SABRE VALUE MANAGEMENT, INC.
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Dear Sabre Value Fund Investors:

The Sabre Value Fund jumped 11.13% on a net basis for the month of May and is up 10.02% on a net basis for the year. The S&P 500 gained 1.07% for the month and is down 4.6% for the year.

CVR Energy, Hemisphere GPS and Photochannel all jump at the same time

In May, CVR Energy (NYSE: CVI) provided us with a wonderful opportunity to buy the stock below its liquidation value. Remember that CVI is the refiner, which has a fertilizer subsidiary, which I believe is worth at least $20 a share by itself. (This fertilizer subsidiary doesn't use natural gas, so it the lowest cost producer of nitrogen based fertilizer in North America.) When you add the value of the refinery and fertilizer subsidiaries together I believe you get a value of at least $30 and as high as $50 per share.

Imagine then my delight at being able to buy the stock below $20 per share in early May right before strong earnings were reported. For the month, CVI jumped 24%, but because we bought a bunch of stock around $20, we were able to enjoy 33% returns intra-month. The stock has continued its upward move since May's end, and we remain optimistic about its near and long term performance.

Hemisphere GPS (Toronto: HEM) jumped another 12% as more and more investors are figuring out just how bright its prospects are. I continue to be very excited about HEM's future and am very positive on the solid management team in place there, headed by CEO, Steven Koles. That said, the risk/reward has changed since we were loading up on the stock in the $2-$3 stock price range, and we have reduced our position. While still remaining an important position, the stock is approaching fair value at $5-$6 per share. I remain ready to load up on as much stock as possible should there be any panic sale or substantial pull back in the stock.

Finally, Photochannel (Bulletin Board: PNWIF) jumped 13% on the back of a big time Kodak China contract win and the anticipation of Costco going live. And it is Photochannel that I would like to spend some time on.

Is Photochannel a $20+ stock?

Photochannel is currently our largest position and the reason is that I think the stock could go up at least 5 times from its current stock price. Sound ridiculous? With a detailed analysis of its customers and its business model, you will see why it's not.

Photochannel handles the back end of photo processing on the web for large retailers and they get a cut from every transaction, such as 2 cents for every picture or $1 for every mug with a picture printed on it, etc.

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In first quarter, Photochannel saw increased expenses for its newest customers, such as Costco, with no associated revenue (Costco went online today). As these new customers now come online, all of this new revenue will flow to the bottom line, and yet expenses will stay relatively flat. Further, the Kodak China contract is a royalty income stream for eventually 4000 stores in China, for which Photochannel will incur little or no expenses.

I expect by September, with the addition of Costco, Sam's Club and Kodak China that Photochannel will be earning at least $0.30 per share in cash flow on an annual run rate. By next year, with the new China contract in full force, the company should be earning at least $0.50 per share in cash flow.

And the big whopper comes when Photochannel wins Wal-Mart U.S., which I'm convinced they will do at the end of 2009 or the beginning of 2010. Wal-Mart is the largest photo processor on the planet and I believe that Wal-Mart could add at least $0.50 per share in cash flow to Photochannel in 2010 if they won the contract. With 50% earnings growth from existing customers plus Wal-Mart, Photochannel could be earning $1.25 or more per share in cash flow in 2010. If this were to happen, Photochannel would be at least $20 per share.

And if they don't win the Wal-Mart contract, based on existing customers, I expect Photochannel to cash flow $0.75 per share in 2010, which should get the company to a $10 to $15 per share price target in less than 2 years for a 150% to 275% return. This is why Photochannel is our largest position.

10-year anniversary of Sabre Value

In June of 1998 I started my fledgling enterprise investing for one client, Ryan Katz. Within three months, I was struggling, as was most of Wall Street in an awful market that culminated in the Long Term Capital hedge fund collapse. I called Ryan during the worst of the market and told him what was going on, what his performance was and how I was doing my best in a trying environment. I will never forget his response. He told me that he understood that things were rough and that in the short run the market can be tough. He also told me he had all of the confidence in the world in me and knew performance would get better.

I will always be grateful to Ryan for not only seeing promise in a green 23 year old, but for giving me such confidence in that trying time, which didn't last long as I finished 1998 up for the year. In fact, as Sabre has grown I've had many clients like Ryan who have been absolutely fantastic with their support and with recommending Sabre Value to other investors. I thank all of you for your support and trust.

As many of you know this can be a very hard and stressful business and I wouldn't have been able to do it as well as I have been without the wonderful support of my family and friends. Further, Caroline Farrell has been an absolute Godsend to me and I doubt our performance would have been as good without her cheerful presence and hard work ethic.

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So, how has Ryan done in the past 10 years? Well, he has never had a down year, and he has averaged over 21% after fees. For every $1 Ryan gave me, he now has close to $7. I'm glad I've been able to repay his trust with such performance. And it was especially gratifying that the first ten year period of Sabre Value ended with the best month the firm has ever had.

Process and Success

There was a fantastic article in the New Yorker magazine (the May 12th, 2008 issue) about Toyota and its "open secret of success." What the article discussed was Toyota's relentless pursuit of improving the process of making automobiles. From the fact that any employee can pull an "andon cord" and stop the entire assembly line to address a problem, to "reorganizing factory floors and work spaces to allow for freer and easier flow of parts and products" Toyota has revolutionized the way cars are built and how manufacturing is done in the world.

Yet despite opening its doors and giving tours and explaining just how its does things including a joint venture with G.M. to show them how to better improve GM's own production system, Toyota continues to lead far ahead of the pack. Why?

The article answers that to Toyota, improvement is not a sudden leap, but rather it's an incremental process to make things better on a daily basis. The Japanese even have their own word for it, "kaizen", or continual improvement.

One of the keys to my success, especially in recent years is the relentless focus on improving the process of investing and that is why this article really spoke to me. And I want to let investors know that subtly in many ways I continue to work on and improve the process of investing from research, to position sizing to when to sell. As long as I continue to work on honing the process, in the long run Sabre Value's performance should be great.

No June written update

I am taking a one-month break from writing a monthly update, so there will be no written update for June, as I will be traveling. Investors will get their performance emailed to them from our accountants as usual (via Fundnumbers.com) and I will write an update for both June and July in early August.

Summary

As long as the market continues to act the way it has so far this year, I feel quite confident that the future will remain very bright for the Sabre Value Fund. Specifically, as long as emotion, leverage and illiquidity disguise fundamentals, we should be able to pick and choose the best companies with the brightest prospects at discounts to their true value.

Aaron Edelheit