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Second Quarter 2012 Letter

Dear Friends,

After a strong first quarter, equity markets lost steam and remained volatile during the quarter ended June 2012 with news emanating from Europe as the primary reason for daily market movements.

Portfolio activity - Summary

We did not initiate any new position while we closed our profitable position in Abbott Labs. We took advantage of lower prices and market volatility to add to several existing positions including Big Lots and Western Digital.

We participated in several special situations in the quarter and by the time of this letter; we had closed or received cash for all these positions. We also received cash payment for the open positions from the previous quarter.

Portfolio activity - Detailed

Generals:

Portfolio exits: We closed our position in Abbott Laboratories (ABT) for a 25% total return under a year. We had a good return in the position and deployed the capital to more undervalued situations.

Increased positions:

We added to several of our existing positions such as Big Lots, GameStop, Iconix Brand Group, Western Digital, Halfords and Lear.

Special Situations:

We closed positions from the previous quarter in WebMd (WBMD), American Realty Capital Trust (ARCT) and Aastra Technologies (TSE:AAH). All of these had tender offers.

Closed end fund (CEF) tenders

We participated in the tender offers for CEFs Asia Pacific Fund (APF) and Taiwan Fund (TWN) which were profitable.

Share tenders

The notable tenders we participated in this quarter were those of Jakks Pacific (JAKK) and Credit Acceptance Corp (CACC). We blogged about the JAKK tender on our blog (<http://tinyurl.com/74hro87>). The spread on the tender was about 10% (buy at \$18 and tender at \$20). We have received payment for JAKK. We bought CACC around \$80 after the tender was announced and sold around \$84 prior to the expiry of the tender, which went through at \$84.45.

Media / Other news

I participated in the 2nd annual Ira Sohn Stock pitch competition and my submission for our portfolio holding Big Lots made it to the semi-finals. I attended the excellent conference (<http://www.sohnconference.com/>) in NYC.

I was interviewed by John Mihaljevic of the excellent Manual of Ideas in May. The interview has been posted here <http://tinyurl.com/7zqu7uz>

Patience

In these extremely volatile market conditions, we continue to remain disciplined and patient. We want to focus on the factors that are in our control – what to buy and what to pay for our investments. We monitor the news and quarterly results for our portfolio companies.

We would like to thank our clients for placing your trust in us. If you have an interest in us managing a part of your investment capital, please feel to call me to have a discussion.

Sincerely

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