Quarterly Report

July 31, 2009

Roumell Asset Management, LLC

Second Quarter Summary

Performance Summary

		Annualized as of 6/30/09						Total Return
	2Q 2009	**YTD**	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**Since Inception**	**Since Inception**
Roumell Equity (Net)	**24.99%**	**13.65%**	**-5.57%**	**-5.45%**	**2.61%**	**8.57%**	**9.45%**	**158.06%**
S&P 500	15.93%	3.17%	-26.21%	-8.22%	-2.24%	-2.22%	-1.02%	-10.24%
Russell 2000	20.69%	2.65%	-25.01%	-9.89%	-1.71%	2.38%	3.13%	38.23%
Russell 2000 Value	18.00%	-5.18%	-25.24%	-12.07%	-2.28%	5.00%	5.27%	71.49%
Roumell Balanced (Net)	**17.25%**	**11.58%**	**-5.46%**	**-4.54%**	**1.85%**	**6.01%**	**6.65%**	**96.56%**
Thomson US Bal Index	12.37%	6.17%	-16.54%	-3.77%	-0.01%	0.72%	1.19%	13.20%
Roumell Fixed Income (Net)	**22.22%**	**21.77%**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**21.77%**
Barclays US Aggregate Bond	1.79%	1.91%	N/A	N/A	N/A	N/A	N/A	1.91%
Barclays US Corp Hi Yield	23.07%	30.43%	N/A	N/A	N/A	N/A	N/A	30.43%

Roumell Asset Management, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Ashland Partners & Co. LLP, our independent verifier, completed its examination of the composite performance returns for the period of 1999 (inception) through March 31, 2009. Please refer to the annual disclosure presentations at the end of this letter.

In Pursuit of Selective Investment Opportunities

Our second quarter performance was strong, particularly in light of our one-third cash position. High yield bond appreciation and select equity investments both contributed nicely to second quarter returns.

Paradoxically, even though the worldwide macroeconomic picture is troubling, this is a very good investment environment for Roumell Asset Management (RAM) given our emphasis on identifying undervalued special situations and our neutrality as to where such situations might be found. This contrasts with a "buy the market" and hang-on approach. Further, we are willing to sit safely in cash in the absence of compelling investment opportunities. Cash, in fact, is our default investment stance. In our minds, the current investment climate is well suited to a highly opportunistic, albeit cautious, investor with a willingness to dig deep, work hard and exercise patience while taking advantage of the market's volatility in a highly focused, disciplined manner. There will be bumps, but our plan of focusing on senior debt securities (bonds), and unlevered equities with solid business prospects, should prove rewarding even in this uncertain macroeconomic environment.

Why buy stocks? The answer lies in the fact that fixed income investments often lock in low returns. Consequently, investors seeking a superior return attach themselves to a company's earnings stream or asset conversion possibilities in the hope that they provide a better return than staid, boring fixed income investments, aka bonds. However, we continue to find attractive absolute rates of return in the corporate bond market (principally high yield), particularly within a risk/reward context as compared to stocks (principally represented by the major market indices). Bonds, even high yield ones, are senior to common stock in a company's capital structure.

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What is often missed by investors is the fact that stocks are quite sensitive to changes in both earnings and the multiples attached to those earnings. For instance, imagine a company's shares trading at $12 based on $1/share of earnings and a 12x multiple. With an earnings decline of 30% and a compression in its multiple to 10x, the shares would then trade at $7, a 40% drop (see chart below). Of course, there is nothing unrealistic about a 30% drop in earnings and a 15% drop in the multiple applied to those earnings. In the trailing twelve-month period, FedEx and Starbucks' earnings (excluding non-recurring expenses) were down about 35%. GE just reported a 47% drop in quarterly profit as a result of lower sales and higher credit defaults in its financial business.

Effect of Multiples & Earnings on Equity Valuation*

	Earnings Change			
MULTIPLE	**-20%**	**-30%**	**-40%**	**-50%**
6x	$4.80	$4.20	$3.60	$3.00
8x	$6.40	$5.60	$4.80	$4.00
10x	$8.00	$7.00	$6.00	$5.00
12x	$9.60	$8.40	$7.20	$6.00

**Assume beginning earnings per share of $1 and a multiple of 12x yielding a $12 stock price.*

Further, leverage compounds the sensitivity factor of a company's equity valuation. For instance, when a company that is 50% leveraged has its intrinsic value drop 20% (through earnings degradation or asset deflation), it sees a 40% reduction in equity valuation. In a completely unlevered company, this ratio is one to one: 20% reduction in intrinsic value results in 20% reduction in equity value. Imagine owning a home (or any other asset) with various amounts of leverage:

Effect of Leverage on Equity Valuation

	Asset Value Change			
LEVERAGE	**-20%**	**-30%**	**-40%**	**-50%**
0%	-20%	-30%	-40%	-50%
25%	-27%	-40%	-53%	-67%
50%	-40%	-60%	-80%	-100%
75%	-80%	-100%	-100%	-100%

Of course, the reverse is true of the above analysis: when earnings rise, and multiples expand, stock appreciation can be considerable. Similarly, when assets rise, and you own them on a levered basis, the return on your equity (ROE) can be quite substantial. In sum, equities are option-like in many respects given their sensitivity to changes in earnings and intrinsic value. It is important to note that debt, in and of itself, is not necessarily harmful. Long-term debt with low interest rates and without burdensome covenants, such as the Auction Rate Preferred debt on leveraged closed-end funds (or traditional mortgages), can be advantageous.

Investors, the media and others have often repeated the mantra that for assuming the risks noted above, stocks return roughly 10% per annum over time. A savvy investor ought to ask, "Over what time?" Here things get dicey. Just going back 40 years, we now have several significant periods of total return drought: from 1966 to 1982 market indices were essentially flat, a 16-year famine; and the 10-year return for the S&P 500 index ending June 30, 2009, is a negative 2% per annum inclusive of dividends. A more truthful mantra, which might result in fewer stocks being purchased, would be, "Stocks for the long, long, long term." The reason stocks are so widely held in such large proportions to people's net worth, even in the face of often dismal results over long stretches of time, is that few things are as vigorously marketed on the planet as common stocks themselves. What industry—with its attendant media chorus—rivals Wall Street in terms of marketing acumen? The truth is that stocks are most often sold, not bought.

RAM has always sought to manage equity investing risks by focusing on unlevered companies (bought at deep discounts to intrinsic value calculations) given the sensitivities noted above. The stocks we do own are overwhelmingly debt-free resulting in the common effectively being the senior security. In instances where we compromised on capital structure integrity, or didn't demand a sufficient discount, we often paid a dear price. The equities we own today a) are extremely well-capitalized with typically no debt, b) do not need to access the capital markets and c) most often possess cash-rich balance sheets. Moreover, they are companies we believe have excellent long-term business outlooks. For instance, Novartis (discussed below), the only equity among our top three purchases in the second quarter, possesses cash and investments in excess of its debt while simultaneously generating large amounts of cash.

However, notwithstanding our unlevered equity investments, never have we made such a large investment in fixed income securities as we have in the past several months in both Balanced and Equity accounts. We even began a dedicated fixed income option at the end of 2008 given our deeply held belief that bond contracts (individual company issues buttressed by real assets or deeply discounted closed-end bond pools) were on sale in a rather big way. We now have about one-third of both our Balanced *and* Equity accounts in fixed income securities. Why?

Contrast a bond's *contract* with a stock's *sensitivity*. In bonds, so long as the company makes its interest payments and pays off at par ($1,000) upon maturity, we lock-in an annualized rate of return. (See Global Industries and Clayton Williams discussions below). Gone are overly sensitive common stock characteristics: estimating earnings with a fine tooth comb, determining an appropriate multiple to apply to those earnings, determining asset deflation possibilities, and viewing such numbers within the context of capital structure realities; i.e., how levered is this business. Bonds are contracts. Quoting our "Special Situation Fixed Income Opportunities" brochure sent out with our first quarter letter, "First and foremost, a corporation must meet its debt obligations…This is the legal right of the creditor that cannot be taken away unless the creditor either consents or Chapter 11 relief is granted under the Bankruptcy Code." Put simply, the returns we locked-in (absent default) in the past several months have been mind-boggling (representing 10% to 30% annual rates of return for bonds maturing typically in eight years or less). Moreover, although credit spreads have contracted, we still find the corporate bond market (notably high yield) attractive as a whole, and particularly in specific instances. In our opinion, the corporate bond market is better priced than major stock market indices. To wit, even after a run-up, the high yield spread over Treasuries is still near an all-time pre-2008 high of roughly 800 basis points. The stock market P/E ratio (averaging trailing 10-year earnings as Graham and Dodd recommended) is at a very average multiple of 16x earnings. Can the risks currently present in the economy be described as being average?

There are three fundamental reasons why in today's market we prefer to lock-in returns on high yield debt rather than speculate in the stock market in the main (aside from our unlevered special situation equity investments):

- Difficulty in estimating corporate earnings given consumer retrenchment, credit contraction and rising unemployment.
- Government intervention is increasingly making it difficult to "see" what is really occurring in the economy. Further, national debt levels are problematic, necessary as this debt may, in fact, be.
- The yields available to us in select sectors of the corporate bond market are historically high and quite attractive on an absolute basis.

First, as we discussed at length in this year's first quarter letter, we believe consumption by Americans will be down for some time as they seek to repair very stressed individual balance sheets. In other words, a typical "inventory correction" recession is not what we have; rather, it is systemic, deep and born of years of credit excesses (with the attendant capacity creation now idle) that will not easily be overcome. Put simply, consumption must more rationally parallel actual household income levels. In a recent *Financial Times* piece, "Debt Is Capitalism's Dirty Little Secret," the author persuasively argued that debt became the solution to wide disparities in actual income growth. The inflation-adjusted income of the top fifth of U.S. earners has risen 60 percent since 1970, but has fallen by more than 10 percent for the rest according to Société Générale economists. Think of all the homes and cars purchased where you wondered how on earth the buyers were affording these things; too often, the answer was debt. The answer to today's economic problems can hardly rest in encouraging people to borrow—again—to buy the newest flat screen TV, cell phone, luxury car, high-end hand bag, vacation or dinner that came to be viewed so benignly. As a result, it seems unrealistic to believe economic growth can mirror the recent past even with China's growth, still dependent as it is on North American consumption.

Second, given the depth of the economic crisis, our government's response—however necessary, as many leading economists argue—is introducing risks that are simply too difficult to handicap. Certainly, a nation growing its national debt as we are, albeit to avoid deflationary pressures, presents unique risks. As our federal debt approaches 1x our GDP (much of it financed with short term borrowings that will need to be refinanced), who really knows how this ultimately plays out? Certainly not us. Will an "alternative" currency make our Treasury securities less attractive? Will China focus its excess reserves domestically and away from financing our debt? Will the political courage emerge to cut spending and/or raise taxes when necessary? Will trade wars ensue as countries become more protectionist? For instance, in response to the "Buy American" clause in the American Recovery and Reinvestment Act, nine Chinese government departments recently enacted a "Buy Chinese" policy. Notwithstanding the challenges noted above, all recessions, like expansions, do end. The important question now is how will this particular recovery unfold?

Third, at the prices we're paying, we are locking-in returns that are substantial in both relative and absolute terms. In other words, the pull to buy stocks as a way to exceed the typically meager rates of return in the bond market are not present given current bond market pricing and the attendant available yields.

To sum, our approach allows us to pursue opportunities wherever they might be in the public markets, or to sit tight. We will be nimble, opportunistic and highly cautious given the realities of an uncertain macro-economic picture. We are finding opportunities in the corporate bond market, and in select, mostly smaller, special situation companies with solid balance sheets. As always, we remain fully invested alongside our clients. For those readers so inclined, enclosed is a recent interview Jim did with *Value Investor Insight* in April 2009 where you will find a detailed discussion of the top unlevered equities we own.

Our Three Top Purchases

Global Industries Ltd. 2.75% 8/1/2027 (8/1/2017 Put) Convertible Debentures. Global Industries is a global offshore oilfield construction company that installs underwater pipelines and offshore production platforms along with providing maintenance and complementary services. At the price we paid of roughly $375 per $1,000 par value, our effective yield-to-put is over 17% per annum. Although the bonds' stated maturity date is August 1, 2027, holders have the right to put the bonds back to the company (obligates Global to repurchase the notes) at par value 10 years earlier in 2017.

We invested in Global Industries' senior unsecured convertible bonds because we believe there is meaningful asset value in excess of the company's $390 million of financial obligations. Summing Global's cash, auction-rate securities and $200 million of capital spent on two new state-of-the-art vessels equals $615 million of asset value. Additionally, Global has an existing fleet that includes seven major construction vessels, other support vessels and its headquarters situated on 603 acres of land on the Louisiana coast that is capable of accommodating deepwater vessels. No matter how we slice it, we believe our investment in Global Industries' convertible bonds will be a "money good" investment maturing at par on the 2017 put date. Global's founder, Bill Dore, owns 10% of the company's common shares, a subordinate security to our bonds.

Novartis AG, NVS. Novartis is a Switzerland domiciled global developer and manufacturer of pharmaceutical and consumer healthcare products. The company's most widely used pharmaceutical products include Diovan (hypertension), Gleevac (leukemia), Zometa (bone metastases), and Femara (breast cancer). The company's pharmaceuticals business is the primary driver of revenue and profits at 64% and 77% of respective totals. However, Novartis possesses the second largest generics business in the world, a growing vaccine and biologics business, as well as a consumer health products operation.

Novartis is an unlevered security—its cash and investments exceed its debt. The market, for the most part, is currently preoccupied with the following pharma-specific risks: a) the federal government through healthcare reform is going to significantly impair the profitability of the industry and b) the existing drug pipelines of pharma companies will not materialize in a manner that offsets upcoming revenue loss from the loss of key patent protected products. We think that the market has assigned too much weight to these risks and, subsequently, a buying opportunity has developed with pharmaceutical stocks trading at trough valuations. We think Novartis' margins will in fact go down, but not oppressively so, and that its pipeline will be replenished (or it will opportunistically deploy its solid balance sheet by making acquisitions). In particular, we like Novartis because the company has a stellar reputation for research and development integrity, and as a defensive measure, it relies less on U.S. based sales than most of its peers. Novartis shares were purchased at 10x earnings, a free-cash yield of 10% and pays a 4.0% dividend at our purchase price.

Clayton Williams Energy, Inc. 7.75% 8/1/2013 Notes. Clayton Williams is an onshore oil and gas exploration and production company with activities mostly in Texas and Louisiana. As of the end of 2008, the company owned 229 billion cubic feet equivalent (Bcfe) of proved oil and natural gas reserves. The proved oil/gas reserve mix is 55% oil and 45% gas; 82% of proved reserves are considered to be proved developed, meaning the reserves can be expected to be recovered from existing wells and thus do not require meaningful future capital commitment in the form of exploratory drilling. Clayton Williams, himself, still serves as the company's Chairman and CEO and along with his immediate family members owns over 50% of Clayton Williams Energy common stock. As bond holders, we have a senior claim on the company's assets as compared to the Williams family.

We invested in the senior unsecured notes of Clayton Williams Energy because we believe the company's proved reserves are worth more than its financial obligations. The Clayton Williams investment thesis is very similar to that of our Stone Energy debt investment. Our investment in the debt of Clayton Williams was made at an implied $1.44/million cubic feet equivalent (Mcfe) after deducting both the company's cash position and the value of its onshore drilling rig fleet that we assigned a valuation of $2 million per rig. At our average purchase price of $730 per $1,000 par value, the notes carry a yield-to-maturity (YTM) of about 17% with over 10.5% of the YTM in the form of current yield. We are quite comfortable owning oil and natural gas assets at the implied $1.44 debt/Mcfe valuation that Clayton Williams offers and believe our bond contract will be honored through maturity.

Roumell Asset Management, LLC
Balanced Composite
Annual Disclosure Presentation

		Composite Assets		Annual Performance Results		
Year End	Total Firm Assets (Millions)	USD (Millions)	Number of Accounts	Composite Net	Thomson US Balanced Mutual Fund	Composite Dispersion
2008	166	40	121	-22.82%	-26.97%	5.01%
2007	270	75	154	-7.58%	5.76%	3.71%
2006	280	87	158	14.00%	10.47%	3.69%
2005	199	73	142	8.56%	4.22%	2.67%
2004	123	66	119	16.48%	7.79%	3.82%
2003	66	42	100	28.26%	18.60%	3.94%
2002	41	27	79	-9.70%	-11.36%	3.77%
2001	31	17	39	21.18%	-4.19%	4.75%
2000	19	10	23	8.47%	1.95%	4.53%
1999	16	9	22	12.53%	8.35%	2.63%

Balanced Composite contains fully discretionary balanced accounts (consisting of equity, fixed income, and cash investments) and for comparison purposes is measured against the Thomson US Balanced Mutual Fund Index. In presentations shown prior to March 31, 2006, the composite was also compared against the Lipper Balanced Index. Additionally, in presentations prior to December 2006, the composite was measured against the Vanguard Balanced Index Fund. The Thomson U.S. Balanced Mutual Fund Index is a blend of more than 500 balanced mutual funds and is therefore deemed to more accurately reflect the strategy of the composite.

Roumell Asset Management, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Roumell Asset Management, LLC is an independent registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

The U.S. dollar is the currency used to express performance. Returns are presented net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Net returns are reduced by all fees and transaction costs incurred. Wrap fee accounts pay a fee based on a percentage of assets under management. Other than brokerage commissions, this fee includes investment management, portfolio monitoring, consulting services, and in some cases, custodial services. Prior to and post 2006, there were no wrap fee accounts in the composite. For the year ended December 31, 2006, wrap fee accounts made up less than 1% of the composite. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. Returns include the effect of foreign currency exchange rates. Exchange rate source utilized by the portfolios within the composite may vary. Composite performance is presented net of foreign withholding taxes. Withholding taxes may vary according to the investor's domicile.

The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite for the entire year. Dispersion calculations are greater as a result of managing accounts on a client relationship basis. Securities are bought based on the combined value of all portfolios of a client relationship and then allocated to one account within a client relationship. Therefore, accounts within a client relationship will hold different securities. The result is greater dispersion amongst accounts. Additional information regarding the policies for calculating and reporting returns is available upon request.

The investment management fee schedule for the composite is as follows: for Direct Portfolio Management Services: 1.75% on the first $200,000, 1.50% on the next $300,000, and 1.00% on assets over $500,000; for Sub-Adviser Services: determined by adviser; for Wrap Fee Services: determined by sponsor. Actual investment advisory fees incurred by clients may vary.

The Balanced Composite was created January 1, 1999. Roumell Asset Management, LLC's compliance with the GIPS® standards has been verified for the period January 1, 1999 through March 31, 2009 by Ashland Partners & Company LLP. In addition, a performance examination was conducted on the Balanced Composite beginning January 1, 1999. A copy of the verification report is available upon request.

Roumell Asset Management, LLC
Fixed Income Composite
Annual Disclosure Presentation

Fixed Income Composite contains fully discretionary fixed income accounts (consisting of closed-end bond funds, individual bonds and open end bond funds) and for comparison purposes is measured against the Barclays Capital U.S. Aggregate Index and Barclays Capital U.S. Corporate High Yield Index.

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The U.S. dollar is the currency used to express performance. Returns are presented net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. For certain of these accounts, net returns have been reduced by a performance based fee of 20% of profits, paid annually in the first quarter. Net returns are reduced by all fees and transaction costs incurred. Returns include the effect of foreign currency exchange rates. Exchange rate source utilized by the portfolios within the composite may vary. Composite performance is presented net of foreign withholding taxes. Withholding taxes may vary according to the investor's domicile.

The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite for the entire year. Dispersion calculations are greater as a result of managing accounts on a client relationship basis. Securities are bought based on the combined value of all portfolios of a client relationship and then allocated to one account within a client relationship. Therefore, accounts within a client relationship will hold different securities. The result is greater dispersion amongst accounts. Additional information regarding the policies for calculating and reporting returns is available upon request.

The investment management fee schedule for the composite is as follows: for Direct Portfolio Management Services: 1.50% on the first $500,000 and 1.00% on assets over $500,000; for Sub-Adviser Services: determined by adviser. Actual investment advisory fees incurred by clients may vary.

The Fixed Income Composite was created and incepted January 1, 2009. Roumell Asset Management, LLC's compliance with the GIPS® standards has been verified for the period January 1, 1999 through March 31, 2009 by Ashland Partners & Company LLP. A copy of the verification report is available upon request.

Roumell Asset Management, LLC
Equity Composite
Annual Disclosure Presentation

		COMPOSITE ASSETS		ANNUAL PERFORMANCE RESULTS				
YEAR END	TOTAL FIRM ASSETS (MILLIONS)	USD (MILLIONS)	NUMBER OF ACCOUNTS	COMPOSITE NET	S&P 500	RUSSELL 2000	RUSSELL 2000 VALUE	COMPOSITE DISPERSION
2008	166	104	413	-27.35%	-36.99%	-33.79%	-28.93%	3.40%
2007	270	178	549	-7.67%	5.49%	-1.57%	-9.78%	2.68%
2006	280	176	458	16.89%	15.79%	18.37%	23.48%	2.18%
2005	199	111	312	12.38%	4.91%	4.55%	4.71%	2.59%
2004	123	47	125	20.18%	10.88%	18.33%	22.25%	2.69%
2003	66	15	46	32.13%	28.69%	47.25%	46.03%	4.04%
2002	41	8	44	-10.15%	-22.10%	-20.48%	-11.43%	4.33%
2001	31	5	30	32.76%	-11.89%	2.49%	14.02%	6.33%
2000	19	2	12	7.97%	-9.10%	-3.02%	22.83%	4.05%
1999	16	2	9	26.02%	21.04%	21.26%	-1.49%	3.92%

Equity Composite contains fully discretionary equity accounts and for comparison purposes is measured against the S&P 500, Russell 2000, and Russell 2000 Value Indices. The S&P 500 Index is used for comparative purposes only and is not meant to be indicative of the Equity Composite performance. In presentations shown prior to March 31, 2005, the composite was also compared against the Nasdaq Index. The benchmark was eliminated since it did not represent the strategy of the composite.

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Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

The U.S. dollar is the currency used to express performance. Returns are presented net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Net returns are reduced by all fees and transaction costs incurred. Wrap fee accounts pay a fee based on a percentage of assets under management. Other than brokerage commissions, this fee includes investment management, portfolio monitoring, consulting services, and in some cases, custodial services. Wrap accounts are included in the composite. As of December 31, 2006, 2007, and 2008, wrap fee accounts made up 33%, 36%, and 31% of the composite, respectively. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. Returns include the effect of foreign currency exchange rates. Exchange rate source utilized by the portfolios within the composite may vary. Composite performance is presented net of foreign withholding taxes. Withholding taxes may vary according to the investor's domicile.

The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite for the entire year. Dispersion calculations are greater as a result of managing accounts on a client relationship basis. Securities are bought based on the combined value of all portfolios of a client relationship and then allocated to one account within a client relationship. Therefore, accounts within a client relationship will hold different securities. The result is greater dispersion amongst accounts. Additional information regarding the policies for calculating and reporting returns is available upon request.

The investment management fee schedule for the composite is as follows: for Direct Portfolio Management Services: 1.75% on the first $200,000, 1.50% on the next $300,000, and 1.00% on assets over $500,000; for Sub-Adviser Services: determined by adviser; for Wrap Fee Services: determined by sponsor. Actual investment advisory fees incurred by clients may vary.

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