W

FINANCIAL

SPECIAL SITUATION FINANCING
FOR COMMERCIAL REAL ESTATE®

August 2, 2010

Mr. John Smith
1234 Main Street
New York, NY 10001

re: W Financial Fund, LP – 2nd Quarter 2010 Update and Statement

Dear John,

Over the last seven years (with 84 consecutive positive months) W Financial has provided an average annual compound return of **10.44%**, and we are confident that we will be able to maintain our long-term performance within a similar range. **$100,000 invested at our July 2003 launch had increased to $196,599 as of June 30th, 2010.**

Please note that as we did in the first quarter of 2010, in order to underscore and emphasize our long term commitment to our investors during this challenging period, we would like to call your attention to the fact that the fund managers have decided to waive their performance allocation in its entirety for the first half of 2010 in order to support our investor's returns and express our confidence in the fund's future performance.

While there is no requirement to do so contained within the pages of our fund documents, we felt it was the right thing to do for our investors in light of the temporarily reduced level of income that we are receiving due to the Bayard Chapter 11 case.

Activity level picks up:

It may be the dog days of summer but it seems that starting in 2010 we have been seeing many more worthwhile new deals compared to what we saw in 2009. As of this writing, we have issued several term sheets to borrowers for desirable new loans and are experiencing an encouraging increase in deal flow. In our opinion, the increase is partially a result of the decision many banks have made to finally start to sell off some loans at a discount. In some cases it is the bank regulators that are pushing them to do so. Meanwhile, well capitalized real estate investors, recognizing the positive shift in market sentiment, are pouncing on the worthwhile deals. Buyers often need a bridge lender like W Financial in order to be able to close quickly and execute their business plan, eventually exiting the bridge loan by refinancing with a bank. The following is an example of this kind of deal, which we closed during the second quarter.

New loans closed during the quarter:

During the 2nd quarter of 2010 we closed a **$4,000,000 first mortgage bridge loan** to finance the acquisition of two apartment buildings with a total of 124 units in East Orange, NJ. Our loan has a three-year term and is structured so the fund will earn not less than 18 months' interest. The loan includes a $950,000 renovation holdback which will be used to improve the property so the new owners can increase the NOI (net operating income) and then refinance with a conventional lender. Our loan-to-value ratio on this transaction is 57%, and it is worth noting that the borrower brought approximately $3,350,000 of cash equity to the closing table.



We also closed an $800,000 first mortgage loan on a cash-flowing commercial property in Huntington Station, Long Island, NY. This loan is also secured by a second mortgage on a cash-flowing retail property in Jackson Heights, Queens.

In April, we closed a $2 million first mortgage bridge loan collateralized by 4 cash-flowing multifamily properties with a total of 105 apartments in Newark, NJ. The loan-to-value ratio is approximately 50%. It is expected that the borrower will refinance with a local bank within one year.

All of the aforementioned loans are also personally guaranteed by the borrowers.

During the second quarter, W Financial signed a 15-month extension for an $8,750,000 first mortgage bridge loan West 13th Street in Manhattan's Meatpacking District, which we originally closed on December 31st, 2008. More than a year after our experienced, deep-pocketed borrowers paid $18 million to acquire this 11,000+ SF ground floor retail condominium, they have now entered into long-term leases with two high quality tenants who will invest millions of dollars building out the space for their needs. Our loan extension will take them through the build-out and free rent periods, after which it is expected that the owners, who have contributed more than $9 million of equity to the project, will refinance our bridge loan with conventional bank financing. Also during the second quarter, a $2,500,000 leasehold mortgage secured by a CVS drugstore in Staten Island was repaid in the normal course of business.

Bayard:

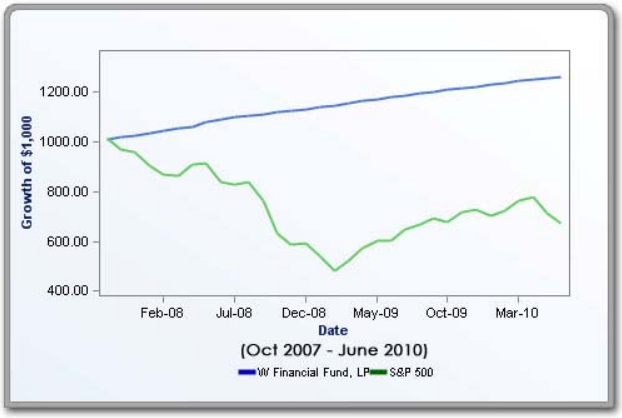
We have been pursuing the favorable resolution of the 20 Bayard Street Chapter 11 case with what can only be described as the intensity of a supernova. As mentioned in the June 21st mid-quarter update, we have successfully obtained judgments against the 3 guarantors and, as anticipated, this has increased our leverage in our efforts to not only resolve the case within the near future, but specifically to do so in a manner that we feel will bring about the best economic result for W Financial. Please call one of us if you would like to hear additional details on the litigation and either David or I will be pleased to discuss. Meanwhile, we continue to receive monthly cash flow from this well-secured investment. No matter how good the musicians in an orchestra are, to get the best results you need to have a great conductor. The same is true of litigation. The best lawyers still need to be focused and managed to be most effective. Our partner David has been doing an amazing job directing and managing this complex litigation, and we thank him for his insights and diligence.

West 86th Street:

We have been enhancing the value of our building at 330 West 86th Street. As units turn over we are skim coating and repainting as well as improving the bathrooms and kitchens so that we can consistently increase the rent roll and the net operating income of this extremely well-located 9-unit, Upper West Side apartment building. Meanwhile the sales market in Manhattan continues to show improvement, and per our business plan, when we feel market conditions are right, we expect to eventually sell the building either to an investor or an end user.

W Financial's performance compared with S&P 500 from October 1, 2007 to June 30, 2010:

Despite the challenges of the last several years, per the chart to the right (courtesy of Hedgefund.net), it is interesting to note that W Financial has fared very well in comparison with the performance of the S&P 500, with very low volatility throughout this particularly trying period not only in real estate, but also in the economies of the world. It was also recently pointed out to me that W Financial's Sharpe Ratio (the key measurement of risk-adjusted returns) is ranked in the top 3 funds for Asset Based Lenders in our size category worldwide (of the hundreds of hedge funds compiled in Hedgefund.net's database).



If you have elected to receive interest distributions, your check is also enclosed. For those investors whose funds were in Special Escrow during any portion of the second quarter, a copy of your bank statement is also included. Our 2009 audited financial statement is now completed. You can download a copy by visiting www.w-financial.com/audit, username: w-fund, password: member, or, if you prefer, please call Karen Mannoia at (212) 684-2283 x112, and she will be happy to mail it to you.

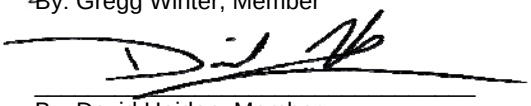
Please use our latest subscription agreement for any add-on investments that you wish to make. That form, as well as our other fund documents are available at this link: www.w-financial.com/documents (username: w, password: financial). We expect to be able to admit new investments to the fund as of the beginning of September. Contact Karen Mannoia (karen@w-financial.com) or (212) 684-2283 x112 for the forms, or with any questions you may have on how to complete them. If you have updated your email or mailing address, please let Karen know.

As always, please feel free to call Gregg Winter at (212) 684-2283 x111, David Heiden at x114, or Marc Bailin at (212) 935-0900 with any questions that you may have. Alternatively, you can email us directly at gregg@w-financial.com, david@w-financial.com and marc@w-financial.com.

Very truly yours,
W FINANCIAL FUND, LP
By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member