PIMCO

Crystal Cove ABS CDO, LTD.

The "RAPID" Structure
("Rapidly Amortizing Principal through Interest Diversion")

Managed by:

Pacific Investment Management Company ("PIMCO")

July 2004

Merrill Lynch

Global Markets & Investment Banking Group

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Crystal Cove CDO, Ltd.

Table of Contents

1. Executive Summary

Executive Summary

- Crystal Cove CDO is a newly formed collateralized debt obligation ("CDO") incorporated under the laws of the Cayman Islands that will be managed by Pacific Investment Management Company ("PIMCO" or the "Collateral Manager"). The Collateral Manager is a leading global fixed income manager with approximately $395 billion in assets under management, including four ABS CDOs currently under management.

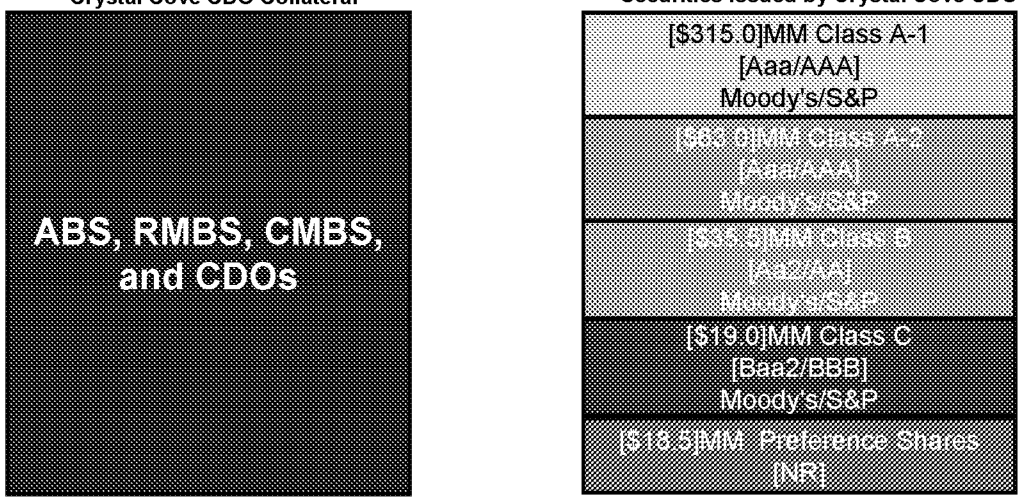
- Crystal Cove CDO plans to issue a $[451] MM Asset-Backed Collateralized Debt Obligation ("ABS CDO") backed by a portfolio consisting primarily of Consumer and Commercial Asset-Backed Securities ("ABS"), Residential Mortgage Backed Securities ("RMBS"), Commercial Mortgage Backed Securities ("CMBS"), (collectively with the ABS and RMBS, "Structured Finance Securities"), and CDOs.(1)

- Structured Finance Securities have historically exhibited lower default rates, higher recovery upon default and better rating stability than comparably rated corporate bonds. Consequently, CDOs secured by a portfolio of Structured Finance Securities have generally outperformed other CDO types.(2)

- Crystal Cove CDO will issue the following five classes of securities (the "Offered Securities") to be backed primarily by Structured Finance Securities:

Crystal Cove CDO Collateral

Securities Issued by Crystal Cove CDO



(1) Definitions and other terms will be fully described in the Offering Circular
(2) *Source: Standard and Poor's, Rating Transitions 2002: "Respectable Credit Performance of U.S. CMBS", January 16, 2003; "U.S. ABS Weather a Turbulent Year", January 31, 2003; "A Quarter Century of Outstanding Credit", February 6, 2003. Please refer to Section 2.*

2. Asset Class Selection

A. Structured Finance Market Overview

Structured Finance Market Overview

Historical Defaults [1][2]

The Offered Securities will be backed by a pool of assets that consists primarily of "Baa" rated Structured Finance Securities

For All Structured Finance Securities →

RMBS one-year average default rate (1993 - 2002)	**~0.1% [3]**
CMBS one-year average default rate (1993 - 2002)	**~0.1% [4]**
ABS one-year average default rate (1993 - 2002)	**~0.1% [5]**

(1) *Source: Moody's Investors Service, "Payment Defaults and Material Impairments of U.S. Structured Finance Securities: 1993-2002", December 2003.*
(2) *Certain of the information contained has been obtained from third party sources and neither Merrill Lynch nor any of its affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential Investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Information relates only to historical investment performance. Future investment performance may vary. See "Important Notice".*
(3) *This number denotes the total number of material impairments in RMBS (excluding deals originated from the mortgage lender "Quality Mortgage", which will not originate any of the underlying mortgages in the Crystal Cove CDO) as a percentage of the sample of 4,283 rated RMBS analyzed in the study.*
(4) *This number denoted the total number of material impairments in CMBS as a percentage of the sample of 2,614 rated CMBS analyzed in the study.*
(5) *This number denotes the total number of material impairments in ABS (excluding Franchise Loan and Manufactured Housing Securities from 1993-2002, which are prohibited securities in the Crystal Cove CDO) as a percentage of the total number of the 6,522 rated ABS analyzed in the sample.*

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Structured Finance Market Overview

Historical Recovery Rates of ABS [1][4]

- A Moody's study on recovery rates of Structured Finance Securities has concluded the following:
  - Structured Finance Securities have historically had an average recovery rate of 58%. [1]
  - Unlike corporate debt securities, Structured Finance Securities may receive more substantial cashflow in respect of interest and principal after a default.
    - Historically, RMBS have recovered at more than 1.5X the rate of corporate bonds and CMBS have recovered at more than twice the rate of corporate bonds.

Average Recoveries of Defaulted RMBS	55% [1]
Average Recoveries of Defaulted CMBS	100% [1][2]
Average Recoveries of Defaulted Other ABS	59% [1]

In contrast, the average recovery rate for corporate bonds from 1982-2003 was approximately 35% [3].

(1) *Source: Moody's Investors Service, "Payment Defaults and Material Impairments of U.S. Structured Finance Securities: 1993-2002", December 2003.*
(2) *Because losses on defaulted Structured Finance Securities accumulate gradually over time, complete information about life-time losses on defaulted Structured Finance Securities is available only for those few (84 in total) defaulters in our sample that have ceased making their payments (I.e. paid down or written down defaulters. Among the 84 defaulters that have had zero outstanding balances, four were from CMBS, all of which were cured before their last payment date, and hence suffered zero lifetime cumulative losses.*
(3) *Source: Moody's Investors Service, "Default & Recovery Rates of Corporate Bond Issuers", January 2004. Recovery rate is measured on an issue-weighted basis.*
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Structured Finance Market Overview (1)

Rating Stability (1)(2)

According to a recent Moody's study, the long-term historical average (1983–2003) of unchanged ratings of Structured Finance Securities and CDOs was 92.3%, which compares favorably to the 76.6% average of unchanged ratings of corporate bonds for the same period.

Structured Finance Securities and CDOs (2003 only)[3]

Rating from:	Rating to: Aaa	Aa	A	Baa	Ba	B	Caa or below
Aaa	98.21%	1.06%	0.50%	0.20%	0.03%		
Aa	5.02%	89.13%	3.43%	1.58%	0.60%	0.19%	0.04%
A	0.65%	3.22%	89.62%	3.75%	1.57%	0.95%	0.24%
Baa	0.31%	0.28%	2.83%	88.20%	3.68%	2.49%	2.20%
Ba	0.07%	0.07%	0.22%	3.26%	83.20%	4.74%	8.44%
B	0.28%			0.98%	3.66%	81.01%	14.06%
Caa or below						0.21%	99.79%

Structured Finance Securities and CDOs (1983-2003)[3]

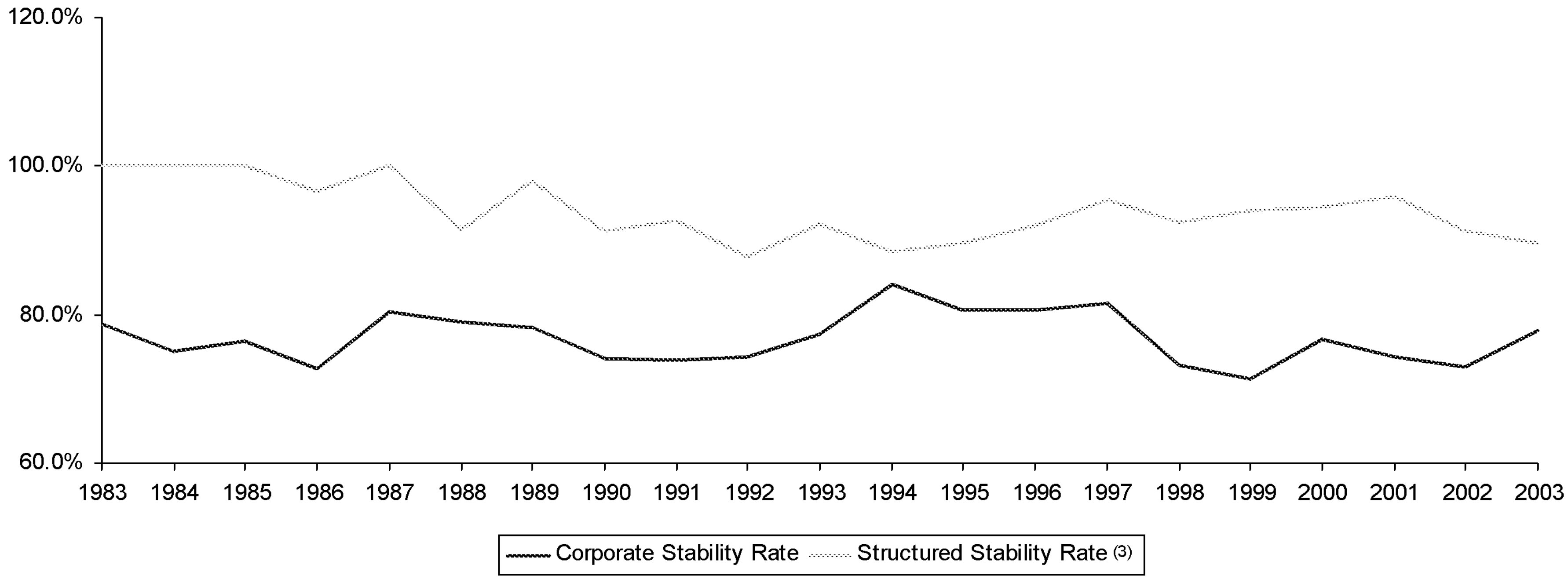
Rating from:	Rating to: Aaa	Aa	A	Baa	Ba	B	Caa or below
Aaa	98.86%	0.82%	0.20%	0.07%	0.01%	0.01%	0.04%
Aa	5.48%	91.15%	2.25%	0.77%	0.19%	0.09%	0.08%
A	1.03%	2.42%	93.14%	2.20%	0.72%	0.29%	0.20%
Baa	0.44%	0.50%	2.20%	90.34%	3.65%	1.57%	1.31%
Ba	0.12%	0.06%	0.64%	3.56%	85.92%	3.62%	6.09%
B	0.07%		0.07%	0.67%	1.52%	87.16%	10.51%
Caa or below					0.09%	0.26%	99.65%

(1) Source: "Structured Finance Rating Transitions: 1983-2003", Moody's Investors Service, February 2004.
(2) Certain of the information contained has been obtained from third party sources and neither Merrill Lynch nor any of its affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential Investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Information relates only to historical investment performance. Future investment performance may vary. See "Important Notice".
(3) Structured refers to Structured Finance Securities including CDOs

Structured Finance Market Overview

Rating Stability (cont'd) (1)(2)

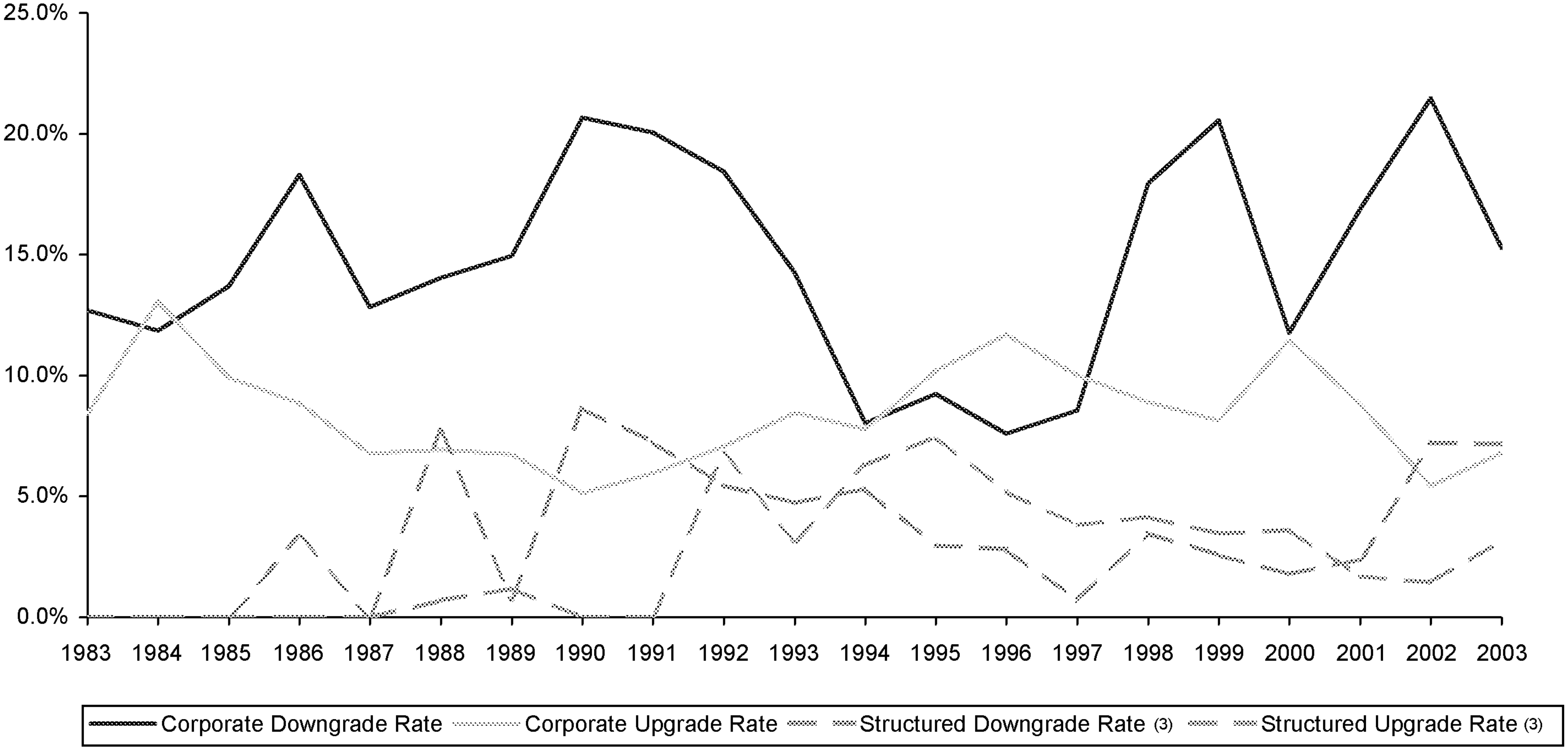
Overall, rating stability in Structured Finance Securities and CDOs was more than 10 percentage points higher than in corporate bonds in 2003.



(1) *Source: "Structured Finance Rating Transitions: 1983-2003", Moody's Investors Service, February 2004.*
(2) *Certain of the information contained has been obtained from third party sources and neither Merrill Lynch nor any of its affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential Investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Information relates only to historical investment performance. Future investment performance may vary. See "Important Notice".*
(3) *Structured refers to Structured Finance Securities including CDOs*

Structured Finance Market Overview

Low Ratings Volatility (1)(2)



(1) *Source: "Structured Finance Rating Transitions: 1983-2003", Moody's Investors Service, February 2004.*
(2) *Certain of the information contained has been obtained from third party sources and neither Merrill Lynch nor any of its affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Information relates only to historical investment performance. Future investment performance may vary. See "Important Notice".*
(3) *Structured refers to Structured Finance Securities including CDOs*

Structured Finance Market Overview

ABS CDO Performance

- Better performance of Structured Finance Securities (including RMBS, CMBS, ABS and CDOs) has led to better performance of CDOs backed by those assets.

Moody's CDO Index [1][2][3]
(as of April 2004)

Asset Collateralizing CDO	Subordinate Overcollateralization	Defaults	Rating Score
ABS	+1.05%	1.08%	<47.37%>
Collateralized Loan Obligations	+3.22%	2.46%	<2.54%>
Investment Grade Corp	<0.03%>	0.98%	<70.42%>
High Yield Corp	<11.91%>	9.90%	<44.03%>

The Moody's CDO Index measures defaults in the portfolio as well as the extent of compliance (positive numbers) or non-compliance (negative numbers) with certain coverage and collateral quality tests including O/C tests and Rating Factor tests.

(1) *Source: Moody's Investors Service, "Collateralized Debt Obligations Indices: April 2004".*
(2) *The Index shown for each respective deal type is the average of the Moody's rated deals that closed between 1996-April 2004 for each respective deal type.*
(3) *Certain of the information contained has been obtained from third party sources and neither Merrill Lynch nor any of its affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential Investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Information relates only to historical investment performance. Future investment performance may vary. See "Important Notice".*

B. Crystal Cove CDO Portfolio

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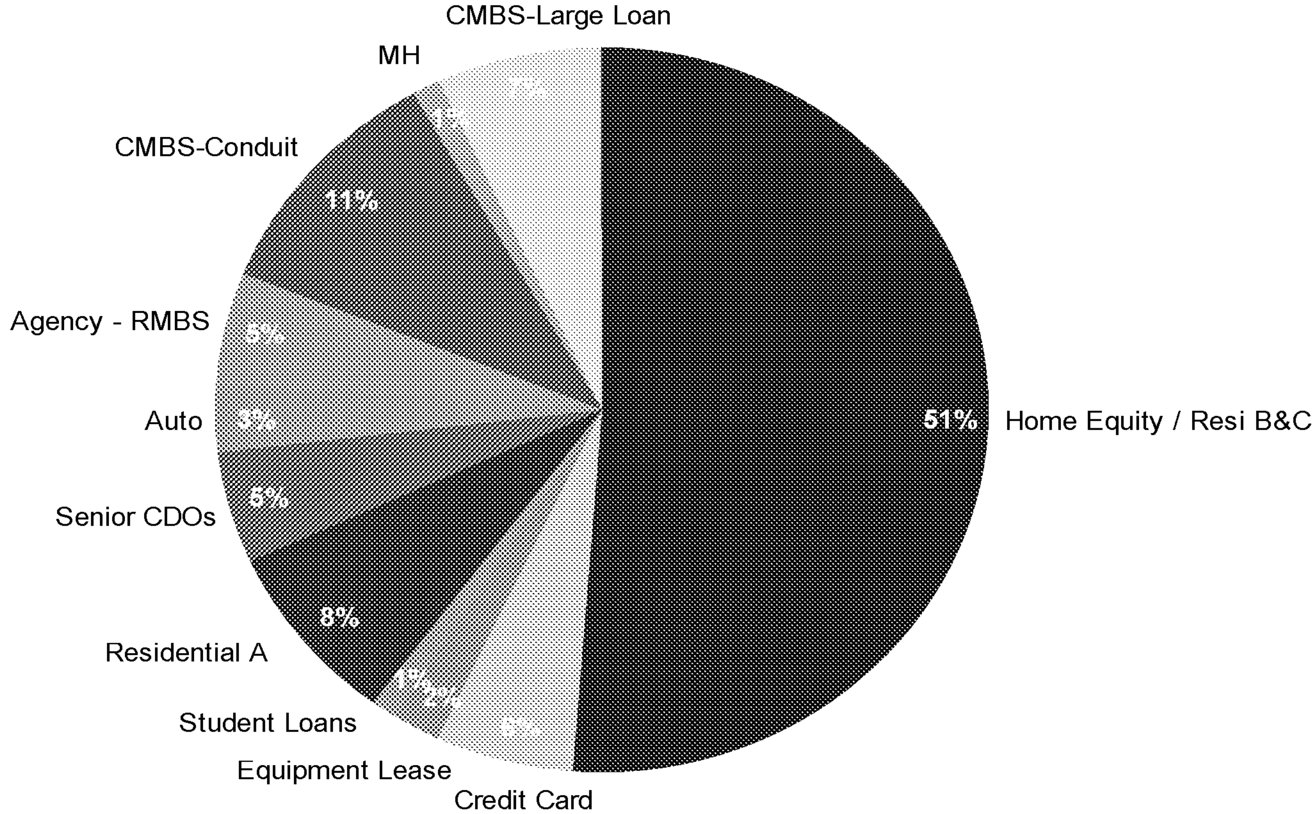
Crystal Cove CDO Portfolio

Portfolio Assumptions

Crystal Cove CDO Composition (1)

Crystal Cove CDO is expected to have a majority of its portfolio in assets backed by residential securities, CDOs, and other ABS type securities. (2)



(1) *All information shown in these materials is for illustrative purposes only. The actual structure of a final transaction, including the composition of the collateral to be acquired, will be determined at or around the time of pricing of the Notes based upon market conditions and other factors applicable at that time.*

(2) *The assets held by Crystal Cove CDO which back the Offered Securities may consist of such CDO securities; provided that the securities issued by any one CDO may not exceed [ ]% Crystal Cove's portfolio. As a result, purchasers of the Offered Securities must understand that if they hold debt or equity issued by other CDOs, their credit exposure to such CDOs will increase to the extent securities issued by those CDOs are also included in the assets of Crystal Cove.*

3. Transaction Highlights

Transaction Highlights (1)(7)

Summary of Terms

Type ABS CDO
Issuer Crystal Cove CDO, Ltd.
Manager Pacific Investment Management Company
Total Size [$451] MM

Class	Type	Ratings (Moody's/S&P) (2)	Par/Investment Amount	Average Life (3)	Legal Maturity Date	Minimum Denomination(4)
A-1	First Priority Senior Floating Rate Notes	[Aaa/AAA]	[$315.0] MM	[6.4] yrs	[August 2039]	[$1,000,000 minimum] [$1,000 increments]
A-2	Second Priority Senior Floating Rate Notes	[Aaa/AAA]	[$63.0] MM	[9.0] yrs	[August 2039]	[$1,000,000 minimum] [$1,000 increments]
B	Third Priority Senior Floating Rate Notes	[Aa2/AA]	[$35.5] MM	[9.0] yrs	[August 2039]	[$1,000,000 minimum] [$1,000 increments]
C	Fourth Priority Mezzanine Floating Rate Notes	[Baa2/BBB]	[$19.0] MM	[5.8] yrs	[August 2039]	[$1,000,000 minimum] [$1,000 increments]
	Preference Shares	[NR/NR]	[$18.5] MM		[August 2039]	[$250,000 minimum] [$25,000 increments]

Collateral Profile

- Maximum Single Issuer Concentration: [1.50%] (5)
- Maximum Single Servicer Concentration: [7.50%] (6)
- Minimum Diversity Score [18] (7)
- Maximum Weighted Average Rating Factor: [450] (7)
- Below Investment Grade Bucket : [10%] (8)
- Maximum Weighted Average Life: [6.00] Years
- Minimum Weighted Average Coupon: [6.20%]
- Minimum Weighted Average Spread: [2.05%]

(1) *The transaction is at a structuring phase, the actual characteristics of the offered securities may differ from those presented herein. Definitions and other terms will be fully described in the Offering Circular.*
(2) *The classes will be rated by Moody's and S&P,*
(3) *Please see "Transaction Highlights – Structuring Assumptions" for a description of modeling assumptions. Based on an auction call in [9] years. Assumes a WA spread of 2.15% and an initial coupon of 6.20% reinvested for [4] years at the rolling 5 year swap rate +[2.00%]*
(4) *Non-institutional investors may purchase debt tranches at a lower minimum*
(5) *With up to [8] issuers at [2.5%] and [2] issuers at [2.75%]*
(6) *With some exceptions (yet to be determined).*
(7) *Based on a Warf-Diversity Score Matrix*
(8) *Up to [5%] can be purchased at closing, the remainder will be used solely for rating migration purposes.*
Note: *Merrill Lynch may, but is not obligated to make a market in the Offered Securities. .All information shown in these materials is for illustrative purposes only. The actual structure of the final transaction, including the composition of the collateral to be acquired, will be determined at or around the time of pricing of the Notes based upon market conditions and other factors applicable at that time. In addition, certain of the assumptions contained herein have been made for modeling purposes and it is unlikely that such assumptions will in fact be realized.*

Transaction Highlights

Advantages of Deleveraging

Benefits of the RAPID Structure

Class A-1 Notes Principal Paydown

- After the reinvestment period, principal paydowns on the underlying collateral will be used to pay down the Class A-1 Notes.

Benefits to Class A-1 Noteholders

- Principal payments are expected upon the the end of the reinvestment period
- Build up of overcollateralization levels

Class C Notes Early Principal Paydown

- Returns on Preference Shares will be capped at [14.0%] until Class C Notes are fully amortized. Excess interest will be used to fully amortize the Class C (Baa2/BBB) Notes from the initial distribution date.

Benefits to Class C Noteholders

- Expected average life of the Class C (Baa2/BBB) Notes will be shorter as a result
- Build up of overcollateralization levels

Transaction Highlights

Break Even Default Rates (1)(2)(3)(4)

BREAKEVEN DEFAULT RATES [1]	Based on a Break in Yield		Based on 0% Yield	
Class Description (Moody's/S&P)	Annual Default Rate	Cumulative Gross Defaults	Annual Default Rate	Cumulative Gross Defaults
Class A-1 First Priority Senior Floating Rate Notes (Aaa/AAA)	[19.1]%	[62.8]%	[30.6]%	[77.2]%
Class A-2 Second Priority Senior Floating Rate Notes (Aaa/AAA)	[10.0]%	[41.8]%	[14.2]%	[52.9]%
Class B Third Priority Senior Floating Rate Notes (Aa2/AA)	[5.9]%	[27.8]%	[7.9]%	[35.2]%
Class C Fourth Priority Mezzanine Floating Rate Notes (Baa2/BBB)	[3.2]%	[16.6]%	[4.4]%	[21.8]%

Future market and economic conditions are impossible to predict. Future market or economic conditions that materially differ from those on which the assumptions are based may have a negative impact on the performance of Crystal Cove CDO, Ltd. For these reasons, there are limitations on the value of this or any hypothetical illustration. This information is not intended to be either an express or implied guaranty of investment performance.

(1) Break in yield is the default rate at which the first dollar loss in principal occurs, and 0% yield is the default rate at which no principal is received.
(2) Assumes no default lockout, 60% immediate recoveries and forward LIBOR.
(3) Please see "Transaction Highlights – Structuring Assumptions" for a description of modeling assumptions. Based on an auction call in [9] years. Assumes a WA spread of 2.15% and an initial coupon of 6.20% reinvested for [4] years at the rolling 5 year swap rate +[2.00%]
(4) Definitions and other terms will be fully described in the Offering Circular
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Transaction Highlights

Structuring Assumptions (1)(4)

Collateral Assumptions (1)

Minimum Weighted Average Fixed Coupon	[6.20%]
Minimum Weighted Average Floating Spread(5)	[2.15%]
Weighted Average Price	[99.5%]
Maximum Weighted Average Life	[6.00] yrs
Principal Amount	[$450MM]
Minimum Diversity Score(5)	>=[23]
Maximum Weighted Average Rating Factor(5)	[450] (Baa2/Baa3)

Ongoing Fees and Expenses (2)

Senior Advisory Fees	[30.0] bps
Subordinate Advisory Fees	[25.0] bps
Incentive Fees	[20.0%] of the equity cashflows once [12.5%] IRR is achieved
Trustee Fees	[2.0] bps
Administrative Expenses	[4.0] bps
Administrative Fee Cap	[$300,000] yr
Closing Fees and Expenses (6)	

Funding and Payment Dates

Closing Date	[8/15/04]
Payment Dates	[11/15], [2/15], [5/15] and [8/15] of each year
Reinvestment Period	[4] years
Non-Call Period	[4] years
5-Year Swap Rate(7)	[4.03]%

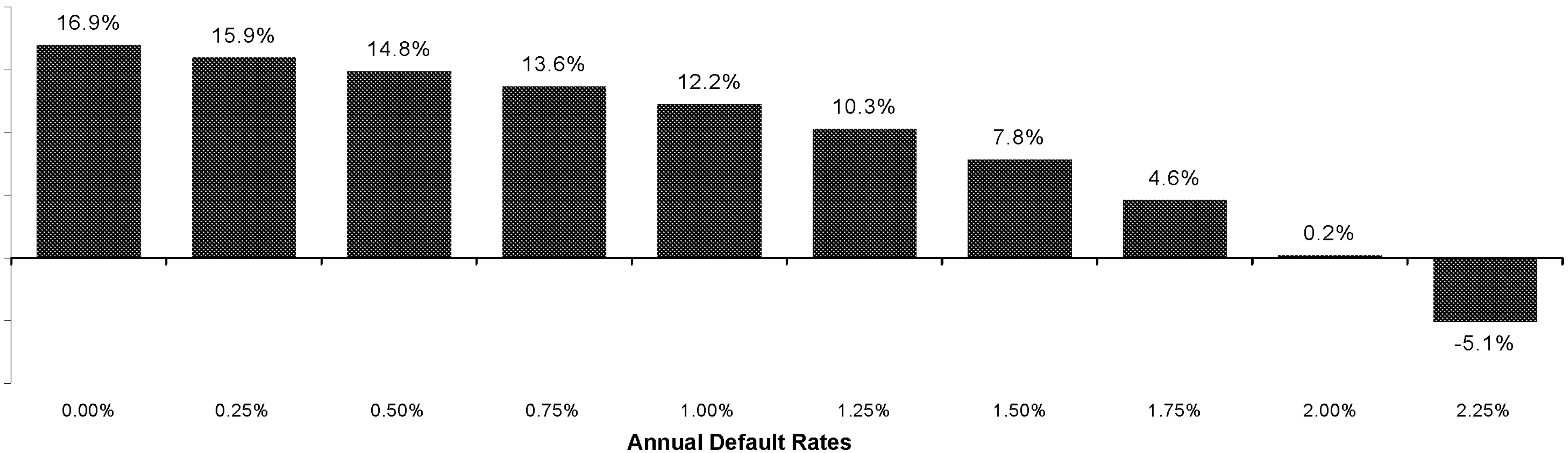
Coverage Tests (3)

	O/C Tests	Initial O/C	I/C Tests	Initial I/C
Class A/B	[103.8%]	[108.8%]	[115.0%]	[144.5%]
Class C	[101.5%]	[104.0%]	[110.0%]	[131.5%]

(1) These assumptions are general and are not conclusive or exhaustive. Actual collateral characteristics may be different from those assumed and even if they are the same on a weighted average basis, the use of individual securities in the actual CDO structure may substantially change the results indicated.
(2) Calculated on the outstanding collateral balance as of the first day of each payment period.
(3) Subject to change. Initial represents expected characteristics of target portfolio.
(4) Definitions and other terms will be fully described in the Offering Circular.
(5) Based on a WARF/Diversity/Spread matrix. Other points on the matrix may include: WARF [350], D-Score [21], Spread [2.05%] or WARF [350], D-Score [18], Spread [2.15%]
(6) There will be certain up-front closing fees associated with this transaction including Merrill Lynch structuring and placement fees, legal, agency, and other fees. Theses fees may be partially offset by the receipt of up-front hedge payments. The gross proceeds from the issuance of the Notes and Preference Shares will be approximately $[451MM]. The net proceeds from the issuance of the Notes and Preference Shares will be approximately $[449MM] after payment of fees and expenses and any receipt of up-front hedge payments.
(7) As of July 19, 2004

Transaction Highlights

Preference Share Return (IRR) (1)



Assuming every year of the transaction experiences 0.1% default rate, which is approximately the average one-year default rate for BBB-rated Structured Finance Securities, according to Moody's, the Preference Share return would be [16.5]%.(1)(2)

Future market and economic conditions are impossible to predict. Future market or economic conditions that materially differ from those on which the assumptions are based may have a negative impact on the performance of Crystal Cove CDO, Limited. For these reasons, there are limitations on the value of this or any hypothetical illustration. This information is not intended to be either an express or implied guaranty of investment performance.

(1) Please see prior page for description of modeling assumptions. Annual defaults begin immediately at "Stated Default Rate." Recovery Assumptions: 60%. Assumes a WA spread of 2.15% and an initial coupon of 6.20% reinvested for [4] years at the rolling 5 year swap rate +[2.00%]

(2) Refer to footnotes in historical defaults section of Structured Finance Market Overview

Note: This material includes illustrative return information that is based in part on hypothetical assumptions. None of the assumptions contained herein are meant to be historical descriptions nor predictors of future performance. In addition, certain of the assumptions contained herein have been made for modeling purposes and it is unlikely that such assumptions will in fact be realized. Such results are presented for illustrative purposes only and are based on various assumptions, not all of which are described herein. No representation or warranty is made by Merrill Lynch or PIMCO as to the reasonableness of such assumptions or as to any other financial information contained in such models (including the assumptions on which they are based). These assumptions have certain inherent limitations, and will be affected by any changes in the structure or assets for this transaction. As a sophisticated investor, you should review each assumption carefully and make your own determination as to its accuracy or reasonableness. The actual performance of any securities issued will differ, and may differ substantially, from that set forth in the attached illustrations. No representation is made that such illustrations are accurate or complete or do not contain errors, or that alternative modeling techniques or assumptions would not be more appropriate or produce significantly different results. The information in the graph above should not be considered a prediction of the performance of the Issuer or the Preference Shares. The attached material is provided to you on the understanding that as a sophisticated investor, you will understand and accept its inherent limitations, will not rely on it in making any investment decision with respect to any securities that may be issued, and will use it only for the purpose of discussing with Merrill Lynch your preliminary interest in investing in a transaction of the type described. Any investor should rely only upon the final offering materials for the definitive conditions and terms of the offering. Neither Merrill Lynch nor PIMCO assumes any responsibility for the accuracy or validity of the results of such models.

4. Risk Factors

Risk Factors

An investment in the Offered Securities described herein, if such offering is consummated, will involve certain risks. A detailed list of risk factors will be included in the Offering Circular (including the preliminary and final versions thereof). Set forth below is a summary description of certain of the risks to which an investor in the Offered Securities would be subject. These summary risks will be described in greater detail in the Offering Circular (together with additional risks). An investor should not make any decision to invest in the Offered Securities until after such investor has had an opportunity to read and review carefully the Offering Circular.

Limited Liquidity and Restrictions on Transfer. There is unlikely to be any secondary market for the Offered Securities. The Offered Securities will be subject to certain transfer restrictions and will only be transferable to certain permitted transferees to be identified in the Offering Circular. Consequently, an investor in the Offered Securities must be prepared to hold for an indefinite period of time or until maturity or redemption.

Limited-Recourse Obligations. The Offered Securities will be limited-recourse obligations, payable solely from an identified pool of assets. No recourse may be had to any person or entity other than to the issuer of the CDO in respect of such collateral in respect of payments or distributions on Securities.

Subordination. Principal of and interest and commitment fee on the notes, and distributions on the equity securities, to be issued by the CDO will be subject to payment in accordance with a priority of payments. Payments of principal and interest on the notes of each class (other than the most senior class then outstanding) will in most circumstances be subordinate to payment when due of principal of and interest and commitment fee on the notes of each more senior class. Remedies and certain consensual acts will generally be directed by the most senior class then outstanding (without regard to the interests of the holders of more subordinate classes). In addition, the Preference Shares will be unsecured, distributions thereon will be subject to compliance with applicable corporate laws and such distributions will rank behind all of the creditors of the CDO, whether secured or unsecured and known or unknown, including any judgment creditors.

Investment in CDO Equity. CDO preference shares are a first loss, leveraged credit position. An investor in a CDO is exposed to a portfolio of diversified credits, but only a portion of those credits need to default (recovery values adjust this range upward) for clients that invest in CDO preference shares to lose 100% of their original investment—hence the leveraged credit position. Client loss is limited to original investment. CDO debt tranche investors effectively loan money to CDO preference share investors. Criteria governing a CDO will divert cashflow intended for equity to start paying down debt in the event that certain coverage ratios (over-collateralization and interest coverage tests) are triggered. Collateral deterioration is the cause for these ratios to be triggered. This may result in a cutoff of cashflow to CDO preference shares for some time and potential phantom income tax issues. Equity investors are leveraged. Spread movement in the underlying collateral portfolio will have exaggerated mark-to-market effect on client positions. However, only defaults affect the potential cashflow equity investors receive.CDO preference shares are a purchase of a stream of cashflows. These cashflows are amortizing in nature, i.e., clients do not normally receive their full principal at maturity. CDO preference share returns are projected in terms of the IRR of this stream of cashflows. The earlier cash is received, the higher the IRR will be.

The summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the collateral and are subject in their entirety to the complete presentation of risk factors in the final Offering Circular.

THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED

Risk Factors

Redemption; Diversion of Cash. The Offered Securities will be subject to redemption under certain circumstances described in the Offering Circular (including, under certain circumstances, upon the failure of certain financial coverage tests to be satisfied). Any such redemption may cause the economic return from an investment in the Offered Securities to vary from the expected economic return. In addition, the failure to satisfy certain financial coverage tests could result in an elimination, deferral or reduction in the payments to be made to holders of one or more classes of notes or the preference shares, which could adversely impact the economic return realized by such holders.

Average Life of the Offered Securities. The average life of each class of Offered Securities is expected to be shorter than the number of years until their stated maturity. Such average lives will be affected by numerous factors described in the Offering Circular.

Nature of Collateral. The collateral underlying the Offering Securities will consist primarily of securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period. Such underlying securities will be subject to credit, liquidity, interest rate, market, operations, fraud and structural risks. The underlying securities and certain risks arising from their ownership by the CDO issuer will be described in more detail in the Offering Circular.

Reinvestment Risk. If reinvestment in additional Collateral after the closing of the sale of the Offered Securities is completed, then CDO issuer will depend upon reinvestment rates and other market conditions in effect at the time of reinvestment (and whether available investment opportunities satisfy the requirements for purchase of additional Collateral).

Certain Conflicts of Interest. Various potential and actual conflicts of interest may arise from the overall investment activities of Merrill Lynch, Pierce, Fenner & Smith Incorporated, any collateral manager or adviser retained by the CDO issuer and any other entity providing services to the CDO issuer (such as a hedge counterparty). These potential and actual conflicts of interests will be described generically in the Offering Circular and should be considered by any prospective investor in the Offered Securities.

Relation to Prior Investment Results. Any prior investment results of any person or entity described herein will not be indicative of the CDO issuer's future investment results. Such results are intended only to give potential investors information concerning the general experience of the relevant person or entity as an asset manager or adviser and is not intended as a representation or warranty by Merrill Lynch or any other person or entity as to the actual composition of or performance of any future investments that would be made by the CDO issuer. The nature of, and risks associated with, the CDO issuer's future investments may differ substantially from (and will be subject to constraints that were not applicable to) those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the CDO issuer's investments will perform as well as, or in a manner similar to, the past investments of any such persons or entities.

The summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the collateral and are subject in their entirety to the complete presentation of risk factors in the final Offering Circular.

THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED

Risk Factors

Projections, Forecasts and Estimates. Any projections, forecasts and estimates contained herein are forward looking statements and are based upon assumptions that are disclosed herein. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material.

Certain hypothetical performance analyses are based on assumptions that may prove to be incorrect. Prospective investors should understand those assumptions and evaluate whether they are appropriate for their purposes. Certain analyses are based on mathematical models that use hypothetical inputs to calculate results. As with all models, results may vary significantly depending upon the values of the inputs used. Models used in any analysis may be proprietary, making the results difficult for any third party to reproduce. Moreover, hypothetical performance analyses will address only certain aspects of the characteristics of the Offered Securities and will not provide a complete assessment of the results that may follow from all possible contingencies (including default, interest rate and other scenarios and certain economic features of the Offered Securities, including call features and cash flow diversion events). Prospective investors should consider whether the behavior of these securities should be tested based on assumptions different from those used to prepare these analyses.

Dependence on Certain Personnel. To the extent that the CDO issuer relies upon a collateral manager or adviser in analyzing, selecting, managing or selling any items of Collateral, the CDO issuer will depend on the financial and managerial experience of certain individuals associated with such manager or adviser. The termination of any managerial or advisory agreement, and the loss of one or more of these individuals, could have a material adverse effect on the performance of the CDO issuer.

Mandatory Repayment of the Notes. If any coverage test applicable to a class of notes is not met, first, interest proceeds, then, to the extent that the application of interest proceeds is insufficient, principal proceeds, then, to the extent that the application of interest proceeds and principal proceeds is insufficient, uninvested proceeds, will be used to the extent that funds are available in accordance with the priority of payments and to the extent necessary to restore the relevant coverage tests to certain minimum required levels, will be used to repay principal of one or more classes of notes.

In addition, if the CDO issuer is unable to obtain confirmation of the ratings of the notes from each of the rating agencies rating the notes by the 30th day following the ramp-up completion date, first uninvested proceeds, then, to the extent that the application of uninvested proceeds is insufficient, interest proceeds, then, to the extent that the application of uninvested proceeds and interest proceeds is insufficient, principal proceeds, will be applied on the first distribution date following such 30th day to redeem first, the Class A-1 Notes, then the Class A-2 Notes, then the Class B Notes, then, the Class C Notes, in each case to the extent necessary to obtain such rating confirmation from each of the rating agencies.

Risk Factors

Either of the foregoing could result in an elimination, deferral or reduction in the payments in respect of interest or commitment fee or the principal repayments made to the holders of one or more classes of notes that are subordinate to any other outstanding class of notes, which could adversely impact the returns of such holders.

The Collateral Manager may, on any distribution date occurring prior to the last day of the reinvestment period, in its sole discretion elect to apply all or a portion of the principal proceeds available for reinvestment to the payment of principal of the notes in accordance with the priority of payments, which application may result in additional payments of principal on the notes.

Currency Risk. The notes will be denominated in U.S. dollars. The eligibility criteria will permit collateral debt securities (and, with respect to synthetic securities, reference obligations) to be denominated in U.S. dollars, in sterling or in euros which, in each case, are not convertible into or payable in any other currency. Notwithstanding the fact each such collateral debt security will be required, upon acquisition thereof by the CDO issuer, to have an associated hedge agreement and will include currency protection provisions with respect to scheduled payments thereunder, losses may be incurred due to fluctuations in the U.S. dollar/sterling or U.S. dollar/euro exchange rates in the event of (i) a default under any such hedge agreement, (ii) certain termination events under any such hedge agreement or (iii) any increase in the scheduled coupon or interest payment in respect of such security related to such hedge agreement.

Interest Rate Risk. The notes will bear interest at a rate based on three-month LIBOR. Certain of the collateral debt securities included in the collateral will include obligations that bear interest at fixed rates. Accordingly, the notes are subject to interest rate risk to the extent that there is an interest rate mismatch between the floating rate at which interest accrues on the notes and the rates at which interest accrues on fixed rate securities included in the collateral. A portion of such interest rate mismatch will be mitigated by one or more hedge agreements which the CDO issuer will enter into in connection with the transaction. There can be no assurance that the collateral debt securities and eligible investments, together with such hedge agreements, will in all circumstances generate sufficient interest proceeds to make timely payments of interest on the notes.

Early Termination of the Reinvestment Period. Although the reinvestment period is expected to terminate on the distribution date occurring in [_______], the reinvestment period may terminate prior to such distribution date if (i) the Collateral Manager notifies the trustee and each hedge counterparty that, in light of the composition of collateral debt securities, general market conditions and other factors, the Collateral Manager (in its sole discretion) has determined that investments in additional securities within the foreseeable future would either be impractical or not beneficial, (ii) the notes are redeemed or (iii) an event of default occurs. If the Reinvestment Period terminates prior to the Distribution Date occurring in [_______], such early termination may affect the expected average lives of the notes and the duration of the Preference Shares.

CDO of CDOs The assets held by Crystal Cove CDO which back the Offered Securities may consist of such CDO securities; provided that the securities issued by any one CDO may not exceed [ ]% Crystal Cove's portfolio. As a result, purchasers of the Offered Securities must understand that if they hold debt or equity issued by other CDOs, their credit exposure to such CDOs will increase to the extent securities issued by those CDOs are also included in the assets of Crystal Cove.

The summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the collateral and are subject in their entirety to the complete presentation of risk factors in the final Offering Circular.

THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED

Risk Factors

<u>Ongoing Commitments—Class A-1 Notes.</u> Holders of the Class A-1 Notes will be obligated during an agreed commitment period, subject to compliance by the CDO issuer with certain borrowing conditions, to advance funds to the CDO issuer until the aggregate principal amount advanced in respect of the Class A-1 Notes equals the aggregate amount of commitments to make advances; *provided* that at the time of and immediately after giving effect to such borrowing, no event of default or default has occurred and is continuing or would result from such borrowing.]

<u>Auction Call Redemption</u>. If the Notes have not been redeemed in full prior to the Payment Date occurring in [ ], [2013], then an auction of the Collateral Debt Securities will be conducted and, provided that certain conditions are satisfied, in particular with respect to the sufficiency of anticipated proceeds from the proposed sale of the Collateral Debt Securities, the Collateral Debt Securities will be sold and the Notes will be redeemed on such Payment Date. If such conditions are not satisfied and the auction is not successfully conducted on such Payment Date, the Investment Advisor will conduct auctions on each Payment Date thereafter, however the Notes will not be redeemed until the conditions are satisfied.

<u>Application of Principal Proceeds</u>. Principal Proceeds from the Collateral Debt Securities, except for sales proceeds that are reinvested in substitute Collateral Debt Securities, will be used to pay principal on the Notes beginning with the first Payment Date. The timing of receipts of principal on the Collateral Debt Securities with respect to such substitute Collateral Debt Securities will depend on, among other factors, the rate of prepayments on Collateral Debt Securities which may be influenced by the level of interest rates and economic conditions. The Issuers cannot predict the actual rate of principal payments that will be experienced on the Collateral Debt Securities.

<u>Redemption of Class C Notes</u>. On any Payment Date occurring after the [ ], [2004] Payment Date, if Preference Shareholders have received distributions on the Preference Shares sufficient to achieve a Preference Share Preferred Return (as defined herein) of [ ]% during the related 12 month calculation period for such Payment Date, any remaining Interest Proceeds will be applied to redeem the Class C Notes. While the anticipated effect of this feature is to accelerate the payment of the Class C Notes, the Issuers cannot predict whether Interest Proceeds received on the Collateral Debt Securities will be sufficient to make such redemptions. Moreover, if the Class C Notes are redeemed sooner than anticipated due to this feature, investors in the Class C Notes may not be able to reinvest the proceeds in investments with the same yield.

<u>Conflicts of Interest Involving Merrill Lynch.</u> Certain of the securities acquired by the CDO issuer may consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which Merrill Lynch or an affiliate of Merrill Lynch acted as underwriter, agent, placement agent or dealer or for which an affiliate of Merrill Lynch acted as lender or provided other commercial or investment banking services. Merrill Lynch or one or more of its affiliates may also act as counterparty with respect to synthetic securities acquired by the issuer or interest rate hedging arrangements entered into by the issuer. In addition, Merrill Lynch, its employees, affiliates and employees of affiliates will receive compensation in connection with the structuring of the CDO and/or distribution of the Offered Securities.

The summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the collateral and are subject in their entirety to the complete presentation of risk factors in the final Offering Circular.
THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED

5. About the Collateral Manager

PIMCO

PIMCO's Expertise in Structured Credit

Leader in Fixed Income	■ Fixed Income Manager of the Year: 1998, 2000 (Morningstar) (1) ■ Risk Manager of the Year: 2001 (Risk Magazine) (2) ■ Award for Investment Excellence for International Bonds: 1997, 2000, 2001 (Global Investor Magazine) (3) ■ Award for Investment Excellence for High Yield Bonds: 2000 (Global Investor Magazine) (4)
Leader in Structured Finance	■ PIMCO has been managing dedicated structured credit portfolios since 1993 ■ PIMCO manages $18.4billion* in structured credit ■ Global structured credit platform ■ PIMCO has consistently overweighted MBS, ABS and CMBS across portfolios for the last 10 years
Leader in CDO Execution & Valuation	■ PIMCO has traded over $4 billion in CDO tranches and has developed a proprietary valuation model utilizing NAV, cash flow and option methodologies to identify relative value
Superior ABS Capabilities	■ Team of 11 people with an average of over 7 years of experience focused on this asset class ■ Experience in all major sectors of structured credit ■ Unparalleled ancillary resources such as global credit teams and deep analytics infrastructure

* *Assets as of March 31, 2004. Potential differences in asset totals are due to rounding.*

Source: PIMCO as of June, 2004

(1) *The Morningstar "Fixed Income Manager of the Year" was awarded in January 1999 and January 2001. Winners are chosen based on Morningstar 's own research and in-depth evaluation by its senior editorial staff.*

(2) *PIMCO was chosen as the 2001 Risk Manager of the Year based on an in-depth evaluation done by the senior editors of Risk Magazine.*

(3) *PIMCO was awarded Global Investor Magazine award for Investment Excellence for Global Bonds in 1998, 2001, 2002 based on an extensive evaluation by a panel of independent judges.*

(4) *PIMCO was awarded Global Investor Magazine award for Investment Excellence for High Yield Bonds in 2001, based on an extensive evaluation by a panel of independent judges.*

P I M C O

Summary of PIMCO's Investment Strategies

	Strategy	Description	Assets
Traditional:	Total Return	PIMCO's flagship style: Core / Core Plus	$176.1
	Long Duration	Focus on long-term bonds	10.9
	Moderate Duration	Total return with intermediate duration	7.2
	Low Duration	Total return with shorter duration	22.1
	Short-Term	Active cash management techniques	11.7
	Money Market	Maximize income while preserving capital	0.7
	Stable Value	Strategies that use book value wrappers	16.9
Sector-Specific:	Credit:		
	Investment Grade Corporates	High quality corporate bond portfolios	6.0
	High Yield	Emphasis on upper tiers of high yield market	17.6
	Diversified Income	Global credit combining corporate and emerging markets debt	0.8
	CBO/CLO	Collateralized bonds/loan obligations	8.1
	Mortgages	Includes LIBOR-based mortgage products	9.3
	Global	Non-U.S. and global approaches	40.8
	Emerging Markets	Focus on solid credits with improving economic fundamentals	6.1
	Municipals	Tax-efficient total return management	7.6
Real Return:	Real Return	TIPS and other inflation-hedging strategies	20.7
	CommodityRealReturn	Commodity-linked exposure backed by a bond portfolio	4.0
	All Asset, All Asset All	Tactical allocation among PIMCO funds	1.8
	RealEstateRealReturn Authority	Real Estate-linked exposure backed by a bond portfolio	0.0 (1)
Equity PLUS:	StocksPLUS and StocksPLUS Total Return	Combines passive equity index exposure with active bond management	24.7
Other:	Convertibles	Balanced risk/reward profile that provides downside	0.0
	Other	Private placement investments	0.5
		Total Assets Under Management:	**$394.6**

Source: PIMCO as of June, 2004
Assets as of March 31, 2004. Potential differences in asset totals are due to rounding.
* *RealEstateRealReturn total assets are $290 M, of which $276 M are accounted for by All Asset Strategies.*

P I M C O

A Summary of 33 Years of History

PIMCO
- 1971 Founded as subsidiary of Pacific Mutual
- 1982 Established autonomy from Pacific Mutual
- 1994 Became public company through merger
- 2000 Purchased by Allianz

Ownership
- 1971 100% Pacific Mutual
- 1982 100% Pacific Mutual / Phantom Equity
- 1994 22% employees / 44% public 34% Pacific Mutual / Phantom Equity
- 2000 70% Allianz 30% Pacific Life / Phantom Equity

Products
- [illegible] Total Return
- 1978 Mortgages
- [illegible]
- [illegible]
- [illegible]
- 1988 Long Duration
- 1990 CMBS
- 1992 High Yield Stable Value
- 1993 Dedicated CMBS Portfolio
- 1996 CDOs
- 1997 Bank Loans TIPS Municipals Emerging Mkts
- 1999 Convertibles Euro Total Return
- 2002 All Asset UK Core+ SP TR Global Cr

Assets
- 1975 $40 MM (TR $33 MM)
- 1980 $1.5 B (TR $1.3 B)
- 1985 $10.0 B (TR $8.7 B)
- 1990 $28.9 B (TR $21.8 B)
- 1995 $76.4 B (TR $45.1 B)
- 2000 $215.7 B (TR $120.6 B)
- 1Q '04 $394.6 B (TR $176.1 B)

Source: PIMCO as of June, 2004

PIMCO's CDO Management Experience

- PIMCO is one of the largest managers of cash flow arbitrage CDO's in the world
- PIMCO manages collateral for 26 CDO deals across 6 asset classes in 3 currencies
  - 7 high yield bond deals (2 are still actively managed)
  - 9 leveraged loan deals (6 are still actively managed)
  - 5 investment grade corporate deals (1 is synthetic)
  - 2 European leveraged loan deals (combination of dollars, euros and sterling collateral and liabilities)
  - 3 ABS deals
  - 1 European ABS deal
  - 1 emerging markets deal
- Each asset class is managed by a separate team of portfolio managers

Name	Size	Closing Date	Asset Class
Pacific Coast	$600mm	September 2001	US ABS
Pacific Shores	$700mm	June 2002	US ABS
Euro Multi Credit	€250mm	December 2002	European ABS
Pacific Bay	$450mm	November 2003	US ABS

Source: PIMCO as of June, 2004

Previous CDO Collateral Performance[1]

Pacific Coast CDO

US ABS CDO Cash Flow Transaction

Total Size – $600 million

Closing: September 2001

	as of 5/31/04	Constraint
Diversity Score	23.5	20.0
Floating Spread (basis points)	214	205
Fixed Coupon	7.70%	7.75%
Moody's Rating Factor	795	475
Weighted Average Life	5.05 years	6.00 years

Pacific Shores CDO

US ABS CDO Cash Flow Transaction

Total Size – $700 million

Closing: June 2002

	as of 5/31/2004	Constraint
Diversity Score	43	22
Floating Spread (basis points)	209	185
Fixed Coupon	7.11%	7.15%
Moody's Rating Factor	455	450
Weighted Average Life	4.91 years	7.00 years

(1) *Source: PIMCO as of May 2004*

Previous CDO Collateral Performance(1)

Euro Multi-Credit CDO

European ABS CDO Cash Flow Transaction

Total Size – € 250 million

Closing: December 2002

	as of 5/31/2004	Constraint
Diversity Score	32	28
Floating Spread (basis points)	196	186
Fixed Coupon	6.27%	6.16%
Moody's Rating Factor	465	485
Weighted Average Life	4.64 years	5.75 years

Pacific Bay CDO

US ABS CDO Cash Flow Transaction

Total Size – $450 million

Closing: November 2003

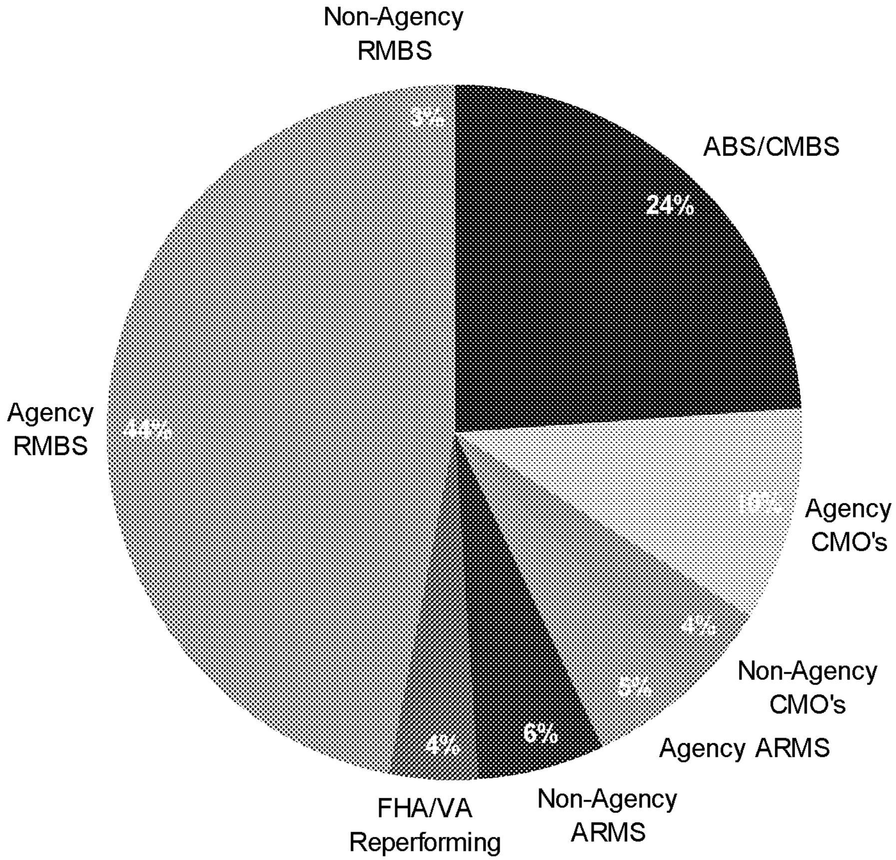
	as of 5/31/04	Constraint
Diversity Score	38.3	20.0
Floating Spread (basis points)	217	205
Fixed Coupon	6.58%	6.25%
Moody's Rating Factor	239	350
Weighted Average Life	4.39 years	5.25 years

(1) *Source: PIMCO as of May 2004*

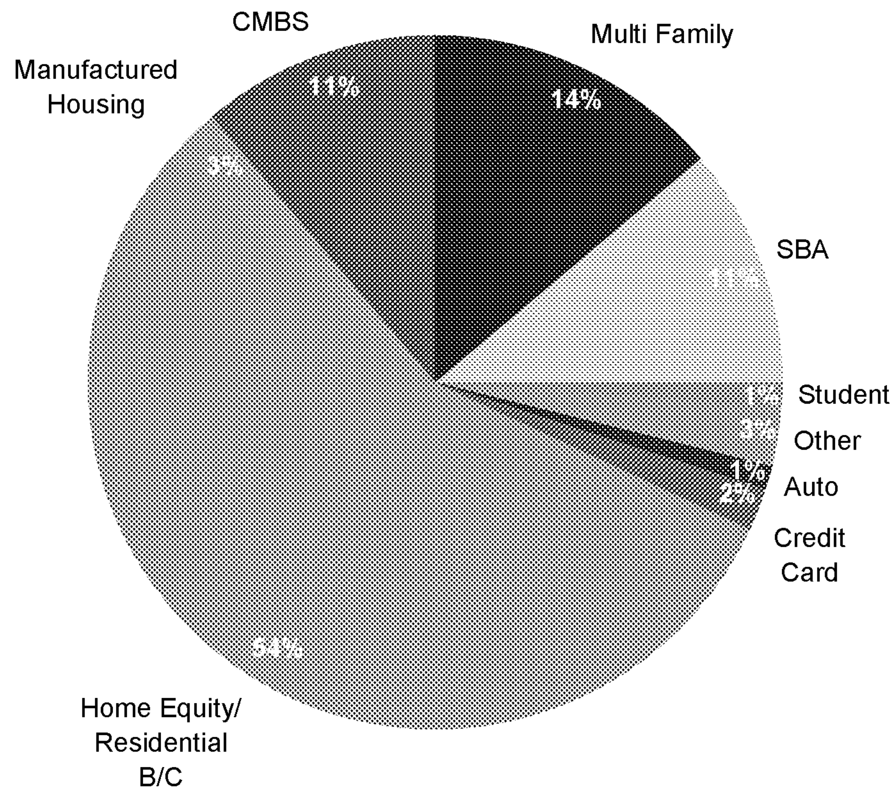
PIMCO

PIMCO Expertise Across All Sectors of ABS/CMBS/RMBS Markets (As of March 31, 2004)

Firm Holdings ($77.4 Billion)



ABS Breakout ($18.4 Billion)



Source: PIMCO as of 2004
Holdings subject to change without notice.

PIMCO CDO Infrastructure

Risk Committee
- Comprised of 5 Managing Directors
- Reviews and approves all new CDOs
- Monitors portfolio risk

U.S. Corporate Credit Team
- In-depth credit research
- Trade ideas

CDO Product Management
- Client service
- Product coordination
- Structuring

U.S. Structured Finance Credit Team
- In-depth structural analysis
- Surveillance

PIMCO Portfolio Management Expertise
- Top/Down economic analysis
- Bottom/Up credit analysis
- Manage for the highest value to the structure

PIMCO Analytics
- Risk control
- Relative value analysis

European Credit Team
- In-depth credit research in Europe
- Trade ideas

CDO Structure Analysis
- Modeling
- Compliance
- Trade ideas

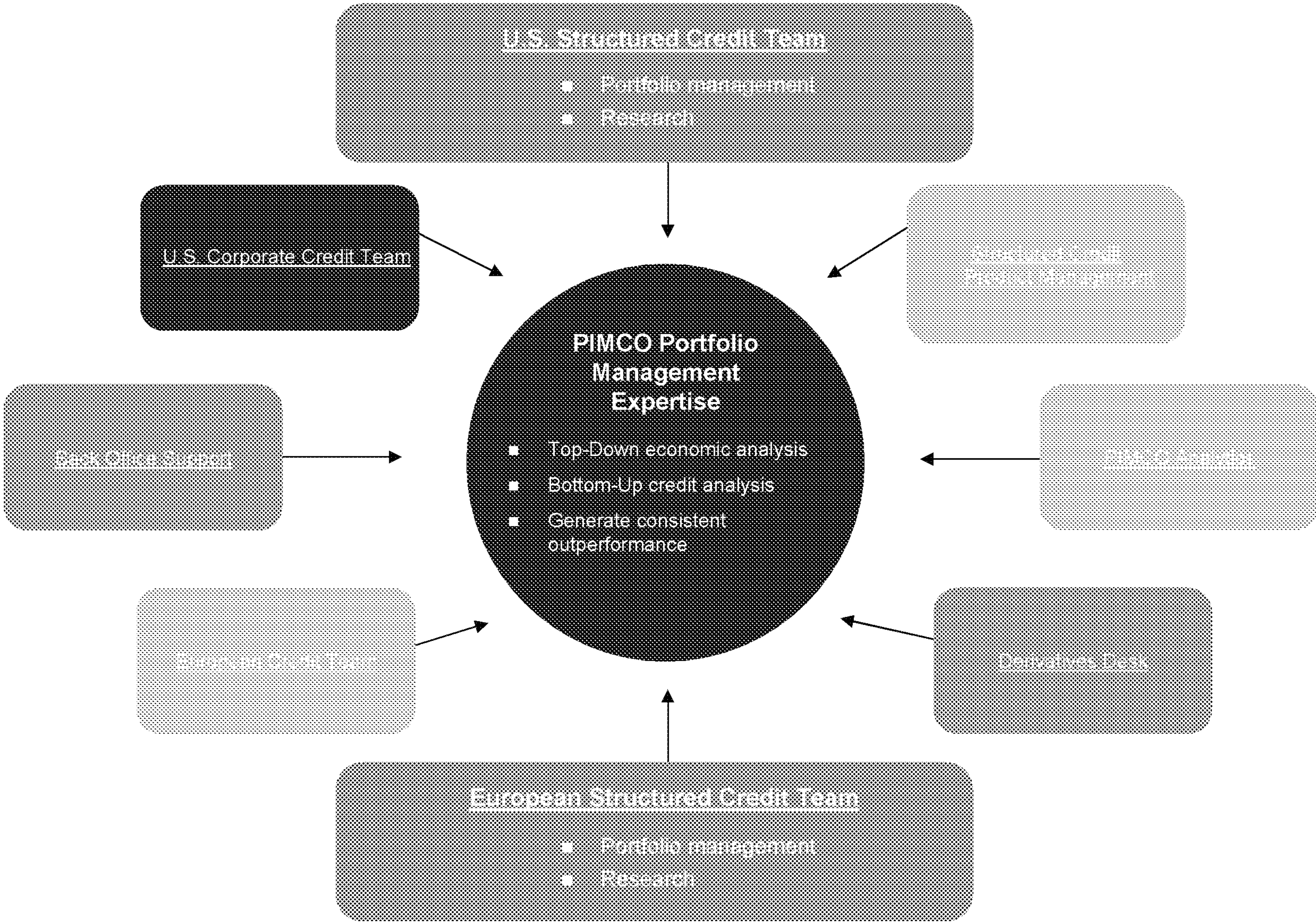
Back Office Support
- Pricing
- Trade reconciliation
- Trade settlement

PIMCO Legal
- Document review
- Global resources & expertise

Source: PIMCO as of June, 2004

PIMCO

Global Structured Credit Platform



Source: PIMCO as of June, 2004

PIMCO's ABS Philosophy

Top down economic, bottom up credit analysis

- Broad economic outlook determined in cyclical / secular forums
- Extensive credit risk assessment
- Issuer selection, primarily driven by proprietary analytics and fundamental credit research
- Thorough due diligence & structural expertise
- Analyze downside risk first

Quality structural focus with emphasis on downside risk

- Preference for high quality, A rated credits which represent relative value
- Prefer liquidity premium over credit premium
- Seek structural subordination while minimizing corporate guarantees
- Relative value benchmarking (cheap vs. rich)

Issue, sector diversity

- Spread risk across multiple capital structures and collateral types
- Diversity across cohort, issuer, collateral type, management style, servicer and collateral manager
- Intimate knowledge of underlying collateral

Flexible, opportunistic manager

- Significant presence in all global fixed income markets
- Apply proprietary analytics and credit discipline to explore opportunities in non-traditional sectors and complex security structures

Source: PIMCO as of June, 2004

PIMCO's Unique Structured Credit Qualifications

Asset-Backed Securities are complex hybrids that require a multifaceted approach to fully understand the risks

- Detailed analysis of collateral
- Complete understanding of structure and nuances of cashflows
- Evaluation of associated corporate and issuer risks
- Valuation of imbedded optionality
- Macro economic and industry trends

PIMCO is uniquely positioned to manage portfolios of structured credit

- Dedicated global platform
- Structured credit team
- Proprietary analytics & derivatives modeling capabilities
- Global corporate credit resources
- Well defined economic forecasting process

Source: PIMCO as of June, 2004

P I M C O

Structured Credit Process

Determine the Value of Collateral Utilizing Market Data

Use Proprietary Cash Flow Scenarios & Models to Allocate Value Across Different Tranches

Detailed Analysis of Other Key Market Factors to Validate Market Value & Cash Flow Stresses

Source: PIMCO as of June, 2004

Structured Credit Process

Market Value

- Starting point is always market value based
- Price underlying assets to determine if:
  - Sum of the parts = Whole
  - Assets = Liabilities + Equity

Cash Flow Stress

- Proprietary cash flow analysis utilizes delinquency, default and loss curves based on historical patterns for each asset class
- Constant Default Rates, or "CDR" may be market convention but is unrealistic and inadequate in assessing credit risk

Validation

- Industry fundamentals
- Servicer
- Bankruptcy risk
- Value imbedded options – Is hedging truly effective?
- Assess alignment of interests within the capital structure

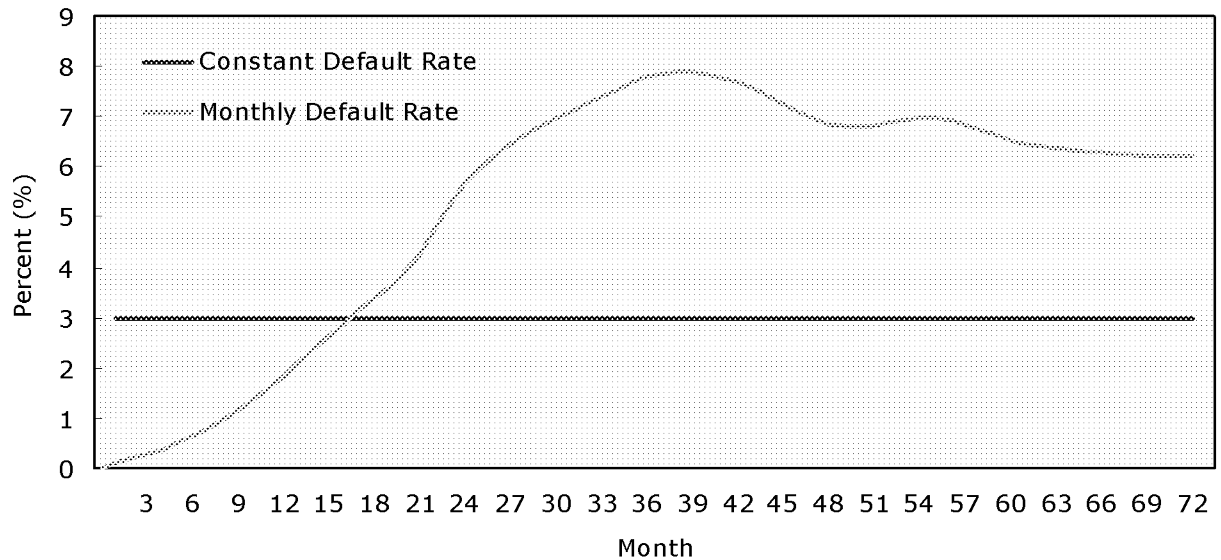
Source: PIMCO as of June, 2004

P I M C O

Cash Flow Stress Test – Constant Default Rate (CDR) is Unrealistic

Example

- CDR is market convention but unrealistic
- PIMCO utilizes proprietary loss curves based upon historic loss patterns
- PIMCO adjusts loss curves to reflect industry, servicer and other risks



SOURCE: Intex, PIMCO as of June, 2004
The above chart is not indicative of past or future performance of any PIMCO product.

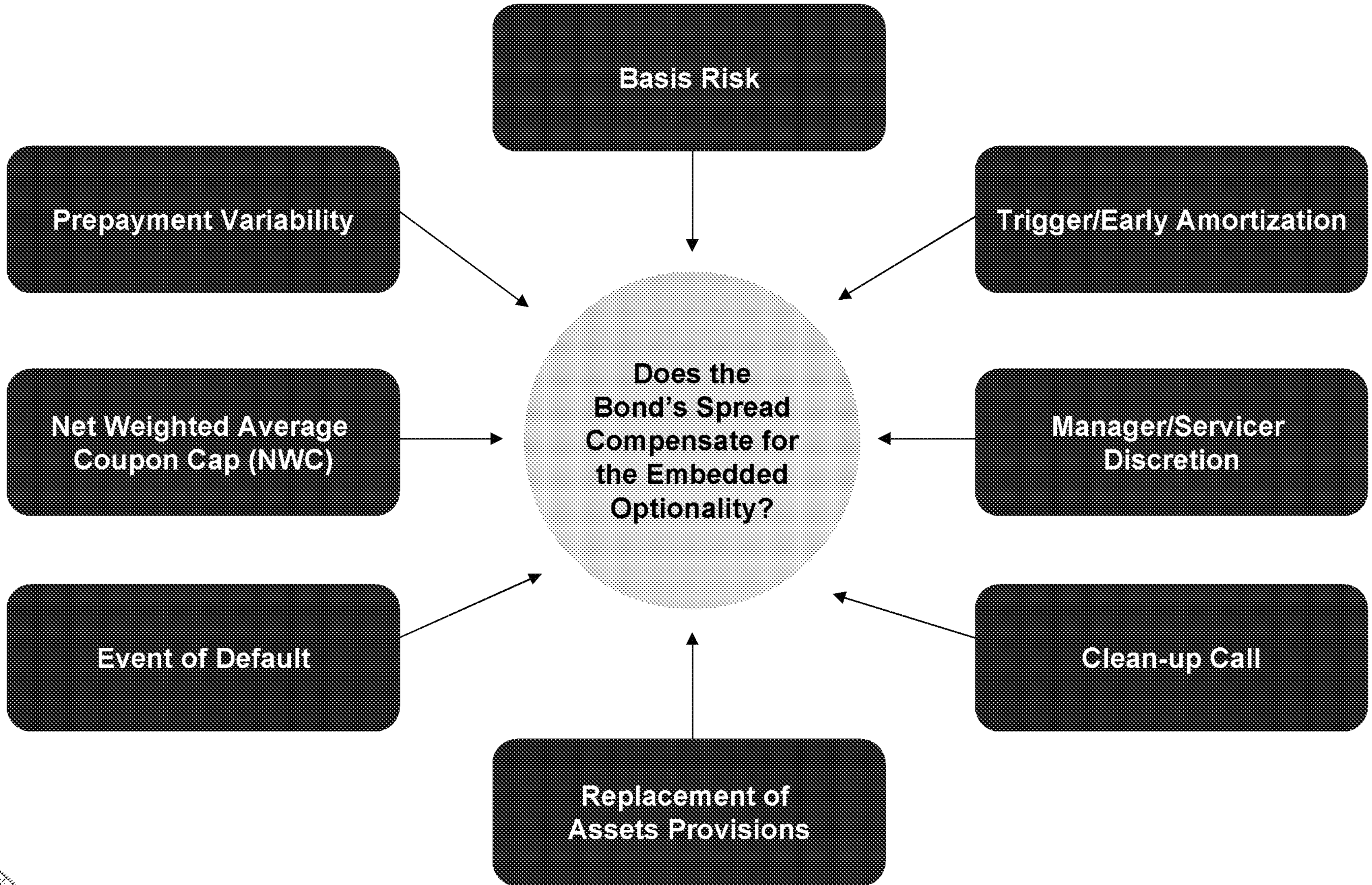
Bottom-Up Analytics of "Other Factors"

Drilling Down

Process	Parameter
Economic Analysis	■ Regional economic conditions ■ Impact of macroeconomic forces on collateral performance
Structural Analysis	■ Consumer and corporate credit trends ■ Market value analysis ■ Credit support, payment priority, advancing ■ Proper alignment of interests ■ Stress cash flows
Industry Analysis	■ Competitive pressures ■ Profitability/microeconomic forces ■ Regulatory and legal climate
Collateral Analysis	■ Historical performance/vintage analysis ■ Loss curves, historical recoveries ■ Geographic diversity, LTV, DTI, FICO's ■ Market value of assets
Issuer Analysis	■ Soundness of underlying business model ■ Underwriting procedures ■ Corporate credit rating and outlook ■ Availability of alternative financing sources ■ Management review
Quantitative Analysis	■ Valuation of embedded options/Evaluation of caps and floors ■ Credit adjusted spread, spread to Swaps and Treasuries ■ Effective duration and average life
Servicing Analysis	■ Quality of platform procedures ■ Personnel/Systems ■ On site reviews when necessary
Legal/Regulatory Analysis	■ Bankruptcy remoteness/true sale opinion ■ Risks to enforceability ■ Note holder rights and controlling interests

Source: PIMCO as of June, 2004

Quantitative Analysis – Evaluation of Embedded Hedges



Source: PIMCO as of June, 2004

PIMCO

PIMCO has a Long Track Record of Consistent Outperformance in Mezzanine and Subordinated Structured Credit

PIMCO has been managing the Commercial Mortgage Securities Trust since 1993.

- The only dedicated non-CDO fund at PIMCO that invests in mezzanine asset-backed securities[(1)]

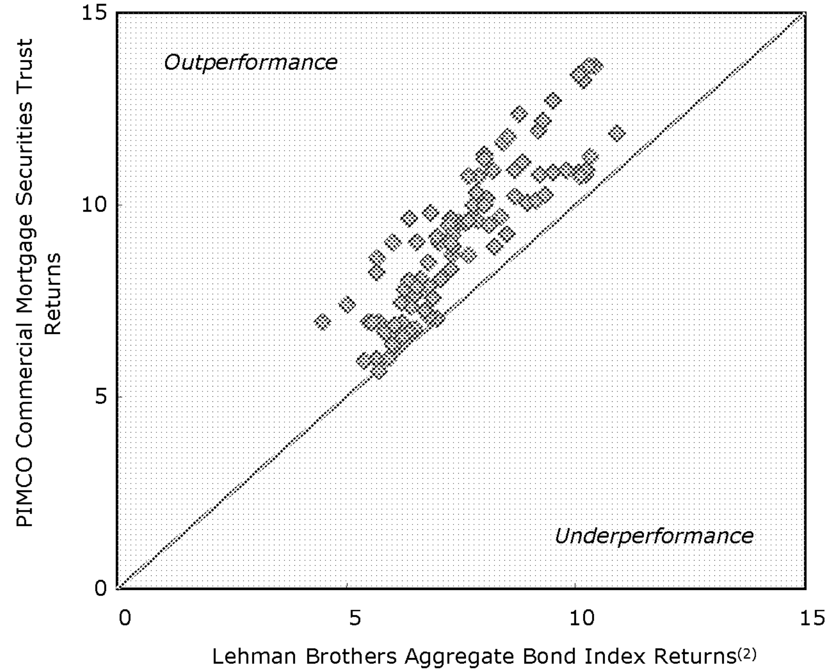
Structured for Success

- Long term orientation
- Diversified sources of value
- Depth and breadth of resources

Result

- Fund outperformed
- Consistency achieved in different market environments

PIMCO Commercial Mortgage Securities Trust versus Lehman Brothers Aggregate Bond Index*



Source: PIMCO as of June, 2004

* *92 annualized rolling three-year periods from September 02, 1996 through March 31, 2004. Returns are calculated after fees.*
Past performance is no guarantee of future results. *The performance above represents the total return performance of the PIMCO Commercial Mortgage Securities Trust, Inc., as compared to the Lehman Brothers Aggregate Bond Index, an unmanaged market index considered to be representative of the bond market. Closed end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed end funds are sold in the open market through a stock exchange. Net asset value (NAV) is total assets less total liabilities divided by the number of shares outstanding. An investment in the PIMCO Commercial Mortgage Securities Trust involves risk, including the loss of principal. Investment return, price, yields and net asset value fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes.*

(1) *Closed end management investment company. Fund invests in at least 65% of assets in investment-grade commercial mortgage-backed securities*

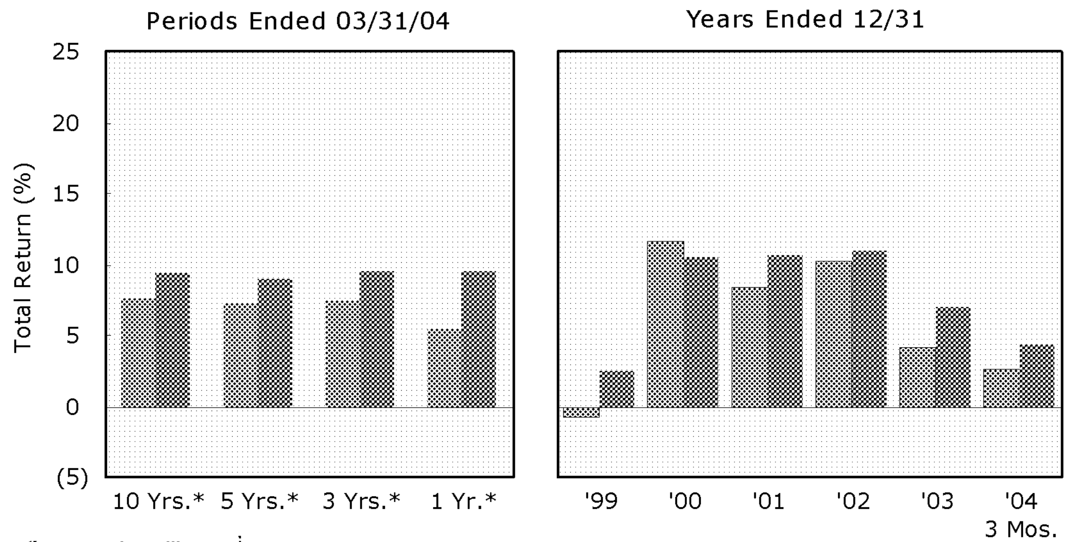
(2) *Lehman Index is the relevant benchmark to PIMCO Commercial Mortgage Securities Trust - there is no index that measures mezzanine asset-backed securities.*

PIMCO

How has the PIMCO Commercial Mortgage Securities Trust Performed?

Active mortgage management offers enhanced returns

- Longer term investment outlook
- Strong quantitative systems control risk
- Experienced management team
- Moderate consistent returns



PIMCO Commercial Mortgage Securities Trust[1]	10 Yrs.*	5 Yrs.*	3 Yrs.*	1 Yr.*	'99	'00	'01	'02	'03	'04 3 Mos.
Before Fees (%)	10.38	9.98	10.56	10.36	3.47	11.61	11.79	12.07	8.10	4.36
After Fees (%)	9.30	8.93	9.53	9.44	2.44	10.50	10.69	10.97	7.03	4.28
Lehman Brothers Aggregate Bond Index (%)	7.54	7.29	7.44	5.40	(0.82)	11.63	8.44	10.26	4.10	2.66
Value Added (basis points)**	176	164	209	404	326	(113)	225	71	293	162

Source: PIMCO as of June, 2004

(1) *Since inception on 9/2/93: 9.73% (net of expenses and annualized).*

(2) *Annualized.*

(3) *Value Added is after expenses.*

***Past performance is no guarantee of future results.** The performance above represents the total return performance of the PIMCO Commercial Mortgage Securities Trust. Past performance is no guarantee of future results. The performance above represents the total return performance of the PIMCO Commercial Mortgage Securities Trust, Inc., as compared to the Lehman Brothers Aggregate Bond Index, an unmanaged market index considered to be representative of the bond market. Closed end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed end funds are sold in the open market through a stock exchange. Net asset value (NAV) is total assets less total liabilities divided by the number of shares outstanding. An investment in the PIMCO Commercial Mortgage Securities Trust involves risk, including the loss of principal. Investment return, price, yields and net asset value fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes.*

ABS Surveillance Process

End Result: Every ABS/CMBS/CDO bond held at PIMCO is assigned an internal credit and risk rating which is updated every month, at a minimum

- Every ABS/CMBS/CDO is reviewed every month and assigned a credit and risk rating
- Risk ratings are:
  - Green Light – credit is stable or improving
  - Yellow Light – credit is declining and surveillance is increasing
  - Red Light – downgrade and/or principal loss is possible to likely
- Red Light credits are constantly monitored. A firmwide red light list is distributed on a regular basis
- This process is consistent with PIMCO's corporate credit process

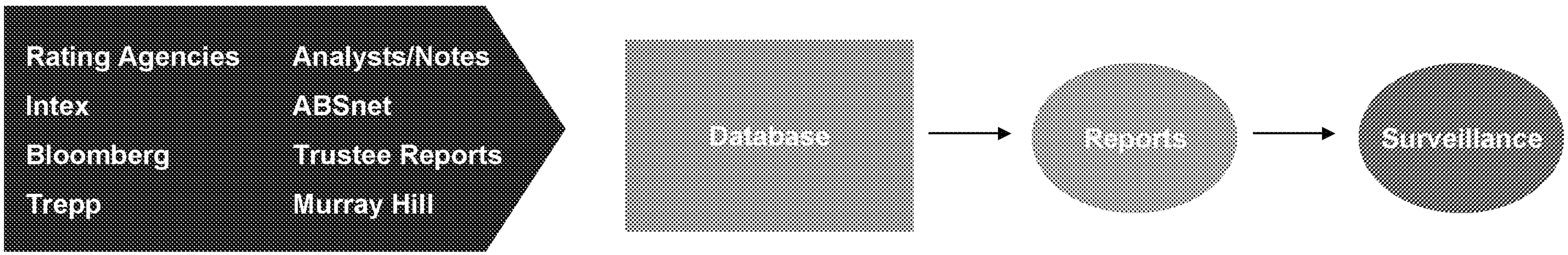
Fundamental Credit Analysis

Criteria	Rating System	Implications for Analysts
Issuer ▪ Underwriting standards ▪ Quality controls ▪ Competitive advantage **Collateral** ▪ Quality, e.g., FICO scores ▪ Reps & warranties ▪ Pricing / spread on collateral ▪ Expected prepayments **Structure** ▪ Structural credit enhancements ▪ Cash flow priorities ▪ Embedded triggers **Servicer** ▪ Adequate compensation level & seniority ▪ Replacement of servicer	(Red)	▪ Investigate & communicate the firmwide risk position in the credit ▪ Estimate recovery rates
	(Yellow)	▪ Close monitoring of up/downgrade potential
	(Green)	▪ Ongoing review ▪ Initial warning if exposures become too large

Source: PIMCO as of June, 2004

Structured Credit Surveillance

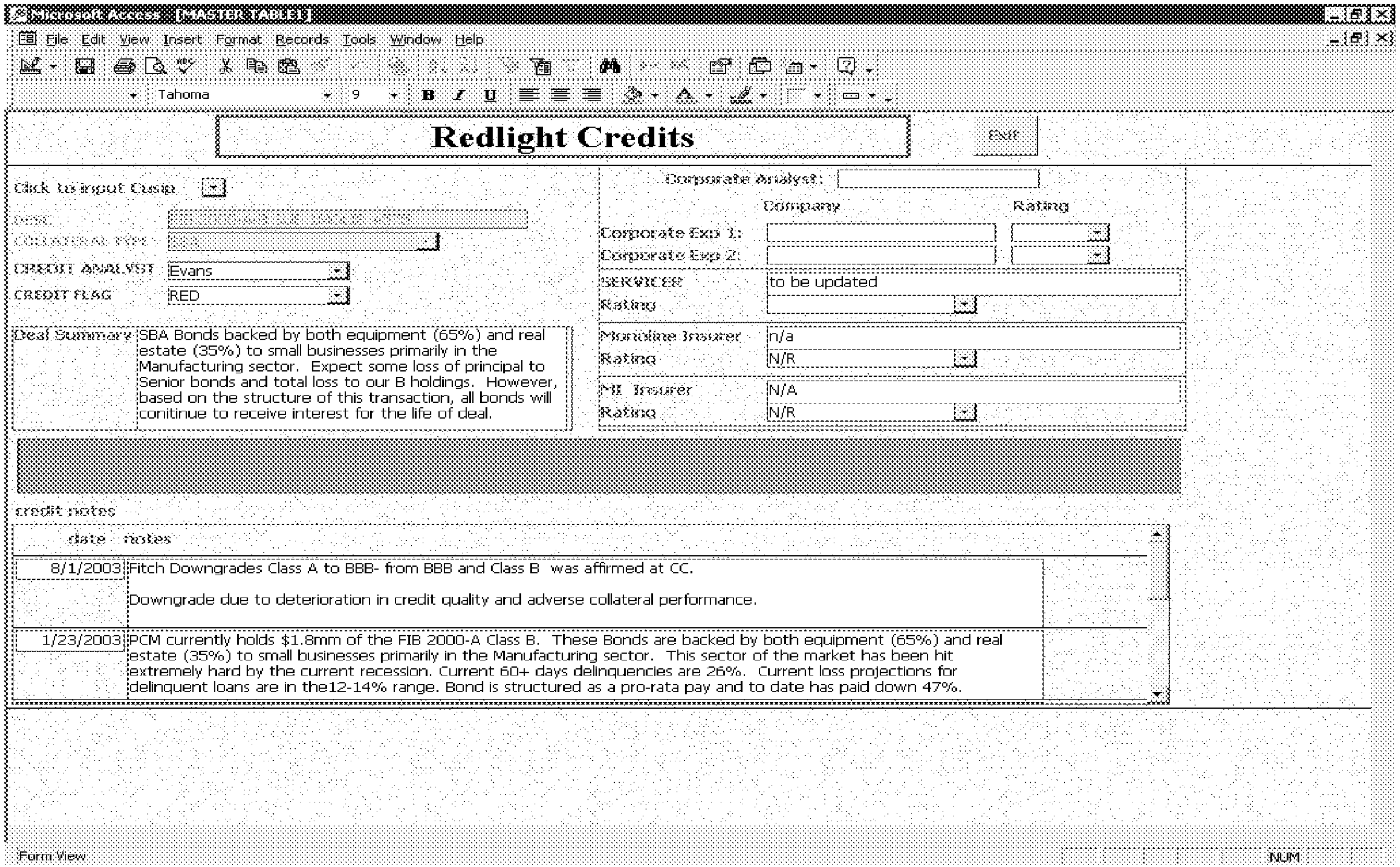
- Value added Monitoring and Surveillance Systems
  - Various sources for pricing underlying assets
  - Real time automated trustee downloads
- System procedures – reports across sectors



Source: PIMCO as of June, 2004

Surveillance Reports – Analyst Notes

- Example of high risk credit



Source: PIMCO as of June, 2004

PIMCO

Surveillance Reports – Exception Report

- Assists in making trading decisions

Microsoft Access - [Exception Report]

File Edit View Tools Window Help

Fit Close

Exception Report

Deal	Class	CUSIP	Issuer Name	Issuer ID Security	Rating	TAG	DeepMI	MurrayHill
	M2V				A	YELLOW	☐	☐

Date	WALA	Curr CE	Orig CE	Factor	Grp Bal	Curr Loss	Cum Loss	Serious DQ	CR	OCActual	OCTarget	Coupon	3mo CPR
11/1/2003	40	28.85	5.75	1.00	$272,929,585	1.29	2.77	40.00	0.72	$22,499,900	$22,500,000	10.82	50.27
10/1/2003	39	27.32	5.75	1.00	$288,226,654	5.39	2.75	38.43	0.71	$22,499,900	$22,500,000	10.89	50.34
9/1/2003	38	25.64	5.75	1.00	$307,165,494	7.14	2.62	37.58	0.68	$22,499,900	$22,500,000	10.88	46.87

Exceptions

Serious DQ greater than 30%

Deal	Class	CUSIP	Issuer Name	Issuer ID Security	Rating	TAG	DeepMI	MurrayHill
AMRS970	M1A				AA	YELLOW	☐	☐

Date	WALA	Curr CE	Orig CE	Factor	Grp Bal	Curr Loss	Cum Loss	Serious DQ	CR	OCActual	OCTarget	Coupon	3mo CPR
11/1/2003	83	37.00	16.5	0.41	$17,334,054	2.72	4.81	38.98	0.95	$2,768,655	$2,768,655	10.18	23.81
10/1/2003	82	37.00	16.5	0.42	$17,976,724	2.95	4.80	36.18	1.02	$2,768,655	$2,768,655	10.12	19.88
9/1/2003	81	37.00	16.5	0.43	$18,297,544	9.34	4.79	36.34	1.02	$2,748,814	$2,768,655	10.08	21.66

Exceptions

Increase in 60+ over 2%

Serious DQ greater than 30%

Tuesday, December 30, 2003

Page 1 of 34

Page: 1

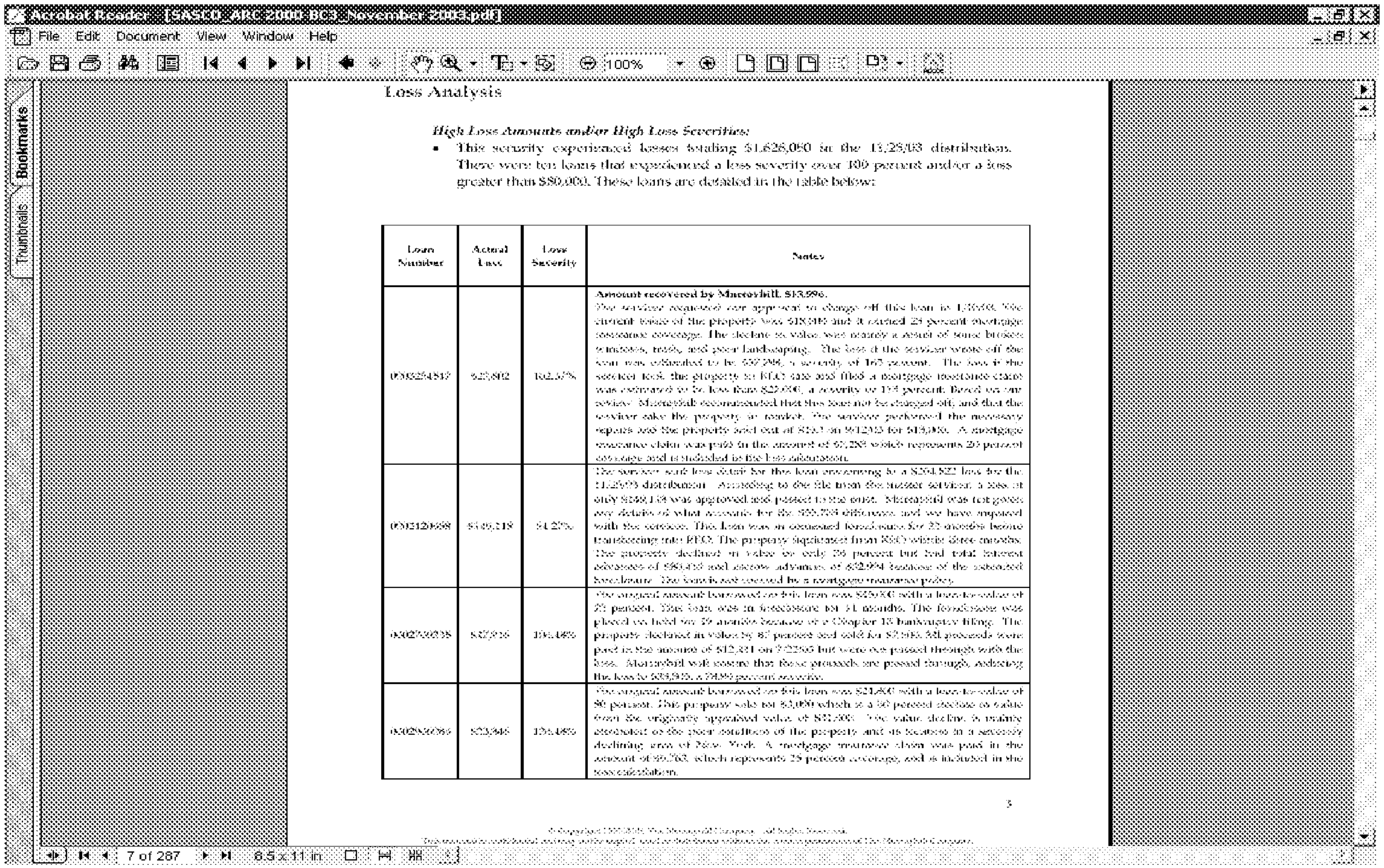
Ready NUM

Source: PIMCO as of June, 2004

P I M C O

Surveillance Reports – MurrayHill Reports

- Independent research on collateral


Acrobat Reader - [SASCO_ARC 2000-BC3_November 2003.pdf]

Loss Analysis

High Loss Amounts and/or High Loss Severities:

- This security experienced losses totaling $1,626,050 in the 11/25/03 distribution. There were ten loans that experienced a loss severity over 100 percent and/or a loss greater than $80,000. These loans are detailed in the table below:

Loan Number	Actual Loss	Loss Severity	Notes
0303254517	$25,802	102.57%	**Amount recovered by MurrayHill: $13,596.** [illegible]
0303120658	$149,218	54.22%	[illegible]
0302700238	$27,926	106.48%	[illegible]
0302930086	$23,846	155.48%	[illegible]

3

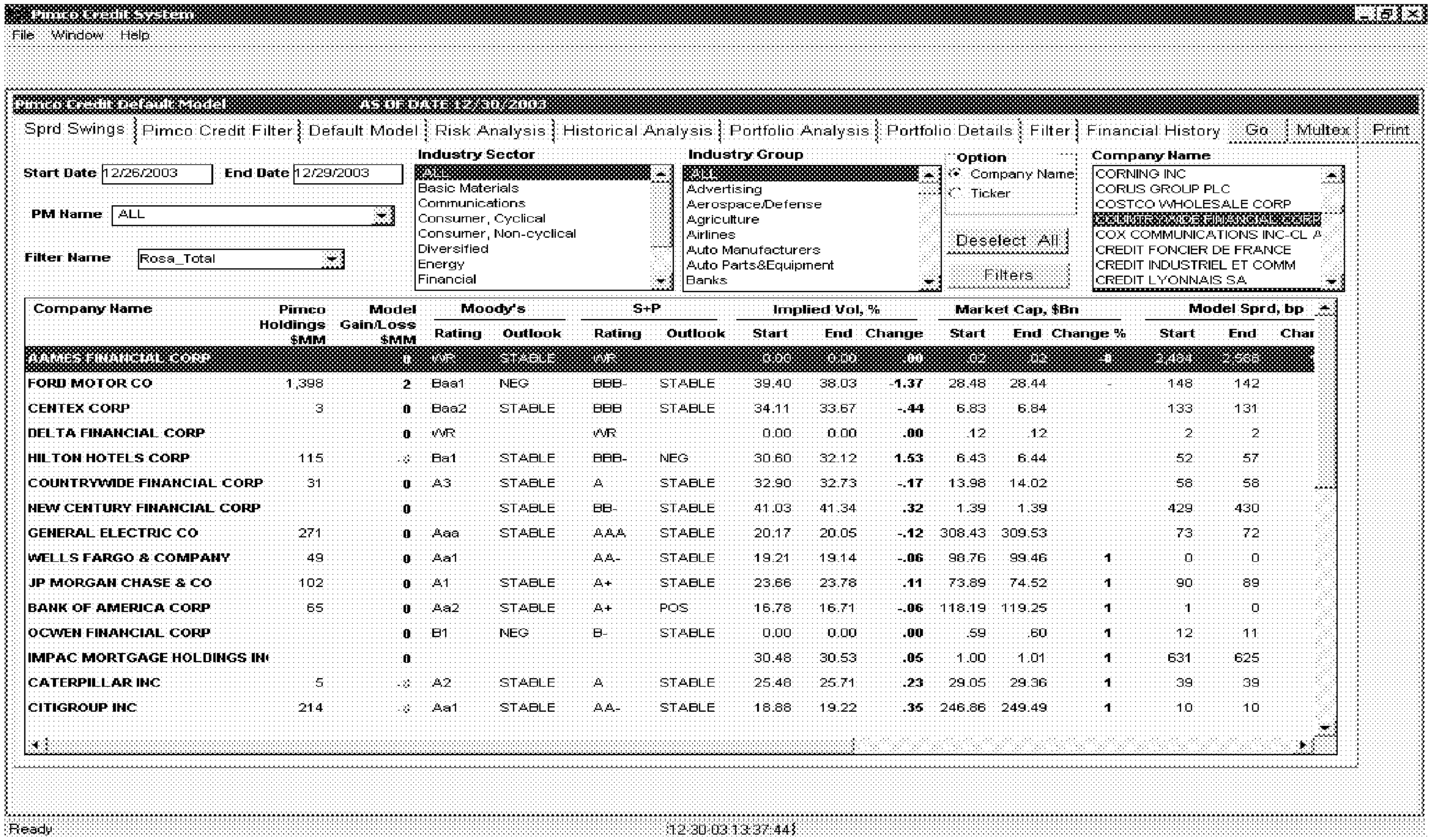
Source: PIMCO as of June, 2004

BAC-ML-CDO-000082571

P I M C O

Surveillance Reports – Corporate Default Model

- Tailored for its portfolio managers and created by PIMCO's internal analytics department. Corporate default model is primarily used as a tool to highlight any changes in default probability of the issuer/servicer.

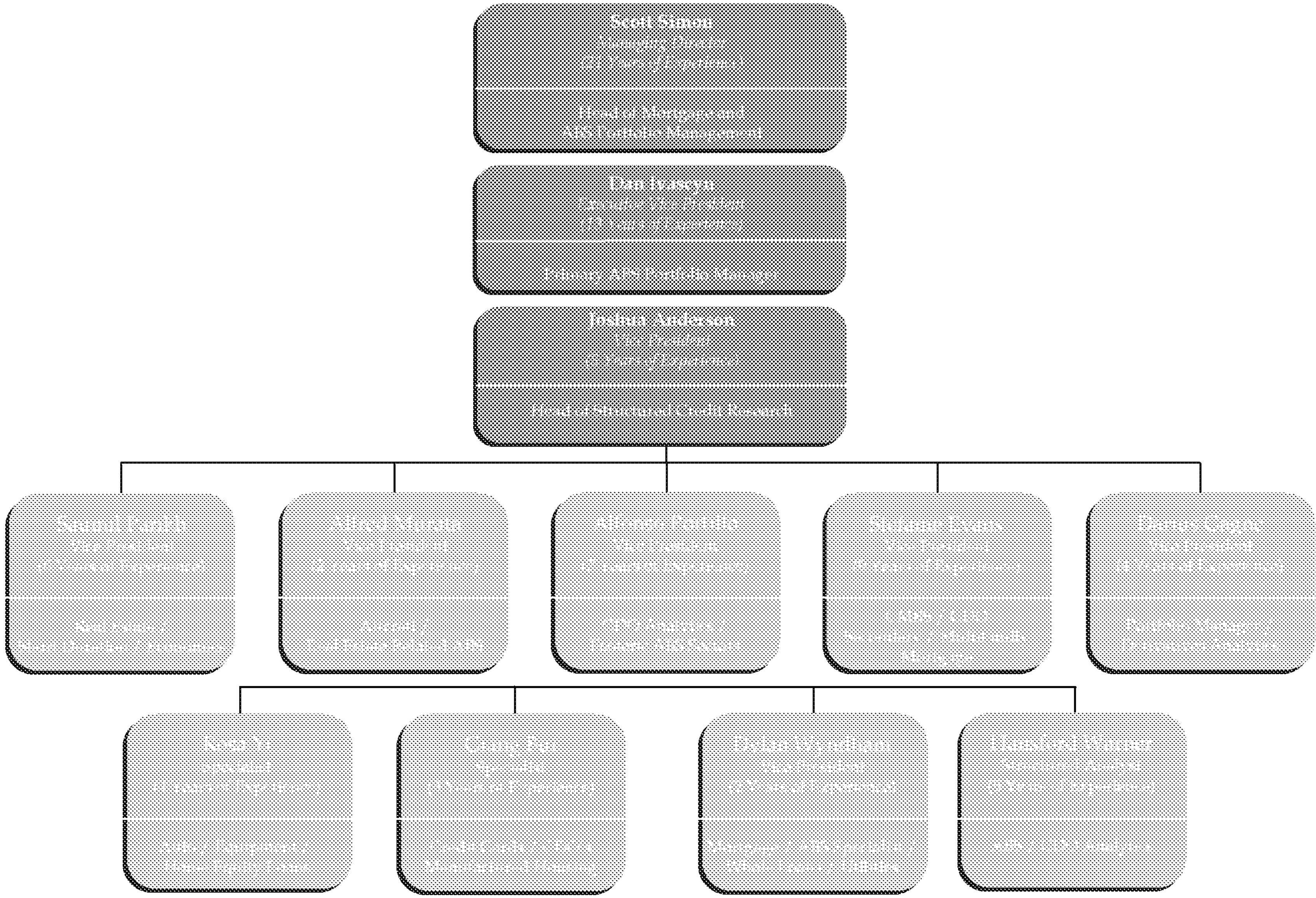


Company Name	Pimco Holdings $MM	Model Gain/Loss $MM	Moody's Rating	Moody's Outlook	S+P Rating	S+P Outlook	Implied Vol, % Start	Implied Vol, % End	Implied Vol, % Change	Market Cap, $Bn Start	Market Cap, $Bn End	Market Cap, $Bn Change %	Model Sprd, bp Start	Model Sprd, bp End	Model Sprd, bp Char
AAMES FINANCIAL CORP		0	WR	STABLE	WR		0.00	0.00	.00	.02	.03	-0	2,484	2,565	
FORD MOTOR CO	1,398	2	Baa1	NEG	BBB-	STABLE	39.40	38.03	-1.37	28.48	28.44	-	148	142	
CENTEX CORP	3	0	Baa2	STABLE	BBB	STABLE	34.11	33.67	-.44	6.83	6.84		133	131	
DELTA FINANCIAL CORP		0	WR		WR		0.00	0.00	.00	.12	.12		2	2	
HILTON HOTELS CORP	115	-0	Ba1	STABLE	BBB-	NEG	30.60	32.12	1.53	6.43	6.44		52	57	
COUNTRYWIDE FINANCIAL CORP	31	0	A3	STABLE	A	STABLE	32.90	32.73	-.17	13.98	14.02		58	58	
NEW CENTURY FINANCIAL CORP		0		STABLE	BB-	STABLE	41.03	41.34	.32	1.39	1.39		429	430	
GENERAL ELECTRIC CO	271	0	Aaa	STABLE	AAA	STABLE	20.17	20.05	-.12	308.43	309.53		73	72	
WELLS FARGO & COMPANY	49	0	Aa1		AA-	STABLE	19.21	19.14	-.06	98.76	99.46	1	0	0	
JP MORGAN CHASE & CO	102	0	A1	STABLE	A+	STABLE	23.66	23.78	.11	73.89	74.52	1	90	89	
BANK OF AMERICA CORP	65	0	Aa2	STABLE	A+	POS	16.78	16.71	-.06	118.19	119.25	1	1	0	
OCWEN FINANCIAL CORP		0	B1	NEG	B-	STABLE	0.00	0.00	.00	.59	.60	1	12	11	
IMPAC MORTGAGE HOLDINGS IN(		0					30.48	30.53	.05	1.00	1.01	1	631	625	
CATERPILLAR INC	5	-0	A2	STABLE	A	STABLE	25.48	25.71	.23	29.05	29.36	1	39	39	
CITIGROUP INC	214	-0	Aa1	STABLE	AA-	STABLE	18.88	19.22	.35	246.86	249.49	1	10	10	

Source: PIMCO as of June, 2004

PIMCO

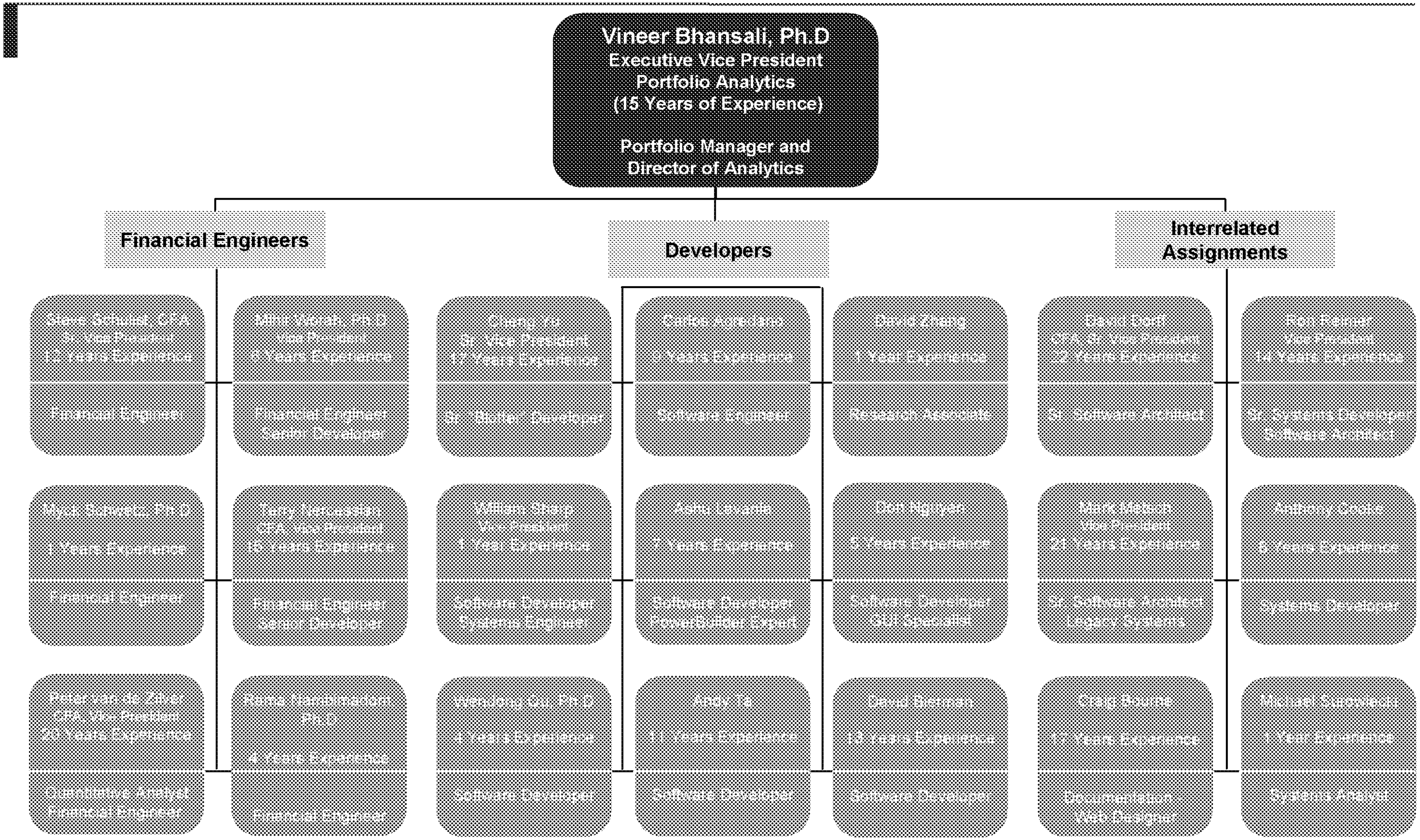
U.S. Structured Credit Portfolio Management & Research Team



Source: PIMCO as of June, 2004
Note: There is no guarantee that the employees of PIMCO will remain employed by PIMCO.
Years of experience include all credit analyst experience, including firms other than PIMCO

P I M C O

PM Workbench Analytics Group



Source: PIMCO as of June, 2004
Years of experience include all work-related experience, including firms other than PIMCO.
Note: There is no guarantee that the employees of PIMCO will remain employed by PIMCO.

Key ABS Portfolio Management Resources

W. Scott Simon – Head of Mortgage and ABS Desk

Mr. Simon is a Managing Director and a senior member of PIMCO's portfolio management and strategy groups, and head of the mortgage/asset backed securities team. He joined the firm in 2000 from Bear Stearns & Co. in New York, where he was a senior managing director and co-head of MBS pass-through trading. He also authored The Daily MBS Commentary. Mr. Simon has seven times been named to positions on the Institutional Investor All-America Fixed-Income Research Team, including first place honors in MBS pass-throughs and overall MBS strategies. He has twenty-one years investment experience, and holds a bachelor's and master's degrees in industrial engineering from Stanford University.

Daniel J. Ivascyn – Lead Portfolio Manager for ABS CDOs

Mr. Ivascyn is an Executive Vice President, portfolio manager and a member of PIMCO's mortgage and ABS team. Mr. Ivascyn joined the firm in 1998, previously having been associated with Bear Stearns in the asset backed securities group as well as T. Rowe Price and Fidelity Investments. He has thirteen years of investment experience and holds a degree in economics from Occidental College and an MBA in analytic finance from the University of Chicago Graduate School of Business.

Joshua Anderson, CFA – Head of Structured Credit Research

Mr. Anderson is a Vice President and a portfolio manager in our ABS/MBS group who also manages the ABS research team. Before joining PIMCO in 2003, he was an institutional investor ranked analyst at Merrill Lynch covering both the residential ABS and CDO sectors. Prior to that, he was a portfolio manager at Merrill Lynch Investment Managers. Mr. Anderson has nine years of investment experience and holds an MBA in both accounting and finance from the State University of New York, Buffalo and the CPA certification. In addition, he is a CFA charterholder and Series 7, 63 and 65 certified.

Alfonso Portillo – Senior Member of CDO Analytics Team

Mr. Portillo is a Vice President and an asset backed specialist and CDO structure analyst with our structured products group. He rejoined the firm in 2001 after working as a corporate trader on the High Grade desk of Payden and Rygel. Prior to that he was senior portfolio associate on the PIMCO mortgage hub. He has six years of investment experience, holds a bachelor's degree in Finance and Business Economics from the University of Southern California, and is a Level II candidate for the Chartered Financial Analyst designation.

Source: PIMCO as of June, 2004
Note: There is no guarantee that the employees of PIMCO will remain employed by PIMCO.

U.S. Structured Credit Team

Stefanie D. Evans

Ms. Evans is a Vice President, mortgage credit analyst and a member of the mortgage team, providing credit analysis support to portfolio management. Ms. Evans joined the firm in 1993, having worked in the finance department of IDM Corporation, a real estate development firm. She has eleven years of investment experience and holds a bachelor's degree with a concentration in finance from the California State University, Long Beach.

Powell C. Thurston

Mr. Thurston is a Vice President, member of PIMCO's product management group and Secretary of the counterparty risk committee. He is responsible for the structured products business, including asset-backed securities, collateralized debt obligations, bank loans and credit derivatives. Mr. Thurston joined the firm in 1999, previously having been associated with Glassman-Oliver Economic Consultants, Inc. and The Vanguard Group. He has ten years of investment experience, and holds an honors degree in economics from the University of California, Irvine, and an MBA in finance from The Wharton School of the University of Pennsylvania.

Dylan Windham

Mr. Windham is a Vice President and a credit analyst within PIMCO's Investment Grade Corporate team. He joined the firm in 2002, previously having been associated with QIAGEN N.V., a German Biotech company, as a financial analyst. Mr. Windham holds a bachelor's degree in economics and a MBA in finance from the Haas School of Business at the University of California, Berkeley.

Alfred Murata

Mr. Murata is a Vice President, portfolio manager and a member of PIMCO's mortgage team. He joined the firm in 2001. Previously, Mr. Murata was associated with Nikko Financial Technologies, where he researched and implemented algorithms to price exotic equity and interest rate derivatives. He has a Ph.D. in engineering-economic systems and operations research from Stanford University, and is a J.D. candidate at Stanford Law School. Mr. Murata holds a bachelor's degree in computer science from McGill University and a master's degree in engineering-economic systems and operations research from Stanford University. Mr. Murata has completed the Level I, II and III exams in the CFA program.

Rosa Yi

Ms. Yi is a structured credit analyst and a member of the ABS/MBS group. Prior to joining the group in July 2002, she spent three years at an investment management firm known as Roger Engemen and Associates, a wholly owned subsidiary of Phoenix Investment Partners. Ms. Yi obtained her bachelor's degree in economics from the University of California at Berkeley and is currently a Level III candidate in the Chartered Financial Analyst program.

Source: PIMCO as of June, 2004
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U.S. Structured Credit Team

Giang Bui

Ms. Bui is a structured credit analyst and a member of the ABS/MBS group. She graduated from the University of California, San Diego with dual degrees in business management and bioengineering. She has three years of investment experience and is currently a CFA Level III candidate.

Scott A. Mather

Mr. Mather is a Managing Director, and a senior member of PIMCO's portfolio management and strategy groups. He is head of Fixed Income in Munich where he manages euro and pan-European portfolios and oversees portfolio management teams based in Munich and London. In addition, he works closely with many Allianz related companies and is a Managing Director of DIT. Previously, he co-headed PIMCO's mortgage and ABS team and managed portfolios of European Supranationals and U.S. Agencies. Mr. Mather joined the firm in 1998, previously having been associated with Goldman Sachs in New York, where he was a fixed income trader specializing in a broad range of mortgage backed securities. He has ten years of investment experience and holds both a bachelor's and master's degree in engineering from the University of Pennsylvania, as well as a bachelor's degree in Finance from The Wharton School of the University of Pennsylvania.

Felix Blomenkamp, CFA

Mr. Blomenkamp is a Portfolio Manager and Head of the European Collateralized Sector Team, responsible for ABS and Pfandbriefe in Europe. Mr. Blomenkamp joined the firm in 1998, having been previously associated with Allianz Life Insurance Company in Stuttgart as Portfolio Manager for the loan portfolio. Mr. Blomenkamp has nine years of investment experience and holds a Master's degree in Business Administration from the University of Wuerzburg, Germany.

Ana Cortes Gonzales

Mrs. Cortes Gonzales is a member of the European ABS Team. Her primary duties involve analyzing and trading ABS. Mrs. Cortes Gonzales joined the firm in 2003, previously having been associated with DZ BANK in Frankfurt Germany, where she also started her professional career as a trainee in 2000. She has four years of investment experience and holds a Master's degree in Economics from the University of Bonn.

Source: PIMCO as of June, 2004
Note: There is no guarantee that the employees of PIMCO will remain employed by PIMCO.

European Structured Credit Team

Dominique Linder

Mr. Linder is a Portfolio Manager with Allianz Capital Management and is responsible for managing several portfolios within the direct insurance holdings of the Allianz Group. As a member of the European Collateralized Debt Team, his specialty is the analysis of Asset Backed Securities, primarily MBS and CDOs. Mr. Linder joined Allianz Life Insurance in January of 1998 as a trader and portfolio manager in the loan department. In July 1998 he commenced at Allianz Asset Management as a fixed income portfolio manager focusing on the Municipal Bond Market. Prior to joining Allianz, Mr. Linder worked as real estate broker. He has six years of investment experience and holds a Master's degree in Economics from the University of Muenster, Germany.

Gerlinde Schwab

Mrs. Schwab is a Portfolio Manager and heads the European Money Market Team. She manages money market and Asset-backed portfolios and is a member of the European Collateralized team. She joined the firm in 1999, previously having been associated with Bayerische Hypotheken- und Wechsel Bank AG where she went through a trainee program. Mrs. Schwab has six years of investment experience. She holds a master's degree in business administration from the University of Regensburg and studied Finance for one year at the University College of Dublin.

Eva Traber

Ms. Traber is a member of the Portfolio Management Fixed Income Team in Munich since November 2001. She supports the Portfolio Managers in bond and currency trading as well as reporting issues. In addition, she is deputy for the Money Market activities of the insurance cash pool and security lending. She joined the Asset Management Group in 1998 at the equity-trading desk of Allianz Asset Management (AAM). She holds a Diploma in Banking and passed the German trader's license.

David Andrews

Mr. Andrews is a Senior Vice President and a senior member of the credit analyst team responsible for research coverage on autos, airlines and aerospace/defense. Mr. Andrews has over twenty-one years of industry experience. Prior to joining PIMCO, he was a Director in Investment Grade Fixed Income Research at UBS Warburg/Paine Webber covering US autos, transportation, aerospace/defense and capital goods companies. In 2002, Mr. Andrews was ranked third for investment grade autos by Institutional Investor Magazine's annual ranking of Fixed Income Analysts. Prior to joining UBS Warburg he spent six years at Moody's and was responsible for global ratings of all automobile companies. He holds a bachelor's degree from Kenyon College, an MBA from the Lublin School of Business at Pace University and also attended the Executive Program at the University of Virginia.

David G. Behenna

Mr. Behenna joined PIMCO in 2000 as a consultant to assist with distressed or defaulted debt investments. Since 1993, he has provided financial advisory services to a variety of clients, including a private investment partnership that invested in distressed securities and special situations. Mr. Behenna previously was a member of a team that managed a $5 billion portfolio of high yield and distressed securities held by the bankruptcy estate of Drexel Burnham Lambert, where he had worked for more than seven years as a generalist investment banker focused on high yield debt offerings. Mr. Behenna has over nineteen years of investment experience and holds a bachelor's degree from Northeastern University and an MBA from Harvard Business School.

Source: PIMCO as of June, 2004
Note: There is no guarantee that the employees of PIMCO will remain employed by PIMCO.

Credit Team

Adam Borneleit, CFA

Mr. Borneleit is a Senior Vice President, credit analyst and a member of PIMCO's credit research team. He joined the firm in 2000, previously having been associated with SunAmerica's high-yield group, PriceWaterhouse-Moscow's corporate finance group, and Prudential's private-placement group. Mr. Borneleit has nine years of investment experience. He holds bachelor's degrees in both economics and French from the University of Pennsylvania's Wharton School and College of Arts and Sciences, and an MBA from Stanford University's Graduate School of Business.

Robert Boyd

Mr. Boyd is a Senior Structure Analyst in PIMCO's high yield portfolio management group. He also oversees a CDO research and structuring team. Mr. Boyd joined the firm in 1998 in PIMCO's mutual fund client service group, having previously been associated with American Express Financial Advisors. He also previously worked as an analyst in both account management and product management. Mr. Boyd has seven years of investment experience and holds a bachelor's degree in Finance from California State University, Long Beach and an MBA from the Marshall School of Business at the University of Southern California.

Michael Chang, CFA

Mr. Chang is a credit analyst and a member of the credit research team. He joined the firm in 2000 and previously held positions as a portfolio associate on the high-yield trading desk, and as an account management analyst. Mr. Chang has four years of investment experience and holds bachelor's degrees in both finance and international business from the University of British Columbia.

Cyrille R. Conseil, CFA

Mr. Conseil is a Senior Vice President and credit analyst. Mr. Conseil joined the firm in 1998, previously having been associated with the high-yield group at Moody's Investors Service. Over the past twelve years, Mr. Conseil has been involved in corporate credit research for both speculative- and investment-grade issues. He has over twelve years of investment experience and holds a bachelor's degree in economics from The Wharton School of the University of Pennsylvania and an MBA in finance/international business from Columbia University Graduate School of Business.

Source: PIMCO as of June, 2004
Note: There is no guarantee that the employees of PIMCO will remain employed by PIMCO.

Credit Team

Jürgen Dahlhoff

Mr. Dahlhoff is a credit analyst within the European Corporate Team in Munich and responsible for Basic Industries and Capital Goods. He joined the Fixed Income Team in January 2000. Mr. Dahlhoff has a Diploma in banking from the German Chamber of Industry and Commerce after completing a 2-½ year training program. He achieved the highest score among 50 trainees. Mr. Dahlhoff has five years of investment experience and a Master's degree in mathematics and economics from the University of Dortmund, Germany. He holds a professional qualification as a CEFA-Investment Analyst.

Craig A. Dawson, CFA

Mr. Dawson is a Senior Vice President and member of PIMCO's product management group. He focuses on credit products, including investment-grade corporates, high yield and global credit. Mr. Dawson joined the firm in 1999, having been previously associated with Wilshire Associates, an investment consulting firm. He has ten years of investment experience and holds a bachelor's degree in quantitative economics from the University of California, San Diego, and an MBA in analytic finance from the University of Chicago Graduate School of Business.

Chris P. Dialynas

Mr. Dialynas is a Managing Director, portfolio manager, and a senior member of PIMCO's investment strategy group. He joined PIMCO in 1980. Mr. Dialynas has written extensively and lectured on the topic of fixed income investing. He served on the Editorial Board of The Journal of Portfolio Management and was a member of Fixed Income Curriculum Committee of the Association for Investment Management and Research. He has twenty-four years of investment experience and holds a bachelor's degree in economics from Pomona College, and holds an MBA in finance from The University of Chicago Graduate School of Business.

Yuri P. Garbuzov

Mr. Garbuzov is a Senior Vice President and portfolio manager based in London. He is responsible for the firm's European High Yield, European convertibles and Global structured bank paper. Mr. Garbuzov also develops quantitative analytics and risk management tools as a financial engineer. He joined the firm in 1997, previously having been associated with the Institute of Physics of the Russian Academy of Sciences and Harvard Project on Economic Reform in Moscow. Mr. Garbuzov has eight years of investment experience and holds a master's degree in physics from the Moscow Institute of Physics and Technology, and an MBA from the University of Chicago Graduate School of Business.

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Credit Team

Gregory T. Gore

Mr. Gore is a Vice President and credit analyst in the credit research group. He joined the firm in 2002, previously having been an equity research analyst at W.R. Hambrecht, as well as, the Montgomery Division of Banc of America Securities. He has eight years of investment experience and holds a bachelor's degree in both literature and economics from Brown University, and an MBA from the University of California, Berkeley.

Ilka Heckenmueller

Ms. Heckenmueller is a credit analyst with the European Corporate Team in Munich and responsible for Basic Industries and Capital Goods. Prior to joining the Fixed Income Team in November 1999, she accomplished an International Trainee Program at DZ Bank (former DG Bank Deutsche Genossenschaftsbank) where she also worked as a credit manager and analyst for the Syndicated Loan Desk in Frankfurt and New York for five years. She holds a Diploma in Banking from the German Chamber of Industry and Commerce after a 2-year apprenticeship program. Ms. Heckenmueller studied Business Administration in Frankfurt, Germany and Lille, France and received a Master's degree in Business Administration from the University of Frankfurt, Germany,

Jeff Helsing

Mr. Helsing is a Vice President and a trader focusing on Investment Grade Corporate Securities. He joined PIMCO in 1999, previously having been affiliated with Prudential Securities Institutional Fixed Income Sales. Mr. Helsing has five years of investment experience and holds a bachelor's degree in finance from Arizona State University and is currently a CFA Level II candidate.

David C. Hinman, CFA

Mr. Hinman is an Executive Vice President and portfolio manager. He focuses on corporate bonds and manages global credit, closed-end funds, and cash and synthetic investment-grade CDO's. At his time at PIMCO, he has managed a variety of credit products, including high yield funds, CDO's and followed several sectors as a lead credit analyst. He joined PIMCO in 1995, previously having been associated with Merrill Lynch & Co. in New York where he underwrote high yield corporate bonds. Prior to that, he was a credit analyst with First Union Corporation (now Wachovia). Mr. Hinman has thirteen years of investment experience and holds a bachelor's degree in finance from the University of Alabama and an MBA in finance and accounting from The Wharton School of Business at the University of Pennsylvania.

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Credit Team

Mark T. Hudoff

Mr. Hudoff is an Executive Vice President and portfolio manager. Mr. Hudoff joined the firm in 1996, previously having been associated with Bank Credit Analyst Research Group where he worked as a fixed income strategist. He also has been associated with International City Managers Association, Quantitative Risk Management Group and Martin Marietta Corporation as a financial analyst. He has seventeen years of investment experience and holds a bachelor's degree in economics from Arizona State University, and an MBA in finance from the University of Chicago School of Business.

Elissa Johnson

Ms. Johnson is a credit analyst with PIMCO Europe Ltd., based in London responsible for the Pan-European Utility and Industrial sectors. She joined the firm in 2002, previously having worked at Morley and Merrill Lynch. Euromoney, Credit Magazine and Institutional Investor ranked Ms. Johnson as a top credit analyst for the European High Grade Utilities and European High Grade Consumer Product sectors for the past three years. She has over nine years of investment experience, holds an M.A. in economics from Cambridge University, and is a Fellow of the Securities Institute.

Raymond G. Kennedy, CFA

Mr. Kennedy is a Managing Director, portfolio manager and senior member of PIMCO's investment strategy group. He manages High Yield funds and oversees bank loan trading and collateralized debt obligations. Mr. Kennedy joined the firm in 1996, previously having been associated with the Prudential Insurance Company of America as a private placement asset manager, where he was responsible for investing and managing a portfolio of investment grade and high yield privately placed fixed income securities. Prior to that, he was a consultant for Andersen Consulting (now Accenture) in Los Angeles and London. He has seventeen years of investment management experience and holds a bachelor's degree from Stanford University and an MBA from the Anderson Graduate School of Management at the University of California, Los Angeles. Mr. Kennedy is also a member of LSTA.

Brian N. Kim

Mr. Kim is a credit analyst and member of the credit research team. He joined the firm in 2003. Mr. Kim holds a bachelor's degree in finance from the University of Southern California.

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Credit Team

Dhruv Mallick

Mr. Mallick is a credit analyst and a member of the credit research team. He joined the firm in 2003 and previously held positions as an equity analyst covering separation and life science companies, and as an associate analyst covering specialty chemical companies with First Analysis Securities Corporation. Mr. Mallick has four years of investment experience and holds a bachelor's degree in neuroscience from Grinnell College, has completed a year of graduate study in Neuroscience at Northwestern University, and holds a Master of Science degree in financial markets from the Illinois Institute of Technology. He has passed all three levels of the CFA program.

Curtis A. Mewbourne

Mr. Mewbourne is an Executive Vice President, portfolio manager and a senior member of PIMCO's portfolio management and strategy groups. He is an Investment Grade Credit specialist and is an insurance specialty portfolio manager. He joined the firm in 1999, having spent the previous seven years trading fixed income securities at Salomon Brothers and Lehman Brothers. Mr. Mewbourne has thirteen years of investment experience, and holds a degree in Computer Science Engineering from the University of Pennsylvania.

Greg Miller, CFA

Mr. Miller is a trader on the High Yield desk focusing on Bank Loans. He previously worked at PIMCO on the ABS/MBS desk as a structure analyst and trade assistant. Mr. Miller joined PIMCO in 1998, previously having been affiliated with Chase Manhattan International, Ltd, London. He holds a bachelor's degree in Economics from Trinity College, Hartford, Connecticut.

Monika Nemeth

Ms. Nemeth is a credit analyst and a member of the credit research team. She joined the firm in 2003, previously having been associated with AIG Global Investment Corporation as the primary analyst within the Leveraged Finance Group. Ms. Nemeth has five years of industry experience and holds a bachelor's degree in economics from the University of California, Berkeley.

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Credit Team

Axel Potthof

Dr. Potthof is a Munich-based Portfolio Manager and a member of PIMCO`s European Corporate Credit team. He focuses on investment-grade and high yield corporate portfolios as well as CDOs. Prior to joining the firm in 1998, Dr. Potthof worked as an assistant researcher at the University of Hagen. He has also been associated with Deutsche Bank AG. He has written several fixed income articles and contributed a paper on Fundamental Credit Research to a Handbook of Portfolio Management. Dr. Potthof holds a Master's degree in Business Administration from the University of Mannheim, Germany, and a Ph.D. (summa cum laude) from the University of Hagen, Germany.

Sofia Ramos, CFA

Ms. Ramos is a credit analyst for the Pan European sector for PIMCO Europe based in London. She joined the firm in 2003, previously having being associated with Banco Portugues de Investimento (BPI, Portugal) as an equity research analyst (TMT sector). Ms. Ramos has four years of investment experience and holds a bachelor's degree (Licenciatura) in Economics from Faculdade de Economica de Porto, University of Porto, Portugal, and a master's degree in Finance from the London Business School. She is also a member of the Association for Investment Management and Research (AIMR).

Donna M. Riley

Ms. Riley is a Vice President and a credit analyst with a focus on the energy sector. She joined the firm in 2002, previously having been associated with Morgan Stanley Investment Management. Prior to that, Ms. Riley spent five years in corporate treasury and portfolio management at Ford Motor Company. Ms. Riley holds a bachelor's degree in risk management from Temple University and an MBA from the Kellogg School of Management at Northwestern University.

Rolando Rodrigues

Mr. Rodrigues is a credit analyst, responsible for European financials, diversified industrials, leisure and hotels. Prior to joining the firm in 2002, he held positions in Siemens Financial Services in Munich, Germany in treasury and credit. As a credit analyst he focused on technology, automotive suppliers, telecom, and utilities. Previously, he was active in the Portuguese Government's institute ICEP, where he structured and implemented a research project on international industrial strategy. Mr. Rodrigues has seven years of investment and research experience. He is a chartered accountant (Técnico Oficial de Contas), and holds both a degree in economics (Licenciatura) from the University of Porto, Portugal and an MBA from INSEAD in Fontainebleau, France.

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Credit Team

Jason R. Rosiak

Mr. Rosiak is a Senior Vice President and portfolio manager. He focuses on high-yield corporate bonds and bank loans, oversees the construction of PIMCO's structured products and manages a trade-desk research group. Mr. Rosiak joined the firm in 1996, previously having been associated with Bankers Trust NA, where he worked in their mortgage backed securities division. He has eleven years of investment experience and holds a bachelor's degree in economics from the University of California, Los Angeles, and a master's degree in business administration from the Marshall School of Business at the University of Southern California.

Bob Sahota

Mr. Sahota is a credit analyst in the Australian PIMCO office. He joined the firm in 2003, previously having worked at AMP Henderson Global Investors where he was a portfolio manager for a structured debt portfolio. Mr. Sahota has eleven years of credit and investment experience in Australian banking and debt capital markets. He holds a bachelor's degree in commerce from the University of NSW, a Graduate Diploma in applied finance and investments - corporate finance stream from the Securities Institute of Australia.

Marion Scherzinger

Mrs. Scherzinger works as a senior research analyst within the European Credit Team in Munich. Her main research includes consumer non-cyclicals, healthcare/pharma, utilities, and other industrials. She is also an expert for international financial reporting. Prior to joining the Fixed Income Team in Munich, she worked as a credit analyst within the Dresdner Bank group specializing in due diligence and IPO transactions and as a financial analyst with Hoechst Marion Roussel (now Aventis). Mrs. Scherzinger has nine years of experience as a credit/financial analyst and holds a Master's degree in Business Administration from the University of Frankfurt, Germany, and qualified as an accountant in 1999.

Ivor Schucking

Mr. Schucking is a Senior Vice President and Director of European Credit Research. Prior to rejoining the firm in 2000, he was a director of credit research for Strong Capital Management and a credit analyst for PIMCO. Mr. Schucking also held positions as a financial economist with Montreal-based Bank Credit Analyst and as a tax consultant with Price Waterhouse. He has twelve years of investment experience and holds a bachelor's degree in economics and international business from New York University, and an MBA in finance and international business from the New York University Leonard N. Stern School of Business.

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Credit Team

Timothy Shaler

Mr. Shaler is a Senior Vice President and corporate portfolio manager. He joined the firm in 1999, previously having worked for four years for Hong Kong companies specializing in property and company valuation. Mr. Shaler holds a bachelor's degree in business administration from Pepperdine University, an MA from the University of Chicago and an MBA in finance and international business, summa cum laude, from the University of Chicago Graduate School of Business.

Powell C. Thurston

Mr. Thurston is a Vice President, member of PIMCO's product management group and Secretary of the counterparty risk committee. He is responsible for the structured products business, including asset-backed securities, collateralized debt obligations, bank loans and credit derivatives. Mr. Thurston joined the firm in 1999, previously having been associated with Glassman-Oliver Economic Consultants, Inc. and The Vanguard Group. He has ten years of investment experience, and holds an honors degree in economics from the University of California, Irvine, and an MBA in finance from The Wharton School of the University of Pennsylvania.

Hansford B. Warner IV

Mr. Warner is a CDO structure analyst with our structured products group. He joined the firm in 2000, previously being associated with Jennison Associates, LLC in New York. Prior to joining the structured products group in 2004, he was the trade assistant on the PIMCO mortgage hub. He has six years of investment experience, holds a bachelor's degree in Finance from the University of Connecticut, and is a Level II candidate in the CFA program.

Christian Wild

Mr. Wild is a credit analyst with the European Corporate Team and focuses on the Telecom, Media and Technology sectors. He joined the firm in 1999 and has four years of investment experience. Prior to joining the fixed income team he went through the International Trainee program of the firm where he worked on both the fixed income and equity side. Mr. Wild holds a first class bachelor's degree with honors in Applied Economics from the University of Hertfordshire/Hertford (UK) and received a Master's degree with honors in Business Administration from the Catholic University of Eichstaett - WFI School of Business with concentrations in finance, international management and controlling.

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Credit Team

Dylan Windham

Mr. Windham is a Vice President and a credit analyst within PIMCO's Investment Grade Corporate team. He joined the firm in 2002, previously having been associated with QIAGEN N.V., a German Biotech company, as a financial analyst. Mr. Windham holds a bachelor's degree in economics and a MBA in finance from the Haas School of Business at the University of California, Berkeley.

Charles Wyman

Mr. Wyman is an Executive Vice President and head of global credit research. Mr. Wyman joined the firm in 2001 from Morgan Stanley, where he was a principal and the senior telecom analyst in high yield. He previously covered the energy sector in high yield at Morgan Stanley and was ranked second in Institutional Investor's annual poll for 1999 and 2000. Prior to Morgan Stanley, Mr. Wyman spent ten years at Lehman Brothers in mergers and acquisitions, corporate finance, and equity capital markets, and as an analyst for oil exploration and production companies. He has eighteen years of investment experience and holds a bachelor's degree from Harvard University and an MBA from Harvard Business School.

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Analytics Financial Team

Vineer Bhansali

Dr. Bhansali is an Executive Vice President, portfolio manager, firm-wide head of analytics for portfolio management, and a senior member of PIMCO's portfolio management group. Dr. Bhansali joined the firm in 2000, previously having been associated with Credit Suisse First Boston as a vice president in proprietary fixed-income trading. Prior to that, he was a proprietary trader for Salomon Brothers in New York and worked in the global derivatives group at Citibank. He is the author of numerous scientific and financial papers and of the book *Pricing and Managing Exotic* and *Hybrid Options* (McGraw Hill, 1998). He currently serves as an associate editor for the *International Journal of Theoretical and Applied Finance*. Dr. Bhansali has fourteen years of investment experience and holds a bachelor's degree and a master's degree in physics from the California Institute of Technology, and a Ph.D. in theoretical particle physics from Harvard University.

Rama Nambimadom

Mr. Nambimadom is a Vice President and a financial engineer. Prior to joining the firm in March 2002, he worked for three years as a Quantitative Analyst/Trader at the Interest Rate Derivatives trading desk at ABN AMRO and had consulting engagements with Morgan Stanley and the Bank of Montreal. He holds a master's degree in financial mathematics from the University of Chicago and a Ph.D. in operations research from the University of Rochester.

Terry Nercessian, CFA

Mr. Nercessian is a Vice President after having joined PIMCO as a developer in 1998. He is currently working as a senior developer and financial engineer responsible for the Corporate Bond, Mortgage Prepayment, ARMS/MBS, CMO, and Convertible Bond Models. Previously, Mr. Nercessian worked at TRW for eight years designing and writing software for spacecraft instruments and high-energy lasers, and two years at Capital Management Sciences, where he designed and wrote fixed income security software. He holds both a bachelor's degree and master's degree in mathematics from the California State University, Los Angeles.

Stephen O. Schulist, CFA

Mr. Schulist is a Senior Vice President and financial engineer. Mr. Schulist joined the firm in 1996, previously having been associated with Aero Optics and the Jet Propulsion Laboratory where he developed computer models for the aerospace industry. He has eight years of investment experience, and holds a bachelor's degree in physics from Santa Clara University and a master's degree in physics from the University of California, Los Angeles. His current assignments include municipal analytics and term structure modeling.

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Analytics Financial Team

Myck Schwetz

Mr. Schwetz is a financial engineer in the portfolio management analytics group. He has joined the firm in April 2003; previously having been associated with BARRA and SafeWeb Inc. Mr. Schwetz spent four years as a postdoctoral research fellow in high-energy theoretical physics at Boston University and Rutgers University and is the author of numerous scientific papers. He holds a master's degree in physics and applied mathematics from Moscow Institute of Physics and Technology and a Ph.D. in physics from Yale University.

Peter A. L. van de Zilver, CFA

Mr. van de Zilver is a quantitative analyst and a member of PIMCO's international team. He joined the firm in 1992, performing quantitative equity analysis before shifting his focus to global fixed income. Before joining PIMCO, he was associated with the Sunnyglen Corporation as a financial analyst and with Lions Systems Management as a systems analyst. He has twelve years of investment experience and holds a degree in physics and mathematics from the University of Utrecht, The Netherlands, and a degree in business administration from the University of Amsterdam, The Netherlands. He also holds a master's degree in economics from the University of Southern California.

Mihir Worah

Mr. Worah is a Senior Vice President, portfolio manager, and member of the government and derivatives desk. He joined PIMCO in 2001 as a member of the analytics team and worked on term structure modeling and equity options pricing. Previously he was a post doctoral research associate at the University of California, Berkeley, and the Stanford Linear Accelerator Center, where he built models to explain the difference between matter and anti-matter. He has a Ph.D. in theoretical physics from the University of Chicago and is the author of numerous scientific papers.

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6. Tax Considerations

Tax Considerations

Certain U.S. Federal INCOME TAX CONSIDERATIONS

General

The following discussion summarizes certain of the U.S. federal income tax consequences of the purchase, ownership and disposition of Offered Securities. Except as provided below under **U.S. Federal Tax Treatment of Non-U.S. Holders of Notes and U.S. Federal Tax Treatment of Non-U.S. Holders of Preference Shares**, this summary deals only with a beneficial owner of the Offered Securities that is (i) a citizen or resident of the United States, (ii) a corporation (or other entity that is treated as a corporation for U.S. federal tax purposes) that is created or organized in or under the laws of the United States or any State or political subdivision thereof (including the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of its substantial decisions (each, a "**U.S. Holder**"). If a partnership (including any entity that is treated as a partnership for U.S. federal tax purposes) is a beneficial owner of Offered Securities, the treatment of a partner in the partnership will generally depend upon the status of the partner and upon the activities of the partnership. A beneficial owner of Offered Securities that is a partnership, and partners in such a partnership, should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of the Notes.

This discussion is based on interpretations of the Internal Revenue Code of 1986, as amended (the "**Code**"), regulations issued thereunder, and rulings and decisions currently in effect (or in some cases proposed), all of which are subject to change. Any such change may be applied retroactively and may adversely affect the federal income tax consequences described herein. This summary addresses only U.S. Holders that purchase Offered Securities at initial issuance and beneficially own such Offered Securities as capital assets and not as part of a "straddle," "hedge," "synthetic security" or a "conversion transaction" for federal income tax purposes, or as part of some other integrated investment. This summary does not discuss all of the tax consequences that may be relevant to particular investors or to investors subject to special treatment under the federal income tax laws (such as banks, thrifts, insurance companies, retirement plans, real estate investment trusts, regulated investment companies, securities dealers or investors whose functional currency is not the U.S. Dollar). Accordingly, prospective investors are urged to consult their tax advisors with respect to the federal, state and local tax consequences of investing in the Offered Securities, as well as any consequences arising under the laws of any other taxing jurisdiction to which they may be subject.

U.S. Federal Tax Treatment of the Issuer

The Code provides a specific exemption from U.S. federal income tax on a net income basis for foreign corporations which restrict their activities in the United States to trading in stocks and securities (and any other activity closely related thereto) for their own account, whether such trading (or such other activity) is conducted by the corporation or its employees or through a resident broker, commission agent, custodian or other agent. This particular exemption does not apply to foreign corporations that are engaged in activities in the United States other than trading in stocks and securities (and any other activity closely related thereto) for their own account or that are dealers in stocks and securities.

The Issuer intends to rely on the above exemption and does not intend to operate so as to be subject to U.S. federal income taxes on its net income. However, if it were determined that the Issuer were engaged in a trade or business in the United States for federal income tax purposes, and the Issuer had taxable income that was effectively connected with such U.S. trade or business, the Issuer would be subject under the Code to the regular U.S. corporate income tax on such effectively connected taxable income (and possibly to a 30% branch profits tax as well). The balance of this summary assumes that the Issuer is not subject to U.S. federal income tax on its net income. The imposition of such a tax liability would materially affect the Issuer's financial ability to repay the Offered Securities.

Tax Considerations

U.S. Federal Tax Treatment of U.S. Holders of Notes

[The Class A Notes and the Class B Notes, will, and the Class C Notes should, be treated as indebtedness for U.S. federal income tax purposes and the Issuer intends to take the position that the Class [C] Notes constitute indebtedness for U.S. federal, state, and local income and franchise tax purposes.] The Indenture requires the Holders to agree to take the position that the Notes constitute indebtedness for U.S. federal, state and local income and franchise tax purposes. The Issuer's characterizations will be binding on U.S. Holders. Nevertheless, the IRS could assert, and a court could ultimately hold, that one or more Classes of Notes are equity in the Issuer. If any Notes are treated as equity in, rather than debt of, the Issuer for U.S. federal income tax purposes, there may be adverse tax consequences to any U.S. Holder of such Notes. Except as otherwise indicated, the balance of this summary assumes that all of the Notes are treated as debt of the Issuer for U.S. federal, state and local income and franchise tax purposes. In the event such Notes are treated as equity in the Issuer, prospective investors in the Notes should consult their tax advisors regarding the U.S. federal, state and local income and franchise tax consequences to the Notes and the Issuer.

For U.S. federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the issuer of the Notes.

U.S. Federal Tax Treatment of U.S. Holders of the Class A Notes and the Class B Notes

Stated Interest. U.S. Holders of the Class A Notes and the Class B Notes will include in gross income payments of stated interest accrued or received on the Class A Notes and the Class B Notes, in accordance with their usual method of tax accounting, as ordinary interest income from sources outside the United States.

Sale, Exchange and Retirement of the Class A Notes and the Class B Notes. In general, a U.S. Holder of a Class A Note or a Class B Note will have a basis in such Note equal to the cost of such Note reduced by payments of principal on such Note. Upon a sale, exchange, or retirement of a Class A Note or a Class B Note, a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange, or retirement (less any accrued and unpaid interest, which will be taxable as such) and the holder's tax basis in such Note. Such gain or loss will be long-term capital gain or loss if the U.S. Holder held the Note for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

Gain or loss recognized by a U.S. Holder on the sale, exchange or retirement of a Class A Note or a Class B Note generally will be treated as U.S.-source gain or loss.

U.S. Federal Tax Treatment of U.S. Holders of the Class C Notes

Original Issue Discount. The Issuer will treat the Class C Notes as issued with original issue discount ("**OID**") for U.S. federal income tax purposes. The total amount of such discount with respect to a Class C Note will equal the sum of all payments to be received under such Note less its issue price (the first price at which a substantial amount of the Class C Notes were sold to investors). A U.S. Holder of a Class C Note will be required to include OID in income as it accrues. The amount of OID accruing in any accrual period will generally equal the stated interest accruing in that period (whether or not currently due) plus any additional amount representing the accrual under a constant yield method of any additional OID represented by the excess of the principal amount of the Class C Notes over their issue price. Accruals of any such additional OID will be based on the weighted average life of the Class C Notes rather than their stated maturity. It is possible the IRS could assert and a court could ultimately hold that some other method of accruing OID on the Class C Notes should apply. U.S. Holders of the Class C Notes may be required to include OID in advance of the receipt of cash attributable to such income.

Sale and Retirement of the Class C Notes. In general, a U.S. Holder of a Class C Note will have a basis in such Note equal to the cost of such Note (i) increased by any amount includible in income by such U.S. Holder as OID, and (ii) reduced by any payments received on such Note. Upon a sale, exchange, or retirement of a Class C Note, a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange, or retirement and the U.S. Holder's tax basis in such Note. Such gain or loss will be long term capital gain or loss if the U.S. Holder held the Note for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

Tax Considerations

Gain or loss recognized by a U.S. Holder on the sale, exchange or retirement of a Class C Note generally will be treated as U.S.-source gain or loss.

Alternate Characterizations. It is possible that the Class C Notes could be treated as "contingent payment debt instruments" for federal income tax purposes. In this event, the timing of a U.S. Holder's OID inclusions could differ from that described above and any gain recognized on the sale, exchange, or retirement of such Notes would be treated as ordinary income and not capital gain.

U.S. Federal Tax Treatment of Tax-Exempt U.S. Holders of Notes

U.S. Holders that are tax-exempt entities should not be subject to the tax on unrelated business taxable income in respect of the Notes unless (i) the Notes constitute "debt financed property" (as defined in the Code) of that entity or (ii) in the case of any Notes that are treated as indebtedness for federal income tax purposes, such entity also owns more than 50 percent of the Preference Shares and any Notes that are treated as equity in the Issuer for U.S. federal income tax purposes.

U.S. Federal Tax Treatment of Non-U.S. Holders of Notes

In general, payments on the Notes to a Non-U.S. Holder and gain realized on the sale, exchange or retirement of the Notes by a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax, unless (i) such income is effectively connected with a trade or business conducted by such Non-U.S. Holder in the United States, or (ii) in the case of gain, such Non-U.S. Holder is a nonresident alien individual who holds the Notes as a capital asset and is present in the United States for more than 182 days in the taxable year of the sale and certain other conditions are satisfied. For this purpose, a "**Non-U.S. Holder**" is any Holder that is not a U.S. Holder.

U.S. Federal Tax Treatment of U.S. Holders of Preference Shares

The Issuer intends to take the position that the Preference Shares constitute equity interests in the Issuer for U.S. federal, state and local income and franchise tax purposes, and the balance of this summary assumes that the Preference Shares are so treated.

Investment in a Passive Foreign Investment Company. The Issuer will constitute a "passive foreign investment company" (a "**PFIC**") for federal income tax purposes, and U.S. Holders of the Preference Shares (other than certain U.S. Holders that are subject to the rules pertaining to a "controlled foreign corporation," described below) will be considered shareholders in a PFIC. U.S. Holders may desire to make an election to treat the Issuer as a "qualified electing fund" (a "**QEF**") with respect to such U.S. Holder. Generally, a U.S. Holder makes a QEF on IRS Form 8621, attaching a copy of such form to its U.S. federal income tax return for the first taxable year for which it held its Preference Shares. If a U.S. Holder makes a timely QEF election with respect to the Issuer, the electing U.S. Holder will be required in each taxable year to include in gross income (i) as ordinary income, such U.S. Holder's pro rata share of the Issuer's ordinary earnings and (ii) as long term capital gain, such U.S. Holder's pro rata share of the Issuer's net capital gain, whether or not distributed. A U.S. Holder will not be eligible for the dividends received deduction in respect of such income or gain. In addition, any losses of the Issuer in a taxable year will not be available to such U.S. Holder and may not be carried back or forward in computing the Issuer's ordinary earnings and net capital gain in other taxable years. If applicable, the rules pertaining to a "controlled foreign corporation" or a "foreign personal holding company," discussed below, generally override those pertaining to a PFIC with respect to which a QEF election is in effect.

In certain cases in which a QEF does not distribute all of its earnings in a taxable year, the electing U.S. Holder may also be permitted to elect to defer payment of some or all of the taxes on the QEF's income, subject to a non-deductible interest charge on the deferred amount. In this respect, prospective purchasers of Preference Shares should be aware that it is expected that the Collateral Debt Securities will include high yield debt obligations and such instruments may have substantial OID, the cash payment of which may be deferred, perhaps for a substantial period of time. In addition, the Issuer may use proceeds from the sale of Collateral Debt Securities to retire other classes of Notes. As a result, in any given year, the Issuer may have substantial amounts of earnings for U.S. federal income tax purposes that are not distributed on the Preference Shares. Thus, absent an election to defer payment of taxes, U.S. Holders that make a QEF election with respect to the Issuer may owe tax on significant "phantom" income.

Tax Considerations

The Issuer will provide, upon request, all information and documentation that a U.S. Holder making a QEF election is required to obtain for U.S. federal income tax purposes.

A U.S. Holder of a Preference Share (other than certain U.S. Holders that are subject to the rules pertaining to a "controlled foreign corporation," described below) that does not make a timely QEF election will be required to report any gain on the disposition of any Preference Shares as ordinary income, rather than capital gain, and to compute the tax liability on such gain and any "Excess Distribution" (as defined below) received in respect of the Preference Shares as if such items had been earned ratably over each day in the U.S. Holder's holding period (or a certain portion thereof) for the Preference Shares. An "Excess Distribution" is the amount by which distributions during a taxable year in respect of a Preference Share exceed 125% of the average amount of distributions in respect thereof during the three preceding taxable years (or, if shorter, the U.S. Holder's holding period for the Preference Share). The U.S. Holder will be subject to tax on such items at the highest ordinary income tax rate for each taxable year, other than the current year, in which the items were treated as having been earned, regardless of the rate otherwise applicable to the U.S. Holder. Further, such U.S. Holder will also be liable for a non-deductible interest charge as if such income tax liabilities had been due with respect to each such prior year. For purposes of these rules, gifts, exchanges pursuant to corporate reorganizations and use of the Preference Shares as security for a loan may be treated as a taxable disposition of such Preference Shares. In addition, a stepped-up basis in the Preference Shares will not be available upon the death of an individual U.S. Holder.

In many cases, the U.S. federal income tax on any gain on disposition or receipt of Excess Distributions is likely to be substantially greater than the tax if a timely QEF election is made. **A U.S. HOLDER OF A Preference Share SHOULD CONSIDER CAREFULLY WHETHER TO MAKE A QEF ELECTION WITH RESPECT TO SUCH Preference Share.**

Investment in a Controlled Foreign Corporation. The Issuer will constitute a "controlled foreign corporation" ("**CFC**") if more than 50% of the equity interests in the Issuer, measured by reference to combined voting power or value, is owned directly, indirectly, or constructively by "United States shareholders." For this purpose, a United States shareholder is any United States person that possesses directly, indirectly, or constructively 10% or more of the combined voting power of all classes of equity in the Issuer. It is likely that the Preference Share will be treated as voting securities. In this case, a U.S. Holder of Preference Shares possessing directly, indirectly, or constructively 10% or more of the sum of the aggregate outstanding principal amount of the voting Preference Shares of the Issuer would be treated as a United States shareholder. If more than 50% of the Preference Shares of the Issuer, determined with respect to aggregate value or aggregate outstanding principal amount, are owned directly, indirectly, or constructively by such United States shareholders, the Issuer would be treated as a CFC.

If, for any given taxable year, the Issuer is treated as a CFC, a United States shareholder of the Issuer would be required to include as ordinary income an amount equal to that person's pro rata share of the Issuer's "subpart F income" at the end of such taxable year. Among other items, and subject to certain exceptions, "subpart F income" includes dividends, interest, annuities, gains from the sale of shares and securities, certain gains from commodities transactions, certain types of insurance income and income from certain transactions with related parties. It is likely that, if the Issuer were to constitute a CFC, all or most of its income would be subpart F income.

If the Issuer is treated as a CFC and a U.S. Holder is treated as a United States shareholder of the Issuer, the Issuer would not be treated as a PFIC with respect to such U.S. Holder for the period during which the Issuer remains a CFC and such U.S. Holder remains a United States shareholder of the Issuer (the "**qualified portion**" of the U.S. Holder's holding period for the Preference Shares). As a result, to the extent the Issuer's subpart F income includes net capital gains, such gains would be treated as ordinary income to the United States shareholder under the CFC rules, notwithstanding the fact that the character of such gains generally would otherwise be preserved under the QEF rules. If the qualified portion of such U.S. Holder's holding period for the Preference Shares subsequently ceases (either because the Issuer ceases to be a CFC or the U.S. Holder ceases to be a United States shareholder), then solely for purposes of the PFIC rules, such U.S. Holder's holding period for the Preference Shares would be treated as beginning on the first day following the end of such qualified portion, unless the U.S. Holder had owned any Preference Shares for any period of time prior to such qualified portion and had not made a QEF election with respect to the Issuer. In that case, the Issuer would again be treated as a PFIC which is not a QEF with respect to such U.S. Holder and the beginning of such U.S. Holder's holding period for the Preference Shares would continue to be the date upon which such U.S. Holder acquired the Preference Shares, unless the U.S. Holder makes an election to recognize gain with respect to the Preference Shares and a QEF election with respect to the Issuer.

Investment in a Foreign Personal Holding Company. The Issuer will constitute a "foreign personal holding company" ("**FPHC**") if more than 50% of the equity interests in the Issuer, measured by reference to voting power or value of the corporation is owned directly, indirectly, or constructively by five or fewer individuals who are U.S. citizens or residents and more than 60% (50% in any year after the corporation qualifies as a FPHC) of the foreign corporation's income is passive income. It is expected that substantially all of the Issuer's income will be passive income for this purpose. As a result, if more than 50% of the aggregate outstanding balance or value of the sum of the equity interests of the Issuer are owned directly, indirectly, or constructively by five or fewer individuals who are U.S. citizens or residents, it is possible that the IRS would assert that the Issuer is a FPHC.

Tax Considerations

If, for any given taxable year, the Issuer is treated as a FPHC, all U.S. Holders of equity in the Issuer would be treated as receiving a dividend in an amount equal to such U.S. Holder's pro rata share of the Issuer's undistributed "foreign personal holding company income" (**"FPHCI"**) (very generally, all of the Issuer's taxable income less a dividends paid deduction) at the end of such taxable year.

In the event the Issuer is treated as both a CFC and a FPHC, the Issuer's FPHCI would be reduced by the amount of subpart F income deemed distributed under the CFC rules. In the event the Issuer is treated as both a FPHC and a PFIC with respect to which a QEF election is in effect, the FPHC rules would apply first. As a result, to the extent FPHCI of the Issuer included net capital gains, such gains would be treated as ordinary income to a U.S. Holder of equity in the Issuer under the FPHC rules, notwithstanding the fact that the character of such gains generally would otherwise be preserved (subject to the CFC rules discussed above) under the PFIC rules if a QEF election is in effect.

Distributions on Preference Shares. The treatment of actual distributions of cash on the Preference Shares, in very general terms, will vary depending on whether a U.S. Holder has made a timely QEF election (as described above). See "—Investment in a Passive Foreign Investment Company." If a timely QEF election has been made, distributions should be allocated first to amounts previously taxed pursuant to the QEF election (or pursuant to the CFC or FPHC rules, if applicable) and to this extent will not be taxable to U.S. Holders. Distributions in excess of such previously taxed amounts will be taxable to U.S. Holders as ordinary income upon receipt, to the extent of any remaining amounts of untaxed current and accumulated earnings and profits of the Issuer. Distributions in excess of previously taxed amounts and any remaining current and accumulated earnings and profits of the Issuer will be treated first as a nontaxable return of capital and then as capital gain.

In the event that a U.S. Holder does not make a timely QEF election then, except to the extent that distributions may be attributable to amounts previously taxed pursuant to the CFC or FPHC rules, some or all of any distributions with respect to the Preference Shares may constitute Excess Distributions, taxable as previously described. See "—Investment in a Passive Foreign Investment Company."

Sale, Redemption, or other Disposition of Preference Shares. In general, a U.S. Holder of a Preference Share will recognize gain or loss upon the sale, redemption, or other disposition of a Preference Share equal to the difference between the amount realized and such U.S. Holder's adjusted tax basis in the Preference Share. Initially, a U.S. Holder's tax basis for a Preference Share will equal the amount paid for the Preference Share. Such basis will be increased by amounts taxable to such U.S. Holder by reason of a QEF election, or by reason of the CFC or FPHC rules, as applicable, and decreased by actual distributions from the Issuer that are deemed to consist of such previously taxed amounts or are treated as a nontaxable reduction to the U.S. Holder's tax basis for the Preference Share (as described above). Except as discussed below, such gain or loss will be long-term capital gain or loss if the U.S. Holder held the Preference Share for more than one year at the time of the disposition. In certain circumstances, U.S. Holders who are individuals (or whose income is taxable to U.S. individuals) may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

If a U.S. Holder does not make a timely QEF election as described above, any gain realized on the sale, redemption, or other disposition of a Preference Share (or any gain deemed to accrue prior to the time a non-timely QEF election is made) will be taxed as ordinary income and subject to an additional tax reflecting a deemed interest charge under the special tax rules described above. See "—Investment in a Passive Foreign Investment Company."

If the Issuer is treated as a CFC and a U.S. Holder is treated as a "United States shareholder" therein, then any gain realized by such U.S. Holder upon the disposition of a Preference Share, other than gain subject to the PFIC rules, if applicable, would be treated as ordinary income to the extent of the U.S. Holder's pro-rata share of the Issuer's current and accumulated earnings and profits. In this regard, earnings and profits would not include any amounts previously taxed pursuant to a timely QEF election or pursuant to the CFC or FPHC rules.

Transfer Reporting Requirements. A U.S. Holder (including a tax exempt entity) that purchases the Preference Shares for cash would be required to file an IRS Form 926 or similar form with the IRS, if (i) such person is treated as owning, directly or by attribution, immediately after the transfer at least 10% by vote or value of the Issuer or (ii) if the amount of cash transferred by such person (or any related person) to the Issuer during the 12-month period ending on the date of such transfer, exceeds $100,000. U.S. Holders should consult their tax advisors with respect to this or any other reporting requirement which may apply with respect to their acquisition of the Preference Shares.

Tax Considerations

U.S. Federal Tax Treatment of Tax-Exempt U.S. Holders of Preference Shares

U.S. Holders that are tax-exempt entities should not be subject to the tax on unrelated business taxable income in respect of the Preference Shares unless the Preference Shares constitute "debt financed property" (as defined in the Code) of that entity.

U.S. Federal Tax Treatment of Non-U.S. Holders of Preference Shares

In general, payments on the Preference Shares to a Non-U.S. Holder and gain realized on the sale, exchange or retirement of the Preference Shares by a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax, unless (i) such income is effectively connected with a trade or business conducted by such Non-U.S. Holder in the United States, or (ii) in the case of gain, such Non-U.S. Holder is a nonresident alien individual who holds the Preference Shares as a capital asset and is present in the United States for more than 182 days in the taxable year of the sale and certain other conditions are satisfied.

Information Reporting and Backup Withholding

Under certain circumstances, the Code requires "information reporting" annually to the IRS and to each holder, and "backup withholding" with respect to certain payments made on or with respect to the Offered Securities. Backup withholding generally does not apply with respect to certain holders, including corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts. Backup withholding will apply to a U.S. Holder or a partnership formed under the laws of the United States (including an entity treated as a partnership for U.S. federal tax purposes), any State thereof or the District of Columbia (a "**U.S. Partnership**") only if the U.S. Holder or U.S. Partnership (i) fails to furnish its Taxpayer Identification Number ("**TIN**") which, for an individual would be his or her Social Security Number, (ii) furnishes an incorrect TIN, (IV) is notified by the IRS that it has failed to properly report payments of interest and dividends, or (iv) under certain circumstances, fails to certify, under penalty of perjury, that it has furnished a correct TIN and has not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments. The application for exemption is available by providing a properly completed IRS Form W-9.

A Non-U.S. Holder that provides the applicable IRS Form W-8BEN or Form W-8IMY, together with all appropriate attachments, signed under penalties of perjury, identifying the Non-U.S. Holder and stating that the Non-U.S. Holder is not a United States person will not be subject to IRS reporting requirements and U.S. backup withholding. In addition, IRS Forms W-8BEN will be required from the beneficial owners of interests in a Non-U.S. Holder that is treated as a partnership for U.S. federal income tax purposes.

The payment of the proceeds on the disposition of a Note or Preference Share by a holder to or through the U.S. office of a broker generally will be subject to information reporting and backup withholding unless the holder either certifies its status as a Non-U.S. Holder under penalties of perjury on the applicable IRS Form W-8BEN or Form W-8IMY (as described above) or otherwise establishes an exemption. The payment of the proceeds on the disposition of a Note or Preference Share by a Non-U.S. Holder to or through a non-U.S. office of a non-U.S. broker will not be subject to backup withholding or information reporting unless the non-U.S. broker is a "U.S. Related Person" (as defined below). The payment of proceeds on the disposition of a Note or Preference Share by a Non-U.S. Holder to or through a Non-U.S. office of a U.S. broker or a U.S. Related Person generally will not be subject to backup withholding but will be subject to information reporting unless the holder certifies its status as a Non-U.S. Holder under penalties of perjury or the broker has certain documentary evidence in its files as to the Non-U.S. Holder's foreign status and the broker has no actual knowledge to the contrary.

For this purpose, a "**U.S. Related Person**" is (i) a "controlled foreign corporation" for U.S. federal income tax purposes, (ii) a foreign person 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the broker has been in existence) is derived from activities that are effectively connected with the conduct of a U.S. trade or business, or (IV) a foreign partnership if at any time during its tax year one or more of its partners are United States persons who, in the aggregate, hold more than 50% of the income or capital interest of the partnership or if, at any time during its taxable year, the partnership is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax and may be refunded (or credited against the holder's U.S. federal income tax liability, if any), provided that certain required information is furnished. The information reporting requirements may apply regardless of whether withholding is required. Copies of the information returns reporting such interest and withholding also may be made available to the tax authorities in the country in which a Non-U.S. Holder is a resident under the provisions of an applicable income tax treaty or agreement.

Tax Considerations

Disclosure Requirements for U.S. Holders Recognizing Significant Losses or Experiencing Significant Book-Tax Differences, and for Certain Preference Shareholders

Any U.S. Holder of (i) Class C Notes, (ii) Class A Notes or (III) Class B Notes that are purchased for more or less than their principal amount or (IV) Preference Shares that claims significant losses in respect of such Offered Securities (generally U.S.$2 million or more for individuals and partnerships with one or more noncorporate partners, and U.S.$10 million or more for corporations and partnerships consisting solely of corporate partners) or any U.S. Holder of any Offered Security that reports any item or items of income, gain, expense, or loss in respect of the Offered Security for tax purposes in an amount that differs from the amount reported for book purposes by more than U.S.$10 million, on a gross basis, in any taxable year may be subject to certain disclosure requirements for "reportable transactions." In addition, a U.S. Holder of 10% of the Preference Shares (or any U.S. Holder of the Preference Shares if the Issuer is FPHC) could be subject to these disclosure requirements if the Issuer recognizes losses of $10 million or more with respect to a transaction, enters into a transaction that is offered under conditions of confidentiality, or experiences certain book-tax differences in excess of U.S.$10 million in any taxable year. Prospective investors should consult their tax advisors concerning any possible disclosure obligation with respect to the Offered Securities.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN OF THE TAX IMPLICATIONS OF AN INVESTMENT IN THE OFFERED SECURITIES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS PRIOR TO INVESTING TO DETERMINE THE TAX IMPLICATIONS OF SUCH INVESTMENT IN LIGHT OF EACH SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

Tax Considerations

CERTAIN CAYMAN ISLANDS TAX CONSIDERATIONS

Under existing Cayman Islands Laws:

(i) payments of principal and interest in respect of the Notes and any dividends or other distributions on the Preference Shares will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;

(ii) no holder of any Preference Share is liable for stamp duty in respect of the issue or the transfer of any Preference Shares; however, any agreement to transfer any Preference Shares if executed in the Cayman Islands or brought into the Cayman Islands after execution outside the Cayman Islands is subject to nominal Cayman Islands stamp duty; and

(IV) the holder of any Note (or the legal personal representative of such holder) whose Note is brought into the Cayman Islands may, in certain circumstances, be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, received an undertaking from the Governor-in-Council of the Cayman Islands substantially in the following form:

The Tax Concessions Law
(1999 Revision)
Undertaking as to Tax Concessions

In accordance with Section 6 of the Tax Concessions Law (1999 Revision) the Governor-in-Council undertakes with: Crystal Cove CDO, Ltd. (the "**Issuer**")

(a) that no Law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Issuer or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable

(i) on or in respect of the shares debentures or other obligations of the Issuer; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of TWENTY years from the [ ] day of [ ] 2004.

"Governor In Council"

The Cayman Islands do not have an income tax treaty arrangement with the U.S. or any other country.

THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE TAX CONSIDERATIONS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED