

No. 219

LIPPER CONVERTIBLES, L.P.

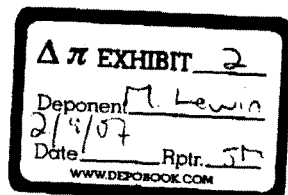
PRIVATE OFFERING MEMORANDUM

December 31, 1997

THE INTERESTS OFFERED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH STATE SECURITIES LAWS. THE INTERESTS MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND SUCH STATE SECURITIES LAWS AND THE LIMITED PARTNERSHIP AGREEMENT OF THE PARTNERSHIP.

LIPPER & COMPANY, L.P. WILL ACT AS PLACEMENT AGENT WITH RESPECT TO THE INTERESTS OFFERED.

LEWIN 0000051



LIPPER CONVERTIBLES, L.P.

TABLE OF CONTENTS

	<i>Page</i>
SUMMARY OF THE OFFERING	2
THE PARTNERSHIP	3
RESULTS OF OPERATIONS	3
INVESTMENT PROGRAM	5
Nature of the Business	5
Diversification	5
Description of the Assembly of a Convertible Arbitrage Position	5
MANAGEMENT OF THE PARTNERSHIP	6
SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT	8
Management of the Partnership	9
Rights and Duties of Partners	9
Capital Contributions	9
Capital Accounts	9
Payment of Expenses	9
Determination and Allocation of Net Profits and Net Losses	9
Incentive Compensation Fee	10
Distributions	10
Transfer of Partnership Interests	10
Withdrawals	11
Mandatory Withdrawal	11
Additional Partners	11
Limited Liability	12
Liability and Indemnification of the General Partner	12
Term	12
Liquidation and Distribution of Assets	13
Books and Records	13
Reports	13
Amendments	14
Arbitration	14
Miscellaneous	14
CERTAIN RISK FACTORS	14
Investment Risks	14
Convertible Arbitrage Transactions	14
Other Investment Activities	15

Allocation of Investment Opportunities.....	15
	<i>Page</i>
Leverage.....	16
Dependence on Senior Management.....	16
Regulation.....	16
Economic and Regulatory Climate.....	17
Restrictions on Withdrawals and Transfers.....	17
Incentive Compensation Fee.....	17
Repayment of Certain Distributions.....	18
Investment Company Act.....	18
Liability and Indemnification of the General Partner.....	18
Tax Risks.....	18
 FEDERAL TAX ASPECTS OF AN INVESTMENT IN THE PARTNERSHIP.....	 19
Taxation of Partnerships and Partners.....	19
Treatment of Partnership's Securities Transactions and Partnership Expenses.....	19
Tax-Exempt Investors.....	20
 CERTAIN ERISA CONSIDERATIONS.....	 20
General Fiduciary Matters.....	21
Plan Assets.....	21
 SUBSCRIPTION PROCEDURES.....	 23
FORM ADV.....	23
 EXHIBIT A -- Limited Partnership Agreement	

PRIVATE OFFERING MEMORANDUM

LIPPER CONVERTIBLES, L.P.

LIMITED PARTNERSHIP INTERESTS

(Minimum Investment \$10,000,000)

Lipper Convertibles, L.P. (formerly Lipco Partners, L.P.), a New York limited partnership (the "Partnership"), through its general partner, Lipper Holdings, LLC, a Delaware limited liability company ("Lipper Holdings" or the "General Partner"), hereby offers to qualified investors interests in the Partnership (the "Interests"), with a minimum investment of \$10,000,000, subject to the right of the General Partner in its sole discretion to accept subscriptions in a lesser amount.

Upon the purchase of an Interest, an investor will become a limited partner (a "Limited Partner") of the Partnership and a party to the Amended and Restated Limited Partnership Agreement, dated as of July 1, 1993, of the Partnership, as amended from time to time (the "Limited Partnership Agreement"), a copy of which is set forth as Exhibit A to this Private Offering Memorandum.

This Private Offering Memorandum is personal to the prospective investor to whom it was delivered and has been prepared solely for use in connection with the offering of the Interests described herein. Distribution of this Private Offering Memorandum to any person other than the prospective investor and those persons, if any, retained to advise such prospective investor with respect to the purchase of an Interest is not authorized, and any disclosure of any of its contents is prohibited. Each prospective investor, by accepting delivery of this Private Offering Memorandum, agrees to the foregoing.

No person has been authorized to make representations with respect to the Partnership other than the information contained herein and in any written supplement hereto. Prospective investors should not rely on information not contained in this Private Offering Memorandum or any written supplement hereto.

An investment in the Partnership is suitable only for persons of adequate financial means who have no need for liquidity with respect to this investment and who fully understand, are willing to assume, and who have the financial resources necessary to withstand, the risks involved in the Partnership's specialized investment program. An investor must be able to bear the loss of its entire investment in the Partnership.

THE INTERESTS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY FROM ANY PERSON IN ANY STATE OR OTHER JURISDICTION IN WHICH SUCH OFFER WOULD BE UNLAWFUL.

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SUMMARY OF THE OFFERING

This is not a complete summary of the offering of the Interests. Investors should review this Private Offering Memorandum in its entirety, including the form of the Limited Partnership Agreement attached as Exhibit A hereto. Capitalized terms contained in this summary are used as defined in the Limited Partnership Agreement.

The Partnership. The Partnership commenced business under the name Cohen, Feit & Co. on October 22, 1985. As of December 31, 1997, the Partnership had approximately \$451 million in Partnership capital, including reinvested earnings. See "THE PARTNERSHIP".

Investment Program. The Partnership primarily engages in hedged transactions involving convertible securities. See "INVESTMENT PROGRAM".

Management. The General Partner of the Partnership is Lipper Holdings, LLC, a Delaware limited liability company. The President of Lipper Holdings is Kenneth Lipper. The General Partner and its Affiliates manage other investment partnerships and engage in other investment banking activities. See "MANAGEMENT OF THE PARTNERSHIP".

Allocation of Profit and Loss. Subject to payment of the Incentive Compensation Fee to the General Partner described below, Net Profits and Net Losses are allocated to the Partners ratably in proportion to the amount of their Capital Accounts. See "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Determination and Allocation of Net Profits and Net Losses".

Incentive Compensation Fee. The General Partner receives an Incentive Compensation Fee equal to 20% of Net Profits. In certain cases, the Incentive Compensation Fee payable by Tax-Exempt Partners to the General Partner is 15% (rather than 20%) of Net Profits. See "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Determination and Allocation of Net Profits and Net Losses"; and "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Incentive Compensation Fee".

Transfer of Partnership Interests. A Limited Partner may transfer its Interest only as of the first day of a Fiscal Quarter with the consent of the General Partner. See "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Transfer of Partnership Interests"; and "CERTAIN RISK FACTORS—Restrictions on Withdrawals and Transfers".

Withdrawal. A Limited Partner may withdraw amounts from its Capital Account as of the last day of a Fiscal Quarter, upon 30 days' prior written notice to the General Partner. The General Partner may require a Limited Partner to withdraw from the Partnership. See "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Withdrawals"; "CERTAIN RISK FACTORS—Restrictions on Withdrawals and Transfers"; and "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Mandatory Withdrawal".

Eligibility. A prospective investor must be an "accredited investor" within the meaning of Rule 501 of the Securities and Exchange Commission and meet certain other eligibility requirements. See "SUBSCRIPTION PROCEDURES".

Placement Agent. The Fund has entered into a placement agent agreement (the "Placement Agent Agreement") with Lipper & Company, L.P. ("Lipper LP"), pursuant to which Lipper LP will act as exclusive placement agent (the "Placement Agent") with respect to the Interests. The Placement Agent will provide various sales support activities in connection with the distribution of the Interests. There will not be a placement fee or sales commission on the sale of Interests of the Partnership.

THE PARTNERSHIP

Lipper Convertibles, L.P. (formerly Lipco Partners, L.P.), a New York limited partnership (the "Partnership"), commenced business on October 22, 1985. The Partnership is managed by its general partner, Lipper Holdings, LLC, a Delaware limited liability company ("Lipper Holdings" or the "General Partner").

As of December 31, 1997, the Partnership had \$451 million in capital, including reinvested earnings. As of December 31, 1997, the General Partner, together with Kenneth Lipper and members of Mr. Lipper's family, had in excess of \$107 million, including reinvested earnings, invested in the Partnership.

As of December 31, 1997, the Partnership had 27 employees, of whom 13 were professional and 14 were administrative.

RESULTS OF OPERATIONS

The following table sets forth a Limited Partner's rate of return analysis for (i) the pro forma* results of operations of the convertible arbitrage portfolio of the Partnership for the period August 22, 1985 to September 30, 1986, October 1, 1986 to December 31, 1987, and the fiscal years ended December 31, 1988, through December 31, 1990, (ii) the results of operations of the Partnership for the fiscal years ended December 31, 1991 through December 31, 1997.

THERE CAN BE NO ASSURANCE THAT THE PERFORMANCE OF THE PARTNERSHIP FOR THE PERIODS SHOWN ARE OR WILL BE INDICATIVE OF THE FUTURE RESULTS TO BE ACHIEVED BY THE PARTNERSHIP.

*See footnote on next page.

**Pro Forma¹ Returns
on Hedged Convertible Arbitrage Portfolio**

<u>Period</u>	<u>Limited Partner Return² on Investment Prior to Payment of Incentive Compensation Fee to General Partner</u>
October 22, 1985 to September 30, 1986	32.0%
October 1, 1986 to December 31, 1987	-0-%
January 1, 1988 to December 31, 1988	38.0%
January 1, 1989 to December 31, 1989	20.0%
January 1, 1990 to December 31, 1990	1.0%
January 1, 1991 to December 31, 1991	32.0%
January 1, 1992 to December 31, 1992	28.3%
January 1, 1993 to December 31, 1993	16.3%
January 1, 1994 to December 31, 1994	(16.3%)
January 1, 1995 to December 31, 1995	19.78%
January 1, 1996 to December 31, 1996	15.43%
January 1, 1997 to December 31, 1997	21.19%

Copies of the audited financial statements of the Partnership for the fiscal years ended December 31, 1995 and December 31, 1996 are available upon request from the General Partner.

The results of the Partnership have been and will continue to be affected by economic and market conditions. The results set forth above include the effect of reinvestment of dividends and interest income, including income from the Partnership's stock loan department. See "CERTAIN RISK FACTORS—Investment Risks"; "CERTAIN RISK FACTORS—Convertible Arbitrage Transactions"; "CERTAIN RISK FACTORS—Economic and Regulatory Climate".

¹ During the period from October 22, 1985 (the inception of the Partnership) to December 31, 1990, the Partnership engaged in both risk arbitrage and convertible arbitrage activities. The results present herein for such period reflect the results of the Partnership's convertible arbitrage portfolio on a stand-alone basis. In making such determination, each portfolio was charged for the expenses (e.g., interest expense, certain legal fees and salaries) directly attributable to it and a portion, based on an estimate of the average capital employed by each portfolio, of the general and administrative expenses of the Partnership. Such stand-alone results have not been separately audited, but are based on the audited combined results of operations of the Partnership's risk arbitrage and convertible arbitrage portfolios. The Partnership's risk arbitrage portfolio was terminated as of December 31, 1990. The results for the fiscal years ended December 31, 1991 through December 31, 1996 are based on the audited results of the operations of the Partnership.

² Percentages reflect the Partnership's returns for the specific periods indicated. Returns have not been adjusted to reflect payment of the Incentive Compensation Fee to the General Partner under the Limited Partnership Agreement. Percentages also do not reflect payment of a \$100,000 management fee, which prior to January 1, 1993 was payable to the General Partner by the Partnership. Effective January 1, 1993, such management fee is no longer payable. Percentages have not been adjusted to reflect an annualized rate of return.

INVESTMENT PROGRAM

Nature of the Business

The Partnership attempts to realize a profit by capturing the differential between the yield on an issuer's convertible security (for example, convertible debt or convertible preferred stock) and the dividend on its underlying common equity security. This is accomplished by setting up positions which attempt to be neutral as to the direction of the market and the price of the underlying security. Each "set-up" consists of a long position in the convertible security and a short position in the underlying common equity. These "set-ups" create a positive cash flow due to the yield advantage of the convertible security over the underlying common stock, and the use of substantial leverage to increase this cash flow. The Partnership expects the short position to provide significant protection from downward movements in the underlying common equity. The credit seniority and fixed income components of the long convertible security generally cause it to lose value less rapidly than the common stock, with a floor theoretically equal to its value as a pure fixed income instrument. Upward movements in the common stock may result in losses on the short position. Such losses could be offset, in part, by slower but parallel upward movement in the hedged portion of the convertible security, plus the total exposure in the unhedged portion of the long convertible position. On average, between 70% and 80% of the dollar value of the Partnership's portfolio is hedged by short sales. Trading profits or losses (in addition to the cash flow generated by each set-up) could arise from atypical or unexpected fluctuations in the price relationships between the long and short positions, as well as market volatility or illiquidity.

The Partnership also earns rebates derived from interest income on the cash it receives from short sales made by the Partnership, net of a fee it pays to borrow stock for delivery against its short sales. The Partnership has an internal stock loan department to execute such transactions.

The Partnership's returns are dependent upon the use of substantial leverage on the long side of each set-up. As of December 31, 1997 the Partnership's ratio of total assets to total capital was 5 to 1. The degree of leverage depends on the type of security, the hedge percentage and the applicable margin requirements. Because the Partnership is a market-maker in most (but not all) of the issuers in which it invests, it is entitled to maintain significant margin privileges. See "CERTAIN RISK FACTORS—Leverage".

Diversification

To lessen the risk of possible losses in any one position, the Partnership's existing portfolio of convertible arbitrage position is highly diversified, with over 100 positions. The Partnership intends to maintain this policy of diversification, although its ability to do so will depend upon, among other factors, the total amount of capital invested in the Partnership.

Description of the Assembly of a Convertible Arbitrage Position

The Partnership's objective is to generate positive cash flows, while attempting to limit the risk of any single position through the use of hedges. Each set-up consists of a long position in a convertible security, and a short position of some portion of the equity securities into which the long position is convertible. On average, the portfolio's aggregate short:long hedge is between 70% and 80%.

The cash flow generated by each set-up has four components:

- I. the long position generates interest or dividend income;
- II. the long position generates a financing expense (generally the federal funds rate plus 50-75 basis points on funds borrowed);
- III. the short position generates dividend expense; and
- IV. the short position generates rebate income (from the interest earned on the short sale proceeds, minus a fee to borrow stock for delivery).

A short sale is the sale of a security not owned by the seller. There are two requirements for a short sale. For listed securities, the sale must be executed on an uptick, a price which is higher than the previous trade which occurred at a different price. The seller must be able to borrow the stock so it can deliver the shares to the buyer. The lender of the stock is usually a major brokerage firm, which holds the stock for its customers. Other lenders include banks and insurance companies.

On the trade settlement date, the clearing agent delivers the borrowed stock to the buyer in exchange for the cash proceeds of the sale. In turn, the clearing agent delivers the cash to the security lender as a collateral deposit against the security loan. The lender invests the collateral and rebates to the Partnership a negotiated portion of the interest earned. As a result of the significant level of the Partnership's borrowings, it is generally able to negotiate favorable rebates on collateral. The Partnership operates its own stock loan department to facilitate these transactions. Generally the Partnership is able to negotiate rebates at the applicable federal funds rate minus 25 to 75 basis points.

The borrower of a security is responsible for making all payments to the lender on the shares sold short. Any dividends declared must be paid on the payment date.

The Partnership calculates its short hedge ratio on the basis of a number of considerations, including call terms, credit risk, event risk and volatility. The object of the hedge ratio is to make the set-up relatively market neutral.

MANAGEMENT OF THE PARTNERSHIP

The management and operation of the Partnership are vested exclusively in the General Partner. Lipper Holdings is not registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), or as a broker-dealer with the Securities and Exchange Commission (the "SEC") or the National Association of Securities Dealers, Inc. (the "NASD"). The General Partner directs all aspects of the business, affairs, management and operation of the Partnership, including decisions relating to the purchase and sale of securities and decisions as to the selection, termination, compensation, and employment terms of the employees of the Partnership.

In addition to acting as General Partner of the Partnership, Lipper Holdings and its Affiliates, including Lipper LP, provide investment banking services to a variety of clients, and advise individual and institutional clients with respect to portfolio management and investments in securities, and may from time to time invest in securities for its own account.

Lipper Holdings is also the general partner of certain other investment partnerships engaged in securities trading. Lipper Intermediate Fund, L.P., a Delaware limited partnership, invests primarily in

yield-oriented securities with maturities of less than 10 years. Lipper Equities Fund, L.P., a Delaware limited partnership, invests primarily in common and preferred stocks. Lipper Fixed Income Fund, L.P., a Delaware limited partnership, invests in fixed income investment partnerships managed by Lipper LP or its Affiliates and in diversified portfolios of the same types of yield-oriented and intermediate corporate bonds as those of fixed income investment partnerships managed by Lipper LP or its Affiliates. Lipper Merger Arbitrage Fund, L.P., a Delaware limited partnership, invests in merger-related arbitrage transactions. Lipper Small Cap Fund, L.P., a Delaware limited partnership, invests primarily in equity securities of issuers with market capitalizations between \$250 million and \$2 billion. Lipper Treasury Fund, L.P., a Delaware limited partnership, invests primarily in treasury securities. Lipper Dividend Fund, L.P., a Delaware limited partnership, has been formed for the purpose of investing primarily in dividend-paying securities. Lipper Income Fund, L.P., a Delaware limited partnership, invests primarily in high-grade corporate indebtedness. Information regarding these partnerships is available from the General Partner. See "CERTAIN RISK FACTORS—Other Investment Activities" and "CERTAIN RISK FACTORS—Allocation of Investment Opportunities".

Affiliates of Lipper LP and Prime U.S.A., a leading Italian investment management firm and an indirect subsidiary of Assicurazioni Generali S.p.A., have formed a joint venture, Prime Lipper Asset Management, a New York general partnership. Prime Lipper Asset Management serves as the investment adviser to The Prime Lipper Europe Equity Fund, whose purpose is to invest primarily in large-capitalization European equity securities. This Fund is one of a series of three investment portfolios comprising The Lipper Funds, Inc., an open-ended investment management company, which also includes the The Lipper High Income Bond Fund, and The Lipper U.S. Equity Fund. Lipper LP serves as the primary distributor of The Lipper Funds, Inc.

As of December 31, 1997 the Partnership had 27 employees, of whom 13 were professional and 14 were administrative. The day-to-day operations of the Partnership are managed, under the supervision of Mr. Lipper, by the Managing Persons of the Partnership, Abraham Biderman and Edward Strafaci. In addition to their work for the Partnership, Mr. Biderman and Mr. Strafaci devote a substantial portion of their time to the business of Lipper LP and the other partnerships under management by Lipper Holdings and Lipper LP. Biographical information relating to certain employees of the Partnership and the General Partner is set forth below.

Kenneth Lipper has been President of Lipper Holdings and Lipper LP (together with its predecessor, Lipper & Company, Inc.) since 1987. Mr. Lipper was a General Partner of Lehman Brothers and Managing Director of Salomon Brothers Inc. He subsequently served as Deputy Mayor of New York City and was the author of the novel *Wall Street*. Mr. Lipper graduated from Columbia University and Harvard Law School and is a member of the New York State Bar. As a specialist in corporate finance since 1969, Mr. Lipper has held all levels of responsibility as an adviser to corporations in mergers, tender offers, convertible issues, asset valuations and other investment banking transactions. Since 1987, Mr. Lipper has supervised the investment management and investment banking operations of Lipper. He is a director of New Holland, N.V., a trustee of the Rockefeller Brothers Fund, a member of the Federal Reserve Bank of New York's International Advisory Board and a Senior Financial Adviser to the New York City Council. Mr. Lipper also serves on the Harvard Executive Committee on University Resources, and the Visitor's Committee of the Kennedy School of Government at Harvard University.

Abraham Biderman, a certified public accountant, is an Executive Vice President of Lipper Holdings and Lipper LP and is one of the Managing Persons of the Partnership. Mr. Biderman joined Lipper LP in 1990. Mr. Biderman was the Commissioner of the New York City Department of Housing, Preservation and Development from January 1988 through December 1989, and in that capacity was responsible for the largest housing development project in the United States. He was the Commissioner

of the New York City Department of Finance from May 1986 through January 1988, responsible for the collection of over \$20 billion a year in tax and other revenues. From 1986 to 1989 he also served as Chairman of the New York City Employees' Retirement System, which is the fourth largest public pension system in the United States. Mr. Biderman also served as a Special Advisor to former Mayor Edward I. Koch from 1985 through 1987 and was an Assistant to then-Deputy Mayor Kenneth Lipper from 1983 through 1985.

Edward Strafaci is Executive Vice President and the Director of Fixed Income Money Management for Lipper LP as well as Co-Manager of the Partnership. Mr. Strafaci bears primary responsibility for the trading operations of the Partnership. Mr. Strafaci has managed the Partnership's convertible and fixed income activities since September 1989, and has been a trader with the Partnership since its inception. Prior to joining the Partnership at its inception in 1985, Mr. Strafaci was a trader at Dean Witter Reynolds Inc. from 1984 to 1985. Mr. Strafaci received his M.B.A. and B.S. from St. John's University.

Steven Finkel, a certified public accountant, is an Executive Vice President of Lipper LP. Mr. Finkel devotes the majority of his time to the operation of Lipper LP. Mr. Finkel is also responsible for the tax, financial and regulatory control of other investment partnerships under the management of Lipper Holdings and Lipper LP. Prior to joining Lipper LP in 1987, Mr. Finkel was a tax partner with the certified public accounting firm of Oppenheim, Appel, Dixon & Co., with whom he was affiliated for fifteen years, serving as the tax partner in charge of such securities industry clients as Salomon Brothers Inc. and Warburg Pincus & Co.

Michael Visovsky is the Director of Research for Lipper LP. Mr. Visovsky has been responsible for research for the convertible arbitrage portfolio of the Partnership since its inception in 1985. Previously, Mr. Visovsky was a research analyst at Dean Witter Reynolds Inc. Mr. Visovsky received a law degree from Brooklyn Law School and is a member of the New York State Bar. Mr. Visovsky received his M.B.A. from New York University and his B.B.A. from Baruch College (CUNY).

Sheldon Dubroff is an employee of the Partnership and has co-managed the Partnership's securities lending business since 1985. Prior to 1985, Mr. Dubroff was employed in the securities lending department of Goldman, Sachs & Co.

Allen Wolkow is an employee of the Partnership and has co-managed the Partnership's securities lending business since 1985. Prior to 1985, Mr. Wolkow was employed in the stock loan department of J. Streicher & Co.

SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT

The following summary of certain selected provisions of the Limited Partnership Agreement is not complete and is qualified in its entirety by the actual terms and provisions of the Limited Partnership Agreement, a form of which is attached as Exhibit A hereto. Capitalized terms used in this section that are not otherwise defined have the meanings assigned to them in the Limited Partnership Agreement. Prospective investors should review the Limited Partnership Agreement prior to making any investment in the Partnership.

Management of the Partnership

Control over the management, operation and policies of the Partnership is vested in the General Partner, which has the exclusive power to do all things necessary or appropriate to carry on the business and purposes of the Partnership. Limited Partners have no right to take part in the management of the Partnership's business and do not have the right to remove the General Partner.

Rights and Duties of Partners

The General Partner is required to devote such time and attention to the activities of the Partnership as may be required for the efficient conduct of the business of the Partnership. All Partners and their Affiliates may engage in any business activities of any kind or nature for their own account or the account of others that they may in their sole discretion determine, and neither the Partnership nor any Partner will be entitled to any interest therein. See "CERTAIN RISK FACTORS—Other Investment Activities".

Capital Contributions

Upon its admission to the Partnership, a Limited Partner will be required to make an Initial Capital Contribution to the Partnership in a minimum amount of \$10,000,000 (or such other amount as may be approved by the General Partner). With the consent of the General Partner, a Limited Partner may make Additional Capital Contributions to the Partnership as of the first day of any month.

Capital Accounts

A Capital Account will be maintained for each Partner. The Capital Account of a Partner will initially be credited with a Partner's Initial Capital Contribution. Thereafter, a Partner's Capital Account will be credited with the amount of its Additional Capital Contributions and the amount of Net Profits allocated to its Capital Account. A Partner's Capital Account will be charged with the amount of any Net Losses allocated to its Capital Account, with the amount of any withdrawals, and, in the case of each Limited Partner, with the Incentive Compensation Fee payable to the General Partner. See "Determination and Allocation of Net Profits and Net Losses" and "Incentive Compensation Fee" in this Section.

Payment of Expenses

The Partnership will reimburse the General Partner for the portion of the General Partner's reasonable and customary operating overhead expense (including salaries and bonuses, rent and office and administrative expenses) attributable to the management of the Partnership, as determined in good faith by the General Partner. The Partnership is also responsible for the payment of (and is required to reimburse the General Partner for) all other expenses incurred on behalf of the Partnership.

Determination and Allocation of Net Profits and Net Losses

Net Profits and Net Losses will be allocated as of the last day of each Accounting Period to the Capital Accounts of the Partners in proportion to their respective Opening Balances. Net Profits and Net Losses are the Partnership's net operating income or net operating loss, as the case may be, after the payment of all Partnership expenses, other than the Incentive Compensation Fee payable to the General Partner. See "Incentive Compensation Fee" in this Section.

Net operating income and net operating loss are determined on the basis of the realized and unrealized appreciation in the Market Value of the Partnership's Positions. The Market Value of the Partnership's Positions is determined as follows. Securities which are listed on a national securities exchange (including the National Association of Securities Dealers Inc.'s National Market System) will be valued at their last sales price. All other Securities that are publicly traded will be valued between the last "bid" and "ask" price, as determined by the General Partner in its reasonable discretion. The value of all other Securities and other property will be valued in the reasonable discretion of the General Partner.

Net Profits and Net Losses attributable to the Partnership's Class A Portfolio and Class B Portfolio will be calculated separately and allocated to the Class A Capital Accounts and the Class B Capital Accounts, as the case may be. The Capital Account of the General Partner is a Class A Capital Account.

Net Profits or Net Losses in any Fiscal Year will probably not be equal to the Partnership's taxable income in such Fiscal Year, primarily because unrealized gains and losses are taken into account in determining Net Profits and Net Losses. Under the Limited Partnership Agreement, taxable income in any Fiscal Year must be allocated as nearly as practicable in accordance with the manner in which unrealized gains or losses relating to such taxable income were allocated in prior Fiscal Years, but there can be no assurance that such allocation of taxable income will in all circumstances correspond to prior allocations of Net Profits or Net Losses.

Incentive Compensation Fee

On each Allocation Date relating to a Limited Partner, the General Partner will be paid an Incentive Compensation Fee equal to 20% of any Net Profits (less any Net Losses), allocated to such Limited Partner's Capital Account during such Allocation Period.

A Limited Partner's first Allocation Date will be the first anniversary of such Limited Partner's admission to the Partnership and thereafter will be (i) each succeeding December 31, (ii) the effective date on which such Limited Partner withdraws from the Partnership and (iii) the dissolution of the Partnership. The Limited Partnership Agreement provides for certain adjustments to the Incentive Compensation Fee in the event that the fee would otherwise be calculated on the basis of an Allocation Period of less than one year.

In certain cases, the Incentive Compensation Fee payable by a Tax-Exempt Partner will be different. In the event that the Partnership's return during an Allocation Period applicable to a Tax-Exempt Partner is 20% or less (i.e., the aggregate Net Profits (less any Net Losses) allocated to a Tax-Exempt Partner's Capital Account during an Allocation Period is 20% or less of the Opening Balance of such Capital Account on the first day of such Allocation Period), then the Incentive Compensation Fee payable by such Tax-Exempt Partner will be 15% (rather than 20%) of Net Profits.

Distributions

A Partner's share of Net Profits will not be distributed to it, but will be credited to and reinvested in its Capital Account.

Transfer of Partnership Interests

No Limited Partner may sell, assign, pledge or otherwise encumber or dispose of all or any part of its Interest in the Partnership, except as of the first day of a Fiscal Quarter with the prior written consent of the General Partner. See "CERTAIN RISK FACTORS—Restrictions on Withdrawals and Transfers".

The General Partner may not sell, assign, pledge or otherwise encumber or dispose of all or part of its Interest as general partner of the Partnership, without the prior written consent of all of the Limited Partners, except that the General Partner may without the consent of the Partners transfer its rights and obligations as general partner to an Affiliate of the General Partner.

Withdrawals

A Limited Partner may make withdrawals from its Capital Account as of the last day of any Fiscal Quarter, upon at least 30 days' prior written notice to the General Partner. The General Partner may make withdrawals from its Capital Account as of the last day of any Fiscal Quarter.

Within 20 days of the effective date of a withdrawal, the Partnership will pay to the withdrawing Partner at least 90% of the amount specified in the notice of withdrawal, together with interest on the amount being distributed at the Federal Funds Rate from the effective date of the withdrawal to and excluding the date of payment. The balance, if any, of the amount being distributed, together with interest at the Federal Funds Rate, will be distributed to the withdrawing Partner within 50 days of the effective date of the withdrawal.

The right of a Partner to withdraw amounts from its Capital Account is subject to a number of restrictions, including the right of the General Partner to make adequate provision for all liabilities and contingencies of the Partnership and to withhold a portion of a distribution pending receipt of audited financial information. All withdrawals are subject to compliance with all rules and regulations of the SEC and any association or self-regulatory organization of which the Partnership is a member. No Limited Partner may make a withdrawal from its Capital Account if, after the withdrawal, the amount remaining in the withdrawing Limited Partner's Capital Account would be less than \$100,000. See "CERTAIN RISK FACTORS—Restrictions on Withdrawals and Transfers".

The withdrawal of all of a Partner's Capital Account constitutes the complete withdrawal of the Partner from the Partnership.

Mandatory Withdrawal

If the General Partner deems it to be in the best interest of the Partnership to do so, it may require any Limited Partner to withdraw from the Partnership (without assigning a reason) as of the end of any Fiscal Quarter by giving such Limited Partner at least 30 days' prior written notice.

Additional Partners

The General Partner may, in its sole discretion, admit one or more Additional Limited Partners to the Partnership as of the beginning of each Fiscal Quarter, or at such other times as the General Partner in its sole discretion may determine. Prior to and as a condition to its admission to the Partnership, each Additional Limited Partner will be required to execute various instruments, including a Subscription Agreement, and to make its Initial Capital Contribution.

The Limited Partnership Agreement does not provide for the admission of additional general partners, other than in connection with the transfer of the General Partner's Interest. See "Transfer of Partnership Interests" in this Section.

Limited Liability

A Limited Partner is required only to make its Initial Capital Contribution and, after making its Initial Capital Contribution, will not be required to lend any funds or make any further contribution of capital to the Partnership except as required by law or, in certain cases as provided below, to repay distributions previously received. See "CERTAIN RISK FACTORS—Repayment of Certain Distributions".

If the amount of the Incentive Compensation Fee payable by a Limited Partner to the General Partner exceeds the amount of such Limited Partner's Capital Account, then the Limited Partner will be required to make an Additional Capital Contribution to cause its Capital Account to equal the amount of the Incentive Compensation Fee payable, and to pay interest on such amount to the General Partner at the Federal Funds Rate from the Allocation Date corresponding to the payment of such fee to and excluding the date of payment.

Neither the General Partner nor any Limited Partner is personally liable for the payment of the Capital Contribution of any other Partner.

Liability and Indemnification of the General Partner

The General Partner, and the partners, employees, agents and Affiliates of the General Partner (each, an "Indemnified Person"), will not be liable, responsible or account able in damages or otherwise to the Partnership or to any Partner for (a) any acts performed within the scope of the authority conferred on the Indemnified Person under the Limited Partnership Agreement, except for the negligence, malfeasance or violation of law by the Indemnified Person in carrying out its obligations under the Limited Partnership Agreement, (b) the Indemnified Person's failure or refusal to perform any acts, except those expressly required by or pursuant to the terms of the Limited Partnership Agreement, (c) the Indemnified Person's performance of, or omission to perform, any acts on advice of legal counsel, accountants, brokers or consultants to the Partnership selected with due care, or (d) the negligence, dishonesty or bad faith of any custodian, broker, dealer, underwriter, consultant or agent of the Partnership selected, engaged or retained by the Indemnified Person with due care.

Each Indemnified Person will be protected and indemnified by the Partnership to the fullest extent legally permissible under and by virtue of the Partnership Law against all liabilities and losses suffered by any of them by virtue of the status of each such Indemnified Person with respect to any action or omission taken or suffered in good faith, other than liabilities and losses resulting from the negligence, malfeasance or violation of law by the Indemnified Person. Such indemnification covers, to the extent legally permissible, liabilities based upon derivative actions commenced by a Limited Partner on behalf of the Partnership against the Indemnified Person.

The indemnification provided for in the Limited Partnership Agreement is recoverable only out of the assets of the Partnership.

Term

The Partnership will dissolve upon the earliest to occur of (a) September 30, 2099, (b) written notice by the General Partner to the Limited Partners to dissolve the Partnership for any reason, (c) the withdrawal or dissolution of the General Partner, or the occurrence of any other event that would cause the General Partner to cease to be a general partner under the Partnership Law unless within 30 days of the occurrence of any such event, the remaining Partners whose Interests constitute a majority of the

combined Interests (including the Interests, if any, that continue to be held by the General Partner and its Affiliates as a Limited Partner) of all remaining Partners act to admit a new general partner of the Partnership to succeed to the Interest of the General Partner, upon such terms and conditions as they shall agree upon, and elect to continue the Partnership's business in a reconstituted form, and (d) the entry of a decree of judicial dissolution.

Liquidation and Distribution of Assets

A Liquidating Trustee will be appointed following the dissolution of the Partnership. The Liquidating Trustee will wind up the Partnership's affairs and file a Certificate of Cancellation of the Partnership as required by the Partnership Law. The Liquidating Trustee will prepare and furnish to all Partners a statement of the assets and liabilities of the Partnership as at the Termination Date. The property and assets of the Partnership will be liquidated with reasonable diligence, but not so as to involve undue sacrifice. Net Profits and Net Losses for the Accounting Period ending on the Termination Date will be credited and charged to the Partners' Capital Accounts in the same manner as Net Profits and Net Losses would be charged or credited in accordance with the Limited Partnership Agreement, and the proceeds from the liquidation of the properties and assets of the Partnership will be distributed to the Partners in accordance with their Capital Accounts. If the General Partner has a negative balance in its Capital Account after all allocations of Net Profits and Net Losses have been made, the General Partner will pay the amount of such negative balance to the Partnership.

Books and Records

At all times during the continuation of the Partnership, the General Partner will keep, or cause to be kept, true and complete books of account and records, including entries with respect to each Position. All books and records of the Partnership will be maintained at the Partnership's principal office and, upon reasonable notice to the General Partner, will be open to inspection and examination by any Partner or its representatives during normal business hours in accordance with Section 305 of the Partnership Law. The books and records will be kept in accordance with generally accepted accounting principles, except as provided in the Limited Partnership Agreement.

Reports

As soon as practicable after the end of each Fiscal Year, the Partnership will send to each Limited Partner a report containing (a) a balance sheet, (b) a statement indicating the Partnership's Net Profits or Net Losses for such Fiscal Year, (c) a statement indicating (i) the Capital Account balance of such Limited Partner as of the beginning of such Fiscal Year, (ii) the amount of any Additional Capital Contributions credited to such Limited Partner's Capital Account for such Fiscal Year, (iii) the amount of Net Profits or Net Losses allocated to such Limited Partner's Capital Account for such Fiscal Year, (iv) the amount of the Incentive Compensation Fee charged to the Capital Account of such Limited Partner for such Fiscal Year, (v) the withdrawals charged to its Capital Account for such Fiscal Year, and (vi) the Capital Account balance of such Partner as of the end of such Fiscal Year.

As soon as practicable after the end of each Fiscal Quarter (or on a monthly basis as determined by the General Partner in its discretion), the Partnership will send to each Partner such financial information in summary form and all other pertinent financial information with respect to the Partnership as the General Partner, in its sole discretion, deems appropriate.

Amendments

The Limited Partnership Agreement may be amended from time to time by the General Partner with the written consent of the Limited Partners whose Interests constitute a majority of the combined Interests of all Limited Partners (including any Interests held by the General Partner and its Affiliates as a Limited Partner). Without the consent of each Partner to be adversely affected, however, no amendment may be made that would convert a Limited Partner's interest in the Partnership to that of a general partner, modify the limited liability of a Limited Partner, alter the allocations of Net Profits and Net Losses set forth in the Limited Partnership Agreement or reduce the percent age in interest of Partners authorized to take any other action for which authorization of a specified percentage in interest of the Partners is required under the Limited Partnership Agreement.

Arbitration

All disputes between or among Partners arising under the Limited Partnership Agreement or relating to the Partnership are to be submitted to arbitration in accordance with the rules of the National Association of Securities Dealers, Inc.

Miscellaneous

Each Limited Partner appoints the General Partner and the Liquidating Trustee its attorneys-in-fact to make, execute, sign, swear to, acknowledge and file any amendments to or restatements of the Limited Partnership Agreement that are made in accordance with the terms of the Limited Partnership Agreement and that the General Partner or the Liquidating Trustee, as the case may be, may deem appropriate to reflect a change, modification or continuation of the Partnership, and any other certificates or instruments required to be filed under applicable law or by any other authority.

CERTAIN RISK FACTORS

An investment in the Partnership involves a significant degree of risk. Certain risks associated with an investment in the Partnership are described on the following page.

Investment Risks

The investment activities of the Partnership are speculative. Prices and market movements may be volatile, and a variety of other factors that are difficult to predict may significantly affect the results of the Partnership's activities. The ability of the Partner ship to earn a return that is economic ally attractive in view of the risks associated with the types of investment activity in which the Partnership engages is dependent upon a number of considerations, including the availability of attractive securities, interest rates, prevailing economic conditions, the volatility of the securities markets and the amount of capital available to the Partnership for investment.

The Partnership's performance over a particular period will not necessarily be indicative of the results that may be expected in future periods. Reliable forecasts of financial results for the Partnership, therefore, are not possible, and have not been furnished to potential investors.

Convertible Arbitrage Transactions

The Partnership attempts to purchase convertible securities at prices which represent premiums to the securities' conversion (parity) and investment (price of the issue if it had no conversion feature)

values. These purchases are usually hedged by the short sale of some portion of the common stock into which the securities can be converted. This long/short set-up is designed to be relatively market neutral. Should, however, the credit status of the issuer weaken, the losses may result from decreases in the market conversion premium, or a loss of liquidity with respect to the security. These losses will be limited by the short hedge on the underlying security, but may be substantial in relation to the amount of the Partnership's capital.

The Partnership may also suffer losses if an issuer is acquired for cash or debt securities at a price that does not generate profits on the unhedged portion sufficient to recover the premium paid to acquire the convertible security and any unpaid accrued interest that would be lost should conversion become necessary.

Losses may result when securities are called for redemption at prices below the current market prices. Frequently, these losses will include interest accrued but not paid upon conversion of the called securities. In addition, losses may occur if an issuer declares a special dividend or spinoff which causes a reduction in the conversion premium or the Partnership is forced to convert a security earlier than anticipated.

The Partnership may also incur losses if a lender of securities demands return of the lent securities, and an alternative lending source cannot be found. In such a case, the Partnership may be forced to convert securities, suffer a loss of accrued interest, unwind the set-up at unfavorable prices or accept covering purchases at prices higher than those prevailing in an orderly market.

Other Investment Activities

Lipper LP offers investment banking services to its clients and advises individual and institutional clients with respect to portfolio management and investments in securities, and may in the future invest in securities for its own account. Lipper Holdings is the general partner of a number of other partnerships engaged in securities trading. See "MANAGEMENT OF THE PARTNERSHIP".

The principals of the General Partner, including Mr. Lipper, will not devote their full time and attention to the business of the Partnership, and will devote a substantial portion of their time and attention to other activities. Under the Limited Partnership Agreement, the General Partner is required to devote such time and attention to the activities of the Partnership as may be required for the efficient conduct of the business of the Partnership.

Allocation of Investment Opportunities

Lipper Holdings and Lipper LP may from time to time offer certain investment opportunities to its other clients and to the other investment partnerships of which they are affiliated, and elect not to make these opportunities available to the Partnership. Certain of these investment opportunities may be appropriate investments for the Partnership. Lipper Holdings and Lipper LP intend to allocate investment opportunities to the Partnership and its affiliates in a manner that in its judgment it believes to be fair and equitable under the circumstances.

Lipper Holdings, Lipper LP, and their clients and Affiliates may buy, sell or hold investment or arbitrage positions different from or contrary to, or at different times or prices from, those of the Partnership. Lipper Holdings and Lipper LP may engage or invest in any other venture of any nature or description, or possess any interest therein, independently or with others. Under the Limited Partnership

Agreement. Lipper Holdings has no duty or obligation to offer to the Partnership, or to obtain for the benefit of the Partnership, any such independent venture or interest therein.

Leverage

The Partnership borrows funds to increase the amount of capital available for investment. The Partnership is registered as a market-maker or specialist in most (but not all) securities in which it establishes a long position, and as a result the Partnership is entitled under applicable margin rules to incur significant leverage. The Partnership's capital is significantly leveraged. As of December 31, 1997 the ratio of total assets to capital of the Partnership was approximately 5 to 1.

Although leverage increases returns to the Partnership if the Partnership earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage decreases returns (or may result in losses) if there is a decline in the value of a long position (resulting in a decline in the market conversion premium) that is not adequately offset by the Partnership's short hedge. As a result of the Partnership's use of significant leverage, fluctuations in the market value of the Partnership's portfolio will have a significant effect on how much capital the Partnership has at any particular time. As the amount of leverage increases, the magnitude of the gain or loss will increase.

The Limited Partnership Agreement does not restrict the Partnership's ability to borrow, although the Partnership may be limited by margin regulations and net capital rules in the amount of leverage it may incur.

The Partnership's anticipated use of short-term margin borrowings may subject the Partnership to additional risks, including the possibility of a "margin call", pursuant to which the Partnership must either deposit additional funds with a lender or suffer mandatory liquidation of the securities pledged to the lender to compensate for the decline in value. In the event of a sudden, precipitous drop in the value of the Partnership's assets, the Partnership might not be able to liquidate assets quickly enough to repay its margin debt.

The Partnership effects its borrowings through leading investment banking firms that act as the Partnership's clearing brokers. The Partnership uses a variety of clearing brokers. The aggregate amount of leverage employed by the Partnership at any one time is significant, and may be substantial in relation to the aggregate indebtedness provided by any single clearing broker to its customers. The inability of the Partnership to continue to employ significant leverage or the insolvency or bankruptcy of one or more of the Partnership's clearing brokers would have a material adverse effect on the Partnership's ability to conduct its investment activities as they are currently conducted.

Dependence on Senior Management

The viability of the Partnership depends on the continued involvement of Lipper Holdings as General Partner. The dissolution of Lipper Holdings or the withdrawal of Lipper Holdings as the General Partner of the Partnership may result in the dissolution of the Partnership. See "MANAGEMENT OF THE PARTNERSHIP"; "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Term".

Regulation

The Partnership is registered as a broker-dealer with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and as a broker-dealer under the New York state securities laws.

The Partnership is also a member of the NASD. The Exchange Act, the rules and regulations promulgated by the SEC thereunder and the rules and regulations of the NASD govern many aspects of the Partnership's businesses and operation, including the nature of its businesses, personnel, capitalization and organization. Failure to comply with requirements imposed by the Exchange Act, the SEC and the NASD could, among other things, result in censure, imposition of fines, suspension of trading privileges, or revocation of such registrations, prevention from engaging in further securities transactions, and/or restriction on the ability of Limited Partners to withdraw capital or profits from the Partnership.

As a broker-dealer registered with the SEC, the Partnership is subject to Rule 15c3-1 under the Exchange Act. Rule 15c3-1 imposes uniform capital requirements on certain firms or persons engaged in the securities business. Compliance with such rule could limit the Partnership's use of leverage or restrict or preclude the Partnership from permitting Limited Partners to withdraw capital from the Partnership. The General Partner believes that the effect of the applicable net capital rules is not material to the Partnership's business. Changes in such rules (or in the interpretation of such rules) could have an adverse effect on the business of the Partnership and the ability of the Partnership to conduct its investment activities as currently conducted. See "Leverage" in this Section.

Economic and Regulatory Climate

Changing market and economic conditions, and other considerations such as changes in federal or state tax laws, federal or state securities laws or accounting standards, may make the Partnership's investment activities less profitable. Similarly, rulemaking, adjudicatory or other activities of the SEC and the NASD, other national securities exchanges or relevant state agencies that affect the operations of a broker-dealer or specialist may make the Partnership's business less feasible or less profitable.

Restrictions on Withdrawals and Transfers

A Limited Partner may withdraw amounts from its Capital Account only as of the last day of a Fiscal Quarter, upon 30 days' prior written notice to the General Partner. Under the Limited Partnership Agreement, a Limited Partner may not sell, assign, transfer, pledge, hypothecate, grant a security interest in, encumber or otherwise dispose of all or any part of its Interest except as of the first day of a Fiscal Quarter with the prior written consent of the General Partner. See "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Transfer of Partnership Interests"; "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Withdrawals".

The Interests have not been registered under the Securities Act. Any transfer of an Interest will be subject to compliance with applicable federal and state securities laws.

Incentive Compensation Fee

Under the Limited Partnership Agreement, the General Partner is entitled to receive an Incentive Compensation Fee based on any Net Profits (less any Net Losses) allocated to each Limited Partner's Capital Account. The Incentive Compensation Fee payable to the General Partner is calculated over a period of at least one year, as provided in the Limited Partnership Agreement. Both unrealized and realized appreciation and depreciation in the value of the Partnership's investments are included in determining Net Profits and Net Losses. As a result, the General Partner may have an incentive to make investments that are riskier or more speculative than would be the case in the absence of such fee. See

"SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—
Incentive Compensation Fee".

In certain cases, the market value of the Partnership's Securities is determined by the General Partner in its reasonable discretion. See "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Determination and Allocation of Net Profits and Net Losses".

Repayment of Certain Distributions

The Partnership is prohibited by Section 607 of the Partnership Law from making any distribution to a Limited Partner if, after giving effect to the distribution, the liabilities of the Partnership exceed the fair value of the assets of the Partnership, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited shall be included in the assets of the Partnership only to the extent that the fair value of that property exceeds that liability. A Limited Partner who receives a distribution in violation of Section 607, and who knew at the time of the distribution that the distribution violated Section 607, will be liable to the Partnership for the amount of the distribution.

Investment Company Act

The Partnership is not registered as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"), in reliance on an exemption provided under the Investment Company Act for entities whose outstanding securities are beneficially owned by not more than 100 persons. The Investment Company Act provides certain protections to investors and imposes certain restrictions on investment companies, none of which will be applicable to the Partnership. Continued reliance on this exemption may require that the General Partner withhold its consent to certain transfers of Interests or, in certain cases, to require the withdrawal of a Limited Partner. See "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Mandatory Withdrawals".

Liability and Indemnification of the General Partner

The Limited Partnership Agreement provides that each Indemnified Person will not be liable to the Partnership or to any of the Limited Partners for certain acts or failures to act, including any acts performed within the scope of their authority not amounting to negligence, malfeasance or violation of law. In addition, under the Limited Partnership Agreement, each Indemnified Person is fully indemnified by the Partnership against all liabilities incurred by them with respect to any action or omission taken or suffered in good faith, other than liabilities resulting from their negligence, malfeasance or violation of law. See "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Liability and Indemnification of the General Partner".

Tax Risks

In certain circumstances, the Limited Partners could be required to recognize taxable income in a taxable year for federal income tax purposes, even though the Partnership had either no Net Profits in such year or had an amount of Net Profits in such year that is less than such amount of taxable income. This result can occur as a result of limitations in the Internal Revenue Code on certain expense deductions, which limitations could apply to a particular Limited Partner depending on its particular circumstances for federal income tax purposes. See "FEDERAL TAX ASPECTS OF AN INVESTMENT IN THE PARTNERSHIP—Deductibility of Partnership Expenses; Treatment of Partnership's Securities Transactions; and Investment Interest Limitations" below.

FEDERAL TAX ASPECTS OF AN INVESTMENT IN THE PARTNERSHIP

The following is a discussion of certain U.S. Federal income tax rules and considerations as they relate to an investment in the Partnership. The tax rules and considerations relating to an investment in the Partnership are complex, subject to varying interpretations, may vary depending on a Limited Partner's individual circumstances and may be changed at any time (possibly with retroactive effect). In addition, recent tax legislation enacted into law on August 5, 1997 contains certain provisions which may affect the tax consequences of an investment in the Partnership or the treatment of Partnership operations. This discussion also does not address any state and local tax consequences (including the possible application of any unincorporated business tax to the Partnership operations) of an investment in the Partnership. Accordingly, this offering is being made on the basis that each prospective Limited Partner will consult with and will rely solely upon its own tax adviser with respect to the federal, state and local tax consequences arising from the purchase and ownership of an interest in the Partnership.

Taxation of Partnerships and Partners

The Partnership expects to be treated as a partnership, and not a corporation, for federal income tax purposes. However, there is not assurance that the IRS may not attempt to challenge this classification. If for any taxable year the Partnership were treated as a corporation, among other things, the Partnership would be subject to tax at rates applicable to corporations, and distributions to Limited Partners would generally be taxed again to them.

Generally, a partnership is not subject, as an entity, to federal income tax. Instead, each partner is required to take into account in determining its federal income tax its distributive share of taxable income, gains, losses, deductions and credits of the Partnership, whether or not any actual cash distributions are made to such Partner. Since a Partner is required to include its distributive share of Partnership income or gain in its gross income for tax purposes without regard to whether the Partner has received any cash distribution from the Partnership, a Partner might become liable for taxes on such distributive share of Partnership income or gain even though such Partner has not received cash from the Partnership with which to pay such taxes. In computing the taxable income of a Partner for a taxable year, such distributive share is taken into account for any taxable year of the Partnership that ends during such taxable year of such Partner. The Partnership has adopted a calendar taxable year and, therefore, each Limited Partner who reports its income based on a calendar taxable year is required to include in its taxable income for any year its distributive share of Partnership income for such year. All investors, including, but not limited to, foreign investors and tax exempt investors, among others, for whom special regulation may apply, should consult their own tax advisers as to the U.S. tax consequences of an investment in the Partnership.

Treatment of Partnership's Securities Transactions and Partnership Expenses

The Partnership expects to act as a trader in securities, and not as a dealer in securities. Accordingly, the Partnership expects that the gains and losses realized in its securities transactions will generally constitute capital gains and losses. These capital gains and losses may be long-term or short-term depending, in general, upon the length of time the Partnership maintains a particular investment position (or, in some cases, on the nature of the security involved in the transaction). In general, gains and losses on property that is held for more than one year will be treated as long-term capital gain or loss; other gains and losses will be treated as short-term capital gains or losses. Under recently enacted legislation, an individual generally will be taxed on the net amount of his or her capital gain at a maximum rate of 28% for property

held for more than one year but not more than 18 months, or 20% for property held for more than 18 months. The Partnership expects that a substantial portion of its gains and losses will be short-term capital gains and losses.

A Partner's distributive share of ordinary income or loss is calculated separately from its distributive share of capital gain or loss. Thus, in a particular year the Partnership might have ordinary income and capital loss and, in such case, each Limited Partner's distributive share would consist of both ordinary income and capital loss. For individuals, capital losses can be deducted in any year only up to an amount equal to capital gains plus \$3,000; for corporations, the deduction for capital losses is limited to the amount of capital gains. As a result, even if the Partnership's capital losses exceed its ordinary income, a Limited Partner might have taxable income from the Partnership, even if the Partnership does not realize an economic profit.

Under the Taxpayer Relief Act of 1997 (the "1997 Act"), the entering into or acquisition of certain offsetting financial positions, including so-called "short sales against the box", are viewed as constructive sales, subject to taxation. In addition, the Secretary of the Treasury is authorized to issue regulations treating transactions having the same effect (*i.e.*, of eliminating risk or income in an appreciated financial position) as those specified in the statute as constructive sales.

In the course of its normal operations, the Partnership may enter into transactions or acquire positions which might be subject to the provisions of the 1997 Act. Specifically, the Partnership may acquire certain offsetting positions with the intention of producing long-term capital gain on the termination or disposition of such positions. Although many of these transactions may not be specifically covered by the provisions in the 1997 Act, it is possible that the IRS might treat them as constructive sales and/or as producing short-term capital gain under forthcoming regulations or otherwise. Accordingly, Limited Partners may be required to recognize taxable income prior to the time that such transactions or positions are terminated or otherwise disposed of, and such taxable income may be treated as short-term capital gain taxable at ordinary income tax rates.

Limited Partners should be aware that limitations may apply to the deductibility of certain Partnership expenses, including interest paid by the Partnership. Accordingly, Limited Partners could recognize taxable income in a year in which they do not receive an economic profit from their investment in the Partnership.

Tax-Exempt Investors

The Partnership finances its operations through borrowings. To the extent the Partnership does so, the Partnership may have income which would be considered unrelated debt-financed income under Section 514 of the Code, and which would be treated as unrelated business taxable income. A Tax-Exempt Limited Partner could be subject to tax on all or a portion of its allocable share of such income. The Partnership may generate other income that is treated as unrelated business taxable income. Each potential investor that is tax exempt is urged to consult its own tax adviser regarding the tax consequences to it of an investment in the Partnership.

CERTAIN ERISA CONSIDERATIONS

Investments of employee benefit plan assets may raise additional issues under applicable law. Certain of these issues are described below.

General Fiduciary Matters

In considering an investment in the Partnership of a portion of the assets of any employee benefit plan (including a "Keogh" plan), whether or not subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or the Code (a "Benefit Plan"), a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Benefit Plan and the applicable provisions of ERISA relating to a fiduciary's duties to the Benefit Plan.

ERISA and the Code impose certain duties on persons who are fiduciaries of plans and prohibit certain transactions involving the assets of a plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any authority or control over the management or disposition of the assets of a plan is considered to be a fiduciary of the plan, subject to certain exceptions which are not relevant to the Partnership.

Plan Assets

If the assets of the Partnership were to be deemed to be "plan assets" under ERISA, (i) the prudence and other fiduciary responsibility standards of ERISA applicable to investments made by certain Benefit Plans and their fiduciaries would extend to investments made by the Partnership and (ii) certain transactions in which the Partnership might seek to engage could constitute "prohibited transactions" under ERISA and the Code.

In 29 C.F.R. § 2510.3-101 (the "Plan Asset Regulation"), the U.S. Department of Labor has defined what constitutes plan assets for purposes of ERISA and Section 4975 of the Code. The Plan Asset Regulation provides that if a plan makes an investment in an "equity interest" in an entity, the assets of the entity will be considered the assets of such plan, unless an exception under the Plan Asset Regulation is applicable. Under the Plan Asset Regulation, an investment in the Partnership would be considered an "equity interest" and the assets of the Partnership may be considered assets of any plan which invests in the Partnership, unless an exception under the Plan Asset Regulation is applicable.

The Plan Asset Regulation provides an exception from its application if equity participation in an entity by "benefit plan investors" is not "significant". For this purpose, the term "benefit plan investor" includes any employee benefit plan, whether or not it is subject to Title I of ERISA, and any plan described in Section 4975(e)(1) of the Code, including "Keogh" plans and Individual Retirement Accounts. This definition also includes "government plans" as defined in Section 3(32) of ERISA, "church plans" as defined in Section 3(33) of ERISA, and any employee benefit plans maintained outside of the United States primarily for the benefit of persons substantially all of whom are nonresident aliens. Governmental plans are those established or maintained by the U.S. Government or the government of any state, or political subdivision thereof, or any agency or instrumentality thereof.

The Plan Asset Regulation considers equity participation in an entity by benefit plan investors to be "significant" on any date if, immediately after the most recent acquisition of any equity interest in the entity, 25% or more (hereinafter, the "Benefit Plan Investor Limit") of the value of any class of equity interests in the entity is held by benefit plan investors. For purposes of determining whether 25% or more of the value of a class of equity interests in the entity is held by benefit plan investors, the value of any equity interest held by a person (other than a benefit plan investor) who has discretionary authority, or control with respect to the assets of the entity, or any person who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such a person, is disregarded.

To ensure that investment by benefit plan investors never become "significant", once the Benefit Plan Investor Limit is reached, no benefit plan investor may make an initial acquisition or any further investments in the Partnership. Furthermore, a Limited Partner which is a benefit plan investor may be required to withdraw from the Partnership if such withdrawal is necessary to prevent a violation of the Benefit Plan Investor Limit.

The General Partner reserves the right to limit investments by benefit plan investors in the Partnership to a level below the Benefit Plan Investor Limit if appropriate to ensure compliance with the significant participation exception.

ANY FIDUCIARY OF A BENEFIT PLAN SHOULD CONSULT ITS LEGAL ADVISER CONCERNING THE ERISA AND OTHER LEGAL CONSIDERATIONS DISCUSSED ABOVE BEFORE MAKING AN INVESTMENT IN THE PARTNERSHIP.

SUBSCRIPTION PROCEDURES

To purchase an Interest a prospective investor must meet certain eligibility requirements set forth in a Subscription Agreement furnished to prospective investors on request. As set forth in more detail in the Subscription Agreement, to become a Limited Partner of the Partnership an investor must:

(a) be an "accredited investor" within the meaning of Rule 501 of the Securities and Exchange Commission; *and*

(b) either (i) individually or (in the case of a natural person) together with his or her spouse, have a net worth in excess of \$1 million or (ii) after giving effect to the investment in the Partnership, have at least \$500,000 under management by Lipper Holdings and Lipper LP.

Inquiries regarding the terms and conditions of this offering, the Partnership and any additional information should be directed to the following individuals:

Kenneth Lipper
Abraham Biderman
Lipper & Company, L.P.
101 Park Avenue
New York, New York 10178
(212) 883-6333

To subscribe for an Interest, a prospective investor must complete and deliver to the Partnership a Subscription Agreement. The execution of the Subscription Agreement constitutes a binding and irrevocable offer by the subscriber to purchase an Interest and become a Limited Partner. The General Partner reserves the right, in its sole discretion, without liability, to reject any subscription.

Upon acceptance of a subscriber's offer to purchase an Interest, instructions will be given concerning payment of the subscription price. Funding will be effected by wiring immediately available funds directly to a designated account of the Partnership. Alternatively, payment may be made by other arrangements agreed to in advance with the General Partner.

Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to return it and all related documents on request to the Partnership, if the prospective investor does not purchase an Interest.

FORM ADV

A copy of the Lipper LP's Uniform Application for Investment Adviser Registration on Form ADV, as currently on file with the SEC, is available on request from the General Partner, and will be sent to investors no later than 48 hours prior to the admission of any investor as a Limited Partner of the Partnership.

This AMENDMENT NO. 1 (this "Amendment No. 1"), dated as of November 5, 1996, to the Amended and Restated Limited Partnership Agreement, dated as of July 1, 1993, (the "Partnership Agreement"), of Lipco Partners, L.P., a New York limited partnership (the "Partnership"), is made by and among Lipper & Company, L.P., a Delaware limited partnership (the "General Partner"), and the parties listed on Schedule I to the Partnership Agreement as limited partners (the "Limited Partners").

WITNESSETH:

WHEREAS, the General Partner and the Limited Partners are parties to the Partnership Agreement;

WHEREAS, the General Partner desires to amend the Partnership Agreement pursuant to Section 2.1 thereof in the manner and as more fully set forth herein;

NOW, THEREFORE, in consideration of the premises, the parties hereto agree as follows:

1. Amendment to the Partnership Agreement. The Partnership Agreement is hereby amended by deleting all references to "Lipco Partners, L.P." and substituting in lieu thereof "Lipper Convertibles, L.P."
2. Ratification and Confirmation of Partnership Agreement. Except as so modified pursuant to this Amendment No. 1, the Partnership Agreement is hereby ratified and confirmed in all respects.
3. Effectiveness. This Amendment No. 1 shall be effective as of the date hereof.

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IN WITNESS WHEREOF, the parties hereto have executed this Amendment effective as of the date first above written.

GENERAL PARTNER

LIPPER & COMPANY, L.P., as
General Partner

By: Lipper & Company, Inc., General
Partner

By: /s/ Steven Finkel
Name: Steven Finkel
Title: Executive Vice President

LIMITED PARTNERS

By: Lipper & Company, L.P., acting as
attorney-in-fact for all the Limited
Partners pursuant to powers of
attorney heretofore or hereafter
granted to the General Partner

By: Lipper & Company, Inc., General
Partner

By: /s/ Steven Finkel
Name: Steven Finkel
Title: Executive Vice President