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Booming Market for Baby Products Reflects Increased Technological Applications, Industry-Wide Consolidations

Investment Bank, Mercanti Group, Details Changes in Comprehensive Report

LOS ANGELES, CA, November 27, 2006 – Thanksgiving Day may usher in the Christmas season, but for merchants of baby products it's Christmas all year 'round.

Excluding diapers, food and apparel, spending on babies and toddlers – a group that includes some 20 million youngsters up to four years old – is running around \$40 billion a year. Products range from strollers and car seats to teething rings and DVDs. And, according to The Mercanti Group, an investment banking firm with offices in Minneapolis, Los Angeles, Seattle and New York, the market should enjoy sustained growth since, in addition to basics, parents are indulging their children with the latest gadgetry and, yes, even technology.

One of the strongest evidences of the trend is the attention television is paying to the market. “Without question, the number of companies launching into the TV content segment aimed at the juvenile market is immense,” writes Edgar Mendez, a Principal in Mercanti's Los Angeles office, who authored the firm's analysis of the market.

BabyFirstTV, the nation's first TV channel for babies and their parents, which counts investment group Kardan N.V. (Amsterdam: KARD.AS) and private equity firm Bellco Capital, LLC, among its primary investors, was joined last year by PBS' 24-hour cable channel, Sprout. Ion Media Networks, Inc. (AMEX: ION), NBC Universal (a unit of General Electric -- NYSE: GE), Scholastic Corporation (Nasdaq: SCHL), Classic Media/Big Idea and Corus Entertainment Inc. (NYSE: CJR) are joining forces to launch Qubo, a multi-platform, children's entertainment network that they expect to evolve into a 24-hour digital broadcast channel, with video on demand, and a branded Web site, Mr. Mendez points out.

But what also is noteworthy, the report says, is that approximately \$10,220 was spent annually (based on U.S. Department of Agriculture figures) on children up to two years of age. Higher income parents spent even more. “It is worth noting that more than 25 percent of overall expenditures for those people in the lower income bracket go toward child-rearing expenses, while more than 10 percent is spent by the highest income bracket,” Mr. Mendez comments.

Moreover, the Mercanti study notes that juvenile product trends also are shifting to appeal to the “Y” generation “with products emulating the tastes and entertainment values of today's new parents.” The report adds that “these consumers demand functionality, comfort and technical sophistication, and they are willing to pay for it.” The fact that couples are waiting to marry and having children in later years, when they are more financially secure, also has hastened the trend to bigger ticket items, the report says.

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Baby products, Page 2

Along with the changing trend in spending, consumers are demanding more advanced designs of car seats, strollers, highchairs and cribs. "As old-fashioned products get a 'facelift,' consumers are starting to expect that high-end technology and design features become standard on mid-pricing units," says Mr. Mendez. "Bringing up baby has never been more exciting, challenging and expensive than it is today, which spells opportunity for manufacturers and retailers, including large national chain stores focused solely on these youngsters. We are seeing it as well in the consolidations taking place in the industry, as this growing segment of the population gets increasing focus."

A copy of this report, one of a series of *Chronicle* reports published by The Mercanti Group, can be accessed on the investment firm's website, www.mercantigroup.com.

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