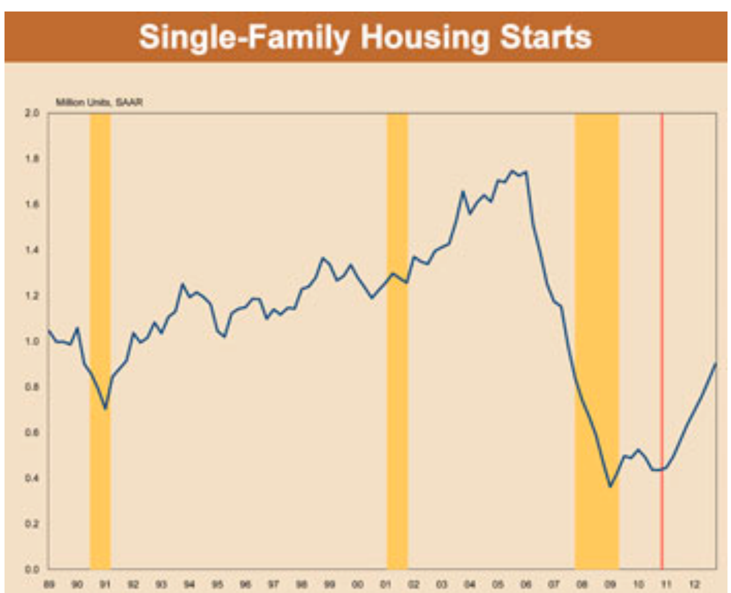
VAN DIEN ASSET MANAGEMENT LLC

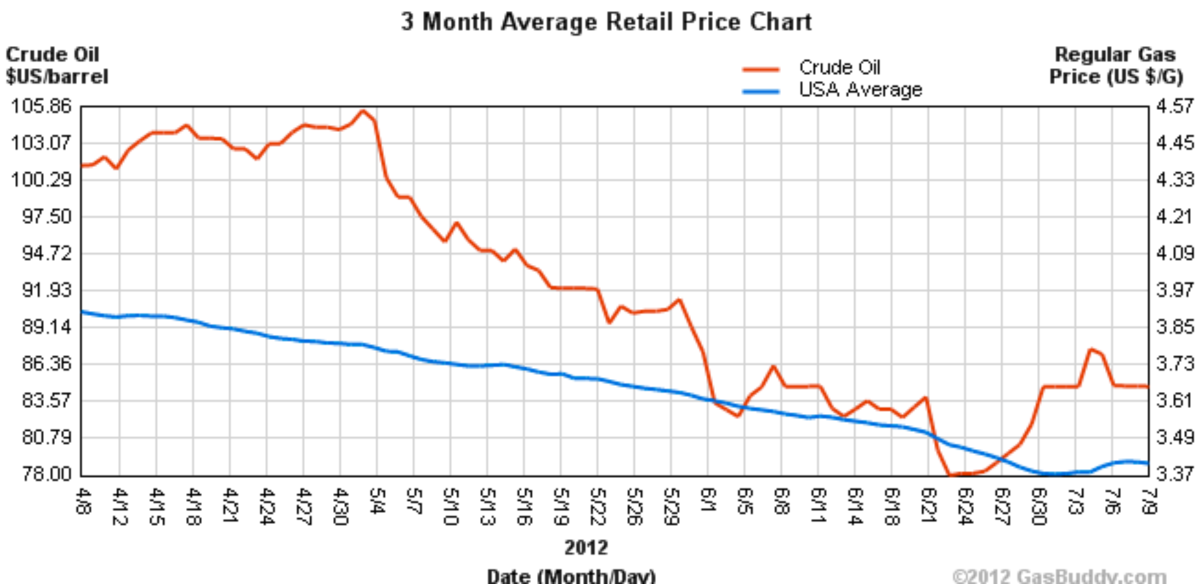
2012 MID-YEAR REVIEW

During the 2Q of 2012 the European sovereign debt crisis once again rushed to the forefront of investor concerns. As policymakers debated and negotiated various responses, businesses and consumers reined in their spending. As expected, and similar to the previous episodes of the past two years, investors responded with caution, selling off risk-based assets and repositioned their portfolios for defense. After all, there is a great deal to be cautious about. (1) Europe, even despite the recent settlement and positive result of the Greek elections, lacks a detailed path forward for further monetary union. Without one, a return to economic expansion will be challenging. (2) China and India, significant engines of global growth are showing signs of slowing. (3) The Arab world remains in political disarray. (4) The U.S. presidential election and impending fiscal cliff provide a backdrop of domestic uncertainty. These periods of uncertainty are difficult for research-oriented investment managers like ourselves.

We note, however, that unlike prior episodes of Euro debt crisis uncertainty, the U.S. appears to be on much firmer economic footing this time around. For one, the U.S. housing market continues to show signs of recovery. For example, the July survey of homebuilder confidence (the NAHB/Wells Fargo Housing Market Index) rose six points to 35, its largest one-month gain in nearly a decade and bringing the Index to its highest level since March of 2007. Although single-family housing starts are still well below pre-recession levels, the recovery is quite evident from the accompanying chart (below).



Importantly, we believe that a sustained housing recovery will lead to improved employment figures and ultimately to a durable goods recovery as new homeowners outfit these homes with new appliances, carpeting, furniture, etc. Additionally, gasoline prices, have declined 15% on average during the 2Q, bringing them below the average retail price experienced during the peak summer driving season of 2011. Given that Brent crude has recently fallen to $100/barrel, energy analysts expect gasoline price to continue to trend lower.



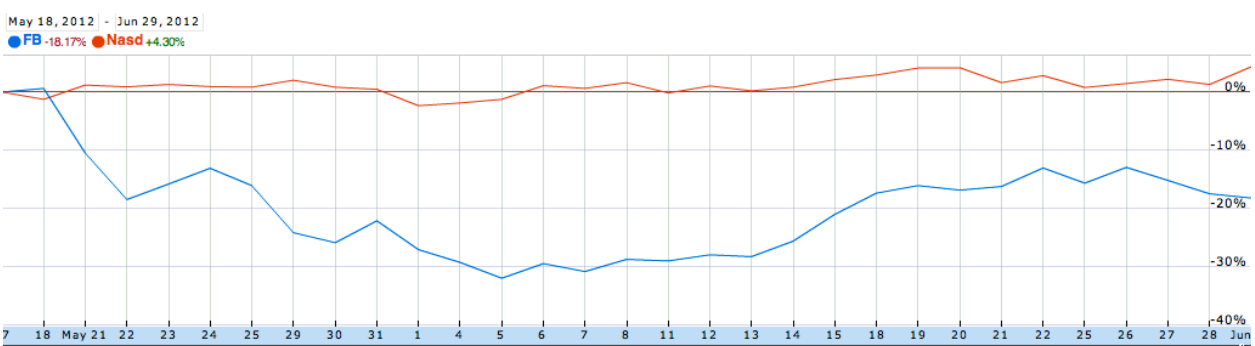
While 1Q earnings reports helped push equity markets higher through the month of April, the remainder of the 2Q proved much more challenging. VDAM's composite ended the first half of 2012 up 7.7%, trailing the S&P 500 and the NASDAQ Composite which were up 8.3% and 12.6%, respectively. That noted, we believe that the market's recent focus on caution and the ongoing uncertainty on many fronts has left the technology sector notably undervalued. Corporate executives seem to agree. Factset data suggests that the Information Technology sector again led all sectors in total dollar value of share repurchases during the 2Q. The IT sector has now led in share buyback activity for thirteen of the past fourteen quarters. We are also heartened by some significant insider buying at several of our "underappreciated" holdings, including Shutterfly, Novatel, and Windstream. Finally, we'd like to highlight an initiation of a dividend at ChipMOS, underscoring both a strong corporate outlook and underlevered balance sheet.

In a low or sub-par growth environment, investors should be looking for sustainable growth. During the last decade, the global technology sector exhibited EPS growth of 2.5x that of the overall market. We believe the tech sector will deliver EPS growth twice the rate of the market over the next five years, and once some of the uncertainty dissipates, investors will move more aggressively into the sector.

Facebook IPO

One of the biggest investment stories during the 2Q was the initial public offering of Facebook (FB -- $28.25, priced as of 7/16/12) and we would be remiss to not discuss it. Facebook, under direction of its Board and its broad array of bankers, decided to cast a wide net in its IPO. Unlike many "hot" IPOs, retail investors were given ample opportunity to play this deal. Many retail-oriented brokers like TD Ameritrade, Van Dien's custodian, were part of the underwriting syndicate, giving Van Dien and its clients the opportunity to invest. Despite the opportunity, our due diligence left us skeptical about the price range. After all, Facebook shares have traded on sophisticated secondary markets for some time, at prices in the lower $30s. At an indicated price range in the higher $30s -- FB shares were ultimately priced at $38 -- we felt the risk/reward trade-off had become untenable, especially as the global equity markets sold off during the company's roadshow in April and May.

More specifically, several red flags left us scratching our heads during our research due diligence. The first was the $1 billion acquisition of Instagram, a process that appeared not only devoid of Board discussion, but also rushed by Founder Mark Zuckerberg. Our sense was that the deal was more about filling in a gap in the roadshow marketing slides rather than creating shareholder value. Given the public market's valuation of Shutterfly, the leading company within the greater online photo-sharing arena, we were left hugely skeptical of the potential value to be gained by this acquisition. However, the biggest red flag was the announcement by General Motors, the third largest advertiser in the U.S., that it would no longer continue advertising on Facebook having concluded that paid ads on the website showed little effectiveness. Clearly, GM's decision doesn't bode well for continued high advertising growth on Facebook from the auto sector, the largest advertising vertical across media.



It is true that all of these concerns we have cited may be secondary in importance to the breakdown of the NASDAQ trading and pricing system during FB's first day of trading. However, when equities are priced for perfection, especially those that have little valuation support or historical context, small transgressions become magnified and investors "sell first and ask questions later." Notably, our research which was conducted during FB's May roadshow coincided with a global deterioration of economic conditions and overall investor sentiment. We chose to not believe the hype and look for better entry points down the road. We think our experience and research capabilities helped provide us with the tools to reach this critical decision.

Riverbed Technology

Another stock we would like to highlight is Riverbed Technology (RVBD--$14.01, priced as of close of July 16, 2012). We have traded RVBD shares effectively during the past eighteen months, often buying in the low $20s and selling the shares once valuation expanded and investors' expectations appeared fully discounted. Riverbed has been a pioneer in data networking, specifically WAN (Wide Area Networking) optimization, where enterprises deploy Riverbed products to improve their network efficiency, security, etc. As one of a few communication equipment companies that have delivered solid revenue and earnings growth during the recent past, the stock has become a favorite of sell-side analysts and buy-side investors alike. However, Riverbed has been in the midst of a multi-quarter product transition, and in our mind, this has increased the risk profile. We made a concious decision to avoid the shares going into the company's March quarter report and to repurchase positions if warranted at lower levels thereafter. As it were, Riverbed reported a slight revenue miss and lowered its full year guidance to the 15% level. The stock, once a darling, was hammered (closing down 29% the following day) as at least seven major sell-side firms downgraded the shares and the stock has been in the penalty box ever since. As we believe that RVBD's issues are mostly due to a slower product transition, and therefore largely temporary in nature, we have been selectively buying the shares back at levels under $20.

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