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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By the Numbers

Unemployment

8.1% (August)

Prime Rate

3.25%

Treasury Yields

2-Year Note—0.23%

10-Year Note—1.62%

EURO/USD

$1.29

3-Mo LIBOR

0.35%

LIBOR Swaps (USD)

2-year—0.379%

5-year—0.756%

Leveraged Loan Volume

$111 billion (Q3)

High-Yield Volume

$91.9 billion (Q3)

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 $15 and $150 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

- Now in its fourth year, the economic recovery shows signs of weakness across the board– lackluster job growth, softening business investment, reduced CEO confidence and marginal GDP growth.
- Recent declines in the unemployment rate, currently at 8.1%, are more attributable to workers leaving the workforce rather than job creation– total employment fell by 314,000 during July and August.
- The recently-announced QE3 will serve to augment Operation Twist with up to $40 billion in monthly purchases of MBS and extend the period for near-zero short-term interest rates to 2015. Fed actions targeted at the MBS market are designed to accelerate the nascent recovery in the housing market and home values, and thus, promote consumer confidence and stimulate consumer spending.
- Virtually all major economic powers are engaging in schemes to stimulate their economies (U.S., Eurozone and UK), to maintain competitive exchange rates (Brazil, Switzerland and Japan) or to ameliorate a slowdown (China). As a result, we are entering an era of unprecedented worldwide liquidity with dramatic, positive implications for asset values.

The U.S. Credit Markets

- The twofold impact of the market's technical imbalance and QE3 has pushed borrowing costs to all-time lows and given rise to a debt market with levels of liquidity not seen since 2007.
- Despite a recent moderation in pace, yield-chasing retail investors have poured money into loan and high yield mutual funds and ETFs. YTD September, loan and high yield funds have garnered $3.4 billion and $25.4 billion of inflows, respectively. On the institutional side, CLO managers have raised $30.7 billion YTD September, a drastically-improved comp to the $27.9 billion raised during all of 2008-2011.
- Leveraged loan issuance is on pace to eclipse 2011's post-recession high of $376 billion after a record-setting 3Q12 which saw $111 billion in issuance.
- After a monster month of September with $46.7 billion of offerings, high yield issuance is also on pace to trounce the previous annual high of $287 billion in 2010.
- Dividend-related new issuance stands at a record $34.1 billion for the year, $15.8 billion of which came during 3Q12. It appears that the market is responding to the possibility that the Bush tax cuts will not be extended and tax rates on qualified dividends will jump from 15% to 39.6%.

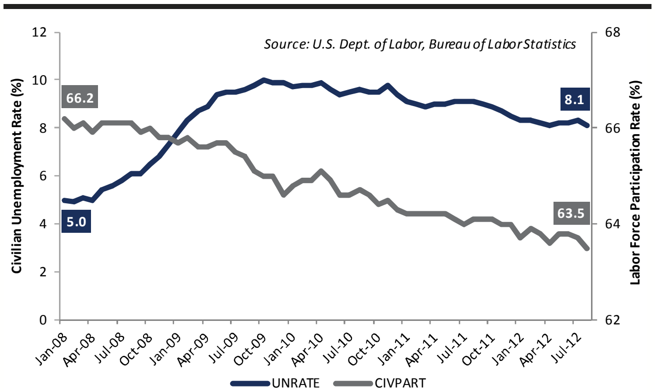
The Economy

The World is Awash in Liquidity

It is a truly remarkable and sorry state of affairs when the German Central Bank cites Goethe's Dr. Faust to make the case for avoiding quantitative easing. Jens Weidmann, Head of the Bundesbank, compared the ECB's bond buying program to the Faust scene where the devil persuades the emperor of a small kingdom to print money to solve his financial problems. It might well be the case that our own Fed Chairman traded with the devil when he announced the arrival of our previously-predicted third round of Quantitative Easing (QE3) amid great fanfare and a slew of supportive academic treatises.

That the Fed needed to do something is beyond a doubt. The economic recovery, now in its fourth year, shows considerable signs of weakness across the board- lackluster job growth, softening business investment, reduced CEO confidence and marginal GDP growth. Unemployment remains above 8% at 8.1%, with recent declines arising more from able-bodied workers leaving the workforce rather than job creation. After reaching monthly levels in excess of 200,000, job creation has fallen. Approximately 12.5 million people remain unemployed, which is the same number that were seeking, but couldn't find jobs this January. In August, private sector payrolls increased by a paltry 96,000 while federal, state and local government employment fell by 7,000– bringing the three month total loss to 46,000. Overall, total employment fell by 314,000 during July and August.

Civilian Unemployment and Labor Force Participation

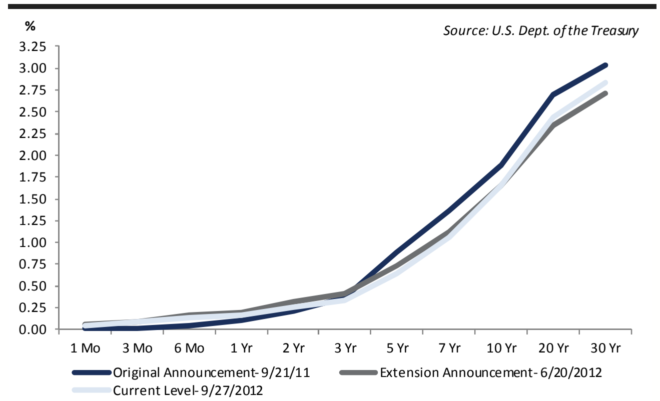


After rising to 79.2% of capacity in July- a level just below the 80% threshold at which our economy starts to add capacity- industrial production fell a dramatic 1% to 78.2% in August, reflecting weakness in manufacturing, utilities and automobile production. Some of the decline was a direct result of hurricane-related shutdowns in the energy sector, however, softness was fairly widespread.

Ben Bernanke's QE3 announcement, supported by a near-unanimous FOMC vote of 11-1, has heralded a new era of enhanced liquidity for the U.S. capital markets. The markets responded favorably and we expect they will continue to do so. CSFB cites the equity markets rising 10-15% in the six to eight weeks after the previous two quantitative easing announcements.

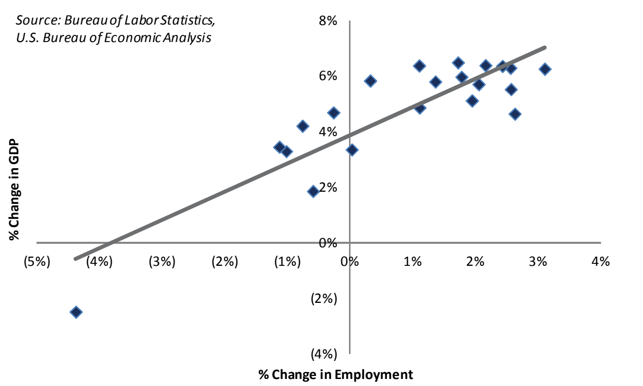
The announcement communicated that the current Fed stimulus activity, Operation Twist, will be augmented by monthly purchases of up to $40 billion in mortgage backed securities; monthly additions to the Fed's balance sheet could reach $85 billion per month. Designed to bring the long-end of the yield curve down, Operation Twist is set to expire at the end of December. QE3 has no defined end date, but will end when "improvement (in the labor markets) is achieved in a context of price stability." A statement which has given rise to the less-elegant moniker, QE Infinite. Furthermore, Bernanke extended the period for near-zero short-term interest rates to 2015.

Treasury Yields and Operation Twist



We believe that this move will have varied impacts on key aspects of our economy. As interest rates have achieved historic lows not experienced in the past fifty years, we don't believe this easing will bring significant changes to the labor markets. The explanation for persistent unemployment is lack of aggregate demand. During the two decades preceding 2008, aggregate demand grew at an average annual rate of 5.4%. Since the end of the recession in 2010, aggregate demand growth has failed to exceed 3%. The projections for continued declines in Eurozone GDP, the rapid slowdown in China and the moribund Japanese economy will serve to limit the Fed's ability to stimulate aggregate demand through QE3. Over the same twenty years, the level of employment required to grow GDP by $1 billion has fallen by over 80%. With technology and capital investment driving a 3% annual growth in productivity, it becomes increasingly difficult to reduce unemployment unless growth exceeds the 3% benchmark. QE3 will stimulate aggregate demand, but its impact will be felt most directly on growth in the economy with a more subdued effect on employment. And it is needed- GDP growth receded to 1.3% in 2Q12, down from 2% in 1Q12 and 4% in 4Q11.

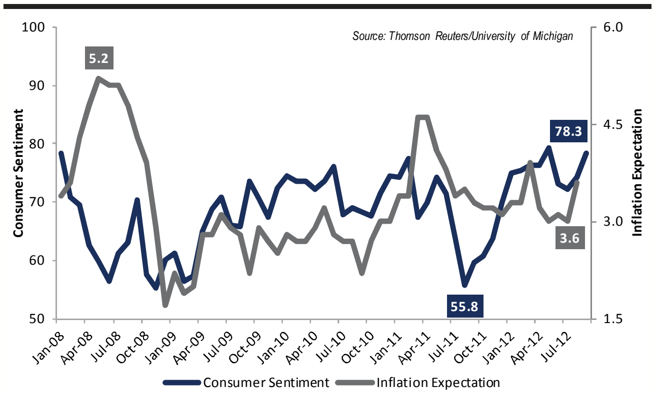
% Change in GDP vs. % Change in Employment (1990-2010)



The Fed's actions are directed at the MBS market and should accelerate the nascent recovery in the housing market and home values. We are convinced that the housing market has bottomed-out and begun its turnaround. The S&P home price index showed a 1.2% year-over-year improvement from July 2011. NAHB's housing index, comprised of three components including new sales, traffic and builder confidence, rose for the fifth straight month to a level of 40- residing well above consensus estimates of a rise from 35 to 36-38. Builder confidence found its expression in housing starts. August starts totaled 768,000 or 29.1% year-over-year growth. Existing home sales have risen in each of the last three months. Monthly sales are up 8-10% over the comparable prior year period. While sales have been abetted by declining long-term mortgage rates (30 year rates at 3.72%), we expect QE3 to provide additional stimulus through its focus on MBS.

QE3 is designed to boost consumer spending, a key contributor to aggregate demand, by stimulating improved home values. Higher values tend to promote consumer confidence, resulting in consumer spending. Consumer

Consumer Sentiment and Inflation Expectations



sentiment rose a sharp 4.9 points to 79.2 in mid-September, nearly the highest level achieved since 2007. Consumers disregarded the 0.6% month-over-month rise in CPI, perhaps because when food and energy are excluded, inflation is a far more benign 0.1%.

Aggregate demand may also be stimulated by rising inflation expectations. According to the Thomson Reuters/University of Michigan consumer sentiment survey, five year expectations for inflation were at 2.8%. This rate was remarkably coincident with the post-QE3 movements in the Treasury Inflation Protected Securities (TIPS) market. The breakeven inflation rate, derived from the spread between the nominal 10-year Treasury and the comparable TIP security, moved to 2.73%. Additional support for nascent inflation is evident in the PPI, with the 1.7% rise in August attributable to food and energy costs. Core PPI was up 0.2% after a 0.4% rise in August.

"Currency wars" being waged through competitive, monetary expansion programs may bring additional inflationary pressures. Brazil and Switzerland were the first countries to recognize that monetary stimulus, by reducing interest rates and catalyzing currency depreciation for the expansionist nation, would adversely affect the competitive position of their respective domestic industries. Indeed, the QE3 announcement put the dollar under pressure with immediate declines against the Euro, British Pound, Yen and Swiss Franc. As announced by Mario Draghi, the ECB through the Outright Monetary Transactions Program (OMT) may provide up to €500 billion of support to any country facing exceptional borrowing rates. Thus, Europe is embarking on its own form of monetary stimulus- applied more directly to economies in the most need of support. Draghi's program requires target nations to request assistance and adhere to the fiscal discipline programs promulgated for the target nation. The scale of the program is breathtakingly large, paralleling in size to that of Bernanke. As a result, the depreciation in the $/€ rate has been largely staunched. Japan has also continued bond purchases to keep the yen from appreciating and impairing its export-driven economy. The yen remains within 3% of its all-time high and 40% above its level in June 2007. In the UK, minutes from the September meeting of the Bank of England's Monetary Policy Committee revealed considerable support for increasing and extending the current quantitative easing program, currently sized at £375 billion, in response to the U.S. and Japanese programs. In Switzerland, economic strength and stability have served as a magnet for funds seeking safety. To prevent a rise in their currency that impairs the economy, the Swiss Central Bank has printed Francs in an amount equal to nearly 50% of its GDP.

We expect China to further stimulate its economy as the slowdown arises contemporaneously with the 10 year change in leadership. These events are generally followed by tremendous fiscal and monetary stimulus programs, which are designed to enable the new leadership to put its imprint on the economy. At a minimum, we believe China will slow or curtail its controlled appreciation in the Yuan as it digests the impact of QE3 on its own economy. By slowing the rate of appreciation in the Yuan, we expect Chinese imports to continue to benefit from our stimulus of aggregate demand- diverting a portion of the aggregate demand stimulus toward imports and away from domestically-produced goods.

We are about to experience liquidity flooding the markets that will make the run up to 2008 look like a Spring shower compared to the hurricane deluge of cash flooding the markets. We are entering an era of unprecedented monetary stimulus with virtually all major economic powers engaging in schemes, both grand and moderate, to stimulate their economy (U.S., Eurozone and UK), to maintain competitive exchange rates (Brazil, Switzerland and Japan) or to ameliorate a slowdown (China).

We believe the correct strategy for our clients is to utilize fixed rate debt, whose real value will decline under the upcoming inflationary environment, to accumulate assets that will appreciate under the same environment, be it businesses, commodity plays, housing stock or artwork. We also believe the heightened liquidity will stimulate a resurgent global economy that is accompanied by significant inflationary pressures. Nevertheless, the environment will produce a new era of wealth creation for those willing to take the risks necessary to build on what they possess today.

The U.S. Credit Markets

The U.S. economy's incumbent volatility and the ongoing threat of global economic disruption are principal reasons we advise clients to take advantage of favorable credit market conditions and address any financing requirements anticipated within the next 24 months; this recommendation has never carried more weight than it does today.

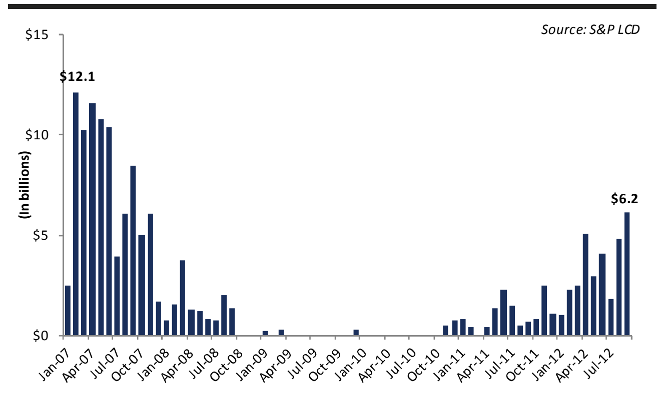
The recent tenor of the U.S. credit markets has been one of issuer exuberance. The market's technical imbalance, stemming from the capital available to make new loans outstripping the amount companies have sought to borrow, has pushed borrowing costs to all-time lows and returned structures not seen since the halcyon days of 2007 to the fore. Driven by sluggish domestic GDP growth and evidenced by a third round of quantitative easing, Bernanke *et al* has stated, in no uncertain terms, that steps will be taken to keep interest rates at historically low levels at least until 2015. This guidance has given rise to a debt market awash with levels of liquidity not seen since go-go days of the mid-2000's and proliferated capital inflows from both retail and institutional investors, alike.

With yield from traditional fixed income investments having gone AWOL for the aforementioned reason, retail investors have poured dollars into loan and high yield mutual funds and ETFs in droves. Despite a recent moderation in pace, loan and high yield funds have experienced continuous inflows throughout the year, taking in $2.3 billion and $10.7 billion, respectively, in 3Q12 alone. Year-to-date, loan funds have garnered $3.4 billion of inflows while high yield funds have reaped $25.4 billion.

On the institutional side, a resurgent CLO market has been nothing short of remarkable. CLO managers struggled mightily to attract investors between 2008 and 2011, raising just $27.9 billion of new vehicles during that time; boy, how times have changed. Through September, CLO issuance stood at $30.7 billion, and with a healthy dose of new vehicles expected to come to market in 4Q12 many market participants expect issuance to approach $50 billion for the year.

Armed with this new-found liquidity, CLO managers regained their dominant share of the institutional term loan market, accounting for approximately 53% of new institutional term loans in 2012 versus 41% last year.

Monthly CLO Issuance

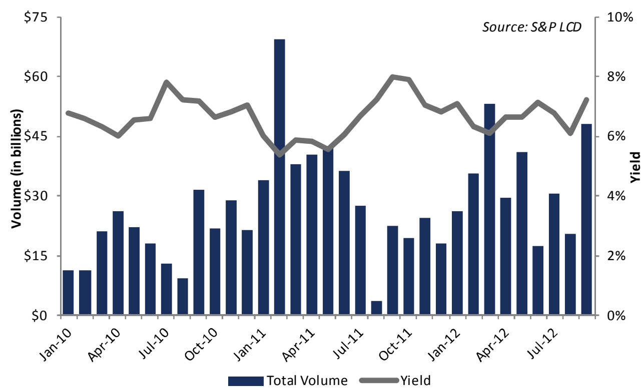


Take my money…please!

The net effect of massive inflows to the debt market has been increased volume as the technical imbalance has placed downward pressure on pricing and allowed more aggressive structures across the board.

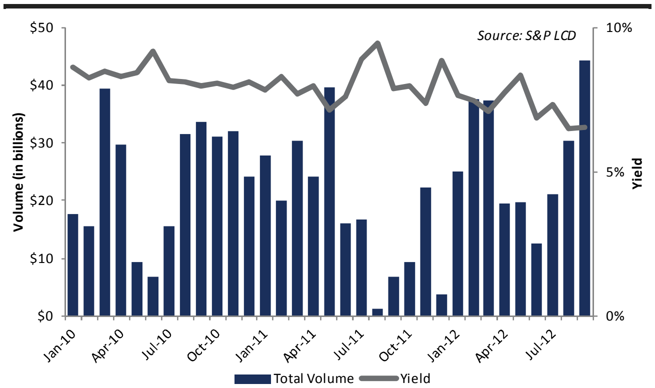
Thanks to a record-setting 3Q12 which saw $111 billion of new loans issued, 2012 is on pace to eclipse 2011's post-recession high of $376 billion. For the first nine months, volume stands at $320 billion.

New-Issue Leveraged Loan Volume and First-Lien YTM



Similarly, high yield issuance has been through the roof in 2012. Buoyed by a monster month of September in which $46.7 billion of high yield offerings cleared the market, 2012 is poised to trounce the previous annual high of $287 billion established in 2010. Year-to-date issuance stands at $244 billion of volume through the first nine months.

New-Issue High Yield Volume and Unsecured Yields

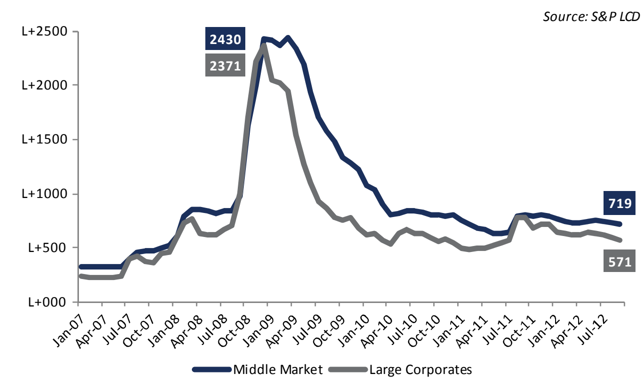


In September, average new-issue discounted spreads for all loans fell to 571 bps, while middle market spreads dipped to 719 bps.

A knock-on effect of lower yields has been upward pressure on LBO purchase multiples and reduced equity contributions. The average purchase multiple for large LBOs completed from July to September climbed to 9.1x from 7.9x in 2Q12 while the average equity contribution remained stable at 37%. Filling the gap, average pro-forma leverage increased nearly a turn from 4.9x to 5.7x.

Despite the higher purchase and leverage multiples, cash flow coverage for new debt facilities has remained rela-

Average Discounted Spreads of Leveraged Loans



tively stable thanks to lower interest costs offsetting higher debt loads. In 3Q12, the ratio of free cash flow to cash interest for large LBOs was 2.4x, a modest decline from 2Q12's 2.6x level.

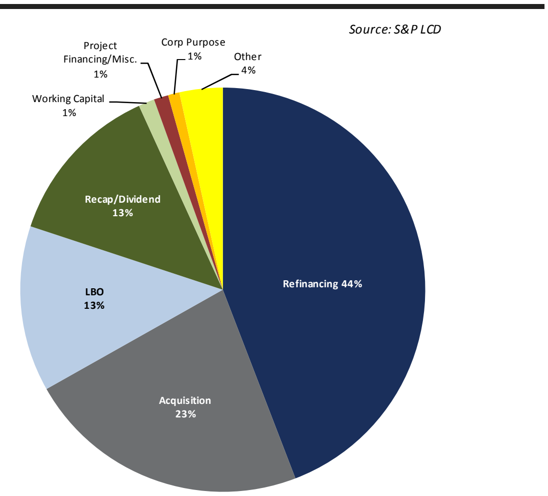
Bird in the Bush

Loans supporting dividend recapitalizations have been particularly prevalent as we enter 2012's homestretch. Dividend-related new-issuance totaled a record $15.8 billion in 3Q12- nearly three times 2Q12's volume. And while 2012's volume of $34.1 billion already represents a new record, we would expect the number to approximate $50 billion for the year. The reason for this is twofold:

First, loans have historically been the preferred dividend funding mechanisms for sponsors seeking a liquidity event due to their concomitant prepay flexibility. Despite many new-issue loans often carrying call protection, prepay flexibility is preserved as compared with high yield bonds which are typically not callable for two years or more.

Second, and perhaps more significant, is the potential (or likely, depending on who you ask) expiration of the Bush

New-Issue Loan Volume by Purpose– 3Q12



tax cuts at year-end. If the current legislation, under which qualified dividends are taxed at 15%, is not extended, the nominal rate will increase to 39.6% thereby reducing their appeal in the New Year.

Barring any major macroeconomic disruptions and absent a significant uptick in the amount of M&A related loan supply, we expect the loan market to continue to have strong issuer bias through year-end; as such, executing opportunistic transactions such as dividend recaps and repricings will be high on issuers' and sponsors' agendas.

About Us

<u>Advisory Services:</u> 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.

<u>Merchant Banking Funds:</u> 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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