January 12, 2009

The year 2008 will be remembered as one of the worst in stock market history and we believe it will mark a change in investors' attitude toward risk. While we are never pleased with negative returns, our disciplined investment approach was able to partially absorb the stock market collapse. During the quarter, our investors' equity portfolios were down 18.2%, while the Russell Midcap Value (RMV) and the S&P 500 were down 27.2% and 21.9%, respectively. For the year, our investors were down 17.4%, while the RMV and 500 were down 38.4% and 37.0%, respectively.

Managing risk is at the core of successful investing. For too long, investors have been ignoring risk and chasing returns...an extremely dangerous combination. Most equity investors have now lost nearly 50% *twice* in the last ten years as bubbles caused by investor herding and greed have burst. We hope investors will learn from this experience and regain their respect for risk and invest based on fundamentals rather than momentum. This would be a major positive for the long-term health of the capital markets.

Successful, long-term investing is based on managing risk and having the courage to take advantage of opportunities. Our companies have substantial financial flexibility because of their strong, consistent cash flow and modest use of debt. This allows them to reinvest in their businesses and gain market share from weaker competitors. The dramatic drop in stock prices has created a wonderful opportunity to invest in these superior companies at unusually attractive valuations. The combination of the **strength and quality** of our companies and our **risk management** has worked well for our investors, producing a 10.1% annualized rate of return since the inception of our firm in 1992.

We are pleased to report that a significant Midwest family office has started investing with us. Thank you for your interest in investing with us and we look forward to seeing you soon.

Regards,

Fred H. Speece, Jr., CFA

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