PABRAI INVESTMENT FUNDS

114 Pacifica, Suite 240
Irvine, CA 92618-3321
USA

Tel. +1949.453.0609
mp@pabraifunds.com
www.pabraifunds.com

To: All Limited Partners and Investors of the Pabrai Investment Funds

From: Mohnish Pabrai, Managing Partner

Date: July 12, 2010

Re: **Q2 2010 Results et. al.**

Dear Partners:

For the quarter ended June 30, 2010, a total of $1.3 Million was added to the various funds by new and existing partners. The additions on a per fund basis are:

PIF2 (US Accredited): $0.6 Million

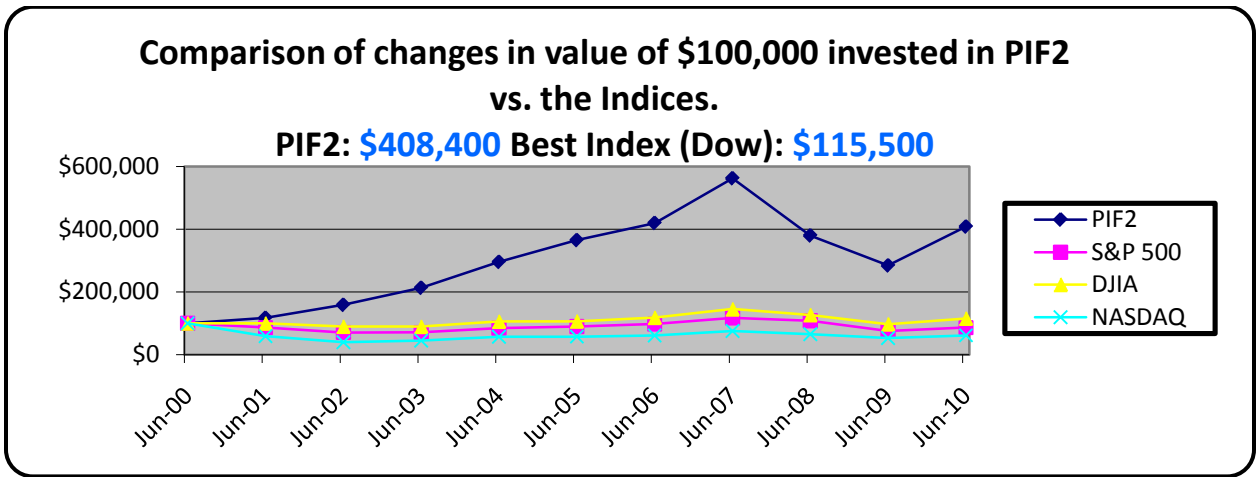
PIF3 (Offshore/IRA): $0.2 Million

PIF4 (US Qualified): $0.5 Million

The updated performance numbers on all the funds are:

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%
1/1/10 – 6/30/10	-5.0%	-6.6%	-6.7%	-3.4%
Annualized	+1.5%	-4.9%	-1.5%	+15.5%
Cumulative	+15.5%	-38.7%	-13.9%	+308.4%

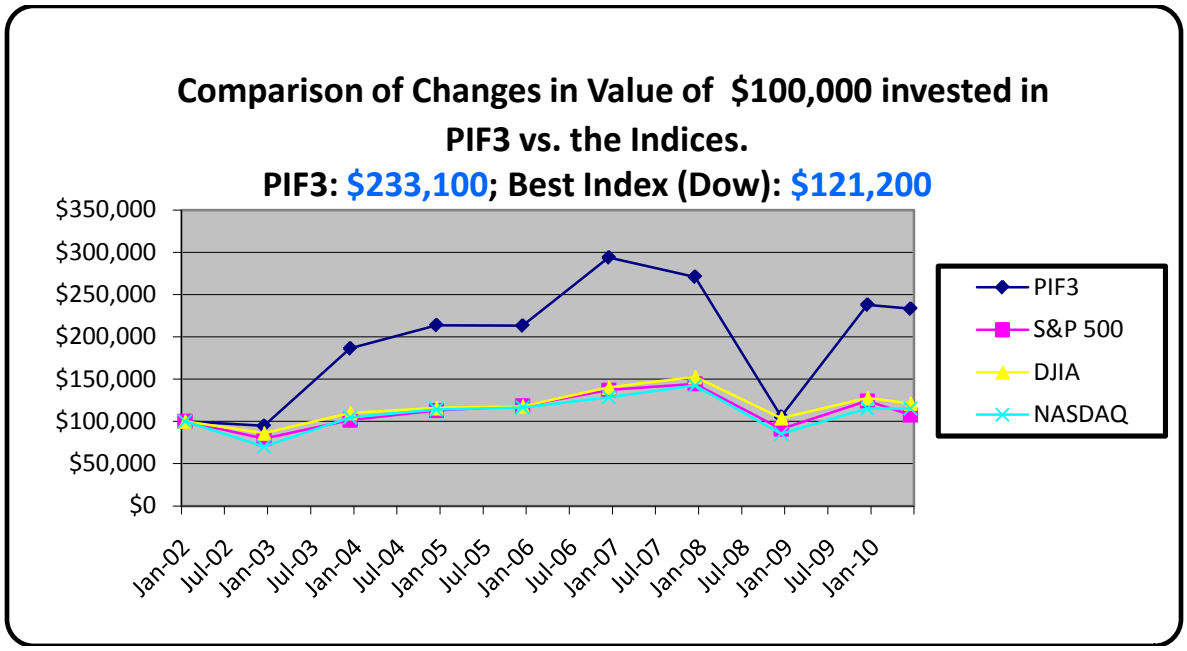


PIF2 Investors:

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 $572,100 as of June 30, 2010 (net to investors). This equates to an annualized return of 17.2% 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 $114,300 on June 30, 2010 – an annualized gain of 1.2%. The Dow gains include reinvested dividends. In the graph above, the start date for PIF2 is shown as June 2000 for readability. The correct start date is October 2000.

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 – 6/30/10	**-5.0%**	**-6.6%**	**-6.7%**	**-2.0%**
Annualized	**+2.3%**	**+1.7%**	**+0.9%**	**+10.6%**
Cumulative	**+21.2%**	**+15.2%**	**+7.5%**	**+133.1%**

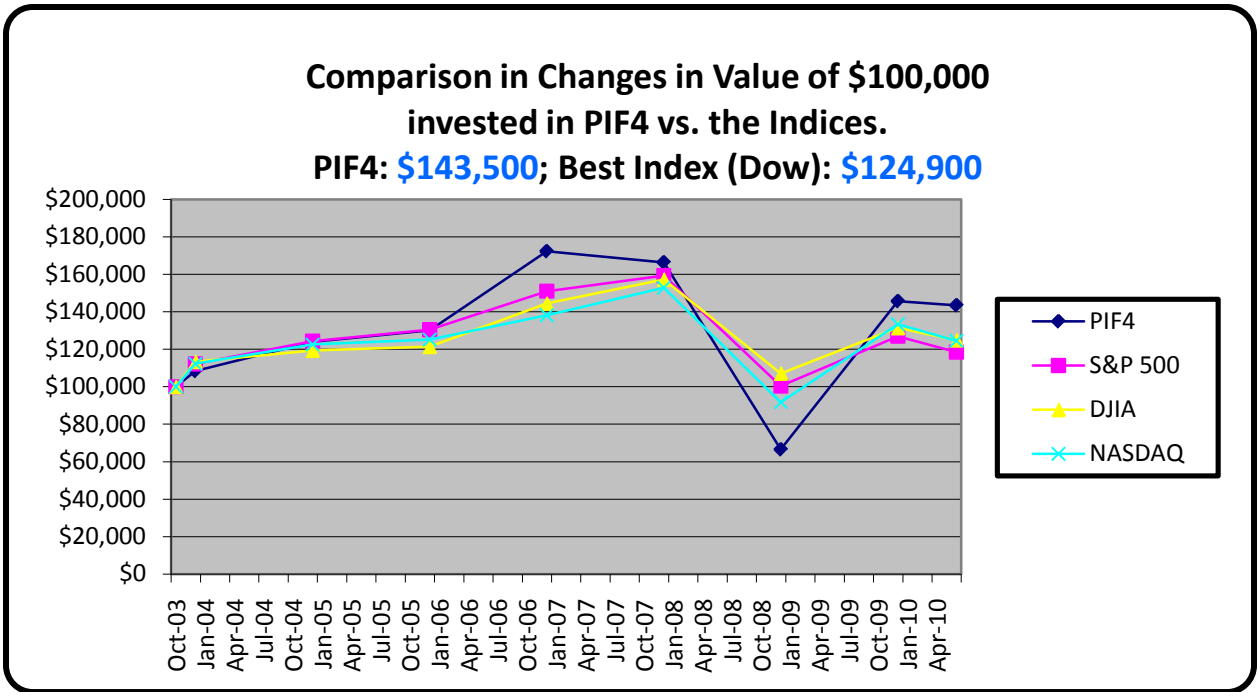


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $233,100 as of June 30, 2010 (net to investors). This equates to an annualized return of 10.6% since inception. The best index over the same period was the Dow and an investment of $100,000 in the Dow on February 1, 2002 was worth $121,200 on June 30, 2010 – an annualized gain of 2.3%. The Dow gains include reinvested dividends. In the graph above, the start date for PIF3 is shown as Jan. 1, 2002 for readability. The correct start date is Feb. 1, 2002.

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 – 6/30/10	-5.0%	-6.6%	-6.7%	-1.5%
Annualized	+3.4%	+3.3%	+2.6%	+5.5%
Cumulative	+24.9%	+24.6%	+18.6%	+43.5%



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $143,500 as of June 30, 2010 (net to investors). This equates to an annualized gain of 5.5% since inception. The best index over the same period was the Dow and an investment of $100,000 in the Dow on October 1, 2003 was worth $124,900 on June 30, 2010 – an annualized gain of 3.4%. The Dow gains include reinvested dividends.

General Comments

All three funds have negative returns YTD, but are a ahead of the indices. Of course, not much can be gleaned from this limited data and time frame.

I have wanted to move to writing an annual letter for quite a while. The quality would be vastly better than these quick quarterly missives. Harina & I have a family foundation, Dakshana, for which I write an annual letter. The Dakshana annual letter usually takes me a few months to complete whereas I try to get the Pabrai Funds quarterly letter out within 1-2 days of the accounting being finished. The combination of reflecting on a longer time frame (a year) for a longer time frame should not be under-estimated.

However, folks are used to these quarterly letters and they do serve a purpose with updated numbers and announcements, etc. So, we'll keep these quarterly letters in place and add an annual one as well. I will, however, eliminate this General Comments section from future letters. The quarterly letter is typically released within 15 days of the quarters' end and I'll plan to have my annual Pabrai Funds letter done within 90 days of year-end and release it at about the same time as our audit reports.

Here are links to past Dakshana annual reports for a flavor:

http://www.dakshana.org/AR07.pdf and http://www.dakshana.org/AR08.pdf

Alignment of Interests

All three funds are below their historic NAVs and hence no fees were earned by any of the funds for the quarter. My immediate family has a stake of 455,562 units of PIF2; 8417 units of PIF3; 1,224,824 units of PIF4 and about 25,000 units of PIF4 in a retirement account. This stake is worth about $37 Million.

Besides the previously disclosed stake and small investment in Dardashti Capital (worth about $1.2 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. Investors who add funds when we are below the high-water mark (like now), get a free ride (no fees) until we're back at the high water mark plus 6% annualized from that date. It is a great deal.

2010 Annual Meetings – Save the Date

As is our usual modus operandi, there will be two annual meetings sequentially at Chicago, Illinois & Orange County, California.

The **California** meeting is scheduled to be on **Saturday, Sept. 11, 2010** at 4:00 PM at our usual venue:

Hyatt Regency Huntington Beach Resort and Spa
(Grand Ballroom)
21500 Pacific Coast Highway, Huntington Beach, CA 92648 Tel. +1714.698.1234

We will have 10 rooms set aside for the event at a TBD rate. Please call the hotel directly and book your room mentioning Pabrai Investment Funds. Alternately, Hyatt.com usually has good rates and you can book online as well. Please book early as the hotel usually is fully booked around that time. The hotel is closest to Orange County Airport (SNA), though LAX and Long Beach (LGB) are convenient as well.

The Chicago meeting is thus scheduled to be on **Saturday, Sept. 25, 2010** 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 are in the process of being sent out. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September.

Next Opening – Oct. 1, 2010 (all funds); Aug. 1, 2010 (PIF3)

There are two funds open to new investors to add funds - PIF3 and PIF4.

The minimum investment for PIF4 has been increased back to $2,500,000 (2007 level) and one needs to be a "qualified investor" as defined by the SEC. The offering and subscription documents for PIF4 have details on who is considered a qualified investor. Next opening is October 1, 2010.

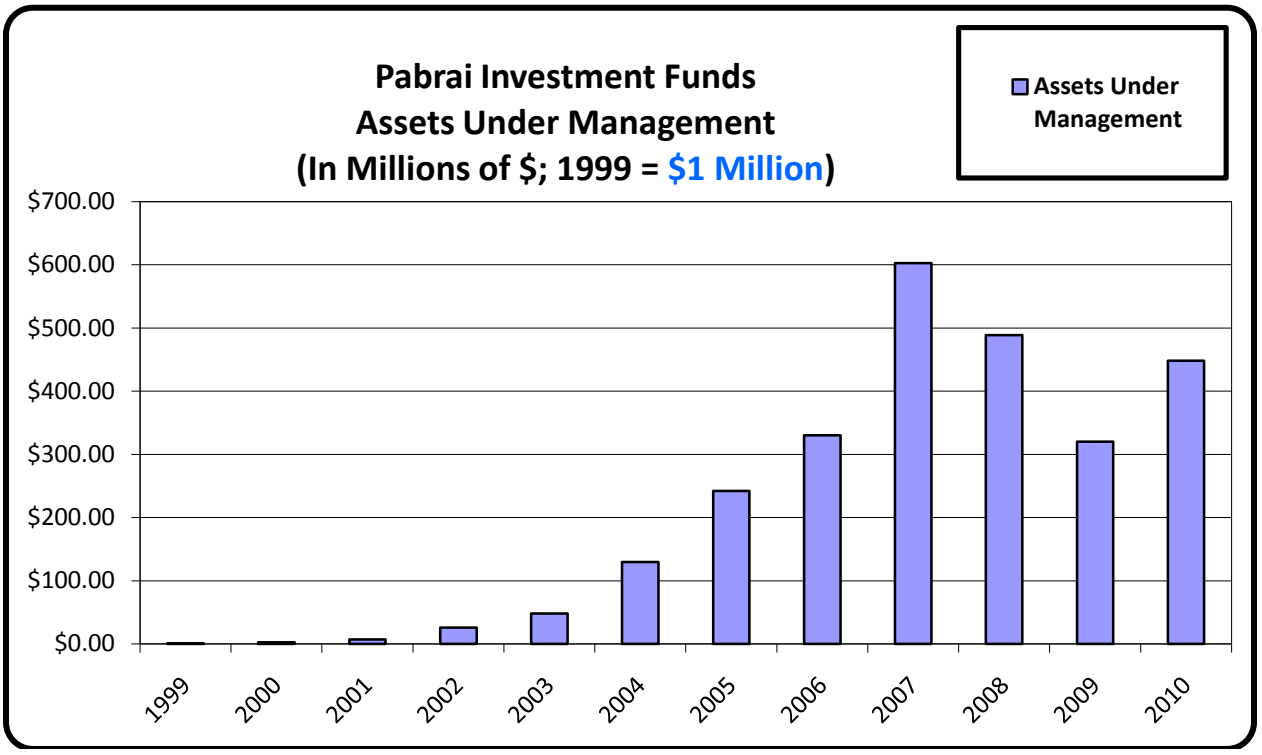
To invest in PIF3, one needs to be a non-US accredited offshore investor. Tax-exempt accounts like IRAs, Roth IRAs and US Family Foundations can invest in PIF3 as well. The minimum investment to join PIF3 as a new partner is $10,000,000 for US Tax-exempt accounts and $2,500,000 for offshore investors. Next opening date for PIF3 is August 1, 2010.

Existing partners in any of the Pabrai Funds can add funds in increments of $25,000 at each opening (with a $25,000 minimum).

PIF2/PIF4 open once every quarter to add funds from new/existing investors (1/1, 4/1, 7/1, 10/1) while PIF3 is open to add funds on the 1st day of every month.

Assets Under Management

There is over $448 Million in assets under management between all the funds as of July 1, 2010.



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

Copyright © 2010 by Mohnish Pabrai. All Rights Reserved. Please do not post this letter on the web.

Appendix A

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
2,409,159	6/30/2010	$40.84

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
5,060,930	1/31/2010	$22.91
5,060,930	2/28/2010	$24.31
5,060,930	3/31/2010	$26.97
5,062,169	4/30/2010	$28.25
5,067,548	5/31/2010	$25.30
5,067,548	6/30/2010	$23.31

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
16,096,711	3/31/2010	$16.38
16,131,543	6/30/2010	$14.35

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 newsletters 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.