W

FINANCIAL

July 15, 2011

Mr. John Smith
ABC Company
123 Smith Street
New York, NY 10001

Dear John,

During the past eight years, (and with 96 consecutive months of positive returns), W Financial has provided an average annual compound return of **9.75%,** net of all fees. Thus, **$100,000 invested at our July 2003 launch had increased to $209,659 as of June 30th, 2011.** Based upon the current pace of new loan originations and the pending resolution of 20 Bayard, we are expecting 2011 to be a very good year for the fund. New loan activity continues to be brisk, and we achieved a return of .75% for the month of June despite the negative effect of Bayard weighing upon our returns. Of course, based upon the settlement agreement that has been reached, we are looking forward to Bayard once again becoming a very positive component of our investment portfolio in the very near future.

Please note that as we have done since January 1, 2010, in order to underscore and emphasize our long-term commitment to our investors during this challenging period, the fund managers have waived their performance allocation for the entire year 2010 and the first half of 2011 in order to support our investors' 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.

During the second quarter of 2011 all loans paid as scheduled. Our current loan portfolio consists of 17 mortgages **with an average portfolio-wide loan-to-value ratio of 53%.**

New loans closed during the second quarter:
While we always see a good amount of deal flow, over the past few months both the quantity and the quality has been especially strong, resulting in the following new loan closings:

1) a **$2,500,000 blanket first mortgage bridge loan** collateralized by the 16 remaining units in a now-completed, 41-unit Manhattan condominium development called Observatory Place (www.observatoryplacenyc.com). W's loan refinanced a maturing construction loan and provided funds to pay for final work on the building and to establish an interest reserve. Our loan will give the developers the time they need to optimize the sales prices they can achieve on the final 16 units. With a loan of approximately ~$150,000 per unit on a development whose most recent contract was signed at $570,000, our loan-to-value ratio is right where we like it: low.



Observatory Place, NYC



Edge, Williamsburg

2) a **$3,100,000 first mortgage bridge loan** to finance the acquisition of a package of 11 condominium apartments in **Edge** www.williamsburgedge.com and **Northside Piers** www.northsidepiers.com, two of the most successful direct waterfront developments in Williamsburg**,** Brooklyn. The units were acquired for **$6,153,000**, thus the **borrower** contributed more than **$3.1M of cash equity** to the deal. The borrower, a seasoned real estate investor, was in hard contract and had only a short window of time to close. At that time only two of the 11 apartments were rented and producing cash flow, thus the buyer's goal was to close quickly with a bridge loan, rent up all the units, and then refinance with a local bank. Prior to the closing, both we and the borrower had estimated that he would be able to achieve rents in the low-to-mid $40 per square foot range. In fact, since the May 6th closing, our borrower has signed leases at an average of $53 per square foot in the Edge. The building has an amazing amenity package which must account for the healthy rents and demand. Later on, after the Edge has fully sold out and when prices rise, he plans to begin selling units. So why did he need a bridge loan from W Financial? **The borrower's ability to *close quickly and definitively* with a bridge loan was key to his action plan and his success in closing an excellent deal.**

We continue to see robust deal activity in the marketplace, and as a result of our extensive contacts and relationships with brokers and borrowers, we are seeing a steady flow of desirable deals.

Resolution of 20 Bayard Street litigation:

As previously reported mid-quarter, we are very pleased to report that the blitzkrieg of litigation has nearly ended, and that on June 1st we entered into a favorable settlement on the 20 Bayard matter whereby our borrower will hand over the keys to the 37 units that collateralize our loan in this desirable property, and we (along with our partner in this deal, BRT Realty Trust), will pay an amount roughly equivalent to the transfer tax, trustee fees, and additional legal expenses we would have otherwise incurred if the litigation had continued. Our repeated salvos in State Court had a cumulative effect, and by the end of May, the tables had turned in our favor. Judge Thomas Feinman really did an outstanding job of bringing the parties to the table. In the end, it was the State Court action that brought this matter to a close. Our partner, David Heiden deserves a tremendous amount of credit for closely directing and supervising the litigation and searching under every rock, hunting within every document, etc. for critical information and thus the strategic leverage to reach this excellent result. Had we not reached this settlement on June 1, right at our point of maximum leverage, the litigation would have continued in both state court and bankruptcy court, and probably dragged on for many more months.

To be clear, even now with an on-the-record settlement and a date of July 26th scheduled for the formal confirmation of the joint settlement plan, we will only consider this matter completely resolved once the last papers are signed, they have handed over the keys and we are holding the deed. Based on past history, we can fully expect infighting among the partners of the borrower and attempts to wrest control of the property going right up until the end. The final papering of the deal and the closing of the transfer of ownership is expected to occur by September.

Once ownership has actually been transferred to the fund, we plan to keep the apartments rented and producing steady cash flow (almost all of the units are currently rented generating an average of just above $40 per square foot), and to sell units as they become vacant. We will also, of course, explore whether some of the renters wish to buy their apartments in this 62-unit, 18-story building. The market in

this neighborhood is continuing to improve, with current average sale prices in Williamsburg north of $700 per square foot. Implementing this business plan will be relatively simple to execute, especially when compared to the last year and a half where we have been running two sets of complex and intense litigation. We are clearly in no rush to sell apartments, and if anything, we feel that time is very much on our side as values in this market are appreciating. We are confident that this property has significant upside, and once we have our hands on the reins, we will be able to methodically work towards realizing it. We intend to nurture this asset and maximize the return to the fund. While we will also explore the possibility of a bulk sale to one of the many major real estate buyers that would be interested in a package of this size and quality, it is clear that the greatest return for the fund will be achieved by selling the units over time "retail" rather than "wholesale".

Based on the cash flow generated by the current average rents in the building, we expect the property to generate an unleveraged return of approximately 6.75% at our basis. By the time we take possession of 20 Bayard, we expect to have arranged a $12,500,000 5% bank mortgage on our 37 units, amortizing on a 30-year schedule. Depending upon the final terms of the bank mortgage and the net operating income, we should then expect to be generating a return north of 10% (without counting the effect of any unit sales). As we sell units over time, the fund's return will increase according to the pace of sales and actual price per square foot achieved. The pace at which we sell the units will depend upon several factors such as the pace at which leases turn over and apartments become vacant, as well as factors such as the new rents that we are able to achieve, and of course the prices that we are able to achieve and strength of the sales market at any given time.

We have already met with the condominium board (which, not surprisingly, is very excited at the prospect of having the building make a fresh start), and we have all agreed to select a new managing agent, accounting firm, etc. As a reminder: 25 out of 62 total apartments were sold at prices ranging from $456,000 to $1,400,000.

Our multifamily property: 330 West 86th Street (between Riverside Drive and West End Avenue):

We have been given a great opportunity to own this piece of Manhattan real estate, and we plan to make the most of it. As vacancies occur in this Upper West Side Apartment building, we have been making moderate improvements to the units and common areas and achieving higher rents. We are currently in the process of turning the full-floor apartment on the 3rd floor back into 2 apartments, which will allow us to increase the rent per square foot that we are able to achieve. Two other apartments turned over and we are making some improvements to them as well. Soon all 4 will be completed and re-rented at which time we will place a modest mortgage on what will be a 10-unit, fully cash-flowing apartment building, (which was the building's original configuration and the number of units on the Certificate of Occupancy – at some point in the past, the two units on the third floor had been combined). If we assume the same level of rents that we have achieved in the other units that have been renovated since we took title in 2010, we should be able to generate an NOI of roughly $175,000, thus 330 West 86th Street will provide a stable complement to our portfolio of short-term bridge loans. At some point in the future, as Manhattan prices rise, we may decide to sell it either to an investor or to an individual who plans to convert it to a 7,000+ square foot single family home, however we presently intend to optimize it as a "cash flow machine" for the fund.

Now for the real news of the second quarter:

Many of you know and interact with Karen Mannoia a great deal. She handles admission of all new investors as well as our loan servicing and many other duties. We would like to congratulate Karen and her husband Michael on the birth of their beautiful daughter Emilie Rose on May 12th, 2011. Karen originally started with Winter & Company in 2000, and now works full time for W Financial. Congrats!

Please use our Additional Subscription Form for any add-on investments that you wish to make www.w-financial.com/add. That form as well as our other fund documents are available at this link: www.w-financial.com/documents (username: w, password: financial) or you can call Karen, and she will email or mail you the form. We expect to be able to admit new investments to the fund as of August 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.

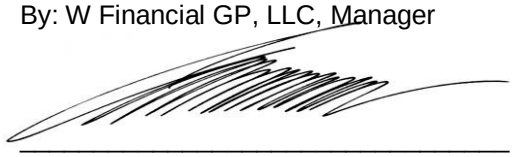
If you have updated your email or mailing address, please let Karen know. If you have elected to receive interest distributions, your check is also enclosed. Note that our 2010 audited financial statement will be completed and distributed over the next few weeks.

As always, please feel free to call Gregg Winter at (212) 532-1122 x1, David Heiden at (212) 684-8484 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. Finally, as always, you are invited and encouraged to visit our offices when you are in town to review any of our due diligence materials or simply to say hello.

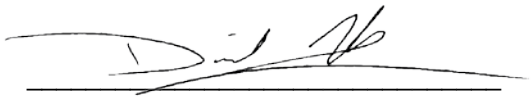
Very truly yours,

W FINANCIAL FUND, LP

By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member