

Similarly, if an anticipated transaction does not in fact occur, the Partnership may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Partnership may invest, there is a potential risk of loss by the Partnership of its entire investment in such companies.

Lack of Liquidity of Partnership Assets

Partnership assets may, at any given time, include securities and other financial instruments or obligations which are thinly-traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts.

Active Management Risk

The Partnership's investment program emphasizes active management of the Partnership's portfolio. Consequently, the Partnership's portfolio turnover and brokerage commission expenses may exceed those of other private investment funds. A high portfolio turnover rate may also result in the greater realization of capital gains, including short-term gains which are taxable to Limited Partners at the same rates as ordinary income.

Valuation

The Partnership's assets may be invested in privately placed securities of publicly traded or private companies. Such investments will generally be valued at fair market value, which may be below cost. These investments may be extremely difficult to accurately value. In light of the foregoing, there is a risk that a Limited Partner who withdraws all or part of its investment while the Partnership holds such private investments will be paid an amount less than such Partner would otherwise be paid if the actual value of such private investments is higher than the fair market value designated by the Partnership. Similarly, there is a risk that such Limited Partner might, in effect, be overpaid if the actual value of the private investment is lower than the value designated by the Partnership. In addition, there is a risk that an investment in the Partnership by a new Limited Partner (or an additional investment by a Limited Partner) could dilute the value of such private investments if the actual value of the private investment is higher than the value designated by the Partnership. Furthermore, to the extent any of the Partnership's securities are overvalued, the Investment Manager and the General Partner might receive a larger Management Fee and/or Incentive Allocation, respectively, than they would otherwise be entitled to receive. If the Partnership's portfolio is inaccurately valued, there is a risk that the Investment Manager may not be able to effectively manage the Partnership's investment portfolio, adhere to any investment guidelines or restrictions, or properly manage risk. Any such inaccuracy could adversely affect Limited Partners. The foregoing risks apply to all assets of the Partnership to the extent that the value of any single investment is not able to be definitively determined at all times.

Counterparty Risk

Some of the markets in which the Partnership may effect transactions are OTC or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight to the same extent as are members of "exchange-based" markets. This exposes the Partnership to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Partnership to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Partnership has concentrated its transactions with a single or small group of counterparties. The Investment Manager is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. The ability of the Partnership to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Partnership.