



Second Quarter 2006 Letter to Investors:

January – June 2006: Hurley composite rises 8.9% net of fees vs 2.7% for S&P 500

The Hurley Capital Composite return was driven by gains in value-oriented companies across industries and geographies. Petrofund Energy Trust (AMEX: PTF), News Corporation (NYSE: NWSA), Deere & Co. (NYSE: DE), and Catalina Marketing (NYSE: POS) were the leading gainers. Our short position in Marriott Corp (NYSE: MAR) and long positions in Jacada (NASDAQ: JCDA) and Enbridge Energy Management LLP (NYSE: EEQ), were the largest loss generators during the first half of 2006.

“The most common cause of low prices is pessimism -- some times pervasive, some times specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It's optimism that is the enemy of the rational buyer.” - Warren Buffett

Value Investing Often Calls For Buying Unpopular Stocks

Stocks sometimes become cheap because the investing public becomes more pessimistic about a company's prospects than is warranted by its true financial health and outlook. Oftentimes, a bargain may be created when a company reports subpar results for one or more quarters and investors overly focused on this trend ignore the underlying asset value or cash generation of the company. In this way, investor negativity can lead to great investment opportunities, as we believe is the case for Chesapeake Energy (NYSE: CHK) and a recent addition to client portfolios, Dell Inc. (NASDAQ: DELL).

Dude, You Got a Dell!

Here's the bad news (and why there's lots of pessimism towards Dell):

- ♦ Annual sales growth is declining from 19% in 2004, to 14% in 2005, and 6% expected this year.
- ♦ Operating profit margin is expected to decline to 6% this year from 8.6% last year, as Dell has reduced prices on many PCs and laptops.
- ♦ Hewlett-Packard, Dell's primary competitor, is turning around its PC/laptop franchise and closing the gap on Dell's longstanding competitive advantage.
- ♦ Weekly declines in component pricing, an important element in Dell's profit margin, is declining from 0.5% per week to 0.3% to 0.4%.
- ♦ Laptops are now outselling PCs. Dell has a higher competitive advantage on PCs.
- ♦ Many economists expect domestic consumer discretionary spending to decelerate.
- ♦ Poor customer service caused loss of market share in the U.S.
- ♦ The release of Microsoft Vista, the new operating system and office suite has been delayed until next year. Vista was expected to drive consumer/business upgrade-related revenue growth.
- ♦ All of the above is true, may continue and may get worse.

Here's the good news (and why our clients own the stock):

- ♦ Dell's international business, \$19B in sales and 35% of company sales, has grown over 20% per year for the last three years, with an operating margin over 7%. Only Apple Computer, outside

of the energy, commodity or homebuilding sectors, can match this performance. Unlike Apple, computers are not a possible fad, and there is virtually no commodity or homebuilding industry risk here. Applying Apple's price/earnings ratio of 27x to Dell's international business would account for almost Dell's entire current market cap net of cash, thereby attributing no value to Dell's domestic business, expected to earn \$2.4 Billion this year.

- ♦ Thanks to its efficient supply chain, Dell maintains the highest operating profit margins for each of its products, in every region worldwide. Few companies apart from Dell receive customer payment prior to paying their suppliers.
- ♦ Based on April 2006 results, Dell currently has a free cash flow yield in excess of 9%, which will grow as the company grows.
- ♦ Dell is using the bulk of this free cash to buy back stock. Over the last five quarters, Dell has reduced its sharecount by 10%. Assuming cash flow doesn't grow in the future, the free cash flow will accrue to fewer shareholders thereby raising the free cash flow yield.
- ♦ Microsoft Vista will be released. The resultant revenue growth is postponed, not cancelled.
- ♦ Conventional wisdom incorrectly assumes that consumer spending is a key driver of Dell's business. In fact, 80% of Dell's sales are to the corporate sector, which is enjoying record profit margins.
- ♦ Dell has invested over \$100MM to better customer service and is already showing marked improvement in caller wait times and customer satisfaction. Furthermore, share losses in the U.S. have been due to Dell defending higher margins not competitive disadvantage. Dell still has ample room for share growth as price cuts take hold.
- ♦ Finally, in January 2002, when the Nasdaq was 10% higher than it is today, Dell had a market capitalization of \$75 Billion and annual earnings of \$1.2 Billion (Price earnings ratio (P/E) of 60x). Today, Dell's market cap is \$56 Billion and expected annual earnings of \$3.7 Billion P/E of 14.5x). A relatively small adjustment in this gap would be very favorable to investors.

Moving Forward

Hurley Capital remains focused on providing clients with value-oriented asset management and a high level of personal service. We believe our client accounts are well positioned for continued solid returns with below market risk. We are committed to our goal of presenting clients positive returns and protection in all market conditions.

Thanks again for your continued interest and patronage.

Charles Goldblum
July 2006

Performance of Hurley Capital Investments

	<u>Action</u>	<u>Initial Investment Date</u>	<u>Symbol</u>	<u>Name</u>	<u>Total Return to Date*</u>	<u>Transaction Price</u>	<u>Market Price 6/30/06**</u>
2006 Transactions	Bought	12-May-06	DELL	Dell Inc.	0.9%	24.33	24.52
	Bought	28-Apr-06	DMCX	Datamirror Corp.	6.1%	8.98	9.54
	Bought	16-Mar-06	POS	Catalina Marketing Corp	22.4%	23.23	28.46
	Bought	01-Mar-06	565011AB9	Manugistics Group 5%'07 Cvt	5.8%	94.18	99.62
	Bought	21-Feb-06	JCDA	Jacada Ltd	-4.4%	2.56	2.45
	Bought	14-Feb-06	CHK	Chesapeake Energy	6.9%	28.38	30.25
	Bought	04-Jan-06	NWSA	News Corp Ltd CI A	24.7%	15.37	19.18
Hedge Expired 6/17/06	Bought	23-Feb-06	PTFRD	Put Petrofund Energy Trust	-100.0%	1.30	-

2005 Transactions

	Bought	27-Dec-05	NXR	Nuveen Select Tax Free	1.7%	13.19	13.19
	Bought	15-Dec-05	DE	Deere & Co.	20.0%	70.09	83.49
	Bought	12-Dec-05	COST	Costco	17.9%	48.60	57.23
	Bought	28-Nov-05	CHRZ	Computer Horizons Inc.	16.3%	4.03	4.72
Closed 6/2/06	Sold	22-Nov-05	MAR	Marriott Intl Inc CI A	-13.1%	64.40	74.14
	Bought	03-Oct-05	WMT	Wal-Mart	10.3%	44.03	48.17
	Bought	17-Aug-05	MMP	Magellan Midstream Partners LP	12.3%	31.70	33.98
	Bought	22-Jul-05	SKM	SK Telecom Ltd ADR	17.6%	20.65	23.39
Closed 4/4/06	Bought	21-Jul-05	NTLRF	Neteller Plc Ord	-5.4%	13.45	12.74
	Bought	23-Jun-05	TPP	Teppco Partners LP	-8.1%	41.06	35.25
	Bought	17-Jun-05	465754AF6	i2 Technologies 5.25% Cvt Bond	11.3%	93.00	99.00
	Bought	27-May-05	GXM	General Motors Pfd "A"	7.9%	23.65	24.40
	Bought	18-Apr-05	KO	Coca-Cola	8.2%	40.87	43.10
	Bought	10-Mar-05	T	AT&T Corp.	26.1%	24.92	28.00
	Bought	25-Jan-05	CVX	Chevron Texaco	23.3%	52.51	62.06

2004 Transactions

Closed 4/18/06	Bought	21-Dec-04	GLD	Streettracks Gold Trust	40.0%	44.09	61.73
	Bought	28-Oct-04	VHT	Vanguard Heath Care VIPERs	13.5%	46.56	52.35
	Bought	06-Oct-04	EEQ	Enbridge Energy Mgt LLC	3.5%	44.95	41.49
	Bought	13-Sep-04	BMN	Blackrock Muni Trust	-0.4%	10.67	9.93
	Bought	03-Sep-04	PTF	Petrofund Energy Trust	87.1%	11.74	24.98

*Total returns include transaction fees, dividends, interest and trading proceeds

** Final transaction price indicated for closed transactions

Important Disclosure

The Hurley Capital Managed Accounts Composite represents all actual client accounts invested in this strategy. The Hurley Capital Managed Accounts Composite allocates client portfolios in equity and fixed income investments, weighted according to Hurley Capital's proprietary investment strategy. Actual client accounts utilizing the Hurley Capital Managed Accounts Composite may have varying allocations between equities and fixed income investments based on individual investment preferences. The results of the Hurley Capital Managed Accounts Composite are net-of-fees, brokerage commissions, and other expenses. Hurley Capital's investment advisory fees are described in the disclosure statement of Part II of the Form ADV which is available upon request. The results of the Hurley Capital Managed Accounts Composite include the reinvestment of dividends. Comparison of the Hurley Capital Managed Accounts Composite to the S&P 500 and NASDAQ Composite is for illustrative purposes only and the volatility of the indices used for comparison may be materially different from the volatility of the Hurley Capital Managed Accounts Composite due to varying degrees of diversification and/or other factors. Past performance of the Hurley Capital Managed Accounts Composite may not be indicative of future results and the performance of a specific individual client account may vary substantially from the composite results above in part because client accounts may be allocated among several portfolios. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable.