

Talking points – Investors (Domestic)

Introduction

■ calling to give you an update. I didn't think I would have to call you again, but after Perry Gruss left the firm an issue came up. The last time we spoke, Perry's departure was the reason for the call. Since then, two other issues have come to my attention. We're embarrassed as a firm and I'm personally embarrassed. So I felt I owed it to you to make a call and give you some details because it bothers me that this happened. It's not the way we run our business.

Fund assets

The firm is on its way to having one of its best months -- the 49th consecutive up-month in the firm's history and year to date net performance for the Domestic Fund is approximately 13%.

As you know, our global asset management team now consists of 30 members and our valuation process has never been more robust. Our asset values accurately represent fair value. We are close to achieving our goal of independently valuing all illiquid assets in excess of \$1 million held for more than 3 months --95% of such assets, by dollar amount, have been independently valued.

We believe that no investors' capital accounts are overstated.

Out of an abundance of caution, we engaged Deloitte & Touche to do testing of our NAV process before issuing our September NAV.

Issues identified

Our review of the accounting operations both before and after Perry Gruss's departure has identified four issues.

In late 2005 we hired a management company controller, and earlier this year we discovered two issues which we asked our counsel, Schulte Roth & Zabel, to investigate.

We learned that in certain months over a two-year period, management fees earned by DBZCO were advanced after they had been earned (we accrue management fees

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monthly), but prior to when they were payable (management fees are payable to DBZCO quarterly in arrears). We have compensated the Funds for the interest on all such early payments of management fees, increasing investor capital accounts by up to approximately 1.5 bps, directly from the management company.

We identified one occasion in 2005, where fund assets (constituting approximately 1 basis point of approximately \$3.6 billion of total fund assets at the time) were used to pay for non-fund expenses. The fund assets were returned within 45 days and interest on those assets for that period has been paid to the funds in compensation by the management company. The interest paid to LP by the management company was approximately \$36,000 out of approximately \$857 million in LP fund assets.

When I spoke with you about Perry Gruss's departure, I did not disclose these two issues as they were deemed immaterial, in consultation with our advisors.

I'm calling you now because, subsequent to Perry's departure, we detected two additional issues.

There was an insignificant reporting error -- an approximate \$3 million expense was misapplied in March 2006 and subsequently reversed in April and May 2006. Year-to-date performance figures are accurate.

We also became aware of certain interfund transfers over a 13-month period that should not have occurred. The net effect of these inter-fund transfers is that investors in the Offshore Fund did not receive a return on the amount of these transfers for the periods of time when the transfers were outstanding. We believe that the average amounts of the transfers outstanding during this period were approximately \$108 million. The interest relating to these transfers during this period totals approximately \$8 million. We have now properly booked the relevant transfers, which will be reimbursed with interest by January. The management company will bear the cost of the interest expense. Based on what we know today, the interest credited to the Offshore Fund investors will result in increases to the value of their shares by around 35 bps; this will not have any effect on the capital accounts of investors in the Domestic Fund because the management company will bear the interest expense.

Firm Response

We are stepping up to the plate.

As I indicated, we're embarrassed as a firm by what we have discovered and I'm personally embarrassed. It's not the way we run our business.

The management of the firm is unequivocally committed to a full and thorough review of the issues we have discussed.

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We have been working with our outside counsel Schulte Roth & Zabel, who conducted a thorough internal review with respect to the first two items we identified, and as a result of SR&Z's review and findings we took action against Perry Gruss. **If asked about SRZ findings, remember to not discuss.**

We also have retained Deloitte & Touche to act as special auditor, supervised by independent outside counsel Gibson Dunn & Crutcher. They have unfettered access to all of our books, records and operations to conduct a thorough review of these issues and, although they are committed to getting this done as soon as possible, that review will take as long as necessary to make sure that it is comprehensive.

We have fully apprised our auditors PricewaterhouseCoopers and they are preparing for the 2006 audit process.

We have also notified all of our lenders and prime brokers and they are working with us to ensure our continued success. They have been fully supportive of our business and will continue to work with us. All of our credit facilities remain strong and intact.

Conclusions

Although our review of these issues is ongoing, we did not want to wait to notify you, as we wanted to be as open as possible and work with you as our investor. We are hoping that all of our investors and creditors will treat this information with the appropriate sensitivity. This is in our investors' best interests. Please limit this information to individuals within your organization who need to have this information.

We are pleased to report that substantial progress has been made on addressing these issues and that we do not believe that there has been any effect on our investments or portfolio.

We are continuing on track toward building a world-class mid and back office operation.

Our underlying base of investments is very, very strong and we believe that no investor capital account is overstated.

We will continue to review our accounting operations and to improve our policies and procedures, including implementing any changes following the work of the auditors and legal counsel.

We appreciate your continued support. I am always available to speak with you and if you would like, I will be happy to come meet with you at your offices.

Please let me reiterate, our asset values are not affected and are properly valued. We believe that no investors' capital accounts are overstated.

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