BEACON STREET CAPITAL, LLC

INVESTMENT MANAGEMENT

Separately Managed Accounts

July 1, 2006

Highlights

- *High volatility was the dominant factor for the second quarter, creating negative returns for us and the markets.*
- *However, volatility for our portfolios remains nearly half that of their benchmark indices, and this dramatically improves the impact compounding has on long-term returns.*

Second Quarter 2006 Newsletter

Our DowJones/*Select* portfolio composite generated a negative return of -1.08% in the second quarter, net of fees, compared to a gain of +0.37% for its benchmark, the Dow Jones Industrial Average (DJIA), primarily due to the speculative rise in the stock price of General Motors (*see Market Review*). Cash levels rose from 5% at the beginning of the quarter to just over 21%. This additional cash was raised through sales of certain stocks in late April and May just before the DJIA reached its highest level since its peak in January 2000 and just before an 8% decline in the DJIA from early May to mid-June. Despite this poor performance in the short-term, since its July 1, 1997 inception[1] the DowJones/*Select* portfolio composite has returned a cumulative +215%, outperforming the DJIA (+45%) by a cumulative margin of 170 percentage points.

Our S&P500/*Select* portfolio composite also under performed its benchmark in the second quarter with a loss of -3.93% compared to a loss of -1.44% (dividends included) for the Standard & Poor's 500-Stock Index (S&P 500). Cash levels rose from 8% in the prior quarter to 13%. However, since its July 1, 1997 inception[1] the S&P500/*Select* portfolio composite has also returned a cumulative 215%, outperforming the S&P 500 (+65%) by a cumulative margin of 150 percentage points.

Best Regards,

BEACON STREET CAPITAL, LLC

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[1]All results are un-audited and net of fees. Composite returns began November 2001 for the S&P500/*Select* and March 2002 for the DowJones/*Select*, are asset weighted and net of fees. Returns prior to November 2001 and March 2002 are total returns for model portfolios managed by Beacon Street Research, Inc., an affiliated company, on a real-time basis using the same methodology and manager, with stocks selected from those comprising the Standard & Poor's 500-Stock Index and Dow Jones Industrial Average. **Past performance is no indication or guarantee of future performance.**

Second Quarter 2006 Newsletter

Market Review

The U.S. stock market in general went on a roller-coaster ride in the second quarter and we view this volatility as nothing more than a short-term phenomenon brought about by investors betting on an early end to interest rate hikes by the Fed (causing the market to go up), which has proven to be unfounded (causing the market to go down). When the dust settled the Dow Jones Industrial Average (DJIA) had managed to eke out a slight gain for the quarter of +0.37% with the majority of the help coming from one stock, General Motors (GM). Meanwhile the Standard & Poor's 500-Stock Index (S&P 500) declined by -1.44%. GM, a stock we do not own due to its dire and deteriorating financial situation over the past several years, was up 40.1% for the quarter and has increased by 53.4% in the first six months of the year.

The real story, however, is interest rates. Since mid-2004 the Federal Reserve has raised the Fed Funds rate by ¼% 17 times, and with the Funds rate now at 5.25% the Fed should be approaching a neutral policy stance. In the early stages when the Fed was accommodative and rates were significantly lower, investors favored stocks with low-quality earnings (small companies). Now with the Fed being less accommodative and with rates much higher, near a point where inflation can be tamed while the economy still grows based on entrepreneurial activity and productivity, investors should begin to favor stocks with higher quality earnings and more clearly defined growth potential. With the S&P 500 trading at 14 times earnings estimates for the next 12 months, compared with a historical average valuation of 16-18 times, there clearly is room for further market advances once this near-term turbulence (dare we call it a summer storm?) passes through.

The economy did grow significantly faster in the first quarter of 2006 than in the fourth quarter of 2005, as we predicted in our previous Newsletter. This more rapid growth combined with higher inflation readings and worries that the Fed will continue to raise interest rates has put a damper over the stock market for the time being. We believe the Fed is in the process of finishing up the job and ending the period of easy money and accommodation of the previous Fed chairman. While this process has produced some painful trading days in the stock market, getting rates to a neutral level should prove to be a huge benefit to the economy and the stock market in the not-to-distant future.

After reaching the lowest levels of cash in the first quarter that we have seen in years, our portfolios moved in the second quarter to somewhat higher levels of cash. We experienced sector rotation into industrials, energy and financials;

Exhibit 3: Sector Weighting

	2Q06	1Q06
Industrials	19%	17%
Information Tech.	18%	19%
Consumer Disc.	14%	16%
Cash	13%	8%
Health Care	12%	15%
Energy	9%	7%
Consumer Staples	9%	12%
Financial	4%	3%
Materials	2%	3%

Exhibit 1:

DowJones/*Select*

Top Ten Holdings

Caterpillar	9.6%
United Tech.	9.4%
Home Depot	8.1%
Wal-Mart Stores	8.0%
Honeywell	7.9%
Microsoft	7.9%
Procter & Gamble	7.8%
McDonalds	7.5%
IBM	7.0%
Intel	6.5%

Exhibit 2:

S&P500/*Select*

Top Ten Holdings

Caterpillar	2.4%
Weatherford Intl.	2.3%
Apple Computer	2.1%
Goldman Sachs	2.1%
Rockwell Auto.	2.1%
Aetna	2.0%
Occidental Petrol.	2.0%
Lab Crp. Of Am.	1.8%
Network Applian.	1.8%
Penney, J.C.	1.8%

while money flowed out of health care, consumer staples, consumer discretionary and to a lesser extent materials and information technology. Our allocation to cash increased to 13% overall from 8% the previous quarter.

While we are totally dissatisfied with our recent performance we continue to believe staying with our discipline of selecting the stocks of companies that are financially sound and have positive quantifiable internal growth potential will continue to serve our clients and ourselves well over the long term. We believe our selectivity and disciplined stock selection process dramatically increase our chances for long-term outperformance.

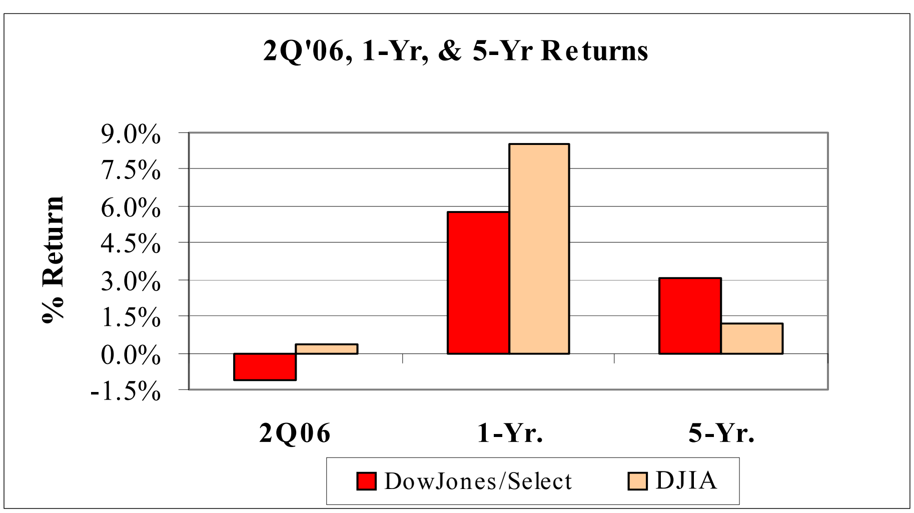
Herron P. Weems
Managing Director

Performance Summary

DowJones/*Select*: During the quarter we sold our positions in American Express Company (AXP), Exxon Mobil Corp (XOM), and Pfizer Inc (PFE) as growth potential turned negative on each. We booked gains on the AXP and XOM positions, while taking a small loss on PFE. AXP declined by about 1% from the date of sale through the end of the quarter, XOM declined by 3.2%, and PFE declined by 5.8%. We added one new company to the portfolio on April 28, Microsoft Corp (MSFT). Growth potential turned positive with the release of their most recent 10-Q report just after the company announced they will be delaying the release of several new versions of major products until the first quarter of 2007. The stock dropped more than 10% on the product delay announcement and we were able to purchase it at what we consider to be a very favorable price as a result. That being said the stock has unfortunately declined by another 3.9% since we purchased it.

Home Depot (HD) was the worst performer in the DJIA and was a serious drain on our DowJones/*Select* portfolio as well. HD declined by -15.4% in the quarter and is down -11.6% year-to-date. This one stock cost us approximately 1.25% in the quarterly performance of our DowJones/*Select* portfolio, or almost our entire underperformance. As a result, for the second-quarter of 2006 our

Exhibit 4:

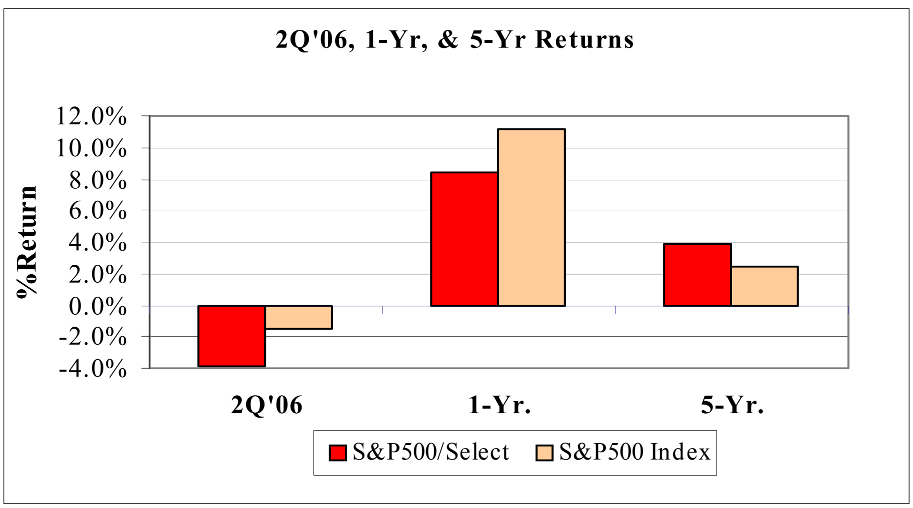


DowJones/*Select* portfolio composite had a loss of -1.08%, under performing the Dow Jones Industrial Average which improved by only 0.37%. However, as the chart in Exhibit 5 shows, over the past five years the Dow Jones/*Select* has returned 3.08% annualized compared to a gain of 1.20% for the DJIA.

Exhibit 5: DowJones/*Select* Net Return versus Benchmark				
	2Q06	**1Year**	**5Yr. Avg.**	**Inception**
DowJones/*Select*	-1.08%	5.77%	3.08%	13.61%
Dow Jones Ind. Avg.	0.37%	8.52%	1.20%	4.24%

S&P500/*Select*: S&P500/*Select*: During the quarter we adjusted our exposure to health care stocks by selling Becton Dickinson, Pfizer, Humana, and Health Management, while adding Coventry Health Care, Gilead Sciences, Mylan and Amgen. We increased our exposure to energy stocks with the purchase of National Oilwell Varco and XTO Energy while selling Exxon-Mobil. We also purchased Clear Channel Communications, Broadcom, Burlington Northern, Google and Microsoft while selling American Express, Avon Products, Brunswick, Colgate-Palmolive, Dow Chemical, Fortune Brands, Xerox and Pacific Sunwear. This increased cash levels to 13% from 8% in the prior quarter. However, our S&P500/*Select* portfolio composite declined by -3.93% in the quarter as the chart in Exhibit 6 shows, underperforming the S&P500-Stock Index which declined -1.44%. The primary reasons were declines in Apple Computer, Dell, Home Depot, United HealthGroup, Boston Scientific, and Aetna US Healthcare.

Exhibit 6:



From a broader perspective, over the past five year period the S&P500/*Select* has returned 3.88% annualized compared to 2.49% for the S&P500-Stock Index. The following table in Exhibit 7 provides additional comparisons.

Exhibit 7: S&P500/*Select* Net Return versus Benchmark				
	2Q06	**1Year**	**5Yr. Avg.**	**Inception**
S&P500/*Select*	-3.93%	8.44%	3.88%	13.61%
S&P 500-Stock Index w/ dividends	-1.44%	8.63%	2.49%	5.73%

But return is only half of the story. Risk, or volatility, is another factor that is important to consider because of its major impact on the compounding of returns. As Exhibit 8 shows the volatility for the DowJones/*Select* and the S&P500/*Select* composites over the past five years, as measured by standard deviation (SD) of returns, continues to be just over half that of their respective benchmarks.

Exhibit 8: Risk Reward Characteristics: 3Q'01 – 2Q'06

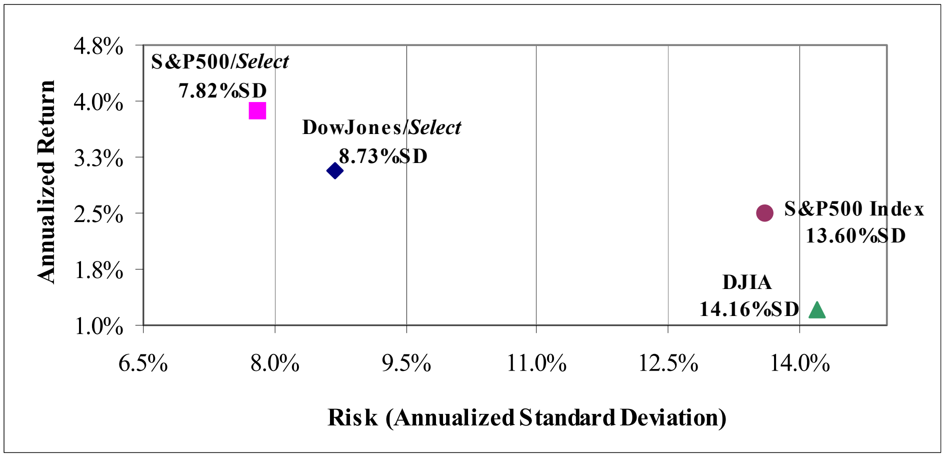


Exhibit 9 compares the risk and reward characteristics of our DowJones/*Select* and S&P500/*Select* composites with both the DJIA and the S&P 500 Index.

Exhibit 9: Risk Statistics	DowJones/*Select*	DJIA	S&P500/*Select*	S&P 500 Index
Annualized Std. Deviation (5 Yr.) [1]	8.73	14.16	7.82	13.60
Sharpe Ratio (5 Yr.) [2]	0.14	0.00	0.25	0.09
Information Ratio (5 Yr.) [3]	0.14	N/A	0.08	N/A
Beta [4]	0.85	1.00	0.44	1.00
Alpha (5 Yr. Average) [5]	2.06%	N/A	2.78%	N/A
Correlation[6]	.76	N/A	.77	N/A
Annual Turnover (5 Yr. Average)	32%	N/A	61%	N/A

Quarterly relative performance is mentioned only as a point of reference as these quarterly benchmarks do not drive our investment process. While we strive to significantly outperform our benchmark returns quarter-to-quarter, *our focus is on outperforming and building wealth over the long term*. As we have demonstrated, a disciplined stock selection process can dramatically increase the chances for long-term outperformance, so when companies with strong financial situations, with leading market positions and excellent growth prospects are being valued in the market similarly to, and in some cases below, companies with average prospects it is best to stay the course. When the market eventually recognizes these differences in fundamentals and establishes a premium market value those investors who have not already staked out a position will find it too late. Furthermore, patience will be rewarded with low volatility which enhances the wealth effect of compounding returns (see illustration at www.beaconstreetcapital.com).

Terry E. Burke
Chief Executive Officer

Definitions:

[1] *Standard Deviation:* A measure of volatility, or the range of a portfolio's performance. The more an investment's return varies from its average, the higher the standard deviation. Unlike *beta*, which measures volatility relative to the market, standard deviation is a measure of total risk, or the total variation of the return. The lower the standard deviation the lower the risk, or volatility of the portfolio.

[2] *Sharpe Ratio*: A measure of risk-adjusted return. The Sharpe Ratio incorporates the standard deviation and the excess returns over 90-day Treasury bills to measure the reward per unit of risk. The higher the ratio over 0.0 the better the investment's historical risk-adjusted performance.

[3] *Information Ratio*: <u>One of the most important tools for measuring the performance of an active manager against an appropriate benchmark</u>. It is the ratio of excess returns to standard deviation of excess returns of the portfolio, and is used to estimate the return added by the manager for each 1% of risk added by the manager. A 5-year average *Information Ratio* over 0.50 is considered "good", over 0.75 "very good", and over 1.00 "exceptional".

[4] *Beta*: Measures volatility in relation to the benchmark (or market). A portfolio with a *beta* of 1.5 means that the portfolio return is expected to move 1.5 times the benchmark return. If the benchmark return is 10%, the portfolio return is expected to be 15%. If the benchmark return is -10%, the portfolio return is expected to be -15%. A low *beta* represents lower volatility, which is often associated with low returns; a high *beta* represents higher volatility, which is often associated with high returns. It is unusual to have a combination of high returns and low volatility. <u>However, a good manager picking outstanding stocks can provide excess returns without adding excess risk</u>. This is call "adding *alpha*".

[5] *Alpha*: Measures the return added by the manager. It is the excess return over the benchmark return, adjusted for volatility.

[6] *Correlation:*: Measures the correlation between the portfolio return and the benchmark return, or how well they fit from a statistical standpoint. A correlation of a 1.00 means a perfect fit and any number over .70 means the *Alpha* and *Beta* measurements are meaningful.