From: Tannin, Matthew (Exchange)
Sent: Saturday, May 26, 2007 8:03 AM
To: Cioffi, Ralph (Exchange); Mcgarrigal, Raymond (Exchange)
Subject: The building of the plan

Part I of II

Two years ago Ralph went to see Bill Gross and came back with the following "Gross" observation: when involved with a trade - look around the room and determine who the chump is - and if the chump is not clear to you - assume it is YOU.

Well - as I sit here thinking through the Cerberus plan that we will present to Cerberus, Warren, Rich Marin and you guys - it is easy for me to see that I am the chump. Consequently I must assume that anything I could possibly think or understand is understood better and faster by the rest of the group.

1. Time is of the essence. The best outcome (by far) is one that we can effectuate quickly. Therefore simplicity is at a tremendous premium (warren has helped us here by insisting on a 7th grade level presentation. We're in luck because Tsvi has agreed to review our proposal - but he's demanded a %).

We have:

- 2 hedge funds (1.5 billion on capital) that are in danger of a wipe out because of a lack of liquidity.
- 1 hedge fund kicking ass (2 and 20 on $350mm - 20% return and growing
- Jim & Simina's new idea
- other hedge fund ideas related to structured credit
- DPC
- Everquest
- CDO management
- SIV type things
- a very good team
- almost the necessary systems - buf we have the knowledge of what that system is and we are on the road to a solution (this may not sound great - but I believe there is NO ONE out there who has put it all together.

The first thing requires capital - and the next seven things are worth a lot (a detail to be calculated)

The key (of course) is the first thing.

I am assuming the deal to do includes both hedge funds. The downside of taking this aproach is that cerberus needs to come up with more cash - and may be scared away. The upside of this approach is that unless we take control of both hedge funds we will be constrained by: (1) investors who are losing patience and may act irrationally, (2) fund docs and guidelines and liquidity that negatively constrain us (3) repo and ISDA counterparties who may be reluctant to be as flexible as they might otherwise be.

So - cerberus (and I must note here that my idea could be "sold" to another cerberus like entity) - will "buy" the HG hedge funds and get the rest (price and value to be determined).

What exactly is cerberus buying - and what price must they pay?

They will be buying the hedge funds which have a certain value that can't currently be monitized because of market illiquidity.

What exactly can be monitized - and how quickly? (this is the warren question) - I guess this would have to be done for both funds

Let's forget about upside for a moment.

1. Most liquid -
   All ABX hedges -
   All corporate cds
   All Soms's stuff
   All treasuries

2. CIRC. -
   - sell it - or
   - re-package into CDO

3. Liquid CDO's
   - sell - how much time - how much capital raised
   - re-package into CDO equity

4. Less liquid CDOs
   - sell - how much time - how much capital
   - what are the re-pack options

5. CDO equity
6. Everquest

- (is there any value to "CDOing" as much as possible and rolling that into Everquest? Another "sale" of assets for shares?). If cerberus is going to be one large shareholder of Everquest - is there a "best" size of Everquest?). Is this the best liquidity strategy?

Asset types 1-6 have a value and liquidity profile.

7. CDO^ - and single name hedges

This is the problem. There is simply no market. Too many variables. So you can't sell because the only bid would be below someone's educated low ball guess. - and this goes for both the longs and shorts -

But there is another solution. We can construct a package - that is really a "synthetic sale". The risk is hedged - but the capital would be tied up for a certain time.

This is really the key to the deal. How much capital do you need to tie up - and for how long? This is really part of the "cost" of getting the other assets.