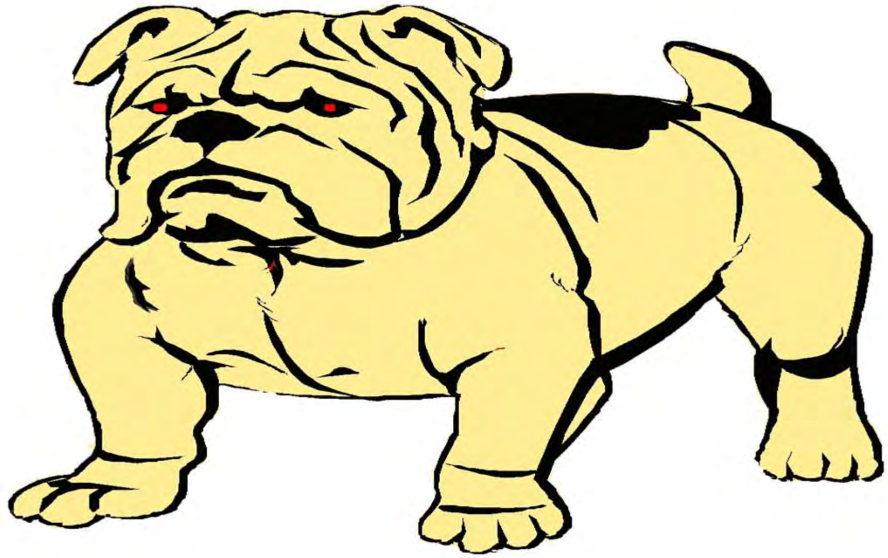


BULLDOG INVESTMENT COMPANY

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 24% annually for 40+ years.

Bulldog Interns

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

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

- <u>Drilona Aliu</u>
- Home: Gjilan, Kosova
- Junior
- BBA with Finance specialization
- <u>Uzonna Mkparu</u>
- Home: Osumenyi, Nigeria
- Senior
- BS in Biology, Molecular Biology Tract; minors in Chemistry and Business
- <u>Jon Zahradka</u>
- Home: Schertz, Texas
- Senior
- BBA with Accounting 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 ValueLine Reports—two very different stories.

Report 1

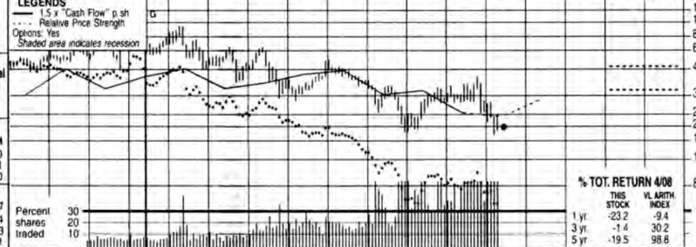
RECENT PRICE 19.86 | P/E RATIO NMF (Trailing: NMF; Median: 12.0) | RELATIVE P/E RATIO NMF | DIV'D YLD 5.0% | VALUE LINE

TIMELINESS 4 Lowered 5/30/08
SAFETY 3 Lowered 6/6/03
TECHNICAL 5 Lowered 4/25/08
BETA 1.40 (1.00 = Market)

High:	72.4	76.7	94.9	94.6	67.8	68.2	54.4	55.6	40.8	36.6	43.2	29.3
Low:	52.3	47.1	59.8	48.4	39.2	30.8	29.8	36.9	18.3	18.5	24.5	17.5

Target Price Range 2011 | 2012 | 2013

LEGENDS
— 1.5 x "Cash Flow" p sh
.... Relative Price Strength
Options: Yes
Shaded area indicates recession



2011-13 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+150%)	28%
Low	35	(+75%)	18%

Insider Decisions

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

Institutional Decisions

	2Q2007	3Q2007	4Q2007
to Buy	205	230	214
to Sell	213	195	243
Hld's(000)	537222	547262	535381

Percent shares traded 30 20 10

% TOT. RETURN 4/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	-23.2	-9.4
3 yr.	-1.4	30.2
5 yr.	-19.5	98.8

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
187.36	191.94	205.41	224.21	216.84	249.72	246.28	285.04	336.81	317.08	333.24	328.58	342.68	340.59	366.52	319.97	314.10	321.10	Revenues per sh	341.80
8.53	12.06	16.52	20.08	21.71	32.32	23.95	28.76	32.44	23.99	26.10	29.83	31.49	21.84	23.24	16.48	15.55	20.45	"Cash Flow" per sh	29.40
d4.85	2.13	6.20	7.28	5.72	7.89	5.24	8.53	6.68	1.77	3.35	5.03	6.39	d6.05	3.89	d.33	d2.10	1.00	Earnings per sh A,I	4.65
1.40	.80	.80	1.10	1.60	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.00	1.00	1.00	1.00	Div'ds Decl'd per sh B■	1.00
9.32	8.99	9.58	8.43	13.15	14.88	14.68	11.92	17.74	15.44	13.28	12.98	13.73	14.46	14.02	13.32	14.15	14.60	Cap'l Spending per sh	15.20
8.47	7.77	17.00	31.00	30.95	25.24	22.87	33.33	54.79	35.25	12.16	44.75	49.10	25.81	d9.62	d65.53	d68.65	d68.65	Book Value per sh F	d61.05
706.83	720.11	754.35	753.01	756.62	693.46	655.01	619.41	548.18	559.04	560.45	564.62	564.72	565.50	565.73	566.06	566.00	566.00	Common Shs Outst'g C	566.00
--	20.7	8.3	6.3	9.2	7.7	12.8	8.8	10.3	30.2	14.6	7.7	7.0	--	7.0	--	Bold figures are		Avg Ann'l P/E Ratio	9.0
--	1.22	.54	.42	.58	.44	.67	.50	.67	1.55	.80	.44	.37	--	.38	--	Value Line		Relative P/E Ratio	.60
3.9%	1.8%	1.6%	2.4%	3.0%	3.3%	3.0%	2.7%	2.9%	3.7%	4.1%	5.2%	4.5%	6.4%	3.7%	3.1%	estimates		Avg Ann'l Div'd Yield	2.4%
						161315	176558	184632	177260	186763	185524	193517	192604	207349	181122	177790	181750	Revenues ($mill)	193445
						--	--	--	--	--	--	--	--	24.1%	23.5%	22.8%	22.3%	Market Share	20.7%
						16.1%	17.5%	16.3%	13.0%	18.4%	14.2%	14.1%	7.6%	18.4%	29.3%	7.0%	8.5%	Operating Margin	11.0%
						3662.0	5576.0	4452.0	601.0	1736.0	2862.0	3630.0	d3417	2199.0	d187.0	d1190	570	Net Profit ($mill)	2640
						31.8%	34.5%	33.4%	50.6%	25.6%	24.5%	--	--	56.3%	NMF	NMF	20.0%	Income Tax Rate	20.0%
						2.3%	3.2%	2.4%	.3%	.9%	1.5%	1.9%	NMF	1.1%	NMF	NMF	.3%	Net Profit Margin	1.4%
						21335	10244	18929	57190	130382	d16718	207943	115941	d6499	d10605	d6055	d1300	Working Cap'l ($mill) D	7535
						52574	62745	68464	104437	140601	29593	228957	202177	38105	34692	39000	41000	Long-Term Debt ($mill) D	32000
						14984	20862	30175	19707	6814.0	25268	27726	14597	d5441	d37094	d38850	d38850	Shr. Equity ($mill)	d34565
						7.8%	8.8%	6.0%	2.9%	3.4%	11.6%	3.1%	1.9%	28.7%	NMF	NMF	NMF	Return on Total Cap'l	NMF
						24.4%	26.7%	14.8%	3.0%	25.5%	11.3%	13.1%	NMF	--	--	NMF	NMF	Return on Shr. Equity	NMF
						15.2%	20.4%	10.5%	NMF	7.6%	6.9%	9.0%	NMF	--	--	NMF	NMF	Retained to Com Eq	NMF
						38%	25%	29%	NMF	70%	39%	31%	NMF	26%	NMF	NMF	NMF	All Div'ds to Net Prof	21%

CAPITAL STRUCTURE as of 3/31/08 D
Total Debt $44.0 bill. **Due in 5 Yrs** $33.1 bill.
LT Debt $38.0 bill. **LT Interest** $2.5 bill.
(Total interest coverage: 7.5x)

Pension Assets $133.7 bill. **Oblig.** $173.0 bill.
Pfd Stock $8.1 bill. **Pfd Div'd** $190.0 mill.
Incl. $1.2 bill. 4.5% Series A, 48 mill shs., $25.00 par, due 2032.; $2.6 bill. 5.25% Series B, 1.04 bill shs, $25.00 par, due 2032.; $4.3 bill. 6.25% Series C, $25.00 par, due 2033.
(2% of Cap'l)

Common Stock 566,154,445 shs.
MARKET CAP: $11.2 billion (Large Cap)

CURRENT POSITION D ($MILL.)	2006	2007	3/31/08
Cash Assets	24449	27171	23644
Receivables	8216	9659	10071
Inventory (LIFO)	13921	14939	16915
Other	20351	11564	11802
Current Assets	66937	63333	62432
Accts Payable	28145	29469	29793
Debt Due	10066	9647	5968
Other	35225	34822	34736
Current Liab.	73436	73938	70497

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Revenues	4.0%	1.0%	Nil
"Cash Flow"	-2.0%	-5.5%	6.0%
Earnings	--	--	NMF
Dividends	-1.5%	-8.0%	-4.5%
Book Value	--	--	NMF

Cal-endar	QUARTERLY REVENUES ($ mill.) DE Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	45773	48469	47182	51180	192604
2006	52376	54464	49300	51209	207349
2007	43387	46844	43806	47085	181122
2008	42670	44795	41105	49220	177790
2009	44675	47390	43620	46065	181750

Cal-endar	EARNINGS PER SHARE ADHI Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	d1.48	d.56	d1.92	d2.09	d6.05
2006	.62	2.03	.88	.36	3.89
2007	.17	2.30	d2.88	.08	d.33
2008	d.62	d.85	d.50	d.13	d2.10
2009	.15	.65	d.10	.30	1.00

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.50	.50	.50	.50	2.00
2005	.50	.50	.50	.50	2.00
2006	.25	.25	.25	.25	1.00
2007	.25	.25	.25	.25	1.00
2008	.25				

1

(A) Basic egs. until '97; dil. after. Excl. nonrecurr. gns./(loss): '95, (7¢); '96, 35¢; '97, 81¢; '98, (41¢); '02, ($24.33); '03, ($2.11); '04, 10¢; '05, ($7.75); '06, ($7.10); '07, $(7.74); '08 Q1, ($5.12). Next egs. rpt. due mid-July. (B) Div'ds. hist. pd. in mid-March, June, Sept., and Dec. ■Div'd reinvest. avail. (C) In mill. (D) Excl. sale of [redacted] 11/06. (E) [redacted] after '02. (F) Incl. intang. '07: $1.1 bill., $1.88/sh. (G) Incl. spinoff of [redacted] on 5/28/99. (H) Excl. sale of [redacted]03. (I) '07 Excl. $38.6 bill. for val. on def. tax assets.

Company's Financial Strength	B
Stock's Price Stability	30
Price Growth Persistence	5
Earnings Predictability	5

Report 2

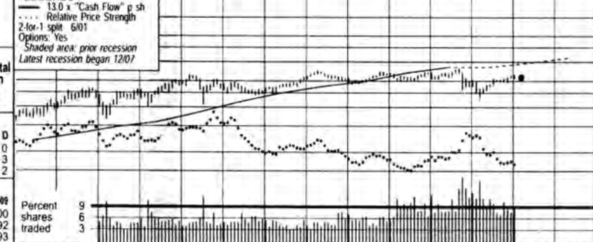
RECENT PRICE 63.61 | P/E RATIO 13.0 (Trailing: 13.7; Median: 20.0) | RELATIVE P/E RATIO 0.79 | DIV'D YLD 3.2% | VALUE LINE

TIMELINESS 3 Lowered 8/14/09
SAFETY 1 New 7/27/90
TECHNICAL 2 Raised 2/12/10
BETA .60 (1.00 = Market)

High:	53.4	53.0	61.0	65.9	59.1	64.3	70.0	69.4	68.8	72.8	65.4	65.9
Low:	38.5	33.1	40.3	41.4	48.1	49.3	59.8	56.7	59.7	52.1	46.3	61.9

Target Price Range 2013 | 2014 | 2015

LEGENDS
— 13.0 x "Cash Flow" p sh
.... Relative Price Strength
2-for-1 split 6/01
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	125	(+95%)	20%
Low	100	(+55%)	14%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	1	0	0	0	0
Options	0	1	0	1	1	2	0	4	3
to Sell	0	1	0	1	1	3	0	3	2

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	680	784	700
to Sell	906	770	792
Hld's(000)	1744790	1729648	1744693

Percent shares traded 9 6 3

% TOT. RETURN 1/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	12.6	69.7
3 yr.	2.6	-3.5
5 yr.	10.5	26.8

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
6.12	7.27	8.11	8.41	8.80	9.88	10.47	10.83	12.23	14.10	15.94	16.98	18.43	21.51	23.02	22.50	23.95	25.50	Sales per sh A	31.80
1.06	1.26	1.46	1.62	1.83	2.03	2.27	2.46	2.85	3.36	3.84	4.25	4.60	5.23	5.70	5.70	6.10	6.60	"Cash Flow" per sh	8.40
.78	.93	1.09	1.21	1.34	1.49	1.70	1.91	2.23	2.70	3.10	3.50	3.76	4.15	4.57	4.63	5.00	5.45	Earnings per sh B	7.10
.28	.32	.37	.43	.49	.55	.62	.70	.80	.92	1.10	1.28	1.46	1.62	1.80	1.93	2.05	2.20	Div'ds Decl'd per sh ■C	2.70
.36	.48	.52	.52	.54	.62	.59	.57	.71	.76	.73	.88	.92	1.04	1.11	.95	1.05	1.15	Cap'l Spending per sh	1.35
2.77	3.49	4.07	4.59	5.06	5.83	6.76	7.95	7.65	9.05	10.71	12.73	13.59	15.25	15.35	18.50	21.60	25.00	Book Value per sh D	36.00
2572.0	2590.7	2665.0	2690.3	2688.1	2779.4	2781.9	3047.2	2968.3	2968.0	2971.0	2974.5	2893.2	2840.2	2769.2	2750.0	2700.0	2650.0	Common Shs Outst'g E	2500.0
14.8	18.5	22.4	24.9	28.1	31.6	26.4	27.2	25.9	19.4	18.1	18.5	16.6	15.4	14.3	12.5	Bold figures are		Avg Ann'l P/E Ratio	16.0
.97	1.24	1.40	1.44	1.46	1.80	1.72	1.39	1.41	1.11	.96	.99	.90	.82	.86	.82	Value Line		Relative P/E Ratio	1.05
2.4%	1.9%	1.5%	1.4%	1.3%	1.2%	1.4%	1.3%	1.4%	1.8%	2.0%	2.0%	2.3%	2.5%	2.8%	3.3%	estimates		Avg Ann'l Div'd Yield	3.0%
						29139	33004	36298	41862	47348	50514	53324	61095	63747	61897	64700	67600	Sales ($mill) A	79500
						27.4%	28.8%	31.2%	31.3%	31.6%	30.6%	28.7%	29.4%	29.5%	30.5%	31.0%	31.3%	Operating Margin	32.0%
						1515.0	1605.0	1662.0	1869.0	2124.0	2093.0	2177.0	2777.0	2832.0	2720	2770	2800	Depreciation ($mill)	2910
						4800.0	5885.0	6810.8	8096.6	9298.0	10545	11133	12085	12949	12906	13750	14700	Net Profit ($mill)	18100
						27.5%	28.2%	29.0%	30.2%	27.6%	24.8%	23.3%	22.1%	23.5%	22.0%	23.5%	23.5%	Income Tax Rate	24.0%
						16.5%	17.8%	18.8%	19.3%	19.6%	20.9%	20.9%	19.8%	20.3%	20.9%	21.3%	21.7%	Net Profit Margin	22.8%
						8310.0	10429	7817.0	9547.0	13393	18759	3814.0	10108	13525	15000	16300	17700	Working Cap'l ($mill)	22000
						2037.0	2217.0	2022.0	2955.0	2565.0	2017.0	2014.0	7074.0	8120.0	8200	8000	7700	Long-Term Debt ($mill)	6000
						18808	24233	22697	26869	31813	37871	39318	43319	42511	50850	58300	66200	Shr. Equity ($mill)	90000
						23.3%	22.5%	27.8%	27.4%	27.3%	26.5%	27.1%	24.1%	26.0%	22.0%	21.0%	20.0%	Return on Total Cap'l	19.0%
						25.5%	24.3%	30.0%	30.1%	29.2%	27.8%	28.3%	27.9%	30.5%	25.5%	23.5%	22.0%	Return on Shr. Equity	20.0%
						16.4%	15.8%	19.5%	19.9%	19.0%	17.8%	17.5%	17.1%	18.6%	15.0%	14.0%	13.0%	Retained to Com Eq	12.5%
						36%	35%	35%	34%	35%	36%	38%	39%	39%	42%	41%	40%	All Div'ds to Net Prof	38%

CAPITAL STRUCTURE as of 9/27/09
Total Debt $11,600 mill. **Due in 5 Yrs** $4,450 mill.
LT Debt $8,259 mill. **LT Interest** $450 mill.
(14% of Cap'l)
Leases, Uncapitalized Annual rentals $183.0 mill.

Pension Assets-12/08 $7,677 mill. **Oblig.** $11,923 mill.

Pfd Stock None

Common Stock 2,759,100,000 shs. as of 10/25/09

MARKET CAP: $176 billion (Large Cap)

CURRENT POSITION ($MILL.)	2007	2008	9/27/09
Cash Assets	9315	12809	14067
Receivables	9444	9719	10279
Inventory (FIFO)	5110	5052	5568
Other	6076	6797	5688
Current Assets	29945	34377	35602
Accts Payable	6909	7503	6419
Debt Due	2463	3732	3341
Other	10465	9617	9485
Current Liab.	19837	20852	19245

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '13-'15
Sales	9.5%	11.0%	6.0%
"Cash Flow"	12.0%	12.5%	7.0%
Earnings	13.0%	13.0%	8.0%
Dividends	14.5%	15.0%	7.5%
Book Value	12.5%	12.5%	13.5%

Cal-endar	QUARTERLY SALES ($ mill.) A Mar.Per	Jun.Per	Sep.Per	Dec.Per	Full Year
2007	15037	15131	14970	15957	61095
2008	16194	16450	15921	15182	63747
2009	15026	15239	15081	16551	61897
2010	15700	16150	16050	16800	64700
2011	16400	16900	16750	17550	67600

Cal-endar	EARNINGS PER SHARE AB Mar.Per	Jun.Per	Sep.Per	Dec.Per	Full Year
2007	1.16	1.05	1.06	.88	4.15
2008	1.26	1.17	1.17	.97	4.57
2009	1.26	1.15	1.20	1.02	4.63
2010	1.28	1.27	1.32	1.13	5.00
2011	1.40	1.38	1.44	1.23	5.45

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.33	.375	.375	.375	1.46
2007	.375	.415	.415	.415	1.62
2008	.415	.46	.46	.46	1.80
2009	.46	.49	.49	.49	1.93
2010					

2

(A) Year ends on last Sunday of December.
(B) Primary earnings through '96, diluted thereafter. Excludes nonrecurring gains/(losses): '98, 22¢; '99, 2¢; '01, (7¢); '02, (7¢); '03 (30¢); '04, (26¢); '05, (4¢); '06, (3¢); '07, (52¢). Next earnings report due late April.
(C) Dividends historically paid mid: March, June, Sept., and Dec. ■Div'd reinvestment plan available.
(D) Incl. intang.: In '08, $27.7 billion; $10.00/sh.
(E) In mill., adj. for stock split.

Company's Financial Strength	A++
Stock's Price Stability	100
Price Growth Persistence	45
Earnings Predictability	100

Consistency

- Are Sales Consistently Increasing?

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Company 1										
Sales Per Share	$336.81	$317.08	$333.24	$328.58	$342.68	$340.59	$366.52	$319.97	$314.10	$321.10
Company 2										
Sales Per Share	$10.47	$10.83	$12.23	$14.10	$15.94	$16.98	$18.43	$21.51	$23.02	$22.50

Consistency

- Is Cash Flow Consistently Increasing?

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Company 1										
Cash Flow Per Share	$32.44	$23.99	$26.10	$29.83	$31.49	$21.84	$23.24	$16.48	$15.55	$20.45
Company 2										
Cash Flow Per Share	$2.27	$2.46	$2.85	$3.36	$3.84	$4.25	$4.60	$5.23	$5.70	$5.70

Consistency

- Are Earnings Consistently Increasing?

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Company 1										
Earnings Per Share	**$6.68**	**$1.77**	**$3.35**	**$5.03**	**$6.39**	**($6.05)**	**$3.89**	**($0.33)**	**($2.10)**	**$1.00**
Company 2										
Earnings Per Share	**$1.70**	**$1.91**	**$2.23**	**$2.70**	**$3.10**	**$3.50**	**$3.76**	**$4.15**	**$4.57**	**$4.63**

Consistency

- Is Book Value Consistently Increasing?

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Company 1										
Book Value Per Share	$54.79	$35.25	$12.16	$44.75	$49.10	$25.81	($9.62)	($65.53)	($68.65)	($68.65)
Company 2										
Book Value Per Share	$6.76	$7.95	$7.65	$9.05	$10.71	$12.73	$13.59	$15.25	$15.35	$18.50

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.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Company 1										
Common Shares Outstanding	548.1	559.0	560.4	564.6	564.7	565.5	565.7	566.0	566.0	566.0
Company 2										
Common Shares Outstanding	2781.9	3047.2	2968.3	2968.0	2971.0	2974.5	2893.2	2840.2	2769.2	2750.0

Numbers in Millions

Operating Margins

- Are they steady or preferably improving?

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Company 1										
Operating Margin	16.3%	13.0%	18.4%	14.2%	14.1%	7.6%	18.4%	29.3%	7.0%	8.5%
Company 2										
Operating Margin	27.4%	28.8%	31.2%	31.3%	31.6%	30.6%	28.7%	29.4%	29.5%	30.5%

Net Profit Margins

- Are they steady or preferably improving?

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Company 1										
Net Profit Margin	2.4%	0.3%	0.9%	1.5%	1.9%	(NEG)	1.1%	(NEG)	(NEG)	0.3%
Company 2										
Net Profit Margin	16.5%	17.8%	18.8%	19.3%	19.6%	20.9%	20.9%	19.8%	20.3%	20.9%

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Company 1										
Yrs To Pay Off Long Term Debt	15.38	173.77	80.99	10.34	63.07	NMF	17.33	NMF	NMF	71.93
Company 2										
Yrs To Pay Off Long Term Debt	0.42	0.38	0.30	0.36	0.28	0.19	0.18	0.59	0.63	0.64

Return On Equity

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Company 1										
ROE	14.8%	3.0%	25.5%	11.3%	13.1%	NMF	NMF	NMF	NMF	NMF
Company 2										
ROE	25.5%	24.3%	30.0%	30.1%	29.2%	27.8%	28.3%	27.9%	30.5%	25.5%

Return on Capital

- Return on capital allows us to keep debt-happy companies honest.
- We can boost ROE by introducing debt.
- What is the effect of the debt and how do we measure it?
- The difference between ROE and ROC is the introduction of debt.
- Minimum threshold: 15%.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Company 1										
ROC	6.0%	2.9%	3.4%	11.6%	3.1%	1.9%	28.7%	NMF	NMF	NMF
Company 2										
ROC	23.3%	22.5%	27.8%	27.4%	27.3%	26.5%	27.1%	24.1%	26.0%	22.0%

Dividends

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Company 1										
All Dividends to Net Profit	29%	No Div	70%	39%	31%	No Div	26%	No Div	No Div	No Div
Company 2										
All Dividends to Net Profit	36%	35%	35%	34%	35%	36%	38%	39%	39%	42%

Balance Sheet

- ValueLine A rated or better

Company 1	
Financial Strength	B
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.

Price to Earnings Ratios

- 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	22.3
10 Yr Low Avg PE Ratio	16.3

- What is the current PE ratio?

Company 2

Current PE Ratio	14.8

Value

- Can the business be purchased at a significant discount from its normal value?
- Company 2 is trading at a 33% discount to its average high PE Ratio.
- Company 2 is trading at a 9% discount to its average low PE Ratio.
- Company 2 is trading at a significant discount to its historical values.
- 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: General Motors
  (with data from June 2008)

- Company 2: Johnson & Johnson

$2 Invested with Buffett

- If $2 had been invested with Warren Buffett in 1956, today it would be worth how much?

- $2 invested at 24% annual interest for 44 years = $25,800.

Implementation & Strategy

- The traditional long-term hold
- Church & Dwight
- What do they make?
  - Arm & Hammer Products
  - OxiClean Products
  - 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.

AT&T buys Centennial Communications

- Buyout announced Nov. 7, 2008 at a cash out price of $8.50 per share ($944 million total).
- One year later (Sept. 2009) the market price of Centennial was only $8.00.
- On Nov. 9, 2009 the Dept. of Justice approves the merger.
- Gross Proceeds: 6.25%
  ($8.50 - $8.00 = $.50 gain/share).
- Annualized Payout if purch'd on Nov 7, 2008: 6.25% after a one year holding period.
- Annualized Payout if purch'd Sept 2009: 60%+ after a 40 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 have written 3 PUT options which have paid us $480.97 or $4.81 per share.
- Our current option contract would obligate us to pay $62.50/share for P&G.
- $62.50 (-) $4.81=$57.69 (less than what would have been the original purchase price if the market had not moved up by $2 per share).

How Has All Of This Worked So Far?

Date	Investment	Cost	Market Value	Dividend's	Total Return	Annlzd Return
4-Oct-09	Church & Dwight	$ 4,989.34	$ 6,027.97	$ 24.92	23.25%	46.37%
5-Nov-09	Johnson & Johnson	$ 4,964.23	$ 5,428.20	$ 81.34	10.56%	25.53%
18-Nov-09	P & G PUT	$ 0	$ 54.99	$ -	Infinite	
24-Nov-09	Oracle	$ 4,978.25	$ 5,653.18	$ 11.05	13.70%	37.88%
18-Dec-09	P & G PUT	$ 0	$ 85.64	$ -	Infinite	
20-Jan-10	P & G PUT	$ 0	$ 319.64	$ -	Infinite	
9-Feb-10	Wal Mart	$ 4,999.86	$ 5,216.06	$ 28.44	4.57%	30.33%
2-Mar-10	Lorillard	$ 5,004.80	$ 5,229.20	$ -	5.29%	56.58%
		$24,936.48	$ 28,014.88	$ 145.75		

Total: $ 28,160.63

Data Through April 5, 2010

How Has All Of This Worked So Far?

Total Capital Appreciation:	**$ 2,618.13**
Total Dividends:	**$ 145.75**
Option Premiums:	**$ 460.27**
Total Gain:	**$ 3,224.15**
Percentage Gain:	**12.35%**
Time Weighted Annualized ROR for Buy & Hold Positions:	**39.36%**
Additional Gross Return From Option Premiums:	**1.85%**

All Data Through April 5, 2010

Questions?

- Thank You For Your Support Of Our Program!