LAMPERT
DEBT ADVISORS

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

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Contents

Highlights

- Increases in personal income and expenditures, modest manufacturing growth and Fed stimulus should keep the economy growing
- Historic productivity gains will keep unemployment rates high and limit jobs growth
- Rejuvenated activity levels in the loan market producing reduced spreads and higher levels of acceptable leverage
- Heightened activity among PE - Sponsored companies completing dividend recaps, and going private transactions
- Increased volume of cash flow loans cannibalizing ABL market share although limited availability of CF loans for the middle market

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 continues to display a moderate recovery fueled largely by improving business conditions and export trade. While consumer spending has shown signs of recovery, unemployment and depressed housing market conditions are inhibiting more aggressive participation. These factors all underscore the continued fragility and uncertainty of the recovery, but likely additional Federal stimulus should be enough to keep the economy moving forward and avoiding a second recession.

Unemployment will remain an intractable problem for the remainder of this Obama administration; our research suggests that GDP increases require 1/3 the number of workers as needed in the 1990's. Productivity improvements and structural shifts render economic growth achievable with fewer worker additions.

Low interest rates and improved liquidity continue to fuel the bank and debt capital markets which both experienced a resurgence in activity in the third quarter of 2010. The leverage loan market experienced a broad-based surge in loans for variety of different transactions. Likewise, September's near-record level of new high yield offerings has put the YTD total of new issuance in excess of all of 2009 and on track for a record year.

On the financing front for our middle-market clients, WE are experiencing improved access for a greater number of credits with interest spreads compressing to the benefit of our clients.

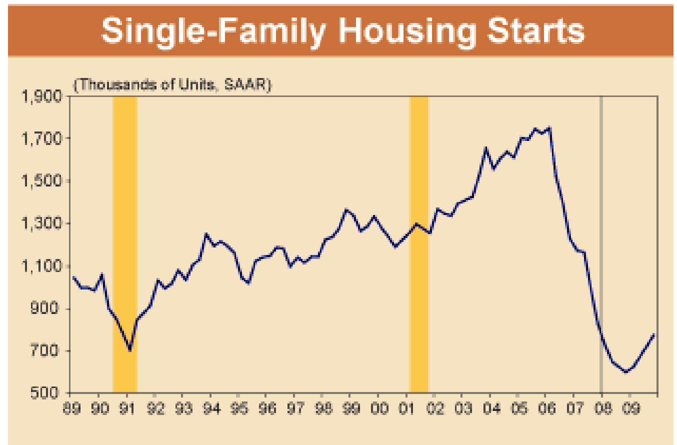
The Economy

The prevailing mood among capital markets experts remains one of uncertainty. Are we risking a double dip recession? Is inflation the inevitable result of the Fed's monetary expansion and if so, when will it surface? When will the unemployment rate decline and a healthy rate of job creation prevail? In reviewing the economy's performance and profile, we hope to begin to answer these questions.

Are we facing a double dip recession?

The consumer sector accounts for nearly 70% of GDP and all signs point to a slight, modest recovery in consumer spending. Personal income continued to rise during the summer with a 0.5% increase in August following a more sanguine 0.2% increase in July. Private industry wages rose 0.5% in both months. Unlike previous months in which income increases were diverted into savings and credit reduction, July and August experienced increases in spending exceeding the personal income increase. In most cases, spending increases were concentrated on essentials with the only exception being a continuing improvement in auto sales to 8.6 Million units. Retail sales exceeded analyst expectations for a placid back to school season with a 0.4% rise. However, to expect consumers to maintain spending increases in excess of income for long is unlikely. Consumer revolving credit declined by an additional $3.6 Billion in July, the sixth straight monthly decline and the 17th of the last eighteen months in which consumer credit declined. Our belief is that the consumer spending will maintain pace with income increases while outstanding credit will continue to decline.

The housing sector continues to be a drag on both consumer spending and the economy. While new home starts rose 10.5% in August over July, most of the increase was confined to multifamily home starts which rose 32.2%. The multifamily sector continues to outpace single family as shelter preferences shift to less expensive rental and condominium purchase options and away from free standing homes. Nevertheless, home starts, as a driver of shelter related employment, remains mired well below the historic level of monthly home starts exceeding one million on an annualized basis. In fact, in the past fifty years, there have only been three periods in which home starts persisted at levels below the 1 million annual level and the longest of these, up until the current times, was eight months. August represented the 24th straight month in which annualized home starts remained below this threshold.



Source: National Association of Homebuilders

The inventory of new homes for sale, after declining to six months in the wake of the Homebuyers Tax Credit, have risen back to nearly nine months in August. Existing homes, which rose 7.6% in August, still have nearly 11 months of sales in unsold inventory. While the recent cessation of foreclosures by BankAmerica, JP Morgan Chase and others may give rise to some decline in the unsold inventory, we believe that the end result will be a lengthening of the time required for the housing market to return to normal conditions.

In the wake of the overhanging supply, home prices have remained moribund. The Case Schiller index of home prices was up 0.3% in June, flat in July and down in August. The FHFA Index has shown year over year declines since July, 2007. The result is that stagnant home prices have contributed to the decline in consumer confidence. At the end of September, the Conference Board's Consumer Confidence index has fallen 5 points to 48.5 after achieving highs exceeding 60.0 during the past year. Consumer expectations also experienced notable declines in August.

The manufacturing and commercial sectors of the economy continue to experience growth and recovery although the signs point to a slowdown in the rate of recovery. The ISM manufacturing index, while still signaling growth, fell to 54.4 from 56.7 in August. ISM's other metrics of manufacturing activity showed comparable slowdowns with the most worrisome movement occurring in new orders. The backlog index fell 5 points to move it into contraction territory highlighting the potential risks to the recovery. However, for the reasons described below, we believe the combination of macroeconomic factors and potential Federal reserve actions will preserve the manufacturing growth we have been experiencing and prevent us from slipping into a second recession.

Industrial production rose 0.2 % in August after a sharp 0.6% rise in July; however, the slowdown has brought capacity utilization improvements down from an average increase of 0.5% per month to less than 0.2% per month. Since May, capacity utilization has risen less than 1% from 74% in May to 74.7 % in August; the slowdown in capacity utilization is further inhibiting any meaningful improvement in manufacturing payrolls.

The weakening dollar has had a highly desired effect on our trade balance and level of exports. Since July, the dollar has depreciated against the Euro and the Yen by 11% and 5%, respectively. Simultaneously, we witnessed an improvement in the trade deficit which declined from $49.8 Billion in June to $42.8 Billion. Exports rose 1.8% in July while imports declined 2.1%. Moreover, since there is usually a lag of between six to eight weeks, often referred to as the J-curve effect, between radical changes in currency values and the correlated impact of foreign trade, we believe the weakened dollar will continue to stimulate domestic production from increased exports and the shift from imports to domestically produced goods.

Will we experience a double dip recession?

Leaving aside the semantical distinction between a double dip recession (now impossible since the recession was declared over in June, 2009 by the Business Cycle Dating Commission of the National Bureau of Economic Research) and a second recession, we do not believe we will be seeing a second recession. Consumer income and spending continues to grow, albeit modestly while manufacturing signs point to continued recovery and improvement. Furthermore, the weakening dollar and the potential for renewed Federal stimulus, will keep the economy moving forward. While housing and unemployment remain problematic, they are unlikely to worsen to a point that threatens the recovery which entered its second year.

Will we experience renewed inflation?

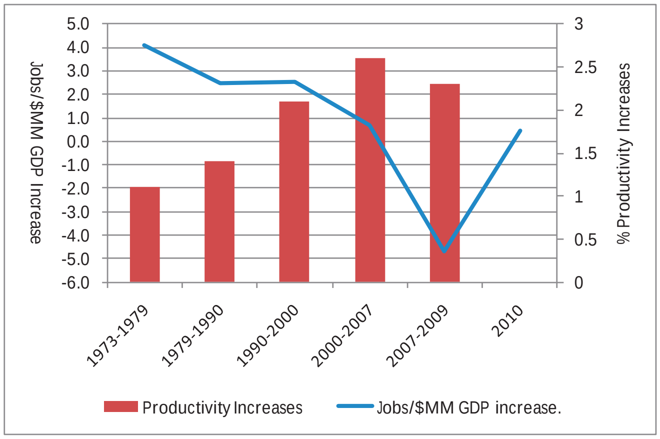
The weakening dollar, while a potential entrant into the smoldering currency wars that are starting to flare up, will be kept depressed by the Fed's recent announcement that it may go beyond its current practice of reinvesting maturing obligations to maintain the money supply and provide additional Quantitative Easing ("QE"). With core CPI of 1.2%, there is little sign that inflation will re-emerge anytime soon. Furthermore, since this falls below the avowed Fed inflation rate target band of 1 ½ to 2%, there is little risk that modest levels of additional QE will cause a resurgence in inflation. With limited aggregate loan demand and banks stockpiling reserves, the velocity of money has slowed; consequently, greater QE will not catalyze inflationary pressures until the loan demand improves and excess reserves are drawn to meet loan demand. While the recent weakening in the dollar will contribute to increases in inflation, we believe that most of the dollar depreciation has occurred. Near term, further weakening will be kept in check by foreign demand for US securities.

When will the unemployment rate decline significantly and healthy job growth prevail?

Unemployment continues to be an intractable problem for both the Fed and the Administration. Unfortunately, as a result of structural changes in the economy over the past two decades, we do not believe the unemployment rate will decline at any greater rate than it has been experiencing; Furthermore, we do not believe that fiscal stimulus, short of outright hiring by the Federal government, can have a meaningful impact on accelerating jobs creation.

In 2002, Alan Greenspan noted the remarkable improvement in non-farm productivity and its impact on keeping inflation in check. As a result, the economy was able to experience significant growth without straining the labor resources necessary to sustain that growth. And indeed, output per hour of labor has shown tremendous improvement during the past four decades.

We believe we are now experiencing the continued impact of these productivity improvements on employment; with significant productivity improvements, growth in production can be realized with limited hiring. At a time when capacity utilization has increased from a low of 68.2% to a current level of 74.7%, job creation has been negligible if not negative. The following chart makes this explicit.



Sources: Bureau of Labor Statistics, Bureau of Economic Analysis

From 1973 to 1979, productivity gains averaged 1% per year; during the same time frame, it took an average of four new hires to produce a $1 Million increase in GDP (expressed in constant 2005 dollars). During the eighties, the rate of productivity increase rose slightly to 1.4% per annum while employees required fell to around 2.5 employees, a level that persisted until 2000. During the first years of the millennium, annual productivity gains shot up to 2.6% per annum, a rate nearly 3 times greater than the 70's. During the same seven year period, it took 0.6 employees, less than one full-time employee, to produce an additional $1 Million in GDP. From 2007 to 2009, a three-year period that sandwiches the 2008 recession between the growth periods of 2007 and the second half of 2009, growth was achieved in the face of an absolute decline in payroll employment. The first half of 2010 saw growth achieved with approximately 0.5 employees/ $1 Million increase in GDP.

We believe a number of factors have contributed to this. The incorporation of advanced computer and communications technology have been a significant factor. Increased globalization of markets and its attendant impact of production efficiency through competition has streamlined production processes. Less often considered but no less significant, in our view, has been the impact of extended market liquidity through most of the past decade. With cheap capital available until mid-2008, low financing cost facilitated the investment of capital in labor saving processes. The result is the reliance on overseas operations that are labor intensive and the corralling of capital intensive processes in the United States. As a result, companies and the economy can experience tremendous increases in production with only modest increases in labor; concomitantly, the unemployment rate is resistant to monetary or fiscal stimulus

At present, there are approximately 154 Million people in the civilian labor force of which 9.6%, or 14.9 Million are unemployed. Assuming there was no growth in the labor force, a 3% reduction in unemployment would require the creation of approximately 4.6 Million jobs. At a rate of 0.6 employees per $1 million, the rate of employment growth experienced during the first seven years of this decade, would require GDP growth of approximately $7.7 Trillion. Since LTM GDP is $49.9 Trillion, this would reflect an aggregate increase of 15.3%. From 2000 to 2007, GDP growth (in constant 2005 dollars) averaged 3.3%. At that rate of growth, it would take over 4 years to achieve 15+% growth. By these measures, we do not see the achievement of full employment anytime in the next two to three years. Furthermore, if our analysis is correct, there are serious structural impediments to fiscal stimulus succeeding in dramatically changing the rate of job creation.

Leveraged Loan Market

Fourth Quarter Frenzy

Fueled by an array of factors, including looming changes in the tax treatment of capital gains , the concomitant uptick in M&A activity and the desire of sellers to consummate deals prior to year end, the leveraged loan market gained considerable momentum post-Labor Day. September volume surged to $31.5 billion, elevating the year to date total to nearly $171 billion; a figure representing a 246% increase over the first nine months of 2009. Issuers have once again begun to push leverage higher. Total leverage for middle market deals consummated in September averaged 4.0x. Lenders have been a willing, albeit reluctant dance partner to LBO firms aggressive push to increase leverage. However, Lender appetite for more aggressive deals is as much a reaction to issuers' improved profitability as a philosophical shift away from conservatism. In the secondary market, the S&P LSTA Index has returned 7.19% year to date, while middle market loans, defined as loans to issuers with sub-$50 million of EBITDA, have rewarded investors nearly twofold, with YTD returns of 12.77%.

Garnering much of the spotlight of late has been the abundance of dividend related deals clearing the market and it appears this trend is poised to continue for the remainder of 2010 with $3.2 billion of dividend related loans launching in the first week of October alone. Through September, dividend related loans approached $21 billion – nearly 3x the total for all of 2008 & 2009 combined.

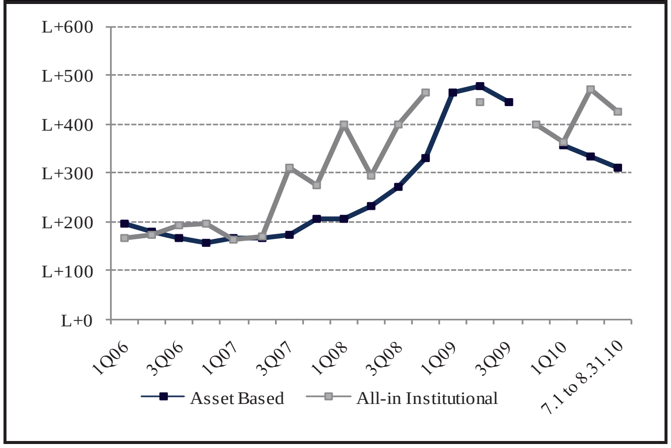
Second Fiddle

ABL spreads continued their decent during July and August with average pro rata spreads settling at 312.5 basis points. Since the second quarter of 2009, spreads have tightened an average of 28.6 bps per quarter and commitment fees have moved in kind, declining an average of 12.5 bps per quarter. With the overall health of the debt markets on the mend, this should come as no surprise. ABL lenders have been forced to trim pricing in order to maintain relevance in the rejuvenated loan market.

Since providing a broad shoulder for issuers to lean on during the credit crisis and accounting for a recent high of 33.8% of new issue volume in 2Q2009, the role of ABL's has been greatly reduced. Since

July, asset based deals have represented just 3.3% of new issues; however, despite this downward movement in the broader market, the minimal supply of cash flow lenders in the lower middle market will continue to result in a healthy supply of deal flow for traditional ABL's. Further, strictly from a cost of capital standpoint, asset based deals offer compelling value. As the chart below reflects, spreads between formula-based loans and their cash flow brethren have widened significantly, since nearly reaching parity in 1Q 2010.

Asset Based Spreads vs. BB/BB- All-in Institutional Spreads



Source: S&P LCD
Q1 & Q32009 data not available for Institutional Spreads

The confluence of improved issuer profitability, excess sponsor capital and changing capital gains tax policy portends a robust fourth quarter for market participants across the board. However, with the economic recovery stagnating and discussions of additional quantitative easing on the part of the Fed, becoming more prevalent, an air of uncertainty remains in the intermediate term. For our part, we believe the market is ripe to execute debt financings and we look forward to assisting our clients in doing so.

Select Middle Market Deal Pipeline

Issuer	Purpose	Sponsor	Deal Size ($ million)	Spread	LIBOR Floor (bps)	OID	Total/Senior Leverage
Mold Rite Plastics	LBO	Irving Place Capital	$89.0	L+450	175	98.0	4.6x/3.2x
New Century	IPO	Jefferies Capital Partners	$60.0	L+225			
Ad Venture Interactive	LBO	Lake Capital Partners	$74.0	L+500-525	175	98.0	
Hilex Poly	Dividend	Texas Pacific Group	$160.0	L+700	200	98.0	3.1x/3.1x
Craftworks Restaurants	LBO	Centerbridge Partners	$150.0	L+525	175	98.0	2.9x/2.9x
Fort Dearborn	LBO	KRG Capital Partners	$235.0	L+500	175	99.0	5.1x/3.3x
Aspen Dental	LBO	Leonard Green	$230.0	L+600	175	98.0	3.6x/3.6x
Internet Brands	LBO	Hellman & Friedman	$190.0	L+550	150		
Angelica	Dividend	Trilantic Capital Partners	$185.0	L+500-525	175	98.0	3.5x/3.5x
Medical Card System	Dividend	Joseph Littlejohn Levy	$175.0	L+1000	200	97.0	1.6x/1.6x

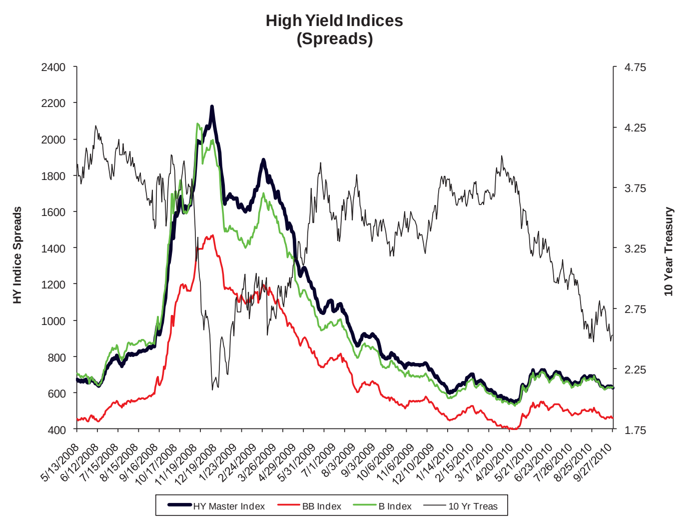
Cruising along at a record pace. It was the busiest September on record, although shy of the absolute all-time high of $38 billion in March 2010 New issues totaled over $33 billion, up from $30.5 billion in August. The final week of September saw over $5.5 billion of new issuance, which was preceded by two consecutive weeks in excess of $11 billion, representing the heaviest weekly volumes of the year. The $185 Billion in YTD new issuance through September has already surpassed 2009 total volume of approximately $146 Billion. Relatively stable market fundamentals and a healthy backlog of deals are providing momentum for what is expected to be a record 2010 year.

The strong new issue volume throughout the month did experience a bout of indigestion and fatigue midway through amid heavy supply and as trading levels on some new issues slipped in secondary trading. Adding to the mid-month pressure were mixed economic data and lingering concerns over sovereign debt overseas. After the brief pause, however, new issue yields continued to tighten to levels not seen since the summer of 2005, with the average yield of deals priced in the month gravitating toward 8.1% compared to an average of approximately 9.0% YTD. The forward calendar has swelled to over $18 billion of new issues awaiting absorption by the market.

September finished up strongly to end the quarter, erasing the mid-month “hiccup” in both the new issue and secondary high yield markets. The end of the month was characterized by favorable conditions for new issuance with issuer friendly structures including shorter call periods, lower call premiums, lower yields, and increased deal sizes. Amid healthy demand that facilitated the absorption of the backlog of deals, the buyside continued to bemoan thin allocations as all new issues pushed higher on the break with no signs of slowing, even as the pipeline grew. Trading activity was moderate as daily average trading volume exceeded $5 billion in final week with few sellers emerging to sell into quarters' end.

High yield market fundamentals remained strong amid low interest rates, continued inflows to the asset class, narrowing spreads, and continued improvements in sympathy with the equity markets. A diversity of issuers, industries and breadth of transactions has also boded favorably for the market. In addition, spreads which are approximately 100 bps wider than the historical lows in Spring 2010, continue to fuel investor demand for the additional yield. Expectations that third-quarter earnings reports will underscore continued economic improvement and declining default-rate forecasts for issuers also added to the strong underpinnings of the market. Default rates have steadily declined through the year to more historical levels and have recently stood at 4.5% from 13.2% one year ago, and from a peak of 16.4% in November 2009 according to Fitch Ratings Service.

The BAML HY Master II Index was up 6.6% as of the September quarter end, versus a decline of 0.7% in the second quarter and gain of 4.82% during the first quarter. The average yield of the HY Master II Index was 7.73% representing a spread of 626bps to Treasuries. The YTD total return of the HY Master II Index through September 30, was 11.76%. The forward calendar stood at a healthy $13.8 billion of new issues in the queue.



High Yield Sector Analysis

The Merrill Lynch High Yield Master II Index ended September at a spread of 626 bps over Treasuries. The spread narrowed by 87 bps from 713 bps during the 3rd quarter. While we saw universal declines in every sector during the summer, September experienced a broad rally across all sectors. The top performing sectors were banks, building materials and leisure. Surprisingly, consumer-related industries, such as restaurants and leisure which had been weak in recent months exhibited a rally perhaps in response to increased consumer spending.

Prices in the core financial services, healthcare and telecom sectors continue to hold firm. 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		
	Aug-10	**Sep-10**	**Δ**	**Aug-10**	**Sep-10**	**Δ**
Building Materials	598	528	(70)	(94)	(98)	(4)
Capital Goods	607	559	(48)	(85)	(67)	18
Chemicals	598	535	(63)	(94)	(91)	3
Gaming	974	919	(55)	282	293	11
Bank/Thrift	658	582	(76)	(34)	(44)	(10)
Broadcasting	940	887	(53)	248	261	13
Consumer Products	656	631	(25)	(36)	5	41
Cable/Satellite	516	470	(46)	(176)	(156)	20
Healthcare	602	583	(19)	(90)	(43)	47
Media	671	639	(32)	(21)	13	34
Leisure	700	625	(75)	8	(1)	(9)
Restaurants	980	918	(62)	288	292	4
Telecom	654	581	(73)	(38)	(45)	(7)
Distressed	1,532	1,528	(4)	840	902	62
Fallen Angel	617	559	(58)	(75)	(67)	8
HY Master	692	626	(66)	-	-	-
BB Index	515	460	(55)	(177)	(166)	11
B Index	693	632	(61)	1	6	5
CCC Index	1,161	1,071	(90)	469	445	(24)

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 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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