Amarillo Office:
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August 1, 2002

Dear Client:

The second quarter of 2002 saw one of the largest quarterly declines for the U.S. stock market in over 30 years. It seems that every quarter we are talking about extreme moves, one way or the other. This pattern of volatility is not unprecedented, but investors have grown accustomed to it. For the majority of the 1990's, the markets behaved extremely well. We all grew to expect smooth 4% to 6% gains every quarter. Bear markets surprise people with their depth and volatility. This bear market is no exception, only the reasons for the decline may be different.

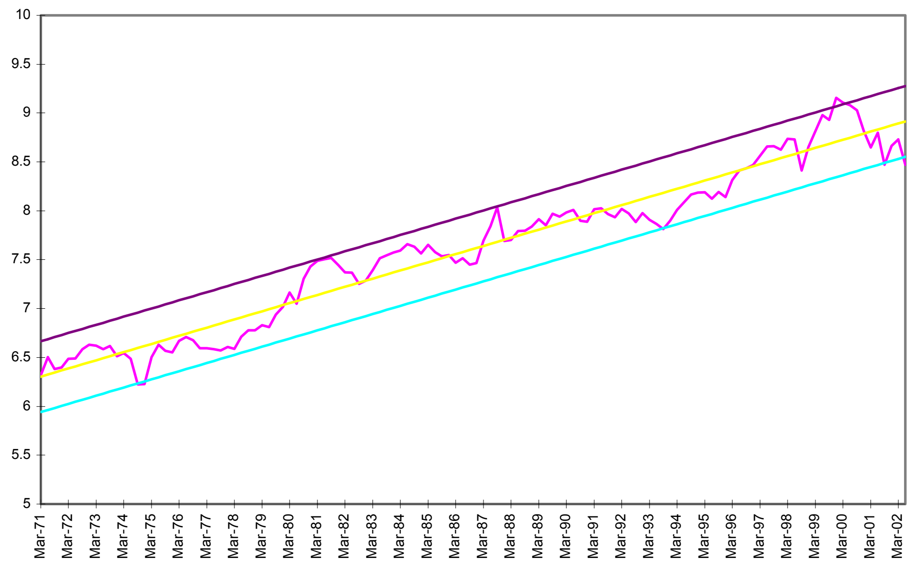
The Cornerstone portfolio composite outperformed the S & P 500 by more than 100 basis points. Unfortunately, our benchmark, like most major averages declined sharply for the quarter. We strive to outperform in weak markets and to lead the way when the markets recover. This has been our mode of success in the past and we feel very comfortable that our portfolio companies will perform as the economic recovery unfolds.

Throughout the quarter we positioned the portfolio to take advantage of what we perceive as phenomenal valuations in certain names. It appears the markets have lost their ability to look into the future. Never forget, the market is designed to be a forward looking animal and when negativity and fear create an environment based on what happened today and yesterday, opportunity abounds. We do not hear analysts talking about the profit recovery, nor do we hear people talking about how much companies will earn when we return to a "normal" economic environment. All we hear is how expensive things are on trailing earnings, which are depressed, and how companies are going to struggle for the next quarter. This is what recessions are all about. No one questions this is a challenging time, but we believe earnings are much closer to the "trough" than to the "peak." When peak earnings return, and they will, many of these companies will trade at levels significantly higher than their current prices.

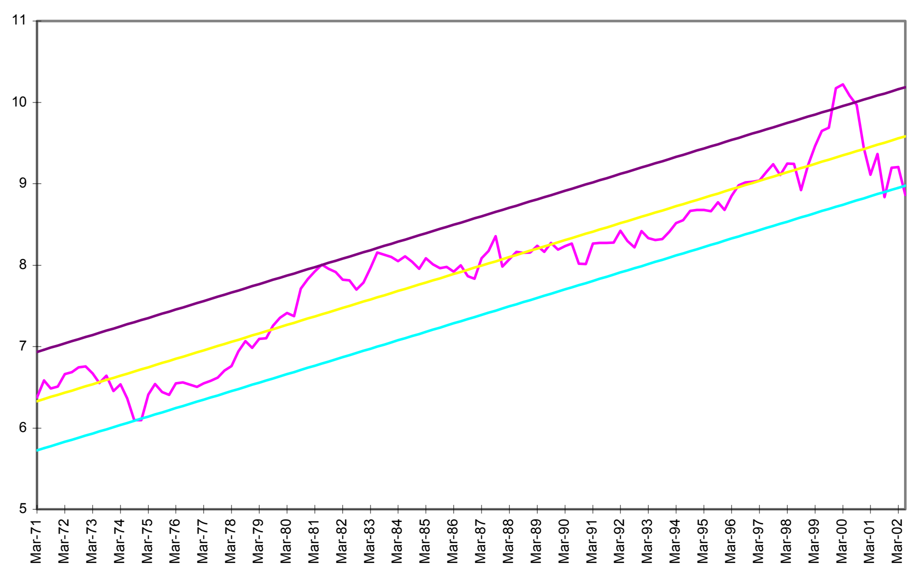
As you know, we entered the year cautiously optimistic. As a result of the dramatic decline in prices this year, at what we believe is the tail end of the recession, we have grown extremely optimistic. We firmly believe that as prices get less expensive, we should be more bullish. From current levels, we think the opportunities for appreciation in our portfolio companies are superb. As many have been quoted, "Buy when everyone is fearful, and be fearful when everyone is buying." When one takes this approach to investing, there are two risks we have to face, we could be wrong, or we could be early. We might be early, but we do not believe we are wrong.

We have included some very interesting graphs for your review. While the past is not always a perfect predictor of the future, it certainly gives us some perspective and helps us to "see the forest, in spite of the trees." There are so many cross currents and negative news stories today, so we thought it would be helpful to see where we are from a historical perspective. Linear regression analysis attempts to capture the historical ranges of statistical data. This approach is very helpful in analyzing historical stock prices. The following two charts take the S&P 500 and the NASDAQ back to 1970, plots the mean return over that period and then plots the high and low extreme levels of the market with a 95% envelope.

S&P - Interest Adjusted 1971 to Present



NASDAQ - Interest Adjusted 1971 to Present



As you can see, 95% of all data stays between the bands. When prices reach extremes at one end or the other, it pays to take notice, such as in late 1999 and early 2000, when the market was overblown on the upside. Notice at the end of June how far to the other extreme this market has gone. While this does not tell us we are going to rise dramatically from here, it does lead us to believe we are very close, if not at, the lows of this bear market. Let us not forget we are now in, what we believe to be, the final legs of the worst bear market since the great depression.

We have grown substantially as a firm in the last 90 days. We continue to add personnel that will enable us to accomplish our stated objective for our clients, "To deliver exceptional investment results, accompanied by superior client service." Gary Messersmith has joined as President, Steve Mortenson as Executive Vice President and Katie Harrison as Compliance Officer. Combined, they bring more than 60 years of asset management experience to our team, each in a very different capacity. We are tremendously excited to have each of these individuals join our team. I have included their bios for your review.

We thank you for your support and loyalty. Please let us know how we can better serve you. We have incorporated some of your requested changes into the quarterly performance report. We will customize this process to match your needs, so please tell us what you would like. Feel free to contact us at any time, if there is anything we can do for you.

All my best,

Christopher Alan Zook
Chairman & Chief Investment Officer