



October 27, 2010

Dear Friends,

21st Century Group held its 8th Annual Partners' Meeting in Dallas last month. We had the opportunity to present the status of our Fund I and Fund II portfolio companies, hear from market experts on the current state of the environment and discuss our future plans for the firm. I would like to recap the highlights of the meeting and share with you our thoughts on the current year and future plans regarding the firm.

YEAR OF TRANSITION



2010 has been a year like none other in the life of 21st Century Group. The loss of our Founding Partner and friend, John L. Ware, certainly touched our hearts, both personally and professionally. John passed away on May 2nd of this year and we miss him dearly.

John created the vision and framework for the firm that we will carry on for years to come. We have spent time reflecting on his life and the firm's vision and direction. We are indeed on the right path and are positioned for sustainability in the changing times we face in the private equity markets.

Although we cannot replace John, we are currently in the process of hiring a new partner to complement the investment team. We thank our limited partners, colleagues and friends of the firm for their insight and support as we move through this process.

CURRENT MARKET ENVIROMENT



In 2010, we find ourselves in a market that is changing and has changed substantially since our founding twelve years ago. Credit markets remain challenging, but we are excited about the new investment opportunities we are pursuing. We believe 2010 and beyond will provide attractive situations for us to invest capital and acquire high performing companies.

Additionally, we are completing the process to obtain a Small Business Investment Corporation License (SBIC) so that we can provide additional junior capital for our portfolio companies. We have received the "green light" from the SBA and we hope to have the SBIC license by early 2011. We believe this is an appropriate strategic response to the challenged credit markets.

PLANS FOR 2010 AND BEYOND



21st Century Group Fund II

We are currently investing our second fund, Fund II. Fund II closed in December 2009 with \$86.0 million in committed capital.

Fund II made its initial investment in July 2009 in Spencer Enterprises. The Company is a leading designer, manufacturer and importer of decorative pillows and window coverings. The Company is

experiencing revenue growth over last year in both decorative pillows and window coverings. The Company continues to expand its product line and is actively targeting new customers.

This year has been a year of high quality deal flow. We are actively pursuing several attractive acquisition opportunities for Fund II that include high quality and high margin businesses and meet our investment criteria: **\$15 million to \$150 million in revenues, \$5 million to \$20 million in EBITDA, and a minimum EBITDA margin of 10%.** We expect to add one to three additional portfolio companies over the next several months.

As we move forward, we will focus on the following:

- Building a lasting franchise by growing the firm, in particular – adding a new partner to our investment team and growing the team overall to manage and monitor our investments.
- Prudently investing Fund II's capital in five to seven additional portfolio companies.
- Obtaining the SBIC license to maximize investment opportunities.
- Positioning the remaining investments in Fund I for the appropriate exit.
- Continued investing in the small cap market. We believe there will be a perpetual opportunity to drive attractive returns in the lower middle-market.
- Partnering with talented and experienced executives. We will ensure that there are incentives in place to attract talented management teams and align their incentives with our goal of creating high quality, risk adjusted returns.
- Following a disciplined investment approach.
- Sourcing deals in our familiar sectors of focus.

NEW WEBSITE



21st Century Group launched a new logo and website last month. For more detailed information on our firm and the portfolio companies, please visit our new site, www.21stcgfund.com. New email addresses are listed below. We hope you find the new website informative and easy to navigate.

We are excited about the future opportunities for 21st Century Group. We thank you for your support and we look forward to a continued relationship with you for many years to come.

Sincerely,

W. Kelvin Walker
Managing Partner



21ST CENTURY GROUP, LLC [NEW WEBSITE & EMAIL ADDRESSES LISTED BELOW]



21st Century Group makes control investments in high performing, lower middle-market companies with talented management teams. These companies possess stable cash flows, a defensible market position and identifiable growth characteristics. Typical transaction values range from \$15 million to \$100 million.

We create value by providing significant operational experience and financial expertise to our management partners. Our investment team, with more than 50 years of combined private equity experience, has a diverse background and a proven track record of executing lower middle-market transactions.

Founded in 1998 and based in Dallas, Texas, we have \$166 million in committed capital. We seek investment opportunities across the US in a broad range of industry sectors.

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