

**D.B. Zwirn Special
Opportunities Fund, L.P.**
Consolidated Financial Statements
December 31, 2008

D.B. Zwirn Special Opportunities Fund, L.P.

Index

December 31, 2008

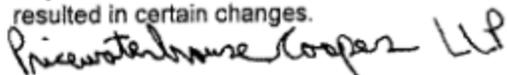
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Report of Independent Auditors

To the General and Limited Partners of
D.B. Zwirn Special Opportunities Fund, L.P.:

In our opinion, the accompanying consolidated statement of assets, liabilities and partners' capital, including the consolidated condensed schedule of investments, and the related consolidated statements of operations, of changes in partners' capital and of cash flows present fairly, in all material respects, the consolidated financial position of D.B. Zwirn Special Opportunities Fund, L.P. and its subsidiaries (collectively, the "Fund") at December 31, 2008, and the results of their operations, the changes in their partners' capital and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Fund's General Partner. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by the Fund's General Partner, and evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Notes 7 and 8 to the financial statements, the Fund adopted FASB Statements No. 157, *Fair Value Measurement* and No. 159, *The Fair Value Option for Financial Assets and Liabilities* ("SFAS 159"). As part of its SFAS 159 election, the Fund has measured the notes payable at fair value in the consolidated statement of assets and liabilities. As more fully described in Notes 11 and 13 to the financial statements, the Fund has begun implementing an orderly disposition of the Fund's portfolio and the Investment Manager was replaced during 2009 which resulted in certain changes.



December 23, 2009

D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Statement of Assets, Liabilities and Partners' Capital
December 31, 2008

(in U.S. Dollars)

Assets

Cash and cash equivalents (including \$24.6 million held by collateralized loan obligation)	\$ 57,737,617
Cash collateral pledged	44,486,830
Investments owned, at fair value (cost \$2,096,304,462)	1,243,954,530
Unrealized appreciation on derivative contracts	133,491,418
Receivable for investments sold	275,493
Due from brokers and counterparties	14,939,839
Due from affiliates	2,649,988
Interest receivable	8,596,787
Other assets	19,067,253
Total assets	<u>1,525,199,755</u>

Liabilities and Partners' Capital

Investments sold, but not yet purchased, at fair value (proceeds \$3,253,732)	2,507,126
Unrealized depreciation on derivative contracts	145,474,380
Due to affiliates	121,786,335
Interest payable	409,026
Notes payable, at fair value (par \$544,097,565)	458,253,075
Withdrawal payables	82,462,069
Management fees payable	2,081,547
Taxes payable	4,198,847
Accrued expenses and other liabilities	18,602,895
Total liabilities	<u>835,775,300</u>
Minority interest	4,057,761
Partners' capital	685,366,694
Total liabilities and partners' capital	<u>\$ 1,525,199,755</u>

The accompanying notes are an integral part of these consolidated financial statements.

D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Condensed Schedule of Investments
December 31, 2008

(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Investments Owned		
	Asset Backed Securities		
	North America (primarily United States)		
	Diversified	0.26%	\$ 1,795,983
	Financials	0.01%	73,328
	Health Care	0.03%	238,296
	Home Equity	1.21%	8,243,937
	North America (primarily United States) Total (cost \$26,505,804)	1.51%	10,351,544
	Asset Backed Securities Total (cost \$26,505,804)	1.51%	10,351,544
	North America (primarily United States)		
	Consumer Goods	0.00%	2,434
	Consumer Services	0.17%	1,194,681
	Industrials	0.18%	1,236,010
	Real Estate Investment Trust	0.08%	550,767
	Transportation	0.03%	200,000
	North America (primarily United States) Total (cost \$7,181,342)	0.46%	3,183,892
	Corporate and Distressed Debt Total (cost \$7,181,342)	0.46%	3,183,892
	Corporate and Real Estate Loans		
	Africa		
	Energy	0.00%	-
	Africa Total (cost \$1,637,511)	0.00%	-
	Asia		
	Construction	0.02%	126,845
	Real Estate	2.20%	15,077,271
	Asia Total (cost \$13,980,315)	2.22%	15,204,116
	Europe		
	Diversified	1.00%	6,879,310
	Financials	0.41%	2,802,316
	Europe Total (cost \$14,352,963)	1.41%	9,681,626

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D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Condensed Schedule of Investments
December 31, 2008

(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Investments Owned, continued		
	Corporate and Real Estate Loans, continued		
	North America (primarily United States)		
	Basic Materials	3.92%	\$ 26,872,593
	Communications		
\$ 22,801,121	PR Wireless, Inc., Term Loan A, Libor + 6.00%, Due 06/22/2012	3.16%	21,659,293
\$ 22,790,625	PR Wireless, Inc., Term Loan B, Libor + 6.00%, Due 06/22/2012	2.79%	19,139,685
	Other	11.50%	78,815,320
	Consumer Goods	13.80%	94,572,010
	Consumer Services	10.48%	71,832,673
	Diversified		
\$ 21,005,413	Churchill Financial Holdings LLC, Term Loan A, 8.75%, Due 11/01/2011	2.50%	17,146,921
\$ 31,198,651	Churchill Financial Holdings LLC, Term Loan B, 8.70%, Due 11/01/2011	3.74%	25,630,450
	Other	0.30%	2,067,036
	Energy	6.19%	42,454,128
	Entertainment		
\$ 43,202,100	CT1 Holdings, LLC, Term Loan A, Libor + 11.00%, Due 05/31/2009	2.77%	19,008,430
\$ 16,197,252	CT1 Holdings, LLC, Term Loan, Libor + 22.00%, Due 08/30/2008	1.02%	6,969,738
\$ 10,180,057	Capitol Films Group, Ltd., Term Loan, 18.00%, Due 01/20/2009	1.28%	8,746,913
	Other	14.75%	101,022,257
	Financials		
1,050,951	Law Finance Group, Inc	2.21%	15,158,438
	Other	4.23%	28,973,093
	Health Care	1.65%	11,286,584
	Industrials	3.04%	20,858,203
	Real Estate	9.85%	67,508,428
	Technology	6.12%	41,921,108
	Transportation	1.60%	10,974,206
	North America (primarily United States) Total (cost \$1,227,764,526)	106.90%	732,617,507
	Oceania (primarily Australia)		
	Technology	1.08%	7,418,079
	Oceania (primarily Australia) Total (cost \$14,482,219)	1.08%	7,418,079
	Latin America		
	Real Estate	0.25%	1,691,137
	Latin America Total (cost \$5,196,501)	0.25%	1,691,137
	Corporate and Real Estate Loans Total (cost \$1,277,414,035)	111.86%	766,612,465
	Municipal Bonds		
	North America (primarily United States)		
	Government	0.79%	5,429,235
	North America (primarily United States) Total (cost \$6,331,103)	0.79%	5,429,235
	Municipal Bonds Total (cost \$6,331,103)	0.79%	5,429,235

The accompanying notes are an integral part of these consolidated financial statements.

D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Condensed Schedule of Investments
December 31, 2008

(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Investments Owned, continued		
	Options		
	Asia		
	Basic Materials	0.01%	\$ 73,488
	Consumer Goods	0.01%	59,367
	Asia Total (cost \$40,084)	0.02%	132,855
	North America (primarily United States)		
	Consumer Goods	0.11%	661,313
	Utilities	0.00%	5,076
	North America (primarily United States) Total (cost \$338,929)	0.11%	666,389
	Options Total (cost \$379,013)	0.13%	799,244
	Private Equity and Asset Investments		
	Asia		
	Diversified	0.55%	3,802,911
	Financials	0.27%	1,822,520
	Private Equity Fund	0.49%	3,367,900
	Real Estate	1.76%	12,049,905
	Technology	0.69%	4,737,252
	Asia Total (cost \$36,607,741)	3.76%	25,780,488
	Europe		
	Diversified		
4,832,325	Stepstone Acquisition S.a.r.l.	0.99%	6,751,241
€ 16,543,706	Stepstone Acquisition S.a.r.l., Term Loan A, 2.313%, Due 12/31/2011	2.48%	16,995,763
€ 7,248,488	Stepstone Acquisition S.a.r.l., Term Loan B, 2.313%, Due 12/31/2011	0.89%	6,127,799
	Other	3.09%	21,164,754
	Entertainment		
€ 5,868,986	SNAI S.p.A., Term Loan B, 5.749%, Due 3/31/2011	1.04%	7,161,012
€ 2,348,047	SNAI S.p.A., Term Loan C, 14.899%, Due 3/31/2011	0.43%	2,949,416
	Other	1.34%	9,207,749
	Financials		
2,916,308	Transaction One	0.52%	3,568,904
	Other	2.59%	17,721,555
	Real Estate	0.10%	677,413
	Real Estate Fund		
€ 2,491,739	T.R. Estate Uno S.r.l., Term Loan, 6.219%, Due 10/20/2009	0.25%	1,702,722
	Europe Total (cost \$128,130,630)	13.72%	94,028,328

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D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Condensed Schedule of Investments
December 31, 2008

(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Investments Owned, continued		
	Private Equity and Asset Investments, continued		
	North America (primarily United States)		
	Basic Materials	0.12%	\$ 824,499
	Communications	0.01%	64,498
	Consumer Goods	0.00%	17,464
	Diversified	3.38%	23,187,227
	Energy	1.20%	8,229,166
	Entertainment	4.09%	28,033,315
	Financials		
19,436,459	Law Finance Group, Inc	4.04%	27,721,211
	Other	6.62%	45,338,564
	Health Care	1.03%	7,025,341
	Home Equity	2.83%	19,369,906
	Industrials	3.44%	23,565,911
	Private Equity Fund	3.29%	22,571,475
	Real Estate	4.60%	31,552,621
	Real Estate Fund		
160,553,640	Ackerman/Zwirn Real Estate Partners, LLC	11.30%	77,429,505
	Retail	0.04%	260,573
	Technology	0.23%	1,608,281
	Transportation	0.92%	6,294,044
	North America (primarily United States) Total (cost \$579,130,229)	47.14%	323,093,601
	Private Equity and Asset Investments Total (cost \$743,868,600)	64.62%	442,902,417
	Public Equities		
	Asia		
	Basic Materials	0.00%	5,975
	Financials	0.89%	6,053,962
	Real Estate	0.01%	80,122
	Asia Total (cost \$13,427,462)	0.90%	6,140,059
	Europe		
	Financials	0.18%	1,232,304
	Real Estate Investment Trust	0.01%	102,469
	Europe Total (cost \$2,707,618)	0.19%	1,334,773

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D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Condensed Schedule of Investments
December 31, 2008

(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Investments Owned, continued		
	Public Equities, continued		
	North America (primarily United States)		
	Consumer Goods	0.06%	\$ 385,454
	Consumer Services	0.11%	738,141
	Energy	0.11%	724,967
	Health Care	0.14%	1,050,489
	Industrials	0.00%	3,231
	North America (primarily United States) Total (cost \$8,727,722)	0.42%	2,902,282
	Public Equities Total (cost \$24,862,802)	1.51%	10,377,114
	Warrants		
	North America (primarily United States)		
	Biotechnology	0.00%	23,473
	Communications	0.02%	118,690
	Energy	0.26%	1,728,538
	Health Care	0.09%	637,497
	Technology	0.02%	166,311
	North America (primarily United States) Total (cost \$2,664,765)	0.39%	2,674,509
	Warrants Total (cost \$2,664,765)	0.39%	2,674,509
	Convertible Bonds		
	North America (primarily United States)		
	Health Care	0.12%	792,492
	North America (primarily United States) Total (cost \$1,369,998)	0.12%	792,492
	Convertible Bonds Total (cost \$1,369,998)	0.12%	792,492
	Collateralized Debt Obligations Total (cost \$5,729,736)	0.12%	831,618
	Investments Owned Total (cost \$2,096,304,462)	181.50%	\$ 1,243,954,530

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D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Condensed Schedule of Investments
December 31, 2008

(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Investments Sold, But Not Yet Purchased		
	Corporate and Distressed Debt		
	North America (primarily United States)		
	Transportation	0.03%	\$ 200,000
	North America (primarily United States) Total (proceeds \$0)	0.03%	200,000
	Corporate and Distressed Debt Total (proceeds \$0)	0.03%	200,000
	Options		
	North America (primarily United States)		
	Consumer Goods	0.09%	611,022
	Utilities	0.00%	5,076
	North America (primarily United States) Total (proceeds \$250,450)	0.09%	616,098
	Options Total (proceeds \$250,450)	0.09%	616,098
	Public Equities		
	North America (primarily United States)		
	Consumer Services	0.00%	11,632
	Industrials	0.08%	520,001
	North America (primarily United States) Total (proceeds \$1,913,542)	0.08%	531,633
	Public Equities Total (proceeds \$1,913,542)	0.08%	531,633
	U.S. Treasuries		
	North America (United States)		
	Government	0.17%	1,159,395
	North America (United States) Total (proceeds \$1,089,740)	0.17%	1,159,395
	U.S. Treasuries Total (proceeds \$1,089,740)	0.17%	1,159,395
	Investments Sold, But Not Yet Purchased Total (proceeds \$3,253,732)	0.37%	\$ 2,507,126

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D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Condensed Schedule of Investments
December 31, 2008

(In U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Derivative Contracts With Long Positions		
	Credit Default Swaps, Indices and Tranches		
	Africa		
	Consumer Services	0.80%	\$ 5,463,401
	Africa Total	0.80%	5,463,401
	Asia		
	Basic Materials	0.02%	130,170
	Communications	0.27%	1,847,890
	Consumer Goods	0.00%	28,930
	Energy	0.00%	17,035
	Financials	1.11%	7,630,777
	Government	0.09%	598,114
	Health Care	0.02%	127,302
	Industrials	0.57%	3,928,759
	Technology	0.05%	369,103
	Utilities	0.05%	326,991
	Asia Total	2.18%	15,005,071
	Europe		
	Basic Materials	6.21%	42,573,851
	Communications	1.56%	10,690,104
	Consumer Goods	4.55%	31,175,917
	Consumer Services	8.79%	60,232,999
	Diversified	3.77%	25,833,918
	Energy	0.55%	3,763,339
	Financials	1.66%	11,348,963
	Government	0.06%	404,510
	Health Care	0.06%	430,238
	Index	23.92%	163,973,745
	Industrials	6.30%	43,171,290
	Technology	0.34%	2,322,363
	Utilities	0.29%	1,995,857
	Europe Total	58.06%	397,917,094
	North America (primarily United States)		
	Basic Materials	14.35%	98,325,793
	Commercial Services	0.01%	55,769
	Communications	3.11%	21,322,100
	Consumer Goods	19.75%	135,342,459
	Consumer Services	29.99%	205,510,172
	Diversified	75.94%	520,448,283
	Energy	2.63%	18,043,311
	Entertainment	0.03%	177,711
	Financials	13.08%	89,652,825
	Government	0.23%	1,585,967
	Health Care	2.71%	18,568,980
	Index	32.71%	224,204,691
	Industrials	5.96%	40,840,238
	Real Estate Investment Trust	0.06%	439,316
	Retail	0.03%	231,015
	Technology	1.83%	12,514,036
	Utilities	4.49%	30,789,808
	North America (primarily United States) Total	206.91%	1,418,052,474

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D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Condensed Schedule of Investments
December 31, 2008

(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Derivative Contracts With Long Positions, continued		
	Credit Default Swaps, Indices and Tranches, continued		
	Oceania (primarily Australia)		
	Basic Materials	0.01%	\$ 37,897
	Communications	0.03%	204,579
	Consumer Goods	0.09%	647,749
	Consumer Services	0.38%	2,644,130
	Financials	0.03%	179,240
	Health Care	0.17%	1,142,993
	Industrials	0.13%	894,855
	Utilities	0.05%	314,460
	Oceania (primarily Australia) Total	0.89%	6,065,903
	Latin America		
	Consumer Services	0.15%	1,005,179
	Latin America Total	0.15%	1,005,179
	Credit Default Swaps, Indices and Tranches Total	268.99%	1,843,509,122
	Forwards		
	North America (primarily United States)		
	Currency	0.01%	43,049
	North America (primarily United States) Total	0.01%	43,049
	Forwards Total	0.01%	43,049
	Total Return Swaps		
	Asia		
	Communications	(0.01%)	(38,832)
	Consumer Goods	(0.02%)	(138,696)
	Financials	(0.03%)	(200,866)
	Utilities	(0.02%)	(106,111)
	Asia Total	(0.08%)	(484,505)
	North America (primarily United States)		
	Communications	(0.07%)	(468,667)
	North America (primarily United States) Total	(0.07%)	(468,667)
	Total Return Swaps Total	(0.15%)	(953,172)
	Derivative Contracts With Long Positions Total	268.85%	\$ 1,842,598,999

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Consolidated Condensed Schedule of Investments
December 31, 2008

(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Derivative Contracts With Short Positions		
	Commodities Swaps		
	North America (primarily United States)		
	Energy	0.01%	\$ 81,121
	North America (primarily United States) Total	0.01%	81,121
	Commodities Swaps Total	0.01%	81,121
	Credit Default Swaps, Indices and Tranches		
	Africa		
	Consumer Services	(0.77%)	(5,287,415)
	Africa Total	(0.77%)	(5,287,415)
	Asia		
	Basic Materials	(0.02%)	(124,704)
	Communications	(0.26%)	(1,774,484)
	Consumer Goods	0.00%	(25,686)
	Energy	0.00%	(14,062)
	Financials	(1.06%)	(7,282,656)
	Government	(0.01%)	(81,345)
	Health Care	(0.02%)	(148,991)
	Industrials	(0.57%)	(3,878,196)
	Technology	(0.06%)	(386,963)
	Utilities	(0.05%)	(349,349)
	Asia Total	(2.05%)	(14,066,436)
	Europe		
	Basic Materials	(6.19%)	(42,453,806)
	Communications	(1.64%)	(11,219,039)
	Consumer Goods	(4.48%)	(30,689,384)
	Consumer Services	(8.92%)	(61,117,106)
	Diversified	(3.77%)	(25,833,918)
	Energy	(0.53%)	(3,650,764)
	Financials	(1.60%)	(10,992,133)
	Government	(0.06%)	(420,193)
	Health Care	(0.07%)	(448,224)
	Index	(23.93%)	(163,973,744)
	Industrials	(6.13%)	(42,032,757)
	Technology	(0.34%)	(2,350,320)
	Utilities	(0.28%)	(1,927,174)
	Europe Total	(57.94%)	(397,108,562)

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Consolidated Condensed Schedule of Investments
December 31, 2008

(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Derivative Contracts With Short Positions, continued		
	Credit Default Swaps, Indices and Tranches, continued		
	North America (primarily United States)		
	Basic Materials	(14.51%)	\$ (99,450,715)
	Communications	(3.60%)	(24,671,753)
	Consumer Goods	(21.71%)	(148,824,760)
	Consumer Services	(32.23%)	(220,883,618)
	Diversified	(75.95%)	(520,425,465)
	Energy	(2.75%)	(18,851,571)
	Entertainment	(0.03%)	(182,372)
	Financials	(12.72%)	(87,185,923)
	Government	(0.24%)	(1,614,995)
	Health Care	(2.74%)	(18,774,381)
	Index	(29.66%)	(203,272,459)
	Industrials	(5.95%)	(40,802,163)
	Real Estate Investment Trust	(0.06%)	(408,179)
	Technology	(2.14%)	(14,690,410)
	Utilities	(4.54%)	(31,139,502)
	North America (primarily United States) Total	(208.83%)	(1,431,178,266)
	Oceania (primarily Australia)		
	Basic Materials	0.00%	(21,300)
	Communications	(0.03%)	(195,183)
	Consumer Goods	(0.09%)	(626,041)
	Consumer Services	(0.38%)	(2,566,010)
	Financials	(0.03%)	(211,155)
	Health Care	(0.17%)	(1,183,600)
	Industrials	(0.13%)	(907,919)
	Utilities	(0.05%)	(314,256)
	Oceania (primarily Australia) Total	(0.88%)	(6,025,464)
	Latin America		
	Consumer Services	(0.14%)	(986,207)
	Latin America Total	(0.14%)	(986,207)
	Credit Default Swaps, Indices and Tranches Total	(270.61%)	(1,854,652,350)

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Consolidated Condensed Schedule of Investments
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(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Derivative Contracts With Short Positions, continued		
	Forwards		
	North America (primarily United States)		
	Currency	(0.02%)	\$ (156,385)
	North America (primarily United States) Total	(0.02%)	(156,385)
	Forwards Total	(0.02%)	(156,385)
	Futures		
	Asia		
	Index	0.00%	5,126
	Asia Total	0.00%	5,126
	Europe		
	Basic Materials	0.00%	(16,627)
	Financials	0.00%	1,757
	Europe Total	0.00%	(14,870)
	Futures Total	0.00%	(9,744)
	Total Return Swaps		
	Asia		
	Consumer Services	0.01%	36,474
	Diversified	0.01%	48,328
	Utilities	0.00%	93,660
	Asia Total	0.02%	178,462
	Europe		
	Utilities	0.00%	(12,363)
	Europe Total	0.00%	(12,363)
	North America (primarily United States)		
	Consumer Goods	0.00%	(10,701)
	North America (primarily United States) Total	0.00%	(10,701)
	Total Return Swaps Total	0.02%	155,398
	Derivative Contracts With Short Positions Total	(270.60%)	\$ (1,854,581,961)

Unrealized depreciation on derivative contracts, by long and short positions:

Derivative contracts with long positions	\$ 1,842,598,999
Derivative contracts with short positions	(1,854,581,961)
	<u>\$ (11,982,962)</u>

Unrealized depreciation on derivative contracts, net by counterparty:

Unrealized appreciation on derivative contracts	\$ 133,491,418
Unrealized depreciation on derivative contracts	(145,474,380)
	<u>\$ (11,982,962)</u>

The accompanying notes are an integral part of these consolidated financial statements.

D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Statement of Operations
Year Ended December 31, 2008

(in U.S. Dollars)

Investment income

Income	\$ 147,513,079
Interest	1,102,379
Dividends	4,456,909
Other	<u>153,072,367</u>

Expenses	71,801,690
Interest	102,080
Dividends	25,447,640
Management fees	(14,239,572)
Tax	10,713,733
Professional fees	20,103,675
Investment related	4,064,994
Other	<u>117,994,240</u>

Net investment income 35,078,127

**Net realized loss and change in unrealized gain / (loss) on
investments, derivative contracts and notes payable**

Net realized loss on investments and derivative contracts	(112,158,919)
Net change in unrealized loss on investments and derivative contracts	(911,146,137)
Net change in unrealized gain on notes payable	<u>90,387,474</u>
Net realized loss and change in unrealized gain / (loss) on investments, derivative contracts and notes payable	<u>(932,917,582)</u>
Net decrease in partners' capital from operations before minority interest	(897,839,455)
Share of net decrease in partners' capital attributable to minority interest	2,988,625
Net decrease in partners' capital from operations	<u>\$ (894,850,830)</u>

The accompanying notes are an integral part of these consolidated financial statements.

D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Statement of Changes in Partners' Capital
Year Ended December 31, 2008

	General Partner	Limited Partners	Total
<i>(in U.S. Dollars)</i>			
Partners' capital, December 31, 2007	\$ 3,711,232	\$ 1,586,792,092	\$ 1,590,503,324
Adjustment due to adoption of fair value option on notes payable (Note 8)	(23,647)	(10,112,494)	(10,136,141)
	3,687,585	1,576,679,598	1,580,367,183
Withdrawals	-	(149,659)	(149,659)
Allocation of net decrease in partners' capital from operations	(2,056,704)	(892,794,126)	(894,850,830)
Partners' capital, December 31, 2008	<u>\$ 1,630,881</u>	<u>\$ 683,735,813</u>	<u>\$ 685,366,694</u>

The accompanying notes are an integral part of these consolidated financial statements.

D.B. Zwirn Special Opportunities Fund, L.P.
Consolidated Statement of Cash Flows
Year Ended December 31, 2008

(in U.S. Dollars)

Cash flows from operating activities:

Net decrease in partners' capital from operations before minority interest	\$	(897,839,455)
Net decrease in partners' capital attributable to minority interest		2,988,625
Adjustments to reconcile net decrease in partners' capital from operations to net cash and cash equivalents provided by operating activities		
Purchases and drawdowns of investments	(1,046,480,020)	
Payments to cover investments sold, but not yet purchased	(125,134,630)	
Proceeds from investments sold and paydowns	1,700,212,490	
Proceeds from investments sold, but not yet purchased	21,772,786	
Net realized loss on investments	106,896,220	
Amortization of closing fees	(12,541,751)	
Non-cash interest from payment in-kind investments	(16,603,370)	
Minority interest	(106,355)	
Debt issuance costs	(10,136,141)	
(Increases) / decreases in operating assets		
Net change in unrealized loss on investments	895,200,002	
Net change in unrealized appreciation on derivative contracts	(69,302,340)	
Cash collateral pledged	(6,236,929)	
Receivable for investments sold	10,668,199	
Due from brokers and counterparties	156,061,330	
Interest receivable	20,263,636	
Dividend receivable	163,699	
Other assets	19,942,586	
Increases / (decreases) in operating liabilities		
Net change in unrealized depreciation on derivative contracts	64,402,050	
Payable for investments purchased	(5,545,860)	
Due to brokers and counterparties	(162,241,137)	
Interest payable	(1,824,793)	
Dividend payable	(101,940)	
Management fees payable	(4,676,494)	
Taxes payable	(14,748,604)	
Accrued expenses and other liabilities	(15,655,814)	
		<u>1,504,246,820</u>
Net cash and cash equivalents provided by operating activities		609,395,990

Cash flows from financing activities:

Withdrawals	(32,175,288)	
Proceeds from issuance of notes payable	80,929,486	
Repayment of notes payable	(490,860,372)	
Net change in unrealized gain on notes payable	(90,387,474)	
Realized loss on notes payable	3,837,342	
Proceeds from issuance of short term borrowings	7,624,242	
Repayment of short term borrowings	(229,825,952)	
Payments for investments sold under agreements to repurchase, net	(16,928,422)	
Due to affiliates, net	(100,879,778)	
		<u>(868,666,216)</u>
Net cash and cash equivalents used in financing activities		(259,270,226)

Cash and cash equivalents

Beginning of year	317,007,843
End of year	<u>\$ 57,737,617</u>

Supplemental cash flow information

Cash paid during the year for interest	\$ 73,626,483
Cash paid during the year for unincorporated business taxes	<u>\$ 2,000,000</u>

Non-cash supplemental information

Interest from payment in-kind investments	<u>\$ 16,603,370</u>
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The accompanying notes are an integral part of these consolidated financial statements.

D.B. Zwirn Special Opportunities Fund, L.P.
Notes to Consolidated Financial Statements
December 31, 2008

1. Organization and Business

D.B. Zwirn Special Opportunities Fund, L.P. (the "Partnership"), a Delaware limited partnership, commenced operations on May 1, 2002.

The investment objective of the Partnership is to achieve attractive risk-adjusted returns through all business cycles. Pursuant to the terms of the Offering Memorandum, the following sub-strategies represent the majority of the Partnership's intended investment focus: 1) Lending: Corporate, Real Estate; 2) Assets: Commercial and Industrial Assets, Structured Finance, Consumer Assets; 3) Corporate Debt: Distressed Debt, Credit Arbitrage, Credit Default Swaps, Tranches and Indices; 4) Public Equity: Event-driven Relative Value, Industry Relative Value, Merger Arbitrage and Strategic Block; and 5) Private Equity: Corporate Private Equity, Real Estate Private Equity, Structured Private Investments/PIPEs.

The Partnership's general partner is D.B. Zwirn Partners, LLC (the "General Partner"), a Delaware limited liability company, pursuant to the Partnership's limited partnership agreement (the "Agreement"). Zwirn Holdings, LLC ("ZH") is the General Partner's managing member. The General Partner is generally responsible for providing certain management and administrative services to the Partnership.

D.B. Zwirn & Co., L.P. (the "Investment Manager"), a Delaware limited partnership, is responsible for making investment decisions on behalf of the Partnership. ZH is the general partner of the Investment Manager. The Investment Manager manages other funds and accounts (collectively, the "Other Accounts") with a similar investment objective to that of the Partnership and allocates investment opportunities to the Partnership and the Other Accounts, including, but not limited to, D.B. Zwirn Special Opportunities Fund, Ltd. (the "Offshore Fund") and D.B. Zwirn Special Opportunities Fund (TE), L.P. (the "TE Fund"), pursuant to the terms of the Agreement.

In March 2008, the Investment Manager of the Partnership began implementing an orderly disposition of the Partnership and Offshore Fund's portfolios.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Partnership owns all of the preferred shares of Bernard National Loan Investors, Ltd. ("Bernard"), a collateralized loan obligation ("CLO") (see Note 3) which is an exempted limited liability company incorporated in the Cayman Islands. The Partnership also owns all of the preferred shares of Woodhaven Drive I, LLC ("Woodhaven"), a collateralized financing facility (see Note 4) which is an exempted limited liability company incorporated in the Cayman Islands. The consolidated financial statements include the accounts of the Partnership and its consolidated subsidiaries (collectively, the "Fund"): Bernard, Woodhaven, and certain Investment Platforms in which the Partnership holds a controlling interest (see Note 9). The minority interest in these Investment Platforms held by the various Investment Platform Partners are shown separately. All material intercompany accounts and transactions have been eliminated in consolidation.

D.B. Zwirn Special Opportunities Fund, L.P.
Notes to Consolidated Financial Statements
December 31, 2008

Cash and Cash Equivalents

At December 31, 2008, cash and cash equivalents primarily consist of deposits held in banks and short-term, highly liquid instruments with original maturities of three months or less. At December 31, 2008, cash and cash equivalents include \$24.6 million of cash held in a bank by Bernard. Such cash is not generally available for use by the Partnership other than by Bernard. The Fund maintains substantially all its cash deposits with a major U.S. bank, LaSalle N.A., at amounts which generally exceed the FDIC insurable limits.

Due from and to Brokers and Counterparties

The Fund's due from brokers and counterparties balances consist of domestic and foreign cash balances on deposit with, or amounts borrowed from, brokers and balances due from/to counterparties on realized transactions. These balances are recognized on a gross asset and gross liability basis on the consolidated statement of assets, liabilities and partners' capital. At December 31, 2008, these balances were held primarily with J.P. Morgan.

Cash Collateral Pledged

In relation to derivatives, the Fund's cash collateral pledged balance consists of amounts held by counterparties. At December 31, 2008, these balances were held primarily with Goldman Sachs.

Valuation of Investments

The Fund's assets are valued by the General Partner, in consultation with the Investment Manager, subject to the General Partner's discretion as described in the Agreement.

Securities that are listed on a national securities exchange and are freely transferable are valued at their closing price on the date of determination on the primary securities exchange on which such securities are listed. Securities which are not listed but are traded over-the-counter ("OTC") and are freely transferable are valued at their closing price as reported by the NASDAQ system.

Financial instruments (primarily corporate bonds, bank debt, asset backed and mortgage backed, convertible and distressed securities) whose market quotations are not listed on an available national securities exchange are valued at estimated fair value as determined in good faith by the General Partner after consideration of, among other things, quotations obtained from outside brokers and pricing services, to the extent available.

Financial instruments whose market quotations are deemed inappropriate by the General Partner, or are not available, are valued at estimated fair value as determined in good faith by the General Partner after considering one or more of the following: a comparison to market values of similar instruments, recent purchase and sales activity, investment risk, and other factors the General Partner may deem appropriate.

Private investments held directly or indirectly (including, but not limited to, corporate and real estate loans, private equity, real estate assets, commercial/industrial and consumer assets, structured products and other illiquid investments) are valued at estimated fair value as determined in good faith by the General Partner. Privately held corporate and real estate loans, either held directly or through a participation, are valued by the General Partner at estimated fair value which generally approximates cost, plus accrued interest, unless a write-down is deemed necessary based on an estimate of ultimate recoverable principal amounts and also considers market yields and

D.B. Zwirn Special Opportunities Fund, L.P.
Notes to Consolidated Financial Statements
December 31, 2008

other factors the General Partner may deem appropriate. Non-performing loans ("NPLs") are valued at estimated fair value as determined in good faith by the General Partner based on factors that include, but are not limited to, the timing and amounts of cash flows versus expectations and the progress towards key milestones established at the time of underwriting. Because the timing and amounts of the cash flows are generally difficult to predict, the valuation of NPLs tend to require significant judgment from the General Partner. On a quarterly basis, the General Partner has engaged the services of several independent third parties to issue opinions on the fair value of certain private investments selected by the General Partner based on the size of the investment and the period of time held.

OTC derivatives are valued at estimated fair value as determined by the General Partner based on various valuation models which consider the type of derivative and underlying instrument. Generally, a model is used consistently for similar derivative types and model inputs, including, but not limited to, market prices, yield curves, credit spreads, volatilities and implied correlations which are obtained from outside brokers and/or pricing services. In less complex, more liquid derivatives (including, but not limited to, equity options and equity swaps), the valuation model does not require significant judgment from the General Partner. In more complex, less liquid derivatives (including, but not limited to, various types of credit default swaps), the valuation model requires significant judgment from the General Partner regarding the appropriate selection of valuation model and related inputs and the determination of any valuation adjustments to arrive at fair value due to lack of market transparency. At December 31, 2008, the unrealized appreciation and depreciation on derivative contracts amounted to approximately \$133.5 million and \$145.5 million, respectively.

Investments in other investment companies not controlled by the Fund are valued at fair value by the General Partner based on the Fund's share in the net assets of the underlying investment companies, which generally considers the General Partner's estimates of fair value of the investments owned by such entities. Investments in other investment companies do not have readily determinable market values and are subject to certain withdrawal restrictions. The fair values of the Fund's investments in such entities represent the amounts the Fund would expect to receive at December 31, 2008 if it were to liquidate such investments excluding redemption fees that may apply. See also Note 9, Investment Platforms.

Investments, whether held directly or indirectly through other investment companies, with legal restrictions on the sale or transfer of the security may be discounted by the General Partner from the quoted market price in estimating the fair value of such restricted securities.

The Fund may not be able to sell its investments where no liquid market exists when it desires to do so or to realize what it perceives to be their fair value. Because of the inherent uncertainty of valuation for the Fund's investments described above, the estimate of fair value determined by the General Partner may differ from the values that would have been used had a ready market existed, and the difference could be material.

D.B. Zwirn Special Opportunities Fund, L.P.
Notes to Consolidated Financial Statements
December 31, 2008

Consolidated Condensed Schedule of Investments

The asset class, industry and geographical classifications included in the consolidated condensed schedule of investments represent the General Partner's belief as to the most meaningful presentation of the classification of the Fund's investments, whether held directly or indirectly through Investment Platforms discussed in Note 9.

Investments of the Fund in any one issuer (including certain subsidiaries) or in certain Investment Platforms that exceed, in the aggregate, more than 5% of its partners' capital are separately listed in the consolidated condensed schedule of investments. The Fund's investments are concentrated in the asset classes, industries and geographic regions presented in the consolidated condensed schedule of investments. See also Note 9, Investment Platforms. Portfolios of NPLs are reflected in the appropriate industry category under Asset Investments on the consolidated condensed schedule of investments.

Foreign Currency Translation

Investments and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of financial instruments and income and expense items are translated at the rate of exchange on the respective date of such transactions. Realized and unrealized gains and losses resulting from foreign currency changes are reflected in the consolidated statement of operations as a component of net realized and unrealized loss on investments and derivative contracts.

Derecognition of Investments

The Fund derecognizes investments (including private investments and investments in or through the Investment Platforms discussed in Note 9) which are fully or partially transferred to the Other Accounts when it has surrendered control of the transferred investments, as defined by Statement of Financial Accounting Standards 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125*.

The Fund considers the transfer of investments as a sale when the investments have been isolated from the Fund, even in bankruptcy or other receivership, the purchaser has the right to sell the investments transferred and the Fund does not have an option or any obligation to reacquire the investments.

Investment Transactions and Related Income

Purchases and sales of financial instruments, and their related income and expense, are recorded on a trade-date basis or, with respect to private investments, the date when the terms of the transaction are fully negotiated and known. Corresponding gains and losses are recognized in the consolidated statement of operations as a component of net realized and unrealized loss on investments and derivative contracts. Realized gain and losses are recognized on a first-in-first-out basis. Interest income on the debt of issuers who are currently paying in full is accrued and recognized. For those issuers who are not currently paying in full, interest is not accrued and is recognized only if and when received. Interest derived from payment-in-kind securities is accrued as an increase to the cost and to the fair value of the related investments when it is a compounding payment-in-kind, or as interest receivable when it is a simple payment-in-kind. Dividend income on investments owned, and dividend expense on investments sold, but not yet purchased, are recognized on the ex-

D.B. Zwirn Special Opportunities Fund, L.P.
Notes to Consolidated Financial Statements
December 31, 2008

dividend date. Interest income on balances held in the Fund's brokerage and bank accounts is recognized on an accrual basis.

When the Fund holds an interest in a loan, it may receive various fees during the life of the investment. Such fees include, but are not limited to, commitment, undrawn, administration, prepayment, maintenance and amendment fees which are paid to the Fund on an ongoing basis. Amendment fees (including break up fees) are recognized upon completion of the amendments or waivers, generally when such fees are receivable. Such fees are included in other income on the consolidated statement of operations. Origination fees received at the closing of a loan (i.e., closing fees) are amortized into interest income over the remaining life of the loan. Facility fees are recorded on an accrual basis.

Income Taxes

As a partnership, the Fund itself is not subject to U.S. Federal income taxes. Accordingly, no provision for federal, state and local income taxes has been made in the accompanying consolidated financial statements, as the individual partners are responsible for their proportionate share of the Fund's taxable income.

Interest, dividends and other income realized by the Fund from non-U.S. sources and capital gains realized on the sale of securities and net unrealized gain on investments of non-U.S. issuers may be subject to withholding and other taxes levied by the jurisdiction in which the income is sourced. For the year ended December 31, 2008, approximately \$14.8 million of accruals were reversed. Such taxes are reflected as a contra-expense on the consolidated statement of operations and are reflected in taxes payable on the consolidated statement of assets and liabilities. This balance is comprised of a reversal of \$18.0 million of non-U.S. deferred tax and additional provisions of \$3.2 million of non-U.S. current tax.

Certain activities of the Fund may cause the Fund to be subject to New York City Unincorporated Business Tax at a rate of 4% of adjusted net taxable income. For the year ended December 31, 2008, there were no amounts due for such tax. In addition, certain activities may cause partners in the Fund to be subject to state taxes. As a result, the Fund is required to withhold state taxes on behalf of certain partners on the amount of state source income. This state tax withholding of \$0.4 million has been shown as a reduction in the capital account of each partner subject to the withholding.

The Investment Manager intends to conduct the business of the Fund so that the Fund's activities do not create a taxable presence in any of the foreign jurisdictions in which the Investment Manager has offices.

Withdrawals Payable

Withdrawals are recognized as liabilities, net of the incentive allocation (as defined in Note 11), when the amount requested in the withdrawal notice becomes fixed. This generally may occur either at the time of the receipt of the withdrawal notice, or on the last day of a fiscal period, depending on the nature of the request. As a result, withdrawals paid after the end of the year, but based upon year-end capital balances are reflected as withdrawals payable at December 31, 2008. The amount of capital subject to withdrawal notices received for which the dollar amount is not fixed remains in capital until the amount is determined. Through the effective date of the

D.B. Zwirn Special Opportunities Fund, L.P.
Notes to Consolidated Financial Statements
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withdrawal, withdrawals payable are treated as capital for purposes of allocations of gains/losses pursuant to the Agreement.

Subsequent to the implementation of the orderly disposition of the Partnership and Offshore Fund's portfolios (as discussed in Note 11), withdrawal notices are no longer received by the Partnership and all limited partners will participate in distributed proceeds on a pro-rata basis in accordance with their respective interests in the Partnership.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the General Partner to make estimates and assumptions that affect the fair value of investments, the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. In particular, estimates have been made relating to the valuation of investments fair valued by the General Partner and certain derivatives and the collectability of interest. Actual results could differ from the amounts reflected in these consolidated financial statements and the differences could be material.

Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("the Board") issued FIN No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of the FASB Statement No. 109* ("FIN 48"). FIN 48 establishes a requirement to assess whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals process, based on the technical merits of the position. Upon determination of the more-likely-than-not recognition threshold, a position is measured to determine the amount of benefit to be recognized in the consolidated financial statements. Originally, FIN 48 was to be effective for fiscal years beginning on or after December 15, 2006.

On February 1, 2008, the Board issued a Staff Position FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which allows the Fund to defer the adoption of FIN 48 until annual periods beginning after December 15, 2007. On December 30, 2008, the FASB issued FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* ("FSP 48-3"), which once again deferred the effective date of FIN 48. Under FSP 48-3, in the absence of early adoption, FIN 48 will become effective for the Fund at December 31, 2009. The Investment Manager has elected to take advantage of this deferral and will continue to accrue for liabilities relating to uncertain tax positions only when such liabilities are probable and reasonably estimatable. The Investment Manager is in the process of determining whether the adoption of FIN 48 will have a material impact to the Fund's consolidated financial statements. The Investment Manager's conclusions regarding FIN 48 are subject to review and adjustment at a later date based on on-going analyses of tax laws, regulations and interpretations thereof and other factors.

In February 2008, the Board issued FASB Staff Position No. FAS 140-3 ("FSP"), *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. The FSP applies to a repurchase financing, which is a reverse repurchase agreement that relates to a previously transferred financial asset between the same counterparties (or consolidated affiliates of either

D.B. Zwirn Special Opportunities Fund, L.P.
Notes to Consolidated Financial Statements
December 31, 2008

counterparty), that is entered into contemporaneously with, or in contemplation of, the initial transfer. The FSP is effective for years beginning after November 15, 2008. The Investment Manager has determined that there is no impact of the FSP on the Fund's consolidated financial statements.

In March 2008, the Board issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. The standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Investment Manager is currently in the process of determining the impact, if any, of the standard on the Fund's consolidated financial statements.

In April 2009, the Board issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP 157-4"). FSP 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The standard is applicable for interim and annual reporting periods ending after June 15, 2009. The Investment Manager does not expect the adoption of this guidance to have a material impact on the Fund's consolidated financial statements.

In September 2009, the Board issued FASB ASC 820-10, *Fair Value Measurements and Disclosures*, for estimating the fair value of investments in investment companies that have calculated net asset value per share in accordance with FASB ASC 946-10, *Financial Services—Investment Companies* (formerly the American Institute of Certified Public Accountants Audit and Accounting Guide, *Investment Companies*). According to this guidance, which was formerly referred to as FSP FAS 157-g or Accounting Standard Update 2009-12, in circumstances in which net asset value per share of an investment is not determinative of fair value, a reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment in an investment company using the net asset value per share of the investment (or its equivalent) without further adjustment, if the net asset value per share of the investment is determined in accordance with FASB ASC 946-10 as of the reporting entity's measurement date. The guidance also requires certain additional disclosures. The Investment Manager does not expect the adoption of this guidance to have a material impact on the Fund's consolidated financial statements.

The Board issued FASB Statement No. 165, *Subsequent Events* ("FASB 165") which is effective for interim and annual periods ending after June 15, 2009. FASB 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date

D.B. Zwirn Special Opportunities Fund, L.P.
Notes to Consolidated Financial Statements
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through which an entity has evaluated subsequent events and the basis for that date. The Investment Manager is currently evaluating the impact of the effect of implementing this guidance.

In June 2009, the Board issued FASB Statement No. 168, *The FASB Accounting Standards Codification* ("FASB 168" or "Statement"). FASB 168 establishes that the FASB Accounting Standards Codification ("Codification") will become the source of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the Board to be applied by nongovernmental entities. On the effective date of FASB 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. Following this Statement, the Board will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. The Board will not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. FASB 168 will be effective for interim and annual periods ending after September 15, 2009. The Investment Manager does not expect the adoption of FASB 168 to have a material impact on the Fund's consolidated financial statements.

3. Notes Payable

CLO

Bernard is a CLO formed in April 2004, into which the Partnership contributed a portion of its assets at the time of formation. In March 2005 and June 2006, the size of the CLO was increased. At the time of each upsize, the Partnership contributed additional assets into the CLO. To facilitate the leveraged capital structure of the CLO, Bernard entered into an indenture (the "Indenture") pursuant to which it issued Class A-1 Senior Secured Term Notes, ("Class A-1 Notes"), Class A-2 Senior Secured Revolving Notes ("Class A-2 Notes"), Class A-3a Notes, and Class A-3b Notes, ("Class A-3 Notes"), and Class B Notes (collectively, the "Notes"), the interest on which Bernard will pay on the dates and in the manner provided for in the Indenture. The Notes that are collateralized by the assets (which are primarily corporate and real estate loans) in Bernard and have an aggregate fair value of approximately \$616.3 million at December 31, 2008.

On March 28, 2008, Bernard had fully drawn down on its existing commitment of the Class A-3 Notes to \$53.7 million at the current preferred equity level. The reinvestment period expired on March 28, 2008. For the year ended December 31, 2008, Bernard paid down the Class A-1 Notes, Class A-2 Notes, and Class A-3 Notes, by \$27.4 million, \$312.1 million and \$126.3 million.

As of December 31, 2008, \$20.1 million (par \$22.6 million) of the Class A-1 Notes at Libor plus 0.35%, \$265.4 million (par \$299.9 million) of the Class A-2 Notes bearing interest at Libor plus 0.37%, \$42.5 million (par \$44.4 million) of the Class A-3a Notes and Class A-3b Notes bearing interest at Libor plus 0.28%, \$45.1 million (par \$53.7 million) of the Class A-3c Notes bearing interest at Libor plus 0.36%, and \$85.2 million (par \$123.5 million) of the Class B Notes bearing interest at Libor plus 8% were issued and outstanding. The Class A Notes and Class B Notes are included in notes payable on the consolidated statement of assets, liabilities and partners' capital. Interest on the Notes accrue and are payable on a calendar quarter basis. The Notes mature on March 28, 2013. The trustee of Bernard is LaSalle Bank N.A.

D.B. Zwirn Special Opportunities Fund, L.P.
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Under the terms of the Indenture, as amended, Bernard is subject to various covenants regarding its investments, including but not limited to, minimum over-collateralization and interest coverage levels, events of default, eligibility criteria and portfolio collateral quality tests. Beginning on August 29, 2008, Bernard failed to meet its minimum Class A over-collateralization ratio test of 144.5%; however, it has maintained its Class A over-collateralization ratio greater than the minimum trigger for an event of default of 115% during the year ended December 31, 2008. On January 8, 2009, the Indenture was amended to increase the events of default measure to maintain the Class A minimum over-collateralization ratio above 120%.

Beginning on July 31, 2008, Bernard failed to meet its minimum Class B over-collateralization ratio test of 125.4%.

As of the latest measurement date, November 30, 2009, Bernard's Class A and Class B overcollateralization ratios are 131.84% and 89.91%, respectively. Bernard's Class A interest coverage ratio is 737.43%. Bernard's failure to meet the Class A and Class B over collateralization ratios affects the priority of waterfall payments and accelerates repayment of the Class A-1 Notes, Class A-2 Notes and Class A-3 Notes.

4. Short-term Borrowings

Woodhaven was formed on August 29, 2006. Woodhaven has repaid \$229.8 million on a short-term revolving debt facility. The facility had an interest at Libor plus 2.0% during the year. The facility was fully repaid and terminated on July 18, 2008.

5. Related Party Transactions

At December 31, 2008, nearly all of the Partnership's due to affiliates balance reflected on the consolidated statement of assets, liabilities and partners' capital represent payables to the Offshore Fund and the TE Fund for outstanding past advances. The payables are evidenced by promissory notes. For as long as these obligations remain outstanding, the Partnership is prohibited from (i) making any distributions, dividends, or redemption payments to its limited partners and (ii) making any distribution to the General Partner with respect to incentive allocations relating to the 2008 fiscal year and future years. During 2008, the payable incurred interest at 12% per annum, amended to 15% per annum on September 30, 2008. For the year ended December 31, 2008, interest on such balances amounted to \$20.5 million and is included in interest expense in the consolidated statement of operations.

In the normal life cycle of private investments (including, but not limited to, corporate and real estate loans, private equity, real estate assets, and commercial/industrial and consumer assets held directly or through Investment Platforms), cash transfers occur at the inception of the investment, during the life of the investment (including, but not limited to, follow-on investments, dividends, interest, fees, draws and partial prepayments) and at the close of the transaction. In many of these transactions, the Partnership may sell or participate a portion of such investments to the Other Accounts and thereafter act in an agency capacity for the Other Accounts. In connection with these transactions, the Partnership may, among other things, act as the counterparty to the external party, administer the aggregate flow of funds with the external party and periodically settle related cash transfers with the Other Accounts involved in the transaction.

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As discussed above, the Investment Manager will from time to time offer to the Other Accounts and/or unaffiliated third parties participations in and/or assignments or sales of certain investments (or interests therein) that the Partnership has originated or purchased. In connection with such an offer to the Other Accounts and/or unaffiliated third parties, the price of such transaction will be set in accordance with the Investment Manager's established valuation policies which may involve the use of an independent third party, as discussed in Note 2, or in the case of such transaction which occurs at the initial acquisition, at the purchase price of such investment. In determining the amount to invest, the Investment Manager will take into consideration various factors, including but not limited to, the fact that it will, from time to time cause the Fund to engage in the transaction with Other Accounts and/or offer such investments to unaffiliated third parties as described above.

The Fund makes certain investments (including, but not limited to, corporate and real estate loans and private equity investments) through nominee entities. In such situations, the nominee makes each such investment under the direction of the General Partner and the Fund and Other Accounts are issued participation rights. These rights and any corresponding unfunded obligations, underlying collateral agreements, and financing arrangements are based upon the Fund's and Other Accounts' participation in, and funding of, such investments. The Fund's allocable shares of such investments are recorded on the consolidated statement of assets, liabilities and partner's capital and the consolidated condensed schedule of investments as a component of investments owned.

Bernard Capital Funding, LLC ("BCF"), a wholly-owned subsidiary of the Investment Manager, is the investment manager of Bernard and, as such, earns a quarterly servicing fee payable by Bernard. The servicing fee payable to BCF is calculated generally as a percentage of the sum of (i) the aggregate principal balance of the loans and other investments owned by Bernard from time to time (including loans transferred to Bernard by the Partnership) and (ii) any cash held by Bernard representing uninvested principal proceeds. The management fee payable by the Partnership to the Investment Manager will be reduced by the amount of the servicing fee paid (\$9.1 million) by Bernard to BCF.

D.B. Zwirn Global Advisors, LLC ("DBZGA"), a wholly-owned subsidiary of the Investment Manager, charges the Fund a fee in connection with the management and servicing of certain portions of the Fund's loan portfolio. This fee is in addition to the management fee already payable by the Fund and is used to facilitate the Investment Manager and DBZGA in engaging personnel and incurring other overhead costs to manage these loans in lieu of hiring an unaffiliated third-party service provider to provide these services. The fee is calculated as 40 basis points on fair value of loan balances for which no other servicing fees are charged by third parties. For the year ended December 31, 2008, the Fund incurred \$2.9 million in connection with such fees. Such amount is included in other expense in the consolidated statement of operations.

The Investment Manager determines the allocation of expenses to the Fund and Other Accounts. The Investment Manager determines the nature of the expenses charged to the Fund and Other Accounts and the allocation methodology utilized. Factors considered in the allocation of expenses to the Fund include, but are not limited to, the Fund's participation, actual or anticipated, in investments generating investment related expenses and the net assets of the Fund. For certain expenses, the Investment Manager initially paid for the expenses and was reimbursed by the Fund. At December 31, 2008, the Fund owed the Investment Manager \$925 thousand for such

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reimbursable expenses which is recorded in accrued expenses and other liabilities in the consolidated statement of assets, liabilities and partners' capital.

In limited instances, the Partnership provides letters of credit to counterparties in certain transactions. In such cases, the Investment Manager would obtain a letter of credit issued by its bank on behalf of the Partnership and the Partnership would provide the Investment Manager with the cash collateral that would support the issuance of the letter of credit. At December 31, 2008, the Investment Manager had letters of credit outstanding on behalf of the Fund of \$1.2 million for which the Fund had provided cash collateral.

From time to time, principals and employees of the Investment Manager and the General Partner may also make certain investments for their own accounts and may invest in companies, including bankrupt, financially distressed and special situation companies, in which the Fund invests.

At December 31, 2008, the Fund has a receivable of approximately \$6.1 million from the General Partner for an adjustment to incentive fees related to prior year audit adjustments. This amount is included in other assets on the consolidated statement of assets, liabilities, and partners' capital. The amount was repaid in May 2009 after the conclusion of the prior year audit. At December 31, 2008, the General Partner's capital account was \$1.6 million.

6. Financial Instruments

The Fund's investments, which may be denominated in any currency, may include, among other things, equity securities (both listed and OTC), convertible bonds, corporate bonds (both investment grade and non-investment grade), distressed debt, commercial and industrial assets (including, but not limited to, asset-based loans, trade claims, specialized equipment leases, litigation claims, NPLs and consumer receivables), structured finance products (asset-backed and mortgage-backed securities and collateralized debt obligations), credit default swaps (including single names, tranches and indices), bank loans, corporate and real estate loans, special situation equity investments, real estate, commodity-related products and derivatives (including, but not limited to, options, futures, swaps and forwards).

The Fund's investment activities subject it to market risk. Market risk is the potential loss the Fund may incur as a result of changes in the fair value of a particular financial instrument or changes in interest rates. In addition, the Fund's portfolio includes investments in illiquid or thinly traded investments, such as investments in distressed securities, NPLs and non-investment grade securities, that may be subject to greater volatility than more liquid, actively traded investments. One component of market risk is currency risk which arises from the possibility that fluctuations in foreign exchange rates will affect the value of such financial instruments, including foreign currency contracts and direct or indirect investments in securities of non-U.S. companies. The Investment Manager attempts to mitigate the effect of market risk in the portfolio by diversifying the investments of the Fund across markets and regions.

The Fund's investment activities subject it to credit risk. Credit risk is the potential loss the Fund may incur as a result of the failure of an issuer or counterparty to make payments according to the terms of a contract. Credit risk arises from investment activities in which the Fund is exposed to the potential default of debtors (including counterparties in the case of loan participations) in the

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repayment of principal and interest. Credit risk also arises from the uncertainty that counterparties will fulfill their obligations on derivative contracts in which the Fund stands to make a profit. The Fund's exposure to credit risk at any point in time is limited to amounts recorded as assets in the consolidated statement of assets, liabilities and partners' capital. The Investment Manager attempts to control credit risk by performing due diligence on debtors and investing in the secured, senior tranches of distressed debt, and secured, privately originated corporate and real estate loans. In the case of counterparty credit risk, the Investment Manager attempts to mitigate the risk by generally dealing with well-established counterparties. In the ordinary course of business, the Fund may be exposed to a concentration of credit risk to a particular counterparty, borrower or issuer. At December 31, 2008, substantially all of the Fund's credit derivatives were executed with Goldman Sachs or Merrill Lynch.

Certain of the Fund's investment activities subject it to political risk. In pursuing investments in foreign countries, the Fund is exposed to risks not typically associated with domestic investments such as the risks related to legal structure, tax withholding, limitations on the removal of cash or other assets of the Fund and political stability.

Investments in derivative instruments, including total return swaps and various types of credit default swaps, subject the Fund to off-balance-sheet market risk, where changes in the fair value of the financial instruments underlying the derivative instruments may exceed the amount recognized in the consolidated statement of assets, liabilities and partners' capital. The change in value of the derivative contracts, net of accrued interest where applicable, is recorded as a component of net change in unrealized loss on investments and derivative contracts on the consolidated statement of operations. Unrealized gains are reported as assets and unrealized losses are reported as liabilities on the consolidated statement of assets, liabilities and partners' capital. Realized gains and losses are recorded upon termination of each derivative contract.

The Fund may invest in various types of credit default swaps. Credit default swaps involve an agreement to exchange cash flows based on the creditworthiness of the underlying issuer of a security. The reference obligation of the swap can be a single user, a basket of users or an index.

Index and basket credit default swaps are credit default swaps that reference multiple names through underlying baskets or portfolios of single name credit default swaps. In the case of expected credit improvement, the Fund may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Fund to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Fund may also buy credit default protection with respect to a referenced entity if, in the judgment of the Investment Manager, there is a high likelihood of credit deterioration. In such instance, the Fund will pay a premium regardless of whether there is a credit event. The credit default swap market in high-yield securities in which the Fund participates is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment-grade securities, creating the risk that the newer markets will be less liquid, and making it potentially more difficult to exit or enter into a particular transaction. The table below summarizes certain information regarding protection sold through credit default swaps as of December 31, 2008:

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Protection Sold
Maximum Potential Payout/Notional (in millions)
Years to Maturity

Credit spreads on underlying (basis points)	0-6 months	6-12 months	1-5 years	5-10 years	Total
0 - 100	\$ 115.4	\$ -	\$ 1,058.2	\$ 137.5	\$ 1,311.1
101 - 250	85.1	-	1,586.0	306.9	1,978.0
251 - 500	71.1	-	2,756.8	280.9	3,108.8
501 - 1000	57.2	1.9	2,008.9	190.3	2,258.3
Greater than 1000	99.0	21.9	3,272.5	247.4	3,640.8
Total	\$ 427.8	\$ 23.8	\$ 10,682.4	\$ 1,163.0	\$ 12,297.0

As of December 31, 2008, the unrealized depreciation of these swap contracts is \$1.8 billion. Because the collateral accounts and ISDA agreements cover multiple types of derivatives, it is not possible to segregate collateral specific to the written credit derivatives. The collateral posted in total is \$42.4 million. There were no recourse provisions in place as of December 31, 2008.

In connection with the above swap contracts, the Fund received upfront fees amounting to \$209.4 million. These amounts are reflected on the consolidated statement of assets, liabilities and partners' capital under derivative contracts. Upon termination of the credit default swap contracts, the fees are offset against the fair value of the derivative contracts and recognized in net realized loss on derivative contracts on the consolidated statement of operations.

The Fund may enter into total return swap contracts as part of its investment strategy. Total return swaps involve an agreement to exchange cash flows based on the total return of underlying financial instruments and a stated interest rate.

Certain of the Fund's ISDA agreements contain provisions that require the Fund to maintain a predetermined level of net assets, and/or provide limits regarding the decline of these predetermined levels over certain defined periods. If the Fund were to violate such provisions, the counterparties to respective agreements in which a violation occurs could terminate such agreement making all open transactions terminated and require immediate settlement or, as an alternative to immediate termination, require the Fund to consent to change the terms of the agreement adversely to the Fund around additional termination provisions or additional collateral requirements.

The Fund has pledged collateral amounting to approximately \$2.1 million in connection with OTC derivative contracts at December 31, 2008, which is included in cash collateral pledged on the consolidated statement of assets, liabilities and partners' capital.

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The Fund may buy and write certain listed and OTC put and call options. The buyer of an option has the right to purchase (in the case of a call option) or sell (in the case of a put option) a specified quantity of a specified financial instrument at a specified price prior to or on a specified expiration date. The writer of an option is exposed to the risk of loss if the market price of the underlying financial instrument declines (in the case of a put option) or increases (in the case of a call option). The writer of a call option can never profit by more than the premium paid by the buyer, but can lose an unlimited amount. At December 31, 2008, the Fund had investments in options with a fair value of approximately \$799 thousand included in investments owned (options bought) and approximately \$616 thousand included in investments sold, but not yet purchased (options written).

The Fund uses various forms of leverage including notes, short-term borrowings, short positions, investments sold under agreements to repurchase and purchasing securities on margin. The amount of borrowing will vary depending on market conditions and investment opportunities, as well as the types of investments held by the Fund and the total fair value of such investments. There is no limit, cap or restriction on the amount of borrowing that the Fund may use or the exposure the Fund may have. Leverage will likely vary and could be significant at times. The borrowing arrangements that the Fund may enter into may contain certain covenants which may restrict the Fund's ability to liquidate its assets or otherwise redirect its assets to other uses at times.

The Fund may invest, directly or through OTC derivatives, in collateralized debt obligations ("CDOs"), including CDOs managed by the Investment Manager and other affiliates. The value of the CDOs owned by the Fund generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Holders of CDOs must rely solely on distributions on the CDO Collateral for any cash flows due to the holder.

The Fund may invest in asset backed securities, including mortgage backed securities. The value of mortgage backed securities generally will fluctuate with changes in the level of delinquencies and losses with respect to mortgage loans backing the securities, the level of the housing prices on which the mortgage loans are based and changes in interest rates.

Investments sold, but not yet purchased, represent obligations of the Fund to deliver specified securities at contracted prices and thereby create a liability to repurchase the securities at prevailing future market prices. The Fund's ultimate obligation to satisfy the sale of investments sold, but not yet purchased, may exceed the amount recognized in the consolidated statement of assets, liabilities and partners' capital.

The approximately \$14.9 million shown as due from brokers and counterparties on the consolidated statement of assets, liabilities and partners' capital relates to cash balances on deposit and proceeds from short sales primarily held at clearing brokers. The Fund's cash and exchange traded positions are held in custody primarily by Goldman Sachs and are pledged as collateral to the clearing brokers. The Fund is subject to credit risk should the clearing brokers be unable to meet their obligations to the Fund. This risk is mitigated by the fact that the Fund's domestic accounts are carried by their clearing broker as "customer accounts", and are therefore afforded certain protections under SEC rules with regard thereto and under the Securities Investor Protection

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Corporation's insurance program and any supplemental insurance programs maintained by such brokers. Although the Investment Manager monitors and believes its custodians are appropriate, there is no guarantee that the custodians that the Fund may use from time to time will not become insolvent. While both the U.S. Bankruptcy Code and the Securities Investor Protection Act of 1970 seek to protect customer property in the event of a failure, insolvency or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker-dealer that has custody of the Fund's assets, the Fund would not incur losses due to its assets being unavailable for a period of time, which may be ultimately less than full recovery of its assets, or both. In the normal course of its investment activities, the Fund may be required to pledge investments as collateral whereby the custodian has the right, under the terms of its prime brokerage agreement, to sell or repledge the securities.

There is no clearinghouse for the Fund's interests in private investments nor is there a depository for custody of any such investments. The processes by which these interests are cleared, settled and held in custody are individually negotiated between the parties to the transaction. This subjects the Fund to operational risk to the extent there are delays and failures in these processes.

7. Fair Value Measurement

On January 1, 2008, the Investment Manager adopted SFAS No. 157 *Fair Value Measurements* ("SFAS 157"), which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and

Level 3: Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Investment Manager. The Investment Manager considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Investment Manager's perceived risk of that investment.

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Investments whose values are based on quoted market prices in active markets are classified within level 1.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include privately held corporate and real estate loans and private equity investments. When observable prices are not available for these investments, the Investment Manager uses one or more valuation techniques (e.g., the market approach or the income approach) for which sufficient and reliable data is available. Within level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Investment Manager in the absence of market information. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalized as part of the investment's cost basis. Assumptions used by the Investment Manager due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Fund's results of operations.

As discussed further in Note 8, the Notes are valued based on an independent third party discounted cash flow model which considers collateral assumptions and discount rates for similar instruments.

The following table presents the investments carried on the consolidated statement of assets, liabilities and partners' capital by caption and by level within the valuation hierarchy as of December 31, 2008.

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Assets at fair value as of December 31, 2008				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments owned	\$ 10,369,602	\$ 12,393,989	\$ 1,221,190,939	\$ 1,243,954,530
Unrealized appreciation on derivative contracts	526,375	132,965,043	-	133,491,418
	<u>\$ 10,895,977</u>	<u>\$ 145,359,032</u>	<u>\$ 1,221,190,939</u>	<u>\$ 1,377,445,948</u>
Liabilities at fair value as of December 31, 2008				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments sold, but not yet purchased	\$ (1,691,028)	\$ (816,098)	\$ -	\$ (2,507,126)
Unrealized depreciation on derivative contracts	(973,358)	(144,501,022)	-	(145,474,380)
Notes payable	-	-	(458,253,075)	(458,253,075)
	<u>\$ (2,664,386)</u>	<u>\$ (145,317,120)</u>	<u>\$ (458,253,075)</u>	<u>\$ (606,234,581)</u>

The following table includes a rollforward of the amounts for the year ended December 31, 2008 for investments classified within level 3. The classification of an investment within level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

Fair value measurements using significant unobservable inputs (Level 3)				
	Investments owned	Investments sold but not yet purchased	Notes payable	Total
Balance at December 31, 2007	\$ 2,448,402,293	\$ (3,643,471)	\$ (954,734,094)	\$ 1,490,024,728
Net (sales) / cover shorts / repayments	(292,017,792)	3,643,471	409,930,887	121,556,566
Amortization of closing fees	12,541,751	-	-	12,541,751
Net (losses) / gains				
Realized	(72,987,801)	-	(3,837,342)	(76,825,143)
Unrealized	(874,747,512)	-	90,387,474	(784,360,038)
Balance at December 31, 2008	<u>\$ 1,221,190,939</u>	<u>\$ -</u>	<u>\$ (458,253,075)</u>	<u>\$ 762,937,864</u>

All net realized and change in unrealized gains (losses) in the table above are reflected in the accompanying consolidated statement of operations. Net unrealized loss of \$636.7 million relates to those assets and liabilities held by the Fund at December 31, 2008.

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8. Fair Value Elections

In February 2007, the Board issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with changes in fair value recognized in earnings. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007.

The Fund adopted SFAS 159 effective January 1, 2008 and elected to apply the fair value option to the Notes, as the Investment Manager believes this would more accurately reflect the manner in which market participants would fair value the Notes. The change in fair value of the Notes is attributable to the liquidity risk of the Notes, as well as the credit quality of the Fund's investments. The change in fair value of the Notes due to instrument-specific credit risk was derived based on the cumulative change in credit risk of each of the Fund's individual investments. The adoption of SFAS 159 resulted in a cumulative decrease of approximately \$10.1 million to the January 1, 2008 partners' capital.

As of December 31, 2008, the fair value of the Notes, measured pursuant to SFAS 159, as well as the changes in fair value for the year ended December 31, 2008 are as follows:

	Fair value at December 31, 2008	Net change in unrealized gains on notes payable for the year ended December 31, 2008
Notes payable	\$ 458,253,075	\$ 85,844,490

The aggregate unpaid principal balance exceeds the aggregate fair value of these notes payable by approximately \$85.8 million as of December 31, 2008. The change in fair value is reported as net change in unrealized gain on notes payable in the consolidated statement of operations. Interest expense related to those notes payable is reported as interest expense in the consolidated statement of operations.

The cumulative effect of electing the fair value option for existing eligible items at the time of initial adoption was as follows:

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	Consolidated Statement of Assets, Liabilities and Partners' Capital January 1, 2008 prior to adoption	Net effect of adoption	Consolidated Statement of Assets, Liabilities and Partners' Capital January 1, 2008 after adoption
Notes payable	\$ (954,734,094)	\$ -	\$ (954,734,094)
Debt issuance cost	10,136,141	(10,136,141)	-
Cumulative effect of adoption of SFAS 159 (charge to partners' capital)		<u>\$ (10,136,141)</u>	

9. Investment Platforms

The Partnership may invest, directly or indirectly, in limited partnerships, limited liability companies and other vehicles in the United States and in foreign countries (collectively, "Investment Platforms" and each, an "Investment Platform") formed with related and/or unrelated third parties (each, an "Investment Platform Partner"). Investment Platforms typically make various debt, real estate, asset, equity, leasing and other investments (each such investment, an "Investment Platform Asset"). Generally, the agreements governing the Investment Platforms (the "Investment Platform Agreements") provide for the payment of management fees to a third party Investment Platform Partner based on the total value of Investment Platform Assets held by, or related to, the Investment Platform. In addition, the Investment Platform Agreements may provide for the payment of performance-based fees or allocations of income ("Promotes"), and generally such Promotes are based on the total return of: (i) a pool of Investment Platform Assets (e.g., all investments related to an Investment Platform in a particular calendar year) or (ii) all Investment Platform Assets of a particular Investment Platform. The Investment Platforms also bear certain expenses, such as operational expenses and taxes, some or all of which may be funded directly or indirectly by a loan or capital contribution from the Fund. In participating in an Investment Platform, the Fund may be subject to firm commitments to fund capital or other funding subject to various conditions and/or approval rights in connection with such Investment Platform.

In certain instances, the Fund and Other Accounts may participate in particular Investment Platform Assets ("Investment Platform Participations"). In participating in an Investment Platform, the Fund may have an interest in one, some or all Investment Platform Assets in that Investment Platform. With respect to a particular Investment Platform or Investment Platform Asset, the Investment Manager will allocate income, fees, expenses, Promotes and taxes among the Fund and Other Accounts participating in such Investment Platform or Investment Platform Asset. Such allocations are based on the Fund's and Other Accounts' specific interests in the Investment Platform Assets and may not in all cases reflect the economic results of a particular Investment Platform Asset on a stand-alone basis, as distinct from the total results of the Investment Platform or any investment pool within the Investment Platform.

Certain Investment Platforms originate, source and service loans and/or investments which are assigned or participated to the Fund and Other Accounts. For these Investment Platforms, management fees, expenses and Promotes are incurred at the Fund level. The Fund reflects

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interests in such individual Investment Platform Assets in the respective categories on the consolidated condensed schedule of investments with income, gains and losses reflected in the respective categories on the consolidated statement of operations.

The Fund may also participate, directly or indirectly, as a limited partner in an Investment Platform structured as a private equity or real estate fund managed by the Investment Platform Partner. In these limited number of situations, the Fund is generally subject to the standard terms and conditions of a limited partnership agreement. As a result, the Fund generally does not control the investee through ownership, voting and/or liquidation rights and is obliged to fund capital calls up to a specified capital commitment as prescribed by the limited partnership agreement. For these Investment Platforms, management fees, expenses and Promotes are incurred at the investee level. The Fund reflects its gains and losses associated with investments in such entities in net realized and unrealized loss on investments and derivative contracts in the consolidated statement of operations. Also, see Note 2, Valuation of Investments.

The Fund may also invest in other entities that the Investment Manager considers to be investment companies for which the Fund either individually or collectively with the Other Accounts control the entity through ownership, voting and/or liquidation rights. In such cases the Fund's commitment to fund capital calls may be subject to the satisfaction of various conditions and/or approval rights. For these Investment Platforms, management fees, expenses and Promotes are incurred at the investee level. Investments in Investment Platforms that are individually controlled by the Fund are consolidated. See Note 2, Principles of Consolidation. Interests in Investment Platform Assets held through Investment Platforms collectively controlled by the Fund and the Other Accounts are presented on the consolidated condensed schedule of investments in the respective asset class, industry and geographical region of the underlying investments as summarized below. The Fund reflects its ownership and applicable gains and losses associated with these entities based on its pro rata share of the income, gains and losses generated from the underlying Investment Platform Assets in the respective categories on the consolidated statement of operations.

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Investment Platform Assets held through Investment Platforms
(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Investments Owned		
	Corporate and Real Estate Loans		
	Asia		
	Real Estate	0.52%	\$ 3,539,331
	Asia Total (cost \$2,758,795)	0.52%	3,539,331
	Europe		
	Diversified	1.00%	6,879,310
	Financials	0.41%	2,802,316
	Europe Total (cost \$11,972,957)	1.41%	9,681,626
	North America (primarily United States)		
	Communications	0.13%	912,069
	Consumer Goods	0.18%	1,200,550
	Energy	0.18%	1,209,773
	Health Care	0.41%	2,795,730
	Real Estate	0.44%	3,031,133
	Technology	0.19%	1,332,547
	North America (primarily United States) Total (cost \$13,718,949)	1.53%	10,481,802
	Corporate and Real Estate Loans Total (cost \$28,450,701)	3.46%	23,702,759
	Municipal Bonds		
	North America (primarily United States)		
	Government	0.79%	5,429,235
	North America (primarily United States) Total (cost \$6,331,103)	0.79%	5,429,235
	Municipal Bonds Total (cost \$6,331,103)	0.79%	5,429,235
	Private Equity and Asset Investments		
	Asia		
	Financials	0.27%	1,822,520
	Private Equity Fund	0.30%	2,035,934
	Real Estate	2.32%	15,963,128
	Technology	0.83%	5,662,744
	Asia Total (cost \$22,620,901)	3.72%	25,484,326
	Europe		
	Diversified		
	Stepstone Acquisition S.a.r.l.	0.99%	6,751,241
e 4,832,325	Stepstone Acquisition S.a.r.l., Term Loan A, 2.313%, Due 12/31/2011	2.48%	16,995,763
e 16,543,706	Stepstone Acquisition S.a.r.l., Term Loan B, 2.313%, Due 12/31/2011	0.89%	6,127,799
e 7,248,488	Other	0.02%	131,337
	Entertainment		
	SNAI S.p.A., Term Loan B, 5.749%, Due 3/31/2011	1.04%	7,161,012
e 5,868,986	SNAI S.p.A., Term Loan C, 14.899%, Due 3/31/2011	0.43%	2,949,416
e 2,348,047	Financials		
	Transaction One	0.52%	3,568,904
	Other	0.06%	425,132
	Real Estate Fund		
	T.R. Estate Uno S.r.l., Term Loan, 6.219%, Due 10/20/2009	0.25%	1,702,722
e 2,491,739	Europe Total (cost \$56,270,256)	6.68%	45,813,326

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(in U.S. Dollars)

Par Amount / Quantity	Description	% of Partners' Capital	Fair Value
	Investments Owned, continued		
	Private Equity and Asset Investments, continued		
	North America (primarily United States)		
	Communications	0.01%	\$ 64,498
	Energy	1.10%	7,538,817
	Financials	0.68%	4,687,558
	Health Care	0.04%	248,750
	Industrials	2.62%	17,955,447
	Real Estate	0.45%	3,067,996
	Technology	0.02%	127,535
	North America (primarily United States) Total (cost \$49,763,533)	4.92%	33,690,601
	Private Equity and Asset Investments Total (cost \$128,654,690)	15.32%	104,988,253
	Public Equities		
	Asia		
	Financials	0.01%	93,804
	Asia Total (cost \$0)	0.01%	93,804
	Public Equities Total (cost \$0)	0.01%	93,804
	Warrants		
	North America (primarily United States)		
	Communications	0.02%	118,690
	Energy	0.20%	1,313,427
	Health Care	0.01%	90,862
	Technology	0.02%	166,311
	North America (primarily United States) Total (cost \$0)	0.25%	1,689,290
	Warrants Total (cost \$0)	0.25%	1,689,290
	Investments Owned Total (cost \$163,436,494)	19.83%	\$ 135,903,341

Investments held through Investment Platforms above are recorded net of related financing of approximately \$14.8 million.

The Partnership has directly invested in four CDOs, Parkridge Lane Structured Finance Special Opportunities CDO I, Ltd. ("Parkridge"), Longridge ABS CDO I, Ltd. ("Longridge"), Longridge ABS CDO II, Ltd. ("Longridge II"), Highridge ABS CDO II, Ltd. ("Highridge II"). The CDO's purpose is to lever assets on a non-recourse basis. The Partnership's equity and debt investments in such entities are included in collateralized debt obligations on the consolidated condensed schedule of investments. ZS Structured Credit Capital Management, LP ("ZS") is the Investment Manager for Longridge, and Highridge II.

Parkridge is managed by BCF. As of December 31, 2008 the Partnership owned \$9.2 million (representing 42.37%) of the equity of Parkridge. Pursuant to the leveraged capital structure of Parkridge, it has issued \$216.5 million of various classes of notes which are collateralized by the assets in Parkridge. The Partnership owns \$10.0 million of such notes at December 31, 2008. Assets owned by Parkridge include asset-backed securities and other types of collateralized debt

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obligations issued in the U.S. and Cayman Islands, and residential and commercial mortgage backed securities and corporate loans issued in the U.S.

As of December 31, 2008, the Partnership owned \$2.4 million (representing 15%) of the equity of Longridge. Pursuant to the leveraged capital structure of Longridge, it has issued \$309.0 million of various classes of notes which are collateralized by the assets in Longridge. In April 2008, Longridge went into default. In October 2008, the controlling class directed the trustee to accelerate the Notes and liquidate the collateral. The Partnership did not own any of the notes at December 31, 2008. Assets owned by Longridge include collateralized debt obligations issued in the U.S. and Cayman Islands, and residential mortgage-backed securities issued in the U.S.

As of December 31, 2008, Longridge II was in default and has been terminated.

As of December 31, 2008, the Partnership owned \$1.2 million (representing 15%) of the equity of Highridge II. Pursuant to the leveraged capital structure of Highridge II, it has issued \$992.0 million of various classes of notes which are collateralized by the assets in Highridge II. The Partnership did not own any of the notes at December 31, 2008. Assets owned by Highridge II include commercial and residential mortgage backed securities issued in the U.S.

10. Commitments and Contingencies

At December 31, 2008, the Fund had potential unfunded obligations of approximately \$35.7 million on certain debt instruments such as revolving credit agreements. Other funding to Investment Platforms remains subject to various conditions and/or approval rights.

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. The Partnership provides indemnification to the Investment Manager and the General Partner and certain related persons and entities (including partners and employees) of the Investment Manager and the General Partner, for certain losses incurred in connection with their association with the Investment Manager and the General Partner, subject to certain limitations including with respect to willful misfeasance, bad faith or gross negligence.

There is an ongoing investigation by the SEC into the Investment Manager and such investigation is not yet concluded. The results of the SEC's investigation could adversely affect the operations of the Investment Manager and, in turn, the value of a limited partner's interest in the Partnership.

From time to time, the Fund is involved in legal matters or named as a defendant in legal actions arising in its ordinary course of business. Management believes that the resolution of the matters that existed on December 31, 2008 will not have a material adverse effect on the Fund's consolidated financial statements.

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11. Key Partnership Terms

The following is a summary of certain information set forth more fully in the Agreement. Capitalized terms are defined in the Agreement unless otherwise defined herein.

Allocations and Distributions

Each partner in the Partnership has a capital account with an initial balance equal to the amount such partner contributed to the Partnership. At the end of each accounting period, the capital account of each partner is adjusted by increasing in the case of net capital appreciation, or decreasing in the case of net capital depreciation, such capital account, in the ratio that the balance in each capital account bears to the balance of all capital accounts as of the beginning of such accounting period, subject to the incentive allocation described below.

At the end of each fiscal year (or earlier with respect to any Limited Partner that makes a partial or complete withdrawal, if permitted by the General Partner), 20% of any net profits allocated to the capital account of a Limited Partner for such fiscal year will be reallocated to the General Partner (the "Incentive Allocation"). Incentive Allocations made upon partial withdrawals will be made solely with respect to the amount withdrawn. The Partnership will maintain a memorandum loss recovery account for each Limited Partner. Each Limited Partner's loss recovery account will be debited with aggregate net losses allocated to such Limited Partner's capital account.

The General Partner will not be allocated any Incentive Allocation with respect to a Limited Partner's capital account until such Limited Partner has recovered any net loss debited to its loss recovery account (as reduced proportionately for withdrawals).

Management Fees and Expenses

The Partnership pays the Investment Manager a fee for management services calculated based on the sum of each Limited Partner's month-end capital account balance (the "Management Fee"). This Management Fee which is accrued monthly and payable quarterly is equal to 0.167% per month (2.0% per annum).

Pursuant to the Agreement, the Partnership shall bear its operating expenses including, but not limited to, entity level taxes, investment related expenses, professional fees such as legal fees, audit and tax fees, and other Partnership related expenses, including, but not limited, to out-of-pocket expenses of any service company retained to provide services such as accounting, bookkeeping, asset management, appraisal and administrative services. Investment related expenses includes those expenses which the General Partner determines to be related to the investment of the Partnership's assets, such as brokerage commissions, clearing and settlement charges, loan servicing fees, bank service fees, extraordinary expenses and all other investment related costs, such as consultation expenses, due diligence and appraisal fees.

Withdrawals

Prior to the orderly disposition in March 2008, limited partners were under one of three withdrawal options: Three-Year, Two-Year (this option was discontinued by the Partnership on January 1, 2005) or One-Year Plus Liquidity.

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Under the Three-Year option, upon at least 120 days' prior written notice to the General Partner, a Limited Partner may withdraw part or all of its capital account as of the last business day of the calendar quarter ending at least three years after the Limited Partner initially purchases an interest and as of the third anniversary of that date thereafter.

Under the Two-Year option, upon at least 120 days' prior written notice to the General Partner, a Limited Partner may withdraw part or all of its capital account as of the last business day of the calendar quarter ending at least two years after the Limited Partner initially purchases an interest and as of the second anniversary of that date thereafter.

Under the One-Year Plus Liquidity option, upon at least 120 days' prior written notice to the General Partner, a Limited Partner may withdraw part or all of its capital account as of the last business day of the fiscal year ending at least one year after the Limited Partner initially purchases an interest. An initial distribution is made to such Limited Partner 30 days following year end consisting of a Limited Partner's pro rata share of cash and cash equivalents as determined by the General Partner and, in the General Partner's sole discretion, any other liquid assets of the Partnership. Thereafter, such Limited Partner will be paid quarterly cash distributions from the net proceeds of the sale of any portion of an asset with respect to the withdrawn interest or receipt of other payments relating thereto, after deduction of any accrued Management Fees, Incentive Allocation and allocated expenses. During this period from initial withdrawal and final liquidation, the assets relating to a Limited Partner's One-Year Plus Liquidity capital account will continue to be managed in accordance with the Agreement and remain subject to Management Fees, Incentive Allocation and allocated expenses; however, the Limited Partner's One-Year Plus Liquidity capital account will not be entitled to participate in any new investment or follow-up investment to an existing investment with respect to any portion of its withdrawn interest.

In the event that withdrawal requests for a withdrawal date are received representing, in the aggregate, more than 10% of the Partnership's net assets, the General Partner may reduce the withdrawal requests on a pro rata basis (based on the amount of the limited partners' respective withdrawal requests), so that no more than 10% of net assets will be paid out (based on unaudited data) (the "Gate"). In calculating the Gate, the General Partner will not include the withdrawal requests of limited partners that are subject to the One-Year Plus Liquidity option (collectively, the "Withdrawing Limited Partners") and net assets will not include any Withdrawing Limited Partner's portion of the net assets. Any unfulfilled withdrawal request will be paid at the next withdrawal date (subject to further deferral if the deferred withdrawal requests exceed 10% of net assets) in priority to any subsequent withdrawal requests, unless the General Partner in its sole discretion decides to pay such deferred proceeds earlier than the next withdrawal date.

Notwithstanding the above, substantial requests for withdrawals by Limited Partners could induce the Fund to liquidate positions sooner than would otherwise be desirable which could adversely affect the performance of the Fund. In addition, regardless of the period of time in which withdrawals occur, the resulting reduction in the Fund's net assets could make it more difficult for the Fund to diversify its holdings and achieve its investment objectives. Under certain circumstances, the General Partner may suspend or limit withdrawals (in whole or in part) as it deems necessary, including pursuant to the Gate (as defined above).

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Generally, in the case of withdrawals, ten percent (10%) of the withdrawal proceeds will be withheld by the Partnership until the completion of the Fund's annual audit, although such amount may be waived or reduced by the General Partner.

In March 2008, the Investment Manager of the Partnership began implementing an orderly disposition of the Partnership and Offshore Fund's portfolios. During the realization period, the Partnership will have no new contributions. All limited partners compulsorily redeemed will participate in distributed proceeds on a pro rata basis in accordance with their respective interests in the Partnership. The Partnership will not make any new investments, except for those that are committed or protective of the Partnership's rights and position in existing relationships. The Investment Manager expects the disposition of the Partnerships' portfolio may take up to four years or longer to implement depending upon market conditions.

12. Financial Highlights

With respect to the limited partnership interests outstanding during the year, the Fund is required to disclose certain financial highlights. An individual limited partners' results may vary based upon a variety of factors, including different fee arrangements, participation in certain investments and timing of capital transactions.

Total Return

Total return before Incentive Allocation	-56.63%
Incentive Allocation	0.00%
Total return after Incentive Allocation	<u>-56.63%</u>

Expense Ratios

Total expenses	-8.75%
Incentive Allocation	0.00%
Total Expenses and Incentive Allocation	<u>-8.75%</u>

Net Investment Income Ratio	<u>2.88%</u>
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Total return is determined using a time-weighted rate of return methodology in which monthly rates of return are geometrically linked. Total return is calculated net of all expenses as reported on the consolidated statement of operations and presented both before and after any Incentive Allocation.

The expense ratio is determined by dividing the expenses as reported on the consolidated statement of operations by the Limited Partners' monthly average capital based on beginning of month capital balances ("Average Capital"). The ratio of total expenses is presented both before and after any Incentive Allocation. Included in the expense ratio is the reversal of tax accruals as discussed in Note 2.

The net investment income ratio is determined by dividing the net investment income by the Average Capital, and does not reflect the effects of the General Partner's Incentive Allocation.

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The ratios are calculated based on the income and expenses as reported on the consolidated statement of operations which depending on the nature of the relationship, includes the income and expenses from certain Investment Platforms.

13. Subsequent Events

Due in part to the impact of the orderly disposition process, the very difficult market environment and the negative performance in 2008 of the Partnership and Other Accounts on the revenues and liquidity needs of the Investment Manager, the Investment Manager explored alternative plans with the limited partners. As a result, on June 1, 2009, Fortress VRF Advisors I LLC ("New Manager"), an affiliate of Fortress Investment Group LLC, replaced the Investment Manager as a part of an integrated series of transactions. Pursuant to such transactions, the Partnership and Other Accounts purchased certain assets of the Investment Manager and agreed to fund directly and indirectly certain expenses of the Investment Manager during the transition period. Beginning on June 1, 2009, the Partnership no longer pays to the Investment Manager the Management Fee and Incentive Allocation as defined in Note 11. Instead, the Partnership will a) reimburse the New Manager for all costs and expenses relating to the Partnership, including allocated overhead and internal expenses, b) pay a monthly management fee equal to 1% of any gross amounts collected by the Partnership and c) pay an incentive fee equal to 5% of all distributions to limited partners in the Partnership in excess of the net asset value the Partnership determined as of May 31, 2009.

On June 1, 2009, Fortress Value Recovery CM LLC, an affiliate of Fortress Investment Group LLC replaced Bernard Capital Funding, LLC as the Collateral Manager of Bernard.

On December 9, 2009 the Partnership changed its name to Fortress Value Recovery Fund I LLC.

Unaudited

In connection with determining the estimated partners' capital of the Fund as of June 30, 2009, the New Manager decided to reverse the SFAS 159 election made to the Notes. The impact to partners' capital was a decrease of \$85.8 million.

As of June 30, 2009, the estimated partners' capital for the Fortress Value Recovery Fund I LLC previously known as, "D.B. Zwirn Special Opportunities Fund, L.P." as determined by the New Manager has decreased to \$251.0 million.