**Offering Memorandum No. _____**


# CONFIDENTIAL PRIVATE OFFERING MEMORANDUM
# DHANDHO HOLDINGS QUALIFIED PURCHASER, L.P.

***A Delaware Limited Partnership***

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This Confidential Private Offering Memorandum (this "Memorandum") describes the offer for sale of limited partner interests (the "Limited Partner Interests"), in Dhandho Holdings Qualified Purchaser, L.P., a limited partnership organized under the laws of the State of Delaware (the "Fund").

The first closing of this offering (this "Offering") is scheduled for February 28, 2014 (the "Initial Closing"). Thereafter, the General Partner (as defined herein) will have the authority, acting in its sole discretion, to accommodate the admission of additional limited partners (collectively, the "Limited Partners") by holding an additional closing on April 30, 2014 (the "Second Closing," and together with the Initial Closing, each a "Closing"). Investors must submit payment of the full amount of their investment and a completed subscription agreement no later than the date of the Closing in which they intend to participate, unless the General Partner, acting in its sole discretion, elects to extend such deadline by up to five business days following such Closing.

Price: Each Limited Partner Interest corresponds to a number of "Units" which is determined based upon the dollar amount of the investment in the Fund by such Limited Partner and the Closing in which such Limited Partner Interest is acquired. Units will be priced at $10 each at the Initial Closing and $10.50 each at the Second Closing. Notwithstanding this difference in price, Units issued at the Second Closing will have the same rights, duties and privileges (economic and otherwise) as Units issued at the Initial Closing.

The General Partner has targeted raising a total of between $35 million and $150 million from investors in this Offering and the concurrent offerings being made on substantially similar terms by (i) Dhandho Holdings, L.P., a limited partnership organized under the laws of the State of Delaware (the "3(c)(1) Fund"), and (ii) Dhandho Holdings Offshore Ltd., a company incorporated under the laws of the British Virgin Islands (the "Offshore Feeder," and together with the Fund and the 3(c)(1) Fund, the "Funds"). The minimum investment by each investor is $1 million for investors in the Initial Closing and $2 million for investors in the Second Closing. The General Partner, in its sole discretion, reserves the right to accept investments of lesser amounts.

THE LIMITED PARTNER INTERESTS HAVE NOT BEEN REGISTERED WITH OR APPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES AGENCY. THIS IS A PRIVATE OFFERING PURSUANT TO EXEMPTIONS PROVIDED BY SECTION 4(a)(2) OF THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND RULE 506 THEREUNDER, AND APPLICABLE STATE SECURITIES LAWS. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE AGENCY HAS PASSED UPON THE VALUE OF THESE SECURITIES, APPROVED OR DISAPPROVED THIS OFFERING, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

An investment in the Fund is speculative and intended only for experienced and sophisticated investors who have the financial ability and the willingness to accept the risk characteristics of the type of investments proposed to be made by the Fund and who meet the suitability standards set forth in this Memorandum.

**February 17, 2014**

## GENERAL INFORMATION

THIS MEMORANDUM HAS BEEN FURNISHED TO YOU ON A CONFIDENTIAL BASIS SOLELY IN CONNECTION WITH YOUR CONSIDERATION OF AN INVESTMENT IN LIMITED PARTNER INTERESTS OF THE FUND. ACCEPTANCE OF THIS MEMORANDUM BY A PROSPECTIVE INVESTOR CONSTITUTES AN AGREEMENT TO BE BOUND BY THE FOLLOWING TERMS. DUE TO THE CONFIDENTIAL NATURE OF THIS MEMORANDUM, ITS USE FOR ANY OTHER PURPOSE MAY INVOLVE SERIOUS LEGAL CONSEQUENCES AND ANY REPRODUCTION OR DISTRIBUTION OF THIS MEMORANDUM, OR ANY OTHER DISCLOSURE OF ITS CONTENTS, IN WHOLE OR IN PART, WITHOUT THE PRIOR WRITTEN CONSENT OF A REPRESENTATIVE OF THE FUND IS PROHIBITED. NOTWITHSTANDING THE FOREGOING TO THE CONTRARY, THIS MEMORANDUM MAY BE SHARED WITH PERSONS DIRECTLY INVOLVED WITH A PROSPECTIVE INVESTOR'S DECISION REGARDING THE INVESTMENT OPPORTUNITY OFFERED HEREBY, INCLUDING SUCH PERSONS PROVIDING LEGAL, TAX AND INVESTMENT ADVICE TO THE PROSPECTIVE INVESTOR WITH RESPECT TO AN INVESTMENT IN THE FUND.

AN INVESTMENT IN THE FUND INVOLVES SIGNIFICANT RISKS, INCLUDING THE RISK THAT THE INVESTORS MAY LOSE THEIR ENTIRE INVESTMENT IN THE FUND. PROSPECTIVE INVESTORS SHOULD HAVE THE FINANCIAL ABILITY AND WILLINGNESS TO ACCEPT THE RISKS THAT ARE CHARACTERISTIC OF THE INVESTMENT DESCRIBED HEREIN. IN MAKING AN INVESTMENT DECISION, A PROSPECTIVE INVESTOR MUST RELY ON HIS OWN EXAMINATION OF THE FUND AND THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. NO REPRESENTATIONS OR WARRANTIES OF ANY KIND ARE INTENDED OR SHOULD BE INFERRED WITH RESPECT TO THE ECONOMIC RETURN FROM AN INVESTMENT IN THE FUND NOR SHOULD A PROSPECTIVE INVESTOR CONSTRUE THIS MEMORANDUM AS LEGAL, FINANCIAL OR TAX ADVICE. THE PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN COUNSEL, ACCOUNTANTS AND OTHER ADVISORS FOR ADVICE CONCERNING THE VARIOUS LEGAL, FINANCIAL AND TAX CONSIDERATIONS RELATING TO AN INVESTMENT IN THE FUND.

THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR SOLICITATION TO PURCHASE IN ANY COUNTRY, STATE OR OTHER JURISDICTION TO ANY PERSON OR ENTITY TO WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION. EACH PROSPECTIVE INVESTOR SHOULD INFORM HIMSELF AS TO THE LEGAL REQUIREMENTS WITHIN HIS OWN JURISDICTION FOR THE PURCHASE OF LIMITED PARTNER INTERESTS OF THE FUND AND APPLICABLE TAXATION AND SECURITIES LAWS.

THE LIMITED PARTNER INTERESTS ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR SOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE AND FOREIGN SECURITIES LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. NOTWITHSTANDING THE GENERAL PARTNER'S AUTHORITY, ACTING IN ITS SOLE DISCRETION, TO COMPLETE A "REPORTING PERSON TRANSACTION," AS DEFINED IN THIS MEMORANDUM, THERE IS NO OBLIGATION ON THE PART OF ANY PERSON TO REGISTER ANY OF THE LIMITED PARTNER INTERESTS UNDER THE SECURITIES ACT OR ANY STATE OR FOREIGN SECURITIES LAWS AND THERE WILL BE NO PUBLIC MARKET FOR THE LIMITED PARTNER INTERESTS. IN ADDITION, LIMITED PARTNER INTERESTS MAY NOT BE SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED, IN WHOLE OR IN PART, EXCEPT WITH THE CONSENT OF THE GENERAL PARTNER IN ITS SOLE DISCRETION. ACCORDINGLY, INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THEIR INVESTMENT IN THE FUND FOR AN INDEFINITE PERIOD OF TIME.

NO PERSON, OTHER THAN THE GENERAL PARTNER AND ITS AUTHORIZED REPRESENTATIVES, HAS BEEN AUTHORIZED TO MAKE ANY REPRESENTATION, OR GIVE ANY INFORMATION, WITH RESPECT TO THE FUND, EXCEPT THE INFORMATION CONTAINED IN THIS MEMORANDUM, AND ANY INFORMATION OR REPRESENTATION NOT CONTAINED HEREIN OR OTHERWISE FURNISHED IN WRITING BY AN AUTHORIZED REPRESENTATIVE OF THE GENERAL PARTNER SHOULD NOT BE RELIED UPON AS HAVING BEEN SO AUTHORIZED.

FOR PURPOSES OF THIS MEMORANDUM, WHENEVER THE CONTEXT REQUIRES, THE MASCULINE GENDER SHALL INCLUDE THE FEMININE AND NEUTER GENDERS; THE FEMININE GENDER SHALL INCLUDE THE MASCULINE AND NEUTER GENDERS; AND THE NEUTER GENDER SHALL INCLUDE MASCULINE AND FEMININE GENDERS.

A PROSPECTIVE INVESTOR SHOULD NOT SUBSCRIBE FOR ANY INVESTMENT IN THE FUND UNLESS SATISFIED THAT HE AND HIS INVESTMENT REPRESENTATIVE HAVE ASKED FOR AND RECEIVED ALL INFORMATION WHICH WOULD ENABLE HIM OR BOTH OF THEM TO EVALUATE THE MERITS AND RISKS OF THE PROPOSED INVESTMENT. THE FUND WILL MAKE AVAILABLE TO THE PROSPECTIVE INVESTOR OR HIS INVESTMENT REPRESENTATIVE OR AGENT, DURING THIS OFFERING AND PRIOR TO THE SALE OF ANY INVESTMENT IN THE FUND, THE OPPORTUNITY TO ASK QUESTIONS OF AND RECEIVE ANSWERS FROM AUTHORIZED REPRESENTATIVES OF THE FUND CONCERNING ANY ASPECT OF THIS OFFERING AND TO OBTAIN ANY ADDITIONAL RELATED INFORMATION TO THE EXTENT THE FUND POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE.

THIS MEMORANDUM CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF DOCUMENTS THAT WILL GOVERN THE AFFAIRS OF THE FUND AND THE CONDUCT OF ITS PROPOSED OPERATIONS. WHILE THE FUND BELIEVES THE SUMMARIES ARE FAIR AND ACCURATE, THE SUMMARIES DO NOT PURPORT TO BE COMPLETE AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE TEXTS OF THE ORIGINAL DOCUMENTS, EACH OF WHICH WILL BE FURNISHED, UPON REQUEST, TO EACH PROSPECTIVE INVESTOR PRIOR TO ANY SUCH INVESTOR MAKING AN INVESTMENT IN THE FUND. STATEMENTS IN THIS MEMORANDUM ARE MADE AS OF THE DATE OF THE INITIAL DISTRIBUTION OF THIS MEMORANDUM, UNLESS STATED OTHERWISE HEREIN, AND THE DELIVERY OF THE MEMORANDUM AT ANY TIME SHALL NOT UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO SUCH DATE.

CERTAIN INFORMATION CONTAINED IN THIS MEMORANDUM CONSTITUTES "FORWARD-LOOKING STATEMENTS" WHICH CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "ANTICIPATE," "PROJECT," "ESTIMATE," "INTEND," "CONTINUE," "TARGET," "BELIEVE," THE NEGATIVES THEREOF, OTHER VARIATIONS THEREON, OR COMPARABLE TERMINOLOGY. DUE TO VARIOUS RISKS AND UNCERTAINTIES, INCLUDING THOSE SET FORTH HEREIN IN "RISK FACTORS" AND "POTENTIAL CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITIES," ACTUAL EVENTS OR RESULTS OR THE ACTUAL PERFORMANCE OF THE FUND MAY DIFFER MATERIALLY FROM WHAT IS REFLECTED OR CONTEMPLATED IN SUCH FORWARD-LOOKING STATEMENTS.

EXCEPT AS REQUIRED UNDER APPLICABLE LAW, WE DO NOT HAVE ANY INTENTION OR OBLIGATION TO UPDATE ANY STATEMENTS AFTER THE DATE OF THIS MEMORANDUM, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS, CHANGES IN ASSUMPTIONS, OR OTHERWISE.

THE LIMITED PARTNER INTERESTS ARE BEING OFFERED SUBJECT TO THE RIGHT OF THE FUND TO REJECT ANY SUBSCRIPTION IN WHOLE OR IN PART FOR ANY REASON IN ITS SOLE DISCRETION. THIS OFFERING OF THE LIMITED PARTNER INTERESTS MAY BE TERMINATED AT ANY TIME BY THE FUND.

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## DIRECTORY

| | |
|---|---|
| **Registered Agent** | Corporation Service Company<br>2711 Centerville Road, Suite 400<br>Wilmington, Delaware 19808<br>United States of America |
| **General Partner** | Dhandho GP, LLC<br>1220 Roosevelt, Suite 200<br>Irvine, California 92620-3675<br>United States of America<br>Contact: Mohnish Pabrai<br>mp@dhandho-holdings.com<br>www.dhandho-holdings.com<br>Tel. +1949.453.0609<br>Fax. +1949.453.0307 |
| **Administrator** | Michael J. Liccar & Co.<br>231 S LaSalle St., Suite 650<br>Chicago, Illinois 60604-5208<br>United States of America<br>Contact: Vishal Shah<br>vshah@liccar.com<br>Maureen Murphy<br>mmurphy@liccar.com<br>www.liccar.com<br>Tel. +1312.922.6600<br>Fax. +1312.922.0315 |
| **Legal Counsel** | Dentons US LLP<br>233 S Wacker Dr., Suite 7800<br>Chicago, Illinois 60606<br>United States of America<br>Contact: Michael M. Froy<br>michael.froy@dentons.com<br>www.dentons.com<br>Tel. +1312.876.8222<br>Fax. +1312.876.7934 |
| **Auditors** | To be determined |
| **Broker and Custodian** | UBS Financial Services, Inc.<br>Private Wealth Management<br>One North Wacker Dr., Suite 3700<br>Chicago, Illinois 60606<br>United States of America<br>Contact: Ajay Desai<br>ajay.desai@ubs.com<br>desaigroup@ubs.com<br>www.ubs.com<br>Tel. +1855.314.8910 Toll Free |

Fax.+1855.574-5057

**REQUESTS FOR ADDITIONAL INFORMATION SHOULD BE DIRECTED TO:**

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United States of America
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**INTRODUCTORY LETTER FROM MOHNISH PABRAI**
**An "Owner's Manual" for Dhandho Holdings Qualified Purchaser, L.P. (together with the related Dhandho funds described elsewhere in this Memorandum, "Dhandho")**

Dear Potential Investor in Dhandho:

While I strongly encourage you to read all the offering and legal documents carefully before you make a decision on investing, I wrote this document to help you better understand Dhandho. Reading this document is not a substitute for reading the legal docs.

This owner's manual was inspired by Berkshire Hathaway's Owner's Manual and Google's Owner's Manual (from the Google S-1 before Google went public). While the core principles listed here are timeless, this manual will go through updates as we progress from a start-up Limited Partnership (LP) to a funded LP to a public company.

The very first question that likely arises in your mind is why would I want to create this new entity or raise capital. Pabrai Funds has almost $700 million in assets under management. We are acquiring an insurance company valued at under $40 million. Why not do this inside Pabrai Funds? The primary reasons for the new entity, Dhandho are:

1. Pabrai Funds has a mandate to invest only in publicly traded equities (stocks) and bonds. It cannot buy private businesses. Thus it cannot purchase the business I have an interest in acquiring. I could have pursued amendments/side pockets etc., but that is not the type of ride/entity many Pabrai Funds' investors signed up for. Better to keep the vehicles separate and distinct.

2. I have had an interest for well over a decade in owning/controlling a high quality "float engine." Property and Casualty Insurers represent the biggest category of float generators. Float is cash held by an insurance company to be paid out as claims are settled in the months, years and decades ahead.

   A well-run insurance operation will, on average, over the long term, generate underwriting profits. Thus, the float that it holds has a *less than zero cost*. This float can be invested in a variety of ways and gains on these investments represent an additional source of profitability. A well-run insurance operation *is paid to hold other peoples' money*. Even the very best run bank does not have such an advantage. Float is not an asset owned by any insurance company. However, the benefits (or costs) of holding that float accrue fully to the insurer.

3. While there are several regulations and guidelines by rating agencies on how float can be invested, most insurance companies – even good ones – are, at best, good at underwriting, but mediocre to sub-par on investing. Some examples of insurers that are great at investing and underwriting are Berkshire Hathaway, Markel and Fairfax Financial. For all of these three businesses, quite a significant portion of shareholder gains were purely generated from their float engines. I believe Dhandho is a great vehicle to own one or more high-quality insurers. My primary competency is investing and

capital allocation and a potentially permanent vehicle like Dhandho is ideal to own high-quality insurance operations.

4. The insurer we hope to acquire will see its financial strength improve considerably once it is owned by Dhandho. And over time, as Dhandho acquires more insurance and non-insurance businesses, this financial strength is likely to continue to improve. Thus it is a win-win for its policy holders, its claimants, its present owners as well as shareholders of Dhandho. The entire ecosystem benefits from this acquisition.

Thus Pabrai Funds and Dhandho will co-exist and both will be managed by yours truly. These are distinctly different vehicles, but there is some overlap and potential conflict of interest. Both Dhandho and Pabrai Funds can (and will) invest in marketable securities. In the purchase or sale of marketable securities, Pabrai Funds will always go first. After its appetite is fully satisfied, then Dhandho would start its buying or selling. Going first is sometimes an advantage and sometimes a disadvantage. With this sequential, rule based approach, the conflict is mostly eliminated. I have followed similar sequencing between the three Pabrai Funds for the last 10+ years and it has worked out quite satisfactorily.

Dhandho is a word from the Indian language of Gujarati. A literal translation is simply "business." However, Dhandho implies a savvy approach to business so that a better translation is "Endeavors that create wealth." And we certainly have ambitions to beat the S&P 500 over the long haul and create meaningful wealth in the coming decades for Dhandho shareholders.

Dhandho Holdings Qualified Purchaser, LP has started life as a Delaware-based Limited Partnership formed in February, 2014.

I hope to raise $35-150 million by April 30, 2014 from a set of high net worth individuals, most of whom have been long-term investors in Pabrai Investment Funds. The minimum investment for completed subscriptions and funds received by February 28th, 2014 is $1 million and the price per unit is $10. Our second closing is on April 30, 2014. The minimum investment for the second closing is $2 million and the price per unit rises by 5% to $10.50. It is advantageous to invest by February 28, 2014. Towards this end, my family and I will invest at least $9 million in this venture on or before February 28, 2014.

If we do not raise at least $35 million, we will not be able to complete the proposed insurance company acquisition. In that case, we will return funds to all investors (less expenses). I view this as a very low probability outcome.

After we have raised the minimum $35 million, we will focus on closing the acquisition at the earliest. The acquisition has a few wrinkles, including being a mutual insurance company. The transaction is subject to a variety of regulatory approvals including the Department of Insurance in the state it is domiciled. The company name is confidential until we have closed the transaction. In my opinion, the odds of not completing the transaction are also quite low. It is a friendly acquisition and all parties see a win-win with Dhandho's acquisition.

After the acquisition is completed, I intend to pursue getting Dhandho listed on the Nasdaq Capital Markets, OTC Bulletin Board or similar exchange. We intend to pursue an initial public

offering at the time of our listing. Pabrai Investment Funds cannot invest in private businesses. Assuming pricing is reasonable, it intends to participate in the IPO with about $70 million or more. We hope to raise $70-100 million in the IPO. If no other investors participate, then the IPO would raise $70 million. And if there is sufficient interest, Dhandho will raise up to $100 million. We hope to get listed as a public company sometime in 2015. Going public usually is unpredictable because raising capital in public markets is subject to the whims of the market. However, in our case, we do not need to raise any capital (and the $70 million from Pabrai Funds is virtually guaranteed). Thus I see the odds of not going public also as very low.

In the very rare scenario where we raise the capital, but cannot complete the acquisition, we have 2 years to complete any acquisition whose economics make sense to me. If we cannot find a suitable acquisition in 2 years, the funds will be returned to the investors (less expenses).

And finally, in the even rarer scenario where we raise the capital, acquire the business, but are unable to go public on any exchange of interest, Dhandho will function as a private equity vehicle with a ten-year life. I view this scenario as very remote as we have a range of options on bulletin boards and potential exchanges to list on and do not need to raise any capital at the time of listing.

To sum up, Pabrai Funds and Dhandho, while having some overlap, are radically different investment vehicles. Both endeavor to beat the market by meaningful margins over the long term – however, they will pursue this common objective in different ways with substantially different assets. Pabrai Funds is likely to put 10% of its assets into Dhandho Holdings at the first available opportunity. So, investors in Pabrai Funds are likely to end up with some exposure to Dhandho, however, that exposure may be relatively small for most investors compared to a direct investment in Dhandho. At the outset, I had invested $100,000 in Pabrai Funds – and have made no subsequent investment other than retained performance fees and retirement plan contributions. My family is investing over 10% of its net worth into Dhandho. Indeed, I am putting every available dollar into Dhandho as I very much like its future prospects.

I would also like to encourage you to read the Dhandho Owner's Manual. Please feel free to call me at +1949.453.0609 or email me if I can be of any service.

Happy Dhandho Investing!

Sincerely,

Mohnish Pabrai
Managing Member of Dhandho GP, LLC,
the General Partner of Dhandho Holdings Qualified Purchaser, L.P.
mp@dhandho-holdings.com

## SUMMARY OF PRINCIPAL TERMS

*The following is a summary of the principal terms of Dhandho Holdings Qualified Purchaser, L.P. (the "Fund"). This summary is qualified in its entirety by reference to the more detailed information contained elsewhere in this Memorandum and by the Limited Partnership Agreement of the Fund (the "Partnership Agreement") and the subscription agreement (the "Subscription Agreement") relating to the purchase of limited partner interests in the Fund (the "Limited Partner Interests"), copies of which are included as Exhibit A and Exhibit B, respectively, at the end of this Memorandum.*

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|---|---|
| **The Fund** | Dhandho Holdings Qualified Purchaser, L.P., a Delaware limited partnership (the "Fund"). |
| **The General Partner** | Dhandho GP, LLC, a California limited liability company (the "General Partner"). The General Partner is a newly formed subsidiary of Dalal Street, LLC, a California limited liability company ("Dalal Street"). Dalal Street is an investment adviser registered with the U.S. Securities and Exchange Commission (the "SEC") under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Dalal Street and the General Partner are both controlled by Mohnish Pabrai. The General Partner will have overall responsibility for the management of the Funds and will provide portfolio management and administrative services to the Funds, including, but not limited to, investigating, analyzing, structuring and negotiating potential investments, monitoring Portfolio Company Acquisitions (as defined below) and advising the Funds as to disposition opportunities. The General Partner will be paid the Management Fee described below. In addition, the General Partner will also serve as the general partner of Dhandho Holdings, L.P., a limited partnership organized under the laws of the State of Delaware (the "3(c)(1) Fund") and the controlling member and sole director of Dhandho Holdings Offshore Ltd., a company incorporated under the laws of the British Virgin Islands (the "Offshore Feeder," and together with the Fund and the 3(c)(1) Fund, the "Funds"). For additional information regarding the relationship between the Fund and the 3(c)(1) Fund see "*—Parallel Funds*" below. |
| **Size of the Fund** | The General Partner has targeted raising a total of between $35 million and $150 million from investors in this offering (this "Offering") and the concurrent offerings being made on substantially similar terms by the 3(c)(1) Fund and the Offshore Feeder (the "Concurrent Offerings"). |
| **Closings** | The first closing of this Offering (the "Initial Closing") is scheduled for February 28, 2014. Thereafter, the General Partner will have the authority, acting in its sole discretion and without the need to obtain the consent from any Limited Partners (its "Sole Discretion"), to accommodate the admission of additional limited partners (collectively, the "Limited Partners," and together with the General Partner, the "Partners") by holding an additional closing on April 30, 2014 (the "Second Closing," and together with the Initial Closing, each a "Closing"). Investors must submit payment of the full amount of their investment and a completed Subscription Agreement no later than the date of the Closing in which they intend to participate, unless the General Partner, acting in its Sole Discretion, elects to extend such deadline by up to five business days |

following such Closing.

**Unit Pricing**

Each Limited Partner Interest corresponds to a number of "Units" which is determined based upon the dollar amount of the investment in the Fund by such Limited Partner and the Closing in which such Limited Partner Interest is acquired. Units will be priced at $10 each at the Initial Closing and $10.50 each at the Second Closing. Notwithstanding this difference in price, Units issued at the Second Closing will have the same rights, duties and privileges (economic and otherwise) as Units issued at the Initial Closing.

**Minimum Investment**

The minimum investment is $1 million for investors in the Initial Closing and $2 million for investors in the Second Closing. The General Partner, in its Sole Discretion, reserves the right to accept investments of lesser amounts.

**Investments by Affiliates of the General Partner**

Mr. Pabrai together with members of his family and certain entities which they control or are beneficiaries of (collectively, the "Affiliated Investors") currently intend to invest an aggregate of at least $9.0 million in this Offering and the Concurrent Offerings. The Affiliated Investors may invest additional amounts in this Offering and the Concurrent Offerings to the extent funds become available to them prior to the last Closing. In consideration for such investments, the Affiliated Investors will be issued Limited Partner Interests that have the same per Unit price and rights, duties and privileges (economic and otherwise) as other Limited Partners who invest in the applicable Closing. Notwithstanding the foregoing to the contrary, as described below in "*—Fund Stage III The Reporting Person Transaction*" and "*—Transfers and Withdrawals*," the Partnership Agreement provides that, if the General Partner exercises its authority to reorganize the Funds into a single corporation that is taxable as a corporation rather than a partnership and to cause such successor entity to become a "reporting person" under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Affiliated Investors would receive (i) a special class of convertible high-vote "Class B Common Stock" entitled to 30 times the voting power per share as the "Common Stock" issued to investors who are not Affiliated Investors; and (ii) certain rights to cause the successor entity to register for resale under the Securities Act of 1933, as amended (the "Securities Act"), at the successor entity's expense, the Common Stock into which the Affiliated Investors' Class B Common Stock may be subsequently converted.

**Suitability**

Limited Partner Interests may be purchased only by certain eligible investors who are "qualified purchasers" for purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), and "accredited investors" as defined in Regulation D under the Securities Act. An investment in the Fund involves significant risks and is suitable only for investors that can bear the economic risk of the loss of their investments. There can be no assurance that the Fund will achieve its objectives. An investment in the Fund is illiquid and carries with it the inherent risks associated with investments in securities as well as additional risks. A prospective investor should carefully review this Memorandum, including the risk factors described in "*Risk Factors*" below before deciding to invest in the Fund.

**Investment**

The General Partner, acting in its Sole Discretion, will seek to earn above market

**Objectives**

returns and long-term appreciation by investing the Funds' cash, subject to certain limitations described below in "*—Fund Stage I The Initial Acquisition Period*" and "*—Fund Stage II The Investment Period*," in:

- leveraged and unleveraged controlling interests ("Portfolio Company Acquisitions") consisting of at least a majority of the voting securities or assets of one or more privately held businesses (each, a "Portfolio Company");

- follow-on investments relating to Portfolio Companies including, but not limited to, loans and equity contributions to, and/or purchases of additional equity interests in, Portfolio Companies ("Follow-On Investments");

- equity securities of U.S. and/or non-U.S. publicly traded companies including private investments in public equities and other non-marketable securities (collectively, "Public Company Equity Securities");

- short-term instruments including, but not limited to, U.S. government treasury bills, money market funds, commercial paper, bank certificates of deposit and similar investments (collectively, "Short-Term Investments");

- certain rebalancing transfers made by the General Partner between or among the Funds from time to time to ensure that to the extent reasonably feasible each Fund holds (whether directly or indirectly) approximately the same Investments as the other Funds in proportion to each Fund's relative net worth (collectively, "Rebalancing Transactions"); and/or

- all other types of equity and debt securities including common and preferred stock, debt securities convertible into common or preferred stock or other types of securities, bonds, notes, zero coupon bonds, fixed income securities, options and investment company securities ("Other Investments," and together with Portfolio Company Acquisitions, Follow-On Investments, investments in Public Company Equity Securities, Short-Term Investments and Rebalancing Transactions, each an "Investment").

The General Partner may also cause the Portfolio Companies to invest their cash in Investments subject to any laws and regulations applicable to the industries in which such Portfolio Companies operate. In addition, the General Partner, acting in its Sole Discretion, will have the authority to make divestitures of any Investments of the Funds or any Portfolio Company (each, a "Divestiture"). The General Partner also has the authority, acting in its Sole Discretion, to (i) issue additional Limited Partnership Interests in consideration for some or all of the purchase price for Portfolio Company Acquisitions and/or Follow-On Investments; and (ii) set the prices for such additional Limited Partnership Interests in good faith. The General Partner will have similar authority to issue additional equity interests in the 3(c)(1) Fund and the Offshore Feeder.

The General Partner has identified the following general criteria and guidelines

that its believes are important in evaluating prospective Portfolio Company Acquisitions. The General Partner will use these criteria and guidelines in evaluating acquisition opportunities, but may decide to enter into a Portfolio Company Acquisition with a target business that does not meet these criteria and guidelines.

- *Companies with Potential for Strong Free Cash Flow Generation*. The General Partner will seek to acquire one or more businesses that have the potential to generate strong and stable free cash flow. The General Partner will focus on one or more businesses that have predictable, recurring revenue streams and low working capital and capital expenditure requirements.

- *Strong Competitive Industry Position*. The General Partner will seek to acquire one or more businesses that have strong fundamentals, including growth prospects, competitive dynamics, level of consolidation, need for capital investment and barriers to entry.

- *Business with Revenue and Earnings Growth Potential*. The General Partner will seek to acquire one or more businesses that have the potential for revenue and earnings growth through a combination of expense reduction, synergistic follow-on acquisitions and the investment of free cash.

- *Business with Experienced and Motivated Management*. The General Partner will seek to acquire one or more businesses with experienced management teams that have strong track records, have achieved superior performance and have a substantial personal economic stake in the performance of the acquired business.

- *Distressed Businesses and Assets*. The General Partner may seek to acquire distressed businesses or assets. Although such businesses may not be generating much cash flow (or may even be losing money), the General Partner may determine that the intrinsic value of such businesses or assets could be worth considerably more than the purchase price. Such businesses and assets would likely involve additional efforts and risks to unlock the intrinsic value.

These criteria are not intended to be exhaustive. Any evaluation relating to the merits of a particular Portfolio Company Acquisition may be based, to the extent relevant, on these general guidelines as well as other considerations, factors and criteria that the General Partner may deem relevant.

The objectives set forth above are referred to in this Memorandum as the "Investment Objectives." There can be no assurance that the Fund will achieve the Investment Objectives.

**Term**

Absent amendment of the Partnership Agreement extending the duration of the Fund or the events described below, the term of the Fund (the "Term") will end on the tenth anniversary of the Initial Closing; provided, however, that (i) the Term will expire on April 1, 2016 if the Funds have not completed the Initial

Acquisition (as defined below in "*—Fund Stage I The Initial Acquisition Period*") on or before March 31, 2016 (the "Initial Acquisition Deadline"); (ii) the General Partner shall have the authority, acting in its Sole Discretion, to extend the Term by up to two consecutive one-year extension periods if the Initial Acquisition is completed prior to the Initial Acquisition Deadline; and (iii) the Term will cease to apply if the Reporting Person Transaction (as defined below in "*—Fund Stage III The Reporting Person Transaction*") occurs.

Regardless of the specified Term, the Funds will be terminated upon (i) voluntary resignation or withdrawal of the General Partner or adjudication of bankruptcy or insolvency of the General Partner; (ii) the affirmative vote to end the Term of the Funds by 75% in interest of the Limited Partners of the Fund and the limited partners of the 3(c)(1) Fund (voting for such purpose as a single class) within 90 days of the Advisory Board's finding of Disabling Conduct (as defined below in "*—Disabling Conduct by the General Partner*"); (iii) the election by the General Partner, upon sixty days' prior notice to the Limited Partners, to dissolve the Funds; (iv) the continued conduct of the Funds' business becoming unlawful; or (v) the order of dissolution by a court of competent jurisdiction or upon any recognized process of dissolution as provided for by the laws of the State of Delaware.

**Fund Stage I**
**The Initial Acquisition**

The Funds will have until March 31, 2016 (i.e., the Initial Acquisition Deadline) to collectively acquire a controlling interest consisting of at least 60% of the voting equity securities or assets of a privately held business having an equity or net asset value of at least $10 million (the "Initial Acquisition").

The General Partner is already in advanced negotiations to pursue the Initial Acquisition of a U.S.-based insurance company (the "Identified Potential Target Company"). However, the General Partner does not intend to disclose the name or financial condition of the Identified Potential Target Company before completing this Offering, and so prospective investors will be unable to ascertain the merits or risks of the Identified Potential Target Company's operations. Due to the current structure of the Identified Potential Target Company, any such acquisition would require (i) conducting a demutualization process, which would be overseen by, and require the approval of, the insurance commissioner of the state in the which the insurance company is formed; and (ii) acquiring both the demutualized insurance company and the separate management company.

If the General Partner is not successful in acquiring the Identified Potential Target Company or otherwise chooses not to pursue such transaction, the General Partner may, in its Sole Discretion, conduct the Initial Acquisition with any privately held business having an equity or net asset value of at least $10 million regardless of its sector, industry or geographic location. At all times prior to the completion of the Initial Acquisition, the proceeds from this Offering and the Concurrent Offerings (other than Organizational Expenses, Other Expenses and the Management Fees — each as defined below) will be held in deposit accounts and/or invested in Short-Term Investments. There can be no assurance that the Funds will achieve the Initial Acquisition prior to the Initial Acquisition Deadline.

If the Funds do not complete the Initial Acquisition by the Initial Acquisition Deadline, the General Partner will (i) promptly liquidate the Fund and distribute its assets to the Partners in accordance with "*—Distributions*" below after satisfying the Fund's liabilities and providing for the cost of dissolution and reserves for unliquidated liabilities; and (ii) cause Dalal Street to give each Limited Partner the option to invest all (but not less than all) of the amounts distributable to it toward the purchase of limited partnership interests, at then current prices and subject to satisfying reasonable conditions and signing customary documents, of Pabrai Investment Fund 4, L.P. (for Limited Partners of the Fund that are U.S. taxpayers) or Pabrai Investment Fund 3, Ltd. (for Limited Partners of the Fund that are tax-exempt or non-U.S. persons). Any decision by a Limited Partner of the Fund to so invest in a Pabrai Investment Fund would be entirely the investment decision and responsibility of such Limited Partner, and none of the Covered Persons (as defined below in "*—Exculpation and Indemnification*") will assume any risk, responsibility or expense, or be deemed to have provided any advice or recommendation, in connection therewith. If the Funds do not complete the Initial Acquisition by the Initial Acquisition Deadline, the General Partner will also liquidate the 3(c)(1) Fund and Offshore Feeder in a similar manner.

**Fund Stage II The Investment Period**

If the Initial Acquisition is completed by the Initial Acquisition Deadline, the General Partner will thereafter have the authority, acting in its Sole Discretion, to make additional Investments and Divestitures from time to time through and until the sixth anniversary of the Initial Closing (the "Investment Period"). After the end of the Investment Period, the General Partner will not be permitted to make additional Investments, except for (i) completing Investments that were already in progress as of the end of the Investment Period; (ii) Short-Term Investments; (iii) Public Company Equity Securities; (iv) Follow-On Investments; and (v) Rebalancing Transactions. Notwithstanding the foregoing to the contrary, the investment restrictions applicable during and following the end of the Investment Period will not apply if the Reporting Person Transaction (as defined in the next paragraph) occurs.

**Fund Stage III The Reporting Person Transaction**

If the Initial Acquisition is completed by the Initial Acquisition Deadline, the General Partner will thereafter also have the authority, acting in its Sole Discretion, until January 1, 2019 to reorganize the Funds (the "Reorganization") into a single corporation that is taxable as a corporation rather than a partnership (the "Successor Company") and cause the common stock of the Successor Company ("Common Stock") to be registered under the Securities Act and/or the Exchange Act (such registration together with the Reorganization, collectively, the "Reporting Person Transaction"). The purpose of the Reporting Person Transaction would be to convert the Funds into a permanent capital vehicle and facilitate private secondary re-sales of Limited Partner Interests, subject to the requirements of Rule 144 under the Securities Act ("Rule 144") and other federal and state securities laws. The General Partner will have the authority in its Sole Discretion to select the structure for the Reporting Person Transaction and may conduct a self-filing or traditional underwritten initial public offering (i.e., an IPO). In addition, the Reporting Person Transaction may, in the Sole Discretion of the General Partner, include a concurrent direct placement of up to $100 million to one or more affiliates of

the General Partner. The General Partner has not entered into discussion with any underwriters regarding the feasibility of conducting an underwritten public offering in connection with the Reporting Person Transaction.

If the Reorganization occurs, the Partnership Agreement (and the amended and restated limited partnership agreement of the 3(c)(1) Fund) each provide for (i) the limited partner interests held by limited partners who are not Affiliated Investors (collectively, the "Unaffiliated Partner Interests") to be converted into Common Stock of the Successor Company; and (ii) the limited partner interests held by Affiliated Investors together with the General Partner's Carried Interest as defined below in "*—Distributions*" (collectively, the "Affiliated Partner Interests") to be converted into "Class B Common Stock" of the Successor Company. As a result of the foregoing and the liquidation of the Offshore Feeder, the partners of the Fund and the 3(c)(1) Fund together with the members of the Offshore Feeder would become the stockholders of the Successor Company. The Class B Common Stock would be entitled to 30 votes per share (whereas the Common Stock would only be entitled to one vote per share) and would be convertible at any time, in each holder's sole discretion, into Common Stock on a share-for-share basis. In addition, the organizational documents of the Successor Company would include appropriate protective provisions determined by the General Partner acting in good faith including restrictions on an amendments that would increase the rights of the Common Stock or decrease or impair the rights of the Class B Common Stock, in either case, without the approval of a majority of Class B Common Stock outstanding. Except for the differences in voting power and conversion rights set forth above, shares of the Common Stock and Class B Common Stock would have identical rights and privileges. The Partnership Agreement (and the amended and restated limited partnership agreement of the 3(c)(1) Fund) each provides that the number of shares of Common Stock and Class B Common Stock issued in the Reorganization would be proportionate to the dollar amount of distributions that the partners would be entitled to receive in hypothetical dissolutions of the Funds. The Successor Company's charter and bylaws would provide for a staggered board of directors and such other provisions as the General Partner determines in its Sole Discretion acting in good faith.

There is no market for our securities and a market for the securities of the Successor Company may not develop following the Reporting Person Transaction. We anticipate that, if the Reporting Person Transaction occurs, the Common Stock would initially be quoted on the OTCBB, the OTCQX or the NASDAQ Capital Market. Subsequently, we may seek to list on a national securities exchange subject to satisfying such exchange's initial listing requirements. There can be no assurance that the Funds will ever achieve the Reporting Person Transaction or be listed on a national securities exchange.

By signing the Partnership Agreement, each investor agrees that, for a period of 365 days after the completion of the Reporting Person Transaction, or such longer period as the General Partner may reasonably request, it will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any Common Stock, Class B Common Stock or any other equity securities of the Successor Company without the prior written consent of the General Partner in

its Sole Discretion (the "Lock-Up Commitments").

Following the Reporting Person Transaction, it is contemplated that Mr. Pabrai or his designee would serve as the Chairman and Chief Executive Officer of the Successor Company and receive a salary of $100,000 per year and that Mr. Pabrai or the General Partner would enter into an arrangement with the Successor Company that provides for an incentive bonus every five years equal to 10% of the amount, if any, by which the book value of the Successor Company exceeds the level that would have been achieved assuming a growth rate equal to the actual performance of the S&P 500 index during the applicable five-year period. Such incentive bonus would be payable in cash and/or shares of Class B Common Stock, at Mr. Pabrai's option. The Successor Company would structure the incentive bonus to make it tax efficient for Mr. Pabrai or the General Partner, as applicable.

**Co-Investment Opportunities**

The Funds may provide co-investment opportunities to certain of their limited partners or members, as applicable, and/or third parties but need not make such investment opportunities available to all limited partners and members *pro rata* or on a uniform basis. In addition, the Funds may from time to time make Portfolio Company Acquisitions through joint ventures or other similar arrangements with other investment funds or third parties. Any participation by a Limited Partner in a Portfolio Company Acquisition other than through the Fund will be entirely the investment decision and responsibility of such Limited Partner, and neither the General Partner nor any of its affiliates will assume any risk, responsibility or expense, or be deemed to have provided any advice or recommendation, in connection therewith.

**Leverage**

Each Fund may incur indebtedness, guarantee the indebtedness of Portfolio Companies in which it invests or otherwise employ leverage to enhance returns. Such borrowings may be collateralized by the assets of such Fund and/or its interest in any Portfolio Companies it acquires.

**Distributions**

The General Partner may, but is not obligated to, cause the Fund to make distributions to the Partners before the dissolution of the Fund at such times and in such amounts as it determines in its Sole Discretion. The General Partner does not expect to cause the Fund to make distributions to the Partners before the dissolution of the Fund. All distributions to the Partners, except as described below in "—*Tax Distributions*," will be made in the following order and priority:

**1. Return of Capital:** First, 100% to the Partners (*pro rata* in accordance with their respective capital contributions to the Fund) until the cumulative amount distributed to the Partners equals the sum of their respective capital contributions to the Fund; and

**2. 90/10 Split:** Thereafter, (i) 90% to the Partners (*pro rata* in accordance with their respective Units in the Fund); and (ii) 10% to the General Partner (the distributions to the General Partner described in clause (ii) of this paragraph being referred to as the General Partner's "Carried Interest").

Any distributions before the dissolution of the Fund will be made in cash or marketable securities at their fair market value. Upon dissolution of the Fund,

and subject to applicable law, distributions may also include restricted securities or other assets of the Fund which will be valued in accordance with the valuation procedure specified in the Partnership Agreement.

**Tax Distributions**

Notwithstanding anything to the contrary in "*—Distributions*" above, the General Partner may, but is not obligated to, cause the Fund to make distributions to itself and/or certain other Partners to satisfy its and/or their estimated tax liabilities with respect to their respective shares of the Fund's taxable income and gain.

**Allocations of Profits and Losses**

Profits and losses of the Fund will be allocated among Partners in a manner consistent with the manner in which distributions will be made as described above and with the requirements of the U.S. Internal Revenue Code of 1986, as amended. Partners may be allocated income or gain for U.S. income tax purposes without a corresponding cash distribution.

**Management Fee**

In addition to the Carried Interest, the General Partner will receive an annual management fee (the "Management Fee") from the Fund beginning on the date of the Initial Closing and ending on the earlier to occur of (i) the final dissolution of the Fund; and (ii) the completion of the Reporting Person Transaction. The General Partner, acting in its Sole Discretion, will set the amount of the Management Fee annually in an amount not to exceed 1% of the total proceeds from this Offering per year. The Management Fee is intended to cover the costs and expenses (including staff salaries) of the General Partner incurred in connection with the management of the Fund although no specific accounting of such costs and expenses will be made and it is possible that the Management Fee will exceed such actual costs and expenses. If the General Partner or its affiliates receive directors' fees, consulting and/or advisory fees from Portfolio Companies, an amount equal to 100% of the Fund's Pro Rata Share (as defined in "*—Parallel Funds*" below) of such fees will be applied to reduce the Management Fee otherwise payable. The General Partner will receive management fees from the 3(c)(1) Fund on a similar basis in proportion to the relative net worth of such Funds (or as close thereto as the General Partner deems reasonably practicable in its Sole Discretion).

**Liability of Limited Partners**

The General Partner may require the Limited Partners to return certain distributions (not to exceed 25% of the aggregate distributions received by each Limited Partner) for the purpose of satisfying the Fund's indemnification obligations described below in "*—Exculpation and Indemnification*." Notwithstanding the foregoing, Limited Partners will not be obligated to return any distribution after the third anniversary of the date of such distribution, unless the General Partner has notified the Limited Partners before the end of such three-year period of any pending or outstanding proceedings or claims which might require the Limited Partners to return such amounts.

**Organizational Expenses**

The Fund will bear all legal and other expenses incurred in connection with the formation of the Fund and this Offering.

**Advisory Board**

The General Partner will establish an Advisory Board of the Fund initially consisting of Navneet S. Chugh, Terry Adams and Duan Yongping. The Advisory Board will meet as required to (i) consult with the General Partner as

to potential conflicts of interest for which the General Partner chooses to seek the Advisory Board's approval, if any; (ii) make certain determinations for which it is responsible as described elsewhere in this Memorandum; and (iii) provide such other advice and counsel as may be requested by the General Partner from time to time. See "*Advisory Board*" below. Subject to applicable law, the Fund will indemnify the members of the Advisory Board for their services as such and will reimburse the members for their reasonable out-of-pocket expenses incurred while acting in such capacity (and any other compensation that may be approved by the General Partner acting in its Sole Discretion). The 3(c)(1) Fund will have an advisory board consisting of the same members as the Advisory Board and which may act jointly with the Advisory Board.

**Other Expenses**

The Fund will pay all costs, expenses and liabilities in connection with its operations, including: its Pro Rata Share (as defined in "*—Parallel Funds*" below) of (i) fees, costs and expenses related to consummated and unconsummated Investments and Divestitures; (ii) taxes; (iii) fees and expenses of accountants, counsel and administrators; (iv) costs and expenses of the Advisory Board and any partners meeting; (v) litigation expenses; (vi) insurance coverage; (vii) indemnification obligations; (viii) brokerage commissions; (ix) custodial fees; (x) bank service fees; (xi) interest on margin accounts and other indebtedness, if any; and (xi) all other expenses incurred by the Funds.

**Potential Conflicts of Interest and Fiduciary Responsibilities**

As described further below in "*Potential Conflicts of Interest & Fiduciary Responsibilities—Potential Conflicts of Interest*," potential conflicts of interest exist and may arise in the future as a result of the relationships between the General Partner and its affiliates on the one hand, and the Fund or any other Partners, on the other hand. Under the Partnership Agreement, the General Partner will not be in breach of its obligations under the Partnership Agreement or its duties to the Fund or the Limited Partners if the resolution of the conflict is:

- approved by the Advisory Board, although the General Partner is not obligated to seek such approval; or
- on terms that the General Partner, acting in good faith, determines are no less favorable to the Fund than those generally being provided to or available from unrelated third parties; or
- on terms that the General Partner, acting in good faith, determines are fair and reasonable to the Fund, taking into account the totality of the relationships among the parties involved, including other transactions that may be particularly favorable or advantageous to the Fund.

Conflicts of interest could arise in the situations described below, among others:

The General Partner and its affiliates may have conflicts of interest in allocating their time and activity between the Fund and other clients (including the other Funds), in allocating investments among the Fund and other clients (including

the other Funds) and in effecting transactions for the Fund and other clients, including the other Funds and other clients in which the General Partner and its affiliates may have a greater financial interest.

The Partnership Agreement provides that the General Partner or its principals or affiliates may be or may become associated with any other business venture or ventures of any nature and description, including, without limitation, (i) developing and managing other investment entities and engaging in investment management for others (including investment funds with investment objectives substantially similar to the Investment Objectives of the Funds); and (ii) businesses engaged in or anticipated to be engaged in by any Portfolio Company (including business interests and activities in direct competition with the business and activities of any Portfolio Company).

As described further below in "*Potential Conflicts of Interest & Fiduciary Responsibilities—Fiduciary Duties*," the Partnership Agreement also restricts the remedies available to Limited Partners for actions taken that without those limitations might constitute breaches of duty (including fiduciary duties). The Partnership Agreement modifies the duty of care and loyalty by providing that when the General Partner, in its capacity as the General Partner, is permitted to or required to make a decision in its "sole discretion" or "discretion," the General Partner will be entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting the Fund or any Limited Partners and, subject to the non-waivable requirements under the Advisers Act and the rules and regulations promulgated thereunder, will not be subject to any different standards imposed by the Partnership Agreement, the Delaware Act or under any other law, rule or regulation or in equity. Hence, the Fund and the Limited Partners will only have recourse and be able to seek remedies against the General Partner if the General Partner breaches its obligations pursuant to the Partnership Agreement subject to applicable law.

**Disabling Conduct by the General Partner**

If the General Partner is found by the Advisory Board to have committed Disabling Conduct (as defined below), then 75% in interest of the Limited Partners of the Fund and the limited partners of the 3(c)(1) Fund (voting for such purpose as a single class) may vote to end the Term of the Funds; provided, that such vote must occur no later than 90 days following the date the Advisory Board gives notice to the Limited Partners of its finding of Disabling Conduct. The term "Disabling Conduct" means: (i) the conviction of the General Partner of a felony that is reasonably likely to have a material adverse effect on the Fund (or any Investment) or a crime of moral turpitude; or (ii) a final judicial decision on the merits from which there is no further right to appeal that the General Partner or Mr. Pabrai committed fraud with respect to the Fund or a material willful breach of the terms of the Partnership Agreement.

**Death or Disability of Mohnish Pabrai**

If Mr. Pabrai dies or becomes permanently disabled (i.e., Mr. Pabrai has a physical or mental illness which has rendered him incapable of making investment decisions on behalf of the General Partner for an aggregate of 180 days during any period of twelve consecutive months as determined by a physician selected by Mr. Pabrai (or his representatives) and reasonably

acceptable to the Advisory Board) during the Term, then control of the General Partner would automatically be transferred from Mohnish Pabrai to his designee. Mr. Pabrai currently anticipates that his designee in such an event would be Guy Spier. Guy Spier is the founder and Managing Partner of Aquamarine Fund (1997) an investment partnership inspired by, and styled after the original 1950's Buffett partnerships. Guy Spier previously worked at Braxton Associates in London & Paris from 1988 – 1990 and at the Forward Studies Unit of the European Commission in Brussels in 1991. Mr. Spier graduated from Oxford University (Brasenose College) with a MA, BA (Honors), first class in Politics, Philosophy & Economics in 1988. He received his MBA from Harvard Business School in 1993. In June 2007, Mr. Spier and Mohnish Pabrai bid for and won a charity lunch with Warren Buffett.

**Reports/Annual Meeting**

Each investor will receive annually an audited year-end financial statement of the Fund with the first such report to cover the period from the Initial Closing through December 31, 2014. U.S. federal income tax information will be provided annually. The Funds will hold joint annual meetings at which the Limited Partners will have the opportunity to review and discuss the Funds' investment activities with Mr. Pabrai.

**Transfers and Withdrawals**

Before the Reporting Person Transaction, (i) Partners may not sell, transfer or pledge their Limited Partner Interests; and (ii) Limited Partners may not withdraw from the Fund, in each case, except with the consent of the General Partner acting in its Sole Discretion. The General Partner reserves the right (but will not have any obligation) to enter into privately negotiated redemptions of Limited Partner Interests from Limited Partners.

Following the Reporting Person Transaction and the expiration of any Lock-Up Commitments, Partners who are not "affiliates" of the Successor Company (generally investors who are less than 10% shareholders of the Successor Company and not members of the Successor Company's board of directors) would, subject to the requirements of Rule 144 and other federal and state securities laws, be able to freely transfer their investments to the extent they can find a willing buyer. The Affiliated Investors' ability to sell under Rule 144 will be limited. However, following the Reporting Person Transaction, the Affiliated Investors would have the right to require the Successor Company to register the Common Stock into which their shares of Class B Common Stock are convertible for re-sale under the Securities Act. The Successor Corporation would bear the costs and expenses of filing any such registration statements.

**Exculpation and Indemnification**

To the fullest extent permitted by law, none of the General Partner, the members of the Advisory Board, their respective affiliates, or their respective direct and indirect owners, managers, members, shareholders, partners, directors, officers, employees, agents, advisors or personnel (each, a "Covered Person") will be liable to the Fund or the Limited Partners for any losses, claims, damages, liabilities and expenses (including attorneys' fees and expenses) (collectively, "Losses") suffered by the Fund as a result of any act or omission of any Covered Person, or for any breach of contract (including breach of the Partnership Agreement) or any breach of duties (including breach of fiduciary duties), unless it shall be determined by final judicial decision on the merits from which there is no further right to appeal that, in respect of the matter in question, such Covered

Person engaged in gross negligence or willful misconduct. To the fullest extent permitted by law, the Fund will indemnify each Covered Person against all Losses incurred in connection with any action, suit or proceeding (in each case, threatened or actual), to which such Covered Person may be or becomes subject by reason of such Covered Person's activities on behalf of the Fund, except to the extent that such Losses are determined to have resulted from such Covered Person's own gross negligence or willful misconduct. The Fund may pay the expenses incurred by any such Covered Person in defending any such proceeding in advance of the final disposition, provided such Covered Person undertakes to repay such expenses if it is, upon final judicial determination, not entitled to indemnification.

**Parallel Funds**

The General Partner established this Fund subsequent to establishing the 3(c)(1) Fund and may establish one or more additional parallel funds to accommodate the legal, tax, regulatory or investment requirements of certain investors. Subject to such adjustment as the General Partner, acting in its Sole Discretion, deems fair and equitable to the 3(c)(1) Fund, the Fund and any additional parallel funds:

- the Fund (and any additional parallel funds) will co-invest with the 3(c)(1) Fund in each Investment in proportion to the relative net worth of such Funds (or as close thereto as the General Partner deems reasonably practicable in its Sole Discretion); provided, however, that there may be circumstances in which it is not reasonably feasible for the Fund and any additional parallel funds to co-invest with the 3(c)(1) Fund in each Investment in proportion to the relative net worth of such Funds (e.g., situations where equity securities of the 3(c)(1) Fund, the Fund and/or any additional parallel funds are issued in consideration for some or all of the purchase price for Portfolio Company Acquisitions and/or Follow-On Investments) and, accordingly, the 3(c)(1) Fund, the Fund and any additional parallel funds may end up with different economic interests in Investments;

- any expenses or any indemnification obligations related to any Investment shall generally be borne by the 3(c)(1) Fund, the Fund and any additional parallel funds in proportion to the capital committed and any capital deemed committed on account of equity securities of such Fund (or additional parallel fund) issued in consideration for some or all of the purchase price for Portfolio Company Acquisitions and/or Follow-On Investments, in each case after giving effect to any related Rebalancing Transactions (its "Pro Rata Share") (or as close thereto as the General Partner deems reasonably practicable in its Sole Discretion);

- the 3(c)(1) Fund, the Fund and any additional parallel funds shall sell their respective interests in each Investment at substantially the same time and on substantially the same terms (or as close thereto as the General Partner deems reasonably practicable in its Sole Discretion); and

- the 3(c)(1) Fund, the Fund and any additional parallel funds will otherwise contain terms and conditions substantially similar (except as necessary to accommodate such legal, tax, regulatory or investment requirements) and will be managed by the General Partner or an affiliate thereof.

## INVESTMENT OFFERING

The Fund is intended only for investors who are "qualified purchasers" as defined by the Investment Company Act and "accredited investors" under the Securities Act. An investment in the Fund should be regarded as speculative and is not intended as a complete investment program. Such an investment is only designed for an experienced and sophisticated person who is able to bear the risk of a substantial impairment or the loss of his investment in the Fund. See "*Risk Factors*" below.

The Fund will issue to investors the Limited Partner Interests and assign a number of Units to such interests based upon a price of $10 per Unit purchased at the Initial Closing and $10.50 per Unit purchased at the Second Closing. The General Partner has targeted raising a total of between $35 million and $150 million from investors in this Offering and the Concurrent Offerings. The minimum investment by each investor is $1 million for investors in the Initial Closing and $2 million for investors in the Second Closing. The General Partner, in its Sole Discretion, reserves the right to accept investments of lesser amounts. Subscriptions for investment in the Fund are subject to acceptance by the General Partner in its discretion. See "*Procedure For Becoming An Investor*" below. Limited Partners will not have the right to withdraw or redeem their Limited Partnership Interests.

## INVESTMENT OBJECTIVES, STRATEGY AND POLICIES

The General Partner intends to employ a disciplined investment process utilizing investment technology and research to evaluate fundamental factors, such as changes in levels of profitability and relative valuations. The Funds will purchase and sell securities at such times as the General Partner deems in the best interest of the Funds without regard to portfolio turnover, as to which there are no restrictions. The General Partner will seek to earn above market returns and long-term appreciation as further described in this section.

Subject to such adjustment as the General Partner, acting in its Sole Discretion, deems fair and equitable to the 3(c)(1) Fund, the Fund and any additional parallel funds:

- the Fund (and any additional parallel funds) will co-invest with the 3(c)(1) Fund in each Investment in proportion to the relative net worth of such Funds (or as close thereto as the General Partner deems reasonably practicable in its Sole Discretion); provided, however, that there may be circumstances in which it is not reasonably feasible for the Fund and any additional parallel funds to co-invest with the 3(c)(1) Fund in each Investment in proportion to the relative net worth of such Funds (e.g., situations where equity securities of the 3(c)(1) Fund, the Fund and/or any additional parallel funds are issued in consideration for some or all of the purchase price for Portfolio Company Acquisitions and/or Follow-On Investments) and, accordingly, the 3(c)(1) Fund, the Fund and any additional parallel funds may end up with different economic interests in Investments;

- any expenses or any indemnification obligations related to any Investment shall generally be borne by the 3(c)(1) Fund, the Fund and any additional parallel funds in proportion to the capital committed and any capital deemed committed on account of equity securities of such Fund (or additional parallel fund) issued in consideration for some or all of the purchase price for Portfolio Company Acquisitions and/or Follow-On Investments, in each case after giving effect to any related Rebalancing Transactions (its "Pro Rata Share") (or as close thereto as the General Partner deems reasonably practicable in its Sole Discretion);

- the 3(c)(1) Fund, the Fund and any additional parallel funds shall sell their respective interests in each Investment at substantially the same time and on substantially the same terms (or as close

thereto as the General Partner deems reasonably practicable in its Sole Discretion); and

- the 3(c)(1) Fund, the Fund and any additional parallel funds will otherwise contain terms and conditions substantially similar (except as necessary to accommodate such legal, tax, regulatory or investment requirements) and will be managed by the General Partner or an affiliate thereof.

The General Partner has identified the following general criteria and guidelines that its believes are important in evaluating prospective Portfolio Company Acquisitions (as defined below). The General Partner will use these criteria and guidelines in evaluating acquisition opportunities, but may decide to enter into a Portfolio Company Acquisition with a target business that does not meet these criteria and guidelines.

- *Companies with Potential for Strong Free Cash Flow Generation.* The General Partner will seek to acquire one or more businesses that have the potential to generate strong and stable free cash flow. The General Partner will focus on one or more businesses that have predictable, recurring revenue streams and low working capital and capital expenditure requirements.

- *Strong Competitive Industry Position*. The General Partner will seek to acquire one or more businesses that have strong fundamentals, including growth prospects, competitive dynamics, level of consolidation, need for capital investment and barriers to entry.

- *Business with Revenue and Earnings Growth Potential*. The General Partner will seek to acquire one or more businesses that have the potential for revenue and earnings growth through a combination of expense reduction, synergistic follow-on acquisitions and the investment of free cash.

- *Business with Experienced and Motivated Management*. The General Partner will seek to acquire one or more businesses with experienced management teams that have strong track records, have achieved superior performance and have a substantial personal economic stake in the performance of the acquired business.

- *Distressed Businesses and Assets*. The General Partner may seek to acquire distressed businesses or assets. Although such businesses may not be generating much cash flow (or may even be losing money), the General Partner may determine that the intrinsic value of such businesses or assets could be worth considerably more than the purchase price. Such businesses and assets would likely involve additional efforts and risks to unlock the intrinsic value.

These criteria are not intended to be exhaustive. Any evaluation relating to the merits of a particular Portfolio Company Acquisition may be based, to the extent relevant, on these general guidelines as well as other considerations, factors and criteria that the General Partner may deem relevant.

The Funds will have until March 31, 2016 (i.e., the Initial Acquisition Deadline) to collectively acquire a controlling interest consisting of at least 60% of the voting equity securities or assets of a privately held business having an equity or net asset value of at least $10 million (the "Initial Acquisition"). The General Partner is already in advanced negotiations to pursue the Initial Acquisition with the Identified Potential Target Company. However, the General Partner may, in its Sole Discretion, conduct the Initial Acquisition with any privately held business having an equity or net asset value of at least $10 million regardless of its sector, industry or geographic location. At all times prior to the completion of the Initial Acquisition, the proceeds from this Offering and the Concurrent Offerings (other than Organizational Expenses, Other Expenses and the Management Fees) will be held in deposit accounts and/or invested in Short-Term Investments. There can be no assurance that the

Funds will achieve the Initial Acquisition prior to the Initial Acquisition Deadline.

If the Funds do not complete the Initial Acquisition by the Initial Acquisition Deadline, the General Partner will (i) promptly liquidate the Fund and distribute its assets to the Partners in accordance with "*Summary of Principal Terms—Distributions*" below after satisfying the Fund's liabilities and providing for the cost of dissolution and reserves for unliquidated liabilities; and (ii) cause Dalal Street to give each Limited Partner the option to invest all (but not less than all) of the amounts distributable to it toward the purchase of limited partnership interests, at then current prices and subject to satisfying reasonable conditions and signing customary documents, of Pabrai Investment Fund 4, L.P. (for Limited Partners of the Fund that are U.S. taxpayers) or Pabrai Investment Fund 3, Ltd. (for Limited Partners of the Fund that are tax-exempt or non-U.S. persons). If the Funds do not complete the Initial Acquisition by the Initial Acquisition Deadline, the General Partner will also liquidate the 3(c)(1) Fund and Offshore Feeder in a similar manner.

If the Initial Acquisition is completed by the Initial Acquisition Deadline, the General Partner will thereafter have the authority, acting in its Sole Discretion, to make additional Investments and Divestitures from time to time through and until the sixth anniversary of the Initial Closing (the "Investment Period"). Investments during the Investment Period may include:

- leveraged and unleveraged controlling interests ("Portfolio Company Acquisitions") consisting of at least a majority of the voting securities or assets of one or more privately held businesses (each, a "Portfolio Company");

- follow-on investments relating to Portfolio Companies including, but not limited to, loans and equity contributions to, and/or purchases of additional equity interests in, Portfolio Companies ("Follow-On Investments");

- equity securities of U.S. and/or non-U.S. publicly traded companies including private investments in public equities and other non-marketable securities (collectively, "Public Company Equity Securities");

- short-term instruments including, but not limited to, U.S. government treasury bills, money market funds, commercial paper, bank certificates of deposit and similar investments (collectively, "Short-Term Investments");

- certain rebalancing transfers made by the General Partner between or among the Funds from time to time to ensure that to the extent reasonably feasible each Fund holds (whether directly or indirectly) approximately the same Investments as the other Funds in proportion to each Fund's relative net worth (collectively, "Rebalancing Transactions"); and/or

- all other types of equity and debt securities including common and preferred stock, debt securities convertible into common or preferred stock or other types of securities, bonds, notes, zero coupon bonds, fixed income securities, options and investment company securities ("Other Investments").

During the Investment Period, the General Partner may also cause the Portfolio Companies to invest their cash in Investments subject to any laws and regulations applicable to the industries in which such Portfolio Companies operate. In addition, the General Partner, acting in its Sole Discretion, would have the authority to make Divestitures of any Investments of the Funds or any Portfolio Company. The General Partner also has the authority, acting in its Sole Discretion, to (i) issue additional Limited Partnership Interests in consideration for some or all of the purchase price for Portfolio Company

Acquisitions and/or Follow-On Investments; and (ii) set the prices for such additional Limited Partnership Interests in good faith. The General Partner will have similar authority to issue additional equity interests in the 3(c)(1) Fund and the Offshore Feeder.

After the end of the Investment Period, the General Partner would not be permitted to make additional Investments, except for (i) completing Investments that were already in progress as of the end of the Investment Period; (ii) Short-Term Investments; (iii) Public Company Equity Securities; (iv) Follow-On Investments; and (v) Rebalancing Transactions. The foregoing investment restrictions applicable following the end of the Investment Period would not apply from and after the date that the Reporting Person Transaction occurs.

Although the Fund will not be registered under the Investment Company Act, its ability to invest in securities issued by investment companies is restricted under the Investment Company Act.

## INVESTMENT MANAGEMENT

The General Partner of the Fund and the 3(c)(1) Fund is Dhandho GP, LLC, a California limited liability company. The General Partner is a newly formed subsidiary of Dalal Street, LLC, a California limited liability company ("Dalal Street"). Dalal Street is an investment adviser registered with the SEC under the Advisers Act. Dalal Street and the General Partner are both controlled by Mohnish Pabrai. The General Partner will have overall responsibility for the management of the Funds and will provide portfolio management and administrative services to the Funds, including, but not limited to, investigating, analyzing, structuring and negotiating potential investments, monitoring Portfolio Company Acquisitions and advising the Funds as to disposition opportunities.

Dalal Street is also the managing partner of the Pabrai Investment Fund 2, L.P. ("PIF2"), Pabrai Investment Fund 3, Ltd. ("PIF3"), and Pabrai Investment Fund 4, L.P. ("PIF4"). Mr. Pabrai's first fund, Pabrai Investment Fund I, L.P. (which has been merged with PIF2) commenced operations July 1 1999, and Dalal Street currently has almost $700 million of investor funds under management. The Pabrai Investment Funds endeavor to employ a disciplined investment process utilizing Mr. Pabrai's financial expertise, experience and investment techniques to research and evaluate fundamental factors in seeking to achieve above market returns and long-term appreciation by investing principally in marketable securities of U.S. and non-U.S. companies.

**Set forth below is a performance summary of the Pabrai Investment Funds (net of all fees to investors including management and incentive fees) since their inception, which are provided for background purposes only. Past performance is no guarantee of future results and investment fund performance varies over time. In addition, prospective investors are cautioned that the investment objects and risks of this Fund are materially different than those of the Pabrai Investment Funds which, among other differences, are hedge funds that do not acquire or operate businesses. Accordingly, prospective investors are cautioned to place little or no weight on the historical performance summary information set forth below.**

**Pabrai Investment Fund I Performance Summary:**
**(closed, merged with PIF2 on 12/31/02)**

| | **DJIA** | **NASDAQ** | **S&P 500** | **PIFI** **(Net to Investors)** |
|---|---|---|---|---|
| 7/1/99-6/30/00 | -3.3% | +48.0% | +7.2% | +50.5% |
| 7/1/00-6/30/01 | +2.1% | -45.4% | -14.8% | -8.3% |
| 7/1/01-6/30/02 | -10.3% | -32.7% | -18.0% | +63.6% |
| 7/1/02-12/31/02 | -8.7% | -10.3% | -8.5% | -12.6% |
| **Annualized** | -6.4% | -18.1% | -11.2% | +21.5% |
| **Cumulative** | -20.7% | -50.3% | -34.0% | +97.9% |

## PABRAI INVESTMENT FUND 2 (US Accredited Investors) Performance Summary:

| | DJIA | NASDAQ | S&P 500 | PIF2 (net to investors) |
|---|---|---|---|---|
| 10/1/00-6/30/01 | -0.2% | -41.0% | -14.0% | +17.4% |
| 7/1/01-6/30/02 | -10.3% | -32.7% | -18.0% | +35.3% |
| 7/1/02-6/30/03 | -0.5% | +11.4% | +0.3% | +34.2% |
| 7/1/03-6/30/04 | +18.6% | +26.8% | +19.1% | +38.7% |
| 7/1/04-6/30/05 | +0.7% | +1.1% | +6.3% | +23.4% |
| 7/1/05-6/30/06 | +11.1% | +6.5% | +8.6% | +15.0% |
| 7/1/06-6/30/07 | +23.0% | +20.7% | +20.6% | +34.0% |
| 7/1/07-6/30/08 | -13.3% | -11.2% | -13.1% | -32.4% |
| 7/1/08-6/30/09 | -23.0% | -19.1% | -26.2% | -25.2% |
| 7/1/09-6/30/10 | +18.9% | +16.0% | +14.4% | +43.6% |
| 7/1/10-6/30/11 | +30.4% | +32.9% | +30.7% | +35.8% |
| 7/1/11-6/30/12 | +5.2% | +5.4% | +3.9% | -21.8% |
| 7/1/12-6/30/13 | +18.9% | +17.8% | +20.6% | +42.2% |
| 7/1/13-12/31/13 | +12.5% | +23.6% | +16.3% | +26.1% |
| 1/1/13-12/31/13 | +29.6% | +40.2% | +32.4% | +50.0% |
| **Annualized** | +5.9% | +1.9% | +3.9% | +16.7% |
| **Cumulative** | 114.7% | +28.8% | +66.3% | +677.5% |

## PABRAI INVESTMENT FUND 3 (Offshore/IRA Investors) Performance Summary:

| | DJIA | NASDAQ | S&P 500 | PIF3 (net to investors) |
|---|---|---|---|---|
| 2/1/02-12/31/02 | -14.1% | -29.9% | -20.4% | -5.2% |
| 1/1/03-12/31/03 | +28.3% | +50.8% | +28.7% | +96.5% |
| 1/1/04-12/31/04 | +5.3% | +9.2% | +10.9% | +14.7% |
| 1/1/05-12/31/05 | +1.7% | +2.1% | +4.9% | -0.2% |
| 1/1/06-12/31/06 | +19.0% | +10.4% | +15.8% | +37.8% |
| 1/1/07-12/31/07 | +8.9% | +10.7% | +5.5% | -7.8% |
| 1/1/08-12/31/08 | -31.9% | -39.9% | -37.0% | -60.9% |
| 1/1/09-12/31/09 | +22.7% | +45.4% | +26.5% | +125.0% |
| 1/1/10-12/31/10 | +14.1% | +18.2% | +15.1% | +34.4% |
| 1/1/11-12/31/11 | +8.4% | -0.8% | +2.1% | -15.7% |
| 1/1/12-12/31/12 | +10.2% | +17.7% | +16.0% | +23.4% |
| 1/1/13-12/31/13 | +29.6% | +40.2% | +32.4% | +46.6% |
| **Annualized** | +7.1% | +7.8% | +6.3% | +14.2% |
| **Cumulative** | +125.4% | +143.6% | +107.7% | +387.0% |

**PABRAI INVESTMENT FUND 4 (US Qualified Purchasers) Performance Summary:**

| | DJIA | NASDAQ | S&P 500 | PIF4 (net to investors) |
|---|---|---|---|---|
| 10/1/03-12/31/03 | **+13.4%** | **+12.3%** | **+12.2%** | **+8.4%** |
| 1/1/04-12/31/04 | **+5.3%** | **+9.2%** | **+10.9%** | **+14.4%** |
| 1/1/05-12/31/05 | **+1.7%** | **+2.1%** | **+4.9%** | **+4.9%** |
| 1/1/06-12/31/06 | **+19.0%** | **+10.4%** | **+15.8%** | **+32.4%** |
| 1/1/07-12/31/07 | **+8.9%** | **+10.7%** | **+5.5%** | **-3.4%** |
| 1/1/08-12/31/08 | **-31.9%** | **-39.9%** | **-37.0%** | **-60.0%** |
| 1/1/09-12/31/09 | **+22.7%** | **+45.4%** | **+26.5%** | **+118.8%** |
| 1/1/10-12/31/10 | **+14.1%** | **+18.2%** | **+15.1%** | **+30.7%** |
| 1/1/11-12/31/11 | **+8.4%** | **-0.8%** | **+2.1%** | **-14.8%** |
| 1/1/12-12/31/12 | **+10.2%** | **+17.7%** | **+16.0%** | **+16.1%** |
| 1/1/13-12/31/13 | **+29.6%** | **+40.2%** | **+32.4%** | **+46.0%** |
| **Annualized** | **+8.6%** | **+9.8%** | **+8.4%** | **+10.4%** |
| **Cumulative** | **+132.2%** | **+161.7%** | **+129.0%** | **+175.3%** |

## Additional Background

Mr. Pabrai was the Chairman and CEO of TransTech, Inc., a Systems Integration and IT consulting solutions company, which he founded and initially operated from his home. From an initial investment by Mr. Pabrai of only $100,000 from personal funds, and no outside investment at any time during its existence, TransTech, Inc. grew to become an Inc. 500 company with revenues of more than $20 million per year and over 160 employees until it was sold to a third party in October 2000.

From 1986 to 1991, Mr. Pabrai was employed by Tellabs, Inc. Initially, he worked for more than two years in Tellabs' high-speed data networking R&D group and then joined its fledgling international subsidiary in 1989 where he worked on a wide range of assignments including joint ventures, international marketing and sales.

In 1986, Mr. Pabrai received a Bachelor of Science Degree from Clemson University in Computer Engineering, graduating magna cum laude with senior honors and completing the four-year degree program in three years. Thereafter, he completed course work towards a Master's Degree in Electrical Engineering at the Illinois Institute of Technology, but did not finish his thesis due to the start-up of TransTech, Inc., discussed above.

In 1999, Mr. Pabrai was awarded the KPMG Illinois High Tech Entrepreneur award given by KPMG, The State of Illinois, and The City of Chicago. He is also a Member of the Young President's Organization (YPO). In addition, Mr. Pabrai is a member of Chief Executives Organization (CEO).

Mr. Pabrai has been favorably profiled by Forbes and Barron's and appeared on CNBC, Bloomberg TV and Bloomberg Radio. He has been quoted by various leading newspapers including The Wall Street Journal, The Financial Times, The Economic Times, USA Today, The Orange County

Register, The San Jose Mercury News and The Times of India. He is the author of two books, Mosaic: Perspectives on Investing and The Dhandho Investor: The Low Risk Value Method to High Returns.

## THE ADVISORY BOARD

The advisory board of the Fund (the "Advisory Board") shall be formed and composed by the General Partner and, initially, will comprise the following three members: Navneet S. Chugh, Terry Adams and Duan Yongping. The General Partner may from time to time, in its sole discretion, (i) increase or decrease the size of the Advisory Board; (ii) remove members of the Advisory Board for any reason or no reason; and (iii) select and appoint new Advisory Board members to fill vacancies created by increases in the size of the Advisory Board and/or the removal, resignation, death or disability of Advisory Board members. The Advisory Board will meet, as required to:

- review and determine in good faith whether to approve the resolution of potential conflicts, if any, for which the General Partner chooses to seek the Advisory Board's approval;

- determine in good faith whether the General Partner has committed Disabling Conduct, in which case 75% in interest of the Limited Partners of the Fund and the limited partners of the 3(c)(1) Fund (voting for such purpose as a single class) may vote to end the Term of the Funds; provided, that such vote must occur no later than 90 days following the date the Advisory Board gives notice to the Limited Partners of its finding of Disabling Conduct;

- determine in good faith whether to approve (which approvals shall not be unreasonably withheld), (i) any physician selected by Mohnish Pabrai or his Representatives to determine whether Mohnish Pabrai has a physical or mental illness which has rendered him incapable of making investment decisions on behalf of the General Partner for an aggregate of 180 days during any period of twelve consecutive months (a "Permanent Disability"); and (ii) any person designated by Mohnish Pabrai or his Representatives to assume control of the General Partner in the event that Mohnish Pabrai dies or suffers a Permanent Disability (no such Advisory Board approval shall be required unless and until Mohnish Pabrai changes his designee from Guy Spier);

- assist with the liquidation and dissolution of the Fund in accordance with the terms of this Agreement; and

- provide such other advice and counsel as may be requested by the General Partner in connection with any other matter otherwise submitted to the Advisory Board by the General Partner; provided that the General Partner shall retain ultimate responsibility for making all decisions relating to the operation and management of the Fund, including, without limitation, making all investment decisions.

The 3(c)(1) Fund will have an advisory board consisting of the same members as the Advisory Board and which may act jointly with the Advisory Board.

The term "Disabling Conduct" means: (i) the conviction of the General Partner of a felony that is reasonably likely to have a material adverse effect on the Fund (or any Investment) or a crime of moral turpitude; or (ii) a final judicial decision on the merits from which there is no further right to appeal that the General Partner or Mr. Pabrai committed fraud with respect to the Fund or a material willful breach of the terms of the Partnership Agreement.

Selected biographical information provided by the three initial members of the Advisory Board and Guy Spier follows:

**Mr. Navneet S. Chugh** is the Managing Partner of The Chugh Firm. He is an attorney-at-law, a Certified Public Accountant, and holds a MBA. The Chugh Firm provides corporate, tax, litigation, immigration, employment, media & entertainment, M&A, and business strategy services to emerging growth and mature companies. The Chugh Firm has a staff of 250 employees with 116 attorneys and CPAs, and has ten offices in Los Angeles, Santa Clara, Iselin (New Jersey), Atlanta, Washington DC, Bangalore, Chennai, New Delhi, Mumbai and Chandigarh. Mr. Chugh is an elected member of the Indus Entrepreneurs (TiE) Global Board of Trustees. In 1997, he founded TiE Southern California and later served as President. In 2003, he was the founder and president of the North American South Asian Bar Association, a nationwide body with 27 chapters in North America. Mr. Chugh is co-chairman of Pratham, LA, and President of Sikh Center of Orange County. He is on the board of HAB Bank, Ignify Consulting, India Community Center, and Premier Media, Inc., the publisher of India Journal. He was also on the board of Asia Society of Southern California (2006-11); and American India Foundation (2005-10). He is a member of the World Presidents' Organization.

**Mr. Terry Adams** is a Director and Executive Vice President of SA Recycling. Originally started by Terry's father in 1973 as a small junk yard with a handful of employees, the company today operates over 55 facilities in California, Arizona and Nevada. The list of facilities includes two deep water ports and six automobile shredding plants. The company has 1,300 employees. Mr. Adams has served many roles at SA Recycling including in his current capacity in acquisitions and strategic planning. Over the past thirty years Mr. Adams has developed an extensive background and expertise in the recycling, processing, shredding, and management of all types of metals and waste streams, including hazardous, reactive and radioactive materials. In 1993, Mr. Adams helped form one of the first lithium recycling companies in the world and was the chief design engineer of a lithium battery recycling plant located in Trail, British Columbia for Retriev Technologies, one of the largest multi-chemistry battery recyclers in the U.S. and Canada. Retriev Technologies is currently finishing construction of a new Department of Energy (DOE) sponsored facility at one of its plants in Ohio. When completed in 2014, this plant is expected to be the first dedicated electric vehicle battery recycling operation in the U.S. Mr. Adams served as the president of Retriev Technologies from 1999 to 2011, and is currently the Chairman of its Board. Mr. Adams also serves on the boards of Foundation Board Children's Hospital Orange County (CHOC); Vice Chair, Orange County Boy Scout Council; and the USC Viterbi (School of Engineering) Board of Councilors. Mr. Adams received his Bachelor of Science in Mechanical Engineering from USC (1981) and a Masters in Business Administration from Cal State Fullerton (1985).

**Duan Yongping** is an electrical engineer, inventor, entrepreneur and philanthropist. He is the founder of both the Subor Electronics Industry Corporation and BBK Electronics Group. Mr. Yongping entered Zhejiang University in 1978, majoring in wireless electronics engineering. Later, he studied at Renmin University, where he majored in econometrics. In 1989, he joined a company in Zhongshan and rose to become CEO. In less than 6 years, he created a very famous brand in China called Subor (Xiao Ba Wang). At the outset at Subor, the company only had twenty workers, 3,000 RMB in cash and over 2 million RMB in debt. Under Mr. Yongping's leadership, after he was named CEO, Subor quickly became the top producer of the "learning computer." It also produced video-game facilities, which made a profit of more than 200 million RMB in 1994-1995. In 1995, Mr. Yongping resigned from Subor, and founded BBK Electronics Industrial Group in Guangdong Province whose main product was DVD players. Today it is a well-known brand in mobile phones and stereo devices. In 2006, he cooperated with William Ding Lei and donated US$40 million to Zhejiang University. This is the biggest endowment in recent years for higher education in mainland China. Mr. Yongping moved to the San Francisco Bay area a few years ago and his present activities are focused on value investing. Due to his success in the stock market, he has the nickname, the "Chinese Buffett."

**Guy Spier** is the founder and Managing Partner of Aquamarine Fund (1997), an investment partnership inspired by, and styled after the original 1950's Buffett partnerships. Guy Spier previously worked at Braxton Associates in London & Paris from 1988 – 1990 and at the Forward Studies Unit of the European Commission in Brussels in 1991. Mr. Spier graduated from Oxford University (Brasenose College) with a MA, BA (Honors), first class in Politics, Philosophy & Economics in 1988. He received his MBA from Harvard Business School in 1993. In June 2007, Mr. Spier and Mohnish Pabrai bid for and won a charity lunch with Warren Buffett.

## THE PARTNERSHIP AGREEMENT

The following is a summary description of select provisions of the Partnership Agreement which are not described elsewhere in this Memorandum. The description of such provisions is not definitive and reference should be made to the complete text of the Partnership Agreement contained in Exhibit A.

### General

Under the Partnership Agreement, the Fund, under the direction of the General Partner, will make Investments consistent with the Investment Objectives and policies of the Fund set forth in the Partnership Agreement and summarized herein. Under the terms of the Partnership Agreement, the General Partner will be entitled to a Carried Interest and a Management Fee. The amended and restated limited partnership agreement of the 3(c)(1) Fund will provide for a similar carried interest and management fee arrangement with the General Partner in proportion to the relative net worth of such Funds (or as close thereto as the General Partner deems reasonably practicable in its Sole Discretion); provided, however, no additional compensation will be paid by the Fund to the General Partner or any of its affiliates in connection with services rendered by the General Partner of the Fund.

### Management of the Fund

The General Partner will be responsible for the day-to-day management of the Funds, including investment decisions. Without limiting the generality of the foregoing, the General Partner will have authority to enter into contracts for and on behalf of the Funds, except that the General Partner will have no authority (without the approval of at least 50% in interest of the Limited Partners of the Fund and the limited partners of the 3(c)(1) Fund (voting for such purpose as a single class)) to (A) purchase individual real estate assets with respect to which the primary component of cash flow is comprised of rent; or (B) invest in oil, gas or other mineral exploration or development programs, except for investments in securities of companies that invest in or sponsor those programs.

### The Initial Acquisition Requirement

The Funds will have until March 31, 2016 (i.e., the Initial Acquisition Deadline) to collectively acquire a controlling interest consisting of at least 60% of the voting equity securities or assets of a privately held business having an equity or net asset value of at least $10 million (the "Initial Acquisition"). The General Partner is already in advanced negotiations to pursue the Initial Acquisition with the Identified Potential Target Company. However, the General Partner may, in its Sole Discretion, conduct the Initial Acquisition with any privately held business having an equity or net asset value of at least $10 million regardless of its sector, industry or geographic location. At all times prior to the completion of the Initial Acquisition, the proceeds from this Offering and the Concurrent Offerings (other than Organizational Expenses, Other Expenses and the Management Fees) will be held in deposit accounts and/or invested in Short-Term Investments. There can be no assurance that the Funds will achieve the Initial Acquisition prior to the Initial Acquisition Deadline.

If the Funds do not complete the Initial Acquisition by the Initial Acquisition Deadline, the General Partner will (i) promptly liquidate the Fund and distribute its assets to the Partners in accordance with "*—Distributions*" below after satisfying the Fund's liabilities and providing for the cost of dissolution and reserves for unliquidated liabilities; and (ii) cause Dalal Street to give each Limited Partner the option to invest all (but not less than all) of the amounts distributable to it toward the purchase of limited partnership interests, at then current prices and subject to satisfying reasonable conditions and signing customary documents, of Pabrai Investment Fund 4, L.P. (for Limited Partners of the Fund that are U.S. taxpayers) or Pabrai Investment Fund 3, Ltd. (for Limited Partners of the Fund that are tax-exempt or non-U.S. persons). Any decision by a Limited Partner of the Fund to so invest in a Pabrai Investment Fund would be entirely the investment decision and responsibility of such Limited Partner, and none of the Covered Persons (as defined below in "*—Indemnification and Exculpation of General Partner and the Advisory Board*") will assume any risk, responsibility or expense, or be deemed to have provided any advice or recommendation, in connection therewith. If the Funds do not complete the Initial Acquisition by the Initial Acquisition Deadline, the General Partner will also liquidate the 3(c)(1) Fund and Offshore Feeder in a similar manner.

**The Investment Period**

If the Initial Acquisition is completed by the Initial Acquisition Deadline, the General Partner will thereafter have the authority, acting in its Sole Discretion, to make additional Investments and Divestitures from time to time through and until the sixth anniversary of the Initial Closing (the "Investment Period"). After the end of the Investment Period, the General Partner will not be permitted to make additional Investments, except for (i) completing Investments that were already in progress as of the end of the Investment Period; (ii) Short-Term Investments; (iii) Public Company Equity Securities; (iv) Follow-On Investments; and (v) Rebalancing Transactions. Notwithstanding the foregoing to the contrary, the investment restrictions applicable during and following the end of the Investment Period will not apply if the Reporting Person Transaction (as defined in the next paragraph) occurs.

**The Reporting Person Transaction**

If the Initial Acquisition is completed by the Initial Acquisition Deadline, the General Partner will thereafter also have the authority, acting in its Sole Discretion, until January 1, 2019 to reorganize the Funds (the "Reorganization") into a single corporation that is taxable as a corporation rather than a partnership (the "Successor Company") and cause the common stock of the Successor Company ("Common Stock") to be registered under the Securities Act and/or the Exchange Act (such registration together with the Reorganization, collectively, the "Reporting Person Transaction"). The purpose of the Reporting Person Transaction would be to convert the Funds into a permanent capital vehicle and facilitate private secondary re-sales of Limited Partner Interests, subject to the requirements of Rule 144 under the Securities Act ("Rule 144") and other federal and state securities laws. The General Partner will have the authority, in its Sole Discretion, to select the structure for the Reporting Person Transaction and may conduct a self-filing or traditional underwritten initial public offering (i.e., an IPO). In addition, the Reporting Person Transaction may, in the Sole Discretion of the General Partner, include a concurrent direct placement of up to $100 million to one or more affiliates of the General Partner.

If the Reorganization occurs, the Partnership Agreement provides (and the amended and restated limited partnership agreement of the 3(c)(1) Fund) each provide for (i) the limited partner interests held by limited partners who are not Affiliated Investors (collectively, the "Unaffiliated Partner Interests") to be converted into Common Stock of the Successor Company; and (ii) the limited partner interests held by Affiliated Investors together with the General Partner's Carried Interest as described below in "*—Carried Interest of the General Partner*" (collectively, the "Affiliated Partner Interests") to be converted into "Class B Common Stock" of the Successor Company. As a result of the foregoing and the liquidation of

the Offshore Feeder, the partners of the Fund and the 3(c)(1) Fund together with the members of the Offshore Feeder would become the stockholders of the Successor Company. The Class B Common Stock would be entitled to 30 votes per share (whereas the Common Stock would be entitled to one vote per share) and would be convertible at any time, in each holder's sole discretion, into Common Stock on a share-for-share basis. In addition, the organizational documents of the Successor Company would include appropriate protective provisions determined by the General Partner acting in good faith including restrictions on any amendments that would increase the rights of the Common Stock or decrease or impair the rights of the Class B Common Stock, in either case, without the approval of a majority of Class B Common Stock outstanding. Except for the differences in voting power and conversion rights set forth above, shares of the Common Stock and Class B Common Stock would have identical rights and privileges. The Partnership Agreement (and the amended and restated limited partnership agreement of the 3(c)(1) Fund) each provides that the number of shares of Common Stock and Class B Common Stock issued in the Reorganization would be proportionate to the dollar amount of distributions that the partners would be entitled to receive in hypothetical dissolutions of the Funds. The Successor Company's charter and bylaws would provide for a staggered board of directors and such other provisions as the General Partner determines in its Sole Discretion acting in good faith.

There is no market for our securities and a market for the securities of the Successor Company may not develop following the Reporting Person Transaction. We anticipate that, if the Reporting Person Transaction occurs, the Common Stock would initially be quoted on the OTCBB, the OTCQX or the NASDAQ Capital Market. Subsequently, we may seek to list on a national securities exchange subject to satisfying such exchange's initial listing requirements. There can be no assurance that the Funds will ever achieve the Reporting Person Transaction or be listed on a national securities exchange.

By signing the Partnership Agreement, each investor agrees that, for a period of 365 days after the completion of the Reporting Person Transaction, or such longer period as the General Partner may reasonably request, it will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any Common Stock, Class B Common Stock or any other equity securities of the Successor Company without the prior written consent of the General Partner in its Sole Discretion (the "Lock-Up Commitments").

Following the Reporting Person Transaction, it is contemplated that Mr. Pabrai or his designee would serve as the Chairman and Chief Executive Officer of the Successor Company and receive a salary of $100,000 per year and that Mr. Pabrai or the General Partner would enter into an arrangement with the Successor Company that provides for an incentive bonus every five years equal to 10% of the amount, if any, by which the book value of the Successor Company exceeds the level that would have been achieved assuming a growth rate equal to the actual performance of the S&P 500 index during the applicable five-year period. Such incentive bonus would be payable in cash and/or shares of Class B Common Stock, at Mr. Pabrai's option. The Successor Company would structure the incentive bonus to make it tax efficient for Mr. Pabrai or the General Partner, as applicable.

**Carried Interest of the General Partner**

Pursuant to the terms of the Partnership Agreement, the General Partner will receive a 10% carried interest in the Fund's profits after all of the initial capital contributed by the Limited Partners has been repaid. See "*—Distributions*" below.

**Management Fees**

In addition to the Carried Interest, the General Partner will receive an annual management fee (the "Management Fee") from the Fund beginning on the date of the Initial Closing and ending on the earlier to occur of (i) the final dissolution of the Fund; and (ii) the completion of the Reporting Person

Transaction. The General Partner, acting in its Sole Discretion, will set the amount of the Management Fee annually in an amount not to exceed 1% of the total proceeds from this Offering per year. The Management Fee is intended to cover the costs and expenses (including staff salaries) of the General Partner incurred in connection with the management of the Fund although no specific accounting of such costs and expenses will be made and it is possible that the Management Fee will exceed such actual costs and expenses. If the General Partner or its affiliates receive directors' fees, consulting and/or advisory fees from Portfolio Companies, an amount equal to 100% of the Fund's Pro Rata Share of such fees will be applied to reduce the Management Fee otherwise payable. The General Partner will receive management fees from the 3(c)(1) Fund on a similar basis in proportion to the relative net worth of such Funds (or as close thereto as the General Partner deems reasonably practicable in its Sole Discretion).

**Other Fees**

The Fund will bear all legal and other expenses incurred in connection with the formation of the Fund and this Offering. The Fund will pay all costs, expenses and liabilities in connection with its operations, including: its Pro Rata Share of (i) fees, costs and expenses related to consummated and unconsummated Investments and Divestitures; (ii) taxes; (iii) fees and expenses of accountants, counsel and administrators; (iv) costs and expenses of the Advisory Board and any partners meeting; (v) litigation expenses; (vi) insurance coverage; (vii) indemnification obligations; (viii) brokerage commissions; (ix) custodial fees; (x) bank service fees; (xi) interest on margin accounts and other indebtedness, if any; and (xi) all other expenses incurred by the Funds.

**Brokerage**

The General Partner is authorized to determine the brokers or dealers to be used for each securities transaction for the Fund. In selecting brokers or dealers to execute transactions, the General Partner need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the General Partner's practice to negotiate "execution only" commission rates, thus the Fund may be deemed to be paying for research and related services provided by brokers which are included in the commission rate. Research and related services furnished by brokers may include, but are not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications; statistical and pricing services, as well as discussions with research personnel, along with hardware, software, databases and other technical and telecommunication services, lines, and equipment utilized in the investment management process. Research and related services obtained by the use of commissions arising from the Fund's investment transactions may be used by the General Partner in its other investment activities. In negotiating commission rates, the General Partner will take into account the financial stability and reputation of brokerage firms, and the brokerage, research and related services provided by such brokers.

**Proprietary Nature of Investment Strategy**

All documents and other information concerning the Fund's portfolio of investments will be made available to the Fund's auditors, accountants, attorneys and other agents in connection with the duties and services performed by them for the Fund. However, because the General Partner's investment techniques are propriety, neither the Fund nor any of its auditors, accountants, attorneys or other agents will disclose to any person, including Limited Partners in the Fund, any of the investment techniques employed by the General Partner in managing the Fund's investments or, to the extent not required by applicable law or regulation, the identity of specific investments held by the Fund at any particular time.

**Exculpation and Indemnification of General Partner and the Advisory Board**

To the fullest extent permitted by law, none of the General Partner, the members of the Advisory

Board, their respective affiliates, or their respective direct and indirect owners, managers, members, shareholders, partners, directors, officers, employees, agents, advisors or personnel (each, a "Covered Person") will be liable to the Fund or the Limited Partners for any losses, claims, damages, liabilities and expenses (including attorneys' fees and expenses) (collectively, "Losses") suffered by the Fund as a result of any act or omission of any Covered Person, or for any breach of contract (including breach of the Partnership Agreement) or any breach of duties (including breach of fiduciary duties), unless it shall be determined by final judicial decision on the merits from which there is no further right to appeal that, in respect of the matter in question, such Covered Person engaged in gross negligence or willful misconduct. To the fullest extent permitted by law, the Fund will indemnify each Covered Person against all Losses incurred in connection with any action, suit or proceeding (in each case, threatened or actual), to which such Covered Person may be or becomes subject by reason of such Covered Person's activities on behalf of the Fund, except to the extent that such Losses are determined to have resulted from such Covered Person's own gross negligence or willful misconduct. The Fund may pay the expenses incurred by any such Covered Person in defending any such proceeding in advance of the final disposition, provided such Covered Person undertakes to repay such expenses if it is, upon final judicial determination, not entitled to indemnification.

**Liability of Limited Partners**

Assuming that a Limited Partner does not take part in control of the Fund and otherwise acts in accordance with the terms of the Partnership Agreement, such Limited Partner's liability under the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act") will generally be limited to amounts distributed to the limited partner in violation of the Delaware Act. The Delaware Act prohibits distributions to the extent that, at the time of the distribution after giving effect to the distribution, the liabilities of the Fund (other than liabilities to partners on account of partnership interests and liabilities for which recourse is limited to specified property) exceed the net fair market value of the Fund.

As described above, pursuant to the Delaware Act, Limited Partners generally are not personally liable for obligations of the Fund unless, in addition to the exercise of their rights and powers as Limited Partners, they participate in the control of the business of the Fund. Any such Limited Partner would be liable only to persons who transact business with the Fund reasonably believing, based on such Limited Partner's conduct, that the Limited Partner is a general partner. Under the terms of the Partnership Agreement, the Limited Partners do not have the right to take part in the control of the Fund, but they may exercise the right to vote on certain limited matters submitted to them. Although such right to vote should not constitute taking part in the control of the Fund's business under applicable Delaware law, there is no specific statutory or other authority for the existence or exercise of some or all of these powers in some other jurisdictions. To the extent that the Fund is subject to the jurisdiction of courts in jurisdictions other than the State of Delaware, it is possible that these courts may not apply Delaware law to the question of the limited liability of the Limited Partners.

The General Partner may require the Limited Partners to return certain distributions (not to exceed 25% of the aggregate distributions received by each Limited Partner) for the purpose of satisfying the Fund's indemnification obligations described above in "*—Indemnification and Exculpation of General Partner and the Advisory Board*." Notwithstanding the foregoing, Limited Partners will not be obligated to return any distribution after the third anniversary of the date of such distribution, unless the General Partner has notified the Limited Partners before the end of such three-year period of any pending or outstanding proceedings or claims which might require the Limited Partners to return such amounts.

**Distributions**

Distributions, if any, when made by the Fund, will be made to the Partners in the following order

and priority:

**1. Return of Capital:** First, 100% to the Partners (*pro rata* in accordance with their respective capital contributions to the Fund) until the cumulative amount distributed to the Partners equals the sum of their respective capital contributions to the Fund; and

**2. 90/10 Split:** Thereafter, (i) 90% to the Partners (*pro rata* in accordance with their respective Units in the Fund); and (ii) 10% to the General Partner (the distributions to the General Partner described in clause (ii) of this paragraph being referred to as the General Partner's "Carried Interest").

The Fund does not, however, intend to make current distributions of income, if any. Also, the General Partner, has the Sole Discretion as to whether to make distributions and, if so, as to the timing and amount thereof. As a result, the Fund may not be a suitable investment for persons seeking current income.

Any distributions before the dissolution of the Fund will be made in cash or marketable securities at their fair market value. Upon dissolution of the Fund, and subject to applicable law, distributions may also include restricted securities or other assets of the Fund which will be valued in accordance with the valuation procedure specified in the Partnership Agreement.

Notwithstanding anything to the contrary above, the General Partner may, but is not obligated to, cause the Fund to make distributions to itself and/or certain other Partners to satisfy its and/or their estimated tax liabilities with respect to their respective shares of the Fund's taxable income and gain.

**Transferability of Limited Partner Interests**

The Limited Partner Interests of the Fund are not being registered under the Securities Act. In addition, neither the Fund nor the General Partner has an obligation or current intention to register the Limited Partner Interests or obtain any exemption from registration and, except for the possibility of the Public Reporting Transaction, no such registration is contemplated for the future. As a result, the Limited Partner Interests are not marketable and no market for the Limited Partner Interests is expected to develop.

Before the Reporting Person Transaction, if an investor desires to sell, assign, pledge, exchange, hypothecate, transfer or otherwise dispose of his Limited Partner Interests in the Fund, such investor may not make such transfer or disposition without the consent of the General Partner which consent may be granted or withheld in the Sole Discretion of the General Partner. In addition, but without limiting the General Partner's discretion, the General Partner may require, as a condition to granting such consent, an opinion from the Fund's counsel that such disposition does not require registration under U.S. federal or state securities laws, require the Fund to register as an investment company under the Investment Company Act or jeopardize the status of the Fund or its investors for U.S. federal income tax purposes. In the event of the death, disability or bankruptcy of an investor, the General Partner will have the right, acting in its Sole Discretion, to either (i) permit such investor's legal representative to become a substituted Limited Partner upon satisfaction of the terms and conditions set forth in the Partnership Agreement; or (ii) require the complete or partial withdrawal of the assigned interest from the Fund on the terms that the General Partner, in its sole discretion, determines to be fair and equitable.

Following the Reporting Person Transaction and the expiration of any Lock-Up Commitments, Partners who are not "affiliates" of the Successor Company (generally investors who are less than 10% shareholders of the Successor Company and not members of the Successor Company's board of directors) would, subject to the requirements of Rule 144 and other federal and state securities laws, be

able to freely transfer their investments to the extent they can find a willing buyer. The Affiliated Investors' ability to sell under Rule 144 will be limited. However, following the Reporting Person Transaction, the Affiliated Investors would have the right to require the Successor Company to register the Common Stock into which their shares of Class B Common Stock are convertible for re-sale under the Securities Act. The Successor Corporation would bear the costs and expenses of filing any such registration statements.

**Fiscal Year; Statements**

The Fund's fiscal year will end December 31 of each year. Investors will receive audited year-end financial statements annually.

**Power of Attorney**

By entering into the Partnership Agreement, each of the Limited Partners will irrevocably appoint the General Partner as such Limited Partner's representative and attorney-in-fact to make, execute and file (i) a certificate of limited partnership of the Fund; (ii) any amendments thereof required to reflect any amendments hereof or any change in the ownership of the Fund or in the capital contributions of the Partners; (iii) any other amendments thereof required or permitted by law; and (iv) all other instruments, documents and certificates which may be required by the laws of any jurisdiction in which the Fund does business, or any political subdivision or agency thereof, to effectuate, implement or continue the valid and subsisting existence of the Fund.

**Amendments to the Partnership Agreement**

The terms and provisions of the Partnership Agreement may be modified or amended at any time and from time to time with the written consent of the General Partner together with the consent of the holders of not less than 50% in interest of the Limited Partners of the Fund and the limited partners of the 3(c)(1) Fund (voting for such purpose as a single class), insofar as is consistent with the laws governing the Partnership Agreement; provided, however, that, without the specific consent of each Partner affected, no such modification or amendment shall (i) reduce the capital account of any partner; (ii) change the respective liabilities of the General Partner and the Limited Partners; (iii) change the respective percentages of the profit and loss interests of the partners; or (iv) amend the provisions governing the amendment of the Partnership Agreement.

**Consent by Failure to Respond to Notice**

Pursuant to the terms of the Partnership Agreement, in the event that the General Partner seeks in writing the consent or approval of the Limited Partners for any purposes hereunder, a Limited Partner to whom notice has been delivered shall be deemed to have consented to or approved the matter, unless the General Partner receives, within fifteen days of the delivery of the request, a written response from such Limited Partner which indicates that the Limited Partner is not willing to grant such consent or approval.

**Term and Termination of the Fund**

Absent amendment of the Partnership Agreement extending the duration of the Fund or the events described below, the term of the Fund (the "Term") will end on the tenth anniversary of the Initial Closing; provided, however, that (i) the Term will expire on April 1, 2016 if the Funds have not completed the Initial Acquisition (as defined above in "—*The Initial Acquisition Period Requirement*") on or before March 31, 2016 (the "Initial Acquisition Deadline"); (ii) the General Partner shall have the authority, acting in its Sole Discretion, to extend the Term by up to two consecutive one-year extension periods if the Initial Acquisition is completed prior to the Initial Acquisition Deadline; and (iii) the Term

will cease to apply if the Reporting Person Transaction (as defined above in "*—The Reporting Person Transaction*") occurs.

Regardless of the specified Term, the Funds will be terminated upon (i) voluntary resignation or withdrawal of the General Partner or adjudication of bankruptcy or insolvency of the General Partner; (ii) the affirmative vote to end the Term of the Funds by 75% in interest of the Limited Partners of the Fund and the limited partners of the 3(c)(1) Fund (voting for such purpose as a single class) within 90 days of the Advisory Board's finding of Disabling Conduct (as defined above in "*Summary of Principal Terms—Disabling Conduct by the General Partner*"); (iii) the election by the General Partner, upon sixty days' prior notice to the Limited Partners, to dissolve the Fund; (iv) the continued conduct of the Fund's business becoming unlawful; or (v) the order of dissolution by a court of competent jurisdiction or upon any recognized process of dissolution as provided for by the laws of the State of Delaware.

The following provisions apply to the termination or dissolution of the Fund other than as a result of failure to complete the Initial Acquisition by the Initial Acquisition Deadline. Upon the termination or dissolution of the Fund, an accounting shall be made of the operations, from the date of the last previous accounting to the date of such termination. The liquidation and winding up of the Fund, and the termination of its business and affairs, shall be conducted by the General Partner, however, if the termination of the Fund was the result of either (i) the voluntary resignation or withdrawal of the General Partner or an adjudication of bankruptcy or insolvency of the General Partner; or (ii) the affirmative vote to end the Term of the Funds by 75% in interest of the Limited Partners of the Fund and the limited partners of the 3(c)(1) Fund (voting for such purpose as a single class) within 90 days of the Advisory Board's finding of Disabling Conduct (as defined above in "*Summary of Principal Terms—Disabling Conduct by the General Partner*"), then the liquidation and winding up of the Fund shall be conducted by a person or persons selected by an Advisory Board of the Fund, or if there is no Advisory Board, by the majority in interest of the Limited Partners of the Fund and the limited partners of the 3(c)(1) Fund (voting for such purpose as a single class). The General Partner or such other liquidating trustee shall, after paying all liabilities and providing for the cost of dissolution and reserves for unliquidated liabilities, distribute the remainder either in cash or in securities to the then Partners (or their representatives) in accordance with "*—Distributions*" above after taking into account transactions related to the liquidation of the Fund. No Limited Partner shall be required to accept a distribution of a portfolio security which exceeds his *pro rata* share (based on capital account balances) of such security. In the event the Fund's business is wound up and liquidated by a liquidating trustee, such trustee will be entitled to compensation.

## CAPITAL ACCOUNTS AND ALLOCATIONS

### Capital accounts

The Fund will establish a capital account for each Partner on its books. A Partner's capital account shall be credited with the Partner's original capital contribution, any additional capital contributions, and any net profits allocated to such partner, and shall be debited with any net losses allocated to the partner, deductions specially allocated to the partner and the amount of any distributions. *See* "*Capital Accounts, Allocations and Valuations—Allocations of Net Profit (Loss)*."

**Allocations of Net Profit (Loss)**

Profits and losses of the Fund will be allocated among Partners consistent with the manner in which distributions will be made as described in "*—Distributions*" above and the requirements of the U.S. Internal Revenue Code of 1986, as amended. Partners may be allocated income or gain for U.S. income tax purposes without a corresponding cash distribution.

## FUND ADMINISTRATOR

The Fund will enter into an agreement with Michael J. Liccar & Co. (the "Administrator"), a CPA firm based in Chicago, to perform all general administrative tasks for the Fund, including the keeping of the financial records and preparation of reports to investors. It should be noted that the Fund may, without notice to investors, retain other or additional service providers (including the General Partner or its affiliates) to perform the administrative services that would otherwise be performed by the Administrator.

## POTENTIAL CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITIES

**Potential Conflicts of Interest**

Potential conflicts of interest exist and may arise in the future as a result of the relationships between the General Partner and its affiliates on the one hand, and the Fund or any other Partners, on the other hand. Whenever a potential conflict arises between the General Partner or its affiliates, on the one hand, and the Fund or any other Partner, on the other hand, the General Partner will resolve that conflict. The Partnership Agreement contains provisions that reduce and eliminate certain of the General Partner's duties (including fiduciary duties) to Limited Partners. The Partnership Agreement also restricts the remedies available to Limited Partners for actions taken that without those limitations might constitute breaches of duty (including fiduciary duties).

Under the Partnership Agreement, the General Partner will not be in breach of its obligations under the Partnership Agreement or its duties to the Fund or the Limited Partners if the resolution of the conflict is:

- approved by the Advisory Board, although the General Partner is not obligated to seek such approval; or

- on terms that the General Partner, acting in good faith, determines are no less favorable to the Fund than those generally being provided to or available from unrelated third parties; or

- on terms that the General Partner, acting in good faith, determines are fair and reasonable to the Fund, taking into account the totality of the relationships among the parties involved, including other transactions that may be particularly favorable or advantageous to the Fund.

The General Partner may, but is not required to, seek the approval of such resolution from the Advisory Board. If the General Partner does not seek approval from the Advisory Board and it determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in the second or third bullet points above, then it will be presumed that in making its decision the General Partner acted in good faith, and in any proceeding brought by or on behalf of any Limited Partner or the Fund, the person bringing such proceeding will have the burden of overcoming such presumption. Unless the resolution of a conflict is specifically provided for in the Partnership Agreement or this Memorandum, the General Partner or the Advisory Board, as applicable,

may consider any factors it determines in good faith to consider when resolving a conflict. The Partnership Agreement provides that the General Partner will be conclusively presumed to be acting in good faith if it subjectively believes that the decision made or not made is in the best interests of the Fund.

The standards set forth in the three bullet points above establish the procedures by which conflict of interest situations are to be resolved pursuant to the Partnership Agreement. These procedures benefit the General Partner by providing the General Partner with significant flexibility with respect to its ability to make decisions and pursue actions involving conflicts of interest. Given the significant flexibility afforded the General Partner to resolve conflicts of interest — including that the General Partner has the right to determine not to seek the approval of the Advisory Board with respect to the resolution of such conflicts — the general partner may resolve conflict of interests pursuant to the Partnership Agreement in a manner that Limited Partners may not believe to be in their or in the Fund's best interests. Neither the Fund nor the Limited Partners have any recourse against the General Partner if the General Partner satisfies one of the standards described in the three bullet points above.

Conflicts of interest could arise in the situations described below, among others:

The General Partner and its affiliates may have conflicts of interest in allocating their time and activity between the Fund and other clients (including the other Funds), in allocating investments among the Fund and other clients (including the other Funds) and in effecting transactions for the Fund and other clients, including the other Funds and other clients in which the General Partner and its affiliates may have a greater financial interest. Affiliates of the General Partner serve as investment advisers or investment managers to (and are investors in) other client accounts, including the other Funds, three active hedge funds (i.e., Pabrai Investment Fund 2, L.P., Pabrai Investment Fund 3, Ltd. and Pabrai Investment Fund 4, L.P.) and conduct investment activities for their own accounts. Such other entities, clients or accounts may have investment objectives or may implement investment strategies similar to those the General Partner intends to employ with respect to the Fund and its Portfolio Companies.

To the extent a particular investment is suitable for both the Funds and/or the Portfolio Companies, on one hand, and other clients of the General Partner's affiliates, on the other hand, the Funds will buy and sell after such other clients which could result in the Funds and/or the Portfolio companies having no or limited participation in a particular investment and/or buying at a higher price, or selling at a lower price, than such other clients. Affiliates of the General Partner may also give advice or take action with respect to other clients that differs from the advice given with respect to the Funds and the Portfolio Companies. In addition, the Funds and/or the Portfolio Companies, on one hand, and other clients of the General Partner's affiliates, on the other hand, may invest in different securities issued by the same company. The Partnership Agreement also recognizes that it may not always be possible or consistent with the investment objectives of the various persons or entities described above and of the Funds for the same investment positions to be taken or liquidated at the same time or at the same price.

In addition, there may be circumstances under which the General Partner will consider participation by other clients in investment opportunities in which the General Partner does not intend to invest, or intends to invest only on a limited basis, on behalf of the Funds. The General Partner evaluates for the Funds and the other clients a variety of factors which may be relevant in determining whether a particular situation or strategy is appropriate and feasible for the Funds or a particular client at a particular time, including the nature of the investment opportunity taken in the context of the other investment or regulatory limitations on the Funds or the particular client and the transaction costs involved. Because these considerations may differ for the Funds and other clients in the context of any particular investment

opportunity, investment activities of the Funds and other entities may differ considerably from time to time.

The Partnership Agreement provides that the General Partner or its principals or affiliates may be or may become associated with any other business venture or ventures of any nature and description, including, without limitation, (i) developing and managing other investment entities and engaging in investment management for others (including investment funds with investment objectives substantially similar to the Investment Objectives of the Funds); and (ii) businesses engaged in or anticipated to be engaged in by any Portfolio Company (including business interests and activities in direct competition with the business and activities of any Portfolio Company). Except to the extent necessary to perform its obligations under the Partnership Agreement, the General Partner and its principals and affiliates will not be limited to or restricted from engaging in or devoting time and attention to the management of any other business, whether of a similar or dissimilar nature, or from rendering services of any kind to any other corporation, firm, individual or association.

The Partnership Agreement provides that the General Partner may limit its liability under contractual arrangements so that the other party has recourse only to the Fund's assets, and not against the General Partner, its assets or its owners. The Partnership Agreement provides that any action taken by the General Partner to limit its liability or the Fund's liability is not a breach of the General Partner's fiduciary duties, even if the Fund could have obtained more favorable terms without the limitation on liability.

The Fund and the General Partner are not represented by separate professional advisers. The legal firms for the Fund have represented the General Partner and its affiliates in the past and it is anticipated that such representation will continue in the future. Without independent legal and other professional representation, investors may not receive legal and other advice regarding certain matters that might be in their interests but contrary to the interest of the General Partner. However, should a dispute arise between the Fund and the General Partner, or should there be a need in the future to negotiate and prepare contracts and agreements between any of the Fund and the General Partner, other than those existing or contemplated on the date of this Memorandum, the General Partner may cause the Fund to retain separate counsel and, if necessary, other professionals for such matters.

In addition, the Reporting Person Transaction may, in the Sole Discretion of the General Partner, include a concurrent direct placement of up to $100 million to one or more Affiliates of the General Partner (including the Pabrai Investment Funds).

**Fiduciary Duties**

The Delaware Act provides that Delaware limited partnerships may in their partnership agreements expand, restrict or eliminate the duties (including fiduciary duties) otherwise owed by a general partner to limited partners and the partnership. The Partnership Agreement contains provisions that waive or consent to conduct by the General Partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or otherwise applicable law. We have adopted these restrictions to allow the General Partner and its affiliates to engage in transactions with us that could otherwise be prohibited by state-law fiduciary duty standards and to take into account the interests of other parties in addition to the interests of the Funds and the Limited Partners when resolving conflicts of interest. Without these modifications, the General Partner's ability to make decisions involving conflicts of interest would be restricted. These modifications are detrimental to the Limited Partners because they restrict the remedies available to Limited Partners for actions that without those limitations might constitute breaches of duty (including fiduciary duty), as described below, and permit the General Partner to take into account the interests of third parties in addition to the interests of the Fund and

Limited Partners when resolving conflicts of interest.

For example, fiduciary duties are generally considered to include an obligation to act in good faith and with due care and loyalty. In the absence of a provision in a partnership agreement providing otherwise, the duty of care would generally require a general partner to act for the partnership in the same manner as a prudent person would act on his own behalf. In the absence of a provision in a partnership agreement providing otherwise, the duty of loyalty would generally prohibit a general partner of a Delaware limited partnership from taking any action or engaging in any transaction that is not in the best interests of the partnership where a conflict of interest is present. The Partnership Agreement modifies the duty of care and loyalty by providing that when the General Partner, in its capacity as the General Partner, is permitted to or required to make a decision in its "sole discretion" or "discretion" or that it deems "necessary or appropriate" or "necessary or advisable," the General Partner will be entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting the Fund or any Limited Partners and, subject to the non-waivable requirements under the Advisers Act and the rules and regulations promulgated thereunder, will not be subject to any different standards imposed by the Partnership Agreement, the Delaware Act or under any other law, rule or regulation or in equity. These modifications of fiduciary duties are expressly permitted by Delaware law. Hence, the Fund and the Limited Partners will only have recourse and be able to seek remedies against the General Partner if the General Partner breaches its obligations pursuant to the Partnership Agreement subject to applicable law. Unless the General Partner breaches its obligations pursuant to the Partnership Agreement, the Fund and the Limited Partners will not have any recourse against the General Partner even if the General Partner were to act in a manner that was inconsistent with traditional fiduciary duties.

Furthermore, even if there has been a breach of the obligations set forth in the Partnership Agreement, the Partnership Agreement provides that, to the fullest extent permitted by law, the General Partner and the other Covered Persons will not be liable to the Fund or the Limited Partners for errors of judgment or for any acts or omissions unless there has been a final judicial decision on the merits from which there is no further appeal determining that the General Partner or such other Covered Persons acted with gross negligence or willful misconduct. These modifications are detrimental to the Limited Partners because they restrict the remedies available to Limited Partners for actions that without those limitations might constitute breaches of duty (including fiduciary duty).

By purchasing Limited Partner Interests, each investor automatically agrees to be bound by the provisions in the Partnership Agreement, including the provisions discussed above. This is in accordance with the policy of the Delaware Act favoring the principle of freedom of contract and the enforceability of partnership agreements.

## ANTI-MONEY LAUNDERING STANDARDS

The Fund and the Administrator are subject to certain governmental and other regulatory standards for the prevention of money laundering and may take such steps as the Fund or the Administrator considers necessary to comply with such standards. As a result, investors in the Fund may be required to furnish information and supporting documentation concerning their identity, the source of the monies to be invested and the account(s) from or to which funds are transferred between the investor and the Fund. Failure to provide such information or documentation in a timely manner could result in a refusal to issue Limited Partner Interests or a delay the issuance or redemption of Limited Partner Interests of the Fund.

## RISK FACTORS

The purchase of Limited Partner Interests of the Fund is only suitable for investors who do not have a need for liquidity and who meet the suitability standards set forth herein. Persons considering an investment in the Fund should carefully evaluate the risks involved in such an investment including those summarized in this Memorandum. The order in which the following risks and other factors are discussed is not intended to be indicative of their relative importance.

### The Initial Acquisition

The General Partner is already in advanced negotiations to pursue the Initial Acquisition with the Identified Potential Target Company. However, the General Partner does not intend to disclose the name or financial condition of the Identified Potential Target Company before completing this Offering, and so prospective investors will be unable to ascertain the merits or risks of the Identified Potential Target Company's operations. Due to the current structure of the Identified Potential Target Company, any such acquisition would require (i) conducting a demutualization process, which would be overseen by, and require the approval of, the insurance commissioner of the state in the which the insurance company is formed; and (ii) acquiring both the demutualized insurance company and the separate management company.

The General Partner may not be successful in acquiring the Identified Potential Target Company or may otherwise choose not to continue pursuing such transaction. In such event, the Funds may end up consummating the Initial Acquisition with a target company that does not meet the General Partner's guidelines, in which case the Initial Acquisition may not be as successful as a combination with a business that does meet the General Partner's guidelines. Other than the Identified Potential Target Company, the General Partner has not identified any other acquisition targets and has not initiated any discussions, research or other measures, directly or indirectly, with respect to identifying any acquisition target.

The General Partner may also be forced to enter into an Initial Acquisition on terms that it would have rejected upon a more comprehensive investigation due to the requirement that the Initial Acquisition be completed by March 31, 2016. The General Partner is not required to obtain an opinion from an investment banking firm, and consequently, investors may have no assurance from an independent source that the price the Funds are paying for the business is fair to the investors from a financial point of view. Investors will not have the ability to vote against or redeem their Limited Partner Interests in the event they disapprove of the Initial Acquisition or other investments made by the General Partner.

If the Funds do not complete the Initial Acquisition by March 31, 2016, the Funds would be dissolved and investors would lose some of their investment as a result of expenses and other liabilities incurred by the Funds.

### Certain Risks Specific to the Insurance Industry

Insurance businesses are subject to regulation in the states in which they operate. Such regulations may relate to, among other things, the types of business that can be written, the rates that can be charged for coverage, the level of capital that must be maintained, and restrictions on the types and size of investments that can be made. Regulations may also restrict the timing and amount of dividend payments. Accordingly, changes in regulations related to these or other matters or regulatory actions imposing restrictions on any insurance companies that the Funds acquire, may adversely impact our results of operations. In addition, the approval of the insurance commissioner of the state in the which an insurance company is formed (and potentially other states also) must be obtained before the Fund, or any other person or entity, may acquire ten percent or more of the equity ownership interests.

The extensive regulation of insurance businesses may affect the cost or demand for products and may limit the ability of insurers to obtain rate increases or to take other actions that they might desire to maintain profitability. In addition, insurers may be unable to maintain all required approvals or comply fully with applicable laws and regulations, or the relevant governmental authority's interpretation of such laws and regulations. If that were to occur, insurers may lose their ability to conduct business in certain jurisdictions. Further, changes in the level of regulation of the insurance industry or changes in laws or regulations or interpretations by regulatory authorities could impact insurers' operations and profitability. There is also the possibility of federal regulation of insurance.

In addition to regulatory risks, there are many other risks associated with insurance businesses such as litigation and the degree of estimation error inherent in the process of estimating insurance loss reserves which may result in significant underwriting losses.

**Investors' Lack of Control and Limited Reporting**

Investors will not be entitled to vote or otherwise participate in the management or control of the Fund. Additionally, the Fund will provide reports of Fund performance only on an annual basis as of calendar year end. As a result, holders of Limited Partner Interests will not be able to evaluate the Fund's performance at shorter intervals.

**Reliance on General Partner**

The Fund will rely solely on the General Partner for investment advice and recommendations. Also, the principal of the General Partner has no experience investing funds for other persons prior to July 1999. See "*Investment Management*." The principal of the General Partner has no experience acquiring businesses or operating companies in the insurance industry.

**Undisclosed Investing Strategy**

The General Partner's investment strategy and the techniques it will employ to attempt to reach the Fund's goal are proprietary and will not be disclosed to potential investors (or to Limited Partners) except to the extent required by applicable law or regulation. As a result, a potential investor's decision to invest in the Fund must be made without the benefit of being able to review and analyze the General Partner's strategy and techniques other than to review the past performance of other investment vehicles for which the General Partner's affiliates provide investment advisory services. The past performance of these investment vehicles is not a guarantee of future results, are based on different investment strategies, and does not allow for a detailed evaluation of the General Partner's strategy and techniques.

**Minimal Restrictions on Concentrations of Investments**

The Fund will have virtually no restrictions on either the amount of Fund assets that can be invested in any particular industry or in the percentage of Fund assets that may be invested in any particular security. Although the Fund will not be registered under the Investment Company Act, its ability to invest in securities issued by investment companies is restricted under the Investment Company Act. Therefore, the Fund may be exposed to greater risk than would otherwise be the case if the Fund had investment restrictions mandating additional portfolio diversification.

**Illiquidity of Limited Partner Interests**

Because Limited Partner Interests of the Fund may not be withdrawn and may only be transferred prior to the Reporting Person Transaction with the approval of the General Partner (acting in its Sole Discretion), the Limited Partner Interests of the Fund are an illiquid investment and involve a high degree

of risk. Moreover, the General Partner does not intend to make distributions of current income to the Partners. An investment in the Fund should be considered only by a person financially able to maintain his investment and which can afford the loss of all or a substantial part of such investment.

**Lack of Transferability and Marketability of Limited Partner Interests**

The Limited Partner Interests in the Fund have not been registered under the Securities Act or under the securities law of any State and, therefore, cannot be resold unless they are subsequently registered under the Securities Act or unless an exemption from registration is available. Apart from the possible Reporting Person Transaction, the Fund does not intend to register any of the Limited Partner Interests for resale under the Securities Act or to make public any information to permit resale of the Limited Partner Interests. Accordingly, the Limited Partner Interests have limited, if any, marketability. There is no public trading market for the Limited Partner Interests and none is anticipated to develop. In addition, Limited Partner Interests may not be used as collateral for a loan without the consent of the Fund and are subject to other restrictions on transfer. The Limited Partner Interests should be considered as a long-term investment. Even if the Reporting Person Transaction occurs, the securities issued in the Reorganization to investors who are not Affiliated Investors would not be registered for re-sale under the Securities Act and will be quoted on the OTCBB, the OTCQX or the NASDAQ Capital Market, which will limit the liquidity and price of our securities more than if such securities were quoted or listed on a national securities exchange. Lack of liquidity will limit the price at which investors may be able to sell their securities or their ability to sell their securities at all.

**Absence of U.S. Regulatory Oversight**

While the Fund may be considered similar to an investment company, it does not intend to register as such under the Investment Company Act in reliance upon certain exemptions available to private investment companies such as the Fund. Accordingly, substantially all of the provisions of the Investment Company Act (which, among other matters, require investment companies to have disinterested directors, require securities held in custody to at all times be individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company and regulate the relationship between the adviser and the investment company) will be inapplicable to the Fund, and the protections pursuant to the Investment Company Act will not be afforded to investors in the Fund. If the Fund were to be deemed an investment company under the Investment Company Act following the Reporting Person Transaction, it would be required to institute burdensome compliance requirements and the Fund's activities would be restricted, which may make it difficult for the Fund to continue operating.

**General Partner's Non-Liability**

To the fullest extent permitted by law, none of the General Partner, any member of any Advisory Board appointed by the General Partner or any of their officers, directors, employees, stockholders or agents shall be liable to the Fund or any limited partner for any loss suffered by the Fund unless it shall be determined by final judicial decision on the merits from which there is no further right to appeal that such loss is caused by gross negligence or willful misconduct of such person. The General Partner, any member of any Advisory Board appointed by the General Partner any of their officers, directors, employees, stockholders or agents may consult with counsel and accountants in respect of Fund affairs and, in acting in accordance with the written advice or opinion of such counsel or accountants, such person shall, to the fullest extent permitted by law, not be liable for any loss suffered by the Fund, provided that such counsel or accountants shall have been selected with reasonable care unless it is determined by final judicial decision on the merits from which there is no further right to appeal that such written advice was induced by such person's gross negligence or willful misconduct. To the fullest extent permitted by law, none of the General Partner, any member of any Advisory Board appointed by the

General Partner or any of their officers, directors, employees, stockholders or agents shall be liable for errors in judgment or for any acts or omissions that do not constitute gross negligence or willful misconduct.

Conflicts of interest may arise between the Fund and the Limited Partners, on the one hand, and the General Partner and its affiliates, on the other. The resolution of these conflicts may not always be in the best interests of the Fund or the Limited Partners. In addition, the Partnership Agreement limits the liability of, and reduces or eliminates the duties (including fiduciary duties) owed by, the General Partner to the Fund and the Limited Partners. The Partnership Agreement also restricts the remedies available to Limited Partners for actions that might otherwise constitute breaches of the General Partner's duties (including fiduciary duties). By investing in the Fund, Limited Partners are treated as having consented to the provisions set forth in the Partnership Agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. For a more detailed description of the potential conflicts of interest and fiduciary responsibilities of the General Partner, see "*Potential Conflicts of Interest and Fiduciary Responsibilities*."

**Certain Risks Specific to Portfolio Company Acquisitions**

The Funds' ability to successfully execute Portfolio Company Acquisitions will be impacted by a number of factors, including the ability to identify acquisition candidates. The process of integrating acquired businesses into the Funds' existing operations may result in unforeseen operating difficulties and may require additional financial resources and attention. In addition, the Funds may not be able to realize the anticipated benefits from Portfolio Company Acquisitions. Achieving those benefits depends on the timely, efficient and successful execution of a number of post-acquisition events, including integrating the acquired business into the Funds. Factors that could affect the Funds' ability to achieve these benefits include:

- if the Funds pay too much to purchase Portfolio Companies;
- if the Funds' due diligence process is not sufficient to identify all material liabilities with respect to the business;
- new liabilities may arise that may diminish the value of the acquired Portfolio Companies;
- difficulties in integrating and managing personnel, financial reporting and other systems used by acquired Portfolio Companies;
- failure of acquired Portfolio Companies to perform in accordance with expectations;
- failure to achieve anticipated synergies;
- the loss of customers of acquired Portfolio Companies; and
- the loss of key managers of acquired Portfolio Companies.

If acquired Portfolio Companies do not operate as anticipated, it could materially impact the Funds' business, financial condition and results of operations. In addition, acquired Portfolio Companies may operate in industries in which the General Partner has little or no experience. In such instances, the Funds will be highly dependent on existing managers and employees to manage those businesses, and the

loss of any key managers or employees of the acquired Portfolio Company could have a material adverse effect on the Funds' financial condition, results of operations, cash flows and liquidity.

The indemnification provisions of acquisition agreements by which the Funds acquire Portfolio Companies may not fully protect the Funds and may result in unexpected liabilities.

The General Partner will have the authority, acting in its Sole Discretion, to issue additional Limited Partnership Interests in consideration for some or all of the purchase price for Portfolio Company Acquisitions and/or Follow-On Investments. Although the General Partner will set the prices for all such additional Limited Partnership Interests in good faith, any such issuances may lead to significant dilution to the existing Limited Partners of the Fund.

**Market Risks**

The Fund will be exposed significantly to all of the risks of investing in securities, including the risk that significant changes in the securities markets may adversely affect performance of the Fund. Therefore, there is a risk that investors in the Fund may not profit from their investment or that they may lose some or all of their investment.

**Lack of Diversification of Fund Investments**

The Fund's portfolio will not generally be diversified among a wide range of issuers, industries or areas. Accordingly, the investment portfolio of the Fund may be subject to more rapid change in value than would be the case if the Fund were required to maintain a wide diversification among investment areas, securities and types of securities and other instruments.

**Lack of Liquidity of Fund Assets**

Fund assets may, at any given time, consist of significant amounts of securities and other financial instruments or obligations which are thinly-traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts and it may be extremely difficult to accurately value any such investments.

**Small Cap Stocks**

At any given time, the Fund may have investments in smaller sized companies of a less seasoned nature whose securities are traded in the over-the-counter market. These "secondary" securities often involve significantly greater risks than the securities of larger, better-known companies.

**Portfolio Turnover**

The Fund will purchase and sell securities at such times as the General Partner deems in the best interest of the Fund without regard to portfolio turnover, as to which there are no restrictions. To the extent that the Fund trades securities for the short-term, the Fund's portfolio turnover rate can be expected to increase. The turnover rate may vary from year to year, and at different times during the same year. A high turnover rate involves correspondingly greater brokerage commissions and expenses which must be borne directly by the Fund and ultimately by the Fund's investors.

**Claims of Creditors**

In the event of dissolution or termination of Fund, the proceeds, if any, realized from the liquidation of assets will be distributed to the investors in the Fund only after satisfaction of the claims of

creditors. Accordingly, the ability of investors in the Fund to recover all or any portion of their investment upon dissolution or termination will depend upon the amount of funds realized by the Fund and the claims of creditors to be satisfied therefrom.

**Representation by Attorneys and Accountants**

The Fund and the General Partner are not represented by separate counsel or accountants. See "*Potential Conflicts of Interest and Fiduciary Responsibilities*." Therefore, investors should retain their own legal and tax advisers, since the legal counsel and accountants for the Fund have not been retained, and will not be available, to provide personal legal counsel or personal tax advice to investors.

## CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain U.S. federal income tax considerations to prospective Limited Partners in the Fund. The Fund has not sought a ruling from the Internal Revenue Service (the "Service") nor from any other federal, state or local agency with respect to any of the tax issues affecting the Fund or its Partners, nor has it obtained an opinion of counsel with respect to any tax issues. Except as described in "—*Reorganization*," below, the following summary does not apply to the Successor Company that will be formed in connection with the Reporting Person Transaction.

This summary of certain aspects of the U.S. federal income tax treatment of the Fund is based upon the Internal Revenue Code of 1986, as amended ("Code"), judicial decisions, Treasury regulations, and rulings or other administrative authorities by the Service that are in existence on the date hereof, all of which are subject to change, including retroactively. This summary does not discuss the impact of various proposals to amend the Code which could change certain of the tax consequences of an investment in the Fund. This summary also does not discuss all of the tax consequences that may be relevant to a particular investor, to investors that acquire Limited Partner Interests other than for cash or to certain investors subject to special treatment under the U.S. federal income tax laws, such as insurance companies.

THIS SUMMARY IS FOR GENERAL INFORMATIONAL PURPOSES ONLY. EACH PROSPECTIVE LIMITED PARTNER SHOULD CONSULT ITS OWN TAX ADVISER IN ORDER TO FULLY UNDERSTAND THE FEDERAL, STATE, LOCAL AND FOREIGN INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE FUND.

In addition to the particular matters set forth in this section, tax-exempt organizations should review carefully those sections of this Memorandum regarding liquidity and other financial matters to ascertain whether the investment objective of the Fund is consistent with their overall investment plans. Each prospective tax-exempt Limited Partner is urged to consult its own adviser regarding the acquisition of Limited Partner Interests and in particular the potential recognition of unrelated business taxable income as a result of an investment in the Fund.

**Circular 230 Disclosure**

In order to ensure compliance with requirements imposed by the Service under Circular 230 Standards of Practice, we inform you that (A) any discussion of U.S. federal tax issues contained herein is not intended or written to be used, and cannot be used by you, for the purpose of avoiding any penalties asserted under the Code; and (B) any discussion contained herein was written to support the promotion or marketing of this Offering. Potential investors should seek advice from, and rely solely upon, their own independent tax advisor with respect to the U.S. federal, state, and local tax consequences of the purchase, ownership and disposition of the Limited Partner Interests based on such investor's particular circumstances.

**Tax Treatment of Fund Operations**

***Classification of the Fund.*** It is anticipated that the Fund will be classified as a partnership for U.S. federal income tax purposes and not as an association taxable as a corporation, and the discussion below assumes such treatment. The Fund could be required to be classified as a corporation only if it is treated as a "publicly traded partnership," which is a partnership whose interests are either traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. A "publicly traded partnership" will not, however, be treated as a corporation for any taxable year if 90% or more of the partnership's gross income for such year consists of certain passive-type income, including interest, dividends and capital gain. Treasury regulations provide limited safe harbors from the definition of a "publicly traded partnership". Pursuant to one of those safe harbors, interests in a partnership will not be treated as readily tradable on a secondary market or the substantial equivalent thereof if (1) all interests in the partnership were issued in a transaction or transactions that were not required to be registered under the Securities Act, and (2) the partnership does not have more than 100 partners at any time during the partnership's taxable year. The Fund is not required to and does not intend to register the Limited Partner Interests under the Securities Act. In addition, the Fund does not intend to have more than 100 partners during any taxable year. Based on both the amount of passive-type income expected to be earned by the Fund and the fact that it is expected that interests in the partnership will not be treated as readily tradable on any secondary market, it is anticipated that the Fund will not be treated as a "publicly traded partnership" taxable as a corporation for U.S. federal income tax purposes. If it were determined that the Fund should be treated as an association or a "publicly traded partnership" taxable as a corporation for U.S. federal income tax purposes, the taxable income of the Fund would be subject to corporate income tax when recognized by the Fund, distributions from the Fund to Partners would be treated as dividend income when received by the Partners to the extent of the Fund's current or accumulated earnings and profits (other than in certain redemptions of Fund interests) and Partners would not be entitled to report profits or losses recognized by the Fund.

As a partnership, the Fund is not itself subject to U.S. federal income tax. Each Limited Partner will be taxed upon its distributive share of each item of the Fund's income, gain, loss and deductions allocated to the Fund (including from investments in other partnerships) for each taxable year of the Fund ending with or within the Limited Partner's taxable year. Each item will have the same character to a Limited Partner, and will generally have the same source (either U.S. or foreign), as though the Limited Partner realized the item directly. Limited Partners must report these items regardless of the extent to which, or whether, the Fund or Limited Partners receive cash distributions for such taxable year, and thus may incur income tax liabilities unrelated to any distributions to or from the Fund. Unless otherwise indicated, references in the following discussion to the tax consequences of Fund investments, activities, income, gain and loss, include the direct investments, activities, income, gain and loss of the Fund, and those indirectly attributable to the Fund.

***Allocation of Profits and Losses.*** Under the Partnership Agreement, the Fund's net income or loss for each fiscal period, and all items of income, gain, loss, deduction and credit generally will be allocated among the Partners consistent with the manner in which distributions will be made as described above under the heading "*The Partnership Agreement—Distributions*" and consistent with Treasury regulations issued under Sections 704(b) and 704(c) of the Code. A Partner may be allocated income or gain for U.S. income tax purposes without a corresponding cash distribution.

***Tax Elections; Returns; Tax Audits.*** The Partnership Agreement provides that the General Partner shall have the exclusive authority and discretion to make any elections required or permitted to be made by the Fund under any provisions of the Code or the Treasury regulations.

The General Partner shall decide how to report the partnership items on the Fund's tax returns, and all Partners are required under the Code to treat the items consistently on their own tax returns, unless they file a statement with the Service disclosing the inconsistency. In the event the income tax returns of the Fund are audited by the Service, the tax treatment of the Fund's income and deductions generally is determined at the partnership level in a single proceeding rather than by individual audits of the Partners. The General Partner, designated as the "Tax Matters Partner," has considerable authority to make decisions affecting the tax treatment and procedural rights of all Partners. In addition, the Tax Matters Partner has the authority to bind certain Partners to settlement agreements and has the right on behalf of all Partners to extend the statute of limitations relating to the Partners' tax liabilities with respect to Fund items.

**Taxation of Limited Partners**

Each Limited Partner will report on its federal income tax return its distributive share of the Fund's items of income, gain, loss, deduction, and credit for the taxable year, whether or not it receives any distributions from the Fund. The character for such items, determined at the Fund level, will pass through to the Limited Partners (for example, Limited Partners will treat as interest, dividends or capital gain, their distributive shares of such items recognized by the Fund).

Distributions from the Fund, whether made currently or upon liquidation of the Fund, generally may be received by a Limited Partner without further tax. The general rules relating to the tax treatment of distributions to the Limited Partners may be summarized as follows:

(A) Cash distributions generally will not result in the recognition of taxable income or loss to the Limited Partner except to the extent they exceed the Limited Partner's tax basis in its interest in the Fund. Cash distributions will reduce the Limited Partner's tax basis in such interest, but not below zero. The excess generally would be taxable as long-term or short-term capital gain, depending on the Limited Partner's holding period for its interest. A Limited Partner receiving a cash liquidating distribution from the Fund, in connection with a complete withdrawal from the Fund, will recognize ordinary income to the extent such Limited Partner's allocable share of the Fund's "unrealized receivables" exceeds the Limited Partner's tax basis in such unrealized receivables, as determined pursuant to the Treasury regulations. For these purposes, accrued but untaxed market discount, if any, on securities held by the Fund will be treated as an unrealized receivable with respect to the withdrawing Limited Partner.

(B) In-kind distributions of portfolio securities or other assets of the Fund generally will not result in the recognition of taxable income or loss to the Limited Partner. An in-kind distribution of property in complete or partial liquidation of a Limited Partner's interest in the Fund generally will also not result in the recognition of taxable income or loss to the Limited Partner, except to the extent such distribution is treated as made in exchange for such Limited Partner's share of the Fund's unrealized receivables. A distribution consisting of marketable securities generally is treated as a distribution of cash (rather than property) unless the distributing partnership is an "investment partnership" and the recipient Limited Partner is an "eligible partner" within the meaning of the Code. The Fund will determine at the appropriate time whether it qualifies as an "investment partnership". Assuming it so qualifies, if a Limited Partner is an "eligible partner," which term should include a Limited Partner whose contributions to the Fund consisted solely of cash, the rule treating a distribution of property as a distribution of cash would not apply.

(C) For purposes of determining a Limited Partner's gain or loss on a subsequent sale of the Fund's assets (*i.e.*, marketable securities not treated as cash, non-marketable securities, or other property) that are distributed in-kind (other than in liquidation of the Limited Partner's entire interest in the Fund), the Limited Partner's tax basis in such assets generally will equal the Fund's adjusted tax basis in the assets or, if less, the Limited Partner's tax basis in its interest in the Fund immediately before the

distribution. A Limited Partner's tax basis in assets distributed in liquidation of its interest in the Fund generally will equal its tax basis in its interest in the Fund immediately before the distribution. The Limited Partner's holding period for assets distributed without the recognition of gain will include the period during which the assets were held by the Fund.

(D) No loss will be recognized by a Limited Partner upon the receipt of a distribution from the Fund except where the distribution is a liquidating distribution consisting solely of cash in connection with a complete withdrawal from the Fund and the amount of cash is less than the Limited Partner's tax basis in its interest in the Fund immediately before the distribution.

**Foreign Investors**

The U.S. federal income tax consequences to a foreign investor generally will depend upon whether the Fund is engaged in a U.S. trade or business for U.S. federal income tax purposes. A foreign investor means an investor who is not a U.S. person and generally includes a nonresident alien individual, a foreign corporation, a foreign partnership, and a foreign trust or estate, unless the investor has certified to the Fund the investor's status as a U.S. person on Form W-9 or any other form permitted by the Service for that purpose. The Fund generally expects that it will be deemed to be an investor, and therefore not engaged in a trade or business within the United States, although there can be no assurance in this regard. If the Fund is deemed to be an investor, a foreign investor that is not itself engaged in a U.S. trade or business during the taxable year generally should not be subject to U.S. federal income tax or withholding with respect to capital gains earned by the Fund and allocated to such a foreign investor, but may be subject to taxation by the jurisdiction in which the foreign investor is resident, organized or operating. Additionally, a foreign investor that is not engaged in a trade or business within the United States is generally not subject to U.S. tax on interest income realized by the Fund if such interest qualifies for the "portfolio interest" exemption under Sections 871(h) and 881(c) of the Code, and certain other requirements are met.

In the event that the Fund were found to be engaged in a U.S. trade or business, a foreign investor will be deemed to be engaged in a trade or business within the United States as a result of its investment in the Fund. As a result, the foreign investor generally will be subject to U.S. federal income tax on its allocable share of the Fund's net income and capital gains and will be required to file a U.S. federal income tax return for such year. Furthermore, the Fund would be required to withhold U.S. federal income tax on the income or gain allocable to the foreign investor under Section 1446 of the Code at the maximum rate applicable to such investor on the income earned, even if no cash distributions are made to it. In the case of a foreign investor which is a foreign corporation, an additional 30% branch profits tax may be imposed.

Any foreign person or entity that is considering acquiring Limited Partner Interests in the Fund should consult its own tax advisors with respect to the U.S. federal, state, and local tax consequences of an investment in the Fund and the consequences under the laws of any jurisdictions in which such person or entity is subject to tax.

**Tax Treatment of Fund Investments**

***In General.*** The Fund expects to act as a trader or investor, and not as a dealer, with respect to its securities transactions. A trader and an investor are persons who buy and sell securities for their own accounts. A dealer, on the other hand, is a person who purchases securities for resale to customers rather than for investment or speculation. The Fund generally expects that it will be deemed to be an investor rather than a trader, although there can be no assurance in this regard.

Generally, the gains and losses realized by a trader or investor on the sale of securities are capital gains and losses. Thus, subject to the treatment of certain currency exchange gains as ordinary income and certain other transactions described below, the Fund expects that its gains and losses from its securities transactions typically will be capital gains and capital losses. See "*—Currency Fluctuations 'Section 988' Gains or Losses*" below and certain other transactions described below. These capital gains and losses may be long-term or short-term depending, in general, upon the length of time a particular investment position is maintained and, in some cases, upon the nature of the transaction. Property held for more than one year generally will be eligible for long-term capital gain or loss treatment. The application of certain rules relating to short sales, to so-called "straddle" and "wash sale" transactions and to "Section 1256 contracts" may serve to alter the manner in which the holding period for a security is determined or may otherwise affect the characterization as long-term or short-term, and also the timing of the realization, of certain gains or losses. Moreover, the straddle rules and short sale rules may require the capitalization of certain related expenses.

The maximum federal ordinary income tax rate for individuals is currently 39.6%, and, in general, the maximum federal individual income tax rate for long-term capital gains (and qualified dividends from U.S. corporations and foreign corporations organized in jurisdictions with income tax treaties with the United States) is currently 20%, although in each case the actual rate may be higher due to the limitation of certain tax deductions and exemptions. See *"—Limitation on Deductibility of Interest*" below. The excess of capital losses over capital gains may be offset against the ordinary income of an individual taxpayer, subject to an annual deduction limitation of $3,000, and any excess may be carried forward to, and treated as capital losses in, future years. In addition, individual taxpayers with income of $200,000 or more or $250,000 or more for joint filers will be subject to an additional tax of 3.8% on "unearned income," including capital gains and dividends allocated to them under the Partnership Agreement. For corporate taxpayers, the maximum federal income tax rate is 35%. Capital losses of a corporate taxpayer may be offset only against capital gains, but unused capital losses may be carried back three years, subject to certain limitations, and carried forward five years.

The Fund may realize ordinary income from accruals of interest and dividends on securities. The Fund may hold debt obligations with "original issue discount." In such case, the Fund would be required to include amounts in taxable income on a current basis even though receipt of such amounts may occur in a subsequent year. The Fund also may acquire debt obligations with "market discount." Upon disposition of such an obligation, the Fund generally would be required to treat gain realized as interest income to the extent of the market discount which accrued during the period the debt obligation was held. The Fund may realize ordinary income or loss with respect to its investments in partnerships engaged in a trade or business. Income or loss from transactions involving derivative instruments, such as swap transactions, also may constitute ordinary income or loss. In addition, periodic amounts payable by the Fund in connection with equity swaps, interest rate swaps, caps, floors and collars likely would be considered "miscellaneous itemized deductions" which, for a noncorporate Partner, may be subject to restrictions on their deductibility. See "*—Deductibility of Fund Investment Expenditures by Noncorporate Partners*" below. Moreover, gain recognized from "conversion transactions," which are certain transactions where substantially all of the taxpayer's return is attributable to the time value of the net investment in the transaction, is treated as ordinary income.

***Currency Fluctuations "Section 988" Gains or Losses.*** The amount of gain or loss on securities denominated in a foreign currency frequently will be affected by the fluctuation in the value of such foreign currencies relative to the value of the U.S. dollar. Generally, gains or losses with respect to investments in common stock of foreign issuers will be taxed as capital gains or losses at the time of the disposition of such stock. However, under Section 988 of the Code, gains and losses on the acquisition and disposition of foreign currency (*e.g.*, the purchase of foreign currency and subsequent use of the currency to acquire stock) will be treated as ordinary income or loss. Moreover, under Section 988 of the

Code, gains or losses on disposition of debt securities denominated in a foreign currency to the extent attributable to fluctuations in the value of the foreign currency between the date of acquisition of the debt security and the date of disposition will be treated as ordinary income or loss. Similarly, gains or losses attributable to fluctuations in exchange rates that occur between the time the Fund accrues interest or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Fund actually collects such receivables or pays such liabilities may be treated as ordinary income or ordinary loss.

***Limitation on Deductibility of Interest.*** For noncorporate taxpayers, Section 163(d) of the Code limits the deduction for "investment interest" (*i.e.*, interest and short sale expenses "paid or accrued on indebtedness properly allocable to property held for investment"). Investment interest is not deductible in the current year to the extent that it exceeds the taxpayer's "net investment income," consisting of generally net gain and ordinary income derived from investments in the current year. For this purpose, long-term capital gains and qualified dividend income are excluded from investment income unless and to the extent that the taxpayer elects to pay tax on such income at ordinary income tax rates.

For purposes of this provision, the Fund's activities will be treated as giving rise to investment income for a Partner, and the investment interest limitation would apply to a noncorporate Limited Partner's share of the interest and short sale expenses attributable to the Fund's operation. In such case, a noncorporate Limited Partner would be denied a deduction for all or part of that portion of its distributive share of the Fund's ordinary losses attributable to interest and short sale expenses unless it has sufficient investment income from all sources including the Fund. A Limited Partner that cannot deduct losses currently as a result of the application of Section 163(d) of the Code would be entitled to carry forward such losses to future years, subject to the same limitation. The investment interest limitation would also apply to interest paid by a noncorporate Limited Partner on money borrowed to finance its investment in the Fund. Potential investors are advised to consult with their own tax advisers with respect to the application of the investment interest limitation to their particular tax situation.

***Limitation on Deductibility of Distributive Shares of Losses***. The amount of any Fund loss allocable to a Limited Partner that can be claimed as a deduction by such Limited Partner may be limited by (i) the adjusted basis that a Limited Partner has in its interest in the Fund for the taxable year; (ii) the amount that a Limited Partner is considered "at risk" with respect to the Fund's activities under Section 465 of the Code, if applicable; and (iii) the extent to which a Limited Partner is subject to the limitations on "passive activity" losses contained in Section 469 of the Code, if applicable. The tax basis that a Limited Partner will have in its interest in the Fund will initially equal the amount that it contributed to the Fund increased by (i) income allocated to the Limited Partner and (ii) any increase in the Limited Partner's share of the Fund's liabilities, and decreased (but not below zero) by (i) distributions, losses and expenses allocated to the Limited Partner and (ii) any decrease in the Limited Partner's share of the Fund's liabilities.

***Deductibility of Fund Investment Expenditures by Noncorporate Partners.*** Investment expenses (*e.g.*, investment advisory fees) of an individual, trust and estate are miscellaneous itemized deductions that are deductible only to the extent they exceed 2% of adjusted gross income and are not deductible at all for alternative minimum tax purposes. In addition, the itemized deductions of individuals with income over a specified amount will be further reduced by the lesser of (i) 3% of the excess of their adjusted gross income over the specified amount or (ii) 80% of the amount of the itemized deductions otherwise allowable for the taxable year.

Pursuant to Temporary Treasury regulations, these limitations on deductibility of investment expenses should not apply to a noncorporate Limited Partner's share of the expenses of a partnership to the extent that the partnership is engaged in a trade or business. The Fund expects that it will be deemed

to be an investor rather than as engaged in a trade or business as a trader. As a result, it is anticipated that all of the Fund expenses allocable to a Limited Partner will be subject to these limitations. The consequences of these limitations will vary depending upon the particular tax situation of each Limited Partner. Accordingly, noncorporate Limited Partners should consult their tax advisers with respect to the application of these limitations.

***Investments in Foreign Corporations.*** Pursuant to various "anti-deferral" provisions of the Code (the "Subpart F" and "passive foreign investment company" provisions), investments, if any, by the Fund in certain foreign corporations may cause a Limited Partner to (i) recognize taxable income prior to the Fund's or the Limited Partner's receipt of distributable proceeds, (ii) pay an interest charge on receipts that are deemed to have been deferred or (iii) recognize ordinary income that, but for the "anti-deferral" provisions, would have been treated as long-term capital gain.

**The Reorganization**

If the Initial Acquisition is completed by the Initial Acquisition Deadline, the General Partner will have the authority to convert the Funds into a single corporation that is taxable as a corporation rather than a partnership, referred to as the Successor Company, and cause the common stock of the Successor Company to be registered in the Reporting Person Transaction. If the Reorganization occurs, the Limited Partner Interests will be converted into common stock of the Successor Company. Generally, neither the Fund nor the Successor Company should recognize any gain or loss in connection with the Reorganization. In addition, the Limited Partners generally should not recognize gain or loss in connection with the Reorganization, except that gain may be recognized by a Limited Partner to the extent that any money distributed or deemed distributed pursuant to Section 752 of the Code to the Limited Partner in connection with the Reorganization exceeds the adjusted basis of such Limited Partner's interest in the Fund immediately before the Reorganization. After the Reorganization, the Limited Partners will become stockholders of the Successor Company and, therefore, will no longer be allocated income or deductions attributable to the Fund. Distributions from the Successor Company generally will be taxable as dividends if made from the Successor Company's current or accumulated earnings and profits. In addition, the Successor Company will be subject to tax on its taxable income.

Prospective Limited Partners are urged to consult their tax advisers regarding the U.S. federal income tax consequences of the Reorganization in light of their particular circumstances.

**Foreign Taxes**

It is possible that certain dividends and interest received from sources within foreign countries will be subject to withholding taxes imposed by such countries. In addition, the Fund may be subject to capital gains or other taxes in some of the foreign countries where it purchases and sells securities. Tax treaties between certain countries and the United States may reduce or eliminate such taxes.

The Fund will inform the Limited Partners of their proportionate share of the foreign taxes paid or incurred by the Fund that the Limited Partners will be required to include in their income. The Limited Partners generally will be entitled to claim either a credit (subject to various limitations on foreign tax credits discussed below including a holding period requirement) or, if they itemize their deductions, a deduction (subject to the limitations generally applicable to deductions) for their share of such foreign taxes in computing their U.S. federal income taxes. A Limited Partner that is tax exempt will not ordinarily benefit from such credit or deduction.

Generally, a credit for foreign taxes is subject to the limitation that it may not exceed the Limited Partner's U.S. federal tax, before the credit, attributable to its total foreign source taxable income. A Limited Partner's share of dividends and interest from non-U.S. securities generally will qualify as

foreign source income. Generally, the source of gain and loss realized upon the sale of personal property, such as securities, will be based on the residence of the seller. In the case of a partnership, the determining factor is the residence of the partner. Thus, absent a tax treaty to the contrary, gains and losses from the sale of securities allocable to a Limited Partner that is a U.S. resident generally will be treated as derived from U.S. sources even though the securities are sold in foreign countries, except that certain U.S. residents may be subject to dividend recapture rules under which such losses could be treated as foreign source to the extent the U.S. resident received dividends during the 24-month period ending on the date of sale. Certain currency fluctuation gains, including fluctuation gains from foreign currency denominated debt securities, receivables and payables, will also be treated as ordinary income derived from U.S. sources.

The limitation on the foreign tax credit is applied separately to foreign source passive income, such as dividends and interest, and to certain other types of income. In addition, the foreign tax credit is allowed to offset only 90% of the alternative minimum tax imposed on corporations and individuals. Furthermore, for foreign tax credit limitation purposes, the amount of a Limited Partner's foreign source income is reduced by various deductions that are allocated and/or apportioned to such foreign source income. One such deduction is interest expense, a portion of which generally will reduce the foreign source income of any Limited Partner who owns (directly or indirectly) foreign assets. For these purposes, foreign assets owned by the Fund will be treated as owned by the investors in the Fund and indebtedness incurred by the Fund will be treated as incurred by investors in the Fund. Because of these limitations, Limited Partners may be unable to claim a credit for the full amount of their proportionate share of the foreign taxes paid by the Fund. The foregoing is only a general description of the foreign tax credit rules under current law. Moreover, because the availability of a credit or deduction depends on the particular circumstances of each Limited Partner, Limited Partners are advised to consult their own tax advisers.

**Unrelated Business Taxable Income**

Generally, an exempt organization is exempt from U.S. federal income tax on its passive investment income, such as dividends, interest and capital gains, whether realized by the organization directly or indirectly through a partnership in which it is a partner. This general exemption from tax does not apply to the unrelated business taxable income ("UBTI") of an exempt organization. Generally, UBTI includes income or gain derived, either directly or through partnerships, from a trade or business, the conduct of which is substantially unrelated to the exercise or performance of the organization's exempt purpose or function. UBTI also includes "unrelated debt-financed income," which generally consists of (i) income derived by an exempt organization, directly or through a partnership, from income-producing property with respect to which there is "acquisition indebtedness" at any time during the taxable year, and (ii) gains derived by an exempt organization, directly or through a partnership, from the disposition of property with respect to which there is "acquisition indebtedness" at any time during the 12-month period ending with the date of such disposition. With respect to the Fund's investments in partnerships engaged in a trade or business, the Fund's income or loss from these investments may constitute UBTI.

The Fund may incur "acquisition indebtedness" with respect to certain transactions, such as the purchase of securities on margin. Based upon a published ruling issued by the Service which generally holds that income and gain with respect to short sales of publicly traded stock does not constitute income from debt financed property for purposes of computing UBTI, short sales of securities will be treated as not involving "acquisition indebtedness" and therefore not generating UBTI. The percentage of income (*i.e.*, dividends and interest) from securities with respect to which there is "acquisition indebtedness" during a taxable year which will be treated as UBTI generally will be based on the percentage which the

"average acquisition indebtedness" incurred with respect to such securities is to the "average amount of the adjusted basis" of such securities during the taxable year.

The percentage of capital gain from securities with respect to which there is "acquisition indebtedness" at any time during the twelve-month period ending with the date of their disposition which will be treated as UBTI will be based on the percentage which the highest amount of such "acquisition indebtedness" is to the "average amount of the adjusted basis" of such securities during the taxable year. In determining the unrelated debt-financed income of the Fund, an allocable portion of deductions directly connected with the Fund's debt-financed property is taken into account. Thus, for instance, a percentage of capital losses from debt-financed securities, based on the debt/basis percentage calculation described above, would offset gains treated as UBTI.

Since the calculation of the Fund's "unrelated debt-financed income" is complex and will depend in large part on the amount of leverage, if any, used by the Fund from time to time, it is impossible to predict what percentage of the Fund's income and gains will be treated as UBTI for a Limited Partner which is an exempt organization. An exempt organization's share of the income or gains of the Fund which is treated as UBTI may not be offset by losses of the exempt organization either from the Fund or otherwise, unless such losses are treated as attributable to an unrelated trade or business (*e.g.*, losses from securities for which there is acquisition indebtedness).

To the extent that the Fund generates UBTI, the applicable U.S. federal income tax rate for such a Limited Partner generally would be either the corporate or trust tax rate depending upon the classification of the particular exempt organization. An exempt organization may be required to support, to the satisfaction of the Service, the method used to calculate its UBTI. The Fund will be required to report to a Limited Partner which is an exempt organization information as to the portion of its income and gains from the Fund for each year which will be treated as UBTI. The calculation of such amount with respect to transactions entered into by the Fund is highly complex, and there is no assurance that the Fund's calculation of UBTI will be accepted by the Service.

In general, if UBTI is allocated to an exempt organization such as a qualified retirement plan or a private foundation, the portion of the Fund's income and gains which is not treated as UBTI will continue to be exempt from tax, as will the organization's income and gains from other investments which are not treated as UBTI. Therefore, the possibility of realizing UBTI from its investment in the Fund generally should not affect the tax-exempt status of such an exempt organization. However, a charitable remainder trust will not be exempt from U.S. federal income tax under Section 664(c) of the Code for any year in which it has UBTI. Moreover, the charitable contribution deduction for a trust under Section 642(c) of the Code may be limited for any year in which the trust has UBTI. Prospective Limited Partners that are tax exempt should consult their tax adviser with respect to the tax consequences of receiving UBTI from the Fund.

**State, Local and Non-U.S. Taxation**

In addition to the U.S. federal income tax consequences described above, prospective Limited Partners should consider potential state, local and non-U.S. tax consequences of an investment in the Fund. State, local and non-U.S. laws may differ from U.S. federal income tax laws with respect to the treatment of specific items of income, gain, loss, deduction and credit. Prospective Limited Partners are urged to consult with their tax advisors regarding any state, local or non-U.S. tax consequences of an investment in the Fund.

**Tax Shelter Disclosure**

Taxpayers, including partnerships, who participate in a "reportable transaction" must disclose the transaction by attaching a form to its tax return and by filing the form with the IRS. Reportable transactions include listed transactions, confidential transactions, transactions with contractual protection, transactions that result in substantial losses, and transactions of interest. The Fund does not currently anticipate that it will engage in transactions that require such disclosure but there are no assurances in that regard. Disclosure under these rules will not change the amount of tax owed by a Limited Partner. However, such disclosure may increase the risk of audit to the Fund and the Limited Partners.

## ERISA CONSIDERATIONS

Persons who are fiduciaries with respect to an employee benefit plan or other arrangement subject to the Employee Retirement Income Security Act of 1974, as amended (an "ERISA Plan" and "ERISA," respectively), and persons who are fiduciaries with respect to an IRA, Keogh plan or other plan or arrangement, which is not subject to ERISA but is subject to the prohibited transaction rules of Section 4975 of the Code (together with ERISA Plans, and any entity where underlying assets include plan assets by reason of a plan's investment in the entity, "Benefit Plans") should consider, among other things, the matters described below before determining whether to invest in the Fund.

ERISA imposes certain general and specific responsibilities on persons who are fiduciaries with respect to an ERISA Plan, including prudence, diversification, an obligation not to engage in a prohibited transaction and other standards. In determining whether a particular investment is appropriate for an ERISA Plan, Department of Labor ("DOL") regulations provide that a fiduciary of an ERISA Plan must give appropriate consideration to, among other things, the role that the investment plays in the ERISA Plan's portfolio, taking into consideration whether the investment is designed reasonably to further the ERISA Plan's purposes, an examination of the risk and return factors, the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the ERISA Plan, the income tax consequences of the investment (see "*CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS—Unrelated Business Taxable Income*") and the projected return of the total portfolio relative to the ERISA Plan's funding objectives. Before investing the assets of an ERISA Plan in the Fund, a fiduciary should determine whether such an investment is consistent with its fiduciary responsibilities and the foregoing regulations. For example, a fiduciary should consider whether an investment in the Fund may be too illiquid or too speculative for a particular ERISA Plan, and whether the assets of the ERISA Plan would be sufficiently diversified. If a fiduciary with respect to any such ERISA Plan breaches its or his responsibilities with regard to selecting an investment or an investment course of action for such ERISA Plan, the fiduciary itself or himself may be held liable for losses incurred by the ERISA Plan as a result of such breach.

Investment Fund interests held by the Fund are not expected to be "plan assets" (as defined in ERISA and applicable regulations) of a Limited Partner that is a Benefit Plan because the General Partner will limit investment by Benefit Plan investors to less than 25% of the overall value of the Fund (disregarding the interest of the General Partner and its affiliates). The General Partner will require prospective Limited Partners to represent whether or not they are Benefit Plan investors, whether any person who has authority or control over the assets of the Benefit Plan or gives investment advice to the Benefit Plan for a fee (or any affiliate of such a person) is also an investor, and will require a Benefit Plan which proposes to invest in the Fund to represent that it, and any fiduciaries responsible for such Plan's investments, are aware of and understand the Fund's investment objective, policies and strategies, that the decision to invest plan assets in the Fund was made with appropriate consideration of relevant investment factors with regard to the Benefit Plan and is consistent with the duties and responsibilities imposed upon fiduciaries with regard to their investment decisions under ERISA and/or the Code.

Certain prospective Benefit Plan investors may currently maintain relationships with the General Partner or other entities which are affiliated with the General Partner. Each of such persons may be deemed to be a party in interest to and/or a fiduciary of any Benefit Plan to which it provides investment management, investment advisory or other services. ERISA prohibits (and the Code penalizes) the use of ERISA and Benefit Plan assets for the benefit of a party in interest and also prohibits (or penalizes) an ERISA or Benefit Plan fiduciary from using its position to cause such Plan to make an investment from which it or certain third parties in which such fiduciary has an interest would receive a fee or other consideration. Benefit Plan investors should consult with their counsel to determine if participation in the Fund is a transaction which is prohibited by ERISA or the Code. Fiduciaries of Benefit Plan investors will be required to represent that the decision to invest in the Fund was made by them as fiduciaries that are independent of such affiliated persons, that such fiduciaries are duly authorized to make such investment decision and that they have not relied on any individualized advice or recommendation of such affiliated persons as a primary basis for the decision to invest in the Fund.

The provisions of ERISA and the Code are subject to extensive and continuing administrative and judicial interpretation and review. The discussion of ERISA and the Code contained in this Memorandum is general and may be affected by future publication of regulations and rulings. Potential Benefit Plan investors should consult their legal advisers regarding the consequences under ERISA and the Code of the acquisition and ownership of interests.

## PROCEDURE FOR BECOMING AN INVESTOR

To become a investor in the Fund, a prospective investor should: (i) complete and execute two copies of a Subscription Agreement for the Fund, inserting the amount of the investment agreed to be made by such investor and such investor's residence address and his taxpayer identification or social security number, if any; and (ii) return such materials, together with the investor's wire transfer of funds or check for the amount of the investment in accordance with the instructions set forth in the Subscription Agreement.

The Administrator may take such steps as it considers necessary to comply with international standards for the prevention of money laundering. Hence, investors may be required to furnish adequate documents to evidence their identity and address and information relating to the source of the monies to be invested. Failure to provide such information or documentation in a timely manner could result in a delay in the issue of Limited Partner Interests or a refusal to issue Limited Partner Interests in the Fund.

It should also be noted that the General Partner may pay fees to persons (whether or not affiliated with the General Partner) who are instrumental in the sale of interests in an Investment Fund. None of such fees will in any event be payable by or chargeable to the Fund or to any investor.

This offering is not a public offering and is being made pursuant to an exemption from registration in accordance with Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder. Relevant United States laws impose limitations on the persons who may purchase securities in this Offering. Each potential investor must qualify as an "accredited investor" within the meaning of Regulation D under the Securities Act and a "qualified purchaser" as defined under the Investment Company Act.

**An accredited investor is:**

1. Any U.S. bank or any banking institution organized under the laws of any State, territory or the District of Columbia, the business of which is substantially confined to banking and is supervised by the State or territorial banking commission or similar official agency, any U.S. savings and loan association or other similar institution, whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to Section 15 of the Exchange Act; any U.S. insurance company; any investment company registered under the Investment Company Act or a business development company as defined in the Investment Company Act; any Small Business Investment Partnership licensed by the U.S. Small Business Administration under the Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of $5 million; any employee benefit plan within the meaning of ERISA, if the investment decision is made by a plan fiduciary, as defined in ERISA, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of $5 million; or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;

2. Any "private business development company" as defined in the Advisers Act;

3. Any organization described in Section 501(c)(3) of the Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total capital in excess of $5 million;

4. The General Partner and certain affiliates of the General Partner;

5. Any natural person whose net worth, either individually or jointly with such person's spouse, at the time of his or her purchase, exceeds $1 million, excluding the value of the primary residence of such natural person, calculated by subtracting from the estimated fair market value of the property the amount of debt secured by the property, up to the estimated fair market value of the property;

6. Any natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

7. Any trust with total assets in excess of $5 million not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in Regulation D; or

8. Any entity all of whose equity owners satisfy one or more of such requirements (1) through (7) above.

**A qualified purchaser includes:**

1. Any natural person who owns not less than $5,000,000 in investments;

2. Any company that owns not less than $5,000,000 in investments and that is owned directly or indirectly by or for two or more natural persons who are related as siblings or spouse (including former spouses), or direct lineal descendants by birth or adoption, spouses of such persons, the estates of such persons, or foundations, charitable organizations, or trusts established by or for the benefit of such persons;

3. Any trust that was not formed for the specific purpose of acquiring the securities offered, as to which the trustee or other person authorized to make decisions with respect to the trust, and each settler or other person who has contributed assets to the trust, is a person who is otherwise a "qualified purchaser;"

4. Any person or entity, acting for its own account or the accounts of other "qualified purchasers," who in the aggregate owns and invests on a discretionary basis not less than $25,000,000 in investments and, if an entity, was not formed for the specific purpose of acquiring the securities offered; or

5. Any entity all of whose equity owners satisfy one or more of such requirements (1) through (4) above.