Applied Investment Management (AIM)

AIM Fund Investment Advisory Board Meeting

December 5, 2008
Location: Raynor Library Lower Conference Room Center
Time: 3:00 – 5:00 PM

AIM Equity Fund Presentations

Student Presenter	Company Name	Ticker	Price	Page No.
Sarah Schmidt	Coke-Cola Bottling Co. Consolidated	COKE	$42.56	2
Alison Bettonville	CPFL Energia S.A.	CPL	$42.74	5
Brian Finnie	Gildan Activewear Inc.	GIL	$16.33	8
Jason Rector	Green Mountain Coffee Roasters	GMCR	$35.69	11
Karina Moreno	Harte Hanks Inc.	HHS	$5.55	14
Chris Cebula	Bank of Ireland	IRE	$6.78	17
William Lunkes	Open Text	OTEX	$26.59	20
Caitlin Gerdes	Portfolio Recovery Associates Inc.	PRAA	$31.03	23
Tyler Merten	Boston Beer Company	SAM	$29.88	26
Lauren Grebe	Somanetics Corporation	SMTS	$15.21	29
Kyle Zabel	Texas Capital Bancshares	TCBI	$14.17	32
Patrick Abeln	Talisman Energy, Inc.	TLM	$8.72	35

Coca-Cola Bottling Co. Consolidated
COKE
Price: $42.56 ($31.41- 64.17)
Fiscal Year Ends: December 30

Date: November 29, 2008 — Sarah Schmidt
Russell 2000 Index: 491.23 (433.35 – 799.57) — Consumer Goods Sector

Coca-Cola Bottling Co. Consolidated produces, markets, and distributes nonalcoholic beverages, namely the products of The Coca-Cola Company. COKE is the second largest Coca-Cola bottler in the U.S. It has two lines of nonalcoholic beverages including sparkling beverages and still beverages. The sparkling beverage line includes all beverages with carbonation including energy drinks, and makes up approximately 85% of COKE's sales. The still beverage line is comprised of beverages without carbonation including bottled water, tea, ready-to-drink coffee, enhanced water and juices, and sports drinks. The still beverage line makes up the remaining 15% of COKE's sales. COKE operates in the Southeastern United States, throughout North Carolina, South Carolina, Alabama, Georgia, Tennessee, and West Virginia.

Recommendation

COKE is the second largest bottler of Coca-Cola's trademarked beverages. They are well positioned in this time of economic uncertainty. COKE has the exclusive rights to produce, market, and distribute these trademark beverages within their territory. Some of the more popular trademark beverages include Classic Coke, Diet Coke, POWERade, and Dasani Water. During 2007 products bearing the "Coke" brand accounted for approximately 89% of COKE's bottle/can volume to retail customers. These exclusive rights give COKE enormous brand power since they are selling products that many consumers already trust and enjoy. COKE also has a dividend yield of 2.40%, which makes them a good value play. They have distributed a consistent, annual dividend of $1 per share since 1994. However, due to the current price it is recommended that COKE be monitored as a future addition to the AIM Equity Portfolio.

Key Statistics	November 29, 2008
Market Cap	389.13 M
Shares Outstanding	9.14 M
Ave. Volume (1 mo.)	33,912
Beta	0.92
WACC	7.75%
EPS (TTM)	0.67
P/E (TTM)	66.09
ROA	1.50%
ROE	5.11%
Gross Margin	43.25%
Operating Margin	4.07%
Debt/Equity	5.63%
Dividend Yield	2.40%
Target Price	$41.87

Source: Bloomberg

Investment Thesis

- **Brand power.** COKE benefits tremendously from the Coca-Cola brand name. Coca-Cola is a global leader in the beverage industry. They currently own a 27% stake in COKE, and therefore have an interest in COKE's performance. COKE benefits from Coca-Cola's advertising as well as their own, which Coca-Cola historically has contributed to.
- **Exclusive right to distribute within its territory.** Through their bottling contracts with Coca-Cola, COKE has the exclusive rights to produce, market, and distribute Coca-

Cola's trademarked beverages. COKE's territory covers much of the Southeastern United States including North Carolina, South Carolina, Alabama, Georgia, Tennessee, and West Virginia.

- **Wal-Mart is COKE's largest customer.** Wal-Mart is COKE's largest customer, who accounted for 19% of its total bottle/can volume to retail customers and approximately 13% of COKE's net sales. As the economy weakens and consumers decrease their spending Wal-Mart's sales tend to increase. Wal-Mart's earnings increased 9.8% during the third quarter of 2008 and their sales increased 7.5%.

Valuation

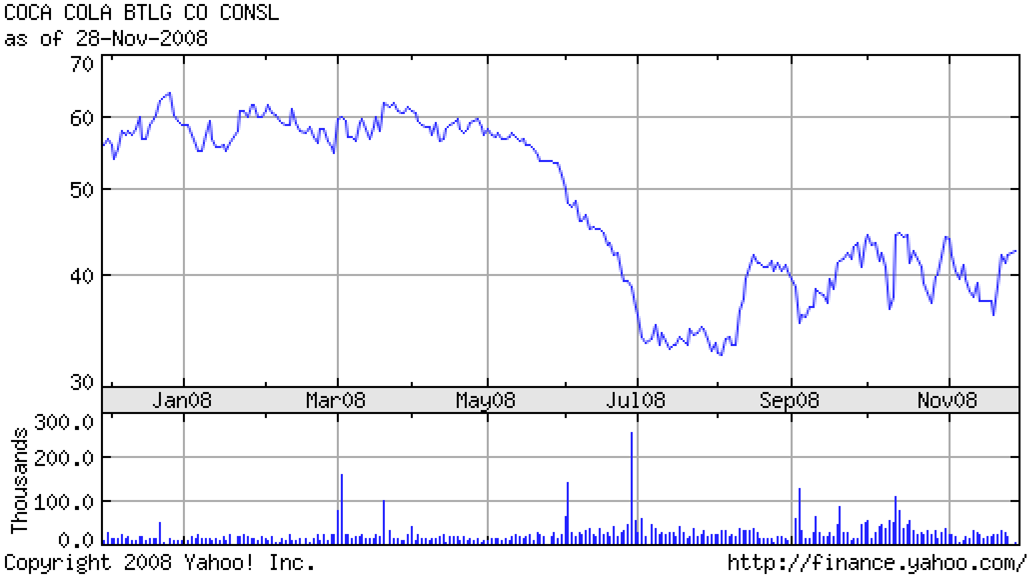
A 5 year DCF model was used to value COKE, where the FCFs were discounted using a WACC of 7.79%. Using a terminal growth rate of 1.5% the 5 year DCF yielded an intrinsic value of $41.54. A Dividend Discount Model was also used to value COKE due to the consistent annual dividend of $1/share COKE has distributed since 1994. The DDM yielded an intrinsic value of $42.83. Given the two values that were computed a target price of $41.87 was reached which is close to the current market price.

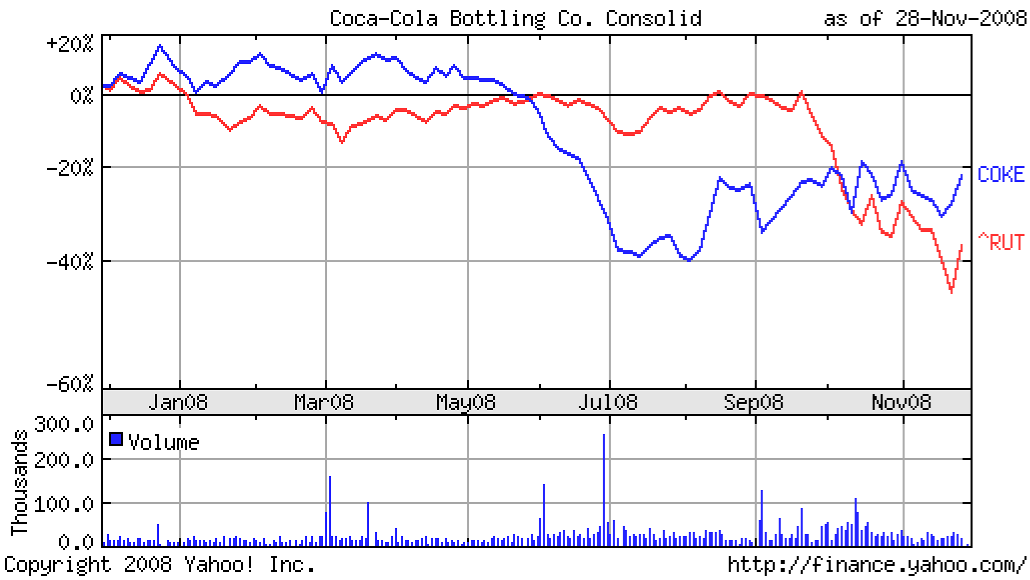
Risks

- **Increasing input costs.** COKE saw the price of two of their main ingredients increase tremendously during 2007. The price of aluminum cans increased 18% during 2007 and the price of high fructose corn syrup, which is used in the production of the syrups, increased 21%. For 2008 management expects raw material costs to increase at a lesser rate than they did in 2007, however they feel costs will remain above the historical averages.
- **Little growth potential outside of territory.** While COKE has exclusive production and distribution rights in their territory, their main competitor Coca-Cola Enterprises has exclusive rights throughout the rest of the United States. Therefore, it is unlikely that COKE will be able to expand into new territories within the United States.
- **Slowing U.S. economy.** As the economy slows and consumers spend less money it is always a risk that they could spend less money on beverages, which would have a negative impact on COKE's sales. However, management is confident with the Coca-Cola brand they should be able to avoid a major decrease in their overall sales due to the economy.

Management

COKE's Chairman and CEO, J. Frank Harrison III, has been with the company since 1977 during which he has served in various positions. He was named CEO in 1994 and Chairman of COKE's Board of Directors in 1996. William B. Elmore, COKE's President and Chief Operating Officer, has been with the company since 1996. He has served as President and COO since January 2001.





Ownership

% of Shares Held by Insiders:	39%
% of Shares Held by Institutional & Mutual Fund Owners	51%

Top 5 Shareholders

Holder Name	Shares Held	Percent of Shares Outstanding
River Road Asset Management	484,597	5.30%
Price (T.Rowe) Associates	383,580	4.20%
Wachovia Corp	311,402	3.41%
Renaissance Technologies	267,571	2.93%
Barclays Global Investors UK Holdings	210,753	2.30%

CPFL Energia S.A. (CPL)
Price: $42.82 ($34.99-$77.98)
Fiscal Year Ends: December 31

December 3, 2008 Alison Bettonville
S&P ADR Index: 928.56 (936.96-2085.17) International Utilities

CPFL Energia is a holding company for Brazilian electric utilities, operating mainly in the states of São Paulo and Rio Grande do Sul. CPFL operates in three segments: generation (23% of 3Q08 EBITDA), distribution (74%), and commercialization (12%). For its generation segment, the firm's 32 hydroelectric plants and 1 thermoelectric plant generate over 1,600MW of electricity. The distribution segment annually provides 35,234 GWh of electricity to 6.3 million customers in 568 municipalities. Via its commercialization segment, CPFL sells electricity to unregulated customers (9,128 GWh in 2007) and provides value-added electricity services to a range of clients. CPFL Energia is the largest non-government owned electric utility in Brazil, privatized in 1997 after 33 years of federal and state ownership, and is now majority owned by a consortium of domestic pension funds.

Recommendation:
CPFL's dominant position in the distribution market (13.8% of Brazilian electricity distribution) offers a stable revenue source, while expansion in the generation segment through the expected addition of 500MW of capacity brings an opportunity to expand margins. With Brazilian electricity demand projected to grow at 3-4% per year, CPFL will have many opportunities to further strengthen its position in the industry. CPFL can add "free" customers to its client base through the commercialization segment; management expects this unregulated segment to realize 5% growth over the next few years. With CPL currently trading near $42.75, CPL should be added to the IAIM portfolio with a target price of $50, representing an approximate 17% upside potential.

Key Statistics	December 3, 2008
Market Cap	R$15726.68M
Shares Outstanding	479.911M
Shares per ADR:	3
% of ADR to shares out.	3.73%
3 mo. avg. volume	192,000
TTM EPS	R$2.735
EV/EBITDA	7.67
P/E (TTM)	11.88
Debt/EBITDA	2.40
ROE	33.5%
ROA	9.3%
Beta (v. SPADR)	1.29
WACC	12.6%
Dividend (yield)	$4.59 (9.15%)
Target Price	**$50.00**

Source: Bloomberg

Investment Thesis:

- **Stable Distribution Business.** CPFL earns a spread connecting generators to final customers via its 196,749 km of distribution lines and 222,240 transformers; this segment offers a stable, predictable cash flows (R$1B+ OCF, '05-'07). As the largest distributor, CPFL has achieved scale in the industry, creating to strong regional positions (distributes 24% and 31.9% of electricity in Sao Paulo and Rio Grande do Sul, respectively) and maintaining relationships with generators, politicians, and regulators.
- **Growth and Margin Expansion through Generation.** Through its subsidiaries, CPFL is developing three new hydroelectric plants, adding 500MW of capacity by 2010; this

electricity will be sold to the distribution segment, leading to expanded margins. Further, through its new Bioenergia subsidiary, CPFL is moving into alternative energy production. The company predicts renewable energy to grow from 3% to 15% of Brazil's total electricity sources by 2015, and CPFL wants to be force in the market. The segment signed its first project in 3Q08, a thermoelectric generation joint venture with a sugar cane producer, expected to provide 25MW of capacity.

- **Low Foreign Exchange Exposure.** Relative to its peers, CPFL has very low exposure to fluctuations in the value of the real. The company's debt is almost entirely denominated in real, and although about 20% of the electricity purchased by CPFL for distribution is priced in US dollars, these costs can be passed on to final customers.

Valuation:

An eight-year DCF model, assuming a WACC of 12.58% and a terminal growth rate of 3%, valued the ADR shares at $49.65. On a relative basis, CPL is currently trading at 11.88 times 2008 earnings, slightly rich based on current industry and historical company multiples. It was determined that a P/E of 10 is a fair multiple for the company; based on 2010 estimated EPS of R$4.97, the multiple yields a fair value of $48.93. Combining the two methods, fair value of the ADR shares is $50. CPL also has a 9% dividend yield.

		WACC				
		11.5%	**12.0%**	**12.5%**	**13.0%**	**13.5%**
terminal growth rate	**2.0%**	$55.08	$49.78	$45.01	$40.70	$36.80
	2.5%	$58.50	$52.76	$47.62	$43.01	$38.84
	3.0%	$62.32	$56.07	**$50.51**	$45.54	$41.07
	3.5%	$66.62	$59.77	$53.72	$48.34	$43.52
	4.0%	$71.49	$63.93	$57.30	$51.44	$46.23

Risks:

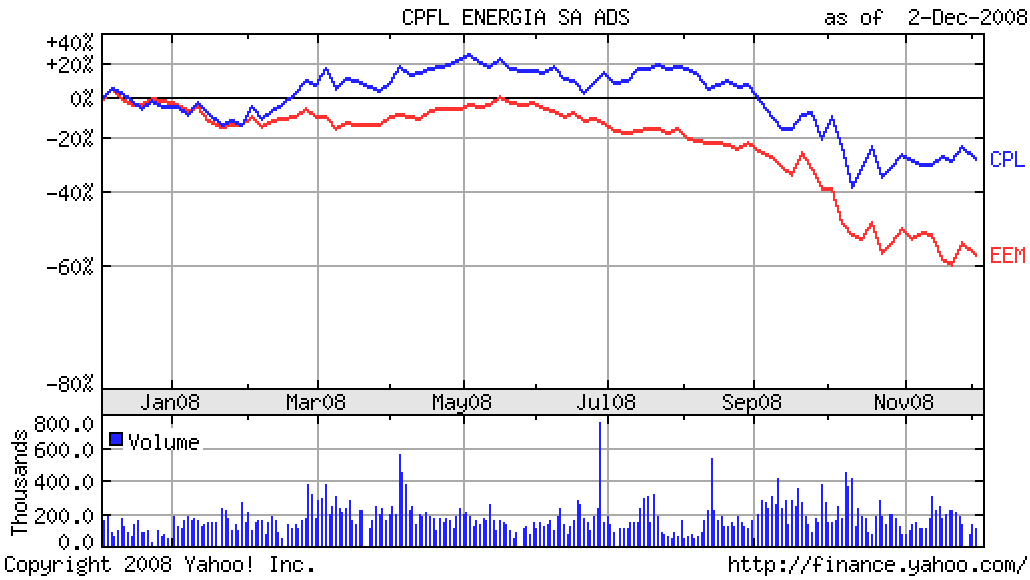
- **Debt profile.** CPFL has R$738.27M of debt maturing in 2009, and will need to access the capital markets to refinance. Further, the company has been acquisitive, and will consider debt as a funding vehicle for future acquisitions.
- **Tariff rates.** Rates at which electricity is bought and sold on the regulated market and contract timing, length, and size are strictly regulated by the government. Tariffs are adjusted annually to account for inflation; CPFL has little influence on the direction and magnitude of these changes in tariffs, which directly affect the company's revenues.
- **Contract law.** Contracts are very important to CPFL's business, especially within the framework of the heavily regulated Brazilian electricity industry; should the legal mechanisms of contract enforcement not support the company's contracts, CPFL could suffer severe losses if customers reneged on their obligations to purchase electricity.

Management

Company leadership has strong backgrounds within the Brazilian power sector. CEO Mr. Wilson Ferreira Junior's previous experience includes the Distribution Executive Officer at competitor CESP and CEO of CPFL's now fully-consolidated subsidiary Rio Grande Energia. The chairman of the board, Mr. Luiz Anibal de Lima Fernandes, hold degrees in both mechanical and electrical engineering, and had experience working for two of the largest government-owned electric utilities in Brazil, CEMIG and Eletrobras. At least one of the seven members of the board of directors must be elected by minority shareholders.

CPL 1 Year Price Chart

1 Year Price Chart vs. MSCI Emerging Markets



Ownership

% of Shares Held by All Insider and 5% Owners:	86.86%*
% of Shares Held by Institutional & Mutual Fund Owners:	39.37%

*Source: Bloomberg, 10-K**

Top 5 ADR Shareholders

Holder Name	Shares Held	Percent of Shares Outstanding
Mondrian Investment Partners Ltd.	648,700	.41%
Invesco Ltd.	447,778	.28%
Barclays Global Investors UK	297,706	.19%
Ivy Management Inc.	275,00	.17%
Morgan Stanley & Co Inc.	236,550	.15%

Source:Bloomberg

Gildan Activewear Inc.
GIL
Price: $16.33 ($15.42 - $42.72)
Fiscal Year End: September 30th

Date: December 2nd, 2008 Brian Finnie
MSCI Canada Index: 15.95 (14.11 – 36.22) International Consumer Goods

Gildan Activewear is a vertically integrated manufacturer and marketer of high-volume, basic apparel for wholesalers and mass retailers. The company produces and markets active-wear (86% of 2007 revenue), such as t-shirts, fleece, sport shirts, and underwear, in addition to socks (14%). The cotton-based "blanks" are sold in the U.S. (88% of 2007 revenue), Canada (6%) and Europe (6%) after which they can be decorated with screen prints and logos before being purchased by consumers at retailers, events, and tourism destinations. The company utilizes 15,300 employees at manufacturing and distribution facilities in both the United States and the Caribbean to produce its products. Gildan was founded in 1984 and is headquartered in Montreal, Canada.

Recommendation

Although consumer spending is expected to weaken, Gildan Activewear will withstand the deteriorating macroeconomic environment due the inexpensive nature of its basic apparel and its vertically integrated manufacturing model. The current low valuation provides an attractive entry point to a leading basic apparel provider that has increased its share of the $2.5 billion U.S. wholesale market from 39% to 52% over the past two years in addition to acquiring a 30% market share in the sock market. Gildan has been able to expand its market share over the last ten quarters by growing product sales 11% above the industry on average. Importantly, during and following the last recession, from 2001 to 2004, GIL's returns outperformed the apparel maker industry and the S&P 500. Gildan will be able to outperform going forward by increasing its 52% share of the U.S. wholesale market to 60%, expanding activewear production 33% to support sales in the $22.5 billion retail market, and leveraging its mass production manufacturing facilities for socks to increase company gross margins 1%. It is recommended that GIL be added to the International AIM Equity portfolio with a target price of $20, providing an upside of 23% from the current price.

Key Statistics	Nov. 22nd, 2008
Market Cap	$2.0B
Shares Outstanding	120.5M
Avg. Volume	1.14M
3-Yr. Rev. CAGR	21.8%
F2007 Net Rev.	964.4M
F2007 EPS	$1.07
F2008E EPS	$1.47
Operating Margin	17.6%
P/E (NTM)	8.2
PEG	0.56
ROE	21.77%
Debt/Equity	8.17%
Beta	0.96
WACC	9.73%
Analyst Coverage	15
Target Price	$20

Source: Bloomberg, Company Filings

Investment Thesis

- **Wholesale Market Share Growth.** Gildan believes it can expand its 52% share of the $2.5 billion wholesale market to 60% over the next twelve months. The company will continue to grow its market share as it has in the past through leveraging its vertically integrated manufacturing and distribution processes to provide low prices and quality service.

- **Retail Channel Expansion.** Gildan entered the $22 billion retail market in 2006 through sock and underwear sales programs to regional retailers**.** Beginning in 2010, the company plans to expand its presence in the retail market by penetrating national mass-market retailers. Gildan is preparing for the retail market expansion through the construction of a new distribution facility in Honduras along with a new retail-only Honduran textile manufacturing facility which is expected increase activewear capacity to 33%.
- **Sock Production Efficiencies and Expansion.** Gildan is actively expanding its 30% market share in the retail sock market by enhancing production efficiency and capacity. In 4Q08 the company completed the ramp up of production in a new Honduran sock facility which is expected to expand company gross margins 1% in F2009 as production efficiencies are realized. Another sock facility is currently under construction in Honduras and is expected to increase sock production 33% after it is completed in 3Q09. Furthermore, the company could see greater margin improvement through product distribution synergies and the elimination of unprofitable product lines.

Valuation

The $20 price target is supported by a DCF valuation and P/E analysis. A 10-year DCF yielding $19.48 per share was computed using a 3% terminal growth rate, 9.7% WACC, average revenue growth of 9% and peak operating margins of 23%. Additionally, the $20 price target assumes a very conservative 10x F2009E consensus EPS multiple, below the low end of the historical range of 8-50x EPS. Although GIL is currently trading even with comparables at 8x F2009E consensus EPS, a 10x EPS multiple is justified because of GIL's leading market share position and vertically integrated manufacturing process. The $20 price target offers a 23% upside

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		Terminal Growth Rate				
	$ 19.48	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	12.5%	$ 12.31	$ 12.73	$ 13.21	$ 13.73	$ 14.32
	11.5%	$ 14.07	$ 14.64	$ 15.27	$ 15.99	$ 16.82
	10.5%	$ 16.30	$ 17.07	$ 17.96	$ 18.98	$ 20.17
	9.5%	$ 19.19	$ 20.29	$ 21.57	$ 23.09	$ 24.90
	8.5%	$ 23.09	$ 24.72	$ 26.67	$ 29.06	$ 32.05

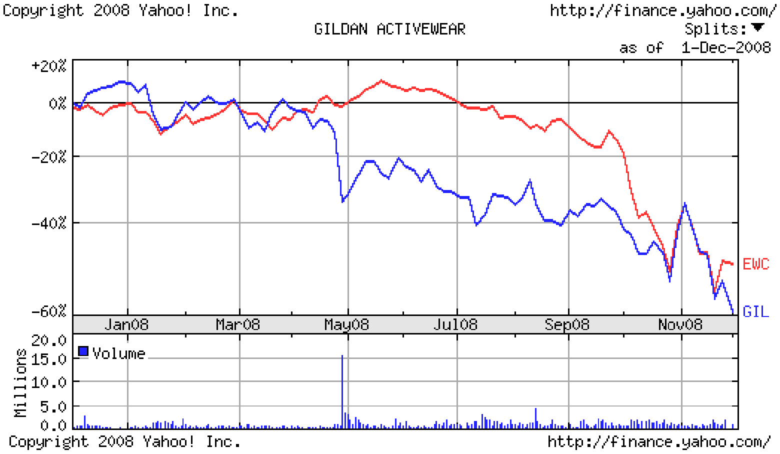
Risks

- **Consumer Spending Slowdown.** October results for The Conference Board Consumer Confidence Survey illustrate that consumer confidence has dropped to its lowest point in the survey's 40-year history. As consumer spending slows, retailers and wholesalers may also tighten their spending and inventory levels which would harm GIL's sales and margins. Though GIL's low cost basic apparel should be in a better position than other consumer goods to weather the downturn, it is not entirely invulnerable to macroeconomic weakness.
- **Trade Barriers.** Although in recent years free trade has expanded, the textile industry typically has high trade barriers. An increase in negative public sentiment toward free trade may encourage President-elect Obama and the Democratic congress to implement protective trade barriers. The company estimates that an annual 5% tariff on sock sales into the United States from Honduras would result in a $0.04 decrease in EPS.

- **Production Levels.** On April 29th, 2008, GIL lowered F2008 guidance $0.40 in response to activewear production difficulties at its Dominican Republic facility. While there have been no manufacturing delays since then, any additional interruptions in production may impact GIL's sales and drive away customers.
- **Class Action Lawsuit.** In June of this year a class action lawsuit was filed by investors against Gildan alleging that Gildan mislead and withheld material information from investors regarding the company's lowering of F2008 guidance on April 29th, 2008. This incident may decrease confidence in management's character or attentiveness.

Management

Mr. Glenn J. Chamandy is the current CEO of the company and co-founded the company in 1984. Mr. Laurence G. Sellyn was named the CFO of Gildan in April 1999 following various corporate finance positions at other large, public Canadian firms.



Ownership

% of Shares Held by Insiders:	8.6%
% of Shares Held by Institutional & Mutual Fund Owners:	91.4%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Burgundy Asset Management	11,483,278	9.53%
Fidelity Management	9,940,440	8.25%
Fidelity Management-Pyramis Global	6,121,300	5.08%
Alger Management	5,207,829	4.32%
Bank of New York Mellon	5,101,771	4.23%

Source: Bloomberg

Green Mountain Coffee Roasters
GMCR
Price: $35.69 ($23.01 – $44.75)
Fiscal Year Ends September 30

Date: December 1, 2008 — Jason Rector
Russell 2000 Index: 435.69 (371.30-799.57) — Consumer Goods

Green Mountain Coffee Roasters is a leader in the specialty coffee industry. They offer over 100 selections of Arabica coffee under the Green Mountain Coffee Roasters, and Newman's Own Organics brands. They sell to large customers including grocery stores, specialty stores, restaurant chains, hotels, universities, and business offices as well as directly to individual customers from their website and a catalog. The acquisition of Keurig in June of 2006 brought the manufacturer of the most popular coffee brewing system that brews the K-Cup, single cup of coffee, tea, or hot cocoa, aboard the Green Mountain team. After this, the company began operating out of two segments, Keurig and GMC.

Recommendation

GMCR is an attractive investment today because of their ability to succeed in a tough environment. The company saw substantial revenue growth in fiscal 2008 of 46%, and forecasted 2009 revenue growth of 40-45%. This growth is driven by their Keurig division (75% more brewers sold in 2008 over 2007), and their K-Cup portion of their GMC division (61% increase in K-Cups sold in 2008 over 2007). In today's challenging economy GMCR has grown its earnings consistently highlighted by $0.28 earnings per share in 4Q08, a 68% increase from 2007. They have recently unveiled their coffee and Keurig machines into grocery stores to make them more available to the consumer. Now GMC and Keurig are available at over 17,000 locations nationwide (Up from about 10,000 last year). They did this because they still see growth opportunity in the home market. Of the 90 million US households owning a coffee machine, Keurig machines are only in 1.6 million. Finally, one of the growing trends for companies today is to become more socially responsible. GMCR has been at the top of Business Ethic's magazine's list of 100 Best Corporate Citizens. Their most notable accomplishment is its pioneer work in the Free Trade Movement to give coffee growers a fair price for their crops. Their also known for helping preserve chimp habitat in Africa where they grow some of their blends of coffee.

Key Statistics	12/1/08
Market Cap	850.85M
Shares Outstanding	24.22
Average Volume (3m)	528,709
Beta	0.95
EPS (ttm)	$0.94
F2009 Est. EPS	$1.26
P/E	37.37
P/S	1.69
PEG	0.99
WACC	10.13%
Total Debt	95.86M
ROE	18.69
Profit Margin	4.46%
Operating Margin	8.48%
Target Price	$43

Source-Bloomberg

Investment Thesis

- **Competitive Advantage-** GMCR's merger with Keurig in 2006 gives them even more market dominance as Keurig is one of very few companies to make the single cup coffee brewer (60% market share in this category). They have ongoing patents on their Keurig machines, and recently won a lawsuit against Kraft which will result in Kraft paying GMCR $17 million in the next quarter.

- **Leading Single Cup Provider**- In 2008, 273 million K-Cup portion packs were shipped, an increase of 62% year over year. The company forecasts at least 50% growth in this area in 2009. Keurig sales were up 75% ($74.6 million from $42.6) compared to the 4th quarter of 2007. GMCR is combating the economic downturn by unveiling the Keurig Mini, their cheapest coffee brewer, and by making their coffee available in grocery stores nationwide. GMC already has a 33% market share in the grocery store single cup category (they are currently only in 10% of grocery stores nationwide).
- **Single Cup Revolution**- The single serve coffee category is up 24% in dollar sales compared to a year ago (the total coffee category was down 3%). Single serve dollar share increased 28% over this time period (12% from 9.4%). Keurig now makes up 9% of total coffee makers, up 100% from a year ago.

Valuation

A DCF analysis assumed a growth rate of 40% for 2009, then decreasing that growth to the terminal rate of 3.5% over five years. A WACC of 10.13% was computed, and this model yielded an intrisic value of $43. An EV/EBITDA multiple model using a multiple of 14.63 resulted in a value of $43 as well. The target price of $43 per share is in line with the value obtained in both of the models.

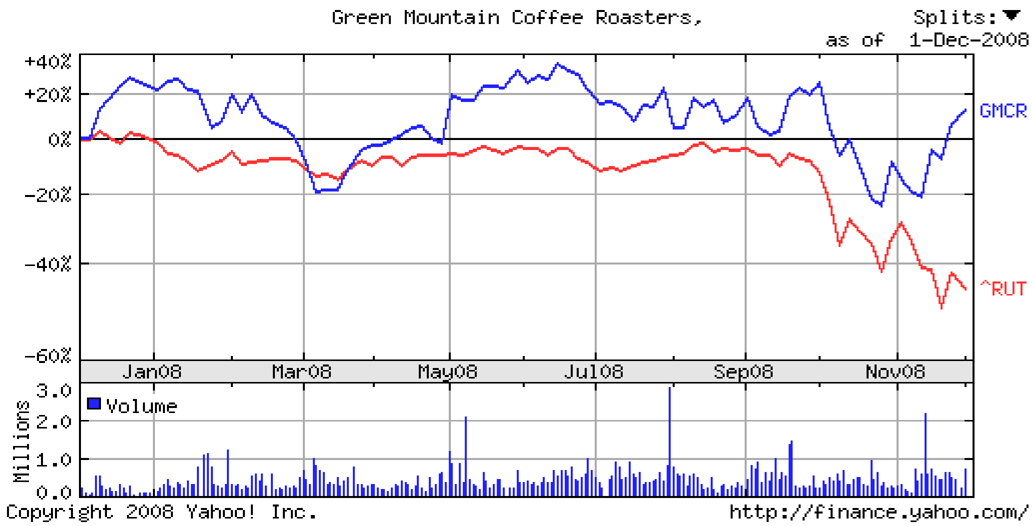
Risks

- **Single Supplier and Roasting Facility-** GMCR only has one roasting facility located in Vermont. Any interuption due to weather or any other unforeseen circumstance would be detrimental to their business. Along with this, all the single cup brewing systems for Keurig are manufactured in China. Any political instability or interuption in that companies facilities will interupt Keurig's business significantly.
- **Increasing Competition**- There are many big companies including Procter & Gamble, Kraft, and Starbucks that have more financial resources giving them the ability to enter the market and possibly steal some of the market share away from GMCR. Along with this idea, the single-cup brewer systems market, which Keurig competes in is becoming very competitive. It is possible for companies to enter the market and sell a similar product.
- **Political Stability**- GMCR gets its coffees from many countries world-wide, including areas such as Africa, Indonesia, Central and South American. The political stability is very important in GMCR's ability to negotiate with independent coffee farmers and obtain their coffee.

Management

Robert Stiller is the founder of the company and was the CEO from 1981 till May of 2007. Larry Blanford took over for Robert Stiller. Blanford joined the company after serving as CEO of Royal Technologies Ltd, a $2 billion Canadian building products and home improvement company. Stiller is still the Chairman of the Board of Directors. Stephen Sabol heads the Keurig subsidiary and facilitates coordination with the parent company as well as seek out new business opportunities for Keurig.

Performance Chart Relative to Russell 2000
2 Year Price Chart



Ownership

% of Shares Held by Insiders:	29%
% of Shares Held by Mutual Fund Owners and Institutions:	92%

Top 5 Shareholders

Name	Number of Shares	% of Shares Outstanding
Tremblant Capital Group	1,467,496	6.06
Next Century Growth Investors	1,294,995	5.35
Barclays Global Investors	1,186,857	4.90
Tiger Consumer Management	769,273	3.18
Brown Capital Management	729,613	3.01

Source: Yahoo! Finance

Harte-Hanks Inc.
HHS
Price: $5.55 ($5.42-$17.96)
Fiscal Year Ends: December 31

November 10, 2008 Karina Moreno
Russell 2000 Index: $493.10 (441.92-799.57) Media Sector

Harte-Hanks Inc. is a global direct and targeted marketing solutions company providing service to local, national, regional and international consumers and business-to-business marketers. They operate two segments, Direct Marketing and Shoppers, comprising 63% and 37% of revenues respectively. Their Direct Marketing segment focuses on providing services to targeted industries with software products tailored to each industry to improve their customers marketing investments. Their customer base is mainly comprised of large retailers, financial companies, high-tech and telecommunications companies, and pharmaceutical and healthcare organizations. Their Shoppers segment provides weekly advertising publications delivered for free by standard mail to households and businesses. Shoppers operates under the PennySaver brand in California and The Flyer brand in Florida. Harte-Hanks Inc. was founded in 1923 and is currently headquartered in San Antonio, Texas.

Recommendation

Harte-Hanks Inc. has is a competitive player their Direct Marketing segment and leader in their Shoppers segment. Their ability to provide its customers with database construction, quality management and targeted-marketing solutions for individual clients has helped them create strong, long-term relationships with clients to sustain the current economic downturn and maintain single digit long-term growth. Some of their competitors include Acxiom, Merkle and Alliance Data Systems. With the current trend towards online advertising, Harte-Hanks Inc. provides online advertising and other services through their websites to Shopper customers. They also strategically operate in areas of low newspaper penetration in order to capture 100% penetration of advertising to the markets in which they serve. With their clean income statement, strong balance and consistent ROE in the double-digits, Harte-Hanks Inc. proves to be a profitable firm. With a target price of $7.61, and a 5% dividend yield, Harte-Hanks Inc. is recommended to be added to the AIM Equity Portfolio.

Key Statistics	September 2008
Market Cap	$351.4M
Shares Outstanding	63.3M
Average Volume	446.6M
Beta	0.96
EPS (TTM)	$1.16
Forward EPS	$1.07
P/E (TTM)	4.78
Forward P/E	5.19
WACC	8.85%
ROA	9.64%
ROE	20.54%
Dividend Yield	1.62%
Operating Margin	14.18%
Target Price	$7.61

Investment Thesis

- **Increased Demand for Sophisticated Direct-Marketing.** There has been a shift towards more sophisticated direct marketing in which Harte-Hanks is well positioned to capitalize on through its continued innovation and production of new products and technology offered to its customers. A survey conducted by CRM Magazine revealed that more than 70% of firms plan to invest more in e-mail marketing. Their Direct Marketing has been successful by offering services based on five key areas: information, opportunity, insight, engagement and interaction, which focus on customer optimization. This segment represented 63% of their total revenues in 2007.

- **Vertical Market Approach.** Harte-Hanks Direct Marketing focuses to target specific industries or markets by tailoring their services and software products to its respective client base. Clients include large retailers, financial companies, high-tech and telecommunications companies and healthcare organizations along with other select markets.
- **Leader in Weekly Shopper Publications.** Their Shoppers segment is North America's largest owner, distributor and operator of shopper publications offering advertisers a targeted, cost-effective method of advertisement with 100% penetration in their area of distribution and 98% saturation rate. In California, their weekly distribution reached 9.4 million household, reaching 55% more than daily newspapers.

Valuation

A DCF model was used to determine the intrinsic value of the company using 5 years of historical data. Using growth rates of 4% and 10% for the periods 2008-2009 and 2010-2012, respectively along with terminal rate of 3% and a WACC of 8.85%, a price target of $7.65 was derived. Running a sensitivity analysis, the best case and worst case scenario would produce an intrinsic value of $13.97 and $7.24, respectively. With an intrinsic value of $7.61 and their current stock price of $5.65, Harte-Hanks Inc. has a 34% upside.

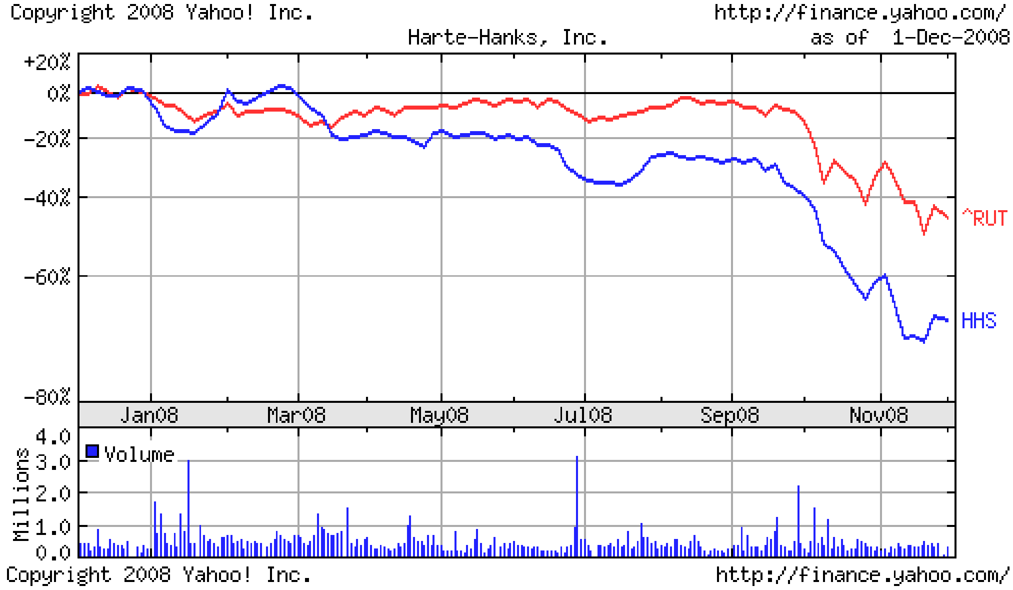
WACC	Terminal Growth 2.0%	2.5%	3.0%	3.5%	4.0%
7.0%	$ 10.43	$ 11.02	$ 11.76	$ 12.71	$ 13.97
7.5%	$ 9.39	$ 9.83	$ 10.36	$ 11.03	$ 11.90
8.0%	$ 8.53	$ 8.87	$ 9.27	$ 9.76	$ 10.37
8.5%	$ 7.83	$ 8.09	$ 8.39	$ 8.76	$ 9.20
9.0%	$ 7.24	$ 7.44	$ 7.67	$ 7.95	$ 8.29

Risks

- **Economic Conditions.** A downturn in the economy negatively impacts the marketing services industry due to its discretionary nature by causing reductions in marketing and advertising budgets. If customers need to cut their budgets, the demand for HHS products and services will be reduced significantly causing an overall decrease in profit margins.
- **Privacy Regulations.** Any increase in regulation regarding address privacy, data security and unsolicited marketing communications can prohibit the collection of current data the company uses to offer its products and services to its customers. Any restrictions pertaining to this data collection on consumers can impair their ability to provide direct marketing.
- **Postal Rate Increases.** The Shoppers segment relies heavily on the postal services to deliver its products. Any continued increases in postage can increase overall costs and cause a reduction in the Direct Marketing services.
- **Data Gathering.** The Direct Marketing segment is significantly dependent on data received from external sources to maintain their proprietary and non-proprietary databases. They currently purchase or license this data from providers who can restrict the use or increase costs, which would in turn, affect their ability to provide products and services to their customers.

Management

Dean Blythe, 49, has served as President since August of 2007 and was named CEO in February of 2008. Mr. Blythe has been with the company since 2000. Prior to his current position, he served as CFO, Executive Vice President and Vice President of Harte-Hanks from 2000-2007.



Ownership

% of Shares Held by All Insider and 5% Owners:	42%
% of Shares Held by Institutional & Mutual Fund Owners:	70%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
BlackRock Advisors, LLC	5,031,700	7.96%
Cooke & Bieler, Inc.	4,298,301	6.80%
Fiduciary Management, Inc.	3,460,420	5.47%
Barclays Global Investors UK Holdings Ltd.	2,177,055	3.44%
Pzena Investment Management, LLC	1,968,800	3.11%

Source: Yahoo! Finance

Bank of Ireland (ADR)
NYSE: IRE
Price: $6.78 ($4.61-$65.61)
Fiscal Year Ends: March 31

December 1, 2008 — Chris Cebula
S&P ADR Index: 951.89 (869.29 – 2,079.49) — International Financial Services

The Governor and Company of the Bank of Ireland provides a broad range of financial services in Ireland and the UK. IRE operates primarily in four segments: Retail Republic of Ireland, Bank of Ireland Life, Capital Markets, and UK Financial Services. Bank of Ireland is the largest banking institution in Ireland by assets and operates one of the largest retail branch networks in the country. The company is a leader in both commercial and consumer lending. The Group generates about 73% of its operating profit in Ireland, 25% in the UK, and 2% from the rest of the world (primarily the US). The company was founded in 1783 and is headquartered in Dublin, Ireland.

Recommendation

Bank of Ireland has the unfortunate distinction of being the leading mortgage underwriter in Ireland. As housing prices tumbled (-14% since February of '07) and Ireland became the first Euro nation to officially enter economic recession, the Irish financial system came under significant pressure in the marketplace. The deterioration in asset quality and increasing impairment charges certainly pose risks to Bank of Ireland in the short term. However, there seems to be an unbelievable disconnect between the market value of the stock and the long term value of the business. In evaluating Bank of Ireland's capital position and the makeup of their loan portfolio, it seems as though the destruction in the stock price dramatically overstates the actual destruction of business value. A market that has been trading increasingly on short term expectations has created an incredible opportunity for investors with a long term time horizon. As we have the ability to withstand the short term volatility, it is recommended that Bank of Ireland be added to the IAIM Fund with a target price of $44.

Key Statistics	12/1/08
Market Cap	$1.56B
Shares Outstanding	251.05M
Avg. Volume (1 mo.)	254,449
EPS (ttm)	€5.66
Est EPS (FY09)	€2.40
P/B	0.19
P/FCF	0.21
ROA	0.87%
ROE	25.51%
Financial Leverage	29.30
NIM	1.71%
Tier 1 Ratio	8.70%
Target Price	$44.00

Source: Bloomberg

Investment Thesis

- **Adequate Fundamental Capital Position.** Bank of Ireland has a Tier 1 Ratio of 8.7% and a core Tier 1 ratio of 6.3%. While these ratios have increased over the past year and are at the high end of the bank's target range, Irish banks look undercapitalized relative to their UK peers after the government recapitalization in mid October. However, Bank of Ireland has no investment banking division and very limited exposure to the structured products that have caused significant write downs at UK financial institutions.

- **Well Funded Balance Sheet.** The Group has continued to reduce their exposure to the wholesale funding markets that have been particularly sensitive in the current environment. Short term wholesale funding now makes up less than 30% of their total funding. Incremental loan growth has been funded through customer deposits, which have increased 5% since March 31st. Customer deposits in the UK have increased 19% over the same time period due in large part to their joint venture with the UK Post Office.
- **Favorable Asset Mix Relative to Irish Peers.** There are concerns over the fact that 44% of Bank of Ireland's loan portfolio is tied to residential mortgages in Ireland and the UK. However, strong underwriting standards (typically ~60% LTV) have led to minimal losses on these assets. Property and Construction development loans along with consumer loans have seen the greatest deterioration in quality in this environment. These loans combine to make up 20% of the Group's loan portfolio, whereas these loans make up 44% of loans at Allied Irish Banks and 89% of loans at Anglo Irish Bank.
- **Attractive Valuation.** The stock is trading at 0.19x book value, a TTM P/E of 0.90, and a FY09 P/E of 2.1. Bank of Ireland has no doubt been affected by the global credit crisis and will be negatively impacted by economic recession across Europe. However, it appears to have been oversold based on unfounded concerns over their asset quality and capital position. Bank of Ireland has been penalized in the marketplace despite the fundamental differences in their business relative to peers.

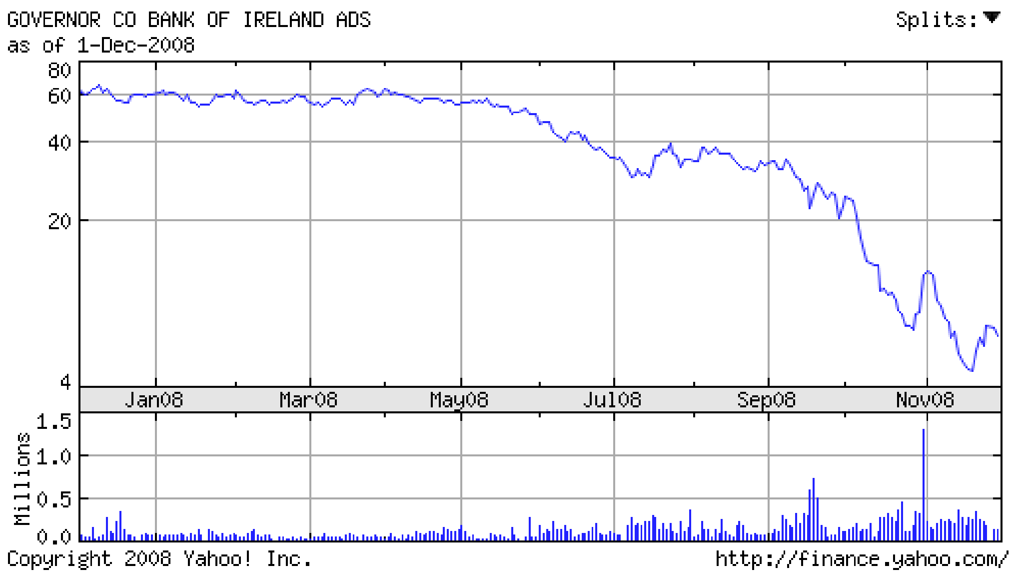
Valuation

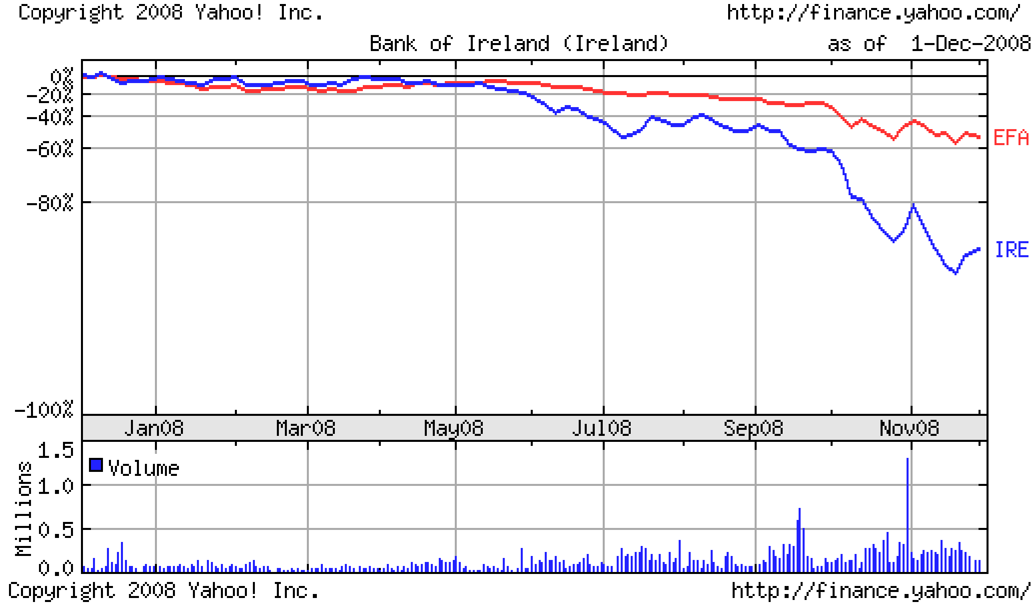
A Price/Tangible Book Value multiple was used in order to estimate the intrinsic value of the business. Assuming the economic environment returns to normality in FY12, applying a multiple of 2x and discounting back by a 12% WACC yields a value of about $44 per ADR.

Risks

- **Dilutive Capital Infusion.** There is pressure from the market for Irish banks to shore up their capital bases in a manner similar to that of the UK banks. While the Irish Financial Regulator has resisted up to this point, any significant capital infusion would be dilutive to existing shareholders. This could actually be a catalyst for the stock in the short term, however, it would be detrimental to our stake in the long term profits of Bank of Ireland.
- **Uncertainty Regarding the Short Term Environment.** A consortium of investment firms has reportedly made an unsolicited offer for the Bank of Ireland. Couple that with the uncertainty regarding the likelihood and structure of a potential capital infusion from the government and the stock could be particularly volatile in the short term. Also, projecting the long term prospects of the business is difficult when the make-up of the company could be materially different in the future.
- **Dramatic Deterioration in Mortgage Assets.** The last six months have provided insight into the quality of many of the assets on the firm's balance sheet. However, the negative performance in their mortgage book is going to lag the general economic downturn. The transparency on the strength of these assets hasn't been there to the point where it seems to be the most uncertain projection management can make at this time. Loan losses materially exceeding management guidance on these assets would be detrimental to the stock. Management expects impairment charges of 20 bps in FY10 and FY11 from 8 bps in FY09.

Management
Brian J. Goggin is the Group Chief Executive Officer. He joined Bank of Ireland in 1969 and has held a variety of senior management positions within Bank of Ireland Group in the US, UK and Ireland. Mr. Goggin was appointed Group CEO in June 2004. John O'Donovan has been the Group Chief Financial Officer since joining Bank of Ireland in 2001. Prior to that Mr. O'Donovan was the Finance Director at Aer Lingus plc.





Top 5 Shareholders (Underlying Shares)

Holder Name	Shares Held	Percent of Share Outstanding
Harris Associates LP	57,588,378	5.73%
Bank of Ireland Asset Management	31,619,982	3.15%
Capital Research and Management	24,959,690	2.49%
DWS Investment GMBH	5,500,000	0.55%
UBS Strategy Fund Management Co.	4,715,043	0.47%

Source: Bloomberg

Open Text
OTEX
Price: $26.59 ($22.01 - $39.09)
Fiscal Year Ends: June 30

Date: December 1, 2008 — William Lunkes
ISHARES MSCI EAFE: $38.40 ($35.53-$84.67) — International Software

Open text specializes in the production of enterprise content management (ECM) software. The ECM suite OTEX sells allows their customers to effectively access and manage business content without having to switch programs. Its primary ECM solution, Livelink, enables corporations to manage traditional forms of content, such as images, office documents, graphics and drawings, as well as to manage electronic content, including web pages, email and video. In addition to this, OTEX produces a wide variety of smaller ECM solutions that focus on managing nontraditional content like wikis, as well as solutions that are complementary to business software produced by key partners. Open Text is headquartered in Waterloo, Ontario; and employs 3,000 people.

Recommendation

Open Text occupies a position as a leader in the business software market, and is the largest independent vendor in the ECM market. OTEX's products are meant to increase its customer's productivity by allowing seamless management of traditional content like emails and nontraditional content like wikis. The company also maintains different code integrations to ensure that their ECM suite can work effectively with other software. This "neutrality" is very important, as the company relies on key partnerships with major business software providers to help expand their customer base. Open Text does this by creating software to complement its partner's product offering. This competency makes OTEX a very attractive acquisition target for the larger business software companies. Currently, the market is undervaluing OTEX and based on a target price of $36, a 35% upside is realizable using reasonable drivers. With this, a recommendation to buy has been made to take advantage of potential growth through partnerships as well as the value discrepancy affecting the company. OTEX does not pay dividends.

Key Statistics	Nov. 12, 2008
Market Cap	$1.35B
Shares Outstanding	51.87M
Ave. Volume (1 mo.)	1,058,050
Beta	1.39
Diluted EPS (TTM)	$1.01
P/E (TTM)	12.61
P/S (TTM)	1.90
Price/Book	2.31
WACC	12.88%
ROE	9.14%
ROA	3.84%
Gross Margin	68%
Operating Margin	14%
Target Price	$36

Source: Bloomberg

Investment Thesis

- **Partnerships.** Open Text has a very important network of strategic partnerships. OTEX has partnered with SAP AB, Microsoft, Oracle, and Global Systems Integrators to produce ECM packages that complement these firm's products. This has allowed the company to greatly expand their customer base. Management views this as a major business component and has reaffirmed its commitment to this strategy in guidance.

- **Consistent Earnings.** OTEX has a very steady revenue stream with 50% of FYE 2008 revenues derived from normal reoccurring maintenance fees. This has allowed the company to be very reliable during earnings calls. The company has not had a negative earnings surprise since Q1 2006.
- **Market Position.** OTEX has very consistent earnings and is the largest independent vendor of ECM software in the market. Additionally, the company's product can be easily tailored to complement other business software programs. As a result, it provides a major barrier to entry for other firms trying to expand into this space. Rival companies would need to make significant investments or acquire Open Text to effectively compete in this segment.

Valuation

Using a discounted cash flow evaluation of OTEX and assuming a perpetuity growth between 2.5% and 4% results in an intrinsic value between $27.16-$48.84. Assuming a WACC of 12.88% and a perpetuity growth rate of 3.5% yields a price target of $35.64. Using an EV/EBITDA valuation yields a range between $33.78-$40.49. With this a price target of $36 is reasonable.

Present Value of Equity Per Share At Perpetuity

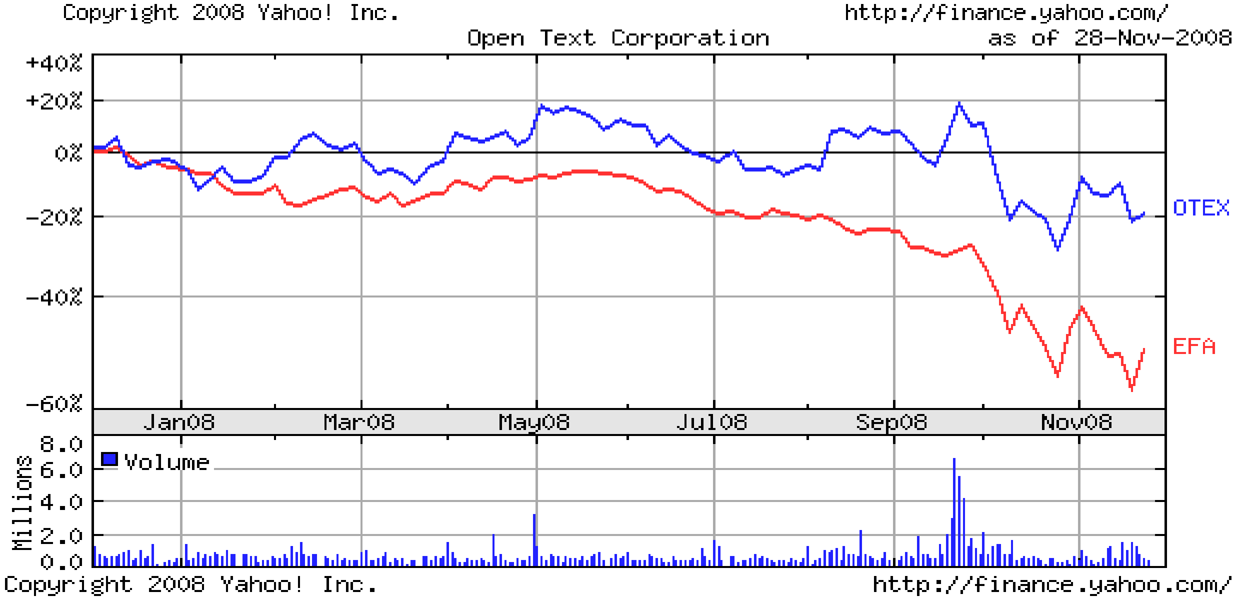
		2.5%	**3.0%**	**3.3%**	**3.5%**	**4.0%**
	10.9%	$41.62	$43.72	$44.88	$46.11	$48.84
	11.9%	36.84	38.44	39.32	40.24	42.27
WACC	12.9%	32.98	34.24	34.92	35.64	37.19
	13.9%	29.81	30.82	31.36	31.92	33.14
	14.9%	27.16	27.98	28.41	28.87	29.84

Risks

- **Partnerships.** Management's current strategy relies on the use of OTEX's strategic partnerships to grow the company's customer base. Loss of a major partnership could hurt revenues. Additionally, if one of OTEX's partners begins to expand into ECM software, the company could suffer.
- **Sales Cycle.** Due to the complex nature of the company's product, a lengthy installation process is required to ensure proper integration into a customer's system. Should this process be delayed for any reason, delayed revenue recognition could cause OTEX to miss earnings.
- **Product Defect.** Software is a complex product and defects can be very costly. Defects in the development stage could become costly by causing product delays. Additionally, defects discovered post installation could be very costly depending on the severity of the problem.
- **Intellectual Property.** The company needs to protect its intellectual property to prevent competitors from stealing trade secrets. Additionally, since OTEX's product is software, there are piracy concerns.

Management

John Shackleton has served as the CEO of Open Text since 2005. Prior to this position, Mr. Shackleton served as the president of the company from 1998. Prior to working for OTEX, he held various presidential and vice presidential positions at Platinum Technology, Sybase Inc, and View Star Corp.



Ownership

% of Shares Held by Insiders and 5% Owners:	2.9%
% of Shares Held by Institutional & Mutual Fund Owners:	77.0%

Source: MSN Money

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Fidelity Management & Research	6,278,530	12.1%
Pyramis Global Advisors, LLC	2,932,107	5.7%
Barclays Global Investors Canada Limited	2,510,074	4.8%
Calamos Advisors LLC	2,070,735	4.0%
GWL Investment Management Ltd.	1,780,651	3.4%

Source: MSN Money

Portfolio Recovery Associates Inc.
PRAA
Price: $31.03 ($24.70-$52.73)
Fiscal Year Ends: December 31

Date: December 1, 2008 — Caitlin Gerdes
Russell 2000 Index: 417.07 (371.30 – 799.57) — Business Services

Portfolio Recovery Associates (PRAA) is a full-service provider of outsourced receivables management. PRAA purchases, collects and manages portfolios of defaulted consumer receivables from credit originators, including banks, credit unions, consumer and auto finance companies, retail merchants and other service providers. The defaulted consumer receivables PRAA collects are either purchased from the credit originator (76%) or are collected on behalf of clients on a commission fee basis (24%). The company provides collateral-location services for credit originators through its IGS segment, and revenue administration, and audit and debt discovery/recovery services for government entities through its RDS segments on a commission basis. Portfolio Recovery Associates went public in 2002 and is headquartered in Norfolk, Virginia.

Key Statistics	Nov. 2008
Market Cap	474.11M
Shares Outstanding	15.28M
Ave Volume (1 mo.)	189,947
Beta	1.07
EPS (TTM)	$2.98
2009 Estimated EPS	$2.99
P/E (TTM)	10.43
Est. PEG	0.80
Price/Book	1.89
FCF/Share	$1.57
Debt/Equity	0.97
WACC	11.28%
ROE(TTM)	19.99%
Operating Margin	26.80%
Target Price	$41.00

Sources: Bloomberg

Recommendation

Amidst weakening economic conditions, PRAA is well positioned to capitalize on the increasing default rates among consumer receivable portfolios. Despite the challenging environment, PRAA's 3Q08 revenues grew at 25% to $68.6M. Since 1998, management has been able to grow revenue at a CAGR of 47% through strategic acquisitions that diversified their segment offerings. The company boasts a strong balance sheet with $28M in cash and a remaining balance of $98M on a line of credit following the addition of JP Morgan during Q3, which added $25M. This strong capital position will allow for further acquisitions of defaulted consumer receivables that are expected to come at discounted prices during 2009. Therefore, because of PRAA's proven ability to access liquidity and collect cash during a challenging economic environment, it is recommended that PRAA be added to the AIM Fund with a target price of $41, presenting a 32% upside. The company does not pay a dividend.

Investment Thesis

- **Disciplined Underwriting Process.** In order to price portfolios and forecast the targeted collections, PRAA uses two separate internally developed statistical models and one externally developed model, which can be supplemented with on-site due diligence. As of 3Q08, PRAA has acquired 1,213 portfolios with a face value of $38.5B for $1.01B. As consumer default rates continue to rise and pricing environments become more difficult, this sophisticated and conservative underwriting process will serve as a competitive advantage versus other collections companies.

- **Strong Cash Collection.** PRAA recorded cash receipts of $98.9M in Q3, which was up 34% from the same period a year ago. This included $83M from cash collections (27.4%yoy) and $15.9M (86%yoy) from the fee for service businesses. These cash collections were achieved by PRAA's employees recovering $134.23 per hour paid as measured over the first nine months of 2008. As a result, PRAA has been able to continue collecting at around 2.5-3.0x the purchase price of the portfolio, whereas its competitors generally only collect at 1.5x.
- **Legal Network.** PRAA maintains a strong legal network both internally and externally through a network of 70 independent law firms to track accounts that are included in consumer bankruptcies filed under Chapter 13. This department accounted for 32% of cash collections in 3Q08, with the internal legal department experiencing 45% yoy growth.

Valuation

A ten year DCF Model found the price of the stock to be $41.77. A terminal growth rate of 3% and a WACC of 11.28% were used. Under a bullish assumption (4.5% terminal growth, 9.30% WACC), a $66.06 target price was found. Currently, Portfolio Recovery Associates is trading at 10.43x current EPS. Due to PRAA's strong position for future growth, a P/E of 14 was used. Using 14x 2009 estimated EPS of $2.99, a $41.86 target price was obtained. A price target of $41.00 is set on PRAA.

Risks

- **Inability to collect on receivables.** As the economy continues to weaken along with expectations for rising unemployment and higher foreclosures, the company may be unable to collect the targeted cash flows on purchased receivables. If trends of rising bankruptcy from previous quarters (+12.5% in Q2) continue, customers will be less likely to pay outstanding debt.
- **Impairment charges from SOP 03-3.** In October 2003, the AICPA issued a statement regarding accounting for loans acquired in a transfer that limits the revenue that may be accrued to the excess of the estimate of expected future cash flows over a portfolio's initial cost of accounts receivable required. If the collection estimates are not received, the carrying value of the portfolio will be written down to maintain the then-current yield to be expected on the portfolio.
- **Heightened Competition.** The accounts receivable management industry is highly fragmented and competitive, consisting of approximately 6,000 consumer and commercial agencies of which 90% compete in the contingent fee business. PRAA currently notes that it successfully wins bids on one out of ten deals. Future profitability may decline if PRAA cannot be more successful in this competitive environment.

Management & Board Members

Steven Frederickson and Kevin Stevenson cofounded Portfolio Recovery Associates in 1996. Prior to co-founding the company, Mr. Frederickson was Vice President, Director of Household Recovery Services' Portfolio Services group. Mr. Stevenson served as a controller and Department Manager of Financial Control and Operations Support at HRSC.

Figure 1: PRAA Price Chart

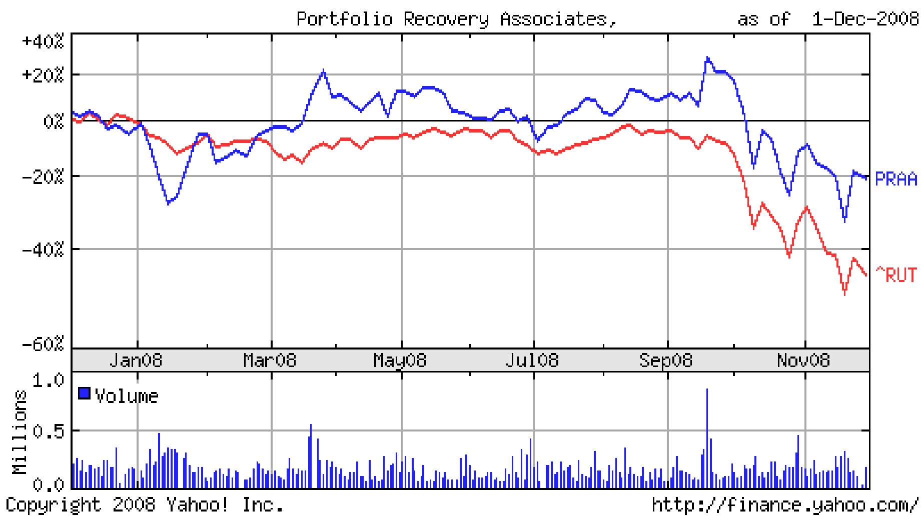


Figure 2: PRAA vs. Russell 2000 Price Chart

Ownership

% of Shares Held by All Insider and 5% Owners:	3%
% of Shares Held by Institutional & Mutual Fund Owners:	90%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investor	1,031,067	6.75%
Zevenbergen Capital Investments	872,450	5.71%
Waddell & Reed Financial	851,326	5.57%
Times Square Capital Management	795,850	5.21%
William Blair & Company	642,093	4.20%

Source: Bloomberg

Boston Beer Company
SAM
Price: $29.88 ($29.14-$54.15)
Fiscal Year Ends: December 31

December 2, 2008 | Tyler Merten
Russell 2000 Index: $417.07 (371.30 – 799.57) | Consumer Goods Sector

The Boston Beer Company, Inc. (SAM) produces a variety of craft-brewed beers and cider products at various contract breweries and Company-owned breweries primarily in the United States, Canada, Europe, Israel, and the Caribbean. The company markets approximately 20 products under brands such as Sam Adams, Twisted Tea, Hardcore Cider, and Oregon Beer and Brewing Company. It also produces and malt beverages under contract for third parties. SAM sells its products to a network of wholesale distributors, who ship the company's products to consumer retailers, pubs, restaurants, grocery chains, stadiums, and other outlets. The company was founded in 1984, is based in Boston, MA, and currently employs 500 people full time.

Recommendation

Boston Beer Co. continues favoring long-term growth over short-term profits. Management has emphasized it will focus on production efficiencies in FY09-10, which will drive of long-term margin expansion. SAM should begin reaping benefits from its Pennsylvania brewery purchase in FY09—this investment has positioned itself well for increased demand. However, Q3 was a challenging one for SAM's bottom line, as higher input costs and the lingering effects of the bottle recall added downward pressure. During that period, core shipment volumes were approximately 501,000 barrels (net of recalls), a 6.0% increase over the same period in 2007. Operating cash flows increased by 14.5%, and total Company sales volumes in the second quarter grew 12%, driven by double-digit percentage growth in several brands, including Samuel Adams Seasonals, Twisted Tea, and Samuel Adams Brewmaster's Collection. With its strong cash position, consistent volume growth, and focus on long-term capital investments, SAM provides significant upside in a volatile sector, as well as some shelter from economic downturn given the alcoholic beverage industry's historical performance. $34.00 target price is recommended.

Source: Bloomberg

Key Statistics	Nov 2008
Market Cap	$423.61M
Shares Outstanding	10.07M
Average Volume	129.234
Beta*	0.70
EPS (TTM)*	$1.90
2008 Est EPS*	$1.21
P/E (TTM)	15.73
PEG	2.19
WACC	10.3%
Price/Book	3.11
ROE*	18.57%
Gross Margin*	55.43%
Operating Margin*	11.80%
Target Price	$35.00
Div Yield (TTM)	N/A
Analyst Coverage	6

Investment Thesis

- **Successful Branding**—SAM's 20-plus products have successfully carved a niche in the "better beer" category, establishing a strong drinker following in its Flagship brand, Sam Adams Boston Lager, as well as Sam Adams Light and Sam Adams Seasonal Beers. Management is focused on advertising and growing the Twisted Tea brand family and its Brewmaster's Collection (primarily to add integrity to SAM's portfolio and promote the company's heritage), increasing expenditures 10% year-over-year.

- **Counter-cyclicality of Alcohol Consumption.** Historically consumers have maintained alcohol consumption during periods of economic downturn. Given SAM's strong customer base, demand is expected to remain strong per management's guidance. Market turbulence (partially based on a weakened consumer) has overly contributed to SAM's recent poor performance.
- **Brewery Expansion**—SAM recently closed a deal with Diageo PLC to purchase a Pennsylvania Brewery for $45 million. The investment will cost $110-120 million over the next three years—its 1.6 million barrel capacity should accommodate increased barrel volumes of 6% annually. The company's $10.6 million cash position, as well as an unused credit line of $50 million should be sufficient to fund the investment. SAM has expedited its operations in Pennsylvania for cost savings and accounting benefits—Diageo will continue brewing at those facilities indefinitely under a $55 million purchase agreement.

Valuation

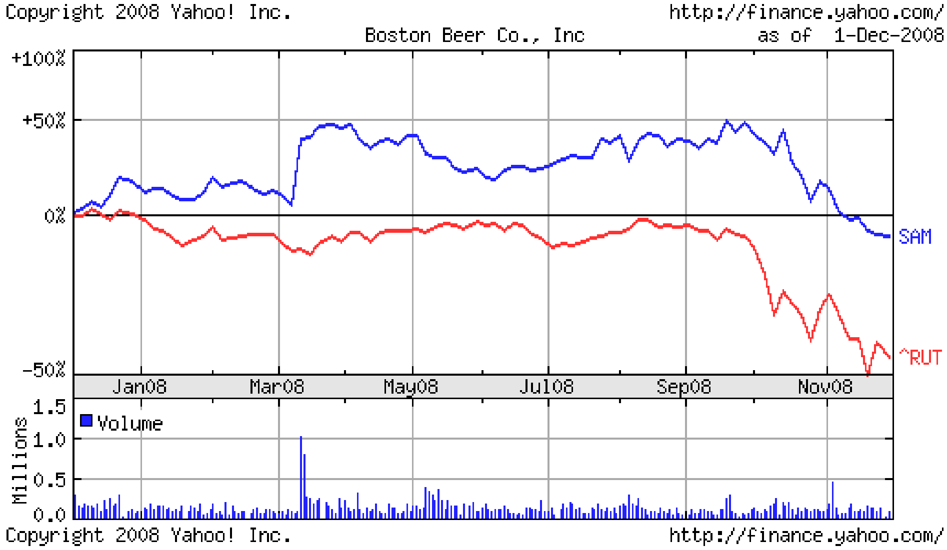
SAM is currently trading at 15.7x TTM EPS of $1.90. Based on a historical P/E average of 25x estimated 2009 EPS of $1.16 we find a $29.00 price target. A 10-year discounted cash flow valuation for SAM indicates an implied share price of $36.48 based on a calculated 10.30% WACC, compared to the current price of $29.88. Adjusting for WACC assumptions (9.3-11.3%) and long-term growth (2.0-4.0%) leads to a price range of $30.28-39.94. A $35.00 target price is reasonable for Boston Beer Co, yielding approximately 15% above its current price.

Risks

- **Taxation—**The federal government and all states levy excise taxes on beer and hard cider. The company currently enjoys reduced levies of $7.00 per barrel on its first 60,000 barrels. As SAM grows its volumes, it may have to forgo this reduced tax benefit. Individual states also impose excise taxes on alcoholic beverages in varying amounts, which are also subject to change. In addition, Twisted Tea is classified as a malt beverage for federal excise tax purposes—changes in tax codes for malt beverages would significantly impact margins on this segment and could impede the brand's expansion.
- **Competitive Industry.** The better beer category has become saturated in recent years. SAM must maintain customer loyalty to its flagship brands to remain competitive while attracting new drinkers. Invasive brands may have substantially greater financial resources, marketing strength, and other capabilities that could push SAM out of the market.
- **Implementation of Capital Projects**—SAM's Pennsylvania Brewery purchase is significantly over budget and some analysts question whether it was hasty to move operations to the new brewery so quickly. It will be essential to successfully integrate this $110 million project into SAM's operations while allowing Diageo to continue brewing under the purchase agreement.
- **Third-party Contracts**—SAM relies on short-term contracts with suppliers and distributors. Failing to renew these contracts could result in decreased margins and less a less efficient distribution network. The company recently lost one such deal with MillerCoors. Additionally, glass bottles from one of SAM's suppliers caused company's first product recall, dropping the stock by 3%.

Management

Jim Koch is Chairman and founder of Boston Beer Co. Modifying his great-grandfather's original recipe, he incorporated SAM in 1985 and brought the company public in 1995. Martin F. Roper, CEO, and William F. Urich, CFO, have a combined 20 years of experience with SAM.



Ownership

% of Shares Held by All Insider and 5% Owners:	5.00%
% of Shares Held by Institutional & Mutual Fund Owners:	83.00 %

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Neuberger Berman, LLC	1,265,028	8.92
Barclays Global Investors UK Holdings Ltd	760,713	5.37
Lord Abbett & Co	710,983	5.02
Renaissance Technologies, LLC	610,800	4.31
Goldman Sachs Group Inc	395,340	2.79

Source: Bloomberg

Somanetics Corporation
SMTS
Price: $15.21($10.01-$29.53)
Fiscal Year Ends: November 30

Date: December 2, 2008 — Lauren Grebe
Russell 2000 Index: 435.30 (371.30- 799.57) — Health Care Sector

Somanetics Corporation manufactures and markets non-invasive, portable blood oxygen monitors and single-use disposable sensors for adult, pediatric, and neonatal applications. The INVOS System measures patients' blood oxygen levels in the brain and muscles. During and post-operation, a risk of insufficient blood oxygen to the brain exists. By monitoring these levels, corrective action can quickly be taken, improving patient outcomes and ultimately reducing care costs. A direct sales team and independent sales representative firms sell to hospitals within the United States. Independent distributors sell to Europe, Canada, the Middle East, South Africa, and Japan. International sales currently compose 24% of total sales. Somanetics Corporation was founded in 1982 and is headquartered in Troy, Michigan.

Recommendation

Over 2,000 INVOS systems are currently in place across over 650 hospitals. The disposable nodes for the INVOS System, called SomaSensors, provide a regular flow of cash and compose 75% of total revenue. INVOS's risk management ability makes the system appealing to surgeons and anesthesiologists by improving patient outcomes and reducing patient costs per procedure. SMTS controls the niche market of pediatric and neonatal non-invasive blood oxygen monitoring, and are looking to apply similar technology to the elderly. The unique product design has resulted in strong margins for SMTS, with competitors achieving gross and operating margins of 50% and 20%, respectively, compared to Somanetics 75% and 28% margins. Somanetics is currently debt-free, allowing resources to be focused on the core business rather than paying off obligations. Given the above factors, sound financial statements, and a price valuation resulting in a target price of $19.50, it is recommended that Somanetics be added to the AIM small cap portfolio.

Key Statistics	12/02/2008
Market Cap	$186.26M
Shares Outstanding	12.01M
Average Volume	171,730
Beta	0.7
EPS (TTM)	$0.72
2008 Estimated EPS	$0.74
P/E (TTM)	21.27
PEG	1.02
WACC	9.10%
Debt/Equity	N/A
ROE	11.16%
Gross Margin	75.11%
Operating Margin	27.81%
Target Price	$19.50

Source: Bloomberg

Investment Thesis

- **Cost Management Focus.** The INVOS System allows hospitals to mitigate risk by monitoring patients' blood oxygen levels post-operation. Medicare and insurance reimbursements are received by procedure, not by extent of care provided. Hospitals ultimately save money by minimizing both over and under administration of resources.

- **Proven Product.** Extensive clinical testing has proven that INVOS improves patient outcomes and reduces hospital costs. A recent study of diabetic patients undergoing cardiac surgery showed ventilation hours reduced from 30 hours to 9 hours, ICU stays decreased from 69 hours to 30 hours, and hospital stays falling from 8.5 days to 5.5 days.

- **Expanding Technology Application.** While INVOS was originally created for adults, product versions have successfully been adapted for pediatric and neonatal application. SMTS is currently seeking the opportunity to target the elderly population, which totaled 5 million surgeries last year in the U.S. where blood oxygen level was a concern.

Valuation

A DCF model and relative P/E valuation were used to value Somanetics Corporation. Using a WACC of 9.0% and a terminal growth rate of 3%, a value of $21 was determined. The below sensitivity analysis shows how changes in assumptions changes the target price, giving a range of $17.62-26.67. A P/E valuation using a 21X industry multiple arrives at a price of $15. Considering the stock has historically traded around 25X, this gives a price of $18. Weighting the two methodologies, a target price of $19.50 has been determined.

		Terminal Growth Rate		
		2.5%	3.0%	3.5%
WACC	8.0%	$ 23.50	$ 24.93	$ 26.67
	9.0%	$ 20.09	$ 21.02	$ 23.43
	10.0%	$ 17.62	$ 18.25	$ 18.98

Risks

- **Lack of Product Diversity.** For growth to continue, penetration of foreign markets and continued product acceptance in the United States is needed. If the product were to become unfavorable or lose FDA approval, Somanetics would no longer exist.

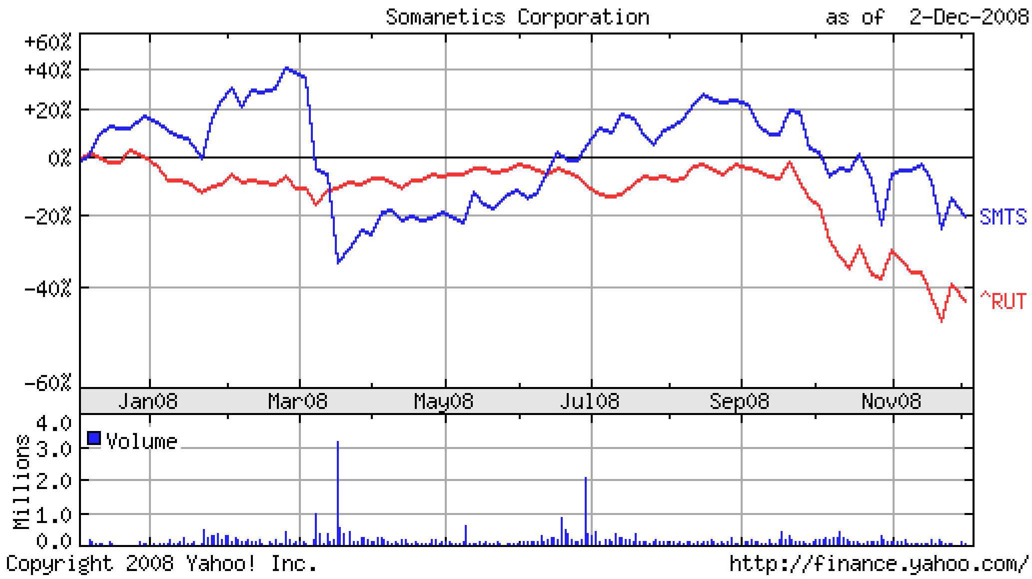
- **Dependence on Distributors.** Approximately 19% of sales come from abroad, 13% from Covidien alone. Covidien is a large independent distributor based in Bermuda, giving Sonanetics access to 60 countries. A disruption in the relationships with any of their distributors would negatively impact sales. There have been no issues to date.

- **Future Competition.** Somanetics currently holds 11 patents and has 5 additional pending, with their major patent expiring in 2019. A risk remains that a comparable product could be developed to compete with the INVOS System, negatively impacting margins.

Management

Bruce K. Barrett has served as the President and CEO since 1994. He brings years of experience in various roles at Abbott Laboratories. The Vice President and CFO, William Iacona was been with Somanetics since 2000, adding experience in external audit and finance. Along with the remaining upper management, the team has extensive industry experience and expertise in their specific areas.

Performance Chart Relative to Russell 2000



1 Year Price Chart

Ownership

% of Shares Held by All Insider and 5% Owners:	4%
% of Shares Held by Institutional & Mutual Fund Owners:	71%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
BARCLAYS GLOBAL INVESTORS UK HOLDINGS LTD	711,555	5.93%
RIVERBRIDGE PARTNERS, LLC	511,372	4.26%
CONESTOGA CAPITAL ADVISORS, LLC	388,839	3.24%
DEUTSCHE BANK AKTIENGESELLSCHAFT	345,695	2.88%
ESSEX INVESTMENT MANAGEMENT CO.	342,603	2.85%

Texas Capital Bancshares
TCBI
Price: $14.17 ($13.60 - 21.86)
FY End: December 31

December 1, 2008 — Kyle Zabel
Russell 2000 Index: 417.07 — Financial Services

Texas Capital Bancshares, Inc. is the holding company for Texas Capital Bank, a commercial banking company in Dallas with over $4.7B in assets. TCBI provides a full array of highly personalized banking services primarily to Texas-based, middle-market businesses and high net worth individuals. The bank was organized in 1998 by a group of entrepreneurial Texas bankers who acquired a predecessor bank and infused $80M in private capital. Since going public in 2003, Texas Capital Bank has rapidly grown its balance sheet and the company now operates ten branches strategically located in each of the state's five largest cities, with its primary market in Dallas and Ft. Worth.

Recommendation

Texas Capital is a solid banking franchise at an attractive valuation, especially as it operates in one of the nation's most favorable markets. The bank continues to grow its balance sheet (loans & deposits up 6% & 9% last qtr) as demand remains healthy and the Texas economy has held up relatively well against the current environment. TCBI has assembled a veteran team of Texas bankers and executes a solid, relationship-based banking model. These are attributes that the company feels are its greatest competitive strengths. Over 80% of deposits are from core customers, primarily affluent individuals who demand highly personalized service from local bankers. On the lending side, TCBI's loan portfolio is mainly comprised of commercial loans (56%, but well diversified by industry) and real estate loans (25%, but only ¼ commercial), with over 94% of all loans secured by collateral. Responsible underwriting has led to sound asset quality and should help insulate the bank from adverse economic conditions. Management's strategy is to continue leveraging existing infrastructure and growing organically within its primary markets, a feasible task as the bank's capital ratios are more than adequate. Trading at a discount to peers, it is recommended for the AIM Fund to purchase 450 shares of TCBI, a 1.7% portfolio weighting.

Key Statistics	**12/01/08**
Market Cap.	$437M
Shares Out.	30.85M
Avg. Vol. (3 mo)	319,000
P/TB	1.16x
P/E	13.76x
ROE	9.12%
Deposit growth (ytd)	10.52%
Loan growth (ytd)	10.77%
Net Interest Margin	3.47%
NPL/Tot. Loans	1.17%
Reserve/Tot. Loans	1.07%
Tier 1 Capital	10.54%
Tang. E/A	7.88%
Dividend Yield	N.A.
Target Price	**$21.00**

Sources: Bloomberg, TCBI Financials

Investment Thesis

- **Capital & Lending Positions.** After a PIPE offering that raised $55M in September, TCBI is very well capitalized with a Tier 1 ratio of almost 11%. While this capital provides sufficient cushioning for future losses, it will not remain idle. Management plans to use the funds to take advantage of lending opportunities as some more vulnerable competitors are retrenching. Positive trends in deposit growth and loan demand should continue into the near term as TCBI has ample capacity to lend. The bank is also awaiting approval for TARP funding, not because it is necessary, but because management views access to cheap capital as a positive means to exploit opportunities in the market.

- **Manageable Credit Trends.** Non-performing assets increased in Q3, but mainly due to the inflow of four lumpy real estate credits that have been revalued and should not provide large future losses. Most importantly, 90+ day delinquencies declined sharply and net charge-offs fell to just 0.14% of loans. TCBI overprovided for these write-offs and increased their loss reserve to 1.07%, a level that should be sufficient for the coming quarters.
- **Favorable Marketplace.** While Texas is not completely removed from the downturn seen across the nation, its economy has been quite resilient thus far. State unemployment is 1% below the national average, the market has been absorbing excess housing inventories, and Dallas/Ft.Worth/Austin have been particularly strong regions with favorable demographics. TCBI is positioning itself to take market share, recruit management from competitors, and increase lending as larger, national players pull back.

Valuation

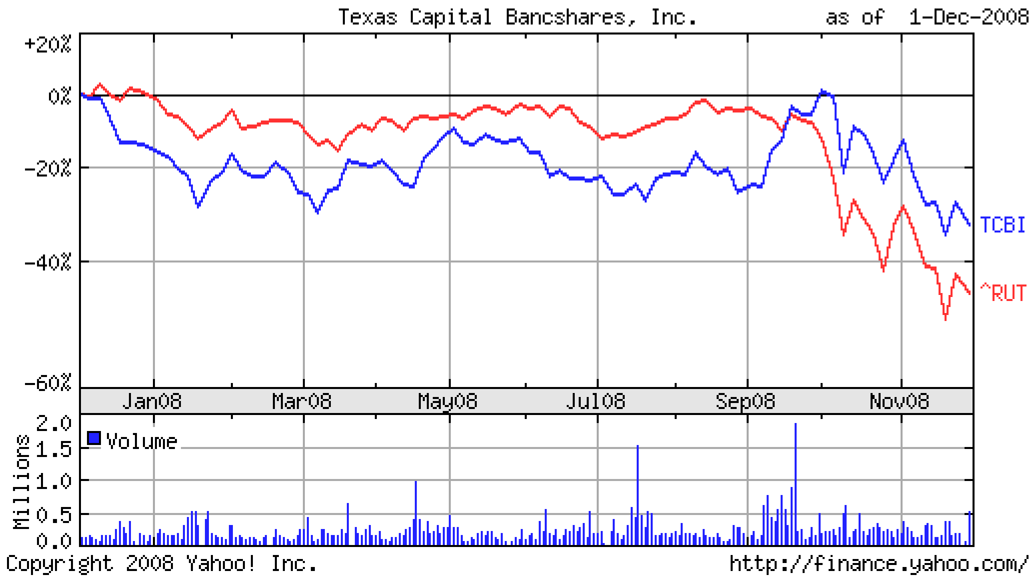
TCBI was valued with a Price/Tangible Book multiple. Focus has largely shifted to P/TB in today's small-cap banking environment as credit costs continue to disrupt P/E multiples. A select peer-group of mid-sized, well capitalized, Southwest and Texas community banks are trading at an average P/TB of 1.6x. With an estimated 2009 TB of $13.15/share, a price target of $21/share has been established. Potential upside is about 48% from the last close.

Risks

- **Future Asset Quality.** A prolonged economic downturn in Texas, additional home price declines, and a continued construction slowdown could further weaken the financial condition of TCBI's borrowers, specifically in regard to commercial loans. Increased non-performing loans and charge-offs would force the bank to increase loss reserves and reduce earnings. Also, because of its geographically concentrated deposit base and loan portfolio, TCBI's performance is tied rather closely to the health of the Dallas/Ft.Worth market.
- **Margin Compression.** Net interest margin contracted 18bps in Q3, more than the street expected. The increase in non-performing assets, an adverse shift in funding mix, and a competitive pricing environment were ultimately to blame. In such a low rate environment, more Fed cuts will continue to hurt margins as natural 'floors' have begun to set in on interest bearing deposits. Loan growth will be necessary to prop up net interest income.

Management

Superior management is an important differentiator and a real competitive advantage for players within the relationship-focused, regional banking space. TCBI is one of the few independent Texas banks – run by Texans and exclusively oriented to the needs of the Texas marketplace. The Chairman, CEO, CFO, and CLO are all Texas natives and founding members of the bank. Each has over 25 years experience within the finance and banking industries exclusively within the state of Texas.



Ownership

% of Shares Held by Insiders:	8%
% of Shares Held by Institutional & Mutual Fund Owners:	70%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Shares Outstanding
T. Rowe Price	2,708,055	8.78
Barclays Global	1,236,922	4.01
Banc of America Securities	1,214,749	3.94
Buckhead Capital Management	1,120,545	3.63
Transamerica Investment Services	1,089,835	3.53

Source: Bloomberg

Talisman Energy, Inc.
TLM
Price: $8.72 ($6.42 - $25.71)
Fiscal Year Ends: December 31

Date: December 1, 2008
S&P ADR Index: 997.32 (938.41 – 2085.17)

Patrick Abeln
International Energy

Talisman Energy, Inc. (TLM) is an independent upstream oil and gas company headquartered in Calgary, Alberta, Canada. Talisman engages in the exploration, development, production, transportation, and marketing of crude oil, natural gas, and natural gas liquids in North America, the United Kingdom, Scandinavia, and Southeast Asia. The company's production facilities are mainly concentrated in Canada (42.4% of PPE) and the UK (31.5%). During 2007, the UK represented 34.4% of revenues, while North America and Southeast Asia represented 32.5% and 16.1%, respectively. Talisman is also committed to conducting its business in an ethically, socially, and environmentally responsible manner. In 2007, TLM produced approximately 452,000 barrels of oil equivalent per day, weighted 47% to natural gas.

Recommendation

Talisman Energy is a Canadian-based independent oil producer with global opportunities. The company has recently revamped its strategy to focus on three core areas: the North Sea, North America, and Southeast Asia. Along with this focused strategy, Talisman continues to test unconventional drilling techniques in North America (210 gross wells drilled this year). TLM has already found success in projects throughout western Canada, with average daily production of 40,462 barrels/day of oil and liquids and 845 mmcf/day of natural gas (ytd). Additionally, the company has well-established facilities in the North Sea, which provided roughly 140,000 barrels/day during Q3. Finally, Talisman has a very strong balance sheet, with cash flow during Q3 increasing 48% y/y to $1.7B (0.7x D/CF), which leaves the company well positioned to withstand the current economic downturn. Based on TLM's strength in unconventional drilling, a strong balance sheet, and a wide array of growth opportunities, it is recommended that Talisman be added to the International AIM Portfolio.

Key Statistics	Dec.1, 2008
Market Cap	8.88B
Shares Outstanding	1.02B
Avg. Volume (3 mo.)	7.35M
Beta	1.257
EPS (mrq)	$1.33
P/E (ttm)	6.56
P/B (mrq)	1.14
WACC	11.28%
Debt/Assets	22.74%
ROE	27.22%
Gross Margin	43.43%
Operating Margin	27.95%
Dividend Yield	2.15%
Number of Analysts	22
Target Price	$15.00

Source: Bloomberg

Investment Thesis

- **Strength in unconventional drilling.** As of 3Q08, Talisman has drilled more than 200 gross wells in unconventional plays this year. Additionally, management has cited encouraging results from early shale tests in Quebec and Pennsylvania. The U.S.

Department of Energy has estimated that the cost ratio of horizontal vs. vertical wells is 2 to 1, while the production ratio is 3.2 to 1.

- **Strong balance sheet.** At September 30, Talisman's LT debt was $3.7B (net), representing a $0.6B decrease from December 31, 2007. Of this debt, only $185M matures in 2009 and $11M in 2010. Management has reiterated that they are focused on maintaining low debt levels and financial flexibility through a period of weaker commodity prices.
- **Diverse set of growth opportunities.** Over the past 12 months TLM has narrowed its strategy to focus on the North Sea, Southeast Asia, and North America. During 3Q08, production from continuing operations in the UK was up 20% y/y, and production in Scandinavia was up 21% y/y. In North America, the company continues to invest in unconventional drilling opportunities while the Montney and Bakken regions have emerged as high-potential areas. TLM also has a wide range of opportunities in Southeast Asia, most notably in Malaysia, Indonesia, and Vietnam.

Valuation

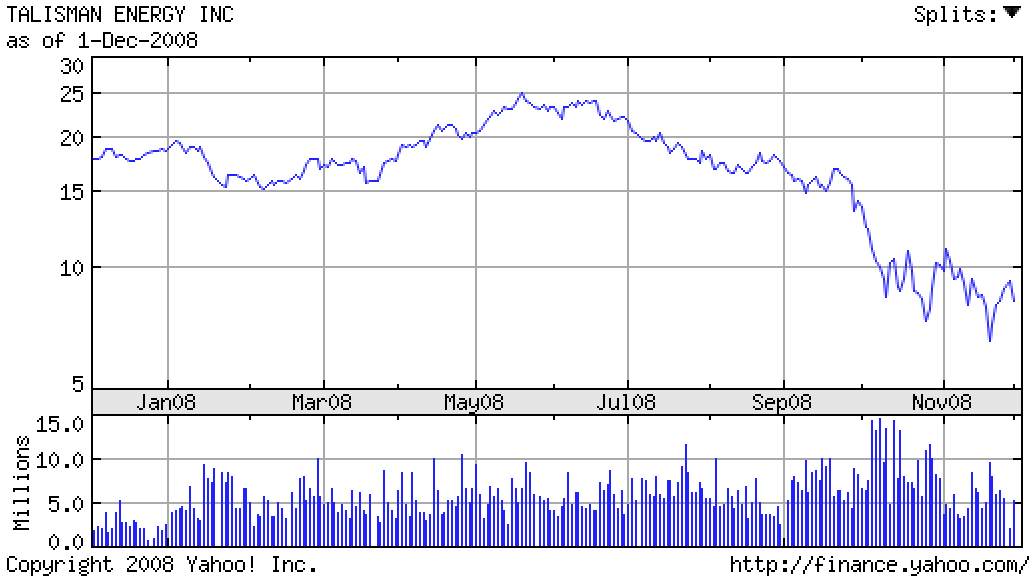
Based on a DCF valuation (using a WACC of 11.28% and terminal growth of 3%), an intrinsic value of $11.66 was determined. Also, an Enterprise Value / DACF multiple valuation was used, which has generated an intrinsic value of $22.22. Additionally, Talisman is currently trading around 6.5x earnings, compared to the company's five year average of 15.4x. Altogether, a target price of $15.00 was generated. The company also pays a 2.15% dividend.

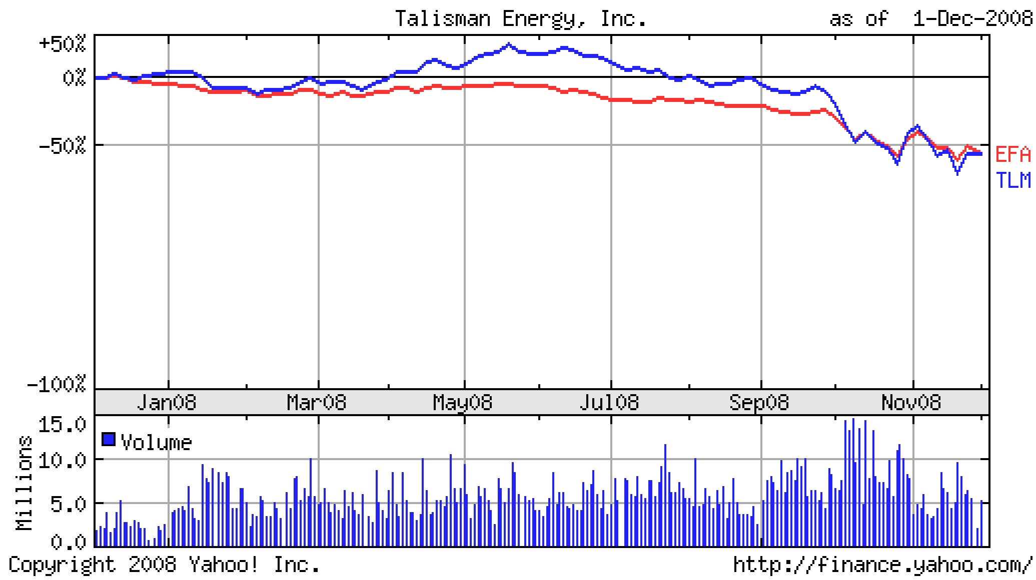
Risks

- **Sustained downturn in commodity prices.** Talisman is one of many energy firms who will be negatively impacted by an extended period of low commodity prices. However, the company has a strong hedging program in place, with roughly 42% of winter WTI and Brent crude sales fixed at $90.21/b. The company has also hedged its natural gas exposure, and overall Talisman appears to be in a relatively strong position to withstand a period of weak prices.
- **Inherent danger in developing new wells.** In line with the company's more focused strategy, TLM has invested heavily in unconventional drilling projects. These projects are typically riskier than conventional drilling, and cost roughly twice as much. Management has explicitly stated that they intend to actively work on increasing in-house expertise and leveraging partners' experience in order to mitigate these inherent risks.
- **Currency risk.** The CAD spent much of 2007 in parity with the USD, but has since fallen to roughly $1.25/C$. Future earnings are susceptible to fluctuations in the CAD versus other currencies, most notably the USD and GBP.

Management

John A. Manzoni took over as President and CEO of Talisman on September 1, 2007, after former CEO Jim Buckee retired after 14 years of service. Prior to joining Talisman, Mr. Manzoni served as BP's head of marketing and refining. At Talisman, Mr. Manzoni has joined an independent board of directors who typically have 10-20 years of experience in the industry. TLM also has a high level of executive compensation tied to clearly disclosed performance measures, and management is required to adhere to minimum levels of share ownership.





Ownership

% of Shares Held by Insiders and 5% Holders:	1.0%
% of Shares Held by Institutional & Mutual Fund Owners:	70.19%

Source: Talisman Energy, Inc.

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Jarislowsky Fraser, Ltd.	65,352,806	6.4%
McLean Budden Ltd.	38,341,801	3.8%
Neuberger Berman, LLC	34,151,482	3.4%
CI Investments Inc.	27,910,703	2.7%
Caisse de Debot et Placement du Quebec	27,910,703	2.7%

Source: Talisman Energy, Inc.