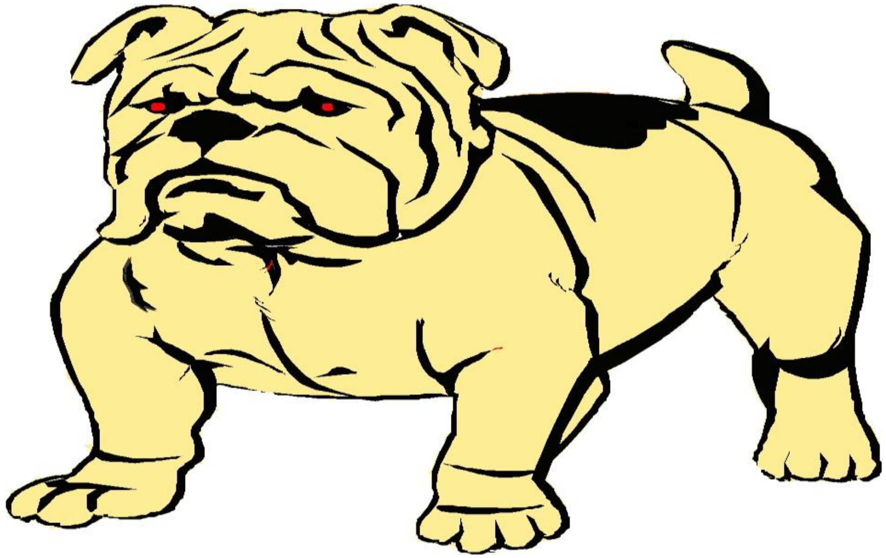


BULLDOG INVESTMENT COMPANY

What Is The Goal?

- An internship to think about businesses – how to identify quantitative and qualitative success and then how to value them.
- It is NOT about stock trading.

What has framed our mindset?

- Warren Buffett and the “Value School of Investment Management.”

Why Buffett?

- Incredible long term track record for high returns and ethical behavior.
- Buffett has compounded Berkshire Hathaway's Book Value by 20% annually for 45 years.

Our Interns

Andrew Kopecki

- Bulldog Investment Co. Founding Member
- Home: Stockdale, Texas
- Senior
- BBA with Accounting & Finance specializations

Christopher Gohmert

- Bulldog Investment Co. Founding Member
- Home: Yorktown, Texas
- Senior
- BBA with Management & Finance specializations

Philip Bauch

- Home: Houston, Texas
- Sophomore
- BBA with Accounting specialization

Paul Mullen

- Home: New Braunfels, Texas
- Senior
- BBA with Marketing specialization

Erblin Ribari

- Home: Prishtina, Kosovo
- Sophomore
- BBA with Finance specialization

Ken Olson

- Home: Bemidji, Minnesota
- Junior
- BBA with Accounting specialization

Teuta Hyseni

- Home: Gjilan, Kosova
- Senior
- Major: BS - Information Systems

Drilona Aliu

- Home: Gjilan, Kosova
- Senior
- BBA with Finance specialization

Mark Moellering

- Home: Fredericksburg, TX
- Sophomore
- BBA with Finance specialization

Where Did We Get Our Quantitative Criteria?

- Buffettology
- The New Buffettology
- Warren Buffett & The Interpretation of Financial Statements
- Numerous Buffett Interviews

Key Factors

- Can You Understand The Business?
- Does it possess a sustained competitive advantage or a “moat” protecting it?
- Is It Predictable?
- If you don’t understand the business and it’s not predictable, how can you value it?
- Once you answer these questions you narrow your field of possibilities from 5,000+ to about 200.

Financial Analysis 101

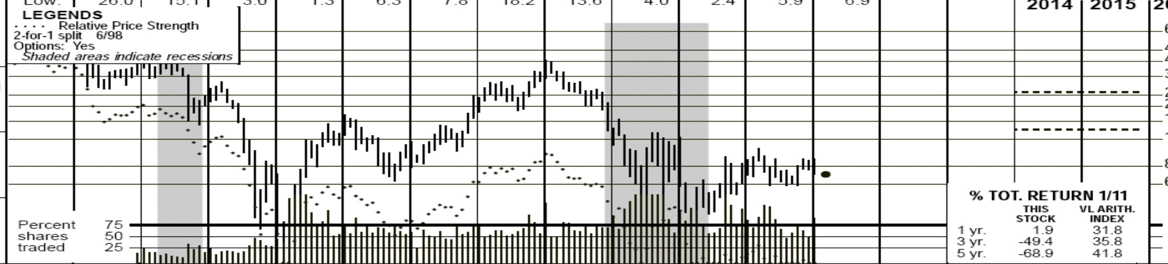
- The numbers tell a story – what is it?
- Don't let the qualitative aspects fool you.
- Two Value Line Reports – two very different stories.

RECENT PRICE	7.02	P/E RATIO	NMF (Trailing: NMF Median: NMF)	RELATIVE P/E RATIO	NMF	DIV'D YLD	Nil	VALUE LINE

TIMELINESS 2 Raised 10/29/10
SAFETY 5 Lowered 12/13/02
TECHNICAL 2 Lowered 3/4/11
BETA 1.60 (1.00 = Market)

High:	68.8	43.9	29.2	15.5	17.7	23.5	34.4	41.0	16.5	12.5	10.5	8.9
Low:	26.0	15.1	3.0	1.3	6.3	7.8	18.2	13.6	4.0	2.4	5.9	6.9

LEGENDS
.... Relative Price Strength
2-for-1 split 6/98
Options: Yes
Shaded areas indicate recessions



2014-16 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	25	(+255%)	37%
Low	14	(+100%)	19%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	1	0	0	1	0	0	0	1	0

Institutional Decisions

	1Q2010	2Q2010	3Q2010
to Buy	110	95	92
to Sell	85	102	85
Hld's(000)	268284	258510	247850

% TOT. RETURN 1/11

	THIS STOCK	VL ARITH. INDEX
1 yr.	1.9	31.8
3 yr.	-49.4	35.8
5 yr.	-68.9	41.8

1995	1996	1997	1998	1999	2000	2001[D]	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC	14-16
110.67	97.54	107.22	119.03	119.60	129.57	122.75	110.83	109.29	115.70	113.35	101.53	91.96	85.20	59.88	66.49	*72.35*	*75.75*	Revenues per sh [A]	*85.05*
11.68	11.31	12.87	16.07	11.79	12.85	d.02	d4.17	d.97	2.47	2.66	6.47	7.32	.03	d.77	2.11	*3.40*	*4.05*	"Cash Flow" per sh	*6.85*
3.44	4.89	5.39	7.48	4.17	4.65	d9.13	d12.97	d9.68	d5.57	d4.10	1.17	1.38	d4.61	d4.62	d1.17	*.10*	*.60*	Earnings per sh [B]	*2.50*
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	Div'ds Decl'd per sh	*Nil*
132.36	111.80	122.22	142.43	168.89	185.17	191.99	170.82	166.34	171.39	164.20	135.67	120.06	91.45	77.18	80.12	*86.10*	*90.65*	Gross Equipment per sh	*106.20*
23.84	31.14	35.89	41.51	46.26	47.19	34.78	6.13	.29	d3.61	d8.09	d2.73	10.65	d10.52	d10.49	d11.83	*d11.05*	*d11.10*	Book Value per sh	*d5.75*
152.80	182.00	173.20	161.35	148.24	152.06	154.48	156.09	159.58	161.16	182.73	222.22	249.40	278.95	332.62	333.45	*333.00*	*334.00*	Common Shs Outst'g [C]	*335.00*
9.9	8.8	9.4	9.0	15.0	6.9	--	--	--	--	--	21.8	19.6	--	--	--	*Bold figures are*	*Value Line*	Avg Ann'l P/E Ratio	*8.0*
.66	.55	.54	.47	.86	.45	--	--	--	--	--	1.18	1.04	--	--	--	*estimates*		Relative P/E Ratio	*.55*
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--			Avg Ann'l Div'd Yield	*Nil*

CAPITAL STRUCTURE as of 12/31/10
Total Debt $11136 mill. **Due in 5 Yrs** $8756 mill.
LT Debt $9253 mill. **LT Interest** $700.0 mill.
(Interest not earned) (more than 100% of Cap'l)

Leases, Uncapitalized Annual rentals $1.3 bill.
Pension Assets-12/10 $7.8 bill. **Oblig.** $13.0 bill.

Pfd. Stock None

Common Stock 333,449,325 shs.

MARKET CAP: $2.3 billion (Mid Cap)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		14-16
18963	17299	17440	18645	20712	22563	22935	23766	19917	22170	*24100*	*25300*	Revenues ($mill) [A]	*28500*
69.4%	70.7%	72.8%	74.8%	74.5%	80.1%	81.5%	80.6%	80.7%	81.9%	*82.0%*	*82.5%*	Load Factor	*82.5%*
NMF	NMF	2.0%	5.4%	19.6%	9.8%	10.9%	.8%	1.4%	6.7%	*8.0%*	*8.5%*	Operating Margin	*12.5%*
1404.0	1366.0	1377.0	1292.0	1164.0	1157.0	1202.0	1207.0	1104.0	1093.0	*1100*	*1150*	Depreciation ($mill)	*1450*
d1408	d2017	d1532	d894.0	d677.6	281.0	624.0	d1198	d1360	d389.0	*35.0*	*200*	Net Profit ($mill)	*840*
--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	Income Tax Rate	*38.0%*
NMF	NMF	NMF	NMF	NMF	1.2%	2.7%	NMF	NMF	NMF	*.1%*	*.8%*	Net Profit Margin	*2.9%*
9834.0	12310	13126	13524	13456	12041	10093	8419.0	9984.0	9253.0	*9000*	*8900*	Long-Term Debt ($mill)	*8500*
5373.0	957.0	46.0	d581.0	d1478	d606.0	2657.0	d2935	d3489	d3945	*d3905*	*d3705*	Shr. Equity ($mill)	*d1935*
NMF	NMF	NMF	NMF	NMF	6.6%	8.5%	NMF	NMF	NMF	*7.5%*	*10.5%*	Return on Total Cap'l	*16.5%*
NMF	NMF	NMF	--	--	--	23.5%	--	23.5%	NMF	*NMF*	*NMF*	Return on Shr. Equity	*NMF*
NMF	NMF	NMF	--	--	--	23.5%	--	23.5%	NMF	*NMF*	*NMF*	Retained to Com Eq	*NMF*
--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	All Div'ds to Net Prof	*Nil*

CURRENT POSITION ($MILL.)	2008	2009	12/31/10
Cash Assets	3107	4399	4496
Receivables	459	768	738
Inventory (Avg Cst)	525	557	594
Other	1844	918	1010
Current Assets	5935	6642	6838
Accts Payable	952	1064	1156
Debt Due	1952	1024	1883
Other	6466	5640	5741
Current Liab.	9370	7728	8780

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '08-'10 to '14-'16
Sales	-5.5%	-9.0%	*3.0%*
"Cash Flow"	-28.5%	-20.0%	*57.0%*
Earnings	--	--	*NMF*
Dividends	--	--	*Nil*
Book Value	--	--	*NMF*

Cal-endar	QUARTERLY REVENUES ($ mill.)[A] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	5697	6179	6421	5469	23766
2009	4839	4889	5126	5063	19917
2010	5068	5674	5842	5586	22170
2011	*5550*	*6150*	*6350*	*6050*	*24100*
2012	*5850*	*6450*	*6650*	*6350*	*25300*

Cal-endar	EARNINGS PER SHARE [AB] Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	d1.32	d1.13	d1.39	d.77	d4.61
2009	d1.30	d1.14	d.93	d1.25	d4.62
2010	d1.36	d.03	.39	d.21	d1.17
2011	*d1.00*	*.35*	*.65*	*.10*	*.10*
2012	*d.70*	*.40*	*.70*	*.20*	*.60*

Cal-endar	QUARTERLY DIVIDENDS PAID Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007					
2008	NO CASH DIVIDENDS BEING PAID				
2009					
2010					
2011					

Company 1

Damon Churchwell *March 4, 2011*

CASH POSITION	5-Year Av'g	12/31/10
Current Assets to Current Liabilities:	79%	78%
Cash & Equiv's to Current Liabilities:	51%	51%
Working Capital to Revenues:	NMF	NMF

(B) Primary earnings through 1996; diluted thereafter. Excl. nonrec. gains/losses: '96, 93¢; '00, 17¢; '01, 72¢; '02, 6¢; '03, $1.92; '04, $0.83; '07, 40¢: '95, ($2.15); '01, ($2.35); '02, ($9.60); '05, ($1.51); '06, (19¢); '08 ($3.37); '09, 37¢; '10, ($0.16). Next. egs. rpt. due mid-Apr. (C) In millions, adjusted for split.

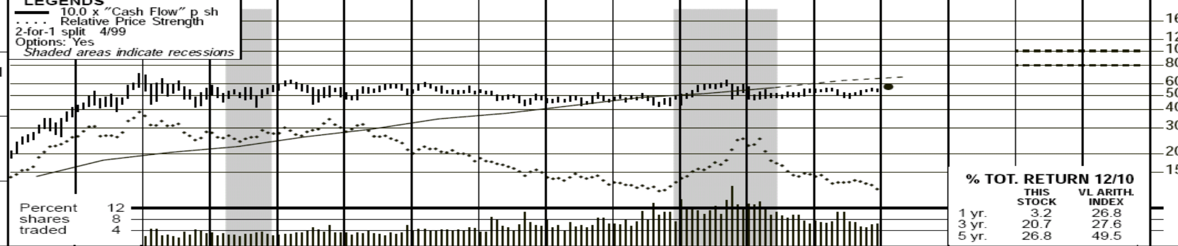
Company's Financial Strength	C+
Stock's Price Stability	5
Price Growth Persistence	15
Earnings Predictability	5

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
57.26	13.5	(Trailing: 14.6 Median: 21.0)	0.81	2.1%	VALUE LINE

TIMELINESS **1** Raised 1/7/11
SAFETY **1** Raised 2/15/02
TECHNICAL **2** Raised 2/4/11
BETA .60 (1.00 = Market)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	70.3	68.9	58.8	63.9	60.2	61.3	54.6	52.2	51.4	63.8	57.5	56.3	
Low:	38.7	41.4	41.5	43.7	46.3	51.1	42.3	42.3	42.1	43.1	46.3	47.8	

Target Price Range
2013 | 2014 | 2015



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	100	(+75%)	17%
Low	80	(+40%)	11%

Insider Decisions

	M	A	M	J	J	A	S	O	N
to Buy	1	0	1	0	0	1	0	0	1
Options	0	0	0	1	0	0	1	0	3
to Sell	5	0	2	1	0	0	0	0	2

Institutional Decisions

	1Q2010	2Q2010	3Q2010
to Buy	606	556	537
to Sell	634	695	663
Hld's(000)	1219429	1228102	1166981

% TOT. RETURN 12/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	3.2	26.8
3 yr.	20.7	27.6
5 yr.	26.8	49.5

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB. LLC	13-15
17.96	20.42	22.87	26.32	30.71	37.02	42.80	48.91	55.64	59.46	67.36	75.01	83.51	94.27	102.23	106.99	*118.80*	*126.40*	Sales per sh A	*163.10*
.82	.88	.99	1.15	1.41	1.81	2.05	2.25	2.61	2.95	3.47	3.78	4.27	4.83	5.16	5.64	*6.30*	*6.70*	"Cash Flow" per sh	*8.60*
.59	.60	.67	.78	.99	1.28	1.40	1.50	1.81	2.03	2.41	2.63	2.92	3.16	3.42	3.66	*4.05*	*4.45*	Earnings per sh A B	*6.05*
.09	.10	.11	.14	.16	.19	.23	.27	.30	.35	.48	.58	.65	.83	.93	1.06	1.21	*1.34*	Div'ds Decl'd per sh ■C	*1.75*
2.77	3.22	3.74	4.13	4.71	5.80	7.01	7.88	8.95	10.12	11.67	12.77	14.91	16.26	16.63	18.69	*18.80*	*19.35*	Book Value per sh	*23.40*
4594.0	4586.0	4586.0	4482.0	4482.0	4457.0	4470.0	4453.0	4395.0	4311.0	4234.0	4165.0	4131.0	3973.0	3925.0	3786.0	*3560.0*	*3520.0*	Common Shs Outst'g D	*3250.0*
20.9	20.4	18.4	21.8	31.2	39.1	38.0	34.9	30.3	26.9	22.8	18.3	16.0	14.9	16.2	13.9	*13.1*		Avg Ann'l P/E Ratio	*15.0*
1.37	1.37	1.15	1.26	1.62	2.23	2.47	1.79	1.66	1.53	1.20	.97	.86	.79	.97	.93	*.83*		Relative P/E Ratio	*1.00*
.7%	.8%	.9%	.8%	.5%	.4%	.4%	.5%	.5%	.6%	.9%	1.2%	1.4%	1.8%	1.7%	2.1%	2.3%		Avg Ann'l Div'd Yield	*1.9%*
						191329	217799	244524	256329	285222	312427	344992	374526	401244	405046	*423000*	*445000*	Sales ($mill) A	*530000*
						23.0%	22.7%	22.9%	24.0%	24.5%	24.6%	25.0%	25.2%	25.4%	26.6%	*26.8%*	*27.0%*	Gross Margin	*27.0%*
						6.5%	6.2%	6.2%	6.4%	6.6%	6.4%	6.5%	6.4%	6.4%	7.0%	*7.5%*	*7.5%*	Operating Margin	*7.5%*
						4189	4414	4688	4906	5289	6141	6779	7262	7720	8416	*8900*	*9250*	Number of Stores	*10400*
						6295.0	6711.0	8039.0	8861.0	10267	11014	12178	12884	13512	14204	*14885*	*15800*	Net Profit ($mill)	*19965*
						36.5%	36.2%	35.3%	36.1%	34.7%	34.7%	33.6%	34.2%	34.2%	34.1%	*34.5%*	*34.5%*	Income Tax Rate	*34.5%*
						3.3%	3.1%	3.3%	3.5%	3.6%	3.5%	3.5%	3.4%	3.4%	3.5%	*3.5%*	*3.6%*	Net Profit Margin	*3.8%*
						d2394	964.0	d2134	d2997	d4397	d5002	d5166	d10869	d6441	d7230	*d9000*	*d11000*	Working Cap'l ($mill)	*d8000*
						15655	18732	19608	20099	23669	30171	30735	33402	34549	36401	*40800*	*40800*	Long-Term Debt ($mill)	*40000*
						31343	35102	39337	43623	49396	53171	61573	64608	65285	70749	*67000*	*68100*	Shr. Equity ($mill)	*76025*
						14.5%	13.6%	14.5%	14.7%	14.8%	14.0%	14.1%	14.1%	14.5%	14.1%	*14.5%*	*15.5%*	Return on Total Cap'l	*18.0%*
						20.1%	19.1%	20.4%	20.3%	20.8%	20.7%	19.8%	19.9%	20.7%	20.1%	*22.0%*	*23.0%*	Return on Shr. Equity	*26.5%*
						16.7%	15.6%	17.1%	16.7%	16.3%	16.0%	15.2%	14.4%	15.0%	14.1%	*15.5%*	*16.5%*	Retained to Com Eq	*19.0%*
						17%	19%	17%	18%	22%	23%	23%	28%	28%	30%	*30%*	*30%*	All Div'ds to Net Prof	*29%*

CAPITAL STRUCTURE as of 10/31/10
Total Debt $56447 mill. **Due in 5 Yrs** $26000 mill.
LT Debt $43899 mill. **LT Interest** $1820 mill.
Incl. $3096 mill. capitalized leases.
(Total interest coverage: 11.1x) (39% of Cap'l)

Leases, Uncapitalized Annual rentals $1275 mill.

No Defined Benefit Pension Plan
Pfd Stock None

Common Stock 3,561,994,294 shs.
as of 11/30/10
MARKET CAP: $204 billion (Large Cap)

CURRENT POSITION ($MILL.)	2008	2009	10/31/10
Cash Assets	7275	7907	10616
Receivables	3905	4144	4374
Inventory (LIFO)	34511	33160	41059
Other	3258	3120	3519
Current Assets	48949	48331	59568
Accts Payable	28849	30451	36208
Debt Due	7669	4919	12548
Other	18872	20191	19651
Current Liab.	55390	55561	68407

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Sales	12.5%	10.5%	*8.5%*
"Cash Flow"	13.5%	11.5%	*8.5%*
Earnings	13.0%	10.5%	*10.0%*
Dividends	19.5%	20.5%	*11.0%*
Book Value	13.5%	11.0%	*5.5%*

Fiscal Year Begins	QUARTERLY SALES ($ mill.) A Apr.30	Jul.31	Oct.31	Jan.31	Full Fiscal Year
2007	85387	91990	90880	106269	374526
2008	94070	101544	97634	107996	401244
2009	93471	100082	98667	112826	405046
2010	99097	103016	101952	*118935*	*423000*
2011	*104000*	*108050*	*107600*	*125350*	*445000*

Fiscal Year Begins	EARNINGS PER SHARE A B Apr.30	Jul.31	Oct.31	Jan.31	Full Fiscal Year
2007	.68	.76	.70	1.02	3.16
2008	.76	.86	.77	1.03	3.42
2009	.77	.88	.84	1.17	3.66
2010	.88	.97	.90	*1.30*	*4.05*
2011	*.96*	*1.09*	*1.00*	*1.40*	*4.45*

Cal-endar	QUARTERLY DIVIDENDS PAID ■ C Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	.1675	.22	.22	.22	.83
2008	.22	.2375	.2375	.2375	.93
2009	.2375	.2725	.2725	.2725	1.06
2010	.2725	.3025	.3025	.3025	1.18
2011	.3025				

Company 2

Kevin Downing *February 4, 2011*

(A) Fiscal year ends Jan. 31st of following calendar year. Sales exclude rentals from licensed depts. **(B)** Based on diluted shares. Excludes extraord. (losses) and gains: '01, ($0.01); '05, $0.03; '08, ($0.07); '09, $0.06; '10, $0.05. Excl. gains (losses) from discontinued operation: '03, $0.04; '06, ($0.21); '07, ($0.03); '08, $0.04; '09, ($0.02). Next earnings report due mid-Feb. **(C)** Scheduled '10 div. payments in early Jan., April, June, and Sept.
■ Dividend reinvestment plan available.
(D) In millions, adjusted for stock split.

Company's Financial Strength	A++
Stock's Price Stability	100
Price Growth Persistence	35
Earnings Predictability	100

Consistency

- Are Sales Consistently Increasing?

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Company 1										
Sales Per Share	$122.75	$110.83	$109.29	$115.70	$113.35	$101.53	$91.96	$85.20	$59.88	$66.49
Company 2										
Sales Per Share	$48.91	$55.64	$59.46	$67.36	$75.01	$83.51	$94.27	$102.23	$106.99	$118.80

Consistency

- Is Cash Flow Consistently Increasing?

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Company 1										
Cash Flow Per Share	($0.02)	($4.17)	($0.97)	$2.47	$2.66	$6.47	$7.32	$0.03	($0.77)	$2.11
Company 2										
Cash Flow Per Share	$2.25	$2.61	$2.95	$3.47	$3.78	$4.27	$4.83	$5.16	$5.64	$6.30

Consistency

- Are Earnings Consistently Increasing?

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Company 1										
Earnings Per Share	($9.13)	($12.97)	($9.68)	($5.57)	($4.10)	$1.17	$1.38	($4.61)	($4.62)	($1.17)
Company 2										
Earnings Per Share	$1.50	$1.81	$2.03	$2.41	$2.63	$2.92	$3.16	$3.42	$3.66	$4.05

Consistency

- Is Book Value Consistently Increasing?

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Company 1										
Book Value Per Share	$34.78	$6.13	$0.29	($3.61)	$8.09	($2.73)	$10.65	($10.52)	($10.49)	($11.83)
Company 2										
Book Value Per Share	$7.88	$8.95	$10.12	$11.67	$12.77	$14.91	$16.26	$16.63	$18.69	$18.80

How Big Is Your Piece Of The Pie?

- Are Common Shares Outstanding Increasing, Decreasing or Staying The Same?
- All things being equal, we want fewer shares outstanding as that gives us a larger portion of the earnings.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Company 1										
Common Shares Outstanding	154.48	156.09	159.58	161.16	182.73	222.22	249.40	278.95	332.62	333.45
Company 2										
Common Shares Outstanding	4453.0	4395.0	4311.0	4234.0	4165.0	4131.0	3973.0	3925.0	3786.0	3520.0

Numbers in Millions

Operating Margins

- Are they steady or preferably improving?

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Company 1										
Operating Margin	**(NEG)**	**(NEG)**	**2.0%**	**5.4%**	**19.6%**	**9.8%**	**10.9%**	**0.8%**	**1.4%**	**6.7%**
Company 2										
Operating Margin	**6.5%**	**6.2%**	**6.2%**	**6.4%**	**6.6%**	**6.4%**	**6.5%**	**6.4%**	**6.4%**	**7.0%**

Net Profit Margins

- Are they steady or preferably improving?

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Company 1										
Net Profit Margin	(NEG)	(NEG)	(NEG)	(NEG)	(NEG)	1.2%	2.7%	(NEG)	(NEG)	(NEG)
Company 2										
Net Profit Margin	3.1%	3.3%	3.5%	3.6%	3.5%	3.5%	3.4%	3.4%	3.5%	3.5%

Long Term Debt

- Don't rely on Debt to Equity Ratio—it assumes liquidation of the company.
- We prefer Debt to Net Income Ratio.
- All long term debt should be fully paid off with a max of 5 years of net income, but preferably 2 or 3 years of net income.

Long-term Debt to Net Income

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Company 1										
Yrs To Pay Off Long Term Debt	NMF	NMF	NMF	NMF	NMF	42.85	16.17	NMF	NMF	NMF
Company 2										
Yrs To Pay Off Long Term Debt	2.79	2.44	2.27	2.31	2.74	2.52	2.59	2.56	2.56	2.74

Return On Equity

- Buffett's Favorite Ratio.
- Net Income divided by shareholders' equity.
- How well is management redeploying net income to grow the net worth of a company?
- Minimum threshold: 15%.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Company 1										
ROE	NMF	NMF	NMF	NMF	NMF	NMF	23.5%	NMF	23.5%	NMF
Company 2										
ROE	19.1%	20.4%	20.3%	20.8%	20.7%	19.8%	19.9%	20.7%	20.1%	22.0%

Dividends

- We like consistent or increasing cash dividends.
- Don’t starve future growth.
- Dividends to Net Profit: 60% or less.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Company 1										
All Dividends to Net Profit	No Div	No Div	No Div	No Div	No Div	No Div	No Div	No Div	No Div	No Div
Company 2										
All Dividends to Net Profit	19%	17%	18%	22%	23%	23%	28%	28%	30%	30%

Balance Sheet

- ValueLine A rated or better

Company 1	
Financial Strength	C+
Company 2	
Financial Strength	A++

Narrow Your Choices

- Would a logical person invest in Company 1 after reviewing the numbers?
- The obvious answer should be “no.”
- Company 1 fails all quantitative tests—despite being a market leader in its industry.

Valuation

- If we make an investment decision we need to know what price we have to pay for the underlying earnings of the company.
- The Price to Earnings ratio most specifically addresses this need.

Price to Earnings Ratios

- What is the 10 year avg high & low PE ratio?

Company 2

10 Yr Hi Avg PE Ratio	26.59
10 Yr Low Avg PE Ratio	19.64

- What is the current PE ratio?

Company 2

Current PE Ratio	12.7

Value

- Can the business be purchased at a significant discount from its normal value?

- Company 2 is trading at a 35% discount to its 10 year average low PE Ratio.

- Company 2 is trading at a 11% discount to its 5 year average low PE Ratio.

- Company 2 is trading at a significant discount to its historical values.

More Value

- Price/Sales = 0.43
  – In the Top 7% of Value Relative to the S&P 500

- PE/Earnings Growth = 1.2
  – In the Top 25% of Value Relative to the S&P 500

- Finally, if we buy this business, are we convinced that it is better than all other opportunities?

Can You Name Our Mystery Companies?

- Company 1: American Airlines
- Company 2: Wal-Mart

$10,000 Invested With Buffett

- If $10,000 had been invested with Warren Buffett in 1965, today it would be worth how much?

- $10,000 invested at 20% annual interest for 45 years = $36.5 million.

Implementation & Strategy

- The traditional long-term hold
- Church & Dwight
- What do they make?
  - Arm & Hammer
  - OxiClean
  - KaBoom Cleaners
  - Trojan Brand Condoms

The Cash Out Arbitrage

- One company buys another.
- Must be a friendly buyout.
- Must be an all cash deal.
- Minimal regulatory hurdles.
- Significant market price discount to cash out price.

RR Donnelley Buys Bowne & Company

- Buyout announced Feb. 23, 2010 at a cash out price of $11.50 per share ($481 million total).
- Seven months later, on Sept. 23, 2010, we bought at a price of $10.93.
- Bowne & Co. paid us a dividend of $.05/share or $25.08 total on Nov. 16, 2010.
- Deal finalized on Nov. 29, 2010 at $11.50 per share.
- Gross Proceeds: 5.67%
  ($11.50 - $10.93 + $.05 dividend)= $.62 gain/share.
- Annualized Payout: <u>30%+</u> after a 66 day holding period.

When You Get Lemons, Make Lemonade

- Proctor & Gamble was the winning investment presentation on Nov. 3, 2009.
- P&G's closing price on Nov. 3, 2009 was $58.58 per share (after moving up $1.50 that day).
- Before the market opened the next day P&G moved up another $2 per share.
- What to do?
- Pay up or look for other *OPTIONS?*

Writing PUT Options

- It's a contract that potentially obligates us to buy a specific stock at a specific price and time.
- We are paid a cash premium to have a stock sold to us at the pre-determined price & time.
- This is how Buffett amassed his shares in Coca-Cola and Burlington Northern.
- We wrote 4 PUT options which paid us $544.56 or $5.45 per share.
- Our last option contract obligated us to pay $62.50/share for P&G.
- $62.50(-) $5.45=$57.05 (less than what would have been the original purchase price if the market had not moved up).

How Has All Of This Worked So Far?

Total Contributions:	$ 49,937
Capital Appreciation:	$ 10,259
Income:	$ 1,080
Ending Value:	$ 61,218
Total Return:	$ 11,280

Gross Rate of Return: 37.17%

Annualized Rate of Return: 23.33%

All Data Through April 7, 2011

Questions?