LAMPERT
DEBT ADVISORS

ADDRESSING THE DEBT FINANCING NEEDS OF MIDDLE MARKET COMPANIES AND FINANCIAL SPONSORS

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Highlights

- Eurozone contagion disrupts global capital markets and hampers recovery of the U.S. economy.
- Euro depreciation weakens US exports and manufacturing outlook.
- Weak jobs growth and stubbornly high unemployment weaken consumer traction and confidence.
- Leverage loan liquidity declines amid increased market volatility.
- High yield outflows of over $3.0 Billion; spreads widen across the board by approximately 150 bps.

Lampert Debt Advisors specializes in structuring and raising capital for middle market companies. We are dedicated to meeting the debt financing needs of privately-owned, sponsor-backed and publicly traded growth companies. We focus on companies seeking to raise between $10 and $125 Million through the placement of creative financing solutions. Our principals have completed over $20 Billion in financing across a diverse range of industries and financing structures.

Summary

The ongoing concerns over the Eurozone contagion are increasingly being realized–jeopardizing the continued U.S. recovery and draining funds from our corporate capital markets. From continued depreciation of the Euro to the parlous health of European financial institutions, Europe is providing stiff headwinds to a U.S. recovery that had fueled the capital markets during the first half of the year. The fragility of the gradual U.S. recovery suggests these events could trigger the feared double dip recession. On a positive note, however, economic data continues to be a harbinger of continued low interest rates, evidenced by anemic jobs growth and muted inflation, despite strength in the industrial side of the recovery.

The Eurozone crisis **sharply reduced the US capital markets' new issuance** activity in May and June. High yield spreads to Treasuries widened by over 150 bps accompanied by a significant outflow of almost $3.0 Billion in funds during the same period . The leveraged loan market, robust throughout much of the first half of the year experienced a similar slowdown amid the market volatility.

This points to a potentially challenging summer on the financing front; and while we do not expect access to be completely shut down, we expect access to be limited to better credits willing and capable of bearing the cost of higher interest rates.

The Economy

Last month, we expressed concern that the Eurozone crisis might impair our recovery. Unfortunately, this concern is being realized. The stagnation of economic performance could merely reflect renewed concern with the outlook or reactions to economic realities; however, the result remains the same -- namely, jeopardy to our continued recovery.

Consumers displayed fiscal conservatism during the month. Retail sales fell 1.2% in May vs. a 0.6% increase in April. While total consumer credit rose $1 billion, this was largely due to the race to close on home purchases prior to the expiration of the government's homebuyers tax credit. Federal Reserve data showed that revolving credit declined at a 12% annual rate, indicating caution by consumers on discretionary spending and continued deleveraging. Similarly, while motor vehicle sales rose to 11.6 million annualized sales (up from 11.2 million in April), closer examination reveals that fleet purchases by rental companies are accounting for a disproportionate share of the total as these companies, having retained vehicles longer during the downturn, are now re-fleeting at an accelerating rate.

On the housing front, existing home sales declined by 2.2% in May while supply rose again to a secular high of 8.3 months, exacerbating fears that the recent stabilization of home prices may falter despite mortgage rates falling to the lowest levels since 1971 (4.69% for a 30-year fixed-rate mortgage). New home sales, generally representing less than 10% of the market, plunged 33% to 300,000 in May, the lowest rate in 45 years. Housing permits are down 11.5% as homebuilders are loath to build inventory in the face of retreating demand. Furthermore, the Mortgage Bankers Association reports that the purchase loan applications index has fallen 42% since April, signaling the retreat of consumer interest in housing once the homebuyers' subsidy program ended on April 30, 2010.

Robust consumer spending requires access to credit, a stable employment outlook, and housing-market strength. However, the outlook for employment improvement remains stagnant. Private-sector employment registered a paltry 41,000 new jobs, only 10,000 of which were permanent. Overall, job growth of 431,000 consisted primarily of temporary Census Bureau job fills. Furthermore, Census hiring will be reversing, resulting in the release of temporarily employed workers back into the unemployed labor force. In June, the Census bureau released 208,000 workers while businesses added a modest 83,000 jobs. While unemployment fell by 652,000, bringing the unemployment rate down to 9.5%, this was primarily the result of discouraged employees leaving the "actively seeking employment" category.

Spending curbs and reawakened anxieties about the economy have dramatically reduced consumer confidence. The Conference Board Index fell nearly 10 points to 52.9, a decline that represents the aftershock of a major economic crisis. Consumers are expressing renewed misgivings about the job outlook, the retrenchment in the housing market, and the stock-market reversal.

Industry remains a bright highlight on the edge of the US economy. May industrial output rose a further 1.2%. Key indices for manufacturing remained strong with the ISM Manufacturing Index resting well above breakeven at 59.7, and the New Orders Index reaching a secular high of 65.7 (vs. a breakeven of 50). Much of the demand is from abroad as the export component rose to 62, its highest level since 1988. The Non-Manufacturing Index is signaling modest growth at 55.4, although the related employment index is flashing no growth at 50.4 compared to a breakeven of 50. Durable-goods orders provide further impetus for a continued strong manufacturing sector. Including transportation, new orders increased 0.9% in May after an unexpected drop of 0.8% in April. The transportation component, which fell 6.9%, was whipsawed by a 215.7% increase in April and a 26.9% decline in May. In lockstep, non-defense capital goods orders rose 2.1% and stand 18.4% ahead of the year ago numbers. However, the appreciation of the dollar against the Euro was felt in the decline in **April's export numbers**; exports declined by 0.7% while imports fell 0.4%. We expect the impact of a strengthening dollar to further impair future export sales. Furthermore, by rendering imports less expensive, domestic demand may also be impaired.

With both the CPI and PPI falling 0.1% in April and continued declines in the rate of increase on a year to year basis (0.9% year over year for the CPI), some economists are raising the alerts of the potential devastating effect of deflation. We believe the risks are low in light of the level of money supply expansion; however, the potential Eurozone implosion, a strengthening dollar, and the continued deleveraging by US consumers may heighten the risk of a deflationary spiral. Nevertheless, the benign outlook for inflation and the intractable unemployment rate **served to support the Fed's position of maintaining low rates for "an extended period**." A Wall Street Journal survey of economists produced a consensus estimate that rates would not rise until February, 2011 while unemployment would remain stubbornly above 8% until 2012. Like LDA, economists surveyed ranked the anemic job growth and ripple effects from the Eurozone crisis as the greatest risks to our economy.

Why Europe Matters-redux

While the Euro's decline may usher in a pe-riod of renewed economic growth in Europe, the parlous state of Eurozone financial institutions may represent the greatest risk today to our continued recovery.

The Euro has continued its remarkable descent in the face of the continuing crisis. While the currency depreciation augurs well for a pickup in European economic activity, its expansionary impact is most keenly felt by Germany, which needs far less stimulus, than by the PIIGS, with far greater needs for stimulus and economic growth. A strengthening dollar may impair the outlook for US exports; however, we believe that some of the impact will be ameliorated by a rising China yuan. However, as we discussed last month, the EU has limited tools to restore its economic vitality; lacking a willingness to permit quantitative easing (monetary expansion) and limited degrees of freedom to exploit fiscal stimulus in the face of investor resistance to continued deficit funding of member countries, a depreciating Euro is the only tool available to stimulate the European recovery. We believe the Euro will continue to decline and achieve dollar parity within twelve months.

A weak Euro may stimulate EU economic activity, initially; a more long-lasting effect requires that European financial institutions provide necessary credit support. Yet, we believe that European institutions are ill-equipped to meet the credit needs of their respective constituencies. First, there is an emerging liquidity crisis that has disrupted the financing plans of all but the most stable banks in Europe. Financial institutions falter and die as a result of liquidity loss. In an era of positively shaped yield curves, institutions borrow short-term funds to finance long-dated investments, liquid or otherwise, at a profitable, positive spread. Institutional crises arise when other institutions are no longer willing to refinance an organization on a short term, or even overnight, basis. Debts come due, cannot be paid and the institution dies. Illiquidity, a debt-laden balance sheet and the unwillingness of financial institutions to rollover maturing short term obligations were the key drivers of the demise of Lehman Brothers and Bear Stearns.

European banks are now facing near term difficulties in refinancing existing obligations when due. Already, the ECB has advanced over €800 Billion to meet the funding scarcity of European financial institutions. This is in addition to the €442 Billion in one year loans made last year by the ECB to Eurozone banks that came due on June 30, 2010. Simultaneously, corporate bond issuance by European banks has plummeted to roughly 15% of its historical average.

Conversely, those banks with liquidity and limited near-term refinancing are hoarding cash rather than lend it overnight to other institutions in the interbank market or to private borrowers. European banks have increased deposits at the ECB from €100 billion, at the start of the year, to over €300 billion in June. The growth in deposits at the ECB, which pays a puny 0.25% p.a., reduces credit available to borrowers and other banks alike. It reflects the growing reluctance of European banks to lend to one another by diverting funds away from the interbank market. The 3 month LIBOR-OIS (Option Indexed Swap) spread, a measure of the investor concern with the borrowing banks default likelihood, has increased 300% from its historic norm of 10 basis points to over 30 basis points.

When rumor and innuendo threatened other US financial institutions, the Fed promulgated the financial stress tests to both identify problematic institutions while buttressing investor perceptions of the financially capable.

Unfortunately, Europe has only just begun to heed the clarion call of the markets to stress test their institutions. The top 100 institutions will be tested while results for the top 25 will be published. With the EU estimating asset write-offs **of nearly €240 Billion, analysts expect considerable** need for increasing capital at European banks. Analysts estimate that Eurozone **banks will need €1,000 Billion to meet tier one** capital requirements (by way of comparison, US institutions needed to raise $74.6 Billion after the results of the US stress tests, representing 1/16th the amount estimated for European institutions). At present, the OECD estimates that European banks have equity cushions that are 30-60% less than their US counterparts as measured by the ratio of assets to common equity. Overall, Barclays estimates that the combination of equity capital and long term funding that would be required to meet the Basel proposals for a minimum level of long term funding relative to **assets, will require the issuance of €3 Trillion.** This equals 10 years of debt issuance at the historic rate of bank corporate debt issuance.

European institutions could be facing liquidity and refinancing requirements of staggering proportions. The potential contagion that started with Greece, spread to the other weaker nations in the Eurozone, is now infecting investors' comfort with Eurozone institutions and could spillover into our capital markets through the linkages between European counterparties and US financial institutions. The US possesses strong and reasonably integrated monetary and fiscal institutions proven capable of working together in times of crisis to resolve the issues that beset the US markets; Europe has no comparable framework with which to meet the challenges described above. The result could well be a credit crisis contagion in Europe that infects all of our capital markets as well.

Leveraged Loan Market

Will the *real* loan market please stand up? To say the leveraged loan market experienced some volatility in the second quarter, would be akin to stating the free agency of Lebron James has received moderate media attention. The market tone shifted from exuberance in April and early May, dictated by increased volume, tighter spreads and higher leverage, to cautiousness, as the lingering European sovereign debt crisis and disappointing economic and employment numbers raised concerns about a potential "double-dip" recession. These factors, when combined with the knock on effect of fewer bond-for-loan takeouts, resulting in reduced loan investor liquidity, served to reign in the frothy market of March and April as investors began to take a more conservative approach to both structures and pricing.

Consequently, transactions entering the market during the final six weeks of the quarter fell victim to reversing trends, with many deals either flexing pricing upward to clear the market, or simply being put on hold. From the "glass half full" school of thought, today's tighter conditions seem to have allayed, at least momentarily, increasing investor angst about a potentially overheated credit market.

Preceding the correction, and largely arising from the market's technical imbalance, deal structures and leverage levels harkened back to the halcyon days of 2007; a time of ebullience, when debt multiples routinely eclipsed 5 times, and dividend recapitalizations were welcomed by investors with open arms and a welcoming smile. A deeper look at dividend recaps, a tell tale sign of the markets buoyancy, paints the picture. In the first quarter, sponsored issuers tapped the loan market to the tune of $6.36 billion to facilitate dividend payments to their owners; compare that figure to the $2.44 billion of dividend-related deals since April 1st, and it becomes quite apparent that the market for recaps has receded substantially.

Speaking of smiles, issuers and sponsors that were able to tap the debt market prior to the correction now seem very timely; heading into the summer lull, it appears as though the execution window has narrowed for new issues on the whole, and been reduced even further for deals on the fringe. Keep in mind; however, if the recent volatility tells us anything, it's that trends in 2010 appear to have a limited shelf-life.

Despite of June's slowdown, the quarter on the whole was robust, with $67 billion of new issue volume; this represents a 56% increase over the first quarter and the highest 3-month tally in 2 1/2 years. In the secondary market, the S&P LSTA Index experienced its first monthly declines since December 2008, shedding 2.2% and .44% in May and June, respectively. For the quarter, the index dropped 1.21%, bringing year-to-date returns to 3.37%.

Share of Institutional Loan Volume

	2005	2006	2007	2008	2009	1Q 2010
CLO's	63%	61%	56%	41%	46%	48%
Prime Funds	17%	13%	8%	5%	9%	10%

Source S&P LCD

The forward calendar remains healthy in the face of the summer slowdown. Compared to 2009's pipeline as of Independence Day, which stood at a paltry $1.7 billion, the current total of $16.2 billion seems downright gluttonous. Below is a snapshot of select middle market deals currently in the market.

Middle Market Loan Pipeline

	Purpose	Sponsor	Deal Size ($ MM)	Spreads Pro rata / Inst.	LIBOR Floor (bps)	OID	Total/Senior Leverage
R3 Treatment	LBO	Paine & Partners	$165.0	L+450 / L+650	200	99	2.9x / 2.9x
Universal Fiber	Refinancing	Sterling Group	$126.0	L+525	195		3.5x / 3.5x
Schumacher Group	Dividend	Unsponsored	$120.0	L+400 / L+400	175	98.5	
Telx	Refinancing	GI Partners	$175.0	L+600	200	98	
Guardian Healthcare	Acquisition	Enhanced Equity Fund	$90.0	L+475 / L+475	150	98	
Pabst Brewing	Acquisition	Unsposnored	$100.0	L+500 / L+500	150	98	3.4x / 3.4x
Lifetime Brands	Refinancing	Unsponsored	$125.0				
Exopack (unsecured)	Acquisition	Sun Capital	$95.0	L+925	200		
Gun Lake Casino	Refinancing	Unsponsored	$160.0	L+900	250	98	
Veritex	LBO	Investcorp	$120.0	L+475 / L+475	150		4.5x / 3x
Softlayer Technologies	LBO	GI Partners	$230.0	L+525-550	175	99	4x / 4x

Sponsor-to-Sponsor. A developing trend in the LBO market has been the preponderance of sponsor to sponsor trades. Awash with cash, which by most estimations approximates $450 billion, private equity investors have leaned on each other to put capital to work. Year-to-date through June, sponsor to sponsor LBO's totaled $10.5 billion, representing a 39% share of all LBO activity. When taking into account a hold-period for the sellers of 4-5 years, meaning the initial purchase occurred in the 2005-2006 context, the similarity of the transaction statistics is striking.

Sponsor-to-Sponsor LBOs in 2010

	Original	New
PPM	8.1	8.8
Equity Contribution	36.80%	42.90%
EBITDA ($M)	$66.70	$107.90
Sr. Leverage	4.2 x	4.7 x
Total Leverage	5.1 x	5.0 x

Source: S&P LCD

A predictable ripple effect of the uptick in LBO activity, reduced equity contributions, began to take shape in the quarter. The relationship is of course, simply a matter of supply and demand. With lenders seeking out deals backed by well regarded equity groups, sponsors have garnered the ability to push terms. Since the days of the first leveraged buyouts, private equity investors have sought to inject as little equity as possible (this, of course, varies from sponsor-to-sponsor), which in the 80's, was often 10-20% of the purchase price. The percentage has fluctuated since then, with most debt investors feeling comfortable in the +/-40% range. In the post credit crisis world, however, lenders were pushing for higher equity checks, often exceeding 40%.

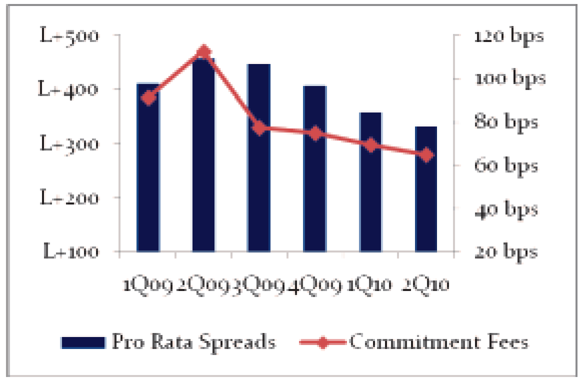
Two recent Madison Dearborn Partners acquisitions may portend shrinking equity contributions for the broader market. The firm contributed approximately 30% equity to facilitate the purchase of Transunion and BWAY Holdings. The financing packages for both transactions were well received by the market and subsequently traded up in the secondary. And while for the time being it looks like middle market lenders will continue to demand equity checks in the 40-50% range, the less stringent equity requirements of large cap deals, may trickle downstream to the middle market.

Pricing. Following consistent declines since 4Q 2009, average pricing reversed course as the first half came to a close. On average, spreads, OID's and LIBOR floors all shifted to the benefit of investors, on a monthly basis throughout the second quarter.

	April	May	June
Spread (L+)	399	446	542
Floor (bps)	165	172	181
OID	98.95	98.67	98.1

With a rejuvenated cash flow loan market emerging, asset based lenders saw their share of the loan market diminish. After accounting for 9.5% of volume in the first quarter, ABL's grabbed just a 4.7% share in the second. That figure represents the 5th lowest quarterly share since 2004 and is a far cry from the sectors peak during the same period, of 34.5%, experienced in the throes of the credit crisis, 1Q 2009. Although a slight uptick occurred in June, spreads on formula based deals continued to decline in the quarter bottoming out at 332.1 bps after a recent peak 456.3 bps in 2Q 2009.

Average Pro Rata Spreads for Non-DIP Asset based Deals



What's next? There is no question that today's market is significantly different than that experienced in March and April. However, despite the setbacks, opportunities to push deals through the market remain. As such, it is critical for issuers and sponsors alike, to approach the market in such a way as to draw maximum investor attention and mollify concerns related to the reciprocal impact that exogenous factors such as those discussed in *The Economy* section of this newsletter may have on company performance. Lampert Advisors draws on hundreds of close lender relationships to ensure transactions where we act as agent, receive the investort attention and interest, leading ultimately to a successful consummation.

High Yield Market

The 15 month old rally in the high yield market has come to an end, primarily derailed by the Eurozone contagion and a flight to quality. The ongoing sovereign and financial institution concerns and the ensuing flights to quality, have disrupted global equity and credit markets, alike. In the past six weeks since our last issue, high yield mutual funds experienced record outflows of over $4.6 billion in a six-week period. The ML High Yield Index experienced a 3.5% decline in May, the 10th worst month in high yield's 25 year history. YTD returns on high yield are approximately 3.4%, with the ML HY Index spread at approximately 700 bps, up from 550 bps in April and 640 bps at the beginning of the year. All three rating categories (BB/B/CCC) are currently trading wider than they were in December.

Primary issuance took a respite as well in the face of market declines. New issuance volume, which had been robust through the April, came to an abrupt halt. HY new issuance totaled $6.8 billion in May, the lowest monthly total since the $2.3 billion at the beginning of the rally in March 2009. Since that point, the high-yield market had not seen a month with under $10 billion in issuance. YTD through May 2010, issuance volume reached almost $122 billion vs. $185 billion for the full year 2009. Interestingly, offerings to support new LBOs have risen to 13%, a level last experienced in 2008.

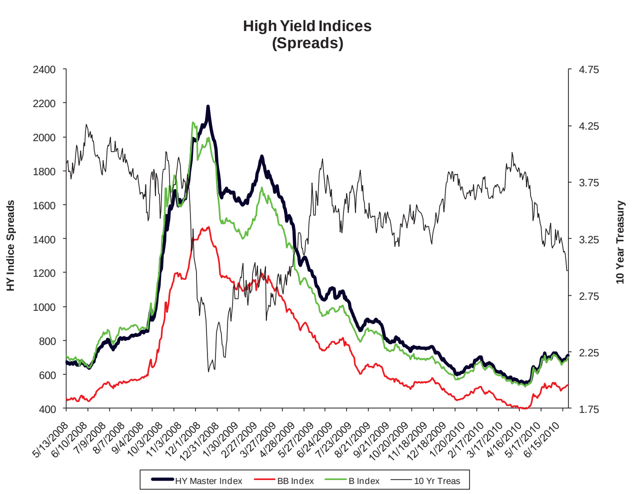
Jittery global markets kept the high-yield primary market on edge through the end of the month. Mounting concerns regarding liquidity in the Eurozone and political tensions on the Korean peninsula caused gyrations in global equity and credit markets. As a result the market sharply limited access to issuers with strong credit profiles while extracting premium pricing for new issues.

Despite these negative concerns, several positive factors emerged to provide support to the high yield market. First, a number of European nations have heeded the need for fiscal conservatism despite potential political backlash; Greece achieved key austerity milestones which will allow it to receive additional tranches of aid.

Secondly, the underlying strength of manufacturing and industrial demand has also helped stabilize the high yield market. Support for the industrial support for economic recovery is evidenced in capital spending, industrial production, core ordering and shipment flow data, which still have good momentum and continue to support GDP growth forecasts of 3.0-3.5% for 2010.

Even with an improved market tone, we would not anticipate a turnaround in high-yield primary issuance without a strong secondary rally. Trading in the secondary market remains light, and while more deals priced in recent weeks than in previous weeks, there is little movement in the pipeline. Volume should remain light in the coming weeks as we head into the summer doldrums; the post-holiday forward new issue calendar stands at $4.7 billion, representing a queue of M&A-related transactions in the pipeline.

Despite the dramatic volatility in the high yield market, signs of stabilization and opportunity are emerging. Pre-holiday issuance volume, at more than $2.1 billion for the week, was more than double the average of the past month and the highest total since mid-May. Furthermore, cash inflows into high-yield mutual funds and exchange-traded funds after six solid weeks of outflows aggregating $4.6 Billion, surged $1.39 billion during the last week of June after a smaller cash infusion of $271 million the previous week, according to Lipper FMI. In addition, recently priced deals have been upsized with gains of 1-3 points on the break underscored demand and life in the market. Overall, we expect the market to provide access to existing transactions in the queue with prices stabilizing at the high end of the credit spread ranges exhibited during the past several months.



The Merrill Lynch High Yield Master II Index ended June at spread of 713 b.p. over Treasuries. The spread widened by 152 b.p. from 561 bps as of our last issue with the High Yield Master II index up over 3.0% YTD. While May saw universal declines in every sector, June experienced modest gains in capital goods and the banking sector. The top performing industries in June were building materials, capital goods and banks, stalwart industries that led the economy from recession. Consumer-related industries, such as restaurants and leisure continued their downward spiral as investors await the return of consumer confidence and an end to the consumer deleveraging process.

The Eurozone crisis, and ensuing flight to quality has refocused the attention of the high yield market on core financial services, manufacturing and industrial sectors. The following tables indicate the sector indices spread over Treasuries in the first set of columns while the second indicates how each industry's composite high yield index trades relative to the ML High Yield Master Index.

	Spread vs. 10-year Treasury			Relative Spread to HY Master Index		
	May-10	Jun-10	Δ	May-10	Jun-10	Δ
Building Materials	659	658	(1)	(39)	(55)	(16)
Capital Goods	620	613	(7)	(78)	(100)	(22)
Chemicals	600	619	19	(98)	(94)	4
Gaming	910	911	1	212	198	(14)
Bank/Thrift	738	717	(21)	40	4	(36)
Broadcasting	986	1,057	71	288	344	56
Consumer Products	653	671	18	(45)	(42)	3
Cable/Satellite	553	546	(7)	(145)	(167)	(22)
Healthcare	589	599	10	(109)	(114)	(5)
Media	675	687	12	(23)	(26)	(3)
Leisure	663	686	23	(35)	(27)	8
Restaurants	842	932	90	144	219	75
Telecom	677	681	4	(21)	(32)	(11)
Distressed	1,450	1,497	47	752	784	32
Fallen Angel	634	649	15	(64)	(64)	-
HY Master	698	713	15	-	-	-
BB Index	527	535	8	(171)	(178)	(7)
B Index	688	701	13	(10)	(12)	(2)
CCC Index	1,089	1,139	50	391	426	35

Source: Merrill Lynch High Yield Master Index and Industry Indices

About Us

Advisory Services: Lampert Debt Advisors is dedicated to meeting the funding and growth needs of companies by advising on the creation, placement and execution of debt financing solutions. Our team of Debt Capital Markets experts possesses an average of 20 years of experience in completing transactions. With real time knowledge of the investing interests of over 300 lenders and debt investors and Our Auction Financing Platform, we are positioned to ensure clients of the best possible execution under prevailing market circumstances. Completed transactions are cost-effective, time-efficient and enable management to focus on their business success. Lampert Debt Advisors is affiliated with, and clears trades through, Tangent Capital Partners, LLC, a FINRA registered broker-dealer.

Merchant Banking Funds: In addition, Lampert Debt Advisors has access to private funding for junior bridge capital to be invested in conjunction with transactions when required to successfully complete financings. Investment funds are designed to provide capital at levels and under circumstances not typically available in the markets.

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