

ZS Fund L.P.

Transactions Custom-Tailored For You

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ZS Fund L.P. is a private equity firm engaged in making long-term investments in successful middle-market companies. Since 1985, we have focused on transactions that provide liquidity to business owners while enabling them to maintain a significant ownership stake and keep their company independent. Our strengths are understanding the objectives of business owners, structuring transactions that respond to these objectives, and being constructive partners to help increase the value of the businesses in which we invest.

Through our current and prior private equity funds, ZS has invested in more than forty companies in transactions with an aggregate value of approximately \$2.0 billion. Our investments have taken the form of recapitalizations, industry consolidations, buyouts and minority investments. Our capital is provided by successful entrepreneurs and business owners (many of whom have been our operating partners in prior investments) as opposed to institutions. This unique investor base for a firm of our size affords us a much greater degree of flexibility with respect to how we structure our investments and how we work with our operating partners in the years that follow.

It May Be Time for a Change. How It Happens Is Your Choice.

For years your business has been your life. You have invested endless hours building it, managing it and doing everything within your power to guide it toward success. You want to continue to build your business; however, there are estate, liquidity and/or shareholder issues that have led you to conclude that you want to do something to take care of yourself, your family and your business.

ZS Fund: Structuring a Custom-Tailored Transaction for You

Making the right change and choosing the right partner are major decisions that require a considerable amount of thought. You have a lot invested in your business and may not want to increase your capital at risk. You may want to increase your personal liquidity. You want to achieve your goals while maintaining operating autonomy. It is your company, and you want to continue its success. Selecting the right partner to help you address these issues is critical.

For more than 20 years, we have provided liquidity solutions to shareholders through the recapitalization of their companies. ZS prides itself on creating innovative deal structures for owners of mid-sized, closely-held companies with good growth prospects. We are funded primarily by entrepreneurs like you. We understand that every situation is unique, and we will custom-tailor a transaction to meet your goals.

The Strength of Partnership

Every ZS investment is built around the concept of a win-win partnership. We have an excellent track record of helping company owners achieve liquidity, while at the same time making sound investments for our limited partners. A key to our success has been aligning ourselves with superior management teams with whom we form close partnerships.

Investment Criteria

We look for a handful of important characteristics in a potential investment candidate:

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- Strong management
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- Annual operating profit of at least \$4 million (and generally up to \$30 million)
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- High return on capital relative to industry peers
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- Strong market position
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- Privately-held, or closely-held, publicly-traded companies
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Custom-Tailored Transactions: Unique Benefits

A ZS transaction can provide a range of benefits to business owners including:

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- Diversifying the wealth of entrepreneurs
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- Retaining up to 50% of the equity of the business on a tax-deferred basis while realizing cash proceeds of up to 90% of the company's total value (in select situations we will consider acquiring a minority ownership stake in a company)
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- Providing liquidity to owners who may desire to change their role in, or commitment to, their company
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- Transferring ownership from one generation to another, leaving the parents with cash and the children with ownership
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- Resolving shareholder disputes that could jeopardize the success or independence of the company
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- Solving estate planning issues
-
- Transferring ownership to non-owner managers
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Individual Companies. Individual Needs.

Estate Planning Issues

ZS has expertise in a broad range of transactions and will structure a transaction that addresses your particular goals. One of our specific areas of expertise is in structuring transactions involving estate planning issues. You want to diversify your net worth. You want to transfer ownership to your children and grandchildren in a tax-efficient manner. You do not want to burden your heirs with a potential sale of the company out of your estate. You desire to accomplish all of the above *while continuing to participate in your company's upside potential by maintaining an ownership stake*. ZS can help—we have successfully structured many transactions to address issues such as these, as well as many others.

Management Transition Issues

You have thought about reducing your day-to-day work involvement, maybe even retiring over the next several years. Your management successors (your children?) want operating control, but do not want themselves or the company to be overly burdened as a result of purchasing your stock. Perhaps you want someone to help you find a successor or oversee the company after your retirement. We have completed transactions involving these dynamics and can add value in these types of circumstances.

Case Study—Dairy Fresh L.P.



“ZS enabled us to achieve liquidity (three times!) and a smooth management transition. While we operated the business, ZS helped us to achieve our financial and personal goals.”

*John Hunter,
President of Dairy Fresh*

Founded in 1984, Dairy Fresh was one of the most profitable dairy processing companies in the U.S. The four partners of Dairy Fresh, all of whom were in their sixties, were looking for a way to monetize their investment while providing for a management transition. Unaware that a recapitalization was an option, the partners initially attempted to sell their company to a strategic buyer. However, they were unable to achieve what they believed to be a fair price.

ZS learned of the Company and immediately met with the partners to understand their individual objectives. Based on these objectives, ZS structured a transaction whereby the partners received cash, equity ownership and a deferred payment based on the Company's future performance. As planned, ZS and the partners collectively hired a successor to the retiring President.

Approximately two-and-a-half years after our initial investment, ZS engineered a refinancing of the Company whereby a distribution of already-taxed earnings was made to all of the owners, and the deferred payment to the partners took place ahead of schedule.

The following year, the Company was approached by a strategic buyer who was consolidating the industry, and the partners, ZS and the new President (who had been awarded equity in Dairy Fresh) unanimously decided to sell the Company.

Industry Consolidations

If you are an owner-operator of a business with a strong market position in a fragmented industry, an industry consolidation may be the right strategic direction for your company. Do you believe your industry could enjoy substantial benefits from consolidation? Do you have confidence that your management team is the right group to lead an industry consolidation? Do you want to avoid risking all of your own capital to engineer the consolidation? Would you like a partner who has prior experience in successful consolidations?

If your answer to any of these questions is yes, then ZS can provide expertise based upon our success in working with excellent management teams to facilitate the consolidation of relatively fragmented industries.

Case Study—American Reprographics Company, LLC



“ZS was instrumental in helping us acquire 38 companies in 30 months. They respected our judgment while at the same time adding value in the process. We could not have picked better partners.”

*Moban Chandramohan
and Suri Suriyakumar,
CEO and President,
respectively, of American
Reprographics Company*

Over a nine-year period, the principals of what is now American Reprographics Company (“ARC”) acquired majority interests in five west coast reprographics companies using their own capital as well as loans which they personally guaranteed. Recognizing the benefits of scale and having been successful in their prior acquisition efforts, the principals were eager to lead a consolidation of the fragmented reprographics industry. However, the principals did not have the resources to lead the consolidation independently and thus considered seeking an experienced partner.

ZS structured a transaction whereby the principals received a substantial amount of cash, some notes, and a 50% ownership stake in ARC, a newly-formed company which purchased the five predecessor companies. In addition, the principals were relieved of their personal guarantees and had the ability to earn additional consideration based upon ARC’s post-closing performance.

ZS provided the necessary equity capital and arranged for bank financing to allow the Company to continue making acquisitions. In fact, over the ensuing 30 months, ZS helped ARC acquire 38 companies and grow its revenues from \$75 million to \$300 million. During that time period, management significantly improved the operating margins of the acquired companies and continued to grow the business internally.

ZS and the principals later structured a second recapitalization in which management received additional liquidity (greater than two times the original amount) without selling any of their equity, and ZS sold substantially all of its ownership interest to a new private equity firm chosen by management. Each of the recapitalizations were “win-win” situations from the perspective of both ZS and the principals.

Minority Investments in Publicly-Held Companies

You are a key executive of a profitable, small-cap public company. You have guided your company towards long-term earnings growth, only to have the market ignore your performance. Will the market ever recognize your achievements?

Like any top-level executive, you want to enjoy the benefits of your success. ZS can be a financial/strategic partner who can help you achieve the success you deserve.

Case Study—Market Facts, Inc.



“ZS helped us execute our acquisition plan and gain recognition from the investment community. As a result, management and our shareholders were able to realize liquidity at a significant premium when the time was right to find a global partner for our company.”

Tom Payne, President of Market Facts

At the time ZS was approached by the senior management team of Market Facts, it was a publicly-traded company with a \$30,000,000 market capitalization. The management team was seeking a financial partner to assist it in increasing shareholder value, as well as in structuring and executing acquisitions that had been identified. As a result of its low market capitalization and lack of analyst coverage, the Company’s stock was relatively illiquid, and its stock price bore no relationship to its excellent earnings performance.

ZS was very impressed with Market Facts’ management team and the Company’s strong earnings track record. After considering various options to address its needs (including a “going private” transaction), ZS purchased shares directly from the Company and on the open market. The proceeds from the direct investment were used by Market Facts to effect a large share buyback, which provided an opportunity for long-time holders of the Company’s common stock to achieve liquidity without impacting the stock price.

While Market Facts continued to execute its business plan, ZS solicited research coverage from analysts and investment firms who had followed other ZS portfolio companies. Our collective efforts resulted in research coverage being initiated with a buy recommendation by a large regional investment firm.

Concurrently, the Company closed its first acquisition, with ZS’s assistance. Market Facts then completed a \$50,000,000 common stock offering to fund its acquisition program and gain additional analyst coverage.

Management and ZS’s successful implementation of the strategic plan resulted in the Company achieving a market capitalization in excess of \$200,000,000 and a price to earnings multiple of 25 times. To address the needs of its increasingly global customer base, Market Facts merged (at a significant premium) with Aegis Group plc, a London-based media buying company with significant international operations.

Divergent Shareholder Goals/Shareholder Disputes

As companies grow, the financial and business goals of the founders often diverge, and/or personal issues arise which are detrimental to the company. Perhaps you want to reinvest your company's cash flow to grow the business, while your partner wants all of it distributed for lifestyle reasons. Maybe your partnership has deteriorated over personality or management issues. Since its founding, ZS has been successful in structuring transactions that address conflicting ownership objectives and resolve uncomfortable personal issues.

Case Study—Service Champ L.P.

Service Champ is a leading distributor of products and equipment to quick lube centers throughout the United States. The Company was owned by four brothers, two of whom made up the senior management team of the business. One of the active brothers wanted to reduce his day-to-day involvement with the Company while the other active brother wished to remain as the Company's President. ZS structured a transaction in which all of the brothers received significant liquidity and collectively retained approximately 20% of the equity of the Company. ZS also put in place special bonus pools for the benefit of the brothers who were active in the business to increase the potential consideration to the individuals most responsible for the Company's performance.

Two years after ZS's investment, Service Champ acquired Pacific Trend, one of its largest competitors. The acquisition significantly strengthened the Company's presence on the West Coast, enhanced its already strong management team and made it the dominant player in the industry. ZS was actively involved in negotiating, structuring and financing the acquisition. The combination was extremely successful as the operations and cultures of the businesses merged seamlessly, and the combined Company realized significant synergies.

After integrating Pacific Trend, the Company was approached by a financial institution that was interested in recapitalizing the Company. The founding brothers and other management shareholders were not interested in selling any equity, so ZS negotiated a transaction in which it sold its ownership stake while the management owners received a combination of cash and additional equity in the Company.

Case Study—Company X.

Company X was owned 50/50 by its two founders, each of whom had a son working in the business. The Company grew, the founders retired, and one of the sons became President. While he was showing signs of being an excellent manager, the other, less capable son was hampering the President in operating the business. ZS engineered a purchase of 100% of the Company from the two founders and then resold approximately 40% to a group of key managers led by the President, thereby resolving a difficult situation and permitting the Company to continue its growth without distraction. The Company prospered, subsequently went public, and eventually was purchased by another private equity firm, which kept the management team in place.

Adding Value as a True Partner

Whether it is helping to identify and execute add-on acquisitions, being a catalyst for strategic initiatives or acting as a sounding board for a company's executives, we view ourselves as a resource that can add value when appropriate. We also pride ourselves on not "meddling" in a company's day-to-day operations. We have played a variety of roles to help increase value at our partner companies, and because our investments are generally in partnership with the existing owners and managers, we all share in the value we help to create. This "second bite at the apple" for the original owners often exceeds the amount received in the initial recapitalization.

Case Study—Sanda Kan Industrial Ltd.

Sanda Kan is a leading Hong Kong based manufacturer of model trains and related products with its manufacturing operations located in mainland China. In one of the first leveraged recapitalizations completed in China, ZS acquired a majority interest in Sanda Kan from its 83-year old owner in mid-2000. Post-closing, ZS worked closely with Sanda Kan's management team to expand the core business through new customer introductions and to pursue new product opportunities by leveraging off of the Company's design, engineering and manufacturing capabilities. For example, ZS facilitated a relationship with the owners of one of the leading model train marketers in the world which resulted in this company shifting all of its U.S. production to Sanda Kan and becoming one of Sanda Kan's largest customers.

After successfully increasing revenues and earnings at the Company over a several year period, ZS and the Company were approached by an Asian investment firm interested in buying the Company. Wanting to capitalize on the significant value that had been created at the Company while still believing in its future growth prospects, ZS structured a transaction in which we and our investment partners (which included the former owner and senior management) received a significant amount of cash while retaining a large minority equity position in the Company.

We appreciate the opportunity to introduce ZS Fund L.P. with this overview of our investment philosophy and approach. During the last 20+ years, we have been helpful to business owners in addressing liquidity, estate planning, management transition and other shareholder issues. We look forward to learning more about your business and personal goals and custom-tailoring a transaction for you.

Biographies

Bob Horne joined ZS in 1992. Previously, he was a Vice President at Salomon Brothers in their mergers and acquisitions department and at Smith Barney in their corporate finance department. Bob earned his B.A. with honors from Harvard College, where he was captain of the tennis team, and his M.B.A. from the Stanford Graduate School of Business.

Ned Sherwood co-founded ZS in 1985. Previously, he was a principal at AEA Investors, a private equity firm, a Vice President of W.R. Grace & Co. where he worked on divestitures, and Assistant to the President of Hazeltine Corporation. Ned graduated magna cum laude from the Wharton School at the University of Pennsylvania where he received the Herbert T. Steuer Memorial Award for the Most Outstanding Wharton Student.

Doug Brown joined ZS in 1996, having invested in private companies since 1988 as a principal with Holding Capital Group. Previously, Doug worked in corporate finance at Drexel Burnham Lambert and Smith Barney. Doug received his B.A. with honors from Dartmouth College and his M.B.A. from the Wharton School.

Nick Burger joined ZS in 2000. Previously, he worked in the investment banking division of Merrill Lynch & Co. and for MLC Funds Management in Australia. Nick received his B.A. from Yale College.

Adam Lehrhoff joined ZS in 2003, having previously invested in and operated private companies since 1995 while a principal with Kidd & Co. Prior to that, Adam worked in the investment banking division of Donaldson, Lufkin & Jenrette. Adam graduated magna cum laude from the Wharton School at the University of Pennsylvania.

David Affinito joined ZS in 2007. Previously he analyzed private equity transactions for the investment arm of Brown Brothers Harriman & Co. Prior to that, David worked in the investment banking division of JP Morgan Chase & Co. David received his B.A. in Economics from Yale College.

Prior Investments*

SERVICE CHAMP L.P.

Leading national distributor of substantially all products and equipment utilized by quick lube centers.

SANDA KAN INDUSTRIAL LTD.

Leading independent manufacturer of model trains and accessories supplying model train marketing companies in the U.S., Europe and Japan.

LIFE-LIKE PRODUCTS, LLC

Manufacturer of expanded polystyrene foam products and the leading U.S. manufacturer of foam picnic coolers and ice chests.

KAYE GROUP, INC.

Insurance brokerage and underwriting firm with a strong position in niche property and casualty coverage markets.

ATLAS INDUSTRIAL HOLDINGS, LLC

A leading provider of specialized industrial services including machinery and equipment rigging, erecting, installation and repair, and electrical contracting services.

AMERICAN REPROGRAPHICS COMPANY, LLC

Nation's leading provider of reprographic services including blueprinting, other large format engineering copying and large format digital color imaging. Primarily services the architectural, engineering and construction industries.

MARKET FACTS, INC.

Leading provider of market research services, primarily to consumer product and service organizations.

DAIRY FRESH L.P.

Dairy processor serving food retailers and distributors in the Southeast. The company processes milk and frozen desserts for sale under private label brand names.

COULTON CHEMICAL COMPANY

Supplier of sulphuric acid regeneration services to refineries and certain chemical companies in Ohio and Michigan.

CORRAL WEST RANCHWEAR, INC.

Retailer of western-style clothing. Stores are located primarily in the Rocky Mountain states and Arizona.

ODD JOB STORES, INC.

Regional closeout retailer operating stores in the Northeast and Midwest under the names "Odd Job Trading" and "Mazel."

THE MAZEL COMPANY

Wholesaler of closeout merchandise, purchasing primarily from manufacturers and reselling to over 600 retailers.

VON HOFFMANN CORPORATION

Largest printer of four-color educational textbooks in the U.S.

HEALTH MANAGEMENT SYSTEMS, INC.

Provider of health care revenue enhancement, accounts receivable management and third party electronic claims, serving hospitals and government agencies.

FOREST PRODUCTS HOLDING PARTNERSHIP

Manufacturer of wood veneer used to produce laminated veneer lumber and plywood.

HHL FINANCIAL SERVICES, INC.

Hospital receivables collection agency.

GLASSTECH, INC.

World-leading manufacturer of machinery used to temper and mold automotive architectural glass.

COLORADO PRIME, INC.

Premier marketer of gourmet food and entertainment and dining-related accessories which are delivered to the home.

SUN TELEVISION & APPLIANCES, INC.

Retailer of consumer electronics products in the Midwest.

* Most recent investments listed first.

Portfolio Companies

SOUTHERN ELECTRONICS CORPORATION

Distributor of computer products to retailers in the southern U.S.

GENTRY SHOPS, INC.

Retailer of men's clothing in the Midwest.

FRANKEL SHOPS, INC.

Retailer of home furnishings.

DIET CENTER, INC.

Franchise network of weight reduction centers located in the U.S. and Canada.

BIG LOTS, INC. (formerly Consolidated Stores Corporation)

Retailer and wholesaler of closeout merchandise.

CARESSA, INC.

Importer of better-grade women's shoes.

CUB STORES, INC.

Built Cub Superwarehouse food markets in partnership with Super Valu, Inc.

BIRMINGHAM STEEL CORPORATION

Manufacturer of steel roofbolts and plates used in underground mines.

NIAGARA FRONTIER SERVICES, INC.

Leading food retailer in Buffalo and western New York.

SHOE-TOWN, INC.

Off-price retailer of shoes.

LOEHMANN'S, INC.

Off-price retailer of women's clothing.

AUL CORP.

A leading provider of extended service contracts for higher mileage used cars.

www.aulcorp.com

CASABELLA HOLDINGS LLC

A leading designer, marketer and distributor of high-end household cleaning tools such as mops, brooms, dusters and sponges as well as organizational products for the kitchen and bathroom.

www.casabella.com

INDUSTRIAL AIR TOOL, L.P., L.L.P.

A leading distributor of tools, equipment and consumable supplies to oil and gas drillers and refiners.

www.industrialairtool.com

RESEARCH HORIZONS, LLC

Syndicated and custom market research firm with a focus on the financial services, travel, automotive and health care sectors.

www.phoenixmi.com

SMITH-COOPER INTERNATIONAL LLC

A leading importer of fittings, pipes, valves and other ancillary products used in piping systems of industrial manufacturing facilities, commercial and residential buildings, power plants, chemical plants, water works, mobile homes, irrigation and fire sprinkler systems.

www.smithcooper.com

TRANSERVICE LOGISTICS, LLC

National transportation services and third party logistics company providing contract maintenance, full service leasing and contract carriage services for private trucking fleets.

www.transervice.com

VPSI, LLC

Largest provider of professionally-managed commuter vanpooling services in the U.S. VPSI also provides passenger vehicle leasing services and transportation management and consulting services throughout the U.S. and Europe.

www.vpsiinc.com