

Second Quarter 2008 Investor Letter

July 25, 2008

Dear Investor:

For the three month period ended June 30, 2008, our fund generated the returns indicated below. Firm assets under management at the end of the quarter were \$5.6 billion.

2008 Results	% Return Q2 2008	% Return 2008
Third Point Offshore Fund, Ltd.	6.2%	1.6%
S & P 500	-2.7%	-11.9%

See notes 1-3 below text.

Winners and Losers

The top five winners during the quarter (based on their contribution to overall results) were Exco Resources (+86.6%), MasterCard (+20.7%), Financial Short A (+35.2%), Plains Exploration & Production (+20.1%), and Questar (+23.9%). The top five losers during the quarter (ranked similarly) were Deutsche Boerse AG (-33.6%), Daimler AG (-29.0%), Yahoo! (-28.0%), Huntsman Corp. (-51.4%) and Phoenix Cos. (-34.6%).

Portfolio Review

During the second quarter, long investments in energy and short investments in financials generated solid returns and accounted for the majority of our profits. In energy, we have continued to find the best opportunities in upstream companies that benefit from high oil and gas prices. Exco was our biggest winner for the quarter, and our investment is guided by its excellent management and exposure to the dynamic Haynesville and Marcellus shales. When we entered Exco in 2007, we believed it was cheap based on its production levels and huge asset base. We continue to think it trades at a healthy discount to its peers in the sector. We also see significant upside potential in its pending joint venture, in which we expect Exco to sell close to half its shales in a multi-billion dollar transaction and use these proceeds to pay back debt, pay a dividend to shareholders, and accelerate exploration, all of which will be accretive for equity holders.

Our investment in Plains continues to be driven by the company's sizeable crude exposure and solid management. We think Plains will build value going forward through a number of initiatives, including a joint venture with Chesapeake Energy in the Haynesville shale, which represents a clear path to grow production. Additionally, their T-Ridge project is moving through the regulatory process and is on the cusp of approval, which will promote significant production capacity in crude.

Financials remained volatile during the quarter, but were profitable for us. We spent much of our time identifying banks whose book value we believed had been overly inflated by misleading characterizations of certain toxic assets that are bound to cause further losses. We focused on regional banks with exposure to construction loans (particularly to Florida and Inland Empire California), Pay-Option ARMs, and Home Equity portfolios (particularly those that are non-branch originated). The market for these types of loans has traded off significantly, with recent sales of Florida land loans as low as five cents on the dollar and performing Southeastern HELOCs trading as low as fifteen cents. At the time we initiated a short position in a Southeastern regional bank, the company was trading at 1.9x tangible book value. On an adjusted book value basis (adjusting for our estimated loss content), we thought the business was trading at 2.7x book value. The stock has been halved subsequently and our position substantially reduced.

We initiated a similar short position in a Puerto Rican bank with a significant subprime and construction portfolio (over 100% each of tangible book both in Puerto Rico and the United States). The Puerto Rican economy is structurally under stress with close to a third of its work force in public sector jobs, double digit unemployment, a multi-year recession, disproportionately higher cost pressures from energy price increases, and similar overbuilding characteristics to those in the Southeast. We believed that the bank was under-reserved given its exposures and that its earnings power would be impaired as the bank reserved for future losses. This share price has also been halved and our position has been materially reduced.

As we discussed in our first quarter letter, we have held core short positions in certain investment banks throughout 2008. We believe that their earnings power has been structurally impaired through a regulatory deleveraging and so they are unlikely to return to the halcyon days of 2006/7. In particular, we have focused our shorts on the brokers who had the most concentrated exposure to domestic real estate and those who had been the biggest beneficiaries of the boom in the mortgage market.

As you are aware, during the past few years, investments in Europe have been profitable for us. However, our increasingly pessimistic view on the global economy in general and Europe in particular led us to exit several core positions in this geography, including our positions in Deutsche Boerse and Daimler, both of which had been solid winners for us in

the past. We have eliminated most of our positions in India due to economic pressures in that region as well.

We had mixed success in our risk arbitrage book during the quarter. We had a win in Clear Channel and a loss in Huntsman. Ultimately, the Clear Channel buyers found a way to do the deal because they wanted to, which was consistent with our research and knowledge of the players. In Huntsman, the buyers used the challenging financing environment as an out and the deal collapsed.

Unfortunately, in the first few weeks of the third quarter, we have witnessed a violent reversal in both financial service stocks and energy names. The rally in Financials was precipitated by a number of factors, most of which I believe were technical and did not reflect a turning point in the underlying fundamentals. First, Wells Fargo announced that they beat “Street” estimates by 3 cents a share and increased their dividend. Second, the SEC launched an emergency measure designed to reduce “naked” shorting activity in certain financial stocks, which we discuss further below. Third, Treasury Secretary Paulson announced a bailout of the Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac. The simultaneous sell-off in crude bolstered the market rally resulting from these initiatives, adding pressure on hedge funds to cover shorts and driving the surge in Financials

Notwithstanding these developments, we remain extremely bearish with respect to financial stocks in general. We do not believe that Wells Fargo’s contorted earnings nor the government’s attempt to jawbone the market will fix the significant underlying problems. Wells Fargo’s earnings “beat” was predicated on a change of policy on charges in their HELOC book from 120 to 180 days, which alone accounted for over 5 cents of after-tax earnings. In addition, lost in the hoopla was the fact that book value actually decreased from \$48.159 billion to \$47.964 billion, and would have been much worse if not for a \$3.7 billion mark-up of their MSR (mortgage servicing rights) portfolio.

Secondly, a chorus of “blame the shorts” is generally an excellent indicator of significant underlying problems and certainly has never heralded a commitment to undertake a serious and sometimes painful repair of weakened companies or underlying financial systems. Similarly, the proposed GSE bailout is fraught with moral hazard issues. As a friend said to me, “Capitalism without bankruptcy is like Christianity without hell.” Even if the government does not wipe out the subordinated debt and equity in the GSEs, any proposed equity offering would so significantly dilute their value as to effectively let the companies’ management off the hook.

The rally in Financials came concurrently with a sell off in oil and natural gas prices that sent these stocks into a tailspin, knocking prices down over 30% in a week in some cases. Since our largest exposure has been to energy, we sustained losses in the space which, combined with the financials “melt up”, have resulted in losses for the month in the high single digits as of today. As a matter of risk management, we have reduced our energy

exposure during the month, although we still have a high conviction in the underlying valuations and expect a snap back in the prices later in the year.

Industry Developments

During the second quarter of 2008, the market witnessed a significant increase in regulatory activity by the SEC and other government entities. Over the past several weeks, the SEC has served subpoenas on over 50 different hedge funds, seeking information relating to short sales in Bear Stearns and Lehman Brothers, and the dissemination of rumors about those companies in the market.

This investigation comes at the same time that the SEC has implemented several other measures designed to address short-selling. On July 15, 2008, the SEC instituted a 30-day emergency measure aiming to make the short-selling of certain financial institutions more difficult by requiring all sellers to borrow or enter into a bona fide agreement with the share lender to borrow the securities prior to the short sale.

The SEC also recently announced that it is concerned about the deliberate spreading of false rumors by short-sellers – known as rumor mongering – which some have claimed led to the Bear Stearns implosion. To this end, the SEC announced that its regulators would immediately begin conducting examinations of broker-dealers and investment advisers to determine whether they have sufficient procedures in place to protect against the dissemination of false rumors.

As you may recall, the SEC conducted an audit of Third Point last year after we registered as an investment advisor. During the course of the audit, the examination staff noted that we regularly communicate with portfolio managers at other hedge funds about investment and trading ideas. The SEC later informed us that it had commenced a formal investigation of Third Point primarily relating to these types of communications. Such conversations permit us to test our hypotheses and refine our thinking and, as a result, we believe that participating in give-and-take with other managers is in the best interest of our investors. Our outside counsel has examined this matter thoroughly and assured us that our position is consistent with the securities laws and that we have not violated any law in connection with these communications.

Regulatory matters are certainly playing a significant role in the life of hedge funds as the obligations and demands of the current regulatory environment continue to increase. However, rest assured that we have a strong operational and legal team to assist me in these endeavors, and as a result, all of us on the investment team at Third Point remain completely focused on our investment activities and maximizing returns for our investors.



Operations and Personnel Update

During the quarter, we hired three new investment analysts, whose biographies are below.

Patrick Barth – Patrick has returned to Third Point as a generalist analyst, after receiving his M.B.A. from the Wharton School at the University of Pennsylvania. He was with us as a summer analyst in 2007, and consulted for us during this past academic year. Prior to Third Point, Patrick worked as an Associate in Private Equity at the Audax Group, and as an Analyst in Mergers and Acquisitions at Dresdner Kleinwort Wasserstein, LLC. He earned a B.S. from Duke University.

David Bonanno – David joins Third Point from Cerberus Capital, where he worked as an Associate focused on distressed investing, which he will also concentrate on at Third Point. David had previously worked on the distressed team at Rothschild and received his B.A. from Harvard.

Sriram Vaidhyanathan – Sriram has joined Third Point as a quantitative analyst, after receiving his Masters in Financial Engineering from Columbia University this Spring. Prior to obtaining his Masters, he spent three years at Citadel as a Technology Specialist, and received a B.S. from Carnegie Mellon.

Additionally, we have welcomed Peter Yuen, Operations Analyst; Ross Fabricant, Software Developer; John Kaszuba, Operations Business Analyst; and Laurine Ho, Accounting Manager, to our business team.

As always, I am grateful for the trust you place in me and in Third Point's team, and look forward to continuing this journey with you.

Sincerely,

A handwritten signature in black ink that reads "Daniel S. Loeb".

Daniel S. Loeb

Notes:

¹ Third Point Offshore Fund, Ltd.'s (the "Offshore Fund") performance results are presented on a net-of-fees basis and reflect the deduction of, among other things: management fees, brokerage commissions, administrative expenses, and accrued performance allocation or incentive fees, if any. Net performance includes the reinvestment of all dividends, interest, and capital gains. In practice, the incentive fee is "earned" on an annual basis, not monthly, or upon a withdrawal from the fund. Quarter-to-Date and Year-to-Date performance is an estimate. Because some investors may have different fee arrangements and depending on the timing of a specific investment, net performance for an individual investor may vary from the net performance as stated herein.

Unless otherwise stated, all other information contained herein is presented on an aggregate firm-wide basis and does not necessarily reflect that of the Offshore Fund only. As such, firm-wide performance, portfolio exposure and other data contained herein may vary from that of the Offshore Fund.

² Past performance is not necessarily indicative of future results. All investments involve risk including the loss of principal. This document is confidential and may not be distributed without the express written consent of Third Point LLC and does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product. Any such offer or solicitation may only be made by means of delivery of an approved confidential offering memorandum.

³ The performance and volatility of the S&P 500 may be materially different from the performance attained by a specific investor in the Offshore Fund . In addition, the Offshore Fund's holdings may differ significantly from the securities that comprise the S&P 500. The S&P 500 has not been selected to represent an appropriate benchmark to compare an investor's performance, but rather is disclosed to allow for comparison of the investor's performance to that of a well-known and widely recognized index. You cannot invest directly in an index.
