



# NewSpring Capital Newsletter

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## Family of Funds



## Investment Team

Michael DiPiano  
 Steven Hobman  
 Eric Jensen  
 Joseph Killackey  
 Marc Lederman  
 Brian Murphy  
 Andrew Panzo  
 Michael Poisel  
 Glenn Rieger  
 Zev Scherl

## NewSpring Capital Adds 8 New Portfolio Companies in 2005

NewSpring Capital's family of investment funds continues to aggressively pursue the leading growth companies in the Mid-Atlantic region. NewSpring Capital successfully completed 8 new investment transactions in 2005.

NewSpring Capital is proud to welcome the following companies to its portfolio ranks:



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.



AppTec Laboratory Services is the premier single source provider of comprehensive GLP/GMP-compliant testing (Good Laboratory Practices/Good Manufacturing Practices), contract research and development, and custom cGMP manufacturing services for biopharmaceuticals, medical devices, cellular therapeutics, and tissue-based products.



CCRx is an institutional pharmacy company servicing over 10,500 long-term care beds in over 100 nursing facilities and approximately 25 correctional facilities across the Northeastern Region of the United States. CCRx provides medicine distribution, medical supplies, nutritional supplements, and pharmacological consulting services to long-term care and other selected institutional populations.



Immune Control is a clinical trial-stage drug discovery and development company testing novel approaches to immune modulation using small molecule, serotonin antagonists. The Company is initially focused on developing compounds for treatment of multiple myeloma and psoriasis.



Fastech Integrated Solutions is a leading sales force automation software and services solutions company. Fastech provides mission critical sales and Customer Relationship Management data to large Consumer Packaged Good companies such as Hershey, Kraft and Proctor & Gamble.



Quest Discovery Services is a litigation support services company offering outsourced solutions for medical and public records acquisition, including process serving, document acquisition, copying, deposition reporting, and other special services.



FlagZone is a specialty manufacturer and distributor of United States, state, foreign, decorative and custom flags and banners. The Company currently operates two manufacturing facilities and distributes over 1,800 flag, banner and accessory SKU's.



The Matworks is the nation's leading provider of matting and specialty flooring. The Matworks offers innovative and quality-engineered products such as entrance flooring, wall-to-wall flooring, anti-fatigue mats, and cleaning and maintenance services for the nation's largest retail organizations.

For more information on these investment transactions, please visit our website at [http://www.newspringcapital.com/nsc\\_news.html](http://www.newspringcapital.com/nsc_news.html).

# Mezzanine Capital – It's not Just for Buyouts Anymore!

## Industry Focus

- Business Services
- Healthcare
- Life Sciences
- Specialty Manufacturing
- Technology

## Use of Our Capital

- Corporate Divestitures
- Growth Capital
- Mergers & Acquisitions
- Management Buyouts
- Shareholder Liquidity

## Types of Financing

- Equity Capital
- Mezzanine Capital

## Investment Size

Target: \$3-\$7.5mm per transaction, in round sizes up to \$30mm

## Company Stage

- Growth and Expansion  
Revenue typically \$5mm or >
- Clinical Trial Stage Life Science Companies

## 3M Investment Strategy

### Market

- Addressable Market Greater than \$500mm and Growing
- Low Concentration Ratio
- Identifiable Exit Strategy

### Management

- Talented Management Team with Domain Expertise
- Skin in the Game

### Model

- High Contribution Margins
- Scaleable Platform
- Sustainable Competitive Advantage

As the IPO and M & A markets continue to focus on more mature and profitable companies, more and more entrepreneurs, management teams and investors are seeing longer holding periods until the coveted "Exit Event" occurs. As these stakeholders watch their businesses mature on the vine during these longer holding periods, they should consider using mezzanine capital in two non-traditional ways – i) as a source of growth capital and ii) as a source of liquidity. Before we explore these two options, it is important to understand how mezzanine capital works and where it fits within the capital structure of a corporation. Mezzanine Capital is layered between senior debt and equity. It typically takes the form of subordinated debt with warrants. The subordinated debt usually has a 5 year maturity with deferred or no amortization of principal. Interest of 10-14% is paid on a current basis.

So why should mezzanine capital be attractive to growth and expansion stage companies?

For maturing, profitable companies, this hybrid capital has significant advantages to both senior debt and equity capital.

## Advantages of Mezzanine Capital

### Over Senior Debt

- Expanded Borrowing Capacity
- Less Restrictive Covenants
- Lower Annual Debt Service

### Over Equity

- Less Expensive and Dilutive
- Typically No Board Seat

Many high growth companies funded in the late 1990s and early 2000s had probably predicted or forecasted a lucrative IPO or strategic exit would have occurred by now. Instead of sipping drinks out of a pineapple on the beach, these entrepreneurs and managers are still coming to the office each day to follow their passion and execute on their dream. Despite a recession, a stock market crash, and a generally abysmal business climate from 2000-2002, these professionals have managed to build real businesses – with Customers, Revenues, and Earnings. It may have taken more, and often highly expensive, equity capital and longer than anticipated, but they have turned their vision into a reality. With an Exit Event still a few years away, wouldn't it be great to have the capital required to continue to grow the business at those high double digit growth rates you and your stakeholders expect without suffering significant dilution, or to take some chips off the table to diversify your assets or afford you some liquidity? Well, perhaps using mezzanine capital in a non-traditional way is the answer. Mezzanine capital, when used in the right circumstances, can be a highly effective and efficient source of capital. Be sure you give it the appropriate consideration as you map out your business's next steps.

Mezzanine Capital – it's not just for buyouts anymore!

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## Fortune Magazine Names a NewSpring Capital Portfolio Company “Best Performing Stock” in 2005

Fortune Magazine’s “Investor’s Guide” named NutriSystem (NASDAQ: NTRI) the Number #1 performing stock for 2005.

**nutrisystem**<sup>®</sup>



### Fortune’s Five Best 2005 Performers

Name (Ticker)	2005 Total Return <sup>1</sup>
NutriSystem (NTRI)	1,384.9%
PW Eagle (PWEI)	494.8%
Titanium Metals (TIE)	490.2%
ViroPharma (VPHM)	478.5%
BTU International (BTUI)	366.4%

<sup>1</sup> Price change and dividends from 12/31/04 through 12/7/05 for stocks on the NYSE and NASDAQ with market capitalizations of \$100 million or more (Source: *Fortune*, December 26, 2005).

NutriSystem joined the NewSpring Capital portfolio in December 2002 when NewSpring Ventures financed Michael Hagan and George Jankovic’s Venture Buyout of the Company at \$0.64 per share. While as investors, we are thrilled that the stock has appreciated over 5500% since our investment, what we are most proud of is that our firm has been part of the team that revived the NutriSystem brand. NewSpring Capital’s 3M Investment Strategy is built on the foundation that strong operating fundamentals and results will yield strong returns. Michael Hagan and the NutriSystem management team have increased the Company’s revenues over 750% in the three years since the transaction, while increasing operating income margins from 8.75% to over 35%. It has been this underlying focus on profitable growth that has garnered the Company’s stellar stock performance. Congratulations to Mike Hagan, George Jankovic, Jim Brown and the rest of the NutriSystem team for a tremendous 2005!

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## NewSpring Capital Teammate Profile

### Michael A. DiPiano

- Managing Partner of NewSpring Capital

### Education:

- B.S. – Pennsylvania State University
- MBA - Stern School of Business at NYU

### Board Affiliations:

- Ecount
- Femme Pharma
- Greater Philadelphia Venture Group
- Maxwell Systems
- NutriSystem (NASDAQ: NTRI)
- Prescient Applied Intelligence (OTCBB: PPID)
- University City Science Center



## Contact Us

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### **Role of Venture Capitalist in the Business Community:**

At NewSpring Capital, we believe it is extremely important for investors to take an active role to ensure the macroeconomic factors that create the fertile ground from which entrepreneurs grow their businesses is as rich as possible. It is, after all, these businesses that ultimately create the deal flow that is the life blood of our business. As the Chairman of the Greater Philadelphia Venture Group, I am currently working with the region's private equity groups, service providers, local and state agencies, universities and corporations to ensure this region has the economic climate needed to create the next wave of entrepreneurial successes, following in the footsteps of venture backed companies such as Animas, Centocor, Cephalon, Novell, SEI, Sunguard and QVC. This region has a rich history of entrepreneurship, dating back to Benjamin Franklin, the nation's first entrepreneur, and we are pleased that our firm can play an integral part in carrying on that tradition.

### **Influential Investors:**

While not unique in this conclusion, I believe Warren Buffet to be the greatest investor of our time. I have attempted to incorporate many of his fundamentals into our firm's investment strategy – the *3M's: Market, Management and Model*. I look for businesses with large addressable markets, typically \$500mm or more, growing at rates greater than GDP with low concentration ratios in sectors I know well. As an investor, I endeavor to back and partner with great management teams, who have domain expertise, track records of success and "skin in the game". Lastly, I focus on recurring revenue and core operating metrics, such as Gross Margins and Return on Assets/Equity. I believe this fundamental approach to investing well best position me and my firm to generate strong returns for our investors.

### **Leveraging Your Operating Experience as an Investor:**

As a former CEO, I evaluate investment opportunities from an operator's perspective. I believe strong fundamental operating results beget strong investment returns in any market. As such, we have made a conscious decision here at NewSpring Capital to have at least one former CEO be part of the General Partner group at each of our three investment funds. We have done this to create partner teams that not only have deep investment expertise, but a strong operational bent. This operating focus allows us to more critically evaluate investment opportunities and to provide enhanced post-investment operational oversight that will ultimately lead to superior returns for our investors.