HURLEY
CAPITAL

First Quarter 2005 Letter To Investors

First quarter was another consistent quarter for Hurley Capital investors, with the average account in the Hurley Capital composite gaining 2.2% net of fees while the S&P 500 declined 2.6%. Energy investments, a short-sale of Maytag and AXS-One Software provided led the winning investments while largest negative returns came from IAC/Interactive Corp. and Portal Software.

OK, I'll admit it. This market worries me. Corporate profit margins are near all-time highs, but interest rates are headed up, perhaps faster than we think. Higher interest rates lower the value of stocks and real estate and increase the cost of doing business. The U.S. dollar may rise somewhat on higher interest rates, which could pressure commodity prices. This all adds up to sub-par corporate profit growth in 2005. That said, we believe there remains opportunity to earn positive returns using our conservative value methodology. Sticking to sectors that should hold up in a higher interest rate environment will be the key. These sectors include health care, household goods and telecom services. Sectors to avoid include consumer discretionary goods, retail, and finance. If I'm wrong and the economy chugs along, our investments in low-valuation software companies could pay off handsomely.

Two of our recent investments are:

- **AT&T**. AT&T has agreed to be acquired by SBC Communications. We are interested in an investment in SBC because we expect it to produce a 10% annual cash flow return within 18 months after its acquisition of AT&T. We like the telecom services sector because of its defensive nature and its broad exposure to both wireless services (via its 60% ownership of Cingular), and fixed line business, and its exposure to consumer and business clients (via the AT&T acquisition). SBC is well along the way to integrating the AT&T Wireless acquisition and we expect similar results from the AT&T deal.
- **A Short Sale of Jack In The Box**. As stated above, we believe consumers will begin to feel the crunch of higher interest rates, higher gas prices and inflation in general. We believe this will curb their disposable income. Wal-Mart, Best Buy and Circuit City have all warned recently of disappointing sales. Meanwhile beef prices remain higher than expected. Jack In The Box is has garnered an above market multiple recently due to improved operations and excess cash generated by sales of company-owned restaurants. Should sales begin to suffer, we believe the premium valuation may disappear.

A quick note on previously mentioned investments:

- We have sold our investment in **IAC/Interactive Corp**. after its announced acquisition of Ask Jeeves. We liked the Expedia business within IAC that we thought would be a great hedge against an economic downturn and we loved the relatively inexpensive valuation for a company that was going to grow over 10% in 2005, but the valuation of the $1.8 billion Ask Jeeves deal at 45 times free cash flow removed much of the valuation cushion we desired. The position was closed a 5-9% loss.

In closing, Hurley Capital will continue to pursue conservative investments that should excel in a decelerating US economy and special situations in under-appreciated small cap stocks.

Thanks for your interest and patronage. Please call/email with any questions or comments.

Chuck Goldblum
chuck@hurleycapital.com
212-521-5133

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Performance Of All Hurley Capital Investments During Quarter

Initial Investment Date	Action	Name	Ticker	Price	3/31/2005 Price at 31-Mar-05	Return to Date	Comments
12-Aug-04	Buy	Pfizer	PFE	31.82	26.55	-16.6%	
17-Aug-04	Buy	Managed Muni Portfolio	MMP	11.02	11.30	2.6%	Sold on January 25, 2005
20-Aug-04	Buy	Blackrock Muni Trust	BMN	10.66	10.39	-2.5%	
03-Sep-04	Buy	Petrofund Energy Trust	PTF	11.74	15.53	32.3%	Price/return includes benefit of dividends/div. reinvestment
06-Oct-04	Buy	Enbridge Energy Mgt LLC	EEQ	44.95	50.78	13.0%	Price/return includes benefit of dividends/div. reinvestment
28-Oct-04	Buy	Vanguard Heath Care VIPERs	VHT	46.56	50.00	7.4%	
29-Oct-04	Buy	Axs-One	AXO	2.24	3.35	49.2%	
07-Dec-04	Buy	IAC/Interactive Corp.	IACI	24.65	21.60	-12.4%	Sold March 21, 2005
08-Dec-04	Buy	Compania de Telecom de Chile	CTC	10.50	11.14	6.1%	
21-Dec-04	Buy	Streettracks Gold Trust	GLD	44.09	42.82	-2.9%	
28-Dec-04	Short	Maytag	MYG	(21.01)	(16.00)	23.8%	Closed on January 25, 2005
05-Jan-05	Buy	Encore Acquisition Corp.	EAC	32.20	41.30	28.3%	
25-Jan-05	Buy	Chevron Texaco	CVX	52.51	58.31	11.0%	
04-Feb-05	Buy	Portal Software	PRSF	2.62	2.42	-7.6%	
25-Feb-05	Short	Chevron Jun05 $60 Call		(4.50)	(1.80)	60.0%	
10-Mar-05	Buy	AT&T Corp.	T	19.42	18.75	-3.5%	

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.