

# ***Semi-Annual Report 2006***

Tilson Focus Fund  
Tilson Dividend Fund  
*April 30, 2006*  
*(Unaudited)*

## Tilson Mutual Funds

This report and the financial statements contained herein are submitted for the general information of the shareholders of the Tilson Funds (the "Funds"). This report is not authorized for distribution to prospective investors in the Funds unless preceded or accompanied by an effective prospectus. Mutual fund shares are not deposits or obligations of, or guaranteed by, any depository institution. Shares are not insured by the FDIC, Federal Reserve Board or any other agency, and are subject to investment risks, including possible loss of principal amount invested. Neither the Funds nor the Funds' distributor is a bank.

Distributor: Capital Investment Group, Inc., 116 S. Franklin St. Rocky Mount, NC 27804, Phone 1-800-773-3863.



Investment in the Tilson Funds ("Funds") is subject to investment risks, including the possible loss of some or all of the principal amount invested. There can be no assurance that the Funds will be successful in meeting its investment objective. Generally, the Funds will be subject to the following additional risks: market risk, management style risk, sector focus risk, foreign securities risk, non-diversified fund risk, portfolio turnover risk, credit risk, interest rate risk, maturity risk, investment grade securities risk, junk bonds or lower-rated securities risk, derivative instruments risk, valuation risks for non-exchange traded options and real estate securities risk. More information about these risks and other risks can be found in the Funds' prospectus. When the Funds sell covered call options, the Funds give up additional appreciation in the stock above the strike price since there is the obligation to sell the stock at the covered call option's strike price.

*The performance information quoted in this semi-annual report represents past performance, which is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. The performance data reflects the maximum sales load and/or fee charges applicable. An investor may obtain performance data current to the most recent month-end by visiting [www.nottinghamco.com](http://www.nottinghamco.com).*

**An investor should consider the investment objectives, risks, and charges and expenses of the Funds carefully before investing. The prospectus contains this and other information about the Funds. A copy of the prospectus is available at [www.nottinghamco.com](http://www.nottinghamco.com) or by calling Shareholder Services at 1-888-4TILSON (1-888-484-5766). The prospectus should be read carefully before investing.**

Stated performance in the Funds was achieved at some or all points during the year by waiving or reimbursing part of the Funds' total expenses to ensure shareholders did not absorb expenses significantly greater than the industry norm.

*This Semi-Annual Report was first distributed to shareholders on or about June 29, 2006.*

**For More Information on Your Tilson Mutual Funds:**

See Our Web site @ [www.tilsonmutualfunds.com](http://www.tilsonmutualfunds.com)

or

Call Our Shareholder Services Group Toll-Free at **1-888-4TILSON, 1-888-484-5766**

## Fund Expenses

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As a shareholder of the Fund, you incur two types of costs: (1) transaction costs, which may include redemption fees for shares redeemed within one year and (2) ongoing costs, including management fees and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period as indicated below.

**Actual Expenses** – The first line of the table below provides information about the actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

**Hypothetical Example for Comparison Purposes** – The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed annual rate of return of 5% before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds by comparing this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as redemption fees for shares redeemed within one year. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

<b>Tilson Focus Fund Expense Example</b>	<b>Beginning Account Value November 1, 2005</b>	<b>Ending Account Value April 30, 2006</b>	<b>Expenses Paid During Period*</b>
Actual	\$1,000.00	\$1,108.10	\$10.19
Hypothetical (5% return before expenses)	\$1,000.00	\$1,015.12	\$9.74

  

<b>Tilson Dividend Fund Expense Example</b>	<b>Beginning Account Value November 1, 2005</b>	<b>Ending Account Value April 30, 2006</b>	<b>Expenses Paid During Period**</b>
Actual	\$1,000.00	\$1,133.70	\$10.32
Hypothetical (5% return before expenses)	\$1,000.00	\$1,015.12	\$9.74

\* Actual Expenses are based on expenses incurred in the most recent six-month period. The Fund’s annualized six-month expense ratio is 0.45% (exclusive of interest, taxes, brokerage fees and commissions, investment advisory and/or variable performance incentive fees paid to the Advisor, extraordinary expenses, and payments, if any, under a Rule 12b-1 Plan). As a result the Fund’s “Total Annual Fund Operating Expense” (excluding interest, taxes, brokerage fees and commissions, and extraordinary expenses) will be limited to 2.40% (assuming the maximum variable performance-based incentive fee of 1.95% as discussed in more detail in the footnotes) of the Fund’s average daily net assets. The values under “Expenses Paid During Period” are equal to the annualized expense ratio of 1.95% multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period (184 days), then divided by 365 (to reflect the number of days in the current fiscal period).

\*\* Expenses are equal to the Funds’ annualized expense ratio of 1.95% multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year divided by 365 (to reflect the semi-annual period).



# Tilson Focus Fund

## Schedule of Investments (Unaudited)

As of April 30, 2006

	<b>Market Value (Note 1)</b>
<b>Total Investments (Cost \$7,673,758) - 89.14%</b>	\$ 8,056,212
<b>Other Assets less Liabilities - 10.86%</b>	<u>981,612</u>
<b>Net Assets - 100.00%</b>	<u>\$ 9,037,824</u>

\* Non-income producing investment.

### Summary of Investments by Industry

<i>Industry</i>	<i>% of Net Assets</i>	<i>Market Value</i>
Auto Parts & Equipment	9.65%	\$ 872,460
Beverages	4.66%	420,722
Food	5.75%	519,500
Diversified Financial Services	0.09%	8,550
Healthcare and Equipment	0.67%	60,280
Holding Company - Diversified	4.78%	432,365
Home Furnishings	0.07%	6,140
Insurance	11.60%	1,047,960
Investment Company	2.59%	234,067
Medical	0.20%	18,500
Oil & Gas	0.81%	73,200
Real Estate Investment Trust	0.08%	7,491
Retail	41.54%	3,753,977
Software	6.65%	601,000
<b>Total</b>	<b>89.14%</b>	<b>\$ 8,056,212</b>

See Notes to Financial Statements

# Tilson Dividend Fund

## Schedule of Investments (Unaudited)

As of April 30, 2006

	Shares	Market Value (Note 1)		Shares	Market Value (Note 1)
<b>COMMON STOCKS - 82.93%</b>			<b>Semiconductors - 2.42%</b>		
<b>Auto Parts &amp; Equipment - 5.70%</b>			* Cypress Semiconductor Corp †		
Bandag, Incorporated	6,600	\$ 225,390		7,800	\$ 133,848
MileMarker International, Inc.	26,000	89,700	<b>Software - 8.66%</b>		
		<u>315,090</u>	* Intuit Inc. †		
<b>Biotechnology - 1.47%</b>			Microsoft Corporation		
* American Oriental Bioengineering, Inc.	17,200	81,012		8,600	270,850
<b>Diversified Financial Services - 1.09%</b>			Telecommunications - 6.09%		
Hennessy Advisors, Inc.	2,195	60,363	* Netgear, Inc. †		
<b>Electronics - 1.90%</b>			<b>Total Common Stocks (Cost \$4,145,374)</b>		
Mesa Laboratories, Inc.	7,200	105,120			<u>4,583,959</u>
<b>Food - 8.25%</b>			<b>LIMITED PURPOSE TRUST - 5.58%</b>		
μ Industrias Bachoco S.A.	8,600	177,160	α Sleep Country Canada		
μ Tesco PLC	15,700	278,675	Income Fund		
		<u>455,835</u>	<b>(Cost \$187,892)</b>		
<b>Healthcare - Services - 3.41%</b>					
* Laboratory Corporation of America Holdings †	3,300	188,430		12,600	308,210
<b>Insurance - 5.29%</b>			<b>INVESTMENT COMPANIES - 9.55%</b>		
Fidelity National Title Group, Inc.	13,500	292,410	Evergreen Institutional Money Market Fund		
<b>Internet - 5.04%</b>			Merrimac Cash Series		
* Netflix Inc. †	9,400	278,616		264,040	264,040
<b>Media - 2.69%</b>			Total Investment Companies (Cost \$528,081)		
Value Line, Inc.	3,600	148,500			528,081
<b>Mining - 4.75%</b>			<b>Total Investments (Cost \$4,861,347) - 98.06%</b>		
Newmont Mining Corporation †	4,500	262,620	<b>Other Assets less Liabilities - 1.94%</b>		
<b>Oil &amp; Gas - 15.02%</b>					
Exxon Mobil Corporation	5,500	346,940			\$ 5,420,250
Precision Drilling Trust	8,800	312,752	<b>Net Assets - 100.00%</b>		
* The Meridian Resource Corp. †	44,000	170,720	<u>\$ 5,527,227</u>		
		<u>830,412</u>			
<b>Retail - 11.15%</b>					
Ark Restaurants Corp.	5,600	169,848	* Non-income producing investment.		
Barnes & Noble, Inc.	3,200	144,256	μ ADR.		
Costco Wholesale Corporation †	3,500	190,505	α Canadian security.		
The Home Depot, Inc. †	2,800	111,804	† Portion of the security is pledged as collateral for call options written.		
		<u>616,413</u>			

The following acronyms and abbreviations are used in this portfolio:

ADR - American Depositary Receipt.  
PLC - Public Limited Company (British).  
SA - Sociedad Anónima (Mexican).

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# Tilson Funds

## Statements of Assets and Liabilities (Unaudited)

<i>As of April 30, 2006</i>	<i>Focus Fund</i>	<i>Dividend Fund</i>
<b>Assets:</b>		
Investments, at cost	\$ 7,673,758	\$ 4,861,347
Investments, at value ( <i>note 1</i> )	\$ 8,056,212	\$ 5,420,250
Cash	541	523,842
<b>Receivables:</b>		
Investments sold	969,009	6,818
Fund shares sold	25,375	-
Dividends	1,876	7,558
Prepaid expenses	32,307	27,569
<b>Due from affiliates:</b>		
Advisor ( <i>note 2</i> )	-	2,137
<b>Total Assets</b>	<b>9,085,320</b>	<b>5,988,174</b>
<b>Liabilities:</b>		
Call options written, at value (Premiums received \$156,025)	-	174,475
<b>Payables:</b>		
Investments purchased	-	250,074
Fund shares repurchased	15,984	28,961
Accrued expenses	7,306	7,437
<b>Due to affiliates:</b>		
Advisor ( <i>note 2</i> )	24,206	-
<b>Total Liabilities</b>	<b>47,496</b>	<b>460,947</b>
<b>Net Assets</b>	<b>\$ 9,037,824</b>	<b>\$ 5,527,227</b>
<b>Net Assets Consist of:</b>		
Capital (par value and paid in surplus)	\$ 8,477,779	\$ 4,871,567
Accumulated net realized (loss) gain on investments and foreign currency translations	(16,990)	970
Accumulated net realized gain on investments	194,581	114,224
Net unrealized appreciation on investments and translation of assets and liabilities in foreign currencies	382,454	540,466
<b>Total Net Assets</b>	<b>\$ 9,037,824</b>	<b>\$ 5,527,227</b>
Shares Outstanding, no par value (unlimited authorized shares)	838,762	472,358
<b>Net Asset Value, Maximum Offering Price and Redemption Price Per Share</b>	<b>\$ 10.78</b>	<b>\$ 11.70</b>

See Notes to Financial Statements

# Tilson Funds

## Statements of Operations (Unaudited)

	<i>Focus Fund</i>	<i>Dividend Fund</i>
<i>For the six month period ended April 30, 2006</i>		
Investment Income:		
Dividends <i>(net of foreign withholding tax of \$0 and \$2,338, respectively)</i>	\$ 59,136	\$ 45,597
<b>Total Income</b>	<b>59,136</b>	<b>45,597</b>
Expenses:		
Advisory fees <i>(note 2)</i>	55,472	34,336
Administration fees <i>(note 2)</i>	6,835	4,006
Transfer agent fees <i>(note 2)</i>	10,500	10,500
Registration and filing administration fees <i>(note 2)</i>	3,955	3,955
Fund accounting fees <i>(note 2)</i>	13,890	13,729
Compliance services fees <i>(note 2)</i>	3,875	3,875
Custody fees <i>(note 2)</i>	2,566	1,994
Other accounting fees <i>(note 2)</i>	5,165	7,994
Legal fees	6,866	6,943
Audit and tax preparation fees	6,586	6,695
Registration and filing expenses	4,591	3,001
Shareholder servicing expenses	2,480	1,289
Printing expenses	371	347
Trustees' fees and meeting expenses	3,471	3,472
Securities pricing fees	793	892
Other operating expenses	4,463	4,463
<b>Total Expenses</b>	<b>131,879</b>	<b>107,491</b>
Expenses reimbursed by Advisor <i>(note 2)</i>	(55,753)	(62,864)
<b>Net Expenses</b>	<b>76,126</b>	<b>44,627</b>
<b>Net Investment (Loss) Income</b>	<b>(16,990)</b>	<b>970</b>
Realized and Unrealized Gain from Investments and Foreign Currency:		
Net realized gain from:		
Investments	166,956	119,818
Options	30,715	16,380
Foreign currency transactions	-	4
Change in unrealized appreciation on investments and translation of assets and liabilities in foreign currencies	552,369	425,388
<b>Realized and Unrealized Gain on Investments</b>	<b>750,040</b>	<b>561,590</b>
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 733,050</b>	<b>\$ 562,560</b>

See Notes to Financial Statements

# Tilson Funds

## Statements of Changes in Net Assets

<i>For the six months and fiscal year ended</i>	<b>Focus Fund</b>	
	<i>April 30, 2006 (a)</i>	<i>October 31, 2005 (b)</i>
Operations:		
Net investment loss	\$ (16,990)	\$ (38,413)
Net realized gain from investment transactions	166,956	88,666
Net realized gain (loss) from options	30,715	(318)
Change in unrealized appreciation on investments	552,369	(169,915)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>733,050</b>	<b>(119,980)</b>
Distributions to Shareholders: <i>(note 5)</i>		
Net realized gain from investment transactions	(53,025)	-
<b>Decrease in Net Assets Resulting from Distributions</b>	<b>(53,025)</b>	<b>-</b>
Capital Share Transactions: <i>(note 6)</i>		
Shares sold	2,385,652	6,340,300
Redemption fees <i>(note 1)</i>	5,451	790
Reinvested dividends and distributions	50,767	-
Shares repurchased	(358,329)	(46,852)
<b>Increase from Capital Share Transactions</b>	<b>2,083,541</b>	<b>6,294,238</b>
<b>Net Increase in Net Assets</b>	<b>2,763,566</b>	<b>6,174,258</b>
Net Assets:		
Beginning of Period	6,274,258	100,000
<b>End of Period</b>	<b>\$ 9,037,824</b>	<b>\$ 6,274,258</b>
<b>Accumulated Net Investment Loss</b>	<b>\$ (16,990)</b>	<b>\$ -</b>

<i>For the six months and fiscal year ended</i>	<b>Dividend Fund</b>	
	<i>April 30, 2006 (a)</i>	<i>October 31, 2005 (b)</i>
Operations:		
Net investment income (loss)	\$ 970	\$ (2,269)
Net realized gain from investment transactions and foreign currency translations	119,822	16,589
Net realized gain (loss) from options	16,380	(38,504)
Change in unrealized appreciation on investments and translation of assets and liabilities in foreign currencies	425,388	115,078
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>562,560</b>	<b>90,894</b>
Capital Share Transactions: <i>(note 6)</i>		
Shares sold	1,201,690	3,794,414
Redemption fees <i>(note 1)</i>	1,216	81
Shares repurchased	(72,988)	(50,640)
<b>Increase from Capital Share Transactions</b>	<b>1,129,918</b>	<b>3,743,855</b>
<b>Net Increase in Net Assets</b>	<b>1,692,478</b>	<b>3,834,749</b>
Net Assets:		
Beginning of Period	3,834,749	-
<b>End of Period</b>	<b>\$ 5,527,227</b>	<b>\$ 3,834,749</b>
<b>Accumulated Net Investment Income</b>	<b>\$ 970</b>	<b>\$ -</b>

(a) Unaudited.

(b) For the period from March 16, 2005 (Date of Initial Public Investment) to October 31, 2005.

See Notes to Financial Statements

# Tilson Funds

## Financial Highlights

<i>For a share outstanding during the six months and fiscal year ended</i>	<b>Focus Fund</b>	
	<i>April 30, 2006 (a)</i>	<i>October 31, 2005 (b)</i>
Net Asset Value, Beginning of Period	\$ 9.79	\$ 10.00
Income from Investment Operations:		
Net investment loss	(0.02)	(0.06)
Net realized and unrealized gain (loss) on securities	1.09	(0.15)
<b>Total from Investment Operations</b>	<b>1.07</b>	<b>(0.21)</b>
Less Distributions and Other:		
Distributions (from capital gains)	(0.08)	-
Redemption fees	0.00 (c)	0.00 (c)
<b>Total Distributions and Other</b>	<b>(0.08)</b>	<b>0.00</b>
Net Asset Value, End of Period	\$ 10.78	\$ 9.79
<b>Total Return</b>	<b>10.81%</b>	<b>(2.10)%</b>
Net Assets, End of Period (in thousands)	\$ 9,038	\$ 6,274
Average Net Assets for the Period (in thousands)	\$ 7,876	\$ 4,558
Ratio of Gross Expenses to Average Net Assets	3.37% (d)	6.22% (d)
Ratio of Net Expenses to Average Net Assets	1.95% (d)	1.95% (d)
Ratio of Net Investment Loss to Average Net Assets	(0.44)% (d)	(1.33)% (d)
Portfolio Turnover Rate	37.34%	79.96%

<i>For a share outstanding during the six months and fiscal year ended</i>	<b>Dividend Fund</b>	
	<i>April 30, 2006 (a)</i>	<i>October 31, 2005 (b)</i>
Net Asset Value, Beginning of Period	\$ 10.32	\$ 10.00
Income from Investment Operations:		
Net investment income (loss)	-	(0.01)
Net realized and unrealized gain on securities and foreign currency translations	1.38	0.33
<b>Total from Investment Operations</b>	<b>1.38</b>	<b>0.32</b>
Less Distributions and Other:		
Redemption fees	0.00 (c)	0.00 (c)
<b>Total Distributions and Other</b>	<b>0.00</b>	<b>0.00</b>
Net Asset Value, End of Period	\$ 11.70	\$ 10.32
<b>Total Return</b>	<b>13.37%</b>	<b>3.20%</b>
Net Assets, End of Period (in thousands)	\$ 5,527	\$ 3,835
Average Net Assets for the Period (in thousands)	\$ 4,616	\$ 2,559
Ratio of Gross Expenses to Average Net Assets	4.70% (d)	9.52% (d)
Ratio of Net Expenses to Average Net Assets	1.95% (d)	1.95% (d)
Ratio of Net Investment Income (Loss) to Average Net Assets	0.04% (d)	(0.14)% (d)
Portfolio Turnover Rate	27.65%	31.13%

(a) Unaudited.

(b) For the period from March 16, 2005 (Date of Initial Public Investment) to October 31, 2005.

(c) Redemption fees aggregated less than \$.01 on a per share basis.

(d) Annualized.

See Notes to Financial Statements

# Tilson Funds

## Notes to Financial Statements (Unaudited)

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### 1. Organization and Significant Accounting Policies

The Tilson Focus Fund and the Tilson Dividend Fund (collectively the "Funds" and individually a "Fund") are series funds. The Funds are part of the Tilson Investment Trust (the "Trust"), which was organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940 (the "1940 Act"), as amended, as an open-ended management investment company. Each of the Funds in this report are classified as a "non-diversified" company as defined in the 1940 Act.

The Tilson Focus Fund (the "Focus Fund") commenced operations on March 16, 2005. The investment objective of the Fund is to seek long-term capital appreciation through investment in equity securities of companies that the Advisor believes are undervalued in the securities market.

The Tilson Dividend Fund (the "Dividend Fund") commenced operations on March 16, 2005. The investment objective of the Fund is to seek maximum total return through a combination of capital appreciation and current income. The Fund invests in common stocks of companies that the Advisors believe to be undervalued in their respective markets, but which also offer high dividend yields relative to the average yields of the broad market.

The following accounting policies have been consistently followed by the Funds and are in conformity with accounting principles generally accepted in the United States of America in the investment company industry.

#### *Investment Valuation*

The Funds' investments in securities are carried at value. Securities listed on an exchange or quoted on a national market system are valued at the last sales price as of 4:00 p.m. Eastern Time. Securities traded in the NASDAQ over-the-counter market are generally valued at the NASDAQ Official Closing Price. Other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the most recent bid price. Securities and assets for which representative market quotations are not readily available (e.g., if the exchange on which the portfolio security is principally traded closes early or if trading of the particular portfolio security is halted during the day and does not resume prior to the Funds' net asset value calculation) or which cannot be accurately valued using the Funds' normal pricing procedures are valued at fair value as determined in good faith under policies approved by the Trustees. A portfolio security's

"fair value" price may differ from the price next available for that portfolio security using the Funds' normal pricing procedures. Instruments with maturities of 60 days or less are valued at amortized cost, which approximates market value.

#### *Foreign Currency Translation*

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities and income items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date.

The Funds do not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes, and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

#### *Investment Transactions and Investment Income*

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Trust is informed of the dividend if such information is obtained subsequent to the ex-dividend date. Interest income is recorded on the accrual basis and includes amortization of discounts and premiums. Gains and losses are determined on the identified cost basis, which is the same basis used for federal income tax purposes.

#### *Option Writing*

When the Funds write an option, an amount equal to the premium received by the Funds is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Funds on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also

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# Tilson Funds

## Notes to Financial Statements (Unaudited)

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treated as a realized gain or loss (depending on if the premium is less than the amount paid for the closing purchase transaction). If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Funds have realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Funds. The Funds, as the writer of an option, bear the market risk of an unfavorable change in the price of the security underlying the written option.

### *Expenses*

The Funds bear expenses incurred specifically on its behalf as well as a portion of general Trust expenses, which are allocated according to methods approved annually by the Trustees.

### *Dividend Distributions*

The Funds may declare and distribute dividends from net investment income (if any) at the end of each calendar quarter. Distributions from capital gains (if any) are generally declared and distributed annually.

### *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amount of assets, liabilities, expenses and revenues reported in the financial statements. Actual results could differ from those estimates.

### *Fees on Redemptions*

The Funds charge a redemption fee of 2.00% (the "Redemption Fee") of the amount redeemed on redemptions of the Funds' shares occurring within one year following the issuance of such shares. The Redemption Fee is not a fee to finance sales or sales promotion expenses, but is paid to the Funds to defray the costs of liquidating an investor and to discourage short-term trading of the Funds' shares. No Redemption Fee will be imposed on the redemption of shares representing dividends or capital gains distributions, or on amounts representing capital appreciation of shares. The redemption fees returned for this period are \$5,451 and \$1,216 for the Focus Fund and Dividend Fund, respectively.

### *Federal Income Taxes*

No provision for income taxes is included in the accompanying financial statements, as the Funds intend to distribute to shareholders all taxable investment income and realized gains and otherwise comply with

Subchapter M of the Internal Revenue Code applicable to regulated investment companies.

### *Indemnifications*

Under the Trust organizational documents, its officers and Trustees are indemnified against certain liabilities arising out of the performance of their duties to the Funds. In addition, in the normal course of business, the Trust entered into contracts with its vendors and others on behalf of the Funds that provide for general indemnifications. The Funds' maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Funds. The Funds expect that risk of loss to be remote.

## **2. Transactions with Affiliates**

### *Advisor (Both Funds)*

The Funds pay a monthly advisory fee to T2 Partners Management L.P. (the "Advisor") based upon the average daily net assets of each Fund. The Advisor has entered into contractual agreements ("Expense Limitation Agreement") with the Funds under which it has agreed to reduce the amount of the investment advisory fee to be paid to the Advisor by the Funds for certain months and to assume other expenses of each of the Funds, if necessary, in an amount that limits the Funds' total operating expenses (exclusive of interest, taxes, brokerage fees and commissions, investment advisory and/or variable performance incentive fees paid to the Advisor, extraordinary expenses, and payments, if any, under a Rule 12b-1 Plan) to not more than a specified percentage of the average daily assets of each Fund for the current fiscal year. There can be no assurance the Expense Limitation Agreement will continue in the future. The Advisor will not be able to recoup any fees waived or reimbursed to meet the Expense Limitation for both the Focus Fund and the Dividend Fund during previous periods. The expense limitation percentages for the period ended April 30, 2006 were 0.45% for each fund. The expenses reimbursed during this period are \$55,753 and \$62,864 for the Focus Fund and Dividend Fund, respectively.

### *Advisor (Focus Fund)*

As full compensation for investment advisory services, the Advisor receives monthly compensation in the form of a Variable Advisory Fee. The fee is comprised of two component fees: (i) a fixed rate of 1.50% of the average daily net assets of the Focus Fund ("Fulcrum Fee") and (ii) a performance incentive fee ("Performance Fee").

The Fulcrum Fee is calculated by multiplying 1.50% by the average net assets of the Focus Fund for the fiscal

*(Continued)*

# Tilson Funds

## Notes to Financial Statements (Unaudited)

year to date divided by the number of days in the year multiplied by the number of days in the calendar month. The Performance Fee is calculated by multiplying the "Performance Adjustment Rate" (as described below) by the average daily net assets of the Focus Fund over the Measuring Period. While the Performance Fee is calculated on the 12-month Measuring Period, it is prorated to a monthly payment to correspond with the Focus Fund's monthly payment of the Variable Advisory Fee.

The Performance Adjustment Rate will vary with the Focus Fund's performance as compared to the performance of the Wilshire 5000 Index as published on the close of the market on the last day of the Measuring Period, with dividends reinvested, and will range from -0.45% to +0.45%. The Performance Adjustment Rate will be calculated at 4.50% of the cumulative difference between the performance of the Focus Fund and that of the Wilshire 5000 Index over the Measuring Period, except that no performance adjustment will be paid if the cumulative difference between the Focus Fund's performance and that of the Wilshire 5000 index is +/- 2.00%. The factor of 4.50% is derived from the fact that the Advisor will achieve the maximum / minimum Performance Adjustment Rate when the cumulative total return difference between the Focus Fund and the Wilshire 5000 Index is +/- 10.00% over the Measuring Period (i.e., 0.45% divided by 10.00%=4.50%). During the first full twelve calendar months following the effective date of the Trust's registration statement, the Advisor is entitled to receive only the Fulcrum Fee.

### Advisor (Dividend Fund)

As full compensation for the investment advisory services provided to the Dividend Fund, the Advisor receives monthly compensation based on the Dividend Fund's average daily net assets at the annual rate of 1.50%.

### Sub-Advisor (Dividend Fund)

The Dividend Fund's sub-advisor is Centaur Capital Partners, L.P., ("Sub-Advisor"). The Sub-Advisor serves in that capacity pursuant to an investment sub-advisory contract with the Advisor as approved by the Trustees. The Sub-Advisor, with oversight from the Advisor, makes day-to-day investment decisions for the Dividend Fund and selects broker-dealers for executing portfolio transactions, subject to the brokerage policies established by the Trustees.

For its sub-advisory services to the Dividend Fund, the Sub-Advisor receives from the Advisor quarterly compensation based on the Dividend Fund's average daily net assets at the rate of 0.75% less certain of the Advisor's marketing and operating expenses, as agreed to between the Advisor and Sub-Advisor. The Sub-Advisor has also agreed to allow the Advisor to withhold from that compensation up to one-half of the Advisor's expenses under the Expense Limitation Agreement as it relates to the Dividend Fund. The Dividend Fund does not pay a direct fee to the Sub-Advisor.

### Administrator

The Funds pay a monthly administration fee to The Nottingham Company (the "Administrator") based upon the average daily net assets of each Fund and calculated at the annual rates as shown in the following schedule which is subject to a minimum of \$2,000 per month per Fund. The Administrator also receives a fee to procure and pay the custodian for the Funds, additional compensation for fund accounting and recordkeeping services, and additional compensation for certain costs involved with the daily valuation of securities and as reimbursement for out-of-pocket expenses. A breakdown of these fees is provided in the schedule below.

	Administration Fees*		Custody fees*		Fund Accounting Fees (monthly)	Fund Accounting Fees (on all assets)	Blue Sky Administration Fees (annual)
	Average Net Assets	Annual Rate	Average Net Assets	Annual Rate			
All Funds	First \$50 million	0.175%	First \$100 million	0.020%	\$2,250	0.01%	\$150 per state
	Next \$50 million	0.150%	Over \$100 million	0.009%			
	Next \$50 million	0.125%					
	Next \$50 million	0.100%					
	Over \$200 million	0.075%					

\*Minimum monthly fees of \$2,000 and \$400 for Administration and Custody, respectively.

(Continued)

# Tilson Funds

## Notes to Financial Statements (Unaudited)

### *Compliance Services*

Nottingham Compliance Services, LLC, a wholly owned affiliate of The Nottingham Company, provides services which assists the Trust's Chief Compliance Officer in monitoring and testing the compliance policies and procedures of the Trust in conjunction with requirements under Rule 38a-1 of the Securities and Exchange Commission. It receives compensation for this service at an annual rate of \$7,750 per fund.

### *Transfer Agent*

North Carolina Shareholder Services, LLC ("Transfer Agent") serves as transfer, dividend paying, and shareholder servicing agent for the Funds. It receives compensation for its services based upon \$15 per shareholder per year, subject to a minimum fee of \$1,750 per month.

Certain Trustees and officers of the Trust are also officers of the Advisor, the Distributor or the Administrator.

### 3. Purchases and Sales of Investment Securities

For the period ended April 30, 2006, the aggregate cost of purchases and proceeds from sales of investment securities (excluding short-term securities) were as follows:

<i>Fund</i>	<i>Purchases of Securities</i>	<i>Proceeds from Sales of Securities</i>
Focus Fund	\$4,196,913	\$2,527,337
Dividend Fund	\$1,869,690	\$1,031,091

There were no purchases or sales of long-term U.S. Government Obligations during the period ended April 30, 2006.

### 4. Options Written

As of April 30, 2006, portfolio securities valued at \$1,589,032 were held in escrow by the custodian to cover call options written by the Dividend Fund.

### *Option Contracts Written for the Period from November 1, 2005 to April 30, 2006 (Dividend Fund only).*

	<i>Number of Contracts</i>	<i>Premiums Received</i>
Options Outstanding, Beginning of Period	475	\$ 60,551
Options written	1,357	223,052
Options closed	(1,005)	(127,578)
Options exercised	-	-
Options expired	-	-
Options Outstanding, End of Period	827	\$156,025

### 5. Federal Income Tax

The tax components of capital shown in the following tables represent: (1) tax components of capital, (2) losses or deductions the Fund may be able to offset against income and gains realized in future years, and (3) unrealized appreciation or depreciation of investments for federal income tax purposes as of October 31, 2005.

<i>Funds</i>	<i>Undistributed Ordinary Income</i>	<i>Capital Loss Carry-Forwards</i>	<i>Net Tax Appreciation/ (Depreciation)</i>
Focus Fund	\$52,056	\$0	(\$172,036)
Dividend Fund	\$0	(\$21,978)	\$115,078

(Continued)

# Tilson Funds

## Notes to Financial Statements (Unaudited)

Accumulated capital losses noted below represent net capital loss carry-forwards, as of October 31, 2005, that may be available to offset realized capital gains and thereby reduce future taxable gains distributions. The following table shows the expiration dates of the carryovers.

<i>Capital Loss Carry-forward Expiration Schedule</i>	
<i>For the period ended October 31, 2005</i>	
<i>Fund</i>	<i>October 31, 2013</i>
Focus Fund	\$0
Dividend Fund	\$21,978

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investment securities for federal income tax purposes as of April 30, 2006, are shown in table below.

<i>Fund</i>	<i>Federal Tax Cost</i>	<i>Aggregate Gross Unrealized Appreciation</i>	<i>Depreciation</i>
Focus Fund	\$7,673,758	\$628,126	(\$245,672)
Dividend Fund	\$4,705,322	\$645,913	(\$105,460)

The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations which may differ from generally accepted accounting principles. These differences are due to differing treatments for items such as net short-term gains, deferral of wash sale losses, foreign currency transactions, net investment losses and capital loss carry-forwards. Permanent differences such as tax returns of capital and net investment losses, if any, would be reclassified against capital. For the period ended April 30, 2006, there was a short-term capital gain distribution in the amount of \$53,025 in the Focus Fund. There were no dividends or distributions of net investment income or net realized gains paid by Dividend Fund during the period ending April 30, 2006. There were no dividends or distributions of net investment income or net realized gains paid by either Fund during the period ending October 31, 2005.

### 6. Capital Share Transactions

	<i>Focus Fund</i>		<i>Dividend Fund</i>	
	<i>April 30, 2006</i>	<i>October 31, 2005*</i>	<i>April 30, 2006</i>	<i>October 31, 2005*</i>
<i>For the period and fiscal year ended:</i>				
Transactions in Fund Shares				
Shares sold	227,114	635,904	107,112	376,648
Reinvested distributions	4,803	-	-	-
Shares repurchased	(34,264)	(4,795)	(6,383)	(5,019)
Net Increase in Capital Share Transactions	197,653	631,109	100,729	371,629
Shares Outstanding, Beginning of Period	641,109	10,000	371,629	-
Shares Outstanding, End of Period	838,762	641,109	472,358	371,629

\* Audited.

# Tilson Funds

## Additional Information (Unaudited)

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### 1. Proxy Voting Policies and Voting Record

A copy of the Trust's Proxy Voting and Disclosure Policy and the Advisor's Proxy Voting and Disclosure Policy are included as Appendix B to the Funds' Statement of Additional Information and is available, without charge, upon request, by calling 1-888-4TILSON, 1-888-484-5766. Information regarding how the Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) without charge, upon request, by calling the Funds at the number above and (2) on the SEC's website at <http://www.sec.gov>.

### 2. Quarterly Portfolio Holdings

The Funds file their complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Funds' Forms N-Q are available on the SEC's website at <http://www.sec.gov>. You may review and make copies at the SEC's Public Reference Room in Washington, D.C. You may also obtain copies after paying a duplicating fee by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102 or by electronic request to [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or is available without charge, upon request, by calling the Fund at 1-888-4TILSON, 1-888-484-5766. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 202-942-8090.

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**The Tilson Mutual  
Funds are a series of the  
Tilson Investment Trust**

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**Tilson Mutual Funds**