LAMPERT DEBT ADVISORS

State of the Debt Capital Markets

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

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Contents

By the Numbers

Unemployment

8.2% (March)

Prime Rate

3.25%

Treasury Yields

2-Year Note—0.27%

10-Year Note—1.929%

EURO/USD

$1.3152

3-mo LIBOR

0.47%

LIBOR Swaps (USD)

2-year—0.551%

5-year—1.1%

Leveraged Loan Volume

$144 billion (1Q12)

High-Yield Volume

$91.01 billion (1Q12)

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 financings across a diverse range of industries and financing structures.

Summary

The Economy

- Employment growth remains moribund as actual employment fell during the month
- Inflation remains benign providing the Fed with additional flexibility to…
- Housing malaise continues to temper consumer enthusiasm for credit expansion and spending
- Manufacturing remains a source of enduring support for the recovery
- Risks to our cautious recovery remain; China's slowing growth, Europe's liquidity crisis and energy price volatility

Leveraged Loans

- In 1Q12, the leveraged loan market posted strong gains over the previous quarter, however, the middle market struggled to gain traction in an environment thinly populated with event-driven transactions
- CLOs posted their strongest month of post-crisis issuance in April, continuing the build-up of loan demand and furthering the imbalance with loan supply
- Issuers have tapped the market for aggressive structures amid the favorable conditions with $10.5 billion of covenant-lite loans inked thus far in 2Q12

High-Yield

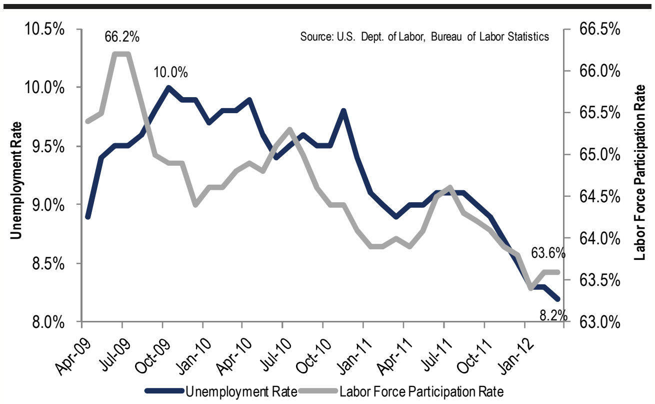
- Over the past 3 years, high yield has experienced cumulative returns of 90%, or 24% annualized, easily surpassing the returns of the S&P500 and all other major asset classes
- Investors are still starved for current income, as yields continue to be squeezed in traditional safe-haven assets such as Treasuries, munis and investment grade bonds– the BAML High Yield Master II index spread to Treasuries is in the 600-625bps range
- Despite the recent underperformance, the overall attractiveness of high yield bonds to retail investors has prompted the formation of high yield ETFs, with BlackRock preparing to launch another fund following the success of their iShares iBoxx High Yield Corporate Bond Fund

The Economy

With the imminent de facto nomination of Mitt Romney (and excluding Newt Gingrich's efforts to become this century's Harold Stassen), we commence the U.S. Presidential Election season. This is a time in which each economic announcement is scrutinized both for its implications for our economy as well as for the election. **Reality is cloaked in rhetoric, the benign becomes boastful and the truth becomes tarnished.** As always, we will try to avoid the emotions of the season and focus on merely the facts and their implications for our economy, our markets and our clients.

Nowhere is the rhetoric louder than in partisan reviews of payroll, jobs creation and unemployment statistics. Net unemployment continued its decline by falling an additional 0.1% in March to 8.2%. However, the fall occurred in the face of a dramatic decline in job creation as payroll increases of 120,000 fell well-short of the previous month's totals of 240,000 and 275,000. **Most of the deterioration occurred within the private sector** with job creation falling from 233,000 in the preceding month to 121,000 in March. When we view the two series in tandem, it becomes clear that the decline in the unemployment rate, a key underpinning of the Administration's belief in the effectiveness of its policies, has more to do with continued reductions in labor force participation than increased employment. During March, labor force participation fell a further 131,000 and household employment fell 31,000. The latter suggests that **actual employment fell during the month.**

Civilian Unemployment Rate and Labor Force Participation



Representatives of the Fed, ranging from Ben Bernanke to Vice Chairwoman Janet Yellen to New York Fed President William Dudley have, in separate interviews, struck a consistent chord about the sluggish pace of the economy and unnaturally slow rate of decline in unemployment. A similarly consistent view on the benign inflation outlook suggests continued loose monetary policy for the foreseeable future, and should conditions deteriorate further, the potential for a third round of quantitative easing (QE3). However, the endorsement by FOMC members of QE3 recently fell to "two" from a "few" at the January meeting. Furthermore, the effectiveness of Operation Twist on reducing long-term rates, critical to corporate investment decisions, seems likely to stimulate investment activity without enlarging the Fed's balance sheet.

In sifting through March's announcements, consumer support for the recovery, so vital to its persistence, is showing signs of softening. Consumer sentiment fell 0.5 points in March to 75.7, a relatively insignificant change but more significant when viewed in the context of current expectations. Consumers' assessment of current conditions fell an unusually steep 5.4 points to 80.6, much of which can be attributed to higher gasoline prices, a disappointing jobs report and a reversal in the improvement of jobs claims. March's rise in personal income matched that in February at 0.2%, but came in below expectations of 0.4% growth. **The malaise in housing continues to ripple through consumers' cautious approach to the recovery and their spending habits.** For the first time since the turn of the century, the number of communities in which buying is cheaper than renting now exceeds 50% of all MSAs. Yet, residential investment during 2011 remained just above 2% of GDP, nearly 70% below the 10 year peak realized in 2005. Contrary to expectations, pending home sales fell 0.5% in February with three of the four U.S. regions reporting monthly declines, including the South, the largest housing region in the nation. New home sales followed suit with a 1.6% drop in February atop a 5.4% decline in January.

U.S. trade statistics confirm the softening of consumer participation. In most circumstances, the decline in the trade deficit from $52.5 billion in January to $46 billion in February would be applauded. However, the decline arose primarily from a sharp 2.7% drop in imports, led by declines in imports of consumer goods. **The decline and its underlying composition suggest softening domestic demand, particularly among consumers.**

Manufacturing continues to be a highlight of enduring support for the recovery, notching gains of 0.3% and 1.1% in February and January, respectively. Regional manufacturing surveys support the breadth of continuing output growth around the country. ISM's manufacturing and non-manufacturing indices speak to continued growth in output with March's manufacturing index rising 1 point to 53.4, above the growth/decline barrier of 50. While the non-manufacturing index fell 1.3 points, it remains well-north of 50 at a very healthy 56. Industrial production was less robust than the manufacturing component, but its stagnation is largely from the effects of an unusually warm winter and an unexpected downturn in construction. The warm weather provided consumers with some relief from increased energy costs and a useful ballast against rising gasoline prices. **However, we are nonplussed that the warm weather did not stimulate construction spending, particularly since the winter months represent a seasonally low point in the annual cycle.**

Overall, we are **expecting the continuance of an exceptionally slow recovery with minimal improvement in the employment picture.** The Fed's posture remains unchanged as the Fed Funds target remains between 0% and 0.25%. Operation Twist, designed to bring long-term rates down, continues to be implemented and there remains little belief that rate increases will be necessary before 2014. **While we see little on the horizon that would cause growth to accelerate and employment to rebound sharply, there remain tremendous risks to even the modest growth we are forecasting.**

These risks are:

- Eurozone Malaise: The Eurozone remains a potential source of disruption; the Greek crisis was resolved through massive capital infusions, debt restructurings and continued fiscal discipline, but problems remain on the periphery. Spain, Portugal and Italy all face significant debt maturities that will need to be refinanced in a market characterized by wariness of liquid investors and capital limitations from historic purchasers of sovereign credits. **The potential for liquidity crises remains.** Concomitantly, **the parlous state of European financial institutions will continue to constrain their ability to provide trade and working capital facilities for indigenous industries.** As this limits Europe's participation in a recovering world economy, the U.S. and others will experience reduced aggregate demand and lessened growth.

- Energy Prices: **Oil and gas prices continue to reflect the risks of supply disruption arising from the troubled Middle Eastern states.** Whether arising from civil unrest in Bahrain and Syria, bellicose diplomacy from Iran or the simmering secession of Kurdistan from Iraq, oil supplies remain vulnerable to disruption, price volatility and the possible adverse impact on worldwide growth.

- Slowing China Growth: As participants in an economy mired in 2%+ growth and praying for 3% growth, it becomes hard to imagine why declines in Chinese growth from 10% to 7% could be so worrisome. However, the reality is quite staggering in its implications. **As growth slows, the pipeline of products, infrastructure projects, capacity increases, plant additions and utility expansions erode.** The result is excessive products in pipelines, dramatically underutilized facilities and order cancellations that will reverberate throughout the world and across most U.S. companies who supply goods and services to China or compete with Chinese suppliers. **China is walking a fine line between competing objectives of maintaining capacity utilization, constraining inflation in an overheated economy and slowly introducing the RMB as a floating currency capable of becoming an alternative reserve currency.**

Clearly, the potential for a disruption and downturn remain significant while we foresee few opportunities for an accelerating upturn. With an inert political system frozen by the typical election year gridlock and rendered impotent by a lack of fiscal degrees of freedom, **there remain few if any policy initiatives that can induce greater growth, improved employment or restored confidence.** While monetary policies pursued by Bernanke have improved our insulation from overseas disruptions, the swollen nature of the Fed's balance sheet will limit their ability to further stimulate the economy, on the one hand, or further insulate us from the risks outlined above, on the other.

World Output Projections

	Year over Year Growth (%)			
	2010	**2011**	**2012P**	**2013P**
World Output	**5.3**	**3.9**	**3.5**	**4.1**
Advanced Economies	**3.2**	**1.6**	**1.4**	**2.0**
United States	3.0	1.7	2.1	2.4
Euro Area	1.9	1.4	-0.3	0.9
Germany	3.6	3.1	0.6	1.5
France	1.4	1.7	0.5	1.0
Italy	1.8	0.4	-1.9	-0.3
Spain	-0.1	0.7	-1.8	0.1
Japan	4.4	-0.7	2.0	1.7
United Kingdom	2.1	0.7	0.8	2.0
Canada	3.2	2.5	2.1	2.2
Other Advanced Economies	5.8	3.2	2.6	3.5
Newly Industrialized Asian Economies	8.5	4.0	3.4	4.2
Emerging and Developing Economies	**7.5**	**6.2**	**5.7**	**6.0**
Central and Eastern Europe	4.5	5.3	1.9	2.9
Commonwealth of Independent States	4.8	4.9	4.2	4.1
Russia	4.3	4.3	4.0	3.9
Excluding Russia	6.0	6.2	4.6	4.6
Developing Asia	9.7	7.8	7.3	7.9
China	10.4	9.2	8.2	8.8
India	10.6	7.2	6.9	7.3
ASEAN-5	7.0	4.5	5.4	6.2
Latin America and the Caribbean	6.2	4.5	3.7	4.1
Brazil	7.5	2.7	3.0	4.1
Mexico	5.5	4.0	3.6	3.7
Middle East and North Africa (MENA)	4.9	3.5	4.2	3.7
Sub-Saharan Africa	5.3	5.1	5.4	5.3
South Africa	2.9	3.1	2.7	3.4

Source: International Monetary Fund

Leveraged Loans

The first quarter of 2012 culminated with March Madness, but unfortunately for those in leveraged finance, the allusion is to NCAA basketball and not the loan market. Unlike the athletes who participated in the tournament, middle market bankers are well-rested following a pedestrian quarter and looking forward to heightened activity in the coming months. **Middle market volume of $30.4 billion was off the marks of the prior quarter and year by 34% and 20%, respectively.** Despite the unimpressive showing in the middle market, overall leveraged loan issuance was robust, as it surpassed 4Q11 issuance by 42%. Of the $144 billion in 1Q12 leveraged loan volume, institutional investors accounted for $60.5 billion and banks came up with $83.5 billion.

Loan Demand and Loan Supply

The loan market's strong technical conditions remain a key takeaway. Despite a pipeline of $25.8 billion at the end of April and expectations that it will continue to increase through mid-May, deal flow remains spotty at best, with the number of event-driven transactions even more limited. A majority of deals are in the form of refinancings, A&Es and dividend recaps; refinancing accounted for 60% of 1Q12 middle market volume.

U.S. companies are leaner than ever and sitting on substantial liquid assets, and ironically, this may be the issue. Corporates have chosen to eschew capital investment and build cash. The depths of the recession are a recent memory and the current environment presents uncertainties, both economic and political.

Meanwhile, lenders and investors await the opportunity to deploy capital with open arms. **CLOs are a large impetus behind the demand-side of the ledger, with $10.9 billion of CLOs printed through April. April's CLO activity achieved a post-crisis record,** totaling $5.06 billion. To put these numbers in perspective, 2011 had $13.24 billion of issuance for the whole year. It doesn't appear that the trajectory of CLO issuance will fade in the near-term; investors are showing strong demand, evidenced by a fall in spreads on AAA liabilities from 150bps at the beginning of 2012 to current levels of 130bps. Additionally, **RBS CLO strategist Justin Pauley has recently boosted his forecast of CLO issuance to $20-$25 billion for 2012.**

CLO Activity YTD Through April

Name	Date	Size ($MM)	AAA Discounted Margin	Manager
Golub Capital Partners CLO 12	Jan-12	$251	L+200	GCI Investments
Symphony CLO VIII	Jan-12	389	L+155	Symphony Asset Management
LCM X	Jan-12	410	L+148	LCM Asset Management
ALM V	Feb-12	437	na	Apollo Credit Management
Ares XXIII CLO	Feb-12	430	L+150	Ares Management
Octagon XII	Feb-12	358	L+146	Octagon Credit Investors
OCP CLO 2012-1	Feb-12	327	L+150	Onex Credit Partners
Avalon IV Capital	Feb-12	350	L+150	Invesco Senior Secured Management
AMM CLO X	Feb-12	410	na	American Money Management
ING IM CLO 2012-1	Mar-12	362	L+145	ING Alternative Asset Management
Carlyle CLO 2012-1	Mar-12	510	L+143	Carlyle Investment Management
Madison Park VIII	Mar-12	413	L+142	Credit Suisse Asset Management
Babson CLO 2012-I	Mar-12	361	L+143	Babson Capital Management
Galaxy XII CLO	Mar-12	413	L+140	PineBridge Investments
Doral CLO II	Mar-12	416	L+147	Doral Leveraged Asset Management
GoldenTree Loan Opportunities Fund VI	Apr-12	527	L+130	GoldenTree Asset Management
ECP CLO 2012-3	Apr-12	462	na	Silvermine Capital Management
Fraser Sullivan CLO VII	Apr-12	459	L+130	WCAS Fraser Sullivan Investment Management
A5 Funding	Apr-12	833	L+250	Cerberus Capital Management
Symphony CLO IX	Apr-12	624	L+130	Symphony Asset Management
NXT Capital CLO 2012-1	Apr-12	308	L+190	NXT Capital
Marathon CLO IV	Apr-12	356	L+139	Marathon Asset Management
OHA Credit Partners VI	Apr-12	674	L+132	Oak Hill Advisors
Race Point VI	Apr-12	414	L+130	Sankaty Advisors
Golub Capital Partners CLO 11	Apr-12	411	L+135	GCI Investments

Loan mutual funds don't match the magnitude of the CLO market at present, but also have a positive trajectory in recent weeks… actually seven. As of April 17th, funds flow was $1.064 billion on the year, a marked improvement after the seven weeks of positive funds flow.

Recent levels in the secondary market may also contribute to a further supply and demand imbalance. The SMi100, secondary market index, reached its highest level since February 2011 and continues to rise, posting 97.78 on April 26th. At bids this high, investors will continue to seek new-issue loans amid fewer opportunities to chase return in the secondary market.

What does all this mean for our clients?

In our February 2012 issue, **we stated that the opportunity for issuers to execute low-cost, aggressive structures is in play amidst the ebbing pipeline.** We continue to support this view and the events of the past two months only solidify our thinking.

In terms of pricing, average spreads on leveraged loans came in at 491 bps for YTD April 2012, tightening 42 bps from 4Q11 levels. However, spreads appeared to have reached their resistance level in March; the 4:1 ratio of downward flexes to upward flexes experienced from January to March, flattened to approximately 1:1 in April and yields have slightly widened. LIBOR floors for leveraged loans have averaged 1.27% YTD April 2012, up from 1.21% in 1Q12 and down from 1.38% in 4Q11. OIDs are 98.62 YTD April 2012, in-line with 1Q12 and more issuer-friendly than the 97.4 average for loans printed in 4Q11.

Concerning aggressive structures, investors are showing appetite for dividend recaps and covenant-lite loans. Through the end of April, almost $10.5 billion of covenant-lite loans have been issued in 2Q12. There was only $3.5 billion of such loans in 1Q12 and $3 billion in 4Q11. The strong showing thus far in the quarter is more aligned with figures from 1Q11, which inked $22 billion. Contrary to the trends in the covenant-lite market, rolling **4 week average LBO debt multiples are at 4.63x this week, more conservative than 5.40x from a year ago.**

High-Yield

The high yield market's recent returns continue to be a magnet for investor cash. In the past 3 years, the high yield market has experienced cumulative returns of 90%, or 24% annualized, easily surpassing that of the S&P500, as well as all other major asset classes, including Investment Grade Bonds, Treasuries, munis, and emerging markets equities and sovereigns.

However, after this lengthy run at outperforming lower risk bonds and equities, high yield has recently begun to exhibit signs of stress. **Spiking European bond yields, moderating Chinese economic growth and a lack of further Fed stimulus prompted investors to pull $1.2 billion from U.S. high yield and related funds** in early April, the first such weekly outflow in more than 4 months.

During this pull-back, **a new pricing floor of at least 6% has developed as a result of the underperformance of several deals priced below 6% relative to the secondary performance of lower-rated companies.** The lower-yielding bonds are more sensitive to Treasury rate fluctuations, prompting investors to establish the floor, and evidenced recently by an atypical widening of the BB index versus the B index. The floor should remain in effect so long as the prospect for near- term Treasury market volatility persists.

Overall, the picture for high yield remains largely unchanged, with strong appetite for yield, healthy balance sheets and underlying economic and employment improvements underpinning attractive fundamentals. As noted earlier, **the potential risk for a disruption and downturn remain high while we foresee limited opportunities for an accelerating upturn.** In spite of that, high yield assets continue to remain an attractive risk class when Treasury yields hover around 2%; the low rates are conducive to aggressive refinancing and improved credit standing.

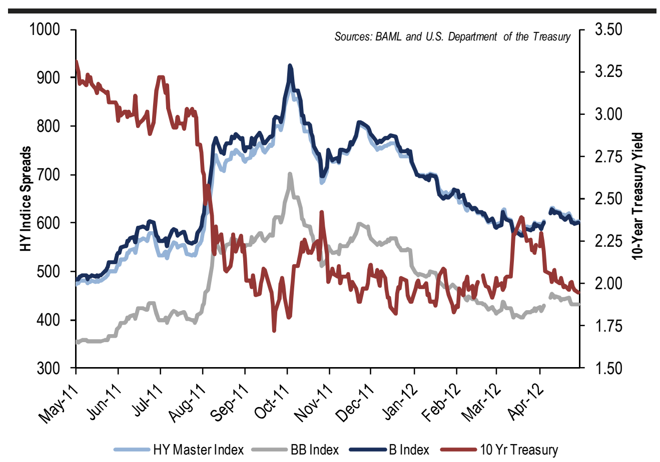
Investors are still starved for current income, as yields continue to be squeezed in traditional safe-haven assets such as Treasuries, munis and investment grade bonds. The BAML High Yield Master II Index spread to Treasuries is in the 600-625 bps range, which is closer to historical lows than highs.

High yield fund inflows have continued to increase in significance over the past several years and should continue to bolster the market absent any shocks. Mutual fund assets currently represent about 31% of high yield assets, compared to 21% five years ago. The overall attractiveness of high yield bonds to retail investors has prompted the formation of high yield ETFs. Following on the success of its iShares iBoxx High Yield Corporate Bond Fund becoming the world's largest high yield ETF at over $14 billion, BlackRock is preparing to launch another fund targeting global high yield securities.

The market will also be bolstered by low default rate rates. The current default rate is approximately 2.5%, with 2012 estimates ranging between 3-4% and coming-in well below the historical average of 4.5% over the past 20 years.

We expect the pace of funds flows to cool with any increased market volatility, including funds from abroad, and for the broad high yield market to remain range-bound with an average spread of 600-650 bps. Weaker credits will be vulnerable to default risks, while stronger credits in the spectrum will be exposed to interest rate risk. Any accelerating weakness in the economy may result in another spate of restructurings and higher defaults. In the meantime, **the record inflows will continue to fuel the new issuance end of the market.**

High Yield Indices Spreads



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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