

HAYES ASSET MANAGEMENT LLC



Year to Date*

DJIA

↑ 8.2%

NASDAQ

↑ 6.9%

S&P 500

↑ 6.9%

WILSHIRE 5000

↑ 7.3%

LEHMAN Bros

↑ 0.1%

Yield

6 Month T-Bill

4.9%

2 Year Treas

5.1%

10 Year Treas

5.2%

*Reflects period
between 01/03/07
and 06/13/07

Today's market environment is similar to the '80s but instead of "Raiders" like Michael Milken, Ivan Boesky, and T. Boone Pickens, today we have private equity. Private equity players are the new "masters of the universe". Currently, equity markets are still flirting with all time highs, and the bond market is weak; interest rates are rising, and bond prices are falling. Traditionally, higher interest rates do not bode well for the stock market. Those of you who have been with us for a while can probably guess that with the market at all time highs, we have not been buying a whole lot of equities lately. Year to date, we have been net sellers of equities. Buy-outs and takeovers have been active in our portfolios with long time holdings Reader's Digest and John Harland being taken private, American Power Conversion being bought by a foreign competitor, and Bausch & Lomb announcing that they are going private in a transaction with Warburg Pincus, a private equity firm. Florida Rock, not quite a long term holding, is being bought by a domestic competitor, Vulcan Materials. We do not mind having some liquidity in the event the equity markets see more volatility as it did earlier in the year or we find a great investment.

Two investments we would like to write about are Water and Puerto Rican banks.

Water: Water has long been perceived as the ultimate renewable resource. That may be changing. More than 1 billion people (yes, billion) do not have access to clean water. We have learned over the years one of the best investment themes is to buy the necessities in life, i.e. food, utilities, insurance, alcohol. Also, big opportunities often arise out of big problems. Water fits right into these themes, probably right at the top. The only problem we run into in this area, being a value investor, is most of the time the few remaining public water investments are expensive. GE and ITT have bought up most of the water companies. We not only look for companies that control the water (water utilities) but also companies that supply the technology to clean polluted water (filter companies), turning seawater into drinking water (desalinization investments), and irrigation equipment. It is not the bottled water you buy at the grocery store. We have some investments in this area but look forward to obtaining more. We have our price targets and will be patient.

(continued on back)

As always, we would like to thank you for the business and continuing our relationship as we look forward to the rest of the 2007. - Hayes Asset Management Team

Puerto Rican Banks: The CEOs of Popular, Inc. and Eurobancshares and an analyst that covers the banking industry in Puerto Rico described 2006 as the “perfect storm”, referring to the convergence of events that negatively impacted their stocks. This “perfect storm” resulted from: (1) interest rate environment, flat to inverted yield curve for most of 2006; 2) restatement of financial statements for many Puerto Rico banks; (3) increase in competition for traditional commercial bank products in response to banks pulling back from the sale and purchases of mortgages; (4) the fiscal crisis of the Puerto Rican government that lead to a government shut-down in May 2006, which in turn hurt the island’s economy, weakened the island’s credit quality, resulted in higher taxes being levied on banks, and the institution of a sales tax on the island. We believe that opportunity exists in these unloved, beaten down financial institutions. Sentiment is already beginning to turn. In February First BanCorp. sold 9.25 millions shares of common stock to Scotiabank which represents a 10% equity position with a right of first refusal if another bank/company bids for all of First Bancorp. R&G Financial recently entered into an agreement with Fifth Third Bank for Fifth

Third to acquire R&G’s Crown Bank, located in Florida and Georgia. Doral Financial entered into an agreement on May 24 with Bear Stearns, Goldman Sachs, and several private equity firms to raise over \$600 million in new equity. The investment group is buying stock at \$.63 and will get 90% of the equity in the bank, current shareholders left with 10%. Eleven days later FBOP, a private Illinois bank, offered to buy stock at \$1.41 for 80% of the bank and current shareholders get 20%. Looks like Bear and Goldman are not going to get to steal this one! Eurobank just announced a stock buy-back of \$2.5 million, at current prices represents 1.5% of shares outstanding. These important transactions show a vote of confidence for the Puerto Rico economy and the island’s banking sector. Now, R&G must file restated financial statements and for the Puerto Rican government to pass a budget on time (6/30/2007) to show investors that the political parties can demonstrate fiscal responsibility. The banks are also getting help from the bond market, the yield curve is no longer inverted, short term rates are higher than long term rates, so that banks again have a positive net interest margin, making money by borrowing short and lending long.

Address

**400 Andrews Street
Suite 600
Rochester, NY 14604**

Phone

**Local: 585-730-6951
Toll-free: 866-772-9434
Fax: 585-730-6944**

Peter Borello

**pborello@<email>*
Phone Ext. 17**

Lindsay Farmer

**lfarmer@<email>*
Phone Ext. 10**

Mark Foti

**mfoti@<email>*
Phone Ext. 22**

Chris Hayes

**chayes@<email>*
Phone Ext. 14**

Lisa Hayes

**lhayes@<email>*
Phone Ext. 12**

Website & <email>

***HayesAssetMgt.com**

Find the Value of Hayes Asset Management

Specializing in:

- Equity Accounts
- Fixed Income Accounts
- Balanced Accounts
- Mutual Fund Accounts

Serving:

- Individuals
- Corporations
- Non-profits
- Retirement Plans