E X C E R P T E D F R O M :
July 26, 2010

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

The following report is produced by
THE WALL STREET TRANSCRIPT

07-26-2010
REAL ESTATE INVESTING AND OTHER INVESTING STRATEGIES REPORT

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Founded 1963
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Investing in Attractive Acquisition Candidates

JONATHAN DASH & MORRIS AMIRI, DASH ACQUISITIONS, LLC

JONATHAN DASH founded Dash Acquisitions, LLC, in 2004. As President, he is responsible for the investment management and asset allocation at the firm. Mr. Dash's investment experience includes prior roles at Prudential Securities and Morgan Stanley, where he performed analysis of equity and fixed-income investments. With over 15 years' experience in investment management, Mr. Dash has an established reputation as an entrepreneur, turnaround specialist and securities investor. He has wide experience in business operations, including the founding of businesses within the services and packaging industry. Companies that Dash Acquisitions has targeted for its "active value investing" strategy have been covered in major business publications, such as Barron's, The Wall Street Journal and Forbes. Since 2006 Mr. Dash has served on the board of directors of Western Sizzlin Corporation, a 50-year old franchising company with over $150 million in system-wide revenue. From November 2008 to March 2010, Mr. Dash was retained to provide strategic and operational advice to The Steak 'n Shake Company, which has over $600 million in revenues. Mr. Dash received his bachelor's degree in business from the University of Southern California, and he also completed a curriculum at Harvard Business School covering corporate restructuring, mergers and acquisitions.

MORRIS AMIRI is Managing Partner & COO of Dash Acquisitions, LLC. He is responsible for implementing and overseeing all resource allocation and business functions of the firm. Previously, Mr. Amiri served in the Royal Bank of Canada's wealth management division in New York City, where he provided investment advisory services to high-net worth families and institutions. At Bear Stearns' New York office, he performed equity research, portfolio construction and asset allocation modeling. Mr. Amiri began his financial services career in 1998 with KIG Investments. He received his bachelor's degree in finance from the University of Arizona.

SECTOR – GENERAL INVESTING

(ABP504) TWST: Introduce us to Dash Acquisitions and tell us about your investment philosophy.

Mr. Amiri: Dash Acquisitions is an asset management firm based in Beverly Hills, Calif. We are value investors. Through our extensive research and analysis, we look to identify great businesses with sustainable long-term growth and profitability, and make investments for our clients only when opportunities with long-term returns and limited downside risk can be achieved. We define great businesses as those that have leading and enduring

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competitive advantages within their industries. These companies generate high returns on invested capital, are well positioned for growth and demonstrate strength in all economic environments. Accordingly, they have predictable streams of cash flows that exceed the capital they require to grow. As a result, they maintain solid balance sheets, making them attractive acquisition candidates.

TWST: Tell me about yourselves and how you got into the investment field.

Mr. Dash: Morris and I have known each other for over 20 years and have always been fascinated with business. Naturally from that fascination, we gravitated towards Wall Street and the investment management industry.

TWST: I read that since you were young, you've had a fascination with Warren Buffett and his investment strategy. Most kids idolize athletes or entertainers. What got you interested in investing at such a young age?

Mr. Dash: When I was young, I was a very entrepreneurial kid. In fact, I had started a few businesses by the age of 18. I had a gumball machine business, a vending machine company and a donut delivery business. So I was always out and about, trying to look for a way to make a buck out there. And at the age of about 16, I'd read a book called The Warren Buffett Way, which explained the investment philosophies of Warren Buffett. After reading that book, I knew that this is my calling. Everything that I was reading made a lot of sense to me from a business aspect, and I thought that this was a field that I wanted to be in. So there was definitely an attraction there.

Highlights

Jonathan Dash and Morris Amiri explain their views on the restaurant industry, which they entered because of its "easy-to-understand" business model and long-term potential growth. In addition to discussing their general investment philosophy, both Mr. Dash and Mr. Amiri explain what they look for in restaurant investments strong brands that have built up value for the past 15-20 years and are now selling at discounts. Both find the current environment to be prime for upside opportunity among restaurant chains, particularly for larger brands that may be able to take market share during this down cycle. Mr. Dash and Mr. Amiri explain their activist investment strategy in Denny's Corporation and what they foresee for the restaurant industry going forward. Companies include: Berkshire Hathaway (BRK-A, BRK-B); The Coca-Cola Company (KO) and Denny's Corporation (DENN).

Dash: We believe that by leaving a large margin of safety in any investment you're looking at, you're also significantly lowering the amount of risk associated with that particular investment.

TWST: Have you ever met Mr. Buffett in person?

Mr. Amiri: Yes, actually we've been going to the Berkshire Hathaway Annual Meeting of Shareholders in Nebraska for the last 15 years. We spend some time speaking with Warren each year, and it has made us all the wiser. We look forward to the trip every year.

TWST: How do you apply Warren's principles to your current portfolio?

Mr. Dash: Warren Buffett's main principle is always to leave yourself a margin of safety when making investments. And by using a margin of safety, an investor can prevent large investment losses in the case of any unforeseen changes within that business in the future. And that principle has served us well over time, as it has also served Warren very well, too. We believe that by leaving a large margin of safety in any investment you're looking at, you're also significantly lowering the amount of risk associated with that particular investment. For example, let's say that **Coca-Cola** (KO) falls from $80 to $40 per share. Most people, even analysts, listen to the headlines or plug in some type of beta formula to determine what course of action to take. Those headlines or formulas usually say **Coca-Cola** is extremely risky at this point in time because the trend or quarterly data suggests that. But right in line with our investment philosophy at Dash Acquisitions, **Coca-Cola** at $40 per share is now a lot less risky than it was when it was 80 bucks a share. If you stop and think about it for a minute, the risk in the investment decreases as the price falls. Most people invest emotionally and cannot make that distinction. And in the case of **Coca-Cola**, we have an opportunity to invest in one of the greatest businesses in the world at discount. So we look for deals like that, where we can purchase securities that are selling for distressed prices, where we think the asset value of the business or the free cash flow generation would be covered by the current price we're paying. And it has helped us to consistently outperform the markets over time.

TWST: Why has the restaurant industry been a focus for you? And to follow up, what types of stories do you look for in that industry?

Mr. Dash: The restaurant industry is one of many industries that we follow. We gravitated towards this industry because we're interested in industries where we think we could get a clear understanding of the operations of the business, how that industry is financed, what the competitive landscape is like and what we think it's going to look like 10, 15 or 20 years down the line. And with the restaurant industry, it's a simple, easy-to-understand business, and we think it has a lot of potential going forward. Also the restaurant industry has a lot of growth potential. There are still a lot of great chains out there that have a lot of room to grow. We also think people in general are going to be eating out more 10 years from now than they are today. We're looking for companies that have very strong brands that have been around for at least 15 or 20 years with some kind of brand value. Then when we can buy a great brand at a deep discount, that's when we load up the truck.

Sometimes you'll find a great brand that's being mismanaged because of a lack of leadership at the board level or the management team. Those are the types of deals we're looking for — when we can become an advocate for change in that particular business and unlock shareholder value.

Dash: We're looking for companies that have very strong brands that have been around for at least 15 or 20 years with some kind of brand value. Then when we can buy a great brand at a deep discount, that's when we load up the truck. Sometimes you'll find a great brand that's being mismanaged because of a lack of leadership at the board level or the management team.

1-Year Daily Chart of Coca-Cola

Chart provided by www.BigCharts.com

1-Year Daily Chart of Denny's

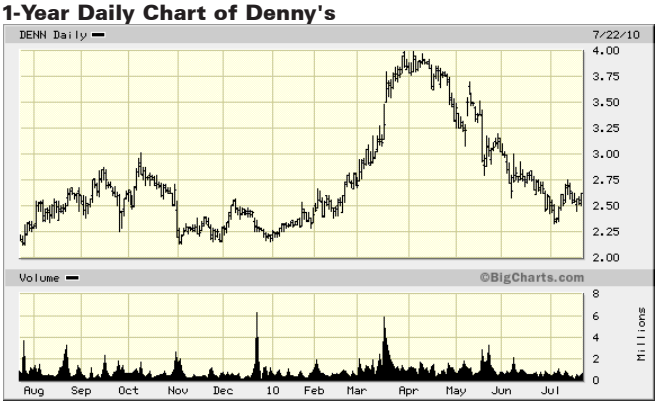

Chart provided by www.BigCharts.com

TWST: What do you see as the upside of the industry? What do you see as some of the risks?

Mr. Dash: We think, especially in the current economic environment, that there is a lot of opportunity for upside, particularly for some of the great brands to be able to take market share and grow through this down part of the cycle. And we think we'll be able to find a lot of good deals out there because a lot of valuations on these businesses have come down in the last few years, especially because of the lack of financing out there. This scenario actually exists in many industries right now.

Some of the inherent risks with the restaurant industry in general and especially going forward is going to be commodity inflation, where if the price of commodities go up dramatically, a lot of these restaurant companies are going to have to pass those increases on to the consumers. And there is only so much that they could raise prices before consumers start pulling back on their purchases. We had that in the early 1980s — there was huge inflation, and it really had an effect on the restaurant industry. But the strong survived, and they ended up flourishing and expanding soon after that.

TWST: How has the economic turmoil of recent years and now the potential economic recovery impacted restaurant stocks as you look forward?

Mr. Amiri: The current economic turmoil has definitely affected the restaurant industry a great deal. Same-store sales numbers and lower guest traffic counts have taken a toll on overall profits. Those numbers have all declined significantly over the past 24 months. It's no secret that consumer discretionary spending is down across the board. In spite of all of these obstacles, we think that some restaurant chains have actually reacted pretty intelligently, from both a marketing and pricing standpoint. They're offering their customers more affordable meals, a broader variety of menu options, and doing it all at more competitive prices. A lot of these brands have introduced new and improved promotions, such as dollar menus and others. So we think that going forward, this trend will continue. In today's economic climate, we don't think that people are willing to spend the way they used to, especially when it comes to dining out.

TWST: Tell me about your investment in Friendly's. I've heard it was a success story for Dash Acquisitions.

Mr. Dash: Yes, **Friendly's** is very well-known brand in the Northeast. It has over 500 locations. It's over 70 years old and was started by two entrepreneurial brothers with a cash investment of $500. They had grown the business over time into a great company that serves ice cream and also breakfast, lunch and dinner. We made our investment in the company back in 2006, and at that point in time, due to the lack of leadership at the company, the company's operating results had been over the prior five years. As a direct result, the stock price became cheap. They didn't have the right management team; they were wasting lots of money on expenses, and not focusing on their core products and promotions. And when there is a lack of focus on the customer, no matter how strong a brand is, you will ultimately see a decline in sales and guest traffic. So naturally, we saw this as an opportunity to get involved. We figured if this company had the right management team in place and a better strategy, a lot more value could be created. So as it turns out, we decided to make a significant investment in the company around August of 2006, and about 12 months later, there was a sale of the company to a private equity firm for approximately double what we paid for the business. Looks like they agreed with our assessment.

TWST: The media has described an activist investor in its coverage of Denny's, where you are an investor as well as a member of the committee to enhance Denny's. Would you elaborate on that situation?

Mr. Dash: Yes, we made an investment in the **Denny's Corporation** (DENN) because again, like **Friendly's**, **Denny's** was a brand that was iconic and well known. It's over 50 years old. It generates $2.5 billion in systemwide sales. It's in every state in the country, and it was founded by a gentleman named Harold Butler, an immigrant from overseas. He had built the company based on a few core philosophies — delivering quality service and quality food at a great price. And that was one of the reasons why **Denny's** had flourished and done so well. They opened stores all over the nation and even internationally, Puerto Rico, Japan, Canada and Mexico.

Over the last decade, there was a new management team put in place that was simply not performing or living up to that standard. And during the next 10 years, their food quality had severely declined, the stores weren't clean anymore, and the guest traffic and sales of the company started to go into a steep decline. We believe that one of the main reasons for that decline in traffic was the lack of oversight from the board. So as was the case with **Friendly's**, we made a sizable investment in **Denny's**. Our thought was that if there was a new leadership team put in place and if the board of directors held management more accountable than they had in the past, that there was a high probability that we could turn this company around. We felt that with the right leadership, this brand could become as strong as it once was.

And as a result of our investment in the company and our involvement, the board of directors is currently making changes to the management team. Now they're looking for a new chief operating officer, a new chief marketing officer and also just started a search for a new chief executive officer, and they're also reviewing the strategic direction of the company going forward. And we think our involvement with the company and having a proactive approach, as we do, has created this new direction for the company.

TWST: What are the two or three best reasons for a long-term investor to look closely at Dash Acquisitions?

Mr. Amiri: Our proactive approach has enabled us to generate substantial investment returns for our investors while maintaining quite a low level of risk. We also have a proven investment philosophy that has withstood the test of time. Since our inception, we have dramatically outperformed the markets and look forward to continuing to do over time.

TWST: Thank you. (MJW)

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