
EXIDE BATTERIES
Brookfield Infrastructure Partners
Level (3) COMMUNICATIONS
Sears
LEAR CORPORATION
LIBERTY GLOBAL
impark
RHJ INTERNATIONAL
EMBRAER
Teck
VDM VAN DER MOOLEN
FRONTLINE
WELLS FARGO
bio scrip
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Silicon Valley Bank
TESORO
DELTA FINANCIAL CORPORATION
LONDON MINING
Ternium
Diamond Management & Technology Consultants
Gartner
ICG International Coal Group Inc
posco
COVANTA
FREMONT GENERAL
UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
Brookfield Properties
CANADIAN OIL SANDS TRUST
FAIRFAX FINANCIAL HOLDINGS LIMITED
Leucadia National Corporation
COMPUCREDIT
DR. REDDY'S
RICHMOND AMERICAN HOMES
Stewart Enterprises, Inc.
TV AZTECA
Budget
CRESUD
FIRST INDUSTRIAL REALTY-TRUST
HARVEST We Realize the Potential
FMG
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PABRAI INVESTMENT FUNDS

2011 Annual Report

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Dear Partners & Investors:

All three funds underperformed the indices by 14-30% in 2011. While it is best not to fixate on single calendar year results, it is worth delving into the reasons why the funds delivered such sub-par results.

Pabrai Funds was presented with some amazing opportunities by Mr. Market in 2011. I sold some appreciated positions and took full advantage of the situation by investing in a few great businesses at big discounts to intrinsic value. And then I watched those prices drop further – pretty substantially – after the funds owned a full position.

I put significant amounts to work in undervalued money center banks. All of them, and others, ended the year well below our average buy price. The positions I sold either stayed flat or went up further – what else is new☺. As a result, I look pretty dumb. Had I done nothing, the funds would have reported vastly better numbers in 2011 – and been worse off as a result!

If a business is worth a billion dollars, I'm happy to buy it all day long for $400 million. If it subsequently drops to $300 million, that does not cause me any discomfort. Pabrai Funds has a pathetic track record of being able to pick up businesses at the absolute bottom tick. I'm simply grateful that Mr. Market periodically allows us to buy great assets at under 40 cents on the dollar.

Thus, I feel great about our situation. I love the array of assets the funds own today. Pabrai Funds made a lot of money in 2011 as we added some wonderful assets in 2011. Those dollars were just not visible at year end.

Pabrai Funds similarly made lots of money in Q408 and Q109 as the funds hit multi-year lows. We could not see it then, but it became fully visible in a few short months. From March 1, 2009 to December 31, 2009, PIF3's per unit NAV went up by 157%. I hardly took any actions in that period to make that happen. I did take a lot of actions just before that period (between November 2008 and February 2009) that were fundamentally responsible for the dramatic rise.

Some of the businesses I bought into (for the first time ever) during that period were:

Business Name	Returns through Exit or 12/31/11
Cresud	>100%
Goldman Sachs	>50%
Horsehead Holdings	>300%
London Mining	>350%
Potash Corp.	>100%
Teck Cominco	>750%
Wells Fargo	>100%

Some of the above aren't household names. Nonetheless, the funds made a lot of money on each of the above eclectic bets.

The massive gap between market value and intrinsic value at the end of 2011 has already begun to shrink. By February 29, 2012, PIF3 was up 23% from its year-end close – well ahead of all the indices. There is no need to make big changes to the portfolio today. It is a nice collection of great businesses run by excellent managers bought at bargain prices.

PIF2 vs. The Indices

Fund	5 Years	10 Years	Since Inception (7/1/99)
PIF2	-1.8%	11.5%	15.4%
Best Index	2.5%	4.6%	3.2%

Note: All numbers are annualized - net to investors after all fees and expenses

A $100,000 investment in PIFI at inception on July 1, 1999 and rolled over into PIF2 on 12/31/02 ($197,900) was worth $602,600 as of December 31, 2011 (net to investors). This equates to an annualized return of 15.4% since inception – after all management fees and expenses. The best index over the same period was the Dow and an investment of $100,000 in the DJIA on July 1, 1999 was worth $148,700 on December 31, 2011 – an annualized gain of 3.2%. The Dow gains include reinvested dividends.

PIF3 vs. The Indices

Fund	5 Years	Since Inception (2/1/02)
PIF3	-1.7%	10.5%
Best Index	2.5%	4.7%

Note: All numbers are annualized - net to investors after all fees and expenses

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $269,200 as of December 31, 2011 (net to investors). This equates to an annualized return of 10.5% since inception. The best index over the same period was the Dow and an investment of $100,000 in the DJIA on February 1, 2002 was worth $157,700 on December 31, 2011 – an annualized gain of 4.7%. The Dow gains include reinvested dividends.

PIF4 vs. The Indices

Fund	5 Years	Since Inception (10/1/03)
PIF4	-1.2%	6.1%
Best Index	2.5%	6.1%

Note: All numbers are annualized - net to investors after all fees and expenses

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $162,400 as of December 31, 2011 (net to investors). This equates to an annualized gain of 6.1% since inception. The best index over the same period was the Dow and an investment of $100,000 in the DJIA on October 1, 2003 was worth $162,500 on December 31, 2011 – an annualized gain of 6.1%. The Dow gains include reinvested dividends.

I am disappointed with the above three tables. The funds have shown good results for:

1. PIF2 over 10 years and since inception.
2. PIF3 since inception

Over five (or more) years, the funds should, at a minimum, deliver a meaningful positive result. And we must beat all three indices. Pabrai Funds has virtually always met this mandate. I do believe the January 2007 through December 2011 period is a rare anomaly for us. It includes the worst financial crisis and recession in over seventy years. If this 5-year period is time-shifted by even a quarter or two, the numbers are quite acceptable.

There have been 30 rolling quarterly five year periods since inception through December 31, 2011. Pabrai Funds has indeed outperformed the best index over nearly all of these 30 benchmark periods – in most cases by very wide margins. I fully expect our absolute and relative performance over the next five or ten years to be vastly superior to the last five.

4½ Lean Years

The funds delivered robust returns from 1999 through mid-2007. $100,000 invested in PIF2 at inception on July 1, 1999 was worth $788,100 on June 30, 2007 – an annualized gain of 29.4% versus 4.6% for the

Dow. And that's after my outrageous fees and all expenses. Pabrai Funds simply blew the lights out.

This was followed by 4½ lean years (mid-2007 through 2011) with markedly different results. It is instructive to examine why this happened. Success is not a good teacher. It is failures that help us learn and grow. Repeatedly rubbing my nose into my failures is the best way to sear in the learnings – and help me improve as an investor.

I was flat footed in recognizing the magnitude of the financial crisis - and was caught fully invested as the one in fifty year financial hurricane unfolded. Having even 10-15% of the portfolio in cash at the time would have made a massive difference in our results.

I am grateful for the critical learnings served up by this perfect storm. The good news is that it compelled me to re-examine my modus operandi. Some of the changes I have made since Q408 are:

1. Developing and incorporating the pre-investment checklist. The 98 questions on it were created by studying the mistakes of several investment greats and myself. It has been a lifesaver.

2. Rethinking position sizing and cash levels. Cash indeed is king.

3. Insightful conversations with a peer investment manager – well before any capital is committed. Prior to 2008, I never discussed my investment thesis with anyone. While we are both diehard value investors, we have plenty of disagreements and debates. The banter has been quite entertaining and highly profitable.

It is clear to me that Pabrai Funds circa 2012 is a vastly better operation than Pabrai Funds circa 2007 – even though the numbers currently do not reflect it. I've had virtually no visible mistakes of comission for the last 3½ years. And while I am confident I'll make plenty of dumb investment decisions between now and my departure from planet Earth, I have some confidence that even with these errors, the funds will beat the indices over the long-haul by meaningful margins.

Pabrai Funds has indeed tested your patience over the last few years and I believe you will be amply rewarded for it. We are on the cusp of returning to a sustained period of robust returns. It is indeed a blessing to have this wonderful group of patient, long-term investors who acted so honorably during our lean years. You are the best set of investors any investment manager could hope to have.

Four Post-mortems

As is our tradition, I'd like to share a few post-mortems with you, i.e., stocks Pabrai Funds has fully exited. This year the four I've honed in on are:

1. Brookfield Office Properties
2. Brookfield Infrastructure Partners
3. RHJ International
4. Wells Fargo

These post-mortems serve as important data points for investors to better understand Pabrai Funds. Studying, owning and finally selling our entire stake in these four businesses has resulted in important

lessons for me that can only help improve future decisions. The funds made meaningful sums of money on all of them except RHJ International. Thankfully, RHJ International was a tiny position with muted losses.

Brookfield Office Properties (BPO)

Brookfield Office Properties (BPO)	
First Bought on:	6/26/09 for $7.53/share
Last Sold on:	12/8/11 for $15.22/share
Avg. Buy Price:	$7.76
Avg. Sell Price:	$15.63
Total Amount Invested:	$18.1 million
Total Proceeds:	$36.7 million
Annualized Return:	34%

103% realized gain over a holding period of under 2½ years.

Brookfield Office Properties is a publicly traded subsidiary of Brookfield Asset Management (BAM). BAM owns 51% of BPO. I have been an ardent admirer of Brookfield's amazing CEO, J. Bruce Flatt, its deep bench of talented managers and its entrenched culture of delivering solid returns for its shareholders. Brookfield has developed a simple mousetrap that delivers strong returns. Even more impressive is the flawless discipline and patience with which they execute their core value strategy.

Some history is in order. Brookfield traces its roots all the way back to the 1899 founding of The Sao Paulo Railway, Light and Power Company by a few Canadians in Brazil. By 1916, the company had operations in both Canada and Brazil – mostly focused on power generation, and by 1966 the company went by the name, "Brazilian Light and Power Company Limited." In 1969, it shortened its name to Brascan Limited – alluding to its long and unique history in Brazil and Canada. By 1979, it had spun out its Brazilian assets to local Brazilian investors, the Bronfman family (of Seagram's fame) had taken control and, in 2005, its name was changed again to the current Brookfield Asset Management.

The key tenets of Brookfield's culture are:

1. Maintaining supreme financial strength at all times.
2. Hiring, retaining and grooming an exceptional set of managers and capital allocators.
3. Treating outside minority investors as true partners.
4. Prudently allocating capital based on a few core timeless principles.
5. Fixating on maximizing shareholder value.

This culture was solidly in place throughout the 1990s when Jack Cockwell ran Brookfield. From South Africa, Cockwell was a financial genius and was given free reign by the Bronfmans. That culture has only been reinforced and improved by Bruce Flatt since he took over in 2001. Bruce is among a rare breed of

CEOs. He is one of the most disciplined and best allocators of capital anywhere on the planet. Bruce was just 32 years old when he was identified as the successor to Jack. He took over the reins of BAM at the ripe old age of 35. As Toronto's Globe and Mail put it, "Flatt ...emerged from an almost monastic group of executives under the age of 40 who have little or no life outside the office." "I don't collect anything but shares," he once told an interviewer.

In 2001, when Flatt took over, Brookfield had assets of some $12 billion. In just over a decade this has mushroomed to over $150 billion. Brookfield Asset Management's stock is up over six-fold in this "lost decade" of the stock market. And that does not even include the very significant dividends, rights issues and spinoff shares that shareholders have received over the years. You would have been far better off if I had simply put it all with Flatt from the outset.

Bruce is just getting warmed up – he's in his mid-40s now. He is backed up by Brookfield's stellar reputation, mountains of capital and an exceptional management team. Brookfield has a massive runway ahead to grow and prosper. They participate in some of the largest economic sectors. Core Brookfield areas like energy, infrastructure and real estate can easily absorb the billions of free cash flow they generate year in and year out. The wonderful culture at Brookfield has nurtured many more like him who are doing a great job running the various Brookfield companies – like the ones the funds invested in (Brookfield Properties and Brookfield Infrastructure).

I'd highly recommend reading the Brookfield annual reports. In addition, viewing this talk that Bruce delivered to students at Syracuse University in 2008 is quite useful towards understanding Brookfield and him:

http://tinyurl.com/74hscnn

I got interested in Brookfield Properties (BPO) in Q408 as its stock lost some 75% of its value – precipitously cratering from $22 in September '08 to under $6 just eight weeks later. At the time I had my hands full with a zillion other opportunities and did not have the bandwidth to focus on Brookfield.

In June, 2009, BPO was still changing hands at under $8/share. By then, I had done a thorough deep dive on BPO and was excited to put 5% of Pabrai Funds' assets into Brookfield Properties.

It is a core part of Brookfield's philosophy across all its various companies to focus on acquiring assets that have a defensible moat. Brookfield Properties is primarily focused on Class A office buildings in major metro areas. They limit themselves to a very narrow set of the most prime business districts within cities like New York, Toronto, Washington DC, Houston, etc. Within these neighborhoods they endeavor to acquire some of the most prime properties.

However, they are highly disciplined and extremely patient. They will only buy (or develop) these prime properties at very non-prime prices. There has to be some type of distress or nuance that is depressing asset values in their core area of interest. Virtually all financing is non-recourse to Brookfield Properties – basically mortgages on the individual buildings. And they are very conservative on leverage – typical loan to value is well under 75%.

Real estate and land values can be all over the map. Rents alone are not a good guide of a property's

value – as those can fluctuate considerably. Replacement cost can be a decent metric, but only when used in conjunction with rent. The old adage of the three things that matter in real estate are location, location, and location could not be truer. When investing in real estate, the best approach is to keep Pabrai's real-estate investing cheat sheet front and center.

1. Fixate on the most prime properties in the most prime locations that are irreplaceable. Remember location, location, location.
2. Buy well below the property's replacement cost, ascribing low value to the underlying land.
3. Buy at less than a 10x multiple to net annual rent.

These rules have been seared into my psyche after taking plenty of arrows in the back. Real estate is an easy area to lose ones bearings (and money). We saw large swaths of the US population and banks demonstrate their ability to do just that in the very recent past.

Some of you may be familiar with St. Joe (JOE) and Tejon Ranch (TRC). They are publicly traded on the NYSE with vast land holdings. Both businesses have highly reputed value investors who own large stakes and serve on their boards. Tejon Ranch comprises of 270,000 acres located about 60 miles north of Los Angeles – along Interstate 5. On the surface, it looks like a great value buy. What's not to like about owning a piece of those 270,000 acres? Los Angeles continues to grow and could, one day, include Tejon Ranch. This is dangerous and wishful thinking. Over the last 27 years, Tejon Ranch has generated a zero return for investors. There is a massive difference between investing in the most prime Class A building in downtown Los Angeles and Tejon Ranch.

An investment in Tejon Ranch violates all three rules laid out above. It is definitely not prime city center land. If one ignores land value, it has virtually no value and there is very little in free cash flow that the place generates. In fact, after subtracting capital expenditures, Tejon has not generated any meaningful cash flow in decades.

St. Joe is a similar story. It has large (very non-prime) land holdings in the quite undesirable pan-handle of Florida – appropriately nicknamed Redneck Riviera. The stock has generated a zero return over nearly two decades. An investment in St. Joe also violates all three Pabrai rules. These types of investments are easy traps to fall into. I have fallen into similar ones myself in the past – and we have suffered as a result. I wish the learning had come easier – and cheaper!

The good news is that Bruce Flatt and Brookfield have never made these types of loser investments. They understand where to prospect and areas to avoid very well. A good example of their discipline and patience is their actions in Lower Manhattan over the last two decades. Brookfield bought the World Financial Center (WFC; near ground zero) in 1996. After 9/11, many tenants abandoned the area in favor of Midtown Manhattan. In addition, they had a very large tenant in Bank of America/Merrill Lynch whose lease at WFC was coming up for renewal in 2013. Brookfield not only stayed put in Lower Manhattan, they doubled down. They have embarked on significant upgrades/expansion to their WFC property and greenfield build-outs in the area.

Brookfield's Lower Manhattan properties are carried at an approximate book value of $320/sq. ft. In contrast, One World Trade Center, which is literally across the street, is slated to cost around $1500/sq. ft. It is definitely not apples to apples, but rent differentials between the two will be nowhere near 5:1

(or even 2:1). Over the last few years, office rents in Lower Manhattan have been markedly lower than Midtown. However, over the same years, countless billions have been poured in Lower Manhattan infrastructure – including the new Lower Manhattan Transit center – being built at a cost of nearly $4 billion. In addition, Lower Manhattan has the best connectivity from NYC to Staten Island and Hoboken, New Jersey. The construction of One World Trade Center is bringing a renewed positive focus on Lower Manhattan. It does nothing but help Brookfield.

It would not surprise me to see Lower Manhattan command significantly higher rents in the coming years. Midtown will likely see higher rents as well, but the gap with Lower Manhattan will narrow. The impact of this on BPO's intrinsic value is meaningful.

Besides their picture perfect execution in Lower Manhattan, Brookfield has also added properties in London, Sydney and Perth to its portfolio over the last two years while trimming peripheral assets. I have not seen them do anything dumb – ever!

When BPO's price went under $6/share in Q408, this was a business generating over $1.60/share in Funds From Operations (FFO). And that precious cash flow was being collected from a diverse group of mostly Fortune 500 companies with airtight long term leases.

At the time I invested in Brookfield Properties, my mind set was to "stick the stock in a desk drawer and forget about it." I wanted to hold it forever. However, in Q411, I was seeing a stellar range of opportunities in a number of blue chip businesses that were changing hands at under 30-40% of intrinsic value while Brookfield Properties was at north of 65-70% of intrinsic value. Running low on dry powder, I exited Brookfield Properties and bought into some even more compelling assets. We had more than doubled our money in 30 months. I am hopeful that, in the not too distant future, we can enjoy another nice (much longer ride) with Bruce "the share collector" Flatt.

Brookfield Infrastructure Partners (BIP)

Brookfield Infrastructure Partners (BIP)	
First Bought on:	12/24/09 for $15.04/share
Last Sold on:	11/14/11 for $25.71/share
Avg. Buy Price:	$14.60
Avg. Sell Price:	$26.58
Total Amount Invested:	$25.7 million
Total Proceeds:	$48.3 million
Annualized Return:	41%
88% realized gain over a holding period of under 2 years.	

The investment in Brookfield Infrastructure Partners (BIP) was actually an investment in Australia-based Prime Infrastructure. BIP acquired Prime Infrastructure about a year after Pabrai Funds invested. My

interest in Prime Infrastructure was piqued after I received an email from a "fan of Mohnish." I receive many good ideas from folks who simply email them to me. In this case, this email made us all $23 million richer! It's a wonderful life folks! I do take a look at virtually all of these idea emails, but have rarely been compelled to act on any. Let that not be a deterrent. Keep sending in your best ideas!

On December 10, 2009, a former analyst at David Einhorn's Greenlight Capital sent me his thesis on why he thought Prime Infrastructure was a compelling investment opportunity. I had never heard of Prime Infrastructure before. However, the data in that note was compelling. I began to study Prime Infrastructure in earnest – and placed the first buy order after a couple of weeks.

Prime Infrastructure's predecessor was a company called Babcock & Brown Infrastructure (BBI), which owned a number of wide moat assets like ports, gas pipelines and electricity transmission networks. Massive recourse leverage coupled with the 2008 financial upheaval led to their funeral and they filed for bankruptcy. BAM came in as a cornerstone investor, injected capital into BBI and got a 39% equity stake. Other institutional investors added another $625 million of capital as well. The old equity got wiped out and the company emerged from bankruptcy rechristened as Prime Infrastructure.

The old preferreds were converted to new equity at 43% of face value. This conversion took place at A$5.08/share. However, the investors in the preferreds had signed up for steady fixed income returns. After their harrowing experience with the BBI preferreds (which eventually stopped paying coupons and cratered in price), they were glad to finally have a liquid security. They just wanted out and began selling in droves – without so much as cracking open the first page of the prospectus - and fully ignoring the economics of the business. Their pain was our gain. In just three weeks the price dropped some 30% to A$3.60 – which is when I started looking at it.

I did do a deep dive on the prospectus. Most of the various assets had steady recurring revenues. Here is a cross section of some of their more interesting assets at the time:

NGPL (One of the largest natural gas pipelines in the US):	26.4% interest
DBCT (Dalrymple Bay Coal Terminal – one of the world's largest):	50.1% interest
WestNet Rail (5100 kms of rail in Western Australia):	100% owned
Powerco NZ (New Zealand's 2nd largest power/gas distributor):	42% interest
Tas Gas (Gas distributor in Tasmania):	100% owned
Euroports (Port businesses in Europe and China)	60% interest

Some of their crown jewel assets like DBCT and WestNet Rail were a direct beneficiary of China's growth and had significant expansion possibilities at high returns. At the A$3.60 price, the market cap was A$1.25 billion and the free cash flow yield was slated to be 18% in 2010.

The bankruptcy and recap had resulted in a squeaky clean balance sheet. The debt was mostly non-recourse at the property level. Leverage levels were conservative and sensible. Brookfield had done a very nice job of mopping up the place. It looked like their other holdings. With Brookfield holding a 39% stake and plenty of board representation, I was confident that Prime was unlikely to do anything dumb. While I did spend plenty of time drilling down on each of the assets, I took comfort from the fact that Brookfield had already kicked the tires, blessed it and Prime was gonna allocate capital Brookfield-style.

Less than eight months later, in August '10, Brookfield announced their intent to buy the remaining 61% of Prime they didn't own. Brookfield again got a great deal, buying the business at a single digit multiple

of free cash flow. Our Prime shares were converted into Brookfield Infrastructure Partner Units – and we collected a nice one time dividend just before the sale.

Just like BPO, I liked Prime/BIP and planned to hold it for a long time. However, there were a number of very compelling opportunities in Q411 which were cheaper. The funds ended up with an 88% gain in 22 months. I likely sold a 70 cent dollar to buy a 30-40 cent one. Like BAM and BPO, I will keep an eye on BIP. Thank you again, Mr. Flatt! Both the Brookfield investments were nice home runs.

RHJ International (RHJI)

RHJ International (RHJI)	
First Bought on:	7/31/08 for $11.32/share
Last Sold on:	10/27/11 for $4.95/share
Avg. Buy Price:	$9.74
Avg. Sell Price:	$6.30
Total Amount Invested:	$5.2 million
Total Proceeds:	$3.4 million
Annualized Return:	-13.5%
35% realized loss over a holding period of over 3 years.	

The bad news about our RHJI investment is that the funds lost money. The slightly better news is that it was a small investment and the aggregate dollars lost was under $2 million. Investing in RHJI has taught me a few valuable lessons that have already proved to be quite helpful.

RHJ International is a Belgium-based holding company promoted by Timothy C. Collins. In the 1990s Tim Collins and J. C. Flowers bought out and then spectacularly turned around Shinsei Bank in Japan. Their remarkable experience, as unwelcome foreigners in Tokyo doing an LBO and then restructuring a prominent Japanese commercial bank is well chronicled in a wonderful book called *Saving the Sun* by Gillian Tett. (Gillian is a fine writer and journalist. She is currently the US Managing Editor of the Financial Times and I enjoy reading her columns in the FT.)

After his buyout of Shinsei, funds controlled by Collins had amassed stakes in a number of public and privately held Japanese businesses and assets. In March, 2005 these were contributed by Collins to the newly formed RHJ International, which went public through a simultaneous IPO and private placement. Tim Collins purchased approximately $50MM of RHJI shares at the time of the IPO (at €19.25 per share) and owned 11%+ of the company. He committed to a five-year lock-up on his shares. The driver for RHJI's incorporation in Belgium is a favorable provision contained in the Belgium-Japan tax treaty. Sales of Japanese shares by RHJ are not subject to capital gains taxation in Japan or in Belgium.

Collins had a stated objective of making RHJI his "Berkshire Hathaway." I was attracted to RHJI due to the compelling value and prospects. Cash equaled 83% of the market cap. The remaining 17% (being ascribed a value of €100 million at the time) included stakes in seven publicly traded Japanese businesses (worth over €230 million), significant stakes in two privately held Japanese businesses

(worth over €315 million at cost) and the Phoenix Seagaia Resort in Japan's southernmost island, Kyushu. The resort has over 10 kilometers of Pacific Ocean frontage and 750 acres of pine forests. It includes a five star hotel, a number of 2/3 star hotels, four golf courses, one of the largest convention centers in Japan, an indoor water amusement park, tennis club, bowling, etc. The resort had cost over $2 billion to build out. It was carried on the books at about €130 million.

There was RHJI's €586 million market cap on one hand. On the other side was a smorgasbord of assets listed above that were arguably worth at least €675 million. Add to that the €486 million of cash and one was paying fifty cents for a dollar of assets. More importantly, some 42 cents of that dollar was in cash with some pretty savvy capital allocation prowess at the helm. How could I miss?

Well, I did miss. Here is why. As stated earlier with the St. Joe and Tejon Ranch examples, the Seagaia Resort is far from prime real estate. One cannot value it on the cost basis of $2 billion or even what Collins paid for it. Even before the financial crisis, it was generating low single digit millions in free cash flow. This appears to be a white elephant that is not worth much. So, that's the first mistake. I should have focused on the resort's historic free cash flow instead of cost basis or purchase price. And given its non-prime nature I should have discounted that value even further.

Nearly all of the remaining businesses are in the auto parts industry. The entire industry imploded during the financial crisis and these businesses struggled with debt service and keeping the lights on. Plenty of value destruction took place within the RHJI portfolio in 2008-2009.

The good news (if one can call it good news) is that RHJI purchased Kleinwort Benson in July 2010 for €256 million. Anti-trust authorities required Commerzbank to sell Kleinwort in order to complete another acquisition. RHJI picked up a storied top flight conservative bank at a good price from a forced sale. They also brought on board a stellar leader, Leonhard Fischer, to run it all.

There is only so much one can expect Leonhard to do when facing massive headwinds. European Banks became among the most distressed of asset classes as the European sovereign debt and banking crisis went into overdrive in 2011. And if that wasn't enough, the tsunami in March 2011 brought Japan's auto industry to its knees. RHJI had seen its cash pile dwindle and no one was interested in some Belgian conglomerate with a bunch of distressed Japanese auto assets and a European bank.

I had held RHJI for a solid 3+ years and it had been a disappointment. It is entirely possible that I sold out at the wrong time and the business may well be valued considerably higher in the years ahead. However, the funds were getting 65% of our capital back and I preferred to throw in the towel and re-invest the same into vastly more compelling opportunities available to us at the time. I am reminded of this Buffett quote:

> *Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks.*
>
> - Warren E. Buffett

Wells Fargo (WFC) – 2009 Buys

We had more than one round-trip on our Wells Fargo Bank investment. I'll address these separately as they were made for different reasons at very different prices.

Wells Fargo (WFC) 2009 Buys	
First Bought on:	2/23/09 for $11.23/share
Last Sold on:	10/24/11 for $26.33/share
Avg. Buy Price:	$11.71
Avg. Sell Price:	$25.40
Total Amount Invested:	$4.1 million
Total Proceeds:	$9.1 million
Annualized Return:	36%

122% realized gain over a holding period of about 2½ years.

In the last ten years Wells Fargo stock has traded under $12/share for under a month – from around mid-February '09 to mid-March '09. Less than two months before and after this momentary lapse of reason the stock was changing hands at north of $28/share.

Prior to 2009, other than Berkshire Hathaway, Pabrai Funds has rarely had an interest in businesses valued at over $50 billion. Our typical hunting grounds have been focused in the sub-$5 billion arena. In general, the larger the market cap the lower the probability of significant undervaluation. And Q109 was a period when the funds were nearly fully invested and had a wide range of investment opportunities available. However, Wells Fargo was too much of a lay-up at the time to pass on.

A bank that was generating PTPP (pre-tax pre-provision) earnings of around $40 billion was being ascribed a value of some $50 billion by Mr. Market. Wells could easily earn $15-20 billion a year on that $40 billion of PTPP after the dust settled on its mostly Wachovia-related writeoffs. Wells was effectively being valued at under 4x normalized earnings. The madness of these numbers dawned on Mr. Market pretty fast. The stock went up over 3x in less than 8 weeks.

There is a lot to like about Wells. It has a number of enduring sustainable competitive advantages. These include:

- It is the most disciplined large bank in the United States. They have rarely done dumb things on the lending side. While the rest of the industry overdosed on 125% loans, option-ARMs, liar loans – you name it – Wells mostly stayed on the sidelines.

- The lowest cost of deposits among its peers. It has an advantage of 50-80 basis points on its cost of deposits. This is mainly due to its large base of core demand deposits – much of which are non-interest bearing. Additionally, due to their reputation and convenience, Wells Fargo can afford to pay lower rates than its peers on interest bearing deposits. This cost advantage translates directly into higher return on assets (ROA). Wells' typical ROA is 1.5% versus 1% for most of its peers.

- It has a wonderful brand. The bank is 160 years old and has a pristine reputation. It uses red and yellow for its logo colors – just like McDonald's. Those primary colors resonate very well deep in human psyche. I think the Wells' logo is worth a whole lot more (and is vastly more appealing) than Chase, JP Morgan, Citibank, US Bank etc.

- The Wachovia acquisition was a huge home run. It nearly doubled their assets (while adding just 10% to their shares outstanding!!). Wachovia's East Coast footprint complements Wells' historic West Coast roots nicely.

- While being one of the largest banks in the United States, they come across very much like a local community bank. They have established deep relationships with businesses and households in the myriad of communities they operate in. In addition Wells is a leader in cross-selling their existing customers – the best amongst its peers. They own their customers.

I could go on. This was a no-brainer investment that worked out well. I didn't have much cash available at the time – and this limited the investment size. Virtually everything else the funds owned at the time did as well (or even better) than Wells Fargo.

Wells Fargo (WFC) – 2011 Buys

Wells Fargo (WFC) 2011 Buys	
First Bought on:	8/5/11 for $24.99/share
Last Sold on:	1/25/12 for $30.14/share
Avg. Buy Price:	$25.74
Avg. Sell Price:	$28.54
Total Amount Invested:	$60.5 million
Total Proceeds:	$67.1 million

11% realized gain over a holding period of under six weeks.

In August, '11, Wells Fargo still looked cheap at $25/share. It was likely a double from these levels in a few years. I had plenty of dry powder and decided to bring our Wells Fargo holdings up to 5% of assets.

A couple of months later there was a significant drop in the market valuation of several money center banks. These institutions weren't as clean as Wells Fargo, but the risk/reward profile was markedly better. They were trading at a significant discount to Wells. At the same time Mr. Market was valuing Wells at a bit more than what the funds had paid just two months ago. We exited Wells Fargo and loaded up on its cheaper rivals.

Tax Loss Blues

PIF2 and PIF4 had some very significant realized gains in 2011. Towards year-end, the market values of our holdings in three money center banks had fallen well below our cost basis. They were even more compelling at these prices, but I wanted to capture the tax loss. So I sold these positions and bought a few proxy stocks like Wells Fargo and Berkshire Hathaway to capture at least some of the value – in case the market rallied before the 31 days I had to wait were over.

Over the life of the funds, tax loss selling has added plenty of value for PIF2 and PIF4 investors. It just didn't work well in 2011. While our Wells holdings went up in value by some 15% over those 31 days, one of the sold positions increased in value by over 40%! I did buy back all the stock we sold, but had to pay a lot more for them. The tax-loss capture did not come close to offsetting the much higher buyback prices.

I will always endeavor to be tax-efficient. I just wanted to share some of the pitfalls. It does not always work in our favor.

Portfolio Composition

Pabrai Funds holdings are highly unusual today versus the typical types of businesses we've owned in the past. As I pen this letter, we have roughly half our assets in the banking and insurance industries. Some 37% of assets are invested in just three companies in the financial services industry. All three were bought at significant discounts to book value. And in all three cases I went to our max allocation – 10% of assets.

Typically there is more inefficiency in the pricing of smaller businesses versus mega businesses. However, today large caps are much more compelling than small caps. For example, there is plenty of value today among the largest US banks. They are in great shape – and getting even better with every passing quarter. Their valuations do not reflect their underlying intrinsic value and I'm happy to own them until that gap disappears.

We also have over 10% invested in a number of ultra-cheap Japanese small cap businesses. And we have around another 20% invested in natural resources/materials handling type businesses. While we own a larger number of stocks than at anytime in the past 13 years, we are vastly more concentrated in a narrow set of industries. I could not be happier with the composition of the portfolio. We'll make plenty of hay in the years ahead from these bets.

One final thought on our portfolio composition. I did not start with any grand plan to have this type of asset allocation. I have always been a bottoms up, opportunistic stock picker. We just ended up where our relentless pursuit of value led us.

Our Ultra-Low Expense Ratio

All three funds have among the lowest expense ratios of any mutual fund or hedge fund. The funds charge no management fees. The only expenses paid by investors are third-party audit, accounting, administration, tax preparation and SEC filing fees. These fees are listed in the (included) fund audit reports.

These fees in 2011 were 0.08%, 0.07% and 0.05% of assets for the three funds respectively. A year ago, these ratios were 0.10%, 0.06% and 0.05%. And two years ago, these ratios were 0.11%, 0.08% and 0.04%. There are two facets to beating the indices. The first is to have low frictional costs. And the second is to generate superior returns. Frictional costs can be a significant drag on performance and I'm proud of our ultra-low cost operation that has delivered excellent returns. I am not aware of any hedge funds with such ultra-low operating expenses. Guinness, are you listening?

The Dodd-Frank Act required us to register with the SEC in 2012. Meeting the registration requirements and filing periodically with the SEC will increase fund expenses in the future. Nonetheless, I'll endeavor to operate as efficiently as possible, while complying with all mandates.

Alignment of Interests

All three funds are below their historic NAVs and hence no fees were earned by any of the funds for the year. My immediate family has a stake of 419,279 units of PIF2; 8,417 units of PIF3; 1,224,824 units of PIF4 and about 30,000 units of PIF4 in a retirement account. This stake is worth over $36 million.

Besides the previously disclosed stake and small investment in Dardashti Capital (worth about $1 million), my family has no interests in any other mutual funds, hedge funds or private equity funds. I have a deep vested interest in the future performance of Pabrai Funds.

Pabrai Funds charges no management fee, just performance fees – which are ¼ of the returns over 6% annualized (subject to high-water marks). I only get paid when you make money. When you win, I win. Our interests are completely aligned. I am very bullish on the long-term future of Pabrai Funds – as demonstrated by my being the single largest investor in the funds.

2011 Annual Meeting Transcript

The 2011 Annual Meeting transcript and slides are posted on our website. Here is the link to the transcript:

http://www.pabraifunds.com/website/2011_PIF_AM_Transcript.pdf

The transcript is best read in conjunction with the slides:

http://www.pabraifunds.com/website/2011_PIF_AM_Slides.pdf

An Exceptional Team

Jeneva, Julie, Lynn and Nickii are simply a delight to work with. I am very grateful for their efforts. I have nothing but praise for Bob Sempsey and the crew at Liccar. Nadim at SNR Denton, and the folks at PricewaterhouseCoopers always take very good care of us. The transition from Morgan Stanley to UBS wasn't nearly as smooth as I would have liked, but Ajay Desai and his team did their best. I am blessed with an exceptional team in Irvine and Chicago and that make my job a pure joy.

2012 Annual Meetings – Save the Date

As is our usual modus operandi, there will be two annual meetings sequentially at Aliso Viejo (Orange County, California) and Chicago.

The California meeting is scheduled to be on Saturday, Sept. 15, 2012 at 4:00 PM at a new venue:

Soka University
Performing Arts Center
1 University Drive, Aliso Viejo, California 92656 Tel.+1949.480.4000

Soka University has a spectacular campus nestled in the scenic hills of Aliso Viejo. It is a 20 minute drive from Orange County Airport (SNA), and about an hour drive from LAX. There is a fantastic Marriott Club Sport hotel about 3 miles from Soka University:

Marriott Renaissance ClubSport
50 Enterprise
Aliso Viejo, CA 92656
Reservations: 800-468-3571
Phone: 949-643-6700

Soka's brand new Performing Arts Center is amazing. We think you'll be very happy with the change.

The Chicago meeting is scheduled to be on Saturday, Sept. 22, 2012 at 4:00 PM at

Carlucci's Restaurant
(The Auditorium)
6111 North River Road, Rosemont, Illinois 60018 Tel.+1847.518.0990

Carlucci's is a five minute taxi ride away from O'Hare airport. The Marriott Suites O'Hare and The Westin O'Hare are both next to the restaurant. In addition, there are a plethora of hotels in the vicinity. Good deals on O'Hare hotels are usually available on the major travel-related websites.

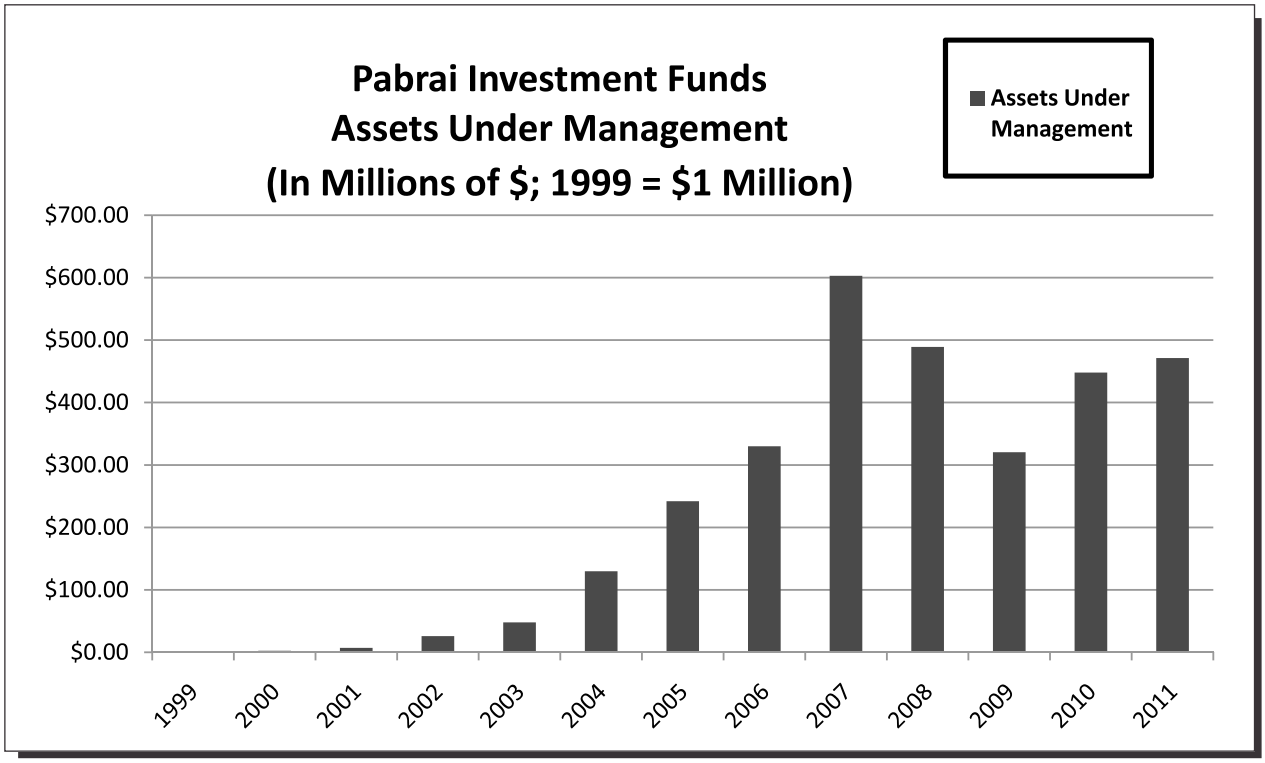
Agenda:

4:00 – 4:30 PM:	Meet and Greet
4:30 – 6:30 PM:	Presentation and Q&A
6:30 – 7:15 PM:	Cocktail Hour
7:15 PM:	Dinner

The invites will go out in July, 2012. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September.

Assets Under Management

There is over $455 million in assets under management between all the funds as of January 1, 2012.



Thanks for your continued interest, referrals and support. Feel free to call me at +1949.453.0609 or email me at mp@pabraifunds.com with any queries or comments.

Warm regards,



Mohnish Pabrai

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Pabrai Investment Fund 2, L.P.

Financial Statements
June 30, 2011

Pabrai Investment Fund 2, L.P.
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Report of Independent Auditors

To the Partners of Pabrai Investment Fund 2, L.P.:

In our opinion, the accompanying statement of assets, liabilities and partners' capital, including the condensed schedule of investments, and the related statements of operations and of changes in partners' capital present fairly, in all material respects, the financial position of Pabrai Investment Fund 2, L.P. (the "Partnership") at June 30, 2011, and the results of its operations and the changes in its partners' capital for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the General Partner. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the General Partner, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



August 23, 2011

PricewaterhouseCoopers LLP, One North Wacker Drive Chicago, IL,60606
T: (312)298 2000, F: (312) 298 2001, www.pwc.com/us

Pabrai Investment Fund 2, L.P.
Statement of Assets Liabilities and Partners' Capital
June 30, 2011

Assets		
Cash	$	252,128
Investments at fair market value (cost $90,887,483)		125,315,606
Dividends receivable (net of withholding taxes $745)		9,896
Total assets	$	125,577,630
Liabilities		
Due to broker for unsettled trades	$	326,807
Accrued expenses		55,094
Total liabilities		381,901
Partners capital		
Limited partners (2,011,086 units at $55.46 per unit)		111,534,091
General partner (246,334 units at $55.46 per unit)		13,661,638
Total partners' capital		125,195,729
Total liabilities and partners' capital	$	125,577,630

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 2, L.P.
Statement of Operations
Year Ended June 30, 2011

Income		
Dividend income (net of withholding tax of $111,721)	$	1,635,211
Interest income		40,813
Total investment income		1,676,024
Expenses		
Professional fees		93,881
Other expenses		13,891
Management fee		10
Total operating expenses		107,782
Net investment income		1,568,242
Realized and unrealized gain (loss) from investments		
Net realized gain		5,058,084
Net change in unrealized appreciation (depreciation)		28,603,927
Net realized and unrealized gain from investments		33,662,011
Net increase in partners' capital resulting from operations	$	35,230,253

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 2, L.P.
Statement of Changes in Partners' Capital
Year Ended June 30, 2011

	General Partner	Limited Partners	Total
Balance July 1 2010	$ 10,059,164	$ 87,694,881	$ 97,754,045
Subscriptions (24,359 units)	-	1,075,000	1,075,000
Redemptions (160,798 units)	-	(8,863,569)	(8,863,569)
Net increase in partners' capital from operations	3,602,474	31,627,779	35,230,253
Balance June 30 2011	$ 13,661,638	$ 111,534,091	$ 125,195,729

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 2, L.P.
Condensed Schedule of Investments
June 30, 2011

Shares		Value as a Percentage of Partners' Capital	Cost	Fair Market Value
	Equity Securities			
	United States			
	Natural Resources			
210,000	Potash Corp	9.56%	5,503,389	11,967,900
	Other	3.24%	856,499	4,062,600
	Total Natural Resources	12.80%	6,359,888	16,030,500
	Investment Banking			
50,000	Goldman Sachs	5.31%	4,479,066	6,654,500
	Transportation	3.40%	4,594,898	4,250,947
	Financial Services	3.22%	2,176,479	4,031,250
	Banking	1.76%	882,225	2,199,904
	Total United States	26.49%	18,492,556	33,167,101
	Argentina			
	Agriculture			
403,154	Cresud	5.23%	2,401,595	6,547,221
	Total Argentina	5.23%	2,401,595	6,547,221
	Belgium			
	Diversified Holding Company	1.69%	2,899,874	2,109,615
	Total Belgium	1.69%	2,899,874	2,109,615
	Canada			
	Commercial Real Estate			
527,000	Brookfield Properties	8.13%	3,711,813	10,182,552
	Other	0.43%	539,640	535,323
	Utilities			
407,760	Brookfield Infrastructure	8.16%	5,994,008	10,214,388
	Insurance			
23,000	Fairfax Holdings	7.35%	6,033,780	9,207,640
	Manufacturing			
5,915,351	Fibrek	6.66%	4,884,092	8,343,584
	Natural Resources	0.00%	981	637
	Total Canada	30.73%	21,164,314	38,484,124
	China			
	Alternative Energy			
3,347,000	Byd	8.64%	10,382,727	10,817,872
	Total China	8.64%	10,382,727	10,817,872
	Egypt			
	Investment Banking	1.78%	2,616,857	2,223,230
	Total Egypt	1.78%	2,616,857	2,223,230

The accompanying notes are an integral part of these financial statements.

Shares		Value as a Percentage of Partners' Capital	Cost	Market Value
	Equity Securities			
	Portugal			
	Diversified Holding Company	1.82%	3,794,772	2,274,689
	Total Portugal	1.82%	3,794,772	2,274,689
	Japan			
	Transportation	1.37%	1,552,839	1,714,857
	Electronic Machinery	1.36%	1,285,861	1,701,260
	Foods	1.32%	1,792,635	1,658,786
	Chemicals	1.20%	1,515,234	1,499,728
	Machinery	0.70%	908,074	872,178
	Local and New Markets	0.69%	883,277	868,430
	Oil and Coal Products	0.60%	598,260	753,819
	Metal Products	0.59%	711,997	734,706
	Wholesale	0.00%	1,463	2,841
	Total Japan	7.83%	9,249,640	9,806,605
	Total Equity Securities	84.21%	71,002,335	105,430,457
	Money Market Funds			
	United States			
19,855,648	Western Asset Institutional Money Market Fund Class A (0.15%)	15.86%	19,855,648	19,855,648
29,500	Morgan Stanley AA Money Trust (.01%)	0.02%	29,500	29,500
		15.88%	19,885,148	19,885,148
	Total Investments	100.10%	$ 90,887,483	$ 125,315,605

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 2, L.P.
Notes to Financial Statements
June 30, 2011

1. Organization

Pabrai Investment Fund 2, L.P. (the “Partnership”), an Illinois Partnership, was organized and commenced operations on October 1, 2000. The Partnership is expected to terminate on October 1, 2020, unless terminated earlier or extended in accordance with the provisions of the Partnership’s Limited Partnership Agreement dated as of October 1, 2000, as amended (the “LP Agreement”).

Dalal Street, Inc. served as the Partnership's General Partner and was responsible for the management of the Partnership's assets until September 30, 2005. Subsequently, Dalal Street, LLC became the General Partner ("General Partner") of the Partnership. Dalal Street, Inc. remains a limited partner of the Partnership. The Partnership’s objective is to obtain above market returns and long term appreciation by investing principally in marketable securities of U.S. and non-U.S. companies. The Partnership has not adopted fixed guidelines for diversification, and therefore, may be subject to more rapid change in value than would be the case if the Partnership were required to maintain wide diversification.

The Partnership utilizes Morgan Stanley Smith Barney, a division of Citi group Markets Inc., ("Morgan Stanley Smith Barney") as its principal broker-dealer and maintains substantially all of its assets with Morgan Stanley Smith Barney. The Partnership has also entered into an agreement with Michael J. Liccar & Co. to perform all general administrative tasks of the Partnership, including keeping the financial records and preparation of reports to Limited Partners.

2. Significant Accounting Policies

Basis of Accounting
The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates
The preparation of financial statements in conformity with accounting practices generally accepted in the United States of America requires the General Partner to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Contingencies
In the normal course of business, the Partnership enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Partnership’s maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Partnership that have not yet occurred. However, based on experience, the General Partner expects the risk of loss to be remote.

Security Valuation
Investments in common stocks are valued primarily at the last reported sale price on the valuation date. If no such price is reported for such date, then the security will be valued at the representative bid price at the close of business on the valuation date. Fixed income securities are valued primarily on the basis of valuations furnished by a pricing service, authorized by the General Partner, which determines valuations for normal, institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. All other assets of the Partnership are valued in the manner determined by the General Partner to reflect their fair market value.

Security Transactions and Income and Expense Recognition

Investment transactions are recorded on trade date. Income and expenses are recorded on the accrual basis and dividend income and capital gain distributions are recorded on the ex-date net of foreign dividend withholding taxes. Discounts and premiums on fixed income securities purchased are amortized into income over the lives of such securities when collection is expected. Realized gains and losses are calculated on the specific identification method.

Securities Lending

The Partnership has participated in a securities lending program providing for the lending of securities in the Morgan Stanley Smith Barney account to Morgan Stanley Smith Barney. The loans were secured by a letter of credit at least equal, at all times, to the fair value of the securities. The Partnership receives an irrevocable letter of credit from the third party as security in return for the securities. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Partnership. The Partnership has the right under the lending agreement to recover securities from the borrower on demand. If the borrower fails to return the securities and the letter of credit is not collectible, the Partnership could lose money. The Partnership earns interest income based on the aggregate market value of the loaned securities.

For the year ended June 30, 2011 the Partnership did not participate in any securities lending activities.

Income Taxes

No provision is made in the accompanying financial statements for liabilities for federal, state or local income taxes since such liabilities are not the responsibility of the Partnership. Each partner is required to report on his/her income tax return his/her proportionate share of the items of income and deduction of the Partnership.

The Partnership is required to perform an evaluation of tax positions taken on previously filed tax returns or expected to be taken on future returns. These positions must meet a "more likely than not" standard that, based on the technical merits, have more than a fifty percent likelihood of being sustained upon examination. In evaluating whether a tax position has met the recognition threshold, the Fund must presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. Tax positions not deemed to meet the "more likely than not" threshold are recorded as a tax expense in the current year.

The Partnership analyzed all open tax years, as defined by the Statute of Limitations, for all major jurisdictions. Open tax years are those that are open for exam by taxing authorities. As of June 30, 2011, open tax years include the tax years ended June 30, 2008 through June 30, 2011. The Partnership is not aware of any examinations in progress. The Partnership has reviewed all open tax years and major jurisdictions and concluded that the adoption of these financial reporting rules resulted in no effect to the Partnership's financial position or results of operations. There is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on the tax return for the fiscal year ended June 30, 2011. The Partnership is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefit will significantly change in the next twelve months.

Statement of Cash Flows

The Partnership has elected not to provide a Statement of Cash Flows as permitted by the Financial Accounting Standards Board's Accounting Standards Codification (ASC) 102-230-10-15, "Statement of Cash Flows--Exemptions of Certain Enterprises and Classifications of Cash Flows from Certain Securities Acquired for Resale."

3. Fair Value Measurement

The Partnership has adopted financial reporting rules that establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or lliabilities that the Partnership has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the General Partner. The General Partner considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the General Partner's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include active listed equities, and certain money market securities. The General Partner does not adjust the quoted price for such instruments, even in situations where the Partnership holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investment-grade corporate bonds and less liquid listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non transferability, which are generally based on available market information.

The inputs used by the General Partner in estimating the value of the level 3 investment include the

original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, re-capitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the General Partner in the absence of market information. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the General Partner due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Partnership's results of operations.

As of June 30, 2011 and during the year then ended, the Partnership had no investments classified within level 3 and there were no transfers between levels during the fiscal year.

The following table presents the financial instruments carried on the Statement of Assets, Liabilities and Partners' Capital by caption and by level within the valuation hierarchy as of June 30, 2011.

Assets at Fair Value as of June 30, 2011

Investment Type	Level 1	Level 2	Total
Equities			
Agriculture	$ 6,547,221	$ -	$ 6,547,221
Alternative Energy	10,817,872		10,817,872
Banking	2,199,904		2,199,904
Chemicals	1,499,728		1,499,728
Commercial Real Estate	10,717,875		10,717,875
Diversified Holding Company	4,384,304		4,384,304
Electronic Machinery	1,701,260		1,701,260
Financial Services	4,031,250		4,031,250
Foods	1,658,786		1,658,786
Insurance	9,207,640		9,207,640
Investment Banking	6,654,500	2,223,230	8,877,730
Local and New Markets	868,430		868,430
Machinery	872,178		872,178
Manufacturing	8,343,584		8,343,584
Metal Products	734,706		734,706
Natural Resources	16,031,137		16,031,137
Oil & Coal Products	753,819		753,819
Transportation	5,965,804		5,965,804
Utilities	10,214,388		10,214,388
Wholesale	2,841		2,841
Total Equity Securities	103,207,227	2,223,230	105,430,457
Total Money Market Funds	19,885,148	-	19,885,148
Total Investments	$ 123,092,375	$ 2,223,230	$ 125,315,605

4. Partners' Capital

Subscriptions and Units

All Partners of the Partnership must be “accredited investors” as defined in Regulation D adopted under the Securities Act of 1933. In exchange for each Partner’s subscription to the Partnership, the Partnership issues Units, which represent an undivided proportionate interest in the assets and liabilities of the Partnership. Units were initially issued at $10 and are subsequently offered at Unit Value. As of any valuation date, the Unit Value is determined by dividing the Partners’ Capital of the Partnership by the total number of Units outstanding. The initial investment by each Limited Partner may not be less than $350,000, and each additional investment may not be less than $25,000. At June 30, 2011 the fund was not accepting additional capital contributions from new or existing investors.

Withdrawals

Subsequent to two years after an initial subscription to the Partnership, a Limited Partner may make complete or partial withdrawals in increments of $25,000 as of December 31 of any year with at least 60 days advance notice to the General Partner, provided that no partial withdrawal which would reduce a Limited Partner's Capital account to below $100,000 will be accepted.

Transfers

Interests are not transferable without the consent of the General Partner.

Distributions

The Partnership will not ordinarily, but may at the General Partner’s discretion, make distributions to its Partners.

Allocations of Profits and Losses

Net Profits, which includes net changes in unrealized appreciation or depreciation of investments and realized investment gains or losses and income and expense (including the management fee as described in Note 5) are generally allocated at least annually and each time new Units are issued, in proportion to the Units held at the beginning of such fiscal period, except for the performance allocation to the General Partner as described in Note 5.

Expense Cap

The General Partner’s authority to authorize Partnership expenses, exclusive of costs associated with margin borrowing, is limited to 2% of the Partnership’s assets in any one fiscal year.

Guarantee

The General Partner has a guarantee obligation with respect to the original capital investment of limited partners made prior to July 15, 2001. This guarantee obligation does not include any limited partners entering the Partnership subsequent to that date, including the original capital investment made by partners in Pabrai Investment Fund 1, L.P. ("PIF1") prior to the merger of PIF1 with the Partnership. Mohnish Pabrai, the principal of the General Partner, has executed the LP Agreement as a personal guarantor of the General Partner with respect to this obligation.

5. Management Fee and Performance Allocation

Management Fee
The General Partner is paid an annual management fee of $10.

Performance Allocation
The General Partner is entitled to a performance allocation equal to 25% of the net gains of each Partner's capital account for the applicable period, after the Partners have achieved a non cumulative annualized return of 6% for the applicable period, provided that no allocation is made unless the Partnership's Unit Value has increased beyond the Partnership's historic Unit Value high.

A performance allocation is only payable on month end dates when a subscription or redemption has taken place.

During the year ended June 30, 2011, the General Partner did not earn a performance allocation.

6. Financing Arrangements

The Partnership may obtain financing through margin borrowing arrangements. The margin loans may not exceed 30% of the Partnership's total asset value without the Partners' written unanimous consent. The Partnership did not utilize the margin borrowing arrangement during the year ended June 30, 2011.

7. Related Party

The General Partner may cause the Partnership to purchase securities from or sell securities to other vehicles managed by the General Partner when the General Partner believes such transactions are appropriate and in the best interests of the Partnership. During the year ended June 30, 2011, the Partnership purchased $9,762,053 of securities from and sold $3,449,421 of securities to another partnership managed by the General Partner, in cash transactions based on the market value of the securities on the trade date.

At June 30, 2011, Dalal Street, Inc. held approximately 18.57% of the total outstanding limited partnership units.

8. Financial Highlights

Financial highlights are calculated for a limited partner unit outstanding for the entire period. An individual limited partner's return and ratios may vary based on timing of capital transactions.

Selected per unit data		
Limited Partner unit value, beginning of period	$	40.84
Income from investment operations		
Net investment income		0.67
Net realized and unrealized gain		13.95
Total from investment operations	$	14.62
Limited Partner unit value, end of period	$	55.46
Total return		
Total return		35.80
Ratios to average limited partners' capital		
Total Expenses		0.09 %
Net investment income		1.29 %

9. Subsequent Events

The Partnership has evaluated subsequent events through the issuance of the Partnership's financial statements on August 23, 2010 and has determined that there is no impact on the Partnership's financial statements.

Pabrai Investment Fund 3, Ltd.

Financial Statements
December 31, 2011

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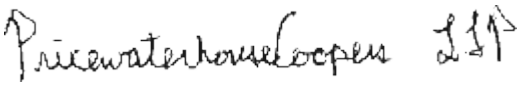
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Report of Independent Auditors

To the Shareholders of Pabrai Investment Fund 3, Ltd.

In our opinion, the accompanying statement of assets and liabilities, including the condensed schedule of investments, and the related statements of operations and statement of changes in net assets present fairly, in all material respects, the financial position of Pabrai Investment Fund 3, Ltd. (the "Fund") at December 31, 2011, and the results of its operations and the changes in its net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Investment Manager. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Investment Manager, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



March 6, 2012

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Pabrai Investment Fund 3, Ltd.
Statement of Assets and Liabilities
December 31, 2011
(expressed in United States dollars)

Assets		
Cash	$	21,659,211
Investments, at fair market value (cost $150,387,273)		109,893,818
Total assets		131,553,029
Liabilities		
Redemptions payable		4,944,351
Accrued expenses and other liabilities		31,258
Total liabilities		4,975,609
Net assets	$	126,577,420
Net assets consist of		
Manager's shares (100 authorized; 100 issued and outstanding)	$	100
Common shares (10,000,000 authorized; 4,701,614 issued and outstanding)		126,577,320
Total net assets	$	126,577,420
Net asset value per common share	$	26.92

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 3, Ltd.
Statement of Operations
Year Ended December 31, 2011
(expressed in United States dollars)

Income	
Dividend income (net of withholding tax of $244,511)	$ 1,608,106
Interest income	44,374
Total investment income	1,652,480
Expenses	
Professional fees	93,854
Total expenses	93,854
Net investment income	1,558,626
Realized and unrealized loss on investments	
Net realized gain	33,328,535
Net change in unrealized appreciation / depreciation	(59,470,381)
Net realized and unrealized loss on investments	(26,141,846)
Net decrease in net assets resulting from operations	$ (24,583,220)

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 3, Ltd.
Statement of Changes in Net Assets
Year Ended December 31, 2011
(expressed in United States dollars)

Increase (decrease) in net assets from operations	
Net investment income	$ 1,558,626
Net realized gain	33,328,535
Net change in unrealized appreciation / depreciation	(59,470,381)
Net decrease in net assets resulting from operations	(24,583,220)
Capital share transactions	
Redemption of common shares (183,654 shares)	(4,944,351)
Net change in net assets resulting from equity transactions	(4,944,351)
Net change in net assets	(29,527,571)
Net assets	
Beginning of period	156,104,991
End of period	$ 126,577,420

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 3, Ltd.
Condensed Schedule of Investments
December 31, 2011

Shares	Common Equity Securities	Value as Percentage of Net Assets	Cost	Fair Market Value
	United States			
	Natural Resources			
	Other	2.90%	$ 1,176,391	$ 3,671,800
	Transportation			
	Other	0.66%	15,650,316	840,379
	Financial Services			
134,000	Goldman Sachs Group Inc	9.57%	13,008,282	12,117,620
2,115,000	Bank of America	9.29%	16,015,979	11,759,400
505,000	Citigroup Inc.	10.50%	15,999,416	13,286,550
	Other	4.29%	2,895,309	5,427,390
	Manufacturing			
586,000	Terex Corp New	6.25%	6,461,676	7,916,860
	Industrials			
	Other	0.28%	331,627	360,058
	Total United States	43.75%	71,538,996	55,380,057
	Canada			
	Natural Resources			
	Other	10.63%	23,559,240	13,459,740
	Insurance			
23,600	Fairfax Financial Holdings Limited	8.04%	6,764,718	10,176,320
	Financial Services			
	Other	0.41%	671,750	524,629
	Total Canada	19.09%	30,995,708	24,160,689
	Argentina			
	Agriculture			
	Other	0.16%	105,276	198,562
	Total Argentina	0.16%	105,276	198,562
	China			
	Alternative Energy			
5,337,000	BYD Co Ltd	9.14%	16,004,344	11,570,616
	Total China	9.14%	16,004,344	11,570,616
	Portugal			
	Diversified Holding Company			
	Other	1.56%	13,905,565	1,968,400
	Total Portugal	1.56%	13,905,565	1,968,400
	Egypt			
	Investment Banking			
	Other	1.39%	3,417,046	1,763,750
	Total Egypt	1.39%	3,417,046	1,763,750

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 3, Ltd.
Condensed Schedule of Investments (continued)
December 31, 2011

Shares	Common Equity Securities continued	Value as Percentage of Net Assets	Cost	Fair Market Value
	Japan			
	Industrials/Manufacturing			
	Other	4.69%	6,107,928	5,942,722
	Consumer Discretionary			
	Other	6.34%	7,448,814	8,019,395
	Construction			
	Other	0.01%	17,328	17,199
	Electronics			
	Other	0.01%	9,839	9,966
	Information Technology			
	Other	0.61%	740,085	766,118
	Total Japan	11.66%	14,323,994	14,755,400
	Total Common Equity Securities	86.74%	150,290,929	109,797,474
	Money Market Funds			
	United States			
96,344	Western Asset US Money Market Fund A Dist (G)	0.08%	96,344	96,344
	Total Money Market Funds	0.08%	96,344	96,344
	Total Investments	86.82%	$ 150,387,273	$ 109,893,818

The accompanying notes are an integral part of these financial statements.

1. Organization

Pabrai Investment Fund 3, Ltd. (the “Fund”), a British Virgin Islands Corporation, was organized on November 9, 2001 and commenced operations on February 2, 2002. The Fund will continue indefinitely until wound up in accordance with the provisions of the Fund’s Articles of Association.

The Fund has been recognized as a professional fund under the Securities and Investment Business Act, 2010 (British Virgin Islands) (the “Funds Act”). The shares of a “professional fund” as defined in the Funds Act may be made available (including issued or transferred) to persons who are “professional investors” within the meaning of the Funds Act and on the basis that investment in the Fund by each investor is not less than $100,000.

Dalal Street, LLC serves as the Fund’s Investment Manager (the "Investment Manager") and is responsible for the management of the Fund’s assets. The Fund’s objective is to obtain above market returns and long term appreciation by investing principally in marketable securities of U.S. and non-U.S. companies. The Fund has not adopted fixed guidelines for diversification, and therefore, may be subject to more rapid change in value than would be the case if the Fund were required to maintain wide diversification. The Fund does not intend to employ leverage as part of its investment strategy.

The Fund utilizes UBS Financial Services, Inc. (“UBS”) as its principal broker-dealer and maintains all of its cash and investments with UBS. Prior to November 4, 2011 Morgan Stanley Smith Barney, a division of Citigroup Global Markets Inc., (“Morgan Stanley Smith Barney”) was the principal broker-dealer. All subscriptions and proceeds from investors are received into the UBS account, and all redemptions and disbursements are made from the UBS account. The Fund has also entered into an agreement with Folio Administrators Limited to perform all general administrative tasks of the Fund, including keeping the financial records, preparation of reports and approval of all disbursements.

2. Significant Accounting Policies

Basis of Accounting
These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Investment Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Contingencies
In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Fund’s maximum exposure under these arrangements is unknown, as this would involve future claims that may be

made against the Fund that have not yet occurred. However, based on experience, the Investment Manager expects the risk of material loss to be remote.

Security Valuation
Investments in common stocks are valued primarily at the last reported sale price on the valuation date. If no such price is reported for such date, then the last reported sale price within the last five day period preceding the valuation date is utilized. If no such price is reported, then the security will be valued at the representative bid price at the close of business on the valuation date. Fixed income securities are valued primarily on the basis of valuations furnished by a pricing service, authorized by the Investment manager, which determines valuations for normal, institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. All other assets of the Fund are valued in the manner determined by the Investment Manager to reflect their fair market value.

Security Transactions and Income and Expense Recognition
Investment transactions are recorded on trade date. Income and expenses are recorded on the accrual basis and dividend income and capital gain distributions are recorded on the ex-date net of foreign dividend withholding taxes. Discounts and premiums on fixed income securities purchased are amortized into income over the lives of such securities when collection is expected. Realized gains and losses are recorded on the specific identification method.

Foreign currency
Securities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities.

Income Taxes
The Fund has conducted and intends to conduct its operations so that it will not be engaged in a United States trade or business and, therefore, will not be subject to United States federal income tax on its net income from United States sources, except for United States withholding tax at a 30% rate on United States source dividend income received. Generally, there is no withholding on portfolio interest income and capital gains derived from United States securities.

Under the current British Virgin Islands legislation, the Fund is not required to pay taxes in the British Virgin Islands on income or capital gains. Because the Fund is not subject to taxation in the British Virgin Islands and it is management's opinion that its method of operations does not result in its being subject to United States income taxes, no provision for taxes has been made in these financial statements.

The Fund is required to perform an evaluation of tax positions taken on previously filed tax returns or expected to be taken on future returns. These positions must meet a "more likely than not" standard that, based on the technical merits, have more than a fifty percent likelihood of being sustained upon

examination. In evaluating whether a tax position has met the recognition threshold, the Fund must presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. Tax positions not deemed to meet the "more likely than not" threshold are recorded as a tax expense in the current year.

The Fund analyzed all open tax years, as defined by the Statute of Limitations, for all major jurisdictions. The Fund has analyzed all open tax years and is not aware of any examinations in progress. The Fund has reviewed all open tax years and major jurisdictions and concluded that the adoption of these financial reporting rules resulted in no effect to the Fund's financial position or results of operations. There is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on the tax return for the fiscal year ended December 31, 2011. The Fund is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefit will significantly change in the next twelve months.

Statement of Cash Flows
The Fund has elected not to provide a Statement of Cash Flows as permitted by the Financial Accounting Standards Board's Accounting Standards Codification (ASC) 230-10-15-4, “Statement of Cash Flows--Exemptions of Certain Enterprises and Classifications of Cash Flows from Certain Securities Acquired for Resale.”

New Accounting Pronouncements
In May 2011, the Financial Accounting Standards Board (FASB) issued updated accounting guidance to achieve common fair value measurements and disclosures requirements between accounting principles generally accepted in the United States (US GAAP) and international financial reporting standards (IFRS). This guidance clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. The guidance is effective for periods beginning after December 15, 2011. The Company is currently evaluating the impact of adoption.

3. Fair Value Measurement

The Fund has financial reporting rules that establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Investment Manager. The Investment Manager considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Investment Manager's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include active listed equities, and certain money market securities. The Investment Manager does not adjust the quoted price for such instruments, even in situations where the Investment Manager holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investment-grade corporate bonds and less liquid listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

The inputs used by the Investment Manager in estimating the value of the level 3 investment include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Investment Manager in the absence of market information. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the Investment Manager due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Fund's results of operations.

As of December 31, 2011 and during the year then ended, the Fund had no investments classified within Level 3. There were no transfers in and out of either Level 1 or Level 2 as of or during the year ending December 31, 2011.

The following table presents the financial instruments carried on the Statement of Assets and Liabilities by level:

	Assets at Fair Value as of December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Common equities	$ 109,797,475	$ -	$ -	$ 109,797,475
Money market funds	96,343			96,343
	$ 109,893,818	$ -	$ -	$ 109,893,818

4. Capital Stock

Non-Voting Common Shares

The Fund has authorized 10,000,000 shares of non-voting Common Shares with a par value of $.01 per share. Such Common Shares were offered at an initial price of $10 per share, and are thereafter offered at the then Net Asset Value of such shares. The Common Shares have no voting rights, but do participate in all profits and losses of the Fund, including net changes in unrealized appreciation or depreciation of investments and realized investment gains or losses and income and expense (including the management fee as described in Note 5). Such profits and losses are generally allocated at least annually and each time new Common Shares are issued and redeemed.

The net asset value of a Common Share is determined by dividing the net assets attributable to the Common Shares by the total number of Common Shares outstanding.

The initial investment by each investor may not be less than $1,000,000 for offshore investors and $10,000,000 for US tax exempt entities.

Manager's Shares

The Fund has authorized 100 shares of voting, non-participating Manager's Shares with a par value of $1.00 per share. The Manager's Shares, which are the sole voting shares, are not entitled to participate in any profits or income of the Fund. The Manager's Shares are redeemable at par and are owned by Mr. Pabrai. Mr. Pabrai is also a member of the Fund's Board of Directors.

Redemptions

A Shareholder may make complete or partial withdrawals in increments of $25,000 as of December 31 of any year with at least 60 days advance notice to the Investment Manager. Redemptions may be paid in cash, or, at the discretion of the Investment Manager, in-kind.

At December 31, 2011 the Investment Manager approved Shareholders' redemption requests of $4,944,351, which were paid out subsequent to year-end.

Transfers

Interests are not transferable without the consent of the Investment Manager.

Distributions

The Fund will not ordinarily, but may at the Investment Manager's discretion, make distributions to its Shareholders.

5. Management Fee

The Investment Manager receives a management fee, payable on December 31 of each year and on the final trading day immediately preceding a subscription or redemption to the Fund, in an amount equal to 25% of the amount by which the increase, if any, in the net asset value of the Fund at the time such fee is payable, exceeds 6%, on an annualized basis, of the net asset value at the time such fee was most recently paid. No management fee is payable unless the net asset value of a Common Share is at its historic highest value, after giving effect to distributions, share splits or share dividends, if any.

During the year ended December 31, 2011, the Investment Manager did not earn a management fee.

6. Principal Shareholders

At December 31, 2011, two shareholders held in excess of 10% each of the net asset value of the Common Shares. In aggregate, the shares owned by these shareholders amounted to approximately 50% of the net asset value of the total Common Shares issued.

7. Financial Highlights

Financial highlights are calculated for a Common Share outstanding for the entire period. An individual investor's return and ratios may vary based on the timing of capital transactions. Ratios are computed based on average monthly net assets.

	Common Shares	
Selected per share data		
Net asset value, beginning of period	$ 31.95	
Income from investment operations		
Net investment income	0.32	
Net realized and change in net unrealized gain/loss	(5.35)	
Net asset value, end of period	$ 26.92	
Total return		
Total return	(15.74)	%
Ratios to average net assets		
Operating expenses	0.06	%
Net investment income	1.03	%

8. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the Fund's financial statements on March 6, 2012 and has determined that there is no impact on the Fund's financial statements.

The Pabrai Investment Fund IV, L.P.

Financial Statements
December 31, 2011

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Report of Independent Auditors

To the Partners of Pabrai Investment Fund IV, L.P.:

In our opinion, the accompanying statement of assets, liabilities and partners' capital, including the condensed schedule of investments, and the related statements of operations and of changes in partners' capital present fairly, in all material respects, the financial position of Pabrai Investment Fund IV, L.P. (the "Partnership") at December 31, 2011, and the results of its operations and the changes in its partners' capital for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the General Partner. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the General Partner, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 6, 2012

PricewaterhouseCoopers LLP, One North Wacker Drive Chicago, IL,60606
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The Pabrai Investment Fund IV, L.P.
Statement of Assets, Liabilities and Partners' Capital
December 31, 2011

Assets		
Cash at broker	$	2,267,056
Due from broker		381,255
Investments, at fair market value (cost $229,409,455)		245,058,478
Dividend receivable (net of withholding taxes $59)		786
Total assets	$	247,707,575
Liabilities		
Redemptions payable	$	12,278,817
Accrued expenses		57,031
Total liabilities		12,335,848
Partners' capital		
General partner (1,064,972 units at $16.24 per unit)		17,294,696
Limited partners (13,428,741 units at $16.24 per unit)		218,077,031
Total partners' capital		235,371,727
Total liabilities and partners' capital	$	247,707,575

The accompanying notes are an integral part of these financial statements

The Pabrai Investment Fund IV, L.P.
Statement of Operations
Year Ended December 31, 2011

Income		
Dividend income (net of withholding tax of $247,070)	$	3,165,582
Interest income		39,424
Total investment income		3,205,006
Expenses		
Professional fees	$	114,750
Other expenses		33,506
Total operating expenses		148,256
Net investment income		3,056,750
Realized and unrealized loss on investments		
Net realized gain		34,382,346
Net change in unrealized appreciation / depreciation		(80,311,548)
Net realized and unrealized loss on investments		(45,929,202)
Net decrease in partners' capital resulting from operations	$	(42,872,452)

The accompanying notes are an integral part of these financial statements

The Pabrai Investment Fund IV, L.P.
Statement of Changes in Partners' Capital
Year Ended December 31, 2011

	General Partner	Limited Partners	Total
Balance, January 1, 2011	$ 20,288,533	$ 270,169,168	$ 290,457,701
Subscriptions (3,303 units)	-	65,295	65,295
Redemptions (756,105 units)	-	(12,278,817)	(12,278,817)
Net decrease in partners' capital from operations	(2,993,836)	(39,878,616)	(42,872,452)
Balance, December 31, 2011	$ 17,294,697	$ 218,077,030	$ 235,371,727

The accompanying notes are an integral part of these financial statements

The Pabrai Investment Fund IV, L.P.
Condensed Schedule of Investments
December 31, 2011

Shares	Equity Securities	Value as a Percentage of Partners' Capital	Cost	Fair Market Value
	United States - common equities			
	Natural Resources			
501,000	Potash Corp	8.79%	$ 13,004,033	$ 20,681,280
	Other	3.77%	4,583,634	8,873,886
	Banking			
1,000,000	Wells Fargo	11.71%	26,406,420	27,560,000
	Cable and Satellite	5.10%	12,079,008	12,015,560
	Diversified			
315,000	Berkshire Hathaway Inc. CL B	10.21%	24,008,647	24,034,500
	Financial Services	3.88%	4,948,132	9,124,730
	Investment Banking	1.88%	4,768,462	4,418,681
	Manufacturing			
1,212,000	Terex Corp	6.96%	12,115,795	16,374,120
	Total United States	52.29%	101,914,131	123,082,757
	Canada - common equities			
	Insurance			
53,500	Fairfax Financial	9.77%	12,494,844	22,998,237
	Commercial Real Estate	0.39%	1,179,640	921,299
	Natural Resources	0.61%	1,444,237	1,438,170
	Manufacturing	1.29%	2,888,514	3,040,884
	Total Canada	12.07%	18,007,235	28,398,590
	Argentina - common equities			
	Agriculture	1.29%	1,963,718	3,047,485
	Total Argentina	1.29%	1,963,718	3,047,485
	China - common equities			
	Alternative Energy			
9,977,000	BYD Co	9.19%	29,979,052	21,631,632
	Total China	9.19%	29,979,052	21,631,632
	Egypt - common equities			
	Investment Banking	1.38%	6,204,654	3,245,184
	Total Egypt	1.38%	6,204,654	3,245,184
	Portugal - common equities			
	Diversified	1.02%	8,919,849	2,395,769
	Total Portugal	1.02%	8,919,849	2,395,769

The accompanying notes are an integral part of these financial statements.

The Pabrai Investment Fund IV, L.P.

Condensed Schedule of Investments (continued)

December 31, 2011

Shares	Equity Securities Continued	Value as a Percentage of Partners' Capital	Cost	Fair Market Value
	Japan - common equities			
	Chemicals	0.87%	2,238,450	2,042,610
	Communication	0.29%	651,228	681,716
	Construction	0.44%	992,956	1,044,079
	Electrical Machinery	0.79%	1,737,517	1,861,284
	Foods	0.75%	1,937,464	1,763,416
	Glass & Ceramics	0.20%	499,711	466,704
	Local & New Markets	2.18%	5,254,496	5,125,763
	Machinery	1.14%	2,650,666	2,686,211
	Metal Products	0.40%	942,147	939,865
	Nonferrous Metals	0.00%	7,498	9,085
	Other Products	0.65%	1,619,052	1,524,658
	Retail/Wholesale	0.17%	399,955	391,742
	Services	0.03%	66,331	81,007
	Textiles & Apparel	0.37%	688,620	870,889
	Transport Equipment	3.13%	6,333,432	7,362,362
	Warehousing & Harbor Transport	0.07%	200,670	168,392
	Wholesale	0.16%	345,651	382,306
	Total Japan	11.64%	26,565,844	27,402,089
	Total Equity Securities	88.88%	193,554,483	209,203,506
	Money Market Funds			
	United States			
23,801,227	UBS Select Prime Institutional Fund (.14%)	15.23%	35,854,972	35,854,972
		15.23%	35,854,972	35,854,972
	Total Investments	104.12%	$ 229,409,455	$ 245, 058,478

The accompanying notes are an integral part of these financial statements.

The Pabrai Investment Fund IV, L.P.
Notes to Financial Statements
December 31, 2011

1. Organization

The Pabrai Investment Fund IV, L.P. (the “Partnership”), a Delaware partnership, was organized and commenced operations on October 1, 2003. The Partnership is expected to terminate on September 30, 2023, unless terminated earlier or extended in accordance with the provisions of the Partnership’s Limited Partnership Agreement dated as of October 1, 2003, as amended (the “L.P. Agreement”).

Dalal Street, LLC serves as the Partnership’s General Partner (the "General Partner") and is responsible for the management of the Partnership’s assets. The Partnership’s objective is to obtain above market returns and long term appreciation by investing principally in marketable securities of U.S. and non-U.S. companies. The Partnership has not adopted fixed guidelines for diversification, and therefore, may be subject to more rapid change in value than would be the case if the Partnership were required to maintain wide diversification. The Partnership cannot purchase securities on margin, enter into futures or forward contracts, enter into the short sales of securities, or engage in certain other investment activities without the approval of Limited Partners owning not less than 50% of the capital balance of the Partnership. The Partnership does not intend to employ leverage, nor does the Partnership intend to invest in derivatives.

The Partnership utilizes UBS Financial Services Inc., (“UBS”) as its principal broker-dealer and maintains substantially all of its assets with UBS. Prior to November 4, 2011, the principal broker of the fund was Morgan Stanley Smith Barney.

The Partnership has also entered into an agreement with Michael J. Liccar & Co. to perform all general administrative tasks of the Partnership, including keeping the financial records, preparation of reports to Limited Partners and approval of all disbursements.

2. Significant Accounting Policies

Basis of Accounting
These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates
The preparation of financial statements requires the General Partner to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Contingencies
In the normal course of business, the Partnership enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Partnership’s maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Partnership that have not yet occurred. However, based on experience, the General Partner expects the risk of material loss to be remote.

Security Valuation
Investments in common stocks are valued primarily at the last reported sale price on the valuation date. If no such price is reported for such date, then the last reported sale price within the last five day period preceding the valuation date is utilized. If no such price is reported, then the security will be valued at the representative bid price at the close of business on the valuation date. Fixed income securities are valued primarily on the basis of valuations furnished by a pricing service, authorized by the General Partner, which determines valuations for normal, institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. All other assets of the Partnership are valued in the manner determined by the General Partner to reflect their fair market value.

Security Transactions and Income and Expense Recognition
Investment transactions are recorded on trade date. Income and expenses are recorded on the accrual basis and dividend income and capital gain distributions are recorded on the ex-date net of foreign dividend withholding taxes. Discounts and premiums on fixed income securities purchased are amortized into income over the lives of such securities when collection is expected. Realized gains and losses are calculated on the specific identification method.

Foreign currency
Securities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Partnership does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities.

Income Taxes
No provision is made in the accompanying financial statements for liabilities for federal, state or local income taxes since such liabilities are not the responsibility of the Partnership. Each partner is required to report on his/her income tax return his/her proportionate share of the items of income and deduction of the Partnership.

The Partnership is required to perform an evaluation of tax positions taken on previously filed tax returns or expected to be taken on future returns. These positions must meet a "more likely than not" standard that, based on the technical merits, have more than a fifty percent likelihood of being sustained upon examination. In evaluating whether a tax position has met the recognition threshold, the Fund must presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. Tax positions not deemed to meet the "more likely than not" threshold are recorded as a tax expense in the current year.

The Partnership analyzed all open tax years, as defined by the Statute of Limitations, for all major jurisdictions. Open tax years are those that are open for exam by taxing authorities. As of December 31, 2011, tax years include the tax years ended December 31, 2007 through December 31, 2011. The Partnership is not aware of any examinations in progress. The Partnership has reviewed all open tax

years and major jurisdictions and concluded that the adoption of these financial reporting rules resulted in no effect to the Partnership's financial position or results of operations. There is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on the tax return for the fiscal year ended December 31, 2011. The Partnership is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefit will significantly change in the next twelve months.

Statement of Cash Flows
The Partnership has elected not to provide a Statement of Cash Flows as permitted by the Financial Accounting Standards Board's Accounting Standards Codification (ASC) 230-10-15, "Statement of Cash Flows--Exemptions of Certain Enterprises and Classifications of Cash Flows from Certain Securities Acquired for Resale."

New Accounting Pronouncements
In May 2011, the Financial Accounting Standards Board (FASB) issued updated accounting guidance to achieve common fair value measurements and disclosures requirements between accounting principles generally accepted in the United States (US GAAP) and international financial reporting standards (IFRS). This guidance clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. The guidance is effective for periods beginning after December 15, 2011. The Company is currently evaluating the impact of adoption.

In January 2010, the FASB issued updated accounting guidance for fair value measurements and disclosures. This guidance provides amended disclosure requirements related to fair value measurements. Certain disclosure requirements were effective for the Company beginning January 1, 2010, while other disclosure requirements are effective beginning January 1, 2011. Since these amended principles require only additional disclosures concerning fair value measurements, the adoption did not affect the Company's Statement of Assets, Liabilities and Partners' Capital, Statement of Operations, or Statement of Changes in Partners' Capital.

3. Fair Value Measurement

The Partnership has adapted financial reporting rules that establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Partnership has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the General Partner. The General Partner considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the General Partner's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include active listed equities, and certain money market securities. The General Partner does not adjust the quoted price for such instruments, even in situations where the Partnership holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investment-grade corporate bonds and less liquid listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

The inputs used by the General Partner in estimating the value of the level 3 investment include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the General Partner in the absence of market information. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the General Partner due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Partnership's results of operations.

The following table presents the financial instruments carried on the Statement of Assets, Liabilities and Partners' Capital by caption and by level within the valuation hierarchy as of December 31, 2011. There were no transfers between levels 1, 2 and 3 during the year ended December 31, 2011. The Company has not presented a roll forward of level 3 securities as there was no activity during the year ended December 31, 2011.

	Assets at Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Common equities	$ 205,958,322	$ 3,245,184	$ -	$209,203,506
Money market funds	35,854,972	-	-	35,854,972
	$ 241,813,294	$ 3,245,184	$ -	$245,058,478

4. Partners' Capital

Subscriptions and Units

All Partners of the Partnership must be "qualified purchasers" as defined in the Investment Company Act of 1940. In exchange for each Partner's subscription to the Partnership, the Partnership issues Units, which represent an undivided proportionate interest in the assets and liabilities of the Partnership. Units were initially issued at $10 on October 1, 2003 and are subsequently offered at Net Asset Value Per Unit. As of any valuation date, the Net Asset Value Per Unit is determined by dividing the Partners' Capital of the Partnership by the total number of Units outstanding. The initial investment by each Limited Partner may not be less than $1,000,000, although the General Partner, in its sole discretion, may permit initial investments in amounts less than $1,000,000 but in no event less than $20,000. Minimum additional investment amounts are determined by the General Partner in its discretion.

Effective October 1, 2010 the Partnership was not taking in additional contributions from new or existing investors. As an exception, only the Pabrai family and the retirement plan for Dalal Street, LLC are allowed to add funds. Capital additions of $65,295 in 2011 were added for the retirement fund.

Withdrawals

A Limited Partner may make complete or partial withdrawals in increments of $25,000 as of December 31 of any year with at least 60 days advance notice to the General Partner, provided that no partial withdrawal which would reduce a limited partner's capital account to below $100,000 will be accepted.

Transfers

Interests are not transferable without the consent of the General Partner.

Distributions

The Partnership will not ordinarily, but may at the General Partner's discretion, make distributions to its Partners.

Allocations of Profits and Losses

Net Profits, which includes net changes in unrealized appreciation or depreciation of investments and realized investment gains or losses and income and expense, are generally allocated at least annually and each time new Units are issued, in proportion to the Units held at the beginning of such fiscal period, except for the performance allocation to the General Partner as described in Note 5.

5. Management Fee and Performance Allocation

Management Fee
The General Partner receives no management fee.

Performance Allocation
The General Partner is entitled to a performance allocation equal to 25% of the amount by which the increase, if any, in the Net Asset Value Per Unit exceeds 6% on a per annum basis over the "High Water Mark" in effect immediately prior to the applicable valuation date. The valuation date is defined as the last day of each fiscal year and the day immediately preceding the date upon which a capital contribution of the Partnership or withdrawal of capital in excess of $25,000 is made. Therefore, the timing of the measurement of the performance allocation can be as frequent as monthly or as infrequent as annually. The "High Water Mark" initially means the Net Asset Value Per Unit of $10, and is adjusted, as of each valuation date, to equal the greater of (a) the High Water Mark immediately prior to such valuation date, increased at a per annum rate of 6% or (b) the Net Asset Value Per Unit as of such valuation date.

During the year ended December 31, 2011, the General Partner did not earn a performance allocation.

6. Related Party

At December 31, 2011, Dalal Street, Inc., and related entities to the General Partner held approximately 8.68% of the total outstanding limited partnership units.

7. Financial Highlights

Financial highlights are calculated for a limited partner unit outstanding for the entire period. An individual limited partner's return and ratios may vary based on timing of capital transactions. The ratios are computed based on the average limited partners' capital, calculated for all limited partners as a group.

Selected per unit data			
Limited Partner unit value, beginning of period	$	19.05	
Income from investment operations			
Net investment income		.20	
Net realized and change in unrealized gain		(3.01)	
Limited Partner unit value, end of period	$	16.24	
Total return			
Total return		(14.76)	%
Ratios to average limited partners' capital			
Total expenses		0.05	%
Net investment income		1.09	%

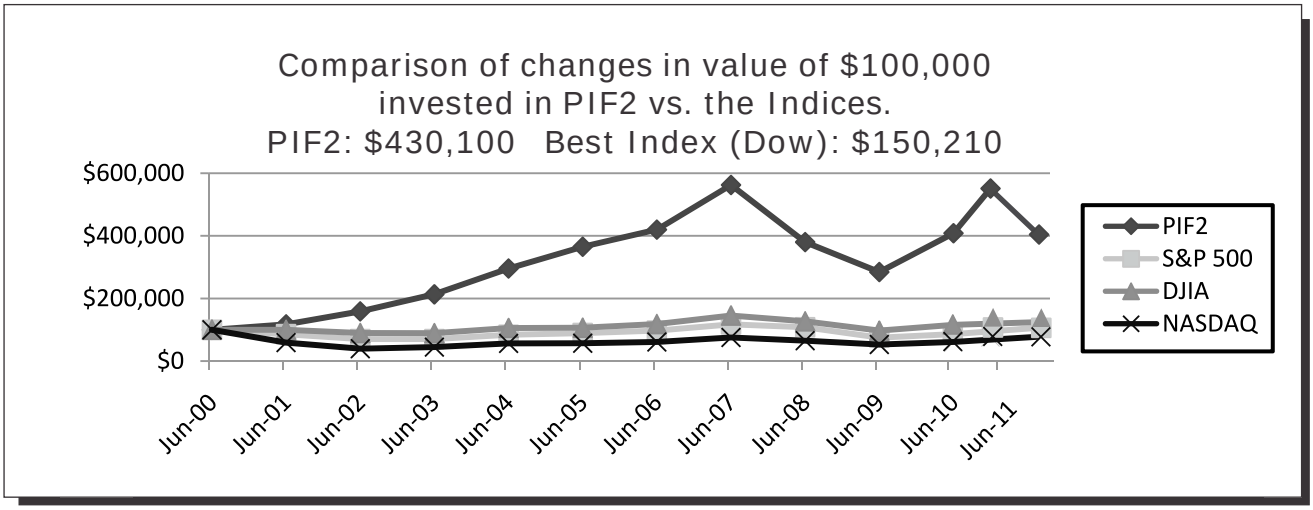
8. Subsequent Events

The Partnership has evaluated subsequent events through the issuance of the Partnership's financial statements on March 6, 2012 and has determined that there is no impact on the Partnership's financial statements.

Appendix A

PABRAI INVESTMENT FUND 2 (US Accredited Investors) Performance Summary:

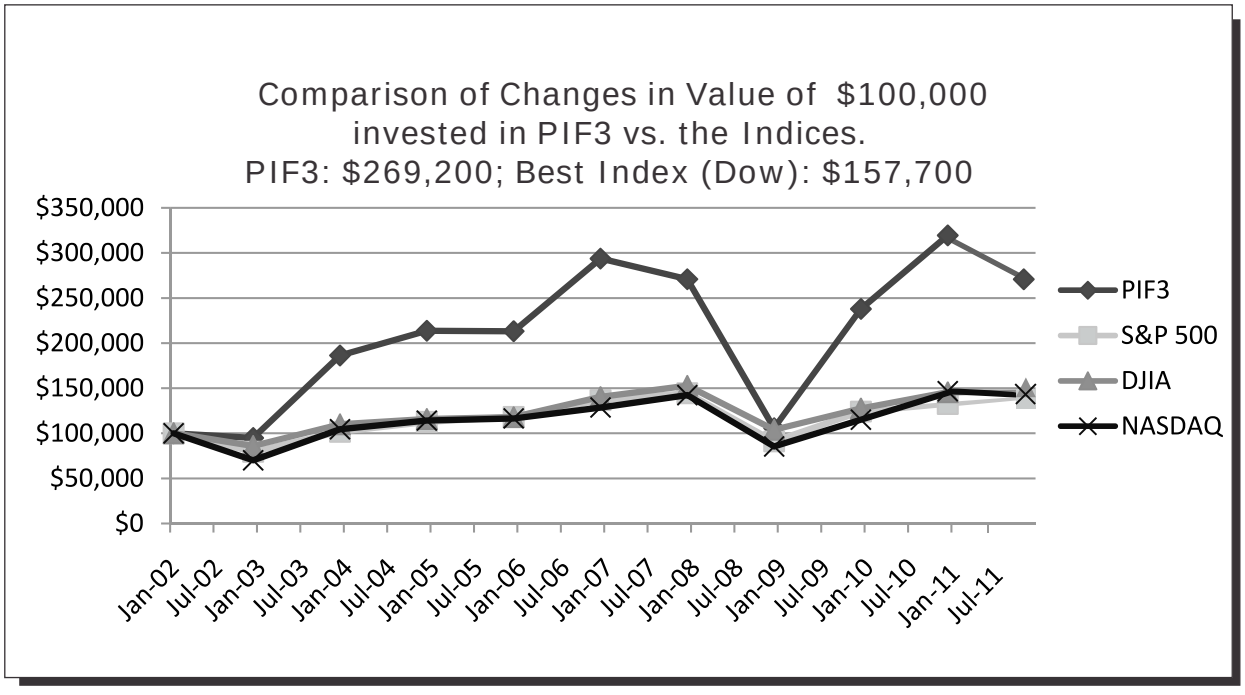
	DJIA	NASDAQ	S&P 500	PIF2 (net to investors)
10/1/00 – 6/30/01	-0.2%	-41.0%	-14.0%	+17.4%
7/1/01 – 6/30/02	-10.3%	-32.7%	-18.0%	+35.3%
7/1/02 – 6/30/03	-0.5%	+11.4%	+0.3%	+34.2%
7/1/03 – 6/30/04	+18.6%	+26.8%	+19.1%	+38.7%
7/1/04 – 6/30/05	+0.7%	+1.1%	+6.3%	+23.4%
7/1/05 – 6/30/06	+11.1%	+6.5%	+8.6%	+15.0%
7/1/06 – 6/30/07	+23.0%	+20.7%	+20.6%	+34.0%
7/1/07 – 6/30/08	-13.3%	-11.2%	-13.1%	-32.4%
7/1/08 – 6/30/09	-23.0%	-19.1%	-26.2%	-25.2%
7/1/09 – 6/30/10	+18.9%	+16.0%	+14.4%	+43.6%
7/1/10 – 6/30/11	+30.4%	+32.9%	+30.7%	+35.8%
7/1/11 - 12/31/11	-1.5%	-7.0%	-5.1%	-22.4%
1/1/11 – 12/31/11	+8.4%	- 0.8%	+2.1%	-22.0%
Annualized	+3.7%	-2.3%	+0.7%	+13.8%
Cumulative	+50.2%	-23.0%	+8.3%	+330.1%



Appendix B

PABRAI INVESTMENT FUND 3 (Offshore/IRA Investors) Performance Summary:

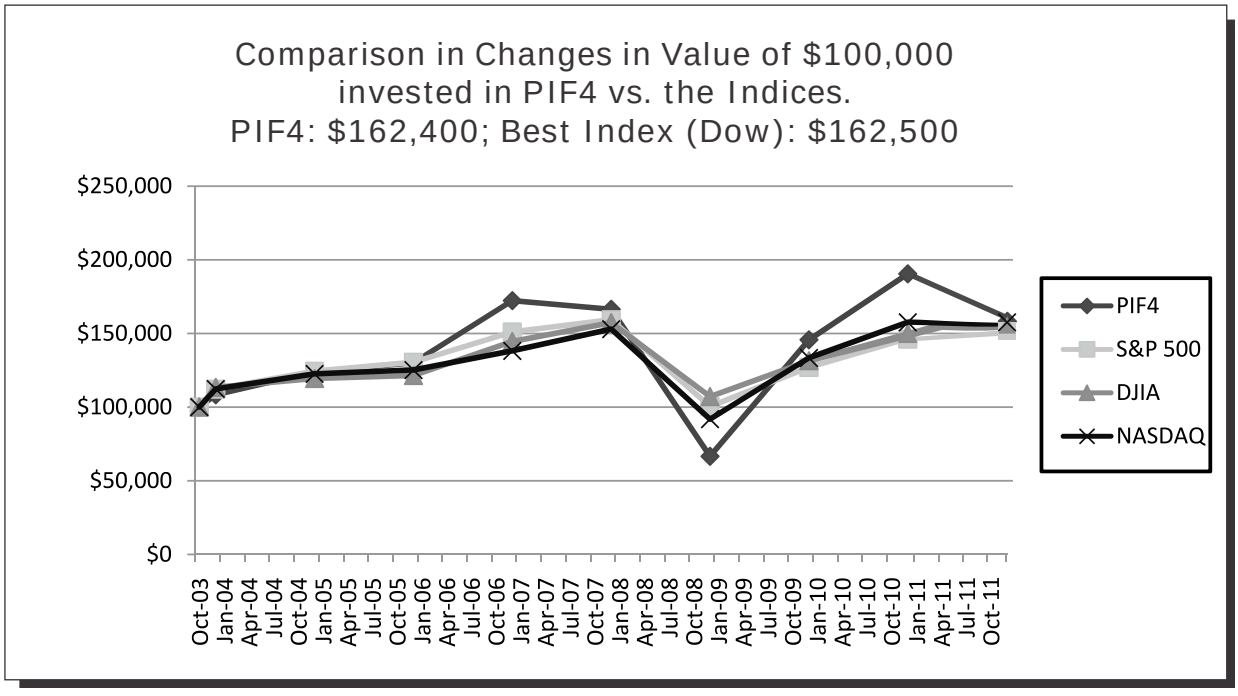
	DJIA	NASDAQ	S&P 500	PIF3 (net to investors)
2/1/02 – 12/31/02	-14.1%	-29.9%	-20.4%	-5.2%
1/1/03 – 12/31/03	+28.3%	+50.8%	+28.7%	+96.5%
1/1/04 – 12/31/04	+5.3%	+9.2%	+10.9%	+14.7%
1/1/05 – 12/31/05	+1.7%	+2.1%	+4.9%	-0.2%
1/1/06 – 12/31/06	+19.0%	+10.4%	+15.8%	+37.8%
1/1/07 – 12/31/07	+8.9%	+10.7%	+5.5%	-7.8%
1/1/08 – 12/31/08	-31.9%	-39.9%	-37.0%	-60.9%
1/1/09 – 12/31/09	+22.7%	+45.4%	+26.5%	+125.0%
1/1/10 – 12/31/10	+14.1%	+18.2%	+15.1%	+34.4%
1/1/11 – 12/31/11	+8.4%	-0.8%	+2.1%	-15.7%
Annualized	+4.7%	+3.9%	+3.1%	+10.5%
Cumulative	+57.7%	+45.5%	+35.3%	+169.2%



Appendix C

PABRAI INVESTMENT FUND 4 (US Qualified Investors) Performance Summary:

	DJIA	NASDAQ	S&P 500	PIF4 (net to investors)
10/1/03 – 12/31/03	+13.4%	+12.3%	+12.2%	+8.4%
1/1/04 – 12/31/04	+5.3%	+9.2%	+10.9%	+14.4%
1/1/05 – 12/31/05	+1.7%	+2.1%	+4.9%	+4.9%
1/1/06 – 12/31/06	+19.0%	+10.4%	+15.8%	+32.4%
1/1/07 – 12/31/07	+8.9%	+10.7%	+5.5%	-3.4%
1/1/08 – 12/31/08	-31.9%	-39.9%	-37.0%	-60.0%
1/1/09 – 12/31/09	+22.7%	+45.4%	+26.5%	+118.8%
1/1/10 – 12/31/10	+14.1%	+18.2%	+15.1%	+30.7%
1/1/11 – 12/31/11	+8.4%	-0.8%	+2.1%	-14.8%
Annualized	+6.1%	+5.6%	+5.0%	+6.1%
Cumulative	+62.5%	+56.4%	+49.2%	+62.4%



Appendix D

PIF2's Performance History (Net to Investors)

No. of Units	Date	PIF2 NAV
110,000	10/1/2000	$10.00
330,014	6/30/2001	$11.74
1,027,795	6/30/2002	$15.89
1,950,982	6/30/2003	$21.32
2,445,212	6/30/2004	$29.58
2,696,687	6/30/2005	$36.52
2,646,687	6/30/2006	$41.99
3,013,111	6/30/2007	$56.25
2,934,990	6/30/2008	$38.01
2,468,091	6/30/2009	$28.45
2,409,165	6/30/2010	$40.84
2,257,421	6/30/2011	$55.46
2,257,421	9/30/2011	$43.65
2,180,892	12/31/2011	$43.01

PIF3's Performance History (Net to Investors)

No. of Units	Date	PIF3 NAV
65,100	2/1/2002	$10.00
265,919	12/31/2002	$9.48
485,041	12/31/2003	$18.63
1,774,753	12/31/2004	$21.37
2,478,793	12/31/2005	$21.32
2,930,608	12/31/2006	$29.37
6,438,615	12/31/2007	$27.09
5,415,189	12/31/2008	$10.57
5,038,658	12/31/2009	$23.79
4,885,267	12/31/2010	$31.95
4,701,613	12/31/2011	$26.92

PIF4's Performance History (Net to Investors)

No. of Units	Date	PIF4 NAV
595,030	10/1/2003	$10.00
1,219,330	12/31/2003	$10.84
5,627,712	12/31/2004	$12.40
9,314,803	12/31/2005	$13.01
11,528,331	12/31/2006	$17.23
16,899,746	12/31/2007	$16.64
15,737,042	12/31/2008	$6.66
15,725,066	12/31/2009	$14.57
15,251,129	12/31/2010	$19.05
14,493,706	12/31/2011	$16.24

Team Pabrai

MOHNISH PABRAI
Managing Partner

Office Team

NICKII ALEO, Administrative Assistant LYNN DANN, Administrative Assistant
JENEVA FRANCO, Administrative Assistant JULIE TELTSCHER, Office Manager/Chief Compliance Officer

PIF2 Advisory Board

JOHN S. BANK, Chicago, Illinois
PATRICK M. FITZGERALD, Hinsdale, Illinois
JOHN LARKIN, Glen Ellyn, Illinois

PIF3 Board of Directors

MOHNISH PABRAI, Irvine, California
HARINA KAPOOR, Irvine, California
RAMESH NAIR (Reserve Director), Chicago, Illinois

PIF4 Advisory Board

NAVNEET CHUGH, Fullerton, California
RANDALL GUSIKOSKI, Irvine, California
Dr. SAMUEL MASLAK, Vail, Colorado

Auditor

PRICEWATERHOUSECOOPERS LLP

Broker & Custodian

UBS AG, The Desai Group

General Counsel

SNR DENTON US LLP CONYERS DILL & PEARMAN, BVI (PIF3)

Tax, Accounting & Administration

MICHAEL J. LICCAR & CO., LLC

Past performance is not indicative of future results. Returns are presented net of all fees and expenses, include the reinvestment of income and are calculated using a simple rate of return. The securities discussed do not represent all securities recommended for the Funds. It is also not a recommendation to buy or sell and one should not presume they will be profitable.

Please be aware that our past Annual Reports may discuss specific securities that have performed well without necessarily addressing those that have underperformed within our Fund(s). Readers should not infer that all investment decisions within the Funds were profitable.


EXIDE BATTERIES
Brookfield Infrastructure Partners
Sears
Level (3) COMMUNICATIONS
LEAR CORPORATION
LIBERTYGLOBAL
impark
RHJ INTERNATIONAL
EMBRAER
Teck
VDM VAN DER MOOLEN
FRONTLINE
WELLS FARGO
bio scrip
stamps.com
Silicon Valley Bank
TESORO
DELTA FINANCIAL CORPORATION
LONDON MINING
Diamond Management & Technology Consultants
Ternium
Gartner
ICG International Coal Group Inc
posco
COVANTA
Brookfield Properties
FREMONT GENERAL
UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.
CANADIAN OIL SANDS TRUST
FAIRFAX FINANCIAL HOLDINGS LIMITED
COMPUCREDIT
DR. REDDY'S
Leucadia National Corporation
Budget
RICHMOND AMERICAN HOMES
Stewart Enterprises, Inc.
TV AZTECA
CRESUD
FIRST INDUSTRIAL REALTY-TRUST
HARVEST We Realize the Potential
FMG
PROG·ESSIVE
ATSG Air Transport Services Group, Inc.
PETROBANK
FORTESCUE The New Force In Iron Ore
ipsco
SUNRISE SENIOR LIVING
RADIOLOGIX
register.com
BERKSHIRE HATHAWAY INC.



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