

# THE LONDON COMPANY

INVESTMENT COUNSEL

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For the second quarter, our core equity holdings generally outperformed the sluggish equity market as investors shifted to more defensive, quality oriented companies. We have been anticipating such a change as valuations of larger quality, lower beta stocks have declined to their lowest level in over two decades. Coupled with a less aggressive Fed, a slowing economy, and the historical performance leadership of quality stocks in a late stage market cycle, we believe the overall environment strongly supports an extended performance leadership shift into our classic, conservative style over the next three to five years.

Attached is a detailed quarterly market summary/commentary from Marshall Acuff, reviewing the past six months and the prospects for the market over the next year.

As required by the SEC, we have enclosed a copy of our current Client Privacy Notice, and offer the availability of our Advisors Code of Ethics and Form ADV Part II. Please notify us in writing if you would like to receive a copy of either of these documents.

Please call if you have any questions and would like to discuss further. We thank you for your continued confidence.

Sincerely,



Stephen M. Goddard, CFA

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Enclosures: Client Privacy Notice

## MARKET SUMMARY/COMMENTARY

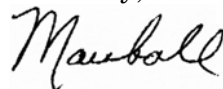
Stock markets went on a roller coaster ride during the first half of 2006. For the January – April period, equities were upward bound. However, volatility set in during May and June forcing most issues to surrender most of their earlier gains. At the end of the second quarter, the S&P 500 closed 3.4% below its May peak. Nonetheless, the S&P 500 returned 2.7% including dividends during the first six months of 2006. The S&P Small Cap 600 rose 7% in the first half.

Most of the volatility during the second quarter stemmed from a negative shift in perceptions about inflation and interest rates and was exacerbated in June by increased worries about growth of the economy and profits. Currently, increasing signs indicating a slowing of the economy's growth have eased worries about future interest rate hikes by the Federal Reserve. While it is even money that the Fed will raise rates again in August, the odds are better than even that rate increases will cease by the fall. Near term, favorable second quarter earnings reports may help a nascent summer rally, but investors will be sensitive to managements' views about profits and profitability over the remainder of the year. Of concern in the months ahead is the fact that stock analysts have yet to reduce the aggregate of their individual company's estimated earnings. Until they do, in response to slower economic growth, we expect further volatility in the months ahead as profits growth expectations moderate.

So far, the stock market is behaving much like the typical second year of the four year election cycle. Students of the market know, however, that the best year for the market is usually the third year of the four year cycle. While still early, we believe that 2007 will be a better year for stocks than 2006.

While small cap stocks have outpaced their large brethren year to date, we are encouraged by the improving relative stock price performance by many large cap issues. Although the small cap issues have more attractive long term growth characteristics than do the large caps, relative value increasingly is favoring the big cap issues that The London Company emphasizes in its portfolio strategy and stock selection. As we have said in the past, slowing growth for the economy and profits favors improved performance by an increasing number of large caps. Their strong financial positions support increased return from dividend growth. Moreover, many of these companies are the established leaders in their respective businesses and their cost of capital is less than their return on invested capital. Finally, the international nature of large companies suggests financial benefits from any weakness in the dollar. Consequently, we expect improving stock price performance by the large caps as the growth of the economy and profits slow over the remainder of 2006 and into 2007.

Sincerely,



A. Marshall Acuff, Jr., CFA

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## Client Privacy Notice

Our Client Privacy Notice tells you the kind of information we collect about you, with whom we share it, and how we protect it responsibly. The Notice applies to both current and past clients of our firm. We use the term “client” as the equivalent of the SEC’s term “customer”. We provide a current Client Privacy Notice to all active clients annually.

### Categories of Information We Collect

We collect non-public personal information about you from the following sources:

1. Information we receive from you on brokerage applications, our investment profile, and other forms or oral discussions, which could include your name, address, social security number, assets and income;
2. Information about your transactions with us or others; and
3. Information about your investment holdings from financial and other statements you provide us.

We do not collect any information about you from third party consumer reports.

### Disclosure of Information to Third Parties

We do not disclose any non-public personal information about our clients or former clients to anyone, except as permitted by law.

If you terminate our relationship with us, we will continue to treat information we have collected about you in accordance with this Notice.

### Our Security Procedures

We restrict access to non-public personal information about you to those employees of The London Company who need to know that information to enable us to serve you. We maintain physical, electronic, and procedural safeguards that comply with federal standards to guard your non-public personal information. The London Company’s employees are all bound by its policy to keep all non-public personal information confidential to the firm.

Should we dispose of any non-public personal information, we will take appropriate measures to protect against unauthorized access to or use of the information in connection with its disposal.

### Summary

We are dedicated to protecting your privacy and your non-public personal information. If you have any questions or concerns in this regard, please do not hesitate to contact us at 804-775-0317.