



July 2007

***IronBridge Capital Management, L.P.
Second Quarter 2007 Small Cap Core Review***

Dear Fellow Investor,

Stocks marched higher for the second quarter of 2007. The Russell 2000[®] Index increased 4.42%. We are pleased that our Small Cap Core product increased roughly 7%¹, significantly beating the benchmark. Year-to-date, the Small Cap Core product has outperformed the benchmark by approximately 600 basis points, advancing nearly 13%.

Many analysts were surprised by the strength in stocks for the second quarter. Indeed, there was, and is, a lot to worry about. Investor concerns include rising consumer bankruptcies, inflation fears, rising long-term interest rates, surging foreclosures (+70%), continued downward pressure on housing, and the dramatic hedge fund blow up at Bear Stearns. We view these “problems” as the result of poor capital discipline by certain market participants. Consequently, the market is doing its job by taking capital away from those who violate sound financial principles. Real problems occur when government interferes with the natural market clearing process.

As the old Wall Street adage goes, “The market climbs a wall of worry.” The ladder the market is climbing is built on an abundance of global liquidity, merger mania, a Fed committed to bringing inflation within its comfort zone, and genuinely solid corporate profits and growth driven by globalization. In many ways, this is our kind of market. Mini meltdowns in housing-related and sub-prime markets have benefited the portfolio because we refused to chase companies without economic justification. Of course, having seven of our companies taken over helps too. By contrast, index funds and ETFs must own and buy companies exposed to “mini meltdowns” due to poor capital discipline (housing-related and sub-prime lenders, etc.) despite those companies experiencing plummeting CFROIs and skyrocketing credit deterioration.

¹ Past performance does not guarantee future results. Returns reflect reinvestment of dividends, gains, and other earnings.

Second Quarter Attribution

The IronBridge Small Cap Core product outperformed the Russell 2000[®] Index by approximately 275 basis points, which is at the higher end of what we would expect from any given quarter. Stock selection contributed all of the excess return, while our sector allocation was neutral. Stock selection was particularly strong among the Information Technology, Industrials, and Energy sectors. Stock selection was turbocharged by the fact that four more companies in the portfolio were subjects of takeover bids this quarter (a total of seven year-to-date): aQuantive (+128.6%), Oakley (+41.0%), eFunds (+32.4%) and AG Edwards (+22.5%). Acquisition premiums accounted for 230 basis points of excess return this quarter.

While it is exciting to book another great quarter due to recognition of undervaluation of our companies by strategic and financial buyers, it presents our investment team with the challenge of reloading the portfolio at a time when markets are making new highs. We have a long list of stocks we want to own, but the list of stocks we want to own that are trading at attractive entry points is short. Even so, we have started the reloading process by buying 11 new small cap companies this quarter. We are relying on our disciplined investment process to keep performance going, albeit at a more normalized rate.

IronBridge Investment Process Refresher/Update

Recall our investment process involves three basic steps: 1) Identify attractive companies; 2) Establish buy candidates using our in-depth experience with the CFROI^{®2} valuation framework and; 3) Build a portfolio designed to consistently outperform our benchmark. How do we achieve this in practice?

We can identify attractive buy candidates quickly and easily by utilizing IronScore, our proprietary stock ranking system. The IronScore classifies companies into Life Cycle categories and ranks the stock from most attractive to least attractive. The benefit of identifying unique Life Cycle buckets is that the key success factors actually vary by Life Cycle. For example, free cash flow and degree of undervaluation are very important for Corks and Turn Arounds, but not as relevant for Rockets or Golden Goodies. For Rockets and Golden Goodies, business momentum, defined by top line sales growth, and CFROI change, combined with high accounting quality are the most important factors. The IronScore identifies the most attractive top one-third of companies within each Life Cycle, resulting in approximately 1000 companies. These 1000 companies are further analyzed using the CFROI wealth creation rules. Companies identified as doing the right thing to create shareholder value results in approximately 500 attractive names.

We can establish buy candidates from the list of 500 attractive companies by verifying that management strategy is consistent with shareholder value creation and by identifying companies most likely to beat the expectations of future CFROI and growth implied by their current share price. This involves an in-depth review of the integrity of accounting data and

² CFROI is a registered trademark in the United States and other countries (excluding the United Kingdom) of Credit Suisse or its affiliates.

model inputs, a qualitative review of the company's strategy, competitive position, senior management, board, and compensation incentives, a deeper understanding of fundamental drivers likely to impact future CFROI, growth and fade, and a proprietary tool for calculating the probability of the company beating the current expectations implied by the current share price. The ultimate output from this disciplined research process is a thesis document which lays out the investment case for owning the shares. The investment thesis rests on clear milestones (often non financial) we expect the company to achieve within a reasonable period of time and a range of what we think the shares are ultimately worth, given alternative potential outcomes. This results in a high, low, and expected value for all companies our team deems "attractive". From these target prices, we calculate real-time payoff structures in terms of upside potential vs. downside risk. All of this research is housed in our proprietary, internally developed software platform, which enables the team to work extremely efficiently.

We seek to build a portfolio to consistently outperform our benchmark by making sure excess return is driven by stock-specific risk and not macro, style or other factor risk. To ensure this outcome, we employ a unique dual diversification strategy for the portfolio. Dual diversification simply means the portfolio is diversified by both industry, which reduces the risk of unpredictable macro events, and by Life Cycle, which reduces unpredictable style and duration risk. Because company-specific risk drives the portfolio return, the most critical component of the entire process is making sure our team has accurately calculated the payoff structures for our buys. In other words, prices of stocks purchased should not go lower than our low target and must have a good chance of hitting our high target. This is where our expertise and history with the CFROI valuation model is invaluable.

At the risk of creating a top in the shares of one of this quarter's biggest contributors, Woodward Governor, it is worth reviewing the steps of our disciplined investment process to put some meat on the skeleton described above.

Description:

Woodward Governor (WGOV) is a "Golden Goodie". It designs, manufactures and services energy control systems and components for aircraft and industrial engines and turbines. End demand for its products is growing due to worldwide demand for efficient, low emission, long life and high performance energy use. How did we find this winner?

"We can identify attractive buy candidates"

IronScore:

WGOV scored in the top third, better than 76% of all Golden Goodies due to solid momentum from strong sales growth and positive CFROI change combined with a high degree of accounting quality.

Wealth Creation:

WGOV is growing into high CFROI businesses (positive spread & growth). We think they are growing from about 8-10% into 10-12% CFROI projects.

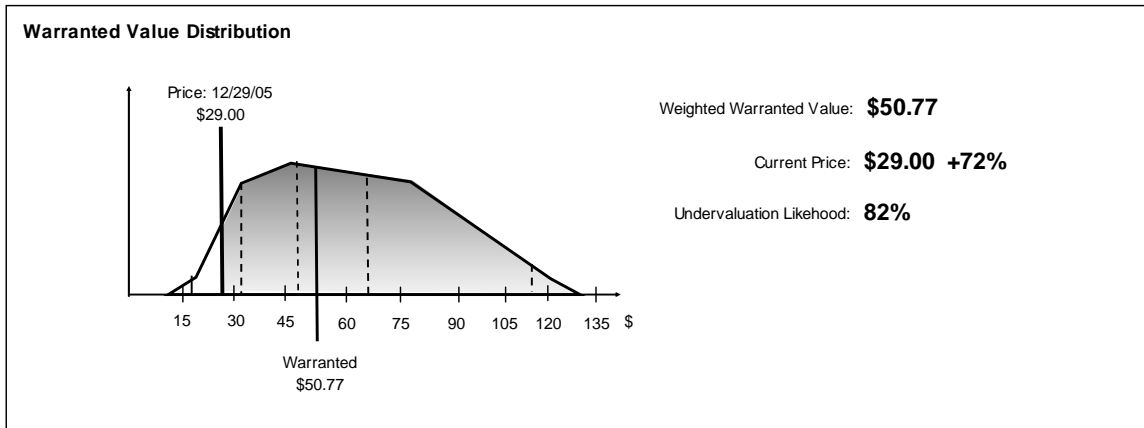
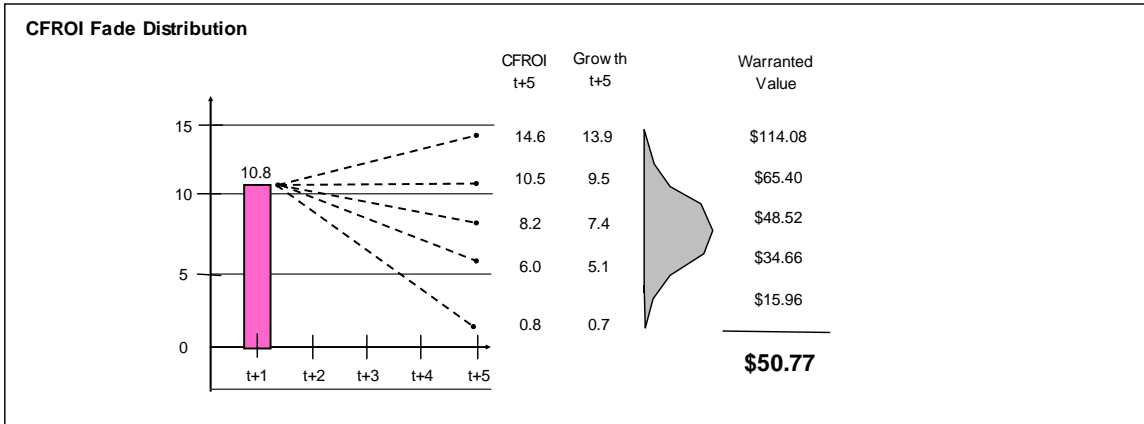
“We can establish buy candidates

Market Implied Expectations:

Based on our valuation model, the market was only prepared to pay for 6% CFROI and 4% growth. Those expectations were likely (not definitely) to be beaten.

Probability with Payoff Structure (Proprietary IronBridge Fade Tool):

The probability of beating 6% CFROI expectations was 82%.



Excerpt:

Original Thesis (12/20/2005): 6% market-implied CFROI and 4% growth will be exceeded as newly energized management focuses on improving profitability through a variety of initiatives to improve business processes.

Critical Milestones:

- 1) Organic growth rates remain robust in commercial aerospace and power generation
- 2) WGOV continues to pursue an acquisitive growth strategy, integrating companies consistent with core competency of energy control systems in existing and adjacent markets
- 3) Industrial controls margins recover to the 12-15% range

- 4) Generates near-term tangible benefits from wind exposure acquired in the SEG acquisition
- 5) Capitalized R&D turns begin to improve as WGOV capitalizes on increased R&D spending over the past 5-7 years.

Original Analyst Payoff Structure Analysis: (Share Price \$29)

High Target: \$50 (+72%)

Low Target: \$23 (-20%)

Expected Target: \$35 (+20%)

Note the positive skew to the payoff structure. Even though we could lose 20% on this investment, the upside of 72% makes the payoff structure very attractive. Beneath each target price is deeper analysis and various assumptions regarding the ultimate output of future CFROI, growth and related valuation. Milestones are monitored to help us understand which forecast seems to be most likely. The more milestones the company hits, the more confidence we have in the positive skew. Milestone misses result in low target being more likely than high target.

Outcome as of 7/9/2007:

WGOV is up 96% since our initial purchase, significantly contributing to portfolio performance. All milestones appear to be hitting at the moment.

“We seek to build a portfolio to consistently outperform”

While it might seem like the point is to demonstrate how great we are at picking stocks; that is not the point. The hard truth of the matter is, that for every stock that adds value from this process, there are other companies (45-50%) that miss their milestones and, therefore, the expected and high target prices are not achieved, resulting in company-specific underperformance.

The real point of the process review is to highlight the importance of valuation insights. If we have properly analyzed the payoff structures, risks/rewards and accompanied valuations, a 50% hit rate is all that we need for the portfolio to add value for our clients and consistently outperform.

A second point is that the IronBridge investment process is **highly disciplined** and designed to give us a slight edge over the competition. We believe our advantage lies in that we have a **proprietary classification and ranking system** to identify attractive buy candidates that are analyzed using a **team of CFROI experts** to gain **valuation insights**. These insights reside in our **customized research software platform (Alchemy)**, which all members of the team utilize to share real-time recommendations and insights resulting in **highly productive work flow/prioritization**. Finally, our constant measurement and analysis of hit rates and decision analysis creates a feedback loop for **constant improvement** of investment skills of the IronBridge team. As a team, we are passionate about improving our analysis of payoff structures and improving our hit rate.

This quarter we added 11 new names. Two of the new additions have outperformed by at least 10%. None have underperformed by 10%, which implies the payoff structures are right, so far. In total, six new buys have outperformed, and five have underperformed. Thus, the new buys are meeting the minimum 50% hit rate.

Outlook

Our outlook for the second half of the year remains similar to the first half. Corporate earnings season is about to kick off, so we are about to get an update on the forces that have been driving the markets higher. So far, the driving forces remain in place and include plenty of global liquidity, increased private equity activity, robust corporate profits, and reasonable growth driven by globalization. However, we do not expect the market to go straight up. There will be adjustments along the way.

As the sand pile game (which we described in last quarter's commentary) teaches us, every once in a while there must be "adjustments" caused by fingers of instability, which provide a stronger base from which to grow. There will likely be a few adjustments along the way. It is impossible to predict whether these adjustments will be caused by one or more of the worries that we have highlighted or, more likely, something none of us is currently thinking about. That is what makes this business so challenging. That is why it is so important to have a solid discipline and stick to it. While we do not have a crystal ball to tell us the future, we do have a solid discipline founded on wealth creation principles, valuation expertise, and risk controls to help us meet our goal of consistently delivering excess return for our clients.

Thank you for your continued support.

Kind regards,

A handwritten signature in black ink, appearing to read "Christopher C. Faber". The signature is fluid and cursive, with a long horizontal stroke at the end.

Christopher C. Faber
IronBridge Capital Management, L.P.