Applied Investment Management (AIM) Program

AIM Class of 2010 Equity Fund Reports

Chicago Trip - Milwaukee Student Presentations
November 10, 2009

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Allegiant Travel Company
ALGT
Price: $39.47 ($23.29-57.52)
Fiscal Year Ends: December 31

November 4th, 2009 — Tiffany Roberts
Russell 2000 Index: 580.22 (342.57-625.31) — Business Services

Allegiant Travel Company is a niche travel airline, providing transportation services for passengers from small cities to leisure destinations. ALGT's unique business model allows for a diversified revenue stream consisting of scheduled service revenue, fixed fee contract revenue, and ancillary revenue (65.67%, 10.42%, and 22.74% of 2008 year end revenues, respectively). The scheduled service revenue is generated by airfare from ALGT's nonstop, limited frequency flights between small cities and leisure destinations. The fixed fee contract revenue consists of fixed fee flying arrangements with Harrah's Entertainment and charter services, providing for a more predictable revenue stream. Lastly, ALGT's ancillary revenue is generated by the sale of hotel rooms, rental cars, advance seat arrangements, checked bag charges, and in-flight products. The company's strategy is to provide low cost, nonstop, travel to passengers from small cities to leisure destinations such as Las Vegas, Nevada, Phoenix, Arizona, Orlando, Florida, Tampa/St Petersburg, Florida, Ft. Lauderdale, Florida, and Los Angeles, California. The company was founded in 1997 and is headquartered in Las Vegas, Nevada.

Recommendation

Allegiant Travel Company prides itself as being one of the nation's most profitable airlines. Q3 2008 was ALGT's 27th consecutive profitable quarter, and the company's fourth quarter in a row with double-digit margins. The company has been able to weather the current economic decline, evidenced by Q3 revenues growing 14% y-o-y. The company boasts a strong capital position with $174.8 million in cash and low debt ($64.7 million) relative to its industry peers, enabling impressive gross and operating margins (40.15% and 24.36%, respectively). ALGT was also recently recognized by Forbes as one of "America's 200 Best Small Companies" based on earnings growth, sales growth, and return on equity in the past 12 months and over five years. Because of ALGT's consistent profitability in the relatively unprofitable airline industry, strong financial position, as well as an opportunity to expand nationally and gain market share, it is recommended that ALGT be added to the AIM Domestic Equity Portfolio at a target price of $52.00; providing a return potential of over 30%.

Key Statistics	November 4, 2009
Market Cap	$739.08M
Shares Outstanding	19.975M
Ave. Volume (3 month)	352,895
Adjusted Beta	0.83
EPS (TTM)	$4.10
2009 Estimated EPS	$3.77
P/E (TTM)	9.02
PEG Ratio	1.09
WACC	8.68%
Debt/Assets	.14
ROE	15.94%
ROA	8.54%
Gross Margin	40.15%
Operating Margin	24.36%
Dividend Yield	0%
Analyst Coverage	10
Target Price	$52

Source: Bloomberg

Investment Thesis

- **Existing Growth Opportunities in Small Cities.** Management has stated that small cities represent a largely untapped market for the airline industry, and currently, ALGT has competition on only five of its routes. Presently, small city travelers have a limited availability of travel options, particularly to leisure destinations, as the majority of airlines have traditionally focused on providing business transport. Since 2004, ALGT has expanded service routes from 6 to 57 smaller cities (population under 200,000). Management foresees forward growth generating from additional flight frequency to meet rising demand in current small cities as well as initiating service in new, small cities. Further, management also believes ALGT's business model can prove successful in 100 small cities in the US, Mexico, and Canada.

- **Strong Financial Position.** ALGT boasts a pristine balance sheet, with significant cash balances and relatively low debt when compared to its industry peers. As of December 31, 2008 the company had $174.8 million of cash and $64.7 million in debt. ALGT also flies used MD-80s and owns the majority of its fleet, allowing the company to benefit from reduced costs. The company pays $4 million per plane compared to the $30 million to $40 million a plane paid by competition. Lastly, as of 2008, ALGT has consistently generated quarterly net income, which has allowed the company to grow as well as weather such industry disruptions as the increase in jet fuel prices.
- **Focus on Ancillary Revenues.** ALGT prides itself on selling more than just air travel service to its customers. ALGT's ancillary revenue is generated through the sale of hotel rooms, rental cars, advance seat assignments, checked bag charges, and in flight products sold in conjunction with ALGT's airline service. This demonstrates the company's differentiation in a relatively undifferentiated industry. In 2008, ancillary revenue comprised 23% of total revenue ($114.66 million) compared to 18% in 2007 ($64.99 million). ALGT is also able to collect $32.36, on average, per ticket from the sale of ancillary products; Ryanair, a comparable air travel company in Ireland, is only able to collect less than $14 per ticket.

Valuation

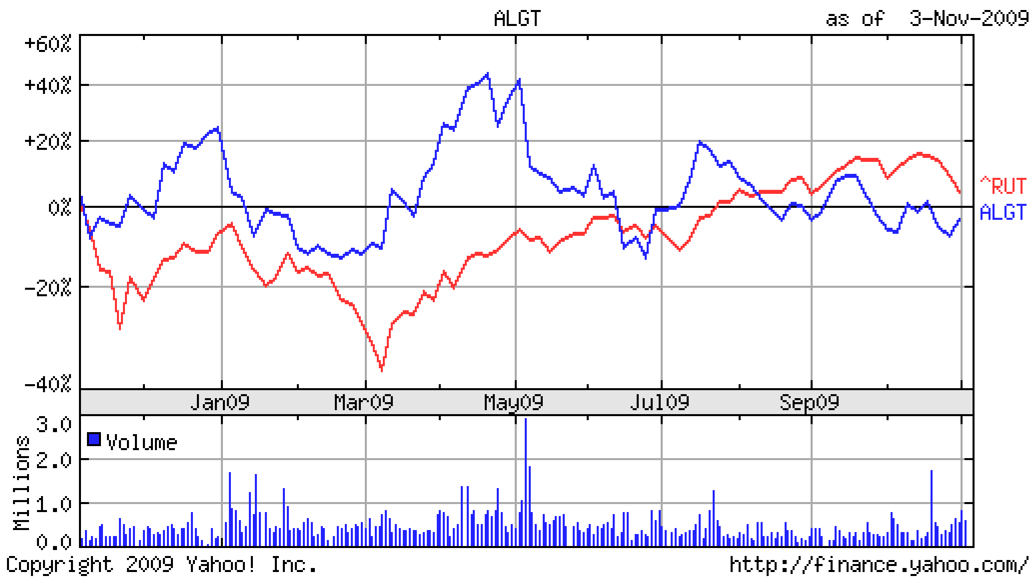
Based on a 10 year DCF analysis with a computed WACC of 8.69% and a terminal growth rate of 3.0%, an intrinsic value of $52.43 was obtained for ALGT. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (7.5-9.5%) generates a price range of $42.19-79.77. Applying an historical P/E average of 17x to my 2010 EPS estimate of $4.09 yields a $69.60 price target. Taking into consideration these methodologies, a price target of $52.00 was obtained. With the stock currently trading at $39.00, this target provides for a 32% upside. This company does not currently pay a dividend.

Risks

- **Economic Downturn.** The US is experiencing a significantly weakened economy as a result of the recent financial crisis. Increasing unemployment forecasted by many economic analysts may impact consumer spending on leisure travel; however, ALGT has a reputation for offering low fares to previously unreachable leisure destinations, and as a result, was able to grow revenues by 14% in Q3 of 2009.
- **Increases in Fuel Prices.** In 2008, jet fuel constituted more than 50% of ALGT's operating expenses ($229.640 million), ultimately driving gross margin down from 3 year average gross margin of 44% to 40.15% in 2008. ALGT does not hedge against fuel prices; however, the company was able to maintain profitability in 2008 through capacity adjustment strategies.
- **Possibility of Accidents.** ALGT's reputation and stock price could be adversely affected if an accident or incident involving an airplane in its fleet were to occur. Management believes the company is significantly insured, consistent with industry wide standards, but large amounts of claims and a damaged public perception could harm financial operations. Nevertheless, Allegiant has not had a fatal airline accident since its founding.

Management

Maurice J. Gallagher, Jr. is the majority owner of ALGT. He has served as the CEO since 2003 and Chairman of the Board since 2006. Under Mr. Gallagher's leadership, ALGT has become a profitable airline, a rarity in the airline industry. Andrew Levy is the President and CFO of ALGT. He has proven valuable to the company as he has extensive industry experience, having held various senior management positions with multiple firms in the airline industry.



Ownership

% of Shares Held by Insiders:	32.87%
% of Shares Held by Institutional & Mutual Fund Owners:	>60%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Maurice J. Gallagher, Jr.	4,192,783	20.99%
Par Capital Management, Inc.	1,911,150	9.57%
Comvest Group Holdings	1,497,696	7.50%
Rainier Investment Management	1,206,680	6.04%
Fidelity Management & Research	802,780	4.02%

Source: Bloomberg

Duoyuan Global Water (DGX)
Price: $36.61 ($20.40-$43.65)
Fiscal Year Ends: December 31

November 4, 2009 Nathan Novak
iShares MSCI EAFE Index ($31.70-57.07) Industrial Materials Sector

Simply stated, Duoyuan Global manufactures products that treat water. They manufacture over 80 different products that can be broken down into three categories, circulating water (the oldest segment accounting for 38% of revenue), water purification (21%) and wastewater treatment (41%). Operating in a very underdeveloped market (from a water infrastructure perspective,) DGW focuses on offering proven technologies, rather investing in the next potential cutting edge technology. Their end users are municipalities, industrial entities, and office/residential buildings. 100% of the company's revenue comes from China and they have a strong network of approximately 80 distributors spanning across the country; with a slight concentration in the north/northeast and the interior provinces. In the most underdeveloped areas, DGW has several 5, 10 and 15 year relationships with distributors. The company's IPO was in June 2009 and is listed on the NYSE. Located in Beijing, DGW was founded in 1992.

Recommendation

Duoyuan Global Water is the only US-listed pure play Chinese water stock. In this highly fragmented, domestically dominated market, China has seen a consistently growing population mixed with rising pollution rates and higher instances of water scarcity. Only 1/3 of wastewater in China is treated and over 90% of all urban surface water is considered polluted. In early 2009, a drought affected over 40% of China's wheat crop and left 4.3 million people without drinking water. Globally, China is ranked 128th in water availability. Recognizing the problem, the Chinese government has committed itself to water infrastructure improvement, earmarking $128B in its most recent 5 year plan, and allocating another $51B in the recent stimulus package. Government and distributor relationships in China have left international competitors nearly a decade behind DGW. Of the Chinese domestic players, each has about 5 to10 distributors, while DGW has over 80. The $100M raised by the firm in its recent IPO, along with its historically strong positive cash flows, can be used to fund future capital expenditures. Management stated that the IPO capital will be used to expand existing capacity by 3x, further strengthening their dominant market position. Additionally, the company has no long term debt. Therefore, because of DGW's unique capital and distributor intensive position in a high growth industry with inherent national barriers to entry, it is recommended that Duoyuan Global Water be added to the international AIM portfolio with a target price of $46.

Key Statistics	Nov. 4, 2009
Market Cap	$799.97M
Shares Outstanding	21.85M
Ave. Volume (3 month)	244,602
Bk value/share	$7.84
EPS (TTM)	$1.37
2009 Estimated EPS	$1.61
P/E (TTM)	26.72
Asset Turn	0.9
Debt/Equity	1.7%
Current Ratio	9.72
ROE	26.9%
ROA	23.1%
Gross Margin	48.8%
Operating Margin	36.6%
Dividend Yield	0%
Analyst Coverage	3
Target Price	$46.00

Source: Bloomberg

Investment Thesis

- **Continued Water Shortage/Pollution.** The availability and condition of water in China is among the worst in the world. China is the world's largest country, but ranks 128th in terms of water availability. In addition, only 1/3 of the China's wastewater has ever been treated, and 90% of all urban surface water is considered polluted.

- **Increased Governmental Dedication to Improvement.** China's most recent 5 year plan earmarked $128B for investing in water related projects. On top of that, the most recent stimulus package added another $51B towards wastewater treatment (DGW's largest business segment) and $10B towards purifying drinking water. In the fourth quarter of 2008, China spent $5.5B of stimulus money towards improving their water infrastructure, compared to the $6B the US has spent over the last 2 years. The markets in which DGW operates, yield approximately $15B of revenue each year, while the specific products they offer generate approximately $5B across the entire competitive landscape. The high spending of the 5 year plan demonstrated the government's dedication to improvement in 2005, and the large stimulus earmarked during the past year shows it is still an important issue. Early indications of the next 5 year plan (which begins in 2011) point toward a continued emphasis on water infrastructure improvement.
- **Increased Demand in End Markets.** The largest end users of DGW's products are municipalities and industrial companies. As water becomes increasing scarce, Chinese localities have been consistently raising water rates to discourage usage. These rates have increased each of the last 10 years and are projected to continue trending upwards. Furthermore, demand for water by industrial companies will rise as the Chinese economy grows. The World Bank recently estimated Chinese GDP growth rates for 2009 and 2010 will be 8.4% and 8.7%, respectively, ranking China among the highest growth economies in the world.

Valuation

DGW does not have any publically listed Chinese competitors. To assess valuation, a peer group of 10 US based, pure play water treatment stocks was utilized. While water scarcity is a worldwide issue, the investable universe of such stocks connected to the problem is limited, so stocks in this space have traditionally commanded a high multiple. The peer group yielded an average CY2009 P/E ratio of 25.28, with a range 18.37 – 52.54, concentrating in the low 20s. A premium multiple is appropriate, given DGW's ROE versus the peer group (26.9% vs. 12.4%) and stronger margins (OM 36.6% vs. 11.7%). In addition, China has a larger water problem and spends more money attempting to rectify the situation. Taking all of this into consideration, a 29x 2009 EPS yield a $46 target price (>30% return potential).

Risks

- **Execution.** DGW is in a high growth industry and expects to expand their reach by increasing capacity 3x. Thus, the possibility of growing too big, too fast, etc. exists. While the potential for explosive growth exists, a risk is whether or not DGW's management team can execute the strategy involving rapid growth and ramped up capital expenditures.
- **Investment in Young Chinese Company.** All things held the same, an investment in an emerging Chinese company is inherently riskier than investing is a similar US firm. While DGW conforms to proper US accounting standards, there is always the potential management could make decisions deemed improper by US norms. In addition, the management team does not speak English and must communicate via a translator.
- **Reliance on Government Funds.** The vast majority of DGW's revenue comes directly from China's earmarked spending towards improving water infrastructure, outlined in each separate 5 year plan. The current 5 year plan ends in 2010, and the terms of the next plan have not yet been disclosed. While early signs appear very favorable, it is too early to put a number on such a figure in the future. There is a risk that the infrastructure expenditures could be lower than expected.

Management

CEO Wenhua Guo has been with the company since its inception nearly 20 years ago. Mr. Guo does not speak English, so the language barrier of such a high profile official could be a concern. Much of the outward communication is done by CFO Steve Park, CPA. He has been working for DGW since 2007 and has used his background to bring DGW up to speed with US GAAP and its customs.

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Jordan Management Company	297,500	1.98%
Columbus Circle Investors	236,090	1.57%
Harvest Capital Strategies	150,000	1.00%
Crosslink Capital	142,100	0.95%
Putnam Investment Management	102,368	0.68%

Source: Bloomberg

Diana Shipping, Inc.
DSX
Price: $12.92 ($6.85-19.00)
Fiscal Year Ends: December 31

November 10, 2009 — Sarah Clasing
iShares MSCI EAFE Index: $53.30 ($31.56-57.46) — International Business Services Sector

Founded in 1999, Diana Shipping, Inc. is a global provider of shipping transportation services focusing on the transportation of iron ore, coal, grains, and other dry bulk cargoes. Through the use of time and voyage contracts, DSX charters its maritime vessels to various international, regional, and national chartering companies, such as Cargill International S.A., BHP Billiton, and Australian Wheat Board. With thirteen Panamax and six Capesize dry bulk carriers, DSX's shipping fleet boasts a carrying capacity of over two million deadweight tonnage and has a weighted average age of 5.3 years. Headquartered in Athens, Greece, DSX posted a fleet utilization rate of 99.6% for its fiscal year ended December 31, 2008.

Recommendation

With revenue growth of over 77% and 64% y/y in 2008 and 2007, respectively, DSX has emerged as a leader in the global dry bulk shipping industry. While recent macroeconomic headwinds and drastically lower dry bulk shipping rates have caused this impressive revenue growth to stagnate over the course of the past year, the economic crisis has also created a vast opportunity for DSX. While other dry bulk shippers have been plagued by covenant and default risk, DSX's strong cash position and relatively low level of debt places them in the enviable position to capitalize on distressed vessel prices through acquisitions. Furthermore, with extensive charter coverage and a high-quality, young fleet, DSX should continue to be the industry's flight-to-quality name as dry bulk rate volatility continues amidst economic uncertainty. Currently trading at an approximate 44% discount to its peer group on an EV/EBITDA basis compared to its average historical premium of over 15%, DSX represents an attractive value play in the dry bulk shipping industry. Therefore, due to its strong balance sheet, acquisition opportunities, extensive charter coverage, and compelling valuation, it is recommended that DSX be added to the International AIM Equity Portfolio with a target price of $18, offering upside potential of 40%.

Key Statistics	Nov. 4, 2009
Market Cap	$1.05B
Shares Outstanding	81.43M
Ave. Volume (3 month)	1,413,540
Adjusted Beta	1.41
EPS (TTM)	$2.36
2009 Estimated EPS	$1.59
P/E (TTM)	5.50
WACC	12.17%
Total Debt/Equity	21.12%
Net Debt/Capital	2.01%
ROE	28.15%
ROA	22.15%
Gross Margin	70.91%
Operating Margin	66.81%
Dividend Yield (TTM)	0%
Analyst Coverage	21
Target Price	$18

Source: Bloomberg

Investment Thesis

- **Strong Balance Sheet and Acquisition Opportunities.** Possessing one of the strongest balance sheets in its industry, (Net Debt-to-Capital of`~2% vs. the industry average of ~50%), DSX is well-positioned to not only navigate current turbulent economic conditions, but to also seize upon future acquisition opportunities. As several of its peers continue to default on their new-build payments, DSX intends to deploy its accumulated cash (>$217M) on the purchase of trough-value assets, thus expanding its fleet and enhancing its future cash generation potential.
- **Extensive Charter Coverage.** DSX focuses on intermediate to long-term time charters, using 1-3 year charters for its Panamax fleet and charters greater than 5 years for its Capesize fleet. The company's fleet is currently over 95% chartered for 2H09, and is 65%, 36%, and 23% chartered

for the years 2010-2012, respectively. DSX's significant charter coverage provides insulation from any potential near-term deterioration in dry bulk rates while also providing exposure to any potential near-term upside in dry bulk rates. Furthermore, DSX's extensive charter coverage allows it to act as the industry's flight-to-quality name in the event of heightened freight and commodity volatility.

- **High-Quality, Young Fleet.** With a weighted average age of 5.3 years compared to the industry average of around 12.3 years, DSX owns a high-quality, young fleet. This relatively young fleet reduces DSX's operating costs, improves safety, and offers the company a competitive advantage in securing favorable time charter rates. Moreover, with its high-quality fleet, DSX has been able to and should continue to win charters with top-tier customers such as Cargill and BHP Billiton.
- **Compelling Valuation.** Despite its fortress balance sheet, charter coverage, and high-quality fleet, DSX is currently trading at a discount to its peer group with an EV/EBITDA of 4.67x compared to the peer group at 8.36x. Historically, DSX has typically traded at a premium of over 15% to its dry bulk peers. A large part of DSX's reverse in valuation can be attributed to the company's suspension of its dividend in December 2008 in order to preserve cash for future acquisitions, thus making DSX no longer attractive for dividend-seeking investors. DSX's current discounted valuation creates an attractive entry point for long-term investors.

Valuation

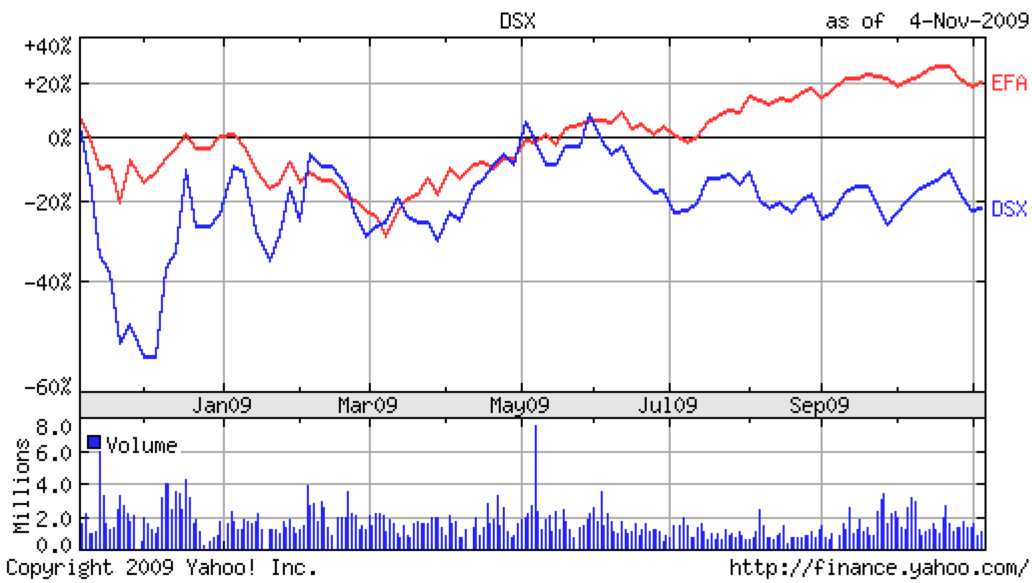
Based on a 5 year DCF analysis with a computed WACC of 12.17% and a terminal growth rate of 3%, an intrinsic value of $17.60 was obtained for DSX. A sensitivity analysis that adjusts both the long-term growth rate (2.00-4.00%) and the WACC (11.00-13.00%) generates a price range of $16.31-$20.00. Applying a 9x multiple to my 2010 EBITDA estimate of $2.07/share yields a price target of $18.60. Considering the two methodologies, a target price of $18 was obtained, providing a potential upside of approximately 40%.

Risks

- **Continued Global Economic Weakness.** The dry bulk shipping industry is highly cyclical by nature, thus making large volatility in charter hire rates and industry profitability commonplace. Demand for dry bulk shippers and the level of charter hire rates will be dependent upon continued economic growth in the world's economies. Prolonged global economic weakness would adversely impact demand and charter hire rates, thus hurting DSX's profitability.
- **Increased Dry Bulk Carrier Capacity.** As of December 31, 2008, new-building orders had been placed for more than 72% of the existing global dry bulk fleet. Furthermore, with the majority of these deliveries expected within the next 36 months, it is estimated that the world's dry bulk fleet will grow by 5%, 11%, 10%, and 4% in the years 2009-2012, respectively. An increase in the supply of dry bulk carrier capacity, without an equal or greater increase in demand for dry bulk shippers, would adversely impact charter hire rates, thus hurting DSX's profitability.
- **Increased Piracy.** A recent increase in piracy activity has affected vessels trading in South China and in the Gulf of Aden off the coast of Somalia. Continued attacks could make insurance coverage more difficult for DSX to obtain and could cause premiums for insurance coverage to increase significantly, thus adversely impacting DSX's profitability.

Management

With an average of over 23 years of experience, Diana Shipping is known for its conservative, experienced management team. Mr. Simeon Palios, a qualified naval architect and engineer, has served at the company's Chief Executive Officer since its inception and has over 41 years of industry experience. Mr. Anastassis Margaronis serves as DSX's President and has over 27 years of industry experience, including extensive experience in ship financing and insurance.



Ownership

% of Shares Held by Insiders:	18.95%
% of Shares Held by Institutional & Mutual Fund Owners:	29.82%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Shares Outstanding
Ironwood Trading Corporation	14,484,453	17.80%
Argyll Research, LLC	2,701,600	3.30%
American Century Investment Management	2,406,300	3.00%
Columbia Management Advisors, LLC	2,038,220	2.50%
Renaissance Technologies Corporation	1,310,600	1.60%

Source: Bloomberg

El Paso Electric
EE
Price: $19.13 ($11.65-22.01)
Fiscal Year Ends: December 31

November 3, 2009 — Michael O'Carroll
Russell 2000 Index: $563.12 (342.59-625.31) — Utility Sector

El Paso Electric Company, a public utility company, engages in the generation, transmission, and distribution of electricity in west Texas and southern New Mexico. The company generates electric capacity through nuclear (42%), natural gas (28%), and coal power plants (7%), as well as purchased power (22%) and wind turbines (1%). As of June 30, 2009, the company owns six electrical generating facilities with a net generating capacity of approximately 1,643 megawatts. The company serves approximately 367,000 residential, commercial, industrial, public authority, and wholesale customers. The firm sells its products to electric utilities and power marketers, as well as to oil, copper refining, and steel production facilities, and to United States military installations. The company was founded in 1901 and is based in El Paso, Texas.

Recommendation

EE is one of the smaller regional electric providers in the southwest United States. The firm is positioned for solid growth due to anticipated rising government expenditures. The strongest catalyst for the firm is its developing customer base. The firm provides electricity to Fort Bliss and the White Sands Missile Range which provides missile and artillery training for the U.S. military. The U.S. government is taking part in one of its largest defense projects by expanding the Fort Bliss Military base through the addition of 37,000 troops to the area over the course of the next four years. This action should result in an additional 53,000 family members (with 20,000 of the troops needing off base housing by 2013). As a result of this expansion, the area is expected to receive $5B annually in government stimulus for the next five years, with the amount growing to $6.3B annually in 2015. EE has shown a strong commitment to growth with $997M of planned infrastructure investments from 2009 - 2012 targeted in the areas of production ($600M), transmission ($93M), distribution ($237M), and general expenditures ($67M). Given EE's growing revenue base and favorable regulatory climate in Texas, it is recommend that El Paso Electric be added to the AIM Fund with a target price of $24; a upside potential in excess of 25%.

Key Statistics	Nov. 3, 2009
Market Cap	$838.22M
Shares Outstanding	44.81M
Ave. Volume (3 month)	238.65k
Adjusted Beta	0.60
EPS (TTM)	$1.58
2009 Estimated EPS	$1.35
P/E (TTM)	11.80
P/B	1.15
P/CF	3.19
WACC	5.44%
Debt/Assets	39.86%
Debt/Capital	54%
Debt Coverage	3.46x
Interest Coverage	3.54x
ROE	9.77%
ROA	3.32%
Gross Margin	64.56%
Operating Margin	16.31%
Analyst Coverage	6
Target Price	$24

Source: Bloomberg

Investment Thesis

- **High Quality Generation Assets.** Given that 42% of electric capacity is generated through nuclear power, EE is set up for strong earnings power if the system of cap and trade is enacted. Nuclear power is a form of cleaner power generation which has a high amount of capital cost, but very low fuel costs. As a result, the firm is currently able to weather any future clean energy legislation enacted by Washington positively and will be able to operate at a lower cost in comparison to competitors.

- **Pending Rate Cases**. El Paso has expedited a New Mexico rate case filing with a hearing to occur on November 4. This specific rate case should have a 4Q 09' decision with the firm receiving approval for a $12.7M request in rate increases. A 2010 filing is also scheduled with the state of New Mexico to allow the firm to incorporate a phase of its development of the Newman Power Generation Station into their rate structure. Two rate cases will be filed in Texas during December 2009 and September 2011 to increase rates on July 2010 and March 2012. These rates will attempt to absorb the capital costs associated with the Newman Power Generation Station.
- **Share Buyback Potential.** EE buys back common stock in lieu of a dividend to increase shareholder value. The firm has not purchased any shares since the 1Q of 2008. The firm currently has $121M in cash and is expected to repurchase shares before the second half of 2010. As of June 30, 2009 the firm had the ability to purchase an additional 1.52M shares of common stock under their 2007 repurchase plan.

Valuation

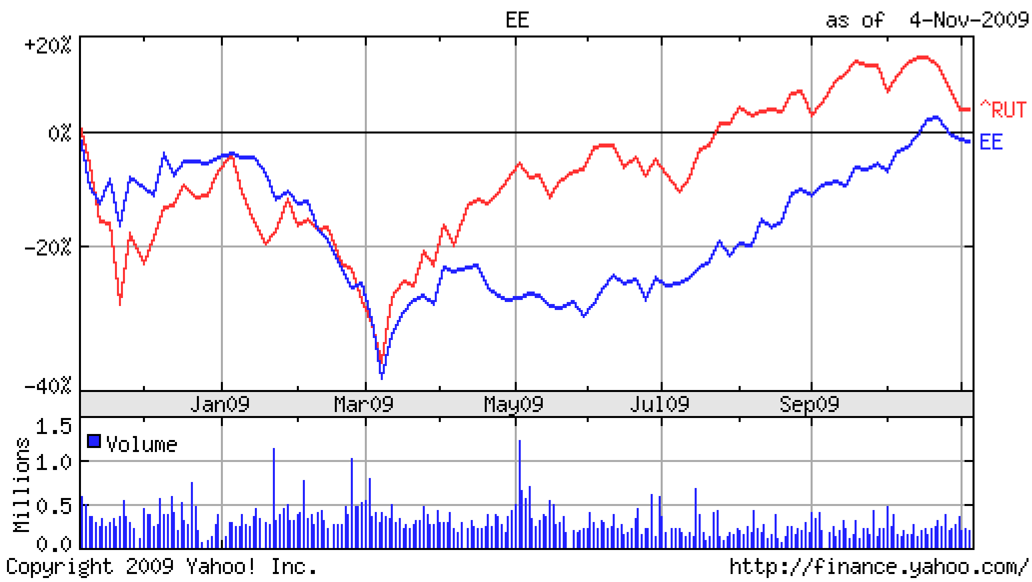
EE is currently trading at 11.8x TTM EPS of $1.58. A conservative historical P/E of 12 times an estimated 2011 EPS estimate of $1.79, yields a $21.50 price target. Based on a 5 year DCF analysis with a computed WACC of 5.44% and a terminal growth rate of 3%, an intrinsic value of $23.90 was obtained for EE. A sensitivity analysis that adjusts both the long-term growth rate (2.50-3.50%) and the WACC (4.94%-5.94%) generates a price range of $19.50-43.20. Given the price targets displayed by the sensitivity analysis and DCF model, a price target of $24 was set. With the stock currently trading around $19, the $24 price target would return in excess of 25%.

Risks

- **Palo Verde Station.** El Paso Electric has 15.8% ownership stake in the Palo Verde Nuclear Power Station located in Wintersburg, Arizona. Facility ownership is spread across six other utilities. Given EE's large disproportionate investment in the facility, the firm is subject to regulatory surprises and potential unplanned outages which could result in a negative impact on earnings.
- **Capacity.** Of total electric capacity 22% is generated through power purchase agreements. To control capacity El Paso Electric entered into a twenty year contract with SPS in 2006. SPS has the right within the contract to terminate the agreement early. As a result of a negative regulatory environment within the state of Texas regarding transactions under the contract, SPS terminated the contract on September 30, 2009. El Paso Electric will now have to find a strategic utility to receive additional capacity from which could affect earnings given the current economic environment.
- **Regional Economic Environment.** El Paso Electric serves a very narrow territory with a large customer base consisting of low income families. On an annual basis within the region, the average income in the El Paso territory is 30% less than the state average. Given current economic conditions, the firm is subject to a larger amount of delinquent payments.

Management

David W. Stevens was named Chief Executive Officer of El Paso Electric in November 2008. Previously, he served as president and chief executive officer for Cascade Natural Gas Corporation in Seattle, Washington. Prior to that, he was president and chief operating officer for Houston-based Panhandle Energy, a subsidiary of Southern Union Company.



Ownership

% of Shares Held by Insiders:	9%
% of Shares Held by Institutional & Mutual Fund Owners:	91%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
T. Rowe Price Associates	3,614,000	8.17%
Gamco Investors Incorporated	3,460,200	7.82%
Barclays Global Investors UK	3,143,206	7.11%
Goldman Sachs Group Inc.	2,569,895	5.81%
Advisory Research Incorporated	2,187,238	4.94%

Source: Bloomberg

EPIQ Systems, Inc.
EPIQ
Price: $12.57 ($18.91-11.06)
Fiscal Year Ends: December 31

November 10, 2009 Corbin Weyer
Russell 2000 Index: 567.72(625.31-342.59) Software Sector

EPIQ Systems, Inc. (EPIQ) provides integrated technology solutions for the legal professional. These solutions streamline the administration of bankruptcy, litigation, financial transactions and regulatory compliance matters. EPIQ operates in three segments: Electronic Discovery (eDiscovery), Bankruptcy, and Settlement Administration. eDiscovery (24% of 3Q09 revenue) software helps customers process, search, and review electronically stored information during the litigation discovery process. Bankruptcy (50%) provides solutions that address the needs of Chapter 7, 11 and 13 bankruptcy trustees to administer bankruptcy proceedings. Settlement Administration (26%) provides case management services such as claims processing, reconciliation and project management for class action and mass tort lawsuits. Customers include law firms, corporate legal departments, bankruptcy trustees and other professional advisors. EPIQ was incorporated in 1988 and is headquartered in Kansas City, Kansas.

Recommendation

EPIQ is well positioned to take advantage of some of the trends taking place in today's economic climate. A wave of Chapter 7, 11 and 13 bankruptcies has contributed to record high segment revenues. 3Q09 revenue growth of 91% y/y in the high margin Bankruptcy segment has also contributed to growing margins for the company as a whole - gross margin has increased 284bps YTD to 54.70%. EPIQ, already a top five player in the eDiscovery market in terms of market share, has made timely capital investments during the current recession while competition has cut expenditures. These investments should propel EPIQ when corporate and legal budgetary spending on software picks up. Furthermore, a recent 20% sell-off in the stock, due to 3Q09 missed estimates, provides for a good entry point into an investment opportunity that does not reflect current bankruptcy level expectations. Based on a price target of $18.00, yielding a potential 43% upside, it is recommended that EPIQ be added to the AIM Equity Fund.

Key Statistics	November 10, 2009
Market Cap	$447.15M
Shares Outstanding	35.79M
Avg. Volume (3 month)	279,652
Adjusted Beta	0.74
EPS (TTM)	$0.54
2009 Estimated EPS	$0.68
Adjusted P/E (TTM)	25.38
Adjusted PEG Ratio	1.13
WACC	8.23%
LT Debt/Assets	0.15%
Total Debt/Assets	13.27%
Dividend Yield	0.00%
ROE (TTM)	4.71%
ROA (TTM)	3.52%
Gross Margin (TTM)	54.38%
Operating Margin (TTM)	11.00%
Analyst Coverage	6
Target Price	$18.00

Source: Bloomberg

Investment Thesis

- **Acceleration in Chapter 7 and 11 Bankruptcies.** As reported by the Administrative Office of the U.S. Courts, bankruptcy filings totaled 1,306,415 for the 12 month period ended June 20, 2009, up 35% versus the same period in 2008. During this period, Chapter 7 filings were up 47%, Chapter 11 filings were up 91%, and Chapter 13 filings were up 12%. Along with strong revenue growth, EPIQ's bankruptcy deposits increased 25% y/y and are near the $2B milestone. As access to credit remains limited and debt maturities near, management cited that activity continues at a heightened level and an active pipeline of prospective Chapter 11 engagements have yet to be filed. EPIQ should experience some short-term headwinds from new filings as bankruptcy growth lags economic recovery.

- **Increase in Short Term Interest Rates.** EPIQ's bankruptcy software is provided to trustees at no cost, as regulations discourage trustees from paying administrative costs for computer systems. Instead, the trustee agrees to deposit the cash proceeds from liquidation of the debtor's assets with a financial institution that has a relationship with EPIQ, who receives a monthly payment for its services from that financial institution based on the percentage of total liquidated assets on deposit. EPIQ's pricing formula references short term interest rates; therefore, increases in short term interest rates would contribute directly to the firm's bottom line without any incremental costs. Furthermore, higher short term interest rates could add additional stress and problems to companies that are already having credit problems and on the verge of bankruptcy. With rates already at floor levels, economists predict rate hikes beginning in 2Q10.
- **eDiscovery Opportunities.** Gartner Research estimates that the eDiscovery market will grow between 25% and 35% per year until 2012, as eDiscovery becomes essential for litigation due to the rise in the volume of both data and documents. Both the expanding eDiscovery marketplace and the size of the market will allow EPIQ to capitalize on recent investments in this segment. Investments include two new products for document review and forensic and data collection, along with the opening of offices and data centers in Hong Kong and Brussels. Although growth has stagnated in the current environment due to corporate legal department and law firm budgetary issues, management has noted that they expect a return to sold double-digit growth beginning in 2010.

Valuation

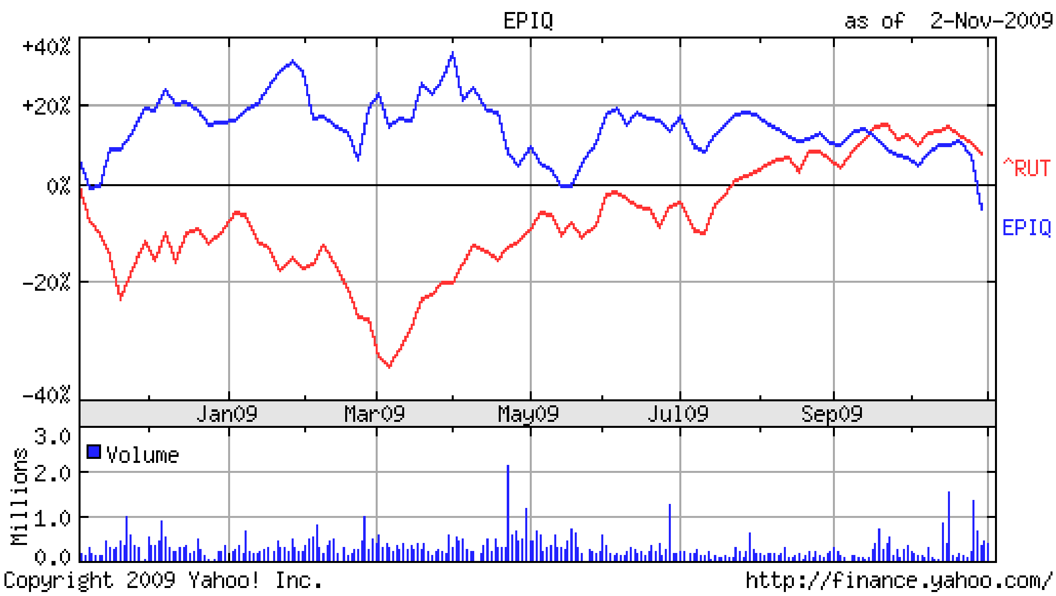
Using a 10-year DCF model, a WACC of 8.23%, variable long-term growth rates and a terminal growth rate of 2%, resulted in a stock price estimate of $19.45 for the base case. A sensitivity analysis adjusting the terminal growth rate between 0-2% and 5 year growth rates of the three business segments yielded a price range of $11.05-23.09. A blended multiple approach, using an EV/EBITDA of 10x and a P/E of 23x, applied to a non-GAAP EPS of $0.84 for 2010, yielded a price of $18.62. Based on a price target of $18.00, this investment would yield a potential 43% upside – the firm does not pay a dividend.

Risks

- **Maturity of Convertible Debt.** $50MM of contingent convertible subordinated notes with an original maturity of June 15, 2007 was extended and is now shown as short term on the balance sheet. Management believes that the notes will convert to equity by the maturity date in June 2010. While this conversion would pose well for a strong balance sheet, the addition of 4.3m shares of common stock would dilute current outstanding shares. Non-conversion would require EPIQ to tap its unused $100m line of credit.
- **Sooner Than Expected Economic Recovery.** The combination of easier credit along with improved economic conditions sooner than anticipated could slow the number of bankruptcy filings. While economic recovery would pose well for the eDiscovery segment, EPIQ's fastest growing and highest margin Bankruptcy segment would falter.
- **Pricing Pressures in eDiscovery.** Growth opportunities in the eDiscovery market and the current economic environment have increased competition and put pressures on both prices and margins. Pricing pressure contributed to a 15% sequential decrease in the segment's operating revenue, while the 3Q09 EBITDA margin decreased over 300bps sequentially.

Management

Tom Olofson has served as CEO and Chairman of the Board since acquiring EPIQ in 1988 through a private investor group. Olofson has held management positions with Xerox Corporation and was a Senior Vice President of Marion Laboratories. Christopher Olofson, son of Tom, has served as president of the company since 1998 and as COO since 1996. Both hold a large stake in the performance of EPIQ, owning a combined 18.99% of outstanding shares.



Ownership

% of Shares Held by Insiders:	21.44%
% of Shares Held by Institutional & Mutual Fund Owners:	>75.00 %

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Shares Outstanding
Tom Olofson	4,884,308	13.51%
Fidelity Management	3,249,569	8.99%
St. Dennis J. Villere & Co.	2,289,694	6.33%
Barclays Global Investors	2,266,897	6.27%
Christopher Olofson	1,981,577	5.48%

Source: Bloomberg

Forestar Group Inc.
FOR
Price: $14.76 ($2.93-18.39)
Fiscal Year Ends: December 31

November 3, 2009 Ryan Rusch
Russell 2000: $586.99 (586.76-597.26) Financial Services Sector

Forestar Group Inc. either directly or through joint ventures owns over 987,000 acres of real estate across ten states. FOR utilizes the land they own through three business segments: Real Estate (62%), Mineral Resources (30%) and Fiber Resources (8%). The Real Estate segment owns 365,000 acres (37% of total acreage) and focuses on the securing of entitlements and development of infrastructure for single-family and mixed-use communities The Mineral Resource segment owns 622,000 acres (63% of total acreage) which is used for the exploration and development of oil and gas in TX, GA, LA and AL. The Fiber Resources segment sells wood fiber and leases land for recreational use. FOR was spun-off from Temple-Inland Inc. in December 2007 and is currently headquartered in Austin, TX.

Recommendation

Forestar's real estate business operations are focused on major economic and demographic growth corridors within the U.S. The two main regions that FOR has targeted are the I-35 corridor (Dallas, Austin, and San Antonio) and I-85 corridor (Atlanta, Charlotte, and Raleigh). Within the greater Atlanta region, the Case-Shiller Home Price Index has indicated three consecutive monthly increases in homes prices, equating to a combined increase of over 2%. Moreover, in the Dallas metro area, home prices are currently at their highest point since September 2008. As prices and home sales continue to increase in the I-35 and I-85 corridors, FOR should be able to move real estate through their value chain, optimizing potential land value. Encompassing more than 622,000 acres, 76% of which is still available for lease, FOR's mineral resource business also presents opportunities for growth. With the expansion of the Haynesville Shale boundaries, FOR's 200,000 acres in LA and eastern TX should become more attractive to natural gas producers. Therefore, due to FOR's prominent position in the real estate and its ability to capture upside growth potential in both their mineral resource and real estate markets, it is recommend that FOR be added to the AIM Equity Portfolio with a price target of $26.50, offering upside potential of 79%.

Key Statistics	Nov. 3, 2009
Market Cap	$542.53M
Shares Outstanding	35.86M
Ave. Volume (3 month)	327,411
Adjusted Beta	1.33
EPS (TTM)	$0.09
2009 Estimated EPS	$1.79
P/B (TTM)	1.07
P/FCF (TTM)	6.54
Dividend Yield	0%
Debt/Assets	29.37%
ROE	2.72%
ROA	1.51%
Gross Margin	63.38%
Operating Margin	22.42%
Analyst Coverage	2
Target Price	$26.50

Source: Bloomberg

Investment Thesis

- **Strong Presence in U.S. Growth Corridors.** There are ten strategic growth corridors in the U.S. that comprise less than 5% of total surface area. They are projected to weigh heavily on population changes over the next 30 years. Over that time period, 43% of population growth, 38% of job creation, and 41% of housing starts are expected to take place within these areas. Two of those corridors center largely across FOR's main areas of developmental focus, Interstate 85 and Interstate 35. The Atlanta region in particular is expected to see its current population of five million double by 2025. Throughout these two specific areas of future population growth, FOR has 44 projects that are either entitled, developed or under development.

- **Completion of Cibolo Canyons Project.** Located in San Antonio, TX, Cibolo Canyons is FOR's largest development project. Over the course of the next year, J.W. Marriott will open their largest resort and two championship golf courses. Upon the resort's opening, FOR will receive 9.0% of hotel occupancy revenues and 1.5% of sales generated within the resort through 2034. Furthermore, FOR has leasing opportunities still available both in the commercial (56% acres available) and residential areas (67% lots available) of the development which will be sold over the course of the next two years. Residential opportunities include 1st and 2nd move up homes, empty nester/active adult housing, condominiums as well as multi-family and retail on the commercial side. FOR is expected to replicate Cibolo Canyons in the Wolf Creek area near Atlanta.
- **Commercial Groundwater Development.** The second largest reserve of freshwater on earth is groundwater, which comprises nearly 40% of all the fresh water used in the U.S. FOR currently has interest in a total of 1.7 million acres of groundwater reserves of which 45% is nonparticipating royalty interest. Ideally located, FOR's reserves acres are scattered across Texas, Louisiana, Georgia and Alabama.

Valuation

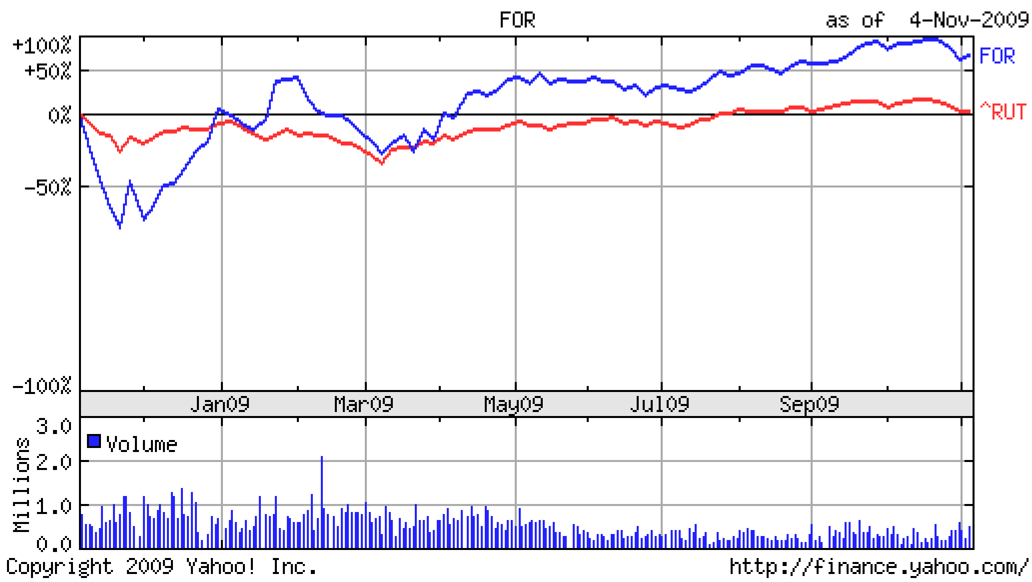
A Net Asset Valuation of each property segment was conducted to value FOR. Using a conservative estimation of the per share value of FOR's 230,280 acres of undeveloped land yielded a $14-18 per share estimated value. Accounting for a significant discount in residential and commercial real estate, a NAV of FOR's 50,564 acres of developed real estate yielded an estimated value of $14-$21 per share. The value assigned to FOR's mineral resources/acre of $1,100 is below the $1,200/acre value of similar transactions in the area. Additionally, with 622,000 acres containing mineral resources, a value between $5-$17/share was calculated. Combining the above estimated values, less net debt, with asset values from development projects such as Cibolo Canyons, a net equity value per share range of $32-57 was calculated. On a P/BV basis, FOR currently trades at 1.07x compared to the peer group average of 2.33x. Based on these assumptions, an intrinsic value of $26.50 was established, which would yield an impressive 79% upside.

Risks

- **Lengthened Recovery in Housing Market.** The U.S. real estate market is arguably in the earliest stages of a possible recovery; however, an increase in foreclosures and continued decreases in home prices could lead to a continued depression on housing markets.
- **Delayed Expansion in Growth Corridors.** Current unemployment rates in the metro Atlanta and Dallas regions are 10.5% and 9.8%, respectively. A delayed recovery from these high unemployment rates could have a negative impact and postpone the growth potential for the greater regions around I-85 and I-35 corridors.
- **Mineral Resource Value.** The demand for mineral resources will fluctuate with uncertainty as the leases and the establishment of producing wells varies. Different formations and discoveries constantly fluctuate and influence the value of current projects.

Management

Mr. Jim Decosmo, President and CEO since 2006, has served as the real estate Group Vice President of Temple-Inland and specializes forest resources and conservation. Craig Knight, current CIO, has over 30 years of industry experience. Craig has served as President of Lumbermen's Investment Corporation and Principal of Health and Knight Properties.



Ownership

% of Shares Held by Insiders:	7.0%
% of Shares Held by Institutional & Mutual Fund Owners:	81.0%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Fidelity Management & Research	3,111,303	8.7%
Barclays Global Investors, N.A.	2,575,939	7.2%
Keeley Asset Management Corp.	2,390,140	6.7%
Franklin Mutual Advisers, LLC	2,242,753	6.3%
Loomis, Sayles & Company, L.P.	1,891,131	5.3%

Source: Bloomberg

True Religion Apparel Inc.
TRLG
Price: $20.07 ($7.80 - $28.90)
Fiscal Year Ends: December 31

Date: November 10th, 2009 — Michael Klenn
Russell 2000 Index: 563.12 (342.59 – 625.31) — Consumer Goods Sector

True Religion Apparel Inc. designs, manufactures and markets True Religion Apparel products, including its premium True Religion Brand Jeans. TRLG's product line includes high-quality, distinctive styling and fit in denim, sportswear, and licensed products. True Religion operates in four customer markets: US wholesale, consumer direct, international, and other. The US wholesale segment sells products to leading nationwide premium stores, specialty retailers and boutiques. This includes Bloomingdale's, Neiman Marcus, Nordstrom, Saks Fifth Avenue and approximately 900 specialty retailers and boutiques. In the 3rd quarter of 2009, this segment accounted for 38% of revenue. The consumer direct segment includes branded retail stores and e-commerce sales (39% of Q3 revenue). The international segment distributes products to sales agents and the wholly-owned subsidiary (20% of Q3 revenue). The other revenues consist mainly of licensing on footwear, fragrances, headwear and swimwear. True Religion Apparel's headquarters are in Vernon, California and went public under the name Gusana Explorations Inc. in 2003.

Recommendation

Despite the economic downturn, sales of premium denim jeans, those costing $200 and more, grew 18% during 2008 according to research firm NPD Group. NPD also found that overall women's jeans sales have increased 4.6% year-to-date compared to 2008. Monitor data says 75% of consumers are purchasing more or the same amount of denim as last year. TRLG CEO, Jeff Lubell, considers jeans a value purchase in a tough economy because they are used more than once. Consumers see the fashion and value denim represents and have also chosen to stick with their favorite brands. US consumers said that fit, cut, and length are the most important criteria when purchasing denim jeans. Consumers also wear denim on average 4.2 days a week, ahead of the global average of 3.5 according to Cotton Inc. This has to do with the fact that jeans have infiltrated every facet of our culture including work, school, and formal events. True Religion has become a major player in the premium denim jean industry, holding a 22% market share. Given their growth prospects and overall financial strength, it is recommended that TRLG be added to the AIM Equity Fund with a target price of $30.00 representing a 50% upside.

Key Statistics	Nov. 4, 2009
Market Cap	$524.51M
Shares Outstanding	25.346M
Average Volume	496,720
Beta	1.10
EPS (TTM)	$1.93
F2010 Estimated EPS	$2.31
ROE (TTM)	30.91%
ROA (TTM)	28.62%
WACC	10.68%
P/E	10.43
Debt/Equity	0.00%
Gross Margin (YTD)	62.73%
Operating Margin (YTD)	24.62%
Dividend Yield	0%
Profit Margin	15.24%
Target Price	$30.00

Source: Bloomberg

Investment Thesis

- **Consumer Direct Expansion.** Compared to the first nine months of 2008, sales in the consumer direct segment increased 64.8% and now represent 38.5% of sales year-to-date. The number of stores increased by 57%, from 42 to 66, showing not all the revenue growth is a result of expansion. True Religion has already leased four locations set to open in the final quarter of 2009 and expects to open 20 to 25 additional stores in 2010. New store openings in addition to receiving a full year of revenue from stores opened in 2009 should increase consumer direct annual sales by 25%. Despite overall apparel sales sliding 5% in the past year, the premium denim market grew 5%. Same store sales for those opened more than a year should be able to maintain these levels. This segment represents the largest area of growth and will also become the largest percentage of annual net sales by 2010. This accompanied with the international growth should help raise the company's operating margin from 25% to over 30%. Competitors Joe's Jeans and VF Corp have operating margins around 10%.

- **International Expansion.** Sales in the first half of 2009 increased 39% compared to 2008. Most of this can be attributed to the wholly-owned subsidiary True Religion Japan. In spite of the challenging international retail environment, sales have grown as the brands have gained greater exposure and awareness. The international segment has operating income consistently over 40% so further international expansion will continue improving margins.
- **Strong Financial Statements.** Currently, True Religion has $78 million in cash on its balance sheet and no debt. They have been able to fund expansion with internally generated cash flows. Competitors Polo Ralph Lauren, Abercrombie & Fitch, Warnaco Group, and Iconix all operate with debt on their balance sheet showing True Religion's strength. The income statement has not had any extraordinary items or discontinued operations in the past five years while consistently turning a profit. Cash flows have also been positive for the past year and a half.

Valuation

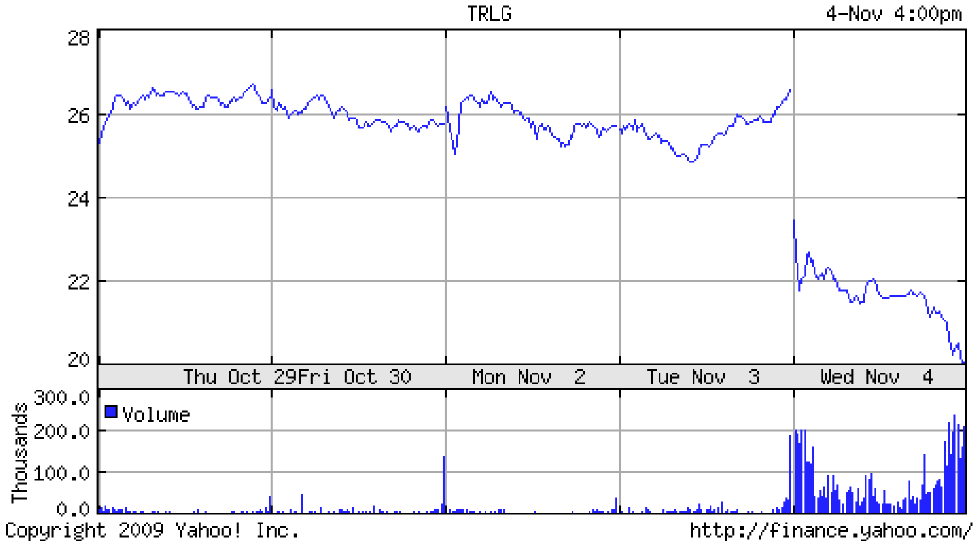
To find the intrinsic value of TRLG, a five-year DCF was conducted. Sales growth of 10% took into account international and consumer direct expansion with slight decreases in the US wholesale segment for 2009 and 2010. Using a calculated WACC of 10.68% and a terminal growth rate of 3%, an intrinsic value of $29 was found. A sensitivity analysis varying the WACC and terminal growth rate gave an average of $32. An EV/Sales Multiple approach using the forecasted 2009 sales per segment yielded a value of $28. Taking all of these into account, a price target of $30 was established representing an upside growth potential of 50%. The company does not pay a dividend.

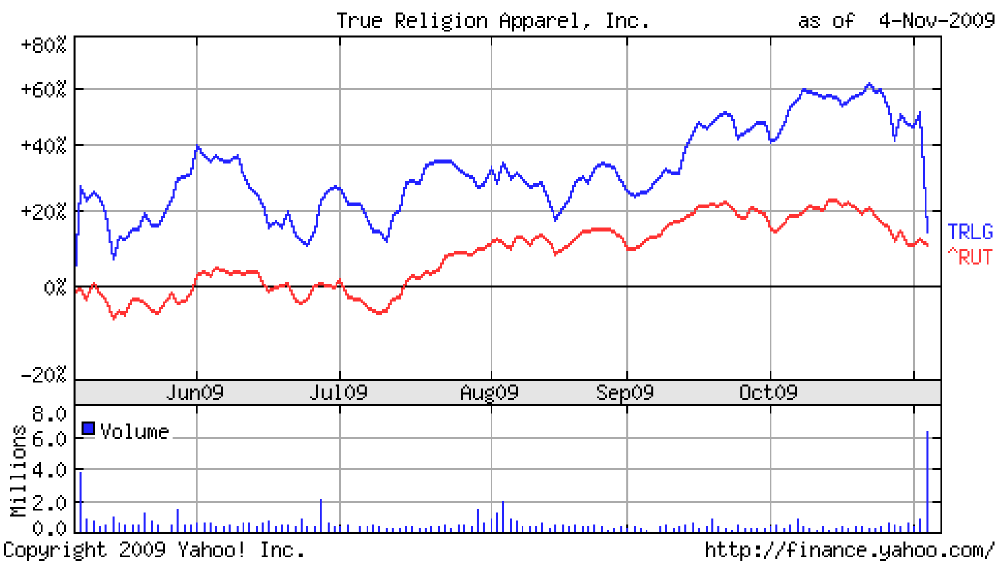
Risks

- **Continued US Wholesale Decline.** While True Religion has done an excellent job growing total sales, US Wholesale has seen declines of 22% in the first nine months of 2009 compared to 2008. This is largely attributed to the economic downturn. Neiman Marcus saw comparable revenues in its Specialty Retail Stores decrease 17% in September, and Saks Incorporated saw comparable store sales decrease 20.6% for the first eight months compared to 2008. If these key retailers are unable to turn around their poor performance, True Religion will continue to see US Wholesale revenues decline.
- **Continued Expansion.** The increases in revenue in the consumer direct segment have outpaced the new store openings. Given the relative youth of many of the stores, it is still uncertain if they will be able to maintain the sales growth from a same store sales perspective. The company plans to continue opening new stores for the near future so this appears to be a long term risk.
- **Sales Force Transformation.** Currently TRLG is in the process of transforming from using independent sales agents to a corporate sales force. The transformation is still in its very early stages so the impact is unclear. Bringing on a VP of US Wholesale Sales and a full sales force will be a significant cost but it will strengthen business relationships and help communication.

Management

Jeffrey Lubell has served as Chairman, CEI, and Chief Merchant since June of 2003. He has been in the textile industry for 30 years. His knowledge of the industry and knack for design is vital to the continued success of True Religion. Recently, Michael Buckley and Marcello Bottoli were brought on to continue the growth of the international segment given their backgrounds. CFO Peter Collins came to the company from key retailer Nordstrom, Inc. His retail background should help True Religion recover revenue in the US wholesale segment.





Ownership

% of Shares Held by All Insider and 5% Owners:	36.03%
% of Shares Held by Institutional & Mutual Fund Owners:	>60%

Source: MSN Money

Top 5 Shareholders

Holder	Shares	% Outstanding
Columbia Wanger Asset Management LP	2,772,658	10.9
Eagle Asset Management, Inc.	1,908,212	7.53
Turner Investment Partners, Inc.	1,450,968	5.72
Barclays Global Investors UK Holdings Ltd.	1,422,022	5.61
Vanguard Group, Inc.	1,371,011	5.41

Source: Yahoo! Finance