JULY 14, 2010

"You know the good ole days weren't always good, and tomorrow ain't as bad as it seems."
—Billy Joel, *Keeping the Faith*

Dear Investor,

This spring marked a return of volatility, rapidly deflating first quarter optimism and replacing it with fear. Although the major stock averages still largely retain their 2009 recovery gains, they gave back all of this year's gains plus a little more. U.S. government bonds, on the other hand, rallied to historically low yields as investors sought safety. Other sovereign debt, municipal bonds, and corporate debt were more volatile depending on perceived credit risk; it's important to note, though, that credit gained ground, signaling the absence of the distressed capital market that characterized the 2008 panic.

The last quarter's headlines gave cyclical bulls ample opportunity to rethink their positions and turn cautious. Beginning with a commerce-stopping volcano in Iceland, followed by a Euro zone debt crisis, and a crude-spewing pipe in the Gulf of Mexico, the challenges came hard and fast.

Of more relevance to our own stock and bond portfolios, recent measurements indicate that the pace of the economic recovery has slowed. We feel that the potential of a return to panic like that experienced in late 2008 remains remote, but the risk to the recovery has certainly increased. Market reaction amplifies this risk, as investors remain sensitive to any sign of danger.

That being said, disappointments seem priced into the stocks and bonds that we hold today. We know the following: despite the focus on sovereign deficits and debt balances, corporations in which we hold securities are running surpluses (spending less than their income) and are either reducing balance sheet debt or building net cash positions; the earnings yield, and in several cases the dividend yield, of securities we hold is significantly higher than Treasury yields; and the companies in which we own equity and/or debt positions are diversified across multiple geographies and multiple currencies. Our municipal bonds represent claims on essential services provided by strong credits. We do not see any credit stress in our portfolio, and believe we will have confirming earnings evidence over the next few weeks.

Equity Portfolio

Over the last 12 months, equities with significant cyclical operating leverage have generally outperformed the averages. At the same time, businesses with exposure to secular growth and liquid balance sheets have lagged. During the quarter we became concerned about expectations for growth embedded in the valuations of the industrial stocks in our portfolio. At the same time, we saw attractive opportunities to make or add to investments in dynamic, defensible businesses that are highly cash generative, relatively insulated from cyclical factors, and possess attractive opportunities for growth.

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We took advantage of the market's capriciousness to initiate new positions in Kinder Morgan Energy Partners, Check Point Software Technologies and Life Technologies and added to investments in Oracle, Google and Baxter. These companies, with the exception of Kinder Morgan, possess attractive growth opportunities and generate significant free cash flow, but trade at valuations that assume only modest future expansion. In addition to the sale of cyclical holdings Honeywell and Cooper Industries (partial sale), we also sold our positions in Hasbro Inc., Quest Diagnostics, FPL Group, and XTO Energy (acquired by Exxon Mobil) to make investments that we believe to have more favorable return asymmetry over our investment time horizon.

Due to the rather high number of equity portfolio changes, we thought it important to discuss the reasoning for each new purchase in some detail. As such, we include an appendix to this letter discussing the positions we bought or increased over the past three months. As always, we are happy to discuss or debate our assessment, so please feel free to contact us directly.

A Quick Word About Municipal Debt

Market commentators continue to sound alarms over state and local budget deficits and there is a certain amount of hysteria building in the media concerning the credit worthiness of municipal debt.

We think it is a fallacy to assume all outstanding bond issues are of the same credit quality. Vallejo CA, Harrisburg PA, and Jefferson County AL, have been used by some commentators to condemn the entire asset class. But, the problems with these issuers were evident for some time and were avoided by most diligent investors (including us) well before the headlines. There are 54 major issuers (50 states, the District of Columbia, Guam, Puerto Rico and the Virgin Islands) and over 65 thousand different local municipalities with over two million different bond issues outstanding. Colorado correction facilities have nothing to do with North Carolina airports.

Owning strong credits remains the focus of our investment efforts. While we know that local government budgets are stressed and that municipalities will continue to feel the pressure of depressed revenue collections and declining tax receipts, we believe the credit worthiness, tax advantages and yield of our high-quality bonds trump the difficulties present today. Our portfolios continue to hold high credit quality and essential service issues that are well researched and well understood.

Concluding Thoughts

The next few years will be fertile ground for the battle between Keynesian (stimulus) and Austrian (austerity) economics. Our goal is not to weigh in on the debate, but to identify threats to the future profitability of the companies and governments whose equity and debt securities we hold. The difficulty, of course, is that both paths have merit and both lead to potential risks. Austerity in the face of a fragile economy, high unemployment, and low confidence may create a slowdown severe enough to dislocate fundamental building blocks of our economy and lead to economic decline. Conversely, continuing on the path of spending more than our gross income as a society is clearly unsustainable and likewise will lead to economic disruptions.

The Keynesian/Austrian dilemma seems to present us with a fatalistic choice between a rock and a hard place, but the ultimate path will likely be more nuanced. It is too simplistic to say our central bank is "just printing money" when the commercial banks do not allow this money to be multiplied by increasing credit. It is too simplistic to say that government should just "stimulate" the economy when government spending is often inefficiently applied and increases our national debt. It is also disingenuous to say we need to reduce our deficit when the majority of our electorate does not want to cut defense spending, Social Security benefits, Medicare benefits – or raise taxes. And it is likely a mistake to project current negative trends indefinitely, just as it was an error ten years ago to project positive growth in perpetuity.

We are not often inclined to quote Billy Joel, but we believe he spoke some truth when he sang, "you know the good ole days weren't always good, and tomorrow ain't as bad as it seems." These last three years have laid bare many faults of the industrialized world, but we have also corrected many of the conditions that led to the debt crisis and panic. Aftershocks are a natural part of this healing process and we will continue to feel them for some time to come. While cash is an alternative in portfolio allocation, we believe owning equity in, or lending money to, firms that engage in global commerce will reap rewards in any of the potential future paths of the global economy. A disciplined approach to investing in dynamic companies with defensible businesses and a diversified spread of risk amongst currencies and customers is the best defense against deflation, inflation, austerity, monetization or any other unforeseeable course of events.

When managing wealth, we believe that you should come to work each morning with the willingness and openness to change your mind – but change it only after careful thought and consideration. Over these last three years we have adjusted our tactical thinking to a rapidly changing environment while remaining true to the strategy of disciplined investing and capital preservation. We continue to examine the financial returns earned by our securities and assess their risk in the overall economic climate. The headlines have vacillated between hope and gloom (and even doom) this year, but we remain focused on the ultimate performance of the portfolio components and continue to "keep the faith" that positive results and discipline will trump short-term fears.

Sincerely,

Bill

William G. Spears

Robert M. Raich

Appendix

Kinder Morgan

In the past we have discussed our portfolio holdings as representing a spectrum of risk and return. This quarter's purchase of Kinder Morgan Energy Partners provides a good example. Kinder Morgan's businesses are divided among four main areas: natural gas pipelines, petroleum product pipelines, CO_2 and oil production and commodity storage terminals. Although clearly a participant in the energy industry, the majority of revenue is fee based and Kinder Morgan actively hedges the bulk of the commodity price exposure they do have. Growth will be modest, but the profits derived from these essential operations are predictable and are distributed to shareholders. At the time of purchase, the current distribution rate equated to an eight percent yield.

Unlike most other master limited partnerships (MLPs), Kinder Morgan has two share classes, one which represents a standard limited partnership interest (ticker KMP) and another, which represents an interest in a limited liability corporation (ticker KMR), holding only KMP shares. Our investment is in the latter, which although economically identical trades at about a ten percent discount to KMP. KMR also makes stock distributions instead of cash distributions, allowing deferred taxation, compounding returns, and avoidance of the K-1 filings that typically accompany MLPs.

Baxter

Baxter is the leading manufacturer of plasma-based and recombinant proteins used in the treatment of bleeding disorders, immune deficiencies and other blood conditions. It serves a growing and undertreated patient population, augmented by rising standards of care in developing countries. It is also a leader in medication delivery and renal care products.

However, recent worldwide economic weakness has resulted in a greater than expected slowdown in plasma demand, leading to a build-up in inventory and downward pressure on product prices. Having underestimated the underlying slowdown in demand, Baxter was slow to adjust. Its position as the product quality leader with a premium price appears to have made it particularly vulnerable in this more cost conscious environment, and as a result it has given up a few points of market share. We expect the company's market share will soon stabilize, but not without some cost to margins. The impact of this development, together with the anticipated costs associated with health care reform and an FDA action concerning its infusion pumps caused a downward adjustment in earnings projections and a sharp fall-off in the share price.

At this point, we believe the issues are well known and expectations are low. With a price to earnings multiple of just 10.5 times estimated 2010 earnings per share, the share price appears to more than adequately reflect the likely earnings impact.

Google

After more than doubling in price during 2009, Google has lagged the market so far this year. In addition to needing a breather from last year's performance, we attribute the weakness early in the year at least in part to the negative news regarding Google's battle with China over uncensored access to its search engine. During the first quarter, Google stopped complying with government censorship rules and began automatically redirecting traffic to its uncensored Hong

Kong site. The company faces the possibility of losing its license and is in negotiations with the Chinese government to reach a possible compromise. Regardless of the outcome, we believe Google's growth prospects there have been impaired. While China represents only about one percent of Google's revenue, it is a rapidly growing market and consequently, the longer term impact in lost opportunity is arguably greater.

Despite exceeding expectations for revenue and earnings growth in the first quarter, Google's shares continued to decline as investors apparently focused on the somewhat lower than anticipated Q1 margins, a potential slowdown in Europe, and the impact of the stronger U.S. dollar. The antidote for these concerns will be for the company to continue to demonstrate strong earnings growth while maintaining its ability to generate an extraordinary amount of free cash flow.

We remain convinced that Google is one of the companies best positioned to benefit from the recovery in traditional advertising spending and the acceleration in online search advertising as the internet increasingly takes share from other media channels. To the surprise of many, the company's Android operating system for handheld devices is gaining substantial share and emerging along with Apple as one of the two strongest mobile platforms. While the software is free, the increasingly adoption of Android will ensure a growing stream of advertising revenue tied to Google's search engine and the rapidly growing number of Android user applications. The company has also become increasingly successful in monetizing its YouTube and display advertising franchises. Further, the Federal Trade Commission's recent decision to permit Google to acquire AdMob positions the company as the leader in the rapidly growing mobile advertising market.

Life Technologies
Formed through the 2008 merger of Invitrogen and Applied Biosystems, Life Technologies is a major provider of the instruments, consumables and reagents used predominantly in life science research. Although the merger clearly gave Life Technologies necessary breadth and scale, we believe that Life's primary competitive advantage comes from combining this scale with innovation. Annual research and development spending far exceeds most peers and leads to 65 percent of sales coming from patent protected products (and a material additional amount that are protected by trade secrets). Over time we expect that this will enable Life Technologies to outgrow the markets in which it participates, while continuing to expand operating margins.

Although we are excited about Life's growth potential, we are also pleased to see that potential balanced by defensive characteristics. At present 80 percent of revenue comes from the sale of consumables and services, while 55 percent of revenue is derived from academic and government customers. The business also generates significant free cash flow, and while debt pay-down has been the priority post merger, debt is approaching target levels and we expect that Life will begin returning cash to shareholders through share repurchases by the end of the year. Shares are currently trading at 14 times our estimate of 2010 earnings per share and carry a seven percent free cash flow yield.

Oracle

During the quarter we added to our Oracle investment. The company's share price has increased only modestly since our original purchase in the fourth quarter of 2009, despite strong business execution and significant progress on the integration of the Sun Microsystems acquisition. The launch of Fusion Apps (a new enterprise application platform) later this year and a growing Exadata server backlog (Sun servers optimized for Oracle software) among other factors should provide sufficient business momentum to offset European headwinds.

This progress has increased our conviction in Oracle's ability to deliver double-digit earnings and free cash flow growth. With shares currently trading at 12.5 times our estimate of 2010 earnings per share and carrying an eight percent free cash flow yield, we will be well rewarded if our base case comes to pass.

Check Point

We also added a new investment in the technology sector, Check Point Software Technologies. Check Point was founded on its pioneering firewall products and retains both a reputation as a technology leader and a commanding share of the software firewall market. While growth in this market has stagnated, Check Point is leveraging their firewall leadership to expand in the growing Unified Threat Management (UTM) appliance market. Since entering the UTM market in 2007, Check Point has been a steady share gainer and now stands ready to benefit from an appliance replacement cycle. Shares are trading at 13 times our estimate of 2010 earnings per share and carry over an eight percent free cash flow yield, which alone should be sufficient to generate a good return. However, we also see opportunity for upside, primarily from Check Point's new software blade architecture.

In contrast to competitors' preconfigured solutions, blade architecture allows customers to select the appropriate appliance and customize it by selecting from a list of 20+ security gateway and management software blades. In addition to providing customers with enhanced flexibility, blade architecture gives Check Point the opportunity to expand into adjacent network security products by developing software blades that would typically be deployed as stand alone appliances. To date, Check Point has launched Intrusion Prevention System (IPS) and Data Loss Prevention (DLP) blades. We assume little contribution from either blade into our base case scenario, but given Check Point's installed base of approximately 100 thousand appliances, there is significant upside from meaningful adoption.

Spears Abacus BeeHive Fund Performance (Net)

2009	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
The BeeHive Fund	-2.82%	-11.62%	7.51%	11.65%	4.43%	3.87%	5.17%	2.97%	2.00%	-1.31%	3.42%	4.37%	31.59%
S&P 500	-8.43%	-10.65%	8.76%	9.57%	5.59%	0.20%	7.56%	3.61%	3.73%	-1.86%	6.00%	1.93%	26.46%

2010	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
The BeeHive Fund	-2.87%	3.48%	4.59%	0.98%	-7.92%	-4.41%							-6.56%
S&P 500	-3.60%	3.10%	6.03%	1.58%	-7.99%	-5.23%							-6.65%

Annualized Since Inception (9/2/08)	
The BeeHive Fund	-4.66%
S&P 500	-8.95%

Spears Abacus Municipal Bond Performance (Net)

2009	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
SA Bond Account	2.32%	0.90%	-0.40%	0.71%	0.71%	-0.11%	0.86%	0.53%	1.71%	-0.62%	-0.24%	0.23%	6.74%

2010	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
SA Bond Account	0.66%	0.60%	-0.09%	0.59%	0.41%	0.33%							2.53%

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The performance information set forth indicates the corresponding return of the Standard & Poor's 500 Total Return index. The volatility of the S&P 500 Total Return index (as well as any other index used by SA from time to time) may be materially different from the volatility of the accounts upon which the performance information presented is based. In addition, the securities holdings in the accounts upon which the performance information presented is based differ significantly from the securities that are referenced in the index. The S&P 500 Total Return index has been selected not to represent an appropriate benchmark to compare results but rather to allow for comparison to the performance of a widely recognized index. SA is not responsible for the accuracy or completeness of any information contained here that was obtained from or compiled by third parties.

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