

# HIGH YIELD & DISTRESSED MARKET REVIEW

Issue 3

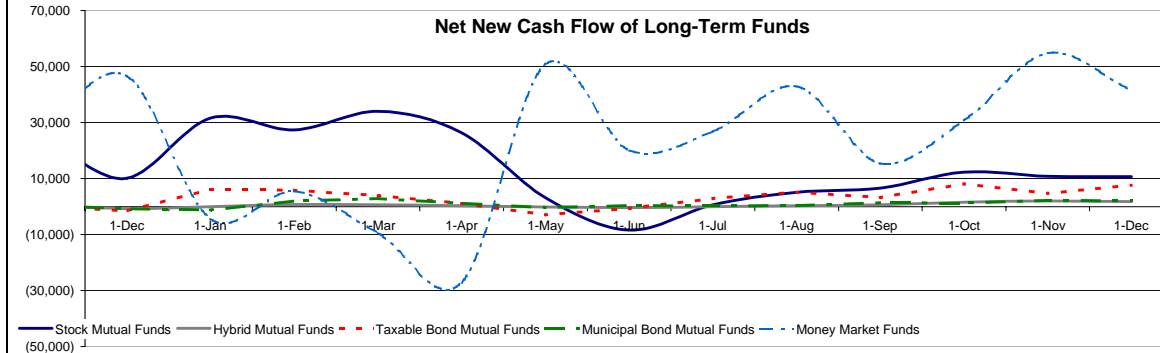
Week ending February 2, 2007

## Key Market Indicators

|                      | February 2, 2007 |           | 2 Week    | 2 Week    | 2 Week   | 2 Week   | YTD    | YTD      |
|----------------------|------------------|-----------|-----------|-----------|----------|----------|--------|----------|
|                      | Open             | Close     | High      | Low       | Change   | Change % | Change | Change % |
| DJIA                 | 12,673.68        | 12,653.49 | 12,673.68 | 12,477.16 | 87.96    | 0.70%    | 190.34 | 1.74%    |
| Nasdaq               | 2,468.38         | 2,475.88  | 2,475.88  | 2,431.07  | 24.57    | 1.00%    | 60.59  | 2.51%    |
| S&P 500              | 1,445.94         | 1,448.39  | 1,448.39  | 1,412.11  | 20.79    | 1.47%    | 12.20  | 0.86%    |
| Russell 2000         | 778.21           | 785.16    | 794.26    | 776.99    | 9.29     | 1.20%    | (2.50) | (0.32%)  |
| OEX Volatility Index | 10.31            | 10.08     | 11.45     | 9.89      | (0.32)   | (3.08%)  | (1.48) | (12.80%) |
| Prime Rate           | 8.25%            |           |           |           |          |          |        |          |
| LIBOR                |                  |           | 1 month   | 3 months  | 6 months | 1 Year   |        |          |
|                      |                  |           | 5.32%     | 5.36%     | 5.40%    | 5.43%    |        |          |

## Net New Cash Flow of Mutual Funds - Source: Investment Company Institute (\$ in millions)

|                      | Dec-06   | Nov-06   | Oct-06   | Sep-06   | Aug-06   | Jul-06   | Jun-06    | 2006      |
|----------------------|----------|----------|----------|----------|----------|----------|-----------|-----------|
| Stock Mutual Funds   | \$10,650 | \$10,779 | \$12,728 | \$6,466  | \$5,062  | \$585    | (\$8,398) | \$157,908 |
| Hybrid Mutual Funds  | \$1,720  | \$1,998  | \$1,595  | \$640    | \$236    | (\$87)   | (\$438)   | \$7,023   |
| Taxable Bond Funds   | \$7,665  | \$4,760  | \$8,173  | \$3,237  | \$5,197  | \$2,860  | (\$668)   | \$45,692  |
| Municipal Bond Funds | \$1,133  | \$2,090  | \$2,238  | \$1,366  | \$1,438  | \$344    | \$323     | \$15,116  |
| Money Market Funds   | \$41,531 | \$54,826 | \$30,833 | \$15,472 | \$42,867 | \$26,836 | \$20,055  | \$247,337 |



## Altman-NYU Salomon Center Defaulted Securities Indexes (December 1995=100)

| Index                                   | Dec-06 Level | Nov-06 Level | Oct-06 Level | Sep-06 Level | Aug-06 Level | Jul-06 Level | YTD Return |
|---|--------------|--------------|--------------|--------------|--------------|--------------|------------|
| Altman-NYU Defaulted Bank Loans Index   | 192.0        | 190.5        | 189.3        | 191.1        | 195.1        | 194.0        | 4.35%      |
| Altman-NYU Defaulted Public Bonds Index | 191.0        | 170.9        | 164.9        | 164.3        | 163.5        | 163.6        | 35.62%     |
| Combined Bank Loan-Public Bond Index    | 208.7        | 192.5        | 187.7        | 188.1        | 188.9        | 188.8        | 23.38%     |
| S&P 500 (Dividends Reinvested)          | 261.7        | 253.3        | 245.3        | 239.2        | 233.6        | 232.0        | 15.80%     |
| Citigroup High Yield Index              | 226.1        | 219.7        | 216.6        | 213.7        | 210.2        | 203.8        | 11.85%     |

## Distressed News

| Story Description  | Size (\$mil) | Date     | Source |
|--|--------------|----------|--------|
| Distressed Business Favor Out-Of-Court Restructurings      | na           | 2/2/2007 | DBR    |
| Foamex Obtains Confirmation Of Chapter 11 Bankruptcy Plan  | \$910.0      | 2/2/2007 | DBR    |
| Former Colling & Aikman CEO To Get \$700,000 Severance Pay | \$0.7        | 2/2/2007 | DBR    |
| Federal-Mogul Says Trade Creditors Can Take Stock Or Cash  | \$258.0      | 2/2/2007 | DBR    |
| Dana Seeks Approval To Pay Fees Of Its Unions' Advisors    | \$1.1        | 2/2/2007 | DBR    |
| GM and Ford Report U.S. Sales Declines Of More Than 15%    | na           | 2/2/2007 | DBR    |

## M&A Announced Transactions

| Target                         | Date      | Acquirer                | Value (\$mm) | Industry                                       |
|--------------------------------|-----------|-------------------------|--------------|--|
| Centex Construction            | 2/1/2007  | Balfour Beatty PLC      | 362          | Construction Firms                             |
| Putnam Investments             | 2/1/2007  | Great-West Lifeco Inc   | 3,900        | Investment & Commodity Firms,Dealers,Exchanges |
| Intl Fuel Sys Inc-Cert Asts    | 1/31/2007 | Caterpillar Inc         | 150          | Transportation Equipment                       |
| Kraft Foods Inc                | 1/31/2007 | Shareholders            | 51,100       | Food and Kindred Products                      |
| Levitt Corp                    | 1/31/2007 | BFC Financial Corp      | 286          | Construction Firms                             |
| Sheraton Universal Hotel       | 1/31/2007 | Lowe Enterprises Inc    | 122          | Hotels and Casinos                             |
| Lyme Timber Co-US Portfolio    | 1/30/2007 | BioMed Realty Trust Inc | 511          | Wood Products, Furniture, and Fixtures         |
| Peacock Engineering Co         | 1/30/2007 | Investor Group          | 173          | Business Services                              |
| Woolbright Dvlp-Portfolio(5)   | 1/30/2007 | Morgan Stanley          | 281          | Real Estate, Mortgage Bankers and Brokers      |
| Altiris Inc                    | 1/29/2007 | Symantec Corp           | 1,015        | Prepackaged Software                           |
| Elgar Electronics Corp         | 1/29/2007 | Xantrex Technology Inc  | 108          | Electronic and Electrical Equipment            |
| First Republic Bank,California | 1/29/2007 | Merrill Lynch & Co Inc  | 1,579        | Commercial Banks, Bank Holding Companies       |

## SELECTED SENIOR PROFESSIONALS

Russ Belinsky  
Senior Managing Director

Skip Victor  
Senior Managing Director

Peter Corbell  
Managing Director

Mark Rubin  
Managing Director

Brent Williams  
Managing Director

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The information contained in this newsletter has been compiled from a variety of news sources believed to be reliable. It is intended to provide general information about the high yield and distressed markets. It is not intended to be used as financial advice.

## HIGH YIELD & DISTRESSED MARKET REVIEW

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### M&A Announced Transactions (Continued)

| Target                         | Date      | Acquirer                     | Value (\$mm) | Industry                                       |
|--------------------------------|-----------|------------------------------|--------------|--|
| Laureate Education Inc         | 1/29/2007 | Investor Group               | 3,366        | Educational Services                           |
| Molecular Devices Corp         | 1/29/2007 | MDS Inc                      | 626          | Measuring, Medical, Photo Equipment; Clocks    |
| SureWest Directories           | 1/29/2007 | Liberty Group Publishing Inc | 110          | Business Services                              |
| USA Petroleum Corp-Retail      | 1/29/2007 | Tesoro Corp                  | 277          | Miscellaneous Retail Trade                     |
| Synagro Technologies Inc       | 1/28/2007 | Carlyle Group LLC            | 771          | Sanitary Services                              |
| Fiberxon Inc                   | 1/26/2007 | MRV Communications Inc       | 129          | Communications Equipment                       |
| Premier Community Bankshares   | 1/26/2007 | United Bankshares Inc,WV     | 201          | Commercial Banks, Bank Holding Companies       |
| Anadarko Petroleum-Williston   | 1/25/2007 | Encore Acquisition Co        | 410          | Oil and Gas; Petroleum Refining                |
| Cardinal Health Inc-Pharm      | 1/25/2007 | Blackstone Group LP          | 3,300        | Drugs  |
| Civitas BankGroup Inc          | 1/25/2007 | Greene County Bancshares Inc | 167          | Commercial Banks, Bank Holding Companies       |
| DocuCorp International Inc     | 1/25/2007 | Ebix Inc                     | 140          | Prepackaged Software                           |
| IBM Corp-Printing Systems Div  | 1/25/2007 | Ricoh Co Ltd                 | 725          | Computer and Office Equipment                  |
| Leor Explr & Prodn LLC         | 1/25/2007 | Merrill Lynch PCG Inc        | 150          | Oil and Gas; Petroleum Refining                |
| American Community Newspapers  | 1/24/2007 | Courtside Acquisition Corp   | 180          | Printing, Publishing, and Allied Services      |
| Elite FX Inc                   | 1/24/2007 | Celsius Holdings Inc         | 113          | Food and Kindred Products                      |
| TransAtlantic Bank,Miami,FL    | 1/24/2007 | Banco Sabadell SA            | 175          | Commercial Banks, Bank Holding Companies       |
| 21st Century Insurance Co      | 1/24/2007 | AIG                          | 686          | Insurance                                      |
| UGS Corp                       | 1/24/2007 | Siemens Automation & Drives  | 3,500        | Prepackaged Software                           |
| Commercial Bankshares Inc      | 1/23/2007 | Colonial BancGroup Inc,AL    | 317          | Commercial Banks, Bank Holding Companies       |
| Kraft Foods Inc-Hot Cereals    | 1/23/2007 | B&G Foods Inc                | 200          | Food and Kindred Products                      |
| Mattress Holding Corp          | 1/23/2007 | JW Childs Associates LP      | 450          | Textile and Apparel Products                   |
| Sun Microsystems Inc           | 1/23/2007 | KKR Private Equity Investors | 700          | Computer and Office Equipment                  |
| Svenska Cellulosa AB-North Ops | 1/23/2007 | Metalmark Capital LLC        | 400          | Business Services                              |
| VF Corp-Intemate Apparel       | 1/23/2007 | Fruit of the Loom Inc        | 350          | Textile and Apparel Products                   |
| Currenex Inc                   | 1/22/2007 | State Street Corp            | 564          | Business Services                              |
| Guggenheim Aviation-Asts(38)   | 1/22/2007 | Aircastle Ltd                | 1,595        | Air Transportation and Shipping                |
| CNL Hotels & Resorts Inc       | 1/19/2007 | Morgan Stanley Real Estate   | 3,208        | Investment & Commodity Firms,Dealers,Exchanges |
| EquiFirst Corp                 | 1/19/2007 | Barclays Bank PLC            | 225          | Real Estate; Mortgage Bankers and Brokers      |
| Interstate Power & Light Co    | 1/19/2007 | ITC Midwest LLC              | 750          | Electric, Gas, and Water Distribution          |
| Power Systems Manufacturing    | 1/19/2007 | Marubeni Corp                | 200          | Machinery                                      |
| Whittier Energy Corp           | 1/19/2007 | Sterling Energy PLC          | 188          | Oil and Gas; Petroleum Refining                |

### High Yield Credit Rating Upgrades for Last 2 Weeks

| Company Name                          | Date      | Rating Type            | Agency | Current | Last  | Industry                 |
|---------------------------------------|-----------|------------------------|--------|---------|-------|--------------------------|
| Riverdeep Group Plc                   | 2/1/2007  | LT Local Issuer Credit | S&P    | B+      | B+ -  | Educational Software     |
| Tele Norte Leste Participacoes SA     | 2/1/2007  | LT Local Issuer Credit | S&P    | BB+     | BB +  | Telephone-Integrated     |
| Telemar Norte Leste SA                | 2/1/2007  | LT Local Issuer Credit | S&P    | BB+     | BB +  | Telephone-Integrated     |
| Valeant Pharmaceuticals International | 2/1/2007  | LT Local Issuer Credit | S&P    | B+      | B+ -  | Medical-Drugs            |
| Cia Siderurgica Nacional SA           | 1/31/2007 | LT Local Issuer Credit | S&P    | BB      | BB -  | Steel-Producers          |
| Hilton Hotels Corp                    | 1/31/2007 | LT Local Issuer Credit | S&P    | BB +    | BB    | Hotels&Motels            |
| International Industrial Bank         | 1/29/2007 | LT Local Issuer Credit | S&P    | B+      | B     | Commer Banks Non-US      |
| Terra Industries Inc                  | 1/25/2007 | LT Local Issuer Credit | S&P    | BB-     | B+    | Chemicals-Specialty      |
| UGS Corp                              | 1/25/2007 | LT Local Issuer Credit | S&P    | B+ +    | B+    | Computer Software        |
| Viskase Cos Inc                       | 1/25/2007 | LT Local Issuer Credit | S&P    | CCC     | CCC - | Food-Misc/Diversified    |
| TNS Inc                               | 1/24/2007 | LT Local Issuer Credit | S&P    | BB-     | BB- - | Commercial Serv-Finance  |
| ACS Media LLC                         | 1/22/2007 | LT Local Issuer Credit | S&P    | B       | B -   | Inactive/Unknown         |
| Arab Tunisian Bank                    | 1/22/2007 | LT Local Issuer Credit | S&P    | BB      | BB-   | Commer Banks Non-US      |
| CBD Media Holdings LLC                | 1/22/2007 | LT Local Issuer Credit | S&P    | B       | B -   | Publishing-Periodicals   |
| Covanta Energy Corp                   | 1/22/2007 | LT Local Issuer Credit | S&P    | BB-     | B+    | Energy-Alternate Sources |
| Millicom International Cellular SA    | 1/22/2007 | LT Local Issuer Credit | S&P    | B+ +    | B+    | Cellular Telecom         |
| CSC Holdings Inc                      | 1/19/2007 | LT Local Issuer Credit | S&P    | BB      | BB -  | Cable TV                 |
| Cablevision Systems Corp              | 1/19/2007 | LT Local Issuer Credit | S&P    | BB      | BB -  | Cable TV                 |
| Rainbow National Services LLC         | 1/19/2007 | LT Local Issuer Credit | S&P    | BB      | BB -  | Special Purpose Entity   |
| Fairpoint Communications Inc          | 1/17/2007 | LT Local Issuer Credit | S&P    | BB- +   | BB-   | Telecom Services         |
| Gerdau Ameristeel Corp                | 1/17/2007 | LT Local Issuer Credit | S&P    | BB +    | BB    | Steel-Producers          |
| Localiza Rent A CAR                   | 1/17/2007 | LT Local Issuer Credit | S&P    | BB      | BB-   | Rental Auto/Equipment    |
| Scotts Miracle-Gro Co/The             | 1/17/2007 | LT Local Issuer Credit | S&P    | BB      | BB -  | Consumer Products-Misc   |
| United States Steel Corp              | 1/17/2007 | LT Local Issuer Credit | S&P    | BB+     | BB +  | Steel-Producers          |

### High Yield Credit Rating Downgrades for Last 2 Weeks

| Company Name                            | Date      | Rating Type            | Agency | Current | Last  | Industry                 |
|---|-----------|------------------------|--------|---------|-------|--------------------------|
| BorsodChem NyRt                         | 2/1/2007  | LT Local Issuer Credit | S&P    | B+ -    | BB -  | Chemicals-Diversified    |
| Radio One Inc                           | 2/1/2007  | LT Local Issuer Credit | S&P    | B+      | BB- - | Radio                    |
| CEVA Group PLC                          | 1/31/2007 | LT Local Issuer Credit | S&P    | B       | B+    | Special Purpose Entity   |
| Celestica Inc                           | 1/31/2007 | LT Local Issuer Credit | S&P    | BB- -   | BB-   | Electronic Compo-Misc    |
| Seitel Inc                              | 1/31/2007 | LT Local Issuer Credit | S&P    | B-      | B *   | Seismic Data Collection  |
| Port Townsend Paper Corp                | 1/30/2007 | LT Local Issuer Credit | S&P    | D       | CCC   | Containers-Paper/Plastic |
| Synagro Technologies Inc                | 1/30/2007 | LT Local Issuer Credit | S&P    | B+ -    | B+    | Alternative Waste Tech   |
| Kansas City Southern                    | 1/29/2007 | LT Local Issuer Credit | S&P    | B -     | B     | Transport-Rail           |
| Kansas City Southern Railway            | 1/29/2007 | LT Local Issuer Credit | S&P    | B -     | B     | Diversified Operations   |
| Kansas City Southern de Mexico SA de CV | 1/29/2007 | LT Local Issuer Credit | S&P    | B -     | B     | Transport-Rail           |
| Road King Infrastructure                | 1/26/2007 | LT Local Issuer Credit | S&P    | BB+ -   | BB+   | Public Thoroughfares     |
| Nova Chemicals Corp                     | 1/24/2007 | LT Local Issuer Credit | S&P    | B+      | BB-   | Chemicals-Diversified    |
| ArvinMeritor Inc                        | 1/23/2007 | LT Local Issuer Credit | S&P    | BB-     | BB -  | Auto/Trk Prts&Equip-Orig |

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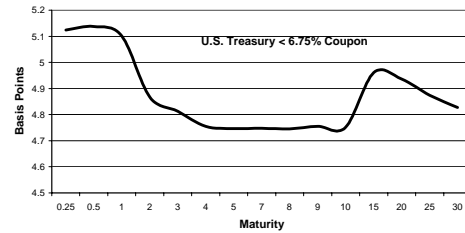
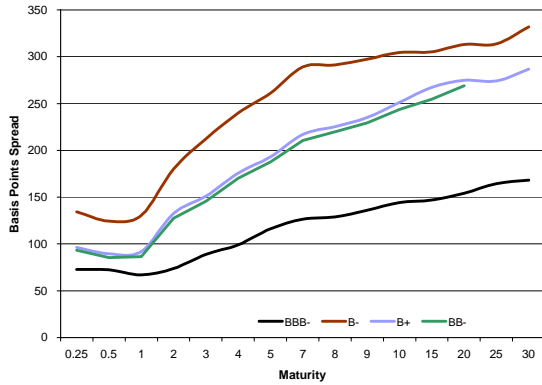
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### High Yield Credit Rating Downgrades for Last 2 Weeks

| Company Name                     | Date      | Rating Type            | Agency | Current | Last    | Industry                 |
|----------------------------------|-----------|------------------------|--------|---------|---------|--------------------------|
| Billing Services Group Ltd       | 1/23/2007 | LT Local Issuer Credit | S&P    | B+ ^-   | B+      | Commercial Serv-Finance  |
| Briggs & Stratton Corp           | 1/23/2007 | LT Local Issuer Credit | S&P    | BB+     | BBB- ^- | Engines-Internal Combust |
| Cooper Cos Inc/The               | 1/22/2007 | LT Local Issuer Credit | S&P    | BB-     | BB ^-   | Medical Products         |
| Pacific Lumber Co/The            | 1/22/2007 | LT Local Issuer Credit | S&P    | D       | CCC     | Forestry                 |
| Hopson Development Holdings Ltd  | 1/19/2007 | LT Local Issuer Credit | S&P    | BB+ ^-  | BB+     | Real Estate Oper/Develop |
| Brand Services Inc               | 1/17/2007 | LT Local Issuer Credit | S&P    | B ^-    | B ^+    | Building-Maint&Service   |
| Genesis HealthCare Corp          | 1/17/2007 | LT Local Issuer Credit | S&P    | B+ ^-   | BB-     | Medical-Nursing Homes    |
| Health Management Associates Inc | 1/17/2007 | LT Local Issuer Credit | S&P    | B+      | BBB     | Medical-Hospitals        |
| LifePoint Hospitals Inc          | 1/17/2007 | LT Local Issuer Credit | S&P    | BB-     | BB      | Medical-Hospitals        |
| Pilgrim's Pride Corp             | 1/17/2007 | LT Local Issuer Credit | S&P    | BB-     | BB ^-   | Poultry                  |

### Bond Spread To US Treasury Data



Change in spread to US treasuries with coupons < 6.75% (7 Year)

|      | Time Period of Change |          |          |        |
|------|-----------------------|----------|----------|--------|
|      | 2 weeks               | 3 months | 6 months | 1 year |
| B-   | (11)                  | (64)     | (64)     | (56)   |
| B+   | (12)                  | (62)     | (61)     | (44)   |
| BB-  | (9)                   | (21)     | (22)     | (6)    |
| BBB- | (7)                   | (11)     | (10)     | 1      |

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|   |   |  |   |
|---|---|--|---|
| <p>November 2006</p>  <p><b>Chapter 11 Reorganization</b><br/>\$525 million</p> <p>Financial Advisor to the Ad-hoc Committee of 10 1/8% Senior Notes of Satelites Mexicanos SA de CV</p>                         | <p>October 2006</p>  <p><b>Chapter 11 Reorganization</b><br/>\$13.6 billion</p> <p>Financial Advisor to an Ad-hoc committee of Equity Security Holders</p>   | <p>September 2006</p>  <p><b>Section 363 Asset Sale</b><br/>\$101 million</p> <p>Financial Advisor to Legacy Estate Group, LLC, in connection with the sale of substantially all its assets to Kendall-Jackson Wine Estates, Ltd.</p>  | <p>July 2006</p> <p><b>CRESCENT JEWELERS</b></p> <p><b>Chapter 11 Reorganization</b><br/>\$114 million</p> <p>Financial Advisor to Crescent Jewelers in connection with its Chapter 11 Reorganization and the New Money Plan funded by Harbinger Capital Partners</p> |
| <p>June 2006</p>  <p><b>Chapter 11 Reorganization</b><br/>\$1.4 billion</p> <p>Financial Advisor to the Ad-hoc Committee of Second Lien Noteholders</p>  | <p>April 2006</p>  <p><b>Chapter 11 Reorganization</b><br/>\$165 million</p> <p>Financial Advisor to the Official Committee of Unsecured Creditors</p>   | <p>March 2006</p>  <p><b>Consent Solicitation</b><br/>\$800 million</p> <p>Financial Advisor to Mercury Interactive Corp. in connection with a consent solicitation with holders of approximately \$800 million in debt securities</p>   | <p>March 2006</p>  <p><b>Chapter 11 Reorganization</b><br/>\$390 million</p> <p>Financial Advisor to the Official Committee of Unsecured Creditors</p>                           |
| <p>March 2006</p>  <p><b>CCA Reorganization</b><br/>C\$3.1 billion</p> <p>Financial Advisor to the Informal Committee of Senior Debentureholders in connection with the CCA reorganization of Stelco, Inc.</p> | <p>February 2006</p>  <p><b>Out-of-Court Restructuring</b><br/>\$474 million</p> <p>Financial Advisor to Home Interiors &amp; Gifts, Inc., in connection with an out-of-court restructuring of approximately \$474 million of aggregate indebtedness</p> | <p>February 2006</p>  <p><b>Chapter 11 Reorganization</b><br/>\$350 million</p> <p>Financial Advisor to the Official Committee of Equity Security Holders of Footstar Inc. in connection with its restructuring of \$350 million in aggregate liabilities and reinstatement of its equity security interests</p> | <p>January 2006</p>  <p><b>Chapter 11 Reorganization</b><br/>\$1.2 billion</p> <p>Financial Advisor to Mirant Mid-Atlantic Pass Through Certificate Holders</p>                  |