

Recapitalizing Your Business With Prospect Partners



Ready to Take
Your Company to
the Next Level?



Prospect Partners, LLC

Private Equity Expertise. Small Company Focus.

Who is Prospect Partners?

Prospect Partners is a Chicago, Ill.-based private equity firm focused exclusively on investing in small, growing companies with niche strategies. Since 1998, we have partnered with the owners and management teams of more than 80 leading businesses throughout the United States. A highly experienced and professional partner, we are committed to working together to build more valuable companies over time. Given our investment focus, we offer particular expertise when it comes to serving the financing and development needs of the smaller business owner.

Meet Our Team

The experience of Prospect Partners is deep and time-tested. Our investment expertise spans many types of industries, companies, and situations.



Maneesh Chawla
Principal



Lou Kenter
Founding Principal



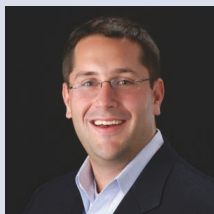
Erik Maurer
Principal



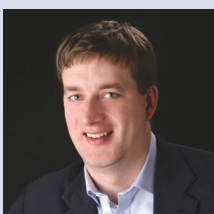
Rick Tuttle
Founding Principal



Phil Brennan
Vice President



Brett Holcomb
Vice President



Brad O'Dell
Vice President

Recapitalizing Your Business With Prospect Partners

Back in 1999, Ken Horne faced a dilemma. His company, Virginia College, a fast-growing post-secondary career college, needed money to open new campuses and develop new degree programs. At the same time, Horne, then 56, wanted to plan for his eventual retirement while continuing to grow the business, but did not want to risk losing his personal wealth in the process.

"It could have been a good time to sell, but I still wanted to run and build Virginia College," Horne recalls. So the veteran school operator instead recapitalized his Birmingham, Ala.-based vocational school with Prospect Partners, LLC, a private equity firm that invests in small companies.

"By recapitalizing, I took out a lot of my net worth but kept day-to-day control of the business," Horne explains. "I also was able to give equity stakes to my hard-working management team, which kept everyone focused on growing Virginia College. And grow we did, in a way that would have been inconceivable on our own."

By 2004, Virginia College had become the leading post-secondary career school system in the southeastern United States. During its partnership with Prospect Partners, Virginia College opened seven new campuses across four states, introduced 35 new programs, tripled its student body, and saw its revenue jump more than fivefold to \$60 million.

Recapitalizations Explained

Many business owners think they have only two options in managing the direction of their company: to keep going or to sell out. There is another way – a sponsored recapitalization. In this type of transaction, a "partial sale," an owner sells equity in the business to an outside financial partner, and then reinvests part of the cash proceeds in the restructured company in return for a continuing and significant ownership stake.

Recapitalizing with a professional private equity firm can provide many benefits often out of reach for smaller companies. Among them: Access to larger banks and better loan terms; professional counsel at the Board-of-Directors level on key business issues like strategy, management recruitment, operations, information technology, and financial systems; and an advisor whose incentives and goals are aligned with those of the business owner.

Who Should Recapitalize, and When?

A recapitalization can be attractive for owners of successful companies who, like Mr. Horne of Virginia College, have reached a point where bringing in an outside partner provides the best way to achieve business goals that are otherwise out of reach, or to address personal financial needs without compromising the growth of the business. These might include:

- A need for additional capital to support plans for: developing new products, services, or systems; expanding geographically; investing in equipment; acquiring other companies; and so on;
- A need for experienced outside counsel to help manage and further build a rapidly-growing company;
- A need to provide equity in the company to other management to reward their efforts and ensure they stay with the business;
- A need to share risk with a partner in order to grow the company more aggressively than the owner would feel comfortable doing alone;
- A need to reduce the amount of personal/family risk tied up in the business; and
- A need to take money out of the business to use toward unrelated financial obligations, like retirement, estate-planning, and paying for college.



Prospect Partners invests in many kinds of companies – manufacturers, distributors, and service providers – in a wide variety of niche industry segments.

Because owners, and their management teams, stay on to run the recapitalized company, everyone is motivated by a common focus: building shareholder value. With that shared focus, investors' stakes have great potential to become even more valuable over time.

The Types of Companies Prospect Partners Backs

While diverse, the companies in which we invest share some common characteristics. They are:

- **niche leaders** – leaders or potential leaders of a niche market that occupy a strong and defensible position within it.
- **growth-ready** – generating revenues typically between \$10 million and \$75 million. We also may consider smaller, complementary “add-ons” to support the growth of our existing companies. For example, we invested in Denstor Mobile Storage Systems, Inc., a maker of moveable shelving systems and storage products, to expand the reach of our portfolio company Pipp Mobile Storage Systems, Inc., into new foodservice, office, and retail markets. For add-ons like Denstor, we consider companies with revenues as low as \$2 million.
- **led by strong management teams** – we back veteran teams that have a strong desire to continue to run their business.
- **the right opportunity** – we consider companies in a broad range of niche manufacturing, distribution, and specialty business, consumer, healthcare, and industrial service markets. We ultimately invest in those we feel have the best potential to grow into larger companies. Because of our opportunistic investment approach, our investments run the gamut from specialty store fixtures and energy-efficient lighting systems to niche personal-care products, ethnic foods, corporate training/leadership development, and outsourced ultrasound services.
- **companies throughout the country** – our investment interests have been nationwide in big cities like Boston, Kansas City, and Phoenix ... and in small ones like Walker, Mich. and Yakima, Wash.

For more information, please visit us online at www.prospect-partners.com or call us at 312.782.7400.

Why Work With Prospect Partners?

In short: Because we understand. We know that transitioning your company requires, on our part, an intimate understanding of how your business works as well as the flexibility to meet your needs. When you choose Prospect Partners, you get more than a professional investor in your business. You get:

Unmatched experience. We are the nation's only private equity firm to raise three committed private equity funds to invest exclusively in small niche leaders. Since 1998, our team has invested in more than 80 companies in over 50 industry segments. We have grown our portfolio companies through all kinds of economic cycles, market conditions, and business circumstances.

Responsiveness and integrity. Through the process of every transaction, Prospect Partners works closely with owners and managers, ensuring ongoing, open dialogue, and strict confidentiality.

Our relationship-oriented philosophy. Every business, every management team, is unique. You have a dream to fulfill as you write your company's next chapters. We care about your goals, and about building strong relationships that endure.

A true partner. We won't micromanage the way you run your company, yet can provide resources as needed. Your management team will continue to run the business and drive its day-to-day success.

A focus on shareholder value. We will work with you and your management team as collaborative Board-level advisors for the sole purpose of increasing your company's value over time.

The backing of top institutions and financial managers. Limited Partners of our current \$200 million fund include some of the nation's most respected investors: Goldman, Sachs & Co., J.P. Morgan Asset Management, Performance Equity Management, LLC, the University of Notre Dame, the Northern Trust Corporation, Commonfund Capital, and RCP Advisors, LLC.

Strong references. Our best success indicators are the business owners who have chosen Prospect Partners to help successfully transition and profitably grow their companies. We encourage you to talk to them.

Business Owner Perspectives: Why We Recapitalized

Prospect Partners sat down with some of our business owners and asked them why they decided to recapitalize their companies. Here, in their own words, is what they had to say.

Brent Moss, Chief Executive Officer

Codel Entry Systems, Tacoma, Wash.
(Provider of residential entry door systems and accessories)

After borrowing \$100,000 on my house to start Codel in 1997, I wondered what I'd just done. But I had an idea I thought could work – and it did, better than I ever imagined. I never thought I'd sell, yet by the summer of 2004, the business I thought would be 12 employees had grown to 100. Codel was doing great, and we had good people and no debt. But I faced so many decisions – about money, about people, about products, about where to take the business. Having everything rest on my shoulders was sometimes overwhelming, and I didn't necessarily have the right team for what the company had become and where it now needed to go. It was time to bring in some partners. I always planned to stay – I am really involved in my work.



What happened: After speaking with a number of private equity firms, I chose to recapitalize with Prospect Partners in 2005. They felt like the right fit, both professionally and personally. Since then, I've been able to give Codel what it needed. I brought on a Chief Financial Officer, and our financial systems are now solidly in place. We've expanded into new locations and have developed new products, programs and software. I'm running the company like always, but feel a lot better now that I work with a Board of Directors whose opinions I trust. When we make big decisions, we jump together. The burden no longer is only on me.

Steve Altmayer, Chief Executive Officer*

Wrap Pack Products Corporation, Yakima, Wash.
(Provider of tissue wrap packaging for fresh fruits and molded pulp trays)

I had owned the business since 1988. We were a small, but dominant, fruit wrap manufacturer. By 2001, I was looking to sell and leave so I could pursue a variety of hobbies I'd always wanted to try. I got sidetracked because I enjoyed interacting with Prospect Partners so much. So I stuck around in the business.



What happened: I'm pleased I stayed because it turned out to be a win-win deal for me and my management team. In our three years with Prospect Partners, we developed new products, made significant capital investments that improved our margins, and acquired a complementary business. In 2004, I recapitalized again and finally retired. Prospect Partners gave me, and my management team, the financial security to set out on our personal quests.

*Position during time of Prospect Partners' investment

Paul Fraser and Kevin Barbary, Principals

Office Resources Holding Company, Boston, Mass.
(Distributor of high-end office furniture and systems)

It was 1999. Office Resources was growing rapidly; revenues had increased more than tenfold since we started the firm three years earlier. We'd already gone through three banking relationships. We didn't want to cash out but decided to recapitalize for three main reasons: We needed strong, ongoing counsel from an experienced partner at a critical time in our business; we sought to reduce our personal risk since we literally had invested everything we had into ORI; and finally, we wanted to improve our lending relationships.



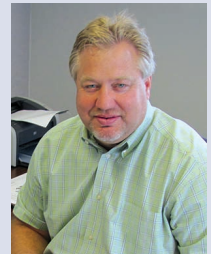
Kevin Barbary

What happened: We're still running the business. We've expanded to four locations and are annually ranked as one of the top five distributors of Knoll office furniture. Prospect Partners has been a great financial partner that has provided invaluable other benefits, like guidance on everything from human resources to business strategy. What's more, we've been able to access lenders and lending terms we would not have been able to achieve on our own with the small regional banks we knew, and that has been a big factor in facilitating our growth.

Jay Barnett, President and Chief Executive Officer

ESI Lighting, Inc., St. Paul, Minn.
(provider of energy-efficient lighting systems)

In 2006, ESI held a strong position in a fragmented market. We wanted to become even bigger, and were considering a strategic merger. Before doing that, we decided to meet with an investment banker about recapitalizing, so we would understand where each path could lead us. We didn't really know what a recapitalization was, or how partnering with a private equity firm could help ESI.



What happened: We liked Prospect Partners. Its people were professional, and had knowledge, from previous investments in other niche growth companies, that would really help us. We recapitalized in 2007. My management team stayed, and we considered new products and delivery channels. 2009 was a challenge, even for those in the energy space. Prospect Partners helped us weather that year and prepare for the future. Together, we improved our cost structure and made ESI healthier than ever. By early 2010 we were already seeing favorable results of our hard work and it felt great.



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200 West Madison St., Ste 2710 • Chicago, IL 60606
312.782.7400 ph. • 312.782.7410 fx.
www.prospect-partners.com