PABRAI INVESTMENT FUNDS

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

From: Mohnish Pabrai, Managing Partner

Date: October 12, 2010

Re: **Q3 2010 Results et. al.**

Dear Partners:

For the quarter ended September 30, 2010, a total of $1.7 Million was added to the various funds by new and existing partners. The additions on a per fund basis are:

PIF2 (US Accredited): $0.4 Million

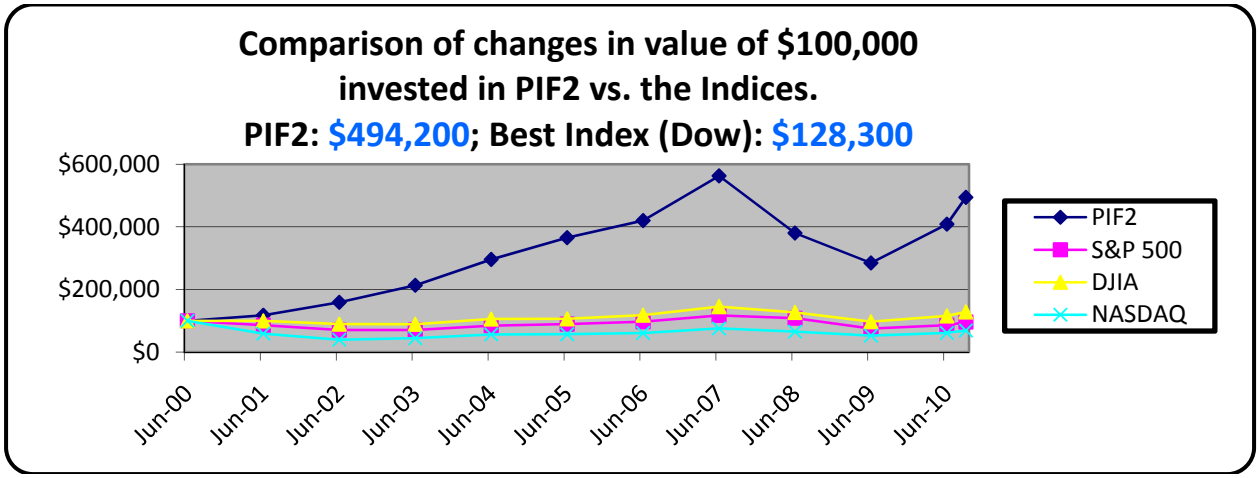
PIF3 (Offshore/IRA): $1.1 Million

PIF4 (US Qualified): $0.1 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%
7/1/10 – 9/30/10	+11.1%	+12.6%	+11.3%	+20.1%
1/1/10 – 9/30/10	+5.6%	+5.2%	+3.9%	+16.9%
Annualized	+2.5%	-3.6%	-0.4%	+17.3%
Cumulative	+28.3%	-31.0%	-4.22%	+394.2%

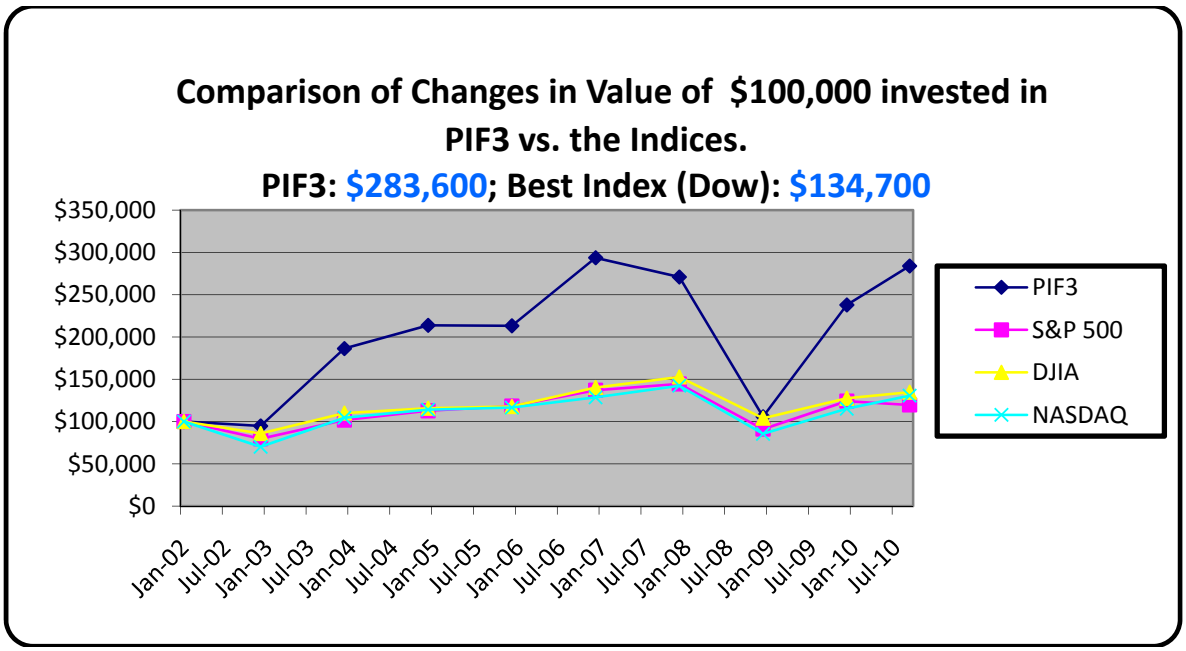


PIF2 Investors:

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 $692,400 as of September 30, 2010 (net to investors). This equates to an annualized return of 18.8% 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 $127,000 on September 30, 2010 – an annualized gain of 2.1%. 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 – 9/30/10	**+5.6%**	**+5.2%**	**+3.9%**	**+19.2%**
Annualized	**+3.5%**	**+3.1%**	**+2.1%**	**+12.8%**
Cumulative	**+34.7%**	**+30.6%**	**+19.7%**	**+183.9%**

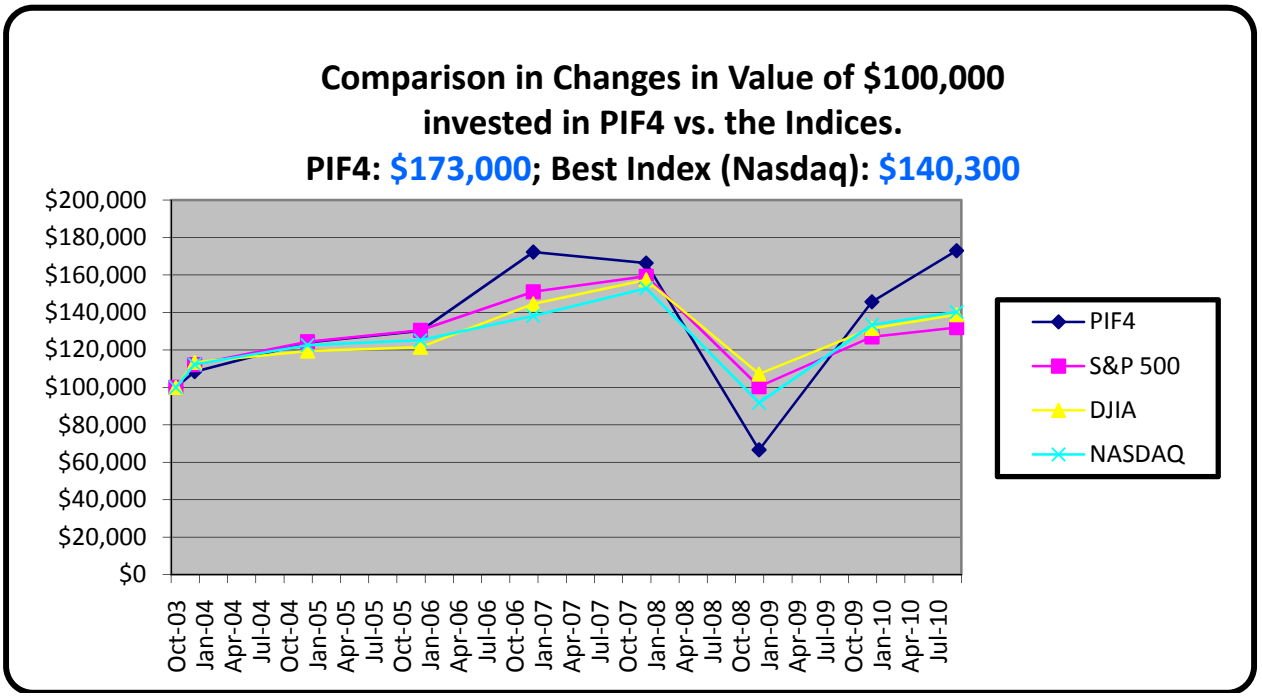


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $283,900 as of September 30, 2010 (net to investors). This equates to an annualized return of 12.8% 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 $134,700 on September 30, 2010 – an annualized gain of 3.5%. 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 – 9/30/10	+5.6%	+5.2%	+3.9%	+18.7%
Annualized	+4.8%	+5.0%	+4.0%	+8.1%
Cumulative	+38.8%	+40.3%	+31.9%	+73.0%



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $173,000 as of September 30, 2010 (net to investors). This equates to an annualized gain of 8.1% since inception. The best index over the same period was the Nasdaq Composite and an investment of $100,000 in the Nasdaq on October 1, 2003 was worth $140,300 on September 30, 2010 – an annualized gain of 5.0%. The Dow gains include reinvested dividends.

Pabrai Funds Stops Accepting New Funds and Investors

At this time all three funds are closed to new funds and investors. I had expressed an interest in closing the funds when we go to about $1 Billion in assets. However, as we've moved to smaller bets (5% versus 10%) and reviewed our cash position and available places to put the same to work, I came to the conclusion that it was in the best interest of all the investors to stop accepting inflows at this time.

We have over $540 Million in assets under management at this time – with available capital clearly exceeding good investment ideas. In the future, should good investment ideas outstrip available capital, I plan to re-open the funds and very much hope that you'll send us boatloads of cash at that time.

The only exception to the funds being closed is that the general partner (yours truly) can continue to re-invest incentive fees into the funds. Also, the employee retirement plan for my staff and myself can continue to invest in the funds along with any IRA contributions Harina or I make in the future. These exceptions only align my interests more strongly with yours. Further, resulting inflows are expected to be immaterial – especially considering that incentive fees are simply a re-allocation of existing assets.

Pabrai Funds 2010 Annual Meeting Slides

We had two very successful annual meetings in September in Southern California and Chicago. I'm very grateful to Lynn, Diana, Nickii, and Isabelle for all their diligence in organizing the various facets of the meetings and dinners so flawlessly. We had about 150 and 190 folks attend the meetings in California and Chicago, respectively and it was a pleasure to meet old friends and welcome new ones.

The annual meeting slides are now on the website for your perusal:

http://www.pabraifunds.com/website/2010_PIF_AM_Slides.pdf

Estimated K-1's (for US Investors)

For PIF2 and PIF4 investors, we provide estimated K-1s in October and December. The first one gives their estimated gains through September 30, and the second one through November 30th. We hope to get these mailed by late-October and late-December, respectively. Your final K-1s are issued in March.

Redemptions

Please note that if you plan to redeem funds, we must have the request in writing by November 1, 2010. Funds go out by January 20th based on the December 31 NAV. To get the redemption form emailed to you, please nudge Julie Teltscher at jteltscher@pabraifunds.com.

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; 8,417 units of PIF3; 1,224,824 units of PIF4 and about 25,000 units of PIF4 in a retirement account. This stake is worth over $44 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.

2011 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 Chicago meeting is thus scheduled to be on **Saturday, Sept. 10, 2011** 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.

The **California** meeting is scheduled to be on **Saturday, Sept. 17, 2011** 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.

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, 2011. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September.

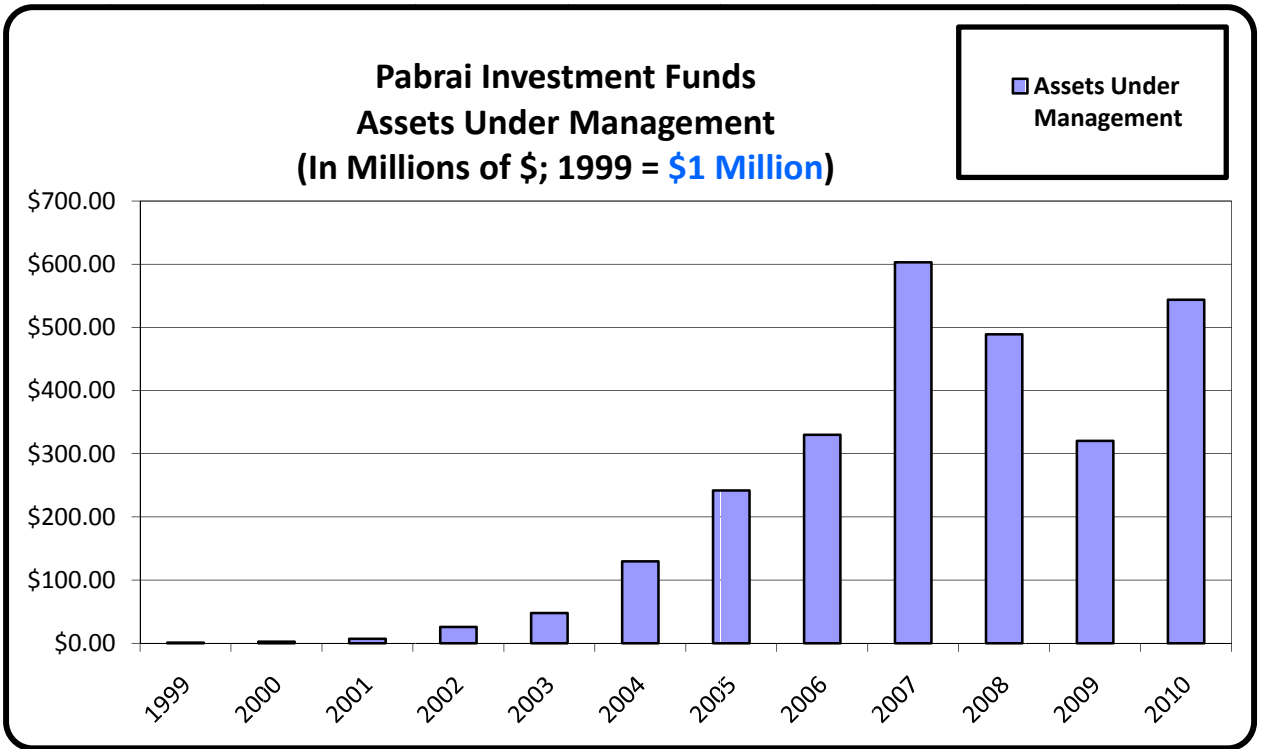
Thanks Isabelle! Welcome Julie!

As you know, Isabelle Secor has been an Office Manager and a core part of the Pabrai Funds and Dakshana Foundation team for over five years. She is leaving for personal reasons. All of us at Pabrai Funds and Dakshana are very grateful for the exceptional service Isabelle has delivered over the years. She will be missed and I hope our paths cross again.

I would like to introduce to you our new Office Manager, Ms. Julie Teltscher. Julie brings to Pabrai Funds a strong financial and administrative background. We're excited to welcome Julie to the team. You can reach Julie at jteltscher@pabraifunds.com or +1949.453.0609.

Assets Under Management

There is over $540 Million in assets under management between all the funds as of October 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

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Appendix

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
2,417,765	9/30/2010	$49.42

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
5,071,504	7/31/2010	$25.28
5,112,037	8/31/2010	$25.28
5,112,037	9/30/2010	$28.39

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
16,137,556	9/30/2010	$17.30

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.