

T2 Partners LLC

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Dear Partner,

Our fund declined 10.3% in February vs. declines of 10.9% for the S&P 500, 11.2% for the Dow and 6.6% for the Nasdaq. Year to date, our fund is down 13.5% vs. declines of 18.4% for the S&P 500, 18.9% for the Dow and 12.5% for the Nasdaq. It was the worst February for the Dow since 1933 and the worst six-month stretch for the S&P 500 since the first half of 1932. Both indices are now at 12-year lows, down more than 50% from their peaks.

On the long side of our portfolio, notable decliners include Crosstex (-32.5%), Winn-Dixie (-29.6%), American Express (-27.9%), Contango (-18.3%), dELiA*s (-17.1%) and Berkshire Hathaway (-12.2%) (discussed in Appendix A). Only a few of our long positions bucked the trend, including Barnes & Noble (9.3%), EchoStar (8.8%) and Wal-Mart (4.5%).

Our shorts offset some of the losses on the long side, thanks mainly to Wells Fargo (-36.0%), Ryder (-32.3%), Allied Capital (-31.4%), MBIA (-29.0%), Capital One Financial (-23.9%) and Hanesbrands (-22.1%).

An Apology and Comments

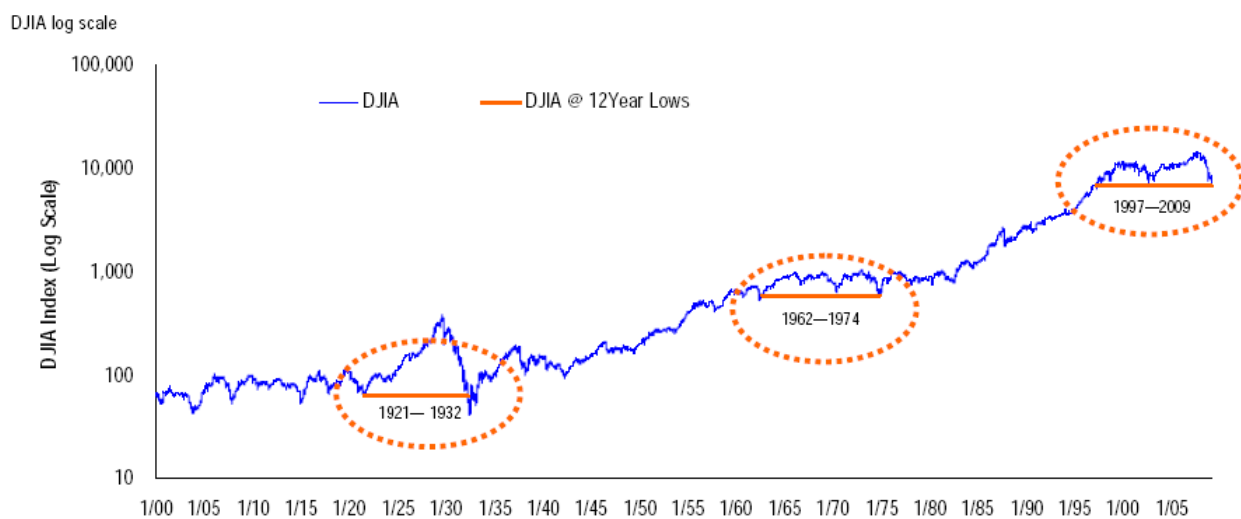
We apologize for what has now been five months of truly dreadful performance – by far the worst of our careers. The fact that it has coincided with the worst stock market downturn since the Great Depression and that we have outperformed the market is no excuse. We have not done our job, which is not only to make money during good times, but also to protect our assets during bad times.

With the benefit of hindsight, our spectacular performance in September lulled us into believing that if the market continued to decline, which was our expectation, the stocks we owned were cheap enough that they'd hold their own and, in addition, our short book would protect us. Consequently, we were bold rather than cautious – and paid the price.

As bearish as we've been for at least a year, we still underestimated this economic crisis, which is unlike any we've experienced in our lifetimes. Our best guess is that it will turn out to be the most severe economic downturn since the Great Depression (though we don't think things will get anywhere near that bad – let's call it the Great Recession). As a result, it's hard to imagine either corporate earnings or the multiples investors are willing to place on those earnings going up for quite some time. Thus, in spite of the devastation visited on equity markets over the past year, we do not think a sustained, meaningful comeback in overall share prices over the next year or two is likely.

That said, we think a severe, extended economic downturn is priced into the market, so we don't think more major market declines are likely either. As Buffett wrote in his just-released annual letter, "the economy will be in shambles throughout 2009 – and, for that matter, probably well beyond – but that conclusion does not tell us whether the stock market will rise or fall."

There are certainly good reasons to believe that U.S. stocks are cheap. As of the end of February 2009, the Dow Jones Industrial Average and the S&P 500 had both tumbled by more 50% from their peaks – the largest drop since the Great Depression – and were at lows not seen since 1997. Specifically, yesterday the Dow hit a 12-year low, an extremely rare event that has occurred only twice before, on April 8, 1932 and December 6, 1974. In both prior cases, the economy and unemployment were still 4-9 months away from reaching their worst points (in 1974, the unemployment rate was only 6.6% and it peaked at 9% six months later), yet it was still an excellent time to invest (as the chart below shows): in 1932, though the market fell an additional 34%, within six months it was up 5%, and in 1974, December 6th marked the exact day the market bottomed and it was up 45% six months later.



Source: Dow Jones.

Valuation measures also indicate that stocks are cheap. Based on data from Yale economist Robert Shiller, U.S. stocks today trade at a cyclical price-to-earnings ratio of 12.3, their lowest level since 1986 and well below their historical average, dating back to 1870, of 16.3. (The cyclical P/E compares stock prices to average earnings over the previous 10 years in an attempt to smooth out booms and busts.) Over the past 125 years, when stocks have traded at this level, they have doubled on average over the next decade.

Stocks certainly appear cheap, but that doesn't make it an easy time to invest. Many value investors, ourselves included, have lost a lot of money buying stocks that appeared attractive based on a low multiple of earnings or book value – and then seen the earnings or book value disappear thanks to the terrible macro environment. In fact, traditional value stocks have done even worse than the overall market, thanks largely to the financial sector, as measured by the iShares S&P 500 Value ETF (IVE), which had declined 56% from the market's peak in October 2007 through February 2009 vs. -53% for the S&P 500.

Oaktree Capital Management chairman Howard Marks captures the dilemma nicely:

In my opinion, there are two key concepts that investors must master: value and cycles. For each asset you're considering, you must have a strongly held view of its intrinsic value. When its price is below that value, it's generally a buy. When its price is higher, it's a sell. In a nutshell, that's value investing.

But values aren't fixed; they move in response to changes in the economy. Thus, cyclical considerations influence an asset's current value. Value depends on earnings, for example, and earnings are shaped by the economic cycle and the price being charged for liquidity.

To summarize, despite the carnage in the market, this is by far the most difficult investing environment we've ever encountered, one filled with both peril and promise, because the range of potential outcomes – for the economy and for individual companies – is so wide.

So how are we investing in such an uncertain and perilous environment? With conviction on the long side, but hedging aggressively on the short side. Our positioning in the hedge funds we manage is roughly 100% long, but also 55% short, resulting in net long exposure of about 45%. What this means is that we're finding enough incredible bargains to be fully invested on the long side, but are nervous enough that we want to protect our downside as well because as bad as things are, they could get worse. How much worse? Consider that the cyclical P/E ratio, while below its historical average, is well above previous bear market lows of 6 – meaning stocks could almost get cut in half again. We don't think this is at all likely, but can't rule it out either.

We tend to agree with Oaktree's Marks, who has argued that there are three stages of a bear market. In the first stage, just a few prudent investors recognize that the still-prevailing bullishness is likely to be unfounded, he says. In the second stage, the market drifts down in an orderly fashion. By the third stage, everyone is convinced things can only get worse, volatility increases sharply, and the collective herd exits.

Marks pegged October 2008 as the point at which the current bear market entered its third phase. As he said at the time: "That doesn't mean [the market] can't decline further, or that a bull market's about to start. But it does mean the negatives are on the table, optimism is thoroughly lacking, and the greater long-term risk probably lies in not investing."

In our view, the most likely scenario is that the markets muddle along, trading in a range, for quite some time. This is the type of environment when good stock picking, rooted in company- and industry-specific analyses, will shine – in marketed contrast to the past year and a half, when portfolio positioning, long and short, as well as industry exposure mattered far more than bottoms-up analysis.

If we're right, this is great news for us, as we are finding the greatest number of cheap stocks in our careers. With fear running rampant, some of the best businesses are priced today as if their earnings will never rise again, and many lesser businesses are priced as if they might go out of business entirely. While we profess no great insight into calling the bottom of the market, we have never felt greater certainty that with patience and perseverance we will be well rewarded by the stocks we own at current prices.

We won't be greedy, however. In light of our macro concerns, we are now generally quicker to take profits on winning positions. Historically, we would try to buy 60-cent dollars (i.e., stocks

trading at a 40% discount to our estimate of intrinsic value) and sell 90-cent dollars but today those numbers are more likely to be buying 30-cent dollars and selling 75-cent dollars. This is not a market in which to be holding out for the last dollar of value.

Why Not Wait for a Sunny Day?

In light of the beating we've endured in recent months, why don't we just go to cash until the situation stabilizes and stocks have started to recover? Surely there will be plenty of time to get back in, right? Buffett and Seth Klarman of the Baupost Group both offer words of wisdom. In his New York Times Op Ed last October (*Buy American. I Am.*), Buffett wrote:

Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month — or a year — from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over...

Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value...

Those investors who cling now to cash are betting they can efficiently time their move away from it later. In waiting for the comfort of good news, they are ignoring Wayne Gretzky's advice: "I skate to where the puck is going to be, not to where it has been."

In his 2008 annual letter, Klarman expressed the same viewpoint:

While it is always tempting to try to time the market and wait for the bottom to be reached (as if it would be obvious when it arrived), such a strategy has proven over the years to be deeply flawed. Historically, little volume transacts at the bottom or on the way back up and competition from other buyers will be much greater when the markets settle down and the economy begins to recover. Moreover, the price recovery from a bottom can be very swift. Therefore, an investor should put money to work amidst the throes of a bear market, appreciating that things will likely get worse before they get better.

It's a fatalistic attitude – "I fully expect that the stock or mutual/index fund I'm buying today will be lower in the future" – but it's the only alternative to complete paralysis in this terrible market.

Where Are the Opportunities?

In light of our dour macro view, we've sold or trimmed significantly many of our positions that we owned based on multiple of earnings for the simple reason that, with few exceptions, we are in an environment in which it's difficult to have confidence in earnings estimates. Instead, most of our portfolio is invested in what we think are better and safer alternatives such as asset plays, turnarounds and special situations. The stocks in our portfolio fall into six broad categories, listed in increasing level of risk:

1) Blue-chips. The stocks of some of the greatest businesses, with strong balance sheets and dominant competitive positions, are trading at their cheapest levels in years – due primarily to the overall market decline and weak economic conditions rather than any company-specific issues. In this category, we'd put Coca-Cola, McDonald's, Wal-Mart, Altria, ExxonMobil, Johnson & Johnson, and Microsoft. We currently don't own a material position in any of them, however, as they're not as cheap as many other stocks we're finding.

2) Out of favor blue-chips. We've made a lot of money over time buying great companies in the most out-of-favor sectors. Today, these sectors include financials and retailers, and we own Berkshire Hathaway (discussed in Appendix A), American Express and Target. All are great businesses, but their stocks have suffered mightily thanks to the economic downturn. We think they're good bets to rebound when things stabilize – but in the meantime, their stocks seem to have no bottom.

3) Balance sheet plays. There are many companies trading near or even below net cash on the balance sheet. Examples in our portfolio include EchoStar and dELiA*s. Berkshire is the best of both worlds: a premier company but also a balance sheet play at today's prices.

4) Turnarounds. There are countless companies that have gotten clobbered by the economic downturn and are reporting dismal results – with stock prices to match. Investors in those that survive and return to anything close to former levels of profitability will be well rewarded – but picking these stocks isn't easy. Among our holdings in this category are Wendy's, Winn-Dixie, Huntsman, Crosstex and Resource America.

5) Special situations. This is somewhat of a catch-all category that, for us, includes Contango and Rohm & Haas, which Dow Chemical is trying to weasel its way out of buying. Significant capital has left the risk arbitrage business, so spreads are unusually wide.

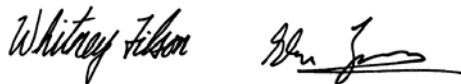
6) Mispriced options. Every once in a while we take a tiny position in a highly speculative situation – often where the stock price is below \$1 – in which there's a real chance that the outcome is zero, but also a decent chance, in our opinion, of making many multiples of our money. On an expected value basis, therefore, a small portfolio of such investments is attractive. Our holdings include General Growth Properties, TravelCenters of America, Ambassadors International, Borders Group and PhotoChannel.

Conclusion

In their latest *Kiplinger's* column, [Skip the Big Risks](#), John Heins and Whitney discussed Winn-Dixie and dELiA*s.

Especially during times like this, we want to thank you for your continued confidence in us and the fund. As always, we welcome your comments or suggestions, so please don't hesitate to call us at (212) 386-7160.

Sincerely yours,

Handwritten signatures of Whitney Tilson and Glenn Tongue. Whitney Tilson's signature is on the left, and Glenn Tongue's signature is on the right.

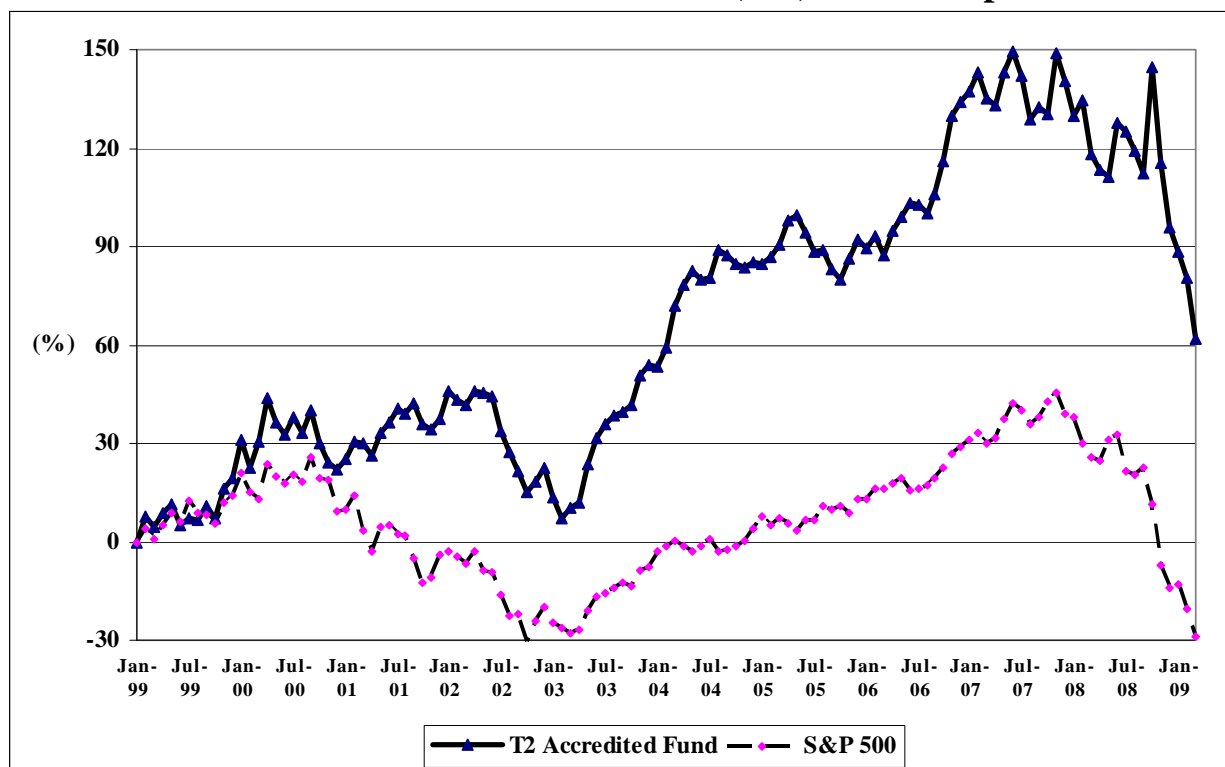
Whitney Tilson and Glenn Tongue

The unaudited return for the T2 Accredited Fund versus major benchmarks (including reinvested dividends) is:

	<u>February</u>	<u>Year-to-Date</u>	<u>Since Inception</u>
T2 Accredited Fund – gross	-10.3%	-13.5%	97.7%
T2 Accredited Fund – net	-10.3%	-13.5%	62.1%
S&P 500	-10.9%	-18.4%	-29.0%
Wilshire 4500	-10.1%	-17.7%	-20.2%
Dow	-11.2%	-18.9%	-4.0%
NASDAQ	-6.6%	-12.5%	-36.1%

Past performance is not indicative of future results. Please refer to the disclosure section at the end of this letter. The T2 Accredited Fund was launched on 1/1/99. Gains and losses among private placements are only reflected in the returns since inception.

T2 Accredited Fund Performance (Net) Since Inception



Appendix A: Comments on Berkshire Hathaway

We owned Berkshire Hathaway five months ago at \$130,600 in part because we thought it was moderately undervalued, but also for defensive reasons: it has a Fort Knox balance sheet and we thought Buffett could use Berkshire's huge cash hoard to make great investments amidst the carnage that would enhance the company's intrinsic value. It certainly hasn't worked out the way we planned, as the stock has tumbled 42%, even worse than the market, from September 30, 2008 through yesterday's close of \$75,750.

What happened? Buffett has indeed made many savvy investments that will likely pay off in the future, but this has been swamped by a massive decline in Berkshire's stock portfolio of roughly \$34 billion (equal to \$14,500/share after tax) over this period, most notably a \$7.7 billion pre-tax loss in Wells Fargo, \$3.7 billion in American Express, \$3.3 billion in ConocoPhillips and \$2.6 billion each in Burlington Northern and Coca-Cola. Also, there have been significant mark-to-market losses on the equity index puts Buffett wrote. We think the sell-off, which has knocked \$85 billion off Berkshire's market cap, is massively overdone, however, and have added to our position near its recent lows.

Annual Letter, Q4 and 2008

We have even more conviction after reading Berkshire Hathaway's [annual report](#) and Buffett's letter, which were released last Saturday.

The headlines in the newspapers highlighted that it was Berkshire's worst year ever in terms of book value, which declined 9.6% (since 1965, it has only declined once before, by 6.2% in 2001), but we view 27.4 percentage points of outperformance relative to the S&P 500, which declined 37.0%, as fairly spectacular. In fact, it was the third-best outperformance in the last three decades.

Berkshire maintains a Gibraltar-like financial position and has huge excess liquidity, critical in these troubled times, which is increased every day by the enormous profits earned by Berkshire's 75+ operating businesses. Since the company doesn't have a fourth quarter earnings release, it takes a little work to subtract the Q3 numbers from the full-year ones, but after we did so, we saw that in Q4 Berkshire had its best quarter ever for income from both insurance underwriting as well as investments. In addition, thanks in part to some acquisitions, Berkshire had its best year ever for operating income of its business units, despite the terrible economy.

Most importantly, Berkshire's main businesses, insurance and utilities, are performing exceptionally well, have bright future prospects and are not correlated to the general economy, as Buffett writes in his annual letter:

...we are fortunate that Berkshire's two most important businesses – our insurance and utility groups – produce earnings that are not correlated to those of the general economy. Both businesses delivered outstanding results in 2008 and have excellent prospects.

As predicted in last year's report, the exceptional underwriting profits that our insurance businesses realized in 2007 were not repeated in 2008. Nevertheless, the insurance group delivered an underwriting gain for the sixth consecutive year. This means that our \$58.5 billion of insurance "float" – money that

doesn't belong to us but that we hold and invest for our own benefit – cost us less than zero. In fact, we were paid \$2.8 billion to hold our float during 2008. Charlie and I find this enjoyable.

Over time, most insurers experience a substantial underwriting loss, which makes their economics far different from ours. Of course, we too will experience underwriting losses in some years. But we have the best group of managers in the insurance business, and in most cases they oversee entrenched and valuable franchises. Considering these strengths, I believe that we will earn an underwriting profit over the years and that our float will therefore cost us nothing. Our insurance operation, the core business of Berkshire, is an economic powerhouse.

Charlie and I are equally enthusiastic about our utility business, which had record earnings last year and is poised for future gains. Dave Sokol and Greg Abel, the managers of this operation, have achieved results unmatched elsewhere in the utility industry. I love it when they come up with new projects because in this capital-intensive business these ventures are often large. Such projects offer Berkshire the opportunity to put out substantial sums at decent returns.

Buffett's prediction that Berkshire "will earn an underwriting profit over the years and that our float will therefore cost us nothing" is particularly noteworthy, as we believe it is the first time he has ever said this.

Derivatives Exposure

Buffett also provided many more details in his annual letter (page 18-21) about Berkshire's derivatives exposure, which should put to rest the silly rumors that we heard about possible liquidity risk, etc. Here are the highlights:

- "Berkshire is a party to 251 derivatives contracts"
- No counterparty risk ("Our derivatives dealings require our counterparties to make payments to us when contracts are initiated. Berkshire therefore always holds the money, which leaves us assuming no meaningful counterparty risk.")
- Float of \$8.1 billion as of year-end ("the payments made to us less losses we have paid")
- NO LIQUIDITY RISK ("Only a small percentage of our contracts call for any posting of collateral when the market moves against us. Even under the chaotic conditions existing in last year's fourth quarter, we had to post less than 1% of our securities portfolio." Later, when commenting why he was not writing more credit-default swaps, Buffett added: "We are unlikely to expand this business to any extent because most buyers of this protection now insist that the seller post collateral, and we will not enter into such an arrangement.")

Buffett then goes into even more detail about the four types of derivatives he's written. The equity puts have gotten the most attention because of the large potential exposure (\$37.1 billion), so let's review what Buffett had to say about them (emphasis added):

We have added modestly to the "equity put" portfolio I described in last year's report. Some of our contracts come due in 15 years, others in 20. We must make a payment to our counterparty at maturity if the reference index to which the put is tied is then below what it was at the inception of the contract. *Neither party can elect to settle early; it's only the price on the final day that counts.*

To illustrate, we might sell a \$1 billion 15-year put contract on the S&P 500 when that index is at, say, 1300. If the index is at 1170 – down 10% – on the day of maturity, we would pay \$100 million. If it is above 1300, we owe nothing. For us to lose \$1 billion, the index would have to go to zero. In the meantime, the sale of the put would have delivered us a premium – perhaps \$100 million to \$150 million – that we would be free to invest as we wish.

Our put contracts total \$37.1 billion (at current exchange rates) and are spread among four major indices: the S&P 500 in the U.S., the FTSE 100 in the U.K., the Euro Stoxx 50 in Europe, and the Nikkei 225 in Japan. Our first contract comes due on September 9, 2019 and our last on January 24, 2028. We have received premiums of \$4.9 billion, money we have invested. We, meanwhile, have paid nothing, since all expiration dates are far in the future. Nonetheless, we have used Black-Scholes valuation methods to record a yearend liability of \$10 billion, an amount that will change on every reporting date. The two financial items – this estimated loss of \$10 billion minus the \$4.9 billion in premiums we have received – means that *we have so far reported a mark-to-market loss of \$5.1 billion from these contracts.*

We endorse mark-to-market accounting. I will explain later, however, why I believe *the Black-Scholes formula, even though it is the standard for establishing the dollar liability for options, produces strange results when the long-term variety are being valued.*

One point about our contracts that is sometimes not understood: For us to lose the full \$37.1 billion we have at risk, all stocks in all four indices would have to go to zero on their various termination dates. If, however – as an example – all indices fell 25% from their value at the inception of each contract, and foreign-exchange rates remained as they are today, we would owe about \$9 billion, payable between 2019 and 2028. Between the inception of the contract and those dates, we would have held the \$4.9 billion premium and earned investment income on it.

These equity puts are a major pillar of the bear thesis on Berkshire, so let's examine them. Berkshire has reported a loss of \$5.1 billion on them, which has likely risen to \$7-8 billion in light of what markets have done this year. While this is not an auspicious beginning, there are good reasons to believe that Berkshire's actual losses will be much lower or even none at all, unlike most mark-to-market losses, which turn out to be very real. Why?

First, the losses are calculated by the Black-Scholes formula, which has major flaws when valuing long-dated options. Buffett gives a detailed example to prove this and concludes:

Though historical volatility is a useful – but far from foolproof – concept in valuing short-term options, its utility diminishes rapidly as the duration of the option lengthens. In my opinion, the valuations that the Black-Scholes formula now place on our long-term put options overstate our liability, though the overstatement will diminish as the contracts approach maturity.

Even so, we will continue to use Black-Scholes when we are estimating our financial-statement liability for long-term equity puts. The formula represents conventional wisdom and any substitute that I might offer would engender extreme skepticism. That would be perfectly understandable: CEOs who have concocted their own valuations for esoteric financial instruments have seldom erred on the side of conservatism. That club of optimists is one that Charlie and I have no desire to join.

Second, there is a very strong likelihood that the indices Buffett sold puts on will rebound before the expiration of the puts, such that Berkshire will have to pay out little or nothing on them. We don't know the average strike price of the puts, but let's assume the worst case that these indices are down by 40% on average from their strike prices (the major indices are down more than 50% from their peaks, but Buffett wrote the puts over the past few years, not precisely at each index's peak). If the indices rebound by 67% over the next 13.5 years (the average remaining duration

of the puts), a mere 3.9% annually, then the puts will expire worthless and Buffett can pocket the entire \$4.9 billion.

Berkshire's maximum exposure is \$37.1 billion if all four indices go to zero, but this isn't going to happen so let's look at more likely scenarios. Imagine that the indices are down 50% from the puts' average strike price 13.5 years from now, an additional 17% below today's levels. This would require Berkshire to pay out \$18.5 billion (half of the \$37 billion maximum). This would be a painful loss, to be sure, but one that Berkshire could easily afford: the company's earning power today exceeds \$10 billion per year and, even factoring in Berkshire's losses this year, its net worth is approximately \$100 billion – and both figures will be *much* higher more than a decade from now.

It's also important to understand that the loss in this doomsday scenario would not be \$18.5 billion minus \$4.9 billion because Buffett can invest the \$4.9 billion for the entire period. If he earns a mere 7% return for 13.5 years, \$4.9 billion becomes \$12.2 billion (at a more likely 10% annually, it would be \$17.7 billion). If we assume a 7% compounded return, Berkshire's break-even point on this investment would be a 34% decline in the indices from the point at which the puts were written, meaning the indices would only have to increase less than 1% annually over the next 13.5 years to reach this from today's level of down 40%.

We believe it's very likely that the indices will compound in excess of 4% annually from today's depressed levels, making it unlikely that Berkshire will have to pay out a single dollar on these contracts. And given how much Buffett was paid to write them and his ability to invest the premium he was paid in any way he chooses, it's even more unlikely that this will be a losing investment. Thus, even knowing what we know today, we think this was a fantastic investment and wish Buffett had written more of these contracts (perhaps he's writing more today?).

Valuation

We value Berkshire the same way Buffett has indicated that does: value the investments (cash, bonds and stocks) at market prices and then add the value of the operating businesses by putting a conservative multiple on their earnings.

Regarding the former, Berkshire's investments were \$77,793 per share as of yearend 2008, but in the annual report Berkshire disclosed that book value had fallen "approximately \$8 billion since the end of 2008". Let's assume this figure was through the third week of February and Berkshire's stocks have fallen since then, so let's assume investments are down by \$10 billion after tax or \$6,500/share, which would bring the total to approximately \$71,000/share.

Turning to the earnings of Berkshire's operating businesses, they were \$3,921/share (pre-tax) in 2008, but this does not include the earnings of Berkshire's insurance businesses, which earned an additional \$1,807/share. Given the unparalleled quality of these businesses, their consistent profitability and Buffett's prediction that they will continue to be profitable, we think these earnings should be included, which brings the total to \$5,728 in pre-tax earnings per share last year. In light of the recession and a relatively benign year for super-cat insurance claims, to be conservative we trim this to \$5,000/share going forward.

What is a reasonable multiple to use for these earnings? With the cyclical P/E around 12, that translates into an 8 pre-tax multiple for the average large U.S. company. We think Berkshire's collection of businesses is *far* superior than average, but again let's be conservative and use this.

Now the math is easy: \$71,000 plus \$5,000 x 8 = \$111,000. With the stock currently around \$73,000, Berkshire is trading at a 34% discount to its intrinsic value, which approaches the greatest discount we've ever seen. Said another way, today you can buy Berkshire at just about cash and investments and get 75+ operating businesses and Warren Buffett for free. That's extraordinary and we're taking advantage.

T2 Accredited Fund, LP (the “Fund”) commenced operations on January 1, 1999. The Fund’s investment objective is to achieve long-term after-tax capital appreciation commensurate with moderate risk, primarily by investing with a long-term perspective in a concentrated portfolio of U.S. stocks. In carrying out the Partnership’s investment objective, the Investment Manager, T2 Partners Management, LLC, seeks to buy stocks at a steep discount to intrinsic value such that there is low risk of capital loss and significant upside potential. The primary focus of the Investment Manager is on the long-term fortunes of the companies in the Partnership’s portfolio or which are otherwise followed by the Investment Manager, relative to the prices of their stocks.

There is no assurance that any securities discussed herein will remain in Fund’s portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent the Fund’s entire portfolio and in the aggregate may represent only a small percentage of an account’s portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. All recommendations within the preceding 12 months or applicable period are available upon request.

Performance results shown are for the T2 Accredited Fund, LP and are presented gross and net of incentive fees. Gross returns reflect the deduction of management fees, brokerage commissions, administrative expenses, and other operating expenses of the Fund. Gross returns will be reduced by accrued performance allocation or incentive fees, if any. Gross and net performance includes the reinvestment of all dividends, interest, and capital gains. Performance for the most recent month is an estimate.

The fee schedule for the Investment Manager includes a 1.5% annual management fee and a 20% incentive fee allocation. For periods prior to June 1, 2004, the Investment Manager’s fee schedule included a 1% annual management fee and a 20% incentive fee allocation, subject to a 10% “hurdle” rate. In practice, the incentive fee is “earned” on an annual, not monthly, basis or upon a withdrawal from the Fund. Because some investors may have different fee arrangements and depending on the timing of a specific investment, net performance for an individual investor may vary from the net performance as stated herein.

The return of the S&P 500 and other indices are included in the presentation. The volatility of these indices may be materially different from the volatility in the Fund. In addition, the Fund’s holdings differ significantly from the securities that comprise the indices. The indices have not been selected to represent appropriate benchmarks to compare an investor’s performance, but rather are disclosed to allow for comparison of the investor’s performance to that of certain well-known and widely recognized indices. You cannot invest directly in these indices.

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