PERSHING SQUARE CAPITAL MANAGEMENT, L.P.

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Dear Pershing Square Investor:

The Pershing Square funds outperformed the major market indexes for the second quarter of 2010, the year to date, and since inception as set forth below:[1]

	For the Quarter April 1 - June 30	Year to Date January 1 - June 30.	Since Inception
Pershing Square, L.P.			01/01/04 - 06/30/10
Gross Return	-4.3%	4.6%	448.7%
Net of All Fees	-3.8%	3.0%	276.0%
Pershing Square II, L.P.			01/01/05 - 06/30/10
Gross Return	-5.1%	3.6%	293.1%
Net of All Fees	-4.4%	2.2%	189.1%
Pershing Square International, Ltd.			01/01/05 - 06/30/10
Gross Return	-4.4%	4.4%	249.0%
Net of All Fees	-3.8%	2.9%	161.4%
Indexes (including dividend reinvestment)			01/01/04 - 06/30/10
S&P 500 Index	-11.4%	-6.6%	5.7%
NASDAQ Composite Index	-11.8%	-6.6%	10.9%
Russell 1000 Index	-11.4%	-6.4%	8.6%
Dow Jones Industrial Average	-9.3%	-5.0%	10.2%

Portfolio Update

YUM Brands
We sold our investment in YUM during the second quarter as the stock price approached our estimate of intrinsic value.

Landry's Restaurants
In November 2009, the Funds acquired stock and cash-settled total return swaps representing approximately 25% of the economics of the common stock of Landry's Restaurants, a restaurant company which was subject to a going private offer at $14.75 per share. This investment opportunity was brought to our attention by former Pershing Square analyst, Mick McGuire, who

[1] Past performance is not necessarily indicative of future results. Please see the additional disclaimers and notes to performance results at the end of this letter.

owned the stock personally. Based on our analysis, we believed that Landry's was worth substantially more than the buyout price and that we could be a catalyst for unlocking that value.

In July of this year, Mick and Pershing Square entered into voting agreements supporting the new going private price of $24.50 per share, a 66% premium above the November 2009 deal price.

While this was a small investment for us at approximately $60 million, we believed the opportunity for profit was large enough, the time required to effectuate the outcome limited enough, and the downside minimal enough that the investment made sense for the Funds. Our original analysis appears to be correct as the transaction is on a path to close as early as October.

We were also mindful of the potential reputational benefits of working to protect minority shareholder interests in the Landry's situation in deciding to make this investment. We have often spoken to you before about the importance of our continuing to build what we call "reputational equity" to the long-term success of the strategy. While Landry's was a small investment, our success here for the benefit of all shareholders will not go unnoticed by the thousands of shareholders who own the stock as well as by other companies who are considering going private transactions at prices that are below fair value.

The Landry's investment had one additional benefit in that it provided us with an opportunity to partner with Mick McGuire. As many of you know, Mick was formerly a Pershing Square analyst who is currently launching his own fund called Marcato Capital. Mick intends to implement a Pershing Square-style strategy in the smaller capitalization universe. We wish him well and look forward to the opportunity for future partnerships in situations where our involvement can enhance our respective returns.

General Growth Properties Inc.

Since our last letter, continued progress has been made towards GGP's emergence from bankruptcy. On July 13th, GGP filed its Plan of Reorganization and Disclosure Statement with the Bankruptcy Court, with an expected emergence from bankruptcy in October 2010. As part of the Plan, GGP will emerge as a well-capitalized mall REIT, and will spin off the currently unnamed "Spinco," a real estate company that will own the former GGP's master planned communities and a diversified portfolio of real estate with near, mid- and long-term development opportunities.

Over the past few months, GGP has continued to improve upon its original recapitalization plan by increasing the likelihood that it will raise replacement capital on more favorable terms. Largely due to the fact that GGP is still in chapter 11, its stock continues to trade at a substantial discount to our view of intrinsic value. We believe a large part of this discount should be eliminated after the company emerges from bankruptcy, is included in the REIT indices, and after the stock has been fully distributed to longer-term owners.

Borders

The most significant corporate event relating to Borders during the quarter was the Barnes & Noble board's decision to pursue strategic alternatives, which was likely due to pressure from the company's largest outside shareholder, Ron Burkle. We have long believed in the strategic logic

of a business combination between the two largest superstore companies. We also believe that B&N's chairman and largest shareholder is more likely to be a seller than a buyer of the company. We believe that any third-party acquisition of B&N will significantly increase the probability that Borders is included in a potential industry consolidation, because of the significant cost economies and other synergies that could be achieved in such a combination.

Other Investments

The balance of our portfolio companies including Target, Kraft, Corrections Corp., Citigroup, Aliansce, and ADP (which we recently reacquired as its stock price dropped slightly and it reported strong quarterly performance) continued to report, for the most part, strong results. Our portfolio companies' respective stock price performances have been muted, however, as investors have been unwilling to extrapolate near-term company results into the future as there is continued fear of a U.S. double-dip recession and continued global economic weakness. The resulting investor pessimism has caused stocks – even those of large capitalization, dominant, economically resilient business franchises which are the focus of our investment strategy – to trade at substantial discounts to our estimates of business value.

We believe that this is an excellent environment for us to identify potential new situations. We are currently analyzing a number of investments which appear to offer large opportunities for profit with limited downside risk, where we believe that we can be a catalyst for unlocking value.

New Investments

The substantial majority of the portfolio has been invested in large and mid capitalization North American listed equities, often with catalysts to unlock value, at times situations where Pershing Square can be the catalyst. Because these investments tend to be well-capitalized dominant business franchises that have been acquired at discounted valuations, we believe the risk of permanent loss of capital in these situations is limited.

We have historically also invested in other investments that have materially different risk and reward characteristics. These investments – because of the circumstances surrounding the companies at the time of our investment, the highly leveraged nature of the businesses or assets, the relative illiquidity of the investment, and/or the structure of our investment – have a materially greater likelihood of a potential permanent loss of capital for the funds. In light of this greater risk, we require the potential for a materially greater reward if we are successful, and we size the investments appropriately. Depending upon the risk of loss, these investments may individually comprise a few percent or less of capital, and often less than one percent of the portfolio.

Despite their small size, these investments can be material contributors to our profitability. Our investments in General Growth and MBIA CDS are two such examples. Earlier in the second quarter, we purchased BP CDS, and more recently, we acquired, in a 77.5% owned joint venture, a portion of the securitization of debt on the Peter Cooper Village/Stuyvesant Town property in Manhattan. We discuss these two new investments below.

BP (CDS)
Historically, we have purchased single-name CDS on companies where we believe the credit markets have an overstated perception of the credit quality of an issuer, or where we believe event risk has been mispriced by the CDS market. Our investment in BP CDS fits this paradigm.

In early May, we initiated a short position in BP credit through the purchase of credit default swaps. We began purchasing BP CDS at spreads of 60 basis points per annum and continued to buy protection at levels which brought our average cost to approximately 280 basis points per annum. Current BP CDS trades at approximately 250 basis points per annum and has traded as wide as 600 basis points per annum over the last few months.

Our investment thesis is predicated on our belief that the Gulf disaster has (1) likely permanently impaired the ability of BP to operate effectively in the US, (2) the clean-up costs, penalties, and legal liabilities of the spill will continue to impair the company's credit for many years, and (3) there is a substantially greater probability than is reflected in the pricing of the CDS that the current liability estimates that have been publicly promulgated materially underestimate the ultimate costs to BP.

While it is unclear at this time whether or not our investment in BP CDS will prove profitable – because the legal liabilities will take substantial time to be adjudicated, the clean up costs are still unknown, and the amount of penalties have not been determined – we believe our investment in BP CDS is attractive – that is, at the price paid we believe we have a disproportionate opportunity for profit compared with the risk of loss. Because of the size of this investment – the annual cost of carry of this investment is a fraction of one percent per annum – our risk is minimal, while the opportunity for gain is many multiples of our commitment.

In the case of BP, we believe it is unlikely that credit spreads will return to the pre-crises levels for many years, if ever. As such, our downside risk should be limited. On the other hand, if BP is found to be grossly negligent, the Government imposes the contractual penalties required in a case where a driller is found grossly negligent, and clean up costs continue to rise along with the substantial legal and other contingent liabilities, this investment has the potential to be quite profitable.

Peter Cooper Village/Stuyvesant Town
Our widely publicized involvement and success with our investment in the restructuring of General Growth has caused the phone to ring with several in-bound investment opportunities. "Stuy Town," as it is best known, is the first of these in-bound opportunities that struck us as extremely interesting.

To review, Stuy Town was acquired in a competitive auction at the peak of the real estate markets in a highly leveraged transaction led by Tishman Speyer, one of the most well-regarded real estate owner/operators in the world, in partnership with an affiliate of BlackRock (hereafter we refer to them together as Tishman). Tishman paid $5.4 billion and capitalized the transaction with an additional $900 million to fund interest reserves, property-level capital expenditures, and transaction costs for a total cost of $6.3 billion. $3 billion of the purchase price was financed

with first mortgage debt, $1.4 billion was financed with 11 mezzanine loans secured by equity interests in the property and the remaining $1.9 billion was financed with equity.

Tishman's business plan was to convert as much of the complex as possible to free-market-rate housing. At the time of purchase, approximately 75% of the complex was considered rent stabilized – where rent increases were limited by an annual percentage by the New York City Rent Guidelines Board until such time as the occupant's annual income exceeds $175,000 per annum and his/her rent is in excess of $2,000 per month. Through the passage of time and by removing illegal occupants, Tishman expected to be able to raise rents to a level sufficient for them to cover the annual debt service on $4.4 billion of debt and generate a return on their equity investment.

Unfortunately, deterioration in the general rental market, the loss of litigation which would affect the ability of Tishman to implement this strategy going forward, and the highly leveraged nature of the transaction made this strategy no longer viable. Earlier this year, Tishman elected to give the property back to the lenders.

In July, we were approached by Michael Ashner, the Chairman and CEO of Winthrop Realty, to consider partnering with him to acquire mezzanine loans one, two, and three, the senior-most mezz loans on the complex. Winthrop, through a joint venture, held an indirect minority interest in the $300 million total face amount of these mezzanine loans. After analyzing the investment, we formed the joint venture and negotiated the purchase of the mezz loans for $45 million or 15% of their original face amount. We put up 77.5% of the total capital required or approximately $40 million including estimated deal expenses, representing approximately 0.7% of the Funds' capital.

Shortly after acquiring the mezz loans and making the required notifications, we scheduled and publicized a foreclosure auction for August 25th (which has since been postponed, pending a court hearing on September 2nd) at which point other potential bidders may bid for the mezz loan collateral. We have the ability to credit bid the face amount of the mezz loans including accrued interest, approximately $320 million, or we may be paid off by an investor who is prepared to pay more for the property.

If the joint venture forecloses on the equity interests held by the original ownership group, we will be the new owner of the complex subject to the $3 billion first mortgage, accrued interest and other expenses which will need to be restructured. While Stuy Town was an unsuccessful investment at a $6.3 billion price, we believe it has the potential to be a very attractive investment at approximately half that valuation.

Stuy Town has been an important source of affordable housing for Manhattan residents since it was built more than 60 years ago. Tishman's goal to convert the property to luxury rentals conflicted with the tenants' desire for continued affordability. The Tenant Association has been working to maintain the affordability of the complex. In addition to its recent efforts, in 2008, at the time of the property's original auction, it submitted a $4.6 billion bid for the property. The Tenant Association has publicly stated that it would like to consummate a non-eviction, co-

operative conversion of the complex in order to maintain the complex's long-term affordability. It has hired Paul Weiss and Moelis & Company to assist it in these efforts.

At the time of our purchase of the mezzanine loans, we publicly announced that we planned to implement a non-eviction, affordable co-op conversion of the complex. Our effective purchase price for the complex is approximately one-third the price per square foot of comparable for-sale housing in the subject property area. As the sponsor of the co-op conversion, the joint venture can afford to sell units at below-market prices, while still earning a return on our capital that is appropriate for the risk and illiquidity of this investment. As a result, our investment proposition is consistent with the goals of the Tenant Association, which will, along with City, State, and Federal government officials and other community leaders, play an important role in the future of the complex.

Last week, CW Capital, the company servicing the first mortgage debt, brought litigation against our joint venture attempting to prevent us from exercising our right to foreclose on the equity in the complex. In particular, CW has argued that in order to foreclose on the equity, we must first pay off the $3 billion first mortgage. We think that CW's reading of the relevant contract is wrong and self-serving.

We and our counsel believe the CW litigation is without merit as we have conducted our actions as mezzanine lender in a manner consistent with our obligations according to the agreements which govern our actions. The joint venture is very capably represented by Brown & Rudnick. Pershing Square is represented by Sullivan & Cromwell who, along with us, have reviewed the relevant documentation and expect that we will prevail in defeating CW Capital's attempt to undermine our ability to exercise our rights.

This investment is likely to generate a large amount of publicity relative to the capital we have committed so we expect you should be able to keep informed to a great extent on a day-by-day basis. Since there is currently no ready market with which to value this investment, we intend to use a third-party valuation firm to mark this position to market going forward. We currently carry this investment at cost because we believe there has been no material change in its value since its purchase earlier this month.

Quarterly Conference Call

We received favorable feedback from our investors about our plan to hold quarterly conference calls. As a result, we will do our first quarterly call shortly after the end of the third quarter. Please mark your calendar for Tuesday, October 19th at 11AM (Eastern). Details will follow closer to the date.

Please feel free to contact the Investor Relations team if you have questions about any of the above.

Sincerely,

William A. Ackman

Additional Disclaimers and Notes to Performance Results

The performance results shown on the first page of this letter are presented on a gross and net-of-fees basis and reflect the deduction of, among other things: management fees, brokerage commissions, administrative expenses, and accrued performance allocation, if any. Net performance includes the reinvestment of all dividends, interest, and capital gains; it assumes an investor that has been in the funds since their respective inception dates and participated in any "new issues." Depending on the timing of a specific investment and participation in "new issues," net performance for an individual investor may vary from the net performance as stated herein. Performance data for 2010 is estimated and unaudited.

The inception date for Pershing Square, L.P. is January 1, 2004. The inception date for Pershing Square II, L.P. and Pershing Square International Ltd. is January 1, 2005. The performance data presented on the first page of this letter for the market indices under "since inception" is calculated from January 1, 2004.

The market indices shown on the first page of this letter have been selected for purposes of comparing the performance of an investment in the Pershing Square funds with certain well-known, broad-based equity benchmarks. The statistical data regarding the indices has been obtained from Bloomberg and the returns are calculated assuming all dividends are reinvested. The indices are not subject to any of the fees or expenses to which the funds are subject. The funds are not restricted to investing in those securities which comprise any of these indices, their performance may or may not correlate to any of these indices and it should not be considered a proxy for any of these indices.

Past performance is not necessarily indicative of future results. All investments involve risk including the loss of principal. This letter is confidential and may not be distributed without the express written consent of Pershing Square Capital Management, L.P. and does not constitute a recommendation, an offer to sell or a 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 private offering memorandum.

This letter contains information and analyses relating to some of the Pershing Square funds' positions during the period reflected on the first page. Pershing Square may currently or in the future buy, sell, cover or otherwise change the form of its investment in the companies discussed in this letter for any reason. Pershing Square hereby disclaims any duty to provide any updates or changes to the information contained here including, without limitation, the manner or type of any Pershing Square investment.