For the second quarter of 2006, investors saw the most equities markets lose some ground amidst increasing volatility due to numerous uncertainties. The large cap S&P 500 lost 1.44% but notably outperformed the S&P MidCap 400 which dropped 3.04%. This is the first time in over two years that small and mid cap stocks have not outperformed large cap stocks. Value stocks continued to best growth stocks as the S&P 500/Barra Value Index gained 0.06% and the S&P 500/Barra Growth Index lost 3.04%. Energy and Utilities sectors posted the highest gains with returns of 3.85% and 4.73% respectively while Technology and Health Care sectors suffered the largest losses,
-9.78% and -5.39% respectively.

The employment market continues to be solid with final data showing 529 thousand jobs added in the first quarter plus an additional 112 thousand in April. Preliminary data shows increases of 92 thousand and 121 thousand in May and June. Such increases have driven the unemployment rate down to 4.6%, the lowest level since July of 2001. Domestic economic growth continued as well with the final growth number for the first quarter GDP growth coming in at 5.6% and corporate profit growth up 28.5%.

Early in the quarter the markets were extremely volatile to the down side as the Core Inflation (minus food and energy) numbers caught the market off guard as they showed there was more upward pricing pressure than expected. The market had been comfortable with the target of 5% on the Fed Funds Rate and this new information seemed to indicate the FOMC would need to continue to raise interest rates. This inflation scare, combined with a new, unpredictable Fed Chairman, provided the market with one of its least favorite things-uncertainty.

Much of the continued volatility we have seen in the last quarter has been due to actions of the Federal Reserve's new head Ben Bernanke, and the FOMC members. Chairman Bernanke and his Fed Governors learned that the market hangs on their every word, and some of the inconsistent comments at the beginning of the quarter added to the nervousness. The Federal Open Market Committee (FOMC) raised its target Fed Funds Rate twice during the last quarter, ending at 5.25%. Market observers are struggling to discern the message of the Federal Reserve members, especially to determine if there are any signs of a pause in the FOMC rate increases. During the last quarter both Mr. Bernanke as well as some other Reserve members made comments publicly and not so publicly that were likely not as well thought out as they could have been, at least in terms of how the markets would interpret and react to them. Such slips have roiled the markets and contributed to huge slides in stock prices. Going forward, both the Fed and the markets will need to learn how to interpret and react to one another.

The fact that a few hasty comments can have a significant impact on stock prices highlights the importance of security selection in the investment process. In the midst of such volatility it is more important than ever to focus on companies that are delivering financial performance. For us, this means companies that are generating positive cash flows and earning a good return on their investments. And in an environment where there is uncertainty as to what the FOMC is going to do with interest rates, we are focusing on companies that aren't as sensitive to increases in interest rates, namely companies that are less leveraged and can finance their own operations and growth through cash that is generated internally. Those companies that are more leveraged will be more likely to have debt that could be subject to higher interest rates while companies that will need to fund operations with borrowed money will have to do so at higher prevailing rates. We expect some discreet rebalancing over the coming quarter as we will focus on companies that have less sensitivity to the increased cost of capital, yet at the same time can maintain the ability to generate positive cash flow and high returns on investment. security selection is important as we believe strong company specific results will be a driver of stock price appreciation in the second half of the year and into 2007.

We sincerely appreciate your business and wish you a wonderful third quarter.

Sincerely,

Michael F. O'Neil
Senior Vice President

MON/tt
Enc.