



### HIGHLIGHTS

One of the highlights of this past quarter was the remarkable performance both financially and operationally of ZeroChaos. ZeroChaos' year-to-date results this quarter include a 140% increase in revenues and a solid increase in gross profit. Of note, ZeroChaos acquired New York-based FlexCorp Systems in January 2006. The improved economy is leading to increased customer demand and increased corporate spending in ZeroChaos' market space, both in the US and overseas. Responding to strong customer demand, the company is currently expanding into Canada and Europe. These factors, combined with ZeroChaos' significant growth in the number of customers over the last 18 months, continue to drive robust operating results. Projected to exceed \$320 million in revenue in 2006, ZeroChaos is one of the largest, fastest growing, and most financially stable diversity-owned enterprises in the nation and was recently nominated for The Ernst & Young Entrepreneur of the Year Award for 2006.

RMT Woodworth also demonstrated tremendous promise. Aside from a very sizable Big Three contract, which will increase sales by 100% in 2007, RMT's recent contract with a major bearings manufacturer is transitioning smoothly. If all continues to progress well, RMT could win the balance of this customer's heat-treating which alone would almost double RMT's monthly sales. Yet another non-automotive Fortune 500 firm also continued to offer positive news and, starting this fall, will continue to outsource a substantial percentage of its carburizing to RMT as well. The balance will be assumed at the end of 2008. Additional developments are in the pipeline which, if converted, represent further opportunities to grow the company by multiples while diversifying revenue.



### **AN ACTIVE SPRING...**

The past quarter continued to see significant activity for our portfolio companies. ZeroChaos, a recognized leader in contingent labor management, experienced remarkable results both organically and through its acquisition of New York-based FlexCorp Systems. RMT Woodworth, based in Detroit and a leading provider of heat-treating services, continued to move forward as scheduled with plans to service a very large Big Three automotive contract. This contract - independent of other notable growth initiatives - will double the size of RMT in 2007. More recently, however, RMT continued to build on its relationship with another Fortune 500 customer to become the preferred heat-treater of roller bearings for the rail industry. We anticipate the arrival of sizable contracts in this sector in 2006. RMT currently services the Automotive, Heavy Equipment, Aerospace, and Defense industries. (See sidebar for details).

### **APCP ON CONCENTRATED INVESTMENTS...**

APCP's investment philosophy is built on focus and patience. We are confident that a strategy of financial and personal focus will reduce risk by elevating both the intensity of our thinking about a business and the comfort level we must have with its fundamental characteristics before investing. The concentration of our efforts enables us to follow a portfolio company much more closely, which allows us to better judge key opportunities for growth or to anticipate potential issues. In the words of Warren Buffet, "wide diversification is only required when investors do not understand what they are doing."

### **LOOKING AHEAD...**

With the second quarter of 2006 well underway, we are seeing more of the same from last year in the middle market. The market continues to be very active, driven by record-breaking demand from private equity groups, solid activity from corporate buyers, and supported by a healthy lending environment. As such, this market is fueling business sales at very full prices. While this bodes very well for our existing portfolio companies and the significant arbitrage we could realize at exit, other funds may be forced to close on transactions at increasingly higher multiples in the face of pressure to deploy capital. APCP's staged structure and philosophy allows us to patiently uncover fundamentally sound deals with intrinsic growth opportunities at fair yet prudent prices. We are currently analyzing a number of high-potential deals.

Warmest regards,  
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Managing Partners  
AP Capital Partners, LLC