

INVESTMENT UPDATE

Profile & Perspective

Arctic Circle & Polar Graphics Partner with Intracorp Capital

Pioneering an Industry

In 1963, 18-year-old Gordon Godfred took over his late father's Alaska business to help support his family. In the summers, Gordon's brother Mitchell came to Alaska to work with him and help build the business. Upon finishing college in 1970, Mitchell moved to Alaska to help Gordon run the company full-time.

For over 40 years, Gordon and Mitchell Godfred have built Arctic Circle Enterprises, transforming a small manufacturers' representative business into one of the leading producers of apparel, gifts, souvenirs and promotional products on the West Coast.

Looking back it is apparent that the Godfred's pioneering spirit and willingness to think outside of the box have been the foundation for the company's successful past and its bright future.

Building A Niche

As commercial tourism began to develop in Alaska in the 1960s, the Godfreds recognized an opportunity to distribute Alaskan-themed products to tour operators and retail shops.

"At the time, commercial tourism was just taking shape in Alaska," said Mitchell Godfred, president of Arctic Circle Enterprises. "We started selling products to tour operators and retail shops before there was even much of a market."

Tourism in the region grew rapidly and it didn't take long for the Godfreds to refocus the business solely on the tourist market. But



Gordon Godfred, Gordon McFadden, Mitchell Godfred

as the number of visitors to the state grew others took notice and joined in to compete.

"Almost immediately we recognized that souvenir products were an easy business to enter on a small level. We wanted to separate ourselves from the small competitors and solidify our position in the market," said Gordon Godfred, CEO of Arctic Circle.

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INTRACORP INTROSPECTION

Building Value With Management

For Intracorp Capital good management is an important matter. Intracorp operates on the principal that partnering with - and supporting - a management team is the best way to grow a business.

"The knowledge and experience of a good management team is something that is hard to replace," says Gordon McFadden, president of Intracorp.

The strength and tenure of the team at Arctic Circle was one of the key factors in Intracorp's investment in Arctic Circle. "We recognized the quality of the team at Arctic Circle and saw that we could add value," said McFadden.

Intracorp doesn't aim to step in and run the companies it invests in. Intracorp will provide

strategic oversight to Arctic Circle from an advisory position on its board and provide additional financial and operational resources to the management team.

"Arctic Circle is an ideal opportunity for us. We get to partner with a great management team that has both an impressive track record and a clear path for growth," said Chris Purrier, Vice President of Intracorp.

For the owners of Arctic Circle, Intracorp's experience building companies, particularly in the consumer products arena, had strong appeal as well.

"We've built a successful apparel business at Polar Graphics and Intracorp's experience in the apparel industry will help us take it to the next level," said Gordon Godfred, Chief Executive of Arctic Circle.

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Sourcing In Asia

By the early 1970's the Godfreds decided to move a portion of the company's production overseas. "We looked at the cost of sourcing in Asia and it made a lot of sense. The quality was good and we could pass along the cost savings to our customers," said Mitchell Godfred.

"At the time producing in China was a relatively new phenomenon. There wasn't the U.S. manufacturing presence that there is today and the political situation was different. It made for a very interesting experience."

Mitchell, who led the company's charge to source products overseas, still makes frequent trips to Asia to meet with the company's manufacturing partners and visit potential new suppliers.

Building Polar Graphics

After establishing reliable sourcing channels in Asia the company began to expand its product line. By the early 1990's the company's apparel business - screen-printed and embroidered t-shirts, sweatshirts and hats - had grown so large that the Godfreds saw another opportunity to expand. They decided that instead of outsourcing the screen-printing and embroidery work they would do it in-house.



Screen-print manufacturing

Building Value With Management continued from page 1

Gordon McFadden has spent over 25 years building consumer branded companies, as president of Helly Hansen North America and Nike ACG. His keen insights and experience in operations, sales and marketing will be used to drive growth at both Arctic Circle and Polar Graphics.

In 1992, Arctic Circle partnered with Shuji Murasaki, a veteran of the screen-printing industry with whom they'd worked for over 10 years, and opened Polar Graphics USA, a custom screen-printing and embroidery business in Kent, Washington.



Embroidery at Polar

Polar Graphics gave the company more control in the manufacturing process and allowed it to get orders out in a more timely fashion - an important consideration for a company with the majority of its customers in the tourism business.

"Selling to the tour industry is a time-sensitive business," says Gordon Godfred. "It's a short season and in the busy months we sometimes receive orders from retail shops that need to be processed, filled and delivered in 48 hours."

Polar Graphics now sells products to over 7000 tour related, resort, event and corporate customers in the United States, Europe and Asia.

Partnering With Intracorp

In 2005 the Godfreds decided to take another bold step to build the business. They partnered with Intracorp Capital, a private investment firm with a strong background in building consumer oriented companies. Intracorp made an equity investment in the company and provides additional financial, operational and strategic resources to help the build the business.

"We're very excited about the partnership," said Gordon Godfred. "Intracorp has the experience in building consumer product companies that can help take our business to the next level" ■

With the help of Intracorp the company also intends to pursue a number of possible strategic acquisitions that will expand its geographic footprint and its product offering. ■

Leading With Art

Ask customers of Arctic Circle and Polar Graphics what sets the companies apart from the competition and invariably the response will include their superior art and design capability.

Whether designing new Alaska-themed souvenirs at Arctic Circle, or creating artwork for screen-printed or embroidered merchandise at Polar Graphics, artistic design has been a key to success for both businesses.

“Our design capability and artwork really set us apart,” says Shuji Murasaki, executive vice president of Polar Graphics and artistic leader for both companies. “The ability to create fresh designs and new products keeps our customers coming back.”

At Arctic Circle that means developing over 400 new products each year. “Consumers always want something new,” says Mitchell Godfred. “When people visit Alaska they don’t want to take home the same souvenirs their friends brought home the year before.”

Arctic Circle satisfies the demand for new products and new designs with fully computerized, state-of-the-art graphic design technology and a team of experienced artists and graphics designers.

Design at Polar Graphics

In 1992, when Gordon and Mitchell Godfred decided to open Polar Graphics they knew that a first-class art department would be critical to the company’s success. So the Godfreds approached Shuji Murasaki, an artist and industry veteran who they’d worked with for over 25 years, and asked him to help build the new business.

“Shuji is the best in the industry. When we decided to enter the screen-printing business we knew we had to have him on our team,” said Gordon Godfred.

In addition to having spent his career in the screen-printing industry, Shuji is an accomplished artist who has worked with Universal Studios creating cartoon characters and won numerous awards for his artistic abilities including the Silver Squeegee Award and first place in the national Screen Print Association’s Art Competition.

Shuji leads the company’s art department and has built a first-class team of artists

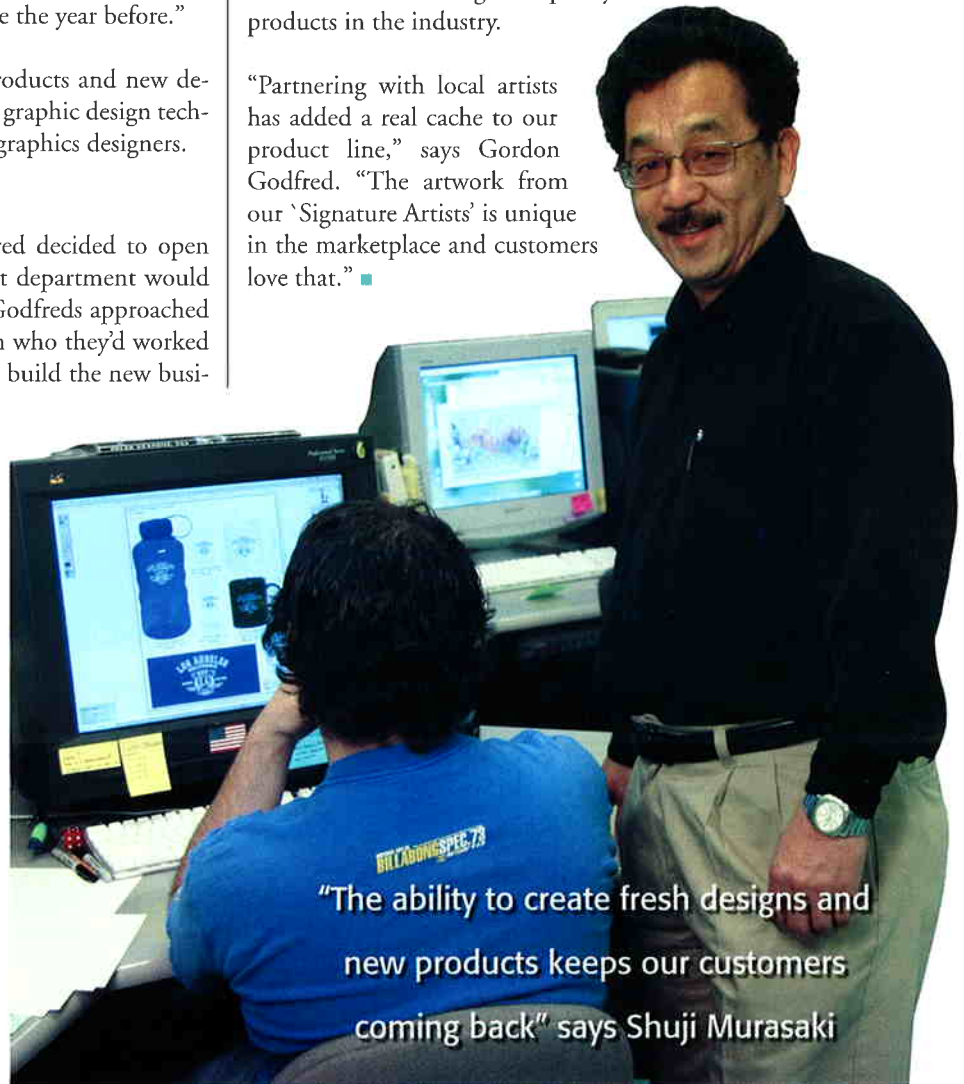
and graphics designers. “Initially it was difficult to recruit individuals with the level of expertise we were looking for,” said Shuji. “But as the company established itself that quickly changed. When designers and artists saw what we were doing they wanted to be a part of it.”

As well as producing artwork and apparel for the Alaskan tour market, Polar Graphics works with events, sports teams, resorts, and corporate customers to create custom artwork for apparel and promotional merchandise.

Adding Cache

In addition to their in-house design teams, Arctic Circle and Polar Graphics work with over 20 well-know nature and Native American artists that create proprietary artwork for their products. Creating the ‘Signature Artists’ program has supported the company’s effort to sell the highest quality products in the industry.

“Partnering with local artists has added a real cache to our product line,” says Gordon Godfred. “The artwork from our ‘Signature Artists’ is unique in the marketplace and customers love that.” ■



“The ability to create fresh designs and new products keeps our customers coming back” says Shuji Murasaki

Shuji Murasaki with one of the company’s 15 in-house artists

Putting The Customer First

Customer satisfaction is an important ingredient for success in any business. At Arctic Circle and Polar Graphics improving the customer experience is a top priority and both companies dedicate significant time and resources to ensure that their customers receive the highest level of service in the business.

“We are passionate about delivering what we promise,” said Gordon Godfred, CEO of Arctic Circle and Polar Graphics.

Arctic Circle and Polar Graphics have found that attention to details makes a big difference. The companies work together to provide a variety of conveniences that set them apart from their competition. They operate two show rooms - one in Kent, Washington and the other in Anchorage, Alaska - to make scheduling sales meetings easier. The companies also ship from either of their main warehouse facilities to guarantee timely delivery.

To help simplify the sales process Arctic Circle and Polar Graphics have created full-color catalogs - 175 pages and 150 pages respectively - that are mailed to customers. “We have one of the most attractive and comprehensive catalogs in our business. Customers appreciate that. It sets us apart,” said Shuji Murasaki.

The Polar Graphics art and sales staffs work closely with customers to provide seamless participation in the creative design process, often creating several design schemes for a customer to choose from.



“We are passionate about delivering what we promise,” said Gordon Godfred

Shuji Murasaki, Mitchell Godfred, Gordon Godfred

“It’s an interactive process and our customers like to participate,” said one member of the Polar Graphics team. “Customers enjoy the flexibility and participation that we give them.”

Improving customer service also drives investments in new equipment and technology. In 2004 the company put in a new “pad printing” line that allows it to customize small orders of hard-good products such as water bottles and key chains at lower cost and with shorter lead time. Pad printing has been particularly attractive to customers in the tourism business who want products that are customized for their immediate geographic location, such as Skagway or Glacier Bay, Alaska.

“We aim to set ourselves apart in every aspect of our business and customer service is a critical differentiator for us,” said Mitchell Godfred, president of the companies. ■

Intracorp Capital is a Seattle-based private equity firm focused on building partnerships with owners and managers of companies in the Western United States. Intracorp invests in leading middle market companies that have the potential to build significant long-term value.

For information on selling or recapitalizing your company, please call us.



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