

## ROSE INVESTMENT COMPANY

Established in 1977 in New York City for the purpose of achieving capital growth through a diversified portfolio, Rose Investment Company was a privately-funded venture capital limited partnership funded by high net worth individuals and one institutional investor. RIC relocated to San Francisco in 1980 due to a number of its principal investments and investment opportunities emanating from California and other western states. Investment criteria emphasized diversification of risk by balancing its investment portfolio in a variety of industries, geographical locations and investment size, emphasizing startup or early stage companies, including turnaround situations in need of capital and improved management capabilities. With 27 years of experience in the investment business, including investing for his own account as principal, the Managing General Partner, John Mangan, was responsible for portfolio development.

Upon completion of its divestiture program in 1986, the average rate of return on investment was over four times investment cost.

### DESCRIPTION OF INVESTMENTS

- Grand Banks Energy Company, Midland, TX

1978 - 1982

In 1978 RIC, as part of an investor group, founded and provided the initial seed capital for this private company engaged in exploration and development of oil, gas, and geothermal steam prospects; acquisition of leases; operation of drilling programs; and the management of producing oil and gas properties for its own account as well as acting as General Partner for a series of limited partnership drilling programs.

RIC sold its investment in 1982 in a private transaction to Cliff Resources Corporation, a private developer and explorer of oil and gas properties, for almost 13 times original cost.

- Air Florida Systems, Inc., Miami, FL

1976 - 1984

RIC participated as part of an investor group which in 1976 invested in a controlling interest position in Air Sunshine, Inc., an intrastate Florida commuter airline and subsequently in an acquisition financing to purchase Southeast Airlines, Inc., a major competitor. In 1978, the airline was merged into Air Florida in a tax-free exchange of stock which increased the value of the original investment by over 9 times. Between 1978 and 1981, the publicly-traded common stock had risen to a high of 17<sup>1</sup>/<sub>2</sub>, and following the resignation in 1981 of Edward C. Acker, President and CEO of Air Florida to become CEO of Pan American World Airways, RIC initiated a liquidation program of their stock.

Although Air Florida subsequently filed for Chapter XI in 1984, the investor group was able to sell its shares at values ranging up to twenty times original investment.

- San Francisco Bancorp, San Francisco, CA

1981 - 1984

In December, 1981, RIC invested in a second-round financing of this California-based thrift and loan holding company operating through three subsidiaries in California, Nevada, and Utah, which functioned as a mortgage loan originating and servicing company specializing in real estate. A public stock offering by Bateman Eichler, Hill Richards, Inc., in 1983, increased investor's value by 2.5 times their cost, and sale of the company in 1984 to Atlantic Financial Federal, Pennsylvania's largest savings and loan association, resulted in the investor group receiving an all-cash distribution on its investment.

The investor group realized a return of 4.2 times their original investment.



• ***Marriott's Casa Marina Resort, Key West, FL***

1977 - 1984

In 1977 RIC participated in the organization, planning, and initial financing of the Marriott's Casa Marina Resort, a hotel/real estate project which developed, restored, and renovated a 250-room hotel, adding a new 150-room wing and a major convention center on 6.2 acres of beachfront property. A reconstruction/mortgage financing of \$9.5 million was provided by Chemical Bank with a take-out provision by Equitable Life Assurance Company, which was exercised. The Casa Marina opened for business on December 12, 1978.

After achieving a net operating profit of \$1.9 million in 1983, the hotel was sold in 1984 to a franchisee of Marriott Corporation, Interstate Motor Lodges, Inc., enabling the investor group to recoup investment cost plus a modest 7% return on its original investment. However, substantial tax benefits (including investment tax credits) over the life of the investment were passed through to the limited partners of RIC and, in some cases, ranged from as much as 73% to 332% of investment cost.

• ***Winding Woods, Inc., Naples, FL***

1979 - 1987

In 1979 RIC, as part of an investor group, invested in this real estate development project which consisted of 80 acres of undeveloped land in Collier County, Naples, Florida. The land holding represented one of the few remaining undeveloped acreages of this size in a rapidly growing part of Southwest Florida, and, subsequently, all contiguous acreage was developed.

Although recessionary and declining Florida real estate values occurred between 1982 - 1985, the investor group sold its interest to a third party developer in 1987 for a 50% profit on original investment.

• ***Seal, Inc., Naugatuck, CT***

1978 - 1983

RIC invested in 1978 as part of a reorganization of NAC, Inc., formerly National Apparel Corporation. As a result of a series of small acquisitions, private financings and the sale of real estate, the company in 1979 purchased Seal, Inc., a leader in the developing and manufacturing of dry mounting, texturing and laminating materials used in the photographic, graphic arts and educational markets. A new management group was installed, and the company subsequently achieved record sales and record earnings in 1983.

RIC sold its position in 1983, realizing a return of 1.6 times on its original investment.

• ***Textured Products, Inc., Hartsdale, NY***

1979 - 1983

In 1979 RIC and a group of investors funded private research leading to the development and commercialization of patented chemical processes for the treatment of fibers and fabrics which impart substantially improved fire- and heat-resistant properties to various materials. The end products are non-carcinogenic and non-toxic and have excellent potential as a major replacement for asbestos. Several joint venture agreements were negotiated to commercialize the product. The company subsequently purchased a substantial interest in Subtex, Inc., a profitable corporation, in order to utilize the tax loss carryovers to fund further research.

RIC sold its investment in 1983, realizing a return of 1.5 times on its original investment.

• ***Biotech Capital Corporation, Los Angeles, CA***

1982 - 1983

In 1982 RIC, in partnership with Warburg Paribus Becker, Inc., invested in Healthgroup International, a Health Maintenance Organization (HMO) operating in Ventura County, California, founded in 1979.



Healthgroup offered prepaid medical services whereby affiliated health care professionals deliver health care needs to employees in return for a monthly fee.

RIC sold 80% of its original investment at cost in mid-1982. The company was sold to Biotech Capital Corporation in 1983, a publicly-traded investment company specializing in biotechnology, and the original investors received substantial dilution in a tax-free exchange of securities. RIC incurred a small loss on its remaining 20% investment as a result.

- **Bouton Corporation, Buzzards Bay, MA**

1982 -

RIC, as part of an investor group, participated in the reorganization of a Chapter XI former equipment and computer leasing company (MDC Corp.) through the liquidation of the lease portfolio; settlement of litigation with the trustees for bankrupt Penn Central; sale of commercial real estate; and establishment of the company as a publicly-traded holding company which retained a significant tax loss carryover.

In 1982, H.L. Bouton Company, a profitable and privately-held manufacturer of industrial eye protection equipment, was acquired and the corporate name changed. Subsequently, new management was installed; business reorganized; new products developed; real estate sold; and indebtedness reduced by \$1.3 million. Annual sales grew to \$6 million, and two companies in the industrial protection marketplace were added: Precision Optical Company, Inc. (world's largest mail order marketer of reading glasses) and Chemrox, Inc. (a manufacturer of systems for controlling and detoxifying ethylene oxide (ETO), a vital but potentially hazardous chemical compound used in commercial sterilizers).

The company continues to be marginally profitable.

- **Pacific Express Holding, Inc., San Francisco, CA**

1980 - 1984

RIC, in partnership with Warburg Paribus Becker in September, 1980, provided a \$1 million initial refinancing of West Air Commuter Airlines, Inc., for the purpose of developing a new regional jet airline servicing the West Coast under advantages created when Congress passed the 1978 Airline Deregulation Act. The partners subsequently increased their investment for a controlling interest, and in 1981 majority control was transferred as a result of a private \$7 million institutionally-funded round led by Citicorp Venture Capital, which included First Capital Corporation of Chicago, Charles River Partnership III, Menlo Venture Partners, and Cliff Resources Corporation, representing the largest amount of private venture capital ever raised in the United States for a commercial airline. A publicly-held company, Pacific Express, raised \$6.5 million in an initial public offering in 1982, underwritten by Bear, Stearns and Warburg Paribus Becker.

Due to heavier than anticipated startup costs in 1982, combined with a weakening economy and an industry-wide decline in passengers resulting in continuous losses, the Board of Directors replaced senior management in December, 1982, with a three-man Office of the Chief Executive, and JFM, a Board member, was appointed Chairman of that Office. Charged with restructuring the business plan, the committee instituted a corporate reorganization and established a new business plan, emphasizing route realignment designed to serve 22 cities in five western states focusing on underserved cities rather than head-to-head competition on the more heavily competed routes. A dramatic financial turnaround commenced, and after four months of narrowing losses, in 1983 the new business plan resulted in a net operating profit in July of \$60,000 and in August, \$120,000.

Unfortunately, a surprise decision by United Airlines in September, 1983, to reverse their long-standing policy of not competing on feeder routes in favor of trunk routes, and their immediate entry into and competition directly with Pacific Express on its monopoly routes at a significant initial loss to United, caused a fourth-quarter loss at Pacific Express and an ultimate ceasing of service and Chapter XI filing in February, 1984. Pacific Express remains engaged in a \$48 million treble damage, anti-trust lawsuit with United Airlines.



## PERSONAL INVESTMENT

RIC initiated a divestiture program in January, 1984, as a result of a partnership decision not to add additional investments to the portfolio due to tax and estate planning considerations of its major limited partner investors.

Participation in the following investment was offered to RIC in 1984, but in respect to the above decision, participation was made available to RIC partners for their own account. John Mangan elected to participate as a founder investor as described below:

- **First Republic Bancorp, Inc., San Francisco, CA**

1984 -

First Republic was founded in 1984 as a financial services company operating in Northern and Southern California and Las Vegas, Nevada, functioning as a mortgage banker and direct lender through its two Thrift and Loan, FDIC-insured California and Nevada chartered industrial bank subsidiaries and a mortgage banking subsidiary in Nevada. The subsidiaries operate through eight branch locations in San Francisco, Los Angeles, Beverly Hills, San Diego, and Las Vegas. Principal focus is on large-balance, secured real estate lending principally in the California market which represents the largest residential mortgage market in the U.S. Total assets for the company have grown as of 12/31/93 to \$1.4 billion; total loans originated for the year have grown to \$945 million versus \$826 million in 1992; and total capital is \$178.6 million. Earnings have continuously been profitable and for the year ended 12/31/93 resulted in record net income of \$12.4 million versus \$11.8 million for 1992 and earnings per share of \$1.37.

As a result of investing as a founder in the initial financing as well as participation in subsequent private placements (including an \$8.5 million funding in 1985 placed by E. F. Hutton & Company, Inc., and the English Association Group PLC, London), the average cost of investment is less than \$4.50 per share. An initial public offering in 1986 underwritten by L. F. Rothschild, Unterberg, Towbin, Inc. and the English Trust Company Limited, raised an additional \$8 million at \$10 per share and the market price for the New York Stock Exchange-listed security is currently \$15 per share as of March, 1994.