



PCG CORPORATE PARTNERS FUND

Equity Growth Capital for Established Businesses

2007



PCG Capital Partners

- ❖ Founded in 1979, Pacific Corporate Group (“PCG”) is a research-driven investment management firm focused solely on private equity
- ❖ PCG’s philosophy is to build value for our clients over the long-term by partnering with management teams and providing customized financing solutions
- ❖ The firm and its professionals have substantial investment experience
 - PCG has invested \$1.4 billion in 42 companies
 - Team of principal investors have an average of 22 years experience
- ❖ PCG Capital Partners provides growth capital to established businesses
 - Offers structured, non-control equity capital
 - Seeks proven, fundamentally sound businesses
 - Partners with management teams that have a track record of success
 - Maintains a long-term investment horizon



Unique Source of Equity Capital

- ❖ \$1 billion of capital under management
- ❖ Exclusive focus on non-control investing
 - Comfortable and experienced in minority positions
 - Not involved in day-to-day operations
 - Extensive approval rights not required
- ❖ Flexibility in transaction structure
 - Common
 - Preferred
 - Structured Equity
- ❖ Capable of investing significant amounts of equity capital: \$20 - \$75 million

The Fund is dedicated to providing non-control private equity to established companies to help fund strategic initiatives



Investment Parameters

- ❖ Targeted Investment: \$20 - \$75 million
- ❖ Securities: Preferred, common equity or structured vehicles
- ❖ Investment Horizon: Up to 7 years
- ❖ Use of Proceeds: Fund growth / expansion, acquisition finance, de-leveraging, shareholder liquidity or working capital
- ❖ Location: Significant North American presence
- ❖ Stage of Development: Established companies, preference for businesses with EBITDA of at least \$8 million

Industry experience includes: Consumer, Financial Services, Business Services, Healthcare, Industrials and Telecommunications



Value-Added Capital Partner

- ❖ Exclusive focus on non-control investments
 - Substantial experience structuring non-control investments
 - Financial partner for growth minded management teams
 - Align our interest with management and corporate partner
- ❖ Responsive to investment proposals and portfolio company issues
 - Quick yes or no
- ❖ Long-term perspective: create value by providing capital that helps management build their businesses
- ❖ Flexible and creative structuring of transactions

PCG's capital resources, financial skills, long-term orientation and network provide companies with an important advantage



Alternative Source of Expansion Capital

Relative advantages to other sources of “growth capital”

Traditional Financing Source	When Corporate Partner Equity is a Better Solution
<i>Debt</i>	<ul style="list-style-type: none"> • Company is at a point of maximum prudent leverage • Markets are “closed” due to market conditions • Company desires to retain cash flow for growth purposes
<i>Public Equity</i>	<ul style="list-style-type: none"> • Company wishes to remain private • Public equity markets are either “closed” or unattractively priced
<i>Hedge Funds</i>	<ul style="list-style-type: none"> • Company desires a long-term investor who will not cause short-term fluctuations in stock price
<i>Other Private Equity</i>	<ul style="list-style-type: none"> • Company wants to retain control of business • Company wishes to avoid a control-oriented investor



Representative Transactions

\$35 million in convertible preferred stock



Used to fund internal and acquisition growth, repay debt

\$19 million in structured equity



Used to fund acquisitions

\$37 million in structured equity



Used to fund internal expansion

\$100 million in convertible, redeemable, exchangeable preferred stock



Used to fund acquisitions and internal growth

\$30 million in convertible preferred stock funded of \$60 million committed



Used to fund internal growth

\$30 million in convertible preferred stock



Used to fund internal growth

The above are selected corporate partnering investments made by PCG Capital Partners to illustrate the diversity of industries in which we invest and the different types of investment structures used. For a complete list of all corporate partnering investments completed by PCG Capital Partners, please contact Bob Conca, General Counsel, Pacific Corporate Group LLC at (858)456-6000, or bconca@pcgfunds.com.



Representative Transactions: Case Studies



Lincoln Paper and Tissue (“Lincoln”) is a paper and tissue mill in Maine. Lincoln makes short-run “higher-end/niche” commodities, including deep-dyed party napkins and business reply cards.

Situation: Lincoln was formed by industry executives who purchased the mill out of Chapter 7, clear of any legacy environmental issues and with a flexible, affordable union contract. The new owners used their capital to finance the restart of the mill, but lacked the funds to expand tissue production to take advantage of excess pulp capacity and fulfill increasing demand for private-label tissue. Potential capital sources struggled to estimate the re-start costs and run-rate earnings of the mill because it lacked long-standing operating history since its restart.

Solution: PCG provided a financing solution which was structured so that bank lenders would treat the entire PCG investment as equity, allowing an additional \$32 million of bank debt to be raised.

Status: With its financing complete, Lincoln has begun to improve the efficiency of its current mill and add significant capacity with the installation of a new tissue line.

PCG Investment: PCG committed \$36.5 million in structured equity with liquidation preference

- ◆ \$28.5 million of subordinated notes with a \$34 million PAR value
- ◆ \$5.5 million of Class C LLC interests
- ◆ \$2.5 million of subordinated notes unfunded at closing
- ◆ 35% equity ownership with 2 Board seats



Primus Guaranty, Ltd. (“Primus”) is a leading provider of credit default protection covering single-name investment grade corporate and sovereign obligations. Generally, the protection takes the form of credit default swap, which efficiently reduces credit exposure for financial institutions.

Situation: Primus was a joint venture with Aegon, XL Capital and Radian Group. Primus had an experienced management team and strategic partners with sophisticated risk management expertise. However, the company required a financing partner that could provide substantial capital, drive value creation, and bring an independent view to governance.

Solution: PCG provided \$30 million of convertible preferred stock which contained approval rights and negative controls. PCG’s investment and involvement aligned the interests of the strategic partners and allowed the management team to focus on creating a great company.

Status: Primus consistently exceeded forecasts and the company rose to the forefront of the rapidly growing credit swap market. Primus completed an initial public offering in 2004 and trades on the New York Stock Exchange under the symbol “PRS”.

PCG Investment: PCG invested \$30 million in Series A convertible preferred stock

- ◆ Redeemable, convertible preferred stock with approval rights and negative controls
- ◆ 8% PIK dividend
- ◆ 18% equity ownership



Contact Information

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PCG Corporate Partners Team

Christopher J. Bower is the founder and *Chief Executive Officer* of PCG. Mr. Bower has over 25 years of investing experience and oversees PCG's investing activities. Prior to founding PCG in 1979, Mr. Bower was with Arthur Young & Co. Certified Public Accountants. Mr. Bower received his BS degree from the University of Colorado and holds a Juris Doctor degree from the University of San Diego. Mr. Bower is also a Certified Public Accountant.

Timothy R. Kelleher, *Managing Director*, has over 17 years of investing experience. Prior to joining PCG, Mr. Kelleher was a Partner and Senior Vice President responsible for sourcing, evaluating, negotiating and monitoring investments at Desai Capital Management Incorporated. Prior to that, Mr. Kelleher was an Associate with Entrecanales, Inc., where he made investments for a Madrid-based family. Before Entrecanales, Mr. Kelleher was an Associate with L.F. Rothschild & Co. Incorporated where he executed leveraged finance for buyouts and mergers and acquisitions advisory assignments. Mr. Kelleher has served on the board of numerous private and public companies, and currently is a board member of Backyard Broadcasting and Orbcomm. Mr. Kelleher began his career in the audit practice of Arthur Young & Company. Mr. Kelleher received his Masters in Accounting from New York University and his BA in History from Hamilton College.

Douglas Meltzer, *Managing Director*, has 16 years of investing experience. Prior to joining PCG, Mr. Meltzer was a Principal at The Blackstone Group where he was involved in sourcing, executing and monitoring investments in a broad range of industries. Before that Mr. Meltzer had similar responsibilities as a Vice President at DLJ Merchant Banking Partners. Mr. Meltzer currently serves on the Board of Directors of Lincoln Tissue & Paper and Structured Credit Holdings. He previously served as the Director of Strategic Development at EZ Buy, EZ Sell Recycler Inc. Mr. Meltzer received his MBA from The Anderson Graduate School of Management at UCLA and his BA from Cornell University.

John Coughlin, *Managing Director*, is involved in the Corporate Partners Fund and Co-investment activities. Prior to joining PCG, Mr. Coughlin was Chief Executive Officer of Kool Smiles Holding Corporation, a private equity backed national children's retail/healthcare company. Before that, he was a Senior Partner with The Parthenon Group where he provided strategic and transaction advisory services to CEOs, boards and private equity groups. At Parthenon, he was the founder and managing partner of the firm's San Francisco office as well as a member of the Executive Committee. Prior to Parthenon, he was at Credit Suisse First Boston where he originated, structured and executed financings. Mr. Coughlin received his MBA from the Tuck School at Dartmouth College and his Bachelor of Arts, Phi Beta Kappa, from the College of William & Mary.