LIBERTY ALL STAR EQUITY FUND
Form PRE 14A
October 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[X] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission Only (as permitted by Rule14a-6(e)(2))

[ ] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to Sec. 240.14a-12

LIBERTY ALL-STAR EQUITY FUND

(name of Registrant as Specified in its Charter)

ALPS FUND SERVICES, INC.

Attn: Tane Tyler

1290 Broadway, Suite 1100

Denver, Colorado 80203

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required

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1) Title of each class of securities to which transaction applies:
2) Aggregate number of securities to which transaction applies:
3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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LIBERTY ALL-STAR® EQUITY FUND

LIBERTY ALL-STAR® GROWTH FUND, INC.

[October , 2012]

Dear Fellow Shareholders:

As President and Chief Executive Officer of each Fund, I am writing to ask for your vote at the special meeting of Shareholders (Meeting) of the Liberty All-Star Equity Fund (Equity Fund) and the Liberty All-Star Growth Fund, Inc. (Growth Fund) (each, a Fund and collectively, the Funds) to be held in the offices of ALPS Advisors, Inc. (AAI One Financial Center, 15th Floor, Boston, Massachusetts on December 20, 2012 at 9:00 a.m. Eastern Time. A formal notice of the Meeting appears on the next pages and is followed by a Proxy Statement for the Meeting.

At the Meeting, you are being asked to approve:

(1) new Portfolio Management Agreements for the **Equity Fund** and the **Growth Fund** among each Fund, AAI and TCW Investment Management Company (TCW), an investment sub-adviser for each Fund;

(2) a new Portfolio Management Agreement for the **Equity Fund** among the Fund, AAI and Cornerstone Capital Management LLC (Cornerstone LLC), an investment sub-adviser for the Fund; and

(3) a manager-of-managers structure for the **Equity Fund** and the **Growth Fund**, subject to the provision of exemptive relief by the U.S. Securities and Exchange Commission (SEC).

On August 9, 2012, The TCW Group, the parent company to TCW, a sub-adviser for the Equity Fund and the Growth Fund, entered into a definitive agreement with The Carlyle Group pursuant to which The Carlyle Group will acquire The TCW Group (TCW Transaction). The TCW Transaction constitutes a change in control of TCW. Neither the Equity Fund nor the Growth Fund is a party to the TCW Transaction and the TCW Transaction will not result in any direct change in the structure or operation of the Funds. However, upon the closing of the TCW Transaction, the Portfolio Management Agreement among each Fund, AAI and TCW will automatically terminate because the TCW Transaction will be deemed an assignment under the Investment Company Act of 1940, as amended (Investment Company Act).

On September 25, 2012, Cornerstone Capital Management, Inc. (Cornerstone Inc.) entered into a definitive agreement (the Agreement) with New York Life Investment Management, LLC (New York Life Investments), through its subsidiary Madison Square Investors, LLC (MSI), and Cornerstone LLC, a newly formed limited liability company through the Agreement to acquire a minority stake in Cornerstone Capital Management, Inc. (Cornerstone Transaction). Under the terms of the Cornerstone Transaction and the Agreement, New York Life Investments, though MSI, and Cornerstone Inc. would reorganize into Cornerstone LLC as its successor entity and become a wholly-owned subsidiary and affiliate of New York Life, and will increase its ownership of Cornerstone LLC to a majority interest over seven years. The Equity Fund is not a party to the Cornerstone Transaction and the Cornerstone Transaction will not result in any direct change in the

structure or operation of the Equity Fund. However, upon the closing of the Cornerstone Transaction, the Portfolio Management Agreement among the Equity Fund, AAI and Cornerstone will automatically terminate because the Cornerstone Transaction will be deemed an assignment under the Investment Company Act.

Shareholders of the Equity Fund and Growth Fund are being asked to approve new Portfolio Management Agreements with TCW, and Shareholders of the Equity Fund are being asked to approve a new Portfolio Management Agreement with Cornerstone. Under the new Portfolio Management Agreements, TCW and Cornerstone will provide the same investment advisory services on the same terms as under the existing Portfolio Management Agreements (except for the effective dates and length of the initial term of each Agreement). The TCW and Cornerstone Transactions will not result in any change in the management fees paid by the Funds to AAI and the fees paid to TCW and Cornerstone by AAI will remain unchanged. The TCW and Cornerstone Transactions will not result in any changes to the organization or structure of the Funds. Each Fund s investment objectives and principal investment strategies also will remain unchanged. Your approval of the New Portfolio Management Agreements is being sought to ensure that TCW and Cornerstone can continue to provide the Equity Fund and the Growth Fund with the same services that are currently provided.

Shareholders also are being asked to approve a manager-of-managers structure for the Equity Fund and the Growth Fund. The Funds have filed an application with the SEC requesting an order (the Order) that would generally permit the Funds investment adviser, AAI, subject to approval of the board of each Fund, to enter into new sub-advisory agreements with unaffiliated sub-advisers and to change the terms of existing sub-advisory agreements with unaffiliated sub-advisers without first obtaining Shareholder approval. However, for a Fund to rely on the Order and therefore operate under a manager-of-managers structure, use of the structure is required to be approved by the Fund s Shareholders. Although implementation will require relief from the SEC, Proposal 3 seeks your approval to allow the Equity Fund and the Growth Fund to operate using a manager-of-managers structure once the relief has been obtained.

The enclosed Proxy Statement discusses the proposals in more detail to be voted upon by the Shareholders of each Fund. Please review the Proxy Statement and cast your vote on each of the proposals.

THE BOARD OF TRUSTEES/DIRECTORS OF EACH FUND RECOMMENDS A VOTE FOR EACH PROPOSAL.

Your vote is important no matter how many shares you own. Voting your shares early will avoid costly follow-up mail and telephone solicitation. After reviewing the enclosed materials, please complete, sign and date your proxy card(s) and mail it promptly in the enclosed return envelope, or help save time and postage costs by calling the toll free number and following the instructions. You may also vote via the Internet by logging on to the website indicated on your proxy card and following the instructions that will appear. If we do not hear from you, our proxy solicitor, AST Fund Solutions LLC (AST), may contact you. This will ensure that your vote is counted even if you cannot attend the Meeting in person. If you have any questions about the proposals or the voting instructions, please call AST at 1- - - .

Very truly yours,

William R. Parmentier, Jr.

President and Chief Executive Officer

LIBERTY ALL-STAR EQUITY FUND (Equity Fund)

LIBERTY ALL-STAR GROWTH FUND, INC. (Growth Fund)

(Each a Fund, and collectively, the Funds)

1290 Broadway, Suite 1100

Denver, Colorado 80203

(303) 623-2577

NOTICE OF JOINT SPECIAL MEETING OF SHAREHOLDERS

December 20, 2012

To the Shareholders of the Funds:

NOTICE IS HEREBY GIVEN that a joint special meeting (the Meeting) of Shareholders (the Shareholders) of the Liberty All-Star Equity Fund (Equity Fund) and the Liberty All-Star Growth Fund, Inc. (Growth Fund) (each, a Fund and collectively, the Funds) will be held in the offices of ALPS Advisors, Inc. (AAI) at One Financial Center, 15th Floor, Boston, Massachusetts on December 20, 2012 at 9:00 a.m. Eastern Time to consider and act upon the following matters:

1. To approve new Portfolio Management Agreements for the **Equity Fund** and the **Growth Fund** among each Fund, AAI and TCW Investment Management Company to become effective upon the Closing;

2. To approve a new Portfolio Management Agreement for the **Equity Fund** among the Fund, AAI and Cornerstone Capital Management LLC to become effective upon the Closing;

3. To approve a manager-of-managers structure for the **Equity Fund** and the **Growth Fund,** subject to the provision of relief by the Securities and Exchange Commission; and

4. To transact any other business as may properly come before the Meeting.

YOUR BOARD OF TRUSTEES/DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE PROPOSALS.

You are entitled to vote at the Meeting if you owned shares of one or both of the Funds at the close of business on October 10, 2012 (Record Date). If you attend the Meeting, you may vote your shares in person. However, we urge you, whether or not you expect to attend the Meeting in person, to complete, date, sign and return the enclosed proxy card(s) in the enclosed postage-paid envelope or vote by telephone or through the Internet.

YOUR VOTE IS IMPORTANT PLEASE SIGN, DATE AND RETURN YOUR PROXY PROMPTLY.

Your vote is important no matter how many shares you own. Voting your shares early will avoid costly follow-up mail and telephone solicitation. After reviewing the enclosed materials, please complete, sign and date your proxy card(s) and mail it promptly in the

enclosed return envelope, or help save time and postage costs by calling the toll free number and following the instructions. You may also vote via the Internet by logging on to the website indicated on your proxy card and following the instructions that will appear. If we do not hear from you, our proxy solicitor, AST Fund Solutions LLC (AST), may contact you. This will ensure that your vote is counted even if you cannot attend the special meeting in person. If you have any questions about the proposals or the voting instructions, please call AST at 1- - - . An electronic copy of this proxy statement and the annual reports of each Fund are available at www.all-starfunds.com.

By order of the Board of Trustees of Liberty All-Star Equity Fund and the Board of Directors of Liberty All-Star Growth Fund, Inc.

Tané T. Tyler

Secretary

[October , 2012]

IMPORTANT INFORMATION TO HELP YOU UNDERSTAND

AND VOTE ON THE PROPOSALS

While we strongly encourage you to read the full text of the enclosed Proxy Statement, we are also providing you with a brief overview of the subject of the Shareholder vote. Your vote is important.

QUESTIONS AND ANSWERS

Q. Why am I being asked to vote on new Portfolio Management Agreements with TCW and Cornerstone?

A. On August 9, 2012, The TCW Group, the parent company to TCW Investment Management Company (TCW), a sub-adviser for the Liberty All-Star Equity Fund (Equity Fund) and the Liberty All-Star Growth Fund, Inc. (Growth Fund) (collectively, the Funds), entered into a definitive agreement with The Carlyle Group pursuant to which The Carlyle Group will acquire The TCW Group (TCW Transaction). In addition, on September 25, 2012, Cornerstone Capital Management, Inc. (Cornerstone Inc.) entered into a definitive agreement (the Agreement) with New York Life Investment Management, LLC (New York Life Investments), through its subsidiary Madison Square Investors, LLC (MSI), and Cornerstone Capital Management LLC (Cornerstone LLC), a newly formed limited liability company through the Agreement to acquire a minority stake in Cornerstone Capital Management, Inc. (Cornerstone, Inc.) (Cornerstone Transaction). The TCW Transaction constitutes a change in control of TCW; and the Cornerstone Transaction constitutes a change in control of Cornerstone. Upon the closing of the TCW and Cornerstone Transactions, the Current TCW Agreements among each Fund, AAI and TCW and the Current Cornerstone Agreement among the Equity Fund, AAI, and Cornerstone Inc. will automatically terminate because the TCW and Cornerstone Transactions will each be deemed an assignment under the Investment Company Act of 1940, as amended (Investment Company Act). Accordingly, Shareholders of the Equity Fund and Growth Fund are being asked to approve new Portfolio Management Agreements with TCW and Shareholders of the Equity Fund are being asked to approve a new Portfolio Management Agreement with Cornerstone LLC.

On October 10, 2012, the Equity Fund s Board of Trustees (Trustees) and the Growth Fund s Board of Directors (Directors) (each, a Board) approved new Portfolio Management Agreements among each Fund, AAI and with TCW (New TCW Agreements) and Cornerstone LLC (New Cornerstone Agreement) that would become effective upon the closing of the TCW and Cornerstone Transactions, respectively, subject to Shareholder approval.

Q. Will either the TCW or Cornerstone Transaction affect me as a Shareholder?

A. No. The TCW and Cornerstone Transactions will not result in any changes to the organization or structure of the Funds. You will still own the same shares in the same Funds.

Q. Why are you sending me this information?

A. You are receiving these proxy materials because you owned shares in one or both of the Funds on the Record Date and have the right to vote on these very important proposals concerning your investment.

Q. Will the services change or the fees payable under the New TCW Agreements or the New Cornerstone Agreement increase as a result of the Transaction?

A. No. There will be no changes in the services provided or increase in the fee rates under the New TCW Agreements or the New Cornerstone Agreement. It is expected that TCW s and Cornerstone LLC s portfolio managers and employees who provide services to the Funds would provide uninterrupted management following the closing of the TCW and Cornerstone Transactions. The TCW and Cornerstone Transactions will not result in any changes to the organization or structure of the Funds, and each Fund s investment objectives and principal investment strategies will remain unchanged. Your approval of the New TCW Agreements and the New Cornerstone Agreement is being sought to ensure that TCW and Cornerstone LLC can continue to provide the Funds with the same services that are currently provided.

Q. Will there be any change in any portfolio managers at TCW and Cornerstone who serve the Funds?

A. No. It is expected that the same TCW and Cornerstone Inc. portfolio managers who currently serve the Funds will continue to do so after the TCW and Cornerstone Transactions, pursuant to the same investment objectives and strategies currently in place.

Q. Why is the Board proposing a manager-of-managers structure?

A. The Funds have filed an application with the Securities and Exchange Commission (the SEC) requesting an order (the Order) that would generally permit AAI, subject to approval of each Fund s Board, to enter into new sub-advisory agreements with unaffiliated sub-advisers and to change the terms of existing sub-advisory agreements with unaffiliated sub-advisers without first obtaining Shareholder approval. However, for a Fund to rely on the Order and therefore operate under a manager-of-managers structure, use of the structure is required to be approved by the Fund s Shareholders. Although implementation will require relief from the SEC, Proposal 3 seeks your approval to allow your Fund to operate using a manager-of-managers structure once the relief has been obtained. Shareholders should be aware, however, that under a manager-of-managers structure, they would not have the ability to exert control over whether their Fund entered into new sub-advisory agreements with unaffiliated sub-advisers or whether terms to sub-advisory agreements were changed, because they would not be entitled to vote for or against such matters before they became effective.

Q. Could investment advisory fees be increased without a Shareholder vote if the manager-of-managers structure is approved?

A. No. Fees paid to sub-advisers are paid directly by the investment adviser out of its investment advisory fee; they are not paid directly by each Fund. Therefore, any change in sub-advisory

fees will have no impact on a Fund s expenses. Any increase in the investment advisory fee paid to the investment adviser by a Fund will continue to require Shareholder approval.

Q. What are the benefits of a manager-of-managers structure?

A. A manager-of-managers structure will provide the investment adviser and the Board with the flexibility to implement sub-adviser changes or materially amend sub-advisory agreements without incurring the significant delay and expense associated with obtaining Shareholder approval.

Q. How do the Trustees/Directors of my Fund recommend that I vote?

A. The Trustees/Directors of your Fund recommend that you vote **FOR** each of the proposals.

Q. Will my Fund pay for this proxy solicitation or for the costs of the Transaction?

A. TCW has agreed to bear the expenses associated with the proposal to approve the New TCW Agreements and Cornerstone has agreed to bear the expenses associated with the proposal to approve the New Cornerstone Agreement. The Funds will pay the cost related to the manager-of-managers structure approval.

Q. How do I vote my shares?

A. For your convenience, there are several ways you can vote:

By Mail: Vote, sign and return the enclosed proxy card(s) in the enclosed self-addressed, postage-paid envelope;

By Telephone: Call the number printed on the enclosed proxy card(s);

By Internet: Access the website address printed on the enclosed proxy card(s); or

In Person: Attend the Meeting as described in the Proxy Statement. If you wish to attend the Meeting, please notify us by calling 1-800-241-1850.

Q. Why are two proxy cards enclosed?

A. If you own shares of both Funds, you will receive a separate proxy card for each Fund.

Q. Whom should I call for additional information about this Proxy Statement?

A. If you need any assistance, or have any questions regarding the proposals or how to vote your shares, please call our proxy solicitor, AST Fund Solutions LLC, at 1- - - .

LIBERTY ALL-STAR EQUITY FUND (Equity Fund)

LIBERTY ALL-STAR GROWTH FUND, INC. (Growth Fund)

(each a Fund, and collectively, the Funds)

1290 Broadway, Suite 1100

Denver, Colorado 80203

(303) 623-2577

PROXY STATEMENT

for the Joint Special Meeting of Shareholders

to be held on December 20, 2012

INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Boards of Trustees/Directors of the Funds to be used at the joint special meeting of Shareholders (the Shareholders) of the Funds to be held in the offices of ALPS Advisors, Inc., One Financial Center, 15th Floor, Boston, Massachusetts on December 20, 2012 at 9:00 a.m. Eastern Time and at any adjournments thereof (such meeting and any adjournments being referred to as the Meeting).

Summarized below are items (1) through (3) (the Proposals), which the Shareholders of the Fund(s) are being asked to consider at the Meeting:

Which Proposals Affect My Fund?	Shareholders Entitled to Vote
Proposal 1: Equity Fund and Growth Fund. To approve new Portfolio Management Agreements among each Fund, AAI and TCW Investment Management Company to become effective upon the Closing.	Shareholders of each Fund, voting separately by Fund.
Proposal 2: Equity Fund. To approve a new Portfolio Management Agreement among the Fund, AAI and Cornerstone Capital Management LLC to become effective upon the Closing.	Shareholders of Equity Fund.
Proposal 3: Equity Fund and Growth Fund. To approve a manager-of-managers structure for each Fund, subject to the provision of relief by the Securities and Exchange Commission.	Shareholders of each Fund, voting separately by Fund.

OVERVIEW

As discussed in more detail in this Proxy Statement, at the Meeting, Shareholders of the Equity Fund and the Growth Fund are being asked to approve new Portfolio Management Agreements among each Fund, AAI and TCW. Equity Fund Shareholders also are being asked to approve a new Portfolio Management Agreement with Cornerstone LLC. Additionally, Shareholders are being asked to approve a manager-of-managers structure for the Equity Fund and the Growth Fund.

PROPOSAL 1: APPROVAL OF NEW PORTFOLIO MANAGEMENT AGREEMENTS WITH TCW

TCW Investment Management Company (TCW) currently serves as a sub-adviser to the Equity Fund and the Growth Fund. On August 9, 2012, TCW Group s majority owner, Société Générale Holdings de Participations, S.A. (SGHP), a wholly-owned subsidiary of Société Générale, S.A., entered into a definitive agreement to sell its stake in TCW to investment funds affiliated with The Carlyle Group L.P. (Carlyle) and the management of TCW (TCW Transaction). Carlyle will be making its investment in TCW Group primarily through two of its investment funds, Carlyle Partners V, L.P., a Delaware limited partnership (CPV), and Carlyle Global Financial Services Partners, L.P., a Cayman Islands limited partnership (CGFSP and, together with CPV, the Carlyle Funds). CPV conducts leveraged buyout transactions in North America in targeted industries, and CGFSP invests in management buyouts, growth capital opportunities and strategic minority investments in financial services. The Carlyle Funds are privately offered pooled investment vehicles with their principal place of business at 1001 Pennsylvania Avenue, NW, Suite 220 South, Washington, DC 20004. The general partners of each of the Carlyle Funds (TC Group V, L.P. and TCG Financial Services L.P., respectively), which are responsible for the day-to-day management and oversight of those funds, are affiliates of Carlyle.

Currently, SGHP owns 74.47% of the voting securities of TCW Group. As a result of the TCW Transaction, the ownership interest of TCW Group s management in the voting securities of TCW Group will increase from approximately 17% to up to 40%, on a fully diluted basis, with the Carlyle Funds owning the balance of TCW s voting securities. TCW Group s management expects that, subject to the approval of the new Portfolio Management Agreements with TCW (New TCW Agreements), TCW will continue to serve as a sub-adviser to the Funds. The TCW Transaction is expected to close as soon as practicable following satisfaction or waiver of the conditions to closing of the TCW Transaction, which is estimated to be no later than the end of the first quarter of 2013.

Carlyle, a publicly traded Delaware limited partnership, is one of the world s largest global alternative asset management firms that originates, structures and acts as lead equity investor in management-led buyouts, strategic minority equity investments, equity private placements, consolidations and buildups, growth capital financings, real estate opportunities, bank loans, high-yield debt, distressed assets, mezzanine debt and other investment opportunities. Carlyle provides investment management services to, and has transactions with, various private equity funds, real estate funds, collateralized loan obligations, hedge funds and other investment products sponsored by it for the investment of

client assets in the normal course of business. As of June 30, 2012, Carlyle and its affiliates managed more than $156 billion in assets across 99 funds and 63 fund-of-funds vehicles.

Neither the Equity Fund nor the Growth Fund is a party to the change in control of TCW and its parent, The TCW Group, and the TCW Transaction will not result in any change in the structure or operation of the Funds. However, upon the closing of the TCW Transaction, the Portfolio Management Agreement among each Fund, AAI and TCW (Current TCW Agreements) will automatically terminate because the TCW Transaction will be deemed an assignment under the Investment Company Act of 1940, as amended (Investment Company Act).

On October 10, 2012, the Equity Fund s Board of Trustees (Trustees) and the Growth Fund s Board of Directors (Directors) (each, a Board) approved new Portfolio Management Agreements among each Fund, ALPS Advisors, Inc. (AAI) and TCW that would become effective upon the closing of the TCW Transaction, subject to Shareholder approval (New TCW Agreement). It is expected that TCW s portfolio managers and employees who provide services to the Funds would provide uninterrupted management following the closing of the TCW Transaction. Under the New TCW Agreement, TCW will provide the same services to each Fund on substantially the same terms as TCW has provided services under the Current TCW Agreements. The TCW Transaction will not result in any change in the management fees paid by the Funds to AAI, and the fees paid to TCW by AAI will remain unchanged. The TCW Transaction will not result in any changes to the organization or structure of the Funds and each Fund s investment objectives and principal investment strategies will remain unchanged. Your approval of the New TCW Agreements is being sought to ensure that TCW can continue to provide the Equity Fund and the Growth Fund with the same services that are currently provided.

PROPOSAL 2: APPROVAL OF A NEW PORTFOLIO MANAGEMENT

AGREEMENT WITH CORNERSTONE

Cornerstone Capital Management, Inc. currently serves as a sub-adviser to the Equity Fund. On September 25, 2012, Cornerstone Capital Management, Inc. (Cornerstone Inc.) entered into a definitive agreement (the Agreement) with New York Life Investment Management, LLC (New York Life Investments), through its subsidiary Madison Square Investors, LLC (MSI), and Cornerstone Capital Management LLC (Cornerstone LLC), a newly formed limited liability company through the Agreement to acquire a minority stake in Cornerstone Capital Management, Inc. (Cornerstone Transaction). Under the terms of the agreement and subject to shareholder approval of the Reorganization, (1) New York Life Investments, though MSI, will increase its ownership of Cornerstone to a majority interest over seven years, and (2) Cornerstone Inc. will merge into Cornerstone LLC as its successor entity and become a wholly-owned subsidiary and affiliate of New York Life.

Currently, Cornerstone Inc. is independently owned. However, subject to the terms and conditions of the Agreement, Cornerstone LLC would acquire all of the assets and liabilities of Cornerstone Inc. before the Reorganization, and MSI would acquire ownership of approximately 31.55% of the equity interests and 50.20% of the voting rights of Cornerstone LLC. On later dates, and subject to the terms and conditions of the Agreement, MSI shall purchase additional equity interests and voting rights of Cornerstone LLC over a span of seven years to a majority stake. The current personnel of Cornerstone Inc. will remain intact. The Cornerstone Transaction is expected to close as soon as practicable

following satisfaction or waiver of the conditions to closing of the Cornerstone Transaction, which is estimated to be no later than the end of January 2013.

New York Life Investments, a Delaware limited liability company, is a wholly-owned subsidiary of New York Life Insurance Company with its principal place of business at 51 Madison Ave., New York, NY 10010. New York Life Investments is a registered investment adviser with the SEC and has provided investment management services since 2000. Through its multiple-boutique investment structure, New York Life Investments is a leading provider of retirement plans for corporations, multi-employer trusts and individuals. As of August 31, 2012, New York Life and its affiliates had approximately $349 billion in assets under management.

MSI, a Delaware limited liability company, is a wholly-owned subsidiary of New York Life with its principal place of business at 1180 Avenues of the Americas, New York, NY 10036-8401. MSI is a registered investment adviser with the SEC. MSI provides investment management services to individual, corporate, public, endowment and foundation, and Taft-Hartley clients. As of June 30, 2012, MSI had approximately $10 billion in assets under management.

The Equity Fund is not a party to the Cornerstone Transaction and the Cornerstone Transaction will not result in any change in the structure or operation of the Equity Fund. However, upon the closing of the Cornerstone Transaction, the Portfolio Management Agreement among the Equity Fund, AAI and Cornerstone Inc. (Current Cornerstone Agreement) will automatically terminate because the Cornerstone Transaction will be deemed an assignment under the Investment Company Act.

On October 10, 2012, the Board of the Equity Fund approved a new Portfolio Management Agreement among the Fund, AAI and Cornerstone LLC that would become effective upon the closing of the Cornerstone Transaction, subject to Shareholder approval (New Cornerstone Agreement). It is expected that Cornerstone Inc. s portfolio managers and employees who provide services to the Equity Fund would provide uninterrupted management following the closing of the Cornerstone Transaction. Under the New Cornerstone Agreement, Cornerstone LLC will provide the same services to the Equity Fund on substantially the same terms as Cornerstone Inc. has provided services under the Current Cornerstone Agreement. The Cornerstone Transaction will not result in any change in the management fees paid by the Funds to AAI, and the fees paid to Cornerstone LLC by AAI will remain unchanged. The Cornerstone Transaction will not result in any changes to the organization or structure of the Equity Fund, and the Equity Fund s investment objectives and principal investment strategies will remain unchanged. Your approval of the New Cornerstone Agreement is being sought to ensure that Cornerstone LLC can continue to provide the Equity Fund with the same services that are currently provided.

PROPOSAL 3: APPROVAL OF MANAGER-OF-MANAGERS STRUCTURE

Shareholders also are being asked to approve a manager-of-managers structure for the Equity Fund and the Growth Fund. The Funds have filed an application with the Securities and Exchange Commission (the SEC) requesting an order (the Order) that would generally permit the Funds investment adviser, AAI, subject to approval of the Equity Fund s Trustees and the Growth Fund s Directors, to enter into new sub-advisory agreements with unaffiliated sub-advisers and to change the terms of existing sub-advisory agreements with unaffiliated sub-advisers without first obtaining Shareholder approval. However, for a Fund to rely on the Order and therefore operate under a

manager-of-managers structure, use of the structure is required to be approved by the Fund s Shareholders. Although implementation will require relief from the SEC, this Proposal seeks your approval to allow the Equity Fund and the Growth Fund to operate using a manager-of-managers structure once the relief has been obtained.

PROCEDURAL INFORMATION RELATED TO THIS PROXY SOLICITATION

Solicitation of Proxies

The solicitation of proxies for use at the Meeting is being made primarily by the Funds by the mailing on or about [October , 2012] of the Notice of Special Meeting of Shareholders, this Proxy Statement and the accompanying proxy card. Supplementary solicitations may be made by mail, telephone or personal interview by officers and Trustees/Directors of the Funds and officers, employees and agents of AAI, and/or its affiliates and by AST Fund Solutions LLC (AST), the firm that has been engaged to assist in the solicitation of proxies. Authorization to execute proxies may be obtained from Shareholders through instructions transmitted by telephone, facsimile or other electronic means.

The Boards have set the close of business on October 10, 2012 as the record date (Record Date), and only Shareholders of record on the Record Date will be entitled to vote on these proposals at the Meeting. Additional information regarding outstanding shares and voting your proxy is included at the end of this Proxy Statement in the sections entitled General Information and Voting Information.

Voting Rights

Only Shareholders of record of a Fund on the Record Date may vote. Shareholders of record on the Record Date are entitled to be present and to vote at the Meeting. Each share or fractional share is entitled to one vote or fraction thereof. Each Fund s Shareholders will vote separately on each proposal with respect to that Fund. If you are a Shareholder of more than one Fund, you will be voting on each proposal separately with respect to each Fund in which you hold shares.

Each proxy solicited by the Boards of Trustees/Directors which is properly executed and returned in time to be voted at the Meeting will be voted at the Meeting in accordance with the instructions on the proxy. Any proxy may be revoked at any time prior to its use by written notification received by the Funds Secretary, by the execution and delivery of a later-dated proxy, or by attending the Meeting and voting in person. Any letter of revocation or later-dated proxy must be received by the Funds prior to the Meeting and must indicate your name and account number to be effective. Proxies voted by telephone or Internet may be revoked at any time before they are voted at the Meeting in the same manner that proxies voted by mail may be revoked.

The Funds understand that the New York Stock Exchange (NYSE) has taken the position that broker-dealers that are members of the NYSE and that have not received instructions from a customer prior to the date specified in the broker-dealer firms request for voting instructions may not vote such customer s shares on a new investment advisory contract or certain other types of proposals. Therefore, NYSE broker-dealers that have not received customer instructions

will not be permitted to vote customer shares with respect to Proposal 1 regarding the New TCW Agreements, Proposal 2 regarding the New Cornerstone Agreement or Proposal 3 regarding the manager-of-managers proposal. A signed proxy card or other authorization by a beneficial owner of Fund shares that does not specify how the beneficial owner s shares are to be voted on a proposal may be deemed to be an instruction to vote such shares in favor of the applicable proposal.

Abstentions and broker non-votes will be counted as present for purposes of determining whether a quorum is present; however, for purposes of Proposals 1, 2 and 3, abstentions and broker non-votes will have the effect of a vote against the proposal. Broker non-votes occur where: (i) shares are held by brokers or nominees, typically in street name ; (ii) instructions have not been received from the beneficial owners or persons entitled to vote the shares; and (iii) the broker or nominee does not have discretionary voting power on a particular matter.

Quorum; Adjournment

For each Fund, a majority of the shares outstanding on the Record Date and entitled to vote, present and in person or represented by proxy, constitutes a quorum for the transaction of business by the Shareholders of that Fund at the Meeting. In the event a quorum is present at the Meeting, but sufficient votes to approve a proposal have not been received or in the discretion of such persons, the Chairman of the meeting or, in the case of the Equity Fund, persons named as proxies may propose one or more adjournments of the Meeting to permit further solicitation of proxies. A Shareholder vote may be taken on one or more of the proposals referred to above prior to such adjournment if sufficient votes have been received and it is otherwise appropriate. In the event of an adjournment, no notice is required other than an announcement at the meeting at which adjournment is taken.

Vote Required

Shareholders of each Fund must separately approve Proposal 1 and Proposal 3 for such Fund. Shareholders of the Equity Fund must separately approve Proposal 2 for the Equity Fund. Approval of each of Proposals 1, 2 and 3 by a Fund will require the affirmative vote of a majority of the outstanding voting securities of that Fund as defined in the Investment Company Act. This means the lesser of (1) 67% or more of the shares of the Fund present at the Meeting if more than 50% of the outstanding shares of the Fund are present in person or represented by proxy, or (2) more than 50% of the outstanding shares of the Fund.

If the Shareholders of a Fund approve Proposal 1 for such Fund, its effectiveness is conditioned upon the closing of the TCW Transaction. If the Shareholders of the Equity Fund approve Proposal 2 for such Fund, its effectiveness is conditioned upon the closing of the Cornerstone Transaction. If Shareholders of a Fund approve Proposal 3 for such Fund, its effectiveness is conditioned upon the approval of amendment to an exemptive order by the SEC.

To assure the presence of a quorum at the Meeting, please promptly execute and return the enclosed proxy. A self-addressed, postage-paid envelope is enclosed for your convenience.

Alternatively, you may vote by telephone or through the Internet at the number or website address printed on the enclosed proxy card(s).

PROPOSAL 1

APPROVAL OF NEW

PORTFOLIO MANAGEMENT AGREEMENTS WITH

TCW INVESTMENT MANAGEMENT COMPANY

(This proposal applies to Shareholders of each Fund, voting separately.)

Shareholders of each Fund are being asked to approve the New TCW Agreements (Exhibit A) among the relevant Fund, AAI and TCW. As described above, each Current TCW Agreement will automatically terminate upon the closing of the TCW Transaction. Therefore, approval of the New Portfolio Management Agreements is sought so that the operation and management of each Fund can continue without interruption. If the Transaction is not completed for any reason, the Current TCW Agreements will continue in effect.

Board Approval and Recommendation

On October 10, 2012, the Trustees/Directors of each Fund, including a majority of the Trustees/Directors who are not interested persons of a Fund within the meaning of Section 2(a)(19) of the Investment Company Act (Independent Trustees/Directors), unanimously approved the New TCW Agreement for the Fund and unanimously recommended that Shareholders approve the New TCW Agreement. A summary of the Board s considerations is provided below in the section entitled Evaluation by the Boards.

The Multi-Manager Methodology

Each Fund allocates its portfolio assets among a number of independent investment management firms (the Portfolio Managers) recommended by AAI and approved by the Board, currently five for the Equity Fund and two (with three portions and investment styles) for the Growth Fund. Each Portfolio Manager employs a different investment style and/or strategy, and from time to time AAI rebalances each Fund s portfolio assets among the Portfolio Managers. The Funds multi-manager methodology is based on the premise that most investment management firms consistently employ a distinct investment style which causes them to emphasize stocks with particular characteristics, and that, because of changing investor preferences, any given investment style will move into and out of market favor and will result in better performance under certain market conditions but poorer market performance under other conditions. The Funds multi-manager methodology seeks to achieve more consistent and less volatile performance over the long term than if a single Portfolio Manager was employed.

The Portfolio Managers recommended by AAI represent a blending of different styles which, in AAI s opinion, is appropriate for each Fund s investment objective and which is sufficiently broad so that at least one of such styles can reasonably be expected to be in relative market favor in all reasonably foreseeable market conditions. AAI continuously analyzes and evaluates the investment performance and portfolios of the Funds Portfolio Managers and from time to time recommends changes in the Portfolio Managers. Such recommendations could be based on

factors such as a change in a Portfolio Manager s investment style or a Portfolio Manager s divergence from the investment style for which it was selected, changes deemed by AAI to be potentially adverse in a Portfolio Manager s personnel, ownership, structure or organization, or a deterioration in a Portfolio Manager s investment performance when compared to that of other investment management firms employing similar investment styles. Portfolio Manager changes may also be made to change the mix of investment styles employed by the Funds Portfolio Managers. Portfolio Manager changes, as well as rebalancings of a Fund s assets among the Portfolio Managers, may result in portfolio turnover in excess of what would otherwise be the case. Increased portfolio turnover results in increased brokerage commission and transaction costs, and may result in the recognition of additional capital gains.

In accordance with the terms of an exemptive order issued to each Fund and AAI by the SEC, the Shareholders of each Fund have previously approved each of the Current TCW Agreements. AAI continuously monitors and evaluates each Portfolio Manager on a quantitative and qualitative basis. The evaluation process focuses on, but is not limited to, the firm s philosophy, investment process, personnel and performance.

Description of the Current and New TCW Agreements

The form of the New TCW Agreement is set forth in Exhibit A to this Proxy Statement. The description of terms in this section is qualified in its entirety by reference to Exhibit A. The Current TCW Agreement for each Fund is dated November 1, 2011. The Current TCW Agreements were approved by the Trustees/Directors on July 28, 2011 and were last submitted for Shareholder approval on September 30, 2011. At that time, Shareholders of each Fund were asked to approve the Current TCW Agreements in connection with the sale of AAI s parent company to DST Systems, Inc.

The terms of each New TCW Agreement are the same as those of the respective Current TCW Agreements (except for the effective dates and length of the initial term of each Agreement). The Funds do not pay any fees under the Current TCW Agreements and will not pay any fees under the New TCW Agreements. All payments to TCW under the Current TCW Agreements are made by AAI and, if the New TCW Agreements are approved, will continue to be made by AAI. The annual fee rates to be paid by AAI under each New TCW Agreement are the same as the annual fee rates paid by AAI under the respective Current TCW Agreements. TCW has advised the Boards that it does not anticipate that the TCW Transaction will result in any reduction in the quality of services now provided to the Funds or have any adverse effect on the ability of TCW to fulfill its obligations under the New TCW Agreements.

The following discussion of the New TCW Agreements describes both the Current TCW Agreement and the New TCW Agreement for each Fund. Each New TCW Agreement matches the form in Exhibit A, except for items specific to a Fund, such as the Fund s name and fee rate. The next several paragraphs briefly summarize some important provisions of the Current and New TCW Agreements.

Services Provided by TCW

The New TCW Agreements for each Fund essentially provide that TCW, under the Board s and AAI s supervision, and subject to the Fund s registration statement, will: (1) formulate and implement an investment program for the Fund s assets assigned to TCW; (2) decide what securities to buy and sell for the Fund s portfolio (or the portion of the Fund s portfolio managed by TCW); (3) select brokers and dealers to carry out portfolio transactions for the Fund (or the portion of the Fund s portfolio managed by TCW); and (4) report results to the Board of the Fund.

Term of the New TCW Agreements

Each New TCW Agreement provides that it will continue in effect for an initial period beginning on the date that the TCW Transaction closes and ending on the first anniversary of that date. After that, it will continue in effect from year to year as long as the continuation is approved at least annually (i) by the respective Fund s Board, including a majority of the Fund s Independent Trustees/Directors; or (ii) by vote of a majority of the outstanding voting securities of the Fund.

Termination of the New TCW Agreements

Each New TCW Agreement may be terminated without penalty (i) by vote of the respective Fund s Board or by vote of a majority of the outstanding voting securities of the Fund, on thirty days written notice to TCW, (ii) by AAI upon thirty days written notice to TCW, or (iii) by TCW upon ninety days written notice to AAI and the Fund, and the New TCW Agreements terminate automatically in the event of their assignment, as described above, or upon termination of the New TCW Agreement.

Liability of TCW

Each New TCW Agreement provides that TCW will not be liable to AAI, the relevant Fund or its Shareholders, except for liability arising from TCW s willful misfeasance, bad faith, gross negligence or violation of the standard of care established by and applicable to TCW in its actions under the New TCW Agreement or breach of its duty or obligations under the New TCW Agreement.

Differences between the Current and New TCW Agreements

The New TCW Agreement for each Fund is the same as the Current TCW Agreement, except for the effective date of the New TCW Agreement. Additionally, the initial term of each TCW Agreement is one year, rather than two years as permitted by the Investment Company Act.

General Information Regarding TCW Investment Management Company

TCW Investment Management Company (TCW), located at 865 South Figueroa Street, Los Angeles, CA 90017, was established in 1971. TCW Group s direct and indirect subsidiaries, including TCW (a wholly-owned subsidiary of TCW Group), provide a variety of trust,

investment management and investment advisory services. As of June 30, 2012, TCW and its affiliates had approximately $127 billion in assets under management.

The following are the principal executive officers, certain other officers and directors of TCW:

Principal Executive Officers and Directors

Name and Address [(1)]	Position with TCW	Principal Occupation
Marc I. Stern	Director, Chairman and Chief Executive Officer	Same
Michael E. Cahill	Director, Executive Vice President, Secretary and General Counsel	Same
David S. DeVito, CPA	Director, Executive Vice President and Chief Administrative Officer	Same
Charles W. Baldiswieler	Group Managing Director	Same
Peter A. Brown	Managing Director	Same
Hilary G. D. Lord	Managing Director and Chief Compliance Officer	Same
Joseph M. Burschinger	Executive Vice President, Chief Risk Officer	Same
Stanislas L. Debreu	Executive Vice President	Same
Mark W. Gibello	Executive Vice President	Same
George N. Winn	Senior Vice President of the Adviser	Same

(1) 865 South Figueroa Street, Los Angeles, CA 90017.

Beneficial Owners

The following are the 10% or more beneficial owners of voting shares of TCW:

Name and Address	Position with TCW	Ownership Percentage
		%

Other Funds Managed

In addition to the management services provided by TCW to the Equity Fund and the Growth Fund, TCW also provides sub-advisory services to other investment companies. Information with respect to the assets of and sub-advisory fees payable to TCW by those funds having investment objectives similar to those of the Equity Fund and the Growth Fund is set forth below:

Name of Fund	Total Net Assets at September 30, 2012 (in millions)	Annual Management Fee as a % of Average Daily Net Assets	Waivers, Reductions or Agreements to Waive or Reduce Management Fee
TCW Select Equities Fund	$	0.75%	None
Advisers Series Trust - Active Passive Large Cap Growth Fund	$	0.38% on allocated assets	None
TCW Growth Equities Fund	$	1.00%	Yes
Northern Funds	$	0.50% on first $50 million of allocated assets	None
Mid Cap Fund		0.45% on next $150 million of allocated assets 0.40% thereafter	

Advisory Fees

The Advisory Fees paid to TCW by AAI for services to the Equity Fund and the Growth Fund during the fiscal year ended December 31, 2011 were $764,593 and $361,070, respectively.

Required Vote

Approval of each New TCW Agreement requires the affirmative vote of a majority of the outstanding voting securities of each Fund. The vote of a majority of the outstanding voting securities is defined in the Investment Company Act as the vote of the lesser of (i) 67% or more of the shares of the Fund present at the meeting if the holders of more than 50% of the outstanding shares of the Fund are present in person or represented by proxy; or (ii) more than 50% of the outstanding shares of the Fund.

EACH FUND S BOARD RECOMMENDS THAT SHAREHOLDERS VOTE FOR PROPOSAL 1.

PROPOSAL 2

APPROVAL OF NEW

PORTFOLIO MANAGEMENT AGREEMENT

WITH CORNERSTONE CAPITAL MANAGEMENT LLC

(This proposal applies only to Shareholders of the Equity Fund.)

Shareholders of the Equity Fund are being asked to approve the New Cornerstone Agreement (Exhibit A) among the Equity Fund, AAI and Cornerstone Capital Management LLC (Cornerstone or Portfolio Manager). As described above, the Current Cornerstone Agreement will automatically terminate upon the closing of the Cornerstone Transaction. Therefore, approval of the New Portfolio Management Agreement is sought so that the operation and management of the Equity Fund can continue without interruption. If the Transaction is not completed for any reason, the Current Cornerstone Agreement will continue in effect.

Board Approval and Recommendation

On October 10, 2012, the Equity Fund s Board, including a majority of the Independent Trustees, unanimously approved the New Cornerstone Agreement for the Fund and unanimously recommended that Shareholders approve the New Cornerstone Agreement. A summary of the Board s considerations is provided below in the section entitled Evaluation by the Boards.

The Multi-Manager Methodology

The Equity Fund allocates its portfolio assets among a number of independent investment management firms (the Portfolio Managers) recommended by AAI and approved by the Board, currently five for the Equity Fund. Each Portfolio Manager employs a different investment style and/or strategy, and from time to time AAI rebalances the Equity Fund s portfolio assets among the Portfolio Managers. The Equity Fund s multi-manager methodology is based on the premise that most investment management firms consistently employ a distinct investment style which causes them to emphasize stocks with particular characteristics, and that, because of changing investor preferences, any given investment style will move into and out of market favor and will result in better performance under certain market conditions but poorer market performance under other conditions. The Equity Fund s multi-manager methodology seeks to achieve more consistent and less volatile performance over the long term than if a single Portfolio Manager was employed.

The Portfolio Managers recommended by AAI represent a blending of different styles which, in AAI s opinion, is appropriate for the Equity Fund s investment objective and which is sufficiently broad so that at least one of such styles can reasonably be expected to be in relative market favor in all reasonably foreseeable market conditions. AAI continuously analyzes and evaluates the investment performance and portfolios of the Equity Fund s Portfolio Managers and from time to time recommends changes in the Portfolio Managers. Such recommendations could be based on factors such as a change in a Portfolio Manager s investment style or a

Portfolio Manager s divergence from the investment style for which it was selected, changes deemed by AAI to be potentially adverse in a Portfolio Manager s personnel, ownership, structure or organization, or a deterioration in a Portfolio Manager s investment performance when compared to that of other investment management firms employing similar investment styles. Portfolio Manager changes may also be made to change the mix of investment styles employed by the Equity Fund s Portfolio Managers. Portfolio Manager changes, as well as rebalancings of the Equity Fund s assets among the Portfolio Managers, may result in portfolio turnover in excess of what would otherwise be the case. Increased portfolio turnover results in increased brokerage commission and transaction costs, and may result in the recognition of additional capital gains.

In accordance with the terms of an exemptive order issued to the Equity Fund and AAI by the SEC, the Shareholders of the Equity Fund have previously approved the Current Cornerstone Agreement. AAI continuously monitors and evaluates each Portfolio Manager on a quantitative and qualitative basis. The evaluation process focuses on, but is not limited to, the firm s philosophy, investment process, personnel and performance.

Description of the Current and New Cornerstone Agreement

The form of the New Cornerstone Agreement is set forth in Exhibit A to this Proxy Statement. The description of terms in this section is qualified in its entirety by reference to Exhibit A. The Current Cornerstone Agreement for the Equity Fund is dated November 1, 2011. The Current Cornerstone Agreement was approved by the Trustees on July 28, 2011 and was last submitted for Shareholder approval on September 30, 2011. At that time, Shareholders of the Equity Fund were asked to approve the Current Cornerstone Agreement in connection with the sale of AAI s parent company to DST Systems, Inc.

The terms of the New Cornerstone Agreement are the same as the Current Cornerstone Agreement (except for the effective date and length of the initial term of the Agreement). The Equity Fund does not pay any fees under the Current Cornerstone Agreement and will not pay any fees under the New Cornerstone Agreement. All payments to Cornerstone Inc. under the Current Cornerstone Agreement are made by AAI and, if the New Cornerstone Agreement is approved, will continue to be made by AAI. The annual fee rates to be paid by AAI under the New Cornerstone Agreement are the same as the annual fee rates paid by AAI under the Current Cornerstone Agreement. Cornerstone has advised the Boards that it does not anticipate that the Cornerstone Transaction will result in any reduction in the quality of services now provided to the Equity Fund or have any adverse effect on the ability of Cornerstone to fulfill its obligations under the New Cornerstone Agreement.

The following discussion of the New Cornerstone Agreement describes both the Current Cornerstone Agreement and the New Cornerstone Agreement for the Equity Fund. The New Cornerstone Agreement matches the form in Exhibit A, except the information specific to a Fund, such as the Fund s name and fee rate. The next several paragraphs briefly summarize some important provisions of the Current and New Cornerstone Agreements.

Services Provided by Cornerstone

The New Cornerstone Agreement for the Equity Fund essentially provides that Cornerstone, under the Board s and AAI s supervision, and subject to the Equity Fund s registration statement, will: (1) formulate and implement an investment program for the Equity Fund s assets assigned to Cornerstone; (2) decide what securities to buy and sell for the Equity Fund s portfolio (or the portion of the Equity Fund s portfolio managed by Cornerstone); (3) select brokers and dealers to carry out portfolio transactions for the Equity Fund (or the portion of the Equity Fund s portfolio managed by Cornerstone); and (4) report results to the Board of the Equity Fund.

Term of the New Cornerstone Agreement

The New Cornerstone Agreement provides that it will continue in effect for an initial period beginning on the date that the Cornerstone Transaction closes and ending on the first anniversary of that date. After that, it will continue in effect from year to year as long as the continuation is approved at least annually (i) by the Equity Fund s Board, including a majority of the Fund s Independent Trustees; or (ii) by vote of a majority of the outstanding voting securities of the Fund.

Termination of the New Cornerstone Agreement

The New Cornerstone Agreement may be terminated without penalty (i) by vote of the Equity Fund s Board or by vote of a majority of the outstanding voting securities of the Equity Fund, on thirty days written notice to Cornerstone, (ii) by AAI upon thirty days written notice to Cornerstone, or (iii) by Cornerstone upon ninety days written notice to AAI and the Equity Fund, and the New Cornerstone Agreement terminates automatically in the event of its assignment, as described above, or upon termination of the New Cornerstone Agreement.

Liability of Cornerstone

The New Cornerstone Agreement provides that Cornerstone will not be liable to AAI, the Equity Fund or its Shareholders, except for liability arising from Cornerstone s willful misfeasance, bad faith, gross negligence or violation of the standard of care established by and applicable to Cornerstone in its actions under the New Cornerstone Agreement or breach of its duty or obligations under the New Cornerstone Agreement.

Differences between the Current and New Cornerstone Agreements

The New Cornerstone Agreement for the Equity Fund is the same as the Current Cornerstone Agreement, except for the effective date of the New Cornerstone Agreement as discussed above. Additionally, the initial term of the Cornerstone Agreement is one year, rather than two years as permitted by the Investment Company Act.

General Information Regarding Cornerstone Capital Management, Inc.

Cornerstone Capital Management, Inc. (Cornerstone), located at 3600 Minnesota Dr., Edina, MN 55435, is an independently owned firm founded in 1993 by Andrew S. Wyatt. Mr. Wyatt is Chief Executive Officer. As of August 31, 2012, Cornerstone had approximately $2.5 billion in assets under management.

The following are the principal executive officers, certain other officers and directors of Cornerstone:

Principal Executive Officers and Directors

Name and Address [(1)]	Position with Cornerstone	Principal Occupation
Andrew S. Wyatt	Chief Executive Officer, Director	Corporate Management
Thomas G. Kamp	Chief Investment Officer, President	Portfolio Management
Loren R. Kix	Director of Finance & Operations, Chief Compliance Officer	Corporate Management

(1) 3600 Minnesota Dr., Edina, MN 55435.

Beneficial Owners

The following are the 10% or more beneficial owners of voting shares of Cornerstone:

Name and Address	Position with Cornerstone	Ownership Percentage
		%

Other Funds Managed

In addition to the management services provided by Cornerstone to the Equity Fund, Cornerstone also provides sub-advisory services to other investment companies. Information with respect to the assets of and sub-advisory fees payable to Cornerstone by those funds having investment objectives similar to those of the Equity Fund is set forth below:

Name of Fund	Total Net Assets at September 30, 2012 (in millions)	Annual Management Fee as a % of Average Daily Net Assets	Waivers, Reductions or Agreements to Waive or Reduce Management Fee
Keystone Large Cap Growth Fund	$	[0.70%]	[Yes]
Wilshire Large Company Growth Portfolio	$	[0.35%]	[No]

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Advisory Fees

The Advisory Fees paid to Cornerstone by AAI for services to the Equity Fund during the fiscal year ended December 31, 2011 were $759,083.

Required Vote

Approval of the New Cornerstone Agreement requires the affirmative vote of a majority of the outstanding voting securities of the Equity Fund. The vote of a majority of the outstanding voting securities is defined in the Investment Company Act as the vote of the lesser of (i) 67% or more of the shares of the Fund present at the meeting if the holders of more than 50% of the outstanding shares of the Fund are present in person or represented by proxy; or (ii) more than 50% of the outstanding shares of the Fund.

THE BOARD RECOMMENDS THAT EQUITY FUND SHAREHOLDERS VOTE FOR PROPOSAL 2.

EVALUATION BY THE BOARDS

The Trustees/Directors met in person on October 10, 2012 (October Meeting) to discuss the TCW and Cornerstone Transactions and the potential effect that the TCW and Cornerstone Transactions could have on the Funds. At the October Meeting, the Boards, including a majority of the Independent Trustees/Directors, were advised by independent legal counsel.

At the October Meeting, each Board considered whether to approve the New TCW Agreements and the Equity Fund s Board considered whether to approve the New Cornerstone Agreement. At that time, the Boards reviewed information furnished by TCW, Cornerstone and AAI regarding the terms of the TCW Transaction and the Cornerstone Transaction and the possible effects on the Funds and their Shareholders. The Boards also met with representatives of AAI. During the meeting, these individuals indicated their belief that the TCW and Cornerstone Transactions would not adversely affect the continued operation of either Fund.

In connection with their approval of the New TCW Agreement and the New Cornerstone Agreement, the Independent Trustees/Directors received advice from their legal counsel detailing each Board s responsibilities pertaining to such approvals. The Boards reviewed the materials requested by counsel and furnished by TCW, Cornerstone and AAI discussed below, including information relating to the TCW and Cornerstone Transactions and reports relating to each Fund s performance, and other relevant data. Each Board considered, among other matters:

(1) That the terms of the New TCW and Cornerstone Agreements and the Current TCW and Cornerstone Agreements are the same (except for the effective dates and length of the initial term of each Agreement);

(2) That the level of service and the manner in which Fund s assets are managed are not expected to change as a result of the TCW Transaction or the Cornerstone Transaction, and that the same individuals at TCW and Cornerstone who currently manage a Fund s assets are expected to continue to do so after the closing of the TCW and Cornerstone Transactions;

(3) That neither Fund s expense ratio is expected to increase as a result of the TCW Transaction or the Cornerstone Transaction or approval of the New TCW or Cornerstone Agreements;

(4) That the Carlyle Group does not contemplate modifying TCW s existing sub-advisory or service provider relationships;

(5) That NY Life does not contemplate modifying Cornerstone s existing sub-advisory or service provider relationships;

(6) That the TCW and Cornerstone Transactions are expected to have minimal impact on TCW s and Cornerstone s day-to-day operations, respectively;

(7) That the TCW Transaction and the Cornerstone Transaction are not expected to result in any change in the structure or operation of the Equity Fund s or the Growth Fund;

(8) That the TCW Transaction and the Cornerstone Transaction are not expected to result in any change in the composition of the Equity Fund or Growth Fund s Board;

(9) The history, reputation, qualification and background of TCW and the Carlyle Group, the qualifications of TCW s personnel and TCW and the Carlyle Group s respective financial conditions;

(10) The history, reputation, qualification and background of Cornerstone and NY Life, the qualifications of Cornerstone s personnel and Cornerstone and NY Life s respective financial conditions;

(11) The capabilities, experience, corporate structure and capital resources of TCW and the Carlyle Group;

(12) The capabilities, experience, corporate structure and capital resources of Cornerstone and NY Life;

(13) The long-term business goals of the Carlyle Group with respect to TCW and the Funds and NY Life with respect to Cornerstone and the Equity Fund;

(14) The Carlyle Group s intent to retain key personnel currently employed by TCW who provide services to the Funds and to maintain the existing level and quality of services to the Funds;

(15) NY Life s intent to retain key personnel currently employed by Cornerstone who provide services to the Equity Fund and to maintain the existing level and quality of services to the Funds;

(16) That Shareholders would not bear any costs in connection with the TCW Transaction or the Cornerstone Transaction, as TCW and Cornerstone, respectively, will bear the costs, fees and expenses incurred by a Fund in connection with the Proxy Statement, the fees and expenses of service providers and attorneys relating to the TCW and Cornerstone Transactions, and any other fees and expenses incurred by the Fund in connection with the TCW and Cornerstone Transactions; and

(17) Information furnished to each Board by TCW and Cornerstone for the Board Meeting and information provided by AAI for the Board s consideration at its July 28, 2011 meeting specifically in relation to the approval of the Current TCW and Cornerstone Agreements. In this regard, TCW and Cornerstone confirmed that there have been no material changes to the information provided to the Board in connection with the approval of the Current TCW and Cornerstone Agreements at the July 28, 2011 Board Meeting.

Information provided by TCW and Cornerstone for each Board s consideration included responses by TCW and Cornerstone to questions relating to the terms of the Transaction, the effect of the TCW and Cornerstone Transactions on the Funds, and any significant changes (actual or anticipated) to the management of the Funds, TCW s or Cornerstone s management personnel, or the fee schedules under the Current TCW and Cornerstone Agreements.

Information furnished at Board meetings throughout the year included AAI s analysis of TCW s investment performance with respect to each Fund and Cornerstone s investment performance with

respect to the Equity Fund. For the Board Meeting, the Trustees/Directors requested and received reports that included, among other things, TCW s investment performance with respect to the Funds and Cornerstone s investment performance with respect to the Equity Fund over various time periods. AAI also provided, and the Boards considered, TCW s and Cornerstone s performance compared to relevant institutional peer groups selected by AAI for the period since the date each firm commenced managing assets for the relevant Fund. Additionally, TCW and Cornerstone furnished, and each Board considered, information concerning various aspects of each Fund s operations, including: (1) the nature, quality and extent of services provided to the Fund by TCW and Cornerstone; (2) the performance of the portions of each Fund s portfolio managed by TCW and Cornerstone; (3) the level of each Fund s portfolio management fees and expense ratios; (4) the costs of the services provided and profits realized by TCW, Cornerstone and their respective affiliates from their relationships with the Funds; (5) the extent to which economies of scale would be realized as a Fund grows and whether fee levels will reflect economies of scale for the benefit of Shareholders; (6) the fall-out benefits to TCW, Cornerstone and their respective affiliates (*i.e.*, any direct or indirect benefits to be derived by TCW, Cornerstone and their respective affiliates from their relationships with the Fund); and (7) other general information about TCW, Cornerstone and the TCW and Cornerstone Transactions. In considering the New TCW Agreements and the New Cornerstone Agreement, the Boards did not identify any single factor or information as all-important or controlling and each Trustee/Director may have attributed different weight to each factor.

In considering the information and materials described above, the Independent Trustees/Directors received assistance from and met separately with independent legal counsel and were provided with a written description of their statutory responsibilities and the legal standards that are applicable to approvals of investment sub-advisory agreements. Although the New TCW and Cornerstone Agreements for the Funds were considered at the same joint Board meeting, each Board addressed its Fund separately.

Based on its evaluation of the TCW and Cornerstone Transactions and the information presented, each Board unanimously concluded that the terms of the New TCW and Cornerstone Agreements were reasonable and fair and that the approval of the New TCW and Cornerstone Agreements was in the best interests of each Fund and its Shareholders. Accordingly, each Board unanimously voted to approve the New TCW Agreements for the Funds and the New Cornerstone Agreement for the Equity Fund and recommended that Shareholders approve the New TCW and Cornerstone Agreement with respect to their respective Fund. Each Board did not identify any single factor or group of factors as being of paramount importance in reaching its conclusions and determinations with respect to the approval of the New TCW Agreements for its Fund and the New Cornerstone Agreement for the Equity Fund. Although not meant to be all-inclusive, set forth below is a description of certain of the factors that were considered by each Board in deciding to approve the New TCW and Cornerstone Agreements.

Board Consideration of the New TCW and Cornerstone Agreements

Nature, Extent and Quality of the Services to be Provided

In examining the nature, extent and quality of the services to be provided by TCW and Cornerstone under the New TCW and Cornerstone Agreements, each Board considered that the terms of the New TCW and Cornerstone Agreements are the same as the terms of the Current

TCW and Cornerstone Agreements, except for the effective date and initial term of the Agreement. The Boards also considered that the TCW and Cornerstone Transactions are expected to have minimal impact on TCW s and Cornerstone s day-to-day operations and are not expected to result in any change in the portfolio managers or the structure or operations of the Funds. The Boards noted that the Carlyle Group currently intends to retain the key personnel employed by TCW who provide services to the Funds, and NY Life intends to retain the key personnel who provide services to the Equity Fund. As a result, the same people at TCW and Cornerstone who manage their firm s respective portions of the Funds are expected to do so after the closing of the TCW and Cornerstone Transactions, respectively. The level of service and the manner in which each Fund s assets are managed are expected to remain the same.

In evaluating the Carlyle Group and NY Life, the Boards considered the history and reputation of the Carlyle Group and NY Life, their corporate structures and capital resources, and long-term business goals with respect to TCW and Cornerstone. Each Board also gave substantial consideration to its evaluation of the nature, extent and quality of the services provided by TCW and Cornerstone under the Current TCW and Cornerstone Agreements. The Trustees/Directors considered the nature, extent and quality of the portfolio manager selection, evaluation and monitoring services provided by AAI, and the portfolio management services provided by TCW and Cornerstone, in light of each Fund s investment objective. In connection with its review, each Board considered its long association with AAI and AAI s relationships with TCW and Cornerstone and their personnel and the Board s familiarity with their culture to evaluate the services to be provided. In particular, the Boards considered AAI s long-term history of care and conscientiousness in the management of the Funds and the oversight of TCW and Cornerstone.

Each Board also considered TCW s and Cornerstone s demonstrated consistency in investment approach. The Equity Fund s Board considered TCW s and Cornerstone s management of the large cap growth portions of the Fund s portfolio. In addition, the Growth Fund s Board considered TCW s management of the large-cap and mid-cap growth portions of the Fund s portfolio. Each Board determined that the quality of the services provided by the senior advisory personnel employed by TCW and Cornerstone has been consistent with or superior to quality norms in the industry, and that TCW and Cornerstone would continue to have sufficient personnel, with the appropriate education and experience, to serve each Fund effectively after the TCW and Cornerstone Transactions, respectively. In addition, the Boards noted that the TCW and Cornerstone Transactions had been structured to create strong incentives for the long-term stability of TCW s and Cornerstone s management and portfolio management professionals.

Accordingly, each Board concluded that the nature, extent and quality of the services to be provided by TCW and Cornerstone under the New TCW and Cornerstone Agreements were appropriate and consistent with the terms of the New TCW and Cornerstone Agreements and that the Fund was likely to continue to benefit from services provided under the TCW and Cornerstone Agreements.

Investment Performance

At the October Meeting, each Board reviewed the accounts managed by TCW and Cornerstone and the performance of the allocated portions of its Fund in the context of TCW s and

Cornerstone s different investment strategies and styles and the contribution of TCW and Cornerstone to a Fund s overall strategy and performance.

The performance information previously provided demonstrated to each Board a generally consistent pattern of favorable long-term performance of those portions of the Equity Fund and the Growth Fund managed by TCW and the portion of the Equity Fund managed by Cornerstone, which supported approval of the New TCW and Cornerstone Agreements. The Board considered Cornerstone s and TCW s large cap investment performance relative to the Russell Large Cap Growth Index and a comparable institutional peer group with respect to the Equity Fund, and TCW s large cap investment performance relative to the Russell Large Cap Growth Index and a comparable institutional peer group, and TCW s mid-cap investment performance relative to the Russell Mid-Cap Growth Index and a comparable institutional peer group with respect to the Growth Fund. The Board concluded that Cornerstone s large cap growth investment performance and TCW s large cap and mid-cap growth investment performance has been reasonable.

Costs of the Services to be Provided to the Funds

Each Board noted that the management fees payable by AAI to the Portfolio Manager under the New Agreements are the same as the fee rates payable under the Existing Agreements. Each Board gave substantial consideration to its evaluation of the management fees payable by the Fund and the Fund s total expense ratio at the Board Meeting. The Boards considered that the Funds expense ratios were not expected to increase as a result of the TCW and Cornerstone Transactions. In addition, the Boards noted that Shareholders would not bear any costs in connection with the TCW and Cornerstone Transactions, inasmuch as TCW and Cornerstone will bear the costs, fees and expenses incurred by the Funds in connection with the Proxy Statement, the fees and expenses of service providers and attorneys relating to the TCW and Cornerstone Transactions, and any other fees and expenses incurred by the Funds in connection with the TCW and Cornerstone Transactions.

The Boards also considered the management fees paid to the Portfolio Managers and the fee rates charged by the Portfolio Managers to their other accounts, including institutional accounts. The Boards considered that the Portfolio Managers were paid by AAI, not the Funds. The Boards also considered the differences in the level of services provided and the differences in responsibility of AAI and the Portfolio Managers to the Funds and to other accounts. The Boards concluded that the management fees payable by the Funds to AAI and the fees payable by AAI to the Portfolio Managers were reasonable in relation to the nature and quality of the services provided.

Profitability and Costs of Services to TCW and Cornerstone

The Boards considered that AAI has advised the Boards that it does not regard Portfolio Manager profitability as meaningful to an evaluation of the New TCW and Cornerstone Agreements because the willingness of TCW and Cornerstone to serve in such capacity depends primarily upon arm s-length negotiations with AAI, AAI generally is aware of the fees charged by TCW and Cornerstone to other clients, and AAI believes that the fees agreed upon with TCW

and Cornerstone are reasonable in light of the quality of investment advisory services rendered. The Boards accepted AAI s explanations in light of the Boards past findings regarding the reasonableness of the aggregate management fees paid by the Funds and the fact that TCW s and Cornerstone s fees are paid by AAI and not the Funds.

Extent of Economies of Scale as the Funds Grow and Whether Fee Levels Reflect Economies of Scale

With respect to economies of scale, the Boards considered whether the TCW and Cornerstone Transactions would provide certain benefits to the Funds. The Boards reviewed the fee breakpoint schedules under the New TCW and Cornerstone Agreements and concluded that the schedules reflect economies of scale with respect to the management of Fund assets by TCW and Cornerstone. With respect to the Equity Fund, the Equity Fund Board noted that the Fund has reached an asset size at which the Fund and its Shareholders are benefiting from reduced management fee rates due to breakpoints in the management fees. With regard to the Growth Fund, the Growth Fund Board recognized that, although the Fund is not currently at an asset level at which it can take advantage of the breakpoints in its fee schedule, the schedule is structured so that when the Fund s assets increase, economies of scale may be shared for the benefit of Shareholders. Based on the foregoing, among other things, each Board concluded that the breakpoint schedules would allow the Funds to realize economies of scale, which supports approval of the New TCW and Cornerstone Agreements.

Benefits to be Derived from the Relationship with the Funds

The Boards considered the fall-out or ancillary benefits that may accrue to TCW and Cornerstone as a result of their relationships with the Funds. In its consideration of the New TCW and Cornerstone Agreements, the Boards noted, among other things, that TCW and Cornerstone may derive ancillary benefits from the Funds operations. For example, TCW and Cornerstone, as a sub-adviser, may engage in soft dollar transactions. In the past, the Board has reviewed information regarding TCW s and Cornerstone s procedures for executing portfolio transactions for the allocated portion(s) of the Funds and TCW s and Cornerstone s soft dollar policies and procedures. In addition, the Boards considered that, after the TCW and Cornerstone Transactions, TCW and Cornerstone may be affiliated with registered broker-dealers who may, from time to time, receive brokerage commissions from the Funds in connection with the purchase and sale of portfolio securities; provided, however, that those transactions, among other things, must be consistent with seeking best execution. The Boards determined that the foregoing ancillary benefits were consistent with the approval of the New TCW and Cornerstone Agreements.

Conclusions

Based on its evaluation, each Board unanimously concluded that the terms of the New TCW and Cornerstone Agreements are reasonable, fair and in the best interests of its Fund and the Fund s Shareholders. The Boards believe that the New TCW and Cornerstone Agreements will enable the Funds to continue to enjoy the high-quality sub-advisory services they have received in the

past from TCW and Cornerstone, at fee rates identical to the present rates, which the Boards deem appropriate, reasonable and in the best interests of the Funds and their Shareholders. Each Board unanimously voted to approve and to recommend to the Shareholders of its Fund that they approve the New TCW and Cornerstone Agreements.

PROPOSAL 3

TO APPROVE THE

MANAGER-OF-MANAGERS

STRUCTURE FOR THE FUNDS

(This proposal applies to Shareholders of each Fund, voting separately.)

Background and Reason for Vote

Under the Fund Management Agreement between AAI and each Fund, on behalf of the respective Fund, AAI is authorized, at its own expense, to enter into a sub-advisory agreement with a sub-adviser, to whom the investment adviser may delegate responsibility to manage the assets of the respective Fund. If the investment adviser delegates portfolio management duties to a sub-adviser, the Investment Company Act generally requires that the sub-advisory agreement between the adviser and the sub-adviser be approved by the Board and by Fund Shareholders. Specifically, Section 15 of the Investment Company Act, in relevant part, makes it unlawful for any person to act as an investment adviser (including as a sub-adviser) to a registered fund, except pursuant to a written contract that has been approved by Shareholders.

The Funds and AAI have filed an application with the SEC requesting an order (the Order) to permit AAI, subject to approval of each Fund s Board, to enter into new sub-advisory agreements with unaffiliated sub-advisers and to change the terms of existing sub-advisory agreements with unaffiliated sub-advisers without first obtaining Shareholder approval. However, for a Fund to rely on the Order and therefore operate under a manager-of-managers structure, use of the structure is required to be approved by the Fund s Shareholders. Accordingly, Shareholders of each Fund are being asked to approve a manager-of-managers structure for their Fund. If approved by Shareholders, the structure would not be implemented until relief permitting such a structure is provided by the SEC.

Because each Fund is soliciting Shareholders for approval of another proposal, the Board has determined to ask Shareholders to approve the manager-of-managers structure at this time. One typical condition of SEC relief for this structure is that Shareholders approve the structure before its implementation. Obtaining Shareholder approval for the structure at this time would alleviate the cost and expense of seeking Shareholder approval for the structure at a future date, when the Funds may not otherwise be soliciting Shareholder approval on other matters.

Description of the Manager-of-Managers Structure

A manager-of-managers structure would generally permit AAI, subject to each Board s approval, to enter into, and materially amend, sub-advisory agreements with any unaffiliated sub-advisers retained by AAI without also needing to obtain further Shareholder approval. Normally, the retention of a new sub-adviser or the material amendment of an existing sub-advisory agreement would require Shareholder approval. That approval would not be necessary under a manager-of-managers structure.

If Shareholders of a Fund approve this Proposal 3, and the Funds obtain the necessary exemptive relief from the SEC or the SEC adopts an applicable rule, it is anticipated that AAI would be

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authorized, for such Fund, to (1) engage new or additional sub-advisers; (2) enter into and modify existing investment sub-advisory agreements; (3) terminate and replace sub-advisers; and (4) replace or reinstate sub-advisers with respect to which an investment sub-advisory agreement has automatically terminated as a result of a change of control, in each case without obtaining further approval of the Fund s Shareholders, provided that certain conditions are met, which may include that (a) the sub-adviser is not an affiliated person of AAI or the Fund, other than by reason of serving as a sub-adviser to a Fund, and (b) the Board has approved the new or amended sub-advisory agreement.

Although Shareholder approval would no longer be required for the changes described in the prior paragraph, the Board of each Fund (including a majority of the Independent Trustees/Directors) would continue to evaluate sub-advisers and would be required to approve the retention of new sub-advisers and material changes to existing sub-advisory agreements. AAI and the Board would be responsible for overseeing sub-advisers and monitoring their performance, as well as determining if (or when) changes to a Fund s sub-advisory arrangements should be made. Further, under the Investment Company Act, the Board, including a majority of the Independent Trustees/Directors, must review and consider sub-advisory agreements for renewal annually, after the expiration of the initial term. Prior to entering into, renewing or amending a sub-advisory agreement, AAI would have a legal duty to provide the Board with information on factors pertinent to the Board s decision regarding those sub-advisory arrangements.

The Board of each Fund believes that it will be in the best interests of each Fund to provide AAI and the Board with increased flexibility to recommend and change sub-advisers without incurring the significant delay and expense associated with obtaining prior Shareholder approval for such changes. In addition, the Board recognizes that the structure would remain subject to Board oversight and conditions imposed by the SEC, including that any sub-advisory agreement or material change to such agreement would still require approval by the Board (including a majority of the Independent Trustees/Directors).

In the absence of a manager-of-managers structure, a Fund would be required to call and hold a Shareholder meeting before it appointed a sub-adviser or materially amended a sub-advisory agreement. Additionally, a Fund would be required to seek Shareholder approval of a new sub-advisory agreement if a sub-adviser were to undergo a change of control, even if there were no change in the persons responsible for managing the Fund. Each time a Shareholder meeting is called, the Fund must create and distribute proxy materials and solicit proxy votes from Shareholders, which is time-consuming and costly. It is thus anticipated that a manager-of-managers structure would permit the Funds to operate more efficiently and cost-effectively. Shareholders should be aware, however, that under a manager-of-managers structure, they would not have the ability to exert control over whether their Fund entered into new sub-advisory agreements with unaffiliated sub-advisers or whether terms to sub-advisory agreements were changed, because they would not be entitled to vote for or against such matters before they became effective.

Importantly, this proposal does not affect the amount of investment advisory fee paid by a Fund. AAI pays sub-advisers out of the investment advisory fee it receives from a Fund, and this proposal, and the retention of sub-advisers or renegotiation of sub-advisory agreements, would

not impact a Fund s investment advisory fee. The Board would review and approve the fees paid by AAI to sub-advisers in connection with its consideration of new sub-advisory agreements and renewals of sub-advisory agreements. Shareholder approval would continue to be required before the investment advisory fee paid by a Fund to AAI can increase.

As noted above, before a Fund could implement a manager-of-managers structure, the SEC must provide relief from certain provisions of the Investment Company Act, either by rule or exemptive order. Any such relief would typically require the satisfaction of a number of conditions. The precise substance of these conditions is not known at this time.

If this Proposal 3 is not approved by the Shareholders of any Fund, Shareholder approval will be required for AAI to enter into new or to materially amend sub-advisory agreements with respect to that Fund.

Board Approval of Manager-of-Managers Arrangement

At a meeting held on June 20, 2012, the Board, including the Independent Trustees/Directors, approved the use of the manager-of-managers arrangement, authorized the Funds to seek exemptive relief from the SEC, and recommended that the manager-of-managers arrangement be submitted to Shareholders for their approval.

Reasons for approving the arrangement generally include the following:

1. A manager-of-managers arrangement will enable the Board to act more quickly, with less expense to the Funds, in appointing new sub-advisers when the Board and the investment adviser believe that such appointment would be in the best interests of a Fund and its Shareholders; and

2. AAI would continue to be directly responsible for supervising the activities and performance of the sub-adviser, for taking reasonable steps to assure that the sub-adviser complies with a Fund s investment policies and procedures and with applicable legal requirements, and for reporting to the Trustees/Directors regarding these matters.

3. No sub-adviser could be appointed, removed or replaced without the Board s consideration and approval.

Shareholder Approval and Required Vote

To become effective for a Fund, the manager-of-managers structure must be approved by a vote of a majority of the outstanding voting securities of the Fund. The vote of a majority of the outstanding voting securities is defined in the Investment Company Act as the vote of the lesser of (i) 67% or more of the shares of the Fund present at the meeting if the holders of more than 50% of the outstanding shares of the Fund are present in person or represented by proxy; or (ii) more than 50% of the outstanding shares of the Fund.

EACH FUND S BOARD RECOMMENDS THAT SHAREHOLDERS VOTE FOR PROPOSAL 3.

GENERAL INFORMATION

Ownership of Shares

As of the Record Date, there were outstanding shares of beneficial interest of Equity Fund and outstanding shares of common stock of Growth Fund. As of the Record Date, the following persons were known to be beneficial owners of more than 5% of the outstanding securities of Growth Fund and Equity Fund:

Name and Address of Owner	# of Shares Owned	% of Shares Owned	Type of Ownership [Beneficial/Record]
		%	

Growth Fund opted into the Maryland Control Share Acquisition Act (the MCSAA). Subsequent to the Fund s opt in, the SEC issued a no-action letter that raises questions regarding whether opting in to the MCSAA is consistent with Section 18(i) of the Investment Company Act. The Fund is evaluating this letter and is determining what impact, if any, the letter has on the Fund and its ability to rely on the MCSAA.

The following table shows the dollar range and the number of shares of equity securities beneficially owned by each Trustee/Director and named executive officer as of December 31, 2011 of Growth Fund and of Equity Fund.

Independent Directors/Trustees	***Dollar Range of Equity Securities in the Growth Fund***	***Number of Shares of Growth Fund***	***Dollar Range of Equity Securities in the Equity Fund***	***Number of Shares of Equity Fund***	***Aggregate Dollar Range of Equity Securities Owned in Family of Investment Companies****
John A. Benning	$10,001 50,000	4,422	Over $100,000	46,540	Over $100,000
Thomas W. Brock	Over $100,000	27,819	Over $100,000	19,268	Over $100,000
George R. Gaspari	None	None	None	None	None
Richard W. Lowry	$1 10,000	1,263	Over $100,000	207,726	Over $100,000
John J. Neuhauser	$1 10,000	294	$1 10,000	156	Over $100,000
Richard C. Rantzow	$1 10,000	2,249	$10,001 50,000	2,956	$10,001 50,000

Interested					
Director/Trustee					
Edmund J. Burke	None	None	None	None	None
Named Executive					
Officers					
William R. Parmentier, Jr., President	Over $100,000	40,459	Over $100,000	44,588	Over $100,000
Jeremy O. May, Treasurer	None	None	None	None	None

** The Family of Investment Companies consists of two funds, the Equity Fund and the Growth Fund.*

The Trustees/Directors and named executive officers of each Fund, in the aggregate, owned less than 1% of each class of the Fund s outstanding shares of stock as of December 31, 2011.

Since the beginning of each Fund s most recently completed fiscal year, no Trustee/Director sold securities exceeding 1% of the outstanding securities of any class of AAI or any Portfolio Manager or of such entity s parents or subsidiaries.

As of December 31, 2011, no Independent Trustee/Director or any of their immediate family members owned beneficially or of record any class of securities of another investment adviser, sub-adviser or Portfolio Manager of either of the Funds or any person controlling, controlled by or under common control with any such entity (except as noted in the next paragraph).

During the past five calendar years, Mr. Richard Lowry and Mr. John Benning (Trustee/Director of the Funds) have had a material interest in a trust (approximately $4.5 million and $1.6 million, respectively, as of December 31, 2011), which owns units of a limited partnership whose investments are managed by Weatherbie, a Portfolio Manager of Growth Fund, and whose general partner is Weatherbie Limited Partnership. During the past five calendar years, Messrs. Lowry and Benning have had an interest in Cheetah Investment Partnership, LP (approximately $0 as of December 31, 2011, and $387,918 as of December 31, 2011, respectively) which is managed by Arnold Schneider, President and Chief Investment Officer of Schneider Capital Management Corp., a Portfolio Manager of the Equity Fund.

Payment of Solicitation Expenses

TCW will pay the expenses of the preparation, printing and mailing of this Proxy Statement and its enclosures and of all solicitations, as it applies to Proposal 1. Cornerstone will pay the expenses of the preparation, printing and mailing of this Proxy Statement and its enclosures and

of all solicitations, as it applies to Proposal 2. The Funds will bear the costs associated with Proposal 3.

AST Fund Solutions LLC (AST), a proxy solicitation firm, has been engaged to assist in the solicitation of proxies. The aggregate cost of retaining such proxy solicitation firm is expected to be about $[ ] plus expenses in connection with the solicitation of proxies. If you do not vote your shares, you may be called by AST, our proxy solicitor to vote your shares. In addition to the solicitation of proxies by mail, employees of the Fund and its affiliates as well as dealers or their representatives may, without additional compensation, solicit proxies in person or by mail, telephone, facsimile or oral communication.

Other Business

The Board knows of no other business to be brought before the Meeting. However, if any other matters properly come before the Meeting, it is the intention of the Board that proxies that do not contain specific instructions to the contrary will be voted on such matters in accordance with the judgment of the persons designated therein as proxies.

Management

AAI, 1290 Broadway, Suite 1100, Denver, CO 80203, is each Fund s investment adviser. Pursuant to its Fund Management Agreements with each Fund, AAI implements and operates each Fund s multi-manager methodology and has overall supervisory responsibility for the general management and investment of the Fund s assets, subject to the Fund s investment objectives and policies and any directions of the Trustees/Directors. AAI recommends to the Boards the investment management firms (currently five for the Equity Fund and currently two for the Growth Fund) for appointment as Portfolio Managers of the Funds. ALPS Fund Services, Inc. (AFS), 1290 Broadway, Suite 1100, Denver, Colorado, 80203, an affiliate of AAI, provides administrative services to the Funds under an Administration, Bookkeeping and Pricing Services Agreement with each Fund.

The names and addresses of each Fund s current Portfolio Managers are as follows:

Equity Fund	***Growth Fund***
Cornerstone Capital Management, Inc.	M.A. Weatherbie & Co., Inc.
3600 Minnesota Dr.	265 Franklin Street
Edina, MN 55435	Boston, MA 02110
Matrix Asset Advisors, Inc.	TCW Investment Management Company
747 Third Avenue	865 South Figueroa Street
New York, NY 10017	Los Angeles, CA 90017
Pzena Investment Management, LLC	

120 West 45th Street

New York, NY 10036

Schneider Capital Management Corporation

460 East Swedesford Road

Wayne, PA 19087

TCW Investment Management Company

865 South Figueroa Street

Los Angeles, CA 90017

Portfolio Transactions and Brokerage

Each Fund s Portfolio Managers have discretion to select brokers and dealers to execute portfolio transactions initiated by that Portfolio Manager for the portion of the Fund s portfolio assets allocated to it, and to select the markets in which such transactions are to be executed. As with the Existing Portfolio Management Agreements, the New Portfolio Management Agreements provide, in substance, that in executing portfolio transactions and selecting brokers or dealers, the primary responsibility of the Portfolio Manager is to seek to obtain best net price and execution for the Fund.

The Portfolio Managers are authorized to cause a Fund to pay a commission to a broker or dealer who provides research products and services to the Portfolio Manager for executing a portfolio transaction which is in excess of the amount of commission another broker or dealer would have charged for effecting the same transaction. The Portfolio Manager must determine in good faith, however, that such commission was reasonable in relation to the value of the research products and services provided to it, viewed in terms of that particular transaction or in terms of all the client accounts (including the Fund) over which the Portfolio Manager exercises investment discretion. It is possible that certain of the services received by a Portfolio Manager attributable to a particular transaction will primarily benefit one or more other accounts for which investment discretion is exercised by the Portfolio Manager.

In addition, under the New Portfolio Management Agreements, the Portfolio Managers, in selecting brokers or dealers to execute portfolio transactions for the Funds, are authorized to consider (and AAI may request them to consider) brokers or dealers that provide to AAI, directly or through third parties, research products or services such as research reports; portfolio analyses; compilations of securities prices, earnings, dividends and other data; computer software, and services of one or more consultants. The commissions paid on such transactions may exceed the amount of commission another broker would have charged for effecting that transaction. Research products and services made available to AAI include performance and other qualitative and quantitative data relating to investment managers in general and the Portfolio Managers in particular; data relating to the historic performance of categories of securities associated with particular investment styles; mutual fund portfolio and performance data; data relating to portfolio manager changes by pension plan fiduciaries; and related computer software, all of which may be used by AAI in connection with its selection and monitoring of Portfolio Managers, the assembly of an appropriate mix of investment styles, and the determination of overall portfolio strategies.

AAI from time to time reaches understandings with each of the Funds Portfolio Managers as to the amounts of a Fund s portfolio transactions initiated by such Portfolio Manager that are to be

directed to brokers and dealers which provide or make available research products and services to AAI and the commissions to be charged to the Fund in connection therewith. These amounts may differ among the Portfolio Managers based on the nature of the market for the types of securities managed by them and other factors.

Although the Funds do not permit a Portfolio Manager to act or to have a broker-dealer affiliate act as broker for Fund portfolio transactions initiated by it, the Portfolio Managers are permitted to place Fund portfolio transactions initiated by them with another Portfolio Manager or its broker-dealer affiliate for execution on an agency basis, provided that the commission does not exceed the usual and customary broker s commission being paid to other brokers for comparable transactions and is otherwise in accordance with the Funds procedures adopted pursuant to Rule 17e-1 under the Investment Company Act. For the fiscal year ended December 31, 2011, the Fund did not pay commissions to any affiliated broker.

On February 15, 2000, the SEC issued each Fund exemptive relief from Sections 10(f), 17(a) and 17(e) and Rule 17e-1 under the Investment Company Act to permit (1) broker-dealers which are, or are affiliated with, Portfolio Managers of the Fund to engage in principal transactions with, and provide brokerage services to, portion(s) of the Fund advised by another Portfolio Manager, and (2) the Fund to purchase securities either directly from a principal underwriter which is an affiliate of a Portfolio Manager or from an underwriting syndicate of which a principal underwriter is affiliated with a Portfolio Manager of the Fund. The Funds currently rely on Rule 17a-10 under the Investment Company Act rather than this exemptive relief. For the fiscal year ended December 31, 2011, the Funds did not engage in any principal transactions with any affiliated broker.

Submission of Certain Shareholder Proposals

Under the SEC s proxy rules, and subject to changes by the Board, shareholder proposals meeting tests contained in those rules may, under certain conditions, be included in the Fund s proxy material for a particular annual shareholders meeting. Under the foregoing proxy rules, proposals submitted for inclusion in the proxy material for the 2013 Annual Meeting must be received by the Equity Fund on or before January 17, 2013 or by the Growth Fund on or before March 18, 2013. The fact that the Fund receives a shareholder proposal in a timely manner does not ensure its inclusion in its proxy material, since there are other requirements in the proxy rules relating to such inclusion.

Equity Fund Shareholders who wish to make a proposal that would be included in the Equity Fund s proxy materials or to nominate a person or persons as Trustee at the Equity Fund s 2013 Annual Meeting must ensure that the proposal or nomination is delivered to the Secretary of the Equity Fund no earlier than December 18, 2012 and no later than January 17, 2013. If the date of the Equity Fund s 2013 Annual Meeting is held before January 17, 2013 or after June 14, 2013, then the proposal or nomination must be received by the later of 120 days prior to the annual meeting or the tenth day following the date that a public announcement of the meeting is first made.

Growth Fund Shareholders who wish to make a proposal that would be included in the Growth Fund s proxy materials or to nominate a person or persons as Director at the Growth Fund s 2013 Annual Meeting must ensure that the proposal or nomination is delivered to the Secretary

of the Growth Fund no earlier than February 16, 2013 and no later than March 18, 2013. If the date of the Growth Fund s 2013 Annual Meeting is held before June 30, 2013 or after July 30, 2013, then the proposal or nomination must be received by the later of 120 days prior to the annual meeting or the tenth day following the date that a public announcement of the meeting is first made.

Any such proposal or nomination must be in good order and in compliance with all applicable legal requirements and the requirements set forth in each Fund s Restated By-laws. The chairman of the annual meeting may refuse to acknowledge any proposal or nomination that does not meet the legal and By-law requirements.

You must submit any shareholder proposals and nominations to the Secretary of the Funds, 1290 Broadway, Suite 1100, Denver, Colorado 80203.

The persons named as proxies for the Special Meeting will have discretionary authority to vote on all matters presented at the meeting consistent with the SEC s proxy rules.

Shareholder Reports

Each Fund has previously sent its most recent Annual Report dated December 31, 2011 to its Shareholders. You may obtain a copy of either report, free of charge, by writing to the Funds c/o ALPS Fund Services, Inc., 1290 Broadway, Suite 1100, Denver, CO 80203, or by calling 1-800-241-1850.

EXHIBIT A

LIBERTY ALL-STAR GROWTH FUND, INC.

PORTFOLIO MANAGEMENT AGREEMENT

TCW INVESTMENT MANAGEMENT COMPANY

, 201x

Re: Portfolio Management Agreement

Ladies and Gentlemen:

Liberty All-Star Growth Fund, Inc. (the Fund) is a diversified closed-end investment company registered under the Investment Company Act of 1940, as amended (the Act), and is subject to the rules and regulations promulgated thereunder.

ALPS Advisors, Inc. (the Fund Manager) evaluates and recommends portfolio managers for the assets of the Fund, and the Fund Manager or an affiliate of the Fund Manager is responsible for the day-to-day Fund administration of the Fund.

1. Employment as a Portfolio Manager. The Fund, being duly authorized, hereby employs TCW Investment Management Company (Portfolio Manager) as a discretionary portfolio manager, on the terms and conditions set forth herein, of that portion of the Fund s assets which the Fund Manager determines to assign to the Portfolio Manager (those assets being referred to as the Portfolio Manager Account). The Fund Manager may, from time to time, allocate and reallocate the Fund s assets among the Portfolio Manager and the other portfolio managers of the Fund s assets. The Portfolio Manager will be an independent contractor and will have no authority to act for or represent the Fund or the Fund Manager in any way or otherwise be deemed to be an agent of the Fund or the Fund Manager except as expressly authorized in this Agreement or in another writing by the Fund Manager and the Portfolio Manager. The Portfolio Manager s responsibilities for providing portfolio management services to the Fund shall be limited to the Portfolio Manager Account.

2. Acceptance of Employment; Standard of Performance. The Portfolio Manager accepts its employment as a discretionary portfolio manager and agrees to use its best professional judgment to make timely investment decisions for the Portfolio Manager Account in accordance with the provisions of this Agreement.

3. Portfolio Management Services of Portfolio Manager.

A. In providing portfolio management services to the Portfolio Manager Account, the Portfolio Manager shall be subject to the Fund s Declaration of Trust and By-Laws, as amended from time to time, investment objectives, policies and restrictions of the Fund as set forth in its Prospectus and Statement of Additional Information, as the same may be modified from time to time (together, the Prospectus), the investment objectives, policies and restrictions of the Fund as determined from time to time by the Board of Trustees, and the investment and other restrictions set forth in the Act and the rules and regulations thereunder, to the supervision and control of the Board of Trustees of the Fund, and to instructions from the Fund Manager. The Portfolio Manager shall not, without the prior approval of the Fund or the Fund Manager, effect any transactions that would cause the Portfolio Manager Account, treated as a separate fund, to be out of compliance with any of such restrictions or policies. The Portfolio Manager shall not consult with any other portfolio manager of the Fund concerning transactions for the Fund in securities or other assets.

B. As part of the services it will provide hereunder, the Portfolio Manager will:

(i) formulate and implement a continuous investment program for the Portfolio Manager Account;

(ii) take whatever steps are necessary to implement the investment program for the Portfolio Manager Account by arranging for the purchase and sale of securities and other investments;

(iii) keep the Fund Manager and the Board of Trustees of the Fund fully informed in writing on an ongoing basis, as agreed by the Fund Manager and the Portfolio Manager, of all material facts concerning the investment and reinvestment of the assets in the Portfolio Manager Account, the Portfolio Manager and its key investment personnel and operations; make regular and periodic special written reports of such additional information concerning the same as may reasonably be requested from time to time by the Fund Manager or the Trustees of the Fund; attend meetings with the Fund Manager and/or Trustees, as reasonably requested, to discuss the foregoing and such other matters as may be requested by the Fund Manager or Trustees;

(iv) in accordance with procedures and methods established by the Trustees of the Fund, which may be amended from time to time, provide assistance in determining the fair value of all securities and other investments/assets in the Portfolio Manager Account, as necessary, and use reasonable efforts to arrange for the provision of valuation information or a price(s) from a party(ies) independent of the Portfolio Manager for each security or other investment/asset in the Portfolio Manager Account for which market prices are not readily available; and

(v) cooperate with and provide reasonable assistance to the Fund Manager, the Fund s administrator, custodian, transfer agent and pricing agents and all other agents and representatives of the Fund and the Fund Manager; keep all such persons fully informed as to such matters as they may reasonably deem necessary to the performance of their obligations to the Fund and the Fund Manager; provide prompt responses to reasonable requests made by such persons; and maintain any appropriate interfaces with each so as to promote the efficient exchange of information.

4. Transaction Procedures. All portfolio transactions for the Portfolio Manager Account will be consummated by payment to or delivery by the custodian of the Fund (the Custodian), or such depositories or agents as may be designated by the Custodian in writing, as custodian for the Fund, of all cash and/or securities due to or from the Portfolio Manager Account, and the Portfolio Manager shall not have possession or custody thereof or any responsibility or liability with respect to such custody. The Portfolio Manager shall advise and confirm in writing to the Custodian all investment orders for the Portfolio Manager Account placed by it with brokers and dealers at the time and in the manner set forth in Schedule A hereto (as amended from time to time by the Fund Manager). The Fund shall issue to the Custodian such instructions as may be appropriate in connection with the settlement of any transaction initiated by the Portfolio Manager. The Fund shall be responsible for all custodial arrangements and the payment of all custodial charges and fees, and, upon giving proper instructions to the Custodian, the Portfolio Manager shall have no responsibility or liability with respect to custodial arrangements or the acts, omissions or other conduct of the Custodian.

5. Allocation of Brokerage. The Portfolio Manager shall have authority and discretion to select brokers and dealers to execute portfolio transactions initiated by the Portfolio Manager for the Portfolio Manager Account, and to select the markets on or in which the transaction will be executed.

A. In doing so, the Portfolio Manager s primary responsibility shall be to seek to obtain best net price and execution for the Fund. However, this responsibility shall not obligate the Portfolio Manager to solicit

competitive bids for each transaction or to seek the lowest available commission cost to the Fund, so long as the Portfolio Manager reasonably believes that the broker or dealer selected by it can be expected to obtain a best execution market price on the particular transaction and determines in good faith that the commission cost is reasonable in relation to the value of the brokerage and research services (as defined in Section 28(e)(3) of the Securities Exchange Act of 1934) provided by such broker or dealer to the Portfolio Manager viewed in terms of either that particular transaction or of the Portfolio Manager s overall responsibilities with respect to its clients, including the Fund, as to which the Portfolio Manager exercises investment discretion, notwithstanding that the Fund may not be the direct or exclusive beneficiary of any such services or that another broker may be willing to charge the Fund a lower commission on the particular transaction.

B. Subject to the requirements of paragraph A above, the Fund Manager shall have the right to request that transactions giving rise to brokerage commissions, in an amount to be agreed upon by the Fund Manager and the Portfolio Manager, shall be executed by brokers and dealers that provide brokerage or research services to the Fund Manager, or as to which an on-going relationship will be of value to the Fund in the management of its assets, which services and relationship may, but need not, be of direct benefit to the Portfolio Manager Account. Notwithstanding any other provision of this Agreement, the Portfolio Manager shall not be responsible under paragraph A above with respect to transactions executed through any such broker or dealer.

C. The Portfolio Manager shall not execute any portfolio transactions for the Portfolio Manager Account with a broker or dealer which is an affiliated person (as defined in the Act) of the Fund, the Portfolio Manager or any other portfolio manager of the Fund without the prior written approval of the Fund. The Fund Manager will provide the Portfolio Manager with a list of brokers and dealers which are affiliated persons of the Fund or its portfolio managers.

6. Proxies. The Fund Manager will vote all proxies solicited by or with respect to the issuers of securities in which assets of the Portfolio Manager Account may be invested from time to time in accordance with such policies as shall be determined by the Fund Manager, and reviewed and approved by the Board of Trustees. Upon the written request of the Fund Manager, the Portfolio Manager will vote all proxies solicited by or with respect to the issuers of securities in which assets of the Portfolio Manager Account may be invested from time to time in accordance with such policies as shall be determined by the Fund Manager, and reviewed and approved by the Board of Trustees.

7. Fees for Services. The compensation of the Portfolio Manager for its services under this Agreement shall be calculated and paid by the Fund Manager in accordance with the attached Schedule C. Pursuant to the Fund Management Agreement between the Fund and the Fund Manager, the Fund Manager is solely responsible for the payment of fees to the Portfolio Manager, and the Portfolio Manager agrees to seek payment of its fees solely from the Fund Manager.

8. Other Investment Activities of Portfolio Manager. The Fund acknowledges that the Portfolio Manager or one or more of its affiliates has investment responsibilities, renders investment advice to and performs other investment advisory services for other individuals or entities (Client Accounts), and that the Portfolio Manager, its affiliates or any of its or their directors, officers, agents or employees may buy, sell or trade in any securities for its or their respective accounts (Affiliated Accounts). Subject to the provisions of paragraph 2 hereof, the Fund agrees that the Portfolio Manager or its affiliates may give advice or exercise investment responsibility and take such other action with respect to other Client Accounts and Affiliated Accounts which may differ from the advice given or the timing or nature of action taken with respect to the Portfolio Manager Account, provided that the Portfolio Manager acts in good faith, and provided further, that it is the Portfolio Manager s policy to allocate, within its reasonable discretion, investment opportunities to the Portfolio Manager Account over a period of time on a fair and equitable basis relative to the Client Accounts and the Affiliated Accounts, taking into account the cash position and the investment objectives and policies of the Fund and any specific investment restrictions applicable thereto. The Fund acknowledges that one or more Client Accounts and Affiliated Accounts may at any time hold, acquire, increase, decrease, dispose of or otherwise deal with positions in investments in which the Portfolio Manager Account may have an interest from time to time, whether in transactions which involve the Portfolio Manager Account or otherwise. The Portfolio Manager shall have no obligation to acquire for the Portfolio Manager Account a position in any investment which any Client Account or Affiliated Account may acquire, and the Fund shall have no first refusal, co-investment or other rights in respect of any such investment, either for the Portfolio Manager Account or otherwise.

9. Limitation of Liability. The Portfolio Manager shall not be liable for any action taken, omitted or suffered to be taken by it in its reasonable judgment, in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Agreement, or in accordance with (or in the absence of) specific directions or instructions from the Fund, provided, however, that such acts or omissions shall not have resulted from the Portfolio Manager s willful misfeasance, bad faith or gross negligence, a violation of the standard of care established by and applicable to the Portfolio Manager in its actions under this Agreement or breach of its duty or of its obligations hereunder (provided, however, that the foregoing shall not be construed to protect the Portfolio Manager from liability in violation of Section 17(i) of the Act).

10. Confidentiality. Subject to the duty of the Portfolio Manager, the Fund Manager and the Fund to comply with applicable law, including any demand of any regulatory or taxing authority having jurisdiction, the parties hereto shall treat as confidential all information pertaining to the Portfolio Manager Account and the actions of the Portfolio Manager and the Fund in respect thereof.

11. Assignment. This Agreement shall terminate automatically in the event of its assignment, as that term is defined in Section 2(a)(4) of the Act. The Portfolio Manager shall notify the Fund in writing sufficiently in advance of any proposed change of control, as defined in Section 2(a)(9) of the Act, as will enable the Fund to consider whether an assignment as defined in Section 2(a)(4) of the Act will occur, and whether to take the steps necessary to enter into a new contract with the Portfolio Manager. Should the Fund enter into a new contract with the Portfolio Manager in connection with an assignment, the Portfolio Manager agrees to pay all costs and expenses incurred by the Fund to obtain shareholder approval of the new contact, including costs associated with the preparation and mailing of the Fund s proxy statement and shareholder meeting and proxy solicitation fees.

12. Representations, Warranties and Agreements of the Fund. The Fund represents, warrants and agrees that:

A. The Portfolio Manager has been duly appointed to provide investment services to the Portfolio Manager Account as contemplated hereby.

B. The Fund will deliver to the Portfolio Manager a true and complete copy of its then current Prospectus as effective from time to time and such other documents governing the investment of the Portfolio Manager Account and such other information as is necessary for the Portfolio Manager to carry out its obligations under this Agreement.

13. Representations, Warranties and Agreements of the Portfolio Manager. The Portfolio Manager represents, warrants and agrees that:

A. It is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (Advisers Act) and will continue to be so registered for as long as this Agreement remains in effect.

B. It will maintain, keep current and preserve on behalf of the Fund, in the manner required or permitted by the Act and the rules and regulations thereunder, the records required to be so kept by an investment adviser of the Fund in accordance with applicable law, including without limitation those identified in Schedule B (as Schedule B may be amended from time to time by the Fund Manager). The Portfolio Manager agrees that such records are the property of the Fund, and will be surrendered to the Fund promptly upon request.

C. It has adopted a written code of ethics complying with the requirements of Rule 204A-1 under the Advisers Act and Rule 17j-1 under the Act and will provide the Fund Manager and the Board of Trustees with a copy of its code of ethics and evidence of its adoption. Within 45 days of the end of each year while this Agreement is in effect, or at any other time requested by the Fund Manager, an officer, director or general partner of the Portfolio Manager shall certify to the Fund that the Portfolio Manager has complied with the requirements of Rule 17j-1 and Rule 204A-1 during the previous year and that there has been no material violation of its code of ethics or, if such a violation has occurred, that appropriate action was taken in response to such violation. It will promptly notify the Fund Manager of any material change to its code of ethics or material violation of its code of ethics.

D. Upon request, the Portfolio Manager will promptly supply the Fund with any information concerning the Portfolio Manager and its stockholders, partners, employees and affiliates that the Fund may reasonably request

in connection with the preparation of its registration statement (as amended from time to time), prospectus and statement of additional information (as supplemented and modified from time to time), proxy material, reports and other documents required to be filed under the Act, the Securities Act of 1933, or other applicable securities laws.

E. Reference is hereby made to the Declaration of Trust dated August 20, 1986 establishing the Fund, a copy of which has been filed with the Secretary of the Commonwealth of Massachusetts and elsewhere as required by law, and to any and all amendments thereto so filed or hereafter filed. The name Liberty All-Star Equity Fund refers to the Board of Trustees under said Declaration of Trust, as Trustees and not to the Trustees personally, and no Trustee, shareholder, officer, agent or employee of the Fund shall be held to any personal liability hereunder or in connection with the affairs of the Fund, but only the trust estate under said Declaration of Trust is liable under this Agreement. Without limiting the generality of the foregoing, neither the Portfolio Manager nor any of its officers, directors, partners, shareholders, agents or employees shall, under any circumstances, have recourse or cause or willingly permit recourse to be had directly or indirectly to any personal, statutory, or other liability of any shareholder, Trustee, officer, agent or employee of the Fund or of any successor of the Fund, whether such liability now exists or is hereafter incurred for claims against the trust estate, but shall look for payment solely to said trust estate, or the assets of such successor of the Fund.

F. The Portfolio Manager shall maintain and implement compliance procedures that are reasonably designed to ensure its compliance with Rule 206(4)-7 of the Advisers Act and to prevent violations of the Federal Securities Laws (as defined in Rule 38a-1 under the Act).

G. The Portfolio Manager will: (i) on the cover page of each Form 13F that the Portfolio Manager files with the Securities and Exchange Commission (the SEC), check the 13F Combination Report box and on the Form 13F Summary Page identify ALPS Advisors, Inc. as another manager for which the Portfolio Manager is filing the Form 13F report; (ii) within 60 days after the end of each calendar year, provide the Fund Manager with a certification that the Portfolio Manager s Form 13F was filed with the SEC on a timely basis and included all of the securities required to be reported by the SEC; (iii) within 60 days after the end of each calendar year, provide to the Fund Manager a copy of each Form 13F, or amendment to a Form 13F filed by it during the prior four quarters; and (iv) promptly notify the Fund Manager in the event the Portfolio Manager determines that it has failed to comply with Section 13(f) in a material respect, or receives a comment letter from the SEC raising a question with respect to compliance.

H. The Portfolio Manager has adopted written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules promulgated thereunder and the Portfolio Manager agrees to provide: (a) from time to time, a copy and/or summary of such compliance policies and procedures and an accompanying certification certifying that the Portfolio Manager s compliance policies and procedures comply with the Advisers Act; (b) a report of the annual review determining the adequacy and effectiveness of the Portfolio Manager s compliance policies and procedures; and (c) the name of the Portfolio Manager s Chief Compliance Officer to act as a liaison for compliance matters that may arise between the Fund and the Portfolio Manager.

I. The Portfolio Manager will notify the Fund and the Fund Manager of any assignment of this Agreement or change of control of the Portfolio Manager, as applicable, and any changes in the key personnel who are either the portfolio manager(s) of the Portfolio Manager Account or senior management of the Portfolio Manager, in each case prior to or promptly after, such change. The Portfolio Manager agrees to bear all reasonable expenses of the Fund, if any, arising out of an assignment or change in control.

J. The Portfolio Manager agrees to maintain an appropriate level of errors and omissions or professional liability insurance coverage.

14. Amendment. This Agreement may be amended at any time, but only by written agreement among the Portfolio Manager, the Fund Manager and the Fund, which amendment, other than amendments to Schedules A, B

and C, is subject to the approval of the Board of Trustees and the shareholders of the Fund as and to the extent required by the Act, the rules thereunder or exemptive relief granted by the SEC, provided that Schedules A and B may be amended by the Fund Manager without the written agreement of the Fund or the Portfolio Manager.

15. Effective Date; Term. This Agreement shall become effective on the date first above written, provided that this Agreement shall not take effect unless it has first been approved: (1) by a vote of a majority of the Trustees who are not interested persons (as defined in the Act) of any party to this Agreement (Independent Trustees), cast in person at a meeting called for the purpose of voting on such approval, and (ii) by vote of a majority of the outstanding voting securities (as defined in the Act) of the Fund. This Agreement shall continue for one year from the date of this Agreement and from year to year thereafter provided such continuance is specifically approved at least annually by (i) the Fund s Board of Trustees or (ii) a vote of a majority of the outstanding voting securities of the Fund, provided that in either event such continuance is also approved by a majority of the Independent Trustees, by vote cast in person at a meeting called for the purpose of voting on such approval. If the SEC issues an order to the Fund and the Fund Manager for an exemption from Section 15(a) of the Act, then, in accordance with the application of the Fund and the Fund Manager, the continuance of this Agreement after initial approval by the Trustees as set forth above, shall be subject to approval by a majority of the outstanding voting securities of the Fund at the regularly scheduled annual meeting of the Fund s shareholders next following the date of this Agreement.

16. Termination. This Agreement may be terminated at any time by any party, without penalty, immediately upon written notice to the other parties in the event of a breach of any provision thereof by a party so notified, or otherwise upon not less than thirty (30) days written notice to the Portfolio Manager in the case of termination by the Fund or the Fund Manager, or ninety (90) days written notice to the Fund and the Fund Manager in the case of termination by the Portfolio Manager, but any such termination shall not affect the status, obligations or liabilities of any party hereto to the other parties.

17. Applicable Law. To the extent that state law is not preempted by the provisions of any law of the United States heretofore or hereafter enacted, as the same may be amended from time to time, this Agreement shall be administered, construed and enforced according to the laws of the Commonwealth of Massachusetts.

18. Severability; Counterparts. If any term or condition of this Agreement shall be invalid or unenforceable to any extent or in any application, then the remainder of this Agreement, and such term or condition except to such extent or in such application, shall not be affected thereby, and each and every term and condition of this Agreement shall be valid and enforced to the fullest extent and in the broadest application permitted by law. This Agreement may be executed in counterparts, each of which will be deemed an original and all of which together will be deemed to be one and the same agreement.

19. Use of Name. The Portfolio Manager agrees and acknowledges that the Fund Manager is the sole owner of the names and marks Liberty All-Star and All-Star , and that all use of any designation comprised in whole or in part of these names and marks shall inure to the benefit of the Fund Manager. Except as used to identify the Fund to third parties as a client, the use by the Portfolio Manager on its own behalf of such marks in any advertisement or sales literature or other materials promoting the Portfolio Manager shall be with the prior written consent of the Fund Manager. The Portfolio Manager shall not, without the consent of the Fund Manager, make representations regarding the Fund or the Fund Manager in any disclosure document, advertisement or sales literature or other materials promoting the Portfolio Manager. Consent by the Fund Manager shall not be unreasonably withheld. Upon termination of this Agreement for any reason, the Portfolio Manager shall cease any and all use of these marks as soon as reasonably practicable.

20. Notices. All notices and other communications hereunder shall be in writing, shall be deemed to have been given when received or when sent by U.S. mail, overnight carrier or facsimile, and shall be given to the following addresses (or such other addresses as to which notice is given):

To Fund Manager:

ALPS Advisors, Inc.

1290 Broadway, Suite 1100

Denver, Colorado 80203

Attn: General Counsel

Phone: (303) 623-2577

Fax: (303) 623-7850

To the Portfolio Manager:

TCW Investment Management Company

865 S. Figueroa St.

Los Angeles, CA 90017

Attn:

Phone:

Fax:

****

LIBERTY ALL-STAR GROWTH FUND, INC.

By:
Name:
Title:

ALPS ADVISORS, INC.

By:
Name:
Title:

ACCEPTED:

TCW INVESTMENT MANAGEMENT COMPANY

By:
Name:
Title:

SCHEDULES:
A. Operational Procedures
B. Records To Be Maintained By The Portfolio Manager
C. Portfolio Manager Fee

LIBERTY ALL-STAR GROWTH FUND

PORTFOLIO MANAGEMENT AGREEMENT

SCHEDULE A

TCW INVESTMENT MANAGEMENT COMPANY

OPERATIONAL PROCEDURES

In order to minimize operational problems, the following represents a standard flow of information requirements. The Portfolio Manager must furnish State Street Corporation (accounting agent) with daily information as to executed trades, no later than 12:00 p.m. (EST) on trade date plus one day to ensure the information is processed in time for pricing. If there are no trades, a report must be sent to State Street stating there were no trades for that day.

The necessary information must be transmitted via facsimile machine to Max King at State Street at 617-662-2342 and contain an authorized signature.

Liberty All-Star Growth Fund, Inc. trade reporting requirements:

1. Name of Fund & Portfolio Manager

2. Trade date

3. Settlement date

4. Purchase or sale

5. Security name/description

6. Cusip / sedol / or other numeric identifier

7. Purchase/sale price per share or unit

8. Interest purchased/sold (if applicable)

9. Aggregate commission amount

10. Indication as to whether or not commission amounts are ALPS Directed.

11. Executing broker and clearing bank (if applicable)

12. Total net amount of the transaction

13. Sale lot disposition method, if different from the established policy of Lowest Cost.

14. Confirmation of DTC trades; please advise brokers to use the custodian s DTC ID system number to facilitate the receipt of information by the custodian. The Portfolio Manager will affirm trades to the custodian.

Commission Reporting

The Portfolio Manager is responsible for reporting the correct broker for all direct-commission trades on the trade tickets. As a follow-up procedure, The Fund Manager will summarize the accounting records and forward to the Portfolio Manager monthly. The Portfolio Manager is responsible for comparing their records to the accounting records and contacting the Fund Manager regarding discrepancies.

Trade Exception Processing

1. Revised or cancelled trades: the Portfolio Manager is responsible for notifying State Street Fund Accounting of revisions and/or cancellations on a timely basis. In addition, the Portfolio Manager is responsible for notifying State Street if the revised or cancelled trade pertains to a next day or current day settlement.

2. In the event, trades are sent after the 12:00 EST deadline, the Portfolio Manager is responsible for notifying the appropriate contact at State Street. If trades are received after 4:00 PM EST, State Street Fund Accounting will book trades on a best efforts basis.

State Street Delivery Instructions

DTC instructions:

For Liberty All Star Growth Fund, Inc.

Depository Trust Company (DTC)

Participant # 0997

Agent Bank# 20997

Ref: C7S2

Physical Securities DVP/RVP

DTC/New York Window

55 Water Street

New York, NY 10041

Attn: Robert Mendes

Ref: Fund C7S2

Government issues delivered through Fed Book Entry

Boston Federal Reserve Bank

ABA 011000028

STATE ST BOS/SPEC/C7S2

Wire Instructions:

State Street Bank

ABA # 011000028

Ref: **Liberty All-Star Growth Fund, Inc.**

Fund Number: C7S2

DDA # 40601767

Custodian (State Street Corporation)

Cash Availability: State Street will supply the portfolio manager with a cash availability report by 11:00 AM EST on a daily basis. This will be done by fax so that the Portfolio Manager will know the amount available for investment purposes.

Voluntary Corporate Actions

State Street will be responsible for notifying the Portfolio Manager of all voluntary corporate actions. The Portfolio Manager will fax instructions back to State Street to the fax number indicated on the corporate action notice.

Other Custodian Requirements

All trades must be transmitted to the custodian bank, State Street, via signed facsimile to 617-662-2342.

In the event there are no trades on a given day State Street needs to receive a signed fax indicating this.

State Street will need an authorized signature list from the Portfolio Manager.

State Street will need the daily contacts for corporate actions and trading from the Portfolio Manager (please notify SSC of any future changes).

LIBERTY ALL-STAR GROWTH FUND, INC.

PORTFOLIO MANAGEMENT AGREEMENT

SCHEDULE B

RECORDS TO BE MAINTAINED BY THE PORTFOLIO MANAGER

1. (Rule 31a-1(b)(5) and (6)) A record of each brokerage order, and all other portfolio purchases and sales, given by the Portfolio Manager on behalf of the Fund for, or in connection with, the purchase or sale of securities, whether executed or unexecuted. Such records shall include:

   A. The name of the broker;
   B. The terms and conditions of the order and of any modifications or cancellation thereof;
   C. The time of entry or cancellation;
   D. The price at which executed;
   E. The time of receipt of a report of execution; and
   F. The name of the person who placed the order on behalf of the Fund.

2. (Rule 31a-1(b)(9)) A record for each fiscal quarter, completed within ten (10) days after the end of the quarter, showing specifically the basis or bases upon which the allocation of orders for the purchase and sale of portfolio securities to named brokers or dealers was effected, and the division of brokerage commissions or other compensation on such purchase and sale orders. Such record:

   A. Shall include the consideration given to:

      (i) The sale of shares of the Fund by brokers or dealers.

      (ii) The supplying of services or benefits by brokers or dealers to:

         (a) The Fund;
         (b) The Fund Manager;
         (c) The Portfolio Manager; and
         (d) Any person other than the foregoing.

      (iii) Any other consideration other than the technical qualifications of the brokers and dealers as such.

   B. Shall show the nature of the services or benefits made available.

   C. Shall describe in detail the application of any general or specific formula or other determinant used in arriving at such allocation of purchase and sale orders and such division of brokerage commissions or other compensation.

   D. The name of the person responsible for making the determination of such allocation and such division of brokerage commissions or other compensation.

3. (Rule 31a-1(b)(10)) A record in the form of an appropriate memorandum identifying the person or persons, committees or groups authorizing the purchase or sale of portfolio securities. Where an authorization is made by a committee or group, a record shall be kept of the names of its members who participate in the authorization. There shall be retained as part of this record: any memorandum, recommendation or instruction supporting or authorizing the purchase or sale of portfolio securities and such other information as is appropriate to support the authorization.[1]
4. (Rule 31a-1(f)) Such accounts, books and other documents as are required to be maintained by registered investment advisers by rule adopted under Section 204 of the Investment Advisers Act of 1940, to the extent such records are necessary or appropriate to record the Portfolio Manager s transactions with the Fund.

[1] Such information might include: the current Form 10-K, annual and quarterly reports, press releases, reports by analysts and from brokerage firms (including their recommendation: i.e., buy, sell, hold) or any internal reports or portfolio manager reviews.

LIBERTY ALL-STAR GROWTH FUND, INC.

PORTFOLIO MANAGEMENT AGREEMENT

SCHEDULE C

PORTFOLIO MANAGER FEE

For services provided to the Portfolio Manager Account, the Fund Manager will pay to the Portfolio Manager, on or before the 10th day of each calendar month, a fee calculated and accrued daily and payable monthly by the Fund Manager for the previous calendar month at the annual rate of

(1) 0.40% of the Portfolio Manager s Percentage (as defined below) of the average daily net assets of the Fund up to and including $300 million; and

(2) 0.36% of the Portfolio Manager s Percentage of the average daily net assets of the Fund exceeding $300 million.

Each monthly payment set forth above shall be based on the average daily net assets during such previous calendar month. The fee for the period from the date this Agreement becomes effective to the end of the calendar month in which such effective date occurs will be prorated according to the proportion that such period bears to the full monthly period. Upon any termination of this Agreement before the end of a calendar month, the fee for the part of that calendar month during which this Agreement was in effect shall be prorated according to the proportion that such period bears to the full monthly period and will be payable upon the date of termination of this Agreement. For the purpose of determining fees payable to the Portfolio Manager, the value of the Fund s net assets will be computed at the times and in the manner specified in the Registration Statement as from time to time in effect.

Portfolio Manager s Percentage means the percentage obtained by dividing the average daily net assets in the Portfolio Manager Account by the Fund s average daily net assets.

LIBERTY ALL-STAR EQUITY FUND

PORTFOLIO MANAGEMENT AGREEMENT

TCW INVESTMENT MANAGEMENT COMPANY

, 201X

Re: Portfolio Management Agreement

Ladies and Gentlemen:

Liberty All-Star Equity Fund (the Fund) is a diversified closed-end investment company registered under the Investment Company Act of 1940, as amended (the Act), and is subject to the rules and regulations promulgated thereunder.

ALPS Advisors, Inc. (the Fund Manager) evaluates and recommends portfolio managers for the assets of the Fund, and the Fund Manager or an affiliate of the Fund Manager is responsible for the day-to-day Fund administration of the Fund.

1. Employment as a Portfolio Manager. The Fund, being duly authorized, hereby employs TCW Investment Management Company (Portfolio Manager) as a discretionary portfolio manager, on the terms and conditions set forth herein, of that portion of the Fund s assets which the Fund Manager determines to assign to the Portfolio Manager (those assets being referred to as the Portfolio Manager Account). The Fund Manager may, from time to time, allocate and reallocate the Fund s assets among the Portfolio Manager and the other portfolio managers of the Fund s assets. The Portfolio Manager will be an independent contractor and will have no authority to act for or represent the Fund or the Fund Manager in any way or otherwise be deemed to be an agent of the Fund or the Fund Manager except as expressly authorized in this Agreement or in another writing by the Fund Manager and the Portfolio Manager. The Portfolio Manager s responsibilities for providing portfolio management services to the Fund shall be limited to the Portfolio Manager Account.

2. Acceptance of Employment; Standard of Performance. The Portfolio Manager accepts its employment as a discretionary portfolio manager and agrees to use its best professional judgment to make timely investment decisions for the Portfolio Manager Account in accordance with the provisions of this Agreement.

3. Portfolio Management Services of Portfolio Manager.

A. In providing portfolio management services to the Portfolio Manager Account, the Portfolio Manager shall be subject to the Fund s Declaration of Trust and By-Laws, as amended from time to time, investment objectives, policies and restrictions of the Fund as set forth in its Prospectus and Statement of Additional Information, as the same may be modified from time to time (together, the Prospectus), the investment objectives, policies and restrictions of the Fund as determined from time to time by the Board of Trustees, and the investment and other restrictions set forth in the Act and the rules and regulations thereunder, to the supervision and control of the Board of Trustees of the Fund, and to instructions from the Fund Manager. The Portfolio Manager shall not, without the prior approval of the Fund or the Fund Manager, effect any transactions that would cause the Portfolio Manager Account, treated as a separate fund, to be out of compliance with any of such restrictions or policies. The Portfolio Manager shall not consult with any other portfolio manager of the Fund concerning transactions for the Fund in securities or other assets.

B. As part of the services it will provide hereunder, the Portfolio Manager will:

(i) formulate and implement a continuous investment program for the Portfolio Manager Account;

(ii) take whatever steps are necessary to implement the investment program for the Portfolio Manager Account by arranging for the purchase and sale of securities and other investments;

(iii) keep the Fund Manager and the Board of Trustees of the Fund fully informed in writing on an ongoing basis, as agreed by the Fund Manager and the Portfolio Manager, of all material facts concerning the investment and reinvestment of the assets in the Portfolio Manager Account, the Portfolio Manager and its key investment personnel and operations; make regular and periodic special written reports of such additional information concerning the same as may reasonably be requested from time to time by the Fund Manager or the Trustees of the Fund; attend meetings with the Fund Manager and/or Trustees, as reasonably requested, to discuss the foregoing and such other matters as may be requested by the Fund Manager or Trustees;

(iv) in accordance with procedures and methods established by the Trustees of the Fund, which may be amended from time to time, provide assistance in determining the fair value of all securities and other investments/assets in the Portfolio Manager Account, as necessary, and use reasonable efforts to arrange for the provision of valuation information or a price(s) from a party(ies) independent of the Portfolio Manager for each security or other investment/asset in the Portfolio Manager Account for which market prices are not readily available; and

(v) cooperate with and provide reasonable assistance to the Fund Manager, the Fund s administrator, custodian, transfer agent and pricing agents and all other agents and representatives of the Fund and the Fund Manager; keep all such persons fully informed as to such matters as they may reasonably deem necessary to the performance of their obligations to the Fund and the Fund Manager; provide prompt responses to reasonable requests made by such persons; and maintain any appropriate interfaces with each so as to promote the efficient exchange of information.

4. Transaction Procedures. All portfolio transactions for the Portfolio Manager Account will be consummated by payment to or delivery by the custodian of the Fund (the Custodian), or such depositories or agents as may be designated by the Custodian in writing, as custodian for the Fund, of all cash and/or securities due to or from the Portfolio Manager Account, and the Portfolio Manager shall not have possession or custody thereof or any responsibility or liability with respect to such custody. The Portfolio Manager shall advise and confirm in writing to the Custodian all investment orders for the Portfolio Manager Account placed by it with brokers and dealers at the time and in the manner set forth in Schedule A hereto (as amended from time to time by the Fund Manager). The Fund shall issue to the Custodian such instructions as may be appropriate in connection with the settlement of any transaction initiated by the Portfolio Manager. The Fund shall be responsible for all custodial arrangements and the payment of all custodial charges and fees, and, upon giving proper instructions to the Custodian, the Portfolio Manager shall have no responsibility or liability with respect to custodial arrangements or the acts, omissions or other conduct of the Custodian.

5. Allocation of Brokerage. The Portfolio Manager shall have authority and discretion to select brokers and dealers to execute portfolio transactions initiated by the Portfolio Manager for the Portfolio Manager Account, and to select the markets on or in which the transaction will be executed.

A. In doing so, the Portfolio Manager s primary responsibility shall be to seek to obtain best net price and execution for the Fund. However, this responsibility shall not obligate the Portfolio Manager to solicit competitive bids for each transaction or to seek the lowest available commission cost to the Fund, so long as the Portfolio Manager reasonably believes that the broker or dealer selected by it can be expected to obtain a best execution market price on the particular transaction and determines in good faith that the commission cost is reasonable in relation to the value of the brokerage and research services (as defined in Section 28(e)(3) of the Securities Exchange Act of 1934) provided by such broker or dealer to the Portfolio Manager viewed in terms of either that particular transaction or of the Portfolio Manager s overall responsibilities with respect to its clients, including the Fund, as to which the Portfolio Manager exercises investment discretion, notwithstanding that the Fund may not be the direct or exclusive beneficiary of any such services or that another broker may be willing to charge the Fund a lower commission on the particular transaction.

B. Subject to the requirements of paragraph A above, the Fund Manager shall have the right to request that transactions giving rise to brokerage commissions, in an amount to be agreed upon by the Fund Manager and the Portfolio Manager, shall be executed by brokers and dealers that provide brokerage or research services to the Fund Manager, or as to which an on-going relationship will be of value to the Fund in the management of its assets, which services and relationship may, but need not, be of direct benefit to the Portfolio Manager Account. Notwithstanding any other provision of this Agreement, the Portfolio Manager shall not be responsible under paragraph A above with respect to transactions executed through any such broker or dealer.

C. The Portfolio Manager shall not execute any portfolio transactions for the Portfolio Manager Account with a broker or dealer which is an affiliated person (as defined in the Act) of the Fund, the Portfolio Manager or any other portfolio manager of the Fund without the prior written approval of the Fund. The Fund Manager will provide the Portfolio Manager with a list of brokers and dealers which are affiliated persons of the Fund or its portfolio managers.

6. Proxies. The Fund Manager will vote all proxies solicited by or with respect to the issuers of securities in which assets of the Portfolio Manager Account may be invested from time to time in accordance with such policies as shall be determined by the Fund Manager, and reviewed and approved by the Board of Trustees. Upon the written request of the Fund Manager, the Portfolio Manager will vote all proxies solicited by or with respect to the issuers of securities in which assets of the Portfolio Manager Account may be invested from time to time in accordance with such policies as shall be determined by the Fund Manager, and reviewed and approved by the Board of Trustees.

7. Fees for Services. The compensation of the Portfolio Manager for its services under this Agreement shall be calculated and paid by the Fund Manager in accordance with the attached Schedule C. Pursuant to the Fund Management Agreement between the Fund and the Fund Manager, the Fund Manager is solely responsible for the payment of fees to the Portfolio Manager, and the Portfolio Manager agrees to seek payment of its fees solely from the Fund Manager.

8. Other Investment Activities of Portfolio Manager. The Fund acknowledges that the Portfolio Manager or one or more of its affiliates has investment responsibilities, renders investment advice to and performs other investment advisory services for other individuals or entities (Client Accounts), and that the Portfolio Manager, its affiliates or any of its or their directors, officers, agents or employees may buy, sell or trade in any securities for its or their respective accounts (Affiliated Accounts). Subject to the provisions of paragraph 2 hereof, the Fund agrees that the Portfolio Manager or its affiliates may give advice or exercise investment responsibility and take such other action with respect to other Client Accounts and Affiliated Accounts which may differ from the advice given or the timing or nature of action taken with respect to the Portfolio Manager Account, provided that the Portfolio Manager acts in good faith, and provided further, that it is the Portfolio Manager s policy to allocate, within its reasonable discretion, investment opportunities to the Portfolio Manager Account over a period of time on a fair and equitable basis relative to the Client Accounts and the Affiliated Accounts, taking into account the cash position and the investment objectives and policies of the Fund and any specific investment restrictions applicable thereto. The Fund acknowledges that one or more Client Accounts and Affiliated Accounts may at any time hold, acquire, increase, decrease, dispose of or otherwise deal with positions in investments in which the Portfolio Manager Account may have an interest from time to time, whether in transactions which involve the Portfolio Manager Account or otherwise. The Portfolio Manager shall have no obligation to acquire for the Portfolio Manager Account a position in any investment which any Client Account or Affiliated Account may acquire, and the Fund shall have no first refusal, co-investment or other rights in respect of any such investment, either for the Portfolio Manager Account or otherwise.

9. Limitation of Liability. The Portfolio Manager shall not be liable for any action taken, omitted or suffered to be taken by it in its reasonable judgment, in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Agreement, or in accordance with (or in the absence of) specific directions or instructions from the Fund, provided, however, that such acts or omissions shall not have resulted from the Portfolio Manager s willful misfeasance, bad faith or gross negligence, a violation of the standard of care established by and applicable to the Portfolio Manager in its actions under this Agreement or breach of its duty or of its obligations hereunder (provided, however, that the foregoing shall not be construed to protect the Portfolio Manager from liability in violation of Section 17(i) of the Act).

10. Confidentiality. Subject to the duty of the Portfolio Manager, the Fund Manager and the Fund to comply with applicable law, including any demand of any regulatory or taxing authority having jurisdiction, the parties hereto shall treat as confidential all information pertaining to the Portfolio Manager Account and the actions of the Portfolio Manager and the Fund in respect thereof.

11. Assignment. This Agreement shall terminate automatically in the event of its assignment, as that term is defined in Section 2(a)(4) of the Act. The Portfolio Manager shall notify the Fund in writing sufficiently in advance of any proposed change of control, as defined in Section 2(a)(9) of the Act, as will enable the Fund to consider whether an assignment as defined in Section 2(a)(4) of the Act will occur, and whether to take the steps necessary to enter into a new contract with the Portfolio Manager. Should the Fund enter into a new contract with the Portfolio Manager in connection with an assignment, the Portfolio Manager agrees to pay all costs and expenses incurred by the Fund to obtain shareholder approval of the new contact, including costs associated with the preparation and mailing of the Fund s proxy statement and shareholder meeting and proxy solicitation fees.

12. Representations, Warranties and Agreements of the Fund. The Fund represents, warrants and agrees that:

A. The Portfolio Manager has been duly appointed to provide investment services to the Portfolio Manager Account as contemplated hereby.

B. The Fund will deliver to the Portfolio Manager a true and complete copy of its then current Prospectus as effective from time to time and such other documents governing the investment of the Portfolio Manager Account and such other information as is necessary for the Portfolio Manager to carry out its obligations under this Agreement.

13. Representations, Warranties and Agreements of the Portfolio Manager. The Portfolio Manager represents, warrants and agrees that:

A. It is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (Advisers Act) and will continue to be so registered for as long as this Agreement remains in effect.

B. It will maintain, keep current and preserve on behalf of the Fund, in the manner required or permitted by the Act and the rules and regulations thereunder, the records required to be so kept by an investment adviser of the Fund in accordance with applicable law, including without limitation those identified in Schedule B (as Schedule B may be amended from time to time by the Fund Manager). The Portfolio Manager agrees that such records are the property of the Fund, and will be surrendered to the Fund promptly upon request.

C. It has adopted a written code of ethics complying with the requirements of Rule 204A-1 under the Advisers Act and Rule 17j-1 under the Act and will provide the Fund Manager and the Board of Trustees with a copy of its code of ethics and evidence of its adoption. Within 45 days of the end of each year while this Agreement is in effect, or at any other time requested by the Fund Manager, an officer, director or general partner of the Portfolio Manager shall certify to the Fund that the Portfolio Manager has complied with the requirements of Rule 17j-1 and Rule 204A-1 during the previous year and that there has been no material violation of its code of ethics or, if such a violation has occurred, that appropriate action was taken in response to such violation. It will promptly notify the Fund Manager of any material change to its code of ethics or material violation of its code of ethics.

D. Upon request, the Portfolio Manager will promptly supply the Fund with any information concerning the Portfolio Manager and its stockholders, partners, employees and affiliates that the Fund may reasonably request in connection with the preparation of its registration statement (as amended from time to time), prospectus and statement of additional information (as supplemented and modified from time to time), proxy material, reports and other documents required to be filed under the Act, the Securities Act of 1933, or other applicable securities laws.

E. Reference is hereby made to the Declaration of Trust dated August 20, 1986 establishing the Fund, a copy of which has been filed with the Secretary of the Commonwealth of Massachusetts and elsewhere as required by law, and to any and all amendments thereto so filed or hereafter filed. The name Liberty All-Star Equity Fund refers to the Board of Trustees under said Declaration of Trust, as Trustees and not to the Trustees

personally, and no Trustee, shareholder, officer, agent or employee of the Fund shall be held to any personal liability hereunder or in connection with the affairs of the Fund, but only the trust estate under said Declaration of Trust is liable under this Agreement. Without limiting the generality of the foregoing, neither the Portfolio Manager nor any of its officers, directors, partners, shareholders, agents or employees shall, under any circumstances, have recourse or cause or willingly permit recourse to be had directly or indirectly to any personal, statutory, or other liability of any shareholder, Trustee, officer, agent or employee of the Fund or of any successor of the Fund, whether such liability now exists or is hereafter incurred for claims against the trust estate, but shall look for payment solely to said trust estate, or the assets of such successor of the Fund.

G. The Portfolio Manager shall maintain and implement compliance procedures that are reasonably designed to ensure its compliance with Rule 206(4)-7 of the Advisers Act and to prevent violations of the Federal Securities Laws (as defined in Rule 38a-1 under the Act).

G. The Portfolio Manager will: (i) on the cover page of each Form 13F that the Portfolio Manager files with the Securities and Exchange Commission (the SEC), check the 13F Combination Report box and on the Form 13F Summary Page identify ALPS Advisors, Inc. as another manager for which the Portfolio Manager is filing the Form 13F report; (ii) within 60 days after the end of each calendar year, provide the Fund Manager with a certification that the Portfolio Manager s Form 13F was filed with the SEC on a timely basis and included all of the securities required to be reported by the SEC; (iii) within 60 days after the end of each calendar year, provide to the Fund Manager a copy of each Form 13F, or amendment to a Form 13F filed by it during the prior four quarters; and (iv) promptly notify the Fund Manager in the event the Portfolio Manager determines that it has failed to comply with Section 13(f) in a material respect, or receives a comment letter from the SEC raising a question with respect to compliance.

H. The Portfolio Manager has adopted written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules promulgated thereunder and the Portfolio Manager agrees to provide: (a) from time to time, a copy and/or summary of such compliance policies and procedures and an accompanying certification certifying that the Portfolio Manager s compliance policies and procedures comply with the Advisers Act; (b) a report of the annual review determining the adequacy and effectiveness of the Portfolio Manager s compliance policies and procedures; and (c) the name of the Portfolio Manager s Chief Compliance Officer to act as a liaison for compliance matters that may arise between the Fund and the Portfolio Manager.

I. The Portfolio Manager will notify the Fund and the Fund Manager of any assignment of this Agreement or change of control of the Portfolio Manager, as applicable, and any changes in the key personnel who are either the portfolio manager(s) of the Portfolio Manager Account or senior management of the Portfolio Manager, in each case prior to or promptly after, such change. The Portfolio Manager agrees to bear all reasonable expenses of the Fund, if any, arising out of an assignment or change in control.

J. The Portfolio Manager agrees to maintain an appropriate level of errors and omissions or professional liability insurance coverage.

14. Amendment. This Agreement may be amended at any time, but only by written agreement among the Portfolio Manager, the Fund Manager and the Fund, which amendment, other than amendments to Schedules A, B and C, is subject to the approval of the Board of Trustees and the shareholders of the Fund as and to the extent required by the Act, the rules thereunder or exemptive relief granted by the SEC, provided that Schedules A and B may be amended by the Fund Manager without the written agreement of the Fund or the Portfolio Manager.

15. Effective Date; Term. This Agreement shall become effective on the date first above written, provided that this Agreement shall not take effect unless it has first been approved: (1) by a vote of a majority of the Trustees who are not interested persons (as defined in the Act) of any party to this Agreement (Independent Trustees), cast in person at a meeting called for the purpose of voting on such approval, and (ii) by vote of a majority of the outstanding voting securities (as defined in the Act) of the Fund. This Agreement shall continue for one year from the date of this Agreement and from year to year thereafter provided such continuance is specifically approved at least annually by (i) the Fund s Board of Trustees or (ii) a vote of a majority of the outstanding voting securities of the Fund, provided that in either event such continuance is also approved by a majority of the Independent Trustees,

by vote cast in person at a meeting called for the purpose of voting on such approval. If the SEC issues an order to the Fund and the Fund Manager for an exemption from Section 15(a) of the Act, then, in accordance with the application of the Fund and the Fund Manager, the continuance of this Agreement after initial approval by the Trustees as set forth above, shall be subject to approval by a majority of the outstanding voting securities of the Fund at the regularly scheduled annual meeting of the Fund s shareholders next following the date of this Agreement.

16. Termination. This Agreement may be terminated at any time by any party, without penalty, immediately upon written notice to the other parties in the event of a breach of any provision thereof by a party so notified, or otherwise upon not less than thirty (30) days written notice to the Portfolio Manager in the case of termination by the Fund or the Fund Manager, or ninety (90) days written notice to the Fund and the Fund Manager in the case of termination by the Portfolio Manager, but any such termination shall not affect the status, obligations or liabilities of any party hereto to the other parties.

17. Applicable Law. To the extent that state law is not preempted by the provisions of any law of the United States heretofore or hereafter enacted, as the same may be amended from time to time, this Agreement shall be administered, construed and enforced according to the laws of the Commonwealth of Massachusetts.

18. Severability; Counterparts. If any term or condition of this Agreement shall be invalid or unenforceable to any extent or in any application, then the remainder of this Agreement, and such term or condition except to such extent or in such application, shall not be affected thereby, and each and every term and condition of this Agreement shall be valid and enforced to the fullest extent and in the broadest application permitted by law. This Agreement may be executed in counterparts, each of which will be deemed an original and all of which together will be deemed to be one and the same agreement.

19. Use of Name. The Portfolio Manager agrees and acknowledges that the Fund Manager is the sole owner of the names and marks Liberty All-Star and All-Star , and that all use of any designation comprised in whole or in part of these names and marks shall inure to the benefit of the Fund Manager. Except as used to identify the Fund to third parties as a client, the use by the Portfolio Manager on its own behalf of such marks in any advertisement or sales literature or other materials promoting the Portfolio Manager shall be with the prior written consent of the Fund Manager. The Portfolio Manager shall not, without the consent of the Fund Manager, make representations regarding the Fund or the Fund Manager in any disclosure document, advertisement or sales literature or other materials promoting the Portfolio Manager. Consent by the Fund Manager shall not be unreasonably withheld. Upon termination of this Agreement for any reason, the Portfolio Manager shall cease any and all use of these marks as soon as reasonably practicable.

20. Notices. All notices and other communications hereunder shall be in writing, shall be deemed to have been given when received or when sent by U.S. mail, overnight carrier or facsimile, and shall be given to the following addresses (or such other addresses as to which notice is given):

To Fund Manager:

ALPS Advisors, Inc.

1290 Broadway, Suite 1100

Denver, Colorado 80203

Attn: General Counsel

Phone: (303) 623-2577

Fax: (303) 623-7850

To the Portfolio Manager:

TCW Investment Management Company

865 S. Figueroa St.

Los Angeles, CA 90017

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Attn:

Phone:

Fax:

****

LIBERTY ALL-STAR EQUITY FUND

By:
Name:
Title:

ALPS ADVISORS, INC.

By:
Name:
Title:

ACCEPTED:

TCW INVESTMENT MANAGEMENT COMPANY

By:
Name:
Title:

SCHEDULES:
A. Operational Procedures
B. Records To Be Maintained By The Portfolio Manager
C. Portfolio Manager Fee

LIBERTY ALL-STAR EQUITY FUND

PORTFOLIO MANAGEMENT AGREEMENT

SCHEDULE A

TCW INVESTMENT MANAGEMENT COMPANY

OPERATIONAL PROCEDURES

In order to minimize operational problems, the following represents a standard flow of information requirements. The Portfolio Manager must furnish State Street Corporation (accounting agent) with daily information as to executed trades, no later than 12:00 p.m. (EST) on trade date plus one day to ensure the information is processed in time for pricing. If there are no trades, a report must be sent to State Street stating there were no trades for that day.

The necessary information must be transmitted via facsimile machine to Max King at State Street at 617-662-2342 and contain an authorized signature.

Liberty All-Star Equity Fund trade reporting requirements:

15. Name of Fund & Portfolio Manager

16. Trade date

17. Settlement date

18. Purchase or sale

19. Security name/description

20. Cusip / sedol / or other numeric identifier

21. Purchase/sale price per share or unit

22. Interest purchased/sold (if applicable)

23. Aggregate commission amount

24. Indication as to whether or not commission amounts are ALPS Directed.

25. Executing broker and clearing bank (if applicable)

26. Total net amount of the transaction

27. Sale lot disposition method, if different from the established policy of Lowest Cost.

28. Confirmation of DTC trades; please advise brokers to use the custodian s DTC ID system number to facilitate the receipt of information by the custodian. The Portfolio Manager will affirm trades to the custodian.

Commission Reporting

The Portfolio Manager is responsible for reporting the correct broker for all direct-commission trades on the trade tickets. As a follow-up procedure, The Fund Manager will summarize the accounting records and forward to the Portfolio Manager monthly. The Portfolio Manager is responsible for comparing their records to the accounting records and contacting the Fund Manager regarding discrepancies.

Trade Exception Processing

3. Revised or cancelled trades: the Portfolio Manager is responsible for notifying State Street Fund Accounting of revisions and/or cancellations on a timely basis. In addition, the Portfolio Manager is responsible for notifying State Street if the revised or cancelled trade pertains to a next day or current day settlement.

4. In the event, trades are sent after the 12:00 EST deadline, the Portfolio Manager is responsible for notifying the appropriate contact at State Street. If trades are received after 4:00 PM EST, State Street Fund Accounting will book trades on a best efforts basis.

State Street Delivery Instructions

DTC instructions:

For Liberty All Star Equity Fund

Depository Trust Company (DTC)

Participant # 0997

Agent Bank# 20997

Ref: C7R4

Physical Securities DVP/RVP

DTC/New York Window

55 Water Street

New York, NY 10041

Attn: Robert Mendes

Ref: Fund C7R4

Government issues delivered through Fed Book Entry

Boston Federal Reserve Bank

ABA 011000028

STATE ST BOS/SPEC/C7R4

Wire Instructions:

State Street Bank

ABA # 011000028

Ref: **Liberty All-Star Equity Fund**

Fund Number: C7R4

DDA # 4061767

Custodian (State Street Corporation)

Cash Availability: State Street will supply the portfolio manager with a cash availability report by 11:00 AM EST on a daily basis. This will be done by fax so that the Portfolio Manager will know the amount available for investment purposes.

Voluntary Corporate Actions

State Street will be responsible for notifying the Portfolio Manager of all voluntary corporate actions. The Portfolio Manager will fax instructions back to State Street to the fax number indicated on the corporate action notice.

Other Custodian Requirements

All trades must be transmitted to the custodian bank, State Street, via signed facsimile to 617-662-2342.

In the event there are no trades on a given day State Street needs to receive a signed fax indicating this.

State Street will need an authorized signature list from the Portfolio Manager.

State Street will need the daily contacts for corporate actions and trading from the Portfolio Manager (please notify SSC of any future changes).

LIBERTY ALL-STAR EQUITY FUND

PORTFOLIO MANAGEMENT AGREEMENT

SCHEDULE B

RECORDS TO BE MAINTAINED BY THE PORTFOLIO MANAGER

1. (Rule 31a-1(b)(5) and (6)) A record of each brokerage order, and all other portfolio purchases and sales, given by the Portfolio Manager on behalf of the Fund for, or in connection with, the purchase or sale of securities, whether executed or unexecuted. Such records shall include:

   A. The name of the broker;
   B. The terms and conditions of the order and of any modifications or cancellation thereof;
   C. The time of entry or cancellation;
   D. The price at which executed;
   E. The time of receipt of a report of execution; and
   F. The name of the person who placed the order on behalf of the Fund.

2. (Rule 31a-1(b)(9)) A record for each fiscal quarter, completed within ten (10) days after the end of the quarter, showing specifically the basis or bases upon which the allocation of orders for the purchase and sale of portfolio securities to named brokers or dealers was effected, and the division of brokerage commissions or other compensation on such purchase and sale orders. Such record:

   A. Shall include the consideration given to:

      (i) The sale of shares of the Fund by brokers or dealers.

      (ii) The supplying of services or benefits by brokers or dealers to:

         (a) The Fund;
         (b) The Fund Manager;
         (c) The Portfolio Manager; and
         (d) Any person other than the foregoing.

      (iii) Any other consideration other than the technical qualifications of the brokers and dealers as such.

   B. Shall show the nature of the services or benefits made available.

   C. Shall describe in detail the application of any general or specific formula or other determinant used in arriving at such allocation of purchase and sale orders and such division of brokerage commissions or other compensation.

   D. The name of the person responsible for making the determination of such allocation and such division of brokerage commissions or other compensation.

3. (Rule 31a-1(b)(10)) A record in the form of an appropriate memorandum identifying the person or persons, committees or groups authorizing the purchase or sale of portfolio securities. Where an authorization is made by a committee or group, a record shall be kept of the names of its members who participate in the authorization. There shall be retained as part of this record: any memorandum, recommendation or instruction supporting or authorizing the purchase or sale of portfolio securities and such other information as is appropriate to support the authorization.[1]
4. (Rule 31a-1(f)) Such accounts, books and other documents as are required to be maintained by registered investment advisers by rule adopted under Section 204 of the Investment Advisers Act of 1940, to the extent such records are necessary or appropriate to record the Portfolio Manager s transactions with the Fund.

[1] Such information might include: the current Form 10-K, annual and quarterly reports, press releases, reports by analysts and from brokerage firms (including their recommendation: i.e., buy, sell, hold) or any internal reports or portfolio manager reviews.

LIBERTY ALL-STAR EQUITY FUND

PORTFOLIO MANAGEMENT AGREEMENT

SCHEDULE C

PORTFOLIO MANAGER FEE

For services provided to the Portfolio Manager Account, the Fund Manager will pay to the Portfolio Manager, on or before the 10th day of each calendar month, a fee calculated and accrued daily and payable monthly by the Fund Manager for the previous calendar month at the annual rate of: 0.40% of the amount obtained by multiplying the Portfolio Manager s Percentage (as hereinafter defined) times the Average Total Fund Net Assets (as hereinafter defined) up to $400 million; 0.36% of the amount obtained by multiplying the Portfolio Manager s Percentage times the Average Total Fund Net Assets exceeding $400 million up to and including $800 million; 0.324% of the amount obtained by multiplying the Portfolio Manager s Percentage times the Average Total Fund Net Assets exceeding $800 million up to and including $1.2 billion; 0.292% of the amount obtained by multiplying the Portfolio Manager s Percentage times the Average Total Fund Net Assets exceeding $1.2 billion.

Portfolio Manager s Percentage means the percentage obtained by dividing (i) the average daily net asset values of the Portfolio Manager Account during the preceding calendar month, by (ii) the Average Total Fund Net Assets.

Average Total Fund Net Assets means the average daily net asset values of the Fund as a whole during the preceding calendar month.

The fee shall be pro-rated for any month during which this Agreement is in effect for only a portion of the month.

LIBERTY ALL-STAR EQUITY FUND

PORTFOLIO MANAGEMENT AGREEMENT

CORNERSTONE CAPITAL MANAGEMENT LLC

, 201x

Re: Portfolio Management Agreement

Ladies and Gentlemen:

Liberty All-Star Equity Fund (the Fund) is a diversified closed-end investment company registered under the Investment Company Act of 1940, as amended (the Act), and is subject to the rules and regulations promulgated thereunder.

ALPS Advisors, Inc. (the Fund Manager) evaluates and recommends portfolio managers for the assets of the Fund, and the Fund Manager or an affiliate of the Fund Manager is responsible for the day-to-day Fund administration of the Fund.

1. Employment as a Portfolio Manager. The Fund, being duly authorized, hereby employs Cornerstone Capital Management LLC (Portfolio Manager) as a discretionary portfolio manager, on the terms and conditions set forth herein, of that portion of the Fund s assets which the Fund Manager determines to assign to the Portfolio Manager (those assets being referred to as the Portfolio Manager Account). The Fund Manager may, from time to time, allocate and reallocate the Fund s assets among the Portfolio Manager and the other portfolio managers of the Fund s assets. The Portfolio Manager will be an independent contractor and will have no authority to act for or represent the Fund or the Fund Manager in any way or otherwise be deemed to be an agent of the Fund or the Fund Manager except as expressly authorized in this Agreement or in another writing by the Fund Manager and the Portfolio Manager. The Portfolio Manager s responsibilities for providing portfolio management services to the Fund shall be limited to the Portfolio Manager Account.

2. Acceptance of Employment; Standard of Performance. The Portfolio Manager accepts its employment as a discretionary portfolio manager and agrees to use its best professional judgment to make timely investment decisions for the Portfolio Manager Account in accordance with the provisions of this Agreement.

3. Portfolio Management Services of Portfolio Manager.

C. In providing portfolio management services to the Portfolio Manager Account, the Portfolio Manager shall be subject to the Fund s Declaration of Trust and By-Laws, as amended from time to time, investment objectives, policies and restrictions of the Fund as set forth in its Prospectus and Statement of Additional Information, as the same may be modified from time to time (together, the Prospectus), the investment objectives, policies and restrictions of the Fund as determined from time to time by the Board of Trustees, and the investment and other restrictions set forth in the Act and the rules and regulations thereunder, to the supervision and control of the Board of Trustees of the Fund, and to instructions from the Fund Manager. The Portfolio Manager shall not, without the prior approval of the Fund or the Fund Manager, effect any transactions that would cause the Portfolio Manager Account, treated as a separate fund, to be out of compliance with any of such restrictions or policies. The Portfolio Manager shall not consult with any other portfolio manager of the Fund concerning transactions for the Fund in securities or other assets.

D. As part of the services it will provide hereunder, the Portfolio Manager will:

(i) formulate and implement a continuous investment program for the Portfolio Manager Account;

(ii) take whatever steps are necessary to implement the investment program for the Portfolio Manager Account by arranging for the purchase and sale of securities and other investments;

(iii) keep the Fund Manager and the Board of Trustees of the Fund fully informed in writing on an

ongoing basis, as agreed by the Fund Manager and the Portfolio Manager, of all material facts concerning the investment and reinvestment of the assets in the Portfolio Manager Account, the Portfolio Manager and its key investment personnel and operations; make regular and periodic special written reports of such additional information concerning the same as may reasonably be requested from time to time by the Fund Manager or the Trustees of the Fund; attend meetings with the Fund Manager and/or Trustees, as reasonably requested, to discuss the foregoing and such other matters as may be requested by the Fund Manager or Trustees;

(iv) in accordance with procedures and methods established by the Trustees of the Fund, which may be amended from time to time, provide assistance in determining the fair value of all securities and other investments/assets in the Portfolio Manager Account, as necessary, and use reasonable efforts to arrange for the provision of valuation information or a price(s) from a party(ies) independent of the Portfolio Manager for each security or other investment/asset in the Portfolio Manager Account for which market prices are not readily available; and

(v) cooperate with and provide reasonable assistance to the Fund Manager, the Fund s administrator, custodian, transfer agent and pricing agents and all other agents and representatives of the Fund and the Fund Manager; keep all such persons fully informed as to such matters as they may reasonably deem necessary to the performance of their obligations to the Fund and the Fund Manager; provide prompt responses to reasonable requests made by such persons; and maintain any appropriate interfaces with each so as to promote the efficient exchange of information.

4. Transaction Procedures. All portfolio transactions for the Portfolio Manager Account will be consummated by payment to or delivery by the custodian of the Fund (the Custodian), or such depositories or agents as may be designated by the Custodian in writing, as custodian for the Fund, of all cash and/or securities due to or from the Portfolio Manager Account, and the Portfolio Manager shall not have possession or custody thereof or any responsibility or liability with respect to such custody. The Portfolio Manager shall advise and confirm in writing to the Custodian all investment orders for the Portfolio Manager Account placed by it with brokers and dealers at the time and in the manner set forth in Schedule A hereto (as amended from time to time by the Fund Manager). The Fund shall issue to the Custodian such instructions as may be appropriate in connection with the settlement of any transaction initiated by the Portfolio Manager. The Fund shall be responsible for all custodial arrangements and the payment of all custodial charges and fees, and, upon giving proper instructions to the Custodian, the Portfolio Manager shall have no responsibility or liability with respect to custodial arrangements or the acts, omissions or other conduct of the Custodian.

5. Allocation of Brokerage. The Portfolio Manager shall have authority and discretion to select brokers and dealers to execute portfolio transactions initiated by the Portfolio Manager for the Portfolio Manager Account, and to select the markets on or in which the transaction will be executed.

A. In doing so, the Portfolio Manager s primary responsibility shall be to seek to obtain best net price and execution for the Fund. However, this responsibility shall not obligate the Portfolio Manager to solicit competitive bids for each transaction or to seek the lowest available commission cost to the Fund, so long as the Portfolio Manager reasonably believes that the broker or dealer selected by it can be expected to obtain a best execution market price on the particular transaction and determines in good faith that the commission cost is reasonable in relation to the value of the brokerage and research services (as defined in Section 28(e)(3) of the Securities Exchange Act of 1934) provided by such broker or dealer to the Portfolio Manager viewed in terms of either that particular transaction or of the Portfolio Manager s overall responsibilities with respect to its clients, including the Fund, as to which the Portfolio Manager exercises investment discretion, notwithstanding that the Fund may not be the direct or exclusive beneficiary of any such services or that another broker may be willing to charge the Fund a lower commission on the particular transaction.

B. Subject to the requirements of paragraph A above, the Fund Manager shall have the right to request that transactions giving rise to brokerage commissions, in an amount to be agreed upon by the Fund Manager and the Portfolio Manager, shall be executed by brokers and dealers that provide brokerage or research services to the Fund Manager, or as to which an on-going relationship will be of value to the Fund in the

management of its assets, which services and relationship may, but need not, be of direct benefit to the Portfolio Manager Account. Notwithstanding any other provision of this Agreement, the Portfolio Manager shall not be responsible under paragraph A above with respect to transactions executed through any such broker or dealer.

C. The Portfolio Manager shall not execute any portfolio transactions for the Portfolio Manager Account with a broker or dealer which is an affiliated person (as defined in the Act) of the Fund, the Portfolio Manager or any other portfolio manager of the Fund without the prior written approval of the Fund. The Fund Manager will provide the Portfolio Manager with a list of brokers and dealers which are affiliated persons of the Fund or its portfolio managers.

6. Proxies. The Fund Manager will vote all proxies solicited by or with respect to the issuers of securities in which assets of the Portfolio Manager Account may be invested from time to time in accordance with such policies as shall be determined by the Fund Manager, and reviewed and approved by the Board of Trustees. Upon the written request of the Fund Manager, the Portfolio Manager will vote all proxies solicited by or with respect to the issuers of securities in which assets of the Portfolio Manager Account may be invested from time to time in accordance with such policies as shall be determined by the Fund Manager, and reviewed and approved by the Board of Trustees.

7. Fees for Services. The compensation of the Portfolio Manager for its services under this Agreement shall be calculated and paid by the Fund Manager in accordance with the attached Schedule C. Pursuant to the Fund Management Agreement between the Fund and the Fund Manager, the Fund Manager is solely responsible for the payment of fees to the Portfolio Manager, and the Portfolio Manager agrees to seek payment of its fees solely from the Fund Manager.

8. Other Investment Activities of Portfolio Manager. The Fund acknowledges that the Portfolio Manager or one or more of its affiliates has investment responsibilities, renders investment advice to and performs other investment advisory services for other individuals or entities (Client Accounts), and that the Portfolio Manager, its affiliates or any of its or their directors, officers, agents or employees may buy, sell or trade in any securities for its or their respective accounts (Affiliated Accounts). Subject to the provisions of paragraph 2 hereof, the Fund agrees that the Portfolio Manager or its affiliates may give advice or exercise investment responsibility and take such other action with respect to other Client Accounts and Affiliated Accounts which may differ from the advice given or the timing or nature of action taken with respect to the Portfolio Manager Account, provided that the Portfolio Manager acts in good faith, and provided further, that it is the Portfolio Manager s policy to allocate, within its reasonable discretion, investment opportunities to the Portfolio Manager Account over a period of time on a fair and equitable basis relative to the Client Accounts and the Affiliated Accounts, taking into account the cash position and the investment objectives and policies of the Fund and any specific investment restrictions applicable thereto. The Fund acknowledges that one or more Client Accounts and Affiliated Accounts may at any time hold, acquire, increase, decrease, dispose of or otherwise deal with positions in investments in which the Portfolio Manager Account may have an interest from time to time, whether in transactions which involve the Portfolio Manager Account or otherwise. The Portfolio Manager shall have no obligation to acquire for the Portfolio Manager Account a position in any investment which any Client Account or Affiliated Account may acquire, and the Fund shall have no first refusal, co-investment or other rights in respect of any such investment, either for the Portfolio Manager Account or otherwise.

9. Limitation of Liability. The Portfolio Manager shall not be liable for any action taken, omitted or suffered to be taken by it in its reasonable judgment, in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Agreement, or in accordance with (or in the absence of) specific directions or instructions from the Fund, provided, however, that such acts or omissions shall not have resulted from the Portfolio Manager s willful misfeasance, bad faith or gross negligence, a violation of the standard of care established by and applicable to the Portfolio Manager in its actions under this Agreement or breach of its duty or of its obligations hereunder (provided, however, that the foregoing shall not be construed to protect the Portfolio Manager from liability in violation of Section 17(i) of the Act).

10. Confidentiality. Subject to the duty of the Portfolio Manager, the Fund Manager and the Fund to comply with applicable law, including any demand of any regulatory or taxing authority having jurisdiction, the parties hereto shall treat as confidential all information pertaining to the Portfolio Manager Account and the actions of the Portfolio Manager and the Fund in respect thereof.

11. Assignment. This Agreement shall terminate automatically in the event of its assignment, as that term is defined in Section 2(a)(4) of the Act. The Portfolio Manager shall notify the Fund in writing sufficiently in advance of any proposed change of control, as defined in Section 2(a)(9) of the Act, as will enable the Fund to consider whether an assignment as defined in Section 2(a)(4) of the Act will occur, and whether to take the steps necessary to enter into a new contract with the Portfolio Manager. Should the Fund enter into a new contract with the Portfolio Manager in connection with an assignment, the Portfolio Manager agrees to pay all costs and expenses incurred by the Fund to obtain shareholder approval of the new contact, including costs associated with the preparation and mailing of the Fund s proxy statement and shareholder meeting and proxy solicitation fees.

12. Representations, Warranties and Agreements of the Fund. The Fund represents, warrants and agrees that:

A. The Portfolio Manager has been duly appointed to provide investment services to the Portfolio Manager Account as contemplated hereby.

B. The Fund will deliver to the Portfolio Manager a true and complete copy of its then current Prospectus as effective from time to time and such other documents governing the investment of the Portfolio Manager Account and such other information as is necessary for the Portfolio Manager to carry out its obligations under this Agreement.

13. Representations, Warranties and Agreements of the Portfolio Manager. The Portfolio Manager represents, warrants and agrees that:

A. It is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (Advisers Act) and will continue to be so registered for as long as this Agreement remains in effect.

B. It will maintain, keep current and preserve on behalf of the Fund, in the manner required or permitted by the Act and the rules and regulations thereunder, the records required to be so kept by an investment adviser of the Fund in accordance with applicable law, including without limitation those identified in Schedule B (as Schedule B may be amended from time to time by the Fund Manager). The Portfolio Manager agrees that such records are the property of the Fund, and will be surrendered to the Fund promptly upon request.

C. It has adopted a written code of ethics complying with the requirements of Rule 204A-1 under the Advisers Act and Rule 17j-1 under the Act and will provide the Fund Manager and the Board of Trustees with a copy of its code of ethics and evidence of its adoption. Within 45 days of the end of each year while this Agreement is in effect, or at any other time requested by the Fund Manager, an officer, director or general partner of the Portfolio Manager shall certify to the Fund that the Portfolio Manager has complied with the requirements of Rule 17j-1 and Rule 204A-1 during the previous year and that there has been no material violation of its code of ethics or, if such a violation has occurred, that appropriate action was taken in response to such violation. It will promptly notify the Fund Manager of any material change to its code of ethics or material violation of its code of ethics.

D. Upon request, the Portfolio Manager will promptly supply the Fund with any information concerning the Portfolio Manager and its stockholders, partners, employees and affiliates that the Fund may reasonably request in connection with the preparation of its registration statement (as amended from time to time), prospectus and statement of additional information (as supplemented and modified from time to time), proxy material, reports and other documents required to be filed under the Act, the Securities Act of 1933, or other applicable securities laws.

E. Reference is hereby made to the Declaration of Trust dated August 20, 1986 establishing the Fund, a copy of which has been filed with the Secretary of the Commonwealth of Massachusetts and elsewhere as required by law, and to any and all amendments thereto so filed or hereafter filed. The name Liberty All-Star Equity Fund refers to the Board of Trustees under said Declaration of Trust, as Trustees and not to the Trustees personally, and no Trustee, shareholder, officer, agent or employee of the Fund shall be held to any personal liability hereunder or in connection with the affairs of the Fund, but only the trust estate under said Declaration of Trust is liable under this Agreement. Without limiting the generality of the foregoing, neither the Portfolio Manager nor any of its officers, directors, partners, shareholders, agents or employees shall, under any circumstances, have recourse or cause or willingly permit recourse to be had directly or indirectly to any

personal, statutory, or other liability of any shareholder, Trustee, officer, agent or employee of the Fund or of any successor of the Fund, whether such liability now exists or is hereafter incurred for claims against the trust estate, but shall look for payment solely to said trust estate, or the assets of such successor of the Fund.

H. The Portfolio Manager shall maintain and implement compliance procedures that are reasonably designed to ensure its compliance with Rule 206(4)-7 of the Advisers Act and to prevent violations of the Federal Securities Laws (as defined in Rule 38a-1 under the Act).

G. The Portfolio Manager will: (i) on the cover page of each Form 13F that the Portfolio Manager files with the Securities and Exchange Commission (the SEC), check the 13F Combination Report box and on the Form 13F Summary Page identify ALPS Advisors, Inc. as another manager for which the Portfolio Manager is filing the Form 13F report; (ii) within 60 days after the end of each calendar year, provide the Fund Manager with a certification that the Portfolio Manager s Form 13F was filed with the SEC on a timely basis and included all of the securities required to be reported by the SEC; (iii) within 60 days after the end of each calendar year, provide to the Fund Manager a copy of each Form 13F, or amendment to a Form 13F filed by it during the prior four quarters; and (iv) promptly notify the Fund Manager in the event the Portfolio Manager determines that it has failed to comply with Section 13(f) in a material respect, or receives a comment letter from the SEC raising a question with respect to compliance.

H. The Portfolio Manager has adopted written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules promulgated thereunder and the Portfolio Manager agrees to provide: (a) from time to time, a copy and/or summary of such compliance policies and procedures and an accompanying certification certifying that the Portfolio Manager s compliance policies and procedures comply with the Advisers Act; (b) a report of the annual review determining the adequacy and effectiveness of the Portfolio Manager s compliance policies and procedures; and (c) the name of the Portfolio Manager s Chief Compliance Officer to act as a liaison for compliance matters that may arise between the Fund and the Portfolio Manager.

I. The Portfolio Manager will notify the Fund and the Fund Manager of any assignment of this Agreement or change of control of the Portfolio Manager, as applicable, and any changes in the key personnel who are either the portfolio manager(s) of the Portfolio Manager Account or senior management of the Portfolio Manager, in each case prior to or promptly after, such change. The Portfolio Manager agrees to bear all reasonable expenses of the Fund, if any, arising out of an assignment or change in control.

J. The Portfolio Manager agrees to maintain an appropriate level of errors and omissions or professional liability insurance coverage.

14. Amendment. This Agreement may be amended at any time, but only by written agreement among the Portfolio Manager, the Fund Manager and the Fund, which amendment, other than amendments to Schedules A, B and C, is subject to the approval of the Board of Trustees and the shareholders of the Fund as and to the extent required by the Act, the rules thereunder or exemptive relief granted by the SEC, provided that Schedules A and B may be amended by the Fund Manager without the written agreement of the Fund or the Portfolio Manager.

15. Effective Date; Term. This Agreement shall become effective on the date first above written, provided that this Agreement shall not take effect unless it has first been approved: (1) by a vote of a majority of the Trustees who are not interested persons (as defined in the Act) of any party to this Agreement (Independent Trustees), cast in person at a meeting called for the purpose of voting on such approval, and (ii) by vote of a majority of the outstanding voting securities (as defined in the Act) of the Fund. This Agreement shall continue for one year from the date of this Agreement and from year to year thereafter provided such continuance is specifically approved at least annually by (i) the Fund s Board of Trustees or (ii) a vote of a majority of the outstanding voting securities of the Fund, provided that in either event such continuance is also approved by a majority of the Independent Trustees, by vote cast in person at a meeting called for the purpose of voting on such approval. If the SEC issues an order to the Fund and the Fund Manager for an exemption from Section 15(a) of the Act, then, in accordance with the application of the Fund and the Fund Manager, the continuance of this Agreement after initial approval by the Trustees as set forth above, shall be subject to approval by a majority of the outstanding voting securities of the

Fund at the regularly scheduled annual meeting of the Fund s shareholders next following the date of this Agreement.

16. Termination. This Agreement may be terminated at any time by any party, without penalty, immediately upon written notice to the other parties in the event of a breach of any provision thereof by a party so notified, or otherwise upon not less than thirty (30) days written notice to the Portfolio Manager in the case of termination by the Fund or the Fund Manager, or ninety (90) days written notice to the Fund and the Fund Manager in the case of termination by the Portfolio Manager, but any such termination shall not affect the status, obligations or liabilities of any party hereto to the other parties.

17. Applicable Law. To the extent that state law is not preempted by the provisions of any law of the United States heretofore or hereafter enacted, as the same may be amended from time to time, this Agreement shall be administered, construed and enforced according to the laws of the Commonwealth of Massachusetts.

18. Severability; Counterparts. If any term or condition of this Agreement shall be invalid or unenforceable to any extent or in any application, then the remainder of this Agreement, and such term or condition except to such extent or in such application, shall not be affected thereby, and each and every term and condition of this Agreement shall be valid and enforced to the fullest extent and in the broadest application permitted by law. This Agreement may be executed in counterparts, each of which will be deemed an original and all of which together will be deemed to be one and the same agreement.

19. Use of Name. The Portfolio Manager agrees and acknowledges that the Fund Manager is the sole owner of the names and marks Liberty All-Star and All-Star , and that all use of any designation comprised in whole or in part of these names and marks shall inure to the benefit of the Fund Manager. Except as used to identify the Fund to third parties as a client, the use by the Portfolio Manager on its own behalf of such marks in any advertisement or sales literature or other materials promoting the Portfolio Manager shall be with the prior written consent of the Fund Manager. The Portfolio Manager shall not, without the consent of the Fund Manager, make representations regarding the Fund or the Fund Manager in any disclosure document, advertisement or sales literature or other materials promoting the Portfolio Manager. Consent by the Fund Manager shall not be unreasonably withheld. Upon termination of this Agreement for any reason, the Portfolio Manager shall cease any and all use of these marks as soon as reasonably practicable.

20. Notices. All notices and other communications hereunder shall be in writing, shall be deemed to have been given when received or when sent by U.S. mail, overnight carrier or facsimile, and shall be given to the following addresses (or such other addresses as to which notice is given):

To Fund Manager:

ALPS Advisors, Inc.

1290 Broadway, Suite 1100

Denver, Colorado 80203

Attn: General Counsel

Phone: (303) 623-2577

Fax: (303) 623-7850

To the Portfolio Manager:

Cornerstone Capital Management LLC

3600 Minnesota Drive, Suite 70

Edina, MN 55439

Attn:

Phone:

Fax:

****

LIBERTY ALL-STAR EQUITY FUND

By:
Name:
Title:

ALPS ADVISORS, INC.

By:
Name:
Title:

ACCEPTED:

CORNERSTONE CAPITAL MANAGEMENT LLC

By:
Name:
Title:

SCHEDULES:
A. Operational Procedures
B. Records To Be Maintained By The Portfolio Manager
C. Portfolio Manager Fee

LIBERTY ALL-STAR EQUITY FUND

PORTFOLIO MANAGEMENT AGREEMENT

SCHEDULE A

CORNERSTONE CAPITAL MANAGEMENT LLC

OPERATIONAL PROCEDURES

In order to minimize operational problems, the following represents a standard flow of information requirements. The Portfolio Manager must furnish State Street Corporation (accounting agent) with daily information as to executed trades, no later than 12:00 p.m. (EST) on trade date plus one day to ensure the information is processed in time for pricing. If there are no trades, a report must be sent to State Street stating there were no trades for that day.

The necessary information must be transmitted via facsimile machine to Max King at State Street at 617-662-2342 and contain an authorized signature.

Liberty All-Star Equity Fund trade reporting requirements:

29. Name of Fund & Portfolio Manager

30. Trade date

31. Settlement date

32. Purchase or sale

33. Security name/description

34. Cusip / sedol / or other numeric identifier

35. Purchase/sale price per share or unit

36. Interest purchased/sold (if applicable)

37. Aggregate commission amount

38. Indication as to whether or not commission amounts are ALPS Directed.

39. Executing broker and clearing bank (if applicable)

40. Total net amount of the transaction

41. Sale lot disposition method, if different from the established policy of Lowest Cost.

42. Confirmation of DTC trades; please advise brokers to use the custodian s DTC ID system number to facilitate the receipt of information by the custodian. The Portfolio Manager will affirm trades to the custodian.

Commission Reporting

The Portfolio Manager is responsible for reporting the correct broker for all direct-commission trades on the trade tickets. As a follow-up procedure, The Fund Manager will summarize the accounting records and forward to the Portfolio Manager monthly. The Portfolio Manager is responsible for comparing their records to the accounting records and contacting the Fund Manager regarding discrepancies.

Trade Exception Processing

5. Revised or cancelled trades: the Portfolio Manager is responsible for notifying State Street Fund Accounting of revisions and/or cancellations on a timely basis. In addition, the Portfolio Manager is responsible for notifying State Street if the revised or cancelled trade pertains to a next day or current day settlement.

6. In the event, trades are sent after the 12:00 EST deadline, the Portfolio Manager is responsible for notifying the appropriate contact at State Street. If trades are received after 4:00 PM EST, State Street Fund Accounting will book trades on a best efforts basis.

State Street Delivery Instructions

DTC instructions:

For Liberty All Star Equity Fund

Depository Trust Company (DTC)

Participant # 0997

Agent Bank# 20997

Ref: C7R1

Physical Securities DVP/RVP

DTC/New York Window

55 Water Street

New York, NY 10041

Attn: Robert Mendes

Ref: Fund C7R1

Government issues delivered through Fed Book Entry

Boston Federal Reserve Bank

ABA 011000028

STATE ST BOS/SPEC/C7R1

Wire Instructions:

State Street Bank

ABA # 011000028

Ref: **Liberty All-Star Equity Fund**

Fund Number: C7R1

DDA # 4061767

Custodian (State Street Corporation)

Cash Availability: State Street will supply the portfolio manager with a cash availability report by 11:00 AM EST on a daily basis. This will be done by fax so that the Portfolio Manager will know the amount available for investment purposes.

Voluntary Corporate Actions

State Street will be responsible for notifying the Portfolio Manager of all voluntary corporate actions. The Portfolio Manager will fax instructions back to State Street to the fax number indicated on the corporate action notice.

Other Custodian Requirements

All trades must be transmitted to the custodian bank, State Street, via signed facsimile to 617-662-2342.

In the event there are no trades on a given day State Street needs to receive a signed fax indicating this.

State Street will need an authorized signature list from the Portfolio Manager.

State Street will need the daily contacts for corporate actions and trading from the Portfolio Manager (please notify SSC of any future changes).

LIBERTY ALL-STAR EQUITY FUND

PORTFOLIO MANAGEMENT AGREEMENT

SCHEDULE B

RECORDS TO BE MAINTAINED BY THE PORTFOLIO MANAGER

1. (Rule 31a-1(b)(5) and (6)) A record of each brokerage order, and all other portfolio purchases and sales, given by the Portfolio Manager on behalf of the Fund for, or in connection with, the purchase or sale of securities, whether executed or unexecuted. Such records shall include:

   A. The name of the broker;
   B. The terms and conditions of the order and of any modifications or cancellation thereof;
   C. The time of entry or cancellation;
   D. The price at which executed;
   E. The time of receipt of a report of execution; and
   F. The name of the person who placed the order on behalf of the Fund.

2. (Rule 31a-1(b)(9)) A record for each fiscal quarter, completed within ten (10) days after the end of the quarter, showing specifically the basis or bases upon which the allocation of orders for the purchase and sale of portfolio securities to named brokers or dealers was effected, and the division of brokerage commissions or other compensation on such purchase and sale orders. Such record:

   A. Shall include the consideration given to:

      (i) The sale of shares of the Fund by brokers or dealers.

      (ii) The supplying of services or benefits by brokers or dealers to:

         (a) The Fund;
         (b) The Fund Manager;
         (c) The Portfolio Manager; and
         (d) Any person other than the foregoing.

      (iii) Any other consideration other than the technical qualifications of the brokers and dealers as such.

   B. Shall show the nature of the services or benefits made available.

   C. Shall describe in detail the application of any general or specific formula or other determinant used in arriving at such allocation of purchase and sale orders and such division of brokerage commissions or other compensation.

   D. The name of the person responsible for making the determination of such allocation and such division of brokerage commissions or other compensation.

3. (Rule 31a-1(b)(10)) A record in the form of an appropriate memorandum identifying the person or persons, committees or groups authorizing the purchase or sale of portfolio securities. Where an authorization is made by a committee or group, a record shall be kept of the names of its members who participate in the authorization. There shall be retained as part of this record: any memorandum, recommendation or instruction supporting or authorizing the purchase or sale of portfolio securities and such other information as is appropriate to support the authorization.[1]
4. (Rule 31a-1(f)) Such accounts, books and other documents as are required to be maintained by registered investment advisers by rule adopted under Section 204 of the Investment Advisers Act of 1940, to the extent such records are necessary or appropriate to record the Portfolio Manager s transactions with the Fund.

[1] Such information might include: the current Form 10-K, annual and quarterly reports, press releases, reports by analysts and from brokerage firms (including their recommendation: i.e., buy, sell, hold) or any internal reports or portfolio manager reviews.

LIBERTY ALL-STAR EQUITY FUND

PORTFOLIO MANAGEMENT AGREEMENT

SCHEDULE C

PORTFOLIO MANAGER FEE

For services provided to the Portfolio Manager Account, the Fund Manager will pay to the Portfolio Manager, on or before the 10th day of each calendar month, a fee calculated and accrued daily and payable monthly by the Fund Manager for the previous calendar month at the annual rate of: 0.40% of the amount obtained by multiplying the Portfolio Manager s Percentage (as hereinafter defined) times the Average Total Fund Net Assets (as hereinafter defined) up to $400 million; 0.36% of the amount obtained by multiplying the Portfolio Manager s Percentage times the Average Total Fund Net Assets exceeding $400 million up to and including $800 million; 0.324% of the amount obtained by multiplying the Portfolio Manager s Percentage times the Average Total Fund Net Assets exceeding $800 million up to and including $1.2 billion; 0.292% of the amount obtained by multiplying the Portfolio Manager s Percentage times the Average Total Fund Net Assets exceeding $1.2 billion.

Portfolio Manager s Percentage means the percentage obtained by dividing (i) the average daily net asset values of the Portfolio Manager Account during the preceding calendar month, by (ii) the Average Total Fund Net Assets.

Average Total Fund Net Assets means the average daily net asset values of the Fund as a whole during the preceding calendar month.

The fee shall be pro-rated for any month during which this Agreement is in effect for only a portion of the month.

recognizes repair revenues when the product is shipped back to the customer. Service revenues contribute less than 5% of total revenue and, therefore, are considered to be immaterial to overall financial results.

Loss Per Share from Continuing Operations

Basic loss per share from continuing operations is computed by dividing net loss from continuing operations by the weighted average common shares outstanding during a period. Diluted loss per share from continuing operations is based on the treasury stock method and includes the dilutive effect of stock options and warrants outstanding during the period. Common share equivalents have been excluded where their inclusion would be anti-dilutive. As a result of the losses from continuing operations incurred by the Company for the first quarter of 2010 and 2009, the potentially dilutive common shares have been excluded from the loss per share computation because their inclusion would have been anti-dilutive. The following table illustrates the computation of basic and diluted loss per share from continuing operations (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2010	**2009 (Restated)**
NUMERATOR:		
Net (loss) income	$ (952)	$ 4,837
Net income from discontinued and held for sale operations	682	6,937
Net loss from continuing operations	$ (1,634)	$ (2,100)
DENOMINATOR:		
Basic weighted average common shares outstanding	10,213	10,204
Effect of dilutive securities:		
Dilutive stock options and warrants		

Diluted weighted average common shares outstanding	10,213	10,204
Basic and diluted loss per share from continuing operations	$ (0.16)	$ (0.21)

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table shows the common stock equivalents that were outstanding as of March 31, 2010 and 2009, but were not included in the computation of diluted earnings per share because the options' or warrants' exercise price was greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive:

	Number of Shares	Range of Exercise Price Per Share
Anti-dilutive common stock options:		
As of March 31, 2010	683,425	$ 1.31 - $7.50
As of March 31, 2009	584,000	$ 1.88 - $7.50
Anti-dilutive common stock warrants:		
As of March 31, 2010	784,092	$ 4.13 - $4.31
As of March 31, 2009	1,804,000	$ 4.31 - $6.49

Recent Accounting Pronouncements

Adopted

None.

Issued, but not adopted

Revenue Recognition. In October 2009, the FASB issued an update to existing guidance on revenue recognition for arrangements with multiple deliverables. This update will allow companies to allocate consideration received for qualified separate deliverables using estimated selling prices for both delivered and undelivered items when vendor-specific objective evidence or third-party evidence is unavailable. Additional disclosures discussing the nature of multiple element arrangements, the types of deliverables under the arrangements, the general timing of their delivery, and significant factors and estimates used to determine estimated selling prices are required. The Company will adopt this update for new revenue arrangements entered into or materially modified beginning January 1, 2011. The Company is still evaluating the impact, if any, of the adoption of this new revenue recognition guidance on its consolidated financial statements.

NOTE 2 GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared in conformity with GAAP, which contemplate the continuation of the Company as a going concern. The Company reported a net loss for the three months ended March 31, 2010 of $1.0 million. Included in net loss was a $0.5 million loss from discontinued operations related to the disposition of the Company's RO Operations (see Note 3). Absent this loss, the Company still would have incurred a $0.5 million net loss for the three months ended March 31, 2010. Primarily as a result of the reclassification of the majority of its debt from long to short term during 2009, the Company also reported negative working capital from continuing operations of $4.0 million at March 31, 2010 and negative working capital from continuing operations of $3.5 million at December 31, 2009. The Company's current business plan for the next 12 months requires additional funding beyond its anticipated cash flows from operations.

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2 GOING CONCERN (Continued)

These and other factors described in more detail below raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The ability of the Company to continue as a going concern is dependent upon its ability to (i) achieve the milestones related to sale of a significant portion of its assets as required by the Credit Agreement between now and June 30, 2010, (ii) repay the credit facility in full on or prior to its maturity on June 30, 2010, (iii) obtain alternate financing to fund operations after the credit facility is paid in full and (iv) achieve profitable operations.

The Company is working on an amendment to extend certain of the milestones to have been achieved the week of this filing with an indication from the lender such extension will be acceptable. The Company expects to sign a formal amendment this week, but there can be no guarantees that such amendment will be successfully or timely completed.

If the Company's net losses continue, it may experience negative cash flow, which may prevent the Company from continuing operations. If the Company is not able to attain, sustain or increase profitability on a quarterly or annual basis, it may not be able to continue operations.

Upon the occurrence and during the continuation of an event of default, the lender may also elect to increase the interest rate applicable to the outstanding balance of the Term Loans A and B by four percentage points above the per annum interest rate that would otherwise be applicable. Additionally, if the lender terminates the credit facility during a default period then the Company is subject to a penalty equal to 2% of the outstanding principal balance of the Revolver and the Term Loans.

If the Company (i) defaults under the Credit Facility for any reason, including failing to successfully amend the Credit Agreement to extend sale related milestones or missing a milestone, (ii) is unable to timely sell assets at sufficient prices to repay its obligations in full, (iii) cannot borrow funds under the terms of the Revolver, for any reason, or (iv) fails to obtain alternate financing to replace its credit facility or a new revolving facility once the current credit facility is paid in full, then the Company does not believe that current and future capital resources, revenues generated from operations and other existing sources of liquidity will be adequate to meet its anticipated short term, working capital and capital expenditure needs for the next 12 months. Further, if any of these occur for any reason, or if the Company experiences a significant loss of revenue or increase in costs, then its cash flow would be negatively impacted resulting in a cash flow deficit. A cash flow deficit will require the Company to seek additional or alternate financing, with little or no notice which would be difficult to obtain in these economic conditions and the Company's anticipated financial condition in such circumstances. To address these potential financing needs the Company may have to explore a revised debt structure with its current lender; additional or new financing with another lender or lenders; expedite the sale of assets to generate cash; or expedite the sale of equity to raise capital. Successfully executing these strategies is uncertain and there are many risks associated with attempting to execute each, in addition to the risks and uncertainties of the short and long term impact of executing on any of these strategies. Failure to meet the Company's financing requirements, if and when needed, would have an adverse effect on the Company's operations and/or ability to do business after that date or could restrict its growth, limit the development of new products, hinder its ability to fulfill existing or future orders or negatively affect its ability to secure new customers or product orders.

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2 GOING CONCERN (Continued)

If the Company is unsuccessful in securing the necessary financing to continue operations, when needed, then it may be forced to seek protection under the U.S. Bankruptcy Code or be forced into liquidation or substantially restructuring or altering its business operations and/or debt obligations.

NOTE 3 DISCONTINUED OPERATIONS

RO Associates

On March 22, 2010, EEC, a wholly-owned subsidiary of the Company, entered into and consummated the closing under an asset purchase agreement by and among Astrodyne Corporation ("Astrodyne"), RO, and EEC dated March 22, 2010 (the "Purchase Agreement") pursuant to which Astrodyne purchased substantially all of the assets, properties, and business as a going concern of RO. The assets of RO that were sold and transferred to Astrodyne include, but are not limited to, the following: (i) machinery and equipment; (ii) raw materials, work-in-process, and finished goods relating to RO; (iii) tangible personal property, such as office furniture and equipment; (iv) advance payments, rental deposits, and other similar assets; (v) rights to payments from customers; (vi) books and records; (vii) rights under certain contracts; (viii) intangible rights and property, such as goodwill and rights in and to the name "RO Associates," product names, trade names, trademarks, fictitious names and service marks; (ix) information and data; (x) unfilled purchase and sale orders; (xi) governmental authorizations relating to RO's business and pending applications in connection with such authorizations; (xii) RO's rights to its business of manufacturing and selling standard, high-density AC to DC, and DC to DC converters (the "Business"); and (xiii) all claims, causes of action, and judgments relating to the Business. Such sale and transfer was deemed to be a disposition of an insignificant amount of assets by the Company and EEC. RO retained certain rights, as fully described in the Purchase Agreement, including certain records, rights to benefits plans and insurance policies and proceeds, and certain assets.

As part of the transactions contemplated by the Purchase Agreement, Astrodyne assumed certain specified liabilities of RO pursuant to an Assignment and Assumption Agreement by and between Astrodyne and RO (the "Assignment and Assumption Agreement"). Pursuant to the Purchase Agreement, EEC also agreed to guarantee the full, complete, and timely compliance with and performance of all agreements, covenants and obligations of RO in connection with the RO Transaction.

Astrodyne paid RO an aggregate purchase price for the RO Transaction of $1,000,000, plus the assumption of certain assumed liabilities pursuant to the Assignment and Assumption Agreement, subject to a purchase price adjustment. As additional consideration for Astrodyne's entry into the Purchase Agreement and consummation of the contemplated transactions under such agreement, EEC and RO agreed that, for a certain period immediately following the closing date, they would not compete with the Business, perform services for any person in competition with the Business or solicit certain specified customers of the Business, or hire any employees of Astrodyne or its affiliates.

In connection with the Company's divestiture of RO, which comprised a portion of the Company's electronic devices segment, the Company incurred approximately $0.4 million in charges relating to legal, accounting and investment banking fees. The Company does not expect to incur any additional costs associated with this transaction. The Company incurred a loss on the sale of the RO assets of approximately $0.5 million.

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 3 DISCONTINUED OPERATIONS (Continued)

The Company has classified RO, which is a component of its electronic devices segment, as discontinued operations in the accompanying consolidated financial statements for all periods presented.

The following table summarizes the results from discontinued operations for the three months ended March 31, 2010 and 2009 (in thousands):

	2010	2009 (Restated)
Net Sales	$ 442	$ 643
Income (loss) from operations	$ 211	$ (535)
Other income (expense)		(1)
Loss on sale of RO Operations	(450)	
Net loss	$ (239)	$ (536)
Loss per share:		
Basic	$ (0.02)	$ (0.05)
Diluted	$ (0.02)	$ (0.05)
Weighted average shares outstanding		
Basic	10,213	10,204
Diluted	10,213	10,204

The following table reflects the major classes of assets and liabilities of the RO Operations at the balance sheet date for the periods presented (in thousands):

	March 31, 2010	December 31, 2009
Cash and cash equivalents	$	$ (24)
Accounts receivable, net		431
Inventory, net		1,059
Prepaids and other current assets		31
Total current assets	$	$ 1,497
Total current liabilities	$	$ 745

Assets Held for Sale

In connection with Amendment 8 and the associated Amendments Number 9 and 10, entered into in April, 2010 and May, 2010, respectively, as discussed above, the Company is required to sell a significant portion of its assets in order to repay the debt obligations owed to Lender. The Company has identified multiple assets it intends to market for sale. The assets identified as held for sale represent a substantial portion of the Company's assets in primarily the electronic devices segment. These assets contributed approximately $20 million of net sales or 37% of the Company's net sales and

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 3 DISCONTINUED OPERATIONS (Continued)

operating income of approximately $3 million of the Company's total operating income from continuing operations of $1.4 million for 2009.

The Company has classified these identified assets, which are a component of its electronic devices segment, as discontinued and held for sale operations in the accompanying condensed consolidated financial statements for all periods presented.

The following table summarizes the results from the identified assets held for sale for the three months ended March 31, 2010 and 2009 (in thousands):

	2010	2009 (restated)
Net Sales	$ 5,210	$ 5,049
Income from operations	$ 1,259	$ 832
Other expense	(108)	(10)
Provision for income taxes	230	44
Net income	$ 921	$ 778
Earnings per share:		
Basic	$ 0.09	$ 0.08
Diluted	$ 0.09	$ 0.08
Weighted average shares outstanding		
Basic	10,213	10,204
Diluted	10,213	10,204

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 3 DISCONTINUED OPERATIONS (Continued)

The following table reflects the major classes of assets and liabilities, by segment, classified as held for sale for the periods presented (in thousands):

	Electronic Devices Segment	
	March 31, 2010	December 31, 2009
Cash and cash equivalents	$ 8	$ 52
Accounts receivable, net	2,961	2,189
Inventory, net	2,501	2,495
Prepaids and other current assets	129	136
Total current assets	5,599	4,872
Property, plant and equipment, net	1,256	1,326
Goodwill	12,020	12,755
Intangible assets other than goodwill, net	3,698	3,773
Other	60	60
Total assets	$ 22,633	$ 22,786
Total current liabilities	$ 9,238	$ 9,094
Total long-term liabilities	$ 35	$ 62

NOTE 4 STOCK-BASED COMPENSATION

The Company has five stock option plans:

Employee Stock and Stock Option Plan, effective July 1, 1994;

1993 Stock Option Plan;

1997 Stock Incentive Plan;

Amended and Restated 2000 Stock Option Plan; and

2007 Stock Incentive Plan.

The board of directors does not intend to issue any additional options under the Employee Stock and Stock Option Plan, 1993 Stock Option Plan, 1997 Stock Incentive Plan or Amended and Restated 2000 Stock Option Plan.

Total stock-based compensation expense included in wages, salaries and related costs was $36,000 and $34,000 for the three months ended March 31, 2010 and 2009, respectively. These compensation expenses were charged to selling, general and administrative expenses. As of March 31, 2010, the Company had $198,000 of total unrecognized compensation expense related to stock option grants, which will be recognized over the remaining weighted average period of two years.

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value) and consisted of the following (in thousands):

	March 31, 2009	December 31, 2009
Raw materials	$ 6,230	$ 6,690
Work-in-process	1,820	2,121
Finished goods	3,201	3,273
Reserves	(3,939)	(4,054)
Total inventories	$ 7,312	$ 8,030

NOTE 6 OPERATING SEGMENTS

The Company has two reportable operating segments: electronic devices and communications equipment. The electronic devices segment manufactures and markets electronic power supplies, RF and microwave devices and subsystem assemblies. The electronic devices segment consists of the Company's three electronic device subsidiaries, one located in the U.S. and two located in England, all of which offer the same or similar products to the same or similar customers. The communications equipment segment designs, manufactures and distributes network access products and timing and synchronization products. The communications equipment segment consists of operating entities CXR Larus Corporation located in the U.S. and CXR Anderson Jacobson located in France, both of which offer the same or similar products to similar customers. Both segments operate primarily in the U.S. and European markets, but they have distinctly different customers, design and manufacturing processes and marketing strategies. Each segment has discrete financial information and a separate management structure.

The Company evaluates performance based upon contribution margin of the segments and also upon profit or loss from operations before income taxes exclusive of nonrecurring gains and losses. The Company accounts for intersegment sales at pre-determined prices negotiated between the individual segments.

During the first quarter of 2010, the Company sold its RO Operations (see Note 3), which were part of its electronic devices segment. This transaction resulted in differences in the basis of segmentation from the amounts disclosed in the Company's unaudited condensed consolidated financial statements included in its quarterly report on Form 10-Q for the three months ended March 31, 2009. The RO Operations were included as discontinued and held for sale operations at December 31, 2009. Additionally, at March 31, 2010, the Company had classified certain additional assets within its electronic devices segment as assets held for sale in the accompanying consolidated financial statements. In this report, the RO Operations and the certain identified assets held for sale are reported as discontinued and held for sale operations and are excluded from the electronics devices segment. Therefore, prior period amounts have been adjusted to conform to this presentation.

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6 OPERATING SEGMENTS (Continued)

Selected financial data for each of the Company's operating segments reconciled to the consolidated totals is shown below (in thousands):

	Three Months Ended March 31,	
	2010	2009 (restated)
Net sales		
Electronic devices	$ 4,437	$ 5,903
Communications equipment	2,655	2,618
Net sales from continuing operations	7,092	8,521
Discontinued and held for sale operations	5,652	5,692
Total net sales	$ 12,744	$ 14,213
Operating income (loss)		
Electronic devices	$ 476	$ 1,265
Communications equipment	(478)	(452)
Corporate and other	(1,103)	(1,222)
Operating loss from continuing operations	(1,105)	(409)
Discontinued and held for sale operations	1,470	297
	$ 365	$ (112)

	March 31, 2010	December 31, 2009
Total assets		
Electronic devices	$ 12,045	$ 13,783
Communications equipment	7,446	8,439
Corporate and other	3,355	3,772
Total assets from continuing operations	22,846	25,994
Discontinued and held for sale operations	22,633	24,283
Total assets	$ 45,479	$ 50,277

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7 GOODWILL

The following table reflects changes in our goodwill balances, by segment, for the three months ended March 31, 2010 (in thousands):

	Electronic Devices	Communications Equipment	Total
Balance at December 31, 2009	$ 2,878	$	$ 2,878
Allocation of goodwill to continuing operations	655		655
Foreign currency translation	(49)		(49)
Balance at March 31, 2009	$ 3,484	$	$ 3,484

NOTE 8 INCOME TAXES

The effective tax rate for the three month period ended March 31, 2010 was different than the 34% U.S. statutory rate primarily because the Company's foreign entities generate a tax obligation and related tax expense as a result of their net income, which cannot be offset by U.S. tax loss carryforwards.

The Company's business is subject to regulation under a wide variety of U.S. federal, state and foreign tax laws, regulations and policies. The majority of the Company's foreign subsidiaries have earnings and profits that are reinvested indefinitely. However, under the credit facility described in Notes 9 and 10, the foreign subsidiaries have issued guarantees on the credit facility and, as a result, under IRC §956, have been deemed to have distributed these earnings to fund U.S. operations. This has resulted in U.S. federal taxable income and an increase in U.S. tax liability, which has been reduced through utilization of available net operating loss carryforwards and foreign tax credits.

The Company adopted FASB guidance for accounting for uncertainty in income taxes on January 1, 2007. The implementation of this guidance did not result in a material adjustment to the Company's liability for unrecognized income tax benefits. At the time of adoption and as of December 31, 2009, the Company had recorded no net unrecognized tax benefits. The Company currently has no open matters with tax authorities nor is it engaged in an examination by any tax authority. The Company recognizes interest and penalties related to uncertain tax positions in interest expense and selling, general and administrative expense, respectively, in the condensed consolidated statements of operations and comprehensive income. No interest or penalties were recognized during the first quarter of 2010. As of March 31, 2010, the Company had nothing accrued for interest and penalties.

The Company files income tax returns in the United States federal jurisdiction, the United Kingdom and France, and in the state jurisdictions of California, Texas, Pennsylvania and New Jersey. The Company is no longer subject to United States federal and state tax examinations for years before 2006 and 2005, respectively, and is no longer subject to tax examinations for the United Kingdom and Japan for years prior to 2008, and for France for years prior to 2006.

NOTE 9 LINE OF CREDIT

The Company and certain of its subsidiaries, including EEC and CXR Larus Corporation, CCI, ACC and EMRISE Power Systems, Incorporated (collectively, the "Borrowers"), are parties to a Credit

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 9 LINE OF CREDIT (Continued)

Agreement (as amended from time to time, the "Credit Agreement") with GVEC Resource IV Inc. (the "Lender") providing for a credit facility which includes term loans and a revolving credit facility and is secured by accounts receivable, other rights to payment and general intangibles, inventories and equipment. The credit facility includes a revolving credit facility for up to $7,000,000 that expires on June 30, 2010 (the "Revolver").

The Revolver is formula-based and generally provides that the outstanding borrowings under the line of credit may not exceed an aggregate of 85% of eligible accounts receivable, plus 10% of the value of eligible raw materials not to exceed $600,000, plus 50% of the value of eligible finished goods inventory not to exceed $1,500,000, minus the aggregate amount of reserves that may be established by the Lender.

Interest on the Revolver is payable monthly. The interest rate is variable and is adjusted monthly based on the prime rate as published in the "Money Rates" column of *The Wall Street Journal* (the "Base Rate") plus 1.25%, subject to a minimum rate of 9.5% per annum. The interest rate in effect as of December 31, 2009 was the minimum rate of 9.5%. The Revolver is subject to the Borrowers not incurring capital expenditures in excess of $1,800,000 for the fiscal year ending December 31, 2010. Additionally, the Revolver is subject to the Borrowers not incurring unfinanced capital expenditures in excess of $62,500 in any fiscal quarter and the Borrowers not incurring purchase money commitments in excess of $2 million over the life of the facility. However, if the Borrowers incur unfinanced capital expenditures of less than $62,500 in any fiscal quarter, the difference between the amount incurred in a certain fiscal quarter and $62,500 maybe incurred in the two fiscal quarters immediately following such fiscal quarter. The Company was in compliance with these covenants at March 31, 2010.

As of March 31, 2010, the Company had outstanding borrowings of $3.7 million under the Revolver with remaining availability under the formula-based calculation of $3.3 million.

In connection with entering into the Credit Agreement, the Borrowers issued a Revolver Loan Note dated November 30, 2007 (the "Revolver Note") to the Lender in the principal amount of $7,000,000. The Revolver Note is governed by the terms of the Credit Agreement.

See related Note 2 "Going Concern" and Note 10 "Debt" regarding additional terms and conditions associated with the overall credit facility and risks associated with this credit facility.

NOTE 10 DEBT

The credit facility, as described in Note 9, consists of (i) the Revolver (see Note 10 "Lines of Credit"), (ii) a term loan in the original principal amount of $6 million, of which $5.4 million was outstanding as of March 31, 2010 and is due June 30, 2010 ("Term Loan A"), (iii) a term loan in the original principal amount of $10 million, of which $2.5 million was outstanding as of December 31, 2009 and is due on June 30, 2010 ("Term Loan B"), and (iv) Term Loan C, which originally provided for a principal amount of $3 million and has since been retired. Term Loan A was fully funded on November 30, 2007 while Term Loans B and C were fully funded on August 20, 2008 in connection with the acquisition of ACC. $6.8 million of Term Loan B and all of Term Loan C was repaid in March 2009, in connection with the sale of the Company's Digitran Operations. Term Loan A and Term Loan B require an aggregate scheduled principal payment of $75,000 bi-weekly beginning on February 1, 2010

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 10 DEBT (Continued)

through the maturity date of June 30, 2010. The facility also requires monthly interest payments and a final balloon payment of $7.4 million upon maturity on June 30, 2010.

The Term Loans A and B bear interest at the Base Rate plus 4.25%, subject to a minimum rate of 12.5% per annum, and required interest only payments in the first year, scheduled principal plus interest payments in years two and three, and a final balloon payment at June 30, 2010. Interest on the Term Loans is payable monthly.

As part of the consideration for entering into the Credit Agreement, the Company issued warrants to purchase 788,000 shares of the Company's common stock with a fair value of $1.5 million, which is accounted for as a discount to the Credit Facility and is amortized over the term of the Credit Agreement. See Note 11.

Upon the sale or disposition by the Borrowers or any of their subsidiaries of property or assets, the Borrowers may be obligated to prepay the Revolver and the term loans with the net cash proceeds received in connection with such sales or dispositions to the extent that the aggregate amount of net cash proceeds received, and not paid to the Lender as a prepayment, for all such sales or dispositions exceed $150,000 in any fiscal year. However, in order to repay its obligations, the Borrowers agreed to sell a significant portion of its assets in 2010. As discussed further in Note 3, these assets contributed approximately $20 million of net sales or 37% of the Company's net sales and operating income of approximately $3 million of the Company's total operating income from continuing operations of $1.4 million for 2009. The Company will retain a percentage of the proceeds of some of such sales for working capital and pursuant to the agreement, will use the remaining proceeds to pay down the obligations owed to the Lender.

If the Lender terminates the credit facility during a default period, then the Company is subject to a penalty equal to 2% of the outstanding principal balance of the Revolver and the Term Loans. The Revolver is subject to an unused line fee of 0.5% per annum, payable monthly, on any unused portion of the revolving credit facility.

In the event of a default and continuation of a default, the Lender may accelerate the payment of the principal balance requiring the Company to pay the entire indebtedness outstanding on that date. Upon the occurrence and during the continuation of an event of default, the Lender may also elect to increase the interest rate applicable to the outstanding balance by four percentage points above the per annum interest rate that would otherwise be applicable.

Pursuant to a January 2010 amendment to the Credit Facility, the Borrowers have agreed with the Lender that it has the right to appoint an outside observer to review the Borrower's books and records and business operations, with certain limitations designed to minimize disruption to the business operations of the Borrowers. In addition, pursuant to that amendment, certain fees (including a $200,000 advisory fee arising in connection with that amendment, which is recorded in accrued expenses in the accompanying consolidated balance sheet) and certain expenses owed by the Borrowers have been deferred until the Maturity Date. In connection with a recent amendment, and the associated Amendments Number 9 and 10, entered into in April, 2010 and May, 2010, respectively, the Borrowers agreed to sell a significant portion of its assets by June 30, 2010 and committed to certain milestone events associated with the sales process. Failure to achieve these milestones and/or failure to sell the required assets by the agreed upon dates, can result in a default under the Credit Agreement.

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 10 DEBT (Continued)

The Borrowers are also obligated to provide financial information and status reports to the Lender on a regular basis.

The Company is working on an amendment to extend certain of the milestones to have been achieved the week of this filing with an indication from the lender such extension will be acceptable. The Company expects to sign a formal amendment this week, but there can be no guarantees that such amendment will be successfully or timely completed.

See Note 2 and Note 9 regarding additional terms and conditions associated with the Company's credit facility and risks associated with this credit facility.

NOTE 11 WARRANTS

In connection with entering into the credit facility (discussed in Note 11), the Company issued a seven year warrant to Private Equity Management Group, Inc. ("PEM Group"), an affiliate of the Lender, to purchase up to 775,758 shares of the Company's common stock on a cash or cashless basis at an original exercise price of $4.13 per share, (which amount reflects the Company's 1-for-3.75 reverse split of its common stock effective November 18, 2008). The estimated fair value of the warrants was $1.5 million, which was calculated using the Black-Scholes pricing model. The warrants were originally accounted for as debt discount and the adjustment resulting from the repricing of the warrants increased the debt discount, which is being amortized over the remaining life of the credit facility. The warrants were previously recorded in stockholder's equity.

In February 2009, the warrants were amended and reissued in conjunction with an amendment to the credit facility. Pursuant to the Second Amendment to Loan Documents, the original warrant was divided into two warrants (each, a "Second Amended and Restated Warrant" and collectively, the "Second Amended and Restated Warrants"). Each Second Amended and Restated Warrant covers 387,879 shares of the Company's common stock (which amount reflects the Company's 1-for-3.75 reverse split of its common stock effective November 18, 2008). One of the Second Amended and Restated Warrants provides for an exercise price of $1.99 per share (which amount reflects the Company's 1-for-3.75 reverse split of its common stock effective November 18, 2008). The other Second Amended and Restated Warrant provides for an exercise price of $1.80 per share (which amount reflects the Company's 1-for-3.75 reverse split of its common stock effective November 18, 2008 and a reduction from a post-split exercise price of $3.06 per share).

The exercise price and/or number of shares of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances, including certain issuances of securities at a price equal to less than the then current exercise price, subdivisions and stock splits, stock dividends, combinations, reorganizations, reclassifications, consolidations, mergers or sales of properties and assets and upon issuance of certain assets or securities to holders of the Company's common stock, as applicable. On January 1, 2009, the Company adopted FASB updates which affected how instruments indexed to an entity's own stock are accounted for. The adoption of the revised FASB guidance resulted in the reclassification of the PEM Group warrants from stockholders' equity to liabilities, and now requires that the warrants to be fair valued pursuant to "mark to market" provisions at each reporting period, with the changes in fair value recognized in the Company's consolidated statement of operations.

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 11 WARRANTS (Continued)

At March 31, 2010 and December 31, 2009, the Company had warrants subject to "mark to market" provisions outstanding to purchase 775,758 shares of common stock. The Company computed the fair value of the warrants using a Black-Scholes valuation model. The fair value of these warrants on the date of adoption of March 31, 2010 and on December 31, 2009 was determined using the following assumptions:

	March 31, 2010	December 31, 2009
Dividend yield	None	None
Expected volatility	78%	71%
Risk-free interest rate	1.02%	1.14%
Expected term	7 years	7 years
Stock price	$ 1.05	$ 0.76

As of and for the quarter ended March 31, 2010, the change in fair value of the warrants resulted in a $208,000 adjustment to other income (expense) in the condensed consolidated statement of operations and a corresponding increase to the warrant liability.

NOTE 12 FAIR VALUE MEASUREMENTS

FASB guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants and also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between three levels of inputs that may be utilized when measuring fair value as follows:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2 Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3 Inputs that are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

As of January 1, 2009 the Company was required to apply updated FASB guidance to the derivative that is within the warrant that was issued as consideration for the Company's credit facility, which is discussed in Note 10 and included as a discount on the Company's long-term debt. The

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EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 12 FAIR VALUE MEASUREMENTS (Continued)

derivative was valued using the Black-Scholes model. The key inputs in the model at March 31, 2010 are as follows:

	March 31, 2010
Dividend yield	None
Expected volatility	78%
Risk-free interest rate	1.02%
Expected term	7 years
Stock price	$ 1.05

The derivative is measured at fair value on a recurring basis using significant observable inputs (Level 2). The amount of total gain in earnings for the period is as follows:

	Warrant Liability
Beginning balance at December 31, 2009	$ 292
Total loss realized in earnings	208
Ending balance at March 31, 2010	$ 500

NOTE 13 SUBSEQUENT EVENTS

Amendment to Credit Facility

The Borrowers and the Lender entered into Amendment Number 10 to Loan Documents ("Amendment 10"), which amends the Credit Agreement as of May 3, 2010. Among other things, Amendment 10 modifies the schedule for certain milestone events related to the process for the sale of certain assets of the Borrowers.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Cautionary Statement

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q. The information contained in this report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Quarterly Report on Form 10-Q and in our other reports filed with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for the year ended December 31, 2009 and subsequent reports on Forms 10-Q and 8-K, which discuss our business in greater detail. This report and the following discussion contain forward-looking statements, which generally include the plans, objectives and expectations of management for future operations, including plans, objectives and expectations relating to our future economic performance and our current beliefs regarding revenues we might generate and profits we might earn if we are successful in implementing our business and growth strategies. The forward-looking statements and associated risks may include, relate to or be qualified by other important factors, including, without limitation:

our ability to continue to borrow funds under the revolver terms of our credit facility (see " Liquidity and Capital Resources");

our ability to sell assets and achieve the milestones for such transactions, as required by our Lender under the terms of the credit facility;

the ongoing revenues and profitability of the Company will be substantially reduced as a result of our sale of a significant portion of the Company's assets in order to satisfy our debt obligations. This could have a material adverse effect on the Company's operations, financial condition and ability to continue operations;

our ability to find and secure alternate financing to our current credit facility on or before June 30, 2010, including a replacement revolver facility in the event the obligations under the current facility are paid in full;

exposure to and impacts of various international risks including legal, business, political and economic risks associated with our international operations, also including the impact of foreign currency translation (see " Foreign Currency Translation");

the projected growth or contraction in the electronic devices and communications equipment markets in which we operate;

our strategies for expanding, maintaining or contracting our presence in these markets;

anticipated and unanticipated trends in our financial condition and results of operations;

our ability to meet our working capital and other financing needs;

our ability to distinguish ourselves from our current and future competitors;

our ability to secure long term purchase orders;

our ability to deliver against existing or future backlog;

technical or quality issues experienced by us, our suppliers and/or our customers;

failure to comply with existing or future government or industry standards and regulations;

our ability to successfully locate, acquire and integrate any possible future acquisitions;

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our ability to successfully support the working capital needs of our company;

the impact of current and/or future economic conditions, including but not limited to the overall condition of the stock market, the overall credit market, the global recession, political, economic and/or other constraints which are or may negatively impact the industries in which we participate and/or the ability for us to market the products which we sell; and

our ability to successfully compete against competitors that in many cases are larger than we, have access to significantly more working capital than we and have significant resources in comparison to us.

We do not undertake to update, revise or correct any forward-looking statements.

Any of the factors described above or in the "Risk Factors" sections contained in our Annual Report on Form 10-K for the year ended December 31, 2009 and in this report could cause our financial results, including our net income or loss or growth in net income or loss to differ materially from prior results, which in turn could, among other things, cause the price of our common stock to fluctuate substantially.

Business Description

We design, manufacture and market proprietary electronic devices and communications equipment for aerospace, defense, industrial, and communications applications. We have operations in the U.S., England, and France. We organize our business in two operating segments: electronic devices and communications equipment. In the first quarter of 2010, our electronic devices segment contributed approximately 63% of overall net sales while the communications segment contributed approximately 37% of overall net sales. Our subsidiaries within our electronic devices segment design, develop, manufacture and market power supplies, radio frequency, or RF, and microwave devices for defense, aerospace and industrial markets. Our subsidiaries within our communications equipment segment design, develop, manufacture and market network access equipment, including network timing and synchronization products, for communications applications in defense, public and private networks and industrial markets.

Within our electronic devices segment, we produce a range of power systems and RF and microwave devices. This segment is primarily "project" driven with the majority of revenues being derived from custom products with long life cycles and high barriers to entry. The majority of manufacturing and testing is performed in-house or through sub-contract manufacturers. Our electronic devices are used in a wide range of military airborne, seaborne and land-based systems, and in-flight entertainment systems, including the latest next generation in-flight entertainment and communications, or IFE&C, systems such as applications for mobile phone, e-mail and internet communications and real time, on-board satellite and broadcast TV which are being installed in new commercial aircraft as well as being retrofitted into existing commercial aircraft.

Within our communications equipment segment, we produce a range of network access equipment, including network timing and synchronization products, for public and private communications networks. This segment is "end user product" based with a traditional cycle of internally funded development and marketing prior to selling via direct and indirect sales channels. Manufacturing is primarily outsourced. Our communications equipment is used in a broad range of network applications primarily for private communications networks, public communications carriers, and also for utility companies and military applications, including homeland security.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The

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preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of net sales and expenses for each period. The following represents a summary of our critical accounting policies, defined as those policies that we believe are the most important to the portrayal of our financial condition and results of operations and that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

Revenue Recognition

We derive revenues from sales of electronic devices and communications equipment products and services. Our sales are based upon written agreements or purchase orders that identify the type and quantity of the item and/or services being purchased and the purchase price. We recognize revenues when shipment of products has occurred or services have been rendered, no significant obligations remain on our part, and collectability is reasonably assured based on our credit and collections practices and policies.

We recognize revenues from domestic sales of our electronic devices and communications equipment at the point of shipment of those products. An estimate of warranty cost is recorded at the time the revenue is recognized. Product returns are infrequent and require prior authorization because our sales are final and we quality test our products prior to shipment to ensure the products meet the specifications of the binding purchase orders under which those products are shipped. Normally, when a customer requests and receives authorization to return a product, the request is accompanied by a purchase order for a repair or for a replacement product.

Revenue recognition for products and services provided by ACC and our subsidiaries in England depends upon the type of contract involved. Engineering/design services contracts generally entail design and production of a prototype over a term of up to several years, with revenue deferred until each milestone defined in the contract is reached. Production contracts provide for a specific quantity of products to be produced over a specific period of time. Customers issue binding purchase orders or enter into binding agreements for the products to be produced. We recognize revenues on these orders as the products are shipped. Returns are infrequent and permitted only with prior authorization because these products are custom made to order based on binding purchase orders and are quality tested prior to shipment. An estimate of warranty cost is recorded at the time revenue is recognized.

We recognize revenues for products sold by our subsidiary in France at the point of shipment. Customer discounts are included in the product price list provided to the customer. Returns are infrequent and permitted only with prior authorization because these products are shipped based on binding purchase orders and are quality tested prior to shipment. An estimate of warranty cost is recorded at the time revenue is recognized.

Revenues from services such as repairs and modifications are recognized when the service is completed and invoiced. For repairs that involve shipment of a repaired product, we recognize repair revenues when the product is shipped back to the customer. Service revenues contribute less than 5% of total revenue and, therefore, are considered to be immaterial to overall financial results.

Product Warranty Liabilities

Generally, our products carry a standard one-year, limited parts and labor warranty. In certain circumstances, we provide a two-year limited parts and labor warranty. We offer extended warranties beyond two years for an additional cost to our customers. Products returned under warranty typically are tested and repaired or replaced at our option. Historically, we have not experienced significant warranty costs or returns.

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We record a liability for estimated costs that we expect to incur under our basic limited warranties when product revenue is recognized. Factors affecting our warranty liability include the number of units sold, the types of products involved, historical and anticipated rates of claim and historical and anticipated costs per claim. We periodically assess the adequacy of our warranty liability accrual based on changes in these factors.

Inventory Valuation

Our electronic devices segment finished goods inventories generally are built to order. Our communications equipment inventories generally are built to forecast, which requires us to produce a larger amount of finished goods in our communications equipment business so that our customers can be served promptly. Our products consist of numerous electronic and other materials, which necessitate that we exercise detailed inventory management. We value our inventory at the lower of the actual cost to purchase or manufacture the inventory (first-in, first-out) or the current estimated market value of the inventory (net realizable value). We perform cycle counts of inventories using an ABC inventory methodology, which groups inventory items into prioritized cycle counting categories, or we conduct physical inventories at least once a year. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast of product demand and production requirements for the next 12 to 24 months. Additionally, to determine inventory write-down provisions, we review product line inventory levels and individual items as necessary and periodically review assumptions about forecasted demand and market conditions. Any inventory that we determine to be obsolete, either in connection with the physical count or at other times of observation, are reserved for and subsequently written-off.

The electronic devices and communications equipment industries are characterized by rapid technological change, frequent new product development, and rapid product obsolescence that could result in an increase in the amount of obsolete inventory quantities on hand. Also, our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventory. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and our reported operating results.

Foreign Currency Translation

We have foreign subsidiaries that together accounted for approximately 81.8% and 87.1% of our net revenues from continuing operations, 33.1% and 34.7% of our assets and 19.7% and 27.5% of our total liabilities as of and for the three months ended March 31, 2010 and 2009, respectively. In preparing our consolidated financial statements, we are required to translate the financial statements of our foreign subsidiaries from the functional currencies in which they keep their accounting records into U.S. dollars. This process results in exchange gains and losses which, under relevant accounting guidance, are included either within our statement of operations under the caption "other income (expense)" or as a separate part of our net equity under the caption "accumulated other comprehensive income (loss)."

Under relevant accounting guidance, the treatment of these translation gains or losses depends upon management's determination of the functional currency of each subsidiary. This determination involves consideration of relevant economic facts and circumstances affecting the subsidiary. Generally, the currency in which the subsidiary transacts a majority of its transactions, including billings, financing, payroll and other expenditures, would be considered the functional currency. However, management must also consider any dependency of the subsidiary upon the parent and the nature of the subsidiary's operations.

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If management deems any subsidiary's functional currency to be its local currency, then any gain or loss associated with the translation of that subsidiary's financial statements is included as a separate component of stockholders' equity in accumulated other comprehensive income (loss). However, if management deems the functional currency to be U.S. dollars, then any gain or loss associated with the translation of these financial statements would be included in other income (expense) within our statement of operations.

If we dispose of any of our subsidiaries, any cumulative translation gains or losses would be realized into our statement of operations. If we determine that there has been a change in the functional currency of a subsidiary to U.S. dollars, then any translation gains or losses arising after the date of the change would be included within our statement of operations.

Based on our assessment of the factors discussed above, we consider the functional currency of each of our international subsidiaries to be each subsidiary's local currency. Accordingly, we had cumulative translation losses of $2.6 million and $1.6 million that were included as part of accumulated other comprehensive loss within our balance sheets at March 31, 2010 and December 31, 2009, respectively. During the three months ended March 31, 2010 and 2009, we included translation losses of $1.0 million and $0.4 million, respectively, under accumulated other comprehensive loss.

The magnitude of these gains or losses depends upon movements in the exchange rates of the foreign currencies in which we transact business as compared to the value of the U.S. dollar. During the first quarter of 2010 and 2009, these currencies primarily included the euro and the British pound sterling and, to a lesser extent, the Japanese yen in the period ended March 31, 2009. Any future translation gains or losses could be significantly higher or lower than those we recorded for these periods.

A 2.5 million British pound sterling loan payable from one of our subsidiaries in England to EMRISE was outstanding as of March 31, 2010 ($3.8 million based on the exchange rate at March 31, 2010). Exchange rate losses and gains on the long-term portion of this loan are recorded in cumulative translation gains or losses in the equity section of the balance sheet.

Intangibles, Including Goodwill

We periodically evaluate our intangibles, including goodwill, for potential impairment. Our judgments regarding the existence of impairment are based on many factors including market conditions and operational performance of our acquired businesses.

In assessing potential impairment of goodwill, we consider these factors as well as forecasted financial performance of the acquired businesses. If forecasts are not met, we may have to record additional impairment charges not previously recognized. In assessing the recoverability of our goodwill and other intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of those respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets that were not previously recorded. If that were the case, we would have to record an expense in order to reduce the carrying value of our goodwill. Under FASB guidance related to goodwill and other intangible assets, we are required to analyze our goodwill for impairment issues at least annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. At March 31, 2010, our reported goodwill totaled $15.5 million of which $12.0 million had been allocated to assets held for sale. We evaluated the fair value of the electronic devices reporting unit at March 31, 2010 and determined that no impairment of goodwill existed at that date. In assessing the potential impairment of goodwill, we consider forecasted financial performance of the acquired businesses to determine the fair value of the respective assets.

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Results of Operations

Overview

The majority of our products are customized to the unique specifications of our customers and are subject to variable timing of delivery. Shipments of products can be accelerated or delayed due to many reasons including, but not limited to, exceeding or not meeting customer contract requirements, a change in customer timing or specifications, technology related issues and production related issues. Comparability of our revenues and gross profit is difficult from period to period due to this product variability. Exceptions to this include certain long-term military contracts and certain long-term telecommunications contracts.

Overall sales from continuing operations decreased 16.8% in the first quarter of 2010 as compared to the first quarter of 2009. Our overall net sales of $7.1 million for the first quarter of 2010 reflected declines in net sales at our electronic devices subsidiaries, offset slightly by increases in our communications equipment subsidiaries. The declines in our electronic devices subsidiary were further affected by the negative impact of exchange rates between the U.S. dollar and the British pound sterling.

Overall gross profit as a percentage of sales from continuing operations decreased to 27.5% in the first quarter of 2010 from 34.9% in the first quarter of 2009. The decrease in gross profit as a percentage of sales from continuing operations was due to the decline in gross margins within our electronic devices segment and our French communications equipment subsidiary associated with lower sales volumes, which was partially offset by improvements in gross profit as a percentage of sales within our U.S. communications equipment subsidiary.

The following is a detailed discussion of our results of operations by business segment. As a result of the sale of our RO Operations in March of 2009, for purposes of the following discussion and analysis, the RO Operations have been removed from the prior period comparisons and the quarterly results of the RO Operations are reported as a discontinued operation for all periods presented. Additionally, the certain assets identified for sale as a result of Amendment 8 and the associated Amendments Number 9 and 10, entered into in April and May, 2010, respectively, of our credit facility have been reported as a discontinued and held for sale operation for all periods presented.

As required under the Credit Facility, we plan to sell a significant portion of our total assets during 2010 (See Notes 2, 9 and 10 in the accompanying notes to consolidated financial statements). We may sell additional assets for strategic or other reasons (together with the significant assets we agreed to sell under the Credit Facility, the "Future Asset Sales"). As a result of the Future Asset Sales, we are expecting overall declines in net sales, gross profit, operating income and net income within all of our reporting segments and on a consolidated basis as a Company. However, the magnitude of such declines will largely depend on which assets we actually sell and the timing of such sales, all of which are uncertain at this time. Where applicable, we will discuss possible future impacts of Future Assets Sales herein; however, we will not attempt to address all potential impacts or to quantify the magnitude of such sales on our future results due to the significant uncertainties associated with doing so.

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Comparison of the Three Months Ended March 31, 2010 to the Three Months Ended March 31, 2009

Net Sales

(in thousands)	Three Months Ended March 31, 2010	2009	Variance Favorable (Unfavorable) Dollar	Percent
Electronic devices	$ 4,437	$ 5,903	$ (1,466)	(24.8)%
as % of net sales	*34.8%*	*41.5%*		
Communications equipment	2,654	2,618	36	1.4%
as % of net sales	*20.8%*	*18.4%*		
Total net sales from continuing operations	7,091	8,521	(1,430)	(16.8)%
Discontinued operations	5,653	5,692		
Total net sales	$ 12,744	$ 14,213		

Electronic Devices Segment

The decrease in sales of our electronic devices in the first quarter of 2010 as compared to the first quarter of 2009 was primarily due to delays in the awarding of foreign military contracts as a result of the global economic conditions and one large contract at one of our U.K. subsidiaries concluding in the first quarter of 2009. Additionally, a significant portion of our business at U.K. subsidiaries is transacted in U.S. dollars and was negatively impacted by exchange rate fluctuations, as the subsidiary's local currency is the British pound sterling. The translation impact of exchange rates remains an uncertainty and could negatively or positively impact our overall results in future periods.

Communications Equipment Segment

First quarter 2010 net sales within our communications equipment segment remained consistent with the 2009 first quarter. We experienced an increase in sales to the Federal Aviation Administration and the U.S. military at our U.S. communications equipment subsidiary as a result of a substantial increase in test equipment sales offset by a decrease in orders and shipments for network access and timing products at our French subsidiary due largely to economic impacts and spending reductions by the French Defense Ministry.

Net sales in our French communications equipment subsidiary have been, and are likely to continue to be, negatively impacted by the recent economic conditions, as the French government continues to defer discretionary spending due to current economic conditions.

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Gross Profit

(in thousands)	Three Months Ended March 31, 2010	2009	Variance Favorable (Unfavorable) Dollar	Percent
Electronic devices	$ 1,105	$ 2,097	$ (992)	(47.3)%
as % of net sales	*24.9%*	*35.5%*		
Communications equipment	846	880	(34)	(3.9)%
as % of net sales	*31.9%*	*33.6%*		
Total gross profit from continuing operations	1,951	2,977	(1,026)	(34.5)%
Total gross margin from continuing operations	27.5%	34.9%		
Discontinued operations	2,813	1,980		
Total gross profit	$ 4,764	$ 4,957		

Electronic Devices Segment

The decrease in gross profit, as a percentage of net sales, for our electronic devices segment from 35.5% in the first quarter of 2009 to 24.9% in the first quarter of 2010 is primarily due to the decrease in volume of sales as discussed above, which resulted in a larger portion of fixed production overhead being absorbed, and changes in product mix.

Communications Equipment Segment

The decrease in gross margin for our communications equipment segment from 33.6% in the first quarter of 2009 to 31.9% in the first quarter of 2010 is primarily the result of unfavorable impacts as a result of the changes in foreign currency exchange rates between the U.S. dollar and the euro in the first quarter of 2010 as compared to the first quarter of 2009 and the lower sales volume at our French subsidiary, partially offset by increases in gross margins at our U.S. communications equipment subsidiary as a result of changes in pricing strategy.

Operating Expenses

(in thousands)	Three Months Ended March 31, 2010	2009	Variance Favorable (Unfavorable) Dollar	Percent
Selling, general and administrative	$ 2,494	$ 2,617	$ 123	4.7%
as % of net sales	*35.2%*	*30.7%*		
Engineering and product development	522	369	(153)	(41.5)%
as % of net sales	*7.4%*	*4.3%*		
Total operating expenses from continuing operations	3,016	2,986	(30)	(1.0)%
Discontinued operations	1,383	2,083		
Total operating expenses	$ 4,399	$ 5,069		

Selling, general and administrative expenses

The decrease in selling, general and administrative expenses is primarily the result of the significant decreases in SG&A, primarily at our corporate headquarters, as a result of cost reduction activities.

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During 2010, we expect selling, general and administrative expense to be lower than the 2009 comparative periods as we see the affects of the cost reduction actions taken in 2009 and due to the sale of our RO Operations.

Engineering and product development

The increase in engineering and product development costs is primarily due to U.S. communications equipment subsidiary related to development of new products and enhancements of existing products.

During the remainder of 2010, engineering and product development expenses are expected to remain at or slightly below 2009 levels.

Interest expense

Interest expense was $0.8 million for the three months ended March 31, 2010 compared to $1.5 million for the three months ended March 31, 2009 due to lower outstanding loan balances. Additionally, in the first quarter of 2009, we accelerated the amortization of deferred financing costs and debt discount in the amount of $0.5 million associated with the partial repayment of our Term Loan B, which was absent in the first quarter of 2010. Included in interest expense in the first quarter of 2010 were $0.3 million of non-cash amortization of deferred financing costs and non-cash amortization of debt discount compared to $0.8 million in the first quarter of 2009. We expect quarterly interest expense for the remainder of 2010 to decrease significantly from the comparable prior year periods as a result of the lower outstanding loan balances and as we make scheduled principal payments and use the proceeds from the sales of assets to pay down outstanding loan balances.

Other, net

We recorded other income of $144,000 in the first quarter of 2010 compared to expense of $42,000 in the first quarter of 2009. Other, net consists primarily of (i) short-term exchange rate gains and losses associated with the volatility of the U.S. dollar to the British pound sterling and euro on the current portion of certain assets and liabilities and (ii) fair value adjustments on warrants. The change in the fair value of warrants during the first quarter of 2010 resulted in expense of $208,000 compared to income of $130,000 in the first quarter of 2009. The remaining income of $352,000 for the first quarter of 2010 was predominantly related to short-term exchange rate gains.

Income tax expense

Income tax benefit amounted to $0.1 million for the first quarter of 2010 compared to expense of $0.2 million for the first quarter of 2009. We recorded income tax expense primarily as a result of foreign income tax on foreign earned profits in Europe and New Jersey state income taxes on income generated by ACC. The income tax benefit in the first quarter of 2010 was related to the losses we incurred during the quarter.

Future Asset Sales may trigger additional income tax obligations in 2010. The Company has exhausted a significant portion of its net operating losses available to be carried forward into future periods and, as a result, any income from operations and/or gain on sales of assets could result in significant tax obligations in 2010.

Income (Loss) from Discontinued and Held For Sale Operations

In connection with the sale of our RO Operations on March 20, 2010 and the classification of certain of our assets as held for sale, we reported income from discontinued and held for sale operations of $0.7 million (net of $0.2 million in taxes) during the first quarter of 2010, which includes

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a $0.5 million loss on the sale of our RO Operations. Additionally, in connection with the sale of our Digitran Operations on March 20, 2009, we reported income from discontinued and held for sale operations of $6.7 million (net of $0.7 million in taxes) during the first quarter of 2009, which includes a $7.4 million gain on the sale of our Digitran Operations.

Net income (loss)

We reported a net loss of $1.0 million in the first quarter of 2010 and net income of $4.8 million in the first quarter of 2009. Included in net loss in the first quarter of 2010 was a $0.5 million loss on the sale of RO and an overall decline in net sales and gross profit from continuing operations. Excluding any impact from the sale of assets in the remaining quarters of 2010, we anticipate net income (loss) to improve in future quarters as compared to prior year quarters, due in large part to the cost reduction efforts completed in 2009, and also due to lower anticipated interest expense in future quarters.

Liquidity and Capital Resources

In making an assessment of our liquidity, we believe that the items in our financial statements that are most relevant to our ongoing operations are working capital, cash generated from operating activities and cash available from financing activities. We fund our daily cash flow requirements through funds provided by operations and through borrowings under our credit facility with GVEC Resource IV Inc. ("GVEC" or the "Lender"). Working capital from continuing operations was negative $4.0 million at March 31, 2010 as compared to negative $3.5 million at December 31, 2009, primarily due to lower accounts receivable and inventory balances at March 31, 2010 as a result of lower sales levels during the first quarter of 2010. At March 31, 2010 and December 31, 2009, we had accumulated deficits of $27.5 million and $26.6 million, respectively, and cash and cash equivalents of $2.5 million and $4.0 million, respectively. Cash balances fluctuate and are dependent upon timing of advances and repayments on the Revolver. Our cash balances are often significantly higher at the end of the month than at other times throughout the remainder of the month as a result of borrowings under our credit facility generally occurring toward the end of the month and timing of payments to vendors in the form of accounts payable, payroll and interest payments generally occurring at the beginning of the month.

Net cash provided by operating activities during the first quarter of 2010 totaled $0.6 million. Significant non-cash adjustments to our net income for 2009 include (i) the amortization of debt discount and amortization of deferred financing costs which, on a combined basis, totaled $0.3 million, both of which are non-cash components of interest expense associated with our credit facility, (ii) depreciation and amortization expense which totaled $0.3 million, and (iii) a change in fair value of common stock warrants which expensed $0.2 million as a non-cash component of net income. The primary significant use of cash associated with operating activities during the first quarter of 2010 was a decrease in accounts payable and accrued liabilities by approximately $1.2 million, in part due to payments made on previously accrued amounts related to the sale of the RO Operations and also due to timing of vendor payments. The primary sources of cash associated with operating activities during the first quarter of 2010 included a decrease in accounts receivable, which decreased by $0.8 million, due primarily to increased collections on higher sales in the fourth quarter of 2009 and a decrease in inventory of $0.8 million as a result of an effort to more effectively use existing inventory.

Cash generated from our investing activities during the first quarter of 2010 totaled $0.8 million. This amount consisted primarily of net cash proceeds generated by the March 2010 sale of our RO Operations.

Cash used in financing activities during the first quarter of 2010 totaled $2.0 million, which consisted of $0.5 million in repayments of principal owed on long term debt and notes to stockholders and $1.5 million in net repayments on our revolving credit facility.

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As of March 31, 2010, we had outstanding borrowings of $3.7 million under the revolving loan portion of our credit facility. At March 31, 2010, we had remaining actual availability under a formula-based calculation of $3.3 million under the credit facility. Actual remaining availability represents the additional amount we were eligible to borrow as of March 31, 2010 pursuant to our $7.0 million revolving line of credit. The availability under our revolving line of credit fluctuates periodically throughout each month depending on timing of borrowings and repayments. At May 7, 2010, our eligible collateral was $5.9 million (compared to the maximum of $7 million) and our outstanding borrowings at that date were $5.2 million. Therefore, our actual availability was $0.6 million.

In addition to the revolving line of credit, at March 31, 2010, we had debt obligations of $8.2 million, which includes term loans from our Lender, capitalized lease and equipment loan obligations and notes payable to shareholders, the current portion of which loans and obligations totaled $8.1 million. We also have debt obligations associated with assets held for sale of $4.3 million that has been classified as current liabilities of discontinued and held for sale operations in our condensed consolidated balance sheets. These debt obligations are due in November 2010.

Our backlog from continuing operations increased to $17.6 million as of March 31, 2010 as compared to $15.9 million as of December 31, 2009. The increase from December 31, 2009 is primarily due to the increase of additional orders at our U.K. RF devices subsidiary and our French communications equipment subsidiary offset by declines at our other subsidiaries. The amount of backlog orders represents revenue that we anticipate recognizing in the future, as evidenced by purchase orders and other purchase commitments received from customers, but on which work has not yet been initiated or with respect to which work is currently in progress. Our backlog as of March 31, 2010 was approximately 91% related to our electronic devices business, which business tends to provide us with long lead-times for our manufacturing processes due to the custom nature of the products, and approximately 9% related to our communications equipment business, which business tends to deliver standard or modified standard products from stock as orders are received. We believe that the majority of our current backlog will be shipped within the next 12 months. However, there can be no assurance that we will be successful in fulfilling such orders and commitments in a timely manner or that we will ultimately recognize as revenue the amounts reflected as backlog.

Credit Facility

EMRISE (including each of its direct subsidiaries), are parties to a Credit Agreement, as amended, with the Lender, providing for a credit facility in the aggregate amount of $26,000,000. As of March 31, 2010, we owed a total of $11.6 million under the terms of the credit facility.

On January 25, 2010, EMRISE and its Lender entered into Amendment Number 8 to Loan Documents, which amended EMRISE's Credit Agreement as of December 31, 2009. All references to the Credit Facility herein refer to the Credit Agreement as amended. The Credit Facility requires the sale of a significant portion of our assets by June 30, 2010 (the "Maturity Date"). As discussed further in Note 3 in our March 31, 2010 financial statements, these assets contributed approximately $20 million or 37% of the Company's net sales from continuing operations and operating income of approximately $3 million of the Company's total operating income from continuing operations of $1.4 million for 2009. The Company is required to achieve certain milestones in connection with these sale activities and the maintenance of maximum capital expenditure financial covenants. Lender has the current right to appoint an outside observer to review our books and records and business operations, with certain limitations designed to minimize disruption to our business operations. Upon the sale of the assets we agreed to sell, we will retain a percentage of the proceeds of some of such sales for working capital and are obligated to use the remaining proceeds to pay down the obligations owed to the Lender. We are also obligated to provide financial information and status reports to the Lender on a regular basis. The practical effect of the January 25th amendment was to provide a forbearance by the Lender through the Maturity Date on the equity raise default and the possible financial covenant

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defaults that was and may have been otherwise triggered under the Credit Agreement as of December 31, 2009 and allow us time to sell certain assets in order to pay down the obligations to the Lender.

In April, 2010, the Borrowers and the Lender entered into Amendment Number 9 to Loan Documents, which removes the obligation to sell certain assets while retaining the obligation to sell other assets, and provides some clarity that the Lender will not charge fees for making adjustments to the milestones required to be met before the maturity date, provided certain conditions are satisfied. In May 2010, the Borrowers and the Lender entered into Amendment Number 10 to Loan Documents, which adjusted certain milestones required to be met before the maturity date.

We are working on an amendment to extend certain of the milestones to have been achieved the week of this filing with an indication from the lender such extension will be acceptable. We expect to sign a formal amendment this week, but there can be no guarantees that such amendment will be successfully or timely completed.

The credit facility currently consists of (i) a revolving loan for up to $7 million that expires on June 30, 2010 (the "Revolver"), and (ii) two term loans (Term Loan A and Term Loan B) with an aggregate net outstanding principal amount of $7.9 million as of March 31, 2010. The term loans require remaining combined scheduled principal payments of $75,000 bi-weekly, which began on February 1, 2010 and continue through maturity. The facility also requires monthly interest payments and a final balloon payment of principal upon maturity on June 30, 2010 of approximately $7.4 million in term debt plus the outstanding balance of the revolver, which at March 31, 2010 was $3.7 million.

The Revolver is formula-based and generally provides that the outstanding borrowings under the line of credit may not exceed an aggregate of 85% of eligible accounts receivable, plus 10% of the value of eligible raw materials not to exceed $600,000, plus 50% of the value of eligible finished goods inventory not to exceed $1,500,000, minus the aggregate amount of reserves that may be established by the Lender.

Interest on the Revolver is payable monthly. The interest rate is variable and is adjusted monthly based on the prime rate as published in the "Money Rates" column of *The Wall Street Journal* (the "Base Rate") plus 1.25%, subject to a minimum rate of 9.5% per annum. The Revolver contains a capital expenditures covenant, prohibiting any such expenditures in excess of $1,800,000 through June 30, 2010. Additionally, the Revolver prohibits us from incurring unfinanced capital expenditures in excess of $62,500 in any fiscal quarter and from incurring purchase money commitments in excess of $2 million over the life of the facility. However, if we incur unfinanced capital expenditures of less than $62,500 in any fiscal quarter, the difference between the amount incurred in a certain fiscal quarter and $62,500 may be incurred in the two fiscal quarters immediately following such fiscal quarter. The Company was in compliance with these covenants at March 31, 2010.

The term loans bear interest at the Base Rate plus 4.25%, subject to a minimum rate of 12.5% per annum. Under the credit facility, we may make full or partial prepayment of the term loans provided that any such prepayment is accompanied by the applicable prepayment premium discussed below.

To secure payment of the indebtedness under the credit facility, we irrevocably pledged and assigned to, and granted to the Lender a continuing security interest in, all the personal property of the Company and its direct subsidiaries, including our interest in any deposit accounts, the stock of each of our direct and indirect subsidiaries, the intellectual property owned by each of the Company and its direct subsidiaries, and the proceeds of the intellectual property owned by each of these entities. In an event of default, the Lender may, at its option, exercise any or all remedies available to it with respect to the collateral. In addition, certain of our foreign subsidiaries have agreed to guarantee our performance under the credit facility.

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There can be no assurance that we will be able to successfully amend the Credit Agreement to extend sale related milestones, we will be able to successfully sell the contemplated assets that we are obligated to sell, pursuant to the credit facility, in the agreed time frames, achieve the related milestones on a timely basis, and/or sell the assets at prices sufficient to satisfy the debt owed to the Lender, if at all. Even if we do successfully amend the Credit Agreement to extend sale related milestones and sell the contemplated assets and pay the obligations owed to the Lender in full, our ongoing revenues will be substantially reduced, which could have a material adverse affect on our operations and financial condition.

If an event of default were to occur, including the failure to successfully amend the Credit Agreement to extend sale related milestones or failure to achieve any of the milestones related to asset sales required by the Credit Facility, the Lender could accelerate the debt and exercise its rights and remedies under the Credit Agreement. An acceleration of the principal, deferred fees and accrued interest due on the date of a declared event of default would be a significant amount that would be due on such date. If such an acceleration were declared as of May 7, 2010, the amount would equal $13.2 million. We do not have the ability to pay this amount from currently available sources at this time. The rights and remedies available to the Lender under the Credit Agreement in the event of a declared event of default include a foreclosure on our assets before the contemplated asset sales could be completed. The Lender may also elect to increase the interest rate applicable to the outstanding balance of the Term Loans A and B by four percentage points above the per annum interest rate that would otherwise be applicable. Additionally, if the lender terminates the credit facility during a default period then we are subject to a penalty equal to 2% of the outstanding principal balance of the Revolver and the Term Loans.

Liquidity

Our current business plan requires additional funding beyond our anticipated cash flows from operations. These and other factors described in more detail below raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to (i) sell the assets as required in the Credit Facility, (ii) repay our credit facility on or prior to its maturity date, (iii) obtain alternate revolver financing to fund operations after the credit facility is paid in full and (iv) achieve profitable operations.

If our net losses continue, we may experience negative cash flow, which may prevent us from continuing operations. If we are not able to attain, sustain or increase profitability on a quarterly or annual basis, we may not be able to continue operations and our stock price may decline.

If we (i) default under the Credit Facility for any reason, including missing a milestone, (ii) are unable to timely sell assets at sufficient prices, (iii) cannot borrow funds under the terms of the Revolver, for any reason, or (iv) fail to obtain alternate financing to replace our credit facility or a new revolving facility once the current credit facility is paid in full, we do not believe that current and future capital resources, revenues generated from operations and other existing sources of liquidity will be adequate to meet our anticipated short term, working capital and capital expenditures needs for the next 12 months. Further, if any of these occur for any reason, or if we experience a significant loss of revenue or increase in costs, then our cash flow would be negatively impacted resulting in a cash flow deficit. A cash flow deficit will require us to seek additional or alternate financing, with little or no notice, which would be difficult to obtain in these economic conditions and our anticipated financial condition in such circumstances. To address these potential financing needs, we may have to explore revised debt structure with our current lender, seek additional or new financing with another lender or lenders, sell additional assets to generate cash, or sell equity to raise capital. Successfully executing these strategies is uncertain and there are many risks associated with attempting to execute each. Failure to meet our financing requirements, if and when needed, would have an adverse effect on our operations and/or ability to do business after that date or could restrict our growth, limit the

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development of new products, hinder our ability to fulfill existing or future orders or negatively affect our ability to secure new customers or product orders.

If we are unsuccessful in securing the necessary financing to continue operations, when needed, then we may be forced to seek protection under the U.S. Bankruptcy Code or be forced into liquidation or substantially restructuring or altering our business operations and/or debt obligations.

Effects of Inflation

The impact of inflation and changing prices has not been significant on the financial condition or results of operations of either the Company or our operating subsidiaries.

Impacts of New Accounting Pronouncements

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Not applicable.

ITEM 4T. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports pursuant to the Securities aExchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of management, including the Company's Principal Executive Officer and Principal Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included an assessment of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of March 31, 2010 that our disclosure controls and procedures and internal controls over financial reporting were not effective at the reasonable assurance level due to the material weaknesses discussed below.

In light of the four material weaknesses described below, we performed additional analysis and other post-closing procedures to ensure that our consolidated financial statements were prepared in accordance with GAAP. Accordingly, we believe that the consolidated financial statements included in

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this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

Our Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2010, the following four material weaknesses existed:

(1) We did not effectively implement comprehensive entity-level internal controls.

(2) We did not maintain effective controls over changes to critical financial reporting applications and over access to these applications and related data.

(3) We did not maintain a sufficient level of information technology personnel to execute general computing controls over our information technology structure.

(4) We did not maintain a sufficient level of resources within our accounting department.

If not remediated, these material weaknesses could result in one or more material misstatements in our reported financial statements in a future annual or interim period.

Inherent Limitations on the Effectiveness of Controls

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Material Weaknesses and Related Remediation Initiatives

Set forth below is a summary of the various significant deficiencies which caused management to conclude that we had the four material weaknesses identified above. Through the efforts of management, external consultants and our Audit Committee, we are currently in the process of executing specific action plans to remediate the material weaknesses identified above and discussed more fully below. We expect to complete these various action plans during 2010. If we are able to complete these actions in a timely manner, we anticipate that all control deficiencies and material weaknesses will be remediated in 2011.

(1) We did not effectively implement comprehensive entity-level internal controls, as evidenced by the following control deficiencies:

Entity Level Internal Control Evaluation. We did not formally consider entity-wide controls that are pervasive across our company when considering whether control activities are sufficient to address identified risks.

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Fraud Considerations. We did not conduct regular formalized assessments to consider risk factors that influence the likelihood of someone committing a fraud and the impact of a fraud on our financial reporting.

Objective Evaluation of Internal Controls. We did not use an internal audit function or other objective party to provide an objective perspective on key elements of the internal control system.

Assessment of Information Technology. We did not formally evaluate the extent of the needed information technology controls in relation to our assessment of processes and systems supporting financial reporting.

Information Technology. We did not have sufficient information technology controls, where applicable, designed and implemented to support the achievement of financial reporting objectives.

Ongoing and Separate Evaluations. We did not effectively create and maintain effective evaluations on the progress of our remediation efforts nor the constant evaluations of the operating effectiveness of our internal controls over financial reporting.

Reporting Deficiencies. We did not perform timely and sufficient internal or external reporting of our progress and evaluation of prior year material weaknesses or the current fiscal year internal control deficiencies.

(2) We did not maintain effective controls over changes to critical financial reporting applications and over access to these applications and related data, as evidenced by the fact that certain of our personnel had unrestricted access to various financial application programs and data beyond the requirements of their individual job responsibilities. This control deficiency could result in a material misstatement of significant accounts or disclosures, including those described above, that could result in a material misstatement of our interim or annual consolidated financial statements that would not be prevented or detected.

(3) We did not maintain a sufficient level of information technology personnel to execute general computing controls over our information technology structure, which include the implementation and assessment of information technology policies and procedures. This control deficiency did not result in an audit adjustment to our 2008 interim or annual consolidated financial statements, but could result in a material misstatement of significant accounts or disclosures, which would not have been prevented or detected.

(4) We are a relatively complex company with operations conducted in multiple countries, multiple currencies and multiple languages. We have divested four separate operations in the past 18 months, acquired a large subsidiary during the same time, and we are in the process of divesting additional assets in order to repay our current obligations. All of these transactions give rise to complex accounting and tax treatments. Most recently, we have been concentrating our efforts in securing amendments to our current credit facility and ensuring adherence to milestones set forth in our most recent credit facility amendment. Our finance team is a relatively small but experienced staff. Although we believe the accounting staff are qualified to perform their functions, due to reasons above, the quantity of staff may be insufficient to deal with the work load and complexities created, which could result in material misstatements to our financial statements.

Remediation of Internal Control Deficiencies and Expenditures

It is reasonably possible that, if not remediated, one or more of the material weaknesses described above could result in a material misstatement in our reported financial statements that might result in a material misstatement in a future annual or interim period.

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We are developing specific action plans for each of the above material weaknesses. In addition, our audit committee has authorized the hiring of additional temporary staff and/or the use of financial and information technology consultants, as necessary, to ensure that we have the depth and experience to remediate the above listed material weaknesses, including the implementation and monitoring of the appropriate level of control procedures related to all of our manufacturing locations and our corporate offices. The audit committee will also work directly with management and outside consultants, as necessary, to ensure that board level deficiencies are addressed. We are uncertain at this time of the costs to remediate all of the above listed material weaknesses, however, we anticipate the cost to be in the range of $200,000 to $400,000 (including the cost of the consolidation software described above), most of which costs we expect to incur during 2010. We cannot guarantee that the actual costs to remediate these deficiencies will not exceed this amount.

Through these steps, we believe that we are addressing the deficiencies that affected our internal control over financial reporting as of March 31, 2010. Because the remedial actions require hiring of additional personnel, upgrading certain of our information technology systems, and relying extensively on manual review and approval, the successful operation of these controls for at least several quarters may be required before management may be able to conclude that the material weaknesses have been remediated. We intend to continue to evaluate and strengthen our internal control over financial reporting systems. These efforts require significant time and resources. If we are unable to establish adequate internal control over financial reporting systems, we may encounter difficulties in the audit or review of our financial statements by our independent registered public accounting firm, which in turn may have a material adverse effect on our ability to prepare financial statements in accordance with GAAP and to comply with our SEC reporting obligations.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 6. EXHIBITS.

Number	Description
2.11	Asset Purchase Agreement by and among Astrodyne Corporation, RO Associates Incorporated and EMRISE Electronics Corporation dated March 22, 2010. The schedules to the Asset Purchase Agreement in this exhibit 2.11 have been omitted pursuant to Item 601(b) of Regulation S-K. A description of the omitted schedules is contained within the Asset Purchase Agreement. The Company hereby agrees to furnish a copy of any omitted schedule to the Commission upon request.(1)
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith.

(1) Filed as an exhibit to the Registrant's current report on Form 8-K for March 22, 2010 and incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMRISE CORPORATION

Dated: May 17, 2010 By: /s/ CARMINE T. OLIVA

Carmine T. Oliva,
Chief Executive Officer
(Principal Executive Officer)

Dated: May 17, 2010 By: /s/ D. JOHN DONOVAN

D. John Donovan,
Chief Financial Officer
(Principal Financial and Accounting Officer)