THE MINORITY RECAPITALIZATION: Maximizing shareholder value while retaining economic control.

A Minority Recapitalization (Recap) is a viable liquidity alternative for company owners. However, Cyprium has frequently observed that business owners lack the market awareness that would enable them to develop an appreciation for the prospective benefits of a Minority Recap option. Just as important, many issuers are oftentimes unaware of the flexibility that junior capital affords shareholders and operators. A prudent mix of debt and minority equity securities in a Minority Recap has the power to complement the company's growth objectives and help the owners realize their personal liquidity goals without giving up majority control of the business.

Definition of 'Minority Recapitalization'

Reorganizing a company's debt and equity mixture, most often with the aim of providing liquidity to specific shareholders, all the while, preserving capital structure flexibility to facilitate future growth. Essentially, the process involves the exchange of one form of capital for another, such as removing common shares from the company's capital structure and replacing them with less dilutive securities, which allows the current shareholders to retain or increase their ownership interest in the business.

WHY CONSIDER A MINORITY RECAPITALIZATION?

When shareholders in a privately-held company are interested in personal liquidity, most are told by Advisors that their only option is a sale of a majority interest in the business. Some shareholders, whether holding a minority or a majority interest, may prefer selling their ownership stake to the remaining shareholders or to the management team. Rarely do either of these latter groups have the personal liquidity available to finance the entire purchase price of the shares to be sold. Furthermore, there is the misconception that a Minority Recap results in a discount to the market-based enterprise valuation. The use of less dilutive debt-oriented securities can facilitate the transition of ownership in these scenarios without the need for seller financing or other expensive equity alternatives and allow the shareholders to achieve a market-clearing valuation.

Sub debt isn't expensive debt, it's cheap equity.

Cyprium's experience is that shareholders of a company would choose a Minority Recap over an outright sale if they believe the growth of their business will generate future proceeds that materially exceed the value of completing a transaction today, particularly if the active shareholders aren't yet ready to cash out completely or retire. But, due to varying circumstances, these shareholders need capital today to: (i) buy-out an inactive shareholder, (ii) minimize their future tax burden, or (iii) shift ownership in a multi-generational family liquidity event.

RECAPITALIZATION CHARACTERISTICS

MINORITY RECAP

- Lower debt / leverage levels
- Current owners retain operational and economic control
- Owners perceive meaningful potential share value appreciation
- Industry prospects attractive
- Other family members are active in the business
- Investor selection and fit is critical
- Financial leverage benefit stays with majority owners
- Strategic buyers are not involved
- Owners/Sellers can refinance or recapitalize to own 100% again

MAJORITY RECAP

- Less concern about future leverage
- PE firm uses leverage to create value
- Control transfers to new majority owner
- More cash to owner at close
- Benefits owners at/near retirement
- Valuation is primary sale criteria
- Owners less concerned about legacy
- Owner/CEO impartial to control
- Strategic buyers prominent in process
- Competitors may be a buyer
- Financial engineering benefits goes to buyer
- All employees must be justified, including family members

CAPITAL STRUCTURE OVERVIEW

In order to effect a Minority Recapitalization, investment capital via a combination of debt and equity-like securities is required to generate shareholder liquidity while allowing for sufficient debt capacity. This prudent mix of debt and equity will enable the company to grow or take advantage of future opportunities without being constrained by the amortization schedule or fixed charge covenants of an all-debt solution. Junior Capital financing, often referred to as Mezzanine, is the portion of a company's capital that sits between senior debt and common equity in the form of subordinated debt, preferred stock, or some combination of these two securities.

The common characteristics of junior capital include:

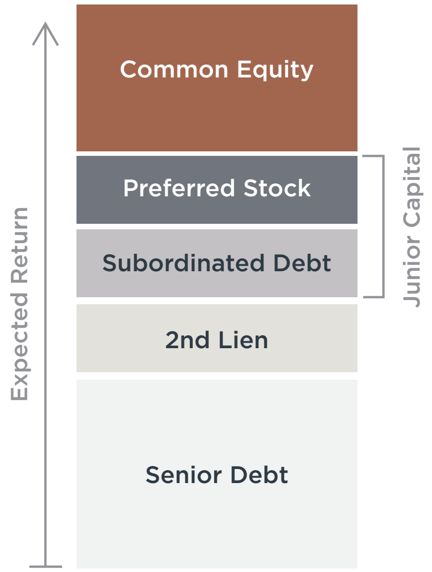
- Subordinate to senior and 2nd lien debt but senior to common equity;
- Unlike bank loans, second lien, or unitranche solutions, junior capital is typically unsecured and commands a higher yield than senior debt;
- There is no principal amortization;
- A portion of the return is fixed, making this class of security less dilutive than common equity;
- On subordinated debt, investor returns are typically comprised of the following components: a current interest coupon, payment in kind (PIK) interest—the dollar value of the interest whether current or PIK is usually tax deductible, and sometimes warrants; and
- Preferred stock is junior to subordinated debt, typically utilizes a PIK dividend structure and is regarded as equity from those more senior in the capital structure.

THE BENEFITS OF JUNIOR CAPITAL

Non-amortizing, resulting in improved cash flows

Senior debt usually has a highly structured amortization schedule with a relatively short maturity for privately held companies. Most junior capital securities have longer maturities, usually five to seven years, with principal paid at maturity. Because junior capital financing does not require amortization during the term of the investment, companies are able to use the increased cash flow to: (i) pay down senior debt; (ii) invest in working capital, product development, or other expansion; or (iii) accumulate the cash on the balance sheet to take advantage of future unforeseen opportunities.

JUNIOR CAPITAL:
EXAMPLE CAPITAL STRUCTURE



Source of flexible long-term capital

As a rule, junior capital offers significantly more flexibility in coupon structure, terms, and amortization than senior debt. A junior capital investment can easily be tailored to a company's particular financial situation and concerns. Unlike a traditional bank loan, junior capital is unsecured and thus does not require collateral. Because junior investors are more enterprise value oriented than senior lenders, they tend to be more amenable to customizing their investments to meet the borrower's financial, operating, and cash flow needs.

A less expensive, tax advantageous alternative to equity

Junior capital, when utilized in conjunction with senior debt, reduces the amount of equity required in a business. Since common equity is the most expensive form of capital and dividends are not tax deductible, subordinated debt can create a more efficient structure that lowers the after-tax cost of capital, is less dilutive than common equity financing, and enhances the return on equity.

Additional Benefits

Junior capital financing offers other benefits to companies focused on optimizing their capital structures and expanding access to funding. Since junior capital providers take a long-term view of a company, banks may look at firms with institutional investors in a more positive way, extending credit with more attractive terms and relinquishing the need for personal guarantees. Additionally, junior capital investors help diversify a company's funding relationships, reducing dependence on any one investor or lender. Cyprium is positioned to also offer professional services and resources in addition to capital, providing sponsorship to remaining shareholders seeking that kind of support without having to give up control.

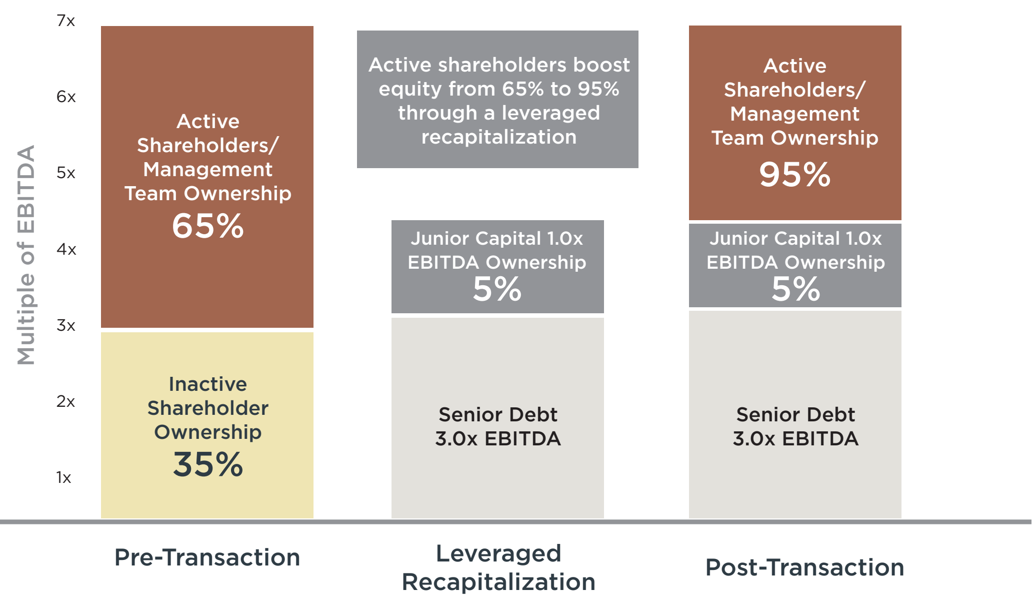
A FLEXIBLE ALTERNATIVE: THE RIGHT SOLUTION FOR THE RIGHT SITUATION

When introduced to a situation where there might be diverging short and long term interests among the shareholders, a Minority Recap can offer a market clearing valuation for those shareholders seeking liquidity and provide the remaining shareholders with the ability to increase their equity positions through the use of less dilutive debt or debt-like securities. In order to effect this type of transaction:

1. The inactive shareholder agrees to sell some or all of his or her portion of the business to the active shareholders or existing management team.
2. Depending upon the agreed upon valuation and a complementary medium-term capital structure, the company borrows a combination of senior debt and junior capital.[1]
3. The proceeds created by the combination of senior debt and mezzanine are then used to purchase shares from the inactive shareholders at a fair market value, leaving active shareholders or the management team with controlling interest in the business. In addition to greater equity ownership, the continuing shareholders may also take a meaningful distribution.

This *Minority Recapitalization Example* (see graphic below) illustrates how this type of transaction is affected. Assuming an initial debt-free balance sheet and

MINORITY RECAPITALIZATION EXAMPLE



*** Please note that the example above is hypothetical and is intended for illustration purposes only.*

[1] Subject to the preferences of the issuer or the total amount of outside capital required to facilitate a minority recapitalization, common equity can also be substituted for or used in conjunction with junior capital.

levered recapitalization of 4.0x earnings before interest, taxes, depreciation, and amortization ("EBITDA") at close, the inactive shareholder can receive an attractive valuation for his or her 35% ownership position, leaving the active shareholders or management team with an ownership position of 95%, or with a fixed-rate instrument, up to 100% of the company. Since a combination of junior capital is less dilutive and less expensive than pure equity, it allows the remaining shareholders to increase their original equity stake and naturally leverage their return.

A MINORITY RECAP CASE STUDY

In late 2010, Cyprium was introduced to a privately-held company that was seeking to (i) repurchase shares from an inactive 15% family shareholder, (ii) refinance an institutional debt investor that held a 20% ownership position in the Company, and (iii) complete a modest shareholder dividend. With a new senior debt facility secured, the Company sought a junior capital partner that could fill the gap in the capital structure, allow the continuing shareholders to increase their respective ownership stake and take part in a partial liquidity event through a dividend. To finance this Minority Recap, Cyprium invested a combination of subordinated debt and equity. For this investment, Cyprium received a fixed-rate subordinated note as well as a minority equity ownership interest. The Company was able to completely restructure its balance sheet, provide liquidity to shareholders, and increase the ownership stake for the active shareholders from 66% to 87%.

IN SUMMARY

A Minority Recap is an extremely flexible solution for each company whose shareholders might not agree on the same short and medium term strategy. Specifically:

- Owners have more options than simply borrowing from a bank or selling their company;
- The Minority Recap may be an alternative solution in situations where all the shareholders are not in agreement on valuation or where their personal objectives diverge;
- Given the potential of a second refinancing in 3-5 years utilizing the growth in senior debt capacity or ultimately a sale of the business, the Minority Recap preserves the option to generate additional future cash consideration to shareholders;

- Cyprium's flexible capital capabilities (i.e., sub-debt, preferred stock, common equity) allows for the customization of a capital structure providing shareholders the opportunity to achieve their financial, strategic and personal objectives. This flexible capital capability also provides for a higher likelihood of closing a transaction compared to pure equity or subordinated debt funds.

ABOUT CYPRIUM PARTNERS

Cyprium Partners is a private equity firm focused on making non-control (minority ownership) investments. Cyprium utilizes a combination of subordinated debt, preferred stock and/or common equity to enable privately-held businesses, entrepreneurs and management teams to achieve their financial and/or strategic objectives. With offices in Cleveland, New York and Chicago, the firm invests $10 million to $60 million per transaction in U.S. and Canadian companies that have $10 million or more of EBITDA.

Investors include pension funds, insurance companies, financial institutions, funds-of-funds, family offices and entrepreneurs who the firm has backed in previous investments. Since 1998, the firm has invested over $1 Billion in 66 non-control investments. Learn more at **www.cyprium.com**.

For any questions regarding the details of a Minority Recap or to discuss new investment opportunities, please contact:

NICK STONE

312-283-8801 | **nstone@cyprium.com**

WES OWEN

646-571-1623 | **wowen@cyprium.com**