July 17, 2008

Enclosed is your statement for the second quarter of 2008.

For the quarter, equity investors saw total returns of -2.73% for the S&P 500, -6.85% for the Dow Jones Industrial Average and 0.82% for the technology-oriented NASDAQ. For the quarter, fixed income investors saw total returns of -0.07% for the 1-year Treasury Index, -3.11% for the 5-year Treasury Index, and -3.49% for the 10-year Treasury Index and the 10-year BB- corporate bonds had total returns of 0.50%. The quarter presented equity and fixed income investors with high price volatility. Equity and fixed income investors attempted to find a bottom in the securitization markets, but were unsuccessful as housing markets continued to deteriorate. Even more, signs of recession continue to emerge and cause more investor discomfort.

Before making some further comments about the current situation, we want to follow our prior practice, now that the 2007 results are in, of commenting on the earnings growth of the companies that formed the bulk of our investments last year. As we wrote last year, we look for earnings growth of 6-8% per year in the aggregate portfolio of our companies over the next 10 years. While the stock market's valuations can be erratic over the short term, over the long term the market is much more judicious about value. Earnings growth is what ultimately drives market value growth. During 2007, we held these twenty-three companies for the entire year. We have listed their earnings per share (EPS) changes in percentage terms after the company names:

Company Name	**% Change in EPS***
Abbott Laboratories	10%
Allstate Insurance	-1%
American Express	17%
American Int'l Group	-40%
Anheuser-Busch	10%
Apollo Group	9%
Berkshire Hathaway	20%
Coca-Cola	8%
Comcast	24%
Dell	15%
Home Depot	-19%
Intel	37%
Johnson and Johnson	10%
Mercury General	9%
Microsoft	18%
Pfizer	7%
Progressive	-21%
Sysco	18%

Time Warner	5%
Tyco	21%
Unitedhealth	15%
Wal-mart	8%
Wyeth	13%

*For EPS, we have used Value Line's most recent numbers. These EPS represent Value Line's best attempt at a description of after-tax operating earnings per share. The only exceptions were Comcast and Time Warner, in whose cases we used Value Line's "cash flow" per share numbers.

After weighting the results for the size of our holdings, the average increase in the EPS of each stock holding was 7% for the year. Just as occurred last year, the average increase was impacted by the cyclical results of the auto insurance stocks. After "normalizing" these results, last year's average EPS was closer to 8% - a very good year. Generally, we were quite pleased with the results generated by the employees and managements of those companies. If we were able to hold these companies for the next ten years and achieve an equally high level of earnings growth annually, our portfolio investment results would be outstanding.

While we do not, as a rule, comment on short-term portfolio valuation issues, because we believe it takes the focus off of the more important long-term issues of company development, the current environment invites a brief discussion.

We find in today's environment a disconnect between price (what you read in the paper) and value (what such an asset would bring in a private sale between two business-minded investors) which is just as severe as in 1999, but in reverse. Back then, the price was wildly higher than the value - particularly in technology, whereas today's price is wildly lower than the value - particularly in finance. Markets do these things and therein lay the opportunities.

This May, at the Berkshire Hathaway annual meeting, Warren Buffett boiled down what this indicates into two startling sentences: "If a stock [I own] goes down 50%, I'd look forward to it. In fact, I would offer you a significant sum of money if you could give me the opportunity for all of my stocks to go down 50% over the next month."

That said, we understand that our clients do not think like Warren Buffett and downward price movements can be disturbing. As a result, we do our best to limit that volatility without impairing future investment results. For example, we are careful to invest a limited amount within these distressed areas, such as financials today. A natural reaction for investors is to avoid those areas altogether, but this leads to inferior long term results. In order to generate superior returns with less risk, investors must find bargain price opportunities and exploit them.

We hope this letter helps you understand our process. We want you to stay informed and feel comfortable about our investing discipline. If you're new to Academy, past quarterly letters may be useful and may be obtained through your financial advisor or Sue

Compton at our office. In addition, our website (at www.academycapitalmgmt.com) has our investment reports on the individual holdings in your portfolio.

As always, we appreciate the stewardship responsibilities you entrust to us and your patience with our investment process.

Academy Capital Management