



June 19, 2009

VIA: HAND DELIVERY

Jane Benton, Director
Office of State Procurement
1509 West 7th Street, Suite 300
Little Rock, AR 72201

David Ferguson, Director
Bureau of Legislative Research
Administrative Rules Review Section
State Capitol, Room 315
Little Rock, AR 72201

RE: Notification of Imminent Need Under Act 1211 of 2009
Investment: KPS III Supplemental
Five-day notice provision
Standard Procurement Sought With Imminent Need as Back-up

Dear Ms. Benton and Mr. Ferguson:

The Arkansas Teacher Retirement System has a private equity consultant, Franklin Park that provides private equity recommendations to ATRS. Franklin Park has made a strong recommendation that ATRS invest \$40 million in KPS III Supplemental. ATRS only has this opportunity due to Franklin Park's other clients already being other participants in KPS III Standard. ATRS has submitted this investment through standard procurement processes. However, the timing of meetings left no room for error in the event of a delayed Committee meeting or the Committee adjourning before the matter was taken up. ATRS hopes standard procurement occurs prior to execution. However, to ensure ATRS followed the prudent investor rule and complied with all legal processes, imminent need is being used as back up to prevent improper execution of a contract without lawful authority.

As Executive Director of ATRS, my intent and plan is not to use the Imminent Need provisions of Act 1211 on a frequent basis. At the same time, our consultant was convinced that KPS III Supplemental was an excellent opportunity. Based upon the consultants' strong recommendation, staff agreed that in this instance notification of Imminent Need existed. However, I have notified our consultants that use of Imminent Need will be the rare exception and not the rule.

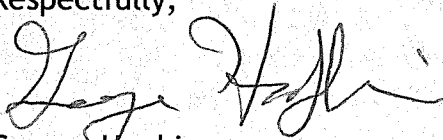
George Hopkins, Executive Director

Based upon the consultant and staff's recommendation, on June 16, 2009, the ATRS Board of Trustees adopted Resolution number 2009-17 to authorize the investment. Resolution 2009-17 was adopted in order to specify Imminent Need. The Board determined that all criteria were met under Act 1211 (formerly SB 812) to enter into the partial equity ownership agreements of this investment. In accordance with Act 1211, ATRS is providing a copy of the aforementioned resolution to the Office of State Procurement and the Legislative Council.

This letter has been sent in compliance with the five-day rule in Act 1211. In addition to providing meaningful early disclosure, ATRS intends to comply with the notification procedures set forth in Act 1211 on or before the closing date. In fact, as stated above, ATRS has already sent this in a standard procurement submission with all information required by Act 1211. The amount of the ATRS investment in the fund is up to \$40,000,000. For full and open disclosure, ATRS is attaching an Executive Summary of the investment, which includes certain terms and dynamics of the investment.

ATRS has already submitted a specific procurement form that complies with Act 1211. If additional information is needed, please feel free to contact me.

Respectfully,



George Hopkins
Executive Director, ATRS
1400 West 3rd
Little Rock, AR 72201
P: 501-682-180
M: 501-318-5998
F: 501-371-2161
georgeh@artrs.gov

To	Arkansas Teacher Retirement System ("ARTRS")
From	Franklin Park
Date	May 29, 2009
Subject	KPS Special Situations Supplemental Fund III ("KPS III Supplemental")

Background

KPS Capital Partners LLC (the "General Partner"), based in New York, was formed in 1997 as the successor firm to Keilin & Co., a financial advisory and restructuring firm formed in 1991 by Eugene Keilin, Michael Psaros and David Shapiro.

KPS Special Situations Fund III ("KPS III") targets control private equity investments in operationally distressed or underperforming businesses in the U.S. More specifically, KPS III generally focuses on the following transaction types: (1) acquisitions of assets out of Chapter 11 bankruptcy, (2) complex, out-of-court restructurings, and (3) acquisitions of underperforming, non-core assets from large companies.

KPS III was raised in 2007 with \$1.2 billion in commitments. As of March 31, 2009, KPS III had invested approximately 31.2% of its capital commitments and has made three investments.

Franklin Park recommended KPS III to three of its clients which committed an aggregate of \$60 million to the fund in mid-2007.

Opportunity

KPS III's limited partnership agreement was recently amended by existing limited partners to allow the General Partner to raise \$800 million for KPS III Supplemental to invest alongside KPS III. The General Partner requested this increase due to the unprecedented level of distressed opportunities in the current environment with limited competition from other financial firms.

KPS III Supplemental, which will only invest in new transactions going forward (expected to be 12-15 deals), will be offered primarily to existing KPS III investors. While a majority of the capital is expected to be subscribed by existing investors, the General Partner is offering Franklin Park's clients, including ARTRS, an opportunity to invest in KPS III Supplemental.

Franklin Park initially learned about this opportunity in mid-May 2009 and the General Partner is seeking to close the fund in July or August 2009 at the latest. Given this short time frame, there is an Imminent Need for ARTRS to approve and close its investment in KPS III Supplemental if Investment Committee and Board approval is achieved.

Franklin Park and ARTRS' staff are focused on committing ARTRS' capital to the highest quality private equity managers, of which the General Partner is one. While many of the best private equity opportunities will move in an expedited manner, Franklin Park and ARTRS' staff will continue to seek to take funds through ARTRS' standard 90-day procurement process whenever possible.

To	Arkansas Teacher Retirement System ("ARTRS")
From	Franklin Park
Date	June 16, 2009
Subject	KPS Special Situations Supplemental Fund III ("KPS III Supplemental")

Background

KPS Capital Partners LLC (the "General Partner"), based in New York, was formed in 1997 as the successor firm to Keilin & Co., a financial advisory and restructuring firm formed in 1991 by Eugene Keilin, Michael Psaros and David Shapiro.

KPS Special Situations Fund III ("KPS III") targets control private equity investments in operationally distressed or underperforming businesses in the U.S. More specifically, KPS III generally focuses on the following transaction types: (1) acquisitions of assets out of Chapter 11 bankruptcy, (2) complex, out-of-court restructurings, and (3) acquisitions of underperforming, non-core assets from large companies.

KPS III was raised in 2007 with \$1.2 billion in commitments. As of March 31, 2009, KPS III had invested approximately 31.2% of its capital commitments and has made three investments.

Franklin Park recommended KPS III to three of its clients which committed an aggregate of \$60 million to the fund in mid-2007.

Opportunity

KPS III's limited partnership agreement was recently amended by existing limited partners to allow the General Partner to raise \$800 million for KPS III Supplemental to invest alongside KPS III. The General Partner requested this increase due to the unprecedented level of distressed opportunities in the current environment with limited competition from other financial firms.

KPS III Supplemental, which will only invest in new transactions going forward (expected to be 12-15 deals), will be offered primarily to existing KPS III investors. While a majority of the capital is expected to be subscribed by existing investors, the General Partner is offering Franklin Park's clients, including ARTRS, an opportunity to invest in KPS III Supplemental.

Due Diligence Update

Franklin Park completed comprehensive due diligence on the General Partner in 2007, which is summarized in the attached report, as part of its review of KPS III. An update on the General Partner's team and track record is provided below:

Team Update

- Bruce Curley, who joined the General Partner in 2005, was promoted to Managing Director. Mr. Curley previously was CEO of Curtis Papers Inc., a former KPS portfolio company. Prior to that, he held management positions with International Paper, Boise Cascade and Mead.
- Randy Hicks joined the General Partner as a Managing Director in 2007 to focus on Business Development. Prior to joining the firm, he was a Managing Director at

FirstLight Financial Corporation and Managing Director/Northeast Region Manager for GE's Corporate Lending.

- The junior team has doubled in size from five Associates in 2007 to a team of four Senior Associates, five Associates and a professional focused on portfolio company operations.
- No senior level departures have occurred since 2007.

Track Record Update

- Fund I has been substantially realized for a gross IRR of 19% and a multiple of 1.9x cost. On a net basis, Fund I generated an IRR of 14%, which is first quartile compared to the relevant *Thomson Financial's* private equity benchmark.
- Fund II, which has invested \$403.2 million in 10 portfolio companies, has generated a net IRR of 59% and a multiple of 1.8x cost as of March 31, 2009. This represents first quartile performance compared to the relevant *Thomson Financial's* private equity benchmark. A summary of Fund II's investments is provided below, as of March 31, 2009 (\$ millions).

Realized Holdings

Company	Date of Investment	Invested	Realized	Unrealized	Gross ROI
Wire Rope Corporation of America, Inc.	6/30/03	\$16.5	\$177.9	\$0.0	10.8x
Speedline Technologies, Inc.	10/30/03	24.3	91.0	0.0	3.7x
AmeriCast Technologies, Inc.	11/14/03	55.0	107.6	0.0	2.0x
Ashcroft Holdings, Inc. / Ebro	10/26/05	17.5	46.9	0.0	2.7x
Total Realized		\$113.3	\$423.4	\$0.0	3.7x

Unrealized Holdings

Company	Date of Investment	Invested	Realized	Unrealized	Gross ROI
Hephaestus Holdings, Inc.	6/30/05	\$71.0	\$41.9	\$40.9	1.2x
Blue Water Automotive Systems, Inc.	9/28/05	41.7	12.7	0.0	0.3x
Cloyes Gear and Products, Inc.	5/15/06	10.0	10.0	9.1	1.9x
Attends Healthcare, Inc.	1/17/07	50.0	48.3	42.1	1.8x
Bristol Compressors	3/5/07	55.0	55.5	1.0	1.0x
Global Brass & Copper Holdings	11/20/07	62.1	14.5	84.0	1.6x
Total Unrealized		\$289.9	\$182.8	\$177.1	1.2x
Total Fund II		\$403.2	\$606.3	\$177.1	1.9x

- Fund III has made three investments to date, two of which (WWRD Holdings and North American Breweries) closed during the first quarter of 2009. The third portfolio company was a co-investment with Fund II in Global Brass & Copper Holdings, which is currently valued at 1.6x cost.

Recommendation

Franklin Park recommends a commitment of up to \$40 million in the Fund, subject to satisfactory negotiation of final documentation, based on the following:

- The General Partner has generated an attractive track record;
- The General Partner's senior team is experienced and cohesive; and
- The Fund will target an attractive market segment.

Executive Summary

- Fund:** KPS Special Situations Fund III, L.P. (the "Fund")
- General Partner:** KPS Capital Partners LLC (the "General Partner" or "KPS")
- Report Date:** March 2007
- Fundraising:** The General Partner is targeting capital commitments of \$1 billion, which is also the Fund's cap.
- Placement Agent:** The General Partner has retained Probitas Funds Group to assist with marketing and fundraising.
- Key Terms:**
- Management Fee: During the investment period, the management fee will equal 1.75% of aggregate capital commitments. Thereafter, the management fee will equal 1.75% of net invested capital.
- Carried Interest: After the limited partners receive an 8% preferred return, the General Partner will be entitled to 25% of the Fund's profits. The Fund has a clawback provision that would trigger at the end of the Fund's term.
- Termination Provisions: The investment period may be terminated by the vote of at least 75% in interest of the limited partners.
- Key Person: In the event that any two or more of Michael Psaros, David Shapiro and Raquel Palmer are no longer actively involved in the Fund, 75% in interest of limited partners may elect to terminate the commitment period.
- Investment Strategy:** The Fund will target control private equity investments in operationally distressed or underperforming businesses and will seek to effect turnarounds to restore growth and profitability. The Fund will target companies with strong franchises that have identifiable and solvable operating and financial problems. The Fund will generally focus on the following transaction types: (1) acquisitions of assets out of Chapter 11 bankruptcy, (2) complex, out-of-court restructurings, and (3) acquisitions of underperforming, non-core assets from large companies.
- Management Team:** KPS was formed in 1997 as the successor firm to Keilin & Co., a financial advisory and restructuring firm formed in 1991 by Eugene Keilin, Michael Psaros and David Shapiro. In 1997, the firm began to wind down its financial advisory practice, which formally ceased in 2004.
- The General Partner is led by Managing Partners, Messrs. Psaros and Shapiro, and Partners, Raquel Palmer and Jay Bernstein (collectively, the "Principals"). Mr. Keilin serves as a senior advisor to the General Partner. The Principals are supported by five associates, an operating partner, a CFO and a controller. All professionals are based in the General Partner's New York office. The General Partner anticipates

adding three additional operating partners, three associates and an additional controller in the near term.

Track Record:

KPS formed its first investment partnership ("Fund I") in 1997 with \$210 million in capital commitments. In 2003, KPS closed "Fund II" with \$404 million in commitments. The General Partner's track record is summarized below.

Fund (Vintage)	Rlzd Deals / # Deals	Invested	Realized	Unrealized¹	Gross IRR
Fund I (1999)	6 / 8	\$171,641	\$249,334	\$89,927	20.5%
Fund II (2003)	4 / 8	260,500	450,026	163,899	84.7%
Total	10 / 16	\$432,141	\$699,361	\$253,826	32.8%

Notes: \$000. Performance as of February 16, 2007

¹ Unrealized private investments are generally valued at cost or a multiple of cash flow. Franklin Park reviewed the valuations for reasonableness.

Evaluation of Investment Opportunity:

1. The Fund will target an attractive market segment. Competition in the Fund's target market is relatively limited given the challenging and time intensive nature of turnaround investing. Further, experienced distressed investors can generate highly attractive returns by effectively executing organizational turnarounds of underperforming companies.

2. KPS has an attractive track record. The General Partner's prior funds have generated strong returns on both relative and absolute bases. Further, the cash multiples on profitable investments have been impressive. The four realized investments in Fund II have generated a gross ROI of 3.6 times invested capital.

However, performance in Fund I has been volatile. The General Partner has generated realized losses on three prior investments (all in Fund I) as of February 2006. Because executing operational turnarounds can be challenging and distressed companies tend to be more susceptible to adverse changes in the economy or capital markets, higher dispersion of returns is expected for turnaround funds.

3. The General Partner's senior team is experienced and cohesive. Messrs. Psaros and Shapiro have been advising or investing in troubled or underperforming companies together since 1991; Ms. Palmer joined the team in 1994.

There are concerns regarding the team's limited depth. Messrs. Psaros and Shapiro are the General Partner's most experienced investors and have led a majority of the investments in the prior funds. **However, the relatively small unrealized portfolio and expected team additions partly mitigate this concern.**

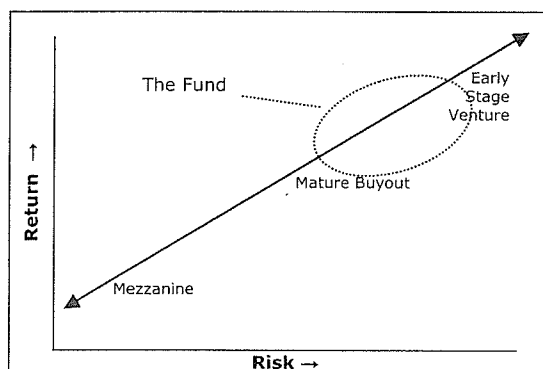
4. **The Principals' relationship network with labor unions provides advantages.** Through their experience advising or investing in industrial companies with organized labor, Messrs. Psaros and Shapiro have developed strong and trusted relationships with various labor unions, which has resulted in proprietary deal flow and a competitive advantage in closing investments in companies with organized labor.
5. **The Fund will charge a premium carried interest of 25%.** While the market standard carried interest for corporate finance funds is 20%, the General Partner's reputation and track record may warrant the higher carry.

Investment Strategy

The Fund will target control private equity investments in small and middle market companies in the manufacturing, transportation and services industries that are experiencing operating and financial challenges. The Fund will seek to invest in fundamentally attractive companies or assets (or businesses being divested by corporate sellers) confronting strategic, operational or management problems that have resulted in underperformance, distress or bankruptcy. The General Partner will focus on situations where there are clear and identifiable solutions to operational challenges and will emphasize turnarounds predicated on cost reduction, improved management and capital structures, as opposed to turnarounds based on organic growth or growth through acquisitions.

Portfolio Characteristics and Limitations

With a focus on distressed companies in the small and middle markets, the risk profile is relatively high. The charts below provide a subjective illustration of the expected risk profile of the Fund. The characteristics (region, size, stage, sector, security) of the companies targeted by the Fund are described below.



		Company Stage of Development				
		Early Stage Venture	Late Stage Venture	Expansion Stage	Mature Stage	Distressed/Turnaround
Company Capitalization	Small					
	Lower Middle					
	Upper Middle					
	Large					

Region: The Fund will primarily target U.S. companies. However, up to 25% of Fund may be invested in portfolio companies whose principal place of business is outside of the U.S.

Size: The Fund will predominantly target companies with annual revenues of up to \$500 million. Investment sizes will generally range from \$25 million up to \$200 million.

Stage: The Fund will invest in companies experiencing operational or financial distress.

Sector: The Fund will target companies operating in the manufacturing, transportation and services industries.

Security Type: The Fund will seek to invest in equity and equity-like securities. The Fund may invest in debt securities with the objective of ultimately converting the debt securities into a control equity interest in a company through a restructuring.

Competition

Competitiveness of Segment: The Fund will target turnaround investments in companies experiencing operational and financial distress. This segment of the private equity market is relatively less competitive than the market for healthy companies largely due to the complexity and time and resource intensity of turnaround investing.

Competitors: The General Partner's primary competitors include Cerberus, Sun Capital, W.L. Ross, Chrysalis and Insight Equity. The General Partner will face some competition from hedge funds or other private equity firms that invest in distressed companies through debt securities.

Competitive Advantage: KPS is among the more established and proven firms targeting control turnaround investments. The Principals' experience and track record in the turnaround segment provides some advantages over other firms in the market. Further, the Principals have long-established relationships and a strong reputation with organized labor unions, which have served as a unique source of deal flow for the General Partner.

Evaluation of the Strategy

- 1. The Fund will target an attractive market segment.** Because of the complexity of distressed situations and the time and resources required to effectively execute turnarounds of underperforming businesses, the Fund's target market is relatively less competitive. As a result, turnaround investors can often acquire companies at attractive valuations. As evidence, all eight companies in Fund II were acquired at or below liquidation value. Further, in four of the eight companies in Fund II, substantially all of the capital invested flowed directly to the portfolio company as working capital, as opposed to cash consideration to the seller.

Further, there are substantial opportunities to improve underperforming businesses, which can lead to attractive returns. The Fund will target companies that are underperforming as a result of mismanagement, poor strategy execution or under-capitalization. Turnaround investors can generate highly attractive returns by rationalizing cost structures, introducing new management and creating appropriate capital structures.

However, turnaround investing is a higher risk strategy. Effective execution of turnarounds is often complex and time intensive. While the General Partner will target companies with problems it believes can be corrected, there is risk that unforeseen issues arise or identified problems cannot be adequately addressed. Further, underperforming businesses are more susceptible to economic or capital market volatility compared to healthy companies.

Certain aspects of the General Partner's strategy partly mitigate the higher risk. First, due to limited competition, the General Partner is typically able to acquire companies at conservative valuations. Further, the General Partner typically employs limited leverage to finance acquisitions. Accordingly, this conservative approach to acquiring companies affords some flexibility to withstand market volatility.

2. **The Fund will likely be over twice the size of the General Partner's prior fund, which raises certain concerns.** With a larger sized fund, the General Partner may evolve to target larger sized transactions, which are typically subject to increased competition. However, the Fund's focus on operational turnaround partly mitigates this risk. Compared to traditional buyout funds investing in healthy, growing companies, there are relatively fewer buyout investors that target operationally distressed companies, so competition is unlikely to increase substantively.

Management Team

KPS, based in New York, was formed in 1997 as the successor firm to Keilin & Co., a financial advisory and restructuring firm founded in 1991 by Eugene Keilin, Michael Psaros and David Shapiro. Keilin & Co. advised companies operating in bankruptcy, in default of obligations to creditors, or experiencing some form of distress. In 1997, the firm began to wind down its financial advisory practice, which formally ceased in 2004. In 1997, KPS was formed to invest capital on a principal basis in companies experiencing distress or operating in bankruptcy.

Currently, Messrs. Psaros and Shapiro serve as Managing Partners of the General Partner, supported by Partners, Raquel Palmer and Jay Bernstein. The Principals' backgrounds are summarized in the table below:

Professional	Age	Tenure with KPS	Years of Relevant Experience	Prior Experience
Michael Psaros	39	16*	18	Bear Stearns investment banking
David Shapiro	45	16*	22	Drexel Burnham investment banking
Raquel Palmer	34	13*	13	Kidder Peabody investment banking
Jay Bernstein	31	8	10	Schroders investment banking

* Includes experience at Keilin & Co.

Composition of Remaining Team

The Principals are supported by one operating partner, five associates, a CFO and a controller.

Historical Turnover

Two senior level professionals, Stephen Presser and Brian Reilly, have departed the firm since its inception. In 2005, Stephen Presser left to form a competing turnaround firm, along with three mid-level professionals. In 2004, Brian Reilly departed the firm for personal reasons.

Future Team Growth

The General Partner anticipates adding three operating partners, three associates and an assistant controller in the near term.

Incentives/Succession Planning

All investment professionals receive salaries and annual performance-based bonuses. All permanent investment professionals participate in the Fund's carried interest. Approximately 85% of the carry will be allocated to the Principals.

Investment Committee Composition and Process

Generally, one of the Principals leads each investment with another Principal serving in a support role. All investment decisions require unanimous approval of Messrs. Psaros and Shapiro and Ms. Palmer.

Litigation Involving the General Partner or Principals

Fund II was named in a lawsuit by an advisor to Jernberg Industries engaged prior to the company's filing for Chapter 11 bankruptcy, in connection with the acquisition of certain Jernberg assets by a Fund II portfolio company. The lawsuit alleged that the General

Partner had orally agreed to pay Jernberg's consulting fee obligations to the advisor and/or a success fee upon consummation of a transaction between Jernberg and KPS. The lawsuit was settled out of court for a nominal amount.

Public Domain Search

News runs were conducted on the General Partner and its Principals for a time-period spanning the last five years. There were no material findings.

References

In its evaluation of the Fund, Franklin Park conducted a number of reference calls on the Principals. These calls principally included discussions with portfolio company executives, limited partners and lenders. The results of these reference calls were generally favorable.

Evaluation of the Team

1. There are several attractive attributes of the General Partner's investment team:

- **The General Partner's senior team has extensive experience investing in and advising distressed companies.** Messrs. Psaros and Shapiro have been advising or investing in troubled or underperforming companies since 1991. As a result of the team's experience in the turnaround segment, KPS has built a solid reputation and a brand name in the market as a quality and trustworthy partner for companies undergoing operational challenges.
- **The General Partner's senior team is cohesive.** As a group, the Principals have been working together for a minimum of eight years. Messrs. Psaros and Shapiro have worked together for 16 years.
- **The Principals' relationship network with labor unions provides advantages to the Fund.** Since 1991, Messrs. Psaros and Shapiro have focused on underperforming industrial and manufacturing companies, which often have a significant organized labor presence. Through their experience, Messrs. Psaros and Shapiro have developed strong and trusted relationships with various labor unions, which has resulted in proprietary deal flow and a competitive advantage in closing investments in companies with organized labor.

2. There are some concerns regarding the team's capacity. Messrs. Psaros and Shapiro are the General Partner's most experienced investors and have led a majority of the investments in the prior funds. There is some risk that either could become overly burdened with the Fund's portfolio, which is expected to comprise 15 portfolio companies, particularly if one or more companies experiences unforeseen issues.

There are several factors that partly mitigate the team capacity concern:

- First, the unrealized portfolio is relatively small. Including a recently closed transaction, there are seven unrealized portfolio companies that are active (two in Fund I and five in Fund II). The two unrealized investments in Fund I are expected to be sold in the near term. The five unrealized investments in Fund II include two

companies where the turnaround plan has been successfully executed and the businesses are currently performing on plan or better. Accordingly, the General Partner will be able to allocate substantial time and resources to the Fund.

- Second, KPS plans to add additional resources to the team. Over the next 12-24 months, the General Partner plans to add three operating partners, whose role will be to work with companies post acquisition to execute turnaround plans, and three associates. The added resources should provide further support to the senior team.

Track Record

KPS formed its first investment partnership in 1997 with \$210 million in capital commitments. Fund I is fully invested in eight companies, five of which have been fully or substantially realized.

In 2003, KPS formed Fund II with \$404 million in commitments. As of February 2006, Fund II had invested \$260.5 million in eight transactions, four of which have been substantially or fully realized. Including a recently closed investment and amounts reserved for current and pending portfolio companies, Fund II is approximately 75% committed.

Performance results for Funds I and II are summarized below as of February 16, 2007.

Aggregate Performance Summary (\$ 000)

Fund (Vintage)	Rlzd Deals / # Deals	Invested	Realized	Unrealized ¹	Gross ROI	Gross IRR
Fund I (1999)	6 / 8	\$171,641	\$249,334	\$89,927	2.0x	20.5%
Fund II (2003)	4 / 8	260,500	450,026	163,899	2.4x	84.7%
Total	10 / 16	\$432,141	\$699,361	\$253,826	2.2x	32.8%

Performance vs. Benchmark

Fund (Vintage)	General Partner ²			vs. First Quartile Benchmarks ³		
	Net IRR	DPI	TVPI	Net IRR	DPI	TVPI
Fund I (1999)	15.1%	1.2x	1.7x	8.4%	0.7x	1.4x
Fund II (2003)	60.0%	1.4x	2.0x	38.6%	0.4x	1.5x

Benchmark Analysis

Fund (Vintage)	General Partner ²			Quartile Ranking ³		
	Net IRR	DPI	TVPI	Net IRR	DPI	TVPI
Fund I (1999)	15.1%	1.2x	1.7x	1st	1st	1st
Fund II (2003)	60.0%	1.4x	2.0x	1st	1st	1st

Notes:

¹ Unrealized private investments were valued by the General Partner at cost or a multiple of cash flow. Franklin Park reviewed the valuations for reasonableness.

² Performance net of fees and carried interest through December 31, 2006.

³ Benchmark data provided by Thomson Financial Venture Economics: U.S. Buyout Funds at September 30, 2006.

Evaluation of the Track Record

1. The General Partner's track record is attractive.

- Fund I has generated a gross ROI of 2.0 times invested capital and a net IRR of 15% as of December 31, 2006, which is top quartile compared to buyout funds formed in 1999. The six realized investments in Fund I have generated a gross ROI of 1.9 times invested capital.
- Fund II has generated a gross ROI of 2.4 times invested capital and a net IRR of 60% as of December 31, 2006, which is top quartile compared to buyout funds formed in 2003. The four realized investments in Fund II have generated a gross ROI of 3.6 times invested capital.
- The cash returns on realized deals are impressive. Seven of the ten realized investments (excluding three losses) have generated an aggregate gross cash return of 4.1 times invested capital.

However, performance has been volatile. The General Partner has generated realized losses on three prior investments (all in Fund I) as of February 2006. While Fund II has not experienced impaired investments to date, Fund I provides evidence of the heightened risks of investing in underperforming companies compared to traditional buyout strategies targeting healthy companies. While the returns from successful investments may compensate for losses, greater dispersion of returns is inherent in riskier strategies such as turnarounds.

Fundraising

The General Partner is targeting capital commitments of \$1 billion, which is also the Fund's cap. The General Partner expects to hold a first close in April 2007 and is targeting a final closing by June 2007.

Select limited partners of Fund I are summarized below:

Cascade Investment, LLC	1199 Health Care Employees Pension
J.P. Morgan Fund of Funds	UNITE National Retirement Fund
State of Connecticut	IUE-CWA Pension Fund
BellSouth Corporation	UNITE HERE Workers Pension Fund
CalPERS (California Emerging Ventures III)	Denver Public Schools Retirement System
Commonfund	Daido Life Insurance
New York Common (The Hudson River Fund II)	Hewlett-Packard
MC Capital	RCP Fund of Funds
New Mexico State	Palladian Partners
General Electric Capital Corporation	Sovereign Fund of Funds
The United Food and Commercial Workers	John T. Lupton Trust

Appendix I Principals' Biographies

Michael Psaros is a founding and Managing Partner of KPS Capital Partners. Prior to founding KPS and joining Keilin & Co. in 1991, Mr. Psaros was an investment banker with Bear, Stearns & Co., Inc. He graduated from Georgetown University and attended Sofia University in Tokyo, Japan.

David Shapiro is a founding and Managing Partner of KPS Capital Partners. Prior to founding KPS and joining Keilin & Co. in 1991, Mr. Shapiro was an investment banker with Drexel Burnham Lambert and Dean Witter Reynolds. Mr. Shapiro received a B.A. from the University of Michigan and an MBA from the University of Chicago Graduate School of Business.

Raquel Palmer is a Partner of KPS Capital Partners. Prior to joining KPS in 1997 and Keilin & Co. in 1994, Ms. Palmer was an investment banker with Kidder, Peabody & Co. She received a degree in Political Science from Stanford University.

Jay Bernstein is a Partner of KPS Capital Partners. Prior to joining KPS in 1999, Mr. Bernstein was an investment banker in the M&A Group at Schroders. He received a B.A. from the University of Michigan and an MBA from the Columbia University Graduate School of Business.

Appendix II Summary of Terms

Term	Fund's Proposed Term	Meets Market Standard
Fund Size		
Target Size:	\$1 billion	n/a
Minimum Size:	Not stated	n/a
Maximum Size:	\$1 billion	Yes

Term and Investment Period

Investment Period:	The investment period terminates on the sixth anniversary of the initial closing date.	Yes
Capital Reinvestment:	TBD	TBD
Term:	The term will be ten years from the initial closing. The term may be extended for up to two additional one-year periods at the sole discretion of the General Partner.	Yes

Limitations on Investment Activities

Single Portfolio Company:	No more than 20% of the Fund's capital can be invested in a single portfolio company without advisory board consent.	Yes
Geographic Limitations:	The Fund will not invest more than 25% of the Fund's aggregate commitments in portfolio companies that have their principal operations outside the U.S.	Yes
Public Securities:	TBD	TBD

Fees and Carried Interest

Management Fee:	Through the investment period, the management fee will be calculated as 1.75% of aggregate commitments. Following the investment period, the management fee will equal 1.75% of net invested capital.	Yes
Transaction Fees:	100% offset on monitoring fees; 50% offset on transaction and breakup fees.	Consider negotiating
Organizational Expenses:	The Fund will bear legal and organizational expenses, up to a maximum of \$1 million.	Yes
Carried Interest:	After the limited partners receive their aggregate capital contributions on realized investments, write-offs or write-downs, expenses, management fees, and an 8% preferred return, the General Partner will be entitled to 25% of the Fund's profits.	No
Clawback Provision:	Upon termination of the Fund, the General Partner will be required to return any distributions it has received in excess of its 25% carried interest.	Yes

Management of the Fund

GP Commitment:	The General Partner intends to commit 2.0% of the Fund's total commitments or \$20 million.	Yes
Key-Person Provision:	In the event that any two or more of Michael Psaros, David Shapiro and Raquel Palmer are no longer actively involved with the Fund, 75% in interest of limited partners may elect to terminate the commitment period.	Consider Negotiating
Advisory Board:	The Fund will have an Advisory Board of up limited partner representatives selected by the General Partner. The Advisory Board will review certain conflict of interest situations and other operations of the Fund with the General Partner.	Yes

Evaluation of the Investment Terms

- 1. The Fund will charge a premium carried interest of 25%.** While the market standard carried interest for corporate finance funds is 20%, the General Partner believes its track record warrants the higher carry. Consider proposing a hurdle rate of 3x invested capital prior to receiving a 25% carry.
- 2. The Fund's remaining terms are generally consistent with market standards.** Terms that warrant further consideration include:
 - Transaction fee offset – consider increasing the transaction fee offset from 50%.
 - Key person provision – consider negotiating a key person trigger if either Messrs. Psaros or Shapiro depart the firm.

Appendix III
Track Record Summary
February 16, 2007

Realized Performance Summary (\$ 000)

Fund (Vintage)	No. Deals	Invested	Realized	Unrealized¹	Gross ROI	Gross IRR
Fund I (1999)	6	\$129,380	\$234,917	\$12,629	1.9x	28.1%
Fund II (2003)	4	118,500	403,456	27,499	3.6x	90.9%
Total	10	\$247,880	\$638,373	\$40,128	2.7x	43.4%

Unrealized Performance Summary (\$ 000)

Fund (Vintage)	No. Deals	Invested	Realized	Unrealized¹	ROI	Gross IRR
Fund I (1999)	2	\$42,261	\$14,418	\$77,298	2.2x	12.1%
Fund II (2003)	4	142,000	46,570	136,400	1.3x	43.5%
Total	6	\$184,261	\$60,988	\$213,698	1.5x	16.2%

Aggregate Performance Summary (\$ 000)

Fund (Vintage)	Realized Deals / No.	Invested	Realized	Unrealized¹	ROI	Gross IRR
Fund I (1999)	6 / 8	\$171,641	\$249,334	\$89,927	2.0x	20.5%
Fund II (2003)	4 / 8	260,500	450,026	163,899	2.4x	84.7%
Total	10 / 16	\$432,141	\$699,361	\$253,826	2.2x	32.8%

Notes:

¹ Unrealized private investments were valued by the General Partner at cost or a multiple of cash flow. Franklin Park reviewed the valuations for reasonableness.

Appendix III
Portfolio Companies
February 16, 2007

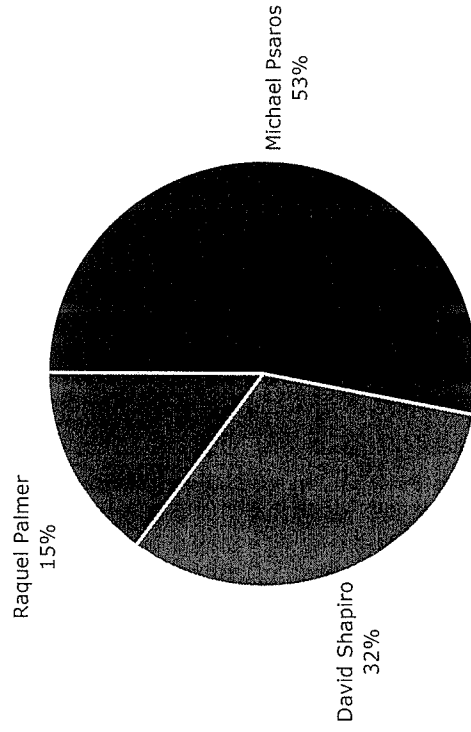
Company	Fund	Status	Date of Invest.	Exit/ Val. Date	Hold (years)	Invested	Realized	Unrealized	Gross ROI	Gross IRR
Blue Ridge	I	Unrealized	5/14/99	2/16/07	7.8	\$30,913	\$0	\$67,760	2.2x	10.6%
Blue Heron	I	Realized	5/9/00	2/16/07	6.8	5,000	24,639	2,236	5.4x	53.7%
Devlieg Bullard II	I	Realized	6/21/00	3/23/05	4.8	17,800	11	0	0.0x	-100.0%
United Road	I	Realized	7/19/00	2/16/07	6.6	25,000	2,263	3,322	0.2x	-20.8%
Curtis Paper	I	Realized	1/16/01	2/16/07	6.1	11,904	10,000	1,854	1.0x	-0.4%
Genesis II	I	Unrealized	8/9/01	2/16/07	5.5	11,348	14,418	9,538	2.1x	22.2%
New Flyer	I	Realized	3/18/02	2/16/07	4.9	27,676	197,994	5,216	7.3x	168.9%
Republic	I	Realized	7/11/02	8/6/04	2.1	42,000	10	0	0.0x	-100.0%
Wire Rope Corporation of America, Inc.	II	Realized	6/30/03	2/16/07	3.6	16,500	162,518	15,429	10.8x	112.6%
Speedline Technologies, Inc.	II	Realized	10/30/03	2/16/07	3.3	25,000	87,008	6,748	3.8x	96.2%
AmeriCast Technologies, Inc.	II	Realized	11/14/03	2/16/07	3.3	55,000	104,879	2,713	2.0x	54.6%
Ashcroft Holdings, Inc. / Ebro	II	Realized	10/26/05	2/16/07	1.3	22,000	49,051	2,609	2.3x	234.5%
Hephaestus Holdings, Inc.	II	Unrealized	6/30/05	2/16/07	1.6	46,000	33,889	33,400	1.5x	56.9%
Blue Water Automotive Systems, Inc.	II	Unrealized	9/28/05	2/16/07	1.4	36,000	12,681	25,000	1.0x	3.9%
Cloyes Gear and Products, Inc.	II	Unrealized	5/15/06	2/16/07	0.8	10,000	0	28,000	2.8x	288.3%
Attends Healthcare, Inc.	II	Unrealized	1/17/07	2/16/07	0.1	50,000	0	50,000	1.0x	0.0%
Total						\$432,141	\$699,361	\$253,826		

Appendix III

Performance by Partner (\$000)
February 16, 2007

All Deals					Realized Deals				
Lead Partner	# of Deals	Invested	ROI	Gross IRR	# of Deals	Invested	ROI	Gross IRR	
Michael Psaros	7	\$229,024	2.0x	40.1%	5	\$171,676	2.1x	41.4%	
David Shapiro	6	138,117	2.8x	26.6%	4	71,204	4.0x	45.1%	
Raquel Palmer	3	65,000	1.6x	60.0%	1	5,000	5.4x	53.7%	
Jay Bernstein	0	0	N/A	0.0%	0	0	N/A	0.0%	
Total	16	\$432,141	2.2x	32.8%	10	\$247,880	2.7x	43.4%	

Invested Capital by Lead Partner
(All Deals)

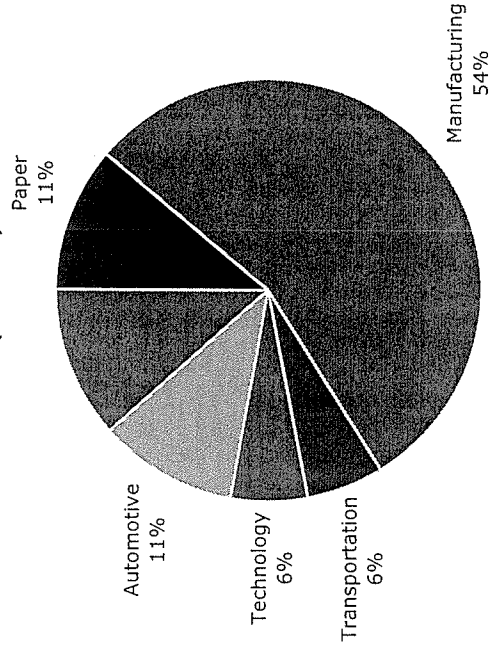


Appendix III

Performance by Sector (\$000)

February 16, 2007

All Deals					Realized Deals				
Sector	# of Deals	Invested	ROI	Gross IRR	Sector	# of Deals	Invested	ROI	Gross IRR
Paper	3	\$47,817	2.2x	14.3%	Paper	2	\$16,904	2.3x	35.6%
Manufacturing	8	238,324	2.7x	55.6%	Manufacturing	6	180,976	3.0x	59.0%
Transportation	1	25,000	0.2x	-20.8%	Transportation	1	25,000	0.2x	-20.8%
Technology	1	25,000	3.8x	96.2%	Technology	1	25,000	3.8x	96.2%
Automotive	2	46,000	1.4x	36.4%	Automotive	0	0	N/A	0.0%
Consumer	1	50,000	1.0x	0.0%	Consumer	0	0	N/A	0.0%
Total	16	\$432,141	2.2x	32.8%	Total	10	\$247,880	2.7x	43.4%

Invested Capital by Sector
(All Deals)

Appendix III

Return Dispersion (\$000)
February 16, 2007

All Deals				Realized Deals			
IRR Range	# of Deals	Invested	ROI	# of Deals	Invested	ROI	
< 0%	4	\$96,703.9	0.2x	4	\$96,703.9	0.2x	
≥ 0% - < 25%	4	128,261.0	1.4x	0	0.0	N/A	
≥ 25% - < 50%	0	0.0	N/A	0	0.0	N/A	
≥ 50% - < 150%	5	147,500.0	3.2x	4	101,500.0	4.0x	
≥ 150%	3	59,676.0	4.7x	2	49,676.0	5.1x	
Total	16	\$432,140.9	2.2x	10	\$247,879.9	2.7x	

All Deals				Realized Deals			
Multiple Range	# of Deals	Invested	ROI	# of Deals	Invested	ROI	
< 1.0x	4	\$96,703.9	0.2x	4	\$96,703.9	0.2x	
≥ 1.0x - < 1.5x	3	132,000.0	1.2x	0	0.0	N/A	
≥ 1.5x - < 2.0x	1	55,000.0	2.0x	1	55,000.0	2.0x	
≥ 2.0x - < 3.0x	4	74,261.0	2.3x	1	22,000.0	2.3x	
≥ 3.0x	4	74,176.0	6.8x	4	74,176.0	6.8x	
Total	16	\$432,140.9	2.2x	10	\$247,879.9	2.7x	

