Diamondback Advisors

August 9, 2011

Dear Investor:

The Diamondback Offshore Fund, Ltd. had a (0.61%) net loss in the second quarter of 2011. Diamondback Partners, LP experienced a (0.65%) net loss in the same period. We will refer to both funds collectively in this letter as the "Fund."

Diamondback Offshore Fund, Ltd. (Estimated and Unaudited)			
Investment Type	**Estimated Second Quarter 2011**	**YTD 2011 Estimated Annual Return**	**Inception To Date (unless otherwise noted, from 7/1/2005)**
Overall Investment Performance[1] (Tranche A, Sub-Tranche One)	**-0.61%**	**+3.75%**	**+88.21%**
Tranche C, Sub-Tranche One Investment Performance[2]	**-0.61%**	**+3.08%**	**+40.01% (from 11/1/08)**
S&P 500 Index[3] Performance	**+0.09%**	**+6.01%**	**+25.59%**

Diamondback Partners, LP (Estimated and Unaudited)			
Investment Type	**Estimated Second Quarter 2011**	**YTD 2011 Estimated Annual Return**	**Inception To Date (unless otherwise noted, from 7/1/2005)**
Overall Investment Performance[1] (Type One)	**-0.65%**	**+3.75%**	**+87.80%**
New Type One Investment Performance[2]	**-0.65%**	**+3.08%**	**+38.87% (from 11/1/08)**
S&P 500 Index[3] Performance	**+0.09%**	**+6.01%**	**+25.59%**

See "Important Disclosure Information," beginning on page 16.

Summary of Quarterly Performance

The second quarter proved especially challenging, and the Fund's performance was disappointing, particularly following a strong first quarter. We entered the second quarter with an optimistic view about the continued economic recovery and with confidence in our fundamental strategies. We expected a few curveballs, but another Greek debt crisis, the uncertainty surrounding capital requirements for strategically important financial institutions, and the Japan tsunami's lingering effects on supply chains put much greater pressure on the market than we had anticipated. Weak U.S. payrolls and shrinking investor confidence complicated matters even further. It was difficult for us to "dig in," i.e., to pursue a consistent fundamentals-driven investment strategy with a trading orientation, especially given the deleveraging that occurred during the quarter. We finished the quarter thinking the economic recovery might be pushed back a bit.

During the quarter, the Fund's Equity portfolios increased their leverage to 2.8x from 2.3x allocated capital. Credit portfolios decreased their leverage to 3.6x from 4.6x allocated capital.

Despite the setback, we take the long view and intend to stick with our overarching strategies. We generally resist the influence of the market's knee-jerk reactions and short-term blips. Nevertheless, risk-reward exigencies forced us, reluctantly, to play some defense in the quarter. In the Center Book[9] we reduced the Fund's net exposure to Energy and its gross exposure to Financials – before the broad market rally in the last two weeks of June.

The Fund's Credit strategy yielded flat results in the quarter. The macro fixed-income environment was negatively affected by a shift from clearly strengthening U.S. and European economies to greater dislocation in equities and developed sovereign credits. Other credit markets presented mixed results and opportunities in the quarter. We saw emerging markets hold steady, as they continued to supply materials and commodities for much of the world. The mortgage markets were thin during the quarter and remarkably volatile, and we did not see clear opportunities there. The rates markets saw a one-way yield drop as global growth fell into question.

We remained faithful to our core strategy of 70-75% of the Fund's assets under management in the quarter allocated to equities, and 25-30% to non-equities. With volatility a theme throughout the quarter, we thought it prudent to take a long-term view and reduce the Fund's gross exposure during the quarter.

Contribution to Q2 2011 Gross Returns by Strategy[4, 5]

Strategy	Gross Return
Equities	-0.34%
Convertibles	0.26%
Credit	0.00%
Macro	0.02%
Other*	-0.13%
TOTAL	-0.19%

* Lehman P&L is excluded from the above table as it is no longer a contributor to the Tranche A/Sub-Tranche 1/Series 1 Gross Return. Included in "Other" are items that include, among other things, P&L attributable to Outside Investments (as defined in the Monthly Exposure Summary), and expenses incurred by the Master Fund and the Funds (as referred to in the Offering Memorandum), including, but not limited to, prime broker interest income/expense, audit fees and legal fees.

Equities strategy

Equities contributed -0.34% to the Fund's gross return in the second quarter. The Center Book's contribution to the Fund's gross return was -0.55%. The equity market's extreme volatility limited our ability to use sound fundamental analysis to generate alpha. When macro- and policy-related events drive the market, you invariably see a broad "de-risking." Investors retreat, fear mounts, and sound metrics cease to drive valuations. That's what we believe happened in the second quarter, particularly in Financials, which saw a -0.28% gross return in the quarter, and Energy, which saw a -0.64% gross return. The Center Book was typically over-weighted in both sectors. Consequently, it accounted for much of the quarter's losses.

Diamondback Gross Equity Return[7] vs. S&P 500 Index[3] Return Q2 2011		
Portfolio	**Longs**	**Shorts**
Diamondback Gross Equity Return[7]	-2.42%	1.95%
S&P 500 Index[3] Return	0.09%	N/A
Excess Return[8]	**-2.51%**	**2.04%**

Financials

Extreme uncertainty demanded that we take a completely different approach in Financials from that employed in the first quarter. While in the first quarter we stuck with our bottoms-up analysis of individual issuers, our second-quarter strategy was driven by unfriendly global macro events, a harsh regulatory environment and the market's abandonment of traditional valuation metrics. All this made pursuing a successful fundamentals-based strategy virtually impossible.

The Basel Committee and the Federal Reserve made it clear that global banks would be subject to vastly higher capital standards than those in place before. Furthermore, events in the Middle East, Japan and Europe, especially Greece, gave rise to negative investor sentiment toward global banks exposed to worldwide asset prices. These institutions depend on improving global economic conditions, and prosper when global trading and capital-market activities accelerate. Neither was the case in the second quarter.

Large-cap financials were more exposed than other institutions to unfriendly factors in the quarter. Nevertheless, we generally stayed long certain bank names whose strong fundamental trends, we believed, would continue in the intermediate term, despite more aggressive regulatory requirements and events in the Middle East, Japan and Europe. We continue to believe valuation does matter at the end of the day, even if the broader market ignores "value" during certain discrete periods. The second quarter was one of those periods.

In some cases we reduced or eliminated long large-cap bank positions -- despite their low valuations -- because we lacked confidence in their fundamental operating and earnings trends. The market's uncertainty even convinced us to take gross down by more than half in an issuer whose fundamentals, we believe, are the subsector's strongest. We also unwound some long positions that depended primarily – if not solely – on market trading volume or asset valuations.

In the asset-management segment, we had good success with issuers that prospered with the global bond rally. We focused on high-quality issuers whose organic growth was excellent and whose managed-asset base actually improved as their fixed-income franchises flourished. That same "high-quality-only" strategy generally worked with respect to the trust banks, which contributed positively to the Fund's quarterly P&L.

Because we generally respect valuations, we chose not to chase financial shorts, even though prices were heading south. Rather, we hedged the Fund's longs more aggressively via ETFs and other index shorts. This strategy, while not perfect, generally allowed us to stay with high-conviction longs.

We did have some success in shorting large-cap issuers that had disproportionate capital-markets and trading exposure. And we successfully shorted several issuers in each of the asset-manager and trust-bank segments where dependence on trading volumes and global equity valuations caused fundamental trends to get side-tracked.

As we exited the second quarter, we stayed with our core names, since we believed that a number of regulatory questions were answered, certain litigation – particularly concerning mortgage-related issues – was resolved, and Japan and the Middle East had stabilized.

Energy

Following a strong first-quarter performance, in which the Energy sector faced unusually strong challenges and headwinds throughout the second quarter. The result was the Fund experienced a -0.64% gross return in the sector in the second quarter.

Continued turmoil in the Middle East and Northern Africa (particularly Libya) caused a sharp spike in global crude prices and led investors to doubt the sustainability of global energy demand. Near-constant headlines about the European sovereign debt crises, the impact of the completion of QE2, the U.S. debt-ceiling negotiations, poor U.S. employment data and China's slowing economic growth all exacerbated Energy equities' day-to-day volatility. Finally, the IEA's 60-million-barrel release on June 23 added to uncertainty, as the market debated what the release implied for near- versus long-term crude fundamentals and pricing.

We maintain our long-term view that strong global demand and sharply declining OPEC spare capacity will drive oil prices materially higher. But we recognized in the second quarter that the macro environment had diminished investor confidence and skewed near-term risk-reward to the downside.

We deployed a three-fold strategy to manage volatility: First, we aggressively hedged market risk and reduced both net and gross sector exposure to preserve flexibility as broad market sentiment and fundamentals deteriorated. We reduced the Fund's exposure to the oil service subsector and cut in half the Fund's position in a natural gas E&P issuer. Second, we maintained core positions in catalyst-rich issuers that could outperform irrespective of commodity and energy price fluctuations. The Fund's results during the quarter benefited most when the management of the Fund's largest long energy name announced its intention to spin off its E&P business in the third quarter of 2011. Third, we built new positions in subsectors and issuers whose long-term fundamentals, we believe, remain strongest and which discount oil prices materially below both our view and the market consensus.

Second-quarter losses resulted substantially from a long position in a large-cap emerging-market oil producer and, to a lesser extent, from exposure to oil-field service names. Although recent volatility has caused these subsectors and issuers to underperform, we maintain conviction in our risk-reward assessment and continue to hedge these positions appropriately.

Contributions to Gross Returns by Sector Book[4, 5, 6] for Q2 2011	
Sector Book	**Gross Returns**
Consumer	0.11%
Energy	-0.64%
Financials	-0.28%
Healthcare	0.21%
Industrials[10]	0.33%
Insurance	-0.10%
TMT[11]	-0.01%
Utilities	0.04%
TOTAL	**-0.34%**

Industrials

Industrials were the most successful sector in the quarter, with a 0.33% contribution to gross returns during a weak period for the broader market. We saw positive returns on both the long and short sides, and we increased the sector's gross exposure during the quarter. We successfully anticipated some general trends during the quarter, and we produced alpha primarily via tactical positioning of the portfolio rather than from positions in specific issuers.

We got a read early in the quarter that global economic growth was slowing, and we moved overall sector exposure from long to short. This was a critical element of the Fund's positive quarterly results. The Fund's net exposure then varied greatly in both directions throughout the quarter.

Uncertain economic policies and the European sovereign debt crisis had a less direct impact on Industrials than on Financials. But headlines added instability to an already volatile sector, which both helped us and hurt us. The Fund was net long in the sector one last time in early June, then repositioned the portfolio aggressively to net short in the middle of the month in an attempt to ride shifting sentiment. As it turned out, the Fund's negative net exposure during the broad rally in the quarter's last two weeks detracted from returns. Had we not flipped the portfolio, Industrials' results would have been even stronger.

On the other hand, we did particularly well in a mining and mineral name on both the long and short sides. We also successfully shorted a metallurgical/coal name whose share price fell during the quarter.

Like the overall global economy, the Industrials portfolio saw some after-effects of the Japan tsunami. This had little direct impact on specific issuers in the Fund's portfolio, but the general slowdown in industrial production affected the overall sector. We went both long and short a large-cap chemical name during the quarter and netted positive results on both sides, and we successfully shorted a major paper supplier.

Healthcare

The Fund saw some of its strongest returns in the quarter in Healthcare, which had been a laggard as we entered the quarter. We recognized that, went long, and then exited as the sector caught up to and surpassed the market as a whole. In a period of defensive moves, Healthcare helped compensate for weaker-performing sectors and contributed 0.21% to gross equity returns.

Healthcare did present its share of challenges and should continue to do so, especially as the broader market remains volatile. The sector is experiencing a new reality. Shifting political winds have placed this once-static sector in a far more dynamic environment than in recent years. This requires greater vigilance, and we expect this to be the "new normal" until healthcare reform kicks in completely some time in 2014.

In today's new normal, in which HMOs have more influence over treatments and consumers shoulder more of the financial burden (particularly for prescription drugs), large-cap pharmaceuticals and high-cost innovators have fallen out of favor. Instead, the market – in parallel with HMOs and consumers – is favoring traditional service providers and lower-cost generic-drug suppliers.

We moved forward confidently but ever vigilant of the market's recent vagaries – as if we were driving at 90 miles per hour with a hand on the emergency brake. We were keenly aware of the extreme volatility in the broader market, so once the market reflected our views on these four longs, we locked in profits and exited them.

Those positive results compensated for less successful longs and shorts, particularly names involved on both sides of acquisitions. We went long a laboratory equipment and chemicals name whose shares rose after an accretive acquisition. We lost on other acquisitions when both the acquirer's and target's shares rose. We exited the positions during the quarter, having seen that cheap money increases the probability that acquisitions would be accretive at a quicker-than-normal pace.

TMT

In TMT (subsectors of technology, media and telecom), the same market confusion that undermined the Fund's largest long position helped us identify opportunities on both the long and short sides to balance the loss. The sector's net result was a virtually flat quarter, or a -0.01% gross return.

Most sector activity centered on internet names, primarily in Asia – a subsector in which confusion and uncertainty over who owns what created significant price volatility. The Fund's largest long position was in a large-cap, diversified internet name that was engaged in a dispute with a material subsidiary. The TMT book experienced a meaningful unrealized loss in its position in this issuer during the second quarter.

Other types of misinformation and confusion about asset ownership presented opportunities on the short side in the quarter. Many private companies over the past few years have made large investments in well-known, fast-growing internet names. As these private companies become public, a common misperception spreads about the size of their investments in these issuers. Consequently, we find that shares in those companies are often overvalued based on the actual size of their ownership of the internet names. During the quarter we successfully shorted an integrated Japanese venture-capital and digital-marketing name that was in just this situation.

We also did well shorting some Chinese internet IPO names in the second quarter. The issuers went public at the "right" time, in that some mutual funds and hedge funds were hungry to own them, even though the issuers had weak business models. The issuers' relative small initial offerings in the face of substantial demand kept the prices high in the near term. We looked at issuers that we believed were trading above terminal value on day one, and with the whiff of misinformation in the air, we saw short opportunities. Two IPOs in particular, a Chinese social media name and a Chinese e-commerce name, saw their share prices fall more than 50 percent over a three-week period in the quarter, and we were able to capitalize.

In the Internet Sector we differentiated between names swimming in uncertainty and those with established track records that might have been tainted by the same broad brush. We were long a Russian email and social-networking issuer that owns stakes in three high-profile private internet issuers. This is a sum-of-the-parts story in which the issuer stands to benefit from anticipated IPOs of the underlying companies. We also were long a diversified U.S. digital media holding company that has announced its intention to re-organize its business to recognize the value of its substantial minority investments in online retailers and other businesses and give it the flexibility to buy back shares, which generally trade at a discount to brick-and-mortar counterparts.

Insurance

The Insurance sector's contribution to gross equity return for the quarter was -0.10%. Nevertheless, we increased the Fund's gross exposure (both year-over-year and quarter-over-quarter) because of our continued conviction about our best ideas. Net exposure remained slightly long-biased and changed little throughout the quarter. Long positions in domestic life insurance, global reinsurance and Brazilian insurance were offset by short positions in domestic property and casualty insurance, domestic mortgage insurance, domestic title insurance and European insurance. At quarter-end we remained net long domestic life insurance (a key element of the Insurance portfolio), global reinsurance and Brazilian insurance. We added gross and short exposure to the market and to domestic property and casualty insurance.

In domestic life insurance we focused on names whose share prices had fallen after the devastating earthquake and tsunami in Japan. That subsector contributed a slight profit in the quarter. Those issuers, as we suggested in the first quarter letter, tend to be sensitive to longer-term interest rates. That continued to be a headwind in the second quarter, with the 10-year Treasury yield falling from about 3.47% to about 3.16%. We believe the names we own can mitigate the effect of interest rates on their businesses through the use of hedges, product repricing and lowering crediting rates.

We invested in issuers that overcame spread compression through accretive acquisitions. Despite the headwind of lower long-term interest rates, the Fund's largest long position, a diversified domestic name, generated alpha in the quarter. Its share price ended higher on an absolute basis, and it outperformed both the sector and the market as a whole. Unfortunately, the Fund's second largest position in domestic life insurance nearly erased that gain. This issuer announced a restructuring in response to the contagion in European sovereign bonds, a tactic the market believed diluted value.

Global reinsurance names, whose share prices rose sharply in late March, gave up their gains completely, and we incurred a meaningful loss in this subsector. Reinsurance pricing did not firm, except for global catastrophe rates. Although we expected that, we neither anticipated nor hedged for the enormous damage one of the worst domestic tornado seasons on record would wreak. Fears about crop insurance further reined in earnings expectations, as the Texas drought worsened and a wet spring forced Midwest farmers to delay planting corn.

To make matters worse, one of the Fund's three main long names ended its capital-management program in favor of intra-quarter growth, even though global price increases were far from certain and the company's shares traded at a level conducive to accretive stock buybacks. We dramatically reduced exposure to that issuer and increased exposure to issuers whose management is balancing capital management and selective growth in business lines whose pricing is firming. We've grown far more confident that this subsector will outperform the sector through the rest of the year, given the share-price decline, our view on the quality of the corn and soybean crop and our belief that catastrophe pricing will firm at the January 1 renewal.

Short positions in domestic property-and-casualty names – another bright spot in the sector – mitigated the global-reinsurance losses. Unfortunately, the Fund's gains were partly a byproduct of catastrophic damage caused by tornados that hit Tuscaloosa, Ala., in April and Joplin, Mo., in May. Although we believed the property-and-casualty names were overvalued in general, we used these short positions in part to hedge the Fund's global reinsurance long positions. As it turned out, the issuers the Fund shorted lost a larger portion of their annual earnings than the Fund's long names did. The Fund's shorts also benefitted from a primary and secondary equity offering in the sector, which further depressed prices. And falling rates for primary insurance in the United States should continue to benefit the Fund's short position.

Consumer

In an environment with limited employment growth and limited discretionary spending, virtually any consumer business growth depends on greater market share. Consequently, in the Consumer sector, with better employment and job growth in the upper demographics, we focused on going long higher-end market share gainers and shorting their market-share-losing peers. We saw gains from the Fund's long positions in technology, food-service and retailing names with clear market leadership. We also saw gains in short positions in technology, retailing and apparel names that are losing share. The sector had a gross return of 0.11% in the second quarter on relatively low exposure.

The Fund's results were truncated by long positions in issuers whose share prices suffered either because of rising commodity prices, which have since reversed, or decelerating revenue growth. We also saw losses from short positions in two food-retailing names. We believed the market was ignoring the long-term impact of thinning margins.

Utilities

Utilities produced a 0.04% gross equity return from a relatively small position. The negligible positive return resulted primarily from the Center Book's positions in individual issuers and an ETF. The Sector Book saw mixed results from long and short positions in several individual issuers.

Sector Book[6] Exposure for Q2 2011				
Sector Book	**LMV**	**SMV**	**NMV**	**GMV**
Consumer	7.3%	-6.7%	0.6%	14.0%
Energy	11.7%	-5.9%	5.8%	17.6%
Financials	8.4%	-7.3%	1.1%	15.7%
Healthcare	5.3%	-4.6%	0.7%	9.9%
Industrials[10]	5.8%	-6.8%	-1.0%	12.6%
Insurance	6.5%	-5.1%	1.4%	11.6%
TMT[11]	7.8%	-8.3%	-0.5%	16.1%
Utilities	1.2%	-1.3%	-0.1%	2.5%
TOTAL	**54.0%**	**-46.0%**	**8.0%**	**100.0%**

Credit strategy

The second quarter saw the macro environment shift from strengthening to a slowdown creating a dislocation in fixed income and equity markets. Fear caused by banks' exposure to Greece, Italy, Portugal and Spain credits led European banks to underperform, and the financial sector as a whole fell out of favor.

Other sovereign and corporate credit markets presented mixed opportunities and results in the quarter. Emerging markets held steady, as they continue to supply materials and commodities for much of the world. That subsector saw ratings upgrades in the quarter, in sharp contrast to Europe, which led the world in sovereign credit downgrades. The mortgage markets have been thin and remarkably volatile, and we have seen neither long nor short opportunities there. The rates markets saw a one-way yield drop as global and U.S. growth fell into question.

Coming off both a strong 2010 fourth quarter and a solid 2011 first quarter, the Fund held core positions, particularly in the emerging-markets space. Strong price performance validated this strategy, and this area produced consistent returns for us in the second quarter. Our other major focus areas were insurance, insurance and bank hybrids, select financial and energy bonds. The insurance and energy portions of the portfolio did well; the financial portion fared poorly.

Our best-performing trade was in the bonds of a natural gas E&P name that were put on review for upgrade. The company also announced a tender for some of its bonds. Our worst-performing name was a global Europe-based insurance company that, despite its quite limited European exposure, was tarred by the brush of European discord. Nevertheless, our fundamental work allow us to remain constructive on this issuer.

We cut the Fund's long, gross and net positions across all books as market uncertainty increased, profits decreased, equity markets were roiled and credit spreads weakened. We reduced the financial portfolio most of all. Our objective at all times is to be properly sized for the prevailing environment across the fixed-income space.

We look to be long names with improving credit profiles and to be short names with increasingly difficult business models. We believe that it's in the world's best interest to get the European mess resolved. As markets get more clarity from these overhangs, we remain constructive. But since we can't predict the timing on Europe, we're staying much more focused on domestic credits.

Convertibles and Macro strategies

Convertibles' 0.26% contribution to the Fund's gross return resulted primarily from some broader market hedges. The Fund's exposure remains relatively static and lower than historic highs, as we see a lack of compelling opportunities.

The Fund's Macro exposure remains at a three-year low in the quarter, and opportunities remain fleeting. We believe the lack of clear direction is an industry-wide phenomenon, and the strategy's 0.02% contribution to the Fund's gross returns, while marginally higher than the first-quarter contribution, reflects that view. The Center Book did not take up the strategy in the second quarter, and portfolio managers had sized their books to reflect the opportunity sets.

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The Fund started the third quarter of 2011 with approximately $4.1 billion in assets under management. We acknowledge and thank you for your confidence, and we appreciate your continued support. Please feel free to contact either of us with any questions. You may also contact Vickram David, Head of Marketing and Investor Relations, at 203-399-1852.

Very best regards,

Rich Schimel and Larry Sapanski
Co-Chief Investment Officers