T2 Partners LLC

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June 2, 2012

Dear Partner,

Our fund fell 13.6% in May vs. -6.0% for the S&P 500, -5.9% for the Dow and -7.1% for the Nasdaq. Year to date, our fund is up 8.5% vs. 5.2% for the S&P 500, 2.6% for the Dow and 8.9% for the Nasdaq.

On the long side, other than our two largest positions, Berkshire Hathaway (-1.6%) and Iridium warrants (-2.8%), everything else got clobbered: Pep Boys (-37.8%), J.C. Penney (-27.3%), Dell (-24.7%), Sears Canada (-23.2%), JPMorgan Chase Chase (-22.9%), Netflix (-20.8%), Barnes & Noble (-20.8%), Citigroup (-19.8%), Grupo Prisa (B shares) (-19.3%), Goldman Sachs (-16.9%), AIG (-14.3%), Resource America (-12.9%), SanDisk (-11.6%), and Howard Hughes (-10.8%).

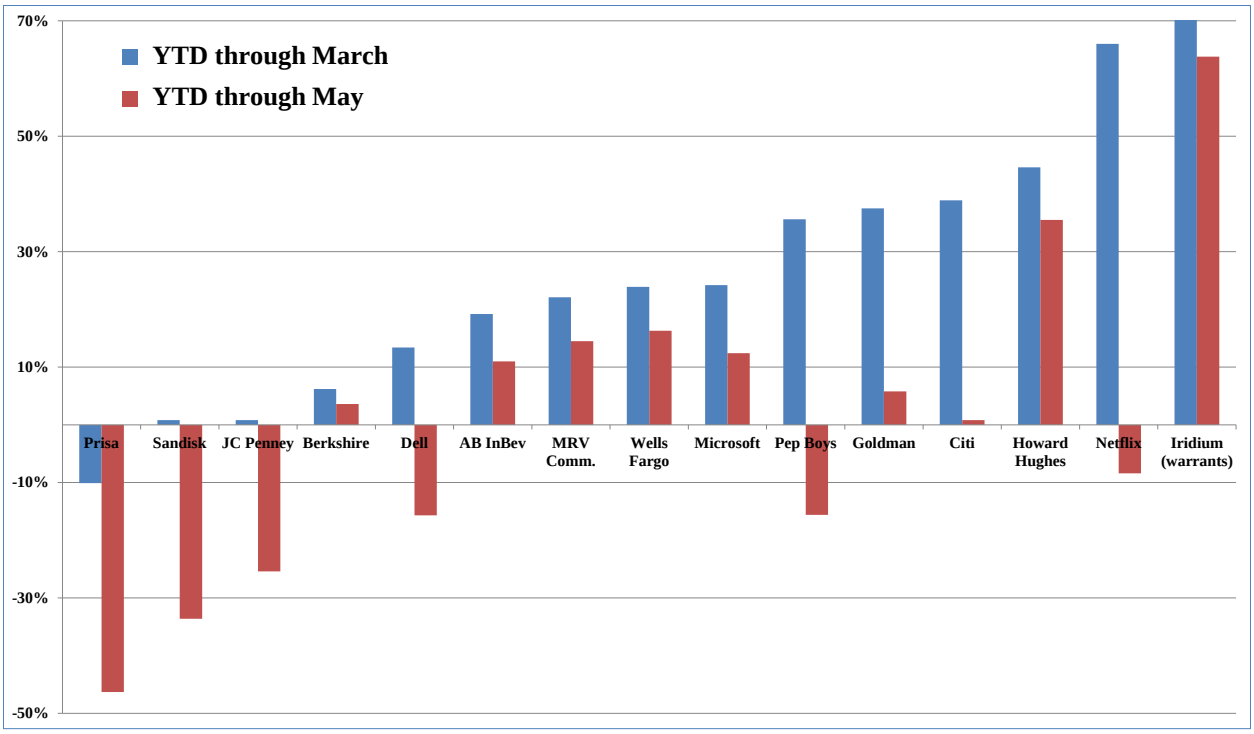
Our short book declined substantially more than the market (though not nearly enough to offset the losses on the long side), led by Green Mountain Coffee Roasters, which announced dreadful earnings and fell 51.6%. Other winners included First Solar (-31.7%), Nokia (-26.8%), Salesforce.com (-11.0%), Tesla (-11.0%), and St. Joe (-10.4%), partially offset by Interoil (+9.9%).

Overview

It was an ugly month – our second-worst ever – but for perspective, our fund gave back slightly more than the 12.3% gain of the previous two months. We're still having a decent year, with a healthy, market-beating gain. In fact, this is the fourth-best start to a year in our fund's 14-year history.

Most importantly, our portfolio, we believe, is back to being super cheap again. We own stocks of good companies that are, in general, performing well, so in our view the only thing that's changed in the past month is that the margin of safety (and therefore the potential upside) has increased markedly.

As you can see from the chart below, our 15 largest positions at the beginning of the year had huge gains in the first quarter (blue bars). At that point, we still thought that these stocks were moderately cheap, which is why we continued to hold them, but as the margin of safety diminished, we maintained our selling discipline and trimmed a number of holdings, including Netflix, Dell, Howard Hughes, J.C. Penney, Citigroup, and Pep Boys. Obviously we wish we'd sold more, but the gains we harvested account for most of our returns this year, as our long book, collectively, is back to being roughly flat on the year, as shown by the red bars in the chart:



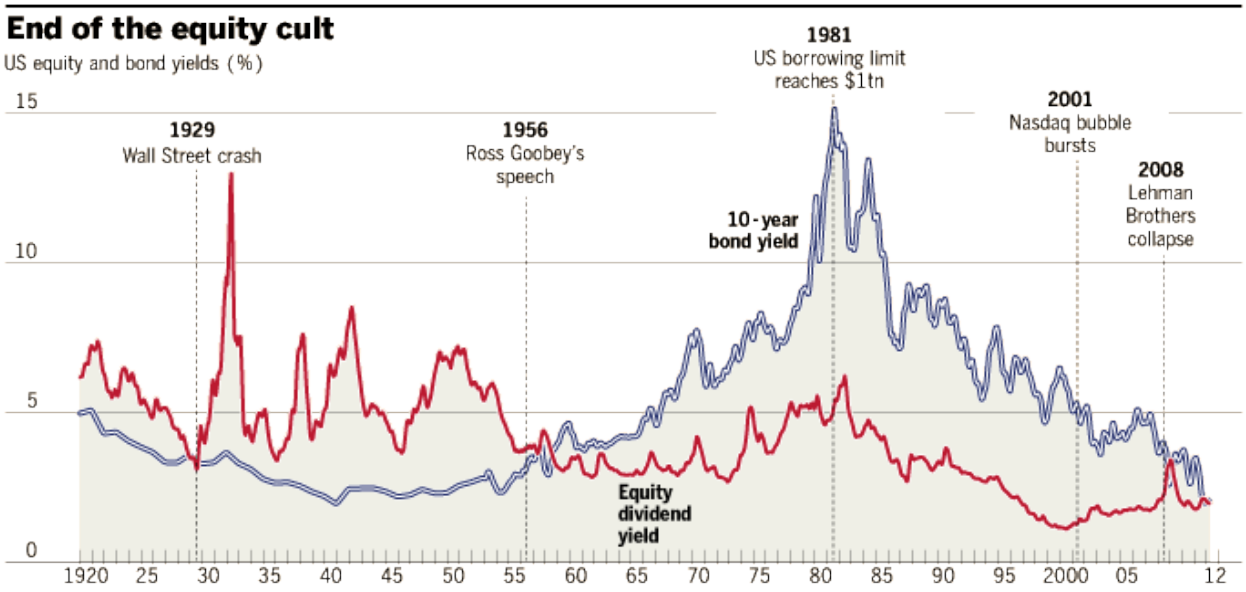
We've been taking advantage of the sharp declines in many of our favorite stocks by adding to our positions, and believe that our fund is poised to once again deliver strong returns.

Macro Views

"But wait," you might say, "What about slowing U.S. growth and all the turmoil in Greece, Spain, Italy, China, India, and Japan? If the world goes to hell in a bucket, it won't matter that your stocks are super cheap – they'll just become even cheaper."

True enough. If the U.S. does, in fact, suffer a double dip recession and/or Europe, China, or Japan blow up, then our fund will no doubt decline further. But we don't think these things are likely. We're not naïve about the serious problems facing many of the world's largest economies, so we don't expect robust economic growth anywhere in the world, but neither are we positioning our portfolio for Armageddon. It's important to keep in mind that, 2008 notwithstanding, worst-case scenarios very rarely occur (though there is no shortage of pundits who generate endless headlines making dire predictions). The most likely scenario, we continue to believe (as we've expressed to you in numerous letters since 2009), is that the U.S., Europe, and Asia muddle through – with our highest confidence in the U.S.

We agree with legendary investor Leon Cooperman of Omega Advisors, who noted recently that U.S. stocks are "the best house in a bad neighborhood." By one key metric, they are the cheapest they have been relative to bonds in more than 50 years: their dividend yield is now 2%, far above the sub-1.5% yield on 10-year Treasuries, the first time this has happened since 1956, as shown in this chart:



Source: Markets: Out of stock, Financial Times, 5/23/12

When there's so much negativity swirling, it's very easy to become-uber bearish and want to sell everything, so we wanted to share an excerpt from a column on Friday by Doug Kass of Seabreeze Partners. He starts by laying out how bearish the consensus view is, which creates in his opinion (and ours) "the potential for a meaningful surprise to the upside for the U.S. stock market":

> With investor sentiment (individual and institutional) so downbeat, Wall Street strategists silenced and crestfallen (according to Merrill Lynch, sell-side strategists are now more bearish on equities than they were at any point during the collapse of the tech bubble or the recent financial crisis), expectations for worldwide economic growth and profits subdued, undemanding valuations, a five-decade high in risk premiums and a growing consensus view of "no way out" of Europe, the dour investment backdrop seems to have the potential for a meaningful surprise to the upside for the U.S. stock market.

But with so much bad news swirling, what might reverse the severely negative sentiment? Kass does a nice job of laying out a number of upside scenarios:

- **Europe**: A more activist ECB surprisingly intervenes (before markets force them) in order to stabilize the growing debt crisis. The ECB lowers interest rates, reintroduces SMP to support the purchase of weak sovereign debt, endorses a bank-chartered ESM and introduces a FDIC-like deposit insurance program for European banks. The concept of eurobonds floated by a heretofore reluctant 17-country constituency could also be a rally catalyst.

- **Greece**: Two weeks from now, the Greek election will bring forth a pro-troika coalition. The election is followed by a less demanding austerity edict by European authorities.

- **QE3**: The **Fed** hints of more easing in the days leading up to the June Fed meeting. Job growth is anemic in the U.S., stock markets around the world are plummeting, commodities are weakening, and the situation in Europe is unsettling (raising the risks of a deflationary shock) -- all of which are conditions for an imminent move by the Fed. (Indeed, the odds now strongly favor a near-term and synchronized monetary easing in China, Europe and in the U.S.)

- **U.S.**: Economic data show renewed strength following May's uneven results. (For example, in times like this, we ignore some of the positives such as the lower price of gasoline, which could fuel retail sales in the period ahead, improve consumer sentiment and buoy corporate profit margins.) Another catalyst to the upside could be if the Republican Party gains momentum in the polls. (On *Intrade*, the likelihood that Obama wins the Presidency is down to about 56% from 62% a month ago. Today's jobs report is likely to result in an increased likelihood of a Romney victory in November.)

- **Mergers and acquisitions**: One or two large, high-profile takeovers emboldens investors. (Corporations sell at large discounts to private market value. As evidence, to date in 2012, there have been 40 deals at over $300 million in market cap. The average takeover premium was 35%.)

- **Individual investors**: Retail investors cease redemption of domestic equity funds and begin to reallocate funds into stocks and out of bonds.

- **Out of the blue**: One day, with no news or provocation, the market ignites to the upside because all of the negatives are known and discounted.

We're not expecting a huge rally, but are comfortable that the stocks we own, at today's prices, are more than compensating us for the many risks we acknowledge that are out there.

Thoughts on Volatility

Over the past ten months, our fund's monthly returns have been extremely volatile, with our two worst months but also our 3rd and 4th best months ever. Emotionally, this is hard; all other things being equal, we would prefer to make money steadily every month. But of course all other things aren't equal. The vast majority of money in the world is invested by people who can't stomach volatility and are willing, either consciously or unconsciously, to sacrifice profit in exchange for lower volatility. Witness the interest rate on 10-year U.S. Treasuries falling to below 1.5% on Friday – and rates are even lower in Germany, Japan and eight other countries. It is utter madness for long-term-oriented investors to accept such low interest rates, especially with monetary printing presses around the world going at full speed, making inflation a real concern over time. But institutional investors of the world are so scarred by losses on low-quality sovereign debt and stomach-churning volatility in the stock markets that they flee to islands of perceived safety – even though, to quote James Grant, these islands (especially Japan) are offering nothing but "return-free risk."

We have the opposite point of view: not only do we ignore month-to-month volatility in our pursuit of superior long-term returns, but at times we knowingly invest in many highly volatile stocks, but only – this is key – when we're confident that we're getting well compensated for doing so. For example, last August and September, the last time investors fled to safety, we added to stocks like Citigroup, Goldman Sachs, Netflix, and J.C. Penney. This paid off late last year and early this year, giving us the chance to harvest some nice gains, and now – in a case of deja vu all over again – we're getting another bite at the apple.

Updates on Certain Positions

In our previous monthly letters this year, we've discussed Netflix, J.C. Penney, and St. Joe (January), Berkshire Hathaway (February), Iridium, dELiA*s, and MRV Communications (March), and Barnes & Noble, Netflix, SanDisk, and Grupo Prisa (April), so in this letter we'll focus on SanDisk, Dell, J.C. Penney, AIG, the U.S. financials, and Pep Boys.

SanDisk, Dell and J.C. Penney

SanDisk, Dell, and J.C. Penney all reported weak Q1 earnings recently and their stocks tumbled. In SanDisk's case, revenue fell 7% and adjusted EPS fell 39%; for Dell, revenues and EPS fell 4% and 27%, respectively; and for JCP, revenues were down 20%, same store sales fell 19%, free cash flow was severely negative, and the company suspended its dividend.

When a company in our portfolio reports disappointing earnings, we tune out the noise and short-term orientation of the market and re-do our analysis from scratch, testing whether our investment thesis is still intact. In order to continue to hold (much less buy more of) a stock in which the company has surprised us with disappointing earnings, we need to understand why the company underperformed and have real conviction that the problems are temporary and more than reflected in the depressed stock price.

In the cases of SanDisk and Dell, both stocks appear cheap on every metric, especially after their recent declines, but we weren't able to develop the conviction that their problems are temporary and will reverse. For us, there's too high of a chance that they turn into a value traps so we closed out our positions.

In the case of J.C. Penney, we came to the opposite conclusion: we believe that our investment thesis remains valid and that the stock's intrinsic value is much higher than current levels, so we view the recent selloff is a gift because we've been able to add to our position at more attractive prices.

We explained our rationale in an article entitled *Why We're Long J.C. Penney* (which includes a slide presentation we gave last October), which is attached in Appendix A. Here's an excerpt:

> Seven months later, our thesis hasn't changed, but the stock price has: it was then at $30 and now it's around $26. We bought JCP because we believe in the transformation of the company – both the strategy and management's ability to execute on it – that CEO Ron Johnson and his team have underway. We think JCP can meaningfully increase sales, which are among the lowest in its industry, and sharply cut costs, which are among the highest, resulting in an enormous increase in profitability. We always knew, however, that the transformation would take time and there would be some bumps in the road. A particularly large bump on the sales side early in the journey is

unfortunate, but we think analysts and investors are overlooking plenty of good news. JCP is making tremendous progress in attracting top management talent, bringing new brands into the store, and cutting inventory and overhead costs (annualized cost savings of $900 million ($4.12/share) are nearly a year ahead of schedule).

It would be hard to overstate the importance of the cost savings, as it validates our thesis that JCP had a bloated cost structure that was depressing the true profitability of the business. It also means that the stock should have substantial upside even if the new pricing strategy doesn't work. In this case, JCP could always go back to a more promotional pricing strategy, yet still have much higher profits thanks to the cost cuts.

Even more important that cost savings, however, is product. JCP needs fresh, new merchandise to draw customers into the store and get them to buy (this is critical since today only 21% of people who walk into the store make a purchase). Both Johnson and his #2, Michael Francis, have deep, long-standing relationships and credibility with numerous brands, which they are working to bring to JCP. There are already signs that they're getting traction, as they outlined numerous new and rejuvenated products and brands in the Q1 earnings presentation (see pages 79-156).

Many of the brands will be displayed in their own store-within-a-store format, similar to the highly successful model of Sephora, which launched its first store inside a JCP in 2006 and now has more than 300. These stores are generating sales of roughly $600 per square foot, more than four times higher than JCP as a whole. JCP plans to have 10 store-within-store brands in place by the holiday selling season this year and, over time, to convert the majority of its retail space in this way. If it does so successfully enough to double its overall sales per square foot – which would still be quite a bit below the average for the malls in which most JCP's are located – we estimate that JCP's stock would be a *ten-bagger* from today's levels. This will take many years, to be sure, but it's this kind of upside that has attracted us (and Johnson, Francis, Ackman, Roth, etc.).

We also recommend another presentation on JCP by the company's largest shareholder, Bill Ackman of Pershing Square, which is posted at: http://online.wsj.com/public/resources/documents/AckmanJCP.PDF, and this article, *J.C. Penney: Valuing A Company Undergoing An Extraordinary Transformation*, which is posted at: http://seekingalpha.com/article/608461-j-c-penney-valuing-a-company-undergoing-an-extraordinary-transformation.

AIG

Our largest new investment this year is AIG, which is now our 5th largest position (after Berkshire, Iridium, J.C. Penney and Howard Hughes). We presented our analysis at the Value Investing Congress last month – our slides are attached in Appendix B and a full-size version is posted at: www.tilsonfunds.com/AIG-5-12.pdf.

Since it imploded during the financial crisis, AIG has radically transformed itself from one of the most complex businesses in the world into one that's actually quite simple and easy to understand. It's sold off most of its operations, using the proceeds to repay more than 75% of the $182 billion of government support, leaving it with two primary businesses: Chartis, a leading global property and casualty insurance company serving more than 45 million clients, which should benefit from the current hardening of global insurance pricing, and SunAmerica, one of

the largest life insurance and retirement services operations in the U.S., with 13,000 employees serving over 19 million clients.

In addition, AIG has a number of other highly valuable assets, most notably ILFC, a leading global aircraft lessor, Maiden Lane III, a collection of mortgage-linked CDOs (believe it or not, it has real value), and a 19% stake in AIA, one of Asia's largest insurers. AIG plans to sell these three assets over the next year, which should generate $15-18 billion in proceeds – a large sum given the company's market cap today of only $47 billion.

We think AIG is worth at least its tangible book value of $59.99/share, yet the stock closed Friday at $27.21, a 55% discount, due primarily, we believe, to the lingering taint from the crisis plus the overhang of the U.S. Treasury's 61% ownership of the stock. The government's cost is roughly $29/share, so investors see little upside to the stock as long as there is a motivated seller at this price.

So why didn't we wait until AIG buys back the government's stake, which we believe will occur within two years, before establishing our position? There are two reasons: 1) Because we don't know at exactly what point investors will stop worrying about the overhang – is it when the government's stake is down to 50%? 25%? 10%?; and 2) We think owning the stock right now is a win-win scenario: either it will go up, which is obviously good for our fund, or it won't, in which case the company, using both operating profits as well as asset sales, should be able to buy back a large amount of stock, which is highly accretive when it's trading at less than half of tangible book value. In short, we benefit if the stock goes up, but will almost certainly make more money in the next 2-3 years if the stock remains depressed for the next year, so we're okay with that too.

U.S. Financials

U.S. financials rallied strongly earlier this year, but have fallen sharply in recent weeks due to concerns about a blowup of the European financial system as well as the trading loss at JPMorgan Chase, which will likely result in stricter regulation of the industry. Despite this, we remain very bullish on the largest U.S. financial stocks because they're extremely cheap and, after going through the 2008-09 crisis, the companies now have much stronger, simpler balance sheets. To be sure, they will likely never return to the levels of profitability and returns on capital they earned during the bubble year thanks to lower leverage and tighter regulation – but this is already more than priced into their stocks, and in any case we like less risky business models. Also, the passage of more than three years, during which the economy has strengthened and the housing market has stabilized, has allowed banks to sell or run off much of their toxic exposures, so we think the risk of a black swan event is much diminished (though certainly not eliminated, as JPMorgan Chase showed).

Our largest positions in this sector are Goldman Sachs and Citigroup, which are trading at a 25% and 50% discount to tangible book value, respectively, as well as somewhat smaller positions, mostly in the form of TARP warrants, in Wells Fargo and JPMorgan Chase.

Pep Boys
This is what we wrote about Pep Boys in our annual letter:

> Pep Boys provides automotive repair and maintenance services, tires, parts, and accessories via more than 7,000 service bays in more than 700 locations in 35 states and Puerto Rico. The stock trades at less than 5x EV/EBITDA, less than half its peer group, and margins are also roughly half its peer group, so we think there's potential to close both of these discrepancies. Additionally, we think there's downside protection from Pep Boys's real estate, which was recently valued at nearly the entire enterprise value of the company.

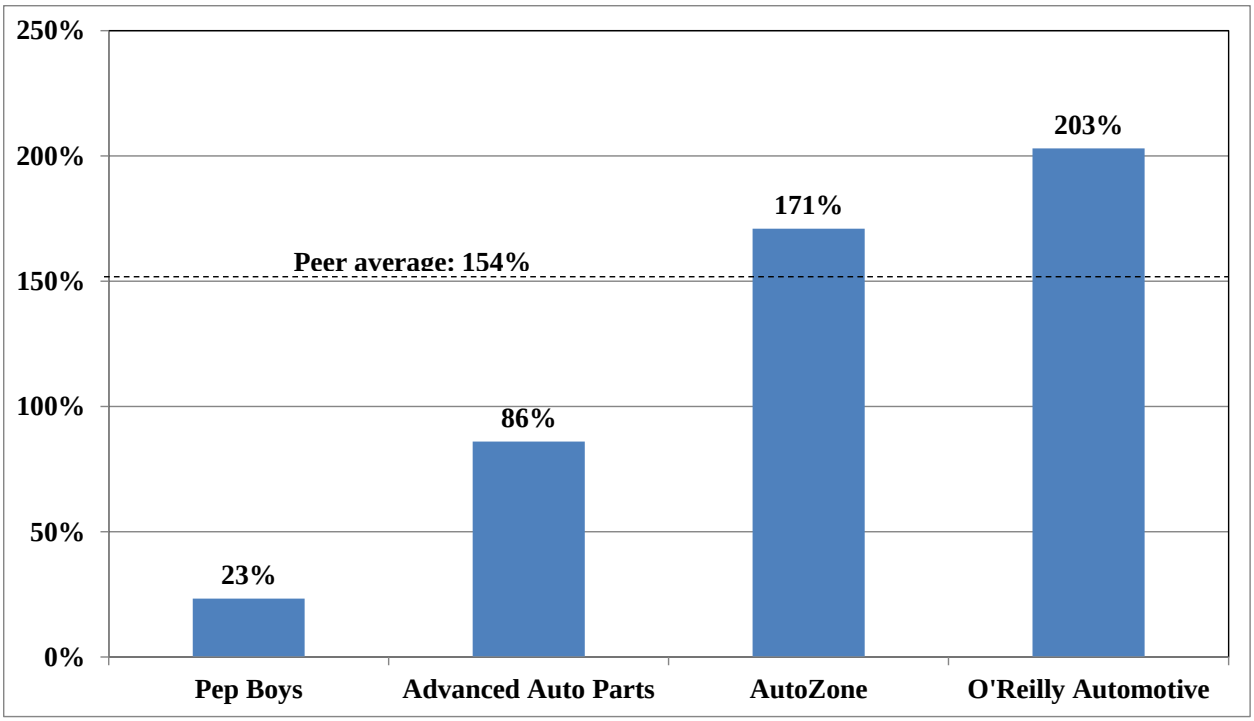
Only a few weeks later, private equity firm Gores Group announced that it would take Pep Boys private for $15/share, so we sold and banked a healthy profit.

In late April, however, the stock tumbled below $12 when the company announced surprisingly weak preliminary first quarter results. Our view is that this is likely a hiccup – the company won't announce final Q1 results until this Thursday, but it said in announcing preliminary results that it "believes that its first quarter results were below expectations due to a variety of factors occurring in the ordinary course of business."

Not surprisingly, however, Gores Group asked for a 30-day delay so it could determine the causes and extent of the "significant downturn" in Pep Boys' business. In light of the break-up fee of $50 million, we thought Gores Group was unlikely to abandon the deal and would instead try to renegotiate the price downward somewhat – a common tactic that Gores Group had used many times before – so we repurchased a modest position in the $11 range.

To our surprise, last Tuesday the company announced that Gores Group abandoned the deal, paying the $50 million break-up fee (equal to $0.95/share), which caused the stock to open the next day around $8.50, down 23% (it closed Friday at $8.96). We decided to add to our position because one weak quarter doesn't negate our original investment thesis (outlined above), plus the stock is now below the price at which we originally bought it – and the stock's value is nearly $1 higher thanks to the break-up fee. In addition, if the business really were falling apart, Gores Group would never have agreed to pay the break-up fee – it would have instead invoked the Materially Adverse Change clause in the buyout agreement.

On a multiple of earnings or cash flow, Pep Boys only looks moderately undervalued when compared to its peers, but that's because Pep Boys' margins are so low. If Pep Boys can get its margins in line with its peers and the stock trades at a comparable earnings multiple, then its price-to-sales ratio would be similar to that of its peers – and the stock would be a multi-bagger, as this chart of current price-to-sales ratios shows:



Conclusion

Baron Rothschild is reported to have said, "I invest only when I hear sound of cannon fire and see blood running in the streets. I sell when I hear the sound of violins." We were selling earlier this year when we started to hear violins, whereas now we're buying as we hear the cannon fire. It remains to be seen whether we get to the point of blood in the streets, but should this happen, we are prepared not only to survive the storm, but to take advantage, as we've done many times in the past.

Thank you for your continued confidence in us and the fund. As always, we welcome your comments or questions, so please don't hesitate to call us at (212) 386-7160.

Sincerely yours,

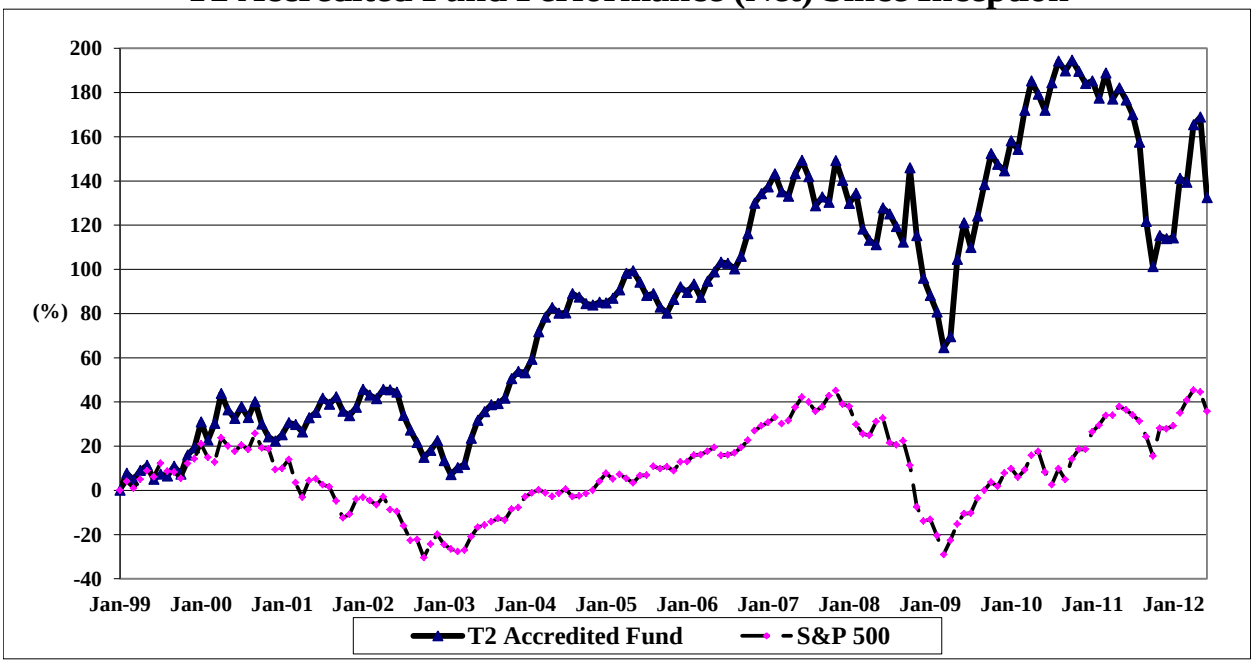
Whitney Tilson and Glenn Tongue

The unaudited return for the T2 Accredited Fund versus major benchmarks (including reinvested dividends) is:

	May	Year to Date	Since Inception
T2 Accredited Fund – net	-13.6%	8.5%	132.4%
S&P 500	-6.0%	5.2%	35.8%
Dow	-5.9%	2.6%	84.3%
NASDAQ	-7.1%	8.9%	34.6%

Past performance is not indicative of future results. Please refer to the disclosure section at the end of this letter. The T2 Accredited Fund was launched on 1/1/99.

T2 Accredited Fund Performance (Net) Since Inception



T2 Accredited Fund Monthly Performance (Net) Since Inception

	1999		2000		2001		2002		2003		2004		2005		2006		2007		2008		2009		2010		2011		2012	
	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500	T2 AF	S&P 500
January	**7.8**	4.1	**-6.3**	-5.0	**4.4**	3.6	**-1.8**	-1.5	**-5.5**	-2.6	**4.7**	1.8	**1.1**	-2.4	**1.9**	2.7	**2.4**	1.7	**1.9**	-5.9	**-3.6**	-8.4	**-1.6**	-3.6	**-2.8**	2.4	**12.6**	4.5
February	**-2.9**	-3.1	**6.2**	-1.9	**-0.6**	-9.2	**-1.1**	-2.0	**2.9**	-1.6	**7.0**	1.5	**2.1**	2.0	**-3.1**	0.2	**-3.3**	-2.1	**-6.9**	-3.3	**-8.9**	-10.8	**7.3**	3.1	**4.1**	3.4	**-0.8**	4.3
March	**4.1**	4.0	**10.3**	9.8	**-2.6**	-6.4	**3.0**	3.7	**1.4**	0.9	**3.9**	-1.5	**3.9**	-1.7	**3.9**	1.3	**-0.8**	1.1	**-2.3**	-0.5	**2.9**	9.0	**4.6**	6.0	**-4.1**	0.0	**10.9**	3.3
April	**2.1**	3.7	**-5.1**	-3.0	**5.1**	7.8	**-0.2**	-6.0	**10.5**	8.2	**2.4**	-1.5	**0.6**	-1.9	**2.2**	1.4	**4.4**	4.6	**-0.9**	4.9	**20.1**	9.6	**-2.1**	1.6	**1.9**	3.0	**1.3**	-0.6
May	**-5.7**	-2.5	**-2.8**	-2.0	**1.8**	0.6	**0.0**	-0.8	**6.6**	5.3	**-1.4**	1.4	**-2.6**	3.2	**1.8**	-2.9	**2.5**	3.3	**7.9**	1.2	**8.1**	5.5	**-2.6**	-8.0	**-1.9**	-1.1	**-13.6**	-6.0
June	**2.2**	5.8	**4.1**	2.4	**4.6**	-2.4	**-7.3**	-7.1	**2.9**	1.3	**0.1**	1.9	**-3.1**	0.1	**-0.2**	0.2	**-3.0**	-1.5	**-1.2**	-8.4	**-5.0**	0.2	**4.5**	-5.2	**-2.4**	-1.7		
July	**-0.7**	-3.2	**-3.6**	-1.6	**-1.1**	-1.0	**-5.0**	-7.9	**2.3**	1.7	**4.6**	-3.4	**0.5**	3.7	**-0.9**	0.7	**-5.4**	-3.0	**-2.5**	-0.9	**6.8**	7.6	**3.5**	7.0	**-4.6**	-2.0		
August	**4.1**	-0.4	**5.4**	6.1	**2.5**	-6.3	**-4.3**	0.5	**0.4**	1.9	**-0.9**	0.4	**-3.2**	-1.0	**2.9**	2.3	**1.7**	1.5	**-3.3**	1.3	**6.3**	3.6	**-1.5**	-4.5	**-13.9**	-5.4		
September	**-3.3**	-2.7	**-7.2**	-5.3	**-6.1**	-8.1	**-5.4**	-10.9	**1.7**	-1.0	**-1.6**	1.1	**-1.5**	0.8	**5.0**	2.6	**-1.1**	3.6	**15.9**	-9.1	**5.9**	3.7	**1.7**	8.9	**-9.3**	-7.0		
October	**8.1**	6.4	**-4.5**	-0.3	**-0.8**	1.9	**2.8**	8.8	**6.2**	5.6	**-0.4**	1.5	**3.5**	-1.6	**6.3**	3.5	**8.2**	1.7	**-12.5**	-16.8	**-1.9**	-1.8	**-1.7**	3.8	**7.0**	10.9		
November	**2.8**	2.0	**-1.5**	-7.9	**2.3**	7.6	**4.1**	5.8	**2.2**	0.8	**0.8**	4.0	**3.1**	3.7	**1.9**	1.7	**-3.6**	-4.2	**-8.9**	-7.1	**-1.2**	6.0	**-1.9**	0.0	**-0.6**	-0.2		
December	**9.8**	5.9	**2.3**	0.5	**6.5**	0.9	**-7.4**	-5.8	**-0.4**	5.3	**-0.2**	3.4	**-1.3**	0.0	**1.4**	1.4	**-4.3**	-0.7	**-4.0**	1.1	**5.5**	1.9	**0.5**	6.7	**0.1**	1.0		
YTD TOTAL	**31.0**	**21.0**	**-4.5**	**-9.1**	**16.5**	**-11.9**	**-22.2**	**-22.1**	**35.1**	**28.6**	**20.6**	**10.9**	**2.6**	**4.9**	**25.2**	**15.8**	**-3.2**	**5.5**	**-18.1**	**-37.0**	**37.1**	**26.5**	**10.5**	**15.1**	**-24.9**	**2.1**	**8.5**	**5.2**

Note: Returns in 2001, 2003, 2009 and 2012 reflect the benefit of the high-water mark, assuming an investor at inception.

Appendix A

Why We're Long J.C. Penney

May 22, 2012

T2 Partners LLC
The GM Building
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The stock of one of our largest positions, J.C. Penney, has fallen more than 20% since it announced ugly Q1 earnings: revenues down 20%, same store sales down 19%, severely negative free cash flow, and a suspension of the dividend. We expected a tough quarter, but not as bad as this one – and we weren't alone, as analysts have raced to cut their estimates and skeptics are having their moment in the sun, trying to one-up each other with ever more heated doomsday predictions.

A company in our portfolio reporting disappointing earnings and its stock tumbling is nothing new to us, so we're doing what we always do: tuning out the noise and short-term orientation of the market and carefully analyzing where the company is likely to be in 1-3 years. We've concluded that our investment thesis remains valid and that the stock's intrinsic value is much higher than current levels, so we believe the recent selloff is a gift because we've been able to add to our position at more attractive prices.

We outlined our investment thesis in our presentation at the Value Investing Congress last October (our slides are attached and also posted at: www.tilsonfunds.com/JCP-10-11.pdf). (We also recommend another presentation on JCP by the company's largest shareholder, Bill Ackman of Pershing Square, which is posted at: http://online.wsj.com/public/resources/documents/AckmanJCP.PDF, and this article, *J.C. Penney: Valuing A Company Undergoing An Extraordinary Transformation*, which is posted at: http://seekingalpha.com/article/608461-j-c-penney-valuing-a-company-undergoing-an-extraordinary-transformation).

Seven months later, our thesis hasn't changed, but the stock price has: it was then at $30 and now it's around $26. We bought JCP because we believe in the transformation of the company – both the strategy and management's ability to execute on it – that CEO Ron Johnson and his team have underway. We think JCP can meaningfully increase sales, which are among the lowest in its industry, and sharply cut costs, which are among the highest, resulting in an enormous increase in profitability. We always knew, however, that the transformation would take time and there would be some bumps in the road. A particularly large bump on the sales side early in the journey is unfortunate, but we think analysts and investors are overlooking plenty of good news. JCP is making tremendous progress in attracting top management talent, bringing new brands into the store, and cutting inventory and overhead costs (annualized cost savings of $900 million ($4.12/share) are nearly a year ahead of schedule).

It would be hard to overstate the importance of the cost savings, as it validates our thesis that JCP had a bloated cost structure that was depressing the true profitability of the business. It also means that the stock should have substantial upside even if the

new pricing strategy doesn't work. In this case, JCP could always go back to a more promotional pricing strategy, yet still have much higher profits thanks to the cost cuts.

Even more important that cost savings, however, is product. JCP needs fresh, new merchandise to draw customers into the store and get them to buy (this is critical since today only 21% of people who walk into the store make a purchase). Both Johnson and his #2, Michael Francis, have deep, long-standing relationships and credibility with numerous brands, which they are working to bring to JCP. There are already signs that they're getting traction, as they outlined numerous new and rejuvenated products and brands in the Q1 earnings presentation (see pages 79-156).

Many of the brands will be displayed in their own store-within-a-store format, similar to the highly successful model of Sephora, which launched its first store inside a JCP in 2006 and now has more than 300. These stores are generating sales of roughly $600 per square foot, more than four times higher than JCP as a whole. JCP plans to have 10 store-within-store brands in place by the holiday selling season this year and, over time, to convert the majority of its retail space in this way. If it does so successfully enough to double its overall sales per square foot – which would still be quite a bit below the average for the malls in which most JCP's are located – we estimate that JCP's stock would be a *ten-bagger* from today's levels. This will take many years, to be sure, but it's this kind of upside that has attracted us (and Johnson, Francis, Ackman, Roth, etc.).

We only have a few additional thoughts to share beyond our slide presentation:

Pricing and promotions

Over the past few decades, but especially in recent years, J.C. Penney (and, to be fair, many of its peers) engaged in heavy promotional activity that became almost comical: the company was running 590 promotions annually – 11 every week! – which was extremely expensive, disruptive to operations, and, worst of all, damaged the relationship with JCP's customers, who were conditioned to distrust the sticker price and instead only buy when offered heavy discounts. Things reached such ridiculous extremes that only 0.2% of JCP's merchandise was sold at the marked price and the average discount was 60%, as Ron Johnson showed in this slide at the January analyst day (which also captured the disturbing trend over the past decade):

In addition to damaging the relationship with the customer, such extreme promotional activity and discounting drives away good brands, few of which are willing to be associated with such behavior because they don't want their brand cheapened and diminished.

The retailers that have been the most successful in recent decades – Amazon, Costco, Wal-Mart, Target, and many specialty stores – build trust with their customers, and fair and transparent everyday low prices are typically part of this, so there's no question that JCP needed to move away from its heavy promotional activity. Johnson could have adopted an evolutionary process, trying to slowly wean customers off of their addiction to JCP's incessant promotional bombardment, but he instead chose to move quickly: for example, in Q1 67% of its JCP's merchandise was sold at the marked price, up from 0.2% previously.

The short-term result was a big hit to sales because JCP had developed a conditioned response in its customers to only shop at JCP when offered huge discounts. In light of this, many are questioning Johnson's approach, but we think it is the right one for a number of reasons:

1) With most addictions, the highest chance of successfully changing behavior is going cold turkey. Rip the Band Aid off quickly and get the pain over with;

2) Moving quickly allows JCP to reap significant cost savings up front; and

3) Getting rid of the promotional pricing allows JCP to immediately begin striking deals with new brands.

History never repeats itself but it rhymes (aka, pattern recognition)

A major reason that investing is such an experience-based business is because there is no such thing as a new investment. While never identical, every situation has similarities with past ones and savvy investors are able to recognize and exploit patterns (Warren Buffett is perhaps the best example of this).

The problem is picking the right historical analogies. Is JCP like Borders Group, which went bankrupt in spite of Bill Ackman's involvement, or Sears, which may end up in the same place in spite of Eddie Lampert's involvement? Is JCP's new pricing strategy like the one K-Mart tried in a vain attempt to compete with Wal-Mart? We think these analogies are incorrect, and would instead cite three that highlight why we are bullish on JCP:

Target

In many ways, Ron Johnson's strategy for JCP mirrors the one he helped to implement at Target when he was there for 15 years after graduating from Harvard Business School in 1984 (initially he was at Mervyns, which, like Target, was part of Dayton Hudson; Dayton Hudson changed its name to Target in 2000). During Johnson's time there, the Wal-Mart juggernaut was sweeping the country, putting old-line department stores like Montgomery Ward out of business. Yet Target not only survived, but thrived. How? Many reasons, but a principal one was that it differentiated itself via a "cheap-chic" strategy, partnering with designers and brands to create fun, stylish, reasonably priced merchandise.

Johnson, who rose to become senior vice president of merchandising at Target, was widely credited with conceiving of and implementing this extraordinarily successful strategy, which was a major contributor to Target's stock rising 7-fold in the 1990s. As an article in *The Atlantic* noted, "During his 15 years there, Target got hip, went national, and crushed sales records…His track record…is nuts." It's little wonder that Steve Jobs became convinced that Johnson was the world's premier retailing genius and hired him to lead Apple's wildly derided effort to build Apple Stores – which became the most extraordinary success story in retailing history.

So who is the real Ron Johnson? The genius who, over 27 years, built a well-deserved reputation as the world's premier retailing CEO, or the dunce who blew one quarter at JCP? Our bet's on the former, and we believe he can work his magic again over the next decade at JCP. He thinks so as well, and is putting his money where his mouth is: he personally invested $50 million to buy warrants to acquire 7.3 million JCP shares at $29.92. They expire in 7½ years and Johnson cannot sell or hedge them for six years.

McDonald's

Pricing, and how it is promoted, is critical to any brand. McDonald's had achieved extraordinary success over many decades by executing superbly on the basics of tasty food, clean restaurants, quick service, and consistency across the chain – all at a good price. In short, it delivered great value to its customers.

But much of this went out the window beginning in the late 1990s as McDonald's tried to deliver on unrealistic promises it had made to investors and Wall Street analysts. It suffered from alienated franchisees, a decline in food quality, no new products, and a price war with Burger King (remember the Big N' Tasty, which McDonald's was selling for $1, below its variable cost?). With such crazy pricing, McDonald's was steadily cheapening and diminishing its brand, turning its image from a place to get a good, reasonably priced meal for the family in a nice environment, to a place to get the cheapest food, regardless of how mediocre the quality, selection or environment was. Not surprisingly, the stock fell from the mid-$40s to around $16 at the end of 2002.

McDonald's new CEO, Jim Cantalupo, who took over on 1/1/03, ended the madness quickly – there was no evolution, but a revolution (see: www.fool.com/investing/general/2003/10/17/ceo-of-the-year-mcdonalds-cantalupo.aspx). He ended the price war and focused McDonald's advertising back onto its flagship products (if I recall correctly, Big Mac sales jumped 40% in a single year). Critically, he also improved the customer experience by launching hit new products like McGriddles and full-size salads, cleaning up the restaurants, and improving service times.

The stock didn't respond initially, however. After Cantalupo became CEO, it continued to fall nearly 25% over the next few months, hitting a low of $12.38 in March. But then his revolution kicked in and the rest is history, as the stock is now around $91.

Some might dismiss this analogy because JC Penney's brand, market position, etc. don't hold a candle to McDonald's. Fair enough, so let's look at another example:

CKE Restaurants
CKE Restaurants owns the La Salsa, Green Burrito, Carl's Jr. and Hardee's fast food chains (nearly all of the value of the business at the time of our investment was in the latter two). Carl's Jr. was a pretty good business, but Hardee's was perhaps the worst fast food restaurant chain in the country. It served a wide variety of food – roast beef, fried chicken, and burgers – at rock-bottom prices, and did everything poorly. Its brand stood for nothing in consumers' minds and, not surprisingly, it was losing money.

CKE's new CEO, Andy Puzder, took an idea that had worked well at Carl's Jr., big, thick Angus beef burgers with all the fixin's, and decided to bet Hardee's future on these new "Thickburgers". Within a couple of months, nearly all Hardee's units stopped selling fried chicken, and instead began offering the best burgers of any fast food restaurant chain – ones that look like this:

Initially, Hardee's same store sales fell in the mid to high single digits as customers defected – they'd been accustomed to being able to feed their family with a bucket of fried chicken for under $10 but now had to pay up for burgers that were $4 each.

Sure enough, as the company reported negative sales, the stock fell 25% from $4 to $3. But then word started to get around: "Hey, those new burgers at Hardee's are really good!" Sales rebounded and the stock quadrupled within 18 months and eventually peaked over $22 in mid-2007 (it fell below $6 in late 2008-early 2009 was taken private in 2010 at $12.55).

The lesson from both McDonald's and Hardee's is that it can be difficult to reposition a damaged brand – there's a risk of angering customers, hurting sales and having the share price tumble – so it's critical to give customers a much better experience to win back their loyalty – which is exactly what we believe JCP is doing.

Further background

1) I was on CNBC last week, commenting on why we added to our JCP position as the stock suffered its worst one-day decline ever (nearly 20%): http://video.cnbc.com/gallery/?video=3000090524&play=1

I enjoyed the spirited debate with fellow investor and CNBC Contributor Stephen Weiss, who thinks JCP is a great short and added to it after the earnings announcement. We agreed to meet on the show a year from now, when it should be clear which of us is right.

2) The company's Q1 earnings release, slide presentation, and transcript of the presentation is posted at: http://ir.jcpenney.com

Many Ways to Win

Value Investing Congress

October 18, 2011

T2 Partners LLC

T2 Partners Management L.P. Manages Hedge Funds and Mutual Funds and is a Registered Investment Advisor

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Summary of Investment Thesis

T2 Partners LLC

- A decent business that has underperformed
  - But this is NOT Sears/K-Mart
- A fairly valued stock based on current performance
  - 5.6x EV/EBITDA; 18.1x P/E
- An extraordinary combination of people, covering the key value drivers, have come together to bring about change – and you get this for free
  - New top management: Ron Johnson and Michael Francis
  - Real estate: Steve Roth, Vornado
  - Capital allocation: Bill Ackman, Pershing Square
- The business has been undermanaged, so there are many areas for improvement that can drive enormous value creation
  - Increase sales/sq. foot
  - Cut costs
  - Unlock real estate value
  - Optimize capital structure

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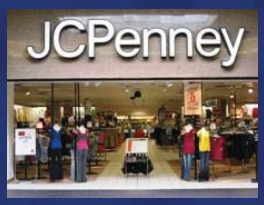
The Basics

T2 Partners LLC

- Stock price (10/17/11): $29.99
- Shares outstanding: 213.3 million
- Options and warrants: 24.8 million
- Market cap: $6.4 billion
- Enterprise Value: $7.9 billion
- Book value per share (7/31/11): $22
- Sales: $17.7 billion
- P/E (LTM): 18.1x
- EV/EBITDA (LTM): 5.6x
- P/S: 0.36x



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JCP's Stock Has Done Little Over the Past Decade

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JCP's Stock Since Activists' Investments

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JCP Valuation vs. Peers

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JCP Comp group	Mkt Cap	EV	TEV/EBITDA	P/E (LTM)
			LTM	
Dillard's Inc. (NYSE:DDS)	2,575	3,353	5.1x	13.9x
Kohl's Corp. (NYSE:KSS)	13,593	16,118	5.9x	12.7x
Macy's, Inc. (NYSE:M)	12,497	18,078	5.5x	12.0x
Nordstrom Inc. (NYSE:JWN)	10,681	12,393	7.9x	16.8x
Target Corp. (NYSE:TGT)	35,753	52,448	7.1x	12.6x
The TJX Companies (NYSE:TJX)	21,986	21,715	7.9x	17.3x
Average			6.6x	14.2x
J. C. Penney (NYSE:JCP)	6,408	7,956	5.7x	18.1x

JCP's History

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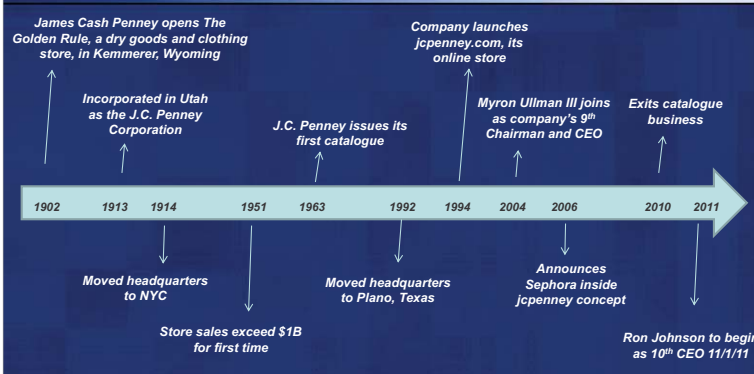

JCP's Broad Footprint

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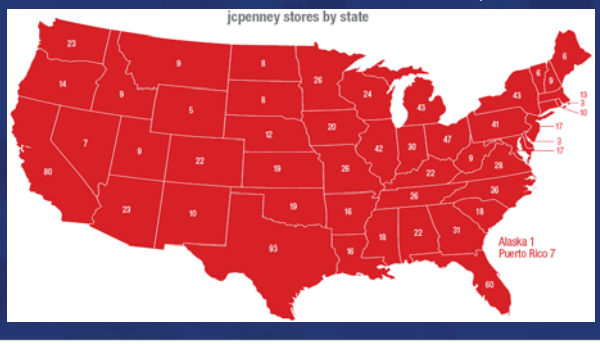
- JCP operates 1,106 department stores in 49 states and PR
- JCP owns 426 of its 1,106 stores (38.5% of stores, ~42mm sq. ft.) and 17 of its 26 distribution/warehouse centers (~12m sq. ft.)
- JCP's real estate alone could be worth over $3b (total EV of $7.9b)



Revenues Over the Past Decade

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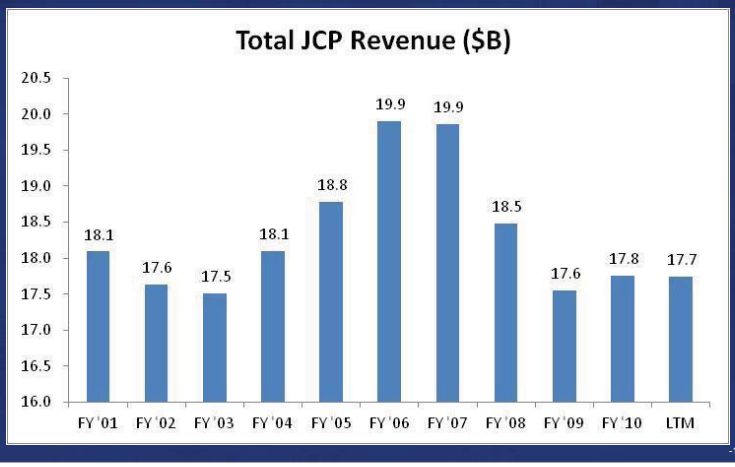

Revenue Growth Has Been a Zero Sum Game

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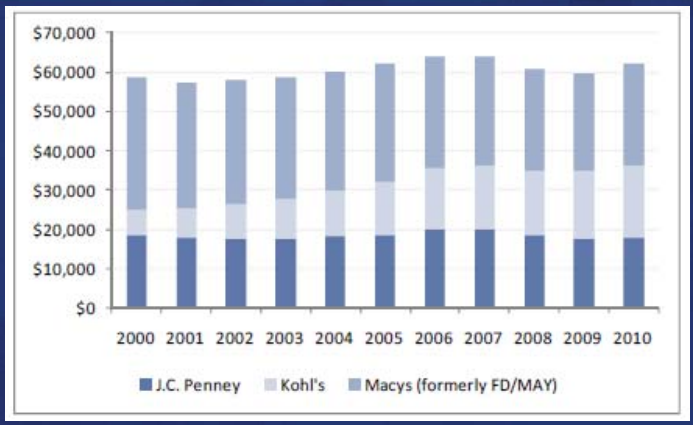

EBIT Over the Past Decade

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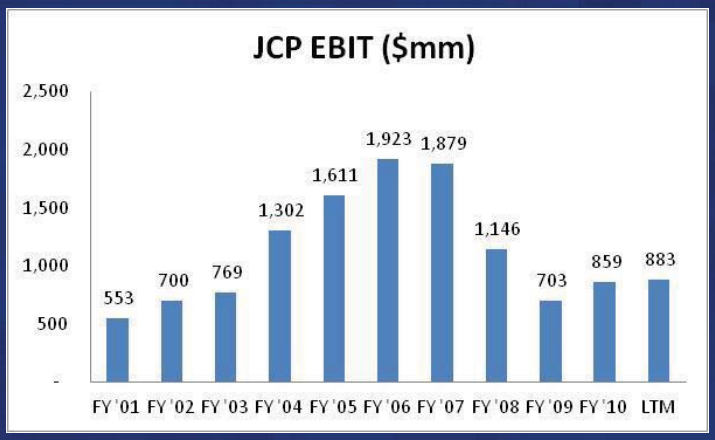

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EBITDARP Over the Last Decade

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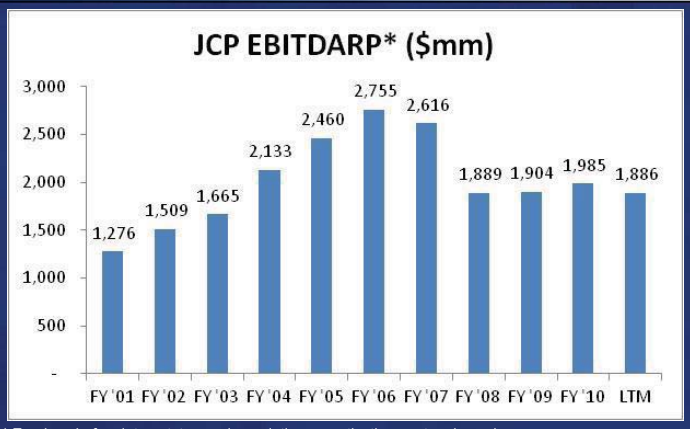

* Earnings before interest, taxes, depreciation, amortization, rent and pension expense; assumes $302mm LTM rent expense

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A Diverse Business Mix

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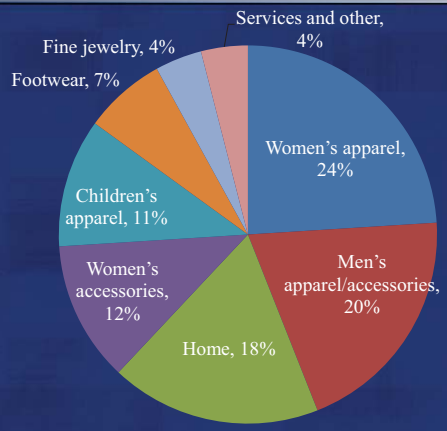

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Private Brands

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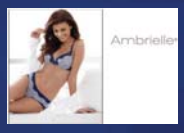
49% of revenue comes from private brands developed, designed, and sourced in-house



Billion dollar brand

Billion dollar brand

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National Brands

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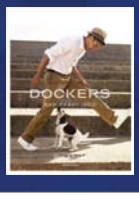
45% of revenue comes from national brands



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Exclusive Brands

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6% of revenue comes from exclusive brands/concepts – a major opportunity

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Investment Thesis

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- New management team & active Board of Directors
- Opportunity for operational improvement
- Significant real estate value
- Capital structure optimization

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Investment Thesis

T2 Partners LLC

- New management team & active Board of Directors
- Opportunity for operational improvement
- Significant real estate value
- Capital structure optimization

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Ron Johnson Left Apple for JCP

T2 Partners LLC

- Ron Johnson, 52, beings as new CEO on Nov. 1st
- After graduating from Harvard Business School, was one of only a few of his classmates to go into retailing, at Mervyn's
- Mervyns was acquired by Target, where Johnson rose to become senior vice president of merchandising
  - "During his 15 years there, Target got hip, went national, and crushed sales records…[His track record is nuts." – The Atlantic
- In 2000, Steve Jobs hired him to lead Apple's retail stores
  - Today: More than 350 stores worldwide, generating sales of over $4,000/sq. ft.
  - Credited with the Genius Bar concept

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Ron Johnson's Motivation, Incentives and Alignment With Shareholders

T2 Partners LLC

- "I've always dreamed of leading a major retail company as CEO, and I am thrilled to have the opportunity to help J. C. Penney re-imagine what I believe to be the single greatest opportunity in American retailing today, the Department Store." – Ron Johnson, 6/14/11
- Johnson forfeited150k AAPL restricted stock units ("RSUs) granted in 2008 (that vest in 2012) and 100k RSUs granted in 2010 (that vest in 2014) with a **market value of $73 million**
- In return, he only received 1.7m JCP RSUs that vest 1/27/12, worth roughly $50 million
- In addition, Johnson personally invested $50m to buy warrants to acquire 7.3m JCP shares at $29.92. They expire 7.5 years and Johnson cannot sell or hedge them for six years

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Michael Francis Left Target for JCP

T2 Partners LLC

- Michael Francis, 48, begins as JCP's President on Nov. 1
- Francis will be responsible for merchandising, marketing, product development and sourcing
- 21 years at Target (1990-2011)
  - 2011: Led Target's expansion into Canada
  - Chief Marketing Officer (Aug '08- Sept '11)
  - EVP Marketing (Feb '03 – Aug '08)
- Francis began his merchandising and marketing career as an executive trainee on the sales floor of Marshall Field's in Chicago in 1986

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Pershing Square's Involvement

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As of 9/22/11 13-D filing:

- Pershing Square owns 39.1m shares (18.3%) and has economic exposure to 16.6m shares (7.8%) through total return swaps for total economic exposure of 55.6m shares or 26.1% of shares outstanding
- Pershing Square gave up some voting rights to increase ownership
- The 8/19/11 stockholders agreement limits Pershing Square from exceeding 26.1% ownership

Bill Ackman joined JCP board Feb 2011

PERSHING SQUARE

Pershing Square Capital Management, L.P.

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Vornado's Involvement

T2 Partners LLC

As of 10/8/11 13-D filing:

- Vornado owns 23.4m shares (9.9%)
- The 9/16/11 stockholders agreement allows Vornado to buy up to 15.4% of common stock
- Steven Roth has extensive real estate expertise and an extraordinary history of value-creation

Steven Roth joined JCP board Feb 2011

Current Equity Price: $30 per share

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Investment Thesis

T2 Partners LLC

- New management team & active Board of Directors
- Opportunity for operational improvement
- Significant real estate value
- Capital structure optimization

Opportunity for Sales Improvement

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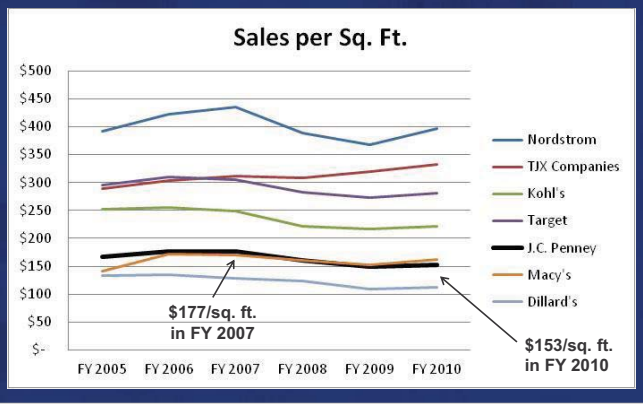
Sales per sq. ft. are below peers and remain -14% below 2007 peak levels vs. peer average of -8%



JCP's Net Promoter Score Has Been Rising Steadily, Outpacing Peers

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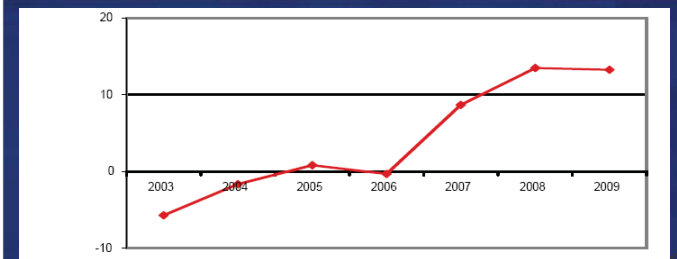


	2003	2004	2005	2006	2007	2008	2009	CHANGE
JCPENNEY	-6	-2	1	0	9	13	13	+ 19
KOHLS	23	16	17	18	21	23	21	- 2
MACY'S				2	3	6	3	+ 1
TARGET	15	14	18	18	15	20	15	EVEN
SEARS	-10	-10	-15	-22	-19	-16	-16	-6

Dramatic improvement since 2003

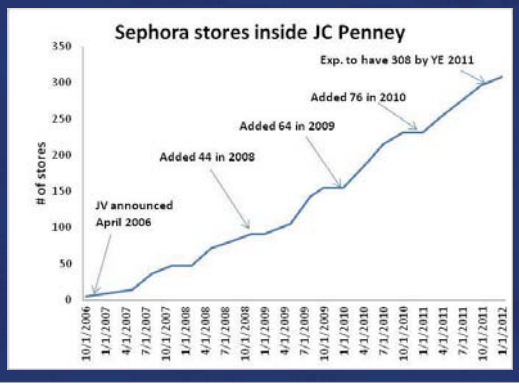
Note: Net promoter score is percent of people who answer 9 or 10 minus those who answer 0-6 when asked, on a scale of 0-10, "How likely is it that you would recommend our company to a friend or colleague?"
Source: JCP 2010 investor day, pp 93 of 120

Initiative #1: Sephora Inside JC Penney

T2 Partners LLC

SEPHORA

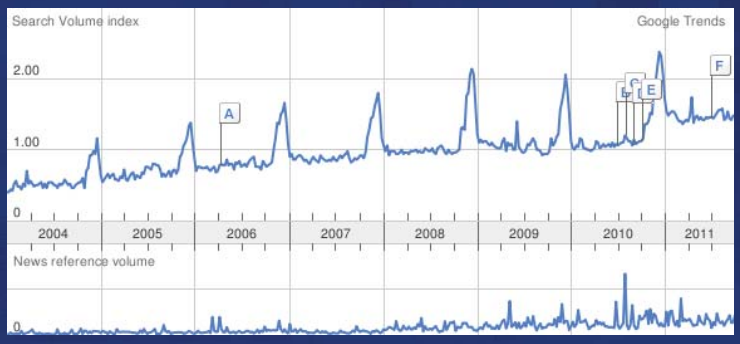
Expected to have ~30% store base penetration by YE 2011



Sephora Brand Awareness Is Rising and Should Drive Increased JCP Traffic

T2 Partners LLC

Google Trends indicates "Sephora" search traffic is up roughly +50% YTD in 2011



Initiative #2: Liz Claiborne

T2 Partners LLC

"Liz Claiborne is one of the most recognized brands in the history of American apparel retailing with a deeply loyal following, and our research shows that it is among the most desired by the J.C. Penney customer." – CEO Myron Ullman

October 2011: "J.C. Penney acquires worldwide rights for the Liz Claiborne family of brands as well as the U.S. and Puerto Rico rights for the Monet brand for $267.5 million."

liz claiborne

Initiative #3: Grow Online Sales

T2 Partners LLC

Online sales have been flat for 4+ years

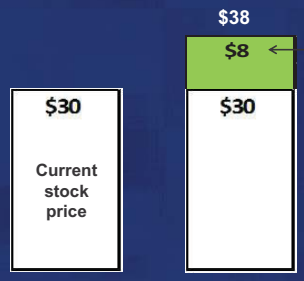
Exhibit 4: **Despite Head Start, Growth in JCP's Ecommerce Business Has Lagged Other Department Stores**

	2007	2008	2009	2010	2011E
BONT			$30.0	$60.9	$90.0
DDS	81.1	95.7	101.9	120.0	150.0
JCP	1,495.0	1,500.0	1,500.0	1,527.3	1,555.0
JWN	472.6	512.1	564.0	705.0	825.0
KSS	240.5	356.0	491.3	720.0	1,000.0
M	648.2	836.1	1,000.0	1,300.0	1,675.0
SKS	196.2	227.6	257.2	329.2	424.0
Total	*3,133.6*	*3,527.5*	*3,944.3*	*4,762.4*	*5,719.1*

Source: Credit Suisse, 10/4/11

JCP Sales Opportunity Could Add $8/share in Value

T2 Partners LLC



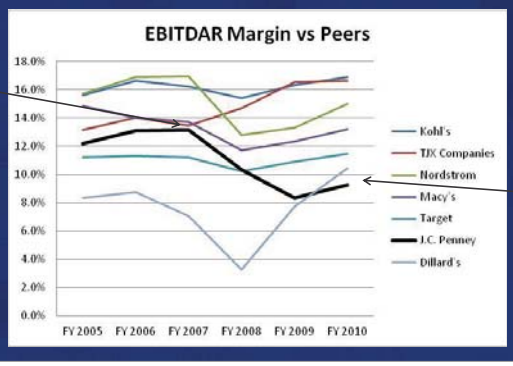
15% improvement in sales per sq. ft. = $8 to equity

There Is Significant Opportunity for Margin Improvement

T2 Partners LLC

EBITDAR margins are 380 bps below peak levels vs. peers on avg. at or above former peak levels

13.1% in FY 2007



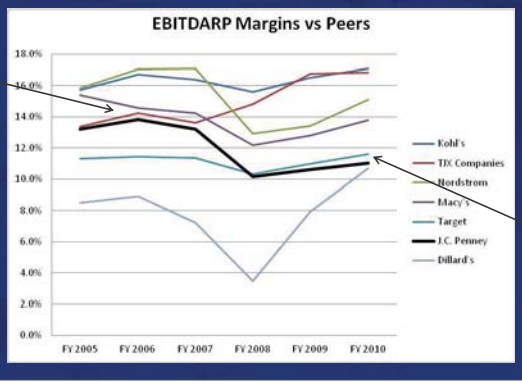
9.3% in FY 2010

EBITDARP Margins Have Also Been Weak

T2 Partners LLC

EBITDARP margins are 280 bps below peak levels while peers are hitting new highs

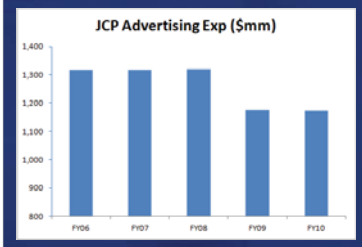
13.8% in FY 2006

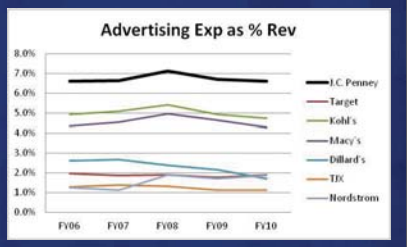


11.0% in FY 2010

J.C. Penney Spends Much More on Advertising Than Its Peers

T2 Partners LLC



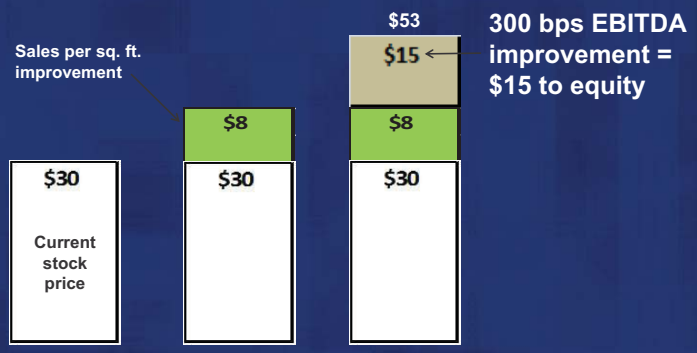


"Penney Dumps Big Book Catalog" – ChiefMarketer Network, 11/18/09

"Retailer J.C. Penney is discontinuing its traditional catalog business in favor of "look books," which refer consumers to the company's e-commerce site." – Direct Marketing News, 9/28/10

Margin Improvement Could Add $15 in Value

T2 Partners LLC



Investment Thesis

T2 Partners LLC

- New management team & active Board of Directors
- Opportunity for operational improvement
- Significant real estate value
- Capital structure optimization

JCP Real Estate Portfolio (1)

T2 Partners LLC

JCP real estate is worth $12 - $15 per share

Real Estate Valuation								
		Gross Sq.	Sale price per Sq. Foot(1)			$ Value of JCP Real Estate		
Department Stores	Total #	Feet (mm)	Low Case	Base Case	High Case	Low Case	Base Case	High Case
Owned	306	29.9	53	60	67	1,579	1,794	2,009
Ground Leased	120	12.0	18	20	22	211	240	269
Leased	680	69.7	8	9	10	552	627	703
Total Dept Stores	**1106**	**111.6**	$ 78	$ 89	$ 100	$ 2,342	$ 2,661	$ 2,981
Distribution Centers	Total #							
Owned	17	12.2	22	25	28	268	305	342
Leased	9	3.5	0	0	0	0	0	0
Total Distribution Centers	26	**15.6**	$ 22	$ 25	$ 28	$ 268	$ 305	$ 342

Assumptions:	Price/SF
CIRA - Average Dept. Store Sale Price Per SF Owned:	$60
CIRA - Average Dept. Store Sale Price Per SF Ground Leased:	$20
CIRA - Average Dept. Store Sale Price Per SF Leased:	$9
CIRA - Average DC Sale Price Per SF Owned:	$25
CIRA - Average Direct Outlet Sale Price Per SF Owned:	$30
CIRA - Average Direct Outlet Sale Price Per SF Leased:	$5

Per Share Value of JCP Real Estate	Low Case	Mid Case	High Case
Total Value of Real Estate	$ 2,610	$ 2,966	$ 3,322
Diluted Shares Outstanding	213	213	213
Per Share Value of Real Estate	$12.24	$13.91	$15.57

JCP Real Estate Portfolio (2)

T2 Partners LLC

$20/share in gross book value of buildings

Property and Equipment, Net

($ in millions)	Estimated Useful Lives (Years)	2010	2009
Land	N/A	$ 315	$ 308
Buildings	50	4,434	4,276
Furniture and equipment	3-20	2,271	2,356
Leasehold improvements		1,065	1,118
Accumulated depreciation		(2,854)	(2,701)
Property and equipment, net		$ 5,231	$ 5,357

Source: JCP 2010 10-K

JCP Real Estate Portfolio (3)

T2 Partners LLC

- JCP spends ~$300m/yr to rent the 62% of stores it does not own
- JCP pays itself ~$180mm in "synthetic rent" for the 38% of company-owned stores
- $2.3b of owned real estate value (owned stores, ground leased stores, owned distribution centers) implies 8% cap rate on the "synthetic rent"

Valuation Based on Separate Retailer and Real Estate Earnings Stream

T2 Partners LLC

Sale-Leaseback & Implied EBITDAP Multiple	Low Case	Mid Case	High Case
Value of Real Estate	$2,058	$2,339	$2,620
Assumed Cap Rate	8.0%	8.0%	8.0%
Implied NOI of Real Estate	**$165**	**$187**	**$210**
Current LTM EBITDAP	$1,584	$1,584	$1,584
Rent Expense Impact to EBITDA	(165)	(187)	(210)
Pro Forma LTM EBITDAP	**$1,419**	**$1,397**	**$1,374**
Current TEV	**$7,689**	**$7,689**	**$7,689**
Less: Real Estate Value	(2,058)	(2,339)	(2,620)
Implied Firm Value	**$5,631**	**$5,350**	**$5,069**
Implied EBITDAP Multiple	**4.0x**	**3.8x**	**3.7x**

JCP trades at 3.8x LTM EV/EBITDAP, adjusting for real estate value

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JCP's Real Estate Could Be Worth $13/share

T2 Partners LLC

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Investment Thesis

T2 Partners LLC

- New management team & active Board of Directors
- Opportunity for operational improvement
- Significant real estate value
- Capital structure optimization

-45-

Share buyback: $900m Spent in 1H11

T2 Partners LLC

- Feb. 2011: Board authorized up to $900m repurchase
- Q1 '11: JCP bought back 21m shares for $787m
- Q2 '11: JCP bought back 3m shares for $113m
- Completed program on 5/6/11
- Average price of $36.98

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Debt Ratios

T2 Partners LLC

JCP Comp set	Net Debt/ Capital	Net Debt/ EBITDA (LTM)
Dillard's Inc. (NYSE:DDS)	30.4%	1.2x
Macy's, Inc. (NYSE:M)	45.3%	1.7x
Kohl's Corp. (NYSE:KSS)	18.8%	0.9x
Target Corp. (NYSE:TGT)	46.7%	2.3x
The TJX Companies	(1.2%)	-0.1x
Nordstrom Inc.	16.2%	1.1x
Average	26.0%	1.2x
J. C. Penney (NYSE:JCP)	24.2%	1.1x

Source: Capital IQ

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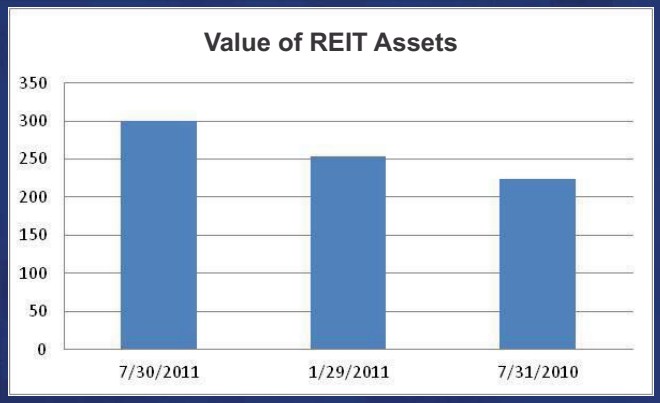
Additional REIT Assets

T2 Partners LLC



REIT assets valued 7/30/11 at $300m = $1.40/share

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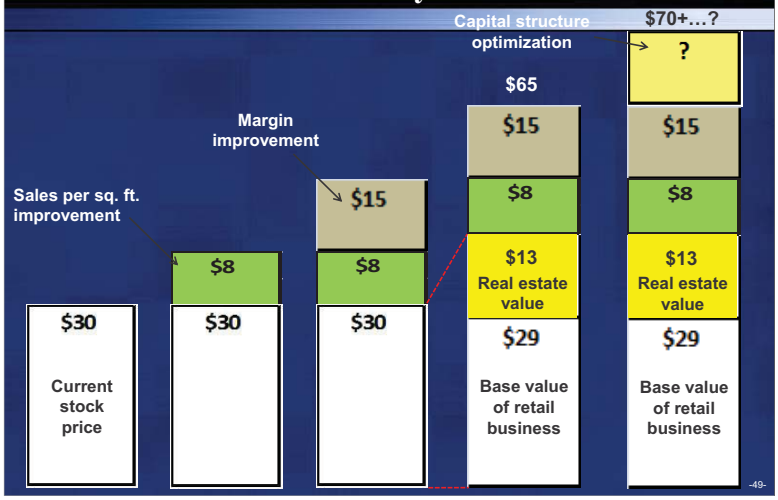
JCP's Total Value Could Exceed $70, More Than Double Today's Price

T2 Partners LLC



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Conclusion: Many Ways to Win

T2 Partners LLC

- Buy a decent, undermanaged business at a fair price and get an extraordinary combination of people, representing significant optionality, for free

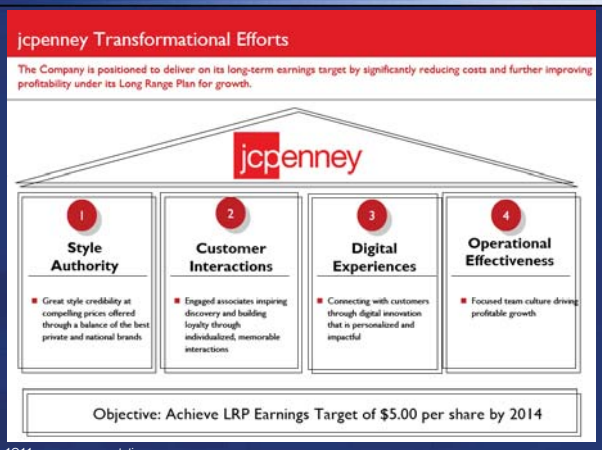
-50-

Appendix

T2 Partners LLC

Management's Goal is EPS of $5 by 2014

T2 Partners LLC

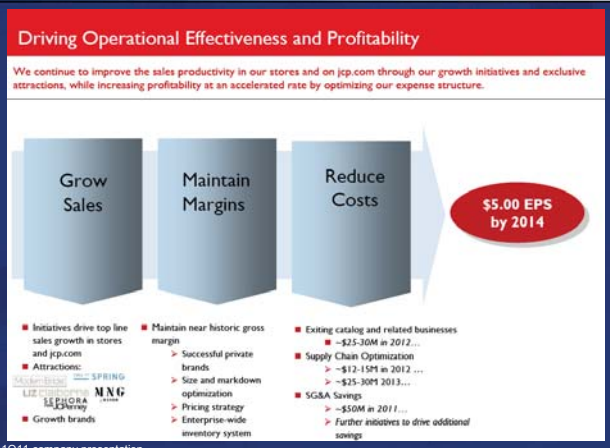


Source: 1Q11 company presentation

-52-

Management's Goal is EPS of $5 by 2014 (2)

T2 Partners LLC

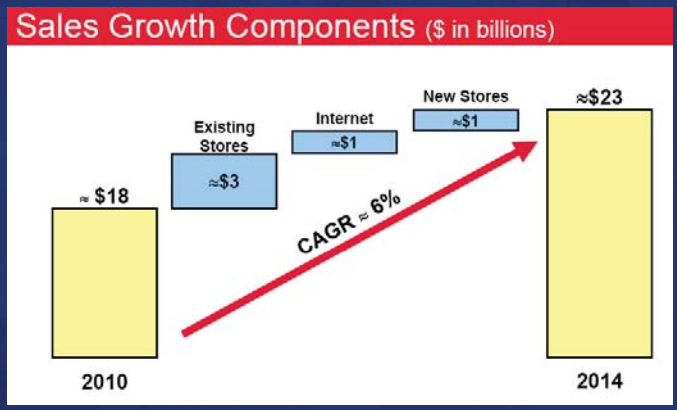


Source: 1Q11 company presentation

-53-

Management Sees Revenue Growth from Many Sources

T2 Partners LLC



Source: 1Q11 company presentation

-54-

5-Year Income Statement

T2 Partners LLC

JC Penney Income Statement	FYE 02/03/2007	FYE 02/02/2008	FYE 1/31/2009	FYE 1/30/2010	FYE 1/29/2011
Total Revenue	**19,903**	**19,860**	**18,486**	**17,556**	**17,759**
Cost Of Goods Sold	12,078	12,189	11,571	10,646	10,799
Gross Profit	**7,825**	**7,671**	**6,915**	**6,910**	**6,960**
Selling General & Admin Exp.	5,470	5,402	5,395	5,382	5,350
Pension Expense	51	(45)	(90)	337	255
Pre-Opening Costs	27	46	31	28	8
Depreciation & Amort.	389	426	469	495	511
Other Operating Expense/(Income)	(35)	(37)	(36)	(35)	(23)
Other Operating Exp., Total	**5,902**	**5,792**	**5,769**	**6,207**	**6,101**
Operating Income	**1,923**	**1,879**	**1,146**	**703**	**859**
Interest Expense	(270)	(278)	(268)	(255)	(223)
Interest and Invest. Income	135	118	37	10	11
Net Interest Exp.	**(135)**	**(160)**	**(231)**	**(245)**	**(212)**
Other Non-Operating Inc. (Exp.)	5	7	6	(15)	(19)
EBT Excl. Unusual Items	**1,793**	**1,726**	**921**	**443**	**628**
Restructuring Charges	-	-	-	-	(32)
Gain (Loss) On Sale Of Assets	8	10	10	2	8
Asset Writedown	(2)	(1)	(21)	(42)	(3)
Other Unusual Items	(7)	(12)	-	-	(20)
EBT Incl. Unusual Items	**1,792**	**1,723**	**910**	**403**	**581**
Income Tax Expense	658	618	343	154	203
Earnings from Cont. Ops.	**1,134**	**1,105**	**567**	**249**	**378**
Earnings of Discontinued Ops.	19	6	5	2	11
Net Income to Company	**1,153**	**1,111**	**572**	**251**	**389**
NI to Common Excl. Extra Items	**1,134**	**1,105**	**567**	**249**	**378**
Per Share Items					
Basic EPS Excl. Extra Items	$ 4.95	$ 4.96	$ 2.55	$ 1.07	$ 1.60
Weighted Avg. Basic Shares Out.	229.0	223.0	222.0	232.0	236.0
Diluted EPS Excl. Extra Items	$ 4.88	$ 4.90	$ 2.54	$ 1.07	$ 1.59
Weighted Avg. Diluted Shares Out.	232.0	225.0	223.0	233.0	238.0

5-Year Balance Sheet

T2 Partners LLC

JC Penney Balance Sheet	FYE 02/03/2007	FYE 02/02/2008	FYE 1/31/2009	FYE 1/30/2010	FYE 1/29/2011
ASSETS					
Cash And Equivalents	119.0	2,532.0	2,352.0	3,011.0	2,622.0
Short Term Investments	2,570.0	-	-	-	-
Total Cash & ST Investments	**2,689.0**	**2,532.0**	**2,352.0**	**3,011.0**	**2,622.0**
Accounts Receivable	205.0	-	39.0	-	-
Other Receivables	-	169.0	204.0	258.0	208.0
Total Receivables	**205.0**	**169.0**	**243.0**	**258.0**	**208.0**
Inventory	3,400.0	3,641.0	3,259.0	3,024.0	3,213.0
Prepaid Exp.	238.0	209.0	183.0	222.0	201.0
Deferred Tax Assets, Curr.	58.0	144.0	148.0	137.0	126.0
Other Current Assets	58.0	56.0	35.0	-	-
Total Current Assets	**6,648.0**	**6,751.0**	**6,220.0**	**6,652.0**	**6,370.0**
Gross Property, Plant & Equipment	6,277.0	7,178.0	7,806.0	8,058.0	8,985.0
Accumulated Depreciation	(2,115.0)	(2,219.0)	(2,439.0)	(2,701.0)	(2,854.0)
Net Property, Plant & Equipment	**4,162.0**	**4,959.0**	**5,367.0**	**5,357.0**	**5,231.0**
Other Intangibles	95.0	107.0	140.0	178.0	233.0
Loans Receivable Long-Term	140.0	141.0	139.0	141.0	136.0
Deferred Charges, LT	21.0	34.0	30.0	26.0	25.0
Other Long-Term Assets	1,607.0	2,317.0	115.0	227.0	1,047.0
Total Assets	**12,673.0**	**14,309.0**	**12,011.0**	**12,581.0**	**13,042.0**
LIABILITIES					
Accounts Payable	1,366.0	1,472.0	1,194.0	1,226.0	1,133.0
Accrued Exp.	964.0	1,214.0	1,161.0	1,254.0	1,143.0
Curr. Port. of LT Debt	434.0	203.0	-	393.0	-
Unearned Revenue, Current	231.0	231.0	215.0	219.0	229.0
Other Current Liabilities	497.0	218.0	224.0	157.0	142.0
Total Current Liabilities	**3,492.0**	**3,338.0**	**2,794.0**	**3,249.0**	**2,647.0**
Long-Term Debt	3,010.0	3,505.0	3,504.0	2,998.0	3,096.0
Capital Leases	-	-	1.0	1.0	1.0
Pension & Other Post-Retire. Benefits	324.0	248.0	515.0	250.0	206.0
Def. Tax Liability, Non-Curr.	1,206.0	1,463.0	599.0	817.0	1,192.0
Other Non-Current Liabilities	353.0	443.0	443.0	488.0	438.0
Total Liabilities	**8,385.0**	**8,997.0**	**7,856.0**	**7,803.0**	**7,582.0**
Common Stock	112.0	111.0	111.0	110.0	118.0
Additional Paid In Capital	3,430.0	3,453.0	3,499.0	3,867.0	3,929.0
Retained Earnings	922.0	1,540.0	1,959.0	2,023.0	2,222.0
Treasury Stock	-	-	-	-	-
Comprehensive Inc. and Other	(176.0)	208.0	(1,414.0)	(1,230.0)	(809.0)
Total Common Equity	**4,288.0**	**5,312.0**	**4,155.0**	**4,778.0**	**5,460.0**
Total Equity	**4,288.0**	**5,312.0**	**4,155.0**	**4,778.0**	**5,460.0**
Total Liabilities And Equity	**12,673.0**	**14,309.0**	**12,011.0**	**12,581.0**	**13,042.0**

5-Year Cash Flow Statement

T2 Partners LLC

JC Penney Cash Flow Statement	FYE 02/03/2007	FYE 02/02/2008	FYE 1/31/2009	FYE 1/30/2010	FYE 1/29/2011
Net Income	**1,153.0**	**1,111.0**	**572.0**	**251.0**	**389.0**
Depreciation & Amort.	389.0	426.0	469.0	495.0	511.0
Depreciation & Amort., Total	**389.0**	**426.0**	**469.0**	**495.0**	**511.0**
(Gain) Loss From Sale Of Assets	(8.0)	(12.0)	(10.0)	(2.0)	(8.0)
Asset Writedown & Restructuring Costs	4.0	5.0	29.0	48.0	40.0
Stock-Based Compensation	60.0	45.0	53.0	43.0	56.0
Tax Benefit from Stock Options	6.0	9.0	-	-	-
Net Cash From Discontinued Ops.	11.0	8.0	(5.0)	(2.0)	(11.0)
Other Operating Activities	(376.0)	(124.0)	(32.0)	352.0	(69.0)
Change In Inventories	(190.0)	(241.0)	382.0	235.0	(189.0)
Change in Acc. Payable	195.0	106.0	(278.0)	32.0	(93.0)
Change in Inc. Taxes	(1.0)	(66.0)	(36.0)	(57.0)	28.0
Change in Other Net Operating Assets	26.0	(10.0)	12.0	178.0	(62.0)
Cash from Ops.	**1,269.0**	**1,257.0**	**1,156.0**	**1,573.0**	**592.0**
Capital Expenditure	(772.0)	(1,243.0)	(969.0)	(600.0)	(499.0)
Sale of Property, Plant, and Equipment	20.0	26.0	13.0	13.0	14.0
Other Investing Activities	(32.0)	(25.0)	-	-	-
Cash from Investing	**(784.0)**	**(1,242.0)**	**(956.0)**	**(587.0)**	**(485.0)**
Short Term Debt Issued	-	-	-	-	-
Long-Term Debt Issued	-	980.0	-	-	392.0
Total Debt Issued	**-**	**980.0**	**-**	**-**	**392.0**
Short Term Debt Repaid	-	-	-	-	-
Long-Term Debt Repaid	(21.0)	(737.0)	(203.0)	(113.0)	(693.0)
Total Debt Repaid	**(21.0)**	**(737.0)**	**(203.0)**	**(113.0)**	**(693.0)**
Issuance of Common Stock	135.0	45.0	4.0	4.0	8.0
Repurchase of Common Stock	(750.0)	(400.0)	-	-	-
Common Dividends Paid	(153.0)	(174.0)	(178.0)	(183.0)	(189.0)
Total Dividends Paid	**(153.0)**	**(174.0)**	**(178.0)**	**(183.0)**	**(189.0)**
Special Dividend Paid	-	-	-	-	-
Other Financing Activities	38.0	0	(3.0)	(35.0)	(14.0)
Cash from Financing	**(751.0)**	**(286.0)**	**(380.0)**	**(327.0)**	**(496.0)**
Net Change in Cash	**(266.0)**	**(271.0)**	**(180.0)**	**659.0**	**(389.0)**

JCP vs. Comps

T2 Partners LLC

JCP Comp group	Px	Shares Out	Mkt Cap	LTM Net Debt	EV	LTM Rev	LTM EBITDA	LTM Adj EPS	NTM Rev	NTM EBITDA	NTM EPS
Dillard's Inc. (NYSE:DDS)	50.03	51.5	2,575	779	3,353	6,324	657	3.59	-	-	-
Kohl's Corp. (NYSE:KSS)	50.45	269.4	13,593	2,525	16,118	18,666	2,754	3.97	19,554	3,007	4.76
Macy's, Inc. (NYSE:M)	29.26	427.1	12,497	5,581	18,078	25,720	3,293	2.43	26,505	3,304	2.76
Nordstrom Inc. (NYSE:JWN)	50.7	210.7	10,681	1,712	12,393	10,231	1,563	3.01	10,754	1,655	3.35
Target Corp. (NYSE:TGT)	52.95	675.2	35,753	16,695	52,448	68,441	7,402	4.21	71,327	7,488	4.21
The TJX Companies (NYSE:TJX)	57.71	381.0	21,986	(271)	21,715	22,546	2,744	3.34	23,708	3,129	4.19
J. C. Penney (NYSE:JCP)	30.04	213.3	6,408	1,548	7,956	17,741	1,399	1.66	17,647	1,290	1.74

JCP Comp set	TEV/Total Rev LTM	TEV/EBITDA LTM	TEV/EBIT LTM	P/E (LTM)	TEV/Fwd Rev	TEV/Fwd EBITDA
Dillard's Inc. (NYSE:DDS)	0.53x	5.1x	8.5x	13.9x	0.5x	5.1x
Macy's, Inc. (NYSE:M)	0.70x	5.5x	8.3x	12.0x	0.7x	5.5x
Kohl's Corp. (NYSE:KSS)	0.86x	5.9x	8.2x	12.7x	0.8x	5.4x
Target Corp. (NYSE:TGT)	0.77x	7.1x	9.9x	12.6x	0.7x	7.0x
The TJX Companies (NYSE:TJX)	0.96x	7.9x	9.5x	17.3x	0.9x	6.9x
Nordstrom Inc. (NYSE:JWN)	1.21x	7.9x	10.2x	16.8x	1.2x	7.5x
J. C. Penney (NYSE:JCP)	0.45x	5.7x	9.0x	18.1x	0.5x	6.2x

JCP Comp set	NTM Fwd P/E	Gross Mrgn (LTM)	EBITDA Mrgn (LTM)	EBIT Mrgn (LTM)	Rev growth (LTM)	EBITDA growth (LTM)
Dillard's Inc. (NYSE:DDS)	12.2x	36.9%	10.4%	6.2%	2.5%	24.1%
Kohl's Corp. (NYSE:KSS)	10.6x	38.4%	14.8%	10.6%	4.5%	2.2%
Macy's, Inc. (NYSE:M)	10.6x	40.6%	12.8%	8.5%	6.1%	13.5%
Nordstrom Inc. (NYSE:JWN)	12.6x	37.2%	15.3%	11.9%	11.1%	20.9%
Target Corp. (NYSE:TGT)	13.8x	29.9%	10.8%	7.8%	2.8%	4.4%
The TJX Companies (NYSE:TJX)	15.2x	26.9%	12.2%	10.1%	6.0%	1.0%
J. C. Penney (NYSE:JCP)	17.3x	38.7%	7.9%	5.0%	0.8%	9.4%

Source: Capital IQ

Appendix B

Why We're Long AIG

T2 Partners LLC
Value Investing Congress
May 7, 2012

T2 Partners LLC

We would like to thank Spencer Capital Management for its assistance in preparing this presentation

T2 Partners Management L.P. Manages Hedge Funds and Mutual Funds and is a Registered Investment Advisor

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T2 Partners LLC

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A Snapshot

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- AIG is a leading global multi-line insurance company with well-managed, sustainable global franchises
- AIG today is far different from the risky pre-crisis AIG
- Lingering taint from the crisis plus the overhang of US Treasury ownership result in the stock trading at a 43% discount to tangible book value
- We think AIG is worth at least 1x tangible book, and see numerous catalysts in the next year or two to close the valuation discrepancy
- As the US Treasury's stake declines (likely in part due to Company repurchases) and the stability and growth of AIG's core franchises become clear, the market will re-value AIG

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The Basics

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- Stock price (5/8/12): $31.70
- Shares outstanding: 1.72 billion
- Market cap: $54.7 billion
- Net debt: $74 billion
- Book value (03/31/12): $103.5 billion
- Book value per share: $59.99
- Tangible book value per share: $56.01
- Price/book: 0.53x
- Price/tangible book: 0.57x
- Float: 39% (government owns 61%)
- Short interest: <1%

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AIG Today

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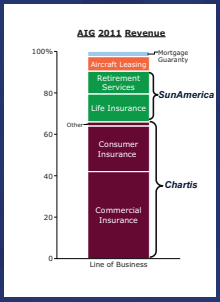
AIG

CHARTIS | SunAmerica the retirement specialist | UNITED GUARANTY | ILFC | ML III/ AIA/ DTAs/Other

- Today AIG is a leading, financially sound multi-line insurance Company focused on its core businesses
- Quality, market-leading franchises in both property & casualty insurance (Chartis) and US life & retirement (SunAmerica) account for ~90% of revenue



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Chartis – Property & Casualty Insurance

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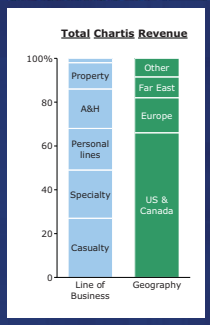
CHARTIS

- Chartis is a leading global property and casualty insurance franchise serving more than 45 million clients
- Writes a full suite of commercial (61% of premiums) and consumer (39% of premiums) insurance
- Restructuring initiatives being implemented; Chartis core results improving with premiums growing, prices increasing and reserve trends improving
- Better P&C results expected from cyclical pricing turn, following severe global catastrophe losses in 2010/2011



P & C Comparison table

May 8 2012

Ticker	Company Name	Price/Book Value	Price/Earnings
ACE	ACE Limited	1.01x	11.2x
ALL	The Allstate Corporation	0.89x	17.3x
CB	The Chubb Corporation	1.29x	12.5x
CNA	CNA Financial Corporation	0.70x	12.6x
TRV	The Travelers Companies, Inc.	1.01x	19.1x
	Average	0.98x	14.6x
	Median	1.01x	12.6x

AIG Will Benefit From a Hardening Insurance Market

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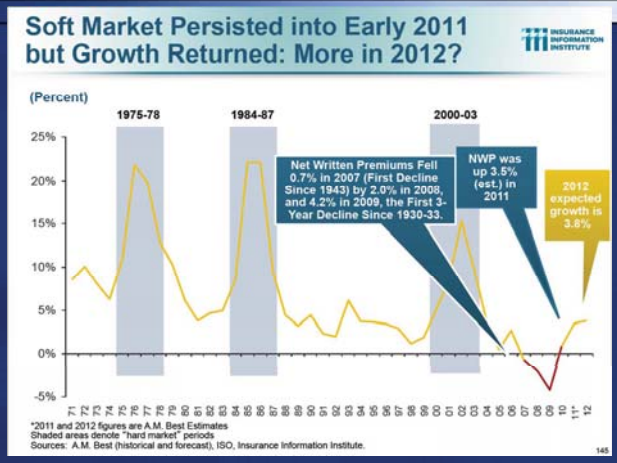


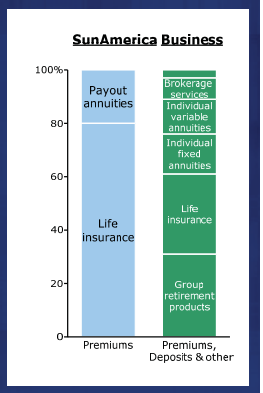
Source: Insurance Information Institute

SunAmerica – Life Insurance and Retirement Services

T2 Partners LLC

SunAmerica the retirement specialist | Western National | VALIC | American General Life Companies

- SunAmerica is one of the largest life insurance and retirement services operations in the US, with 13,000 employees serving over 19 million clients
- SunAmerica is divided into two segments
  - Domestic Life for mortality and morbidity-based products
  - Domestic Retirement for investment, retirement savings and income solution products



Life Insurers Comparison table

May 8 2012

Ticker	Company Name	Price/Book Value	Price/Earnings
LNC	Lincoln National Corporation	0.51x	31.1x
MET	MetLife, Inc.	0.62x	6.4x
PFG	Principal Financial Group Inc.	0.83x	11.5x
PRU	Prudential Financial, Inc.	0.69x	12.5x
UNM	Unum Group	0.77x	28.9x
	Average	0.68x	18.1x
	Median	0.69x	12.5x

United Guaranty – Mortgage Insurance

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UNITED GUARANTY

- United Guaranty (UGC) is a leading provider of residential mortgage insurance that covers mortgage lenders for the first loss for credit defaults on high loan-to-value first mortgages
- UGC no longer insures second-lien business and private student loans
- Book value of UGC is $2.4B
- UGC is well positioned to achieve strong results as the housing market improves
- We expect AIG to eventually sell UGC

UGC Comparison table

May 8 2012

Ticker	Company Name	Price/Book Value
MTG	MGIC Investment Corp.	0.57x
RDN	Radian Group Inc.	0.31x
	Average	0.44x
	Median	0.44x

International Lease Finance Corporation

T2 Partners LLC

ILFC

- ILFC is a leading global aircraft lessor, acquiring aircraft and leasing them to airlines globally
- ILFC manages a lease portfolio of over 1,000 aircraft
- ILFC is positioned to achieve strong results driven by increasing demand for passenger and cargo aircraft
- AIG will likely sell ILFC or IPO the segment in 2012
- Recent transaction comp is the sale of RBS Aviation. RBS Aviation sold for $7.3B (1.1x book value) which bodes well for ILFC, which is a better business due to its mix of mid-sized & jumbo aircraft
- The best comp for ILFC is Air Lease Corp., trading at ~1.1x book value

Other Assets

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- **Maiden Lane III** is an SPV with $24.3B funding from the NY Fed to purchase securities that AIG had written protection for, in agreement for terminating the credit default swaps. AIG's current Maiden Lane III investment is valued at ~$6.3B
- **AIA SPV:** AIG's remaining 20% stake of AIA, a Hong Kong-listed Asian insurance Company, is currently valued at ~$7.9B
- **Deferred tax assets:** AIG has net deferred tax assets before valuation allowance of $19.5B (as of March 31, 2012)

AIG Timeline

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AIG August 2007
Market cap: ~$170B
Price/Book: ~1.75x

- Cornelius Vander Starr established an insurance agency in Shanghai
- Starr shifted the Company to New York and continued to expand in the US and abroad
- Maurice R. Greenberg became head of the US operations
- The Company went public and continued its global expansion
- AIG is a behemoth in the life and non-life insurance industry globally, and has expanded beyond insurance

1919	1949	1962	1969	2007

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The Good Times

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In 2006 AIG signed a $100 million sponsorship agreement with the legendary Manchester United Football Club

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AIG Was Unaware of (or in Denial About) the Risks It Faced

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In its August 2007 earnings conference call, AIG commented on its exposure to the credit default swaps that ultimately sunk the company:

"The risk actually undertaken is very modest and remote. It is hard for us…to even see a scenario within any kind of realm of reason that would see us losing one dollar in any of those transactions… We see no issues at all emerging."

– Joseph Cassano, AIG Chief Risk Officer

"That's why I am sleeping a little bit easier at night."

– Martin Sullivan, AIG CEO

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One Year Later, AIG Faced Bankruptcy and Had to Be Bailed Out

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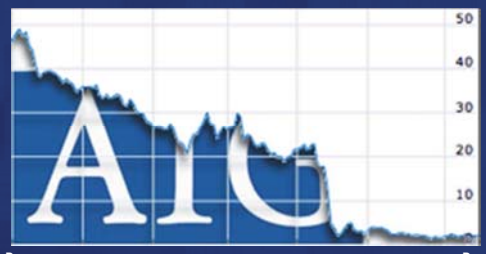
- September 16, 2008: The Federal Reserve Board saves AIG by extending a secured loan of $85 billion. As part of the deal, the US Treasury receives a 79.9% equity interest in AIG
- Subsequent financing brought total government support of AIG to $182 billion



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Response to the AIG Bailout

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Response to AIG Bailout (2)

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AIG Actions Since the Financial Crisis

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- Reduced majority of government support - US Treasury's 61% stake in AIG common shares accounts for the majority of the remaining government support
- Significantly unwound portfolios that caused AIG's collapse, and reduced risk and exposure within financial services segment
- Divested non-essential entities, recapitalized the balance sheet, and re-engaged the capital markets
- Focusing primarily on the core segments (Chartis and SunAmerica), strengthening reserves, leveraging distribution and scale, and solid underwriting rather than 'costly' growth

In 2011, AIG Repaid the Fed and Continued to Successfully Access the Capital Markets

T2 Partners LLC

Select Transactions in 2011

• Jan: Repayment of FRBNY Credit Facility:	$20.7B
• Jan: Exchange of Treasury Preferred:	$47.0B
• Feb: Sale of AIG Star & Edison to Prudential Fin.:	$4.8B
• Mar: Sale of Metlife Common Stock & Equity Units:	$9.6B
• May: Extinguished Series G:	$2.0B
• May: Secondary Share Sale @ $29 per share:	$8.7B
• Aug: Sale of Nan Shan to Ruen Chen:	$2.2B
• Sept: Senior Unsecured Debt Issuance:	$2.0B
• Oct: Consolidated Revolving Credit Facility:	$4.5B
• Nov: Senior Debt for Hybrid Exchange:	$1.9B
TOTAL:	$103.4B

AIG Has Repaid More Than 75% of US Government Support

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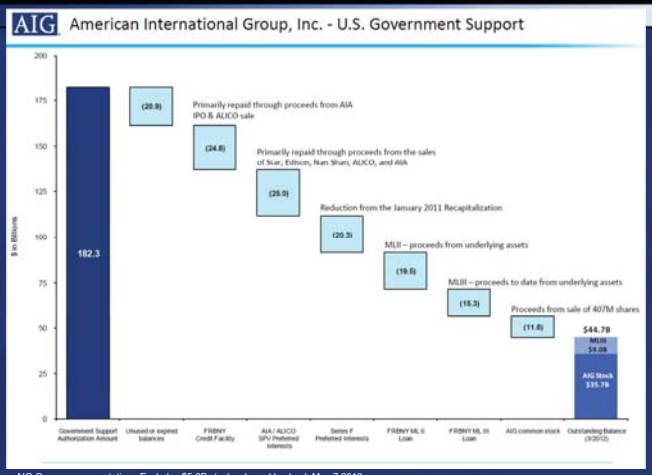

Source: AIG Company presentation; Excludes $5.8B stock sale and buyback May 7 2012

The Government Should Be Able to Fully Exit Its Stake Within 1-2 Years

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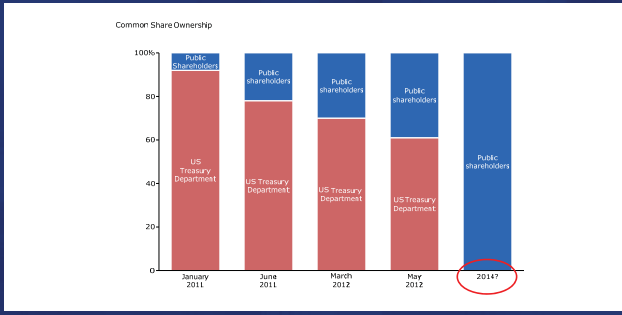
"It will be Treasury's choice as to when they want to liquidate their shares…but it is certainly within the realm of possibility that it could happen within the next 12 months."
– Steve Miller, AIG Chairman (April 13, 2012)



Asset Sales and Cash Flows Will Fund Purchase of Treasury Stake

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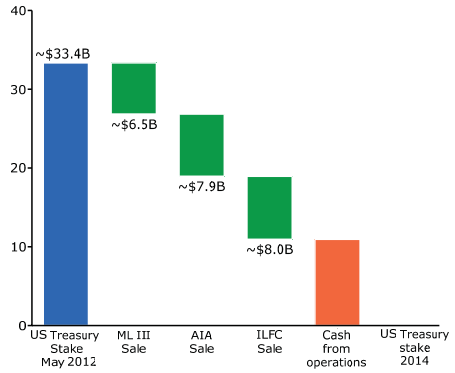
Substantial accretion to book value and earnings per share from buying back US Treasury stake at current prices



Valuation

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AIG Valuation Estimate

	Book value @ March 31, 2012 ($B)	Multiple range	Value low ($B)	Value high ($B)
Chartis	48.69	0.9 - 1.3	43.82	63.30
SunAmerica	34.57	0.7 - 1.1	24.20	38.03
United Guaranty	2.45	0.7 - 1.0	1.72	2.45
International Lease Finance Corp (ILFC)	7.68	1.0 - 1.3	7.68	9.99
AIA Holdings stake (AIG 20%)		Market value	7.90	7.90
Maiden Lane III		Liquidation estimate	6.20	6.60
Other			(5.50)	0.50
Total equity ($B)			$86.03	$128.77
Total shares outstanding (B)			1.72	1.72
Intrinsic value per share ($)			**$49.89**	**$74.68**
Upside %			57%	136%

Note: Valuation excludes ~$11B (~$6 per share) of "other" deferred tax assets

- Our sum-of-the-parts valuation yields a value of ~$50 to ~$75 per share, a 57-136% premium to today's price
- We also forecast normalized AIG earnings at ~$5 per share, suggesting AIG is currently trading at ~6x normalized earnings

There Is Additional Upside From Accretive Stock Repurchases

T2 Partners LLC

Accretion scenarios of AIG stock repurchases based on repurchase amounts and price of repurchase:

Proforma value with buyback @ $30			Proforma value with buyback @ $35			Proforma value with buyback @ $40		
Buyback amount	Value low (per share)	Value high (per share)	Buyback amount	Value low (per share)	Value high (per share)	Buyback amount	Value low (per share)	Value high (per share)
$0	$49.89	$74.68	$0	$49.89	$74.68	$0	$49.89	$74.68
Accretion	0%	0%	Accretion	0%	0%	Accretion	0%	0%
$10B	$54.65	$85.38	$10B	$52.84	$82.56	$10B	$51.56	$80.56
Accretion	10%	14%	Accretion	6%	11%	Accretion	3%	8%
$15B	$58.01	$92.92	$15B	$54.81	$87.80	$15B	$52.63	$84.31
Accretion	16%	24%	Accretion	10%	18%	Accretion	6%	13%
$20B	$62.42	$102.83	$20B	$57.26	$94.34	$20B	$53.92	$88.84
Accretion	25%	38%	Accretion	15%	26%	Accretion	8%	19%

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Risks

T2 Partners LLC

- Deteriorating macroeconomic environment
- Reserve shortfalls
- Exposure to derivatives
- Exposure to super cat risks (hurricanes, etc.)
- Exposure to Europe
- Government ownership and associated overhang
- Management succession
- Volatility (not a concern for a patient investor)

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Is AIG's Book Value Real?

T2 Partners LLC

- The level of disclosure and visibility into AIG is unparalleled
- There are no incentives to overstate book value – new management arguably had incentive to *minimize* book value
- Since the financial crisis unfolded, AIG has been overseen and analyzed by multiple regulators:

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Derivative Risk Has Been Greatly Reduced

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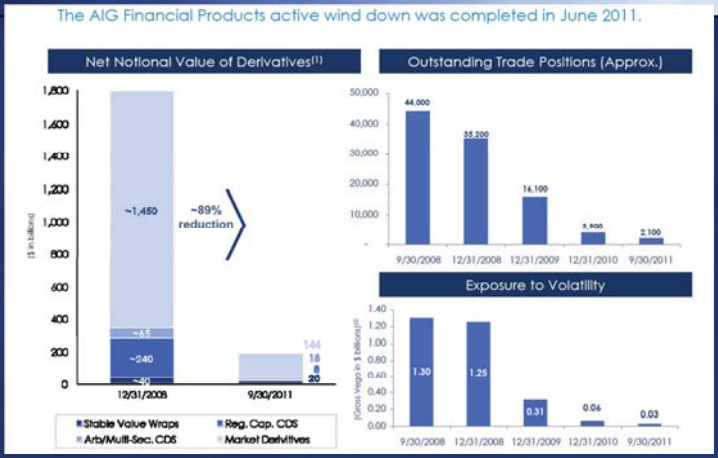

Source: Company presentation

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Why AIG is Cheap (1)

T2 Partners LLC

Question to fund managers:
Have you considered an investment in AIG?

Answers:
"It might be a good investment but it could upset some current and potential investors if we were to own AIG."
– Portfolio Manager, Major Mutual Fund, NY

"I would not want to be in a position to tell constituents we lost money investing in AIG"
– Investment Manager, Large Pension Fund, CA

"We so painfully owned it in the crisis, we could not own AIG again."
– FIG Analyst, Major Mutual Fund, MA

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Why is AIG Cheap (2)

T2 Partners LLC

- Perceived complexity of analyzing the business
- AIG is tainted due to the bailout
- Fund managers perceive career risk if they lose money investing in AIG
- Government ownership overhang => investors believe there is a $29 ceiling given that this is the US Treasury's break-even price
- Uncertainty regarding sale of assets and timeline of government exit
- Noise around the derivatives business

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Catalysts

T2 Partners LLC

- US Treasury ownership declines, shifting this from a risk to a catalyst
  - Additional sales of non-core assets
  - Secondary offering and other financing options
- ROE expansion and operating improvements in core business driven by restructuring initiatives and price increases
- Improvement in the insurance market
- Use of appropriate leverage to boost returns (AIG has a low debt-to-capital ratio versus peers)
- Offense vs. defense: a focus on capital allocation with the operating cash flows (vs. current focus of selling assets)

AIG Warrants (AIG.WT)

T2 Partners LLC

- An additional way to invest in AIG is via the unique AIG warrants
- AIG issued 75 million warrants to existing shareholders as part of the Government reorganization of AIG in January 2011
  - Expiry: January 19, 2021
  - Strike price: $45
  - Option Price (@ May 8): $12.45
  - Stock Price (@ May 8): $31.70
  - Warrants are subject to anti-dilution adjustments for various events. The warrant exercise price is adjusted accordingly if cash dividends exceed $0.67 per year
- If AIG can grow book value at 6-8% per year and the stock trades at book value at expiration, the warrants will provide a meaningfully higher IRR than the stock

Conclusion: A Very Good Global Franchise Trading Well Below Intrinsic Value, With Numerous Catalysts

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Appendix

T2 Partners LLC

Life Insurers Comparison table

May 8 2012

Ticker	Company Name	Price/Book Value	Price/Earnings	6/30/2011 P/BV	6/30/2010 P/BV	6/30/2009 P/BV	6/30/2008 P/BV	6/30/2007 P/BV	6/30/2006 P/BV	6/30/2005 P/BV	6/30/2004 P/BV	6/30/2003 P/BV	6/30/2002 P/BV	6/30/2001 P/BV	2001-2011 Average
LNC	Lincoln National Corporation	0.51x	31.1x	0.60	0.64	0.60	1.06	1.60	1.57	1.35	1.37	1.16	1.54	1.91	**1.22**
MET	MetLife, Inc.	0.62x	6.4x	0.93	0.86	1.06	1.13	1.40	1.36	1.43	1.22	1.10	1.33	1.37	**1.20**
PFG	Principal Financial Group Inc.	0.83x	11.5x	0.96	0.88	1.86	1.59	1.92	2.03	1.69	1.40	1.55	1.69	N/A	**1.56**
PRU	Prudential Financial, Inc.	0.99x	12.5x	0.95	0.93	1.22	1.16	1.92	1.72	1.54	1.13	0.85	0.96	N/A	**1.24**
UNM	Unum Group	0.77x	20.9x	0.88	0.82	0.82	0.93	1.21	0.83	0.77	0.66	0.50	1.08	1.33	**0.89**
	Average	**0.68x**	**18.1x**	**0.88**	**0.82**	**1.11**	**1.17**	**1.61**	**1.50**	**1.36**	**1.15**	**1.03**	**1.32**	**1.54**	**1.23**
	Median	**0.69x**	**12.5x**	**0.93**	**0.86**	**1.06**	**1.13**	**1.60**	**1.57**	**1.43**	**1.22**	**1.10**	**1.33**	**1.37**	**1.24**

P & C Comparison table

May 8 2012

Ticker	Company Name	Price/Book Value	Price/Earnings	6/30/2011 P/BV	6/30/2010 P/BV	6/30/2009 P/BV	6/30/2008 P/BV	6/30/2007 P/BV	6/30/2006 P/BV	6/30/2005 P/BV	6/30/2004 P/BV	6/30/2003 P/BV	6/30/2002 P/BV	6/30/2001 P/BV	2001-2011 Average
ACE	ACE Limited	1.01x	11.2x	0.95	0.84	1.01	1.13	1.43	1.42	1.37	1.35	1.35	1.33	1.64	**1.26**
ALL	The Allstate Corporation	0.89x	17.3x	0.83	0.88	1.07	1.24	1.67	1.70	1.88	1.52	1.40	1.53	1.82	**1.41**
CB	The Chubb Corporation	1.29x	12.5x	1.18	1.04	1.02	1.25	1.57	1.64	1.61	1.43	1.45	1.82	1.88	**1.44**
CNA	CNA Financial Corporation	0.70x	12.6x	0.70	0.67	0.72	0.72	1.28	1.03	0.88	0.89	0.61	0.72	0.71	**0.81**
TRV	The Travelers Companies, Inc.	1.01x	19.1x	0.97	0.92	0.91	1.00	1.41	1.37	1.30	1.40	N/A	N/A	N/A	**1.19**
	Average	**0.98x**	**14.6x**	**0.92**	**0.87**	**0.94**	**1.07**	**1.47**	**1.43**	**1.41**	**1.32**	**1.20**	**1.35**	**1.51**	**1.23**
	Median	**1.01x**	**12.6x**	**0.95**	**0.88**	**1.01**	**1.12**	**1.43**	**1.42**	**1.37**	**1.40**	**1.37**	**1.43**	**1.73**	**1.20**

UGC Comparison table

May 8 2012

Ticker	Company Name	Price/Book Value	Price/Earnings	6/30/2011 P/BV	6/30/2010 P/BV	6/30/2009 P/BV	6/30/2008 P/BV	6/30/2007 P/BV	6/30/2006 P/BV	6/30/2005 P/BV	6/30/2004 P/BV	6/30/2003 P/BV	6/30/2002 P/BV	6/30/2001 P/BV	2001-2011 Average
MTG	MGIC Investment Corp.	0.57x	NM	0.74	0.75	0.24	0.26	1.06	1.35	1.48	1.90	1.33	2.28	2.95	**1.30**
RDN	Radian Group Inc.	0.31x	10.7x	0.58	0.35	0.12	0.04	1.04	1.35	1.18	1.34	1.20	1.91	1.86	**1.00**
	Average	**0.44x**	**10.7x**	**0.66**	**0.55**	**0.18**	**0.15**	**1.05**	**1.35**	**1.33**	**1.62**	**1.26**	**2.10**	**2.40**	**1.15**
	Median	**0.44x**	**10.7x**	**0.66**	**0.55**	**0.18**	**0.15**	**1.05**	**1.35**	**1.33**	**1.62**	**1.26**	**2.10**	**2.40**	**1.15**

T2 Accredited Fund, LP (the "Fund") commenced operations on January 1, 1999. The Fund's investment objective is to achieve long-term after-tax capital appreciation commensurate with moderate risk, primarily by investing with a long-term perspective in a concentrated portfolio of U.S. stocks. In carrying out the Partnership's investment objective, the Investment Manager, T2 Partners Management, LLC, seeks to buy stocks at a steep discount to intrinsic value such that there is low risk of capital loss and significant upside potential. The primary focus of the Investment Manager is on the long-term fortunes of the companies in the Partnership's portfolio or which are otherwise followed by the Investment Manager, relative to the prices of their stocks.

There is no assurance that any securities discussed herein will remain in Fund's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent the Fund's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. All recommendations within the preceding 12 months or applicable period are available upon request.

Performance results shown are for the T2 Accredited Fund, LP and are presented gross and net of incentive fees. Gross returns reflect the deduction of management fees, brokerage commissions, administrative expenses, and other operating expenses of the Fund. Gross returns will be reduced by accrued performance allocation or incentive fees, if any. Gross and net performance includes the reinvestment of all dividends, interest, and capital gains. Performance for the most recent month is an estimate.

The fee schedule for the Investment Manager includes a 1.5% annual management fee and a 20% incentive fee allocation. For periods prior to June 1, 2004, the Investment Manager's fee schedule included a 1% annual management fee and a 20% incentive fee allocation, subject to a 10% "hurdle" rate. In practice, the incentive fee is "earned" on an annual, not monthly, basis or upon a withdrawal from the Fund. Because some investors may have different fee arrangements and depending on the timing of a specific investment, net performance for an individual investor may vary from the net performance as stated herein.

The return of the S&P 500 and other indices are included in the presentation. The volatility of these indices may be materially different from the volatility in the Fund. In addition, the Fund's holdings differ significantly from the securities that comprise the indices. The indices have not been selected to represent appropriate benchmarks to compare an investor's performance, but rather are disclosed to allow for comparison of the investor's performance to that of certain well-known and widely recognized indices. You cannot invest directly in these indices.

Past results are no guarantee of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal. This document is confidential and may not be distributed without the consent of the Investment Manager and does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product. Any such offer or solicitation may only be made by means of delivery of an approved confidential offering memorandum.