T2 Partners LLC

September 14, 2012

Dear Partner,

Our fund declined 6.6% in August vs. gains of 2.3% for the S&P 500, 1.0% for the Dow and 4.4% for the Nasdaq. Year to date, our fund is up 3.2% vs. 13.5% for the S&P 500, 9.2% for the Dow, and 18.3% for the Nasdaq.

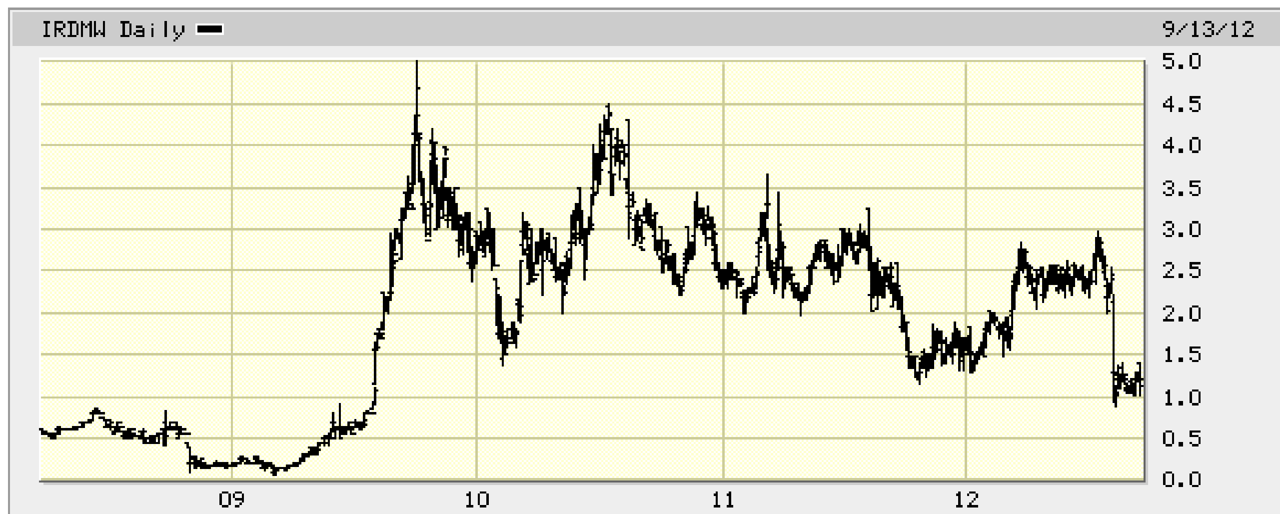
I have moved to quarterly letters and will send you my Q3 letter next month, but in the meantime I wanted to give you an explanation for our fund's decline in August, the significant majority of which was due to a 51.3% drop in one large position, Iridium warrants. I discuss the reasons for this below.

At one time this was one of our most successful investments ever, rising more than 25-fold from trough to peak, but rather than harvesting our gains, we added to the position, it grew to be too large, and last month we paid the price for this failure of risk management. As I discuss further below, I identified the risk and was actively taking steps to mitigate it, but ran out of time. I have learned some powerful (and sobering) lessons and will not allow a situation like this to happen again.

History

During the crisis in late 2008, Glenn and I initially purchased more than two million warrants across the funds we manage of what was then called GHL Acquisition Corp., a special purpose acquisition company (SPAC) managed by Greenhill & Co. By the end of 2008, these warrants were trading for only 20 cents and accounted for less than half of 1% of our portfolio.

Then the market started to improve, Greenhill announced a deal to merge its SPAC with Iridium, and the warrants (which have a $7 strike price and expire on February 14, 2013) rose exponentially, as you can see in this chart:



The GM Building, 767 Fifth Avenue, 18th Floor, New York, NY 10153

With the benefit of hindsight, we should have harvested our enormous gains but, believing in the long-term future of the company, we instead added to our position. Consequently, at prices around $2.50 per warrant, it's been a low double-digit size position for most of this year.

My confidence in the company's management and growth prospects has never wavered, nor has my belief that the stock is deeply undervalued. However, as time went on I grew gravely concerned over the size of the position in light of the inherent risks in the company's business model and the resulting volatility in the stock, which is magnified in the warrants.

Mitigating the Risk

When I became the sole portfolio manager at the beginning of July, I was determined to reduce the size of the position to approximately 3%, but this was no easy task given that the funds own millions of warrants yet fewer than 25,000 trade every day on average.

My solution was to short the underlying stock, thereby locking in the gain. For example, in mid-July the stock was at $9.40 and the warrants were at $2.75, reflecting $2.40 of in-the-money value ($9.40 minus the $7.00 strike price) and $0.35 of option value, reflecting the seven months remaining before the options expired. Thus, for each share of stock I shorted, I was locking in $2.40 of gains, but giving up $0.35 of option value (and, of course, any further upside). Naturally, I would have preferred to simply sell the warrants for $2.75 and not forego the $0.35, but the illiquid nature of the warrants made that impossible. I therefore decided to give up a little bit of upside to achieve my primary objective of reducing our fund's exposure.

Over the course of July, I was pleased to be able to short 1.2 million shares of Iridium, against which I exercised 1.2 million warrants, sending the company $8.4 million (from the proceeds I'd generated from shorting the stock) and receiving 1.2 million shares in return, which I then used to cover the open short position.

Everything was going smoothly, as I was steadily reducing the size of the position without meaningfully impacting the stock price with my shorting. All I needed was for the stock to hang in there for another few months and I would have been able to reduce the position size to my goal.

Iridium's Q2 Earnings Report

Unfortunately, in its Q2 earnings report on August 2nd, Iridium for the first time missed consensus estimates and reduced guidance slightly. While total subscribers and net income grew a healthy 21% and 51% year over year, respectively, revenues only rose 1% (4% below expectations) and Operational EBITDA grew 7% (3% below expectations). The company also slightly lowered the outlook it had given in May for both 2012 OEBITDA (from $210-$220 million to $205-$210 million) and service revenue growth through 2015 (from 9-13% to 8-12% annually).

Nevertheless, the company was continuing to do well and only missed estimates by a small amount, so the stock shouldn't have been down more than a few percent. Instead, however, it fell 22% from $9.05 to a low of $7.04 a few days later, while the warrants fell 58% from $2.40 to a

low of $1.01 (both have subsequently rebounded—the stock and warrants currently trade at $7.66 and $1.19).

Why such a big decline from such a small miss? The answer was in Iridium's 10Q, where it reported that:

> In August 2012, we entered into a supplemental agreement with the syndicate of bank lenders, or the Lenders, under the Credit Facility, [which among other things] requires us to raise convertible preferred or common equity by April 30, 2013 in an amount approximately equal to any unexercised portion of the warrants to purchase the Company's common stock at a price of $7.00 per share, which expire in February 2013… As of June 30, 2012, the full exercise of our outstanding $7.00 Warrants would have provided us with $95.6 million of proceeds.

In other words, the banks that are lending Iridium the roughly $3 billion to launch its next generation of satellites want Iridium to raise additional equity, so Iridium agreed to raise $95.6 million, which is equal to the proceeds the company expects if the nearly 14 million warrants are exercised and the company collects $7 per warrant. [As noted earlier, I exercised 1.2 million warrants in July for $8.4 million, so the outstanding balance today is no more than $87.2 million.]

That's all well and good as long as the stock is above $7 in mid-February 2013 and the warrants are all exercised – but what if this doesn't happen? In that case, the company is still obligated to raise the money – no matter what the stock price. If it falls to $6, the company would have to issue 14.5 million shares to raise $87.2 million; if it falls to $5, it would have to issue 17.4 million shares, and so on. Although I don't think such a death spiral scenario is likely, an agreement to raise a fixed amount of equity without a floor on the stock price introduces the risk of significant uncapped dilution to shareholders, so typically only weak and desperate companies would agree to such terms. Iridium certainly doesn't fit this profile, so I can only assume that management and the board, seeing the stock in the $8-9 range for many months, were lulled into failing to consider a worst-case scenario. This was an unnecessary unforced error.

I'll conclude with a three pieces of good news regarding this investment:

1) Though I don't think it's likely, Iridium might be able to renegotiate with its lenders to modify this clause and remove the tail risk.

2) Iridium's underlying business remains strong. The company has one more earnings report (in early November) before the warrants expire in mid-February, and a second earnings report (in early March) before it has to raise the additional equity by the April 30th deadline, so there's plenty of time for the company to report strong results and for the stock and warrants to rally. The warrants could go back up in value just as fast as they declined.

3) Though it got there the wrong way, Iridium warrants are less than a 5% position today, so the downside risk going forward is much lower.

Rebuilding the Portfolio

In my last letter, I wrote:

> Since the beginning of July, I have begun putting the fund's cash back to work in what I believe to be exceptionally attractive investments. It has been a productive period as I picked some low-hanging fruit, and the fund is now over 50% invested on the long side and more than 20% on the short side. I will invest more slowly in the coming months as I carefully and deliberately rebuild the portfolio toward my approximate target of 100% long and 40% short.
>
> I am very enthusiastic about the target-rich environment I'm seeing on both the long and short sides right now, and am hoping for continued market dislocation and volatility so that I can invest at even better prices. In light of the weak economy in the U.S., the ongoing sovereign debt crisis in Europe (which I am currently seeing in person at a European value investing conference in Italy, followed by a short stay in Germany on the way home), and the possibility of big problems in both China and Japan, I think it's a good time to have a lot of cash and be very patient in putting it to work.

As promised, I have invested additional capital very carefully since I wrote that letter, and the fund today is 55% long and 41% short. Unfortunately, however, the markets have not cooperated as stocks have risen steadily and complacency abounds. For example, the VIX (which measures the volatility of the S&P 500) has fallen 15% since the end of June and today, 537 U.S. stocks hit 52-week highs and only 16 hit 52-week lows.

Consequently it's a target-rich environment on the short side, as the diciest companies have run up the most, but I'm finding that good long investments are few and far between right now. But that's okay – I like having a lot of cash and low net exposure during times of complacency.

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

Sincerely yours,

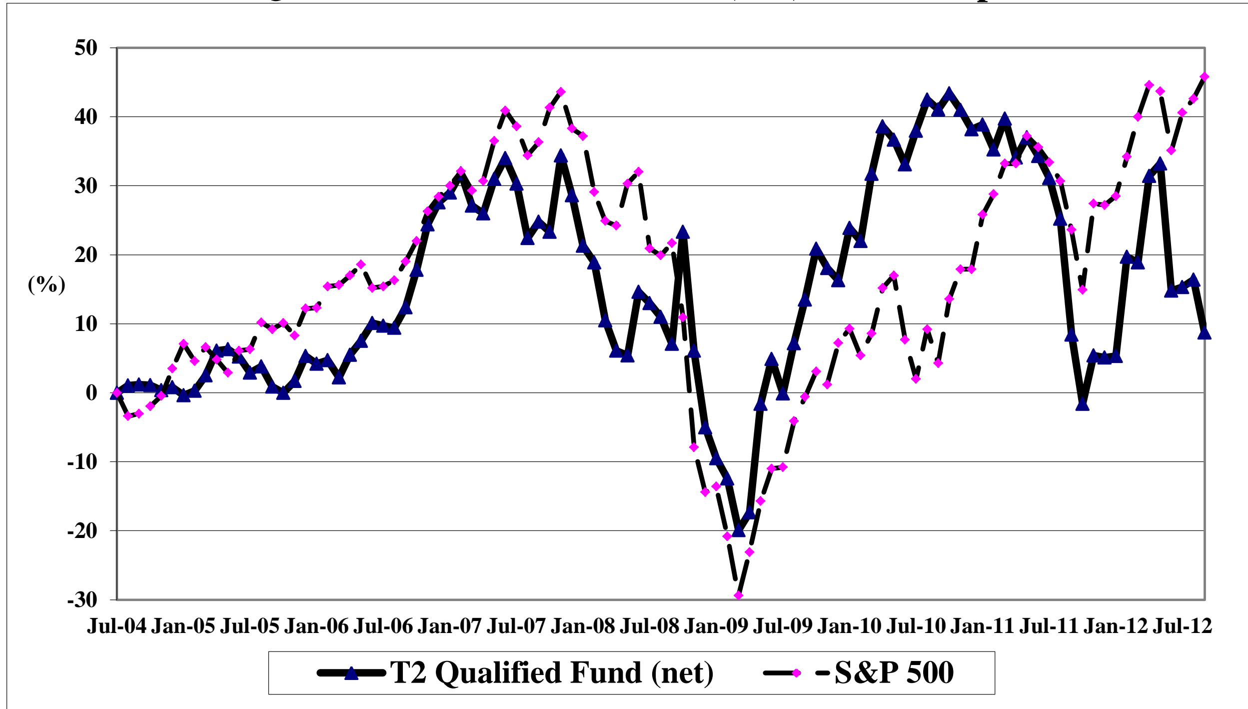
Whitney Tilson

The unaudited return for the T2 Qualified Fund versus major benchmarks (including reinvested dividends) is:

	August	Year to Date	Since Inception
T2 Qualified Fund – net	-6.6%	3.2%	8.7%
S&P 500	2.3%	13.5%	45.8%
Dow	1.0%	9.2%	55.1%
NASDAQ	4.4%	18.3%	56.6%

Past performance is not indicative of future results. Please refer to the disclosure section at the end of this letter. The T2 Qualified Fund was launched on 7/1/04.

T2 Qualified Fund Performance (Net) Since Inception



T2 Qualified Fund Monthly Performance (Net) Since Inception

	2004		2005		2006		2007		2008		2009		2010		2011		2012	
	T2 QF	S&P 500	T2 QF	S&P 500	T2 QF	S&P 500	T2 QF	S&P 500	T2 QF	S&P 500	T2 QF	S&P 500	T2 QF	S&P 500	T2 QF	S&P 500	T2 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
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
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
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
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
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
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
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
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		
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		
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		
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		
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**	**3.2**	**13.5**

Note: Returns in 2009 and 2012 reflect the benefit of the high-water mark, assuming an investor at inception.

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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