



PRIVATE CAPITAL MANAGEMENT, INC.

An investment management firm for individuals and institutions

October 14, 2004

Dear Clients,

In September, we were in New York City for a NASD Board of Governors reunion. While we were there we met with managers at First Eagle Funds and the Royce Funds. New York is a great city and, as always, we enjoyed being there. We visited Ground Zero on September 11 which was a very touching and emotional experience. Many of the families who lost loved ones three years ago were there in remembrance of that tragedy. On a lighter note, we enjoyed the play "Wicked"-- a wonderful musical based on the Wizard of Oz.

We were privileged to spend an hour discussing First Eagle Funds with their founder Jean Marie Evelliard who will be retiring at the end of the year. He co-manages the funds with Charles de Vault. Jean Marie is a charming individual with very conservative investment ideas that have served investors well. He offices in a small space near Central Park with papers and research documents piled high everywhere. After attending graduate school in Paris, he worked for a French bank and was appointed as liaison to an American securities firm. He created Sogen, the predecessor to First Eagle, in 1970. By early 1979, there were only 15 million dollars in assets – there are now over 15 billion under management.

Jean Marie believes that the short term is not important and his number one goal is to preserve capital for investors. He believes in "standing away from the crowd," evaluating intrinsic value before investing and maintaining an even temperament in times of crises. Jean Marie states that "nothing worthwhile in life comes easy." He is a deep thinker with strong convictions focusing on capital preservation and growth. He personally owns 12% of the company and Arnhold & S. Bleichroeder Advisors owns the remainder. Also, he is a major investor in his funds. It was a real pleasure to meet such a fine, considerate person. We are pleased to keep First Eagle on our buy list. (On October 4th, the Wall Street Journal ran a major article on Jean Marie which we are including with this letter. Please note that when we purchase shares of these funds, they are Institutional shares with no load and a lower expense ratio.)

Later in the day, we visited Royce Funds. Our first meeting was with Buzz Zaino who manages Royce Opportunity. The fund invests in both small and micro-cap companies and had a three year compounded return of 12.72% per year over the last three years. Buzz has 36 years of investment industry experience and has been with Royce for over six years. His investment style falls into four investment themes: unrecognized asset value defined as companies selling below probable liquidating value, turnarounds, undervalued growth, and interrupted earnings. He enjoys vacationing in Aspen each year. We found Buzz to be very positive on his investment approach.

We then met with Whitney George, the manager of Royce Premier Fund. He has twenty four years of investment experience and thirteen years with the Royce organization. Royce Premier focuses primarily on companies at the upper end of the small stock capitalization range, namely those with market caps between 500 million and 2.5 billion. The three year compounded return is 12.96% per year inclusive of 2001, 2002 and 2003. Whitney has about one third of his net worth invested in Royce funds. He looks for companies with strong balance sheets and invests for the long term which he says is three to five years. He speaks of planting and then harvesting his investments. He continued to emphasize his long view investment theme while stating that the world has short term horizons. He personally owns stock in natural resource companies including oil and timber.

While there is no assurance that these managers will continue their strong performance we were very satisfied with the character and professionalism of all three individuals. Past performance is not a guarantee of future results and investments may drop in value. We feel confident that, based upon our discussions with these managers, we will continue to invest in these funds. In our view, all three are men of integrity with deep convictions in their stock selection

process. We believe that it is an important part of our research process to meet with portfolio managers. Our quantitative work emphasizes risk adjusted returns utilizing our proprietary ranking process; however, it is very helpful to go into the field. This year our visits with managers in Los Angeles, Baltimore, Chicago and New York have provided the opportunity for us to know them on a more personal level. We hope you find this type of information interesting and trust that you are enjoying a pleasant autumn. Thank you for your trust and confidence in Private Capital Management.

Sincerely,

Thomas E. Meade
President