



January 19, 2010

Dear Partner:

Greenlight Capital, L.P., Greenlight Capital Qualified, L.P. and Greenlight Capital Offshore (collectively, the “Partnerships”) returned 5.4%, 6.0% and 6.3%¹ net of fees and expenses, respectively, in the fourth quarter of 2009, bringing the respective full year net return to 36.9%, 33.7% and 30.6%.¹ Since inception in May 1996, Greenlight Capital, L.P. has returned 1,397% cumulatively or 22% annualized, both net of fees and expenses.

The end of the decade evokes thoughts of where we were a decade ago. Ten years ago we were in the midst of a historic melt-up of technology stocks. There was no way to know when they might stop rising. In fact, we had just witnessed a bull market lasting most of the previous twenty years. The United States had a balanced budget and the discussion was about how to spend the surplus. The leaders of the Federal Reserve struggled with technical problems in the market due to a shortage of “risk-free” government debt. American hegemony was omnipresent economically, scientifically, militarily and culturally.

Who would have thought that a decade later, stocks (especially technology stocks) would generate negative returns, the U.S. would have record deficits, and “risk-free” interest rates would react to an increased supply of treasuries by falling sharply? Through this decade of challenging investment performance, the Partnerships net return was approximately 350% or over 16% per year, and though it was not a goal, we outperformed the S&P 500 each year with less volatility.

In reflecting on how much has changed in the last decade, we have come to realize that many things that appear unthinkable can easily occur within a ten-year timeframe. The range of possibilities for the next decade appears terribly wide. It is possible that the recent government sponsored stimulus could propel a global recovery, creating a virtuous circle of prosperity such that when we look back at the financial crisis of 2007-2009 it will fade into the history books as a speed bump, like the market crash of 1987. It is also possible that this is the decade when we will re-learn that sovereign governments don’t have unlimited credit worthiness and long-term problematic demographic trends will limit economic growth, creating potentially unsolvable problems for indebted nations that have undeliverable obligations to aging populations.

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.

In reviewing our 2009 return, gains in the short portfolio drove our overall positive performance of 3% during January, February and October when the S&P 500 declined a combined 21%. Although 2009 will be remembered as a year when the market produced above average returns, those returns were coupled with great volatility. In 2009, the Partnerships held an average net long exposure of 33% (and about 40% at the bottom in early March), including an average of 18% in debt instruments. Our return during the year came mostly from our longs dramatically outperforming our shorts.

The portfolio continues to be conservatively postured into 2010 because the market appears to be discounting a rather rosy outcome. In any case, our long portfolio is for the most part invested in stable, less cyclical businesses. We continue to be short businesses that should be fundamentally challenged, especially in a difficult economic environment. The current portfolio is reasonably fully invested. We have been transitioning out of successful debt investments, where there is limited potential for further appreciation, into long equity positions.

While it appears likely that fourth quarter U.S. GDP will show a very large statistical recovery, supported by a peak in fiscal stimulus and a large sequential improvement in inventories (transitioning from a large drawdown to a small increase), 2010 appears likely to be a “show me” year for the economy. A year ago, it made sense to look through the poor earnings caused by the one-time inventory destocking by paying high multiples of those results. Currently, we believe there is a risk that the market will contract the multiples of higher reported earnings supported by one-time inventory improvements.

Continuing the trend that began when the market recovery took hold this past March, our gains in the fourth quarter came from our long portfolio with a modest loss from our short book. Our gains in the fourth quarter were a combination of good performance from several equity longs, CIT Group debt (CIT), and macro hedges including our gold position, mitigated by losses in short positions in Moody’s (MCO) and Industrial Short G.

During the fourth quarter, our CIT investment appreciated 30% because credit markets improved and CIT successfully executed a prepackaged plan of reorganization in forty days. As part of the restructuring, bondholders were given new notes and new stock. With the conversion of \$10.5 billion of debt into equity and the extension of debt maturities, CIT emerged much better capitalized. The company needs to determine if it now has a viable business model or if it needs to go into run-off.

Physical gold prices advanced approximately 9% during the quarter. The notable events supporting higher gold prices included continuing fiscal and monetary stimulus at “crisis” levels even as the peak of the crisis passed more than a year ago. There were also some bulk purchases of gold by emerging market central banks, particularly India, that appear interested in diversifying their reserves to include greater allocations to gold.



MCO shares recovered a portion of their previous decline, advancing from \$20.46 to \$26.80. The increased level of high yield bond issuance during the quarter should allow MCO to modestly exceed earnings expectations in the fourth quarter. Some bullish analysts have expressed the unsupported opinion that MCO's litigation risk is "manageable" or, at least won't hurt the shares before the coming earnings beat. We agree that the litigation will take time to play out, but doubt that the situation will prove "manageable" for MCO.

Industrial Short G is a high cost North American commodity manufacturer with end markets in secular decline. Our short thesis is driven by the expectation that pricing will ultimately fall for the company's key products as the company cedes market share to international competitors in Europe, Latin America and Asia with lower cost manufacturing capability. The shares appreciated in the quarter as the company reported above consensus third quarter earnings. Pricing remained fairly resilient in the face of soft North American demand but stronger than expected Chinese demand for some products. We continue to believe that Industrial Short G is structurally challenged given the competitive dynamic and negative secular demand trends.

During the quarter, we added significant new long investments in Boston Scientific (BSX), Delta Lloyd (Netherlands: DL), and Vodafone Group (UK: VOD).

BSX is a maker of medical devices used in a broad range of interventional medical specialties. Key products include drug eluting stents and implantable cardiac defibrillators. In October 2009, BSX shares fell after it reduced guidance for full year earnings, noting less growth than it expected in key markets. Subsequently, the Partnerships established their position in BSX at an average price of \$8.42 per share or 11x 2009 adjusted earnings. We believe that BSX's well incentivized and seemingly very capable new CEO will execute a significant turnaround, driven by margin improvement leading to EPS of over \$1.00 per share in the next few years. BSX shares ended the quarter at \$9.00 each.

DL is a Dutch provider of life and general insurance, fund management, and banking. The life business, which is the company's largest segment, focuses on pension buyouts from corporations. Due to a quirk in Dutch law, British insurer Aviva which owned 92% of DL was limited to appointing two board members. After Aviva lost a legal battle to obtain operating control, it sold 40% of DL in a November IPO at €16.00 per share. DL management received significant stock options and purchased shares with their own cash in the IPO. The Partnerships established their position in DL at an average cost of €15.89 per share, representing 8x consensus estimated earnings and 0.8x book value. We believe that a combination of conservative reserves, future cost cuts, and sell-side analyst pessimism will enable DL to exceed consensus forecasts, and earn more than €3.00 per share within a few years. DL shares ended the quarter at €16.93 each.

VOD is a U.K. based wireless operator with over 300 million subscribers worldwide and a market capitalization of £73 billion. The Partnerships established their position in VOD at



an average cost of £1.38 per share. VOD's core consolidated operations in Europe, Asia, the Middle East, and Africa already generate in excess of an 8% equity free cash flow yield and support a near 6% dividend yield for shareholders. This does not count any value of VOD's most significant asset, a 45% ownership in Verizon Wireless, the #1 US cellular operator. Vodafone does not consolidate Verizon Wireless and, as a result, sell-side analysts seem to ignore its significant value. VOD currently does not receive a dividend from Verizon Wireless which we believe has led to the market implicitly ignoring its value, despite significant growth in revenue, EBITDA, and cash flow. We believe that Verizon Communications (VZ), which owns the other 55%, will need continued access to the cash flow from Verizon Wireless, and will therefore restore the dividend to VOD or work on an extraordinary transaction. Currently Verizon Wireless's cash flow is being used to repay inter-company debt to VZ. However, this debt will be fully repaid by mid-2010, at which point we expect VZ will need to act. We believe that any changes that reveal the value of VOD's Verizon Wireless stake will force the market to re-rate VOD shares. In the meantime, we collect a nice dividend. Ascribing a reasonable valuation to Verizon Wireless and VOD's other unconsolidated assets, we estimate that VOD trades at less than 3x estimated 2010 EBITDA, versus in excess of 5x for the peer group average in Europe. VOD shares ended the quarter at £1.44 each.

We closed some positions during the quarter that included some real dogs we bought before the crisis. These were sold to make room for what we hope to be better ideas. The notable positions closed during the quarter were:

Closed Security	L/S	Avg Entry Price	Avg Exit Price	IRR	Comments
Criteria Caixa Corp.	L	€5.21	€3.23	-22%	Value of company assets declined over the past few years due to tough economic and political conditions in Spain. Transitioning from a holding company to an operating company is less likely while these conditions persist.
Echostar Holding Corp.-A	L	\$27.63	\$17.35	-30%	Spin-off with lots of excess capital, but the core businesses didn't perform as we hoped.
Levered Stub Basket	L	n/a	n/a	+227%	We bought small stakes in 22 companies in late 2008 that we thought would survive, even though they traded as if they would fail. They all survived.
Nokia OYJ	L	€1.54	€0.90	-8%	Underestimated competitive pressures and overestimated sustainability of margins.
Nyrstar	L	€7.46	€7.03	-40%	We thought this zinc smelting carve-out's new CEO would create a path to stable earnings. He didn't deliver and the stock cratered. The good news is we didn't sell when the stock fell to €1.
IHOP Franchising 7.0588%	L	65%	90%	+49%	Nelson ate the Rooty Tooty Fresh 'N Fruity breakfast 3 meals a day to provide a tailwind to earnings.
International Bancshares Corp.	S	\$12.10	\$16.08	-59%	Losses on construction loans were not as large as we thought they might be.



Following the progress made in prior quarters, we have a new baby, a new employee and a few other notables to announce. Mike and Lonna Offner gave birth to a beautiful baby girl in early December. Given that Mike is such an efficient planner, we were surprised to hear that “baby girl” had no name. After much debate in the Offner household, “Sweet” Caroline Renee won out over Alpha Renee. Also on the celebratory front, Chris and Fiona Mickelson were married in October. Chris, our newest Controller, is the overachiever we described in our last letter. Chris completed the urban trifecta of switching jobs, moving, and getting married in the same year. Congratulations Chris and Fiona!

Dennis Loffredo joined us in November as an Operations Analyst. Dennis began his career at Huron Consulting Group. At Huron he assisted with the accounting, data analysis, and financial modeling on cases related to accounting fraud and patent infringement. Prior to joining Greenlight, Dennis spent two years as an Operations Analyst at Silvermine Capital Management. Dennis graduated from Lehigh University in 2005 with a B.S. in Finance and an M.S. in Accounting.

Also, after three years, Sanket Patel has left Greenlight. We wish him well at his new job.

The domestic Partnerships have engaged a new fund administrator, Morgan Stanley Fund Services USA LLC. They will be in charge of subscriptions, redemptions, transfers, and monthly accounting. It will take us a few months to iron out the wrinkles but we hope the implementation will only be slightly disruptive in the short-term and value-added in the long run as we strive for operational excellence and best practices.

At quarter end, the six largest disclosed long positions in the Partnerships are Arkema, Boston Scientific, CIT Group, Ford Motor Company debt, gold, and Vodafone Group.² The Partnerships had an average exposure to equities and fixed income (excluding credit derivatives, gold and foreign currencies) of 95% long and 63% short.

“Do not go where the path leads, go where there is no path and leave a trail.”

-- Ralph Waldo Emerson

Best Regards,

Greenlight Capital

Greenlight Capital, Inc.

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.

