

AVENIR CORPORATION

INVESTMENT MANAGERS

February 13, 2009

As we move into what promises to be a challenging 2009, we are providing an update that reviews 2008 and discusses the current environment and the implications for your portfolio. Last year we wrote two letters, one in August affirming what we believe are the fundamental truths about investment values and how they are determined, and in October we followed up with a second letter about investing in the current environment. As we all know, the economy has continued to deteriorate, and the near term outlook remains very uncertain.

Simply put, 2008 was a horrible year for stock market investors, and our performance was harmed further due to our concentration in certain holdings which, in our opinion, were significantly oversold as financial institutions deleveraged and met redemptions in the fourth quarter. In addition, as the credit crisis rapidly unfolded, some investment mistakes in our portfolios revealed themselves. As we think about where we went wrong and try to learn from our errors, a few conclusions present themselves. First, our primary focus on the merits of individual investments, which has served us well over the years, prevented us from giving adequate consideration to how badly the deteriorating macroeconomic outlook could affect the investments in our portfolios. Second, the financial leverage in some of our holdings, though seemingly manageable, failed to pass the most severe of stress tests. Third, our focus on the long term conditions us not to overreact to near term gyrations, and in hindsight led us to underestimate the severity of the contraction in financial markets caused by the near death of the banking system in the fall. We apologize for the dismal performance during the year and have learned some hard lessons. Going forward, we will remain true to our bottom-up, value investing principles, but will work hard to proceed with a greater caution and awareness of the implications of the macroeconomic environment for investment portfolios.

Current Environment

The collapse of Lehman Brothers and subsequent rescues of several large financial institutions severely disrupted the capital markets, essentially froze credit markets for several months and accelerated a huge deleveraging of the financial system, which in turn has pushed the economy into a much deeper recession. The Federal government has responded with huge infusions of liquidity through various programs to get the credit markets functioning, and over the past several weeks credit markets have shown nascent signs of improvement. Meanwhile, the perceived health of the banking system is clearly weighing on the stock market. As of this writing, the Treasury is announcing several proposals to provide further support to the banking system, which is really the subset of large, money center banks and brokerages that have the greatest concentration of toxic assets. Amidst all this discussion it is important to point out that many banks in the U.S. are healthy and performing their essential role. The headlines focus on the problems, which are quite large and serious, and it will likely take a long time to bring the financial system back to health. Moreover, it will likely take longer for confidence and trust to return. However, as investors, we must keep in mind that markets will eventually clear, and as the credit markets continue to heal, well

managed commercial banks will benefit greatly from the changed credit environment and more important, the demise of their non-regulated financial services competitors, collectively known as the “shadow banking system”. A healing of the credit markets is essential for all financial markets, and we are cautiously optimistic that financial markets are beginning to show signs of functioning more normally.

While financial markets show some signs of regaining their footings, the economy is moving into a deeper, prolonged recession, prompting the Federal government to consider a massive stimulus package to restart the economy. While we applaud the effort, we are not capable of ascertaining whether it will work, and we assume that the recession will likely persist for the foreseeable future.

Implications for Investment Portfolios

We maintain our fundamental belief that while markets will swing to extremes in periods of euphoria or distress, over time, the intrinsic value of an investment will be accurately reflected in its stock price. Our investment philosophy is to invest in good businesses with identifiable franchises that generate substantial free cash flows, have strong balance sheets and are managed by people with excellent capital allocation skills and who are focused on increasing intrinsic value on a per share basis. Such businesses will persevere through the recession, take market share and emerge stronger when the economy recovers. Such businesses are also hard to find, though with the broad sell off in equity markets, the opportunity set has increased significantly. We believe that when financial markets stabilize and valuation of future cash flows regains its rightful place in the minds of investors, those businesses with solid long term prospects will be priced accordingly.

Over the next few months the stock market is likely to continue to be volatile and driven by news as much as by fundamentals. One interesting aspect of this bear market is that the market is trading at a ten year low in a historically low interest rate environment. This reflects the widespread fear and uncertainty present, but is unlikely to persist as investors step out to seek return over safety. There is a tremendous amount of cash on the sidelines, which has forced treasury yields to all time lows. Until this reverses, the market will likely trade within a range and volume will diminish, adding to intraday price swings. At some point the market will figure out that the economy is flattening, not necessarily improving, and it will then begin discounting a recovery. No one will know when this happens until after the fact. In the bear market of the mid 1970's, following an abrupt decline not dissimilar to 2008, the market experienced a period of volatility and then meandered on light volume for a period of time before popping up suddenly well in advance of the recovery.

This environment presents great opportunities for value investors, and we are working to position our portfolios to take advantage of the depressed prices that abound. There are numerous good businesses selling at cheap prices available today, and over the next few months we are likely to augment our core holdings with several new ideas that will compound capital at very attractive rates of return. Over the past few weeks we have revisited every holding, confirmed our understanding of the balance sheets and credit agreements and spoken with management about the changed economic outlook. As we found last fall, the majority of our holdings are delivering in terms of business performance and cash flow, and if these were viewed collectively as a private conglomerate, we would be very pleased. Indeed, the franchise characteristics inherent in AES, American Tower, Berkshire Hathaway, Crown Holdings, Markel Corporation and Micro Systems, to name a few, will enable these companies to deliver earnings and cash flow through the cycle. Overall, we believe firmly that the intrinsic value of our portfolio is greater than the acquired cost, and that over time prices will recover to reflect intrinsic value. We intend to concentrate on our best ideas and use the volatility in the market to our advantage. Similarly, where we have determined that the investment case for an idea has either been proven incorrect or simply is not as attractive in the current economic environment, we will exit the position as prices permit and either hold cash or deploy the capital to better opportunities.

The past few months have been the most difficult markets we have ever encountered. It will take some time for financial markets to heal and for the deleveraging process to play out. But as we noted in our October letter, periods of doom and gloom are usually the best times to invest. Despite the problems in the financial system, the underlying strength of the U. S. economy along with the extraordinary actions of the Federal government will lead to an eventual recovery. Since the stock market discounts the future, share prices are likely to recover before the overall economy does. Therefore, we have confidence that the investments we will make during this wrenching period will reward us for many years to come.

We appreciate the opportunity to work with you and thank you for your steadfastness in the face of recent events. We know how unsettling, even stunning they are, for we own precisely the same businesses and share in your investment outcome. The businesses we own are positioned to survive this period and compound value over the years to come at rates we believe you will find attractive. We know this is an uncertain time and are always available to discuss the portfolio, the markets or any other matter that may arise. We thank you again for your trust and continued confidence.

Respectfully,

Charles G. Mackall, Jr.

Peter C. Keefe

James H. Rooney