

CONFIDENTIAL MEMORANDUM

SAB CAPITAL PARTNERS, L.P.

CLASS B LIMITED PARTNERSHIP INTERESTS

SAB CAPITAL ADVISORS, L.L.C.

March 2002

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Prospective investors should carefully read this Confidential Memorandum in its entirety. However, neither the contents of this Confidential Memorandum nor any subsequent communication from the general partner of the Partnership (the "General Partner") or its respective members, officers, employees or representatives should be considered to be legal or tax advice, and each prospective investor should consult with his or her own counsel and advisers as to all matters concerning an investment in the Partnership. This offering relates solely to Class B Limited Partnership interests.

There will be no public offering of limited partnership interests in the Partnership. No offer to sell (or solicitation of an offer to buy) is being made in any jurisdiction in which such offer or solicitation would be unlawful.

This Confidential Memorandum has been prepared solely for the information of the person to whom it has been delivered on behalf of the Partnership for the sole purpose of evaluating the private placement described herein and may not be reproduced or used for any other purpose. Each person accepting this Confidential Memorandum agrees to return it to the General Partner promptly upon request.

The Partnership is not registered as an investment company under the Investment Company Act of 1940, as amended (the "Company Act"). The General Partner and the management company of the Partnership are not registered as investment advisers under the Investment Advisers Act of 1940, as amended, or any state statute, and neither presently intend to (but may in the future) so register. The Partnership will not engage in any transactions involving commodity futures contracts (and related options) until, to the extent required by applicable regulations, the General Partner registers as a commodity pool operator with the Commodity Futures Trading Commission (the "CFTC") and the National Futures Association, or until the General Partner qualifies for an exemption from such registration under the rules of the CFTC.

INTERESTS IN THE PARTNERSHIP ARE SUITABLE ONLY FOR SOPHISTICATED INVESTORS WHO ARE "QUALIFIED PURCHASERS" UNDER THE COMPANY ACT AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER FOR WHOM AN INVESTMENT IN THE PARTNERSHIP DOES NOT CONSTITUTE A COMPLETE INVESTMENT PROGRAM AND WHO FULLY UNDERSTAND AND ARE WILLING TO ASSUME THE RISKS INVOLVED IN THE PARTNERSHIP'S INVESTMENT PROGRAM. THE PARTNERSHIP'S INVESTMENT

PRACTICES, BY THEIR NATURE, MAY BE CONSIDERED TO INVOLVE A SUBSTANTIAL DEGREE OF RISK. (SEE "CERTAIN RISK FACTORS.")

EACH PROSPECTIVE INVESTOR IS INVITED TO MEET WITH THE MANAGING MEMBER OF THE GENERAL PARTNER TO DISCUSS WITH, ASK QUESTIONS OF, AND RECEIVE ANSWERS FROM, SUCH PERSON CONCERNING THE TERMS AND CONDITIONS OF THIS OFFERING OF INTERESTS, AND TO OBTAIN ANY ADDITIONAL INFORMATION, TO THE EXTENT THE GENERAL PARTNER POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE, NECESSARY TO VERIFY THE INFORMATION CONTAINED HEREIN.

NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY REPRESENTATION, OR GIVE ANY INFORMATION, WITH RESPECT TO THE INTERESTS, EXCEPT THE INFORMATION CONTAINED HEREIN.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT OR THE MERITS OF AN INVESTMENT IN THE SECURITIES OFFERED HEREBY. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

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OVERVIEW OF THE PARTNERSHIP

SAB Capital Partners, L.P. (the "Partnership") is a Delaware limited partnership which commenced operations as a value-oriented private investment partnership on January 4, 1999. The affairs of the Partnership, including its investment portfolio, are managed by SAB Capital Advisors, L.L.C. (the "General Partner"), a Delaware limited liability company, of which Scott A. Bommer serves as the managing member (the "Managing Member"). Mr. Bommer also actively manages SAB Capital Partners II, L.P., a Delaware limited partnership, for investors who are not "qualified purchasers," as such term is defined under the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder (the "3(c)(1) Fund") and SAB Overseas Fund, Ltd., an exempted company organized under the laws of the Cayman Islands for non-U.S. investors and for certain tax-exempt U.S. investors (the "Offshore Fund"), each of which has an investment program substantially similar to that of the Fund.

The Partnership's investment objective is to earn attractive long-term rates of return while seeking to minimize the risk of permanent capital loss. While the Partnership may pursue a broad array of investment strategies (including those enumerated below), its primary investment focus is to purchase and sell short publicly traded securities of U.S. entities which the General Partner believes are trading at material departures from their "intrinsic" values.

The Partnership's investment philosophy encompasses five primary components: (i) applying a "private market" investment approach focused on identifying the "intrinsic" value of a business or security, (ii) employing a research intensive investment methodology, (iii) pursuing opportunities which the General Partner believes possess a "margin of safety" and a low probability of a permanent capital loss, (iv) making concentrated investments (subject to some limitations discussed herein) in situations which the General Partner believes have favorable risk/reward characteristics, and (v) focusing on situations in which the General Partner believes it has a competitive insight through identifying investment attributes which are not widely recognized or are misread by the market. The Partnership currently intends to focus on situations the General Partner believes are underfollowed, misperceived due to complexity or change, or experiencing market overreactions or other structural inefficiencies, and in which the General Partner believes there is a high probability of value creation or value realization over a reasonable period of time.

Over time, the Partnership may pursue a broad array of investment strategies which the General Partner believes will minimize the Partnership's risk of permanent capital loss and in the current environment may reduce its exposure and correlation to the U.S. public equity markets generally. These strategies may include: long-term value investments, short sale positions, "paired" or "hedged" investment positions (long one security and short a specific security, basket or index), and event-driven strategies (including investments in distressed debt and entities undergoing liquidations or spin-offs). In addition, the Partnership will have the ability to invest a portion of its assets (but in no event more than 20% of any Primary Capital Account Sub-Account (as defined below under "Summary — Capital Accounts") of a Limited Partner, calculated at the time a position is acquired and including the amount of any unfunded commitments with respect to each such Primary Capital Account Sub-Account) in illiquid

investments, which will allow it to capitalize on privately structured opportunities which are generated by its public market activities.

INVESTMENT PROGRAM

Investment Objective

The Partnership's investment objective is to earn attractive long-term rates of return while seeking to minimize the risk of permanent capital loss.

Investment Philosophy

Private Market Approach. The Partnership views its public securities holdings as fractional ownership interests in businesses and attempts to pursue opportunities in which the General Partner believes a security's price diverges from its "intrinsic" value. The Partnership defines "intrinsic" value as the present value of the expected cash flows that will be available to the owners of a security over its lifetime discounted at a rate that appropriately reflects the risk and volatility of the cash flows. The Partnership attempts to invest in businesses (or sell short securities), which at their then current prices provide attractive (or the prospect of very poor) rates of return and will not pursue multiple expansion, sector rotation, or technical and other non-fundamental analyses as its primary investment rationale.

Rigorous Research. In executing its strategies, the Partnership incorporates much of the research-intensive analysis that a private market buyer might perform in making an investment. While the analysis of a specific investment will vary depending on the type of investment, it will likely include detailed financial, accounting and valuation analysis, and rigorous company, industry and competitive analysis. This analysis may encompass an examination of financial statements, meetings with company management, and interviews with customers, competitors and suppliers, and may focus on evaluating asset values, the sustainability of expected future economic earnings, capital structure, validity of GAAP accounting, company strategy, industry attractiveness, competitive dynamics, cyclicality, potential for operating improvements, and comparisons of competitive product offerings and cost structures.

Preservation of Capital. The General Partner believes that targeting situations which are trading at significant departures from their "intrinsic" values provides a "margin of safety" which will afford both a low probability of loss of principal and favorable risk-reward characteristics. The General Partner believes that these situations are generally rare, and as a result, prefers to make concentrated investments in situations which it believes have materially favorable risk/reward characteristics.

Concentration. While the degree of the Partnership's concentration at any given time will be a function of a number of factors, including the attractiveness, size, liquidity and perceived risk of an individual investment opportunity, the opportunity set of competing investments, as well as the size of the Partnership, the General Partner believes that a majority of the benefits of diversification can be achieved with a portfolio of fewer than 10 positions and views a concentrated portfolio as a competitive advantage. Although a concentrated portfolio

amplifies the effect of both good and bad investments, in contrast to portfolios managed by traditional equity analysts and portfolio managers who follow numerous situations with limited information, it will allow the Partnership to perform more extensive research and analysis. While the Partnership plans to pursue a concentrated investment program, it will not invest more than 25% of a Limited Partner's capital account (calculated at the time a position is acquired and including the amount of any unfunded commitments with respect to such capital account) in the securities of a single issuer or group of affiliated issuers. For purposes of determining whether an investment would cause the Partnership to exceed the 25% limit, long and short positions in the securities of an issuer and/or group of affiliated issuers will not be aggregated. The General Partner believes that the Partnership's degree of concentration may decline over time as the Partnership increases in size.

Insight into Mispricing. In pursuing investment strategies, the Partnership may focus on situations in which the General Partner believes it has a competitive insight through identifying investment attributes which are not widely recognized or are misread by the market. The Partnership currently plans to focus on situations which the General Partner believes are mispriced as a result of being underfollowed, misperceived due to complexity or change, or are experiencing market overreactions or other structural inefficiencies. In addition, the Partnership will attempt to pursue situations in which value creation or value realization will likely be achieved over time, either through a market catalyst (e.g., specific attributes becoming recognized) or through finding companies with owner/managers focused on enhancing shareholder value. A critical factor in selecting investments will be an assessment of the situational dynamics and the likelihood of explicit company action that will cause value to be created or realized.

Investment Focus

While over the life of the Partnership its investment focus may change, the General Partner believes that the following areas currently afford attractive investment opportunities and enable the Partnership's research intensive investment methodology to yield it a competitive advantage:

Underfollowed Securities. The General Partner believes that there are a meaningful number of companies in the micro-, small- and mid-cap areas (\$50 million-\$2 billion in market capitalization) which, due to their small size, low level of investment banking business, and low level of liquidity, lack significant Wall Street research coverage and are unfamiliar to the investment community. This lack of coverage and familiarity can often lead to mispricing of securities.

Complexity and Change. The General Partner also believes that a large number of opportunities exist which, due to structural, operational, financial, legal or other complexities, or company or industry change (e.g., spin-offs, restructurings, acquisitions etc.), have the potential to be misunderstood. Often complexity and change can lead to mispricing as many analysts lack the time, inclination or capability to perform the intensive analysis necessary to evaluate these situations.

Market Overreaction and Other Structural Inefficiencies. Finally, the Partnership will pursue companies experiencing irrational sentiment, liquidity and regulatory-driven events, and other structural inefficiencies. While it is difficult to estimate the number and frequency of these opportunities, the General Partner believes that attractive opportunities are often created by capital scarcity, overreaction to events and investment behavior which is based on factors other than a company's "intrinsic" value.

In all of the above mentioned areas, the opportunity for significant price appreciation exists as the factors causing the mispricing become resolved or recognized in the marketplace, market sentiment shifts, or companies take steps to create or realize value. Examples of situations which have the potential to be mispriced include:

- Small companies which are covered only by regional securities firms or not at all;
- Companies with multiple operating businesses or with operating businesses which the General Partner believes are not being appropriately recognized by the market;
- Companies with equity interests in separately traded securities;
- Corporate events (e.g., spin-offs, asset acquisitions or dispositions, mergers, etc.);
- Financial and operational restructurings and recapitalizations;
- Accounting complexity (e.g., divergence of GAAP from economic earnings for a period of time);
- Complex financial securities (e.g., rights offerings, merger securities, etc.);
- Companies undergoing bankruptcy proceedings, and companies and industries undergoing deregulation or excessive litigation;
- Industries undergoing structural shifts (e.g., consolidation, product substitution, technology shifts, etc.);
- Companies facing increasing or decreasing competitive threats;
- Opportunities created by purchase and sale behavior based on factors other than "intrinsic" value including: momentum investing, market overreaction to short-term events, market psychology towards in-favor vs. out-of-favor industries, and forced liquidations (e.g., mutual fund redemptions, required sales of distressed securities, etc.).

Investment Strategies

Over time, the Partnership may pursue a broad array of investment strategies which the General Partner believes will minimize the Partnership's risk of permanent capital loss and in the current environment may reduce its exposure and correlation to the U.S. public equity markets generally. These strategies may include: long-term value investments, short sale positions, "paired" or "hedged" investment positions and event-driven investments. In addition, the Partnership may invest a portion of its assets (but in no event more than 20% of any Primary Capital Account Sub-Account of a Limited Partner, calculated at the time a position is acquired and including the amount of any unfunded commitments with respect to each such Primary Capital Account Sub-Account) in illiquid investments, which will allow it to capitalize on privately structured opportunities generated by its public market activities. Finally, as part of its investment program, the Partnership may from time to time use leverage. While the Partnership is not limited in the amount of leverage it may utilize, the General Partner currently does not intend to employ total leverage which exceeds 50% of the net assets of the Partnership.

Long-Term Value Investments. While the Partnership may purchase securities which the General Partner believes are trading at discounts to their "intrinsic" values within a wide array of valuations and time horizons, it generally has a bias toward purchasing businesses at very attractive prices and quantitatively low multiples of current economic earnings or asset values. The Partnership will generally make investments which, at their then current prices, it is comfortable holding for long periods of time. However, the Partnership will also make shorter-term investments and will generally not hold investments after they have reached "intrinsic" value in an effort to benefit from further price appreciation.

"Paired"/"Hedged" Positions. The Partnership may establish "paired" or "hedged" investment positions through the combination of a long investment in a security and a short sale position in a specific security, basket of securities or index. The Partnership may pursue these investments in several circumstances including: (i) to hedge public market securities which a company owns (holding company structure) or a particular business unit of a company by selling short a comparable company, to create the remaining businesses at a discount to the sum of its parts, (ii) to invest in a business which the General Partner believes is mispriced relative to its peers and fits its investment focus, but does not appear attractive on an absolute basis, and (iii) to increase the size of an attractive short position which is mispriced compared to its peers, beyond a level that the Partnership would normally consider, by adding a long position to hedge industry and market risk.

Short Sale Positions. The Partnership may establish stand-alone short sale positions in securities which it believes are trading at excessive premiums to their "intrinsic" values. The Partnership will generally pursue opportunities in companies exhibiting factors which the General Partner has found effective in selecting attractive short sale positions including companies which: under a reasonable set of circumstances appear unlikely to grow into their valuations, are earning seemingly unsustainably high returns on capital in commodity businesses ("at risk" companies), possess significantly aggressive accounting practices, have large volumes of insider stock sales, or have deteriorating fundamentals or clear competitive threats.

Event-Driven Investments. The Partnership may pursue investments in situations tied to significant events. Examples of these events include: distressed situations, liquidations, spin-offs, and selective risk arbitrage situations. Notwithstanding the existence of an "event," the Partnership will evaluate these investments with the same philosophy by which it examines all investments including a focus on "intrinsic" value and "margin of safety."

Illiquid Investments. As part of its investment program the Partnership may invest, from time to time, in investments which, the General Partner believes lack a readily ascertainable market value or which, in the sole discretion of the General Partner, should otherwise be held in separate accounts (each such investment, a "Side-Pocket Investment," and each such account, a "Side-Pocket Account"). No more than 20% of any Primary Capital Account Sub-Account of a Limited Partner (calculated at the time a position is acquired, with Side-Pocket Investments valued at cost and including the amount of any unfunded commitments with respect to each such Primary Capital Account Sub-Account) may be invested in Side-Pocket Investments or other investments which, due to legal or contractual restrictions, are not freely transferable (as reasonably determined by the General Partner). The General Partner believes that the ability to pursue illiquid investments provides a competitive advantage by enabling the Partnership to capitalize on privately structured opportunities generated by its public market activities.

Risk Management

The General Partner defines "risk" in the investment context as the possibility of permanent capital loss as well as interim liquidity constraints. In executing its investment strategies, the Partnership applies a variety of techniques which the General Partner believes may help reduce risk including: (i) a value orientation, (ii) hedging, (iii) security analysis, (iv) limited diversification, and (v) investment review and monitoring.

Value Orientation. The General Partner believes that an emphasis on purchasing securities which are trading at significant departures from their "intrinsic" values and at low multiples on an absolute basis, provides a "margin of safety" against materially negative changes in an investment thesis.

Hedging. The Partnership may use short sale positions in the establishment of both "paired" and stand-alone investment positions. In both cases, these short sales may serve to reduce the market exposure of the investment portfolio. It is important to note, however, that the Partnership may choose not to hedge positions and, in many cases, "hedging" may not reduce the risk in a position or the Partnership's portfolio generally.

Security Analysis. The General Partner believes that rigorous research contributes to the Partnership's ability to limit its downside through a better understanding of its investments. In addition, the pursuit of situations in which the factors causing a security to trade at a discount to its true value and those likely to resolve the discount in a timely manner are clear, may significantly reduce risk.

Limited Diversification. Notwithstanding the Partnership's philosophy of concentrating its investment portfolio, the General Partner believes that limited diversification,

or the holding of more than one security, can help reduce a portfolio's risk. The General Partner believes that much of diversification's risk-reduction benefits can be achieved in a portfolio of fewer than ten investment positions when the risks underlying those positions are uncorrelated. The Partnership intends to pursue a concentrated investment program; however, no more than 25% of a Limited Partner's capital account (calculated at the time a position is acquired and including the amount of any unfunded commitments with respect to such capital account) will be invested in a single issuer or group of affiliated issuers. For purposes of determining whether an investment would cause the Partnership to exceed the 25% limit, long and short positions in the securities of an issuer and/or group of affiliated issuers will not be aggregated.

Investment Review and Monitoring. The Partnership generally intends to conduct disciplined investment review and monitoring. Before a position is established, each investment opportunity will be reviewed against a number of specific risk criteria. In addition, each position will be periodically monitored and depending on the nature of the specific investment, such monitoring may include calls to management and industry sources in order to detect changes in the fundamental investment thesis. The General Partner believes that these efforts may partially mitigate the effects of potential unforeseen negative developments in investments.

KEY INVESTMENT HIGHLIGHTS/MERITS

The General Partner believes that an investment in the Partnership offers an attractive risk-adjusted long-term opportunity for the following reasons:

- **Value-Oriented Investment Strategy.** The General Partner believes that an emphasis on purchasing securities which are trading at material departures from their "intrinsic" values provides a "margin of safety" against permanent capital loss and may offer the opportunity for substantial appreciation when their "intrinsic" values are realized.
- **Utilization of Short Sale Investments.** The General Partner believes that the use of short sales in establishing "paired" positions and stand-alone investments may enhance the Partnership's opportunity set of investments and reduce its market exposure.
- **Rigorous Research and Analysis.** The General Partner believes that rigorous research contributes to the Partnership's ability to limit its downside and to develop competitive insight into situations.
- **Concentration of Investments.** While the degree of concentration will likely change over time and a concentrated portfolio will accentuate the effects of both good and bad investments, the General Partner believes that concentration may provide the ability to perform more extensive research and analysis and the potential for improved returns by allowing consolidation in situations with the most favorable risk/reward characteristics. The Partnership intends to pursue a concentrated investment program; however, no more than 25% of a Limited Partner's capital account (calculated at the time a position is acquired and including the amount of any unfunded commitments with respect to such capital account) may be invested in a single issuer or group of affiliated issuers.

- **Insight into Mispricing and Focus on Value Realization/Creation.** The Partnership will focus on situations in which the General Partner believes it has a competitive insight through identifying investment attributes which are not widely recognized or are misread by the market. The Partnership currently plans to focus on situations which the General Partner believes are mispriced as a result of being underfollowed, misperceived due to complexity or change, or are experiencing market overreactions or other structural inefficiencies. In addition, the Partnership will attempt to pursue situations in which value creation or value realization will likely be achieved over a reasonable period of time.
- **Experience and Background of the General Partner.** Mr. Bommer has spent over ten years in various capacities conducting valuation analysis, performing operational reviews and industry analysis, and managing a public market investment portfolio. His background, including employment at Goldman, Sachs & Co., McKinsey & Co. and Siegler, Collery & Co., has provided him with invaluable direct investment experience and a skill set which is well matched with the Partnership's investment philosophy.
- **Investment by the General Partner.** Each of Mr. Bommer and the current key employees has invested or committed to invest a substantial portion of his or her net worth in the Partnership.
- **Involvement of Reservoir.** Investment funds (the "Reservoir Funds") controlled by Reservoir Capital Group, L.L.C. , a Delaware limited partnership ("Reservoir"), have made a substantial investment in and commitment to the Partnership and are non-managing members of the General Partner. Reservoir's principals were previously investment partners at Ziff Brothers Investments, the entity responsible for investing the Ziff family capital. As of February 28, 2002, the Reservoir Funds' limited partner capital accounts in the Partnership had an aggregate value of approximately \$68 million (net of accrued fees and expenses).

THERE CAN BE NO ASSURANCE THAT THE INVESTMENT OBJECTIVES OF THE PARTNERSHIP WILL BE ACHIEVED AND INVESTMENT RESULTS MAY VARY SUBSTANTIALLY ON A QUARTERLY AND ANNUAL BASIS. IN FACT, THE PRACTICES OF SHORT SELLING, LEVERAGE AND LIMITED DIVERSIFICATION CAN, IN CERTAIN CIRCUMSTANCES, SUBSTANTIALLY INCREASE THE ADVERSE IMPACT TO WHICH THE PARTNERSHIP'S INVESTMENT PORTFOLIO MAY BE SUBJECT. (SEE "CERTAIN RISK FACTORS")

MANAGEMENT OF THE PARTNERSHIP

The General Partner

SAB Capital Advisors, L.L.C., is the General Partner of the Partnership. The affairs of the Partnership, including its investment portfolio, are managed by Scott A. Bommer who serves as the managing member (the "Managing Member") and President of the General Partner. The Partnership draws on Mr. Bommer's experience in financial, industry and business analysis from his background in investment banking, management consulting, and public equity

management. While overseeing the activities of the General Partner and the Partnership, Mr. Bommer also actively manages the 3(c)(1) Fund and the Offshore Fund, through the General Partner and/or its affiliates, and may provide services to other funds and accounts advised and/or administrated by the General Partner and/or its affiliates.

Scott Bommer, served as a Portfolio Manager from April 1995 to February 1998 at Siegler, Collery & Co., a value-oriented private investment partnership. At Siegler Collery, he was responsible for identifying, researching, executing and monitoring numerous investment positions. During his tenure, Mr. Bommer employed a value-oriented, special situation investment strategy and performed extensive fundamental company, industry and financial analysis on his investments. His portfolio included long, short, and hedged equity positions, including several 13D filing positions, distressed debt and a privately structured investment. In addition to investing, Mr. Bommer contributed to recruiting, training and developing a team of investment analysts.

Prior to joining Siegler Collery, Mr. Bommer worked from September 1993 to March 1995 as an Associate at McKinsey & Company, where he was involved in the restructuring of the sales and marketing department for a media client and the analysis of a strategic acquisition and joint venture for a global healthcare company. At McKinsey, he developed tools for industry and competitive analysis, basic market research skills and customer, supplier and competitor interview techniques. Prior to attending business school, Mr. Bommer worked in the Asset Related Finance Group at Goldman, Sachs & Co. from August 1988 to July 1990 where he was active in numerous financing transactions, including limited partnership, joint venture, leveraged lease, project related, and several public and private equity financings.

Mr. Bommer graduated from Stanford University in 1988 receiving a B.A. *with distinction* in Quantitative Economics, and from the Harvard Graduate School of Business in 1993 with an M.B.A. While at Harvard, he earned First Year Honors and served as a Teaching Fellow in a corporate finance class for the University's Department of Economics. In addition, Mr. Bommer researched several case studies while on a one-year Luce Foundation Scholarship in Tokyo, Japan.

Brian Jackelow, joined Mr. Bommer in March 2000 and serves as the Controller of the General Partner and the Management Company. Prior to his current position, from August 1996 to February 2000, Mr. Jackelow worked at Basswood Partners, L.P., during which time he served as the Controller. While at Basswood Partners, Mr. Jackelow was primarily responsible for all of the daily accounting and was instrumental in automating back office functions and improving operating and tax efficiency. Prior to his time at Basswood Partners, from September 1994 to August 1996, Mr. Jackelow worked at Goldstein, Golub, Kessler & Co. as a staff accountant in the Financial Services and Hedge Fund division. Mr. Jackelow graduated from the State University of New York at Albany in 1994 with a B.S. in Accounting.

Kenney Oh, joined Mr. Bommer in December 1998 and serves as a Vice-President of the General Partner. Prior to his current position, from July 1996 to November 1998 Mr. Oh served as an Investment Analyst and later a Portfolio Manager at Siegler, Collery & Co. At Siegler Collery he was responsible for sourcing, analyzing, proposing and maintaining investments of the firm as well as training an investment analyst and leading the firm's analyst

recruiting effort. From July 1994 to July 1996 Mr. Oh was employed as a Financial Analyst in the Mergers, Acquisitions & Restructurings Department of Morgan Stanley & Co., Inc. with a focus on media and telecommunications transactions. Mr. Oh graduated cum laude from the University of Pennsylvania with a B.S. in Finance from the Wharton School and a B.A. in Intellectual History from the College of Arts and Sciences. At Wharton, Mr. Oh was recognized as a Benjamin Franklin Scholar and as a Joseph Wharton Scholar.

The Reservoir Funds have made a substantial investment in and commitment to the Partnership and are non-managing members of the General Partner and limited partners of the Management Company (defined below). The principals of Reservoir were previously investment partners at Ziff Brothers Investments, the entity responsible for investing the Ziff family capital. The Reservoir Funds have no control over investment decisions made on behalf of the Partnership, but provide the Managing Member with support on strategic, infrastructure and general business matters. (See "Summary - Reservoir Relationship.")

The Management Company

SAB Capital Management, L.P., a Delaware limited partnership (the "Management Company"), provides administrative and management services to the Partnership. SAB Capital Management, L.L.C., a Delaware limited liability company controlled by Mr. Bommer, is the general partner of the Management Company.

SUMMARY

The following summary is qualified in its entirety by the terms and conditions of the Limited Partnership Agreement of the Partnership, as amended from time to time (the "Partnership Agreement"), which should be read carefully and in its entirety by a prospective limited partner (a "Limited Partner").

THE PARTNERSHIP

SAB Capital Partners, L.P. (the "Partnership") is a Delaware limited partnership which commenced operations on January 4, 1999. Interests in the Partnership are being offered exclusively to "qualified purchasers," as such term is defined under the Investment Company Act of 1940, as amended (the "Company Act"), and the rules and regulations promulgated thereunder.

INVESTMENT OBJECTIVE

The Partnership's investment objective is to earn attractive long-term rates of return while seeking to minimize the risk of permanent capital loss. While the Partnership may pursue a broad array of investment strategies (including those enumerated below), its primary investment focus is to purchase and sell short publicly traded securities of U.S. entities which the General Partner believes are trading at material departures from their "intrinsic" values.

The Partnership's investment philosophy encompasses five primary components: (i) applying a "private market" investment approach focused on identifying the "intrinsic" value of a business or security, (ii) employing a research intensive investment methodology, (iii) pursuing opportunities which the General Partner believes possess a "margin of safety" and a low probability of a permanent capital loss, (iv) making concentrated investments (subject to some limitations discussed herein) in situations which the General Partner believes have favorable risk/reward characteristics, and (v) focusing on situations in which the General Partner believes it has a competitive insight through identifying investment attributes which are not widely recognized or are misread by the market. The Partnership currently intends to focus on situations the General Partner believes are underfollowed, misperceived due to complexity or change, or experiencing market

overreactions or other structural inefficiencies, and in which the General Partner believes there is a high probability of value creation or value realization over a reasonable period of time.

Over time, the Partnership may pursue a broad array of investment strategies which the General Partner believes will minimize the Partnership's risk of permanent capital loss and in the current environment may reduce its exposure and correlation to the U.S. public equity markets generally. These strategies may include: long-term value investments, short sale positions, "paired" or "hedged" investment positions (long one security and short a specific security, basket or index), and event-driven strategies (including investments in distressed debt and entities undergoing liquidations or spin-offs).

Side-Pocket Investments As part of its investment program the Partnership may invest, from time to time, in investments which lack a readily ascertainable market value or which, in the sole discretion of the General Partner, should otherwise be held in separate accounts (each such investment, a "Side-Pocket Investment" and each such account, a "Side-Pocket Account"). No more than 20% of any Primary Capital Account Sub-Account (as defined below under "Capital Accounts") of a Limited Partner (calculated at the time a position is acquired, with Side-Pocket Investments valued at cost and including the amount of any unfunded commitments with respect to each such Primary Capital Account Sub-Account) may be invested in Side-Pocket Investments or other investments which, due to a legal or contractual restriction, are not freely transferable.

In addition, the Partnership may invest in currencies, currency forward contracts, options (for purposes of speculative trading or any other reason) and, subject to applicable regulations, commodity futures contracts, options and other derivative instruments. The Partnership may sell securities short and may borrow money from brokerage firms or banks (subject to applicable regulations) in order to leverage its investment and trading returns, and may finance positions and lend funds through repurchase and reverse repurchase agreements.

Diversification. The Partnership intends to pursue a concentrated investment program; however, no more than

25% of a Limited Partner's capital account (calculated at the time a position is acquired, with Side-Pocket Investments valued at carrying values and including the amount of any unfunded commitments with respect to such capital account) may be invested in the securities of a single issuer or group of affiliated issuers. For purposes of determining whether an investment would cause the Partnership to exceed the 25% limit, long and short positions in the securities of an issuer and/or group of affiliated issuers will not be aggregated.

LEVERAGE

The General Partner believes that the use of leverage may enable the Partnership to achieve higher rates of return and intends to leverage the Partnership's capital where appropriate. The use of leverage has attendant risks and can, in certain circumstances, substantially increase the adverse impact to which the Partnership's investment portfolio may be subject. In addition, the Partnership is subject to the risk that changes in the general level of interest rates may adversely affect the Partnership's operating results. (See "Certain Risk Factors.")

GENERAL PARTNER

SAB Capital Advisors, L.L.C., a Delaware limited liability company, is the general partner of the Partnership. Mr. Scott A. Bommer is the managing member of the General Partner (the "Managing Member") and is responsible for the management of the Partnership and its investment portfolio. Mr. Bommer invested a substantial portion of his net worth in the Partnership (the "General Partner's Initial Investment").

LIMITED PARTNERS

Each Limited Partner admitted to the Partnership on or after April 1, 2000 shall be a Class B Limited Partner and shall have the rights afforded to the Class B Limited Partners in the Partnership Agreement. Each reference below to a Limited Partner or to the Limited Partners shall constitute a reference to a Class B Limited Partner or to the Class B Limited Partners, as the case may be, unless indicated otherwise. Certain Limited Partners admitted to the Partnership prior to April 1, 2000 are Class A Limited Partners. Class A Limited Partners were subject to an initial lock-up period of not less than three years and have certain other rights described in the Partnership Agreement.

MANAGEMENT COMPANY

SAB Capital Management, L.P., a Delaware limited partnership (the "Management Company"), provides

administrative and management services to the Partnership. SAB Capital Management, L.L.C., a Delaware limited liability company, is the general partner of the Management Company. Mr. Bommer is the managing member of SAB Capital Management, L.L.C.

INITIAL CLOSING

The initial closing of limited partnership interests ("Interests") took place on January 4, 1999 (the "Initial Closing").

CAPITAL ACCOUNTS

Each Limited Partner will have a "Primary Capital Account," which will consist of such Limited Partner's capital account in the Partnership excluding its interest in any Side-Pocket Accounts with respect to such Limited Partner. A Limited Partner's initial capital contribution, and each additional capital contribution by a Limited Partner, will each be credited to a separate memorandum sub-account within such Limited Partner's Primary Capital Account (each, a "Primary Capital Account Sub-Account").

MINIMUM CAPITAL COMMITMENT

\$2,000,000, subject to the discretion of the General Partner to accept lesser amounts.

LOCK-UP PERIODS

Primary Capital Account Sub-Accounts. A Class B Limited Partner may withdraw all or any portion of any of its Primary Capital Account Sub-Accounts only on the second December 31st after the date such Primary Capital Account Sub-Account was established and thereafter, only as described below (each such period ending on a withdrawal date, a "Lock-Up Period"); provided, that the Lock-Up Period with respect to any Primary Capital Account Sub-Account established as of the first business day of any year shall end on the first December 31st thereafter. Notwithstanding the foregoing, Partners will be entitled to annual Tax Distributions (as defined below under "Tax Distributions"). Any portion of a Primary Capital Account Sub-Account left in the Partnership at the expiration of a Lock-Up Period will automatically be subject to a succeeding one-year Lock-Up Period.

Notwithstanding the foregoing, the General Partner may admit additional Limited Partners with Primary Capital Account Sub-Accounts having different Lock-Up Periods.

The General Partner generally will be subject to the same Lock-Up Period provisions with respect to its invested

capital and profits thereon, but may withdraw at the end of each fiscal year an amount equal to any Incentive Allocations made to its capital account and profits thereon (as described below). Notwithstanding the foregoing, the General Partner's Initial Investment, together with any profits thereon, may not be withdrawn until December 31, 2002.

Side-Pocket Accounts. Limited Partners may not make withdrawals from their Side-Pocket Accounts. Any proceeds upon a realization or Deemed Realization (as defined below) of a Side-Pocket Investment will be transferred to the Primary Capital Account Sub-Account with respect to which the related Side-Pocket Account was created and will be subject to the Lock-Up Period applicable to such Primary Capital Account Sub-Account. If, however, a Limited Partner has made a complete withdrawal of the Primary Capital Account to which such Side-Pocket Account relates prior to the realization or Deemed Realization of the Side-Pocket Investment, the proceeds of such investment shall be dealt with as described below under "Withdrawals-Remaining Side-Pocket Investments" rather than as described herein.

ADDITIONAL CAPITAL CONTRIBUTIONS; ADMISSION OF NEW PARTNERS

Limited Partners may make additional capital contributions with the consent of the General Partner. Such additional capital contributions may be made on the first day of any calendar month or at such other times as may be determined by the General Partner. Unless otherwise agreed to by the General Partner and a Limited Partner, additional contributions made by a Limited Partner during a Lock-Up Period will be credited to a separate Primary Capital Account Sub-Account. New Limited Partners may be admitted as of the beginning of any calendar month or at such other times as the General Partner shall determine.

ALLOCATION OF GAINS AND LOSSES

Primary Investments. At the end of each accounting period of the Partnership, any net capital appreciation or depreciation (both realized and unrealized), other than appreciation or depreciation in Side-Pocket Accounts, will be tentatively allocated to the Primary Capital Accounts of all Limited Partners and the General Partner (collectively, the "Partners") in proportion to their respective opening

Primary Capital Account balances for such period, and each Limited Partner's share thereof will be allocated among and credited to or debited against the Primary Capital Account Sub-Account balances of such Limited Partner in proportion to the respective opening Primary Capital Account Sub-Account balances thereof.

Side-Pocket Investments. Whenever the General Partner determines, in its sole discretion, that an investment should no longer be maintained in a Side-Pocket Account (a "Deemed Realization") or upon any sale, distribution to Partners or other disposition of all or a portion of an investment maintained in a Side-Pocket Account (or any receipt of income with respect to such investment), the value of the investment held or the proceeds thereof (or any income with respect thereto) shall be transferred from the Side-Pocket Account to the related Primary Capital Account Sub-Accounts of each of the Partners participating therein pro rata based on their respective participation in such investments; provided, however, that if a Limited Partner has made a complete withdrawal of the Primary Capital Account to which such Side-Pocket Account relates prior to the realization or Deemed Realization of the Side-Pocket Account, the proceeds of such investment shall be dealt with as described below under "Withdrawals - Remaining Side-Pocket Investments" rather than as described herein.

Side-Pocket Investments Write Down. Side-Pocket Investments may be subject to a Write Down. A "Write Down" means the reduction, in the discretion of the General Partner, of the carrying value of a Side-Pocket Investment to reflect material, long-term impairment of such investment.

Net Increase or Decrease. The net capital appreciation or depreciation allocated to each Primary Capital Account of a Partner from investments not held in Side-Pocket Accounts will be increased or decreased by the share of (i) the income, gain or loss reflected in the proceeds transferred to such Primary Capital Account from a related Side-Pocket Account upon realization of a Side-Pocket Investment, (ii) the appreciation or depreciation reflected in the value of a Side-Pocket Investment transferred from a related Side-Pocket Account, (iii) the amount of any decrease in the carrying value of a Side-Pocket Investment held in a Side-Pocket Account as a result of a Write Down, (iv) the

amount of any Management Fee (as defined below) debited to such Primary Capital Account for such year and (v) the Side-Pocket expenses debited to such Primary Capital Account during such fiscal year. Net capital appreciation or depreciation, as so increased or decreased, is referred to as "Net Increase" or "Net Decrease," respectively.

INCENTIVE ALLOCATION

Overview. At the end of each fiscal year of the Partnership, 20% of the Net Increase credited to each Primary Capital Account of a Class B Limited Partner will be reallocated to the Capital Account of the General Partner (such amount, the "Incentive Allocation").

Highwater Mark. The Partnership will maintain a memorandum loss recovery account for each Primary Capital Account of a Class B Limited Partner (a "Loss Recovery Account"). Each such Loss Recovery Account will be (i) increased by the aggregate Net Decrease allocated to such Primary Capital Account, (ii) reduced, but not beyond zero, by any Net Increase allocated to such Primary Capital Account and (iii) adjusted for withdrawals of capital. The General Partner will not be allocated any Incentive Allocation with respect to such Primary Capital Account until any balance in the Loss Recovery Account has been recovered.

MANAGEMENT FEE; EXPENSES

The Partnership will pay to the Management Company a management fee (the "Management Fee") on the first day of each quarter (and, if a capital contribution is made on a day other than the first day of a calendar quarter, a pro rata portion of such Management Fee on such day with respect to such capital contribution) equal to 0.375% (1.5% per annum) of each Limited Partner's beginning capital account (including, for these purposes, assets held in Side-Pocket Accounts, based on their carrying values on the first day of the quarter as well as the amount of any unfunded commitments with respect to such capital account) on the first day of the quarter.

If a particular Limited Partner no longer owns an Interest except for its interest in one or more Side-Pocket Accounts, the Management Fee payable with respect to such Limited Partner's interest in such Side-Pocket Accounts will be accrued (at a rate of 0.375% quarterly based on the carrying value of the Side-Pocket Investment as of the first day of

the quarter). Upon any realization or Deemed Realization (as determined by the General Partner) of the applicable Side-Pocket Investment, any accrued and unpaid Management Fee, with interest at the Treasury Rate (as defined below), will be paid to the Management Company before any proceeds from the investment are distributed to the Partner holding the interest in such Side-Pocket Sub-Account. "Treasury Rate" means the yield on one year U.S. Treasury Securities on the first business day of each calendar year of the Partnership. If the Management Fee (together with interest) exceeds such proceeds, the excess shall be added to the Management Fee payable with respect to any other remaining Side-Pocket Investment held by such Partner.

In consideration for the Management Fee, the Management Company bears the Partnership's normal and recurring operating expenses and provides to the Partnership office space and utilities, telephone, news, quotation and computer equipment and services, administrative services, and secretarial, clerical and other personnel (except to the extent provided through soft dollars generated by the Partnership). The General Partner expects that, as the Partnership grows, the Management Fee will exceed the expenses borne by the Management Company.

The Partnership will bear all of its other costs and expenses, such as investment expenses (e.g., brokerage commissions, interest expense, consultant expenses and expenses in connection with proposed transactions, including transactions which fail to close), investment-related travel expenses, legal expenses, accounting, audit and tax preparation expenses, expenses relating to the offer and sale of Interests and expenses relating to the organization of the Partnership (which are being amortized over a 60-month period). Such expenses will be shared by all of the Partners, including the General Partner. Any such costs and expenses common to the Partnership and any other funds managed by the General Partner, the Management Company or their affiliates will be paid pro rata by such entities based on invested capital. The General Partner will specially allocate expenses with respect to a Side-Pocket Investment to the capital accounts of the Partners with an interest therein.

Transaction fees (e.g., break-up, transaction and topping fees) and fees for services rendered by the Management

Company (or its affiliates) to a portfolio company (including consulting and directors' fees) may be received by the Management Company (or an affiliate). An amount equal to 100% (or a pro rata portion thereof if other accounts managed by the General Partner or its affiliates have invested in such company) of such fees will be offset against the Management Fee during the year in which such fees are received, with any excess to be carried forward to be offset against the Management Fee in future years. If any such fee was paid by an issuer in which the Partnership has a Side-Pocket Investment, such fee shall only offset the Management Fee with respect to Partners participating in such investment.

ALTERNATIVE TERMS

In the discretion of the General Partner, the Incentive Allocation and/or the Management Fee may be calculated differently with respect to, or may not be charged to, the capital accounts of certain Limited Partners, including Limited Partners that are affiliates of the General Partner, members of the immediate families of the Managing Member or trusts or similar vehicles formed for the benefit of such persons.

TAX DISTRIBUTIONS

Each Partner, including the General Partner, shall have the right to receive, with respect to each fiscal year, a distribution (a "Tax Distribution") in an amount equal to the excess of (i) such Partner's presumed tax liability (i.e., the product of the estimated amount of taxable income allocated to such Partner's capital accounts for such fiscal year (as determined by the General Partner in good faith) and the highest marginal federal, state and local income tax rates for natural persons residing in New York City, after giving effect to any federal tax deduction for all state and local taxes, and disregarding any limitations on the deductibility of such taxes) with respect to such capital accounts for such fiscal year over (ii) all amounts distributed, if any, from such capital accounts to such Partner pursuant to any withdrawal from such capital account during or effective as of the last day of such fiscal year other than any tax distributions with respect to any prior year. If a Partner desires to receive its Tax Distribution with respect to a fiscal year, such Partner must deliver to the General Partner, no later than 60 days before the end of such fiscal year, a notice (a "Tax Distribution Notice") indicating that such Partner wishes to receive a Tax Distribution. Tax Distributions shall be made on or prior to, and effective as of, March 31 of the following

year. Any capital distributed to a Limited Partner as a Tax Distribution shall be withdrawn from such Limited Partner's Primary Capital Account Sub-Accounts in the order in which the capital contributions forming the basis of such Primary Capital Account Sub-Accounts were made.

WITHDRAWALS

Limited Partner Withdrawals. Generally, without the consent of the General Partner, a Limited Partner may not withdraw all or any portion of a Primary Capital Account Sub-Account (except for a Tax Distribution) until the end of the Lock-Up Period with respect thereto. A Limited Partner has the right, at the end of a Lock-Up Period (upon not less than 90 days' prior written notice), to withdraw all or any portion of such Primary Capital Account Sub-Account. Capital shall be withdrawn from a Limited Partner's Primary Capital Account Sub-Accounts in the order in which the capital contributions forming the basis of such Primary Capital Account Sub-Accounts were made.

If withdrawal requests with respect to any withdrawal date would require the Partnership to pay withdrawal proceeds in excess of 10% of the net asset value of the Partnership, then the General Partner may, in its discretion, limit withdrawals by reducing pro rata the amount of withdrawal requests by Limited Partners admitted to the Partnership on or after March 1, 2002, and by Limited Partners admitted to the Partnership before March 1, 2002 who have consented to be bound by this limitation. Such reduction will be in the proportion that (x) the amount that any such Limited Partner requests to be withdrawn on such withdrawal date bears to (y) the amount that all such Limited Partners request to be withdrawn on such withdrawal date until the total amount of withdrawal proceeds payable by the Partnership is less than or equal to 10% of the net asset value of the Partnership or, if such result is not possible, so that such percentage is as close to 10% as can be achieved by limiting the amount of such withdrawals to zero.

Any such withdrawal requests that are so limited will be satisfied on the following quarter-end, subject to the same limitation, provided that if any such Limited Partner's withdrawal request is so limited on three consecutive quarter-ends, then the Limited Partner's withdrawal request will be fully paid on the next succeeding quarter-end.

Any capital the withdrawal of which is limited pursuant to these provisions will remain invested in the Partnership,

and will remain subject to adjustment for capital appreciation and capital depreciation, until withdrawal.

As stated above, if a Partner's interest in a Side-Pocket Investment is realized (or Deemed Realized) within the Lock-Up Period in which such investment was made, the proceeds from the realization of such investment will be transferred to the related Primary Capital Account Sub-Account and will be subject to the same Lock-Up Period applicable to such Primary Capital Account Sub-Account.

Upon expiration of the then-applicable Lock-Up Period, a new Lock-Up Period shall commence. Any unrecovered amounts in the Loss Recovery Account will be carried forward and applied against Incentive Allocations in subsequent Lock-Up Periods. In addition, in the case of the complete withdrawal from a Primary Capital Account, any unrecovered amounts in the Loss Recovery Account at the time of such withdrawal will be applied against any Incentive Allocation with respect to any remaining Side-Pocket Investments with respect to such Primary Capital Account, as described below.

Required Withdrawals. The General Partner may, in its sole discretion, terminate the interest of any Limited Partner in the Partnership at the end of any quarter generally upon at least 30 days' prior written notice (and, under certain limited circumstances, on a more immediate basis) and such Partner shall be treated as a Partner who has given notice of withdrawal.

Remaining Side-Pocket Investments. If a portion of a withdrawing Primary Capital Account has been allocated to one or more Side-Pocket Accounts, the amount distributed to the withdrawing Partner will not include any interest in such Side-Pocket Accounts. Such withdrawing Partner will retain its interest in any such Side-Pocket Accounts until there is a realization or Deemed Realization of the investment. Within 30 days following the end of the accounting period in which such realization or Deemed Realization occurs, the investment or its proceeds will be distributed (with interest at the brokers' call rate from the end of the accounting period) to the Partner who has withdrawn, net of any Incentive Allocation and Management Fee in respect thereof.

Payment. The General Partner intends to make distributions in cash. However, distributions may be made in cash or in kind. Any in-kind distribution (prior to liquidation of the Partnership) of securities shall include only those securities which the General Partner reasonably believes are listed or quoted on a United States national securities exchange or quoted on a United States national automated inter-dealer quotation system. If a Limited Partner elects to withdraw more than 90% of its capital account (other than in connection with the exercise of its special withdrawal rights, as described below under "Special Withdrawal Rights"), 90% of its estimated withdrawal proceeds (computed on the basis of unaudited data) will be paid within 30 days after the end of the fiscal year. The Partnership will pay such Partner interest on the balance of its withdrawal proceeds at the average (calculated weekly) per annum short-term (13-week) Treasury Bill rate, and such balance, together with all interest earned thereon, shall be paid (subject to audit adjustments) within 30 days after completion of the audit of the Partnership's books.

Reserves. The General Partner may, in its discretion, establish reserves for contingencies (even if such reserves are not otherwise required by generally accepted accounting principles), which could reduce the amount of a distribution upon withdrawal.

REMOVAL OF GENERAL PARTNER

The General Partner may be removed (and required to withdraw as of the end of the quarter in which such removal takes place) by written consent of Limited Partners whose aggregate capital account balances exceed 50% of the capital account balances of all Limited Partners if (i) the General Partner or the Managing Member has been convicted of a felony, (ii) the General Partner has committed fraud against the Partnership or the Managing Member has committed fraud against the General Partner or the Partnership, or (iii) any act or omission of the General Partner or the Managing Member in connection with the Partnership constitutes gross negligence or willful misconduct. If there are Side-Pocket Investments remaining when the General Partner is removed for cause, the General Partner shall be entitled to receive one-sixth of any Incentive Allocation made with respect to each associated Primary Capital Account to the extent

attributable to such Side-Pocket Investment at the time such Side Pocket Investments are realized or deemed realized.

In addition, if Mr. Bommer is indicted of a felony related to the securities business generally, he will be relieved of his duties until the charges are resolved. As more fully described in the Partnership Agreement, an interim managing member will be appointed by Reservoir Capital Partners, L.P., unless none of its affiliates has an interest in the Partnership, in which case an interim managing member will be appointed by a majority in interest of the Limited Partners.

SPECIAL WITHDRAWAL RIGHT

Any Limited Partner may withdraw from the Partnership if Mr. Bommer dies, becomes incompetent or disabled (*i.e.*, unable, by reason of illness or injury, to perform his functions as managing member of the General Partner for 90 consecutive days), ceases to control the General Partner or otherwise ceases to spend a substantial portion of his business time on the activities of the General Partner and its affiliates. In addition, any Limited Partner may withdraw if the General Partner is removed from the Partnership as its General Partner and a successor General Partner is designated. Such special withdrawal rights are exercisable by delivery of a withdrawal notice to the Partnership by the 30th day (the "Notice Date") after the Limited Partners are notified of any of the events described in the previous sentence, and such withdrawal shall be effective at the end of the first full calendar month after the Notice Date. A Limited Partner exercising such special withdrawal right will be paid 90% of its capital account(s) (determined as of the end of such calendar month) within 30 days of the withdrawal date. The balance of such Limited Partner's capital account(s) will be paid (subject to reserves and audit adjustments) within 30 days after completion of a special audit of the Partnership as of the end of such calendar month. Notwithstanding the foregoing, a withdrawing Partner's interest in any Side-Pocket Account will be retained and distributed as described above under "Withdrawals - Remaining Side-Pockets."

REGULATORY MATTERS

The Partnership will not be registered as an investment company and therefore will not be required to adhere to certain investment policies under the Investment Company Act of 1940, as amended (the "Company Act"). The

General Partner and the Management Company do not presently intend to, but may in the future, register as investment advisers under the Investment Advisers Act of 1940. The Partnership will not engage in any transactions involving commodity futures contracts (and related options) until, to the extent required by applicable regulations, the General Partner registers as a commodity pool operator with the CFTC and the National Futures Association, and in connection therewith obtains an exemption with respect to the Partnership from certain of the disclosure, reporting and recordkeeping requirements under the Commodity Exchange Act, or until the General Partner qualifies for an exemption from such registration.

If based upon tax or regulatory reasons (or any other reasons which the General Partner, in its good faith judgment, determines) a Partner should not participate in the Partnership's investment in any particular security or type of security, such Partner shall not participate in such investment. If such investment is in a Side-Pocket Account, such Partner shall not participate in such account. However, if such investment is in a Primary Capital Account and a Partner may not participate in gains or losses with respect to a particular investment (e.g., because of rules relating to "hot issues"), as a matter of fairness to the Partners who do not participate in such investment, a use of funds charge will be debited from the capital accounts of all Partners having an interest in the memorandum account for a particular security and credited to the capital accounts of all Partners pro rata in accordance with their opening capital accounts for the applicable accounting period.

RISK FACTORS

The investment program of the Partnership is speculative and involves significant risk of loss. (See "Certain Risk Factors.")

OTHER ACTIVITIES OF THE GENERAL PARTNER AND THE MANAGEMENT COMPANY

The Managing Member intends to devote a substantial portion of his business time on the activities of the General Partner. Limited Partners will have special withdrawal rights if the Managing Member ceases to spend a substantial portion of his business time on the activities of the General Partner or ceases to control the General Partner. (See "—Special Withdrawal Right.") However, the General Partner and its affiliates are not precluded from

exercising investment responsibility, from engaging directly or indirectly in any other business or from directly or indirectly purchasing, selling, holding or otherwise dealing with any securities for the account of any such other business, for their own accounts or for the accounts of any of their family or other clients.

Mr. Bommer also actively manages SAB Capital Partners II, L.P., a Delaware limited partnership for investors that are not "qualified purchasers" as such term is defined under the Company Act and the rules and regulations promulgated thereunder (the "3(c)(1) Fund") and SAB Overseas Fund, Ltd., an exempted company organized under the laws of the Cayman Islands for non-U.S. investors and for certain tax-exempt U.S. investors (the "Offshore Fund"), each of which has an investment program substantially similar to that of the Fund. Each of the 3(c)(1) Fund and the Offshore Fund will invest side-by-side on a pro rata basis with the Partnership (subject to legal, regulatory and tax considerations). (See "Conflicts of Interest.")

RESERVOIR RELATIONSHIP

The Reservoir Funds are non-managing members of the General Partner and limited partners of the Management Company. As of February 28, 2002, the Reservoir Funds' limited partner capital accounts in the Partnership had an aggregate value of approximately \$68 million (net of accrued fees and expenses).

The Reservoir Funds will have no control over investment decisions of the Partnership, but have certain rights of approval over actions that do not relate to the ability of the General Partner to select, hold or sell investments on behalf of the Partnership, including the establishment of reserves. In addition, the Reservoir Funds have special withdrawal rights in certain circumstances which are not available to other investors, including upon a significant decline in the value of the Reservoir Funds. The exercise of such withdrawal rights could have significant adverse effects on the interests of other Limited Partners in the Partnership.

In addition, under certain circumstances, the Reservoir Funds will have certain priority co-investment rights over other persons on transactions identified by the General Partner and its affiliates that may not be fully utilized by the Partnership or a Parallel Fund.

ELIGIBLE INVESTORS

Interests may only be purchased by investors who are "accredited investors" and "qualified purchasers" as defined under Federal securities laws and meet other suitability requirements described herein and in the Partnership's subscription documents. Non-U.S. investors may purchase interests in the discretion of the General Partner. The General Partner reserves the right to reject subscriptions in its absolute discretion. The Partnership does not intend to register under the Company Act, in reliance on the exclusion provided by Section 3(c)(7) under the Company Act for entities whose securities are owned exclusively by "qualified purchasers" as such term is defined in the Company Act and the rules and regulations thereunder and who do not publicly offer their securities.

VALUATION OF PARTNERSHIP ASSETS AND LIABILITIES

The Partnership's assets and liabilities will be valued by the General Partner in accordance with the terms of the Partnership Agreement. Securities (including options) will generally be valued at their last sales price on the largest national securities exchange on which they are traded, or if trading in such securities on such exchange was reported on the consolidated tape, the last sales price on the consolidated tape. If there were no reported sales at certain dates specified in the Partnership Agreement, the securities will generally be valued at the last "bid" price for long positions and "asked" price for short positions. Securities that are not listed on a national securities exchange or included in the NASDAQ National Market System will be valued based upon their sales prices (if such prices are available). The Partnership Agreement specifies certain exceptions to these procedures. In the event the Partnership acquires securities for which market quotations are not available, such securities will be valued at such value as the General Partner may reasonably determine. Assets held in a Side-Pocket Account will be valued at their carrying value (generally, at cost subject to any Write-Down). If the General Partner determines that the valuation of an asset pursuant to the Partnership Agreement does not fairly represent its market value, the General Partner will value such investment as it reasonably determines. The Partnership's liabilities will be valued by the General Partner in accordance with the terms of the Partnership Agreement. All matters concerning valuation of securities shall be final and conclusive as to all Partners.

EXCULPATION AND INDEMNIFICATION

The General Partner, the Management Company and their affiliates are entitled to the exculpation and indemnification provisions set forth in the Partnership Agreement.

TRANSFERS

A Limited Partner may not pledge, assign, sell, exchange or transfer its Interest (or any portion thereof), and no assignee, purchaser or transferee may be admitted as a substitute Limited Partner, except with the consent of the General Partner, which consent may be given or withheld in its sole and absolute discretion, provided that a Limited Partner may transfer the economic rights with respect to its Interest to its controlled affiliates and family trusts with the General Partner's consent, which consent shall not be unreasonably withheld.

SALES COMMISSIONS

No sales commissions or similar charges in connection with the offering of Interests will be borne by the Partnership. The General Partner or the Management Company may enter into arrangements with placement agents to solicit Limited Partners, the expenses of which shall be borne by the General Partner or the Management Company. Such agreements may provide for the payment to such placement agents of either a one-time or ongoing fee based upon the value of the Interest of a Limited Partner introduced to the Partnership by such placement agent and/or on a portion of incentive allocations and management fees received by the Management Company or the General Partner, as applicable, with respect to the Interest.

ENTITIES SUBJECT TO ERISA AND OTHER TAX-EXEMPT ENTITIES

Entities subject to the U.S. Employee Retirement Security Act of 1974, as amended ("ERISA"), and other tax-exempt entities may purchase Interests. The Partnership does not intend to permit investments by investors subject to ERISA to equal or exceed 25% of the value of the Interests. Investment in the Partnership by entities subject to ERISA and other tax-exempt entities requires special considerations. In particular, the Partnership may utilize leverage in connection with its trading activities which could give rise to "unrelated business taxable income." Trustees or administrators of such entities are urged to carefully review the matters discussed in this Confidential Memorandum. (See "Tax Aspects" and "ERISA Considerations.")

**AMENDMENTS TO
PARTNERSHIP
AGREEMENT**

**BROKERAGE
COMMISSIONS**

The Partnership Agreement may be modified or amended at any time by the written consent of the Limited Partners (excluding defaulting Partners) having in excess of 50% of the interests in the Partnership (excluding defaulting Partners) and the written consent of the General Partner. Without the consent of the other Partners, however, the General Partner may amend the Partnership Agreement in certain respects, including to reflect changes validly made in the membership of the Partnership and the capital contributions of the Partners; change the Lock-Up Period as permitted in the Partnership Agreement and described above under "Lock-Up Periods;" make changes to the Incentive Allocation as permitted in the Partnership Agreement; satisfy requirements or conditions contained in opinions or rulings of Federal or state agencies or in Federal or state statutes where compliance is necessary or advisable for the Partnership; effect a change that does not adversely affect the Limited Partners in any material respect; or effect a change that is necessary or desirable to cure ambiguities in the Partnership Agreement. Each Partner, however, must consent to any amendment which would (a) reduce its capital account(s), its rights of contribution or withdrawal, its allocable share of income or loss, or its rights to distributions; (b) increase the Incentive Allocation, the Management Fee with respect to such Partner, or its share of expenses or liabilities; or (c) amend the provisions of the Partnership Agreement relating to amendments.

Portfolio transactions for the Partnership will be allocated to brokers on the basis of best execution and in consideration of such factors as commission rates, brokers' ability to effect transactions, the brokers' facilities, reliability and financial responsibility and in consideration of the provision or payment of the costs of research and other services or property which are of benefit to the Partnership, the Management Company and related partnerships and accounts. The Partnership may also utilize the services of one or more brokers who specialize in providing trading services in order to coordinate the Partnership's trading activity in certain circumstances. Such brokers' commissions will be added to the commissions charged to the Partnership by the executing broker. (See "Brokerage Commissions.")

**INDEPENDENT
AUDITORS**

The General Partner has designated Ernst & Young, LLP as the independent auditors of the Partnership.

LEGAL COUNSEL

Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022, acts as legal counsel to the Partnership in connection with the offering of the Interests and with regard to ongoing operations of the Partnership. Schulte Roth & Zabel LLP also acts as counsel to the General Partner, the Management Company and their affiliates. In connection with the offering and ongoing advice to the Partnership, Schulte Roth & Zabel LLP will not be representing Limited Partners. Schulte Roth & Zabel LLP does not represent independent counsel has been retained to represent Limited Partners of the Partnership.

TAXATION

The Partnership operates as a partnership and not as an association or a publicly traded partnership taxable as a corporation for Federal income tax purposes. Accordingly, the Partnership should not be subject to Federal income tax, and each Limited Partner will be required to report on its own annual tax return such Limited Partner's distributive share of the Partnership's taxable income or loss. (See "Tax Aspects.")

FISCAL YEAR-END

December 31 of each year.

**REPORTS TO LIMITED
PARTNERS**

Limited Partners will receive quarterly, unaudited performance reports from the General Partner, and, within 90 days after the end of the fiscal year or as soon as reasonably possible thereafter, an annual audited financial report of the Partnership. In addition, the Partnership will furnish Limited Partners with annual tax information for the preparation of their respective tax returns.

TERM

The Partnership shall continue until the earliest of: (i) December 31, 2050, (ii) the insolvency, bankruptcy, termination or dissolution of the General Partner, (iii) the removal of the General Partner (unless a replacement General Partner is designated) or (iv) at any time after December 31, 2001, if the General Partner has determined, in its sole discretion, to terminate the Partnership at such time. Generally, in the event of the Partnership's dissolution, the General Partner shall liquidate and distribute the Partnership's assets to its Partners.

CERTAIN RISK FACTORS

Prospective Limited Partners should carefully consider the risks involved in an investment in the Partnership, including but not limited to those discussed below. Prospective Limited Partners should consult their own legal, tax and financial advisers as to all of these risks and an investment in the Partnership generally. The discussion herein regarding investments made by the Partnership is deemed to include investments made by vehicles in which the Partnership invests.

Limited Operating History. The Partnership and the General Partner have a limited operating history upon which prospective investors may base an evaluation of the likely performance of the Partnership.

Business Dependent Upon Key Individual. The Limited Partners shall have no authority to make decisions or to exercise business discretion on behalf of the Partnership. The authority for all such decisions is delegated to the General Partner. The success of the Partnership is expected to be significantly dependent upon the performance of Scott A. Bommer, the managing member of the General Partner. (See "Management of the Partnership.")

Unspecified Investments. Investors will not have the opportunity to evaluate investments made by the Partnership. Accordingly, an investor in the Partnership must rely on the ability of the General Partner (or, with respect to entities in which the Partnership invests, the ability of the managers of such entities) to identify and make investments.

Limited Liquidity; Side-Pocket Accounts. An investment in the Partnership must be considered an illiquid investment and involves a high degree of risk. There is no public market for Interests in the Partnership, and it is not expected that a public market will develop. An investment in the Partnership provides limited liquidity since there are substantial restrictions on the ability of a Limited Partner to withdraw capital or to transfer its Interest in the Partnership.

Investments held in Side-Pocket Accounts may require a significant amount of time from the date of initial investment until disposition. Sales of securities held as Side-Pocket Investments may not be possible and, if possible, may be made at substantial discounts from cost. A withdrawing Partner with an interest in a Side-Pocket Account will not receive any amount in respect of such interest until the related Side-Pocket Investment is liquidated or distributed.

Distributions in Kind. The Partnership intends to distribute cash to a Limited Partner upon a withdrawal from the Limited Partner's capital account. However, there can be no assurance that the Partnership will have sufficient cash to satisfy withdrawal requests, or that it will be able to liquidate investments at the time of such withdrawal request at favorable prices. Under the foregoing circumstances, and under other circumstances deemed appropriate by the General Partner, a Limited Partner may receive in-kind distributions from the Partnership's portfolio. If distributions (other than liquidating distributions) are made in kind, such distributions shall be made on a pro rata basis to participating Partners.

Concentrated Investment Portfolio. The Partnership does not have fixed guidelines for diversification and may concentrate investments in particular industries, companies and/or geographic areas, provided that not more than 25% of any Partner's capital account balance (calculated at the time a position is acquired, with Side-Pocket Investments valued at carrying value and including the amount of any unfunded commitments with respect to such capital account) will be invested in the securities of any one issuer or a group of affiliated issuers. For the purposes of determining whether an investment would cause the Partnership to exceed the 25% limit, long and short positions in the securities of an issuer and/or group of affiliated issuers will not be aggregated. At times the Partnership may hold a relatively large concentration in a particular market, industry, company or security type. Appreciation or depreciation in the value of concentrated positions will have a greater effect on the Partnership's portfolio than would be the case in a more diversified portfolio. Accordingly, losses incurred in such investments could have a materially adverse effect on the Partnership's overall financial condition.

Investment and Trading Risks. A Limited Partner should be aware that it may lose all or part of its investment in the Partnership. No guarantee or representation is made that the Partnership's program will be successful. The Partnership's investment program will utilize investment techniques such as margin transactions, short sales, leverage, options on securities and futures (to the extent utilized and subject to applicable regulatory requirements) and forward contracts, which practices can, in certain circumstances, substantially increase the adverse impact to which the Partnership may be subject. (See "Investment Program.")

Incentive Allocation. The Incentive Allocation to the General Partner may create an incentive for the General Partner to cause the Partnership to make investments that are riskier or more speculative than would be the case if this allocation did not exist. In addition, since the Incentive Allocation is calculated on a basis that includes unrealized appreciation of the Partnership's assets, it may be greater than if such allocation was based solely on realized gains. The Incentive Allocation (as well as the Management Fee) was set by the General Partner without negotiations with any third party.

Illiquid Investments. The Partnership will invest in unregistered securities of publicly held companies and in privately held companies. Such investments, which may be held in Side-Pocket Accounts, will be illiquid and difficult to value and may require a significant amount of time from the date of initial investment before disposition. Sales of securities held in Side-Pocket Accounts may not be possible and, if possible, may be made at substantial discounts from cost. The limited liquidity of these investments may subject them to more extensive fluctuations in value and may impair the ability of the Partnership to exit such investments in times of adversity.

Micro, Small and Mid Capitalization Companies. The Partnership may invest a portion of its assets in companies in the micro-, small- and mid-cap areas. While the General Partner believes they often provide significant potential for appreciation, those stocks, particularly micro- and small-cap stocks, involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of micro- and small-cap and even mid-cap stocks are often more volatile than prices of large-capitalization stocks and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors)

is higher than for larger, "blue-chip" companies. In addition, due to thin trading in some small-capitalization stocks, an investment in those stocks may be illiquid.

Investments in Undervalued Securities. The Partnership may make certain speculative investments in securities which the General Partner believes to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments can result in substantial losses. The Partnership may invest in bonds or other fixed income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities. It is likely that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities. The Partnership may take certain speculative investments in securities which the General Partner believes to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, the Partnership may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the Partnership's assets would be committed to the securities purchased, thus possibly preventing the Partnership from investing in other opportunities. Returns generated from the Partnership's investments may not adequately compensate for the risks assumed.

Troubled Company Investments. The Partnership may invest in securities and private claims and obligations of entities which are experiencing significant financial or business difficulties, some of which may not be publicly traded and may involve a substantial degree of risk. In certain periods, there may be little or no liquidity in markets for these securities. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such entities. Troubled company investments also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. In addition, the public market prices of distressed securities and private claims and obligations may be subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than normally expected for other securities.

Troubled company investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by the General Partner. To the extent that the General Partner becomes involved in such proceedings, the Partnership may have a more active participation in the affairs of the issuer than that assumed generally by an investor. In addition, involvement by the General Partner in an issuer's reorganization proceeding could result in the imposition of restrictions limiting the Partnership's ability to liquidate its position in the issuer for a significant period.

Use of Leverage. The Partnership may, in the sole discretion of the General Partner, leverage its investment positions by borrowing funds from securities broker-dealers, banks or others. From time to time, the Partnership may borrow significant amounts to take

advantage of perceived opportunities, such as short-term price disparities between markets or related securities. Such leverage increases both the possibilities for profit and the risk of loss. Borrowings will typically be secured by the Partnership's securities and other assets. Under certain circumstances, such a lender may demand an increase in the collateral that secures the Partnership's obligations and if the Partnership were unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy the Partnership's obligations. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the Partnership's borrowings and the interest rates on those borrowings, which will fluctuate, may have a significant effect on the Partnership's profitability.

Use of Options. The Partnership may buy or sell (write) both call options and put options, and when it writes options it may do so on a "covered" or an "uncovered" basis. A call option is "covered" when the writer owns securities of the class and amount of those as to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. The Partnership's options transactions may be part of a hedging tactic (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which the Partnership has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions the Partnership may enter into.

When the Partnership buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, could result in a total loss of the Partnership's investment in the option (including commissions). The Partnership could mitigate those losses by selling short the securities as to which it holds call options or taking a long position on securities underlying put options.

When the Partnership sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered." If it is covered, an increase in the market price of the security above the exercise price would cause the Partnership to lose the opportunity for gain on the underlying security (assuming it bought the security for less than the exercise price). If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Partnership might suffer as a result of owning the security.

The seller of an uncovered put option theoretically could lose an amount equal to the entire aggregate exercise price of the option (an amount which would likely be greater than the price of the put option sold), if the underlying security were to become valueless. If the option were covered with a short position in the underlying security, this risk would be limited, but a drop in the security's price below the exercise price would cause the Partnership to lose some or all of the opportunity for profit on the "covering" short position--assuming the Partnership sold short for more than the exercise price. If the price of the underlying security were to increase above the exercise price, the premium on the option (after transaction costs)

would provide profit that would reduce or offset any loss the Partnership might suffer in closing out its short position.

Forward Trading. The Partnership may invest in forward contracts and options thereon, which, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the Partnership due to unusually high or low trading volume, political intervention or other factors. The imposition of controls by government authorities might also limit such forward (and futures) trading to less than that which the General Partner would otherwise recommend, to the possible detriment of the Partnership. Market illiquidity or disruption could result in major losses to the Partnership.

Short Selling. The Partnership's investment portfolio will include short positions. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in the prices of securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Partnership of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. In addition, the occurrence of a "short-squeeze" (the inability to maintain a "borrow" on securities) could force the Partnership to cover a short position and realize an investment loss at an inopportune time.

Hedging Transactions. The Partnership may utilize a variety of financial instruments, such as derivatives, options, interest rate swaps, caps and floors, futures and forward contracts, both for investment purposes and for risk management purposes. While the Partnership may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance and increased (rather than reduced) risk for the Partnership than if it has not engaged in any such hedging transactions. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties). In addition, the Partnership may choose not to enter into hedging transactions with respect to some or all of its positions.

Foreign Investments. The Partnership may invest in securities of foreign corporations and foreign countries. Investing in the equity securities of non-U.S. companies involves certain considerations not usually associated with investing in securities of United States companies, including political and economic considerations, such as greater risks of expropriation and nationalization, the potential difficulty of repatriating funds and general social,

political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Partnership's investment opportunities. In addition, accounting and financial reporting standards that prevail in foreign countries generally are not equivalent to United States standards and, consequently, less information may be available to investors in companies located in foreign countries than is available to investors in companies located in the United States. There is also less regulation, generally, of the securities markets in foreign countries than there is in the United States.

Currency. The Partnership may invest a portion of its assets in instruments denominated in currencies other than the U.S. dollar, the price of which is determined with reference to currencies other than the U.S. dollar. The Partnership will, however, value its securities and other assets in U.S. dollars. To the extent unhedged, the value of the Partnership's assets will fluctuate with U.S. dollar exchange rates as well as the price changes of the Partnership's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Partnership makes its investments will reduce the effect of increases and magnify the effect of decreases in the prices of the Partnership's securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Partnership's non-U.S. dollar securities. The Partnership also may utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

Liquidity of Futures Contracts. The Partnership may utilize futures as part of its investment program, subject to the registration requirements discussed in this Confidential Memorandum. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the General Partner from promptly liquidating unfavorable positions and subject the Partnership to substantial losses.

Counterparty Risk. Many of the markets in which the Partnership may effect its transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. This exposes the Partnership to the risk that a counterparty will not settle a transaction in accordance with or because of a credit or liquidity problem, thus causing the Partnership to suffer a loss. In addition, in the case of a default, the Partnership could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Partnership has concentrated its transactions with a single or small group of counterparties. The Partnership is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, the Partnership has no internal credit function which evaluates the creditworthiness of its counterparties. The ability of the Partnership to transact business with any one or number of

counterparties, the lack of any meaningful and independent evaluation of such counterparties financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Partnership.

Tax-Exempt Investors. Certain prospective Limited Partners may be subject to Federal and state laws, rules and regulations which may regulate their participation in the Partnership, or their engaging directly, or indirectly through an investment in the Partnership, in investment strategies of the types which the Partnership may utilize from time to time (e.g., short sales of securities and the use of leverage and limited diversification). Each type of exempt organization may be subject to different laws, rules and regulations, and prospective Limited Partners should consult with their own advisers as to the advisability and tax consequences of an investment in the Partnership. Investment in the Partnership by entities subject to ERISA and other tax-exempt entities requires special consideration. Trustees or administrators of such entities are urged to carefully review the matters discussed in this Confidential Memorandum. Since the Partnership is permitted to borrow, tax-exempt Limited Partners may incur income tax liability to the extent that their share of the Partnership's income constitutes "unrelated business taxable income." (See "Investment Program," "Tax Aspects" and "ERISA Considerations.")

Absence of Regulatory Oversight. While the Partnership may be considered similar to an investment company, it is not registered as such under the Company Act in reliance upon an exemption available to privately offered investment companies and, accordingly, the provisions of the Company Act (which, among other things, require investment companies to have a majority of disinterested directors, require securities held in custody to at all times be individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company, and regulate the relationship between the adviser and the investment company) are not applicable. Because securities of the Partnership held by brokers are generally not held in the Partnership's name, a failure of any such broker is likely to have a greater adverse impact on the Partnership than if such securities were registered in the Partnership's name.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Partnership. Prospective investors are urged to read this entire Confidential Memorandum and consult their own advisers before deciding whether to invest in the Partnership.

CONFLICTS OF INTEREST

The General Partner and its affiliates are not restricted from engaging in other business activities. Activities outside the Partnership could be viewed as creating a conflict of interest in that the time and effort of the members of the General Partner and its officers and employees may not be devoted exclusively to the business of the Partnership but could be allocated between the business of the Partnership and such other business activities. While overseeing the activities of the General Partner and the Partnership, Mr. Bommer also actively manages the 3(c)(1) Fund and the Offshore Fund, through the General Partner and/or its affiliates, and may provide services to other funds and accounts advised and/or administrated by the General Partner and/or its affiliates.

The General Partner's members and employees may buy and sell securities for such client accounts or for their own accounts but, absent appropriate disclosure and consent, may not buy securities from or sell securities to the Partnership. Although the 3(c)(1) Fund and the Offshore Fund would invest side-by-side on a pro rata basis with the Partnership (subject to legal, regulatory and tax considerations), trading for proprietary or other client accounts (including other collective investment vehicles) may or may not parallel the Partnership's trading. The trading records of any other accounts managed by the General Partner or its affiliates are not available for inspection by the Limited Partners.

When it is determined that it would be appropriate for the Partnership and one or more other investment funds or accounts managed by the General Partner or its affiliates to participate in an investment opportunity, the General Partner and its affiliates will seek to execute orders for all of the participating investment accounts, including the Partnership, on an equitable basis, taking into account such factors as the relative amounts of capital available for new investments, relative exposures to short-term market trends and the investment programs and portfolio positions of the Partnership and the affiliated entities for which participation is appropriate. Orders for public securities may be combined for all such accounts, and if any such order is not filled at the same price, they may be allocated on an average price basis. Similarly, if an order for a public security on behalf of more than one account cannot be fully executed under prevailing market conditions, securities may be allocated among the different accounts on a basis which the General Partner or its affiliates consider equitable. Situations may occur where the Partnership could be disadvantaged because of the investment activities conducted by the General Partner and its affiliates for other investment accounts.

BROKERAGE COMMISSIONS

The General Partner has complete discretion in deciding what brokers and dealers the Partnership uses and in negotiating the rates of compensation the Partnership pays. In addition to using brokers as "agents" and paying commissions, the Partnership may buy or sell securities directly from or to dealers acting as principal at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

In selecting brokers to effect portfolio transactions for the Partnership, the General Partner will consider such factors as commission rates, reliability, financial responsibility, strength of the broker and ability of the broker to efficiently execute transactions, and the broker's provision or payment of the costs of brokerage, research and other investment management-related services or property which are of benefit to the Partnership, the General Partner, the Management Company and other accounts managed by the General Partner or its affiliates. The General Partner need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Accordingly, if the General Partner determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and products or services provided by such broker, the Partnership may pay commissions to such broker in an amount greater than the amount another broker might charge.

Section 28(e) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), provides a "safe harbor" to investment managers who use commission dollars of their advised accounts to obtain brokerage services and research products and investment management-related services and products which provide lawful and appropriate assistance to the manager in the performance of his investment decision-making responsibilities. Research products or investment management-related services and products provided to the Partnership may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities and other products or services (e.g., quotation equipment and computer related costs and expenses) providing lawful and appropriate assistance to the General Partner in the performance of its investment decision-making responsibilities. Conduct outside of the safe harbor afforded by Section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. It is anticipated that the General Partner's receipt of services and products will generally fit within the safe harbor of Section 28(e).

The Partnership may also utilize the services of one or more brokers who specialize in providing trading services in order to coordinate the Partnership's trading activity in certain circumstances. Such brokers' commissions will be added to the commissions charged to the Partnership by the executing broker. In addition, subject to best execution, the Partnership may utilize brokers who refer Limited Partners to the Partnership.

A broker is not excluded from receiving business because it has not been identified as providing research and products. The research and products received from brokers may be used by the General Partner in servicing all of its accounts and not all such research and products may be used by the General Partner in connection with the Partnership. Each Limited Partner, in executing the subscription documents relating to acquiring an Interest in the Partnership, will specifically authorize the Partnership to engage in "soft dollar" commission arrangements with qualified brokers.

The Partnership uses Goldman, Sachs & Co. to act as the prime broker for the Partnership and to clear the Partnership's securities transactions which are effected through other brokerage firms. Goldman, Sachs and/or its affiliates generally will act as custodian of the Partnership's securities, although, in certain cases other brokers who execute transactions for the Partnership maintain custody of the Partnership's assets. The Partnership will not be committed to continue its prime broker relationship with Goldman, Sachs for any minimum period. The Partnership's securities and other assets are held in securities accounts at Goldman, Sachs and/or its affiliates maintained in the Partnership's name.

TAX ASPECTS

The following is a summary of certain aspects of the income taxation of the Partnership and its Limited Partners which should be considered by a prospective Limited Partner. The Partnership has not sought a ruling from the Internal Revenue Service (the "Service") or any other Federal, state or local agency with respect to any of the tax issues affecting the Partnership, nor has it obtained an opinion of counsel with respect to any tax issues.

This summary of certain aspects of the Federal income tax treatment of the Partnership is based upon the Internal Revenue Code of 1986, as amended (the "Code"), judicial decisions, Treasury Regulations (the "Regulations") and rulings in existence on the date hereof, all of which are subject to change. This summary does not discuss the impact of various proposals to amend the Code which could change certain of the tax consequences of an investment in the Partnership. This summary also does not discuss all of the tax consequences that may be relevant to a particular investor or to certain investors subject to special treatment under the Federal income tax laws, such as insurance companies.

EACH PROSPECTIVE LIMITED PARTNER SHOULD CONSULT WITH ITS OWN TAX ADVISER IN ORDER FULLY TO UNDERSTAND THE FEDERAL, STATE, LOCAL AND FOREIGN INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP.

In addition to the particular matters set forth in this section, tax-exempt organizations should review carefully those sections of the Memorandum regarding liquidity and other financial matters to ascertain whether the investment objectives of the Partnership are consistent with their overall investment plans. Each prospective tax-exempt Limited Partner is urged to consult its own counsel regarding the acquisition of Interests.

Tax Treatment of Partnership Operations

Classification of the Partnership. The Partnership operates as a partnership for Federal income tax purposes that is not a publicly traded partnership taxable as a corporation. If it were determined that the Partnership should be taxable as a corporation for Federal income tax purposes (as a result of changes in the Code, the Regulations or judicial interpretations thereof, a material adverse change in facts, or otherwise), the taxable income of the Partnership would be subject to corporate income tax when recognized by the Partnership; distributions of such income, other than in certain redemptions of Interests, would be treated as dividend income when received by the Partners to the extent of the current or accumulated earnings and profits of the Partnership; and Partners would not be entitled to report profits or losses realized by the Partnership.

As a partnership, the Partnership is not itself subject to Federal income tax. The Partnership files an annual partnership information return with the Service which reports the results of operations. Each Partner is required to report separately on its income tax return its distributive share of the Partnership's net long-term capital gain or loss, net short-term capital gain or loss and all other items of ordinary income or loss. Each Partner is taxed on its distributive share of the Partnership's taxable income and gain regardless of whether it has received or will receive a distribution from the Partnership.

Allocation of Profits and Losses. Under the Partnership Agreement, the Partnership's net capital appreciation or net capital depreciation, calculated without regard to Side-Pocket Accounts, for each accounting period is allocated among the Partners and to their capital accounts without regard to the amount of income or loss actually recognized by the Partnership for Federal income tax purposes. The Partnership Agreement provides that items of income, deduction, gain, loss or credit actually recognized by the Partnership for each fiscal year

generally are to be allocated for income tax purposes among the Partners pursuant to Regulations issued under Sections 704(b) and 704(c) of the Code, based upon amounts of the Partnership's net capital appreciation or net capital depreciation allocated to each Partner's capital account for the current and prior fiscal years.

Under the Partnership Agreement, the General Partner has the discretion to allocate specially an amount of the Partnership's capital gain (including short-term capital gain) for Federal income tax purposes to a withdrawing Partner to the extent that the Partner's capital account, determined without regard to the value attributable to its undistributed Side-Pocket Account, exceeds its Federal income tax basis in its partnership interest without taking into account the basis attributable to its undistributed Side-Pocket Account. There can be no assurance that, if the General Partner makes such a special allocation, the Service will accept such allocation. If such allocation is successfully challenged by the Service, the Partnership's gains allocable to the remaining Partners would be increased.

Tax Elections; Returns; Tax Audits. The Code provides for optional adjustments to the basis of partnership property upon distributions of partnership property to a partner and transfers of partnership interests (including by reason of death) provided that a partnership election has been made pursuant to Section 754. Under the Partnership Agreement, at the request of a Partner, the General Partner, in its sole discretion, may cause the Partnership to make such an election. Any such election, once made, cannot be revoked without the Service's consent. As a result of the complexity and added expense of the tax accounting required to implement such an election, the General Partner presently does not intend to make such election.

The General Partner decides how to report the partnership items on the Partnership's tax returns, and all Partners are required under the Code to treat the items consistently on their own returns, unless they file a statement with the Service disclosing the inconsistency. Given the uncertainty and complexity of the tax laws, it is possible that the Service may not agree with the manner in which the Partnership's items have been reported. In the event the income tax returns of the Partnership are audited by the Service, the tax treatment of the Partnership's income and deductions generally is determined at the limited partnership level in a single proceeding rather than by individual audits of the Partners. The General Partner, designated as the "Tax Matters Partner," has considerable authority to make decisions affecting the tax treatment and procedural rights of all Partners. In addition, the Tax Matters Partner has the authority to bind certain Partners to settlement agreements and the right on behalf of all Partners to extend the statute of limitations relating to the Partners' tax liabilities with respect to Partnership items.

Tax Consequences to a Withdrawing Limited Partner

A Limited Partner receiving a cash liquidating distribution from the Partnership, in connection with a complete withdrawal from the Partnership, generally will recognize capital gain or loss to the extent of the difference between the proceeds received by such Limited Partner and such Limited Partner's adjusted tax basis in its partnership interest. Such capital gain or loss will be short-term, long-term, or some combination of both, depending upon the timing of the Limited Partner's contributions to the Partnership. However, a withdrawing Limited Partner will recognize ordinary income to the extent such Limited Partner's allocable share of the

Partnership's "unrealized receivables" exceeds the Limited Partner's basis in such unrealized receivables (as determined pursuant to the Regulations). For these purposes, accrued but untaxed market discount, if any, on securities held by the Partnership will be treated as an unrealized receivable, with respect to which a withdrawing Limited Partner would recognize ordinary income. A Limited Partner receiving a cash nonliquidating distribution will recognize income in a similar manner only to the extent that the amount of the distribution exceeds such Limited Partner's adjusted tax basis in its partnership interest.

As discussed above, the Partnership Agreement provides that the General Partner may specially allocate items of Partnership capital gain (including short-term capital gain) to a withdrawing Partner to the extent its capital account would otherwise exceed its adjusted tax basis in its partnership interest, without taking into account basis attributable to the undistributed portion of its Side-Pocket Account. Such a special allocation may result in the withdrawing Partner recognizing capital gain, which may include short-term gain, in the Partner's last taxable year in the Partnership, thereby reducing the amount of long-term capital gain recognized during the tax year in which it receives its liquidating distribution upon withdrawal.

Distributions of Property. A partner's receipt of a distribution of property from a partnership is generally not taxable. However, under Section 731 of the Code, a distribution consisting of marketable securities generally is treated as a distribution of cash (rather than property) unless the distributing partnership is an "investment partnership" within the meaning of Section 731(c)(3)(C)(i) and the recipient is an "eligible partner" within the meaning of Section 731(c)(3)(C)(iii). The Partnership will determine at the appropriate time whether it qualifies as an "investment partnership." Assuming it so qualifies, if a Limited Partner is an "eligible partner," which term should include a Limited Partner whose contributions to the Partnership consisted solely of cash, the recharacterization rule described above would not apply.

Tax Treatment of Partnership Investments

In General. The Partnership expects to act as a trader or investor, and not as a dealer, with respect to its securities transactions. A trader and an investor are persons who buy and sell securities for their own accounts. A dealer, on the other hand, is a person who purchases securities for resale to customers rather than for investment or speculation.

Generally, the gains and losses realized by a trader or an investor on the sale of securities are capital gains and losses. Thus, subject to the treatment of certain currency exchange gains as ordinary income (see "Currency Fluctuations - 'Section 988' Gains or Losses" below) and certain other transactions described below, the Partnership expects that its gains and losses from its securities transactions typically will be capital gains and capital losses. These capital gains and losses may be long-term or short-term depending, in general, upon the length of time the Partnership maintains a particular investment position and, in some cases, upon the nature of the transaction. Property held for more than one year generally will be eligible for long-term capital gain or loss treatment. The application of certain rules relating to short sales, to so-called "straddle" and "wash sale" transactions and to Section 1256 Contracts (defined below) may serve to alter the manner in which the Partnership's holding period for a security is determined or may otherwise affect the characterization as short-term or long-term, and also the

timing of the realization, of certain gains or losses. Moreover, the straddle rules and short sale rules may require the capitalization of certain related expenses of the Partnership.

The maximum ordinary income tax rate for individuals is 38.6%¹ and, in general, the maximum individual income tax rate for long-term capital gains is 20%² (unless the taxpayer elects to be taxed at ordinary rates - see "Limitation on Deductibility of Interest and Short Sale Expenses" below), although in all cases the actual rates may be higher due to the phase out of certain tax deductions, exemptions and credits. The excess of capital losses over capital gains may be offset against the ordinary income of an individual taxpayer, subject to an annual deduction limitation of \$3,000. For corporate taxpayers, the maximum income tax rate is 35%. Capital losses of a corporate taxpayer may be offset only against capital gains, but unused capital losses may be carried back three years (subject to certain limitations) and carried forward five years.

The Partnership may realize ordinary income from dividends and accruals of interest on securities. The Partnership may hold debt obligations with "original issue discount." In such case, the Partnership would be required to include amounts in taxable income on a current basis even though receipt of such amounts may occur in a subsequent year. The Partnership may also acquire debt obligations with "market discount." Upon disposition of such an obligation, the Partnership generally would be required to treat gain realized as interest income to the extent of the market discount which accrued during the period the debt obligation was held by the Partnership. The Partnership may realize ordinary income or loss to the extent it invests in partnerships engaged in a trade or business. Income or loss from transactions involving certain derivative instruments, such as swap transactions, will also generally constitute ordinary income or loss. In addition, amounts, if any, payable by the Partnership in connection with equity swaps, interest rate swaps, caps, floors and collars likely would be considered "miscellaneous itemized deductions" which, for a noncorporate Partner, may be subject to restrictions on their deductibility. See "Deductibility of Partnership Investment Expenditures by Noncorporate Limited Partners" below. Moreover, gain recognized from certain "conversion transactions" will be treated as ordinary income.³

¹ Under recently enacted legislation, this rate is reduced in stages until calendar year 2006 when the maximum rate will be 35%. However, this legislation contains a "sunset" provision that will result in the top rate being restored to 39.6% in 2011.

² The maximum individual long-term capital gains tax rate is 18% for certain property purchased after December 31, 2000 and held for more than five years.

³ Generally, a conversion transaction is one of several enumerated transactions where substantially all of the taxpayer's return is attributable to the time value of the net investment in the transaction. The enumerated transactions are (i) the holding of any property (whether or not actively traded) and entering into a contract to sell such property (or substantially identical property) at a price determined in accordance with such contract, but only if such property was acquired and such contract was entered into on a substantially contemporaneous basis, (ii) certain straddles, (iii) generally any other transaction that is marketed or sold on the basis that it would have the economic characteristics of a loan but the interest-like return would be taxed as capital gain or (iv) any other transaction specified in Regulations.

Currency Fluctuations - "Section 988" Gains or Losses. To the extent that its investments are made in securities denominated in a foreign currency, gain or loss realized by the Partnership frequently will be affected by the fluctuation in the value of such foreign currencies relative to the value of the dollar. Generally, gains or losses with respect to the Partnership's investments in common stock of foreign issuers will be taxed as capital gains or losses at the time of the disposition of such stock. However, under Section 988 of the Code, gains and losses of the Partnership on the acquisition and disposition of foreign currency (e.g., the purchase of foreign currency and subsequent use of the currency to acquire stock) will be treated as ordinary income or loss. Moreover, under Section 988, gains or losses on disposition of debt securities denominated in a foreign currency to the extent attributable to fluctuation in the value of the foreign currency between the date of acquisition of the debt security and the date of disposition will be treated as ordinary income or loss. Similarly, gains or losses attributable to fluctuations in exchange rates that occur between the time the Partnership accrues interest or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Partnership actually collects such receivables or pays such liabilities may be treated as ordinary income or ordinary loss.

As indicated above, the Partnership may acquire foreign currency forward contracts, enter into foreign currency futures contracts and acquire put and call options on foreign currencies. Generally, foreign currency regulated futures contracts and option contracts that qualify as "Section 1256 Contracts" (see "Section 1256 Contracts" below), will not be subject to ordinary income or loss treatment under Section 988. However, if the Partnership acquires currency futures contracts or option contracts that are not Section 1256 Contracts, or any currency forward contracts, any gain or loss realized by the Partnership with respect to such instruments will be ordinary, unless (i) the contract is a capital asset in the hands of the Partnership and is not a part of a straddle transaction and (ii) the Partnership makes an election (by the close of the day the transaction is entered into) to treat the gain or loss attributable to such contract as capital gain or loss.

Section 1256 Contracts. In the case of Section 1256 Contracts, the Code generally applies a "mark to market" system of taxing unrealized gains and losses on such contracts and otherwise provides for special rules of taxation. A Section 1256 Contract includes certain regulated futures contracts, certain foreign currency forward contracts, and certain options contracts. Under these rules, Section 1256 Contracts held by the Partnership at the end of each taxable year of the Partnership are treated for Federal income tax purposes as if they were sold by the Partnership for their fair market value on the last business day of such taxable year. The net gain or loss, if any, resulting from such deemed sales (known as "marking to market"), together with any gain or loss resulting from actual sales of Section 1256 Contracts, must be taken into account by the Partnership in computing its taxable income for such year. If a Section 1256 Contract held by the Partnership at the end of a taxable year is sold in the following year, the amount of any gain or loss realized on such sale will be adjusted to reflect the gain or loss previously taken into account under the "mark to market" rules.

Capital gains and losses from such Section 1256 Contracts generally are characterized as short-term capital gains or losses to the extent of 40% thereof and as long-term capital gains or losses to the extent of 60% thereof. Such gains and losses will be taxed under the general rules described above. Gains and losses from certain foreign currency transactions

will be treated as ordinary income and losses. (See "Currency Fluctuations - 'Section 988' Gains or Losses.") If an individual taxpayer incurs a net capital loss for a year, the portion thereof, if any, which consists of a net loss on Section 1256 Contracts may, at the election of the taxpayer, be carried back three years. Losses so carried back may be deducted only against net capital gain to the extent that such gain includes gains on Section 1256 Contracts.

Mixed Straddle Election. The Code allows a taxpayer to elect to offset gains and losses from positions which are part of a "mixed straddle." A "mixed straddle" is any straddle in which one or more but not all positions are Section 1256 Contracts. Pursuant to Temporary Regulations, the Partnership may be eligible to elect to establish one or more mixed straddle accounts for certain of its mixed straddle trading positions. The mixed straddle account rules require a daily "marking to market" of all open positions in the account and a daily netting of gains and losses from positions in the account. At the end of a taxable year, the annual net gains or losses from the mixed straddle account are recognized for tax purposes. The application of the Temporary Regulations' mixed straddle account rules is not entirely clear. Therefore, there is no assurance that a mixed straddle account election by the Partnership will be accepted by the Service.

Short Sales. Gain or loss from a short sale of property is generally considered as capital gain or loss to the extent the property used to close the short sale constitutes a capital asset in the Partnership's hands. Except with respect to certain situations where the property used to close a short sale has a long-term holding period on the date the short sale is entered into, gains on short sales generally are short-term capital gains. A loss on a short sale will be treated as a long-term capital loss if, on the date of the short sale, "substantially identical property" has been held by the Partnership for more than one year. In addition, these rules may also terminate the running of the holding period of "substantially identical property" held by the Partnership.

Gain or loss on a short sale will generally not be realized until such time that the short sale is closed. However, if the Partnership holds a short sale position with respect to stock, certain debt obligations or partnership interests that has appreciated in value and then acquires property that is the same as or substantially identical to the property sold short, the Partnership generally will recognize gain on the date it acquires such property as if the short sale were closed on such date with such property. Similarly, if the Partnership holds an appreciated financial position with respect to stock, certain debt obligations, or partnership interests and then enters into a short sale with respect to the same or substantially identical property, the Partnership generally will recognize gain as if the appreciated financial position were sold at its fair market value on the date it enters into the short sale. The subsequent holding period for any appreciated financial position that is subject to these constructive sale rules will be determined as if such position were acquired on the date of the constructive sale.

Effect of Straddle Rules on Limited Partners' Securities Positions. The Service may treat certain positions in securities held (directly or indirectly) by a Partner and its indirect interest in similar securities held by the Partnership as "straddles" for Federal income tax purposes. The application of the "straddle" rules in such a case could affect a Partner's holding period for the securities involved and may defer the recognition of losses with respect to such securities.

Limitation on Deductibility of Interest and Short Sale Expenses. For noncorporate taxpayers, Section 163(d) of the Code limits the deduction for "investment interest" (i.e., interest or short sale expenses for "indebtedness properly allocable to property held for investment"). Investment interest is not deductible in the current year to the extent that it exceeds the taxpayer's "net investment income," consisting of net gain and ordinary income derived from investments in the current year less certain directly connected expenses (other than interest or short sale expenses). For this purpose, any long-term capital gain is excluded from net investment income unless the taxpayer elects to pay tax on such amount at ordinary income tax rates.

For purposes of this provision, the Partnership's activities will be treated as giving rise to investment income for a Limited Partner, and the investment interest limitation would apply to a noncorporate Limited Partner's share of the interest and short sale expenses attributable to the Partnership's operation. In such case, a noncorporate Limited Partner would be denied a deduction for all or part of that portion of its distributive share of the Partnership's ordinary losses attributable to interest and short sale expenses unless it had sufficient investment income from all sources including the Partnership. A Limited Partner that could not deduct losses currently as a result of the application of Section 163(d) would be entitled to carry forward such losses to future years, subject to the same limitation. The investment interest limitation would also apply to interest paid by a noncorporate Limited Partner on money borrowed to finance its investment in the Partnership. Potential investors are advised to consult with their own tax advisers with respect to the application of the investment interest limitation in their particular tax situations.

Deductibility of Partnership Investment Expenditures by Noncorporate Limited Partners. Investment expenses (e.g., investment advisory fees) of an individual, trust or estate are deductible only to the extent they exceed 2% of adjusted gross income.⁴ In addition, the Code further restricts the ability of an individual with an adjusted gross income in excess of a specified amount (for 2002, \$137,300 or \$68,650 for a married person filing a separate return) to deduct such investment expenses. Under such provision, investment expenses in excess of 2% of adjusted gross income may only be deducted to the extent such excess expenses (along with certain other itemized deductions) exceed the lesser of (i) 3% of the excess of the individual's adjusted gross income over the specified amount or (ii) 80% of the amount of certain itemized deductions otherwise allowable for the taxable year.⁵ Moreover, such investment expenses are miscellaneous itemized deductions which are not deductible by a noncorporate taxpayer in calculating its alternative minimum tax liability.

⁴ However, Section 67(e) of the Code provides that, in the case of a trust or an estate, such limitation does not apply to deductions or costs which are paid or incurred in connection with the administration of the estate or trust and would not have been incurred if the property were not held in such trust or estate. There is a disagreement between two Federal Courts of Appeals on the question of whether the investment advisory fees incurred by a trust are exempt (under Section 67(e)) from the 2% of adjusted gross income floor on deductibility. Limited Partners that are trusts or estates should consult their tax advisors as to the applicability of these cases to the investment expenses that are allocated to them.

⁵ Under recently enacted legislation, the latter limitation on itemized deductions will be reduced starting in calendar year 2006 and will be completely eliminated by 2010. However, this legislation contains a "sunset" provision that will result in the limitation on itemized deductions being restored in 2011.

It is unclear whether all or a portion of the Partnership's operations will qualify as trading -- rather than investment -- activities, the expenses for which would not be treated as investment expenses. Therefore, pursuant to Temporary Regulations issued by the Treasury Department, these limitations on deductibility may apply to a noncorporate Limited Partner's share of the expenses of the Partnership, including the Management Fee.

The consequences of these limitations will vary depending upon the particular tax situation of each taxpayer. Accordingly, noncorporate Limited Partners should consult their tax advisers with respect to the application of these limitations.

Application of Rules for Income and Losses from Passive Activities. The Code restricts the deductibility of losses from a "passive activity" against certain income which is not derived from a passive activity. This restriction applies to individuals, personal service corporations and certain closely held corporations. Pursuant to Temporary Regulations issued by the Treasury Department, income or loss from the Partnership's securities investment and trading activity generally will not constitute income or loss from a passive activity. Therefore, passive losses from other sources generally could not be deducted against a Limited Partner's share of such income and gain from the Partnership. Income or loss attributable to the Partnership's investments, if any, in partnerships engaged in certain trades or businesses may constitute passive activity income or loss.

"Phantom Income" From Partnership Investments. Pursuant to various "anti-deferral" provisions of the Code (the "Subpart F," "passive foreign investment company" and "foreign personal holding company" provisions), investments (if any) by the Partnership in certain foreign corporations may cause a Limited Partner to (i) recognize taxable income prior to the Partnership's receipt of distributable proceeds, (ii) pay an interest charge on receipts that are deemed as having been deferred or (iii) recognize ordinary income that, but for the "anti-deferral" provisions, would have been treated as long-term or short-term capital gain.

Foreign Taxes

It is possible that certain dividends and interest received by the Partnership from sources within foreign countries will be subject to withholding taxes imposed by such countries. In addition, the Partnership may also be subject to capital gains taxes in some of the foreign countries where it purchases and sells securities. Tax treaties between certain countries and the United States may reduce or eliminate such taxes. It is impossible to predict in advance the rate of foreign tax the Partnership will pay since the amount of the Partnership's assets to be invested in various countries is not known.

The Limited Partners will be informed by the Partnership as to their proportionate share of the foreign taxes paid by the Partnership, which they will be required to include in their income. The Limited Partners generally will be entitled to claim either a credit (subject, however, to various limitations on foreign tax credits) or, if they itemize their deductions, a deduction (subject to the limitations generally applicable to deductions) for their share of such foreign taxes in computing their Federal income taxes. A Limited Partner that is tax-exempt will not ordinarily benefit from such credit or deduction.

Unrelated Business Taxable Income

Generally, an exempt organization is exempt from Federal income tax on its passive investment income, such as dividends, interest and capital gains, whether realized by the organization directly or indirectly through a partnership in which it is a partner.⁶ This type of income is exempt even if it is realized from securities trading activity which constitutes a trade or business.

This general exemption from tax does not apply to the "unrelated business taxable income" ("UBTI") of an exempt organization. Generally, except as noted above with respect to certain categories of exempt trading activity, UBTI includes income or gain derived (either directly or through partnerships) from a trade or business, the conduct of which is substantially unrelated to the exercise or performance of the organization's exempt purpose or function. UBTI also includes "unrelated debt-financed income," which generally consists of (i) income derived by an exempt organization (directly or through a partnership) from income-producing property with respect to which there is "acquisition indebtedness" at any time during the taxable year, and (ii) gains derived by an exempt organization (directly or through a partnership) from the disposition of property with respect to which there is "acquisition indebtedness" at any time during the twelve-month period ending with the date of such disposition. In the event the Partnership invests in partnerships engaged in a trade or business, the Partnership's income (or loss) from such investments may constitute UBTI.

As indicated above, 100% of certain break up fees and similar fees received by the Management Company or its affiliates will be applied to reduce the Management Fee. There can be no assurance that such reduction of such fees will not be treated as constructive income of a tax exempt Partner that is taxable to it as UBTI.

The Partnership may incur "acquisition indebtedness" with respect to certain of its transactions, such as the purchase of securities on margin. Based upon a published ruling issued by the Service which generally holds that income and gain with respect to short sales of publicly traded stock does not constitute income from debt financed property for purposes of computing UBTI, the Partnership will treat its short sales of securities as not involving "acquisition indebtedness" and therefore not resulting in UBTI.⁷ To the extent the Partnership recognizes income (i.e., dividends and interest) from securities with respect to which there is "acquisition indebtedness" during a taxable year, the percentage of such income which will be treated as UBTI generally will be based on the percentage which the "average acquisition indebtedness" incurred with respect to such securities is of the "average amount of the adjusted basis" of such securities during the taxable year.

⁶ With certain exceptions, tax-exempt organizations which are private foundations are subject to a 2% Federal excise tax on their "net investment income." The rate of the excise tax for any taxable year may be reduced to 1% if the private foundation meets certain distribution requirements for the taxable year. A private foundation will be required to make payments of estimated tax with respect to this excise tax.

⁷ Moreover, income realized from option writing and futures contract transactions generally would not constitute UBTI.

To the extent the Partnership recognizes gain from securities with respect to which there is "acquisition indebtedness" at any time during the twelve-month period ending with the date of their disposition, the percentage of such gain which will be treated as UBTI will be based on the percentage which the highest amount of such "acquisition indebtedness" is of the "average amount of the adjusted basis" of such securities during the taxable year. In determining the unrelated debt-financed income of the Partnership, an allocable portion of deductions directly connected with the Partnership's debt-financed property is taken into account. Thus, for instance, a percentage of losses from debt-financed securities (based on the debt/basis percentage calculation described above) would offset gains treated as UBTI.

Since the calculation of the Partnership's "unrelated debt-financed income" is complex and will depend in large part on the amount of leverage used by the Partnership from time to time,⁸ it is impossible to predict what percentage of the Partnership's income and gains will be treated as UBTI for a Limited Partner which is an exempt organization. An exempt organization's share of the income or gains of the Partnership which is treated as UBTI may not be offset by losses of the exempt organization either from the Partnership or otherwise, unless such losses are treated as attributable to an unrelated trade or business (e.g., losses from securities for which there is acquisition indebtedness).

To the extent that the Partnership generates UBTI, the applicable Federal tax rate for such a Limited Partner generally would be either the corporate or trust tax rate depending upon the nature of the particular exempt organization. An exempt organization may be required to support, to the satisfaction of the Service, the method used to calculate its UBTI. The Partnership will be required to report to a Partner which is an exempt organization information as to the portion of its income and gains from the Partnership for each year which will be treated as UBTI. The calculation of such amount with respect to transactions entered into by the Partnership is highly complex, and there is no assurance that the Partnership's calculation of UBTI will be accepted by the Service.

In general, if UBTI is allocated to an exempt organization such as a qualified retirement plan or a private foundation, the portion of the Partnership's income and gains which is not treated as UBTI will continue to be exempt from tax, as will the organization's income and gains from other investments which are not treated as UBTI. Therefore, the possibility of realizing UBTI from its investment in the Partnership generally should not affect the tax-exempt status of such an exempt organization.⁹ However, a charitable remainder trust will not be exempt from Federal income tax under Section 664(c) of the Code for any year in which it has UBTI. A title-holding company will not be exempt from tax if it has certain types of UBTI.

⁸ The calculation of a particular exempt organization's UBTI would also be affected if it incurs indebtedness to finance its investment in the Partnership. An exempt organization is required to make estimated tax payments with respect to its UBTI.

⁹ Certain exempt organizations which realize UBTI in a taxable year will not constitute "qualified organizations" for purposes of Section 514(c)(9)(B)(vi)(I) of the Code, pursuant to which, in limited circumstances, income from certain real estate partnerships in which such organizations invest might be treated as exempt from UBTI. A prospective tax-exempt Limited Partner should consult its tax adviser in this regard.

Moreover, the charitable contribution deduction for a trust under Section 642(c) of the Code may be limited for any year in which the trust has UBTI. A prospective investor should consult its tax adviser with respect to the tax consequences of receiving UBTI from the Partnership. (See "ERISA Considerations.")

Certain Issues Pertaining to Specific Exempt Organizations

Private Foundations. Private foundations and their managers are subject to excise taxes if they invest "any amount in such a manner as to jeopardize the carrying out of any of the foundation's exempt purposes." This rule requires a foundation manager, in making an investment, to exercise "ordinary business care and prudence" under the facts and circumstances prevailing at the time of making the investment, in providing for the short-term and long-term needs of the foundation to carry out its exempt purposes. The factors which a foundation manager may take into account in assessing an investment include the expected rate of return (both income and capital appreciation), the risks of rising and falling price levels, and the need for diversification within the foundation's portfolio.

In order to avoid the imposition of an excise tax, a private foundation may be required to distribute on an annual basis its "distributable amount," which includes, among other things, the private foundation's "minimum investment return," defined as 5% of the excess of the fair market value of its nonfunctionally related assets (assets not used or held for use in carrying out the foundation's exempt purposes), over certain indebtedness incurred by the foundation in connection with such assets. It appears that a foundation's investment in the Partnership would most probably be classified as a nonfunctionally related asset. A determination that an interest in the Partnership is a nonfunctionally related asset could conceivably cause cash flow problems for a prospective Limited Partner which is a private foundation. Such an organization could be required to make distributions in an amount determined by reference to unrealized appreciation in the value of its interest in the Partnership. Of course, this factor would create less of a problem to the extent that the value of the investment in the Partnership is not significant in relation to the value of other assets held by a foundation.

In some instances, an investment in the Partnership by a private foundation may be prohibited by the "excess business holdings" provisions of the Code. For example, if a private foundation (either directly or together with a "disqualified person") acquires more than 20% of the capital interest or profits interest of the Partnership, the private foundation may be considered to have "excess business holdings." If this occurs, such foundation may be required to divest itself of its interest in the Partnership in order to avoid the imposition of an excise tax. However, the excise tax will not apply if at least 95% of the gross income from the Partnership is "passive" within the applicable provisions of the Code and Regulations. Although there can be no assurance, the General Partner believes that the Partnership will meet such 95% gross income test.

A substantial percentage of investments of certain "private operating foundations" may be restricted to assets directly devoted to their tax-exempt purposes. Otherwise, generally, rules similar to those discussed above govern their operations.

Qualified Retirement Plans. Employee benefit plans subject to the provisions of ERISA, Individual Retirement Accounts and Keogh Plans should consult their counsel as to the implications of such an investment under ERISA. (See "ERISA Considerations.")

Endowment Funds. Investment managers of endowment funds should consider whether the acquisition of an Interest is legally permissible. This is not a matter of Federal law, but is determined under state statutes. It should be noted, however, that under the Uniform Management of Institutional Funds Act, which has been adopted, in various forms, by a large number of states, participation in investment partnerships or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board of the endowment fund is allowed.

State and Local Taxation

In addition to the Federal income tax consequences described above, prospective investors should consider potential state and local tax consequences of an investment in the Partnership. State and local laws often differ from Federal income tax laws with respect to the treatment of specific items of income, gain, loss, deduction and credit. A Partner's distributive share of the taxable income or loss of the Partnership generally will be required to be included in determining its reportable income for state and local tax purposes in the jurisdiction in which it is a resident. If the Partnership acquires an interest in a partnership engaged in a trade or business, the jurisdiction in which such business is conducted will subject to tax a Limited Partner's share of the partnership's income from that business. Prospective investors should consult their tax advisers with respect to the availability of a credit for such tax in the jurisdiction in which that Limited Partner is a resident.

The Partnership should not be subject to the New York City unincorporated business tax, which is not imposed on a partnership which purchases and sells securities for its "own account." (This exemption may not be applicable to the extent the Partnership invests in a partnership that conducts a business in New York City.) By reason of a similar "own account" exemption, it is also expected that a nonresident individual Partner should not be subject to New York State personal income tax with respect to his share of income or gain realized directly by the Partnership. A nonresident individual Partner will not be subject to New York City earnings tax on nonresidents with respect to his investment in the Partnership.

Individual Limited Partners who are residents of New York State and New York City should be aware that the New York State and New York City personal income tax laws limit the deductibility of itemized deductions and interest expense for individual taxpayers at certain income levels. These limitations may apply to a Limited Partner's share of some or all of the Partnership's expenses. Prospective Limited Partners are urged to consult their tax advisers with respect to the impact of these provisions and the Federal limitations on the deductibility of certain itemized deductions and investment expenses on their New York State and New York City tax liability.

For purposes of the New York State corporate franchise tax and the New York City general corporation tax, a corporation generally is treated as doing business in New York State and New York City, respectively, and is subject to such corporate taxes as a result of the

ownership of a partnership interest in a partnership which does business in New York State and New York City, respectively.¹⁰ Each of the New York State and New York City corporate taxes are imposed, in part, on the corporation's taxable income or capital allocable to the relevant jurisdiction by application of the appropriate allocation percentages. Moreover, a non-New York corporation which does business in New York State may be subject to a New York State license fee. A corporation which is subject to New York State corporate franchise tax solely as a result of being a limited partner in a New York partnership may, under certain circumstances, elect to compute its New York State corporate franchise tax by taking into account only its distributive share of such partnership's income and loss. There is currently no similar provision in effect for purposes of the New York City general corporation tax.

Regulations under both the New York State corporate franchise tax and the New York City general corporation tax, however, provide an exception to this general rule in the case of a "portfolio investment partnership," which is defined, generally, as a partnership which meets the gross income requirements of Section 851(b)(2) of the Code. New York State (but not New York City) has adopted regulations that also include income and gains from commodity transactions described in Section 864(b)(2)(B)(iii) as qualifying gross income for this purpose. The Partnership's qualification as such a portfolio investment partnership must be determined on an annual basis and, with respect to a taxable year, the Partnership may not qualify as a portfolio investment partnership.

A trust or other unincorporated organization which by reason of its purposes or activities is exempt from Federal income tax is also exempt from New York State and New York City personal income tax. A nonstock corporation which is exempt from Federal income tax is generally presumed to be exempt from New York State corporate franchise tax and New York City general corporation tax. New York State imposes a tax with respect to such exempt entities on UBTI (including unrelated debt-financed income) at a rate which is currently equal to the New York State corporate franchise tax rate (plus the corporate surtax). There is no New York City tax on the UBTI of an otherwise exempt entity.

Each prospective corporate Partner should consult its tax adviser with regard to the New York State and New York City tax consequences of an investment in the Partnership.

Foreign Limited Partners

A foreign person considering acquiring an Interest in the Partnership should consult his or its own tax advisers as to the Federal, state and local tax consequences of an investment in the Partnership, as well as with respect to the treatment of income or gain received from the Partnership under the laws of his or its country of citizenship, residence or incorporation. The previous general discussion of the taxation of Partners in the Partnership may not be applicable to foreign investors. The Federal income tax treatment of a foreign investor in

¹⁰ New York State (but not New York City) generally exempts from corporate franchise tax a non-New York corporation which (i) does not actually or constructively own a 1% or greater limited partnership interest in a partnership doing business in New York and (ii) has a tax basis in such limited partnership interest not greater than \$1 million.

the Partnership will depend on whether that investor is found, for Federal income tax purposes, to be engaged in a trade or business in the United States as a result of its investment in the Partnership. Generally, a Partner would be deemed to be engaged in a trade or business in the United States, and would be required to file a U.S. tax return (and possibly one or more state or local returns) if the Partnership is so engaged.

As long as the Partnership's principal activity is investing and/or trading in stocks, securities and commodities for its own account and it is not a dealer in such items, a "safe harbor" would apply that would exempt foreign persons owning interests in the Partnership from being treated as engaged in a United States trade or business as a result of the Partnership's stocks, securities and commodities trading activity, even if such activity otherwise constitutes a U.S. trade or business, provided that such foreign persons are not dealers in stocks, securities or commodities. Accordingly, such foreign persons owning interests in the Partnership should be eligible for the safe harbor and would be exempt from Federal net taxation on the Partnership's activities that fall within the safe harbor (other than for gains on certain securities reflecting interests in United States real property). However, withholding taxes, if any, would be imposed on a foreign Partner's share of the Partnership's U.S. source gross income from dividends and certain interest income arising from safe harbor activities, and certain other income, unless an exception were applicable to reduce or eliminate such withholding.

To the extent the Partnership engages in a United States trade or business, income and gain effectively connected with the conduct of that trade or business allocated to a foreign Partner would subject such person to Federal income tax on that income on a net basis at the same rates that are generally applicable to that particular type of investor which is a U.S. person. The Partnership is required to withhold U.S. income tax with respect to each foreign Partner's share of the Partnership's effectively connected income. The amount withheld is reportable as a tax credit on the U.S. income tax return that such foreign Partner is required to file. Moreover, effectively connected earnings from the Partnership which are allocated to a foreign corporate Partner and are not reinvested in a United States trade or business may be subject to a "branch profits tax."

As indicated above, 100% of certain break up fees and similar fees received by the Management Company or its affiliates will be applied to reduce the Management Fee. There can be no assurance that such reduction of such fees will not be treated as constructive income of a foreign Partner that is taxable to it as income effectively connected with the conduct of a United States trade or business.

If a foreign individual owns a Partnership interest at the time of his death, the foreign individual's interest in the Partnership or its assets may be subject to U.S. estate taxation unless provided otherwise by applicable treaty.

The identity of a foreign Partner may be disclosed on the Partnership's U.S. tax return. In addition, foreign Partners may have to supply certain beneficial ownership statements to the Partnership (which would be available to the Service) in order to obtain reductions in U.S. withholding tax on interest and to obtain benefits under U.S. income tax treaties, to the extent applicable.

Foreign corporate Limited Partners should be aware that, unless the Partnership's activities in New York are limited solely to those within the safe harbor, they may be subject to New York State corporation franchise tax and New York City general corporation tax as a result of their investment in the Partnership if the Partnership does not qualify as a "portfolio investment partnership" both for New York State and New York City purposes (See "State and Local Taxation").

ERISA CONSIDERATIONS

THE FOLLOWING SUMMARY OF CERTAIN ASPECTS OF ERISA IS BASED UPON ERISA, JUDICIAL DECISIONS, DEPARTMENT OF LABOR REGULATIONS AND RULINGS IN EXISTENCE ON THE DATE HEREOF. THIS SUMMARY IS GENERAL IN NATURE AND DOES NOT ADDRESS EVERY ERISA ISSUE THAT MAY BE APPLICABLE TO THE PARTNERSHIP OR A PARTICULAR INVESTOR. ACCORDINGLY, EACH PROSPECTIVE LIMITED PARTNER SHOULD CONSULT WITH ITS OWN COUNSEL IN ORDER TO UNDERSTAND THE ERISA ISSUES AFFECTING THE PARTNERSHIP AND THE INVESTOR.

General

Each prospective Limited Partner which is an employee benefit plan or trust (an "ERISA Plan") within the meaning of, and subject to the provisions of ERISA, an IRA or Keogh Plan, should consider the matters described below in determining whether to invest in the Partnership.

In addition, ERISA Plan fiduciaries must give appropriate consideration to, among other things, the role that an investment in the Partnership plays in the ERISA Plan's portfolio, taking into consideration whether the investment is designed reasonably to further the ERISA Plan's purposes, an examination of the risk and return factors, the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the ERISA Plan, the projected return of the total portfolio relative to the ERISA Plan's objectives and the limited right of Partners to withdraw all or any part of their capital accounts or to transfer their Interests in the Partnership.

Limitation on Investments by Benefit Plan Investors

The General Partner will monitor the investments in the Partnership to ensure that the aggregate investment by benefit plan investors (*i.e.*, employee benefit plans as defined in Section 3(3) of ERISA, whether or not subject to Title I of ERISA, plans described in Section 4975(e)(1) of the Code, government plans, church plans, insurance company general and separate accounts and entities the underlying assets of which include plan assets) does not equal or exceed 25% of the value of the Interests (other than Interests of the General Partner and its affiliates), so that equity participation by benefit plan investors will not be considered "significant" under applicable Department of Labor regulations, and, as a result, the underlying assets of the Partnership will not be deemed Plan assets for purposes of ERISA or the Code. If the assets of the Partnership would be deemed to be Plan assets of a Plan investor, the General Partner would be a fiduciary (as defined in ERISA) with respect to such Plan and would be

subject to the obligations and liabilities imposed upon fiduciaries by ERISA. Moreover, the Partnership would be subject to various other requirements of ERISA.

Representations by Plans

The fiduciaries of each Plan proposing to invest in the Partnership will be required to represent that they have been informed of and understand the Partnership's investment objectives, policies and strategies, and that the decision to invest Plan assets in the Partnership is consistent with the provisions of ERISA that require diversification of Plan assets and impose other fiduciary responsibilities. In particular, exempt organizations should consider the applicability to them of the provisions related to "unrelated business taxable income." (See "Tax Aspects.")

ERISA Plans Having Prior Relationships with Affiliates of the Partnership

Certain prospective ERISA Plan investors may currently maintain relationships with the General Partner or entities which are affiliated with the General Partner. Each of such entities may be deemed to be a party in interest to and/or a fiduciary of any ERISA Plan to which it provides investment management, investment advisory or other services. ERISA prohibits Plan assets to be used for the benefit of a party in interest and also prohibits a Plan fiduciary from using its position to cause the Plan to make an investment from which it or certain third parties in which such fiduciary has an interest would receive a fee or other consideration. In this circumstance, ERISA Plan investors should consult with counsel to determine if the participation in the Partnership is a transaction which is prohibited by ERISA or the Code.

ADDITIONAL INFORMATION

The General Partner is available for a discussion of the terms and conditions of this offering and will provide any additional information, to the extent it possesses it or can acquire it without unreasonable effort or expense, necessary to verify the information contained in this Confidential Memorandum. Potential investors may contact Mr. Bommer at (212) 610-9061.