



July 16, 2010

Dear Partner:

Greenlight Capital, L.P., Greenlight Capital Qualified, L.P. and Greenlight Capital Offshore (collectively, the “Partnerships”) returned 2.2%, 1.7% and 2.2%<sup>1</sup> net of fees and expenses, respectively, in the second quarter of 2010, bringing the respective year to date net returns to 1.6%, 2.2% and 0.8%.<sup>1</sup>

Through the first half of the year, the U.S. stock market indices fell several percent and European indices fell a bit more (and quite a bit more in dollar terms). But that does not begin to tell the story of the past six months. The S&P 500 fell about 7% by early February. Then, it went straight up, rising about 16% by late April only to give back all those gains and a bit more by the end of June. Just after the economy finally appeared to be recovering earlier this year, a series of weak economic data have put the recovery into question. What will happen next? We have no idea. We have maintained a conservative and defensive portfolio, with a small net long position throughout and have almost entirely avoided the volatility of the schizophrenic market.

The goal of the portfolio construction is to try to create alpha on both sides of the portfolio. To this end, we succeeded, but only modestly, in both the second quarter and the first half, as our longs declined less than the market and our shorts declined more than the market. Further, we made some gains on our macro positions (most notably gold, which appreciated from \$1,113 to \$1,244 per ounce during the quarter).

The other significant winner during the quarter was our short of Moody’s Investors Service (MCO), which reversed some recent gains and fell from \$29.75 to \$19.92 per share. The proposed financial reform bill raises the rating agency legal liability more than the bulls expected. Additionally, the Financial Crisis Inquiry Commission held hearings where former MCO’s employees alleged that the company had, in fact, compromised ratings quality for market share. This evidence should put meat on the bones of the fraud claims in the ongoing litigation against the rating agencies that is ever so slowly working its way through the courts. We believe that an eventual, but likely, legal loss will have a significant negative impact on MCO shares.

The most significant loser during the quarter was Pfizer (PFE), which fell from \$17.15 to \$14.26 per share. Though the company announced a strong first quarter earnings result of \$0.64 per share, a weaker Euro caused analysts to reduce 2010 consensus estimates from \$2.25 to \$2.15 per share. Longer term concerns about potential austerity measures in Europe and setbacks on

---

<sup>1</sup> 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. The disparity in the returns for the Partnerships for 2010 is due mainly to differences in weightings of historical positions.

some pipeline products also weighed heavily on the share price. As investors gain confidence in PFE's future sustainable earnings at these levels, which we believe are attainable, investors may pay a higher multiple of earnings than the current sub-7x.

We found several new long opportunities during the second quarter. In a few cases, the positions were started in the first quarter, but we were still building our stakes when we wrote the last letter.

African Barrick Gold (United Kingdom: ABG) operates gold mines in Tanzania. It was brought public in March through a 25% carve-out by Barrick Gold, the world's largest gold producer. The Partnerships established their position at an average price of £5.72 per share. At less than 6x 2010 EBITDA, a 10% free-cash-flow yield and \$200 per ounce of reserves, we purchased ABG at about half the valuation of peer gold miners. The company is well positioned to grow its production over the next five years through a combination of brownfield expansions at existing mines and the development of another large deposit that it already controls. Management incentives are well aligned with shareholders. ABG ended the quarter at £6.34 per share.

Apple Inc. (AAPL) is one of the world's most successful and innovative technology companies. Over the last few years, the company has transitioned from a niche PC hardware and software provider into a more diversified company with market leadership positions in mobile communications and portable entertainment via its iPod, iPhone, and iPad products and the iTunes service. From 2004 to 2010 revenues have grown about 700% or almost 40% per year. Earnings have grown even faster from \$0.38 to an estimated \$14.00 per share. AAPL has a fortress balance sheet with more than \$40 per share in cash and investments. During the recent downturn, the Partnerships established a position at an average price of \$248.09 per share, representing 15x this year's estimated earnings net of cash. While growth over the next few years will certainly be slower than it has been over the last few years, AAPL does not appear to have fully penetrated its market opportunities. Accordingly, the opportunity to invest in this leading company (with a better financial profile than market participants seem to acknowledge) appears iTtractive at its current multiple. AAPL shares ended the quarter at \$251.53 each.

EnSCO plc (ESV) is an offshore contract oil drilling company operating a large fleet of shallow-water jack-up rigs and a small but new fleet of deep water rigs. The Deepwater Horizon oil spill and resulting 6-month drilling moratorium in the Gulf of Mexico caused significant share price declines throughout the sector. ESV was not involved in the horrible accident, which should not materially impact the company's long-term potential. ESV has approximately \$7 per share in net cash and a tangible book value of \$37.50 per share. The shallow water drilling business, which is unaffected by the drilling moratorium, generates \$4.00 per share in unlevered mid-cycle earnings and \$8.00 per share in peak earnings. At the Partnerships' average cost of \$39.41 per share, we appear to be getting the shallow water fleet at a low value and the deepwater fleet (in which ESV has thus far invested over \$15 per share to build and should add \$2.00 and \$4.00 to mid-cycle and peak EPS respectively) for free. ESV shares ended the quarter at \$39.28 each.

NCR Corporation (NCR) manufactures and services automated teller machines (ATM), retail point-of-sale (POS) and self-check-out terminals. The stock has recently been negatively



impacted because of large accounting losses on its pension obligations and losses from investments in a new entertainment related business. These items obscure what we believe to be largely sound, strong free cash-flow ATM and retail businesses, poised for solid growth over the coming years from product upgrade cycles. The company's net cash balance sheet and strong ability to generate additional cash-flow give it the flexibility to deal with its pension obligations. In addition, the entertainment business is expected to be breakeven in 2011 and profitable thereafter. The Partnerships established a position in NCR at an average price of \$13.58 per share or under 10x current operating earnings excluding the start-up entertainment related losses and adjusting for the true economics of the pension obligation. NCR shares ended the quarter at \$12.12 each.

The notable positions closed during the quarter were:

Closed Security	L/S	Avg Entry Price	Avg Exit Price	IRR	Comments
Automatic Data Processing	L	\$38.16	\$42.53	+19%	Bought it a little cheap and sold it a little less cheap.
Helix Energy Solutions					
• equity	L	\$27.35	\$16.40	-71%	A large, multi-year money losing investment. Management couldn't execute any sort of strategic plan and the shares then got killed in the financial crisis and by hurricanes in the Gulf. The stock reached a low of \$2.21. We bought some HLX debt near the bottom.
• debt	L	47%	95%	+114%	
Patriot Coal debt	L	51%	87%	+57%	Another money-good bargain bond purchased at the depth of the crisis.
Teradata Corp.	L	\$19.46	\$29.73	+32%	Spun-off from NCR with a pristine balance sheet and a reasonable multiple of earnings. Shares have now appreciated to reflect takeover speculation.
URS Corp. <sup>2</sup>	L	\$27.49	\$52.27	+54%	A large, multi-year winner. Originated as a distressed investment in Washington Group in 2002, which URS purchased in 2007. We rolled our investment forward, and things worked out splendidly.
Validus Holdings	L	\$18.76	\$24.30	+27%	Reduced exposure in favor of other, cheaper reinsurers.
Allied Capital <sup>3</sup>	S	\$25.35	\$10.69	+5%	So much to say we could write a book about it.
General Electric	S	\$10.86	\$14.74	-77%	We thought GE Capital might take them under.
Palm Inc.	S	\$11.16	\$5.72	+92%	We shorted it into "takeover speculation." The takeover happened, just at a much lower price.
Williams Sonoma	S	\$22.21	\$28.93	-111%	Mature overvalued retailer. The operating model (which benefitted from aggressive cost cutting) turned out to be stronger than expected.

<sup>2</sup> Average entry price was adjusted by the transaction in which URS purchased Washington Group

<sup>3</sup> Average prices excludes \$10.77 in dividends paid per share. IRR includes dividends.



In the second quarter, we launched two new funds which use the same investment strategy as the Partnerships but are essentially backed by gold. The Greenlight Gold funds are managed *pari passu* with the Partnerships except for the allocation to gold. The funds were available solely for transfers of existing investments from the Partnerships.

We had several personnel developments during the quarter. In June, Andy Kaplan joined as a research analyst. Most recently, he was a portfolio manager at Harvest Capital Strategies. Andy has been an investment professional since 1995, and has worked at a variety of firms including Fidelity, Andor Capital, Grange Park Capital, and Lehman. He holds an A.B. in economics from Harvard and an MBA from Wharton.

Landon Lee had been a consultant in our Dallas office since early 2010 and became a research associate in July. Prior to joining Greenlight, he worked as an analyst at Analysis Group, an economic consulting firm, after graduating from Northwood University in 2006. He will join Justin as our resident golf pro. Welcome Andy and Landon!

Chris Sommers, who returned from a sabbatical in early July, has left to travel some more and pursue other interests. We will miss him and wish him good luck in the future.

The exciting news from our operations team this quarter is that Jamie had her first baby. Baby Henry was born in April. This was a special event for the Greenlight family as we had to create a long overdue maternity policy. We managed to close a few month-ends without Jamie thanks to the efforts of our two other controllers, Brian and Chris. Harry actually had to work for a change. We (and especially Harry) are happy to report that Jamie is now back to work.

At quarter end, the five largest disclosed long positions in the Partnerships are CIT Group, EnSCO, gold, Pfizer, and Vodafone Group. The Partnerships had an average exposure to equities and fixed income (excluding credit derivatives, gold and foreign currencies) of 98% long and 60% short.

*"The only function of economic forecasting is to make astrology look respectable."*

--John Kenneth Galbraith

Best Regards,

*Greenlight Capital*

Greenlight Capital, Inc.

