

SOUTHLAND CAPITAL MANAGEMENT, LLC

Month	BDC Fund II*	S&P 500 TR	Nasdaq Comp	Dow Jones	Russell 2000 (DRI)
January - 2010	- 0.75%	- 3.60%	-5.37%	- 3.46%	- 3.68%
February - 2010	9.15%	3.10%	4.23%	2.56%	4.50%
March - 2010	8.07%	6.03%	7.14%	5.15%	8.14%
April - 2010	4.66%	1.58%	2.64%	1.40%	5.66%
May - 2010	-19.28%	-7.99%	-8.29%	-7.92	-7.59
Year to Date	-1.10%	-1.50%	-0.53%	-2.79%	6.29%
Inception to Date	3.22%	4.45%	6.34%	4.37%	10.40%

* Fund's inception was October 1, 2009. Performance shown is net of all fees & expenses including management & performance fees. Past performance is not necessarily indicative of future performance. This material does not constitute an offer to sell (nor the solicitation of an offer to buy) interests in BDC Fund II, LP (the "Fund"). Offering is made by Private Placement Memorandum from a Principal only.

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Here we show the dividend scorecard for the 1st 2 months of the 2nd Q.

NEW SCM WEBSITE

Our Website has been closed for renovation and should open within the next 2 weeks. Please check it out!

MAY 2010 RESULTS

"What a difference a month makes". The Dow fell 871.98 points, or 7.92%, for the month. That was the worst May in percentage terms since 1940, when shares dropped 22%, and the worst May ever measured by points.

Last month BDC II had a solidly positive month, but May was a cruel month, with the markets in correction mode. As a result, we lost much of the gains rolled up earlier in the year. Still, we're slightly ahead of the S&P 500 for the year, and within spitting distance of the other indices we compare ourselves against, with the exception of the Russell 2000.

It's important to remember we're a leveraged hedge fund so there will be greater volatility in our results than the unleveraged indices listed above, but there is also the opportunity for market beating gains.

We undertook a full review of the capital structure and outlook of every company we track in light of the worsening market conditions, and concluded that every BDC on our Buy List had ample capital resources to weather even a second recession. Moreover, we concluded dividends are

likely to continue to increase or remain stable for the foreseeable future. Given that outlook, the drop in prices presented the Fund with numerous buying opportunities.

We were almost fully invested when the drop in market prices began in May. However, during the month we sold several existing positions for a net Realized Gain, and re-invested the proceeds in new and existing portfolio positions to further balance the portfolio, and increase the aggregate yield.

With the benefit of our Goldman Sachs provided leverage, BDC II has begun to generate substantial Realized Gains, mostly in the form of dividends. Year to date, Realized Gains from the sale of portfolio investments (at a gain) and dividends received already exceed 10% of the initial capital invested by the investors. Looking forward, and assuming dividends neither increase or decrease from their current levels, BDC II should collect dividends equal to one third of investors original capital contribution. That's AFTER all operating costs, margin interest expense and fees. On a cash on cash basis (a metric we borrow from the real estate industry), BDC II will be generating a

22% return over the next 12 months. Of course, that's just a projection based on the current portfolio and assumes that dividends remain constant and margin borrowings continue unchanged at their bargain basement levels.

We remain guardedly optimistic that we will not face a double dip recession, and are anticipating BDC stock prices will climb again later in 2010. However, even if stock prices remain at their May 2010 levels, projected dividend income will make-up all the Unrealized Losses at BDC II within the next 12 months.

The critical element to keep an eye on is whether the dividend paying power of the BDCs in our portfolio flags unexpectedly in the quarters ahead. Thankfully, so far this year, of the seventeen companies on our Buy List, 5 have increased their dividend pay-outs over the level at year end, 1 is being recapitalized and is projected to increase its dividend next quarter, 10 are unchanged and only 1 company reduced its pay-out. Even that last company is projected to increase its dividend to at or near its former level this year.

BDC REPORTER UPDATE

bdcreporter.com

We continue to add articles, commentary, and analysis to our new BDC Reporter website almost daily, and re-post most of the material on Seeking Alpha, the premier financial commentary website on the web.

The BDC Reporter has become the number one source of free commentary and analysis about the BDC industry on the internet. Just check out Yahoo Finance, and you'll see a slew of our articles in the News and Blog sections. On Seeking Alpha, we have over 300 "followers" who are immediately informed of any new item we post. On the BDC Reporter dozens of individuals have signed up for our free email updates, with more being added daily.

FED TO KEEP RATES LOW

Like everyone else in the financial world, we like to play "When Will The Fed Start Raising Rates" game.

However, in our case, what the Fed does has a dollar and cents impact on BDC II. Since the launch of the Fund in October 2009, rates have been at record lows, and we've been able to borrow from Goldman (which pegs its margin lending to 1% over the Fed Funds rate) at 1.25% per annum, or less!

Our best guess looking forward, which is based on listening to all the pundits, is that the Federal Reserve will probably continue to keep interest rates near zero through the end of the year. The crisis in Europe has delayed any increase, both to ensure the economy keeps rolling despite the potential slowdown in exports to the beleaguered Euro zone, but also to keep the dollar from getting too strong ...

For BDC II, whose latest all-in margin rate is currently just under 1.25% that's good news. Of course, even when rates do increase the impact on the Fund's returns will only be minimal. We calculate that even if the margin rate doubles BDC's net yield will only drop by 8%. We hope that by the time the margin rate increases dividend increases from some of our portfolio companies will offset all or some of the borrowing cost increase. In the interim, we'll continue to enjoy the Fed's gift of very cheap money.

DIVIDEND ROUND UP

The Dividend Scorecard for the first two months of the second quarter of 2010 remains positive. Of the 22 BDCs we track, 13 have made distribution announcements. As the Scorecard below shows, there has been no company announcing a decrease in dividends in the second quarter of 2010 (compared to the first quarter), and one third of BDCs making announcements have reported an increase in their pay-outs.

DIVIDEND SCORECARD

ACTION	REPORTED
INCREASED	4
UNCHANGED	9
DECREASED	0

NEWSLETTER

Keeping investors and prospective investors updated on the activities of Southland Capital Management and BDC Fund II

Office:

1221 Ocean Blvd., Suite 208
Santa Monica CA 90401
Tel: 310.395.8174

Nicholas Marshi

Chief Investment Officer

Email:

nmarshi@southlandcapitalmanagement.com

Bill Hansen

Chief Marketing Officer

Contact: 760.485.1252

Email:

bhansen@southlandcapitalmanagement.com

Visit us @

www.southlandcapitalmanagement.com

Accredited Investors:

Please contact us for login information. Currently closed for renovation. Should be open in 2 weeks.

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