July 20, 2007

Enclosed is your statement for the second quarter of 2007.

For the quarter, equity investors saw total returns of 6.28% for the S&P 500, 9.11% for the Dow Jones Industrial Average and 7.70% for the technology-oriented NASDAQ. For the quarter, fixed income investors saw total returns of 1.15% for the 1-year Treasury Index, -0.58% for the 5-year Treasury Index, and -1.86% for the 10-year Treasury Index and the 10-year BB- corporate bonds had total returns of -0.47%. The quarter presented equity and fixed income investors with widely divergent returns. Equity investors were caught up in ebullient "animal spirits," while fixed income investors anxiously watched as central bankers around the world took action against these same inflation-generating spirits. Our experience has been that the central bankers ultimately succeed and so we are becoming increasingly cautious.

We thought it might be instructive, now that the 2006 results are in, to discuss the earnings growth of the companies which form the bulk of our investments. In our aggregate portfolio, we look for earnings growth of 6-8% per year over the next 10 years. While the stock market's valuation is reactive over the short term, over the long term it is much more judicious. Earnings growth is what ultimately drives market value growth. During 2006, we held these twenty companies for the full year. We have listed their earnings per share (EPS) changes in percentage terms after the company names:

Company Name	**% Change in EPS***
Abbott Laboratories	1%
Allstate Insurance	196%
American Express	22%
American Int'l Group	78%
Anheuser-Busch	4%
Berkshire Hathaway	55%
Bristol-Myers Squibb	-46%
Coca-Cola	9%
Comcast	23%
Forest Laboratories	46%
Home Depot	4%
Johnson and Johnson	7%
MBIA	14%
Merck	-1%
Mercury General	-15%
Microsoft	3%
Pfizer	2%
Time Warner	64%
Wal-mart	11%
Wyeth	7%

*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 19% for the year. Of course, this increase was impacted by the cyclical results of the insurance stocks, but after adjusting these cyclical results, the average still exceeded 10%. 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.

Since our investment environment does not rest, our portfolios cannot either. Our decision-making process is based on a framework similar to the earnings growth framework we have presented here. Although in our framework, we use more complex numbers and extend it over ten-year periods of time into the past and future. Because of this ongoing process, you sometimes will notice additions to your existing positions, such as we have made in the past quarter with Home Depot and United Healthcare. Sometimes, you will notice sales of existing positions, such as we have made this year with Bristol-Myers Squibb, Forest Laboratories and MBIA. At other times we will be purchasing a position in a new company.

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