



Steinberg Asset Management, LLC

Fourth Quarter 2006 Commentary and 2007 Outlook

After four years of advances, financial markets continued to deliver gains. The equity market's fourth quarter rally extended the third longest bull market since 1900 with a broad sweep that lifted equities in a variety of locations, styles and capitalizations. Value stocks beat growth stocks and small companies outperformed large for the fourth quarter and the year. Stock selection decisions in the industrials and consumer staples sectors led positive performance for your portfolio in the quarter while investments in the materials sector detracted from performance relative to benchmarks. For the year, exposure to energy offered strong absolute returns but contributed to underperformance relative to benchmarks. Your holdings in industrials companies offered positive results relative to benchmarks.

Global liquidity continues to drive non-inflationary growth

The wave of global liquidity and its beneficial effects on financial assets has grown stronger as the result of improved productivity, expanding output and a rising global savings rate. A year ago, we wrote that plentiful global liquidity had created a virtuous cycle of capital inflows, low interest rates, a strong housing market and high levels of mortgage equity withdrawals by homeowners converting some of their real estate gains into consumption. Today, 12 months later, real estate faces pressure and housing starts, median prices and mortgage equity withdrawals have turned down.

The rapid growth of the free world economy is providing incentives for millions of previously underemployed workers in China, India and other developing economies to put their labor and human capital to more productive uses. With this increased participation has come expanded global manufacturing capacity and the resulting higher levels of output have exerted downward pressure on prices to the benefit of purchasers of manufactured products, most prominently but not exclusively U.S. consumers.

While the above mentioned global forces remain at work containing inflation - if shifts in liquidity were to translate into an upward bias on interest rates then that would undermine the opportunity for multiple expansion to offset an expected slowdown in the rate of growth of corporate profits. This would hurt the prospect for further broad gains in our equity markets. In this regard it is worth noting that the oil producing countries of the Middle East, the single largest buyer of U.S. Treasuries outside the U.S., have recently had their appetite for our government securities reduced as falling oil prices have cut the amount of their investable funds. To the degree these petro-dollars are more than a simple recycling of funds, our fixed income markets may come under pressure. If this were to occur it would not have a favorable influence on the general pace of economic activity or corporate profits.

Secular not cyclical

These trends of liquidity and low inflation growth are made more attractive by their secular nature and potential durability: The largest emerging economies have significant underemployed and willing labor force participants to deploy – though finding high skilled workers may present a new set of challenges as these economies continue to develop.

Technology-led productivity improvements continue to drive company fundamentals and a competitive marketplace for capital rewards companies and markets that deliver greater shareholder value and transparency.

So while the bull market is extended in a historical sense, it continues to present strong long-term fundamentals. The global wave of liquidity has created an accommodative economic climate in terms of inflation and interest rates. Equity valuations remain generally reasonable in absolute terms and attractive relative to bonds, commodities and investment property. At current valuations, companies are buying back stock to keep ahead of private-equity purchasers seeking to take public companies private. Therefore, so long as the recent moves by central banks in Asia and Europe to raise rates and reduce liquidity do not seriously undermine global growth, and geopolitical risks are contained, then our financial markets should continue to demonstrate a generally constructive tone.

Opportunities remain encouraging

We continue to be encouraged by the opportunities we are finding to invest in the equity of businesses that we believe have sound financial profiles coupled with an attractive long-term opportunity to realize above average long-term rates of return. In this regard, we would note a position in an investment, a long-term holding, we have been adding to recently. This business is prototypical of the types of investments we find attractive. This well managed company is selling at a meaningful discount to our estimate of both its asset and franchise value. This provides us with both asset protection and the opportunity to realize a solid rate of return as the gap between the company's market value and its asset and transaction values are narrowed. Moreover, if the management is successful in developing a franchise-like position in the emerging global market for trading and arbitraging LNG, then an extremely high long-term rate of return may be realized from this investment. This is the kind of investment we will continue to focus on as we build your long-term investment portfolio.

Firm Update

This past year was one of significant progress for our firm. On the back of continued strong long-term investment performance, we broadened our client base and expanded existing relationships. Most importantly, we continued to strengthen our organization and position the firm for long-term investment excellence.

In this regard, we are particularly pleased that William S. Auslander joined the firm as a senior portfolio manager and analyst. Bill was trained under a legendary value investor, Carl Icahn, and has managed significant investment portfolios for Morgan Stanley's asset management business where he established an outstanding long-term record. More recently, Pamela F. Brown joined our research team. Pam comes to us from Gabelli and Co., Inc., where she had broad analytic research responsibilities. We believe the additions of Bill and Pam significantly strengthen our research/portfolio capabilities and we expect to be making further additions in this area in the future. Janet K. Navon who some of you have interfaced with on various portfolio matters will be leaving the firm at the end of January. Janet shared responsibilities for client communications, analysis, and portfolio management. These responsibilities have been assumed by me, Bill and the expanded team of investment and client relations professionals. We wish her all the best.

We are optimistic about our firm's future and look forward to working with you in the year ahead. We are grateful for the confidence you have entrusted in us with the management of your assets.

Each of us at Steinberg Asset Management wishes you a healthy, happy and prosperous 2007.

Sincerely,

A handwritten signature in blue ink that reads "Michael". The signature is written in a cursive, flowing style.

Michael A. Steinberg
Managing Partner