State of the Debt Capital Markets

LAMPERT DEBT ADVISORS

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

Volume III, Issue II

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By the Numbers

Unemployment

9.1% (May 2011)

Prime Rate

3.25%

Treasury Yields

Two-year note—0.393%

10-year note—2.982%

EURO/USD

$1.442

3-mo LIBOR

0.25%

LIBOR Swaps (USD)

2-year—0.600%

5-year— 1.823%

Leveraged Loan Volume

$38.57B (May 2011)

High Yield Volume

$39.69B (May 2011)

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 Economy

- The recovery has become increasingly sluggish as evidenced by the decelerated growth in manufacturing and service sector indices. Current levels provide limited impetus for dramatic gains in hiring activity; unemployment remains substantial at 9.1% in May.
- Consumer sentiment has fallen amidst an environment with no growth in real income and rising energy and food prices, resulting in only marginal consumer spending increases in April.
- QE2 and investment in the USD have injected liquidity into the markets, which have been faced with a lack of demand from companies seeking to raise new capital (excluding refinancing). Despite declining interest rates and spread-compression, QE2 has failed to accelerate growth.

Leveraged Loan Market

- CLO activity has reemerged with the pricing of 8 new deals this year, providing fresh capital for the leveraged loan market.
- Pricing continued to tighten in May, albeit at a slower pace than prior months, with spreads, floors, and OIDs moving in favor of issuers. The average institutional YTM has declined 134 basis points to 5.70% since December 2010.
- Investor appetite for 2nd lien loans in the middle-market has experienced a revival with $397 million of such transactions on the forward calendar.

High Yield Market

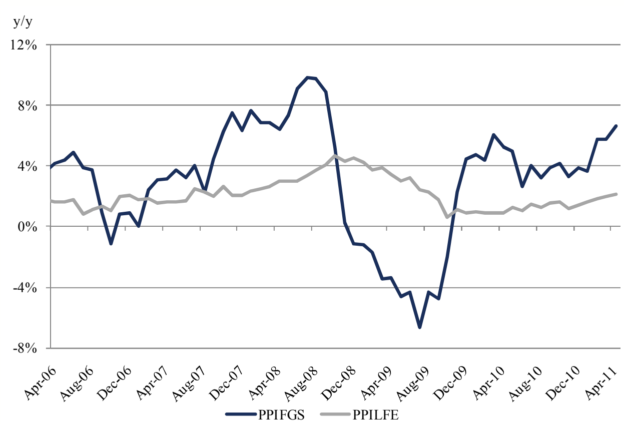
- High yield new issue volume remains robust approaching $150 billion through May, a figure which eclipses 50% of last year's total.
- Heightened activity continues to be buoyed by favorable conditions including low rates, improved issuer fundamentals, and strong investor demand arising from heavy retail fund inflows.
- Despite relinquishing some 1Q gains between April and May, the majority of sectors still exhibit a positive trend year-to-date.

The Economy

This economy reminds me of my '88 Jaguar- it looked fast but drove slowly, it moved but did so in fits and starts and it operated well but needed constant repair and maintenance to do so. So too goes our economy- as QE2 winds down and the Fed considers mechanisms to alleviate a balance sheet bloated by $2 trillion in Treasury bonds and mortgage securities, its **degrees of freedom remain restrained in the face of rising inflation and a decelerating recovery.**

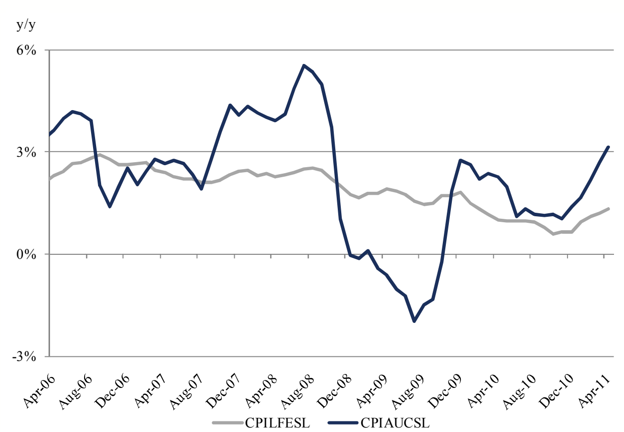
Inflation arises from increases in inflationary expectations; while these have remained subdued, we believe that the continued **upward movement of the Producer Price Index will catalyze increased inflation expectations** for industrial participants while consumers' belief in **resurgent inflation will arise from continued food and energy price increases.** Year over year, PPI is expected to rise 8% in May after a 6.5% surge in April and 5.7% in

Producer Price Index — Year Over Year Changes



Source: Bureau of Labor Statistics

Consumer Price Index — Year Over Year Changes



Source: Bureau of Labor Statistics

March. Headline CPI rose another 0.4% in April, representing the fifth month in which monthly increases in CPI equaled or exceeded 0.4%. While core CPI remains subdued at 0.2% and continues to remain within the Fed target range, we believe this ignores the more fundamental shift in prices. Core CPI excludes food and energy in order to eliminate the volatility inherent in these two elements. However, if we ignore these elements on a continuous basis, we do so at our own peril. **Energy and food price indices have risen 19.0% and 3.9%**, respectively, in the past twelve months. Between the outlook for continued price increases and inflation in China and Europe approaching secular highs as well, we believe that complacency to pricing movements will give way to increased inflation expectations.

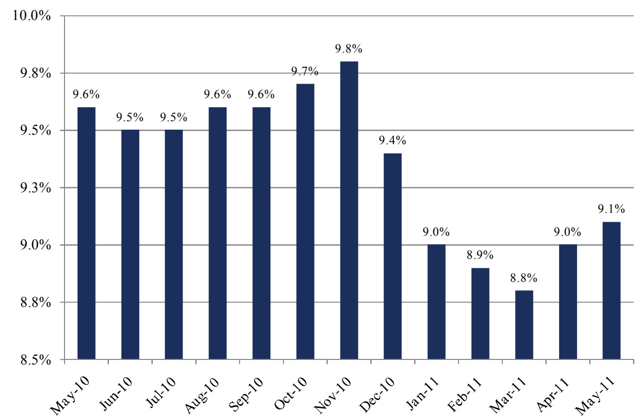
Manufacturing has been a leading component in the recovery to date. Spurred by a declining dollar, resurgent exports and improving cost structures facilitating a more competitive position for American industry, manufacturing has recorded consistent gains in capacity utilization through 2010. However, **since the start of the year, capacity utilization has fluctuated between 76% and 77%**, 3.5-4 percentage points below the average from 1972 to 2010. In April it slipped 0.1% to 76.9%. **Industrial production was unchanged in April** after having increased 0.7% in March. In April, manufacturing production fell 0.4% after rising for nine consecutive months. While a significant portion of the decline is attributable to reduced motor vehicle production, recent reports from the Institute of Supply Management portend more long-lived stagnation. The May inventory index fell to 48.7 from 53, demonstrating order satisfaction from inventory and not current production. However, order backlogs fell over 10 points from 61.0 to 50.5, the threshold between growth and contraction; this suggests, at most, maintenance of production at current levels with the potential risk of more widespread reductions. The New Order Index also fell to the barrier between contraction and expansion, falling nearly 7 points from 60.4 to 53.5.

The service sector has not fared much better; new order levels fell sharply to 52.8 in April, down from 57.3 in March, indicating **continued growth, albeit at a substantially slower pace**. The Non-Manufacturing Business Activity Index decreased 6 percentage points to 53.7% while the New Orders Index decreased substantially by 11.4 percentage points to 52.7%. The **Employment Index decreased 1.8 percentage points to 51.9%**. While the maintenance of key manufacturing and service sector indices above 50 suggest growth, the levels support a much **reduced outlook for growth, and consequently, limited impetus for hiring levels** that would exceed the rate of monthly growth in the available labor force. Second quarter forecasts for growth from key financial institutions have been reduced by anywhere from 0.5% to 0.8%.

Substantially reduced growth in both manufacturing and non-manufacturing and below average utilization rates will discourage any dramatic increases in employment. Unemployment has risen in each of the past two months to 9.1% in May versus 9.0% and 8.8% in April and March, respectively. While payroll additions have averaged approximately 230,000 net additions from February to April, the additions reflect absorption of new workers into the labor force without any impact on overall employment rates. Furthermore, May net hires were a paltry 54,000, representing less than a quarter of the average rate experienced in the prior three months. The less-followed but no less significant underemployment rate remains stubbornly pinned at 15.8%.

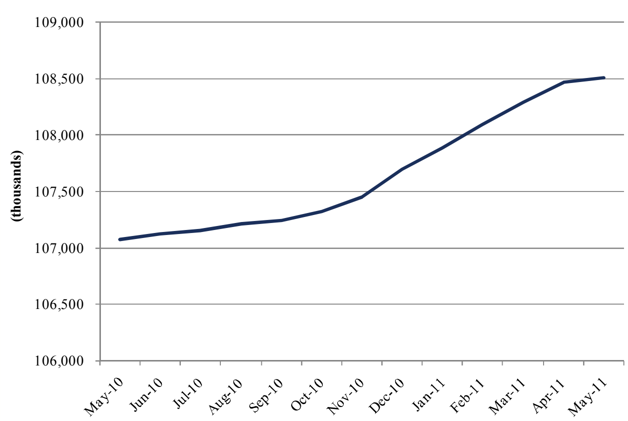
The outlook for continued high unemployment remains substantial. We reaffirm our prediction that unemployment will remain above 8% for the remainder of 2011.

US Unemployment — Seasonally Adjusted



Source: Bureau of Labor Statistics

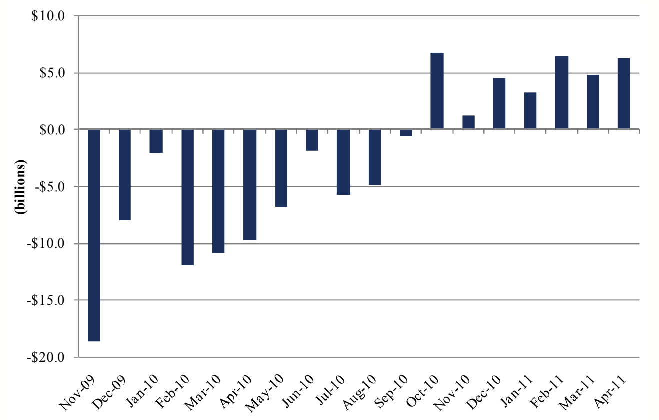
Total Nonfarm Private Payroll Employment - Seasonally Adjusted



Source: Automatic Data Processing, Inc.

Consumer income, spending habits, inflation outlook and sentiment will remain the key variables necessary to support a strengthening economy… and the news is not promising. Personal income rose 0.1% in April, matching the rate of growth in March. However, when inflation and taxes are considered, the **consumer experienced no increase in real income**. Similarly, real spending increases were limited to 0.1%. On a nominal basis, consumer spending growth fell to 0.2% in April from a 3 month average of 0.7% in the preceding months (excluding autos and gasoline). Despite declining confidence and relatively slight increases in consumer spending, US consumer credit rose in May for the seventh consecutive month.

Total Consumer Credit Outstanding — Month Over Month Changes



Source: Board of Governors of the Federal Reserve System

However, the $6.5 billion increase in term debt is driven largely by student loans, and to a lesser extent, automotive loans. **Revolving credit, the core measure of consumer confidence in borrowing and more commonly used for food, energy and nondurable goods, continued to fall another $900 million.**

The housing market continues to defy earlier predictions of its stabilization and growth. The Case Shiller Home Price Index declined by 4.2% in the first quarter of 2011, following a 3.6% decline in the fourth quarter of 2010. This represents a new low and brings **home prices back to a level not experienced since mid-2002 levels. Home inventories remain bloated** with existing home inventories of 9.2 months weighing on the markets. 2.2 million homes remain in foreclosure while the pipeline continues to fill; mortgages over 30 days past-due were unchanged in the first quarter from the forth quarter and continue to represent over 1/8 of all mortgages. **Existing home sales are down 12.9% year over year and down 0.8% month to month**. This is all the more surprising given that mortgage rates are approaching 3% (ARMS) and represent almost zero real cost (factoring in inflation).

Continued price deterioration and the overhang of existing home inventory is further hampering the new residential construction market. Housing starts declined by 10.6%, housing permits remain flat month to month and are down 12.8% on a year over year basis… and we thought 2010 was the nadir.

With unemployment high, no growth in real income and the confrontation with rising energy and food prices, it is not surprising that consumer sentiment has fallen to 74.3 from its February cyclical high of 77.5. As a result, consumer spending increased only marginally in April, and when adjusted for increased grocery and gas prices, there was no growth over March. We see consumers remaining conservative on spending while preferring to pay down credit card debt.

Unfortunately for the United States economy, **we see both the Fed and the Treasury increasingly constrained in their ability to influence the economy**.

The government has flooded the system with liquidity through the purchase of $2 trillion of securities and pumped $684 billion into the banking system. Yet the excess liquidity remains tightly bound to the capital structure of our financial institutions in the form of excess capital reserves. It is no longer the failure of the banks to lend as the continued decline in LIBOR spreads on loans, high yield bond spreads and increasingly flexible terms attests; rather, there is a lack of demand from companies seeking to raise capital. While those with capital needs for valid, positive spread capital projects can meet these needs, the liquidity flows provided by QE2 and the flight to the dollar exceed the capital demands of these companies. **Another round of quantitative easing? We think not.** Certainly not anytime soon. QE2 has failed to accelerate growth despite declining interest rates and continued spread compression-all in the face of the cessation of Fed buying as well as the overhang of anticipated Fed balance sheet liquidations. **Fed buying may only reappear, some months from now, if inflationary pressures abate and the existing liquidity in the system fails to feed a rising demand for capital; all in all, a series of trend reversals we believe are unlikely in the near term.**

In large part, the dollar and the Treasury market remain the safe harbor of choice. The continued uncertainty over the future of the Eurozone has caused safety oriented investors to eschew that market in favor of the United States. While Japan may have been a logical alternative, the continuing impact of the tsunami on Japan's economy, supply lines and industrial base have rendered Japanese securities less attractive as well.

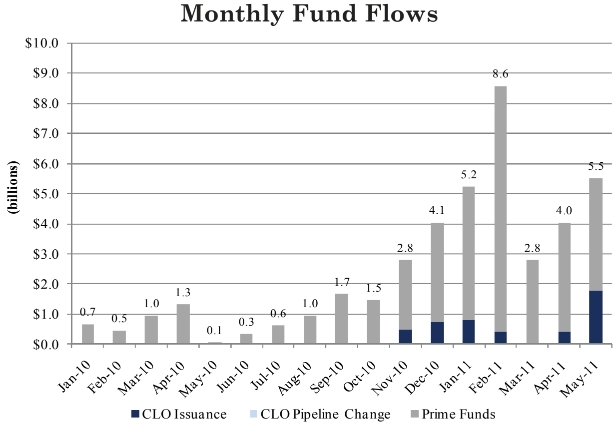
As a result, we have the unusual dichotomy of 10 year treasuries breaching the 3% floor, a floor that is generally acknowledged as the long term real rate of required return on risk free securities and expected inflation exceeding 3%.

Federal stimulus has been similarly impotent; despite a nearly $900 billion stimulus program, the economy remains mired in one of the slowest recoveries experienced in the past four decades. As we bear witness to investors' reluctance to continue funding deficit-ridden countries like Greece, Spain and Portugal, absent meaningful and material reductions in government spending, political concern with our deficit hinders the use of fiscal policy to continue stimulating growth and investment. And this concern is unlikely to abate as the annual deficit grows from 1% of GDP in 2006 to nearly 11% of estimated GDP for 2011.

For our clients, **we envision continued strong credit markets available to support increased investment in expansion and growth.** While LIBOR-based loans continue to predominate the financing constellation in the middle market, issuing fixed rate debt, to the extent available, will enable issuers to take advantage of a unique moment in which real rates of interest are at their lowest levels seen in decades.

Leveraged Loan Market

Much like our beloved Red Sox earlier this season, the leveraged loan market has struggled to find balance in 2011. Investor demand for new loans substantially outstripped the supply of borrowers in the first quarter, causing spreads to compress and opening the door for opportunistic, aggressive transactions. As has been the case for the better part of a year, **inflows to retail loan funds have served as the principal driver of strong investor demand**. Inflows totaled $3.74 billion in May and tip the year-to-date scales at a whopping $22.7 billion, already an all-time annual record.



Source: S&P LCD

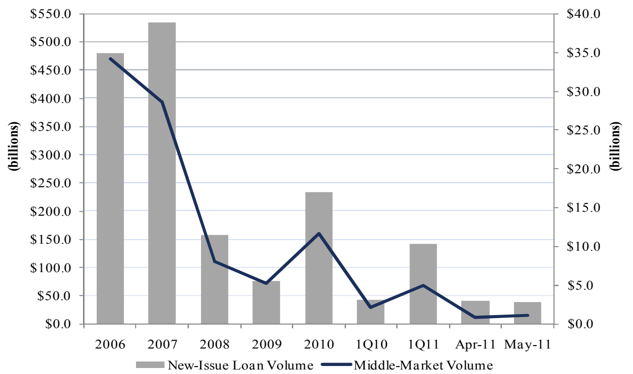
Furthermore, **there has been a recent surge in CLO activity with the pricing of 8 new deals this year, raising over $3.3 billion in proceeds**. Activity in May included ING, Credit Suisse, Blackrock and Symphony Asset Management all bringing new vehicles to market and raising a cumulative $1.8 billion of fresh capital for the leveraged loan market. Although the year-to-date CLO proceeds of $3.3 billion is only a fraction of the peak $10-$15 billion generated per month before the credit crisis (2005-2006), volume is expected to increase in the coming months. **Such an increase would further solidify the demand base for leveraged loans.**

Despite May's strong inflows, the technical imbalance favoring issuers began to abate towards the end of the month as a healthy supply of M&A and refinancing volume, met with open arms by investors flush with capital to deploy, started to absorb the liquidity in this market. The increased supply allowed investors to be more selective and as a result, forced a number of issuers to boost pricing to attract capital. Volume for the month totaled $38.5 billion and the outlook seems strong for June, with $32.5 billion on the forward calendar. Year-to-date volume through 6/8/2011 stood at $236.5 billion, which represents a 150% increase over the comparable period in 2010.

In the secondary market, after shedding .09% in May, returns for the S&P LSTA Leveraged Loan Index stood at

2.79% for the year.

US Dollar Denominated New-Issue Loan Volume and Middle-Market Volume



Source: S&P LCD

Squeeze Play

Despite the heavy supply, pricing, on average continued to tighten in May with spreads (April: L+417, May: L+415), floors (April: 138, May: 135) and OID's (April: 99.17, May: 99.37%) all moving in favor of issuers, albeit much less notably than in prior months. Since December 2010, the average Institutional Yield to Maturity has declined 134 basis points to 5.70%.

Similarly, in the ABL world, pricing has continued its descent with lenders pursuing transactions with fervor. The result has been spreads approaching, and at times, sinking below 200 basis points and LIBOR floors being relegated to days gone by. Now, certainly this is not the case for all ABLs; however, for highly competitive deals, 225 basis point spreads with no floors, seem to be the ceiling.

In terms of leverage, the debt multiples seen in the large cap market have begun to trickle downstream, as have other structures characteristic of a frothy market. Thanks to a number of aggressive transactions, average Debt/EBITDA for middle market transactions launched in May rose to 4.4x, with sub-debt accounting for just a quarter turn of the total.

The oft-discussed 2nd lien revival is primarily responsible with no fewer than five 2nd lien loans, totaling $397 million sitting on the forward calendar as of this writing. The amount of second lien paper available shouldn't surprise anyone as the delta between first lien and second lien spreads has floated between 335 and 420 basis points throughout 2011.

Middle-Market Loans

	May-10	Dec-10	Mar-11	May-11
Spread (L+)	525	581	557	480
Floor (bps)	175	175	150	143
OID	98.25	NA	98.35	99.07
Yield	7.72%	NA	7.81%	6.59%
Observations	6	4	15	7

*NA- less than 3 observations were reported for this item within a given month

Source: S&P

High Yield Market

The high yield market continued to show signs of improvement, in tandem with overall credit markets. Corporate issuers continue to enjoy **conditions conducive to net credit creation such as banks' willingness to lend, increased fund flows, attractive pricing** and sustained positive aftermarket performance on new debt. Through the first five months of the year, high yield issuers have placed **$150 billion in high yield paper, or approximately 50% of last year's total.** While these new issue volumes indicate a strong pace of debt financing activities, **most funds have gone towards refinancing existing debt, as opposed to raising new capital for business expansion, acquisitions, or equity buybacks/dividends.**

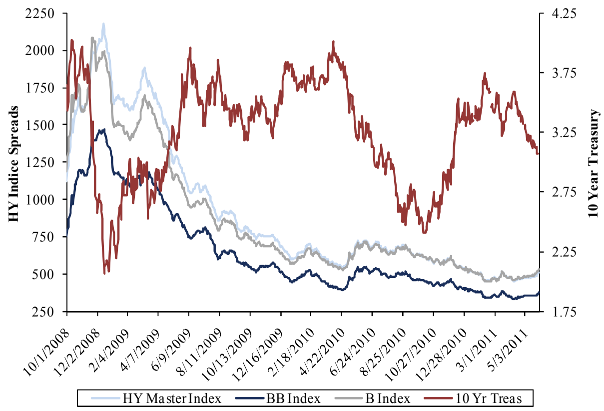
New high yield bond issuance increased 14% in 1Q 2011 versus the same period in 2010, but sequentially declined by 8.4% compared to the record setting 4Q 2010. Quarterly **issuance of $73.5 billion represented the second largest total on record**, just shy of 4Q 2010's total of $80.3 billion. Issuance in 1Q 2011 was supported by strong volumes from the beginning of year through February. However, overseas concerns in Europe, the Middle East and Asia prompted a pause in March. The default rate ended 1Q at 1.1% as the first two months of the year produced zero defaults and only 4 with $800 million in nominal value in March. **This default rate was the lowest level since the 4Q 2007.** Fitch Rating is projecting a default rate range of **1.0%- 2.0% for the remainder of the year.**

More recently, in May, **the BAML High Yield Master II Index spread to Treasuries was 509 bps as compared to last December's level of 541 bps**, and reached a low of 452 bps in February before widening out to its current level. A Memorial Day holiday rush to market in **May resulted in record monthly new issue volume of $39.7 billion**. This helped to reduce a growing backlog and shadow calendar that had climbed to $28 billion with companies eager to access the market, to roughly $13 billion. Upon return from the holiday weekend, weaker economic reports weighed on the market. The high yield market adopted a negative bias, under fatigue from the robust pre-holiday new issue calendar and in sympathy with the sizeable 2.5% decline in the equity markets. However, despite the recent pause, high yield market fundamentals remain healthy, driven by the key themes outlined below. New issuance for the remainder of the year is expected to be driven by the degree of global and domestic economic stability and the direction of interest rates.

Recovery and Improvement in U.S. Corporate Credit Fundamentals.

There has been little, if any, sensitivity to the macroeconomic shocks as the overall health of corporate balance sheets remains intact. Many indicators- **banks' willingness to lend, pricing on new debt, and net credit creation**- are signaling favorable conditions for borrowers and greater access to credit. **However, borrowers have been less eager to re-lever and are exhibiting restraints to borrowing and capital investments that was absent during the last credit boom.**

High Yield Indices (Spreads)



Source: BofA Merrill Lynch Global Index System and U.S. Department of the Treasury

The high yield market conditions continue be receptive despite numerous macro-risks lurking in the background, such as the supply chain impact from the Japanese crisis, political turmoil in the Middle East and North Africa, escalating oil price and supply concerns, inflationary trends across commodities and the impact of higher energy costs on consumption and spending.

Low Treasury/Interest Rates

The Fed has largely reached its goal of bringing private lenders back to the market of extending credit to creditworthy borrowers. With the imminent end for QE2, the expectation is that banks and investors will pick-up the slack by continuing to extend credit to those who seek and deserve it. **With the excess demand for riskier fixed income assets, spreads are likely to continue to compress even after the end of QE2.** While the Fed is expected to maintain negative real interest rates for the foreseeable future, **investors will be forced to reach for yield by taking on increased levels of credit risk and less liquid assets.** This augers well for continued improvements for middle-market offerings.

Strong High Yield Funds Inflows

High yield mutual funds continue to experience strong inflows through the first half of the year. Borrowers have been able to **garner better terms, less covenant restrictions, as well as more aggressive use of proceeds including extraordinary dividends and share buybacks**. High yield mutual **fund inflows were $5.6 billion in the 1Q 2011 and approximately $2.0 billion in 2Q 2011** through the end of May.

High Yield Sector Analysis

Throughout 1Q 2011, the high yield secondary market witnessed strong performance across the majority of industry sectors with bank/thrift and building materials leading the way. The market reversed some of those gains in 2Q after geopolitical and economic events shifted momentum, contributing to the negative performance occurring in May. Despite the recent negative performance, **YTD returns for the high yield asset class are positive and have not been fully-eroded by recent performance.**

Thus far in Q2, the hardest-hit sectors have been restaurants, capital goods, and building materials. Despite slightly-widening spreads, leisure, telecom, and gaming have exhibited stronger performance relative to other sectors.

The table below indicates various sectors' performance in 2011 and their respective spreads compared to Treasuries and the BAML High Yield Master Index.

	Spread vs. 10-year Treasury					
	Dec-10	Mar-11	Δ	Mar-11	May-11	Δ
Building Materials	544	443	(101)	443	504	61
Capital Goods	462	419	(43)	419	481	62
Chemicals	428	400	(28)	400	420	20
Gaming	709	632	(77)	632	642	10
Bank/Thrift	567	460	(107)	460	517	57
Broadcasting	595	550	(45)	550	590	40
Consumer Products	550	498	(52)	498	541	43
Cable/Satellite	433	371	(62)	371	406	35
Healthcare	496	434	(62)	434	470	36
Media	505	464	(41)	464	507	43
Leisure	545	487	(58)	487	492	5
Restaurants	720	627	(93)	627	724	97
Telecom	520	459	(61)	459	464	5
Distressed	1,556	1,664	108	1,664	1,507	(157)
Fallen Angel	502	422	(80)	422	434	12
HY Master	541	477	(64)	477	509	32
BB Index	408	351	(57)	351	380	29
B Index	546	484	(62)	484	533	49
CCC Index	879	808	(71)	808	826	18

Source: BofA Merrill Lynch Global Index System

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 400 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 executes transactions through ICM Capital Markets Ltd, a FINRA-registered broker dealer.

Merchant Banking Funds: In addition, Lampert Debt Advisors has access to private funding for junior 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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