

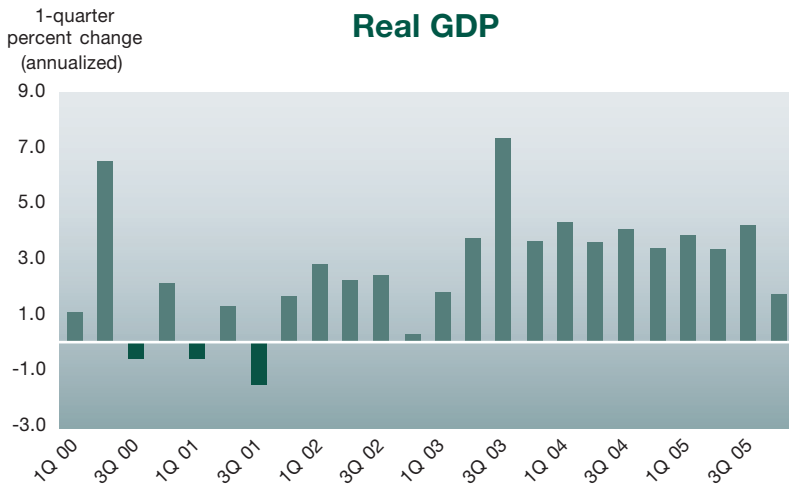


ECONOMIC OVERVIEW

The economic expansion in the United States is still showing a sustainable, well balanced, positive growth trend.

While consumer demand growth is moderating to a level more in line with income gains and domestic job growth, strength in capital spending and export demand are continuing to improve capacity levels and lift overall GDP. Real Gross Domestic Product growth for 2006 is expected to be in the area of 3.2% versus the 3.5% recorded in 2005. During the course of the year, Real Consumer Spending should slow to the area of 2.7% as a cooling housing market, increasing interest rates and continued high energy costs dampen incremental gains. Real Government Spending should increase at more than 3% once more in

2006 as the combination of domestic spending initiatives, coupled with the high costs of the Iraq conflict, will continue to increase expenditures in spite of the pressure of an increasing deficit.



Last Obs: 4 Q 2005
Source: Bureau of Economic Analysis; Clarion Inv. Research, Inc.

Real Business Investment Spending should continue to show the strongest relative growth of the major economic segments as domestic corporations' strong balance sheets and healthy cash flow is

reinvested in recognition of increasing current capacity utilization levels and strong domestic and international product demand levels. Real Business Investment Spending levels should show incremental gains in excess of 6% for the year.

INFLATION AND INTEREST RATES

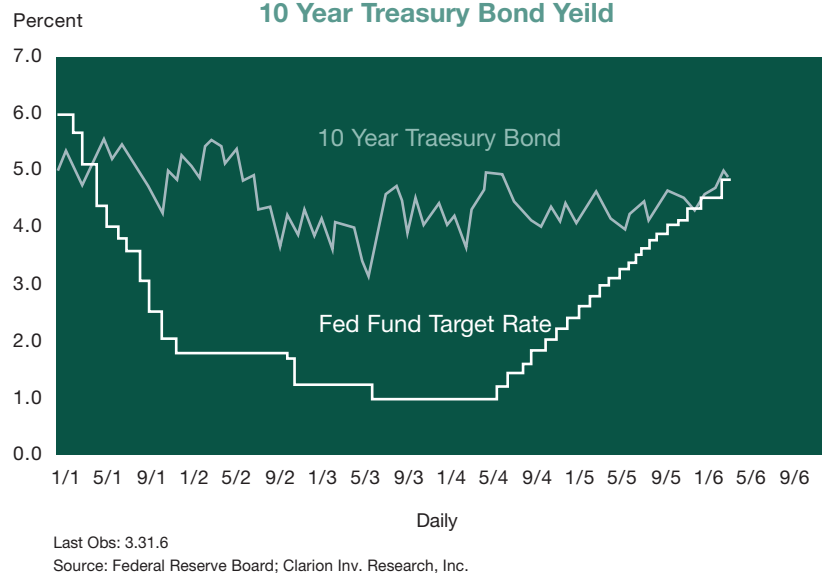
While the domestic economy has recorded a solid recovery, inflationary expectations have remained relatively subdued. Factors that have contributed to this relative benign outlook include: the outsourcing of manufacturing and production functions to the relatively inexpensive labor markets in Asia during the past decade; the dramatic increase in manufacturing productivity and related technological improvements; artificially low interest rates on both a real and nominal basis; limited

domestic pricing power within many industries during the initial recovery; and the relatively modest wage increase pressure experienced to date.

Inflationary trends during 2005 remained stable with the Core Consumer Price Index (excluding food and energy) increasing by only 2%. During the remainder of 2006 the underlying inflationary pressure should gradually increase as the effects of the recent energy cost and interest rate increases combine with higher capacity utilization rates and lower productivity gains to create growing cost pressures. As we move through 2006, inflation pressures should gradually increase with the Core Consumer Price Index increasing to 2.8%.

In June of 2004, The Federal Reserve began a measured program of increasing the Fed Funds Rate by 25 basis points at each meeting of the Federal Reserve Board. Currently the Federal Reserve Board has increased the Federal Funds Rate fifteen times over the past twenty one months to 4.75%* from the initial low point of 1%. During the remainder of 2006, the Federal Reserve is currently expected to increase the Fund's rate two additional times to the level of 5.25%. Over the next twelve to eighteen months, moderating international demand for treasury bonds is considered likely as the growing domestic trade and budget deficits combine with improving overseas economic growth trends to reduce the net international demand for treasury debt. During the year, long rates should gradually move up in line with short term rates as increased supply and moderating international demand result in the return to a modestly positive slope in the yield curve.

**Fed Fund Target Rates vs.
10 Year Treasury Bond Yield**



FINANCIAL MARKETS

In June of this year the current economic recovery that began in October of 2001 will have matched the duration of the average economic recovery experienced since World War II. With the economy now in its fifth year of solid economic growth the initial economic recovery and market recovery are now long since past. The initial rebound has been replaced by a period of sustainable economic growth that has developed the necessary momentum and balance that should allow it to have a significantly longer life than the average cycle.

The initial recovery was based on heavy monetary and fiscal stimulus from the government coupled with heavy spending by an insecure consumer. Currently the economy continues to show

moderating but sustainable growth that is broadly balanced between the positive growth trends within the consumer, the government and the corporate sectors. The economic growth has also become more international in nature with both Europe and Asia participating in a broadening positive growth trend. The recovery, that originally was viewed as delicate, has grown into a sustainable trend that has been able to weather fifteen Fed Fund interest rate increases and the continuing shocks of international conflict, national hurricane disasters and political uncertainty.

For the remainder of 2006, economic momentum is expected to slow while interest rates and inflationary expectations are expected to gradually increase. During the next three quarters political uncertainty is also expected to increase as the mid-term federal election campaigns result in increasing partisan political rhetoric and the control of Congress comes into question as we approach the elections in November. This outlook will likely create some periods of uncertainty and risk as the market, in our view, is currently discounting many of these uncertainties. Earnings growth for the general market is expected to be in the area of 8% during 2006 with continuing positive growth likely into 2007. The general market, as measured by the S&P 500 Index, is currently being valued at 16 times estimated 2006 earnings of \$80. This valuation level, while no longer historically inexpensive, is in line with past market valuation levels, especially during periods of relatively low inflationary trends.

While the bias for the market should continue to be positive from current levels, selectivity should be exercised in stock selection as the individual company's relative earnings growth prospects and sustainability will be the key to positive relative performance.

AT THE FIRM

We are pleased to announce two new associates, Mr. James W. Wright, CFA and Ms. Glen Reyburn, have joined our firm. Jim joins as a Senior Vice President and Portfolio Manager, while Glen also joins as an SVP in the trust administration group.

Glen joined the firm on April 10, 2006 having over 20 years of trust and administration experience with PNC and Wilmington Trust among other organizations.

Jim joined us on April 2, 2006. He also possesses over 20 years of equity research and portfolio management experience most recently with the Delaware Group in Philadelphia.

We are thrilled to add two very high quality professionals to serve our clients.

Joseph J. Costigan, CFA was recently interviewed by the Wall Street Journal Transcript. We have copies of the interview should you be interested in hearing Joe's take on our investment philosophy and process specifically to consumer stocks. You may contact your portfolio manager or administrator to receive a copy.



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