January 10, 2007

We are pleased to report our clients had a good quarter and year as their equity portfolios earned 8.3% and 15.3%, respectively. During the quarter, the most significant impact came from investments in technology, energy, financials, and basic materials, while health care and consumer staples lagged. The Russell Midcap Value index was up 8.5% and 20.2% for the quarter and year. The Russell's high return for the year came from its significant (~25%) weighting in REITs and utilities. REITs were up an incredible 36.6% for the year. Based upon our research and analysis, the valuation of REITs is excessive, if not speculative. This overvaluation has been driven by excess liquidity and investors' willingness to accept low risk premiums. Consistent with our disciplined investment approach, we continue to avoid REITs and the herd mentality fueling their advance. The broader market, S&P 500, was up 6.7% and 15.8% for the quarter and year. This was a rewarding year for our clients and continues the solid 12.4% annualized rate of return they have earned since the firm's inception in 1992.

For several years the market has favored lower quality companies, which has created good investment opportunities in high quality companies, our niche. We believe our companies are undervalued because they have generated strong earnings and their relative valuations have contracted due to the market chasing lower quality companies. The enclosed chart clearly demonstrates our companies have produced superior operating results with significantly lower financial leverage. We believe this superior performance will continue and combined with our disciplined valuation methods, will produce solid returns.

Thank you for your interest in investing with us and we wish you the best in the New Year.

Best regards,

Fred H. Speece, Jr., CFA

Enclosure

FHS:jh