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BOULDER BRANDS | BDBD

INVESTMENT RESEARCH REPORT

"A Rock in Peril"

RECOMMENDATION: *Strong Sell*

PRESCIENCE POINT
RESEARCH GROUP

February 26, 2013

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Boulder Brands, Inc. | Nasdaq: BDBD

*We believe shares of **Boulder Brands** (Nasdaq: BDBD or "Boulder") are grossly overvalued, perilously levered and poised to collapse by as much as 70%. Boulder, formerly known as Smart Balance, has had a troubled history since coming public through a reverse takeover in 2007. It has failed to extract any value from the languishing Smart Balance brand, whose key patents are due to expire in 2015 (likely to result in a steep deterioration in Boulder's revenue and ability to service debt, and not being anticipated by the analyst community). Boulder has levered the company's future on two acquisitions (Glutino and Udi's) in the gluten-free product category. Boulder drastically overpaid for these low growth brands, and sold the Street on deserving a valuation closer to that of higher growth organic peers. Having shamefully misled investors, we believe the company may be orchestrating a cover-up of its financial problems by manipulating its revenue recognition through repeated changes in accounting method and disclosure language. Other red flags include 3 directors resigning in Sept 2011 following the Glutino acquisition, the abrupt resignation of its CFO shortly afterward, and the inclusion of a "clawback" provision in the event of a financial restatement. With few options remaining, management doubled down on another bad deal (Udi's) in 2012, recently reduced its segment reporting transparency, changed its corporate name, and filed a universal shelf giving it flexibility to dilute shareholders. **We believe Boulder's stock has an intrinsic value today of $4.00 per share, ~70% below current trading levels.***

Research Highlights

Conclusion:	Strong Sell
Current Price:	$12.50
Price Target:	$4.00
Downside:	68%
Ticker:	BDBD
Exchange:	Nasdaq
Basic shares o/s	59.5
Options/RSUs	2.7
Fully Dil. Shares	62.2
Market Cap:	$777.2
Unrestricted Cash:	$4.6
Current Debt:	$243.5
Enterprise Value:	$1,016.5

Fiscal Year Ended December 31,
$ in millions

Street Est.	**2012E**	**2013E**	**2014E**
Sales	$369	$454	$525
Adj. EBITDA	$47	$70	$85
Adj. EPS	$0.19	$0.32	$0.50

Valuation	**2012E**	**2013E**	**2014E**
EV/Sales	2.8x	2.2x	1.9x
EV/EBITDA	21.5x	14.6x	12.0x
P/EPS	65.8x	39.1x	25.0x
P/Tg. Book	NM		

Boulder's Management Has a History of Over-Promising and Under-Delivering to Shareholders

- We have traced Boulder's management team through history and have found what we believe to be a troubling pattern of promises of dramatic earnings growth to investors, but repeatedly failing to deliver
- Management raised $100m through a SPAC in 2007 and among 165 deals evaluated, found Smart Balance through an inbound call, and estimated it would achieve $500m in sales and $100m of EBITDA as a base case by 2011. By 2010, having only achieved $242m of sales and $33m of EBITDA and fighting a brutal price war with larger competitors, Boulder took a $130m goodwill impairment charge

Boulder's Recent Move into Gluten-Free Products Is Not Working and it Appears to be Concealing its Problems

- Facing the reality of declining growth prospects for the Smart Balance brand (Earth Balance too), management bet the company's future on the gluten-free diet fad by acquiring Glutino (Aug '11) and Udi's (May '12) for $66m and $125m, respectively. Our channel checks indicate Boulder vastly overpaid for these businesses, and has misguided investors about their market potential and growth rates
- Shortly after acquiring Glutino, 3 directors and the CFO abruptly resigned citing "disregard for corporate governance best practices and acceptance of business and stock price underperformance."
- Troubles are surfacing: the company missed its 3Q'12 earnings, is growing inventories and receivables much faster than revenues, and announced a segment reorg to give investors less transparency to the gluten-free and Earth Balance businesses – we believe that management may be orchestrating a major cover-up

Boulder's Financial Flexibility is Limited by a Load of Debt and Tight Covenants > Dilution is Highly Possible

- Boulder dramatically levered its balance sheet with its acquisitions, rendering its Net Debt to EBITDA at close to 4.5x. The company is using its limited cash flows from its no-growth Smart Balance business to invest in the gluten-free business, but the strategy leaves no room for mistakes. Smart Balance patents are due to expire in 2015, which could utterly decimate the business, if it doesn't fail much sooner
- The company could come under covenant pressure related to its Funded Debt/EBITDA and EBITDA/interest coverage ratios if it cannot grow EBITDA. Discretionary cash flow to pay down debt appears limited. For example, Boulder only generated $2.9m of FCF in the LTM 9/30/12 period and has just $4.7m of unrestricted cash to service a debt burden of $243m. The fragile nature of its credit situation is reflected in an S&P/Moody's corporate rating of B+/B1. With an open universal shelf, and a constrained financial profile, we would not be surprised to see Boulder dilute shareholders with an equity offering

Sell-Side Analysts Have Given Boulder Too Much Credit as a High Growth, Best-of-Breed Natural Foods Company

- We believe that Boulder's equity market valuation is at extreme odds with its tenuous financial position. The company has convinced analysts that 2013 revenues and earnings will surge by 23% and 68%, respectively. Analysts have given Boulder the benefit of perfect execution, despite prior disappointments
- Street analysts are arguing that Boulder should be re-rated closer to organic peers, yet Boulder's stock is trading close to 40x 2013E Adj. EPS, a multiple 13x higher than peer averages. Currently priced for perfection, Boulder's stock price offers new investors little upside, with numerous risks that could decimate shareholders

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Executive Summary

We believe shares of **Boulder Brands** (Nasdaq: BDBD or "Boulder") are grossly overvalued, perilously levered and poised to collapse by as much as 70%. Boulder, formerly known as Smart Balance, has had a troubled history since coming public through a reverse takeover in 2007. It has failed to extract any value from the languishing Smart Balance brand, whose key patents are due to expire in 2015 (likely to result in a steep deterioration in Boulder's revenue and ability to service debt, and not being anticipated by the analyst community). Boulder has levered the company's future on two acquisitions (Glutino and Udi's) in the gluten-free product category. Boulder drastically overpaid for these low growth brands, and sold the Street on deserving a valuation closer to that of higher growth organic peers. Having shamefully misled investors, we believe the company may be orchestrating a cover-up of its financial problems by manipulating its revenue recognition through repeated changes in accounting method and disclosure language. Other red flags include three directors resigning in Sept 2011 following the Glutino acquisition, the abrupt resignation of its CFO shortly afterward, and the inclusion of a "clawback" provision in the event of a financial restatement. With few options remaining, management doubled down on another bad deal (Udi's) in 2012, recently reduced its segment reporting transparency, changed its corporate name, and filed a universal shelf giving it flexibility to dilute shareholders.

Red flag warning signs of problems on the horizon – If history is any guide to the future, Boulder will face a monumental challenge in reorienting its business in a desperate fight for survival. We have meticulously tracked the history of Boulder's management, and have found a troubling trail of failure. Now, with a final chance to forestall its declining core business, Boulder has bet the house on the rapidly maturing and competitive gluten-free market. Our report will detail the following issues:

- Its history as a SPAC and initial foray into the Smart Balance business, which management promised over and over again would deliver dramatic sales and earnings growth, but led to incredible losses for shareholders. The key patents protecting Boulder's core Smart and Earth Balance brands expire in 2015. We believe Boulder's future is keyed to this IP, negating its prospects to a potential strategic acquirer. We believe the market is not anticipating the likely fallout and accelerating decline of Smart Balance.
- A recent patent infringement suit filed against Unilever has revealed evidence indicating Boulder's patents even today are vulnerable, impairing its ability to defend its core IP in the future.
- Its latest move into the gluten-free market appears to be a last ditch effort to ignite growth, but Boulder drastically overpaid and overpromised the opportunity to investors. We present evidence of a rapidly maturing gluten-free market opportunity, which stands in contrast to management's representation of blue sky potential.
- At least some of Boulder's own directors saw the smoke before the fire, with not 1, not 2, but three directors resigning shortly after the acquisition of Glutino in 2011. One bad deal didn't stop Boulder from another, and in 2012 they acquired Udi's Gluten Free for $125m. Yet again, we believe Boulder dramatically overpaid for this business under false premises and a flawed strategic rationale. Our channel checks show increasing competition and price discounting to dispel the bull case.
- Even after their Q3'12 earnings disappointment, we believe Boulder's financial condition is showing signs of deteriorating. Management appears to have obscured its financial reporting by creating new business segments to hide individual brand problems, and has effected a name change. Moreover, there have been numerous changes to its revenue recognition language that should be viewed as a red flag. More recently, the company has granted a flurry of equity options to rank and file employees, in what appears to be an attempt to forestall employee defections.
- Boulder has limited financial flexibility - the company is saddled with $243m of debt and free cash flow that appears to be shrinking. At ~4.5x Net Debt/EBITDA, there is no margin for error. As a single B rated credit, the slightest whiff of a downgrade, or covenant pressure could tip the company into financial despair.
- Sell-side analysts have convinced investors to focus on Boulder's "transformation" into a high growth organic company, re-rate them with a higher multiple, and to ignore any of the risks associated with management's strategy, execution, or financial leverage. We will show that Boulder has even used cozy ties to the analyst community to persuade analysts that it deserves to be a "Top Pick for 2013." Analysts are also likely posturing for a piece of fee pool from a capital raise (likely to be equity) that could happen at any moment as indicated by Boulder's recently filed universal shelf filing.
- Boulder's valuation has become stretched beyond reasonableness and is priced for perfection, despite the obvious warning signs. Some early investors such as Adage Capital are already dumping shares, while management also shows signs of quickly cashing in exercisable options.

We believe Boulder must execute flawlessly in the next 12 months or risk a covenant breach, which would materially harm its stock price. We believe Boulder's stock has an intrinsic value today of $4.00 per share, ~70% below current trading levels.

Boulder's Core Business Could Disappear Fast

Brief Background

Boulder Brands began as a special purpose acquisition corporation ("SPAC") headed by food industry veteran Steve Hughes. In 2007, Boulder acquired GFA Holdings, owner of the Smart Balance and Earth Balance lines of heart healthy foods. These lines' primary products are margarine spreads that are produced using a proprietary licensed, patented technology to be free of trans-fats and enhance good-to-bad cholesterol ratios. The effect of enhancing consumers' cholesterol ratios results in significant health benefits.

Brandeis University licensed this technology – which relates to using a balanced proportion of saturated and polyunsaturated fatty acids from one or more vegetable oil sources for incorporation in food products to increase HDL and HDL/LDL cholesterol ratio – to GFA in 1996. Boulder Brands assumed the agreement with Brandeis, providing it with a long-term, exclusive license to a number of patents until they expire.

The Smart Balance brand rode the trans-fat-free wave of the 2000s to become one of the fastest growing packaged food companies in the US, with its market share in the margarine category rising from 5.1% in 2003 to a peak of 15.3% in 2010. Over the past two years, however, Smart Balance has exhibited signs of a business in slow and steady decline, as overall demand for margarine spread has waned and competition has intensified. But Boulder has a much more pressing issue on its plate.

At ~4.5x Total Funded Debt to EBITDA, Boulder today is as highly leveraged as it has ever been. It is highly dependent on cash generated from the Smart Balance (~52% of Sale and >60% of EBIT) and Earth Balance (~10% of revenue) businesses to service this debt. But both of these revenue streams are in jeopardy, and are likely to unravel when Boulder's key set of patents expire.

The Smart Balance and Earth Balance Patents Expire in April 2015

Boulder is faced with the looming expiration of the key set of patents that prevent others from selling HDL-raising margarine spreads, which the Smart Balance and Earth Balance businesses have relied upon since 1996.

Management has made no comments to address the issue, but they are clearly aware of it, based on their shift in business strategy. Not a single analyst covering Boulder has written a word pertaining to its patents. The ratings agencies also seem to have failed in considering the matter.

Boulder will no longer be able to rely on its family of Smart Balance and Earth Balance patents as of April 7, 2015, when they expire. Each of Patent No. 5,578,334, Patent No. 5,843,497, Patent No. 5,874,117, Patent No. 6,630,192, and Patent No. 7,229,653 is set to expire on that date. Any aspect of the process for using a balanced proportion of saturated and polyunsaturated fatty acids from one or more vegetable sources for incorporation in food products to increase HDL and the HDL/LDL cholesterol ratio revealed in any of the patents on that date falls into the public domain.

Valuable IP is the Primary Driver Behind Smart Balance's Success

> *With 13.5% market share, Smart Balance sits behind those two Unilever brands (I Can't Believe It's Not Butter and Shedd's Spread) as the No. 3 player in margarine, a $1.2 billion retail category. While it's not the biggest brand in margarine, Smart Balance has an edge on its rivals in that it's made with a patented blend of vegetable and fruit oils that has been shown to raise levels of HDL, or "good" cholesterol, which can help improve consumers' cholesterol levels. The blending process … is licensed exclusively to Smart Balance. According to the American Heart Association, roughly 100 million Americans have elevated levels of cholesterol. And it's likely that many of them have chosen to stock Smart Balance in their refrigerators, as its sales have skyrocketed since its launch in 1997 while sales for the margarine category overall have stagnated.*[1]

[1] Boyle, Matthew, "Food's Next Billion-Dollar Brand?", *Fortune Magazine*, 04 June 2008.

Smart Balance spread is one of the very few products of its type with a patent-protected, legitimate benefit claim; this explains its emergence from obscurity and years of growth and market share gains against much bigger incumbents even while the broader market for its products was stagnating, and all with limited managerial and financial resources (under GFA's ownership). [2]

The company understands the value – and importance to its market position – of its patents and defends them vigorously, having filed suit against many a company for infringement. The outcome of its most recent suit, however, calls to question the very validity of the existing patents.

On October 14, 2012, Boulder (through Brandeis University) filed suit against Unilever (the dominant player in its space), claiming Unilever's Promise Buttery Spread and I Can't Believe It's Not Butter Light products infringe on its patents. Unilever fired back with a denial of wrongdoing and forceful challenge of the validity of Boulder's patent with **very strong evidence of prior art**. On Unilever's response, Boulder appears to have folded and, on November 16, 2012, filed to dismiss the case, potentially to prevent Unilever from killing the patent. The evidence Unilever has presented indicates that Boulder's patents are vulnerable, and is likely to impair Boulder's ability to defend its intellectual property in the future.

In sum, the expiration of Boulder's patents is likely to be a very impactful, negative event in the company's history; but, even today, it appears Boulder is hanging on to its exclusive right to its technology by a thread.

Primary Revenue Streams and Ability to Service Debt at High Risk of Unraveling

Smart Balance and Earth Balance do not operate in highly regulated industries. Once the patents protecting Boulder's products expire, the market is likely to get flooded with competing products that make identical benefit claims. Competitors will be free to develop their own, improved versions of this spread, taking the core concepts from these patents and incorporating their own modifications. Major retailers are likely to want to private label their own 'like' spreads; and well-capitalized incumbents – many of whom Boulder has sued in the past for patent infringement – could step in and churn out similar premium spreads at much lower costs.

We believe that for Boulder everything is keyed to this intellectual property, including the company's prospects for being acquired by any strategic partner.

Marketing around Smart Balance's unique benefit claim has been essential to the success of its spreads, but marketing alone will not suffice. Boulder will lose its ability to monopoly price HDL-raising margarine products in 2015, the effect being that its market share and profit margins are likely to severely contract over time, along with its ability to service its debt.

Despite management's silence about the pending patent expirations, we believe they embarked on a high-risk, debt-fueled acquisition spree to quickly diversify Boulder's revenue streams for this very reason, in anticipation of an unraveling of the Smart Balance and Earth Balance businesses. We also believe they are leading investors on a path toward great financial losses.

[2] Aaron, Edward, "Smart Balance, Inc.: Initiating Coverage with Top Pick Rating," RBC Capital Markets Equity Research, 26 Nov. 2012.

Boulder's Latest Growth Story is a Fairy Tale Destined to Fail

As its core Smart Balance business continues to decline, management has moved to kick-start growth and has taken the company in a radical new direction – enter gluten-free. The gluten-free thesis, much like the original Smart Balance thesis, is being positioned as an open-ended growth story.

First Leveraged Failure: The Glutino Acquisition

In August 2011, Boulder announced it had acquired Glutino Food Group for $66.3mm. The all-cash deal, funded by incremental debt, would add Glutino's brands and manufacturing facilities in Quebec to Boulder's business, and was stated to be "*an accretive deal in the next 12 months*." Glutino's annual sales of $53.9 million during the fiscal year ended March 2011 implied an EV/Sales multiple of just 1.2x for a supposed *"#1 Brand in a Rapidly Growing Gluten-Free Category*."

A quality, high growth healthy foods company could have justified a sales multiple of 2-3x. Boulder's claim that Glutino is a fast growing and highly sought after company seems like a specious claim in light of the low multiple it fetched, unless – as we suspect – its best days were behind it.

Recent M&A in Health/Organic Food Products

figures in millions

Date	Acquiror	Target	Products	Ent. Value	LTM Sales	EV / LTM Sales	EV / Proj Sales
1/16/2013	Post Holdings	Attune Foods	Organic Cereals	--	$15.0	--	--
9/5/2012	Snyder's (1)	Pretzel Crisps	Healthy Pretzels	$280.0	--	--	1.8x
3/12/2012	Dole	Mrs May's Naturals	Fruit/Nut Snacks	$15.0	$16.0	0.9x	--
3/20/2012	TreeHouse Foods	Naturally Fresh	Healthy Dressings	$25.0	$80.0	0.3x	--
10/25/2011	Hain Celestial	Daniels Group (UK)	Chilled Foods	$230.0	$280.0	0.8x	--
9/25/2008	Nestle	Mediterranean Foods	Hummus/Organics	$57.0	$25.6	2.2x	1.8x
6/10/2008	General Mills	Larabar	Healthy Bars	$55.0	$20.0	2.8x	--
			Average:	**$110.3**	**$72.8**	**1.4x**	**1.8x**

(1) Deal value net of $60m NPV of future tax benefits
Source: Public Information

In announcing the acquisition, CEO Stephen Hughes stated,

> *"Glutino has increased its sales approximately 30% annually over the past three years, and we are confident about its growth prospects and contribution to Smart Balance. The demand for gluten-free products is significant, and is now a category of over $2 billion in retail sales. We are bullish on the continuation of the category's 10% compound annual growth rate due to increased awareness and diagnosis of gluten-induced ailments, including celiac disease, gluten intolerance and wheat allergies."*

(As explained later in this report, Hughes' reference to a $2bn category size in his investor communications is misleading. The market opportunity available to a 'specialty' gluten-free item producer such as Glutino is a subsection – a fraction – of this category size.)

Inexplicably, it seems Glutino's growth rate has already slowed markedly. Consider that in Q1'12, Boulder's earnings release stated that Glutino's sales were $15.2m and increased 4.1% year-over-year, implying Q1'11 sales of $14.6m. Then in Q2'12, Boulder's earnings release stated that Glutino's sales were $15.9m and increased 31% year-over-year; oddly the corresponding Q2'12 10-Q indicated that Glutino sales were $15.2m, a variance of 5%.[3] **This indicates that Glutino saw absolutely no growth from Q1 to Q2**.

Even more troubling, Glutino's sales appear to have plummeted in the quarter prior to the acquisition, just as Boulder was touting its great growth prospects. By discounting Glutino's Q1 and Q2'2012 results with the y-o-y growth rates indicated above (4.1% and 31%), we estimate that Q1 and Q2'2011 results were $14.6m and $11.6m, respectively. This implies that from Q1 to Q2'2011, Glutino sales fell 20.6% sequentially. According to our research, management has never disclosed this precipitous sales decline to investors.

Boulder's Quarterly Revenues

$ In millions

	Fiscal Year 2011					Fiscal Year 2012				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	YTD
Glutino	$14.6	$11.6	$12.9	$14.9	$54.1	$15.2	$15.2			$30.4
QoQ growth	--	*-20.6%*	*11.5%*	*15.6%*	--	*1.7%*	*0.0%*	**No Further Disclsoure**		--
Butter Spreads	$43.0	$41.3	$45.9	$39.9	$170.1	$44.4	$43.3	**Due to Segment Reorg**		$87.7
QoQ growth	*-4.8%*	*-3.9%*	*11.0%*	*-13.0%*	--	*11.3%*	*-2.5%*			
Total Net Sales	$59.7	$59.0	$71.7	$83.9	$274.3	$79.3	$76.0	$101.3	--	$256.6
QoQ growth	*-5%*	*-1.2%*	*21.4%*	*17.1%*	--	*-5.5%*	*-4.2%*	*33.4%*	--	--

Note: Q1/Q2 2011 Glutino sales are pre-acquisition and implied from year-over-year 2012 growth figures provided by mgmt
Q3 2012 is also pre-acquisition plus 27 days post acquisition 8/4/11
Q1/Q2 2011 Net sales exclude Glutino; Q3 2011 includes 27 days of Glutino acquired 8/4/11
Q3 2012 includes the acquisition of Udi's

Furthermore, Glutino likely had internal control issues prior to the acquisition that persist to this day and that, according to our research, were also never disclosed, as noted in Boulder's 2011 10-K:

> *"In making our assessment of disclosure controls and procedures and of changes in internal control over financial reporting as of December 31, 2011, we have excluded the operations of Glutino. We are currently assessing the control environment of this acquired business."*

Management may have intentionally withheld material information necessary for investors to fully evaluate the Glutino acquisition. We believe that investors and the SEC should demand greater disclosure about the Glutino acquisition.

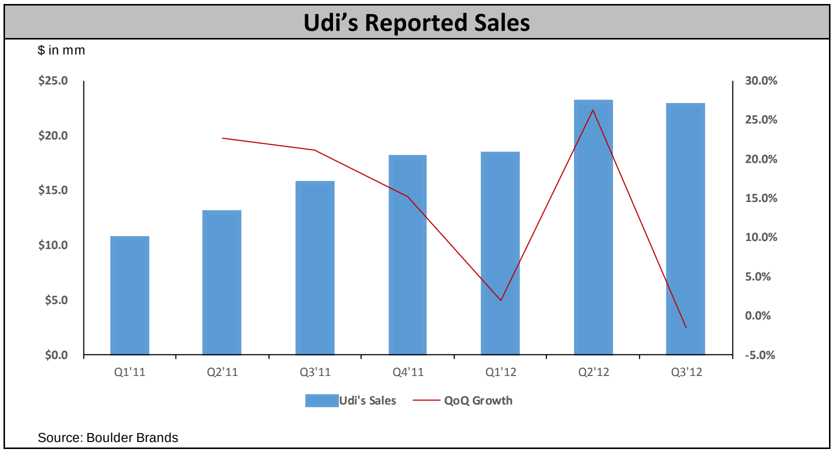
It is no wonder that three of Boulder's directors and its CFO resigned within a few months of this deal. The three directors resigned on September 21, 2011, citing among other things "*the Board's disregard for Corporate Governance Best Practices and acceptance of business and stock price underperformance*" and "*growing concerns…in regard to our Shareholders and our accountability*." CFO Alan Gever later "stepped down" on December 21, 2011, which we will explore in greater detail later in the report.

Second Leveraged Failure: The Udi's Acquisition

On May 31, 2012, Boulder announced it had agreed to pay $125 million ($103 million net of $22 million in future tax benefits) for Udi's Healthy Foods. The announcement claimed Udi's was a "*Leading Brand*" that would "*diversify*" and "*accelerate growth*" in Boulder's business. With $60.9 million of sales as of March 2012, the deal valued Udi's at approximately 1.4x revenues, a multiple we again note that is not indicative of a fast growing, highly profitable enterprise. Udi's was sold via competitive auction; based on our research, numerous, well-funded private equity players passed on the deal, as they could not see the growth opportunity in light of the price.

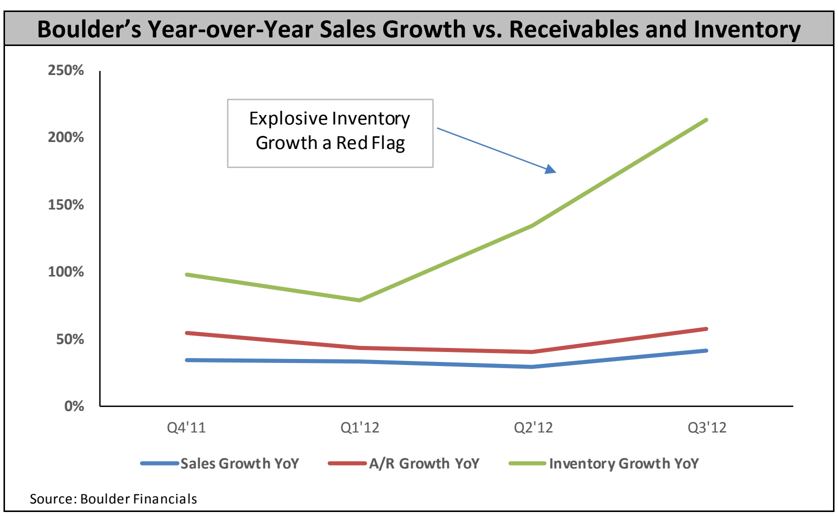
[3] Q2'2012 10-Q: "Glutino's net sales constitute approximately 20% and 19% of our net sales for the three and six months ended June 30, 2012." Working out 20% of $76.0 million of consolidated net sales equals $15.2 million of Glutino sales.

Based on our research, Udi's growth has already stalled since Boulder's acquisition of the company. In fact, Udi's Q3 2012 sales were down from Q2 2012 according to the company.



We believe the weakness persisted into Q4 2012. Our sources indicate mass market grocery retail sales were down from September. We also believe Udi's November sales, a big month for grocery due to Thanksgiving, were up not more than 1% from September. In December – another high volume period for grocery – Udi's sales continued to languish. The results are disappointing in light of Udi's having introduced five new products at the end of Q3 (plain tortillas, two types of bagels, and two types of muffins).[4]

Overall, we believe Boulder's financial struggles can be seen best by the following chart, which indicates inventory growth is ballooning, and accounts receivable are also growing at a much faster rate than reported sales. The chart shows year-over-year growth since the closing of the Glutino deal in 2011. Recently, the media reported that Wal-Mart described February sales a "Total Disaster" and the worst monthly start since 2006. Sadly, we note that Wal-Mart accounted for 18% of Boulder's sales during fiscal year 2011, which suggests Boulder's sales are likely continuing to struggle into 2013.



The Gluten-Free Market Appears to be Maturing

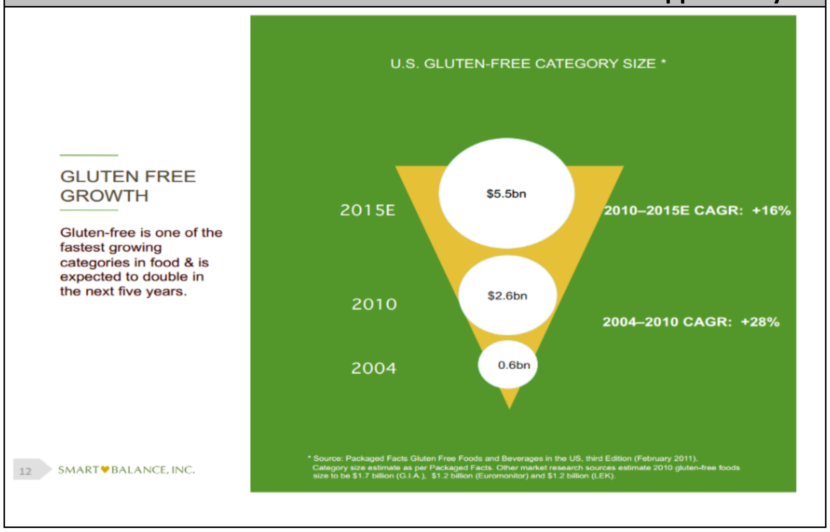
The size of the gluten-free market can be measured in various ways. Not surprisingly, Boulder management has adopted the most aggressive measure in its presentations before investors; we believe it is so aggressive that it is meaningless in gauging the market opportunity for "specialty" gluten-free product manufacturers (e.g. Glutino and Udi's). Boulder uses Packaged Facts' gluten-free market-

[4] "Udi's Gluten-free Foods Unveils Five New Items at Natural Products Expo East," *PR Newswire*, 20 Sept. 2012.

size estimates which are all-encompassing: They include any product labeled "gluten-free," regardless of whether the item is specialty-manufactured to be gluten-free (i.e. products that have been specially formulated for consumers following a gluten-free diet), is naturally gluten-free (e.g. bottled water, fresh fruits, vegetables, etc.) or has always been made without gluten. (According to *The New York Times* in October 2011, "General Mills… put labels on more than 300 products already made without gluten, (and) reformulated the recipes of five Chex cereals."[5]) Due to the broadness of this measure, it is irrelevant to investors assessing the market opportunity for specialty gluten-free product manufacturers.

Packaged Facts estimates the market for gluten-free foods and beverages in 2012 was $4.2 billion and grew at an annual rate of 28% over the last five years. Packaged Facts expects the gluten-free market to reach $6.6 billion by 2017, implying a slowing of the growth rate to 9.46%.[6] Packaged Facts' numbers are inappropriate for use in evaluating specialty gluten-free item producers, like Glutino and Udi's, as their estimates would wildly inflate the size of their market-opportunity.

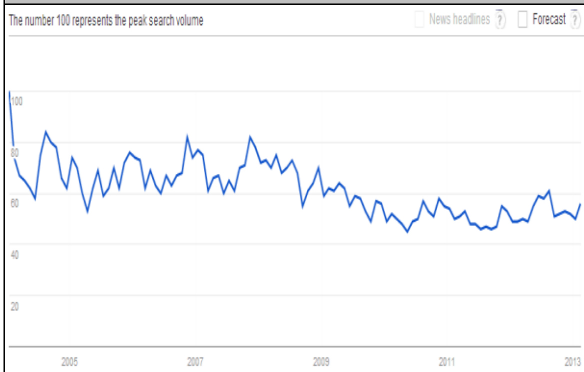
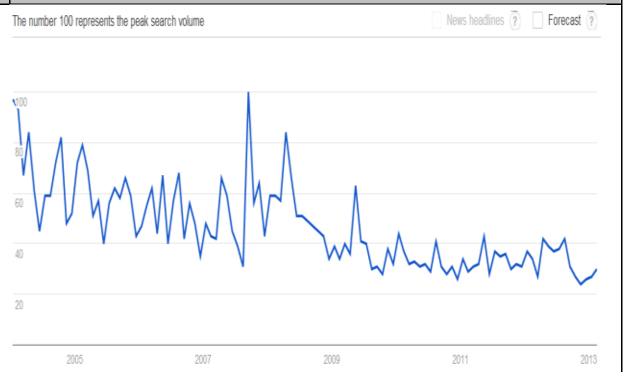
Boulder's View of the Gluten-Free Market Inflates the Opportunity



More relevant for this purpose, a May 2011 ConAgra Mills report pegged the "specialty" gluten-free market (e.g. Glutino and Udi's), at just $481 million.[7] In fact, Boulder's CFO Christine Sacco told investors at a meeting in January 2013 that Boulder estimates the gluten-free market is $400 to $500 million. (Various sell-side analyst's estimate the market at anywhere from $500 million - $1 billion to as high as $6.1 billion, depending on how it is sliced.)

Regardless of how the gluten-free market is measured, gluten-free as a movement seems to have turned a corner. According to a December 2012 analysis from Sloan Trends, "*the gluten-free market has peaked… Within the past two years, it has failed to attract new users*."[8] Citing Packaged Facts, Sloan said only 18% of consumers had purchased a gluten-free food or beverage in the past three months, up just 3% from 2010.[9] Information provided from Google Trends® also confirms our suspicion that the gluten-free movement may be mature, and potentially in decline. A search for the terms "gluten-free" and "gluten-free diet" reveals a stagnation and decline in search frequency.

[5] O'Brien, Keith, "Should We All Go Gluten-Free?," *The New York Times*, 25 Nov. 2011.
[6] http://www.packagedfacts.com/about/release.asp?id=3033
[7] Wulf, Jennifer, "Feeling Good about Gluten-Free: Meeting Celiac Needs for Taste and Nutrition: The Gluten-free Specialty Market," *ConAgra Mills® Consumer Insights*, May 2011.
[8] Sloan, A. Elizabeth, "Getting Ahead of the Curve: Gluten-Free," *Sloan Trends*, Dec. 2012.
[9] Ibid.

Google Trends for "Gluten-Free"	Google Trends for "Gluten-Free Diet"
	
Source: Google Trends	

Moreover, the percentage of people buying gluten-free foods for key motivations is falling. Those purchasing gluten-free because they believe it is healthier fell to 35% in 2012 from 46% in 2010. Those purchasing gluten-free due to a perception of higher quality fell to 18% from 24% in 2010. The number of people buying gluten-free for weight loss fell to 27% in 2012 from 30% in 2010.[10]

At the same time, negative perceptions are on the rise. The percentage of all consumers who think gluten-free is a gimmick doubled to 24% in 2012, up from 11% in 2010. The number of users complaining that gluten-free foods are too expensive doubled to 55% from 2010. One in five think gluten-free is a fad.[11] Finally, Sloan adds, according to a 2011 Gallup poll, there is a growing group of consumers who suffer from gastro-intestinal issues who had tried gluten-free but are now abandoning it.[12]

The medical establishment has also failed to fully embrace the notion that a gluten-free diet will benefit the average consumer. Experts from Harvard Medical School recently weighed in on the diet trend. "*People who are sensitive to gluten may feel better, but a larger portion will derive no significant benefit from the practice. They'll simply waste their money, because these products are expensive*," says Dr. Leffler, who is also an assistant professor of medicine at Harvard Medical School.

Intensifying Competitive Landscape in the Gluten-Free Market; Entry of Well-Capitalized Incumbents

Prescience Point, through extensive feet-on-the-ground nationwide store visits and proprietary research, believes that the gluten-free category is ancillary within the Natural Foods segment and a very sub-marginal section of the retail food industry throughout the United States. Furthermore, the product category appears to be getting saturated with a proliferation of new entrants, many of which are well-capitalized incumbents. General Mills (NYSE: GIS), Snyder-Lance (Nasdaq: LNCE), Post (NYSE: POST), Kellogg's (NYSE: K), Campbell's Soup (NYSE: CPB), and Heinz (NYSE: HNZ) have forayed into the gluten-free category.

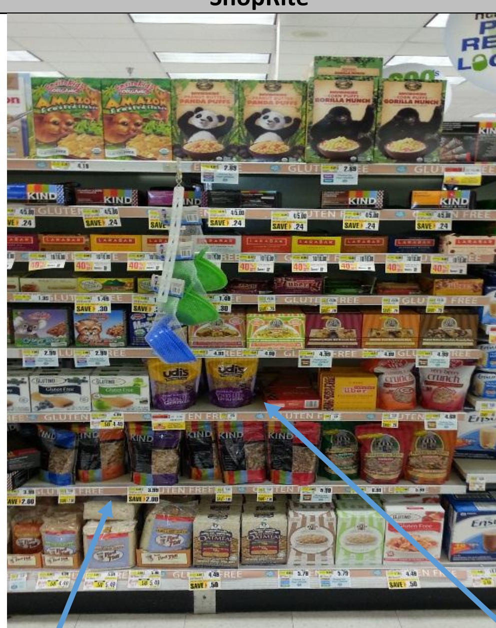
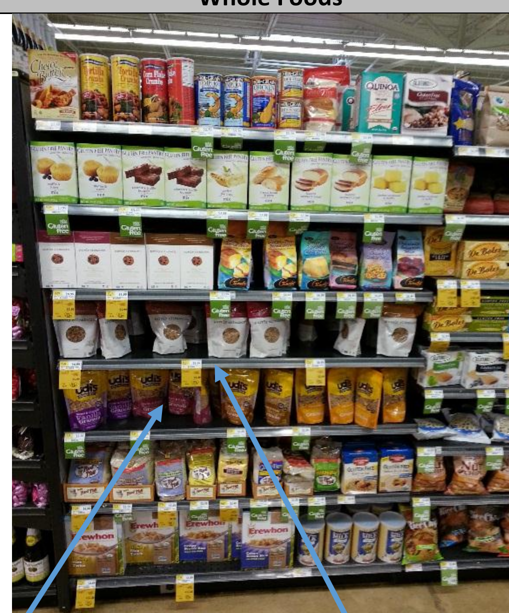
Betty Crocker – General Mills	Snyder's Pretzels	Post and Kellogg's Cereals
		

10 Ibid.
11 Ibid.
12 Ibid.

Campbell's Gluten-Free Soup	General Mills Gluten-Free Soup	Heinz's Gluten-Free
		

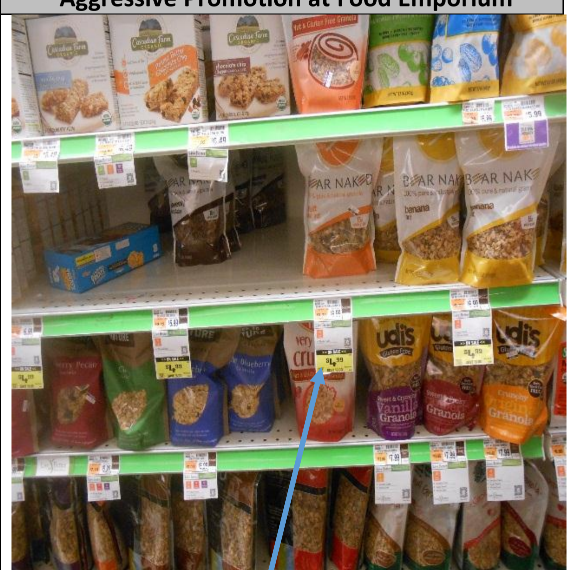
Appendix I consists of a table compiled of over 80 brands we encountered with gluten-free marked products on store shelves. This list is based on our checks and likely understates the actual number of competitors that have entered the space.

We paid careful attention to studying gluten-free manufacturers' product placements. As exemplified by the pictures below, Udi's is facing intense competition, particularly in its granola product line. We observed products near-identical to Udi's, which are being price-promoted. In the instance pictured below, Kind Granola is being offered at $2.00 less than Udi's across all varieties. At Whole Foods, Simply Elizabeth™ had better placement, offered above Udi's, and was also being price discounted. In general, we found the Schar brand to be the category leader, with aisle end product displays, and a strong product assortment. The frozen foods category is also hyper-competitive, with evidence of price discounting in the bread and specialty products section.

ShopRite	Whole Foods
	

Kind granola @ $2 off promo/More SKUs than Udi's **Udi's** **Simply Elizabeth Featured w/Promo**

Rapidly Saturated Product Category	Schar's Aggressive Promotion at Wegman's
	

Bread Promotions Too	Aggressive Promotion at Food Emporium
	

Enjoy Life bread given center product placement on sale ($2 less)   Naked Granola being purchased on sale $4.99 vs. $7.99 for Udi's

Rudi's Cheaper Than Udi's

Price Warfare in the Frozen Section

Why Buy Udi's When You Can Buy Rudi's For Less!	Van's Already Dominates the Frozen Section, and is Still Price Cutting

Amy's Gluten-Free on Sale

Gluten-Free Omlette on Sale

The Frozen Food section across major supermarkets has been cluttered with gluten-free options being aggressively price promoted

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Boulder is Over-levered, Leaving No Margin For Error

"You will be impressed -- everybody will be impressed how fast this deleverages." – CEO Hughes responding to an Analyst on the Udi's M&A Call, June 1, 2012

Boulder Has Limited Financial Flexibility

Boulder's equity investors may take interest in an objective view on the company's leverage by reading the following commentary by S&P and Moody's, which rated Boulder's corporate credit deeply in the junk category at B+/B1, respectively.

> *"The ratings on Smart Balance reflect our view that it has an "aggressive" financial risk profile and a "vulnerable" business risk profile. Key credit factors in our business risk assessment include the company's narrow product focus, customer and supplier concentration, and small size relative to its financially stronger and larger competitors." -- S&P June 2012*

> *"There is limited upward pressure on the rating given the company's limited scale in a competitive marketplace and niche product offering...Downward ratings pressure could build if the company's credit metrics weaken, if liquidity becomes constrained, or if the company engages in any material debt funded acquisitions that increase leverage above 5x for a sustained period. Other considerations that could drive the rating down would be EBIT margins deteriorating meaningfully for a sustained period or any material product recalls or supply chain issues that fundamentally weaken its brand equity." – Moody's June 2012*

In the table below, we illustrate Boulder's current capital structure. At 4.5x Total Funded Debt to EBITDA, Boulder has limited breathing room from its current 5.0x covenant level. The company has minimal cash on the balance sheet, and only $36m of revolver borrowing capacity. In light of the company's recent struggles to generate cash from operations, we believe Boulder's equity value is at risk of impairment.

$ in millions except per share amts.

Stock Price	$12.50
Shares outstanding	59.5
Options @ $7.6 strike	3.9
RSUs outstanding	1.2
Fully Dil. Shares	62.2
Market Cap.	**$777.7**

Metrics	**LTM**	**2012E**	**2013E**	**2014E**
EV/Sales	3.0x	2.8x	2.2x	1.9x
EV/EBITDA	20.7x	21.5x	14.6x	12.0x
Price/EPS	312.5x	65.8x	39.1x	25.0x
Debt/EBITDA(1)	4.4x			

Debt	**Outstanding**	**Int Rate**	**Maturity**	**Fees**	**Unused**	**Current Covenants**
Term Loan	$239.4	7.00%	7/2/2018	--	--	Debt/EBITDA: 5.0x
Revolver	$4.0	5.49%	6/30/2017	0.25%	$36.0	EBITDA Cov: 2.75x
Capital Leases/Other	$0.1	--	--	--	--	Capex: <$12m
Total Debt	**$243.5**	**6.97%**				
Less: Cash	$4.6					
Total Enterprise Value	**$1,016.5**					

(1) As defined by credit agreement and assumes historical EBITDA can be relied upon

Declining Growth and Margins Could Cause a Covenant Breach

Boulder's true organic growth rate and financial condition is opaque, and even more difficult to evaluate in light of management's recent segment reorganization and potential accounting gimmickry (both are discussed in subsequent sections). We've relied upon extensive field checks to build our own Street and management-independent financial model. In contrast to excessively bullish Street expectations, we hold a decidedly more pessimistic outlook that revenue and cash flow will disappoint investors, and jeopardize Boulder's ability to manage its debt burden. In the table below, we contrast our assumptions vs. the Street's view.

	Wall St Analyst Assumptions	Prescience Point Assumptions
Revenues	• *Legacy butter/spreads business remains flat and a stable cash flow contributor* • *Milk and Genius bread offer upside to revenue* • *Gluten-free market is at an inflection point of growth with Udi's and Glutino about to experience above market growth rates in the 30% range* • *Overall, analysts look for 24 – 29% growth in 2013E revenues (up to 15% being 'organic' growth)* • *By 2014E, revenues are still expected to be up in the mid/high teens with continued overall market expansion and share gains from Udi's/Glutino*	• *Core butter/spread business declines low/mid-single digits, as opposed to stable street view* • *Milk and Genius bread are failures and ultimately written-off* • *Gluten-free product category's best growth is behind it, and entering a maturity phase* • *Intense competition in gluten-free causes price declines up to 20% across product lines and/or greater sales discounts/allowances* • *Market saturation limits opportunities for entry into new product categories. Market share gains within existing categories remain challenged* • *Difficulty in evaluating Earth Balance (assumes declining growth rates through 2013)* • *YoY and QoQ revenue growth rates declines to low single digits in 2013*
Gross Margins	• *GMs will trend to the mid 40% range (80bps of average gross margin expansion) in the next few years driven by product mix shift to higher margin health foods and distribution gains*	• *Price cuts shrink gross margins to the high 30% range; more than offsetting any cost enhancements from manufacturing rationalization* • *Commodity cost headwinds challenge margins (listen to HAIN conf call)*
Earnings	• *Boulder is a "beat and raise" story for 2013* • *Avg. annual earnings growth >60% in the next few years from tremendous operating leverage*	• *Earnings will continue to disappoint in 2013* • *Earnings weighed down by drastically declining growth rates, margin pressure, heavy interest expense burden, effect of stock expense granted to retain employees, continued 'restructuring' and on-going legal expenses*
Free Cash Flow	• *2013E free cash flow increase dramatically to \$30 - \$50m, and growing even further in 2014* • *Rapid deleveraging of the debt burden*	• *Cash flow struggles to cover fixed obligations* • *Remaining liquidity is tapped from the revolver* • *Covenant breach a real possibility*

The table below contains the summation of our analysis of Boulder's unit financials and our projections.

$ in millions

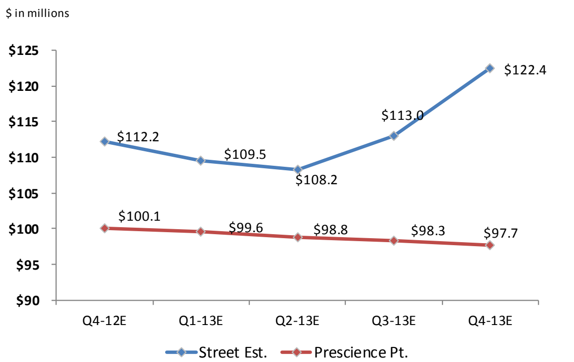
	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012E	FY 2012E Pr Pt.	FY 2012E BDBD (6)	Q1 2013E	Q2 2013E	Q3 2013E	Q4 2013E	FY 2013E Pr Pt.	FY 2013E BDBD (6)
Smart Balance Segment													
Total Smart Balance Sales (1)	--	**$55.0**	**$51.8**	**$48.9**	**$46.5**	**$202.3**	**$208.1**	**$44.6**	**$42.9**	**$41.1**	**$39.5**	**$168.1**	**$209.2**
QoQ change	--	--	*-5.8%*	*-5.5%*	*-5.0%*	--	--	*-4.0%*	*-4.0%*	*-4.0%*	*-4.0%*	--	--
Natural Segment													
Udi's (2)	--	--	--	$22.5	$23.2	$45.7	--	$24.0	$24.6	$25.1	$25.4	$99.1	--
QoQ change	--	--	--	--	*3.0%*	--	--	*3.5%*	*2.5%*	*2.0%*	*1.0%*	--	--
Glutino (3)	$15.0	$15.2	$15.2	$21.1	$21.7	$73.2	--	$22.5	$23.1	$24.1	$25.1	$94.7	--
QoQ change	--	*1.7%*	*0.0%*	*38.8%*	*3.0%*	--	--	*3.5%*	*2.5%*	*2.0%*	*1.0%*	--	--
Earth Balance (4)	$9.5	$9.1	$8.9	$8.8	$8.6	$35.4	--	$8.5	$8.2	$8.0	$7.8	$32.5	--
QoQ change	--	*-4.6%*	*-2.2%*	*-1.6%*	*-1.5%*	--	--	*-2.0%*	*-2.5%*	*-3.0%*	*-3.0%*	--	--
Total Natural Sales	--	**$24.3**	**$24.1**	**$52.4**	**$53.6**	**$154.3**	**$157.0**	**$55.0**	**$55.9**	**$57.2**	**$58.2**	**$226.3**	**$235.9**
QoQ change	--	--	*-0.8%*	*117.4%*	*2.2%*	--	--	*2.6%*	*1.7%*	*2.3%*	*1.8%*	--	
Total Sales	**$83.9**	**$79.3**	**$75.9**	**$101.3**	**$100.1**	**$356.6**	**$365.0**	**$99.6**	**$98.8**	**$98.3**	**$97.7**	**$394.4**	**$445.0**
QoQ change	--	*-5.5%*	*-4.3%*	*33.5%*	*-1.3%*	--	--	*-0.5%*	*-0.8%*	*-0.5%*	*-0.6%*	--	--
% Smart Balance	--	69%	68%	48%	46%	57%	57%	45%	43%	42%	40%	43%	47%
% Natural	--	31%	32%	52%	54%	43%	43%	55%	57%	58%	60%	57%	53%
EBITDA	$11.4	$11.8	$10.9	$15.1	$15.8	$53.6	--	$11.6	$11.1	$10.6	$10.1	$43.4	--
Credit Agreement Adj. (5)	$2.2	$2.8	$1.0	$1.0	$1.0	$5.8	--	$1.0	$1.0	$1.0	$1.0	$4.0	--
Adj. EBITDA	**$13.6**	**$14.6**	**$11.9**	**$16.1**	**$16.8**	**$59.4**	--	**$12.6**	**$12.1**	**$11.6**	**$11.1**	**$47.4**	--
Cash From Operations		$0.4	$9.4	($4.9)	$7.1	$12.1	--	($1.1)	$10.3	($3.1)	$1.0	$7.2	--
Less: Capex		($2.8)	($0.7)	($2.8)	($2.5)	($8.9)	--	($3.3)	($3.3)	($3.3)	($3.3)	($13.0)	($13.0)
Free Cash Flow For Debt		($2.4)	$8.7	($7.6)	$4.6	$3.2	--	($4.3)	$7.1	($6.3)	($2.2)	($5.8)	--
Debt Repayments		($2.4)	($5.7)	($4.9)	($0.6)	($13.5)	--	($0.9)	($0.9)	($0.9)	($0.9)	($3.8)	--
Cash Flow Surplus/Deficit		($4.8)	$3.1	($12.5)	$4.0	($10.3)	--	($5.3)	$6.1	($7.3)	($3.2)	($9.6)	--
Beginning Debt		$103.0	$104.6	$101.6	$242.1	$103.0	--	$241.5	$245.8	$239.7	$246.0	$241.5	--
Debt Repaid		($2.4)	($5.7)	($103.6)	($0.6)	($112.2)	--	($0.9)	($6.1)	($0.9)	($0.9)	($9.0)	--
New Borrowings		$4.0	$2.7	$244.0	$0.0	$250.7	--	$5.3	$0.0	$7.3	$3.2	$15.8	--
Ending Debt		$104.6	$101.6	$242.1	$241.5	$241.5	--	$245.8	$239.7	$246.0	$248.3	$248.3	--
Interest Expense	$1.2	$1.2	$1.3	$7.3	$4.3	$14.0	$14.0	$4.8	$4.8	$4.8	$4.8	$19.0	$19.0
Debt / Adj EBITDA		**--**	**--**	**4.3x**	**4.1x**	**4.1x**	**--**	**4.3x**	**4.2x**	**4.6x**	**5.2x**	**5.2x**	--
Adj EBITDA / Interest Expense		**--**	**--**	**5.1x**	**4.2x**	**4.2x**	**--**	**3.3x**	**2.7x**	**2.9x**	**2.5x**	**2.5x**	--

Notes

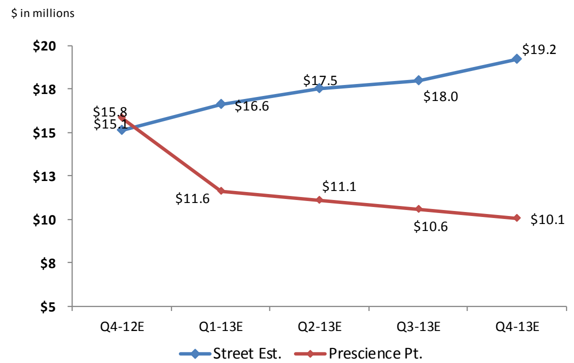
(1) Boulder reported 3m and 9m Ended Segment revenue in Q3'12 10Q, Q1/Q2'12 is estimated revenue to match segment YTD'12 totals
(2) Udi's Q3'12 sales reported in Q3'12 10Q (p. 7). Udi's closed 8/3/11 so no Q1/Q2'12 segment revenue reported
(3) Glutino Q1/Q2'12 revenues reported by Boulder, Q3 is estimated based on anecdotal Nielsen data
(4) Earth Balance segment is a plug to match the following: (i) Total consolidated revenues by qtr (ii) total Q3'12 Natural Segment revenue, (iii) 9m of 2012 Natural segment revenue and, (iv) Slide 20 of BB&T investor presentation shows $36.3m of TTM 9/30/12 Earth Balance revenues
(5) Adjustments specified for Q4'11 and Q1'12 are listed in the credit agreement. We assume $1m per quarter thereafter
(6) Midpoint of Boulder's issued guidance and BB&T presentation

Based on our projections, and in light of the terms of Boulder's credit agreement, we believe Boulder is at high risk of tripping both its Total Funded Debt/EBITDA and EBITDA/Interest Coverage Ratio covenants within the coming year.

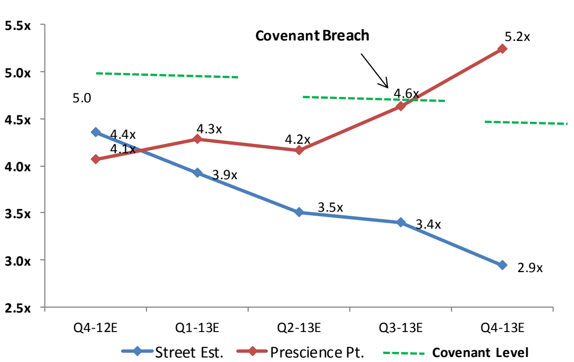
Prescience Point Revenues vs. Street Estimates



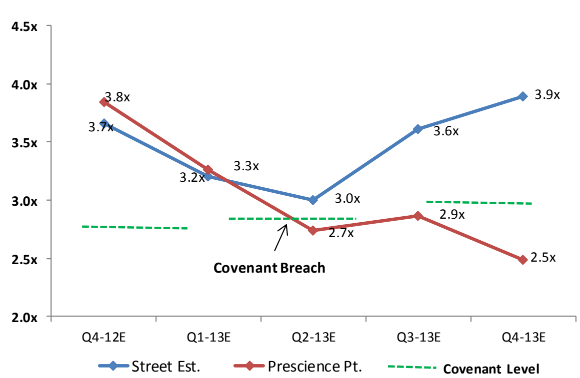
Prescience Point Adj. EBITDA vs. Street Estimates



Covenant: Total Funded Debt / EBITDA



Covenant: EBITDA / Interest Coverage Ratio



Total Funded Debt to EBITDA Covenant

From	To	Shall Not Exceed		
9/30/2012	3/31/2013	5.00x	to	1.00x
6/30/2013	9/30/2013	4.75x	to	1.00x
12/31/2013	3/31/2014	4.50x	to	1.00x
6/30/2014	9/30/2014	4.25x	to	1.00x
12/31/2014	9/30/2015	4.00x	to	1.00x
12/31/2015	after	3.50x	to	1.00x

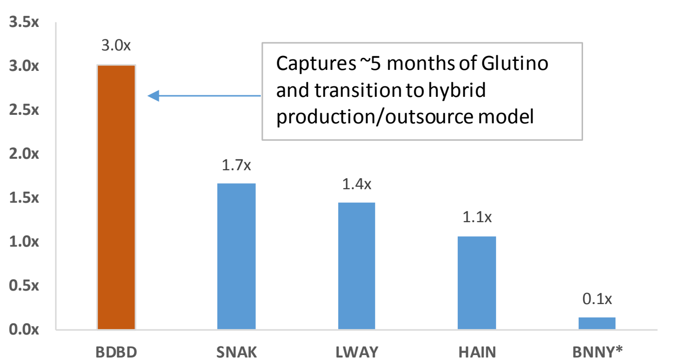
Interest Coverage Ratio Covenant

From	To	Shall Not Be Less Than		
9/30/2012	3/31/2013	2.75x	to	1.00x
6/30/2013	9/30/2013	2.85x	to	1.00x
9/30/2013	3/31/2014	3.00x	to	1.00x
6/30/2014	after	3.25x	to	1.00x

Subtle Signs of Financial Stress Are Already Appearing

We note that Boulder has been reporting an unusually high conversion ratio of net income to cash from operations. The charts below indicate the ratio has become increasingly out of line with its peers from 2011 to 2012. We view this as another potential clue that Boulder's earnings and/or reported cash flow quality is low and declining. Furthermore, we note that Boulder's $4.9m of CFO from YTD 2012 was less than their reported interest expense of $9.7m.

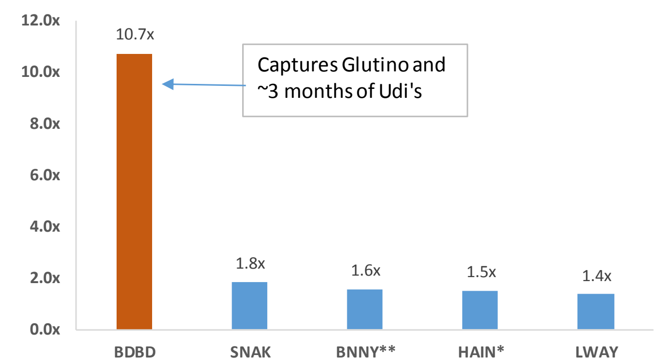
Net Income to Cash From Operations Conversion Ratio
Fiscal Yr 2011



	Fiscal Year 2011				
	BDBD	SNAK	LWAY	HAIN	BNNY*
Net Income (NI)	$9.7	$2.8	$2.8	$55.0	$9.6
Cash from Ops. (CFO)	$29.2	$4.7	$4.0	$58.7	$1.3
Net Int. Expense	$3.6	$0.9	$0.2	$13.0	$0.2
Ratio of CFO/Int Exp	8.1x	5.3x	16.4x	4.5x	8.0x
Ratio of NI/CFO	3.0x	1.7x	1.4x	1.1x	0.1x

*Fiscal year ended March 2012

Net Income to Cash From Operations Conversion Ratio
First 9 Months 2012



	9m Ended Sept 2012				
	BDBD	SNAK	BNNY**	HAIN*	LWAY
Net Income (NI)	$0.5	$5.1	$5.9	$83.8	$4.5
Cash from Ops. (CFO)	$5.0	$9.4	$9.3	$125.7	$6.1
Net Int. Expense	$9.7	$0.6	$0.1	$17.6	$0.1
Ratio of CFO/Int Exp	0.5x	15.3x	115.6x	7.1x	44.8x
Ratio of NI/CFO	10.7x	1.8x	1.6x	1.5x	1.4x

* LTM Sept 2012, **Six months ended June 2012

Boulder is also beginning to show remarkably similar signs of financial distress to what we saw recently at The Active Network (NYSE: ACTV). We note that Boulder has granted a flurry of inducement equity awards, primarily to rank-and-file non-executive employees on Oct 1, 2012, October 22, 2012, Nov 27, 2012, and most recently on Jan 29, 2013. This suggests that the company may be running low on cash to pay employees, and thereby attempting to motivate and retain them with equity incentives.

Announced	Options	Holder	Strike	Lock-up	Vesting
1/29/2013	45,000	5 non-exec employees	$12-$13 range	1yr	4 annual installments
11/27/2012	5,000	Udi's employee	$10.75	1yr	4 annual installments
10/22/2012	15,000	2 non-exec employees	$12 range	1yr	4 annual installments
10/1/2012	32,500	2 non-exec employees	$12 range	1yr	4 annual installments

Source: Boulder press releases

Segment Reorg Appears to be Masking Declining Growth in Earth Balance

On Oct 2nd, 2012 Boulder unexpectedly announced an organizational restructuring that would establish two business segments: 1) Smart Balance, containing the legacy spreads business and 2) Natural, containing Earth Balance, Glutino and Udi's. We believe the reorganization is at least in part an attempt to cover-up negative trends in Earth Balance; based on our research, Earth Balance sales have declined on a quarter-over-quarter basis in each of Q1, Q2, and Q3'2012.

The Earth Balance line (10% of 2011 revenue) of products offers a variety of buttery spreads, sticks, soymilks, nut butters and vegan mayo dressings formulated for consumers interested in natural, plant based and organic products. Earth Balance products are primarily available in the natural and organic channel of distribution and have a small but growing presence in traditional retail outlets.

For a long time, management led investors to believe that Earth Balance is a shining star in its product line portfolio. Sell-side analysts are on board, with mentions of a "20%+ growth profile." On the Q4'2011 earnings call, management described for investors the structure of the reorganized company:

> *"Our core spreads and grocery business generated significant amount of cash and profit for the company, which allows us to finance our three growth platforms: Glutino, Earth Balance and Smart Balance."*

On the Q3' 2012 earnings call, management continued to paint a picture portraying Earth Balance as a strong performer, but used increasingly vague language in reference to the product line's growth figures. Specifically, they left out language pertaining to any reference period (i.e. was the growth QoQ or YoY?). Furthermore, Boulder cited "consumption trends" as a metric, without having defined the term:

> *"Earth Balance continues to perform well with strong consumption trends of approximately plus 26% across all channels at natural, conventional and club. While Earth Balance performed well at retail, the net sales of 11.5% were impacted by the timing of promotions."*

With Boulder's reorganization, its reporting in general has become disturbingly opaque. Management has made it close to impossible to track the progress of each individual brand and, really, to understand Boulder's business in the whole. We believe the code can be cracked with disparate clues, which – when pieced together – can be solved like a multivariable math problem to result in insights pertaining to Earth Balance.

Based on our deductions, growth in Earth Balance has dramatically slowed and that Boulder's reorganization is more an attempt at a cover-up of financial folly than a means toward increased operational efficiency or more transparent financial reporting.

In the table below, we summarize the information collected from filings, investor presentations, and conference calls pertaining to Boulder's 4 brands that has enabled our findings. The information references many periods and of varied length (quarters, nine month periods, trailing 12 month periods, etc), so in reaching our conclusion, multiple sales figures had to balance in summation. This provides a strong check that our conclusions are accurate.

Segment	Information Available	Estimation Techniques
Udi's	• Part of the Natural Segment as of Q3'12 • Udi's closed 7/2/12; was not in Q1-Q2 2012 results • Q3'2012 Udi's sales listed in the 10Q as \$22.5m • Q3'12 PR says "Udi's+Glutino reported organic net sales growth over 50% in total in the qtr" • Q3'12 conf call says "when compared to same period last year, Udi's net sales increased 46% in the period" • LTM 9/30/12 sales of \$78.2m as per BB&T prez • LTM 3/31/12 sales of \$60.9m as per deal announcement on 5/31/12	• **Overall Conclusion**: There is little need to estimate historical quarterly Udi's results to better understand Earth Balance since Udi's has only been included in Boulder's historical results for Q3'12
Glutino	• Now Part of Natural Segment as of Q3'12 • LTM 9/30/12 sales of \$66.5m as per BDBD'BB&T prez. • Q1/Q2'12 sales of \$15.2m each period are disclosed. (Note Q2'12 had been listed at \$15.9m in the PR, but	• Q3'12 revenues are not exactly known, but we can solve for it by subtracting the LTM 9/30/12 data with the sum of the 3 other quarterly figures to get \$21.1m

	the disclosure in the 10Q worked out to $15.2m showing no QoQ growth) • Q3'12 conf call: "Glutino's consumption growth was strong at 34% across all sales channels"	• This is close to what Boulder's IR person disclosed of being around $22.0m • Q4'11 sales of $14.9m can be backed into • **Overall conclusion**: We are reasonably comfortable with our estimated quarterly figures on Glutino
Smart Balance	• From the Q3'12 10Q we are told segment quarterly revenue was $48.9m, and revenue in the first 9 months 2012 was $155.7m • Q3'12 conf call: If we exclude the impact of the categories and products we are strategically exiting, the Smart Balance segment declined 4% • BB&T investor presentation lists 2012E smart balance segment as 57% of overall revenue	• Q1/Q2'12 can be reasonably estimated by using Q3'12 data, assessing how much it shrank from the previous quarter, and also knowing that Q1-Q3= the 9 month 2012 segment data. • **Overall conclusion**: Management has been clear that this is the low growth segment. We are reasonably comfortable with our recent quarterly sales estimates on the Smart Balance Segment
Earth Balance (EB)	• Now Part of Natural Segment as of Q3'12 • BDBD had previously just disclosed annual EB sales; range from 8-10% of total in '09-'11 (never had disclosed quarterly results) • Q2'12 Conf call: "EB increased by 23% for the 12-week periods ending Q2." "EB continues to perform well with a stong net sales gain +27%, posting strong results for spreads, soymilk, mayo and nut butter across channels" • Q3'12 Conf call: "EB performed well at retail, the net sales of 11.5% impacted by timing of promotions. October matching consumption trends of mid 20s." "There was a bit of a disconnect this qtr, but our consumption was up 25% and shippings are up 11%." • Udi's presentation (June '12) said EB would be 10% of PF 2012E revenues. Based on guidance at the time, this would equate to $36-$37m of revenue. • LTM 9/30/12 sales of $36.3m as per BB&T prez.	• We estimate Q3'12 revenues were lower than what IR said at $8.8m. We know total Natural sales in Q3'12 were $52.4m as per the 10Q segment reporting. We were given Udi's sales, and solved for Glutino. The balance of sales (i.e. the plug) is EB, which should equal $8.8m • In Q1/Q2'12 Earth Balance had to also be ~$8.9m of revenues per quarter too. How do we know? We know what Glutino was, and we were given 9 months of sales data ending 9/31/12 totaling $100.8m for the new Natural segment in the Q3'12 10Q • Likewise we can solve for Q4'11 EB sales of $9.5m based on our knowledge that LTM 9/30/12 sales for EB was $36.3m • **Overall conclusion:** Boulder appears to be inflating its language about EB's prospects as the implied quarterly numbers don't show any growth. It is possible EB was put in the Natural segment in the hope that its weaker results would be masked by faster Udi's/Glutino results. We deduce this from the points noted above, as well as the information given in the BB&T/Udi's presentation, three months apart, that also suggest minimal quarterly growth

The table below summarizes our tabulations based on the data presented above, and demonstrates a decline in Earth Balance in each quarter of 2012 (on a sequential basis).

$ in millions

	Q4 2011	Q1 2012	Q2 2012	Q3 2012	9m Ended 9/30/12	BB&T TTM 9/30/12
Smart Balance Segment						
Total Smart Balance Sales (1)	--	**$55.0**	**$51.8**	**$48.9**	**$155.7**	--
QoQ change	--	--	*-5.8%*	*-5.5%*	--	--
Natural Segment						
Udi's (2)	--	--	--	$22.5	--	$78.2
QoQ change	--	--	--	--	--	--
Glutino (3)	$15.0	$15.2	$15.2	$21.1	--	$66.5
QoQ change	--	*1.7%*	*0.0%*	*38.8%*	--	--
Earth Balance (4)	$9.5	$9.1	$8.9	$8.8	--	$36.3
QoQ change	--	*-4.6%*	*-2.2%*	*-1.6%*	--	--
Total Natural Sales	--	**$24.3**	**$24.1**	**$52.4**	**$100.8**	--
QoQ change	--	--	*-0.8%*	*117.4%*	--	--
Total Sales	**$83.9**	**$79.3**	**$75.9**	**$101.3**	**$256.5**	--
QoQ change	--	*-5.5%*	*-4.3%*	*33.5%*	--	--
% Smart Balance	--	69%	68%	48%	61%	--
% Natural	--	31%	32%	52%	39%	--

Notes

(1) Boulder reported 3m and 9m Ended Segment revenue in Q3'12 10Q, Q1/Q2'12 is estimated revenue to match segment YTD'12 totals

(2) Udi's Q3'12 sales reported in Q3'12 10Q (p. 7). Udi's closed 8/3/11 so no Q1/Q2'12 segment revenue reported

(3) Glutino Q1/Q2'12 revenues reported by Boulder, Q3 is estimated based on anecdotal Nielsen data

(4) Earth Balance segment is a plug to match the following: (i) Total consolidated revenues by qtr (ii) total Q3'12 Natural Segment revenue,

Canary in a Coal Mine: Three Directors' and the CFO Abruptly Depart

Director Resignations Shortly After Glutino is Acquired

In September 2011, only two months after the Glutino acquisition was announced, three directors resigned on terms that would best be described as hostile. Below are excerpts from Robert Gillespie, Robert McCarthy, and Michael O'Brien's Resignation Letters, addressed to CEO Hughes.

> "*It is with great disappointment that I resign from the Smart Balance Board of Directors effective immediately. My reasons include the Board's disregard for Corporate Governance Best Practices and acceptance of business and stock price underperformance.*" *–R. Gillespie*

> *"Due to the process to implement changes in the committee assignments for the Smart Balance Board of Directors, I am no longer comfortable that I can effectively serve the needs of the shareholders as a Director of Smart Balance, Inc." – Robert McCarthy*

> *"My growing concerns, which have been expressed over the past several years in regard to our Shareholders and our accountability, force me to resign effective immediately." – Michael O'Brien*

Michael O'Brien's long-standing concerns regarding shareholders and accountability are especially cautionary. What would follow these resignations indicate additional red flags.

CFO Jumps Ship Too

In early January 2012, Boulder announced CFO, Alan Gever had "*stepped down*" as of December 31, 2011 "*to pursue other opportunities*." Gever was replaced by controller, Christine Sacco. Gever departed only two months after the 10Q was filed in Nov 2011 and 4 months following the Glutino deal. According to his severance agreement, it doesn't appear as if he left on friendly terms either. To illustrate, he was required not to disparage the company, and Boulder would divulge only the dates it employed him, and no further information. Further, the severance payment is to be made over a 22 month period starting on March 15, 2012. We note this is an unusually long period of time, and could have been designed to ensure he remains silenced while the smoke blows over.

Then, on March 2012, shortly after CFO departed, the Board adopted a recoupment (clawback) policy under which Boulder's executive officers would be required to repay incentive bonuses they received in the future based on financial results that are subject to restatement due to material noncompliance by the company with any financial reporting requirement. While we find this inclusion shareholder friendly, we note that it's quite unusual for a company of Boulder's relatively small size to implement a clawback policy. For example, comparable food companies such as B&G Foods, Snyder's Lance, J&J Snacks and National Grocers all do not have clawback policies in effect.

The rapid departure of three directors shortly after the Glutino deal, the CFO's departure at year end 2011, and the sudden adoption of a clawback policy are alarming, especially in light of the company's decision to be more opaque in its financial reporting and our assessment of various accounting disclosures, described in the following section.

Accounting Inconsistencies and Potential for Earnings Manipulation

Boulder's accounting is highly susceptible to earnings management: The amounts of accruals for promotion spending are significant when compared to quarterly net income ~3–5% of sales = 100–300% net income. The inherent estimates required and unaudited nature of the quarterly results means these values can be highly manipulated. We found several inexplicable inconsistencies in the company's books and sought answers from management; we thought that since these were matters of historical nature, they would speak with us during their quiet period. However, we received a standard quiet period response back from the company, stating they would not answer us. We will give management the benefit of the doubt in anticipation of getting a full explanation, but have serious concerns related to inexplicable accounting and the sensitivity of earnings to small calls of judgment, especially given that EBITDA is a determinant of management bonuses and a yardstick input for Boulder's debt covenants.

Boulder has made numerous questionable changes to its revenue recognition policy and disclosures. Most curious, these apparent obfuscations first emerged around the time the company acquired Glutino (deal closed Q3'11), several directors resigned (Q3'11) and the CFO stepped down (Q4'11). Boulder has claimed to net the costs of discounts/allowance estimates against revenue, and also books a prepaid asset on the balance sheet, and charges it to an expense on the income statement throughout the remainder of the year. The following disclosure in the company's Q2'2011 10-Q is typical of its accounting disclosures:

> *"The Company offers its customers and consumers a variety of sales and incentive programs, including discounts, allowances, coupons, slotting fees, and co-op advertising;* ***such amounts are estimated and recorded as a reduction in revenue****. For interim reporting, the Company estimates the total annual sales incentives for most programs and records a pro rata share in proportion to forecasted annual revenue.* ***As a result, the Company has recorded a prepaid asset at June 30, 2011 of $3,685 which will be charged to expense over the remaining two quarters.*** *The Company sells its products to customers without a right of return and is not obligated to accept any returns."*

Glutino was acquired 8/31/11. In the first reported quarter after acquiring Glutino, Boulder made a 180 degree change, and started recording an accrued liability, and crediting the income statement. The following disclosure appeared without any explanation to justify the change in Boulder's Q3'2011 10Q:

> *"The Company offers its customers and consumers a variety of sales and incentive programs, including discounts, allowances, coupons, slotting fees, and co-op advertising; such amounts are estimated and recorded as a reduction in revenue. For interim reporting, the Company estimates the total annual sales incentives for most programs and records a pro rata share in proportion to forecasted annual revenue.* ***As a result, the Company has recorded an accrued liability at September 30, 2011 of $166, which will be credited to income over the remaining quarter****. The Company sells its products to customers without a right of return and is not obligated to accept any returns."*

Two quarters later, Boulder appeared to reverse the treatment yet again to the original method as described in the Q1'2012 10Q:

> *"The Company offers its customers and consumers a variety of sales and incentive programs, including discounts, allowances, coupons, slotting fees, and co-op advertising; such amounts are estimated and recorded as a reduction in revenue. For interim reporting, the Company estimates the total annual sales incentives for most programs and records a pro rata share in proportion to forecasted annual revenue.* ***As a result, the Company has recorded a prepaid expense at March 31, 2012 of $1,274, which will be charged to expense over the remainder of the year****."*

What followed in the next two 10Q reports here and here, shows the possibility of a further attempt to obfuscate the accounting treatment. We note that Boulder omitted the entire footnote about Revenue Recognition policy in these two documents. Instead, they opted to put the description of the sales incentives and discounts under the subheading "Use of Estimates." Boulder also inserted the following language, which had never been used prior to these instances in previous 10Q filings:

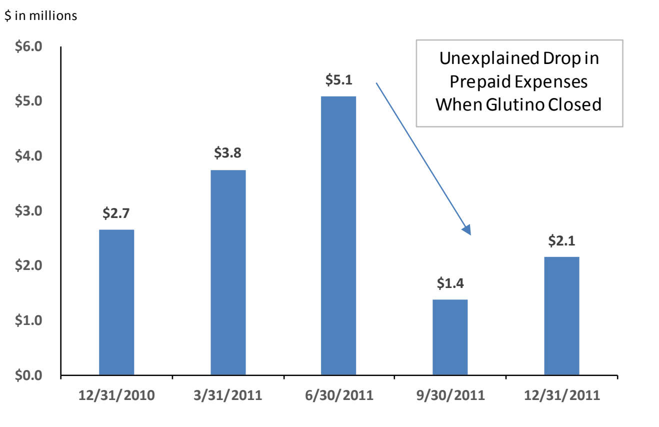
> *"Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP")* ***have been condensed or omitted pursuant to those rules and regulations****, although the Company believes that the disclosures made are adequate to make the information not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes*

thereto of Smart Balance, Inc. included in the Company's 2011 Annual Report on Form 10-K. ***Results for interim periods are not necessarily indicative of the results to be expected for the full year.***"

Delving Further into the Change Made in Q2'11 and Possible Financial Impact

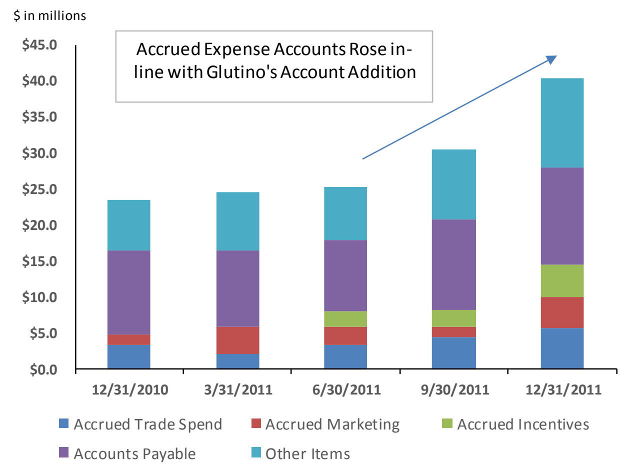
Boulder's accounting change in Q2'11 to book income seems completely at odds with industry practice (See Appendix II for comparative disclosures). We suspect the impact on Boulder's balance sheet may be seen from the quarterly progression of their "Prepaid Expense and Other Asset" account. The "Accounts Payable and Accrued Expense" account is also presented for illustration.

Boulder's Prepaid Expense and Other Asset Balance Sheet Account



Source: Boulder Financial Filings

Boulder's Accounts Payable and Accrued Expense Account



If Boulder took a charge to the Prepaid Expense and Other asset account, it certainly was not adequately disclosed or reconciled in their 3Q'11 10Q (p. 24). Boulder says that included in 2011 are "*one-time items of $4.1 million net expenses, including $2.6 million costs related to the Glutino acquisition, a $1.1 million legal settlement, a $0.8 million inventory adjustment related to the purchase of Glutino and a one-time benefit in the change in stock-based compensation expense of $0.4 million*."

Below we have also presented the closing balance sheet of Glutino. Glutino had minimal Prepaid Assets, but this account should have been added to Boulder's. We note that the increase in Boulder's Accounts Payable and Accrued Expense Account approximates the addition of Glutino. Overall, we are at a loss to identify where Boulder shifted its Prepaid Expenses of $4.1m.

Purchase Price Allocation of Glutino 8/13/11

Cash	$	206
Accounts receivable		5,902
Inventories		7,986
Prepaid assets		412
Property and equipment, net		5,647
Other assets		79
Intangible assets		39,567
Goodwill		18,189
Total assets acquired		77,988
Accounts payable, accrued expenses and other liabilities		4,970
Deferred taxes and other		6,699
Total liabilities assumed		11,669
Net assets acquired	$	66,319

Source: Boulder Q3'11 10Q

Observations

Glutino's Prepaid Asset Should Have Increased Boulder's Account
Instead Boulder's Prepaid Asset account dropped materially without adequate explanation

Glutino's Accts Payble and Accrued Expense Account of $4.9m
Approximately matches the rise in the Q2'11 to Q3'11 increase
We believe we can rule out that they shifted the asset to a liability

For the sake of analysis, in the table below we estimate the impact such an accounting policy change would have on Boulder's 2011 financial statements. The company had indicated that it would expense $3.685m for the remainder of 2011, but switched to crediting itself income of $0.166m. We've reduced EBITDA by the cumulative amount of the change, and tax affected it at 40% to estimate the EPS impact. The accounting change may have enabled Boulder to enhance its EBITDA by 10% and EPS by 31.7% in FY 2011.

$ in million

	Reported FY 2011	Possible Effect of Acct'g Change		Adjusted FY 2011	% Inflated
EBITDA	$42.3	$3.9	(1)	$38.4	*10.0%*
Tax @ 40.0%	--	($1.5)		--	
Net Income Impact	$9.6	$2.3		$7.3	*31.7%*
Fully Diluted Shares	59.3	59.3		59.3	*0.0%*
Diluted EPS	$0.16	$0.04		$0.12	*31.7%*

(1) Includes $3.685m expense and reversal of $0.166m the was credited to income.
Source: Boulder filings, Prescience Point Research.

Who is Auditing Boulder's Financial Statements?

Investors should not hold their breath that Boulder's auditor will save them from the potential for financial shenanigans to be played with revenues. Boulder's auditor is Ehrhardt, Keefe, Steiner & Hottman ("EKS&H"). If you've not heard of them, rest assured that neither had we. EKS&H is a small auditor in Colorado with a roster of locally based companies that are best described as emerging, speculative, and money-losing operations. Furthermore, the Public Company Accounting Oversights Board (PCAOB) inspected EKS&H in 2008 and questioned the firm's revenue recognition applications. For a company with a national, and now international footprint, Boulder's investors should expect a higher caliber auditor to oversee its operations.

Selected Ehrhardt, Keefe, Steiner & Hottman Public Clients
$ in millions

Company	Ticker	Exchange		Market Cap	Notes
Life Advantage	LFVN	Nasdaq	(1)	$280.0	Multilevel Marketing Scheme
Rare Element Resources	REE	Amex		$106.0	Speculative Rare Earth Stock
Ampio Pharma	AMPE	Nasdaq		$142.0	Controversial Biotech Stock
Magellan Petroleum	MPET	Nasdaq		$59.0	
Bacterin Int'l	BONE	AMEX		$42.0	
Earthstone Energy	ESTE	Amex	(1)	$28.4	
Enservco	ENSV	OTCBB		$18.0	
Muscle Pharm Corp	MSLP	Pink Sheet		$14.5	
Par Petroleum	DPTRQ	Pink Sheet		$8.0	Formerly Delta Petroleum (bankrupt)
China Precision Steel	CPSL	Nasdaq		$8.0	China fraudcap

1) Recently exchange listed from OTC bulletin board.

Flawed Corporate Governance May Also Encourage Earnings Manipulation

Boulder's incentive structure rewards management based on both (absolute) stock price and EBITDA levels. CEO Hughes has been awarded RSUs/options that vest on milestones that are tied to Boulder's absolute stock price target ($8/$12/$16). Unlike most other companies that reward their management teams for relative performance tied to peers or a benchmark, there's no such requirement to reward Boulder's CEO.

Also the management team's annual cash bonuses are tied to "Cash Operating Income" (analogous to EBITDA), but had previously been tied to net revenue. However, the compensation committee determined that revenues "*do not accurately measure growth*," and "*strategic marketing and sales decisions can influence the final net sales number, potentially creating a conflict between important marketing and sales decisions and the achievement of bonus targets for our executives*."

To meet the target EBITDA goal of $43.6m for 2011, there are a number of debatable adjustments that allowed management to reach $45.9m, and trigger a $1.5m bonus payment. One such adjustment is a $4.8m "bonus accrual" which is not explained in the proxy. Management made no such bonus accrual adjustment the prior year. The actual bonus payment of $1.5m was much less than the accrual amount, which raises a possible red flag. We also note that management paid themselves a special one-time bonus of $700k to acquire Glutino, despite the numerous problems we've identified with the transaction, and flurry of executive departures in its aftermath. Given that management has historically touted its M&A prowess, shareholders should be outraged for having to pay management a special bonus for doing its core function, and then for having this payment be justified to reward even further cash bonuses.

(in millions)	Year Ended December 31, 2011	Year Ended December 31, 2010
Operating income	$ 23.7	(117.4)
Add back:		
Depreciation and amortization of intangibles	7.8	5.2
Stock-based compensation	4.8	11.1
Glutino Acquisition costs		
Initial	2.6	
Inventory adjustment – purchase accounting	0.8	
Legal settlement	1.1	
Goodwill impairment		130.0
Restructuring/severance	1.5	4.1
Reported COI	42.3	33.0
Add Back:		
Bonus Accrual	4.8	0
One-time discretionary Glutino bonus	.7	
Glutino Cash Operating Income	(1.9)	
Pre-Bonus Adjusted COI	45.9	33.0

We Hope Boulder Did Not Borrow Money from Lenders Using Exaggerated Financial Statements

EBITDA also plays a critical role in allowing Boulder to secure credit. As part of the debt-financed acquisition of Udi's in June 2012, Boulder based its 2012 credit agreement on agreed upon EBITDA figures for quarterly periods ended 9/30/11, 12/31/11 and 3/31/12. These periods in question were directly impacted by the company's apparent change of accounting for sales discounts.

On Schedule I, page 3 of the credit agreement, the following terms are outlined:

> *"For the purposes of calculating the financial maintenance covenants set forth in Section 8.23 of the Credit Agreement as of the end of each fiscal quarter of the Parent for the four fiscal quarter period then ended, (A) the "EBITDA" for the Parent and its Subsidiaries for the fiscal quarters ending **September 30, 2011, December 31, 2011 and March 31, 2012 shall for all purposes of the Credit Agreement be deemed to be $12,681,000, $13,571,000 and $14,564,000**, respectively and (B) the "EBITDA" for the Target and its Subsidiaries for (x) the calendar months ending April 30, 2012 and May 31, 2012 shall for all purposes of the Credit Agreement be deemed to be $1,419,000 and $1,143,000, respectively and (y) the calendar month ending June 30, 2012 (and any stub period thereafter through and including the Closing Date) shall for all purposes of the Credit Agreement be calculated based on the actual reported numbers for the Target and its Subsidiaries for such calendar month with adjustments consistent with the adjustments to the Target's and its Subsidiaries "EBITDA" results for the previous 11-month period prior to such calendar month that have already been included in the Credit Agreement for purposes of compliance with the applicable financial covenants and financial tests (which adjustments shall include, but not be limited to, management fees, "change of control" bonuses and expenses incurred in respect of the execution and delivery of the Credit Agreement, the Closing Date Acquisition and the related transactions)"*

If manipulation of some sort were taking place, it could put Boulder in material breach of Section 6.5 of its credit agreement which states:

> *"Financial Reports. (a) The consolidated balance sheet of the Parent, the Borrowers and their respective Subsidiaries as at December 31, 2011, and the related consolidated statements of income, retained earnings and cash flows of the Parent, the Borrowers and their respective Subsidiaries for the fiscal year then ended, and accompanying notes thereto, which consolidated financial statements are accompanied by the audit report of Ehrhardt Keefe Steiner & Hottman PC, independent public accountants, heretofore furnished to the Administrative Agent and the Lenders and the unaudited consolidated balance sheet as at March 31, 2012 and the related consolidated statements of income, retained earnings and cash flows of the Parent, the Borrowers and their respective Subsidiaries for the three (3) month period then ended, (i) <u>fairly present in all material respects the consolidated financial condition of the Parent, the Borrowers and their respective Subsidiaries as of said date and the consolidated results of their operations and cash flows for the period then ended and (ii)</u> **<u>were prepared in conformity with GAAP applied on a consistent basis for the period covered thereby</u>**<u>, subject to normal year-end audit adjustments and the absence of required footnote disclosures. None of the Borrowers, the Parent or any Subsidiary has contingent liabilities which are material to it other than as indicated on such financial statements or, with respect to future periods, on the financial statements furnished pursuant to Section 8.5 hereof.</u>"*

It is clear that Boulder has made numerous changes regarding the disclosure of its sales discounts and allowances, but it is difficult to ascertain the exact reasons why they may have taken place from just the 10K and 10Q disclosures. Accounting for sales discounts and allowances is a fairly well developed accounting treatment, so we are befuddled why Boulder has not been able to determine a straightforward method, and disclose it in a consistent manner. Again, we will give management the benefit of the doubt until we hear a full explanation, but we have serious concerns given the implications EBITDA has on management bonuses and Boulder's debt burden.

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Boulder's Dismal Track Record

CEO Hughes: Chasing Trends and Betting the House

Prior to delving into the track record management has built while at Boulder, investors have to appreciate the man behind the company – Chairman and CEO Stephen Hughes. Our background search resulted in many articles that praise Hughes for his successes, and many others that allude to his failures as a leader. For example, this Fortune Magazine describes his work as "marketing magic on brands" and characterizes his track record as an organizational leader as flawless. The reality is that it is not. Based on our research, Hughes' career has consisted of chasing the hot trend of the moment and betting the house in hopes of riches. (We believe he manages Boulder in line with this assessment.) He has lost many times, but he also won big.

From 1988 until October 1992, Hughes was executive vice president of new-products marketing at ConAgra and later general manager of ConAgra's Healthy Choice brand, which Hughes was instrumental in launching and growing during the heyday of the fat-free diet craze. Originally Healthy Choice sold frozen foods and dinners. In 1992, needing to jumpstart growth at Healthy Choice after declining frozen dinner sales, Hughes rapidly expanded Healthy Choice's product line, "blanketing" supermarkets with new products such as fat-free cheeses, deserts, pizza, low-fat deli meats and ready-to-serve soups.

By July 1992, Healthy Choice had grown to 188 products (and would ultimately grow to 200 products in 10 categories) and was expected to reach $1 billion in sales that year for the $20 billion-in-sales ConAgra. "*There is safety in numbers*," Hughes told the *New York Times*. "*Each niche has 'a fairly narrow window*,' Hughes said." [13] But the window had apparently shut as competitors were also adding lower-fat products, and growth came at the expense of profit. "*Because of heavy spending on product development and advertising, most of the products are not profitable*," *The New York Times* wrote.[14]

Prudential Securities' food analyst John McMillin questioned Hughes' strategy. "*To take on Oscar Mayer in meats, Kraft in cheeses and Campbell's in soup – to me, it's a loser's game. You have to ask yourself, is there an economic benefit to this*?"[15] Ultimately, Hughes' "*barrage of new-product introductions under the Healthy Choice brand… eventually overwhelmed retailers and contributed to a drop-off in sales*." [16]

Three months later, Hughes left Healthy Choice to become executive vice president/general manager of marketing and sales at Seagram's $1.5 billion Tropicana unit (bringing with him many of his Healthy Choice staff). Hughes was tasked with trying to grow Tropicana's leading position in ready-to-serve orange juice and expand the Tropicana brand name into other types of beverages. By April 1994 Hughes had "*increased product introductions to a near frenzy*" and claimed to have grown Tropicana's beverage sales by $200mm.[17] [18] But observers said Hughes again seemed to be "*operating at too much of a breakneck pace to manage the new-product flow coherently*," wrote *Brandweek.*[19]

"*They're line-extending their brains out over there, and it can't go on much longer*," said one of a number of recently-departed Tropicana executives.[20] "*It's a culture of chaos that… has to do with Steve, and his style, and with his approach. It's Healthy Choice all over again… He… throws things around and see(s) what sticks*."[21]

[13] Shapiro, Eben, "How Healthy is the Healthy Choice Line? ConAgra Venture May Have Tried to Do Too Much, Too Fast," *The New York Times*, reprint from *The Kansas City Star*, 1992 July 13.
[14] Ibid.
[15] Ibid.
[16] Khermouch, Gerry, "Pulp Wars; The Squeeze is on as OJ Rivals Minute Maid and Tropicana Expand into Other Juice Categories," *Brandweek*, 11 Apr. 1994.
[17] Ibid.
[18] Locke, Tom, "Celestial Seasonings CEO Sees Stronger Tea Sales in the Bag," *Dow Jones News Service*, 21 Dec. 1998.
[19] Khermouch, Gerry, "Pulp Wars; The Squeeze is on as OJ Rivals Minute Maid and Tropicana Expand into Other Juice Categories," *Brandweek*, 11 Apr. 1994.
[20] Ibid.
[21] Ibid.

Hughes abruptly departed Tropicana during September 1996. Hughes and Seagram declined to comment. But, industry analysts suggested Hughes' departure was the result of Seagram's displeasure with its return on investment at Tropicana while Hughes was in charge, as he spent heavily to try to grow market share against archrival Coca-Cola's Minute Maid.[22] [23]

From June 1997 until 2000, Hughes was CEO of Celestial Seasonings until its acquisition by Hain Food Group. Hughes touted Celestial as a "*$500 million brand that generates only $80 million in sales*." He planned to capitalize on an exploding herbal remedy fad by expanding Celestial's brand into nutritional supplements and extracts, followed by gum and lozenges.

Celestial founder and chairman, Mo Siegel, commenting on the difference between himself and Hughes, "*a branding guy*," with whom he described having "*run ins*" said, "*He is willing to take more risk than I am*." [24] [25] [26]

By September 1999, Celestial's sales had grown to just $110 million from the $80mm when Hughes took over even though its market cap went from $40 million to $160 million. Celestial's supplement business was failing as competitors went after the same opportunity, and "*the herb fad dried out*." Hughes also "*turned off retailers by requiring them to carry all Celestial's supplements or none at all*."[27] The *Denver Post* wrote at the time about the "*great challenges*" facing Celestial after numerous failed growth strategies:

> *"For years, [Chairman Mo] Siegel, other Celestial executives [e.g. CEO Hughes] and some Wall Street analysts have touted the opportunity for Celestial Seasonings to extend its name to other products.*
>
> *Yet to date, most of those efforts have been failures."*

Siegel commented to the *Post*, "*I wouldn't say we were vulnerable, but being a one-product company is tough in a consolidating world*."

Fortunately at the peak of the NASDAQ bubble in March 2000, Celestial was bought by Hain Food Group for $330 million. However, Hain chairman, Irwin Simon, criticized Hughes' management style. "*I believe in focusing on what you do best, instead of a lot of things*."[28] It's unclear when Hughes left Celestial or under what circumstances. If he survived the merger, his departure came very soon afterward.

From August 2000 to September 2002, Hughes was CEO of Frontier Natural Products (now Frontier Natural Brands), a $40 million-sales, 15,000 member, Iowa-based cooperative (though Hughes would remain in Boulder) specializing in organic herbs and spices, coffee, natural remedies and aromatherapy. Hughes nearly destroyed Frontier by introducing ready-made organic meals into the mass market, outside Frontier's core customer base, and expanding Frontier's line of personal care products.

The strategy was "*extremely costly… resulting in heavy losses in the 2002 fiscal year*," wrote the *Cedar Rapids Gazette*. Longtime key employees quit under Hughes, "*worried that the companies' long time vision had changed*."[29]

Frontier director and interim CEO, Andy Pauley, wrote shortly after Hughes' departure:

> *"The management group that led the drive for the new products has left the company. These efforts to develop new product lines were costly, and Frontier will report a significant loss for the first time in its history. I regret this. We will correct the problems that have been created.[30]"*

[22] Power, Paul, "Top Tropicana Sales Executive Leaving Oct. 1," *The Tampa Tribune*, 10 Sept. 1996.
[23] Hartnett, Michael, "The Big Squeeze: Minute Maid Lobs a Frozen Grenade at Tropicana, but the Not-From-Concentrate-Meisters be Chillin'," *Food & Beverage Marketing*, 1 Apr. 1996.
[24] Leib, Jeffrey "Celestial's New Boss: How Steve Stacks up; Hughes Brings Impressive Track Record to Tea Company," *Denver Post*, 29 Mar. 1998.
[25] "Celestial Seasonings' Mo Siegel on How He Knew it was Time to Step Down," *Inc.*, 1 Apr. 1999
[26] Locke, Tom, "Tea Leaves Augur Big Future for Celestial: New Chief Serves up Heady Earnings, Stock Growth," *The Wall Street Journal*, 28 Dec. 1998.
[27] Palmeri, Christopher, "It's in the Tea Leaves: Struggling with Brand Extensions, Celestial Seasonings Rediscovers What it does Best," *Forbes*, 6 Sept. 1999.
[28] Leib, Jeffrey, "Hain Will Buy Teamaker Celestial; $333 Million Deal to Close by June," *Denver Post*, 7 Mar. 2000.
[29] DeWitte, Dave, "Food Co-Op Names Cedar Rapids, Iowa, Man to Management Position," *Cedar Rapids Gazette*, 22 Mar. 2003.
[30] http://www.cooperativegrocer.coop/articles/2004-01-07/update-frontier-co-op-ceo

Yet, while at Frontier, Hughes espoused a seemingly new-found sense of environmental and social awareness and corporate responsibility. "*Every big brand that is in the mass market has a dirty secret*," Hughes said in June 2002. Frontier demonstrated its virtuous mission by donating 1 percent of sales to environmentally-friendly causes. "*If we all are giving money back to bigger ideas it's going to raise the entire industry*."[31]

Less than a month after those comments, Hughes quit abruptly to pursue "*personal interests*."[32] Frontier was left in the lurch with no replacement CEO or even a transition plan.

(After a turnaround plan that involved eliminating 36 jobs and closing the Boulder office, Frontier returned to profitability by early 2003 and got back to "what we believe our core competencies are" and returned to its "core values." Profits were $90mm in 2010 and expected to be greater than $100mm in 2012.)[33] [34] [35]

From late 2002 until 2004 Hughes was vice president for marketing and sales at White Wave, a soymilk and tofu unit of Dean Foods. In 2003, White Wave's market-leading brand of soymilk, Silk, had sales of $270 million, up roughly 50% from 2002.[36] [37] But in 2004, despite a "*huge… aggressive $22.3 million national ad campaign… with hopes of becoming the next Gatorade*,"[38] Silk's growth rate slowed to 31%, resulting in sales of $350 million, below Dean Food's target of 37% growth ($370 million).[39] [40] It's unclear exactly when Hughes left White Wave.

At some point in 2004 (it's unclear when) Hughes joined The Cambridge Group, a Chicago based "demand strategy" consulting firm based in Chicago as a non-employee director. But his next big project would be putting together the SPAC that would acquire Smart Balance.

The Hype Machine: Years of Investor 'Mis-Guidance'

"*We are positioning this as a brand that could grow to a billion dollars, a true mega brand*"

– CEO Stephen Hughes, June 2008[41]

In September 2006, Boulder announced it would acquire GFA Holdings, the owner of Smart Balance ("SMBL") and the license holder of the patented oil blend, and change its name to Smart Balance. The thesis was that Smart Balance had blue-sky potential, the capacity for open-ended growth. The plan was for management to rapidly build the Smart Balance brand, which had a run rate of about $100mm in sales, position it as an acquisition candidate and then sell it.[42] This plan has not played out as anticipated; in its wake we find a well-documented track record of Boulder keeping investors interested with promises of a grand future, and reliably failing to deliver. For the sake of space, we focus on the most egregious examples.

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31 Ford, Katie, "Natural Foods Firms in Boulder, Colo., Discuss How to Best Reach Consumers," *Boulder Daily Camera*, 21 June 2002.
32 "Frontier Natural Brands has Announced the Resignation of CEO Steve Hughes, effective 15 July, who left to pursue personal interests," *Food & Drink Weekly,* 29 July 2002.
33 "Frontier Natural Brands (People in the News)," *Nutraceuticals World,* 1 Sep. 2002.
34 DeWitte, Dave, "Food Co-Op Names Cedar Rapids, Iowa, Man to Management Position," *Cedar Rapids Gazette*, 22 Mar. 2003.
35 Coffey, Joe (Media Contact), telephone interview, Frontier Natural Products Co-op, 25 January 2013.
36 Elliott, Stuart, "A Soymilk Maker Hopes a Creator of 'Got Milk?' Campaign Can Do for Soy What He Did for Dairy," *The New York Times*, 5 Dec. 2003.
37 "Soymilk Goes Prime Time: Silk® Becomes Only Soymilk Brand to Advertise on Network Television," *PR Newswire*, 26 Apr. 2004.
38 Alsever, Jennifer, "Soy Milk Saturation: Boulder-Based White Wave Launches Huge National Ad Push," *Denver Post*, 12 Apr. 2004.
39 Adamy, Janet, "Behind a Food Giant's Success: An Unlikely Soy-Milk Alliance – At Dean Foods, CEO, Buddhist Team Up to Sell Silk Brand; And Gain Clout in Organics – Mr. Engles's Lesson on 'Sukha'," *The Wall Street Journal,* 1 Feb. 2005.
40 "Soymilk Goes Prime Time: Silk® Becomes Only Soymilk Brand to Advertise on Network Television," *PR Newswire*, 26 Apr. 2004.
41 Boyle, Matthew, "Food's Next Billion-Dollar Brand? Industry Veteran Steve Hughes is Out to Turn Smart Balance into a Household Name," *Fortune*, 4 June 2008.
42 Aaron, Edward, "Smart Balance, Inc.: Initiating Coverage with Top Pick Rating," *RBC Capital Markets Equity Research*, 26 Nov. 2012.

In the deal proxy statement, management presented investors with "base" and "downside"-case projections for GFA's revenues and EBITDA. Management cited that Smart Balance was a strategic fit because it was a brand with "*low risk,*" "*highly accretive expansion opportunities,*" and a category where "*management has a proven track record of success*." But despite these claims, it is today readily apparent that management dramatically overpromised and under-delivered, even relative to their downside case projections. The table below contains these projections made in April 2007 vs. actual results.

Smart Balance Internal Projections to SPAC Investors vs. Reality

$ in millions

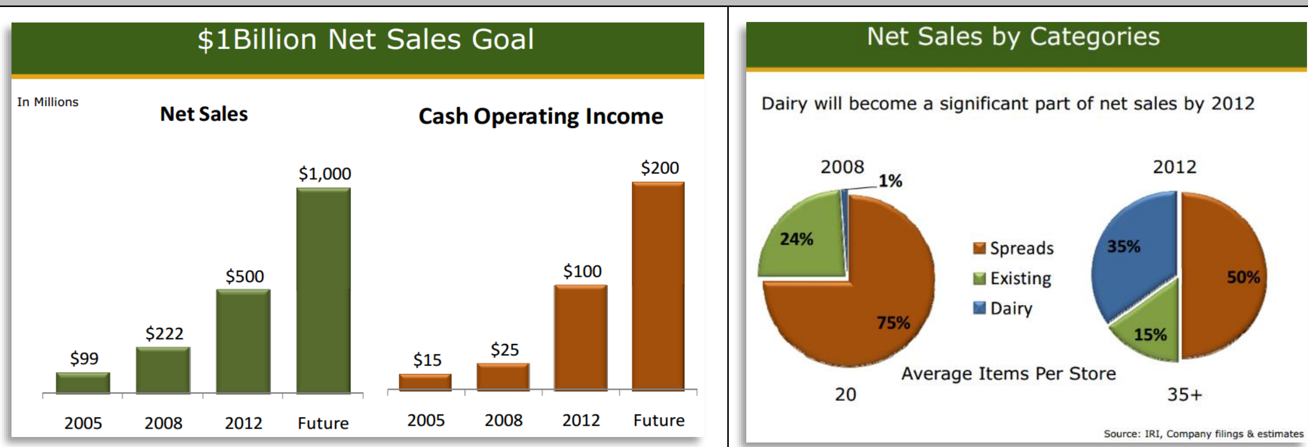
	Base Case			Downside Case		
	2006E	**2007E**	**2011E**	**2006E**	**2007E**	**2011E**
Proj. Revenues	$155.0	$245.0	$500.0	$155.0	$205.0	$364.0
Actual Revenues	$137.4	$176.0	$274.3	$137.4	$176.0	$274.3
% variance	***-11.4%***	***-28.2%***	***-45.1%***	***-11.4%***	***-14.1%***	***-24.6%***
Proj. EBITDA	$31.0	$44.0	$100.0	$31.0	$43.0	$91.0
% margin	20.0%	18.0%	20.0%	20.0%	21.0%	25.0%
Actual EBITDA	$23.8	$30.1	$42.3	$23.8	$30.1	$42.3
% margin	17.3%	17.1%	15.4%	17.3%	17.1%	15.4%
% variance	**-23.2%**	**-31.6%**	**-57.7%**	**-23.2%**	**-30.0%**	**-53.5%**

Source: 2007 Proxy, p. 39 and other financial filings

As we would expect from Hughes' management style, BDBD began by extending the Smart Balance brand until it could no longer be extended, introducing dozens of new products. In its first year of operation under his leadership, SMBL's revenue doubled to $222 million (in 2008). But the growth was not profitable and sales stalled by early 2009. By the end of 2010, management had racked up $196 million in net losses since acquiring GFA.

But management kept on with bold promises. In September 2009 they announced Boulder would achieve $500 million in sales and $100 million in operating income by 2012 – more than doubling its revenue in ~3 years – driven largely by the nationwide rollout of milk.[43]

Stephen Hughes' Presentation at Citi Small & Midcap Conference (Nov 2009)



[43] Gever, Alan, "Canaccord Adams Healthy Living Conference (presentation)," *Smart* Balance, 23 September 2009.

Smart Balance described its fat-free milk as "*super milk*" containing added sterols, Omega-3s, and Vitamin E with the "*taste and texture of a 2% milk*." It said it had test marketed the milk in Florida since 2007 and had achieved a 1% market share there. An expansion into New York and New England yielded "*comparable levels of share*." Management claimed that milk would also drive the rest of SMBL's business: "*We actually saw that our non-milk business in the Florida market… grew at almost twice the rate that our non-milk business did everywhere else in the country,*" said then-CFO Alan Gever. "*Every dollar spent in promoting a milk product is a dollar spent… promoting the Smart Balance brand.*"[44]

In 2010, following successful test market runs, management pushed forward with a national rollout of milk, intent on capturing 2% market share in the $12.1 billion U.S. milk market.[45] [46] Management's revenue projection of $500m in revenue by 2012 incorporated the assumption that milk would grow to 35% of 2012 company revenue, or $175m in milk sales.

But, according to current Boulder CFO, Christine Sacco, who replaced Gever in an apparent management shake-up in January 2012, Boulder has never made money on milk despite having invested $60 million in it since 2007. Milk is expected to be a drain on profitability until 2015 at the earliest, she said.[47] In the meantime, Boulder has decided to "cut back" this business, focusing on its more profitable regions.

And so again, we are faced with yet another instance in a long line of management **dramatically overpromising and under-delivering**. The table below summarizes the investor expectations set by management in 2009 vs. the cold hard truth.

Smart Balance Projections vs. Reality

$ in millions

	2012E		
	Mgmt Projection	Estimated	% Variance
Consolidated Revenues (1)	$500.0	$237.6	-52.5%
Milk Revenues (2)	$175.0	$32.5	-81.4%
Cash Operating Income (3)	$100.0	$43.2	-56.8%

(1) Mgmt projections vs. Prescience Point ("PP") estimate
(2) Mgmt projections vs. PP estimate (based on 2011 BMO EstimatE)
(3) Mgmt projections vs. PP (mgmt guidance adj by 20% assumed Glutino/Udi's contribution)

In Q2 2010, Boulder admitted its growth strategies weren't working and took a $130 million goodwill impairment charge. (Boulder has still not taken any impairment related to its milk investment.[48]) "*Growth rates and market assumptions… were not materializing as projected*."[49] Boulder posted a loss of $2.08/share in 2010 on essentially flat sales of $242 million with declining sales in its core buttery spreads business (then 72% of revenue).

We have rarely witnessed a misguidance of the investor community so egregious. We believe Boulder management completely missed the ball in understanding their core business, assessing the competitive landscape, and executing their business strategy – not once, but over and over again.

[44] Ibid.
[45] Gever, Alan, "Canaccord Adams Healthy Living Conference (transcript)," Smart Balance, 23 September 2009
[46] Luglin, Joann S., "Smart Balance Keeps Tight Focus on Creativity: Hearth-Healthy Food Developer Outsources Manufacturing, Distribution to Target In-House Strength on New Products," *The Wall Street Journal*, 8 June 2009.
[47] Affiliate Investor meeting with BDBD IR/BD officer, Carole Buyers, and CFO Christine Sacco.
[48] Ibid.
[49] Form 10-Q, Smart Balance, 5 Aug. 2010.

Boulder Has Fooled Analysts and Analysts Have Fooled Investors…Again

Analysts Repeatedly Defend Boulder's Failures…What's Their Motivation?

Despite a troubled past, Boulder has had an easy time in attracting cheerleading analysts to promote its story. Currently, eight analysts rate Boulder's equity at "buy" or "outperform." A couple admit to having misjudged Boulder's prospects in the past and acknowledge that, today, Boulder's story is laden with risk, but they persist in adopting management's guidance as the reality for their base case assumptions and awarding the company a premium multiple. Analysts' price targets today imply near-perfect execution from a company with a history of overpromising and under-delivering, and that is today faced with a difficult reality.

Its most ardent supporter has been Jon Andersen of William Blair, who has had a "buy" rating on Boulder since March 2008, despite years of disappointment. He wrote in his initiation report, "*a robust growth scenario exists [for Boulder], based on the company's position at the center of favorable 'better for you' food trends, the brand's health credentials, and the presence of a new and deeply experienced management team*."[50]

Andersen, while still a bull, now admits that scenario was a failure. "*Over the past couple of years, Smart Balance has not been able to produce double-digit organic sales growth*." But he adds, "*Management believes its new growth platforms… can grow at a rate of 20% and the core spreads/grocery business will increase at a low-single-digit rate*," even though the core Smart Balance business fell 10% year-over-year in Q3 2012.[51] [52] Apparently since *management* believes, Andersen still does too. "*We continue to like the Smart Balance story*," even though the story has changed. [53]

Why has Andersen been such an ardent supporter of management? William Blair has been a prior shareholder of the company, but trimmed most of its holdings after Boulder's disappointing 2010, currently holding ~54,000 shares. We suspect his ardent support is more likely driven by a potential stock offering, business William Blair discloses it seeks from Boulder. As previously indicated, Boulder filed an effective and unlimited universal shelf registration statement in November 2012.

Another strong supporter, RBC analyst Edward Aaron initiated Boulder with a buy rating in November 2012 just as Boulder's stock had fallen 23% to $9.99 on weak Q3 2012 results from a then 52-week high of $12.99. **Aaron used to work for and co-cover equities with Carole Buyers – Boulder's investor relations and business development officer – when she herself was a food and beverage analyst at RBC. Aaron loves Boulder so much so that he concludes, "Smart Balance has the most upside potential in our coverage universe, warranting a Top Pick rating"; he made BDBD his "top pick" and said it was worthy of a "premium" multiple and a $16 price target.**[54][55]

Aaron's recommendation sent Boulder on a tear, climbing to $13.99 over the next five weeks, 11 cents shy of the stock's all-time highs of $14.10 in 2007.

Despite the company's weak third quarter, Aaron stated,

> *"Smart Balance is on the cusp of becoming a beat-and-raise story for the first time in its history as a public company… Q3/12 results and guidance were met with disappointment. However, commentary on consumption and new product placements was positive, especially around the gluten-free business, and this gives us confidence that the company will exceed sales expectations in the quarters ahead. Our sales estimates are approximately 5% above consensus and could still prove conservative."*

[50] "William Blair & Company Initiates Coverage of Smart Balance, Inc. With Market Perform Rating," *Business Wire*, 14 Dec. 2007.
[51] Andersen, Jon, CFA, "Acquisition of Udi's Strengthens Health and Wellness Platform," *William Blair Equity Research*, 06 June 2012.
[52] BDBD Form 10-Q filed 8 Nov. 2012.
[53] Ibid.
[54] Aaron, Edward, "Smart Balance, Inc.: Initiating Coverage with Top Pick Rating," RBC Capital Markets Equity Research, 26 Nov. 2012.
[55] Buyers told investors at a meeting January 15, 2013 she hired Aaron as an intern in 1999. He's been with RBC ever since.

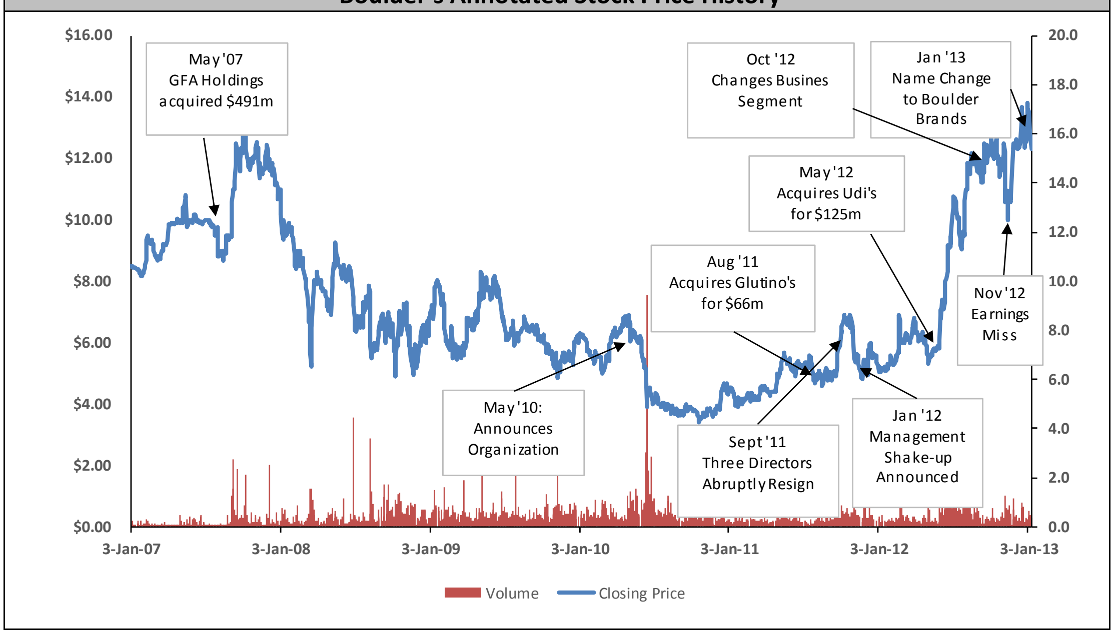
Yet for the mass market channel, Nielsen tracks retail point-of-sale data, the closest thing to true "consumption." Our industry sources tell us Nielson shows no uptick in sales for Udi's. We believe the "consumption" number espoused by Boulder is overstated, as Boulder uses shipment data as a proxy for "consumption" for Whole Foods, Trader Joe's and Canadian sales, where retail point of sales data are not available. (These three channels account for an estimated 1/3rd of BDBD's gluten-free sales. Canada alone accounts for 20% of Glutino's sales.) Boulder management states that product placements into these channels involve headquarters-level approvals but do not necessarily equate to sales, as purchasing decisions are made at the store level. [56]

Still, Aaron's recommendation demonstrates a strong confidence in Boulder, and perhaps in his old boss. But he treads carefully, tempering his enthusiasm with a laundry list of concerns:

> ***"The original Smart Balance thesis, much like today's gluten-free story, was positioned as an open-ended growth idea… the reality historically did not live up to the hype…***
>
> *Distribution growth stories are good while they last but do not always have happy endings…*
>
> *The gluten-free category is highly dynamic, and it is difficult to predict how the category will evolve over the next couple of years.*
>
> *We agree that the gluten-free trend has some potentially faddish elements…*
>
> *We are not suggesting that everything will be perfect all of the time… investors should embrace some degree of failure.[57]"*

Despite acknowledging this plethora of substantive risks, Aaron concludes by assigning the company a "premium" multiple, one we would argue fails to account for a single one of the risks he himself spelled out for the masses. His valuation prices the equity for perfection.

Boulder's Annotated Stock Price History



[56] Prescience Point associate meeting with Boulder Brands management.
[57] Aaron, Edward, "Smart Balance, Inc.: Initiating Coverage with Top Pick Rating," RBC Capital Markets Equity Research, 26 Nov. 2012.

Analysts' Sleight of Hand to Send Boulder's Price Targets into the Stratosphere

Analysts seem to be justifying inflated stock price targets with the assumption that management's projections will come to fruition: the Smart Balance business will hold steady and the Naturals Segment will yield hockey stick-like revenue and earnings growth. We believe these assumptions alone are far-fetched. Far worse, they have pushed their price targets beyond any reasonable measure of value using sleight of hand.

The analyst community is pushing for Boulder's stock to be re-rated with a higher multiple, now that – as they claim – the company has transformed into a 'high growth organic' company. It is lacking in substance that they argue Boulder should be compared with companies in the specialty foods market, including leading retailers such as Whole Foods (Nasdaq: WFM), The Fresh Market (Nasdaq: TFM), and National Grocers by Vitamin Cottage (NYSE: NGVC), all of which are far more diversified and have significantly lower business risks than Boulder.

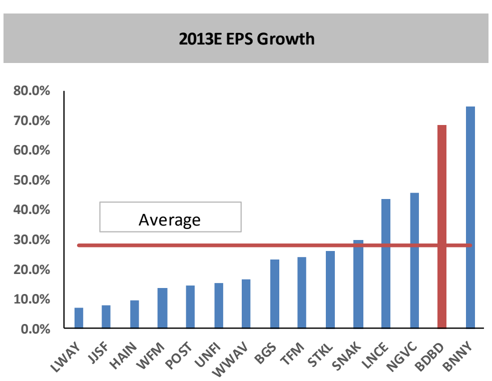
It wasn't that long ago that analysts viewed Boulder in an entirely different light. To illustrate, we reviewed Boulder's proxy from 2007 when it sought a fairness opinion for the Smart Balance acquisition. We found that a more objective analyst likened Boulder to multi-level marketing businesses such as Herbalife (NYSE: HLF), Usana Health Sciences (NYSE: USNA), and Medifast (NYSE: MED).

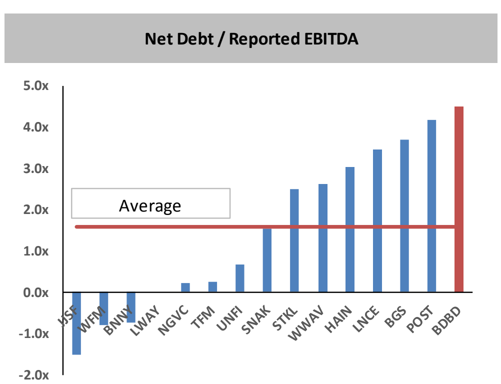
In the table below, we illustrate that by shifting the peer set, analysts have justified an increase in the sales, EBITDA, and EPS multiples by approximately 1.0x, 5.0x and 11x, respectively!

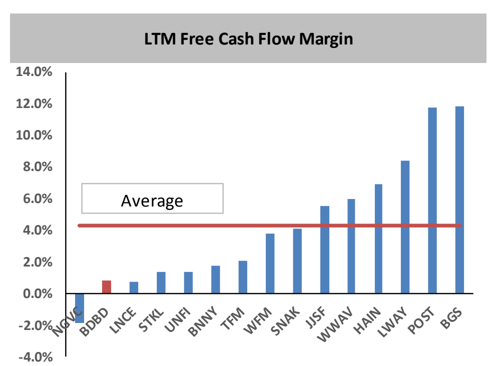
	"THEN"				"NOW"		
	EV/Sales	EV/EBITDA	P/E		EV/Sales	EV/EBITDA	P/E
Hain Celestial	2.0x	12.6x	20.8x	Natural Grocers	1.3x	15.0x	41.5x
United Natural Foods	0.5x	11.5x	23.2x	Annie's Inc	3.5x	23.1x	43.0x
Monster Beverage	3.4x	11.9x	21.7x	Whole Foods	4.7x	12.0x	29.6x
NBTY*	1.3x	8.0x	15.7x	The Fresh Market	1.5x	12.7x	28.6x
SunOpta	0.6x	7.3x	14.9x	White Wave	1.3x	11.7x	21.4x
Medifast	1.1x	8.5x	13.4x	Hain Celestial	2.0x	12.6x	20.8x
Herbalife	0.9x	5.2x	8.0x	United Natural Foods	0.5x	12.6x	20.8x
Usana	0.8x	5.0x	9.3x	Monster Beverage	3.4x	11.9x	21.7x
Martek Bioscience**	2.3x	8.4x	NA				
Average	1.4x	8.7x	15.9x	Average	2.4x	13.8x	26.6x

Note: Multiples based on 2013E estimates
* Acquired by Carlyle 10/1/10; multiples based on 1yr fwd estimates
** Acquired by DSM 12/22/10; multiples based on 1yr fwd estimates

The charts below use consensus analyst estimates to compare Boulder with a variety of health/specialty foods producers, distributors, and midcap diversified food producers. Boulder is receiving the highest valuation – again, supported by pie-in-the-sky growth expectations – while being the most highly leveraged and having amongst the lowest cash flow margins.







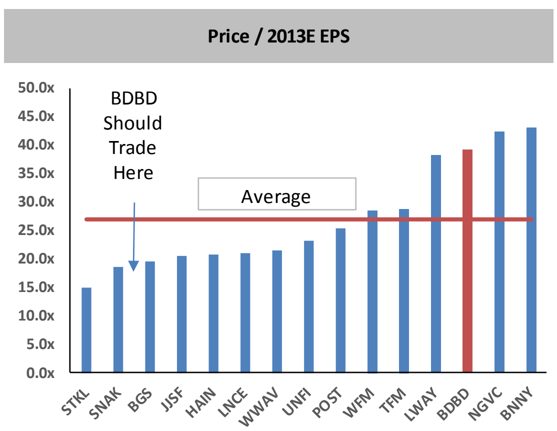
Valuation Too High Relative to Shaky Fundamentals

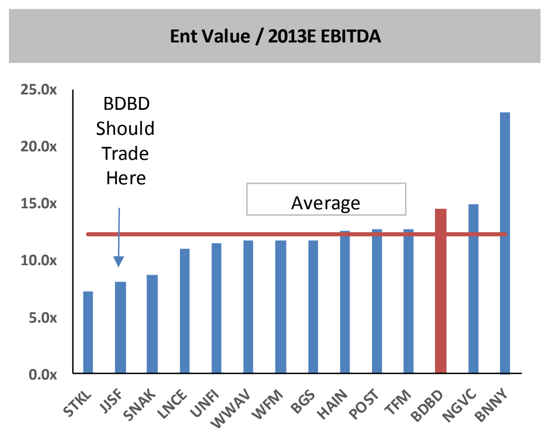
Given the evidence we've presented in this report, we find it virtually impossible to justify Boulder's current lofty valuation. Investors are giving management advanced credit for flawless execution, and ignoring numerous financial and operational risks. Sector valuations for high growth, organic food companies appear frothy from a historical context, but Boulder's valuation trumps them all.

It appears Boulder's valuation is supported by the belief that it is ripe as an acquisition target. However, we believe the chance of a takeover is slim to none. First, with Boulder's core butter/spreads business in persistent decline, and facing the possibility of extinction when patent protection expires in 2015, why would any investor gamble on the future of the core Smart Balance brand? Secondly, both Glutino and Udi's were recently sold in 2011 and 2012 in a competitive M&A sale environment. If another company had seriously wanted these brands, wouldn't they have purchased each company individually, rather than paying a control premium to Boulder's shareholders to have them all?

Lastly, we point to Warren Buffett's recently announced acquisition of Heinz as a recent M&A benchmark for establishing the value of a blue chip food producer. Heinz also has gluten-free products, and yet nowhere in the press release or conference call transcript was gluten-free mentioned as a motivation for acquiring Heinz. At the $72.50 per share offer price, Heinz is valued at 19.5x and 12.5x 2013E EPS and EBITDA.

Overall, when looking at the sector valuation, average earnings and EBITDA multiples are 27x and 12.5x, respectively. The charts below illustrate the magnitude of Boulder's valuation disconnect to its peers.





We believe Boulder should trade at the low range of its peers for the following reasons:

1. Its core butter/spreads business is in decline, and faces a real terminal risk of disappearing in 2015 from patent protection loss
2. Evidence that Earth Balance revenues have been declining, and quietly being covered-up with changes in reporting structure
3. Lingering concerns over the abrupt departure of three directors and the CFO shortly after the acquisition of Glutino
4. Management's history of overpromising and under-delivering. Moreover, management has yet to demonstrate any synergies from the acquisitions of both Glutino and Udi's
5. Growing price and product competition in the gluten-free segment will constrain Boulder's ability to compete on product innovation, or price leadership
6. Extreme leverage, and limited financial flexibility raise the prospect of a covenant breach in 2013 and beyond. The possibility of raising equity from an outstanding shelf remains high
7. Concerns over the integrity of the financials given recent changes in financial reporting, revenue recognition disclosures, and sudden inclusion of a bonus "clawback" provision in the event of a financial restatement

If Boulder were valued at a 15x – 20x Wall St. 2013E EPS estimates of $0.32c, a more realistic valuation for its share price would be $4.80 to $6.40 per share. If Boulder were valued at a 7x – 10x Wall St. 2013E EBITDA estimates of $69.8m, our share price target would be $4.00 to $7.40 per share. **However, even these price targets assume that Wall St. lofty expectations are met before financial calamity strikes**. Therefore, we set our current price target at $4.00 which is towards the very low end of our price target range.

($ in millions, except per share figures)

		Stock	% of		'12E-'13E		LTM						Enterprise Value /					
		Price	52-wk	Ent.	Revenue	EPS	Gross	EBITDA	FCF	P / E			EBITDA			Revenue		
Name	**Ticker**	**2/22/2013**	**High**	**Value**	**Growth**	**Growth**	**Margin**	**Margin**	**Margin**	**LTM**	**2013E**	**2014E**	**LTM**	**2013E**	**2014E**	**LTM**	**2013E**	**2014E**
Health/Specialty Foods																		
White Wave	WWAV	$14.97	78%	$3,301	9.9%	16.7%	36.9%	11.8%	6.0%	NM	21.4x	18.0x	12.2x	11.7x	10.3x	1.4x	1.3x	1.2x
Hain Celestial	HAIN	$54.94	75%	$3,158	20.2%	9.5%	27.5%	12.9%	6.9%	22.8x	20.8x	17.9x	15.9x	12.6x	11.2x	2.0x	1.7x	1.6x
Annie's	BNNY	$40.65	83%	$690	21.7%	75.0%	38.6%	12.2%	1.7%	75.3x	43.0x	32.3x	35.4x	23.1x	17.2x	4.3x	3.5x	2.9x
SunOpta	STKL	$7.13	97%	$632	6.5%	26.3%	12.6%	5.7%	1.4%	35.7x	14.9x	12.7x	9.8x	7.3x	7.0x	0.6x	0.5x	0.5x
Lifeway Foods	LWAY	$11.48	100%	$188	9.0%	7.1%	29.1%	12.5%	8.4%	44.2x	38.3x	31.9x	19.4x	NA	NA	2.4x	2.0x	1.8x
Inventure Foods	SNAK	$7.24	94%	$158	7.4%	30.0%	19.2%	7.9%	4.1%	24.1x	18.6x	16.1x	10.7x	8.7x	7.6x	0.8x	0.8x	0.7x
Health/Specialty Food Distributors																		
Whole Foods	WFM	$85.83	84%	$15,012	11.4%	13.7%	35.6%	9.2%	3.8%	32.4x	28.5x	24.0x	13.4x	11.7x	10.0x	1.2x	1.1x	1.0x
United Nat'l Foods	UNFI	$54.65	89%	$2,836	11.9%	15.4%	17.2%	3.8%	1.4%	27.6x	23.2x	20.5x	13.7x	11.5x	10.2x	0.5x	0.5x	0.4x
The Fresh Market	TFM	$48.41	74%	$2,370	18.0%	24.3%	33.9%	11.3%	2.0%	37.8x	28.6x	22.8x	16.4x	12.7x	10.3x	1.9x	1.5x	1.3x
Natural Grocers	NGVC	$21.56	86%	$488	21.2%	45.7%	29.5%	6.7%	-1.8%	61.6x	42.3x	NA	20.3x	14.9x	NA	1.4x	1.1x	NA
MidCap Food Producers																		
B&G Foods	BGS	$29.07	89%	$2,138	8.0%	23.3%	35.2%	26.3%	11.8%	24.2x	19.6x	18.4x	12.8x	11.8x	11.2x	3.4x	3.1x	3.0x
Post Holdings	POST	$38.29	94%	$2,148	2.8%	14.4%	44.7%	22.0%	11.7%	29.0x	25.4x	20.9x	10.0x	12.7x	9.1x	2.2x	2.1x	2.1x
Snyders-Lance	LNCE	$25.56	94%	$2,287	10.6%	43.5%	33.3%	9.4%	0.8%	30.1x	21.0x	17.9x	15.0x	11.1x	10.0x	1.4x	1.3x	1.2x
J&J Snack	JJSF	$68.97	99%	$1,107	5.5%	8.0%	30.4%	14.5%	5.5%	22.2x	20.5x	NA	9.0x	8.2x	NA	1.3x	1.2x	NA
				Max	21.7%	75.0%	44.7%	26.3%	11.8%	75.3x	43.0x	32.3x	35.4x	23.1x	17.2x	4.3x	3.5x	3.0x
				Average	11.7%	25.2%	30.3%	11.9%	4.6%	35.9x	26.1x	21.1x	15.3x	12.2x	10.4x	1.8x	1.6x	1.5x
				Min	2.8%	7.1%	12.6%	3.8%	-1.8%	22.2x	14.9x	12.7x	9.0x	7.3x	7.0x	0.5x	0.5x	0.4x
Boulder Brands	**BDBD**	**$12.50**	**89%**	**$1,016**	**23.2%**	**68.4%**	**43.0%**	**14.4%**	**0.9%**	**416.7x**	**39.1x**	**25.0x**	**20.7x**	**14.6x**	**12.0x**	**3.0x**	**2.2x**	**1.9x**

Source: Company financials, CapitalIQ calendarized estimates.

Appendix I: Competitive Landscape in the Gluten-Free Market

	Soups	Rice Pastas Beans	Crackers Cookies / Bars Snacks / Chips	Oatmeal / Granolas	Loafs Stuffing Bread Crumbs	Mixes	Spreads/ Butters	Specialty / Frozen	Website
Hanover Pretzels (Snyder Lance)			x						http://www.snydersofhanover.com/Products/Cid/9/Prid/318/
Chex-Mix (Gen. Mills)			x						http://www.chex.com/Recipes/GlutenFree.aspx
RW Garcia			x						http://www.rwgarcia.com/products.html
Crunchmaster			x						http://www.crunchmaster.com/home.aspx
Sam Mills		x							http://www.sammills.eu/retail-en.html
Mrs. Lepper's		x							http://mrsleepers.com/
Tinkyada Pasta		x							http://www.tinkyada.com/
DeBoles (Hain)		x							http://www.deboles.com/products/gluten-free-products.php
Mary's Gone Crackers			x		x				http://www.marysgonecrackers.com/
Nature's Path Food			x	x	x				http://us.naturespath.com/healthy-foods/controlling-your-diet/gluten-free
Arrows Mill (Hain)				x	x	x	x		http://www.arrowheadmills.com/content/products
Bakery on Main			x	x					http://www.bakeryonmain.com/
Cherry Brook Kitchen						x			http://www.cherrybrookkitchen.com/
Mi-Del			x						http://www.midelcookies.com/products/gluten-free
Mediterranean Snacks			x						http://www.mediterraneansnackfoods.com/gluten-free-chips/
Bora Bora			x						http://www.boraborafoods.com/homepage.aspx
Kind			x	x					http://www.kindsnacks.com/
Think Thin			x						http://thinkproducts.com/living-wellness/gluten-free/
Blue Diamond			x						http://www.bluediamond.com
Madora Snacks			x						http://www.popcorners.com/
Snikiddy			x						http://snikiddy.com/
Pirates Booty			x						http://piratebrands.com/healthy
Absolutely Gluten Free									http://www.absolutelyglutenfreeusa.com/About-Us_ep_7.html
Annie's		x	x						http://www.annies.com/products/Gluten-Free-Pasta-Snacks
Bob's Red Mill						x			http://www.bobsredmill.com/gluten-free/
KinniKinnick Foods					x				http://consumer.kinnikinnick.com/index.cfm/fuseaction/consumer.home.html
Glutenfreeda				x				x	http://www.glutenfreedafoods.com/
Chappaqua Crunch				x					http://www.chappaquacrunchgranola.com/
Ener-G		x	x		x	x		x	http://www.ener-g.com/
Dr. Dougall's	x								http://www.rightfoods.com/scripts/display_gluten_free.php
Imagine Foods	x								http://www.imaginefoods.com/products/gluten-free
Frontier Foods	x								http://www.frontiersoups.com/c-gluten-free-soups.html
Alter Eco		x							http://www.alterecofoods.com/
Kaia Foods			x	x					http://shop.kaiafoods.com/
Go Raw			x						http://www.goraw.com/
Sahale Snacks			x						http://www.sahalesnacks.com/index.aspx
Cocoroons			x						www.mycocoroons.com/
Real McCoy rice chips			x						http://www.realmccoysnax.com/
Purely Elizabeth				x					http://www.purelyelizabeth.com/
Four Sisters and a Brother						x			http://www.4sistersandabrother.com/
Aleia's			x		x				http://www.aleias.com/
Bionaturae Pasta		x							http://www.bionaturae.com/organic-pasta.html
My Dad's Cookies			x						http://www.mydadscookies.com/
Saffron Foods						x		x	http://www.saffronroadfood.com/our-products/gluten-free/
Andean Dream		x	x						http://www.andeandream.com/
Majans Bhuja			x						http://www.bhuja.com.au/home.php
Enjoy life			x	x		x			http://www.enjoylifefoods.com/#page=page-1
Schar		x			x	x			http://www.schar.com/us/
Pamelas			x			x			http://pamelasproducts.com/
Amys	x	x	x					x	http://amys.com/products/product-categories/gluten-free
Quinoa Harvest		x				x			http://www.quinoa.net/
Lundberg		x	x			x			http://www.lundberg.com/products/Special_diets/Glutenfree.aspx
Gillians		x			x				http://gilliansfoodsglutenfree.com/
Sun Butter							x		http://www.sunbutter.com/
King Arthur's						x			http://www.kingarthurflour.com/glutenfree/
Hodgson Mills						x			http://www.hodgsonmill.com/your-body-your-health/gluten-free/
Sunstart			x						http://www.sunstartusa.com/
Road's End		x							http://www.edwardandsons.com/reo_shop_pastas.itml
Bella Monica Pizza								x	http://www.bellamonica.com/
Bell and Evan's								x	http://www.bellandevans.com/glutenfree
Van's Waffles								x	http://www.vansfoods.com/
Guittard Chocolate								x	http://www.guittard.com
Ginny Bakes			x			x			http://www.ginnybakes.com/
Pacific Natural	x								http://www.pacificfoods.com/our-foods/special-diets
Dr Praeger's								x	http://www.drpraegers.com/Gluten-Free-C65.aspx
Sage Valley			x						http://www.foodotc.com/Sage-Valley-s/221.htm
Tate's			x						http://www.tatesbakeshop.com/c/product-gluten-free.html
So Delicious								x	http://sodeliciousdairyfree.com/files/tm_glutenfree.pdf
Dia Delights									http://www.diadelights.com/products.html
Dr Lucy's Cookies			x						http://www.drlucys.com/
CheeCa Puffs			x						http://www.cheecha.ca/
Xo Baking Co						x			http://xobakingco.com/
Ooogoe's Popcorn			x						http://www.oogiesnacks.com/about.php
Straw Propeller								x	http://www.strawpropellergourmetfoods.com/
I heart Keenwah		x							http://www.iheartkeenwah.com/
Rudi's					x				http://www.rudisglutenfree.com/gluten-free/products/
nogii			x						http://www.nogii.com/
Better Batter						x			http://betterbatter.org/
Canyon Bakehouse					x				http://canyonbakehouse.com/
Food for Life					x				http://www.foodforlife.com/about_us/gluten-free-difference
123 Gluten Free						x			http://www.123glutenfree.com/
Newburn Bakehouse					x				http://www.newburnbakehouse.com
Raw Revolution			x						http://www.rawrev.com/
Grindstone Bakery					x				http://www.grindstonebakery.com

Source: Prescience Point Market Research

Appendix II: Comparative Company Disclosures

Hain Celestial	We offer a variety of sales incentives and promotions, including price discounts, slotting fees and coupons, to our customers and to consumers to support the Company's products. These incentives are deducted from our gross sales to determine reported net sales. The recognition of expense for these programs involves the use of judgment related to performance and redemption estimates. **Differences between estimated expense and actual redemptions are normally insignificant and recognized as a change in estimate in the period such change occurs.** *Trade Promotions*. Accruals for trade promotions are recorded primarily at the time a product is sold to the customer based on expected levels of performance. Settlement of these liabilities typically occurs in subsequent periods primarily through an authorization process for deductions taken by a customer from amounts otherwise due to the Company. *Coupon Redemption*. Coupon redemption costs are accrued in the period in which the coupons are offered, based on estimates of redemption rates that are developed by management. Management estimates are based on recommendations from independent coupon redemption clearing-houses as well as on historical information. Should actual redemption rates vary from amounts estimated, adjustments to accruals may be required.
Annie's	Sales of the Company's products are recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, ownership and risk of loss have been transferred to the customer either upon delivery or pick up of products by the customer and there is a reasonable assurance of collection of the sales proceeds. Generally, the Company extends uncollateralized credit to its retailers and distributors ranging up to 30 days and performs ongoing credit evaluation of its customers. The payment terms are typically net-30 with a discount for net-10 payment. The Company recognizes sales net of estimated trade allowances, slotting fees, sales incentives, cash discounts and returns**. The cost of these trade allowances, slotting fees and sales incentives is estimated using a number of factors, including customer participation and redemption rates**. The Company has entered into contracts with various retailers granting an allowance for spoils and damaged products. Amounts related to shipping and handling that are billed to customers are reflected in net sales and the related shipping and handling costs are reflected in selling, general and administrative expenses. Product returns have not historically been material.
Lifeway Foods	Sales of Company produced dairy products are recorded at the time of shipment and the following four criteria have been met: (i) The product has been shipped and the Company has no significant remaining obligations; (ii) Persuasive evidence of an agreement exists; (iii) The price to the buyer is fixed or determinable and (iv) Collection is probable. In addition, shipping costs invoiced to the customers are included in net sales and the related cost in cost of sales. **Discounts and allowances are reported as a reduction of gross sales unless the allowance is attributable to an identifiable benefit separable from the purchase of the product, the value of which can be reasonably estimated, which would be charged to the appropriate expense account.**
White Wave	Sales are recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, the product has been delivered to the customer, and there is a reasonable assurance of collection of the sales proceeds. Sales are recorded net of allowances for returns, trade promotions, and prompt pay and other discounts. We routinely offer sales incentives and discounts through various regional and national programs to our customers and to consumers. These programs include rebates, shelf-price reductions, in-store display incentives, coupons, and other trade promotional activities. These programs, as well as amounts paid to customers for shelf-space in retail stores, are considered reductions in the price of our products and thus are recorded as reductions to gross sales. Some of these incentives are recorded by estimating incentive costs based on our historical experience and expected levels of performance of the trade promotion. **We maintain liabilities at the end of each period for the estimated incentive costs incurred but unpaid for these programs**. Differences between estimated and actual incentive costs are normally not material and are recognized in earnings in the period such differences are determined. We generally provide credit terms to customers of net 10 days, from invoice date. We perform ongoing credit evaluations of our customers and maintain allowances for potential credit losses based on our historical experience. Estimated product returns historically have not been material.
Inventure Foods	Provisions and allowances for sales returns, promotional allowances, coupon redemption and discounts are also recorded as a reduction of revenues in our consolidated financial statements. These allowances are estimated based on a percentage of sales returns using historical and current market information. We record certain reductions to revenue for promotional allowances. There are several different types of promotional allowances such as off-invoice allowances, rebates and shelf space allowances. An off-invoice allowance is a reduction of the sales price that is directly deducted from the invoice amount. We record the amount of the deduction as a reduction to revenue when the transaction occurs. We record certain allowances for coupon redemptions, scan-back promotions and other promotional activities as a reduction to revenue. **The accrued liabilities for these allowances are monitored throughout the time period covered by the coupon or promotion**.