PRINCE HENRY NAVIGATOR II AND III LLC

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Dear Fellow Investor:

2009 Table

This table provides a synopsis for the performance of all of the fourteen publicly traded funds owned by Navigator II and Navigator III in 2009 with the funds' average net return after fees being 45% for 2009.

#	PHN Publicly Traded Fund	2009 Net Return (after fees)	
1	Pabrai Fund IV	119%	
2	Greenlea Lane Fund	93%	
3	Spitfire Fund	76%	
4	T2 SPAC Fund	60%	
5	Sabre Value Fund	42%	
6	Spencer Capital Fund	41%	
7	Aquamarine Fund	39%	
8	T2 Fund	37%	
9	Emerging Value Capital Management	37%	
10	Centaur Value Fund	28%	
11	Semper VIC Fund	27%	
12	Praetorian Fund	17%	
13	Sellers Capital Fund	-29%	
	Average	**45%**	
14	Harrier Hawk Fund	7%	Fund started in October
Benchmark	S&P 500 Index	27%	With all dividends reinvested

Punchline

2009 was a wonderful year with the average return of all of Navigator's public funds coming in at 45%, a full 18 percentage points better than the S&P 500. All but one of Navigator's funds achieved positive absolute returns and all but two beat or matched the S&P 500.

All this happy news aside, these results only matter in the context of long-term performance. Kenny Rogers' song "The Gambler," admonishes "You never count your money when you're sitting at the table, there will be time enough for counting when the dealing's done." The song's advice provides all of us with a wonderful reminder not to overemphasize short-term performance. In this vein, I encourage investors to read the year-end letters from Navigator's managers. The letters help us understand the why of 2009's performance, and more importantly, show how the funds are positioned for the present and the future.

Tilson, Tongue Comment

Whitney Tilson and Glenn Tongue of T2 Partners make a comment in their annual letter (which I encourage you to read in its entirety) that is a representative comment for all of Navigator's public funds.

> "Over the past two years, our fund was down a bit more than half the market during the meltdown of 2008 and beat the market during the rebound of 2009. If we continue to do this over time, we should all do quite well."

One Key Point

Building on this theme from Whitney and Glenn's letter, if I were to choose to underscore one point from the collection of letters from Navigator's Manager Partners, it would be that while Navigator's public funds enjoyed powerful 2009 performance, they did it while conservatively positioned so as to maximize the probability of avoiding permanent capital losses. Specifically, Navigator's funds owned hedges and shorts against overvalued companies and situations, and the funds owned stakes in the best capitalized and most undervalued businesses. These bets, specifically the hedges, have lost money thus far, but they are consistent with Navigator's mission of first preserving capital. Navigator's managers remain excited about the companies they are backing and the companies and situations against which they are betting.

2009 Fund Letters

1. Pabrai Fund IV: http://www.princehenrygroup.com/l_010110.pdf
2. Greenlea Lane Fund: http://www.princehenrygroup.com/GreenleaLaneCapitalPartnersLP-2009letter.pdf
3. Spitfire Fund: http://www.princehenrygroup.com/SpitfireInvestorLetter4Q09.pdf
4. T2 SPAC Fund: http://www.princehenrygroup.com/T2SPACFund2009performanceupdate.pdf
5. Sabre Value Fund: http://www.princehenrygroup.com/SVQCF_Update_011810.pdf
6. Spencer Capital Fund: Letter to be published in February
7. Aquamarine Fund: http://image.exct.net/lib/fef41d7371670c/m/1/Aquamarine+Fund+Q4+2009+letter.pdf
8. T2 Fund : http://www.princehenrygroup.com/T2QualifiedFundannualletter-2009.pdf
9. Emerging Value Capital Management: http://www.princehenrygroup.com/EmergingValueCapitalManagement-Nov-Dec2009LettertoInvestors.pdf
10. Centaur Value Fund: http://www.princehenrygroup.com/CVFDec09.pdf
11. Semper VIC Fund: http://www.princehenrygroup.com/QPPERFDEC09.PDF
12. Praetorian Fund: Letter not yet received

13. Sellers Capital Fund: http://www.princehenrygroup.com/SellersCapitalFund4thQuarter2009LettertoInvestors.pdf
14. Harrier Hawk Fund: http://www.princehenrygroup.com/HarrierHawkFund4Q09Letter.pdf

Bad News: Sellers Capital 2009

Navigator had one fund, Sellers Capital that was down in 2009, down 29.29% for the year. A reasonable investor might ask the following questions:

1. How on earth did anyone lose money in 2009?
2. What is Dan doing to assess the situation?
3. Does this performance change Navigator's investment thesis for Sellers?

First, to look at the bigger picture, since inception in 2003, this Sellers Capital fund has outperformed the S&P 500 by 6.07% PER YEAR, an enormous accomplishment. Moreover, the fund's manager, Mark Sellers, is, in my opinion, an excellent stock picker. He does, however, run an extremely concentrated portfolio that makes the fund have very big ups and downs. Today, for example, one company, Contango, is 45% of the fund. Another company, Premier Exhibitions, is another 45%, and puts on the S&P 500 are another 10%. In Mark Sellers' own words, here are his thoughts on the 4th quarter of 2009 and on 2010 in general.

- *4th Quarter 2009:* "Contango and Premier both performed well in the 4th quarter, but our puts on the S&P 500 Index hurt us. Despite this, I am happy with how the quarter went. We were protected against a market meltdown yet made 6%. The vast majority of my own net worth is in the fund, and I can sleep better at night knowing that I am conservatively positioned in the current economic environment."

- *Full Year 2010:* "I think this will turn out to be a good year for the fund. Although I can make no guarantees, we have two healthy companies with no debt, good management teams, selling at a large discount to intrinsic value. Although such a situation persists for longer than an investor would like, it can't last forever. At some point, we'll make money on these stocks, and if I had to guess, I'd say it will happen in 2010."

As Navigator's manager, I just returned from meeting with Mark and one of his two big positions, Premier Exhibitions, and remain comfortable with the ultra concentrated fund as part of Navigator's diversified portfolio. While unwilling to predict exactly when it will happen, in my estimation, this fund's future performance will more resemble its long-term record and will make 2009 an aberration. As I write this letter in late January, those insurance policies that Sellers Capital owns in the form of puts on the S&P 500 are looking prescient. To quote Buffett, Jimmy not Warren this time, "Time will tell."

Harrier Hawk Letter

I encourage you to read each of the 2009 letters, as a half an hour reviewing them provides an excellent overview of Navigator. If, however, you choose to read only one letter, I suggest the Harrier Hawk Letter, written by Wayne Chambless, the firm's founder and portfolio manager. Why read this letter? Because Harrier Hawk started in October of 2009, this fourth quarter 2009 letter is the fund's first. Hence, the letter shares with the reader the philosophy of the firm's principals. Whatever interest or lack thereof one has in the nitty gritty details of investing, however, Wayne's integrity hits the reader between the eyes. Like Zeke Ashton's Centaur Value Fund letter that I cited in my previous Navigator Update Letter, Wayne's philosophy of alignment of interests serves as a microcosm for what Navigator seeks with all of our Manager Partners. These letters show Navigator investors the skill, the passion, and the ethics of our partners that I am privileged to witness every day. I believe that Wayne and his Harrier Hawk team will enjoy tremendous investment success. Investments aside, however, it is an honor to partner with such class people.

Point Clear Insurance Policy

Point Clear Capital Management does not appear in the table, and we do not have a letter for them, because, at present, none of the Navigator funds owns an insurance policy through Point Clear. We do, however, own a stake in Point Clear's funds via Navigator's ownership stake in Point Clear itself. The reason for not owning insurance against a market debacle has been analogous to that for not having a fire insurance policy for a building that has already burned to the ground. After 2008 and the start of 2009, assets were priced so cheaply that it made little sense to insure against their further decline. Moreover, doing so was very expensive as investors, as is our human nature, were extrapolating recent events and anticipating the end of the world.

Now that markets have recovered, we are working closely with Point Clear on a new fund, The Point Clear Gamma 150 Fund, to be used as an "insurance policy" to protect Navigator's portfolio. This fund would provide attractive asymmetric returns if market chaos returns and will be structured to lose a substantial amount of its capital if markets continue an inexorable upward trend for the next five to seven years. If, however, the future provides less happy market performance, this "insurance policy" is designed to return a multiple of capital invested. Several of Navigator's investors have inquired about integrating this type of "insurance policy" exposure into their portfolios directly, in addition to what they own through Navigator. If you have an interest in exploring such a purchase, please let me know.

Transgaming

In his Sabre Value Fund letter, Aaron Edelheit discusses Transgaming, a major position for the Sabre Value Fund. In addition to Navigator's ownership of Sabre Value Fund and thanks to Aaron's hard work educating me, Navigator also owns a direct stake in Transgaming. For those of you who attended the Navigator Update Meeting in New York in October, Transgaming is the company in which we were hoping that Navigator would have a chance to make an investment. In December, we, alongside two of Navigator's partner funds, Sabre and Spencer Capital, participated in a private investment infusion into Transgaming. We cannot sell the investment for some time, so celebrating now is analogous to having the victory party after the 1st inning of a baseball game. That said, the shares have bounced around roughly 10% to 30% higher since our purchase in December.

The investment thesis in this case is similar to the one we employed successfully with Covalon back in 2005 and 2006. Transgaming, like Covalon, is an orphaned company that is priced for disaster. It has no debt and plenty of cash. Also, like Covalon, it has one established business and two speculative businesses. In my view, the one established business is worth more than the current value of the entire company. If either of the other two businesses makes money, Transgaming is worth a great deal more. If we have done our homework right, this situation is the quintessential "heads we win, tails we don't lose very much" type of asymmetric return to risk situation that Navigator works hard to discover.

Navigator III Update

Navigator III has two pieces of news:

1. Navigator III can now accept regular cash investments, in addition to those made with retirement money.
2. Navigator III remains open into early 2010, as several investors expressed an interest in making their investments via a Roth IRA now that the income limits for Roth IRAs no longer exist.

Thank You

I remain optimistic about Navigator's continued success. Thank you for trusting me with your hard earned money. I promise to do everything I can to prove worthy of that trust.

If you have questions, I very much encourage you to call me at 917-509-2161 or email me at *dananglin@princehenrygroup.com*.

Sincerely,

Dan Anglin