

December 11, 2007

Bruce W. Sanford
direct dial: 202.861.1626
bsanford@bakerlaw.com

Via Email and Overnight Mail

Richard B. Zabel, Esq.
Akin Gump Strauss Hauer & Feld LLP
590 Madison Avenue
New York, NY 10022-2524

Re: *John Wiley & Sons, Inc.*

Dear Mr. Zabel:

Your November 6, 2007 letter and Mr. Einhorn's unsolicited submission on November 13, 2007 to a Congressional Committee stubbornly cling to accusations about Allied Capital that are factually inaccurate, demonstrably wrong, and simply unfair. Worse, Mr. Einhorn's recent "testimony" displays an emotional recklessness about Allied that seems determined to escalate his long-running war against the Company.

Despite publicly available information, both your letter and Mr. Einhorn's testimony mischaracterize the facts regarding Allied Capital and one of its 151 portfolio investments, Business Loan Express LLC ("BLX"). Contrary to your assertions that the SEC's findings were "aligned with Mr. Einhorn's long-held view that the valuations were inflated," and that Allied's documentation regarding valuations was "woefully deficient," the SEC administrative order contains no such statements. In fact, the SEC made no adverse findings regarding the valuation of Allied's investments, as any cursory reading of the order would show. While the SEC noted that Allied did not have certain documentation "in reasonable detail," it never concluded that a single valuation was inaccurate. Notwithstanding a three-year investigation prompted by Mr. Einhorn's charges, the SEC did not assess any fines or penalties against Allied in connection with the settlement. In addition, in the 2002 federal class action lawsuit in New York, Judge Lynch dismissed similar claims that "valuations were inflated" for failure to state a claim upon which relief could be granted, as Mr. Einhorn well knows.

Similarly, Mr. Einhorn's statements about BLX to the Senate Small Business Committee are equally false but even more troublesome. Of course, BLX now accounts for less than 3% of Allied's assets and there is nothing to suggest that Allied participated in the activities perpetrated by a former BLX employee. While any company within Allied's portfolio may experience isolated difficulties, that does not justify distorting the significance of a specific experience to try to create an unjustifiable generalization. Without cataloging every misstatement in Mr. Einhorn's congressional testimony, the following errors are obvious.

- The claim that "*BLX has earned hundreds of millions of dollars in fees by fraudulently originating, servicing, and securitizing unsuitable § 7(a) loans*" is completely without any factual basis. The statement is false for several reasons. BLX does not earn origination fees on SBA loans. BLX does earn loan premiums when SBA loans are sold to the secondary market. BLX's loan sale premiums for the 76 loans in the Harrington indictment are estimated to be approximately \$5 to \$6 million, from which BLX paid origination commissions and broker fees and absorbed loan losses. The characterization that BLX earned "hundreds of millions of dollars" through fraudulent lending activities is neither accurate or truthful.
- The testimony misleadingly suggests that the SBA has lost "*more than \$272 million in guarantees on BLX's defaulted loans.*" This figure does not take into account amounts that BLX and the SBA routinely recover through liquidation and other workout procedures after the SBA has repurchased the guarantees. Indeed, because loans originated by BLX are secured by underlying real property, there is typically recovery in the event of a loan default. BLX has made more than 9,400 SBA loans totaling more than \$3.7 billion since 1994. BLX's 10-year average loss rate through 2005 was less than 1%, which is less than one-third of the SBA industry averages from 1989 through July 2004. From 2001 to 2006, BLX has recovered millions of dollars after liquidation that was paid over to the SBA. Mr. Einhorn also ignores that for every dollar originated by BLX, the SBA by regulation receives a percentage up front in the form of a mandatory guarantee fee. Over the six year period from 2001 to 2006, BLX and its borrowers paid the SBA millions in fees, thereby further reducing any loss to the SBA attributable from underperforming loans.
- The United States does not have "*ongoing exposure to further loss from fraudulent BLX loans.*" First, BLX is not in the business of routinely originating fraudulent loans and its overall company-wide track record has proven this point. Second, under the March 2007 Agreement, BLX has agreed to reimburse the SBA for any guaranty payments that were made on any loans found to involve fraud by any current or former BLX employees.
- BLX did not victimize shrimp borrowers such as Amanda Le and her husband by inducing them to use nominal buyers in order to obtain loans they could ill afford. Indeed, a U.S. Bankruptcy Court in the Southern District of Texas recently made factual findings directly contradicting such claims. The court held

that "BLX *did not* attempt to sell to a 'strawman,' as had been alleged by the Debtors." (emphasis in the original).

- Finally, the testimony falsely creates the implication that BLX did not have a reason to care about the quality of the loans it originated because BLX "*developed a system*" through securitization to reduce its stake in the originated loans to "virtually zero credit risk." This assertion lacks any basis in logic or fact. Even when BLX securitizes its 25% unguaranteed stake, BLX is required by SBA regulations and BLX's rating agencies to implement a securitization structure whereby BLX retains the first loss position. Historically, none of BLX's securitization investors have ever taken any loss, and BLX has born the full loss amount for all past loan defaults. Furthermore, the notion that BLX could continue to operate and have a market for its loans (both the guaranteed and unguaranteed portions) if those loans were of poor quality and were likely to default is simply ludicrous. The only reason that BLX is able to sell its loans is because the company has a strong track record.

What is Allied to do in the face of Mr. Einhorn's refusal to give up his bad habit of making false and defamatory statements about the Company? As we have noted in past correspondence, the Company has repeatedly asked Mr. Einhorn to offer substantiation for his accusations but received nothing. Nevertheless, in the interest of seeking an exchange of views and information, we propose a meeting between counsel to discuss the situation. Such a meeting could benefit both parties, and Allied is willing to make the effort even though the escalating recklessness of Mr. Einhorn's statements is provocative, to say the least.

Please give me a call at your convenience to discuss setting up an appropriate time and place for counsel to meet and an agenda for the meeting. Given the impending holidays, it may well be that we will not be able to organize the meeting until after the first of the year, but I believe it is worth making the effort. It also would be appropriate for Wiley to have a representative at the meeting. Publishers, of course, bear independent responsibilities quite apart from authors in connection with any specific manuscript that is published as a book.

I look forward to hearing from you.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Bruce", with a long horizontal flourish extending to the right.

Bruce W. Sanford

cc: Deirdre Silver, Esq.