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TIDD CAPITAL, LLC

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Third Quarter 2006

Retrospective

August 1, 2006 was the two year anniversary of Tidd Capital. I'd like to thank all of the clients that have placed their trust in me and my firm to manage their assets.

When I founded the firm two years ago, I set out with three goals: 1) to deliver excellent service to investment clients, 2) invest my own money and my family's money the same way as that of my clients, and 3) to achieve performance significantly better than the S&P 500 after all fees and expenses.

Two years later, I am pleased to report that I have met all three goals. I have yet to lose a client or account, and have received steady contributions, from which I infer that my client service isn't terrible. All accounts hold basically the same securities, so my family and I experience the ups and downs along with clients. And finally, the performance for the first full seven quarters has been satisfactory on both a relative and absolute basis.

The performance figures are available on the web site:

http://www.tiddcapital.com/performance.html

Tidd Capital accounts are broken into two groups, "aggressive" and "growth". The aggressive accounts include strategies such as margin, options, work-outs, and special purpose transactions, and not suitable for all investors.

Aggressive accounts have returned 44.2% since inception, and 23.3% annualized. This is good absolute performance, and is also 26.8% ahead of the S&P 500 on a cumulative basis, and 13.7% ahead on an annualized basis.

Growth accounts have returned 34.2% since inception, and 18.3% annualized. This is also good absolute performance, and is 16.8% ahead of the S&P 500 on a cumulative basis, and 8.7% ahead on an annualized basis.

Past performance is no guarantee of future results. Tidd Capital performance figures are after all fees and expenses, and the S&P 500 figures are based on the Vanguard 500 Index Fund. The performance of individual client accounts may vary from these composite results.

I attribute the success in client service to a simple philosophy that I used to found the company -- treat clients the same way I would want to be treated if our situations were reversed. The cornerstone of this philosophy is keeping my own money invested alongside clients.

From a performance perspective, I attribute this success to the investment philosophy that I outlined in my first newsletter -- a strict value discipline; original bottom-up research; constant research coupled with limited activity; and concentrating investments on the few best ideas.

Thank you once again to all of the clients who have shared in the success of Tidd Capital. I am interested in carefully selecting clients that appreciate my service and philosophy, and if you know anyone who may be interested in my services, please refer them to me.

Stocks Reaching New Highs

Despite macroeconomic news that is not universally positive, many Tidd Capital stocks have been reaching new highs over recent months. Many of these stocks are long-time holdings, which makes this performance particularly gratifying. The judgements made about the businesses in years past have been validated, and the companies and their executives are doing the heavy lifting to deliver the performance. This is also beneficial for taxable accounts, which incur no tax consequences from the increases in value.

<u>Berkshire Hathaway</u>
The insurance and investment conglomerate run by Warren Buffett is for the first time in many years firing on all cylinders. A huge and difficult insurance acquisition made in 1998 put a damper on the company's performance for many years, but finally this cloud is beginning to lift. Buffett's slow-and-steady investment pace is starting to yield results, including two recent acquisitions in the $4.0-5.0B range, a step up from the $0.5-2.0B range of previous deals. As Berkshire is valued more and more based on the recurring earnings of its operating subsidiaries, I believe the business value will grow substantially. Berkshire’s recent Iscar acquisition is the first outside of the US, and may be the first of many international deals. We may finally and once again be at the beginning of an exciting period for Buffett’s investment vehicle.

<u>Mercer Insurance Group</u>
Mercer has made the transformation from an overcapitalized, underperforming insurance company to a solid operating company, helped by their successful acquisition of Franklin Insurance Company and improved investment returns. The company's steadily rising earnings and focus on delivering value to shareholders has driven the stock to new highs, and they still have the tailwind of an improving rate environment to help their investment results.

<u>Brookfield Asset Management</u>
A long time favorite, and feature of my Q1 2005 newsletter. Brookfield continues to deliver excellent performance across all business units, delivering on their promise of sustainable free cash flows and returns on equity. Heavy investments in hydro power over the past few years are now paying dividends, as the price of the generated power has increased while the cost to run the power plants has remained constant. The company floated a large amount of long-term, fixed-cost debt when rates were very low, and have used these funds to make investments in real estate and timberlands that are growing in value. Strong cash flows and shareholder orientation are delivering excellent returns on equity, trends which I believe will continue.

<u>KHD Humboldt</u>
The latest incarnation of Michael Smith's investment and operating prowess, KHD Humboldt is currently reaping the benefits of a successful transition to an industrial plant engineering and equipment supply company. Large backlogs of profitable business have driven the stock up over 50% this year. The spinoff of Mass Financial has provided shareholders with additional returns.

Ameritrade + TD Waterhouse = TD Ameritrade

Currently, all Tidd Capital accounts are held at what used to be called Ameritrade Advisor, which was the institutional side of Ameritrade. Ameritrade recently acquired TD Waterhouse, and effective April 24, 2006, they became the same company. The new company is called TD Ameritrade, and the institutional side (where our accounts are held) is called TD Ameritrade Institutional. As a result, all Tidd Capital accounts are now held at TD Ameritade Institutional.

The custodian is a crucial part of the client experience, and Tidd Capital's back-end systems are closely tied to the custodian, so I have been watching closely for any changes or impacts from the merger. I have also received a few questions from clients asking about this.

So far, there have been no substantial changes, which is good news, because I have found the service at Ameritrade to be excellent. The name and logo have changed on the paperwork, but so far this is only cosmetic. The old addresses and phone numbers still work. Part of the customer service center moved from Omaha to San Diego, which means we get different people on the phone when we call, but I find the new ones to be just as helpful.

Ameritrade rolled out the new web site on the retail side before the merger, and were planning on doing the same on the institutional side when the merger happened. I am told that this project is on hold while they decide if and how they are going to integrate with the TD Waterhouse website. So at some point probably within 12 months we should see a new web site which has features from both compaines.

Each firm has provided different options for managing cash, which will change with the new combined organization. Ameritrade provides about 17 money market funds with an automated weekly “sweep”. Many clients have noticed the frequent transactions back and forth between cash and a money market vehicle. Most of the money market funds are outsourced to a company called The Reserve. They inculde several US Government security funds and many tax-advantaged funds. These pay competitive rates, currently around 4.20-4.50%

TD Waterhouse did not provide these options, and had their own in-house cash vehicles. I have been told that once the two companies integrate their back-end systems (currently estimated for Q1 2007), the new combined company will drop the Reserve Funds and switch to private funds.

Tidd Capital accounts don't generally hold a lot of cash, so I don't expect any of these changes to impact performance significantly. The Reserve Funds are a significant hassle for Tidd Capital back-end systems, and for clients that track their accounts with something like Quicken. So the elimination of the Reserve Funds will simplify this processing somewhat.

So far, these are the only significant issues that I am aware of, and I believe that the impacts are negligible. I will keep tabs on this and will report on any significant issues. If you have any questions or problems with this, please don't hesitate to contact me.

Portfolio Mechanics

While I am on the topic of performance, I want to discuss some of the mechanics of managing clients accounts, and how individual accounts can perform differently even though they hold roughly the same securities.

Each account at Tidd Capital is opened and managed separately, with each account held in the name of the client. "Bunched" or "block" transactions are applied across several accounts at once. This is generally how the same securities can be bought and sold at the same price in multiple accounts.

Unlike some funds, Tidd Capital places no restrictions on when accounts can be opened, nor when cash can be contributed or withdrawn in each account. This is left completely up to the client. As a result, different accounts will have differing amounts of cash available at different times.

I am very selective in when I buy stocks, for example, a stock that is a buy at $20 in January may not a buy at $25 in March. In some cases, the buying opportunity may last just a few hours or days. Combine this with the fact that different accounts have investable cash available at different times, and you can see how different accounts can have different holdings. This in turn leads to different performance in these accounts.

For example say that stock ABC is a good buy in January but not in March, while stock XYZ is a good buy in March but not in June. Accounts that are opened, or receive new cash, in January, March, and June are likely to get a different mix of these stocks.

Given the choice between consistency and performance, I will always choose performance. That is, I won't make a lesser investment decision in your account just to make it similar to someone else's account. Each account gets the best investment decisions that can be made at the time. The result of this policy is the maximum performance in each account, though the performance may be different between accounts.

In a universe of 20-30 stocks and a period of several years, these differences tend to cancel each other out somewhat over time, and accounts tend to perform roughly the same over long periods. Our performance is not usually driven by one or two stock picks, historically almost all portfolio selections have contributed to the performance. And we have had very few losing investments, something that I wish to continue. So overall I don't believe that this should be a major concern, but I thought that it bears mentioning, especially for clients with multiple accounts.

Closing

I hope that this letter has given you a better understanding of my investment process and our portfolios. Thank you once again for your continuing trust you have placed in my company to manage your assets. If you have any questions or concerns, please feel free to contact me by phone or e-mail at any time.

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