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TEACHERS' RET. SYSTEM

Teachers' Retirement System
of the State of Illinois

Private Equity Manager Questionnaire

The Teachers' Retirement System of the State of Illinois ("TRS") Private Equity Manager Questionnaire will be the primary source of information for TRS to evaluate **LLR Equity Partners II, L.P.** (the Manager) as a potential provider of services. For this reason, it is important that the information provided be complete and in the format requested. Please keep your response to each question to one or two pages. In addition, please restate the question on each response. Many questions can be answered with a brief response. Please submit your completed questionnaire with attached exhibits, tabbed accordingly, as a bound document.

Organization and Management

1. Contact and Company Information:

Name of Firm: LLR Equity Partners II, L.P.
Mailing Address: 1811 Chestnut Street, Suite 700
City: Philadelphia State: PA Zip Code: 19103
Phone: 215-717-2900 Fax: 215-717-2270

Federal Employer Identification Number: 52-2182822

Contact Person(s):
Name: Mitchell L. Hollin Phone: 215-717-2910
Title: Partner Fax: 215-717-2270 Email: mhollin@llrpartners.com

2. Is your firm currently registered as an Investment Advisor under the Investment Advisors Act of 1940? If yes, please attach a copy of your most recent SEC Form ADV (tab as Exhibit A). If no, please explain why.

   No, there is an exemption under the Act that applies to LLR.

3. Is your firm currently registered to do business in the State of Illinois as an Investment Advisor?

   No.

4. Describe the entity TRS would contract with for the proposed investment advisory services, and the ownership structure of that entity. Provide each identified entity's involvement in private equity within the last five years.

LLR Capital II, L.P. is a limited partnership and the general partner of LLR Equity Partners II, L.P. LLR Capital II, L.P. is controlled by its General Partner, LLR Capital II, LLC, which is a limited liability corporation owned by the four partners, Ira Lubert, Seth Lehr, Howard Ross and Mitchell Hollin.

LLR Management L.P. is the legal entity that enter into the management contract with LLR Equity Partners II, L.P. The four partners lead and own the management company, which employs 12 full-time individuals as follows:

Partners	*4*
Associates	*3*
Analysts	*3*
Administrative	*2*
Total	*12*
ICP Staff	*12*
Grand Total	*24*

LLR Management L.P. contracts with Independence Capital Partners ("ICP") for back office and administrative support. ICP is an organization with the sole purpose of providing outsourced support services to member private equity and other related investment funds. ICP has 12 full-time employees and provides the following services to LLR Partners – cash management, human resources, payroll processing, income tax compliance and preparation, information technology, insurance and risk management, investor relations and partner capital accounting and general accounting and financial reporting.

LLR Management L.P. exclusively managed LLR Equity Partners, L.P. since its formation in 1999. The four partners have created LLR Equity Partners II, L.P. as a successor fund to LLR Equity Partners, L.P., deploying a similar investment strategy.

5. Is the management entity covered by errors and omissions insurance? If yes, how much coverage do you have? If no, please explain why.

Yes - $20 million in coverage.

6. A.) Have there been any changes in ownership structure in the last five (5) years? If yes, when? Please describe nature of change.

   No.

   B.) Are there any anticipated changes in the ownership structure, core line of business, or senior staffing of your firm?

   No.

7. What safeguards for the investors is your firm providing in the event there is turnover of key people in the firm (e.g. limited partner advisory board, key person provisions, and/or no-fault termination provisions)?

   LLR has a limited partner advisory board and key persons provisions to provide safeguards to investors.

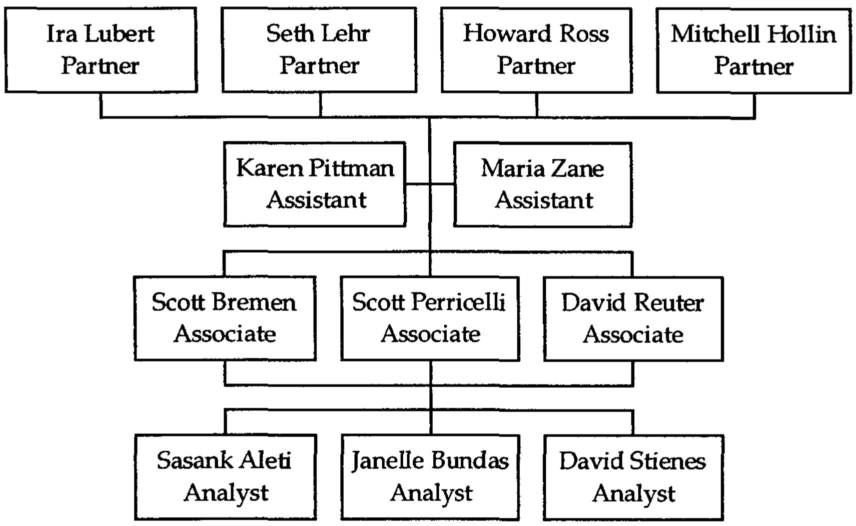
   Advisory Board: Fund II will have an advisory board of up to fifteen members. The Advisory Board members will be selected by the General Partner and will act as a resource to Fund II. The members of the Advisory Board will be selected from its limited partners and will include leading entrepreneurs and middle market business owners and investors in the Mid-Atlantic region. Each Advisory Board member will have had significant experience in at least one of the operating activities of Fund II. Also, each Advisory Board member will be a limited partner in Fund II. Members of the Advisory Board are not paid by the Partnership.

   Valuation Committee: A Valuation Committee will be formed and will consist of the General Partner and up to five representatives of the Limited Partners, as designated by the General Partner. In general, the Valuation Committee will review conflicts of interest situations, the valuation of all non-cash distributions made by Fund II and address diversification of investment issues. Members of the Valuation Committee are not paid by the Partnership.

   Key Persons Provision: Seth Lehr, Howard Ross and Mitchell Hollin are "Key Persons" in the Fund. In the event that Ira Lubert or any two of the remaining three Key Persons cease to be a member of the board of managers of the general partner of the Fund's General Partner, then 66 2/3% on the non-defaulting Limited Partners may vote to terminate the Investment Period of the Fund. If the Investment Period is terminated pursuant to the Key Person Triggering Event mechanism, then further capital calls from the Partners can be made only to the same extent as they can be made following the expiration of the Investment Period. See PPM for defined terms.

8. Provide an organizational chart. Include the number of investment professionals and non-professionals. Identify your key employees by title, years with your firm, years as an investment professional, years of Private Equity experience, and educational background. Also, please provide a short biography of the individuals.

Organization Chart –



Biographies – See Exhibit 8.

9. Give a brief description of your firm's compensation arrangements for investment professionals (e.g. salary, bonus, group/individual performance incentives, profit sharing, equity ownership, etc.).

The four partners receive no salaries, but share based on their ownership percentages in the residual profit of the management company after all salaries and expenses are paid. Analysts and associates receive base compensation of $75,000 to $120,000 per year, with discretionary bonuses of 33% to 50% of base compensation paid at year-end.

The four Partners will invest their own capital and own the carried interest, as follows:

Partners	Partner Since	Carried Interest	Commitment Amount Fund I	Commitment Amount Fund II	Source of Funds
Ira Lubert	9/1/99	26.3%	$ 4,000,000	$ 5,000,000	Savings
Seth Lehr	9/1/99	26.3%	1,500,000	2,000,000	Savings
Howard Ross	9/1/99	26.3%	1,500,000	2,000,000	Savings
Mitchell Hollin	10/1/00	21.1%	500,000	1,000,000	Savings
		100.0%	$ 7,500,000	$ 10,000,000	

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The partners' ownership interests will be diluted by grants of carried interest to each associate (approximately 3.0% of the carry to each associate) and a pool of approximately 5.0% of the carry set aside for the analysts and other support personnel. All carried interests are subject to 7-year vesting.

The management company is owned by the four partners in approximate proportion to their ownership of the carried interest.

10. Is your firm planning to hire any additional personnel, professional or support, in connection with the management of the new fund? If yes, please explain. If no, please explain.

Succession planning has been implemented through a multi-faceted approach. We believe we have our next generation of leadership already identified within our current partnership ranks. The four general partners range in age from 40 to 53, allowing for an orderly transition of leadership. The partners have agreed, through their partnership agreement, to convey greater ownership to younger partners over time. This transfer occurs primarily upon the creation of successor funds, at which time each partner reaffirms his commitment to the new fund at his current level, reduces his commitment to a lesser level or chooses to retire. Strong economic incentives are in place to ensure an orderly transition and all economics associated with each transition have been agreed to by the partners.

For Fund II, all partners have reaffirmed their full commitment for the life of Fund II. Additionally, the firm benefits from an exceptional associate pool from which future partners will be drawn. LLR's recruiting efforts seek to identify only those candidates which it believes have the potential to be partners. In addition to the ongoing feedback associates receive on a daily basis, in depth annual reviews, in which all partners participate for each associate, are conducted to provide meaningful, constructive feedback on their progress and career at LLR. The partners believe they have created an environment within LLR that encourages free and independent thought, seeks collaborative and inclusive decision making and empowers individuals with significant and meaningful authority at all levels. In addition, all associates are granted, subject to the same vesting schedule as partners, ownership in the partnership. In LLR II, our two senior associates have been promoted to vice president and the carried interest allocated to them has been approximately doubled. We foresee promoting these individuals to principal during the life of Fund II. We also expect to expand the associate and analyst positions by hiring three to five additional investment professionals over the next three years.

11. Does your firm do business in areas other than asset management (brokerage, consulting, etc.)? If so, please provide a listing of your firm's divisions along with their contribution to the firm's total revenues and expenses (in percentage terms). Is it anticipated that the entity TRS is considering retaining will use the services of affiliate firms? Do you consider this a conflict of interest? Why or why not?

    No, LLR will not do business in areas other than asset management. There are no identified conflicts of interest. A Valuation Committee will be formed and will consist of the General Partner and up to five representatives of the Limited Partners, as designated by the General Partner. In general, the Valuation Committee will review conflicts of interest situations, the valuation of all non-cash distributions made by Fund II and address diversification of investment issues. Members of the Valuation Committee are not paid by the Partnership.

12. Did or will the firm provide or share, agree to provide or share, or arrange to receive, provide or share any payment, compensation, benefit or reciprocal influence, direct or indirect, to any individual or entity for assisting in: (a) soliciting, marketing for, or obtaining the engagement; or, (b) maintaining the engagement or performing the services pursuant to the engagement? If the answer is "yes," provide for each such individual or entity: (a) the name and address of the individual or entity, (b) a description of the assistance provided, and (c) the payment, compensation, benefit or reciprocal influence. *(In the event the investment manager has agreed to pay a third party any introduction or referral fee in the connection with the proposed investment management relationship with the System, Staff shall disclose to the Board in writing before the investment relationship is approved by the Trustees the identity of the payee as well as the terms of any such proposed payment prior to the System becoming obligated to proceed with the investment.)*

    LLR does not have any such arrangements. LLR has completed transactions arranged by intermediaries, such as investment banks, who have received consideration for services rendered. These intermediaries are typically hired by the sellers or company seeking capital and have no relationship with LLR.

13. Provide the firm's most recent financial statements.

    See Exhibit 13.

Legal Issues

14. Has your firm ever been involved in any litigation arising from the firm's role as an investment manager? Is your firm currently involved in any litigation? Please comment.

    No.

15. Has a civil legal judgment of any kind ever been entered against a shareholder, partner, member, officer or key employee of your firm? If the answer is yes, please provide the details including the date of judgment, jurisdiction and the current status of the proceeding.

    No.

16. Has any current shareholder, partner, member, officer or key employee of your firm ever been terminated or forced to resign from his/her employment for reasons related to professional competence, ethical and/or financial improprieties and/or unsatisfactory performance? If the answer is yes, please provide the details including the name of the individual and the identity of the former employer. Please send a copy of the reference authorization letter to the terminated individual.

    No.

17. Has any shareholder, partner, member, officer or director of your firm ever been charged with and/or convicted of a criminal offense (other than traffic court violations) or charged by any regulatory agency with violations of any of its rules and/or regulations or, to your knowledge, investigated by any regulatory agency for potential violations of any of its rules and/or regulations? If the answer is yes, please provide all details including the caption of the proceeding and its resolution and/or status.

    No.

Assets Under Management

18. Describe the total investment portfolio currently managed by your firm, including the total assets currently under management. Provide gross and net returns for prior fund(s) and for all investments made since inception. Provide a separate list for all private equity investments made, in the format requested.

    See Exhibit 18.

19. Provide a list of "hard" and "soft" commitments to the fund you are currently marketing. Please provide the allocation each investor has made, or is anticipating making, to your new fund. Please provide the total dollar amount of commitments you are seeking for the new fund. Also, please provide the maximum dollar amount of commitments your firm will accept for the new fund.

    LLR II Current Investor List as of March 24, 2004

    Closed Commitments (two closings - January 28, 2004 and March 5, 2004)

	(millions)
PA Public School Employees (PSERS)	*$ 75.0*
PA State Employees (SERS)	*25.0*
City of Philadelphia Pensions	*10.0*
Sovereign Bank	*5.0*
Family offices	*30.0*
Smaller institutions and individuals	*68.5*
General Partner	*15.0*
	$ 228.5

Approved Commitments in documentation:

JP Morgan Fund of Funds	*$ 30.0*
E. Kodak Pension Plan	*30.0*
Thomas Jefferson University	*10.0*
William Blair	*1.9*
Smaller Institutions and Individuals	*4.7*
	$ 76.6

Total Closed and Approved Commitments: *$305.1*

The minimum commitment for Fund 2 is $5.0 million.

20. Provide a schedule showing the projected capital calls to the new fund and projected distributions from the new fund for each year of the partnership.

Projected capital calls for LLR 2:
- *2004 (second half) – 10%*
- *2005-2008 – 15% to 25% per year*

It is difficult to predict the flow of distributions. In LLR I, which was formed in October 1999, there were distributions in 2001, 2002 and 2003, with two realizations expected in 2004. The distributions in 2001, 2002 and 2003 aggregated to 25% of total committed capital. For LLR II, we would hope to have a meaningful distribution in 2007 and in each year thereafter.

Deal Flow

21. How does your firm generate deal flow?

LLR uses multiple strategies to source transactions that meet its investment objectives. The core component is the business networks of the four principals. Each of the four principals has been conducting business and regularly interacting with the investment community in the Mid Atlantic for over 25 years. The principals access their networks to identify new transactions and companies that may be seeking capital.

LLR also employs a direct marketing approach that targets both private companies and orphaned public companies in the Mid Atlantic region. LLR contacts these businesses through a systematic calling effort. The LLR message is reinforced through a direct mail campaign of deal announcement cards and annual letters, as well as formalized email campaigns four times per year to our extensive contact base.

22. How extensive is your firm's network of contacts that serve as a source of potential investments?

LLR considers its network to be proprietary and relevant for the types of transactions it seeks. LLR has over 3,000 relevant contacts that are accessed to generate deal flow..

23. How many potential investments does your firm review in a year? How many investments are made in an average year?

LLR has reviewed an average of approximately 450 deals per year since 1999, which has produced 20 investments, 18 of which were sole sourced through the principals' business networks.

Investment Strategy and Process

24. Why do you believe institutional investors should consider investing in private equity in the current market? Please discuss both favorable and unfavorable characteristics of private equity from the perspective of institutional investors.

    Institutional investors should consider investing in private equity in the current market as well as all market conditions because of inefficiencies that are unique to the private investment market. Inefficiencies occur in relation to acquisition valuations, growth potential and management talent. The key unfavorable characteristic of private equity is the lack of liquidity. Holdings in individual investments may span 5 to 7 years and holdings in a private equity fund, can extend beyond ten years, typically without a direct liquidity mechanism.

    The inefficiencies in the private equity market strongly outweigh the lack of liquidity, so to the extent an institution investors has a long-term focus without the need for liquidity, private equity will continue to be compelling investment in both bull markets and bear.

    Favorable characteristics because of the ability for private company valuations to be more compelling than public company valuations, creating a significant potential arbitrage

25. What type of private equity strategy does your firm employ? How does it differ from your peers?

    LLR Partners has developed a unique investment strategy that emphasizes capital preservation while generating attractive equity returns. This approach allows LLR Partners to successfully deploy capital in all market cycles, opportunistically at critical points in economic and/or industry-specific cycles, and frequently with a contrarian point of view. LLR achieves capital preservation through enhanced control features in growth equity investments, receiving a senior preferred position and/or investing in a preferred position with significant equity value subordinated to LLR.

    LLR is distinguished by its ability to provide the network, reach and sophistication of a large private equity fund combined with the responsiveness, attention and stability of a local partner. LLR and its principals enjoy a strong reputation in its Mid-Atlantic community, which stems from successfully working with many of the leading growth companies in the region over a 25-year period.

    Few funds are consistent competitors to LLR Partners, especially in the Mid-Atlantic region where few other later stage, middle market funds reside. LLR has frequently been invited to co-invest with funds that are occasionally named as competitors, but are headquartered outside of the Mid-Atlantic region, thus avoiding competing with them directly. Examples of these co-investor relationships include: Apax Partners, Greenhill Capital Partners, Primus Ventures, Thoma Cressey Equity Partners and Wachovia Capital Partners.

26. The investment opportunity that has been presented to TRS by your organization has been defined in general as a private equity opportunity. Below, please indicate which investment strategy, as defined by TRS, best describes your proposed investment strategy. Please comment as necessary.

Venture Capital – Yes, but this is only in late-stage growth companies, generally with over $20 million of revenue and often profitable.
Buyout – Yes, usually in late-stage growth companies, generally with over $20 million of revenue and often profitable.
Subordinated Debt (Mezzanine) – No.
Special Situations – Yes, LLR remains opportunistic, but cautious and will only invest in special situations that mitigate risk through downside protection.
Restructuring/Distressed Debt – No.
Other (Please list) – Negotiated investments in public companies.

27. Please provide, based on your firm's current private equity strategy and policies of diversification in building a portfolio of private equity, the following diversification breakdown. What would be your firm's largest recommended exposure in the diversification models listed below?

By Industry Sector Strategy	*% of Investment*	*# of Investments*
Business Services	*40%*	*8*
Information Technology	*40%*	*8*
Healthcare Services	*30%*	*6*
Financial Services	*20%*	*4*
Consumer and Retail	*15%*	*3*
Other	*20%*	*4*

By Geography
Mid Atlantic – 90%

By Investment Stage Strategy
Late-Stage – 100%
- *Buyout – 60%*
- *Growth capital – 60%*

28. If applicable, please describe the firm's experience in international private equity investing.

N/A – LLR does not invest internationally.

29. What size of a position (% of total capitalization) do you typically purchase in companies?

The ownership position typically ranges from 25% to 75%. LLR does not invest in companies where it owns an insignicant portion of the company, but rather seeks to own a meaningful stake, have a seat on the Board of Directors and the ability to impact the Company's strategic direction and high level management decisions.

Investment Due Diligence

30. What key management qualities are sought in potential investments?

Management teams should have broad business experience beyond the narrow confines of their business model. We are wary of managers who have only operated with the benefit of a strong economy driving their business. Our most successful investments are with mature, older business people who bring two to three decades of life and business experience to the table, through all business cycles and environments.

31. How are objective references obtained?

LLR has a refined interview process, both via live interviews and telephone, that is utilized to prompt the appropriate questions to elicit objective perspectives on key managers. Objective references are obtain through three methods:

- *Contacting professional and personal references provided by the key managers.*
- *Contacting references that were referenced from the provided references.*
- *Utilizing the LLR network to identify additional points of reference.*

32. What questions are the references asked?

See Exhibit 32.

33. How are the products/services of a potential investment evaluated?

Products/services are analyzed as follows:

- *Customer reference calls.*
- *Technology assessment (where applicable) to evaluate the software code, functionality, development process, etc.*
- *Review of competitive landscape.*
- *Pricing study.*
- *Management interviews.*
- *Discussions with industry experts.*

34. How is the past performance of a potential investment evaluated?

LLR creates an extensive model to review historical financial performance, including the following elements:

- *Review of base results.*
- *Review of profit margins.*
- *Review of trends on a quarterly and annual basis.*
- *Review of financial ratios.*
- *Benchmark study against comparable companies.*
- *Review of operating statistics.*
- *Consideration of key drivers of financial results and development of metrics that demonstrate the level of the key drivers.*

35. How are the pro forma projections for potential portfolio companies analyzed?

Pro forma projections are analyzed as follows:

- *Assumptions are review and verified against the historical financial analysis described in #34. Assumptions are then discussed with management to understand deviations from the historical results.*
- *The LLR team discusses the key assumptions and determines an acceptable range to utilize.*
- *LLR will develop a pro forma financial model to create an independent set of projections, using the agreed upon assumptions, to validate the Company's goals.*
- *LLR will develop sensitivity analyses, based on the range of assumptions, to determine reasonable potential outcomes in conservative, downside and upside scenarios.*
- *LLR will meet with management to review it's findings and ultimately agree on pro forma projections that are both reasonable and consistent with past performance.*

36. How is the rate of return analyzed for a potential portfolio company?

The rate of return is analyzed as follows:

- *Based on the pro forma projections developed in #35, LLR will calculate a range of exit values, based on several valuation methodologies (see #37).*
- *Utilizing the range of pro forma projections, based on the three scenarios described in #35, a range of potential valuation outcomes are applied, ultimately to create a range of potential rates of return.*
- *The rates of return are probability adjusted and reviewed by the LLR team to determine whether there is sufficient economic return, in a reasonable outcome to provide LLR with its desired rate of return.*

- *LLR also considers the downside case and is focused on mitigating loss of capital through downside protection from the pricing of the transaction and/or the structure of the investment security.*

37. How are potential investments valued (multiples, cash flow, etc.)?

LLR utilizes several valuation methodologies including discounted cash flow, comparable company valuation, comparable transaction valuation and valuation upon recapitalization.

38. What internal review processes are used to screen potential investments?

LLR employs a comprehensive due diligence process on all investment opportunities under consideration. The process was developed internally by the investment professionals based on their prior experience and input from experts at other private equity firms, accounting firms and law firms.

Each due diligence project is staffed with two partners, a primary and concurring, and at least one associate and two analysts. The project is managed by a partner and associate who utilize their own relationships in the professional services community to augment its expertise. These relationships include accountants, lawyers, technical consultants, investment bankers, recruiters and other industry experts.

Key elements of the due diligence process include management interviews, reference calls and background investigations, review of historical and projected financial performance, customer satisfaction reference calls and interviews, market and industry research, technology assessment and legal and audit reviews. There are two primary objectives of this process: first to identify all meaningful business risks to determine whether the opportunity warrants an investment, and second to become intimately knowledgeable with all facets of the business in order to identify issues to monitor and areas in which LLR can add value.

39. Who makes the final decision to invest? Under what circumstances would you decline an investment?

LLR Partners follows an approval process that places each potential investment under the greatest possible scrutiny. The approval process consists of a series of formal meetings of the firm to review the merits and risks of each transaction and to provide direction to the deal team. This process provides the partners with information needed to negotiate the most optimal transaction terms while providing multiple points at which a proposed transaction may still be rejected. Once an exhaustive review of an opportunity has been completed, the partners must unanimously approve each investment. Investment decisions and supporting rationale are documented at key stages in this process.

40. Describe how post-investment decisions related to the investment will be conducted.

The post investment decision making process mirrors the approval process discussed in Question 39. Each quarter LLR has an internal quarterly portfolio review meeting, where the most recent developments and financial updates for each portfolio company are discussed in detail. In addition, on an as needed basis, LLR will conduct specific meetings to discuss operational, management and exit strategies relating to portfolio companies that require attention.

41. How is the due diligence process documented?

LLR has established documentation procedures for each step of the investment process. All opportunities presented to LLR are recorded in a Deal Track Database. An investment opportunity that rises to an initial level of interest is documented through a New Opportunity Score Card. Once LLR professionals decide to pursue the opportunity further, a Bid Letter or Term Sheet describing our proposed terms is presented. Following the acceptance of the terms, LLR issues a Due Diligence Request List (Exhibit 76) that is specifically tailored to each situation.

Upon successful completion of due diligence process, LLR summarizes its findings into an Investment Memorandum. All materials from due diligence are filed into set categories in both paper and electronic format. Following the closing of the investment, LLR receives monthly updates in a specified format.

42. What portions of the due diligence process does your firm outsource or subcontract (e.g. legal, audit)? Please describe.

In all transactions, LLR leverages the expertise of lawyers and accountants to assist in due diligence (legal and accounting), income tax planning and documentation. LLR will also utilize the services of technology consultants, industry experts, research ananlysts and other knowledge resources on a deal specific basis, depending on the level of expertise resident at LLR and the nature of the key transaction issues.

Negotiation

43. Describe the key considerations and deal points in negotiating the pricing, terms, conditions, representations, and warranties of an investment.

LLR has standard provisions that it expects to place in all investment securities. In addition, LLR develops an understanding of the elements of risk present in each transaction and attempts to mitigate these risks through additional provisions in the pricing, terms, conditions, representations and warranties. LLR leverages outside counsel to determine whether LLR is taking full advantage of legal provisions to best position the investment *security. Attached is a typical term sheet that contemplates many of the provisions we seek (see Exhibit 43).*

44. Do you conduct investment negotiations in-house, and to what degree do you use outside counsel in the negotiation process?

LLR typically manages the negotiation process in-house. Outside counsel is utilized to negotiate complex legal points, when present, at the documentation stage.

45. How many times in the last five years has the firm discontinued interest due to negotiation of terms and/or pricing?

LLR estimates that between five and seven potential transactions are discontinued as a results of terms and pricing negotiations. Note that LLR attempts to agree upon most key terms and pricing in the initial term sheet, which is executed before significant due diligence resources are committed, therefore the discontinued transactions occur very early in the evaluation process. Once the term sheet is agreed to, it is very rare that terms and pricing impact the status of the transaction.

46. Provide specific examples of contract provisions your firm has incorporated in contracts to protect investments.

LLR employs several contract provisions to protect its investments:

- *Senior liquidation preference*
- *Dividend on senior liquidation preference*
- *Protective provisions that require LLR approval (issuing new stock, raising debt or equity, acquisitions, etc.)*
- *Preemptive rights*
- *Drag along and tag along rights in the event of sale*
- *Default provisions that accelerate redemption upon an event of default.*
- *Mandatory redemption provisions*
- *See term sheet example – Exhibit 43.*

Documentation and Closing

47. Describe the process used in the documentation and closing of investments.

LLR utilizes outside counsel who works with seller's counsel to document the transaction. Upon completion of the legal documents, a closing is held, typically virtually, where the documents are executed and funds are transferred. LLR receives a copy of the final documents following the closing.

48. What portions of the documentation and closing process does your firm outsource or subcontract, (e.g. legal, audit)? Please describe.

LLR outsources 100% of the legal documentation and closing process to outside counsel. LLR utilizes audit and consulting firms in certain instances, but also relies upon internal resources and audit reports of the seller in certain cases. Approximately 50% of the audit and consulting work is outsourced with the balance handled in-house.

Exiting/Liquidity

49. How does your firm plan for liquidity in private equity?

LLR balances many factors when determining timing of exit. Key factors considered include business performance, business outlook, market conditions, management's desires, availability of viable buyers and expected rate of return. LLR reviews these factors on an ongoing basis and when these factors are most optimally maximized, LLR, together with management will initiate the process to exit an investment.

LLR's primary exit strategy is a sale to a strategic acquirer or to a complementary business looking to enter a new market. LLR's principals have significant business experience selling businesses and LLR leverages both that knowledge and its business contacts to maximize the purchase price in the sale process. LLR does not rely upon the IPO market to monetize its investments, though will opportunistically pursue an IPO of market conditions are favorable.

50. How many investments has your firm managed through to disposition or complete liquidity?

LLR has effected the following realizations:

- *Crothall Services Group – In April 2001, Crothall was sold to a much larger company in the industry. The consideration was 100% cash plus an earnout to be paid in 2003 based on 2002 operating results. The earnout was paid on April 1, 2003. We have now distributed to our limited partners $48.1 million in cash (including the earnout) on our $15.0 million investment.*
- *eResearch Technology – In Spring 2002, we sold, in small blocks to various institutions, our entire common stock position in eResearch Technology, a publicly-*

traded NASDAQ Company. We distributed to our partners $16.0 million in cash on this $5.5 million investment.

- *Omnient – In March 2000, we invested in Omnient, an IT consulting firm. Later that year, the IT consulting industry exhibited a significant slowdown and we decided to stop funding this company. We realized a capital loss of $2.2 million, representing our entire investment.*

51. How many public offering exits from private investments has your firm accomplished?

    To date, all realizations have been through strategic sales or sale of the stock. LLR has two companies that have selected underwriters and are drafting S-1 Registration Statements and we expect both companies to complete initial public offerings in the next six months.

52. Describe your firm's policy and outlook on public offering versus trade sale exits.

    LLR will pursue both options, depending on the nature of the company, market conditions and interest level from potential strategic buyers. A strategic sale can be compelling, as they are often cash transactions at values representing a strategic acquirer premium. IPO transactions are not full exits, as it takes time to sell LLR's position, and there is a risk of value decline based on the performance of the Company. However, the IPO alternative provides potential appreciation if the Company achieves its expectations.

    LLR expects approximately 1/4 of the portfolio will be exited via initial public offerings and the balance will be through trade sales to strategic and/or financial buyers.

53. Does your firm plan to make in-kind distributions or cash only? If in-kind distributions are expected, under what circumstances will you make in-kind distributions?

    LLR expects distributions to be in cash. In select circumstances, where incremental benefit could be obtained through the distribution of stock, LLR would consider an in-kind distribution. LLR would only do so where the level of liquidity to ensure that investors that wished to sell would be able to do so without putting pressure on the stock price.

Monitoring and Adding Value

54. What observer/directorship rights does the partnership have in a typical investment?

    LLR has one or more board seats in all investments.

55. What does your firm do to add value to the investments after they are made? Please provide an example of how your firm's active participation enhances investor value once an investment is made.

LLR adds value to its portfolio companies in a number of ways. Rather than discuss in general how we interact with a portfolio company, the role we play, or the value we help create, we have provided below a more detailed, concrete example using our investment in Crothall Services Group, Inc. (Crothall). Our investment in Crothall represented a late stage investment in a large, growing private company. The investment was made in October 1999, and was sold in August 2001, presenting a full investment life cycle.

The following is a list of the more meaningful contributions LLR made, both through its advisory role emanating from the two directorships it held, to various contractual rights (protective provisions) it had negotiated through its investment security, to role it played during the sale process.

1. *Focus on growth in its core facilities management (housekeeping) and emerging laundry business:*

   In its desire to rapidly gain market share, the Company's CEO concluded that providing multiple services into a hospital would provide it with a competitive advantage. By initiating a rigorous analysis of the Company's new business win rates combined with a review of the capital requirements of many of the "new" businesses entered, LLR convinced management to focus on growth in two core product offerings, facilities management (housekeeping) and laundry services. Specific actions initiated by LLR included:

   A. Divesting the recently acquired AMSI operation:
   AMSI was acquired in April 1999 (prior to LLR's investment) as a vehicle to provide HVAC (heating, ventilation, air conditioning) contracting services to hospitals. AMSI did not fit culturally, eventually requiring the replacement of its CEO/Founder. Managing a Florida operation remotely from Philadelphia required significant management time and attention. Furthermore, cross-selling proved difficult, requiring further attention. LLR initiated a strategic review which resulted in management agreeing to divest AMSI in 2000 by selling it back to its owner. This decision proved critical in the process of refocusing management on core operations.

   B. Crothall Asset Management (CAM):
   CAM was formed to support the Company's plant, operations and maintenance (POM) operations. While POM operations appear on the service to complement core housekeeping activities, CAM involves acquiring energy assets of hospitals - an entirely different business. Additionally, CAM suffered from a long sales cycle, significant contractual operating risks, bonding requirements and capital intensity. By the conclusion of 2000 (14 months into LLR's investment), management agreed to put all CAM expansion on hold, limiting the Company's future contractual exposure and freeing up capital to redeploy in core operations.

   C. Refocused on more aggressive laundry expansion:

The Company had focused on laundry operations only as an adjunct to an existing facilities management contract. With increased contract wins, centralized laundry facilities serving multiple hospitals became increasingly attractive. Upon the sale of AMSI, LLR supported management's aggressive laundry expansion, which proved critical in achieving significant earnout thresholds in 2002.

2. *Focus on profitability and cash management:*

A. Restricted cash distributions:
Approximately $6 million of LLR's $15 million investment was to serve as a distribution to shareholders, to occur in two stages. After an initial distribution of $2.6 million at closing, it became clear to LLR that the Company's near term cash needs from AMSI and CAM, as well as funding several large new contracts, would not allow for a further $3.4 million distribution, which LLR stopped. Although initially hurtful to our relationship with the Company, the CEO later agreed it was the correct judgment and critical to the Company's success.

B. Revised contract approval process:
Historically, the CEO approved all contracts unilaterally. After suffering several large start-up losses, LLR initiated a multi-stage contract approval process involving an operations and legal review in all cases, with final approval granted by the COO, as compared to the CEO. As a result, start-up expenses were dramatically reduced.

C. Review of existing customer contracts:
From the successful introduction of a contract approval process, LLR initiated, together with the Company's COO, a review of all existing contracts, leading to the first non-renewal of contracts deemed sub-profitable. This proved to be a critical cultural transformation of the Company from a revenue driven organization to a profit driven Company.

3. *Maximizing value on exit:*

In the Spring of 2001, the Company was approached by Morrison Management Services, which had recently been acquired by Compass, PLC to further expand its U.S. operations. Management concluded it wanted to pursue a sale and retained CS First Boston (CSFB) as its advisor. Working closely with CSFB, LLR took the lead in many areas of the transaction, including:

A. Presentation of financial information:
Given the nature of the Company's contracts, LLR helped create financials that presented results on a trailing 12 month basis, annualized trailing 12 months, projected results and annualized projected results. This presentation became the basis for pricing, which at closing approximated 18x projected 2001 EBITDA of $10 million.

B. Suggested and initiated contact with second bidder:
CSFB and management intended to exclusively negotiate with Compass. At the urging of LLR, LLR was authorized to contact ARAMARK, a leading facilities management and food services company headquartered in Philadelphia. The CEO and several other senior executives of ARAMARK are investors in LLR, providing LLR unique access. By creating and managing an auction environment, LLR was able to obtain higher bidding, force adherence to a strict timetable and negotiate a highly favorable contract.

C. Creation of an earnout:
LLR was instrumental in crafting an earnout focused on only one year of operations (2002) and which was calculated based on annualizing acquisitions made in the first six months of the year and funded by Compass. The earnout payment paid in April 2003 for 2002 results was $78 million.

D. Leadership role in negotiations:
LLR took a leadership role in negotiations and acted as the investment banker between the buyer and seller. During the negotiations, LLR gained the confidence of Compass and served as the point person in all discussions. Upon the conclusion of negotiations, Graham Crothall stated "I didn't like having LLR on the other side of the table, but I certainly like having them on my side".

56. How frequently is your firm in contact with the management at the companies your firm has invested in? How often does your firm occupy a Board seat on the companies your firm has invested in?

LLR speaks to management on a weekly basis, if not more frequently LLR has a Board seat in every one of its investments.

57. Describe the methods employed to determine investment valuations in reporting to investors.

Publicly traded securities are valued based on the average of the last sales price on each of the ten trading days preceding the date of valuation. All other securities are valued at original cost unless there has been an independent valuation event or permanent impairment. An independent valuation event would include a new round of financing involving an independent third party, IPO, merger or acquisition. All valuation decisions require the approval of the Valuation Committee except for valuation made solely for reporting purposes.

58. Has your firm ever managed an investment in a crisis? Please give a brief description.

LLR takes a proactive approach to stabilizing and improving operations at failing and/or difficult investments. Steps include recruiting new management, disposing of assets and *eliminating costs. For example, the Company's investment in Allegheny Child Care became distressed, primarily due to poor real estate decisions of the management team. LLR replaced existing managers with more seasoned executives. LLR also helped the Company evaluate and effect a voluntary Chapter 11 bankruptcy filing, which allowed the Company to reject unprofitable leases. As a result, the Company went from cash flow negative to positive within 30 days of filing. LLR is now working with the Company to emerge from bankruptcy as a well capitalized company positioned to execute a disciplined growth plan.*

59. What information is required to be reported by portfolio companies? How often is this information reported?

    LLR has contractual rights to receive monthly financial information, within 20-30 days of month-end, audited financial statements (generally by a Big Four accounting firm), annual budget and capital expenditure plans prior to the start of a new fiscal year, as well as the right to request additional information on an as needed basis.

60. What key financial performance measures does your firm use to evaluate the financial statements of portfolio companies?

    - *Review of profit margins.*
    - *Review of trends on a quarterly and annual basis.*
    - *Review of financial ratios and operating statistics, including (where applicable):*
        - *Profitabiity Ratios*
            - *Return on Equity (%)*
            - *Return on Assets (%)*
            - *Return on Invested Capital (%)*
            - *Return on Working Capital (%)*
            - *Net Income Margin (%)*
            - *Operating Margin (%)*
            - *EBITDA Margin (%)*
            - *Gross Profit Margin (%)*
        - *Job Margin Ratios*
            - *Gross Profit Margin on Shareholders Equity*
            - *Gross Profit Margin on Total Assets*
            - *Gross Profit Margin on Operating Assets*
        - *Operating Margin Ratios*
            - *Operating Margin on Shareholders Equity*
            - *Operating Margin on Total Assets*
            - *Operating Margin on Operating Assets*
        - *Sustainable Growth Rate*
        - *Turnover Ratios*
            - *Asset Turnover (x)*
            - *Fixed Asset Turnover (x)*
            - *Working Capital Turnover (x)*

    - *Inventory Turnover (x)*
    - *Accounts Receivable Turnover (x)*
    - *Shareholders Equity Turnover (x)*
  - *Control Ratios*
    - *Days Sales in Cash (days)*
    - *Days Sales Outstanding (days)*
    - *Days of Material Outstanding (days)*
  - *Leverage Ratios*
    - *Financial Leverage (x)*
    - *Financial Leverage (BOP) (x)*
    - *Debt to Equity (%)*
    - *Debt to Assets (%)*
    - *Times Interest Earned - EBITDA (x)*
    - *Times Interest Earned- EBIT (x)*
    - *Times Burden Covered (x)*
  - *Liquidity Ratios*
    - *Current Ratio (x)*
    - *Quick Ratio (x)*

61. What post investment services does your firm provide to the investment companies?

LLR provides, among others, the following services to portfolio investments on an ongoing basis:

- *Executive recruiting*
- *Analysis of annual budget*
- *Strategic planning*
- *Capital market transactions*
- *Key introductions to clients, partners, vendors, service providers, etc.*
- *Acquisition sourcing and negotiating*
- *Also, see Response to #55, which is situation specific services provided.*

62. In what situation(s) would your firm replace the management of a portfolio company?

LLR relies on the management teams of the portfolio companies to successfully operate and grow the business. To the extent that the business is not performing to expectations, LLR attempts to understand the issues impacting the business and work alongside management to develop a solution to correct the issues. In the event that the business does not improve and LLR begins to lose confidence in the management team's ability to enhance operations and financial results, LLR will pursue the alternative of replacing management. When the risk to the business of not replacing management is greater than replacing management, we are compelled to act.

Partnership Reporting

63. Briefly describe your internal accounting capabilities and your abilities to fulfill the necessary reporting requirements of an institutional client.

    LLR Equity Partners II, L.P.'s accounting function is supported by twelve professionals with varying degrees of experience and certifications. Our CEO and VP of Investor Relations are licensed CPAs with over 20 years of experience working with institutional investors and their reporting requirements.

64. Is your firm flexible in generating investor requested reports?

    Yes. We have been able to meet all requests for information from institutional investors in LLR I.

65. Attach a sample of the most recent quarterly financial report your firm prepares for investors.

    See Exhibit 65.

66. Describe your firm's information management system. Please provide specifics on hardware and software.

    The firm employs IBM file servers running Microsoft Windows 2000 and Microsoft Exchange 2000. The system utilizes a Cisco router firewall and Symantec Antivirus software. The fileservers are replicated and backed-up off site. In addition to Microsoft Office products, the finance department runs the general ledger on Great Plains. The firm is currently installing Interlinks software and is in the final stage of evaluating Investran Software for investor reporting.

References

67. Provide a complete current client list with the contact person, address and telephone number. Please specify the type of client (e.g. public fund, endowment, corporate, or private investor). Also provide a list of former clients, with contact person, address and telephone number, who have discontinued their relationship with your firm in the past five years and state the reasons the client discontinued the relationship. Please send a copy of the reference authorization letter to all listed contacts. Please also send a copy of the authorization letter to TRS.

    See Exhibit 67.

68. Provide a complete current investment list with the name, address and telephone number of the CEO for each investment. Also provide a complete list of liquidated investments with the name, address and telephone number of the CEO for each investment. Provide a complete list of contact persons, addresses and their telephone numbers for co-investors and/or financing sources in any of the investments listed. Please send a copy of the reference authorization letter to all listed contacts. Please also send a copy of the authorization letter to TRS.

    See Exhibit 68.

69. Provide a list of all legal firms, audit firms, and principal banking relationships your firm has used in the last five years, with contact name, address and phone number, and any other relevant information. Please send a copy of the reference authorization letter to all listed contacts. Please also send a copy of the authorization letter to TRS.

    See Exhibit 69.

Other

70. Include any additional information that TRS should be aware of to complete the due diligence process.

    N/A.

Name: Ira M. Lubert

Home Adress: 1811 Chestnut Street, Suite 800
Philadelphia, PA 19103

Home Phone: 215.972.2202

Date of Birth: March 31, 1950

Health Issues: None

Professional Licenses: None

Biography:

Company	Position	Start	End
LLR Partners Inc.	Partner	Sep-99	Present
Lubert - Adler Partners L.P.	Partner	Mar-97	Present
GF Management	Partner	Oct-89	Present
Technology Leaders L.P.	Managing Director	Oct-88	Apr-98

Name: Howard D. Ross

Home Adress: 989 Derring Lane
Bryn Mawr, PA 19010

Home Phone: 610.525.1075

Date of Birth: January 21, 1952

Health Issues: None

Professional Licenses: Certified Public Accountant

Biography:

Company	Position	Start	End
LLR Partners Inc.	Partner	Sep-99	Present
Arthur Andersen, LLP	Partner	Sep-84	Aug-99

Name: Seth J. Lehr

Home Adress: 1637 Paper Mill Road
Meadowbrook, PA 19046

Home Phone: 215.572.1609

Date of Birth: July 21, 1956

Health Issues: None

Professional Licenses: Series 7, Series 24

Biography:

Company	Position	Start	End
LLR Partners Inc.	Partner	Sep-99	Present
Legg Mason Wood Walker	Managing Director	Jan-92	Aug-99
The Middle Market Group	Managing Director	Sep-90	Jan-92
The Stamford Company	Managing Director	Aug-88	Sep-90
Lehman Brothers	Senior Vice President	Oct-85	Aug-88

Name: Mitchell L. Hollin

Home Adress: 1328 Beaumont Drive
Gladwyne, PA 19035

Home Phone: 610.649.8349

Date of Birth: September 24, 1962

Health Issues: None

Professional Licenses: None

Biography:

Company	Position	Start	End
LLR Partners Inc.	Partner	Aug-00	Present
Advanta Partners	Managing Director	Jun-94	Jul-00
Cedar Point Partners	Vice President	Feb-92	Apr-94
Patricof & Co. Ventures, Inc.	Associate	Jun-89	Jan-92

Name:	Scott P. Bremen
Home Adress:	326 S. 19th Street, Apt. 12B Philadelphia, PA 19103
Home Phone:	215.735.1388
Date of Birth:	November 1, 1970
Health Issues:	None
Professional Licenses:	None

Biography:

Company	Position	Start	End
LLR Partners Inc.	Associate	Nov-02	Present
McKinsey & Company	Senior Associate	Jun-99	Sep-02
The Walt Disney Co.	Manager, Bus. Development	Jan-95	Aug-98
The Northern Trust Co.	Investment Analyst	Jul-92	Dec-94

Name: Scott A. Perricelli

Home Adress: 19 E. Bells Mill Road
Erdenheim, PA 19038

Home Phone: 215.836.7407

Date of Birth: September 12, 1971

Health Issues: None

Professional Licenses: None

Biography:

Company	Position	Start	End
LLR Partners Inc.	Associate	Jan-01	Present
Draper Triangle Ventures	Principal	Jun-00	Dec-00
Advanta Partners	Associate	Jun-97	Jun-99
William Blair & Co. LLC	Financial Analyst	Jun-95	Jun-97
JP Morgan & Company	Financial Analyst	Jun-94	Jun-95

Name: David J. Reuter

Home Adress: 2409 Naudain Street
Philadelphia, PA 19146

Home Phone: 215.732.1658

Date of Birth: September 15, 1974

Health Issues: None

Professional Licenses: Certified Public Accountant

Biography:

Company	Position	Start	End
LLR Partners Inc.	Associate	Sep-99	Present
Arthur Andersen, LLP	Senior Associate	Sep-96	Aug-99
Allegra Print & Imaging	Sales Consultant	Jun-95	Aug-96

Name: Janelle L. Bundas

Home Adress: 1500 Locust Street, Apt. 4408
Philadelphia, PA 19102

Home Phone: 215.731.1305

Date of Birth: March 9, 1977

Health Issues: None

Professional Licenses: None

Biography:

Company	Position	Start	End
LLR Partners Inc.	Analyst	Jan-02	Present
Legg Mason Wood Walker	Analyst	Jun-99	Dec-01

Name: David A. Stienes

Home Adress: 1720 Lombard Street, Apt. 107
Philadelphia, PA 19102

Home Phone: 215.732.6969

Date of Birth: September 24, 1976

Health Issues: None

Professional Licenses: Certified Public Accountant

Biography:

Company	Position	Start	End
LLR Partners Inc.	Analyst	Mar-00	Present
Arthur Andersen, LLP	Associate	Sep-98	Mar-00

Name: Sasank Aleti

Home Adress: 4 Gristmill Ct.
Medford, NJ 08055

Home Phone: 609-953-6861

Date of Birth: July 5, 1979

Health Issues: None

Professional Licenses: NA

Biography:

Company	Position	Start	End
LLR Partners Inc.	Analyst	Sep-03	Present
UBS Warburg	Analyst	Jun-01	Jul-03