Van Dien Asset Management LLC
Mid-Year Update

Review and Outlook

With the S&P 500 at 1030.56, and having traded off 15% since the European sovereign debt issues resurfaced with a bang in mid-April, we believe that the markets have begun to discount a double-dip recession. Our take is that although European austerity programs and some recent tightening measures enacted in China will certainly provide some global growth headwinds, a double-dip into negative growth territory appears highly unlikely at this stage. We acknowledge that recent U.S. economic data have shown a noticeable loss in recovery momentum and added some fuel to the bearish camp. However, even assuming dramatic 2010 S&P 500 earnings estimate cuts to the $80 level (supported by 2010E GDP growth of 2.7%, anemic at this stage of the recovery), the market P/E would still be less than 13x, more than reasonable and well below long-term averages. We believe that 2Q earnings results will support a slow-growth economic recovery scenario, and expect equity multiples to gradually expand as disinflation and double-dip concerns diminish.

During June, the two most important U.S. economic data points, jobs and housing, came in below expectations. The results were heavily skewed by the federal government's temporary hiring of census workers and the expiration of the first-time home-buyer tax credit at the end of April, which clearly pulled some demand forward. Beneath the surface of the disappointing jobs release, however, we saw that temporary staffing employment, widely considered a leading indicator for the broader labor market, continued to increase on a sequential basis. Also, layoff announcements remained near historic lows and online job postings continued to rise. All of these are consistent with an economic recovery that remains on track. In regard to housing, the market's recent de-risking ("flight to safety") has expectedly led to substantial interest rate declines. One should anticipate that the corresponding decline in mortgage rates will spur incremental refinancing activity and lead to a pick-up in purchase activity over the coming months.

Focusing on the state and municipal budget deficit crisis, we note that many states have acted quickly by cutting pension benefits for future employees, although protracted battles with unions still loom. As for consumer spending, roughly two-thirds of economic activity, we note that the 20% decline in crude oil prices since April should give the consumer an important psychological lift as it translates into lower gasoline prices during the heavy summer driving season. In fact, Goldman Sachs estimates that a $10/barrel drop in crude oil prices could save U.S. households $20 billion in annual energy costs. If these oil prices hold or decline further, it will free up substantial cash for further household deleveraging and increases in discretionary spending.

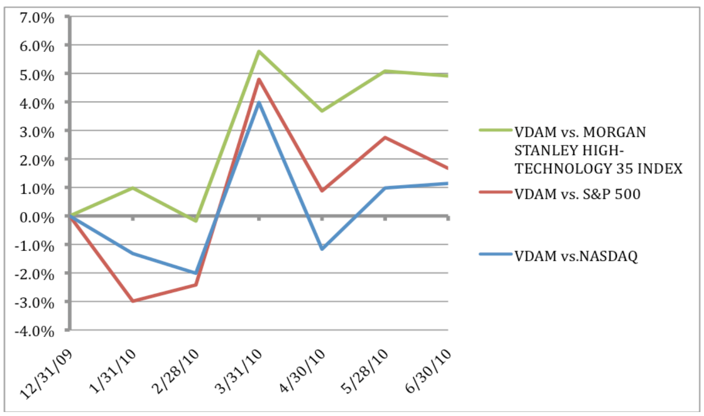
Finally, we'd like to wrap up with a few more market positives. The likely legislative passage of new financial regulations and the public release of European bank stress test results should result in less uncertainty, a positive for the markets. Assuming neither proves too onerous, investors should applaud the removal of this overhang and banks will be freer to lend once they understand the rules of the road and where they stand. Also, China's apparent willingness to let its currency rise over time should help relieve any building trade tensions in the near-term and stimulate additional export activity for U.S. manufacturers.

Lastly, as we have noted on many of our podcasts, cash levels for Corporate America continue to grow to record highs. In fact, the Federal Reserve recently reported that non-financial companies have accumulated $1.84 trillion in cash and other liquid assets, up 26% from prior year levels. This represents the largest-ever annual increase and the absolute highest level on record. Eventually, and more likely sooner rather than later, we think companies will put this money to work through increases in capital expenditures, dividend hikes, share buybacks, and acquisitions. In addition to the Fed's estimate lies another $500 million of uncommitted capital at private equity firms. This private equity capital needs to be put to work within the near-to-intermediate term or returned to investors. In either case, we see this cash buildup as an important support *and* catalyst for the markets during the next few years.

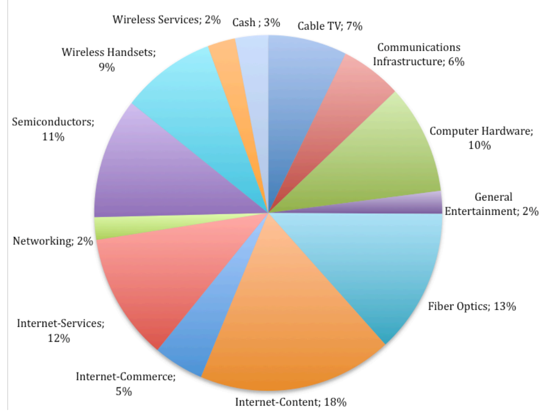
Performance

Our portfolio was down 5.91% during the first half of 2010, a disappointing result but clearly better than the NASDAQ Composite and S&P 500 which were down 7.05% and 7.58%, respectively, during the same time period. Our portfolio also outperformed the Morgan Stanley High Technology 35 Index (and its associated ETF), which declined over 9% during the first six months of 2010. Our largest positive contributors to the portfolio were Shutterfly (SFLY), Apple (AAPL), Time Warner Cable (TWC), Scripps Networks (SNI), and Polycom (PLCM). Mindspeed Technologies (MSPD) and Skyworks Solutions (SWKS) also made significant positive contributions. The three equities that detracted the most from our first half performance were Nokia (NOK), QUALCOMM (QCOM), and Google (GOOG).

2010 YTD Relative Performance of VDAM Portfolio versus major comparable indices



Industry Diversification Within Portfolio



Revisiting Time Warner Cable (TWC)

In our May podcast we highlighted Time Warner Cable as being particularly attractive at the $50 level. Our enthusiasm was based on what we perceived as an attractive buying opportunity created by investors overreacting to the FCC's overture of possible Title II reclassification, a regulatory initiative that would effectively govern cable's broadband pipe. Of course, first and foremost, we have had a bullish 12-month outlook based on fundamental research underpinning our ownership of TWC stock as well. Our buy recommendation on TWC is based upon:

(1) improving duopoly economics as Verizon increasingly focuses on FiOS margins
(2) falling capital intensity and improving free cash flow
(3) a defined and expanding program for returning cash to shareholders, and
(4) compelling valuation at 5.2x EV/EBITDA for the only major cable equity that lacks acquisition anxiety (Comcast – NBCU merger, Cablevision – what will the Dolans do next?).

Since that May 8th podcast, TWC has been one of our best performing equities, up 5.3% in a market that has fallen roughly 7% since then. Now clearly, Time Warner Cable's all-US business focus has benefited from the market's concerns about Europe and corporate exposure to that region. However, I'd also like to highlight two extraordinary announcements that took place during the market's turbulent month of June.

First, on June 1, Mediacom (MCCC), the nation's eighth largest cable operator announced that its Board of Directors had received a "go private" bid from the company's Chairman and CEO, Rocco Commisso. The bid represents a valuation multiple of 6.8x 2010E EV/EBITDA, a significant premium to where the larger and better positioned publicly traded cable companies (Comcast, TWC, and Cablevision) currently trade. We'd note that Mr. Commisso's offer, having been released several weeks after the FCC's initiative, would suggest that this cable insider isn't particularly concerned about this latest regulatory scare.

Second, on Monday June 14th Cablevision announced that it would acquire Bresnan Communications, which is majority-owned by Providence Equity Partners, for $1.365 billion. This deal is interesting along two lines: First, Bresnan operates largely in Colorado, Wyoming, Utah and Montana, a noncontiguous region that offers no apparent geographic synergies with Cablevision's NY/NJ footprint. Second, the valuation -- which we peg at roughly $4,550 per subscriber -- is a significant premium to the ~$3,000 per sub that the publicly traded bellwethers, TWC and Comcast, were trading. The fact that cable insiders continue to deem public valuations too low to ignore says volumes about cable's long-term opportunity *and* the potential impact of any broadband regulation, in our opinion. We expect TWC shares to continue to trade higher over the coming 6-12 months.

TWC Performance versus CMCSA, NASDAQ Composite, and S&P 500 (5/7/10 – 6/30/10)

Closing

At Van Dien Asset Management LLC we continue to focus on our core expertise -- technology, media, and telecom equity investing. There will be times when market sentiment overcomes fundamental research. That said, we believe that our experience, our tireless research efforts, and our access to the industry's best and most timely information, enhances our ability to make intelligent investment decisions. Only after utilizing these tools can one expect to outperform their benchmarks over a reasonable time period. Finally, we'd like to highlight an article written about us on the Ridgewood Patch, entitled *From Wall Street to Van Dien Avenue*.
http://ridgewood.patch.com/articles/from-wall-street-to-van-dien-avenue
Please take a look, peruse our website, listen to our podcasts, and consider us for your equity investing needs.

Thank you,

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