Clinton Group, Inc.
9 West 57th Street, 26th Floor
New York, NY 10019

December 20, 2012

Board of Directors
Stillwater Mining Company
1321 Discovery Drive
Billings, MT 59012

RE: Maximizing Shareholder Value

Lady and Gentlemen:

I write on behalf of Clinton Group, Inc., which is the investment advisor to various partnerships and investment vehicles (collectively "Clinton Group") that own a significant stake in the Stillwater Mining Company ("Stillwater" or the "Company").

Clinton Group is an enthusiastic owner of Stillwater stock and believes the Company has assets and a market position that entitles it to generate significant free cash flow going forward. The Company is the best positioned Platinum Group Metals ("PGM") producer, with significant in-situ value and a low cost of production, coupled with the most stable political and labor dynamics of any of the major producers. With strong growth likely in key end markets, especially in the auto market as the penetration of cars deepens in emerging markets, we are bullish on palladium and the future of Stillwater.

But despite these solid fundamentals, the stock has performed poorly in the last couple of years and is significantly undervalued today. The stock is down 45% in the two years ended November 30, 2012, and trades at a substantial discount to the peers on the most relevant metrics. Even at these low stock prices, half of the covering analysts have a neutral or sell recommendation and 14% of the float is sold short.

We believe we know why.

Despite a great foundation for strong cash flow and growth in its core operation, the Company has engaged in two value-destructive acquisitions in pursuit of a questionable strategy, spent imprudently on "marketing" and other administrative matters, and executed an unnecessarily costly and dilutive financing transaction. These unforced errors have eroded shareholder confidence in the judgment of management and the Board and left the Company with a muddled strategy and motley collection of assets.

First, the Board and management team decided to diversify away from the Company's historical roots, expanding into copper, gold, Canada and Argentina and away from PGMs and the United States. Mr. McAllister acknowledged in our recent meeting that this change in strategy was intended to provide "an underpinning for the palladium play," and suggested that palladium's price volatility necessitated a more stable asset and operational base. We could not disagree more. Shareholders in Stillwater have historically sought its exposure to PGMs mined in the United States, the most stable of geopolitical environments. We cannot understand how the Board or management team could have thought this radical shift in strategy – transforming the only US-based, pure-play PGM company into a “diversified” mining company would benefit its shareholders. As we explained to Mr. McAllister, any shareholder seeking diversity could create that diversity in his own portfolio, in a degree and of a character that best suited that particular shareholder.

Worse, of course, was the execution of this ill-founded strategy. It is clear now that the Company bought Marathon in Canada without sufficient diligence and could not have properly understood its value. The problems with the Peregrine acquisition were manifestly worse: the Board and management team authorized the use of precious shareholder money to purchase a speculative copper mine that requires billions the Company does not have to fully develop, in an unstable country, at a premium of 290% to its value in the public markets and at more than 100 times Peregrine’s cost basis in its assets.

These acquisitions are, as one analyst put it to us, “real head-scratchers,” to say nothing of the fact that the acquisitions – supposedly, according to Mr. McAllister, the best ones available to the Company after it had reviewed more than 60 possible deals – do not match the supposed strategic rationale of providing a stable “underpinning” for the Company’s PGM assets. How the Board could have thought that a Canadian development project or a speculative Argentinian copper project would provide such an “underpinning” is beyond comprehension.

The two acquisitions did, as the Third Quarter 10-Q noted, provide “some additional geographic and product diversity.” We are hard pressed to imagine that Stillwater shareholders were desirous of exposure to undeveloped Andean land, Argentinian monetary and natural resource policy or, for that matter, to copper prices. And, any such shareholder could have simply bought Peregrine stock in the public market, and done so for one-third the price that Stillwater paid.

These acquisitions have succeeded in distracting management, siphoning cash away from the core PGM business, sowing seeds of doubt in shareholders’ minds about the judgment of the Board and destroying shareholder capital. Stillwater’s stock has been cut in half and hundreds of millions have been lost.

Certainly, if the Board was hoping that these acquisitions would cause the Company’s stock price to de-couple from the price of PGMs, the acquisitions have been an abject failure. The Company’s stock price still trades in line with the prices of its basket of metals – just with a lower coefficient. In the seventeen months prior to the acquisition of Peregrine, the Company’s stock typically traded at approximately 2.0% of the basket price. In the seventeen months since the acquisition, the Company’s stock has traded at closer to 1.3% of the basket price. In both periods, the correlation between the basket price and the stock price has been above 90%.[*] In short, the Peregrine acquisition did not serve to decouple the stock from PGM price volatility, it just destroyed shareholder value.

As you can imagine, we are not comforted to read in the Company’s most recent quarterly report that management continues to look “around the world” for “opportunities to establish a broader operating

[*] “Basket price” defined as 0.77 * palladium price + 0.23 * platinum price, reflecting the Company’s resource split. Source: Bloomberg.

base." In light of your track record on acquisitions, we urge you to put our checkbook down. Indeed, the best way to create value for shareholders would be to reverse the acquisition of Peregrine entirely by selling it, at almost any price, to a speculator more suited for this sort of development project. Such a move would bring PGM investors – who would no longer need to fear the distraction, dilution and diversity the Argentinian project entails – back into the stock.

Second, the expense base of the Company has grown substantially and is draining cash flow away from shareholders. In the first decade of this century, the Company operated with SG&A expenses that on average were less than half the 2011 and 2012 annual expense base and the Company managed to produce, on average, 10% more ounces of metal.

Moreover, although the Company supplies just 4% of the world's palladium, it has taken on the burden of marketing the metal by itself through the inappositely named Palladium Alliance International. We do not believe the Company's $12 million annual spend – mostly, it appears, on adorning Pamela Anderson, Kelly Osborne and Angela Kinsey with palladium jewelry – is a good investment. For those dollars to produce a good return, the price of palladium must be at least $35 more per ounce than it would be without these "marketing" efforts.

We see no evidence of that. If the marketing efforts could affect prices this much, the suppliers of the other 96% of the world's palladium would seemingly be willing to shoulder their share of the expenses. So far, it appears, no one has joined the so-called "Alliance". Moreover, since the Company stepped up its Alliance-based marketing program in early 2011, the price of palladium has fallen approximately $80 per ounce. In the two years prior to this heightened spend, when the Alliance had just one-sixth of its current budget, the price of palladium increased $600 per ounce.

Taken together with the spending in Argentina and other increased administrative costs, this marketing spend is indicative of a bloated expense base that is not tied to shareholder returns. We fear this management team is more interested in building a global empire and hiring Hollywood celebrities to wear palladium jewelry to movie premiers than in producing strong and recurring cash flow for shareholders by knuckling down and mining the core resource.

Third, in October, the Company issued a dilutive and expensive piece of convertible debt in exchange for proceeds of nearly $400 million. We believe that the Company could as easily have issued high-yield, non-convertible bonds, with a significantly lower all-in cost of capital. Instead, the Company issued bonds that have several unusual features, including conversion price adjustments for a wide spectrum of future events that turn the senior notes into a significant participant in the equity upside of the Company. As your Chief Financial Officer said to us, the notes "can get very expensive if [the stock] price goes up." We generally think it is a bad idea for a company to bet against its own stock price.

Moreover, the bonds were priced inefficiently, causing the issue to be over-subscribed with enthusiastic purchasers by "mid-afternoon on the first day of marketing," according to the Company's Chief Financial Officer. The rich deal was a boon for the convertible bond investors who participated – those bonds traded at 115 on the two-month anniversary of their issuance – and a concomitant value destroyer for those of us who own Stillwater stock.[†] This transaction alone cost equity owners approximately $40 million. Worse yet, we have the sense from speaking with both Messrs. McAllister and Wing that they did not and do not fully appreciate the unusual nature of the ratchets, the dilutive impact of the notes in a sale of the company or the true cost-of-capital on a financing deal they just completed. How can we have confidence they will make the right decisions in the future?

We thus are not surprised that the market has afforded Stillwater – a company with terrific mines in Montana and a unique position in the PGM market – with a low valuation. The strategic missteps, bloated cost structure and inane financing program have left investors without the confidence in management and the Board needed to support a fair stock valuation.

We believe change is needed.

First, it is time for Mr. McAllister to retire and to be replaced by a proven executive with a commitment to operating the Montana mines efficiently and to ridding the Company of its prospecting and speculative investments in Canada and Argentina. Mr. McAllister has had his chance; he has served as Chief Executive Officer and Chairman for more than a decade. And while the Company has rewarded him handsomely – with more than $34 million in pay – stockholders are worse off: the stock is down 65% during his tenure. Just last year, Mr. McAllister received $5.6 million in compensation while the stock fell 51%.[‡] The Company needs new leadership and alignment of executive pay with performance.

Second, the Company should cease all but absolutely necessary spending in Argentina and look to sell the Altar asset as soon as practicable. With the political and currency environment, it may be hard to sell the Argentina assets today, but there should be no further cash flow leakage to a speculative project in such an unstable part of the world. This asset should essentially be reclassified as “held for sale”.

Third, the Company should quickly determine whether its Canadian asset is worthy of further development or whether the due diligence mistakes made by the Company are so severe as to render the project uneconomic. We hope the Company will be lucky and these PGM assets can be profitable for shareholders going forward, but we certainly think no additional betting should be done without first accurately assessing the resource.

Fourth, the Company should accelerate in any way possible its capital spending program and development of Graham Creek, to bring production from that resource online as quickly as possible. In all other practical ways, the Company should focus on getting more PGM out of the ground in Montana

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[†] Of the 19 convertible bond deals completed by US issuers since October 1, only one has traded higher than the Company’s bond. Source: CapitalIQ.

[‡] CEOs of the Company’s peers did nowhere near as well. The peer companies chosen by the compensation committee of the Board are on average five times larger in enterprise value, six times larger in EBITDA and had stock performance that was much better than the Company last year. Yet, the pay of the CEOs of the peers, on average, was just $3.6 million. Source: Company filings and Capital IQ.

as quickly as possible. We believe there is a work force ready to be deployed and tangible opportunities in 2013 and beyond to increase production of PGMs. Shareholders are not well served by resource that remains buried.

Fifth, all spending on the Palladium Alliance should be suspended unless the Alliance can attract other palladium suppliers as supporters. We are, as noted, skeptical of the value of this spending; in all events, the Company should not be carrying the industry by itself.

Sixth, a complete review of all overhead and administrative spending should be conducted with a goal of bringing spending levels back to those in the earlier part of this century. There is no excuse for mining markedly fewer ounces with higher administrative and selling expenses.

Seventh, with due respect to the Board, we believe none of the problems we have cited or changes we are promoting are obscure. And, we regard it as your task, as our fiduciaries, to block strategy drift, value-destructive acquisitions, cost-base creep and bad financing decisions. You are responsible for ensuring we have strong executive leadership and alignment of pay with performance. You are tasked with ensuring capital is allocated to marketing programs and development projects with clear and attractive returns on investment. And you are responsible for moving the Company in a direction desired by the owners. You have failed at each of these core responsibilities. We believe the Board should be re-made to provide shareholders with a Board that will succeed at these tasks and inspire confidence in the future. With shareholder input, you should augment the Board with new directors and the long-serving incumbents should resign.

On a fundamental basis, the Company is worth substantially more than the stock price currently reflects. We believe that the Board can best close the gap by adopting the changes listed above. We note, for example, that a return to the historical ratio of basket price to stock price would yield a stock price over $18. The major PGM companies trade with a median enterprise value to EBITDA multiple that is 50% higher than that of the Company, despite having greater political, labor and power risk and higher effective tax rates.[§] Just getting to the median multiple (which requires in our minds convincing shareholders that their capital will not be diverted nor their equity diluted) would yield a price of more than $18, even before marketing and administrative costs are brought in line (which could create as much as $2 per share of additional value) and the spending in Argentina is curtailed (another $1+ per share). And, of course, there is some, additive value in the Peregrine assets upon liquidation and in the Marathon assets if they prove economic, perhaps as much as $3 to $4 per share. Even with the dilution from the convertible bond, we thus believe the stock would be valued at $21-23, if only the Board and management team would focus on the core Montana assets and operated the business efficiently.

[§] The PGM companies we included are Anglo American Platinum, Aquarius Platinum, Impala Platinum, Lonmin, North American Palladium, Northam Platinum and Royal Bafokeng Platinum. Source: CapitalIQ.

Given the Company's opportunity to create significant shareholder value with the assets already in hand, we would like to discuss our recommendations with you at your convenience. We will come to Montana, or you are welcome here, at any time. In the absence of movement on these items, you should expect that we will take our case to Stillwater shareholders this Spring and seek a new Board whose allegiances are to the Stillwater shareholders and whose resolve to create value is strong.

Best regards.

Gregory P. Taxin
Managing Director

Joseph De Perio
Senior Portfolio Manager