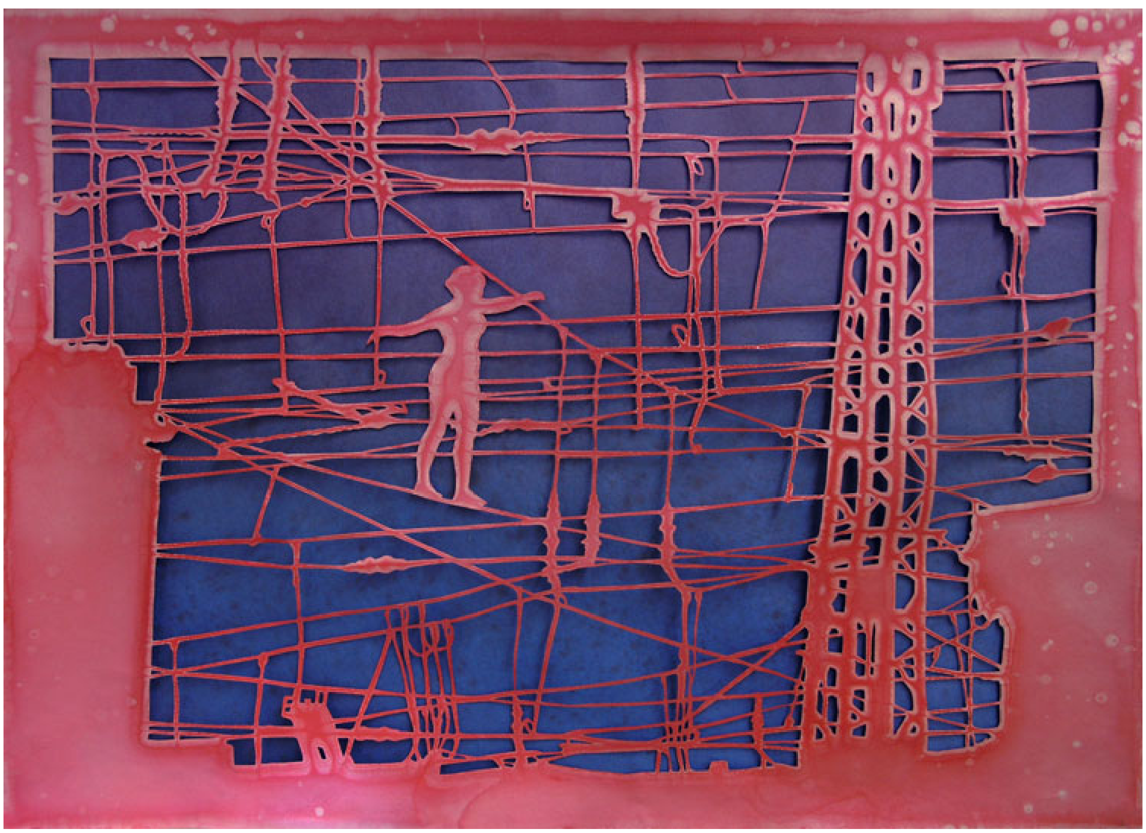
Giverny Capital Inc.

Annual Letter to our Partners
2009



Ed Pien
Girl on a wire, 2009
Giverny Capital Collection

For the year ending December 31st 2009, our portfolio's return was 11.8% versus 12.2% for our weighed benchmark. Our annual return, which included a loss of approximately 16% due to fluctuations in the Canadian currency, was therefore 0.4% lower than our benchmark.

Since our inception, on July 1st 1993, our annual compounded rate of return has been 13.8% versus 6.7% for our weighed benchmark, or an annualized outperformance of 7.1% over this period. When we exclude the effect caused by the appreciating Canadian currency since our inception, which represents an annualized increase of 1.2%, our portfolio has returned 15.1% annually versus 7.9% for our benchmark. Our long-term (and ambitious) objective is to maintain an annual return that is 5% higher than our benchmark.

The Artwork on the cover of our Letter

We illustrate the cover of our letter with a copy of an artwork from our corporate collection since 2004. We chose the work of Ed Pien, a Canadian artist of Taiwanese descent, for this year's cover. The piece, titled "Girl on a wire", seemed the perfect representation of 2009 which was an emotion-filled year when investors felt as though they were walking a tightrope across what seemed, at times, like an economic ravine.

The Giverny Portfolio (in Canadian dollars): Returns Since July 1st 1993.

Return *	Giverny	Index **	+ / -	$ US/Can	S&P 500	+ / -	Giverny ***	Index ***	+ / -
1993 (Q3-Q4)	**37.0%**	9.5%	**27.6%**	3.3%	8.4%	**28.6%**	**34.4%**	7.4%	27.0%
1994	**16.5%**	3.7%	**12.7%**	6.0%	7.3%	**9.2%**	**12.0%**	-0.3%	12.3%
1995	**41.2%**	24.0%	**17.2%**	-2.7%	32.9%	**8.3%**	**43.8%**	26.3%	17.5%
1996	**28.0%**	22.8%	**5.2%**	0.3%	22.7%	**5.3%**	**27.7%**	22.5%	5.2%
1997	**37.7%**	28.6%	**9.2%**	4.3%	36.7%	**1.0%**	**33.4%**	24.5%	8.9%
1998	**20.6%**	18.8%	**1.8%**	7.1%	37.7%	**-17.0%**	**14.5%**	12.8%	1.7%
1999	**15.1%**	16.3%	**-1.2%**	-5.7%	14.1%	**1.0%**	**20.6%**	21.9%	-1.3%
2000	**13.4%**	3.2%	**10.2%**	3.9%	-4.6%	**18.0%**	**9.7%**	-0.2%	9.9%
2001	**15.1%**	-0.4%	**15.5%**	6.2%	-5.7%	**20.8%**	**9.4%**	-5.3%	14.7%
2002	**-2.7%**	-18.3%	**15.6%**	-0.8%	-22.0%	**19.3%**	**-2.0%**	-17.7%	15.7%
2003	**13.6%**	14.0%	**-0.4%**	-17.7%	5.7%	**7.9%**	**33.7%**	34.1%	-0.5%
2004	**1.6%**	6.2%	**-4.5%**	-7.3%	2.8%	**-1.1%**	**8.3%**	13.1%	-4.8%
2005	**11.5%**	3.6%	**7.9%**	-3.2%	1.6%	**9.9%**	**14.5%**	6.7%	7.8%
2006	**3.5%**	17.0%	**-13.5%**	0.2%	15.7%	**-12.3%**	**3.3%**	16.8%	-13.5%
2007	**-14.4%**	-12.0%	**-2.4%**	-14.9%	-10.0%	**-4.4%**	**-0.3%**	2.2%	-2.5%
2008	**-5.5%**	-22.0%	**16.5%**	23.1%	-21.7%	**16.3%**	**-21.5%**	-35.4%	13.9%
2009	**11.8%**	12.2%	**-0.4%**	-13.7%	9.6%	**2.9%**	**27.7%**	27.7%	0.1%
Total	**743.1%**	**191.1%**	**552.0%**	**-18.1%**	**179.2%**	**563.9%**	**924.9%**	**251.3%**	**673.6%**
Annualized	**13.8%**	**6.7%**	**7.1%**	**-1.2%**	**6.4%**	**7.4%**	**15.1%**	**7.9%**	**7.2%**

* Green section: all returns are adjusted to Canadian dollars
** Index is a hybrid index (S&P/TSX, S&P 500, MSCI EAFE, Russell 2000) which reflects the weight of the underlying assets
*** Estimated without the effect of currency

Note: Canadian dollar returns audited by PricewaterhouseCoopers

The Giverny US Portfolio

We have been publishing the returns of the Giverny US Portfolio, which is entirely denominated in US dollars, since 2003. The Giverny US Portfolio corresponds to the American portion of the Giverny Portfolio. In 2009, the Giverny US Portfolio realized a return of 28.7% compared to 26.5% for our benchmark, the S&P 500. This return and our benchmark are all in US dollars and include dividends paid during the year. Since its inception in 1993, the Giverny US Portfolio has returned 803.8%, or 14.3% on an annualized basis. During this same period, the S&P 500 has returned 239.5%, or 7.7% on an annualized basis. Our added value has therefore been 6.6% annually.

Year	Giverny US	S&P 500	+/-
1993 (Q3-Q4)	32.7%	5.0%	27.7%
1994	9.9%	1.3%	8.6%
1995	54.8%	37.6%	17.2%
1996	27.0%	23.0%	4.1%
1997	32.9%	33.4%	-0.4%
1998	11.0%	28.6%	-17.6%
1999	15.9%	21.0%	-5.1%
2000	11.3%	-9.1%	20.4%
2001	8.1%	-11.9%	20.0%
2002	-4.4%	-22.1%	17.7%
2003	31.6%	28.7%	2.9%
2004	9.3%	10.9%	-1.6%
2005	12.5%	4.9%	7.5%
2006	3.3%	15.8%	-12.4%
2007	-1.7%	5.5%	-7.2%
2008	-24.3%	-37.0%	12.7%
2009	28.7%	26.5%	2.2%
Total	803.8%	239.5%	564.3%
Annualized	14.3%	7.7%	6.6%

Note: Giverny US returns audited by PricewaterhouseCoopers - S&P 500 returns comes from Standard & Poors

Giverny Canada Portfolio

We introduced a portfolio that is 100% focused on Canadian equities in 2007. This corresponds to the Canadian portion of the Giverny Portfolio. In 2009, the Giverny Canada Portfolio returned 28.2% versus 33.3% for our benchmark. Since 2007, the Giverny Canada Portfolio has returned 15.7%, or 5.0% on an annualized basis. During this same period, our benchmark had a loss of 1.8%, or a loss of 0.6% on an annualized basis. Our annual added value is therefore 5.6%.

Year	Giverny Canada	S&P/TSX	+/-
2007	19.7%	9.8%	9.9%
2008	-24.6%	-32.9%	8.3%
2009	28.2%	33.3%	-5.1%
Total	15.7%	-1.8%	17.9%
Annualized	5.0%	-0.6%	5.6%

Note: Returns audited by PricewaterhouseCoopers

Giverny International Portfolio

We introduced an international portfolio in 2008. This portfolio corresponds to the portion of the Giverny Portfolio that represents companies domiciled outside of North America. In 2009, the Giverny International Portfolio returned 12.9% versus 10.0% for our benchmark, the MSCI EAFE (adjusted to Canadian dollars). Since 2008, the Giverny International Portfolio has had a loss of 5.6%, or a loss of 2.9% on an annualized basis. The MSCI EAFE had a loss of 20.0%, or a loss of 10.7% annually, over the same period. Our annual added value was therefore 7.8%.

Year *	Giverny Intl	MSCI EAFE	+/-
2008	-16.3%	-27.3%	11.0%
2009	12.9%	10.0%	2.9%
Total	-5.6%	-20.0%	14.4%
Annualized	-2.9%	-10.7%	7.8%

* All returns are adjusted to Canadian dollars

Note: Returns audited by PricewaterhouseCoopers

2009: A Year in Review

We began our 2008 Annual Letter with a simple phrase: "The opportunity of a generation."

We wrote this in February of 2009 when the markets were freefalling to levels not seen since 1997. There were plenty of bargains and some of the world's best companies were trading at enormous discounts to their intrinsic values. We may never see these sorts of valuations again in our lifetime (except for maybe Jean-Philippe who, with his daily diet of kefir, is likely to live to 120).

During the first quarter of 2009, many of the companies in our portfolio were trading at a third, and in some cases, at a quarter of their intrinsic values. We invested every dollar we could find, our own as well as those of some of our courageous partners, into these bargains. The markets and our portfolio rebounded and our holdings rose nearly 28% for the year (12% when adjusted to Canadian dollars). This 28% return on the Giverny Capital Portfolio was slightly less than our corresponding benchmark due to the underperformance of three large holdings that spanned across our three portfolios: Berkshire Hathaway (US), MTY Food (Canada), and Nitori (International). Despite this underperformance in the stock prices of these holdings, it is important to note that these companies still had a good year in 2009 when we assess their progress in growing their intrinsic values.

The market's sharp rise since its March 9th bottom will not make us forget that 2009 was perhaps the worst year in economic history since the Great Depression of the 1930s. It was unthinkable just a few years ago that the aggregate revenue of all companies would drop by 20% in a single year. Never would we have heard chatter about a possible nationalization of the American banking system—the very foundation of the best capitalist society in history. The Irish banking system collapsed while the British banks, formerly the crown jewel of banking, struggled to survive. The stock markets in the BRIC (Brazil, Russia, India and China) tumbled between 55% and 75%.

I remember a conference last March where my longtime friend Bernard Mooney attempted to convince a skeptical audience that this was the time to invest in the market. Certain attendees were visibly hostile and shouted that this was the end of capitalism.

In the beginning of the year, many investors, including some of the most experienced, had a significant portion of their portfolio in cash and highly liquid investments, despite the fact that the return on these investment was essentially nil. For a short period of time, the return on US Treasury bonds was negative. Rarely, if ever, have we reached such a level of pessimism. At the bottom of the market, as we mentioned in last year's letter, there was enough liquidity in the US to purchase all the companies in the S&P 500. Still, there is little use having all this liquidity if you wait for an even lower level to buy into the market…

And at the end of the day, capitalism survived, the system did not collapse and those who were courageous to hold onto their shares were rewarded.

What lessons have been learned from the crisis of 2008-2009?

We find it helpful to read historical writings in times of pessimism in order to keep current events in perspective. Abraham Lincoln wrote in 1859:

> "It is said an Eastern monarch once charged his wise men to invent him a sentence to be ever in view, and which should be true and appropriate in all times and situations. They presented him the words: 'And this, too, shall pass away.' How much it expresses! How chastening in the hour of pride! How consoling in the depths of affliction!"

It is the nature of our civilization, for better or for worse, to have periods of both economic expansion and economic contraction. When we look at our scorecard, however, our civilization has made constant progress—progress towards a higher standard of living.

But one of the side effects of our system is that during periods of expansion, some participants try to hasten their journey towards greater wealth by using the lever of debt. This works for some time and the neighbor, who considers himself just as intelligent, concludes after considerable reflection: "Why not me?" This continues to work for a while… until a period of contraction presents itself, always without an official announcement. And those who were imprudent are punished. Unfortunately, during several quarters, all participants are punished whether they acted prudently or not.

Many people who have lost their jobs, for example, were forced to sell stock at abnormally low prices. But this wasn't the case for everyone. Those who have the opportunity to wait for better days should remain emotionally immune against market drops. Because, at some point, the market will rise and reach new heights as the upward human quest for progress return to its historical road.

Economists who attempt to predict such cycles and the market in the short term fail to realize that they need to keep track of several hundred million factors which are the several hundred million human beings who participate in this vast activity. What's involved here doesn't just entail tracking a dozen economic indicators. Such economists remind me of the scientists from a thousand years ago who simplistically separated all the elements into four: earth, water, air, and fire.

Here are the lessons we can draw from the crisis (note: some of these were principles already known):

- Everything that cannot rise forever will someday stop. This certainly occurred with the speculation on derivative products, technology stocks in 2000, American residential real estate in 2005, Dubai real estate earlier this year, biotech companies in the early 1990s and with the price of oil in more recent years. These are just a few recent examples!

- It is the nature of things that with every economic cycle, some businesses disappear while new ones are born. This reminds us of the cycle of life here on Earth.
- Companies that went bankrupt all had faced a common pitfall: too much debt. The companies that withstand crises are most often the ones with solid balance sheets and with leadership that is prudent, trustworthy and devoted. Isn't this perfectly logical?
- Warren Buffett once said that investors should not be in the market if they are not willing to accept a temporary drop of 50% in the values of their portfolios. I always mention to our partners that that this was likely to happen once in their life as an investor—I knew it would happen but I didn't know "when".
- Many investors who were on margin at the beginning of 2009 were forced to sell at the worst possible time. An investor who uses margin to invest can do well for 30 years and then lose everything in a single day of irrational market movements.
- The irrationality of short-term market fluctuations makes derivative products extremely volatile (options, swaps, etc.) When many people try to sell these instruments at the same time, derivative products can become worthless overnight. When this is combined with leverage (debt), you end up with an explosive cocktail.
- The good news is that the market, as Ben Graham wrote 60 years ago, ultimately renders an accurate assessment of the intrinsic value of companies over the long term. To remain calm and rational in the face of wild fluctuations in stock prices is, beyond the shadow of a doubt, the most significant quality an investor can have or try to have.
- At the end of the day, in order to build wealth, there is a simple approach which we have followed for 17 years at Giverny Capital: investing for the long term in high-quality companies purchased at attractive valuations—investing in companies that will survive the crises of our civilization and the short-term irrationally of our economic system.

But even such a sound philosophy isn't enough to succeed in the market—another quality is necessary. In 1949, Ben Graham wrote the following in the conclusion to "The Intelligent Investor":

> "Have the courage of your knowledge and experience. If you have formed a conclusion from the facts and if you know your judgment is sound, act on it—even though others may hesitate or differ." (You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right.) Similarly, in the world of securities, courage becomes the supreme virtue after adequate knowledge and a tested judgment are at hand."

Review of the Decade

2009 wasn't the only difficult year in the last decade—quite to the contrary. The beginning of the decade started on a note of extreme overvaluations, particularly with technology stocks. The NASDAQ reached 5000 on March 6, 2000, a level not to be reached again anytime soon. Investing in the market, aside from a few sectors tied to natural resources, has not been a pleasant experience since. Over the course of the last 100 years, the last decade was the only decade when the S&P 500 actually lost value aside from the 1930s. The market that was highly overvalued in 1999 is one that became highly undervalued in 2009.

A significant number of companies disappeared almost overnight over the last decade (the corporate cemetery is full of companies formerly believed to be indestructible). Nevertheless, others were born or reborn and became titans of industry within a few years (Google, Apple, Amazon, Intuitive Surgical, PetroChina, Tata Group, etc.) If there is one constant in the business world, it is change!

In the graph below, we can clearly see that the most important world indices experienced very modest gains over the last decade, well below their average 10% annualized returns. The market returns were further weakened by an additional 3% annually due to the strengthening Canadian dollar over the last 10 years. The Loonie climbed from $0.69 to $0.95 over the decade.

Out of the markets in the West, Canada was one of the only markets to counter this trend, with an approximate annual return of 5.6%. It is worth noting, however, that Canada only represents 3% of the world economy. While Canada benefited from its high concentration in natural resources over the last ten years, it is also important to consider that Canada is well behind many countries in terms of productivity and innovation in knowledge-based industries such as technology and medicine.

Decade 2000-2009	Annualized Returns	In $CAD
MSCI World	0.2%	-3.0%
UK	0.9%	-2.4%
Japan	-5.7%	-7.8%
US	-1.0%	-4.1%
Average	-2.3%	-5.3%
Canada	5.6%	5.6%
Giverny Global	**7.2%**	**4.4%**

The holdings in the Giverny Global Portfolio had an annualized return of 7.2% which outperformed our benchmark by over 6% on an annualized basis. In Canadian dollars, our annualized return was 4.4%. We are confident that the intrinsic value of the companies in our portfolio increased at a much higher rate than their average annual market performance of 7%.

We also believe that the current level of the Canadian dollar is higher than a level that would be in line with purchasing power parity between the Canada and the US (which would be around $USD 0.84). We are therefore confident that the appreciation of the Loonie since the year 2000 is unlikely to continue to such a degree (if any) in the next decade.

We can conclude that the next decade is likely to differ sharply from the preceding one in terms of returns, for both world indices as well as our portfolio.

Owner's Earnings

We do not evaluate the quality of an investment based on short-term stock quotations, but instead, take the perspective of ownership in the companies in which we invest. As such, we analyze the growth in earnings for our companies and study their long-term prospect.

Each year, we present to you a chart indicating the growth in the intrinsic value of the companies in our portfolio using a method created by Warren Buffett: owner's earnings. This enables us to estimate the intrinsic value of our companies by adding the growth in earnings per share and the average dividend yield of our portfolio.

The intrinsic value of our portfolio companies remained flat for 2009. This is nothing to write home about but we are satisfied given the extremely challenging economic environment.

The market value of our companies, according to the stock quotes provided by the market, increased 28% in 2009. This increase in market values made up some of the lost ground in terms of the relative difference between intrinsic value and market value that had developed over the last several years.

	Giverny			S&P 500		
Year ***	**Value ***	**Market ****	**Difference**	**Value ***	**Market ****	**Difference**
1996	14%	29%	15%	13%	22%	9%
1997	17%	35%	18%	11%	31%	20%
1998	11%	12%	1%	-1%	28%	29%
1999	16%	12%	-4%	17%	20%	3%
2000	19%	10%	-9%	9%	-9%	-18%
2001	-9%	10%	19%	-18%	-11%	7%
2002	19%	-2%	-21%	11%	-22%	-33%
2003	31%	34%	3%	15%	28%	13%
2004	21%	8%	-12%	21%	11%	-8%
2005	14%	15%	0%	13%	5%	-8%
2006	14%	3%	-11%	15%	16%	1%
2007	10%	0%	-10%	-1%	6%	6%
2008	-3%	-22%	-19%	-30%	-36%	-6%
2009	0%	28%	28%	3%	27%	23%
Total	386%	344%	-42%	79%	132%	53%
Annualized	12%	11%	-1%	4%	6%	2%

* Estimated growth in earnings per share plus dividend yield
** Market performance, inclusive of dividends
******* Results estimated without consideration of currency fluctuations

Since 1996, according to our calculations, the intrinsic value of our companies has increased by 386% (nearly a fivefold increase) while their stock prices have increased by 344%. In the long term, despite the ups and downs of various economic cycles, the stock prices of companies will follow the growth in earnings per share of their underlying businesses fairly closely.

It should be noted that our stocks outperformed the S&P 500 since 1996 (by about 5% annually) for the primary (and simple) reason that their underlying businesses outperformed the S&P 500. It is in this manner, rather than through any speculation on market quotations, that we intend to continue meeting our objective of outperforming the market.

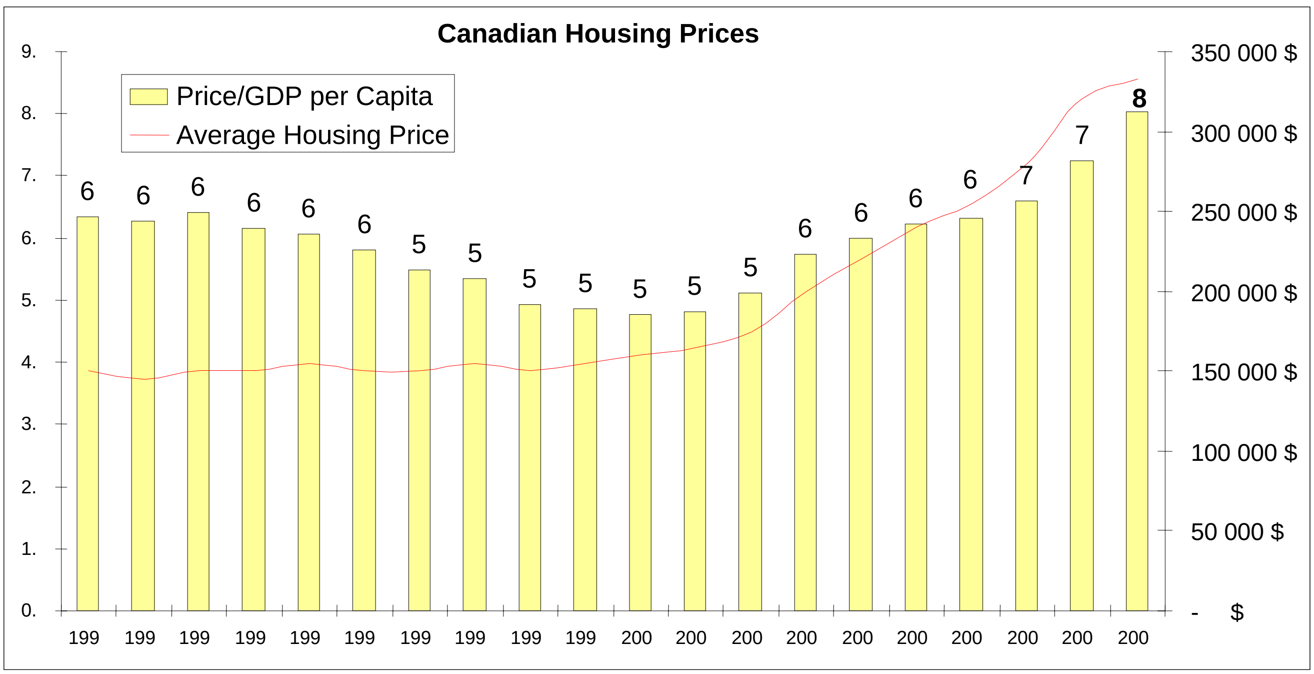
The Flavor of the Day for 2009: Canadian Residential Real Estate

We are asked regularly about the current flavor of the day—in other words, what we should avoid. After technology stocks in 1999-2000 and natural resource stocks in the last couple of years, the segment of the market which we consider alarming is the Canadian residential real estate market.

Warren Buffett likes to say that there is no greater sedative than money easily made. While Canadian residential real estate has been a tremendous source of wealth since 2000, those with a longer memory will recall that real estate prices didn't move one iota during the preceding decade. So, the first phase of this increase is a simple "catch up" on the price of the intrinsic value of a home (typically tied to disposable income per capita). Like all assets linked to supply and demand, a sharp increase often creates its own momentum which leads to a second phase of an increase when fundamentals can be left behind in favor of speculation.

The beauty of the capitalist system is that its invisible hand always ultimately equilibrates prices—each exaggerated rise is therefore followed by a readjustment. This occurred during the most recent recession in the US as well as nearly all countries in Europe. The decrease in the US was of a magnitude not seen since the Great Depression (-30%), with enormous consequences on the overall economy.

Canada, to this day, has avoided this readjustment in prices—with the reason seemingly more rooted in politics rather than economics. The federal government strongly encouraged banks to continue lending with the assistance of the Canadian Mortgage and Housing Corporation (CMHC) to support borrowers. Canadian consumers, boastful about the fact that housing prices had not fallen, continued to spend and even, in some cases, considered themselves immune to the global recession. Housing prices continued to rise.



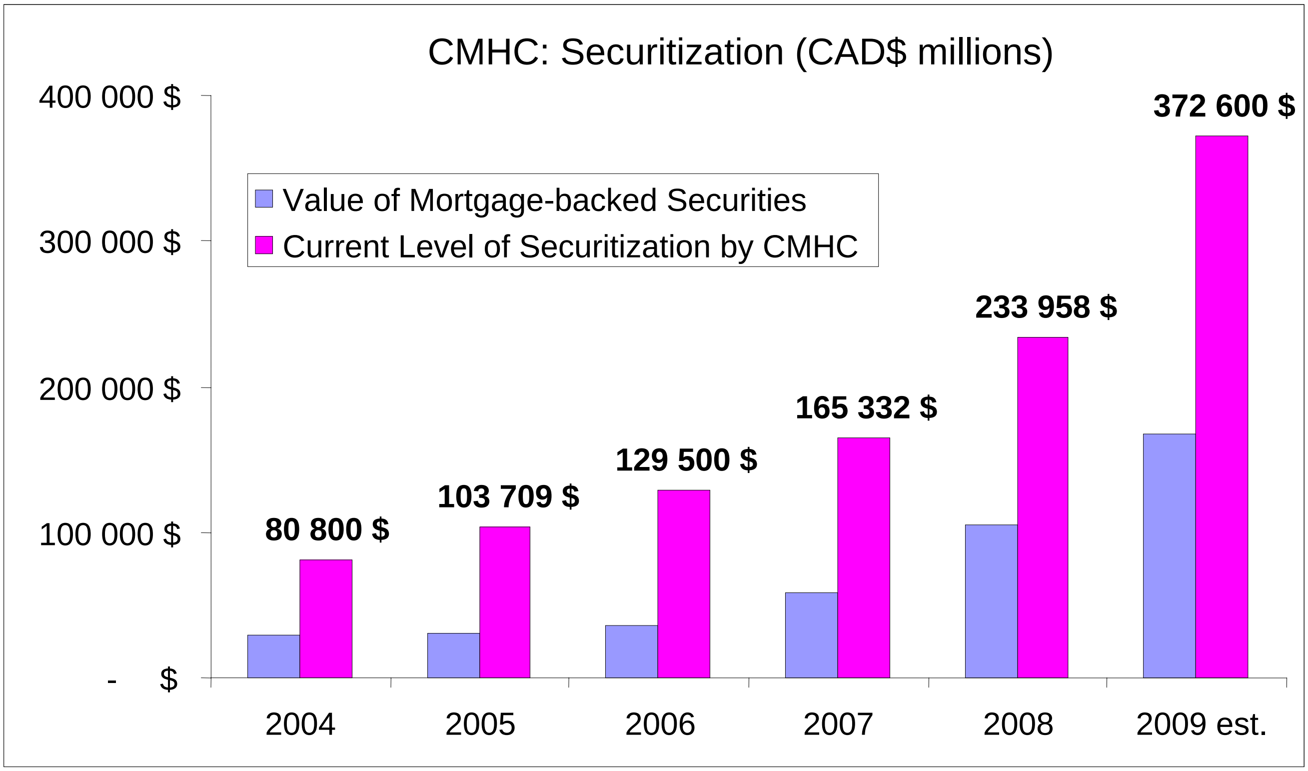
Source: Giverny Capital Inc.

We can see that the average price of a home sold in Canada reached $333,000 in 2009. If we look at this number through the lens of GDP per capita, this is a ratio of 8:1. The historical average for this ratio is 6:1. We conclude that current prices are roughly a third higher than their historical prices, especially in western Canada.

In the US, during the great real estate bubble, a large portion of mortgage titles were transferred from banks to the quasi-governmental agencies, Fannie Mae and Freddie Mac. These mortgage titles were subsequently securitized and sold on secondary markets. When housing prices collapsed, the

American government was forced, in order to save the system from floundering, to take over Fannie and Freddie and the billions of dollars in securitized mortgages that they stood behind.

Back in Canada: in order to counter the recession, the federal government decided to encourage the CMHC to increase its level of involvement in residential mortgages. The CMHC therefore increased its level of mortgage securitization and, with the seal of approval from the federal government, had no problem finding eager buyers thirsting for guaranteed fixed rate investments. From 2007 to 2009, in only two years, the total for securitized mortgages supported by the CMHC ballooned from $CAD 165 billion to $CAD 373 billion.



Source: 2008 CMHC Annual Report

This financial commitment on the part of the CMHC is a significant potential liability on the part of the Canadian federal government—and I think we all know who could end up with the bill. Canadian banks do not hesitate to provide loans to home buyers since they know that the CMHC is essentially guaranteeing a significant portion of the loan. Fueled by low interest rates and accessible money, Canadians continue to buy houses at ever-increasing prices. Here's how we summarize the situation:

- Canadian housing prices in relation to GDP per capita is at a record level
- Mortgage rates are at rock-bottom levels (many are able to borrow at 2%) which means that mortgage payments are abnormally low in relation to the cost of homes.
- Money is easy to borrow, thanks to the CMHC which repackages these debts and resells them to people looking for a savings vehicle.
- The percentage of equity to assets at the CMHC has dropped from 4.2% to 2.8% over the last five years.
- Home buyers are convinced that the price of their homes will never drop. Real estate is somehow viewed as an investment without risk. Our general experience in the markets tells us that real risks are at their apex when they are perceived to be at their low point.

No one knows the future and we are the last to want to play the prophets of doom. We just happen to believe that housing prices are high, especially in the west and in Ontario, and that these artificially high levels seems to us propped up by political rather than economic arrangements. We keep this in mind and our investment decisions are affected accordingly.

There is, of course, many non-financial advantages to owning your own home. There is no doubt that home ownership is a source of great personal fulfillment for human beings—and, in the long term, housing prices will continue on their upward movement. But it is important to realize that all the ingredients are in place for potentially several years of difficulty as prices are readjusted in this segment of the Canadian economy.

Our Companies

"Character: the virtue of hard times."

- Charles de Gaulle

In another year of recession, many of our companies have seen their earnings stagnate or decrease. Yet, like last year, some of our companies also achieved a veritable tour de force and increased their earnings. But, even more importantly, the majority of our companies continued to widen their competitive moats relative to their competition.

Wells Fargo (WFC, $27)

Wells Fargo ended 2009 on a strong note. Its acquisition of Wachovia in 2008 has so far proven quite profitable and the company's interest margin of 4.3% was more than 1% higher than that of its peers. The bank's profit before bad debt reserves reached $40 billion—more than double the $19 billion from 2008. The company has benefited from the recession and double its size at a reasonable cost in terms of dilution.

We believe that within a couple of years, once the recovery is well underway, that Wells Fargo should have roughly $1.5 trillion in assets. If the company is able to maintain a return on assets of 1.4%, this would translate into earnings per share (EPS) of approximately $4.50. We therefore believe that this stock could reach $60 within a couple of years and consider the possibility for stock appreciation at Wells Fargo as excellent.

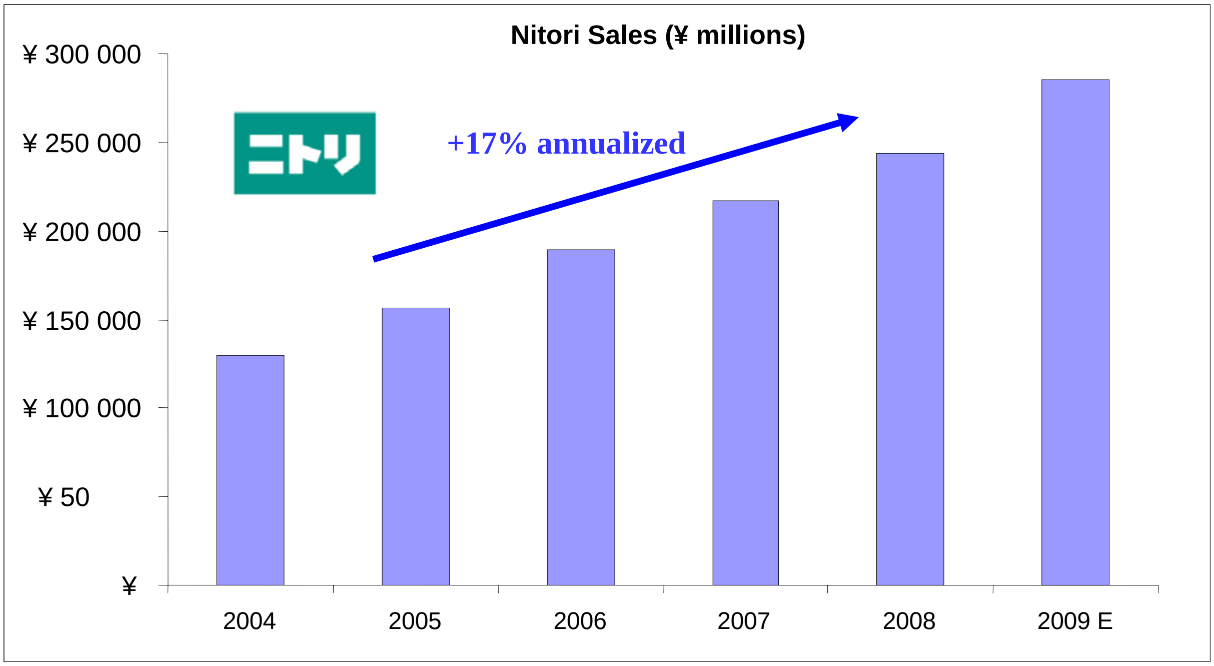
Astral Media (ACM.A-T, $33)

Astral Media had an excellent year in 2009 despite weakness in the sale of TV and radio advertising. The company still increased net income by 7% which we considered very positive. Astral also substantially reduced its debt which had been necessary to complete the acquisition of Standard Radio two years ago. Astral also launched a number of new brands such as HBO Canada, Teletoon Retro and NRJ. We admire this outstanding Canadian enterprise and its founders, the Greenberg family.

We believe that the company's stock is trading at a level that does not accurately reflect the value of the business.

Nitori Co. (9843-Tokyo, ¥ 6930)

Nitori is a Japanese company in the home furniture retail market. The company's products are sold under a low-price policy that has enabled it to gain market share during these difficult times.



Nitori increased sales by 17% in 2009, reaching nearly ¥300 billion, and its profits increased 30%. Strangely, the company's stock price didn't budge during the year. In fact, since our purchase two years ago, the company's earnings have increased 60% while the company's stock has only risen 15% on the Tokyo market (in addition, the Yen has appreciated by roughly 25% against the Loonie since our purchase).

We are optimistic about the future returns of Nitori's stock price, not only because of the rise in the company's intrinsic value but also from the market assigning a greater multiple on the company's earnings.

Omnicom (OMC, $39)

It was a difficult year for marketing and advertising companies. Omnicom's earnings decreased 20%, although the company's stock price has still advanced 40% since our purchase.

A significant portion of advertising dollars is spent by auto companies and we don't need to remind anyone that these companies had a horrible year. Large agencies like Omnicom are also facing more and more competition from young dynamic firms as well as from new distribution channels. Nevertheless, we believe that the major players in this industry (Omnicom, WPP, Publicis and Interpublic) remain excellent businesses providing an essential service. These businesses also require very little incremental capital—and that's the type of economic model we like to own.

We consider Omnicom to be the best and most geographically diverse out of all the major advertising firms, with more than half of its revenue from outside the US

Bank of the Ozarks (OZRK, $29)

Our small bank in Little Rock, Arkansas, has yet again performed well despite the great difficulties of the American banking industry. Although assets decreased 14%, net interest revenue climbed 19%. While the bank had to significantly increase its bad debt reserves, like its peers in the industry, the company was able to compensate for its bad debt write-offs through investment gains (which was also a factor in the decrease of its assets). At the end of the day, profits rose 7% in 2009 and the bank's efficiency ratio reached an exceptional level of 38%. Its return on assets was 1.23% and its equity to asset ratio rose from 7.8% in 2008 to 9.7% in 2009. We believe that the company's balance sheet is stronger than last year.

George Gleason, the CEO, is also the type of leader we like to have as a partner.

Berkshire Hathaway (BRK.B, $3286)

The company led by Warren Buffett had an excellent year in 2009. The company's intrinsic value increased approximately 20% (using Berkshire's book value as a measure). The company's insurance division (General Re, GEICO, etc.) experienced a 40% decline in underwriting profits while its float increased to $62 billion. Berkshire's public utility division (MidAmerican Energy Holdings) also generated lower profits. The other divisions, as a whole, saw their profits drop by half. Even Buffett's companies are not immune to recessions but, as he often reminds shareholders, what matters most is that Berkshire's companies continue to increase their competitive advantages during these times.

The drop in profitability at Berkshire's companies was offset by gains in the investment portfolio. In the fall of 2008, Buffett invested approximately $21 billion in new securities which have thus far appreciated by $5 billion and generated another $2 billion in dividends and interest. At the end of 2009, the most important news on the acquisition front was the purchase of Burlington Northern Santa Fe. We'll come back to that in the conclusion of our letter.

Our view is that shares of Berkshire Hathaway, like the majority of our portfolio holdings, are undervalued by the market.

Disney (DIS, $32)

Disney had another good year. Net income per share decreased 6% from 2008—an impressive performance given the circumstances of the recession. The company finished the year on a strong note, with net income for the December quarter rising 15%.

Bob Iger, the talented CEO of Disney, continued his great work. In 2009, he announced the acquisition of Marvel, the company which owns the rights to a vast array of comic book superheroes (Spider-Man, Iron Man, Hulk, etc.) Marvel has performed extremely well in the last several years due to the onset of new digital technologies that have enabled the company's characters to come to life in a spectacular manner.

The synergy between Marvel and Disney seems self-evident. Like Mickey Mouse or the Lion King, Spider-Man and Iron Man are enduring characters with the profits they generate accruing to their owner: the company. One of the benefits of a company like Disney, as a former CEO used to say, is that "Mickey has no agent." Disney is well positioned to optimize the commercialization of the new cast of Marvel characters, as it has done so well with its own animated superstars.

Disney's stock had a good year in 2009 and rose almost 40%, from $22 to $32. It is worth noting that this stock dropped to as low as $16 in March of 2009. We did everything we could to find every possible dollar to increase our stake in this outstanding company which very seldom trades at such a bargain price. We will not see Disney trading at eight times earnings very often!

American Express (AXP, $41)

Despite a difficult 2009, the outlook for AMEX has been improving. Write-offs on credit card debt have begun to ease and we are confident that the company's profits will strengthen and revert more closely to their historical mean in 2010.

American Express has more than a century of operating experience and a legendary brand. Yet, none of this helped prevent an extraordinarily volatile year for the company's stock. From a high of $65 in 2007, the stock tumbled to a low of $10 in March of 2009, only to the end the year at $41. We estimate EPS of $2.66 for 2010 and a return to the profitability of 2007 ($3.37 per share) is conceivable for 2011 or 2012.

We have been shareholders of American Express since 1995. Since then, the stock has appreciated 300% or 10% on an annualized basis. If we include dividends as well as the additional shares we received after the spin-off of Ameriprise, the stock has returned around 12% annually. This is roughly 5% more than the S&P 500 over the course of the same period. So, despite its ups and downs on the market, this has been a worthwhile investment.

Microsoft (MSFT, $30)

Microsoft had a strong finish to 2009, bolstered by the launch of its new operating system, Windows 7. During the last quarter of the year, sales of Windows 7 licenses reached 60 million which is a record for a new operating system. Revenues increased by 4% and net income rose by 28%. The company has a bright outlook for 2010.

This stock continues to appear undervalued to us. The company has $43 billion in cash (equivalent to almost $5 per share) and should earn close to $2.15 per share in 2010. So, at the current price, we are only paying 11 times earnings for a rock-solid and dominant business.

Resmed (RMD, $52)

We first purchased shares in Resmed in 2003. The company, started in Australia, specializes in medical products aimed at the sleep apnea market (primarily masks and humidifiers). Sleep apnea is not a minor medical condition, as it can lead to serious cardiovascular problems, and Resmed has played a significant role in educating the population about sleep apnea. This segment of the medical devices industry has been experiencing rapid growth.

Resmed had another good year in 2009, with an 18% increase in revenue along with a 41% increase in earnings. Reimbursements for sleep clinic studies were approved by Medicare in 2008 which helped increase knowledge of the health concerns related to sleep apnea. The company also brought to market several new products in 2009, including a gel-based mask (Mirage SoftGel) and the company's growth potential remains strong.

Martin Marietta Materials (MLM, $89)

2009 was a difficult year for Martin Marietta Materials. The volume of aggregates (gravel) sold fell 23%, which was only partially offset by a 2% increase in prices. Despite a 50% drop in earnings, free cash flow fell by only 8%. The company increased its dividend and reduced its long-term debt while also lowering its cost structure to 1997 levels.

The prospects for 2010 seem better for two of the company's segments: infrastructure and residential construction. Only 15% of the budget allocated for infrastructure projects under the economic recovery measures passed by the American government was actually spent in 2009. Commercial construction, on the other hand, seems likely to continue struggling in 2010 and should offset some of the gains made on the infrastructure side.

We believe that Martin Marietta Materials, in the long term, is very well positioned to profit from an economic recovery and we are confident that its competitive advantage as a business remained intact during the recession.

Mohawk Industries (MHK, $48)

Mohawk, our flooring covering products company, experienced a very difficult year. Earnings tumbled by half due to a combination of the slowdown in commercial real estate along with a weak residential construction market. Despite these challenges, Mohawk remained profitable and the company's balance sheet strengthened through lower inventory levels which bolstered its cash position. We are also beginning to see some early signs of improvement (at last) in residential construction.

Mohawk's stock is trading at six times the profits it earned during the last cycle and we see great potential for the stock's appreciation once a recovery is underway. We also know that Mohawk is in good hands under the leadership of Jeff Lorberbaum. We remain patient with this solid business despite the current headwinds in this sector.

5N Plus (VNP-T, $6)

5N Plus, a young and dynamic Quebec-based business, is a global leader in the purification of metals used in photovoltaic solar panels. Its primary product is purified Tellurium used by First Solar in its solar panels. These panels are considered more economical than those made from Silicon and are gaining market share.

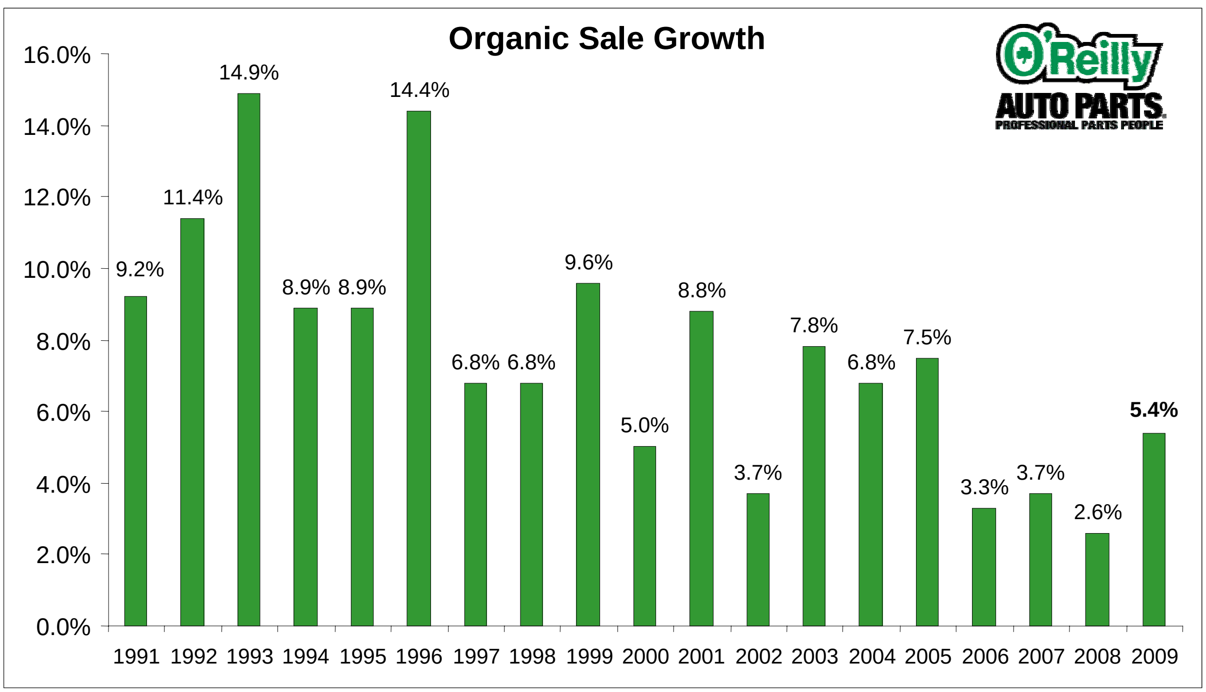
The company had a strong start to 2009 and then experienced some challenging quarters in the last part of the year. Revenue and order backlog stopped growing while gross margins decreased upon the renewal of the First Solar contract. With 80% of 5N's revenue tied to First Solar, we see this as both a weakness and a strength for the company: strength in the fact that First Solar is probably the most solid company in the industry, and weakness since relying too heavily on a single customer is never an ideal situation. 5N made an acquisition late last year which should help reduce its dependence on First Solar in the future.

We believe that the current stagnation in the photovoltaic solar panel industry is temporary and that we are in the very nascent stages of the solar energy business. We therefore see a bright future for panels made by First Solar with the help of 5N.

5N Plus remains highly profitable and has a pristine balance sheet with no debt and $69 million in cash. We also have high confidence in the company's management.

O'Reilly Automotive (ORLY, $38)

We acquired shares in O'Reilly Automotive, one of the largest retailers of auto parts, five year ago. At the time, the company had 1250 stores and we paid $20 when the company was earning $1.12 per share. The company nearly tripled its number of stores, to 3421 in 2009. Approximately 800 of those stores were from organic growth while 1400 were from acquisitions (primarily CSK Auto). Organic sales growth has been excellent:

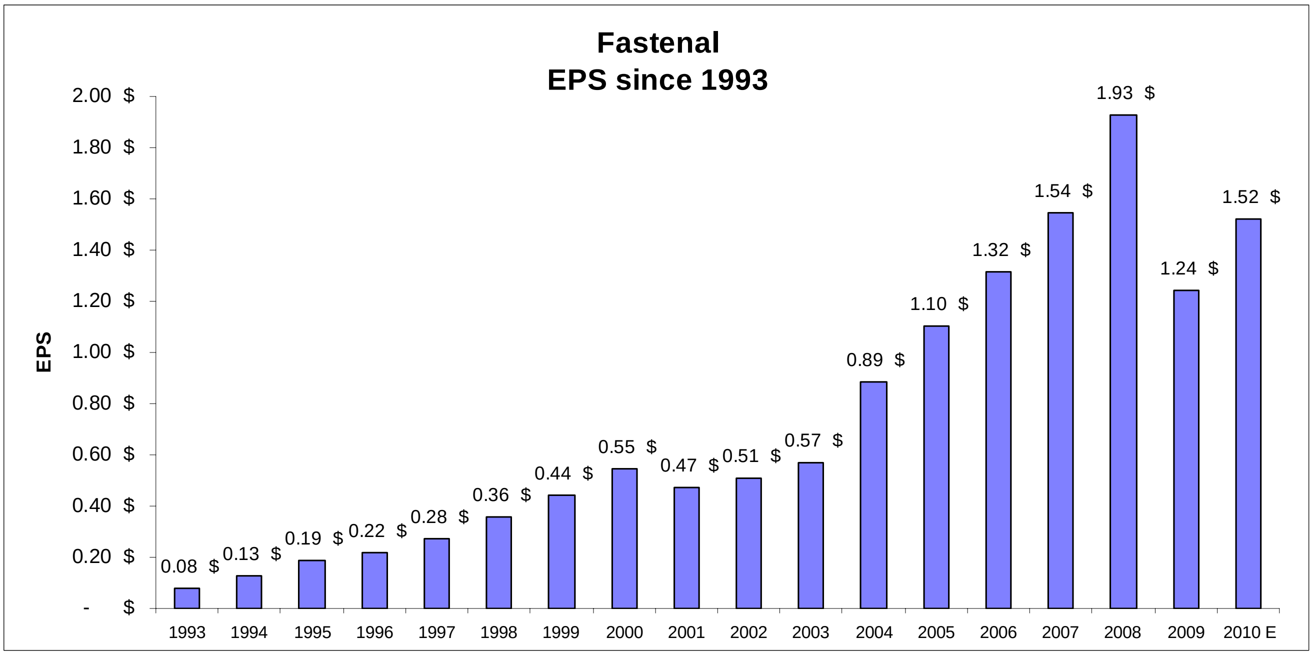


O'Reilly's revenue climbed 36% to $4.9 billion in 2009 and net income per share reached $2.26—38% higher than in 2008 and double what the company earned five years ago. The company's stock price rose to $38 during this period, which almost perfectly parallels its growth in earnings. We remain highly satisfied with this investment.

Fastenal (FAST, $42)

We have been shareholders in Fastenal for more than 11 years and have been handsomely rewarded by this terrific business based out of Winona, Minnesota. We first bought shares in the company in 1998 for approximately $5 per share (adjusted for splits). At the time, while the Asian financial crisis was raging, the market offered us a great opportunity to buy shares in this outstanding company at a compelling price. Fastenal earned $0.35 per share in 1998 and earned $1.91 in 2008—a 450% increase in ten years (or 18% annually).

In 2009, however, revenues declined 17% while net income decreased by 35% to $1.24. Fastenal's stock price still increased from $36 to $42, though most of that increase was likely tied to a readjustment from the steep decline the stock experienced in the fall of 2008 when expectation for future profitability were lowered significantly. The current level of the stock price still corresponds to more than eight times our original cost.



In January 2010, the company announced a 2% sales increase—the first since November 2008. This bodes well for 2010. We have high confidence in the leadership of Willard Oberton and the future outlook for Fastenal remains excellent.

Morningstar (MORN, $48)

All in all, Morningstar had an acceptable year. Revenues dropped by only 5% while EPS declined 11%. We are using the word "only" since Morningstar provides information to the financial services industry and it is fair to say that this universe has cooled considerably in the last years.

The company has attempted to benefit from this cooling off by completing no less than six acquisitions in 2009, including four outside the US. We enjoy using the tools provided by Morningstar for our own work and are admirers of the company's CEO, Joe Mansueto. We have only a small position in this company for the primary reason that its valuation still looks a little high.

Knight Transportation (KNX, $19)

The trucking industry had to yet again navigate through a number of challenges in 2009. Nevertheless, Knight remained profitable. Revenues (net of gas surcharges) were flat while EPS fell by 10%. The company's efficiency ratio was 86% (costs over revenues), which is more than 10% better than the industry average.

Knight's balance sheet remains debt-free and the company finished the year with $96 million in cash, even after paying its dividend and repurchasing some of its own shares. Knight's stock price, to our astonishment, has remained flat throughout this recession and during the sharp decline in the markets. So, on a relative basis, it is fair to say that Knight is not as attractively valued as other businesses in our portfolio.

MTY Food Group (MTY-V, $9)

MTY Food, a Quebec company that owns restaurant franchises, had an exceptional year in 2009. The company's revenues rose 51% while adjusted EPS increased 32%. The company made three acquisitions: Tutti Frutti, Taco Time, and the most significant, Country Style. The company now operates 570 restaurants under 25 brands.

MTY Food has several attributes that characterize the majority of our companies:

- It owns several excellent brands.
- The nature of its business is unexciting and therefore attracts little competition.
- It has no debt on its balance sheet, has strong returns on its capital, and generates lots of cash.
- The company's leader, Stanley Ma, is brilliant, disciplined and totally dedicated to shareholders.

Further, the company's stock is trading at only ten times its estimated profits for 2010. Our experience prevents us from being blindly optimistic towards all investment in the market, but we would admit that we are very enthusiastic about owning shares of MTY Food.

Carmax (KMX, $24)

We didn't expect Carmax to have a record year in terms of profitability in 2009. Despite another difficult year for auto sales, earnings were bolstered by a return to profitability at the company's financial division. Carmax's EPS reached $1.15, a 25% increase from the prior record of $0.92 reached in 2006.

Carmax has 33% more stores than it did in 2006 (up to 100 stores) and only has 2% of the used car market. The company's long term growth prospects remain impressive.

<u>New Investments in 2009</u>

M&T Bank (MTB, $67)

M&T Bank isn't really a new holding for us. Quite to the contrary: we first purchased shares in the company at around $40 in 1998. Then, in 2007, we nearly sold our entire holding at $100 and held on to a very small (symbolic) position. Since our first criteria when purchasing stock in a company is the quality of management, we were less than enthusiastic when Robert Wilmers retired and new management took over M&T. We view Bob Wilmers as a living legend of the banking world and he was our primary reason for our 10-year stake in this Buffalo-based bank.

Bob was brought back to the helm of M&T following the crisis. We went to meet him in August of 2008 and came back reassured about M&T's prospects. We again became buyers of the stock when it dipped below $40 in the beginning of 2009. We paid an average of $38 per share—a price we considered approximately a third of the company's intrinsic value.

While earnings decreased 34% in 2009, we remain satisfied with these results given the economic climate. M&T profited, as we anticipated, from the debacle in the banking sector by taking market share at low costs. The bank acquired branches from Bradford Bank and also acquired Provident Bankshares, both based in the Baltimore-Washington market. These acquisitions helped M&T grow its asset base by 10%.

The company's shares performed very well and rose to $67, or an appreciation of 76% from our purchase price from about a year ago. We are very pleased to have partnered with Bob Wilmers again and are confident that there are several excellent years ahead for M&T.

China Fire & Security Group (CFSG, $14)

When the Chinese market crashed in the beginning of 2009 by dropping 75% from its high, we decided to look for companies that met our investment criteria. We studied many businesses but found that most were too young and only had a limited track record to analyze.

CFSG seemed to us as the most interesting. The company sells unexciting products: fire detection systems mostly used in steel mills. CFSG became the leader in this niche market with 7% of the market and we were also optimistic about the Chinese government having passed safety regulations mandating that steel mills adopt higher safety standards. The company's revenue had grown at 40% annually for five years.

We paid roughly $10 per share when we first purchased stock in early 2009. When adjusting for a net cash position of $1 per share, we ended up buying shares at a P/E ratio of 9! This looked as a very low valuation for such a fast growing company. Lately, CFSG obtained several large contracts and we decided to increase our holding. Despite a 40% increase in the price of its shares, the company's forward P/E ratio has remained the same as when we first bought shares of CFSG.

Buffalo Wild Wings (BWLD, $40)

It was back in 2007 when Jean-Philippe spoke to me, with great enthusiasm, about a young American restaurant chain similar to our popular Quebec chain, the "Cage aux Sports". We took the opportunity, while visiting M&T Bank in Buffalo, to go have lunch at Buffalo Wild Wings (why not eat while doing out financial research at the same time?) Their chicken wings are excellent by the way.

Although we liked their wings, it's the numbers that convinced us! The company has grown rapidly since its IPO at the end of 2003, with the number of restaurants rising from 245 to 660 and revenues quadrupling. The company is highly profitable, earning $31 million on $275 million in assets (which includes $50 million in net cash).

In 2009, a tough year for the industry, EPS climbed 24% and the company is confident that they can maintain growth of 15-20% for several years. We therefore decided to take a stake in this young and dynamic company from Minneapolis.

Medtronic (MDT, $44)

It was pure coincidence that another portfolio purchase from the end of 2009 was Medtronic, also based in Minneapolis. Medtronic is the largest manufacturer of medical products addressing cardiac problems (pacemakers, valves, defibrillators, etc.) Long-term partners of the firm will remember that we have already been shareholders in companies within this industry: Cordis (acquired by Johnson & Johnson in 1995) and St-Jude Medical which we owned from 1993 to 1996. I've been following Medtronic for more than 16 years now.

Over the course of the last several years, Medtronic has been diversifying their product mix into ancillary markets such spinal health and diabetes (with insulin pumps, glucose meters, etc.) The company's products address vital medical problems that will continue to grow as Western populations continue to age. Like many of our businesses, Medtronic has a significant portion of its revenue originating outside of North America.

The company has maintained its high level of growth by consistently leading the market with innovative products. Medtronic also has a solid balance sheet. What held us up in the past from buying a stake in this company was the high valuation that the market assigned to this superb business. The market's optimism reached its apex ten years ago when the stock reach $60 as the company was only generating $1 per share in earnings. We were able to purchase shares at $43 lately, which is 13 times the estimated EPS of $3.44 for 2010.

Five-year Post-mortem: 2004

Like we do every year, we go through a five-year port-mortem analysis. We believe that studying our decisions in a systematic manner, and with some hindsight, enables us to learn from both our achievements and our errors.

In the beginning of 2004, we bought shares in Knight Transportation at around $10 per share. With the stock at $19 today, this investment turned out to be a good one. Knight has performed better than just about everyone in the trucking industry, including Heartland Express (the company closest to Knight in terms of productivity). It seems that our competitive analysis of the industry was accurate.

Yet, we are still a bit disappointed with this investment since the company's growth rate, which was around 26% at the time of our purchase, dropped sharply during the recession. This is normal given the circumstances but we would have liked to see the company be more opportunistic about their growth given the numerous expansion opportunities available these days. We are nonetheless confident that the next economic cycle will offer us a better litmus test to judge the quality of this investment.

In a completely different line of reasoning, in our "Mistake du jour" section for 2004, we awarded ourselves a gold medal for selling Yahoo! at $8 when it subsequently climbed to $38. There are some interesting conclusions to be drawn, given that the stock is currently trading at $15 and that the company seems to have lost much of the competitive advantages I had mentioned back in 2004.

The first observation is that competitive advantages in the technological world are rare and often not durable. The rapid progress in technology, while delightful to consumers, is rarely a source of riches for shareholders. Yahoo! lost a good portion of its competitive advantage in 2004 to another business that went public that year: Google.

We learned to consider it dangerous to judge the merits of an investment too quickly. Years, many years, are often necessary to reach a valid conclusion. Even the most patient investors can reach a hasty conclusion. In the business world, as in the world of art, time remains the most objective (and often the most merciless) judge in regards to the durability of one's work.

Nothing gives more wisdom than perspective.

Mistake "du jour"

"Anyone who has never made a mistake has never tried anything new."

- Albert Einstein

Following in the "Givernian" tradition, here are our three annual medals for the "best" errors of 2009. It is with a constructive attitude, in order to always become better investors, that we provide this detailed analysis. As is often the case with stocks, errors from omission (non-purchases) are often more costly than errors from commission (purchases).

Bronze Medal: BYD

During the Berkshire Hathaway shareholder meeting last May, I listened attentively to Charlie Munger's discussion of BYD, a Chinese company led by Wang Chuan-Fu. Charlie said with great admiration that "Chuan-Fu is a combination of Thomas Edison and Jack Welch: I have never met such a businessman." When we consider that Charlie is 86 years old and that he has probably met the greatest businessmen of the last two generations, it's an extraordinary comment. His words didn't fall on deaf ears and I was instantly interested in BYD.

The company manufactures an array of products but the most important is a revolutionary battery used in electric cars. Based on this invention, BYD launched itself fearlessly into the car manufacturing business. As a fervent believer in the future of the electric car, I became enthralled with this high-potential company. Keep in mind that, with revenues of over $5 billion in 2009, BYD wasn't exactly the new kid on the block.

My enthusiasm was cooled when I saw the company's valuation on the market. The stock was trading at $15 on the Hong Kong market while the company only had EPS of $0.50 in 2008. A P/E ratio of 30 times seemed exaggerated in my mind. So being a persistent man, I woke up each morning to look at BYD's closing price in Asia hoping that the stock had dropped so I could buy a stake in the company at a more reasonable valuation. This was in vain.

The company had an exceptional year in 2009. After nine months, BYD's revenues climbed 39% and their new car division grew 50%. The company's EPS has yet to be announced but it's likely to have doubled to $1.06 for 2009 and analysts expect $1.84 in EPS for 2010.

The stock has soared 400% in a year, reaching its current level of $65. Sometimes, the artistic side of investing is to know when to let go, in a rare and exceptional moment, of market valuations and simply make a leap of faith based on an exceptional human being.

Silver Medal: TJX Companies

TJX owns chains of retail clothing stores. Its sweet spot in the marketplace is selling branded clothing at discount prices by buying discontinued apparel lines, surplus inventory, etc. In the US, the company's brands include T.J. Maxx, HomeGoods and Marshalls. In Canada, it owns Winners and Homesense. TJX is highly profitable and its returns on capital are unmatched by competitors. I have known this company for a decade or so. In 2000, the stock had fallen to $10 per share and was trading at 10 times earnings. I thought of buying shares at the time but decided to pass on the idea—with great regret.

The company grew its EPS at 12% annually during the decade. This rise in earnings seemed surprisingly high since sales were only growing at 5-7% per year and, with 2743 stores, this retail concept seemed quite mature.

The key to success at TJX is in the management of its capital. Through opportunistic buyback of its stock and continuous margin improvement, the company was able to create enormous wealth for its shareholders.

I knew two things when the stock lost half of its value at the end of 2008: that the company's business model was well suited for a recession (subsequently proven by the company's EPS soaring 48% in 2009), and that the company would buy back some its shares at these attractive valuations. The P/E ratio was once again at 10, and once again, I remained motionless.

The stock doubled in a year and is now trading at four times its price from 2000. Despite this rise, TJX is still only trading at 12 times its 2010 estimated earnings. When a stock doubles in a year and is still undervalued, it shows how much undervalued it was before.

Gold Medal: Cabela's

Cabela's became publicly traded in 2004. Since 1961, the company has been the leader in catalog sales (and now on the Internet) for products related to hunting, fishing, camping and scuba diving. The company more recently began operating "big box" retail stores. Michael Shearn, our friend from Austin (Texas), had spoken to us with great enthusiasm about this business based out of Sidney, Nebraska. Though the stock didn't seem attractively priced at the time of its IPO at $24 per share, we knew that this company's competitive advantage merited that we pay particular attention.

In the summer of 2004, I visited one of the company's new (and very impressive) stores in Kansas City. I was highly impressed with this retail concept.

Two years later, Michael and Jean-Philippe visited the company and spent the afternoon in Sidney meeting with upper management. They returned persuaded that the company had compelling competitive advantages and an able management team.

Still, we all shared some reservations about the high level of capital required to open the company's extremely large stores (and their low return on capital). We were also concerned that a substantial portion of the company's profits were from its financial division which issued credit cards to customers of Cabela's.

On the other hand, we also believed that the company could eventually realize certain economies of scale with a larger network of stores and that this should improve the company's returns on equity over time. We decided to buy a few shares, if anything to simply follow the company more closely.

The stock of Cabela's fell sharply in 2008, from a high of $28 in 2007 to a bottom of $4. The retail sector was practically torn apart by the drop in consumer spending. On top of that, everyone on Wall Street avoided companies with financial divisions like the plague, regardless of the quality of a company's loan portfolio. Cabela's was different, with its loyal (if not fanatical) customers. The company's customers were also wealthier than average and had higher credit scores.

It's not surprising then that EPS dropped relatively little, from $1.31 in 2007 to $1.14 in 2008. When it was trading between $4 and $5, the P/E ratio on Cabela's shares was only four times. Without any future growth, such a valuation corresponds to an annual return of 25%!!

To find a high-quality business that is dominant in its industry and is trading on the market for four times its earnings is a rare event in the life of an investor. I could have used the excuse that we were fully invested and that all our stocks were undervalued. But I certainly could have sold another stock in our portfolio that was trading at half of its intrinsic value to buy Cabela's that was trading at one fifth of its value. Selling a 50-cent dollar to buy a 20-cent dollar makes a lot of sense.

The company's earnings rose 18% to $1.35 per share in 2009. The company has performed extremely well despite the tremendously challenging economic headwinds. Wall Street regained its wits about the value of this business and the stock has risen to $16 in just a few months. This error of omission, with a price tag of 300%, merits a gold medal.

Conclusion: Warren Buffett's Big Wager

One of the most significant events of 2009 for our portfolio was the acquisition, through a tender offer, of Burlington Northern Santa Fe (BNSF). We had owned stock in BNSF since 2007-08 and, in November of 2009, Berkshire Hathaway offered $100 per share for Burlington—a 27% premium to the current price of the company's stock.

Warren Buffett and BNSF Chairman Matthew Rose (Source : CNBC.com)

This $34 billion acquisition is by far the largest over the course of Warren Buffett's long and illustrious career. In his press release, Buffett makes this pertinent comment:

> "Our country's future prosperity depends on its having an efficient and well-maintained rail system. Conversely, America must grow and prosper for railroads to do well. Berkshire's $34 billion investment in BNSF is a huge bet on that company, CEO Matt Rose and his team, and the railroad industry. Most important of all, however, it's an ALL-IN wager on the economic future of the United States. I love these bets."

M. Buffett, regardless of the metaphor used in the press release, is no gambler. In fact, the master of intelligent investing is faithful to a rule he laid out some 50 years ago: "To succeed in the stock market, be fearful when the others are greedy and greedy when the others are fearful".

We are, as M. Buffett, very optimistic about the future of our companies. Despite a satisfactory year in 2009 as far as our returns, we believe that the next few years will be quite rewarding for our businesses and their shareholders.

We also want you to know that we are fully aware and grateful for your vote of confidence. It is imperative for us to not only select outstanding companies for our portfolios, but to also remain outstanding stewards of your capital.

We wish a great 2010 to all our partners.

François Rochon

François Rochon and the Giverny Capital team