

October 2, 2012

Dear Fellow Investors,

During the quarter, our investors' equity portfolios increased 4.1%. Investments in consumer cyclicals (+19%), industrials (+7%), and technology (+7%) performed the best, while financials lagged (0%). The Russell Midcap Value (RMV) and S&P 500 were up 5.8% and 6.4%, respectively. The market's rally was driven by cyclical companies as investors seem to be anticipating a strong economic recovery. Based upon our research and conversations with our companies, we believe the current sluggish growth will continue for some time.

The stock market peaked five years ago this quarter, marking the beginning of the financial crisis. We are pleased to report that since then our investors have earned a cumulative return of 42% while the RMV and the S&P have earned 9% and 5%, respectively. Our disciplined investment approach is based upon long-term fundamental analysis and the attached table demonstrates the returns for the past 3, 5 and 10 years.

We are confident our companies will continue to do well despite the challenging business environment. Our companies are taking advantage of their superior financial strength by investing to gain market share and maintain pricing power. Many are capturing historically low interest rates by issuing long-term debt to fund growth initiatives and reduce interest rate risk. In addition, their strong and consistent free cash flows give them the ability to grow their dividends at a superior rate, enhancing the attractiveness of their stock. We are encouraged by the actions our companies are taking today to invest for the future. As always, **patience and courage** are required for successful investing.

Thank you for your interest in investing with us and we look forward to visiting with you soon.

Regards, Fred, Paul and Ben