# Pabrai Investment Funds
# 2008 Annual Meeting Transcript

Note: This is the transcript of the September 13, 2008 meeting held in Rosemont, Illinois and September 20, 2008 meeting held in Huntington Beach, California. Mohnish's presentation style is extemporaneous; hence, there were some differences in the two presentations. The questions differed significantly. Some similar questions were asked at both meetings. In such cases, it was blended into one question and one answer. The transcripts of both meetings were merged to produce this single document. The transcript has been edited for readability.

The transcript should be read in conjunction with the Annual Meeting presentation slides handy. They can be accessed at: **http://www.pabraifunds.com/website/2008_PIF_AM_Slides.pdf**

## SLIDES 1 & 2

I appreciate everybody coming out. I look forward to these meetings quite a bit because in preparing for them, generally I learn a lot. The questions and the comments that I get make a great learning experience for me. On both fronts it works out great. The format we have is pretty static every year. I'll go through a few slides, just giving you a backdrop on the year since we were here last time. Then, I'm hoping we have plenty of time to hear from you with your questions and comments. Hopefully, we will be out of here by 6:30. There are drinks at the back. We will avoid the alcohol until 6:30. Last year, in error, they started serving at 4:00. But I don't think people got too carried away. After I'm done at 6:30, we'll break for hors d'oeuvres and cocktails back at the same area we were in, and at 7:15 we will have dinner. Let me just get through the formal part of the presentation; then, for me the best part of the meeting is to hear from all of you. Since I've been doing this for 8 or 9 years, I think there is a pretty good history and a rich history of the way Pabrai Funds works and the way we look at investing. I always go through a post mortem on investments we've made in the past - ones where we lost money, ones where we made money and just the rationale behind those - then we'll have a Q & A.

One of the things that is very useful to me when I do preparation for the meeting is that many times, to get all the data correct, I have to go back and look at past trades and statements and so on, and it's actually very educational for me. Every single year, I learn quite a bit just by going through and looking at what has happened.

## SLIDE 3

PIF2 is our oldest fund. We had PIF1 which merged into PIF2. So, it's got about nine years of history. If you look at July of last year to June 30th of this year, we didn't exactly set the world on fire. In fact, we had a record before that, and I knew we would break that speed, but we had just ridiculous numbers until then. In the last 12 months, we underperformed the market. The indices were all down, as you can see,

but we are down significantly more than the indices. The same thing is true for the last six months until June, where you can see the indices are down 11% and 13 % and we're down about 18%. The important thing, I think, for the Pabrai Funds investors is to really look at the investment results over the long haul - you know, five or 10 years rather than fixating on a quarter or a year.

**SLIDES 4 & 5**

PIF2 actually started in October of 2000. But Pabrai Funds started in July of 1999. So the first fund we had, PIF1, merged into Fund 2. This fund actually has all the investors going back to over nine years ago. If you look at the annualized numbers from the beginning, it's about 18%. The fiscal year-end for Fund 2 is June 30th. For the other funds, it is December 31st. If you look at it for the last 12 months, from July 1st, 2007 to June 30th, 2008, we actually had our first down year in Fund 2. We were down 32%.

I was actually surprised that we didn't have more down years and we didn't have them earlier than we did. The performance of the fund over the years has been better than I would have guessed. But over the last year, if you look at it, we have underperformed the indices. So the indices over the last 12 months, ending in June, are down about 12% or 13% - we're down considerably more than that. Just quickly looking at it in terms of $100,000 invested in PIF2 at the beginning when it started, it's worth about $380,000. The best index is the DOW at $126,000. So it has done better than the index.

Looking at the money coming in at July 1999, right at the beginning, and right up to June 30th, 2008 which is about a nine year period, we've averaged about 20 odd percent after fees in Fund 2. The best index, the DOW, has actually, if you exclude dividends, hardly moved in about nine years, and even if you include dividends, it's not much. It's about 2½% a year. Pabrai Funds has done much better.

**SLIDE 6**

What I always try to focus on with these funds and what I started doing a couple years back is to start presenting a table that shows the performance over one year, three years, five years, and then the life of the fund. The metrics I use internally are focused on the right-hand side. I'm really focused on the five-year and life-of-fund numbers because those are meaningful and it's a long enough period where you can draw some conclusions.

So over the last five years, the Fund 1 and Fund 2 combo is about 12.3%. The NASDAQ is the best index over that period at about 8%. The life-of-fund, like we just saw, is 20% versus 2½%. So Fund 2 has done much better than I would have thought. I don't expect those type of deltas in terms of out-performance verses the

index. This fund has been closed for several years. I think it's been closed since 2003. The only new money coming in is typically with existing investors who are adding funds.

**SLIDES 7-10**

Fund 3 is our offshore fund. It's also our fund where tax deferred accounts, foundations, endowments, etc. can go. This fund is a little over six years old. It started in 2002. It has a December 31st fiscal year-end. If you look at the numbers over the life of the fund, we averaged nine odd percent and the indices are down around four odd percent over that period. The Offshore Fund reports through the end of August, while the other funds report through the end of June. They will report once a quarter through the end of September. But through the end of August for the year, it's down about 33%-34% versus the indices, which are down about 10% or 11%. On an annualized basis, since PIF3 started - it's been about six and a half years - it's done better than the indices in terms of about 9% versus about 4% for the best index. PIF3 is doing okay, though I think that the performance we have seen in the last 14 months or so would bother some investors. I haven't heard from many investors, but I will explain a little bit later on why we are seeing such dramatic drop-offs in performance versus the past. That's the result for the offshore fund over time. If you invested $100,000 it's worth $179,000 and the best index would be $135,000. Again, the $179,000/$135,000 is 9.2% versus 4.7%.

One of the things that bothers me about the offshore fund is clearly that with the one-year and three-year numbers, we are lagging the indices. But the five-year number is also lagging the index. This is the first time ever within the last nine years that we've ever had a five year comparison where we've gone below the best index. It's somewhat a remarkable period for Pabrai Funds. If you look at the five-year number for PIF3 after fees, it's down about 4.6% and the best index is down 6.9%. Neither of them is that great, but the 4.6% is questionable. I think investors who have been in PIF3 for five years say, "Hey, you know, you told us you would beat the index over the long-term and five years is pretty long-term." I would actually agree with them that we are not meeting our objectives on that front. I'm not very happy with those numbers. I expected them to be better. But I have no one but myself to blame for that.

**SLIDES 11-13**

For fund 4, again for the first six months, we're down about 17% versus the indices, which are less than that. Fund 4, on an annualized basis, is just under five years old. It's beating two of the three indices at 7% annualized versus 7.4% for the best. So Fund 4 is, I would say, pretty much tracking the indices so far. We'll have to see at the end of September where it stands. But it's $137,800 for Fund 4 and the best index is $140,000; again, it's 7% annualized versus 7.4%. For PIF4, one thing you ought to keep in mind is that we only have four and three quarters years of data - it doesn't have five years of history yet. In fact, at the end of this month we will have a five-year

history for the first time.

I'm actually disappointed with the PIF3 and PIF4 numbers. The thing is that we are doing these comparisons at a time when I think the funds are very deeply undervalued. As you might have noticed in the last few weeks, we are not living in benign times. Some of these macro situations that are going on have created some very wide distortions in terms of the way things are trading, the way equities are trading; even debt instruments are trading worse than what they're worth. I expect that in coming quarters and years these comparisons actually will look a lot better. There are some strong reasons why that is likely to happen. But clearly, I've always felt that five years is a long enough time for most investors to do measurements.

**SLIDES 14 & 15**

Our assets under management, primarily as a result of the drop off in the last year, are about $475MM. They used to be at about six hundred odd million about a year ago. I think you can see the impact - the underperformance and the negative returns we have had this year. For our expense ratio, every year what I do is I look at the latest audit reports for PIF2, PIF3 and PIF4. I look at just two numbers in the audit report. I look at the assets under management at the end of the year and I look at the total expenses the fund incurred for that year, then I do a ratio. So what I do is I just look at the total assets under management on the date of the audit. I look at the total expenses for the year. I look at the basis points. So if you look at PIF2, we're running at about 12½ basis points, which is 0.125%, and PIF3 was 0.06% basis points, and PIF4 was 0.07% basis points. A year ago, some of these numbers were lower - about six, ten, and five basis points. For PIF2, the expense ratio is very low - it's actually doubled. I think part of the reason for that is that the asset base in PIF2 is lower than where it was a year ago. Our expenses are a little bit higher because we just had more filing requirements. We had a couple of international stocks where we had to file internationally. Some of the legal accounting expenses are higher - the legal fees were in there and the general compliance was slightly higher.

But at a macro level, these numbers are probably the best in the industry. I'm not aware of too many funds out there that have better expense ratio numbers. One of the reasons we have good expense ratio numbers is that, first of all, we have no management fees. If the performance is below 6% annualized, Pabrai Funds doesn't collect a fee. The only thing that investors pay for is third party expenses. It's like the audit fees, the tax fees, the administrative fees and the legal fees. For example, the cost of this meeting, the office, office staff, and so on are not paid by fund investors. I've deliberately tried to keep these expenses as low as possible because half the battle is dealing with the frictional costs and keeping it down. But, overall I'm actually very focused on making sure that these numbers stay as low as possible. So, half the battle in beating the market is to keep your frictional costs low.

**SLIDE 16**

I always have this slide every year. John Bogle has written many good books and one of those books was Common Sense on Mutual Funds. He pointed out that 85% of Mutual Fund Managers lag the indices over time. The reason for that is basically that they have frictional costs. If mutual funds had no frictional costs, then 50% of the mutual fund assets would outperform and 50% would underperform. But, when you have frictional costs, then you are going to have 80% to 90% underperform. John also found that of the 15% of managers who do better than the index only basically one in 200 managers outperforms the index by more than 3%. If you look at the 15% of managers who outperform, 14.5% of them have outperformance numbers over time that's less than 3% better than the index. One thing to keep in mind when you have money with any active manager, whether it's Pabrai Funds or any other manager, is that if you have expectations that go beyond 2 or 3 percentage points of market returns, I think you're looking for "a needle in a hay stack" type manager. It's unlikely that that is going to happen - to outperform beyond the 3% number is hard and at Pabrai Funds, all I'm trying to do for you is to slightly outperform the indices. If we were to beat the index by 2% or 3%, I would actually be thrilled about that. Our goal is to beat the indices over the long-term. If we just beat the indices, we will be in the top 10% or 15%. If we beat them by 2% or 3%, we'll be right at the top. Historically, that has been the case; we have to just make sure that continues to be the case. I'm quite confident long-term that we will continue doing that.

**SLIDES 17-20**

I wanted to make some comments about the portfolio composition today because there is a little bit of a change in the way I look at businesses and investments. It's not a major change from what I used to do in the past. I've just learned to appreciate some things over the years. So, all three funds are very concentrated today. In fact, they are more concentrated than they have been historically. If you look at PIF2, five holdings make up 80% of assets and we have a total of 15 holdings currently. All five of them are run by individuals who I think are very good allocators of capital. For PIF3, we have about eight holdings that make up 70% of assets. We have a total of 16 holdings and six of the eight I think are very good allocators of capital. The other couple are at least, I would say, competent. They might be great. I just don't have enough data to make that assessment right now. But I think they will at least be good stewards.

PIF4 has a total of 15 holdings. Again, seven holdings make up 80% and again, six of the seven are great asset capital allocators. In general, I look at the mix of assets we own. It's got two characteristics that are, I think, different from the past. Number one, we haven't previously had such a collection of great allocators of capital that are working on our behalf. Just having this large number of them and so much of the assets under them is a deliberate departure, and it's one of the things I've changed

within the last 18 months or so. The second difference is that the discount to asset value that our portfolio trades at is the widest it's ever been since the fund started. I think the combination of the two probably means that we have some decent things in store for us in the future.

Value investing for me has been a 15-year journey. Pabrai Funds is nine years old. In the last 15 years as a value investor, I have not seen valuation levels at the levels that we have today in the markets. I have not seen the discounts that we are seeing today in the last 15 years at least. I think we saw big drops in the indices in 2001; we saw them in 2002; we saw them in 1999. But at least in my experience, this has been the widest discount that I have seen amongst positions that we have held. Some of our positions are trading at less than a quarter of their value to an intelligent private buyer which is a very significant discount. You know, I mentioned our assets are worth about $475MM, but the conservative intrinsic value of those assets is north of two times that. It's worth $950MM and having a greater than 50% discount across the entire portfolio, I don't believe has ever happened before at Pabrai Funds. I have not seen this wide a discount in 15 years.

Typically what happens is that we are buying stocks at different times; we might buy them at a 50% discount. For something that we bought a year or two ago, those gaps might have started to close. So when you start looking at aggregate value, in some cases we have placeholders in the portfolio where we may have bought at 80% of intrinsic value. Normally when you aggregate the portfolio, we have I would say an intrinsic value that ßsits at around 60% to 70% of the value of the underlying assets. Going below 50% is a change. If you include some of the embedded option value and what this allocated capital could do with our assets, that discount widens more. We've seen that in the past in the sense that I bought assets that have been worth more than what we are paying, but the allocators of capital have done phenomenally well with some of them like Frontline, Tesoro or Ipsco. In 2002, which I think is the closest period we have to the period we are at today. At that time I think we got to a 40% drop in net asset value in about four months. The discounts I see today are greater than I saw in 2002. In 2002, from those beaten down levels we grew five times in five years. If you looked at PIF2, it went down to $10.70 per unit, but in June of 2007, about five years later, it was trading at about $56 per unit. It went up more than five times. I don't know if we'll go up five times in five years. I wouldn't forecast that, but I think that there is a significant amount of value in what we own.

If I look at 2002 versus 2008 and just compare the two periods, the portfolio is more undervalued today than it was in 2002. We have the largest discount I've seen since the beginning of the funds. Another difference between then and now is a greater appreciation for jockeys. I care a lot more about the individuals running the businesses versus what I cared about six years ago. We have a greater discount. We've got better jockeys. I think it's a good combo.

I think another change that has happened over the eight or nine years is that I'm inclined to be a lot more patient with the businesses and such. Pabrai Funds has always taken a very long-term approach to investing. We expect to hold positions for multi-year periods. But I want to make sure I give the jockeys enough time to do their thing. One thing I noticed is that if in 2002 I had just done absolutely nothing for six years, if I had the portfolio and I just walked away from it and had a vacation, and I came back after six years, most of you would be wealthier. I would be wealthier too. One of the things I've learned is that you have to give it more time and you have to be more patient. I know that we will have multi-bagger returns amongst our largest holdings and I'm hoping this time around that we capture more of that option value.

So in general as we've seen in the last several weeks, we live in interesting times. I think it's a tough time for Pabrai Fund investors to look at their statements. They don't tend to have positive numbers on them. But we have about 400 families invested in Pabrai Funds and what is surprising to me is that on a typical day, I don't get any calls or e-mails from investors. I think the natural selection has been much better than I would have thought; it's a group that thinks long-term. It makes my life easier. As we sit here today, I'm actually a net buyer of some tremendously undervalued resources. In fact, I'm very excited about the money we are invested in today. The discounts are spectacular. I think we should do quite well with some of these decisions today. As John Templeton says, "One needs to be an optimist in times of maximum pessimism." I don't know if we are at a point of maximum pessimism, but you can make your fortune during these times. The key is just to be patient. Let market and valuations get back to rational levels. I pulled out this quote that Ben Graham made so famous. He put it right in the front of security analysis. It comes from Horace and it says "Many shall be restored that are now fallen and many shall fall that are now in honor." I think we'll see a lot of restoration. It's a fantastic group of investors. I couldn't ask for a better group. I'm quite fired up about that.

**SLIDES 21-22**

When you see these assets trading at huge valuation discounts and we don't have a visible catalyst in place that will make that convergence take place, the question that comes up is, "What will make it move up?" It's very simple. There are two types of assets that I look at. The first one is that I might make an investment in hard assets where their liquidation values or private sales values are at a certain level and we're buying much below that. A good example from the past is Frontline where they had all these ships and you could value them easily. You could look at the value of the company and you could see the delta. If these businesses are generating positive cash flow, then what happens is every day or every week the hard asset value is going up and the stock price is not going up; that gap is expanding and if that gap expands, it puts inertial pressure on the price to move up because it just would be getting more and more ridiculous. Eventually it will move up because people will start looking at it. Markets do tend to get efficient over the long haul. So eventually market value,

intrinsic value will tend to converge - Ben Graham 101.

The second type of asset we buy is based on future earning streams, the math is very simple. For example, a few years back we bought a company called Stewart Enterprises, a funeral services company, for three times earnings. If that earnings engine stays intact, that means if you hold the stock for three years, then what you paid for the business will be available for cash in the business. The entire business will be free and that will look so ridiculous to the market that it will make the price move up. Another more recent example is a company called Ipsco. We bought it for $45 per share, less than three times cash flow and what happened to Ipsco is exactly that; the next three years that cash flow engine only got better and we had almost a four times return on that investment - we sold it at $155 per share. What happens after three years is that you have the plant, inventory, earning stream, management, permit, licenses and all for free, and those are some very substantial assets you're getting for free. It just creates obvious value and markets will look at obvious value and price things accordingly.

Today, for example, many of our holdings trade a low single-digit multiple to cash flow. If those cash flow engines are stable or growing then you have the exact same situation where in a few years it exceeds the current market cap. I just don't see those valuations staying there when that happens. For example, if you buy a business at five times earnings, you can use the same math and say, "Okay, I'll just sit on it for five years." Again, it will need to be re-priced because it will be sitting at the business being free. Typically, most stocks create a three-digit multiple of tax flow over the long-haul. Look at the S&P 500 over time trading at, let's say, 12 times or 16 times earnings. Anytime you're looking at single-digit cash flows - you know, five times, six times, seven times earnings - the chances are very high that if the earnings engine stays pretty stable, in two or three years you will see significant changes in price.

**SLIDE 23**

The nature of value investing is such that a lot of smart value managers will look dumb in the short-term. Some of them even look dumb in the long-term. So, I just went through and looked at a few different examples. If you look at Berkshire Hathaway, I think we've got the greatest allocator of capital running it. From 1970-2000, a 30 year period, Berkshire was very predictable. Every 10 years it would add a zero. In 1970 it was at $40, 1980 it was at $400, 1990 it was about $4000, and in 2000 it was approximately $40,000, which is a tremendous rate of growth for any business. However, if you bought Berkshire stock in 1969, it was changing hands at one point in the year at $40 per share, and if you sold it in 1974, it was again changing hands at $38 per share. You would have held for five years. You would have had Warren Buffett running the place, and you would have had a -5% return over the five year period. You would have looked at Warren and said, "Hey, what's going on?" Of course, from 1974-1979, it went up 10 times to about $400. There was nothing wrong

that Warren was doing at the time. In fact, he did it again in 1998, when I think Berkshire had $85,000 per share or $84,000 per share. By 2000 it was trading at half of that; it was trading at approximately $40,000 per share. It took another two or three years to get back to the $85,000 per share. So again, you would have gone another five year period from 1998 to 2003 or 2004 where you would have had no returns and at one point would have been sitting at 50% off.

Looking back at 1974, it was just that equity prices were pretty distressed then. In fact, in 1974 we saw two other events. Munger Wheeler - this is a partnership that was run by Charlie Munger, my hero. Over a two year period he dropped +53%. He underperformed the Dow, which was down about one third, and in 1975 Charlie was up 75%. But, even if you look at the 1973, 1974, 1975 period cumulatively, he was still down. Because when you're down 50%, you need to come up 100% to come back to the same level. Another example is the Sequoia Fund which is a phenomenal fund. In the first five years of its existence, it underperformed the S&P every single year. Even after the five years, after the cumulative returns, it was -16% which is +3%.

Today, if you look at the situation, obviously you have Pabrai Funds in front of you, which is underperforming markets. But, I have some company (laughter); it looks like an interesting casts of characters to share this underperformance with. We have Davis Funds, of which I think Chris is a fantastic manager, significantly underperforming the market. We have Eddie Lampert and Longleaf Partners significantly underperforming the market. Marty Whitman, Bill Miller, Richard Pzena... I don't think these guys became stupid overnight. In fact, I think that they are very smart people, and I don't know of another time in the past when this group collectively underperformed. I'm not aware of that. I think they might have underperformed at different times but to see such a big collection of individuals who did so poorly in this period is actually quite surprising. I'd be willing to bet that the entire group over the next five years actually does better than the indices do. Even if you include the current year over the last couple years in that five or six year period, I think they'll do fine. I think it just goes with the territory. It's the nature of value investing that we are going to have periods where we go sideways or go negative.

**SLIDE 24**

I think on our front, the Pabrai Funds proposition is pretty straight forward. There are no management fees, there are just performance fees. If I had a 2/20 structure, then I would be taking some $9MM a year in management fees while delivering terrible returns to you, which I don't think would be very fair. First of all, the fee structures are aligned. Second, the Pabrai family is the largest investor in the funds. Not only am I aligned from a fee perspective, I'm aligned from a pay in perspective. I see bigger drops than any of you see in our net worth when we don't do well. I think that there is an inverse correlation between size and performance. There's a deep interest in closing the funds when we get to a billion.

Finally, we have high watermarks which means that we don't collect a fee until we are 6% above the previous high water mark which is June 30, 2007. One of the things investors get at Pabrai Funds is a free ride until we get up to that high water mark. So, for example, if investors invest today, they won't pay a fee for the next 50 odd percent of performance until we get past that. It's a good time to add funds because you get a ride with no management fees and no performance fees for some time. It's pretty straight-forward. There's no leverage, there're no derivatives, there're no margin loans, there're no short positions. There is no counter-party exposure to Lehman, or Bear Sterns, or Wachovia, or Merrill, or any of them. I think we have a better group of investors than I could ever hope for and they get it. A large portion of the Pabrai base is entrepreneurs. I think they understand implicitly how business works. That's just a back drop of where we are and what is going on.

**SLIDE 25**

In the third part of the presentation, I'll go through some past holdings which didn't work and did work. So, I'm going to talk about four businesses today. One is a company that you are all familiar with Delta Financial. Another one is a home builder called MDC holdings. The name they use with the public is called Richmond American Homes. Then, we are going to talk about Berkshire Hathaway because we bought and sold the stock over a long period. I'll just explain the rationale there. Finally, we have a company called Universal Stainless and Alloy Products. We invested in Universal Stainless in 2002 and we completely exited the position in 2008.

**SLIDES 26-28**

Delta Financial, the quick math is this was a company where we lost 97% of what we invested in the business. We bought the stock in July of 2006 for nine dollars and change. We sold for nothing because we needed to get the tax loss in 2007. The average buy price was about eight dollars and change. The average sell price was about 13 cents. The total amount we invested across the funds was almost $55MM and the total proceeds were about $1.4MM. We lost about 97% and the loss was about 8% of assets. In fact in 2007, which is when Delta impacted our numbers, the funds were down between 3% and 7% for the year. I think that's mostly on the backs of the Delta loss. I think this is the biggest loss we have ever suffered. We have had plenty of times where we've lost 30% or 50% of position, but we try to avoid those.

Just to give you a background, I wrote about Delta in the January 2008 letters to partners. I think if you want more color, it's actually good to go back to the letter. Delta was a conservative fixed rate subprime mortgage lender. Everyone else was doing ARMS 100% loan to value, etc. These guys were a very cut and dry business. There were three pieces to their intrinsic value. One, earning engines from these mortgages they were generating; two, they had all these past mortgages that they had

generated and had securitized and were getting an earnings stream out of that; three, they had cash and book value and such sitting on the balance sheet. If you put a 10 or 12 times multiple on the earnings stream, you would get to about $25 to $30 per share, and we were paying about $8 to $12 per share to buy the stock.

But they got caught up in the subprime shutdown. They were not able to continue securitizing, and that pretty much lead to a liquidity crisis. They finally had to declare bankruptcy. The math behind the investment was that this was the company that had an earnings engine that was delivering about a dollar and fifty cents per share. On top of that, they had about $12 or $13 per share in value on the books. The intrinsic value was fairly significant in general. Thus, when the subprime crisis hit in the first quarter of 2007, they made it through without a problem. They were actually able to securitize and get things through. They hit another hiccup in the third quarter of 2007 when the market froze up again. At that time they raised about $70MM of capital. We put in $10MM. They made it through that hiccup again. Then in the fourth quarter of 2007 they hit another hiccup and this time they couldn't securitize. So, they filed for bankruptcy in December 2007.

The times I normally learn my biggest lessons are when we lose money. When we make money, we don't learn much. I spend a lot of time thinking, "Where did we screw up on the Delta analysis?" Actually, this year Buffett made a statement at the annual meeting. He said, "If you are dependent on borrowed money, you have to wake up every day and worry what the world thinks of you." It's a very simple statement. But, the thing is Delta needed functioning fluid securitization markets in order to continue. There was a mandatory requirement because they had these warehouse lines. They would have a billion in loans and build up on these warehouse lines over three months; they would securitize it and clean up those lines; then they would go back and do another billion again, securitize. So, that was the engine.

But if you have people who are not willing to take your paper for whatever reason, it's game over. It's like oxygen - you don't even know it's there but you miss it instantly if it's gone. When I analyzed Delta, I looked at them as having a very prudent set of business practices. I didn't pay much attention to the macro circumstance. The world can stop giving you money for reasons that have nothing to do with you. It can be because of what's happening with the rest of the world. In fact, it has been quite an education for me just to watch the way the world has been going. I never spent any time thinking about that, I just looked at the history and the history looked clean. Now I've added it to my checklist. It's an expensive way to add things to the checklist. Basically, with the Delta investment, we were unprepared for a one in 50 year event. I think it was an unusual set of events that drove it where it went.

So, if you had asked me a year ago, whether Fannie and Freddie would be taken over by the government, I would have bet probably not. If you had asked me a year ago if these big bulge investment banks like Lehman and Bear Sterns would go under or be

taken over, again, I would have told you probably not. Those numbers would have been incorrect if you'd asked me about a company like WaMu or a company like Citigroup. I wouldn't have shown interest in making investments in those businesses, but I would not have predicted that they would have massive drops in their stock prices. The last couple of years have been very interesting in the sense that we are seeing things really that are unprecedented. We're seeing basically a one in 50 type event taking place right now. I don't like to learn lessons after spending $55MM. I'd much rather learn lessons after spending $15 on a book. It's a very expensive lesson. I don't think I will be forgetting it anytime soon.

I think one of the take-a-ways is this whole notion of dependency on borrowed money. You know, for example, if you ask me today, "What do you think about a company like American Express?" I would say to you that it will probably have a bright future in the next several years. But AMEX is dependent on what the world thinks of it every day. AMEX is very dependent on functioning securitization markets. Right now, if you ask me will it seize up or shut down, I would say that is not a bet I would make. I would predict that it won't happen. But my take on it is that maybe the best thing to do is not to bet at all. You can always take a pass and go to the next one. My general sense on this front is that I would be side stepping a lot of businesses that have this type of characteristic just so that we can make bets that don't go down this path. There are a number of lessons that are still being learned from Delta.

**SLIDES 29-33**

MDC holdings is actually a home builder. We made our first investment in this business in 2006 when things were going very well in the home-building market. We sold our last position just very recently, a couple of months ago. We had invested a total of about $35.7MM when we bought the position and we got back pretty much $35.6MM when we sold the position. With MDC, we had a loss of about $100,000 over the two or so years that we held it. It was basically a break-even result, which was helped quite heavily by the large dividends they were paying. Quickly, I'll give you a stock chart of where it has been trading in the last few years. It's currently at about $40 per share. The thesis of investing in MDC was fairly straight-forward.

If you look at the home-building industry and you go back 10 or 20 years, first of all it was an extremely fragmented industry. The small builders would put up a bunch of spec homes and then they would hire brokers or place ads and sell those homes. Usually, the homes were sold after they were built. That business has changed in a couple of ways. One is that the industry is consolidating, so the market share of the 10 largest builders every year continues to get larger. The way homes are built and sold has changed dramatically. Now what happens, looking especially at the larger builders, is that they will put up three or four models. They will have a gallery for you to select your options from and you will pick the choices you want from the gallery. They will only start building after there is a contract in place. In that model, it's a very high

return on equity business because the builder has no committed capital. The only committed capital the builder has is on land. Even on land, what a lot of the large builders have done is they have created future options on the ownership of the land. They get to have call options and buy some of the land and not have all the land sitting as owned. So the old model was to build on spec and sell, the new model is that you're building these subdivisions of homes. You've got very nice homes. In fact, the galleries and the options that the large builders offer the small builders just cannot match because the expense of doing it so is very high.

There's also a comparison to other manufacturing industries because home building is very much manufacturing. It can't go to China, right? It is a domestic industry that will stay domestic. So, you don't have a China factor coming in, and it's very hard for small players to compete. This is where I would say we see what Charlie Munger calls "lollapalooza effects," where the big builders continue to get bigger - the industry continues to consolidate. We are in the very early stages of seeing that.

This is the good news of why the investment makes sense. Specifically, MDC is a very unusual builder. Compared to all the builders, like if you look at Pulte or Leonard or others, they have a very unusual operating philosophy. MDC always kept the supply of lots that they owned pretty small and had options on some more lots. They never wanted to have more than a two-year supply of lots out there. A lot of other builders had supplies going out five, seven, eight years, and these guys kept it very tight for a couple of years. They would build a few homes and then buy some more lots. So, the portion of their book value that was tied up in raw land compared to other builders was very small. The likelihood of big drops in book value even if the housing market went south was very small. The book value of the company was about $47 to $48 per share when I was buying it. They were earning about $8 per share ($2 per share every quarter) at the time, and the stock was about $53 per share. Book value was based on land and inventory at cost. The real market value of that asset was probably higher because they had work in progress that was at cost. So I felt that with this sort of economics, we really couldn't go below $48 per share in terms of a floor, though we might go a little bit below that if land prices really got hammered. On the other hand, every quarter they were adding $2 per share to book value with the earnings engine, so that would kind of keep lifting it up.

If earnings stayed solid, the thing in 2006 was you couldn't tell where earning were going to go. I actually couldn't tell if the $8 was a peak, whether normalized earnings were $4 per share. I couldn't really tell where this was going because on one hand, you had all the lollapalooza effects where big builders were swallowing up the smaller builders. On the other hand, we could have a housing slow down like we've seen. But it was classically in our heads, "Tails I win, heads I don't lose much" kind of bet where we have a floor and we have an option upside. I felt it was a good bet to make. What happened is housing slowed down dramatically, earnings dropped off dramatically, they had impairment charges on the land - even though they had small holdings of land,

they actually took impairment charges on the land. We could clearly see in 2007 and 2008 that the upside case - getting the hundred odd dollars per share - is gone. The earnings are actually negative because they are taking write-offs on land. Then I focused on the downside case. I said, "Okay, since we're wrong on the upside, now I just want to exit and get my money back." So, what I did starting in 2007, the moment the stock was at or above a price we bought it at, we were unloading and because they didn't have much of their book value tied up in raw land, they were able to ride that out. At the same time they were paying a pretty significant dividend, which also helped us. The net was that we were able to get out with pretty much everything back. It worked out, from my point of view, fairly well because we actually went into what turned out to be an industry that pretty much collapsed, but we didn't have too much of a price to pay for that.

**SLIDES 34 & 35**

I use a concept called "placeholders" in the portfolio. I've used Berkshire Hathaway as a placeholder, and I just wanted to explain what we've done with that. This is something that we continue to do - this is not a past holding per say. Today, we own about $25MM of Berkshire stocks, so it's very much a present holding. But just to give you a sense of what has happened over the years, we actually made our first placeholder bet in Berkshire Hathaway on the days the fund started because I had a 100% cash position. I just put 10% of it in Berkshire because I felt it was better than holding cash. The last time we sold it was on July 31, 2008. On average, we've had a little over a 10% return on the stock between the buys and sells. With Berkshire, basically over the last nine years, sometimes we've held the stock for a few days or a few weeks and sometimes we've held it for a couple of years. I didn't go back and do an exact calculation, but my guess is the average holding period might be a few months - maybe at the most six months. It averaged about a 10% realized gain each time we bought and sold it. If you analyze that six months, it would be about 20% annualized. Over the entire nine year history, we've invested a total of $160MM in Berkshire at different times - not all of it at one time. We've collected about $178MM.

By the way, that is a picture of Warren, Guy and I at the Buffett lunch that took place in June. Guy is actually here today. In honor of his attendance I put his picture up there. Anyway, I heard the concept of placeholders from my daughter's dentist. He said that our milk teeth come in as placeholders until the real teeth come in and that's the purpose they serve. That's exactly the concept that I use in our portfolio. If I have, let's say, 30% or 40% cash sitting in a money market account in the funds, then what I've done from time to time is I've taken up to 10% of that asset of the value of the funds and I've put it in a single stock for which I perceived the downside to be negligible or infinitesimal, and I also perceive the upside to be limited. But I perceived it to promise a significantly higher return than keeping it in the money market.

One thing about using Berkshire as cash - and I think we are starting to see this now

on the macro front - is that people always view, for example, U.S. treasuries as risk free and they view cash as risk free. They view money markets as risk free. Well, we just saw money markets deviate from being risk free. Like Warren says, "The history of paper money is that it has always lost its value." In fact, history shows that paper money has always been decimated in value. There is no paper currency of any civilization that has lasted for, let's say, 500 years. It's very rare. I don't actually view cash as risk-free because somebody has a printing press, and right now that press is running on overdrive. I think we will see cash lose value as a result. My take is that you could put it in gold, for example, but I think this is very irrational because it's a non-productive commodity. You're actually better off, if you get it cheap enough, owning a portion of Coca Cola versus owning gold because with Coke, you own a portion of the business, and if there's inflation then they will raise their prices. You're basically automatically inflation hedged. You have an earning stream coming out of a zillion currencies. As long as you buy it cheap enough, you will be fine. But Berkshire is better than Coke because it's being run by a person who is very careful of how the money is managed. So, look into what Berkshire assets we own. You know, we own part of Geico, we own part of Coke, we own part of AMEX, and we own part of Iscar. It's a very diversified basket, and I think it's vastly better than just holding pieces of paper while someone is running a printing press. That's the logic for putting money in Berkshire. I think the return profile is clearly vastly superior. On day one, when the fund starts, I'm willing to hold 100% of the asset in dollars because that's where the default is, but I will not take 100% of that into Berkshire. What I'm willing to do is take 10% of that asset into a single company like Berkshire. I might take another 10% into another company where I feel the economics are very similar. So, that's been the concept of a placeholder for Pabrai Funds. It has worked out very well. I just wanted to share with you because you might see that in one quarter we own Berkshire stock and the next quarter we don't own it. Third quarter we might own it again. It just serves that kind of vehicle. When I went back to calculate it, I was pleasantly surprised at the returns we had generated because sometimes we don't hold the stock for very long.

**SLIDES 36 & 37**

The final company I want to talk about is a company called Universal Stainless and Alloy Products. We actually invested in this company in 2002 for the first time. We sold the last stock this year. The average buy price was $14 and change. The average sell price was $33 per share. We invested about $11MM over all four funds and the total proceeds were about $25MM. So we had about 132% gain, and some of that gain was over multi-year holding periods. Some of the gain was in just a year. We bought it at several different points in time. This is just a quick chart of Universal Stainless.

Universal Stainless is very educational from a stock perspective. This is a company that in 2002, we bought at about $15 per share. A year later it was trading at one third of that - at five dollars per share. But about four years after that, in 2007, it was trading

at over $50 per share. Just think of it as a ride on a steel company. It went down 70% and then up ten times from there - quite dramatic in terms of the way it moved up and down. Throughout this going down and going up period, we used intrinsic value as the metric to decide when to buy and when to sell the stock. Intrinsic value moved around a little bit during that period.

**SLIDES 38-46**

I'll give you a little bit of background about the company. I loved the business so much. That is why I held it for so long - because I just loved the asset and even more than that I loved the guy who ran it - CEO, McAninch. In fact, I wrote about him in the book, Dhandho Investor. Universal Stainless was founded in 1994. If you follow the steel industry, you know it has been through a couple of decades of very rough times - a lot of plants closed down with bankruptcies and so on. So, Universal Stainless bought three mothballed steel plants - they were just handed the keys to these plants for no money.

The one deal that attracted me to Universal Stainless in 2002 was that they acquired this company called Dunkirk, which is a steel mill based in New Jersey. Dunkirk is the third plant they acquired. The economics were like this, on the day they took over Dunkirk, Dunkirk had $4MM of inventory in steel, iron, and so on. Universal Stainless paid $1MM to the New Jersey state government to take it over, and they gave them a note for $4MM payable over 10 years. So, on day one they got a whole plant for free. They got the inventory of $4MM and they even financed 75% of the inventory for over 10 years at a very low interest rate. The deal they had with the state was that they were on the hook to actually start the plant and create employment. At one point, Dunkirk used to do about $200 - $300MM in sales and use to generate $10 - $20MM in cash flow. It was a nice business. Then they had all of these union issues and they had a bankruptcy and everything else.

The other thing going on when Universal Stainless took over this plant is that they had no legacy liabilities; all of the legacy liabilities went to the state. They got a clean plant. They could do whatever labor deal they wanted to with the unions. Everything was a clean start. It's phenomenal. In fact, McAninch has never bought a plant except under these circumstances. He is only willing to buy if you give it to him for free. That is why I say that I love the guy and that is why I never wanted to sell the stock. He retired and sits on the board. But for most of the period that we owned it, he actually ran the business. It was hilarious listening to the conference call because he is one of those "old school steel guys."
They bought Dunkirk at $15 and it would take a while for Dunkirk to get up and running. The rest of the company was producing about $1.25 in cash flow. You could argue that they were worth about $10 - $12 per share. For Dunkirk, just looking at the physical asset and everything else, what it was making, they would have to invest some money in getting the plant up and running. It would add another $1.50 - $2.50 per

share in earnings from Dunkirk alone. So if you pool it all together, you would have somewhere between, let's say, $2.75 to almost $4 per share earnings from this engine and you would pay three or four times that. Plus, you would have a manager who thinks like you would like him to think. So I didn't think there was any downside with this investment, any which way I looked at it. I just thought it would be a huge home run.

**SLIDES 44-46**

The red circle is where we bought and the blue circle is where we were sitting a year later. The manager is great. Everything is great. But we've dropped so much. We dropped one third and these plants were all bought for free. The reason it dropped to one third is that the floor went out from under the steel business. They were still profitable on all the plants except Dunkirk because they were feeding money into Dunkirk to get it up and running. Collectively, the company was losing money and so at that point, they reported a loss of two cents this quarter. The stock got slaughtered. I really couldn't tell at that point what the business was worth because you're looking at a cyclical steel industry. I said, "Hey, I like the asset; I like everything; but you know, when you have no earnings, it's kind of hard to tell what's going on." So, my approach to Universal Stainless at that point was to just hold the position and wait. One of the things I've found is that many of our best performing stocks tend to give us some pain before they actually turn around and do well. You saw that with Front Line, Tesoro and so on. So patience is a good word, too.

A year later things were starting to turn around, stock got up to $10 or $11 per share. Dunkirk was starting to get profitable. The rest of the business was profitable. The backlog was growing and intrinsic value, I could see, was higher. Then again in 2005, Dunkirk finally kicked in. The rest of the business was stable. It looked very clear with the huge back logs that you could look a few years out and see the earnings weren't about to disappear any time soon. The thesis was playing out with a three-year delay. We finally got to a point in about 2005, 2006 where we had a choice. I could sell the stock and get back our investment, but it was clear to me at that point the business was worth a lot more. By 2006, they had all engines firing. They had plants running 24/7. Dunkirk was cranking up. They were passing through price increases every month to their customer. On all fronts the business was doing very well and generating very high returns on equity on all the investments they were making. Where you see the green circle is when we started to exit the position that we held. It worked out quite well. It's a very small company. The market cap when we bought it for the first time was about $90MM. We really couldn't invest that; our funds were very small at that time. In fact, I saw that market cap go down to $35MM. The other company had a $35MM market cap, the revenues were over $300MM, and the plants had a very significant value.

**SLIDES 47 & 48**

I update this slide every year. This just gives you a cross section of the companies we have owned in the past. As you can see, this is a motley crew. There is no theme. You don't see six steel companies there or a half a dozen oil companies or anything like that. We've had insurance companies, financial services, IT services, senior living, Berkshire and so on. It's just been all over the map. The key driver has always been to look at buying businesses that are straight forward within my circle of competence, and those that we can get well below what we think they're worth to a private buyer. We have, for the most part, bets that are uncorrelated. For example Universal Stainless and Canadian Oil Sands, we happen to hold those businesses at the same time, yet they don't have any correlation. Covanta and Berkshire Hathaway - they don't really have any correlation. Covanta turns trash into energy; it's a waste-free energy company. The correlations between all of them are minimal. We do see that when there is market volatility, large portions of the portfolio dropped at the same time - we saw this in 2002 and we see it even now. I don't really know of a good way to prevent that; I think we do have the risk of volatile issues to deal with. But long-term, based on this approach, I think the probability of beating the S&P is very high. It works out well.

**SLIDE 49**

We use a number of third party providers for different services and it makes my life easier because they do most of the heavy lifting on the back end. Pricewaterhouse does our taxes & audits. I think we have a few folks here from Pricewaterhouse today. Would you please stand up? Okay, so they are at the back if you have questions about any of the numbers that they are putting in the report. Thanks for coming. I think we have Mike Froy here from Sonnenschein. Mike is here. They are our law firm. Is Mike Liccar here? Mike's here. Mike does all our accounting. Is Bob Sempsey here? He might have turned back because of the storm flooding. We have a few folks from our Smith Barney relationship who manage all of our assets and where we do our trades and such. Ajay is here. You can stand up. Who else is here from your team? Okay, so Leaf's there. Folio Admin is the administrator for the Offshore Fund. Conyers, Dill and Pearman at the top is our general counsel in the British Virgin Islands where the offshore fund is based. Basically this group is a fantastic group. They have been with us for a long time. They make my life very easy and like I said, I think that the nitty-gritty of the funds would be the recording of the numbers; all of that goes off very well because we've got some really good people doing it.

**SLIDE 50**

At Pabrai Funds, we have a very small team. It's myself and three wonderful ladies, and they are all here. So, Diana and Isabelle, can you stand up? Nickii is in the middle there. They pretty much run the show and keep things very organized. In fact, now the three of them also support the Dakshana Foundation. For this meeting I just come up and present, but they pretty much did all the work, so a round of applause for them.

**SLIDE 51**

Now we'll take your questions. Just to keep it fair, what I'll do is take one question from this side and one question from this side. We've got two young ladies with microphones, so after I recognize you, just wait for a microphone, then state your name and where you are from, then state your question. Please limit it to one - I'd like to get to as many folks as possible. Then if we run out of folks who want to ask questions, we can go back again and do multiple questions.

**Q&A**

*Q: If you were to restart the funds today with however much capital, assuming it would be small, what would you do differently? What were some of the hardest lessons you learned? What were some of the best practices you had back when you were first starting up and how do they apply today?*

A: Yes, I think that with investing, the good news is that all knowledge is cumulative. I think I'm a better investor today than I was when we started, even though the numbers don't reflect it. You do get better over time because you take more arrows in your back, and with each arrow in your back you learn to run better. It's hard for me to pinpoint all the different learning that has happened in the last eight or nine years, but I think it's a significant amount. In fact, most of my experience with investing, value investing has occurred during my time at Pabrai Funds. I think the frameworks have become much more rigorous, much better defined than they were at the outset. Five years from now I hope it gets better than it is today. But that's the nature of it.

In terms of what I would do differently... When Pabrai Funds started there was no plan to make it a business. It was a fund that was set up between me and eight friends because they just wanted some kind of structure for me to manage some money for them. I really had no plans. We had a million dollars of capital. I put in $100,000 and they put in about $900,000. There really was no plan to increase that amount, or add more investors, or do anything different. I was running a business at the time and I just enjoyed investing, and I enjoyed the 10 to 15 hours a week that I would put into it. I felt that having another million dollars of capital wouldn't really change anything for me. That was really the driver for how Pabrai Funds started. About 15 months after that, I had sold one business. I had bankrupted another business and I was at a crossroads. I thought that the best thing I could do was to just run Pabrai Funds full time. In the 15 months I ran it, it was a lot of fun. I just enjoyed the intellectual challenge and such. So in terms of what I would do differently, well you know, there was no grand plan to run it at that time. I don't think it would be much different. I can't imagine it having worked out better than it has. It has worked out better than I would have guessed at the time. I copied what Buffett did in the 50's and 60's - the

Buffett partnerships. To me that has been a lifesaver. If I didn't have that framework of what Warren did in those years, Pabrai Funds may have had a team of analysts; we may have had 20 people. The culture would have looked very different. I think having the example of Warren and the data points of what he went through was very fundamental, that helped a lot. It made it very simple to just copy it.

*Q: Dave Nafziger from Dallas, Texas. I think a lot of people in the room would be interested in this question: With the market level as it is today, do you feel it is throwing pitches that you would be interested in taking a position in, beyond the 12, 14, 16 positions that you have in the portfolio? And do you have ample cash in the portfolios today?*

A: There are several things that look attractive right now. But I'm not interested in holding 30 positions. I'm interested in holding what I think is the lowest-risk and the highest-return type of proposition. We are building a position in a company currently. It will take some time because it's got a billion dollar market cap, but not too many people want to sell shares. I think the thing will make some hay. When I compare it to anything else that I look at, nothing I can find looks even remotely as attractive. But it's taking us some time to build the position. If I had more capital today, it would not speed up things on this one. We've got Berkshire stock, we've got plenty of things we could do. I don't know if we'll ever get to the point with this company where we would own a $50MM position at present price, though I would love for that to happen and I hope that happens. We could make a considerable amount on it - many times what we are spending.

If I had more capital, then I would look at things beyond this one because there are other things. There are things in our portfolio that are marked down and they're fantastic assets. So I'm assuming I could buy what I have in front of me and assuming there is enough stock available to buy it. Yes, we could probably put $100 - $150MM to work without a problem because it would be two or three positions. I don't think we are severely handicapped for lack of capital. I think if capital came in today it would actually help, It would add some more tailwind because I would basically be adding assets at very cheap prices. But if it doesn't come in, that is fine too. I don't know if that answers your question. It's a good time because you can be very, very picky. One of the things that I have been toying with in my head is that I've always had this notion that you should buy things at a 50% discount. Well, maybe the last 10% of your cash should go in at a 70% to 75% discount. Maybe that should be the bar. It's something that I've been thinking about that you hold the cash until it's just so compelling that you can see a four banger just in front of you. That is kind of where we stand today.

*Q: You mentioned that the discount for intrinsic value is pretty steep today, and it's very similar to what it was in 2002 or even steeper. You know after 2002, the economy recovered quite significantly because of the big housing boom and significant fed cuts*

*and so forth. But what do you see as the general market-level catalyst at this time and going forward? It's the export growth which seems to be making some headlines. Also, you talked about not investing in companies where you have to wake up every morning and think, "God, what does the world thinks of me?" It seems to me that if the U.S. as a country and the citizens of the country have to wake up every day and think of what the world thinks of them tomorrow because of the high leverage. If your companies are okay but their customers are in bad shape, what do you see as catalysts changing that situation over the next several years?*

A: That is a good question. I couldn't see the catalyst in the fall of 2002. In hindsight we can see it. But if you asked me in 2002, I would have been clueless. I would have just said that these companies are trading at levels where there is a lot of pressure for prices to move up. Now, stock prices, we know from history, can get to ridiculous levels. They can go ridiculously high, and they can go ridiculously low. In 2008, we are not at all-time lows from a stock market perspective. I think we are not at levels from 1974, for example. Could we go to levels of 1974? Sure, it could happen. If that were to happen, our portfolio would be even more undervalued. I think eventually, the market will reflect reality. Eventually it will go back to being like a weighing machine rather than a voting machine. I cannot tell you today or going forward what is the catalyst and what other factors will cause stock bond prices to rise. I was surprised in 2003 with the speed of the recovery. If you asked me in 2002 if we would be up 100% in 2003, I would have said that there was a very low probability. But in 2003, after fees we were up 107%. It was a very surprising thing to see. I have no idea whether 2009 will look like 2003. It's hard to tell, but I think the nature of value investing is that you should use intrinsic value as a guideline and just focus on that path. As long as your investor base is stable and you can play out your hand, it will work out.

The businesses are different. They all have different characteristics. It's hard for me to go into the details of the businesses, but I will touch on them. For example, we've owned for many years a company called Harvest Natural Resources. Harvest produces oil. Its fortunes depend on two levels, the production level and the price of oil. Certainly the production level is not tied to the economy at all. There are a lot of factors that drive the price of oil that have nothing to do with what's happening in the U.S. It's irrelevant for the most part if we go to 9% unemployment in the U.S., for example. It has no impact on Harvest.

We own another company called Fairfax Financial and we've owned that for a long time too. I think Fairfax we've owned for six years. Fairfax has heavy duty put options on everything that goes south. Do I know whether those put options will become useful or not, I don't know. But I know that they've got very heavyduty downside protection. If unemployment goes very high or we have significant recessions etc. in the States, it is likely Fairfax will make money. The core business is fine and then on top of that they are sitting on the sidelines of the money not invested. When you look at the different

businesses, I know we have businesses in the portfolio today that I may be very bullish on, but that will end up becoming losers for reasons I can't understand today. But when I look at the aggregate pool, I feel very positive.

*Q: Lately, you've heard more and more of the U.S. value investors spending more time looking for opportunities overseas. Warren Buffett spent some time earlier this year touring Europe. You mentioned that you had built a position in a foreign company. Are you finding it easier to do that now? Is there more transparency? Do the exchanges make it easier these days, and do you see Pabrai Funds strategically increasing overseas exposure?*

A: I think there are a few countries in which I feel confident enough about the legal systems and the regulatory environment being similar enough to those of the U.S. For example, we own a stake with a company in Portugal. I think it's extremely well run. I think the governance and everything is fine. The regulatory framework in Portugal is very similar to that of the rest of Western Europe. I don't have a problem with that. But look at a company in China. The joke about Chinese companies is that they have three sets of books, one for the government, one for the mistress, and one for the owner's wife. I would say that when looking at a Chinese company, my first question would be, "Which set of books am I looking at?" I probably wouldn't get the answer to that question to begin with, so then it goes downhill from there. I think there are many countries where I would just take a pass because there are some basic questions that come up in my mind; but, there are other countries where that would not be an issue. I have a preference that all other things being equal, the assets be diversified. So, if I can get geographic diversification; if I can get currency diversification; if I can get these types of things without paying a price for them, without paying a premium, then I'm willing and interested in doing that. I never start out by saying, "I need an investment in Europe." I'm just saying I'm open; let's just see what comes up. We may have one that's in Portugal. We are probably not going to have two in Portugal. We will probably be done at that point.

*Q: Hi, my name is Chetan Rastogi and I'm from Troy, Michigan. In your past work that I've read, you say that in reality, to understand a company you want to invest in, there are only three or four key variables. Actually understanding the business is more important than calculating the intrinsic value. How do you know, as you research, that you've come to a point where you have isolated three or four key variables? When does that happen, so to speak?*

A: Sometimes we don't isolate the right variables. With Delta Financial, one could argue we didn't identify the right variables. I think you want to look at businesses where things just seem to make sense - where you understand what will drive the value. I'll give you an example. We've talked about MDC holdings. When I looked at MDC holdings, I looked at the variables that would drive its value and I think we got

that right. I implicitly understood that there are basically two ways that the company is going to get priced. It's going to get priced on the hard assets it owns as a floor, and in the long-term, it will get priced on the earnings engines as a ceiling. The value will sit somewhere in the middle of those two and so you must just figure out how those two will get driven. Now, with MDC we blew it on the ceiling. I was not good at forecasting what the earnings engine would do, but the floor was pretty solid so it worked out. I think when we look at those businesses, we want to make sure we understand what those variables are and the reason we're going to have no more than three or four variables; like Charlie Munger says, "Invert it."

There are a lot of entrepreneurs here in the room today. If I ask any of them, like this guy sitting behind you, Sunil. How are you doing Sunil? Sunil is in the real estate business; he's in construction, leasing, etc. If I sat down with him and I said to Sunil, "What is going to drive next year's earnings for you?" He'll just rattle off four things that will make up the deltas that he can't figure out today. It's not going to be 40 things. There are probably 40 things that will have an effect, but only four things will have a dominant effect. The way entrepreneurs operate is exactly the same. They are never going to be able to operate a business if they have to look at all 40 variables at the same time; they would have a big spreadsheet running everything. That's not how they run businesses. They have it very simply in their heads how the business works. So what you have to do is basically to get back to having the same variables that the entrepreneur uses.

I look at a company like Fairfax, which is run by a guy named Prem Watsa. I have it nailed if the way Prem Watsa looks at his business is the same way that I look at a business with the same variables. If I can absolutely match the variables, then I've got it nailed. Sometimes it will be a mismatch because obviously I can't always get to know what is in the CEO's heads. But for the most part, it will always be three or four variables that will drive most of the outcome. That is just the way entrepreneurs run. What you have to do is get a business down to simplicity. You need to get down to those variables. Then, once you have those variables nailed, it becomes easier to see what the future looks like.

*Q: John Banks - Chicago, Illinois. Mohnish, how are you? From your lunch with Warren Buffett in June what were the three most relevant, salient, important take-a-ways from the lunch - things you didn't know before or weren't thinking about before that changed the way you think about things after the lunch?*

A: I think that maybe on this one after I speak, I'll let Guy have a crack at it too because he might have different thoughts than I. Well, one thing I felt before the lunch is that - just studying Buffett at a distance if you will - this is a very unusual human being. I had a feeling that this is a person that comes along maybe once in a hundred years. I don't think that we will see another Warren Buffett in my lifetime. I would say

an analogy would be a lunch with Isaac Newton or a lunch with Albert Einstein or a lunch with Benjamin Franklin. Those would be interesting lunches to have. I could be off on a tangent here, but I felt that lunch with Buffett was like having lunch with one of those individuals because he's just as remarkable, if not more remarkable than those individuals. In fact, I asked Buffett at the lunch, "If you could have lunch with anyone from history, who would you choose?" He first answered Isaac Newton. Then, he said, "I want to change the answer. I really want to have lunch with Sophia Loren." (laughter) He said, “Forget Isaac Newton.” We had an interesting discussion because he said that if you were to ask Charlie the same question, Charlie would pick Ben Franklin. Then he went on to compare Newton and Franklin. He said that Newton was smarter, but Franklin was wiser. That was a very interesting juxtaposition.

But for me, the take-a-way was that I had this notion of this person as remarkable at a distance. I think when I saw him up close for about three hours, that impression was very solidly reinforced. I just don’t think we will see another person like that. For me, the big thing was that by coincidence, he happens to be alive when we’re alive, which isn't true with Newton and others. It is very clear when you are up close with him that he’s an amazing person. I made some private notes because I just wanted to capture the meeting. I interviewed everyone to get my notes complete. There were six of us there, and there were 54 different topics discussed over the three hours. What stood out for me was this notion of internal yardsticks. If you were the greatest lover in the world, but the world thought you were the worst, would you prefer that to being the worst lover in the world if the world thinks that you’re the greatest? His perspective was that if you can answer that question correctly, then you’ve got it made. I think it is a very simple question. With Buffett, it’s very clear that the world can think, "You are the absolute worst lover on the planet," and it won't matter to him. It is just totally irrelevant to him. In fact in 1999, people wrote him off. They kept writing all kinds of things that have absolutely no impact on him. It just bounced off because for him, the metrics that matter the most are the internal yardsticks. He gave very strong reinforcement about the internal yardsticks.

Another thing that stood out for me as a great moment was when he told my daughters that the biggest decision they will ever make in their lives is whom they marry. We had a huge discussion about marriage and spouses and about Susie Buffett and that whole dynamic. There are a number of take-a-ways from that area. There were a couple things that surprised me. I told Buffett, "You’re so 'hands-off' from all of these businesses and they are all so different," and he corrected me. He said, “You have to think of them like children. If you have children, they are not all the same, they are all different." He said that my interface to my businesses should not be universal, that I actually should have a different interface for different businesses. This was a surprise to me because he’s got so many of them. Then, I think one other thing that was startling for me was that he talked about what is going to be in the book that’s coming out, Snowball. He talked about himself at the age of 13, when he used to steal and our

jaws dropped. He explained kind of what was going on in his life at the time and this whole notion of integrity, etc. Buffett said he actually has documented that in the book that is coming out. I'm looking forward to the more extended version of that. But those are just some of the things that stood out for me. I'm going to give the microphone to Guy.

Guy Spier: You should all know that when Buffett came to the meeting, he knew exactly who Mohnish was. I think he had the Dakshana reports in his hand, and one of the first things he said was how impressed he was with the report, and that he already had sent it to Bill Gates. He knew who Mohnish was and was very impressed with him. I'm obviously an observer of Warren, and at the meeting, I sort of saw every mental channel open up; there I am, asking a question, and he is completely open, taking a huge amount of information in and very curious and sucking information out of us to the extent that we were making contributions. The big take-a-way moment for me was when I asked how Berkshire Hathaway was put together. He almost stopped me because I was asking him why exactly he set it up that way. He said, "Look, Guy, Berkshire Hathaway is set up the way it is because I liked it that way, and it makes me happy, and I enjoy my life that way." Those words left me with the impression that if he was given the choice between making Berkshire Hathaway a little higher in return versus giving up one little smidgen of his happiness, he would take his happiness in an instant. It left me realizing how important it is to me to make decisions more than anything to live a happy life, and not to worry about how successful you are. He is most certainly doing that.

*Q: You said earlier that in the holding of the companies that are undervalued you are happy that you have very good jockeys. Are you concerned that with various other market forces, we may lose jockeys because they have other opportunities or other pressures? If that happens, what is your backup plan?*

A: I think when I look at the individual holdings, it's hard for me to imagine, at least in some of the cases, the jockeys separated from the business; they are just joined at the hip. Some of these guys have been in the business for a long time. Some have been the drivers from the beginning, and yes life is unpredictable. Obviously, anything can happen. I would be surprised if there were more than, let's say, one or two instances in which we had a jockey problem, where they got separated from the business. When that happened, there wasn't a good steward in place. I think one of the traits of good jockeys is that they look at who is coming in behind them. In some cases, they have some bench strength. It's a good question. I can think of some cases where there isn't a backup. But I think the jockey is pretty committed. If something happened to the jockey, that would change the thesis. I would say investing is a game of probabilities. The way I look at it, the odds are low.

*Q: Tim Tetlow from Bermuda. Could you, on that same theme, just explain why*

*you've made a shift over the last 18 months to value the jockey more? Is there something in the history that we can't see in terms of the numbers where you've looked at it and said, "Hey, it's actually good jockeys that are driving the results," or what?*

A: That shift was driven by two factors. One factor was a presentation I sat in on a year and a half or so ago. It was given by Bruce Berkowitz of Fairholme, a fund that very specifically focuses on jockeys. It was the first time I actually heard Bruce articulate that rationale. After he said that, I went back and looked at various results that we've had at Pabrai Funds. I simply looked at companies we have held in the past - the quality of their jockeys and the returns; the results were stunning. Even though I had not made jockey bets, the companies that spectacularly outperformed were driven by great jockeys. Quite frankly, I think that way about Pabrai Funds. Most of you are invested in me because, hopefully, you think that I'm a decent jockey. I think that jockeys matter.

In the past, for example, when I first invested in Universal Stainless, I thought the company was very undervalued, and I thought the company was reasonably well run, and I thought they were making smart capital allocation decisions. At the time, I didn't have a full personality template on the CEO. I got that over the next few years because I watched the way his mind worked. I very strongly appreciated the way his mind worked on the allocation of capital. I came to appreciate that if you don't have a strong discipline on that front, even if it's an undervalued asset, you can do very stupid things. My take is that it's a factor that matters and it's a factor that I ought to pay more attention to. I'm not willing to invest in a company with a great jockey if the discount is not there, right? So, I do want the discount. I don't want to invest in a company with a discount and a great jockey, but with a tough business. We've done that in the past and I think that is another tough road to hoe. So, the ideal situation is that you have a great jockey, with a discount, with a great business. The third part, the great business part, is the hardest one to put into the equation. I'm trying to change my emphasis from the past emphasis, which relied heavily on the discount. I just added another variable: I care about the individuals. Time will tell. I think that we will get to see in the coming years what the results are. I'm an optimist. I think it will work out quite well.

*Q: Arvind Singh from Vernon Hills. Mohnish, I have seen some of the changes you have made in terms of your investment patterns, in terms of the number of companies and the amount of money that you have invested per company. Are you hitting a point where it's going to be hard to find companies into which you're going to put $50MM dollars because your stakes are getting higher? And the second thing is that I'm a little surprised; I thought that by increasing the size of the fund, you were maybe going to be investing in more companies, but I'm seeing a pattern towards fewer companies. We've seen some funds that have collapsed completely because of very high concentrations and very few companies. But that is not the case I'm suggesting; just*

*directionally, those are the two questions.*

A: First of all, there is no change for Pabrai Funds in terms of the amount we want to invest in a given opportunity. From right when I started until today, ideally we have wanted to put 10% of assets against opportunity. So, when I have a million dollars under management, if I find a company that is undervalued, I want to put $100,000 into it. Today, when I find a company and I have $475MM, I want to put $47.5MM into it. There is no change on that front, and the reason for that is that your thirtieth idea is not going to be as good as your third best idea. For a fund that has 30 positions or 50 positions, I think it would be very difficult for a single analyst to analyze and keep up with 50 companies on a continual basis. I think it would be very hard to do. I think the thing is that quality would drop off and returns would drop off if you keep adding businesses. You're better off, if you cannot put the money in 10 companies, to stop taking capital. I think that's a better answer than increasing the number of positions.

So at Pabrai Funds, I do not have an interest in going to 30 companies in the portfolio. It's a very simple thing. The more you manage, the harder it gets. We don't want just to open-endedly keep taking in more money because it's not going to help anyone. Basically, the idea is to keep it at 10%. Some of the positions currently show up as greater than 10%. The reason they show up as greater than 10% is that the funds have dropped by, let's say, one third. For a particular company in the portfolio, for instance, at the peak we were managing $660MM. If we had bought $65MM of the company and now we manage $450 or $475MM, then that has become a bigger percentage not because we invested more, but it's just the nature of investing. But that $65 or $66MM portfolio company could go up 20% to 30%. It might be at $90 or $100MM on a $475MM portfolio. So it now looks like a 20% position. Again, we didn't start with a 20% position. We ended up there. As long as we feel comfortable about the company and the position, I wouldn't trim that. It would be like cutting the flowers and watering the weeds. I don't want to be trimming the ones that are most likely to do the best. The idea is that I don't want to run a portfolio where five companies make up 80% of assets. We don't want to go there. We always start with 10 companies owning 100% of assets. But with the way some of the assets under management shift around, the individual portfolio positions can change, and that is what we are seeing. I think over time this will normalize. What will happen is that over time, some of these positions will get sold and what they get replaced with will be a 10% position or less because sometimes we are not able to buy 10%. For the most part, I feel that with what we own today, for most opportunities we go after, we can get the position we want. Some really spectacular opportunities may not be that liquid and that's fine. If we end up with a smaller position, it's not the end of the world. I hope that answers that.

I would say it's a natural outcome because I don't even look at a business which has a $100MM market cap today. I used to look at a business with even a $30MM market

cap when I started. So, the default position is when I look at a company and I see the market cap at $100MM, I just very quickly look at the numbers. If it's very severely distressed, I'll go into it. I'll say, "Okay, it's really worth a billion. It's sitting at $100MM, we should do something here." But ordinarily speaking if it just looks somewhat undervalued and so on, I would not spend time there. I would probably have difficulty putting $5MM into that business. That just doesn't do us any good because the cycles you burn are the same whether you're putting $50MM to work or $5MM to work; so I don't want to be burning those cycles on $2MM or $5MM investments. I think that would not serve Pabrai Fund investors properly. There is absolutely a deliberate decision not to spend time on small businesses, unless they just land in the lap - then they are so easy to figure out. It doesn't take much time and then you can proceed. I'm open to looking at that.

*Q: Quin Jeng from Libertyville. Would you mind explaining what prompted you to start to think about long-term options and how to use them?*

A: The fund does not use long-term options at all. It's actually chartered and not allowed to delve in derivatives. I started to use them personally in my own account, just so I could get some experience, understand them, see what happens. I actually want to see what the result will be over the next several years. There are no plans for Pabrai Funds to start using options, and on my personal portfolio, I think the jury is out on whether I can use that type of strategy effectively or not. We'll just have to see within the next few years how that pans out. Then I'll figure out whether it makes sense to make any change in the funds on that front. At this point, I'm not inclined to do anything like that in the funds.

*Q: Hi, my name is Chaitanya Dalmia. I'm a money manager all the way from New Delhi. I have two questions. One is that it seems kind of boring and a drab business managing money. How do you rejuvenate yourself so that you are at your best when you are putting our money to work? How do you plan out your day, besides your naps obviously? Also, what is your time variation for making decisions about the different businesses that you've taken over time? I mean, is it a few days, few weeks, or a few months, or even longer?*

A: Well, the answer to the first question is that I actually find it a very exciting business. I don't find it boring at all. In fact, the reason I gravitated towards running Pabrai Funds is that I love understanding businesses. I love understanding how the jockeys who are running these businesses, how they think about them and what they are doing with them. There's a lot of meat on the bone in terms of figuring out these companies and figuring out what they are going to be doing in the future, figuring out what I think they may be worth, and looking at the variables that may affect them. There are a lot of different nuances that I actually find very invigorating. In fact, recently, after a few years of not playing bridge, I restarted bridge playing, and I have

forgotten so much that my partner has given me all of this reading to do on bridge. I actually find that I prefer the 10K reading to the bridge books that he wants me to read.

I love the game of bridge and I love playing it. I just find going through those books not all that exciting. I know a few years back, maybe when I was first learning bridge, I'd say about 18 years ago, I would just devour any bridge book that was in front of me. I was very excited about going down that path. I would still prefer reading a book on bridge to many other things, but I think I prefer some companies and their nuances and getting my arms around them to bridge. I would say the analogy is that bridge is like playing two dimensional chess and that working with these companies is like playing multi-dimensional chess. It's more exciting to just look at them and figure them out. I'm actually very invigorated about it. I enjoy it a lot. I think of investing as probably the broadest discipline, and you might think of it the same way. When you look at a given business and the variables that can affect it, you cover a wide waterfront, especially when you look at eight or 10 different businesses - it becomes ever wider. To me, it's actually a very exciting place to be and even more exciting than playing bridge sometimes.

(Chaitanya comments unclear on tape.) Well, I don't know that it's so much reading as it is synthesizing or figuring out the essence. For example, recently I was looking at a company and I found that there was a book written about the adventures of its CEO in a previous business. I just couldn't put the book down. It was fascinating, just getting in the guy's head and seeing what was going on. So, I don't know whether it is so much the reading as it is the synthesizing. Many, many companies would be very boring and dry to go through. But for many others - especially when there is a deep discount, the market is kind of throwing it out, and it's available at a dirt cheap price - it becomes quite exciting to actually go through it.

One of the things we asked Warren, he insisted we call him "Warren" - didn't want to put up with Mr. Buffett. When we met him, I think, Guy asked him what he was reading currently. This was in the last week in June and Warren said that he was reading the 10K of Lehman Brothers. So, Guy asked him, "Well, are you looking at investing in Lehman? Why are you reading the 10K?" Warren said, "Well, I just find it very exciting reading." Then a few weeks later, he was doing a CNBC interview and I think Becky Quick asked him, "You commented that Freddie and Fannie may go under; what other companies might go under?" He says, "Well, there are a few, but if I say the name, it becomes almost like a mandate that that is what is going to happen because it will affect confidence." I was just looking at those two statements, that statement of what he said about Lehman a few weeks ago. I think he had finished reading the last three years of Lehman 10K by that point and probably arrived at the conclusion that this thing is very different than what the market thinks it is. I think the issue is that certain businesses and certain companies are just so much fun to sink your

teeth into and to understand. I think that is what I enjoy.

In terms of the time frame, it depends. I think what I have found is that the best investments are ones where the thesis becomes very clear very early on, even if the reading takes a while to ratify, the thesis should be very clear even in the first 30 minutes. So you try to go towards simplicity - which is, I would say, an overlay of the rigorous end of the research - and hopefully that works out okay.

*Q: George Dumigan from New Haven, Conneticut. The question is this, I think if you get Buffett alone as you had and you said, "Can you give me a tip on a stock?" his answer would be, "No, I can't." But he might give you a tip on what not to invest in; I think he'd be willing to do that, and he did that. What I'm wondering is, why didn't you follow that tip? He invested in U.S. Air and I think after that he lost about 70% of it. Then he supposedly had a special phone put in his house, 1-800-AIRHOLIC, that if he was thinking of buying another airline, he would call up to be talked down. (Mohnish Pabrai: "That's right.") But after hearing this, you still invested. I'm curious why.*

A: I've subscribed to the same philosophy now. The problem is that I should have listened the first time. I was very aware of Warren's perspective on airlines. I specifically side-stepped the major passenger airlines, etc. The dynamic there is, "Your pricing is set by your dumbest competitor." On top of it, you have capex out the whazoo. The dynamics make it so hard. We have two current positions in airlines. I don't want to talk to much about them because they are present positions. They have somewhat different dynamics than the ventures Warren had. In fact, in the case of Pinnacle, we had a 300% return in a year because it was an anomaly the way it was priced. The odds of losing the bet were very low. But there are some lessons learned. I would say that it's not so much these airlines that are the problem; I think the factors that affect them are elsewhere. But those factors have had implications over many years of my life, hopefully in terms of my not doing certain things. What I would suggest is that you ask me this question maybe in a year or two, when we've exited these businesses.

George Dumigan: I'll be back next year.

Mohnish Pabrai: Okay, all right.

*Q: My name is Kurt Hoffman. I'm from Sacramento, California. You described Berkshire Hathaway as being easy to identify in terms of intrinsic value, a company that is very diverse in terms of operating subsidiaries and stock holdings, coupled with a tremendous earnings engine as well as tremendous book value. Can you talk a little about how you determine the intrinsic value of that?*

A: Oh, sure. Warren makes it easy for us. So, if you look at the Berkshire Hathaway's

annual report, what he does is usually to put two tables on the second page of his letters to partners. One table shows the earnings per share coming through the various businesses flowing through the shareholders. The second table shows the investments per share. Basically you apply some reasonable multiples to the earnings engine, and also you look at the investments per share and kind of clump them together. Buffett also shows you a trend and how the investments have grown. You can go a couple years out and make some reasonable assumptions about how you think the investment per share will change and how your earnings will change. For example, if I were to look at it right now, Berkshire is probably worth somewhere between $150,000 - $200,000 per share. I think if you go out and look at what it is worth today, it might be closer to $150,000. If you go out two or three years, it might be closer to $200,000. That may end up being conservative because right now he can swing. I think any investments he makes now will have very high returns on capital.

*Q: Hi, Chet Carey from San Francisco, California. I am curious and interested more about your decision-making process because I somewhat visualize that you're in your own silo alone with your own thoughts. I'm curious if you depend on the valued opinions of trusted individuals. Do you have an advisory council? For Warren Buffett, there is Charlie Munger sitting across the desk from him off of whom he can bounce ideas; he serves as a reality check. Is there somebody in your life that protects you - I wish I had this person actually - that protects you from your own investing demons? You're a single person proprietorship. I've often thought about taking a life insurance policy on you personally as part of my investment in Pabrai. If you could touch on some of those points, I'd certainly appreciated it.*

A: Well, thank you Chet. To get the life insurance policy, you need me to sign it. (laughter) Well, actually I do have people I bounce things off of. I mentioned that Pabrai Funds has 400 families invested in the funds. Most of these families have been entrepreneurial in a wide range of industries and a wide range of geographies. When I'm looking at making a particular investment, it helps me to build a list of unpaid analysts at Pabrai Funds. For Delta Financial, I looked at who was in the mortgage business. Of course, my analysts totally failed me on that one. I have to call them about that. But basically what I do is present to them my thesis and ask them about their thoughts and what I am missing and so on. I think these individuals are better than any analyst on Wall Street because they know these businesses do very well. This is what they do. So, we have a bunch of partners who are very good in real estate. We have a bunch of partners in the mortgage industry. When I was looking at an investment in Embraer, I talked to an individual who runs a publicly traded airline. Even now, I'm beginning to build a position and it turned out that one of the partners had worked for the CEO for some time. So I could actually have a very detailed conversation with him about the industry as well as the person and so on.

Generally speaking, what I'm trying is, if you will, a distributed Charlie Munger model.

Okay, so there is no one person, but there is a wide cast of characters. I'm going to those individuals to get their perspective and thoughts. What has been very surprising to me repeatedly is how quickly they can get to the essence. They are usually able to get to things, the two or three factors that matter - the specific business nuances. They ask me, "Have you thought about this or that?" So, they are able to slice and dice quite well. Sometimes I run into situations where we may not have or may not be aware that there is expertise amongst a partner base. Then we have to just rely on independent thought and what we read and so on. But I usually like to get some data points from these folks. I hope that helps.

*Q: Naren Bakshi from San Francisco. I have one follow-up question. In the venture field, they do use a lot of advisors, but they pay them something so that there is some alignment in terms of the time and what they are willing to spend. But you mention that you are trying to get it completely free.*

A: Yes, I think the difference is that first of all, an investment - especially one that's by a venture fund, is rarely passive in the sense that typically both the entrepreneur and the venture fund are looking for some involvement. That's the reason venture funds have to keep adding partners - because after they are on seven boards, they might not have time for the eighth board sheet. I think venture investing is very different because they involve early-stage businesses. There are two reasons that venture funds are quite different from public-sector investing. One is that a lot of this advisory horsepower gets used after the investment is made. It might be used to get customers. It might be used to get teams. It might be used to set strategy. It might be used in a number of a different ways after the investment is made. It also gets used before the investment is made. Before the investment is made, the difference (from value investing) with venture investing is you don't have a lot of tread marks. You're looking at a very early-stage business and you have a very wide range of possibilities of what can happen with that business in the future. You can go from zero to hero in a venture-backed business.

For most of the businesses I'm looking at, I do not want a zero return at all. In fact, we can't afford to have too many zeros. We don't have the upsides. The issue is that the band you're looking at with publicly traded companies is a much narrower band than you're looking at with venture-backed companies. I think with venture-backed companies, it's a very wide band, and you may need a lot more expertise on the front-end. Just take an example like Google, which we are all very familiar with. In 1998 when they were setting it up, when Google goes to Sequoia Fund and says, "This is what we want to do," even the founders are unclear on the business model. They don't know how they are going to make money. They don't know how big it is going to be. They don't have a lot of variables that they need to know about, and so the venture team on Sequoia, or whoever else, will try to draw on a lot of people to bring in some of those tread marks and some of those other things.

I think public-equity investing, especially non-tech public-equity investing, has a very different profile. I think it's apples and oranges. I would say the "paid" versus the "unpaid." The people I'm asking perspectives of have a vested interest because they have invested money in the funds. I don't think I've ever gotten poor advice from them. In fact, I've been surprised with the time and the amount of energy that most of them have been willing to spend. Usually, I never have push back from partners on time and I never have push back from partners on their interest in helping. Most of them have found it very invigorating because sometimes they are looking at a competitor or a dynamic in the industry. It's a little different from what they do normally and so they actually come out and are quite helpful. In fact, if you look at mutual funds or even hedge funds, the advisory structures are very different from those of venture funds. Venture funds have a lot of partners. They have LPs and they also have a board and an advisory board. So, it's a pretty significant group for a relatively small amount of capital, whereas you can look at a $10 billion hedge fund and the size of the team is much smaller.

*Q: Naren Bakshi: One short question, up to June you've given us performance.*

A: Yes.

*Q: Naren Bakshi: But the last 10 weeks have been very volatile, as you know. So have you looked at where you are at this time?*

A: Yes, just look at the slides. Our offshore fund reports numbers every month, so if we go back and look at the offshore fund, we'll get data points which are not that far off. You'll notice that our numbers run through August 31st. For the months of July and August, and I'm going off memory, we are down about 12% or so in the offshore fund. We have not released the September numbers yet. The other funds are not identical. They have some differences in holdings, so the data will be a little different than that, but not very different. That just gives you a general idea of where we stand. I think one thing you can do - because I don't have the numbers here - you can look on our website and see that the offshore fund, for example, is showing -34% until the end of August. On the website, you'll be able to see what that number was through the end of June, and you can compare it with the other two funds and see what the delta is. You can get a rough idea for September in general. I don't talk about inter-month numbers, but we're not that far off. I think we will have numbers for the whole quarter in October, but at least you have eight out of the 11 weeks covered.

*Q: This is Brian Gorban from Sacramento. First off, I just wanted to say that it's commendable how you've been able to keep all your fortitude in these trying times throughout the last year. Since it's hard for people in this line of business to be able to do that, it's great that you're able to stick to your guns. I just have a question in terms*

*of one of the types of assets that you look for - ones that are trading well below hard assets or book value. Do you ever feel that maybe it's a necessity at some point - on Frontline for example, what we saw was trading well below and management was not steering investors' capital in the right direction - does it make sense to maybe take somewhat more of an active approach? I mean, not like Carl Ike to go to a proxy about it, but try to lend a hand. I'm just trying to see what direction you would take with that.*

A: Actually with Frontline, the stock you brought up, the fault is entirely ours. What happened there was that the manager of those assets was phenomenal. In fact, if I had just done nothing and kept Frontline, I think we would be 50-bagger return today on what we invested because the manager spun off two or three businesses from the original business. The dividend we paid Frontline in 2008 is, I think, one and a half times what we paid for the stock in 2002. If we had just been smart enough to do nothing, we would have been much better off. But of course, we sold and moved on.

Well, I think what Buffett says about most of the companies that he invests in is that if they need my help, then we're both in trouble. So, I'm somewhat skeptical about my ability to add value to businesses that I have in the past never had experience running. I may understand how to value an oil-shipping company, but I certainly have no experience running it; and I certainly don't have a handle on what to tell a guy who was born in the shipping industry how he ought to run this company. Plus, I think that the activist path is a very tough road. If you go down that path, value investing becomes very similar to venture investing. It's an enormous time sink for what I would consider questionable return on that time. I believe we are better off burning cycles looking for the next bargain rather than beating our heads with management and such. It just becomes very hard. First of all, in most cases, we don't have stakes that are large enough that we have any control.

We may have a 5%, 10%, 15% position in a company; unless you have significantly above that you don't have control. So first of all, you would have to wage a campaign to get all kinds of other shareholders to see things the way you see them. I have been open when other shareholders at times expressed an interest in doing something with managements, but they aren't willing to carry the load. I see that their efforts might be useful, and I'd be willing to tell them that I'd be very happy to ward our shares the way they would like me to ward them if it comes to a head at some point. But I have not been willing to go down a path of doing that alone. It's a lot of hard work. It's very heavy lifting. It would easily absorb me full-time doing that with just one position. I don't think you want me doing that.

*Q: Edwin Weiller from Sarasota Florida. Mohnish, a high watermark is a two-edged sword for the investor. To have a high watermark it would appear that you are down 34% so far this year, and I would guess in September you will probably be down again unless you are some sort of a unique individual. Are you somewhat motivated to close*

*the fund like John Meriwether has announced he did in the Times and the Journal today? This is his second time of losing a lot of investors' money. I'm not suggesting that you are in that category, but he's closing down the fund because his fund is down 25% or 30% year-to-date. He doesn't feel he can make it up, and he's got a high watermark and he doesn't ever feel that he is going to make money. So how does that apply to you and what is your thinking?*

A: First thing, I have an internal yardstick of ethics. It would fly in the face of everything I believe in to do something that Mr. Meriwether has done twice. It has never, ever crossed my mind to think about doing something like that - to close the fund and restart, etc. We have actually been down several times in the history of Pabrai Funds and we've come back. I remember an investor telling me in 2002, "You're down 40%. I don't know how many years you're going to go without a fee. I just don't understand how you are going to handle this." Of course, we weren't really tested on it at that time because in 2003, we were up about 100%. We were back above high watermarks within 12 months. I don't know how long it'll take us to get back to high watermarks. I do have some confidence that we will get back and beyond those watermarks. So, we'll just sit and go through it.

My take on life in general is something my dad used to say, "We come to this world naked and we're going to leave this world naked. We're really not going to take anything with us." So, you know, we're talking about money; we're not even talking about health or character or family or anything else. On a scale of things for me, it doesn't rise up to that high a level where I have to actually change ethical behavior and things that I would just absolutely abhor. I can tell you this, there is definitely going to be some time in the future when there will be no Pabrai Funds. Maybe it will come when there is no Mohnish Pabrai. I don't know when it will come. But I can assure you that I don't think there will ever be a time when there will be no Pabrai Funds, and then you know six months later we have some new shingle up. I don't think that is going to happen. I think you have a very valid question. I think it's a good question to ask any money manager - the answer just depends on what their ethos is.

*Q: Michael Rosenbaum. I'm from Chicago. You mentioned that we would have been better off if you had just gone to sleep or taken a vacation and let some of these positions run longer versus your goal of buying at 50% and selling at roughly of 90% of intrinsic value. You also mentioned today that you intend to capture more of the option value and upside on investments. The question is, do you have any plans or interest in using options of any sort, or other vehicles to protect the gains made in position, and take advantage of the opportunity of that position to continue rising at some point?*

A: Yes, the problem with the use of options is that I'm actually a total novice at options and I think I'm the last person to ask to go into the option market. I have started doing very simple things with leaps in my personal portfolio, mainly as a way to educate

myself and just to understand what the dynamics are there. What I've learned is that some individuals who run businesses are great capital allocators and that some of these businesses are undervalued. We know that when you have an undervalued asset in the hands of a great capital allocator, the chances are very high that you will make some money being partnered with them. I may assume today that the conservative intrinsic value of such a business might be two or three times what it is. But by the time it gets to double or triple, what I'm saying is that I want to do a very careful analysis before I part company with that capital allocator to see whether I should give him more room.

I don't want to hold assets above 100% of intrinsic value. If I were to relive 2002, I don't believe that even with my framework of looking at things now we would have held Frontline, because it clearly went over any rational person's definition of intrinsic value significantly before it hit a 50-times return. I think it is just the lay of the land; we're probably never going to have 50-baggers in Pabrai Funds. But we could exit at two times, we might have three times, four times, five times - I think that's possible. I think what I'm talking about is that we might capture more of it. But I don't think we'll capture long-runs. We'll have to see. It's something I'm very focused on - capturing more of it. But I also want to make sure that I'm not holding assets that are beyond what they are worth, because then we have real risks of loss of capital when things go the other way.

*Q: Steve Stoller from Atlanta, Georgia. First of all, thank you very much for hosting not one, but two of these meetings this year. We appreciate your generosity very much. You have also been very kind to write a lot about your investing style and thoughts in articles and speeches and in your books. But those have been about equities. Following up on questions about options, now that you're investing with calls - now that we see some call positions in the portfolio - could you maybe give us some details on how you think about investing in calls? Kind of the "Everything you wanted to know about how Pabrai Funds invests in calls but were afraid to ask" speech. How you approach it - every kind of detail you can give us without mentioning any specific positions.*

A: Pabrai Funds has no option positions. What you see in the filings are personal positions. When we do our 13-F filings, I'm required to report everything that I own personally, or my wife owns personally, or is in the kids' trust account or in Pabrai Funds. It's all amalgamated together in a single report. So when you see the option positions, what you'll notice first of all is a pittance in terms of size because it's a personal position, and second, that it's not part of the funds. I've only done two types of option trades personally and they both have been leap trades, so these are a couple of years out. They have either been to buy long-dated calls or to write long-dated puts and that's it. So if, for example, we buy a stock at $40 per share and we think it's worth $80 per share, I can write a put on it at $40 per share. If the premiums are attractive, then I can cash that check and when it gets to $80 per share or $90 per

share, you know, it just expires without getting exercised. That is the theory. We'll have to see if it works out. My take is that I don't consider myself an expert on options; that's why I'm playing with it on my own money. I'm only interested, at this point, in leaps. Also, I don't have hard parts on the sizing of option positions. So it is entirely possible that Pabrai Funds will never, ever go into options. If I change to the use of options at Pabrai Funds, I have to change the documents. Investors have to vote on it. I would think that we are several years away from even an investor vote, if that ever happens. For now, you're stuck with boring long-term only funds.

*Q: My name is Ramesh Babu. I come here from Saratoga, California. Everybody knows that you invest in the technology industry. What is your view on the technology assets in the portfolio? It seems like you are taking your cues from Warren Buffett and trying to avoid it, is that true?*

A: I try to avoid making investments in technology because I know so much about it. I think the general problem you run into with technology investments is that like Buffett says, "It's an industry of rapid change." It's very hard to look at a tech company and go 5 or 10 years out and have a good picture of what that company might look like. I can go 10 years out on a company like Universal Stainless, Frontline, or even Berkshire Hathaway. I can draw some pretty meaningful conclusions on what it might look like. In fact, I asked Warren Buffett at the lunch, "Can you tell me what Berkshire looks like 30 years from now?" I told him basically, "You're gone, your son is gone. You don't even know who is on the board. Maybe even Bill Gates is gone. What does Berkshire look like 30 years from now?" He didn't hesitate for even one second. He said, "It will be in the trillions; we'll be flourishing" and so on. He gave this picture and it was not in any way hedged. He was just absolutely confident that this would be the case. There was no doubt in his mind that this would be the case.

Now, I don't know the Google guys. I could go to the Google guys, even though they are drinking all kinds of Kool Aid, and ask them what Google looks like 30 years from now. They may have some picture, but I can almost bet that picture would be wrong. We could write down what they are saying and go back 30 years from now and look at what they said, and I don't think it would correlate with reality because that business has so much change in it. Google, 30 years from now, will not even be using the terms that we use today in the search business. They will be doing something totally different. So I think that's the issue with tech companies, and it's not just computer tech companies. It applies to biotech; it applies to drug discovery; all these businesses that are subject to variables which are hard to forecast. You just don't need to make those bets. You can go elsewhere and bet.

I think in this environment, for example, if I were to guess what Warren will do, I believe that most of his activity will be in the debt markets. I don't believe he will be in the equity markets. I think he will be heavily in the debt markets because you can

clearly see the returns. He's extremely good at evaluating debt, and we've had such wide dislocations that I think Berkshire would make significant amounts of money on the debt side. So he's going to pick the spots. I think in investing, we can pick our spots. I have a hard enough time with businesses that are in slow-changing industries. I think going to rapidly changing is just not going to help. Thanks for the question.

*Q: Dante Albertini from Lima, Peru. You have invested in several different industries in different situations. Mr. Buffett stresses the importance of staying within a circle of competence. How would you define your circle of competence?*

A: I would say that if I look at a company and in the first few minutes I don't understand very well how it works, how it makes money and so on, I generally don't waste any more time on it. I move on. Like Charlie Munger says, "To ask the question is to answer it." So, it's obvious when you are in or out of your circle. One of the things I do before I make an investment is to look at the Word document where I keep my thoughts of different positions that we own. I write down the thesis for why we are buying the company. If that takes more than four sentences or five sentences, there's a problem. That means that it's not clear in my mind. It probably means I'm outside the circle of competence. That is usually how I know. One of the things I have learned is that you look for simple businesses. You look for businesses for which it's just easy to tell how the money is made. It's easy to tell what the assets and the liabilities and cash flow statements look like. All those things are easy to get your arms around.

One advantage I have is that my father used to be a quintessential businessman. He started, I would say, 15 or 17 different businesses in as many different industries in his lifetime. Everything from making a movie, to manufacturing high fidelity speakers, to running a jewelry manufacturing business, to insurance brokerage, to interior decoration - all over the map. I watched many of the businesses closely when I was a teenager, and in many cases after that I used to go on sales calls and so on. I think that experience helped me get quite comfortable with a decent range of businesses. But I would still say today that 99% of businesses I would take a pass on within two or three minutes, either because I don't understand them, or they're outside my circle of competence, or they're not cheap enough, or they're complicated. Most things are immediately tossed out - very few things remain. The things that do remain you drill down on, and some of those get tossed out too, eventually. That's how I approach it.

*Q: My name is Vijay. I am from Silicon Valley. I have a question about your process or practice on the subject of redemptions. On the small chance that you have some redemptions at the end of this year, do you have a process on how you're going to handle those so that those of us who are not redeeming aren't affected? For example, I'm expecting you don't take all the cash that you have and give that to the redemptions, so do you have a process in place to make sure that the fund makeup doesn't change too much?*

A: Sure. Actually the redemptions issue is pretty simple. We have redemptions once a year, on December 31st. Investors need to give us at least 60 days notice. They need to let me know by November 1st if they are planning to redeem. So far, we know what there is approximately. The assets of individuals who have approached us to redeem amounts to approximately $13MM dollars in aggregate. Historically what we've found is that many of the people who tell us that they are planning to leave change their minds before year-end. For almost half that number of investors, I think, 45% of that number, one partner has passed away. So it's his estate - they are trying to get around their estate issues. I'm not seeing anything different in redemption patterns this year.

Looking at last year, I think we had about $14MM in redemptions, but of course that is through the full year-end. We are not at November 1st yet. I think that at an extreme end, we could have 20% or 25% of the fund decide to leave and it wouldn't effect partners negatively. I think if the numbers were to start going above that, then I would get to a point where I would liquidate things that I don't want to sell. I think we could redeem almost the whole fund if we had to, but then I would be selling things that I would rather be buying, right? I don't believe that we will see anything out of the ordinary; we'll have to see how things work out. I always say, "Plan for the worst and hope for the best." So mentally I expected by now that we would have seen a much higher number of redemption requests than we've actually seen. It has actually been surprising, thanks to the resilience of the great group here. I would say if we start going over $50MM, we may start effecting future returns with folks who stay - but I think that will be a very minimal effect. I think if we go over $100MM, then the effects will become more pronounced. I don't see anything so far that gives me any reason to expect such results. Another countering factor is that I don't know what the subscriptions are, so we have a couple of subscription windows coming as well. We also have a fairly significant cash flow engine every month. I think we have over $1MM or $1½MM coming into the fund from various dividends, interest and cash. If we have the number that we're sitting at today, it will be a non-issue. It will not even be a blip. I think if we have even two times or three times that number, it will still be a non-issue.

*Q: Hi Mohnish, Mike McCoy from San Francisco. Could you speak more about your increased focus on finding great capital allocators? In the past, your style has been characterized as very deep-value and Graham-like. Are you now looking for narrower gaps between the market price and intrinsic value in a company that can increase its intrinsic value at a higher rate, as compared to looking for very large gaps and hoping that the market will close it out quickly?*

A: Actually, what we want is very large discounts to intrinsic value with great capital allocators. In fact, we are finding those; at least, in this environment we can find those. I still want at least a 50-cent dollar. I will not buy a 70-cent dollar to get Buffett as the allocator, for example. That would be placeholders, right? But we're not willing

to pay up - we're just too cheap for that. So basically we want good allocators, but we don't want to pay up for them. Maybe that's a mistake. But, at least for now, that's how I think about it. I just basically added a requirement. I don't have a requirement that the allocator be a great allocator for the entire portfolio. But I pay attention to that, and I prefer that, and if I can get it for free, then that's great. But I'm not willing to pay a price for it.

*Q: Anil Chachra from New York City. This question is more internationally-focused. As to your views on the U.S. dollar. Do you think sovereign wealth bundle will continue to hold the U.S. dollar? Secondly, if you were to invest internationally, where would you put your money?*

A: Okay, the U.S. dollar - I'm not a good macro person; I'm not a good person to ask about it. If I were to take a guess, I would say that things just don't look good for the dollar. We have a printing press running on overdrive right now. I don't know how many of you saw the movie, I Owe USA... How many folks saw it? Maybe some more folks need to go see it. It's now playing in two theatres in Irvine. Let's put it this way, I would not take my views on the dollar and make investments based on them. I expect that the dollar will weaken over time. I expect that the world will always be willing to take our currency. The U.S. has tremendous strengths, enormous strengths, and I don't think I would ever bet against the U.S. on any long-term basis. But it doesn't look very exciting from the dollar perspective just based on what's happening now.

So, having said that, if I can get a company whose earning stream is not in dollars without sacrificing any of the other issues that I care about, then I'm happy to do that. In fact, I'm excited to do that. But, if I have to sacrifice some return to get there, then I probably won't make that investment. In terms of other countries or currencies, I just don't know as much about them. So, for example, if I find a European company, I'm okay with that. I don't want 50% of the earning-stream coming from euros. But, if we have a European company, or we have an Australian company, or we have an Indian company for example, those would be fine, if I could spread the money out in some way. But, I'm not looking to do that deliberately. Throughout its history, Pabrai Funds has had a significant amount of assets outside the U.S., and even today we have a significant amount of assets outside the U.S. In fact, the assets outside the U.S. are increasing as a percentage over time. Not because I'm deliberately trying to do that; it's just, I think, where things have fallen as a result of what has shown up.

*Q: Vataliy from Colorado. I have a question that follows up on one of the questions I heard before. You mentioned 50-cent dollars and 70-cent dollars. What I've noticed is that 50-cent dollars typically tend to have a little more risk attached to them - maybe single-level interest; maybe smaller caps; and, you know, there is a little more dislocation because they are not well followed. But the 70-cent dollar I look at more as*

*a Glen Greenburg approach - buying quality companies that have a temporary problem or turnover mergers. In my mind, I'm trying to debate which is the better approach, because buying 50-cent dollars during a one-in-50 year storm or one-in-100 year storm ends up becoming a bigger problem. You have a single-customer risk or something like that, and you know something could go wrong - crude could go high, airlines could fall, whatever. What are your thoughts on that and what advice do you have on the right way to go?*

A: If I were willing to buy 70-cent dollars, then I would be much more focused on moats, brands, management and those variables because I would have a much wider choice to look at. Historically, I think if you look at different managers and look at the returns and so on, generally speaking, those opportunities don't tend to have the same return characteristics. My take on the 50-cent dollars is that it's important to try and get downside protection. In the past, for example, if you look at Delta Financial, we missed one variable. You can say that it was an anomaly, a one-in-50 year storm that hit the company and took it to zero. A lot of the other variables of Delta were fine. It was a reasonable company.

I think the flipside of this is that a few months ago, you know, AIG would have looked like a great investment. In fact, of all the things that have happened, the AIG issue is the most surprising for me. It's not necessarily true that if you buy a blue-chip brand name at a 70-cent dollar, things will be hunky dory going forward. I think you might have hiccups and issues come up on that front too. The bigger issue, I think, is to learn. For example, I think the lesson I learned from Delta applies to not buying Fannie Mae, to not buying Freddie Mac. These are all groups of blue-chip names. The more important thing is to apply the lesson rather than basically say that I will just stick to things that are safe and not too cheap. At least, the way I'm wired, I have a hard time making investments across the board on 70-cent dollars. I just think that I'm leaving money on the table if I do that. But I take your point very seriously in the sense that anytime we lose money (I hate to lose money), I have to go back and look at what the holes were and make sure those holes get patched for the future; just keep improving. So even though the numbers don't reflect it, I would say that I'm a better investor today than I was two years ago, three years ago, five years ago and I think I just keep getting better. But I don't think I need to go to 70-cent dollars to keep improving.

*Q: James Warmack, Colorado Springs. Could you share with us your general thoughts on evaluations of oil and gas companies? Specifically, when you're looking at the energy field, are you looking at it mostly from a cash-flow stream, or the assets, or the reserves?*

A: Well, I think if you look at an energy company, you would look at two or three variables. I think one is their cost of production. The second variable is their reserves. Another variable is how soon they would expect to convert those reserves into production. When you look at all that, you come up with cash flow. Now, a big

determiner of cash flow for an oil company is the price of oil, right? So after you have these variables down and you say, “Okay, I think the production will be 100,000 barrels per day," then you’re making some assessment on the price of oil. I would say that I don’t have any great insights on the price of oil, except that I think in the long-term, it’s headed very high. But if I were to make a bet on the oil company, I would probably base that bet on long-term prices of oil being much lower than they are today. So there would be a margin of safety, right? I might assume that oil is at $70 per barrel. Of course, you have to overlay the fact that we have the dollar issue. You know, I think the secular decline of the dollar is another reason that oil prices are likely to go up. Basically, I would take a conservative view on the price of oil and I would try to take a conservative view on the rest of the variables and then go up. Eventually, for every business, the intrinsic value is the sum of the future cash and the present value. For any oil company, the same thing is true. The other thing is that you shouldn’t have to take this to the fourth decimal, right? It should be painfully obvious that this is a 40-cent dollar or 50-cent dollar. It should be very obvious at very conservative oil prices. That’s how I would do it.

*Q: My name is Hugh and I’m from San Jose. I just want you to share any interesting tidbits you learned from Warren Buffett. Is there any new or surprising information, or something we can take away from your meeting?*

A: Okay, we had a wonderful time. One of the bonuses for me was that my family was always supportive of the lunch and the bid. But the kids didn’t know a lot about Buffett. A week before we were going, they decided - on their own - to do a lot of research on him and create a scrapbook on him. They gave the scrapbook to Warren as a gift, and he actually was quite excited to go through it and see it and take it. As a result of all that work, everyone in the family was very fired up to be at the lunch. Whereas when I first won the lunch, Harina was telling me, “If it's three hours, can we leave after the first hour?” (laughter) “I think we could go shopping and do other things.” The good news, from my point of view, was that I told them, "If you’re bored you should leave, and we can just go to a smaller group, not a problem." But I think they were very excited about staying for the entire period. A week later, my elder daughter, Monsoon asked me, “Can we do it again?” Of course, the price is going up at an astronomical rate. So, in terms of take-a-ways from the lunch... My kids are here and they were at the lunch, so maybe I’ll ask them. Monsoon, maybe you can share what your impressions were?

Monsoon: Actually, you took some of my ideas. But Buffett was, like, full of energy and really funny. You could see that he was really smart, and he had learned a lot from previous experiences. In the beginning, he gave me and my sister two big bags full of candy. The bags had little tiny packets of M & M's, which were blue with his face on them. Obviously, they must be antiques or something. Well, my sister ate most of them. I saved some of them in my closet, but they are all probably stale now. It was a

lot of fun. We asked him a lot questions, like who Benjamin Graham was and lots of other questions.

Mohnish: And Momachi.

Momachi: At first I thought it would be like meeting an old person. (laughter) Then, when he started talking, he seemed more like a little kid. He really was old, so... It was interesting when I asked him what his favorite company was. Of all of them, he likes Geico the most. That was interesting.

Mohnish: Then Momachi asked if he had met the caveman. (laughter) I think it was a wonderful time. Also Guy Spier, the other person was there. Harina would you like to add?

Harina: I would say that it didn't seem like three hours. Time flew and he was extremely down-to-earth. It was wonderful to be there with my husband at that time. Overall, I would say if he got a chance again, it would be really wonderful. What we really got out of the meeting was a lunch with Charlie Munger, whom I truly respect and adore. Buffett told us that he would arrange for a lunch between Charlie Munger, Mohnish and me. We're actually looking forward to that now.

Mohnish: Harina has never been to a Berkshire meeting. So the first time she actually saw Warren live was at the lunch. She has actually seen Munger live a couple times, at a couple of events before this. One of them was at a very small YPO event. Harina has always been a big Charlie Munger fan. So I told Warren at the lunch, "Harina is delighted to be here, but the person she really wants to have lunch with is Charlie Munger." So Buffett said, "You know, that is very poor taste." But he said, "I think I can help you get that set up." I think I said that Charlie prefers to have lunch with Jamie Lee Curtis. Buffett said that he would prefer Harina over Jamie Lee any day.

So, two days after the lunch I get an email from Warren - my first and only email from him - which is addressed from Warren to Charlie with me copied on it. He said in the email, "Charlie, I met these guys who won the Glide lunch and it couldn't have gone better. These are great fellows and great families, but Mohnish's wife Harina is under the delusion that you are more interesting than I am." He put in brackets "talk about bad taste." Then he said, "In order to set the record straight, I've asked them to call you to set up lunch and we can settle the matter once in for all." Then he puts a note on the bottom for me: "P.S., Mohnish. Charlie's number is..."

I called Charlie a couple of days after that and he, himself, answered the phone. So, I'm thinking, you know, this is like the Russian Hot Line (laughter) - there is some phone number that Warren has to Charlie, and any time he needs to, he just calls this number, no assistant, nothing in the middle. Munger was very warm on the phone. I

think I spoke to him at the end of June. He said, “Look, I’m going fishing for the next several weeks. Why don’t you call me at the end of August.” I called his office at the end of August and this time, his assistant answered the phone. She said, “Well, I have not seen Charlie for several weeks.” He is probably fishing in Minnesota while the world is going to hell. She said, “I will not see him for several more weeks. Let’s connect in about three or four weeks when he’s back in the office.” So I think Munger is on a 12-week fishing trip somewhere. But it was just wonderful to have the opportunity and also to share it with the family. I tremendously enjoyed having Guy Spier at the lunch. Guy and I knew each other, but we didn’t know each other very well until we placed the bid. We got to know each other really well over the last year. It has just been a pleasure. We have had many fun times as a result of the lunch and it has worked out great.