DynexCorp

Dynamic Currency Debt Management

2nd Quarter 2008 Interim Report 9 May 2008

Abrupt overnight 'rifts' in EUR/USD were generated by stop-loss cascades, which we continue to prefer “looking through”. Our strategy is to persist extracting an interest advantage combined with currency movements. We believe that despite high PPP and despite high historic price levels the general bull trend in the EUR and the general bear trend in the USD will resume. We also see renewed and increasing interest in carry trades.

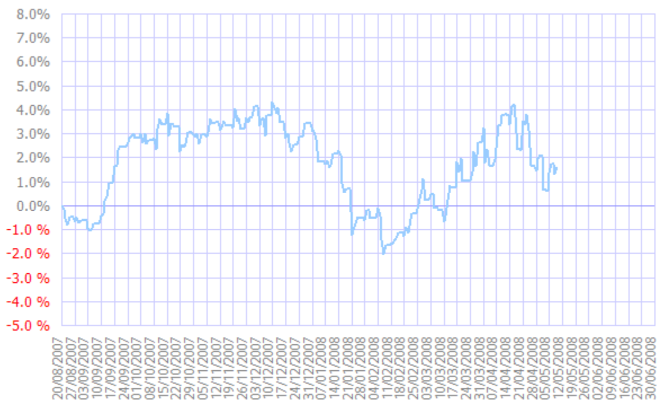
Regarding risk management: as to how much of an equity setback we should allow is governed by transaction costs and time-horizon available. Higher than short-term trading transaction costs such as 25 pips (e.g. 0.15% of EURUSD at 1.60) versus 2 pips call for less frequent trading. As an example, currency traders may generally trade with a target of 50 pips in mind, having at their disposal a 24-hour FX platform and a transaction cost of 2 pips. Projecting this risk/reward/cost relationship from a 2 pip transaction cost to 25 pips faced by Dynex, then the risk/reward distance of 50 pips increases proportionately to 600 pips.

It is true, we did not take a profit at €/$1.60, but that is in retrospect. We anticipated no more than a 300 pip setback, and expected €/$1.70 in due course. This 1:3 risk/reward relationship made sense. As it turns out, we had to suffer more than we anticipated, and certainly to our stress limits. The race is not always to the swift but to those who keep on running

To put the micro-world into a macro view it is useful to see the BIG PICTURE in the EURUSD bull: we are facing a setback comparable in size with previous examples of setbacks along the way

Stop-loss cascades tend to overshoot. Stepping aside temporarily allows for emotionally detached reviews but also risks “losing one's position”. In the end we opted for caution, but our timing was off…

PERFORMANCE GRAPH OF DYNEX RISK DEBT MANAGEMENT



* Performance Data calculated with the using the following sources:

- Data are based on ACTUAL performance
- Order execution details of Borrower's Bank
- British Bankers Association LIBOR daily LIBOR data
- European Central Bank FX reference rates based on the regular daily concertation procedure between central banks within and outside the European System of Central Banks (normally at 2.15 p.m. ECB time)

Borrowing can become an advantageous business if loan balances can be reduced through a) interest rate reduction and/or b) dynamic switching to weaker currencies. Interest rates for different currencies vary greatly. Switching loan balances into low interest rate currencies can reduce the interest burden. Switching loan balances into currencies that fall against the original loan currency can also reduce the loan burden. DynexCorp uses a combination of both to achieve benefits for the borrower.

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