

**Islamorada Investment Management
Mid-Year 2011 Conference Call
August 4, 2011**

Operator: Good afternoon and welcome to the Islamorada Investment Management Mid-Year 2011 Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions.

I would now like to turn the conference over to Cale Smith, managing partner of Islamorada Investment Management. Please go ahead.

Cale Smith: Thank you, Valerie. And welcome everybody, both to the mid-year IIM conference call and to what I believe we can now officially call the stock market correction of summer, 2011. Before I get too far into things though I should tell you that my compliance lawyer says hi. More specifically, I want to read a little disclaimer:

This call is for educational and informational purposes only. Nothing contained here should be construed by anyone as an invitation or solicitation to buy or sell any security. This call does not contain any personalized legal text, investment, or financial advice and listeners should consult with a qualified advisor to obtain advice such as their personal circumstances.

Okay, then. A 'correction' as I eluded to earlier and as a reminder, occurs when the stock market falls 10% from its previous highs. In this case, that was reached back in April, and that is really where we now sit. So, I guess a lot of you may be feeling a little antsy about the market right now. As I'll talk more about later though, I am actively buying and averaging down in both portfolios here. As the saying goes, this too shall pass.

It looks like we've got about 25 people or so on the call and again I suspect many of you may have questions, which was sort of the whole point of this call. So I'll try to power through my opening comments here and get to the Q&A. I do want to talk about where we are right now in terms of portfolios and the economy, then give a little bit of background on one of our newest holdings, and if time allows talk a little bit about my outlook for the rest of this year. As Valerie mentioned earlier - after I talk, then she'll poll for questions and I'll stay on the line as long as it takes to answer them.

So let's start with where we are right now. The good news in the macro-economic sense is sort of the avoidance of a big negative and

by that I mean specifically the U.S. did not default on its debt. It's probably a sign of the times I guess that something that was so potentially significant - and that really only was resolved technically speaking two days ago - already feels like such old news, but I guess these are the times we live in. Policy makers did come together in the eleventh hour though, as expected and as I tried to convey to you via the past few e-mails the way I thought they would, and raise the debt ceiling.

As an aside, I should point out I heard a comment from a comedian earlier this week that I thought was pretty on the money and I wanted to share that with you guys. He said something like—and this was with regards to the debt ceiling passage – “Okay, we didn’t default! I haven’t been so excited about avoiding a self-inflicted disaster since that one time I decided not to stick my hand in the paper shredder.” And I thought that that pretty much summed it up.

So again the good news is that the debt ceiling increase passed. I suspect we'll be talking more later about the actual impact or lack thereof of the cuts that were agreed to as part of that legislation. More relevant to what is I guess the bad news, and this is at least in the very short-term here - it apparently didn't dawn on any of those same policy makers that pushing the country to the brink of catastrophe even as political theatre was really going to have consequences, and by that I mean that all of the angst and uncertainty around the debt ceiling debate would hurt people's confidence in the economy, and by extension make consumers and businesses hesitant to spend any money. So we've seen a few ugly economic reports come out in the last week or so that have suddenly become the next new thing to worry about on Wall Street.

For those of you who have been investing with me for a little while - it probably doesn't surprise you to hear that I'm not overly concerned about those economic reports. Not yet anyways. My opinion is that data certainly bears paying attention to, but that the bad news to date is both explainable and not entirely unexpected. All of which is sort of a longwinded way to say basically that my response to a lot of the fear that is out there in the market - and there certainly is a lot this week in particular – but my response is basically get to greedy.

So as a point of fact, we are officially in correction territory. At least I presume the market closed there based on when I last looked at it. In terms of just market prices, then, it's been an ugly few weeks, and neither Tarpon nor Gecko have been immune. In terms of business values though, this is where I try to spend most of my actual attention focusing. In contrast to market prices, now is a great time. There is again really pure panic in the stock market right now and to be blunt, that's good for long-term investors like us. I feel like there are decisions I'm making right now in both funds that are

going to drive our returns for the next few years. At the risk of sounding like a masochist, I guess I welcome the craziness of these sorts of market prices - although, I'm the first to say that some of you you could probably do without it. But hopefully we can talk more through some of that here today on the call.

Let me review Tarpon and Gecko stats for you real quick. You'll recall Tarpon - and for newer investors or those who aren't invested yet but are thinking about it - Tarpon is my long-term capital appreciation fund. That was launched in late November, 2008. And when I speak of or refer to "Gecko", that's my high-yield portfolio which was launched at the end of January 2009. And these prices I'll refer to were through the market close yesterday, so, you know, factor that in accordingly. Today it was obviously a pretty bleak day in terms of prices.

Year three to date for Tarpon, up 7.3%. S&P 500 with dividends is up about 6.5% over the same time. Calendar year-to-date through the close yesterday - we're still up just about 3% in Tarpon while the S&P was flat. That, however, will probably change for both, as today was a big down day in the markets.

Year-over-year return from close yesterday to the close of the market the year prior - Tarpon was up 19.2% versus just under 15% in the S&P. Since inception which is, candidly, how I tend to think about things, Tarpon is up about 123% versus 77% in the S&P 500, again with those dividends reinvested.

Shifting gears to Gecko real quick, year three to date we're up just barely - up about four bips or 0.4%, while S&P to the same close was down a touch. One year return for Gecko, 10.9% versus 14.8% in the S&P. So in Gecko, we're underperforming on a year-over-year basis, but otherwise we look to be doing pretty well.

The calendar year-to-date for Gecko, almost the same as Tarpon. We were up about 2.4% through the close yesterday versus a flat S&P. And since inception, Gecko is actually up 115% versus about 59% for that same benchmark S&P 500 with dividends reinvested. So that is in a nutshell where we are, performance-wise.

What it really means I guess is that unfortunately in the short-term we've given up some gains in both portfolios compared to what we had earlier this year, but the silver lining is in my head anyway is that - almost like last summer - the changes in the portfolios that I'm making, well, I wouldn't be making it if I didn't think it would result in higher returns in Tarpon than what we otherwise had - and it's already resulted in an increased yield in Gecko. That's a little bit more of a different approach there in Gecko, but that's simpler to capture as well.

In any case, the trade-off I'm making with all of our money here then is really foregoing a potentially quicker rebound in the portfolio after a market decline by not making any changes to things and instead adding new companies that I feel are more attractive than the companies I sold and I'm averaging down in. And again all that is in order to outperform the market by more than we otherwise would have down the road.

To be clear, my preference when investing is really just to sit in my hands. I wrestle quite a bit with making any changes. And there's also a pretty clear inverse relationship between activity and performance, and you can see that in both portfolios. Nonetheless, for Tarpon investors on the call, you guys in particular will see a lot of little trades being recorded in your monthly statements for July and that is really for one main reason and I think this point bears underscoring.

When you are investing the lowest average cost wins.

The lower the cost basis of the shares that you own, the higher your performance will be later on, all things being equal – and assuming your valuations are correct and the market eventually agrees with them.

What I like about Folio in particular is, number one, we don't pay any commissions, and that, number two, means you can buy more of those lower cost basis shares and sell higher cost basis shares for free, and in a way thanks to tax lots that is as tax-advantageous a way to do it that I think you can find out there. So the point is it's free for us. It's free for me to average down in days like today. It doesn't cost us any commissions. I can do it as intelligently as possible thanks to the tax lots and it results, all things being equal, in higher returns later on. So why wouldn't you do that? I think that's a valid question. And it's a little bit in contrast to a strict buy and hold philosophy where you simply buy something the first day and let it ride. I'm more interested in averaging down and I think the environment we've been in in the past three years has really necessitated that, so I'm thankful we can do it for free on Folio.

I want to shift gears a little bit and talk for a few minutes about one of our newest positions in Tarpon. I want to really boil down the investment case for Clearwire, one of our latest position. I think Clearwire speaks to probably both the values and fear that's out there in the market right now, and kind of dovetailing along those last comments, it also underscores my idea of the importance of averaging down.

I first started buying shares of Clearwire for us about three weeks ago. The price at that time was \$3.23. The price has essentially dropped to a low of really about half that - just today in fact - for a variety of reasons, all of which in a nutshell I think can be attributed primarily to fear. There are some things to be concerned about at Clearwire to be sure - I don't want to overlook them - but at the same

time, they're not real risks to the extent that the current market price would have you believe.

So again this company has some challenges, but nowhere near the ones that the price would indicate. And I'm actually in the process of rather aggressively averaging down. I suspect—I did a lot of this today—I suspect that when it's all said and done our cost basis in Clearwire will be right around \$1.70 per share. It's hard for me to express how geeked out that makes me. Clearwire is at that price the lowest it's ever been since it went public. You can interpret that in a variety of ways, one of which is that all the progress the company has made in the last six or seven years since going public is now simply worthless according to the market price today. That doesn't make a whole lot of sense to me and I want to try to explain a little bit more on my thinking about it because it can be a controversial name.

Let me back up a little bit. Clearwire owns about 45 billion MHz of wireless spectrum and they run our nation's first true 4G wireless network. So despite what AT&T and Verizon might be telling you, their networks are not really 4G, not yet anyways. Down here in South Florida, and in this part of the country, you probably haven't heard of Clearwire, as they're now a wholesaler and they no longer provide cell phone service direct to the consumer. But if you're a Sprint customer with a 4G phone, you're actually on Clearwire's network.

Clearwire has invested about \$20 billion to date on buying spectrum and funding the build out of its 4G wireless network, getting it to its current coverage. The current value out of the whole company as indicated by its market cap, at least from a couple of hours ago, including the debt and subtracting the cash - something called enterprise value - that current value is \$3.4 billion.

So let's just put aside for a moment the difficulties you may have in trying to actually physically value airwaves – their spectrum. Even if you had no idea how to value the asset that is the spectrum that Clearwire owns, I think you can probably still agree that we're basically buying into a piece of a company that invested \$20 billion in capital to build something that a few years later is now being valued at \$3.4 billion. One way to think about that is in other words, we're becoming partners in a business on very good terms: we're buying something for \$0.17 that was built by professionals not too long ago for \$1.00.

Now it's certainly possible that those professionals - the guys who ran Clearwire as they used up that \$20 billion - were idiots. It wouldn't be the first time in the telco industry that investors gave gobs of money to people who really didn't know what they were doing with it. But I don't think they were and here's one reason why.

From 2007 to 2010, mobile data growth increased about 13 times, and as you might have guessed, that was primarily driven by the iPhone and the slew of other smartphones that are starting to hit the market. That alone is pretty impressive I think, but over the next four years mobile traffic growth is expected to increase 40 - and that's as in 4-0, 40 times - again driven by increased video usage and data plans on all the usual suspects...PCs, tablets, smartphones, et cetera.

Just to be clear, those are somebody else's estimates. I'm not going out and figuring those data rates myself. But even though they could end up being way off, I think it's also important to note that Clearwire itself is also reporting that video traffic on its own network has increased more than tenfold since 2009.

So the point I think is this - and it's hard not to sound like sort of a diehard growth investor here...I'm attracted to Clearwire because the asset value, not necessarily because I'm looking into a crystal ball and foreseeing a lot of stuff that may or may not happen - but my point is that I think mobile broadband could end up very well being the great growth story of our lifetimes, and while those carriers that are out there can support some of that increase in demand, before too long there's just going to be a shortage of airwaves. And any way you come at it, Clearwire spectrum will enable the company to achieve far greater speed and capacity than any other network that exists today.

My point is that their spectrum is an incredibly valuable asset to have, so much so that any valuation that doesn't get into the left hand side of the balance sheet, in my mind immediately suspect. And I mention that because there is a large short interest in Clearwire and quite frankly, I'm not sure what the shorts are thinking. Right now Clearwire is a cheap, cheap, cheap asset, and I'm of the opinion that there's no such thing as a bad asset - it's all in the price you pay. And Clearwire is in our wheelhouse now.

Estimates of Clearwire's value are all over the map. There's a handful of analysts on the Street who will peg it at being worth about \$6.00 per share, but I think that's based more on cash flow than asset value - that spectrum value - which I think has absolutely got to be relevant here. There are some analysts - it's hard for me to gauge how much they know what they're talking about or not - but there are some other analysts who have attempted to value just that Clearwire spectrum and have come up with estimated values of anywhere from \$11.00 to \$25.00 a share. My only estimates put that asset value around \$7.50 to \$8.00. Right now, again, our cost basis after today I suspect is going to be right around \$1.70. So even if we discount all those estimates and even if I'm off exponentially in what I think that spectrum is really worth, there's a very good chance we could still do quite well here - it's just something that's going to take some time.

Obviously, there's a lot more to Clearwire, including what some traders apparently think are a pretty big negatives, like that they'll have to raise money prior to becoming cash flow positive sustainably early next year. So there's certainly some hair on the company, but again my point is that there is not nearly as much as the depressed asset value would make you think. It's going to be a bumpy ride, to be sure. All those negatives which again I think are overblown, also make things cheap. And that's really I feel like the name of the game in terms of what I'm trying to do on a daily basis. And I also wouldn't think of owning Clearwire for anything less than a couple of years, so it'll likely be a familiar name for us for some time.

And, more to the point, there are certainly some less controversial stocks out there right now that are also significantly undervalued, specifically in terms of Tarpon. Our top two biggest holdings in Tarpon right now are GE and Wells Fargo, for instance, and although I'm happy to talk at length about both, I think the bottom-line is both of those are really about as close as you can come to a lay-up in this business. There's simply no guarantees how long it's going to take each company, or any company in the portfolio, to reach the value that I think it's worth. There's no guarantee that it will reach that value, either - I certainly could have screwed something up - but I try to put a lot of time and energy into making sure that doesn't happen.

I could obviously talk all day. It's not really my intent to blab on about our portfolio holdings as much it is to let this sort of be a forum for you all to ask any questions you may have. So with that, I would like to turn it back over to the operator Valerie and let her queue you guys up, ask some questions, and we'll go from there. So Valerie, please take it over.

Operator: Thank you. We will now begin the question and answer session. To ask a question, you may press star, then one on your touchtone phone. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two.

At this time, we will pause momentarily to assemble our roster.

And just a reminder, to ask a question, please press star, then one. Our first question comes from David.

David: Hey, Cale, how are you doing?

Cale Smith: David, good. How are you doing?

David: Good.

Cale Smith: Good.

David: This is all very interesting to me. My question was that number one, like ATP Gas, it ties in with my other question which is a concern about maybe a big liquidity crisis at some point. What if the grease of the wheels of financing out there start grinding slowly to a halt because of problems in Europe and other places - are you concerned about any of the companies that are leveraged out that we have?

Cale Smith: Good question. That sort of thing is always a concern. I think the onus is on me to when doing that initial analysis, essentially, to make sure that even in the worst case scenario, these guys would be able to meet those debt payments - whether that's through cash flows, either they have now, or that they will have in the future - or frankly if worse comes to worse, via asset sales.

I don't have any particular concerns along those lines about ATP in general although I would certainly concede that they have what can be in times of stress viewed as an uncomfortably large amount of debt. They should have no problem servicing it though in just about any scenario you can come up with except, in what I would guess or what I would say are the very farfetched ones.

So the short answer I suppose is that issue in particular is something that is a risk for any company that has debt, ours included. I tend to quantify, or I guess sort of feel that risk a little bit more in Gecko than I do in Tarpon simply because there are certain—well, because on those dividends, I want to make extra sure that they are very secure and that they are growing over time.

So, again, the short answer is yes, I am watching things like that to make sure that our future cash flows across all these companies aren't going to be impinged by any crisis like that. There's no way really just to guarantee that that sort of thing is never going to happen, honestly, but I feel like keeping an eye on that sort of thing as part of the normal analysis and really kicking the tires upfront is probably the best way to handle it for the time being. It sounded like there's also a more macro question in there, not necessarily ATP specific, but global in general?

David: Right.

Cale Smith: I guess this conversation can go however you want to. I think there are certainly challenges in Europe. There's certainly a lot of challenges now that appear to be spreading to both Italy and Spain, at least as of this morning. In terms of liquidity events, that would be the most likely genesis - somewhere in euro-land. At the same time, there's also a lot of fear and I think

hyperbolic predictions about what is actually going on over there. Italy for instance...every company—I'm sorry, every country - has its own challenges...and Italy for instance I think really has a debt problem, specifically, as opposed to a deficit problem. I just don't see things in Italy getting to the stage that they were in Greece. I think Italy really has more of a growth problem than anything else.

So again, a lot of ways the conversation can grow. If the question you're asking is - is all this stuff on my radar screen, I'll tell you the answer is unequivocally yes. But I'm not seeing too much that would, really cause me to go to cash or panic. Yet. It's certainly choppy, but again, I feel that all we can do is watch it and kind of keep my head on a swivel.

David: Wouldn't it seem like the cash time is before that all happens, and as it happens or if it happens, that's when the real good buys occur. Correct?

Cale Smith: That kind of speaks to my general policy of holding cash in the portfolio. I think as you well know and some other folks do, too, I don't as a policy maintain a certain level of cash in the portfolio. Part of that is just a function of portfolio size. Tarpon is right around \$10 million right now, so, I'm not in the case of running a couple of billion dollars and just being unable to buy certain things. Your investment options as a manager of a billion dollar, or multi-billion dollar fund are certainly a bit limited. You can't move into small-cap companies without moving the price around and even if you could it wouldn't necessarily move the needle in terms of your overall performance. So part of my rationale for not holding a lot in cash is related to that.

And part of it is, I guess, just sort of philosophical. I feel like all you guys are paying me to work as hard as I can and find the best opportunities I can - and I don't really have a floor because those smaller companies are not really restricted to us. So in my head, if I run out of ideas or cannot find any opportunities, okay, well, then the alternative is cash. But I think it's a mistake to try to predict when the market is going to try to turn the other way on you and move to cash ahead of time, simply that's because too challenging. And even if you have cash, the number of people I know who can actually put it in the market at exactly the right time is really slim to none. So it is a more of a kind of a philosophical thing.

I also feel like you guys aren't really paying me to be a bank. So if the money is coming to me, I'm going to do my best to put it to work in the best companies I can at the cheapest valuations I can find and go from there. Does that help? Does that answer the question at all?

David: Yes, and that's good. A couple of times you said now before that like, I don't see that going to cash because of a cataclysmic event or whatever —I mean really would you ever see that happening?

Cale Smith: Yes. It's a good question. I think the question really is, when would I go to cash? If not now, when would I ever do it? And I think it's a logical question. The answer I suppose is when I see something that is a) truly alarming and/or b) that I cannot rationally explain. I think it's tempting to compare things now to a few years ago. For instance, back in 2007, about nine months before Bear Stearns actually collapsed, they had two hedge funds that dealt in sub-prime mortgages collapsed. That to me at the time was a significant indicator.

Those sorts of things I think meet those criteria. Again they're fairly alarming and if you can't rationally explain it based on what you know right then about the world, something is up that should get your full attention. I think all of the threats and the perceived threats that are out there right now...there are very few surprises in those threats. It's my belief I suppose that the things that are really going to cause havoc to the portfolio are the things that you really don't expect. And in the case of the subprime crisis and the Great Recession, it all sort of unfolded in a slow motion way. And I'm definitely looking at data these days to see if that sort of thing is being repeated and I'm just not seeing it there. So I try and take the emotion out of it and just stay rational and see what's happening and make the best decision I can. So that's sort of where I am on it.

It's such a challenging thing, that decision to move to cash or not. If you step back and say, well, how can you really screw up managing a portfolio - whether it's your own or others - and most of the time the answer really is "to move to cash" at the wrong time. So I think as a PM, as a portfolio manager, on day one you really need to know in your head, "Am I going to have cash in this portfolio, and am I going to maintain it?" If so, then you stick to that no matter what. If you're not going to, then don't, because you don't want to be changing that in the middle of a correction like this, because then two things happen, I think. Number one, you just lose confidence in your own system. Number two, you sort of forego benefitting from the bounce back, whenever that may come. All things being equal, changing mid-course can just have a big impact on your confidence I think, or, worse, start to make you question your whole philosophy. So it's more I guess in some level that's not quite existential but is still a philosophical point. And that's kind of how I think about it.

David: Okay, thank you.

Cale Smith: Sure thing.

Operator: Our next question comes from Arie.

Arie: Hello, Cale.

Cale Smith: Arie, how are you?

Arie: Doing great. I have a general question. What is your position in regards to hedging or short selling? You know, thinking about some disastrous possibilities happening.

Cale Smith: Yep. The answer to that question is really dictated I guess by pragmatic terms, Arie. And more specifically - again almost along the same answer I gave David - when I set things up originally I did not feel the need to short or hedge. I'm running things really over a long period of time, and that was a factor in the custodian I chose, Folio.

They're great for us for a lot of reasons - specifically in terms of averaging down. But the pragmatic answer is I simply can't short anything on Folio's platform and that's okay with me. I didn't feel like I needed to. It's probably a whole other discussion in there about the disadvantages of shorting, but, you know, maybe that's another call or another e-mail. And, you know, there is I think in terms of controlling risk, you do on Folio have the option to, for instance, buy some inverse ETFs, but that to me is less than ideal as well.

There's a lot of tracking error associated with those and that sort of thing, so my hedge if you will is essentially moving to cash. I do get asked questions about gold and commodities once in a while. My position on those is simply that I don't have any desire to own anything like that in Tarpon or Gecko for that matter. Again, probably a whole other discussion, but that would be the short answer. Does that answer it?

Arie: Yes, yes. Thank you.

Cale Smith: Okay.

Operator: Our next question comes from Frank Hawkins.

Frank: Hi, Cale. How are you?

Cale Smith: Hello, Frank. Good, how are you doing?

Frank: I'm doing good. Listen. A couple of things. One of the most questionable holdings from my point of view that you had in the Tarpon portfolio is Leap, especially if you look at what happened today...it was the one that was down the furthest.

On the Leap thing, I've always—you've always seen something there that I didn't - but apparently according to one thing I heard today is that Leap was down because the competitor Metro PCS had weak earnings. But the company also reported a loss of \$0.85 a share which was an explosion if you will from only \$0.24 a share loss last year. So, I assume you're still in it, so obviously you still believe in it, but as I say it's the one move you've consistently made that I've always had kind of a question mark about.

Cale Smith: Yes, understood. And you're exactly right. Leap right now is actually trading, as of today, the cheapest that it's ever been. Leap lost probably 20% or 25% based on nothing more than the earnings announcement of its close competitor Metro PCS two days ago. And yes, as you can tell, it was a poor time to announce less than stellar results.

I think in a nutshell - and I remember writing up a fair amount on Leap a while back in an old letter - that core investment thesis hasn't really changed, Frank. I think hanging on has been a reflection of a few things. There is a competitive moat around that business - in at least the small or narrow sense. In that with Metro or Leap, nobody else can provide cell phone service - at least on the traditionally dominated voice side - as cheap as either of those companies. They're just built from the ground up to provide things at a cost advantaged position. I would also note that I am in the process of averaging down to Leap, too, so we are going to still stick with them.

But yes, you can see they have been a problem child in a few ways. They have some challenges that are valid, but really it's kind of a similar response I'd give for anything that goes the other way as much without simply deciding to abandon it. And that is that the problems that they are having are simply not as bad as the price would indicate. There is I think in telecom in particular, there's sort of an obsession on Wall Street to kind of value companies like Leap and Metro for that matter using metrics that don't necessarily apply anymore, and by that I'm talking about ARPU - average revenue per use.

The thing that I'm most focused on at Leap is that EBITDA which is a reasonably good proxy for its free cash flow, in those margins specifically. So again they're certainly having some challenges, but my point really in averaging down is that...well a week ago Leap was trading for almost 2X what it is now. A lot of that sell off is I guess deserved if you're thinking in the short term and basing things based on that kind of framework, but I'm really not. And I think my suspicion is that as this year unfolds there's going to be probably a lot more, strategic options for Leap and Clearwire specifically simply because of that demand for mobile wireless, but that's really just speculation. So, kind of a longwinded answer.

Initially Leap was attractive to me because of that moat, that being a low cost provider. It wasn't super wide. It wasn't, you know, a

moat like Paychex or General Electric, but there was a competitive advantage there that I felt was being really undersold. This sell off today was just silly. It's trading two, maybe three times EBITDA which to me is just so ridiculously cheap that it merits averaging down in the position.

Frank: Does the company have the bandwidth to handle smartphones?

Cale Smith: It is still figuring those economics out, at least for the time being. All smaller carriers out there, based on the explosive growth in data that's going to happen, are finding themselves saying ' looks like we're going to be a little bit short of waves here.' Leap's response now based the latest earnings release is to adopt what's called LTE, or long-term evolution. A whole other discussion there. But they have enough bandwidth to meet what they can now, it's just that but based on the demand that's coming down the pipe, Leap and Metro and really a lot of the smaller carriers are starting to say, well, shoot, how are we going to solve this problem? Also, it kind of relates to why I think Clearwire may figure in some way, shape, or form eventually, but that's also really just speculative. The value is there and it is just too cheap to overlook essentially.

Frank: Okay. Well, thanks for that explanation. Just a quick comment on Clearwire. I think I can understand why the market is a little spooked about it. They have more cash than debt which is a good thing obviously. But it looks to me as though their operating cash flow trailing 12 months is about 1.1 billion the other way. And you mentioned earlier the possibility they may have to go back to the markets for more money. So, I suspect some of that plus just the general atmosphere of the market contributed to what happened today.

Cale Smith: Yes, I think so. It's been no mystery I think to anybody really paying attention that they would have to go get funding. I mean they've been fairly direct about it. But I do feel like part of the high short interest in Clearwire, specifically, relates to kind of just doing valuations via the income statement. And in my head, well, if you're looking at a thing like Clearwire, you really just can't ignore that balance sheet and that spectrum asset. What's on the balance sheet and what's not there, which is almost equally as important - it's just one of those fundamental things of finance...assets drive earnings.

If you go back and look at American Tower back in late 2002 – the parallels are there. I mean you had a company that had all of this cap ex more or less in its rearview mirror - and that's maybe been pushed out a little bit more in Clearwire's case because they too are going to roll out LTE - but the point being you've got a lot of cap ex, a lot of spending, behind you, which of course will makes things look bad. Understandably so. But once you get past that point then that runway for growth is fairly significant - and Clearwire is going

to have 10 million subscribers at the end of the year. I don't think that's anything you can really dismiss too easily, like some of the shorts seem to be...but again it's anything but a clear-cut case. It's also not a huge position for us. All the same, I think it just underscores there's a lot of fear out there and it's important to try to stay rational about it and focus really on valuations. Those are what ultimately matter.

Frank: Right, well, it's an interesting investment for sure and I see where you're coming from. My final question really is that as you know when I came in I did a 50/50 with Gecko and Tarpon. And I've actually done better on Gecko than I've done on Tarpon in terms of coming in and where I am today. And you said you've done some work on Gecko at improving the yields. Could you just give us a little flavor of that and then I'll step away.

Cale Smith: Yes, the long story short is basically in Gecko this year I've rebalanced once and bought us shares at Hatteras Financial, which were yielding about 14.5%. That's a fairly recent buy. The price came down as a result of this debt ceiling thing. I've been on skeptical of mortgage REITS for a while, but it's also true that the yield curve is going to probably stay quite low for a long time. The other side of these economic reports that are coming out would indicate that rates will be low for probably quite an extended period, and that spread risk to Hatteras which could otherwise be significant is really diminished.

So that was really the only change I've made to Gecko in a while. Really, the only one this year, I believe. There's a lot less volatility in Gecko as you might imagine just because of those dividends and that yield on those companies attracts investors in times when they might be willing to flee other stocks – like some of the stocks for instance in Tarpon. It's been a great little portfolio for us, and I'm a pleased and surprised as anyone that it is doing as well as it has been. A lot of that is a function of making very good early decisions and letting them run.

Frank: Yes, listen I'm delighted. Gecko has been wonderful for me for sure, so. Anyhow, thanks. Good job. I appreciate the call today.

Cale Smith: Okay, thanks.

Operator: Our next question comes from Brad.

Brad: Cale, you talked a little bit about Clearwire and gave that as an example of an opportunity where a decline in price really presents a buying opportunity. Can you give an example maybe of a situation where a decline in price really precipitates a re-evaluation of the fundamentals upon which it was originally purchased? And maybe when the decision goes the other way - where you say to move out of this particular stock.

Cale Smith: Good question. Just as a sort of point of fact, or maybe a point of process - anytime any of the securities or stocks that we own drop 20%, then everything else here stops and it's time to refocus on that security again. And that is really just a question of evaluating all the original assumptions. You know, taking another hack at things and really just trying to figure out all right, did this thing drop for fundamental reasons, reasons that really relate to the business itself, or you know, is it - and more often this is the point - it's simply just noise. Things like this market correction right now that we're going through...they have no real bearing on the value of the business itself, but they certainly have a bearing on its price.

So I think it also kind of speaks to the cash question and how much I typically will hold. No matter how bad things were to get for instance in Italy and how bad that pseudo-crisis if you will becomes, I just don't see rationally speaking why that would stop me from buying Google shares for instance if they're undervalued. So I guess first I'd say there is a process there and that's the number in my head. If it drops 20% then it's time to either make the decision after I'm done re-evaluating it - okay, do we sell or do we instead average down? And more often than not the response has been to average down.

I haven't figured this out, but I probably need to really quantify it: I would suspect that a big portion of our outperformance is due to what I've done in the portfolio after things have initially declined. So getting that lowest average cost is a borderline obsession on my part. You know, I'm horrible at timing things. I don't think that's a surprise to anybody just in terms of when I'm buying. One of the curses of being a value investor I think is you're often buying things too early. And one of the things I like about Folio again is that I can average down for free and do it very efficiently. So, yes, Clearwire is an example of something where I think it's really going to pay to us to average down.

Now if they came out tomorrow and announced - well, I struggle to think of a suitably horrific event that would cause me to sell - but it could certainly happen I suppose. I'm trying to think of an example of something that—well, yes, early 2009, we actually owned American Express when I first launched Tarpon in November '08. And you'll probably recall that in March '09, things got very hairy in terms of the market again. And I really sat back and in the process of reviewing what I wanted to do with American Express, and ultimately, I sold. Without getting too much in the weeds - there's a feature that companies like American Express, when they package all their credit card receivables up and sell them, there's a feature buyers get that is called implicit recourse, and had that been invoked by some of the buyers of those receivables it could have potentially, been disastrous for American Express.

So that was a time where things went down, and I said, ah, I didn't quite factor that implicit recourse scenario into my valuation and

so I sold. The irony of course was that I think it was a good decision with a poor outcome. By that I mean AmEx went on to double or triple that year, but I was okay with letting somebody else make that money. So I suppose that would be a case where, upon the second review I just wasn't comfortable with that risk and sold. Does that help?

Brad: All right. Yes.

Operator: And as another reminder to ask a question, please press star, then one.

At this time I'm showing no further questions. I would like to turn the conference back over to Cale Smith for any closing remarks.

Cale Smith: Okay, thanks Valerie. In closing I'd offer this up to you all, which I actually dug out earlier today from the very first investor letter I wrote a few years back. I talked in there about how a finance professor had studied the daily returns of the Dow Jones Industrial Average from all the way back to 1900 through 2008. And here's what that professor found:

If the market's 10 best days were removed from the period, then two thirds of the cumulative gains produced by the Dow over the past 109 years would have disappeared. So in other words, just 10 days out of almost 30,000 days made all the difference, or 0.03% of history.

So my point is that nobody can predict when those days might come - despite the efforts of an army of fortune-tellers who try. I do sincerely believe that by being in the market now and ignoring all the volatility and just focusing on lowest average costs and buying good companies, that we have a real advantage when it comes to our performance in the next few years. So I would leave you with that. If anybody has any other further questions and comments, by all means please call or e-mail. I think you guys know you can reach me anytime and I appreciate all the interest. Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect and have a great evening.

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