ABRAMS BISON INVESTMENTS

4800 HAMPDEN LANE, SUITE 1050
BETHESDA, MD 20814

TELEPHONE: (301) 664 8900
FAX: (530) 431 2007

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Dear Partners,

Below is a brief summary of the results[1] up to and including the fourth quarter of 2010 for Abrams Bison Partners, L.P.

	Partnership Gross	Partnership Net	S&P 500[2]	Gross Out-performance	Net Out-performance
Annualized Since Inception	16.6%	13.3%	0.2%	16.4%	13.1%
Total Since Inception	419.3%	284.1%	2.3%	417.1%	281.9%
2010	23.9%	19.1%	15.1%	8.8%	4.0%
2009	43.3%	37.0%	26.5%	16.8%	10.5%
2008	(8.7%)	(8.7%)	(37.0%)	28.3%	28.3%
2007	(2.1%)	(2.1%)	5.5%	(7.6%)	(7.6%)
2006	32.2%	25.8%	15.8%	16.4%	10.0%
2005	2.4%	1.9%	4.9%	(2.5%)	(3.0%)
2004	16.0%	12.8%	10.9%	5.2%	1.9%
2003	34.3%	27.4%	28.7%	5.6%	(1.3%)
2002	8.3%	6.6%	(22.1%)	30.4%	28.7%
2001	17.4%	13.9%	(11.9%)	29.3%	25.8%
2000 (Apr - Dec)	22.1%	17.6%	(11.1%)	33.2%	28.8%

In this letter, I discuss why you should ignore the past three years of performance, explain our investment in Hasbro, and briefly describe why we have avoided using expert networks to conduct research.

The fund has had good three year performance, but please ignore it

Over the past three years, the fund has had good performance – net of all fees, the fund is up 49%, while the S&P is down 8%. However, I believe you should ignore this recent performance. I want you to ignore the past three years when evaluating our past performance the same way I want you to ignore our worst three year period. One could question my motives if I said this after a period of mediocre performance, which is why I am saying it now. I think you should ignore the past three years because in evaluating a new or continued investment in the fund, what you are interested in is not what past performance was, but what future performance may be. Three year returns do not do a good job of answering this question.

Before I explain why, it is important to point out that past fund performance, even since inception, should have only a modest impact, if any, on your evaluation of how we will do in the future. It is far more important to understand the fund's philosophy and process.

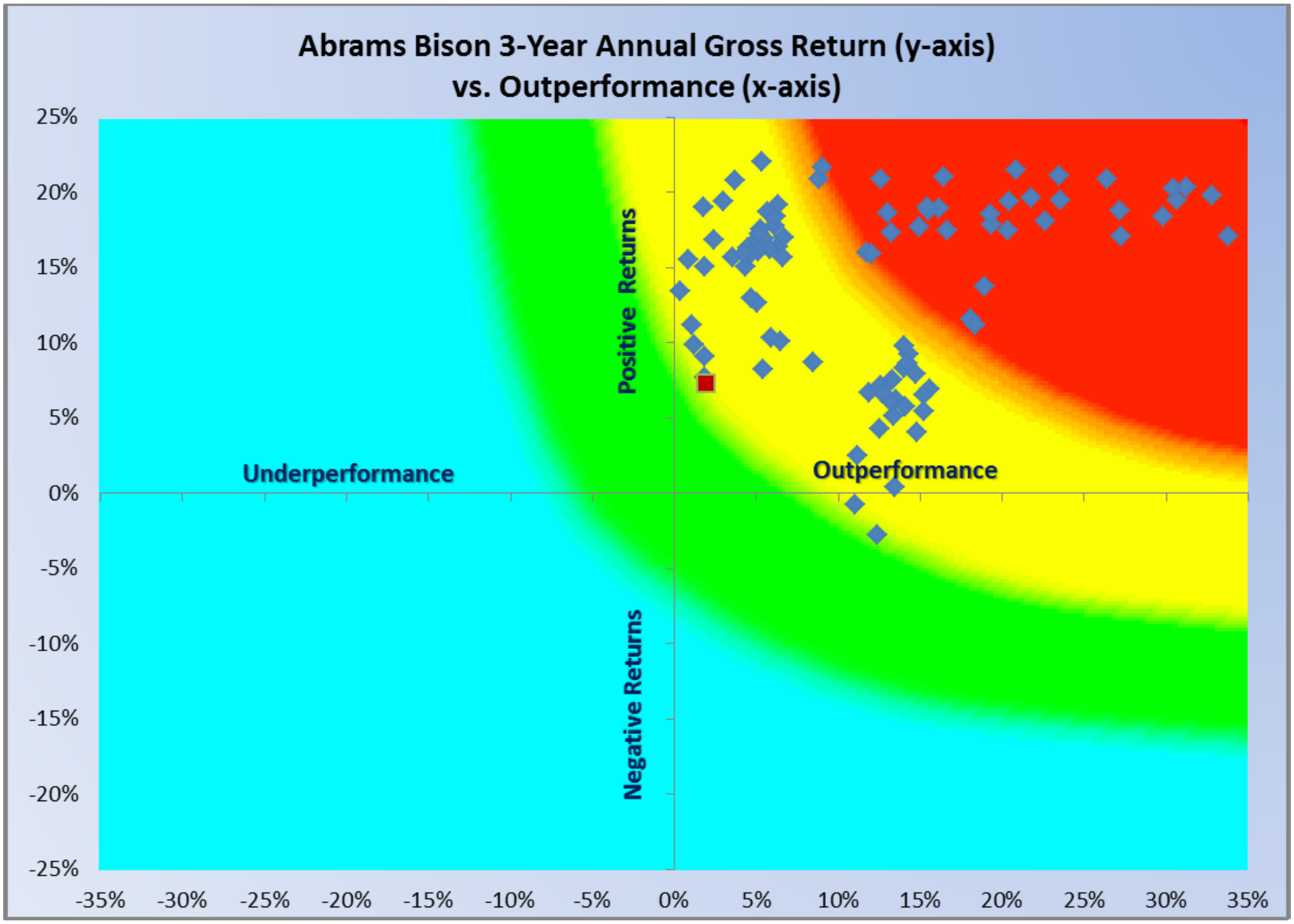
[1] The reflected returns reflect the returns of a representative new issue eligible investor in Abrams Bison Partners, L.P. All performance data includes all dividends, interest, expenses, and realized and unrealized gains and losses. The returns are estimates calculated by Abrams Bison Investment, L.L.C., and are unaudited. Net performance assumes a 20% incentive allocation/fee subject to a loss carry forward provision and preferred return and a management fee. Gross performance is after management fee and does not reflect an incentive allocation/fee. Performance for an individual investor may differ due to, among other factors, the timing of subscriptions and redemptions, applicable management fees and performance compensation, and the extent to which an investor may participate in new issues. January 2004 is the date of inception of Abrams Bison Offshore Fund, Ltd. The offshore fund currently feeds into the onshore partnership; returns from the offshore fund currently vary immaterially from those of the onshore partnership excluding dividend withholding taxes. Numbers may not add due to rounding. Past performance is not an indicator of future results. This is not an offering or the solicitation of an offer to purchase. Any such offer or solicitation will take place solely by means of a final offering memorandum and only where permitted by law.

[2] The index information is included merely to show the general trend in the equity markets in the periods indicated and is not intended to imply that the portfolio was similar to the index either in composition or element of risk. There is no guarantee that the Abrams Bison funds will meet or exceed the index.

If you do use performance, use returns since inception instead of three year returns

We have been investing the same way since inception – our philosophy has been consistent throughout. Given this consistency, it does not make much sense to use the most recent three year performance to help evaluate the fund's prospects. It would be like building a 1,000 piece puzzle with only one third of the pieces – if you only used one third of the pieces available, you would get a poor representation of the underlying picture.

Three year returns are not just an inferior tool relative to returns since inception – they are actually generally a bad tool for evaluating the fund's prospects. There is just too much variation in any fund's three year return for it to be that helpful. While this is true for an investment in any fund, I will show you some performance data from our fund to give you a sense of this problem. Keep in mind when you look at this data that it actually understates the problem with three year data, as our fund has had past performance that has happened to be quite consistent over three year periods compared to most funds.



The graph[3] above analyzes the fund's annualized returns before incentive fees over all the overlapping thirty-six month periods since inception. The vertical axis shows the fund's returns, and the horizontal axis shows the fund's outperformance versus the S&P 500. Points in the bottom left quadrant of the graph would reflect periods when the fund has had negative returns and has underperformed the S&P. Points in the top right quadrant represent periods when the fund has had positive performance and has outperformed the S&P.

[3] The graph reflects annual gross returns. Gross performance assumes a management fee and does not reflect an incentive allocation/fee. We show gross returns in this chart because net returns understate the underlying variation in returns and differ for an investor depending on whether they entered at the beginning or prior to the beginning of a 36 month period. To view our net annual performance, please see the chart on the first page.

There have been slightly fewer than a hundred overlapping three year periods since the fund's inception.[4] The fund has been in the top right quadrant over almost all of these periods. I believe a very small percentage of funds have had as consistent performance, especially over the past decade, which saw the S&P decline more than 20% in twenty out of these one hundred periods.

Even with this consistently high performance compared to most funds, if we handpick the dates that we use to measure performance, we will find a few periods of mediocre performance. A portion of the mediocre performance is due to luck, and a portion is due to variation in the number of mistakes and good decisions I will make in any one period. Take the point marked with a red square. This point marks the period from March 2005 to March 2008 and is probably the worst point. Imagine if you had invested in March 2005. After three years, your gross return would have been +7.3% per year versus +5.4% for the S&P. After fees, your return is just slightly higher than the S&P. While this point is a very good worst period to have, it doesn't seem like excellent three year performance and it isn't. But if you were evaluating our prospects, it would have made no sense to use this one period (or several periods) out of all the periods. In the same way, it would make no sense to look at the fund's best three year periods when on a gross basis it has been up more than 20% a year and outperformed the S&P by more than 30% a year. While it may make sense to use these three year periods to get a sense for the variation in luck and skill over medium term periods, it does not make sense to use these three year periods to evaluate our prospects – doing so would be like framing that 1,000 piece puzzle after using only one third of the pieces.

Over an investing career, almost any investor, no matter how good, will have thirty-six month periods that land in at least three (and possibly all) of the four color zones in the graph. The best will do it without risking permanent loss of capital, and their performance will be weighted towards the top right quadrant of the graph. That is where we plan to be. To accomplish this goal, we will be doing the same thing over the next decade as we have in the last. If you are going to use performance to evaluate how likely we are to accomplish this goal, use returns since inception rather than the last three years, no matter how good or bad they are.

It is almost impossible to time your investment based on how the fund did over the prior three years

There is one related question I would like to address: Even if returns since inception are more helpful than three year returns in evaluating *whether* to make an investment in the fund, can't three year returns tell an investor *when* to invest? The answer is that it is quite unlikely that you will improve your returns by trying to time your investment based on how the fund did over the past three years. It is tempting to conclude that if there is some variation in returns, then it is best to pick when to enter or exit the fund or the stock market using recent returns to guide you. However, there is no way to know whether the next year's return will be better or worse than average. Statistically the fund's return over the prior three years has told you almost nothing about its return in the next twelve months. The performance in the next year is no better when the fund has been up significantly over the prior three years then when it has performed below average over the past three years. The one exception to this is the period in early 2009 when the fund had its worst absolute three year returns of slightly negative or zero. Investing here led to very high returns in the next twelve months. Excluding this period of extreme market distress, there has been no way to use the most recent three years of performance to predict how good the next twelve months will be. Invest only if you believe the philosophy and process will lead the fund to outperform over the long term. If you believe in the fund's philosophy and process, then please ignore recent performance when making your decision.

Hasbro[5]

My most common rationale for making an investment is very simple: This business is very well protected and therefore deserves a much higher value than the market is giving it. Or, said another way, I believe we are obtaining the protection one gets from a castle for the price of a padlock. Hasbro is a good example of this very simple idea.

Our best source of new ideas is our old ideas

Hasbro is the second largest toy company in the world and owns a number of toy brands as well as the Parker Brothers and Milton Bradley family of games. Before we made the investment, I was exposed to the company twice. The first time was in the late 1990's when Mattel tried to buy the company. Then in 2000, I seriously considered the company before passing on it. We studied Hasbro again in 2002, but this time chose to invest and held the stock in different amounts until 2010. The reason we considered Hasbro again and again is because a well-protected business retains that characteristic over time.

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[4]Using overlapping three year periods on the graph somewhat understates the performance of the fund because it has the impact of underweighting the first and most recent years of the fund's history. If the early and late parts of the fund's history were weighted similarly to other periods, there would be another 35 points worth of data on this graph in the top right corner that would have average performance in the mid-twenties, and average outperformance in the high twenties.

[5] The foregoing example of a specific discrete investment is included merely to illustrate the firm's investment process and strategy. As of the end of 2010, the investment is not in the Fund's portfolio. It should not be assumed that the investment identified in this letter will be profitable, or that investments made in the future will be profitable or will equal the performance of the investment identified herein.

Thesis: Hasbro's business is well-protected and deserves a high multiple

The core thesis was that Hasbro's business was well protected because of the strength of its brands and therefore deserved a high multiple. For example, in the games aisle, virtually every important game, including *Monopoly*, *Scrabble*, *Battleship, Clue*, *Sorry!*, *Operation*, *Candy Land*, *Game of Life*, *Connect Four*, *Twister*, *Trivial Pursuit, Dungeons & Dragons* and *Risk*, is a Hasbro game. In toys, Hasbro owns brands like *Transformers*, *G.I. Joe*, *My Little Pony* and *Mr. Potato Head*.

Key to this investment: The brands are valuable

Investing in Hasbro is not quite as simple as listing the brands because brands in different industries deserve different earnings multiples. In this case, the important factors to me were that the brands were obviously very well-known and loved, but they also had great nostalgic value for parents. You buy them because you played them and want your kids to play with them. In addition, board game brands are also more differentiated than other brands, even other toy brands. For instance, G.I. Joe has to compete on price with generic toy soldiers. In contrast, Monopoly has a play pattern which is different from everything else and with which people are deeply familiar. Therefore, a new game competing with Monopoly is more like a new sport competing with football than a generic toy soldier competing with a branded one. Finally, board games are cheap – you can buy Monopoly for less than $15. It is very hard for a competing product to win business because there is no price discount from that low amount that could make the consumer give up the value of the game play and the nostalgia. These are the main reasons Hasbro's brands are protected and therefore valuable. Figuring out specific points like these is necessary, but not sufficient, because an investor still has to assign the right weight or value to this protection. That is a judgment call that occurs in every investment.

Our research process was intensive

One of the reasons we were able to judge the value of this protection is that we knew Hasbro very well. We read hundreds of pages of articles going back decades, at least two books, transcripts, presentations, antitrust related documents, and trading card magazines. We gathered 24 megabytes of data on toy prices, followed the ratings for their shows on TV, and tracked the popularity of their more volatile brands. This was just the secondary source process.

For primary source research, we spoke with

- 19 former employees
- 12 retail customers
- 5 distributors
- 6 private competitors
- 4 toy inventors
- 4 cable TV industry sources
- a manufacturer, a journalist, and an antitrust attorney

We also visited stores, attended Toy Fair many times, met with the company multiple times, and spoke to dozens of store level retail employees.

The research process yielded helpful insights

Over the years, we gained dozens of insights from our research. A few include:

- *The brands had a lot of upside:* In the 1990's Hasbro did not allocate resources to its core business and instead chased fads like Pokemon and Furby. We believed that there was a lot of value in the core brands, and this belief was dramatically borne out. For some brands like Transformers, Hasbro re-imagined what they could be – under CEO Brian Goldner's guidance, Hasbro turned brands into movies. For other brands like Monopoly, Nerf and Play Doh, Hasbro grew them through new product extensions and innovations. Finally, Hasbro dug into its inventory of 1,500 toy brands and brought back old favorites such as My Little Pony and Littlest Pet Shop.
- *Hasbro was not going to waste money:* Most toy companies have well protected stable base businesses and require no capital, but ironically they often run into financial trouble. Milton Bradley and Coleco (Parcheesi, Scrabble and Cabbage Patch Kids) mistakenly invested in video game systems. Tonka (Parker Brothers, Play-Doh and Nerf) mistakenly made an acquisition in 1987 with too much debt.[6] Mattel made both of these mistakes, losing money developing Intellivision in the

[6] All three of these companies were forced to sell (and all to Hasbro).

1980's and then acquiring The Learning Company in the late 90's. With Hasbro, I believed that toy industry history would not be repeated because David Hargreaves, Hasbro's CFO, was going to be an excellent steward of capital. Indeed, he has done a remarkable job over the past decade. Hasbro did take its brands into video gaming and movies in the 2000s, but this was done primarily with the capital of its partners, including Paramount and Electronic Arts, not its own.

- *Cost Cutting:* Hasbro had large cost cutting opportunities, and because of the strength of its brands, it did not have to give the benefits of these price cuts to its customers in the form of lower prices. Hasbro also had some working capital initiatives to free up cash.
- *Retailers:* The large retailers, Hasbro's major customers, were happy with them. Hasbro's toys were generally doing well, and retailers liked dealing with them, because Hasbro did not try to stuff the channel and was operationally well-run.
- *Accounting*: Hasbro's earnings were understated due to accounting charges for expenses that were not really economic expenses. Their income also understated their cash flow because they were expensing license payments that had already been paid upfront in cash.

Results

We held Hasbro continuously from 2002 to 2010, and the business did well during the period. We tended to have larger positions when the stock got cheaper and smaller positions when it was more expensive. Hasbro was one of the most profitable holdings the fund has ever had.

Expert Networks

As you know, we speak to many customers, suppliers, competitors and former employees when we do our research on a company. However, we have never used an expert network or any other method of talking to these people that involved payments. For reasons I lay out below, I have long believed that doing so was risky.

In an expert network, both the investor and the expert can make lots of money from exchanging information, and no one else will find out if the information exchanged is illicit. In such a tempting situation, the parties have to be exceptionally and perpetually strong to avoid exchanging any insider information. Now, most people that run the expert networks are honest, as are most investment managers and most experts. The problem here is not the people – it is the current system, which is unintentionally structured to corrupt good people. My view is that even though most managers use the system completely ethically, a good number (who otherwise would act ethically) do not. Thus, a disproportionate amount of insider information is exchanged during expert network conversations compared to unpaid conversations.

Intense primary research is a core part of our process, and the vast majority of our peers were using expert networks. The temptation to use one was large. We chose not to, despite the potential benefit, in order to remove any chance that we would hurt the reputation of the firm.

Now even after forthcoming prosecutions, it is quite likely that most managers will not suffer any damage as a result of their use of this system, so it will likely turn out that I acted with care beyond what was required. My hope, though, is that you view our choices about expert networks as a proxy for the way we try to approach every decision.

Portfolio Structure

Throughout the year, we had less than 100% of our equity invested in stocks on the long side, and we ended the year with 93% gross exposure. Of the capital invested in companies at year end, 78% was invested in companies with market caps greater than $10 billion, 14% in companies between $3 and $10 billion, 0% in companies between $1 and $3 billion, and 8% in companies less than $1 billion.

If you have any questions regarding these results or anything else, please call me.

Yours truly,

Gavin M. Abrams