From: Brian Mayer <mayerb@mcginnsmith.com>
Sent: Wednesday, May 25, 2005 3:13 PM (GMT)
To:
Cc: newyorkcitybrokers@mcginnsmith.com
Subject: FW: books on PSCP
Attach: PPM May Final.pdf; Pine Street Capital Partners 051705v1.pdf

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This is the new and updated Pine Street materials.

From: Tony Schmitz [mailto:schmitzt@pinecap.com]
Sent: Wednesday, May 25, 2005 10:48 AM
To: Brian Mayer (E-mail)
Subject: books on PSCP

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Growth Capital for Exceptional Companies

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PINE STREET CAPITAL PARTNERS, LP

PSCP

AMENDED CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

May 2005

Copy # _____

Pine Street Capital Partners, LP

Table of Contents

I. INTRODUCTION

Pine Street Capital Partners, LP (the "Fund"), a Delaware limited partnership formed by Pine Street Capital Partners LLC (the "General Partner"), is seeking an aggregate of $50 million in capital commitments and debt financing (the "LP Units") from investors seeking a combination of current return and capital growth. The Fund provides mezzanine capital for private and public smaller middle market companies, all as more completely described in this Amended Confidential Private Placement Memorandum (the "Memorandum"). The maximum offering size will be $75 million. On January 6, 2005, the Fund had a first closing with approximately $22 million in LP Units.

This Memorandum has been prepared for presentation solely to a limited number of investors, each of whom is believed to have such knowledge and experience in financing and business matters as to be capable of evaluating the merits and risks of an investment in the limited partnership interests and senior notes of the Fund, which will be sold only in units as LP Units.

The LP Units are not being registered with the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "1933 Act"), or under any state securities laws, in reliance upon exemptions thereunder. The LP Units are being offered exclusively to accredited investors pursuant to Regulation D under the 1933 Act, and Section 4(2) of the 1933 Act. Neither the SEC nor any other governmental or other agency has reviewed or passed upon the accuracy or adequacy of this Memorandum. Any representation to the contrary is unlawful.

Each of the investors will be asked to represent that he or she is acquiring LP Units for investment purposes only, with no present intent of reselling or distributing the LP Units. The LP Units are subject to restriction on transferability and resale and may not be transferred or resold except as permitted under the 1933 Act and applicable state securities laws, pursuant to registration thereunder or exemption therefrom, and as permitted by the Fund's limited partnership agreement. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

No person has been authorized in connection with this offering to give any information or make any representations other than as contained in this Memorandum. This Memorandum is delivered to prospective investors on a confidential basis for use only by the prospective investor and the prospective investor's advisers. In making an investment decision, prospective investors must rely on their own examination of the Fund and the terms of the offering, including the merits and risks involved. The LP Units are speculative in nature and an investment therein involves a high degree of risk. See "Investment Considerations," below. Prospective investors should not construe the contents of this Memorandum or any related documents as legal, investment or tax advice and should consult such advisers as they deem appropriate concerning an investment in the Fund. This Memorandum may not be reproduced or redistributed without the express prior written consent of the General Partner of the Fund.

In order to effectuate an investment in the Fund, each prospective Limited Partner will be required to become a party of the Fund's limited partnership agreement and execute a subscription agreement. In the event that any of the terms, conditions or other provisions of such agreements are inconsistent or contrary to the description or terms set forth in this Memorandum, such agreements shall control. The subscription agreement contains an investor questionnaire containing representations as to, among other things, such prospective investor's compliance with the suitability standards, ability to evaluate the risks of investing in the Fund and awareness of transfer restrictions pertaining to the LP Units.

This Memorandum does not constitute an offer or solicitation in any state or other jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in any such state or jurisdiction.

II. EXECUTIVE SUMMARY

Introduction

Pine Street Capital Partners, LP (the "Fund") has been formed to provide mezzanine capital to smaller middle market companies through directly negotiated investments. The objective of the Fund is to generate superior risk adjusted returns to its investors through current income and capital appreciation, while minimizing downside risk. Investments typically will be structured such that expected returns generally will be between 18-22% annually. As of the date of this Memorandum, we have completed one transaction, a $2 million co-investment (of a total mezzanine round of $5 million) in HealthTrax, Inc., a company engaged in the management of medical fitness centers. Additional details regarding this investment are provided below.

The Fund is seeking to raise $50 million in funds from investors, with a maximum of $75 million to be raised. These funds are being raised through the issuance of units (the "LP Units"), with (i) 40% of each investor's commitment consisting of a five (5) year note bearing current interest at the rate of 9% per annum, and (ii) 60% of each investor's commitment structured as a limited partnership interest, each as further described below. On January 6, 2005, the Fund held a first closing with approximately $22 million in LP Units.

The Fund is one of a limited number of mezzanine funds in the U.S. dedicated to smaller middle market companies, which we define as those with sales of $10 million to $100 million. The principals of the Fund (the "Principals") believe superior investment returns can be achieved by (i) limiting the Fund size to allow for smaller investments than larger funds are willing or able to make, (ii) focusing on companies which have relatively few options for accessing capital, (iii) maintaining a well diversified portfolio, and (iv) working intensively with management of each company to build and realize value. Investments in portfolio companies are expected to range from $1 million to $8 million, with a target investment size of $2 million to $4 million.

Investment Strategy

The Principals have developed an investment strategy that we believe will result in meaningful returns to Fund investors while not exposing the Fund to undue levels of risk. This strategy consists broadly of the following:

- **Focus on Large, Underserved Market Sectors.** According to OneSource Information Services, there are well over 75,000 companies in the U.S. within our target market. Capital providers historically have underserved microcap public and lower middle market private companies, providing an attractive opportunity to invest selectively in this market. Given the lack of capital available to these companies, the market tends to be inefficient, with companies focused more on certainty of funding and value added investors than they are on rate alone. As a result, we expect to make investments in portfolio companies generally on more favorable terms than those attained in competitive bidding processes typically associated with larger issuers.

- **Disciplined Transaction Selection.** We expect that the Fund will invest in 12-15 separate companies (co- and direct investments) across multiple industry sectors, providing effective diversification in the portfolio. The Principals have significant backgrounds in sourcing middle market transactions and we intend to leverage our experience and networks to find and undertake transactions with companies that in general share some or all of the following characteristics: current or near-term positive cash flow; a recurring revenue business model; high gross margins; a sustainable competitive position; an appropriate capital structure; operate in a growing industry sector or sub-sector; and a management team dedicated to increasing value and that has a significant stake in the company's success.

- **Active, Value-Added Investor.** Our goal is to identify and structure transactions where we can leverage our operating and advisory expertise and, together with company management, build value to maximize Fund returns. We believe the blend of experience of the Principals is relatively unique among mezzanine funds, whose management teams typically have financial and transactional experience yet little or no direct operational experience. Along with proven track records in direct investing, investment banking and commercial lending, the Principals also have held positions as Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Technology Officer of public and private companies. Further, the Principals have founded or co-founded four companies, three of which were subsequently sold to larger, public companies.

  In general, we do not intend to be only a provider of capital – we believe the best returns are driven by a plan to improve company value in addition to thoughtful and careful structuring of an investment. Our involvement with each investment will vary based on factors including the size of the company, amount of our investment, depth of management team and the company's overall stage of development.

- **Maximizing Exit Value.** The General Partner anticipates an average holding period for each investment of four to five years. We expect our primary source of repayment to come from internally generated cash flow from the respective portfolio companies. In certain instances, our investments will be repaid through a recapitalization of the borrower, a repurchase of the Fund's investment by the borrower or a third party, an IPO, or a sale of the business.

  A meaningful component of our overall return is the value derived from the equity participation we have in a company, and our ability to work with management to grow that value. We will employ a disciplined approach to harvesting value, which is a critical event in investment performance. The Principals will have a clear understanding with management of the portfolio company on the exit strategy, and of the likely timing of that investment exit.

  We believe that in many smaller companies – particularly those described as emerging growth companies – value often runs in cycles. Understanding value requires a view on not only specific company performance, but also sector growth rates, total market size, strength and sustainability of niche, relative competitive strength, and investment community perspective. While a particular company may continue to perform as expected, relative value may change significantly based upon these other factors. We will track each of these factors (and other factors we believe are relevant) with regard to each investment, so that we have an understanding of when an exit is most appropriate.

Activities Since Initial Closing

As mentioned above, on January 6, 2005, the Fund held a first closing with $22 million in LP Units. Since that time, we have continued our Fund raising efforts while also working aggressively to build the flow of transaction opportunities.

Transaction Opportunity Review

As of the date of this Memorandum, we have received and reviewed over 70 opportunities. This transaction flow has been primarily derived from (i) the relationship network of the Principals of the Fund, (ii) other mezzanine providers, (iii) business brokers, and (iv) investment bankers.

These transactions break down as follows, by type of transaction and industry:

Use of Proceeds:	
Growth	46%
Buyout	23%
Recapitalization	7%
Refinance	6%
Other	18%

Industry:	
Services (including technology)	57%
Manufacturing	18%
Distribution	10%
Retail	3%
Other	12%

The data shown above supports our thesis regarding the need for this type of financing and our ability to source transaction opportunities. The Principals of the Fund will continue to work aggressively to generate transaction flow by building out our networks, and expanding our marketing to additional channels of referral opportunity such as banks, attorneys, etc, and perhaps most importantly begin to develop direct sourcing opportunities.

There are currently eight (8) transactions being reviewed actively, of which four (4) we have categorized as likely potential prospects (significant due diligence undertaken, pricing reviewed, and, in certain circumstances, an indicative term sheet presented). There can be no assurance that any of these transactions will ultimately be undertaken by the Fund, or, if undertaken, that such investments will be successful.

Overview of HealthTrax, Inc. Investment

On April 19, 2005 the Fund made its initial investment. The Fund made a $2 million investment, of a total mezzanine round of $5 million, in HealthTrax, Inc. ("HealthTrax"). The Fund co-invested with a regional mezzanine provider on this opportunity. HealthTrax, headquartered in Glastonbury, Connecticut, manages 1) medical fitness centers in partnership with hospitals, and 2) fitness centers under contractual agreements with large corporations with a focus on reducing workers' compensation costs. HealthTrax has been in business for more than 25 years. Our financing was used to recapitalize the company and provide growth capital.

Market Opportunity

We believe middle market companies' need for flexible sources of capital is growing as economic activity picks up and business confidence rises. At the same time, these companies' access to traditional capital sources is declining. According to The DAK Group/Columbia Business School Annual 2005 Survey of Middle Market Companies, lack of capital was cited by nearly 1/3rd of the respondents as one of the two largest obstacles to company growth – even with 2004 and an increase from 10% in 2003. Further, 66% of respondents expect their capital expenditure budget to increase in 2005, up from 50% in 2004. As a result, we believe a unique opportunity exists for mezzanine capital focused on smaller middle market companies. The confluence of factors creating this opportunity is discussed below.

1. *Growing size of middle market*

The number of companies and transactions in which mezzanine capital may be appropriate is sizeable and growing as evidenced below.

- According to OneSource, the number of companies in the U.S. within our target market (based on revenue) has grown from approximately 36,000 in 1992 to over 75,000 today.
- Since the beginning of 1997, venture capital funds have invested over $280 billion in total capital in 31,000 transactions covering over 11,000 separate companies. Many of these companies have worked over the last several years to build sustainable businesses and need additional capital to continue their growth.
- The number of publicly traded companies has grown as well. According to FactSet, there are currently over 1,500 public companies (excluding banks and bank holding companies) with a market capitalization of less than $200 million and positive operating earnings.

2. *Limited access to non-bank capital by middle market companies*

Historically, private equity firms have committed limited capital to the middle market sector. Capital has been provided from leveraged buyout ("LBO") firms who typically require a controlling ownership stake. As a result, LBO firms generally are not sources of capital for owners of middle market companies who prefer to retain a controlling interest in their company. Venture capital firms generally invest in equity, but while significant capital is available they have particular growth and market requirements and expect significant ownership restrictions.

While there are a large number of companies within the middle market, individually they have had significant constraints historically in accessing the public debt and equity capital markets given their size. In 2004, only 10% of all high yield issues raised less than $100 million. In recent years the public equity markets have offered limited access to capital for these companies as well. While the public equity markets have rebounded to some degree and offering activity has increased, there remain significant impediments to becoming a public company, specifically for smaller middle market companies.

Lastly, the costs and regulatory issues inherent in being a public company have increased significantly in recent years as a result of Sarbanes-Oxley and other related changes. We believe that this may make the public markets less attractive as a source of capital going forward.

3. *Changing dynamics of traditional financing sources for middle market companies*

Given their limited access to non-bank capital, middle market companies have historically relied primarily on senior bank loans for capital. In the last several years, fundamental changes within this industry have resulted in a decrease in capital availability for middle market companies. Such changes include the following:

- Consolidation in the U.S. financial services industry has reduced the number of commercial banks from approximately 11,000 to less than 7,800. We believe that the larger remaining institutions will increasingly reserve their credit capital for large borrowers who offer the highest potential for capital markets and other fee revenue; and

- It is our view that regional banks, historically a primary source of capital for smaller middle market companies, are focusing more on asset-based senior lending. This has created an opportunity for non-bank lenders to provide more flexible forms of financing to middle market companies. Further, as the United States continues to shift more to a service-based economy, companies will have less physical capital and more human and intellectual capital. This dynamic makes traditional asset based loan structures less applicable for these borrowers.

The PIPEs market (private investment in public equity) has picked up some of the financing slack for publicly traded companies. The PIPEs market has grown from 457 transactions and $5.2 billion in issuance in 1997 to 1,269 transactions and $15.49 billion in issuance in 2004 (with a peak of 1,261 transactions and $24.8 billion in issuance in 2000). Average transaction size has remained relatively constant, at $11.4 million in 1997 and $12.2 million in 2004. The pace has continued in the 1st Quarter of 2005, with 322 transactions and $6.03 billion in issuance. These transactions are typically a relatively expensive source of capital, and we believe the growth in this market is indicative of the issues described herein.

Management Team

The Fund is managed by a senior management team (indirectly through the General Partner) consisting of Tony Schmitz, David Smith, Timothy Welles and Michael Lasch (the "Principals"). These individuals have over 80 years of collective experience in sourcing middle market transactions in diverse roles acting as principal investors, fund managers, senior executives in public and private companies, investment bankers, commercial lenders and investment advisors. The team in the aggregate has been involved with over 300 middle market transactions across various industries including telecommunications, technology, media, entertainment, healthcare, financial services, distribution and consumer products. The team also brings experience as founders and managers of multiple organizations with direct P&L responsibility for entities ranging from start up to $250 million in revenue.

Summary biographical information on the Principals is presented below. Additional information regarding the management team may be found in Section IV.

Tony Schmitz, 45, is a Partner of PSCP. Mr. Schmitz was formerly President and Chief Technology Officer for 24/7 RealMedia Inc., a publicly traded entity offering interactive marketing and technology solutions. Mr. Schmitz is currently a member of the Board of Directors of 24/7 RealMedia. Mr. Schmitz has almost 20 years of experience as a successful entrepreneur, building and selling three companies to larger, publicly traded companies. He brings a unique perspective to Fund management given his significant experience addressing operational and strategic issues facing small companies and positioning companies to maximize value. Investors in Mr. Schmitz's companies earned average returns on invested capital in excess of 7x investment. Mr. Schmitz received a B.S. from the State University of New York at Albany.

David Smith, 59, is a Partner of PSCP. Mr. Smith founded McGinn Smith, an investment banking and brokerage firm, in 1980, and currently serves as its President and

Chief Executive Officer. Mr. Smith is primarily responsible for the operation and management of McGinn Smith, but has long been active in arranging financing and providing guidance to smaller middle market companies and to entrepreneurs. He is a member of the board of directors of Integrated Alarm Services Group, Inc, a publicly traded company. He was a principal in IASG's predecessor company, and was integral in the formation of the company and in its initial public offering. He is currently a managing director of First Independent Income Notes LLC, First Excelsior Income Notes LLC, and Third Albany Income Notes LLC, investment funds aggregating $70 million in principal amount. Mr. Smith is a director and/or a general partner in a number of privately held corporations and other investment partnerships, including Coventry CareLink Holding Corp., a long-term healthcare insurance company. Mr. Smith received a B.A. in Economics from Hamilton College.

Timothy Welles, 45, is a Partner of PSCP. Mr. Welles brings over 20 years experience in executive positions of public and private companies, including senior positions with investment banking and investment responsibilities. Mr. Welles was CFO and subsequently co-head of the Equity Capital Markets Group at First Albany Companies as well as Managing Director of Investment Banking at Stifel Nicolaus & Co. and at Advest, Inc. In these positions, he was involved in sourcing and/or leading the execution of over 150 middle market acquisitions, recapitalizations, IPOs, take privates, leveraged buyouts and sale transactions. In addition, Mr. Welles brings significant experience in operational management including COO of Insight First, a venture-backed web analytics company, and COO of Colonial Data Technologies, Inc., a publicly traded manufacturer of caller-ID equipment. Mr. Welles holds a B.A. from the State University of New York at Albany, and a J.D. from Albany Law School.

Michael Lasch, 36, is a Principal of PSCP. Mr. Lasch has significant experience in executing leveraged middle market transactions, with a primary focus on media and entertainment companies. Prior to joining PSCP, Mr. Lasch was a Director with FleetBoston Corporation's corporate banking unit, where he sourced, structured and negotiated leveraged cash flow opportunities for middle market companies. Most recently, he served as the portfolio manager of a $250 million leveraged loan portfolio and had primary responsibility for analyzing and mitigating the bank's credit risk to individual clients. Mr. Lasch's background provides a credit understanding and discipline complementary to the management needs of a mezzanine fund. He earned a B.A. from College of the Holy Cross and an M.B.A. from Emory University.

Collectively, management of the Fund possess the necessary background to oversee every aspect of an investment – from sourcing and structuring an investment, to providing portfolio companies with advisory services while our capital is committed and, finally, to positioning the company to maximize value and monetize our investment. We believe our added experience of founding, operating and selling middle market companies will help (i) differentiate us from our competitors pre-investment and (ii) protect and grow our capital post-investment.

Affiliation with McGinn, Smith & Co.

McGinn Smith is an investment banking and brokerage firm founded in 1980 and headquartered in Albany, New York with branch offices in New York City and Clifton Park, New York. Since its founding, the firm has provided investment banking services to entrepreneurs and smaller companies, and financial advisory services to high net worth individuals and institutional investors.

McGinn Smith has raised and managed approximately $225 million in debt capital for mezzanine-type investments in the past ten years. This capital has been deployed in making investments in a number of lower middle market companies and in acquiring alarm monitoring contracts and related alarm company operating assets. The latter investments resulted in the creation of Integrated Alarm Services Group, Inc. (IASG), a company that completed an initial public offering in July 2003.

McGinn Smith raised over $400 million of debt capital to finance the purchase of alarm monitoring contracts and related assets. Of this amount, approximately $185 million was subordinated capital raised in the form of fixed coupon trust certificates of varying durations with a weighted average annual yield of 12.1%. The remainder was senior bank and institutional debt utilized as a senior tranche in acquiring the alarm contracts and as a warehouse line of credit. Of the $400 million total amount raised, $390 million of principal amount has been repaid together with interest thereon while $10 million remains outstanding at IASG and a related entity.

In addition, McGinn Smith has raised $70 million of capital through three funds, First Independent Income Notes LLC ("FIINs"), First Excelsior Income Notes LLC ("FEINs"), and Third Albany Income Notes LLC ("TAINs") to make investments in lower middle market companies. FIINs and FEINs are fully invested with a weighted average coupon from current investments of 17.6%. TAINs are currently being invested.

Participating in PSCP is an extension of the McGinn Smith strategy with regard to raising and deploying capital in the private equity area. Prior capital raised and invested has allowed McGinn Smith generally, and David Smith in particular, to gain an understanding of the mezzanine market overall. Management of the Fund will have access to all resources and capabilities of McGinn Smith, including access to potential transactions introduced by this network of relationships. We believe that this experience and network of relationships will be very beneficial to the Fund and its investors.

The existence of FIIN's, FEIN's and TAIN's, and other funds that may be formed by McGinn Smith in the future, creates the possibility for conflicts of interest with the Fund. In order to mitigate this risk, the Fund shall have a right of first refusal on any investment opportunity originated by or presented to McGinn Smith (other than those cases where McGinn Smith is acting as an advisor or agent of a McGinn Smith client in connection with McGinn Smith customary activities). In the event that the management of the Fund declines an investment, or determines to make an investment that is less than the total amount of mezzanine capital sought by the portfolio company, McGinn Smith shall have the right to utilize other capital available to it to make such investment, or participate in such investment with the Fund, as the case may be.

Additional Investment Merits

- **Investment Experience.** The investment experience of the principals of the Fund consists of (i) managing mezzanine-type investment funds, (ii) acting as principal investors, (iii) undertaking corporate activities such as acquisitions, restructurings, sales and capital raising as principals, and (iv) acting as advisors to corporate clients on numerous types of financial transactions.
- **Investment Advisory Board.** Management of the Fund has established an investment advisory board which currently consists of five (5) members, each of whom is also an investor in the Fund. Additional members may be added from time to time. The Board is made up of experienced executives and principal investors who will be available to the

management of the Fund to advise on topics such as transaction structure, corporate objectives and opportunities, and exit scenarios. In addition, the Board will provide oversight on governance issues. In certain circumstances, they may also work directly with portfolio companies on specific projects and serve as sources of potential transaction flow.

- **Proprietary Deal Flow.** Fund management has a significant number of long-standing relationships among executives, attorneys, accountants and financial intermediaries, which will provide a high quality transaction flow. In addition, we intend to undertake a very aggressive direct marketing approach to companies within our target market in order to develop transaction opportunities. The latter approach allows us to build relationships with management, establish ourselves as a valued partner providing both capital and strategic advice and earn returns commensurate with that role – rather than returns based on a competitive bidding process. A secondary focus will be on participating in transactions sponsored by larger investors. This will allow the Fund to leverage its personnel, deepen relationships for providing a steady flow of investment opportunities, and deploy capital more broadly.
- **Ability to Invest in a Wide Range of Transaction Types.** Our ability to invest in a range of securities, in both control and non-control situations, allows us to make the most of our transaction opportunities. In addition, in many instances investments are tailored to meet a particular company's needs.
- **Thorough Due Diligence**. We will undertake a very thorough due diligence review, and have a multi-step process for approval of new investments (see Section III for detailed description). We expect to review hundreds of opportunities every year to make a few investments. The process is designed to ensure that we appropriately assess the risk/reward balance.

Mezzanine Market Overview

Mezzanine capital commonly refers to that portion of a company's capital structure which "fills the gap" between senior debt and common stock. It generally consists of subordinated debt or preferred stock, and may include a combination of both. Mezzanine debt securities are typically interest bearing, often with a combination of current pay interest and payment-in-kind ("PIK") interest, and frequently carry equity participation in the form of stock, warrants or options. Companies typically consider accessing the mezzanine market because (i) they have a need for capital beyond what they generate in free cash flow or is available in senior debt, (ii) it is a relatively less expensive form of capital than straight equity, and (iii) capital can be raised without giving up significant levels of ownership and/or management control.

The following table details some of the specific activities that mezzanine capital typically supports:

Corporate Growth Capital	*Change of Ownership*
- Expansion Plans - Corporate Acquisitions - Corporate Development Activites - Strategic Partnerships	- Leveraged Buyouts - Going Private Transactions - Management/Sponsorless Buyouts - Corporate Subsidiary Spin-off/Sale
Personal Liquidity/Succession	***Balance Sheet Changes***
- Shareholder Liquidity - Shareholder Buyouts - Sucession Planning/Wealth Transfer	- Refinancing - Recapitalization

In 2004, a total of $3.8 billion in mezzanine capital was raised in 15 different funds, of which approximately $1.5 billion was in three funds. In 2003, a total of $3.6 billion in mezzanine capital was raised in 11 different funds, of which $2.7 billion was raised in a single fund by an affiliate of Goldman, Sachs & Co. In each of these years, mezzanine capital represented less than 10% of funds raised in the overall private equity sector. (See Section III for more detail on the Mezzanine market.)

Fund Structure

The Fund is structured as a limited partnership.

III. OVERVIEW OF PINE STREET CAPITAL PARTNERS

Pine Street Capital Partners L.P. is seeking to raise $50 million in capital commitments and debt financing (up to a maximum of $75 million) to make investments in lower middle market public and private companies. Management of the Fund seeks to achieve superior risk adjusted rates of return primarily through mezzanine investments in companies meeting our investment criteria.

We expect to invest between $1 million and $8 million in each portfolio company, although we may arrange larger investments and syndicate a portion of such investments. We may also participate in transactions arranged by other mezzanine funds. In general, we expect to own less than 50% of the common stock of each portfolio company, although opportunistically we may acquire a greater than 50% ownership interest. The holding period for investments will generally be approximately five years, although the Fund may make investments of a shorter or longer duration in order to meet Fund liquidity requirements and/or portfolio company financing needs. Individual investments will be exited through a recapitalization of the company, a repurchase of the Fund's interests by the company or a third party, the sale of the company in its entirety, or a public offering of securities.

Management of the Fund believe that our focus on making flexible, well-structured investments with an emphasis on building enterprise value will allow us to participate in many attractive investment opportunities within the lower middle market. The Principals have many years of experience in this market, and will generally focus on both public and private companies with sales of between $10 and $100 million. We expect that most of our transactions will be toward the lower end of this range. We believe this is a particularly attractive segment due to the significant number of companies within this market in need of capital and management assistance, and the fact that this market has received limited attention (relative to its size) from private equity sponsors and the public capital markets.

The comparatively limited attention paid to this market segment (particularly for non-controlling investments) creates certain inefficiencies which we believe provide attractive investment opportunities for those with the experience and dedication to source transactions and structure them appropriately. Management of the Fund, along with McGinn Smith, have a wide range of relationships with financial intermediaries and company management within the middle market, such that we expect a significant level of potential transaction flow upon raising the funds.

We believe that most growing, profitable and closely-held companies are not for sale, but are often attractive businesses in which to invest. These companies often need capital (many times in relatively limited amounts) beyond what they generate in free cash flow or senior debt availability in order to invest in internal growth initiatives and/or acquisitions. At other times they need capital for balance sheet restructuring, estate planning or shareholder liquidity needs. We have the ability to evaluate each opportunity and, when we believe the opportunity is worthwhile, to structure the investment such that it meets the needs of both the portfolio company and the Fund. We expect that this approach will increase the number of potential investment opportunities available to us, and also reduce our dependence on any particular industry segment, stage of economic cycle, state of the capital markets or pace of merger and acquisition activity.

Another area in which we intend to focus is the small and micro-capitalization public market. Many companies came public in the latter half of the 1990's and in 2000, a significant number of which were relatively early stage. In many instances they have become "orphaned," with little or no research coverage or institutional ownership, despite relatively solid financial and operating performance. We believe that this is an attractive area for potential investment, due to (i) the experience we have in working with publicly traded companies to build value, (ii) the current regulatory and public opinion issues that are likely to result in these companies to continue to be under-followed, and (iii) publicly traded companies' frequent need for relatively smaller amounts of capital than available through traditional offerings, as evidenced by the strength of the PIPEs market. Further, we believe that the additional expense and potential liability imposed by Sarbanes-Oxley will cause many of these companies to consider whether being public is the most effective course, providing additional potential financing opportunities as going-private transactions increase.

Investment Opportunities

The middle market for public and private companies in the U.S. is very large, as evidenced below:

- There are currently over 75,000 private companies in the U.S. within our target range (in terms of revenue) as compared approximately 36,000 in 1992.

- Since the beginning of 1997, venture capital funds have invested over $280 billion in total capital in 31,000 separate transactions. This represents investments in over 11,000 individual companies. Many of these have successfully worked over the last several years to build sustainable businesses and need additional capital to continue their growth.

- The number of publicly traded companies has grown as well. There are currently over 1,500 public companies with a market capitalization of less than $200 million and positive operating earnings.

At the same time that the number of smaller companies in the U.S. has grown, there have been some fundamental changes in the capital markets. The financial services industry has been consolidating very rapidly, reducing the number of commercial banks (historically the largest provider of capital to the middle market overall) from 11,000 to less than 7,800. The remaining banks have been separated into two groups, very large money center banks and smaller regional players. It is our view that the larger money center banks have narrowed their lending focus, looking primarily to lend to larger companies with greater borrowing needs and in situations where fee revenue from such customers is available for other bank services such as cash management and investment banking. The smaller banks, on the other hand, have looked to focus more on asset-based lending rather than making cash flow-based loans.

The high yield bond market is available as an alternative to certain borrowers, but the average offering size has increased from $135 million in 1997 to $180 million in 2004. In 2004 only 10% of high yield issues raised less than $100 million. These offering sizes are significantly higher than our expected transaction size in any event, but the data is indicative of the difficulty that even larger borrowers (particularly those who are looking for cash flow-based term debt) have in finding capital.

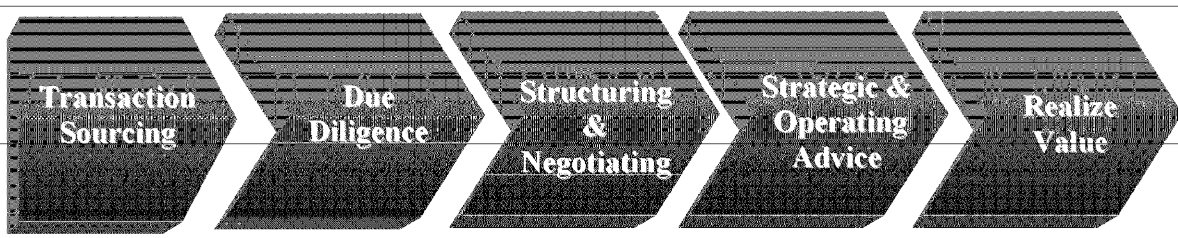
Other facets of the capital markets also provide a level of capital for smaller companies, albeit with some variation. There were 1,329 initial public offerings between 1999 and 2004, and only 437 of these were undertaken in the more difficult environment from 2001 through the end of 2004. While the public markets have rebounded to some degree and offering activity has increased (there were 216 IPO's in 2004), the impediments to becoming a public company are significant. Overall, we view the market rebound and increase in offerings as helpful to our value building opportunities, rather than as competitive providers of capital.

A good example of the need for capital among smaller public companies can be found in the market for PIPEs (private investments in public equity), where publicly traded companies sell securities privately to institutional investors in directly negotiated transactions. The securities purchased in the placement are subsequently registered by the issuing company for sale in the open market. PIPEs are done in many forms, including the sale of common stock, preferred stock, convertible debt, etc. The PIPEs market has grown from 457 transactions and $5.2 billion in issuance in 1997 to 1,269 transactions and $15.69 billion in issuance in 2004 (with a peak of 1,261 transactions and $24.8 billion in issuance in 2000). Average transaction size has remained relatively constant at approximately $11 million to $12.5 million. This transaction size is analogous to the transactions we expect to undertake.

The M&A market has improved significantly as well. This market has been a relatively consistent source of shareholder liquidity, but requires that current shareholders give up control. In 1997 there were over 11,000 transactions of less than $1 billion in transaction size, as compared to 9,000 in 2004. Average transaction size and valuation (as a multiple of cash flow) have again reached levels last seen in the late 1990's. Again, we view this increase in activity as positive for our efforts, as an active M&A market provides transaction opportunities for mezzanine investments and a source of liquidity for exiting investments as well.

Investment Strategy

The Principals have developed an investment strategy we believe will result in meaningful returns to Fund investors while not exposing the Fund to undue levels of risk. This strategy consists broadly of the following:



Transaction Sourcing – Cast a Wide Net.

The middle market for public and private companies makes up a large segment of the total U.S. economy, consisting of thousands of companies ranging in size and business model. In general, the market tends to be relatively inefficient and is often characterized by management teams with limited financing experience and expertise. They use a variety of advisors in connection with financial and strategic matters, from accountants, lawyers and business brokers to financial institutions and larger investment banking and consulting firms. In certain instances they use no outside advisors at all, relying on internal capabilities and informal advice where needed. As a result, it is important in developing transaction flow for us to network widely among these potential referral sources. The Principals have many years of collective experience in the middle market, and have developed relationships with a large number of people in the accounting, legal and advisory areas.

We also will undertake an aggressive direct contact program with companies we identify as interesting investment opportunities. We believe that many potential investment candidates are not aware of mezzanine investments as an avenue for capital raising and that a direct approach will allow us to develop an opportunity where we are the exclusive financing option being considered. This also allows us to build a relationship with management, establish ourselves as a high quality partner providing capital and strategic advice and earn returns commensurate with that role, rather than returns based upon a competitive financing process.

Secondarily, we will consider making co-investments with other capital providers in somewhat larger transactions where we believe the potential return warrants it. This will allow us to leverage our activities, deepen our relationships with other capital providers who may be sources of potential transactions and/or sources of additional capital for transactions we lead, and deploy our capital more broadly either in terms of geography or industry sector.

Overall, we are seeking to position ourselves as a partner of choice, making investments in businesses and with management teams that need and value our input and experience in addition to our capital. We believe this opportunity exists in the middle market, where there is often less sensitivity to price in situations where capital availability, certainty and speed of execution, and ability to assist in building value are desired.

Understanding the Portfolio Company – Due Diligence.

Due diligence is a process which essentially extends from the initial introductory meeting through the closing of the financing. We will undertake a thorough review of an opportunity prior to making an investment, including (i) an assessment of management and their capabilities (including what additional personnel may need to be added or upgraded), (ii) a review of historical and projected financial statements, (iii) an assessment of the business model and business plan, (iv) on-site visits, (v) discussions with customers, vendors and employees, (vi) an industry review including discussions with other industry participants and industry analysts and (vii) a review of relevant loan documents and other items we consider relevant. In general, we also will review potential investments with members of the advisory board and other financial and operating executives to get their perspectives on the opportunity.

We will not make any investment where we do not thoroughly understand the business model and the underlying industry dynamics. We will maintain our investment discipline – regardless of where we are in the investment process we will not make an investment if we are not completely comfortable with the due diligence review.

Negotiating and Structuring the Investment – Protecting Principal While Providing Upside Opportunity.

Most mezzanine securities (preferred stock or subordinated debt) have both debt and equity characteristics. Generally, there is (i) a return of capital invested before any distribution to equity holders or lower ranking debt, (ii) usually some current pay interest, and (iii) an equity “kicker” that provides an opportunity for the mezzanine investor to participate in the value increase over time. In addition, there are structural elements in the investment that provide asset protection. These typically include financial and operational covenants, default penalties, lien protection, liquidation preference over other stockholders, change of control provisions or governance rights, including board seats or observation rights. Structural elements may occasionally include a security interest in some or all of the corporate assets or personal guarantees of the shareholders. Our goal is to achieve the appropriate balance between an opportunity for maximum return on the investment and protection of the initial capital provided to the portfolio company.

Working to Build Value – Providing Ongoing Strategic and Operating Advice.

Fund management is primarily looking to invest in companies that desire and need our strategic and operating advice. This may include assistance with operating and cost efficiencies, product development and management, sales and marketing, or mergers & acquisitions. We believe that value is built differently in different parts of the economic and investment cycle. Understanding this, while maintaining focus and intensity on achieving the business plan and specific underlying objectives, will in our view provide the Fund investors with the best opportunity for significant returns.

We believe our experience positions us well to provide the management assistance discussed above. We have faced the same issues confronting portfolio company management teams in building their respective businesses and can provide them with the insights we have developed from resolving them.

Realizing Value –The Right Time and the Right Exit.

We will seek to invest in companies that we believe to have stable, consistent cash flows sufficient to repay our loans and reinvest in their respective businesses. We expect cash flow generated from operations to be the primary source of repayment of our investments over time. Other sources of repayment include a recapitalization of the borrower, a repurchase of the Fund's investment by the borrower or a third party, an IPO, or a sale of the business.

A meaningful component of our overall return is the value derived from the equity participation we have in a company, and our ability to work with management to grow that value. An important part of this is being disciplined about the timing and the type of exit. We believe that in many smaller companies – particularly those described as emerging growth companies – value often runs in cycles. Understanding value requires a view on not only specific company performance, but also sector growth rates, total market size, strength and sustainability of niche, relative competitive strength, and investment community perspective. While a particular company may continue to perform as expected, relative value may change significantly based upon these other factors. We will track each of these factors (and other factors we believe are relevant) with regard to each investment, so that we have an understanding of when an exit is most appropriate.

The other factor that impacts return upon exiting an investment is the form of exit. There are times when certain areas of the capital markets are more attractive than others; for example, the valuations of public companies may be particularly high, while merger & acquisition multiples are low, or vice versa. At other times the credit markets may make a recapitalization the most beneficial transaction. Understanding the relative strength and opportunities in various parts of the capital markets is critical in maximizing the value of an investment. We believe we have the experience and relationships within the capital markets to accurately assess the most beneficial form of exit.

Transaction Sources and Marketing Plan

The Principals, along with McGinn Smith, have over the years developed relationships with a number of organizations and individuals who can provide access to a flow of potential transactions. In addition, the Principals have throughout their careers become experienced in calling directly on and developing relationships with senior management of middle market companies.

Specifically, we have undertaken an aggressive outbound marketing program to ensure that we develop the appropriate level of transaction flow. This marketing will include contacting and building or expanding relationships with the following:

- Law firms, including leading business law firms in smaller communities who are called on much less frequently than larger, metropolitan law firms;
- Accounting firms, particularly large and medium sized regional firms;
- Banks;
- Private equity firms;
- Other providers of mezzanine capital, particularly those with similar operating philosophies but different size parameters;
- Individual executives; and
- Public and private companies that we have identified as potentially meeting our investment criteria.

Since we began marketing in 2004, we have reviewed over 70 potential transactions. Our goal is to generate as many leads as possible overall and, in particular, to develop transactions where we establish ourselves as an advisor to the potential portfolio company. This will allow us to invest capital in situations where there is limited competition for the investment, and where we can utilize our experience and investment philosophy to the greatest extent.

Portfolio Company Characteristics

As discussed, the lower middle market is characterized by a large number of companies in all industry sectors, with a wide variety of business models. Therefore, a significant degree of flexibility is required as to industry sector and business model for us to compete effectively in the lower middle market.

We will be disciplined in our investment decisions. These decisions will be based primarily on attributes we believe characterize above-average investment opportunities and companies where we will have the highest likelihood of adding value in order to improve our returns. Our portfolio companies will have certain of the following attributes:

- Participate in a growing industry sector or sub-sector, with significant levels of change occurring
- Demonstrate a differentiated and sustainable advantage relative to competitors
- Provide high-value added products or services that matter to customers
- Led by management teams with experience in the industry, a commitment to growing value and a significant economic stake in the company's ultimate success
- Operate in an industry sector or sub-sector with high barriers to entry
- Have a cost advantage in providing their product or service
- Have relatively high gross margins

- Utilize technology and intellectual property aggressively and effectively
- Have revenues of at least $10 million
- Have current or near-term projected positive cash flow
- Have a balance sheet/capital structure which allows them to take advantage of opportunities without undue risk

We expect the majority of our investments to be in transactions where we are the lead or sole investor, and where we can add operational and management value. We may in certain circumstances invest in other types of transactions, where we are not the lead investor and/or where we take more of a monitoring role with regard to the investment. We will undertake these transactions where (i) we believe there is a high likelihood of achieving significant rates of return while protecting principal; (ii) we are very comfortable with the lead investors or lenders; and (iii) we believe we will receive ancillary benefits for the Fund, such as starting or improving a relationship with a source of significant ongoing transaction opportunities.

Investment Process

We expect to have the opportunity to review two to three hundred potential transactions to identify the four to six companies in which we will eventually invest in each of the first two to two and one-half years. These potential transactions are received through a combination of direct inquiries by us, referrals through relationships with executives, referrals from other providers of capital, and inquiries by financial intermediaries of various types.

A transaction opportunity is initially screened by the partners to determine whether it fits our investment philosophy and other parameters. Transactions that do not fit our criteria (based upon preliminary due diligence or other factors) are rejected and a response will be given to the introducing party. A key differentiator of the Fund is our ability to respond quickly with an indication of interest. We believe a continuing source of criticism of private equity funds in general is length of time it takes to get an initial response on the level of interest in a potential transaction.

A second level of review occurs at the weekly meeting of all staff. At this meeting, all opportunities received and reviewed in the prior week are discussed and preliminarily evaluated. This allows all members of Fund management to provide input, ask questions and identify potential issues on transactions. All potential issues are thoroughly aired, and additional due diligence needs identified. This process continues each week as the transaction progresses.

During this process a preliminary term sheet is developed which addresses important structural items, return characteristics, liquidity options and certain operating matters. This term sheet is reviewed with the Fund management team and then provided to the company. At the same time, we communicate to company management our intention to create a plan that addresses specific actions to be taken after the financing is completed to build value. In our view this is one of the most important items, and must be undertaken prior to closing so that there is a complete understanding of and agreement on our collective plans going forward.

The last phase in the review and approval process is the creation of a transaction review memorandum containing (i) an overview of the company, (ii) its financial and operating condition, including an analysis of management's financial projections, (iii) a summary of the proposed transaction, (iv) a description of the due diligence review, (v) a summary of the operating plan to be undertaken post-closing, and (vi) the investment recommendation. This memorandum is reviewed in detail in connection with the vote of the general partners in approving a transaction. The vote of the general partners must be unanimous for a transaction to be approved.

Portfolio Management

The Principals monitor the credit quality and performance of the portfolio on a regular basis by analyzing individual portfolio companies' performance relative to their business plan and by assessing shifts in industry fundamentals, including changes in the regulatory, technological and competitive landscape. We employ several methods in evaluating the portfolio, including the following:

- Review of monthly, quarterly and annual financial statements;
- Regular contact with the portfolio company management and the financial or strategic partner, if applicable;
- Comparable analysis to other companies in the industry; and
- Attendance and participation at board meetings.

Fund management will to provide a written report to the Limited Partners on an annual basis and, as appropriate, more frequently on an individual basis with a qualitative and quantitative update on investments in individual portfolio companies.

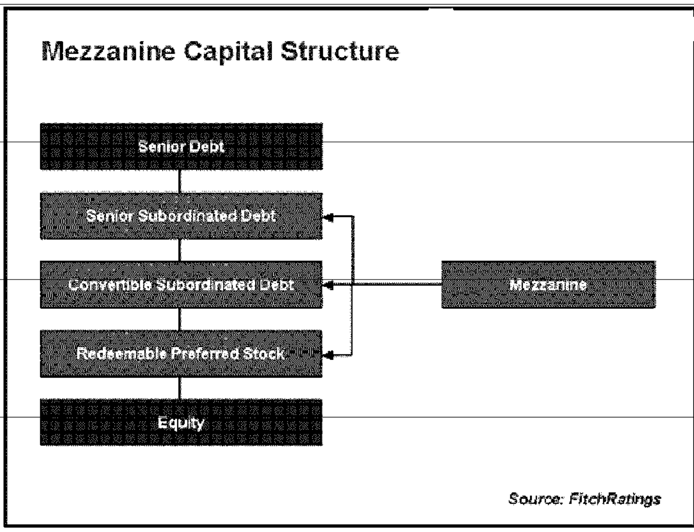
Valuation Process

We will use a disciplined and conservative approach to valuing our portfolio, which will be reviewed quarterly by the Principals. Investments for which market quotations are readily available will be recorded in our financial statements at such prices adjusted for any liquidity discounts. However, we expect the majority of our investments will be of the nature in which market quotations are not available. In these instances, the Principals will follow a quarterly valuation process with input from our Advisory Board, if appropriate. On a selective basis, we will engage a third party valuation firm to review our valuation analysis. In general, we expect to use public market valuations (if available), discounted cash flow analysis and market comparables approach to determine the periodic valuation of portfolio companies.

The Mezzanine Market

A mezzanine investment is generally defined as an investment in preferred stock or subordinated loans. These investments are typically interest bearing, often with a combination of current pay interest and pay-in-kind interest, and generally carry equity participation as well in the form of stock, warrants or options. Mezzanine investments may be secured, although this is not usually the case.

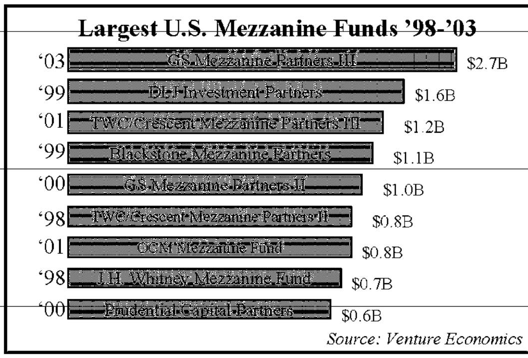
Companies considering raising capital through a mezzanine instrument generally do so because it is a relatively less expensive form of capital than straight equity. Mezzanine investors are attracted to this investment category as it provides a level of debt-like protection with much more significant return opportunities through higher coupon and equity upside.

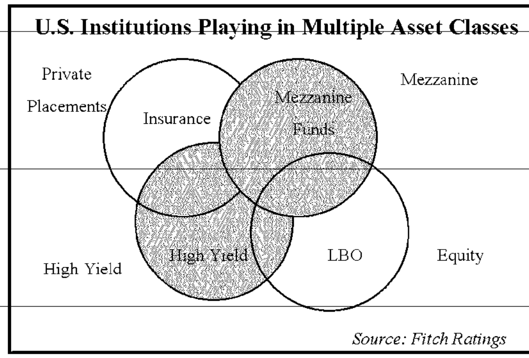


Mezzanine investing is a well-established category within the private equity/alternative investments sector (which also includes venture capital, buyout funds and fund-of-funds). The mezzanine market encompasses a variety of funds and types of investments. Funds are organized primarily in three categories – independent providers of capital such as that contemplated with the Fund; funds raised in conjunction with and in support of a related activity, typically buyouts and bank lending activities; and internally managed captive funds created as part of an overall asset allocation strategy, usually by insurance companies.

In 2004, a total of $3.8 billion in mezzanine capital was raised in 15 different funds, of which approximately $1.5 billion was in three funds. In 2003, a total of $3.6 billion in mezzanine capital was raised in 11 different funds, of which $2.7 billion was raised in a single fund by an affiliate of Goldman, Sachs & Co. In each of these years, mezzanine capital represented less than 10% of funds raised in the overall private equity sector.

The charts below show the scope of fund raising over the past five years, and show some of the flexibility of mezzanine investing and the interrelationship with other parts of the capital markets.





The mezzanine market has a number of different potential transaction drivers, as outlined in the chart below. Part of what makes the mezzanine market interesting as an investment category is the range of potential transactions, and the fact that other private equity categories typically require a significant level of investor control of the company and its management. In general, we expect to have a non-controlling interest, and while a fundamental part of our management philosophy is to work closely with portfolio company management to build value, we will do so in a collaborative way.

Corporate Growth Capital
- Expansion Plans
- Corporate Acquisitions
- Corporate Development Activites
- Strategic Partnerships

Change of Ownership
- Leveraged Buyouts
- Going Private Transactions
- Management/Sponsorless Buyouts
- Corporate Subsidiary Spin-off/Sale

Personal Liquidity/Succession
- Shareholder Liquidity
- Shareholder Buyouts
- Sucession Planning/Wealth Transfer

Balance Sheet Changes
- Refinancing
- Recapitalization

IV. MANAGEMENT OF THE GENERAL PARTNER

Tony Schmitz, Managing Director

Mr. Schmitz (45) has been an entrepreneur and executive since 1985, focusing primarily on creating and building value for technology companies.

- Mr. Schmitz was most recently the President and Chief Technology Officer for 24/7 RealMedia. He held that role through October 31, 2004. At that time, Mr. Schmitz joined the Board of Directors of 24/7 RealMedia. Mr. Schmitz was responsible for significantly restructuring and improving the company's technology development and marketing efforts while reducing costs.
- Mr. Schmitz founded Insight First, Inc., a web analytics company, in 2000 and served as its Chief Executive Officer until January 2003, when it was sold to 24/7 Real Media, Inc. The return to Insight First investors was 3.4x invested capital. After the sale, Mr. Schmitz joined 24/7 Real Media, Inc. as Chief Technology Officer and President of the Technology division.
- Grey Peak Technologies, Inc., a technology strategy consulting firm, was founded in June 1997. Mr. Schmitz was a co-founder and Chief Technology Officer. Grey Peak was sold to US Web in June 1998, resulting in a return to investors of over 10.5x invested capital. Mr. Schmitz remained with US Web (subsequently marchFIRST) as managing partner through May 2000.
- Mr. Schmitz was a co-founder and principal of Reach Networks, Inc., a company founded in 1988. Reach Networks was sold to US Web in 1997, resulting in a return to investors of 10.0x invested capital. Reach Networks was involved in web development and collaborative uses of technology.
- Mr. Schmitz has been active as a principal investor in and an advisor to a number of early and growth stage companies.
- Mr. Schmitz received a B.S. degree in Business from the State University of New York at Albany.

David Smith, Managing Director

Mr. Smith (59) is a co-founder, President and Chief Executive Officer of McGinn, Smith & Co., Inc. McGinn Smith was founded in 1980, and has provided investment banking services to entrepreneurs and smaller companies and investment advisory services to high net worth individuals and institutional investors since its founding.

- Mr. Smith is primarily responsible for the operation and management of McGinn Smith, and has held this responsibility since the founding of the firm in 1980.
- Mr. Smith is a director of Integrated Alarm Services Group, Inc. (IASG), a publicly traded company engaged in alarm monitoring and financing services. Mr. Smith was a principal in IASG's predecessor company, was integral to the formation of the company and was actively involved in the IASG initial public offering.
- Mr. Smith is currently a managing director of First Independent Income Notes LLC, First Excelsior Income Notes LLC, and Third Albany Income Notes LLC, investment funds aggregating $70 million. He has been a partner and/or managing director of investment funds totaling over $430 million in principal amount.
- He is a director and/or a general partner of a number of privately held corporations and other investment partnerships. Mr. Smith also is a director of Coventry CareLink Holding Corp., a Maryland-based long-term healthcare insurance company.

- Mr. Smith is Vice Chairman, and Chairman of the Finance Committee, of the Empire State College Foundation, a member of the New York State Public University System.
- He received a B.A. in Economics from Hamilton College.

Timothy Welles, Managing Director

In a career encompassing law, investment banking and operational management, Mr. Welles (45) has held executive positions in public and private companies, and senior positions with investment banking and investment responsibilities. These positions include:

- Chief Operating Officer and a member of the Board of Directors of Insight First, Inc., a venture-backed web analytics company. Insight First was sold to 24/7 Real Media, Inc., a publicly traded on-line media company, in January 2003.
- Chief Financial Officer of First Albany Companies Inc., a publicly traded investment banking and brokerage firm, from 1997 to 2000, and co-head of the Equity Capital Markets division from 2000 through the end of 2002. As CFO he participated in the oversight of the firm's internal and external investment portfolio. He was a member of the Operating Committee of the firm, Managing Director of First Albany Enterprise Funding LLC and he remains a Special Limited Partner of FA Technology Ventures LLC, a venture firm investing in early stage information and energy technology companies.
- Chief Operating Officer and a member of the Board of Directors of Colonial Data Technologies, Inc., a publicly traded manufacturer of caller ID-related equipment. In 1997 he led the sale of that company in a $300 million merger of equals, and remained as COO of the combined companies through the transition and integration of operations and personnel.
- Managing Director, Investment Banking of Stifel Nicolaus & Co., First Albany Corporation and Advest, Inc. In these positions, he was responsible for transaction origination and execution, primarily on behalf of middle market companies in a variety of industry sectors and involving a variety of transaction types. He has been involved with over 150 completed engagements throughout his career.
- Mr. Welles began his career practicing corporate and securities law at Cahill Gordon & Reindel, a large New York City-based law firm.
- Mr. Welles holds B.A. degrees in Economics and History from the State University of New York at Albany, and a J.D. degree from Albany Law School. He serves on the boards of directors of Blue Slate Ventures LLC, the University at Albany Foundation and the Albany Academy for Girls.

Michael Lasch, Director

From 1997-2004, Mr. Lasch (36) held various positions within FleetBoston Corporation's (and predecessor companies) corporate and investment banking division, most recently as a Director.

- Mr. Lasch has spent several years executing leveraged middle market transactions, with a particular focus on media, sports and entertainment companies. His experience includes providing financing for companies through various asset classes, including the syndicated bank loan, private placement, securitizations, and high yield markets.
- As a Director of the corporate banking unit, he was responsible for originating, structuring and negotiating leveraged cash flow opportunities primarily for sponsor-backed transactions.
- Mr. Lasch also served as the portfolio manager of a $250 million leveraged loan portfolio and had primary responsibility for analyzing and mitigating the bank's credit

risk with individual portfolio companies. This experience including working with Fleet's Commercial Loan Workout Group on distressed borrower situations.

- From 1990 to 1995, Mr. Lasch served as a congressional and legislative aide in Washington, DC.
- He received a B.A. degree in Political Science from the College of the Holy Cross and an M.B.A. from Emory University.

V. SUMMARY TERM SHEET

The following is a summary of certain terms of Pine Street Capital Partners, LP (the "Fund"). This summary is not intended to be complete and is qualified in its entirety by the terms of this Memorandum and the Amended and Restated Limited Partnership Agreement of the Fund (the "Partnership Agreement") and the Subscription Agreement relating to the purchase of LP Units, both of which will be available from the General Partner upon the request of any potential investor and should be reviewed carefully prior to making an investment decision. Certain capitalized but undefined terms set forth in this Summary Term Sheet will have the meanings ascribed to them in the Partnership Agreement. The offer made hereby is subject to modification, prior sale and withdrawal.

General Provisions Relating to LP Interests

The Fund	Pine Street Capital Partners, LP (the "Fund"), a Delaware limited partnership.
General Partner	Pine Street Capital Partners LLC, a Delaware limited liability company (the "General Partner"), is the sole general partner of the Fund. The members of the General Partner will include Tony Schmitz, David Smith, Timothy Welles and Michael Lasch (collectively, the "Principals"). (The General Partner and the Limited Partners of the Fund are herein collectively referred to as the "Partners.")
Manager	Pine Street Capital Management LLC (the "Manager") will provide portfolio management and administrative services to the Fund, including investigating, analyzing, structuring and negotiating potential investments, monitoring the performance of portfolio companies, and evaluating disposition opportunities. The Manager is an affiliate of the General Partner.
Committed Funds	The Fund is seeking to raise an aggregate of $50 million in funds from investors, with a maximum of $75 million to be raised. Investors in the Fund will be required to purchase LP Units, consisting of (i) the Fund's 9% Senior Notes due on the fifth anniversary of the Initial Closing (the "Partnership Notes") and (ii) limited partnership interests in the Fund (the "LP Interests"), each as described below.
Purpose	The principal purpose of the Fund is to produce long-term capital appreciation for its holders of LP Interests, consistent with also meeting its obligations under the Partnership Notes. The Fund expects to achieve such goals through investments in a diversified portfolio of mezzanine and equity-related securities, a majority of which will be interest bearing. The investment strategy of the Fund is more fully described elsewhere in this Memorandum.

Investor Suitability	Each Limited Partner must qualify as an "accredited investor" within the meaning of Regulation D under the Securities Act of 1933, as amended.
Minimum Commitment	The minimum investment in LP Units from any single investor is $250,000. The General Partnership reserves the right to waive this minimum in its sole discretion.
Method of Purchase	In connection with a purchase of LP Units, an investor will be required to complete a Subscription Agreement that will set forth the amount of the investor's investment, and certain other customary terms and conditions. The General Partner reserves the right to reject any prospective investor in its sole discretion. If a subscription is not accepted, all funds deposited or wired by an investor will be returned without interest as soon as practicable after it is rejected by the General Partner. Upon a Limited Partner's admission to the Fund, the Limited Partner will be required to advance to the Fund an amount in cash equal to 10% (or 40% if such date occurs at least 60 days after the Initial Closing) of such Limited Partner's Funding Commitment to the Fund (such amount, the "Initial Note Amount"). The Initial Note Amount will be applied to purchase a Partnership Note having an initial aggregate principal amount equal to the Initial Note Amount.
Principals' Commitment	The Principals have committed a minimum of 1% of aggregate funds raised (inclusive of both the Partnership Notes and LP Interests), through the General Partner or its affiliates.
Term	The Fund's term will expire seven years after the Final Admission Date of Partners to the Fund, but may be extended for up to two successive one-year periods in the discretion of the General Partner to allow for orderly liquidation of Fund investments. See "Additional Provisions Relating to Partnership Notes--Maturity Date" below for the maturity date of the Partnership Notes.
Diversification; Investment Limitations	*Diversification*. The total investment by the Fund in any portfolio company may not exceed 20% of the aggregate Capital Commitments. *Non-U.S. Issuers*. The Fund will not invest more than 20% of the Capital Commitments in securities of issuers headquartered and operating principally outside the United States and Canada. *Common Stock*. The Fund will not invest more than 20% of the Capital Commitments in common stock not acquired in connection with an investment in a debt security or other income-producing security.

	Non-Current Income Securities. The Fund will not invest more than 30% of the Capital Commitments in securities that do not provide for some current income feature.
Borrowings	The Fund does not intend to borrow money, other than the Partnership Notes, to finance its activities except on a short-term basis in anticipation of receipt of drawdowns or to repay principal and interest on the Partnership Notes.
Investment Period	The Fund's investment period will terminate upon the earlier to occur of (*i*) the fifth anniversary of the Initial Closing (*ii*) a vote to terminate the investment period, at any time after the second anniversary of the Initial Closing, of 85% in interest of the Limited Partners (other than the Limited Partners affiliated with the General Partner) (the "Investment Period"). Following the termination of the Investment Period, the Partners will not be required to make capital contributions except as necessary to (*i*) cover the Fund's expenses, including the Management Fee (defined below); (*ii*) make follow-on investments (*i.e*., investments made for the purpose of protecting or enhancing existing investments); and (*iii*) consummate investments under active consideration by the Fund prior to the end of the Investment Period.
Key Man Termination	If two or more of the Principals cease to honor their required time commitments to the Fund, the Limited Partners may, by vote of 66 2/3% in interest, elect to terminate the Investment Period.
Initial and Subsequent Closings	The General Partner will hold the Initial Closing for the acceptance of subscriptions from the Limited Partners as soon as practicable with such amount of Capital Commitments as it may determine. From time to time after the Initial Closing (but not later than 12 months thereafter), the General Partner may hold additional closings to admit additional Limited Partners or to accept increases in Capital Commitments and Partnership Notes held by existing Limited Partners (each such partner, a "Subsequent Closing Partner") on the same terms and conditions as those at the Initial Closing. Subsequent Closing Partners will contribute to the Fund an amount equal to their proportionate share of funded Capital Commitments of Partners admitted in prior closings, plus interest thereon equal to the prime rate plus 2%, and will purchase additional Partnership Notes in an amount equal to 40% of the total new or increased investment in the Fund. Such amounts will be allocated and distributed to previously admitted Partners and/or the Manager, as applicable. Amounts so distributed to previously admitted Partners (other than amounts representing the interest factor) will be restored to such Partner's unfunded Capital Commitments.
Drawdowns	Capital Commitments will be drawn down *pro rata* as needed to fund investments or expenses of the Fund with a minimum of ten Business

Days' prior written notice to the Limited Partners.

Reinvestment	During the Investment Period, capital invested by the Fund in an investment realized within 18 months of the closing date of such investment may be added back to unfunded Capital Commitments. Such amounts may be drawn down again for reinvestment or payment of the Fund's expenses.
Excuse/Exclusion	The General Partner will be authorized to excuse or exclude a Limited Partner from participating in a particular investment where legal or regulatory requirements would preclude the participation of such Partner or where the participation of such Partner could have a material adverse effect on the Fund or such investment.
Default	A Limited Partner that defaults in any required payment in respect of its Capital Commitment shall be subject to customary penalty provisions.
Distributions	Net proceeds attributable to the disposition of a portfolio investment, distributions in kind of portfolio investments and any dividends or interest income (other than certain short-term interest income) received with respect to a portfolio investment will be distributed to all Partners participating in such investment, after payment of all principal and interest then payable on the Partnership Notes. Each such Partner's proportionate share thereof will generally be distributed in the following order of priority (to the extent not previously distributed):

(a) *Return of Realized Capital and Costs*: First, 100% to such Partner until the cumulative distributions to such Partner of net proceeds and current income equal the aggregate of the following:

(i) the capital contributions to the Fund of such Partner used to acquire all realized portfolio investments, plus such Partner's proportionate share of any net write-downs of unrealized portfolio investments, as of that time; and

(ii) such Partner's proportionate share of the Management Fee (as defined below), all organizational expenses, and other Fund expenses allocated to realized portfolio investments;

(b) *Preferred Return*: Second, 100% to such Partner until such Partner has received a preferred return on amounts included in (a)(i) and (a)(ii) above at the rate of 9% per annum, compounded annually (the "Preferred Return");

(c) *Catch-Up*: Third, 100% to the General Partner until the General Partner has received 20% of the excess of (*i*) the cumulative distributions made pursuant to paragraph (b) and this paragraph (c) over (*ii*) the amounts then included in paragraph (a) above; and

(d) *80/20 Split*: Thereafter, 80% to such Partner and 20% to the General Partner (distributions to the General Partner described in paragraph (c) above and this paragraph (d) are referred to collectively as the General Partner's "Carried Interest").

The General Partner may, considering the Fund's portfolio as a whole, establish a reserve in an amount that the General Partner determines to be appropriate taking into account current or potential general economic conditions and global events as such matters may affect the value of the Fund's portfolio (a "Portfolio Reserve"). The General Partner will make appropriate adjustments to the terms outlined above to give effect to the amount of any such Portfolio Reserve at such time.

All distributions not directly attributable to a particular portfolio investment generally will be made to the Partners in proportion to their capital contributions to the investment giving rise to such distributions.

If the Fund disposes of only a portion of its investment in a portfolio company, the portion sold will be deemed a separate investment from the portion retained for purposes of distributing the proceeds of such disposition as outlined above.

Notwithstanding the foregoing, the Fund may make tax liability distributions to the Partners in respect of gain and other income from portfolio investments in accordance with the manner in which such gain and other income is allocated to the Partners.

Net cash proceeds from realizations and dividend and interest income attributable to portfolio investments made by the Fund generally will be distributed to the Partners at least quarterly, *provided* that the General Partner may cause the Fund to retain any amounts that the General Partner deems necessary to enable the Fund to defray current or reasonably anticipated future expenses and liabilities and to make follow-on investments in existing portfolio companies.

Distributions prior to the dissolution of the Fund will be made in cash or marketable securities. Upon dissolution of the Fund, distributions may also include restricted securities or other assets of the Fund. The General Partner will be entitled to withhold from any distributions any required tax withholdings, which amounts will be treated as distributions for purposes of the calculations described above.

	The Fund will make distributions, and payments of interest and principal on the Partnership Notes, by check or by wire transfer to a designated depository account, as specified in the applicable Subscription Agreement.
General Partner Clawback Obligation	Upon liquidation of the Fund, the General Partner will be required to contribute to the Fund distributions of after-tax Carried Interest previously received by the General Partner to the extent that they exceed the Carried Interest that should have been distributed to the General Partner pursuant to "Distributions" above and to the extent necessary to provide the Limited Partners the Preferred Return.
Allocations	All items of income, gain, loss, and deduction will be allocated to the Partners in a manner generally consistent with the provisions outlined above in "Distributions."
Management Fee	The Manager will receive an annual Management Fee, from each Limited Partner, equal to 2.5% of the sum of (i) Actively Invested Capital (as defined) of such Limited Partner and (2) the aggregate principal amount of Partnership Notes then held by such Limited Partner. This fee will be payable quarterly in advance. The Management Fee will begin as of the date of the initial closing, regardless of the date a purchase of LP Units is made. The Management Fee is subject to reduction as provided below in "Organizational Expenses" and "Transaction and Other Fees."
Organizational Expenses	The Fund will bear all legal and other expenses incurred in the formation of the Fund and the offering of the Interests (other than any placement fees), up to a maximum of $250,000. Such expenses will include legal, accounting, printing, travel, filing fees, accrued compensation and marketing costs incurred in connection with the offering of Notes and LP Interests. Organizational expenses in excess of this amount, and any placement fees, will be borne by the Manager.
Other Expenses	The Manager will pay all normal operating expenses incidental to the provision of the day-to-day administrative services to the Fund, including its own overhead and expenses incurred in the preliminary investigation of investments. To the extent possible, third-party costs will be charged to portfolio companies. The Fund will pay all costs, expenses and liabilities in connection with its operations, including: principal and interest on the Partnership Notes; fees, costs and expenses related to the purchase, holding and sale of portfolio investments (to the extent not reimbursed); taxes; fees and expenses of accountants and counsel; costs and expenses of the Advisory Committee (as defined below) and the annual meeting; litigation expenses and other extraordinary expenses. The Fund will also bear third-party expenses incurred in connection with transactions not consummated.

Transaction and Other Fees	The Manager or its affiliates may receive transaction fees, commitment fees, break-up fees and other similar fees. An amount equal to 50% of all such fees paid by portfolio companies that are received by the Manager or any of its affiliates, net of any related expenses, will be applied to reduce the Management Fee otherwise payable. All such fees will be allocated between the Fund and any related co-investing entities on the basis of capital committed by each to the relevant investment. Management Fee reductions will be carried forward if necessary.
Other Investment Activities	Unless at least two-thirds in interest of the Limited Partners (other than the Limited Partners affiliated with the General Partner, the Manager or McGinn Smith) consents, the General Partner and its affiliates will not close, act as the general partner of, or serve as the primary source of transactions on behalf of, another collective investment vehicle with terms and investment strategies substantially similar to those of the Fund until the earlier of (*i*) the first date on which at least 75% of the Capital Commitments have been called, committed, or reserved to fund investments (including follow-on investments) or the Fund expenses and (ii) the termination of the Investment Period (the "Threshold Date").
Obligation to Offer Investment Opportunities	Prior to the Threshold Date, the Fund shall have a right of first refusal on any investment opportunity with respect to Mezzanine Securities originated by or presented to the Manager or any of its Affiliates or McGinn Smith or any of its Affiliates (other than those cases where McGinn Smith or any of its Affiliates is acting as an advisor or agent of a McGinn Smith client in connection with McGinn Smith customary activities).The foregoing shall not apply in the event (and to the extent) that the General Partner on behalf of the Fund has determined in good faith not to invest in an investment opportunity with respect to which it has been granted a right of first refusal. In addition, the Fund may co-invest with a Successor Fund in any investment opportunity offered to the Fund, and the General Partner may allocate such portion of such investment opportunities to such Successor Fund as the General Partner believes to be fair and reasonable.
Reports to Limited Partners	The Fund will furnish audited financial statements and tax reporting information annually to all Limited Partners, in addition to providing quarterly reports.
Transfers and Withdrawals	Limited Partners generally may not sell, transfer, or pledge their Interests except with the consent of the General Partner. The Limited Partners generally may not withdraw from the Fund.
Alternative Investment Vehicle	The General Partner may require some or all of the Partners to make a particular investment through an alternative investment vehicle outside of the Fund to the extent necessary or desirable to address tax,

	regulatory, or other considerations.
Co-Investment	The General Partner may, but will not be obligated to, provide coinvestment opportunities to the Limited Partners, holders of Partnership Notes or third parties.
Advisory Committee	The Fund will establish an Advisory Committee, whose voting members will be persons not affiliated with the General Partner, the Manager or McGinn Smith. The Advisory Committee will meet at least annually and as required to consult with the General Partner regarding conflicts of interest and certain other matters. The Fund will indemnify the members of the Advisory Committee for their services and will reimburse the members for their reasonable out-of-pocket expenses incurred while acting in such capacity.
Exculpation; Indemnification	None of the General Partner, the Manager, the Advisory Committee, their respective affiliates, or the shareholders, officers, directors, employees, partners, members, managers or agents of each of them (each, a "Covered Person") will be liable to the Fund or the Limited Partners for any act or omission of such person relating to the Fund, except for any such act or omission constituting fraud, willful malfeasance, gross negligence or reckless disregard of duties by such Covered Person. The Fund will indemnify each Covered Person against all claims, demands, liabilities, costs, expenses, damages, losses, suits, proceedings and actions, including legal fees, to which they may be or become subject by reason of their activities on behalf of the Fund, except to the extent that such claims, demands, liabilities, costs, expenses, damages, losses, suits, proceedings or actions are determined to have resulted from such person's fraud, willful malfeasance, gross negligence or reckless disregard of duties.
	The General Partner may cause the Fund to purchase, at the Fund's expense, insurance to insure any Covered Person against liability in connection with the activities of the Fund.
Tax Considerations	It is anticipated that the Fund will be classified as a partnership and will not be treated as a corporation. As a partnership, the Fund generally will not be subject to U.S. federal income tax, and each Partner subject to U.S. tax will be required to include in computing its U.S. federal income tax liability its allocable share of the items of income, gain, loss and deduction of the Fund, regardless of whether and to what extent distributions are made by the Fund to such Partner.
	The taxation of partners and partnerships is extremely complex. Prospective investors should not construe the contents of this Memorandum as tax advice. Each prospective investor is urged to consult its own tax advisor as to the tax consequences of an investment in the Fund.

ERISA	Investment in the Fund is generally open to institutions, including pension and other funds subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). The General Partner, however, will make reasonable efforts to ensure that benefit plan investors do not own more than 25% of any class of equity interests of the Fund. As a result, the assets of the Fund are not expected to be deemed to be "plan assets" under ERISA. See "VIII. CERTAIN TAX, REGULATORY, AND ERISA CONSIDERATIONS."
Legal Counsel to the General Partner	Morrison & Foerster LLP
Auditors	UHY LLP

Additional Provisions Relating to Partnership Notes

Notes Issuance	The Fund will issue up to \$20 million (\$30 million in the event that the \$75 million maximum total amount is raised) of its 9% Notes due in 2009. The Partnership Notes shall have preference in right of payment of interest and principal to all other Partnership interests. As described under "Method of Purchase," above, upon a Limited Partner's admission to the Fund, the Limited Partner will be required to advance funds to the Fund to purchase Partnership Notes having an initial aggregate principal amount equal to the Initial Note Amount. In addition, on the 60th day after the Initial Closing (or, if such day is not a Business Day, on the next Business Day), each Limited Partner will be required to advance to the Fund an amount in cash equal to 30% of such Limited Partner's Funding Commitment (such amount, the "Deferred Note Amount"), unless such date occurs at least 60 days after the Initial Closing). The Deferred Note Amount, if any, will be applied to increase the principal amount of the Partnership Note then held by such Limited Partner by an amount equal to the Deferred Note Amount.
Interest Payments	The Partnership Notes shall bear interest at the annual rate of 9%. Interest on the Partnership Notes will be payable quarterly, commencing March 31, 2005, and thereafter on the last day of December, March, June and September. Interest will be computed on the basis of an actual calendar year.
Maturity Date	Principal shall be due on the fifth anniversary of the Initial Closing of the Fund.

Optional Redemption	At the sole option of the General Partner, principal may be repaid prior to final maturity of the Partnership Notes, without penalty, provided that such principal repayment is made to all Partnership Note holders on a pro rata basis.
Additional Fund Indebtedness	The Fund may not incur additional indebtedness other than the Partnership Notes, unless (i) such additional indebtedness is used to repay principal on the Partnership Notes, or (ii) such indebtedness is short-term (90 days or less) and to be repaid out of capital called from holders of LP Interests.
Transferability of Notes	There will be no public market for the Partnership Notes, and the sale or transfer of the Partnership Notes will be restricted pursuant to applicable federal and state securities laws and the terms of the Partnership Agreement. It is not expected that any market will develop for sale or trading of the Partnership Notes. The General Partner can offer no assurance that a Partnership Note holder will be able to sell or pledge its Notes.

VI. INVESTMENT CONSIDERATIONS

When considering an investment in the Fund, an investor should be aware of and consider all of the following considerations:

General Risks of Mezzanine and Private Equity Investments

The business of making mezzanine and private equity investments is by its very nature highly uncertain. There are a large number of factors that can and will affect the success of the Fund, including the overall economic environment, interest rates, the stock market, competition for attractive opportunities, and the ability to realize gains from portfolio companies on a timely basis. Investors considering an investment in the Fund should be financially able to bear the loss of their entire investment.

Leveraged Transactions

The Fund's investment portfolio will likely consist primarily of mezzanine securities issued by smaller middle market companies. These securities may be issued in connection with transactions such as management or shareholder buyouts, recapitalizations, restructurings, and acquisitions. These securities involve a high degree of business and financial risk, which can result in substantial losses.

It is anticipated that a substantial portion of the Fund's assets will be lent to or invested in companies that have an above-average level of leverage. Factors such as rising interest rates, downturns in the economy or deterioration in the condition of a portfolio company or its industry could put at risk a company's ability to meet its debt service obligations (including investments by the Fund).

While the Fund expects to receive interest payments on its loans to portfolio companies, and expects a return of the principal amount invested, a substantial portion of the return to Fund investors will depend on gains generated from the equity participation of such loans and gains generated from other equity-type securities. It is uncertain as to whether any such gains will be generated, and if generated, when they will be realized.

Nature of Mezzanine Securities

Although mezzanine securities are typically senior to common stock or other equity securities, the preferred equity and debt securities in which the Fund will invest will generally be unsecured and subordinated to substantial amounts of senior debt, all or a significant portion of which may be secured. In addition, these securities may not be protected by all of the financial covenants, such as limitations upon additional indebtedness, typically protecting such senior debt. Holders of mezzanine debt generally are not entitled to receive any payments in bankruptcy or liquidation until senior creditors are paid in full. Holders of preferred equity are not entitled to payments until all creditors are paid in full. In addition, the remedies available to holders of mezzanine debt are normally limited by restrictions benefiting senior creditors. In the event any portfolio company cannot generate adequate cash flow to meet senior debt service, the Fund may suffer a partial or total loss of capital invested. Despite the Manager's emphasis on a disciplined and conservative approach to mezzanine investing with an emphasis on capital preservation, there can be no assurances that portfolio companies will not experience financial difficulties that may result in the loss of part or all of the investment.

Lack of Operating History

While the Principals have extensive experience in evaluating, creating and realizing value for investors, they have not had prior experience in managing mezzanine funds. There can be no assurance that the Fund's investment professionals will be successful in achieving the Fund's objectives.

Forward-Looking Statements

This Memorandum contains targeted returns and forward-looking statements. These targeted returns and forward-looking statements reflect the Principals' view with respect to future events. Actual returns and results could differ materially from those in the targeted returns and forward-looking statements as a result of factors beyond the Fund's control. Investors are cautioned not to place undue reliance on such returns and statement.

Risk of Negative Spread

Upon admission to the Fund, a Limited Partner will be required to fund 10% (or more if the Limited Partner is admitted more than 60 days after the Fund's Initial Closing) of the total funds that such Limited Partner has committed to advance to the Fund. Within 60 days of admission to the Fund, a Limited Partner will be required to fund an additional 30% of the funds that such Limited Partner has committed to the Fund. These funds will be evidenced by the Partnership Notes, which will bear interest at the rate of 9% per annum, compounded and payable quarterly. To the extent that the Fund is unable to invest the funds obtained as a result of the sale of the Partnership Notes at a rate of 9% per annum or more, the Fund will have cash requirements that will be satisfied out of the principal amount paid for the Partnership Notes or out of the capital contributed to the Fund by the Partners.

Importance of Messrs. Schmitz, Smith, Welles and Lasch

The Fund's success depends in substantial part upon on the skill, expertise and efforts of Messrs. Schmitz, Smith, Welles and Lasch and any other investment professionals employed to assist them. Messrs. Schmitz, Welles and Lasch have agreed to commit substantially all of their business time and efforts, and Mr. Smith has agreed to commit such business time and efforts as is reasonably required, to the General Partner, the Manager and the Fund. While Messrs. Schmitz, Smith, Welles and Lasch have significant incentives to perform their investment activities on behalf of the General Partner, the Manager and the Fund, there can be no assurance that any of them will continue to do so. The unavailability, for any reason, of one or more such persons could have a material adverse effect on the Fund's operations and results.

Lack of Sufficient Investment Opportunities

It is possible that the Fund will never be fully invested if enough sufficiently attractive investments are not identified. In addition, the Fund will be competing with a significant number of other private mezzanine investment funds, as well as institutional and strategic (industry) investors, for investments in portfolio companies. The business of identifying and structuring private equity and mezzanine investments involves a high degree of uncertainty.

Concentration of Investments

The Fund will make a limited number of investments, and may seek to make multiple investments in one industry or industry segment. As a result, the Fund's investment portfolio could become concentrated and its aggregate return may be adversely affected by the performance of a few holdings, a particular industry or industry segment.

Illiquidity

An investment in the Fund should be viewed as illiquid. It is expected that the Limited Partners will achieve liquidity on their investments only as they receive distribution and upon the termination of the Fund. While the Fund will periodically distribute the interest and principal repayments it receives (once it has satisfied it obligations under the Partnership Notes), the Fund will invest primarily in securities which may be difficult to sell. The amount and timing of distributions will be dependent on the success and needs of portfolio companies, the General Partner's ability to structure investments so as to provide current income and the prospect for timely and orderly realization on investments. Furthermore, although, under normal circumstances, the Fund intends to make distributions in cash, it is possible that under certain circumstances (including the liquidation of the Fund), distributions may be made in kind and could consist of securities for which there is no readily available public market or securities of entities unable to meet required interest or sinking fund payments.

It is possible that losses on unsuccessful investments may be realized before gains on successful investments are realized. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the initial investment. Furthermore, the expenses of operating the Fund (including the Management Fee payable to the General Partner and the interest owed on the Partnership Notes) may exceed its income, thereby requiring that the difference be paid from the Fund's capital.

Long-Term Investments

The Fund's investments will be long-term in nature and it is uncertain when profits on the Partnership's investments will be realized, if at all. Although the Fund may earn interest or dividends currently on some of its investments, it is not generally expected that invested capital will be returned for at least several years after initial investment.

Limited Transferability of LP Interests.

There will be no public market for the LP Interests, and none is expected to develop. There are substantial restrictions upon the transferability of LP Interests under the Partnership Agreement and applicable securities laws. In general, withdrawals of LP Interests are not permitted. In addition, LP Interests are not redeemable.

Significant Default Penalties

The Partnership Agreement contains significant penalties in the event a Limited Partner defaults on its commitment or other payment obligations.

Valuation

Generally, there will be no readily available market for a substantial number of the Fund's investments, and hence the Fund's investments will be difficult to value.

Although the General Partner will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis.

Projections

Projected operating results for a company in which the Fund invests (or in which the Fund is considering an investment) will be very important in making an investment decision. In most cases these will be prepared by the management of the portfolio company and reviewed and adjusted by the management of the General Partner. In all cases, projections are only estimates of future results and are based upon assumptions made at the time projections are prepared. Therefore, they are inherently uncertain and actual results may vary, possibly significantly, from the projections.

Non-Controlling Interest in Portfolio Companies

In general, the Fund will hold non-controlling interests in its portfolio companies and, although the Fund will endeavor to negotiate negative covenants and other contractual restrictions for each portfolio company, it will primarily be the responsibility of management to operate each portfolio company on a day-to-day basis. In addition, unlike senior lenders, the holders of mezzanine securities are typically not in a position to enforce acceleration provisions and force a reorganization of a portfolio company in order to deal with problem situations. Accordingly, the Fund, like other mezzanine investors, may be less able to protect its investments than equity investors, on the one hand, and senior lenders, on the other.

Other Funds and Activities

McGinn Smith, which has an affiliation with the General Partner, the Manager and the Fund, and its controlled affiliates, provides a range of financial services and engages in other investment activities, including without limitation, acting as financial advisers, broker dealers and investment bankers, and managing other investment funds that McGinn Smith has or may establish. As a result, numerous potential conflicts of interest could arise between the Fund and McGinn Smith and its controlled affiliates.

The interests of McGinn Smith may also diverge from those of the Fund in deals sourced through McGinn Smith's advisory and investment banking activities. While the Fund will adopt policies and procedures designed to deal with potential conflicts raised by such situations, these procedures may not result in favorable outcomes for the Fund in certain cases.

Where co-investments involve the allocation of expenses between the Fund and a McGinn Smith fund, the appropriate sharing of such expenses and fees may not always be clear and may be somewhat arbitrary. Once such a co-investment is made, if the portfolio company encounters financial difficulties, other creditors of a portfolio company may, under certain circumstances, assert an equitable subordination claim or initiate an action for other legal and equitable remedies as a result of the participation by other McGinn Smith funds in the financing of the portfolio company or the participation by McGinn Smith officers on the board of directors or in the management of the portfolio company. These and other situations will involve potential conflicts of interest. Although the Fund will establish procedures to address such conflicts, there can be no assurance that such conflicts will be resolved in a manner that does not have an adverse effect on the Fund and its Limited Partners.

Management Fee; Carried Interest

The Management Fee payable by the Fund to the Manager and the carried interest that the General Partner will receive have not been established on the basis of an arm's length negotiation among the Fund, the General Partner and the Manager. In addition, the existence of the carried interest that the General Partner will receive under the Partnership Agreement may create an incentive for the General Partner to approve and cause the Fund to make more speculative investments than it would otherwise make in the absence of such performance-based compensation.

Partnership, General Partner and Manager Not Registered

The Fund will not be registered as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"). The Investment Company Act provides certain protection to investors and imposes certain restrictions on registered investment companies (including, for example, limitations on the ability of registered investment companies to incur leverage), none of which will be applicable to the Fund. In addition, neither the General Partner nor the Manager will be registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act'), and are consequently not subject to the record-keeping, disclosure and other fiduciary obligations specified in the Advisers Act.

Risks of Certain Investments

In connection with the disposition of an investment in a portfolio company, the Fund may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. It also may be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the Partners to the extent that the Partners have received prior distributions from the Fund or out of capital not yet drawn down.

Passive Investment

Limited Partners are precluded from active participation in making investment decisions with respect to the Fund. In order to safeguard their limited liability relating to the Fund's liabilities, Limited Partners must rely on the Manager and the General Partner to manage and conduct the affairs and investment decisions of the Fund.

Withholding and Other Taxes

The General Partner intends to structure the Fund's investments in a manner that is intended to achieve the Fund's investment objectives. There can be no assurance, however, that the structure of any investment will be tax efficient for any particular investor or that any particular tax result will be achieved. Also, tax reporting requirements may be imposed on investors under the laws of the jurisdictions in which investors are liable for taxation or in which the Fund makes portfolio investments. Prospective investors should consult their own professional advisors with respect to the tax consequences to them of an investment in the Fund under the laws of the jurisdiction in which they are liable for taxation. Furthermore, the Fund's returns in respect of its investments may be reduced by withholding or other taxes imposed by jurisdictions in which the Fund's portfolio companies are organized. In addition, certain of the Fund's portfolio investments may be issued with "original issue discount" or may result in the receipt of ordinary dividend income without a corresponding receipt of cash or property. Consequently, an investor's share of taxable income of the Fund (and possibly the income tax payable with respect to that income) may exceed the cash or other property distributed by the Fund to such investor.

VII. CERTAIN TAX, REGULATORY AND ERISA CONSIDERATIONS

CERTAIN TAX CONSIDERATIONS

U.S. Federal Income Taxes

The following is a summary of the principal U.S. federal income tax considerations relating to an investment in the Fund and does not constitute tax advice to, or purport to address all of the U.S. federal income tax consequences that may be applicable to, any particular investor. It is based on laws, regulations and other authorities in effect as of the date of this Memorandum, all of which are subject to change, possibly with retroactive effect. The U.S. federal income taxation of partnerships and partners is extremely complex, involving, among other things, significant issues as to the character, timing of realization and sourcing of gains and losses. This discussion is not intended to substitute for tax planning. **Prospective investors should not construe the contents of this Memorandum as tax advice. Each prospective investor is urged to consult its own tax advisor as to the tax consequences of an investment in the Fund, including, in the case of prospective tax-exempt and non-U.S. investors, with reference to any special issues that investment in the Fund may raise for such persons.**

Treatment as a Partnership. The Fund will receive at the time of closing an opinion from Morrison & Foerster, LLP, special counsel to the General Partner, to the effect that the Fund will be classified as a partnership, and will not be treated as a corporation, for U.S. federal income tax purposes. As a partnership, the Fund will generally not be subject to U.S. federal income tax. Instead, each Partner that is subject to U.S. tax will be required to take into account its distributive share of all items of the Fund's income, gain, loss, deduction and credit, whether or not distributed. The Fund will file a U.S. federal partnership information return reporting its operations for each calendar year and will provide each Limited Partner with the information necessary to file its U.S. federal income tax return.

Passive Foreign Investment Companies and Controlled Foreign Corporations. The Fund may directly or indirectly invest in non-U.S. corporations treated as "passive foreign investment companies" ("PFICs") or "controlled foreign corporations" ("CFCs"). In the case of PFICs, a U.S. Limited Partner's share of certain distributions from such corporations and gains from the sale by the Fund of interests in such corporations (or gains from the sale by a U.S. Limited Partner of its interest in the Fund) could be subject to an interest charge. In the case of CFCs, a U.S. Limited Partner could have current inclusions of certain undistributed income of such corporations if the Fund (or such Limited Partner) owns, directly or indirectly, 10% or more of the stock of such corporations. Furthermore, gains from the sale by the Fund of an interest in a PFIC or CFC (or gains recognized by certain U.S. Limited Partners on the sale of interests in the Fund) could be characterized as ordinary income (rather than as capital gains) in whole or in part. If the Fund makes a "qualified electing fund" ("QEF") election with respect to a PFIC, each U.S. Limited Partner would in general be required to include in income annually its share of the PFIC's current income and gains (losses are not currently deductible), but would avoid the interest charge and ordinary income treatment as to gains described above. As a result of a QEF election, a U.S. Limited Partner could recognize income subject to tax prior to the receipt by the Fund of any distributable proceeds. There can be no assurance that the QEF election will be available with respect to any PFIC in which the Fund directly or indirectly invests.

Foreign Personal Holding Companies and Personal Holding Companies. The Fund may invest in corporations treated as foreign personal holding companies ("FPHCs") or personal holding companies ("PHCs") under the Code. In the case of FPHCs, a ratable portion of the undistributed taxable income of such corporations would be imputed currently as ordinary income to U.S. Limited Partners. In the case of PHCs, such corporations would be subject to an additional tax on their undistributed taxable income at the highest marginal U.S. federal income tax rate applicable to individuals.

Original Issue Discount, Etc. The Fund may purchase debt obligations originally issued at a discount. For U.S. federal income tax purposes, original issue discount generally would have to be included in income by the Limited Partners on a constant yield basis as interest income even though the Fund realizes no current cash income. The Fund may purchase a substantial amount of its securities in "strips" (*i.e.*, it may purchase combinations of different securities, including debt and equity securities, from the same issuer in a single transaction). In such cases, the Fund intends to value each separate security in the strip and to allocate the aggregate cost based on the relative fair market values of the securities. The IRS will not be bound by the Fund's valuation and may assert a different allocation of purchase price. Such a challenge, if successful, could affect the Fund's timing and realization of income (including original issue discount income), gain or loss. In addition, the Fund may purchase certain securities, such as preferred stock with PIK dividends or redemption or repayment premiums, or convertible securities with adjustable conversion ratios, which could cause income to be includable by the Limited Partners for U.S. federal income tax purposes even though the Fund would realize no current cash income. The Fund may also engage in modifications of debt securities, or exchanges of debt securities for equity securities, which under certain circumstances could give rise to taxable income without a corresponding receipt of cash.

The Fund may purchase contingent debt instruments or debt instruments having market discount. All or part of the gain on the disposition of market discount bonds and contingent debt instruments may be treated for U.S. federal income tax purposes as ordinary income rather than as capital gain.

Restrictions on Deductibility of Expenses. It is anticipated that the Fund's expenses, including the Management Fee, will be investment expenses treated as miscellaneous itemized deductions rather than trade or business expenses, with the result that any individual who is a Limited Partner (directly or through a partnership or other pass-through entity) will be entitled to deduct his or her share of such expenses only to the extent that such share, together with such individual's other miscellaneous itemized deductions, exceeds 2% of such individual's adjusted gross income. An additional overall limitation on itemized deductions may apply to disallow up to 80% of certain otherwise allowable itemized deductions of individual investors with adjusted gross incomes exceeding certain amounts. In the case of individuals subject to the alternative minimum tax, no deduction is allowed for miscellaneous itemized deductions in computing alternative minimum taxable income.

Each Limited Partner will be allocated its proportionate share (based on Capital Commitments) of organizational and offering expenses (other than placement fees) incurred by the Fund (although the Management Fee payable by the Fund will be reduced by the amount of any such organizational and offering expenses in excess of $250,000). The Fund expects to make an election permitting it to deduct organizational expenses ratably over five years; no deduction is allowed for offering expenses.

Restrictions on Deductibility of Investment Interest. A non-corporate taxpayer is not permitted to deduct "investment interest" in excess of "net investment income." "Net investment income" generally includes all gross income of the taxpayer from property held for investment and, under certain circumstances, net gain attributable to the disposition of property held for investment. This limitation could apply to limit the deductibility of interest paid by a noncorporate investor (directly or through a partnership or other pass-through entity) on indebtedness incurred to finance its investment in the Fund or the deductibility of its share of interest expense (if any) of the Fund.

ERISA Plans and Other Tax-Exempt Limited Partners. Organizations exempt from U.S. federal income tax under Section 501(a) of the Code, including ERISA plans, are subject to the tax on unrelated business taxable income ("UBTI") imposed by Section 511 of the Code. UBTI arises primarily as income from an unrelated trade or business regularly carried on, income from property as to which there is acquisition indebtedness or certain insurance income attributable to CFCs.

The Fund believes that its activities as currently contemplated generally will not involve engaging in a trade or business and the Fund does not currently plan to acquire property subject to indebtedness, borrow money (other than the Partnership Notes, temporary borrowings in anticipation of capital calls and borrowings to repay principal or interest on the Partnership Notes) or invest in CFCs having insurance income. Accordingly, the Fund anticipates that its activities should not ordinarily give rise to UBTI other than, possibly, in the case of temporary borrowings, which are expected to be infrequent, or, possibly, in the case of the Partnership Notes. It is possible, however, that the Fund will invest in operating entities that are partnerships (or treated as partnerships for U.S. federal income tax purposes), and such investments may give rise to UBTI. It also is possible that the IRS may assert that reductions in management fees resulting from the receipt of fees by the Manager or its affiliates should be taxed as UBTI to tax-exempt Limited Partners. For the foregoing reasons, investors who are subject to the tax on unrelated business income should consult their own tax advisors regarding the advisability of an investment in the Fund.

Non-U.S. Limited Partners. The discussion herein summarizes certain tax considerations applicable to a non-U.S. corporation that is considering an investment in the Fund. Other prospective non-U.S. investors are urged to consult with their tax advisers with reference to their specific tax situations. This summary assumes that a non-U.S. Limited Partner is not engaged in a trade or business within the U.S., and has no U.S.-source income, other than as a result of its investment in the Fund.

The Fund is required to withhold tax at the rate of 30% (or the lower treaty rate, if applicable) on each non-U.S. Limited Partner's distributive share of any interest (subject to certain exemptions) and dividends received by the Fund from U.S. sources.

Withholding is generally not currently required on the proceeds of the sale of portfolio securities. The Fund will, however, be required to withhold on the amount of gain realized on the disposition of a "United States real property interest" (which includes stock of certain corporations) included in the distributive share of a non-U.S. Limited Partner at a rate of 35%, and such Limited Partner will be required to file a U.S. federal income tax return reporting such gain (although no additional tax ought to be due). Gain realized by a non-U.S. Limited Partner on the sale of all or any portion of its interest in the Fund will, to the extent such gain is attributable to United States real property interests owned by the Fund, be subject to U.S. federal income tax. Although no assurance can be given, the Fund does not expect that any of its investments will constitute U.S. real property interests.

In general, a non-U.S. person that invests in a partnership that is "engaged in a trade or business within the United States" is itself considered to be engaged in a trade or business within the United States and is subject to U.S. tax (including, possibly, the "branch profits" tax), withholding and income tax return filing requirements. A non-U.S. person that fails to file a timely U.S. federal income tax return in respect of its income from a U.S. trade or business may subsequently be precluded from claiming deductions related to such income. The Fund believes that its activities as currently contemplated generally will not involve being engaged in a trade or business within the United States. It is possible, however, that the Fund will invest in operating entities that are partnerships (or treated as partnerships for U.S. federal income tax purposes), and such investments may generate income effectively connected with a U.S. trade or business. It is also possible that the IRS may assert that reductions in management fees resulting from the receipt of fees by the Manager or its affiliates should be considered income from a U.S. trade or business to non-U.S. Limited Partners.

If the Fund were treated as engaged in a trade or business within the United States, each non-U.S. Limited Partner's allocable share of the income of the Fund that is treated as effectively connected with such trade or business would be subject to net basis U.S. federal income tax at the applicable graduated tax rates, and to "branch profits" tax at a rate of 30% (or, possibly, a reduced rate under an applicable U.S. income tax treaty). The Fund would be required to withhold tax on each non-U.S. Limited Partner's allocable share of such effectively connected income (estimated on a quarterly basis) at 35%. If the amount of such withholding tax exceeded such non-U.S. Limited Partner's total U.S. federal income tax liability, such non-U.S. Limited Partner would be entitled to claim a refund of such excess upon filing a timely U.S. federal income tax return.

The Fund will withhold and pay over any withholding taxes required to be withheld with respect to any Limited Partner and will treat such withholding as a payment to such Limited Partner. Such payment will be treated as a distribution to the extent that the Limited Partner is then entitled to receive a cash distribution. To the extent that such payment exceeds the amount of any cash distribution to which such Limited Partner is entitled, such Limited Partner will be required to make prompt payment to the Fund of such excess.

Confidentiality. Pursuant to the provisions of the Fund's limited partnership agreement , each Limited Partner (and each employee, representative or other agent of such Limited Partner) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the Fund and its investments and all materials of any kind (including opinions or other tax analyses) that are provided to such Limited Partner relating to such tax treatment and tax structure, provided that (i) in no event shall such Limited Partner disclose, prior to the final Closing, the name of or any other identifying information in relation to the Fund and its investments and (ii) this permission to disclose tax treatment and tax structure shall not be construed to include the name or performance data of any Portfolio Company, including the existence, amount or nature of any Unrealized Loss or Portfolio Reserve, which information shall remain subject to the confidentiality provisions of the Fund's limited partnership agreement.

Tax Shelter Compliance. In February, 2003, the Internal Revenue Service issued special rules under Code Sections 6011, 6111 and 6112, and subsequently amended these rules in December, 2003 (collectively, the "Tax Shelter Rules") which are intended to require disclosure regarding transactions broadly characterized as "tax shelters." Because of the broad scope of the Tax Shelter Rules, the Fund, its investors and/or its advisers may be required to register, report and/or otherwise disclose to the IRS, including to the IRS' Office of Tax Shelter Analysis, investments in the Fund or transactions or investments by the Fund. As provided in this Memorandum, the subscription documents and the Fund's limited partnership agreement, the Fund's investors are not subject to confidentiality with respect to the tax treatment and tax structure of the Fund and its investments, and therefore the Fund' investors should not be subject to the Tax Shelter Rules based on the portions of the Tax Shelter Rules that address confidential transactions. **However, because there are multiple categories of transactions that may cause an investor to be subject to the Tax Shelter Rules, investors should consult their own tax advisers about their obligation to report or disclose to the IRS information about their investment in the Fund and participation in the Fund's income, gain, loss or deduction with respect to transactions or investments by the Fund that may subject to these rules.** In addition, pursuant to the Tax Shelter Rules, the Fund may provide to its advisers identifying information about the Fund's investors and their participation in the Fund and the Fund's income, gain, loss or deduction from those transactions or investments, and the Fund or its advisers may disclose this information to the IRS upon its request. There also is legislation currently pending that would expand the scope of these registration, reporting, and disclosure rules.

U.S. State and Local Taxes

The foregoing discussion does not address the U.S. state and local tax consequences of an investment in the Fund. Prospective Limited Partners are urged to consult their own tax advisers regarding U.S. state and local tax matters.

Non-U.S. Taxes

The Fund may be subject to withholding and other taxes imposed by, and Partners might be subject to taxation and reporting requirements in, non-U.S. jurisdictions in which the Fund makes investments. It is possible that tax conventions between such countries and the U.S. (or another jurisdiction in which a non-U.S. Limited Partner is a resident) might reduce or eliminate certain of such taxes. It is also possible that in some cases taxable Partners might be entitled to claim foreign tax credits or deductions with respect to such taxes, subject to certain limitations under applicable law. The Fund will treat any such tax withheld from or otherwise payable with respect to income allocable to the Fund as cash received by the Fund and will treat each Partner as receiving as a distribution the portion of such tax that is attributable to such Partner. Similar provisions would apply in the case of taxes required to be withheld by the Fund.

CERTAIN REGULATORY CONSIDERATIONS

U.S. Securities Laws

Securities Act of 1933. Interests in the Fund will not be registered under the Securities Act or any other securities law, including state securities or blue sky laws. Interests will be offered without registration in reliance upon the exemption contained in Section 4(2) of the Securities Act or regulations of the Securities and Exchange Commission applicable to transactions not involving a public offering.

Each Limited Partner will be required in the Subscription Agreement pursuant to which it subscribes for an Interest in the Fund to make customary private placement representations, including that it is acquiring an interest in the Fund for its own account, for investment purposes only and not with a view to its distribution. Further, each investor must be prepared to bear the economic risk of the investment in the Interests for an indefinite period of time, since the Interests cannot be transferred or resold except as permitted (*i*) under the Securities Act and any applicable state or non-U.S. securities laws pursuant to registration or an exemption therefrom, and (*ii*) under the Partnership Agreement. It is extremely unlikely that the Interests will ever be registered under the Securities Act.

Investment Company Act of 1940. It is anticipated that the Fund will be exempt from the registration requirements of the Investment Company Act of 1940, as amended, in reliance on Section 3(c)(1) thereof. The Fund will obtain appropriate representations and undertakings from purchasers to ensure that the conditions of the exemption are met on an ongoing basis.

Investment Advisers Act of 1940. Neither the General Partner nor the Manager intends to register as an investment adviser under the Investment Advisers Act of 1940, as amended. In the event that either the General Partner or the Manager determines that registration as an investment adviser is required, they do not anticipate that doing so would materially affect the Fund.

CERTAIN ERISA CONSIDERATIONS

ERISA governs the investment of assets of employee benefit plans subject to ERISA, including those that are Limited Partners. ERISA and the rules and regulations of the Department of Labor (the "DOL") promulgated thereunder contain provisions that should be considered by fiduciaries of those plans and their legal advisers.

Fiduciary Duty. In deciding upon an investment in the Fund, plan fiduciaries should consider their basic fiduciary duty under ERISA Section 404, which requires them to discharge their investment duties prudently and solely in the interests of the plan participants and beneficiaries. Plan fiduciaries must give appropriate consideration to the role that an investment in the Fund would play in the plan's overall investment portfolio. In analyzing the prudence of an investment in the Fund, special attention should be given to the DOL's regulation on investment duties (29 C.F.R. 2550.404a-1). That regulation requires, among other things (*i*) a determination that each investment is designed reasonably, as part of the portfolio, to further the plan's purposes, (*ii*) an examination of risk and return factors and (*iii*) consideration of the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to anticipated cash flow needs of the plan, and the projected return of the total portfolio relative to the plan's funding objectives. ERISA also requires a fiduciary to discharge such duties in accordance with the documents governing the plan insofar as they are consistent with ERISA.

Plan Assets. DOL regulations concerning whether investment by a plan in a partnership will result in the assets of the partnership being deemed "plan assets" contain a general rule that when an employee benefit plan invests in an entity such as a partnership, and when the interest acquired by the plan is neither a publicly offered security nor a security issued by a registered investment company, the plan's assets include both the partnership interest and an undivided interest in each of the underlying assets of the partnership, unless the aggregate equity participation in the partnership by "benefit plan investors" (within the meaning of the DOL regulations) is not "significant" (*i.e.*, such participation is less than 25% of the Fund's total committed capital).

The General Partner will make reasonable efforts to ensure that benefit plan investors do not own more than 25% of any class of equity interests of the Fund. Accordingly, interests in the Fund will be subject to restrictions on purchase and transfer such that a purchase by or transfer to a benefit plan investor of an interest in the Fund will not be permitted if such purchase or transfer would result in benefit plan investors owning 25% or more of any class of equity interests of the Fund. In the event that the Fund's assets are determined to be "plan assets", the Partnership

Agreement requires ERISA Limited Partners to take certain actions to alleviate the effect of such determination, including a sale of Interests to other Limited Partners or a third party (with the consent of the General Partner).

An ERISA plan shall not be eligible to purchase interests in the Fund if the General Partner, or any entity related to the General Partner, is acting as a fiduciary with respect to such purchase or is an employer or party in interest (as defined in Section 3(14) of ERISA) with respect to such ERISA plan, unless an available exemption from ERISA's prohibited transaction rules exists and is met to the satisfaction of the General Partner.

The foregoing discussion of ERISA issues should not be construed as legal advice. Trustees and other fiduciaries of employee benefit plans subject to ERISA should consult with their own counsel with respect to issues arising under ERISA and make their own independent investment decision.

PSCP

PINE STREET CAPITAL PARTNERS, LP

PSCP

May 2005

Investment Concept

Mezzanine investments in smaller companies will generate high returns, and a team with the right blend of small company operational know-how plus financial expertise can capitalize on this underserved market opportunity.

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Pine Street Capital Fund Terms

Fund Size:	$50 million target - $75 million maximum. First closing on $22 million held in January 2005
Terms:	Two tranches - fixed rate debt and limited partnership interests. Fixed rate tranche is 40% of total capital with a five year maturity and quarterly interest payments.
Management Fees:	2.5% annual management fee 20% carried interest, subject to a 9% hurdle.
Fund Life:	Seven years, with the ability to extend for up to two years at the option of the General Partner
Target Rates of Return:	9.0% for Fixed Rate Debt 16% - 20% IRR for Limited Partnership interests

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Mezzanine Market Overview

- There are approximately 200 mezzanine funds currently operating in the United States.
- Mezzanine debt is used in recapitalizations, re-financings, expansion financings and in support of buyout activity.
- To a significant extent, a mezzanine fund's source of capital impacts their investment philosophy and outlook, leading certain funds to partner with equity sponsors and others to select un-sponsored deals, a choice directly impacting yield.
- Capital flows and new market entrants have impacted returns and structure in the middle market and above. The middle market is generally defined as EBITDA greater than $10mm.
- Recent purchase prices and debt multiples for M&A transactions are increasing.

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Dynamic Creates Opportunity

- Senior lenders conservative lending practices do not always meet the capital needs of smaller borrowers.
- Without an Equity Sponsor, few mezzanine providers will participate in the lower end of the middle market.
- Mezzanine funds, staffed primarily with financial professionals, find it difficult to participate in the lower end of the market due to the lack of direct small company operational experience.
- Sourcing of deals through traditional channels continues to be vital, however, establishing relationships with owners directly provides significant opportunity for owners and lenders.
- An experienced, opportunistic and flexible investment team can take advantage of these dislocations to achieve healthy risk-adjusted returns.

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RMR-5995-0065645

Meet Pine Street Capital Partners

- Pine Street Capital Partners, headquartered in Albany, NY, with an additional office in New York City, is a Mezzanine Fund specializing in the lower end of the Middle Market.

- Pine Street's four principals have amassed almost 90 years of Investment Banking, Commercial Banking, Fund Management and Private/Public company Senior Executive operating experience.

- Pine Street believes our unique combination of operational know-how, financial expertise, disciplined investment process and commitment will provide investors with very competitive relative returns.

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The Pine Street Difference

- The Fund's principals have:
  - Worked on well over a hundred investment banking engagements
  - Founded, operated and sold three technology companies to publicly-traded companies
  - Originated and structured numerous leveraged transactions for middle market companies
  - Managed investment capital with significant positive returns.
- Pine Street Capital believes this combination of financial and operational experience is a significant competitive advantage.

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Pine Street Investment Focus

- Investment Metrics
  - Minimum Revenue of $10mm
  - Minimum EBITDA of $1mm
  - PSCP investment size is between $1mm and $8mm, average investment of $3mm

- Target Industries
  - Technology, Consumer and Business Services
  - Light Manufacturing
  - Distribution
  - Retail

- Geographic Focus
  - Emphasis on the Northeast and Mid-Atlantic Region
  - Will consider transactions outside of focus area on opportunistic basis.
    - Geographic distance must be accompanied by higher expected rates of return.
    - Source of transaction opportunity must be a strong relationship of a Fund principal

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Investment Focus

- Investment Structure
  - Typical structure to include debt with warrants
  - Current yield of 12%-15%, plus PIK interest
  - Closing fees of 1.5% to 3.0%
  - Pre-payment penalties as negotiated
  - Cash Flow Sweep as negotiated
  - Financial and operational covenants
  - Board Seats or Observation Rights
  - Non-control position

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Investment Focus

- Business Model Characteristics
  - Positive operating history
  - Recurring revenue/customers
  - Sustainable competitive position, coupled with attractive margins
  - Operate in growing markets or able to increase market share in more mature markets
  - Experienced and committed management team

- Investment Process
  - Pine Street will follow a disciplined and methodical approach to sourcing, selecting, structuring and monitoring deals, continually applying metrics to gauge performance.
  - Clear exit strategy

PSCP

Disciplined Due Diligence Process

Fund principals screen transaction for fit with Fund investment parameters

Thorough fundamental analysis including assessment of management, financial modeling, on-site visits, industry analysis and discussion with vendors, suppliers, and customers

Weekly meeting of Fund principals to review new and pending opportunities – identify further due diligence issues and key business metrics to be followed

Obtain input from Advisory Board and outside industry specialists as needed

Creation and assessment of a transaction review memorandum

Decision made on investment – approval conditional on 100% support of Fund principals

PSCP

RMR-5995-0065651

Creating Value

We believe that value often runs in cycles and is driven by number of internal and external factors. Understanding the relative strength and opportunities in various parts of the capital markets is critical to maximizing value

- Operating Performance
- Market Size
- Relative Competitive Position
- Industry Growth Rates
- Strength of Market Niche
- Investment Community Perspective

Company Value

- Recapitalization
- Private Sale of the Company
- IPO
- Sale of Fund Investment to 3rd Party

PSCP

Deal Flow Generation

- Continuous Deal Flow is a critical aspect of the Pine Street strategy with a targeted annual deal flow of at least 250 potential transactions.

- To generate deal flow, Pine Street is actively working with Senior Lenders, Investment Bankers, Venture Capitalists, Buyout Funds, Mezzanine Providers, Business Brokers, Accountants, Attorneys and Business Consultants.

- Pine Street Capital is also focused on directly sourced transactions from Business Owners and Operators where there is less competition, rate is enhanced and there is the opportunity to build a relationship with company management over a period of time.

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Deal Flow Snapshot

Deal Summary

Deals Reviewed:	68
Deals Pending:	8

Reason Declined

Financial metrics shortfall

Sector mismatch

Pre-revenue Opportunity

Primary Source Partners

PSCP Relationship Network

Other Mezzanine Providers

Business Brokers

Investment Bankers

Transaction Type

Buyout Support:	23%
Recapitalization:	7%
Growth:	46%
Refinance:	6%
Other:	18%

Industry Sector

Retail:	3%
Distribution:	10%
Services:	57%
Manufacturing:	18%
Other:	12%

The Pine Street Team has reviewed 68 opportunities, of those, 95% have been sourced through the principals' relationship network. About half the deals seen to date were dismissed immediately and the remainder reduced to eight, of which, four are in various stages of advanced due diligence.

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Pending Deals

Date	Size	Industry	Use of Proceeds
02/01/05	$3,000	Manufacturer	Refinancing/Acquisiton
02/01/05	$2,000	Technology Services	Growth
03/01/05	$5,000	Consumer Services	Recap
03/15/05	$2,000	Manufacturer	Growth
04/05/05	$2,000	Advertising	Growth
04/08/05	$1,500	Inustrial Manufacturing	Recap
04/18/05	$2,000	Industry Supplies	Acquisition
04/22/05	$5,000	Manufacturer	To be determined

Of the above, four are in various stages of advanced due diligence and the remainder are pending requested document delivery to Pine Street Capital. If the opportunity fits our investment profile threshold upon initial review, due diligence will commence with a targeted completion date of 45 days out.

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In Advanced Due Diligence

Upstate NY Manufacturing Company with $11mm in revs and $1.3mm in EBITDA is seeking mezzanine capital for a combination refinancing, recap and growth. Experienced management and potential Intellectual Property play. ***Sourced through an Investment Banker, little current competition.***

Mid-Atlantic Consumer Services Company with $20mm in revenue and > $2mm in EBITDA is seeking equity and mezzanine capital to recapitalize the Company and for growth capital. Management team is strong with solid marketing acumen. ***Sourced through a Mezzanine Firm relationship, term sheet issued May 05.***

Northeast based home furnishings manufacturer with 2004 revs > $25mm and EBITDA > $1mm is seeking mezzanine financing for growth capital. Mezzanine piece will complement existing ABL line. ***Sourced through a Business Broker, little current competition.***

NY State Construction Industry Supplier seeking mezzanine capital for combination refinance, recap and growth. Projected revenues in 2005 > $20mm and EBITDA > $1mm. Potential differentiated product-line introductions this calendar year. ***Sourced through PSCP relationship, little current competition.***

PSCP

April 2005 Investment Activity

In April 2005 Pine Street, in partnership with another mezzanine investor, made a $2mm sub-debt investment, of $5mm total size, in a consumer services company. The transaction was a recapitalization. Day-1 leverage and fixed charge coverage are at very reasonable levels, and the projected IRR is acceptable.

Investment decision was based primarily on the following:

•The borrower has a differentiated business model.

•There is significant contractual cash flow providing forward visibility.

•Adequate Enterprise Value provides a fallback position for the mezzanine piece.

•The demographics in the core market support the revenue projections.

•Conservative leverage and debt service coverage levels.

•Very experienced (over 25 years in this sector) and capable management team with an excellent track record.

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Management Team

Tim Welles, Managing Partner
- Former CFO, First Albany Companies
- Securities Attorney, Cahill Gordon & Reindel
- Former COO, Colonial Data Technologies
- 15 years experience in middle market investment banking

Dave Smith, Managing Partner
- Founder, President and CEO, McGinn, Smith & Co.
- 30 years experience in investment management
- Partner of investment funds totaling over $400 million in principal amount

Tony Schmitz, Managing Partner
- Former President and CTO, 24/7 Real Media, Inc.
- Member, Board of Directors, 24/7 Real Media, Inc.
- 20 years experience as an entrepreneur, building and selling 3 companies to publicly traded companies

Michael Lasch, Principal
- Former Director, Corporate Banking Group, Fleet Boston
- 7 years experience focused on leveraged cash flow transactions for middle market companies

PSCP

Advisory Board

Tom Baldwin	General Partner, Bruckmann, Rosser, Sherrill & Co., a $750 million LBO firm. Formerly Managing Director of private equity firm, The INVUS Group, Ltd.
Robert Curley	Former Division President, Eastern New York and New England, Charter One Bank Previously Vice Chairman of Key Bank, N.A.
Glenn Epstein	Chairman/CEO, Intermagnetics General Corp. (IMGC), a designer, manufacturer and marketer of superconducting magnets used in MRI machines
T. Richard Kendrick	Senior Vice President/ Head of Equity Capital Markets, Stifel Nicolaus & Co.
Robert Thrasher	Former Executive Vice President/ Chief Quality Officer, NYNEX Corporation. Previously COO of New York Telephone Co.

PSCP

Frequently Asked Questions

Why is the Fund divided into a debt component and Limited Partnership Interest?

Pine Street determined many investors preferred current return in a portion of their investment and upside potential in the remainder, resulting in the 40/60 split between the note and the Limited Partnership Interest.

Will Pine Street's partners be active or passive after an investment is made?

We will be active investors. The Fund's principals have significant small company operating experience and believe that our Portfolio Companies will benefit from that experience, and we believe that we can more effectively monitor the Fund's investments by being actively involved.

Is there an Unrelated Business Income Tax (UBIT) for a Pine Street investor?

No, counsel has advised us there is no UBIT issue for the Fund's Limited Partners. However, Fund investors should consult with their own advisors.

PSCP

Frequently Asked Questions

Who are Pine Street's competitors?

Since we compete in the lower end of the middle market, defined as EBITDA less than $10mm, we do not generally see the middle market mezzanine players or the hedge funds. Typically, most of these groups are unwilling to participate, either directly or through participation in a syndicate, below the $10mm floor. As a result, our competitors are other lower middle market mezzanine funds and sometimes banks who are willing to do cash flow loans. Pine Street estimates there are a dozen mezzanine funds looking for deal flow in the Northeast and Mid-Atlantic region.

When a Pine Street loan matures, how is repayment assured?

There are typically four ways for Pine Street to be re-paid upon maturity:

- Cash flow from operations
- Refinancing the debt
- Sale of the company
- An IPO by the company

PSCP

Frequently Asked Questions

Will the fund focus on sponsored or un-sponsored transactions?

Pine Street will invest in both sponsored and un-sponsored deals. Sponsored deals typically face greater pricing pressure and the deal flow pipeline can be unpredictable if M&A activity softens. Un-sponsored deals will typically enjoy better pricing. Overall, we anticipate our allocation to be 60/40 in favor of un-sponsored.

In considering an investment, what is one of the critical financial metrics you consider?

We pay particularly close attention to Total Leverage and Fixed Charge Coverage as critical components in assuring preservation of principal and protection of interest. In general, these metrics help ensure 1) an appropriate capital structure for a given business model or industry and 2) a borrower's ability to generate sufficient free cash flow to cover its fixed obligations (generally defined as interest expense, required principal payments, cash taxes, and capital expenditures).

PSCP

Frequently Asked Questions

How will the Pine Street guard against misrepresentation by a portfolio company?

By using all means at our disposal including (but not limited to): audited returns by a reputable accounting firm, background checks on key executives, working our relationship network for references and, if necessary, using forensic accountants.

If a particular investment does very well, with a warrant upside win for example, does the fund recycle the proceeds or conduct a distribution to the Limited Partners?

Unless the investment is returned to the Fund much sooner than expected (i.e. less than one year), the Fund will return the principal to the Limited Partners. In any event, investment income and capital gains will be distributed to the Limited Partners on a periodic basis.

PSCP

Frequently Asked Questions

Do the Pine Street principals have experience with distressed or turnaround situations?

Yes, Pine Street principals have been involved in situations where entities have been under stress due to market conditions. This includes acting as both a principal and as an advisor, and involves discussions and negotiations with secured and unsecured creditors, raising additional capital (both debt and equity), selling distressed businesses and stabilizing a business such that it was able to regain its growth trajectory.

Will warrants be a component in a majority of Pine Street's portfolio company investments?

Yes, Pine Street, in most cases, will have an equity participation through warrant coverage in a portfolio company. The percentage will vary based on a range of factors, with 5% representative of a reasonable equity stake at this end of the market.

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Yield Comparisons

Treasuries	Yield
4-week T-Bills	2.62%
3-month T-bills	2.88%
3-year Treasuries	3.82%
10-year Notes	4.22%
30-year Bond	4.52%

Corporates	
DJ Corporate Bond Index	5.17%
Lehman Brothers MBS	5.10%

Merrill Lynch Bond Indexes	Yield
1-10 yr High Quality	4.45%
1-10 yr Medium Quality	5.02%
10+ yr High Quality	5.42%
10+ yr Medium Quality	5.95%
High-yield Corporates	8.24%

As of May 11, 2005
High Quality rated AAA-AA
Medium Quality A-BBB/Baa
High Yield BB/Ba-C

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Appendix A

Fund Management Biographies

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Timothy R. Welles, Managing Partner

- Involved in principal investing, investment banking and executive management since 1984.
- Active as a principal investor and as an advisor on over 150 completed engagements.
- Chief Operating Officer and a member of the Board of Directors of Insight First, Inc., a venture-backed web analytics company.
- Chief Financial Officer of First Albany Companies, Inc., a publicly traded investment banking and brokerage firm, from 1997-2000 and co-head of the Equity Capital Markets division from 2000-2002. In these roles he participated in the oversight of the firm's internal and external investment portfolio. He also is a special limited partner in FA Technology Ventures LLC.
- Chief Operating Officer and a member of the Board of Directors of Colonial Data Technologies, Inc., a publicly traded manufacturer of caller ID-related equipment, and in 1997 led the sale of that company in a $300 million merger of equals.
- Began career practicing corporate and securities law at Cahill Gordon & Reindel.
- Experienced in serving on the board of directors of public and private corporations.
- Holds a B.A. in Economics and History from the State University of New York at Albany and a J.D. from Albany Law School.

PSCP

Tony Schmitz, Managing Partner

- An entrepreneur and executive since 1985, focused primarily on creating and building value for technology companies.
- Founder or co-founder of three companies (Reach Networks, Gray Peak Technologies and Insight First, Inc.), each of which was successfully sold to larger, publicly-traded companies. Reach Networks had a ROIC of 10x from its sale in 1997. Grey Peak had a ROIC of > 10x on its $100 million sale in 1998. Insight First had a 3.4x ROIC from its 2003 sale.
- Mr. Schmitz' most recent company, Insight First, Inc., was sold to 24/7 Real Media, Inc., where he remained as President and Chief Technology Officer until August 2004. He was responsible for significantly restructuring and improving the company's technology development and marketing efforts. Effective August 1, 2004, Mr. Schmitz became Chairman – Technology Solutions Worldwide for 24/7 Real Media and relinquished his daily operating responsibilities. At the same time, he joined the Board of Directors of 24/7 Real Media.
- Mr. Schmitz also has been active as a principal investor in and an advisor to a number of early and growth stage companies.
- Experienced as a board member and public company executive.
- Mr. Schmitz received a B.S. in Business and Computer Science from the State University of New York at Albany.

PSCP

Dave Smith, Managing Partner

- Mr. Smith has been involved in investment banking and investment management for over 30 years.
- He founded McGinn, Smith & Co., an investment banking and brokerage firm, in 1980 and currently serves as its President and Chief Executive Officer. McGinn, Smith is an affiliate of the Fund.
- Mr. Smith is a Managing Director of First Independent Income Notes and First Excelsior Income Notes, investment funds aggregating $40 million. He has been a partner of investment funds totaling over $400 million in principal amount since 1997.
- He is a Director of Integrated Alarm Services Group, Inc. (IASG), a publicly traded company engaged in alarm monitoring financial services, and of Coventry CareLink Holding Corp., a Maryland-based long term healthcare insurance company.
- Mr. Smith is Vice Chairman, and Chairman of the Finance Committee, of the Empire State College Foundation, a member of the New York State Public University System.
- He received a B.A. in Economics from Hamilton College.

PSCP

Michael Lasch, Principal

- From 1997-2004, Mr. Lasch held various positions with FleetBoston Corporation's corporate and investment banking division, most recently as a Director.
- Mr. Lasch has spent several years executing leveraged middle market transactions, with a particular focus on media, sports and entertainment companies. In this position, he was responsible for originating, structuring and negotiating leveraged cash flow opportunities, primarily for sponsor-backed transactions.
- Most recently, Mr. Lasch served as the portfolio manager of a $250 million leveraged loan portfolio and had primary responsibility for analyzing and mitigating the bank's credit risk to portfolio companies.
- From 1990 to 1995, Mr. Lasch served as a congressional aide in Washington, DC.
- He received a B.A. in Political Science from the College of the Holy Cross and an M.B.A. from Emory University.

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Appendix B

Prior Transaction Experience

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Investment Background

Principals have a **proven track record** as entrepreneurs.

Company	Founded	Sold	ROIC
Reach Networks	1988	1997	10.0x
Grey Peak Technologies	1997	1998	10.5x
Insight First	2000	2003	3.4x

- Reach Networks was a web development company founded in 1988 and sold to US Web in 1997, resulting in a return of over 10.0x invested capital. The company was funded solely by a development contract with a major U.S. accounting firm.
- Grey Peak Technologies was a consulting firm founded in 1997 and sold to U.S. Web in 1998, resulting in a return to investors of over 10.5x invested capital.
- Insight First is a web analytics company founded in 2000 and sold to 24/7 Real Media, Inc. in 2003, resulting in a return to investors of over 3.4x invested capital.

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Investment Background

Principals have a **proven track record** as managers of investment funds.

Investment Fund	Capital Raised	Time Period	Return
Trust Certificates	$ 185,000,000	1994-2003	12.11%[1]
First Independent Income Notes	20,000,000	2003-2004	17.59%[2]
First Excelsior Income Notes	20,000,000	2004	N/A[3]

1. Represents net return to investors. Gross annual return generated from investments in alarm contracts was in excess of $15.0%. Trust certificates were structured as fixed coupon debt instruments.
2. Weighted average returns from current investments.
3. Capital currently being invested.

From 1994-2003, **approximately $185 million raised** in the form of Trust Certificates, generating a weighted average annual net return of 12.1%

- Capital used to acquire alarm monitoring contracts and related alarm company assets.
- Investments resulted in the creation of Integrated Alarm Services Group, Inc. (IASG), which completed its IPO in July 2003.
- Approximately $144 million of investor principal has been repaid to-date through operating cash flow from the acquired assets, refinancings and IPO proceeds.

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RMR-5995-0065673

Investment Background

In 2003, **$20,000,000 raised** in First Independent Income Notes ("FIINs"), generating a gross WAAR of 17.6% year-to-date. Representative transactions included:

- $5,000,000 investment in a leading residential development company in the Phoenix metropolitan market
- $2,000,000 investment in a Trust Preferred Collateralized Debt Obligation targeting mid-size insurance companies
- $1,800,000 investment in an international manufacturer and designer of specialty pool equipment and family recreation and aquatic centers
- $1,500,000 investment in an entertainment company specializing in development of advertising campaigns for independent film production companies

In 2004, **approximately $20,000,000 raised** in First Excelsior Income Notes ("FEINs"). Capital currently being invested.

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