

THE LONDON COMPANY

INVESTMENT COUNSEL

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Dear Client:

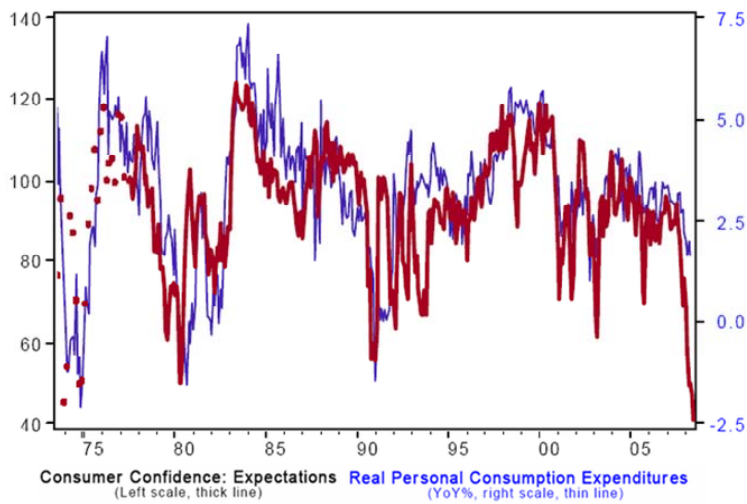
Since the market peaked last fall, we have generally outperformed in a weak and very difficult environment. While not pleased with the recent absolute returns, the portfolio's outperformance in a cyclical market downturn will have a meaningful positive impact to the portfolio's net returns over a full market cycle. Warren Buffett has stated several times that it is far more important how a manager performs in a down market than a bull market. With a focus on higher quality, sustainable companies, your portfolio's positions will endure difficult economic conditions better than most and gain significant competitive advantages over weaker industry participants once the recovery begins.

While the markets continue to act in a disheartening manner, we continue to see positive signs that the financial media are ignoring. To be sure there are clouds on the horizon: oil continues its upward spiral, input costs are rising, and the consumer is rightfully fearful about the future.

However, the stock market is a discounting mechanism. All the currently known fears are already discounted in the quoted prices. Small stocks have clearly been in bear market category and were down some 24% since their top on July 13, 2007 until March 10, 2008. Since they bottomed that day they have recovered almost 9% even in the face of continued bad macro news. The S&P 500 is not too far behind is down approximately 17.4% since its high on October 9, 2007. Our point here is not to state that we have made a bottom, for unfortunately, our crystal ball is not quite clear enough to see that. We do believe that a significant amount of bad news is already being discounted in stock prices and we believe we are closer to the end of this painful period than we are to the beginning.

Consumer confidence is at a 28 year low. The chart below from Merrill Lynch shows consumer confidence going back to 1973. Clearly consumer expectations are very low, which tends to confirm that a lot of bad expectations are being discounted in stock prices.

Consumer Confidence: Expectations



Source: Conference Board, Bureau of Economic Analysis, Merrill Lynch.

Market Returns Following Consumer Confidence Lows



Source: JP Morgan

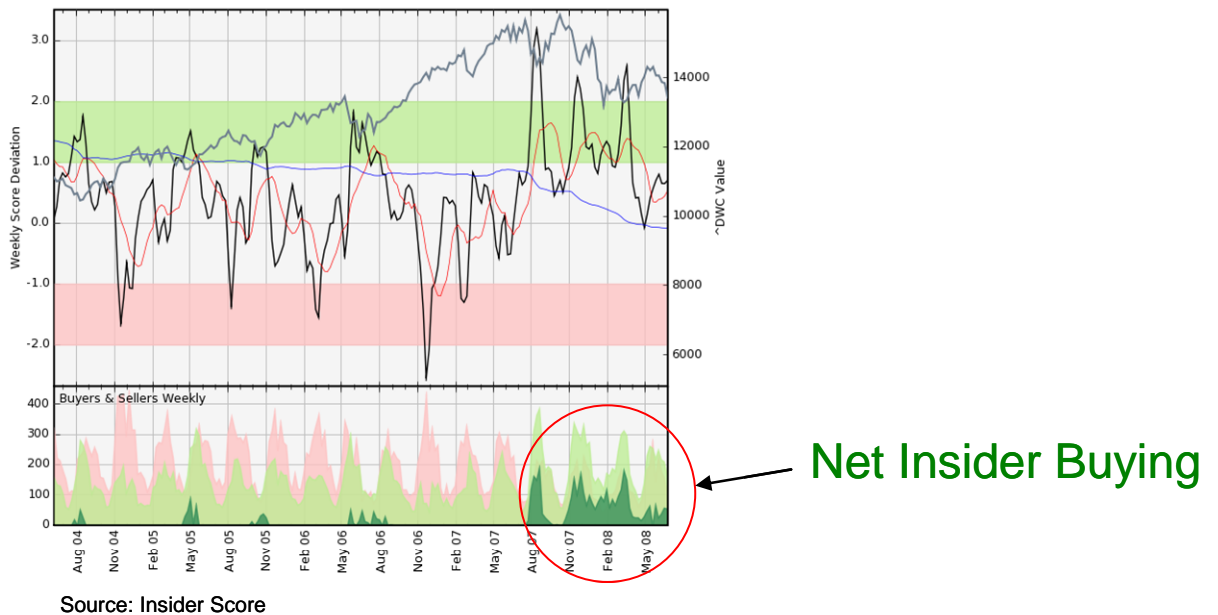
While the above chart does concern us we take comfort in that stock prices are already discounting these facts. In addition, as we have mentioned before, outside of Financials, Corporate America balance sheets are the strongest they have been in over 20 years, with underlevered balance sheets and high free cash flow generation. While many financial companies are struggling with the dislocation in fixed income markets and deterioration in mortgage credit, the majority of other 80 percent of the market represented by non financial companies are virtually debt free. The silver lining, as shown in the chart from JP Morgan above, is that in the past when expectations have reached similar lows, it has been an opportune time to buy stocks.

In addition, the market value of most non financial stocks is below replacement cost. The chart below shows the Q ratio, or the ratio of stock market value to replacement costs. At these levels, its cheaper to buy a company than grow one organically which suggests that we could see increased M&A activity at current levels. This is especially true for potential foreign purchasers who get the added benefit of a weaker dollar.



Insiders know more about their company's value than anyone else. They see the orders for new business, they are in contact with customers, and they know the cash requirements of the business. It stands to reason then that when insider buying activity picks up, we as investors should take note. That is exactly what has been happening over the last few months as depicted by the chart below from Insider Score.

Entire Market Insider Buying



We find it interesting that banks have been one of the groups with the most notable insider buying. We continue to believe that the next phase in the financial sector will be increased mergers as the weaker institutions are merged with the stronger banks. It is likely that such prices will be higher than where the banks are currently trading. Perhaps that is what the increased insider activity is signifying.

As we mentioned before, we don't know when the market will bottom, and unfortunately it will not be obvious until after the fact. We do feel like we are closer to the end of this bear phase than we are to the beginning. As painful as it is to go through these types of phases, these are necessary and even beneficial for further capital appreciation. Our strategy in this environment has been to stay the course and buy great businesses that have high returns on capital, are consistent cash flow generators, have strong balance sheets and trade at discounts to intrinsic value. We believe this approach will preserve and grow purchasing power over time.

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 or meetings to discuss your portfolio. Thank you, again, for your continued loyalty.

Sincerely,



Stephen M. Goddard, CFA



Jonathan T. Moody



J. Wade Stinnette, Jr.



Louise M. Bald

SMG:JTM:JWS:LMB

Enclosure: 2Q08 Portfolio Statements
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.