

ACQUISITION NEWS

Profile & Perspective

NEWS ABOUT CAPITAL MARKETS AND ACQUISITIONS

Paper Zone Sold to Local Investors *Fifty Stores Planned in First Phase of Expansion*

The ink is dried on the paper signaling the completion of the sale of The Paper Zone to Intracorp Capital. It's a win-win for The Paper Zone ownership, management and Intracorp Capital.

The Paper Zone retains its current management who has successfully positioned the company for its planned expansion of 50 stores in four to five years. What was missing before the acquisition was the capital to move the company forward.

In what can best be described as a recapitalization for The Paper Zone, bringing Intracorp Capital into the picture as an investment partner, was the fuel to keep the fire burning. The basics of the transaction give Intracorp Capital majority ownership in the company with The Paper Zone management now owning a portion of the company. The former owner, Dick Abrams, who still owns West Coast Paper Co., is completely divested from The Paper Zone.

Intracorp Capital brings to the table the necessary capital that The Paper Zone needed to meet specific objectives in the quest to reshape the company to maximize its growth and profit potential. According to Jim Wheat, The Paper Zone's president and CEO, the company had three funding goals to achieve in its recapitalization. "We knew it was time to look at our branding and to focus more specifically on who our customers are. This required us to retool our

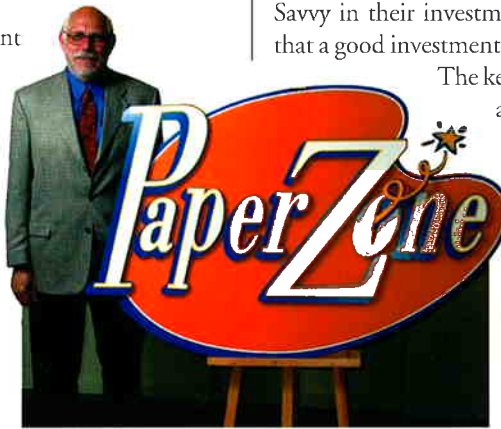
corporate look, store layout and retail strategies; all of which require money to make it happen," said Wheat.

Intracorp Capital is poised to reap rewards from the transaction. Savvy in their investment strategy, the company's principals know that a good investment is, more often than not, a long-term strategy.

The key is to find companies with unrealized growth and earnings potential, and then to maximize the strengths of a partnership between an already successful entity and a seasoned investment and strategic management partner like Intracorp Capital. The payoff is stable earnings and a diversified portfolio, which assure a smoother ride in an unpredictable economy.

Time will prove the strength of The Paper Zone's strategic and financial relationship with Intracorp Capital as the company revamps its stores with a streamlined, cleaner

look with less of a warehouse feel. The company will continue to have the widest and most exclusive mix of specialty paper products for its customers. But the tone of the design changes will be less hard-edged. The stores will be easier to navigate for customers browsing the aisles or searching for paper supplies and related products. The logo itself will set the stage for the changes ahead with an inspiring, fun style that will permeate the store's interior changes. The future looks bright as The Paper Zone readies itself for expansion. ■



Jim Wheat with Paper Zone's new look.

INTRACORP INTROSPECTION



Gordon McFadden

Why Sell Your Business to Intracorp Capital? *Intracorp Capital's Acquisition Perspective*

When looking for businesses to acquire, Intracorp Capital's focus is to find businesses with undiscovered growth potential that can realize their potential with Intracorp Capital's strategic management expertise and capital infusion. The Paper Zone was a perfect fit for

Intracorp Capital's plan to build a strong acquisition portfolio.

What was attractive to Intracorp Capital's principals were several aspects of The Paper Zone's business and practices. The Paper Zone was already a successful enterprise with little debt en-

cumbrance and was profitable with same-store sales improving each year. The Paper Zone also had invested in support systems that would enable the 12-store chain to grow to hundreds without outgrowing its operating infrastructure. The company was poised for future growth. Most

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Acquisition Profile Q&A

Jim Wheat, The Paper Zone: Management's Perspective



Jim Wheat

Jim Wheat is president of The Paper Zone; he is responsible for overall operations, profitability and strategic planning. He, along with former owner Dick Abrams, grew West Coast Paper Co.'s six paper stores into a profitable, niche market of 12 retail stores and an internet site carrying specialty papers, greeting cards and other unique paper products for small businesses and independent consumers.

Q: The Paper Zone is an interesting company and quite unique. What were your considerations in selecting an investment group to partner with you?

A: We were in search of a partner that had similar vision, objectives and timeline for their expectations as we did. We wanted to make sure that whomever we selected would have a compatible philosophy with our operational strategy, not someone who would create barriers for growth or rush expansion. We wanted an investor with long-term goals; one who wouldn't be in and out quickly.

Q: Once the decision was made as to which group you wanted to go with, how rapidly was the transaction completed?

A: It was a very rapid process. We wanted to close within 90 days, and Intracorp Capital willingly facilitated our wishes. We closed within the time frame, and the transaction progressed very smoothly.

Q: I'm sure the due diligence process is complicated; how rigorous is that process?

A: The process was thorough to say the least. Every potential investor that we talked to wanted a full accounting of everything – inventory, sales, etc. From day one, we established exemplary accounting practices and invested in detailed reporting systems that could grow us to hundreds of stores. This facilitated a faster process. I think that if a company didn't have stringent accounting practices, it would take much longer to have somebody come in and dig through all the information.

Q: How has Intracorp Capital impacted your business since they have become your new owners? Does management still have operating control of the business?

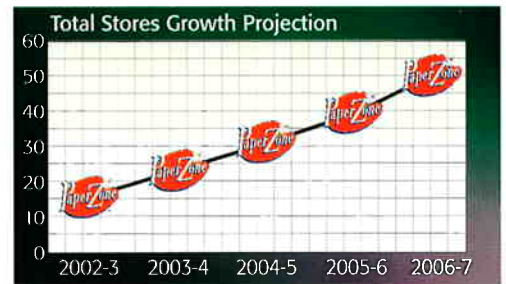
A: There are two areas: first, management remains in full operating control of the company with the board of directors' oversight, and secondly, Intracorp Capital has given The Paper Zone its future. They have the resources to take us where we want to go, and we can execute the plan. They have brought the "financial where-with-all" for the company to grow, while we are very much in control of our own destiny.

Q: When looking for a partner, what were you looking for other than financing?

A: We wanted a partner that was in-sync with our long-term goals. A lot of investment firms want to get in and get out. Intracorp Capital asked us what our 5-year plan was, which was a moderate growth rate of possibly 50 stores in five years. They liked our strategy, and we liked bringing in a "value-added" partner (the board of directors) that has relevant experience in successful business practices.

Q: You mentioned Intracorp Capital's financial resources. What objectives did you wish to accomplish in your recapitalization plan?

A: We had three things in mind that we wanted to achieve. 1) We knew that to move the company forward we had to look closely at our branding. 2) We also had to further develop our long-term retail strategy along with rethinking our store layouts and fixture requirements. To do this required capital that the company didn't have without taking on debt. 3) The company's recapitalization by Intracorp Capital will allow us to grow from 12 to 50 stores.



Q: Was Intracorp Capital the only investor you negotiated with? If not, why did you select them?

A: No, they weren't. One strategy of an acquisition is to leverage the company to acquire ownership. We were debt free and didn't want to leverage the company. We wanted to use our debt load to further our expansion, not trade equity for debt. This acquisition was a capital infusion not a leveraged buyout. Other companies were interested only if it was a leveraged buyout, not so with Intracorp Capital.

Q: How is Intracorp Capital to work with? How do they plan on working with you and your management team?

A: It's been great having Intracorp Capital as a partner. You couldn't afford to go out and hire all the talent they have to offer. They bring a lot of horsepower to the deal. I am finding it quite beneficial that they have experience on the real estate side, the financing side and the retail sector. They complement our team nicely, since they have the in-house experience to assist us strategically and help us financially to meet our growth objectives. The second part of your question: They work well with our management team. We work in concert with the board of directors, but they have no desire to infringe on our daily operating practices. ■



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Owner's Perspective: What to Consider When Selling Your Business

Q&A with *The Paper Zone's* Former Owner, Dick Abrams



Dick Abrams

Q: When deciding to sell your business what questions were foremost in your mind?

A: *As a family business we had three objectives. We wanted a fair return on our investment, a good future environment for our employees and management, and a solid partner who we could trust would deliver on their promises.*

Q: You mentioned return on investment, how important was that?

A: *In all of the negotiating we did with different parties, we found that the purchase price offered was very similar. Because our management would continue daily operations after the sale, whom we selected as a future partner for our management team was of the utmost importance.*

Q: Did your family financial planning play any part in your decision-making?

A: *Absolutely. Here is where we found Intracorp Capital to be supportive in crafting a plan that gave our family a fair after-tax return on our investment.*

Q: Would you consider the sale of The Paper Zone a recapitalization of the company? If so, who were the winners?

A: *Yes, indeed. With the help of Intracorp Capital The Paper Zone was revitalized with the necessary capital and repositioned for future growth and development. The winners were the employees, our family, the Seattle Foundation and the folks at Intracorp Capital.*

Q: How was The Seattle Foundation a winner?

A: *One of our desires has been to use our success in business to fund The Seattle Foundation. A few years back we gave part of the company to The Foundation, and through this transaction they were able to gain liquidity.*

Editor's Note: The Seattle Foundation is a local philanthropy distributing millions of dollars in grants each year to non-profits fulfilling a wide spectrum of local needs.

Q: Did you always intend to sell the company?

A: *Yes, from the time of hiring the current management and our focusing on retail sales growth. The desire to aggressively grow the business within the next five years required a greater source of capital for such an endeavor. It was best for our family to seek an investor who had those capabilities.*

Q: How flexible was Intracorp Capital in meeting your financial requirements?

A: *Once we agreed on a price, the people at Intracorp Capital were very open minded and creative in completing a deal that worked for us.*

Q: How stressful was the process of selling your business?

A: *Identifying an acceptable and capable buyer was a challenging experience. Then we met the people at Intracorp Capital, and I am happy to say, we completed it within 90 days.*

Q: What would you recommend to other owners wanting to sell their companies?

A: *Take the time to clearly define your objectives. Check out the acquiring company's references. After all, you will be spending some time working with them. Make sure they have operated businesses, have good financial strength and can understand your concerns. ■*

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important was the company's unique niche in the marketplace.

The Paper Zone already had established itself as a one-stop shop for superior paper and specialty paper products. Combined with their aggressive stance toward providing excellent customer service, The Paper Zone had effectively created an entry barrier for potential competitors. This all added up to unrealized potential. Here existed a profitable and well-run company that only needed strategic support and financial backing to expand its marketplace reach.

According to Gordon McFadden, Intracorp Capital's President, "Acquisitions are about good partnerships. Though it must make sense financially for Intracorp Capital to make an acquisition, it must be equally beneficial for the acquisition target's management

and owners." He added that a successful acquisition starts with a company's need for a cash infusion to meet a specified objective.

An example of this may be when a company owner wishes to redeem some stock and reduce personal risk, but still wants to have a viable ownership stake in his or her business. Or maybe for estate planning an owner wants to pull some equity out of the business. In the case of The Paper Zone, they primarily wanted to partner with someone who could take them to the next level and help finance their expansion. Additionally, they wanted to retain daily operating control. This worked well with Intracorp Capital's mission to invest for the long-term, assist strategically and leave the operating of the acquisition to those who already do it well. ■

Is There a Partner in Your Future?

Intracorp Capital Seeking Strong Partnerships

What does it take to move a business to the next level of success? The answer is surprisingly simple. It requires building strong partnerships with people who make positive results happen. Intracorp Capital has established itself as a strong partner for success. Their mission is to assist companies in maximizing their potential. It is a straightforward approach that they apply to achieve this goal. Intracorp Capital has the in-house expertise and capital to partner with companies and owners seeking funds for revitalization, ownership investment or liquidity.

Intracorp Capital was established as a private investment firm for acquiring or recapitalizing profitable, private companies on the west coast, focusing on companies valued between \$5 million and \$100 million.

Working in partnership with owners and managers, Intracorp Capital uses investment money to fund management buyouts,

industry consolidations, and owner recapitalizations. The company mission is to provide long-term capital to owners and management teams of small to medium sized companies to meet these objectives or to support continued growth of their businesses.



Intracorp Capital is a consortium of active investors who personally fund every transaction. Unlike other private equity firms, a distinctive difference is that they have a strong operating perspective to complement their financial and strategic experience. Intracorp Capital's senior partners have managed companies, both private and public, from start-up to multinational, in a variety of industries. So, is there a partner in your future?

If you would like more information about Intracorp Capital, LLC, call 206-728-6523 and speak to Ryan Secrist. ■

Intracorp Capital's Board Selection Process

Fine-Tuning for Effective Oversight



*Joseph Pellegrini,
LehmanBrothers*

Intracorp Capital has a simple philosophy: select board members and associates who have relevant experience to enhance and augment the experience of acquired companies' management teams. This is the discerning difference that sets the company apart from other investment firms. Intracorp Capital gives the highest consideration to proven executives capable of leading acquired companies in the right direction to achieve profitability and sustained earnings for their investors and owners.

With the acquisition of The Paper Zone, Intracorp Capital sought out talented new members for its board with well-developed strategic planning skills in the area of retail expansion to assist Intracorp Capital's already experienced executive team.

With this strategy in mind, it was considered a coup for Intracorp Capital to recruit Joseph Pellegrini as a board member and investor. Pellegrini is Senior Vice President of Consumer/Retail Group for Lehman Brothers. He received his M.B.A. from Columbia University. Pellegrini's other board appointments bring depth to the Intracorp Capital's board's ability to effectively manage the strategic aspects of a growing retail chain.

The combined experience of the management of Intracorp Capital and the talent of a hand-selected board of directors is a value-added asset to companies partnering with Intracorp Capital. It would be nearly impossible and extremely expensive to hire consultants or staff with the breadth of experience that Intracorp Capital can offer its partners.

The development of an active and experienced board of directors will give The Paper Zone a strategic competitive advantage. The theory is that if it is good for the acquisition, it will ultimately be good for Intracorp Capital. To reach this level of mentoring and leadership, Intracorp Capital seeks board members and associates who have extensive experience in the core areas in which Intracorp Capital invests.

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



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C A P I T A L

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