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2ND QUARTER COMMENTARY

Los Angeles, June 30 2006

Dear Fellow Investor:

Stock markets took a turn south in the second quarter, eroding some of the gains made in the first quarter. Stocks of larger companies performed modestly better than smaller stock companies, reversing—at least temporarily—a more than 5-year trend of outperformance by smaller company stocks . Among the S&P sectors, technology and health care shares led the downward pull. Energy-related shares continued to benefit from the strong commodity pricing environment to further their gains; consumer staples was the only other sector in positive territory.

The S&P 500—a measure of broad market investment returns—was down about 1.4% during the second quarter of 2006. The Russell 1000 Value index, which tracks large and mid-cap value stocks, was up 0.6% during the same period. Net of fees, and based on preliminary estimates, the average Bristlecone Large Cap Value account[1] was up slightly for the quarter. More relevant to long-term investors, the average Bristlecone account increased by over 18% (3.4% annualized) net of fees over the last five years[2]. This compares to a cumulative return of over 13% (about 2.5% annualized) for the S&P 500. Since April 1, 2000, the inception of Bristlecone's investment performance, our portfolios have increased on average by approximately 34% (about 4.8% annualized) versus a decline greater than 6% (about minus 1% annualized) for the S&P 500 index.

We were net purchasers during the quarter (i.e., we bought more than we sold), bringing our cash position to relatively low levels. Prices during the quarter were volatile and we took advantage of price gains in April to sell Verizon and trim Waste Management as it neared our assessment of fair value. Verizon was a disappointing investment as a combination of intense competition, technology changes and increased capital requirements depressed profitability and our appraisal of the company's worth through our period of ownership. On the buy side, our contrarian nature manifested itself in investments in two technology industry giants. We added twice to Intel (initially purchased in the first quarter) as its price dropped, making it the largest position in the portfolio. We also initiated a position in Dell, a remarkable company we'd admired from afar for years because it always seemed to trade at a rich valuation. On the heels of an earnings disappointment, Dell's stock price fell to levels it first saw in 1998 and a full 60% below its bubble peak of $59. This steep drop in price gave us the opportunity to buy shares at what we think is a very attractive valuation.

The stocks that made the biggest positive contribution to the quarter's investment returns were Kroger, Washington Mutual, and Bank of America. The companies that penalized returns the most were American International Group, Merrill Lynch, and Expedia.

Quarterly Activity:

- **New Investment(s):**
  Dell (DELL)
- **Increases in Existing Investment(s):**
  Intel (INTC)
- **Reductions in Existing Investment(s):**
  Waste Management (WMI)
- **Investment(s) Sold:**
  Verizon (VZ)
- **Spin-off(s) Received:**
  Liberty Capital (LCAPA), Liberty Interactive (LINTA), and Embarq (EQ)

Like It's 1999!

Following our Dell purchase, please forgive the growing resemblance of our portfolio to that of a large cap growth manager circa 1999. Our last six new positions, stretching back to August 2005 in reverse order, were: Dell, Intel, Anheuser-Busch, Apollo Group, Wal-Mart and DirecTV. No doubt we purchased many of these shares from weary growth managers tired of declining stock prices. These names may have caused some double-takes (a few of you certainly called us) among those of you who have heard us stress our value discipline repeatedly, so we thought it would be worthwhile to spend some time discussing these recent purchases collectively and expressing our take on roles of growth and value in our investment discipline.

The truth is that, while we remain disciplined value investors, we've always thought too much was made in financial

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[1] PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. Performance quoted is that of the Large Cap Value Non Wrap Composite net of fees. Both net of fees and benchmarks' investment returns include the reinvestment of dividends.

[2] Investment returns prior to June 1, 2004 pertain to portfolios managed at a prior firm and include both wrap and non-wrap accounts. For a description and complete list of composites, please contact Client Services at clientservices@bristlecone-vp.com or call (877) 806-4141.

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circles of the differences between growth and value styles of investing. The tendency to box managers into a style category misses the simple point that nearly all good investors are looking for both ingredients: companies that are growing and ones that are trading for less than what they're worth. If you're not doing this, you are making investment decisions based on a style we would call momentum (as opposed to growth) investing, which amounts to speculation that someone else will come along later and pay a higher price, regardless of any underlying sense of what a business is worth.

What held us back from owning stocks like Dell and Wal-Mart five or ten years ago (long-tenured clients will remember we did own Intel and Anheuser-Busch previously) was not that they were growing quickly, but rather that momentum-oriented investors had driven valuations to levels that no reasonable forecast of future growth could support. We identified some of these companies long ago as exceptional, but they were also exceptionally (highly) priced. Take a look at the following table that compares the market values, earnings, and revenues of five of our most recent purchases in 1999 and 2005 (we left DirecTV out because it was part of GM until 2003).

The combination of good fundamental growth and declining prices (or even great fundamental growth with more modestly rising values) has created some bargains that we were happy to purchase in the portfolio over the last year. Wal-Mart has traded down from 55 times earnings to 18 times earnings; Dell's valuation has collapsed from 79 times earnings to 16 times.

There is no doubt that it required blind optimism, or belief in a greater fool, to purchase Dell or Wal-Mart in 1999 with expectations of making money. But it doesn't require heroic, or even above average, growth assumptions to justify our purchase in 2006. We are happy to buy growth companies; we almost never intentionally buy a company that's not growing. We're just not willing to pay much extra for future growth, because it's so difficult to forecast.

We've used conservative estimates to value each of the companies we've added to the portfolio over the last year, yet we believe we've been able to make some attractive additions to the portfolio—high quality companies growing as fast as, or faster, than the general economy—at very attractive prices. That should put the odds in our favor that this party will end better than the last one.

	Fiscal 1999				**Recent**			
Company	Ending Market Value ($bn)	Earnings	MV / Earnings	Revenues ($bn)	6/30/2006 Market Value	FY 2005 Earnings	MV / Earnings	FY 2005 Revenues
Wal-Mart*	$ 307.5	$ 5.6	55.2	$ 165.0	$ 200.7	$ 11.2	17.9	$ 312.4
Apollo Group**	$ 1.5	$ 0.1	26.2	$ 0.5	$ 8.9	$ 0.4	20.0	$ 2.3
Anheuser-Busch	$ 32.7	$ 1.4	23.3	$ 11.7	$ 35.2	$ 1.8	19.1	$ 15.0
Intel	$ 274.5	$ 7.3	37.5	$ 29.4	$ 110.5	$ 8.7	12.8	$ 38.8
Dell Computer*	$ 131.3	$ 1.7	78.8	$ 25.3	$ 55.6	$ 3.6	15.6	$ 55.9

* Fiscal years ending in January
** Fiscal years ending in August

There are a couple of startling facts to note from the comparison. First, these growth darlings did, in fact, grow over the period. Each of these companies grew both earnings and revenues over the period, some dramatically so: Wal-Mart and Dell each doubled earnings over the six-year period (almost twice the pace of long-term U.S. corporate earnings growth).

But despite generally impressive growth in these fundamental measures, changes in market values of these stocks has not kept track. In fact, the market values of Dell, Intel and Wal-Mart are dramatically lower than they were at the end of 1999 (58%, 60%, and 35% lower, respectively).

We take this opportunity to thank you again for the trust you show in us. We always welcome your comments or questions (email us at clientservices@bristlecone-vp.com or call 877-806-4141).

Sincerely,

Your Portfolio Management Team

CAUTIONARY STATEMENT

One of Bristlecone Value Partners' principles is to communicate frequently, openly and honestly. We believe that our clients benefit from understanding our investment philosophy and process. Our views and opinions regarding the investment prospects of the portfolio are "forward looking statements," which may or may not be accurate over the long term. While we believe we have a reasonable basis for our appraisals, and we have confidence in our opinions, actual results may differ materially from those we anticipate. *Information provided in this report should not be considered as a recommendation to purchase or sell any particular security*. You can identify forward looking statements by words like "believe," "expect," "anticipate," or similar expressions when discussing prospects for particular portfolio holdings. We cannot assure future results and achievements. You should not place undue reliance on forward looking statements, which speak only as of the date of this report. We disclaim any obligation to update or alter any forward looking statements, whether as a result of new information, future events, or otherwise. Our comments are intended to reflect trading activity in a mature, unrestricted portfolio and might not be representative of actual activity in all portfolios. Portfolio holdings are subject to change without notice. Current and future performance may be lower or higher than the performance quoted in this report.