April 8, 2011

Enclosed is your statement for the first quarter of 2011.

For the quarter, equity investors saw total returns of 5.92% for the S&P 500, 7.07% for the Dow Jones Industrial Average and 5.05% for the technology-oriented NASDAQ. For the quarter, fixed income investors saw total returns of 0.14% for the 1-year Treasury Index, -0.04% for the 5-year Treasury Index, and -0.44% for the 10-year Treasury Index. The 10-year BB- corporate bonds had total returns of 3.48%. The positive equity and negative fixed income returns reflect the monetary and fiscal effects of various governmental agencies around the globe. Ultimately this support must be withdrawn; neither the governments nor markets function effectively with them. To do this in a timely and orderly fashion will require governmental competence and good fortune; let's hope they have both.

At Academy, we believe the best investment opportunities exist in difficult periods. Significant drops in prices have us following the saying: "When the going gets tough, the tough go shopping." But the recent rise in prices has slowed our shopping considerably, causing your portfolio to have significant cash (money market funds and U.S. Treasury holdings). We realize we are not paid to hold cash, particularly since the level of today's yields on cash are so low as to appear a computer error. Nevertheless, we anticipate the uncertain times ahead of us will provide some excellent shopping, especially if the withdrawal of governmental support is not well executed.

The spring quarter's letter regularly addresses the businesses of the stocks which were newly purchased over the prior year. By that time, dust from the prior year's activity has settled, stories have moved from the headlines to the back page and we can reasonably discuss the characteristics of these new additions. Before we discuss them, it is important to note that because we manage individual portfolios but write a general letter, not all of these stocks may be in your portfolio.

We are interested in the purchase of great companies at reasonable prices, but much of the time we have to settle for the purchase of reasonable companies at good prices. We define a company's greatness by its ability to resist capitalism's relentless competition to zero profits. Ideally, this is a conservatively-financed company with a product or service that is1) highly and permanently desirable, 2) unique, with no close substitute and 3) global, without extreme dependence on any one area or currency. Unfortunately, there are few ideal companies, but the six we purchased in 2010 come close.

In alphabetical order, they were: Abbott Laboratories, Apollo Group, GlaxoSmithKline, McCormick& Company, ITT Educational Services, and Medtronic.

Abbott Laboratories (ABT) is an Illinois-based pharmaceutical company, but also is diversified into in-vitro, nutritional and vascular products. ABT went public in 1929, but was started in

1888 by Dr. Wallace Calvin Abbott in order to manufacture high quality alkaloid pills. Alkaloids are naturally-occurring chemical compounds, such as morphine or codeine, and in liquid form are difficult to dose and keep from spoiling. ABT, having grown through acquisition and internal growth, generates over $35 billion in revenues with over50% of those coming from outside the U.S. ABT is conservatively-financed, well-managed and has medical products that are desirable and often capable of being branded (its most famous was introduced in 1936: the anesthesia Sodium Pentathol).

Apollo Group (APOL) is an educational services company based in Phoenix, Arizona from which The University of Phoenix (UOP), APOL's most important service, gets its name. APOL was started in 1973 by Dr. John G. Sperling, who still serves as APOL's chairman. Dr. Sperling began as a tenured Humanities professor at San Jose State where he was researching delinquency rates in San Jose. He discovered that a lack of adult educational opportunities was a problem and urged San Jose State to create an adult education program. After he was rebuffed, he formed his own services to address the educational needs of full-time working adults on a for-profit basis. His success was met by an outcry from the existing educational community against for-profit education. These debates continue. However, Dr. Sperling persevered and his vision has blossomed into a set of schools which serve over 450,000 students. (For comparison, San Jose State serves 31,000, looks to the State of California for its funding and pays no income taxes.) Not only providing a valuable service to society, APOL is a good corporate citizen, having paid over $400 million of income taxes in 2010 at a higher tax rate than any company we own.

GlaxoSmithKline (GSK) is a pharmaceutical company headquartered in England. GSK is the product of major acquisitions and could easily be called Glaxo, Burroughs, Wellcome, Smith, Kline, Beckman and Beecham. The Glaxo part was founded in 1873 as a trading company by English-born Joseph Nathan. While visiting the U.S., Nathan discovered a process for producing dry milk. After he secured rights to this process, Nathan began production in New Zealand. The most successful application was for infants, giving rise to the Glaxo Baby Book and the popular advertisement, "Glaxo Builds Bonnie Babies." This history is strikingly similar to our holding of Nestle which was founded by another U.S.-originated process: condensed milk and used most successfully for infant nutrition. As the name indicates, GSK is broadly diversified from a product standpoint and geographically, with 40% of its revenues coming from the U.S., 35% from Europe and 25% from emerging markets.

McCormick & Company (MKC) is a spices, seasonings and flavorings company based in Sparks, Maryland. MKC was founded in 1889 by Willoughby M. McCormick to make fruit syrups, flavorings and root beer. The company grew rapidly under the guidance of a corporate motto: "Make the best; someone will buy it." The Great Depression nearly broke the company as morale tanked when wages and employment were cut. However, the new CEO, Charles P. McCormack, (nephew of the founder) set out a radical plan to rescue the company: increased wages, participatory management, better benefits and fewer hours. Starting from that changed direction, MKC rapidly moved to dominate its product categories and now has over $3 billion in sales, of which over 40% are derived from non-U.S. markets.

ITT Educational Services (ESI) is an educational services company based in Indianapolis, Indiana. The location of its headquarters reflects its founding in 1963 by Howard W. Sams &

Co., a technical publishing company in Indianapolis. Sams & Co. focused on technical education, such as electronics, which was related to its publishing expertise. In 1966, Sams& Co. was acquired by ITT Corporation, which was in the midst of becoming a huge conglomerate under the acquisition-heavy leadership of Harold Geneen. ITT incorporated the for-profit school division as ITT Educational Services and acquired schools nationwide. The parent company, ITT Corporation, ultimately sold its hotels and gaming facilities to Starwood. ESI was included in this transaction and Starwood sold all of its shares in a 1999 public offering. ESI now has revenues over $1 billion and serves over 80,000 students.

Medtronic (MDT) is a Minnesota-based medical devices company, whose name comes from "medical electronics."MDT is a classic entrepreneurial story. Earl Bakken worked part-time for a Minnesota hospital while he pursued a graduate degree in engineering. Thinking there might be enough repair work, he dropped out of grad school in 1949, enlisted his brother-in-law and set up a medical device repair company in his garage. It was difficult at first, as one of his first months had gross revenues of $8. Seeing repairs were slow, he and his brother-in-law began selling equipment. This gradually progressed to the design and manufacture of specialty equipment. Then, in the late 50s, a pioneer of open heart surgery asked Bakken to help create a battery-powered, transistorized pacemaker. He did and, as they say, the rest is history. MDT now generates over $15 billion in revenues with over 40% of those coming from outside the U.S.

These companies are representative of the breadth we hold in our portfolios. Some are huge; some not. Some are global; some not. Some pay dividends; some don't. Some are widely diversified; some not. But there is a common thread in these businesses – each of them was founded and built to address an important societal need. We take pleasure in the unique strengths that these companies have generated. The wild movements of the market are much less stressful when our attention stays on the focus, dedication and commitments of our portfolio companies. This is also the reason why we are pleased when market downturns allow us to increase our ownership at better prices.

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