W

FINANCIAL

SPECIAL SITUATION FINANCING
FOR COMMERCIAL REAL ESTATE®

October 14, 2010

Mr. John Smith
ABC Company
New York, NY 10016

re: W Financial Fund, LP – 3rd Quarter 2010 Update and Statement

Dear John,

Over the last 7+ years (with 87 consecutive months of positive returns) W Financial has provided an average annual net compound return of **10.3%**, 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 $199,649 as of September 30th, 2010.**

Please note that as we have done in the first two quarters 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 nine months of 2010 in order to support our investor's returns, and to 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 feel it is the right thing to do for our investors in light of the temporarily reduced level of income that we are receiving due to the (now hopefully soon to be resolved) Bayard Chapter 11 case.

New loan closed during the 3rd quarter:

During the 3rd quarter of 2010 we closed a very nice **$544,000 first mortgage bridge loan** to refinance a mixed-use building on Williamsburg's trendy Bedford Avenue containing 6 apartments and a store (see photo at right). The building originally had 8 apartments. The owner gut renovated the two ground floor apartments and converted them into a store, which has been leased (for 10 years, with a 5-year option) to a restaurant. The building is now fully leased. The borrower cannot obtain bank financing until the new Permanent Certificate of Occupancy has been issued. This creates our window of opportunity to provide a bridge loan on a stable, cash-flowing property, which we feel is worth more than twice our loan amount. While smaller than our usual fare, we will always consider smaller deals that offer a good risk-adjusted return and will add diversification to our loan portfolio.



Pending October loan activity:

We expect to close **a new $3.35 million first mortgage bridge loan** on a recently gut renovated and fully occupied 21-unit elevator apartment building on Humboldt Street in Brooklyn, NY within the next few days. This new loan will deploy our remaining cash, and we will also utilize our credit line to fund a portion of the loan. As we have long

anticipated, modest use of our credit facility will enhance our ability to keep investor capital deployed closer to 100% of the time, and will also streamline the process of admitting new investors promptly in the future. Similarly to the Bedford Avenue loan described above, our window of opportunity on the Humboldt Street loan (see photo at right) enables W Financial to be the interim lender, thereby allowing time for the borrower, (who currently has a Temporary Certificate of Occupancy [TCO]), to obtain their Permanent Certificate of Occupancy.



West 86th Street:

Our nine-unit building on Manhattan's West 86th Street is fully occupied, and we have been able to substantially increase the rents as apartments turn over. For example, apartment 7 was previously rented for $1,650. When the old tenant moved out we repainted and made some improvements to the bathroom and kitchen and rented it to a new tenant for $2,050. We also spiffed up and repainted apartment 10 and increased the rent from $1,500 to $1,800 per month. We have an excellent super thanks to a recommendation by Midboro Management, and the building is currently producing steadily increasing cash flow. We feel that as the market increases the "rising tide will lift all boats" in the Manhattan real estate market, and at that time we expect to be able to sell it for a nice profit for the investors in the fund.

Bayard Street:

The 20 Bayard litigation has finally reached the endgame. The confirmation hearing began on October 6th. The next scheduled date is October 27th, and depending upon the court's calendar we expect the confirmation hearing to be concluded in November. While you are all aware that our returns have been temporarily lower as a result of this case, it is important to note that the federal bankruptcy court judge issued a 37-page decision on August 11th ruling that W Financial is entitled to its full contractual 24% default rate of interest. Note that our opposition had been counting upon the judge imposing only a 12% default rate of interest (i.e. the same as our original interest rate). Our opposition has filed an appeal, but we believe their chances are weak for an appeal to overrule this decision. Stay tuned.

Separate from the case in bankruptcy court, we are continuing to hammer away at the guarantors in state court where the key player is getting deposed (under court order). The intense pressure that we are bringing to bear on them in state court and the judgment we were granted in June (as well as a second judgment for the default interest and legal fees which is expected to be entered within days) are highly disruptive to their ability to run their core diamond business (as our having been awarded large judgments against them, which are now part of the public record, constricts their ability to obtain credit lines), and we expect that this leverage can only help us reach a favorable resolution in bankruptcy court. Of course, having personal judgments against all three guarantors for $10,462,000 also gives us a valuable card to play at the appropriate time. So rest assured that we are leaving no stone unturned and are fully focused on bringing this matter to a favorable close.

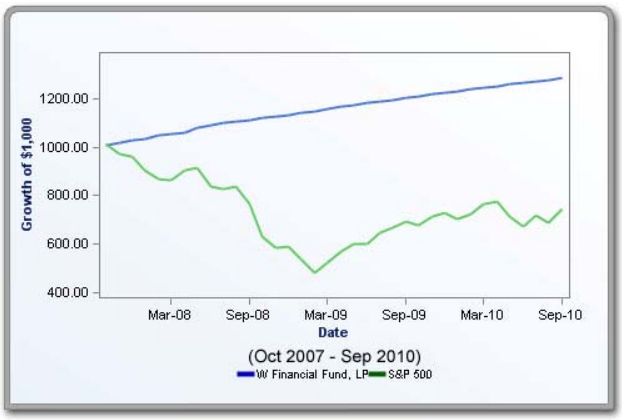
Please call us if you would like to hear additional details on the Bayard case. Meanwhile, it is important to note that while we fight with the Debtor and the Guarantors in court, we continue to receive 100% of the net monthly cash flow from this well-secured investment.

Our partner David continues to excel at directing and managing this complex litigation and we thank him for his insights and dedication. We also look forward to the favorable resolution of this case and our corresponding ability to deliver W Financial's typical annual returns once again. The good news is, as you can see from the **$3,844,000 of new loans** (closed and scheduled to close) described above, we are finding good new loans to grow our portfolio.

Meanwhile, by the morning of October 6th, Karen had already confirmed that all of the October monthly interest payments due from our borrowers had already been received, and the fact is that our current bridge loan portfolio contains more cash-flowing properties than we have ever had in our 7+ year history. So the bottom line is that our loan portfolio is exceptionally healthy, and once we get this "monkey" off our backs, we expect W Financial to be poised for a sustained period of growth and good performance.

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

Despite the economic challenges of the last several years, per the blue line on the chart to the right (courtesy of Hedgefund.net), you will see that W Financial has fared very well in comparison with the performance of the S&P 500, with positive results and very low volatility throughout the recession.



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.

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 November 1st. 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 always 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