KASE CAPITAL

Whitney R. Tilson
Managing Partner

phone: 212 277 5606
WTilson@KaseCapital.com

February 10, 2014

Dear Partner:

This is my 10th annual letter. In each one, I seek to frankly assess the fund's performance and share my thoughts on various matters. In addition, I disclose the fund's 10 largest long positions and, in Appendix A, explain my thinking behind each of them. My goal in doing this is so you can better understand why I've purchased these stocks, how I invest, and why I am very confident in our fund's future prospects.

Performance

Our fund was up 15.9% in 2013, as this table shows:

	December	Q4	2013	Since Inception
Kase Qualified Fund – net	3.6%	9.6%	15.9%	21.2%
S&P 500	2.5%	10.5%	32.4%	97.3%

Past performance is not indicative of future results. Please refer to the disclosure section at the end of this letter. The Kase Qualified Fund was launched on 7/1/04.

I'm satisfied with the fund's performance in 2013, the first full year since I returned to managing it solo. While a gain of 15.9% trailed the major indices, the absolute return was solid, it was achieved with relatively low risk and exposure, and it exceeded the average long-short equity hedge fund (the HFRI Equity Hedge Index rose 14.4% in 2013). More importantly, the fund is now fully invested and exposures are where I want them on both the long (102%) and short (38%) sides. It would have been a better year, however, had I not been so cautious in rebuilding the long portfolio and better managed the short book (discussed below).

Regarding the former, while the stocks we owned significantly outpaced the market, the fund's substantial cash balance during most of 2013 was a meaningful headwind in such a strong bull market. Although holding a lot of cash can make sense for a long-only fund, it is overly conservative for our fund, which has a substantial short book, unless I'm convinced that the market is about to implode – a feeling I've only had twice in the 15+ years that I've been managing money professionally: in late 1999/early 2000 at the peak of the internet bubble and in early 2008 when my research led me to believe that the consequences of the bursting of the housing bubble would be much worse than nearly anyone believed at the time.

My current view is that a crisis isn't likely in the near future. While there are plenty of things that could upset the current complacency in the markets, my best guess is that the U.S. economy will continue to muddle along as it has been doing for the past few years. Consequently, I plan to be more disciplined about maintaining my target exposures of roughly 100% long and 30-40% short – but also reserve the right, on rare occasions, to hold more cash and/or increase the fund's short exposure when conditions warrant.

Long Portfolio
The fund's long book is a concentrated yet well-diversified portfolio that I believe will substantially outperform the market over time. Here is a list of the top 10 positions in the fund today, ranked in descending order of size (each is discussed in Appendix A):

1. Howard Hughes
2. Berkshire Hathaway
3. AIG
4. MagicJack
5. Air Products & Chemicals
6. Hertz
7. Avis
8. Boeing
9. Canadian Pacific
10. Micron Technology

Despite the fact that six of these stocks were purchased in the past year, there has actually been very little portfolio turnover, as 12 of the 13 stocks I disclosed and discussed in last year's annual letter (user name: tilson; password: funds) are still in the fund, but are no longer in the top 10 (the only position I exited completely is dELiA*s).

Casting a wider net
Historically I've invested almost exclusively in American companies that are subject to U.S. auditing and filing rules and trade on one of the major U.S. exchanges because I have deep experience here and shareholders are well protected. In addition, I have always been fearful of straying outside my circle of competence and being the proverbial sucker at the poker table. I think I've been too dogmatic about this, however, and have started to invest some time and energy into becoming familiar with foreign companies and markets. I don't expect to become a truly global investor anytime soon (if ever), but there are great investment opportunities all over the world. I think expanding my investment horizons will serve us well over time.

To date, I have made only two investments in foreign companies, Hyundai Motors preferred stock (discussed in my Q3 letter) and Softbank, which I own because of its extraordinary CEO, Masayoshi Son, and its stakes in Chinese internet giant, Alibaba, which should go public this year, and Sprint, which is a good turnaround candidate.

Shorting
I have two strong yet conflicting feelings about shorting right now:

1) It's a horrible business that has cost us dearly over the past nearly five years, and I want to cover every stock I'm short and never short another stock again; and

2) In my 15-year career of professional investing, the only other times that have been as target-rich in terms of juicy, obvious shorts are late 1999/early 2000 and late 2007/early 2008 (and we all know how those ended…).

So which feeling am I going to follow? The latter. Not because I am unreasonable, stubborn and a glutton for punishment, but because I am convinced that I can make a lot of money for us on the short side going forward.

The only other time in my investing career in which I seriously considered covering every short and becoming a long-only manager was October 2007. At that time, I went through my short book, stock by stock, and said, "OK, am I willing to cover MBIA at $70? Hell no, not a single share! Allied Capital at $30? Hell no, not a single share! Farmer Mac at $30? Hell no, not a single share!" And on it went… I couldn't bring myself to cover a single share of any stock I was short – they were all "trembling-with-greed" shorts. And that's exactly how I feel today.

Let me be clear: I have no illusions about what a tough business shorting is. In most years, in fact, I expect that it will detract slightly from our returns. But that's a price I'm willing to pay for a number of reasons:

1) Having a short book allows me to invest more aggressively on the long side, both in terms of overall portfolio positioning, individual position sizes, and willingness to take risks in certain stocks. Here are some examples of what I mean:

- I wouldn't be comfortable taking our fund's long exposure up to 100% in the current market if it didn't have meaningful short exposure;
- I wouldn't have held onto my position in Netflix, which has risen from just above $50 to more than $400 over the past 16 months, if our fund weren't short a number of similarly volatile, speculative stocks;
- I wouldn't hold such a large position in Howard Hughes – another huge winner for us – if our fund weren't short St. Joe, which is also closely tied to the real estate/housing market; and
- I wouldn't be comfortable owning so many economically sensitive stocks like Hertz and Micron if our fund weren't short many stocks that I expect would do very poorly if the economy weakens.

2) A short book typically pays off just when you need it, during severe market declines, providing cash to invest on the long side when it's most attractive. This is exactly what happened in 2008 and early 2009. After inflicting losses as the market rose from early 2003 through October 2007 (the same length of time as the current bull market), our substantial short book cushioned the downturn – our fund was down approximately half the market in 2008 – and allowed me to invest aggressively on the long side, which translated into big gains after the market bottomed in March 2009.

3) I sleep better at night with insurance. At the beginning of every year, I write a check for homeowner's insurance and at the end of the year, when my apartment hasn't suffered from a flood or fire, my insurance expires worthless and I have to buy it again. Is it a mistake to buy insurance that turns out to be worthless almost every year? Of course not.

I suspect most people wouldn't quarrel with buying cheap insurance – but it hasn't been cheap! It's been very expensive. So is the problem that I'm simply uniquely bad at shorting (in which case, I should just stick to the long side)? I think not. I know, talk to, and read the investor letters of dozens of value-oriented long-short fund managers like me and pretty much to a person they report carnage in their short books. In the past year, I've seen more pain inflicted upon short sellers than at any point since the internet bubble in 1999 and early 2000. One 20+ year veteran said it well when he told me:

> I don't have the antidote to your pain. We've been bludgeoned by this melt-up as well. It's unbelievably unpleasant.
>
> I've never seen such widespread capitulation among seasoned short sellers. Many are out of business.
>
> This stretch is worse than the internet bubble for me. It's constant pain across my entire short book, whereas the internet was isolated to one industry – and then you got relief when the bubble burst.

So while it's been painful, I believe that this is the kind of environment in which those with the courage to maintain a short book will be well rewarded.

Adjustments to my short strategy

That said, there's certainly room for improvement, and I have been making the following adjustments:

1) Smaller positions. Until late last year, I was managing the fund's short book similarly to its long book in terms of the number of positions – about a dozen exceptionally-high-conviction positions – but roughly half the size. Thus, the average long position was around 5-6% whereas the average short was in the 2-3% range.

I've learned the hard way the perils of sizing too many short positions above 2%. Every five or ten years, the market goes through periods like the current one in which overvalued stocks can become even more overvalued, rising 50-100% or more. This causes a lot of pain and sometimes forces me to cover some positions to manage risk.

I am now sizing new short positions around 1% and only rarely let a short exceed 2%, which I expect will enable our fund to better weather the market's periodic bouts of foolishness. This means, of course, that the fund's short book will be comprised of more positions, but I believe I can manage this, especially in light of today's incredibly target-rich environment.

2) Better match the fund's long and short positions. A meaningful percentage of the fund's long exposure over the past year has been in large-cap stocks like Berkshire Hathaway and AIG, whereas the short positions have tended to be in smaller, more volatile, heavily shorted, battleground stocks. These stocks tend to be the most overvalued and have the potential to fall the furthest – often, I believe, 100% – but they can also rise the most during periods of excess liquidity and complacency. (It hasn't been a complete mismatch, as the fund's long book has

some similarly volatile stocks like Netflix and Deckers, which have performed beautifully; I sold the latter last week after it nearly doubled over the past year.)

I am seeking to better balance the fund's long and short positions by having a wider mix of stocks on the short side. Among my three favorite types of shorts – fads, frauds and failures – I've had too many of the first two and not enough of the latter: dying businesses that some call "reverse compounders." A good example of such a company is our largest short position today, St. Joe, about which I've written extensively about in past letters.

3) Be more patient. I've been reasonably successful over the years in being able to identify hugely overvalued stocks, but have been less successful in getting the timing right. I find that I can frequently correctly foresee what's going to happen a year or two in the future, but am often amazed at how the market – especially this market – ignores huge red flags at certain companies and runs their stocks up further in the short term. I've certainly gained a greater appreciation for the power of short-term stock price momentum and am going to make more of an effort to be patient, stay out of the way of freight trains on the way up, and make money shorting these types of stocks on the way down.

For example, I cut our fund's short position in World Acceptance (discussed at length in my Q2 letter) from a bit over 2% to 1.3% today. I haven't lost any degree of conviction in my investment thesis, but I recognize that it might take some time, perhaps even years, for regulators to act to rein in this company. In the meantime, exploiting the vast majority of its customers is, sadly, a heck of a good business, so I expect the company will continue to grow – and its share price will continue to rise – in the near term. Thus, I plan to patiently wait with a small position until there's clear evidence that regulators are taking action, at which time I will look to size up the position. Sure, I'll miss the peak and the stock might be down 10-20% before I act with conviction, but I think the downside here is 70-100%.

During the year, I discussed the following short positions, all of which are still in the fund (in descending order of size, with links to further discussion): K12 (Q3 letter and here), Green Mountain (Q3 letter), InterOil (December letter) and Lumber Liquidators (December letter).

Performance Objectives

In every year-end letter I repeat my performance objectives, which have been the same since the fund's inception: My primary goal is to earn you a compound annual return of at least 15%, measured over a minimum of a 3-5 year horizon.

I arrived at that objective by assuming the overall stock market is likely to compound at 5-10% annually over the foreseeable future, and then adding 5-10 percentage points for the value I seek to add, which reflects my secondary objective of beating the S&P 500 by 5-10 percentage points annually over shorter time periods. While a 15% compounded annual return might not sound very exciting, it would quadruple your investment over the next 10 years, while 7-8% annually – about what I expect from the overall market – would only double your money.

The fund exceeded its 15% objective in 2013, but hasn't met it cumulatively since inception, thanks in part to a weak market. In addition, the fund has underperformed the S&P 500 by 5.4 percentage points per year (2.0% vs. 7.4%) since inception.

I am not satisfied with this performance and am determined to improve it.

Quarterly Conference Call
I will be hosting my Q4 conference call from 4:00-5:00pm EST on Wednesday, February 19th. The call-in number is (209) 647-1600 and the access code is 627309#. As always, I will make a recording of the call available to you shortly afterward. If you are unable to join the call, but have a question you'd like me to answer, please email it to me.

Conclusion
It feels good to be back in charge of the fund, to have it positioned the way I want it, and to generate solid returns for you, while still carefully managing risk.

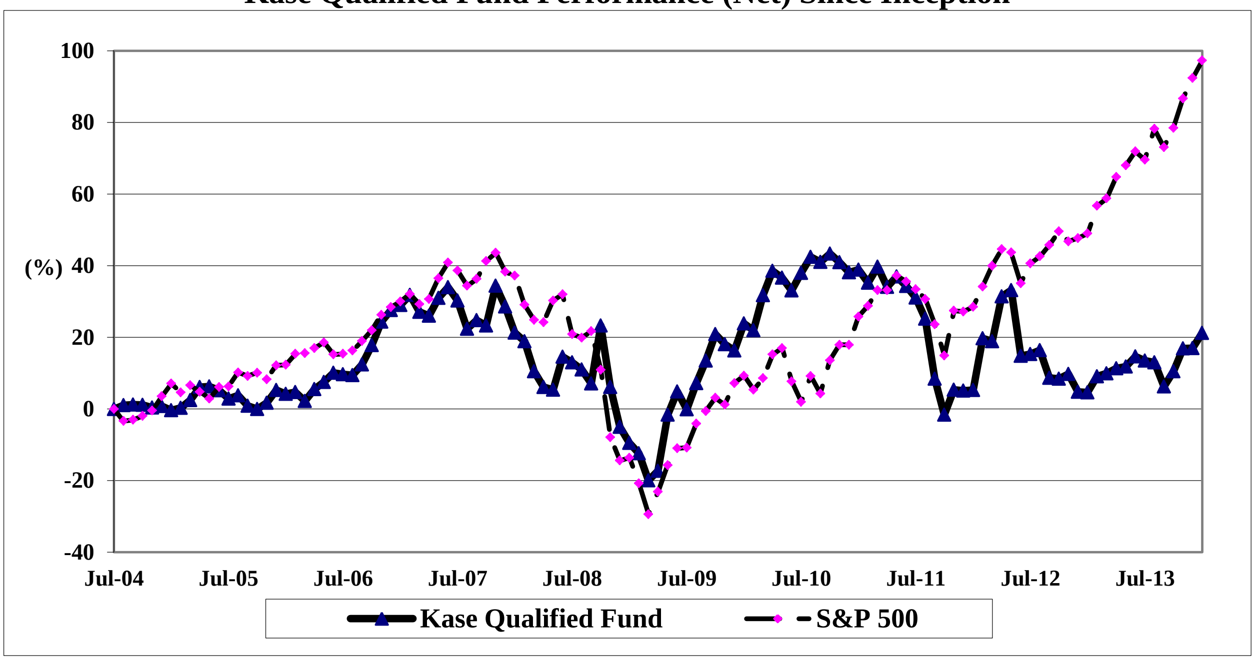
I want to sincerely thank you for your patience and support over the last few years. I am determined to reward your vote of confidence.

If you have any comments or questions, please call me anytime.

Sincerely yours,

Whitney Tilson

Kase Qualified Fund Performance (Net) Since Inception



Past performance is not indicative of future results.

Kase Qualified Fund Monthly Performance (Net) Since Inception

	2004		2005		2006		2007		2008		2009		2010		2011		2012		2013	
	Kase QF	S&P 500	Kase QF	S&P 500	Kase QF	S&P 500	Kase QF	S&P 500	Kase QF	S&P 500	Kase QF	S&P 500	Kase QF	S&P 500	Kase QF	S&P 500	Kase QF	S&P 500	Kase QF	S&P 500
January			**0.7**	-2.4	**0.5**	2.7	**2.2**	1.7	**-2.0**	-5.9	**-3.2**	-8.4	**-1.5**	-3.6	**-2.6**	2.4	**13.6**	4.5	**4.3**	5.2
February			**2.2**	2.0	**-2.4**	0.2	**-3.6**	-2.1	**-7.1**	-3.3	**-8.6**	-10.8	**8.0**	3.1	**3.3**	3.4	**-0.6**	4.3	**0.7**	1.4
March			**3.5**	-1.7	**3.2**	1.3	**-0.9**	1.1	**-4.0**	-0.5	**3.2**	9.0	**5.2**	6.0	**-3.9**	0.0	**10.4**	3.3	**1.4**	3.8
April			**0.2**	-1.9	**1.9**	1.4	**4.0**	4.6	**-0.7**	4.9	**19.0**	9.6	**-1.4**	1.6	**2.1**	3.0	**1.4**	-0.6	**0.4**	1.9
May			**-1.0**	3.2	**2.4**	-2.9	**2.3**	3.3	**8.7**	1.2	**6.6**	5.5	**-2.6**	-8.0	**-2.0**	-1.1	**-13.8**	-6.0	**2.6**	2.3
June			**-2.2**	0.1	**-0.4**	0.2	**-2.8**	-1.5	**-1.4**	-8.4	**-4.8**	0.2	**3.7**	-5.2	**-2.4**	-1.7	**0.4**	4.1	**-1.0**	-1.3
July	**1.1**	-3.4	**0.9**	3.7	**-0.3**	0.7	**-6.1**	-3.0	**-1.8**	-0.9	**7.3**	7.6	**3.3**	7.0	**-4.5**	-2.0	**1.0**	1.4	**-0.4**	5.1
August	**0.1**	0.4	**-2.8**	-1.0	**2.7**	2.3	**2.0**	1.5	**-3.5**	1.3	**5.9**	3.6	**-1.0**	-4.5	**-13.4**	-5.4	**-6.6**	2.3	**-6.0**	-2.9
September	**-0.1**	1.1	**-0.9**	0.8	**4.8**	2.6	**-1.2**	3.6	**15.1**	-9.1	**6.5**	3.7	**1.6**	8.9	**-9.2**	-7.0	**-0.3**	2.6	**4.0**	3.1
October	**-0.7**	1.5	**1.7**	-1.6	**5.6**	3.5	**9.0**	1.7	**-13.9**	-16.8	**-2.3**	-1.8	**-1.7**	3.8	**7.2**	10.9	**1.4**	-1.9	**5.7**	4.6
November	**0.4**	4.0	**3.5**	3.7	**2.6**	1.7	**-4.3**	-4.2	**-10.5**	-7.1	**-1.5**	6.0	**-2.0**	0.0	**-0.3**	-0.2	**-5.6**	0.6	**0.1**	3.0
December	**-1.2**	3.4	**-1.0**	0.0	**1.1**	1.4	**-5.7**	-0.7	**-4.7**	1.1	**6.5**	1.9	**0.5**	6.7	**0.2**	1.0	**0.8**	0.9	**3.6**	2.5
YTD TOTAL	**-0.4**	**7.1**	**4.6**	**4.9**	**23.7**	**15.8**	**-5.9**	**5.5**	**-25.4**	**-37.0**	**37.0**	**26.5**	**12.1**	**15.1**	**-24.1**	**2.1**	**-0.7**	**16.0**	**15.9**	**32.4**

Past performance is not indicative of future results.

Note: Returns in 2013 reflect the benefit of the high-water mark, assuming an investor at inception.

Appendix A: Top 10 Long Positions

Note: The stocks are listed in descending order of size as of 2/7/14.

1) The Howard Hughes Corp.

When General Growth Properties emerged from bankruptcy in early November 2010, it did so as two companies: GGP, which had all of the best malls, and HHC, a collection of master planned communities, operating properties, and development opportunities in 18 states. Many of these properties are generating few if any cash flows and are thus very hard to value, but I think the company has undervalued, high-quality real estate assets in premier locations and that there are many value-creating opportunities that can be tapped.

In July and August 2012 I visited four of Howard Hughes's properties that account for two-thirds of the company's book value: Summerlin (Las Vegas), The Woodlands (Houston), Ward Centers (Honolulu), and South Street Seaport (NYC). In all cases, I was extremely impressed with the properties, the managers running them, and the development plans underway.

I estimated in October 2012 (see this slide presentation) that HHC's intrinsic value is as much as $125/share. So with the stock up 65% last year and sitting at $126 today, why haven't I sold it? Because there have been numerous favorable developments in the past 16 months: the company is executing superbly and the macro environment is providing a strong tailwind, so HHC's intrinsic value has risen nicely. I hesitate to put a number on it today because HHC is very difficult to value with precision, but I'm confident that it's quite a bit higher than today's level and rising at a solid clip, so this is a stock I hope to own for many more years.

2) Berkshire Hathaway

I feel like a broken record as, yet again, I write that Berkshire is firing on all cylinders and the stock remains moderately undervalued. After its 33% rise in 2013, it isn't quite as cheap today as it was a year ago, but at $169,000, it's still roughly 15% below my estimate of its intrinsic value of approximately $200,000. The latest version of my slide presentation on Berkshire is posted here.

3) AIG

AIG rose 45% last year, but at $49 still trades at a 27% discount to book value of $67.10 (and a 22% discount book value excluding accumulated other comprehensive income (AOCI) of $62.68). A high-quality global franchise like AIG, which is moving quickly to improve its business and reduce its combined ratio, is easily worth book value. For further thoughts, see these slide presentations from May 2012, October 2012 and September 2013.

4) MagicJack

I've just written an article, *MagicJack: My Next Netflix*, which details my investment thesis. Click here to read it.

5) Air Products and Chemicals

APD is one of four major global players in the industrial gas industry, which is an extremely attractive business. Typically, APD (or one of its peers) builds a plant next to a customer's facility (perhaps a steel mill), with a long-term supply contract for roughly 65% of the plant's output that allows APD to earn a decent return on the major investment required to build the plant. Where things really get attractive for APD is the ability to sell the other 35% of the plant's output at very high returns.

APD and its peers benefit from three things: a) customer dependence on the product; b) technological advancements that create new uses for industrial gasses; and c) rapid growth and industrialization in places like China, India and Brazil.

But the stock, trading at 23x trailing earnings and 11x EV to EBITDA, doesn't seem cheap, so why did I buy it? Because I think APD's earnings are depressed due to poor management. As this table shows, APD's economic characteristics, while attractive, are far inferior to those of the leading company in the industry, Praxair:

	Gross Margin	Net Margin	Return on Assets	Return on Equity
APD	26.8%	9.9%	5.5%	14.4%
Praxair	43.4%	14.7%	8.7%	26.3%

There is no reason why APD's performance can't improve to Praxair's level over time.

However, many companies are undermanaged and hence underperform for years on end, so I wouldn't own this stock unless there was a catalyst. In this case, activist investor Pershing Square announced a 9.8% stake in APD last July and in September the company announced a settlement in which Pershing got two board seats, APD's CEO announced his retirement, and his replacement will be selected by a search committee on which the two Pershing directors will serve. I think a new CEO will be hired in the near future who will drive a meaningful improvement in APD's performance. If this happens, the stock should do very well.

In many ways, this investment reminds me of Canadian Pacific, another Pershing Square activist situation from which we've profited greatly: a highly attractive oligopolistic industry in which the target company is significantly underperforming its peers for no good reason other than poor management. Once strong new management takes charge and the potential of the business begins to be realized, the stock, despite appearing to be expensive, soars.

6) and 7) Hertz and Avis

I normally avoid the stocks of companies in lousy, capital-intensive industries (like renting cars), which are characterized by cutthroat competition, low margins, low returns on capital, and high debt levels. But when such industries consolidate – since 1999 the auto rental business has gone from six major competitors to three (Hertz, Avis, and Enterprise) that now control 90% of the U.S. industry and more than 98% of the airport segment – and the few remaining players start behaving rationally and raising prices, there can be a decade-long tailwind of strong top-line growth combined with improved pricing, margins, and returns on capital, leading to rapidly rising earnings. This, combined with investors awarding these earnings a higher multiple, can lead to tremendous long-term stock returns – a great example is the railroad industry over the past decade. See pages 50-63 of this slide presentation for further details.

8) Boeing

Like APD, Canadian Pacific and Netflix, Boeing's stock looks expensive at 21x trailing earnings and 11x EV to EBITDA, but over time I think it will prove to be a bargain. There is an unprecedented aerospace "supercycle" in both developed and emerging markets. In the former, airlines are healthy (and, thanks to a great deal of consolidation, I expect this will remain so, though of course the industry will always be cyclical) and the economics of replacing older aircraft are extremely attractive due to high fuel prices, record operating-cost improvements of new aircraft, and easy financing. As for the latter, the rapid growth of the middle class in emerging markets is driving tremendous growth.

Boeing, along with Airbus, is well positioned to benefit from this supercycle. The commercial airplanes division, which accounts for 61% of revenues, booked orders for 1,355 aircraft during 2013 and finished the year with a backlog of 5,080 airplanes valued at a record $374 billion. Boeing expects to deliver approximately 720 planes in 2014, so the backlog represents more than *seven years* of production at current levels. This is nearly *double* the backlog Boeing has had at previous peaks and gives the company exceptional visibility into future earnings, especially since the backlog and production barely budged in the 2008 recession, whereas in past cyclical downturns, it's plunged.

I believe the stock will be a strong performer in coming years, driven by a number of factors: a) production problems on the 787 are being resolved; b) the company is poised to begin harvesting cash flow from the 787 after many years of heavy investment; c) fewer labor issues now that the machinists union approved a major agreement a month ago; d) the new 777X ramping up; e) a steady dividend (currently 2.3% after a recent 50% increase), and f) a ramp-up of share repurchases ($1.0 billion last quarter, $2.8 billion for the year, and a new $10 billion authorization).

9) Canadian Pacific
CP was a chronically underperforming railroad, plagued by an ineffective CEO and a complacent board. Pershing Square took a large stake in the company in late 2011 and, after unsuccessfully trying to persuade the board to remove the CEO, waged a successful proxy battle that resulted in a mostly new board and the hiring of Hunter Harrison as CEO. Harrison is a legend in the industry for the remarkable turnarounds he led at Illinois Central and Canadian National (for more information, see Pershing Square's excellent slide presentation at: www.visualwebcaster.com/Pershing/84724/materials0812.html).

I purchased the stock after attending the company's analyst/investor day in December 2012 and seeing the remarkable strides the company had already made in less than six months of Harrison's leadership. It went against every bone in my body to buy the stock after it had doubled in just over a year to $100, but as I wrote in last year's annual letter: "I think it's a good bet to hit $150 within 2-3 years and approach $200 within five years."

It was a good bet: the stock was up 49% last year and currently sits at $152. Our gains have been magnified by the fact that I made the investment in the form of five-year $80-strike call options, purchased for $40 when the stock was at $100. I rarely use options, but these were too attractive to pass up. They are now $72 in the money and still have nearly four years left, meaning that the investment has nearly doubled vs. a 50% increase in the stock.

This investment highlights two investment traps I do my best to avoid. The first is the “I missed it” syndrome whereby one looks at a stock that’s moved up in price, says, “Rats, I missed it”, and doesn’t consider it further. How many people figured out that Warren Buffett was an investment genius long ago, but fell prey to the “I missed it” syndrome when Berkshire’s stock was at $100, $1,000, $10,000, and $100,000/share? It’s completely irrelevant where a stock has been; the *only* thing that matters is where it’s priced today and whether that price reflects an attractive risk-reward equation. Easy to say, but hard to do…

The second trap is the “not invented here” syndrome. Value investors tend to be contrarians, so they take particular pride in coming up with investments that they found themselves and in which no other investor they know holds a position. I too have a fondness for such investments. But it’s irrational to reject a great investment idea just because someone else had it first or “everyone else owns it.” My job is to find great investments, regardless of their provenance, so while I always do my own work, every quarter I scour the 13F filings of the most successful value investors, read publications like my own, Value Investor Insight and SuperInvestor Insight, track web sites like Value Investors Club and SumZero, etc. in search of new ideas to research. As Picasso once said, “Good artists copy but great artists steal.”

10) Micron Technology

Micron manufactures semiconductors, primarily dynamic random access memory (DRAM) chips (about 70% of revenues) and NAND flash memory products (most of the remainder). The DRAM industry has been abysmal for decades, characterized by cutthroat competition, high capital expenditures, excess capacity, and enormous cyclicality. But the industry has now consolidated to the point that three companies – Micron, Samsung, and SK Hynix – now control over 90% of the business and they are all competing rationally, restraining capacity expansion and exercising price discipline. Similar dynamics are at work in the NAND industry as well. In addition, the demand for both DRAM and NAND is increasing rapidly thanks to the growth in storage, cloud computing, smartphones, tablets, video game consoles and the like. The end result is greatly improved pricing and an enormous tailwind for Micron that I think will continue for another couple of years at least.

While the stock has nearly quadrupled in the past 13 months, it remains cheap, trading at less than 10x and 5x this year’s estimates of earnings and EBITDA, respectively – and I think Micron is poised to blow past these estimates by a large margin.

The T2 Qualified Fund, LP (dba the Kase Qualified Fund) (the "Fund") commenced operations on July 1, 2004. The Fund's investment objective is to achieve long-term after-tax capital appreciation commensurate with moderate risk, primarily by investing with a long-term perspective in a concentrated portfolio of U.S. stocks. In carrying out the Partnership's investment objective, the Investment Manager, T2 Partners Management, LP (dba Kase Capital Management), seeks to buy stocks at a steep discount to intrinsic value such that there is low risk of capital loss and significant upside potential. The primary focus of the Investment Manager is on the long-term fortunes of the companies in the Partnership's portfolio or which are otherwise followed by the Investment Manager, relative to the prices of their stocks.

There is no assurance that any securities discussed herein will remain in Fund's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent the Fund's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. The material presented is compiled from sources believed to be reliable and honest, but accuracy cannot be guaranteed.

It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. All recommendations within the preceding 12 months or applicable period are available upon request. Past results are no guarantee of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.

Performance results shown are for the Kase Qualified Fund and are presented net of all fees, including management and incentive fees, brokerage commissions, administrative expenses, and other operating expenses of the Fund. Net performance includes the reinvestment of all dividends, interest, and capital gains.

The fee schedule for the Investment Manager includes a 1.5% annual management fee and a 20% incentive fee allocation. For periods prior to June 1, 2004 and after July 1, 2012, the Investment Manager's fee schedule included a 1% annual management fee and a 20% incentive fee allocation. In practice, the incentive fee is "earned" on an annual, not monthly, basis or upon a withdrawal from the Fund. Because some investors may have different fee arrangements and depending on the timing of a specific investment, net performance for an individual investor may vary from the net performance as stated herein.

The return of the S&P 500 and other indices are included in the presentation. The volatility of these indices may be materially different from the volatility in the Fund. In addition, the Fund's holdings differ significantly from the securities that comprise the indices. The indices have not been selected to represent appropriate benchmarks to compare an investor's performance, but rather are disclosed to allow for comparison of the investor's performance to that of certain well-known and widely recognized indices. You cannot invest directly in these indices.

This document is confidential and may not be distributed without the consent of the Investment Manager and does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product. Any such offer or solicitation may only be made by means of delivery of an approved confidential offering memorandum.