VAN DIEN ASSET MANAGEMENT LLC

January 2011 Update

During the last four months of 2010, the NASDAQ Composite and the S&P 500 indexes delivered returns of 25.5% and 19.8%, respectively. These are substantial gains, for sure. Increasing evidence of a sustainable economic recovery, strong corporate profit growth, near-term containment of the European sovereign debt crisis, further Fed stimulus (QE2), and a bipartisan tax agreement, fueled the gains. And, although we expect another solid year of equity returns in 2011, we can't help but feel that some degree of complacency has crept into the market. The recent advances, although warranted in our judgment, appear to have put some serious issues into the background of investors' minds. These include: structurally high domestic unemployment, unsustainable budget deficits, early signs of possible inflation pressures, and the ongoing sovereign debt issues in Europe. We expect these issues to regain mindshare from time-to-time, and as always, we will be monitoring the information flow and actively managing our positions accordingly.

However, barring something cataclysmic, we do see continued economic expansion, reasonable equity valuations, high cash levels, and limited appeal to alternative investment categories (particularly fixed income and real estate) overpowering these concerns. We estimate the S&P 500's operating earnings at roughly $94.00 in 2011, making the market multiple a reasonable 14x (with S&P currently hovering a little below 1300). Also, historically speaking, the third year of a Presidential term has proven to be superior on average to that in other years. In the context of this historical data, we believe that President Obama's recent shift to the center will be the key element that helps the equity markets in 2011.

2010 Performance

We are pleased to announce that our composite of individual accounts returned an average of 19.32% during 2010, outperforming all three of our benchmarks. For comparison purposes, the S&P 500 produced a total return of 15.06%, the NASDAQ Composite returned 16.91% and the Morgan Stanley High Tech 35 Index delivered a 14.89% return for 2010. We attribute our outperformance largely to stock selection as opposed to market timing.

Smartphones and Tablets

The Consumer Electronics Show (CES), held the first week of January each year in Las Vegas, has again drawn tremendous investor interest. This year attendance grew roughly 8% to an estimated 130,000. We continue to closely monitor developments within the smartphone and tablet computing arenas, two categories that saw significant product introductions at the convention. We are heavily invested in the space given our conviction that we are in the very early innings of what will prove to be large and rapidly growing addressable markets. Clearly Apple has the early lead, having set the standard and continues to raise the bar with constant iPhone and iPad innovations. However, Android-based smartphones have recently surpassed the iPhone in market share, demonstrating that carriers and consumers demand choice. We believe that Google, which gives away the Android mobile operating system for free, will eventually benefit from dominating mobile search and mobile advertising as it does in the wired internet world.

Additionally, we believe that investors have prematurely cast aside Research In Motion (RIMM) and Nokia as potential competitors to the Apple and Android ecosystems. In our mind, the smartphone and tablet (wireless internet devices) value proposition is so great that demand should support several major players if they can execute properly. The flip side of our bullish smartphone/tablet thesis is that we maintain a negative bias toward PC-related equity plays. We believe the personal computer ecosystem will lose share of the IT wallet (both from an enterprise and consumer spend perspective), and ultimately be cannibalized by the smartphone and tablet tidal waves. Below we offer some interesting data points from the last six weeks regarding the utility and development of smartphones, and how their growth is impacting various companies in disparate industries.

(1) On December 14^{th}, Best Buy reported disappointing sales and earnings and saw their shares fall 15% that day. Management actually cited the utility of smartphones as pressuring sales and margins. It seems more and more consumers, armed with smartphones and price comparison apps, are researching and negotiating best available prices while in the retail store.

(2) On January 10^{th} the Board of Directors of Advanced Micro Devices announced the ousting of CEO Dirk Meyer. This caught many investment analysts off guard, as the company appeared to be recovering from a long slumber (shares were up over 50% since September 1). However, pressed for its rationale, the Board noted frustration with Mr. Meyer's decisions to cede many mobile market opportunities to other players. We found the timing of the decision interesting as it came on the heels of CES, where competitor Nvidia stole the show with countless tablet and smartphone design wins for its new Tegra 2 chipset. Nvidia shares climbed over 30% that week.

(3) Corning, which reported stronger than expected results and encouraging guidance on January 25th, saw its shares trade up over 12% in the three days following its report. Within the report and management commentary was additional evidence that Gorilla Glass, the company's break and scratch resistant glass, is the next big thing for Corning. CFO Jim Flaws noted that Gorilla Glass has now been used in roughly 200 million mobile devices, having been designed into 350 different products for 29 major brands. This is up from 240 products at the end of September. Corning has noted that Gorilla Glass could be a $1 Billion business in 2011.

Our research and analysis, of course, is not confined to the mobile computing space. We strive to stay informed and in front of all major trends and investment themes within technology, media and telecom. Some other trends (or "issues") that we continue to monitor are cord cutting (aka "over the top" video), the "Do Not Track" initiative, the connected home, cloud computing, the next generation data center, and net neutrality. We continue to meet with company managements having recently attended the JP Morgan Small and Midcap (SMID) Conference, the UBS Media & Communications Conference, and the Needham Growth Conference. Lastly, in an effort to underscore the value of fundamental research and active portfolio management, we leave you with two more interesting data points:

(1) Yes, the competitive landscape and company fundamentals can shift rapidly. We were struck that while Facebook was busy negotiating a $500 million investment from Goldman Sachs, MySpace, once the leading social networking site and purchased by News Corp. for $580 million in 2005, quietly announced that it would be laying off more than 500 people, or nearly half its staff. These two events were announced during the same week!

(2) Cisco Systems (CSCO--$20.93) warned of slowing growth during its August quarterly conference call. The stock came roaring back as investors piled into this tech bellwether and Dow 30 component. Unfortunately, CEO John Chambers reiterated management's slowing growth during its November quarterly call as well, noting Cisco's exposure to the government sector where budget constraints are very real. CSCO shares quickly retreated more than 20% and ended the year as one of the worst Dow performers, down 15.5%. We can't help but feel that some basic fundamental research would have guided investors elsewhere.

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