July 23, 2012

Dear Partner:

The Greenlight Capital funds (the "Partnerships") returned (3.2)%[1], net of fees and expenses, in the second quarter of 2012, bringing the year to date net return to 3.4%.

On the first day of winter, lulled by the security of the European Central Bank's Long Term Refinancing Option (LTRO), the bears went into hibernation. They stirred on the first day of spring and then, just one day into the second quarter, they woke up in earnest and the market's relentless rise came to an abrupt end. April marked the beginning of a decline that continued steadily for the next two months. With many possible trouble spots coming back into view, the market can't seem to focus on more than one crisis at a time. Once again, Europe's woes took center stage.

In April, the LTRO "fix" began to wear off as bank customers in Europe's periphery started contemplating what would happen to their savings if their nation left the Euro. Visions of bank statements not in Euros, but in 'newly re-issued for the purpose of devaluation' local currency, offered no twinges of nostalgia. National pride gave way to pragmatism as depositors in Spain, Italy and Greece began transferring money in droves from their respective local banks to less risky banks of other countries – particularly those with German names. The market took note of these incipient bank runs as peripheral sovereign bond spreads raced to new highs.

May brought the end of the "Merkozy" approach to the Euro crisis as the French voted out the austerity-loving Conservative and voted in Socialist President François Hollande. Under the new regime, France is now cozying up to its new anti-austerity, pro-money-printing allies, Italy and Spain. This makes sense when one considers that France's economy is more akin to that of its southern neighbors than it is to the German economy. Strangely, the French bond market hasn't figured this out just yet.

By early June the market had given back all of its first quarter gains, and the crisis yet again came to a head. The European leaders took a cue from *Groundhog Day* and did as they always do: they announced yet another 'Summit to Fix Everything'.

It is hard to blame the current European leaders for their inability to solve a crisis that has no real solution. Even the very best options range from awful to awful, so no one should be surprised when the political choice is "None of the above. Let's put out a communiqué and hope that no one notices." This remedy of, "Take one aspirin and call us in the morning – or,

[1] Source: Greenlight Capital. Please refer to information contained in the disclosures at the end of the letter.

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better yet, after our August vacation," offered the market some welcomed pain relief, but the rally lasted about as long as it takes to metabolize an aspirin.

Some believe that Germany could alleviate the problem by simply whipping out its checkbook. Setting aside the likely German distaste for doing so, a simple analysis of Germany shows that its own fiscal situation isn't so rosy, particularly if it is also headed toward recession. Were it to try to bail out its neighbors, there is the risk that they would all sink together. Germany already has its own fiscal commitments, and its economy is simply not big enough to bail out the rest of Europe.

Much to its chagrin, Germany doesn't have the option of walking away either. The recent huge influx of deposits into "safe" German banks only serves to exacerbate the problem. The German banks don't need the money, so they park it at the Bundesbank, which in turn lends it via the ECB back to the local banks that are losing deposits in Europe's periphery. Essentially, the bank runs also shift the credit risk of peripheral banks from the local depositors to the Germans. While the Germans kick and scream about not wanting to take on credit risk through Eurobonds, they are already taking on similar risk through the banking system.[2]

The whole thing is such a mess – who can blame them for heading for vacation? Besides, this allows the politicians to position themselves to give the appearance of personal sacrifice, should they need to interrupt their Olympics cheering to make emergency phone calls.

Like the market, the Partnerships gave back a portion of our first quarter gains. Some of the biggest winners from the first quarter, including Arkema (France: AKE), General Motors (GM) and our Yen position, were among our biggest losers in the second quarter.

Marvell Technology Group (MRVL) was the other significant loser, as its shares fell from $15.73 to $11.28 during the quarter. MRVL gave tepid guidance and Wall Street has modestly reduced its estimates of earnings per share from $1.25 to $1.15 this year and from $1.45 to $1.40 for next year. MRVL has about $4 per share in cash and now trades at roughly 5x next year's earnings net of the cash on the balance sheet. Most of the cash is excess, and the company has commenced what we hope will be an aggressive share repurchase program. We have used the reduced stock price as an opportunity to increase our stake in the company.

Most of our gains in the quarter came from the short portfolio. The biggest winner was Green Mountain Coffee Roasters (GMCR), which fell from $46.84 to $21.78 per share. The company announced disappointing quarterly results and lowered its guidance. Investors are beginning to consider the ramification of the coming K-cup patent expirations. Several leading retailers have indicated that they will take shelf space away from GMCR to make room for lower cost, private label K-cups. (In some instances, GMCR will supply the private label K-cups at a very low margin.) Recent store checks show that the price of K-cups is already falling – almost as fast as GMCR's stock price.

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[2] Technically under TARGET2 and ELA, Germany is only responsible for its share of those liabilities which currently amounts to 27%, but clearly if a peripheral country defaults or if Germany exits the Eurozone, the losses would be higher.

Two other undisclosed short positions also made material contributions during the quarter.

The Partnerships established several substantial new positions in the managed care sector, including Cigna (CI) and Coventry Health Care (CVH). The entire sector had been battered in anticipation of Obamacare. For the most part, these companies have unlevered balance sheets and trade at single-digit P/E multiples on earnings that should continue to grow. They have no exposure to the European currency crisis, a possible Chinese slowdown or other cyclical headwinds. While the stocks are already cheap, there is the additional unpriced upside in the possibility that the election changes the political landscape, resulting in a possible modification or repeal of Obamacare.

CI is a managed care company with three primary divisions: Cigna HealthCare, Cigna Group Disability and Life, and Cigna International. Cigna HealthCare, which comprises about 70% of CI's profits, offers medium and large companies traditional risk-based insurance, in addition to administering plans for those that prefer to self-insure. Cigna HealthCare recently bought HealthSpring to enter the fast-growing Medicare Advantage market. Cigna Group Disability and Life is a low-growth, stable business. Cigna International, which provides insurance policies for individuals, as well as insurance and administrative services for multi-national companies and governments, is growing at more than 20% per year. We believe that CI deserves a higher multiple because the plan administration business is a service business that doesn't take risk, and the other divisions do not warrant discounted values. Our purchase price of $45.42 per share valued CI at less than 8x estimated 2012 EPS and approximately 6x our forecast of post Obamacare 2014 EPS. CI shares closed the quarter at $44.00 each.

CVH is a regional managed care company with operations in the mid-Atlantic, Midwest and parts of the South. The company offers commercial risk-based insurance and has an expanding business in the government-sponsored Medicaid and Medicare programs. Problems with a recently-acquired three-year contract to provide managed care services to the Medicaid population in Kentucky caused the company to significantly reduce earnings guidance for 2012. This led to a large drop in the stock price. We believe the issues related to the Kentucky contract are manageable and finite, and CVH will return to breakeven or a profit on this contract in 2013 from a loss this year. Our average purchase price of $31.22 represents 8x our forecast for 2014 earnings net of $6 per share of cash and reflects our estimate of the negative impact of Obamacare. CVH closed the quarter at $31.79 per share.

We also closed several positions during the quarter. Dell (DELL) proved to be a disappointment. We had thought that the growth in the non-PC business would be enough to offset the deterioration in the PC business. The non-PC growth was smaller than we'd hoped and the PC deterioration was worse than we'd anticipated. While DELL has a good balance sheet, it appears likely that management will try to use much of the cash to try to buy its way into better businesses. At a minimum, this will erode some of the value cushion that the cash balance creates. We exited with a loss.

Best Buy (BBY) was particularly irksome. We thought that the core debate was whether or not the company could compete with Amazon. The answer at this point is that maybe it can and maybe it can't. (Despite the consensus view, our store surveys have repeatedly shown that there is no price benefit for consumers to browse at BBY and then purchase at Amazon.) There has been some deterioration in BBY's domestic performance, which we attribute to a lack of a "must have" consumer electronics product, rather than an erosion of BBY's competitive position. While we held the shares, three unexpected problems emerged: First, BBY depleted $1.3 billion of its cash resources by paying a double-digit multiple for Carphone Warehouse's share of the Best Buy Mobile profit stream. The market promptly re-valued those earnings to BBY's mid-single digit multiple. Second, in the most recent quarter, BBY's international profits collapsed. In particular, comparable sales in its Chinese business fell 28% as the Chinese economy appears to have hit a wall. Finally, the company dismissed its CEO over his personal conduct, and also removed the Chairman for failing to respond properly to the CEO's misbehavior. As a result, the company has an interim CEO and is trying to come up with a strategy. We worried that this could lead to additional business disruption so we exited with a loss.

We had another addition to the team in the second quarter as Andy Kaplan and his wife Kate welcomed baby Will. Kate is currently finishing her residency in Psychiatry and Andy continues to be a prolific Research Analyst. So far this year, they win Greenlight's Most (re) Productive Family Award!

Landon Lee, our Research Associate in Dallas, has decided to pursue an MBA at Columbia Business School. As Cheryl Einhorn is an Adjunct Professor there, one can't help but feel that Landon is choosing Cheryl over David. And who wouldn't? To discourage further poaching, David has taped a "Do Not Solicit Greenlight Employees" notice to the home fridge. We will miss Landon, and we wish him good luck!

At quarter end, the largest disclosed long positions in the Partnerships were Apple, General Motors, gold, Marvell Technology Group and Seagate Technology. The Partnerships had an average exposure of 107% long and 56% short.

*"All things excellent are as difficult as they are rare."*

*-- Baruch Spinoza*

Best Regards,

Greenlight Capital

Greenlight Capital, Inc.

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Performance returns reflect the dollar-weighted average total returns, net of fees and expenses, for an IPO eligible partner for Greenlight Capital, L.P., Greenlight Capital Qualified, L.P., Greenlight Capital Offshore, and the dollar series returns of Greenlight Capital (Gold), L.P. and Greenlight Capital Offshore (Gold), Ltd. (collectively, the "Partnerships"). Each Partnership's performance returns are calculated using the returns for partners who were invested on or prior to January 1, 2008, except for the returns of Greenlight Capital (Gold), L.P. and Greenlight Capital Offshore (Gold), Ltd, which reflect the dollar series returns for partners who transferred into these funds at inception and who were invested in a predecessor Greenlight fund on or prior to January 1, 2008. Each Partnership's returns are net of the standard 20% incentive allocation (except the annual returns for Greenlight Capital, L.P., Greenlight Capital Qualified, L.P., and Greenlight Capital (Gold), L.P., a portion of which reflects the modified high-water mark incentive allocation of 10%).

Performance returns are estimated pending the year-end audit. Past performance is not indicative of future results. Actual returns may differ from the returns presented. Each partner will receive individual returns from the Partnerships' administrator. Reference to an index does not imply that the Partnerships will achieve returns, volatility, or other results similar to the index. The total returns for the index do not reflect the deduction of any fees or expenses which would reduce returns.

All exposure information is calculated on a notional basis and does not include gold, credit default swaps, sovereign debt, cash, foreign currency positions, interest rate derivatives and other macro positions. Weightings, exposure, attribution and performance contribution information reflects estimates of the weighted average of Greenlight Capital, L.P., Greenlight Capital Qualified, L.P., Greenlight Capital Offshore Partners, Greenlight Capital (Gold), L.P., and Greenlight Capital Offshore Master (Gold), Ltd. and are the result of classifications and assumptions made in the sole judgment of Greenlight. Positions reflected in this letter do not represent all the positions held, purchased, or sold, and in the aggregate, the information may represent a small percentage of activity. The information presented is intended to provide insight into the noteworthy events, in the sole opinion of Greenlight, affecting the Partnerships.



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