Applied Investment Management (AIM) Program

AIM Class of 2011 Equity Fund Reports
Fall 2010

Date: September 3, 2010, *Location:* AIM Research Room
Time: 3:00 – 4:30 pm

Student Presenter	Company Name	Ticker	Price	Page No.
David Zakutansky	Standard Parking Corporation	STAN	$15.65	2
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Andrew Freedman	Atheros Communications	ATHR	$25.07	11
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Timothy Hildebrand	Meadowbrook Insurance Group	MIG	$8.59	17

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Standard Parking Corporation (STAN)
Date: September 3, 2010

David Zakutansky — Sector: Business Services

Standard Parking Corporation (STAN) is the nation's second largest provider of parking management and related parking facility services. The company has an estimated 5% market share based on total facilities under management. Currently, the company is managing over 2,200 parking locations containing more than one million parking spaces across 335 cities throughout the United States and Canada. STAN also provides other onsite services for clients, including training, scheduling, and supervision of service personnel. The company also provides customer service, marketing, maintenance and accounting and revenue control functions necessary to facilitate the operation of its clients parking facilities. STAN serves parking lots with three different contract types including the following: Fixed-Fee Management (65% of revenues), Reverse Management (25%), and Lease (10%). The company serves twelve different market types with exposure to Commercial (23%), Office Building (23%), and Retail (18%). The company was founded in 1929 and is currently headquartered in Chicago, Illinois.

Price ($): (8/31/10)	15.65	Beta:	0.98
Price Target ($):	19.50	WACC	8.14%
52WK H-L ($):	14-18	L-Term Rev. Gr Rate Est:	4%
Market Cap (mil):	231.85	L-Term EPS Gr Rate Est:	5%
Float (mil):	15.634	Debt/Equity:	442.0%
Short Interest (%):	3.4%	ROA:	5.9%
Avg. Daily Vol (mil):	75,092	ROE:	59.3%
Dividend ($):	0.00		
Yield (%):	0.0%		

FY: Dec	2009A	2010E	2011E
Revenue ($mil)	695.49	723.31	755.86
% Growth	-0.75%	4.00%	4.50%
Gross Margin	11.30%	12.50%	12.50%
Operating Margin	4.10%	4.50%	4.55%
EPS ($Cal)	0.90A	1.04E	1.10E
FCF/Share	$1.18	$1.15	$1.21
P/E (Cal)	16.67	18.75	17.7
EV/EBITDA	9.80x	10.87x	10.49x

Recommendation

With broad program offerings and nationwide exposure, STAN boasts a strong platform and is strategically positioned to take advantage of the growing number of companies and institutions looking to outsource their parking needs. STAN's strong network of over 2,200 parking facilities and its 'Ambience in Parking' service affords clients a more enjoyable parking experience and helps the firm tout a customer retention rate over 90%. With most public transportation systems unsatisfactory for convenient public use and a business and government environment more accepting of outsourcing, STAN stands to benefit from a projected increase in outsourcing of parking facilities. Furthermore, STAN and its dedicated management and operation teams are in a prime position for expansion and growth. STAN posted revenue and net income CAGRs of 4.45% and 12.82%, respectively, for the last four years and is in position to leverage its platform to turn more revenue into net income. Average degree of operating leverage for the past five years was 10.86, showing that leveraged earnings are a realistic expectation. Gross and operating margins are 11.3% and 4.1%, respectively, and have been consistent over the last five years. The margin consistency can be attributed to STAN's movement into more programs to enhance the parking experience, the development of a business and government environment more accepting of the outsourcing of such services as parking, and the reality that outsourcing parking to a company like Standard can decrease costs between 10% and 20% for an organization. Therefore, because of STAN's strong platform and growth prospects, it is recommended that STAN be added to the Domestic AIM Equity Fund with a $19.50 target price and 25% potential upside.

Investment Thesis

- **Recurring Revenues in a Diversified Platform Concentrating on Margin Expansion.** 90% of the contracts Standard Parking enters into are fixed fee contracts independent from underlying parking volumes. STAN has a nationwide footprint serving 12 different types of end markets. With 70% of the market held by local and regional parking management companies, STAN is prepared to take advantage of growth opportunities as the industry consolidates in light of insufficient public transportation services throughout the largest cities in the United States and

Canada. The company is focusing on growing in municipal markets and returning net margins to historical averages at just under 5%.

- **Scalability and Potential Cost Savings.** STAN provides a potential 10-20% savings to its customers who utilize the firm's services. STAN can provide fast and efficient parking solutions across the nation for all types of clients and special events. The company differentiates itself by providing a more enjoyable parking experience through its 'Ambiance in Parking' service, which helps to drive repeat parking business to facilities run by the company. The firm boasts a strong retention rate between 90% and 95%, which is very strong considering the industry average hovers around 80%. As more outsourcing opportunities present themselves and the fact that mass transit will not likely grow in the U.S., STAN will continue to boost revenues.
- **Insufficiency of Public Transportation and Valuation.** The continued lack of sufficient public transportation across the country supports consumers' demand for parking management and facilities by Standard and other competitors. The U.S. Census reported that New York City is the only city in the U.S. with ridership above 50%, and in the 273 cities with a population greater than 100,000, only 13.9% have daily ridership above 10%. These Census statistics support the projections of continued additions to the nation's parking infrastructure needs. With STAN trading below its historical P/E of 17.7, the company has definite upside potential.

Valuation

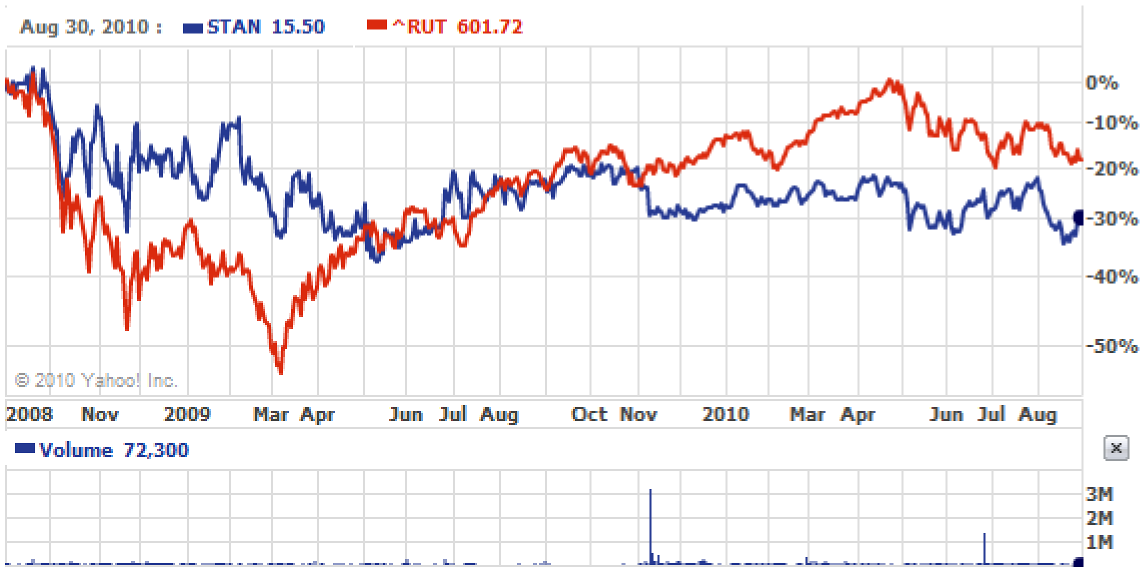
STAN is currently trading at 16x TTM EPS of $0.94. Applying an 18x multiple on my 2010 EPS estimate of $1.04 and a 17.5x multiple on my 2011 EPS estimate of $1.10 yields an intrinsic value of $18.72. Based on a 5-year DCF analysis with a computed WACC of 8.14% and a terminal growth rate of 3%, an intrinsic value of $20.80 was obtained for STAN. A sensitivity analysis that adjusts both the long-term growth rate (2.5-3.5%) and the WACC (7.5-8.5%) generates a price range of $20.60-21.03. Due to the immediate near-term positive trends in the industry, a price target of $19.50 was established. With the stock currently trading at $15.65, a $19.50 price target would yield a 25% return. The firm does not pay a dividend.

Risks

- **Reliance on Parking Volumes.** Although a significant portion of Standard's revenue (90%) is generated from fee-based parking management, STAN is still affected somewhat by general consumer spending trends. With 10% of revenues drawn from leasing contracts, the most exposed contracts to macroeconomic factors, cost-conscious consumers can weigh on Standard's revenue stream. Lease revenues dropped 9% in 2009 and management expects a flat 2010.
- **Lingering Domestic Economic Headwinds and Ability to Win Contracts.** STAN's domestic exposure could have an unfavorable effect on revenues and profitability in light of the recession and more slowly growing economies. The company's growth is directly correlated with the performance of its ability to bid and win parking contracts, and if STAN loses client business, demand for STAN services will diminish.
- **Highly Competitive Industry.** The parking sector is highly competitive and localized, as competitors bid on parking contracts for a few years at a time. In addition, only 30% of the parking industry is held by large parking management companies such as Standard, and the company must compete with local and regional players who might already have a stronger market presence in the city or region being competed for. These threats could pose potential issues for revenue growth.

Management

James A. Wilhelm has served as CEO since 2001 and has been with the company since 1985. He was responsible for managing the Midwest and Western Regions prior to becoming CEO. G. Marc Baumann has been CFO since 2000. Each member of the management team has been with the company for several years, a fact showing their dedication to the firm. Management knows the industry well, as they have grown the company significantly over the last decade.



Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	96%

Source: Yahoo Finance

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management Company, LLC	1,218,371	7.79
Times Square Capital Management	1,214,050	7.77
Capital Research Global Investors	1,188,000	7.60
Schroder Investment Management Group	1,143,500	7.31
Loomis Sayles & Co LP	881,296	5.64

Source: Yahoo Finance

HealthSpring, Inc. (HS)
Date: September 3, 2010

Shannon Lawton — Healthcare

HealthSpring, Inc. (HS) is one of the largest Medical Advantage coordinated plans (580,000 enrolled members) in the United States. HS operates in two distinct segments: Medicare (99% of net revenue) and Commercial (1%). The Company's Medicare segment is concentrated in its Medicare Advantage program, which competes with traditional fee-for-service Medicare. HS focuses on managing medical costs, providing additional benefits, coordinating care structures between local hospitals and physicians, and providing prescription drug plans. Currently, HS's Commercial service line is not a core focus of the Company and is only available in Alabama and Tennessee. HS uses their size and regional concentration to their advantage to effectively compete against other industry players, which include UnitedHealth Group, Humana, and Universal American Corporation. The Company's strategy is to enter selected markets and penetrate them in order to become one of the top HMO providers in the region. HealthSpring was founded in 2000 and is headquartered in Franklin, Tennessee. The Company currently operates in six states: Alabama, Florida, Georgia, Illinois, Tennessee, and Texas.

Price ($) (8/27/10)	20.50	Beta:	1.51
Price Taget ($):	25.00	WACC	11.2%
52WK Range ($):	11.73 - 20.52	L-Term Rev. Gr Rate Est:	4.0%
Market Cap:	1.17B	L-Term EPS Gr Rate Est:	4.0%
Float	52.61M	Debt/Equity	19.3%
Short Interest (%):	4.4%	ROA:	9.3%
Avg. Daily Vol:	0.529M	ROE:	15.9%
Dividend ($):	0.00		
Yield (%):	0.0%		

FY: Dec	2009A	2010E	2011E
Revenue (Mil)	2,666	2,879	3,110
% Growth	21.83%	8.00%	8.00%
Gross Margin	20.11%	20.00%	20.00%
Operating Margin	8.46%	8.50%	8.50%
EPS (Cal)	$2.43A	$2.26E	$2.45E
FCF/Share	2.66	2.26	2.45
P/E (Cal)	6.76	9.05	9.20
EV/EBITDA	4.9x	4.7x	4.8x

Recommendation

HealthSpring's extensive Medicare Advantage health care plans provide the Company with a competitive advantage as they seek to expand into new markets. Its resources, which include, additional premiums, benefits, and specialty care offerings are high value today by the benefits savvy aging U.S. population. HS currently serves as a niche player in the $940B U.S. health care plan market. For the fiscal year ended December 31, 2009 the firm experienced a 22.4% growth rate in revenue and a 12.3% increase in net income. HS had an EPS gain of 13.7% ($0.33) over FY2008. Membership in the Company's Medicare Advantage programs increased from 440,000 in 2008 to 580,000 in 2009 - a 25% increase. This growth can be split between organic (75%) and through acquisitions (25%). Disenrollment of members has decreased from 18.5% in 2008 to 13.1% in 2009. As a result of likely increased future membership and favorable demographic trends, I am recommending that HS be added to the AIM Equity Fund with a target price of $25, offering an upside of 23%.

Investment Thesis

- **Market Share Growth.** HS has recently expanded significant resources, both human and financial, in expanding their market share in Florida. Currently, the Company holds 18% of the Florida Medicare Advantage market, which ranks second among plan providers. In 2009, HealthSpring opened two facilities in Miami in order to further increase its market share. Ranked third in Texas with 16% of the market, HS is looking to increase membership serving counties in northern Texas, a new market area for the firm. In 2010 HS entered into the Georgia market in order to capitalize on attractive market opportunities. In addition to these new locations, HS has begun to use a tiered service offering in selected Tennessee areas and is expanding this year into a tiered system across the entire state. The tiered system allows the Company to serve a broader and more diverse customer base. In order to transition to the tiered system in Tennessee, HS has decided to spend over $50M to consolidate its Metro Centers and into a single larger campus.

- **High Quality.** Currently, HealthSpring's Medicare quality star rating exceeds the national average. This widely watched rating is based on a variety of factors related to service quality. HS has recently placed an increased focus on this service area and has set up various Quality Management Programs to reduce reoccurring visits. These programs are designed to drive down medical costs, leading to increased margins. The emphasis on higher quality should also increase HS' star rating which is likely to translate into additional revenue from the government. In addition, the Company continues to promote their Partnership for Quality program, which provides monetary incentives to physicians who are cost-effective while still providing high quality care. In 2008 the number of physicians in this program was 610 and as of 2009 the number had grown to 730 physicians in the program, an annual increase of approximately 20%. Furthermore, the number of plan members who visit physicians who are a part of this program has increased by over 30%, growing from 49,600 in 2008 to 73,600 in 2009.
- **Expansion.** HS is also growing due to various acquisitions, which currently account for about 25% of total membership. The Company's most recent acquisition in 2008 was Valley Baptist Health Plan, an action which resulted in membership growth from 5,700 in 2008 to 8,700 in 2009, a 35% increase. During FY2007 HS acquired Leon Medical Centers Health Plans, which has grown from 25,800 members when first acquired to 31,500 in 2009, an 18% increase. This past week HS announced their purchase of Bravo Health ($545M). The acquisition of Bravo allows HS to enter the Pennsylvania market, which the Company does not currently serve.

Valuation

Using a 10-year DCF with a computed WACC of 11.2% and a LT growth rate of 3%, an intrinsic value of $29.03 was determined for HS. The DCF model grew revenues in the near term at an average of 8% per year and maintained operating margins at 8.4%. Historically, HealthSpring's revenue growth has been 20-40% annually. Applying a 9x P/E ratio to 2011E EPS forecast of $2.45 yields an intrinsic value of $22.05. Blending these two approaches I arrived at a price target $25.00, which represents an approximate 23% return.

Risks

- **Government Funding.** HS depends on government funding for their revenue. With the potential for a government 'utilization' of health care there is always uncertainty of what could happen to the Medicare program. The risk of a decrease in Medicare funding – with a potential drop in revenue for HS – always exists for health care providers dependent of Medicare funding.
- **Future Tax Rate Increase**. With the recent passage of healthcare reform, the industry is expected to experience significant changes, particularly as politicians continue to debate how reform will be funded. It has been mentioned that the government might place an excise tax on Health Care Plan companies with current plans projecting an additional 2.3% tax beginning in 2013. If implemented, the tax will negatively impact HS bottom line figures. The financial projections in this analysis factored in the increase excise tax.
- **Limited Enrollment.** Intense competition exists between fee-for-service Medicare and Medicare Advantage Plans. A short window November 15^{th} to December 31^{st} is open to customers to switch plans. HS has experienced an approximate 10% enrollment turnover each year.

Management

CEO Herbert A. Fritch has over 35 years of experience in the managed health care business. Mr. Fritch has served as the Company's CEO since the founding of the Company in September 2000. Previously, he served as CEO of NewQuest, LLC, the predecessor to HS. In July 2009, Karey L. Witty became an Executive Vice President and CFO. Previously, Mr. Witty was Executive Vice President and CFO of Vilitas Health Services Inc. He has over 15 years of experience in financial management positions in the health care industry.

Ownership

% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	87%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
FMR LLC	4,180,052	7.31
Fidelity Low-Priced Stock Fund	3,199,972	5.59
Lord Abbett & Co.	3,016,150	5.27
Dimensional Fund Advisors LP	3,005,444	5.25
BlackRock Fund Advisors	2,448,881	4.28

Source: Yahoo! Finance

Tim Hortons Inc. (THI)
Date: September 3, 2010

Ethan Matter — International Consumer Services

Tim Hortons Inc. (THI) is a well-known Canadian quick-service food restaurant. The Company appeals to a broad range of consumer tastes, providing premium coffee, flavored cappuccinos, specialty teas, home-style soups, fresh sandwiches and wraps, hot breakfast sandwiches, and fresh baked goods (including Tim Hortons' trademark donuts). THI operates about 3,600 restaurants, almost all of which are franchised (99.5%). The restaurants are located primarily in Canada (84 %) and the United States (16%). An additional 300 branded self-serve kiosks are located in the United Kingdom and Ireland. The Company trades on both the Toronto Stock Exchange and New York Stock Exchange. Tim Hortons was founded in 1964 and is headquartered in Oakville, Canada.

				FY: Jan	2009A	2010E	2011E
Price ($): (8/31/10)	35.38	Beta:	0.89	Revenue (Mil)	1,494.2	1,765.8	1,942.4
Price Target ($):	45	WACC	9.6%	% Growth	9.7%	13.3%	10.0%
52WK H-L ($):	37-27	L-Term Rev. Gr Rate Est:	8%	Gross Margin	41.2%	41.2%	42.0%
Market Cap (mil):	6,170.00	L-Term EPS Gr Rate Est:	10%	Operating Margin	22.1%	22.2%	23.2%
Float (mil):	174.4	Debt/Equity:	38.9%	EPS (Cal)	1.70A	2.06E	2.22E
		ROA:	16.0%	FCF/Share	$1.26	$1.84	$2.18
Avg. 3 Mo. Vol (mil):	0.43	ROE:	26.0%	P/E (Cal)	20.9x	17.2	16.0
Dividend ($):	C$0.52			EV/EBITDA	13.6x	11.9x	10.4x
Yield (%):	1.4%						

Recommendation

Tim Horton's Inc. (THI) is the largest publicly traded quick-service restaurant in Canada and the fourth-largest in North America based on market capitalization. The Company boasts a powerful footprint in Canada (3000+ units) and also an expanding business in the United States (almost 600 units). In Q2 2010, THI posted strong EPS results of $0.54 per share, up 20% from Q1 2010 and 7% ahead of consensus estimates. The strong results were driven by better than expected same store sales growth in Canada and the United States at 6.4% and 3.1%, respectively. The Company has a well-established growth plan not only in the United States but in Canada as well, expecting to add more than 900 new stores (7.8% CAGR) by 2013. Despite challenging economic conditions, THI's company performance has been continually strong. Maintaining a model that emphasizes a strong consumer value message, low average ticket, and strong position in coffee, the Company benefits from customers frequenting its stores on multiple occasions in multiple time periods. About 26% of THI's customers visit the store seven or more times a week. With uncertain economic headwinds continuing, a strong brand name like Tim Hortons will be an important holding in the AIM International Equity portfolio. Therefore, it is recommended that THI be added to the portfolio at a target price of $45 with an upside potential of 27.3%.

Investment Thesis

- **Maidstone Bakeries Sale.** THI is expected to exit its 50-50 joint venture with partner Aryzta AG (Zurich, Switzerland) by the end of the year. The Company will receive $475 million cash (14.1x EBITDA) for its 50% stake in Maidstone Bakeries. This is an attractive valuation for exit considering recent industry transaction valuations (Grupo Bimbo paid 9.1x EBITDA for Weston's U.S. baking assets.) THI has not specifically outlined plans for the proceeds, but has hinted strongly at considering "potential avenues to return cash to shareholders." Research indicates that the likely option for THI is a special share repurchase. The sale will decrease EPS by $0.12, but an estimated $375 million of after-tax proceeds dedicated to a special share repurchase would increase EPS by approximately $0.15, making the sale immediately accretive.
- **Improving United States Performance.** THI is beginning to penetrate the lucrative US fast-food market, a $170 billion industry opportunity. The Company has worked hard to develop their

strong Canadian brand name into important US markets (including New York, Michigan, and Ohio), seeking to create a distinct position in the crowded US food space. To date, the US expansion has been a success, boasting a strong 10-year average annual SSS growth of 6.9%. Recent results from US-specific operations have also been strong, posting Q2 EBIT of $3.9 million (11.9% margin), up 13.9% yoy. With 587 current store locations and plans for an additional 300 (14.7% CAGR) through 2013, US performance will become increasingly important to THI's future success.

- **Unique Expansion Initiative.** THI strategic plans expand beyond geographic-focused penetration into the United States. In March 2009, THI entered a partnership with Kahala Corp. to co-brand Tim Hortons and Cold Stone Creamery locations in the United States. The initiative was a major part of the Company's US SSS growth of 3.2% in 2009 (exceeding targeted 0-2%). At the beginning of 2010, THI had 69 co-branded locations in the US and Canada. The Company plans to open about 30 new co-branded stores throughout 2010, primarily in the US. Another interesting expansion plan involves Canadian market penetration in Quebec. Management believes its 3,000 locations are not saturating the Canadian market. THI seeks further penetration in Quebec (currently 415 units), a currently underserved area, and increased locations in rural areas with a population under 5,000 people. This provides continuing growth opportunities for THI in Canada where EBIT margins (2009: 27.5%) are better due to lower advertising expenses.

Valuation

Utilizing a DCF approach with a computed WACC of 9.64% and terminal growth rate of 3%, an intrinsic value of $45.03 was obtained. A sensitivity analysis performed on the WACC (8.5-10.5%) and terminal growth rate (2-4%) displayed a price range of $36.52-$66.84. In addition, a 19x multiple to my 2010 EPS estimate of $2.25/ share yielded a price target of $42.75. Finally, a 10x multiple applied to my 2010 EBITDA estimate of $5.01/share yielded a price target of $50.12. The analysis assumes a 10.7 million share repurchase in 2011. Considering the two approaches, a price target of $45 was obtained, representing a 27.3% upside in addition to THI's 1.4% dividend yield.

Risks

- **Heavy US Competition.** THI must compete with a variety of well-known United States fast-food restaurants and coffee shops. If the Company's US expansion is to succeed, THI must successfully develop its brand name against "giants" such as McDonald's, Starbucks, Panera Bread and Dunkin' Donuts. Consistent US SSS growth suggests THI is a doing a solid job of developing its brand name, but departure from current trends could affect top and bottom-line initiatives.
- **Weakening Consumer Activity.** If the consumer continues to weaken, THI's financial performance could deteriorate. Weaker consumer spending power will allocate fewer dollars to discretionary expenses such as fast food. However, THI's value offering and staple product (coffee) should help ease the impact from a decrease in consumer spending activity.

Management

In March 2008, Donald B. Schroeder was appointed President and Chief Executive Officer of Tim Hortons and a member of the THI Board of Directors. Mr. Schroeder joined Tim Hortons in 1991, holding several positions within the Company including Executive Vice President of Administration. The Company's co-founder, Ron Joyce, remains an active participant as Chairman of the Tim Horton Children's Foundation.

Ownership

% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	73%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research	14,001,073	8.1
Mackenzie Financial Corporation	7,768,664	4.5
RBC Asset Management	7,576,839	4.4
Jarislowsky Fraser, Ltd.	7,204,842	4.1
Greystone Managed Investments Inc.	5,216,438	3.0

Source: MSN Money

Atheros Communications (ATHR)

September 3, 2010

Andrew Freedman — Domestic Hardware

Atheros Communications, Inc. (ATHR) is engaged in providing technologies for wireless and wired communications products that are used by a range of customers, including manufacturers of personal computers (PCs 37% of revenue), networking equipment for digital home, small office/home office [SOHO] (43%), enterprise and carrier deployments, and consumer electronics for home and mobile applications (20%). The Company's product portfolio includes solutions for wireless local area network (WLAN), Mobile WLAN, Ethernet, Bluetooth, global positioning system (GPS), and powerline communications (PLC). As of the most recent quarter, Atheros has placed shipments with the world's top ten PC OEMs. Major customers include Nintendo, Microsoft, Apple, Toshiba and 2Wire. The company was founded in 1998 and is headquartered in Santa Clara, CA.

Price ($): (9/1/10)	25.07	Beta:	1.48
Price Target ($):	36.29	WACC	11.78%
52WK H-L ($):	24.18-43.90	L-Term Rev. Gr Rate Est:	10%
Market Cap (mil):	1,817.5	L-Term EPS Gr Rate Est:	12'%
Float (mil):	70.13	Debt/Equity:	0.0%
Short Interest (%):	2.5%	ROA:	20.6%
Avg. Daily Vol (mil):	2.72	ROE:	20.6%
Dividend ($):	0.00		

FY: Aug	2009A	2010E	2011E
Revenue ($Mil)	542.47	922.20	1,032.86
% Growth	14.83%	70.00%	12.00%
Gross Margin	48.59%	50.00%	49.50%
Operating Margin	15.22%	19.00%	19.50%
Pro-Forma EPS ($Cal)	1.67	2.52	2.68
FCF/Share	$ (0.20)	$ 0.94	$ 1.24
P/E (Cal)	15.01	9.95	9.36

Recommendation

Atheros Communications is the second leading provider of WLAN, Ethernet, PLC and GPS products to major OEMs and ODMs globally (next to Intel 28%), with an estimated market share of 21% of the total wireless connectivity market. Driven by a culture of innovation, cost leadership and a strict adherence to their core competencies, Atheros has established a consistent track record of growth with a seven-year revenue CAGR of 36% and a five-year market share gain of 15%. Strong secular demand in the area of Bluetooth, Ethernet, embedded WLAN (gaming, handsets, e-readers, tablets and TVs), and home plug are expected to offset the impact of increased WLAN competition and pricing pressure in the PC and Retail end markets–which should drive sustained growth and profitability. A series of acquisitions over the past five years has proven accretive and has diversified the company's product portfolio with complementary technologies. This diversification strategy is expected to continue to pay off into the 2H10 as stronger consumer and networking sales offset expected softening in the PC market. Sequential increases in 2Q10 consumer and networking revenues were 41% and 17%, respectively while the PC channel declined 10%. Further, Atheros is in a strong financial position with approximately $6.65 of cash per share on the balance sheet, no debt and current assets at 3.5x of liabilities. This will provide Atheros the flexibility needed to navigate any secular or cyclical downturns associated with a further deterioration of the macro economy or a change in industry trends. With macros currently ruling the markets and putting continuing pressure on semiconductor firms, Atheros appears to offer long-term value at its current price. Due to strong secular demand and a series of powerful long-term trends, it is recommended that ATHR be added to the AIM Equity fund with a target price of $36.29, yielding a 40% potential return.

Investment Thesis

- **AMP Powerline Solutions Technology (PLC).** Gartner research estimates the PLC market to grow at a CAGR of 20% over the next five years. PLC technology enables high-speed video and data networking over the home's existing electrical wiring that is accessible through the common electrical wall outlets located throughout the home. Atheros gains efficient access to this market through the Home Plug Alliance which accounts for 75% of the entire broadband PLC market. The Alliance has shipped a cumulative total of 45 M units since 2000 with 60 M expected by year end. 2Q10 PLC revenue growth was up 41% sequentially driven by strong demand for the Atheros Home Plug Solution and greater wireless attach rates. This trend is expected to accelerate with ATHRs recent release of the industry's fastest and only IEEE compliant PLC. The PLC is characterized by gross margins 50-100bps above current margin levels.

- **Return of the Consumer.** The consumer channel is expected to again be exceptionally strong and provide the vast majority of the 5-7% sequential revenue growth as a series of design wins are expected to hit the market in the 2H10. Most recent design wins are related to the ATHRs ROCm Wi-Fi smartphone chip that is currently the world's smallest, lowest power and highest performing Mobile WLAN solution. Samsung, Sony Ericson and Motorola are using this product in the release of their new Android based smart phones. Additionally, Atheros has secured design wins with five of the top ten PC OEMs for their stand-alone and combination Bluetooth solutions. Other segments using ATHRS Wi-Fi solutions are gaming, personal navigation, digital cameras, e-books and printers. In 2Q10 the non-gaming portion of ROCm wireless LAN revenue exceeded 50%, demonstrating strong growth and diversification.
- **Opulan Acquisition.** On August 31, 2010 management announced the completed acquisition of Opulan in an all cash transaction for approximately $72 million. Opulan is a semi-conductor company based in Shanghai with approximately 111 employees. They specialize in passive optical networking (PON) which allows access speeds of 1 gigabit per second (growing to 10 gigabits per second). According to Infonetics research, the market for PON equipment will more than double between 2009 and 2014 driven by the global upgrade of existing broadband infrastructure. Synergies related to this transaction will be product oriented, complementing the Ethos gigabit switching family. The acquisition is expected to be earnings neutral in 2010 and expands the company's footprint in China.

Valuation

Based on a 5-year DCF analysis with a computed WACC of 11.78% and a terminal growth rate of 3%, an intrinsic value of $30.70 was obtained for ATHR. A sensitivity analysis that adjusts the long-term growth rate (1-5%) and WACC (9-13%) generated a price range of $24.75-$66.02. Additionally, a historical EV/EBITDA multiple of 8x and 10x were used to calculate a price range of $27.18-$31.66. ATHR is currently trading at 17x TTM EPS of $1.49 which is a slight discount to the industry average of 19.65x and with 2011 EPS estimates of $2.68 suggests a fair value of $46.52. Applying an equal weighting to all three valuation methods provides a $36.29 target price – offering a potential 40% return.

Risks

- **Fierce Competition.** Atheros competes with the likes of INTC, BRCM, MRVL and TI. Although IDC ranks ATHR as the number two vendor in the WLAN space, these competitors have longer operating histories, significantly greater financial, manufacturing, technical, marketing, sales and other resources. The competitors' size and experience may allow them to respond more quickly to new emerging technologies or a change in customer requirements.
- **Computing Market Exposure.** The WLAN market is heavily weighted in the computing market for products such as personal computers, routers, access points, printers, etc. Therefore, with 50% of sales derived from this market, a slowdown in PC sales could have a negative impact on ATHRs business model; however, further product portfolio diversification should soften the impact going forward.
- **Reliance on Major Customers.** In 2009, Hon Hai Precision Industry accounted for 25% of total revenues while Nintendo represented 13%. Any loss of, or significant decline in expected sales will be detrimental to ATHRs ability to grow revenue.

Management

Dr. Craig Barratt has served as president and CEO of Atheros since March 2003. He holds a Ph.D. and MS degrees from Stanford University, and a BEE degree as well as BS degrees in pure mathematics and physics from Sydney University. Jack Lazar has served as VP and CFO since September 2003. Prior to joining Atheros, Lazar was the Executive Vice President of Corporate Development and CFO of NetRatings, Inc. He is a CPA and holds a BS degree in commerce from Santa Clara University.

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	98%

Source: Reuters

Top 5 Shareholders as of December 31st, 2009

Holder	Shares	% Out
Fidelity Management & Research	10,481,887	14.80
Wellington Management Company, LLP	4,044,804	5.71
Turner Investment Partners, Inc.	3,059,295	4.32
Vanguard Group, Inc.	2,936,394	4.15
BlackRock Institutional Trust Company	2,461,567	3.48

Source: Reuters

Auxilium Pharmaceutical (AUXL)

August 31, 2010

Herwin Yip | Domestic Healthcare Sector

Auxilium Pharmaceutical (AUXL) is a specialty biopharmaceutical company with a focus on developing and marketing products to predominantly specialist audiences such as, urologist, endocrinologists, certain targeted primary care physicians, hand surgeons and rheumatologists. The firm currently has two drugs in its portfolio: Testim and Xiaflex. Testim is a testosterone gel that is use in the treatment of hypogonadism and Xiaflex is a biologic drug that targets Dupuytren's Contracture. Axuilium currently relies on Testim for majority of its revenue (~90%) but the recent introduction of Xiaflex will further diversify the firm's revenue stream.

Price ($): (8/31/10)	26.06		Beta:	0.94		FY: Dec	2010E	2011E	2012E
Price Target ($):	34		WACC	9.55%		Revenue (Mil)	293.67	357.42	468.42
52WK H-L ($):	20-38		L-Term Rev.	3.00%		% Growth	79.03%	21.71%	31.06%
Market Cap (mil):	1,231.80		L-Term EPS	3.00%		Gross Margin	75.44%	76.00%	76.50%
Float (mil):	47.35		Debt/Equity	0.0%		Operating Margin	-29.56%	-6.00%	11.50%
Short Interest (%):	24.5%		ROA:	-15.20%		EPS (Cal)	($1.83)	($0.45)	$0.74
Avg. Daily Vol (mil):	3.07		ROE:	-73.90%		FCF/Share	($2.17)	($0.64)	$1.14
Dividend ($):	0.00					P/E (Cal)	-	-	23.00
Yield (%):	0.0%					EV/EBITDA	-	-	17.00

Recommendation

AUXL is a promising biopharmaceutical company that addresses several unmet medical needs. The firm currently has two drugs in its portfolio: Testim and Xiaflex. Testim, a testosterone gel that treats hypogonadism, is AUXL’s major revenue generator. Since 2010, the FDA has approved Xiaflex for the treatment of Dupuytren's contracture (Cord's). Cord's disease is a result of collagen build up around the finger joints, causing the patient to severely lose the usage of his or her hands. Xiaflex is a biologic drug that utilizes enzymes in the treatment of Cord's diseases. The drug is the only one of its kind and with the alternative being invasive surgery. The typical surgical treatment of Cord's has several down points including: a higher probability of post-surgery complications, longer down time, increase in discomfort through pain and higher reoccurrence rate (up to 34% in 2 years). Xiaflex presents itself to be an attractive alternative due to the following factors: noninvasive application, shorter down time, lower probability of infection and lower reoccurrence rate (20.5%). The company has an iron clad balance sheet with 73% of its assets in cash ($165 MM) and zero debt. In summary, Axuilium’s strong growth potential in Xiaflex and stable pipeline presents the firm to be an attractive investment opportunity. With that, it is recommended that CBST be added to the AIM Equity Fund with a target price of $34, an upside potential of 30%.

Investment Thesis

- **Strong Xiaflex Growth Potential.** Xiaflex, a biologic drug used in the treatment of Dupuytren’s Contracture, was recently launched in the second quarter of 2010. Since its introduction, Xiaflex has been experiencing a 93% QoQ growth. Xiaflex has the potential to be a future blockbuster given that it is the only non-surgical alternative in the treatment of Dupuytren’s Contracture (Cord’s). Cord’s is a disease that affects 3% of the American population (9 million patients). Xiaflex is a non-invasive, safer and less complicated alternative to surgery. The reoccurrence of Cord’s was shown to be dramatically reduced through use of Xiaflex (20.1%) as oppose to surgery (34%). AUXL has market exclusivity of Xiaflex until 2022. Management believes that Xiaflex has the potential to a $1 billion market.

- **Promising Pipeline.** AUXL is currently looking to expand the use of Xiaflex for the treatment of two unmet medical needs; Peyronie's Disease and Adhesive Capsulitis (Frozen Shoulder), both are in the process of completing Phase II testing. Peyronie's Disease is caused by excessive collagen build up in the male genital area. There is currently no treatment of Peyronie's with the exception of surgery, which costs up to $10~$12K per procedure. Effects of Peyronie's include Diabetes, Gout and erectile dysfunction. Patients are highly reluctant to embrace surgery due post-surgical complications and discomfort. The prevalence of the disease is estimated to have a 5% occurrence rate in males.
- **Strong distribution relationship with Pfizer**. AUXL currently has an exclusive European marketing and distributing agreement with Pfizer. The positive catalyst for AUXL is twofold: AUXL stand to gain up to $485 MM in milestone payments and Pfizer's distribution clout will dramatically enhance Xiaflex's publicity and brand recognition in Europe. The association with Pfizer's brand name will further legitimize Xiaflex's reputation.

Valuation

Based on a 5 year DCF analysis with a computed WACC of 9.55% and a terminal growth rate of 3%, an intrinsic value of $30 was obtained. An average sales growth rate of 43% was used from 2010-2012 and 17% from 2013-2014. Gross and operation margins were assumed to increase from 77.15% to 77.50% and -26.58% to 30.50% respectively as AUXL realizes operational leverage as sales from Xiaflex increase. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (7.55% – 11.55%) generates a price range of $18.76 to $59.90. An equally weighted relative valuation was performed using 25x forward P/E for 2013 EPS of $1.51 and 12x EV/EBITDA multiple yield a price target of $38.29. Giving an equal weighting to both my DCF and multiple models, a $34 price target is obtained. With the stock currently trading at $26.00, the $34 price target would yield a 30% return. The firm pays no dividends.

Risks

- **Large revenue dependence on Testim.** The drug is the majority revenue source for the company (~90%) and any loss of its proprietary patent, loss of acceptance by hospitals and potential litigation for unsafe use would adversely affect the ability for AUXL to maintain its top line growth.
- **Reimbursement complications through J-Code.** The current reimbursement process is done via the physicians. Unfamiliarity with the J-Code reimbursement process is hindering the adoption of Xiaflex by physicians who are unwilling to educate themselves on the new reimbursement process. This risk is mitigated through AUXL's extensive awareness workshops that seek to educate physicians and their staff on that process.
- **Pending Upsher-Smith patent litigation.** Upsher-Smith Pharmaceuticals has filed an ANDA seeking approval from the FDA to market a generic version of Testim prior to its patent ('968 patent) expiration in 2025. Upsher-Smith argues that production of Testim's generic version will not infringe on patent '968. Upsher-Smith, should they win the case, will be able to begin production of the generic version of Testim in April 2011.

Management

Mr. Armando Anido has served as the President of the Board and CEO since July 2006. Prior to joining Auxilium, Mr. Anido was the Executive Vice President, Sales and Marketing for MedImmune Inc. His compensation consists of 18% base salary, 24% in stock awards, 38% in stock options and 20% in non-equity compensation. Majority of management's stock options are now excisable.

Ownership

% of Shares Held by All Insider and 5% Owners:	9%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Growth Co. Fund	4,029,428	8.46
Federated Investors Inc	3,883,893	8.15
Wellington Management Co. LLP	3,229,480	6.78
Alger (Fred) Management Inc	2,636,049	5.53
Millennium Management Inc	2,538,142	5.33

Source: Yahoo! Finance

Meadowbrook Insurance Group, Inc. (MIG)
September 3, 2010

Tim Hildebrand — Financial Services Sector

Meadowbrook Insurance Group (NYSE: MIG) markets and underwrites specialty property and casualty insurance programs and products on an admitted and non-admitted basis through a broad and diverse network of independent retail, wholesale program administrators and general agents. MIG also specializes in providing full service risk management solutions, which helps to better align their financial objectives with their clients. MIG operates in two business segments: specialty insurance operations and agency operations. Their specialty insurance operations derive its revenue from net earned premiums (82.3% of revenue), which includes admitted and non-admitted programs, such as risk sharing vehicles; fee-for-service revenue from managed program revenue (9.6%), and investment income (8.1%). Their agency operations derive its revenue from commission, which involves agency commission from non-affiliated carriers. Meadowbrook was founded in 1955 and is headquartered in Southfield, Michigan.

Price ($): (8/31/10)	8.59	Beta:	0.89	FY: Aug	2009A	2010E	2011E
Price Target ($):	11	WACC	9%	Revenue (Mil)	627.85	728.30	804.78
52WK H-L ($):	6.01-9.30	L-Term Rev. Gr Rate Est:	11%	% Growth	39.76%	16.00%	10.50%
Market Cap (mil):	53.560M	L-Term EPS Gr Rate Est:	9%	Net Interest Margi	n/a	n/a	n/a
Float (mil):	49.78M	Financial Leverage	26x	Pretax Margin	8.52%	8.53%	8.73%
Short Interest (%):	2.7%	ROA:	2.77%	EPS (Cal)	.92A	1.07	1.21
Avg. Daily Vol (mil):	0.369	ROE:	11.19%	P/E (Cal)	8.5	8.75	8.18
Dividend ($):	0.12	Tier 1 Capital Ratio	n/a	BVPS	$9	$10	$11
Yield (%):	1.4%	Credit Provisions/Loans	4.36%	P/B	0.83	0.95	1.03

Recommendation

MIG increased their gross written premiums by 50.5% compared to 2008, which only included 5 months of Century's business. Excluding premiums related to Century, MIG increased gross written premiums 24% YoY. MIG was also able to increase net income 92.2% YoY and improved their combined ratio 92.6% from 93.3% in 2008. MIG also repurchased 1.9 million shares at an average of $7.18 per share helping book value per share increase 18.6%. MIG has not only shown great improvement in their top-line growth, but have also shown great strength in their margins. MIG has increased its operating profit margin at a CAGR of 7.3% from 2005, while also increasing net profit margin 2.08% YoY. MIG increased its dividend 50% from the second to third quarter in 2009; showing it is growth is sustainable and the company can increase its payout to pre-recession levels. MIG also boasts strong liquidity with $1.20 cash per share as well as a current ratio of 1.38. MIG also stands with impressive profitability ratios compared to industry peers. MIG out performs their peers with an ROE of 11.19% and an ROA of 2.84%, compared to a peer average of 10.26% and 2.74%, respectively. Under the assumption that the economic conditions gradually recover, MIG stands in a positive position to expand through their current subsidiaries along with new acquisitions to continue their already strong top-line growth. Therefore, due to its strong management team, competitive positioning and favorable growth prospects, it is recommended that MIG be added to the AIM Equity Fund with a target price of $11.00, offering a potential upside of 28%.

Investment Thesis

- **Century Merger.** On July 31, 2008, the merger of Meadowbrook Insurance Group, Inc. and ProCentury Corporation was completed. Under the terms of the agreement, ProCentury shareholders were entitled to either $20 cash per share of common stock or Meadowbrook common stock based on a 2.5 exchange ratio. ProCentury is a specialty insurance company, which primarily underwrites general liability, commercial property, and commercial insurance primarily in the excess and surplus lines, or "non-admitted," market through a select group of agents. MIG has been able to enhance revenues through launching new wholesale relationships in the Midwest and offering a surplus lines market for existing workers' compensation partner in New England. MIG has also benefited through leveraging shared infrastructure and increased size by developing Centers of Expertise for claims management and enhancing marketing capabilities through joint business development functions.

- **Strong Second Quarter Results.** MIG has shown significant top-line growth with net written premiums increasing 20% YoY. This top-line growth is driven by new businesses originated in the second half of 2009. While pricing remains competitive in the property/casualty market, MIG's relationship-driven program business, focusing on small businesses, has been insulated from more competitive markets, forming an economic moat. Book Value also increased 21% YoY, benefiting from an appreciation in the fixed-income portfolio due to the lower interest rate environment and from share repurchases.

Valuation

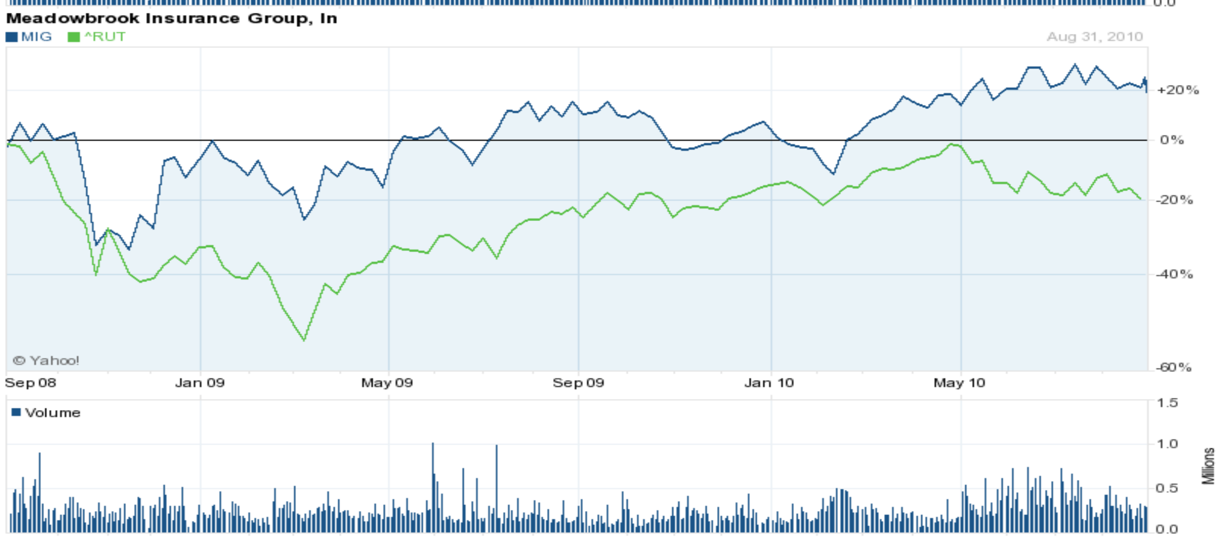
With a TTM P/B of .83x, MIG currently trades at a discount to the industry average of 1.03x. Applying a conservative 8x multiple to the estimate 2011 EPS of 1.16 as well as a .8x multiple to the estimate revenue per share of $14.04 produces a relative valuation of $10.01. A 6-year DDM model with a cost of equity of 10.55% and terminal growth rate of 5.5% yielded an intrinsic value of $11.53. Using an equal weighting of each valuation technique, and taking into consideration management growth assumptions and the firm's competitive position in differentiated marketing products, a stock price of $11 was established for MIG, offering upside potential of 28%.

Risks

- **Severe Weather Conditions and Other Catastrophes.** The majority of MIG property business is exposed to the risk of weather conditions and other catastrophes, which are inherently unpredictable. These conditions cause losses in lines of business acquired by the merger. These losses result in an increase number of claims as well as the amount of compensation sought by claimants. In 2008, MIG record $5.4 million of net after tax losses related to catastrophic losses, compared to none in 2009. Currently, MIG purchased catastrophe reinsurance to cover for a potential catastrophe.
- **Competitive Pressure.** MIG competes with foreign, national, and regional insurers, as well as mutual companies, specialty insurance companies, underwriting agencies and diversified financial services companies. MIG could face strong pressure from new insurers along with an influx of new capital into the marketplace. MIG could also face competition from programs in which state-sponsored entities provide property insurance in catastrophe-prone areas, other alternative market types of coverage; or other non-property insurance. Also, technological advances as well as increasing the supply of insurance capacity could hinder MIG's ability to maintain or increase rates.
- **Status as Insurance Holding Company.** MIG is a holding company that conducts the majority of their business through its Insurance Company Subsidiaries. MIG's ability to pay expenses and meet debt obligations may depend upon the earnings and surplus of its Insurance Company Subsidiaries and their ability to pay dividends to MIG. In addition, the payment of shareholder dividends is within the discretion of the Board of Directors and relies on numerous factors.

Management

Robert S Cubbin has served as the President and CEO of MIG since 2002. He also serves on the Board of Directors on numerous other subsidiaries of MIG. Previously he served as the firm's COO from 1999 to 2002 and has maintained a director position since 1995. Merton J Segal is the company's Founder and sits on the board of MIG along with its subsidiaries. MIG boasts strong management qualities with average management tenure of 13.2 years compared to a peer average of 9.4 years. MIG's executives' average compensation is also $1.91MM less than the peer average.



Ownership

% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	83%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
DIMENSIONAL FUND ADVISORS LP	4,708,986	8.79
ROYCE & ASSOCIATES, LLC	4,103,130	7.66
GOLDMAN SACHS GROUP INC	4,068,641	7.60
VANGUARD GROUP, INC. (THE)	2,250,419	4.20
Robeco Investment Management, Inc.	2,175,910	4.06

Source: Bloomberg