HAMILTON

"HOW THE MONEY WORKS"

The Hamilton Securities Group, Inc. and its Subsidiaries

January 8, 1998

This document contains financial information about The Hamilton Securities Group, Inc. and its subsidiaries ("Hamilton"). Such information is not typically released by privately-held firms. But these have not been typical times for Hamilton. Since August 1996, Hamilton has been the subject of an investigation by the HUD Inspector General ("IG") into allegations brought by a firm that was unsuccessful in winning HUD loan sales and loan sale procurements. Although no one has put forward any evidence of wrongdoing, false allegations are sometimes fashionable. This document provides information about Hamilton's business for those who are interested in concrete data that may bear on an assessment of our performance.

On October 17, 1997, HUD froze a substantial amount of funds owed Hamilton, delayed audits on additional funds payable and requested voluntary repayment of fees previously paid to Hamilton. HUD has taken the position that, even though it has no contractual right to do so, that it has rights in common law although it can not cite the specific provisions of law. As there is no basis in law or regulation to do so, Hamilton has filed a lawsuit and temporary restraining order against HUD. The outcome of this lawsuit will have a material impact on Hamilton's financial position. Hamilton has also filed a formal complaint with the President's Council on Integrity and Efficiency requesting an investigation into possible violations of law and ethics by the HUD Inspector General in the conduct of the loan sale investigation.

Overview: How the Money Works at Hamilton

Some quick facts that address a number of myths that have sometimes been put forward about Hamilton's finances:

- Hamilton has not received any funding from Wall Street firms. The capital to start and build Hamilton was provided by the firm's employee/shareholders.
- Hamilton has not engaged in or received any income from secondary market or other trading activity since its inception.
- Since inception, Hamilton's cumulative revenues totaled $44 million and cumulative net income totaled $978,000. Of the revenues received from HUD, a substantial portion of those monies were paid to consultants, teaming partners, vendors and subcontractors which ranged in size from large multi-national organizations to small minority-owned businesses. The work that Hamilton did for HUD involved substantial cost and risk and was performed by Hamilton at highly competitive prices.
- Hamilton has reinvested profits from its core business to develop venture capital and capital markets to support American communities as they adapt to network technology.
- Hamilton assisted HUD in selling $9.5 billion in loans which resulted in savings in avoided costs to American taxpayers of $2.1 billion, or $21 for every American household. Hamilton increased HUD's recovery rate on defaulted mortgages from approximately 57% to 80% and

did so with fees that were a lower % of the recovery than previous servicing methods. Hamilton generated a better performance at a lower cost.

- The maximum annual income of the highest paid Hamilton employees since 1990 has been $125,000, an amount substantially below market salaries.

The following discussion of Hamilton's finances is organized in the following sections:

- Capitalization
- Clients/Fee Assignments
- Fee Comparisons
- Income Statement Summary
- Hamilton Compensation
- Hamilton Investments
- Employee/Job Creation
- Additional Information

1. CAPITALIZATION

The capital needed to start and build Hamilton since its inception in 1991 was provided by the firm's employee/shareholders.

- Hamilton employee/shareholders self-financed the firm through purchases of Hamilton preferred stock. The preferred stock had a cumulative dividend which was tied to the ten-year U.S. Treasury Note coupon rate. The dividend rate on the preferred stock ranged from 7.25% to 9%. In 1996, all outstanding preferred stock investments totaling $1,102,353 were redeemed plus accumulated unpaid dividends. Of these preferred stock redemptions, $1,070,000 related to preferred stock held by C. Austin Fitts ($321,000 of this amount was held in the self-directed investment account on behalf of C. Austin Fitts by Hamilton's Profit Sharing Plan.

- In November 1997, C. Austin Fitts loaned Hamilton $125,000 in order for Hamilton to meet the November payroll. C. Austin Fitts obtained the funds for this loan by liquidating her retirement savings in the Hamilton Profit Sharing Plan, which resulted in the payment of federal and local taxes of approximately $275,000. The Profit Sharing Plan could not be used to directly purchase Hamilton stock as a result of a recent IRS Audit.

- The only investment or financing provided to Hamilton by any third party were: 1) a telephone equipment lease purchase plan with AT&T; and 2) a line of credit and equipment term note from Franklin National Bank of Washington, DC.

- Deferred compensation has been used at various times in Hamilton's history to finance the firm.

- During 1997, Hamilton repurchased non-voting Class B Common Stock totaling $339,900 from certain former employees. This repurchased stock had been awarded to these former employees during 1993-1994 as part of their overall Hamilton compensation.

- As of October 31, 1997, Hamilton's capitalization totaled $829,000 and was comprised of accumulated retained earnings since inception of $804,000 and common stock awards/purchases by employees totaling $25,000. These amounts do not reflect the adverse impact of not collecting the existing $1.5 million of outstanding HUD receivables for work performed through the termination of the crosscutting financial advisory contract.

2. CLIENTS/FEE ASSIGNMENTS

The following is a summary of the HUD assignments and the gross fees received by Hamilton from 1993 through October 1997 (the cancellation of the crosscutting financial advisory contract at the convenience of the government on October 17, 1997). Gross fees include amounts used to pay other firms, consultants, subcontractors, and vendors to perform assignments. Assignments performed for HUD typically involved substantial effort, costs and risks. See Sections 3 and 4 for information on fee comparisons and Hamilton income.

SUMMARY OF HAMILTON'S ASSIGNMENTS FOR HUD: SEPT. 1993 TO OCT. 1997

Contract # Prime Contractor	Description of Assignment	Time Frame	Contract Type	Fees (rounded)
HC-18161/001 Hamilton	Financial advisor on sale of Section 221(g)(4) multi-family mortgages	1993	Cost plus	$61,000
HC-18161/002 Hamilton	Financial advisor on sale of Section 221(g)(4) single family mortgages	1993-94	Cost plus	$861,000
HC-18161/003 Hamilton	Development of multifamily disposition plan, called the MAP	1993-94	Cost plus	$318,000
HC-18161/004 Hamilton	Design/implementation of pilot sales of subsidized mortgages to state housing finance agencies. Analysis of the Section 8 portfolio and consulting on policy alternatives	1995- 96	Fixed fee- % UPB sold	$4,540,000
HC-18161/005 Hamilton	Financial advisor and due diligence support on sale of multifamily mortgages in SE	1994-95	Cost plus	$5,778,000
HC-18161/006 Hamilton	Support for FNMA reassignment; design of sales; marketing	1994-96	Cost plus	$1,564,000
HC-18161/007 Hamilton	Financial advisor on sale of multifamily mortgages in the West and South	1995-96	Fixed fee - % UPB sold	$2,146,000
HC-18161/008 Hamilton	Disposition analysis of the Section 530 premiums	1995	Fixed fee - % UPB sold	$136,000

Contract # Prime Contractor	Description of Assignment	Time Frame	Contract Type	Fees (rounded)
HC-18161/009 Hamilton	Financial advisor on two single family sales	1995-96	Fixed fee - % UPB sold	$2,800,000
HC-18161/010 Hamilton	Support for building relationships between FHA and rating agencies	1995	Fixed Fee	$180,000
HC-18410/004 Williams Adley (Hamilton as subcontractor)	Design/implementation of the first structured transaction of partially subsidized multifamily mortgages	1995-96	Fixed fee - % UPB sold	$5,942,000
HC-18410/005 Williams Adley (Hamilton as subcontractor)	Financial advisor for sale of performing multifamily mortgages	1995	Fixed fee - % UPB sold	$983,000
HC-18410/006 Williams Adley (Hamilton as subcontractor)	Consulting on credit reform issues and exploration of value of developing template models to estimate the credit subsidy of mortgage sales	1995	Time & materials	$60,000
HC-18410/009 Williams Adley (Hamilton as subcontractor)	Consulting for the financial advisor on the sale of Title I loans	1995	Time & materials	$61,000
HC-18437/002 Price Waterhouse (Hamilton subcontractor)	Multifamily product market, pricing and design support	1996	Time & materials	$177,000
HC-16986/009 Coopers & Lybrand (Hamilton subcontractor)	Services and support in development of a computer-based model to evaluate HUD's portfolio	1995	Time & materials	$615,000
HC-16986/010 Coopers & Lybrand (Hamilton subcontractor)	Strategic planning for FHA	1994	Fixed fee	$44,000
HC-18505/001 Hamilton-canceled in 10/97	Financial advisory crosscutting services on $400 billion portfolio and mortgage sales	1996-97	Fixed fee % of portfolio managed	$15,400,000

Of the fees billed to HUD under the various contracts, receivables of approximately $1,974,000 are still outstanding. These receivables include $1,505,000 under crosscutting financial advisory contract and $469,000 pending close-out audits under cost-plus contracts. Additional billings are expected for close-out costs associated with the termination of the crosscutting contracts.

In October 1997, HUD made a claim against Hamilton for a "voluntary repayment" of $3.88 million and informed Hamilton that HUD would be withholding outstanding contract payments under the crosscutting financial advisory contract of approximately $1.5 million as security for HUD's claim. These contract payments were being withheld even though there is no basis in law, regulation or the contract to do so and, if the amount claimed represented an actionable claim, which it does not, Hamilton has adequate professional liability insurance in the event of an ultimate determination of liability against Hamilton. Under the terms of its crosscutting contract, Hamilton's total liability is limited to the amount of its insurance.

In addition to the withholding of the $1.5 million in contract payments, Hamilton has incurred substantial additional costs as part of performing work for HUD. Since 1996, the HUD Inspector General has issued three subpoenas to Hamilton for various documents, many of which were already in HUD's possession, relating to the mortgage loan sale program and related contracts. The cost of complying with these subpoenas to date has totaled $1,245,000 ($895,000 in 1996 and $350,000 (est.) in 1997). Because the HUD Inspector General's investigation is still ongoing, none of these costs are recoverable under government contracting regulations.

In addition to HUD, Hamilton has had the following fee assignments since its inception:

Year	Client	Hamilton's Assignment
1994-1996	Pension and Welfare Benefits Administration	Entered into a joint venture to create a clearinghouse on "two-test" investments measured for both market rate returns and collateral benefit to the economy.
1994-1996	Port Authority of New York and New Jersey	Advised on rehabilitating retail and public portions of NYC's World Trade Center.
1995	National Congress of Community Economic Development	Wrote up results of NCCED's biannual survey of housing and economic development efforts by CDCs.
1993-1994	Battery Park City Authority	Served as financial advisor to this New York City authority in the successful 1993 restructuring of $850 million in debt.
1994-1995	Resolution Trust Corporation	Served as financial advisor in designing the sale of $1.3 billion of tax-exempt multifamily assets. Performed advisory work on a SAMDA contract.
1995	New York Housing Development Corporation	Advised in the development of a multi-year strategic plan.

Year	Client	Hamilton's Assignment
1993-1994	General Electric Capital Asset Management Corp.	Conducted an academic analysis of the multifamily mortgage markets.
1992-1995	Ford Foundation	Wrote profiles of the programs selected annually as winners of the Innovations in Government competition.
1994	Affirmative Equities	Performed a stock analysis of 14 publicly traded real estate investment trusts.
1993-1994	National Commission on Manufactured Housing	Analyzed the impact of new standards on financing manufactured housing.
1994	Maryland Department of Housing and Community Development	Advised on workout options on projects for which this state agency was mortgagee in possession through its state insurance fund.
1992-1994	NHP/NCHP	Assisted in refunding a series of housing transactions funded under Section 11(b) of the 1937 Housing Act (1992). Assisted in an analysis of investment opportunities generated by CRA and created a strategic portfolio analysis of the impact of federal tax, appropriations and credit policies in the '90s (1994). Provided a valuation of the equity investments of the corporation (1994).
1993	Realco Texas Master Limited Partnership (affiliate of NHP)	Served as advisor to this private partnership to refund tax exempt bond issues in the Southwest.
1993	Local Initiatives Managed Assets Corporation	Analyzed the pilot phase of LIMAC's $1 billion Commercial Lender Program.
1993	Prudential Foundation	Assisted in the preparation of a report on "economically targeted investments."
1993	AmBase Corporation	Analyzed the legal and business liabilities of former owners of failed thrifts.
1992	Pine Burr Partnership	Assisted in the valuation, cash flow analysis, structuring and financing of the sale of this diversified steel company in the mid-South.

Year	Client	Hamilton's Assignment
1992	Albert M. Greenfield & Co.	Analyzed a proposed joint venture between this brokerage firm and a national commercial real estate company.

In 1994, when it was clear that HUD would need substantial support to implement a successful loan sale program, Hamilton advised HUD to immediately procure competitive services from multiple financial advisors, not just Hamilton. Retaining additional financial advisory services took almost two years under the HUD's procurement process. As the workload increased, Hamilton determined to not take on additional clients to ensure that it could handle most---albeit not all---of HUD's requests until they could bring in additional financial advisors. When HUD finally awarded new contracts in 1996, Hamilton competed for a number of potential assignments. Upon winning the role of crosscutting financial advisor, Hamilton worked with HUD to finalize the work plan and began actively seeking to take on work from other agencies and companies, where permitted within HUD conflict of interest provisions.

The effort to reestablish a diversified client base was hampered by an investigation by HUD regarding the loan sales, including Hamilton's role. The investigation generated substantial rumor and innuendo by third parties and some government officials to the federal credit community and the media that Hamilton was guilty of criminal wrongdoing and serious conflicts of interest, despite the absence of any supporting concrete evidence. The manner in which the investigation was conducted and managed by HUD made attracting new clients and business impossible, particularly given the conflicts of interest provisions in Hamilton's existing HUD contract which normally would have focused Hamilton's opportunities on other government agencies, who were very sensitive to the existence of such allegations in the marketplace. Hamilton's compliance with numerous subpoena and investigation requests by the HUD Inspector General were extraordinarily expensive and time consuming. For all these reasons, Hamilton has filed a formal complaint against the HUD Inspector General with the President's Council on Integrity and Efficiency.

The investigation also made Hamilton's standards of performance on HUD assignments extraordinarily expensive. For example, Hamilton was cut off from access to the HUD e-mail system, which increased the cost and time of communicating with HUD despite fees that assumed that workflow could be managed with e-mail. Hamilton was also cut off from access to certain data needed to perform under the contract and had to expend a great amount of effort, time and expense to ensure performance under the contract. Finally, certain HUD staff have indicated that they were afraid to work with Hamilton because of potential personal and professional risks to them of working with a contractor under investigation. This also made it more time-consuming and expensive for Hamilton to perform under the contract, far above the costs assumed in the original fixed-fee bid.

Broker-Dealer Activity

Since the firm's inception, Hamilton's broker-dealer activity has consisted of two co-manager underwritings and one private placement. All other fees were financial advisory.

Underwritings

- District of Columbia (1994). Served as co-manager on the negotiated underwriting of $430 million in general obligation refunding bonds.
- Washington Metropolitan Area Transit Authority (1993). Served as co-manager on the negotiated underwriting of approximately $350 million in gross revenue transit refunding bonds.

Private Placement (1992)

- Served as equity placement agent in the purchase by NCHP (an affiliate of NHP) of a $25 million portfolio of apartments from the RTC.

Other Activities

- Hamilton has not engaged in or received any income from secondary market or other trading activity ***since its inception.***
- Working capital funds are invested in money market accounts through traditional banking relationships. Hamilton's primary bankers are Franklin National Bank, a community bank in Washington, DC, and JP Morgan, an institutional bank headquartered in New York.

3. Fee Comparisons

Hamilton's fees are consistently lower by a significant amount than fees charged by other financial advisors performing similar assignments for similar clients. Financial advisory fees paid to Hamilton by HUD have been approximately 50% of the fees paid by the Resolution Trust Corporation to financial advisors performing comparable work on its asset sales.

Hamilton was able to perform the financial advisory work at these lower costs through the use of digital technology which enabled it to effectively and efficiently utilize its wide-ranging network of teaming partners and consultants, market loan sales over the Internet and develop user-friendly due diligence databases for potential bidders. Hamilton also developed design books for each sale which served as a template for future sales and helped to institutionalize the loan sale capacity within HUD.

HUD has sold loans with an unpaid principal balance of approximately $9.5 billion since hiring Hamilton as its financial advisor. HUD's recovery rate on defaulted mortgages before the mortgage loan sale program was approximately 57% of the unpaid principal balance. With Hamilton's assistance, this recovery rate was increased to approximately 80% of the unpaid principal balance, which resulted in savings in avoided costs to American taxpayers of $2.1 billion, or $21 for every American household.

The following table shows financial advisory fees paid by HUD to Hamilton on three mortgage loan sales, compared against average financial advisory fees paid for comparable assignments by the RTC. Included for illustrative purposes are HUD/RTC due diligence and legal fee comparisons, although Hamilton received only financial advisory fees.

Comparison of Financial Advisory Fees

	HUD Single Family #1 Sale	%	HUD Southeast (MF) Sale	%	HUD WOM (MF) Sale	%	RTC Advisor Fees %
Gross Sales Proceeds	$391,280,000		$714,029,000		$385,200,000		
Financial Advisory (FA)	1,444,000	0.37	5,474,000	0.77	2,256,000	0.59	1.17[a]
Due Diligence (DD)	4,077,000	1.04	674,000	0.09	2,821,000	0.73	1.38[b]
Legal Services (LS)	191,000	0.05	(c)		600,000	0.16	(d)
Total: FA/DD/LS	$ 5,712,000	1.46	$ 6,148,000	0.86	$ 5,677,000	1.47	2.55

a) Simple average paid to financial advisors by RTC in 78 asset sales. Ranges from 0.25% to 4.90% of sales proceeds.
b) Simple average paid to financial advisors by RTC in 68 asset sales. Ranges from 0.06% to 5.50% of sales proceeds.
c) Included with FA costs.
d) Data not available.

Over the course of the financial advisory contracts with HUD, Hamilton's fees (gross and net) and profits from HUD-related work as a percentage of the $2.1 billion of avoided costs saved by the US Government as a result of the loan sale program (not including savings from portfolio strategy and other actions) were as follows:

	As a % of avoided costs saved
Gross fees	1.9%
Net fees	1.3%
Profit	0.2%

In addition to the avoided costs saved by the loan sale program, Hamilton made other recommendations to HUD that would have resulted in several hundred million dollars of additional cost savings. However, HUD did not implement these recommendations. Hamilton also estimates that its fees as a percentage HUD's recoveries on defaulted mortgages were substantially less than the fees paid by HUD prior to the mortgage loan sale program.

Upon canceling Hamilton's crosscutting financial advisory contract, HUD suspended the entire mortgage loan sale program and canceled previously announced loan sales. The cost of canceling these sales and the related contracts (e.g., other financial advisors, due diligence, legal, etc.) is estimated to be $2-5 million plus the loss of cost savings which would have been generated from those sales.

4. Income Statement Summary

Year	Revenues	Expenses	Corporate Income Taxes	Net Income	Profit Margin
1997(est.)[a]	$ 9,200,000	$10,200,000	$ (400,000)	$ (600,000)	-7%
1996	11,913,741	10,616,823	629,000	360,211	3%
1995	16,735,216	13,317,069	1,220,000	2,198,147	13%
1994	4,104,876	4,248,847	15,000	(178,971)	- 4%
1993	1,208,421	1,429,656	--	(221,235)	- 18%
1992	843,399	1,167,904	--	(324,505)	- 38%
1991	137,495	393,043	--	(255,548)	- 186%
Cumulative	$44,143,148	$41,373,342	$ 1,464,000	$ 978,099	2%

- All financial statements of the firm since inception have been audited by independent public accountants. The financial statements for fiscal years 1991 through 1995 were audited by Price Waterhouse and the 1996 financial statements were audited by Arthur Andersen..
- All profits of the firm have been reinvested. (See "Investments" below).
- *Office Space.*
    - Hamilton is located above the CVS 24-hour drugstore at Dupont Circle. Hamilton leases its office space from CVS.
    - Hamilton pays $26/sq. ft. for its office space. By way of comparison, the average per/sq. ft. cost of office space for other investment banks/brokerage firms in downtown Washington, DC is $34/sq. ft.[b]
    - CVS paid for 1/2 the cost of Hamilton's build-out.
    - Employees do not have offices or secretaries or dedicated desks. This arrangement enables Hamilton to devote more resources to computer systems and economize on office space. Hamilton uses substantially less space per employee than the office average in Washington, DC. Hamilton provides approximately 100 sq. ft. per employee, compared to an average at other firms of 250 sq. ft.

---

a) The 1997 estimated results assume that the receivables from HUD of $1.9 million will not be collected and are fully reserved.

b) Includes Alex Brown, Dean Witter Reynolds, Ferris Baker Watts, Janney Montgomery Scott, Johnston Lemon, Legg Mason, Merrill Lynch, Paine Webber, Prudential Securities, Smith Barney, Tucker Anthony, and Wheat First. Comparative information provided by Trammell Crow.

5. Hamilton Compensation

Since 1991, Hamilton's compensation policy has been:

- Salary cap of $125,000
- No cash bonuses *

- Common stock earned in accordance with performance
  - Common stock not subject to redemption by the firm
  - Common stock does not pay a dividend
  - 97.1% of common stock issued is owned by current and former employees

---

* A $5,000 bonus was paid in the firm's second year of operation to one junior employee.

COMPENSATION AT COMPARABLE FIRMS

The chart below shows how compensation paid at Hamilton compares with professional compensation paid by firms performing similar work in the finance industry.

Hamilton Position	Comparable Industry Position	Hamilton Compensation	Comparable Finance Industry Compensation	Comparable Finance Industry Compensation in New York City
Senior Banker	Senior Corp. Finance Associate	$100,000 to $125,000	$205,512	$233,976
Junior Banker	Intermediate Corp. Finance Associate	$60,000 to $75,000	$120,212	$144,247
Comptroller	Comptroller	$75,000	$163,488	$191,043
Trader	Intermediate Portfolio Manager	$70,000	$137,024	$143,720
Analyst	Intermediate Research Analyst	$50,000	$104,873	$115,568

The data come from the Securities Industry Association (SIA), 1996 Salary Survey.

How Hamilton's Top Executive Salaries Compare

The chart below illustrates how Hamilton's executive salaries compare with those of top executives at other firms serving as HUD's financial advisors.

Position	Salary
Hamilton President/CEO	$125,000
Hamilton Chief Financial Officer	$125,000
Hamilton Managing Director	$125,000

Position	Salary
[redacted]	
Merrill Lynch CEO	$5,143,800*
Merrill Lynch Exec. VP	$3,300,000*
[redacted]	
Ernst & Young Partner	$268,000**

* Data from Proxy Statement. Does not include restricted stock awards.
** Data from "Auditing the Auditors," *Financial World*, October 4, 1994.

6. HAMILTON INVESTMENTS

Hamilton's profits have been reinvested in the core business and in the following investments:

- **The NETCorp Federation™.** Hamilton's mission is to develop venture capital and capital markets to support American communities as they adapt to network technology. Hamilton's business strategy is to use branding, consumer and small business aggregation, and equity conduits to organize existing community entrepreneurs and businesses into a national network called the NETCorp Federation™. A Neighborhood Equity Trust Corporation™ (NETCorp™) is a neighborhood stock corporation that serves as the knowledge manager and venture capitalist for its place and promotes the creation of "learning neighborhoods." The Federation links NETCorps throughout the country to accelerate continuous learning and investment.

  Hamilton has invested approximately $10 million in the development of the NETCorp concept. Much of this investment relates to prototyping community businesses and creating networks and infrastructure necessary to price and trade community assets, securities and investments (including e.villages and E2, described below). Federal and state devolution of investment and regulatory authority and deregulation of telecommunications, welfare, housing and financial services have triggered the development of emerging markets in America. As a result, many outstanding place-based financial assets and securities will be marked to market and will need pricing and restructuring. With this reengineering of municipal and related credit flows, the opportunity to create a high-yield place-based equity market is emerging. Successful development depends on new pricing and underwriting tools. This pricing infrastructure enabled Hamilton to serve as portfolio strategist to FHA and analyze portfolio performance and reengineering of federal expenditures by place.

  e.villages. Formed by Hamilton and Adelson Entertainment (a Los Angeles-based media company), this joint venture was developed to create data learning centers in low-income communities. The pilot *e.villages* site was Edgewood Technology Services (ETS), which began operations in 1995. ETS provided database management and general office services to Hamilton and other companies. ETS was located in the Edgewood Terrace Apartments, an assisted housing complex in NE Washington, DC. A key component in the Hamilton loan sale network, ETS services included geocoding, business contact tracking, data scrubbing, HTML coding, and special seasonal services.

  Hamilton relinquished its ownership interest in *e.villages* to Adelson Entertainment in July 1997 in consideration for a release from any liabilities or future obligations associated with *e.villages.* Based on our experience training the ETS work force, developing data management products and designing the business plan for *e.villages*, Hamilton determined that a business model promoting local ownership and control was necessary to achieve competitive market returns.

- **E^2 NetAnalytics.** This Hamilton subsidiary, established in 1995, was created to develop a investment model for "two-test" investment -- that is, investment strategy which uses information about the impact of an investment on others to determine ways to increase investment return or to manage and reduce investment risk. Two-test investment is an investment protocol designed to enhance traditional portfolio strategy techniques as we move to a network economy.

  Two-test analytics were also invaluable to Hamilton in providing portfolio strategy for FHA. In a $400 billion federal portfolio, fiduciaries are legally obligated to optimize return on investment to both taxpayers and community.

7. EMPLOYMENT/JOB CREATION

Since its inception in 1991, Hamilton has created 76 net jobs in the economy. The breakdown of job creation is listed below.

Entity	**No. Employees**
Hamilton/HSAS	46
Primary consultants	8
e.villages/ETS	17
E^2 NetAnalytics	5
Total	76

During the course of the work Hamilton performed for HUD, Hamilton used numerous additional consultants, teaming partners, vendors and subcontractors. These entities ranged in size from large multi-national organizations to small minority-owned businesses and included the following entities: Asset Strategies Group; Apogee Research; BlackRock Financial Management; Coopers & Lybrand, L.L.P.; KFS Ltd.; Lucent Technologies Bell Laboratories; MelaNet/New Perspective Technologies; Price Waterhouse, L.L.P.; R.D. Horner & Associates, Inc.; Samuel A. Ramirez & Co., Inc.; Thompson, Cobb, Bazilio & Associates; Utendahl Capital Partners, L.P.; Global Business Network; Mile High Properties; and Horizons Consultants.

Hamilton currently has 16 employees and its business plan for the NETCorp Federation anticipates the creation of a network of a substantial number of new small businesses in American communities.

8. TERMINATION OF THE HUD CONTRACT

The following chronology details the events that led up to and have taken place since HUD's abrupt termination of Hamilton's crosscutting contract.

- *January 1996:* HUD completes an eleven-month long solicitation of other financial advisors, selecting four firms: Hamilton, Merrill Lynch, Cushman Wakefield, and CS First Boston. Two disappointed bidders – Ervin & Associates and Ernst & Young protest the award. Rather than litigating the issue through the courts, HUD decides to reopen bids for a new selection.

- *May 1996:* CS First Boston drops out and is replaced by E&Y Kenneth Leventhal. Hamilton is again selected and Ervin & Associates is again not selected.

- *June 1996:* Ervin files a second protest and before that is resolved files a lawsuit against HUD in federal court. Included in his charges is Ervin's claim that HUD had improperly favored Hamilton in the awarding of the crosscutting contract.

- *December 1996:* Hamilton reports to HUD on the results of an internal investigation into an apparent discrepancy between the bidders' information packages and Lucent's optimization instructions during three previous loan sales. This anomaly had been discovered by Hamilton while it was in the process of preparing for the next loan sale. A number of high-level Hamilton employees and contractors hired for this purpose spend countless hours researching the problem. Hamilton's report to HUD explains that this discrepancy has resulted in lower sales proceeds to the Government of $3.88 million. Hamilton assures HUD that it has taken steps to ensure that this discrepancy will not be repeated. HUD accepts these assurances and retains Hamilton for another three loan sales over the next 10 months. Hamilton notifies its counsel and insurer of this development and waits to hear from HUD whether any claim will be made. No claim is made until October 1997.

- *April 1997:* Hamilton receives a letter from HUD advising it that HUD intends to consolidate various services and will cancel the crosscutting financial advisory contract upon the issuance of a new consolidated contract.

- *October 17, 1997:* Hamilton receives a letter by private courier from HUD advising it that HUD is terminating Hamilton as the crosscutting financial advisor for convenience, effective immediately. Another letter, which was delivered at the same time, further advises Hamilton that HUD is withholding outstanding amounts payable to Hamilton for services rendered until Hamilton "voluntarily" repays the $3.88 million shortfall in loan proceeds resulting from the loan sales optimization discrepancy. On the following Tuesday, Hamilton is forced to lay off 60% of its employees without severance pay.

- *October 20, 1997:* An anonymous tipster calls Franklin National Bank, Hamilton's primary creditor and the holder of a working capital loan secured by a first lien on the HUD receivable, saying Hamilton is "about to go under."

- *October 24, 1997:* HUD IG issues the third subpoena to Hamilton, which requires, among other things, all documents related to *e.villages*, Neighborhood Networks and Statements of Work. This subpoena arrives in the afternoon of the day in which *The Washington Times* reports in its morning edition that Hamilton had been subpoenaed.

- *November 1997:* Franklin National Bank's lawyer suggests in a conversation with Austin Fitts that the HUD IG is spreading innuendo about Hamilton's "criminal wrongdoing" and suggesting that there would be lawsuits against Hamilton in connection with the HUD loan sales program. That same month, HUD announces that the loan sale program has been terminated. Then HUD withdraws the RFP for the crosscutting financial advisor.

- *November 12, 1997:* HUD's CFO Richard Keevey testifies before Congressman Stephen Horn's Subcommittee on Government Management, Information and Technology and notes that "we have a successful asset sales program that has made us the leader in the federal government in this area." In his opening remarks, Congressman Horn refers to "[t]he positive experiences of the Department of Housing and Urban Development" in selling assets and declares that "the excellent returns they have had are eye-opening."

- *November 17, 1997: Real Estate Alert*, an industry newsletter, reports an unnamed HUD spokesman as averring that "[e]ven though Cushman, Merrill and Kenneth Leventhal are still pre-qualified as HUD advisers, the agency now wants to select a senior adviser to replace Hamilton before proceeding with sales." The implication is that HUD could not have conducted its loan sales program without Hamilton.

- *Early December 1997:* House staff report that HUD's IG has been lobbying Senator Mack's staff heavily in an attempt to convince the Housing Opportunity and Community Development Subcommittee to hold hearings on the subject of HUD contracts, particularly the Hamilton crosscutting contract and how much Hamilton has been paid under the contract.

- *December 5, 1997:* A lawsuit is filed in Michigan courts against Hamilton, Goldman Sachs and others by a defaulted borrower whose note was sold in HUD's loan sale program. The allegations in this lawsuit contain similar language regarding the loan sale optimization model and other matters as that contained in the Ervin lawsuit against HUD.

- *December 11, 1997:* In the morning, Hamilton's attorneys send a letter to the Department of Justice expressing their concerns regarding the length and conduct of the HUD IG investigation. In the afternoon of that same day, HUD's IG issues a fourth subpoena, this time requesting that Franklin National Bank produce all personal financial information relating to Austin Fitts.

- *December 12, 1997:* Hamilton's attorneys send a letter to HUD requesting a meeting with Deputy General Counsel Howard Glaser to discuss Hamilton's request that HUD cease withholding payments.

- *December 18, 1997:* Hamilton's attorneys meet with Assistant U.S. Attorneys who indicate that there is no reason for linking any investigation of Hamilton with HUD's withholding of monies due Hamilton.

- *December 22, 1997:* Judith Hetherton of the HUD IG sends letter to Hamilton's attorneys defending the IG against charges of delaying its investigation, accusing Hamilton of failing to comply with the HUD IG's subpoenas, and repeating the IG's requests for information from Hamilton. On that same day, Judith Hetherton sent a second letter to Hamilton's attorneys asking them to provide more detail on allegations that the HUD IG was leaking information. On that day, Hamilton's attorneys sent a letter to the HUD General Counsel requesting a meeting on HUD's wrongful withholding of $1.5 million in payments to Hamilton.

- *December 29, 1997*: Austin Fitts sends letter to Deputy General Counsel Howard Glaser reiterating the Department of Justice's views and requesting release of the $1.5 million payment that HUD is withholding.

- *December 30, 1997:* Howard Glaser sends letter to Austin Fitts, restating HUD's intent not to release the $1.5 million payment and its putative legal basis for doing so.

- *December 31, 1997:* Hamilton's attorneys respond to Glaser's letter, disputing Glaser's legal position point by point. Hamilton misses its December payroll, which places it in even greater danger of failing.

- *January 2, 1998:* Hamilton's attorneys meet with Glaser but fail to resolve the issues to Hamilton's satisfaction.

- *January 8, 1998:* Hamilton files a lawsuit against HUD and a memorandum for a temporary restraining order to compel HUD to release the $1.5 million it owes Hamilton. In the meantime, Hamilton prepares to wind up the company.

9. Additional Information

If you have additional questions about The Hamilton Securities Group, Inc., please call us at (202) 496-6700 or send questions to: C. Austin Fitts, The Hamilton Securities Group, 7 Dupont Circle, NW, Washington, DC 20036-1108.