



March 2005

Dear Friends of NewSpring Capital:

The past 15 months have been extremely fruitful for NewSpring Capital and, as the New Year begins, we want to take this opportunity to give you a brief update on our recent activities.

In part, due to the help of many of you, NewSpring Capital experienced significant growth over the past 15 months, expanding from a single private equity fund, NewSpring Ventures, L.P. ("NSV"), with \$90 million under management, to three private equity funds with over \$200 million under management and growing. NewSpring Capital's two new private equity funds, in addition to NSV, are:

Commerce Health Ventures, L.P. ("CHV"):

CHV is a diversified healthcare private equity fund that targets investments in biopharmaceutical, medical device, and healthcare services companies in the Mid-Atlantic region of the United States. The Fund is actively seeking new investment prospects and has closed six financings in five portfolio companies since its formation in late fourth quarter 2003.

NewSpring Mezzanine Capital, L.P. ("NSM"):

NSM is a mezzanine stage private equity fund that provides later-stage financing to rapidly growing companies seeking growth capital, executing a merger or acquisition, or engaging in an ownership transition. NSM is targeting investments in the business and healthcare services, information technology and specialty manufacturing sectors. NSM will lead or co-invest in both equity-sponsored and non-sponsored transactions in the Mid-Atlantic region. NSM held its initial closing in October 2004 and completed its first transaction in January 2005.

We have endeavored to brand our *Family of Funds* around the NewSpring Capital name. The *Family of Funds* includes the aforementioned Commerce Health Ventures and NewSpring Mezzanine Capital, as well as NewSpring Ventures, a growth and expansion stage venture fund focused on enabling technologies, business services and information technology.

The growth in capital under management has been made possible, in part, due to the experienced management team we have been assembling. NewSpring Capital has added significant depth and breadth to its investment resources. We have recruited seven new investment professionals to our team over the past 15 months. Keeping with our philosophy that successful venture investing requires both operational and financial acumen, we are proud to announce that three of our new teammates are former Entrepreneurs and Chief Executive Officers and all bring significant financial and investment expertise. Our new investment professionals are:

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Steven D. Hobman, Partner – NewSpring Mezzanine Capital
Richard M. Lipkin, Principal – Commerce Health Ventures
Andrew P. Panzo, Partner – NewSpring Mezzanine Capital
Glenn T. Rieger, Partner – NewSpring Ventures
Zev S. Scherl, Partner – Commerce Health Ventures
Jonathan S. Schwartz, Principal and CFO – NewSpring Capital
Joseph A. Williamson, Partner – Commerce Health Ventures

Along with the growth of our investment team, NewSpring Capital has expanded its geographic presence within the Mid-Atlantic region. NewSpring Capital opened its second office, located in New York, New York, in 2004.

NewSpring Capital is committed to becoming one of the leading providers of private equity in the Mid-Atlantic region. We know we cannot accomplish this alone. We look forward to the continued support of you, our investors, our network of dedicated service providers and advisors, our talented and tireless management teams and our co-investor network. As we look to the future, NewSpring Capital is pleased to officially announce with this correspondence the launch of our fundraising efforts for NewSpring Ventures II, L.P., a targeted \$150 million successor fund to NSV.

To learn more about our *Family of Funds* and our Investment Team, please visit our newly revised website at www.newspringcapital.com.

The state of the business environment and the macroeconomic trends in the recent past have provided fertile ground for both creating and realizing value in our targeted investment sectors: Business Services, Enabling Technologies, Healthcare, Information Technology and Specialty Manufacturing. Our team has focused their energies on i) proactively expanding our network of deal sources, ii) building value in our 18 active portfolio companies, and iii) creating positive liquidity events to generate returns for our investors. We are pleased to report that our efforts have yielded results on all three fronts.

New Investment Activity

NewSpring Capital continues to focus on expanding our network of deal sources and referrals, the life blood of our business. Over the past 15 months, the NewSpring Capital *Family of Funds* has screened more than 1,200 deals and made new investments in eight promising companies. Each of these companies, led by strong and passionate management teams, display compelling value propositions in exciting and growing markets. The recent additions to the NewSpring Capital portfolio are:



AppTec Laboratory Services is the premier single source provider of comprehensive GLP/GMP-compliant testing, contract research and development, and custom cGMP manufacturing services for biopharmaceuticals, medical devices, cellular therapeutics, and tissue-based products. AppTec currently services over 1,000 customers via its three state of the art facilities in Atlanta, Georgia, Philadelphia, Pennsylvania and St. Paul, Minnesota.



Bulova Technologies is a contract electronics manufacturer of precision electronic, electromechanical, and mechanical assembly systems. Bulova, originally a subsidiary of the Bulova Watch Company, became Bulova Systems and Instrument Corporation in 1962. The Company manufactures products for commercial and military customers.



Network Communications Technology is the leading datacom/telecom network infrastructure service provider in the Carolinas serving Fortune 1000 companies such as Lowes, Wells Fargo, and TIAA-CREF. The Company specializes in commercial data/voice/video network engineering and design, installation, system maintenance programs, professional technical services and network integration.



Othera Pharmaceuticals focuses on the research and development of ophthalmic drugs that specifically treat Age-related Macular Degeneration (AMD), Cataract, and Glaucoma. The Company emphasizes the conversion of past major research efforts into practical applications. The potential market for the Company's products exceeds \$48 billion. Othera's two drug candidates, OT-551 (cataracts and AMD) and OT-730 (glaucoma) are small molecules expected to be delivered in eyedrop formulations.



RecoverCare provides specialty low air loss mattress and overlays, preventative foam and gel products, hospital beds and patient transfer systems to acute care hospitals, nursing homes, and other providers of wound care and bariatric services. The company's products and services serve a \$2.3 billion specialty support surface and bariatric product market.



Scandius BioMedical focuses on the orthopedic sports medicine medical device market. With proprietary expertise in bioabsorbable polymer implantable materials, the Company has developed a proprietary technology addressing arthroscopic reconstruction of the torn anterior cruciate ligament. The Company's long-term development plan includes fixation technologies in several other high-volume procedural areas.



Founded in 1999, SolomonEdwardsGroup is a leading professional services firm that has successfully combined business consulting and accounting services such as internal audit, regulatory compliance, risk management, systems integration, and business process improvement with staffing and resource management.



Sopherion Therapeutics develops novel anti-cancer therapies for patients suffering with advanced cancer, including metastatic disease. The Company has an exclusive licensing agreement with Zeneus Pharma Ltd. for the future commercialization of Myocet (a liposome-encapsulated doxorubicin-citrate complex) in North America. Sopherion focuses on research and development of new oncology compounds, employing its proprietary drug discovery platform to develop novel specialty biopharmaceuticals, which it markets.

Portfolio Highlights

A core tenant of the NewSpring Capital philosophy is “Leveraging Capital and Experience to Assist Entrepreneurs in Realizing Their Visions.” The NewSpring Capital Investment Team, which includes 5 former CEOs, has over 150 years of combined operational, financial and sales experience in industries ranging from software to banking to pharmaceutical to third party logistics. NewSpring Capital works closely with its portfolio companies’ talented management teams to assist them in creating shareholder value. Recent portfolio highlights include:



NutriSystem (AMEX: NSI), a leading weight management and fitness products provider, had a banner year in 2004. The Company reported revenues of \$37,996,000, up 68% from the \$22,575,000 in revenue generated in 2003. NutriSystem earned \$1,019,000 in net income in 2004. The Company has issued a 2005 outlook calling for revenue growth in excess of 100% and operating income growth of at least 400%.



Prescient Systems, a retail-centric supply chain software provider, successfully completed its merger with the viaLink Company (OTCBB: VLNK), a provider of synchronization and scan-based trading services to the retail supply chain, on December 31, 2004. The combined company was renamed Prescient Applied Intelligence (OTCBB: PPID). Ms. Jane Hoffer, former CEO of Prescient Systems, was named President and CEO of the combined company. The combined company is well positioned to become a leading provider of retail-centric and collaborative commerce solutions.



Othera Pharmaceuticals, a specialty pharmaceutical company focused on the development of proprietary drugs to treat the leading causes of blindness and vision impairment, successfully filed its initial IND application with the U.S. Food and Drug Administration in January 2005 for its product OT-551. OT-551 is a potential new class of antioxidant therapeutics that can be delivered as an eyedrop with high bioavailability both to the lens and the back of the eye. OT-551 will target Cataracts and Dry Age-related Macular Degeneration, two diseases that impact over 70 million people worldwide.



Scandius BioMedical, a medical device company focused on orthopedic sports medicine, was granted 510(k) market clearance by the U.S. Food and Drug Administration for its Stratis ST ACL Reconstruction System in November 2004. The Company's patented technology is comprised of reusable instruments and a fixation implant manufactured from both bioabsorbable and polymer materials. The device will be used by orthopedic surgeons to repair the single largest sports-related orthopedic joint injury – the reconstruction of the torn Anterior Cruciate Ligament.

Liquidity Events:



NSV successfully exited its investment in InnaPhase Corporation in September 2004. InnaPhase, the premier supplier of Laboratory Information Management Systems (LIMS) for the pharmaceutical and biotechnology markets, was acquired by Thermo Electron Corporation ("Thermo") (NYSE: TMO), the world leader in analytical instruments, for approximately \$70 million in cash. The acquisition of InnaPhase by Thermo represents a successful transaction for the employees, customers and investors of InnaPhase.

Conclusion:

As we look forward to 2005, we remain optimistic about the prospects for venture and mezzanine capital in the Mid-Atlantic region and about NewSpring Capital's continued growth. The *Family of Funds* remains extremely active, having closed two new investment transactions in the first 60 days of the year. Our team is actively working to provide expertise and resources to our portfolio companies to assist their respective management teams in the realization of their visions and to create profitable exit transactions for our investors, both through strategic sales and the public markets.



We look forward to following up with each of you to further discuss NewSpring Capital. Thank you for your past and continued support. As always, please do not hesitate to contact us with any comments, questions or deal referrals you may have.

Sincerely,

Michael A. DiPiano Steven D. Hobman Marc R. Lederman Brian G. Murphy

Andrew P. Panzo Glenn T. Rieger Zev S. Scherl Joseph A. Williamson

Richard M. Lipkin Michael D. Poisel Jonathan S. Schwartz

Enclosure

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