

# THE LONDON COMPANY

INVESTMENT COUNSEL

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Managing Director

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Dear Client:

During the second quarter, the market defied the critics with the S&P 500 returning an impressive 6.3% and Russell 2000 up 4.4%. Due to the conservative, low beta style of investing that The London Company espouses, and as is typical in a period when the indices are compounding at 28% annualized rate, our portfolios generally underperformed during the second quarter. Although this lag in performance follows a record performance year in 2006, we remain optimistic about our portfolios' investments and believe that we should deliver relative out performance in the periods ahead as we have done in the past when we have emerged from the periods similar to the current environment.

We are excited to announce the addition of our seventh employee, Melissa Ziolkowski. Melissa joins us from the investment consulting world of Hewitt Associates where she was an investment consulting analyst. She will be handling the firm trading and assist with preparing marketing collateral. We are pleased to continue our firm growth so that we can continue to provide the quality service that we are proud to have delivered for the past thirteen years.

Clients that have been with us for a while are familiar with what we call the "Decade of the Dividend". For those less familiar with this theme, it is what we have named the current decade because we believe return of capital will be a driving force in investment returns for the foreseeable future. Many companies have a dearth of investment opportunities and have been accumulating excess capital for some time. Early in the decade, we identified this theme and predicted that dividends and return of capital would be a much more significant part of investment returns in the decade ahead than it had been in the recent past. The motivations for management to return this excess capital to shareholders include the enormous amounts of private equity money accumulating about the world, to the increase in activist hedge funds, to plain old vanilla M&A. Given our preference, we would rather see dividend increases rather than share buy backs because we believe the former are rewarded with a higher capitalization rate than the latter. In a pinch, either will do though. Recent large examples of this trend

include International Business Machines, Johnson and Johnson, Best Buy, Schwab and Dominion Resources, all of which have either announced large dividend increases and/or recapitalizations, to name just a few. The trend extends across all capitalization ranges. We believe we have positioned your portfolio to capitalize on this trend as it unfolds. Though we may lag a short time in commodity driven markets like the current one, we are confident that our conservative low beta approach to buying high quality, high return on capital, and cash generating companies at good valuations will deliver over a market cycle.

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.

We thank you for your continued trust and loyalty and we would welcome any calls to discuss your portfolio should you desire to do so.

Sincerely,



Stephen M. Goddard, CFA



Jonathan T. Moody



Wesley F. Haynes



Louise M. Swartz

SMG:JTM:WFH:LMS

Enclosure: Client Privacy Notice

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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.