GREENLIGHT

April 23, 2010

Dear Partner:

Greenlight Capital, L.P., Greenlight Capital Qualified, L.P. and Greenlight Capital Offshore (collectively, the "Partnerships") returned 0.4%, (0.5)% and (1.3)%[1] net of fees and expenses, respectively, in the first quarter of 2010.[2]

In baseball, it is said a player can have a "comfortable 0-for-4," which means he batted four times without getting a hit, but never felt particularly overmatched by the pitcher. Perhaps he hit a couple of long fly balls, a hard grounder and a line drive right at a fielder. Though the overall result counts the same as four strikeouts on the scoreboard, it is less clear that the hitter needs extra batting practice for the next game.

It felt a little like this for us in the first quarter of the year. The roughly break-even result did not come from a large loss offsetting a bunch of winners. Instead, it came from having only two somewhat material winners, CIT Group equity (which appreciated from $27.61 to $38.96 per share during the quarter), and Lanxess (€26.34 to €34.11), very few small winners but many small losers. The largest loser was Boston Scientific (BSX), which we purchased for $8.42 per share in the fourth quarter of 2009 and sold for $7.57 per share in the first quarter. In most quarters, where more things happen, we would not consider this to be a significant loser.

We had bought BSX based on the view that new management had been brought in to execute a significant turnaround plan, which after careful study, it would detail contemporaneously with fourth quarter results. Instead, management decided not to provide any meaningful targets, raised new operating issues, and seemed to say that turning the company around would be harder than they thought and would take a long time. We re-assessed our thesis and forecasts, and limited our loss by selling the position.

In a quarter where the S&P 500 returned 5.4%, we generated a small amount of relative underperformance on both sides of the portfolio, with longs underperforming the S&P by about 1% and shorts out-performing by about 1.5%. We had many small losers, 1%-ish positions that went 10-25% against us on the short side. Many of our longs moved up or

[1] These returns are net of the modified high-water mark incentive allocation of 10% and reflect the returns for partners who were invested on or prior to January 1, 2008. For partners who participated in our most recent capital opening, their individual results will reflect our standard 20% incentive allocation.

[2] The disparity in the returns for the Partnerships for 2010 is due mainly to differences in weightings of historical positions.

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down just a little (e.g. Pfizer, Delta Lloyd, EMC, Carefusion, Vicat). We had many days where there seemed to be little movement anywhere, but it added up to a small loss.

In addition to showing a nondescript portfolio result, we also had very little portfolio turnover. We did not add any significant new long or short positions. As described above, we sold BSX. As described below, we covered our long-standing short of HSBC and closed out a number of small winning long positions. We exited one additional short position, which we closed to reduce our over-exposure to the runaway REIT sector.

We can also finally say good-bye (and good riddance) to Mercer International (MERC). Long-time partners, and those that review or save old quarterly letters, might remember that we were quite excited about Mercer in 1997, when we made it a top position in the fund. Long-story-short: the company did not execute and then management behaved badly. We conducted a successful proxy contest in 2003, which led to some better governance and sold most of our position in 2008 after the shares made a nice recovery from the 2003 lows. We continued to hold a debt position, which we finally sold this quarter as pulp prices finally had a good run. After 13 years of mostly agony, we are happy to move on. At least we didn't have to throw a Bar Mitzvah for the investment.

The notable positions closed during the quarter were:

Closed Security	L/S	Avg Entry Price	Avg Exit Price	IRR	Comments
BJ Services Co	L	$10.42	$19.98	+105%	Energy services stock oversold during the crisis that we thought would survive for better times. Thesis played out and sentiment reversed.
Boston Scientific Corp	L	$8.42	$7.57	-32%	Made a bad bet on a turnaround, and exited with a small loss.
McDermott Intl Inc	L	$10.47	$24.72	+136%	Engineering and construction company with a few problem contracts and a lot of net cash. We correctly expected margins, excluding the problems, to be healthy and new work to pick back up.
Patterson-Uti Energy Inc	L	$9.50	$15.33	+80%	Same thesis as BJ Services.
Ticketmaster/Live Nation Entertainment Inc.	L	$8.27	$12.25	+47%	Cheap, unlevered spin-off. Bought cheaper during crisis. Results ok but sentiment improved after a merger with Live Nation.
MEMC Electronic Materials	L	$13.68	$16.27	+31%	Our thesis was high net cash position and low multiple of recovery case mid-cycle earnings. Results fell short of expectations but sentiment improved and we moved on.
Mercer International Inc	L	n/a	n/a	+2%	We bought this too long ago to remember why. See discussion above.
Seagate Tech debt	L	66%	91%	+55% (incl. equity hedge)	One of the oversold, stressed credits we invested in. Thesis played out well and quickly.

Closed Security	L/S	Avg Entry Price	Avg Exit Price	IRR	Comments
Abercrombie & Fitch	S	$32.57	$32.07	+5%	We covered before the comps turned positive.
Federal Realty Investment Trust	S	$47.22	$71.17	-65%	Overvalued REIT with deteriorating fundamentals. Thesis didn't quite play out + market forgiveness = loss.
HSBC	S	£8.64	£7.01	+6%	Part of the 2007 credit sensitive financials short basket. Our thesis played out and perhaps we overstayed our welcome.

All told, we have remarkably little to report in a quarter where little happened in the existing portfolio, and we had a very hard time identifying significant new opportunities. We assure you that we are in good health and still showing up to work everyday.

We did experience a remarkable event when the *Wall Street Journal* reported that David attended an idea dinner. As most of you know, we attend a few dozen of the hundreds or even thousands of idea lunches and dinners held every year. These events are generally by invitation, but not secret. It is not hard for most anyone in the industry who is interested to attend. You can think of them as the professional version of the Beardstown Ladies investment club. At these gatherings, investors discuss investments – often while eating food. Sometimes the idea sharing forums are even more elaborate. Some of the larger investment banks sponsor multi-day events at distant places of leisure. On the other extreme, one group calls itself the "lite supper club" and discusses ideas electronically (there is no food involved, hence the name).

The general format for these events is to go around the table and each participant picks an investment (that is usually but not always a current position) and explains his/her thinking. Others in the room can ask questions, or if someone has additional insight they can pipe up and agree or disagree. Then, it moves to the next person. We find these events worthwhile because we sometimes get good ideas from others, and we can use the discussions to subject our own thinking to criticism and questions of our peers. We believe investors discussing research and analysis with other market participants is a good thing. Besides, for geeks like us it is fun to gather with smart people and discuss the markets.

On February 8, David attended one such dinner and discussed our long position in CIT. Shortly, thereafter, we received an inquiry from Susan Pulliam at the *Wall Street Journal* asking whether we would comment on CIT. We declined to comment.

On February 26, the *Wall Street Journal* published a sensationalist story headlined "Hedge Funds Try 'Career Trade' Against Euro" that purported to provide extensive details about the dinner, which it reported was "euro-dominated." The story reported that David "said he is bullish on gold because of inflation concerns."

At this dinner there were a couple dozen equity ideas that took almost the entire 2½ hour dinner. The discussion of one manager's view about the Euro lasted a total of about 3 minutes (the host recorded the "secretive" event so that he could type up and circulate notes afterward). David did not mention gold or inflation – which the Journal reporter probably knew, as she inquired about CIT. Apparently, our *decline to comment* left her feeling she had free reign to report whatever she wanted. That is shameful. We have complained to various people at the *Wall Street Journal* about the inaccuracies in the story, but it has to date failed to run a correction.

The article suggested that discussing the Euro might be manipulative and practically begged regulators to investigate possible collusion. The yellow journalism story included the following innuendo:

> *It is impossible to calculate the precise effect of the elite traders' bearish bets, but they have added to the selling pressure on the currency—and thus to the pressure on the European Union to stem the Greek debt crisis.*
>
> *There is nothing improper about hedge funds jumping on the same trade unless it is deemed by regulators to be collusion. Regulators haven't suggested that any trading has been improper.*
>
> *Through small gatherings, hedge funds can discuss similar trades that can feed on each other, in moves similar to those criticized by some investors and bankers in 2008. Then, big hedge-fund managers, such as Greenlight Capital Inc. President David Einhorn, who also was at this month's euro-dominated dinner, determined that the fortunes of Lehman Brothers Holdings and other firms were dim and bet heavily against their securities, accelerating their decline.*

The Antitrust Division of the Department of Justice read the story and opened an investigation into possible violations of the Sherman Act on the day the *Wall Street Journal* story ran. It isn't clear whether anyone at the *Wall Street Journal* or the Justice Department even considered whether it was possible for a small group of hedge funds that manage a few billion dollars of equity in diversified portfolios to actually corner the most liquid currency market in the world.

The story took an even more bizarre twist a few days later when Greek Prime Minister George Papandreou personally thanked President Obama for launching the investigation of hedge funds regarding currency manipulation and sought further investigation into Greek Credit Default Swaps. Not surprisingly, it was later reported that speculative buyers of Greek CDS included a large *Greek* bank.

Actually, it is interesting that the *Wall Street Journal* story compared the decline of the Euro to the trading in Lehman Brothers, because there may be a similar and more important parallel between the two. In late 2007, when we first raised questions about Lehman's position, its leaders faced a choice: Lehman could accept the truth of our analysis and make some painful but prudent adjustments to its strategy by reducing risk, recognizing losses and raising capital, or it could attack market participants, double down on risk, raise its dividend, buy back stock and deny its losses. We believe that had management chosen the former route, Lehman would probably still be in business today.

For years global fiscal and monetary policy leaders have been running a policy of "no pain now" and "deal with the consequences later". When that scheme unravels, the strategy becomes to offer a bailout and then take credit for heroically rescuing us from the crisis they created while disclaiming responsibility for creating it in the first place. Unfortunately, each rescue distorts market behavior and creates subsequent problems down the road.

Now, market participants including us are questioning the viability of various global fiscal and monetary policies. As we see it, global leaders could, but won't, accept more pain now and make tough choices, but instead are choosing to deny the problems, double down on risk and blame market participants. Recently, Jean-Claude Juncker, the outspoken prime minister of Luxembourg, threatened that the EU has "torture instruments in the cellar" to punish Euro speculators. We remain worried that the strategy being employed by the authorities will come to no good end.

On a more upbeat note, congratulations to James and Tina Lin on the birth of their second son! They welcomed baby Jonathan in March. Now Peter will have company as he watches Baby Einstein videos on his new iPad.

Morgan Stanley Fund Services began administering the Greenlight Capital domestic funds on January 1. We believe that the process of integrating them into our business has been smooth and efficient thus far. If anyone has any thoughts or questions about our new onshore administrator, we welcome any feedback.

At quarter end, the five largest disclosed long positions in the Partnerships are CIT Group, gold, Lanxess, Pfizer, and Vodafone Group. The Partnerships had an average exposure to equities and fixed income (excluding credit derivatives, gold and foreign currencies) of 100% long and 70% short.

"A lie gets halfway around the world before the truth has a chance to get its pants on."

-- Winston Churchill

Best Regards,

Greenlight Capital

Greenlight Capital, Inc.

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