



FCModular

Investment Opportunity

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Executive Summary

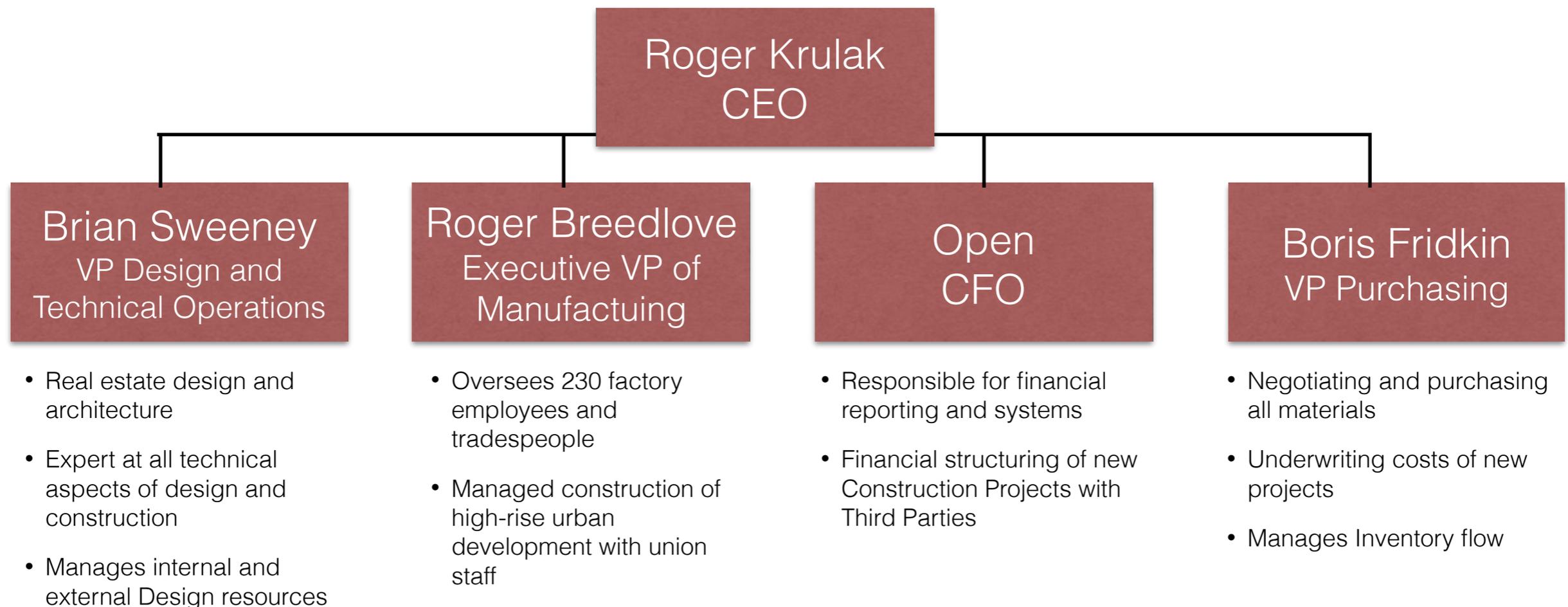
- **FC Modular is a leading modular housing manufacturing and technology company located in Brooklyn, NY**
 - Focused on modular construction of mid and high-rise buildings in urban centers
 - Currently building the tallest modular building in the world, a 32-story square foot building Atlantic Yards Brooklyn
 - Building being “manufactured” in a 100,000 square foot factory located in the Brooklyn Navy Yard
 - Forest City Enterprises, a publicly traded company (“FCE”) wishes to sell the business
 - Management team with robust construction, manufacturing, technology and development experience and a demonstrated ability to manage complex real estate developments
- **Opportunity to join Management in the acquisition of the Company from FCE**
 - FCE has converted to a REIT and the modular business must be divested
 - Management believes that there is an unique opportunity to acquire the business at a discount to book value and create value for a new investor by operating as a stand alone business and growing the development pipeline
- **Current capacity at Brooklyn Navy Yard is 5,000 square feet/week or 250,000 square feet/year of product**
- **Business plan to expand into new categories and new markets with additional factories**
 - Urban high-rise and mid-rise residential housing, hotels, dormitories and affordable housing
 - Open Additional factories to increase production capacity in New York City, across the USA and internationally
- **Management is seeking a \$15 million investment from a strategic investor to acquire the business from FCE and provide working capital to finance the Company’s operations while it secures new development sites and becomes independently owned and operated**

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Management Team

- Company management team consists of multi-disciplined professionals with a demonstrated ability to source new development sites and construct complex, modular construction projects
- Full Team in-place that has worked together for in excess of 4 years
- The Team has an average of 20 years of real estate leadership, management, development, and manufacturing experience



Management Team Bios (1)

Roger Krulak, CEO

- 25 years in the construction industry - both construction and development
- SVP at FCE, spearheaded the first R&D project for Modular Construction which led to the creation of FC Modular, currently building the tallest modular building in the world
- Hired and trained management team
- Negotiating union labor agreement
- Built out factory in NYC
- Recipient of 2014 The Popular Mechanics Breakthrough Award for his work on the creation and innovation of the high-rise modular process.
- Prior to starting FC Modular, Roger spent 11 years at FCE as SVP of Mixed Use and Residential Development where he was responsible for the entitlement, planning and development of over 1,000 residential apartment units that were integrated into many of FCE's mixed-use and retail projects.
- Prior to FCE Roger owned and operated Fiber Media, a high tech developer/contractor in the high-tech sector based in the Mid-West.
- BA degree in Management and Organizational Psychology, Babson College.

Management Team Bios (2)

Brian Sweeney, Vice President of Design and Technical Operations

- Prior to joining FCE, Brian held a Director level role at both SHoP Construction and SHoP Architects for 6 years where he contributed to several of the firm's most technically complex and innovative projects including the Barclays Center Weathering Steel Façade, Enclosure System and the 1.3 acre Green Roof. As a result of the excellence he displayed on this project, Mr. Krulak hired him directly into FC Modular. Brian was Director of Operations and led a staff of 20 VDC (Virtual Design & Construction) technicians using direct-to-fabrication processes which was developed and executed in parallel with a typical design package.
- Before joining SHoP in 2009, Brian began his VDC career working for and supporting the developer's role in the BIM environment, fostering a system of model management that allowed the developer to play a significant role in the building process.
- Bachelors of Architecture degree from NJIT's School of Architecture (2002)
- Masters degree from the Product-Architecture Lab at Stevens Institute of Technology (2006), a graduate program integrating the study of Architecture & Engineering.

Roger Breedlove, Executive, Executive Vice President, Manufacturing

- Responsible for the Management of production methodology and Labor productivity in the plant .
- Extensive experience in manufacturing with unique ability to analyze construction processes from a manufacturing perspective in order to drive efficiencies into the manufacturing of buildings.
- Previously, he was Vice President of Hilite Int'l , Northern Stamping, FoamSeal & Novagard and SOHIO-BP.
- MBA from Carnegie Mellon.

Boris Fridkin, Vice President, Purchasing

- Responsible for material procurement for all developments at FC Modular.
- Prior to Joining FC Modular, Boris was Sr. Accounting Manager at First New York Partners (a subsidiary of Forest City Ratner Companies) for ten years. Boris played a key role in many aspects of the company, from 404 compliance to transferring data from MRI to SAP.
- Prior to becoming a Senior Accounting Manager, he oversaw and was responsible for the accounting and asset management of a retail portfolio with approximately 1 million sq.ft. in New York City.
- Prior to joining FCE, Boris worked for a CPA firm executing tax and audit work for many large real estate developers in NYC.
- BA degree from Baruch College.

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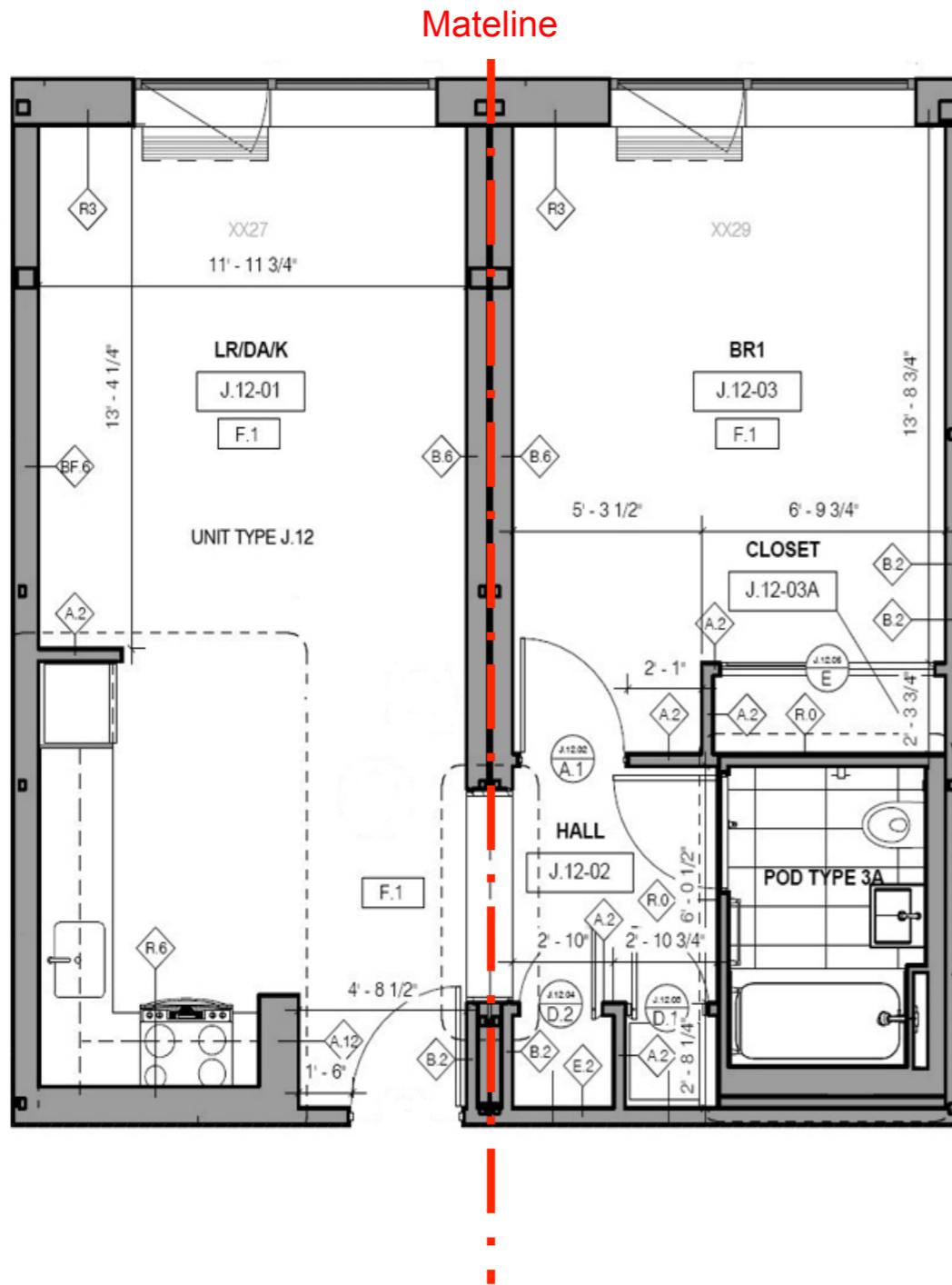
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The FC Modular Process

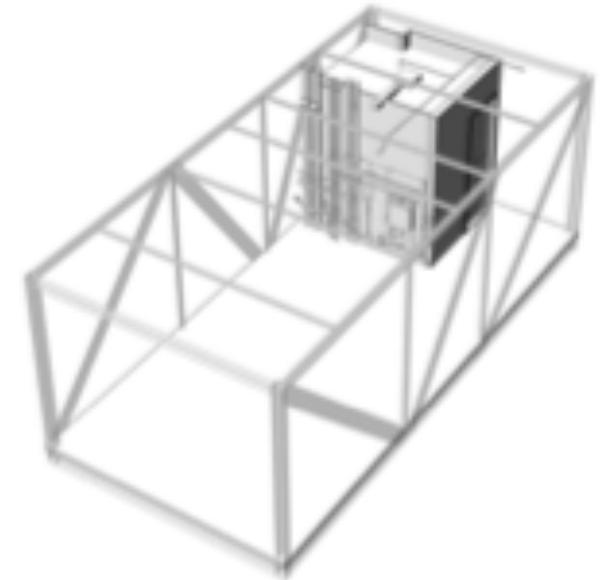


- Modular residential units or hotel rooms are constructed unit-by-unit in a climate-controlled factory environment (conventionally, buildings are built piece by piece, trade-by-trade at a construction site)
- Similar to an assembly line in a car factory, empty module frames start on one end and completed units leave the factory at the other end
- Modules or “Mods” are virtually finished at the factory:
 - Bathrooms plumbed, fixtures and accessories installed
 - Drywall installed and painted, flooring installed, doors painted and installed with hardware
 - Kitchens and refrigerators installed, light fixtures installed
- Finally, each unit has the exterior façade attached at the factory and is then weather-wrapped for truck transport to the site
- Each Mod is hooked to a crane and lifted into place and “clicked” into a precise, laser guided setting pin and weather sealed by its own weight to other Mods
- **The whole process from delivery to Mod installation completion takes under 15 minutes**

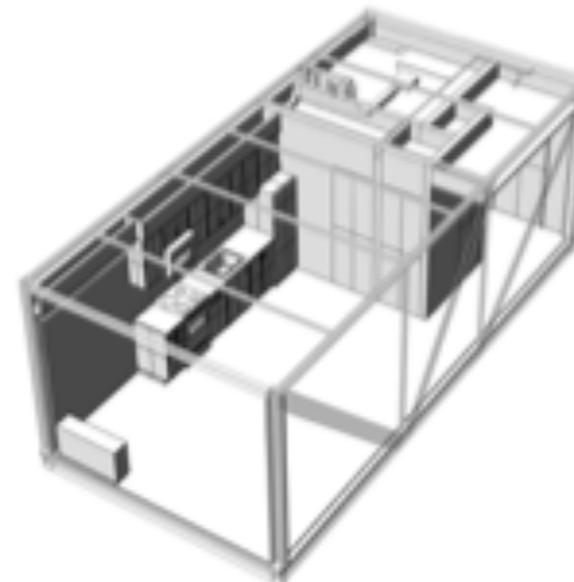
The FC Modular Process



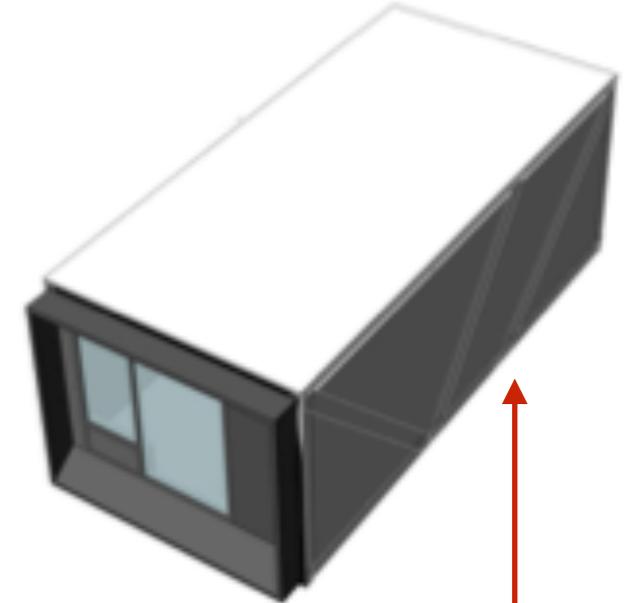
Steel Chassis



Bath Pod



Carpentry and Services



Enclosure

Finished Mod

Benefits of Modular Construction

1. Speed to Market

- Must faster from design to build means revenues can be generated sooner

2. Efficiency and Value

- Factory construction more efficient than on-site construction, trade-by-trade
- Through-put increases over time
- Cost savings from design process which is significantly faster
- Cost savings from materials as in factory building allows for tighter budgeting of materials and inventory

3. Sustainability

- Detailed production drawings result in accurate quantity take offs so only needed materials are ordered and less is wasted

4. Safer Construction

- People are building in a safe and controlled environment inside, rather than dealing with inclement weather and trying to work 30 stories above ground

5. Reduced On-site Disruption and Neighborhood Impact

- Fewer deliveries
- Less work done on site
- Less time on site

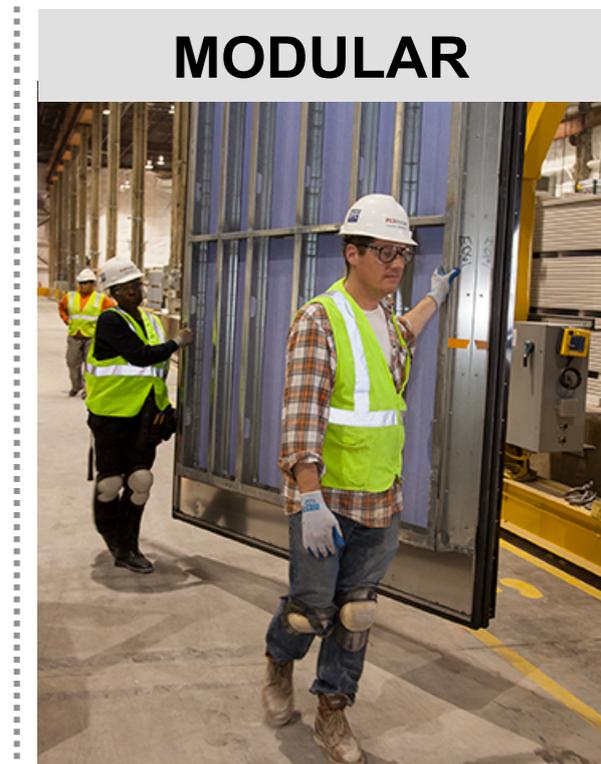
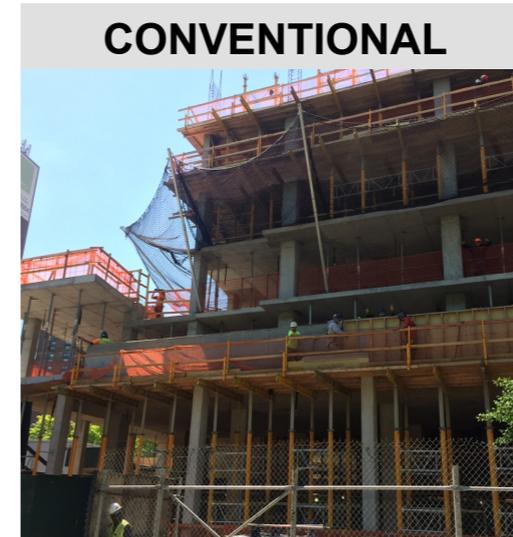


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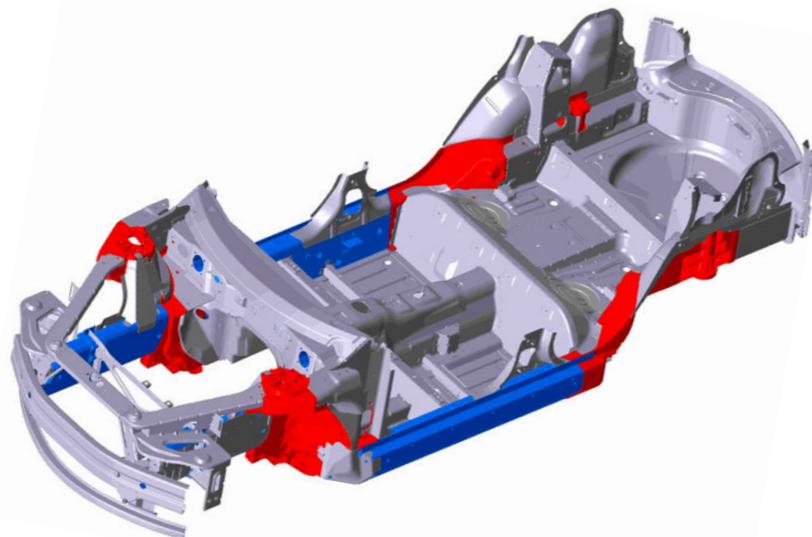
FC Modular Competitive Advantage

FC Modular has several competitive advantages over other modular construction companies and typical mid-rise development contractors:

- Design Flexibility
- Proprietary self-sealing façade systems
- Unique on-site assembly including no welding necessary for on-site construction completion
- Groundbreaking, in-place union labor partnership that decreases construction costs
- Quicker assembly on-site due to technological advancements and standards in mating Mods

Competitive Advantage #1: Design Flexibility

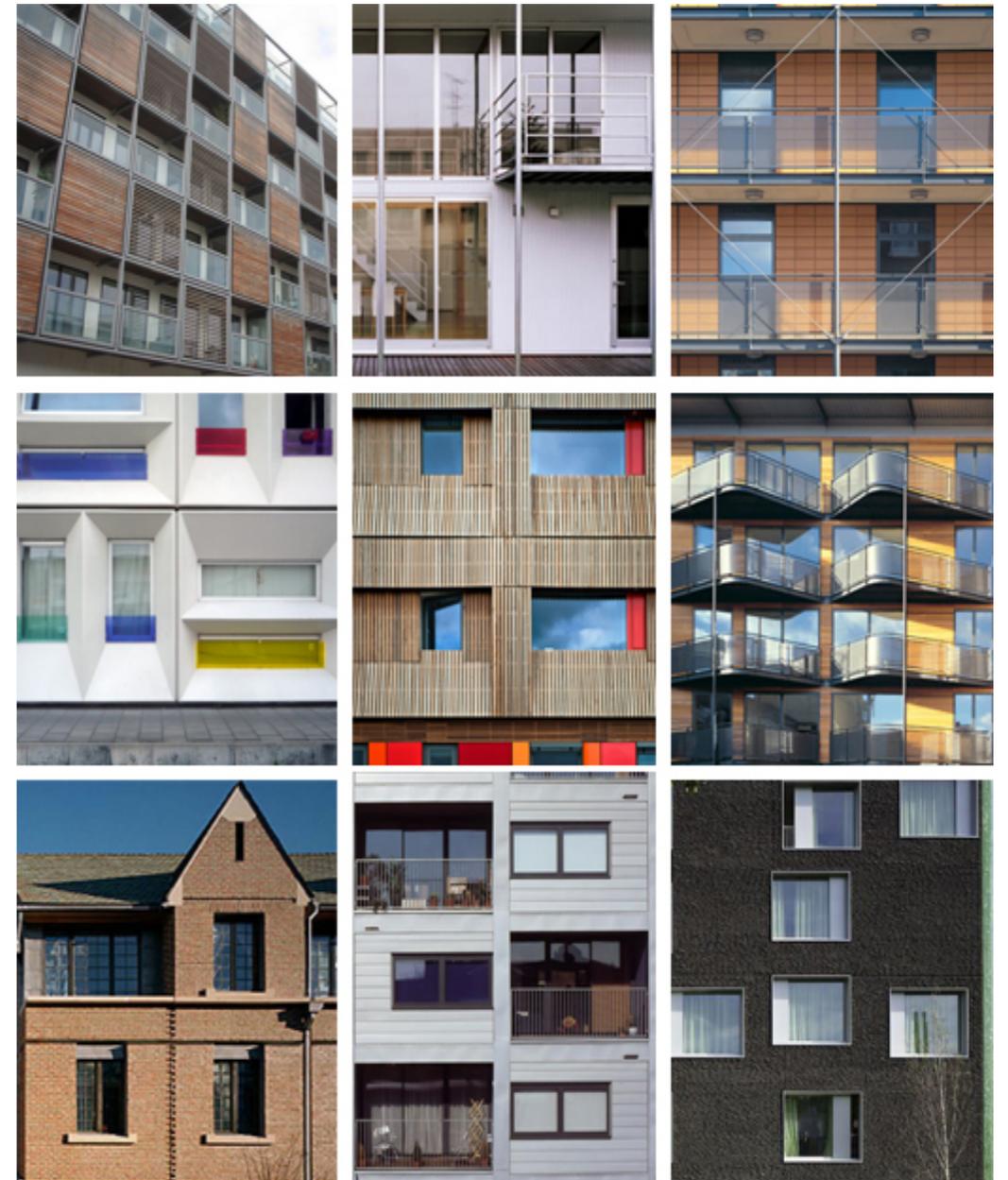
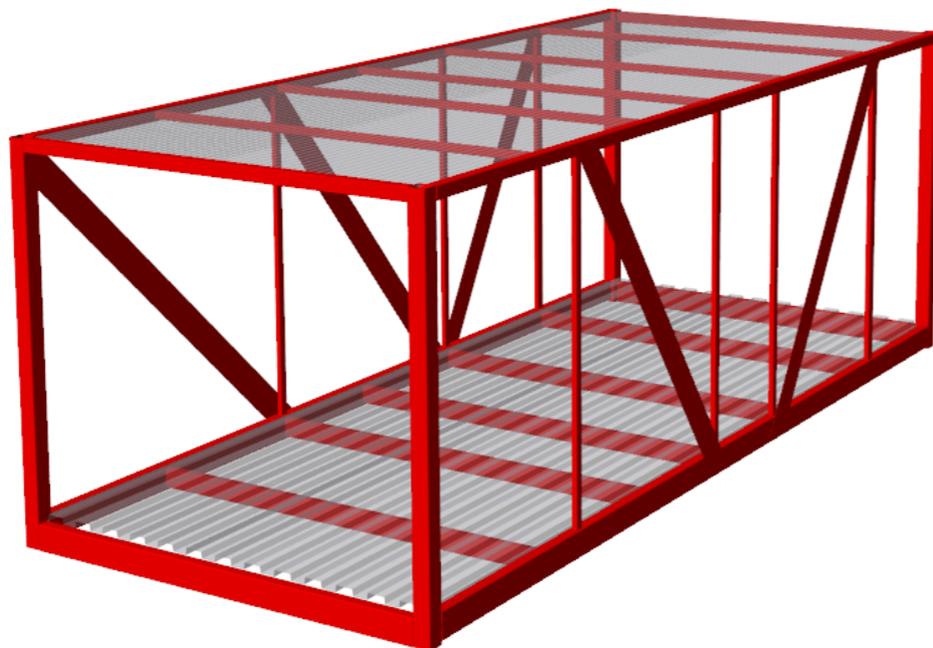
- Like a car manufacturer, the Company uses a typical base frame which can be customized to look and perform to the clients specifications
- Client offerings range from luxury high-end buildings to affordable high rises and dormitories



Competitive Advantage #1: Design Flexibility

The Company starts with a “Mod” or modular steel box. However, we can change the exterior façade to meet any customer demand and provide unique customization

Finishes on modular construction are as interesting and dynamic as any typical reinforced concrete construction



Competitive Advantage #2: Self Sealing Facades

CONVENTIONAL



Conventional façade systems are attached on-site resulting in weather delays and/or on-site delivery and assembly issues

MODULAR



Modular facades are attached in the factory and self-seal by their own weight to the floor below in the field

Competitive Advantage #3: No Welding on Site

- Conventional construction requires floor by floor construction and trade by trade coordination to complete a building
- Modular units are brought to the site in 90% finished condition and are craned into position for a more simplified construction process
- Quicker modular vertical completion results in a 40% reduction in construction timelines versus typical conventional construction

CONVENTIONAL

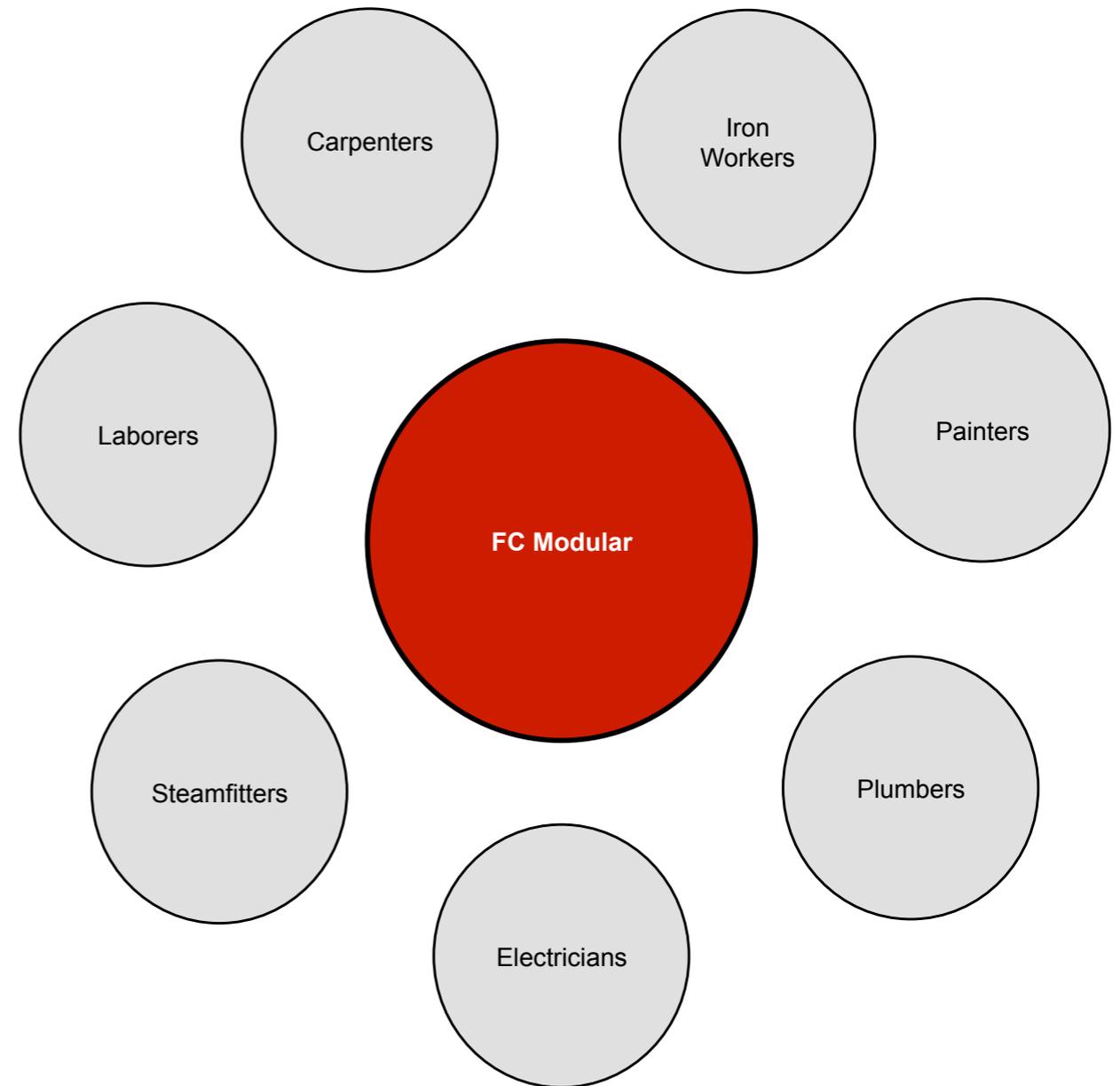


MODULAR



Competitive Advantage #4: Union Labor Agreement

- FC has negotiated a collective bargaining agreement with all of the trade unions necessary to complete the construction of the Mods
- Since the majority of the labor is conducted in a factory setting, and not on-site, significant savings are realized by the Company
- Hourly wages for FC employees are \$40 per hour versus \$140 per hour on a typical job site



Competitive Advantage #5: Quicker Assembly

- Unlike conventional construction, modular units can be constructed off-site in the factory while the foundation is being poured and completed on-site
- Mods can be “warehoused” and staged and then delivered the day the foundation is completed (i.e. “just in time”)
- On average, eight (8) months of on-site construction time is saved reducing on-site construction costs, general conditions and allowing for earlier lease-up and revenue collection
- Faster vertical construction given Mods are made off-site and delivered on a “just in time” basis
 - Result: \$20psf in savings
- Faster design and development given in-house completed plans and engineering drawings
 - Result: \$2psf in savings
- Quicker lease-up to offset losses and construction loan interest
 - Result: \$25psf in savings

In total, a 125,000 sq.ft. building can save approximately \$50psf or 10%-15% of its total Hard and Soft Costs if constructed by FC Modular

Faster Speed to Market with FC Modular

Typical Schedule: Conventional vs. Modular

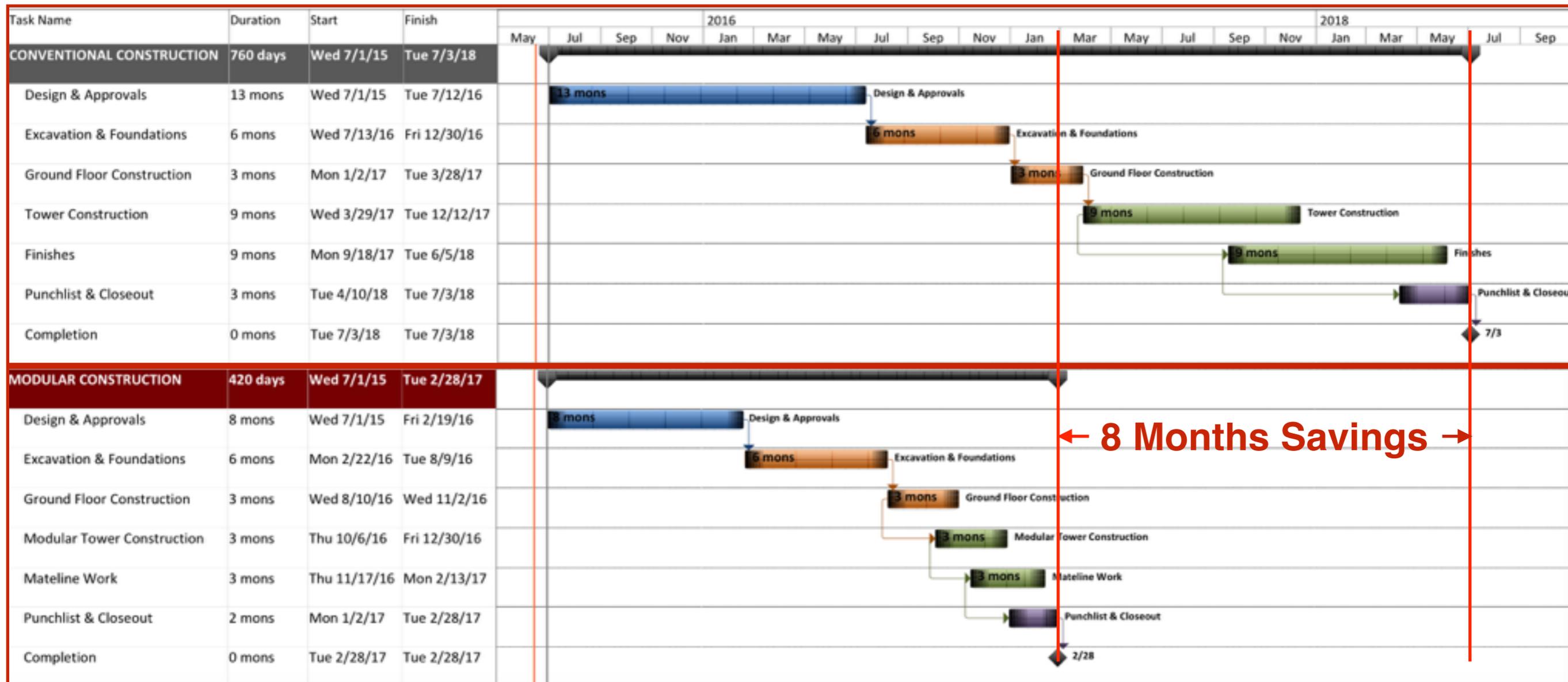


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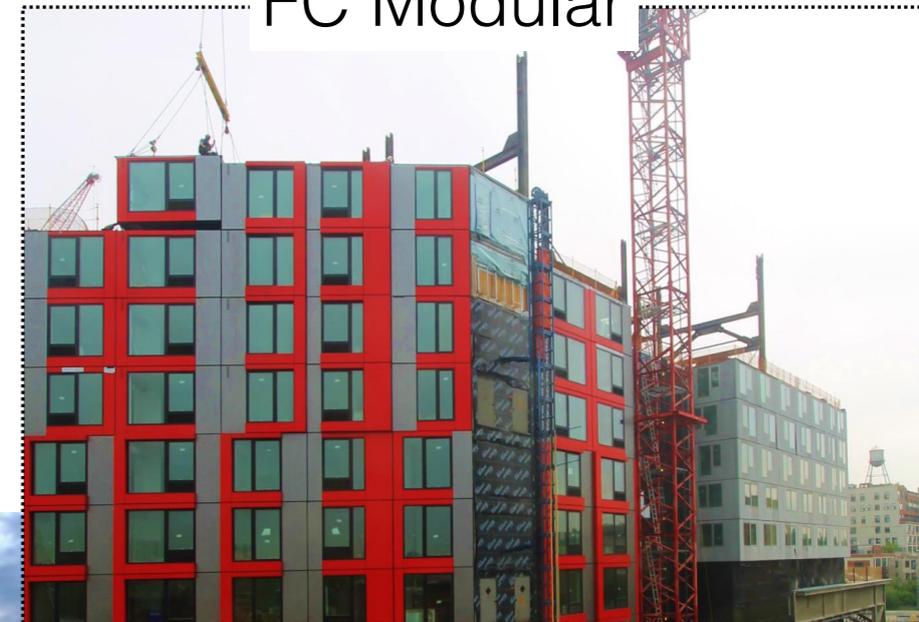
Demand is High for Modular Construction in NYC

- The Mayor's main agenda in NYC is to increase the amount of affordable housing. This is also creating important opportunities for modular units.
 - Micro Units in Manhattan
 - Modular Units from FC at Barclays Center, Brooklyn
 - Modular "Pod" Hotel in Williamsburg, Brooklyn

Residential Micro Units



FC Modular



Pod Hotel



Future Market Segments

- In addition to high rise and mid-rise residential housing, favorable market opportunities exist for modular construction in new market segments

Hotels



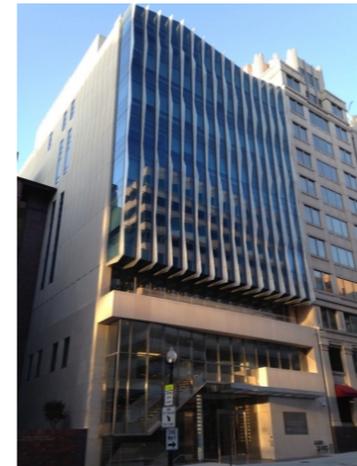
- Select service hotel brands such as Fairfield Inn and Suites and Hilton Garden Inns are expanding rapidly
- Layouts and design can be easily accommodated by modular designs engineered by FC Modular

Hospital/Institutional



- NYC hospitals and healthcare industry is growing and in constant need of newly developed hospital rooms
- Patient rooms can be accommodated by modular design

Dormitories



- Need for student housing and other professional multifamily developments at affordable price points
- Population concentration and commute times are driving demand for higher density development

Affordable Housing



- New York City Mayor focused on increasing amount of Affordable Housing
- Modular construction can easily create such multifamily housing at appropriate pricing

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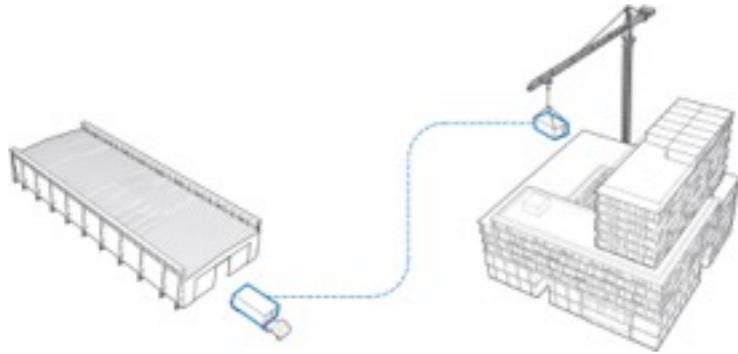
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Business Plan and Strategy: Initial Market Focus

Focus on NYC and infill development opportunities in Brooklyn, Manhattan and emerging neighborhoods in New York City

- Utilize strong local presence and market knowledge to contract new development jobs with local developers
 - Leverage relationships with private and public institutional owners, operators to secure opportunities
 - Seek “middle market” opportunities (\$50mm - \$100mm of total development cost) where our modular product can compete and win on price and delivery schedule
- Leverage our in-place technological and architectural and development experience and skill
 - Ability to cut costs for mid-rise properties and convince owners and/or developers or public institutions that our modular product is best in-class choice
 - Capitalize on success at Barclay Center/B2 development to add value on projects that seem too complex to others
 - Focus on emerging sub-markets that are experiencing strong growth characteristics and are difficult for owners to construct efficiently using traditional methods at appropriate price points
- Continue to refine proprietary technology and unique factory to maximize throughput and gain additional efficiency
 - Maintain flexibility to construct both mid-rise and high-rise product with different modular layouts
 - Focus on NYC and, after factory is full, seek opportunities to create a second “assembly line” in NYC

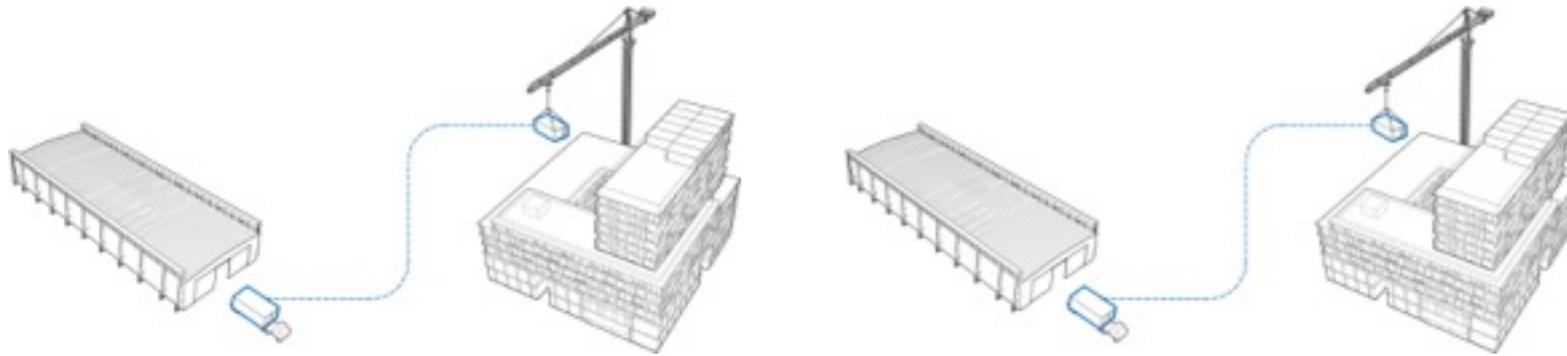
Growth Plan: Phase I (Year 1)



Broaden Exposure in NYC

- Leverage relationships and to secure three additional development
 - Likely multi-family developments of 100,000-150,000 square feet
- Codify process of creating buildings modularly
- Utilize proprietary technology for ERP integration and design model integration
- Solidify relationships with major suppliers to ensure timely delivery of all parts
- Create Library of Modules
- Refine two shift operation to maximize productivity and through-put

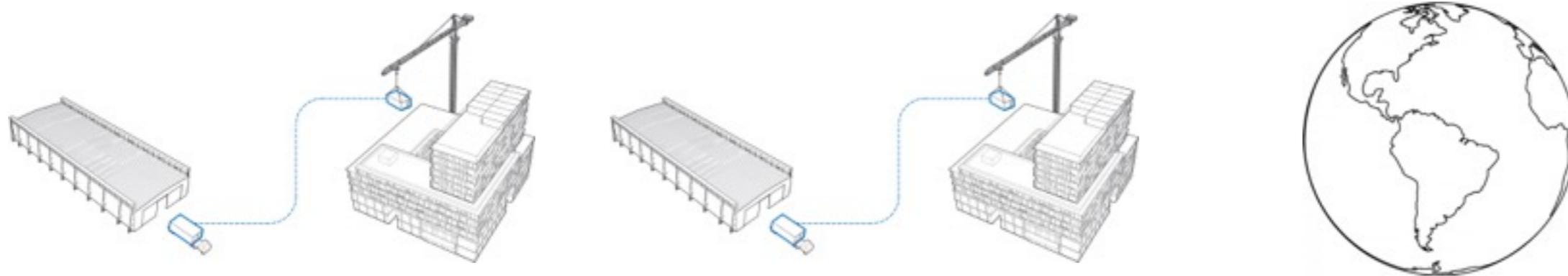
Growth Plan: Phase 2 (Years 2 and 3)



Expand capacity in NYC with additional factory

- Expand product types and broaden market exposure
 - Hotels
 - Dorms
 - Multi-family
 - Affordable housing
 - Hospitals
- Technology refinements and enhanced customization
- Integration of all systems end to end including on-site and building operations of customer
- Locate and build out a second factory
- Train team to facilitate expansion

Growth Plan: Phase 3 (Years 3+)



Geographic Expansion

- Build additional factories
- Seek joint venture with local geographic industry leader
 - Design Services
 - QA/QC program management
 - Local building approval assistance
- Training platform
- Purchasing platform
- Data systems integration

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Multi-Family Development: Pacific Park, Brooklyn

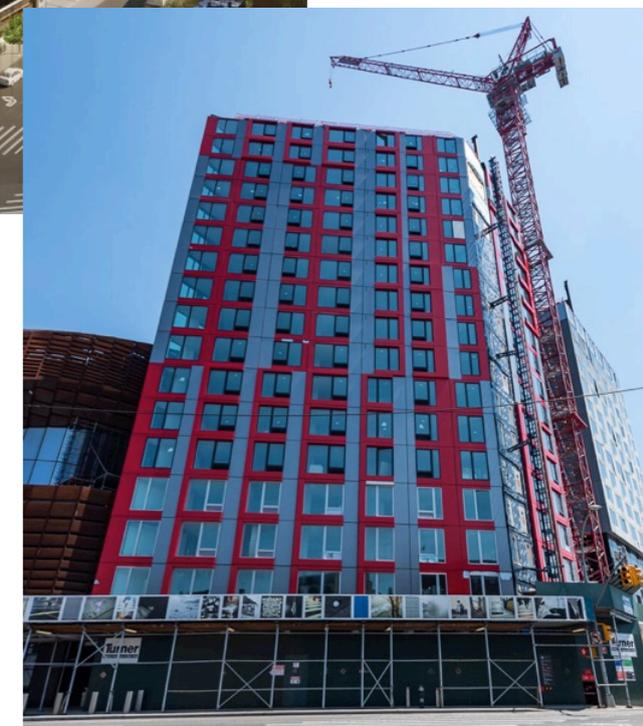
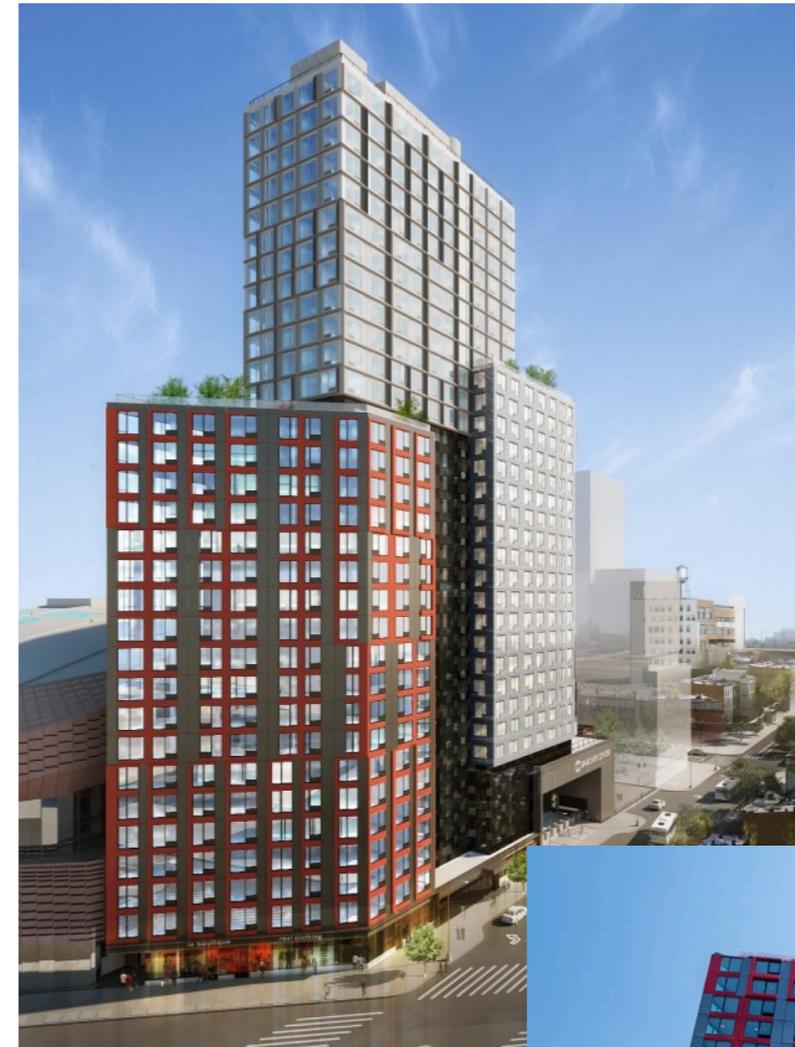
Tallest Modular Building in the World

Project Overview

- Designed 32 Floor, 322 foot tall multi-family tower
- Complexity given adjacency to Barclays Center
- 346,000 Gross Square Feet with 363 Rental Units (50% Affordable / 50% Market Rate)
- 4,000 SF of ground floor retail and 15,000 SF of Arena Storage
- Designed to achieve LEED Silver certification
- Amenities include: 24-hour doorman, Fitness Center, Lounges, Yoga/Dance Studio, Children's Play Room

Financial Structure/Update

- Project financed with:
 - Tax Exempt Bonds
 - NYC HDC Second Mortgage
 - Low Income Housing Credits
- Currently finishing modular construction in Brooklyn with estimated year end completion of the building
- "B2" Project has completed the 28th floor and is finishing approx. 5,000 square feet per week



Pipeline of New Developments

Project	Location	Sq. Ft.	Start Date	Number of Stories
Stevens Dormitory Towers	Hoboken, NJ	250,000	10/16	15
Beth Israel Hospital	NYC	600,000	6/16	15
Broadway/UWS Apartment Building	NYC	130,000	6/16	10
Asbury Park Live/Work	Asbury Park, NJ	100,000	3/16	9

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FCE Cost Basis

Item	Cost in Millions
Factory Office and IT	\$0.2
Prototype	\$3.1
Tenant Improvements	\$6.1
Library of Production Drawings	\$0.1
Cranes and Factory Equipment	\$1.6
FC Modular Additions	\$0.1
BNY TI Allowance	\$3.4
Cost to Construct Factory	\$14.6
Skanska Buy-Out	\$10.0
FCRC Basis in Business	\$24.6

Current Economics

- **Forest City has announced internally that they are not supporting nor funding the growth of the Modular business**
 - FCE has become a REIT focusing on income producing properties not construction businesses
 - FCE faces shutdown issues, and other costs that may exceed \$8mm
 - WARN Act Notices sent on December 1 to all hourly employees
- **The only modular project under construction or signed up is the B2 Project that will be finished by March 2016**
 - Result is projected losses of \$1.3 mm per month until a new development can be obtained
 - Total of \$11 mm of losses assumed in first year of spin-off operations
- **Closing on Factory Purchase Scheduled for March 2016**
- **The business has the opportunity to attract new developments and produce 5,000 sq. ft of finished product a week or 250,000 sqft per year or approximately two (2) mid-rise developments per annum**
- ***FC Modular profit margin of approximately 30% results in approx. \$25 million of profit per year when stabilized***
 - *Approximately 3 year pay back on invested capital*

FC Modular: Pro Forma Assumptions

- Operating One factory in the Brooklyn Navy Yard
- First Two buildings sold at \$330/sf Next High Rise \$400/sf and remaining \$350/sf
- FC Modular providing design and management of the modular design process
- 230 Trade Associates and 30 Management employees on two shifts and 1 logistics shift
- Average burdened rate of \$40/hr for Trade Associates
- 5,000 Sf of finished mods manufactured per week in Factory
- First production in factory to start May 2016 after completion of B2
- 10 Mods per day erected on site
- GC used to manage all on-site work

FC Modular: Pro Forma P&L 1 Factory

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Revenue					
Ongoing Business					
Design Revenue	\$3,808,182	\$7,097,159	\$8,746,403	\$15,147,046	\$17,107,450
Building Revenue	\$24,990,622	\$95,478,520	\$128,770,284	\$165,837,093	\$159,729,386
Ongoing Business Revenue	<u>\$28,798,805</u>	<u>\$102,575,679</u>	<u>\$137,516,687</u>	<u>\$180,984,139</u>	<u>\$176,836,837</u>
Total Revenue	\$28,798,805	\$102,575,679	\$137,516,687	\$180,984,139	\$176,836,837
Expenses					
Architecture and Design	\$3,031,887	\$5,392,785	\$6,274,127	\$9,083,862	\$8,468,042
Field Program Costs	\$7,023,194	\$27,361,786	\$37,414,044	\$48,207,467	\$47,964,672
GC's and GRs	\$3,767,346	\$16,363,499	\$19,394,180	\$23,988,152	\$23,988,152
Factory Management	\$4,929,167	\$5,704,238	\$6,262,500	\$6,262,500	\$6,262,500
Factory Overhead	\$4,500,000	\$4,500,000	\$4,500,000	\$4,500,000	\$4,500,000
Factory Labor	\$11,812,900	\$18,000,000	\$18,000,000	\$18,000,000	\$18,000,000
Factory Material Costs	\$5,497,937	\$21,005,274	\$28,329,462	\$36,484,161	\$35,140,465
Total Expenses	<u>\$40,562,430</u>	<u>\$98,327,582</u>	<u>\$120,174,314</u>	<u>\$146,526,142</u>	<u>\$144,323,830</u>
EBITDA	-11,763,625	4,248,097	17,342,373	34,457,997	32,513,006

Transaction Structure

Acquisition of the FC Modular business from FCE for \$2mm of cash, a 10% interest and a contingent, subordinated additional 5% equity interest.

New Investor would contribute a total approximately \$15mm:

- \$2mm of cash for the purchase price
- Cash or a guarantee backstop for estimated \$11.8mm of losses during year one when the Company focuses on obtaining new modular construction building contracts
- Cash flow model assumes \$2mm of capital expenditures for factory maintenance/other from years 3-6 which will be paid for from available cash from operations

New Investor Equity would receive 90% of distributions and compound interest at a 15% rate. Management may be willing to contribute some cash towards this investment.

The distribution waterfall for available cash from the Company would be:

10% to FCE and 90% to new investor until it has received a return on, and of, all equity from New Investor until a 15% IRR has been obtained;

Then, pro rata to: (i) 15% to FCE and, (ii) 85% to the New Investor and Management.

New Investor and Management would then split the cash flow 50%/50%.

New Investor would have all Major Decision rights and FCE would be a limited partner with no approval or other rights in the Company.

Economics Deal Structure: 1 Factory

<u>Year</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Acquisition	-\$2.00					
EBITDA		-\$11.76	\$4.25	\$17.34	\$34.45	\$32.51
Capex / Contingency			-\$2.00	-\$2.00	-\$2.00	-\$2.00
Exit						<u>\$97.53</u>
Multiple of EBITDA at Exit		3				
Total	-\$2.00	-\$11.76	\$2.25	\$15.34	\$32.45	\$128.04
Profit	\$164.32					
IRR	105%					
Total Equity Investment	-\$13.76	-\$2.00	-\$11.76	\$-	\$-	\$-

Economics Deal Structure: 1 Factory (cont.)

WATERFALL: STEP ONE		2015	2016	2017	2018	2019	2020
FCE	10%	\$-	\$-	\$0.23	\$1.53	\$0.31	\$-
Investor	90%	<u>-\$2.00</u>	<u>-\$11.76</u>	<u>\$2.03</u>	<u>\$13.81</u>	<u>\$2.83</u>	<u>\$-</u>
Total		-\$2.00	-\$11.76	\$2.25	\$15.34	\$3.14	\$-
<i>Investor Equity</i>							
Beginning Balance		-\$2.00	-\$2.00	-\$14.06	-\$14.14	-\$2.46	\$-
Preferred Return	15%	\$-	-\$0.30	-\$2.11	-\$2.12	-\$0.37	\$-
Cash Flow		<u>\$-</u>	<u>-\$11.76</u>	<u>\$2.03</u>	<u>\$13.81</u>	<u>\$2.83</u>	<u>\$-</u>
Ending Balance		-\$2.00	-\$14.06	-\$14.14	-\$2.46	\$-	\$-
Excess Cash Flow		\$-	\$-	\$-	\$-	\$29.31	\$128.04
WATERFALL: STEP TWO							
FCE	15%	\$-	\$-	\$-	\$-	\$4.40	\$19.21
Investor	43%	\$-	\$-	\$-	\$-	\$12.46	\$54.42
Management	43%	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$12.46</u>	<u>\$54.42</u>
Total		\$-	\$-	\$-	\$-	\$29.31	\$128.04
Investor Return - Total							
Waterfall - Step One		-\$2.00	-\$11.76	\$2.03	\$13.81	\$2.83	\$-
Waterfall - Step Two		<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$12.46</u>	<u>\$54.42</u>
Total		-\$2.00	-\$11.76	\$2.03	\$13.81	\$15.28	\$54.42
Profit	\$71.77						
IRR	72%						
FCE Return - Total							
FCE - Step One	10%	\$-	\$-	\$0.23	\$1.53	\$0.31	\$-
FCE - Step Two	15%	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$4.40</u>	<u>\$19.21</u>
Total		\$-	\$-	\$0.23	\$1.53	\$4.71	\$19.21
NPV for FCE	10%	\$14.98					
	15%	\$11.67					
	20%	\$9.20					

Appendix

Skanska Partnership with FCE - Background

- Forest City Enterprises originally formulated the idea for modular construction to enable the company to quickly and efficiently construct new multi-family housing at Atlantic Yards in Brooklyn (now Pacific Park)
- FCE created a JV with Skanska, the Construction Management firm, in 2012 to co-develop the B2 Project at Atlantic Yards (now called Pacific Park)
 - Together the firm hired approximately 160 workers
 - Skanska was tasked with leading the development and overseeing all operations
- Skanska is not a developer, but rather a construction manager, and their mismanagement led to cost and time overruns
 - FCE and Skanska ended up in litigation and the factory in Brooklyn was eventually closed and the workers were furloughed during the legal fighting
- Ultimately, FCE bought out Skanska for \$10mm to control the B2 project's construction (and continues to litigate with Skanska on other matters)
- In 2015, Roger Krulak and his Team took over FC Modular and re-opened the factory, re-hired the workers and started delivering modular product to the site on-time and on-budget
 - Today the B2 project is receiving approx. 5,000 sq.ft. of Mods per week and the building is expected to be completed by year end
- Again, FCE does not want to own a construction business and is looking for an exit from FC Modular

Confidential Information Memorandum

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