ARIEL CAPITAL MANAGEMENT, LLC

New York City Deferred Compensation Plan

2nd Quarter 2006

The second quarter ending June 30, 2006 proved a schizophrenic one. The market gyrated between bullish and bearish sentiments with stocks advancing in April, dropping during most of May and early June, and then once again returning to an upward trajectory during the quarter's final two weeks. Not surprisingly, our strategy trailed the Russell 2000 Value Index through April's rise but then made up ground during the market's decline. However, when the rally unexpectedly regained its footing in the last half of June, risk was rewarded and our stocks were left behind. In the end, we were disappointed to have fallen short for the quarter as the New York City Deferred Compensation Plan's portfolio returned -6.62%, while the Russell 2000 Value Index dropped -2.70% and the Russell 2000 Index fell -5.02%.

During the quarter, the portfolio was positively impacted by our branded businesses. Notably, Energizer Holding, Inc.'s (NYSE: ENR) shares traded up +10.5% on robust earnings. Since Gillette was purchased by Procter & Gamble, the battery and shaver markets have become much more rational. This has allowed Energizer to raise prices to cover soaring zinc costs and should enable it to deliver solid earnings going forward. Another noted brand, J.M. Smucker Co.'s (NYSE: SJM) shares rose +13.4% on strong earnings aided by the company's ability to diminish the impact of rapidly rising commodity costs with its pricing power. Smucker's has delivered robust revenue growth and margin expansion. Additionally, management is confident the company is on target and will be able to achieve their goal of 10% earnings growth.

Whereas a number of our consumer brands performed well, other holdings had short-term setbacks that negatively impacted performance. HCC Insurance Holdings, Inc.'s (NYSE: HCC) shares declined -15.1%, along with the rest of the insurance industry, due to concerns over lower premiums and higher costs associated with anticipated hurricane activity this year. We believe these risks are overblown given HCC's disciplined strategy to underwrite only high-margin, low risk policies. This is evidenced by the fact that HCC had one of its best years in 2005, despite one of the worst hurricane seasons on record. Despite solid earnings, Janus Capital Group Inc.'s (NYSE: JNS) shares fell –22.6% on concerns that higher compensation expenses will erode margins and the profitability of the business. Additionally, the stock declined with the overall market. But the missing link in the Wall Street story is that higher compensation costs resulted from strong investment performance which triggered portfolio managers' restricted stock options to vest on an accelerated basis. As asset growth is highly tied to fund performance, these higher costs are a good sign for the business. Accordingly, we increased our position on the stock's weakness after discussions with management.

In our view, the stock market has not finished correcting and may, in fact, be in for a prolonged bear run. The current bull market has raced forward over 830 trading days without the S&P 500 Index having a 10% correction, the second longest stretch ever. Furthermore, corporate earnings face huge headwinds with rising interest rates making financing more expensive; soaring commodity prices eroding margins; and American consumers hurting from $3 a gallon gas at the same time variable rate mortgages are ratcheting upward. These factors do not bode well for the market. Nonetheless, we are confident in our portfolio's ability to weather this choppy market. We seek to invest in stocks with solid balance sheets with low debt loads and strong brands that give them the ability to raise prices to offset expensive raw material costs. As we typically purchase companies trading at 40% discounts to their intrinsic value, our holdings do not depend on favorable economic conditions and frenzied earnings growth to succeed. By concentrating on a longer horizon, we believe our patient approach allows us to take advantage of great buying opportunities that frequently arise from Wall Street's excessive focus on the short-term.

Top Ten Holdings	**% of Portfolio**
1. Jones Lang LaSalle Real estate services company	6.2%
2. Brady Corp. Manufacturer and distributor of niche industrial safety-related products	4.8%
3. Markel Corp. Specialty insurance provider	4.7%
4. HCC Insurance Holdings Global property and casualty insurance provider	4.3%
5. Energizer Holdings, Inc. Consumer battery manufacturer	4.1%
6. Anixter International Leading distributor of data communication products and electrical wire and cable	3.7%
7. Horace Mann Educators Multi-line insurance holding company	3.5%
8. IDEX Corp. Manufacturer of proprietary engineered industrial products	3.5%
9. Janus Capital Group Leading investment manager	3.3%
10. Greater Bay Bancorp. Financial holding company	3.1%
% of Portfolio in Top Ten	**41.2%**

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Portfolio Comings and Goings

During the quarter, we added two new positions to the portfolio: Career Education Corp. (NASDAQ: CECO) and Hewitt Associates, Inc. (NYSE: HEW). Career Education is the world's second-largest for-profit education provider and a leader in business, visual communications, fashion design, culinary and health studies. Hewitt is a global provider of human resource and consulting services to more than 18 million beneficiaries in 37 countries, which include over half of the companies in the S&P 500 Index. We exited our position in Libby Inc. (NYSE: LBY) on concerns over high debt levels as well as its recent rise from an improved 2007 forecast and the acquisition of the remaining 51% ownership of Vitrocrisa Holdings, a Mexican glassware manufacturer. Also, we sold out of our position in Sybron Dental Specialties, Inc. on the good news of its acquisition by Danaher Corp.

Small Cap Value Tax-Exempt Composite Performance as of June 30, 2006

				Annualized				
	One Month	Quarter	Year to Date	One Year	Three Years	Five Years	Ten Years	Since Inception
Ariel Small Cap Value Tax-Exempt Composite (Gross of Fees)	-2.78%	-6.81%	+1.78%	+1.22%	+14.13%	+10.85%	+14.89%	+15.43%
Ariel Small Cap Value Tax-Exempt Composite (Net of Fees)	-2.86%	-7.05%	+1.26%	+0.22%	+13.00%	+9.75%	+13.76%	+14.29%
Russell 2000 Value Index[1]	+1.23%	-2.70%	+10.44%	+14.61%	+21.01%	+13.09%	+13.26%	+12.99%
Russell 2000 Index[2]	+0.64%	-5.02%	+8.21%	+14.58%	+18.70%	+8.50%	+9.05%	+10.12%

[1] Composed of those securities in the Russell 2000 Index with a less-than-average growth orientation. This index has an average market capitalization of $900 million as of June 30, 2006 based on a dollar-weighting of all holdings.

[2] Composed of the bottom 2000 stocks in the Russell 3000 Index. This index has an average market capitalization of $920 million as of June 30, 2006 based on a dollar-weighting of all holdings.

Facts

Investment Style:	Small-cap value
Market Capitalization:	Primarily between $200 million and $2 billion at the time of initial investment
Product Inception:	9/30/83
Typical number of securities:	35-50

Portfolio Characteristics

Beta (Russell 3000 Index):	0.79
R2 (Russell 2000 Value Index):	0.83
Turnover:	18.5%
Number of Issues:	38
Average Mkt Cap: ($ weighted)	$2.0 billion

Sector	**New York City Deferred Compensation Plan**	**Russell 2000 Value Index**
Consumer Discretionary & Services	24.6	17.2
Financial Services	34.8	35.7
Producer Durables	16.1	6.2
Materials & Processing	11.5	9.5
Consumer Staples	3.0	2.7
Health Care	4.3	4.2
Technology	5.7	9.9
Utilities	0.0	6.7
Autos and Transportation	0.0	3.6
Other Energy	0.0	3.8
Other	0.0	0.2
Integrated Oils	0.0	0.1
TOTAL	100.0	100.0

Note: Product closed to new investors. Ariel Capital Management, LLC is a registered investment adviser with a historic specialty in small and mid-cap value investment management. Employing a purely bottom up approach, Ariel seeks to identify high quality companies that are currently undervalued but have demonstrated a potential for growth. Ariel Capital Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®). The Ariel Small Cap Value Tax-Exempt Composite focuses on earnings consistency and predictability, high quality management teams, and financial strength. The Ariel Small Cap Value Tax-Exempt Composite differs from its benchmarks with holdings concentrated in fewer sectors and historical performance that is less volatile in extreme upward/downward markets. As of June 30, 2006, assets in the Ariel Small Cap Value Tax-Exempt Composite were $3.8 billion, which represented 22.7% of the firm's total assets. Returns are calculated in U.S. dollars. The Composite has been examined for the periods from September 30, 1983 through December 31, 2005. A copy of the examination report is available upon request. **Past performance does not guarantee future results.** To obtain a complete list and description of Ariel Capital Management, LLC's composites and/or a presentation that adheres to the GIPS standards, please contact Krista Rivers at 800-725-0140, or write Ariel Capital Management, LLC, 200 East Randolph Drive, Suite 2900, Chicago, Illinois, 60601.

Investing in small companies is more risky and more volatile than investing in large companies. Portfolio holdings are subject to change. As of 6/30/06, Career Education Corp. (NASDAQ: CECO) comprised 2.0% of the portfolio, Hewitt Associates (NYSE: HEW) comprised 1.8%, Libbey (NYSE: LBY) comprised 0.0%, J.M. Smucker Co. (NYSE: SJM) comprised 2.2%, and Sybron Dental Specialties comprised 0.0%.