

**ASTER INVESTMENT MANAGEMENT  
COMPANY, INC.**

**FINANCIAL STATEMENT – Balance Sheet Only**

**Year Ended December 31, 2010**

# ASTER INVESTMENT MANAGEMENT COMPANY, INC.

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## **Independent Auditors' Report**

To the Board of Directors and Stockholders  
Aster Investment Management Company, Inc.

We have audited the accompanying balance sheet of Aster Investment Management Company, Inc. as of December 31, 2010. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Aster Investment Management Company, Inc. as of December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

*Eckhoff Accountancy Corporation*

San Rafael, California  
February 17, 2011

# ASTER INVESTMENT MANAGEMENT COMPANY, INC.

## Balance Sheet December 31, 2010

### Current Assets:

Cash	\$ 3,413,952
Accounts receivable - management fees	2,119,257
Other receivables	1,194
Prepaid expenses	<u>23,251</u>

**Total Current Assets** 5,557,654

Property and equipment, net 16,657

Deposits 5,584

**Total Assets** \$ 5,579,895

### Current Liabilities:

Accounts payable	\$ 6,907
Accrued payroll and payroll taxes	153,504
Retirement plan contribution payable	248,526
Income taxes payable	<u>4,240</u>

**Total Current Liabilities** 413,177

### Stockholders' Equity:

Common stock - authorized 100,000 shares, no par value, issued and outstanding 45,000 shares	35,000
Additional paid-in capital	5,058
Retained earnings	<u>5,126,660</u>

**Total Stockholders' Equity** 5,166,718

**Total Liabilities and Stockholders' Equity** \$ 5,579,895

The accompanying notes are an integral  
part of this financial statement.

# **ASTER INVESTMENT MANAGEMENT COMPANY, INC.**

## **Notes to Financial Statement**

### **Note 1 - Summary of Business Activities and Significant Accounting Policies:**

#### **Organization:**

Aster Investment Management Company, Inc. (the Company), a California S corporation, was registered as an investment adviser May 31, 1977 with the Securities and Exchange Commission pursuant to the terms of the Investment Advisors Act of 1940. The Company provides investment management services to mutual funds, institutional, and individual clients within the United States.

#### **Use of Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **Concentrations:**

The Meridian Equity Income Fund, the Meridian Growth Fund, and the Meridian Value Fund are managed by the Company under an annual investment management agreement with those funds. The Company uses a portion of the management fees to pay certain expenses of the funds. For the year ended December 31, 2010, the Company received approximately 97% of its management fees from the Meridian Growth Fund, the Meridian Value Fund, and the Meridian Equity Income Fund, three series portfolios of Meridian Fund, Inc., a registered investment company. If these funds were to incur a significant decline in value, the Company's management fees would decline proportionately. Accounts receivable from these funds as of December 31, 2010, amounted to \$2,119,257.

The Company's cash accounts are kept in a custodial bank invested in a money market mutual fund. Under the Securities Investor Protection Act of 1970, each custodial account is afforded \$500,000 of insurance coverage with a maximum of \$100,000 for cash claims under the auspices of the Securities Investor Protection Corporation (SIPC), a federal corporation. At December 31, 2010, the Company had deposits in the money market account substantially in excess of the SIPC maximum coverage for cash claims. Merrill Lynch, the independent custodian for the money market account, provides additional insurance protection up to the full value of the account through an independent insurance company.

# **ASTER INVESTMENT MANAGEMENT COMPANY, INC.**

## **Notes to Financial Statement**

### **Note 1 - Summary of Business Activities and Significant Accounting Policies: (Continued)**

#### **Accounts Receivable:**

Accounts receivable consists of management fees from the Meridian Funds. The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

#### **Property and Equipment:**

Property and equipment are recorded at cost. Repairs, maintenance, and minor replacements are expensed as incurred. For financial reporting purposes, depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which range from three to seven years for furniture, fixtures, and office equipment and the remaining life of the lease for leasehold improvements.

#### **Assets Under Management:**

In the normal course of operations of an investment manager, clients add investments to and withdraw investments from their asset portfolios. This activity is done by clients as they continue to make investment decisions and diversify their portfolios. The net assets under management increased \$689,035,518 to \$3,135,627,590 as of December 31, 2010.

#### **Revenue Recognition:**

Management fee income represents fees billed monthly, quarterly, or semi-annually for managing the assets of clients. The fees are recognized as services are rendered and are based upon a percentage of the market value of client assets managed. Any fees collected in advance are deferred and recognized as income over the period earned. At December 31, 2010, there was no deferred revenue.

#### **Income Taxes:**

Effective January 1, 2009, the Company implemented the generally accepted accounting guidance for uncertainty in income taxes. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities.

# ASTER INVESTMENT MANAGEMENT COMPANY, INC.

## Notes to Financial Statement

### Note 1 - Summary of Business Activities and Significant Accounting Policies: (Continued)

#### Fair Value Measurements:

Generally accepted accounting principles provide a framework for measuring the fair value of assets and liabilities that utilizes a fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities [Level 1 measurements] and the lowest priority to unobservable inputs [Level 3 measurements].

The three levels of the fair value hierarchy are described below:

*Level 1* - Quoted prices for identical assets and liabilities in an active market the Company has the ability to access.

*Level 2* - Other significant observable inputs (including quoted prices for identical or similar assets and liabilities in active and inactive markets and inputs which are derived principally from or corroborated by observable market data by correlation or other means).

*Level 3* - Significant unobservable inputs to the fair value measurement methodology.

As of December 31, 2010, the Company had no assets or liabilities that were required to be valued using the fair value hierarchy. The carrying amounts reflected in the balance sheet for cash, accounts receivable, accounts payable and accrued expenses approximate the respective fair values due to the short maturities of those instruments.

#### Note 2 - Property and Equipment:

Property and equipment is summarized as follows:

Office equipment	\$ 85,616
Furniture and fixtures	93,563
Leasehold improvements	23,223
	<hr/> 202,402
Accumulated depreciation	<hr/> 185,745
	<hr/> <hr/> \$ 16,657

# ASTER INVESTMENT MANAGEMENT COMPANY, INC.

## Notes to Financial Statement

### Note 3 - Lease Commitment:

On January 1, 2010, the Company entered into a new noncancelable operating lease for the Corporate facilities with a term of 60 months effective January 1, 2010. The lease terms require a base monthly payment which escalates approximately 3% per annum, as well as an additional monthly amount to cover the lessor's operating expenses. The monthly operating expense is currently estimated at \$100 and is not included in the minimum future rental payments below. Minimum future rental payments having a remaining term in excess of one year to expiration of the lease on December 31, 2014 are as follows:

<u>Years Ending December 31,</u>	
2011	\$ 99,903
2012	102,906
2013	105,999
2014	<u>109,178</u>
	<u>\$ 417,986</u>

### Note 4 - Common Stock:

The Company is authorized to issue 100,000 shares of no par value common stock. As of December 31, 2010, 45,000 shares are issued and outstanding. Richard F. Aster, Jr., President and Chairman of the Board, owns 43,200 shares and an unrelated individual owns the remaining 1,800 shares.

### Note 5 - Investment Advisory Fees and Other Transactions with Related Parties:

The Company provides investment advisory services to Meridian Fund, Inc. (the Meridian Fund) a series investment company, under management agreements that provide for management fees to be received from the Meridian Fund as compensation for its services. Fees are paid monthly and calculated based on that month's average daily net assets.



# ASTER INVESTMENT MANAGEMENT COMPANY, INC.

## Notes to Financial Statement

### Note 5 - Investment Advisory Fees and Other Transactions with Related Parties: (Continued)

The Meridian Equity Income Fund (the Fund) was registered and began operations on January 31, 2005. The management agreement provides for an expense reimbursement from the Company if the Fund's total expenses exceed 1.25% of Fund assets. Subject to the approval of the Board of Directors of the Fund, the Company can be reimbursed for management fees and expenses paid on behalf of the Fund for up to three years subsequent to the fees and expenses being earned and incurred. Fees and expenses will be paid to the Company to the extent Fund expenses drop below 1.25% after giving effect to any repayment by the Fund. At December 31, 2010, management waived fees totaling \$61,203, and unreimbursed other expenses totaling \$146,434. For the year ended December 31, 2010, no amounts have been reflected in the accompanying financial statement for management fees or reimbursed expenses receivable as receipt of these payments in the future is uncertain.

Certain Officers and/or Directors of the Company are also Officers and/or Directors of the Meridian Fund. Beneficial ownership in the Meridian Fund by Richard F. Aster, Jr., President, and a minority stockholder were as follows:

	Meridian Equity Income Fund	Meridian Growth Fund	Meridian Value Fund
	2010	2010	2010
Richard F. Aster, Jr.	73.90%	1.15%	2.29%
A minority stockholder	0.06%	0.42%	0.38%

### Note 6 - Employee Benefit Plans:

During the year ended December 31, 2004, the Company adopted a Health Savings Account plan for the benefit of all eligible employees. The maximum annual contribution for the year ended December 31, 2010 is the lesser of the amount of the deductible under the Company's high deductible health plan or \$3,050 for an individual, \$4,050 for an individual 55 or older, or \$6,150 for a family. Contributions for the year ended December 31, 2010 totaled \$26,500.

# **ASTER INVESTMENT MANAGEMENT COMPANY, INC.**

## **Notes to Financial Statement**

### **Note 7 - Income Taxes:**

Effective January 1, 1997, the Company elected to become an S corporation for income tax purposes. As a result of this change, the Company's taxable income is passed directly through to the stockholders and is included in their individual income. No federal corporate level tax is imposed on S corporations; however, the State of California imposes a 1.5% rate subject to a minimum of \$800. The Company records are maintained on the accrual basis for financial statement purposes and on the cash basis for income tax purposes. Generally, deferred tax assets or liabilities associated with the 1.5% rate are considered immaterial and are not recognized.

### **Note 8 - Uncertain Tax Positions:**

The Company believes that it has appropriate support for the positions taken on its tax returns. Therefore, as of December 31, 2010, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statement.

The Company is no longer subject to U.S. federal income tax examinations by taxing authorities for years before 2007. The Company is no longer subject to state of California income tax examinations by taxing authorities for years before 2006.

### **Note 9 - Subsequent Events:**

Management evaluates events occurring subsequent to the date of the financial statement in determining the accounting for and disclosure of transactions and events that affect the financial statement. Management has determined that there were no events that occurred that require additional disclosure. Subsequent events have been evaluated through February 17, 2011, which is the date the financial statement was available to be issued.