



Q2 2005 Letter To Investors

The first half of 2005 was positive for Hurley investors with the Hurley Capital composite of accounts up 2.2% as compared to the Dow Jones Industrial Average down 4.7%, the Nasdaq Composite down 5.4% and the S&P 500 down 1.7%. The average account would rank in the top 15% of the 75 largest mutual funds. Investments in energy and two low-rated corporate convertible bonds, led the winning investments during the second quarter while largest negative returns came from two technology companies Portal Software and AXS-One.

Oil Prices Up & Rising! Short-Term Interest Rates Up & Rising! Dollar Up & Rising!

With those parameters in place, it's hard to see corporate profits growing much from the historically high margins currently being achieved. Without corporate profit growth, the overall market ought to continue to languish. Yes, more people are employed and getting paid, but if profits are weak, expect employment trends to change. So we stay defensive until whiffs of positive economic changes arise. Defensive to Hurley Capital clients means investing in health care, telecom services, consumer staples and select deep-value technology names, with the occasional short position in industries first hurt by the above "Up & Risings" such as restaurants.

A few of our recent investments are:

- **General Motors Preferred 'A' and i2 Technologies Convertible Debentures.** The above investments take advantage of market overreaction and market under-reaction. We bought the **GM preferred 'A'** soon after the 2nd downgrade to junk status by the independent rating agencies at around \$23.75. Though these do not mature until 2032, investors can sell these back to GM in March 2007 for \$25, which along with a \$1.125 annual interest payment produces a 8.4% return annually for 2 years. **I2 Technologies** is one of the wounded survivors of the 2001 tech wreck, with revenues sinking from over \$1 Billion in 2000 to somewhere below \$400 Million expected in 2005. Cash levels have drooped from \$753 million at the end of 2001, to \$277 Million at the end of March 2005. Recently though, a new CEO has been named who intends to stanch cash burn regardless of business levels and to focus on paying off outstanding debts. To that end, i2 has announced about \$40 Million in asset sales and stock offerings in the past three weeks. We believe i2 has sufficient liquidity to pay off this debenture, which is senior in the capital structure. This investment should provide a total return of over 10% annualized from purchase until December 2006 when the debt matures.
- **Portal Software** is a play on the turnaround of a software company and the continued growth of capital spending in the wireless telecommunications industry. Portal provides billing software to companies including Vodafone, XM Satellite, Sirius Satellite, and France Telecom helping them track and bill clients for the growing breadth and complexity of services they provide (who would have thought you could order and watch videos on your cell phone?). The company has struggled with non-fraud related accounting issues while the underlying business remains stable. The stock has rebounded lately as it appears that the company has a plan to become current on their SEC filings in the fall. At that point we believe that Portal may be put up for sale, and based on the

valuation of a recent comparable transaction in the billing industry, Portal could fetch over \$4/share.

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

July 2005

Performance Of All Hurley Capital Investments During Quarter

<u>Initial Investment</u>					<u>Price at 30-</u>	<u>Return to</u>	
<u>Date</u>	<u>Action</u>	<u>Name</u>	<u>Ticker</u>	<u>Price</u>	<u>Jun-05</u>	<u>Date</u>	<u>Comments</u>
12-Aug-04	Buy	Pfizer	PFE	31.82	28.05	-11.9%	
20-Aug-04	Buy	Blackrock Muni Trust	BMN	10.66	10.53	-1.2%	
03-Sep-04	Buy	Petrofund Energy Trust	PTF	11.74	17.25	46.9%	Price/return includes benefit of dividends or dividend reinvestment
06-Oct-04	Buy	Enbridge Energy Mgt LLC	EEQ	44.95	53.49	19.0%	Price/return includes benefit of dividends or dividend reinvestment
28-Oct-04	Buy	Vanguard Heath Care VIPERs	VHT	46.56	52.38	12.5%	
29-Oct-04	Buy	Axs-One	AXO	2.24	1.61	-28.5%	Sold on May 11, 2005
08-Dec-04	Buy	Compania de Telecom de Chile	CTC	10.50	10.92	4.0%	
21-Dec-04	Buy	Streettracks Gold Trust	GLD	44.09	43.44	-1.5%	
05-Jan-05	Buy	Encore Acquisition Corp.	EAC	32.20	40.99	27.3%	
25-Jan-05	Buy	Chevron Texaco	CVX	52.51	56.77	8.1%	
04-Feb-05	Buy	Portal Software	PRSF	2.62	2.00	-23.7%	
25-Feb-05	Short	Chevron Jun05 \$60 Call	CVX IL	(4.50)	-		Expired at \$0 on June 18, 2005
10-Mar-05	Buy	AT&T Corp.	T	19.42	19.52	0.5%	
08-Apr-05	Short	Chevron May05 \$60 Call	CVX EL	(1.15)	-		Expired at \$0 on May 21, 2005
08-Apr-05	Short	Jack In The Box	JBX	(37.80)	(37.92)	-0.3%	
18-Apr-05	Buy	Coca-Cola	KO	40.87	41.76	2.2%	
27-May-05	Buy	General Motors Pfd "A"	GXM	23.65	24.32	2.8%	
15-Jun-05	Buy	i2 Technologies 5.25% Cvt Bond		93.00	96.78	4.1%	

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.