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Dear Partner,

I've started writing my 2012 annual letter and, in light of the fact that many investors make annual asset allocation decisions at the end of the year, I wanted to share with you in advance what I've written so far.

Performance Since July 1st

When Glenn and I decided in June to manage money independently, we sold the fund down to approximately 30% long and 20% short. I took over as sole portfolio manager at the beginning of July and during the month repurchased six of my favorite stocks – many of which I've owned for years – and added one more, Apple. Since then, I have not bought any new positions (though I've been looking hard!) and through November all seven stocks I bought in July had risen in value.

So why did the fund decline 9.4% over this period? There are two answers:

1) Despite the solid performance of the stocks I bought in July, the fund actually lost money on the long side due to the very poor performance of four illiquid legacy positions: Iridium warrants, dELiA*s, Grupo Prisa, and the Japan side fund.

2) The fund also lost money on the short side, which led me to do a great deal of thinking about my experience as a short seller – not just over the last five months, but over the decade that has passed since I shorted my first stock (Farmer Mac) in 2002. As a result of this process, I've modified my strategy on the short side, discussed further below.

New Strategy Starting in July

In late June, as I prepared to manage the fund by myself, I thought hard about how to maximize my chances for success going forward. The decision I came to was not a novel one: I decided to go back to the much simpler, more focused, lower-risk approach that had worked for me so well early in my career. To that end, I significantly reduced the fund's overall exposure, position sizes, use of options, and trading volume, and wrote the following to you on June 22nd:

> In this extremely difficult, complex, and uncertain investing environment, I truly believe that less is more. Going forward, the funds I manage will be concentrated in my very best, carefully researched investment ideas, with approximately 15 meaningful positions on the long side and 25 (smaller) positions on the short side. My target portfolio exposure is 90-110% long and 40-60% short. In this increasingly short-term, trading-oriented environment, I aim to do as little trading as possible, and would be delighted if I am able to generate a handful of great investment ideas each year.

Today, six months later, I am certain that this was the right strategy to adopt. My mind is clear and focused on the long term, and the fund is conservatively positioned in my very best ideas. The only adjustment I have made is to further simplify and focus the fund's short book.

Shorts

Beginning in July, I reestablished my favorite short positions and added a number of new ones over the course of the fall, resulting in 20-25 positions and exposure in the 30-40% range. While this is far lower than the level of recent years, I concluded that it is still too many positions and too much exposure and adjusted the portfolio accordingly.

Allow me to explain my thinking: I have always shorted to make money, first and foremost, but also sought to hedge the fund's long exposure. But to effectively hedge a fully (80-100%) invested long book, one needs 40-60% short exposure, which in turn requires at least 25 short positions (since the inherent risk in shorting generally requires smaller position sizes than similar-conviction longs).

When I set targets in June of 15 long and 25 short positions, I thought this was a manageable number – but I overestimated my bandwidth. Managing two dozen short positions spread me too thinly, which had two effects: our fund suffered losses that should have been avoided and, less visibly but perhaps more importantly, the amount of time I spent on shorts impacted my ability to find great longs.

To rectify this, going forward I plan to only invest in my absolute highest conviction 10-15 short ideas, with the sole goal of making money. This change has already taken place, as the fund currently holds only 10 short positions (excluding a number of tiny ones that I haven't covered to avoid realizing substantial taxable gains).

The focus will be on flawed or broken businesses whose stocks I think are likely to suffer a precipitous, permanent decline. InterOil, Nokia, and K-12 are good examples. In contrast, I recently covered (slightly profitable) short positions in Chipotle and Caterpillar. Both companies face near-term headwinds that are, in my opinion, not reflected in their stock prices, which I why I shorted them. But both are also excellent businesses that I wouldn't want to bet against long term, so I'm not going to bet against them short term either. I will discuss specific short positions – both ones in the portfolio as well as those I decided to sell – in greater depth in my annual letter next month.

With meaningfully fewer positions, the fund's short exposure going forward will likely be in the 15-30% range (it's 16% today). Reducing short exposure without materially changing long exposure of course results in a higher net long position, which means the fund should, in general, perform better in rising markets, but not as well during market declines.

This is a trade-off I'm willing to make for three reasons: a) historically I've had more success on the long side vs. the short side, and I expect that this will continue to be the case, so it makes sense to tilt the portfolio more toward the long side (though I do think the fund's more focused short book will contribute to returns going forward); b) I think the U.S. stock market, after 13 years of near-zero returns, will likely compound at 4-6% (including reinvested dividends) over the next decade; and c) I hope to be clever in identifying major bubbles and busts, as I did with the Internet and housing markets, and increase short exposure at the right times.

Longs
I am pleased with the fund's concentrated yet well-diversified long portfolio, which I believe will substantially outperform the market over time. Here is a list of every position the fund holds today, ranked in descending order of size (there are no options or warrants):

1. Berkshire Hathaway
2. Howard Hughes
3. AIG
4. Citigroup
5. Netflix
6. Apple
7. Goldman Sachs
8. Grupo Prisa
9. dELiA*s
10. Spencer Holdings (private placement)
11. Japan side fund (private placement)
12. Iridium
13. Spark Networks

I will discuss each of these positions in depth in my annual letter next month.

Note that the illiquid legacy positions that hurt our performance in recent months, which were approximately 30% of capital on July 1st, are now only 12%. With the benefit of hindsight, I of course wish that I'd sold more of them, but today I think they are a basket of attractive "mispriced options" that will do well from current depressed levels.

The fund is currently 52% long, and my highest priority is to carefully increase this to 80-100%. With the S&P 500 up more than 14% year-to-date, however, I have found few highly attractive stocks to buy. I've been doing a lot of work on a range of companies and am finding many stocks that are trading at a 10-20% discount to intrinsic value, but that's not a big enough margin of safety, so I continue to look. My experience over nearly 14 years is that my patience has eventually been rewarded.

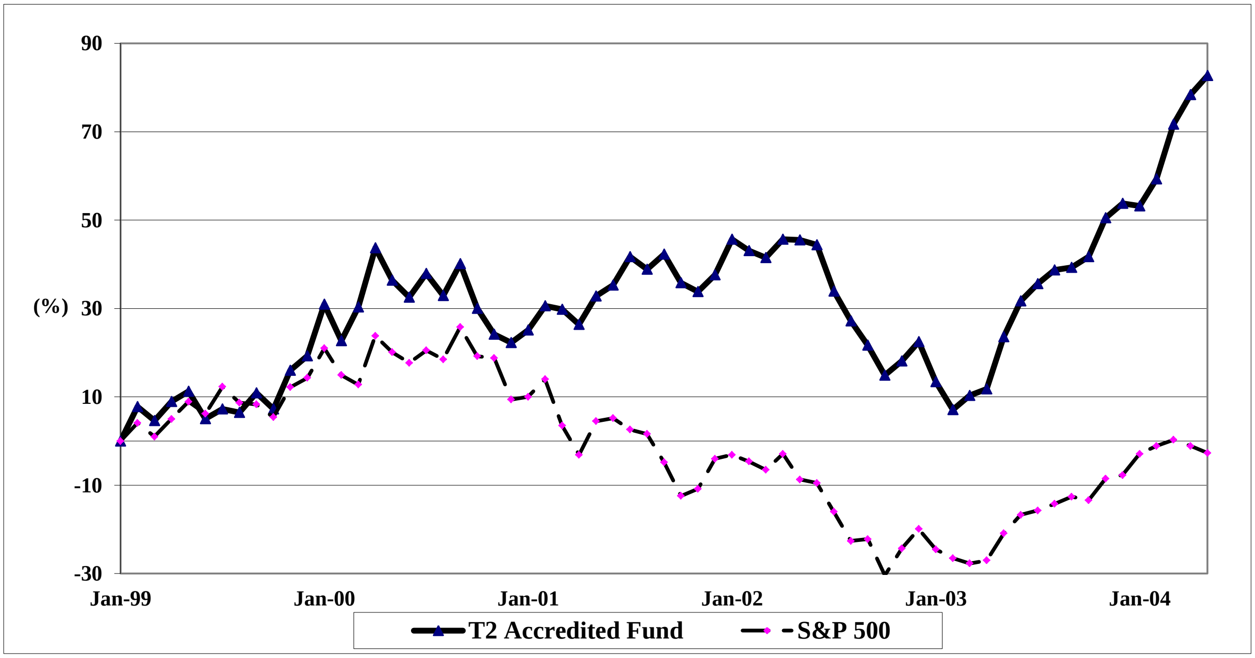
Continuing Your Investment
The fund's returns have been dreadful for more than two years now, which I understand might make you question your investment with me. The best two arguments I can make in asking you to give me more time to turn things around are: a) my 5+ year track record managing money in a style similar to today; and b) the fact that nearly every investor, even those with the best long-term records, goes through periods of significant underperformance.

Regarding the former, below is the track record of my original hedge fund when I was running it by myself in the 5 1/3 years from January 1999 through April 2004. As you can see in the table and chart below, it substantially outperformed all of the indices, beating the S&P 500 by 12.5

percentage points per year on a compounded basis. Obviously the world has changed a great deal since then and I cannot promise similarly strong returns, but one thing I can say for sure is that I have much more experience now than I did then.

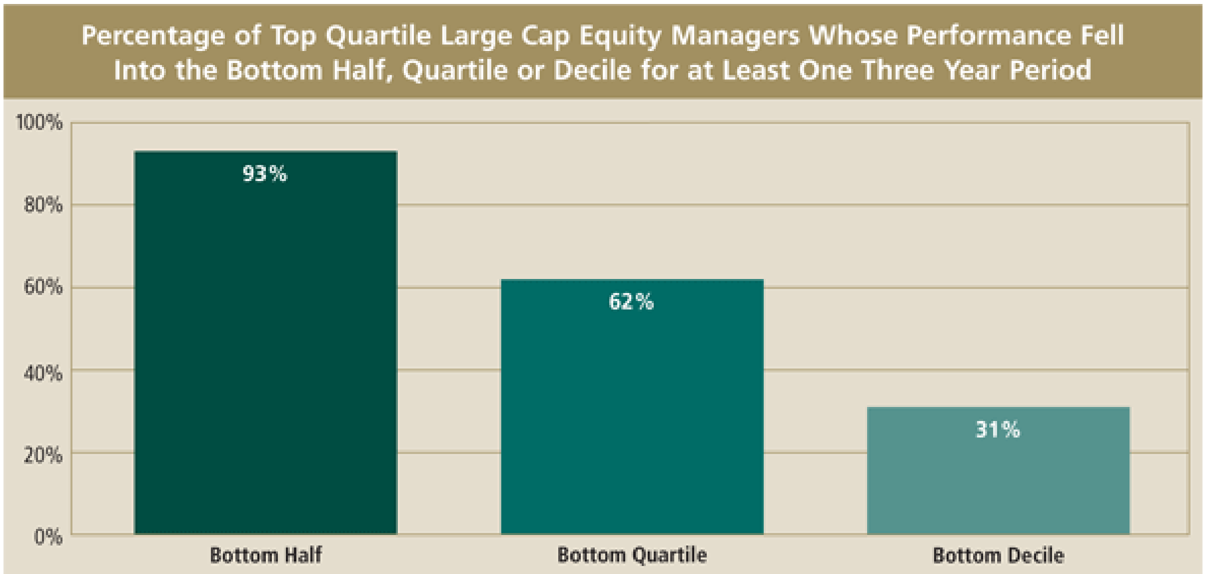
	Total Return Since Inception	Annualized Since Inception
T2 Accredited Fund - gross	108.9%	14.8%
T2 Accredited Fund - net	82.7%	12.0%
S&P 500	-2.7%	-0.5%
Dow	23.8%	4.1%
NASDAQ	-12.4%	-2.5%

Notes: From January 1999-April 2004. Gross and net returns are after the 1% management fee and all other expenses of the fund.



Regarding the latter, it's important for both investors (you) and investment managers (me) to understand that virtually all money managers will underperform at times, occasionally badly and for extended periods, yet the long-term results can still be excellent. Indeed, the well-respected Davis Funds did a study of the 192 large-cap funds with top-quartile performance during the decade ending 12/31/10 and found some surprising results:

- 93% of these top managers' rankings fell to the bottom half of their peers for at least one three-year period
- A full 62% ranked among the bottom quartile of their peers for at least one three-year period, and
- 31% ranked in the bottom decile for at least one three-year period, as this chart shows:



Davis Funds concluded:

> When faced with short-term underperformance from an investment manager, investors may lose conviction and switch to another manager. Unfortunately, when evaluating managers, short-term performance is not a strong indicator of long-term success.
>
> Though each of the managers in the study delivered excellent long-term returns, almost all suffered through a difficult period. Investors who recognize and prepare for the fact that short-term underperformance is inevitable—even from the best managers—may be less likely to make unnecessary and often destructive changes to their investment plans.

The Davis study assumed that an investor simply bought at the beginning of the 10-year period and didn't add or withdraw any money. Obviously returns would have been lower for investors who added to their investment after a period of strong gains – chasing performance is very common and is one of the biggest mistakes investors make. Conversely, investors with the courage to add to their investment during periods of underperformance would have significantly improved their results.

My goal is to be one of those managers who rebounds from an extended period of poor performance to once again post outstanding long-term returns.

Conclusion
After a strong 12-year run, 2011 and 2012 were lost years. I feel very badly about this and apologize to you.

But I know you don't want an apology – you want performance! To that end, I've reflected on the many mistakes I've made, learned from them, and taken significant steps to maximize our chances of success going forward: I'm now the sole portfolio manager and have dramatically simplified, focused, and de-risked the fund. I'm confident that my strategy is sound, I will execute it well going forward, and we will all profit.

Thank you for your patience, confidence and support. If you have any comments or questions, please call me anytime on my cell phone at (646) 258-0687.

Sincerely yours,

Whitney Tilson

Whitney Tilson

T2 Qualified Fund, LP (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, LLC, 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. 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.

Performance results shown are for the T2 Qualified Fund, LP and are presented gross and net of incentive fees. Gross returns reflect the deduction of management fees, brokerage commissions, administrative expenses, and other operating expenses of the Fund. Gross returns will be reduced by accrued performance allocation or incentive fees, if any. Gross and net performance includes the reinvestment of all dividends, interest, and capital gains. Performance for the most recent month is an estimate.

The fee schedule for the Investment Manager includes a 1.5% annual management fee and a 20% incentive fee allocation. 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.

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