

# Galloway Partners

Introduction

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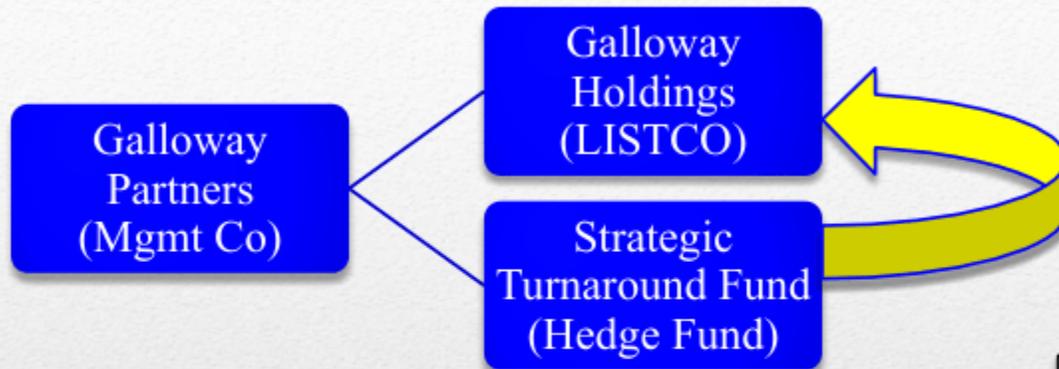
# Executive Summary

- Galloway Partners (“GP”) is a newly established investment management company that specializes in acquiring influential ownership stakes in distressed, small & micro cap companies. GP’s strategy is to use an “activist” approach to drive a turnaround in corporate value which will benefit both stakeholders and shareholders of GP’s portfolio companies.
- GP’s primary focus is on US-listed companies which are in the Tech/Telcom, Natural Resources, Consumer Retail, Healthcare Services and Business Services sectors. GP’s target return is 2-5x on invested capital over a 2-4 year investment horizon.
- Due to a unique confluence of events, valuations for many small and micro cap companies have been pushed to distressed levels. Market inefficiencies are at an all-time high due to a dramatic reduction in the number of buy-side and sell-side participants in the Small and Micro cap space. As a result, GP believes that current market conditions are ripe for producing once-in-a-generation returns.
- Co-founded and controlled by Bruce Galloway, GP is uniquely positioned to capitalize on the current market opportunity. Bruce Galloway has over 25 years of experience researching and investing in the Small and Micro cap sector. In addition to being recognized as one of the industry’s leading investors, he has an unparalleled network of contacts and relationships to help source and assess potential investments.
- GP has identified several initial investments which meet its investment requirements. GP is seeking to raise US\$50-100 million in a first closing for a new hedge fund (“Strategic Opportunities Fund”) which will invest in Small and Micro caps. GP intends to transfer all control stakes to a newly formed investment holding company (“LISTCO”) and file a registration statement in order to affect a public listing of LISTCO’s shares.

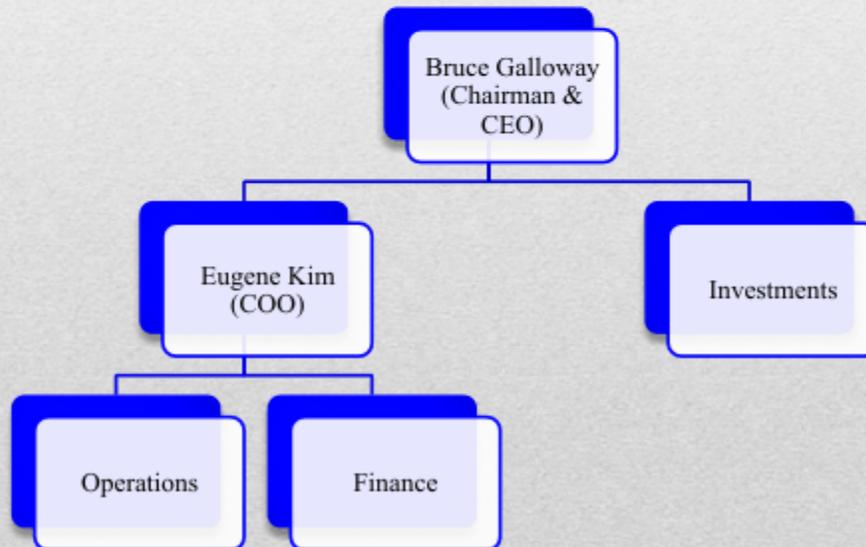
# Executive Summary - Indicative Term Sheet

<b>Issuer</b>	<b>Strategic Turnaround Fund, LP</b>
Security Description	Series A Exchangeable Redeemable Preferred Shares
Dividend Rate	[4%, payable in cash or in-kind]
Maturity Date	[5] years from Closing
Issue Price	US\$[10,000] per share
Issue Size	US\$50,000,000-100,000,000
Closing Date	[November 30 <sup>th</sup> 2013]
Exchange	Series A Preferred exchangeable at any time after a Qualified Listing
Voting Rights	Each share of Preferred stock will have the right to a number of votes equal to the number of shares of Class A common stock issuable upon conversion of each share of preferred stock
Protective Provisions	<p>Consent of the holders of at least 50.1% of the Series A Preferred will be required to:</p> <ul style="list-style-type: none"> <li>• Alter any provision of the articles of incorporation or the bylaws;</li> <li>• Approve any transaction or series of transaction deemed to be a liquidation of the Company;</li> <li>• Approve any related party transactions;</li> <li>• Approve any merger or other corporate reorganization;</li> <li>• Declare or pay any dividend or distribution or approve any repurchase with respect to the Preferred or Common stock.</li> </ul>
Investor Rights	<ul style="list-style-type: none"> <li>• Maintain proportionate ownership;</li> <li>• Right of First Refusal;</li> <li>• Co-Sale Rights;</li> <li>• Drag-Along Rights</li> </ul>

# Executive Summary – Organizational Structure

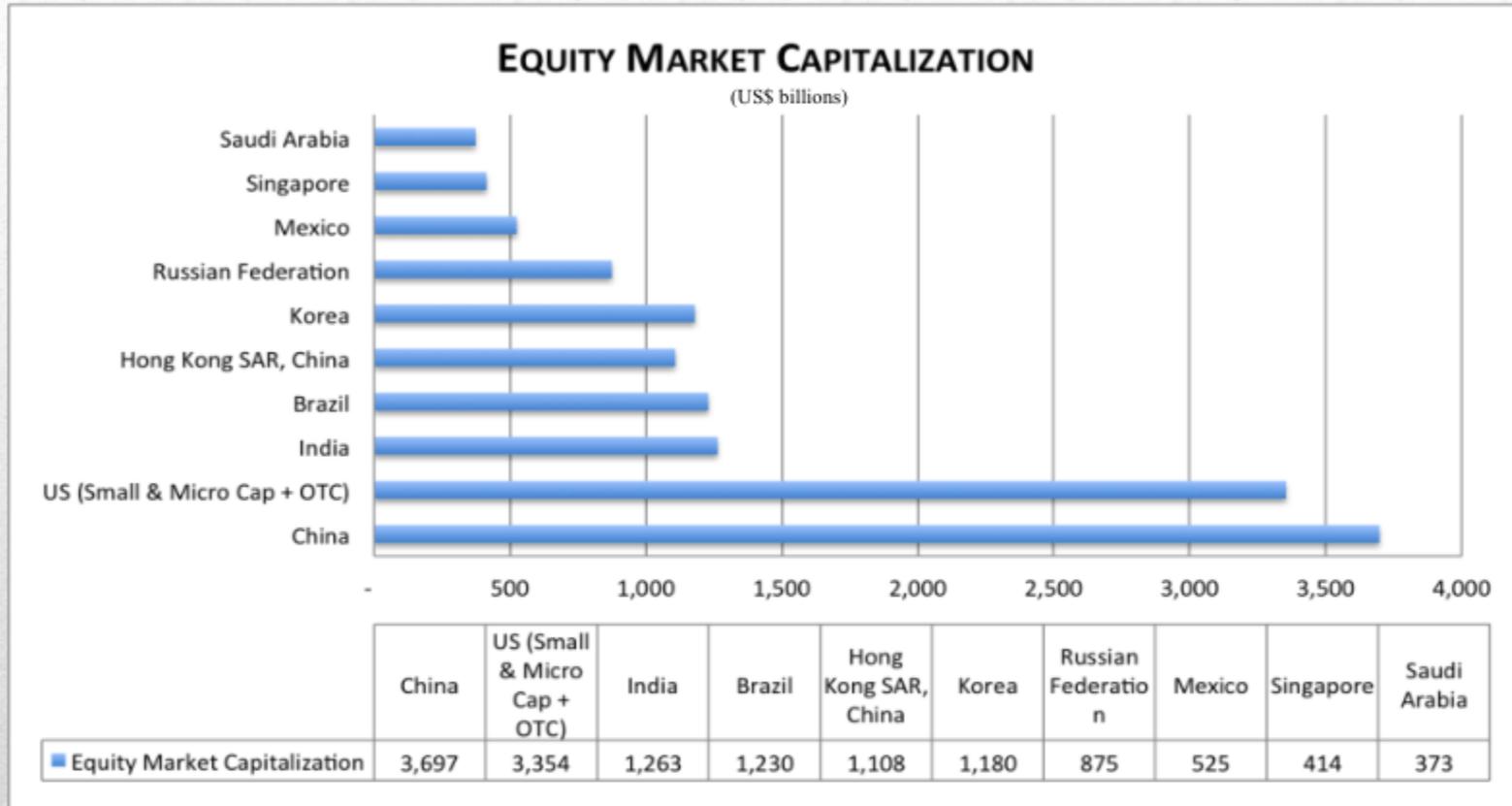


Control stakes transferred to LISTCO, which will be a publicly traded holding company



- Standard 2%/20% management fees paid by LISTCO (“GH”) and Hedge Fund to the Mgmt Co.
- Additional 10% Incentive Fee of Net Appreciation which exceeds 2.5x return of [REDACTED]
- Mgmt Co. is owned by Galloway and Kim
- Galloway Holdings is a [C-corp] established in [Delaware]
- Preferred Shares will be exchangeable into LISTCO shares

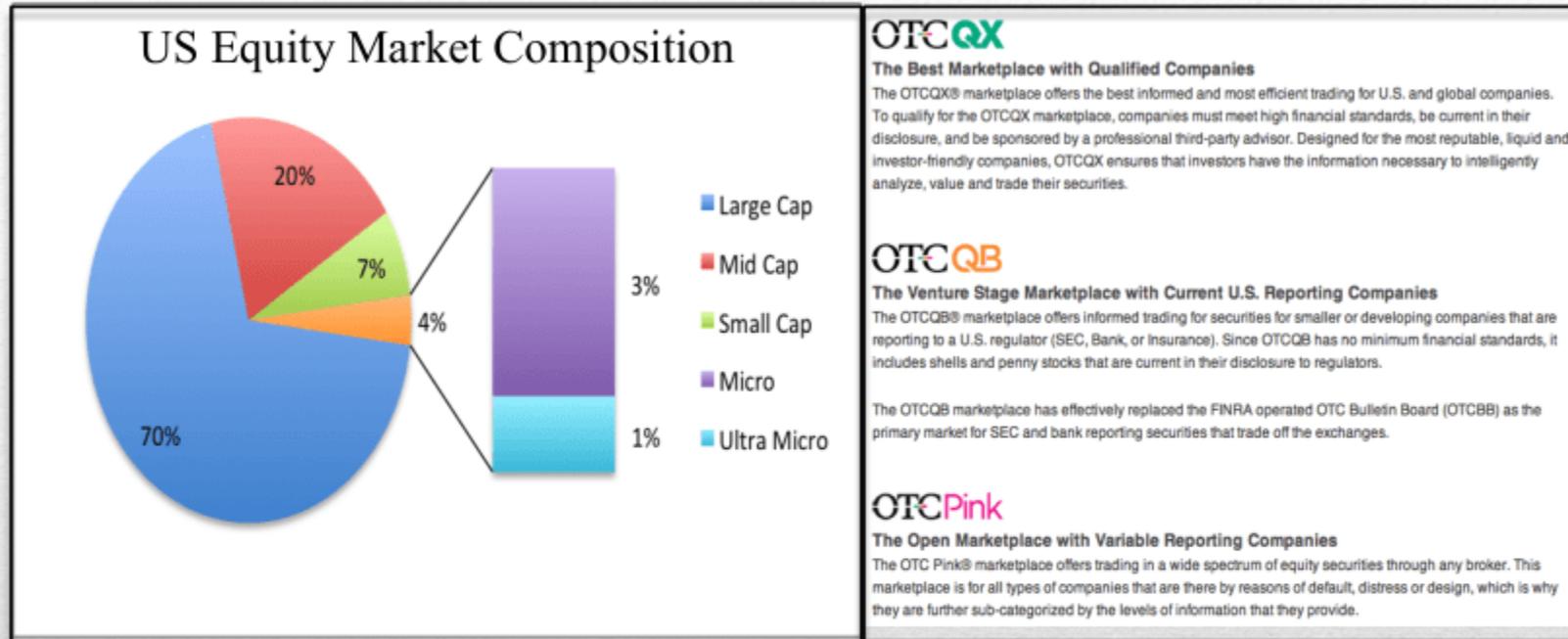
# Market Opportunity



*At approximately US\$3.3 trillion, the combined market capitalization of exchange-traded US Small & Micro Caps and OTC equities is comparable in size with the largest emerging market stock markets, but with significantly better trading liquidity, transparency and regulation*

Source: World Bank and [REDACTED] (Data as of December 31, 2012)

# Market Opportunity



- Combined market capitalization of exchange-traded Small & Micro Cap stocks is approximately US\$2.1 trillion. OTC securities have a combined market cap of US\$1.3 trillion
- OTC securities are bought and sold through brokers in a manner similar to that of NYSE or NASDAQ-listed securities
- There are approximately 10,000 OTC securities. Total OTC daily trading volume currently exceeds US\$750 billion

Source: [redacted] and [redacted] (Data as of December 31, 2012)

# Market Opportunity

## “A Perfect Storm”

### Increased Regulation

- Increased capital requirements and costs of compliance has forced many of the traditional broker-dealers in the sector to merge or close
- FINRA is aggressively cracking down on market misconduct and raising the standards for issuers

### Redemptions

- Market collapse due to the Credit Crisis of 2007-8 led to a wave of hedge funds, which specialized in the sector, shutting down
- Fund flows out of the sector resulted in forced liquidation of positions into a market with no new buyers

### Lack of Sponsorship

- Clearinghouses unwilling to take in OTC securities
- Limited research coverage
- Reputational concerns

- Stocks of many lower ranked Small & Micro Caps remain at or near all-time lows
- Valuations are compelling
- Very few experienced players in the sector remaining

Source: Company data

# Market Opportunity

## RIP

Sellside	Buyside
Rodman & Renshaw	Willowcreek
First Montauk	Laurus
First Tennessee	Vision Capital
V Finance	Special Situations
Gleecher	Barron Partners
Think Equities	Yorkville
Pali Capital	Trinad
Morgan Joseph	
Merriman Curham	
GTAX	
Jessup & Lamont	
Empire Capital	
Rochdales Securities	

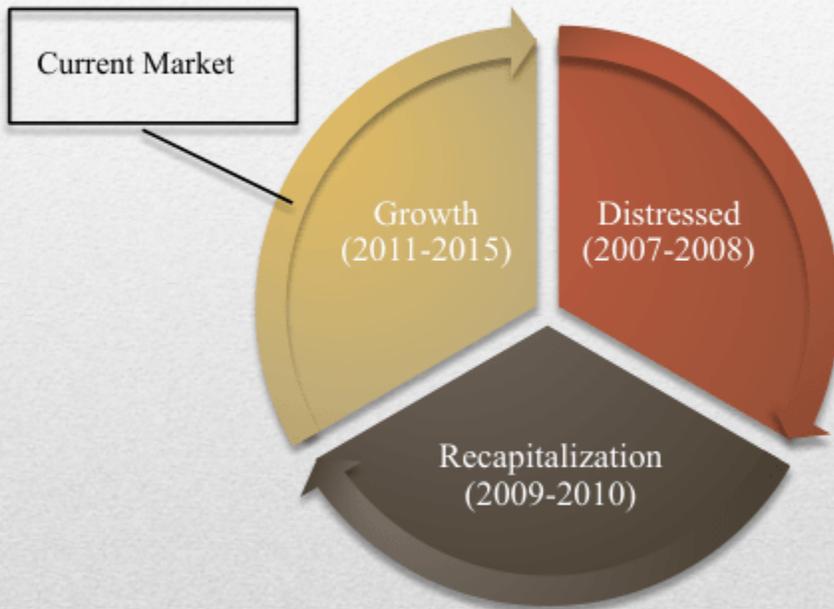
## *Limited Competition*

- The winnowing of broker-dealers which were active in the Small & Mid Cap sector has dramatically altered the competitive landscape
- Hedge fund participation is virtually not existent. Position sizes of large funds are too large for the sector and most of the smaller, dedicated funds have shut down due to poor performance
- Traditional long-only funds are constrained by restrictions on buying shares trading below US\$1.00 and/or owning shares with small floats and limited daily trading volumes
- No true Micro Cap ETFs

*Due to the sharp reduction in market participants, there are very few ways to get exposure to the most attractive small and micro cap names*

# Market Opportunity

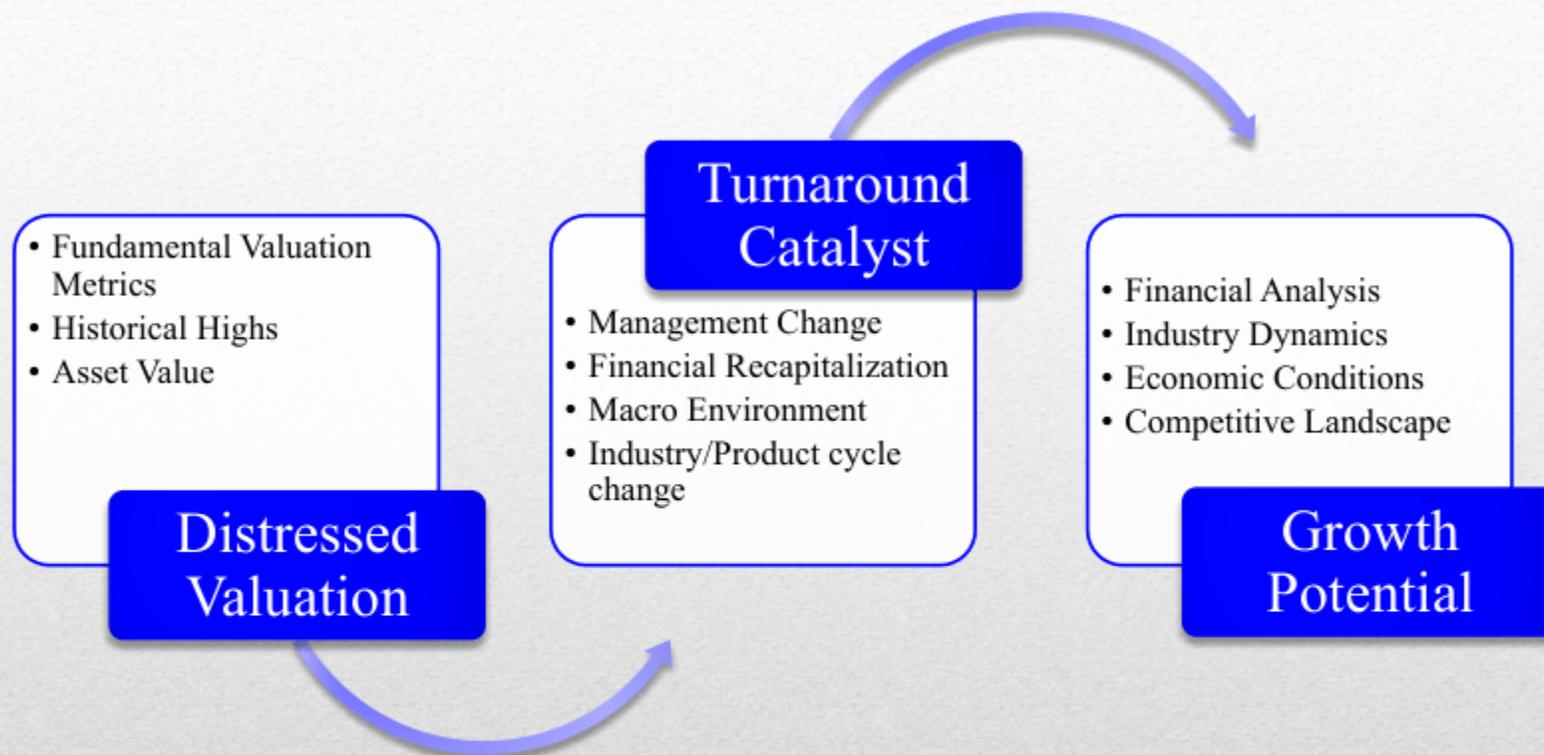
*Ideal point in the cycle*



- US economic growth expected to lead all developed markets
- Monetary policy remains extremely accommodative
- Low interest rates spurring increased risk appetite
- Liquidity is beginning to move out of Mid-Large Caps. Small & Micro Cap valuations remain compelling relative to larger caps which have already recovered to pre-Lehman levels
- Markets no longer punishing “bad” news

*Expect favorable momentum to be supportive for the next 2-4 years*

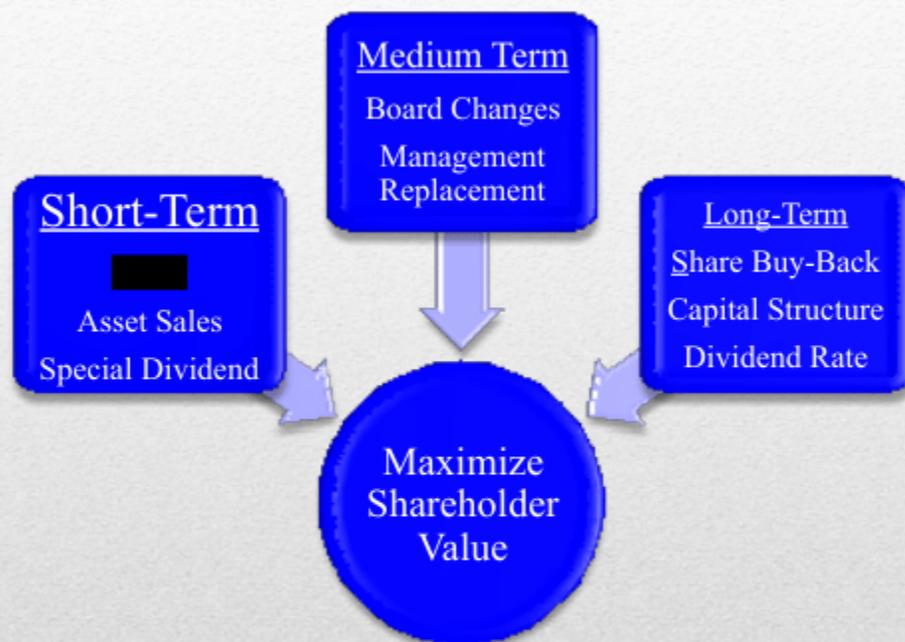
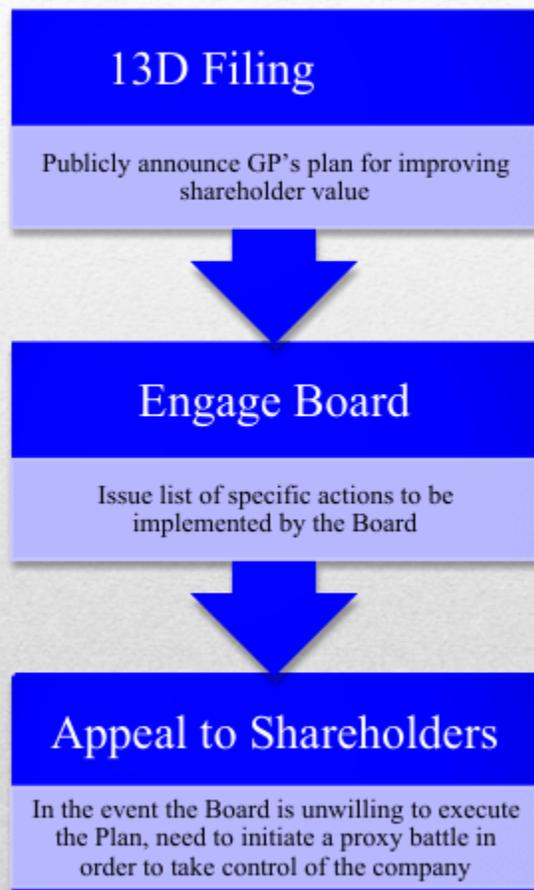
# Strategy & Execution



- Investment strategy is focused on “turnaround” candidates which have been forgotten by the market
- Utilize an Activist Approach to expedite implementation of changes and ensure smooth execution
- Avoid potential financial restructurings and development stage companies
- “Real Companies” with tangible assets and substantial revenue

# Strategy & Execution

*Utilize an Activist approach in order to maximize the value of investments*



- Of the US\$85 billion in “Activist” hedge fund assets, none are focused on the Small & Micro cap sector
- Activism has been shown to improve shareholder returns by over 16%<sup>(1)</sup>

(1) “Wall Street: Back to Basics” by Alex Gavrih. Chapter 4

# Strategy & Execution

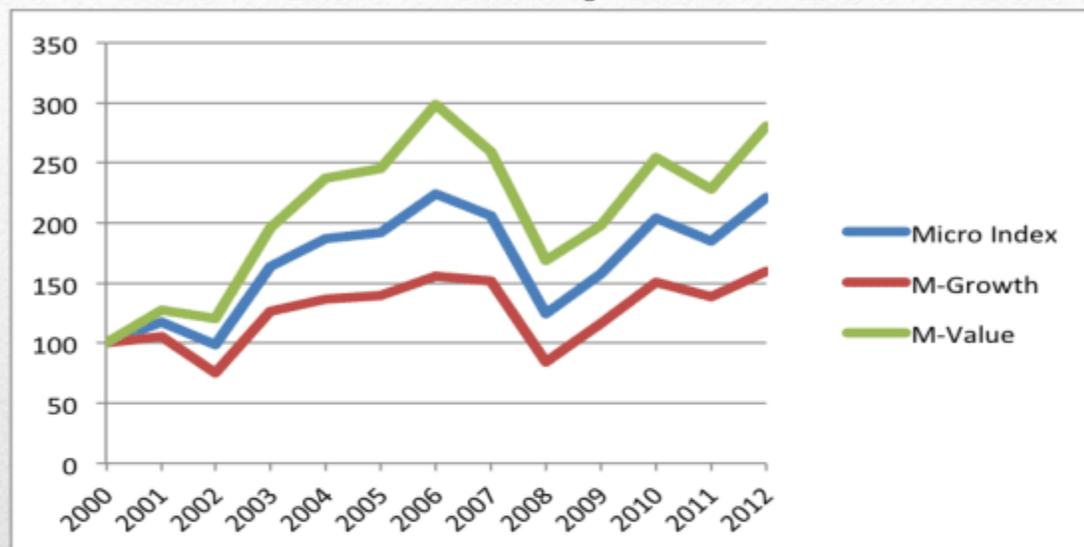


*Key changes which GP focuses on as Turnaround Catalysts for the revaluation of a company's shares*



# Strategy & Execution

Russell Investments Microcap Indexes Performance



*Within the Microcap sector, Value stocks have consistently outperformed Growth stocks in both up and down markets*

Russell Microcap Value Index (M-Value)		Russell Microcap Growth Index (M-Growth)	
Bloomberg ticker symbol	RMICROV	Bloomberg ticker symbol	RMICROG
Reuters ticker symbol		Reuters ticker symbol	
Weighted average market cap (\$B)	0.357	Weighted average market cap (\$B)	0.428
Median market cap (\$B)	0.194	Median market cap (\$B)	0.184
Largest company by market cap (\$B)	1.200	Largest company by market cap (\$B)	1.200
<b>Characteristics</b>		<b>Characteristics</b>	
Price/Book	1.26	Price/Book	3.65
Dividend yield	1.83	Dividend yield	0.48
Price/Earnings (ex-negative earnings)	15.89	Price/Earnings (ex-negative earnings)	22.09
IBES long-term growth forecast (%)	12.00	IBES long-term growth forecast (%)	17.47
EPS 5-year growth	8.79	EPS 5-year growth	14.33

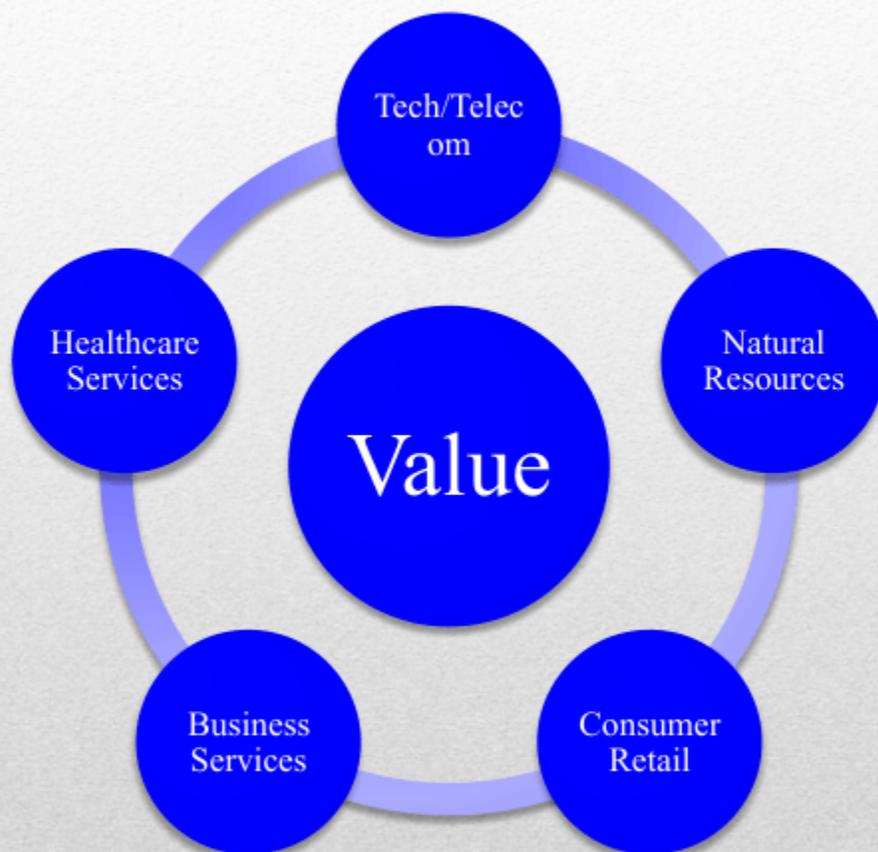
Source: [REDACTED] (Index data as of August 31, 2013)

# Strategy & Execution

*Clearly defined and historically successful Investment Process*

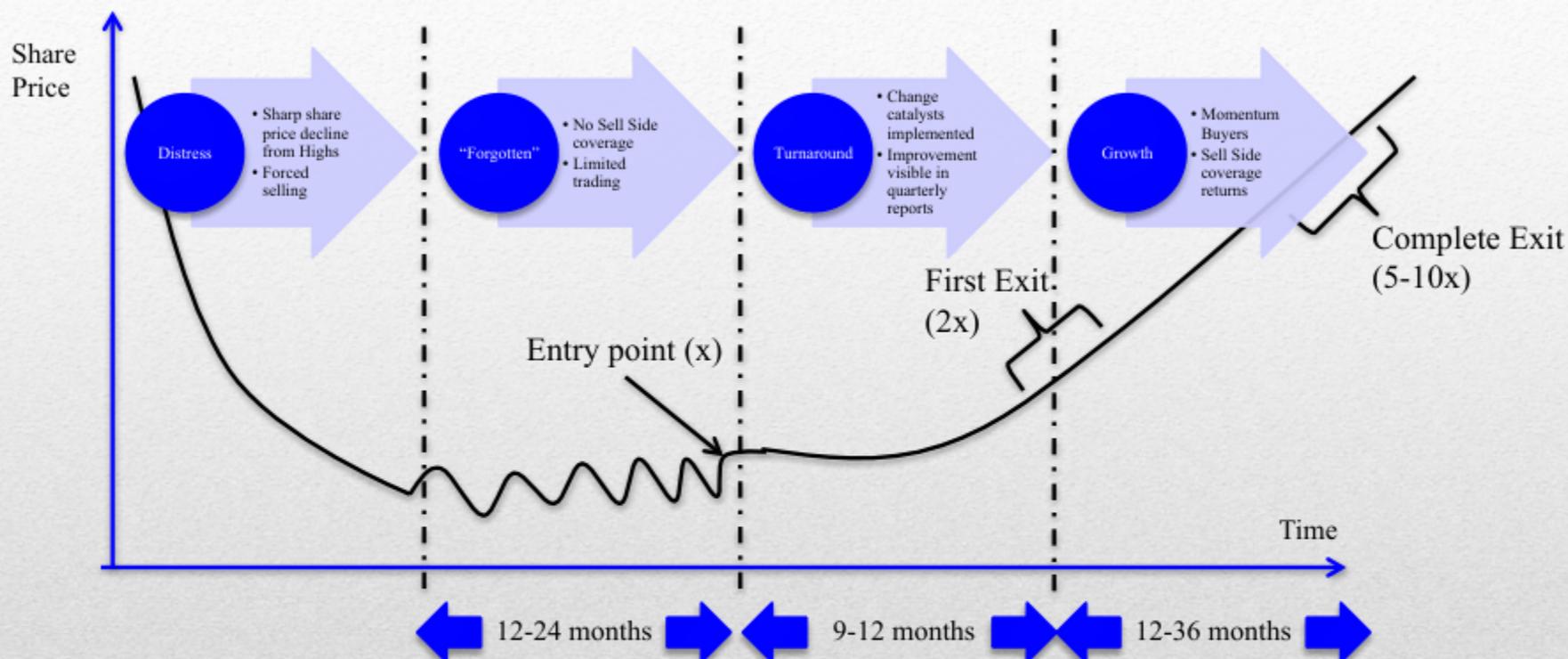


# Strategy & Execution



- GP's core investment universe consists of approximately 500-1,000 companies across five key sectors, which collectively represent approximately 50% of the total market cap in the small and micro cap sector
- Median market cap of GP's target companies is approximately US\$75 million and max is US\$1,200 billion. Many of the target companies are former Midcap companies which have been sold down so much that they now classify as Micro and Nano caps
- Typically target companies will have been trading at historically low valuations for close to 36-60 months already

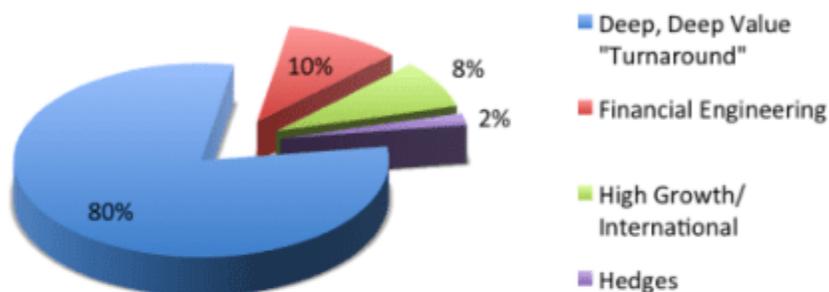
# Strategy & Execution



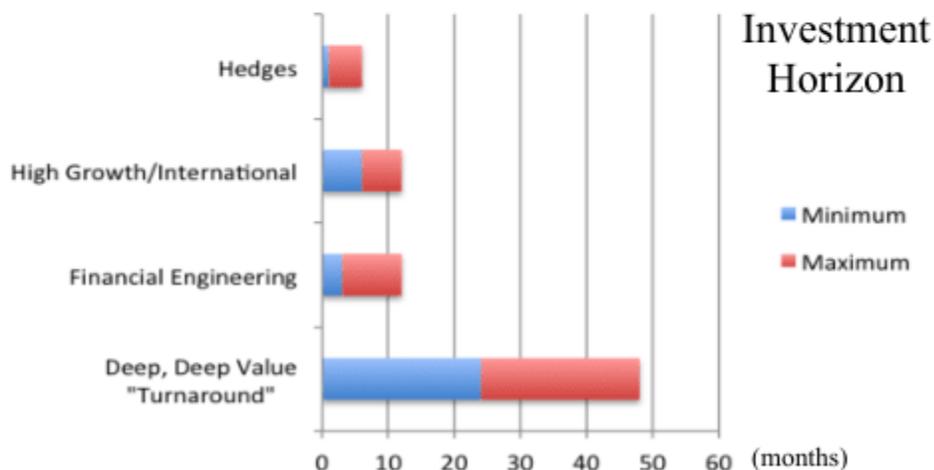
- By focusing on “forgotten” companies which trade at historical lows, GP can obtain maximum influence while experiencing minimal disruption to share price while building the position
- Exiting in Growth Phase provides for optimal profit maximization. The typical investment holding period is between 2-4 years

# Strategy & Execution

## Investment Buckets



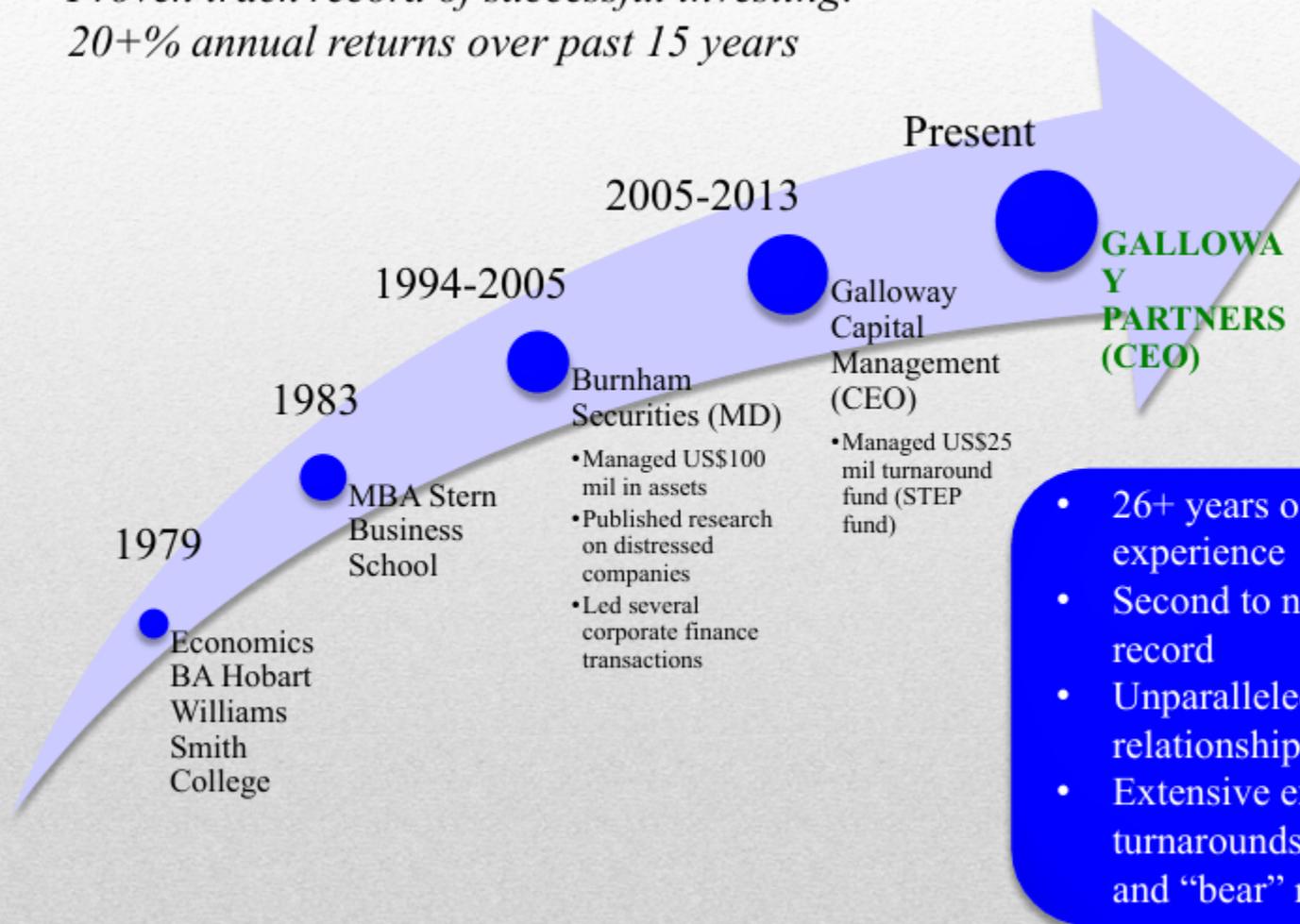
## Investment Horizon



- Although Deep Value, Turnaround investments will represent the main focus of the portfolio, GP does make shorter-term opportunistic investments
- Financial Engineering plays include pre-IPO financings, bridge equity, mezzanine investments, etc.
- High Growth companies and/or non-US investments will collectively make up less than 10% of the portfolio
- As a hedge against any sudden, major capital markets meltdown (i.e. Daily drop in major equity indexes of >5%), GP uses deep, out-of-the-money puts and/or CDS
- Little to no leverage will be used

# Track Record: Bruce Galloway

*Proven track record of successful investing:  
20+% annual returns over past 15 years*



# Track Record: Bruce Galloway

	Year	S&P 500	Russell 2000	Dow Jones	Galloway
STEP Fund	2009	13.44%	19.46%	7.50%	41.46%
	2008	-38.49%	-34.80%	-33.84%	-63.46%
	2007	3.53%	-2.75%	6.43%	-34.81%
	2006	13.62%	17.00%	16.29%	42.42%
	2005	3.00%	45.37%	-0.61%	31.75%
	2004	8.99%	-21.58%	3.15%	39.99%
	2003	26.38%	45.37%	25.32%	83.24%
Personal Account	2002	-23.37%	-21.58%	-16.76%	-36.99%
	2001	-13.04%	1.03%	-7.10%	56.33%
	2000	-10.14%	-4.20%	-6.17%	-58.95%
	1999	19.53%	19.62%	25.22%	904.63%
	1998	26.67%	-0.35%	16.10%	-33.47%
	1997	31.01%	20.52%	22.64%	117.37%
	1996	20.26%	14.76%	26.01%	-8.36%
	1995	34.11%	26.21%	33.45%	98.78%
	1994	-1.54%	-3.18%	2.14%	-18.87%
	1993	7.06%	17.00%	13.72%	167.06%
		Cumulative	235.18%	269.96%	285.80%
	Avg. Annual	5.16%	6.02%	6.37%	23.82%

## Selected Investment Highlights

1. Command Security (MOC) – 2002
  - Entry Price: \$0.60
  - Exit Price: \$3.20
  - Cumulative Return: 350%
  - Exit: 2009
2. Radnet (RGX/RDNT) – 2004
  - Entry Price: \$3.00
  - Exit Price: \$13.00
  - Cumulative Return: 300%
  - Exit: 2005
3. Seitel (SITL) – 2005
  - Entry Price: \$0.24
  - Exit Price: \$4.60
  - Cumulative Return: 2000%
  - Exit: 2007

Note: All performance numbers are audited and available upon request. STEP fund went into liquidation mode in 2010. Performance for 2010-present is estimated to be approximately 30% per annum

# Case Studies: Command Security (MOC)



## Value Creation:

- Took over control of the Board and acted as Chairman in order to institute a plan to enhance the company's reputation
- Leverage network of relationships to bring in Rudy Giuliani to lend credibility to the company's turnaround plan

## Company Profile:

- Command Security is a provider of contract security services with over 30 years of experience and 6,000 personnel.
- The company provides armed and unarmed security personnel to governments, companies, schools and residential/commercial buildings as well as customer service personnel for airlines

## Key Investment Considerations:

- US\$72 mil. of annual revenue at time of investment (trading at over 12x Revenue/Market Cap.)
- Favorable industry dynamics post-9/11
- Over 4x return on investment

Source: [REDACTED] and company reports

# Case Studies: Radiologix/RadNet (RGX/RDNT)



## Value Creation:

- Advocated for merger or sale of the company
- Utilized SEC filings to exert pressure
- Merger announcement made within 12 months of establishing a position

Source: [redacted] and company reports

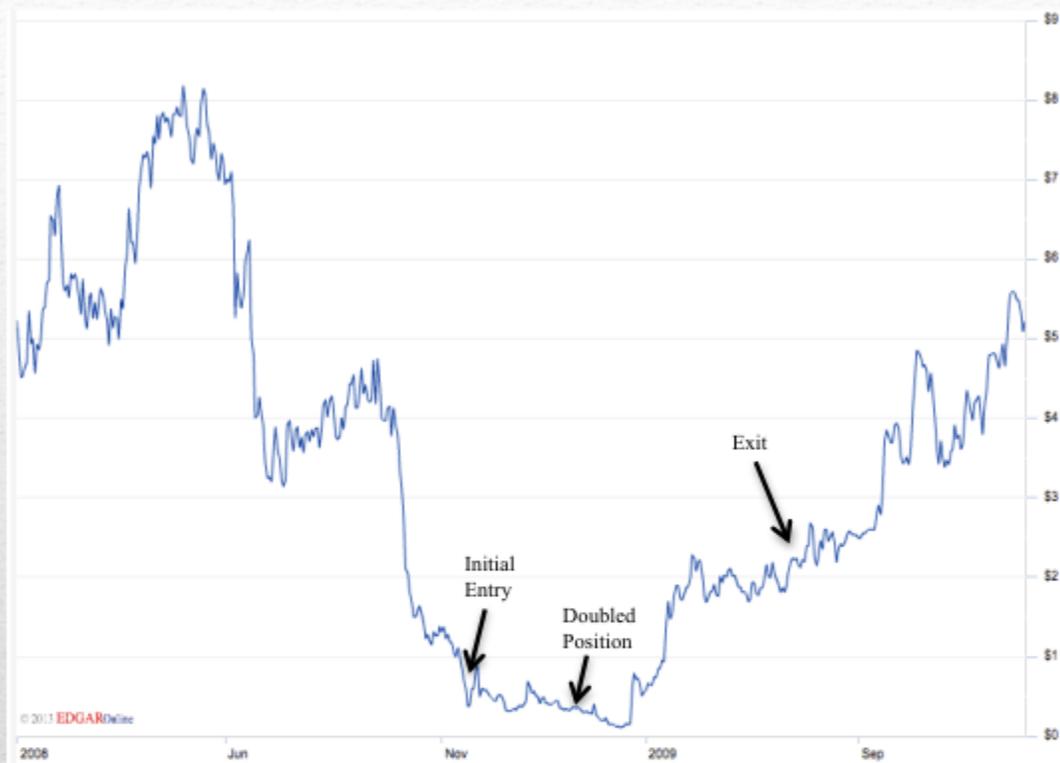
## Company Profile:

- Immediately prior to being acquired by RadNet in November 2006, Radiologix had merged with Primedic.
- The resulting combination created the largest independent provider of diagnostic imaging services in the US.
- In addition to providing imaging services such as MRI, CT, PET, etc., it also provides administrative management, and information services to radiology practices.

## Key Investment Considerations:

- Solidly profitable and cheap valuation (EV/EBITDA)
- Industry leading technology and quality management team
- 4x return on investment

## Case Studies: Pier 1 Imports (PIR)



### Value Creation:

- In-depth research of operations and store visits
- Debt buy-back
- Return to operational profitability

### Company Profile:

- A specialty retailer which focuses on the direct importation of decorative home furnishings and gifts which have a high degree of hand craftsmanship and uniqueness.
- The company operates over 1,000 stores across the US, Canada and Mexico.

### Key Investment Considerations:

- Strong liquidity position with over US\$200 million in unencumbered cash
- Favorable competitive dynamics due to bankruptcy of leading competitor
- Strong profit growth potential with over US\$1.0 billion in annual sales
- 8x return on investment

Source: [REDACTED] and company reports

# Investment Targets: Company "A"



## Company Profile:

- A Fortune 500 company which operates in the transportation sector
- An industry leader in providing supply-chain solutions. Its network has local, regional, national and international capabilities

## Selected Financial Metrics:

- Market Cap: < US\$200 million
- Annual Revenue: >US\$ 5.0 billion
- Cash: > US\$150 million
  
- P/E Ratio: N/A
- Div. Yield: 0.0%
- Down from 5yr High: 99%

## Turnaround Catalysts:

- New management team
- Restructuring of labor contract
- Return to profitability

## Investment Targets:

Target Return: [5]x  
Holding Period: [24] months

Source: Yahoo Finance (10/3/2013) and company reports

# Investment Targets: Company "B"



## Turnaround Catalysts:

- Forced selling and hyper-dilutive financing has run its course
- Turning cash flow positive
- Improving industry dynamics

## Company Profile:

- A leading provider of renewable fuels that primarily operates in the Western US
- Vertically integrated operations spanning production, storage and delivery
- Low-cost provider while demand growth is outpacing supply

## Selected Financial Metrics:

- Market Cap: < US\$100 million
- Annual Revenue: >US\$ 1.0 billion
  
- P/E Ratio: N/A
- Div. Yield: 0.0%
- Down from 5yr High: 99%

## Investment Targets:

Target Return: [5]x  
Holding Period: [24] months

Source: Yahoo Finance (10/3/2013) and company reports

# Investment Targets: Company "C"



## Company Profile:

- A leading provider of marine transportation services
- Listed on NYSE
- The company has operations around the world

## Selected Financial Metrics:

- Market Cap: < US\$100 million
- Annual Revenue: > US\$100 million
- Asset Value: > US\$550 million
  
- P/E Ratio: N/A
- Div. Yield: 0.0%
- Down from 5yr High: 95%

## Turnaround Catalysts:

- Highly leveraged to global economic growth
- Improving industry dynamics
- Return to positive cash flow

## Investment Targets:

Target Return: [5]x  
Holding Period: [24] months

Source: Yahoo Finance (10/3/2013) and company reports

# Investment Targets: Company "D"



## Turnaround Catalysts:

- New management team
- Favorable product cycle
- [REDACTED] candidate. Partner with Microsoft

## Company Profile:

- E-commerce company which provides cloud-based sales solutions
- Proprietary technology which enables the Company to service customers of all sizes, ranging from Fortune 500 to small businesses
- Global reach

## Selected Financial Metrics:

- Market Cap: > US\$50 million
- Annual Revenue: < US\$100 million
- P/E Ratio: N/A
- Div. Yield: 0.0%
- Down from 10yr High: 99%

## Investment Targets:

Target Return: [10]x  
Holding Period: [36] months

# Investment Targets: Company "E"



## Turnaround Catalysts:

- Turning cash flow positive
- Rollout of new products
- ██████ opportunities

## Company Profile:

- Designs and manufactures optical components, lasers and communications equipment
- The company's products span both the industrial and consumer markets worldwide.
- Its products are used in a wide array of applications including bio/medical imaging, robotics, laser printing and telecom networks

## Selected Financial Metrics:

- Market Cap: > US\$200 million
- Annual Revenue: > US\$500 million
  
- P/E Ratio: N/A
- Div. Yield: 0.0%
- Down from 5yr High: 90%

## Investment Targets:

Target Return: [10]x  
Holding Period: [36] months

Source: Yahoo finance (10/3/2013) and company reports

## Appendix: GP Team Profile

Bruce Galloway  
Chairman & CEO

Mr. Galloway oversees and manages all aspects of GP's investments. He is a professional portfolio manager with 26 yrs of experience investing and advising small and micro-cap companies. He is widely recognized as a leading investor of turnarounds, deep value small and micro-cap stocks. He has held seats on the Board of numerous companies and implemented turnarounds of several companies.

Mr. Galloway graduated from Hobart Williams Smith College in 1979 and received an MBA from NYU Stern School in 1983.

Eugene Kim  
COO

Mr. Kim is responsible for GP's operations and finances, including investor relations and legal/compliance. He has over 20 years of experience in the finance industry and most recently was the CFO of a China-based manufacturing company with over US\$500 million in annual revenue. His previous experiences include serving as the CIO of a pan-Asian credit hedge fund, an investment banker with ING Barings and Barclays Capital, and as a credit research analyst with UBS and Nomura.

Mr. Kim graduated from Yale University in 1992.

## Appendix: Selected Publicly Traded Holding Companies

(US\$ 000s)	Berkshire Hathaway (BRK.B)	Leucadia National (LUK)	Harbinger Group Inc. (HRG)	Steel Partners (SPLP)	RCS Capital Corp (RCAP)	BFC Financial Corp. (BFCF)	GH (Pro Forma)
Fiscal Year ended	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2013 E
Revenue	162,463	9,194	4,500	761	288	497	500-1,000
Profit Margin	9.2%	10.9%	1.8%	5.4%	2.6%	4.6%	0-5%
Total Assets	427,452	9,349	27,400	1,378	62	1,414	100-200
Book Equity	187,647	6,767	1,599	527	31	365	50-100
Equity Market Cap.	283,800	9,900	1,449	451	457	194	TBD
P/E	16.1x	8.1x	9.4x	-	54.6	-	TBD
ROE	10.2x	12.8x	14.5x	-	-	-	-
Earnings/Share	10.9	3.38	1.09	-	0.28	-	-
Price/Book	1.51x	1.46x	0.91x	0.85x	14.74x	0.53x	TBD
Div/Yield	-	0.9%	-	-	4.7%	-	-
Institutional Ownership	66.4%	59.8%	85.4%	28.8%	1.0%	10.2%	TBD

GH figures Pro Forma consolidation of Target Company "A" and US\$50 million Pref. issuance

Source: CNBC and company reports. Market share price data as of 9/27/2013