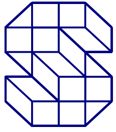

Steinberg Asset Management, LLC

First Quarter 2008 Commentary and Outlook

During the first quarter, our financial markets labored under the pressure of ongoing dislocations in the credit markets and a growing concern this would bleed directly into the real economy. The Federal Reserve sought to protect the financial system by preventing the possible collapse of Bear Stearns, through a shotgun marriage to J.P. Morgan Chase, and through the unprecedented move to open its lending facility to improve liquidity for other major investment banks. These measures succeeded in relieving some of the strain on the financial markets as the quarter moved to a close.

Foreclosures and Deleveraging Dampen Outlook

Investors' expectations for earnings growth may need to be tempered because a broad deleveraging of the financial system means economic growth will likely be depressed.

In the absence of an effective program by the federal government to reduce foreclosures, supply and demand dynamics for single-family residential housing are likely to continue to pressure home prices. It is estimated that as many as 2 million of the 6 million subprime mortgages outstanding will default in the next two years. This is incremental to the cyclical rise in foreclosures on the roughly 50 million non-subprime mortgages that is likely to result from the softening economy and rising unemployment. The 2 million subprime mortgages that are projected to default are significantly in excess of current annual demand for residential housing, which stands at around 600,000 units. This potential for a glut of houses in an already depressed market threatens to lead to further downward pressure on home prices, which in turn may translate into a further reduction in the value of the debt-related securities held by financial entities.

As these assets are written down, the lending capacity of the system may be further reduced. If the capital is not replaced, each $100 billion of after tax write-offs and credit losses, given a loan-to-capital ratio in the area of 5-10:1, translates into $500 billion to $1 trillion of lost credit. This compares to about $7 trillion of total loans outstanding at the end of 2007, which supported the $14 trillion U.S. economy.

While the precise relationship between lending capacity and economic activity is not clear, a contraction in credit of this magnitude may reasonably be expected to suppress economic growth and therefore corporate profits. Since financial institutions have already realized around $250 billion of asset write-downs, and given projections that $500 billion plus worth of assets at domestic institutions will ultimately be written-off, it would appear we have further to go in the cleansing process.

Able Managements, Sound Balance Sheets, Strategic Focus

Our long-term strategy is to invest in companies with able management, sound financial postures and high quality cash flows that generally are not subject to large operating or financial leverage. In a financial and economic environment characterized by suboptimum growth and capital shortage, we believe this remains a sound approach with a high potential to reward.

The tactical application of this strategy is demonstrated with examples from several of your larger holdings. Delta Petroleum provides a good illustration. The recent investment in Delta by Kirk Kerkorian's Tracinda Corp. provides the company with fresh capital to develop the company's potentially large embedded base of assets. We believe Delta is now positioned to demonstrate a significant increase in its natural gas reserves per share over the next several years. In addition, the relationship with Tracinda may permit the company to further expand its asset base through the acquisition of reserves from financially challenged companies at prices that are very attractive relative to the prevailing market. Another case in point is Lionsgate, where the company's financial posture – no debt and cash that may soon equal more than 30% of the company's market value – place this able management team in an enviable position to acquire properties that may meaningfully enhance the company's return on invested capital. Finally, Denison Mines, with an unlevered equity base, is well-positioned to demonstrate large increases in free cash flow as the company turns its attractive uranium reserve base into rapidly rising production.

The securities in your portfolio offer the opportunity for soundly derived superior long-term returns. We will judiciously employ the inevitable periods of downside market volatility to add to existing holdings and establish new investment positions in companies we have identified as possessing attractive long-term potential.

Sincerely,

Michael A. Steinberg
Managing Partner