

No. 399

LIPPERtm CONVERTIBLES, L.P.

PRIVATE OFFERING MEMORANDUM

July 1, 2000

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 PARTNERSHIP WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE INTERESTS MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND SUCH STATE SECURITIES LAWS AND THE AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT OF THE PARTNERSHIP.

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

CILP 0000186

LIPPER[™] CONVERTIBLES, L.P.

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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 of the Partnership, dated as of July 1, 1993, as amended from time to time (the "Limited Partnership Agreement"), a copy of which is attached as Exhibit A to this Private Offering Memorandum (the "Memorandum").

This Memorandum has been furnished on a confidential basis and 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 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 or reproduction of any of its contents is prohibited. Each prospective investor, by accepting delivery of this Memorandum, agrees to the foregoing.

No person has been authorized in connection with this offering to give any information or make any representations other than as contained in this Memorandum and any representation or information not contained herein must not be relied upon as having been authorized by the Partnership or any of its partners or affiliates. The delivery of this Memorandum does not imply that the information herein is correct as of any time subsequent to the date on the cover hereof.

In making an investment decision, prospective investors must rely on their own examination of the Partnership and the terms of the offering, including the merits and risks involved. An investment in the Partnership involves a significant degree of risk and 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. No assurance can be given that the Partnership's investment objective will be achieved, and investment results may vary substantially on an annual basis.

Prospective investors should carefully read and retain this Memorandum. The contents of this Memorandum are not to be construed as legal, tax, investment or other advice. Each prospective investor should consult with its own counsel, accountant or business advisers as to legal, tax and related matters concerning an investment in the Interests.

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 MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY INTEREST IN ANY STATE OR OTHER JURISDICTION IN WHICH SUCH OFFER WOULD BE UNLAWFUL OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN SUCH JURISDICTION.

FOR GEORGIA INVESTORS:

THESE SECURITIES HAVE BEEN ISSUED OR SOLD IN RELIANCE ON PARAGRAPH (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.

SUMMARY OF CERTAIN TERMS OF THE OFFERING

This is not a complete summary of the offering of the Interests. Investors should review this 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. Lipper Convertibles, L.P., a New York limited partnership (the "Partnership"). The Partnership commenced business under the name Cohen, Feit & Co. on October 22, 1985, subsequently changed its name to Lipco Partners, L.P., and, since 1997, has operated under the name Lipper Convertibles, L.P. As of June 30, 2000, the Partnership had approximately \$561 million in Partnership capital, including reinvested earnings. See "THE PARTNERSHIP."

Securities Offered. Limited partnership interests ("Interests") in the Partnership.

Investment Program. The Partnership invests primarily in a leveraged portfolio of hedged convertible securities. See "INVESTMENT PROGRAM."

Management. The general partner of the Partnership is Lipper Holdings, LLC, a Delaware limited liability company ("Lipper Holdings" or the "General Partner"). Kenneth Lipper is the Chairman, President and Chief Executive Officer of Lipper Holdings and its affiliates. The General Partner and its affiliates manage other U.S. and non-U.S. investment limited partnerships, mutual funds and separately managed accounts, and engage in investment banking and other activities. See "MANAGEMENT OF THE PARTNERSHIP."

Minimum Capital Contribution. Each Limited Partner is required to make a minimum capital contribution of \$10,000,000 to the Partnership, unless the General Partner exercises its discretion to waive this minimum requirement. There is no minimum aggregate capital required for the Partnership.

Allocation of Profit and Loss. Subject to the 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 the Partnership's 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," "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Incentive Compensation Fee," and "CERTAIN RISK FACTORS—Incentive Compensation Fee."

Withdrawals. 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," "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Mandatory Withdrawal," and "CERTAIN RISK FACTORS—Illiquidity of Interests; Restrictions on Withdrawals and Transfers."

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

Placement Agent. Lipper & Company, L.P. ("Lipper") serves as the exclusive placement agent with respect to the Interests. There will not be a placement fee or sales commission on the sale of Interests of the Partnership.

Subscription Matters. Prospective investors are required to complete and return to the General Partner the subscription documents for the Partnership. Subscriptions will be accepted only from "qualified purchasers" as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended (the "Investment Company Act"). See "SUBSCRIPTION PROCEDURES."

THE PARTNERSHIP

Lipper Convertibles, L.P. (formerly Lipco Partners, L.P.), a New York limited partnership (the "Partnership"), commenced business on October 22, 1985. As of June 30, 2000, the Partnership had approximately \$561 million in capital, including reinvested earnings.

The Partnership is managed by its general partner, Lipper Holdings, LLC, a Delaware limited liability company ("Lipper Holdings" or the "General Partner"). Lipper Holdings and its affiliates are engaged primarily in investment management and investment banking for high net worth individuals and institutional investors with approximately \$4.5 billion of assets under management as of June 30, 2000.

RESULTS OF OPERATIONS

The following table sets forth (a) 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, (b) the audited results of operations of the Partnership for the fiscal years ended December 31, 1991 through December 31, 1999, and (c) the unaudited results of operations of the Partnership for the six month period ended June 30, 2000. The results presented include the reinvestment of earnings and are net of transaction costs and expenses but before the 20% Incentive Compensation Fee payable to the General Partner, which will reduce returns. Interested investors will be provided with materials that describe the effect of the Incentive Compensation Fee on actual returns.

Lippertm Convertibles, L.P. Historical Performance¹

<u>Period</u>	<u>Quarterly Performance</u>	<u>Annual Performance</u>
October 22, 1985 through September 30, 1986		32.00%
1987:		
1st Quarter	11.00%	
2nd Quarter	0.00%	
3rd Quarter	4.50%	
4th Quarter	(18.97%)	
4th Quarter 1986 ²	6.38%	
Fiscal Year Ended December 31, 1987		0.00%
1988:		
1st Quarter	17.00%	
2nd Quarter	13.68%	
3rd Quarter	3.01%	
4th Quarter	0.73%	
Year Ended December 31, 1988		38.00%

¹ The results set forth herein exclude (a) the risk arbitrage activities in which the Partnership engaged until December 31, 1990, (b) the Partnership's "matched book" stock loan activities, and (c) a \$100,000 management fee which, prior to January 1, 1993 was payable by the Partnership to Lipper. The expenses (e.g., interest expense, certain legal fees and salaries) directly attributable to the Partnership's convertible arbitrage portfolio and a portion of the general and administrative expenses of the Partnership (based on the average capital employed by the convertible arbitrage portfolio) have been charged to the convertible arbitrage portfolio in calculating the rate of return.

² The Fiscal Year ended December 31, 1987 contains 15 months due to a change in the Partnership's year-end relating to the Tax Reform Act of 1986.

Lipper™ Convertibles, L.P.
Historical Performance (cont.)

<u>Period</u>	<u>Quarterly Performance</u>	<u>Annual Performance</u>
1989:		
1st Quarter	3.00%	
2nd Quarter	6.80%	
3rd Quarter	5.45%	
4th Quarter	3.45%	
Year Ended December 31, 1989		20.00%
1990:		
1st Quarter	6.40%	
2nd Quarter	0.00%	
3rd Quarter	4.32%	
4th Quarter	(9.01%)	
Year Ended December 31, 1990		1.00%
1991:		
1st Quarter	6.04%	
2nd Quarter	6.84%	
3rd Quarter	4.02%	
4th Quarter	12.02%	
Year Ended December 31, 1991		32.00%
1992:		
1st Quarter	5.10%	
2nd Quarter	7.65%	
3rd Quarter	9.13%	
4th Quarter	3.90%	
Year Ended December 31, 1992		28.28%
1993:		
1st Quarter	4.67%	
2nd Quarter	7.23%	
3rd Quarter	5.59%	
4th Quarter	(1.87%)	
Year Ended December 31, 1993		16.28%
1994:		
1st Quarter	(3.47%)	
2nd Quarter	(11.10%)	
3rd Quarter	2.03%	
4th Quarter	(4.42%)	
Year Ended December 31, 1994		(16.31%)
1995:		
1st Quarter	4.93%	
2nd Quarter	4.66%	
3rd Quarter	3.63%	
4th Quarter	5.25%	
Year Ended December 31, 1995		19.78%

Lipper[™] Convertibles, L.P.
Historical Performance (cont.)

<u>Period</u>	<u>Quarterly Performance</u>	<u>Annual Performance</u>
1996:		
1st Quarter	4.84%	
2nd Quarter	2.93%	
3rd Quarter	3.53%	
4th Quarter	3.32%	
Year Ended December 31, 1996		15.43%
1997:		
1st Quarter	4.11%	
2nd Quarter	4.74%	
3rd Quarter	4.70%	
4th Quarter	6.33%	
Year Ended December 31, 1997		21.40%
1998:		
1st Quarter	4.65%	
2nd Quarter	5.01%	
3rd Quarter	2.04%	
4th Quarter	0.44%	
Year Ended December 31, 1998		12.62%
1999:		
1st Quarter	3.72%	
2nd Quarter	2.56%	
3rd Quarter	2.47%	
4th Quarter	3.56%	
Year Ended December 31, 1999		12.89%
2000:		
1st Quarter	3.60%	
2nd Quarter	2.01%	

Copies of the audited financial statements of the Partnership for the fiscal years ended December 31, 1998 and December 31, 1999 are available upon request.

Past performance is not necessarily indicative of future results. 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. The results of the Partnership have been and will continue to be affected by economic and market conditions. See "CERTAIN RISK FACTORS."

INVESTMENT PROGRAM

General

The Partnership's investment objective is to receive cash flow from a leveraged portfolio of convertible securities, while limiting risk through the use of hedging strategies. The Partnership's investment portfolio is expected to be substantially hedged through short sales and similar transactions in derivative instruments involving the common stocks underlying the convertible securities. The Partnership is not a complete investment program and each investor should consider an investment in light of the mix of assets in the investor's overall portfolio. No assurance can be given that the Partnership's investment objective will be achieved.

Investment Approach

The Partnership attempts to realize a profit by capturing the cash flow differential between the yield on an issuer's convertible security and the dividend on its underlying common equity security in a relatively market-neutral strategy. This is accomplished by setting up positions that attempt to be relatively neutral as to the direction of the stock market and the price for the underlying common equity. Each "set-up" consists of a long position in the convertible security and a short position in the underlying common equity. These "set-ups" are designed to create a positive cash flow due to the yield advantage of the convertible security in comparison to the underlying common equity of the same issuer and the use of substantial leverage to increase this cash flow.

The Partnership expects its short position to provide significant protection from downward movements in the market price of the underlying common equity. The credit seniority and fixed income components of the convertible security generally cause it to lose value less rapidly than the common equity, with a minimum value theoretically equal to its value as a pure fixed income instrument. Upward movements in the market price of the common equity may result in losses on the short position. Such losses could be offset, in part, by slower but parallel upward movements in the market price of the long convertible security position. During the past five years, the average portfolio hedge was approximately 70-80%. 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 and changes in interest rates, 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. The extent to which leverage is used will depend on the type of security, the hedge percentage deemed appropriate by the Partnership and the applicable margin requirements. The leverage results in large part from the application of cash proceeds of a short sale to the purchase of a long convertible position. Because the Partnership is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the National Association of Securities Dealers, Inc. ("NASD"), it is entitled to significant margin privileges. As of June 30, 2000, the Partnership's ratio of gross investments to total capital was approximately 4.4 to 1. See "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Borrowings" and "CERTAIN RISK FACTORS—Leverage and Short Sales."

Description of the Assembly of a Convertible Hedge Position

Each of the Partnership's set-ups 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. The Partnership's aggregate short:long hedge ratio by dollar value has ranged between 70-80% for the past five years, although this ratio will fluctuate in the future and may be lower or higher depending upon actual market conditions. The cash flow generated by each set-up will have four components:

- (1) the long position of a convertible security will generate interest or dividend income;
- (2) the long position of a convertible security will generate a financing expense (from the borrowing incurred to acquire the long position);
- (3) the short position in the underlying common equity will generate rebate income (from the interest earned on the short sale proceeds, minus a fee to borrow stock for delivery); and
- (4) the short position in the underlying common equity will generate dividend expense.

Short Sales

The Partnership will engage in short selling. A short sale is the sale of a security not owned by the seller. In order to execute a short sale, the seller must be able borrow the stock in order that the stock can be delivered to the buyer. The lender of the stock is usually a major brokerage firm that 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 expected significant level of the Partnership's borrowings, it is expected that the Partnership will generally be able to negotiate favorable rebates on collateral. The borrower of a stock is responsible for making all payments to the lender on the stock sold short. Any dividends declared must be paid on the payment date.

To facilitate the Partnership's short sales, the Partnership maintains an internal stock loan department to execute such transactions. The Partnership and its affiliates also conduct an extensive "matched book" stock loan business with third parties. The Partnership will give priority to the execution of the Partnership's short sales over the "matched book" operations of the Partnership and its affiliates.

Illiquid and Restricted Securities

Although the Partnership's portfolio is comprised primarily of securities that are publicly traded and registered under the Securities Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Partnership may also from time to time invest in securities for which a public market does not exist or whose transfer will be restricted under the Securities Act, including securities issued under Rule 144A of the Securities Act. The Partnership may also invest in another investment vehicle that may invest in such securities. Rule 144A securities may only be sold to "qualified institutional buyers" (as defined below). Rule 144A allows for a broader institutional trading market for securities otherwise subject to restrictions on resale to the general public. Rule 144A establishes a "safe harbor" from the registration requirements of the Securities Act for resales of certain securities to qualified institutional buyers. A "qualified institutional buyer" is defined in Rule 144A as, among others, (a) any entity that owns and invests on a discretionary basis at least \$100 million of securities of issuers that are not affiliated with the entity and (b) any dealer that owns and invests on a discretionary basis at least \$10 million of securities of issuers that are not affiliated with the dealer. The Partnership's purchase of these illiquid or restricted securities entails additional risks not typically associated with publicly traded and registered securities. See "CERTAIN RISK FACTORS—Illiquid and Restricted Securities."

Diversification

To lessen the risk of possible losses in any one position the Partnership anticipates that its portfolio of hedged convertible positions will be highly diversified. The Partnership typically invests in between 90 to 110 different positions. While the Partnership intends to maintain a policy of diversification, its ability to do so will depend upon, among other factors, the total amount of capital invested in the Partnership and perceived market opportunities. At times when the General Partner believes market opportunities for the Partnership's convertible hedging activities are limited or for temporary or defensive purposes, the Partnership may invest in short-term fixed income instruments, money market funds and cash and cash equivalents.

Derivative Instruments

The Partnership is authorized to use portfolio management techniques employing derivative instruments, such as options on securities and securities indices, repurchase agreements and other derivative instruments. The Partnership may purchase or write (sell) call and put options on securities, securities indices and currencies (e.g., currency forward contracts and put and call options on currencies). These options are expected to be used principally where operational constraints make it difficult to assemble portfolio positions in the cash markets. The Partnership's derivative instruments need not be listed on exchanges or traded in established over-the-counter markets. The Partnership's use of derivative instruments entails additional risks. See "CERTAIN RISK FACTORS—Options and Derivative Instruments."

New derivative techniques and instruments continue to be developed, and the Partnership may use any such techniques and instruments as may be developed to the extent the General Partner determines that they are consistent with the Partnership's investment objective and applicable regulatory requirements.

Portfolio Valuation

Securities that are traded on a national securities exchange or on the NASDAQ National Market List and for which market quotations are readily available will be valued by the General Partner at their last reported sale price for sales

regular way for such securities on the date of determination, or, if no reported sale occurred on such date or the General Partner in its sole discretion determines that the last sale price is not representative of the value of a security, at the mid-point between closing "bid" price and the closing "ask" price, in each case quoted on such date for sales regular way, or if no such prices were quoted on such date the fair value assigned reasonably and in good faith by the General Partner. Securities which are not listed or admitted to trading on any national securities exchange or quoted on the NASDAQ National Market List, will be valued by General Partner at the mid-point between the closing "bid" price and the closing "ask" price, in each case quoted on such date for sales regular way by NASDAQ or, if not quoted by NASDAQ, as quoted in a recognized list for over-the-counter securities, or if no such prices were quoted on such date, the fair value assigned reasonably and in good faith by the General Partner. Securities which are in the form of unlisted put or call options, and all other securities, will be valued by the General Partner at their fair value determined for such securities by the General Partner reasonably and in good faith. The foregoing valuation methods may be changed by the General Partner if it should determine reasonably and in good faith that special circumstances exist whereby the value of any securities should be determined in a manner other than as set forth above.

Execution of Portfolio Transaction:

In executing portfolio transactions on behalf of the Partnership, the General Partner will use its best judgment to select the dealer or broker most capable of providing the services necessary to obtain the best available price and the most favorable execution. The full range and quality of services available will be considered in making these determinations. In those instances where it is reasonably determined that more than one dealer or broker can offer the services needed to obtain the best available price and most favorable execution, consideration may be given to those dealers or brokers that supply investment research, statistical information and other services related to investment research (such as computer hardware and software and research seminars) to the General Partner. The General Partner may deem certain of these services useful in the performance of its obligations, but may be unable and will not attempt to determine the amount by which such services may reduce its expenses. Not all of these services may be useful for the Partnership. Certain of these services may be useful to other clients of the General Partner or its affiliates.

The General Partner may cause an amount to be paid from the Partnership to a broker that furnishes brokerage and research services at a higher price than that which might be charged by another broker for effecting the same transaction; *provided* that the General Partner determines in good faith that the amount of commissions charged by the broker is reasonable in relation to the value of the research and brokerage services provided by the broker.

The Partnership does not presently execute brokerage transactions through the General Partner or its affiliates, although the General Partner reserves the right to do so to the extent permitted by applicable law. Except in accordance with the applicable legal requirements, the Partnership will not purchase securities or other instruments from, or sell securities or other instruments to, the General Partner or its affiliates, nor will the General Partner or its affiliates engage in brokerage transactions in which the General Partner or one of its affiliates act as broker for both the Partnership and another person on the other side of the transaction.

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 serving as General Partner of the Partnership, Lipper Holdings and its affiliates serve as the general partner and/or investment adviser to a number of U.S. and non-U.S. investment limited partnerships, mutual funds and separate accounts, provide investment banking services to a variety of clients, advise individual and institutional clients with respect to portfolio management and investments in securities, and invest in securities for their own account. As of June 30, 2000, Lipper Holdings and its affiliates had approximately \$4.5 billion of assets under management for high net worth individuals and institutional investors.

Lipper Holdings serves as the general partner of certain other U.S. investment limited partnerships engaged in securities trading. Lipper Convertibles Series II, L.P. invests in hedged convertible securities. Lipper Intermediate Investment Fund, L.P. invests primarily in U.S. intermediate term, high yield corporate bonds with maturities of 10 years or less. Lipper Equities Fund, L.P. invests primarily in large capitalization U.S. equity securities. Lipper Fixed Income Fund, L.P. invests in fixed income investment partnerships managed by Lipper Holdings or its affiliates and in diversified portfolios of U.S. intermediate term, high yield corporate bonds with maturities of 10 years or less and U.S. investment grade bonds. Lipper Merger Arbitrage Fund, L.P. invests in merger-related arbitrage transactions. Lipper & Company, L.P. ("Lipper"), an investment adviser registered under the Advisers Act and a broker-dealer registered with the SEC, the NASD and a majority of the States, including the State of New York, serves as the investment adviser to Lipper Equities Fund, L.P., Lipper Intermediate Investment Fund, L.P., Lipper Fixed Income Fund, L.P. and Lipper Merger Arbitrage Fund, L.P. Information regarding these investment limited partnerships is available from the General Partner. See "CERTAIN RISK FACTORS—Other Investment Activities" and "CERTAIN RISK FACTORS—Allocation of Investment Opportunities."

Jerome Services Corp. LDC, an affiliate of Lipper Holdings, serves as the general partner of certain non-U.S. investment limited partnerships engaged in securities trading. Lipper Offshore Convertibles, L.P. invests in hedged convertible securities. Lipper Intermediate Investment Offshore Fund, L.P. invests primarily in U.S. intermediate term, high yield corporate bonds with maturities of 10 years or less. Lipper Equities Offshore Fund, L.P. invests primarily in large capitalization U.S. equity securities. Lipper Merger Arbitrage Offshore Fund, L.P. invests in merger-related arbitrage transactions. Lipper serves as the investment adviser to these investment limited partnerships. Information regarding these investment limited partnerships is available from the General Partner. See "CERTAIN RISK FACTORS—Other Investment Activities" and "CERTAIN RISK FACTORS—Allocation of Investment Opportunities."

Lipper & Company, L.L.C. ("Lipper LLC"), an investment adviser registered under the Advisers Act, serves as the investment adviser to (a) the Lipper High Income Bond Fund and the Lipper U.S. Equity Fund, two of the portfolios comprising The Lipper Funds, Inc. ("The Lipper Funds"), an open-end investment company registered under the Investment Company Act, (b) The Lipper[™]/Leumi High Income Bond Fund, Ltd. ("The Lipper[™]/Leumi Fund"), a Cayman Islands mutual fund, and (c) The Prime Lipper Fund, a mutual fund registered in Luxembourg and Italy.

Affiliates of Lipper and Prime S.p.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 and an investment adviser registered under the Advisers Act. Prime Lipper Asset Management serves as the investment adviser to the Lipper Prime Europe Equity Fund, the third portfolio comprising The Lipper Funds. The Lipper Prime Europe Equity Fund invests primarily in medium- and large-capitalization European equity securities. Lipper serves as the primary distributor of The Lipper Funds.

Managing Persons

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 Holdings and the other investment limited partnerships, mutual funds and separately managed under management by Lipper Holdings and its affiliates. Biographical information relating to certain employees and officers of the Partnership, the General Partner and their affiliates is set forth below.

Kenneth Lipper has been Chief Executive Officer and President of Lipper Holdings, Lipper and their affiliates since founding the firm in 1987. Prior to founding Lipper & Company, Mr. Lipper was a General Partner of Lehman Brothers Inc. from 1969 to 1975 and a General Partner and Managing Director of Salomon Brothers Inc. from 1976 to 1982. He served as Deputy Mayor of New York City from 1983 to 1985. Mr. Lipper is a Director and Chairman of the Audit Committee of Case New Holland N.V., a member of the Federal Reserve Bank of New York's International Advisory Board, and a member of the Advisory Board of The Chase Manhattan Bank. He is a Trustee of the Sundance Institute and serves on the Harvard Executive Committee on University Resources. Mr. Lipper graduated from Columbia University and Harvard Law School and is a member of Phi Beta Kappa and the New York State Bar. Mr. Lipper wrote the novels *Wall Street* and *City Hall*, wrote and produced the film *City Hall* and produced the films *The Winter Guest* and *The Last Days*, for which he received an Academy Award for best feature length documentary film. Mr. Lipper is co-publisher of Penguin Lives, the Lipper[™]/Viking series of short biographies of famous cultural figures by celebrated authors, and is also the co-publisher of the Lipper[™]/Norton scientific series on great discoverers and their discoveries.

Abraham Biderman is an Executive Vice President of Lipper Holdings and Lipper, Executive Vice President, Secretary and Treasurer of The Lipper Funds and co-manager of the Partnership. Prior to joining Lipper & Company 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 the Commissioner of the New York City Department of Finance from May 1986 through January 1988. Mr. Biderman was Special Advisor to former Mayor Edward I. Koch from 1985 to 1986 and assistant to former Deputy Mayor Kenneth Lipper from 1983 through 1985. Mr. Biderman is a Director of the Municipal Assistance Corporation for the City of New York. Mr. Biderman graduated from Brooklyn College and is a certified public accountant.

Edward Strafaci is Executive Vice President and Director of Fixed Income Money Management for Lipper and co-manager of the Partnership. Mr. Strafaci is principally responsible for the trading operations of Lipper and its affiliates. Prior to joining Lipper & Company in 1989, Mr. Strafaci was a General Partner at Cohen Feit & Company from 1985 to 1989 and a trader at Dean Witter Reynolds Inc. from 1983 to 1985. He received a B.S. in Accounting and Economics and an M.B.A. in Finance from St. John's University.

Steven Finkel is Executive Vice President of Lipper Holdings and Lipper and Executive Vice President of The Lipper Funds. Prior to joining Lipper & Company in 1987, Mr. Finkel was a tax partner with the certified public accounting firm of Oppenheim, Appel, Dixon & Co. from 1972 to 1987, where he served as the tax partner in charge of such securities industry clients as Salomon Brothers Inc. Mr. Finkel graduated from Baruch College and is a certified public accountant.

Michael Visovsky is Managing Director and the Director of Research for Lipper and the Partnership. Prior to joining Lipper & Company in 1989, Mr. Visovsky was Chief Research Analyst for convertible and risk arbitrage at Cohen Feit & Company from 1985 to 1989 and a Research Analyst at Dean Witter Reynolds Inc. from 1984 to 1985. Mr. Visovsky graduated from Baruch College and holds an M.B.A. in Finance from New York University. Mr. Visovsky also holds a law degree from Brooklyn Law School and is a member of the New York State Bar.

Sheldon Dubroff is Managing Director and co-manager of the securities lending business of Lipper and the Partnership. Prior to joining Lipper & Company in 1989, Mr. Dubroff was co-manager of Cohen Feit & Company's securities lending business from 1985 to 1989 and, prior to that, was employed in the securities lending department of Goldman, Sachs & Co.

Allen Wolkow is Managing Director and co-manager of the securities lending business of Lipper and the Partnership. Prior to joining Lipper & Company in 1989, Mr. Wolkow was co-manager of Cohen Feit & Company's securities lending business from 1985 to 1989 and, prior to that, was employed in the stock loan department of J. Streicher & Co.

Michael Herman is a trader of convertible, fixed income and equity securities for Lipper and the Partnership. Prior to joining Lipper & Company, he was employed by Dean Witter Reynolds for four years as a trader of government notes and bonds for both arbitrage and transactions accounts.

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). Initial Capital Contributions must be made to the Partnership as of the first day of any month. 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. The General Partner may waive any of these requirements.

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, any withdrawals, and, in the case of each Limited Partner, 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 set forth above under "INVESTMENT PROGRAM—Portfolio Valuation."

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. See "CERTAIN RISK FACTORS—Incentive Compensation Fee."

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 (a) each succeeding December 31, (b) the effective date on which such Limited Partner withdraws from the Partnership and (c) 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—Illiquidity of Interests; 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 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. See "CERTAIN RISK FACTORS—Illiquidity of Interests; Restrictions on Withdrawals and Transfers."

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, the NASD and any other association or self-regulatory organization of which the Partnership is a member. No Limited Partner may make a withdrawal (other than a complete withdrawal) from its Capital Account if, after the withdrawal, the amount remaining in the withdrawing Limited Partner's Capital Account would be less than \$1,000,000.

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

Except as provided by law, no Limited Partner shall be liable for the debts and obligations of the Partnership except to the extent of its Interest in the Partnership. 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 at the end of any Fiscal Year, the amount of Net Profits to be allocated to the General Partner's Capital Account with respect to any Limited 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 restore its Capital Account to zero, and to pay interest on such amount to the General Partner at the Federal Funds Rate from the date of such allocation 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, members, officers, employees and agents of the General Partner (each, an "Indemnified Person"), will not be liable, responsible or accountable 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 gross negligence or willful misconduct 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 (including advancement of attorneys' fees and expenses) by the Partnership to the fullest extent legally permissible under and by virtue of the Partnership Act against all liabilities and losses suffered by any of them by virtue of the status of each such Indemnified Person as an Indemnified Person (including amounts paid in respect of judgments or fines or in settlement of litigation and expenses, including attorneys' fees, reasonably incurred by any of them in connection with any pending or threatened litigation, proceeding or action, including, without limitation, by any governmental or regulatory authority) with respect to any action or omission taken or suffered in good faith, other than liabilities and losses resulting from gross negligence or willful misconduct 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. See "CERTAIN RISK FACTORS---Liability and Indemnification of the General Partner."

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, 2009, (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 Interest, 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, and (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 percentage 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. In addition to any other right the General Partner may have, the Limited Partnership Agreement may be amended by the General Partner at any time to comply with applicable law, to correct or clarify any ambiguity or to modify certain non-economic provisions of the Limited Partnership Agreement.

Borrowings

Subject to any applicable legal and regulatory requirements or restrictions, the Partnership may borrow for any purpose including for making investments or for temporary or emergency purposes such as the payment of operating expenses and withdrawal requests. See "INVESTMENT PROGRAM—Investment Approach" and "CERTAIN RISK FACTORS—Leverage and Short Sales."

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 NASD.

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. There can be no assurance that the Partnership's investment objective will be achieved or that there will be any return of capital, and investment results may vary substantially on an annual basis. The Interests are suitable for investment only by sophisticated individuals and institutions who fully understand and are capable of assuming the risks of this investment. The Partnership is not a complete investment program and each investor should examine an investment in the Partnership in light of its overall portfolio composition. The following considerations should be carefully evaluated before making an investment in Interests

Investment Risks

The investing activities of the Partnership are inherently 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 Partnership to earn a return that is economically 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.

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, the NASD or other governmental or self-regulatory organizations, 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.

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 (or similar transaction in derivative instruments) 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. If, however, the credit status of the issuer weakens, losses may result in the investment value of the convertible security held by the Partnership. Also, a contraction in the conversion premium could cause erosion in the market price of the convertible security due to market conditions or a decrease in liquidity. These losses are partially limited by the short hedge on the underlying security, but may be substantial in relation to the amount of the Partnership's capital.

A preponderance of the Partnership's portfolio is invested in investment grade securities of substantial public companies with market liquidity. Losses may also result from an increase in interest rates, which would reduce the investment value of the convertible securities held by the Partnership, if such increase were not offset by declines in the market price of the underlying common stocks.

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 also 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.

Leverage and Short Sales

The Partnership borrows money from time to time to increase the amount of capital available for investment, to carry securities and for other purposes. See "INVESTMENT PROGRAM—Investment Approach." The Limited Partnership Agreement does not restrict the ability to borrow, although the Partnership may be limited by margin regulations of the New York Stock Exchange and the NASD and the net capital rules of the NASD in the amount of leverage it may incur. The Partnership is registered as a broker-dealer with the SEC and is a member of the NASD. To achieve leverage in excess of the amounts set forth in Regulation T promulgated by the Federal Reserve Bank, the Partnership has entered into a "joint back-office" arrangements with certain of its clearing brokers. In addition, the Partnership is registered as a market-maker or specialist in some (but not all) of the securities in which it establishes a long position. As a result, the Partnership is entitled under applicable margin rules to incur significant leverage. As of June 30, 2000, the ratio of gross investments to capital of the Partnership was approximately 4.4 to 1.

The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the investments purchased or carried. Although leverage increases returns to the Partnership if it 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 their portfolios 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 Partnership's anticipated use of short-term margin borrowings results in certain additional risks to the Partnership. For example, should the securities pledged to brokers to secure the Partnership's margin accounts decline in value, the Partnership could be subject to a "margin call," pursuant to which it must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities 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 pay off 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.

Tax-exempt investors should note that the use of leverage by the Partnership will create "unrelated business taxable income" and should refer to the matters discussed under the caption "FEDERAL TAX ASPECTS OF AN INVESTMENT IN THE PARTNERSHIP—Tax-Exempt Investors."

The Partnership engages in short sales. See "INVESTMENT PROGRAM—Short Sales." Selling securities short runs the risk of losing an amount greater than the amount invested. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a stock may appreciate before the short position is closed out. A short sale may result in a sudden and substantial loss if, for example, an acquisition proposal is made for the subject company at a substantial premium over market price.

Illiquid and Restricted Securities

In certain instances, the Partnership may purchase securities that are not registered under the Securities Act or the Exchange Act or that are not actively traded, including Rule 144A securities. See "INVESTMENT PROGRAM—Illiquid and Restricted Securities." In the event that the Partnership was required to sell such securities, the Partnership could suffer a loss. In addition, in valuing such securities in accordance with the Limited Partnership Agreement, the Partnership may be required to discount such securities below their present value to reflect their lack of liquidity.

High Yield Securities

The Partnership may acquire convertible securities that are not of investment grade quality, referred to as "high yield securities." Securities rated below investment grade and comparable unrated securities involve greater risk, including greater price volatility and a greater risk of default in the timely payment of principal and interest, than higher rated securities. Under rating agency guidelines, securities which are rated in the category "B" generally lack characteristics of a desirable investment, and assurance of interest and principal payments or of maintenance and other terms of the contract over any long period of time may be small. Such securities are considered speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. Unrated securities deemed comparable to these rated securities will have similar characteristics.

The secondary markets for high yield securities are not as liquid as the secondary markets for higher rated securities. The secondary markets for high yield securities are characterized by relatively few market makers and participants in the market are mostly institutional investors, including insurance companies, banks, other financial institutions and mutual funds. In addition, the trading volume for high yield securities is generally lower than that for higher-rated securities. Moreover, the secondary markets for high yield securities could contract under adverse market or economic conditions independent of any specific adverse changes in the condition of a particular issuer. These factors may have an adverse effect on the Partnership's ability to dispose of particular portfolio investments and may limit its ability to obtain accurate market quotations for purposes of valuing securities and calculating net asset value. If the Partnership is not able to obtain

precise or accurate market quotations for a particular security, it will become more difficult for the Partnership to value its portfolio securities and it may have to use a greater degree of judgment in making such valuations. Furthermore, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may tend to decrease the market value and liquidity of such lower-rated securities. Less liquid secondary markets may also affect the Partnership's ability to sell securities at their fair value. In addition, the Partnership is permitted to invest in illiquid securities that may be more difficult to value and to sell at fair value. If the secondary markets for high yield securities contract due to adverse economic conditions or for other reasons, certain previously liquid securities in the Partnership's portfolio may become illiquid and the proportion of its assets invested in illiquid securities may increase.

High yield securities generally present a higher degree of credit risk. The General Partner will attempt to assess the creditworthiness of each potential convertible security. However, there can be no assurance that such convertible securities acquired by the Partnership will be paid upon maturity. In the event that such convertible securities purchased by the Partnership are not paid upon maturity or the issuer of any such security experiences financial difficulties, the Partnership may be unable to recover its original investment or may sell such security at a loss.

Changes in Interest Rates

The Partnership's performance may be affected by changes in the general levels of interest rates. Generally, when interest rates decline, the value of the Partnership's investments will rise. Conversely, when interest rates rise, the value of the Partnership's investments will generally decline. These fluctuations are greater for Partnership investments with longer maturities than those with shorter maturities.

Options and Derivative Instruments

The Partnership may invest in, or enter into, put and call options, derivative instruments, various swap arrangements and other regulated securities (collectively, "derivative instruments"). See "INVESTMENT PROGRAM--Derivative Instruments." The use of derivative instruments may present additional types and degrees of risk, depending upon the characteristics of the particular derivative instrument and the portfolio as a whole. When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the Partnership from achieving the intended hedging effect or expose the Partnership to the risk of loss.

Because premiums paid or received by the Partnership for such derivative instruments are small in relation to the market value of the investments underlying the derivative instruments, buying and selling derivative instruments can result in large amounts of leverage. Thus, the leverage offered by trading or investing in derivative instruments could cause the Partnership's net asset value to be subject to more frequent and wider fluctuations than would be the case if the Partnership did not invest in such derivative instruments.

Upon the exercise of a put option written by the Partnership, the Partnership may suffer a loss equal to the difference between the price at which the Partnership is required to purchase the underlying security and its market value at the time of the option exercise, less the premium received for writing the option. Upon the exercise of a call option written by the Partnership, the Partnership may lose the opportunity to realize appreciation in the market price of the underlying security in an amount up to the excess of the security's market value at the time of the option exercise over the Partnership's acquisition cost of the security, less the premium received for writing the option.

Derivative instruments that may be purchased or sold by the Partnership may include derivative instruments not traded on a securities exchange. The risk of nonperformance by the obligor on such a derivative instrument may be greater and the ease with which the Partnership can dispose of or enter into closing transactions with respect to such a derivative instrument may be less than in the case of an exchange traded derivative instrument.

In addition, derivative instruments may not be liquid in all circumstances, so that in volatile markets the Partnership may not be able to close out a position without incurring a loss. Daily limits on price fluctuations on exchanges on which the Partnership may conduct its transactions may prevent prompt liquidation of positions, subjecting the Partnership to the potential of greater losses.

Diversification

The Partnership will not be subject to any investment guidelines or restrictions on the maximum amount of its assets that may be invested in any particular security. If the General Partner concentrates the Partnership's investments in any one particular security, the Partnership's portfolio will then become more susceptible to fluctuations in value resulting from adverse economic, market or other conditions affecting that particular security.

Non-U.S. Securities

The Partnership may from time to time invest in securities issued by non-U.S. issuers. Securities of non-U.S. issuers involve certain considerations and risks not typically associated with investing in securities of U.S. companies or the U.S. Government, including (a) uncertainties regarding future social, political and economic developments, (b) the possible imposition of non-U.S. withholding taxes on interest or dividend income payable on securities held by such Fund, (c) the possible seizure or nationalization of non-U.S. assets, and (d) the possible establishment of non-U.S. government laws or restrictions that might adversely affect the payment of interest on debt securities held by the Partnership. In addition, the repatriation of both investment income and capital from some countries requires governmental approval and if there is a deterioration in a country's balance of payments or for other reasons, a country may impose temporary restrictions on non-U.S. capital remittances abroad. Even where there is no outright restriction on repatriation of capital, the mechanics of repatriation may affect certain aspects of the operation of the Partnership. The Partnership could be adversely affected by delays in, or a refusal to grant any required governmental approval for, repatriation of capital, as well as by the application to the Partnership of any restrictions on investments. In addition, there may be less publicly available information about a non-U.S. issuer than about a U.S. issuer, and non-U.S. issuers may not be subject to the same accounting, auditing and financial record keeping standards and requirements as U.S. issuers. Furthermore, in the case of investments in non-Dollar denominated securities, the Partnership is subject to the risk of currency exchange rate fluctuations. Finally, in the event of a default in any such non-U.S. obligations, it may be more difficult for the Partnership to obtain or enforce a judgment against the issuers of such securities.

Turnover

The Partnership may invest on the basis of short-term market considerations. The Partnership's turnover rate may be significant, potentially involving substantial brokerage commissions and other transaction costs.

Regulation

The Partnership is registered as a broker-dealer with the SEC under 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.

Investment Company Act

The Partnership is not registered as an investment company under the Investment Company Act, in reliance on an exemption provided under the Investment Company Act for entities whose outstanding securities are beneficially owned by "qualified purchasers," as that term is defined in the Investment Company Act. 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—Transfer of Partnership Interests," "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Withdrawals," and "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Mandatory Withdrawals."

Dependence on the General Partner

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."

Other Investment Activities

The General Partner and its affiliates (including Lipper) offer investment banking services to their clients, advise individual and institutional clients with respect to portfolio management and investments in securities, and invest in securities for their own account. Lipper Holdings and an affiliate, Jerome Services Corp. LDC, serve as the general partners of a number of other U.S. and non-U.S. investment limited partnerships engaged in securities trading. In addition, Lipper serves as the investment adviser to many of these U.S. and non-U.S. investment limited partnerships as well as various separately managed accounts. Other affiliates of Lipper Holdings and Lipper serve as the investment adviser to a number of U.S. and non-U.S. mutual funds. See "MANAGEMENT OF THE PARTNERSHIP."

By reason of its investment banking and related activities, Lipper may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. Lipper will not be free to divulge, or to act upon, any confidential or material non-public information acquired in the course of its investment banking and related activities. Due to these restrictions, the General Partner may not initiate a transaction for the Partnership' account that it otherwise might have initiated, and the Partnership may be frozen in an investment position that it otherwise might have liquidated or closed out.

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 its affiliates may from time to time offer certain investment opportunities to their 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 intends 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, its 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 its affiliates 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.

Illiquidity of Interests: Restrictions on Withdrawals and Transfers

The Interests have not been registered under the Securities Act, the securities laws of any state thereof or the securities laws of any other jurisdiction, and, therefore, cannot be sold unless they are subsequently registered under the Securities Act and other applicable securities laws or an exemption from registration is available. It is not contemplated that registration under the Securities Act or other securities laws will ever be effected. There is no public market for the Interests and one is not expected to develop.

Subject to the terms of the Limited Partnership Agreement, 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 by operation of law, or substitute another person as a Limited Partner, except as of the first day of a Fiscal Quarter with the prior written consent of the General Partner, which consent may be withheld for any reason in its sole discretion. See "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Transfer of Partnership Interests" and "SUMMARY OF CERTAIN PROVISIONS OF THE LIMITED PARTNERSHIP AGREEMENT—Withdrawals."

In addition, a Limited Partner's right to withdraw capital from the Partnership is subject to compliance with the rules and regulations of the SEC and the NASD.

Incentive Compensation Fee

Under the Limited Partnership Agreement, the General Partner is entitled to receive an Incentive Compensation Fee at the end of each Fiscal Year and upon a Limited Partner's complete withdrawal from his, her or its Capital Account based on any Net Profits (less any Net Losses) allocated to each Limited Partner's Capital Account. 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.

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 gross negligence or willful misconduct. 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 gross negligence or willful misconduct. 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. Further, Limited Partners should be aware that it is expected that a significant portion of the income of the Partnership will be ordinary income. Corporations may not, and individuals are limited in their ability to, offset ordinary income with capital losses, and individuals are generally taxed at a higher rate on ordinary income than they are on long-term capital gains. In addition, the Partnership is not required to make distributions to Partners in an amount sufficient to pay taxes for the Partners. See "FEDERAL TAX ASPECTS OF AN

INVESTMENT IN THE PARTNERSHIP—Treatment of Partnership's Securities Transactions and Partnership Expenses; 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 contains certain provisions that may affect the tax consequences of an investment in the Partnership or the treatment of Partnership operations. This discussion does not provide an explanation of the tax consequences to the Partnership or the Limited Partners of any particular Partnership investment or investment strategy. Investors are urged to consult their tax advisors as to the tax consequences to them of any Partnership investment or investment strategy described in this Memorandum. 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.

PROSPECTIVE INVESTORS SHOULD CONSULT WITH AND RELY SOLELY UPON THEIR 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 no assurance that the Internal Revenue Service (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 with or within 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. Allocations of items of income and loss will be respected for tax purposes if such allocations have substantial economic effect. It is possible that the IRS will take the position that the Partnership's allocations of items of income and loss do not have substantial economic effect. If the allocations were to be successfully challenged by the IRS, a Limited Partner may be required in a particular year to recognize a greater amount of income or lesser amount of loss or deduction than would otherwise have been recognized. All investors, including, but not limited to, foreign investors and tax-exempt investors, among others, for whom special rules 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. However, due to the nature of the Partnership's investment strategy, the tax consequences of particular Partnership transactions are complex and it is possible that certain gains and losses realized by the Partnership will be treated as short-term capital gains and losses, regardless of how long the Partnership held the related investment position, or otherwise as ordinary income and loss.

It is expected that a significant portion of the income generated by the Partnership will be ordinary income. 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. Further, if contrary to the Partnership's expectations, the Partnership acts as an investor, and not as a trader, for tax purposes, additional limitations relating to the deductibility of Partnership expenses may apply, including limitations on the deductibility of miscellaneous itemized deductions, and the overall limitation on itemized deductions for individuals with adjusted gross income exceeding a prescribed amount. The characterization of the Partnership as a trader is a question of fact and will depend on the activities of the Partnership. There can be no assurance that the IRS will not successfully challenge the characterization of the Partnership as a trader.

In addition, Limited Partners should be aware that limitations may apply to the deductibility of Partnership losses, including limitations based on the Limited Partner's amount "at risk" with respect to Partnership activities, and that the nature of the Partnership's activities involving offsetting financial positions and/or futures contracts may affect the timing and character of Partnership losses.

Tax-Exempt Investors

Income recognized by a tax-exempt entity is exempt from federal income tax except to the extent of the entity's "unrelated business taxable income" ("UBTI"). UBTI is generally defined as income from a trade or business regularly carried on by a tax-exempt entity that is substantially unrelated to its exempt purpose (including an unrelated trade or business regularly carried on by a partnership of which the entity is a partner). Absent the application of the "debt-financed" rules described below, UBTI generally does not include dividends, interest or gains from the sale of property that is neither inventory nor held for sale to customers in the ordinary course of business. However, if a tax-exempt entity's acquisition of an interest is debt-financed, or if the Partnership incurs debt that is treated under complex rules as "acquisition indebtedness" with respect to a Partnership investment, all or a portion of the income attributed to the "debt financed property" would be included in UBTI regardless of whether such income would otherwise be excluded as dividends, interest or other similar income. A tax-exempt entity deriving gross income characterized as UBTI that exceeds \$1,000 in any taxable year is obligated to file a Federal income tax return, even if it has no liability for that year as a result of deductions against such gross income, including an annual \$1,000 statutory deduction.

The Partnership expects to purchase securities on margin and borrow funds to make investments, and accordingly incur "acquisition indebtedness" and generate UBTI for tax-exempt Limited Partners. The characterization of the Partnership's income as UBTI may have a significant effect on an investment by a tax-exempt entity in the Partnership and may make investment in the Partnership inappropriate for certain tax-exempt entities.

PROSPECTIVE TAX-EXEMPT INVESTORS SHOULD CONSULT WITH AND RELY UPON THEIR OWN TAX ADVISORS REGARDING ALL ASPECTS OF UBTI.

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, (a) 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 (b) 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 "governmental 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 investments 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 WITH AND RELY UPON 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 the Subscription Agreement. As set forth in more detail in the Subscription Agreement, an investor must be a "qualified purchaser" for purposes of Section 2(a)(51)(A) of the Investment Company Act.

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 Holdings, LLC
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 two copies of the 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 Memorandum, agrees to return it and all related documents on request to the Partnership, if the prospective investor does not purchase an Interest.