Offering By

THE KAWALLER FUND LP

CONFIDENTIAL

PRIVATE PLACEMENT MEMORANDUM

General Partner

KAWALLER & COMPANY LLC

July 5, 2005

PURSUANT TO AN EXEMPTION FROM THE US COMMODITY FUTURES TRADING COMMISSION IN CONNECTION WITH POOLS WHOSE PARTICIPANTS ARE LIMITED TO QUALIFIED ELIGIBLE PERSONS, AN OFFERING MEMORANDUM FOR THIS POOL IS NOT REQUIRED TO BE FILED WITH THE COMMISSION. THE COMMODITY FUTURES TRADING COMMISSION DOES NOT PASS UPON THE MERITS OF PARTICIPATING IN A POOL OR UPON THE ADEQUACY OR ACCURACY OF AN OFFERING MEMORANDUM. CONSEQUENTLY, THE COMMODITY FUTURES TRADING COMMISSION HAS NOT REVIEWED OR APPROVED THIS OFFERING OR ANY OFFERING MEMORANDUM FOR THIS POOL.
THESE SECURITIES ARE BEING OFFERED UNDER AN EXEMPTION FROM REGISTRATION PURSUANT TO SECTION 4(2) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR SECURITIES AND EXCHANGE COMMISSION REGULATION D PROMULGATED THEREUNDER. WHETHER THESE SECURITIES ARE EXEMPT FROM REGISTRATION PURSUANT TO REGULATION D OR OTHERWISE HAS NOT BEEN PASSED UPON BY THE SECURITIES AND EXCHANGE COMMISSION, THE ATTORNEY GENERAL OF ANY STATE OR ANY OTHER REGULATORY AGENCY, NOR HAS ANY SUCH AGENCY PASSED UPON THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY OR ANY REPRESENTATION THAT ANY REGULATORY AGENCY HAS PASSED UPON THE ACCURACY OR COMPLETENESS OF THIS PRIVATE PLACEMENT MEMORANDUM OR THE LIMITED PARTNERSHIP AGREEMENT ACCOMPANYING IT IS A CRIMINAL OFFENSE.

THE KAWALLER FUND LP

(A Delaware Limited Partnership)

162 State Street
Brooklyn, NY 11201-5610

CONFIDENTIAL

PRIVATE PLACEMENT MEMORANDUM

June 2005

for an offer of

Limited Partnership Interests

THE KAWALLER FUND LP is a private investment limited partnership formed under the laws of the State of Delaware. This Confidential Private Placement Memorandum (the “Memorandum”) relates to an offering of limited partnership interests in the Partnership. Prospective Limited Partners should carefully read and retain this Memorandum.
IN NO EVENT SHALL THIS MEMORANDUM BE DEEMED TO BE AN OFFER TO ANY PERSON OTHER THAN THE PERSON TO WHOM IT IS ADDRESSED.

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PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER WHETHER THEIR FINANCIAL CONDITION PERMITS THEM TO PARTICIPATE IN A COMMODITY POOL. IN SO DOING, THE PROSPECTIVE INVESTOR SHOULD BE AWARE THAT FUTURES AND OPTIONS TRADING CAN QUICKLY LEAD TO LARGE LOSSES AS WELL AS GAINS. SUCH TRADING LOSSES CAN SHARPLY REDUCE THE NET ASSET VALUE OF THE POOL AND CONSEQUENTLY THE VALUE OF PROSPECTIVE INVESTOR’S INTEREST IN THE POOL. IN ADDITION, RESTRICTIONS ON REDEMPTIONS MAY AFFECT THE PROSPECTIVE INVESTOR’S ABILITY TO WITHDRAW THEIR PARTICIPATION IN THE POOL.

FURTHER, COMMODITY POOLS MAY BE SUBJECT TO SUBSTANTIAL CHARGES FOR MANAGEMENT AND ADVISORY AND BROKERAGE FEES. IT MAY BE NECESSARY FOR THOSE POOLS THAT ARE SUBJECT TO THESE CHARGES TO MAKE SUBSTANTIAL TRADING PROFITS TO AVOID DEPLETION OR EXHAUSTION OF THEIR ASSETS.

THIS BRIEF STATEMENT CANNOT DISCLOSE ALL THE RISKS AND OTHER FACTORS NECESSARY TO EVALUATE THE PROSPECTIVE INVESTOR’S PARTICIPATION IN THIS COMMODITY POOL. THEREFORE, BEFORE A PROSPECTIVE INVESTOR DECIDES TO PARTICIPATE IN THIS COMMODITY POOL, THEY SHOULD CAREFULLY STUDY THIS DISCLOSURE DOCUMENT, INCLUDING A DESCRIPTION OF THE PRINCIPAL RISK FACTORS OF THIS INVESTMENT.

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THIS MEMORANDUM IS SUBMITTED IN CONNECTION WITH THE PRIVATE PLACEMENT OF THESE LIMITED PARTNERSHIP INTERESTS AND MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE.

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THE PARTNERSHIP IS NOT PRESENTLY, AND DOES NOT PROPOSE IN THE FUTURE TO BECOME, REGISTERED AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OF 1940. LIMITED PARTNERS WILL NOT, THEREFORE, BE ACCORDED THE PROTECTIONS EMBODIED IN SUCH LEGISLATION.

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OWNERSHIP OF THE LIMITED PARTNERSHIP INTERESTS OFFERED HEREBY INVOLVES A SIGNIFICANT DEGREE OF RISK.

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THE GENERAL PARTNER HAS AGREED TO MAKE AVAILABLE, PRIOR TO THE CONSUMMATION OF THE TRANSACTION CONTEMPLATED HEREIN, TO EACH OFFEREE OF INTERESTS AND ITS REPRESENTATIVE(S) THE OPPORTUNITY TO ASK QUESTIONS OF, AND RECEIVE ANSWERS FROM, THE GENERAL PARTNER OR ANY PERSON ACTING ON ITS BEHALF CONCERNING THE TERMS AND CONDITIONS OF THIS OFFERING, AND TO OBTAIN ANY ADDITIONAL INFORMATION, TO THE EXTENT IT POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE, NECESSARY TO VERIFY THE ACCURACY OF THE INFORMATION SET FORTH HEREIN.

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THE LIMITED PARTNERSHIP INTERESTS MAY NOT BE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT OR AN OPINION OF COUNSEL THAT AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

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THERE CAN BE NO ASSURANCE THAT THE INVESTMENT OBJECTIVES OF THE PARTNERSHIP WILL BE ACHIEVED. IN FACT, PRACTICES THAT MAY BE UTILIZED BY THE PARTNERSHIP SUCH AS TAKING SIGNIFICANT POSITIONS IN A LIMITED NUMBER OF SECURITIES, CAN, IN CERTAIN CIRCUMSTANCES, EXACERBATE THE ADVERSE IMPACT OF PARTICULAR TRANSACTIONS OR CONDITIONS ON THE PARTNERSHIP'S INVESTMENT PROGRAM.
THERE ARE NO TAX BENEFITS FROM AN INVESTMENT IN THE PARTNERSHIP AND ANY INVESTMENT SHOULD BE MADE SOLELY FOR ECONOMIC REASONS.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS MEMORANDUM OR ANY PRIOR OR SUBSEQUENT COMMUNICATION FROM THE PARTNERSHIP, GENERAL PARTNER, ITS AFFILIATES, OR ANY PROFESSIONAL ASSOCIATED WITH THIS OFFERING, AS LEGAL, TAX OR INVESTMENT ADVICE. EACH INVESTOR SHOULD CONSULT WITH AND RELY ON ITS OWN PERSONAL COUNSEL, ACCOUNTANT AND OTHER ADVISORS AS TO LEGAL, TAX AND ECONOMIC IMPLICATIONS OF THE INVESTMENT DESCRIBED HEREIN AND ITS SUITABILITY FOR IT. NO REPRESENTATION OR WARRANTY IS OR CAN BE MADE AS TO THE ECONOMIC RETURN THAT MAY ACCRUE TO A LIMITED PARTNER.

NO DISTRIBUTION OF THIS MEMORANDUM IN WHOLE OR IN PART, OR THE DIVULGENCE OF ANY OF ITS CONTENTS, IS PERMITTED UNLESS AUTHORIZED BY THE GENERAL PARTNER. NO OFFERING LITERATURE OR ADVERTISING IN WHATEVER FORM SHALL BE EMPLOYED IN THE OFFERING OF THESE LIMITED PARTNERSHIP INTERESTS, EXCEPT THE INFORMATION CONTAINED HEREIN OR AUTHORIZED BY THE GENERAL PARTNER. NO PERSON HAS BEEN AUTHORIZED TO MAKE REPRESENTATIONS, OR GIVE ANY INFORMATION, WITH RESPECT TO THESE LIMITED PARTNERSHIP INTERESTS, EXCEPT THE INFORMATION CONTAINED HEREIN.

THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION TO ANYONE IN ANY STATE OR IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED.

REFERENCE SHOULD BE MADE TO THE LIMITED PARTNERSHIP AGREEMENT, SUPPORTING DOCUMENTS AND OTHER INFORMATION FURNISHED HEREWITH FOR THE COMPLETE INFORMATION CONCERNING THE RIGHTS AND OBLIGATIONS OF THE PARTIES THERETO. CERTAIN PROVISIONS OF SUCH AGREEMENTS ARE SUMMARIZED
IN THIS MEMORANDUM, BUT IT SHOULD NOT BE ASSUMED THAT THE SUMMARIES ARE COMPLETE.

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FOR GEORGIA INVESTORS

THESE INTERESTS HAVE BEEN ISSUED OR SOLD IN RELIANCE ON PARAGRAPH THIRTEEN (13) OF CODE SECTION 10-5-9 OF THE “GEORGIA SECURITIES ACT OF 1973,” AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER SUCH ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER SUCH ACT.

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NASAA UNIFORM LEGEND

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.
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SUMMARY OF OFFERING

THIS SUMMARY OF CERTAIN PROVISIONS OF THE CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM (THE "MEMORANDUM") IS INTENDED ONLY FOR GENERAL REFERENCE. NOT ALL THE MATERIAL FACTS RELATING TO THIS INVESTMENT APPEAR IN THIS SUMMARY. THE MEMORANDUM AND EXHIBITS ATTACHED HERETO DESCRIBE IN DETAIL NUMEROUS ASPECTS OF THE TRANSACTION WHICH ARE MATERIAL TO PROSPECTIVE INVESTORS, INCLUDING ASPECTS SUMMARIZED HERE. THIS MEMORANDUM, THE LIMITED PARTNERSHIP AGREEMENT AND OTHER DOCUMENTS ATTACHED HERETO SHOULD BE READ AND UNDERSTOOD IN THEIR ENTIRETY BY THE PROSPECTIVE INVESTORS.

PARTNERSHIP INTERESTS ARE SUITABLE ONLY FOR SOPHISTICATED INVESTORS FOR WHOM AN INVESTMENT IN THE PARTNERSHIP DOES NOT CONSTITUTE A COMPLETE INVESTMENT PROGRAM AND WHO FULLY UNDERSTAND AND ARE ABLE TO ASSUME THE RISKS INVOLVED IN THE PARTNERSHIP'S INVESTMENT PROGRAM. (SEE "CERTAIN RISK FACTORS" AND "LIMITATIONS ON TRANSFERABILITY; SUITABILITY REQUIREMENTS"). THE PARTNERSHIP'S INVESTMENT PRACTICES, BY THEIR NATURE, MAY BE CONSIDERED TO INVOLVE A SUBSTANTIAL DEGREE OF RISK.

TAX-EXEMPT ORGANIZATIONS CONSIDERING AN INVESTMENT IN THE PARTNERSHIP INTERESTS SHOULD CONSULT WITH THEIR OWN ADVISORS AS TO THE TAX IMPACT AND OTHER EFFECTS UPON THEM OF THE PARTNERSHIP'S INVESTMENT POLICIES, INCLUDING ITS USE OF LEVERAGE IN CONNECTION WITH ITS INVESTMENT ACTIVITY. (SEE "TAX ASPECTS.")

THE PARTNERSHIP:

THE KAWALLER FUND LP, a Delaware limited partnership (the "Partnership"), is offering limited partnership interests (the "Limited Partnership Interests") in the Partnership to a limited number of qualified investors.

The Limited Partnership Interests being offered have not been registered under the Securities Act of 1933, as amended (the "1933 Act"), the securities laws of any state of the United States or the Investment Company Act of 1940, as amended (the "1940 Act").

INVESTMENT OBJECTIVE:

The principal investment objective of the Partnership is to provide an investment opportunity for investors seeking greater diversification through an alternative asset program, as a means to increase returns and lower the overall risk of a broader investment program.
GENERAL PARTNER:

KAWALLER & COMPANY LLC, a New York limited liability company, is the General Partner of the Partnership ("General Partner"). Dr. Ira G. Kawaller is the managing member (the "managing member").

The General Partner is presently not registered under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), but may so register in the future. The General Partner registered as a Commodity Pool Operator on 5/17/2003 and a Commodity Trading Advisor on 4/26/1999 under the Commodity Exchange Act, as amended (the "Commodity Act").

INITIAL CAPITAL CONTRIBUTIONS:

The minimum capital contribution ("Capital Contribution") required of a Limited Partner on initial subscription for Limited Partnership Interests is twenty-five thousand dollars ($25,000) subject to the General Partner's discretion to make exceptions. The General Partner may, in its absolute discretion, decline to accept the subscription of any prospective investor. A capital account ("Capital Account") shall be established for each Limited Partner upon receiving such Limited Partner's initial Capital Contribution.

PERFORMANCE SHARE:

The General Partner is allocated a performance share (the "Performance Share") equal to ten percent (10%) of the appreciation credited to the capital account ("Capital Account") of each Limited Partner: (i) at the end of each month; (ii) upon a Limited Partner’s complete withdrawal or, in the General Partner’s discretion, upon a partial withdrawal. This allocation shall be made if such appreciation increases the Capital Account to an amount in excess of that Limited Partner's capital contributions ("Capital Contributions"), adjusted for contributions, withdrawals and any appreciation which has been previously credited to such Limited Partner's Capital Account and which has been subject to a Performance Share allocation (the "Maximum Capital Account").

The allocation will be based upon the Partner’s Maximum Capital Account from the date of the initial Capital Contribution or prior calculation to the date of the current calculation. The General Partner reserves the right, in its sole discretion, to reduce or waive the Performance Share allocation or Management Fee set forth herein in connection with a Limited Partnership Interest acquired by the General Partner, its member(s), affiliate(s), or any immediate family member or nearest of kin.
INTERIM DATES
CONTRIBUTIONS
AND ADMISSIONS:

The General Partner may, in its sole discretion, allow Limited Partners to make Capital Contributions and admit new Limited Partners to the Partnership on the first Business Day of each month, or on such other dates as the General Partner may determine in its sole discretion (each date herein referred to as an “Interim Date”).

WITHDRAWAL OF A
LIMITED PARTNER:

A Limited Partner may completely withdraw its Capital Account, and thereby withdraw from the Partnership on a monthly basis, upon delivering written notice to the General Partner at least ten (10) business days prior to the month end of such withdrawal.

A Limited Partner may make a partial withdrawal of its Capital Account on a monthly basis, upon delivering written notice to the General Partner at least ten (10) business days prior to the month end of such withdrawal, and remain a Limited Partner, provided that such capital withdrawal does not, unless otherwise agreed by the General Partner, reduce such Limited Partner's Capital Account to less than the minimum Capital Contribution accepted by the General Partner. Partial withdrawals must be made in minimum amounts of ten thousand dollars ($10,000) and in multiples of ten thousand dollars ($10,000).

The General Partner will distribute at least ninety-five percent (95%) of the amount withdrawn within ten (10) business days following the month end of any termination, and the balance within ten (10) business days thereafter of receipt by the Partnership of its annual audited statements. The General Partner will pay such distributions only in cash. However, if the amount withdrawn is less than ninety-five percent (95%) of the Limited Partner's Capital Account, the requested amount may be distributed in its entirety within ten (10) business days following the month end of any termination.

The General Partner may also withhold taxes on any payment to a Limited Partner to the extent required by the Internal Revenue Code of 1986, as amended (the "Code") or other applicable law.

EXPENSES AND
MANAGEMENT FEE:

The entire proceeds of this offering will be available for the Partnership's investment program and operating expenses. No brokerage commissions or fees will be payable from any Limited Partner's Capital Account in connection with this offering.
The Partnership will pay directly, or reimburse the General Partner for advancing the legal, accounting and other expenses of the organization of the Partnership. This provision, however, may be waived at the discretion of the General Partner. The Partnership intends to amortize these expenses over a sixty (60) month period.

The General Partner will provide to, or incur on behalf of the Partnership, office space, utilities and general office expenses.

In lieu of reimbursing the General Partner for these expenses, each Limited Partner shall pay a fee to the General Partner or its designee on the first business day of each month (the “Management Fee”), to be debited pro rata from the Capital Account of such Limited Partner, in an amount equal to one-twelfth (1/12) of two percent (2%) of the Capital Account of such Limited Partner as of such date, adjusted for contributions or withdrawals.

The Capital Account of a Limited Partner who makes a Capital Contribution on a date other than the first day of each month will be charged a prorated Management Fee as of the date of such contribution.

The Partnership will pay, in addition to the Management Fee, any and all research fees, legal, accounting and other professional fees, custodial fees, trustee's fees, brokerage commissions, bank service fees, any taxes applicable to the Partnership on account of its operations, and shall also pay any and all other reasonable expenses related to the management and operation of the Partnership as well as the purchase, sale or transmittal of Partnership assets, as the General Partner shall determine in its sole discretion.

ACCESS TO INFORMATION

The address of the General Partner is: 162 State Street, Brooklyn, New York, 11201-5610 telephone: (718) 694-6270, facsimile: (413) 460-1819 and e-mail: kawaller@kawaller.com. Prospective investors are invited to review any materials available from the General Partner relating to the Partnership, the operations of the Partnership, this offering, the background, experience and any trading history of the General Partner and/or affiliates of the General Partner and any other matters related to this offering. The General Partner will answer all reasonable inquiries from prospective investors related thereto. All such materials will be made available at the office of the General Partner during business hours and upon reasonable prior notice. The General Partner will provide prospective investors with any additional information necessary to verify the accuracy of any representations or information set forth in this Memorandum, at least to the extent that the Partnership or the General Partner possesses such information or can acquire it without unreasonable effort or expense. Such review is limited only by the proprietary and confidential nature of the investment analysis and strategy to be utilized by the General Partner and by the confidentiality of personal information relating to investors.
Due to the financial sophistication of the persons to whom this offering is directed, this Memorandum sets forth certain information material to evaluating the merits of an investment in the Partnership in summary form only. Prospective investors are urged to consult with their own advisors prior to deciding whether to invest in the Partnership.

**SUBSCRIPTIONS--PROCEDURES AND PAYMENTS**

A person desiring to invest as a Limited Partner is required to accept and adopt the provisions of the Limited Partnership Agreement (a copy of which is annexed hereto as Exhibit A) and satisfy eligibility requirements by:

1. Completing and executing the applicable Subscription Agreement;

2. If required, having its purchaser representative complete and execute a Purchaser Representative Questionnaire; and

3. Delivering all such documents to the Partnership.

Except as provided by the securities laws of certain states, a subscription is irrevocable and may be accepted on behalf of the Partnership upon the countersignature of the General Partner. The General Partner has the absolute right to reject any subscription which is tendered. In the event a subscription is rejected, all amounts paid to the Partnership will be promptly returned to the prospective subscriber without interest or deduction, together with all related documents duly canceled.

**Eligible Subscribers**

Each investor acquiring such Limited Partnership Interests must represent, by executing the Subscription Agreement, that it is acquiring the Limited Partnership Interest for its own account for investment without any present intention to resell, distribute, or in any way transfer or dispose of its Limited Partnership Interest in the Partnership and, if the investor is an individual investor, the investor must be at least twenty-one (21) years of age.

EACH INVESTOR, BY SIGNING THE SUBSCRIPTION AGREEMENT, WILL AGREE TO BE BOUND BY THE LIMITED PARTNERSHIP AGREEMENT AND AGREES TO INDEMNIFY AND HOLD HARMLESS THE PARTNERSHIP, THE GENERAL PARTNER AND ALL LIMITED PARTNERS FROM AND AGAINST ANY AND ALL LOSS, DAMAGE, OR LIABILITY, INCLUDING REASONABLE ATTORNEYS' FEES THAT THE GENERAL PARTNER, PARTNERSHIP OR ANY OF THE LIMITED PARTNER(S) SUSTAINS OR INCURS,
BY REASON OF, OR IN CONNECTION WITH, ANY MISREPRESENTATION OR BREACH OF ANY WARRANTY OR AGREEMENT BY SUCH INVESTOR UNDER THE SUBSCRIPTION AGREEMENT, THE QUESTIONNAIRE OR ANY OTHER DOCUMENT DELIVERED BY THE INVESTOR TO THE PARTNERSHIP IN CONNECTION WITH ITS INVESTMENT IN THE PARTNERSHIP, THE RESALE OR REDISTRIBUTION OF THE INTERESTS BY SUCH INVESTOR IN VIOLATION OF THE 1933 ACT OR ANY OTHER APPLICABLE FEDERAL OR STATE SECURITIES LAW.

THE GENERAL PARTNER

The managing member of the General Partner is Dr. Ira G. Kawaller.

Dr. Ira G. Kawaller is the President of Kawaller & Co., LLC, a financial consulting company based in Brooklyn, NY, specializing in assisting commercial enterprises in their use of derivative instruments in managing their financial risk.

Prior to founding Kawaller & Co., Dr. Kawaller was the Vice President-Director of the New York Office of the Chicago Mercantile Exchange (“CME”), where he was responsible for promoting financial futures and options to the professional financial community. Before the CME, he held positions at J. Aron & Company, AT&T, and the Board of Governors of the Federal Reserve System.

Dr. Kawaller is a widely recognized expert in the realm of derivative instruments. Over the course of his career, he has published over 100 articles in various business and academic journals. He is currently a member of the Financial Accounting Standards Board’s Derivatives Implementation Group (DIG); and in prior years, he was member of the board of directors of the International Association of Financial Engineers and a trustee of both the Futures Industry Institute and the Securities Industry Institute.

Dr. Kawaller has held adjunct professorships at Columbia University and Polytechnic University. He received a Ph.D. in Economics from Purdue University.

INVESTMENT PHILOSOPHY AND OBJECTIVES

The principal investment objective of the Partnership is to provide an investment opportunity for investors seeking greater diversification through an alternative asset program, as a means to increase returns and lower the overall risk of a broader investment program.

The philosophy that underlies the trading activity of the Partnership was developed over an extended period, when the Managing Member of the Partnership was the Director of the New York Office of the Chicago Mercantile Exchange. Prior to accepting investors in the Partnership, the Managing Member traded his own capital and established a track record for sixty-three (63) months.
The Philosophy Underlying Long Option Convergence Trading

The premise of long option convergence trading is that futures prices – particularly futures prices in fixed income markets – are notoriously poor predictors of prospective spot prices. (A spot price refers to the price for immediate delivery of some underlying good or commodity, while a futures price refers to the price appropriate for that same good, but at some specified deferred date.) Put another way, although futures prices may be reflective of a consensus view of forthcoming spot prices in many cases, investors should assign a low probability to the prospect of actually realizing these forecasts. Rather, for certain market segments, futures prices should be viewed as being a function of arbitrage considerations that are largely independent of the coming directional change in spot prices. Although this proposition may be debated, the preponderance of academic evidence supports this view – particularly in connection with markets relating to interest rates.

Accepting the limitations of futures prices as predictors of forthcoming price changes, an alternative approach – and one adopted by this strategy -- uses the current spot price as the preferred indicator of the expected, forthcoming spot price. Readers who take issue with this orientation would be advised not to participate in this investment opportunity.

If one accepts this starting thesis, it should be clear that a non-zero difference between the spot price and the futures price (i.e. a non-zero basis) creates an “edge” for the trader. That is, the condition of the futures price trading above the spot price would favor a short futures position, while a futures price trading below the spot price would favor a long futures position.

The General Partner of the Partnership takes directional positions predicated on current basis conditions, using only long options on futures contracts. That is, if the basis favors a short futures position (i.e., futures price above the spot price), trading is restricted to long put option positions; and if the basis favors a long futures position, trading would shift to long calls. Before an option is purchased, however, critical conditions must be satisfied. Specifically, the convergence benefit must be greater than the time value of the option. This condition fosters the outcome that the option will appreciate in value when spot prices remain constant.

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.
Month-by-month returns are presented below.

- **Net Asset Value (6/30/05)**: $331,796
- **Worst Monthly Drawdown (Sep. '99)**: -40.36%
- **Worst Peak/Trough Drawdown (Jun '99 - Sep. '99)**: -55.31%
- **Average Monthly Return (Jul '99 - Jul '05)**: 3.26%
- **Correlation of returns with S&P500 index (Jul '99 - Jun '05)**: -0.277

**PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS**

### Rates of Return

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<tbody>
<tr>
<td>January</td>
<td>-1.03%</td>
<td>1.84%</td>
<td>-3.88%</td>
<td>0.28%</td>
<td>-17.29%</td>
<td>59.94%</td>
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<tr>
<td>February</td>
<td>-4.37%</td>
<td>11.60%</td>
<td>12.10%</td>
<td>4.75%</td>
<td>-1.35%</td>
<td>3.53%</td>
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<tr>
<td>March</td>
<td>0.55%</td>
<td>9.20%</td>
<td>2.12%</td>
<td>-25.32%</td>
<td>-1.10%</td>
<td>-4.52%</td>
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<tr>
<td>April</td>
<td>10.54%</td>
<td>-27.01%</td>
<td>2.73%</td>
<td>36.44%</td>
<td>-0.17%</td>
<td>-6.77%</td>
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<tr>
<td>May</td>
<td>6.64%</td>
<td>-7.45%</td>
<td>11.54%</td>
<td>15.32%</td>
<td>2.51%</td>
<td>-26.48%</td>
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<tr>
<td>June</td>
<td>8.39%</td>
<td>-8.37%</td>
<td>-1.80%</td>
<td>41.14%</td>
<td>-0.30%</td>
<td>12.26%</td>
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<tr>
<td>July</td>
<td>3.54%</td>
<td>-23.95%</td>
<td>40.15%</td>
<td>33.30%</td>
<td>2.32%</td>
<td>-15.79%</td>
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<tr>
<td>August</td>
<td>10.50%</td>
<td>0.97%</td>
<td>16.44%</td>
<td>13.12%</td>
<td>12.84%</td>
<td>-11.02%</td>
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<tr>
<td>September</td>
<td>-6.33%</td>
<td>21.83%</td>
<td>15.90%</td>
<td>34.93%</td>
<td>12.12%</td>
<td>-40.36%</td>
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<tr>
<td>October</td>
<td>1.08%</td>
<td>-13.38%</td>
<td>-1.88%</td>
<td>20.28%</td>
<td>7.53%</td>
<td>64.48%</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>-6.15%</td>
<td>-5.53%</td>
<td>-16.53%</td>
<td>-13.96%</td>
<td>-18.21%</td>
<td>-9.84%</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>-1.45%</td>
<td>7.60%</td>
<td>35.03%</td>
<td>-4.40%</td>
<td>-28.47%</td>
<td>-18.32%</td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>21.60%</td>
<td>-23.03%</td>
<td>2.00%</td>
<td>264.42%</td>
<td>65.77%</td>
<td>-0.93%</td>
<td>-45.87%</td>
</tr>
</tbody>
</table>

Results reflect pro forma calculations for months prior to October 2004 and actual performance thereafter. 

**Critically, return and correlation statistics are not static, and past performance may not be indicative of future performance**. Nonetheless, the high average monthly return (3.26%) and the low correlation with S&P500 returns (-.277) would appear to validate (a) the approach of the fund and (b) its appropriateness as a diversification tool.

### Controlling risks

The vast majority of commodity pool operators tend to follow either trend-following or mean-reversion programs. They typically trade frequently, and over time their performance generally shows roughly comparable percentages for winning and losing trades. Successful Partnerships tend to make money, however, by imposing a discipline that limits the losses on losing trades (e.g., by using stop-loss liquidation orders) without imposing symmetric limitations on winning trades. (If you win and lose the same number of times, you can still generate profits in the long run if you tend to make more on winning trades than you lose on the losing trades.)

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1 The pro forma results assume a 2 percent administration fee and 20 percent of performance. In fact, the actual fee structure is 2 percent administration and 10 percent performance. Moreover, prior to October 2004, returns were calculated to reflect changes in the account balance, with no adjustment for accruals pertaining to commissions for liquidation. After October 2004, the returns reflect deductions for liquidation commissions and fees.
This Partnership takes a wholly different approach. Positions are initiated only when the prerequisite forward/spot price differential conditions are sufficiently attractive. Positions are then maintained only as long as the spot/forward differential continues to be attractive – irrespective of mark-to-market losses that may arise from the inception of the trade.

For a “long option” portfolio, the risk exposure is clear: Any and all invested option premium can be lost. Given this exposure, it should be obvious that investing all of the available funds in options at any point in time would expose the investor to an unacceptable risk of ruin. Put another way, to insure that losses would be limited to, say, ten percent (10%) of an initial allocation of funds, the Partnership would have to restrict option purchases to ten percent (10%) of available capital; if the risk appetite allows for only losing five percent (5%), only five percent (5%) of invested funds would be allocated to long options; etc.

Investors in the Partnership should view their investment in the Partnership as being “at risk.” Thus, the ultimate risk control really lies in the hands of the investor. Participation in the Partnership should be limited to a small fraction of the investor’s total available investment funds. This percentage, in turn, should be determined individually, reflecting the risk tolerances of each investor.
USE OF PROCEEDS

The entire proceeds from the sale of Limited Partnership Interests and from the General Partner's Capital Contribution will be available for the Partnership's investment program. The Partnership will pay directly, or reimburse the General Partner for advancing the legal, accounting and other expenses of the organization of the Partnership. The organizational expenses of the Partnership, whether advanced by the General Partner or paid by the Partnership, shall be amortized over a sixty (60) month period.

BROKERAGE COMMISSIONS

The General Partner is authorized to determine the broker-dealers that will effect transactions and clear securities for the Partnership. The General Partner will, in its discretion, determine who shall be the Partnership’s prime broker, but may engage other brokers to provide similar services. A broker will not be excluded from receiving brokerage business merely because it has not been identified as providing research services.

The investment information received from brokers may be used by the General Partner in servicing other entities to which the General Partner provides investment advice and all such information need not be used by the General Partner in connection with the Partnership.

CERTAIN RISK FACTORS

Prospective Limited Partners should consider the following factors in determining whether an investment in the Partnership is a suitable investment:

1. General. The transactions in which the Partnership will generally engage involve significant trading risks. No assurance can be given that Limited Partners will realize a profit on their investment. Moreover, each Limited Partner may lose some or all of its investment. Because of the nature of the Partnership's investment activities, the results of the Partnership's operations may fluctuate from month to month and from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results in future periods.

2. Start-Up Period. The Partnership will encounter a start-up period during which it will incur certain risks relating to the investment of its assets and may commence trading operations at an unfavorable time. Moreover, the start-up period also represents a special risk because: (i) the level of diversification of the Partnership's portfolio may be lower than in a fully committed portfolio; and (ii) the normal balance of positions may be temporarily disrupted. The General Partner may employ different strategies for moving to a fully committed portfolio. These strategies will be based in part on market judgment. No assurance can be given that these strategies will be successful.

3. Limited Liquidity. Limited Partners may withdraw part or all of their capital on the first business day of each month, upon delivering written notice to the General Partner at least ten (10) business days prior to the month end of such withdrawal, and remain a Limited Partner, provided that
such capital withdrawal does not, unless otherwise agreed by the General Partner, reduce such Limited Partner's Capital Account to less than the minimum Capital Contribution accepted by the General Partner.

4. **Risk of Loss.** An investment in the Partnership creates a risk of the loss of capital and is designated for sophisticated persons who are able to bear such risk. The General Partner believes that the Partnership's investment program and research techniques moderate this risk to some degree, but can make no warranty or representation in this regard.

5. **Lack of Regulatory Oversight.** While the Partnership may be considered similar to an investment company, it is not presently registered, and does not propose in the future to so register, under the 1940 Act. It presently relies upon an exemption available to privately offered investment companies. The General Partner is not registered as an investment advisor under the Advisers Act.

6. **Trading Strategies.** The success of the Partnership’s trading depends on the General Partner’s ability to interpret market data correctly. Although the General Partner may enter and exit different markets over time without departing from the underlying philosophy described herein, no assurance can be given that the trading outcomes now used or to be used in the future will be equally successful in all markets. Moreover, no assurance can be given that the Partnership will be able to locate suitable investment opportunities in which to deploy all of the Partnership’s capital.

7. **Fixed Income Investments.** The General Partner may invest in debt instruments, including notes, bonds, debentures (collectively, "fixed income securities") issued or guaranteed by the U.S. Government or U.S. Government Sponsored Entities, deposits in financial intermediaries and other money market instruments.

8. **Derivative Instruments.** The General Partner intends to use options on futures contracts which may be volatile and speculative. Positions may be subject to wide and sudden fluctuations in the amount of profits and losses. Options on futures contracts present various risks, including the following:

   (i) Liquidity - Options on futures, especially when traded in large amounts, may not be liquid in all circumstances. In volatile markets the General Partner may not be able to close out a position without incurring a loss. In addition, daily limits on price fluctuations and speculative position limits on exchanges on which the General Partner conducts its transactions may prevent prompt liquidation of positions, subjecting the Partnership to the potential of greater losses.

   (ii) Leverage - Trading in derivative instruments typically involves large amounts of leverage. In this Partnership, however, positions are not leveraged in that (a) no borrowing activities are undertaken, and (b) the risk of exposure is limited to the option premium invested.
9. **Volatility Risk.** The short run performance of a long option portfolio benefits by (a) a directional move for the underlying futures position in sympathy with the orientation of the option (i.e. prices increase for calls; decrease for puts) and (b) an increase in the implied volatility. In the longer run, however (i.e., over the life of the option), as a consequence of the convergence consideration discussed above, positions can be expected to generate attractive gains when stable markets persist.

10. **Put and Call Options.** Option portfolios typically exhibit more volatility than the underlying instruments; and therefore, on a percentage basis, an investment in options may be subject to greater fluctuation than an investment in the underlying instruments themselves. There are several additional risks associated with transactions in options. For example, there may be insufficient trading interest in certain options; restrictions may be imposed by an exchange on opening transactions or closing transactions or both; trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options; unusual or unforeseen circumstances may interrupt normal operations on an exchange; the facilities of a clearing entity may not at all times be adequate to handle current trading volume; or one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options) although outstanding options that had been issued would continue to be exercisable in accordance with their terms.

11. **Changes In Trading Activities.** The Limited Partnership Agreement gives the General Partner broad discretion to expand, revise or contract the Partnership' trading activities without the consent of the Limited Partners. Thus, the trading activities of the General Partner may be altered without the prior approval of, or notice to, the Limited Partners if the General Partner determines that such change is in the best interests of the Partnership and is consistent with the philosophy described herein.

12. **Counterparty and Broker Credit Risk.** Certain assets of the Partnership will be exposed to the credit risk of the counterparties with whom, or the dealers, brokers and exchanges through which, the General Partner deals, or of parties which have general custody of the assets of the Partnership, whether the General Partner engages in exchange-traded or off-exchange transactions. The Partnership may be subject to risk of loss of its assets on deposit with or in the custody of a broker in the event of the broker's bankruptcy, the bankruptcy of any clearing broker through which the broker executes and clears transactions on behalf of the Partnership, or the bankruptcy of an exchange clearing house. In the case of any such bankruptcy, the Partnership might recover, even in respect of property specifically traceable to the Partnership, only a pro rata share of all property available for distribution to all of the broker's customers. Such an amount may be less than the amounts owed to the Partnership. Such events would have an adverse effect on the Partnership’s Net Asset Value.

13. **Performance Share and Management Fee.** The Performance Share allocable to the General Partner may create an incentive for the General Partner to cause the Partnership to make investments that are riskier or more speculative than would be the case if this Performance Share were not so allocable. In addition, since the Performance Share is calculated on a basis that includes unrealized appreciation of the Partnership's assets, it may be greater than if such allocation were based solely on realized gains.
The General Partner reserves the right, in its sole discretion, to reduce or waive both the Performance Share and Management Fee set forth herein in connection with a Limited Partnership Interest acquired by the General Partner, its member(s), affiliate(s), or any immediate family member or nearest of kin.

14. **Lack of Operating History.** Dr. Ira G. Kawaller, the managing member of the General Partner responsible for investing the Partnership’s assets, has not previously operated an independent private investment Partnership. Furthermore, the partnership is a newly formed entity and has no operating history upon which investors can evaluate the likely performance of the Partnership.

15. **Investment Restrictions on Certain Limited Partners.** Certain prospective Limited Partners (such as tax-exempt foundations and employee benefit plans) may be subject to federal and state laws, rules and regulations which may regulate their participation in the Partnership, or their engaging directly, or indirectly through an investment in the Partnership, in investment strategies of the types which the Partnership may utilize from time to time (e.g., short sales of securities, the use of leverage, the purchase and sale of options and limiting the diversification of assets). Such investors should consult with their professional advisors prior to making an investment in the Partnership.

16. **Tax Risks and Payment of Taxes.** There are a number of tax risks associated with an investment in the Partnership. In particular, Limited Partners should be aware that they will be taxed annually on the Partnership’s income and realized gains, if any, whether or not they receive any distributions from the Partnership and whether or not their investment has increased in value. It is possible that an investor could receive taxable income and capital gain allocations for periods during which their investment decreased in value. The General Partner does not intend to make regular annual cash distributions to the Limited Partners. In addition, the Partnership’s tax treatment of the Performance Share allocation could be challenged and if any such challenge were successful, it may result in adverse tax consequences to the Limited Partners.

17. **Audit Risks.** An audit of a tax return of the Partnership for any given year might result in an adjustment to a Limited Partner’s tax liability for the year in question. Furthermore, such an audit might result in the audit of the tax return of each Limited Partner and could result in the adjustment of items not related to the Partnership as well as items related to the Partnership. The cost of an audit, if any, at the Partnership level will be borne by the Partnership. However, the cost of any resulting audits of a Limited Partner will be borne solely by the affected Limited Partner.

18. **Non-Disclosure of Positions.** In an effort to protect the confidentiality of its positions, the Partnership generally will not disclose its positions to partners on an ongoing basis, although the General Partner in its sole discretion, may permit such disclosure on a selected basis to certain partners, if the General Partner determines that there are sufficient confidentiality agreements and disclosures in place. Further, the Partnership may not disclose its investment positions in its annual financial statements, if the General Partner determines that such confidential treatment is desirable. Accordingly, while in general the Partnership’s financial statements will be prepared in accordance with generally accepted accounting principles, the General Partner may determine that different
standards will be followed as regards the disclosure of investment positions.

19. **Reliance on the General Partner.** The success of the Partnership is heavily dependent on the activities, judgment and availability of the members of the General Partner, including the managing member, Dr. Ira G. Kawaller. An investor in the Partnership must rely upon the ability of the General Partner in making investment decisions consistent with the Partnership’s investment objectives and policies. Investors will not have the opportunity to personally evaluate the relevant economic, financial and other information that the General Partner will use when selecting and monitoring investments.

20. **Other Activities.** The managing member of the General Partner, will devote such time to manage the Partnership as he, in his sole discretion, deems necessary. Any members of the General Partner, including the managing member, Dr. Ira G. Kawaller, may invest in, have investment responsibilities for, render investment advice to or perform other services, including investment advisory services, for personal and family accounts, house accounts, managed accounts for individuals or entities, including, without limitation, other investment partnerships. The activities of such other accounts may be similar to or may differ from the activities of the Partnership, and neither the Partnership nor the Limited Partners shall have any rights in respect of investments for, and profits or other income earned from, such accounts.

As a result of the foregoing, the General Partner, its principal(s), and/or affiliate(s) may have conflicts of interest in: (i) allocating their time and activity among the Partnership and other entities; (ii) allocating investments among the Partnership and other entities; and (iii) effecting transactions among the Partnership and other entities, including ones in which the General Partner, its principal(s), and/or affiliate(s) may have a greater financial interest.

The General Partner, its principal(s), and affiliate(s) may give advice or take action with respect to such other entities or accounts that differs from the advice given with respect to the Partnership. To the extent a particular investment is suitable for both the Partnership and other clients of the General Partner, its principal(s), and affiliate(s), such investments will be allocated between the Partnership and the other clients in a manner which the General Partner determines to be fair and equitable under the circumstances to all clients, including the Partnership.

The General Partner evaluates, for the Partnership and the other entities, a variety of factors that may be relevant in determining whether a particular situation or strategy is appropriate or feasible for the Partnership or a particular entity at a particular time, including the nature of the investment opportunity taken in the context of other available investment opportunities, the investment or regulatory limitations on the Partnership or particular entity and the transaction costs involved. Because these considerations may differ for the Partnership and other entities in the context of any particular investment opportunity, investment activities of the Partnership and other entities may differ considerably from time to time.
21. No Authority by Limited Partners. Decisions with respect to the management of the Partnership's assets and the overall management of the Partnership will be made by the General Partner. Limited Partners will have no right or power to take part in the management of the Partnership. As a result, the success of the Partnership for the foreseeable future depends largely upon the abilities of the General Partner.

REGULATORY MATTERS

The Partnership is neither registered as an investment company under the 1940 Act nor is the General Partner registered as an investment advisor under the Advisers Act. However, the General Partner is registered with the Commodity Futures Trading Commission as a Commodity Pool Operator and a Commodity Trading Advisor.

TAX ASPECTS

The General Partner believes that the Partnership will be treated as a partnership and not a corporation for federal income tax purposes.

Filing of Tax Returns

The managing member of the General Partner will be the "Tax Matters Partner" and will determine, among other things, how to report the Partnership items on the Partnership's tax returns. All Limited Partners will be required under the Code to treat the items consistently on their own returns, unless they file a statement with the Internal Revenue Service disclosing the inconsistency. In the event the income tax returns of the Partnership are audited, the Partnership’s income and deductions will generally be determined at the Partnership level in a single proceeding rather than by individual audits of the Limited Partners. The General Partner will have considerable authority to make decisions affecting the tax treatment and procedural rights of all of the Limited Partners. In addition, the General Partner, acting as the Tax Matters Partner, will have the right, on behalf of all of the Limited Partners, to extend the statute of limitations relating to the Limited Partners' tax liability with respect to the Partnership items.

The Partnership will file an annual federal partnership information tax return. Following the end of each fiscal year of the Partnership, each Limited Partner will be sent a report setting forth its share for tax purposes of, among other things, the Partnership's capital gain or loss, and all other items of operating profit or loss and dividend income.

Allocation for Tax and Related Purposes

All allocations for tax purposes shall be made pursuant to the principles of the Code and in conformity with Treasury regulations promulgated thereunder or the successor provisions to any section or regulation.
In the event a Limited Partner withdraws all of its Capital Account, the General Partner may, in its sole discretion, make a special allocation to said Limited Partner for Federal income tax purposes of the capital gains realized by the Partnership in such a manner as will reduce the amount, if any, by which such Limited Partner's Capital Account exceeds its Federal income tax basis in its interest in the Partnership before such allocation.

**Partnership Engaged in Trade or Business**

If the Partnership is deemed to be engaged in a trade or business for US federal income tax purposes, a Limited Partner who is an individual will be able to deduct his share of the Partnership's expenses without regard to a limitation on miscellaneous itemized deductions. If the Partnership is instead considered to be engaged in an investment activity, a Limited Partner who is an individual will be able to deduct his share of the Partnership's expenses only to the extent that these expenses (together with other miscellaneous itemized deductions of an individual Limited Partner) exceed two percent (2%) of that Limited Partner's adjusted gross income. In addition, these expenses will not be deductible in computing the alternative minimum taxable income for purposes of the alternative minimum tax.

Whether the Partnership is deemed to be engaged in a trade or business or in an investment activity depends on the nature and extent of the Partnership's trading activity in any taxable year. Based upon the Partnership's planned investment program, the Partnership may take the position that it is engaged in a trade or business.

However, because the issue will largely be resolved on an analysis of facts, many of which will be known only in the future, and because the legal standards that would be applied in assessing these facts are unclear, there can be no assurance that the Partnership will be considered to be engaged in a trade or business in future periods or that the position would be sustained in the event of an audit by the Internal Revenue Service. Should the Partnership's planned investment program change significantly, however, the Partnership may take the position that it is not engaged in a trade or business but is engaged in an investment activity.

**Non-US Investors**

A non-US individual or entity which becomes a Limited Partner in the Partnership will be subject to US income tax withholding with respect to dividends and certain interest income applicable to such Limited Partner.

A non-US person or entity considering an investment in the Partnership should consult his/her or its own tax advisors with respect to the specific tax consequences to such person of such an investment under United States federal, state and local income tax laws, and with respect to the treatment of income and gain from such investment under the tax laws of any foreign jurisdiction in which such person is subject to tax.
THIS CONFIDENTIAL OFFERING MEMORANDUM DOES NOT SET FORTH COMPLETE INFORMATION RELATING TO THE TAX EFFECTS OF AN INVESTMENT IN THE PARTNERSHIP.

EACH PROSPECTIVE LIMITED PARTNER SHOULD CONSULT WITH ITS OWN COUNSEL, ACCOUNTANTS OR OTHER ADVISORS AS TO THE FEDERAL (AS WELL AS STATE AND LOCAL) TAX CONSEQUENCES OF ITS INVESTMENT IN THE PARTNERSHIP, WHICH MAY DIFFER SUBSTANTIALLY FOR DIFFERENT TYPES OF TAXPAYERS (INDIVIDUALS, CORPORATIONS, ETC.) IN PARTICULAR, INVESTMENT IN THE PARTNERSHIP BY ENTITIES SUBJECT TO ERISA AND BY OTHER TAX-EXEMPT ENTITIES REQUIRES SPECIAL CONSIDERATION. TRUSTEES OR ADMINISTRATORS OF SUCH ENTITIES ARE URGED TO CAREFULLY REVIEW THE MATTERS DISCUSSED IN THIS MEMORANDUM. SINCE THE PARTNERSHIP IS PERMITTED TO BORROW, TAX-EXEMPT LIMITED PARTNERS MAY INCUR SOME INCOME TAX LIABILITY TO THE EXTENT OF THEIR SHARE OF "UNRELATED BUSINESS TAXABLE INCOME."

FISCAL YEAR

The Partnership will close its fiscal year on December 31 of each calendar year.

ERISA CONSIDERATIONS

General

When deciding whether to invest a portion of the assets of a qualified profit-sharing, pension or other retirement trust in the Partnership, a fiduciary should consider whether: (i) the investment is in accordance with the documents governing the particular plan; (ii) the investment satisfies the diversification requirements of Section 404(a)(1)(c) of Employee Retirement Income Security Act of 1974, as amended ("ERISA"); and (iii) the investment is prudent and in the exclusive interest of participants and beneficiaries of the plan.

Plan Assets

Under ERISA, whether the assets of the Partnership are considered "plan assets" is also critical. ERISA generally requires that "plan assets" be held in trust and that the trustee or a duly authorized General Partner have exclusive authority and discretion to manage and control the assets.

ERISA also imposes certain duties on persons who are "fiduciaries" of employee benefit plans and prohibits certain transactions between such plans and parties in interest (including fiduciaries) with respect to the assets of such plans. Under ERISA and the Code, "fiduciaries" with respect to a plan include persons who: (i) have any power of control, management or disposition over the funds or other property of the plan; (ii) actually provide investment advice for a fee; or (iii) have discretion with regard to plan administration.
If the underlying assets of the Partnership are considered to be "plan assets," then the General Partner could be considered a fiduciary with respect to an investing employee benefit plan, and various transactions between the General Partner or any affiliate and the Partnership, such as the payment of fees to the General Partner, might result in prohibited transactions. A regulation adopted by the Department of Labor generally defines plan assets as not to include the underlying assets of the issuer of the securities held by a plan. However, where a plan acquires an equity interest in an entity that is neither a publicly offered security nor a security issued by certain registered investment companies, the plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity unless: (i) the entity is an operating company or; (ii) equity participation in the entity by benefit plan investors (as defined in the regulations) is not significant (i.e., less than twenty-five percent (25%) of any class of equity interests in the entity is held by benefit plan investors). Benefit plan investors are not expected to acquire twenty-five percent (25%) or more of the Limited Partnership Interests. The General Partner intends to preclude significant investment in the Partnership by such plans. Employee benefit plans (including IRAs), however, are urged to consult with their legal advisors before subscribing for the purchase of Limited Partnership Interests.

Unrelated Business Taxable Income

The Partnership may derive income that would be considered unrelated business taxable income, as defined in Section 512(a) of the Code, if derived directly by a Limited Partner exempt from taxation. Under Section 511(a) of the Code, such Limited Partner's allocable share of such income is taxable. In addition, a Limited Partner that is a tax-exempt organization described in Section 511(a) will be taxed with respect to its “unrelated debt financed income” pursuant to Section 514 of the Code. If, and to the extent the Partnership borrows to finance its securities transactions, a tax-exempt investor will be taxed on all the debt-financed portion of its income from an investment in the Partnership. Each such potential investor is urged to consult its own tax advisor with respect to the tax consequences of an investment in the Partnership.

ACCEPTANCE OF SUBSCRIPTIONS ON BEHALF OF EMPLOYEE BENEFIT PLANS IS IN NO RESPECT A REPRESENTATION BY THE GENERAL PARTNER OR THE PARTNERSHIP THAT THIS INVESTMENT MEETS ALL RELEVANT LEGAL REQUIREMENTS WITH RESPECT TO INVESTMENTS BY ANY PARTICULAR PLAN OR THAT THIS INVESTMENT IS APPROPRIATE FOR ANY PARTICULAR PLAN.

OUTLINE OF SELECTED ITEMS IN THE LIMITED PARTNERSHIP AGREEMENT

The following outline of the Limited Partnership Agreement briefly summarizes certain major provisions, some of which are not discussed elsewhere in this Memorandum. This outline is not definitive and each prospective Limited Partner should carefully read the Limited Partnership Agreement, annexed hereto as Exhibit A, in its entirety. Terms used in the following outline that are not otherwise defined therein shall have the meaning set forth in the Limited Partnership Agreement.
Limited Liability

A Limited Partner will be liable for debts and obligations of the Partnership only to the extent of its Limited Partnership Interest in the Partnership in the fiscal period to which such debts and obligations are attributable. A Limited Partner who withdrew funds or received distributions from the Partnership representing, in whole or in part, a return of its Capital Contribution, is liable to the Partnership for any sum (but only to the extent of such returned amount, plus interest) necessary to discharge the liabilities of the Partnership to creditors who have extended credit or whose claims have arisen before such return.

Term

The Partnership will terminate on the earlier of: (i) December 31, 2038; (ii) a determination by the General Partner that the Partnership should dissolve; (iii) the insolvency, bankruptcy or dissolution of all General Partners; (iv) the death or disability of all principal(s) of the General Partner; (v) the withdrawal of all General Partners unless, upon said withdrawal, the Limited Partners select a General Partner to continue the Partnership; or (vi) any other event causing the dissolution under the laws of the State of Delaware.

Capital Accounts

Each Partner will have a Capital Account maintained by the Partnership that will be credited with its Capital Contributions. A Partnership Percentage will be determined for each Partner for each “fiscal period,” defined below, by dividing its Capital Account, as of the beginning of such fiscal period by the aggregate Opening Capital Accounts of all Partners as of the beginning of such fiscal period. For purposes of this agreement, a fiscal period shall be the interval between the first day of a fiscal year or any Interim Date, and (i) the earlier of date before the next Interim Date, (ii) the date of the complete or partial withdrawal of a Limited Partner, or (iii) the beginning of the next fiscal year.

To the extent that the Partnership earns interest on Partnership assets, those amount(s) will accrue to the benefit of the Partnership and may be distributed from time to time by the General Partner, in its discretion, in accordance with the then prevailing Partnership Percentages.

Each Partner's Closing Capital Account will be calculated as of the last day of each fiscal period or on an Interim Date by crediting or debiting to such Capital Account, according to its respective Partnership Percentage, the difference between the total capital of all Partners at the beginning of such fiscal period and the total capital of all Partners as of the last day of such fiscal period, then making any Performance Share re-allocation (see below), if applicable: (i) on the last day of the fiscal year; or (ii) upon the complete or partial withdrawal of a Limited Partner; and then deducting any withdrawals made by each Partner.

Each Limited Partner will have a Maximum Capital Account maintained by the Partnership in order to calculate the Performance Share to which the General Partner is entitled (see below).
Sometimes referred to as a "high water mark" for purposes of computing the General Partner's Performance Share allocation, the Maximum Capital Account shall reflect a Limited Partner's actual Capital Contributions, reduced for any withdrawals and increased by any appreciation.

Any adjustments to the Maximum Capital Account shall be made at the end of each Interim Date, upon a Limited Partner’s complete withdrawal or, in the General Partner’s discretion, upon a partial withdrawal.

Performance Share

The General Partner will be allocated a monthly Performance Share equal to ten percent (10%) of the appreciation credited to the Capital Account of a Limited Partner: (i) at the end of each month; (ii) upon a Limited Partner’s complete withdrawal or, in the General Partner’s discretion, upon a partial withdrawal. This allocation shall be made if such appreciation increases the Capital Account of a Limited Partner to an amount in excess of such Limited Partner’s Capital Contributions, adjusted for any withdrawals, additional Capital Contributions and for any appreciation which has been previously credited to such Limited Partner’s Capital Account and which has been subject to a Performance Share allocation (the “Maximum Capital Account”).

The allocation will be based upon the Limited Partner’s Maximum Capital Account from the date of the initial Capital Contribution or prior calculation to the date of the current calculation.

Partnership Expenses and Management Fee

The General Partner will provide to, or incur on behalf of the Partnership office space, utilities and general office expenses. In lieu of reimbursing the General Partner for these expenses, each Limited Partner shall pay a Management Fee to the General Partner or its designee, on the first day of each month, to be debited from the Capital Account of such Limited Partner, in an amount equal to the sum of one twelfth (1/12) of two percent (2%) of the Capital Account of such Limited Partner as of such date, adjusted for contributions or withdrawals.

The Capital Account of a Limited Partner who makes a Capital Contribution on a date other than the first day of each month will be charged a prorated Management Fee as of the date of such contribution.

The Partnership will pay, in addition to the Management Fee, any and all research fees, legal, accounting and professional fees, custodial fees, trustee's fees, brokerage commissions, bank service fees, any taxes applicable to the Partnership on account of its operations, and any and all reasonable expenses related to the management and operation of the Partnership as well as the purchase, sale or transmittal of Partnership assets, as the General Partner shall determine in its sole discretion.

The General Partner reserves the right, in its sole discretion, to reduce or waive the Performance Share allocation or Management Fee set forth herein in connection with a Limited Partnership Interest.
acquired by the General Partner, its member(s), affiliate(s), or any immediate family member or nearest of kin.

Valuation of Partnership Assets; Determinations by General Partner, Including “Net Asset Value”

The value of positions in securities, including options will be as follows:

(i) Commodities options will be valued based upon the settlement prices reported for the same on the principal board of trade or other contract market in which dealings are made or by quotations from the counterparty bank in the case of an over-the-counter contract. If an option contract position cannot be liquidated, due to the operation of daily limits or otherwise, on a day as of which net assets are determined, a value determined to be fair and reasonable by the general partner shall be used.

All assets and liabilities will be valued in accordance with generally accepted accounting principles (“GAAP”).

The General Partner's good faith determination, made in accordance with the terms of the Limited Partnership Agreement, of the value of a security in a circumstance where fair market value cannot be readily ascertained will be final and binding upon the Limited Partners and their representatives.

The General Partner's determinations on accounting matters, made after consultation with the independent certified public accountant for the Partnership, will be final and binding upon all Limited Partners and their representatives.

Withdrawals of Capital from the Capital Account of a Limited Partner

A Limited Partner may completely withdraw its Capital Account, and thereby withdraw from the Partnership on a monthly basis, upon delivering written notice to the General Partner at least ten (10) business days prior to the month end of such withdrawal.

A Limited Partner may make a partial withdrawal of its Capital Account on a monthly basis, upon delivering written notice to the General Partner at least ten (10) business days prior to the month end of such withdrawal, and remain a Limited Partner, provided that such capital withdrawal does not, unless otherwise agreed by the General Partner, reduce such Limited Partner's Capital Account to less than the minimum Capital Contribution accepted by the General Partner. Partial withdrawals must be made in minimum amounts of fifty thousand dollars ($50,000) and in multiples of ten thousand dollars ($10,000).

An additional adjustment will be made to a Limited Partner's Maximum Capital Account if, at the time of a partial withdrawal, the Limited Partner's Maximum Capital Account is more than its Capital Account, in order to effectuate a proportionate reduction in the benefit of any losses which incurred in a prior year.
The General Partner will distribute at least ninety-five percent (95%) of the amount withdrawn within ten (10) business days following the month end of any termination, and the balance within ten (10) business days thereafter of receipt by the Partnership of its annual audited statements. However, if the amount withdrawn is less than ninety-five percent (95%) of the Limited Partner's Capital Account, the requested amount may be distributed in its entirety within ten (10) business days following the month end of any termination.

The right to withdraw capital by a Limited Partner is contingent upon, and subject to: (i) the Partnership having assets sufficient to discharge its liabilities on a designated withdrawal date; (ii) the timely receipt by the General Partner of a request for withdrawal of capital; (iii) the establishment by the General Partner, in its sole discretion, of reasonable reserves for estimated expenses and other contingencies; and (iv) such other restrictions as are set forth in the Limited Partnership Agreement.

The General Partner will pay such distributions only in cash.

Any legal, accounting or administrative expenses incurred by the Partnership as a result of such withdrawal may, in the General Partner's sole discretion, be charged to such withdrawing Limited Partner.

The Limited Partnership Agreement also provides the right for the General Partner to give five (5) days notice to a Limited Partner requiring the withdrawal of the Limited Partner as of the end of the month in which the notice is given. However, if the General Partner, in its sole discretion, believes that the continued participation of any Limited Partner might cause the Partnership to violate any law, such Limited Partner may be required to withdraw immediately. A Limited Partner who is required to withdraw on such five (5) days notice will be paid ninety-five percent (95%) of the amount withdrawn within ten (10) business days of the end of such month or end of the fiscal year and the balance within ten (10) business days of receipt by the Partnership of its annual audited statements.

Admission of New Limited Partners

New Limited Partners may be admitted on the first business day of each month or on such other dates as the General Partner shall determine (the "Interim Date"). Each new Limited Partner will be required to execute the appropriate subscription documentation, pursuant to which it becomes bound by the terms of the Limited Partnership Agreement.

Substitute General Partner

The General Partner will have the right by written notice to the Limited Partners, without any action by the Limited Partners, to add or delete members of the General Partner, General Partners or to substitute for itself a new general partner, if such new General Partner is affiliated with, controls, is controlled by, or is under common control with the General Partner herein.
Amendments to Agreement

The Limited Partnership Agreement may be amended by the General Partner in any manner that does not adversely affect the Limited Partners, including any amendment to reflect changes validly made in the membership of the Partnership and the Capital Contributions of the Limited Partners.

The Limited Partnership Agreement may also be modified or amended at any time in writing, signed by the General Partner and by Partners who hold Limited Partnership Interests representing in the aggregate more than fifty percent (50%) of the Capital of all Partners relating to the applicable fiscal period in which the vote takes place. However, without the specific consent of each Partner, no such modification or amendment will reduce the Capital Account of any Partner or its rights of contributions or withdrawal with respect thereto.

Reports to Limited Partners

The “books of account” of the Partnership will be kept in accordance with GAAP, subject to exceptions (e.g., amortization of organizational expenses), by or under the supervision of the General Partner at the principal place of business of the Partnership, and will be open to inspection, no more frequently than once per year, by any Limited Partner or its representative at any reasonable time during regular business hours upon no less than sixty (60) days prior written notice. Such inspection, however, shall be limited to information reasonably related to such Limited Partner’s interest in the Partnership.

While the Partnership's financial statements will be prepared in accordance with GAAP, the Partnership’s organizational expenses will be amortized over the first sixty (60) months of the Partnership's existence because the General Partner believes such treatment is more equitable than expensing the entire amount of the organizational expenses in the Partnership’s first year of operations. The Partnership’s financial statements may therefore contain a qualification indicating that they are prepared in accordance with GAAP. In addition, the Partnership does not intend to disclose its security positions as might otherwise be required by GAAP.

The General Partner may also prepare and deliver to each Limited Partner, a monthly unaudited report on the overall performance of the Partnership, together with any other information the General Partner deems pertinent.

Limited Partner's Indemnification of the Partnership

Nothing in the Limited Partnership Agreement, nor any action taken under the Limited Partnership Agreement, including the withdrawal by a Limited Partner of some or all of its Capital Contributions, shall affect the right of the Partnership to claim a return of that part of a withdrawn Limited Partner's Capital Contribution up to the maximum of such Contribution necessary to discharge applicable debts, taxes, and obligations which arose prior to any such withdrawal from the Partnership. All rights of the Partnership will be exercised in accordance with applicable statutes and regulations applying to the Partnership.
No waiver of a provision of the Limited Partnership Agreement will be deemed a waiver of any other provisions nor will a waiver of the performance of a provision in one or more instances be deemed a waiver of future performance thereof.

In the event the Partnership is made a party to any claim, dispute or litigation or otherwise incurs any loss or expense, including reasonable attorneys' fees, as a result of or in connection with any Limited Partner's (or Limited Partner's assignee's) obligations or liabilities unrelated to the Partnership business, such Limited Partner (or assignees cumulatively) will indemnify and reimburse the Partnership for all loss and expense incurred, including attorneys' fees.

Standard of Liability and Indemnification

None of the General Partner or its principal(s), affiliate(s), manager(s), member(s), stockholder(s), director(s), partner(s), officer(s), employee(s) and/or agent(s) (collectively "Indemnified Persons") will be liable to the Partnership or any Limited Partner for: (i) mistakes of judgment or for any act taken, or omission suffered by it or by him, or for any "Losses," defined herein, arising out of or relating to any mistakes, action or inaction, except to the extent of the willful misconduct or gross negligence of such Indemnified Person as determined by a final judgment (after all appeals and the expiration of time to appeal) of a court of competent jurisdiction; or (ii) the willful misconduct or gross negligence of any officer, director, employee, representative, consultant, independent contractor, broker or agent of the Partnership or any Indemnified Person, provided that such officer, director, employee, representative, consultant, independent contractor, broker or agent (including any who may be a Limited Partner), was selected, engaged or retained in good faith and in a manner reasonably believed to be in, or not opposed to, the best interest of the Partnership. Each Indemnified Person will be entitled to rely in good faith on the advice of counsel, accountants or other such independent persons experienced in the matter at issue and (subject to the immediately preceding sentence) any act or omission of any Indemnified Person in reasonable reliance on such advice will in no event subject any Indemnified Person to any liability to the Partnership or to any Limited Partner.

The Partnership will, out of Partnership assets, including, without limitation, any insurance proceeds, to the fullest extent permitted by applicable laws, indemnify and hold harmless each Indemnified Person from and against any and all claims, damages, losses, expenses, penalties, judgments or liabilities of any nature whatsoever, including, but not limited to, legal fees, expenses and costs associated with investigating or preparing the defense of any proceeding or investigation, giving testimony or furnishing documents in response to a subpoena (collectively, the "Losses") to which any such Indemnified Person may become subject in connection with, rising out of or related to this Agreement or to the operation and affairs of the Partnership provided, however, that foregoing indemnification will not apply to any Losses that are determined by final judgment (after all appeals and the expiration of time to appeal) of a court of competent jurisdiction to have resulted from the willful misconduct or gross negligence of such Indemnified Person.
LIMITATIONS ON TRANSFERABILITY; SUITABILITY REQUIREMENTS

Each purchaser of a Limited Partnership Interest must bear the economic risk of its investment for an indefinite period of time (subject to its right to withdraw capital from the Partnership) because the Limited Partnership Interests have not been registered under the 1933 Act and, therefore, cannot be sold unless they are subsequently registered under the 1933 Act or an exemption from such registration is available. It is not contemplated that any such registration would ever be effected, or that certain exemptions provided by rules promulgated under the 1933 Act (such as Rule 144) will ever be available. The Limited Partnership Agreement provides that a Limited Partner may not assign or encumber its Limited Partnership Interest (except by operation of law), nor substitute another person as a Limited Partner, without the prior consent of the General Partner, which consent may be withheld for any reason. The Limited Partnership Agreement also restricts substantial withdrawals from the Partnership and withdrawals of capital by the Limited Partners. The foregoing restrictions on transferability must be regarded as substantial, and will be clearly reflected in the Partnership’s records.

Each purchaser of a Limited Partnership Interest will be required to represent that the Limited Partnership Interest is being acquired for its own account, for investment, and not with a view to resale or distribution. The Limited Partnership Interests are suitable investments only for sophisticated investors for whom an investment in the Partnership does not constitute a complete investment program and who fully understand, are willing to assume and have the financial resources necessary to withstand the risks involved in the Partnership's specialized investment program, and who are able to bear the potential loss of their investment in the Limited Partnership Interests.

Each prospective purchaser is urged to consult with its own advisors to determine the suitability of an investment in the Limited Partnership Interests, and the relationship of such an investment to the purchaser's overall investment program and financial and tax position. Each purchaser of a Limited Partnership Interest will be required to further represent that, after all necessary advice and analysis, its investment in a Limited Partnership Interest is suitable and appropriate, in light of the foregoing considerations.

FINANCIAL STATEMENTS

Audited financial statements for the Partnership, when available, can be obtained from the General Partner.

LITIGATION

During the past five years, there has been no material litigation involving the either the General Partner or the Managing member.
ACCOUNTING

Lash Accounting Services, 9 Maria Lane, Ossining, NY 10562 will act as independent certified public accountants for the Partnership.

ADDITIONAL INFORMATION

The General Partner will make available to any prospective Limited Partner any additional information which it possesses, or which it can acquire without unreasonable effort or expense, necessary to verify or supplement the information set forth herein.