October 21, 2009

Dear Partner:

Greenlight Capital, L.P., Greenlight Capital Qualified, L.P. and Greenlight Capital Offshore (collectively, the "Partnerships") returned 7.0%, 5.4% and 4.8%[1] net of fees and expenses, respectively, in the third quarter of 2009, bringing the respective year to date net returns to 30.0%, 26.2% and 22.9%.[1]

Just as the Nobel Committee awarded President Obama the Peace Prize in anticipation of his future achievements, the stock market has anticipated a recovery in the economy. So far, while many say the recovery is at hand, the clearest recovery is on Wall Street. Improvements in the real world are harder to find, seem to be more statistical than substantial and in many cases are supported by obviously temporary circumstances. Since there is a widening disconnect between the capital markets celebration and general economic conditions, it makes sense that the biggest gainers have been companies that either operate the capital markets or depend on them for financing. The equities of higher quality companies without funding requirements have underperformed.

The bull case is that with all the recessionary cost-cutting in corporate America, a recovery in sales will create record earnings in short order. The mega-bull case, which can't be ruled out, cynically believes that the authorities will foster yet another asset bubble so that some folks feel wealthier and spend some of the paper wealth on holiday gifts and other items thereby improving the economy and justifying the rally. The bear case challenges the likelihood of sales recovering and questions the repeatability of some of the positive factors that were in place during the prior peak. Both sides seem to make sense and we find ourselves agreeing with proponents of each, depending on the day.

The other aspect of this rally is that so far, it feels like a "professionals" rally. There is a lot of discussion about professional money managers deploying capital and covering shorts due to perceived business risk. Many mutual fund and hedge fund managers feel they have to beat the current market rally. Anecdotally, we know several portfolio managers who brought their gross and net exposures down to very low levels six months to a year ago, and have now brought them back up. Studying the figures, both short interest and mutual fund cash levels are down significantly. The rally has been met by steady sales by corporate issuers and corporate insiders and withdrawals from equity mutual funds. We

[1] These returns are net of the modified high-water mark incentive compensation 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 compensation.

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wonder whether non-professional investors who suffered frightening losses after the tech bubble popped and, again, after the credit bubble popped, will be interested in playing “the-stock-market-bubble-game” again with money they are trying to save for retirement. Recent strong flows into bond funds, particularly municipal bond funds, suggest they won’t. There may be a lot less “cash on the sidelines” waiting to buy equities than some bulls contend.

Consistent with the rising market, eleven of the fifteen largest gainers in the Partnerships were long equities and two were long debt positions. The other two were an equity short and gold. The ten largest losers were all short equities. Altogether, longs (including gold) contributed 18% to the gross return, and shorts lost 12%.

There were several notable developments in the long portfolio:

- Arkema announced that its operating results have stabilized. It also bought a package of North American assets that Dow Chemical was forced to divest for anti-trust reasons as part of its purchase of Rohm & Haas. The acquisition appears to be a bargain purchase, at less than one time normalized EBITDA. Arkema shares advanced from €16.70 to €24.08 during the quarter.
- Ford Motor Company bank debt continued its recovery advancing from 71% to 88% of par during the quarter. The cash-for-clunkers program enabled it to clean out its inventories and re-start some production. Ford continues to gain share versus its, now government-owned, rivals and is no longer burning cash. With the improvement in Ford’s business and the capital markets, we believe Ford could consider paying-off its bank debt.
- Lanxess shares also continued their recovery advancing from €17.66 to €23.55 during the quarter. The company announced an agreement with employees that authorizes an increase of €110 million in its cost savings plan through 2012. Lanxess also announced that its operating results have stabilized.

The losses on the short portfolio were concentrated in credit-sensitive financial institutions and REITs, which advanced along with improvements in the capital markets. Given the deteriorating fundamentals in commercial real estate, it is hard to understand why the REITs have become so richly valued. Most of our short REIT positions now trade at dividend yields under 5% and cap rates of about 6%, based on results that appear poised to deteriorate.

During the quarter, we added significant new long investments in Cardinal Health (CAH), CIT Group (CIT) debt, and Rheinmetall AG (Germany: RHM).

CAH distributes pharmaceuticals and medical products and manufactures medical equipment and related disposables. CAH’s businesses have underperformed over the last few years. In late 2008, CAH announced its plan to spin-off CareFusion (“CFN”), its higher margin and relatively higher growth medical equipment business. At its Investor

Day this June, CAH's new management team announced a reduced operating outlook and high spin-off related 'dis-synergies'. In response, Street analysts sharply reduced their fiscal year 2010 EPS estimates and the share price weakened. The Partnerships established their position in CAH at an average price of $30.22 per share, representing 11x the reduced fiscal 2010 consensus Street EPS estimate of $2.75 (down from the $3.51 in EPS reported for fiscal 2009). We expect CAH to exceed earnings expectations over the next few years due to margin improvement initiatives, new product introductions, reduction of investment spending, a strong generic drug cycle and stabilizing hospital capital spending trends. On September 1, CAH completed the spin-off of CFN. Following the spin-off, the new management teams at both CAH and CFN have received significant stock incentives in their respective companies. CAH shares, including the pro rata value of CFN shares, ended the quarter at $37.70 each.

CIT is the 28th largest bank holding company in the U.S. with $71 billion of primarily finance and leasing assets. As credit markets tightened in the summer of 2008, CIT lost its ability to refinance its debts. With its near-term debt maturities exceeding the runoff from its loan portfolio and the government deeming CIT "too-small-to-save", rumors of bankruptcy swirled this summer and bond prices fell from the 70s to the low 50s. The Partnerships established their position in CIT bonds at an average entry price of 52% of par. At this price, we believed we were creating a $71 billion balance sheet for $46 billion, representing a 35% discount. While losses will clearly be higher in 2009 and 2010 than CIT's 3% loss reserves given economic conditions, we expect unsecured recoveries to exceed 85% of par on our bonds under an orderly wind-down scenario. The bonds ended the quarter trading at 61% of par.

RHM is a German defense and automotive engineering group. The Partnerships established their position in RHM at an average cost of €38.32 per share, which we believe represents a healthy discount to the sum of the values of its defense and automotive businesses. RHM's defense business of niche troop protection applications has a substantial pipeline of high-tech products, and a variety of promising development opportunities. Management is confident that the defense business can generate double-digit growth in sales over the medium term. This unit could contribute €2.75 per share in earnings in fiscal year 2010, enough to justify the value of the stock, thereby creating the automotive division for free. RHM's automotive business, focused on a variety of OEM applications, has suffered from pressures in the global automotive markets. However, management has garnered substantial wins in process and workforce restructuring, and RHM should now emerge out of the current cycle with an improved competitive position. The automotive business, with almost €40 per share in revenue, should provide substantial additional value. RHM shares ended the quarter at €40.46.

Currently, we continue to have a low net long exposure to equities. We believe that both our long and short portfolios have good potential and we could actually do nicely on both sides should we reach a point where the market stops its one-way behavior.

The notable closed positions during the quarter were:

Closed Security	L/S	Avg Entry Price	Avg Exit Price	IRR	Comments
Allegheny Energy	L	$26.38	$26.73	+5%	We thought we were being led to water, but every time we opened our mouth to drink, we got a face-full of sand.
Clear Channel term loan	L	62%	60%	+1%	Fell short of our expectations but we purchased cheaply enough to preserve capital and made a little money thanks to interest payments.
First Data term loan	L	69%	79%	+33%	We have begun to exit debt positions that we bought at a good price, but no longer offer exciting returns.
Harman International	L	$11.07	$24.20	+687%	We purchased an unloved turnaround and margin improvement story at an attractive price. Love arrived ahead of profits. We exited with a nice return.
Oesterreichische Post (Austria Post)	L	€22.24	€23.94	+13%	This well capitalized, recurring revenue business held-up like a champ during the market decline. However, future cost cutting seems less likely, leaving upside more limited.
Alcoa	S	$8.63	$6.96	+38%	Over-levered commodity producer with a poor relative cost position and weak balance sheet. We covered when it recapitalized.
China Life Insurance	S	$73.32	$57.37	+14%	Our original thesis that the company was overexposed to declining Chinese equity markets was correct. We overstayed our welcome and turned a large gain into a modest gain.

We are pleased to report that the Partnerships have regained all of the losses from 2008. Due to the Partnerships' modified high-water mark structure, partners who incurred a loss in 2008 will continue paying a 10% incentive compensation until their accounts earn an additional 150% of the loss incurred.

We got a new PB – Prime Baby, that is. Vinit and Anshu Sethi welcomed baby Nikhil in September. Vinit's note to the team stated, "Mom and baby are doing well. Dad is good. Brother Aarav is amazed by the diaper consumption." Enough said. We also got a new PB – Prime Broker. We engaged JP Morgan as an additional prime broker to clear and custody some of our securities.

We would like to welcome Chris Mickelson as a controller. Prior to Greenlight, Chris worked at Hound Partners, Midwood Capital Management and as an auditor with PricewaterhouseCoopers. Chris is an overachiever; he has an MBA, a CPA, a CFA, a double major, and is also an athlete who already demonstrated great ability as our "ringer" in kickball.

Please mark your calendar for our next Partners' Dinner, scheduled for Tuesday, January 19, 2010. The meeting is scheduled to take place at the American Museum of Natural History. We will send out a formal invitation in the coming months.

At quarter end, the six largest disclosed long positions in the Partnerships are Arkema, CIT Group debt, Ford Motor Company debt, gold, Lanxess and Pfizer.[2] The Partnerships had an average exposure to equities and fixed income (excluding credit derivatives, gold and foreign currencies) of 99% long and 59% short.

"It will not be too bad this year. Both China and America are addressing bubbles by creating more bubbles and we're just taking advantage of that. So we can't lose."

-- Lou Jiwei, China Investment Corp. Chairman

Best Regards,

Greenlight Capital

Greenlight Capital, Inc.

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[2] The three Partnerships have minor differences in position sizing which led to a slightly different top five list for each Partnership, so we include the top six positions in this letter instead of the usual top five.