Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Fall 2011

Date: **Friday, September 9, 2011** ***Time:*** **3:00 – 4:30 pm**
Location: **AIM Research Room (DS488)**

Join us in person, or via video conferencing (link below)
Elluminate, a web-based Video Conferencing tool:
To join the session, please click on the link below within 30 minutes of the specified time.
Join the Blackboard Collaborate session

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Jon Schwerin	Zumiez , Inc.	ZUMZ	$17.97	11
Caitlin McMahon	K12 Inc.	LRN	$25.64	14
Vincent Ong	Konami Corporation	KNM	$36.36	17
Ted Linn	Aircastle Ltd	AYR	$11.38	20

These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

For more information about AIM please contact:

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Federal Agricultural Mortgage (AGM)
September 9, 2011

Jacob Bear — Financial Services

Federal Agricultural Mortgage Corporation (AGM), commonly known as Farmer Mac, provides a secondary market for agricultural real estate, rural housing mortgage, and rural utility loans in the United States. A stockholder owned federal instrumentality; AGM combines private capital and public sponsorship to serve a public purpose. AGM operates through three programs: Farmer Mac I, Farmer Mac II, and Rural Utilities. It purchases eligible mortgage loans secured by agricultural real estate and guarantees securities representing interests in pools of eligible mortgage loans, purchases portions of agricultural or rural development loans guaranteed by the US Department of Agriculture, and purchases, guarantees, and makes long term standby purchase commitments (LTSPCs) of eligible rural utilities loans. Total amount outstanding in all three Farmer Mac programs is $12.2B. About 61% of loans held come from small farms, with an average outstanding loan balance of $305,000. Farmer Mac diversifies its loans held and loans underlying its products on the basis of agricultural production commodities as well as geographic regions in the US. Chartered by Congress in 1988, Farmer Mac is an institution of the Farm Credit System headquartered in Washington D.C.

Price 9/2:	$18.21	Beta:	1.03	FY: Dec	2010A	2011E	2012E
Price Target:	$25.00	Discount Rate:	7.85%	Excess Returns (mil):	-$5.50	$10.05	$16.65
52 WK L-H:	10.16-22.93	M-Term Rev. Gr Rate Est:	4.8%	ROE:	8.8%	9.8%	11.1%
Market Cap:	188.51M	M-Term EPS Gr Rate Est:	22.5%	EPS:	$2.08	$4.73	$5.86
Float (mil):	9.32	Debt to Equity Ratio:	40.45	Div Per Share:	$0.20	$0.20	$0.20
Short Interest:	5%	ROA (Q3'11):	0.48	BVPS:	$44.68	$48.12	$52.56
Avg. 3 Month Vol (mil):	0.104	ROE (Q3'11):	21.24	P/B:	0.45	0.42	0.38
Dividend:	$0.20	Dividend Payout:	10.37%				
Yield:	1.00%						

Recommendation

The U.S. agriculture sector has benefited from appreciating commodity prices and a weaker dollar as it has proven more stable than the general economy recently. Additionally, more rural states have lower unemployment rates than the national average. Ongoing litigation, increased regulatory requirements, poor consumer spending, and a weak outlook for overall economic growth have negatively impacted the financial services sector and made its outlook uncertain. AGM is a financially strong company with above adequate capital requirements that can capitalize on the strength of the US agriculture sector. With the price of farmland growing at a 4.4% CAGR since 2005 and the value of US agricultural exports growing at a 7.7% CAGR over the same period, agriculture has continued to perform well. A 2 year accommodative policy outlook by the Federal Reserve should keep the USD weak and appealing for exporting. For AGM, the strength of the agriculture sector drives the performance and quality of the loans it guarantees and purchases either to hold on their books or securitize -and- AGM only purchases securities meeting its minimum eligibility requirements. Borrowers must have a LTV of no more than 80%; the current weighted average LTV is 55%. AGM has bolstered its excess regulatory capital levels from $13.5M in 2008 to $159.6M currently. Overall, AGM has built up its loan portfolio while maintaining excellent credit quality. Therefore I recommend that AGM be added to the AIM Equity Fund with a price target of $25 or about a 37% upside potential.

Investment Thesis

- **Ability to Increase Outstanding Loans and Guarantees While Keeping Quality.** Since 2006, outstanding loans and guarantees have increased 69%. A third of the absolute growth has come from new rural utilities activity - with delinquencies comprising only 1.63% of total loans. While this number is above the 3 year average of 1.49%, management stated that is in a range in which they are comfortable. When including total loans, commitments, and guarantees, delinquencies are only 0.57%. Non-performing assets to total assets have been steadily declining following 2008, with Q2 2011 0.64% vs. 2.02% in Q1 2009.

- **Structure Mitigates Risk.** The Farmer Mac II program purchases of agricultural, rural development, business and industry, and community facility loans ($1.3B) were obtained "risk free" as they are guaranteed by the USDA and backed by the full faith and credit of the U.S. government. Additionally, of the $.94B in guaranteed loans in the Farmer Mac I program, there exists a capability to access $1.5B from the U.S. Treasury should AGM's reserves fail to cover current obligations. To date this financing has never been accessed.
- **Rural Utility Program Growth.** A relatively new program, having begun in 2008 with an expansion of its charter, the rural utility program looks to be a strong source of growth. Over the next 5-10 years, AGM management is optimistic that the needs for modernization of current infrastructure, compliance with environmental regulation, and industry growth will drive the need for rural utility capital. The American Recovery and Reinvestment Act of 2009 incentivized the expansion of the smart grid infrastructure to rural areas as it is estimated that 28% of rural America lacks adequate internet speed vs. 3% of non-rural America. Additionally, many rural utility cooperatives' plants were constructed via the Rural Electrification Administration in 1935, supporting the need for capital to either revamp or ensure that current production n meets environmental standards. To date, there have been no delinquencies, losses, or charge offs for rural utility loans, guarantees, or LTSPCs.

Valuation

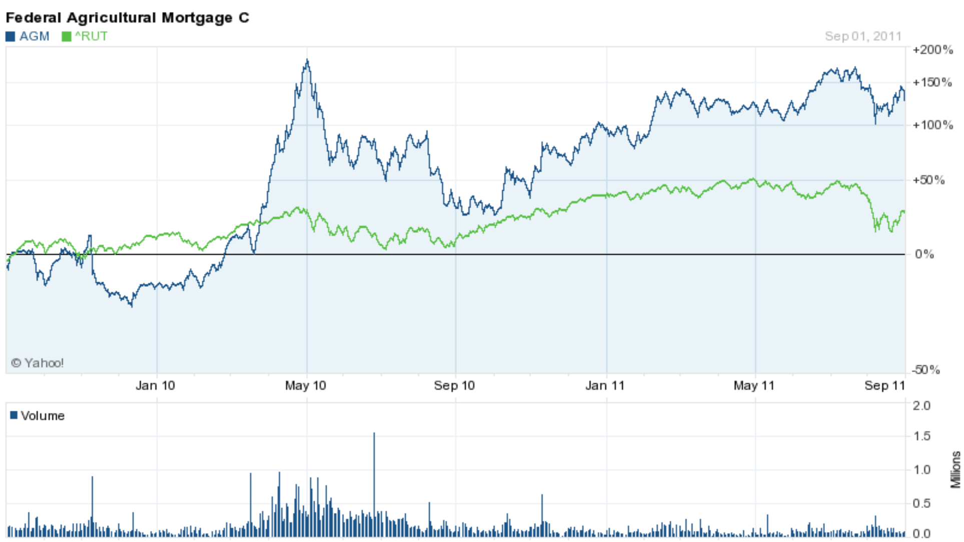
To value AGM, a variety of valuation techniques were utilized. An equity excess returns analysis was performed, with an assumed cost of equity of 7.85%, implying an intrinsic value of $25.78. A P/B methodology was also utilized applying a weighted AGM historical and peer multiple of .48x to AGM's 2011- 2012 blended BVPS which implied an intrinsic value of $24.32. Taking each valuation method into account and weighting them appropriately, a target price of $25 has been established, representing a nearly 37% upside. Currently, AGM pays a $.20 per share annual dividend currently yielding 1%.

Risks

- **Rural America and Farming Subsidy Changes.** This June, the Senate voted to eliminate billions of dollars in support of the U.S. ethanol industry. This process, while far from complete, shows the federal government's attempts to cut costs, and subsidies that long assisted rural America are on the chopping block. AGM has $234 M in ethanol exposure, yet management guides that it will not add more ethanol loans to the portfolio in the future
- **Potential Farmland Speculative Bubble Bursting.** It is conceivable that the influx of investor farm land purchases could be deemed as speculation. Along with this lies the risk that like the housing crisis, rural homeowners will take out second mortgages on their newly increased equity in the land, setting up the potential for increased underwater homeowners and strategic defaulters in the future.
- **Management's Responsibility to Shareholders.** Unlike other publicly owned companies whose management's sole responsibility is to achieve the best possible return for shareholders, AGM seems to have dual mandates of equal importance; serving the financing needs of rural America as well as providing a return on investment for stockholders. One third of their board is elected by the US president, opening up the potential for political decisions to outweigh business decisions.

Management

Michael Gerber has served as President and CEO since 2009. Prior to joining AGM, Mr. Gerber had worked 17 years in various roles in the Farm Credit System – beginning as a loan officer and advancing to President and CEO of Farm Credit of Western New York. Tom Stenson serves as Executive VP/COO and has worked at AGM for the past 14 years.



Ownership

% of Shares Held by All Insider and 5% Owners:	3.60%
% of Shares Held by Institutional & Mutual Fund Owners:	55.48%

Top 5 Shareholders

Shareholder	Shares	% Out
First Wilshire Securities Management	1,023,567	11.60
Dimensional Fund Advisers	731,997	8.30
Vanguard Group Inc.	312,464	3.54
Blackrock Fund Advisors	226,641	2.57
Portolan Capital Management LLC	215,603	2.44

PriceSmart, Inc. (PSMT)
September 9, 2011

Brian Brophy — Consumer Defensive

PriceSmart, Inc. (NASDAQ: PSMT) is an owner and operator of membership club warehouses located throughout Central America and the Caribbean. The company sells low priced, high quality merchandise to individuals and businesses in 29 locations across 12 countries and one U.S territory. Nearly half of the locations are currently located across Costa Rica, Panama, and Trinidad. In the most recent quarter, approximately 64% of sales came from Central America while the other 36% came from the Caribbean. The company sells approximately 2,200 products across five major categories including sundries, food, hardlines, softlines, and other. These categories accounted for approximately 27%, 51%, 14%, 6%, and 2% of total revenues, respectively. In addition, the company currently has nearly 800,000 members. PSMT was spun-off by Price Enterprises Inc. in 1997 which was previously spun-off by Costco Wholesale Co. in 1994. PSMT went public in 1997 and is headquartered in San Diego, California.

				FY: Aug	2010A	2011E	2012E
Price ($) : (9/2/11)	62.81	Beta:	0.98	Revenue (Mil)	1,395.89	1,709.97	1,966.46
Price Target ($):	76	WACC	9.44%	% Growth	11.53%	22.50%	15.00%
52WK H-L ($):	65 - 25	M-Term Rev. Gr Rate Est:	12.50%	Gross Margin	16.88%	16.75%	16.75%
Market Cap (mil):	1,877.83	M-Term EPS Gr Rate Est:	18.12%	Operating Margin	5.37%	5.75%	6.00%
Float (mil):	16.3	LT Debt/Equity:	18.7%	EPS (Cal)	$1.65	$2.29	$2.80
Short Interest (%):	10.52%	ROA:	9.80%	FCF/Share	$1.10	$1.49	$1.87
Avg. Daily Vol (mil):	1.61	ROE:	16.98%	P/E (ttm)	34.75	27.45	22.47
Dividend ($):	0.60			EV/EBITDA (ttm)	17.12	16.09	13.50
Yield (%):	0.96%						

Recommendation

Growth in the markets where PSMT competes has allowed the company to grow at levels far exceeding the growth rates seen by other membership warehouse clubs which compete in the United States, such as Costco and BJ Wholesale. For the first three quarters of fiscal 2011, PSMT has posted same store sales growth rates of 16.9%, 17.0%, and 19.2%, respectively. This compares to the 8.7% and 4.0% same store sales growth rates, excluding gasoline inflation, in the most recent quarter for Costco and BJ, respectively. Although this figure is expected to decelerate for PSMT, it is expected to remain in excess of 10% over the next four years. In fiscal year 2010, membership grew 10.1% year-over-year. By comparison, this growth rate far exceeds the membership growth rates seen by Costco and BJ which grew at 3.5% and 2.1%, respectively, over the same time frame. Additionally, PSMT members renewed at a rate of 88% during the first three quarters of 2011, slightly exceeding the rate experienced at Costco of 86%. Given the ability of PSMT to take advantage of the strong growth opportunities occurring in Central America and the Caribbean, it is recommended that PSMT be added to the AIM Equity Fund with a price target of $76 which represents a potential upside of approximately 20%.

Investment Thesis

- **Growth in Central American and Caribbean Markets.** Countries where PSMT competes tend to have balance sheets with low levels of debt and large GDP growth trajectories. For example, Costa Rica and Panama have debt to GDP ratios of 42.7% and 43.3%, respectively. This compares to the United States and other developed countries which have debt to GDP ratios near or in excess of 100%. Additionally, the IMF currently predicts that GDP will grow about 4% annually over the next decade in Latin America and the Caribbean. Lastly, GDP per capita in these markets range from $1,000 to $20,000 compared to $47,000 in the United States. As these markets mature and GDP per capita approaches the levels of developed countries, PSMT will have the opportunity to benefit from same store sales growth and the opening of new stores.

- **Entry into Columbia.** In August of 2011, PSMT opened their first store in Colombia with plans to open a second store in fiscal year 2012. Colombia is the second largest country in South America by population and third largest by GDP. Additionally, the current GDP of Columbia is larger than the combined GDP of all the other countries where PSMT operates. This creates an opportunity for PSMT to add 10 to 20 new stores in Columbia, an increase of approximately 35% to 70% from the current number of locations. Entry into Colombia may also provide a launching pad for the company to enter into other South American countries such as Chile, Peru, and Argentina.
- **Potential for Margin Expansion.** Of the merchandise sold at PSMT, 78% is non-discretionary. This compares to 56% of the merchandise sold at Costco. As discretionary spending increases in the Central American and Caribbean markets, PSMT could experience a long-term shift in sales mix toward higher margin, discretionary merchandise such as consumer electronics. Additionally, strong same store sales, estimated to be in excess of 10% over the next four years, should drive operating margins from just above 5% currently to over 7% during the same time frame.

Valuation

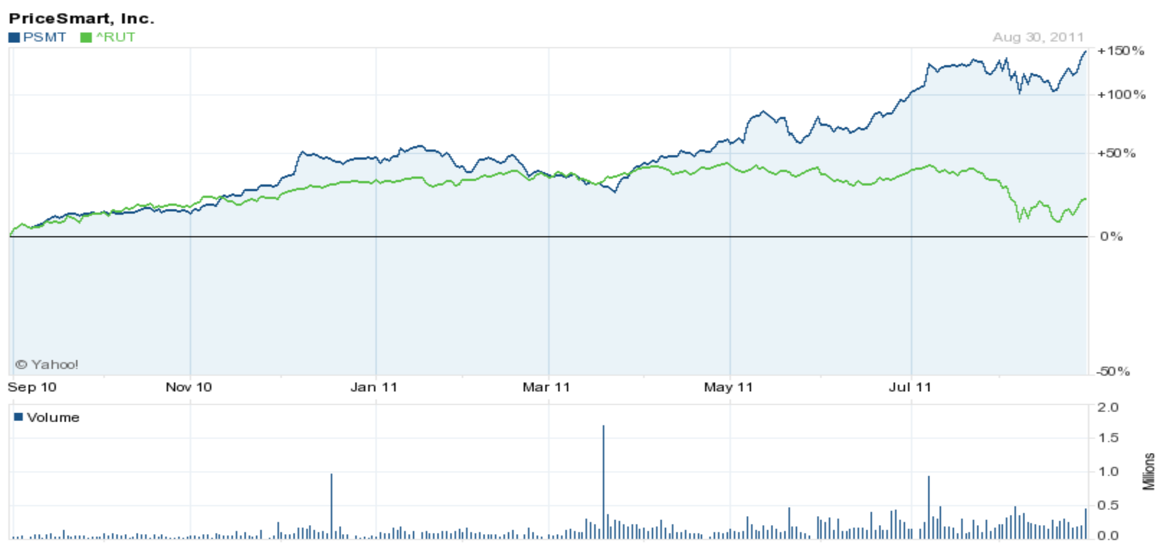
To find the intrinsic value of PSMT, a ten-year DCF was conducted. A computed WACC of 9.44% and a terminal growth rate of 3% yielded an intrinsic value of $77.90. A sensitivity analysis accounted for variations in WACC from 8.5% to 10.5% and in the terminal growth rate from 2% to 4%. This analysis found a range in values from $59.45 to $110.11. In addition, an EV/EBITDA multiple of 18x was used to calculate an intrinsic value of $70.52. Historically, PSMT has had a wide EV/EBITDA multiple range varying from 10x to 44x. The 18x target multiple is the multiple at which PSMT has traded historically during similar periods of growth. Applying a 75% weight to the DCF and a 25% weight to the EV/EBITDA multiple provides a target price of $76.05. With the stock currently trading at $62.81, the target price yields a return of 20%. The company pays a dividend of $0.30 semi-annually which equates to a yield of about 1%.

Risks

- **Diverse Geographic Presence.** PSMT competes in a wide variety of different countries and one U.S. territory. This diverse geographic footprint creates significant supply chain challenges as about half of all the products sold by the company are imported. In addition, managing a variety of changing social and political environments creates a significant amount of risk to the company's profits. Lastly, PSMT generates revenues in over ten relatively volatile currencies creating a fair amount of foreign currency risk.
- **Intense Competition.** Although PSMT is one of the few, if only, companies to operate membership warehouse clubs throughout Central America and the Caribbean, the company competes against a wide variety of different businesses. Additionally, other discount retailers such as Wal-Mart and Costco could enter these markets in the future creating further competition for PSMT.

Management

Jose Luis Laparte has been CEO of PSMT since July 2010. He previously served as President of PSMT from October 2004 till July 2010 and as a consultant to the company a year before becoming President. Before PSMT, he worked for Wal-Mart where he oversaw expansion of Sam's Club in Mexico. John M. Heffner has served as CFO since January 2004. Prior to PSMT, he worked as Vice President of Finance and CFO of Kyocera Wireless as well as Vice President of Finance at Qualcomm.



Ownership

% of Shares Held by All Insider and 5% Owners:	54%
% of Shares Held by Institutional & Mutual Fund Owners:	44%

Source: Yahoo! Finance

Top 5 Shareholders

Shareholder	Shares	% Out
T. Rowe Price Associates, Inc.	1,925,882	6.44
The London Company	1,877,531	6.28
Granahan Investment Management, Inc.	964,671	3.23
The Vanguard Group, Inc.	842,563	2.82
FMR LLC	726,195	2.43

Source: Yahoo! Finance

Petróleo Brasileiro S.A. (PBR)
September 9, 2011

Jared Klingeisen International Energy

Petróleo Brasileiro S.A. (NYSE: PBR), or Petrobras, headquartered in Rio de Janeiro, is the largest integrated energy firm in Brazil and the largest publicly-traded oil company in Latin America. The company operates 12 refineries in Brazil with capacity of 2 million barrels per day, which account for 92% of the country's total refining capacity. Petrobras operates in five main business segments: Supply (46% of fiscal 2010 operating revenue), Exploration and Production (26%), Distribution (18%), International (6%), and Gas and Power (4%). The company is responsible for over 20% of global deep-water production and has recently discovered vast oil and gas reserves off the coast of Brazil, with estimated recoverable reserves of 5–8 billion barrels of oil equivalent (boe). In 2010, production reached 2.6 million boe, and reserves totaled 12.7 billion boe. Incorporated in 1953, Petrobras was founded to conduct hydrocarbon activities for the Brazilian government. The government still holds a controlling stake in the company, and a recent $70 billion stock sale allowed them to increase their stake in the company from 40% to 48%. Petrobras shares trade on the Sao Paulo, New York, Madrid, and Buenos Aires stock exchanges.

Price (09/02/11):	$27.85	Beta:	1.35	FY: Dec	2010A	2011E	2012E
Price Target:	$38.00	WACC	10.10%	Revenue (mil)	$120,052	$148,641	$174,610
52WK H-L:	$24.51-$42.74	M-Term Rev. Gr Rate Est:	12.9%	% Growth	30.68%	23.81%	17.47%
Market Cap (bil):	$180.00	M-Term EPS Gr Rate Est:	10.4%	Gross Margin	41.11%	41.00%	40.00%
Float (bil):	3.63	Debt/Equity:	38.4%	Operating Margin	20.12%	20.66%	19.22%
Short Interest (%):	0.43%	ROA:	6.23%	EPS (Cal)	$3.70	$3.94	$4.00
Avg. Daily Vol (mil):	15.06	ROE:	14.73%	FCF/Share	(2.9)	(4.5)	(3.0)
Dividend ($):	$0.16			P/E (Cal)	7.2	7.1	7.0
Yield (%):	0.57%			EV/EBITDA	7.8	6.5	5.5

Recommendation

In Brazil demand for fuel continues to exceed GDP growth. In 2010, imported fuel accounted for 5 percent of Brazil's product demand, and in order to prevent this number rising to 40 percent by 2020, Brazil must expand its oil refining capacity. Based on 2010 production, Petrobras produced approximately 95% of the country's crude oil and natural gas, and nearly all of the country's refining capacity (~92%). The company holds a strong market position in the region and this is expected to continue in the future due to their relationship with the Brazilian government. Gross profit margins were high in 2010 (41.1%) and in order to maintain high margins, the company plans to divest low margin assets worth $13.6 billion over the next two years. If Petrobras is able to achieve its ambitious five-year business plan targets, it could overtake Exxon Mobile to become the world's top oil producer. Because of its future growth prospects and favorable valuation, it is recommended that PBR be added to the AIM International Equity portfolio with a target price of $38, which offers a potential upside over 36%.

Investment Thesis

- **Future Production Growth.** Recent discoveries off the Brazilian coast, especially deep-water pre-salt reserves, have the potential to double Brazil's total reserves over the next few years. Results from pilot projects in the area have been promising, producing 36,000 boe per day, and it is estimated that 9.5 to 14 billion barrels of oil exist in this area. Petrobras has interests in these areas ranging from 20%-100% ownership, and recent changes to Brazilian oil laws will require Petrobras to have at least a 30% stake in all future discoveries in the area. The company has recognized the importance of this region, focusing $120 billion of investments on exploration and production over the next five years.
- **International Expansion.** Petrobras operates in 25 countries, and is focused on expanding its deep-water drilling technology in the Gulf of Mexico and West Africa. Many international

companies have difficulty competing in deep-water exploration because of the high costs of equipment and technology required to access these resources. As Petrobras continues to expand and develop its international operations, higher volumes and more efficient operations will cause their relative costs to fall. Recent success in deep-water drilling may allow Petrobras to expand and compete internationally and its current business plan promotes growth in this area. Almost $12 billion of capital will be allocated to developing the company's foreign operations, especially those in West Africa and Latin America.

- **Growing Domestic Demand.** Demand in Brazil is expected to outpace that of developed countries in the future, and Petrobras is well positioned to capitalize on this growth. Petrobras is responsible for nearly all of Brazil's refining capacity (92%), and recently revealed plans to increase capacity from 2 million barrels per day (bpd) to approximately 6 million bpd by 2020.

Valuation

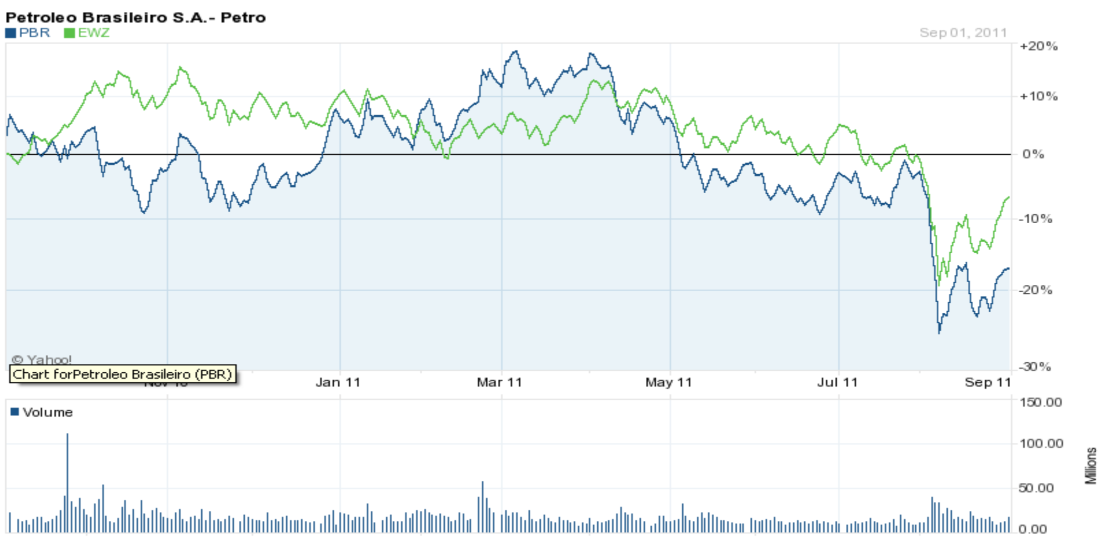
To find the intrinsic value of PBR, a ten-year DCF was conducted. Using a WACC of 10.1% and a terminal growth rate of 3.5%, an intrinsic value of $37.79 was obtained. Product segment growth rates were varied year-to-year to account for changes in oil prices and increased competition. A sensitivity analysis adjusting the WACC and terminal growth rate produced a range of $31.34-$45.40. In addition, a 10x P/E multiple was applied to 2012 EPS, yielding an intrinsic value of $40.00. Taking these into account, a price target of $38 was established providing for a potential upside of 36%. PBR pays an annual dividend of $0.16, yielding 0.55%

Risks

- **Brazilian Government.** The Brazilian government, currently the company's largest shareholder, has held a significant stake in Petrobras since it was first incorporated. Following a recent share sale of $70 billion, the government added to its position, now controlling approximately 64% of the voting power. The company relies heavily on production in Brazil and interference by the government could cause future performance to suffer. It is expected that the government will want to benefit from new discoveries in Brazil and any discrepancies between the two parties could have a negative impact on business. The government has the power to change management and governmental policy, and has disclosed in company filings that it may pursue its political agenda through Petrobras.
- **Financial Uncertainty.** Rising global demand for energy and promising oil discoveries in Brazil have caused Petrobras to develop a very ambitious five-year business plan. Total investments during this period plan to exceed $244 billion, which will increase the company's leverage. This puts the company at greater risk, especially in an unstable economy. There is also concern that the recent $70 billion share sale will dilute future earnings.
- **Currency and Commodity Volatility.** International operations rely heavily on global currency and commodity prices, which can have a significant impact on business if the current rates fluctuate. Recently oil prices have been high and a sustained drop in prices could have a significant impact on the company's financial statements. Petrobras' international operations rely heavily on the dollar, and currency fluctuations could have a negative effect upon business.

Management

Dr. Jose Sergio Gabrielli De Azevedo is the President and CEO of Petrobras. He also serves on the board of directors. He has held his current position since July 2005 and prior to his current appointment, served as the company's CFO, beginning in 2003. Almir Guilherme Barbassa has served as CFO since July 2005, and has worked for Petrobras since 1974. The Brazilian government holds a controlling interest in the company.



Ownership

% of Shares Held by All Insider and 5% Owners:	43.80%
% of Shares Held by Institutional & Mutual Fund Owners:	15.71%

Source: MSN Money

Top 5 Shareholders

Shareholder	Shares	% Out
Wellington Management Company	60,556,671	0.93
Capital World Investors	31,308,620	0.48
Vanguard Group, Inc.	22,611,072	0.35
Baillie Gifford and Company	21,214,601	0.33
Dimensional Fund Advisors LP	19,616,728	0.30

Source: Yahoo! Finance

Zumiez, Inc. (ZUMZ)
September 9, 2011

Jonathan Schwerin — Consumer Cyclical

Zumiez (ZUMZ) is a leading specialty retailer of action sports related apparel, footwear, equipment and accessories operating under the Zumiez brand name. At July 30, 2011, ZUMZ operated 424 stores primarily located in shopping malls, giving them a presence in 38 states and Canada. Their stores cater to young men and women between the ages of 12 and 24 who seek popular brands representing a lifestyle centered on activities that include skateboarding, surfing, snowboarding, BMX and motocross. ZUMZ supports the action sports lifestyle and promote their brand through a multi-faceted marketing approach that is designed to integrate their brand image with their customers' activities and interests. This approach, combined with their differentiated merchandising strategy, store design, comprehensive training programs and passionate employees, allows them to provide an experience for their customers that they believe is consistent with their attitudes, fashion tastes and identities and is otherwise unavailable in most malls. In addition, they operate a website that sells merchandise online and provides content and a community for their target customers. ZUMZ was formed in August 1978 and is based out of Washington.

Price ($): (9/1/11)	17.97	Beta:	1.56
Price Target ($):	21.67	WACC:	10.00%
52 WK H-L ($):	15.00-33.13	M-Term Rev. Gr Rate Est:	10.50%
Market Cap (mil):	557.11M	M-Term EPS GR Rate Est:	10.50%
Float (mil):	21.68	Debt/Equity:	33.03%
Short Interest (%):	29.90%	ROA:	8.61%
Avg. Daily Vol (mil):	542,562	ROE:	11.54%
Dividend ($):	N/A		
Yield (%):	N/A		

FY: Mar	2011A	2012E	2013E
Revenue (Mil)	$ 478.85	$ 544.93	$ 609.23
% Growth	17.48%	13.80%	11.80%
Gross Margin	35.58%	35.90%	35.90%
Operating Margin	7.80%	9.25%	9.80%
EPS (Cal)	$ 0.79	$ 1.03	$ 1.22
FCF/Share	$ 1.27	$ 1.56	$ 1.83
P/E (Cal)	22.87	17.43	14.71
EV/EBITDA	10.65	7.93	6.82

Recommendation

We are in the midst of an uncertain economic climate that has given way to a highly promotional environment in the retail sector, especially those stores that obtain a majority of their revenue from malls. ZUMZ is a specialty retailer that has products that are hard to find elsewhere and with the in-store and web experience that they provide, they are able to negate some of the economic hardship. Most recently, for the second quarter ending July 30, 2011, net sales increased 14.9%. The increase in net sales was driven by a comp-store increase of 7.5% and the opening of 32 new stores since the end of the second quarter of 2010. ZUMZ also has an e-commerce platform that increased its sales 116% from the prior year's second quarter. In 2011 ZUMZ plans to open 35 stores in the U.S. and have opened 26 year-to-date through August, including 14 in the second. As of July 30, 2011 ZUMZ had $117 M in cash sitting on its balance sheet, which is enough to fund their expansion. ZUMZ has also opened their first six stores in Canada this year and plan to add four more by the end of the year. In addition to top line growth ZUMZ will be able to leverage SG&A expenses through store operating expense efficiencies. From 2009 to 2010 ZUMZ was able to decrease SG&A as a percent of sales by 220 bps. As a leading specialty retailer of actions sports related apparel, footwear, equipment, and accessories, it is recommended that ZUMZ be added to the AIM Domestic Equity Fund with a price target of $21.67, providing a 20.59% upside.

Investment Thesis

- **Attractive Lifestyle Retailing Concept.** ZUMZ targets a large population of 12 to 24 year olds, many of whom ZUMZ believes are attracted to the action sports lifestyle and desire to promote their personal independence and style through the apparel, shoes and accessories they wear and the equipment they use. Action sports is a permanent aspect of youth culture, reaching not only consumers that actually participate in action sports, but also those who seek brands and styles that fit a desired action sports image. Through this attractive retailing concept, ZUMZ has been able to increase net sales at a CAGR of 18.4% from 2005 through 2010 as well as turning a profit in every fiscal year of their 32 year history.

- **Deep Rooted Culture.** ZUMZ's culture and brand image enables them to attract and retain high quality employees who are passionate and knowledgeable about the products they sell. ZUMZ places great emphasis on their customer service and satisfaction, and have made this a defining feature of their corporate culture. To preserve their culture, ZUMZ strives to promote store managers from within and they are given extensive responsibility for most aspects of store level management. ZUMZ provides these managers with the knowledge and tools to succeed through their comprehensive training programs and the flexibility to manage their stores to meet localized customer demand.
- **Distinctive Store Experience.** ZUMZ strives to provide a convenient shopping environment that is appealing and clearly communicates their distinct brand image. ZUMZ seeks to attract knowledgeable store associates who identify with the action sports lifestyle and are able to offer superior customer service, advice, and product expertise. To further enhance the customers' experience, most of their stores feature areas with couches and action sports oriented video game stations that are intended to encourage their customers to shop for longer periods of time, to interact with each other and their store associates in a familiar and comfortable setting and to visit their stores more frequently.

Valuation

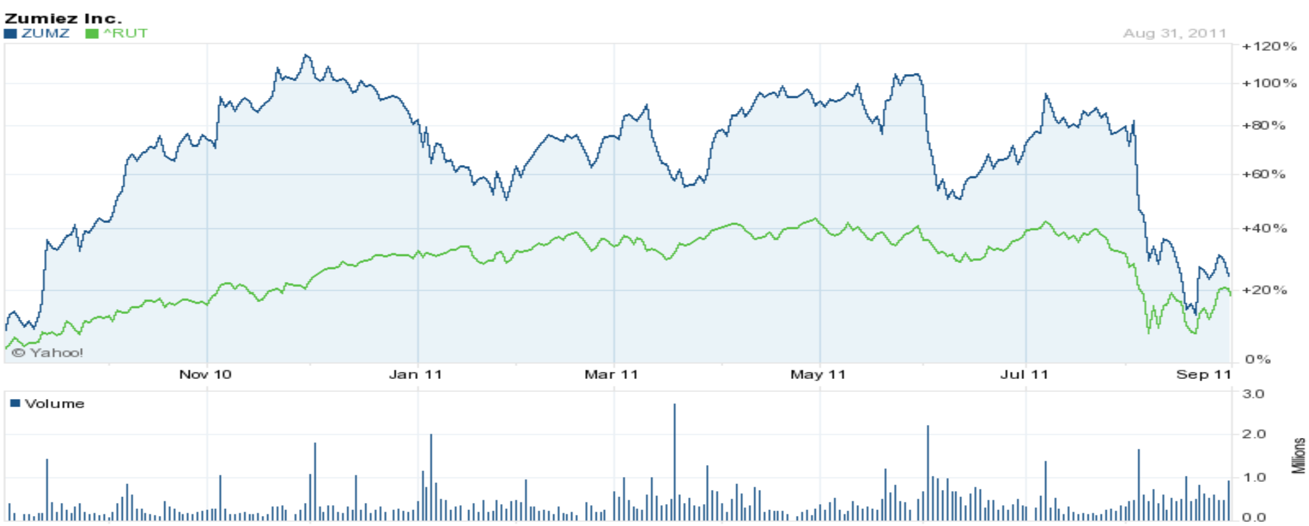
ZUMZ is currently trading at an 8x EV/EBITDA multiple. Applying a conservative 7.5x EV/EBITDA multiple to the 2012 EBITDA of $70.84 generates a price of $21.85 per share. Based on a five-year DCF analysis with a WACC of 12.25% and a terminal growth rate of 2.5%, an intrinsic value of $20.90 was obtained. A DCF sensitivity analysis that adjusts both the long-term growth rate (1.5-3.5%) and the WACC (11.25-13.25%) generates a price range of $18.04-$27.43. After weighting the EV/EBITDA multiple 50% and the DCF analysis 50%, a target price of $21.67 was established offering an upside of 20.59%. The company does not pay a dividend.

Risks

- **Economic Conditions.** The action sports retail industry historically has been subject to substantial cyclicality. As economic conditions in the United States change, the trends in discretionary consumer spending become unpredictable and discretionary consumer spending could be reduced due to uncertainties about the future. When discretionary consumer spending is reduced, purchases of action sports apparel and related products may decline.
- **Increased Input Costs.** Increases in the cost of cotton, foreign labor costs or other raw materials used in the production of ZUMZ's merchandise can result in higher costs in the price they pay for this merchandise. The costs for cotton are affected by weather, consumer demand, speculation on the commodities market and other factors that are generally unpredictable and beyond ZUMZ's control.

Management

Thomas D. Campion has been a Director of Zumiez Inc. since 1978 and Chairman of the Board since June 2000. Mr. Campion was one of Zumiez Inc.'s co-founders and has held various senior management positions during this time. In addition to working with Zumiez, Mr. Campion serves as the Board Chair of the Alaska Wilderness League, a Washington, D.C. based environmental group, and the Treasurer of the Northwest Ecosystem Alliance, a Bellingham, Washington based environmental group. Richard M. Brooks, 51, has served as CEO since June 2000. From August 1993 through June 2000, he served as a Vice President and Chief Financial Officer.



Ownership

% of Shares Held by All Insider and 5% Owners:	41%
% of Shares Held by Institutional & Mutual Fund Owners:	61%

Source: Yahoo! Finance

Top 5 Shareholders

Shareholder	Shares	% Out
Waddell & Reed Financial Inc.	3,059,436	9.87
Price (T.Rowe) New Horizons Fund	1,729,800	5.58
Price (T.Rowe) Small Cap Stock Fund	1,437,500	4.64
Bank of New York Mellon Corporation	1,147,677	3.70
Vanguard Group, Inc.	1,118,855	3.61

Source: Yahoo! Finance

K12, Inc. (LRN)
September 9, 2011

Caitlin McMahon Defensive Consumer Goods

K12 Inc. (NYSE: LRN), a technology-based education company, is the United States' largest provider of virtual proprietary curriculum for students in kindergarten through 12th grade. K12 offers a lesson platform of 480 accredited Advanced Placement, World Language, Core and Elective courses. The company also provides textbooks, project-specific supplies, and various other traditional learning materials in conjunction with its online curriculum. K12's holistic, research-based programs are delivered primarily to virtual public schools, virtual private schools, and worldwide to individual consumers with supplementary or homeschooling needs. The United States virtual public school industry is K12's primary market, accounting for 97% of the company's FY 2010 total revenue. K12 currently manages online public schools in 27 states, providing over 80,000 high school (21%) and grade school (79%) students with individualized, interactive curriculums. K12 was founded in 2000, went public in 2008, and is headquartered in Herndon, Virginia.

				FY: Dec	2010A	2011E	2012E
Price ($): (9/2/11)	$25.64	Beta:	1.12				
Price Target ($):	$34.35	WACC	12.0%	Revenue (Mil)	$384.47	$515.19	$628.53
52WK H-L($):	39.74-22.90	M-Term Rev. Gr Rate Est:	14.0%	% Growth	22.05%	34.00%	22.00%
Market Cap (mil):	915.5	M-Term EPS Gr Rate Est:	13.0%	Gross Margin	42.25%	41.00%	42.00%
Float (mil):	25.9	Debt/Equity:	8.4%	Operating Margin	9.22%	6.00%	9.00%
Short Interest (%):	10.2%	ROA:	7.9%	EPS (Cal)	$0.71A	$0.52E	$0.95E
Avg. Daily Vol (mil):	0.24	ROE:	10.7%	FCF/Share	$1.52	$1.20	$1.44
Dividend ($):	0.00			P/E (Cal)	36.13x	49.30x	26.98x
Yield (%):	0.00%			EV/EBITDA	10.60x	12.25x	8.58x

Recommendation

In recent years, lawmakers, parents, and teachers have placed increased pressure on the U.S. public school industry to improve education standards, provide alternative learning programs, and reduce the large disparity gap between students. As of June 2009, 46 U.S. states had established some form of substantial virtual learning initiative to facilitate more efficient learning opportunities for public school children, and 27 states offered full-time online schools. From an education policy standpoint, virtual public schools represent savings to taxpayers. The U.S. Department of Education reported that virtual schools are more cost efficient than brick-and-mortar schools; in 2010 the Alliance for Excellent Education cited an average of $6500 annual per-student spending with the virtual system, versus $10,000 with the traditional school system. This cost efficiency allows the schools to allocate more capital towards teachers, curriculum and technology, versus physical infrastructure. Furthermore, by 2019 it is estimated that approximately 50% of high school and 10% of grade school classes will be taken online. K12's all-encompassing product offering, coupled with the continuing acceptance of virtual learning initiatives in the U.S., has and will continue to position the company well for future growth. Since its IPO in 2008, the company's topline has grown 70%. More recently, K12's net income increased 74% in FY 2010, and revenues increased by 35% YOY in Q3 2011. Solid core competencies and increased development of virtual learning systems will likely continue to increase K12's organic enrollment growth by >15% YOY in 2011 and beyond. Because of these reasons and a favorable valuation, it is recommended that LRN be added to the AIM Equity Fund at a target price of $34.35 representing a 33.97% upside.

Investment Thesis

- **Market Leader.** There are currently 270,000 full-time virtual kindergarten through 12th grade students enrolled in the United States; during Q3 2011 K12's enrollment increased 21% YOY, giving the company a 30% market share of approximately 80,000 full-time students. In addition, K12's market share is bigger that its three closest competitors combined. This significant position in the full-time market allows K12 to drive growth opportunities at existing schools, expand more aggressively in new states, and develop its share of the part-time public school industry. Although the company is a market leader in the full-time virtual industry, there are still many untapped opportunities to exploit in the $661B U.S. public K-12 market as well.

- **Acquisition Opportunities.** The current economic environment, specifically the consolidation of businesses, provides K12 the opportunity to expand current, or develop new, lines of its business model. The company became more aggressive with its corporate development activities in FY2010 with its acquisition of KC Distance Learning (KCDL) and its joint venture with Middlebury College. The all-stock acquisition of KCDL, which is a leading provider of distance learning programs for middle and high school students, adds depth and breadth to the K12 course portfolio. KCDL's iQ and Aventa Learning programs will complement K12's virtual public school expertise and facilitate more rapid expansion. Moreover, it will expand K12's private school presence with its Keystone School. Secondly, the joint venture with Middlebury College will develop K12's foreign language course collection. With a 60% interest in the venture, the company will be able to create additional online learning programs for pre-college students, while leveraging Middlebury's experience with foreign language instruction. Management has ample experience with M&A and intends to continue expansion through strategic ventures in the future.
- **Advanced Curriculum.** K12 offers a holistic line of virtual and traditional learning materials. Dissimilarly, most of its competitors focus on one specific area of the educational services industry – book publishing, online software development, assessment and test design – instead of providing an entire learning program. As K12 offers an end-to-end education program, it is one of the few companies that can supply schools and students with essentially all of their learning tools. Additionally, the company has a specialized interdisciplinary development team, which includes mathematicians, musicians, artists, teachers, botanists and education researchers, who collaborate with engineers to develop the advanced K12 curriculum.

Valuation

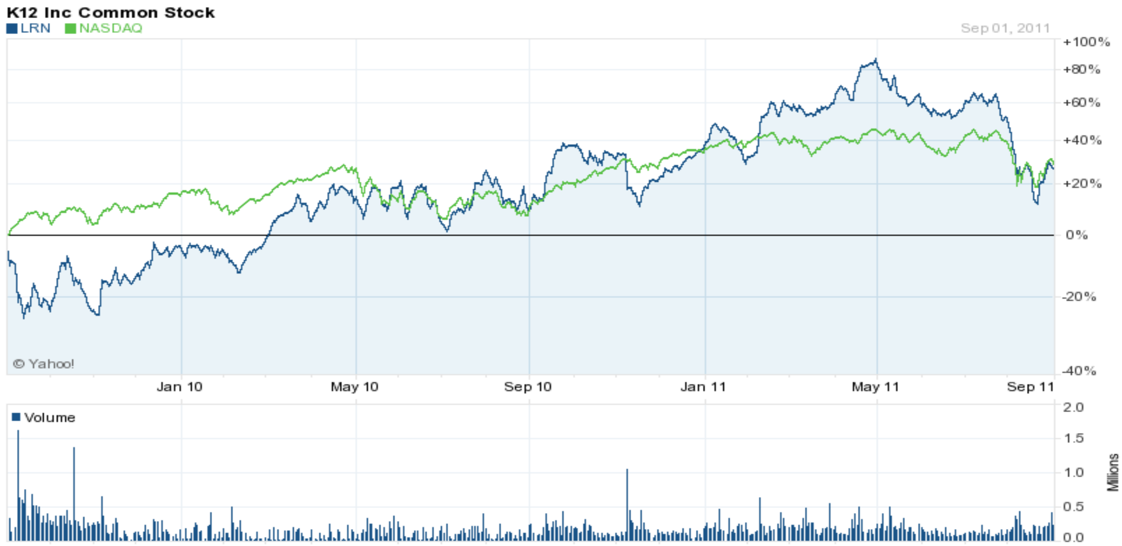
A ten-year DCF with a terminal growth rate of 3.00% and a WACC of 12.01% were utilized to value K12. Sales growth rates ranging from 34% to 10% were applied to K12's topline. A sensitivity analysis was conducted in order to mitigate the effect of changes in COGS, WACC and growth rates, it produced intrinsic values that fluctuated from $23.36 to $38.40. Taking into consideration the factors stated above, the DCF model yielded a target price of $33.94. A 15.8x EV/EBITDA multiple yielded an intrinsic value of $35.58. A final price target of $34.35 was derived by weighting the DCF analysis (75%) and EV/EBITDA multiple (25%), representing an upside of 33.97%. The firm does not pay a dividend.

Risks

- **Revenue Concentration.** Ohio Virtual Academy and Pennsylvania Virtual Charter each contributed over 10% of K12's FY2010 revenue. Together, these two schools comprise approximately 28% of K12's revenue. A significant decrease in enrollment or funding at either of these institutions could considerably harm both K12's top and bottom line.
- **U.S. Government Funding.** The public schools the company contracts with are financed with government funding from federal, state and local taxpayers. If economic conditions or political opposition lead to materially decreased funding levels from any facet of the U.S. government, results of operations and cash flows could be negatively affected.

Management

Ronald J. Packard is the CEO and founder of K12, Inc. Packard holds a B.A. in Economics and Engineering from Berkley and an MBA from the University of Chicago. He worked for several years as an M&A advisor for Goldman Sachs, is a CFA holder, and now has over 15 years of experience in the educational service industry. Harry T. Hawks is the Executive Vice President and CFO of K12. Prior to joining K12 Hawks worked in venture capital, was co-founder of Cumberland Capital Corporation, and was VP of Hearst-Argyle Television.



Ownership

% of Shares Held by All Insider and 5% Owners:	21%
% of Shares Held by Institutional & Mutual Fund Owners:	60%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Learning Group LLC	4,665,083	13.07
Technology Crossover Ventures	4,000,000	11.20
T. Row Price Association	2,233,353	6.26
William Blair and Company	2,219,128	6.22
Daruma Asset Management	1,598,090	4.48

Source: Bloomberg Terminal

Konami Corporation (KNM)
September 9, 2011

Vincent Julian H. Ong International Technology

Konami Corporation develops, publishes, markets, and distributes video game software products globally for stationary and portable consoles, as well as use for personal computers. They operate in four segments: Digital Entertainment, Gaming & Systems, Pachinko & Pachinko Slot machines, and Health & Fitness. The Digital Entertainment segment (52% of sales) produces, manufactures, and sells video game software, video games for amusement facilities, content for token-operated games, CDs and DVDs, and music and video package products, as well as electronic toys, figures, and character goods. The segment also builds computer systems related to online games, maintains and operates online servers, and purchases and distributes video game software for home use. The Gaming & Systems segment (8%) engages in the development and sales of content, hardware, and casino management systems for gaming machines in casinos in the United States, Australia, and other overseas jurisdictions. The Pachinko & Pachinko Slot Machines Segment (7%) is involved in the production, manufacturing, and sales of pachinko slot machines and LCDs for pachinko machines. Pachinko is a pin-ball like game that is widely popular in Japan. Konami has developed software programs for LCD screens that are installed in the pachinko machines to make the experience more enjoyable. The Health & Fitness segment (33%) operates health and fitness clubs, as well as involves in the production and sale of health and fitness related goods in Japan. Konami is the leading health and fitness club operator and health-related business enterprise in Japan. Konami Corporation was founded in 1969 and is headquartered in Tokyo.

Price ($): (9/1/2011)	36.36		Beta:	1.20		FY: Dec	2011A	2012E	2013E
Price Target:	44.16		WACC:	10.14%		Revenue (¥mil)	257,988	265,728	276,357
52WK H-L ($):	37.22-16.22		Y3-5 Rev. Gr Rate Est:	3.73%		% Growth	-1.59%	3.00%	4.00%
Market Cap (bil):	5.27		Y3-5 EPS Gr Rate Est:	11.33%		Gross Margin	26.73%	27.50%	27.50%
Float (mil):	67.48		Debt/Equity:	26.37%		Operating Margin	8.06%	8.75%	9.25%
Short Interest:	5,807		ROA:	5.78%		EPS (Cal)	$1.26	$1.30	$1.48
Avg. Daily Vol:	16,866		ROE:	8.03%		FCF/Share	$1.77	$1.97	$2.18
Dividend ($):	0.38					P/E (Cal)	20.56	18.48	16.67

Recommendation

Konami, already one of Japan's leading traditional video game companies, is establishing themselves as an early leader in social and mobile gaming. Digital games accounted for an estimated $20bn or 40% of total worldwide video game sales in 2010. From 2004-2009, the market for digital games was estimated to have grown from $3.2bn to $15.9bn at a CAGR of 38%. Physical packages games grew at a 7% rate in the same period. The mobile game market is projected to grow at a 20% CAGR to $11bn by 2014. Konami has emerged as one of the leaders in digital and mobile gaming, with close to 30% of their total game revenues coming from digital sales. The industry average is 24%. The biggest driver behind this is SNS (Social Network Service) gaming. Konami already has over a million members in each of the leading SNS platforms such as Gree and Mobage. These two platforms have a combined 52M subscribers in Japan. Konami is also transitioning well to the age of smart phones. As smart phones become more popular in Japan, and with games accounting for over 50% of spending on iOS/Android platforms, Konami looks poised to continue their success if they can transition well into smart phones. It is recommended that KNM be added to the AIM International Equity Fund with a target price of $44.16, which represents an upside of 21%.

Investment Thesis

- **Rise of Mobile and Digital Gaming.** As we move into the digital age, digital games sales worldwide have increased 15% since 2004, and are projected to increase another 20% in the next

2 years. Konami has been one of the leaders in this area with close to 30% of their games revenues are already coming from digital game sales. Most of Konami's growth in this area is driven by SNS gaming and the Gree/Mobage feature phone platforms. SNS games now make up 26% of revenues for the Digital Entertainment segment. Konami is estimated to have a 14% market share in SNS gaming. With the shift to digital and mobile gaming, the biggest beneficiaries will be the software developers. Developers enjoy greater margins with digital and mobile games because of their low development and distribution costs, and greater appeal. With physical packaged games, developers only enjoy a profit margin of 10-30%. With digital and mobile games, developers enjoy a margin of over 50%.

- **Shift to Smart Phones.** Smart phone penetration in Japan is expected to reach 60% by 2014, with the most popular operating systems being the iOS and Android platforms. Games account for over 50% of spending on iOS and Android platforms. Konami has been making a seamless transition from feature phones to smart phones. This opens up a whole new market, as with feature phones, their games are distributed through the Gree/Mobage platform and limits their customer base to domestic Japan. Gree/Mobage has a combined 52M users, while iOS and Android have over 100m users each worldwide.
- **3DS Price Cut, PlayStation Vita, and New Next Generation Consoles.** Nintendo's 3DS recently received a massive price cut, and the upcoming release of the PlayStation Vita, Sony's new handheld gaming device, should provide a huge boost in mobile gaming in Japan. Nintendo also announce at the E3 expo their console for the next generation, the Wii-U, the successor to the successful Wii. The Wii-U is currently scheduled for a 2012 release, which means that the successor to Sony's PS3 and Microsoft's Xbox 360 would not be far behind. These should provide Konami, one of the world's leading video game developers, more chances to develop and sell more new video games.

Valuation

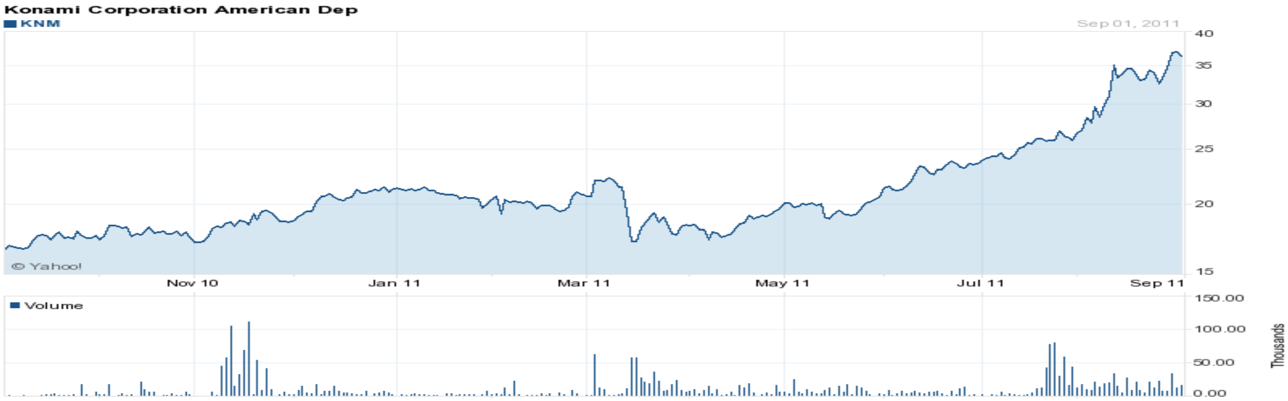
To obtain the intrinsic value of Konami, two approaches were used: a 5-year DCF model and a multiples approach. For the 5-year DCF model, a WACC of 10.14% and a terminal value of 3% were used to obtain an intrinsic value of $49.78. Historical multiples were used, specifically a P/E multiple of 29x, an EV/EBITDA multiple of 11x, and an EV/EBIT multiple of 16x. Weighing the DCF and three multiples at 25% each, a final intrinsic value of $44.16 was obtained, which represents an upside of over 21%. To account for changes in WACC and the terminal growth rate, a sensitivity analysis was applied yielding a price range of $38.67-$50.43.

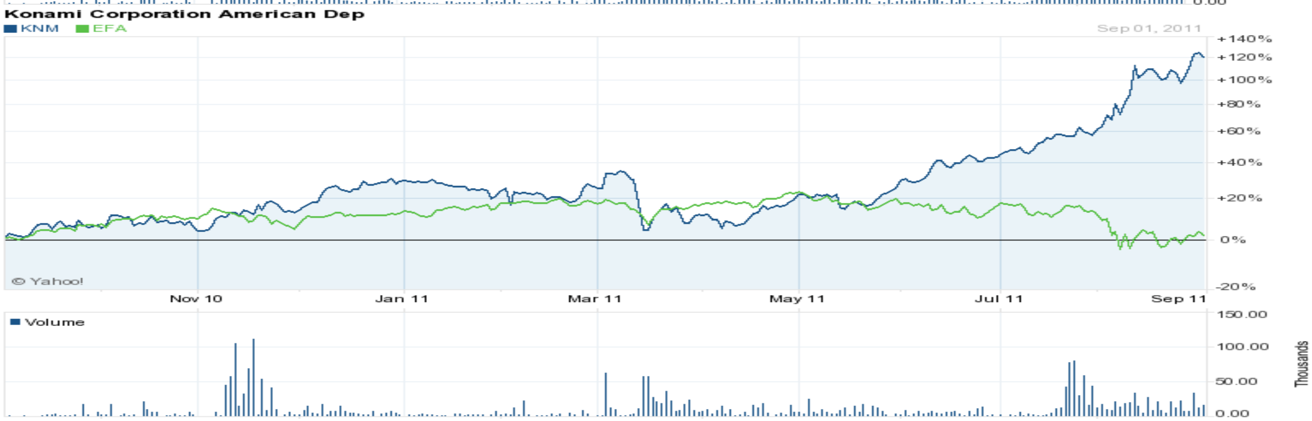
Risks

- **Rough Transition from Feature Phones to Smart Phones.** A huge risk factor for Konami is if their mobile games are unable to make a smooth transition from feature phones to smart phones. Currently, over 80% of Konami's revenues for mobile games are still from feature phones. Feature phone users are expected to fall from 84M users now to 55M users in 2014.
- **Macroeconomic Conditions.** A downturn in macroeconomic conditions could present problems for Konami, especially for the Gaming & Systems segment. The largest gaming market in the world is North America. If the economy continues to worsen then that would mean fewer people visiting hotels and casinos. As people cut down on their budgets, people may also spend less on video games.

Management

Kagemasa Kozuki is the current Representative Director, Chairman, President, and founder of Konami Corporation. Other long time Representative Directors include Takuya Kozuki, Kimihiko Hagishio, and Noriaki Yamaguchi. Fumiaki Tanaka is the Chief Executive Officer and has been with the company since 2000.





Top 5 Shareholders

Shareholder	Shares	% Out
ALLIANCE BERNSTEIN INTERNATIONAL VALUE FUND	552,900	0.40
ISHARES MSCI EAFE INDEX FUND	446,000	0.32
WADDELL & REED ADVISORS FDS-INTERNATIONAL GROWTH FUND	364,900	0.26
ISHARES MSCI JAPAN INDEX FUND	255,800	0.18
Ivy Fds VIP-International Growth Port	214,500	0.15

Source: Yahoo! Finance

Aircastle Ltd. (AYR)
September 9, 2011

Theodore J. Linn Industrials

Aircastle Ltd. (AYR) acquires, leases, and occasionally sells commercial jet aircraft to passenger and cargo airlines worldwide. Their portfolio consists of 129 aircraft leased to 58 lessees in 31 countries, making it the 11th largest aircraft lessor worldwide. 90% of Aircastle Ltd's aircraft are "Latest Generation Aircraft," which means they are high-utility, operationally efficient jets with seating for 100 passengers or more with useful lives of about 20-25 years. Aircastle Ltd. has two suppliers, Boeing and Airbus, who supply the three types of aircraft: narrowbody passenger, widebody passenger, and freighter. Of their 129 aircraft, Boeing supplies 57% of net book value (NBV) and the other 43% is supplied by Airbus. Breakdown between passenger and freighter aircraft is 69% and 31%, respectively, totaling roughly $4 billion in assets. By percentage of NBV, 44% of the portfolio is leased in Europe, 24% in Asia, 14% in the Middle East and Africa, 10% in North America, and the final 8% is either leased in Latin America or off-leased. Fortress Investment Group LLC originally incorporated Aircastle Ltd. in Bermuda in 2004 and took the company public in 2006. AYR has 78 employees and is located in Stamford, CT.

Price ($): (9/1/11)	11.38	Beta:	1.52	FY: Dec 31	2010A	2011E	2012E
Price Target ($):	15.00	WACC (%):	8.0	Revenue (Mil)	528	611	645
52WK H-L ($):	8.1-13.8	Mid-Term Rev. Gr Rate Est (%):	4.8	% Growth (Rev)	-7.53%	15.72%	5.56%
Market Cap (mil):	852	Mid-Term EPS Gr Rate Est (%):	3.7	Operating Margin	12.60%	15.0%	18.0%
Float (mil):	56	Debt/Equity:	2.62x	Profit Margin	12.50%	14.5%	17.0%
Short Interest (%):	6.9	ROA (%):	3.83	EPS (Cal)	$0.83	$1.33	$1.50
Avg. Daily Vol (k):	91.11	ROE (%):	7.14	FCF/Share	-$1.22	-$4.00	$1.20
Dividend ($):	0.44	P/B	0.6	P/E (Cal)	18.1x	11.2x	10.0x
Yield (%):	2.22	P/S	1.5	EV/EBITDA	6.2x	7.0x	8.0x

Recommendation

The airline business is directly correlated to the growth in air traffic, which is estimated to be about 5-6% annually worldwide. Airlines need to meet this growth by either purchasing or leasing aircraft. Huge capital requirements are needed for airlines to purchase their own aircraft, so they are expected to increase their number of lease agreements. Therefore, aircraft leasing companies will provide the majority of replacement demand of about 600-700 aircraft. Aircastle Ltd's management predicted this rising demand and made significant capital investments of about $3 billion beginning in 2007. AYR will post negative free cash flow in FY 2011 because of continued investments in commercial aircraft; $500 million above their historic $250 million average. This grew the asset base and opened opportunities for leasing revenue growth in years to come. After 2011, Aircastle will maintain their existing "Latest Generation Aircraft" but will have significantly lower capital expenditures, unlikely to exceed $250 million. Therefore, estimated positive FCF in starting in FY 2012 of at least $80 million is expected. This results in a positive discounted cash flow valuation for Aircastle. The firm is also priced favorably compared to its peers - trading at 0.6 Price/Book multiple while peers trade at an average of 1.0x. AYR is also two-thirds through a share repurchase plan of $90 million, which will positively affect the stock price. Finally, Aircastle is well diversified against regional or customer specific setbacks. For these reasons, it is recommended that AYR be added to the AIM Equity Fund with a target price of $15, which offers a potential upside of about 30%. The firm pays a dividend that currently yields 4.82%.

Investment Thesis

- **Decreased Capital Expenditures.** Significant capital investments financed with debt in 2007, in excess of $2.3 billion as well as $500 million in 2011, prepared AYR for future years of growth with low expenses. 90% of the firm's fleet is considered "Latest Generation Aircraft" which with inexpensive modification ($3.5 million) can last up to ten years longer than standard aircraft.

This will serve to provide for high cash flows when long-term debt is paid off and less need to update their portfolio in the near future. AYR also has few predictable investment expenses over the next five years.

- **Experienced Management Advantages.** Management of AYR has an average experience of 5.0 years compared to the industry of 3.7 years. This results in strategic decisions that become significant advantages. Through Fortress Investment Holdings, Aircastle Ltd. has set up shop in Bermuda that allows for significant tax advantages resulting in an effective tax rate advantage of only 7.38%. Also, the firm has applied the depreciating and amortizing of assents to earn tax credits for future years. Finally, Aircastle Ltd.'s balance sheet is one of the most de-levered in the industry with 8.9 interest coverage compared to a competitor average of 3.6.
- **Share Repurchases.** Over the last 6 months, AYR has repurchased roughly $60 million in stock at $12.21 per share. Management is making a significant effort to reduce shares outstanding and has been approved to repurchase another $30 million of stock in Q3 '11. The residual effect at current market prices is that the 74.92 million shares outstanding will be reduced to 72.28 million shares. This signals that management believes that the stock price is low and does not have plans past 2011 for large capital investment. The company will be able to redistribute the near $15 million to its shareholders in the form of an expected stock price increase.
- **Diversification of Customers.** Aircastle has mitigated region risks by providing leases to customers in 32 countries with no country representing more than 10% of revenue. No company represents more than 6% of revenue.
- **Strong Portfolio Utilization.** Aircastle Ltd. maintains excellent utilization of their assets. The current amount of aircraft under lease agreement is 98% Continually, Q2 rental revenue is up $15.2 million from last year. Management expects aircraft utilization for the later part of 2011 to hit 99% because all but 2 of the 11 expiring leases and 8 aircraft purchases in 2011 have already received lease extensions or sale commitments.

Valuation

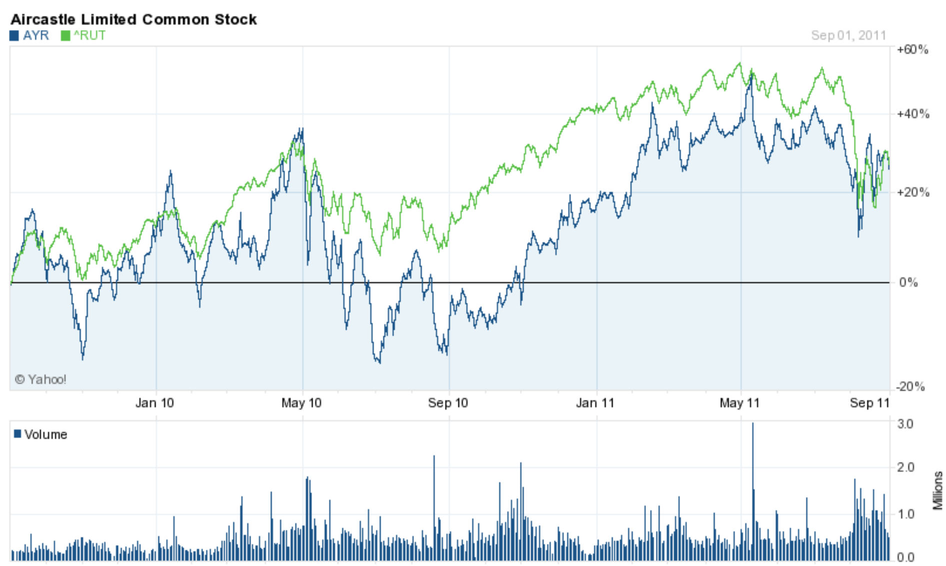
To find the intrinsic value of AYR, a ten-year DCF was conducted utilizing a free cash flow equity model approach as well as a multiple valuation. The FCF for FY 2011 was calculated using a projection from the first two quarters results and the inclusion of a $500 million investment. The FY 2012 would be the first positive FCF of $80 million. The compound annual growth rates for net income and dividends paid were used to calculate a 3-5 year growth rate of 4.8 % and a 6-10 year growth rate of 3.7%. A long-term terminal growth rate of 2.28% was derived from an average of GDP estimates of the following three years. A WACC of 8.0% was used and yielded an intrinsic value of $15.13. Aircastle is also trading at a discount to its peers in terms of P/B and EV/EBITDA. Taking these into account, a price target of $15 was established offering a roughly 30% upside.

Risks

- **Cyclicality of Business Cycle.** The nature of the airline leasing industry is about the seven-year cycle. Aircastle Ltd. management believes that it is exiting the bottom of a down period as returns have been diminishing since 2007. However, if the industry remains depressed, it may be difficult to increase share value without a growing business.
- **Competitive Market, No Economic Moat.** The aircraft leasing business is highly competitive with nearly 40 competitors; competitors include Aercap Holdings, Air Lease, and Fly Leasing. Aircastle Ltd. will need to demonstrate a product/service moat to get past the industry mediocrity.

Management

Mr. Ron Wainshal became the Chief Executive Officer in May 2005 and has more than 18 years in industry experience. Mr. Wesley R. Edens is a principal and Co-Chairman of the Board of Directors of Fortress Investment Group LLC.



Ownership

% of Shares Held by All Insider and 5% Owners:	4%
% of Shares Held by Institutional & Mutual Fund Owners:	83%

Source: Yahoo! Finance

Top 5 Shareholders

Shareholder	Shares	% Out
Fortress Investment Holdings	17,035,877	21.50
AllianceBernstein LP	5,081,351	6.41
Dimensional Fund Advisors LP	4,197,561	4.26
Sankaty Advisors LLC	3,378,413	4.26
Dreman Value Management	3,275,205	4.13

Source: Bloomberg