

CERBERUS PARTNERS, L.P.

December 19, 2008

Dear Limited Partners:

We want to provide you with an overview of the current economic climate, performance of the portfolio of Cerberus Partners, L.P. (the "Fund"), and our painful decision to partially suspend year-end withdrawals for up to one year.

As you are aware, conditions in the financial markets have been extremely challenging over the last twelve months with a staggering meltdown during the past few months. Almost daily, yet another new piece of terrible news becomes a headline. Who would have believed that in a short period of time we would see the collapse of Fannie Mae, Freddie Mac, Bear Stearns, Lehman, AIG, WAMU and Ambac? Who would have believed that even Citigroup would require significant injections of capital by the government to stabilize its business as we watched its stock trade from a 52-week high of \$31 to \$7.02 as of December 19, 2008? No financial institution has escaped this downturn. Banks, insurance companies, mortgage companies, investment banks, and other financial companies have all had severe problems. It has been the most difficult for non-deposit financial institutions. Any financial business that needs significant credit lines, other than deposit institutions, is either collapsing or, in the best case, experiencing severe stress.

The debt markets have seized up in an unprecedented manner. Despite the federal money that has been injected into the banking system, new lending from banks is virtually non-existent. We are seeing a massive and rapid deleveraging of America. The effect of this systemic liquidity drain has significantly changed the underlying liquidity characteristics of worldwide equity and credit markets. Companies are watching their existing credit lines shrink or be cancelled altogether. Any company with near-term debt maturities may end up in trouble. It is extraordinarily difficult for individuals to get credit unless they have high FICO scores. The amount of car loans, home mortgages, and other personal loans has also shrunk precipitously.

Any company with consumer loans has watched its losses balloon and its liquidity dry up. Even the best consumer businesses, like American Express, have come under stress in this environment. With housing prices falling, unemployment increasing and available credit for consumers evaporating, we believe that there will be continued downward pressure on consumer spending, which will continue to seriously impact the economy. A good example of this is car sales, which have totally collapsed over the past few months and, when adjusted for inflation and population growth, are at levels not seen since the Great Depression.

After several years of unprecedented growth in the leveraged loan market, when borrowing costs reached historic lows and credit was universally available, secondary market prices of leveraged loans have collapsed, and the availability of credit has essentially vanished. Since September 1st, the average price on the CSFB leveraged loan index has declined from almost 90% of face value to less than 62%, and yields have increased correspondingly from 9% to more than 21%. To put this in perspective, the previous low on this index was 85% in 2002 when yields reached 9.2%.

Even at the current extraordinary yields, there is almost no new credit being extended. Year to date through mid-December, new leveraged loan issuance has declined to \$145 billion from more than \$650 billion in 2007. Now, even well-capitalized companies with strong cash flows can only borrow at abnormally high spreads. In many cases, the realistic expectations of the ability of these companies to borrow may even be worse, because even at the current extraordinary yields, almost no new credit is being extended. Some of the best companies in America have watched their borrowing costs increase significantly. Incredibly, GE, Berkshire, and IBM all fall into this category. The disruption in the market has been so severe that even the highest grade of securities, like agency securities, have at times been trading at distressed prices. We have been investing in these types of securities opportunistically when they have reached distressed levels. Our activities in these securities tend to be more trading oriented as the spreads are smaller and the recovery time quicker.

When we wrote to you at the end of September, we thought the trading levels for debt were ridiculously low and there was a great buying opportunity, especially in the RMBS market. We were wrong. All debt levels have declined precipitously since September. Solid, safe, senior secured bank debt in strong companies has gone to levels we simply cannot comprehend. The levels for certain RMBS securities assume default rates and severities that seem nothing short of insane. When you compare the equity market to the debt market, despite a 39% drop in the S&P index for the year, the only conclusion you can draw is either equities are overvalued, or the debt market is absurdly cheap. We think part of the reason we are seeing such weakness in the debt markets is the liquidity problem all money managers are facing today, causing a rapid and large exodus of capital from money managers in all strategies. All types of investors, from high net worth to pension plans, are pulling their money back. This will most likely continue well into 2009, and possibly accelerate.

We believe it is fair to say that if the debt markets do not stabilize at some point and credit becomes available to both businesses and consumers, the ongoing recession will be very severe, and the equity markets will drop significantly. The government has been committed to doing whatever it takes to support financial institutions, spur the economy and help stem all areas of crisis. With big government spending, Fed fund rates near zero, and with the Fed continually pumping huge liquidity into the system, we are seeing a massive government effort to stem this economic crisis. While people have debated whether or not the Fed and the Treasury could have done a better job in handling this crisis, a strong commitment is there, and significant progress has been made. We believe the key to recovery is for us to see all these governmental actions translate into the banks loosening up and providing credit.

Even though we are cautious about making the same mistake twice, we think the current trading levels for most types of debt are ridiculously cheap and provide nothing short of an unbelievable buying opportunity. The current price of debt already reflects a severe and prolonged recession. Many of the likely buyers of distressed debt have already used up their cash. Typical distressed buyers have had to step aside as their own liquidity dried up. With many large financial institutions continuing to reduce assets to aid deleveraging and with investment funds selling to meet cash shortages, the supply and demand in the debt market is heavily weighted toward the sell side. Simply put, the value in this market is incredible, but the technicals are awful.

Our performance for the year, through November 30, 2008, is (15.87%) net of management fees. In October and November alone, we lost (12.18%) net of management fees. We have been losing money in many of our debt positions as the market has tanked, and we have also lost value in some of our control positions as equity values have declined significantly and asset value deflation has accelerated. Certainly, with the S&P down 39% YTD, and the performance of the debt market far worse, and with the massive asset deflation, it is inevitable that investors, even ones who tend to have lower market beta, will take a beating. It goes without saying that we are unhappy with our performance. We must pay close attention to the lessons learned in this latest period. Considering the experience we gained in managing through other crisis markets in 1987, 1990-1991, 1999 and 2001, we have always hoped that we would do better in a year like this. Although we did have some significant hedges in the portfolio, which helped us a lot, in hindsight, we believe we should have had more. At this point, we have unwound our hedges because of the collapse in the markets.

We have made money this year in some portfolio companies whose operations we have turned around with the resulting cash flow improvement more than offsetting valuation decline and multiple contraction. However, no matter how good you believe an investment is, or how much operational change you believe can be effected, there is always unpredictable macro risk that is difficult to foresee at the time of investment. Operational improvements generated by our team typically are a cushion against unexpected macro changes or market declines. However, in the face of the rapid and significant losses in the equity and debt markets, our earlier going-in valuations could have been more conservative. As a result, we used up some of our "cushion" and protection by incorporating a piece of our projected operating upside in some of our going-in valuations. This, in our view, was not the case in GMAC and Chrysler, which we still believe we bought well. In those cases, we got caught in what we see as a "perfect storm" in the auto and housing sectors.

As has been widely reported, many investment funds have been experiencing larger redemptions than they have historically encountered, and the Fund is not different in this respect. The Fund has received December 31st withdrawal requests of approximately 16.5% of the net asset value as of November 30, 2008. While this percentage is by no means catastrophic, we have come to the difficult conclusion that satisfying those withdrawal requests in full is not in the best interests of all limited partners. Accordingly, for the reasons discussed below, the Fund will pay 20% of the year-end withdrawals in cash and suspend remaining withdrawals. Any portion of a withdrawal that has not been withdrawn as a result of the suspension will remain invested in the Fund, subject to its profits and losses.

We are deeply committed to our investors. The decision to partially suspend withdrawals was very difficult, but we believed that it was necessary to weigh the interests of withdrawing and ongoing investors. The decision to pay some cash while suspending the balance of withdrawals was an effort to be fair to both categories of investors. This is a very hard decision for us, and the realization that taking these steps is now necessary is deeply disappointing. We fully recognize and appreciate that you have invested not only your capital with us, but also your trust. We did not come to this conclusion easily.

The Fund's governing documents provide that withdrawal rights may be suspended, in whole or in part, for a period of up to one year. We believe that it is necessary to suspend withdrawals in part so as not to unduly increase the illiquidity of the Fund for remaining investors and to permit the Fund to take advantage of the buying opportunities currently available in this depressed market on a limited basis. It is also important that we retain some of our liquidity to enable us to support our existing investments with new capital where we believe it is necessary to protect the value of the portfolio. We cannot provide a certain date during the one-year period after which the suspension will be lifted. Market conditions will be an important factor in determining the liquidity of the Fund. During the suspension period, we will seek liquidity through a number of avenues including, but not limited to, obtaining a line of credit or other source of financing and consummating exits in certain private equity transactions.

Despite the extraordinarily difficult period we have been going through, we feel more dedicated and more committed than ever to make back our losses and return to profitability. We do not know how fast this will happen or what bumps we may hit along the way. It will be made harder by our limited ability to take advantage of what we see as the great buying opportunity in the current debt market. While there may be some roadblocks, we strongly believe that we not only have an obligation, but a moral duty to our investors to work as hard as we can and do everything we can in this crisis period. In response to the disappointment we feel in our own performance, we will waive 60% of our incentive fee for a full year after attainment of the high water mark for capital that remains in the Fund as of December 31, 2008 and is still in the Fund at the time the reduced fee is payable (for both investors that have not submitted withdrawal requests and for those who have with respect to the portion of their requested withdrawals that are suspended). Often, after a severe downturn like the one we are experiencing, the snap-back years can be very profitable. On the other hand, we recognize that the last thing on many investors' minds is the amount of future fees. We don't know what else we can offer other than that, along with our unconditional and total commitment to the task ahead.

The Fund did not have any relations with Bernard Madoff or his firm, and none of the Fund's assets were directly or indirectly invested with Mr. Madoff. One of our portfolio companies, Aozora Bank, which is an independently run Japanese bank, did have an investment with Mr. Madoff as part of a large and diversified fund investment management program, and Aozora has reported that it was unlikely to have a material impact on the Bank's financial position. We continue to hold the Fund's assets mainly at JP Morgan and hold other assets at Citibank, HSBC, Deutsche Bank, and other money center banks as counterparties to investment transactions.

As many of you may know, the Fund is audited as of December 31st each year by PricewaterhouseCoopers, LLP and, essentially, is subject to a second review by PWC as a result of the June 30th year-end audit of Cerberus International, Ltd. (which has a largely overlapping portfolio). We believe this twice-a-year scrutiny is an important part of the management of the Fund.

We believe that transparency is essential in any environment, and even more so in this environment. The Fund will continue to provide investors with performance and other detailed information so that each investor can continue to monitor its investment. We welcome all


investors to meet with us in person to ask questions about our investments, strategy and any other topic related to the Fund. We have always been available for this and recognize that it is even more important to you in this environment.

We hope that everyone realizes the sensitivity of the aforementioned developments and will treat this letter with the utmost confidentiality in an effort to protect the interests of all investors. We are sure there will be many questions regarding the suspension of withdrawals beyond those addressed in this letter. You are welcome to refer specific questions to: Seth Plattus, Chief Administrative Officer (splattus@cerberuscapital.com/212-891-2120), Mark Neporent, Chief Operating Officer (mneporent@cerberuscapital.com/212-891-2153), Jeff Lomasky, Chief Financial Officer (jlomasky@cerberuscapital.com/212-891-2112), or Greg Gordon, Managing Director, (ggordon@cerberuscapital.com/212-909-1432), or you may call any of us to set up a meeting in our offices.

We trust that you understand the spirit in which this decision has been made; it is our duty to act responsibly on behalf of all interested stakeholders. We very much appreciate your support over the years.

CERBERUS PARTNERS, L.P.

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