MARQUETTE
UNIVERSITY

Applied Investment Management (AIM) Program

AIM Fund Investment Advisory Board Meeting
February 22, 2007

AIM Equity Fund Presentations

Student Presenter	Company Name	Ticker
Christina Mirarchi	Biosite Incorporated	BSTE
Matthew Rose	Acme Packet, Inc.	APKT
Matt Grimm	WD-40 Company	WDFC
Patrick Jesse	General Communications Inc.	GNCMA
Nicole Roden	ViroPharma Inc.	VPHM
Jeff Ehman	Haemonetics Incorporated	HAE

Proposed AIM Equity Fund Purchases

Symbol	Company	Sector	Share Price
BSTE	Biosite Incorporated	Health Care	$54.67
APKT	Acme Packet, Inc.	Software	$17.89
WDFC	WD-40 Co.	Energy	$33.01
GNCMA	General Communication Inc.	Telecommunications	$15.17
VPHM	ViroPharma Inc.	Health Care	$17.53
HAE	Haemonetics Corp.	Health Care	$46.87

Proposed AIM Equity Fund Sales

Symbol	Company	Sector	Share Price
IWM	iShares Russell 2000 Index		$81.17
NPSI	North Pittsburgh Systems Inc.	Telecommunications	$22.72
AMSG	Amsurg Corp.	Health Care	$22.85

AIM Fixed Income Fund Presentations

Student Presenter	Topic
Amie Brouillard	Macroeconomic Forecast
Tim Fotsch	Fixed Income Strategy

AIM Fixed Income Fund

Fund of Funds Strategy — Total **$528,002**

Fixed Income ETF/Fund	Symbol	AIM Weighting	Fund Category	Average Duration	YTM	Investment
iShares Lehman 1-3 Year Treasury Bond	SHY	**13.7%**	Short Govt	1.72	4.86	$72,491
iShares Lehman 7-10 Year Treasury	IEF	**10.6%**	Inter Govt	6.55	4.73	$56,168
iShares Lehman 20+ Year Treas Bond	TLT	**1.8%**	Long Govt	13.01	4.90	$9,750
iShares GS $ InvesTop Corp Bond	LQD	**6.1%**	Long Corp	6.62	5.55	$32,247
Vanguard GNMA	VFIIX	**21.8%**	MBS	3.80	5.36	$114,954
Vanguard High-Yield	VWEHX	**20.6%**	High-Yield	4.80	6.99	$108,831
iShares Lehman Aggregate Bond Index	AGG	**24.4%**	Bond Index	4.54	5.34	$128,970
Cash	-	**0.9%**	Cash	0.00	4.50	$4,591
AIM Portfolio		**100.0%**		**4.50**	**5.55**	**$528,002**
Lehman Aggregate Bond Index	Benchmark			**4.66**	**5.32**	
			Difference	**(0.16)**	**0.23**	

Asset Allocation		O/U Weighting	Benchmark Allocation	
Gov't	34.9%	-0.6%	**Gov't**	35.5%
Corporate	33.8%	4.9%	**Corporate**	28.9%
Mortgage	30.5%	-5.1%	**Mortgage**	35.6%

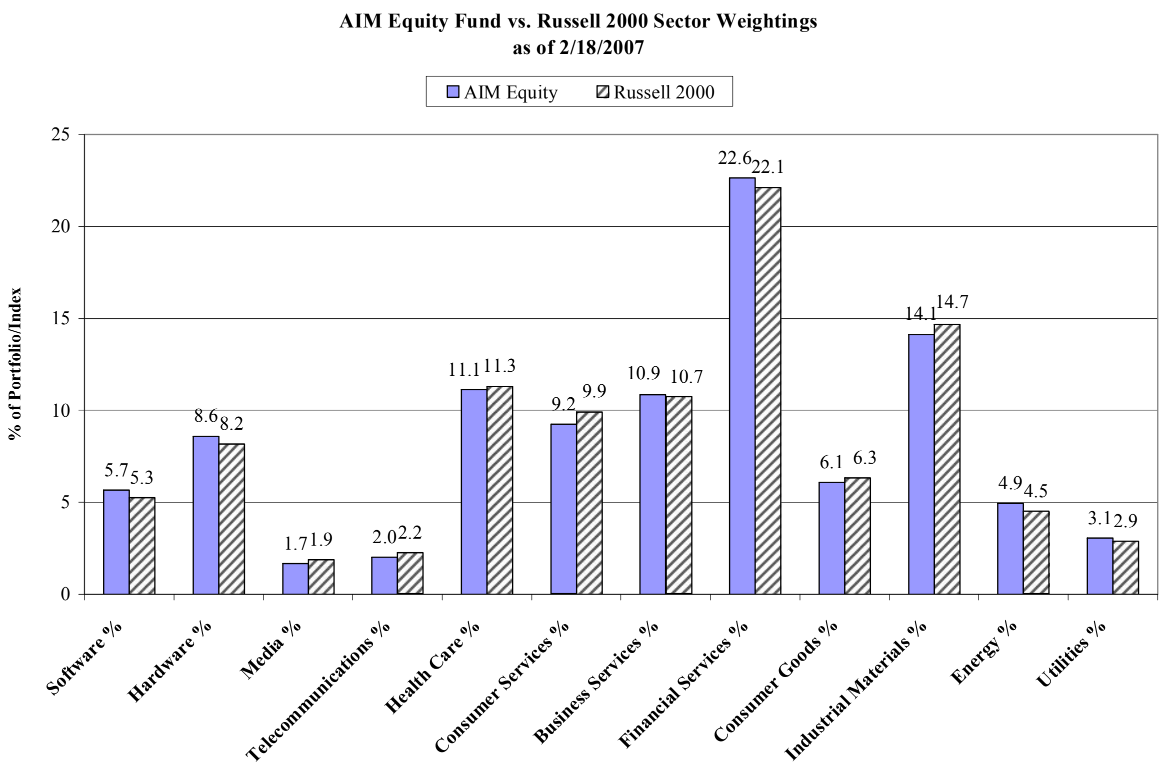
Proposed AIM Fixed Income Transactions

Fund of Funds Strategy — Total **$ 528,002**

Fixed Income ETF/Fund	Symbol	AIM Weighting	Fund Category	Average Duration	YTM	Investment
iShares Lehman 1-3 Year Treasury Bond	SHY	**9.0%**	Short Govt	1.72	4.86	$47,520
iShares Lehman 3-7 Year Treasury Bond	*IEI*	***5.0%***	*Short/Inter Govt*	*3.88*	*4.69*	*$26,400*
iShares Lehman 7-10 Year Treasury	IEF	**7.0%**	Inter Govt	6.55	4.73	$36,960
iShares Lehman 20+ Year Treas Bond	TLT	**2.0%**	Long Govt	13.01	4.90	$10,560
Vanguard GNMA	VFIIX	**26.0%**	MBS	3.80	5.36	$137,280
iShares GS $ InvesTop Corp Bond	LQD	**12.5%**	Long Corp	6.62	5.55	$66,000
Vanguard High-Yield	VWEHX	**12.5%**	High-Yield	4.80	6.99	$66,000
iShares Lehman Aggregate Bond Index	AGG	**26.0%**	Bond Index	4.54	5.34	$137,280
Cash	-	**0.0%**	Cash	0.00	4.50	$0
AIM Portfolio		**100.0%**		**4.66**	**5.45**	**$528,002**
Lehman Aggregate Bond Index	Benchmark			**4.66**	**5.32**	
			Difference	**0.00**	**0.13**	

Asset Allocation		O/U Weighting	Benchmark Allocation	
Gov't	32.2%	-3.3%	**Gov't**	35.5%
Corporate	32.5%	3.6%	**Corporate**	28.9%
Mortgage	35.2%	-0.3%	**Mortgage**	35.6%

Table of Contents



Biosite Incorporated
BSTE
Price: $54.76 (38.08-58.18)
Fiscal Year Ends: December 31, 2007

February 22, 2007 — Christina Mirarchi
Russell 2000 Index: 818.15 (668.58 – 818.15) — Health Care Sector

Biosite Incorporated (BSTE) is a medical device company that designs and manufactures leading diagnostic tests. BSTE provides novel, rapid medical diagnostic products intended to aid physicians in the diagnosis of critical diseases and health conditions. It offers diagnostic products for drug screening, heart attack, heart failure, acute coronary syndromes, evaluation of shortness of breath, and certain bacterial and parasitic infections. The company is unique in that they attempt to discover and license the rights to novel proteins and, using antibody technology, validate the biomarker to use as the foundation of a diagnostic test. The company sells the tests to Emergency Departments (EDs), hospitals, and physician offices. Headquartered in San Diego, California, Biosite Incorporated sells their products worldwide.

Recommendation

Biosite Incorporated not only designs and manufactures diagnostic products, but also attempts to find new biomarkers. BSTE undertakes a unique approach of validating biomarkers. Instead of dissecting the human genome to find new biomarkers, the company searches the human proteome. This is an advantage because abnormal levels of proteins can alert a physician to both genetic and disease-induced abnormalities not found in the human genome. BSTE's research and development has proven to be successful as the Triage BNP Test was the first blood test that doctors could use to diagnose heart failure. Revenue growth tends is strong with over 40% growth from 2002-2004 due to the introduction of the Triage BNP Test, and 2005 saw about a 20% revenue growth. A target price of $66.00 is reasonable for Biosite Incorporated and offers a 20% upside return potential. The company does not pay a dividend.

Key Statistics	Feb. 16, 2007
Market Cap	$888.99M
Shares Outstanding	16,261,000
Average Volume (3 mo.)	269,935
Beta v. Russell 2000	0.92
EPS (TTM)	$2.20
2007 Estimated EPS	$2.34
P/E (TTM)	24.86
WACC	10%
Debt/Assets	4.68%
ROE	13.43%
Gross Margin	70.4%
Operating Margin	29.1%
EPS Growth Est. (3 Year)	40.9%
Target Price	$66.00

Data from Yahoo and Bloomberg

Investment Thesis

- **Unique Internal Discovery Program.** Biosite has created a unique program that allows the company to evaluate potential biomarkers. It has a three step process in which blood is collected (samples with and without the specific disease); the blood is then tested using immunoassays and the priority of biomarkers is determined. This discovery program is unique because of the company's Omniclonal phage display technology. With this technology BSTE is able to create a library of antibodies within weeks. The company also has strong relationships with clinical institutions for the collection of blood samples.

- **Lowering the cost of healthcare.** Hospitals are continually facing higher costs and constrained capacity in their emergency departments. ED visits increased more than 26% from 1993 to 2003, with elderly patients leading the growth, and in 2005 50% of hospitals claimed capacity problems. Biosite's diagnostic products enable a doctor to evaluate patients quickly and accurately. By discovering the cause of patient's problem early, treatment can start immediately and shorten the duration of the illness and potential stay at the hospital. Misdiagnosis of cardiovascular disease is a problem which results in unnecessary hospitalization for chest pain complaints; a situation which is estimated to exceed $2.5 billion annually. Biosite's diagnostic tests address this situation and help reduce these costs.

- **Expansion opportunities.** Research and development is a major emphasis for BSTE - and currently they have numerous products in the R&D pipeline. Products under development include diagnostic tests for stroke, acute kidney injury, abdominal pain, and sepsis. One example of the success of the company's R&D efforts is the development of a MultiMarker index (MMX). This index uses a variety of protein measurements to empirically determine which protein biomarkers are useful in determining diagnostic information. BSTE is the only company in the world to utilize this index. The company is currently researching the potential cardiac biomarkers that will aid in the diagnosis and treatment of chest pain. In addition, BSTE is studying markers for sepsis, which has a 30-60% mortality rate and is related to abdominal pain and kidney injuries.

Valuation

Based on a discounted cash flow model, Biosite should be valued at $65.71. After performing a relative valuation model based on the forward P/E of their competitors, we found that BSTE's common stock should be valued at about $70. Therefore, a target share value of $66 is reasonable. BSTE does not pay a dividend.

Risks

- **Intellectual Property.** Biosite relies on patents, trademarks, copyrights, and trade secrets to protect its products. If products under development are not granted patent approval, it could limit the company's competitive advantage. Biosite may be adversely affected if a third party claims the company has infringed on their patents.

- **Competition from larger companies.** BSTE was the first company to develop a blood test to use in the diagnosis of heart failure, the Triage BNP Test. However, since then the company has seen increased competition in this space from larger diagnostic companies. For example, Roche Diagnostics has received FDA clearance for a BNP test that competes directly with the Triage BNP Test. As reported in the 2005 10-K, BSTE does expect Abbott Laboratories to enter the market as well. It is critical that the company continues to market their current products and discover new biomarkers to remain profitable.

- **Regulatory and legal costs.** BSTE faces many regulatory issues at the federal, state, local and foreign levels. The company must comply with regulatory procedures or be subjected to substantial fines and penalties. Such penalties could include product recalls, restrictions on production of products, as well as significant monetary fines. Approval of a product by the FDA can be time consuming and costly. It is critical that the guidelines for FDA approval are followed in order to assure that BSTE can introduce their new products in a timely fashion.

Management

Overall, the corporate governance policies and actions of BSTE's management seem shareholder friendly. The co-founders of Biosite are still active members on the board of directors and the corporate officers have had previous background in the healthcare and medical device industry. Insiders currently hold about 10% of the shares outstanding.

Ownership

% of Shares Held by All Insider and 5% Owners:	9.56%

*Source: Yahoo! Finance

Top 5 Holders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Neuberger Bermann, LLC	2,519,345	15.49%	09/06
FMR Corporation	1,739,046	10.69%	09/06
MacKenzie Financial Corporation	1,486,176	9.14%	09/06
Legg Mason	1,111,700	6.84%	09/06
Barclays Global Investors UK Holdings Ltd.	1,062,583	6.53%	09/06

Acme Packet, Inc.
APKT
Price: $17.89 ($13.00 - $21.97)
Fiscal Year Ends: December 31, 2007

February 22, 2007 Matthew Rose
Russell 2000 Index: 818.15 (668.58 – 818.46) Software Sector

Acme Packet, Inc. is the leading developer of Session Boarder Control (SBC) equipment and software platforms for network service providers. SBC works at the edge of the network and allows it to communicate across to other networks without first converting the data to a traditional public switched telephone network (PSTN) signal and back. This technology spawned the growth of the use of voice over internet protocol (VoIP) and is also used in video and media transmission. Acme Packet has 252 employees and is headquartered in Burlington, Massachusetts. The company was founded in 2000 and went public in October 2006.

Recommendation

Key Statistics	Feb. 16, 2007
Market Cap	$1.05B
Shares Outstanding	58.44M
Average Volume (3 mo)	502,890
EPS (ttm)	$0.89
2007 Estimated EPS	$0.33
P/E (ttm)	20.06
P/E (forward)	38.89
WACC	13.5%
ROA (ttm)	16.31%
ROE (ttm)	38.83%
Gross Margin	34.33%
Operating Margin	27.58%
Target Price	$24.00

The convergence theme for technology (the alignment of voice, data, and video) has been a topic of speculation for years, but it is finally a reality. The internet has blurred the lines between electronic devices in the home and a true digital living room is now available. Although VoIP is still in its infancy, SBC platforms appear to be at the heart of this technology revolution. The demand for SBC solutions is expected to grow to $571 million in revenues by 2009 according to market research firm Infonetics Research. APKT is the market leader in this crucial segment and should see sustained abnormal growth that could exceed 100% over the next two years. The stock could see additional upside from slower than expected gross margin erosion, which was the case in the most recent quarter. Based on a discounted cash flow analysis, the stock should be priced near $24 – an undervaluation of over 20%.

Investment Thesis

- **Industry Transformation.** The proliferation of voice, data and video services on the internet require the rapid deployment of next-generation internet solutions. Multiple Tier 1 providers are expected to make broad and deep VoIP deployments in the next several years. APKT has noted that current customers are buying higher capacity units in response to exponential growth in demand. APKT has added a second contract manufacturer to increase capacity and ensure adequate supply.

- **Domination.** Acme dominates the market for SBC solutions and is estimated to control greater than 60% of the end market. The company currently has 360 customers from 75 different countries, including 23 of 25 top carriers worldwide. Industry analysts have estimated APKT to have a 1 – 2 year technological advantage over the competition. The increase in capacity among current customers further entrenches APKT into the network and establishes them as the preferred solution. The vast majority of customers use APKT units exclusively.

Valuation

Based on a discounted cash flow model, APKT has an intrinsic value of $22.13 and is undervalued by about 23%. The company's high earnings multiple is justified by its dominant market position and strong prospects for growth (that could exceed 100% over the next two years). The balance sheet has been continually improving and the company's cash position is quite strong.

Risks

- **Industry Velocity.** The technology sector operates at a high velocity relative to the overall economy – meaning that product life cycles tend to be short in duration. APKT is a leader in innovation and pioneered the development of current SBC technology. However, like other technology companies, any miss in the development timeline could trigger a loss of its strong position as the "go-to" solution.

- **Lumpiness of Deployments.** The revenue for APKT comes in somewhat concentrated lump sums. The company has a history of receiving the bulk of its revenue from a few customers, but has recently improved its diversification. In 2006 no one customer accounted for more than 10% of revenue; however, quarterly results were more concentrated. The nature of revenue recognition guidelines can cause sequential declines in revenue, which would negatively impact the stock.

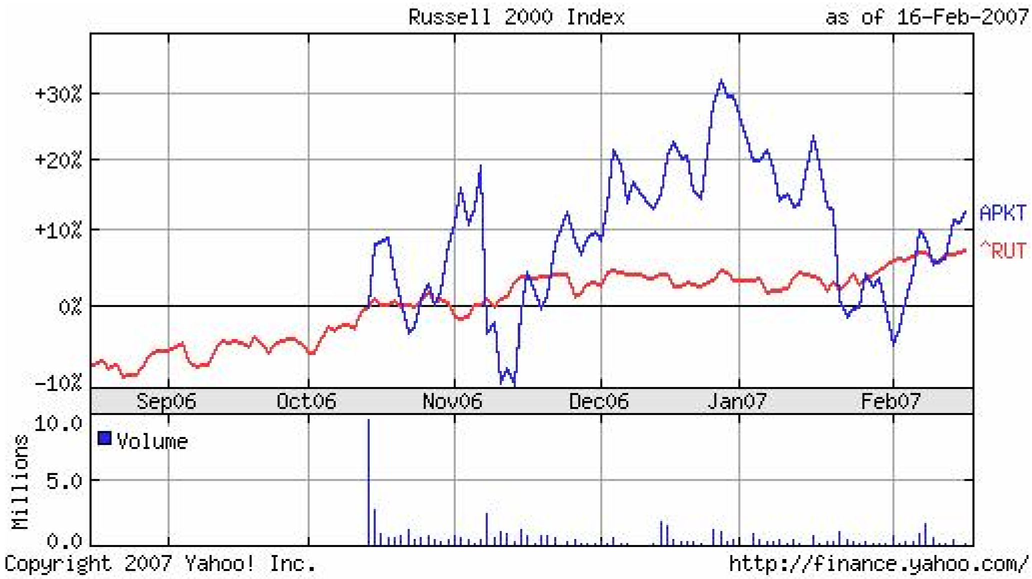
- **Increasing Competition.** Acme Packet is the market leader and is estimated to control more than 60% of the market for SBCs. It has high operating margins (27%) and this will surely attract more competition. In its earnings call in early February 2007, management noted that there has been no change in the competitive landscape and that APKT continues to win the vast majority of contracts it bids. Competition could come from larger players with more resources.

Management

Acme Packet was co-founded by Andy Ory and Patrick MeLampy. Mr. Ory also founded and ran Priority Call Management (PCM), which was acquired by LHS Group in 1999 for $162 million. Mr. He holds a BA from Harvard University. Mr. MeLampy was vice president of engineering at PCM since inception where he oversaw development of their network products. His intellectual property portfolio includes eight patents and he has another eighteen pending. Mr. Siedman serves as CFO and was also a transplant from PCM, where he orchestrated the acquisition by LHS.

Key Executives	Pay	Exercised Options
Andy Ory	$307K	0
Patrick MeLampy	$307K	0
Keith Seidman	$254K	0
Dino Di Palma	$294K	0
Seamus Hourihan	$226K	0

*Source: Yahoo! Finance



Ownership

% of Shares Held by All Insider and 5% Owners:	72%
% of Shares Held by Institutional & Mutual Fund Owners:	1%

*Source: Bloomberg

Top 5 Holders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Menlo Ventures	13,294M	22.747%	
Advanced Tech VE	6,809M	11.650%	
Patrick MeLampy	5,991M	10.252%	-508,710
Andrew Ory	5,077M	8.687%	
180 Day Lock-Up	4,514M	7.724%	

*Source: Bloomberg

WD-40 Company
WDFC
Price: $33.01 ($29.25 - $37.59)
Fiscal Year Ends: August 31, 2007

February 22, 2007 Matt Grimm
Russell 2000 Index: 818.15 (668.58 – 818.46) Energy Sector

WD-40 Company is in the "squeak, smell, and dirt" business, selling consumer products which go "under the sink, in the garage, or in a toolbox." For over 40 years the company only sold one product, its famous petroleum-based lubricant and degreaser, WD-40. In 1995 the company began its product line expansion efforts by acquiring 3-IN-ONE oil, another lubricant product for more precise applications. This was followed by acquisitions of the Lava and Solvol brands in 1999 and 2000 which are heavy-duty hand cleaning products. 2001 marked the company's venture into the more traditional consumer products category with the acquisition of 2000 Flushes, X-14, and Carpet Fresh from Global Household Brands. In 2002 and 2004 the company purchased Spot Shot and 1001 brand carpet cleaners, respectively. The firm is headquartered in San Diego, CA and sells its products globally.

Recommendation

WD-40 Company is a stable consumer products company, exhibiting strong cash flow and low volatility. Due to its classification as an energy company by Morningstar (the AIM Fund's classification benchmark for sector neutrality), an investment in the company would serve as a hedging instrument during periods of declining energy prices. An investment in WDFC would essentially serve to underweight energy. Thus, the main purpose of this analysis rests on identifying its key hedging properties and possible "red flags" which could cause a material price decline, independent of the broader market. No investment by the AIM fund is recommended at this time; however, it is being presented as a possible future investment.

Key Statistics (Bloomberg)	Feb. 16, 2007
Market Cap	$562.47M
Shares Outstanding	17.039M
Average Volume	64,092
Beta v. Russell 2000	.76
EPS (TTM)	$1.63
2007 Estimated EPS	$1.78
P/E (TTM)	20.25
WACC*	10.70%
Cash Flow/Share	$1.68
Debt/Assets	23.94%
ROE	19.67%
Gross Margin	49.2%
Operating Margin	16.04%
EPS Growth Est. (2 Year)**	11.00%
Dividend Yield	3.03%
Target Price	$36.20
*Grimm **Thomson	

Investment Thesis

- **Stability.** WD-40 Company has historically demonstrated stable and consistent growth. Its stock price has risen from approximately $10 in the mid-1980's to its current level of $33.01. Material price declines have typically been associated with overall economic trends and have been followed by recoveries and new highs.

  - **Hedging Properties.** A correlation study using monthly returns dating back to January of 2000 indicated WDFC held a -.13 price correlation to crude oil. This relationship was expected given that oil is an input in the production of their petroleum products, not the end product that the company sells. A regression analysis yielded similar results with a beta near zero. The company demonstrated +.23 and +.29 correlations with the S&P 500 and Russell 2000, respectively over the same time period.

- **Red Flags.** Through my analysis I could not find any material "red flags" that could cause a large price decline. While there are business risks associated with an investment in WDFC, which are outlined below, these do not appear abnormal and the company has a solid management team and business strategy.

Valuation

Based on my discounted cash flow model, WDFC should be valued at $36.20. Given the current market price of $33.01, it is close to its intrinsic value. The stock paid a $.88 annual dividend (3% yield) in 2006. It should be noted that since WDFC is essentially a consumer cyclical stock, its trailing P/E is near the upper end of its historical range at 20.2 – the forward P/E is 18.5. The average P/E over the last 10 years has been 17.8, which would price the stock at $28.95. WD-40 Company does not appear to have a well-defined set of peers due to its niche WD-40 product. However, a sampling of other consumer product companies with established brands have an average P/E of 22.5. This would price the stock at $36.69. According to Thomson, the average analyst 12-month price target is $39.

Risks

- **Goodwill.** Perhaps the largest obvious risk to investing in this company is its high level of goodwill. As of FY 2006, WDFC had recorded goodwill of $96.12 million as a result of brand acquisitions. This compares to $268.48 million of total assets. If impairment charges do occur, they are likely to be small given the acquired brands were already well established in their respective markets.

- **Imperfect Hedge.** Although WDFC has historically demonstrated a slightly negative correlation to oil prices and may serve to artificially underweight the energy sector during periods of energy price declines, it is subject to its own set of risk factors. These include overall economic activity and independent company risks. Additionally, a scenario of high oil prices and depressed economic activity could occur, negatively impacting a hedging strategy.

- **Legal Risks.** WDFC sells consumer products which contain harmful materials. Lawsuits are always a possibility and have the potential to take down entire brands.

Management

There are no significant items to report in terms of management. All listed directors have been with the company for many years and have related background experiences and education.

Ownership

% of Shares Held by All Insider and 5% Owners:	15%
% of Shares Held by Institutional & Mutual Fund Owners:	61%

*Source: Yahoo! Finance

Top 5 Holders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Allianz Global Investors	1,038,000	6.093%	+40,875
Barclays Global Investors	1,008,000	5.917%	+111,593
Capital Research and Management	926,000	5.434%	-
Mario L Crivello	868,013	5.094%	-12,695
NWQ Investment Management	627,425	3.682%	+296,864

*Source: Bloomberg

General Communications Inc.
GNCMA
Price: $15.19 ($10.64 - $16.10)
Fiscal Year Ends: December 31, 2007

February 22, 2007 Patrick Jesse
Russell 2000 Index: 818.07 (668.58 – 818.07) Telecom/Utilities Sector

General Communication, Inc. and its subsidiaries provide local and long-distance voice, cable video, data and internet communications services to residential and business customers. The company offers long-distance the phone service between the United States and foreign countries; cable television services throughout Alaska; and facilities-based competitive local access services in Anchorage, Fairbanks, and Juneau, Alaska. In addition, General Communication provides lease and sales of capacity on its undersea fiber optic cable systems used in the transmission of interstate and intrastate private line, switched message long distance and internet services. Further, it offers cellular telephone services for resale and sells cellular telephone handsets and accessories. The company was founded in 1979 and is based in Anchorage, Alaska.

Recommendation

General Communications, Inc. operates four reportable segments: long-distance services, cable services, local access services and internet services. They are the largest telecommunications company in the state of Alaska. I believe that GNCMA is poised to achieve strong revenue and EBITDA growth from increasing sales of triple-play services. In their recent quarter results (Q3 06) they reported an increase in revenues and EBITDA of +10.6% and +14.5% y/y. I expect similar numbers for their next quarter results. GNCMA looks to expand voice coverage in Alaskan homes from 60% to 90% in the coming year. I believe that GNCMA has the potential to appreciate to $19.00 per share during our holding period.

Key Statistics	Dec. 2006
Market Cap	$809.08M
Shares Outstanding	53.26M
Average Volume	212,527
Beta v. Russell 2000	0.84
EPS (2006)	$0.481
P/E (Forward)	26.65
ROA (2006)	5.26%
Price/Book	3.34
Debt/Assets	54.43%
ROIC (2005)*	5.97%
Gross Margin	67.49%
Adj. Operating Margin	14.64%
EPS Growth Est. (3 Year)	34.00%
Target Price	$19.00

Investment Thesis

- **Competition.** In Alaska, there are only two full service telecommunication competitors: GNCMA and Alaska Communications. GNCMA is well positioned because of its advanced network assets. Alaska Communications has less disposable free cash to reinvest into improving their network. In general, Alaska Communications would need to invest significant capital expenditures in order to upgrade their networks. This puts GNCMA in a favorable position for long term dominance in the Alaskan telecommunications market.

- **Digital local phone services increase in ’07.** DLPS conversions should increase this next year from 1,900 to 3,000 per quarter in 2007, as GNCMA moves into different markets. This will obviously help margins increase in the next year.
- **Wireless Opportunities.** GNCMA is looking to add wireless services to its numerous assets. At the beginning of January, the company closed an agreement to invest $29.5 million in Alaska DigiTel, LLC, an Alaskan wireless provider. GNCMA now has a majority equity interest in Alaska DigiTel. This now provides them with wireless services among their other capabilities.

- **New Markets in 2007.** In early February, GNCMA announced that it will launch a competitive local telephone service (CLEC) in Eagle River and other rural communities in Alaska. GNCMA will initially provide telephone service over its digital, hybrid-fiber coaxial network or through wholesale arrangements with the Matanuska Telephone Association (MTA), which has approximately 60,000 telephone access lines. MTA's rate for basic dial tone is $13.20 per month, more than 40% higher than GNCMA's rate of $9.40. This will increase GNCMA's revenues because most consumers want more than basic dial tone and would like a bundled service offering.

Valuation

I valued GNCMA using a discounted cash flows model. Using a discount rate of 6.7% and a growth rate of 7.00%, I valued the stock at $19. I believe that they will appreciate to $19.00 a share during our holding period due to their strong growth prospects and continued focus on entering new markets.

Risks

- **Slow Market Growth.** Obviously, there will always be a demand for telecommunications services in Alaska; however, the population growth is slow and the distances are large. By 2025, Alaska is projected to be the 45th most populous state with 885 thousand people. This is up from 2000, when Alaska was the 48th most populous with 653 thousand people.

- **Subject to Regulation Changes.** With any telecommunications company, GNCMA will always be subject to regulatory changes by the FCC or other governmental bodies. In 2005, Alaska Communications Systems (ACS) of Anchorage filed a petition requesting the FCC to relieve it of its obligation to provide unbundled lops throughout the Anchorage market. This request would have enabled ACS to either deny GNCMA access to unbundled loops altogether or impose rates for usage of them. The FCC ruled that ACS can have relief on five of the 11 Anchorage wire centers. The decision still gives GNCMA the right to have the same rate charged on these five wire centers as those that were negotiated between the two companies back in 2004. GNCMA will most likely experience a rate increase at these five wire centers from $18.64 per loop per month to $23.00 starting at the end of 2007.

Management

Ronald Duncan is the President, CEO and Co-Founder of the firm. He has been president since 1989. He previously served GNCMA as executive vice president. Duncan serves on the Board of Directors of the National Cable and Telecommunications Association. Prior to starting GNCMA, Duncan founded and was president of an Alaska-based cable television company and was a partner at a management and economic consulting firm. G. Wilson Hughes is the executive vice president and general manager since 1991. He has more than 35 years of experience as an executive, engineer and project manager in the communications, engineering and construction industries in Alaska.

Ownership

% of Shares Held by All Insider and 5% Owners:	14%
% of Shares Held by Institutional & Mutual Fund Owners:	76%

*Source: Yahoo! Finance

Top 5 Holders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Wellington Management Company	4,626,200	8.4%	-23,900
Westport Asset Management	2,795,828	5.1%	-266,950
State Teachers Retirement System of Ohio	2,586,618	4.7%	-286,390
Barclays Global Investors Intl	2,551,980	4.7%	311,988
Eagle Asset Management	2,220,591	4.1%	793,719

ViroPharma Inc.
VPHM
Price: $17.53 ($7.07-$22.30)
Fiscal Year Ends: December 31, 2007

February 22, 2007 — Nicole Roden
Russell 2000 Index: $818.15 (668.58-818.15) — Health Care Sector

ViroPharma Inc. is a biopharmaceutical company engaged in the development and sale of several products in the drug space. The company's sole commercial product, Vancocin, treats severe cases of C.Difficile Associated Disease (CDAD) and has been generating revenue for the company since the drug was purchased from Eli Lilly in November 2004. VPHM's pipeline includes three other products in varied stages of development. Maribavir, in Phase 3 trials, treats a certain type of herpes (CMV) that affects bone marrow transplant patients. The company licenses the drug from GlaxoSmithKline. HCV-796, which deals with Hepatitis C, is currently in Phase 2 trials and will be promoted with Wyeth. Finally, the company is involved in a complicated licensing agreement with Sanofi-Aventis and Schering-Plough for a Phase 1 product, pleconaril, which treats common cold and asthma-related problems. The company was founded in 1994 in Exton, Pennsylvania.

Recommendation

True to its small-cap, biotech nature, an investment in ViroPharma inherently relies on speculation and assumptions. Most of the major drivers of the stock price—from the diseases that VPHM's products treat to the FDA approval process faced by the company and its competitors—are difficult to predict at best. While the upside potential of this stock long-term offers an incredible opportunity, like other small bio-pharma stocks it also is far from a guarantee. Therefore, research on downside risk and sensitivity analysis greatly influenced my valuation of VPHM. By carefully weighing all of the positive and negative factors at play in the stock, I believe that $18 is a fair target price for VPHM. Therefore, this stock will not be added to the portfolio at this time, but may be purchased if a buying opportunity appears in the future (below $16 per share).

Key Statistics	Dec. 2006
Market Cap	$1.21B
Shares Outstanding	69.67M
Average Volume (3 mo.)	1,377,710
2-yr Daily Beta v. Russell 2000*	1.28
EPS (TTM)**	$1.80
2007 Estimated EPS**	$1.07
P/E (forward)	16.23
Cost of Equity	12.86%
Free Cash Flow/Share (TTM)*	$1.26
Debt/Assets	0.00%
ROE	50.72%
Gross Margin*	85.39%
Operating Margin*	58.78%
EPS Growth Est. (3 Year)**	22.00%
Target Price	$18.00

Data from Yahoo, *Bloomberg, **ThomsonONE

Investment Thesis

- **No generic entry for 2 to 3 years in spite of OGD ruling.** VPHM fell 30% in March 2006 after an Office of Generic Drugs ruling that threatened to make the approval process for Vancocin generics easier for potential entrants. However, even if a generic product emerged as a potential competitor for Vancocin in the next few years, it would only be a credible threat to VPHM if two things happened; first, the OGD upheld its ruling on the abbreviated approval process *and* secondly, physicians were willing to use a generic product that had not been tested on humans to treat a life threatening illness. In my opinion, these are highly unlikely scenarios near-term.
- **Attractiveness of the C.difficile market.** VPHM's Vancocin product is positioned to capitalize on both the increased incidence and virulence of C.difficile appearing in hospitals. Compared to the

current standard of care (metronidazole), Vancocin is more effective at treating severe and potentially deadly cases of CDAD.

- **Alignment with VIVO investment thesis.** One of our current holdings, Meridian Bioscience (VIVO), makes a product to diagnose C.difficile bacteria quickly and accurately. Pairing this product with Vancocin would provide physicians with a complete solution for rapidly treating CDAD and preventing fatalities.

- **Upside potential of drug pipeline.** ViroPharma's small drug pipeline has not been fully priced into the stock. However, the valuation should begin to reflect this pipeline as the products approach commercialization. Specifically, the recent successes of Maribavir, which received orphan drug designation and advanced to Phase 3 trials earlier this year, suggest it could be a $200 million drug for the company as early as 2008.

Valuation

Based on a weighted scenario analysis using five different discounted cash flow models, ViroPharma should be valued at $18.

Risks

- **Generic entry.** If the ruling on the abbreviated approval process for generics stands and a viable product enters the market for CDAD treatment in 2008, earlier than currently modeled, VPHM could take a major hit. Not only would the valuation suffer, but the company could also encounter cash flow problems that would limit its ability to move its pipeline along. In this worst-case scenario, the stock could fall as low as $6 in my estimation.

- **Non-generic competition for Vancocin.** Even if generic drugs do not threaten Vancocin's market share in the near-term as expected, the product still faces competition from non-generic drugs currently in FDA testing. Most notably, Genzyme has a product expected to be commercialized by the end of 2007. However, the negative side-effects of this drug compared to Vancocin may limit the threat.

- **Setbacks in FDA approval process for pipeline.** While VPHM's pipeline has been testing positively to date, the risk of a setback from a negative FDA ruling still remains. Several versions of this scenario have been considered in my model.

Management

Michel de Rosen, ViroPharma's Chairman, CEO and President, has 14 years of experience in the pharmaceuticals industry and has been with the company since 2000. The company's Chief Scientific Officer, Dr. Colin Broom, also brings valuable experience to the company from his work at SmithKline, Sanofi-Aventis and Amgen.

Ownership

% of Shares Held by All Insider and 5% Owners:	1.0%
% of Shares Held by Institutions and Mutual Funds:	56.0%

*Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Baker Brothers Advisors	5,831,000	8.37%	-176,243
Royce & Associates	3,903,000	5.60%	1,020,000
Barclays Global Investments	3,862,000	5.54%	14,176
Vanguard Group	1,800,000	2.58%	1,607
State Street	1,607,000	2.31%	-63,675

*Source: Bloomberg

Haemonetics Incorporated
HAE
Price: $46.87 ($40.66 - $55.71)
Fiscal Year Ends: April 1, 2007

February 22, 2007 Jeff Ehman
Russell 2000 Index: 816.22 (668.58 – 818.07) Health Care Sector

Haemonetics Corporation engages in the design, manufacture, and marketing of automated systems and single-use disposables for the collection, processing, and surgical salvage of donor and patient blood. HAE is a pioneer and market leader in developing and manufacturing products that help ensure a safe and adequate blood supply. HAE's systems assist blood banks and hospitals in their efforts to operate efficiently and to comply with various regulatory requirements. The company operates world-wide with 61% of the 2006 fiscal year revenue occurring outside of the United States.

Recommendation

Key Statistics	Jan. 1, 2007
Market Cap	$1.24B
Shares Outstanding	27.38M
Average Volume	163,650
Beta v. Russell 2000	0.69
EPS (2006)	$1.695
Price/FCF	23.92
P/E (Forward)	20.12
ROA (2006)	9.39%
Price/Book	2.73
Debt/Assets	5.465%
ROIC (2005)*	11.14%
Gross Margin	50.78%
Adj. Operating Margin	36.85%
EPS Growth Est (3 Year)	29.65%
Target Price	$57.42

*Thomson Analytics **All other data from Yahoo! or 10-K

Haemonetics created the market for automated blood processing systems in 1971 and has been able to maintain that leadership even with the entrance of main competitors. Currently, HAE does not have any direct competition that operates in all of their products; however, Baxter International, Gambro BCT, and traditional blood banks and hospitals pose threats in various markets and product lines of business. HAE has been able to maintain its leadership position in this industry because product costs are not necessarily the most important issue impacting their customers' purchasing decisions. Discussions in Haemonetics' annual reports suggest that in most product lines their clients care more about technology, ease of use, quality, and service, which are areas that HAE has a large advantage over their competition. Operationally, the company has maintained high ROA and ROIC ratios, 8.17% and 9.88% over the past 5 years, respectively. Therefore, I recommend the addition of Haemonetics into the AIM portfolio at a 2% weighting with a target price of $57.42 over the next 12 months and current intrinsic value of $56.30.

Investment Thesis

- **Market Leader.** Haemonetics started the blood automation systems industry in 1971 and should have the knowledge to remain a leader in the future. Blood processing is their niche in the market while it is a very small portion of their larger competitors (no revenue % breakdown given for Baxter and Gambro isn't public in the U.S.). Therefore, HAE has more at stake in the industry and should sustain their leader status going forward.

- **Not Much Pricing Pressure.** Most of HAE's customers are more worried about product quality, rather than low price, which should help maintain strong profit margins. The efficiencies that HAE's systems create more than compensates for the costs. Additionally, since larger competitors, such as Baxter International, are not able to utilize their size to produce mass quantities, HAE should be able to hold their favorable margins.

- **Strong Balance Sheet.** As of December 30, 2006, HAE had $227.7 million of cash and only $30.1 million of debt (or 5.47% of total assets) on their balance sheet. This gives the Company a large cushion in event of a market downturn. This is compared to a 19.75% for their largest competitor BAX. HAE has also indicated that the cash could be used for future acquisitions that should increase the value of the Company.

- **Stable Market.** The demand for blood donation is not poised to grow significantly in the near future, but it will also not likely decline. The Company has indicated that the market should grow in the low single digits going forward which is similar to past years.

- **No Exposure to Reimbursement.** In comparing the growth in accounts receivable and sales over the past 10 years it is seen how little exposure HAE has to reimbursement and payment issues. Since 1997, accounts receivable have increased by 20.3% total compared to a lower 23.8% rate in sales.

Valuation

Based on my discounted cash flow model, Haemonetics should be valued at approximately $56.30. Also, comparing HAE to its largest competitor (Baxter International) confirms this price target. As of February 19th, 2007 Bloomberg has Price/Book of 2.73 and 5.25, and EV/EBITDA of 9.98 and 12.37 for HAE and BAX respectively, verifying the undervaluation of HAE. Its forward P/E, according to Yahoo!, is slightly higher at 20.12 compared to 17.96 for BAX but this is justified by them being smaller and more maneuverable in the marketplace. Based on the above intrinsic value, comparable analysis, and a moderate 2% growth rate over the next 12 months, our target price is $57.42.

Risks

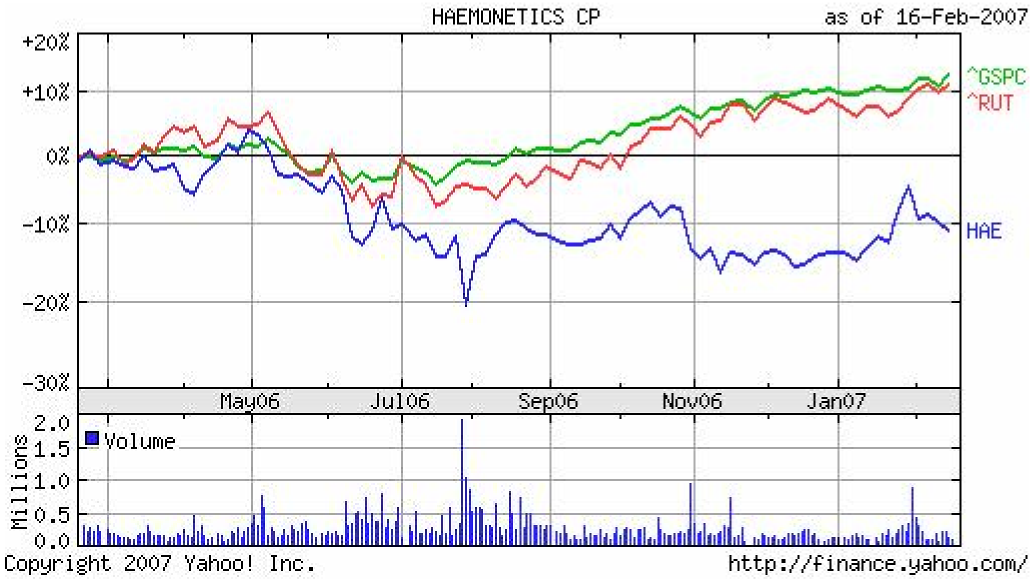
- **Slow Market Growth.** The demand for their products and services will never likely disappear, but the market is only likely to grow in the low single digits. Therefore, HAE must successfully find growth opportunities outside of their core business.

- **International Economic and Political Conditions.** 61% of HAE's sales occurred outside of the United States which could result in weaken profitability if global political or economic conditions weaken.

- **Ability to Execute Quality Acquisitions.** The growth strategy of Haemonetics revolves around their ability to acquire new lines within their core blood processing business at a good price or to create different innovative add-on products. There is no guarantee that they will be able to execute this strategy in the future.

Management

Nearly all of the board members at HAE hold impressive resumes with experience from some of the largest health care and other institutions around the country, such as the President of Tyco Healthcare, Ex-Vice Chair at KPMG, Senior VP at Eli Lilly, and CFO of Boston Scientific/fellow at the SEC. The CEO, Brad Nutter, is currently 55 years old and previously served as CEO of competitor Gambro Healthcare until 2004. Another interesting fact is that they have a Chief Ethics Officer on staff. Insiders and 5% owners hold about 7% of the shares outstanding.



Ownership

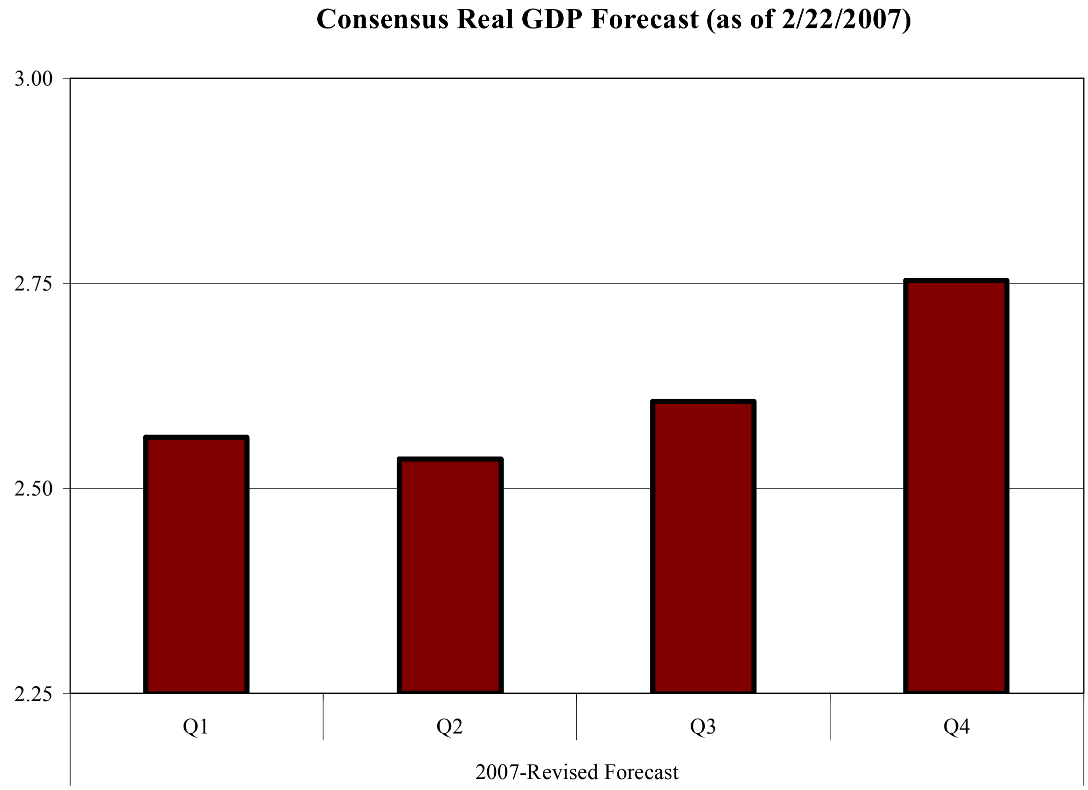
% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	95%

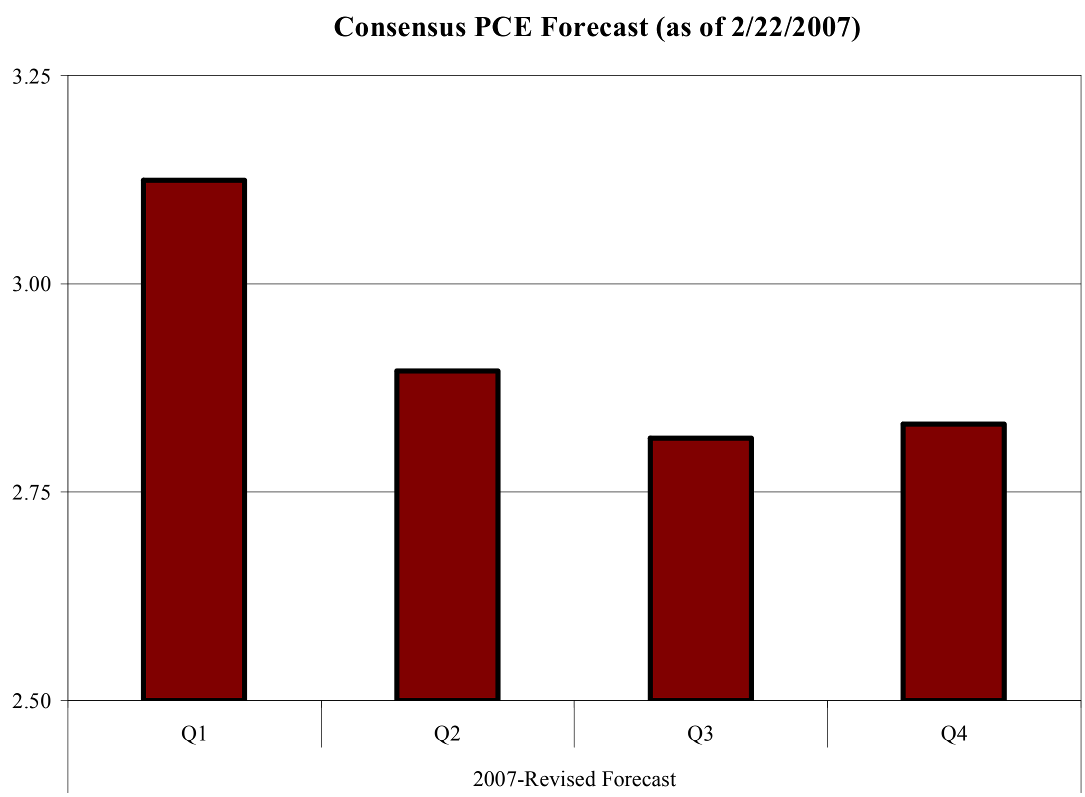
*Source: Yahoo! Finance

Top 5 Holders

Holder	Shares Held	**Percent of Shares** Outstanding
Neuberger Berman LLC	2,053,000	7.771%
Capital Research and Management Company	1,971,000	7.462%
Barclays Global Investors	1,527,000	5.779%
Vanguard Group	1,410,000	5.339%
Time Square Capital Management	1,402,000	5.308%

*Source: Bloomberg


Consensus Real GDP Forecast (as of 2/22/2007)
3.00
2.75
2.50
2.25
Q1
Q2
Q3
Q4
2007-Revised Forecast


Consensus PCE Forecast (as of 2/22/2007)
3.25
3.00
2.75
2.50
Q1
Q2
Q3
Q4
2007-Revised Forecast

Consensus Fed Funds Forecast (as of 2/22/2007)