MARQUETTE
UNIVERSITY

Applied Investment Management (AIM) Program

AIM Fund Investment Advisory Board Meeting
January 26, 2007
AIM Equity Fund Presentations

Student Presenter	Company Name	Ticker
Oleg Gurin	TradeStation Group, Inc.	TRAD
Sarah Tobolski	KongZhong Corporation - ADR	KONG
Michael D'Agostino	Labor Ready Inc.	LRW
Zachary Bloom	Genesis Microchip	GNSS
Nicole Roden	Meridian Bioscience Inc.	VIVO
Uri Soroka	Komag Inc.	KOMG

Proposed AIM Equity Purchases

Symbol	Company	Share Price	Shares	Gross Amount
KONG	Kongzhong Corp	$8.22	500	$4,110
LRW	Labor Ready	$19.22	340	$6,535
TRAD	TradeStation Group	$12.50	800	$10,000
VIVO	Meridian Bioscience	$28.19	320	$9,021
KOMG	Komag	$34.61		
GNSS	Genesis Microchip	$9.64		
				$29,666

Proposed AIM Equity Sales

Symbol	Company	Share Price	Shares	Gross Amount
SALM	Salem Communication	$11.01	170	$1,872
KFY	Korn Ferry International	$22.85	300	$6,855
PLSB	Placer Sierra Bankshares	$27.28	380	$10,366
HORC	Horizon Healthcare	$19.66	550	$10,813
				$29,906

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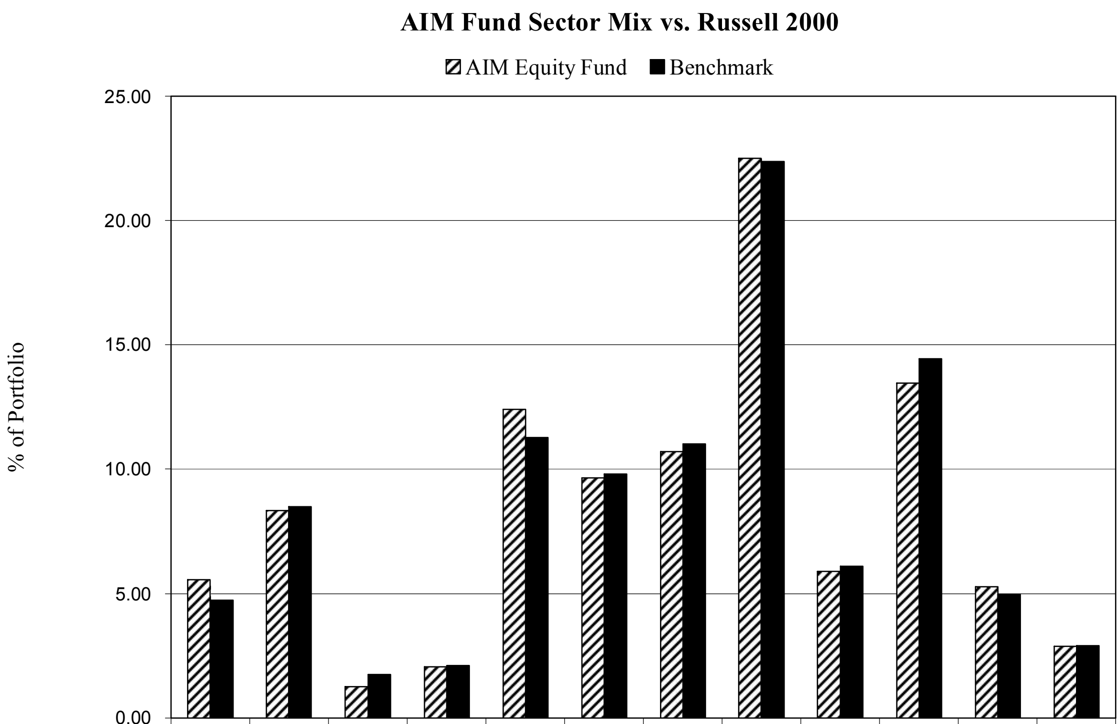


	Software	Hardware	Media	Telecommunications	Health Care	Consumer Services	Business Services	Financial Services	Consumer Goods	Industrial Materials	Energy	Utilities
AIM Equity Fund	5.56	8.35	1.27	2.06	12.41	9.66	10.71	22.50	5.88	13.46	5.26	2.89
Benchmark	4.75	8.50	1.75	2.12	11.28	9.81	11.02	22.37	6.09	14.44	4.95	2.92

TradeStation Group, Inc.
TRAD
Price: $12.43 ($17.81 - $11.11)
Fiscal Year Ends: December 31, 2006

January 26, 2007 Oleg Gurin
Russell 2000 Index: 785.16 (801.01 – 668.58) Financial Services Sector

TradeStation Group, Inc. (TRAD), through its principal operating subsidiary, TradeStation Securities, Inc., offers the TradeStation platform to the active trader and certain institutional trader markets. TradeStation is an electronic trading platform that offers state-of-the-art "direct market access" (DMA) or "direct-access" order execution and enables clients to design, test, optimize, monitor and automate their own custom Equities, Options, Futures and Forex trading strategies. In 2006, TradeStation was named, for the second year in a row, Best Futures Brokerage and, for the fourth year in a row, Best Direct-Access Stock Broker, Best Direct-Access Futures Broker, Best Professional Platform and Best Institutional Platform, in "Technical Analysis of Stocks and Commodities" magazine.

Recommendation

TradeStation Group, Inc. operates in two segments: brokerage services (74% of revenue), which represents the operations of TradeStation Securities, and software products and services (26% of revenue), which represents the operations of TradeStation Technologies. The revenues in 2007 are expected to grow by 18% and 24% vs. 2006 for brokerage services and software products, respectively. Robust revenue growth combined with decreasing expenses relative to the revenue have resulted in significantly improved gross, operating, and net margins over the last four years. After the merger of TradeStation Securities with TradeStation Technologies, the company has been growing organically. We project 2006 and 2007 EPS of $0.66 and $0.77, respectively. Our valuation shows that TradeStation Group is undervalued and we expect the price to appreciate to $16 within the next 12 months. We recommend adding TRAD to the AIM portfolio with a weight of 2%.

Key Statistics	Jan 19, 2006
Market Cap	$556.72M
Shares Outstanding	45.994M
Average Volume	408,000
Beta v. Russell 2000	1.29
EPS (TTM)	$0.65
2006 Estimated EPS	$0.66
P/E (TTM)	19.12
Cash Flow/Share (TTM)	$0.66
Debt/Assets	0%
ROE (TTM)	32.84%
Gross Margin Q3-06	75.01%
Operating Margin Q3-06	38.17%
EPS Growth Est (2 Year)	27.00%
Target Price (12 Months)	$16.00

Investment Thesis

- **Stable revenue growth.** Revenue 5-year CAGR is 25.5%. In 2005, revenues grew by 34.2%. In 2006, revenues are expected to grow by 31.8%.

- **Increasing gross margin.** Even though average revenue per trade has been decreased over the last 4 years because of strong competition, TRAD was able to improve its gross margin by 14.9% from 65.3% in the first quarter of 2003 to 75.01% in the third quarter of 2006

- **Increasing operating margin.** TradeStation Group is working consistently on reduction its expenses, which leads to higher operating margin. Operating margin has been increased by more than double from 15.8% in the first quarter of 2003 to 38.2% in the third quarter of 2006.

- **Increasing net margin.** Improvements in gross and operating margins have led to an 8% point increase in net margin from 16.5% in the first quarter of 2003 to 24.3% in the third quarter of 2006.

Valuation

Based on the discounted cash flow model, TradeStation should be valued at $13.97. Employing relative valuation, based on the P/E ratio of Russell 2000 Financial Services Index, a stock value of $15.53 was obtained. The average valuation price for TRAD is $14.75, which translates into the target price of approximately $16 within the next 12 months.

Risks

- **High fluctuations in quarterly results.** Quarterly revenues and operating results of TradeStation Group have fluctuated significantly in the past. They are likely to fluctuate in the future because of general economic and market factors, technical difficulties, and changes in demand for TRAD's products and services.

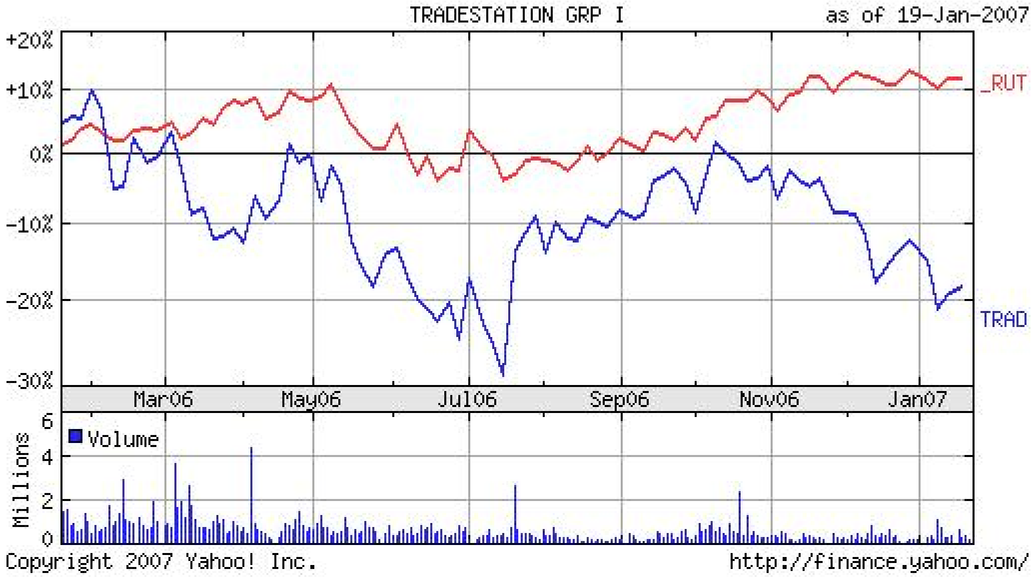
- **Credit risk.** TRAD makes margin loans to clients collateralized by client securities, and borrow securities to cover trades. Even though TradeStation has implemented additional risk-management procedures designed to reduce this risk, sharp changes in market values of securities may lead to the failure by parties to the borrowing transactions to honor their commitments.

- **Competition.** The markets for online brokerage services, trading software tools, and real-time market data services are intensely competitive and rapidly evolving.

- **Potential liabilities to customers.** Many aspects of the securities, futures and brokerage business, including online trading services, involve substantial risks of liability. While TRAD's contracts with customers state that customers must knowingly assume all of the risks, there can be no assurance that a judge, arbitrator or regulator would enforce or honor such contractual provisions.

Management

William R. Cruz, 45, and Ralph L. Cruz, 42, founded the company in 1982 and have been directors since that time. They both have the positions of Co-Chairman and Co-Chief Executive Officer. In 2005, each of them had a total compensation of $370,040.



Ownership

% of Shares Held by All Insider and 5% Owners:	41.95%
% of Shares Held by Institutional & Mutual Fund Owners:	53.60%

*Source: MSN Money

Top 5 Shareholders

Holder	Shares Held	Percent of Shares Outstanding
Cruz, William R.	8,303,738	18.54%
Cruz, Ralph L.	8,166,468	18.24%
FMR Corporation	4,874,055	10.88%
Barclays Global Investors	1,451,631	3.24%
Fidelity Small Cap Fund	1,438,452	3.21%

*Source: Yahoo! Finance

KongZhong Corporation - ADR
KONG

Price: $8.09 (5.51 – 15.30)

Fiscal Year Ends: December 31, 2007

January 26, 2007 — Sarah Tobolski

Russell 2000 Index: 782.76 (668.58 – 801.01) — Media Sector

KongZhong Corp. is the leading provider of advanced second generation, or 2.5G, wireless interactive entertainment, media, and community services to customers of China Mobile Communications Corp. (ChinaMobile), which has the largest mobile subscriber base in the world. The Company is registered in the Cayman Islands and headquartered in Beijing as it conducts the vast majority of its business in the People's Republic of China.

Recommendation

Key Statistics	Jan 22, 2007
Market Cap	$278.64M
Shares Outstanding	34,613M
Average Volume	527,481
Beta v. Russell 2000	1.18
EPS (TTM)	$0.76
2006 Estimated EPS	$0.661
P/E (TTM)	$10.59
WACC	12.01%
FCF/Share	$0.79
ROE (TTM)	20.47%
Profit Margin	25.94%
Operating Margin	22.43%
Debt/Equity	N/A
Target Price	$10.80

Although the wireless value added services market in China has been hard hit this past year, the industry is still quickly advancing and expanding. Despite substantial growth in recent years, the mobile phone penetration rate in China remains low compared to the penetration rate in other more developed countries, which provides a potential for continued growth. It is estimated that by the end of 2008, there will be close to 500 million mobile users in China, representing a compound annual growth rate of about 12% for the next two years. These growth estimates along with KONG's close association with China Mobile (CHL) gives them access to nearly 350 million mobile subscribers in China and their recent partnerships with China Unicom, China Telecom, and China Netcom will only increase their expansive customer network within the PRC. Currently, there is also considerable consolidation within the industry, and KONG is well placed to either be acquired or merge with some of their closest competitors.

Investment Thesis

- **Forefront of 3G preparations.** As the industry leader in 2.5G, KONG is the largest incumbent and best positioned to take advantage of 3G opportunities in China. An internal team headed by Nick Yang, President of KONG, has been studying overseas 3G markets, conceptualizing new business opportunities, and preparing for 3G product offerings for over a year and a half. This continued investment should be an advantage when China converts to 3G.

- **Diversification of customer base.** KONG has recently entered into cooperation agreements with China Unicom, China Telecom and China Netcom in order to prevent any disruption in business operations or any substantial looses associated with regulations imposed by China Mobile or potential deterioration of KONG's relationship with CHL.

- **Regulations (Long Term)**. As the industry continues to expand, there will be an increase in small start-up companies trying to eat away at KONG's WVAS market share. The lack of disclosure in terms of subscription base and payments for services and fees used to work to the advantage of these small companies; however, the restrictions will adversely affect their bottom line, potentially to the point of insolvency.

- **Media more easily accessible through the Kong.net site.** In 2005, KONG strengthened their Internet portal, Kong.net, and in February of 2006 they began actively marketing and promoting this portal. In the long term, this initiative will play an important part in the growth of the business. Eventually, it is hoped that the site will generate advertising revenue, and an increase in traffic to the site will become another channel from which to generate revenue.

Valuation

Based on my discounted cash flow model, KONG's intrinsic share price is $10.12. I also took into account a relative valuation based on the forward PE of KONG's competitor's and the average analyst's valuation which were $14.50 and $9.45, respectively. Given these various valuation methods, I believe that a price target of $10.80 is a reasonable price for the stock.

Risks

- **Increased Regulations (Short Term)**. China Mobile's regulations regarding trial period extension and cancellation of inactive subscribers resulted in a 15% decrease in KONG's 2006 revenue projections. The impact of the regulations will likely continue to be seen over the next few quarters as more inactive accounts are cut from KONG's subscriber base.

- **China Mobile moving into WVAS industry.** Although China Mobile has named KongZhong as its preferred WVAS provider, their immense size presents the possibility of vertical integration either organically or through acquisition of KONG or one of its closest competitors. If CHL changes to in-house WVAS production or acquires one of KONG's competitors the result would obviously be material; however, the more KONG builds up its already strong line-up of content, this can be seen as less of a possibility.

- **Restrained negotiating leverage with CHL.** Due to China Mobile's leading market position, KONG has limited pricing power in terms of present and future agreements with CHL. Changes in transmission or service fees could materially affect KONG's financial conditions. Accordingly, if service is considered sub par, China Mobile or any of its associated subsidiaries could impose monetary penalties or terminate their agreements with KONG.

Management

KONG's head management is one of the company's key assets. Yunfan Zhou, one of the company's founders, has been on the board of directors and CEO since inception in 2002. Zhou began his career by co-founding Internet portal company, ChinaRen Inc. until 2000 when it merged with Sohu.com Inc. After the merger, Zhou was brought on as an executive vice president at Sohu.net where he worked until resigning to start KongZhong. This exposure to the Internet portal market in China will be invaluable with regards to development of Kong.net, which is a direct competitor of Sohu.net. Nick Yang has also been with KONG since its inception and previously worked with Zhou at ChinaRen. Finally, Hanhui Sun was just promoted to CFO in January of 2006 and has worked with the company since 2005; he also works as R&D group financial controller for Microsoft's China division.

Ownership

% of Shares Held by All Insider and 5% Owners:	40.0%
% Of Shares Held by Institutional & Mutual Fund Owners:	17.7%

*Source: Bloomberg & Thomson ONE Banker

Top 5 Holders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Draper Fischer Jurvetson	2,088,000	6.03%	-
Renaissance Technologies	558,869	1.62%	72,600
Wellington Management Comp.	374,300	1.08%	-
Caxton Associates	355,083	1.03%	128,033
D.E. Shaw & Co.	347,503	1.00%	(25,002)

*Source: Bloomberg

Labor Ready Inc.

LRW

Price: $19.32 ($14.94-$27.75)

Fiscal Year Ends: December 31, 2006

January 26, 2007 — Michael D'Agostino

Russell 2000 Index: 785.16 (668.58-801.01) — Business Services Sector

Labor Ready Inc. is a an international provider of temporary employees for manual labor, light industrial, and skilled trades, operating under the brand names of Labor Ready, Workforce, Spartan Staffing, and CLP Resources. The company conducts its business through 887 branches located throughout the United States, Puerto Rico, Canada, and the United Kingdom. They have served more than 300,000 customers and help employ almost 600,000 people in 2005. The customers are primarily small to mid-sized businesses in the construction, transportation, warehousing, hospitality, landscaping, light manufacturing, retail, wholesales, facilities, and sanitation industries.

Recommendation

In the past several years Labor Ready has acquired two companies to its business line, Spartan Staffing and CLP Resources. Both of these acquisitions have provided new ways of sustaining earnings growth in 2006 and 2007. Along with these acquisitions, LRW plans on adding at least 45 new branches across the U.S. and it plans to add a total of 250 branches over the next 5 years. Labor Ready has been successful since its inception in 1989. It is believed that the stock price was beaten down in the summer of 2006 because of the fear of a housing market crash and economic slowdown. With the recent positive economic employment data, LRW appears to be undervalued and we believe it will appreciate to a price of $24, during our holding period.

Key Statistics	Jan 18, 2007
Market Cap	$1.01B
Shares Outstanding	52.12M
Average Volume	219,800
Beta v. Russell 2000	1.52
EPS (TTM)	$1.18
2006 Estimated EPS	$1.33
P/E (TTM)	14.64
WACC	6.41%
Cash Flow/Share	$2.18
Debt/Assets	0.00%
ROE	21.00%
Gross Margin	31.68%
Operating Margin	7.73%
EPS Growth Est (3 Year)	22.00%
Target Price	$24.00

Investment Thesis

- **The market share leader, in on-demand labor, with plenty of untapped demand.** The Labor Ready and Workforce brands own 20% of the temporary employment market in the U.S. industrial sector, referred to as "on-demand labor." The industrial temporary help industry is a $26 billion industry, the largest staffing segment and is expected to grow by 6.4% per year over the next decade. Not only are Labor Ready and Workforce the current market leaders in its industry, but they also have the opportunity of reaching another 30% of the total industry market share demand that is presently untapped.

- **The expansion into new markets.** LRW has almost 18% of its market capitalization invested in cash and marketable securities, and currently has no long term debt on their balance sheet. In addition to their anticipated 250 new branch openings over the next 5 years, the abundance of cash suggests the possibility of potential acquisitions in the coming years.

- **The new addition of CLP Resources and Spartan Staffing.** These companies bring LRW into new employment staffing areas. CLP and Spartan focus on longer assignment employment and are support the manufacturing, warehousing, and construction industries. While Labor Ready and Workforce concentrate on shorter employment assignments, these new divisions allow LRW to provide services to almost any industry. This provides the company with greater growth opportunities.

Valuation

Based on our discounted cash flow model, LRW should be valued at $23.50. Also based on relative valuation measures (i.e. P/E, P/Rev, and PEG) compared to other firms in the same industry, we found LRW to be under priced. We believe a reasonable valuation for this stock is at $24, which represents a potential 20% upside in stock appreciation.

Risks

- **Difficulty in continuing strong sales growth in the coming years.** Currently, Labor Ready Inc. is experiencing above average sales expansion and it will be a challenge for the company to prolong this strong growth rate. However, just because LRW might not grow its revenues at the current levels does not mean they will not be profitable and add considerable shareholder wealth.

- **The present fears of the housing market crash could potentially cause major employment reductions.** Fortunately, the Labor Ready business is very well diversified across the 50 states, as well as throughout Canada and Great Britain. In addition, the residential housing market is a small segment of LRW's current and future business model (about 5-10% of revenue).

- **The existing worries about a nationwide economic slowdown.** LRW's fortunes are highly correlated to the strength of the economy - and if there is an economic downturn, the company could perform poorly. LRW's revenues are distributed proportionally around the country, and when opening new branches they are avoid over-investment in any area in the event of a regional slowdown.

- **Competition from larger competitors.** Many of Labor Ready's competitors have an advantage in terms of financial resources, economies of scale, and reputation.

Management

The top four executives for Labor Ready have all be part of the business for roughly 5 years. In May of 2006 Mr. Steven Cooper took the reigns as the CEO, taking over for Mr. Joe Sambataro, who served as CEO since 2001 and retire as part of his planned succession.

TOP 5 INSTITUTIONAL HOLDERS

Holder	Shares	% Out	Value	Reported
Putnam Investment Management, LLC	3,597,926	6.90	$57,314,961	30-Sep-06
Barclays Global Investors UK Holdings Ltd	3,204,423	6.15	$51,046,458	30-Sep-06
Legg Mason Inc.	2,446,571	4.69	$38,973,876	30-Sep-06
Columbia Wanger Asset Management, LP	2,200,000	4.22	$35,046,000	30-Sep-06
Vanguard Group, Inc.	2,095,416	4.02	$33,379,976	30-Sep-06

Genesis Microchip
GNSS
Price: $9.72 ($9.41 - $22.45)
Fiscal Year Ends: in March

January 26, 2007 — Zachary Bloom, Uri Soroka
Russell 2000 Index: $785.16 ($668.58-$785.45) — Hardware Sector

Genesis Microchip (GNSS) is a leading provider of intergraded circuits (IC's) that receive and process digital video and graphic images. Their revenue streams from two main product categories, flat panel LCD televisions (66% of revenue) and LCD computer monitors (34% of revenue). They compete against smaller independent developers in other countries, as well as larger semiconductor companies. The majority of GNSS' business is conducted outside the United States with 99% of revenues coming from China, Germany, South Korea, Japan, and Taiwan. GNSS currently supplies many OEMs and distributors including Philips, Samsung, Sony, Dell, Sharp, Westinghouse, and is the main supplier for LG and Toshiba. As of March 31, 2006 they had 563 full time employees (240 R&D, and 206 S&M).

Key Statistics	Jan 22, 2007
Market Cap	$355.48M
Shares Outstanding	36.6M
Float	36.4M
Average Volume	927,988
EV/EBITDA (FY '08)	5.8x
EV/Sales (FY '08)	0.7x
Revenue est. (FY '08)	$258M
Gross Margin	42%
EBITDA Margin	2.1%
EPS (FY '08)	$0.22
ROE	5.2%
ROA	3.8%
ROIC	9.2%
WACC	19.6%
Target Price	$12.00

Recommendation

Long term growth outlook for the LCD TV and Multi-Function Monitor (MFM) markets should continue to facilitate growth for display controller developers such as GNSS. Their leadership position in this space, combined with proven and award winning technology, makes them a good long term value investment. Pending the earnings release on January 29th and a discussion with management, we will be recommending GNSS for a 2% position in the AIM portfolio.

Investment Thesis

- **Design wins at Sony, Samsung and Sharp should mitigate the loss at Philips**. Even though GNSS lost a design win at Philips (roughly 20M in annual revenue), management was optimistic about share gains at Sony, with one design win announced earlier in Q2, and others potentially in the pipeline. They also stated their intent to aggressive seek out wins at Samsung and Sharp.

- **$5 cash p/s and $12.35 BV p/s share makes GNSS an attractive takeout target.** GNSS' developed and patented award-winning technology, combined with a leading share of LG (40-55%) and Toshiba (50-70%) digital TV offerings, make them an attractive target for a larger player, such as Broadcom.

- **The US remains a huge opportunity for growth, as it only makes up 1% of revenue.** Currently the US is leading the way in adopting a 2-in-1 flat panel TV chip (ATV and DTV) which GNSS has in its development stage. Management feels they will be very competitive with their new offering, driving growth in the U.S. starting in the back half of FY '07 and FY '08.

- **LCD TV is winning the battle against Plasma.** The better resolution on an LCD TV used to come with a higher price tag; however analysts are projecting little price differences between LCD and Plasma TV's by Christmas of 2007.

- **Unit growth in the digital display market should offset declining ASP's over the long term.** Unit growth for the LCD TV market as a whole is projected to grow to 95M units (or 115%) by 2010. The LCD monitor market is expected to grow to 120B units by 2010 (unit sales where approximately 93.8M in 2005).

- **Currently GNSS has a 50% share of the MFM market.** With Microsoft Vista coming into play early in 2007 combined with the overall convergence of home entertainment and home computing, the demand for larger size screens with dual functionality will continue to increase and GNSS will be the main beneficiary.

Valuation

An inventory build at their largest customers led to a reduction in the December quarter sales estimates (10-15M below analyst projections). As a result consensus YE EPS and sales figures have been reduced by $0.47 and 60M respectively. The stock has reflected this and currently trades below 1x EV/Sales. Assuming a 1x '08 EV/Sales multiple (still well below the industry average of 2.0x) and sales of roughly 258M in '08, representing 20M in lost revenue from Philips and a 15% core growth rate, we arrive at a target price of roughly $12.00, or 23% return.

Risks

- As of September 30, 2006, GNSS' top three customers accounted for 40% of revenues. Failure to sign one of these customers would have an adverse affect on revenues.

- Increasing competition from large competitors, such as Broadcom, as well as small independent developers located in GNSS' end markets remains a going a concern.

- 99% of GNSS' revenues come from outside the United States (mainly China and South Korea). Depreciation of foreign currencies relative to the USD would have an adverse effect on GNSS revenues given they do not hedge against this risk.

- GNSS operates in a highly cyclical business, based largely on OEM and distributor unit estimates of future demand. Also they have relatively fixed operating expenses in the short term (mainly wages expense) which makes it difficult to adapt when revenues fall short of expectations.

Management

Elias Antoun has been with the company since November 2004 servicing as president and CEO. He has 9 years of experience in the semiconductor industry and was educated at UCLA, where he received a B.S. in Electrical Engineering, and Stanford, where he received his MBA. Management bonuses are dependant upon reaching both revenue and pro-forma operating income targets. If the goals are not achieved no bonuses are paid. The corporate governance team as a whole scored better that 72% of Russell 3000 companies and better that 69.6% of Semiconductor companies in the CGQ (Corporate Governance Quotient).

Ownership

% of Shares Held by All Insider and 5% Owners:	26%
% of Shares Held by Institutional & Mutual Fund Owners:	87%

*Source: Yahoo! Finance

Top 5 Holders

Holder	Shares Held	Percent of Shares Outstanding	Value
BlackRock Financial	3,805,478	10.41%	36,989,246
Citadel Investment	2,705,777	7.40%	26,300,152
Vanguard Group, Inc	2,275,752	6.22%	22,120,309
D. E. Shaw & Co	2,264,758	6.19%	22,013,447
Dimensional Fund Advisors	1,599,202	4.37%	15,544,243

*Source: Thomson One Analytics

Meridian Bioscience Inc.
VIVO
Price: $28.23 ($19.24-$28.23)
Fiscal Year Ends: September 30, 2007

January 26, 2007 Nicole Roden
Russell 2000 Index: $785.16 (668.58-801.01) Health Care Sector

Meridian Bioscience, Inc. is an integrated life science company that operates in three segments; U.S. Diagnostics (58% of '06 sales), European Diagnostics (19%) and Life Sciences (23%). In the diagnostics area, Meridian specializes in tests for four main categories of ailments; respiratory (valley fever, influenza, pneumonia and RSV), gastrointestinal (H. pylori, C.difficile and pediatric diarrhea), viruses (mononucleosis, herpes, chicken pox, shingles) and parasites (giardiasis, cryptosporidiosis and lyme disease). The Life Sciences segment produces antigens, antibodies, proteins and other biological substances for use in research and drug testing. Meridian Bioscience, Inc. was founded in 1976 in Cincinnati, Ohio.

Key Statistics	Sept 30, 2006
Market Cap	$738.44M
Shares Outstanding	26.16M
Average Volume (3 mo.)	157,268
Beta*	0.81
EPS (TTM)	$0.68
2007 Estimated EPS*	$0.85
P/E (forward)	27.14
WACC	9.50%
Free Cash Flow/Share**	$0.73
Debt/Equity	1.90%
ROE**	20.53%
ROIC**	20.05%
Gross Margin**	59.65%
Operating Margin**	24.79%
Dividend Per Share 2006	$0.46
Dividend Per Share 2007	$0.64
Target Price	$32.00

Data from Yahoo, *ThomsonONE and **Bloomberg

Recommendation

As a company, Meridian Bioscience, Inc. shines because of its effective and efficient diagnostic products and niche positioning in rapidly growing markets. As an investment, VIVO would be a profitable addition to the AIM portfolio because of its relatively cheap valuation and the shareholder focus of its management team. With an ROE that has been improving and far exceeds the benchmark and an emphasis on returning cash to shareholders in the form of dividends, this stock is a worthwhile buy at this time. Based on a target price of $32, VIVO should provide roughly a 14% return.

Investment Thesis

- **Superior, niche-oriented diagnostic products.** The company differentiates its diagnostic products in two ways. First, VIVO focuses on underserved, acute conditions that benefit from a rapid diagnosis. Second, Meridian designs its products to be cheap ($1 to $30 per test on average), fast (results in minutes or hours rather than days), and easy to use.

- **Increased prevalence of C.difficile bacteria.** The use of fluoroquinolone antibiotics has given rise to a highly resistant strain of C.difficile bacteria in hospitals. The result has been numerous outbreaks of often-deadly diarrhea in the U.S., Canada and Europe over the last few years. VIVO's diagnostic test for this toxin, which works in minutes, has been well received by practitioners for its simplicity and effectiveness, thereby driving sales growth in the midteens for 2006 and creating a "halo effect" for other Meridian products.

- **Strength of HpSA marketing strategy.** Meridian recently refocused the marketing of its HpSA product, used to detect the ulcer-causing bacteria H.pylori. The company is promoting this diagnostic test to managed care companies as a way to reduce costs and improve the quality of care for patients with peptic ulcers who, in the past, have often been misdiagnosed with acid reflux and prescribed costly, ineffective drugs as a result.

- **Management.** As detailed in the "Management" section below, the vast experience of VIVO's executive team provides a clear competitive advantage for the company.

- **Large Dividend.** Meridian has increased its dividend for 15 consecutive years, with plans to maintain a payout ratio between 75% and 85% going forward.

Valuation

Based on a discounted cash flow model, Meridian Bioscience should be valued at $32.00. Using a DDM, the stock should be valued at $37.00. According to a relative valuation model based on the forward P/E of firms in the diagnostics industry, the stock should be valued at $31.00. I believe a target value of $32.00 is reasonable.

Risks

- **Concentration of customers, suppliers and production.** One customer constituted 18% of the 2006 sales for the Life Sciences business, and five other customers for this segment comprised another 20% of sales. For suppliers, VIVO buys several critical components for its products from a single supplier. Finally, the company manufactures over 70% of all its products in just four U.S. facilities. If anything happened with any of these suppliers, customers, or plants, the company and its stock would clearly suffer dramatically.

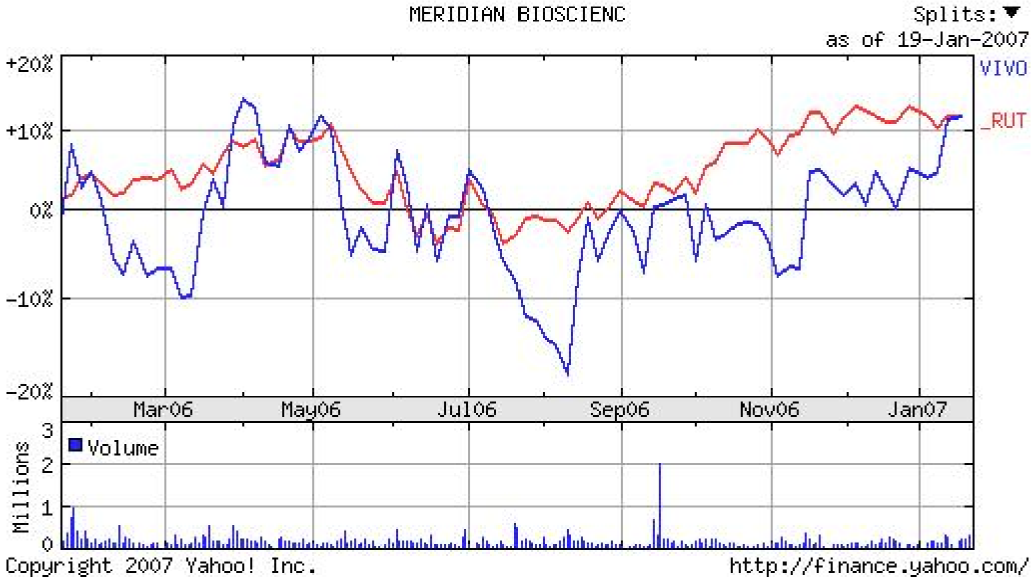
- **Competition.** Some of Meridian's main competitors are the large, multi-billion dollar operations of Abbot Laboratories (diagnostics division acquired by GE Medical on 1/18/07) and Becton, Dickinson & Co., both of which pose a threat to VIVO because of their substantially greater resources and power.

- **Age of CEO and founder William Mott.** The unexpected retirement or death of Meridian's CEO would have a dramatic negative impact on the stock price given the company's reliance on his guidance.

- **Seasonality and sporadic demand.** The demand for some of Meridian's diagnostic products is unpredictable because it is driven by seasonal illnesses (i.e. cold and flu season) or irregular outbreaks (i.e. food borne illness).

Management

The seasoned management team at Meridian Bioscience, Inc. is, by far, one of the company's greatest strengths. All nine of the most senior executives at the firm have at least a decade of industry-related experience each. Founder, Chairman and CEO William Motto has been in the industry for 40 years and President and COO John Kraeutler has an additional 35 years of experience. Executive pay as of 12/31/2005 appears to be reasonable.



Ownership

% of Shares Held by All Insider and 5% Owners:	6.00%

*Source: Yahoo! Finance

Top 5 Institutional Shareholders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change (9/06)
AXA	1,906,000	7.29%	-
Barclays Global Investments	1,012,000	3.87%	197,390
Mellon Financial Corp.	965,243	3.69%	156,726
Eagle Asset Management	802,560	3.07%	(90,590)
Atlanta Capital Management	734,861	2.81%	235,117

*Source: Bloomberg

Komag Inc.
KOMG
Price: $34.61 ($30.18 - $54.98)
Fiscal Year Ends: January 1, 2007

January 26, 2007 — Zachary Bloom, Uri Soroka
Russell 2000 Index: 777.96 (666.58 – 801.01) — Hardware Sector

Komag is an independent designer and manufacturer of thin-film media (disks), which are used as the main component in disk drives for desktops, enterprise storage systems and increasingly various consumer electronics. KOMG produces more than 100 million disks annually for all major hard drive manufacturers. The company maintains R&D facilities in San Jose, California and three manufacturing facilities in Malaysia. KOMG is the only U.S. based independent disk manufacturer and its major competitors are internal manufacturing units of KOMG customers and Asian-based Fuji Electric, Hoya, Showa Denko.

Recommendation

Increasing demand for data storage in PC's, enterprise, and consumer electronics creates a favorable situation for thin-film media manufacturers like Komag. KOMG is a leading independent disk manufacturer with solid financial performance, broad customer base and prudent spending policies. With the addition of Samsung as a customer, progress on qualification for 65mm glass-based media and high plant utilization, we expect KOMG shares to appreciate to our target price of $47.00 within our holding period.

Key Statistics	Jan 22, 2007
Market Cap	$1.07B
Shares Outstanding	31.02M
Average Volume	870,053
Beta v. Russell 2000	1.12
EPS (TTM)	$4.42
2007 Estimated EPS	$5.17
P/E (TTM)	7.83
WACC	15.81%
FCF / Share 2005	$3.10
FCF / Share YTD	$-1.30
Est. FCF / Share FY07	$3.67
Debt/Assets	8.48%
ROE	32.73%
Gross Margin (Q3'06)	25.8%
Operating Margin (Q3'06)	14.6%
Target Price	$47.00

Investment Thesis

- **Gigabytes and Terabytes needed.** Continuing demand for increased storage capacities has spread beyond the desktops into the personal consumer electronics such as Digital Video Recorders and storage servers. In addition, quality improvements in various digital media require higher capacity to store movies, music and photos. KOMG's strong relationships with manufacturers, that produce 90% of the world's hard drive demand, will allow the company to benefit from this trend.

- **High equipment utilization and short lead time to expansion.** KOMG maintains its plant capacity utilization in the high 90% level, thus maintaining solid upper 20% margins - despite price pressures. The company is in a position to increase capacity by a several million units within four weeks and maintains close relationships with customers to forecast future demand.

- **Add glass to the winning mix.** KOMG historically produced mainly aluminum based disks. With significant growth of the notebook segment (46% in 2005 and 43% in 2Q06) we view positively the decision to move toward qualification for glass-based disks. In addition some similarities in manufacturing should ease the transition and accommodate new product mix.

- **Samsung.** The addition of Samsung as a customer exposes KOMG to almost 100% of the aluminum and 95% of the total HDD market. This is a positive development in light of recent STX/MXO merger and limited amount of HDD producers in the world.
- **Viva la Vista.** The introduction of Vista this year should benefit KOMG starting 3Q07. While corporations are not rushing to upgrade the new OS will eventually force equipment upgrades for many.

Valuation

We valued the company using a variety of approaches including DCF, EV, and relative PE. Based on our valuation approaches we derived a target price of $47.00, which represents 9x our FY'07 EPS of $5.17.

Risks

- **Maxtor acquisition by Seagate.** Seagate indicated that it plans to produce 85% of the required disk capacity internally. This development makes future demand level from the combined firm uncertain. On a positive note we believe this risk should not materialize until sometime in 2008, as in the short term Seagate closes manufacturing facilities to consolidate its production it will still require KOMG to produce its HDD.
- **Customer concentration.** As of 3Q'06 Seagate (combined with Maxtor) accounted for 38%, Western Digital for 34% and Hitachi for 24% of total sales. Such high customer concentration makes loss of any one customer significant. We believe Samsung will moderate this risk in the future.
- **PMR, glass and new technologies.** KOMG success is heavily dependent on its ability to keep up with the new technologies, such as PMR, and to adjust its product mix to fit the various growth opportunities (i.e. 65mm glass-based products). Failure to do so may significantly affect company's performance.

Management

KOMG management has a lot of experience in the HDD and disk manufacturing industry. Recently the company's CEO retired and the COO assumed the position. While the company has overall good corporate governance rating, it is blemished by the three class director structure that effectively prevents takeovers.

Ownership

% of Shares Held by All Insider and 5% Owners:	18%
% of Shares Held by Institutional & Mutual Fund Owners:	100%

*Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Latest Change	Percent of Shares Outstanding
Fidelity Management & Research (US)	4,446,254	520,052	14.33
Federated Investors, Inc.	2,281,964	500,564	7.36
Putnam Investment Management, L.L.C.	1,784,733	472,994	5.75
Barclays Global Investors, NA	1,527,940	-766,878	4.93
J. & W. Seligman & Co., Inc.	1,321,900	601,600	4.26

*Source: Thompson One Analytics