

# THE LONDON COMPANY

INVESTMENT COUNSEL

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Dear Client:

The third quarter saw a flurry of activity in the marketplace, with continued evidence we are reaching the latter stages of the economic cycle. As the U.S. economy weakens, businesses with excess cash will seek to create value through recapitalization of balance sheets, increases in dividends, and premium merger buyouts. We have already experienced the beginnings of this with record increases in dividends and share buybacks among larger companies, and acquisitions among smaller ones. Our focus on companies that are underlevered and high cash generators position our portfolios to be key beneficiaries of this trend.

The subprime fallout was of note this quarter, leading to dramatic losses in the financial sector. The London Company was fortunate to have no direct subprime exposure via the quality companies in our portfolios. That being said, the entire sector was impacted, so our strong weighting in financial companies negatively impacted performance. Our concern remains low, however, as our companies are rebounding nicely due to the fact that they are conservative, stable companies where their long term, intrinsic values were not directly affected.

Our composite lagged for the third quarter, due mainly to a overweighting in financials and underweighting in energy. We still believe we are positioned correctly for the next stage.

In recent years the market has seen commodity and energy sectors drive returns. The fleeting trends and high risk levels of these companies do not fit in well with our conservative, long-term owner mindset. As we progress further into the late stage of the cycle, however, history shows us that larger, lower beta companies should outperform as risk appetites subside. It is for this reason that we believe that our "safe haven" sectors, such as financials and consumer staples, will begin to outperform as we progress through this next phase in the cycle.

Also, in firm news, we are pleased to announce that we have again added to our team. Mr. Andrew Wetzel, formerly with Wachovia Securities, began working with our trading group in September. Mr. Wetzel is a Richmond native with a B.A. in Economics from the University of Virginia.

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



Wesley F. Haynes



Jonathan T. Moody



Louise M. Swartz

SMG:JTM:WFH:LMS

Enclosure: 3Q07 Portfolio Statements