The past year was a strong one for equities. While that may not sound startling now, it helps to recall the mindset many investors had following the brutal sell-off in the Fall of 2008. At the time, many investors seemingly would have been quite content with gains of 10-15% for 2009. Having to look back on a year during which the portfolio outpaced the market and most peers is certainly welcome. But what is more satisfying is that the vast majority of our relative outperformance was driven by our stock selection, which excites us because it means the stocks of our companies have begun to be rewarded for results that reflect the quality of their underlying businesses and growth opportunities.

At the same time, we recognize that the market is only halfway back to its October 2007 peak, and while we are pleased to have posted strong gains this past year, we look at our current portfolio with optimism about many of the opportunities we see that we do not believe are reflected yet in stock prices. The gains within the portfolio in 2009 came not only from some large, widely-known names, but also from several holdings that likely fall under many radar screens and may be less well followed or understood. Identifying a number of these growth ideas that are not substantial portions of the benchmark leads to a portfolio that tends to be very different from the index and can exhibit compelling characteristics, such as higher earnings growth than both the Russell 1000 Growth Index and S&P 500 Index, a lower P/E ratio than both, and a significantly stronger balance sheet at a time when financial flexibility is still critically important.

Much talk of the market's prospects has hinged on the employment outlook, with a tug of war appearing to emerge between those unconvinced jobs will recover at a reasonable pace and those convinced they will, but with both concluding that the market's direction will largely depend on the outcome. Our belief is that such a view misses a very important difference between this economic recovery and others. That difference is as follows:

We believe currently contemplated legislative policy changes will have a much broader impact on S corporations, LLCs and LPs than they will on C corporations. This difference becomes potentially even more pronounced when you consider public C-Corps. In short, public companies are predominantly C-Corps and are, therefore, not subject to the substantial increase in taxation that is contemplated at year-end. Likewise, they tend to be larger entities which already offer basic healthcare to their employees. Thus, the ground conditions for them in this recovery are similar to those they have experienced in the past. Conversely, smaller private companies, which are predominantly S-Corps, LLCs and LPs, are not only facing the same economic challenges as larger companies, but also the prospect of significant healthcare cost increases, as well as substantially lower profit margins due to significantly higher taxation. Thus, they need to overcome both the economic environment and increased costs before they can contemplate hiring to any significant degree.

Our belief that the portfolio can profit despite our continued view that job growth will be anemic is, in part, based on our premise that lack of job growth is as much a symptom for some as it is a problem for all. We believe private companies (which in aggregate account for jobs growth in the U.S. and which most heavily influence employment statistics) are most likely to be weakened as a result of the contemplated policy changes. This in turn will likely manifest itself in a less-than-robust job recovery. However, that data point may be less indicative of the economic climate affecting a multitude of public companies. As a result of the jobs condition, the average rate of overall economic growth is likely to decrease, and P/E ratios may not rise as much as they normally would, but this does not mean that individual businesses will not prosper.

In essence, we believe an arbitrage opportunity has been set up due to pending policy changes that could actually benefit certain companies at the expense of their competitors. So the jobless rate's elevated state may in fact be both a reaction to pending changes and an indication of the economy's current condition.

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This is one of the reasons we have recently argued that active investing should be able to outpace passive. For, those companies advantaged by competitors whose cost structure is rising when theirs is not, and who sell into markets overseas or those less influenced by the weak employment growth, may be in a better position than they may have been were conditions more similar to those typical in a recovery. At the same time, those companies subject to the aforementioned policy changes and most influenced by the jobs condition are potentially in far worse shape. Thus, as we have stated in recent letters, we continue to believe that the stocks of many companies can continue to rise, despite an environment less conducive to job creation.

From the broad macroeconomic perspective conditions are improving. We believe GDP growth and job creation may be better in the first half of the year based on the inventory cycle and government hiring. And, although growth may taper as the year progresses, we think conditions are far better now than they have been. We are certainly conscious of the possibility that as government intervention dissipates so too might growth. And, at this point, we continue to believe that the overall recovery will be slower and, therefore, take longer than is typical, which should allow for gradual market improvement and suit our investment process.

While the market's overall results were heavily reliant on Technology stock returns in 2009, the portfolio posted returns in excess of 50% in four diverse sectors (Technology, Consumer Discretionary, Industrials, and Materials), with Consumer Staples, where we are significantly underweight, being the only area that slightly detracted. Financials, which were a particular headwind in the latter part of 2008, rebounded strongly, as we had anticipated, providing the portfolio's 2nd largest contribution for the year following Technology's gain. While our sector changes, which included increases to Technology and Consumer Discretionary and a decrease to Health Care, contributed to relative gains, our outperformance was driven to a much greater degree by our successful stock selection, consistent with our long-term history.

The stocks that contributed most to portfolio returns during the year were Apple Computer, Goldman Sachs, Mastercard, and Liberty Media. Apple consistently beat expectations throughout the year, fueled partly by consumers' tremendous appetite for the iPhone and the company's highly profitable App Store. Apple's ability to continue to raise the bar for innovative products has us excited about the pending launch of their tablet device, which has the potential to be another important catalyst in 2010. Goldman Sachs' adaptive model proved to be as sound as we believed, and the company benefited from a much smaller competitive landscape. Mastercard continued to thrive from the secular shift from cash and check usage to electronic payment forms. Net revenue growth and strong cost containment combined to deliver better than expected operating margin growth, which we do not anticipate slowing in the foreseeable future. Liberty Media prospered from strong fundamental performance of its core businesses, DirecTV and Starz, and structural changes that were received well by many investors.

The positions that negatively impacted the portfolio the most in 2009 were Gilead Sciences, Aon Corporation, Abbott Labs, and Comcast. Aside from Gilead, we sold each of these positions and continue to execute a rigorous approach to risk control. Gilead's pullback came despite phenomenal earnings growth that beat expectations consistently during the year. The company's development of a "quad" drug to treat HIV presents another exciting catalyst for their growth. Aon's insurance brokerage operations suffered from softer pricing and lower insurance exposure unit demand caused by the sluggish economy. While we continue to expect conditions to gradually improve for insurance brokers, the timeframe for such improvement has been extended to the point that other investment opportunities presented more attractive return characteristics. Abbott had some inventory questions, and sales of its arthritis drug, Humira, appeared to lose steam to the point that it made sense for us to make a change for better opportunities. Despite Comcast's business proving to be resilient, concerns about the competitive landscape and the macro environment held the stock back and led us to sell the position for a stronger idea.

Macro uncertainty remains high, but the outlook has been improving and becoming more clear over time. The stabilization that we felt we were beginning to see a year ago continues to take hold in key areas, such as housing, credit markets, and employment. But, as was the case last year, a large number of investors are still sitting on the sidelines having doubts about the legitimacy of an economic recovery. While this reticence is understandable based on recent market volatility, it is important to note that many of them missed out on the solid returns of 2009.

As was the case last year and as we believe will be the case this year, those investors who capitalize on unrecognized opportunities before they become common knowledge are those who are likely to be rewarded.

Sincerely,

W. Whitfield Gardner

John L. Lewis, IV

2009 Contributors		
	Average	
Security	Weight	Contribution
Apple Computer, Inc.	2.09	3.12
Goldman Sachs, Inc.	1.84	2.45
Mastercard Inc. - Class A	2.82	2.30
Liberty Media Group	2.06	2.29
Google, Inc. Cl-A	2.03	1.72

2009 Detractors		
	Average	
Security	Weight	Contribution
Gilead Sciences, Inc.	3.58	(0.60)
Aon Corporation	1.04	(0.44)
Abbott Labs	0.95	(0.44)
MEMC Electronic Materials, Inc.	1.59	(0.37)
Comcast Corp. Special Class A	1.59	(0.35)