

TONTINE ASSOCIATES, LLC

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Dear Investors:

In this time of great uncertainty and financial dislocation, we felt it was necessary to send a letter to explain the performance of our respective funds over the past four weeks. We entered this summer with cautious optimism and felt that the combination of lower commodity prices and slowing inflation fears would provide a positive backdrop to the equity markets despite the headwinds in the credit markets. We managed to maneuver through an uncertain period in July and August where some well timed sales along with some opportunistic short positions in the commodity sector balanced out our performance.

But September turned into the "once in 13 years" for our funds. The combination of falling commodity prices, massive anticipated hedge fund redemptions and the seizing up of the credit markets caused an enormous dislocation in our portfolios which we will outline separately below. We are embarrassed by this performance and we remind you that we eat our own cooking as we are the largest investor in each of our strategies except for Tontine-25. Most of the meltdown occurred in the last week of September as we fully believed that the lows in the third week of September were the ultimate lows for the equity market. However, we clearly underestimated several things, most importantly the tsunami of redemptions that are being delivered to hedge funds as investors line up to get out of these funds as well as record outflows from equity mutual funds.

These redemptions have led to a cascading impact as certain hedge funds have taken advantage of the liquidation process and shorted stocks on the assumption that the funds seeking liquidity were selling those same securities. We have seen several stock lists passed out of alleged funds that are in the process of liquidation. We have also heard from several investors that many funds are suspending redemptions and preventing investors from leaving their funds.

I would now like to explain each fund with a paragraph which will highlight the performance primarily focused on the month of September.

Tontine Partners, L. P. -- This fund was very concentrated in steel, engineering, airlines and certain chemical names that are huge beneficiaries of falling oil prices. Unfortunately, the public is not interested in future earnings or large cash positions and we saw U. S. Steel fall from \$180 per share to \$70 per share despite the expectation that they will earn over \$18 per share this year. We believe that earnings number and also believe the steel industry will earn more than the public generally believes in 2009 and

2010. The same is true with the engineering companies but under current market conditions, it just does not matter. When the momentum goes out of these stocks they will fall until they do not fall any more. The dramatic decreases were not met with enough action by us. I am not a nervous person by nature but should have been under the circumstances. But steel prices falling 15% from record highs is not intuitively an event that should lead to 60% decrease in stock prices. Furthermore, many of our engineering companies are trading between 2-6x earnings with no debt. Regrettably, as a result of rapid declines in our steel stocks and engineering and construction stocks, we were forced to scale down our positions.

Tontine Capital Partners, L.P. -- This is possibly the most disappointing to me personally because we failed to foresee the investor reaction to a fall in commodity prices. We hesitate to give you any names here as to encourage short sellers but the smaller cap stocks were just blasted in September, especially those that are associated with anything related to energy. We did not own any oil stocks. Most of our holdings are companies that perform service related activities, particularly to refinery refurbishment, electrical contracting and associated businesses. We are concerned that the general mental depression that has gripped the Northeast will make the economic recovery slower than we want. Therefore, we have done little in the portfolio in the last four weeks and have spent most of our time talking to management teams about using their vast cash resources to buy back stock. It is very difficult, however to have a conversation with a management team that has no debt, rising earnings (due to falling commodity prices) and massive cash reserves when their response is "what if I can never get a credit line again?" That is a difficult argument in this environment.

Tontine-25 Fund, L.P. -- Again this was disappointing due to the stock selection of certain cyclical names in the portfolio. As many of you know, Tontine-25 maneuvered through the summer with the ability to quickly get short certain industries and get long those that we thought were evolving. We called August right but September we thought the fertilizer names had already seen most of their declines and we covered those positions. That was a mistake. Despite some very bad marks at the end of September that hurt our performance and made it a very disappointing month, we are encouraged by the positions that we now hold and look forward to a strong recovery from very depressed levels.

Tontine Financial Partners, L.P. -- It seems incredibly counter-intuitive that Tontine Financial had another good month especially given the unprecedented events in the financial markets. The KBW bank index was roughly flat for the month but the incredible swings during the month gave us the opportunity to trade some positions. We are very bullish on the banking sector and only wish it had been a smoother transition over the past eighteen months. We are very wary that the momentum players are starting to enter this market and we have kept a tighter rein on any leverage given the massive swings in the market. We have included a graph of the KBW Bank Index on the back of this note which depicts the staggering volatility of the last four weeks. We had a very good month in September in this Fund which would have been outstanding if not for the

tremendous downturn after the Congress voted down the initial bailout bill (note the decline on the chart). We are keeping this fund tight but expanding investments into the regional banks which we think will have a remarkable period of earnings growth over the next 2-3 years. We believe this will be a very good place to invest for the next 18-24 months. But let me reiterate, we are wary of the momentum investors that are beginning to enter the market.

In the past two weeks, several people called us to ask us what is happening in the world. Unfortunately, we got the part about "exotic to vanilla" right but were wrong on the investor response. We spend our time with regional bankers who are like us -- vanilla investors that may use leverage but do not buy tricky securities. We either own stocks or are short stocks just as most of our regional banks own loans and fund with retail deposits.

This deleveraging of the brokerage industry and the hedge fund industry is taking more time than we expected. For the last two years we have discussed this at length and wrote that the only possible outcome is the resurgence of the U.S. banking industry where insured deposits would be used to buy the securities that raised money to refinance all the exotic securities. We believed that the Federal Reserve would use their tools to inject appropriate amounts of short term funds to allow the banks to fund these purchases. I think they have done a horrible job and as a result have scared the individual and commercial cash depositor to place their money away from the banks and into money market funds. As a result, Treasury bill yields have plunged and the Treasury is issuing a lot of new paper and hoping that adding cash to the banking system will fix it.

I believe the whole bank market could be revitalized in a short period by temporarily raising deposit insurance to \$1 million per account and allowing the FDIC to insure larger amounts with additional fees. **The key is to get the money out of the Government's hands and into the banks.** This is a matter of confidence and it is shocking to see fundamentally strong banks teetering because all of their depositors are taking money out to go into money market funds. **The key to solving the crisis is not getting the government to buy loans but to get a portion of the \$4.5 trillion of money market funds back into the banking system.** We have seen estimates of \$400 billion that have left the banking system due to depositor fear. We do not know if it is completely accurate but the public needs confidence to know that they can leave their money in the bank. The government should do all it can to promote confidence and get the deposits back in the banking system where the liquidity can be provided to American corporations and homeowners.

If the Treasury and Federal Reserve take the right steps and both return confidence to the banking system and stop this fight for scarce sources of funding, we believe deposit rates could drop materially and banking margins will widen. As banks feel more comfortable with their funding sources they can get more involved in buying assets. That is the one remaining fear -- will the Federal Reserve keep too tight a rein on this liquidity and drive us into a recession? We have a whole portfolio of companies with billions of cash that has been moved from banks to money funds. I am astounded on how the administration

and Federal Reserve shattered confidence by allowing banking institutions to serially implode only because their deposits were running out the door.

We will live on for another day and we hope this brief note answers your questions on performance. We are excited about some of the incredible opportunities to invest in companies selling for less than 5x earnings but the current conditions will keep us cautious. We still believe the best use of funds for our companies is to continue to buy back stock on a systematic basis. **We have even discussed "leveraged" buyouts with companies where no debt would be used.** For a quick study, feel free to look at *KBR Inc. (KBR)* which is an engineering and construction company. The company has no debt and \$10 in cash per share and will earn approximately \$1.70 per share this year. Selling at \$15 per share that tops out at slightly less than 3x earnings for a world leader in engineering and construction services.

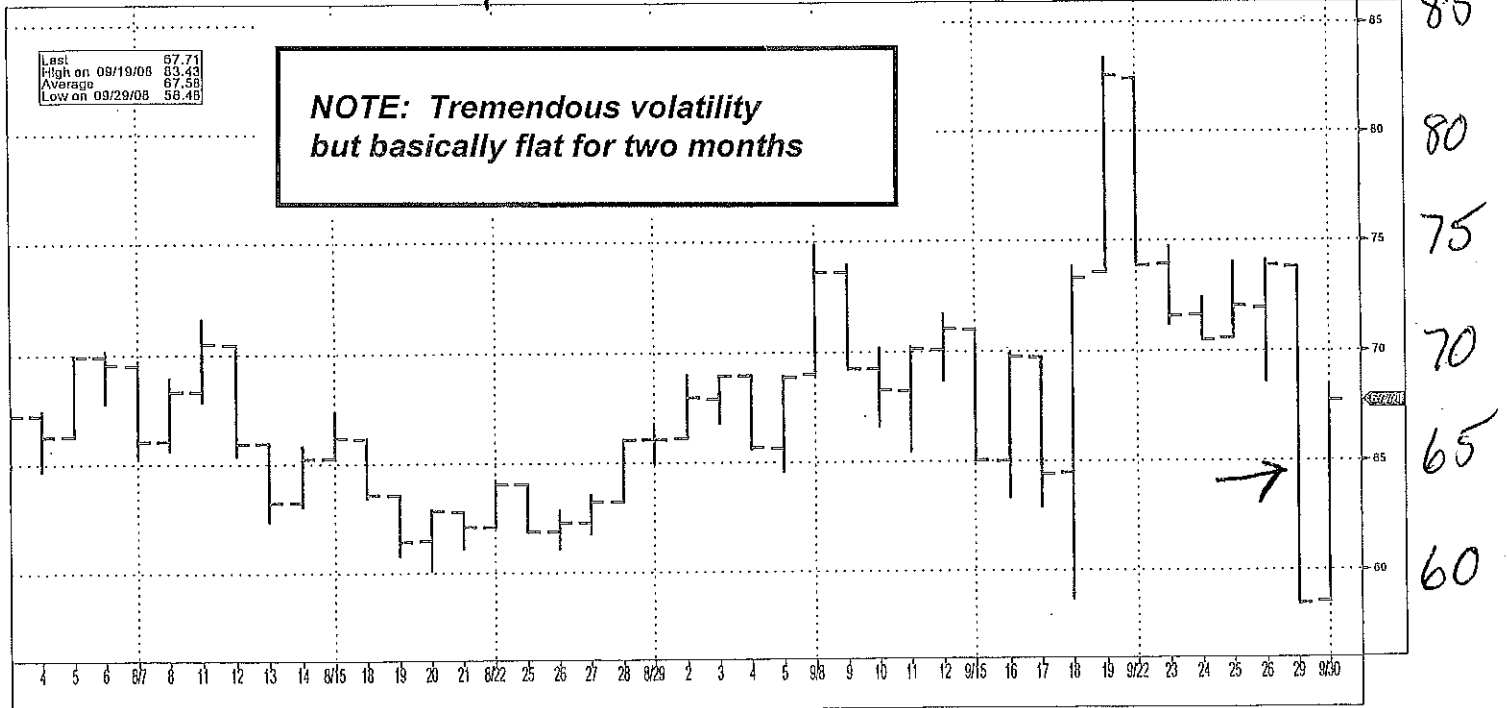
Finally, we cannot make the money back overnight, so we urge your patience. However, we will allow all investors to add to their funds and keep their remaining lock-up periods, thus generating some flexibility for those who seek to take advantage of this decline. All funds will be open to current investors. We will continue to work hard for our investors, including ourselves as the largest investors.

Sincerely,



Jeffrey L. Gendell
General Partner

KBW BANK INDEX



Last on 09/19/08 67.71
 High on 09/19/08 83.43
 Average 67.58
 Low on 09/29/08 58.48

85
80
75
70
65
60

08/01

09/01

9/30

Tremendous daily volatility that makes investing almost impossible. Our September in TFP would have been much better without the House voting down the rescue package [see arrow above]