

October 17, 2008

Enclosed is your statement for the third quarter of 2008.

For the quarter, equity investors saw total returns of -8.37% for the S&P 500, -3.72% for the Dow Jones Industrial Average and -8.59% for the technology-oriented NASDAQ. For the quarter, fixed income investors saw total returns of 1.03% for the 1-year Treasury Index, 2.74% for the 5-year Treasury Index, and 2.37% for the 10-year Treasury Index and the 10-year BB- corporate bonds had total returns of -4.35%. During the quarter, prices of stocks and bonds were highly volatile, as investors saw financial deleveraging become global and as signs of recession continued to emerge. However, government policy response around the world has been rapid and, in our opinion, appropriate.

Despite the extraordinary volatility of the current environment, the basics of our process remain the same. Our investment direction is to search for the most return with the least risk. We define “most return” as increased purchasing power after the costs of taxes and inflation and “least risk” as the lowest likelihood of permanent impairment of capital. In pursuing that direction, we select opportunistically from the universe of stocks and bonds.

Navigating that universe involves two all-important numbers: one representing price and one representing value. Price is visible, precise and volatile; value is hidden, general and stable. Given our human tendencies towards the visible and precise, we all too naturally attend to price. It is the easier, softer way. Harder and more difficult is the attention to value. That is where we find both the challenge and the opportunity.

It has been well said that price is what you pay and value is what you get. For us, the investment process begins with understanding value so as to exploit the difference between price and value. The firm was named “Academy” to indicate a school of thought about value. Addressing questions such as, “what is value?” or “what drives growth in value?” are more important to us than price studies such as “what industry had the best price performance?”

Our investment process does systematically moves through industry groups, but we do so in an attempt to deepen our understanding of value. Simple insights about business structure or culture trump the latest research on industry trends.

Despite the headlines, we are pleased with the current investing environment. There are high values for low prices. We are not glib about the pains being experienced individually and corporately. Restructuring is not easy. But the recent pattern of using homes as ATMs was unhealthy for the country. Already a better global structure is emerging, yet the prices in the markets do not reflect that. In stark contrast to 1999, when we were virtually out of the stock market, we have never been more fully invested than today.

Now here’s the applause part of our letter. While our investment personnel have been keeping calm, our operations personnel have been working furiously. The volume of

work has risen significantly. Given the above discussion, this is as it ought to be. Our operations personnel are the action part of Academy. If not for them, Academy would be a group of “academicians” holding esoteric discussions about value. Our operations department is where the rubber hits the road and during the past quarter, they had extraordinary traction.

The operations team, consisting of Joyce Bell, Sue Compton, Lisa Fisher and Derek Richards and led by Robert Stovall has performed superbly in 2008. We have accurately made succeeding rounds of purchases while evaluating each individual portfolio. We have effectively impacted the tax situation by selectively selling and repurchasing. Finally, we have enhanced investment results through timely trimming during various rallies. All of this on top of a very busy year.

We hope this letter helps you deepen your understanding of our approach. 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](http://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