

First Quarter 2010 Investor Letter¹

June 11, 2010

Dear Investor:

"We should be careful to get out of an experience all the wisdom that is in it -- not like the cat that sits on a hot stove lid. She will never sit down on a hot lid again -- and that is well; but also she will never sit down on a cold one anymore."

Mark Twain, "Pudd'nhead Wilson's New Calendar," Following the Equator

"No matter how we arrive at the latest financial conclusion, we always seem to be preparing ourselves for the last thing that happened, as opposed to what's going to happen next. This 'penultimate preparedness' is our way of making up for the fact that we didn't see the last thing coming in the first place."

Peter Lynch, One Up On Wall Street

Outlook and Review of Recent Months

During the past few years, many traditional "value" investors have come to realize that the global economic environment and other "macro" issues are essential considerations in both stock selection and portfolio construction. Since our founding on June 1, 1995 (Happy 15th Anniversary Third Point!), we have adjusted overall gross and net exposures and emphasized certain strategies in our toolkit above others according to how we perceived the world at the time. Over many years, this approach has served our investors well.

In April 2009, we dramatically increased exposure across a range of credit, distressed and equity strategies based on our belief that a financial Armageddon scenario had been averted and we were in the beginning phases of an economic recovery in the United States. The recovery indeed took hold and showed signs of accelerating early in 2010, led by increases in employment and economic activity that surprised to the upside more often than not. The foundation for this recovery was laid by the government's robust response to the economic crisis including the Obama Administration's fiscal stimulus spending and the Fed's relaxed monetary policy which together narrowly averted a global catastrophe and gave the

¹ In order to make our investor communications consistent with our philosophy, which emphasizes the importance of process over outcomes, we will be changing the format of our letters to reflect that orientation.

economy and businesses air cover to start the rebuilding process. While economic statistics are quantitative and so (relatively) easy to measure, what is equally important but much more difficult to calculate is confidence.

Perceived by some to be the least important measure of overall confidence is *investor* confidence, also known as “sentiment.” Sentiment is usually backward looking and is incorrect so frequently that it is often used by professionals as a counter indicator of market direction. While I agree that sentiment is often wrong in predicting overall market movements, it has been interesting to see how the market reacts in real time to announcements of policy or other government-driven events in today’s post-crisis environment. For example, on the day of President Obama’s January speech introducing the Volcker Rule, markets swooned 2% and financial stocks declined by 3%. More recently, on the day the government brought its action against Goldman Sachs for its mortgage-backed CDO activities, the S&P dropped 2% in minutes. And just last Friday, the indices dropped 3% on disappointing employment numbers that the Administration had gone out of its way to hype throughout the previous week. Confronting these massive swings in the markets (still the resting place for most Americans’ retirement and pension funds), many politicians minimize the significance of confidence among investors, on the grounds that Wall Street professionals are prone to be emotional, trigger happy, and unduly focused on the short run.

But confidence on the part of consumers and business managers as drivers or detractors of economic growth cannot be so readily dismissed by policy makers. Business owners make vital decisions about capital expenditures, R&D spending, inventory stocking, and hiring based not only on what they see in the rearview mirror of their recent sales, but also on their levels of “confidence.” What we are finding throughout industries and with investors, unfortunately, is that it is very difficult to maintain confidence when the rules are continually changed, and the goalposts repeatedly moved. The Administration appears unable, or unwilling, to let free-market capitalism resume. Indeed, it is neither health care nor financial reform which has stressed markets most in 2010, but rather the continued politicizing of the regulatory process and the abandonment of free market capitalist principles that have undermined investor confidence.

While the Administration seems perfectly willing to allow this “regulatory volatility” to send markets for a tailspin every few weeks, it does not seem to understand that the corresponding diminution of confidence by allocators of capital in financial markets runs a high risk of spilling over into the decisions by business people to allocate resources to the “real economy”. “Main Street” is not independent of Wall Street. We are each part of an intricate ecosystem and the failure to lay out clear rules of the road in intellectually honest tones is beginning to show signs of sabotaging the overall recovery.



For example, there is no doubt that we need financial reform. Third Point was one of the first firms to recognize the insanity of the leverage employed by big banks and we avoided them like the plague, shorted some of them, and moved our prime brokerage balances from the worst offenders in 2007-08. But we have also learned that just as dawn follows the rooster's crow, financial markets take their lead from financial companies. We invested your capital across markets last April when it appeared that the worst was behind the U.S. financials' sector. As most of you know, I talked about our re-initiated long positions in Bank of America and Citigroup at our annual Investor Presentation on January 20th. However, the next morning, upon seeing on a calendar of the day's Washington events that President Obama was scheduled to speak on financial reform at 11:00AM, a mere two days after the Democrats lost Ted Kennedy's Senate seat to Republican Scott Brown in a stinging defeat, I became concerned that he would take a politically popular populist (and therefore negative) stance on the banks, and so sold our significant positions in those two financials as well as most of our position in Barclays. Although we have traded around these stocks since, at present we have no position in any commercial banks (except for a small residual position in a regional bank amounting to less than 1%).

These stocks are still statistically cheap, generally trading around 6x "normalized" earnings. However as an allocator of capital, I have no confidence in the politicized approach to financial reform and worry that our legislators will enact laws that will weaken rather than stabilize the financial system. Accordingly, we have also jettisoned our position in Wellpoint, a health care company that trades at less than 7x earnings because we could not predict how legislation or regulation may affect it. We have come to the realization that from a risk management perspective, the anti-business, short-term politically motivated activities we're seeing in Washington make investments in certain industries simply impossible to evaluate.

On a more constructive note, it appears that the government has turned some of its considerable energy to regulating an industry that ran amok during the Bush administration. We have therefore increased our short exposure to many of the for-profit education companies and believe that in this case, society and financial markets will be well served by an increase in oversight and some common sense reform.

So against this complex backdrop, where do we stand and what have we done during the macro-driven recent correction? Last month, we reduced our gross and net exposure by selling or reducing our few positions in companies that lacked near-term hard catalysts as well as most positions that had any significant exposure to government regulation. As a result we have reduced equity exposure by about 10% on a cash basis and since we sold some more volatile stocks, our "beta adjusted" exposure has been reduced by about 16%. We also took the opportunity to add to some risk arbitrage and credit positions – both in



mortgages and in corporates. We did not reduce our post-bankruptcy equity positions, as many of those are the cheapest in the portfolio.

From our perspective, the good news is that the bad news seems to be out in the sunshine: we all know that Europe has “issues”; China may or may not be slowing down or turn out to be a bubble (we think not); the government hates Wall Street; taxes are going up; there has been a catastrophic oil spill in the Gulf of Mexico; Japan’s economic situation is not sustainable; and so on. The tenor of the macroeconomic climate in which we’re living has been well mapped and discussed at this point.

Against this murky scene, we remain optimistic that we can continue to put up solid returns. We have not seen equity valuations this cheap in ages, with the S&P trading at 12.5x 2010 forecast earnings. We are also seeing risk arb spreads widening, and yields on corporate debt have become very attractive again recently. We cannot predict the bottom and we concede that confidence is low and frustration with the Administration and government institutions around the world is terribly high. We love the stocks we own even if we cannot predict the timing in which they will appreciate. At these levels, for part of our portfolio we are value investors and must look past short term market swings through to a time when these valuations will be recognized by the market or potential acquirers.

First Quarter 2010 Results

	Third Point Partners LP	S&P TR	Credit Suisse Event Driven	HFRI Event- Driven Index
2010 First Quarter	16.6%	5.4%	4.8%	4.7%
Annual Standard Deviation	14.1%	15.9%	6.2%	7.1%
Monthly Correlation to S&P	0.4	1.00	0.6	0.7

Performance for the first quarter was driven primarily by gains in post-reorganization equities, financials equities, mortgage bonds, and the realization of a long-held private position. The top winners for the quarter were Delphi Corp, PHH Corp, Ception, Chrysler, and CIT. The top losers for the quarter were Gartmore Group, United Co. Rusal, Heidelberg Cement, and two short positions.

Credit Investments

Mortgage Securities

Mortgage securities contributed significantly to our returns during the first quarter. In early January, we initiated a position in the ABX 06-1 A, a synthetic index referencing twenty, 2005-issued subprime bonds originally rated 'A', which was trading then around 10.5. We like mortgages of this vintage because we believe that borrowers who have paid their mortgage for the past five years – managing to stay in their homes throughout the recession – are less likely to convert from current to delinquent at this point in their payment cycle. Of the referenced obligations that make up the tranche we owned, we believe three of the referenced bonds will return par, two have a medium probability of returning par, and two have a high probability of getting some return of principal. We recently exited this trade around 16, as markets appreciated to a level where the yield to maturity on this index made other investments more attractive.

Equity Investments²

Aspen Technology

Aspen Technology (AZPN) is a leading provider of simulation and optimization software to companies in process industries such as oil and gas, chemicals and pharmaceuticals, with a \$1.1B market-cap. Customers generally sign 5-year subscription agreements for use of the software, resulting over \$300M of recurring annual cash payments. The company trades at a 3.5x multiple of these recurring payments vs. 6x+ for its peer group.

Third Point initiated its position in Aspen after it was delisted from the NASDAQ in February 2008 as a result of being delinquent with its SEC filings. Shortly thereafter, the company's auditor, Deloitte & Touche, did not stand for re-election and the company appointed KPMG. KPMG completed its audits of the company's 2008 and 2009 financial statements, and in 2009 the company filed its 10-Ks for those years. Aspen was re-listed on the NASDAQ in February 2010, coincident with its filing of the 10-Q for the December 2009 quarter, setting off the period of positive performance that contributed meaningfully to our returns in Q1 2010.

² Please note that we will no longer discuss investments made prior to our public 13-F filings. We have found that discussing our ideas may result in "piling on" by other hedge funds who may subsequently sell at inopportune times resulting in greater hedge fund concentration and volatility, which is not in the interest of our investors.



Upcoming potential catalysts include a decision by private equity firm Advent regarding the exit of its 33% stake in the company (which could increase the stock's trading volume), potential inclusion of the stock in nationally recognized stock indices, and Aspen's continued penetration of its customer base with the new aspenONE licensing model which entitles subscribing customers to its entire suite of engineering, plant operations and supply-chain software, including future upgrades.

Ception Therapeutics

In April, we monetized our investment in Ception Therapeutics, a clinical stage pharmaceutical company with programs targeting Eosinophilic Asthma and Pediatric Eosinophilic Esophagitis. We originally invested in Ception's predecessor company, Fulcrum Pharmaceuticals in 2004. In 2005, we were able to merge Fulcrum into Ception Therapeutics and install a new CEO. Over the years, we participated in other funding rounds and helped structure a \$100 million sale of an option to purchase the entire company to Cephalon, a publicly-traded biotech company. After a year of additional clinical trials for Ception's products, Cephalon exercised its purchase option in a transaction that closed in mid-April. Third Point's exit value was 3.2x our investment for a 36% IRR. A small portion of the Ception investment was held in "side pockets" and accordingly we no longer have any investments in our side pockets.

On another note, in addition to making a profitable investment, Third Point investors can be proud that we funded the successful development of a drug that treats children with a horrific disease which prevents them from eating solid food. To learn more about this disease, please go to <http://apfed.org>, where you will find a series of videos by children living with this illness. Future applications of the drug include treatments for asthma.

SEC Regulatory Update

We are pleased to share with you that the SEC has dropped the investigation it initiated in 2008 concerning our communications with other hedge fund managers, and issued us a closing letter stating that no further action will be taken. We remain registered with the SEC, and believe that the exacting standards of compliance to which we adhere are consistent with industry best practices.

Quarterly Conference Call

Our first Quarterly Investor Update Webcast and Conference Call took place on April 13th, 2010, and was very well attended, with over 150 investors viewing the Webcast or dialing in by telephone. We plan to continue to do these within three weeks of the end of each



quarter. We welcome your feedback on how to improve on the information provided. If you would like a copy of the slide presentation that accompanied the Webcast, please contact Investor Relations.

Adam Sackett. 1974-2010

As most of you are aware, we suffered the loss of Adam Sackett, our Co-Head of Trading, in early March. His sudden death was a shock to all of us, and we have communicated the expressions of sympathy many of you sent to his wife Stacy and to his children, Carly and Ryan. The trust we established for Carly and Ryan's education is accepting donations. We miss Adam and are grateful for your support.

Please feel free to contact Investor Relations or me directly with questions or thoughts.

Sincerely,

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

Daniel S. Loeb

The performance data presented represents that of Third Point Partners L.P. All P&L or performance results are based on the net asset value of fee-paying investors only and are presented net of management fees, brokerage commissions, administrative expenses, and accrued performance allocation, if any, and include the reinvestment of all dividends, interest, and capital gains. The performance above represents fund-level returns, and is not an estimate of any specific investor's actual performance, which may be materially different from such performance depending on numerous factors. All performance results are estimates and should not be regarded as final until audited financial statements are issued.

While the performances of the Funds have been compared here with the performance of a well-known and widely recognized index, the index has not been selected to represent an appropriate benchmark for the Funds whose holdings, performance and volatility may differ significantly from the securities that comprise the index. Investors cannot invest directly in an index (although one can invest in an index fund designed to closely track such index).

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