MIDWAY CAPITAL RESEARCH & MANAGEMENT LLC
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July 8, 2009

Dear Fellow Investors,

We're very pleased with the investing results we are reporting this quarter and we hope that you are too. The market gave us a nice tailwind, but we also managed to beat the S&P 500 Index by a substantial margin. This won't happen every quarter, and indeed this past quarter was a very unusual time in the market, with rampant pessimism and uncertainty giving way to a strong rally. But our performance in this particular quarter underscores our commitment to investing when stocks are cheap, believing that good companies are worth owning and that prices matter.

	Q2 2009	**2009 Year to Date**	**Annual Return Since Inception**
Midway Composite (net of fees)	20.77%	7.93%	-14.87%
S&P 500 Index	15.93%	3.16%	-26.23%
Difference	+4.84	+4.77	+11.36

Data reflect total returns (including dividends) net of fees as of 6/30/2009. Returns are unaudited. Your individual returns reported on your statements may vary from the composite depending on when you invested and upon any special instructions or restrictions applicable to your account. The composite return is the time-weighted return of all our accounts added together into one big pool. We believe it is the best indication of how the average client fared over the past quarter.

Milestones

The end of June marked the one year anniversary of Midway Capital. As we look back over where we've been we see a lot of choppy water under that bridge. It has not been an easy year to invest, let alone to start a new investment advisory firm! We happened to pick the worst market environment since the Great Depression. However, those very same challenges and headwinds gave us the opportunity to build a foundation of portfolios filled with exceptionally strong companies, every one of which has weathered the storms thus far. We think that is a milestone worth celebrating. And it would not have been possible without all of you, our clients and fellow investors. We are pleased that you have chosen to entrust your portfolios to Midway Capital during such challenging times and we look forward to many more years of successful investing together.

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Stock Focus

Because we began sending out our Security Reports this quarter, we won't duplicate them by discussing our recent purchases here, as we have in previous letters. We have had a very positive response to the Security Reports, so we will continue sending them to you whenever we buy a new holding. We feel it is very important that you, our fellow investors, understand your investments and share our rationale for making them. As always, we welcome your comments or suggestions for how they can serve you best.

This quarter we would like to mention some new developments with our existing holdings. The first is **Consolidated Tomoka (CTO)**. Real estate in Florida might seem like the last place we'd want to invest money, but we like the stock price and assets of Consolidated Tomoka, a firm based in Daytona, Florida. Tomoka owns 11,200 acres of undeveloped land in Daytona and 26 income-producing properties throughout the Southeast, the bulk of which are leased to Walgreens, CVS and Lowe's. We like the property in Florida because the supply of land in this growing state is limited. We love the fact that Tomoka has very little debt and can afford to wait for the best opportunity to sell or develop. Tomoka has $174 million in assets and a mere $11 million in debt so the odds of serious financial difficulty are low.

Our initial purchase of Tomoka stock was partially the result of our conclusion that Wintergreen, a mutual fund and 26% owner of Tomoka, would take actions to enhance the productivity of the firm's capital, probably via a management change. Wintergreen has been in negotiations with Tomoka management for at least the past year and has pursued extensive legal activity to gain access to Tomoka's books and records. It also placed several issues up for shareholder vote on this years' proxy.

The shareholder vote this year resulted in Wintergreen-approved directors gaining three of eleven board seats. Shareholders also voted in favor of three non-binding resolutions. These resolutions include limiting the number of directors to eleven, requiring that the chairman be independent of the company, and requiring annual elections for every member of the board of directors. Each of these resolutions would make it easier to effect a change in management or management behavior. The careful reader might suggest that three of eleven board seats and what amounts to three shareholder suggestions to current management amount to nothing. We would agree with that assertion in the near term, but Wintergreen has taken the first steps, at considerable time and expense, to change management and put Tomoka's assets to more productive use.

We are not completely disappointed with Tomoka's current management. It has guarded the firm's financial stability and precious asset of unleveraged land, which is more than many management teams have done in the past decade. However we agree with Wintergreen that Tomoka could create more value by developing its own land instead of selling the land for others to develop.

One of our newest holdings also had an eventful quarter. In late June, **Watson Wyatt Worldwide (WW)** announced that it is merging with Towers Perrin, a privately-held firm in the same industry but with slightly different lines of business. The merger doesn't change our view on Watson Wyatt (soon, Towers Watson) which will now become the largest benefits consulting outfit in the world. We think there are minor pros and cons to the deal – along with some cost savings come integration risk and concerns about talent drain over the next few years. But we continue to think the value of Towers Watson in its attractive consulting niche is being underestimated in the current severe recessionary environment.

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Why is Midway Capital different?

There are so many approaches to investing, but very few succeed. We are often asked what makes Midway Capital special. So on the occasion of our first anniversary, we would like to devote the rest of this letter to two of the key things that make Midway Capital different from other investment advisors.

Price vs. Value

You may notice that we never try to call the market. Even though we eat sleep and breathe investing every day, we don't know when the market or the economy will improve. We get peppered with these types of questions quite frequently. But we don't have any special insight into the markets and can't predict the direction of any macroeconomic variables any better than the legions of economists, who tend to be right about these things about 50% of the time.

What we can—and do—do each day, is to continuously learn about various businesses, monitor and assess the quality of these businesses, and derive a conservative valuation based on our appraisal of the long-term cash generating ability of each business we like. We are far more certain of our ability to understand the economics and valuation of a particular individual business, than we are the near-term trends of the economy at large. Said another way, what we do is price individual securities and then compare our estimates of value to the prices being offered by the general market. And when we find securities on sale, we judiciously consider adding these businesses to the portfolios we manage, always seeking to build portfolios that strike a balance between capital preservation and long-term growth.

We refer to this type of comparison as "price versus value". Right now the whole market is re-thinking value (and therefore, price) for many businesses which have been affected by the recession and the market decline. In effect, the market will pick through the rubble and find the strongest businesses who can adapt and pull away from the pack. We aim to get there first. We believe we already own many of these businesses and we are constantly sifting through the universe of securities to find more. If we can find the good values before the market prices them correctly – and there are plenty of opportunities with the market turmoil that prevails today – it won't matter if the overall economy grows at a paltry 1% or at a lofty 6% (anyone's guess), because the superior businesses will be gaining customers and market share, and thus growing at rates greater than the rate of growth of the overall economy.

Research – Done Right

There's an old saying that if you want something done right, you do it yourself. At Midway Capital, we feel that this maxim is just as true when it comes to investing. That is why we take pride in the proprietary research we perform, hand-picking only the best companies to invest in. This takes a lot of time. The vast majority of company filings we look at end up in the 'reject' pile. But when we find a gem, it is worth the effort.

Here's a peek at how the process works. We begin with a review of the company's financial statements and ask: How does this firm make money? Does it generate enough cash to fund existing operations and growth, or does it have to borrow to expand? Does the firm have excess cash or is it a net debtor? Is its revenue cyclical or does it grow under bad macroeconomic conditions as well as good? Is there a possibility of financial distress? (If the firm can't survive the short term, the long term doesn't matter)

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Next, we evaluate how a firm fits into its industry: Is it a market share leader? Is it more or less profitable than competitors? How strong is its brand and customer service vis-à-vis competitors? We look for companies that own their niche in the market and turn that into profits. (You've seen several recent examples of companies that meet our criteria of excellence in our Security Reports and we have highlighted others in our past letters.)

Then we listen to what the company's management has to say, though we take this with several grains of salt—after all, executives tend to have a vested interest promoting their own firms. More importantly, we look at what management has done. Actions speak much louder than words in this case. We want to determine whether the executives are reasonably competent and decent stewards of shareholders' capital. Sadly, few management teams make this cut.

When we find a gem, we make sure the price is right and offers us a nice margin of safety before we will consider it for our portfolios. Meanwhile, we are constantly evaluating our current holdings to see if we want to continue owning them and investigating new industries to find the next investment.

All this may seem like nothing particularly special. Don't all investors do extensive proprietary research before making their decisions? If only this were the case. Because this process is so labor-intensive and the yield is so low (only a few businesses make the cut), most investors rely on the judgment of outsiders. Even worse, investors are prone to confusing a stock's price with its value, usually a recipe for buying high and selling low. Because we do all our own work and trust our ability to value companies within a reasonable margin of error, we feel confident in buying companies regardless of what the market is doing or what the economists say. So you won't find us hanging on Ben Bernanke's every word or eagerly awaiting the next copy of the Beige Book. By sticking to what we know, we believe we can continue to deliver superior investment returns.

Yours,

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