July 14, 2017

Dear Partner:

The Greenlight Capital funds (the "Partnerships") returned (4.0)%,[1] net of fees and expenses, in the second quarter of 2017, bringing the year-to-date net return to (2.8)%. During the second quarter, the S&P 500 index returned 3.1%, bringing its year-to-date return to 9.3%.

The second quarter was a bit of a head-scratcher. Our five biggest longs reported earnings that met or exceeded expectations, while our shorts announced earnings that mostly disappointed. Nonetheless, we lost money in the quarter.

Consider the five largest equity longs (in alphabetical order):

AerCap Holdings (AER) met quarterly expectations and is on pace to earn almost $6 per share this year. Book value per share has grown 17% in the last twelve months to $51.20, and Moody's upgraded the company's credit rating to investment grade. In May the company announced a fresh $300 million buyback (4% of the company), to be completed by the end of September, on top of the buybacks it has completed over the preceding two years (23% of the company). Yet the stock languished at $46.43, up only 1% for the quarter.

Bayer (Germany: BAYN) beat quarterly estimates. The shares performed nicely until the final days of the quarter, when one-time inventory issues in Brazil and relative Euro strength put a damper on second quarter expectations. The stock ended the quarter up 5% at €113.20.

CONSOL Energy (CNX) fell 11% to $14.94 despite increasing its 2017 EBITDA guidance by 7% and raising its production forecast for this year and next without raising its capital spending plan. Though it was a tough quarter for oil prices, this isn't an oil company. Intermediate-term natural gas prices were stable. The company has committed to sell or separate its coal business by the end of the year, which will help the market focus on CNX as a pure-play natural gas business. We believe the overall business is worth substantially more than where the stock trades today.

General Motors (GM) fell 1% to $34.93 after announcing a strong first quarter, with earnings 15% above consensus estimates. Still, auto sentiment remains poor, and the company continues to trade with the lowest multiple in the S&P 500. We continue to believe that the market is overestimating GM's vulnerability to the next down-cycle and is underestimating its longer-term competitive position, the impact of share repurchases, and its current earnings power.

[1] Source: Greenlight Capital. Please refer to information contained in the disclosures at the end of the letter.

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Mylan (MYL) beat quarterly estimates by a penny and reiterated earnings guidance of $5.15 to $5.55 this year. Sell-side analysts are doubtful, and estimates remain pinned to the bottom of the range. The stock fell less than a percent to $38.82, trading at just over 7x estimated 2017 earnings.

As a whole, the long book was marginally profitable without any individually significant winners or losers. The short book proved more costly, though in aggregate it rose in line with the market. The bubble basket was particularly frustrating. Here are some examples from the bubble basket (in alphabetical order):

Amazon (AMZN) rose 9% for the quarter to $968 after modestly beating March quarter sales and earnings estimates (which had been reduced when the company announced December results). However, it again guided down next quarter estimates to well below consensus expectations. Since last October, consensus 2017 earnings estimates have fallen significantly from $10.75 to $6.73, while the shares have risen 16%. Correspondingly, the P/E multiple went from 76x to 145x. Late in the quarter, AMZN announced the purchase of Whole Foods for $14 billion, essentially buying a "brick and mortar" footprint of mostly leased retail space for over $800 per square foot. When companies announce large acquisitions, they typically explain the implications and strategy. AMZN has said nothing and left the interpretation to the market's imagination, which for the time being skews optimistic.

athenahealth (ATHN) finished the quarter up 25% to $140.55 despite falling almost 20% on the day after it announced first quarter earnings. For the first time in its history, the company sharply reduced its full year guidance (which it had provided in December). ATHN has long touted itself as a 30% top line grower, but revenues grew by 12% in the March quarter and are expected to grow only 11% for the year. Significantly, ATHN's one-time opportunity to benefit from doctors using government subsidies to adopt electronic recordkeeping has passed.

In May, Elliott Management announced a large stake in ATHN. The shares immediately repriced. We can't say for certain that no one will buy the company for an inflated price as we have seen bad acquisitions before. However, we disagree that the math works for a going private transaction. With a $5.6 billion market cap, only $120 million of expected EBITA ($55 million if you include stock compensation as a real expense), no historical free cash flow after capital spending, and rapidly decelerating revenue growth, we don't see how an acquisition works for a buyer.

Netflix (NFLX) missed guidance for new customers and increased its forecast for cash burn. The company's key metrics are all deteriorating and customer acquisition costs are higher, yet the stock ended the quarter up 1% to $149.41. Cash investment in content is now more than 100% of revenues, and the company is growing its content spend per customer faster than it is growing revenue per customer. The company is showing improving GAAP margins by slowing its amortization of content investment, but there isn't enough information disclosed to determine whether there is a good justification for this seemingly aggressive change. In any case, the company has not demonstrated that its heavy investment in content yields a positive economic return. Further, despite the availability of nearly free equity, NFLX is funding its cash burn with debt.

Tesla (TSLA) finished the quarter up 30% to $361.61. TSLA bulls look at Elon Musk, think of Steve Jobs, and decide TSLA is the next Apple. We have read many critiques of TSLA and we won’t repeat them here, but we will offer a few distinctions from Apple:

- When Apple launched the iPhone, it was immediately profitable. Apple has always cared about profits. TSLA does not make money selling cars, and Mr. Musk shows little interest in profits.

- When one person buys an Apple product, it makes the experience for other Apple customers better by supporting the developer ecosystem. This network effect attracts a stable and growing user base. TSLA is unlikely to sustain a competitive advantage by having a network of charging stations or by accumulating driver data.

- Competition was very slow to develop for Apple. Its peers (most famously Microsoft) publicly dismissed the iPhone as a threat. By contrast, every major car company in the world intends to compete with TSLA in electric vehicles. Consortiums are installing competing charging networks, and many competitors (including possible new industry entrants) are investing in autonomous driving.

- Steve Jobs attracted and retained a senior team of loyal lieutenants who implemented his vision, and Apple continues to have a deep bench. Mr. Musk is a one-man show (and one distracted with many ventures at that).

While we do not pair trade and do not view our TSLA short as related to GM, we have a few observations about the two companies:

- GM is capitalized to survive any foreseeable downturn. It has $20 billion of cash and a $14.5 billion undrawn revolver. Meanwhile, it is currently generating billions of dollars in free cash flow. TSLA is capitalized to survive only the next three quarters. While its cars do not burn gasoline, the company burns more than enough cash to compensate, and behaves as if it will have access to nearly free capital for the foreseeable future.

- GM bears are focused on the overhang from leased vehicles returning to the market, making the case that excess vehicles are forcing down used car pricing, which will in turn pressure new car sales and margins. This may be true, but we believe TSLA faces the same risk and then some. 2014 was the first year of TSLA’s three-year leasing program. Already, many of those cars are hitting the resale market at surprisingly low prices. It is a real risk for TSLA that customers may prefer a three-year-old Model S available right now to a Model 3 available in a year or two at roughly the same price point. TSLA’s balance sheet reveals that deposits have been returned to many prospective Model 3 customers.

Outside of the bubble basket, the rest of the short portfolio roughly broke even.

Caterpillar (CAT) advanced 16% after a strong quarter. Though Chinese demand has remained strong, we think the rest of the business is poised to disappoint. Despite enthusiasm for infrastructure stocks after the election, legislative progress has been minimal, and the administration's "infrastructure week" lacked substance. It appears that CAT dealers reacted to the election by rushing to build inventory for demand that is not materializing. Key commodity markets including iron ore and oil have rolled over, which should impact CAT's earnings as capital spending decreases. Bulls believe that current results are closer to trough and the peak lies years ahead. We see it differently.

We profited from Continental Resources (CLR), which declined 29% during the quarter as oil prices fell and the market lost interest in some of the properties the company had promoted last year. CLR was our only material winner in the portfolio this quarter and roughly offset our loss in TSLA, our only material loser.

Macro was also a small drag this quarter, as nearly every position lost a small amount.

We added a new long in Toshiba (Japan: 6502) at an average price of ¥234.79 per share. Toshiba is a Japanese conglomerate whose operations include a memory division, a nuclear reactor design and plant maintenance subsidiary (Westinghouse), and several other smaller industrial and infrastructure businesses. In late 2016, Toshiba announced a significant write-down in its Westinghouse business relating to cost overruns for two nuclear plants it was constructing for U.S. utilities. That caused the stock to collapse as investors worried that Westinghouse's liabilities would bankrupt all of Toshiba. In March, Westinghouse filed for Chapter 11 in the U.S., which should allow it to exit the money-losing contracts and enable Toshiba to extract value from the subsidiary's profitable businesses, offsetting its liabilities to the utilities.

Also in March, Toshiba began a process to sell a majority stake in its memory business to shore up its balance sheet, although a legal dispute has complicated the process. We believe that there is a solution that satisfies both parties in the dispute.

We believe investors will refocus on the significant margin and valuation upside at Toshiba once it has resolved current uncertainties. Using reasonable assumptions for the value of the memory division and remaining businesses, we believe the stock is worth closer to ¥400 per share. Toshiba shares closed the quarter at ¥271.80.

We exited an unusually large number of positions:

We closed our Altice long position for the second time with another nice gain. The stock price declined significantly after our first exit in 2015 when the company offered to acquire Cablevision at a fancy price amidst negative operating trends in its home market of France. We judged this to be an overreaction, reentered the stock, and waited for things to normalize, which they ultimately did.

We exited our long in InterActiveCorp with a gain as our discount to sum-of-the-parts thesis proved out and the shares appreciated.

We closed our multi-year Liberty Global long position after recent operating trends weakened. Our holding began with a position in Virgin Media in 2012 (which was subsequently acquired by Liberty) and together this investment generated an attractive profit and IRR.

We exited our successful three-year investment in Time Warner. Last year, the company agreed to sell itself to AT&T for a healthy premium. We held off on exiting until the deal spread narrowed, which it now has. Time Warner's management team did an excellent job of maximizing shareholder value in a challenging media environment.

We ended our decade-long shorts of the credit rating agencies. Initially these performed in our favor, but we incorrectly believed that the agencies would ultimately be held to greater accountability for their malfeasance leading up to the housing bubble in 2008. While we covered most of the Moody's position years ago, we held onto a bit to see if anything would happen. Not much did, and we ended in the red.

We closed out our profitable short position in Mallinckrodt. A few years ago, we suffered sizable losses when the company inexplicably bought one of our large shorts, Questcor, the manufacturer of the problematic and controversial drug Acthar. We rolled that position into Mallinckrodt, whose shareholders ultimately paid for the unwise acquisition.

Kim Thompson, our U.K. office manager, left us after nine years to embark on a new career as a life coach. We thank Kim for her years of hard work and wish her the best in her new endeavor!

Geriann Bruno joined us as an Executive Assistant. Geriann began her career as an administrative assistant at Morgan Stanley in April 2000. During her seventeen years there she was an office services and capital commitment committee coordinator (and apparently an alliteration aficionado). More recently, she was an executive assistant in the investment bank. Geriann is from Staten Island and is only our second team member to grow up in NYC outside of Manhattan. In our small office that compares to 4 Texans, 3 Cheeseheads, 3 Californians, 2 Canadians and 2 Australians. Not for nothin' but that is an unusually low distribution from the outer boroughs. Welcome Geriann!

There has been some recent fuss in the media over redemptions. This gives us a nice chance to remind you that our goal has always been to maximize our ability to generate good returns. This includes taking a disciplined approach toward assets under management.

Some funds aim to manage the most assets, and other funds choose to keep assets steady by offsetting redemptions with new inflow. However, we believe in raising capital only when it is in the best interests of the Partnerships. If our funds are fully committed to our best ideas, and we find still more attractive opportunities that we want to pursue, only then do we decide to accept additional capital. This has happened just three times in the last ten years. On the other hand, redemptions are routine. If we believed they were harmful, we would seek to replace them. We prefer to grow our assets by generating good returns rather than by raising capital. In our 21 years, we have paid out more in redemptions than we have cumulatively raised from our partners.

We enjoy a diverse partner base, with no outside investor in the Partnerships representing more than 2% of our assets. Over the past several years, the majority of our redemptions have been from funds-of-funds, which in recent years have suffered sizable redemptions of their own. Funds-of-funds now represent about 10% of the Partnerships' capital. We are fortunate to have partners who have known us for years and understand our process, and we thank all of you for your support. Although we continue to receive requests to add capital, the Partnerships remain closed at the present time.

At quarter-end, the largest disclosed long positions in the Partnerships were AerCap, Bayer, CONSOL Energy, General Motors and gold. The Partnerships had an average exposure of 111% long and 79% short.

"Doubt is not a pleasant condition, but certainty is absurd."

– Voltaire

Best Regards,

Greenlight Capital

Greenlight Capital, Inc.

Unless otherwise noted, performance returns reflect the dollar-weighted average total returns, net of fees and expenses, for an IPO eligible partner for Greenlight Capital, L.P., Greenlight Capital Qualified, L.P., Greenlight Capital Offshore, Ltd., Greenlight Capital Offshore Qualified, Ltd., and the dollar interest returns of Greenlight Capital (Gold), L.P. and Greenlight Capital Offshore (Gold), Ltd. (collectively, the "Partnerships"). Each Partnership's returns are net of the modified high-water mark incentive allocation of 10%.

Performance returns are estimated pending the year-end audit. Past performance is not indicative of future results. Actual returns may differ from the returns presented. Each partner will receive individual statements showing returns from the Partnerships' administrator. Reference to an index does not imply that the funds will achieve returns, volatility or other results similar to the index. The total returns for the index do not reflect the deduction of any fees or expenses which would reduce returns.

All exposure information is calculated on a delta adjusted basis and excludes credit default swaps, interest rate swaps, sovereign debt, currencies, commodities, volatility indexes and baskets, and derivatives on any of these instruments. Weightings, exposure, attribution and performance contribution information reflects estimates of the weighted average of such figures for investments by Greenlight Capital, L.P., Greenlight Capital Qualified, L.P., Greenlight Capital Offshore, Ltd., Greenlight Capital Offshore Qualified, Ltd., Greenlight Capital (Gold), L.P., and Greenlight Capital Offshore (Gold), Ltd. (excluding the gold backing held by the gold interests) and are the result of classifications and assumptions made in the sole judgment of Greenlight.

Positions reflected in this letter do not represent all the positions held, purchased, or sold, and in the aggregate, the information may represent a small percentage of activity. The information presented is intended to provide insight into the noteworthy events, in the sole opinion of Greenlight, affecting the Partnerships.