

From: Tannin, Matthew (Exchange)
Sent: Friday, March 16, 2007 6:25 PM
To: 'Bella Borg-Brenner'
Cc: Marrone, James (Exchange)
Subject: RE: quick questions

1. The assets for the B of A trade go into the Klio at their market price on the day of pricing. The term facility for this trade lasts as long as the assets and the reinvestment period - although I think we will have a call option at the end of three or five years.

2. We have not yet finalized the structure - and I do not believe ONLY sub-prime assets will go into the structure - we will keep you posted. We will craft the investment guidelines so they maximize our ability to finance assets.

3. The CDO will be "issued" in late April or May (although we are at the mercy of the rating agencies).

I wanted to make sure you were aware of the variance between the January estimates for HG and for Enhanced.

The final numbers came in lower than our estimates.

HG - was +1.09
Enhanced was +.70

1. We apologize for this. We know it is frustrating to be expecting one thing and then to see that things did not come in as expected.

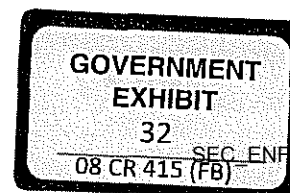
2. This was my fault. I should have focused on the way the actual January returns were coming in after we gave an estimate of 1.8 and 1.6. The reason for my lack of focus was the fact that I was on the phone virtually 24 hours a day with dealers, repo lenders and credit departments discussing what was - and what was not happening in the credit markets. This is not an excuse but an explanation. Had I been just a bit more focused on this issue we certainly would have addressed this on the call.

2. In each and every month prior to this - our conservative estimate ended up being between 5 and 15 basis points LESS than the actual return.

3. The magnitude of the OVERESTIMATE was the result of the fact that dealers in FEBRUARY as they were sending us marks for JANUARY were taking the February turmoil into account when they were running their scenarios. This inaccuracy required us to take additional time to try and get them to be marking as of January 31st. This was difficult. At the end of the day - this "fuzziness" of marks is understandable - and we have always been prepared for it - it goes with the territory of a large OTC market like ours. On the opposite side of the equation - our hedges which continued to go down in early February and would have off-set the "late" deterioration in the bonds were NOT adjusted. This is life in our markets.

The problem here was ONLY that we had sent out an estimate that was reflective of reality on January 31st when the actual marks reflected the situation 2 weeks later. We believe we were correct in our marks - but this is more of a long term issue than a short term issue.

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4. What is critical for us - and what remains the case IN ALL SITUATIONS - was that dealers where we had REPOS on were not uncomfortable with OUR marks as of the end of January. We had no margin calls at the end of January - so we were in no way at risk of any exposure that we were not already hedged for.

5. While no one likes a negative month, I know we and all of our investors are prepared for this. More to the point - given our performance in the midst of the market dislocation that has occurred we are quite comfortable with the fund from a structural point of view.

6. Enhanced has "underperformed" High Grade because Enhanced is more leveraged. Yet while Enhanced is "more" leveraged than High Grade, Enhanced is SUBSTANTIALLY LESS levered than it could have been - and therefore has capital to put to work now. We intend to put this capital to work over the next few months. We see value in the market now. We do not see Sub-Prime credit as trading at the proper levels. Thus we see an opportunity.

7. As far as I'm concerned, my professional opinion is that this is a time for us to be committing capital. If someone were to ask me - I would tell them that this is a very good time to add money to our Funds. My opinion is that this is a good time to invest. I am investing myself. I could, of course, be wrong and we could underperform. Full disclosure clearly requires that everyone always understand that we are in a risk taking business here. Spreads are wider because lots of people are worried. They may turn out to be right. I don't think so - but I don't know the future. I only make calculated bets.

My calculated bet is to NOT be on the sidelines now.

Please feel free to call me with any additional questions.

Matt

From: Bella Borg-Brenner [mailto:bbb@stillwatercapital.com]
Sent: Tuesday, March 13, 2007 8:36 AM
To: Tannin, Matthew (Exchange)
Cc: 'Jack Doueck'; 'Jonathan Kanterman'; Marrone, James (Exchange)
Subject: quick questions

Hi Matt - Thanks for all your time on Thursday. We sat down and reviewed what you told us and came up with the following questions:

1. At what price do the assets go into the KLIO, i.e., the B of A facility or the Dresner facility - do you use Feb 28 marks or do you remark them as of a certain date? How long is the term facility? Is there any profit realized by moving the assets into these term facilities?
2. Why are the subprime ABS CDOs the only assets going into the KLIO?