

ValueWorks

quality assets. compelling valuations.

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Not too hot, not too cold

The markets posted a solid advance in the second quarter. The positive economic backdrop once again swamped the fears that drove volatility in the first quarter.

ValueWorks' accounts fared well in this generally upbeat environment; our Capital Appreciation Composite grew 7.6% this quarter and 10.3% year-to-date.* Comparatively, the S&P advanced 6.3% for the quarter, and is now up 7.0% for the year. The Dow tacked on 9.1%, for the quarter and 8.8% for the year; while the Nasdaq Composite advanced 7.7% for the quarter and 8.2% for the year.

Domestic economic issues dominated investor attention through the quarter. Investors wrestled with the impact of a weakening housing market against the continuing strength in the rest of the economy. This fed the debate between those worried about higher interest rates triggered by that very economic strength, and those more focused on an expansion in corporate earnings. The unsettled state of the sub-prime mortgage market on the one hand caused concern that the contagion would spread throughout the economy, leading to an economic contraction. On the other side of the argument were those who considered inflation and higher interest rates (triggered by a too hot economy) to be the dominant risks.

ValueWorks' Top 10 holdings**:

1. Bausch & Lomb Inc
2. Cypress Semiconductor
3. Schering-Plough Corp
4. Boeing Company
5. Rowan Companies Inc
6. General Motors
7. Chesapeake Energy Corp
8. Wachovia Corp (2nd New)
9. Questar Corp
10. 3M Company

—as of 06/30/07—

**see notes on p4 for additional information

Through the debate, private equity firms continued to buy up companies, cutting the conversation short and driving the markets higher. That this buying was central to the market advance is reflected in the out-performance of the mid-cap space, where the bulk of this buying is taking place. The mid-cap indexes outperformed both the large and small cap indexes by roughly 2-3% in the quarter. This held true among a wide array of categories. And it is the area in which private equity firms have been most focused and it is the area that has led the market advance. I do not consider it a coincidence.

The fundamentals driving this activity remain in place. Consequently, I expect the market advance to continue. I expect investors to earn healthy returns through 2007 and into 2008. The risk to this environment is clearly higher interest rates which is why the recent run-up in bond yields caused such a hiccup in the markets in June. This is an issue to be concerned with, particularly inasmuch as we are not, in my view, in a period of long term decline in rates.

My read of the economy is that growth is indeed being tempered by current interest rate levels. As a result, I see us as in that Goldilocks economy – not too hot and not too cold. The slow-down in the sub-prime market (and the real estate market in general) is in part a function of today's cost of capital.

*All ValueWorks' figures are Gross of Fees. For additional information on returns, including net performance, see page 4.

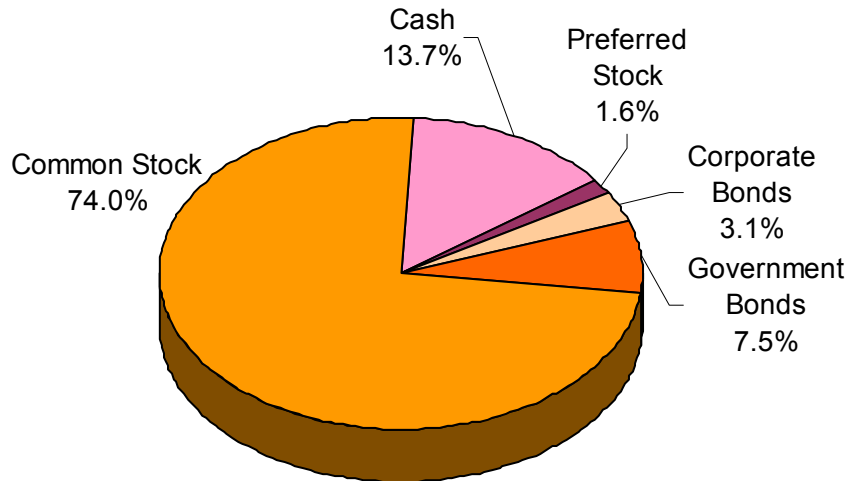
The move in Fed funds from 1.5% to 5.25% has had an impact on both the affordability of real estate and the profitability of lenders. That should not come as a surprise. And it is a good thing, because the risk was an overheated level of activity. It is a long term positive that the level of activity (and inflationary price increases) in the real estate market has cooled.

I expect economic growth to remain modest with rates at their current levels, because current levels are restrictive. The higher cost of money is having its intended effect, preventing excessive demand from leading to an overheated economy and an associated increase in inflation. However, if the slowdown were to materially broaden out, the Fed is well positioned to react with a level of accommodation. In short, the Fed has been doing a good job at modulating economic activity, and I expect them to continue to do so.

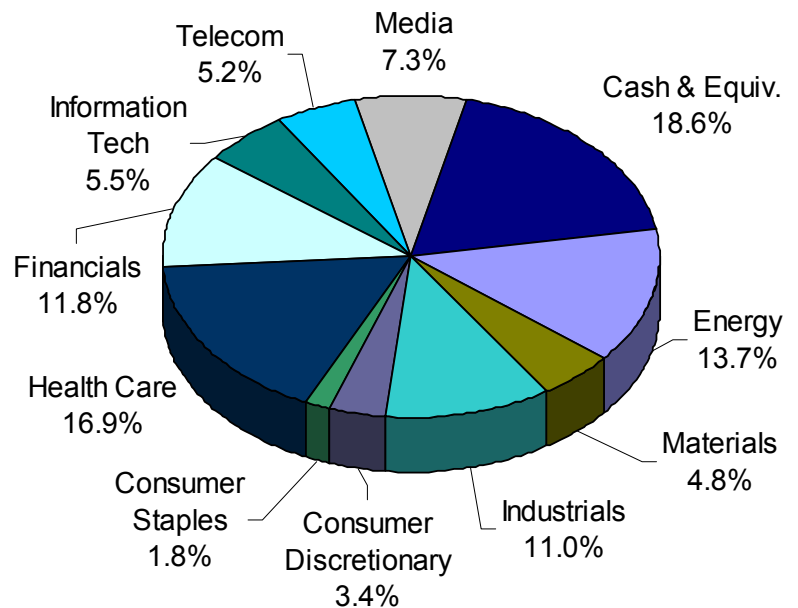
The hallmark of our portfolios is their balanced, diversified exposure which, I believe has been a major contributor to the solid performance we have experienced in many varied market environments. I am quite comfortable with the quality and diversification of our current holdings. To further position our portfolios we are looking to increase market exposure in the months ahead, reducing cash levels that had elevated as we have exited appreciated investments.

—Charles Lemonides CFA

Asset Class Diversification-- Balanced Composite*



Sector Diversification-- Capital Appreciation Composite*



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ValueWorks

critical thinking. independent research.

Defining our Philosophy:

At ValueWorks we define value investing as buying the best-quality assets at the best possible prices. We like to think of ourselves as bargain hunters: it is our goal to pay only \$0.50 to \$0.75 for \$1.00 worth of assets. We evaluate the component parts of a company, assigning each of its assets a dollar value that, when added together, comprises the underlying value of the company; if this is higher than the company's stock price, we consider it an investment opportunity.

Defining our Process:

1) Identification. We monitor the financial markets to identify securities that match our investment criteria—focusing on opportunities that appear misunderstood by the general market.

2) Appraisal. First we identify the assets; then we appraise them. This allows us to determine the company's *underlying value*. We then decide whether the assets are of high quality and therefore likely to appreciate over time.

3) Assessment. Here we assess any claims against a company's assets; we then compare the market price of the claims to the company's *underlying value*. If a particular security trades at a discount, we identify factors that could eliminate the valuation gap and increase its price. We then make a decision on the purchase of the security.

4) Re-Evaluation. We continuously monitor our positions to determine if our original investment thesis still applies, taking necessary action to optimize our portfolio.

5) Exit. We exit a position when a security either reaches full valuation or changes in its outlook invalidate part of our original thesis.

Our objective is uncomplicated, but achieving it requires a high level of research, expertise, discipline and independent judgment. By applying this framework consistently we remove emotion from the investment decision making process, enabling us to capitalize on inefficiencies built into the market.

About our Portfolio Structure:

We believe risk can be better contained through educated security selection than through overdiversi-

fication. Consequently, our position sizes range between 3 – 5 % of the overall portfolio value. Fully invested portfolios tend to hold 25 – 35 individual investments.

We enter investments that we view as 25 – 50% undervalued and sell them when we see them as fairly priced. Our anticipated holding period tends to be one to two years which results in only modest portfolio turnover.

Because our decisions are based on research and sound fundamentals we view depressed price action on our securities as buying opportunities rather than sell signals.

We use senior debt and preferred instruments—offerings that can be easily misunderstood by traditional equity or fixed income investors—to gain equity type returns on safer vehicles.

About our Client Services:

ValueWorks provides independent investment management on an individual account basis. Our clients receive the benefits of owning securities directly, coupled with the advantages of having a dedicated portfolio manager.

Working directly with your financial consultant, we evaluate your investment profile and build a plan designed to meet your specific goals.

As a high-end investment alternative, you receive:

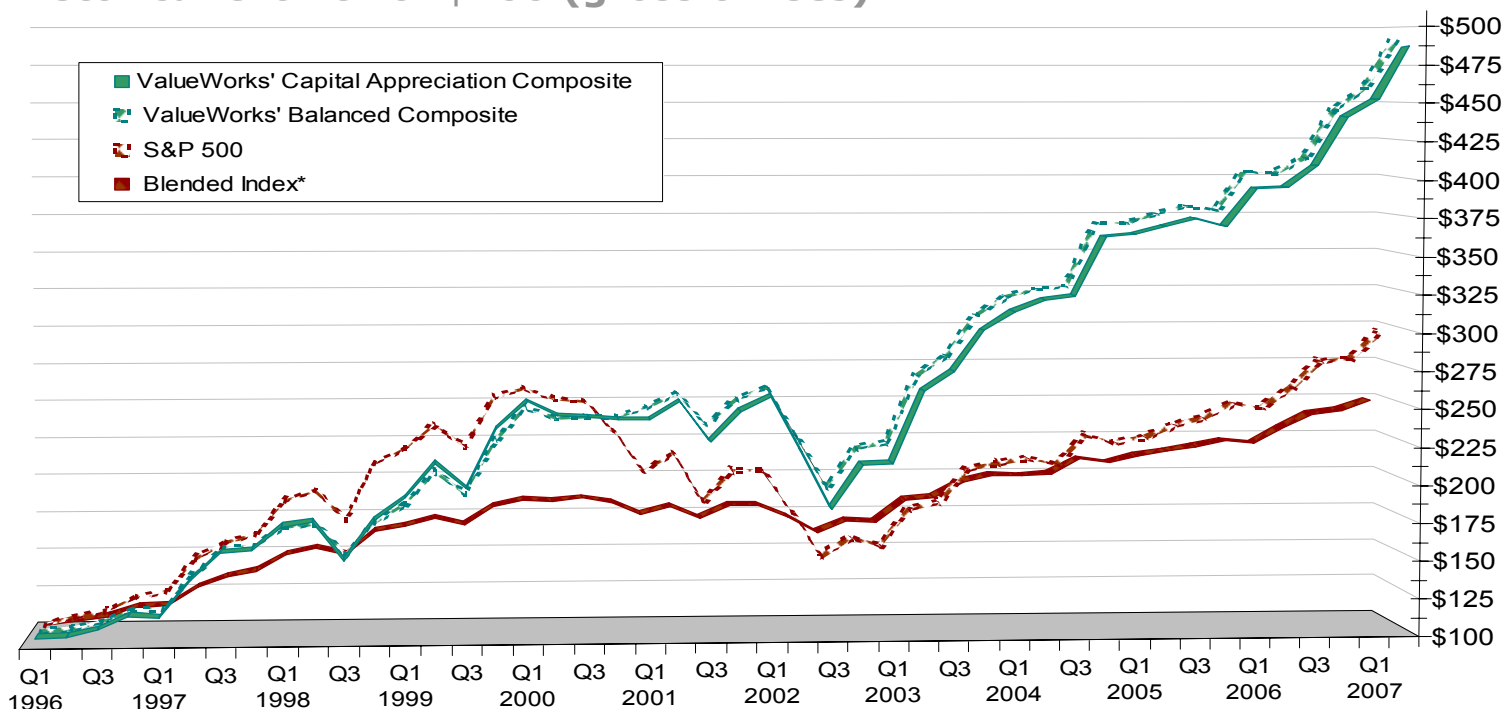
- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance
- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements and investment needs Comprehensive quarterly performance reports.

Working within the framework of our value investment discipline, we build portfolios that cover a wide spectrum of risk-tolerance, from aggressive to much more conservative and income oriented.

ValueWorks Performance Review

2nd Quarter: March 31st 2007 –June 30th, 2007

Historical Growth of \$100 (gross of fees)



Trailing Performance Data

	ValueWorks' Capital Appreciation Composite			ValueWorks' Balanced Composite		
	Gross of fees	Net of Fees	S&P 500	Gross of fees	Net of Fees	Blended index*
10 year	13.02	11.35	7.14	13.25	11.40	6.99
7 year	10.08	8.54	2.19	10.52	8.79	4.46
5 year	16.76	15.17	10.72	16.32	14.58	7.78
3 year	14.71	13.18	11.70	14.45	12.85	7.88
1 year	23.16	21.47	20.57	21.60	19.80	13.24
2007 YTD	7.55	7.19	6.27	6.87	6.47	2.87

*The "Blended Index" is a calculation comprised of 50% S&P 500 and 50% Merrill Lynch Domestic Master Bond Index.

The above benchmark indices are unmanaged indices. The benchmark performance numbers reflect the reinvestment of dividends and interest but do not reflect the deduction of any fees or expenses. ValueWorks' value investing style is not limited to the securities in any of the above indices and utilizes specific investment techniques which are not utilized in the above indices and which may or may not increase volatility. Returns include all dividends, interest, accrued interest and other cash flows received as they may result from the implementation of a particular investment strategy. Trade date accounting has been used. Results for the full period are time weighted. Accounts are included in composite at the start of the first full period under management. From 1996—Q1 1998 exiting accounts are included through the period in which they left. Starting in Q2 1998 exiting accounts are included through the last full period under management. Results were generated at other firms prior to 9/30/01. Information on other composites is available on request.

As of 6/30/2007 the Capital Appreciation Composite consisted of 462 accounts and \$184,637,627 in assets; while the Balanced Composite consisted of 112 accounts and \$78,954,822 in assets. Together this represents 99.31% of total accounts and 85.65% of total assets.

Past performance is not a guarantee of future results.