Applied Investment Management (AIM) Program

AIM Class of 2010 Equity Fund Reports
September 9, 2009

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American Italian Pasta Company
AIPC
Price: $30.46 ($11.01 - $35.72)
Fiscal Year Ends: September 30th

Date: September 2, 2009 | Michael Klenn
Russell 2000 Index: 558.44 (342.59 – 761.78) | Consumer Goods Sector

American Italian Pasta Company produces and markets dry pasta in North America and Italy. AIPC is the largest producer and marketer of dry pasta in North America, by volume. In fiscal year 2008, the North American market accounted for 92% of revenue and Italy accounted for the remaining 8%. AIPC operates in two customer markets: retail and institutional. Retail markets include the sale of pasta products to customers who resell the pasta in retail channels and encompass sales of branded, private label and imported products – this segment accounted for 70.5% of the revenue in the most recent quarter. The institutional market includes both food and service distributors and food processors that use pasta as a food ingredient. This segment accounts for the remaining 29.5% of revenue. AIPC was founded in 1988 in Missouri and is believed to be the first North American vertically integrated, high-capacity pasta plant using Italian milling and pasta production. The corporate headquarters are located in Kansas City, Missouri with three domestic production facilities and one international production facility.

Recommendation

Over the last year, the dry pasta industry has grown 18.8% and reached $2 billion. During this same time period, AIPC has had $640 million of revenue, representing a 32% market share. AIPC is able to achieve its strong market share because of its variety of brands and by supplying private labels with quality store brands. AIPC also places specific pastas in markets that give the product the best chance to thrive. AIPC has been able to cash in on consumers' desire to save money and eat a home cooked meal. This has been accomplished by providing quality products at a store brand price tag. Store brand pastas have outgrown manufacturer brands by 9% in the most recent quarter (Nielsen data). With durum wheat prices hitting 52-week lows, AIPC should be able to maintain solid gross and operating margins by keeping costs down, 29.3% and 20.18% respectively. Because of these reasons and a favorable valuation, it is recommended that AIPC be added to the AIM Equity Fund with a target price of $45.00, which offers a potential upside of 47.73%.

Key Statistics	Sep. 2, 2009
Market Cap	$638.17M
Shares Outstanding	20.965M
Average Volume	456,549
Beta	0.67
EPS (TTM)	$3.89
F2010 Estimated EPS	$4.18
ROE (TTM)	33.25%
ROA (TTM)	14.58%
WACC	10.00%
P/E	7.83
Debt/Equity	55.84%
Gross Margin	29.30%
Operating Margin	20.18%
Target Price	$45.00

Source: Bloomberg

Investment Thesis

- **Leader in Growing Industry.** The dry pasta industry has reached $2 billion due to strong growth the past year of 18.8%. This can largely be attributed to the recent economic conditions, which has caused consumers to cut back on spending and save wherever they can. AIPC has benefited from this in two ways. First, consumers have chosen to eat at home more often. Also, consumers have chosen to go with store brands instead of the big name manufacturer brands. This has allowed AIPC to gain customers and market share in an industry that expects to see 3% annual growth in the near term.
- **Strong Focus on Strategic Brands.** AIPC breaks its retail sales into two categories: strategic and non-strategic brands. Strategic brands are those which rank either 1st or 2nd in their respective markets, while non-strategic brands rank 3rd or lower. AIPC has chosen to focus on its strategic

brands while it allows the non-strategic brands erode and eventually die-off. By focusing on the higher market strategic brands, AIPC more than makes up for the revenue lost in the non-strategic brands. The non-strategic brands are still being phased out. They will continue to sell off the rest of the inventory, keeping a revenue stream while the strategic brands gain even more market share.

- **Consumer Spending Habits.** With the events of the past year, it would be unlikely for consumers to go back to their old spending habits in the near term. Consumers will continue to eat at home more often. The savings rate is currently at 4% and a recent Forbes survey found that only 48% of affluent consumers see their financial situation improving in the next 12 months. With lower consumer spending and a persistent fear of financial distress, AIPC will likely continue to capture market share.

Valuation

To find the intrinsic value of AIPC, a ten-year DCF was conducted. Sales growth rates were varied year-to-year to account for the phasing out of non-strategic brands. The sensitivity analysis below accounted for variations in WACC and also in COGS as a percent of total sales. A conservative WACC of 10% was used and yielded an intrinsic value of $44.35. A P/E multiple approach was also used. With a historical P/E of 12, this method gives an intrinsic value of $46.68. Taking these into account, I have established a price target of $45.00.

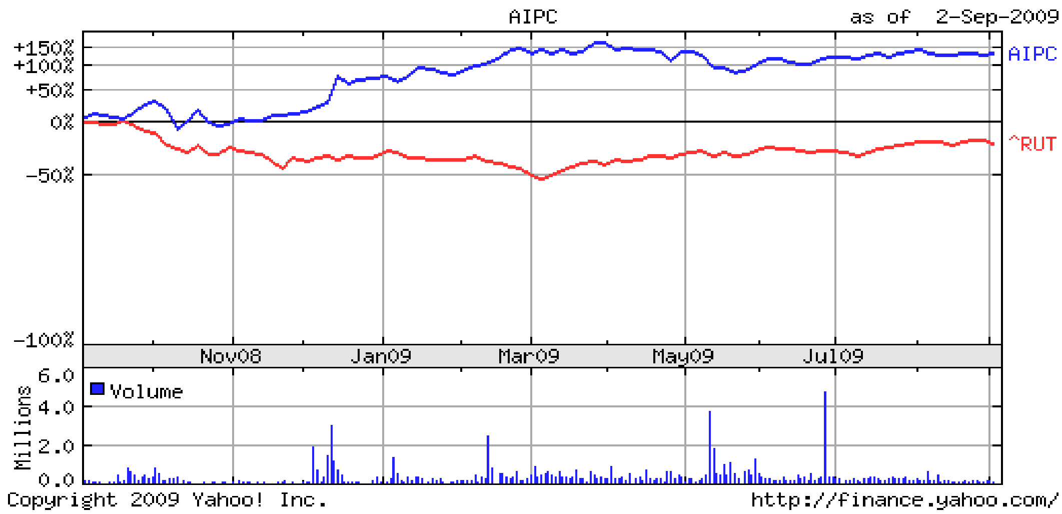
		WACC				
		9.00%	9.50%	10.00%	10.50%	11.00%
COGS as % of total sales	65.0%	$53.64	$49.20	$45.40	$42.10	$39.21
	67.5%	$53.11	$48.68	$44.87	$41.58	$38.70
	70.0%	$52.59	$48.15	$44.35	$41.06	$38.18
	72.5%	$52.06	$47.63	$43.83	$40.54	$37.66
	75.0%	$51.53	$47.10	$43.31	$40.02	$37.15

Risks

- **Reliance on Major Customers.** In fiscal year 2008, AIPC received 31% of its revenue from its two largest customers: Wal-Mart 22% and Sysco 9%. AIPC generally does not enter into long-term contracts with customers and this includes these two large customers. AIPC is also dependent on these large customers to sell, promote, and create demand for the products. While the relationships have a stable history, any change in them would be a significant blow to AIPC.
- **Commodity Prices.** The main ingredient in most pasta is durum wheat. This commodity has been extremely volatile in the last year. Wheat prices have ranged from $8.67 to $4.85 per bushel. Luckily, wheat is at the low end of that right now and has been falling since early June. AIPC does not enter into futures contracts or hedge the price of wheat. They should be able to capitalize on these low prices, helping overall profit margins. Management also expects a strong wheat crop this year.

Management

John P. Kelly is the CEO and President of American Italian Pasta Company. He also serves on the board of directors. November of 2009 will mark two years for John with the company. He has over 30 years of experience in the industry at firms such as Oscar Mayer, Kraft, Haagen-Dazs and Fiorucci Foods. Paul R. Geist is the CFO and was promoted to that position from principal accounting officer. Mr. Geist has also worked for Potbelly Sandwich Works and Panera Bread Company. AIPC has seen net income increase nearly twenty fold since these two were promoted in January of 2008.



Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	98%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
PrimeCap Management Company	1,880,623	8.97
FMR LLC	1,719,967	8.21
Dimensional Fund Advisors, LP	1,070,471	5.11
Barclays Global Investors, N.A.	1,025,935	4.90
Jana Partners LLC	858,297	4.10

Source: Yahoo! Finance

Amsurg Corp.
AMSG
Price: $20.02 (12.23-28.93)
Fiscal Year Ends: December 31

September 1, 2009 | Mike Signore
Russell 2000 Index: $558.06 (342.59-761.78) | Healthcare Sector

Amsurg Corp. engages in the development, acquisition, and operation of ambulatory surgery centers (ASC) in direct partnership with physicians throughout the United States. AMSG's centers perform low risk surgical procedures in the areas of gastroenterology, ophthalmology, and orthopedics. Revenues are derived from facility fees which include charges such as operating room usage, supplies, recovery room usage, and nursing staff. The company has 189 surgery centers in 32 states, of which 132 perform gastrointestinal endoscopy procedures, 36 ophthalmology procedures, and 6 orthopedic procedures. The remaining 15 centers are multi-specialty. The centers are marketed to patients, physicians, and third-party payors directly. Founded in 1992 and headquartered in Nashville, TN, AMSG has 1,630 employees.

Recommendation

AMSG provides a growth orientated opportunity, despite potential near-term headwinds. The firm has a revenue CAGR of 15% over the last five years. Given the recent environment, AMSG still reported Q2 revenue growth of 12% and EPS growth of 15% y/y. While the economic climate for this firm may worsen in the coming months with potential healthcare reform, AMSG has a clear plan on capital deployment and the resources to take advantage of weaker competitors in this fragmented industry. The ASC industry is also a minor cost to Medicare, costing $3 billion annually compared to total healthcare expenditures of $2 trillion. The ASC model is 30% cheaper for the government than hospitals as well. AMSG offers low risk, high volume procedures in a cost-effective environment. The firm generated nearly $90M in FCF in 2008 and is expected to grow earnings 10% in 2009. The "street" is heavily discounting the uncertainty in the healthcare market and recent Medicare cuts, though it appears AMSG's role is to move patients into a less expensive clinical setting. Based on this fundamental analysis, I am recommending AMSG for addition to the AIM Equity fund with a target price of $29.50, upside of 45% from its current market price.

Key Statistics	September 1,2009
Market Cap	$613.83M
Shares Outstanding	30.66M
Ave. Volume (3 month)	209,891
Adjusted Beta	0.90
2008 EPS	$1.55
2009 Estimated EPS	$1.71
P/E (TTM)	12.58
PEG Ratio	1.04
WACC	11.89%
Price/Sales	0.98
ROE	11.31%
ROA	15.78%
Gross Margin	70.10%
Operating Margin	34.37%
Analyst Coverage	15
Target Price	$29.50

Source: Bloomberg

Investment Thesis

- **Age Demographics.** According to the NIH, the growth rate of the over-65 group is triple that of the under-65 group. The NIH also states that only 50% of the over-50 population has had a colonoscopy, which is doctor recommended in this age group. As people age and life expectancy lengthens, ASC's will become an even more viable option for routine procedures such as colonoscopies, cataract surgery, and orthopedic adjustments.
- **Industry Dynamics**. AMSG has the resources to capitalize in this fragmented market as 50% of single specialty ASC's and 75% of multi-specialty ASC's are independently owned. These ASC facilities also enable physicians greater scheduling flexibility and allow patients to bypass long

and complex hospital admission procedures. AMSG also partners with its physicians, giving them minority interest in the firm, which creates a greater incentive to attract patient referrals.

- **Market Sentiment.** Approximately 75% of sell side analysts have a hold or sell recommendation on AMSG, citing macroeconomic uncertainties regarding healthcare reform and Medicare reimbursement rates. AMSG is currently valued at 10.5x P/E and 3.5x EV/EBITDA, far below historical averages, even though management recently raised revenue (upwards $10M) and earnings ($1.69-$1.71 from $1.64-$1.67) guidance. The potential for more Medicare reimbursement cuts is seemingly already discounted into AMSG's current stock price and clarity on the healthcare front can act as a future catalyst for the stock given the negative market sentiment.
- **Management Edge.** Management is very upfront with investors, evidenced by 14 straight quarters of meeting or exceeding analysts' expectations. AMSG has also been clear on the deployment of future capital. In this tough environment, management still believe s acquisition opportunities exist with patience as deals are in the 6x to 7x range. AMSG has reiterated its acquisition targets for the year, but has stated it will utilize its capital to purchase up to 40M in stock over the next 15 months if pricing stays unfavorable. Management has also reduced its Debt/EBITDA ratio from 2.5x to 2.2x compared to last year.

Valuation

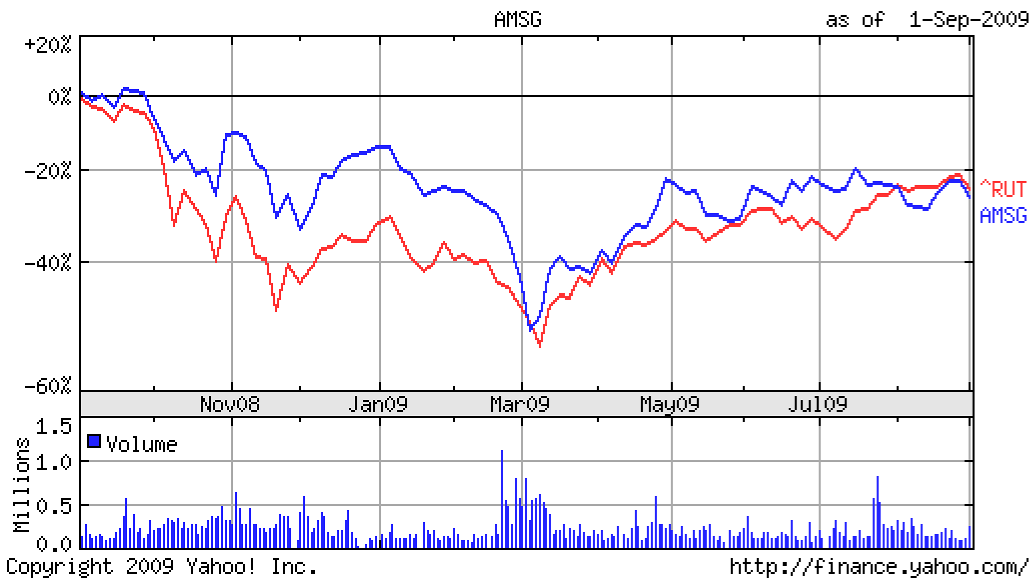
Based on a 10 year DCF analysis, using a computed WACC of 11.89% and a long term growth rate of 3%, an intrinsic value of $32.05 was determined for AMSG. A sensitivity analysis, adjusting both the WACC (10.5-13.0%) and long-term growth rate (2-4%), revealed a price range of $29.13-$44.27. This analysis assumes mild revenue growth of 5% and operating margins of 30.5% for the next 5 years. A blended multiple approach, using a conservative P/E of 12x and an EV/EBITDA of 5x, applied to a $1.82 EPS in 2010, yields a price of $27.13. Based on these valuations, a target of $29.50 is reasonable. With AMSG trading around $20.00, this would result in an approximate 45% return.

Risks

- **Third Party Payors.** AMSG depends on payment from third party payors such as government and private healthcare programs. 34% of revenues in 2008 were derived from government programs, primarily Medicare. Changes in reimbursement rates can adversely affect the firm's financial performance. In 2008, reimbursement rates negatively impacted EPS by $0.05 and $.07 reductions are expected in 2009 and 2010.
- **Acquisition Valuation.** A key revenue driver for AMSG is growth through acquisitions. The economic environment may, at times, not be yielding attractive acquisition multiples and force the firm to put greater pressure on growth through increased procedure volumes.
- **Competitive Landscape.** AMSG competes for patients and physicians with other surgery centers and hospitals. Changing regulatory conditions and the outcome of healthcare reform may alter the cost effectiveness of ambulatory surgery centers in the future.
- **Changing Medical Practices.** The advancement in modern medicine has the potential to alter or reduce the need for certain medical procedures performed in AMSG's surgery centers. Likewise, however, changing practices also has the potential to enable more complicated procedures to be performed in ASC's.

Management

Christopher Holden has been President and CEO since October of 2007. He has more than 21 years of industry experience, primarily in the areas of multi-facility and multi-market healthcare management. Prior to Amsurg, he was a founding member of Triad Hospitals, Inc. serving numerous roles from 1994-1999. Claire Gulmi is Vice President and CFO. She has served as CFO since she joined the company in 1994.



Ownership

% of Shares Held by Insiders:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	100%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investors UK Holdings	2,488,139	8.11%
Neuberger Berman Group, LLC	2,331,756	7.60%
Wellington Management Company, LLP	2,001,129	6.53%
Vanguard Group, Inc.	1,441,,547	4.70%
Fenimore Asset Management, Inc.	1,258,511	4.10%

Source: Yahoo! Finance

Astec Industries
Price: $24.73 ($17.00-35.27)
Fiscal Year Ends: December 31

September 2, 2009 — Nathan Novak
Russell 2000 Index $555.83 ($342.59-761.78) — Industrial Materials Sector

Astec Industries designs, manufactures, and markets specialized machinery used in asphalt production (38% of revenue) and paving (17%), aggregates production (30%), and underground construction applications (10%). Being exposed to asphalt and concrete (via aggregates), Astec is connected to several different phases and subsectors of the infrastructure market. The bulk of their business that lies outside of infrastructure is their underground segment, which primarily deals with tranches for buried utility lines. 50-70% of revenue stems directly from infrastructure spending, and the company operates both domestically (64% of revenue) and abroad (36%). International areas of exposure include Australia, the Middle East and Africa, countries closer described as emerging markets than developed nations. Astec was founded in 1972 and is based in Chattanooga, Tennessee.

Recommendation

Astec Industries is a very direct play on an increased focus and dedication on infrastructure spending, both domestically and abroad. Domestically, the current infrastructure spending bill of $286B is set to expire in September 2009, with a substantial increase in funding ($450-500B proposed) on the horizon. Astec's international exposure puts them in areas where widespread, developed infrastructure is a step not yet taken. As domestic demand begins to pick up, pricing competition will lead to a minor, albeit opportunistic reshuffling of market share. Astec, with a clean, debt-free balance sheet and several technologically superior products, is well positioned to benefit from this scenario. In the long term, Astec will benefit from this market share reshuffling and 75% increase in infrastructure spending. In the short term (2H09), Astec will realize gains from the appropriation of stimulus funds, 50% of which ($27.5B total) must be earmarked within 120 days of issue (realization in Q3/Q4). While not a main driver, Astec's lack of a management succession plan (and flawless balance sheet/strong market position) has made it a popular topic of acquisition talks. Therefore, because of ASTE's clean and enviable position within a long term-top line growing industry with short term stimulus tailwinds, I am recommending the addition of Astec to the Domestic AIM Equity portfolio with a target price of $30.

Key Statistics	Sept. 4, 2009
Market Cap	$557.09M
Shares Outstanding	22.53M
Ave. Volume (3 month)	267,074
Adjusted Beta	.98
EPS (TTM)	$1.76
2009 Estimated EPS	$1.40
P/E (TTM)	14.05
Price/Sales	.68
WACC	9.00%
Current Ratio	3.34
ROE	9.08%
ROA	5.76%
Gross Margin	24.00%
Operating Margin	9.50%
Analyst Coverage	6
Target Price	$30.00

Source: Bloomberg

Investment Thesis

- **Long Term Increased Focus on Infrastructure Spending.** The Obama administration has been very clear on its dedication to increased infrastructure spending. With the well documented collapse of the Minneapolis Highway Bridge in 2007 (and a majority of the nation's infrastructure being built at a similar post-WWII time frame), and the incremental job creation caused by increased infrastructure initiatives, the policy promises of the administration appear to hold weight.
- **Tailwind From Stimulus Funds**. States must earmark 50% of the $27.5B stimulus monies within 120 days, and the time at which equipment purchase would come to fruition during that

timeline would be during 2H 2009. That, and the carry over of several orders from Q2 (already reported) to Q3 should make the 2H quarters strong ones.

- **18 Month Highway Bill Extension Provides Clarity.** While the 6 year $286B Highway Bill is set to expire in September 2009, it appears that it is highly unlikely a new 6 year bill will be passed within 2009 or 2010. As a concession, it appears an 18 month extension will be afforded that funds infrastructure at 2009 levels (potentially higher). The near term death of the Highway Bill has been priced into the stock over the past month. While the extension does not give the industry funding levels as promised in the proposed highway bill, it does give it an ability to confidently forecast 18 months out, something companies have been without for the past year.
- **Recent Sell-Off Leaves Good Entry Point.** Within the past 1 month, ASTE is off 16% (compared to 2% off for the Russell 2000). Before and during the first part of summer, there were high expectations that the Highway Bill would be renewed right after its expiration in September 2009. As it became evident that Infrastructure spending has taken a backseat to healthcare reform, the stock gave away all of its 2009 gains and much more. In addition, Q2 numbers were exacerbated by a few orders delayed from Q2 to Q3, making their quarterly numbers looks much worse than they actually were. These two facts have turned consumer sentiment noticeably soar, without affecting ASTE's long term growth profile.

Valuation

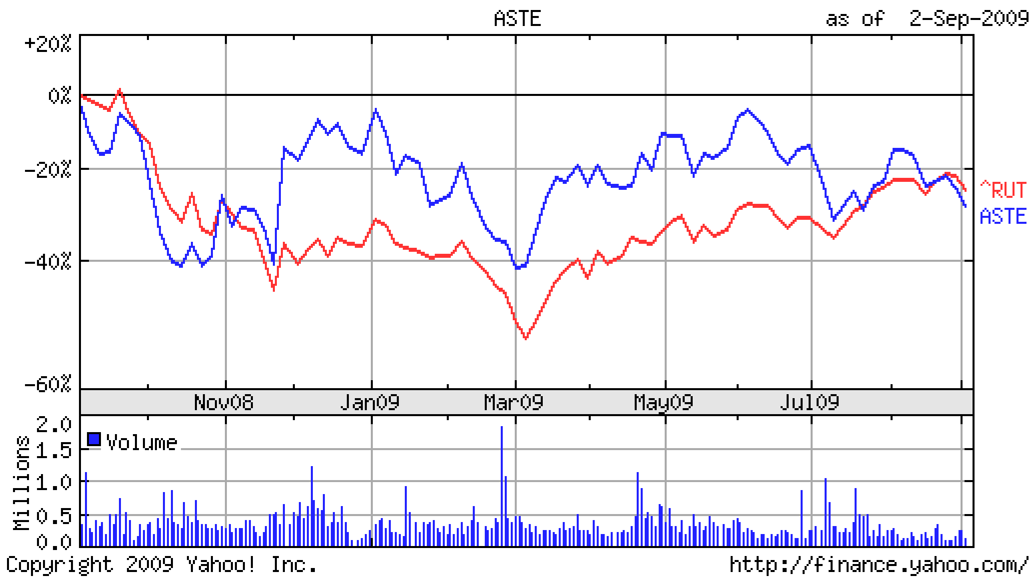
ASTE is currently trading at 14.05x TTM EPS of $1.76. A modern day and historically appropriate TTEM P/E of 21x my 2009 EPS estimate of $1.40 yields a $29.40 price target. A historically appropriate 8x EV/EBITDA multiple applied to 2011 EBITDA yields a $30.93 price target. A five year DCF analysis with a computer WACC of 9.00% and a terminal growth rate of 3% yields a intrinsic value of $29.37. Taking all of these valuation methods into consideration, I have set a $30 price target. With the stock currently trading at $24.67, my price target represents a 21.6% upside.

Risks

- **Near Term Pricing Pressures.** As domestic demand picks up, competition for the new business will as well. The resulting price competition will depress margins slightly in the short term, and potentially shift market share. While ASTE is well positioned to gain from this, if competitors are able to successfully undercut ASTE's prices in the short term it may negatively affect their long term customer relationships, and therefore their long term growth profile.
- **Delay of 18 Month Extension of the Highway Bill.** There is always the possibility that members of congress will attempt to hash out details of a renewed 6 year plan earlier than 18 months and push for its passage. If this is done, and not executed properly, a more stop gap extension of 3-6 months would be more likely than an 18 month extension. If this comes to fruition, the infrastructure industry will suffer in the short term due to long term forecasting uncertainty.
- **Inability to Raise Funds for Larger 6 Year Infrastructure Bill.** The primary funding mechanism for the Infrastructure Bill is the gas tax. A 75% increase in proposed funding makes it necessary to raise that tax and/or find other funding methods. If the administration shows an unwillingness to raise this tax in the future, the amount of the highway bill could come down.

Management

Chairman and CEO Don Brock founded the company in 1972 and have been instrumental in its success. The gap in age between himself (72) and his son Ben Brock (31) has raised questions as to whether or not an intra-family succession plan (which Don Brock prefers) is possible. While not a short term concern, this opens the door for a larger, more established management team to acquire Astec, which has already been mentioned in industry conversations.



Ownership

% of Shares Held by Insiders:	19%
% of Shares Held by Institutional & Mutual Fund Owners:	77%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investors	1,187,709	5.27%
Artisan Partners	1,142,700	5.07%
Royce & Associates	1,103,333	4.90%
Bank of New York Mellon	1,028,524	4.57%
Vanguard Group	802,324	3.56%

Source: Bloomberg

Black Hills Corp.
BKH
Price: $24.98 ($14.54-39.23)
Fiscal Year Ends: December 31

September 4, 2009 | Michael O'Carroll
Russell 2000 Index: $ (342.59-761.78) | Utility Sector

Black Hills Corporation is a diversified energy company operating in two main areas, Utilities and Non Regulated Energy. The Utilities group generates and transmits electric and natural gas to Iowa, Nebraska, Kansas, Colorado, Wyoming, and South Dakota. BKH currently has a customer base consisting of 202,100 electric customers and 524,000 natural gas customers. The Non Regulated Energy group is used by BKH to generate wholesale electricity, produce natural gas, oil, and coal, and market energy. The firm's market energy group focuses primarily on producer services and wholesale natural gas marketing, but also engages in the purchase, sale, storage, and transportation of natural gas. Other services in the market energy group that can be provided to utility customers are asset optimization, price risk management, and customized offerings. BKH was founded in 1941 and is headquartered in Rapid City, South Dakota.

Recommendation

BKH is a strong utility that has diversified its operations and generated strong earnings growth through strategic business decisions. BKH has significantly increased its customer base by five times through its acquisition of five utilities from Colorado utility provider, Aquila, in July 2008. The firm has shown strong strategic business decisions which have added value to its shareholders with its most recent action to sell 7 of its independent power plants at a total sale of $840M ($756M Net Cash), which eliminated management's incentive to issue equity to acquire the Aquila utilities. With BKH having obtainable reserves in oil, gas (185.5 Bcfe), and coal (274M Tons) the firm has developed a natural hedge against commodity prices and has created the opportunity to generate income on future commodity price increases. BKH has successfully completed rate cases with the FERC, Nebraska, Iowa, Colorado, and Wyoming to recover future capital expenditures on transmission infrastructure (FERC and Nebraska) and increase annual revenue by $16M. With management's strong record of providing value to shareholders and the stock having a strong dividend yield of 5.6%, BKH is recommended to the AIM portfolio at a target price of $30.

Key Statistics	September 4, 2009
Market Cap	$946.58M
Shares Outstanding	38.84M
Ave. Volume (3M)	496,000
Adjusted Beta	0.87
EPS (TTM)	$1.79
2009 Estimated EPS	$1.86
P/E (TTM)	13.89
P/B	0.92
P/TB	1.40
P/CF	9.50
P/S	0.70
PEG Ratio	2.32
WACC	6.68%
Debt/Assets	32.84%
Interest Coverage	4.25 x
ROE	11.65%
ROA	4.05%
Gross Margin	55.50.%
Operating Margin	13.63%
Analyst Coverage	5
Target Price	$30.00
Dividend Yield	5.56%

Source: Bloomberg

Investment Thesis

- **Favorable Rate Cases.** The approved FERC case (effective Jan. 1, 2009) allows BKH to gain an additional $4.3M in annual transmission revenue ($5.6-9.4M) and obtain an ROE of 10.8% on future transmission capital expenditures**.** During April 2009 the Colorado Public Utilities Commission approved a 2.04% increase ($1.76/Month) in natural gas rates, allowing the firm to gain an additional $1.45M in revenue. A rate case for Iowa operations was determined in June 2009 allowing BKH to increase natural gas rates for residential (7.45%) and commercial/industrial customers (3.52%) to generate additional annual revenues of $10.4M. Within the next year and a half BKH will have pending rate cases on its Wygen III power plant and Colorado operations.

- **Increased Autonomy**. BKH currently serves 92,000 customers in Colorado with 75% of their electric capacity resulting from a power purchasing agreement with Xcel Energy which expires in December 2011. During February 2009 the Colorado Public Utilities Commission approved the building of two of the five proposed electric power generation facilities, specifically allowing two natural gas fired combustion turbines.
- **Strong Product and Service Pipeline.** BKH with its unregulated businesses has transformed the firm into becoming not only a utility provider but also a diversified energy company. Current business operations have utilities at 66% and unregulated operations at 34%. The stock is currently trading at a discount to its intrinsic value due to its operations in oil, gas, and coal production. Investors fear surrounding the stock is the result of uncertainty in commodity prices. Any potential long term run up in commodity prices will benefit BKH. The street is currently neutral on the stock with one buy, three holds, and one sell. With the current Wyoming natural gas price ($2.16 MMbtu) close to its October 2008 low ($2.00 MMbtu) this is a very bullish signal for the stock.

Valuation

BKH is currently trading at 13.89x TTM EPS of $1.79. A conservative historical P/E average of 15x my 2010 EPS estimate of $2.00 yields a $30 price target. Based on a 2.5 year DCF analysis with a computed WACC of 6.68% and a terminal growth rate of 3%, an intrinsic value of $32 was obtained for BKH. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (6.18.-7.18%) generates a price range of $26.11-$52.03. With the stock currently trading around $25, the $30 price target would yield a 20% return.

Risks

- **Aquila Integration.** With the Aquila acquisition occurring in July 2008, BKH still maintains the risk of expanding operations too quickly and decreasing margins. Gross and operating margins prior to the acquisition were at 70% and 17%, after the acquisition margins decreased to 51% and 11%. If management cannot improve cost management in the future, earnings potential will suffer. It is expected that BKH will improve margins by the middle of 2010.
- **Pension Risk.** As of 2008 BKH had a total pension benefit obligation of $242.55M and total plan assets of $136.90M, which resulted in an unfunded status of $105.65M (43%). Additional contributions expected to be made in 2009 and 2010 are $9.5M and $16.5M. If returns on the pension plan do not improve over 2009 significant contributions will be needed from free cash flow to improve the underfunded status.
- **Leverage.** BKH has a total debt to capital ratio of 50% (excluding underfunded pension) and an interest coverage ratio of 4.25x. If at any point in the future BKH is unable to refinance their debt this could pose major problems to shareholders. Total debt currently outstanding is $1.04B with $36.24M due in the next 2.5 years. Management would like to retain its current capital structure going forward and with the additional construction of two power plants in Colorado, management has stated an issuance of equity is possible in financing the project.

Management

David Emery is the CEO and Chairman of Black Hills Corporation. David has held prior positions in BKH as the President and Chief Operating Officer of the Retail Business Segment, Vice President of Fuel Resources, and General Manager of Exploration and Production. Before joining Black Hills as a petroleum engineer in 1989 he worked for a large independent oil and gas company in Colorado, Wyoming, and Texas.

Ownership

% of Shares Held by Insiders:	6%
% of Shares Held by Institutional & Mutual Fund Owners:	69%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investors UK	4,400,641	11.33%
T. Rowe Price Associates Inc.	2,687,807	6.92%
Dos Mil Doscientos Uno	2,130,380	5.48%
State Street Corp.	1,986,955	5.12%
Parnassus Investments	1,675,000	4.31%

Source: Bloomberg

CNinsure, Inc.
CISG
Price: $17.90 ($5.44-21.75)
Fiscal Year Ends: December 31

September 9, 2009 — Sarah Clasing
iShares MSCI EEM Index: $35.71 (18.22-39.75) — International Financial Services Sector

Founded in 1998, CNinsure, Inc. is a leading insurance intermediary company operating in the People's Republic of China. As an intermediary, CISG distributes a wide variety of insurance products underwritten by domestic and foreign insurance companies without assuming any underwriting risk. CISG operates in three segments. The Property and Casualty Insurance (75% of net revenue) and Life Insurance (14% of net revenue) segments focus on the distribution of their respective P&C and Life Insurance products, while the Claims Adjusting Services segment (11% of net revenue) performs survey, assessment, authentication, and loss estimation services for insurance companies and individuals. Headquartered in Guangzhou, China, with a network of over 29,000 sales professionals, CNinsure operates across 21 Chinese provinces. 1 ADR represents 20 ordinary shares of CISG.

Recommendation

CISG is a leader in the rapidly growing Chinese insurance intermediary market, a market which has experienced revenue growth of approximately 42% annually from 2005 to 2008. Despite recent headwinds from the global financial crisis, China's insurance industry should continue to maintain its long-term growth momentum driven by favorable demographic trends and a subsequent increasing penetration of the Chinese insurance market. Furthermore, CISG – with established partnerships with 59 out of 100 insurance companies operating in China, 10-plus years' industry experience, debt-free balance sheet, and strong cash position – is poised to benefit from the anticipated upcoming industry consolidation. CISG's strong balance sheet has also allowed the company to adopt a new long-term strategy of becoming a diversified financial services company. This strategic shift will allow CISG the opportunity to capitalize on China's fast growing consumer financial services industry and will provide upside to future growth. Therefore, due to the strong growth of the Chinese insurance and intermediary market, the upcoming benefit from industry consolidation, and growth upside from CISG's recent strategic shift, it is recommended that CISG be added to the International Equity Portfolio with a target price of $23, offering upside potential of 28%.

Key Statistics	Sept. 2, 2009
Market Cap	$755.55M
Shares Outstanding	45.63M
Ave. Volume (3 month)	275,627
Adjusted Beta	1.17
EPS (TTM)	$0.73
2009 Estimated EPS	$0.88
P/E (TTM)	22.95
PEG Ratio	0.82
WACC	13.57%
Total Debt/Equity	0.00%
ROE	11.56%
ROA	10.40%
Operating Margin	24.86%
Dividend Yield (TTM)	1.23%
Analyst Coverage	5
Target Price	$23

Source: Bloomberg

Investment Thesis

- **Strong Growth of Chinese Insurance Market.** Total Chinese insurance premiums experienced a 25% CAGR from 2005-2008 and reached an unprecedented total of 1 trillion Yuan ($143B U.S. equivalent) in 2008. Despite this impressive growth, China's insurance penetration rate of 2.18% of GDP still lags penetration rates in Japan (6.82% of GDP) and the U.S. (7.10% of GDP) (UN Estimates). An increasingly aging population, a strong national savings tendency, and increasing disposable income due to Chinese GDP growth per capita should drive continued insurance premium growth in coming years.

- **Increased Demand for Intermediaries**. Independent insurance intermediaries accounted for only 5% of total premiums written in China in 1Q09, compared to much higher market shares of 56% and 52% in the U.K. and U.S., respectively (Swiss Re). As more foreign insurance companies lacking established distribution channels continue to enter the Chinese market, the demand for intermediaries is expected to increase as these companies choose to outsource their distribution rather than build out in-house distribution networks.
- **Industry Consolidation Benefit.** China's insurance intermediary market is highly fragmented and less concentrated than the global intermediary market. Additionally, the China Insurance Regulatory Commission (CIRC) is implementing stricter regulations which are increasing the capital requirements for intermediaries. Together, these factors suggest China's intermediary market is entering a consolidation stage. CISG, with its strong cash position (>$255M) and 10 years' experience, is well positioned to take advantage of upcoming industry consolidation.
- **Strategic Shift.** In July 2009, CISG unveiled its plan to diversify its financial offerings by entering into new business lines including the distribution of housing mortgage loans and auto loans. This expansion will allow CISG to take part in China's rapidly growing consumer financial services industry without assuming any underwriting or credit risks. Furthermore, as CISG will be able to leverage their current distribution system for these new business lines, the expansion will create synergies with their existing business units, thus improving margins in the long-term.

Valuation

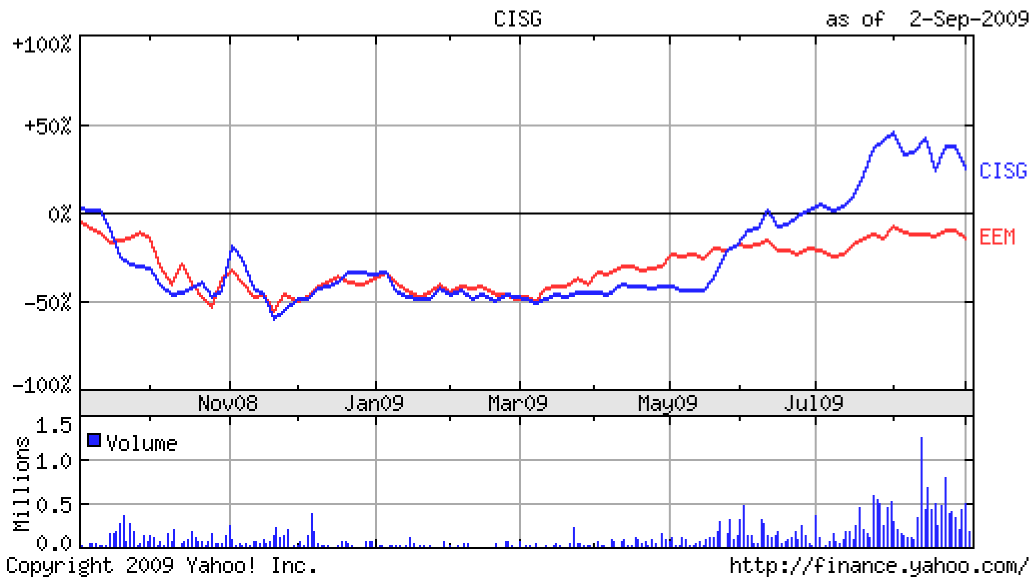
Based on a 5 year DCF analysis with a computed WACC of 13.57% and a terminal growth rate of 3%, an intrinsic value of $23.45 was obtained for CISG. A sensitivity analysis that adjusts both the long-term growth rate (2.50-4.50%) and the WACC (12.50-14.50%) generates a price range of $20.70-$30.41. Applying a 16x multiple to my 2010 EPS estimate of $1.04/ADS plus net cash of $5.60/ADS yields a price target of $22.24. Considering the two methodologies, a target price of $23 was obtained, providing a potential upside of 28%. CISG pays a 1.23% dividend.

Risks

- **Regulatory Risk.** The Chinese insurance industry is highly regulated. The CIRC holds extensive regulatory power in determining industry-wide policies and approving insurance licenses. Should the CIRC delay the approval of any of CISG's insurance licenses or implement an adverse change in regulation, CISG's performance could suffer and its growth could stagnate.
- **Private Equity Share Sales.** Two Private Equity groups, Cathy Capital Group and CDH Inservice Ltd., hold approximately 17.6% and 18.8% of CISG's outstanding shares, respectively. A major share sale by one or both of these holders could temporarily depress CISG's stock price.
- **Acquisition Risk.** Successful acquisitions have played a large role in CNinsure's growth in the past few years. Although these past acquisitions have thus far proved successful and value-adding, the inability to find and successfully integrate future acquisition candidates could adversely affect CISG's growth and results.
- **Competition.** China's insurance market is highly competitive. In addition to other intermediaries, CISG competes with the in-house sales forces of insurance companies. While the trend has been towards an increasing use of insurance intermediaries, the termination of any of CISG's distribution agreements with insurance companies could adversely impact CISG's business.

Management

CNinsure's management team boasts years of experience, with the company's two co-founders still actively involved in the business. Co-founder Mr. Yinan Hu has served as CNinsure's CEO and Chairman of the Board of Directors since the company's inception in 1998. Previously Mr. Hu was an instructor of money and banking at Guangdong Institute for Managers in Finance and Trade. Co-founder Mr. Quiping Lai has served as President and Director since 2004.



Ownership

% of Shares Held by Insiders:	60.00%
% of Shares Held by Institutional & Mutual Fund Owners:	18.53%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Shares Outstanding
Martin Currie Investment Management Limited	1,311,832	2.88%
White Elm Capital, LLC	948,800	2.08%
Fidelity Management & Research	886,797	1.90%
Franklin Mutual Advisers, LLC	786,850	1.70%
Oberweis Asset Management, Inc.	448,200	1.00%

Source: Bloomberg

Granite Construction Incorporated
GVA
Price: $30.39 ($21.20 – 50.00)
Fiscal Year Ends: December 31

September 2, 2009 — Josué López
Russell 2000 Index: $555.83 ($342.59 - 761.78) — Industrial Materials Sector

Granite Construction Incorporated is a heavy civil construction contractor in the U.S. The firm operates domestically, serving both public and private sector markets through two business segments. Granite West (73.7% of net revenues) serves local clients in the western United States and focuses on building smaller projects of shorter durations. Granite East (26.0% of net revenues) specializes in larger, more complex jobs in the Texas, Florida, and New York markets. Within the public sector, GVA carries out infrastructure projects, including the construction of roads, highways, bridges, dams, canals, mass transit facilities and airport infrastructure. Within the private sector, GVA conducts site preparation and infrastructure services for residential development, commercial and industrial buildings, plants and other facilities. Granite has a small presence in real estate investment & development through Granite Land Company (0.3% of net revenues). Granite also owns and leases substantial aggregate reserves and possesses a significant ($800 million+) fleet of heavy equipment. GVA was founded in 1922 and is headquartered in Watsonville, California.

Recommendation

GVA specializes in constructing and repairing the nation's transportation infrastructure. In 2008, sales growth in the Granite West segment of 2.15% offset the 9.55% decline exhibited in the Granite East segment. Net revenues for 2008 totaled $2.67 million, down 2.33% from $2.74 million in 2007 due to a decrease in spending from the private sector. This slowed the 2007 revenue decline of 7.8%, but did not revive the strong upward trend that started in 2004 with revenue increases of 15.82%, 23.65% in 2005, and 12.43% in 2006 given the healthier state of the construction market. In 2008 margins increased in the Granite East segment by 14% reflecting a new bidding process started in 2007 on larger bids that focused on earning proper rates of return. GVA has a moderate debt to capital ratio of 28%, consistently pays a dividend, and has generated positive free cash flow consistently since 2004. Due to the firm's healthy balance sheet, proactive management techniques, and an expectation for long-term growth in its industry, it is recommended that GVA be added to the AIM Equity Fund with a target price of $42.

Key Statistics	Sep. 2, 2009
Market Cap	$1,175.27M
Shares Outstanding	38.67M
Avg. Volume (3 Mo.)	657,255
Adjusted Beta	1.45
Diluted EPS (ttm)	$2.70
2009 Est Adj EPS	$1.87
P/E (ttm)	11.26
PEG Ratio	1.55
WACC	11.21%
Total Debt/Equity	37.83%
ROE (ttm)	16.68%
ROA (ttm)	6.94%
Gross Margin	17.53%
Operating Margin	7.90%
Dividend Yield	1.7%
Analyst Coverage	14
Target Price	$42.00

Source: Bloomberg

Investment Thesis

- **Competitive Advantages.** Granite boasts two competitive advantages. First, the firm is able to complete a diverse range of projects varying in form, sector, scale, and duration through its Granite East and Granite West business segments. Both segments focus on different areas of the market, yet draw on the same equipment and materials. This leads into the firm's second competitive advantage: vertical integration of its aggregate and construction materials business with its construction operations. This affords Granite a cost advantage when completing projects. Furthermore, the company sells the remainder of its aggregates to unaffiliated parties.

- **Fiscal Infrastructure Spending.** The transportation infrastructure industry will see growth in the near future as highways, railroads, and bridges will be repaired and updated. The American Society of Civil Engineers assigned the rail industry a grade of C-, while bridges and roads received a C and D-, respectively. They estimate that to adequately improve roads alone will cost $186 billion annually, a $116 billion increase from current annual levels. President Obama's stimulus bill allocated $29 billion for highway improvements and $8 billion for public transport and infrastructure investments in an attempt to raise the low grades and create jobs. The Obama administration also unveiled a plan to expand high-speed rails with an $ 8 billion investment from the stimulus bill. The 18 month extension of the current $287 billion SAFETEA-LU bill, which focuses on transportation, will also provide another long-term catalyst.
- **Strong Management Team.** Given that the management team has been with the firm on average 30 years and GVA's emphasis on performance-based compensation, the interests of the shareholders and management team are not likely in conflict. Management's prudence can be seen in the effective handling of inventory levels that led to reduced write-offs. Moreover, the improvement in the gross margins in the Granite East segment is the result of management's changing of the bidding process. Lastly, management's strategy of focusing Granite West in areas where population growth is considered high will likely pay off once the economy rebounds as population growth serves as a driver for increased infrastructure spending.

Valuation

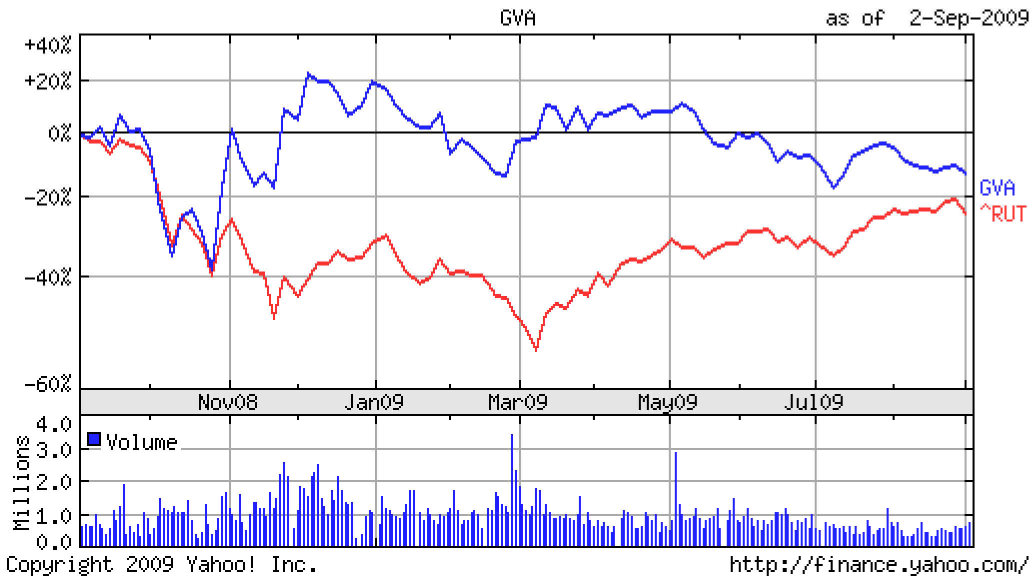
GVA is currently trading at 11.26x EPS (ttm) of $2.70 compared to the industry average of 15x. Based on a 10 year DCF analysis with a WACC of 11.32% and a terminal growth rate of 3%, an intrinsic value of $59.47 was established for GVA. A sensitivity analysis varying both the terminal value (1.5-4.5%) and the WACC (10-14%) yielded a price range of $53.07-73.55. Due to the uncertainty revolving California's fiscal spending on transportation infrastructure in the near-term, a conservative price target of $42 was estimated. With GVA currently trading at $30.39, the $42 price target presents a potential return of 38.20%, in addition to the firm's modest dividend yield.

Risks

- **Exposure to CA Government Agencies.** In 2008, approximately 25% of total revenues were derived from California's government agencies. The budget crisis in California may cause fiscal spending on transportation and infrastructure programs to decrease in the short run. In December 2008, $3.8 billion of infrastructure spending was put on hold to help reduce the budget deficit.
- **Strict Regulatory Requirements.** Government contracts are subject to specific and strict regulatory requirements. In 2008, contracts with federal, state, and local government agencies accounted for 78.3% of net revenue. Violations of these requirements can result in the termination of a contract, a civil or criminal lawsuit, and/or suspension from government work. Any one of these scenarios would have a dire impact on GVA's expected revenue.
- **Design/Build Projects.** Design/build projects contributed 66.4% of revenues for Granite East in 2008 compared to 62.2% 2007, while Granite West revenue from these projects represented 14.1% in 2008 and 8.1% in 2007. These projects provide the project administrator a single point of contact for both design and construction. GVA does not specialize in design and an error on the part of a joint-venture participant could affect the firm's bottom line. The profit potential for these projects, though, is higher than for traditional projects.

Management

William G. Dorey has served as President of the firm since February 2003, Chief Executive Officer and Director since January 2004, and has been with the firm for 41 years. With the exception of the CFO, all remaining executive officers have been with the firm for about 30 years. GVA emphasizes performance-based compensation rewarding executives when returns on capital exceed costs of capital.



Ownership

% of Shares Held by Insiders:	2.29%
% of Shares Held by Institutional & Mutual Fund Owners:	98.70%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Emben & Co ESOP Trust	4,404,513	11.39%
Advisory Research, Inc.	2,710,767	7.01%
Barclays Global Investors UK Holdings Ltd	2,006,973	5.19%
Allianz Global Investors of America	1,763,352	4.56%
Prime Cap Management Company	1,515,864	3.92%

Source: Bloomberg

Lumber Liquidators
LL
Price: $20.59 ($7.02-22.74)
Fiscal Year Ends: December 31

September 1, 2009 — Amy Klemme
Russell 2000: 558.06 (342.59-761.78) — Consumer Services

Lumber Liquidators is the largest specialty retailer of hardwood flooring in the United States and offers an extensive selection of premium products under multiple proprietary brands. They purchase products directly from mills or associated brokers, believing that a vertically integrated business model enables them to offer a broad assortment of high-quality products to a diverse customer base. The company was founded in 1994 by the current chairman, Tom Sullivan, due to home improvement and flooring retailers under serving the market in terms of selection, quality, price, and product availability. Lumber Liquidators is headquartered in Toano, Virginia and primarily sells to homeowners or to contractors on behalf of homeowners through its multi-channel sales model that enables a national store network, call center, website, and catalogs to operate in a coordinated manner.

Recommendation

Lumber Liquidator's has proven its resilience in the current housing downturn, becoming a standout in a hardline retail group characterized by consolidation and low returns. LL continues to provide a good value proposition for their customers through product selection, quality, availability, and price. It has the ability to evolve their product mix with changing consumer preferences and continue to operate a low-cost store structure. This has allowed LL to expand operating and net margins YoY by 65.3% and 64.3%, respectively. In addition, over the past five years LL experienced a top and bottom line CAGR of 22.9% and 22.6%, respectively. LL maintains a debt-free balance sheet with substantial cash ($43.3MM) to support future growth. With the relatively minimal initial investments for store openings and high ROIC, strong growth prospects remain. Therefore, because of LL's prominent positioning within the hardwood-flooring market, strong company fundamentals, and opportunity for continuous market share gains, it is recommended that LL be added into the AIM Equity Portfolio with a target price of $26.00 offering potential upside of 26%.

Key Statistics	Sept. 1, 2009
Market Cap	$593.30
Shares Outstanding	26.97M
Ave. Volume (3 month)	368,094
Adjusted Beta	1.12
EPS (TTM)	$.88
2009 Estimated EPS	$.90
P/E (TTM)	23.41
PEG Ratio	.68
WACC	10.79%
Debt/Assets	0
ROE	21.44%
ROA	15.77%
Gross Margin	34.78%
Operating Margin	7.67%
Analyst Coverage	8
Dividend Yield	0
Target Price	$26.00

Source: Bloomberg

Investment Thesis

- **Attractive Store Economics.** By establishing locations in commercial and industrial areas that carry lower occupancy rates, LL is able to generate impressive returns due to its low cost store model. The initial cash investment for a new store approximates $280K (with inventory accounting for $230K). New stores typically become profitable within three months and will generally return the initial cash investment within eight months. LL is able to provide quick and strong returns while minimizing the initial risk of new store investments.
- **Square Footage Growth**. Despite the recent difficult housing period, LL has maintained strong square footage growth, averaging 29% over the past three years. As hardline retailers have only

experienced modest growth, LL remains in the hockey stick which continues to signal continued growth and expansion into new markets.

- **Positive Industry Trends.** The past five years have signaled a significant change in consumer preferences and demands. Hard floors, including wood and laminates, have gained 200bps each, while carpet has lost 400bps. As the average cost of carpet input costs continues to increase and health concerns increase, hardwood floor will continue to be a compelling value proposition.
- **Industry Consolidation.** The current macro-economic environment is expected to remain weak which, will conversely benefit LL and other well-positioned companies. As the number of retailers serving the homeowner-based segment declines, the opportunity for market share growth will be present.
- **Vertical Integration and Sales Mix.** LL's continued success is due to relationships built with key supplier mills and brokers, eliminating the third-party mark up that Home Depot and Lowe's encounter. This provides access to a broad selection of domestic and exotic products with a quality and pricing advantage. LL's products are provided through multiple, complementary channels that provide a competitive advantage to a diverse customer base

Valuation

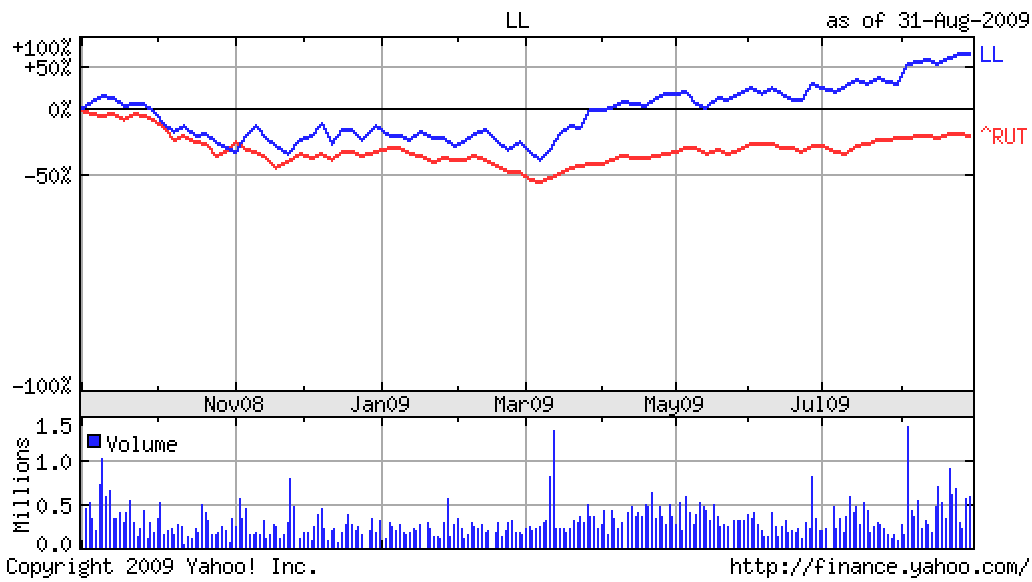
Based on five-year DCF analysis with a computed WACC of 10.79% and a terminal growth rate of 3%, an intrinsic value of $27.47 was computed. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (8-12%) generates a price range of $24.97-30.70. A conservative price target of $26, was chosen a potential upside offering of 26%.

Risks

- **Weakened Macro Environment.** The wood flooring market for homeowners is highly dependent on home-related discretionary spending. Several complex economic and demographic factors influence this income measurement, such as home remodeling and buying activity, employment levels, consumer confidence, and credit availability. These factors could constrict discretionary consumer spending which would adversely affect the demand for hardwood flooring.
- **Dependence on Concentrated Number of Suppliers.** LL relies on a concentrated number of suppliers. In FY 2008, LL's top ten suppliers accounted for 67% of annual supply purchases. LL obtains the majority of hardwood supplies on an order-by-order basis. If the suppliers are adversely affected by financial instability or inability to supply the products, LL could experience deterioration in operating results if they it is unable to find replacement suppliers.
- **Maintaining International Relationships.** In 2008, approximately 60% of products were obtained from international supplies. If foreign governments were successful in imposing unfavorable laws, taxes, or tariffs LL's margins could be compressed.
- **Input Costs.** Hardwood flooring costs could fluctuate due to domestic or international supply coupled with demand, labor costs, competition, market speculation, product availability, and trading policies. LL might not be able to anticipate or react to these changes in costs due to lack of long-term buying relationships which may prevent raising selling prices to combat the increased supply price. These changes could increase cost of sales and selling, general, and administrative expense.

Management

Current chairman, Tom Sullivan, founded Lumber Liquidators in 1994 after realizing the opportunity in the market to sell hardwood flooring at "liquidator" prices. The first store was opened in 1996, and he has presided over the continued growth. Jeff Griffiths has been CEO since 2006, and he has over thirty years of retail experience.



Ownership

% of Shares Held by Insiders:	27%
% of Shares Held by Institutional & Mutual Fund Owners:	82%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Thomas Sullivan	6,375,269	23.64%
Fidelity Management	1,811,862	6.72%
T. Rowe Price Associates Inc.	1,195,750	4.43%
Wellington Management Co. LLP	1,144,140	4.24%
Gilder, Gagnon, Howe & Co.	1,098,046	4.07%

Source: Bloomberg

Knight Capital Group, Inc.
NITE
Price: $19.96 ($11.03-20.78)
Fiscal Year Ends: December 31

September 9, 2008 — Ryan Rusch
Russell 2000: $562.05 (342.59-761.78) — Financial Services Sector

Knight Capital Group is a capital markets firm that provides market access and trade execution services across multiple asset classes to buy-side, sell-side and corporate issuer clients. NITE generates revenue predominately from their Global Markets (99% of net revenue) segment, while their Corporate segment accounts for less than 1% of net revenue. The Global Markets segment focuses on providing trading services across global equities, fixed income, foreign exchange, futures, options and derivatives. Unlike their competitors, NITE's hybrid market model offers clients multiple electronic and voice access options to the global capital markets according to their client's preferences. Headquartered in Jersey City, NJ, NITE was founded in 1995 as an execution destination for online broker-dealers.

Recommendation

NITE is the current leading source of all off-exchange liquidity in U.S. equities, and possesses greater share volume than any domestic stock exchange. At the end of 2Q09, NITE accounted for 15.5% and 22.1% of the total volume on the NYSE and NASDAQ, respectively. The November 2008 sale of NITE's asset management business reiterated NITE's focus on their primary global markets business. Through a series of strategic acquisitions, NITE is in the process of solidifying its asset class diversity on a global basis. Recent 2008 acquisitions contributed 27% ($66 million) to Global Markets revenue in 1Q09, compared to 13% in 1Q08.Additionally, in 2008, NITE experienced substantial growth, with its revenues growing 17.3% y/y and its net income growing 45.5% y/y. This strong bottom-line growth illustrates the operating leverage inherent to NITE's business model. Additional growth opportunities for NITE will largely be driven by the expansion of their domestic and European fixed income trading as well as the increase in equity volume from the addition of new agency-brokerage and institutional clients in Europe and Asia. Due to NITE's prominent position in the global exchange market and strong growth potential, it is recommended that it be added to the AIM Equity Portfolio with a target price of $24.00.

Key Statistics	Sep. 2, 2009
Market Cap	$1,883.39M
Shares Outstanding	93.608M
Ave. Volume (3 month)	1,454M
Adjusted Beta	0.80
EPS (TTM)	$1.75
2009 Estimated EPS	$1.55
P/E (TTM)	11.50
PEG Ratio	0.86
WACC	5.75%
Debt/Assets	30.93%
ROE	18.60%
ROA	9.44%
Pretax Margin	29.33%
Operating Margin	22.37%
Analyst Coverage	11
Target Price	$24.00

Source: Bloomberg

Investment Thesis

- **Solidified Market Presence.** Despite typical summer slowdowns in volume, NITE has been able to continue increasing market share in both NASDAQ and NYSE listed securities. For July and August, NITE accounted for 19.0% of listed shares traded as compared to the 16.3% and 15.5% they accounted for in 2Q09 and 1Q09 respectively. On the NASDAQ, NITE, with their concentration on small and mid-cap firms, continues to increase their market presence, accounting for 30% of the shares traded QTD compared to 21.9% for 1H09.
- **Fixed Income Trading Expansion.** Access to fixed income markets is provided by NITE through two platforms, Knight BondPoint and Knight Libertas. To further enhance and develop greater market share on their traditional agency-brokerage business NITE is focusing on

expanding their talent pool in the U.S. and Europe. By taking advantage of the abundance of talent available from struggling Wall Street firms, NITE began building their talent pool of traders. Currently, NITE has the largest high yield sales force on the street with over 125 investment professionals.

- **European Equity Platform Development.** The European equity trading business for NITE generated $10 million in revenue for 2Q09, accounting for less than 5% of the quarter's revenue. Management of NITE recently stated that the European equities business is expected to near 40.0% of their US equity business. In 2Q09 the US equity business generated $216 million in revenues, indicating the potential for an incremental increase in the European equity business of roughly $75 million or the upwards of $300 million annualized.
- **Rebuilding Balance Sheet.** With $249.6 million of NITE's $1.0 billion share repurchase program remaining, focus is turning toward their balance sheet strength. Currently, NITE has $140 million outstanding in long-term debt implying a debt to equity ratio of 12.7%. Growing importance will continue to be placed on NITE from a liquidity standpoint as they begin the process of clearing their own trades and expanding their fixed income trading. Nearly 67% of all NITE's assets are readily convertible to cash.

Valuation

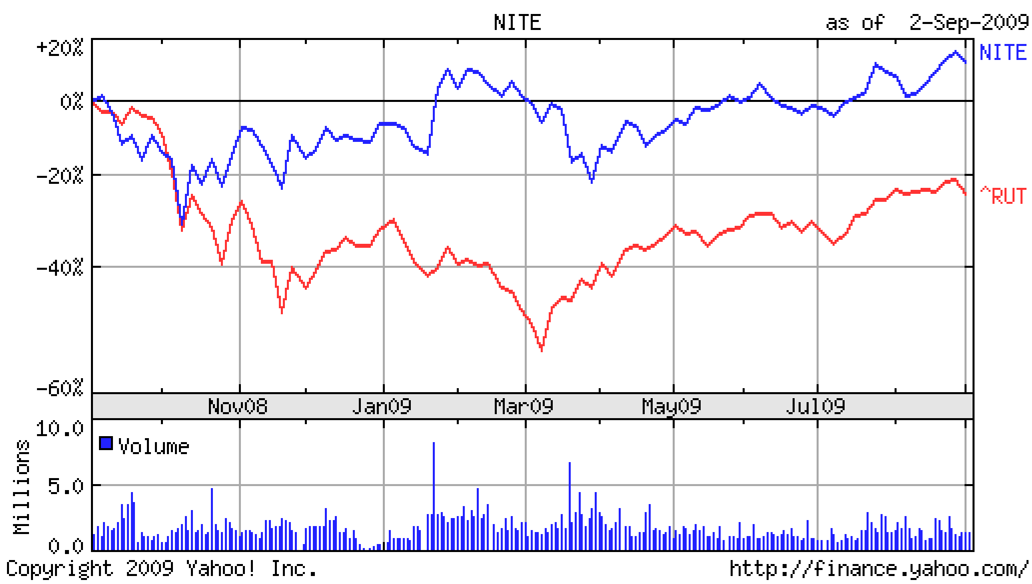
To value NITE a 10 year DCF and five year historical industry P/E average of their direct marketing making and agency-brokerage competitors were used. A historical P/E average of 15x NITE's 2009 conservative EPS estimate of $1.55 yields a $23.25 price target. Based on a 10 year DCF analysis with a computed WACC of 7.25% and a terminal growth rate of 3%, an intrinsic value of $23.38 was obtained for NITE. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (6.00-8.50%) generates a price range of $22.53-24.29. Taking into account the future growth opportunities and economic uncertainties, a price target of $24.00 was established. With NITE currently trading around $19.96, the $24.00 price target would yield a 20% return. The company does not pay a dividend.

Risks

- **Regulatory Outlook.** With the potential SEC ban on high frequency "flash" trading, there is uncertainty surrounding how NITE will be affected. Any regulation or ban will undoubtedly impact trading volumes. The largest exposure NITE has to "flash" trading is their 20% ownership stake in Direct Edge, which comprises their corporate business segment (1% of net revenue). Direct Edge attributes 25% of their revenue from flash trading, accounting for 5% of their trading volume. NITE management has stated that a ban would have only a slight impact on their revenues with an approximate annual loss of $1.0 million.
- **Inventory Risk.** Operating as a market maker, NITE is exposed to potential decreases in the fair value of the securities they hold. Between the securities NITE owns and holds at clearing brokers, a $332.1 million or 69.8% increase in their fair value was experienced from 1Q09 to the end of 2Q09. Fluctuations in the fair value of these securities are dependent upon trading volumes, market conditions, trading strategies and pre-established risk limits.
- **Volume Slowdown.** Despite NITE's diverse product base, trading volumes and their cyclicality can influence NITE's total equity volumes. The VIX, after reaching highs in the low 60s in 4Q09, ended 2Q09 in the high 20s. Retail activity has also seen a large sell off in 2007 due to economic uncertainty and market volatility.

Management

Thomas Joyce, with over 30 years of experience in the securities industry, has served as Chairman of the Board since 2004 and CEO since 2002. Steven Bisgay, current CFO, has been with NITE since 2001 and in his current role since 2007. Together, Joyce and Bisgay have helped NITE achieve a 10% market share of daily US equity markets trading volume.



Ownership

% of Shares Held by Insiders:	5%
% of Shares Held by Institutional & Mutual Fund Owners:	86%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Royce & Associates, LLC	13,452,770	14.4%
Barclays Global Investors, N.A.	4,731,326	5.1%
Vanguard Group, Inc.	4,089,827	4.4%
Aronson, Johnson, Ortiz, L.P.	3,629,100	3.9%
State Street Global Advisors (U.S.)	3,333,248	3.6%

Source: Bloomberg

Radiant Systems, Inc.
RADS
Price: $10.99 ($11.51-2.19)
Fiscal Year Ends: December 31

September 4, 2009 — Corbin Weyer
Russell 2000 Index: 562.49(761.78-342.59) — Software Sector

Radiant Systems, Inc. (RADS) provides an array of technology solutions to the hospitality and retail markets. RADS' total solution approach includes the design and marketing of transaction point-of-sale (POS) systems, customer self-service kiosks, and customer loyalty and back-office solutions. The hospitality segment (76% of 2Q09 revenue) services fast food and quick service restaurants, sports/entertainment venues, and cinemas. Major customers include Burger King, Chipotle, Dunkin Donuts and Yankee Stadium. The retail segment (23% of 2Q09 revenue) services petroleum and convenience stores (PCS) and specialty stores. Significant customers include BP, Exxon Mobil, 7 Eleven and The Home Depot. Through both organic growth and strategic acquisitions, RADS now claims leading market share (18.4%) in the U.S. restaurant POS market. RADS was founded in 1985 and is headquartered in Alpharetta, Georgia.

Recommendation

Recent trends in the hospitality and retail industries have accelerated the need for timely information which has heightened the demand for feature-rich operational systems. RADS' offering of total solution packages that increase the speed and accuracy of transactions and operations for these industries has resulted in a revenue CAGR of 22% from '04-'08. Synergies from acquisitions in 2008 have assisted in either offsetting weak segments or further propelling already strong segments. RADS has offset recent revenue decline with greatly improved margins. 2Q09 gross margins increased 125bps to 48.45% y/y as the result of an increase in the mix of software versus hardware sales and improved efficiencies experienced from the consolidation of support functions. Management believes the current gross margins are sustainable. Going forward, management has raised both revenue and earnings guidance as a result of increased cash flows realized through successful acquisitions. Additionally, RADS has consistently surpassed earnings' estimates for the past four quarters. Most recently, RADS reported pro forma earnings of $0.18 per share 2Q09 versus the consensus $0.15 per share. Based on a price target of $13.50, yielding a potential 23% upside, it is recommended that RADS be added to the AIM Equity Fund.

Key Statistics	September 4, 2009
Market Cap	$360.67M
Shares Outstanding	32.94M
Avg. Volume (3 month)	192,218
Adjusted Beta	1.21
EPS (TTM)	$0.24
2009 Estimated EPS	$0.30
Adjusted P/E (TTM)	21.90
Adjusted PEG Ratio	1.08
WACC	10.24%
LT Debt/Assets	24.72%
Dividend Yield	0.00%
ROE (TTM)	4.92%
ROA (TTM)	2.56%
Gross Margin (TTM)	44.77%
Operating Margin (TTM)	6.12%
Analyst Coverage	6
Target Price	$13.50

Source: Bloomberg

Investment Thesis

- **Track Record of Successful Acquisitions.** Through four acquisitions in 2008, RADS increased its international exposure, expanded its presence in sports/entertainment venues and accelerated the production and resulting operation of mobile devices in the hospitality sector. RADS' consistent generation of positive operating cash flows provides the firm flexibility in financing its acquisitions. The company has cash of $16.9B on its balance sheet as of July 30, 2009 and continues to pursue attractive opportunities.

- **POS Technology.** The current environment has shifted the cost and time efficiency demands of restraint patrons. POS systems are utilized to increased productivity of workers and improve customer service. Additionally, operators recognize that these systems offer the ability to integrate front-of-house to back-of-house operations.
- **Growing Market Share in the Restaurant Industry.** RADS derives 60-65% of total revenues from the restaurant business. RADS' share in U.S. table service chain restaurant POS market from a new shipment perspective has grown from 16.7% to 18.4% over the past two years. This growth contrasts with share declines experienced by its three largest competitors over the same period. RADS' largest and healthiest restaurant operators, including Burger King, continue to expand site counts, which continue to drive incremental hardware and software sales. Industry growth favors the company as an estimated 50% of existing restaurant sites rely on aged, proprietary systems and an estimated 60,000 new restaurant sites open annually in the U.S.
- **Growth in Recurring Revenues.** Recurring revenues accounted for 45% of total revenues for 2Q09, a significant increase from 34% a year ago. Hardware refresh programs and support and maintenance services account for a majority of recurring revenues. These higher margin segments (gross margin of 51% 2Q09 v. total gross margin of 48% 2Q09) offer both greater future revenue visibility and profitability.

Valuation

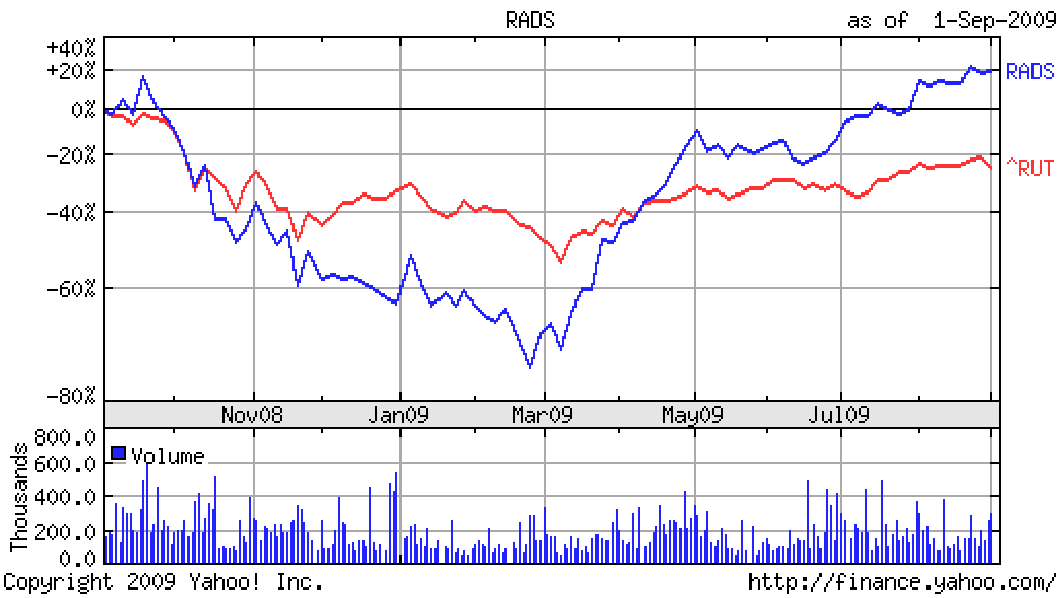
Using a 10-year DCF model, a WACC of 10.24%, variable long-term growth rates and a terminal growth rate of 1% resulted in a stock price estimate of $13.04 in the base case. A sensitivity analysis adjusting the terminal growth rate (0-2%) and the WACC (8-12%) yielded a price range of $10.18-19.91. Additionally, multiplying the average high and low Price/Sales of RADS over the past five years to forecasted FY09 sales yielded a price range of $9.19-21.94. A conservative forward P/E of 19.67X yielded a price of $13.68. Based on a price target of $13.50, this investment would yield a potential 23% upside – the firm does not pay a dividend.

Risks

- **Continued Weakness of the U.S. Consumer.** As a whole, both the hospitality and retail industries have put capital expenditures and investments on hold as a result of the lack of consumer spending. New system sales are heavily dependent upon the existing customer base expanding operations and locations. Stagnated income and reduction of debt by consumers may put pressure on both the retail industry and the sports/entertainment venue sector.
- **PCS' Vulnerability to Energy Markets.** The PCS industry continues to be affected by the commodity price spike in late 2008; operators are still cautious and continue to express concern for expansion. 2Q09 total revenues in the retail segment decreased 13% y/y.
- **Technological Innovation and Growth through Acquisitions.** Past acquisitions have played a significant role in RADS' technological innovation and subsequent company growth, including the development of wireless POS systems and its footprint abroad. Should RADS fail to identify and successfully integrate future acquisition candidates or should candidates fail to accept their bid, RADS' growth could stagnate and results could be adversely impacted.

Management

CEO John Heyman has served the firm as an officer since 1995. Heyman brings prior experience in consulting and investment banking to a company that continues to grow its business through strategic acquisitions. As co-founder of RADS, CTO Alon Goren has led the firm's technology strategy and vision, overseeing the development and transformation of products. Goren holds a large stake in the performance of RADS owning 13.40% of outstanding shares.



Ownership

% of Shares Held by Insiders:	14.90%
% of Shares Held by Institutional & Mutual Fund Owners:	70.18%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Shares Outstanding
Alon Goren	4,414,563	13.40%
Columbia Wagner Asset Management, LP	3,694,300	11.22%
NorthPointe Capital, LLC	2,034,563	6.18%
Barclays Global Investors	1,951,493	5.92%
Eagle Asset Management, Inc.	1,330,443	4.04%

Source: Bloomberg

RiskMetrics Group, Inc.
RMG
Price: $15.12 ($10.06-25.00)
Fiscal Year Ends: December 31

September 9, 2009 Brian Paolo
Russell 2000 Index: 555.46 (342.59-761.78) Financial Services Sector

RiskMetrics Group, Inc. provides risk management and corporate governance products and services serving primarily asset managers, hedge funds, pension funds, banks, insurance companies, financial advisors and corporations. It consist of two main business segments: RiskMetrics (approx. 55% of firm revenue) and Institutional Shareholder Services (ISS; 45% of revenue). RiskMetrics provides clients with comprehensive, interactive products and services that allow them to measure and quantify portfolio risk across security types, geographies and markets. ISS is the industry's largest provider of corporate governance and specialized financial research and analysis services to institutional investors and corporations worldwide; it provides clients with a fully-outsourced proxy research, voting and vote reporting service to assist them with their proxy voting responsibilities. Both services are delivered to clients on web-based platforms. In 1998, RMG was spun off of JPMorgan and became an independent company. RMG is headquartered in New York, NY.

Recommendation

In 2008, RMG recorded a $160 impairment charge to goodwill following the acquisition of ISS in 2007 as a result of negative equity market conditions. While this event caused RMG to have negative earnings, operating cash flow per share was around $0.52. It is likely that this one time occurrence will not affect the future of RMG's long-term growth as its business model is strong. RMG derives about 94% of revenue from subscription-based contracts which have 85% renewal rates; thus, the company typically begins its year with 80% of total revenue locked in through contracts. The company's largest expenses are on research, data and analytics engineering, and infrastructure and application development, which are largely fixed. The cost of adding new members is low. A sharp spike in business failures and consolidation among financial companies has slowed RMG's contracts renewals and new signings, though it is expected that this will be temporary. Believing RMG is positioned for solid long-term performance, it is recommended that it be added to the AIM Equity Portfolio with a target price of $18.32, a potential upside of 21%.

Key Statistics	Nov. 13, 2008
Market Cap	936.67M
Shares Outstanding	61.95M
Ave. Volume (3 month)	168,064
Adjusted Beta	1.12
EPS (TTM)	-$2.07
2009 Estimated EPS	$0.60
P/E (TTM)	N/A
PEG Ratio	2.33
WACC	12.36%
Debt/Assets	40.42
ROE	-43.96%
ROA	5.75%
Gross Margin	-41.81%
Operating Margin	23.43%
Analyst Coverage	10
Target Price	$18.32

Source: Bloomberg, Thomson, Yahoo!

Investment Thesis

- **Demand for risk management and regulatory requirements.** In the aftermath of the 2008 financial crisis, we will likely see more risk regulation in the financial industry which will be a driver of growth for RMG. Its RiskMetrics business segment saw sales growth of over 20% in 2007 and 2008, with 10+% growth expected going forward. As a result of increasing complexity of investment strategies, governments and regulatory authorities are increasing the requirements on financial services and investment firms to track and report risk as part of daily operations. An Accenture survey in July found that 70% of respondents have increased or plan to increase spending on risk management.

- **Increasing focus on corporate governance**. In the last decade, there has been increasing visibility of corporate governance (due to scandals and shareholder activism) and the risks associated with poor governance practices. Investors are more cognizant of corporate governance practices on portfolio returns; additionally, some investors are increasingly focusing on companies' environmental and social attributes when making investment and proxy voting decisions. This will continue to fuel demand for ISS's products and services. A July 2009 study published by the NBER shows significant abnormal stock returns around proxy vote recommendations, increasing the importance of such votes.
- **Increasing demand for outsourced products and services.** Financial services firms are increasingly using outsourced solutions (that are more cost-effective than in-house systems) enabling them to focus on core competencies and provide greater capabilities to their own clients. An increasing number of firms are using risk measurement and management solutions from external vendors.
- **Broad client base.** RMG's annualized contract value by client type was distributed as follows: 57% asset management; 22% alternative investment managers; 15% commercial and investment banking and trading; and 6% to corporate professional services. 54.4% of revenue came from outside the US in 2008. There are several types of client pools in which RMG can expand into, and with each new client brings the opportunity of renewed revenues and cross-selling of other RMG products. RMG's current clients include 70 of the largest 100 asset managers worldwide, 42 of the 50 largest hedge funds, 43 of the 50 largest mutual fund companies, and 16 of 30 OECD central banks.

Valuation

Based on a 5 year DCF analysis with a computed WACC of 12.36% and a terminal growth rate of 3%, an intrinsic value of $18.32 was obtained for RMG. With the stock currently trading $15.12, the $18.32 price target would yield a 21% return. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (11-13%) generates a price range of $15.30-25.63.

Risks

- **Competition.** RMG faces competition from other risk management firms (JPMorgan Measurisk, BlackRock Solutions unit, DST Systems, etc.) and research firms (Broadridge Financial Solutions; Glass, Lewis and Co., etc.) as well as from the in-house operations of the firms they seek as clients. Intense competition could cause price reductions, reduced margins, and loss of market share.
- **Perceived conflicts of interest.** Any perceived conflicts of interest resulting from providing products and services to institutional investors in addition to proxy voting recommendations, or providing products and services to corporations which are the subject of proxy recommendations or other analytical products or services could harm RMG's reputation and business.
- **Infrastructure issues.** RMG relies heavily on electronic delivery systems and the internet and any failures, disruptions or slowdowns may adversely affect its ability to serve its clients.
- **Liability to Clients.** RMG's products and services support the proxy voting and risk analysis processes of clients; consequently, RMG may be exposed to potential liability claims brought by its clients or third parties as a result of the operational failure of its products and services.

Management

Ethan Berman (B.A. Williams College) was a founding member at the time of its spin-off from JPMorgan in 1998 and has served as CEO ever since and as chairman of the board since June 2004. Prior to its spin-off, he was a managing director at JPMorgan and was responsible for the firm's Risk Management Services Group. As head of that group, he led JPMorgan's risk advisory work, including the development of risk products and services such as RiskManager and CreditManager. David Obstler (CFO since Jan 2005; B.A Yale, MBA Harvard) was CFO and executive VP of corporate development for Pinnacor Inc.

Ownership

% of Shares Held by Insiders:	28%
% of Shares Held by Institutional & Mutual Fund Owners:	70%

Source: Yahoo!

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
BAMCO Inc.	4,277,757	6.94%
Morgan Stanley	3,817,135	6.19%
Baron Growth Fund	2,500,000	4.06%
Morgan Stanley Inst. FD Inc. – SCG Portfolio	2,089,651	3.39%
Price (T.Rowe) Associates Inc.	1,429,810	2.32%

Source: Yahoo!