July 8, 2008

The market has been unusually volatile during the past 12 months caused by mismanagement in the financial industry, fears of recession and most recently, inflation. The strength and quality of your companies and our **disciplined investment approach** absorbed much of the shock for you. We continue to avoid the herd instincts of the market by managing risk and adhering to our valuation discipline. During the quarter, your equity portfolio was up 0.8%, while the Russell Midcap Value and the S&P 500 were up 0.1% and down 2.7%, respectively. Your investments in energy (+20%), materials (+5%) and utilities (+5%) performed well, but were partially offset by the broad market decline. YTD your portfolio was down 4.7%, while the RMV and S&P 500 were down 8.6% and 11.9%, respectively.

Emotional markets create compelling values for investors who have the **patience and courage** to take advantage of the opportunity. While we believe the volatility will continue, our research is uncovering quality companies at attractive valuations and we have added several to your portfolio. Your companies have strong financials, providing the ability to compete effectively against weaker competitors, which is particularly true during difficult periods like today. They have value-added products and services, which give them better pricing power than their competitors to offset rising raw material costs. In addition, their strong free cash flow provides greater opportunities to reinvest in their business and distribute the excess to shareholders. These solid fundamentals, combined with our disciplined valuation methods, have produced an 11.4% annualized rate of return since the inception of our firm in 1992.

We are pleased to welcome two new investors: a foundation in the Twin Cities and the CEO of a significant privately owned company in Minnesota.

Thank you for investing with us and we look forward to seeing you soon.

Best regards,

Fred H. Speece, Jr., CFA

Enclosure

FHS:mt