

When asked how he became so successful, Buffett answered: "we read hundreds and hundreds of annual reports every year."



Edited by the
**Manual of Ideas
Research Team**

"If our efforts can further the goals of our members by giving them a discernible edge over other market participants, we have succeeded."

Top Ideas In This Report

Contango Oil & Gas (NYSE: MCF)	p. 54
Exterran Holdings (NYSE: EXH)	p. 57
Pfizer (NYSE: PFE)	p. 60

Also Inside

Editor's Commentary	p. 5
Portfolios with "Signal Value"	p. 6
Interview with Brian Bares	p. 29
100 Superinvestor Stocks	p. 34
Value Investing Seminar Notes	p. 116

About Portfolio Manager's Review

Our goal is to bring you equity investment ideas that are compelling on the basis of value versus price. In our quest for value, we analyze the top holdings of top fund managers. We also use a proprietary screening methodology to identify opportunities that are not yet widely followed by institutional investors.

John Mihaljevic, managing editor, is a fund manager, former banker and analyst. He is a member of Value Investors Club, an exclusive community of top money managers, and has won the Club's prize for best investment idea. John is a trained capital allocator, having studied under Yale chief investment officer David Swensen and served as research assistant to Nobel laureate James Tobin. John holds a BA in Economics, *summa cum laude*, from Yale and is a CFA charterholder. He resides in New York City with his wife and two kids.

THE SUPERINVESTOR ISSUE

- ▶ Snapshot of 100 companies owned by superinvestors
 - ▶ 22 companies profiled and analyzed
- ▶ Proprietary selection of Top 3 candidates for investment
 - ▶ Plus: Latest holdings of top investors
 - ▶ Plus: Exclusive Interview with Brian Bares
- ▶ Plus: Exclusive Notes from Value Investing Seminar, Italy

Superinvestor companies mentioned in this issue include Abbott Labs, Abercrombie & Fitch, Alleghany, Allegheny Energy, Allergan, Alliance One, Allied Healthcare, Allstate, AmeriCredit, Apollo Group, Aspen Insurance, Automatic Data, AutoNation, Bank of America, Becton, Dickinson, Bel Fuse, BioFuel Energy, Brookfield Prop., Burlington Northern, Campbell Soup, Capital Southwest, CapitalSource, Cardinal Health, CF Industries, Coca-Cola Company, Comcast, Contango Oil & Gas, Coventry Health, Crosstex Energy, Dell, DIRECTV Group, Discovery Comms, DreamWorks Animation, EMC Corp., Exterran Holdings, Fairfax Financial, Forest City, General Electric, Genworth Financial, Health Net, Hertz Global, Hewlett-Packard, Humana, Intelligent Systems, International Assets, International Coal, Jefferies Group, Johnson & Johnson, Leucadia National, Level 3 Comms, Liberty Acquisition, Liberty Entertain., Lockheed Martin, Magna International, Market Leader, McDonald's, MI Developments, Microsoft, ModusLink Global, Monsanto Company, Nabors Industries, News Corp., Northrop Grumman, Odyssey Re, Omnicom Group, Overstock.com, Pfizer, Philip Morris, POSCO, Potash Corp., Procter & Gamble, Republic Airways, SAP, Sears Holdings, Smithfield Foods, Spirit AeroSystems, St. Joe, Stanley Furniture, Strayer Education, Sun Microsystems, Sycamore Networks, TAL International, Target, Tejon Ranch, Theravance, Transatlantic, TravelCenters, tw telecom, U.S. Bancorp, United Am. Indemnity, Varian Medical, Visa, VistaPrint, Wal-Mart, Walt Disney, WellCare Health, Wells Fargo, Wyeth, Yahoo!, Yum! Brands, and more.

(profiled companies are underlined)

Table of Contents

EDITOR'S COMMENTARY	5
PORTFOLIOS WITH "SIGNAL VALUE"	6
BILL ACKMAN, PERSHING SQUARE	7
ZEKE ASHTON, CENTAUR	8
BRUCE BERKOWITZ, FAIRHOLME	9
WARREN BUFFETT, BERKSHIRE HATHAWAY	10
IAN CUMMING & JOE STEINBERG, LEUCADIA	11
DAVID EINHORN, GREENLIGHT	12
BRIAN GAINES, SPRINGHOUSE	13
TOM GAYNER, MARKEL GAYNER	14
GLENN GREENBERG, CHIEFTAIN	15
MASON HAWKINS, SOUTHEASTERN	16
CHRIS HOHN, CHILDREN'S INVESTMENT FUND	17
CARL ICAHN, ICAHN PARTNERS	18
SETH KLARMAN, BAUPOST	19
EDDIE LAMPERT, RBS PARTNERS	20
DAN LOEB, THIRD POINT	21
STEVE MANDEL, LONE PINE	22
MOHNISH PABRAI, PABRAI FUNDS	23
RICH PZENA, PZENA INVESTMENT MANAGEMENT	24
KEN SHUBIN STEIN, SPENCER CAPITAL	25
PREM WATSA, FAIRFAX	26
WALLY WEITZ, WEITZ FUNDS	27
MARTY WHITMAN, THIRD AVENUE	28
EXCLUSIVE INTERVIEW WITH BRIAN BARES	29
SNAPSHOT OF 100 SUPERINVESTOR-OWNED COMPANIES	34
IN ALPHABETICAL ORDER	34
BY MARKET VALUE	36
BY SECTOR	38
STOCK PRICE PERFORMANCE	40
FREE CASH FLOW	42
P/E MULTIPLES	44
LATEST QUARTERLY EPS SURPRISES	46
REVENUE AND EPS GROWTH	48
PERCENTILE RANK WITHIN INDUSTRY	50
INSIDER BUYING AND OWNERSHIP	52
TOP THREE SUPERINVESTOR SELECTIONS	54
CONTANGO OIL & GAS (MCF) – SELLERS ⇔, SHUBIN STEIN ⇔	54
EXTERRAN HOLDINGS (EXH) – KLARMAN ⇔, ZELL	57
PFIZER (PFE) – BERKOWITZ ⇔, EINHORN ↑, LOEB ⇔, WHITMAN ↓↓	60
NEW OR INCREASED SUPERINVESTOR HOLDINGS	64
CF INDUSTRIES (CF) – LOEB ↑↑	64
COCA-COLA COMPANY (KO) – BUFFETT ⇔, GAYNER ↑↑, HOHN ↑↑, MANDEL ↑	67
FAIRFAX FINANCIAL (FFH) – GAYNER ⇔, HAWKINS ↑, PABRAI ↑	70
HERTZ (HTZ) – BERKOWITZ ↑	72
PROCTER & GAMBLE (PG) – BUFFETT ⇔, GAYNER ↑↑, WEITZ ↑	75
SPIRIT AEROSYSTEMS (SPR) – BERKOWITZ ↑	78
TAL INTERNATIONAL (TAL) – BERKOWITZ ↑	81
WELLS FARGO (WFC) – BUFFETT ⇔, PABRAI ↑, WATSA ⇔	84
YAHOO! (YHOO) – ASHTON ↓, ICAHN ⇔, LOEB ↑↑	87
UNCHANGED SUPERINVESTOR HOLDINGS	90
INTERNATIONAL ASSETS HOLDING (IAAC) – BARES, CUMMING/STEINBERG ⇔	90
MARKET LEADER (LEDR) – GAINES ⇔	93

REDUCED OR ELIMINATED SUPERINVESTOR HOLDINGS..... 96

ABERCROMBIE & FITCH (ANF) – MANDEL ↓↓	96
COVENTRY HEALTH CARE (CVH) – GAINES ↓	99
HEALTH NET (HNT) – GAINES ↓↓, ROSENSTEIN ↓	101
MAGNA INTERNATIONAL (MGA) – PZENA ↓, WATSA ⇔	104
MODUSLINK GLOBAL (MLNK) – GAINES ↓	106
NEWS CORP. (NWS.A) – KLARMAN ↓	108
VISA (V) – ACKMAN ↓↓, HOHN ↑, MANDEL ↓	110
YUM! BRANDS (YUM) – ACKMAN ↓↓, HAWKINS ↓	113

NOTES FROM VALUE INVESTING SEMINAR IN ITALY, JULY 116

CICCIO AZZOLLINI, CATTOLICA PARTECIPAZIONI	116
VICTOR FASCIANI, PRAETORIAN VALUE FUND	117
DON FITZGERALD, TOCQUEVILLE VALUE EUROPE	118
ALVARO GUZMAN DE LAZARO MATEOS, BESTINVER	119
MAX OTTE, FACHHOCHSCHULE WORMS	120
GUY SPIER, AQUAMARINE CAPITAL MANAGEMENT	121
ROBERT VINALL, RV CAPITAL	122
JOSH TARASOFF, GREENLEA LANE CAPITAL	123

Portfolios With “Signal Value”

Revealing the Top Ideas of Top Investors

“Signal value” as opposed to “noise.” We present the holdings of some of the world’s top investors. We look for investors who have amassed impressive track records over long periods of time. We choose these investors carefully to avoid the noise inherent in most 13F-HR filings.

Top investors included in this section:

- William Ackman, Pershing Square
- Zeke Ashton, Centaur
- Bruce Berkowitz, Fairholme
- Warren Buffett, Berkshire Hathaway
- Ian Cumming & Joe Steinberg, Leucadia
- David Einhorn, Greenlight
- Glenn Greenberg, Chieftain
- Brian Gaines, Springhouse
- Tom Gayner, Markel Gayner
- Mason Hawkins, Southeastern
- Chris Hohn, Children’s Investment Fund
- Carl Icahn, Icahn
- Seth Klarman, Baupost
- Eddie Lampert, RBS (ESL)
- Dan Loeb, Third Point
- Steve Mandel, Lone Pine
- Mohnish Pabrai, Pabrai Funds
- Rich Pzena, Pzena Investment
- Kenneth Shubin Stein, Spencer
- Prem Watsa, Fairfax
- Wally Weitz, Weitz Funds
- Marty Whitman, Third Avenue

*Missing your favorite superinvestor?
Let us know at editor@manualofideas.com.*

MOI Signal Rank answers the question, “What are this investor’s top ten ideas right now?” Rather than simply presenting each investor’s largest holdings as of the recently filed quarter end, the *MOI*’s proprietary methodology ranks the companies in each investor’s portfolio based on the investor’s current level of conviction in each holding, *as judged by the MOI*.

Our proprietary methodology takes into account a number of variables, including the size of a position in an investor’s portfolio, the size of a position relative to the market value of the corresponding company, the most recent quarterly change in the number of shares owned, and the change in the stock price of a position since the most recent quarterly filing date.

For example, an investor might have the most conviction in a position that is only the tenth-largest position in such investor’s portfolio. This might be the case if an investor invests in a small company, resulting in a holding that is simply too small to rank highly based on size alone. On the other hand, such a holding might represent 19.9% of the shares outstanding of the subject company, suggesting a high level of conviction. Our estimate of the conviction level would rise further if the subject company has a 20% poison-pill threshold, thereby suggesting that the investor has bought as much of the subject company as is practically feasible.

Bruce Berkowitz, Fairholme

Bruce Berkowitz, manager of The Fairholme Fund, has been one of the most successful value-oriented investors of the past decade. From inception on December 29, 1999 through December 31, 2008, The Fairholme Fund has delivered a cumulative return, net of expenses, of 153.92%, versus a return of -27.83%, before expenses, for the S&P 500 Index.

MOI Signal Rank™ – Top Current Ideas of Fairholme

Company	Ticker	Market Value (\$mn)	Price (\$)			Shares Owned		Holdings as % of		
			Latest Date	Filing Date	Δ Since Filing	Latest Filing	Δ Since 3/31/09	Co.	Fund	
			1	Spirit Aerosystems	SPR	1,912	13.67	13.74	-1%	22,155,838
2	St Joe	JOE	3,029	32.74	26.49	24%	24,751,543	34%	27%	9%
3	Hertz Global	HTZ	4,511	11.02	7.99	38%	58,817,361	38%	16%	7%
4	WellCare Health Plans	WCG	1,049	24.85	18.49	34%	8,399,763	3%	20%	2%
5	AmeriCredit	ACF	2,283	17.19	13.55	27%	32,307,322	no change	24%	6%
6	TAL International	TAL	309	10.00	10.90	-8%	2,724,862	12%	9%	0%
7	Humana	HUM	5,885	34.69	32.26	8%	9,537,400	41%	6%	4%
8	Berkshire Hathaway	BRK/A	156,589	101,400	90,000	13%	847	>100%	0%	1%
	Berkshire Hathaway	BRK/B	156,589	3,329	2,896	15%	25,707	new position	0%	1%

Top Holdings of Fairholme – By Dollar Value

Company	Ticker	Market Value (\$mn)	Price (\$)			Shares Owned		Holdings as % of		
			Latest Date	Filing Date	Δ Since Filing	Latest Filing	Δ Since 3/31/09	Co.	Fund	
			1	Pfizer	PFE	106,434	15.77	15.00	5%	87,182,848
2	Sears Holdings	SHLD	9,247	77.10	66.52	16%	13,576,439	-5%	11%	13%
3	St Joe	JOE	3,029	32.74	26.49	24%	24,751,543	34%	27%	9%
4	Hertz Global	HTZ	4,511	11.02	7.99	38%	58,817,361	38%	16%	7%
5	Forest Laboratories	FRX	8,308	27.54	25.11	10%	18,147,244	-10%	6%	6%
6	WellPoint	WLP	24,793	52.19	50.89	3%	8,710,710	-13%	2%	6%
7	AmeriCredit	ACF	2,283	17.19	13.55	27%	32,307,322	no change	24%	6%
8	Leucadia National	LUK	6,302	25.86	21.09	23%	18,008,803	-1%	8%	5%
9	Humana	HUM	5,885	34.69	32.26	8%	9,537,400	41%	6%	4%
10	Spirit Aerosystems	SPR	1,912	13.67	13.74	-1%	22,155,838	17%	21%	4%

New Positions

Berkshire Hathaway (B Shares) (BRK/B)
Meritor Savings Bank (MSVP)
RSC Holdings (RRR)

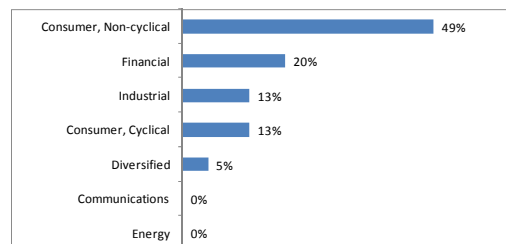
Sold Out Positions

Calumet Specialty Products (CLMT)
Canadian Natural Resources (CNQ)
Markel (MKL)

Portfolio Metrics

Portfolio size	\$7 billion
Top 10 as % of portfolio	73%
Median market value	\$6 billion
Average market value	\$31 billion
Median price to earnings	9x
Median price to book	1.3x

Sector Weightings



David Einhorn, Greenlight

David Einhorn is the founder of Greenlight Capital, a value-oriented, research-driven investment firm with a market-beating long-term track record. He is also author of [Fooling Some of the People All of the Time](#).

MOI Signal Rank™ – Top Current Ideas of Greenlight

Company	Ticker	Market Value (\$mn)	Price (\$)			Shares Owned		Holdings as % of		
			Latest Date	Filing Date	Δ Since Filing	Latest Filing	Δ Since 3/31/09	Co.	Fund	
			1	Cardinal Health	CAH	11,846	32.90	30.55	8%	3,971,173
2	Wyeth	WYE	62,734	46.99	45.39	4%	2,860,000	100%	0%	5%
3	Pfizer	PFE	106,434	15.77	15.00	5%	11,987,000	>100%	0%	6%
4	BioFuel Energy	BIOF	22	0.65	0.63	4%	7,542,104	no change	32%	0%
5	Einstein Noah Restaurant	BAGL	208	12.91	8.65	49%	10,733,469	no change	67%	3%
6	Aspen Insurance	AHL	2,032	24.47	22.34	10%	4,140,000	74%	5%	3%
7	MI Developments	MIM	571	12.21	7.59	61%	5,655,235	no change	12%	2%
8	US Natural Gas ETF	UNG	4,339	12.49	13.87	-10%	17,400	new position	0%	0%
9	Transatlantic	TRH	3,110	46.86	43.33	8%	325,000	new position	0%	0%
10	Republic Airways	RJET	227	6.60	6.53	1%	3,382,800	no change	10%	1%

Top Holdings of Greenlight – By Dollar Value

Company	Ticker	Market Value (\$mn)	Price (\$)			Shares Owned		Holdings as % of		
			Latest Date	Filing Date	Δ Since Filing	Latest Filing	Δ Since 3/31/09	Co.	Fund	
			1	Pfizer	PFE	106,434	15.77	15.00	5%	11,987,000
2	URS	URS	3,954	47.54	49.52	-4%	3,194,924	-28%	4%	6%
3	Teradata	TDC	4,656	27.10	23.43	16%	6,205,017	-10%	4%	5%
4	Wyeth	WYE	62,734	46.99	45.39	4%	2,860,000	100%	0%	5%
5	Cardinal Health	CAH	11,846	32.90	30.55	8%	3,971,173	new position	1%	4%
6	Gold Miners ETF	GDX	4,448	39.21	37.82	4%	3,200,000	no change	3%	4%
7	Allegheny Energy	AYE	4,279	25.25	25.65	-2%	4,154,200	-4%	2%	4%
8	EMC	EMC	30,674	15.17	13.10	16%	7,244,000	-43%	0%	3%
9	Einstein Noah Restaurant	BAGL	208	12.91	8.65	49%	10,733,469	no change	67%	3%
10	Aspen Insurance	AHL	2,032	24.47	22.34	10%	4,140,000	74%	5%	3%

New Positions

ATP Oil & Gas (ATPG)
Cardinal Health (CAH)
Endurance Specialty (ENH)
Transatlantic (TRH)
US Natural Gas ETF (UNG)

Sold Out Positions

American Eagle Outfitters (AEO)
Brandywine Realty (BDN)
Cadence Design (CDNS)
Carpenter Technology (CRS)
CommScope (CTV)
Con-way (CNW)
Corning Inc (GLW)

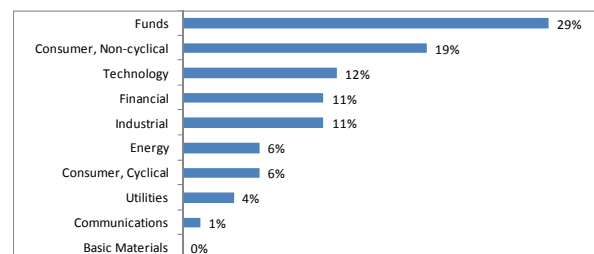
Discover Financial (DFS)
Dow Chemical (DOW)
Focus Media Holding (FMCN)
Hess (HES)
JA Solar (JASO)
Jones Apparel (JNY)
Patriot Coal (PCX)

Rohm and Haas (ROH)
SPDR Gold ETF (GLD)
Sunstone Hotel (SHO)
SUPERVALU (SVU)
Target (TGT)
Western Digital (WDC)
Williams-Sonoma (WSM)

Portfolio Metrics

Portfolio size	\$2.8 billion
Top 10 as % of portfolio	65%
Median market value	\$2 billion
Average market value	\$9 billion
Median price to earnings	10x
Median price to book	1.0x

Sector Weightings



Exclusive Interview with Brian Bares

We are pleased to bring you an interview with Austin, Texas-based investor Brian Bares this month. Bares started his investment firm, Bares Capital Management, in 2000, focusing initially on micro-cap public companies. The firm launched a small-cap institutional strategy in 2001 and now manages assets in two value-oriented strategies. Bares Capital Management is quite unique in the institutional asset management world, as it has adhered to a disciplined business strategy, limiting the growth of assets under management to benefit investment performance. Both of Bares's institutional strategies have beaten their respective benchmark indices by wide margins since inception.



Brian Bares
Bares Capital Management, Inc.

“Our competitors have a difficult time running a strategy like ours because success creates profit motives that tend to move them up the market cap spectrum or into excessively diversified portfolios...”

MOI: Since starting your firm nearly ten years ago, you have focused on investing in small public companies. What prompted this focus, and has your approach changed at all in light of the fact that many large companies have looked inefficiently priced recently?

Brian Bares: There are really two reasons for our focus on small companies. The first is that small companies are more likely to be inefficiently priced. Our investment process mandates a comprehensive understanding of our portfolio companies. It is much more likely that we can profit from this understanding in small caps, where information scarcity allows for opportunity. We also cap assets to maintain our focus on small companies. Our competitors have a difficult time running a strategy like ours because success creates profit motives that tend to move them up the market cap spectrum or into excessively diversified portfolios in order to accommodate a larger asset base.

The second reason is structural. Our firm manages money in replicated separate accounts, and our relationships are largely direct with foundation and endowment clients. These clients employ many specialist managers in a number of different niche areas. They understand that our value to them is our area of competence — small-company common stocks. And they pay for our best ideas as we typically hold between 10 and 20 positions. Our clients allow us to do this because they have other managers looking at mid- and large-caps, international, commodities, real estate, etc. So we have really absolved ourselves of making many difficult macro and asset allocation decisions. Instead, we simply hunker down and focus on our little corner of the market. Our success is judged against small company benchmarks. The only time we think about what is happening with large-caps, international stocks, and other asset classes is when factors affecting these could affect the underlying business performance of the companies we own.

Snapshot of 100 Superinvestor-Owned Companies In Alphabetical Order

Company / Ticker	Industry	Notable Shareholders	Recent Price (\$)	Δ to 52-Wk		Market Value (\$mn)	Website
				Low (\$)	High (\$)		
Abbott Laboratories / ABT	Major Drugs	Tom Gayner	44.36	-7%	37%	68,577	www.abbott.com
Abercrombie & Fitch / ANF	Retail (Apparel)	Steve Mandel (sold out)	34.25	-60%	63%	3,010	www.abercrombie.co.uk
Allegheny Corp. / Y	Conglomerates	Zeke Ashton	264.82	-33%	55%	2,387	www.allegheny.com
Allegheny Energy / AYE	Electric Utilities	Einhorn, Shubin Stein	25.25	-20%	87%	4,279	www.alleghenyenergy.com
Allergan / AGN	Biotechnology & Drugs	Dan Loeb	54.38	-47%	13%	16,535	www.allergan.com
Alliance One / AOI	Tobacco	Seth Klarman	3.79	-48%	51%	338	www.aointl.com
Allied Healthcare / AHCI	Healthcare Facilities	Brian Gaines	2.50	-62%	16%	113	www.alliedhealthcare.com
Allstate / ALL	Property & Casualty Insur.	Rich Pzena	28.55	-52%	68%	15,314	www.allstate.com
AmeriCredit / ACF	Retail Financial Services	Berkowitz, Leucadia	17.19	-83%	4%	2,283	www.americredit.com
Apollo Group / APOL	Schools	Wally Weitz	65.73	-27%	37%	10,102	www.apollogrp.edu
Aspen Insurance / AHL	Property & Casualty Insur.	David Einhorn	24.47	-45%	32%	2,032	www.aspen.bm
Automatic Data / ADP	Business Services	Bill Ackman	38.48	-20%	19%	19,303	www.adp.com
AutoNation / AN	Retail (Specialty)	Eddie Lampert	18.49	-79%	15%	3,292	www.autonation.com
Bank of America / BAC	Money Center Banks	Dan Loeb	17.39	-85%	127%	150,451	www.bankofamerica.com
Becton, Dickinson / BDx	Medical Equipment	Warren Buffett	66.39	-12%	34%	15,893	www.bd.com
Bel Fuse / BELFB	Electronic Instruments	Marty Whitman	17.12	-49%	82%	197	www.belfuse.com
BioFuel Energy / BIOF	Chemical Manufacturing	Einhorn, Loeb	0.65	-62%	185%	22	www.bfenergy.com
Brookfield Prop. / BPO	Real Estate Operations	Mohnish Pabrai	10.15	-60%	118%	3,970	www.brookfieldproperties.com
Burlington Northern / BNI	Railroads	Buffett, Watsa	82.63	-38%	33%	28,096	www.bnsf.com
Campbell Soup / CPB	Food Processing	Tom Gayner	30.60	-20%	33%	10,720	www.campbellsoup.com
Capital Southwest / CSWC	Misc. Financial Services	Cumming/Steinberg	78.31	-32%	87%	293	www.capitalsouthwest.com
CapitalSource / CSE	Regional Banks	Seth Klarman	3.84	-77%	284%	1,242	www.capitalsource.com
Cardinal Health / CAH	Biotechnology & Drugs	Einhorn, Pzena	32.90	-16%	71%	11,846	www.cardinal.com
CF Industries / CF	Chemical Manufacturing	Dan Loeb	82.87	-54%	86%	4,016	www.cfindustries.com
Coca-Cola Company / KO	Beverages (Non-Alcoholic)	Buffett, Gayner, Hohn	48.47	-23%	15%	112,326	thecoca-colacompany.com
Comcast Corp. / CMCSA	Broadcasting & Cable TV	Greenberg, Weitz	14.81	-38%	52%	42,502	www.comcast.com
Contango Oil & Gas / MCF	Oil & Gas Operations	Mark Sellers	44.82	-29%	81%	710	www.contango.com
Coventry Health / CVH	Health Insurance	Brian Gaines (sold out)	22.60	-65%	74%	3,380	www.coventryhealthcare.com
Crosstex Energy / XTXI	Natural Gas Utilities	Greenberg, Shubin Stein	3.86	-81%	765%	179	www.crosstexenergy.com
Dell / DELL	Computer Hardware	Greenberg, Hawkins	14.20	-45%	83%	27,747	www.dell.com
DIRECTV Group / DTV	Broadcasting & Cable TV	Mason Hawkins	24.64	-54%	17%	24,080	www.directv.com
Discovery Comms / DISCA	Broadcasting & Cable TV	Hawkins, Mandel	24.77	-60%	5%	6,984	discoverycommunications.com
DreamWorks Animation / DWA	Motion Pictures	Zeke Ashton	31.25	-45%	5%	2,710	www.dreamworksanimation.com
EMC Corp. / EMC	Computer Storage Devices	Ackman, Einhorn	15.17	-46%	4%	30,675	www.emc.com
Exterran Holdings / EXH	Oil Well Services	Seth Klarman	17.24	-31%	190%	1,077	www.exterran.com
Fairfax Financial / FFH	Property & Casualty Insur.	Gayner, Hawkins	343.90	-39%	3%	6,274	www.fairfax.ca
Forest City / FCE.A	Real Estate Operations	Marty Whitman	7.68	-58%	427%	1,201	www.forestcity.net
General Electric / GE	Conglomerates	Gayner, Watsa	13.92	-59%	118%	147,926	www.ge.com
Genworth Financial / GNW	Life Insurance	Eddie Lampert	8.28	-92%	141%	3,587	www.genworth.com
Health Net / HNT	Health Insurance	Brian Gaines (sold out)	14.67	-50%	96%	1,524	www.healthnet.com
Hertz Global / HTZ	Rental & Leasing	Bruce Berkowitz	11.02	-86%	9%	4,511	www.hertz.com
Hewlett-Packard / HPQ	Computer Hardware	Mandel, Loeb	44.09	-42%	12%	105,210	www.hp.com
Humana / HUM	Health Insurance	Bruce Berkowitz	34.69	-46%	46%	5,885	www.humana.com
Intelligent Systems / INS	Software & Programming	Wally Weitz	1.10	-50%	224%	5	www.intelsys.com
International Assets / IAAC	Investment Services	Cumming/Steinberg	17.01	-69%	78%	155	www.intlassets.com
International Coal / ICO	Coal	Prem Watsa	3.21	-66%	234%	495	www.intlcoal.com
Jefferies Group / JEF	Investment Services	Cumming/Steinberg	22.45	-64%	29%	3,874	www.jefferies.com
Johnson & Johnson / JNJ	Major Drugs	Buffett, Watsa	60.08	-23%	21%	165,569	www.jnj.com
Leucadia National / LUK	Conglomerates	Berkowitz, Pabrai	25.86	-60%	89%	6,302	www.leucadia.com
Level 3 Comms / LVLT	Communications Services	Hawkins, Watsa	1.19	-52%	201%	1,945	www.level3.com

[Portfolio w 100 companies • Top100_browser • MOI_macros_100.xls, MOI100A, then MOI100B, then MOI100C, then MOI100D]

In Alphabetical Order (continued)

Company / Ticker	Industry	Notable Shareholders	Recent Price (\$)	Δ to 52-Wk		Market Value (\$mn)	Website
				Low (\$)	High (\$)		
Liberty Acquisition / LIA	Misc. Financial Services	Dan Loeb	9.30	-16%	0%	1,203	libertyacquisitionholdingsintl.com
Liberty Entertain. / LMDIA	Broadcasting & Cable TV	Hawkins, Klarman	27.84	-66%	3%	14,430	www.libertymedia.com
Lockheed Martin / LMT	Aerospace and Defense	Glenn Greenberg	74.59	-23%	61%	28,669	www.lockheedmartin.com
Magna International / MGA	Auto & Truck Parts	Watsa, Pzena	47.93	-59%	30%	5,398	www.magna.com
Market Leader / LEDR	Real Estate Operations	Brian Gaines	1.99	-37%	47%	48	www.marketleader.com
McDonald's / MCD	Restaurants	Ackman, Gayner	55.27	-17%	18%	60,319	www.mcdonalds.com
MI Developments / MIM	Real Estate Operations	David Einhorn	12.21	-73%	93%	570	www.middevelopments.com
Microsoft / MSFT	Software & Programming	Gayner, Weitz	23.69	-37%	19%	211,112	www.microsoft.com
ModusLink Global / MLNK	Computer Services	Brian Gaines	7.11	-77%	75%	324	www.moduslink.com
Monsanto Company / MON	Chemical Manufacturing	Steve Mandel	81.24	-22%	49%	44,350	www.monsanto.com
Nabors Industries / NBR	Oil Well Services	Marty Whitman	17.70	-53%	114%	5,028	www.nabors.com
News Corp. / NWSA	Broadcasting & Cable TV	Seth Klarman	10.94	-55%	33%	28,601	www.newscorp.com
Northrop Grumman / NOC	Aerospace and Defense	Pzena, Ashton	47.37	-29%	52%	15,069	www.northropgrumman.com
Odyssey Re / ORH	Property & Casualty Insur.	Watsa, Ashton	48.30	-35%	13%	2,824	www.odysseyre.com
Omnicom Group / OMC	Advertising	Rich Pzena	35.34	-43%	26%	10,983	www.omicomgroup.com
Overstock.com / OSTK	Retail (Online)	Prem Watsa	12.62	-50%	79%	289	www.overstock.com
Pfizer / PFE	Major Drugs	Berkowitz, Einhorn	15.77	-26%	28%	106,434	www.pfizer.com
Philip Morris / PM	Tobacco	Hohn, Mandel	46.62	-31%	20%	90,185	philipmorrisinternational.com
POSCO / PKX	Iron & Steel	Marty Whitman	95.87	-58%	20%	29,761	www.posco.com
Potash Corp. / POT	Non-Metallic Mining	Pabrai, Weitz	95.75	-50%	95%	28,316	www.potashcorp.com
Procter & Gamble / PG	Household Products	Buffett, Gayner, Weitz	52.37	-16%	40%	152,643	www.pg.com
Republic Airways / RJET	Airline	David Einhorn	6.60	-38%	138%	227	www.republicairways.com
SAP / SAP	Software & Programming	Chris Hohn	46.92	-38%	26%	56,670	www.sap.com
Sears Holdings / SHLD	Retail (Dep't & Discount)	Lampert, Berkowitz	77.10	-65%	41%	9,247	www.searsholdings.com
Smithfield Foods / SFD	Food Processing	Steve Mandel	11.93	-55%	114%	1,713	www.smithfieldfoods.com
Spirit AeroSystems / SPR	Aerospace and Defense	Bruce Berkowitz	13.67	-48%	74%	1,928	www.spiritaero.com
St. Joe / JOE	Real Estate Operations	Bruce Berkowitz	32.74	-56%	30%	3,029	www.joe.com
Stanley Furniture / STLY	Furniture & Fixtures	Marty Whitman	10.99	-49%	7%	114	www.stanleyfurniture.com
Strayer Education / STRA	Schools	Mandel, Weitz	213.68	-33%	12%	2,990	www.strayereducation.com
Sun Microsystems / JAVA	Computer Hardware	Dan Loeb	9.16	-72%	19%	6,836	www.sun.com
Sycamore Networks / SCMR	Communications Equipment	Marty Whitman	3.09	-35%	21%	878	www.sycamorenet.com
TAL International / TAL	Rental & Leasing	Bruce Berkowitz	10.00	-45%	170%	312	www.talinternational.com
Target / TGT	Retail (Dep't & Discount)	Bill Ackman	42.03	-41%	42%	31,618	www.target.com
Tejon Ranch / TRC	Real Estate Operations	Marty Whitman	25.74	-29%	50%	438	www.tejon.com
Theravance / THRX	Biotechnology & Drugs	Seth Klarman	14.66	-71%	27%	926	www.theravance.com
Transatlantic / TRH	Health Insurance	Einhorn, Loeb	46.86	-44%	51%	3,110	www.transre.com
TravelCenters / TA	Retail (Specialty)	Cumming/Steinberg	2.93	-67%	19%	49	www.tatravelcenters.com
tw telecom / TWTC	Communications Services	Mason Hawkins	11.39	-61%	43%	1,700	www.twtelecom.com
U.S. Bancorp / USB	Money Center Banks	Buffett, Greenberg	22.49	-64%	88%	43,001	www.usbank.com
United Am. Indemnity / INDM	Property & Casualty Insur.	Rich Pzena	6.19	-40%	185%	374	www.uai.ky
Varian Medical / VAR	Medical Equipment	Glenn Greenberg	36.80	-26%	79%	4,620	www.varian.com
Visa / V	Retail Financial Services	Hohn, Mandel	67.80	-38%	14%	57,394	www.visa.com
VistaPrint / VPRT	Business Services	Steve Mandel	43.83	-73%	6%	1,876	www.vistaprint.co.uk
Wal-Mart / WMT	Retail (Dep't & Discount)	Tom Gayner	51.79	-11%	23%	201,806	walmartstores.com
Walt Disney / DIS	Broadcasting & Cable TV	Hawkins, Gayner	25.86	-41%	35%	48,062	disney.go.com
WellCare Health / WCG	Health Insurance	Berkowitz, Shubin Stein	24.85	-75%	84%	1,049	www.wellcare.com
Wells Fargo / WFC	Regional Banks	Buffett, Watsa, Pabrai	27.73	-72%	61%	129,544	www.wellsfargo.com
Wyeth / WYE	Major Drugs	Einhorn, Loeb	46.99	-40%	1%	62,734	www.wyeth.com
Yahoo! / YHOO	Business Services	Icahn, Loeb, Ashton	15.04	-41%	38%	21,107	www.yahoo.com
Yum! Brands / YUM	Restaurants	Mason Hawkins	34.94	-38%	15%	16,302	www.yum.com

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By Market Value

Company / Ticker	Industry	Notable Shareholders	Recent Price (\$)	Δ to 52-Wk		Market Value (\$mn)	Enterprise Value (\$mn)	LTM EBIT/ EV	LTM EBIT/ Capital
				Low (\$)	High (\$)				
Microsoft / MSFT	Software & Programming	Gayner, Weitz	23.69	-37%	19%	211,112	185,411	11%	>99%
Wal-Mart / WMT	Retail (Dep't & Discount)	Tom Gayner	51.79	-11%	23%	201,806	239,051	10%	0-25%
Johnson & Johnson / JNJ	Major Drugs	Buffett, Watsa	60.08	-23%	21%	165,569	164,467	10%	50-99%
Procter & Gamble / PG	Household Products	Buffett, Gayner, Weitz	52.37	-16%	40%	152,643	184,834	9%	50-99%
Bank of America / BAC	Money Center Banks	Dan Loeb	17.39	-85%	127%	150,451	nm	2%	0-25%
General Electric / GE	Conglomerates	Gayner, Watsa	13.92	-59%	118%	147,926	nm	2%	0-25%
Wells Fargo / WFC	Regional Banks	Buffett, Watsa, Pabrai	27.73	-72%	61%	129,544	nm	4%	0-25%
Coca-Cola Company / KO	Beverages (Non-Alcoholic)	Buffett, Gayner, Hohn	48.47	-23%	15%	112,326	115,829	7%	50-99%
Pfizer / PFE	Major Drugs	Berkowitz, Einhorn	15.77	-26%	28%	106,434	95,427	10%	0-25%
Hewlett-Packard / HPQ	Computer Hardware	Mandel, Loeb	44.09	-42%	12%	105,210	110,974	9%	>99%
Philip Morris / PM	Tobacco	Hohn, Mandel	46.62	-31%	20%	90,185	101,657	10%	>99%
Abbott Laboratories / ABT	Major Drugs	Tom Gayner	44.36	-7%	37%	68,577	77,392	8%	25-50%
Wyeth / WYE	Major Drugs	Einhorn, Loeb	46.99	-40%	1%	62,734	58,304	12%	25-50%
McDonald's / MCD	Restaurants	Ackman, Gayner	55.27	-17%	18%	60,319	69,159	9%	25-50%
Visa / V	Retail Financial Services	Hohn, Mandel	67.80	-38%	14%	57,394	53,092	4%	>99%
SAP / SAP	Software & Programming	Chris Hohn	46.92	-38%	26%	56,670	56,275	7%	>99%
Walt Disney / DIS	Broadcasting & Cable TV	Hawkins, Gayner	25.86	-41%	35%	48,062	58,628	9%	25-50%
Monsanto Company / MON	Chemical Manufacturing	Steve Mandel	81.24	-22%	49%	44,350	45,596	7%	25-50%
U.S. Bancorp / USB	Money Center Banks	Buffett, Greenberg	22.49	-64%	88%	43,001	nm	3%	0-25%
Comcast Corp. / CMCSA	Broadcasting & Cable TV	Greenberg, Weitz	14.81	-38%	52%	42,502	71,488	10%	25-50%
Target / TGT	Retail (Dep't & Discount)	Bill Ackman	42.03	-41%	42%	31,618	49,016	9%	0-25%
EMC Corp. / EMC	Computer Storage Devices	Ackman, Einhorn	15.17	-46%	4%	30,675	26,461	5%	50-99%
POSCO / PKX	Iron & Steel	Marty Whitman	95.87	-58%	20%	29,761	28,886	17%	25-50%
Lockheed Martin / LMT	Aerospace and Defense	Glenn Greenberg	74.59	-23%	61%	28,669	29,802	16%	>99%
News Corp. / NWSA	Broadcasting & Cable TV	Seth Klarman	10.94	-55%	33%	28,601	36,350	nm	nm
Potash Corp. / POT	Non-Metallic Mining	Pabrai, Weitz	95.75	-50%	95%	28,316	31,947	8%	25-50%
Burlington Northern / BNI	Railroads	Buffett, Watsa	82.63	-38%	33%	28,096	37,450	10%	0-25%
Dell / DELL	Computer Hardware	Greenberg, Hawkins	14.20	-45%	83%	27,747	20,119	13%	>99%
DIRECTV Group / DTV	Broadcasting & Cable TV	Mason Hawkins	24.64	-54%	17%	24,080	27,595	9%	25-50%
Yahoo! / YHOO	Business Services	Icahn, Loeb, Ashton	15.04	-41%	38%	21,107	17,229	0%	nm
Automatic Data / ADP	Business Services	Bill Ackman	38.48	-20%	19%	19,303	17,780	10%	>99%
Allergan / AGN	Biotechnology & Drugs	Dan Loeb	54.38	-47%	13%	16,535	16,639	5%	50-99%
Yum! Brands / YUM	Restaurants	Mason Hawkins	34.94	-38%	15%	16,302	19,566	7%	25-50%
Becton, Dickinson / BDX	Medical Equipment	Warren Buffett	66.39	-12%	34%	15,893	16,030	10%	25-50%
Allstate / ALL	Property & Casualty Insur.	Rich Pzena	28.55	-52%	68%	15,314	21,305	nm	nm
Northrop Grumman / NOC	Aerospace and Defense	Pzena, Ashton	47.37	-29%	52%	15,069	17,881	0%	nm
Liberty Entertain. / LMDIA	Broadcasting & Cable TV	Hawkins, Klarman	27.84	-66%	3%	14,430	15,582	nm	nm
Cardinal Health / CAH	Biotechnology & Drugs	Einhorn, Pzena	32.90	-16%	71%	11,846	14,151	14%	25-50%
Omnicom Group / OMC	Advertising	Rich Pzena	35.34	-43%	26%	10,983	13,028	12%	>99%
Campbell Soup / CPB	Food Processing	Tom Gayner	30.60	-20%	33%	10,720	13,241	9%	50-99%
Apollo Group / APOL	Schools	Wally Weitz	65.73	-27%	37%	10,102	9,305	13%	>99%
Sears Holdings / SHLD	Retail (Dep't & Discount)	Lampert, Berkowitz	77.10	-65%	41%	9,247	11,150	4%	0-25%
Discovery Comms / DISCA	Broadcasting & Cable TV	Hawkins, Mandel	24.77	-60%	5%	6,984	10,121	13%	>99%
Sun Microsystems / JAVA	Computer Hardware	Dan Loeb	9.16	-72%	19%	6,836	5,390	nm	nm
Leucadia National / LUK	Conglomerates	Berkowitz, Pabrai	25.86	-60%	89%	6,302	7,717	nm	nm
Fairfax Financial / FFH	Property & Casualty Insur.	Gayner, Hawkins	343.90	-39%	3%	6,274	7,306	23%	>99%
Humana / HUM	Health Insurance	Bruce Berkowitz	34.69	-46%	46%	5,885	1,554	89%	50-99%
Magna International / MGA	Auto & Truck Parts	Watsa, Pzena	47.93	-59%	30%	5,398	4,060	nm	nm
Nabors Industries / NBR	Oil Well Services	Marty Whitman	17.70	-53%	114%	5,028	8,063	5%	0-25%
Varian Medical / VAR	Medical Equipment	Glenn Greenberg	36.80	-26%	79%	4,620	4,180	11%	50-99%

[MF1100 • Top100_browser • MOI_macros_100.xls, MOI100A]

By Market Value (continued)

Company / Ticker	Industry	Notable Shareholders	Recent Price (\$)	Δ to 52-Wk		Market Value (\$mn)	Enterprise Value (\$mn)	LTM EBIT/ EV	LTM EBIT/ Capital
				Low (\$)	High (\$)				
Hertz Global / HTZ	Rental & Leasing	Bruce Berkowitz	11.02	-86%	9%	4,511	13,736	nm	nm
Allegheny Energy / AYE	Electric Utilities	Einhorn, Shubin Stein	25.25	-20%	87%	4,279	8,394	9%	>99%
CF Industries / CF	Chemical Manufacturing	Dan Loeb	82.87	-54%	86%	4,016	3,099	31%	>99%
Brookfield Prop. / BPO	Real Estate Operations	Mohnish Pabrai	10.15	-60%	118%	3,970	17,642	5%	0-25%
Jefferies Group / JEF	Investment Services	Cumming/Steinberg	22.45	-64%	29%	3,874	6,389	nm	nm
Genworth Financial / GNW	Life Insurance	Eddie Lampert	8.28	-92%	141%	3,587	nm	nm	nm
Coventry Health / CVH	Health Insurance	Brian Gaines (sold out)	22.60	-65%	74%	3,380	3,362	12%	>99%
AutoNation / AN	Retail (Specialty)	Eddie Lampert	18.49	-79%	15%	3,292	4,296	nm	nm
Transatlantic / TRH	Health Insurance	Einhorn, Loeb	46.86	-44%	51%	3,110	3,474	0%	>99%
St. Joe / JOE	Real Estate Operations	Bruce Berkowitz	32.74	-56%	30%	3,029	2,962	nm	nm
Abercrombie & Fitch / ANF	Retail (Apparel)	Steve Mandel (sold out)	34.25	-60%	63%	3,010	2,620	4%	0-25%
Strayer Education / STRA	Schools	Mandel, Weitz	213.68	-33%	12%	2,990	2,900	5%	>99%
Odyssey Re / ORH	Property & Casualty Insur.	Watsa, Ashton	48.30	-35%	13%	2,824	2,457	20%	>99%
DreamWorks Animation / DWA	Motion Pictures	Zeke Ashton	31.25	-45%	5%	2,710	2,431	9%	>99%
Alleghany Corp. / Y	Conglomerates	Zeke Ashton	264.82	-33%	55%	2,387	2,312	1%	>99%
AmeriCredit / ACF	Retail Financial Services	Berkowitz, Leucadia	17.19	-83%	4%	2,283	11,700	6%	0-25%
Aspen Insurance / AHL	Property & Casualty Insur.	David Einhorn	24.47	-45%	32%	2,032	1,563	9%	>99%
Level 3 Comms / LVLT	Communications Services	Hawkins, Watsa	1.19	-52%	201%	1,945	7,661	3%	0-25%
Spirit AeroSystems / SPR	Aerospace and Defense	Bruce Berkowitz	13.67	-48%	74%	1,928	2,575	9%	0-25%
VistaPrint / VPRT	Business Services	Steve Mandel	43.83	-73%	6%	1,876	1,761	3%	25-50%
Smithfield Foods / SFD	Food Processing	Steve Mandel	11.93	-55%	114%	1,713	4,582	nm	nm
tw telecom / TWTC	Communications Services	Mason Hawkins	11.39	-61%	43%	1,700	2,612	4%	0-25%
Health Net / HNT	Health Insurance	Brian Gaines (sold out)	14.67	-50%	96%	1,524	1,574	11%	>99%
CapitalSource / CSE	Regional Banks	Seth Klarman	3.84	-77%	284%	1,242	5,924	nm	nm
Liberty Acquisition / LIA	Misc. Financial Services	Dan Loeb	9.30	-16%	0%	1,203	1,194	0%	nm
Forest City / FCE.A	Real Estate Operations	Marty Whitman	7.68	-58%	427%	1,201	9,809	4%	0-25%
Exterran Holdings / EXH	Oil Well Services	Seth Klarman	17.24	-31%	190%	1,077	3,486	nm	nm
WellCare Health / WCG	Health Insurance	Berkowitz, Shubin Stein	24.85	-75%	84%	1,049	108	nm	nm
Theravance / THRX	Biotechnology & Drugs	Seth Klarman	14.66	-71%	27%	926	924	nm	nm
Sycamore Networks / SCMR	Communications Equipment	Marty Whitman	3.09	-35%	21%	878	163	nm	nm
Contango Oil & Gas / MCF	Oil & Gas Operations	Mark Sellers	44.82	-29%	81%	710	672	20%	25-50%
MI Developments / MIM	Real Estate Operations	David Einhorn	12.21	-73%	93%	570	689	nm	nm
International Coal / ICO	Coal	Prem Watsa	3.21	-66%	234%	495	872	2%	0-25%
Tejon Ranch / TRC	Real Estate Operations	Marty Whitman	25.74	-29%	50%	438	402	nm	nm
United Am. Indemnity / INDM	Property & Casualty Insur.	Rich Pzena	6.19	-40%	185%	374	210	nm	nm
Alliance One / AOI	Tobacco	Seth Klarman	3.79	-48%	51%	338	1,351	16%	0-25%
ModusLink Global / MLNK	Computer Services	Brian Gaines	7.11	-77%	75%	324	157	nm	nm
TAL International / TAL	Rental & Leasing	Bruce Berkowitz	10.00	-45%	170%	312	1,527	13%	0-25%
Capital Southwest / CSWC	Misc. Financial Services	Cumming/Steinberg	78.31	-32%	87%	293	283	4%	>99%
Overstock.com / OSTK	Retail (Online)	Prem Watsa	12.62	-50%	79%	289	280	nm	nm
Republic Airways / RJET	Airline	David Einhorn	6.60	-38%	138%	227	2,353	9%	0-25%
Bel Fuse / BELFB	Electronic Instruments	Marty Whitman	17.12	-49%	82%	197	82	nm	nm
Crosstex Energy / XTXI	Natural Gas Utilities	Greenberg, Shubin Stein	3.86	-81%	765%	179	1,555	1%	25-50%
International Assets / IAAC	Investment Services	Cumming/Steinberg	17.01	-69%	78%	155	203	12%	50-99%
Stanley Furniture / STLY	Furniture & Fixtures	Marty Whitman	10.99	-49%	7%	114	101	nm	nm
Allied Healthcare / AHCI	Healthcare Facilities	Brian Gaines	2.50	-62%	16%	113	84	17%	>99%
TravelCenters / TA	Retail (Specialty)	Cumming/Steinberg	2.93	-67%	19%	49	-31	17%	nm
Market Leader / LEDR	Real Estate Operations	Brian Gaines	1.99	-37%	47%	48	-9	>99%	nm
BioFuel Energy / BIOF	Chemical Manufacturing	Einhorn, Loeb	0.65	-62%	185%	22	267	nm	nm
Intelligent Systems / INS	Software & Programming	Wally Weitz	1.10	-50%	224%	5	5	nm	nm

[MFI100 • Top100_browser • MOI_macros_100.xls, MOI100A]

Health Net (HNT) – Gaines ↕↕, Rosenstein ↕

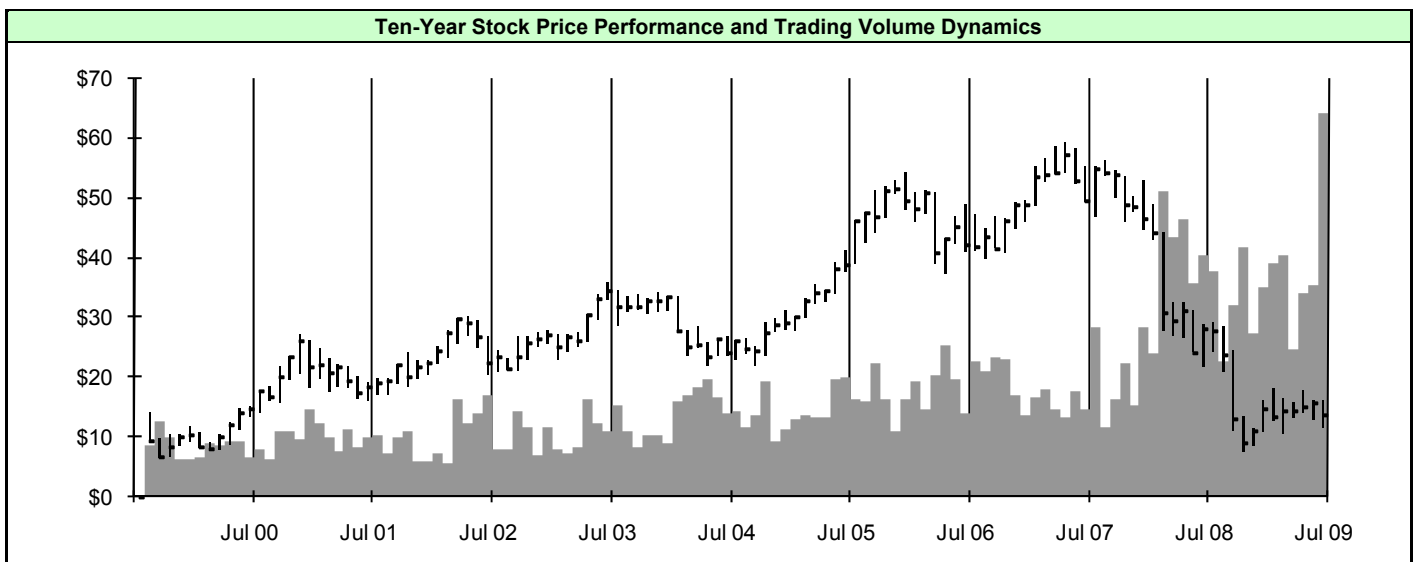
Financial: Insurance (Accident & Health), Member of S&P MidCap 400

Woodland Hills, CA, 818-676-6000

<https://www.healthnet.com/portal/ho...>

Trading Data	Consensus EPS Estimates			Valuation	
Price: \$14.67 (as of 8/14/09)		Month	# of	P/E FYE 12/31/08	17x
52-week range: \$7.38 - \$28.78		Latest	Ago	P/E FYE 12/31/09	7x
Market value: \$1.5 billion	This quarter	\$0.62	\$0.62	P/E FYE 12/31/10	8x
Enterprise value: \$1.6 billion	Next quarter	0.69	0.67	P/E FYE 12/31/11	8x
Shares out: 103.9 million	FYE 12/31/09	2.19	2.17	EV / LTM revenue	0.1x
	FYE 12/31/10	1.82	1.95	EV / LTM EBITDA	7x
	FYE 12/31/11	1.93	2.04	EV / LTM EBIT	9x
	LT EPS growth	8.4%	10.0%	P / tangible book	1.5x
Ownership Data	Latest Quarterly EPS Surprise			Greenblatt Criteria	
Insider ownership: 3%	Date	Actual	Estimate	LTM EBIT yield	11%
Insider buys (last six months): 0	8/4/09	\$0.49	\$0.53	LTM pre-tax ROC	n/m
Insider sales (last six months): 0					
Institutional ownership: 95%					
# of institutional owners: 555					

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended							LTME	FQE	FQE
	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	6/30/09	6/30/08	6/30/09
Revenue	10,195	11,065	11,646	11,941	12,908	14,108	15,367	15,635	3,842	4,014
Gross profit	1,580	1,758	1,305	1,716	2,073	2,038	1,901	1,949	528	503
EBIT	352	517	67	376	479	359	147	168	118	64
Net income	226	234	43	230	329	194	95	116	77	40
Diluted EPS	1.86	2.73	0.38	1.99	2.78	1.70	0.88	1.11	0.71	0.38
Cash from ops	414	380	(55)	191	278	606	(159)	(21)	(81)	(54)
Capex	45	55	48	49	73	65	96	31	60	5
Free cash flow	368	325	(103)	143	205	541	(255)	(52)	(141)	(59)
Cash & investments	833	861	722	743	705	1,007	668	566	761	566
Total current assets	0	0	0	0	0	0	0	0	0	0
Intangible assets	784	749	746	742	795	861	843	835	853	835
Total assets	3,461	3,549	3,653	3,941	4,297	4,933	4,816	4,803	4,921	4,803
Short-term debt	0	0	0	0	200	35	27	118	26	118
Total current liabilities	0	0	0	0	0	0	0	0	0	0
Long-term debt	399	399	398	388	300	510	652	498	661	498
Total liabilities	2,160	2,255	2,380	2,352	2,518	3,058	3,064	2,977	3,137	2,977
Preferred stock	0	0	0	0	0	0	0	0	0	0
Common equity	1,300	1,294	1,273	1,589	1,779	1,876	1,752	1,827	1,784	1,827
EBIT/capital employed	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m



BUSINESS OVERVIEW

Health Net provides managed care in two segments:

Health Plan Services operates commercial, Medicare (including Part D) and Medicaid health plans; health and life insurance firms; and behavioral health and pharma services.

Government Contracts includes government-sponsored managed care plans through the TRICARE program and other health care-related government contracts.

The company's operations are the result of a 1997 merger of Health Systems International (HSI) and Foundation Health.

INVESTMENT HIGHLIGHTS

- **Strong position in California**, with 2.3 million members enrolled in commercial, Medicaid and Medicare (ex. Part D) programs.
- **To sell Northeast operations to UnitedHealth for \$510-630 million**, with ultimate proceeds dependent on renewal rates of commercial customers. The operations have tangible book of \$450 million, 578,000 members, and '09E revenue of \$2.7 billion. The deal should be "modestly accretive" to EPS.
- **CEO Jay Gellert (55) joined HSI**, a predecessor, in 1996 and became CEO in 1998. Chairman Roger Greaves (71) founded a predecessor of the company in 1990. Joe Capezza (54), CFO since 2007, was previously CFO of Harvard Pilgrim Health Care.
- **Guiding for adjusted EPS of \$2.25-2.35 in 2009**, up from \$1.85 in 2008 but down from \$3.66 in '07.
- **Strong balance sheet**, with \$1 billion of tangible book value and virtually no net debt.
- **Repurchased \$1.3 billion of stock** at \$34 per share over the years, with another \$103 million authorized at the end of Q2. The company has not bought back shares this year due to a review of strategic options.
- **Shares trade at 7x '09E EPS, 1.5x tangible book.**

INVESTMENT RISKS & CONCERNS

- **Declining membership in commercial segment**, the company's largest value driver. Membership has fallen steadily over five years, but declines have slowed due to new sales in Western health plans.
- **Lost TRICARE North contract in July**, affecting vast majority of government contracts revenue. The latter accounted for 20% of revenue in 1H09, with a cost ratio in the mid-90s. Unless revised, the deal is scheduled to conclude at the end of Q1 2010.

MAJOR HOLDERS

CEO Gellert 2% | Other insiders 1% | JANA 2%

SELECTED OPERATING DATA

FYE December 31	2004	2005	2006	2007	2008	1H09
Δ revenue	5%	3%	8%	9%	9%	3%
Δ health plan premiums	5%	0%	9%	10%	8%	1%
Δ plan membership	-4%	-5%	6%	1%	-1%	-15%
Δ plan PMPM ¹	8%	9%	3%	8%	5%	6%
Revenue (\$bn)	11.6	11.9	12.9	14.1	15.4	7.9
<i>% of revenue by type:</i>						
Health plan premiums	82%	80%	80%	81%	81%	79%
Government contracts	17%	19%	18%	18%	18%	20%
Net investment income	0%	1%	1%	1%	1%	1%
<i>% of health plan services premium revenue by line of business:</i>						
Commercial premiums	73%	71%	67%	65%	63%	61%
Medicare premiums	16%	17%	22%	24%	28%	30%
Medicaid premiums	11%	12%	11%	10%	9%	9%
<i>Health plan services MCR by type:²</i>						
Commercial (incl. ASO) ³	88%	83%	83%	86%	86%	86%
Medicare	92%	89%	83%	85%	90%	88%
Medicaid	82%	82%	81%	83%	84%	88%
Gov't-related cost ratio ⁴	95%	96%	94%	92%	95%	95%
G&A expense ratio ⁵	9%	10%	11%	11%	10%	11%
Selling costs ratio ⁶	3%	2%	2%	3%	3%	3%
Pretax income margin ⁷	1%	3%	4%	3%	1%	1%
<i>Health plan services membership by segment ('000):</i>						
Commercial	2,603	2,380	2,251	2,225	2,024	1,999
ASO ³	80	116	109	68	44	38
Medicare (ex. Part D)	172	174	499	615	840	284
Medicaid	832	830	840	846	812	878
Health plan PMPM (\$)	216	236	244	264	278	296
Plan costs PMPM (\$)	191	199	202	225	241	255
Net income (\$mn)	43	230	329	194	95	62
Diluted EPS (\$)	0.38	1.99	2.78	1.70	0.88	0.59
Δ shares out (avg)	-4%	1%	2%	-3%	-4%	-4%

Source: Gridstone Research, Company filings, *Manual of Ideas* analysis.

¹ PMPM stands for "premiums per member per month" and is calculated based on total at-risk member months (ex. "admin. services only" member months).

² MCR = medical care ratio = health plan expense (ex. D&A) / premiums.

³ ASO refers to "administrative services only" members.

⁴ Calculated as government contracts cost divided by associated revenue.

⁵ Computed as G&A expenses divided by the sum of health plan services premium revenue and administrative services fees and other income.

⁶ Computed as selling expenses divided by health plan services premiums.

⁷ Computed as GAAP income before taxes divided by total revenue.

COMPARABLE PUBLIC COMPANY ANALYSIS

	MV (\$mn)	EV (\$mn)	EV / Rev.	P / T. Book	This FY P/E	Next FY P/E
UNH	32,620	36,180	.4x	n/m	9x	9x
WLP	24,790	32,570	.5x	74.8x	9x	9x
WCG	1,050	110	.0x	1.5x	9x	11x
HNT	1,520	1,570	.1x	1.5x	7x	8x

RATINGS

VALUE	Intrinsic value materially higher than market value?	☆☆☆☆
MANAGEMENT	Capable and properly incentivized?	☆☆☆
FINANCIAL STRENGTH	Solid balance sheet?	☆☆☆
MOAT	Able to sustain high returns on invested capital?	☆☆☆
EARNINGS MOMENTUM	Fundamentals improving?	☆☆☆
MACRO	Poised to benefit from economic and secular trends?	☆☆☆☆
EXPLOSIVENESS	5%+ probability of 5x upside in one year?	☆☆☆

THE BOTTOM LINE

Health Net is refocusing managed care operations on the Western region, comprised of California, Oregon and Arizona. In July, the company agreed to divest the roughly breakeven Northeast operations to UnitedHealth for a modest premium over tangible book value. With adjusted EPS estimated at \$2.25-2.35 in 2009, Health Net shares appear quite cheap, but the lack of growth and unpredictable regulatory environment make it difficult to gain comfort regarding long-term earning power. If the new Western strategy can produce sustainable growth, Health Net would create significant shareholder value.

...additional insight into HNT:

SLIDES FROM COMPANY PRESENTATION, MAY 2009

Health Net

Investment Thesis

- Medicare improvement in 2009
- Commercial margin expansion
- Solid TRICARE performance
- Continued G&A savings
- Value creation opportunities and enhanced focus through strategic review
- Positioned for health reform

7

Health Net

Report Card: 1Q09 Results

As of March 31, 2009

- EPS of \$0.41⁽¹⁾ vs. First Call mean of \$0.35 per diluted share
- Medicare business
 - ✓ MA MCR improved 60 basis points vs. 1Q08
 - ✓ PDP MCR improved 960 basis points vs. 1Q08
- Commercial business
 - ✓ PMPM premium yield > PMPM health care costs
 - ✓ Commercial MCR⁽²⁾ improved 100 basis points vs. 1Q08
- Government Contracts ratio improved 50 basis points vs. 1Q08
- G&A expense ratio⁽³⁾ improved 30 basis points vs. 1Q08

(1) Excludes the impact of a \$2.2 million pretax benefit for a litigation reserve true-up, a \$46.9 million pretax operations strategy-related charge, and a \$6.3 million tax benefit for the favorable outcome resulting from a tax audit in 1Q09

(2) Excludes the impact of a \$2.2 million pretax benefit for a litigation reserve true-up in 1Q09 and \$43.2 million in litigation-related charges in 1Q08

(3) Excludes the impact of a \$46.9 million pretax operations strategy-related charge in 1Q09, a \$35.8 million operations strategy-related charge, and a \$3.4 million loss on the sale of assets of a small non-core subsidiary in 1Q08

8

Health Net

Medicare Strategy

- Achieve 2009 gross margin targets
- Grow network-model MA plans
- Exit Private Fee-for-Service in 2010
- Position for ongoing business resulting from changes in Medicare

9

Health Net

Commercial Business Opportunities

- Further margin expansion
- Lower-cost, narrow network products
- Underwriting discipline
- Improved health care cost management

10

Health Net

Government & Specialty Services

- Stable financial performance near-term
- Growth opportunities with MHN providing behavioral health services to military beneficiaries
- Awaiting TRICARE award announcement
- Additional opportunities for growth
 - TRICARE Overseas
 - Expansion of Military Family Life Consultant program
 - Veterans Affairs support for PTSD and traumatic brain injury

11

Health Net

Achieving Operational Excellence

As of March 31, 2009

Timeline		
2007 - 2008	2008 - 2009	2009 - 2010
Recognize Opportunity	Year of Investment	Harvesting Benefits

- G&A ratio improved 140 basis points since 2006⁽¹⁾
- Additional opportunities from Operations Strategy
 - Application and infrastructure repositioning
 - Standardization of processes
 - Consolidation of operations
- Further G&A savings in 2010

(1) Excludes the impact of a \$46.9 million pretax operations strategy-related charge

12

Health Net

2009 and Beyond

- Medicare
 - Significant improvement in MA and PDP in 2009
 - Planning for potential changes
- Solid commercial assets with margin improvement opportunities
- Value creation opportunities through strategic review
- Positioned for health reform

13

Notes from Value Investing Seminar in Italy, July

The Manual of Ideas' Oliver Mihaljevic attended the Seminar in Molfetta, Italy from July 14-15. Here are his notes.

For speaker biographies, visit http://www.valueinvestingseminar.it/pages/eng/speakers_2009.asp

Ciccio Azzollini, Cattolica Partecipazioni

Ciccio Azzollini's presentation was entitled, *Surviving: The Name Of The Game*.

Ben Graham's three timeless ideas for investing:

- Evaluate stocks as part-ownership in the business
- Make Mr. Market your friend by taking advantage of prices he quotes you when these prices deviate substantially from fair value
- Invest with a "margin of safety" → build a bridge able to withstand 15,000 pounds if you're going to drive a 10,000 pound truck across it

Investment-related observations:

- Equity markets around the world show disappointing 10-year track records with U.S. and Europe down 30-50%
- Now a good time to look for investments and review value investing toolkit
- Ciccio favors "investing with flexibility," i.e., in undervalued stocks, risk arbitrage, special situations, distressed securities → all can have different risk/reward and time horizon profiles but value investing basis for investing is the same (look for situations with motivated sellers and missing buyers leading to large price dislocations)

Understand your edge when making an investment:

- Information?
- Analysis?
- Psychology?
- Time horizon?

Do a few things well when evaluating an investment:

- Understand the business
- Understand the people running the business
- Get safety from the price paid
- Concentrate on best ideas
- Discipline, rationality and patience are key

Investment Idea: Banco Popolare (Milan: BP)

- 4th largest Italian commercial bank with market share of approx. 10% in 6 regions of northern Italy
- Network of approx. 2,200 branches
- Business model focused on retail banking
- Sound balance sheet and liquidity: loan/deposit ratio of 0.91 as of 3/31/09; funding needs covered until 2011
- Asset base is low-risk: focus on local domestic market (where no real estate bubble); merchant banking portfolio valued at market; strong diversification and strict loan provisioning
- No investments in toxic assets: no exposure to subprime mortgage sector or structured products
- Ciccio estimates intrinsic value per share of €8.5-11 (based on 10-12x normalized EPS of €0.85-0.95 assuming €1.4B of pre-tax, pre-provision earnings, €300-400M of losses, 45% tax rate and 640M shares outstanding) vs. current market price of ~€5 and tangible book value of €7 per share

Victor Fasciani, Praetorian Value Fund

Victor Fasciani presented an investment case for Contango Oil & Gas (MCF).

Praetorian Value Fund – Investment Philosophy

- Understand every detail of business (financials, management, industry, competition) → “leave nothing to chance”
- Market volatility and irrationality present opportunities across all market caps (traditional small/mid-cap focus)
- Diversification is not risk management

Praetorian Value Fund – Selected Investments

Long (as of 4/30/09): Alliance Grain Traders (AGT.UN-V.TSX): company in commodity business without commodity-like characteristics; American Express ([AXP](#)); Contango Oil & Gas ([MCF](#)); Cresud ([CRESY](#)); Gigamedia ([GIGM](#)); Transocean ([RIG](#)); Vulcan Materials ([VMC](#))

Recent Short: Dollar Thrifty ([DTG](#)) - over-levered year-to-date outperformer that should come crashing down

Investment Idea: Contango Oil & Gas ([MCF](#))

- Company focuses on highest ROI part of the value chain: exploration
- Founded by CEO Ken Peak in 1999 with \$30 million of capital (stable share count since 2001)
- Buffett-like philosophy: give smart people capital, large incentives for doing well, and then let them do their thing
- Leanest operation: seven employees in Houston (everything except planning and idea generation is outsourced)
- Underfollowed by sell-side: no analyst coverage
- Robust balance sheet: no long-term debt
- Motivated and incentivized management: CEO owns 20% of company

Compelling valuation:

- \$1.3B or \$78/share intrinsic value of proved reserves only (based on net present value of after-tax income assuming \$7 per Mmbtu natural gas price and \$70 per barrel of oil)
- Reserves in place for last ~50 million years and not going away
- Other assets and free options add up to \$30-40/share (MCF bought 70+ lease blocks in the Gulf at \$35 million cost basis; may be worth \$100 million because of seismic data and company’s 67% successful drill track record)

Catalysts:

- Continue drilling in the Gulf potentially converting probable into proved reserves
- Company for sale in summer 2008 – received offers of \$70-80 but CEO would not sell as prices viewed as fire-sale
- Assets remain in play and CEO is 65 years of age
- Company has \$100M stock buyback in place

Reasons for mispricing:

- Natural gas stocks trade partly based on spot or front-month natural gas futures price movements → as 12-month forward curve significantly higher than spot, market seems to ignore the implied increase in prices
- Market won't pay for optionality value of assets in oil & gas, especially in current environment
- Market doesn't give enough credit to good management teams in this industry

Why Natural Gas Stocks Present Opportunities

- Assets can be easily converted into cash and non-perishable inventory
- Currently reserves are cheaper on Wall Street (→ M&A) than in the ground
- Ratio of oil to natural gas prices at 16:1 vs. 10:1 historically → Victor convinced of reversion to mean and thinks this will happen by natural gas prices rising from their recent lows in the \$3.50 range (thinks long term floor for natural gas prices is around \$6 for companies to achieve 10% ROE → if prices fall below that for long, higher cost onshore wells are shut reducing supply and eventually leading to higher prices again, as happened in fall of 2006)

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Annual subscription price: \$999.

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