

Pampelonne CDO I

A Hybrid Synthetic / Cash High-Grade Structured Product CDO transaction managed by:

VERTICAL CAPITAL
INVESTMENT ADVISORS

Any transaction terms discussed herein are indicative only and any transaction will be subject to the issue and agreement of a final Offering Circular prior to transaction execution



As Lead Manager and Sole Bookrunner

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Executive Summary

Transaction Highlights

The Transaction

- Pampelonne CDO I (“Pampelonne” or the “Issuer”) is a managed US\$ [1.250] billion hybrid synthetic/Cash High-Grade Structured product CDO. Certain benefits of the structure are:
 - ▶ Flexibility to purchase unfunded synthetic assets or cash assets for the initial portfolio and reinvestment and
 - ▶ Improved economics via a non-issued super-senior portion

The Manager¹

- Vertical Capital Investment Advisors, LLC² (“Vertical Capital” or “Vertical”) will act as collateral manager for Pampelonne
 - ▶ As of August 2006, Vertical Capital had over \$5.5 billion in assets under management
 - ▶ Vertical Capital is owned 94% by its seven principals, who have an average of 20 years of industry experience, and 6% by third-party investors
 - ▶ Vertical Capital currently manages eight CDOs:
 - Vertical CDO 2003-1: \$800mm High Grade CDO of CDOs, closed October 2003
 - Vertical CDO 2004-1: \$800mm High Grade CDO of CDOs, closed March 2004
 - McKinley Funding: \$1bn High Grade ABS CDO, closed December, 2004
 - Vertical ABS CDO 2005-1: \$420mm Mezzanine ABS CDO, closed June, 2005
 - McKinley Funding II: \$1bn High Grade ABS CDO, closed August, 2005
 - Vertical ABS CDO 2006-1: \$775mm Mezzanine ABS CDO, closed April, 2006
 - Vertical CRE CDO 2006-1: \$300mm CMBS/CRE CDO, closed May, 2006
 - Vertical ABS CDO 2006-2: \$500mm Mezzanine ABS CDO, closed June, 2006

¹ Source: Vertical Capital

² Specific entity subject to change

Executive Summary

Transaction Highlights

The Collateral

- Pampelonne CDO I will acquire exposure to cash RMBS, CMBS, CDOs, and other ABS assets in both cash (“Cash Assets”) and credit default swaps (“Synthetic Assets”)
 - ▶ Cash Assets:
 - [10.0]% of the initial portfolio is expected to be comprised of Cash Assets funded by the issuance of Class A through E Notes and Income Notes
 - The inclusion of Cash Assets will allow for:
 - Portfolio diversification where collateral could otherwise not be sourced in synthetic form
 - Reduced need to invest proceeds in the Investment Swap Agreement to support unfunded Synthetic Assets
 - ▶ Synthetic Assets:
 - [90.0]% of the initial portfolio is expected to be comprised of Synthetic Assets
 - Synthetic Assets are expected to be a) unfunded Pay-As-You-Go (“PAUG”) CDS referencing mezzanine RMBS assets and ABS CDOs (“CDS Assets”), and b) Total Return Swap referencing ABS assets (“TRS Assets”)
 - [56.9]% will be CDS Assets :
 - Settlement amount is typically the amount of any Writedown or Failure to Pay or Physical Settlement on RMBS, and Interest Shortfalls on ABS CDOs
 - CDS are expected to be RMBS (Fixed-Cap) and ABS CDOs (Variable-Cap or Modified Fixed-Cap)
 - [33.1]% of the initial portfolio is expected to be comprised of collateral funded by Barclays and risk/return transferred to the transaction by TRS facilities
 - Barclays will act as Initial Synthetic Asset Counterparty for CDS Assets and TRS Assets, and CDS Intermediary on an ongoing basis, subject to specified terms and conditions

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Pampelonne CDO I - Transaction Summary

Expected Capital Structure¹

Class	Size (US\$ MM)	Percent of Total	Ratings (Moody's/S&P)	Indicative Coupon	Projected WAL (Years) ²	% Sub	OC Test Level
Non-Issued Super Senior	[1,062.50]	[85.00]%	N/A	N/A	N/A	[15.00]%	
Class A-1 Notes	[50.00]	[4.00]%	[Aaa/AAA]	[3]mL+[] bps	[8.0]	[11.0]%	
Class A-2 Notes	[50.00]	[4.00]%	[Aaa/AAA]	[3]mL+[] bps	[8.0]	[7.0]%	
Class B Notes	[43.75]	[3.50]%	[Aa2/AA]	[3]mL+[] bps	[8.0]	[3.5]%	[101.8]%
Class C Notes	[18.75]	[1.50]%	[A2/A]	[3]mL+[] bps	[8.0]	[2.0]%	[101.0]%
Class D Notes	[11.50]	[0.92]%	[Baa2/BBB]	[3]mL+[] bps	[8.0]	[1.1]%	[100.3]%
Class E Notes	[5.00]	[0.40]%	[Ba1/BB+]	[3]mL+[] bps	[8.0]	[0.68]%	[100.2]% ⁴
Income Notes	[8.50]	[0.68]%	[NR/NR]	Excess	N/A	First Loss	

Structure Details

Issuer:	Pampelonne CDO I	Senior Management Fee:	[6] bps
Collateral Manager:	Vertical Capital Investment Advisors, LLC ³	Sub. Management Fee:	[2] bps
Trustee:	[TBD]	Admin and Trustee Fee:	[2] bps
Initial Synthetic Asset Counterparty:	Barclays Bank plc ("Barclays")	Collateral at Close:	[95]%
Ramp-Up Period:	[60] days	Auction Call:	[8] years
Non-Call Period:	[5] years	Investment Swap Agreement Amount:	[5.0]%
Payment Frequency:	[Quarterly]	Cash funded via TRS:	[33.10]%
Reinvestment Period:	[5] years	Max CMBS Fixed %:	[5.0]%
Weighted Average Price:	[100.0]%	Max RMBS Hybrid-ARM %:	[10.0]%
Max non-CMBS Fixed %:	[0.0]%		

¹ All information shown on this page is preliminary and subject to change. Please see Appendices for further details on anticipated Priority of Payments

² Assumes sequential amortization and successful Auction Call at the end of year [8]

³ Specific entity subject to change

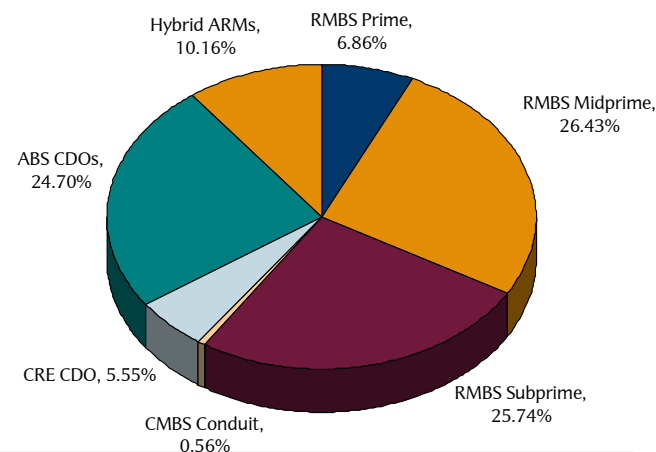
⁴ Class E test is an Interest Diversion Test. Please see anticipated waterfall in the Appendix for details

Pampelonne CDO I - Transaction Summary

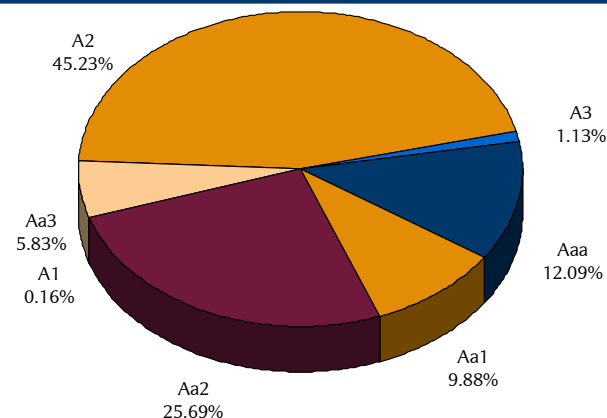
Expected Portfolio Profile¹

Portfolio Notional:	US\$ [1,250]MM
Initial WARF:	[65]
Maximum WARF:	[68]
Weighted Average Spread:	[56]bps
Minimum Weighted Average Fixed Credit Spread:	[63]bps
Floating-Rate Assets:	[88.3]%
CMBS Fixed-Rate Assets:	[0.6]%
RMBS Hybrid-ARMS:	[10.2]%
CRE CDO Fixed Rate:	[1.0]%
Synthetic Assets:	[90.0]%
-CDS Assets	[56.9]%
-TRS Assets	[33.1]%
Cash Assets:	[10.0]%
Maximum Moody's Asset Correlation ² :	[25.0]%
Maximum WAL at end of Reinvestment Period:	[4.0] years
Single Issuer Concentration:	[2.0]%
Single Obligation Concentration:	[1.5]%

By Industry:¹



By Moody's Rating:¹



Type	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Totals
RMBS Prime	-	1.74%	4.78%	0.35%	-	-	-	6.86%
RMBS Subprime	-	4.59%	3.79%	0.24%	-	17.12%	-	25.74%
RMBS Midprime	-	1.20%	6.97%	-	-	18.26%	-	26.43%
Hybrid ARMs	7.02%	2.34%	0.80%	-	-	-	-	10.16%
CMBS Conduit	-	-	0.16%	0.24%	0.16%	-	-	0.56%
ABS CDO	3.31%	-	6.19%	5.00%	-	9.20%	1.00%	24.70%
CRE CDO	1.76%	-	3.00%	-	-	0.66%	0.13%	5.55%
Totals	12.09%	9.88%	25.69%	5.83%	0.16%	45.23%	1.13%	100.00%

¹ All information shown is for illustrative purposes only and is consistent with the collateral acquired through August 10, 2006. The actual structure of the final transaction, including the composition of the collateral to be acquired, will be determined at or around the time of pricing of the Securities based upon market conditions and other factors applicable at that time and may differ significantly from the information above. Percentages based on Portfolio Notional

² Assumes [100] assets (in accordance with Moody's Correlated Binomial methodology)

Pampelonne CDO I - Transaction Summary

Collateral Eligibility Criteria and Portfolio Guidelines¹

Rating (Moody's / S&P)			Industry		
Aa3 / AA- or better	Min	[50]%	RMBS	Max	[100]%
A3 /A- or better	Min	[100]%	RMBS Prime	Max	[25]%
Position			RMBS Midprime	Max	[50]%
Single Issuer Conc.	Max	[2.0]%	RMBS Subprime	Max	[75]%
Single Obligation Conc.	Max	[1.5]%	REIT	Max	[5]%
Rating Agency			CMBS	Max	[10]%
Moody's Weighted Average			CDO		
Recovery Rate:	Min	[40.0]%	ABS CDOs	Max	[35]%
Moody's Asset Correlation: ²	Max	[25.0]%	Managed Synthetics, IG Synthetics		Prohibited
S&P Class S Recovery Rate: ³	Min	[48.0]%	TruPS CDOs		Prohibited
S&P Class A Recovery Rate:	Min	[48.0]%	CDO^2, Other CDOs		Prohibited
S&P Class B Recovery Rate:	Min	[54.0]%	Student Loans (U.S. Only)		
S&P Class C Recovery Rate:	Min	[64.0]%	with DoE guarantee	Max	[0]%
S&P Class D Recovery Rate:	Min	[70.0]%	without DoE guarantee	Max	[0]%
S&P Class E Recovery Rate:	Min	[79.0]%	Small Business Loans	Max	[0]%
			ABS Commercial,		
			ABS Consumer, and		
			Monoline Guaranteed Securities	Max	[5]%

¹ All information shown is for illustrative purposes only. Further concentration restrictions apply: See Offering Documents for further details. The actual structure of the final transaction, including the composition of the collateral to be acquired, will be determined at or around the time of pricing of the Securities based upon market conditions and other factors applicable at that time and may differ significantly from the information above. Percentages based on Portfolio Notional.

² Assumes [100] assets (in accordance with Moody's Correlated Binomial methodology)

³ If Class S Notes are issued

Pampelonne CDO I - Transaction Summary¹

Coverage Tests / Early Amortization	Trading Guidelines
<p>Overcollateralization Test:</p> <p>Class B: Initial / Target [103.6]% / [101.8]% Class C: [102.0]% / [101.2]% Class D: [101.1]% / [100.3]%</p> <p>Interest Coverage Tests:²</p> <p>Class B: [153.2]% / [102.0]% Class C: [133.1]% / [100.8]% Class D: [120.8]% / [100.3]%</p> <p>Interest Diversion Test:</p> <p>[Class E]: [100.7]% / [100.2]%</p> <p>Haircuts for Overcollateralization Tests:³</p> <p>Ba/BB: [90.0]% B/B: [80.0]% Caa: [50.0]% CCC: [70.0]% Defaulted: [Lower of market value or rating agency recovery rate]</p> <p>Haircuts for Interest Diversion Test:</p> <p>Ba/BB: [75.0]% B/B: [60.0]% Caa/CCC: [Lower of market value and [50.0]%)</p> <p>CDOs rated below A3 / A- Lower of applicable haircuts above and [70.0]%</p> <p>Consequences of a Breached Coverage/Diversion Test:</p> <ul style="list-style-type: none"> ■ Excess interest proceeds will be applied to amortize the Notes sequentially; and ■ Principal proceeds from the sale of collateral or prepayments/repayments must be applied to amortize the Notes sequentially unless reinvestment will allow all the coverage tests to be maintained or improved ■ In the event of a breached Interest Diversion Test in the interest waterfall, interest proceeds will be used to pay down the Notes in reverse sequential order starting with the Class E Notes 	<p>Discretionary: [15.0]% - reinvest proceeds during reinvestment period</p> <p>Credit Risk: [Unlimited – reinvest proceeds during reinvestment period]</p> <p>Credit Improved: [Unlimited - reinvest proceeds during reinvestment period]</p> <p>Defaulted: Unlimited – reinvest proceeds during reinvestment period</p>
	Reinvestment
	<p>Reinvestment: During the Reinvestment Period Cash Asset principal proceeds and Synthetic Asset amortizations may be reinvested.</p> <p>Reinvestment Suspension:</p> <ul style="list-style-type: none"> ■ Event of Default ■ Class D Coverage Test failure ■ Manager selection “Special Amortization”

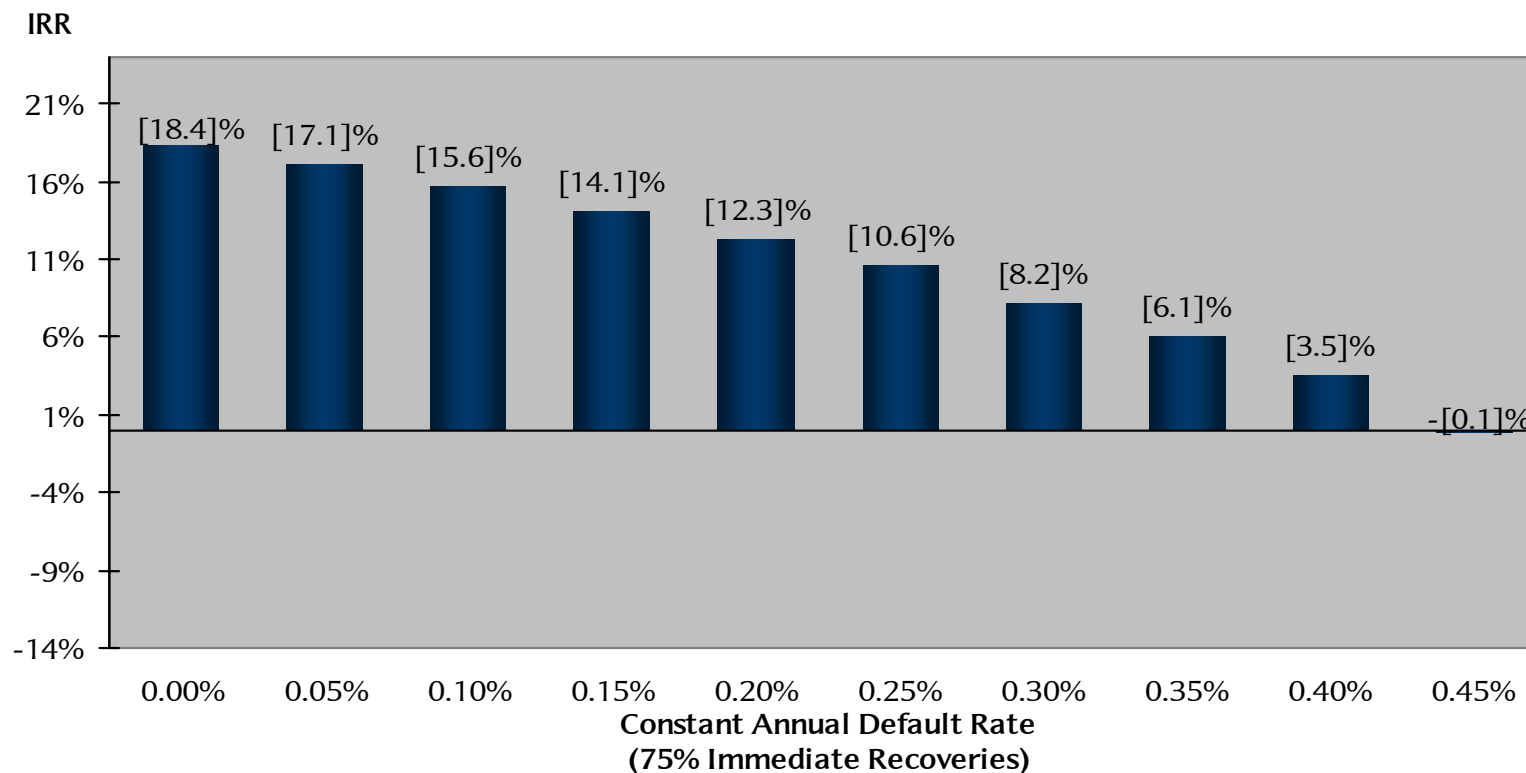
¹ All information shown is for illustrative purposes only. The actual structure of the final transaction, including the composition of the collateral to be acquired, will be determined at or around the time of pricing of the Securities based upon market conditions and other factors applicable at that time and may differ significantly from the information above

² As of 2nd payment date

³ Separate haircuts apply for calculating the Class A-1 EOD Ratio

Pampelonne CDO I - Transaction Summary

Hypothetical Income Note Returns¹



¹ For illustrative purposes only. No assurance can be given as to actual returns. Actual returns will differ, and may differ significantly, from the information above

Pampelonne CDO I - Transaction Summary

Assumptions

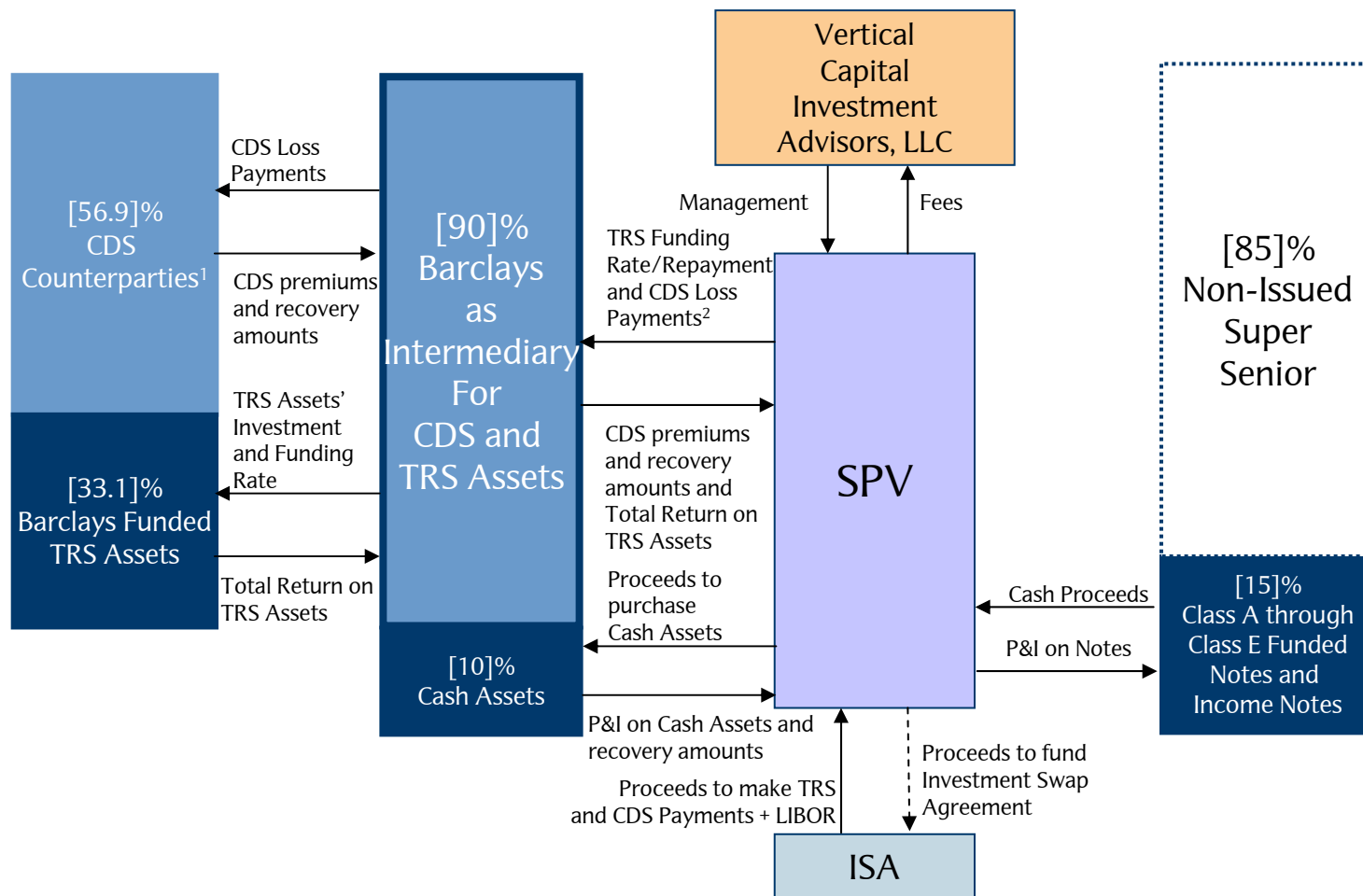
- The Issuer is 95% invested at closing, ramping up to 100% in 3 months
- Default rates are expressed on a per annum basis as a percentage of outstanding collateral with defaults occurring at the beginning of each period
- The recovery rate is [75]%, and recovery upon default is immediate
- The auction call is successful at the end of year [8]; collateral is assumed to be auctioned at a price equal to [100]%
- Synthetic Assets and TRS Assets ([90]% of the Portfolio) assume a weighted average spread of [56] bps plus [3mL] as applicable. Cash Assets ([10]% of the Portfolio) assume a weighted average fixed credit spread of [62] bps. Reinvestments assumed at [56] bps, plus [3mL] as applicable for [90]% of the Portfolio and [62] bps for [10]% of the Portfolio during the 5-year reinvestment period
- Interest earned on Investment Swap Agreement assumed to be [3mL]
- CDO assets mature on or before the legal final maturity of CDO liabilities
- CDO assets and liabilities are assumed to reset at the same [3mL] rates and pay on the same dates
- Structuring fee, accrued interest on the collateral, and upfront expenses (e.g., accounting, legal and rating agency fees) will be financed by the CDO through a prepaid swap, and repaid senior in the waterfall
- Collateral management fees are [6] bps per annum senior and [2] bps per annum subordinate to the rated notes
- Trustee and administrative fees are assumed to be [2.0] bps per annum

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Hybrid Synthetic/Cash High-Grade Structured Product CDO Structure and Mechanics

Structural Overview



¹ Some CDS Assets may be principled by Barclays

² Proceeds will be cash if available, including from the ISA, Synthetic Asset Reserve Account, or Class S Note earning [3m]L+[30]bps

Hybrid Synthetic/Cash High-Grade Structured Product CDO Structure and Mechanics

Cash and Synthetic Assets¹

- ▶ Pampelonne CDO I will acquire exposure to cash RMBS, CMBS, CDOs, and other ABS assets in both cash (“Cash Assets”), and Credit Default Swaps (“CDS”) and Total Return Swaps (“TRS”, together with the CDS, the “Synthetic Assets”) form
 - Cash Assets:
 - [10.0]% of the initial portfolio is expected to be comprised of collateral funded by the issuance of Class A through E Notes
 - The inclusion of Cash Assets will allow for:
 - Portfolio diversification where collateral could otherwise not be sourced in synthetic form
 - Reduced need to invest proceeds in the Investment Swap Agreement (“ISA”) to support unfunded Synthetic Assets
 - ▶ Synthetic Assets:
 - [90.0]% of the initial portfolio is expected to be comprised of Synthetic Assets
 - Synthetic Assets are expected to be comprised of unfunded a) PAUG CDS referencing mezzanine RMBS assets and ABS CDOs (“CDS Assets”) and b) Total Return Swaps referencing ABS assets (“TRS Assets”)
 - [56.9]% will be CDS Assets²:
 - Settlement amount is typically the amount of any Writedown or Failure to Pay or Physical Settlement on RMBS, and Interest Shortfalls on ABS CDOs
 - CDS expected to be Fixed-Cap on RMBS and Variable-Cap on ABS CDOs
 - [33.1]% of the initial portfolio is expected to be comprised of collateral funded by Barclays and risk/return transferred to the transaction by TRS facilities
 - Barclays will act as Initial Synthetic Asset Counterparty for CDS Assets and TRS Assets, and CDS Intermediary on an ongoing basis, subject to specified terms and conditions

¹ Indicative summary of the terms and conditions. Please refer to the final terms and conditions set forth in the Offering Circular

² Expected to be based upon current ISDA standard documentation, updated from time to time

Hybrid Synthetic/Cash High-Grade Structured Product CDO Structure and Mechanics

Liabilities¹

- ▶ No term or short-term CP senior note and no liquidity facility; Initial Synthetic Asset Counterparty will receive payments from available principal collections (including amounts under the ISA) until exhausted, and then take delivery of Class S Notes
- ▶ Priority of Payments :
 - Separate pre-Event of Default (“EOD”) interest and principal waterfalls with relevant diversion mechanics
 - Senior and junior overcollateralization and interest coverage tests, and senior EOD tests
 - Amortization of Notes from excess interest proceeds in the event of a failed auction after the end of year [8], in reverse order of payment priority starting from the Class E Notes
 - Principal waterfall provides for sequential amortization of the Notes
- ▶ The Transaction may be subject to a tax call at any time and an optional call after year [5] by holders of the Income Notes and subject to an Auction Call after year [8]

Indicative summary of the terms and conditions. Please refer to the final terms and conditions set forth in the Offering Circular

Hybrid Synthetic/Cash High-Grade Structured Product CDO Structure and Mechanics

Reinvestment Period¹

- Pampelonne CDO I will have a [5] year reinvestment period (“Reinvestment Period”). During the Reinvestment Period Cash Asset principal proceeds and Synthetic Asset amortizations may be reinvested
 - ▶ The CDO will be allowed to reinvest in both Cash and Synthetic Assets
 - ▶ The CDO will be allowed to reinvest so long as all Coverage Tests are maintained or improved after reinvestment
- After the Reinvestment Period
 - ▶ Principal proceeds from Cash Assets will be used:
 - To be held in the Synthetic Asset Reserve Account to collateralize the unfunded Synthetic Assets (to the extent there are any).
 - ▶ Amortizations of Synthetic Assets will be used:
 - To reduce the Class S Note Issuance Ceiling

Hybrid Synthetic/Cash High-Grade Structured Product CDO Structure and Mechanics

Use of Proceeds and Settlements of Credit Events¹

- At close, 10% of cash proceeds will be used to purchase Cash Assets, and 5% will be deposited with the Investment Swap Agreement²
- Synthetic asset payments due to PAUG CDS counterparties and Intermediaries (if any) will be made:
 - ▶ First, from Cash Proceeds available in the Principal Collections Account
 - ▶ Second, from liquidations of securities held in the Synthetic Asset Reserve Account
 - ▶ Third, from payments received on demand from the Investment Swap Agreement
 - ▶ Finally, from proceeds received by the Issuance of Class S Notes

¹ Indicative summary of the terms and conditions. Please refer to the final terms and conditions set forth in the Offering Circular

² To be remitted either for settlements under Synthetic Assets, or following adequate synthetic amortization amounts

Hybrid Synthetic/Cash High-Grade Structured Product CDO Structure and Mechanics

Structural Advantages¹

- The absence of a liquidity provider or term facility improves overall transaction structure and efficiency (no Super-Senior “fail-rate”)
- The absence of a senior Commercial Paper facility reduces asset-liability payment basis
- Only CMBS Fixed-Rate Assets and RMBS Hybrid-ARMs, reduces interest rate/extension risks
- The TRS facility efficiently finances the excess collateral in excess of the cash available from term Funded Notes
- The use of CDS Assets enables Vertical Capital to design a portfolio selected from a broader pool of collateral than available in cash
- The flexibility to purchase Cash or Synthetic Assets may allow Pampelonne CDO to capitalize on the shifting basis during the Reinvestment Period

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RMBS Securities in CDOs

RMBS Securities As Collateral

■ Fundamentals

- ▶ CDOs backed primarily by real-estate ABS products provide investors diversified access to a historically stable asset class
- ▶ Despite recent tightening, spreads on structured finance securities have remained wide compared to corporate securities with equivalent ratings
- ▶ The efficient funding of Pampelonne allows the CDO to off-set the greater tightening in asset spreads. If asset spreads widen, the term financing will allow the deal to invest at attractive relative levels.
- ▶ The proliferation of the PAUG CDS market referencing ABS has enabled managers to source collateral at the desired credit quality at relatively advantageous yields and structure liabilities to take advantage of the unfunded nature of the synthetic assets.

Note: Past performance is no guarantee of future results. The performance of the Issuer's portfolio is expected to be different and may be significantly different from the performance described here

RMBS Securities in CDOs

Performance of the RMBS Market¹

- According to an S&P study, the “U.S. RMBS market continued to see extraordinary transaction volume in 2005”¹
- Of all credit classes, 99.4% were at the same rating level or higher by year-end 2005¹

One-Year Ratings From ² :	Rating to: AAA	AA	A	BBB	BB	B	CCC or Below
AAA	99.9%	0.1%	0.01%	0.01%	-	-	-
AA	8.0%	90.8%	1.0%	0.1%	0.05%	0.04%	0.03%
A	2.6%	6.9%	89.6%	0.6%	0.1%	0.03%	0.11%
BBB	0.5%	3.0%	4.3%	90.7%	0.5%	0.6%	0.32%
BB	0.1%	0.5%	3.4%	7.1%	86.4%	1.0%	1.5%

Note: Past performance is no guarantee of future results. The performance of the Issuer's portfolio is expected to be different, and may be significantly different from the performance described here

¹ Source: Standard and Poor's, January 2006, "Rating Transitions 2005: U.S. RMBS Volume and Rating Activity Continue to Set Records"

² One-year average RMBS rating transition ratios, 1978-2005

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Vertical Capital, LLC - Overview

- Vertical Capital, which began operations in December of 2002, is an asset manager dedicated to the structured finance securities markets with over \$5.6 billion in assets under management
- Vertical is owned 94% by its six principals, with a combined average of 20 years of industry experience, and 6% by third party investors
- Vertical has developed its own proprietary technology platform called STARS (Structuring, Trading, Analytics, Reporting and Surveillance) that is designed to facilitate credit analysis/asset selection and enable efficient reporting, monitoring and surveillance on both an asset specific and deal level basis
- To date, Vertical manages all assets in CDO vehicles, having closed 8 CDOs¹.
- No liabilities of any Vertical CDOs have been downgraded or placed on watch.

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

¹ As of August, 2006

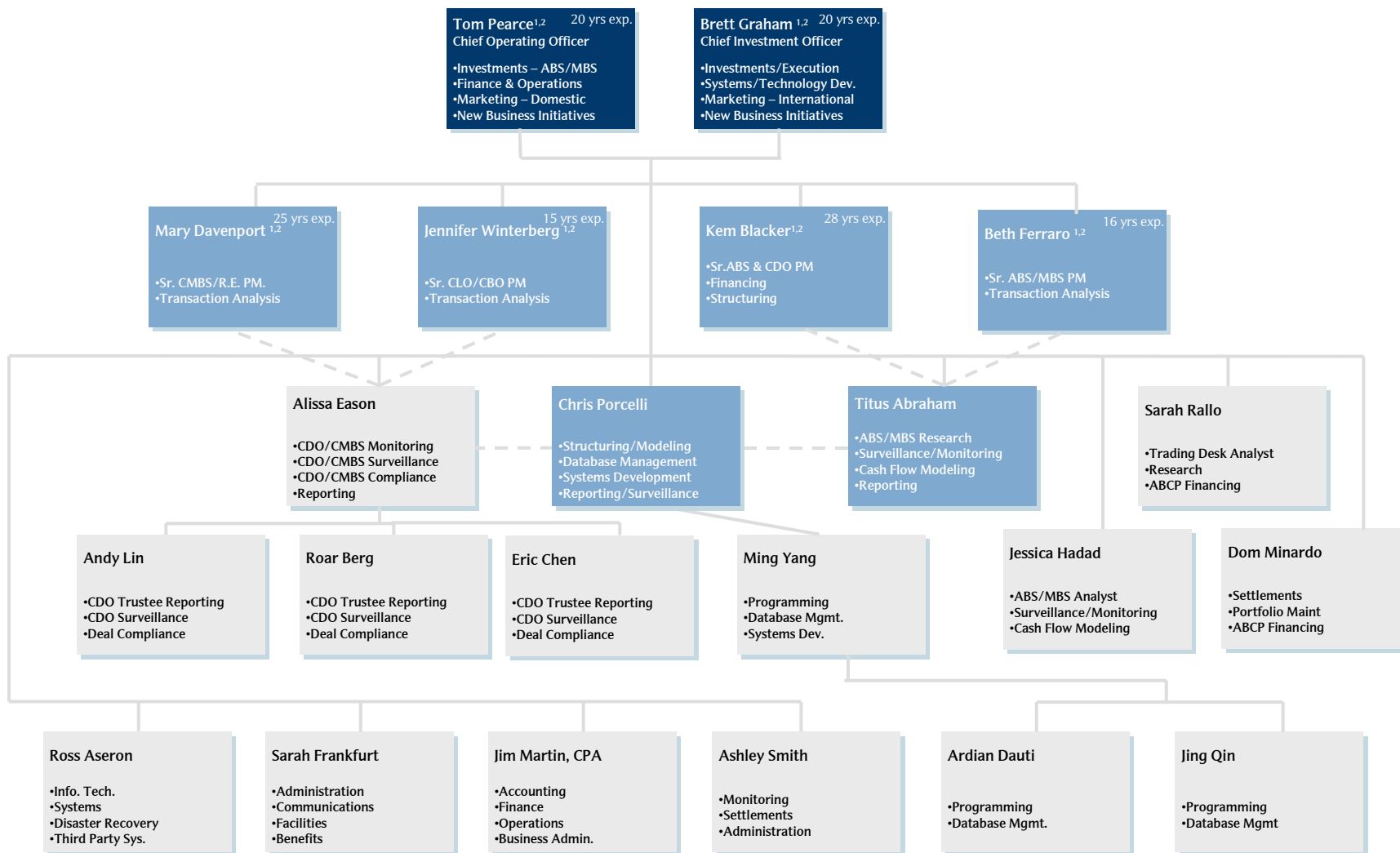
Performance - CDO Funds Managed By Vertical Capital

Vertical Capital, LLC CDO Portfolio Statistics	Vertical CDO 2003-1	Vertical CDO 2004-1	McKinley Funding, Ltd. I	Vertical ABS CDO 2005-1	McKinley Funding, Ltd. II	Vertical ABS CDO 2006-1	Vertical CRE CDO 2006-1	Vertical ABS CDO 2006-2	Total Aggregate Portfolio
Closing Date [Estimated]	3-Oct-2003	31-Mar-2004	10-Dec-2004	28-Jun-2005	18-Aug-2005	25-Apr-2006	24-May-2006	20-Jun-2006	n/a
Collateral Balance									
Original - Deal Size	\$ 803,000	\$ 800,000	\$ 1,000,000	\$ 420,000	\$ 1,000,000	\$ 775,000	\$ 300,000	\$ 500,000	\$ 5,598,000
Current	\$ 687,487	\$ 703,794	\$ 968,942	\$ 423,437	\$ 986,321	\$ 752,332	\$ 299,019	\$ 480,000	\$ 5,301,332
Reinvestment Period Ends	Static	Static	29-Dec-2009	5-Jun-2009	29-Jul-2010	25-Apr-2010	22-Apr-2011	12-Jun-2010	
Call Date	26-Oct-2008	17-Apr-2009	29-Dec-2009	5-Jun-2009	10-Aug-2010	25-Apr-2010	15-Apr-2010	12-Jun-2010	
Collateral Type									
CDOs	100.0%	100.0%	29.1%	13.2%	29.5%	3.0%	0.0%	3.0%	45.9%
RMBS	0.0%	0.0%	63.4%	78.2%	68.7%	97.0%	0.0%	97.0%	51.5%
CMBS	0.0%	0.0%	3.9%	5.6%	1.8%	0.0%	100.0%	0.0%	1.9%
Other	0.0%	0.0%	3.7%	3.0%	0.0%	0.0%	0.0%	0.0%	0.8%
Weighted Average Rating (Moody's)	Aa1	Aa1	Aa3	Baa1	Aa3	Baa2/Baa3	BBB-	Baa2/Baa3	A1
Range of Security Ratings	Aaa - Aa3	Aaa - Aa3	Aaa - A3	Aa1 - Ba2	Aaa - Baa1	Aaa - Ba1	A - BB-	Aaa - Ba1	Aaa - Ba2
Floating Rate Securities ⁽¹⁾	100%	100%	100%	95%	100%	100%	100%	100%	100%
Number of Securities Downgraded Since Closing	0	0	0	0	0	0	0	0	0
Number of Securities Upgraded Since Closing	5	2	1	2	1	0	0	0	11
Passing OC/IC Coverage Tests	Yes	Yes	Yes	Yes	Yes	Yes	NA	Yes	Yes
Percentage Credit Default Swaps	0	0	0	3%	0	70%	0%	98%	10%
Portfolio Mark to Market Gain (Loss)	\$ 8,270	\$ 6,003	\$ 5,017	\$ 605	\$ 1,043	\$ -	\$ -	\$ -	\$ 20,938
\$ \$ Amount of Equity	\$ 6,400	\$ 6,500	\$ 16,500	\$ 16,800	\$ 18,600	\$ 31,000	\$ 18,100	\$ 20,000	\$ 133,900

All figures in thousands (\$,000)

(1) A number of the portfolios do contain fixed rate securities that have been effectively swapped into floating rate securities. These hybrid securities do not exceed more that 5% of any one CDO transaction or 1% of all securities in the aggregate.

Organization Chart

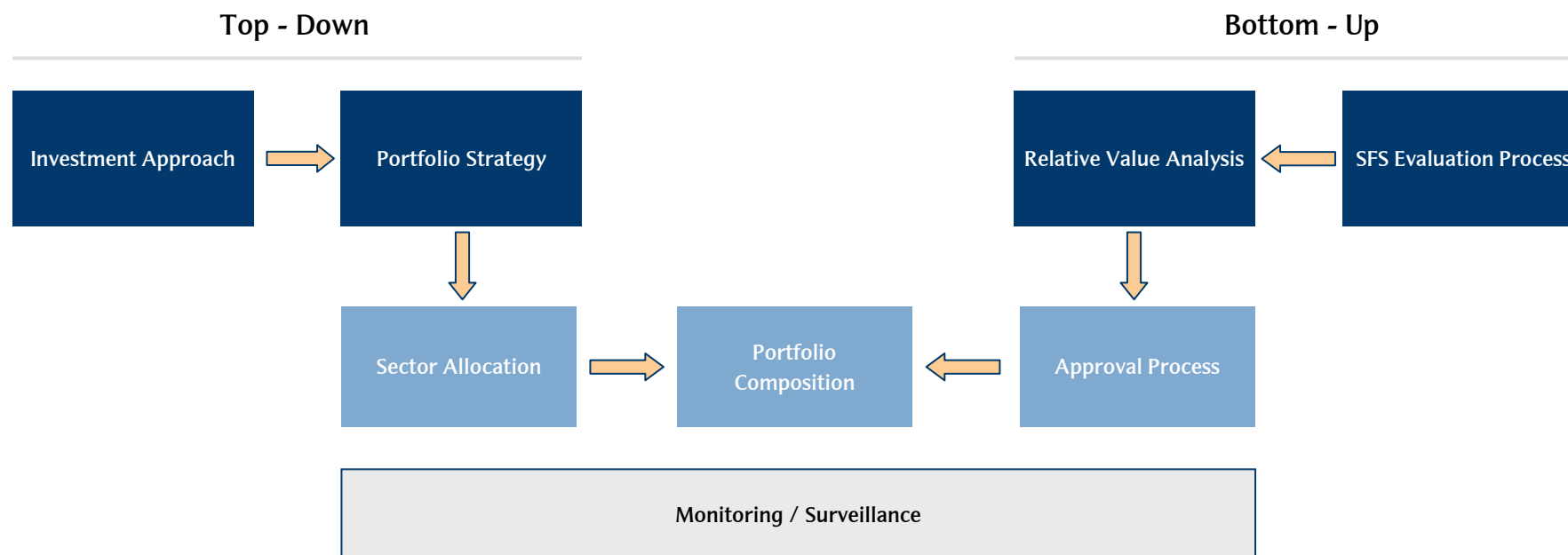


Philosophical Approach

- Vertical Capital was founded on the premise that the structured finance securities (“SFS”) marketplace is an information-driven business and the products are not homogeneous
- Building a scalable business in the SFS market requires a combination of personnel and technology as well as adoption of policies and procedures and streamlining of processes
- Commitment to transparency with investors (web-based, high-water mark reporting)
- In its security level analysis, Vertical seeks to get as close to the borrower/loan level as data permits
- In each of its CDO vehicles, Vertical has expressed both a credit and relative value market view

Investment Approach

- Investment Strategy is devised from historical collateral performance, qualitative and quantitative analysis, portfolio monitoring, experience and relative value assessment.



Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Active Sectors

- Vertical Capital is an active investor across the SFS markets from AAA - BB.

Issued	Deal Name	Sector	Strategy
2003	Vertical CDO 2003 – 1	CDO^2	Create term funding for high-grade CDO portfolio, take advantage of secondary market liquidity
2004	Vertical CDO 2004 – 1	CDO^2	Follow-on Transaction
	McKinley Funding	HG RMBS	ABCP Funding, LCF AAA RMBS + ARMBS + CDO
2005	Vertical ABS CDO 2005 – 1	Mezz RMBS	Enhanced subordination due to changed RA methodology, Ba1 RMBS Relative Value
	McKinley Funding II	HG RMBS	Baa1 RMBS Relative Value
2006	Vertical ABS CDO 2006 – 1	Mezz RMBS	RMBS CDS Q4 '05
	Vertical CRE 2006 – 1	CMBS	Large Loan CMBS + B-Note
	Vertical ABS CDO 2006 – 2	RMBS	95% Overlap with ABS CDO 2006 - 1

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Performance: Rating Transition Matrix

Moody's Rating	Current																		Percent
	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	WR	NR	
Aaa	100.0%																		100.0%
Aa1	1.8%	98.2%																	100.0%
Aa2			100.0%																100.0%
Aa3				100.0%															100.0%
A1					100.0%														100.0%
A2						100.0%													100.0%
A3							100.0%												100.0%
Baa1								100.0%											100.0%
Baa2									100.0%										100.0%
Baa3										100.0%									100.0%
Ba1											100.0%								100.0%
Ba2												100.0%							100.0%
Ba3													100.0%						100.0%
B1														100.0%					100.0%
B2															100.0%				100.0%
B3																100.0%			100.0%
WR																	100.0%		100.0%
NR																		100.0%	100.0%
Percent	43.6%	2.8%	29.2%	2.0%	0.1%	7.8%	1.8%	6.1%	3.5%	0.7%	1.0%	0.1%							100.0%

S&P Rating	Current																		Percent
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	WR	NR	
AAA	100.0%																		100.0%
AA+		100.0%																	100.0%
AA	1.2%		98.8%																100.0%
AA-				100.0%															100.0%
A+					90.9%														100.0%
A	9.1%					100.0%													100.0%
A-							100.0%												100.0%
BBB+								100.0%											100.0%
BBB									100.0%										100.0%
BBB-										100.0%									100.0%
BB+											100.0%								100.0%
BB												100.0%							100.0%
BB-													100.0%						100.0%
B+														100.0%					100.0%
B															100.0%				100.0%
B-																100.0%			100.0%
WR																	100.0%		100.0%
NR																		100.0%	100.0%
Percent	45.2%	5.7%	25.1%	2.1%	2.3%	6.1%	3.2%	4.7%	3.4%	0.7%	0.6%								100.0%

Fitch Rating	Current																		Percent
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	WR	NR	
AAA	100.0%																		100.0%
AA+		100.0%																	100.0%
AA			100.0%																100.0%
AA-				100.0%															100.0%
A+					100.0%														100.0%
A						100.0%													100.0%
A-							100.0%												100.0%
BBB+								100.0%											100.0%
BBB									100.0%										100.0%
BBB-										100.0%									100.0%
BB+											100.0%								100.0%
BB												100.0%							100.0%
BB-													100.0%						100.0%
B+														100.0%					100.0%
B															100.0%				100.0%
B-																100.0%			100.0%
WR																	100.0%		100.0%
NR																		100.0%	100.0%
Percent	22.9%	3.1%	8.8%	0.7%	1.3%	3.4%	1.7%	2.6%	1.7%	0.4%	0.6%								100.0%

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Credit Research Approach

ABS Research

- **Issuers/Servicers**
 - ▶ Maintain internal Tiering Scale based on company/parent company financial fundamentals and historical performance
- **Industry Trends**
 - ▶ Consolidation/volume
- **Structuring Trends**
 - ▶ Rating Agency Models
 - ▶ Mortgage insurance (deep MI)
 - ▶ Fixed rate loans in floating rate deals
 - ▶ Available funds caps
- **Collateral Trends**
 - ▶ IO loans, FICO, LTV, Silent Seconds, Loan size, DTI, ownership, etc.

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Credit Research Approach

ABS Deal Analysis - New Issue or Secondary

- **Issuer/Servicer/Trustee... Based on our internal Tiering**
- **Collateral Analysis**
 - ▶ Not only averages, but distributions as well—FICOs, LTVs
 - ▶ Stratifications on particular loan types (IO loans)
 - ▶ Loan Tape Analysis
- **Structure Analysis**
 - ▶ Senior/sub
 - ▶ Deep MI
 - ▶ Available funds caps & related hedges
 - ▶ Step Down Trigger Tests (hard vs. dynamic)
- **Quantitative Analysis**
 - ▶ Cash Flow simulations considering:
 - Interest rates, prepayment speeds, severities, constant default rates (CDR), Cumulative Losses, AFC losses
- **Relative Value**

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Credit Research Approach

ABS Surveillance

- **Monthly review of the Trustee reports**
 - ▶ Trustee maintains historical remittance statements. The reports are downloaded to Vertical's share-drive on a monthly basis
- **Time series analysis of delinquency rolls**
 - ▶ Portfolio positions are maintained in Intex Desktop. Monthly delinquency reports are generated using batch processing. The results of these reports are compared with the data from the trustee's remittance reports to check for errors
- **Estimate future losses based on current delinquencies**
 - ▶ Delinquency data is segregated by the number of days the individual loans are delinquent. We apply default assumptions to the various delinquency "buckets" and loss severity assumptions based on the servicer's loss mitigation record
- **Monitor pending step-down dates for trigger failures/passage**
 - ▶ Sub-Prime RMBS transactions usually contain tests that can prevent principal cash-flow to the mezzanine and subordinate tranches if certain performance measures are not satisfied. Unexpected passage/failures can cause average life variability
- **Maintain portfolio positions on Rating Agency websites**
 - ▶ Enables Vertical to identify real-time ratings changes

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Credit Research Approach

CMBS Research

- **Servicers**
 - ▶ Annual review of Master and Special Servicer rating agency rankings
 - ▶ Annual review of company / parent company financial statements
- **Industry Trends**
 - ▶ Issuance
 - ▶ Conduits versus Floating Rate transactions
 - ▶ Pari Pasu note forms
- **Structuring Trends**
 - ▶ Rating Agency cash flow analyses
 - ▶ Impact of sub-debt and debt held outside the securitization structure
 - ▶ Terrorism Insurance legislation and requirements
 - ▶ Natural Disaster Insurance Coverage requirements for flood and windstorm
 - ▶ Servicing Agreements and Intercreditor Agreements
- **Collateral Trends**
 - ▶ MSA market and submarket rental rate and occupancy trends
 - ▶ Performance statistics and recovery rates

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Credit Research Approach

CMBS Deal Analysis

■ Conduits

- ▶ Geographic diversity of the pool
- ▶ Property type distribution
- ▶ Focus on ten largest assets in pool
- ▶ Stress analysis on the Net Cash Flow for the properties to test weighted average loan to value ratios and debt service coverage ratios.
- ▶ Stress analysis on Net Cash Flow inclusive of sub-debt and debt held outside the Trust
- ▶ Review of bondholder rights under the Pooling and Servicing Agreement

■ Large Loan Floaters

- ▶ In-depth financial analysis of the collateral property operating statements and rent rolls
- ▶ Re-underwriting of the loan based upon adjusted cash flow analysis
- ▶ Stressed cash flow analysis, including sub-debt and debt held outside the Trust
- ▶ Projected cash flow analysis to estimate collateral value based upon re-underwriting adjustments
- ▶ Review of the third party reports and supporting documents pertaining to the collateral properties
- ▶ Review of the borrowing entity structures
- ▶ Bondholder rights provided in the Pooling and Servicing Agreement, Intercreditor Agreements and A/B Note structure documents

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Credit Research Approach

CDO Analysis

■ Manager

- ▶ Review Track Record
 - Growth of Assets Under Management (AUM), return performance, default and distressed sales history, ratings migration
 - Review trustee reports of other CDOs they manage
- ▶ Understand Manager's Investment Style
 - Areas of expertise, investment strategy, investment process, current view of collateral market
 - Review analysis of selected individual credits
 - Accessibility of manager to investors
- ▶ Evaluate Adequacy of Infrastructure
 - Analyst coverage, back office, operations, investor reporting
- ▶ Business Plan
 - Commitment to CDO business, internal performance measures, compensation of employees, employee ownership of deal or of company

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Credit Research Approach

CDO Analysis

■ Collateral

- ▶ Portfolio Composition
 - Asset composition strategy, availability of assets in target portfolio, overlap with other managed portfolios
- ▶ Collateral Analysis
 - Review purchase prices and recent marks, industry and sector concentrations.
 - Select certain assets for more detail individual review.

■ Structure Analysis

- ▶ Document Review
 - Read and understand offering memo, indenture, collateral manager agreement
 - Review hedge strategy, interest and principal waterfalls, key definitions, modification rules, removal and replacement of manager, events of default and remedies
- ▶ Cash Flow Analysis
 - Review sources and uses of cash at closing
 - Run multiple stress scenarios and/or Intex runs
- ▶ Rating Analysis
 - Determine how 'tight' a tranche is relative to its rating

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Credit Research Approach

CDO Surveillance

■ Monthly Review of trustee report information

- ▶ Vertical downloads all trustee reports and note valuation reports from the trustee websites.
- ▶ The CDO surveillance analyst reviews key performance data (coverage tests, collateral quality tests and trading activity) and sends an e-mail summarizing this information to the portfolio managers.
- ▶ Portfolio manager will analyze trustee report further and /or speak to collateral manager, if there are any significant changes in performance.
- ▶ Portfolio managers are **required** to respond to monthly surveillance e-mails by confirming the CDO's surveillance level. Failure to respond will result in repeated reminders.
- ▶ Portfolio manager response will include an explanation of any deterioration in the CDO's performance metrics and any other relevant facts, such as expected paydowns, manager comments on individual credits or trading activity, etc.
- ▶ Vertical maintains a history of performance data for all of its CDOs in an excel spreadsheet.

■ Independent monitoring of CDO collateral

- ▶ Vertical obtains monthly marks on the underlying collateral from the collateral managers on many of its CDOs.
- ▶ Vertical's proprietary database enables it to monitor aggregate exposures to individual issuers across its CDO portfolios.

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Credit Research Approach

Monitoring

- Vertical currently monitors approximately 226 individual cash CDO securities as well as the corresponding Managers. Vertical also monitors over 490 RMBS positions as well as the financial condition of the corresponding Servicers. Additionally, the Company follows over 56 commercial loan transactions as well as their underlying loan performance¹
- Through the development of its STARS system, which is able to amalgamate data that is delivered electronically as it is made available, Vertical's portfolio managers/analysts are able to efficiently spend their time interpreting the information as opposed to entering the information
- Each month the assigned portfolio manager receives an internally generated surveillance report which must be reviewed and requires a positive action either to maintain or adjust the Surveillance Level of each security (Levels 1-5). The Monitoring levels correspond to the following levels of assessed risk:
 - ▶ Level 1: Normal monitoring – deal exhibiting no stress
 - ▶ Level 2: Heightened monitoring – deal may be exhibiting some stress, but security that we own is under no stress. This may also reflect simply heightened Manager-related issues
 - ▶ Level 3: Watch List – deal exhibiting stress, and security we own may be subject to ratings review should collateral pool continue to deteriorate. We will report specifically on “Watch-Listed” portfolio items in our periodic letter to investors
 - ▶ Level 4: Watch List Heightened – Security we own may have been downgraded or our own internal risk assessment is that the credit support has deteriorated
 - ▶ Level 5: Watch List Extreme – Security that we own has been downgraded and may be at risk for further downgrade and/or par loss

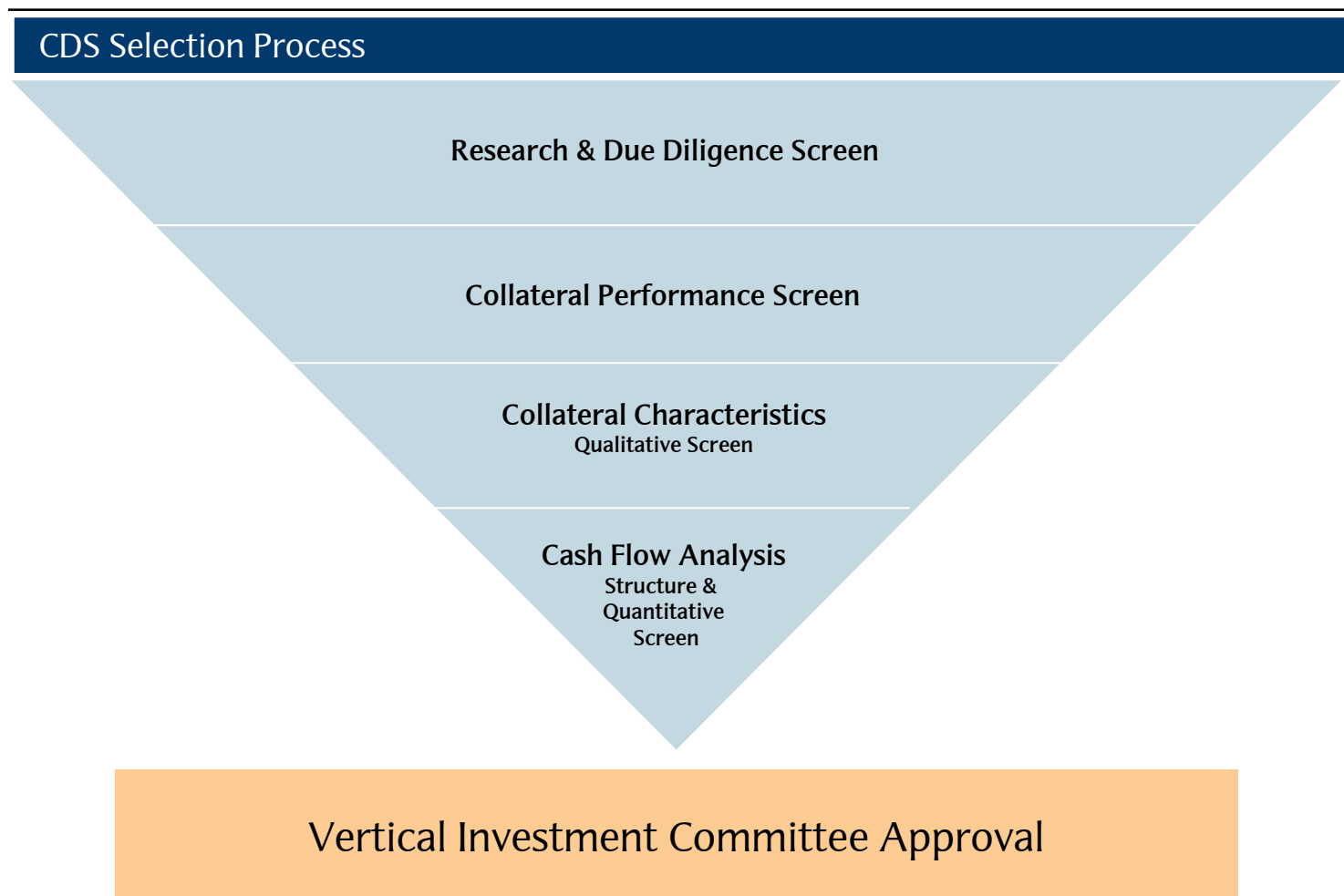
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¹ As of August, 2006

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Cash/CDS Selection Process



Cash/CDS Selection Process

CDS Selection Process

BBID	MDY	S&P	age	New Mdy's Screen	Research Screen	Collateral Performance Screen	Collateral Characteristic Screen	Cashflow & Structure Screen	60-89	90+	BKPT	FCLS	REO	Pipeline Default (1)	Pipeline Loss (2)	Cum Loss (%)	Orig Support (%)	Cur Support (%)	Support After Loss (3)
ABSHE 2004-HE3 M6	Baa3	BBB-	19	Failed					0.47	0.50	0.94	2.34	0.47	3.31	1.82	0.05	2.85	5.21	3.39
ARSI 2004-W9 M6	Baa3	BBB-	19	Failed					0.83	1.12	0.98	4.17	0.79	5.66	3.11	0.07	3.50	6.12	3.01
NHEL 2004-2 B3	Baa3	BBB	19		Failed				0.55	0.10	1.55	0.59		0.79	0.44	0.16	1.80	3.02	2.58
SAIL 2004-BNC1 M7	Baa3	BBB	17		Failed				1.60	0.68	1.66	1.31	1.18	4.30	2.37	0.03	1.00	1.73	-0.64
FFML 2004-FF6 B3	Baa3	BBB-	18		Failed				0.33	0.32	0.42	1.09	0.35	1.78	0.98	0.09	2.35	3.71	2.73
AABST 2004-3 B3	Baa3	BBB-	19		Failed				0.79	0.32	1.55	3.84	0.85	5.14	2.83	0.28	2.85	4.33	1.50
FHLT 2004-D M9	Baa3	BBB-	14		Failed				0.42	0.45	0.64	2.82	0.42	3.40	1.87	0.02	2.55	3.61	1.74
ABSHE 2004-HE10 M6	Baa3	BBB-	14			Failed			1.08	5.40	0.35	3.38	0.09	7.39	4.06		4.15	6.07	2.01
HEAT 2004-5 B3	Baa3	BBB-	17			Failed			1.65	1.40	1.69	3.27	0.62	5.79	3.19	0.02		2.70	-0.49
PPSI 2004-WCW1 M8	Baa3		12			Failed			2.05	1.36	1.44	5.21	1.34	8.01	4.41	0.13	4.25	6.94	2.53
PPSI 2004-WCW2 M9	Baa3	BBB-	11			Failed			0.71	0.91	1.08	4.49	1.20	6.15	3.38	0.14	4.75	7.46	4.08
FMIC 2004-3 M8	Baa3	BBB	19				Failed		0.33	0.12	1.42	1.34	0.53	2.50	1.38	0.06	3.85	5.88	4.51
CBASS 2004-CB5 B3	Baa3	BBB-	17				Failed		1.44	3.85	0.87	0.00	0.41	4.02	2.21	0.10	4.09	7.69	5.48
OWNIT 2004-1 B3	Baa3	A	14				Failed		0.63	1.10	0.26	1.29	0.10	2.34	1.29	0.05	4.45	6.08	4.79
BSABS 2004-HE8 M6	Baa3	BBB+	16				Failed		0.81	2.15	0.00	1.29	0.19	3.18	1.75	0.04	4.40	6.92	5.17
ABSHE 2004-HE9 M6	Baa3	BBB-	13				Failed		1.15	0.65	0.81	2.04	0.17	3.17	1.74		3.20	4.59	2.85
SABR 2005-OP1 B3	Baa3	BBB-	10				Failed		0.63	0.45	0.45	1.09	0.04	1.74	0.95		3.55	4.59	3.64
CWL 2005-4 BV	Baa3	BBB-	7				Failed		0.28	0.04	0.02	0.36	0.00	0.45	0.25		1.05	1.83	1.58
NCHET 2004-3 M9	Baa3	BBB-	16				Failed		0.55	0.25	0.82	1.68	0.23	2.36	1.30	0.04	3.35	4.82	3.52
CWL 2005-AB1 B	Baa2	BBB	9				Failed		0.21	0.03	0.03	0.75	0.11	0.82	0.45		0.00	0.55	0.10
MLMI 2004-WMC4 B3	Baa3	BBB	19					Failed	0.55	0.34	2.14	2.30	0.63	3.96	2.18	0.16	2.25	4.98	2.80
NCHET 2004-2 M9	Baa3	BBB	19					Failed	0.39	0.25	1.31	1.71	0.36	2.68	1.47	0.07	3.30	5.30	3.83
ABSHE 2004-HE6 M6	Baa3	BBB-	18					Failed	2.00	0.90	1.81	3.03	0.52	5.37	2.95	0.08	4.20	6.37	3.42
MSAC 2004-HE5 B3	Baa3	BBB-	18					Failed	0.34	0.39	1.51	2.29	0.60	3.54	1.94	0.07	2.35	4.34	2.40
BSABS 2004-HE5 M6	Baa3	BBB	19						1.71	2.30	0.00	2.38	0.11	4.48	2.46	0.05	4.45	8.45	5.99
ACCR 2004-3 2M7	Baa3	BBB	17						0.28	0.02	0.53	1.19	0.34	1.65	0.91	0.03	3.60	5.34	4.43
PCHLT 2004-2 M7	Baa3	BBB	16						1.50	0.18	1.07	3.20	0.59	4.41	2.43	0.09	4.50	7.18	4.75
CBASS 2005-CB3 B3	Baa3	BBB-	7						0.73	0.69	n/a	0.15	n/a	0.88	0.49		4.85	5.47	4.98

Notes.

1. Pipeline Default assumes the following default levels: 50% of 60-90 & BKPT, 75% of 90+ & FCLS, 100% of REO.
2. Pipeline Loss assumes loss severity of 55% for the Pipeline Default value.
3. Support After Loss equals Cur Support minus Pipeline Loss

Cash Flow Analysis				Fwd LIBOR			Fwd LIBOR+2% over 2 Yrs			Fwd LIBOR+2% shock		
CUSIP	SECURITY	MDY	S&P	BE ramp CDR %	BE cum loss %	DM (bps)	BE ramp CDR %	BE cum loss %	DM (bps)	BE ramp CDR %	BE cum loss %	DM (bps)
59020UDL6	MLMI 2004-WMC4 B3	Baa3	BBB	62.20	3.90	323	50.10	3.30	195	41.80	2.90	160
64352VGJ4	NCHET 2004-2 M9	Baa3	BBB	94.63	6.18	208	79.82	5.44	129	69.60	4.92	118
04541GLP5	ABSHE 2004-HE6 M6	Baa3	BBB-	82.99	6.60	229	68.96	5.82	101	59.31	5.26	77
61746RHK0	MSAC 2004-HE5 B3	Baa3	BBB-	71.18	4.50	292	56.97	3.94	198	48.58	3.45	202
073879CH9	BSABS 2004-HE5 M6	Baa3	BBB	101.65	6.21	245	89.56	5.70	161	78.20	5.20	159
004375BW0	ACCR 2004-3 2M6	Baa2	BBB	100.25	7.68	217	87.34	6.90	150	82.68	6.61	122
71085PBB8	PCHLT 2004-2 M7	Baa3	BBB	99.41	7.28	272	87.25	6.68	194	74.48	6.03	187
12489WLL6	CBASS 2005-CB3 B3	Baa3	BBB-	105.22	7.24	275	92.73	6.52	207	90.69	6.40	201

CDR Ramp Our Default Ramp increases to 10 CDR over a two-year period. It remains at 10 CDR thru year 7, after which the ramp declines to 3 CDR thereafter
CDR Ramp values are expressed as a percentage of the CDR Ramp (a 87.34% *ramp CDR* value means 8.734 CDR as of third year).

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Cash/CDS Selection Process

CDS Selection Process	
Research & Due Diligence Screen	Sample Fails
<ul style="list-style-type: none"> Vertical's originator & servicer tiering & performance Rating agency methodology Lender paid mortgage insurance 	<ul style="list-style-type: none"> "Old Moody's" rating methodology Deep MI or "structured pool policy" at BBB level Issuers--Tier 3 Issuer for BBB investing & performance Servicers--non rated & performance related
Collateral Performance Screen	Sample Fails
<p>RMBS Investment Sub-Committee unanimously selects deals with acceptable performance, based on:</p> <ul style="list-style-type: none"> Collateral performance <ul style="list-style-type: none"> "pipeline loss" analysis based on serious DQs, BKs, FCLs, REO & Loss Severity Credit Enhancement levels--original, current & "pipeline loss" adjusted 	<ul style="list-style-type: none"> Poor Collateral Performance High DQs, FCLs, BKs &/or REO Large change in recent month performance Inadequate credit enhancement after "pipeline loss"
Collateral Characteristics--Qualitative Screen	Sample Fails
<ul style="list-style-type: none"> FICO & CLTV (Avg & Distribution) Mortgage insurance IOs--rate/term structure & percentage Second liens (loud or silent) Property type (ie. Investment) Occupancy type Documentation type 	<ul style="list-style-type: none"> Large % low FICO (i.e. FICO <550 & <600) High average LTV with large %>90% Deep MI & "Structured Pool Policy" High IOs-- 2yr IOs, high initial reset High 2nd lien %>8% High silent seconds>50% High MH>1% High investor properties>5% Low full doc<50%
Cash Flow Analysis--Structure & Quantitative Screen	Sample Fails
<p>Stress available funds cap risk & breakeven CDR based on:</p> <ul style="list-style-type: none"> Collateral characteristics & performance <ul style="list-style-type: none"> "pipeline losses" Prepay ramps for fixed, ARMs, second liens Loss severity adjusted for collateral characteristics (2^{nds} , LTVs, Investor Properties) Default curve timing LIBOR paths--forward LIBOR, forward LIBOR +/- 2% Failed triggers 	<ul style="list-style-type: none"> DM drop due to weak interest rate hedge &/or collateral characteristics Breakeven CDR too low considering collateral characteristics & related assumptions

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

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Technology Platform

RMBS Analysis

ACE 2006-HE2				Projected Loss Summary				Loss Cover				Moody's		S&P			
Collateral Portfolio		All Loans		IOs		Collateral Portfolio		Percent		Dollar		Loss Cover		Moody's		S&P	
Total Number of Loans		5,198		864		Total Number of Loans		100.00%		5198		Aaa/AAA		28.70%		27.04%	
Total Loan Balance		\$ 939,723,458.65		\$ 241,370,571.28		Total Loan Balance		100.00%		\$ 939,723,458.65		Aaa1/AA+		24.70%		22.81%	
Average Loan Balance		180,768		279,364		Average Loan Balance		19.73%		\$ 183,370,412.83		Aaa2/AA		21.15%		18.12%	
WALA		#N/A		#N/A		Loss Severity (LS)		40.36%		\$ 379,277,578.56		Aaa3/AA-		18.95%		16.60%	
WAM		34.42%		58.60%		Projected Loss (PL)		8.14%		\$ 76,475,745.88		A1/A+		17.00%		14.68%	
California		34.42%		58.60%		RUN ON 4/17/06						A2/A		15.15%		13.44%	
Portf % without Prepay Penalties		27.26%		4.06%								A3/AA-		13.40%		12.19%	
LTV												Baa1/BBB+		11.80%		10.99%	
WA CLTV (w Loud 2nds & w/o Silent 2nds)		81.08%		81.65%								Baa2/BBB		10.35%		9.94%	
CLTV (w Loud 2nds & w/o Silent 2nds) > 90%		11.45%		8.26%								Baa3/BBB-		9.30%		8.71%	
CLTV (w Loud & Silent 2nds) > 90%		41.45%		63.34%								Baa1/BBB+		8.25%		7.51%	
FICO												Baa2/BB		7.40%		6.31%	
WA FICO		618.30		653.40								Baa3/BB-		6.65%		5.32%	
FICO < 660		78.1%		62.8%								B1B+		6.05%		4.34%	
FICO < 600		36.8%		5.7%								B2B		5.60%		3.36%	
FICO < 550		12.4%		0.3%								B3B-					
Interest Rate																	
% Fixed Rate		13.01%		1.46%													
% ARMs		86.99%		98.54%													
WAC		8.14%		7.54%													
WA Initial Rate Cap		2.57%		2.23%													
WA Rate Cap thereafter		0.92%		1.04%													
WA Margin		6.44%		6.05%													
WA Max Rate		5.32%		6.06%													
WA Min Rate		#N/A		#N/A													
IOs & Lien Position																	
IOs (see IO terms below)		25.69%		100.00%													
MH		0.00%		0.00%													
1st Lien		95.89%		100.00%													
2nd Lien		4.11%		0.00%													
Property Type																	
Single Family		74.12%		75.46%													
PUD		12.62%		12.88%													
Condo		6.97%		7.75%													
2-4 Family & Townhouse		6.28%		3.91%													
Other		0.00%		0.00%													
Occupancy Type																	
Occupancy-Inn Prop		93.97%		98.07%													
Occupancy-Owner Occ		5.30%		1.43%													
Occupancy-2nd Home		0.73%		0.50%													
Doc Type																	
Full Doc		50.08%		41.40%													
Limited/Reduced Doc		5.03%		4.93%													
Stated Doc		44.49%		53.40%													
No Doc (NINA)		0.40%		0.27%													
Loan Purpose																	
Purchase		42.34%		56.77%													
Refinance - Rate Term		3.84%		2.98%													
Refinance - Cashout		53.82%		40.25%													
Product Type																	
1 mo ARM		0.02%		0.00%													
6 mo ARM		0.01%		0.00%													
Hybrid 2/8		48.72%		0.00%													
Hybrid 2/8		0.00%		0.00%													
Hybrid 3/27		12.59%		0.00%													
Hybrid 3/37		0.00%		0.00%													
Other		0.01%		0.05%													
Hybrid 2/8 IO		20.58%		80.13%													
3-24hr 3/27 IO		3.24%		12.60%													
Hybrid 8/5 IO		1.48%		5.77%													
Fixed		8.24%		1.46%													
Fixed Balloon		0.00%		0.00%													
IO Term																	
IO term: 0		74.31%		0.00%													
IO term: 2yr		0.07%		0.26%													
IO term: 3yr		0.05%		0.20%													
IO term: 5yr		25.46%		99.14%													
IO term: 7yr		0.01%		0.03%													
IO term: 10yr		0.00%		0.37%													
IO Term: Other		0.00%		0.00%													
1sts with silent 2nds (SSs) :																	
% of Portfolio w SS		31.30%		56.99%													
\$ amount		\$ 294,134,310.35		\$ 137,555,114.42													
# of 1st Liens w SS		1346		497													
CLTV of Total Portfolio (that includes silent 2nds)		87.03%		92.76%													

Loss Contributions / Tail Risk									
Loss contributors	% of Portfolio (Face)	Loss/Total Loss%	Tail Weight	Loss/Total Loans %	Loss \$				
Worst 100 Loans	1.92%	0.00%	-	0.00%					
Worst 5 % Loss	0.00%	0.00%	-	0.00%					
Worst 10 % Loss	0.00%	0.00%	-	0.00%					
Worst 25 % Loss	0.00%	-	-	0.00%					
IOs	25.69%	17.70%	0.69	1.44%	\$ 13,534,149.31				
2nd Liens	4.11%	10.36%	2.52	0.84%	\$ 7,921,443.34				
Investor Properties	5.30%	7.85%	1.48	0.64%	\$ 6,006,032.17				
Non Single Family Detached	25.38%	27.81%	2.26	1.07	\$ 21,270,453.17				
Non Full Doc	49.92%	60.16%	1.21	4.90%	\$ 46,005,045.79				
FICO < 600	78.09%	87.39%	1.12	7.11%	\$ 66,828,989.13				
FICO < 600	36.81%	48.69%	1.32	3.96%	\$ 37,239,845.26				
FICO < 550	12.35%	20.96%	1.70	1.71%	\$ 16,031,582.70				
LTV > 0.8	38.96%	16.69%	0.43	1.36%	\$ 12,767,589.05				
LTV > 0.9	11.45%	6.56%	0.56	5.18%	\$ 48,699,822.25				
Loan Size > \$700,000	1%	0.48%	0.46	0.04%	\$ 369,250.70				
Loan Size < \$100,000	56%	16.04%	0.29	1.31%	\$ 12,263,958.02				

Term Sheet										Silent Seconds		Interest Only			
H2ABS Deal First		ACE 2006-HE2/ACE		H2ABS Deal First		ACE 2006-HE2/ACE		H2ABS Deal First		ACE 2006-HE2/ACE		H2ABS Deal First		ACE 2006-HE2/ACE	

ace06he2.cdl										ACE 2006-HE2 M7									
Baa1		A-		pricing		fwd		f+2% (ramp)		f+200		f+200		f+4% (ramp)		fwd - 75% PP		f+2% (ramp) - 75%	
Disc Margin		105		130		127		127		131		99		129		127			
WAL		4.11		10.55		10.59		10.59		10.67		10.78		14.27		14.51			
Mod Durn		3.55		7.35		6.827		6.661		8.224		6.658		8.94		8.179			
Principal Window		Nov09 to Aug11		Feb14 to Feb37		Feb14 to Feb37		Feb14 to Feb37		Mar14 to Feb37		Apr14 to Feb37		May17 to Jan36		Aug17 to Feb37			
Principal Writedown		0.00 (0.00%)		2,246.41 (0.02%)		7,215.82 (0.05%)		7,412.03 (0.05%)		10,097.52 (0.07%)		14,808.01 (0.10%)		0.00 (0.00%)		3,140.51 (0.02%)			
Total Collat Loss w/ History(Forecasted)		0.00 (0.00%)		95,705,241.39 (10.50%)		95,863,705.24 (10.20%)		96,019,035.54 (10.22%)		98,447,111.93 (10.48%)		91,238,761.89 (9.71%)		121,556,089.35 (12.93%)		113,596,001.74 (12.09%)			
Default Rate		0 % 2yr 10.0 to 3.0 in 3.0 in 7yr cdr ramp		147.649 % 2yr 10.0 to 3.0 in 7yr cdr ramp		142.32 % 2yr 10.0 to 3.0 in 7yr cdr ramp		142.80 % 2yr 10.0 to 3.0 in 7yr cdr ramp		147.37 % 2yr 10.0 to 3.0 in 7yr cdr ramp		147.37 % 2yr 10.0 to 3.0 in 7yr cdr ramp		133.885 % 2yr 10.0 to 3.0 in 7yr cdr ramp		129.293 % 2yr 10.0 to 3.0 in 7yr cdr ramp		118.471 % 2yr 10.0 to 3.0 in 7yr cdr ramp	
Default Severity		0 Percent		56.85 Percent		56.85 Percent		56.85 Percent		56.85 Percent		56.85 Percent		56.85 Percent		56.85 Percent		56.85 Percent	
Servicer Advance		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd	
Advance (w/ of P&I)		100		100		100		100		100		100		100		100		100	
Recovery Lag		12		12		12		12		12		12		12		12		12	
Recovery Time Series		100		100		100		100		100		100		100		100		100	
Initial Rate		0		0		0		0		0		0		0		0		0	
Initial Severity		0		47.26		47.26		47.26		47.26		47.26		47.26		47.26		47.26	
Deling. Rate		0 Percent		99 Percent		99 Percent		99 Percent		99 Percent		99 Percent		99 Percent		99 Percent		99 Percent	
Opt Redem		Y		N		N		N		N		N		N		N		N	

ace06he2.cdl										ACE 2006-HE2 M8									
Baa2		BBB+		pricing		fwd		f+2% (ramp)		f+200		f+200		f+4% (ramp)		fwd - 75% PP		f+2% (ramp) - 75%	
Disc Margin		115		140		137		137		137		142		101		138		135	
WAL		4.02		11.3		11.37		11.37		11.2		11.2		11.57		14.68		15.28	
Mod Durn		3.465		7.659		7.088		6.914		8.512		6.896		9.068		8.335			
Principal Window		Sep09 to Aug11		Oct14 to Feb37		Nov14 to Feb37		Oct14 to Feb37		Nov14 to Nov25		Dec14 to Feb37		Jan18 to Feb29		Apr18 to Feb37			
Principal Writedown		0.00 (0.00%)		1,775.65 (0.01%)		24,627.84 (0.18%)		24,800.33 (0.18%)		0.00 (0.00%)		30,159.36 (0.22%)		0.00 (0.00%)		36,981.55 (0.27%)			
Total Collat Loss w/ History(Forecasted)		0.00 (0.00%)		85,357,746.33 (8.74%)		82,213,143.07 (8.24%)		82,237,763.10 (8.75%)		85,356,000.20 (9.08%)		77,443,310.18 (8.24%)		106,631,196.45 (11.56%)		100,369,593.47 (10.67%)			
Default Rate		0 % 2yr 10.0 to 3.0 in 3.0 in 7yr cdr ramp		123.495 % 2yr 10.0 to 3.0 in 7yr cdr ramp		117.818 % 2yr 10.0 to 3.0 in 7yr cdr ramp		118.035 % 2yr 10.0 to 3.0 in 7yr cdr ramp		123.63 % 2yr 10.0 to 3.0 in 7yr cdr ramp		109.871 % 2yr 10.0 to 3.0 in 7yr cdr ramp		112.176 % 2yr 10.0 to 3.0 in 7yr cdr ramp		101.471 % 2yr 10.0 to 3.0 in 7yr cdr ramp			
Default Severity		0 Percent		56.85 Percent		56.85 Percent		56.85 Percent		56.85 Percent		56.85 Percent		56.85 Percent		56.85 Percent		56.85 Percent	
Servicer Advance		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd		All but newly lightd	
Advance (w/ of P&I)		100		100		100		100		100									

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Technology Platform

CMBS Property Level Surveillance

Tenant by Tenant Cash Flow Snapshot				Type of Space						
				1 Industrial 2 Office 3 Storage 4 Ofc/R &D 5 Warehouse						
#	Tenant	SF	#	Type	Current Begin Date	Expiration Date	Term	Rent PSF	Ann. Rent	Mo. Rent
1	Abbey Kelley Foster Regional School	47,253	1	Office	7/1/2003	6/30/2008	3.0	\$10.66	\$ 503,716.98	\$ 41,976
2	Applied Industrial Technologies, Inc.	19,200	1	Industrial	2/1/1998	1/31/2008	10.0	\$4.35	\$ 81,600.00	\$ 6,800
3	Biomedical Research Models, Inc.	14,973	1	Industrial	1/15/1999	12/31/2008	10.0	\$5.61	\$ 83,666.53	\$ 7,000
4	Cardinal Freight Carriers, Inc. (MTM)	1,000	1	Industrial	3/1/2005	4/1/2005	0.1	\$0.00	\$ -	\$ -
5	Rand Whitney Packaging (MTM)	50,000	1	Industrial	5/1/2005	6/1/2005	0.1	\$2.50	\$ 125,000.00	\$ 10,417
6	Reed Machinery, Inc.	25,242	1	Industrial	1/1/2004	12/31/2008	5.0	\$4.97	\$ 125,452.74	\$ 10,454
7	Westaco	151,519	1	Industrial	7/1/2000	6/30/2010	10.0	\$3.66	\$ 554,558.54	\$ 46,213
8	Abbey Kelley Foster Regional School	44,074	1	Industrial	9/1/1998	8/31/2013	15.0	\$6.19	\$ 272,818.06	\$ 22,735
9	Abbey Kelley Foster Regional School	5,258	2	Office	9/1/1998	8/31/2013	15.0	\$3.09	\$ 16,247.22	\$ 1,354
10	Rain For Rent	5,400	2	Office	9/1/1998	11/30/2008	7.3	\$10.75	\$ 58,050.00	\$ 4,838
11	NES Companies Limited Partnership	10,150	4	Ofc/R &D	3/1/2001	2/28/2011	10.0	\$16.36	\$ 165,000.00	\$ 13,750
12	Expert Satellite, Inc.	4,100	1	Industrial	5/1/2001	4/30/2007	6.0	\$6.00	\$ 24,600.00	\$ 2,050
13	Hudson-RPM Distributors, LLC	3,000	1	Industrial	6/1/2001	12/15/2010	9.5	\$3.33	\$ 9,990.00	\$ 833
14	Hudson-RPM Distributors, LLC	120,000	1	Industrial	10/1/2000	12/15/2010	10.2	\$4.35	\$ 510,000.00	\$ 42,500
15	Mass Web Printing	13,825	1	Industrial	5/1/2000	4/30/2006	6.0	\$4.75	\$ 65,688.75	\$ 5,472
16	Mid-State Packaging	37,425	1	Industrial	1/1/2001	12/31/2008	5.0	\$4.40	\$ 164,670.00	\$ 13,723
17	Mid-State Packaging	33,025	1	Industrial	8/31/1988	12/31/2008	17.3	\$4.40	\$ 145,310.00	\$ 12,109
18	Millbrook Distributors	241,304	1	Industrial	9/1/1992	8/31/2007	15.0	\$4.20	\$ 1,013,476.80	\$ 84,456
19	Melech International	43,380	1	Industrial	7/1/2005	6/30/2010	5.0	\$4.50	\$ 195,210.00	\$ 16,268
20	American Red Cross	184,015	4	Ofc/R &D	11/1/1999	10/31/2014	15.0	\$8.38	\$ 1,523,644.20	\$ 126,970
21	RMS Services	40,000	4	Ofc/R &D	11/1/2002	10/31/2012	10.0	\$5.34	\$ 213,600.00	\$ 17,800
22	Bank of America - Warehouse C	38,486	1	Warehouse	4/1/2001	3/31/2010	9.0	\$7.35	\$ 282,672.10	\$ 23,573
23	American Red Cross - Warehouse	28,106	1	Warehouse	3/1/2003	10/31/2009	6.7	\$7.20	\$ 202,363.20	\$ 16,864
24	Bank of America - Warehouse B	23,040	1	Warehouse	10/1/2001	3/31/2010	8.5	\$7.35	\$ 169,344.00	\$ 14,112
25	Bank of America - Warehouse A	21,600	1	Warehouse	10/1/2003	3/31/2010	6.5	\$7.35	\$ 158,760.00	\$ 13,230
26	Admiral Construction (MTM)	2,850	2	Office	10/1/2003	7/1/2008	1.8	\$15.00	\$ 42,750.00	\$ 3,563
27	Bank of America - ATM	1	1	Warehouse	10/1/2003	9/30/2008	2.0	\$0.00	\$ 20,000.00	\$ 1,667
27	Total Occupied	1,208,226	81%				10.8	\$5.55	\$6,728,702	\$ 560,725
Occupancy date as of 7/1/2005					Occ.	% of Bldg.				
15	Industrial	802,067		54%			10.7	\$ 4.20	\$3,372,354	\$ 281,030
4	Office	60,761		4%			4.4	\$ 10.22	\$620,764	\$ 51,730
0	Storage	-		0%			-	\$ -	\$0	\$ -
3	Ofc/R &D	234,165		15%			13.0	\$ 8.12	\$1,902,244	\$ 158,520
5	Warehouse	111,233		7%			7.8	\$ 7.40	\$833,339	\$ 69,445
VACANT										
1	Vacant (Worcester - New Bond I)	10,000	1	Industrial			-	\$ -	\$ -	\$ -
2	Vacant (1060 Millbury Street)	116,841	1	Industrial			-	\$ -	\$ -	\$ -
3	Vacant (Rustcraft Road)	155,285	1	Warehouse			-	\$ -	\$ -	\$ -
3	Total Vacant	282,126	19%		7/1/05			\$0.00	-	-
30	TOTAL	1,490,352	100%					\$5.55	6,728,702	560,725

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Technology Platform

Level 2 Surveillance

advertiser	transactionType	saleReason	custid	collateralID	dealID	securityName	price	amount
Foxe Basin CLO 2003, Ltd	SELL		BL0037079			LifeCare T/L B	\$ 96.00	\$ 960,000.00
Coliseum Funding LTD, 1A	SELL	Tenders	59000GAA8			Arvinmeritor Inc - 6.80%/2/2009	\$ 96.99	\$ 9,914,000.00
South Coast Funding VII, Ltd	SELL	Written Down	37638RAG7*			GLCR 2004-1A - SYN C Libor+3.30%/03/2039	\$ 0.00	\$ 48,725.33
Katonah III	SELL	Discretionary Sale	92839UAB3			Visteon Corp. - 8.25% 8/2010	\$ 82.25	\$ 8,000.00
Brant Point CBO 1999-1	SELL	12.1(a)	92839UAB3			Visteon Corp. - 8.25% 8/2010	\$ 82.25	\$ 48,000.00
Avery Point CLO	SELL	Discretionary Sale	92839UAB3			Visteon Corp. - 8.25% 8/2010	\$ 82.25	\$ 23,000.00
Avery Point CLO	SELL	Discretionary Sale	92839UAB3			Visteon Corp. - 8.25% 8/2010	\$ 81.75	\$ 17,000.00
Katonah III	SELL	Discretionary Sale	92839UAB3			Visteon Corp. - 8.25% 8/2010	\$ 81.75	\$ 6,000.00
Brant Point CBO 1999-1	SELL	12.1(a)	92839UAB3			Visteon Corp. - 8.25% 8/2010	\$ 81.75	\$ 34,000.00
Brant Point CBO 1999-1	SELL	12.1(a)	92839UAB3			Visteon Corp. - 8.25% 8/2010	\$ 82.75	\$ 46,000.00
Katonah III	SELL	Discretionary Sale	92839UAB3			Visteon Corp. - 8.25% 8/2010	\$ 82.75	\$ 9,000.00
Katonah III	SELL	Credit Risk	92839UAC1			Visteon Corp. - 7.0% 03/2014	\$ 77.25	\$ 73,000.00
Dresdner RCM Global Investors CBO II	SELL	Other	98417K106			XO Holdings Inc - Common Stock	\$ 2.30	\$ 0.87
Dresdner RCM Global Investors CBO II	SELL	Other	98417K114			XO Holdings Inc - Warrants K114	\$ 22.97	\$ 0.74
Dresdner RCM Global Investors CBO II	SELL	Other	98417K122			XO Holdings Inc - Warrants K122	\$ 16.67	\$ 0.30
Dresdner RCM Global Investors CBO II	SELL	Other	98417K130			XO Holdings Inc - Warrants K130	\$ 16.67	\$ 0.30
Avery Point CLO	SELL	Discretionary Sale	92839UAC1			Visteon Corp. - 7.0% 03/2014	\$ 77.25	\$ 59,000.00
Avery Point CLO	SELL	Discretionary Sale	92839UAB3			Visteon Corp. - 8.25% 8/2010	\$ 82.75	\$ 23,000.00
Federated CBO II, Ltd.	SELL	Tenders	043339CA6			Arvin Industries Inc - 7.125%/3/2009	\$ 97.88	\$ 2,500,000.00
Solar Investment Grade CBO I	SELL	Defaults	247361YF9			Delta Air Lines - 7.9% 12/2009	\$ 28.13	\$ 1,000,000.00
Solar Investment Grade CBO I	SELL	Defaults	247361YF9			Delta Air Lines - 7.9% 12/2009	\$ 28.38	\$ 1,000,000.00
Avery Point CLO	SELL	Credit Risk	404216AB9			HLI Operating Co Inc - 10.5%/06/2010	\$ 83.00	\$ 93,000.00
Katonah III	SELL	Credit Risk	404216AB9			HLI Operating Co Inc - 10.5%/06/2010	\$ 83.00	\$ 82,000.00
Brant Point CBO 1999-1	SELL	Credit Risk	404216AB9			HLI Operating Co Inc - 10.5%/06/2010	\$ 83.00	\$ 221,000.00
NYLIM High Yield CDO 2001	SELL	Credit Risk	87971KAA5			Tembec Industries Inc - 8.625% 06/2009...	\$ 60.00	\$ 200,000.00
Knollwood CDO Ltd.	SELL	Credit Risk Security	004421CC5			ACE 2003-TC1	\$ 99.88	\$ 2,220,221.25
Katonah III	SELL	Discretionary Sale	911365A44			United Rentals NA Inc - 6.5%/02/2012	\$ 99.00	\$ 356,000.00
Katonah III	SELL	Discretionary Sale	911365A44			United Rentals NA Inc - 6.5%/02/2012	\$ 99.00	\$ 534,000.00
Clydesdale CLO 2003	SELL	Credit Risk	36293YAC9			GSC Holdings Corp - 8.000% - 10/2012	\$ 99.50	\$ 25,000.00
Katonah III	SELL	Discretionary Sale	880349AH8			Tenneco Automotive Inc. - 8.625% 11/2014 EXG FROM 880349AF2 ON 5/20/2005	\$ 99.25	\$ 478,000.00
JWS CBO 2000-1, Ltd.	SELL	Other Corporate Action	45881KAB0			Internet Corporation - 9.75% 06/2009	\$ -	\$ 2,000,000.00
Avery Point CLO	SELL	Discretionary Sale	880349AH8			Tenneco Automotive Inc. - 8.625% 11/2014 EXG FROM 880349AF2 ON 5/20/2005	\$ 99.25	\$ 478,000.00
Avery Point CLO	SELL	Discretionary Sale	36293YAC9			GSC Holdings Corp - 8.000% - 10/2012	\$ 97.63	\$ 137,000.00
Avery Point CLO	SELL	Credit Risk	404216AB9			HLI Operating Co Inc - 10.5%/06/2010	\$ 84.00	\$ 227,000.00
Brant Point CBO 1999-1	SELL	Credit Risk	404216AB9			HLI Operating Co Inc - 10.5%/06/2010	\$ 84.00	\$ 539,000.00
Katonah III	SELL	Credit Risk	404216AB9			HLI Operating Co Inc - 10.5%/06/2010	\$ 84.00	\$ 201,000.00
Solar Investment Grade CBO II	SELL	Defaults	667280AF8			Northwest Airlines Inc - 10.0%/02/2009	\$ 44.00	\$ 2,000,000.00
Fort Point CDO I	SELL	Credit Risk	64981RAQ1			WFMBS 2005-APR3 B2	\$ 84.75	\$ 943,490.72
Ascension High Grade CDO	SELL	Credit Risk	624581AB0			Movie Gallery - 11.000% - 05/2012	\$ 56.50	\$ 425,000.00
Fort Point CDO II Ltd	SELL		553083CW4			MMCA 2002-3 C	\$ 99.39	\$ 973,500.71
Katonah III	SELL	Credit Risk	404216AB9			HLI Operating Co Inc - 10.5%/06/2010	\$ 84.50	\$ 164,000.00
Brant Point CBO 1999-1	SELL	Credit Improved	404216AB9			HLI Operating Co Inc - 10.5%/06/2010	\$ 84.50	\$ 442,000.00
Avery Point CLO	SELL	Credit Risk	404216AB9			HLI Operating Co Inc - 10.5%/06/2010	\$ 84.50	\$ 185,000.00
Avery Point CLO	SELL	Discretionary Sale	36293YAC9			GSC Holdings Corp - 8.000% - 10/2012	\$ 97.38	\$ 412,000.00
Zais Investment Grade III	SELL	Defaults	302062AN4			Eximus Capital Funding Ltd - 9.324% 7/2011Regs...	\$ 80.50	\$ 2,999,826.43
NYLIM High Yield CDO 2001	SELL	Credit Risk	87971KAA5			Tembec Industries Inc - 8.625% 06/2009...	\$ 52.50	\$ 100,000.00
Brant Point CBO 1999-1	SELL	Equity Disposition	86815U206			Superior Essex Holdings - Preferred Stock	\$ 83.00	\$ 8,348.00
Solar Investment Grade CBO II	SELL	Defaults	247126AB1			Delphi Corp - 6.5% 05/2009	\$ 60.75	\$ 4,000,000.00
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 75.50	\$ 120,000.00
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 74.00	\$ 235,000.00
Laguna ABS CDO, Ltd.	SELL	Credit Improved Security	126694AN8			CWHL 2005-19	\$ 99.94	\$ 1,268,924.02
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 71.25	\$ 120,000.00
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 70.25	\$ 235,000.00
Putnam Structured Product Funding 2003-1, Ltd.	SELL		251591AC8			DDR 4 5/8 08/01/10	\$ 96.22	\$ 580,338.25
Putnam Structured Product Funding 2003-1, Ltd.	SELL		251591AC8			DDR 4 5/8 08/01/10	\$ 96.22	\$ 580,338.25
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 69.25	\$ 235,000.00
Federated CBO II, Ltd.	SELL	Equity Disposition	G93447103			Vistel Holding Bermuda Ltd - Equity	\$ 0.50	\$ 444.00
Ascension High Grade CDO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 64.00	\$ 1,000,000.00
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 70.38	\$ 235,000.00
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 70.25	\$ 250,000.00
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 70.00	\$ 235,000.00
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 70.50	\$ 250,000.00
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 70.25	\$ 250,000.00
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 70.25	\$ 250,000.00
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 70.25	\$ 250,000.00
Hampden CBO	SELL	Credit Risk	235811AK2			Dana Corporation - 6.5% 03/2009	\$ 70.25	\$ 250,000.00
Sherwood Funding CDO Ltd.	SELL	Credit Risk	64352VCM1			NCHET 2003-1 - M4 Libor+3.50%/02/2033	\$ 97.89	\$ 5,905,000.00
Sherwood Funding CDO Ltd.	SELL	Credit Risk	64352VCM3			NCHET 2003-2 - M4 Libor+3.6% 01/2033	\$ 97.94	\$ 5,607,000.00
Sherwood Funding CDO Ltd.	SELL	Credit Risk	61746RBR1			MSAC 2003-NC6 - B3 Libor+3.75 06/2033	\$ 99.50	\$ 4,000,000.00
Sherwood Funding CDO Ltd.	SELL	Credit Risk	57643LCD6			MABS 2003-WMC2 - M6 Libor + 4.00% 08/2033	\$ 99.63	\$ 452,890.10
STACK 2004-1 Ltd	SELL		784649AH8			SSBRV 2001-1 D	\$ 69.25	\$ 2,775,771.11
Kilo II Funding, Ltd.	SELL		36228F5Z5	562	774	GSAMP 2004-SEA2 - Class M1	\$ 99.50	\$ 16,480,850.87
Kilo II Funding, Ltd.	SELL		36228F5Z5	562	774	GSAMP 2004-SEA2 - Class M1	\$ 99.50	\$ 16,480,850.87
Clydesdale CLO 2003	SELL	Credit Risk	36293YAC9			GSC Holdings Corp - 8.000% - 10/2012	\$ 99.38	\$ 25,000.00
Duke Funding VI	SELL	Credit Risk	36228F6C5		774	GSAMP 2004-SEA2 - M4 Libor+2.0%/03/2034	\$ 99.00	\$ 3,363,000.00
Duke Funding VI	SELL	Credit Risk	36228FU20			GSAA 2004-CW1 - B2 5.964% 04/2034	\$ 99.00	\$ 2,558,885.74
								\$ 100,080,407.86

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

Technology Platform

Transparency of Reporting

The screenshot displays the Vertical Capital, LLC website interface, which includes a navigation menu with links such as HOME, INVESTMENT APPROACH, MANAGERS IN OUR PORTFOLIO, and INVESTOR INFORMATION. The main content area features a sidebar with links to various reports and documents, including Indenture, Investor Letters, Note Valuation Reports, Offering Memorandum, Portfolio Advisor Agreement, Portfolio Exposure Overlap Reports, Portfolio Listing with Current Marks, Rating Transition Matrix, Trustee Reports on Underlying CDOs, and Vertical CDO 2003-1 Trustee Reports.

Overlaid on the website are two Adobe Acrobat Standard windows. The first window displays the 'Vertical CDO 2003-1 Ltd, as Issuer' and 'Vertical CDO 2003-1 Corp, as Co-Issuer' information, along with a 'Monthly Report - Table of Contents'. The second window displays the 'Holdings Report' for 'Vertical CDO 2003-1', showing a detailed table of holdings with columns for Asset Type, Maturity, Coupon, Unit Price, Price, Cost USD, Market Value, and Rating. The table lists various assets, including CDOs, MBS, and other structured securities, with their respective values and ratings.

Information in this section, "Vertical Capital, LLC", has been provided by Vertical

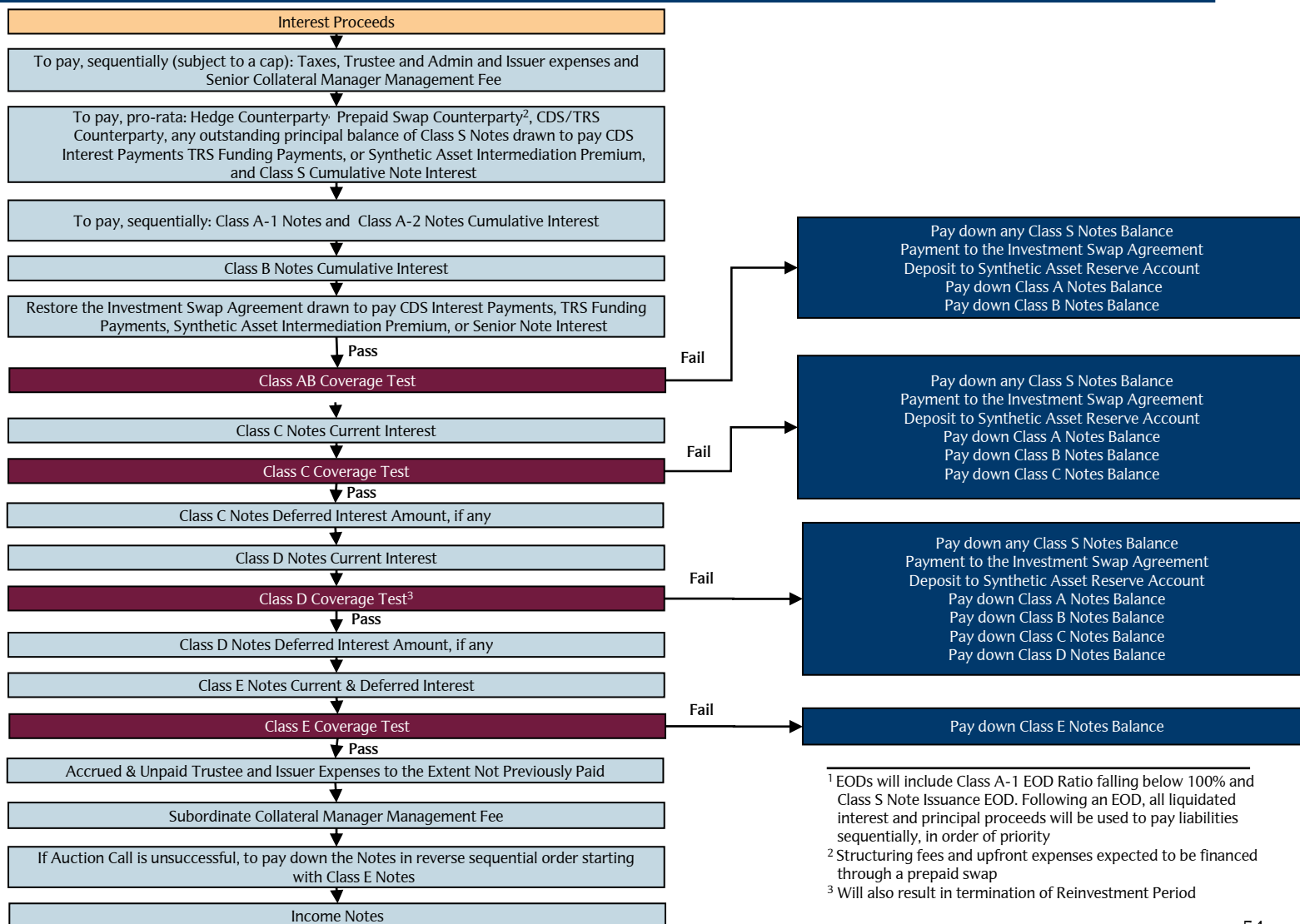
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Appendix – Anticipated Waterfall Mechanics

Priority of Payments - Interest Waterfall* (pre-Event of Default¹)

* For illustrative purposes only.
Please refer to Offering Circular
for final features and further
details.



¹ EODs will include Class A-1 EOD Ratio falling below 100% and Class S Note Issuance EOD. Following an EOD, all liquidated interest and principal proceeds will be used to pay liabilities sequentially, in order of priority

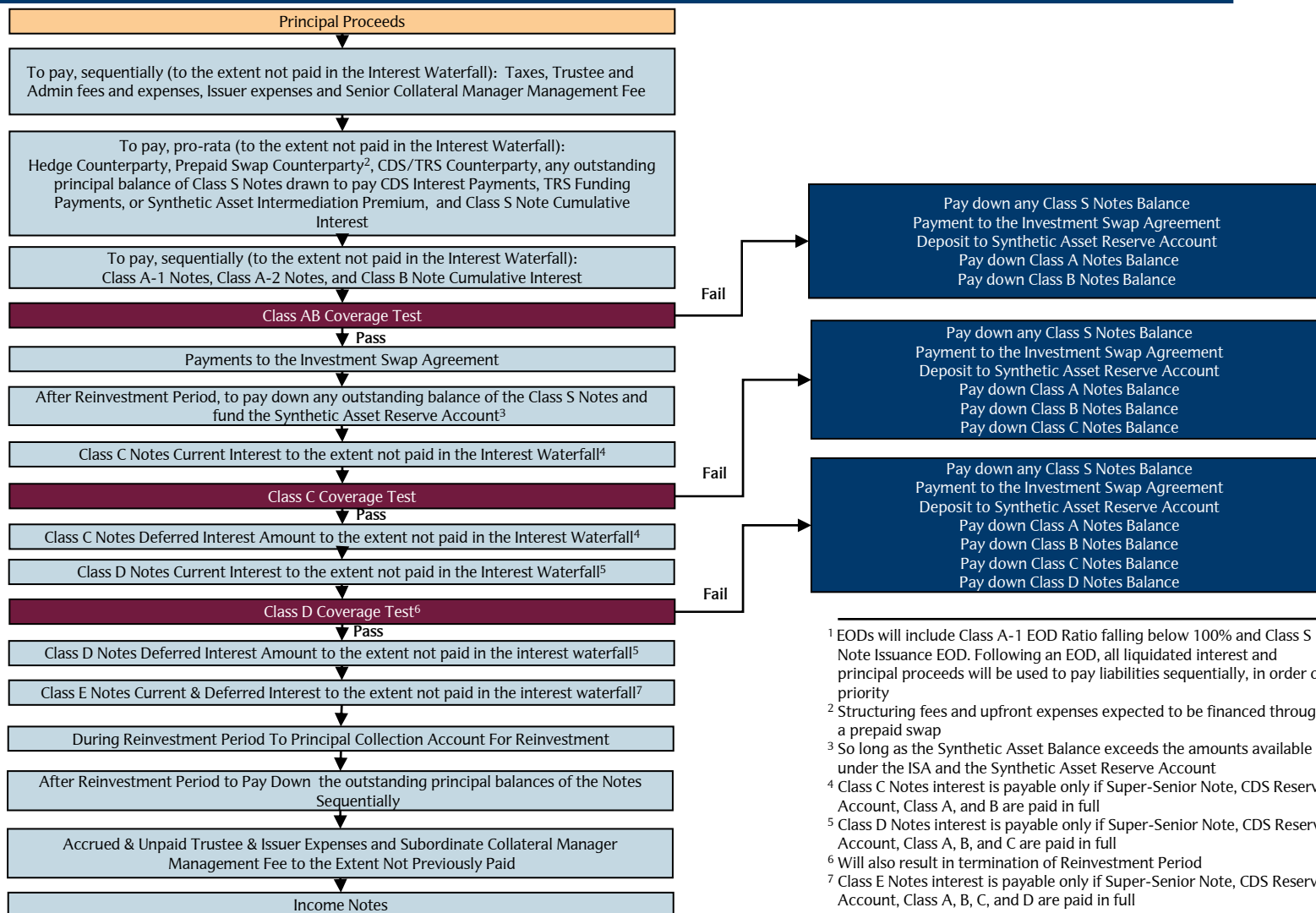
² Structuring fees and upfront expenses expected to be financed through a prepaid swap

³ Will also result in termination of Reinvestment Period

Appendix – Anticipated Waterfall Mechanics

Priority of Payments – Principal Waterfall* (pre-Event of Default¹)

* For illustrative purposes only. Please refer to Offering Circular for final features and further details.



¹ EODs will include Class A-1 EOD Ratio falling below 100% and Class S Note Issuance EOD. Following an EOD, all liquidated interest and principal proceeds will be used to pay liabilities sequentially, in order of priority

² Structuring fees and upfront expenses expected to be financed through a prepaid swap

³ So long as the Synthetic Asset Balance exceeds the amounts available under the ISA and the Synthetic Asset Reserve Account

⁴ Class C Notes interest is payable only if Super-Senior Note, CDS Reserve Account, Class A, and B are paid in full

⁵ Class D Notes interest is payable only if Super-Senior Note, CDS Reserve Account, Class A, B, and C are paid in full

⁶ Will also result in termination of Reinvestment Period

⁷ Class E Notes interest is payable only if Super-Senior Note, CDS Reserve Account, Class A, B, C, and D are paid in full

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Appendix – Vertical Capital, LLC Key Personnel

Brett T. Graham

Managing Partner

Mr. Graham serves as Vertical's Chief Investment Officer and has oversight of the company's portfolio management activities. He is a member of the company's Investment Committee as well as its Board of Directors and has been with the company since it began operations. Mr. Graham co-manages the business activities of Vertical Capital in conjunction with Mr. Pearce. He was formerly a Senior Managing Director of Bear, Stearns & Co., Inc where he worked beginning in 1987. Most recently at Bear Stearns in London he managed the firm's International Debt Capital Markets Department (Europe & Asia) from 1993-2001, and was Co-Head of the Global Debt Capital Markets ("DCM") business. While in London Mr. Graham was also a member of Bear Stearns' European Management Committee. From 1990-1993, Mr. Graham directed Bear Stearns' activities in developing an ABS/MBS market in Europe. Prior to this, Mr. Graham was an Associate in Bear Stearns' Mortgage Backed Securities Department in New York focusing on Research, Liability Management for Financial Institutions and Product Development. Mr. Graham worked at Morgan Stanley in New York from 1985-1987 prior to joining Bear Stearns. He holds a B.A. from the University of California at Berkeley.

Thomas M. Pearce

Managing Partner

Mr. Pearce serves as Vertical's Chief Financial Officer as well as Chief Operating Officer and has oversight of the company's finance and operations. He is a member of the company's Board of Directors as well as its investment committee and has been with the company since inception. Mr. Pearce co-manages the business activities of Vertical in conjunction with Mr. Graham. Additionally he serves as a portfolio manager in the ABS and real estate sectors. Prior to forming Vertical Capital, Mr. Pearce was CEO and a co-founder of Peachtree Financial LLC, an Atlanta-based commercial finance company organized with the financial backing of Arthur J. Gallagher & Co. (NYSE:AIG) and First Union Securities. He initially served as that company's chief financial officer before being named CEO by the board of directors. Prior to forming Peachtree in 1998, Mr. Pearce was a Managing Director with Bear, Stearns & Co., Inc. where he was employed for more than 11 years, both in New York and Atlanta where he held senior positions in institutional fixed income as well as the Financial Services Group. In addition to experience across the credit sensitive ABS, MBS, CMBS and CDO arenas, Pearce specialized in the development of risk management solutions for a variety of financial institutions. Mr. Pearce began his career at Bear Stearns in the mortgage research department (F.A.S.T). He began his investment banking career in 1985 at the Paine Webber Group in New York City. He is a graduate of Washington and Lee University.

Appendix - Key Personnel (continued)

Kem H. Blacker

Partner

Mr. Blacker serves as a senior portfolio manager focused in the ABS, MBS and CDO sectors as well as serving on the company's Investment Committee. He has been with the company since inception. Prior to forming Vertical, Mr. Blacker was formerly a founding partner of CGA Group and Managing Director for CGA investment management ("CGAIM"), a firm that specialized in securitized asset investing (ABS, CDOs, CMBS). As a member of CGAIM's investment committee and Managing Director of CGAIM's portfolio management group, he participated in the firm's investment decisions and was responsible for funding and hedging the firm's \$3 billion investment portfolio of securitized assets. Prior to joining CGA in 1996, Mr. Blacker was at Financial Guaranty Insurance Company ("FGIC") since its inception in 1984. He served in a variety of functions at FGIC, most recently as Senior Product Manager in the Capital Markets Group, where he invested in securitized assets and organized AAA-rated, off-balance sheet investment vehicles. Mr. Blacker established FGIC's London office in 1990 and served as Director of Marketing & New Products in Europe for 3 years where he implemented several proprietary offshore investment vehicles. Before moving to London Mr. Blacker was Director of FGIC's MBS business and established it as the leader in the sub-prime/home equity mortgage market. He is a graduate of the University of California at Davis.

Mary F. Davenport

Partner

Ms. Davenport is an Investment Committee member and serves as a senior portfolio manager focused on commercial real estate mortgage backed securities, real estate CDO's and commercial real estate related investments. She joined Vertical Capital from American Capital Access (ACA), where she was a Director in the Structured Finance and Asset Management Group since inception in 2001. Ms. Davenport was responsible for the establishment of investment guidelines, analysis and ongoing surveillance for corporate credits, commercial real estate credits and related assets. Ms. Davenport managed a portfolio of approximately \$1 billion in CMBS conduit securities, large loan floating rate transaction securities, and REIT debt. Ms. Davenport was a voting member on both the ABS and Corporate Credit Committees. Prior to joining ACA, Ms. Davenport was a Partner with Syntagma, Inc, a consulting company specializing in commercial real estate related transactions, corporate financings and bank balance sheet advisory. From 1990 - 1992, Ms. Davenport was a Credit specialist for the Federal Deposit Insurance Corporation, responsible for the analysis, management and disposition of assets held in multiple receivership accounts in excess of \$2 billion. Ms. Davenport began her career in 1980 at Merrill Lynch & Company as a financial consultant in investment advisory services. Ms. Davenport holds a B.A. in French & Economics from Trinity College.

Appendix - Key Personnel (continued)

Beth A. Ferraro

Partner

Ms. Ferraro is a senior portfolio manager focused on the ABS and MBS marketplace and is a member of Vertical's Investment Committee. She joined Vertical from Alliance Capital Management, LP ("Alliance"), where she was a senior portfolio manager and Vice President from 1997 to 2004 in the Structured Asset Strategies Fixed Income Group. Ms. Ferraro was responsible for managing accounts comprised of senior and mezzanine ABS, MBS and CMBS valued at approximately \$6 billion among several strategies, which included hedge fund, CDO, conduit, insurance, institutional, mutual fund and high net worth individual portfolios. Prior to Alliance she was a Vice President and portfolio manager for Amalgamated Bank of New York and was responsible for managing total return accounts, specializing in mortgage-backed securities. Ms. Ferraro was a global fixed income analyst for Fiduciary Trust Company International and an economic analyst for the chief economist at Barclays de Zoete Wedd. Ms. Ferraro, a cum laude graduate of Clark University, holds a B.A. and B.S. in economics and Business Management and an M.B.A. in Finance from New York University's Leonard N. Stern School of Business.

Jennifer Winterberg, CFA

Partner

Ms. Winterberg is a senior portfolio manager focused on the CDO sector. She is a member of Vertical's Investment Committee and has been with the company since it began operations. Ms. Winterberg joined Vertical from Metropolitan Life Insurance Company ("Met Life"), where she was a Director in the Asset-Backed Securities Unit from 2000 to 2002. At Met Life, she was the lead CDO analyst, responsible for a \$1.3 billion portfolio of CDO investments across all levels of the capital structure. Ms. Winterberg is experienced in analysis and valuation of cash flow, market value and synthetic CDO structures in a variety of asset sectors. Prior to assuming this role, she was a Team Leader and credit analyst in Met Life's Bank Loan Unit from 1998 to 2000, where she was responsible for a portion of Met Life's leveraged bank loan portfolio in a variety of industries. Prior to working at Met Life, Ms. Winterberg was a banker in the Chemicals & Pharmaceuticals Department of Citicorp Securities after completing Citicorp's management associate training program. Prior to this, she held various positions as a banker and credit analyst at Kredietbank NV. Ms. Winterberg holds a B.A. in History and Political Science from Duke University, an M.S. from the London School of Economics and an M.B.A. in Finance/International Business from New York University's Leonard N. Stern School of Business. She is also a CFA Charter holder.

Appendix - Key Personnel (continued)

Chris Porcelli

Director

Mr. Porcelli heads the company's modeling and structuring efforts and is responsible for development and implementation of the company's proprietary analytical and risk management systems. He was formerly a Vice President with American Capital Access (ACA) in the Structuring and Quantitative Group since its formation in 2001. His duties included responsibility for the development of ACA's collateral monitoring, surveillance and investor reporting systems. Prior to joining ACA, Chris was a Vice President with Bear, Stearns & Co., Inc. within the FAST department where he modeled CDOs and supported the firm's secondary CDO trading activities. He has extensive experience modeling a wide variety of CDO transactions (emerging market, high yield, ABS) in addition to performing in-depth cash flow and stress analysis used to trade CDOs. He also streamlined the systems utilized by Bear Stearns and enhanced its secondary trading and risk monitoring capabilities. In addition to his expertise in the structured credit securities markets, Mr. Porcelli has an extensive computer programming and systems background. Prior to joining Bear Stearns in 1998, he graduated from Columbia University from the school of Engineering and Applied Sciences with a B.S. in Computer Sciences.

Titus Abraham

Vice President

Mr. Abraham is responsible for the surveillance and monitoring function of the firm's ABS portfolio as well as supporting the Company's ABS portfolio management efforts from a research perspective. He joined Vertical Capital from Alliance Capital, where he was an Assistant Vice President and research analyst in the Structured Asset Research group. At Alliance, Mr. Abraham was responsible for the development and implementation of the firm's surveillance system that tracked the performance of Alliance's \$5 billion holdings in various ABS and CDO securities. As a member of Alliance's research staff, Mr. Abraham analyzed and recommended securities for the firm's various trading strategies, which included assets for short duration, hedge fund, sector rotation, and asset backed conduit portfolios. Prior to joining Alliance Capital in November 1999, Mr. Abraham was at the Institutional Trust Group at JP Morgan Chase; involved in various aspects of deal structuring and investor reporting relating to asset securitizations. Mr. Abraham received his Bachelors in Business Administration from Hofstra University.

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Appendix – Risk Factors

Risk Factors

An investment in the securities described herein, if such offering is consummated, will involve certain risks. A detailed list of risk factors will be included in the offering documents (including the preliminary and final versions thereof). Set forth below is a summary description of certain of the risks to which an investor in the securities would be subject. This summary description is not and does not purport to be a complete list of the risks inherent in a debt or equity investment. These summary risks will be described in greater detail in the offering documents (together with additional risks). An investor should not make any decision to invest in the securities until after such investor has had an opportunity to read and review carefully the offering documents.

- *Risk of Subordinate Asset-Backed Securities.* It is expected that substantially all of the collateral and reference obligations will consist of asset-backed securities that are subordinate in right of payment to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, the underlying documents for many of the items of collateral provide for the diversion of payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. In certain circumstances, payments of interest may be reduced or eliminated for one or more payment dates, which may adversely affect the ability of the Issuer to pay principal and interest in respect of the Notes. Subordinate asset-backed securities have a higher risk of loss than more senior classes as a result of delinquencies or losses on the underlying assets. Additionally, as a result of cash flow being diverted to payments of principal on more senior classes, the average life of such securities may lengthen. As a result of such reduction, elimination or diversion, funds available to the Issuer to pay interest, principal and expenses could be reduced. Subordinate asset-backed securities generally do not have the right to call a default or vote on or direct remedies following a default unless more senior securities have been paid in full. Moreover, as a holder of a synthetic asset via a Credit Default Swap, the Issuer will have no voting rights with respect to the reference obligation. As a result, a shortfall in payments to subordinate investors will generally not result in a default being declared on the transaction and the transaction will not be restructured or unwound. Finally, because subordinate asset-backed securities may represent a relatively small percentage of the size of the asset pool being securitized, the impact of a relatively small loss on the overall pool may be substantial on the individual subordinate asset-backed security.
- *Default and Yield Considerations.* Securities such as those included in the collateral typically bear the risk of loss or other shortfalls with respect to the underlying assets prior to any classes of securities which are senior to such securities and as a consequence are extremely sensitive to the delinquency and loss performance of the underlying assets. Any such losses and other shortfalls with respect to the collateral will be borne first by the holders of the Income Notes and then by the holders of the Rated Notes then outstanding in their reverse order of the seniority of such classes of rated notes. Further, the rate at which principal payments will be received on the securities will be dependent on the rate of principal payments (including prepayments) on the underlying assets and may fluctuate significantly over time. Such fluctuations will affect the yield to the Issuer, as holder of such securities which in turn may affect the Issuer's ability to make timely payments on the Notes.
- *Default Rates.* Reliable sources of statistical information do not exist with respect to the default rates for the type of securities represented by the collateral. Moreover, the available information may not be indicative of future performance. Should increases in default rates occur with respect to the types of collateral comprising the collateral, the actual default rates of the collateral may exceed the hypothetical default rates used in the performance tables shown herein. Prospective investors in the Securities should consider and determine for themselves the likely level of defaults and the level and timing of recoveries on the collateral during the term of the transaction.
- *Dependence on Manager or Servicer Performance.* In addition to performance by the Collateral Manager with respect to the selection of collateral, the performance of the collateral itself is or may be dependent upon the performance of a manager, advisor, servicer or special servicer of the underlying assets.

Appendix – Risk Factors (continued)

Risk Factors

- Credit Exposure to Reference Portfolio. On the issue date, the Issuer will enter into credit default swaps, pursuant to which the Issuer will sell credit default protection with respect to the reference portfolios of asset-backed securities and CDO securities (the "Reference Portfolio"). If between the issue date and the expected termination date of the credit default swap, a credit event occurs with respect to a reference obligation in the Reference Portfolio, the Issuer will pay the counterparty the amount of the write-down or principal loss, or if the counterparty elects to physically settle the reference obligation, the notional amount of such reference obligation times the reference price. In return for credit default protection, the counterparty will pay the Issuer a premium. All Notes are subordinated to payment of losses under the credit default swaps and to certain payments under the credit default swaps in connection with a termination event. The principal amount of Notes may be reduced by such loss or termination payments. The magnitude of such losses will be affected by the number of credit events and the recovery amount of any delivered reference obligations and the timing of such credit events.
- Credit Exposure to Swap Counterparty. The ability of the Issuer to meet its obligations under the Notes will be dependent on its receipt of payments from the counterparty under the credit default swaps. Consequently, investors in the Notes will be exposed not only to the creditworthiness of the reference obligations but also to the creditworthiness of the counterparty to perform its obligations under the credit default swaps. The insolvency of a counterparty or a default by it under a credit default swap would adversely affect the ability of the Issuer to pay amounts when due under the Notes and could result in a withdrawal or downgrade of the ratings on the Notes.
- Termination of the Credit Default Swaps. Pursuant to the credit default swaps, the Issuer or the counterparty will each have the right to terminate the credit default swaps in specified circumstances. In such event, the Issuer also may be required to make substantial termination payments to the counterparty and such payments would reduce the amounts available to make payments on the Notes. The Issuer may not have sufficient funds to make payments when due on the Notes and may not have sufficient funds to redeem the Notes.
- Reference Assets Will Possess Inherent Risks. These include, among other things, credit, liquidity and interest rate risk, the financial condition of the underlying obligors, general economic conditions, market price volatility, the condition of certain financial markets, political events and developments or trends in any particular industry or geographical area.
- Reinvestment Risk. There can be no assurance that, in the event that the collateral prepaids, spreads will be at the same levels as when the original collateral was acquired. To the extent prepaid collateral is reinvested into lower spread assets, this will result in a reduction of the amounts available for payment on the Notes.
- Tax Considerations. Special tax consideration may apply to certain types of taxpayers. Prospective investors are urged to consult with their own tax advisors to determine any tax implications of this investment.

Appendix – Risk Factors (continued)

Risk Factors

- Redemption; Diversion of Cash. The securities will be subject to redemption under certain circumstances described in the offering documents (including, under certain circumstances, upon the failure of certain financial coverage tests to be satisfied). Any such redemption may cause the economic return from an investment in the securities to vary from the expected economic return. In addition, the failure to satisfy certain financial coverage tests could result in an elimination, deferral or reduction in the payments to be made to holders of one or more classes of Notes or Income Notes, which could adversely impact the economic return realized by such holders.
- Average Life of the Securities. The average life of each class of securities is expected to be shorter than the number of years until their stated maturity. Such average lives will be affected by numerous factors described in the offering documents.
- Nature of Collateral. The collateral underlying the securities will consist primarily of securities (and synthetic assets referencing such securities) that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period. Such underlying securities will be subject to credit, liquidity, interest rate, market, operations, fraud and structural risks. The underlying securities and certain risks arising from their ownership by the Issuer will be described in more detail in the offering documents.
- Limited-Recourse Obligations. The securities will be limited-recourse obligations, payable solely from an identified pool of assets. No recourse may be had to any person or entity other than to the Issuer in respect of such collateral in respect of payments or distributions on securities.
- Volatility due to Leverage. Any investment in subordinate securities will represent a leveraged investment. Utilization of leverage is a speculative investment technique and involves certain risks to investors, particularly to investors that bear the first risk of loss. The use of leverage generally magnifies opportunities for gain and risk of loss.
- Relation to Prior Investment Results. Any prior investment results of any person or entity described herein will not be indicative of the Issuer's future investment results. Such results are intended only to give potential investors information concerning the general experience of the relevant person or entity as an asset manager or adviser and are not intended as a representation or warranty by Vertical or Barclays or any other person or entity as to the actual composition of or performance of any future investments that would be made by the Issuer. The nature of, and risks associated with, the Issuer's future investments may differ substantially from (and will be subject to constraints that were not applicable to) those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as, or in a manner similar to, the past investments of any such persons or entities.

Appendix – Risk Factors (continued)

Risk Factors

- Potential for Interruption and Deferral of Cash Flow. If certain minimum collateral par value ratios, interest coverage ratios are not met (e.g., due to collateral defaults), then cash flow that otherwise would have been available to pay the subordinated classes of Notes including the Income Notes, would instead be used to redeem the Notes until the ratios again exceed the minimum required levels or such Rated Notes are paid in full. This could result in an elimination, deferral or reduction in the cashflow to the Notes, which may adversely impact the pre-tax and after-tax returns.
- Projections, Forecasts and Estimates. Any projections, forecasts and estimates contained herein are forward-looking statements and are based upon certain assumptions that are disclosed herein. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material.

Certain hypothetical performance analyses are based on assumptions that may prove to be incorrect. Prospective investors should understand those assumptions and evaluate whether they are appropriate for their purposes. Certain analyses are based on mathematical models that use hypothetical inputs to calculate results. As with all models, results may vary significantly depending upon the values of the inputs used. Models used in any analysis may be proprietary, making the results difficult for any third party to reproduce. Moreover, hypothetical performance analyses will address only certain aspects of the characteristics of the securities and will not provide a complete assessment of the results that may follow from all possible contingencies (including default, interest rate and other scenarios and certain economic features of the securities, including call features and cash flow diversion events). Prospective investors should consider whether the behavior of these securities should be tested based on assumptions different from those used to prepare these analyses.

- Limited Liquidity and Restrictions on Transfer. There is currently no market for the securities and it is unlikely that a secondary market for the securities will develop. Additionally, the securities will not be registered under any federal or state securities laws, and such securities are being issued and sold in reliance upon exemptions from registration provided by such laws. The securities will be subject to certain transfer restrictions and will only be transferable to certain permitted transferees to be identified in the offering documents. Furthermore, the Issuer will restrict ownership of any interests in the Income Notes so that no assets of the Issuer will be deemed to be “plan assets” subject to ERISA and/or Section 4975 of the Internal Revenue Code. Consequently, an investor in the securities must be prepared to hold for an indefinite period of time or until maturity or redemption.

Appendix – Risk Factors (continued)

Risk Factors

- *Conflicts involving Vertical.* Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of Vertical, its affiliates or any funds or accounts managed by Vertical and its other clients and employees. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

Vertical and its affiliates, may, subject to and in accordance with their respective permitted business activities and applicable law, invest for their own account, or for the account of others, in a variety of investments and/or make recommendations or provide advice to other persons in relation to any such investments, that would or may be appropriate as security for the Notes and have no duty in making such investments to act in a way that is favorable to the Issuer or the holders of the Notes. Such investments may be the same as, similar to or different from those made on behalf of the Issuer. None of Vertical or its affiliates has any obligation to recommend and/or advise the Issuer to make such investments or to inform the Issuer of any investments made with or by other funds or accounts that Vertical or its affiliates manage or advise. Vertical may make investments on behalf of the Issuer in asset backed securities or other assets that it has declined to purchase for its own account, the account of any of its affiliates or the accounts of any of its other clients. If a determination is made that the Issuer and another client of Vertical or any of its affiliates should trade in the same asset backed securities or other assets on the same day, such trades will be allocated between the Issuer and other accounts in a manner that Vertical and its affiliates determined in their discretion and in accordance with applicable law. Circumstances may occur in which such an allocation could have an adverse effect on the price or the size of the asset backed security or other asset that is obtainable or available for sale by the Issuer or the other client.

Each of Vertical and its affiliates and clients may have economic interests in or other ongoing relationships with, render services to or engage in transactions with persons whose obligations or securities are pledged to secure the Notes. The purchase, holding and sale of such securities by the Issuer may enhance the profitability of any of Vertical's or its affiliates' or clients' investments in securities of such persons. Each of Vertical and its affiliates and clients may also own, directly or through other funds it manages, equity or debt securities issued by issuers of and obligors on CDO assets which assets may be senior to, or may have interests which differ from, or are adverse to, the interests of the Issuer as a holder of the CDO assets. As a result, officers or affiliates of Vertical may possess information relating to issuers of CDO assets that is not known to the individuals at Vertical responsible for monitoring the CDO assets. None of Vertical, its affiliates and their respective shareholders, members, managers, partners, directors, officers, employees, attorneys and agents will have liability to the Issuer or any holder of any Note for failure to disclose such information or for taking, or failing to take, any action based upon such information. Each such ownership or other relationship may also result in securities laws restrictions on transactions in the CDO assets held by the Issuer and otherwise create conflicts of interest that may be detrimental to the Issuer. In such instances, each of Vertical and its affiliates may in their discretion make investment recommendations and decisions with respect to other accounts that may be the same as or different from those made with respect to the Issuer's investments, and may cause Vertical to cause the Issuer to take or refrain from taking action in respect of CDO assets that is detrimental to the interests of the holders of the Notes.

Vertical may also effect client cross transactions in accordance with applicable law where Vertical causes a transaction to be effected between the Issuer and another account advised by Vertical or any of its affiliates. Client cross transactions may enable Vertical to purchase or sell a block of securities for the Issuer at a set price and possibly avoid an unfavorable price movement that may be created through entrance into the market with such purchase price or sell order.

Although the professional staff of Vertical will devote as much time to the Issuer as Vertical deems appropriate, the staff may have conflicts in allocating their time and services equitably among the Issuer and the Vertical's and their affiliates' other accounts.

Appendix – Risk Factors (continued)

Risk Factors

- Conflicts involving Vertical (continued)
Each of Vertical and its affiliates and clients may own Notes from time to time. Vertical, its affiliates and related parties are not required to own or hold any Notes and may sell any Notes held by them at any time.

The Collateral Management Agreement and the Indenture place significant restrictions on Vertical's ability to manage the Collateral. Accordingly, during certain periods or in certain specified circumstances, as a result of the restrictions set out in the Collateral Management Agreement and the Indenture, Vertical may be unable to take actions which it might consider to be in the best interest of the Issuer.

On each Payment Date, to the extent of the funds available pursuant to the priority of payments set forth in the Indenture, Vertical will be entitled to receive the Senior Collateral Management Fee, the Subordinate Collateral Management Fee and the Incentive Collateral Management Fee. The existence of the fees may create various potential and actual conflicts of interest for Vertical.
- Dependence on Vertical and its key personnel. The Issuer has no employees and is dependent on the employees of Vertical to make decisions on the Issuer's behalf in accordance with the terms of the Indenture and the Collateral Management Agreement. As a result, the success of the Issuer will be highly dependent on the financial and managerial expertise of the investment professionals of Vertical. In the event that one or more of the investment professionals of Vertical were to leave Vertical or were reassigned internally, Vertical would have to re-assign responsibilities internally and/or hire one or more replacement employees. The loss or reassignment of key personnel of Vertical could have a material adverse effect on the performance of the Issuer.
- No relation to prior investment results. The prior investment results of Vertical and the services associated with Vertical are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.