October 1, 2008

Dear Partner:

Greenlight Capital, L.P., Greenlight Capital Qualified, L.P. and Greenlight Capital Offshore, Ltd. (collectively, the "Partnerships") returned (17.9)%, (17.4)% and (16.7)%, net of fees and expenses, respectively, in the third quarter of 2008, and (16.4)%, (15.2)% and (14.4)% for the year to date.

Obviously, this was a very frustrating quarter and the environment remains scary. While the result is not what we would like and we made some mistakes (detailed below), we believe that our portfolio management has been reasonable. In the past, there have been times when our investment performance benefited from a favorable environment. We knew there would be other times when the environment would create a headwind. We believe this is one of those times. The periods where our short-term performance is most challenged are periods where macro events and themes drive most investment outcomes (for example, the Russian crisis in 1998 and the top of the internet bubble in 2000). Since our specialty is not macro forecasting, let alone guessing how some erratic actors in Washington will behave, we are not in a position to know when these headwinds will reverse. However, we believe that they will. Our job is to create a portfolio that can survive until that point and, hopefully, thrive afterward.

In hindsight, our suggestion from last quarter's letter to go to cash and go to the beach would have been the better option. In addition to the macro situation, it appears that investors have been unwinding trades that they otherwise believe make sense because they 1) are nervous about further short-term losses, 2) are reducing risks and leverage generally and 3) are possibly facing redemptions from their own investors. It appears that some of our investments have lost value for the time being due to these phenomena, which may persist a while longer. We do not attempt to "out-trade" these traders. However, there will be many investment opportunities caused by the current market dislocation and we will try to be opportunistic. We remain optimistic about our current portfolio and our long-term prospects.

Our portfolio discipline is to construct our portfolio from the bottom up. As value investors, we take long positions in good companies that we believe have clean and unlevered, or minimally levered, balance sheets and have misunderstood prospects. Of course, should the economy weaken they may earn less than they would in a strong or normal economy, but we believe that a lot of bad news is baked into their valuations and that these companies will survive the cycle. On the other hand, we are short companies that have significant problems of various sorts: some have bad business practices or have played accounting tricks; others trade at very high multiples of earnings expectations that are unlikely to be achieved; while others have flawed business models and are unlikely to

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be long-term survivors. We believe that over time, this is a sensible way to invest and will prove to be a lucrative portfolio construction methodology. Our investment strategy has always reflected time arbitrage in that we position ourselves to benefit from having a significantly longer-term horizon than other market participants.

This is a challenging investment environment marked by a high degree of volatility (almost schizophrenic in nature) as investors grapple with the dual effect of a weakening economy and the impact of government intervention. The state of affairs of the U.S. economy is very uncertain and the policy response to the credit crisis has been unbelievable. We recognize that our job as investors is not to set government policy. We elect people to do that. Our job is to play by the rules that the policymakers set. If we don't like the rules, we can lobby for change or elect new policymakers. That is how it works. Of course, we did not expect the recent government intervention to come in the form that it did (particularly, the restrictions on short-selling). The short-term effects on our portfolio helped fuel the loss this quarter. Political risk is an investing risk in all markets. Usually, we think of it in developing markets rather than domestically, but for the moment, suddenly changing regulations (sometimes overnight) are having a large impact on U.S. markets. Do we think the regulators acted wisely and in the best long-term interest of the country? No, but why should we expect them to? As Tom Hanks said in *A League of Their Own*, "There's no crying in baseball."

The collapse of the large financial institutions was caused by bad practices and poor risk-management at those institutions. In many cases, the deteriorating economic environment revealed flaws in the underlying business models that put many institutions at risk even in the absence of malfeasance. Over the last couple of years, when creditors judged these highly levered businesses to be flawed, equity investors lost substantially all of their investments. This has been true whether the companies failed (New Century, American Home Mortgage, IndyMac, Lehman Brothers or Washington Mutual) or were rescued from a position of distress (Countrywide, Bear Stearns, Fannie Mae, Freddie Mac, AIG and Wachovia). As investors experienced complete losses in one investment, they looked at other investments in their portfolios with similar risks and business model flaws and decided to sell to avoid additional catastrophic losses. In all likelihood, it was this re-evaluation of the risk/reward of owning many financial stocks by their now former owners that caused the large declines in the share prices and extraordinary trading volumes in a wide variety of financial stocks. The loud complaints about short-selling are, as we have seen many times before, acts of desperation to distract attention from the real problems by business leaders (and now government leaders) that have been caught with their pants down.

As investors, we do need to evaluate the consequences of the heightened political risk. Over the short-term, our response has been to reduce our overall exposure and to exit our most marginal ideas on both sides of the balance sheet. We ended September 74% long and 65% short. This represents a lower gross exposure and our lowest net exposure ever.

Turning to the quarter's results, the Partnerships suffered roughly all of the loss in the long portfolio; the shorts on average had a negligible loss but failed to offset the long portfolio

decline. We entered the quarter with a historically conservative positioning due to our thoughts on the headwinds facing the U.S. economy. The market dynamic appeared to be that in the absence of company specific events, longs and shorts declined at a similar rate as the market. However, on several of the "government bail-out days" or more aptly "change the rules of short-selling days" the shorts recovered dramatically more than the longs, especially the financial shorts abundant in our portfolio. We don't believe this sort of government-driven manipulation alters the issues that companies in our short portfolio face, so our plan is to balance waiting out this period in our highest conviction short ideas, while also maintaining reasonable portfolio exposures. Ironically, the current restrictions on short-selling make some of our positions "proprietary" as no one else can replicate them for the time being.

The Partnerships had nine losers that each cost more than one percent of capital in the quarter. The six long positions in this group were Arkema (France: AKE), Criteria CaixaCorp (Spain: CRI), Helix Energy Solutions (HLX), Natixis (France: KN), Nyrstar (Belgium: NYR), and the Porsche Stub (Germany: PAH3).

AKE's share price fell from €35.90 to €25.75 in the quarter. AKE reported strong second quarter results. At its annual Investor Day in September, AKE reaffirmed its EBITDA goals of 10% for 2008 and 12% for 2010 assuming "normal market conditions." AKE highlighted that one-half of the margin expansion would come from initiatives that are already in progress. Also, for the first time, the company outlined the long-term margin potential of its various product lines that exceeded the original 2010 goals. AKE is unique among European-headquartered chemical companies due to the extent of its restructuring program and margin expansion potential. Despite this and AKE's fairly diversified end-markets and geographical distribution of its plants, the market has continued to emphasize fear of a global downturn. We believe that this fear is more than discounted in the current share price and that the breadth of restructuring activities by the company will allow for a positive margin expansion even if market conditions are somewhat worse than normal.

CRI shares fell from €3.81 to €3.37 during the quarter. There were no company-specific negative developments during the quarter, but CRI's publicly listed investments dropped in value along with the entire Spanish market.

KN reported a large loss for the second quarter. After denying the need for equity capital for weeks, it finally decided to raise an eye-popping €3.7 billion via a rights offering. While the need for capital was a disappointment, there was still a way for management to address its capital position without massive dilution to shareholders through a partial sale of its valuable interests in its parent banks back to the parents. We unsuccessfully raised this idea with management privately and then pushed publicly for the company to pursue this shareholder-friendly alternative rather than the equity raise (even going so far as to write the company a public letter and to speak at the company's shareholder meeting).

There were many problems with the KN investment that are worth recounting. In hindsight, the original thesis still appears reasonable. However, when the credit crisis hit, it was clear that KN was exposed. We spent a lot of time analyzing the businesses and we

found that a number of them were relatively insulated from the crisis and quite valuable. The problem with that thinking, as someone belatedly pointed out, is best described in a great quote from Charlie Munger: "When you mix raisins with turds, you've still got turds." While we did sell some of the stake last year, we should have been more aggressive.

Another fundamental problem with KN came from a misalignment that developed between shareholders and management. At the time of our purchase, management of KN and the parent banks was given a large dose of stock options at €22 per share. We thought this was good, and we were pleased to enter the investment at a discount to that price. However, somewhere along the way (perhaps earlier this summer) when the stock fell, we suspect management realized its options were worthless and simply gave up on protecting the shareholder interests. We finally exited this frustrating, poorly managed and very costly investment as KN further revealed a much larger exposure to toxic assets and the financial crisis with its second quarter results, and we judged the go-forward risk/reward of this situation to be unattractive.

HLX shares fell from $41.64 to $24.28 during the quarter. The oil and natural gas price curves were down about 25% during the quarter, and hurricanes Gustav and Ike hit the Gulf of Mexico back to back, shutting down the majority of HLX's production for at least the month of September. HLX put out a press release indicating that while it is "fully insured," there would be sizable impact on 2008 results, and possibly even 2009 results. On the strategic front, management has not yet been able to execute any value unlocking transactions, though it did issue preliminary 2009 EPS guidance of $4.50 prior to the hurricanes. We increased our position during the quarter and continue to believe that there is significant latent value at HLX.

The PAH3 stub (symbol formerly POR) fell sharply during the quarter, as PAH3 increased its stake in Volkswagen from ~30% to ~35% and the state of Lower Saxony postured that it would consider increasing its stake from ~20% to ~25% in order to keep its veto rights if the European Union deemed that this was necessary. We believe that these actions are providing an artificial bid for Volkswagen shares in the market place. We also suspect the stub value suffered due to liquidations by other funds including a certain failed investment bank that market participants believe held the stub. On a fundamental basis, we believe that Volkswagen is highly overvalued at 21 times estimated 2009 EPS, more than twice the multiple of its peer group. We do not think that PAH3 will buy the remainder of Volkswagen at these valuations. PAH3's market cap is €13.3 billion and it has €4.2 billion of net debt. At current market prices, the company's 35% interest in Volkswagen is worth €28.9 billion. This means we are being paid €11.4 billion to own the core PAH3 business, which earned €1 billion in Net Income in 2007, which we expect to decline to €700 million in 2008. We added to this investment when it spiked against us, so our new average price is €(40.00) compared to the value of €(4.67) at the beginning of the quarter and €(113.03) at quarter end.

NYR fell from €11.30 to €4.25 during the quarter. The outlook for the company's fundamentals deteriorated significantly during the quarter and the business (smelting)

proved to be far more sensitive to the price of zinc than we originally thought. While the price of zinc fell less than 10% during the quarter, the outlook for global zinc smelting capacity increased substantially due to expansion within China's industrial base. This will pressure NYR's earnings power for both the near and medium term. While the company trades at one-third of tangible book value, the timing for an improvement in industry fundamentals is not clear.

The short positions in the portfolio generated about 1% of the loss during the quarter. While we did have another contribution from the Lehman short, most of those gains were earned in prior quarters. We had large losses in Financial Short I and Financial Short L. We believe that there is a large disconnect between financial institutions that use fair-value accounting versus others that use accrual accounting. We believe that many of the fair value accounting companies have recognized the losses from the credit crisis, while many accrual accounters (banks) will have to recognize the problems over time as losses develop. It seems to us that if you have a package of loans that is called a “security” and it trades at a deep discount, others who hold similar, unpackaged versions of the toxic loans, but have taken minimal reserve provisions, face significant risks that will lead to future earnings disappointments.

However, we believe that the changing rules on short-selling contributed to large losses for the Partnerships on these names during the quarter. Financial Short I even made an all-time-high price, despite a challenged portfolio. Incidentally, we did not view any of these positions as potential bankruptcy candidates, but rather as overvalued equities with fundamentally challenged business models. Our plan is to hold these positions for a good deal of time (provided there aren’t additional extraordinary legal changes) until they begin to trade in a normal market environment again.

We also lost money on Financial Short B. We had shorted this bond guarantor in 2002 and had covered most of the short prior to this quarter. However, the shares roughly tripled during the quarter, and we added to the position as it rose, creating additional losses as it rose even further. It is hard to see why this won’t work well, as the company is essentially in run-off.

During the quarter, the Partnerships added long positions in Dr. Pepper Snapple Group, Inc. (DPS) and Punch Taverns (United Kingdom: PUB).

DPS was spun off from U.K.-based Cadbury PLC in May 2008. The Partnerships established their position at an average price of $23.84, which represents 12x estimated 2008 earnings. DPS exhibited many of the characteristics we have seen in successful spin-off investments, including favorable management incentives (which were struck while market participants were still wondering how bad the company’s initial outlook might be in the difficult industry environment), systematic selling by U.K. shareholders more interested in the global confectionary business and less so in the U.S. beverage business, and a conservative management posture. DPS is the third largest liquid refreshment beverage company in the Americas, with a portfolio of 50 brands including Dr. Pepper, Canada Dry, 7-Up and Snapple. The company is a combination of a high-margin

concentrate business (like Coke and Pepsi, which trade at 17x earnings) and lower-margin and more capital-intensive bottling and distribution operations (like Coca Cola Enterprises and Pepsi Bottling Group, which trade at 12x earnings). While the market seems to apply a discount for its bottling ownership, we believe that an integrated model affords DPS the opportunity to expand distribution of its underrepresented and newly-launched brands. Over time, DPS has the potential to generate meaningful earnings growth through new product extensions, increased use of its distribution capacity, further cost reduction, and increased exposure to single serve channels, where it is currently underrepresented. DPS shares ended the quarter at $26.48.

PUB is an operator and lessor of over 8,000 pubs in the United Kingdom. Approximately 875 are owned and operated, and 7,500 are leased to live-in long term lessors. PUB charges “dry rent” equal to 50% of the estimated 5-year average of pre-rent profits and “wet rent” of markup on beer. Lessors are required to buy all their beer from PUB, which PUB sells at a markup, acting as a distributor from the brewers. U.K. pubs are suffering from the initiation of the U.K.-wide smoking ban, supermarkets’ aggressive beer discounting, and the U.K. consumer crunch. We believe the franchise model creates high margin revenues with low volatility. In addition, it appears the stock is under pressure because the market misunderstands PUB’s debt structure. PUB has three debt securitizations, each structured to pay down incrementally between now and 2036 without needing to be refinanced. In addition, PUB has £283 million of convertible debt at the parent company due December 2010. During the quarter, the market began pricing in a high risk of default or cash trapping within the securitizations. In addition, PUB announced its intention not to pay a final dividend for fiscal year 2008 to conserve cash at the parent company. The market took PUB’s conservatism as a sign of potential cash flow problems regarding the debt and began pricing in an equity issuance to pay down the convertibles. Based on conversations with the company and analysis of the debt documents, Greenlight believes PUB has the flexibility to manage its securitizations without a liquidity crunch, even in a difficult period for pubs. PUB is likely to use the cash savings from the cancelled dividend to pay down some of its debt early. We do not think the chances of an equity issuance are high. Greenlight initiated the position at £2.83, or less than 4x estimated 2008 profits. PUB shares ended the quarter at £1.32 (you do the multiple).

Before discussing the closed positions in our regular quarterly table, we wanted to share some thoughts on Microsoft (MSFT), which we closed during the quarter. We believe that we purchased the shares at an attractive time, and for a good while the investment worked nicely. As has been our habit of late, we overstayed our welcome as the shares peaked after the company announced a very good September 2007 quarter. Since then, management has acted in an overaggressive and almost panicky fashion regarding its online offering. First, it sought to acquire Yahoo! and then after that failed, it announced extremely high internal investment requirements to pursue this “huge” opportunity (read: “Google-envy”). We doubt the opportunity is what they say it is and wish MSFT focused on its core strength: software. The CEO is a very smart and very wealthy man. Perhaps, he is so wealthy that he has bigger ideas and aspirations than making MSFT’s shareholders

wealthier. We've given up on MSFT for now as we feel better investing in companies where management at least appears to be trying to work for shareholders.

The Partnerships closed the following positions during the quarter:

Closed Security	**L/S**	**Avg Entry Price**	**Avg Exit Price**	**IRR**	**Comments**
Covidien Ltd	L	$41.34	$47.73	+19%	A medical technology spin-off from Tyco. They expanded margins, improved sales, and we made a reasonable return.
Microsoft Corp	L	$25.77	$26.51	+4%	As noted above.
Natixis	L	€17.82	€8.34	-59%	As noted above.
Patriot Coal Corp	L	$39.09	$140.37	+2,112%	Thesis of great management dynamics and a lead on the coal markets played out nicely. A well timed exit didn't hurt.
Sanofi-Aventis	L	€48.15	€46.45	-2%	We thought they had a good pipeline and patent protection. For now, we've decided the situation is not attractive enough.
Standard Life PLC	L	£2.67	£2.20	-7%	What began as an exciting demutualization story eroded into a situation with a deteriorating industry and competitive environment combined with poor management execution and capital allocation.
Walgreen Co	L	$36.17	$32.67	-12%	A marginal long in this environment. We decided to move on.
Wellpoint Inc	L	$45.16	$46.30	+5%	Purchased cheap but decided we were uncomfortable with the intermediate political and business risks.
Burger King Holdings	S	$28.00	$25.05	+24%	The market underappreciated the commodity cost headwinds this company faced. We moved on after it became evident in the company's margins.
Bunge Ltd	S	$105.14	$86.03	+39%	Fertilizer company where our thesis of questionable accounting overstating the underlying economics and risky business practices in South America, seems now to be appreciated by the market. Reduced euphoria towards fertilizer companies also helped.
Cree Inc	S	$27.75	$21.29	+14%	A multi-year short in which our thesis of operating profit evaporating played out well. Bulls speculating on the lighting replacement theme made the short less profitable than it could have been.
DryShips Inc	S	$83.69	$63.94	+60%	Dry bulk shipping company with very high operating and financial leverage poised for problems when the cycle turned. Our thesis played out.
General Electric Co	S	$26.43	$25.22	+67%	Commercial finance operations are at best an enormous earnings headwind and at worst a disaster waiting to happen. We've exited with a small profit.
H&R Block Inc	S	$19.33	$20.02	-11%	They were able to fix most of their mortgage exposure problems. While the tax business turnaround remains in question, we've decided to move on.
Potash Corporation of Saskatchewan	S	$218.28	$174.10	+64%	Expensive cyclical fertilizer name from the past. We revisited when the bulls began forecasting unrealistic fertilizer pricing and bid the stock up over 50% in the first half of the year. When fertilizer price increases stalled in the third quarter, all the bulls ran for the exit at the same time.
Safeway Inc	S	$30.87	$25.66	+13%	A thesis on increasing competition and high capital expenditures. The stock worked when it finally fell

Closed Security	L/S	Avg Entry Price	Avg Exit Price	IRR	Comments
					victim to a weak consumer.
UST Inc	S	$55.10	$66.20	-76%	We managed to find something to short that would be taken over at a big premium in this environment. Phillip Morris decided that buying this company at a high multiple was the only way to enter the smokeless tobacco market.
Wachovia Corp	S	$25.06	$12.19	+99%	Toxic exposure to a gigantic option-ARM portfolio led to the company's collapse.

On September 18th, the New York Attorney General, Andrew M. Cuomo, announced that his office was commencing an investigation into short-selling of Lehman Brothers and other companies, focusing on "short-sellers who spread bad information and false rumors and conspire to bring down a company's stock price or engage in other manipulative and fraudulent conduct." For years, Greenlight has been actively exposing fraudulent conduct in the marketplace and is an advocate of rooting it out wherever it may reside. In the case of Greenlight's trading of Lehman, Greenlight has previously been public about its negative views of Lehman, and as with all its trading, its positions were supported by detailed analysis and research. Our policy is to not comment on regulatory developments until we have something definitive to say. Accordingly, we understand that the Attorney General's office is concerned about the possible intentional spread of "false information, and manipulative and fraudulent conduct," and we can also inform you that the Attorney General's office has confirmed that this investigation is not directed at Greenlight or any of its employees.

Given the current turmoil in the markets, we are opening the funds for a limited amount of additional capital on November 1, 2008 in order to take advantage of the investment opportunities we believe will be available in the coming year. We will send details on how to participate in this capital raise in a separate letter. We aim to complete the process in October. Since the last Greenlight opening, we have received many requests from existing partners and prospective partners for capacity in the Greenlight funds. As we have always been highly disciplined about accepting new capital, Greenlight has not opened the funds since November 2005.

On the non-investment side, we had two more weddings in the third quarter, which brings the Greenlight wedding total this year to four. With one more pending this year, that represents a 19% wedding rate among the current Greenlight team in 2008. Talk about volatility! Jennifer Hoos, who works with David on his family charitable foundation, took one of her charitable endeavors home with her, and she is now Jennifer Hoos Rothberg. Also, Justin can now put his business title of "Partner Relations" to use in his everyday personal life.

Two new employees joined the Greenlight team this quarter. Jaimin Patel joined us as an investment analyst based in New York. Prior to joining Greenlight, Jaimin was an Associate at KKR analyzing investments. Prior to that he was an investment banking analyst at UBS. We also hired Alexis Brown as David's personal administrative assistant.

Prior to joining Greenlight, Alexis worked as an Office Manager at Morgan Stanley for over 6 years. Welcome Jaimin and Alexis!

Jeff LeBlanc completed the Vermont 100 Endurance Run to raise money for Alzheimer's research. This is essentially a 100 mile race that participants attempt to complete in a 30 hour time frame. Jeff finished the race in 23 hours and 58 minutes. Congratulations Jeff!

Please mark your calendar for our next Partners' dinner, scheduled for Tuesday, January 20, 2009. The meeting is scheduled to take place at the American Museum of Natural History. We will send out a formal invitation in the coming months.

At quarter end, the five largest long positions in the Partnerships were Arkema, Criteria Caixa, Dr. Pepper Snapple Group, Helix Energy Solutions and Oesterreichische Post. The Partnerships were on average 74% long and 65% short.

"There's no crying in baseball."

- *Jimmy Dugan* played by Tom Hanks in "A League of Their Own"

Best Regards,

Greenlight Capital

Greenlight Capital, Inc.