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# JET CAPITAL ARBITRAGE AND EVENT FUND I, L.P.

## CONFIDENTIAL MEMORANDUM

**November 2003**

Jet Capital Management, L.L.C.
767 Fifth Avenue
44th Floor
New York, NY 10153

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY UPON THEIR OWN EXAMINATION OF THE PARTNERSHIP AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE INTERESTS HAVE NOT BEEN FILED WITH OR APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER GOVERNMENTAL AGENCY OR REGULATORY COMMISSION OR ANY NATIONAL SECURITIES EXCHANGE. NO SUCH AGENCY, AUTHORITY, OR EXCHANGE HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM OR THE MERITS OF AN INVESTMENT IN THE PARTNERSHIP'S INTERESTS OFFERED HEREBY. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

**CONFIDENTIAL MEMORANDUM**
**JET CAPITAL ARBITRAGE AND EVENT FUND I, L.P.**

**Jet Capital Management, L.L.C.**
**767 Fifth Avenue**
**44th Floor**
**New York, NY 10153**

Jet Capital Arbitrage and Event Fund I, L.P. (the "Partnership"), is a Delaware limited partnership organized in May 2002 to operate as private investment partnership. The Partnership commenced operations on July 1, 2003.

The Partnership's primary investment objective is to generate steady absolute returns with less volatility than the equity markets. The Partnership seeks to meet this objective through the use of merger arbitrage, capital structure arbitrage and event oriented trading strategies.

The Partnership expects to make long and short investments in equity securities, convertible securities, put and call options, swaps and cash and cash equivalents. The General Partner (as defined below) may use derivatives and other instruments to hedge currency and market risks. The General Partner has the sole discretion in determining when and whether to engage in hedging strategies.

There can be no assurance that the investment objective of the Partnership will be achieved, and certain investment practices can, in some circumstances, potentially increase any adverse impact on the Partnership's investment portfolio.

Jet Capital Management, L.L.C., a limited liability company organized under the laws of the state of Delaware (the "General Partner"), serves as the general partner of the Partnership. Jet Capital Investors, L. P., a Delaware Limited Partnership and an affiliate of the General Partner (the "Management Company"), provides management services to the Partnership. The General Partner and the Management Company (or affiliated entities) also provide investment management services to other entities and clients, including other collective investment vehicles, which may or may not utilize investment programs substantially similar to that of the Partnership. Currently, it is anticipated that the Management Company may provide investment advisory services to Jet Capital Arbitrage and Event Fund, Ltd. (the "Offshore Fund"), a Cayman Islands exempt company, utilizing substantially the same investment program as the Partnership.

This Confidential Memorandum relates to an offering of limited partner interests in the Partnership (the "Interests") to certain investors who, if accepted, will become limited partners of the Partnership (each a "Limited Partner," and together with the General Partner, the "Partners").

INTERESTS ARE SUITABLE ONLY FOR SOPHISTICATED INVESTORS 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 SPECIALIZED

INVESTMENT PROGRAM. THE PARTNERSHIP'S INVESTMENT PRACTICES, BY THEIR NATURE, MAY BE CONSIDERED TO INVOLVE A SUBSTANTIAL DEGREE OF RISK.

There will be no public offering of the Interests. 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 by or on behalf of the Partnership, and may not be reproduced or used for any other purpose. Notwithstanding anything to the contrary herein, each Partner (and each employee, representative, or other agent of such Partner) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of (i) the Partnership and (ii) any of its transactions, and all materials of any kind (including opinions or other tax analyses) that are provided to the Partner relating to such tax treatment and tax structure.

Prospective Limited Partners should carefully read this Confidential Memorandum. However, the contents of this Confidential Memorandum should not be considered to be legal or tax advice and each prospective Limited Partner should consult with its own counsel and advisers as to all matters concerning an investment in the Interests.

The Partnership will not be registered as an investment company under the Investment Company Act of 1940, as amended (the "Company Act"). The Partnership relies on the exemption provided under Section 3(c)(1) of the Company Act, and, therefore, the number of beneficial owners in the Partnership will be limited to 100.

An investor in the Partnership must be an "accredited investor" and "qualified clients" as defined under Federal securities laws and must meet other suitability requirements. The subscription documents for the Partnership contains questions relating to these qualifications.

NO OFFERING LITERATURE OR ADVERTISING IN WHATEVER FORM SHALL BE EMPLOYED IN THE OFFERING OF THE INTERESTS EXCEPT FOR THIS CONFIDENTIAL MEMORANDUM OR STATEMENTS 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.

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

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**JET CAPITAL ARBITRAGE AND EVENT FUND I, L.P.**

**SUMMARY OF TERMS**

The following is a summary of principal terms of Jet Capital Arbitrage and Event Fund I, L.P. (the "Partnership"). The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Confidential Memorandum and by the terms and conditions of the limited partnership agreement of the Partnership, as amended (the "Partnership Agreement"), which should be read carefully by any prospective investor.

**THE PARTNERSHIP:**

Jet Capital Arbitrage and Event Fund I, L.P., is a Delaware limited partnership organized in May 2002 to operate as a private investment partnership. The Partnership commenced operations on July 1, 2003. (See "The Partnership.")

**INVESTMENT PROGRAM:**

The Partnership's primary investment objective is to generate steady absolute returns with less volatility than the equity markets. The Partnership seeks to meet this objective through the use of merger arbitrage, capital structure arbitrage and event oriented trading strategies.

The Partnership expects to make long and short investments in equity securities, convertible securities, put and call options, swaps and cash and cash equivalents. The General Partner (as defined below) may use derivatives and other instruments to hedge currency and market risks. The General Partner has the sole discretion in determining when and whether to engage in hedging strategies.

The trading strategies described above are those that the General Partner expects to employ on behalf of the Partnership. However, the General Partner intends to invest opportunistically in seeking to achieve the Partnership's primary investment objective.

Merger arbitrage takes advantage of the difference between the public market price of securities of a company targeted for merger and the private market price offered by the potential acquirer for such securities. The four major factors in the analysis of a merger arbitrage transaction are:

(1) What is the likelihood that the transaction will close;

(2) How long will the transaction take to close;

(3) What is the prospect for a higher or lower private market price; and

(4) If the transaction fails, what are the potential losses?

In transactions where a cash offer is made for a target company, merger arbitrage involves buying the target company's stock and earning, upon the consummation of the merger, the spread between the deal value and the target company stock's purchase price. In transactions where a stock offer is made for a target company, merger arbitrage involves both buying the target company's stock and selling short a ratio amount of the stock of the acquirer. The ratio driving the size of the short sale will be defined by the terms of the merger. By selling short the acquirer's stock, investors can "lock in" the spread between the target stock's price and the amount of stock offered by the acquirer.

Capital structure arbitrage takes advantage of relative mispricings in related securities of the same issuer. The most typical strategy involves purchasing a senior class of securities of a company and selling short a more junior class of securities of the same company as a hedge. Capital structure arbitrage also might involve the buying and selling short of a pair of related securities of a company to synthetically create a security representing a unit or subsidiary of a company not represented by a security in issue. Unlike merger arbitrage, the catalysts that drive capital structure arbitrage investing vary by situation, and include balance sheet restructurings, fundamental business changes, creditworthiness, equity volatility, convertible volatility and fixed income values. In addition, each of the different classes of securities involved tends to be owned by a different constituency with different investment objectives.

Event oriented trading involves the purchase or short sale of a security in anticipation of a specific, near term event that an investor believes will lead to a change in its price. The types of catalysts that drive event oriented investing also vary by situation, and include regulatory proceedings and lawsuits, asset liquidations, balance sheet restructurings, spin-offs, the acquisition of a sizable position by an activist investor and significant management appointments. By relying on a specific catalyst to generate an investment gain, event oriented

investing is analogous to merger arbitrage. However, in general, its return profile is higher, less steady and involves more market risk.

The Partnership generates its investment ideas from a substantial array of sources. These include public announcements of merger and restructuring transactions, third party surveys of distressed security investments that may provide arbitrage opportunities, proprietary research, contacts throughout the investment community, sell side research and the financial media. As opportunities change, the Partnership generally has the flexibility to allocate capital dynamically among a wide range of strategies, markets and instruments.

**There can be no assurance that the investment objective of the Partnership will be achieved, and certain investment practices can, in some circumstances, potentially increase any adverse impact on the Partnership's investment portfolio. (See "Investment Program.")**

**GENERAL PARTNER; MANAGEMENT COMPANY:**

Jet Capital Management, L.L.C., a limited liability company organized under the laws of the State of Delaware, serves as the Partnership's general partner and manages the Partnership's investments (the "General Partner"). Jet Capital Investors, L.P., a limited partnership organized under the laws of the State of Delaware and an affiliate of the General Partner (the "Management Company"), provides management and administrative services to the Partnership. Matthew Mark and Alan S. Cooper are the Managing Members of the General Partner and control the Management Company.

**Matthew Mark,** age 31. Prior to forming the General Partner in 2002, Mr. Mark was an analyst with Mark Asset Management Corp., a registered investment advisor focused primarily on fundamental security analysis. From 1997 to 2001, Mr. Mark was a senior member of the risk arbitrage department at Bear Stearns & Co. ("Bear Stearns"). Joining Bear Stearns as an Associate, he was promoted to Managing Director within less than two years. At Bear Stearns, he maintained primary research responsibility and investment management discretion for a substantial portion of Bear Stearns' $1 billion proprietary arbitrage portfolio. In addition, while at Bear Stearns, Mr. Mark was the named analyst for Bear Stearns' weekly published compilation of public merger arbitrage opportunities. He is currently a member of the Investment

Advisory Board of the Bear Stearns Global Arbitrage Fund. Mr. Mark received his B.S. at Harvard College and his J.D. from Harvard Law School.

**Alan S. Cooper,** age 45. Prior to joining the General Partner in April 2003, Mr. Cooper was a principal at Redwood Capital Management since September 2000. At Redwood, Mr. Cooper had portfolio management, research and trading responsibility for all risk arbitrage investing and also served as a senior research analyst on selective event driven/distressed/bankruptcy situations. From 1992 to 2000, Mr. Cooper was Vice President of Dochstein Partners, Inc., a private investment firm specializing in risk arbitrage, distressed and special situation investing. From 1983 to 1991, Mr. Cooper was a corporate and securities attorney with Rosenman & Colin. He is currently a Director of Dade Behring Holdings Inc. Mr. Cooper received his B.S. from the Wharton School in 1980 and his J.D. from the University of Pennsylvania Law School in 1983.

The members of the General Partner, their family members and estate planning vehicles formed for their benefit have made substantial capital contributions to the Partnership. (See "The General Partner; Management Company.")

**OFFERING OF INTERESTS:**

This Confidential Memorandum relates to an offering of limited partner interests in the Partnership (the "Interests") to certain investors who, if accepted, will become limited partners of the Partnership (each a "Limited Partner" and, together with the General Partner, the "Partners").

**SELLING AGENTS:**

The Interests are being offered directly by the Partnership. Neither the Partnership, the Management Company nor the General Partner will receive any commissions or other compensation from the sale of the Interests. However, the Management Company may select one or more selling agents, on an exclusive or non-exclusive basis, to distribute the Interests, and either (i) pay one-time or ongoing fees to selling agents based upon the amount of capital contributions of investors introduced to the Partnership by such agents or (ii) pay placement or referral fees to such selling agents from investors' subscription proceeds, with the net amount of investors' subscription proceeds to be invested in the Partnership. All affected investors will be informed of any such arrangements, and will be asked to consent to such

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| | arrangements, prior to the acceptance of their subscriptions. (See "Selling Agents.") |
| **INITIAL CAPITAL CONTRIBUTIONS:** | The minimum initial subscription is $1 million for Interests in the Partnership, subject to the discretion of the General Partner to accept lesser amounts. (See "Outline of Partnership Agreement – Capital Accounts.") |
| **ADDITIONAL CAPITAL CONTRIBUTIONS; ADMISSIONS:** | Limited Partners of the Partnership may make additional capital contributions of at least $100,000, subject to the discretion of the General Partner to accept lesser amounts. New Partners may be admitted to the Partnership as of the beginning of any quarter or at such other times as the General Partner shall determine.<br><br>Additional contributions by an existing Limited Partner will be placed in a separate capital account that will be subject to its own Lock-Up Period (defined below). The separate capital account will be maintained solely for purposes of applying the applicable Lock-Up Period; *however*, it shall not be deemed to be separate for purposes of calculating such Limited Partner's Incentive Allocation (as defined below).<br><br>For example, in the event that an existing Limited Partner makes an additional capital contribution during the middle of the Partnership's fiscal year, the net returns of such Limited Partner's two capital accounts will be combined for purposes of determining the Incentive Allocation from that Limited Partner. Thus, losses from one of the capital accounts may be offset by gains in the other capital account. (See "Outline of Partnership Agreement – Additional Capital Contributions.") |
| **FISCAL YEAR:** | December 31 of each year. (See "Fiscal Year.") |
| **ALLOCATION OF GAINS AND LOSSES:** | At the end of each accounting period of the Partnership, any net capital appreciation or depreciation will be allocated to all Partners of the Partnership (including the General Partner) in proportion to their respective opening capital account balance for such accounting period. The net capital appreciation or depreciation allocated to each capital account of a Limited Partner will be decreased by the share of the amount of any Management Fee (as defined below) debited to such capital account for such period. (See "Allocations of Gains and Losses.") |

**INCENTIVE ALLOCATION:**

Generally, at the end of each fiscal year of the Partnership, the General Partner reallocates to its capital account an amount (the "Incentive Allocation") equal to 20% of the excess of the net capital appreciation allocated to a Limited Partner's capital account for such year over the Management Fee (as defined below) debited to such Limited Partner's Capital Account for such year after recovery of any amount in the Loss Recovery Account (as defined below), subject to certain adjustments for interim-year withdrawals or dissolution, as described below.

The Partnership maintains a memorandum loss recovery account (a "Loss Recovery Account"), sometimes called a "high water mark," for each Limited Partner. For each fiscal year, each Limited Partner's Loss Recovery Account is credited with the aggregate net capital depreciation, if any, allocated to such Limited Partner's capital account for such fiscal year (taking into account the Limited Partner's share of the Management Fees). The General Partner is not allocated any Incentive Allocation with respect to a Limited Partner's capital account until such Limited Partner has recovered any net capital depreciation credited to its Loss Recovery Account. The amount which must be recovered is adjusted for withdrawals of capital.

In the event that the Partnership is dissolved other than at the end of a fiscal year, or the effective date of a Limited Partner's complete withdrawal is other than fiscal year end, then for purposes of determining the Incentive Allocation with respect to the Partnership, in the case of dissolution, or such Limited Partner, in the case of withdrawal, net capital appreciation or net capital depreciation is determined from the date of the last Incentive Allocation through the date of termination or withdrawal as if such date was the end of the fiscal year.

The General Partner may waive, in whole or in part, the Incentive Allocation with respect to certain Limited Partners, including those Limited Partners who are current members, shareholders, directors, officers or employees of the General Partner, the Management Company or their affiliates. (See "Allocation of Gains and Losses.")

**MANAGEMENT FEE; EXPENSES:**

On the first day of each quarter, the Partnership pays a management fee (the "Management Fee") to the Management Company, of 1/4$^{th}$ of 1.5% of the beginning value of each Limited Partner's capital account for such quarter. The General Partner and the Management

Company have the right to waive or reduce, from time to time, all or part of the Management Fee with respect to certain Limited Partners, including those Limited Partners who are current members, shareholders, directors, officers or employees of the General Partner, the Management Company or their affiliates.

The Management Company bears all of its own normal and recurring operating expenses incurred in connection with the provision by it of investment management and administrative services for the Partnership, including office space and utilities, telephone, news, quotation and computer equipment (including items used to send, receive and process information electronically), software, the cost of providing secretarial, clerical and other personnel to the Partnership and other services of the kind that would normally be borne by a provider of investment management services (except to the extent that all or a portion of its costs in respect of research-related services or products are paid through the permitted use of "soft dollars"). The Management Fee may exceed the expenses borne by the Management Company on behalf of the Partnership.

The Partnership bears its own operating and other expenses including, but not limited to, investment-related expenses (*e.g.*, expenses that the General Partner reasonably determines to be related to the investment of the Partnership's assets, such as brokerage commissions, expenses related to short sales, clearing and settlement charges, custodial fees, interest expense, bank service fees and investment-related travel expenses), legal expenses and costs, professional fees (including, without limitation, fees and expenses of consultants and experts) relating to the Partnership's business, accounting, audit and tax preparation expenses, interest and fees associated with any borrowing, insurance premiums, taxes and other governmental charges, administration expenses, organizational expenses, expenses incurred in connection with the offering and sale of the limited partnership interests and other similar expenses related to the Partnership, and non-recurring or extraordinary expenses.

Organizational expenses were approximately $40,000 and are being amortized over a five year period. Such expenses will be shared by all of the Partners of the Partnership, including the General Partner.

If any of the above costs and expenses are common to the Partnership and any other funds managed by the General Partner, the Management Company or their affiliates, such expenses generally are paid *pro rata* by such entities based on their respective amounts of capital under management, or in such other manner as the General Partner considers fair and reasonable. (See "Management Fee; Expenses.")

**WITHDRAWALS:**

A Limited Partner first has the right to withdraw all or a portion of the balance of its capital account as of the end of any calendar quarter ending on the day preceding the 12-month anniversary of the date as of which such capital account was established (the "Lock-Up Period"); *provided, however,* that the General Partner may disallow, in its sole discretion, the partial withdrawal of a Limited Partner, if after giving effect to such withdrawal the balance remaining in the Capital Account of such Limited Partner would be less than $1,000,000. Written notice of any withdrawal must be received by the General Partner at least 30 days prior to the effective date of withdrawal. Each date as of which a Limited Partner may make a withdrawal from a capital account is herein referred to as a "Withdrawal Date."

Distributions of withdrawal proceeds generally are made within 30 days after the Withdrawal Date; except that if a Limited Partner elects to withdraw its entire capital account, 90% of such value (computed on the basis of unaudited data) will be distributed within 30 days after the Withdrawal Date. The balance is distributed (subject to audit adjustment and without interest) within 30 days after completion of the audit of the Partnership's books for the year in which such withdrawal occurs.

A distribution in respect of a withdrawal may be made in cash or in kind, as determined by the General Partner in its sole discretion.

The General Partner may waive notice requirements or permit withdrawals under such other circumstances and conditions as it, in its sole discretion, deems appropriate. Notwithstanding the foregoing, in the event the General Partner permits a Limited Partner to withdraw all or a portion of its capital account prior to the conclusion of the Lock-Up Period applicable to such Capital Account, such withdrawal will be subject to a redemption fee payable to

the Partnership equal to 2% of the amount being withdrawn (the "Redemption Fee"). The General Partner may reduce, waive or calculate differently the Redemption Fee under such circumstances and conditions as it, in its sole discretion, determines.

The General Partner may 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.

The General Partner, in its sole discretion, may require a Limited Partner to withdraw from the Partnership upon 10 days' written notice.

The General Partner may suspend withdrawal rights, in whole or in part, when there exists in the opinion of the General Partner a state of affairs where disposal of the Partnership's assets, or the determination of the value of the Limited Partner's capital account, would not be reasonably practicable or would be seriously prejudicial to the non-withdrawing Limited Partners. A withdrawal request that is not satisfied because of the foregoing restrictions will be satisfied as of the next succeeding Withdrawal Date that such restrictions no longer apply, in priority to later requests. Capital not withdrawn from the Partnership by virtue of the foregoing restrictions will remain at risk of the Partnership until such Withdrawal Date. The General Partner, by written notice to any Limited Partner, may suspend the payment of a Limited Partner's withdrawal proceeds if the General Partner reasonably deems it necessary to do so to comply with anti-money laundering laws and regulations applicable to the Partnership, the General Partner or any of the Partnership's other service providers.

The General Partner is subject to the withdrawal provisions described above; *provided, however,* that at any time during a year, the General Partner may withdraw a portion of its capital account up to the amount of the Incentive Allocation allocated to such capital accounts during any prior year. (See "Outline of Partnership Agreement, —Withdrawals of Capital, —Required Withdrawals, —Withdrawal, Death, etc. of a Partner, -Distributions and —Limitations on Withdrawals.")

**KEY MAN:**

The success of the Partnership depends upon the ability of the Partnership's key portfolio managers, Matthew Mark and Alan S. Cooper. If either Mr. Mark or Mr. Cooper becomes unable to participate in the management of the Partnership, the consequences to the Partnership could be material and adverse.

Accordingly, any Limited Partner may withdraw from the Partnership if either Mr. Mark or Mr. Cooper dies, becomes incompetent or is disabled (*i.e.*, unable, by reason of disease, illness or injury, to perform his functions as the Managing Member of the General Partner) (any such event, a "Key Man Event") for 30 consecutive days, or otherwise ceases to be involved in the activities of the General Partner. Such special withdrawal right is exercisable by delivery of a withdrawal notice to the Partnership by the 30th day (the "Key Man Notice Date") after the Limited Partners are notified of any Key Man Event, and such withdrawal will be effective at the end of the first full calendar month after the Key Man Notice Date. A Limited Partner exercising such special withdrawal right will be paid 90% of its estimated capital account (determined as of the end of such calendar month) such amount to be paid within 30 days of such calendar month. The balance of such Limited Partner's capital account will be paid (subject to audit adjustment and without interest) to such Limited Partner within 30 days after completion of a special audit of the Partnership. (See "Outline of Partnership Agreement – Key Man Provision.")

**RESTRICTIONS ON TRANSFER:**

A Limited Partner may not pledge, assign, sell, exchange or transfer its Interest (or any portion thereof) except by operation of law, 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. (See "Outline of Partnership Agreement – Assignability of Interests.")

**TERM:**

The Partnership may be terminated at any time by the General Partner for any reason. The termination, bankruptcy, insolvency or dissolution of the General Partner will cause the Partnership to terminate. Upon a determination by the General Partner to dissolve the Partnership, withdrawals, or distributions in respect

thereof, may not be made. (See "Outline of Partnership Agreement – Term.")

**RISK FACTORS:**

The specialized investment program of the Partnership involves a substantial degree of risk. There can be no assurance that the investment objective of the Partnership will be achieved. In fact, the use of leverage, short sales, options and other derivative instruments may create special risks and substantially increase the impact of adverse price movements on the Partnership's portfolio. The Incentive Allocation to the General Partner may create an incentive to cause the Partnership to make investments that are riskier than they would otherwise make. Moreover, an investment in the Partnership provides limited liquidity since the Interests are not freely transferable, and the Partners will have limited withdrawal rights. (See "Certain Risk Factors.")

**LEVERAGE:**

The Partnership has the power to borrow, and may do so, for certain purposes, when deemed by the General Partner to be consistent with the Partnership's risk/reward objectives, including enhancing the Partnership's returns while maintaining strict risk controls. The General Partner expects that positions in the Partnership's portfolio will only be leveraged in exceptional circumstances. The use of leverage would 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 increase the cost of leverage and may adversely affect such Partnership's operating results.

**DIVERSIFICATION:**

The Partnership seeks to maintain a diversified portfolio. The General Partner does not expect any single position to represent greater than 5% of the Partnership's net assets (measured at the time of investment). In addition, the General Partner evaluates its reasonable worst case loss scenario on each position. The General Partner aims to risk no more than 2% of the Partnership's net assets on any single position in a reasonable worst case scenario. The Partnership invests not more than 25% of its net assets in foreign securities and instruments (measured at the time of investment). (See "Investment Program.")

**OTHER ACTIVITIES OF THE GENERAL PARTNER AND THEIR AFFILIATES; CERTAIN CONFLICTS OF INTEREST:**

The General Partner, the Management Company and their affiliates currently provide investment management services to other clients and managed accounts, including proprietary accounts. The investment programs of the Partnership and such other funds and accounts may or may not be substantially similar. Under these circumstances, certain inherent conflicts of interest might arise from the fact that the General Partner and the Management Company generally would be carrying on other investment activities in which the Partnership would have no interest. The portfolio strategies employed by the General Partner, the Management Company and their affiliates for investment funds, client accounts and proprietary accounts could conflict with the transactions and strategies employed by the General Partner in managing the Partnership and affect the prices and availability of the securities and instruments in which the Partnership invests.

The General Partner and its affiliates may give advice or take action with respect to any of their other client accounts which may differ from the advice given or the timing or nature of any action taken with respect to the Partnership. It is the policy of the General Partner, to the extent possible, to allocate investment opportunities to the Partnership over a period of time on a fair and equitable basis relative to other client accounts under its management. The General Partner has no obligation to purchase, sell or exchange any security for the Partnership that the General Partner may purchase, sell or exchange for the account of other client accounts if, in its opinion, such transaction or investment appears to be unsuitable, impractical or undesirable for the Partnership. (See "Other Investment Activities of Management.")

**BROKERAGE COMMISSIONS:**

The General Partner utilizes various brokers and dealers to execute securities transactions. Portfolio transactions for the Partnership are allocated to brokers on the basis of best execution and in consideration of such brokers' ability to effect the transactions, the brokers' facilities, reliability and financial responsibility and in consideration of such brokers' provision or payment of the costs of research and research-related services and equipment which are of benefit to the Partnership, the General Partner and related funds and accounts. 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. The General Partner has complete discretion in deciding what brokers and dealers the Partnership will use and in negotiating the rates of compensation the Partnership will pay. The use of commission dollars for research and research-related services and equipment will come within the safe harbor for the use of soft dollars provided under Section 28(e) of the Securities Exchange Act of 1934, as amended.

Under Section 28(e), research obtained with soft dollars generated by the Partnership may be used by the General Partner to service accounts other than the Partnership. Where a product or service obtained with commission dollars provides both research and non-research assistance to the General Partner, the General Partner will make a reasonable allocation of the cost that may be paid for with commission dollars.

Morgan Stanley & Co. Incorporated serves as the prime broker for the Partnership and clears (generally on the basis of payment against delivery) the Partnership's securities transactions which are effected through other brokerage firms. The Partnership may also utilize other prime brokers from time to time. (See "Brokerage Commissions; Turnover.")

**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 Partnership relies on the exemption provided in Section 3(c)(1) of the Company Act and, therefore, owners of Interests in the Partnership will be limited to 100. Interests in the Partnership will be privately offered.

Neither the General Partner nor the Management Company is registered, and each do not presently intend to but may in the future register, as investment advisers under the Investment Advisers Act of 1940, as amended.

**SUITABILITY:**

Investors in the Partnership must be "accredited investors" as defined under Federal securities laws and must meet other suitability requirements. The General Partner, in its

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| | sole discretion, may decline to admit investors who do not meet such suitability requirements or for any other reason. Interests in the Partnership may not be purchased by non-resident aliens, foreign corporations, foreign partnerships, foreign trusts or foreign estates, all as defined in the Internal Revenue Code of 1986, as amended; *however*, such persons may be eligible to invest in Jet Capital Arbitrage and Event Fund, Ltd. (the "Offshore Fund"), a fund managed by an affiliate of the General Partner which will follow a substantially similar investment program to that of the Partnership. (See "Limitations on Transferability; Suitability Requirements.") |
| **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.") |
| **ERISA AND OTHER TAX-EXEMPT ENTITIES:** | The Partnership will not admit as investors entities that are subject to the Employee Retirement Income Security Act of 1974, as amended, and other tax-exempt entities. Such entities, however, may be eligible to invest in the Offshore Fund. |
| **AUDITORS; REPORTS TO PARTNERS:** | Ernst & Young LLP has been retained as the independent auditors of the Partnership. Within 90 days after the end of each fiscal year, or as soon thereafter as is reasonably possible, audited financial statements will be mailed to each of the Partners. At approximately the same time, each Partner will also be furnished certain tax information for preparation of its tax return. The Partnership will also provide periodic unaudited performance information, no less frequently than quarterly, to the Partners. (See "Auditors; Financial Reports.") |
| **LEGAL COUNSEL:** | Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022, has acted as counsel to the Partnership in connection with this offering of Interests. Schulte Roth & Zabel LLP also acts as counsel to the General Partner, the Management Company and their affiliates. In connection with the Partnership's offering of Interests and subsequent advice to the Partnership, the General Partner, the Management Company and their affiliates, Schulte Roth & Zabel LLP will not be |

representing the Limited Partners of the Partnership. No independent counsel has been retained to represent the Limited Partners of the Partnership. (See "Counsel.")

**SUBSCRIPTION FOR INTERESTS:**

Persons interested in subscribing for Interests will be furnished, and will be required to complete and return to the General Partner, subscription documents. (See "Subscription for Interests.")

## THE PARTNERSHIP

Jet Capital Arbitrage and Event Fund I, L.P. (the "Partnership"), is a Delaware limited partnership organized in May 2002 to operate as private investment partnership. The Partnership commenced operations on July 1, 2003.

Jet Capital Management, L.L.C., a limited liability company organized under the laws of the state of Delaware (the "General Partner"), serves as the general partner of the Partnership. Jet Capital Investors, L.P., an affiliate of the General Partner, (the "Management Company"), will provide management and administrative services to the Partnership. The General Partner and the Management Company (or affiliated entities) also provide investment management services to other entities and clients, including other collective investment vehicles, which may or may not utilize investment programs substantially similar to that of the Partnership. Currently, it is anticipated that the Management Company may provide investment advisory services to Jet Capital Arbitrage and Event Fund, Ltd. (the "Offshore Fund"), a Cayman Islands exempt company, which will utilize substantially the same investment program as the Partnership.

## INVESTMENT OBJECTIVE

The Partnership's primary investment objective is to generate steady absolute returns with less volatility than the equity markets. The Partnership seeks to meet this objective through the use of merger arbitrage, capital structure arbitrage and event oriented trading strategies. These multiple strategies should enable the Partnership to be fully invested in most market environments.

## INVESTMENT PROGRAM

The trading strategies described above are those that the General Partner expects to employ on behalf of the Partnership. However, the General Partner intends to invest opportunistically in seeking to achieve the Partnership's primary investment objective.

Merger arbitrage takes advantage of the difference between the public market price of securities of a company targeted for merger and the private market price offered by the potential acquirer for such securities. The four major factors in the analysis of a merger arbitrage transaction are:

(1) What is the likelihood that the transaction will close;

(2) How long will the transaction take to close;

(3) What is the prospect for a higher or lower private market price; and

(4) If the transaction fails, what are the potential losses?

In transactions where a cash offer is made for a target company, merger arbitrage involves buying the target company's stock and earning, upon the consummation of the merger,

the spread between the deal value and the target company stock's purchase price. In transactions where a stock offer is made for a target company, merger arbitrage involves both buying the target company's stock and selling short a ratio amount of the stock of the acquirer. The ratio driving the size of the short sale will be defined by the terms of the merger. By selling short the acquirer's stock, investors can "lock in" the spread between the target stock's price and the amount of stock offered by the acquirer.

Capital structure arbitrage takes advantage of relative mispricings in related securities of the same issuer. The most typical strategy involves purchasing a senior class of securities of a company and selling short a more junior class of securities of the same company as a hedge. Capital structure arbitrage also might involve the buying and selling short of a pair of related securities of a company to synthetically create a security representing a unit or subsidiary of a company not represented by a security in issue. Unlike merger arbitrage, the catalysts that drive capital structure arbitrage investing vary by situation, and include balance sheet restructurings, fundamental business changes, creditworthiness, equity volatility, convertible volatility and fixed income values. In addition, each of the different classes of securities involved tends to be owned by a different constituency with different investment objectives.

Event oriented trading involves the purchase or short sale of a security in anticipation of a specific, near term event that an investor believes will lead to a change in its price. The types of catalysts that drive event oriented investing also vary by situation, and include regulatory proceedings and lawsuits, asset liquidations, balance sheet restructurings, spin-offs, the acquisition of a sizable position by an activist investor and significant management appointments. By relying on a specific catalyst to generate an investment gain, event oriented investing is analogous to merger arbitrage. However, in general, its return profile is higher, less steady and involves more market risk.

The Partnership expects to make long and short investments in equity securities, convertible securities, put and call options, swaps and cash and cash equivalents. The General Partner may use derivatives and other instruments to hedge currency and market risks. The General Partner has the sole discretion in determining when and whether to engage in hedging strategies.

The Partnership generates its investment ideas from a substantial array of sources. These include public announcements of merger and restructuring transactions, third party surveys of distressed security investments that may provide arbitrage opportunities, proprietary research, contacts throughout the investment community, sell side research and the financial media. As opportunities change, the Partnership generally has the flexibility to allocate capital dynamically among a wide range of strategies, markets and instruments.

The Partnership seeks to maintain a diversified portfolio. The General Partner does not expect any single position to represent greater than 5% of the Partnership's net assets (measured at the time of investment). In addition, the General Partner evaluates its reasonable worst case loss scenario on each position. The General Partner aims to risk no more than 2% of the Partnership's net assets on any single position in a reasonable worst case scenario. The Partnership will not invest more than 25% of its net assets in foreign securities and instruments (measured at the time of investment).

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**The descriptions contained herein of specific strategies that are or may be engaged in by the Partnership should not be understood as in any way limiting the Partnership's investment activities. The Partnership may engage in investment strategies not described herein that the Partnership considers appropriate.**

**The specialized investment program of the Partnership involves a substantial degree of risk. Since market risks are inherent in all securities investments to varying degrees, there can be no assurance that the investment objective of the Partnership will be achieved. In fact, certain investment practices described above can, in some circumstances, potentially increase the adverse impact on the Partnership's investment portfolio. Accordingly, the Partnership's activities could result in substantial losses under certain circumstances. (See "Certain Risk Factors.")**

## THE GENERAL PARTNER; MANAGEMENT COMPANY

Jet Capital Management, L.L.C., serves as the Partnership's general partner and manages the Partnership's investments. Jet Capital Investors, L.P., a limited partnership organized under the laws of the State of Delaware and an affiliate of the General Partner, provides management and administrative services to the Partnership. Matthew Mark and Alan S. Cooper are the Managing Members of the General Partner and control the Management Company.

Matthew Mark, age 31: Prior to forming the General Partner in 2002, Mr. Mark was an analyst with Mark Asset Management Corp., a registered investment advisor focused on fundamental security analysis. From 1997 to 2001, Mr. Mark was a senior member of the risk arbitrage department at Bear Stearns & Co. ("Bear Stearns"). Joining Bear Stearns as an Associate, he was promoted to Managing Director within less than two years. At Bear Stearns, he maintained primary research responsibility and investment management discretion for a substantial portion of Bear Stearns' $1 billion proprietary arbitrage portfolio. In addition, while at Bear Stearns, Mr. Mark was the named analyst for Bear Stearns' weekly published compilation of public merger arbitrage opportunities. He is currently a member of the Investment Advisory Board of the Bear Stearns Global Arbitrage Fund. Mr. Mark received his B.S. at Harvard College and his J.D. from Harvard Law School.

Alan S. Cooper, age 45: Prior to joining the General Partner in April 2003, Mr. Cooper was a principal at Redwood Capital Management since September 2000. At Redwood, Mr. Cooper had portfolio management, research and trading responsibility for all risk arbitrage investing and also served as a senior research analyst on selective event driven/distressed/bankruptcy situations. From 1992 to 2000, Mr. Cooper was Vice President of Dochstein Partners, Inc., a private investment firm specializing in risk arbitrage, distressed and special situation investing. From 1983 to 1991, Mr. Cooper was a corporate and securities attorney with Rosenman & Colin. He is currently a Director of Dade Behring Holdings Inc. Mr. Cooper received his B.S. from the Wharton School in 1980 and his J.D. from the University of Pennsylvania Law School in 1983.

The members of the General Partner, their family members and estate planning vehicles formed for their benefit have made substantial capital contributions to the Partnership.

Neither the General Partner nor the Management Company is registered, and each do not presently intend to but may in the future register, as investment advisors under the Advisers Act.

## SELLING AGENTS

The Interests are being offered directly by the Partnership. Neither the Partnership, the Management Company nor the General Partner will receive any commissions or other compensation from the sale of the Interests. However, the Management Company may select one or more selling agents, on an exclusive or non-exclusive basis, to distribute the Interests, and either (i) pay one-time or ongoing fees to selling agents based upon the amount of capital contributions of investors introduced to the Partnership by such agents, or (ii) pay placement or referral fees to such selling agents from investors' subscription proceeds, with the net amount of investors' subscription proceeds to be invested in the Partnership. All affected investors will be informed of any such arrangements, and will be asked to consent to such arrangements, prior to the acceptance of their subscriptions.

## USE OF PROCEEDS

The proceeds from the sale of the Interests in the Partnership will be available for the investment program of the Partnership, after the payment of the Partnership's expenses, including organizational and offering expenses.

## ALLOCATION OF GAINS AND LOSSES

At the end of each Accounting Period (as defined below) of the Partnership, any net capital appreciation or net capital depreciation, will be allocated to all Partners of the Partnership (including the General Partner) in proportion to their respective opening capital account balance for such accounting period. The net capital appreciation or depreciation allocated to each capital account of a Limited Partner will be decreased by the share of the amount of any Management Fee (as defined below) debited to such capital account for such Accounting Period.

The initial "Accounting Period" began upon the commencement of the Partnership. Each subsequent "Accounting Period" begins immediately after the close of the immediately preceding Accounting Period. Each Accounting Period for the Partnership ends at the close of business on the first to occur of: (i) the last day of each fiscal quarter, (ii) the date immediately prior to the effective date of the admission of a new Partner, (iii) the date immediately prior to the effective date of an additional capital contribution, (iv) the effective date of any withdrawal of capital, (v) the date when the Partnership dissolves or (vi) any date determined by the General Partner in its discretion.

"Net capital appreciation" means, with respect to any Accounting Period, the excess, if any, of the value of the Partnership's net assets, including unrealized gains, at the end of such Accounting Period (before giving effect to withdrawals effected as of the end of such

Accounting Period), over the value of the Partnership's net assets at the beginning of such Accounting Period after payment of the Management Fee.

"Net capital depreciation" means, with respect to any Accounting Period, the excess, if any, of the Partnership's net assets, including unrealized losses, at the beginning of such Accounting Period after payment of the Management Fee, over the value of the Partnership's net assets at the end of such Accounting Period (before giving effect to withdrawals effected as of the end of such Accounting Period).

Generally, at the end of each fiscal year of the Partnership, the General Partner reallocates to its capital account an amount (the "Incentive Allocation") equal to 20% of the excess of the net capital appreciation allocated to a Limited Partner's capital account for such year over the Management Fee debited to such Limited Partner's capital account for such year, in each case subject to certain adjustments for interim-year withdrawals or dissolution, as described below.

The Partnership maintains a memorandum loss recovery account (a "Loss Recovery Account"), sometimes called a "high water mark," for each Limited Partner. For each fiscal year, each Limited Partner's Loss Recovery Account is credited with the aggregate net capital depreciation, if any, allocated to such Limited Partner's capital account for such fiscal year. The General Partner is allocated any Incentive Allocation with respect to a Limited Partner's capital account until such Limited Partner has recovered any net capital depreciation credited to its Loss Recovery Account. The amount which must be recovered is adjusted for withdrawals of capital.

In the event that the Partnership is dissolved other than at the end of a fiscal year, or the effective date of a Limited Partner's complete withdrawal is other than fiscal year end, then for purposes of determining the Incentive Allocation with respect to the Partnership, in the case of dissolution, or such Limited Partner, in the case of withdrawal, net capital appreciation or net capital depreciation is determined from the date of the last Incentive Allocation through the date of termination or withdrawal as if such date was the end of the fiscal year.

The General Partner may waive the Incentive Allocation, in whole or in part, with respect to certain Limited Partners, including those Limited Partners who are current members, shareholders, directors, officers or employees of the General Partner, the Management Company or their affiliates.

In the event that the General Partner determines that, based upon tax or regulatory reasons, or any other reasons as to which the General Partner and any Limited Partner agree, such Partner should not participate in the net capital appreciation or net capital depreciation, if any, attributable to trading in any security or type of security or to any other transaction, the General Partner may allocate such net capital appreciation or net capital depreciation only to the capital accounts of Partners to whom such reasons do not apply, and if appropriate, may establish a separate memorandum account in which only the Partners having an interest in such security, type of security, or transaction shall have an interest and net capital appreciation and net capital depreciation for such separate memorandum account shall be separately calculated. For example, pursuant to this policy, the Partnership will not allocate gains or losses attributable to "hot issues," as such term is defined under applicable rules of the National Association of

Securities Dealers, Inc., to the General Partner or other Limited Partners who are not eligible to participate (or, in certain cases, whose participation is restricted) in such gains or losses under such rules. Partners will be asked to complete a questionnaire which will determine eligibility to participate in "hot issues." In addition, as a matter of fairness to Partners who do not participate in such investment, a use of funds charge may 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. The debited amount will be equal to interest on the funds used to purchase the securities attributable to the memorandum account at the annual rate being paid by the Partnership for borrowed funds during the applicable accounting period. If funds have not been borrowed during that period, then the annual rate will be the rate the General Partner determines would have been paid if funds had been borrowed by the Partnership during that period.

## MANAGEMENT FEE; EXPENSES

On the first day of each quarter, the Partnership pays a management fee (the "Management Fee") to the Management Company, of 1/4$^{th}$ of 1.5% of the beginning value of each Limited Partner's capital account for such quarter. In addition, a *pro rata* portion of the Management Fee is paid out of any capital contributions made by new or existing Limited Partners to the Partnership on any date that does not fall on the first day of a quarter, based on the actual number of days remaining in such partial quarter. In the case of a withdrawal by a Limited Partner other than as of the last day of a quarter, a *pro rata* portion of the Management Fee (based on the actual number of days remaining in such partial quarter) is repaid by the Management Company to the Partnership and distributed to the withdrawing Limited Partner.

The General Partner has the right to waive or reduce from time to time, all or part of, the Management Fee with respect to certain Limited Partners, including those Limited Partners who are current members, shareholders, directors, officers or employees of the General Partner, the Management Company or their affiliates.

In consideration for the Management Fee, the Management Company bears all of its own normal and recurring operating expenses incurred in connection with the provision by it of investment management and administrative services for the Partnership including office space and utilities, telephone, news, quotation and computer equipment (including items used to send, receive and process information electronically), software, the cost of providing secretarial, clerical and other personnel to the Partnership and other services of the kind that would normally be borne by a provider of investment management services (except to the extent that all or a portion of its costs in respect of research-related services or products are paid through the permitted use of "soft dollars"). The Management Fee may exceed the expenses borne by the Management Company on behalf of the Partnership.

The Partnership bears its own operating and other expenses including, but not limited to, investment-related expenses (*e.g.*, expenses that the General Partner reasonably determines to be related to the investment of the Partnership's assets, such as brokerage commissions, expenses related to short sales, clearing and settlement charges, custodial fees, interest expense, bank service fees and investment-related travel expenses), legal expenses and costs, professional fees (including, without limitation, fees and expenses of consultants and

experts) relating to the Partnership's business, accounting, audit and tax preparation expenses, interest and fees associated with any borrowing; insurance premiums, taxes and other governmental charges, administration expenses, organizational expenses, expenses incurred in connection with the offering and sale of the limited partnership interests and other similar expenses related to the Partnership; and non-recurring or extraordinary expenses. If any of the above costs and expenses are common to the Partnership and any other funds managed by the General Partner, the Management Company or their affiliates, such expenses generally are paid *pro rata* by such entities based on their respective amounts of capital under management, or in such other manner as the General Partner considers fair and reasonable. In addition, the Management Company, in its discretion, may choose to bear, from time to time, certain expenses of the Partnership.

Organizational expenses of the Partnership, were approximately $40,000 and are being amortized by the Partnership over a five-year period. Amortizing the Partnership's organizational expenses may be an exception from generally accepted accounting principles.

## CERTAIN RISK FACTORS

Prospective Limited Partners should consider the following factors in determining whether an investment in the Partnership is a suitable investment:

Limited Operating History. The Partnership and the General Partner have a limited operating history upon which prospective investors can evaluate their likely performance. The performance of portfolios managed by the Management Company and its affiliates in the past are not indicative of the likely performance of the Partnership.

Dependence on Key Individuals. The success of the Partnership depends upon the ability of Matthew Mark and Alan S. Cooper, the Managing Members of the General Partner, to develop and implement investment strategies that achieve the Partnership's investment objectives. If either Mr. Mark or Mr. Cooper was to become unable to participate in the management of the Partnership, the consequences to the Partnership could be material and adverse and could lead to the premature termination of the Partnership. (See "The General Partner; Management Company")

Limited Withdrawal Rights. An investment in the Partnership is suitable only for certain sophisticated investors who have no need for liquidity in the investment. An investment provides limited liquidity because Interests in the Partnership are not freely transferable. Generally, a Limited Partner has the right to withdraw all or a portion of funds in its capital account as of the end of the calendar quarter ending on or after the 12-month anniversary of the contribution of those funds. Further, the General Partner may suspend withdrawal rights, in whole or in part, when there exists in the opinion of the General Partner a state of affairs where disposal of the Partnership's assets, or the determination of the value of the Limited Partner's capital account, would not be reasonably practicable or would be seriously prejudicial to the non-withdrawing Limited Partners.

In-Kind Distributions. The Partnership expects 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 requests 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. The investments so distributed may not be readily marketable or salable and may have to be held by such Limited Partner for an indefinite period of time.

Incentive Allocation to the General Partner. The General Partner receives an Incentive Allocation from each Limited Partner based upon the net capital appreciation, if any, allocated to such Limited Partner. The Incentive Allocation may create an incentive for the General Partner to make investments that are riskier or more speculative than would be the case if such arrangement were not in effect. In addition, the Incentive Allocation was not the product of an arm's length negotiation with any third party, and because the Incentive Allocation is calculated on a basis which includes unrealized appreciation of the Partnership's assets, it may be greater than if such compensation were based solely on realized gains. (See "Allocation of Gains and Losses.")

Investment and Trading Risks. An investment in the Partnership involves a high degree of risk, including the risk that the entire amount invested may be lost. The Partnership invests in securities and other financial instruments using strategies and investment techniques with significant risk characteristics. No guarantee or representation is made that the Partnership's program will be successful, that the various investment strategies utilized will have low correlation with each other or that the Partnership's returns will exhibit low correlation with a Limited Partner's traditional securities portfolio. The Partnership's investment program utilizes such investment techniques as option transactions, short sales, leverage and derivatives trading, which practices can, in certain circumstances, maximize the adverse impact to which the Partnership may be subject.

Merger Arbitrage. The Partnership, with respect to its merger arbitrage investments, generally could incur significant losses when proposed transactions are not consummated. The consummation of mergers, tender offers and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or shareholders of the target company, which often results in litigation to enjoin the proposed transaction; (ii) intervention of government agencies; (iii) efforts by the target company to pursue a defensive strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) an attempt by a third party to acquire the offeror; (v) in the case of a merger, failure to obtain the necessary shareholder approvals; (vi) market conditions resulting in material changes in securities prices; (vii) compliance with any applicable legal requirements; and (viii) inability to obtain adequate financing. The Partnership may take tax considerations into account in determining when the Partnership's securities positions should be sold or otherwise disposed of, and may assume certain market risk and incur certain expenses in this regard in order to achieve favorable tax treatment of a transaction.

Event Investing. The identification of investment opportunities in securities, the price of which may be impacted by a significant event, is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While these types of investments offer the opportunities for high or above market capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses.

Leverage and Financing Risk. The Partnership may leverage its capital. Accordingly, the Partnership will pledge its securities in order to borrow additional funds for

investment purposes. The Partnership may also leverage its investment return with, short sales, swaps, and other derivative instruments.

While leverage presents opportunities for increasing the Partnership's total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by the Partnership would be magnified to the extent the Partnership is leveraged. The cumulative effect of the use of leverage by the Partnership in a market that moves adversely to the Partnership's investments could result in a substantial loss to the Partnership which would be greater than if the Partnership was not leveraged.

In the forward markets, margin deposits are typically low relative to the value of the forward contracts purchased or sold. Such low margin deposits are indicative of the fact that any forward contract trading is typically accompanied by a high degree of leverage. Low margin deposits mean that a relatively small price movement in a contract may result in immediate and substantial losses to the investor.

In general, the anticipated use of short-term margin borrowings results in certain additional risks to the Partnership. For example, should the securities pledged to brokers to secure the Partnership's margin accounts decline in value, the Partnership could be subject to a "margin call", pursuant to which it must either deposit additional funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Partnership's assets, the Partnership might not be able to liquidate assets quickly enough to satisfy its margin requirements.

The financing used by the Partnership to leverage its portfolio is typically extended by securities brokers and dealers in the marketplace in which the Partnership invests. While the Partnership will attempt to negotiate the terms of these financing arrangements with such brokers and dealers, its ability to do so is limited. The Partnership is therefore subject to changes in the value that the broker-dealer ascribes to a given security or position, the amount of margin required to support such security or position, the borrowing rate to finance such security or position or such broker-dealer's willingness to continue to provide any such credit to such Partnership. In the absence of credit facilities other than those provided by broker-dealers, the Partnership could be forced to liquidate its portfolio on short notice to meet its financing obligations. The forced liquidation of all or a portion of the Partnership's portfolio at distressed prices could result in significant losses to the Partnership.

Hedging Transactions. Although the General Partner seeks to hedge portfolio positions in the Partnership, it may, for various reasons, not do so. The General Partner may not hedge a portfolio position in the Partnership because it fails to anticipate a particular risk or choose not to hedge a particular risk because of cost. The Partnership may utilize financial instruments for risk management purposes in order to: (i) protect against possible changes in the market value of the Partnership's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates, (ii) facilitate the sale of any such investments, (iii) enhance or preserve returns, spreads or gains on any investment in the Partnership's portfolio, (iv) hedge the interest rate or currency exchange rate on any of the Partnership's liabilities or assets, (v) protect against any increase in the price of any securities that the Partnership anticipates purchasing at a later date or (vi) for any other reason that the General Partner deems appropriate.

The success of the hedging strategy of the Partnership will be subject to the General Partner's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Partnership's hedging strategy will also be subject to the General Partner's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. While the Partnership may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Partnership than if it had not engaged in any such hedging transactions. For a variety of reasons, the General Partner may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Partnership from achieving the intended hedge or expose the Partnership to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Partnership's portfolio holdings.

Short Selling. Short selling involves selling securities which are not owned and borrowing them 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 market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Partnership engages in short sales will depend upon the General Partner's investment strategy and opportunities. 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 Partnership will be able to maintain the ability to borrow securities sold short. In such cases, the Partnership can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Certain Derivative Investments. The Partnership may purchase and sell ("write") options on securities, currencies and commodities on national and international exchanges and over-the-counter markets. The seller of a put option assumes the risk of a decline in the market price of the underlying instrument below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying instrument, the loss on the put will be offset in whole or in part by any gain on the underlying instrument.

The writer of a call option which is covered (*e.g.*, the writer has a long position in the underlying instrument) gives up the opportunity for gain on the underlying instrument above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying instrument above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option.

Options may be cash settled, settled by physical delivery or by entering into a closing purchase transaction. In entering into a closing purchase transaction, the Partnership may

be subject to the risk of loss to the extent that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty.

Loans of Portfolio Securities. The Partnership may lend its portfolio securities. By doing so, the Partnership attempts to increase income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, the Partnership could experience delays in recovering the loaned securities. To the extent that the value of the securities the Partnership lent has increased, the Partnership could experience a loss if such securities are not recovered.

Counterparty Risk. Some of the markets in which the Partnership may effect 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 its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Partnership to suffer a loss. 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. A 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.

Non-U.S. Securities. Investments in securities of non-U.S. issuers (including non-U.S. governments) and securities denominated or whose prices are quoted in non-U.S. currencies pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets of the Partnership, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. issuers. Transaction costs of investing in non-U.S. securities markets are generally higher than in the U.S. There is generally less government supervision and regulation of exchanges, brokers and issuers than there is in the United States. The Partnership might have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Partnership's performance.

**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 should read this entire Confidential Memorandum and consult with their own advisers before deciding to invest in the Partnership.**

## OTHER INVESTMENT ACTIVITIES OF MANAGEMENT

The Partnership is subject to a number of actual and potential conflicts of interests. The Management Company may provide investment advisory services to the Offshore Fund, which will follow an investment program substantially similar to that of the Partnership. The General Partner, the Management Company and their affiliates also provide investment management services to other entities and clients, which may or may not utilize investment programs substantially similar to that of the Partnership.

The General Partner and its affiliates devotes as much of their time to the activities of the Partnership as the General Partner deems necessary and appropriate. By the terms of the Partnership Agreement, the General Partner, the Management Company and their affiliates are not restricted from forming additional investment funds, from entering into other investment advisory relationships, or from engaging in other business activities, even though such activities may be in competition with the Partnership and/or may involve substantial time and resources of the General Partner and the Management Company. These activities could be viewed as creating a conflict of interest in that the time and effort of the members and employees of the General Partner and the shareholders, officers and employees of the Management Company will not be devoted exclusively to the business of the Partnership, but will be allocated between the business of the Partnership and other business activities of the General Partner, the Management Company and their affiliates.

If it is determined by the General Partner, the Management Company or their affiliates that it would be appropriate for the Partnership and one or more other investment accounts managed by them to participate in an investment opportunity, the General Partner and the Management Company 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 General Partner and the Management Company in their discretion may deem appropriate. Orders may be combined for all such accounts, and if any order is not filled at the same price, they may be allocated on an average price basis. Similarly, if an order 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.

The General Partner and its affiliates may give advice or take action with respect to any of their other client accounts which may differ from the advice given or the timing or nature of any action taken with respect to the Partnership. It is the policy of the General Partner, to the extent possible, to allocate investment opportunities to the Partnership over a period of time on a fair and equitable basis relative to other client accounts under its management. The General Partner has no obligation to purchase, sell or exchange any security for the Partnership that the General Partner may purchase, sell or exchange for the account of other client accounts

if, in its opinion, such transaction or investment appears to be unsuitable, impractical or undesirable for the Partnership.

The General Partner and the Management Company may enter into agreements with placement agents providing for payment of a portion of the subscription amount or ongoing payments based upon a percentage of the Management Fee and/or Incentive Allocation attributable to the capital accounts of Limited Partners introduced by such placement agent. Placement agents that solicit Limited Partners on behalf of the Partnership are subject to a conflict of interest because they will be compensated in connection with their solicitation activities. If a subscriber is introduced to the Partnership through a placement agent, the arrangement, if any, with such placement agent will be disclosed to, and acknowledged by, the subscriber.

## BROKERAGE COMMISSIONS; TURNOVER

In selecting brokers to effect portfolio transactions for the Partnership, the General Partner will consider such factors as the ability of the brokers to effect the transactions, the brokers' facilities, reliability and financial responsibility and the provision or payment (or the rebate to the Partnership for payment) of the costs of brokerage or research products or services. 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 commissions charged by a broker are reasonable in relation to the value of the brokerage and research 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.

Research products or services provided to the General Partner may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities and other products and services (*e.g.*, quotation equipment and computer costs and expenses) providing lawful and appropriate assistance to the General Partner in the performance of their investment decision-making responsibilities.

The use of commissions or "soft dollars" to pay for research products or services will fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934. Under Section 28(e), research obtained with soft dollars generated by the Partnership may be used by the General Partner to service accounts other than the Partnership. Where a product or service obtained with soft dollars provides both research and non-research assistance to the General Partner, the General Partner will make a reasonable allocation of the cost which may be paid for with soft dollars.

The Partnership's securities transactions can be expected to generate brokerage commissions and other compensation, all of which the Partnership, not the General Partner, will be obligated to pay. The General Partner will have complete discretion in deciding what brokers and dealers the Partnership will use and in negotiating the rates of compensation the Partnership will pay. In addition to using brokers as "agents" and paying commissions, the Partnership may buy or sell securities directly from or to dealers acting as principals 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.

Morgan Stanley & Co. Incorporated acts as prime broker for the Partnership and clears (on the basis of payment against delivery) the Partnership's securities transactions which are effected through other brokerage firms and generally will maintain the Partnership's securities and will receive no separate fee therefore, although in certain instances other brokers who execute transactions for the Partnership will maintain custody of the Partnership's assets. The Partnership is not committed to continue its relationships with the above entity for any minimum period and the General Partner, in its sole discretion, may select other brokers to act as prime broker to the Partnership.

The General Partner may actively trade the portfolio of the Partnership if, in its discretion, market conditions warrant. In such circumstances, the Partnership may have substantial portfolio turnover.

## FISCAL YEAR

The fiscal year-end of the Partnership is December 31.

## OUTLINE OF PARTNERSHIP AGREEMENTS

The following outline summarizes the material provisions of the limited partnership agreement of the Partnership, as amended (the "Partnership Agreement") which are not discussed elsewhere in this Confidential Memorandum. This outline is not definitive, and each prospective Limited Partner should carefully read the Partnership Agreement in its entirety.

Limited Liability. A Limited Partner (or former Limited Partner) will be liable for debts and obligations of the Partnership to the extent of its interest in the Partnership in the fiscal year (or a portion thereof) to which such debts and obligations are attributable. In order to meet a particular debt or obligation, a Limited Partner or former Limited Partner shall, in the discretion of the General Partner, be required to make additional contributions or payments up to, but in no event in excess of, the aggregate amount of capital and other amounts actually received by it from the Partnership during or after the fiscal year to which such debt or obligation is attributable.

Term. The Partnership will terminate on the earlier of: (i) the termination, bankruptcy, insolvency or dissolution of the General Partner and (ii) such time as the General Partner, in its sole discretion, chooses to dissolve the Partnership. Upon a determination to dissolve the Partnership, requests for withdrawals and distributions in respect of pending requests for withdrawals may not be made.

Capital Accounts. A separate capital account will be established on the books of the Partnership for each contribution made by a Partner to such Partnership. Multiple capital accounts of a Partner are being used solely for purposes of applying the applicable Lock-Up Period (defined below); *however*, they shall not be deemed to be separate for purposes of calculating such Partner's Incentive Allocation. In any event, multiple capital accounts of a Partner will be combined if they have been in existence for at least one year.

A Partnership Percentage will be determined for each Partner for each accounting period by dividing the amount of each Partner's capital account as of the beginning of such

accounting period by the aggregate capital accounts of all Partners in such Partnership as of the beginning of such accounting period.

If a Partner has made a capital contribution, the capital account created in respect of such contribution will be credited with the value thereof. The value of each Partner's capital account will be increased to reflect its share of net capital appreciation of the Partnership's assets and will be decreased to reflect withdrawals of capital and such Partner's share of net capital depreciation of the Partnership's assets. At the beginning of each fiscal quarter, the capital account of each Limited Partner shall be decreased by the amount of the Management Fee debited to such capital account. Capital contributions shall be made in cash, unless contributions in kind are permitted by the General Partner in its sole discretion.

Management. The management of the Partnership will be vested exclusively in the General Partner. Except as authorized by the General Partner, the Limited Partners will have no part in the management of the Partnership and will have no authority or right to act on behalf of the Partnership in connection with any matter. The General Partner and its affiliates may engage in any other business venture, and neither the Partnership nor any Partner will have any rights in or to such ventures or the income or profits derived therefrom.

Types of Securities in which the Partnership May Invest. The Partnership Agreement authorizes the Partnership to invest in all types of securities and other financial instruments and to sell securities short and cover such sales. The term "securities," as used herein, is given its broadest possible meaning and includes interests commonly referred to as securities, including, but not limited to, capital stock; shares of beneficial interest; partnership interests and similar financial instruments; interests in real estate and real estate related assets; bonds; notes; debentures (whether subordinated, convertible or otherwise); currencies; interest rate, currency, commodity equity and other derivative products, including, without limitation (i) futures contracts (and options thereon) relating to stock indices, currencies, United States Government securities and securities of foreign governments, other financial instruments and all other commodities, (ii) swaps, options, warrants, caps, collars, floors and forward rate agreements, (iii) spot and forward currency transactions and (iv) agreements relating to or securing such transactions; equipment lease certificates; equipment trust certificates; loans; accounts and notes receivable and payable held by trade or other creditors; trade acceptances; contract and other claims; executory contracts; participations; mutual funds; money market funds; obligations of the United States or any state thereof, foreign governments and instrumentalities; commercial paper; certificates of deposit; bankers' acceptances; choses in action; trust receipts; and other obligations and instruments or evidences of indebtedness of whatever kind or nature; in each case, of any person, corporation, government or other entity whatsoever, whether or not publicly traded or readily marketable.

Use of Leverage. The Partnership may trade in securities on margin, sell securities short and/or pledge, mortgage, lend or hypothecate securities or other assets.

Making of Loans. The Partnership may lend its portfolio securities on terms customary in the securities industry, enter into repurchase agreements or enter into other transactions constituting a loan of the Partnership's assets.

Valuation of Partnership Assets and Liabilities. Securities (including options) will generally be valued at their last sales price on the largest 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, the securities will be valued at their last "bid" prices if held "long" and their last "asked" prices if held "short." Securities which are not listed on a national securities exchange nor included in the NASDAQ National Market System will be valued at their last closing "bid" prices if held "long" and their least closing "asked" prices if held "short." In the event the Partnership acquires securities for which market quotations are not available, such securities will be valued at their fair market value as determined by the General Partner. For certain securities of smaller capitalization issuers where the markets in which such securities trade are less liquid than the markets for other investments, the General Partner will value such securities by taking the average of quotations obtained from one or more brokerage firms or financial institutions making markets in these instruments. Securities not denominated in U.S. dollars will be translated into U.S. dollars at prevailing exchange rates as determined by the General Partner. All other assets of the Partnership (except goodwill, which will not be taken into account) will be assigned such value as the General Partner may reasonably determine.

If the General Partner determines that the valuation of any asset or liability does not fairly represent market value, the General Partner will value such asset or liability as it reasonably determines and will set forth the basis of such valuation in writing in the Partnership's records. All values assigned to securities and other assets and liabilities by the General Partner will be final and conclusive as to all Partners.

Additional Capital Contributions. The General Partner, in its discretion, may permit Limited Partners to make additional capital contributions to the Partnership at the beginning of any fiscal quarter or at any other time the General Partner, in its sole discretion, may permit, in amounts of at least $100,000 (subject to the discretion of the General Partner to accept lesser amounts).

Additional contributions by an existing Limited Partner will be placed in a separate capital account with a corresponding new "Lock-Up Period."

Withdrawals of Capital. A Limited Partner first has the right to withdraw all or a portion of the balance of its capital account as of the end of any calendar quarter ending on the day preceding the 12-month anniversary of the date as of which such capital account was established (the "Lock-Up Period"); *provided, however,* that the General Partner may disallow, in its sole discretion, the partial withdrawal of a Limited Partner, if after giving effect to such withdrawal the balance remaining in the Capital Account of such Limited Partner would be less than $1,000,000. Written notice of any withdrawal must be received by the General Partner at least 30 days prior to the effective date of withdrawal. Each date as of which a Limited Partner may make a withdrawal from a capital account is herein referred to as a "Withdrawal Date."

Distributions of withdrawal proceeds will generally be made within 30 days after the Withdrawal Date; except that if a Limited Partner elects to withdraw its entire Capital Account, 90% of such value (computed on the basis of unaudited data) will be distributed within 30 days after the Withdrawal Date. The balance will be distributed (subject to audit adjustment

and without interest) within 30 days after completion of the audit of the Partnership's books for the year in which such withdrawal occurs.

The General Partner may waive notice requirements or permit withdrawals under such other circumstances and conditions as it, in its sole discretion, deems appropriate. Notwithstanding the foregoing, in the event the General Partner permits a Limited Partner to withdraw all or a portion of its capital account prior to the conclusion of the Lock-Up Period applicable to such Capital Account, such withdrawal will be subject to a redemption fee payable to the Partnership equal to 2% of the amount being withdrawn (the "Redemption Fee"). The General Partner may reduce, waive or calculate differently the Redemption Fee under such circumstances and conditions as it, in its sole discretion, determines.

The General Partner may 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 and which may cause a qualification of the Partnership's audit opinion.

The General Partner by written notice to Limited Partners may suspend withdrawal rights, in whole or in part, when there exists in the opinion of the General Partner a state of affairs where disposal of the Partnership's assets, or the determination of the value of the Limited Partner's capital account, would not be reasonably practicable or would be seriously prejudicial to the non-withdrawing Limited Partners. A withdrawal request that is not satisfied because of the foregoing restrictions will be satisfied as of the next succeeding Withdrawal Date that such restrictions no longer apply, in priority to later requests. Capital not withdrawn from a Partnership by virtue of the foregoing restrictions will remain at risk of the Partnership until such Withdrawal Date.

The General Partner, by written notice to any Limited Partner, may suspend the payment of a Limited Partner's withdrawal proceeds if the General Partner reasonably deems it necessary to do so to comply with anti-money laundering laws and regulations applicable to the Partnership, the General Partner or any of the Partnership's other service providers.

The General Partner is subject to the withdrawal provisions described above; *provided, however,* that at any time during a year, the General Partner may withdraw a portion of its capital account up to the amount of the Incentive Allocation allocated to such capital accounts during any prior year.

The Interest of a Limited Partner that gives notice of withdrawal shall not be included in calculating the Partnership Percentages of the Limited Partners required to take any action under the Partnership Agreement.

Required Withdrawals. The General Partner may terminate the interest of (i) any Limited Partner in the Partnership at any time if the General Partner determines that the continued participation of any such Partner would cause the Partnership or any Partner to violate any law or regulation or may cause the Partnership to fail, under certain circumstances, to be treated as a partnership for Federal income tax purposes or if any litigation is commenced or threatened against the Partnership or any of its Partners arising out of, or relating to, such Partner's participation in the Partnership or (ii) any Limited Partner in the Partnership at any time

upon at least 10 days' prior written notice. The Limited Partner receiving such notice shall be treated as a Partner who has given notice of withdrawal and 90% of such Partner's estimated capital account as of the Withdrawal Date shall be paid within 30 days of such date. The balance shall be paid (subject to audit adjustment and without interest) within 30 days after the completion of the audit of the Partnership's books.

Withdrawal, Death, Etc. of a Partner. The withdrawal, death, disability, incapacity, adjudication of incompetency, termination, bankruptcy, insolvency or dissolution of a Limited Partner shall not dissolve the Partnership. The legal representatives of a Limited Partner shall succeed as assignee to the Limited Partner's interest in the Partnership upon the death, disability, incapacity, incompetency, termination, bankruptcy, insolvency or dissolution of such Limited Partner, but shall not be admitted as a substitute partner without the consent of the General Partner.

In the event of the death, disability, incapacity, incompetency, termination, bankruptcy, insolvency or dissolution of a Limited Partner, the interest of such Limited Partner shall continue at the risk of the Partnership's business until the last day of the fiscal year in which such event takes place (subject to the discretion of the General Partner to cause such Limited Partner's interest to be earlier withdrawn). Such Limited Partner or its legal representatives shall be paid within 30 days after the valuation date, 90% of the estimated Capital Account as of the Valuation Date (computed on the basis of unaudited data). The balance, without interest, will be distributed (subject to audit adjustment and without interest) within 30 days after completion of the audit of the applicable Partnership's books for the year in which such event occurred.

Key Man Provision. The success of the Partnership will depend upon the ability of the Partnership's key portfolio managers, Matthew Mark and Alan S. Cooper. If either Mr. Mark or Mr. Cooper becomes unable to participate in the management of the Partnership, the consequences to the Partnership could be material and adverse.

Accordingly, any Limited Partner may withdraw from the Partnership if either Mr. Mark or Mr. Cooper dies, becomes incompetent or is disabled (*i.e.*, unable, by reason of disease, illness or injury, to perform his functions as the Managing Member of the General Partner) (any such event, a "Key Man Event") for 30 consecutive days, or otherwise ceases to be involved in the activities of the General Partner. Such special withdrawal right is exercisable by delivery of a withdrawal notice to the Partnership by the 30th day (the "Key Man Notice Date") after the Limited Partners are notified of any Key Man Event, and such withdrawal will be effective at the end of the first full calendar month after the Key Man Notice Date. A Limited Partner exercising such special withdrawal right will be paid 90% of its estimated capital account (determined as of the end of such calendar month) such amount to be paid within 30 days of such calendar month. The balance of such Limited Partner's capital account will be paid (subject to audit adjustment and without interest) to such Limited Partner within 30 days after completion of a special audit of the Partnership.

Distributions. Distributions may be made in cash and/or in-kind, or partly in cash and partly in-kind, as determined by the General Partner in its sole discretion. No Partner shall have the right to receive distributions in payments other than cash.

Limitations on Withdrawals. The right of any Partner (or its legal representatives) to receive amounts withdrawn is subject to the provision by the General Partner for all Partnership

liabilities in accordance with Delaware law and for reserves for estimated accrued expenses, liabilities and contingencies (even if such reserves are not in accordance with generally accepted accounting principles).

Assignability of Interests. Without the prior written consent of the General Partner, which may be withheld in its sole and absolute discretion, a Partner may not (i) pledge, transfer or assign its Interest in the Partnership in whole or in part to any other person except by operation of law or (ii) substitute for itself as a Partner any other person.

Admission of New Partners. Partners (including new general partners) may be admitted as of the first day of each calendar quarter, as well as on any other date and on such terms as determined in the sole discretion of the General Partner. Each new Partner will be required to execute an agreement pursuant to which it becomes bound by the terms of the Partnership Agreement.

Amendments to Agreements. The Partnership Agreement may be modified or amended at any time by the consent of the Limited Partners having in excess of 50% of the Partnership Percentages and the written consent of the General Partner. Without the consent of the Limited Partners, however, the General Partner may amend the Partnership Agreement to: (i) reflect changes validly made in the membership of the Partnership and the capital contributions and Partnership Percentages of the Partners; (ii) change the Incentive Allocation provisions to the extent required to comply with regulatory requirements, *provided, however,* that no such amendment shall increase the Incentive Allocation that otherwise would be payable by a Limited Partner; (iii) reflect a change in the name of the Partnership; (iv) make a change that is necessary or, in the opinion of the General Partner, advisable to qualify the Partnership as a limited partnership or a partnership in which the Limited Partners have limited liability in all jurisdictions in which the Partnership conducts or plans to conduct business or ensure that the Partnership shall not be treated as an association or a publicly traded partnership taxable as a corporation for Federal income tax purposes; (v) make a change that does not adversely affect the Limited Partners in any material respect; (vi) make any change that is necessary or desirable to cure any ambiguity, to correct or supplement any provision in the Partnership Agreement that would be inconsistent with any other provision in the Partnership Agreement, or to make any other provision with respect to matters or questions arising under the Partnership Agreement that will not be inconsistent with the provisions of the Partnership Agreement, in each case so long as such change does not adversely affect the Limited Partners in any material respect (vii) make a change that is necessary or desirable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, statute, ruling or regulation of any Federal, state or foreign governmental entity, so long as such change is made in a manner which minimizes any adverse effect on the Limited Partners; (viii) make a change that is required or contemplated by the Partnership Agreement; (ix) make a change in any provision of the Partnership Agreement that requires any action to be taken by or on behalf of the General Partner or the Partnership pursuant to applicable Delaware law, if the provisions of applicable Delaware law are amended, modified or revoked so that the taking of such action is no longer required; (x) prevent the Partnership from in any manner being deemed an "Investment Company" subject to the provisions of the Company Act; or (xi) make any other amendments similar to the foregoing. Each Partner, however, must approve of any amendment which would (a) amend its capital account or rights of contribution or withdrawal; or (b) amend the provisions of the Partnership Agreement relating to amendments.

Reports to Partners. The Partnership's accountants will be selected by the General Partner and will audit the Partnership's books and records as of the end of each fiscal year. As soon as practicable after each such audit date, the Partnership will prepare and mail to each Partner, together with the report prepared by the Partnership's accountants, a financial report setting forth a balance sheet of the relevant Partnership and a statement of its net capital appreciation or net capital depreciation, a statement of such Partner's capital account and the manner of its calculation, and a statement of such Partner's capital account and Partnership Percentage for the then current accounting period. In addition, each Partner will be mailed an unaudited report on the relevant Partnership's investment performance and the Partner's capital account no less frequently than quarterly.

Exculpation. The Partnership Agreement provides that the General Partner and the affiliates of the General Partner and any of their members, shareholders, directors, officers or employees (collectively, "Affiliates") will not be liable to any Partner or the Partnership for any mistakes of judgment or for acts or omissions arising out of or in connection with the Partnership, any investment made or held by the Partnership or the Partnership Agreement unless such mistakes, action or inaction arise out of, or are attributable to, the gross negligence, willful misconduct or bad faith of the General Partner or its Affiliates, or for losses due to such mistakes of judgment or for action or inaction or to the negligence, dishonesty or bad faith of any broker or agent of the Partnership, provided that such broker or agent was selected, engaged or retained by the Partnership with reasonable care. The General Partner and Affiliates may consult with counsel and/or accountants in respect of Partnership affairs and be fully protected and justified in any action or inaction which is taken in accordance with the advice or opinion of such counsel and/or accountants, provided that they were selected with reasonable care.

Notwithstanding any of the foregoing to the contrary, the provisions of the Partnership Agreement do not provide for the exculpation of the General Partner or Affiliates for any liability (including liability under Federal securities laws which, under certain circumstances, impose liability even on persons that act in good faith), to the extent (but only to the extent) that such liability may not be waived, modified or limited under applicable law, but will be construed so as to effectuate the above provisions to the fullest extent permitted by law.

Indemnification. The Partnership Agreement provides that the to the fullest extent permitted by law, the Partnership will indemnify and hold harmless the General Partner, each Affiliate and the legal representatives of any of them (an "Indemnified Party"), from and against any loss, cost or expense suffered or sustained by an Indemnified Party by reason of (i) any acts, omissions or alleged acts or omissions arising out of or in connection with the Partnership, any investment made or held by the Partnership or the Partnership Agreement, including, without limitation, any judgment, award, settlement, reasonable attorneys' fees and other costs or expenses incurred in connection with the defense of any actual or threatened action, proceeding, or claim, provided that such acts, omissions or alleged acts or omissions upon which such actual or threatened action, proceeding or claim are based were not performed or omitted bad faith and did not constitute gross negligence or willful misconduct by such Indemnified Party, or (ii) the negligence, dishonesty or bad faith of any broker or agent of any Indemnified Party provided that such broker or agent was selected, engaged or retained by the Indemnified Party with reasonable care. The Partnership Agreement also provides that the Partnership will, in the sole discretion of the General Partner, advance to any Indemnified Party reasonable attorneys' fees and other costs and expenses incurred in connection with the defense

of any action or proceeding that arises out of such conduct. In the event that such an advance is made by the Partnership, the Indemnified Party will agree to reimburse the Partnership for such fees, costs and expenses to the extent that it shall be determined that it was not entitled to indemnification under the Partnership Agreement.

Notwithstanding any of the foregoing, the provisions of the Partnership Agreement does not provide for the indemnification of the Indemnified Parties for any liability (including liability under Federal securities laws which, under certain circumstances, impose liability even on persons that act in good faith), to the extent (but only to the extent) that such liability may not be waived, modified or limited under applicable law, but will be construed so as to effectuate the above provisions to the fullest extent permitted by law.

## 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.

### 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 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 the principles of 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 exceeds its Federal income tax basis in its partnership interest. 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, 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. 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 an investor, and not as a dealer, with respect to its securities transactions. An investor is a person who buys and sells securities for its own account. 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 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 35%[1] and, in general, the maximum individual income tax rate for "Qualified Dividends"[2] and long-term capital gains is 15%[3] (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.[4] 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 with respect to its investments in partnerships engaged in a trade or business, in real estate or in certain private claims. 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

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1 This rate is scheduled to increase to 39.6% in 2011.

2 A "Qualified Dividend" is generally a dividend from certain domestic corporations, and from certain foreign corporations that are either eligible for the benefits of a comprehensive income tax treaty with the United States or are readily tradable on an established securities market in the United States. Shares must be held for certain holding periods in order for a dividend thereon to be a Qualified Dividend.

3 The maximum individual long-term capital gains tax rate is 20% for sales or exchanges before May 6, 2003 and on or after January 1, 2009. The 15% maximum individual tax rate on Qualified Dividends is scheduled to expire on December 31, 2008.

4 A special individual capital gains tax rate of 25% generally applies to the portion of the "depreciation recapture" recognized upon the sale of depreciable real estate held for more than one year.

noncorporate Partner, will be subject to restrictions on their deductibility. See "Deductibility of Partnership Investment Expenditures and Certain Other Expenditures" below. Moreover, gain recognized from certain "conversion transactions" will be treated as ordinary income.[5]

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

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[5] 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.

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. A Section 1256 Contract does not include any "securities futures contract" or any option on such a contract (See "Certain Securities Futures Contracts").

Certain Securities Futures Contracts. Generally, a securities futures contract is a contract of sale for future delivery of a single security or a narrow-based security index. Any gain or loss from the sale or exchange of a securities futures contract (other than a "dealer securities futures contract") is treated as gain or loss from the sale or exchange of property that has the same character as the property to which the contract relates has (or would have) in the hands of the taxpayer. If the underlying security would be a capital asset in the taxpayer's hands, then gain or loss from the sale or exchange of the securities futures contract would be capital gain or loss. Capital gain or loss from the sale or exchange of a securities futures contract to sell property (i.e., the short side of a securities futures contract) generally will be short term capital gain or loss, unless otherwise characterized pursuant to the straddle rules and short sale rules, if applicable.

A "dealer securities futures contract" is treated as a Section 1256 Contract. A "dealer securities futures contract" is a securities futures contract, or an option to enter into such a contract, that (1) is entered into by a dealer (or, in the case of an option, is purchased or granted by the dealer) in the normal course of its trade or business activity of dealing in the contracts and (2) is traded on a qualified board of trade or exchange.

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, Qualified Dividends and long-term capital gains are excluded from net investment income unless the taxpayer elects to pay tax on such amounts 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 and Certain Other Expenditures. 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.[6] In addition, the Code further restricts the ability of an individual with an adjusted gross income in excess of a specified amount (for 2003, $139,500 or $69,750 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.[7] Moreover, such investment expenses are miscellaneous itemized deductions which are not deductible by a noncorporate taxpayer in calculating its alternative minimum tax liability.

Pursuant to Temporary Regulations issued by the Treasury Department, these limitations on deductibility will 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.

A Limited Partner will not be allowed to deduct syndication expenses, including placement fees, paid by such Limited Partner or the Partnership. Any such amounts will be included in the Limited Partner's adjusted tax basis for its Interest.

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

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[6] 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 among three 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.

[7] 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.

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 in partnerships engaged in certain trades or businesses, in real estate or in certain private claims may constitute passive activity income or loss.

Application of Basis and "At Risk" Limitations on Deductions. The amount of any loss of the Partnership that a Limited Partner is entitled to include in its income tax return is limited to its adjusted tax basis in its Interest as of the end of the Partnership's taxable year in which such loss occurred. Generally, a Limited Partner's adjusted tax basis for its Interest is equal to the amount paid for such Interest, increased by the sum of (i) its share of the Partnership's liabilities, as determined for Federal income tax purposes, and (ii) its distributive share of the Partnership's realized income and gains, and decreased (but not below zero) by the sum of (i) distributions made by the Partnership to such Limited Partner and (ii) such Limited Partner's distributive share of the Partnership's realized losses and expenses.

Similarly, a Limited Partner that is subject to the "at risk" limitations (generally, non-corporate taxpayers and closely held corporations) may not deduct losses of the Partnership to the extent that they exceed the amount such Limited Partner has "at risk" with respect to its Interest at the end of the year. The amount that a Limited Partner has "at risk" will generally be the same as its adjusted basis as described above, except that it will generally not include any amount attributable to liabilities of the Partnership (other than certain loans secured by real property and certain other assets of the Partnership) or any amount borrowed by the Limited Partner on a non-recourse basis.

Losses denied under the basis or "at risk" limitations are suspended and may be carried forward in subsequent taxable years, subject to these and other applicable limitations.

"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 and where it owns real estate. Tax treaties between certain countries and the United States may reduce or eliminate such taxes. Where appropriate, the Partnership may set up subsidiaries to hold real estate. 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.

Tax Shelter Reporting Requirements

Under recently issued Regulations, the activities of the Partnership may include one or more "reportable transactions," requiring the Partnership and, in certain circumstances, a Limited Partner to file information returns as described below. In addition, the General Partner and other material advisors to the Partnership may each be required to maintain for a specified period of time a list containing certain information regarding the "reportable transactions" and the Partnership's investors, and the Service could inspect such lists upon request.

A "reportable transaction" of a partnership includes, among others, a transaction that results in a loss claimed under Section 165 of the Code (computed without taking into account offsetting income or gain items, and without regard to limitations on its deductibility) generally of at least $2 million in any one taxable year or an aggregate of at least $4 million over a period of six taxable years (beginning with the taxable year in which the transaction is entered into), unless the transaction has been exempted from reporting by the Service. Subject to certain significant exemptions described below, a partner will be treated as participating in a partnership's "loss transaction," and thus be required to report the transaction, if (i) the partner's allocable share of such a partnership's loss exceeds certain thresholds,[8] or (ii) the partner is an individual or a trust which is allocated in any one taxable year a loss of at least $50,000 from a Section 988 transaction (see "Currency Fluctuations – 'Section 988' Gains or Losses" above).

The Service has published guidance exempting many of the Partnership's transactions from the reporting requirements, provided that the Partnership has a "qualifying basis" in the assets underlying the transaction. An asset with a "qualifying basis" includes, among others, an asset purchased by the Partnership for cash. However, even if the Partnership has a "qualifying basis" in the asset generating the loss, each of the following transactions is still subject to the reporting requirements unless it is marked to market under the Code (e.g., a Section 1256 Contract): (i) a transaction involving an asset that is, or was, part of a straddle (other than a mixed straddle), (ii) a transaction involving certain "stripped" instruments, (iii) the disposition of an interest in a pass-through entity, and (iv) a foreign currency transaction which generates an ordinary loss (see "Currency Fluctuations – 'Section 988' Gains or Losses" above).

The Regulations require the Partnership to complete and file Form 8886 ("Reportable Transaction Disclosure Statement") with its tax return for each taxable year in which the Partnership participates in a "reportable transaction." Additionally, each Partner treated as participating in a reportable transaction of the Partnership is required to file Form 8886 with its tax return. The Partnership and any such Partner, respectively, must also submit a copy

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[8] For non-corporate partners, the thresholds are $2 million in any one taxable year or an aggregate of $4 million over the six-year period described above, and for corporate partners, the thresholds are $10 million in any one taxable year or $20 million over the six-year period described above.

of the completed form with the Service's Office of Tax Shelter Analysis. The Partnership intends to notify the Partners that it believes (based on information available to the Partnership) are required to report a transaction of the Partnership, and intends to provide such Limited Partners with any available information needed to complete and submit Form 8886 with respect to the Partnership's transactions.

Under the above rules, a Partner's recognition of a loss upon its disposition of an interest in the Partnership could also constitute a "reportable transaction" for such Partner. Investors should consult with their own advisors concerning the application of these reporting obligations to their specific situations.

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. A partnership in which the Partnership acquires an interest may conduct business in a jurisdiction which will subject to tax a Partner's share of the partnership's income from that business and may cause Partners to file tax returns in those jurisdictions. Prospective investors should consult their tax advisers with respect to the availability of a credit for such tax in the jurisdiction in which that 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 a partnership in which the Partnership invests 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.

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 would likely 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.[9] 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.

New York State has recently enacted legislation that imposes a quarterly withholding obligation on certain partnerships with respect to partners that are individual non-New York residents or corporations (other than "S" corporations). Accordingly, the Partnership may be required to withhold on the distributive shares of New York source partnership income allocable to such partners to the extent such income is not derived from trading in securities for the Partnership's own account.

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.

## LIMITATIONS ON TRANSFERABILITY; SUITABILITY REQUIREMENTS

Each purchaser of an Interest must bear the economic risk of its investment for an indefinite period of time (subject to its limited right to withdraw capital from the Partnership) because the Interests have not been registered under the Securities Act of 1933, as amended, and, therefore, cannot be sold unless they are subsequently registered under that Act or an exemption from such registration is available. It is not contemplated that any such registration will ever be effected, or that certain exemptions provided by rules promulgated under that Act will be available. The Partnership Agreement provides that without the prior written consent of the General Partner, which may be withheld in its sole and absolute discretion, a Partner may not (i) pledge, transfer or assign its Interest in the Partnership in whole or in part to any person except by operation of law, or (ii) substitute for itself as a Partner any other person. A Limited Partner will first have the right to withdraw its capital as of the end of the fiscal quarter ending after the 12-month anniversary of

[9] 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 contribution of such capital. Thereafter, a Limited Partner may withdraw capital at the end of each fiscal quarter. In either case, written notice of withdrawal must be received by the General Partner at least 30 days prior to the effective date of withdrawal. The foregoing restrictions on transferability must be regarded as substantial, and will be clearly reflected in the Partnership records.

Investors in the Partnership must be "accredited investors" as defined under Federal securities laws and must meet other suitability requirements. The General Partner, in its sole discretion, may decline to admit investors who do not meet such suitability requirements or for any other reason. The subscription documents for the Partnership contain questions relating to these qualifications.

Each purchaser of an Interest is required to represent that the Interest is being acquired for its own account, for investment, and not with a view towards resale or distribution. The Interests are suitable investments only for sophisticated investors for whom an investment in the Partnership does not constitute a complete investment program and who fully understand, are willing to assume, and who have the financial resources necessary to withstand, the risks involved in the Partnership's specialized investment program and to bear the potential loss of their entire investment in the Interests.

Each prospective purchaser is urged to consult with its own advisers to determine the suitability of an investment in the Interests, and the relationship of such an investment to the purchaser's overall investment program and financial and tax position. Each purchaser of Interests will be required to further represent that, after all necessary advice and analysis, its investment in such Interests is suitable and appropriate, in light of the foregoing considerations.

Interests may not be purchased by nonresident aliens, foreign corporations, foreign partnerships, foreign trusts or foreign estates, all as defined in the Code, or by entities that are tax-exempt.

## ANTI-MONEY LAUNDERING REGULATIONS

As part of the Partnership's responsibility for the prevention of money laundering, the General Partner and its affiliates, subsidiaries or associates may require a detailed verification of a Limited Partner's identity, any beneficial owner underlying the account and the source of the payment.

The General Partner reserves the right to request such information as is necessary to verify the identity of a subscriber and the underlying beneficial owner of a subscriber's or a Limited Partner's interest in the Partnership. In the event of delay or failure by the subscriber or Limited Partner to produce any information required for verification purposes, the General Partner may refuse to accept a subscription or may cause the withdrawal of any such Limited Partner from the Partnership. The General Partner, by written notice to any Limited Partner, may suspend payment of a Limited Partner's withdrawal proceeds if the General Partner reasonably deems it necessary to do so to comply with anti-money laundering regulations applicable to the Partnership, the General Partner or any of the Partnership's other service providers.

Each subscriber and Limited Partner is required to make such representations to the Partnership as the Partnership and the General Partner require in connection with such anti-money laundering programs, including without limitation, representations to the Partnership that such subscriber or Limited Partner is not a prohibited country, territory, individual or entity listed on the U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC") website and that it is not directly or indirectly affiliated with, any country, territory, individual or entity named on an OFAC list or prohibited by any OFAC sanctions programs. Such Limited Partner must also represent to the Partnership that amounts contributed by it to the Partnership were not directly or indirectly derived from activities that may contravene federal, state or international laws and regulations, including anti-money laundering laws and regulations.

## COUNSEL

Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022, acts as counsel to the Partnership in connection with this offering of the Interests. Schulte Roth & Zabel LLP also acts as counsel to the General Partner, the Management Company and its affiliates. In connection with this offering of Interests and subsequent advice to the Partnership, the General Partner, the Management Company and its affiliates, Schulte Roth & Zabel LLP will not be representing Limited Partners. No independent counsel has been engaged to represent the Limited Partners.

## AUDITORS; FINANCIAL REPORTS

The Partnership has retained Ernst & Young LLP as its independent auditors. Limited Partners will receive unaudited performance information no less frequently than quarterly, as well as annual audited financial reports prepared by the Partnership's independent public auditors, typically within 90 days after the fiscal year-end.

## ADDITIONAL INFORMATION

The Partnership will make available to any prospective Limited Partner any additional information which they possess, or which can be acquired without unreasonable effort or expense, necessary to verify or supplement the information set forth herein; provided that the Partnership shall not be required to provide any information which in the discretion of the General Partner would compromise confidentiality obligations or other duties of the Partnership to third parties.

## SUBSCRIPTION FOR INTERESTS

Persons interested in becoming Limited Partners will be furnished Subscription Documents to be completed by them and returned to the General Partner.