April 9, 2002

Enclosed are your statements for the first quarter of 2002.

For the quarter, equity investors saw returns of 0.3% for the S&P 500, 4.3% for the Dow Jones Industrial Average (DJIA) and -5.3% for the technology-oriented NASDAQ. These mixed returns were driven by investor concerns in response to accounting issues, corporate government and the possibility of higher interest rates. For the last twelve months, equity investors saw returns of 0.3% for the S&P 500, 7.2% for the DJIA and 0.6% for the NASDAQ.

For the quarter, fixed income investors saw returns of 0.19% for the 1 year Treasury Index, -0.97 % for the 5 year Treasury Index and -2.02% for the 10 year Treasury Index. These returns were created by the negative real returns provided by the Fed, as short rates were lower than inflation rates. In line with such increased liquidity, 10 year BB-corporate bonds saw returns of 2.68%. Treasury Inflation Protection Securities (TIPS) continue as an outstanding choice for fixed income investments.

The most striking aspect of the past quarter is the popular realization that something is rotten in the world of corporate governance and accounting. Business is increasingly complex; such is appropriate in a more sophisticated world. But, as the mother of a friend and client of the firm's said about hired help, "it's not fair to tempt them too much." Our slothfulness as shareowners has caused the hired help in management and accounting to systematically steal. Among the issues at work is an underlying "moral hazard" of auditing firms working as consultants. This is like a poorly paid referee moonlighting for one of the teams. We hope that the commitment to purge this rottenness is maintained when the newspapers quit headlining it.

Despite the flat performance of the market, the past quarter did provide some opportunities. First, we were able to buy an initial position of AOL/Time Warner. This company combines extraordinary content, excellent distribution and Internet leadership. As the Internet bubble has popped, the stock has lost its luster, falling by over 50% during the last year. We hope it repeats such a fall in the next twelve months. Second, we were able to buy an initial position of Coca-Cola. This company is a perennial leader globally in the beverage area. Over the past four years, the stock has fallen by over 50%. Four years ago the company was viewed as the best run in the world and now is viewed as poorly run. Do all you can to support this new "consensus" view. If Coca-Cola were to fall 50% over the next four years, it would represent a huge money-making opportunity. AOL and Coke are wonderful additions to our portfolio of businesses positioned to do well in an "excess-capacity, deflationary" world.

As said before, your portfolio's good performance this quarter has been a mixed blessing. This performance is good for short-term wealth creation and the moods of our clients. Yet, long-term wealth is created by low prices so that we can increase your ownership in these stocks. We have repeatedly stated that we prefer to see the stock prices of most of the companies in your portfolio go down. You may wonder why we would not want these stocks to go up while stocks not in the portfolio go down. Here it is. Most of the companies in your portfolio are the best in their industry and, just as important, we understand them. We would rather own a short list of such knowns than a long list of guesses. While we are pleased with the purchases we have made, we could increase your wealth with better buying opportunities. Long-term wealth creation is what we aim for, not buying at the "bottom."

In order to be prepared for such opportunities, we do have to hold some cash in your portfolio. This causes us as much joy as it does you. We realize that you do not pay us to hold cash. However, to act quickly, we must have cash on hand. Warren Buffett once commented that it was no fun having cash burn a hole in his pocket, but it was more fun than having that cash burn a hole in someone else's pocket.

We will continue a patient, but attentive search for the purchase of excellent companies at prices significantly under their intrinsic value. As always, we appreciate the stewardship responsibilities you entrust to us.

Academy Capital Management