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MARKET UPDATE

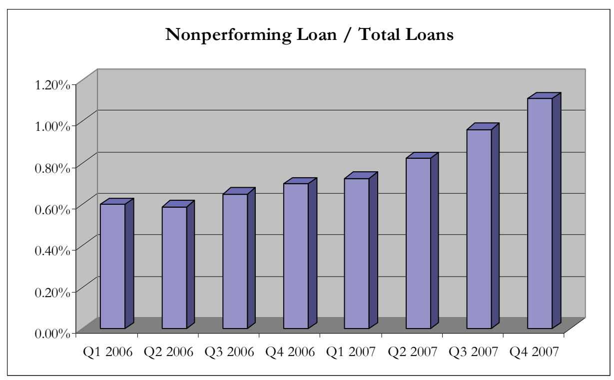
Musical Chairs - And the Music Just Stopped!

In the game of musical chairs, bad things happen when the music stops and you don't have a seat. Within seemingly efficient financial markets, what happens when the music stops? What happens when you are holding an asset and there are no buyers - at any price? If it is a piece of a financial derivative, created from a pool of sub-prime mortgages, and you have to mark your assets to market, you are in trouble.

Since early in 2007 sub-prime mortgage lending and the mess created by it have dominated the financial news. Derivative products trickled up the financial system as suspect mortgage loans were packaged, repackaged, and bought in volume by the most sophisticated players on the planet. Once the real estate bubble began to leak, the problems trickled up just as fast. The aftermath has been sudden and prompted significant rate decreases by the Federal Reserve, over $194 Billion in write-offs or credit losses and the implosion of investment banking powerhouse Bear Sterns.

While the largest banks and broker-dealers have dominated the news, the recent difficulties are no longer just a Wall Street problem. It's now a Main Street issue and regional banks have not gone unaffected. In addition to significant write-offs which have weakened their balance sheets, we have seen an understandable tightening of credit. In many cases, the problems associated with mortgage loans have affected commercial lending activity. While the original problems trickled up to create the current fiasco, the resulting crisis in the world's financial markets have trickled down to affect just about any company, big or small, with debt on their books.

However, banks have not stopped supporting their clients nor have they stopped lending. Banks are still doing deals, but their approach has shifted significantly from the overheated debt markets of 2005-06 and they have ratcheted up the review and underwriting process to a level not seen since the downturn of 2000-01.



What does this mean for the borrower? At best it means that companies with opportunities for expansion will need to have a more compelling story. At worst it means that companies which once believed their bank would stick with them through the tough times may be in for a sudden and unpleasant surprise; all this during economic times when more focus on running the business is critical. During these uncertain times, should the business owner be meeting with bankers or with customers? Is the owners' time better spent focusing on operational improvements or assuring liquidity? These are questions many business owners are currently facing and many more may face in the coming months as the volatility in the credit market continues. Times like these call for seasoned financial professionals.

In order to better assist our clients through these tough times, Periculum Capital Company has recently announced the formation of a Corporate Restructuring Group. Two recently hired professionals with significant debt and operational expertise join the existing team at Periculum and now allow us to enhance our existing abilities to successfully handle challenging financial situations requiring liquidity management and multi-layered capital structure. With a large database of capital providers and the experience to craft the appropriate story, we can target the right financial partner for many diverse situations. More importantly, Periculum can free up management's time to focus on operational issues or to call on that key customer.