch fresh product designs will be well positioned to displace competitors that have failed to adapt to this challenging economic environment.

To learn more about TM Capital and the firm’s Consumer Products practice, please contact Jim Grien at 404.995.6235 or jgrien@tmapital.com or Craig Gibson at 617.259.2204 or cgibson@tmapital.com.

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