GREENLIGHT

October 15, 2013

Dear Partner:

The Greenlight Capital funds (the "Partnerships") returned 4.3%,[1] net of fees and expenses, in the third quarter of 2013, bringing the year to date net return to 11.8%.

The amount of media and market attention focused on whether the Federal Reserve will taper its quantitative easing (QE) would border on comical if it weren't so serious. In August, the San Francisco Fed published an economic research paper that estimated that the $600 billion spent on QE2 added a meager 0.13% to real GDP growth in late 2010 (about $20 billion) and that the benefit fades after two years.[2] Given that, what practical difference does it make whether the Fed buys a monthly $85 billion or $75 billion or no additional securities at all for that matter?

We maintain that excessively easy monetary policy is actually thwarting the recovery. But even if there is some trivial short-term benefit to QE, policy makers should be focusing on the longer-term perils of QE that are likely far more important. Here are some questions that come to mind:

- How much does QE contribute to the growing inequality of wealth in this country and what are the risks this creates?
- How much systemic risk does the Fed create by becoming what Warren Buffett termed "the greatest hedge fund in history"?[3]
- How might the Fed's expanded balance sheet and its failure to even begin to "normalize" monetary policy four years into the recovery limit its flexibility to deal with the next recession or crisis?

No one is sure what the Fed is focused on. After spending several months bracing the market for fewer QE donuts, the Fed decided that it was premature to taper. Even a token reduction (from a baker's dozen to a dozen?) was ruled out despite the fact that the economic trajectory has not materially changed. We responded the next morning with our own stimulus by ordering jelly donuts for the entire office.

During the quarter our longs dramatically outperformed the market. In addition to sizable gains by Apple (AAPL) and Vodafone (United Kingdom: VOD), virtually every long position in the portfolio was profitable.

1 Source: Greenlight Capital. Please refer to information contained in the disclosures at the end of the letter.
2 http://www.frbsf.org/economic-research/publications/economic-letter/2013/august/large-scale-asset-purchase-stimulus-interest-rate/
3 http://www.bloomberg.com/news/2013-09-20/buffett-says-federal-reserve-is-greatest-hedge-fund-in-history.html

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AAPL shares advanced from $397 to $477 as earnings estimates stopped falling and the market turned its attention to AAPL's new products. The newly introduced iPhone 5s gives customers a compelling reason to upgrade. It looks like it will be a hit, and we believe that AAPL will find novel ways to use Touch ID and iBeacon to monetize its user base and ecosystem via new service offerings and apps. AAPL's current non-hardware e-commerce business (sales from iTunes, App Store and iBook Store, plus software and services) is $16 billion a year and growing. Not only is it growing faster than Amazon,[4] AAPL makes more money in non-hardware e-commerce alone than Amazon makes in its entire business. That gap will likely widen in AAPL's favor as AAPL rolls out new offerings and services. We believe that near-term share performance will track the success of the new phones, while the longer-term share price will reflect the market's eventual understanding of AAPL's strong ability to earn high-margin and recurring revenue streams.

VOD shares advanced from £1.88 to £2.16. The highlight was the announced sale of its 45% minority interest in Verizon Wireless for $130 billion. Upon completion, VOD will be predominantly a European wireless carrier with a network and spectrum that leave it better positioned for growth than its peers. At 4.5x 2014 EBITDA, the VOD "stub" trades at a notable discount to its sector and is a possible acquisition candidate.

The game of Earnings Expectation Conflation continues. It's a bit like limbo – with a twist. Though the bar gets lowered every round, the goal is to make it *over* the bar, rather than go under it. Here's what the current round looks like: At the end of June, third quarter S&P 500 index earnings were expected to grow 6.5%. In July, as actual earnings started to come in and companies lowballed the next quarter's guidance, index earnings expectations were likewise adjusted lower. As more companies reported "beat and lower" earnings, market expectations continued to fall to the point where third quarter index earnings growth is now expected to be *half* of what was forecast in June. Of course, when earnings are announced in October and they "beat" the guidance set in July, everyone will celebrate with cake and ice cream. (Never mind that the earnings are actually in line with the original June predictions, or that they've lowballed guidance for *next* quarter – if anyone noticed that, they wouldn't be able to move to the next round by lowering the December bar, which is currently set at 13% growth.) As the S&P 500 index has advanced this year mostly through multiple expansion, the index is no longer cheap, particularly considering that we are now almost half a decade into an economic expansion and earnings growth is unexciting.

There is evidence of much more (and increasingly creative) speculative behavior. Some companies have convinced the market to embrace earnings reports that ignore what they must pay employees to show up to work every day, provided the employees accept equity rather than cash. We don't understand how some investors view this as economically different from the company selling shares into the market and using the proceeds to pay workers. Then there's the sizable group of companies (including a number of recent IPOs) that are apparently not subject to conventional valuation methods. Many have no profits and no real plan to make future profits. The market doesn't seem to mind – in fact, it is hard to fall short of such modest expectations and the prices of these stocks have performed particularly well of late. Finally, there are the market participants whose investment process appears to be "*bet on whatever has made money most recently.*" They've noticed that stocks with large short-interest ratios have materially outperformed

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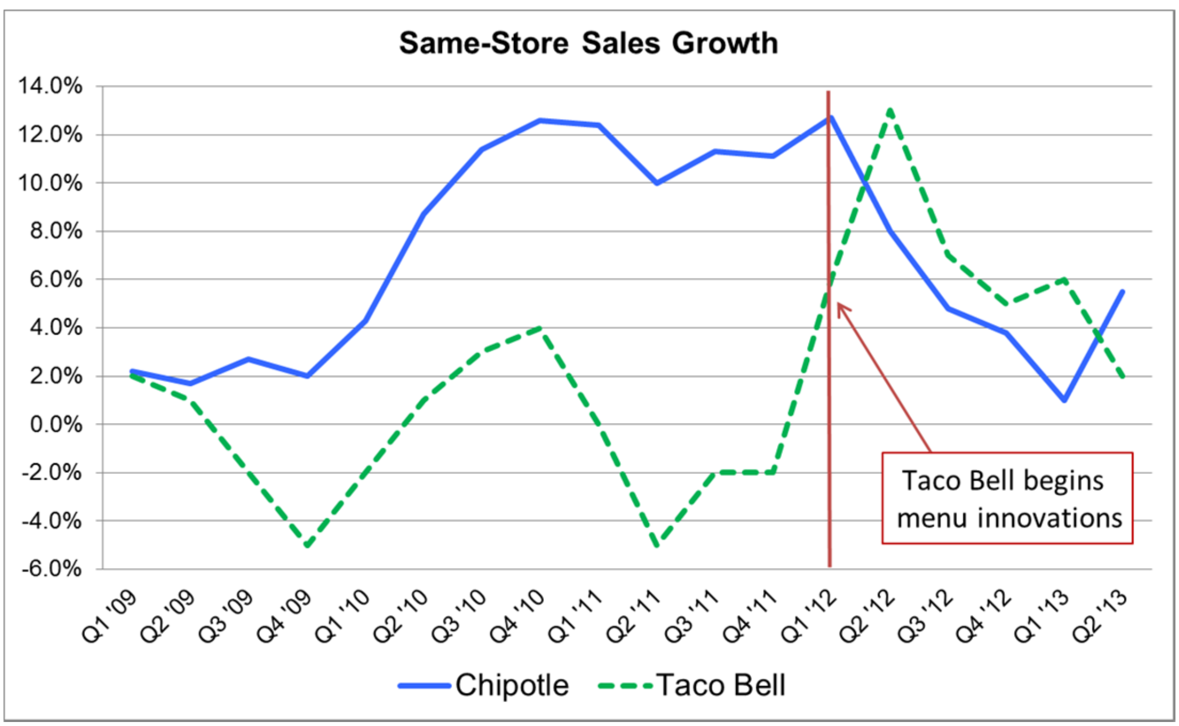
[4] For those wondering, we are using Amazon.com for comparison purposes only and we do not hold any position in the shares.

over the last year and they continue to invest accordingly. When "high short interest" becomes a viable stock-picking strategy and conventional valuation methods no longer apply for many stocks, we can't help but feel a sense of déjà vu. We never expected to find ourselves in an environment like this again, given the savings that were lost when the internet bubble popped.

For the most part we have avoided being short these non-conventionally valued stocks. Consequently, while it has been no picnic being short most anything, as a whole our short portfolio has not had excessive losses. This quarter our short portfolio underperformed the S&P 500 by about half as much as our long portfolio outperformed it, and for the year-to-date it has risen less than the market.

But even in conventionally valued stocks where the fundamentals have largely gone our way, it has been hard to make money on shorts. In many cases we've lost money. Let's consider Chipotle Mexican Grill (CMG). In recent years through the end of 2011, CMG and other upstarts in the fast-casual restaurant segment achieved substantial growth by offering consumers a higher quality menu than is typically found in fast-food chains. In contrast, Taco Bell (the largest Mexican fast-food chain) had lackluster and often negative growth. In early 2012, Taco Bell expanded its offerings to include new gourmet-style dishes as part of its Cantina Bell menu and introduced Doritos Locos Tacos. We believed that these innovations would enable Taco Bell to recapture market share from CMG. This is exactly what happened:



Notably, CMG's comparable store sales benefit by about 2.5% per year because the company has a large number of new stores entering the comp base each year, which naturally ramp their volumes. Since Taco Bell has a mature store base, its comparable store sales don't share that tailwind.

When we presented our thesis that Taco Bell would gain share, we received widespread ridicule from CMG's customers in the investment community. But CMG also serves a younger demographic who are likely to be more sensitive to food prices than stock prices. It seems like Taco Bell has, in fact, gained share from this group.

We surmise that this has led CMG to reconsider its strategy. In January 2013, the company strongly hinted that it would raise prices this year. Historically, CMG had been able to raise prices with impunity. However, with comparable store sales running in the low single digits, management decided to postpone the increase until 2014, when they plan to raise prices in conjunction with announcing that all their food is GMO-free. We believe that competition, particularly for college-aged patrons, has reduced CMG's ability to raise prices without losing customers and, based on its actions, it appears management agrees.

The result of all of this is that CMG is now expected to earn less in both 2013 and 2014 than consensus believed prior to Taco Bell's innovations. Unfortunately for us, the market has rewarded CMG with an expanded P/E multiple, which is quite surprising in the face of falling comparable store sales, slowing and disappointing earnings growth, and a loss of pricing power. Such is the nature of the current market environment. Muy Loco!

We added to our short position in Green Mountain Coffee Roasters (GMCR). Although the company again missed the consensus estimate for sales, bullish analysts scrambled to lower forward revenue forecasts while insisting that all is well in mudville. Attention quickly shifted away from the results when new CEO Brian Kelley announced on the Q3 earnings call that GMCR would hold its first ever investor day in September. When asked what prompted the decision, Mr. Kelley said, "I think a number of people on our team have found that an investor day that is crisp, but thorough on the key issues can be very valuable to help people understand our company. And I think it's – that's the core purpose is to help you understand our company better."

The evening before the invitation-only event on September 10, the New York Times reported that there was a large discrepancy between the number of K-Cups the company says it has sold and the numbers implied using data from the tracking firm IRI.[5] For years there have been questions about misconduct within GMCR's distribution and accounting departments. This new information raised the possibility that this activity is continuing, with GMCR potentially booking hundreds of millions of dollars of non-existent K-Cup sales.

We watched the company's live investor day webcast, waiting to see how Mr. Kelley would field any inquiries on the matter. Despite a lengthy Q&A session, the questions never came. We later heard that Mr. Kelley was asked about it during a break and essentially told investors that for the New York Times to be right, then you'd have to believe that he was in on it.

That's a non-denial denial worthy of Nixon Attorney General John Mitchell. Mr. Kelley, a former Coke executive, was hired to replace Larry Blanford in late 2012. Prior to his tenure at Coke, Mr. Kelley spent five years as the CEO of SIRVA, Inc., a relocation services company whose shares

[5] IRI is a business reporting service that tracks point-of-sale (POS) scanner sales and promotional activity for grocery, drug, and mass merchandiser stores in the U.S. In its Q3 earnings call, GMCR reported that IRI captures roughly 55% of total U.S. portion pack shipment volume year-to-date.

collapsed during his tenure and were delisted or 'relocated' from the NYSE shortly thereafter. A subsequent lawsuit that was settled alleged that when Mr. Kelley was told of a reserve shortfall at a subsidiary, he, together with other defendants, refused to take a charge to earnings and instead raised earnings guidance. The suit referred to Mr. Kelley as "a spin doctor due to his ability to twist negative information about SIRVA."[6]

Three years ago, GMCR stopped disclosing the number of K-Cups sold,[7] which is comparable to Ford not disclosing the number of cars and trucks it sells. One analyst (the only one who is publicly bearish on the stock) tried to derive K-Cup sales volume by multiplying the number of brewers GMCR says are in use by the number of K-Cups GMCR states are used per machine. At the investor day, Mr. Kelley derided this derivation: "So, you're applying straight math that we don't do." The analyst pressed and Mr. Kelley suggested that the investor day was neither the time nor the place: "We're not going to get into that here. That is not the intent, and we're not going to go into that, the model, in that kind of detail here."

Not here? Then where? Apparently basic sales data is not GMCR's cup of tea and does not meet the criteria for an investor day Q&A that promised to be thorough on the key issues. It is impossible to reconcile GMCR's piecemeal disclosures with its financial statements, and the new CEO repudiates straight math. If the core purpose of the investor day was to help people understand the company better, perhaps the next question should have been, "Are you in on it, Mr. Kelley?"

GMCR's investor day also highlighted several other holes in the bull case:

- On the one hand, GMCR reports to have sold 30 million brewers into the at-home market. On the other hand, the company claims that the installed base is only 16 million brewers. According to the company, 26%-32% of all brewers ever sold are not in home use.[8] Mr. Kelley said many were "gifted to someone else." Insinuating that Keurig brewers are gifts that remain unopened is certainly a unique marketing strategy as the holiday season approaches, but it reinforces the small-installed-base narrative which in turn supports the bull story in two ways: (1) it implies that the market is not saturated; and (2) it counters analysis that would otherwise indicate that the attachment rate (estimated daily K-Cup consumption per brewer) is falling. Setting aside the implausibility that so many brewers are purchased and not used (our work suggests that many were never sold in the first place), if millions of machines are sitting in people's closets (who are unlikely to be future customers), the market is far more saturated than the company would like everyone to believe.

- In 2011, GMCR management claimed that it couldn't meet K-Cup demand due to inadequate manufacturing capacity. At the investor day, management stated that it is using only 31%[9] of its capacity in 2013 and used only 29% in 2012. We can't reconcile the

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6 http://www.naic.org/documents/legal_sirva_complaint.pdf
7 GMCR's explanation for why it doesn't disclose K-Cups is here: http://vtdigger.org/2013/09/12/green-mountain-coffee-roasters-reshuffles-management/
8 GMCR said that another 4-5% are in retail inventory and another 9-11% were returned to the store.
9 Capacity utilization percentages are based on the company's own 24/7 utilization estimate.

company's prior claims that it had a capacity shortage in 2011 and then had so much surplus capacity in 2012. Between 2011 and 2013, gross margins expanded from 38% to 42%. How can a manufacturer go from operating at full capacity to only a small fraction of capacity without underutilization negatively impacting margins? Moreover, 31% utilization implies that GMCR has enough capacity to meet its growth plans through the balance of the decade. Given this, it is hard to see why management plans to add even more. Though GMCR has reduced its capital spending this year, it still spends almost twice as much as other packaged goods companies, and indicated that next year capital spending "might tick up a little bit" more than sales.

- GMCR intends to offer a new brewer in late 2014. Management said that the new brewer would be able to discern between GMCR-manufactured K-Cups and non-licensed K-Cups, hinting that this would allow the company to close the system and freeze out the non-licensed competition. Management declined to say whether it would program the new brewers to do so. Closing the system would enable GMCR to reclaim its monopoly prices on K-Cups. However, it is unclear why consumers would want to switch from an open system offering more choices and lower prices to a closed system with fewer choices and higher prices. Last year, GMCR introduced the Vue, which flopped for this reason. Conversely, if the new machine does *not* close the system, then it won't change the competitive dynamic where K-Cups are becoming commoditized and GMCR is losing market share. We have heard that GMCR management privately suggested to one large shareholder that the threat to re-close the system is a bluff to try to convince competitors to become licensed partners.

We added a medium-sized long position in Osram Licht AG (Germany: OSR). OSR is one of the largest vertically integrated providers of lighting products and solutions in the world. In July, OSR was spun-off from Siemens, a large industrial conglomerate. We acquired a position in OSR at an average price of €24.57 per share. The lighting market in which OSR competes is undergoing a transition away from traditional technologies (such as incandescent and fluorescent lighting) towards LEDs. This transition has been a challenge for OSR with its large legacy lighting business, and has put pressure on the company's financial performance. Current margins are below historical levels and one of its three segments is currently unprofitable. In response, OSR has undertaken both a large cost restructuring program and an expansion of its LED businesses to help it return to historical margin levels within a two-year period.

Should OSR achieve its targeted margins, it will earn in excess of €3 per share. OSR is unlevered, has financial flexibility, and given that the financial targets were set in the context of a spin-off, we suspect OSR may ultimately exceed its targets. This could lead to a multiple re-rating as OSR becomes viewed as an LED growth story. LED companies with comparable businesses to OSR presently receive lofty multiples. OSR shares ended the quarter at €34.70.

We exited two successful long positions in the quarter. We invested in Gjensidige Forsikring (Norway: GJF), a P&C insurer, when it IPO'd in the fourth quarter of 2010. The story played out nicely as the company executed on its IPO plan to improve its underwriting, cost management, and capital discipline. We sold when GJF reached a fair valuation and we earned a 27% IRR over three years. We generated a 28% IRR on our two-year position in Oaktree Capital Group (OAK), a publicly listed asset manager. We sold because the shares began to better reflect the value of OAK's existing asset base as well as its future asset-gathering and incentive fee generating prospects.

On the organizational front, we added Tony Rodgers as our Director of Technology. We have known Tony since 2009 when he was covering Greenlight for Richard Fleischman & Associates (RFA). After RFA, Tony worked with another New York hedge fund as its CTO. While we still rely on RFA to help us maintain our technical infrastructure and disaster recovery plans, our continued growth meant it was time to bring someone in-house. Since we couldn't find a good R2 unit, Tony was our next best option. Welcome Tony!

After more than a decade as the Portfolio Manager of Greenlight Masters, Mike Offner left in July to enjoy the summer with his family. We appreciate his work in building Masters and wish him well. Mitch Golden, who joined Masters as co-Portfolio Manager in January 2012 is now the sole Portfolio Manager. Margaux Reynolds, one of our Operations Analysts moved to L.A. with her husband who is beginning a Cardiology Fellowship at UCLA. We will miss her.

As we previously announced, the Partnerships engaged Ernst & Young as auditor and tax preparer beginning with the 2013 calendar year. We evaluated multiple accounting firms and selected Ernst & Young because of their leading position in the financial services industry and their expertise in hedge fund accounting. We emerged from our due diligence process impressed with the quality of the people in both their audit and tax practices. Greenlight has always been focused on providing our investors with timely and accurate financial reporting and we chose Ernst & Young based upon their shared commitment. We thank BDO for their many years of service.

Please mark your calendar for our Eighteenth Annual Partners' Dinner, scheduled for Tuesday, January 21, 2014. The meeting will be held at the American Museum of Natural History in New York. We will be sending out formal invitations shortly.

At quarter end, the largest disclosed long positions in the Partnerships were Apple, General Motors, gold, Marvell Technology, Oil States International and Vodafone Group. The Partnerships had an average exposure of 109% long and 72% short.

"Anyone who isn't confused doesn't really understand the situation."

— Edward R. Murrow

Best Regards,

Greenlight Capital

Greenlight Capital, Inc.

Unless otherwise noted, 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, Ltd., Greenlight Capital Offshore Qualified, Ltd., and the dollar series returns of Greenlight Capital (Gold), L.P. and Greenlight Capital Offshore (Gold), Ltd. (collectively, the "Partnerships"). Each Partnership's returns are net of the standard 20% incentive allocation.

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 delta adjusted basis and excludes macro positions, which consist of credit default swaps, sovereign debt, foreign currency positions, interest rate derivatives and others. 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, Ltd., Greenlight Capital Offshore Qualified, Ltd., Greenlight Capital (Gold), L.P., and Greenlight Capital Offshore (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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