

Excerpts from Documents Related to Goldman Sachs: Short Positions and Profits

“Tells you what might be happening to people who don’t have the big short.”

--Goldman Sachs email from David Viniar, 7/25/07, GS MBS-E-009861799, Exhibit 26

“So what happened to us? ... In market risk – you saw in our 2nd and 3rd qtr results that we made money despite our inherently long cash positions. – because starting early in ‘07 our mortgage trading desk started putting on big short positions ... and did so in enough quantity that we were net short, and made money (substantial \$\$ in the 3rd quarter) as the subprime market weakened.”

-- Goldman Sachs, Tax Department Presentation by Craig Broderick, Chief Risk Officer,
10/29/07, GS MBS-E-010018512, Exhibit 48

“Over the last few months, our risk reduction program consisted of: (1) selling index outright (2) buying single name protection (3) buying protection on super-senior portions of the BBB/BBB-index (40-100% of the index) We sold around \$3 billion in the mid-30bps range.” “That is good for us position-wise, bad for account who wrote that protection ... but could hurt our CDO pipeline position as CDOs will be hard to do.”

-- Goldman Sachs email by Daniel Sparks and forwarded to Lloyd Blankfein, 2/14/07,
GS MBS-E-00935410, Exhibit 8

“We have a big short on and we can stay short names that we know the market hates and cover a bit this short with cbaas-type names.”

-- Goldman Sachs email from Fabrice Tourre, 12/18/06, GS MBS-E-002618871, Exhibit 4

“The Mortgage business’ revenues were primarily driven by synthetic short positions ... which benefited from spread widening. These gains were partially offset by losses incurred in our cash inventory, most notably in our warehousing of financial assets to be securitized in connection with CDO’s.”

-- Goldman Sachs email received by David Viniar, 3/9/07, GS MBS-E-009762678, Exhibit 16

“We should add the various things we have done – getting short CDS on RMBS and CDOs, getting short the super-senior BBB- and BBB index, getting short the SSS index as overall protection.” “[I]n the synthetics space, the desk started the quarter with long \$6.0bn notional ABS BBB- risk and shifted the position to net short \$10bn notional by reducing the longs in ABX BBB- and increasing shorts in single name CDS.” “[T]he business has purchased \$60mm notional of equity put options on subprime lenders as risk mitigant to overall subprime business.”

-- Goldman Sachs email exchange with Daniel Sparks re mortgage presentation to the Board, 3/10/07,
GS MBS-E-013323395, Exhibit 17

“1Q 2007” – “GS reverses long market position through purchase of single name CDS and reductions of ABX”

-- Goldman Sachs, Presentation to GS Board of Directors, Subprime Mortgage Business, 3/26/07,
GS MBS-E-005565527, Exhibit 22

“Mergers, overnight asia, especially short mortgages saved the day.”

-- Goldman Sachs email from David Viniar to Lloyd Blankfein, 7/24/07,
GS MBS-E-00960033, Exhibit 25

“We’ve been covering [the shorts], but we will likely come to you soon and say we’d like to get long billions - and we’d stay short BBBish part.”

-- Goldman Sachs email from Daniel Sparks to David Viniar and others, 8/14/07, GS MBS-E-010678053, Exhibit 30

“[W]e are covering a number of shorts in mortgages today and tomorrow – probably 1.5 billion worth – will reduce mortgages hopefully to below 80.”

-- Goldman Sachs email to Lloyd Blankfein, 8/22/07, GS MBS-E-009605812, Exhibit 36

“Q2 2007 and Q3 2007” – “Positioned business tactically – Shorted synthetics – Reduced loan and security purchases - Shored CDOs and RMBS – Increased long correlation position – Reduced long inventory[.]”

-- Goldman Sachs, Presentation to GS Board of Directors, Residential Mortgage Business, 9/16/07, GS MBS-E-001793840, Exhibit 22

“Although broader weakness in the mortgage markets resulted in significant losses in cash positions, we were overall net short the mortgage market and thus had very strong results.”

-- Goldman Sachs, Board of Directors Meeting Financial Summary, 9/17-18/07, GS MBS-E-009776907, Exhibit 42

“The desk benefited from a proprietary short position in CDO and RMBS single names.”

-- Goldman Sachs, Global Mortgages, Daniel Sparks, Business Unit Townhall Presentation, Q3 2007, draft dated 10/5/07 (v.3) GS MBS-E-013703468, Exhibit 47

“Of course we didn’t dodge the mortgage mess. We lost money, then made more than we lost because of shorts.”

-- Goldman Sachs email from Lloyd Blankfein to Gary Cohn, David Viniar and others, 11/18/07, GS MBS-E-009696333, Exhibit 52

“It should not be a surprise to anyone that the 2007 year is the one that I am most proud of to date. ... extraordinary profits (nearly \$3bb to date). ... [D]uring the early summer of 2006 it was clear that the market fundamentals in subprime and the highly levered nature of CDOs was going to have a very unhappy ending. ... I directed the ABS desk to enter into a \$1.8 bb short in ABS CDOs that has realized approx. \$1.0bb of p & l to date. ... [W]e aggressively capitalized on the franchise to enter into efficient shorts in both the RMBS and CDO space.”

--2007 performance review of Michael Swenson, GS-PSI-02400, Exhibit 55b

“I concluded that we should not only get flat, but get VERY short. ... Much of the plan began working by February as the market dropped 25 points and our very profitable year was underway.

-- 2007 performance review of Joshua Birnbaum, GS-PSI-01975, Exhibit 55c

Excerpts from Documents Related to Goldman Sachs: Profiting at the Expense of Clients

“Need to decide if we want to do 1-3bb of these trades for our book or engage customers.” “On baa3, I’d say we definitely keep for ourselves. On baa2, I’m open to some sharing to the extent that it keeps these customers engaged with us.”

-- Goldman Sachs emails exchanged between David Lehman and Josh Birnbaum, 12/22/06 and 12/29/06,
GS MBS-E-011360438, Exhibit 5

“[T]he fabulous Fab ... standing in the middle of all these complex, highly levered, exotic trades he created without necessarily understanding all the implications of those monstrosities !!! Anyway, not feeling too guilty about this, the real purpose of my job is to make capital markets more efficient and ultimately provide the US consumer with more efficient ways to leverage and finance himself, so there is a humble, noble and ethical reason for my job ;) amazing how good I am in convincing myself !!!”

--Goldman Sachs email from Goldman Sachs, 1/23/07, GS MBS-E-003434918, Exhibit 62

“bad news ... wipes out the m6s and makes a wipeout on the m5 imminent ... costs us about 2.5mm ... good news ... we own 10mm protection on the m6 marked at \$50 ... we make \$5mm.”

-- Goldman Sachs email to Michael Swenson, 5/17/07, GS MBS-E-012550973, Exhibit 65

“[Y]ou refer to losses stemming from residual positions in old deals. Could/should we have cleaned up these books before and are we are doing enough right now to sell off cats and dogs in other books throughout the division.”

-- Goldman Sachs email from Lloyd Blankfein, 2/11/07, GS MBS-E-009686838, Exhibit 130

“[T]his list might be a little skewed towards sophisticated hedge funds with which we should not expect to make too much money since (a) most of the time they will be on the same side of the trade as we will, and (b) they know exactly how things work and will not let us work for too much \$\$\$, vs. buy-and-hold rating-based buyers who we should be focused on a lot more to make incremental \$\$\$ next year.”

-- Goldman Sachs email from Fabrice Tourre, 12/28/06, GS MBS-E-002527843, Exhibit 61

“He’s definitely the man in this space, up 2-3 bil on this trade. We were giving him a run for his money for a while but now are a definitive #2.)” nal email dated 7/12/07, “We hit a bilsky in PNL today ... I’m no John Paulson though.”]

-- Goldman Sachs email from Josh Birnbaum, 7/12/07, GS MBS-E-01294472, Exhibit 146

“[U]pset that we are delaying their deal. They know that Hudson Mezz (GS prop deal) is pushing their deal back.”

-- Goldman Sachs email to Daniel Sparks, 10/16/06, GS MBS-E 010916991, Exhibit 59

“Just fyi not for the memo, my understanding is that desk is no longer buying subprime. (We are low balling on bids.)”

-- Goldman Sachs email to Craig Broderick, 3/2/07, GS MBS-E-009986805, Exhibit 63

“These are all dirty ‘06 originations that we are going to trade as a block.”

-- Goldman Sachs email, 4/5/07, GS MBS-E-004516519, Exhibit 81

“They have just raised another \$1bln for their ABS fund and they are very short the ABX so are natural buyers of our axe. Not experts in this space at all but made them a lot of money in correlation dislocation and will do as I suggest.”

-- Goldman Sachs email to Daniel Sparks, 5/24/07, GS MBS-E-001934732, Exhibit 66

“I met with 10+ individual prospects and clients ... since earnings were announced. The institutions don’t and I wouldn’t expect them to, make any comments like ur good at making money for urself but not us. The individuals do sometimes, but while it requires the utmost humility from us in response I feel very strongly it binds clients even closer to the firm, because the alternative of take ur money to a firm who is an under performer and not the best, just isn’t reasonable. Clients ultimately believe association with the best is good for them in the long run.”

--Goldman Sachs email to Lloyd Blankfein, 9/26/07, GS MBS-E-009592726, Exhibit 135

“Real bad feeling across European sales about some of the trades we did with clients. The damage this has done to our franchise is very significant. Aggregate loss of our clients on just these 5 trades along is 1bln+. In addition team feels that recognition (sales credits and otherwise) they received for getting this business done was not consistent at all with money it ended making/saving the firm.”

-- Goldman Sachs email to Daniel Sparks, 10/12/07, GS MBS-E-013706095, Exhibit 70

“I said ‘no’ to clients who demanded that GS should ‘support the GSAMP’ program as clients tried to gain leverage over us. Those were unpopular decisions but they saved the firm hundreds of millions of dollars.”

--2007 performance review of Michael Swenson, GS-PSI-02399, Exhibit 55b

Excerpts from Documents Related to Goldman Sachs: Abacus and Other Deals

“Do you think [portfolio selection agent 1] is easier to work with than [portfolio selection agent 2]? They will never agree to the type of names [P]aulson want to use[.] I don’t think [name redacted] will be willing to put [portfolio selection agent 1]’s name at risk for small economics on a weak quality portfolio whose bonds are distributed globally.” “There are more manager out there than just [portfolio selection agent 1 or 2]. The way I look at it, the easiest manager to work with should be used for our own axes.”

-- Goldman Sachs email exchange with Fabrice Tourre, 12/20/06, GS MBS-E-003246145-46, Exhibit 107

“As you know, a couple of weeks ago we had approached GSC to ask them to act as portfolio selection agent for that Paulson-sponsored trade, and GSC had declined given their negative views on most of the credits that Paulson had selected.”

-- Goldman Sachs email from Fabrice Tourre, 1/29/07, GS MBS-E-003248999, Exhibit 112

“Gerstie and I are finishing up engagement letters with ACA and Paulson for the large RMBS CDO ABACUS trade that will help Paulson short senior tranches.” “Still reputational risk.”

-- Goldman Sachs email exchange between Fabrice Tourre and Daniel Sparks et al., 2/7/07 and 2/8/07, GS MBS-E-0003277939, Exhibit 114

“The desk has an axe to short structured product CDOs in bulk. The ABACUS transactions are currently one of the unique formats available to source efficient spread and credit protection in large size on this type of structured product risk.”

--Mortgage Capital Committee memorandum, 3/12/07, GS MBS-E-002665382, Exhibit 150

“[D] id you hear something on my request to remove Fremont and New Cen[tu]ry serviced bonds?” “Paulson will likely not agree to this unless we tell them that nobody will buy these bonds if we don’t make that change.”

-- Goldman Sachs email exchange including Fabrice Tourre, 3/12/07, GS MBS-E-002683134, Exhibit 119

“We need to be sensitive of the profitability of these trades vs. profitability of abacus - we should prioritize the higher profit margin businesses with Paulson.”

-- Goldman Sachs email from Fabrice Tourre, 4/11/07, GS MBS-E-003634131, Exhibit 122

“100% Baa2 RMBS selected by ACA/Paulson.”

-- Goldman Sachs email from Fabrice Tourre to Josh Birnbaum, 5/8/07, GS MBS-E-003611826, Exhibit 123

“Paulson has agreed to buy \$1,000mm notional of 45-100 tranche at an all in level of 85 bps p.a. + 1.00% upfront. This would leave us net/net with \$91mm of 45-50 tranche risk that we would work on over the next few weeks - we are showing this tranche to a few accounts @ 80bps.”

-- Goldman Sachs email from Fabrice Tourre to Michael Swenson, Josh Birnbaum, et al., 5/30/07, GS MBS-E-002466406, Exhibit 125

“We expect to place \$68.75 million of credit-linked notes from ABACUS 11 with Aladdin for inclusion in their high-grade Altius III and mezzanine-grade Fortius II CDO transactions, both of which are currently being arranged by Goldman.”

-- Goldman Sachs Memorandum from Fabrice Tourre et al., to Mortgage Capital Committee, 7/31/06, GS MBS-E-010069336, Exhibit 141

“Opportunities: ... ABACUS-rental strategies, according to which we ‘rent’ our ABACUS platform to counterparties focused on putting on macro short in the sector.”

-- Goldman Sachs email from Fabrice Tourre, 12/10/06, GS MBS-E-003453843, Exhibit 142

“Goldman was the sole buyer of protection on the entire \$2.0 billion of assets ... Goldman is currently mandated on \$40+ bln of additional CDOs and CLOs for next 12 months. Increasing velocity on debt and equity placement of our upcoming transactions will be the key to our success in 2007. Let’s do it again.”

-- Goldman Sachs email discussing Hudson CDO, 10/30/06, GS MBS-E-0000057886, Exhibit 90

“They structured like mad and travelled the world, and worked their tails off to make some lemonade from some big old lemons.”

-- Goldman Sachs email from Daniel Sparks, 1/26/07, GS MBS-E-010359125, Exhibit 91

“Plan would still be to ask sales people to focus on Anderson mezz, Point Pleasant and Timberwolfe, but if accounts pass on these trades, steer them towards available tranches in ABACUS 07-AC1 since we make \$\$\$ proportionately with the notional amount of these tranches sold.”

-- Goldman Sachs email from Fabrice Tourre to Daniel Sparks, et al., 3/30/07, GS MBS-E-002678071, Exhibit 80

“Therefore, we are trying to close everything down, but stay on the short side.”

-- Goldman Sachs email from Daniel Sparks to David Viniar, Craig Broderick, et. al. 3/8/07, GS-MBS-E-002206279, Exhibit 75

“[W]hen the prevailing opinion in the department was to remain close to home, I pushed everyone on the desk to sell risk aggressively and quickly. We sold billions of index and single name risk such that when the index dropped 25pts in July, we had a blow-out p&l month, making over \$1Bln that month.”

-- 2007 performance review of Joshua Birnbaum, GS-PSI-01975, Exhibit 55c

“[B]oy that timberwo[l]f was one shi**y deal.”

-- Goldman Sachs email to Daniel Sparks, 6/22/07, GS MBS-E-010849103, Exhibit 105