Applied Investment Management (AIM) Program

AIM Fund Investment Advisory Board Meeting
Raynor Library Conference Center (Lower Level)

Wednesday, April 22, 2009

Session 1 Equity Presentations: 4:00 pm – 5:45 pm

Session 2 Equity Presentations: 6:00 pm – 8:00 pm

(Equity Write-ups below)

AIM Equity Fund Presentations

Student Presenter	Company Name	Ticker	Price	Page No.
Nathan Novak	Cal-Maine Foods, Inc.	CALM	$25.35	2
Michael O'Carroll	NorthWestern Corp.	NWE	$21.32	5
Matthew Pruyn	American Science and Engineering Inc.	ASEI	$55.48	8
Ryan Rusch	National Health Investors, Inc.	NHI	$28.69	11
Michael Signore	Merit Medical Systems, Inc.	MMSI	$12.25	14
Daniel Widjaja	Tenaris S.A.	TS	$24.48	17
Joseph Boucher	Embotelladora Andina S.A.	AKO	$12.91	20
Ross Michler	j2 Global Communications, Inc	JCOM	$24.52	23
Brian Paolo	Diamond Hill Investment Group, Inc	DHIL	$42.95	26
Corbin Weyer	TeleCommunication Systems, Inc	TSYS	$9.19	29

Cal-Maine Foods, Inc.
CALM
Price: $25.35 ($21.08 - $48.80)
Fiscal Year Ends: May 31

April 16, 2009 Nathan Novak
Russell 2000 Index: $410.96 ($371.30 - $764.38) Industrial Materials Sector

Cal-Maine Foods, Inc. is the largest producer and marketer of shell eggs in the United States. Their primary business is the production, grading, packaging, marketing, and distribution of shell eggs to states in the southwestern, southeastern, midwestern and mid-Atlantic regions of the United States. They sold 678 million eggs in fiscal 2008, which represents 15.8% of the domestic shell egg consumption. Their primary customers include grocery stores, club stores, food service distributors, and egg product manufacturers. Along with traditional eggs, they sell value-added specialty eggs that offer consumers a low-cholesterol, cage free, and/or organic alternative. This value-added segment is rapidly expanding and makes up 14.81% of total sales volume .CALM was founded in 1969 and is based in Jackson, Mississippi.

Recommendation

CALM is the leader in a highly fragmented egg industry that has seen volume increases of 1-2% per year and is currently riding the tailwind of record high sale prices. Due to the fragmentation of the industry, CALM has been able to seamlessly complete 16 acquisitions over the past 20 years and has accumulated a 15.8% market share. The next 15 largest competitors combined own a similar 15% share. The fastest growing portion of their business is their specialty egg segment. These eggs are higher priced, have higher margins and are less volatile than typical shell eggs. Specialty egg volume grew 50% yoy in the most recent quarter and is currently only 14.81% of sales, leaving much more room for growth. Furthermore, CALM offers an attractive chance to diversify a portfolio. With volume staying relatively consistent, the drivers of profitability are egg, corn, and soybean prices (corn and soybean being COGS). This gives the diversification of a commodities basket, as CALM has yielded a .27 correlation coefficient with the Russell 2000 over the past 3 years. While CALM enjoys much upside potential (146% sales CAGR over the prior 3 FY), it also limits risk on the downside by offering a 7% dividend yield. Therefore, because of CALM's position in their industry (especially with specialty eggs), their low correlation to the Russell 2000 Index and their generous dividend policy it is recommended that CALM be added to the AIM Equity portfolio with a target price of $39.85.

Key Statistics	Feb 22, 2008
Market Cap	$603.05M
Shares Outstanding	23.80M
Ave. Volume (3 month)	234,215
Adjusted Beta	1.13
EPS (TTM)	$4.45
FY 2010 Estimated EPS	$4.57
P/E (TTM)	5.70
PEG Ratio	0.66
WACC	12.73%
Debt/Equity	0.42
ROE	36.81%
P/Book (TTM)	1.80
Gross Margin	25.76%
Operating Margin	17.27%
Dividend Yield (TTM)	7.00%
Analyst Coverage	1
Target Price	$39.85

Source: Bloomberg

Investment Thesis

- **Increase Demand for Eggs.** The demand for eggs is heavily tied to the growth of the US population, and typically grows approximately 1-2% per year. This stabilizes volume demand, as annual per capita consumption has only ranged between 252 and 257 since the year 2000. This grow rate was fairly protected from the recent recession, as retail demand fell, but home demand rose.

- **Controlled Increase Supply of Eggs.** The egg industry has historically been highly volatile due to little entry barriers. When egg prices would rise, entrants would flood the market, increase supply and prices would spike downwards. There are two key factors in the current environment that will help curb this influx of suppliers. First, the cost of corn (the main COGS) is just recently off record highs. Second, living space requirements for chickens were increased in 2008. While suppliers will undoubtedly attempt to move into the egg market, these much higher than average start-up costs will make the most recent influx less dramatic than in years past.
- **Controlled Drop in Egg Prices.** The modest 1-2% increase in demand will not offset the influx of suppliers attempting to take advantage of high egg prices. The offsetting supply depressors will cause egg prices to inch down more slowly than in years past. Industry research suggests that the egg prices will drop from their recent highs but still stay (through FY 2010) approximately 30-40% above their 2007 levels.

Valuation

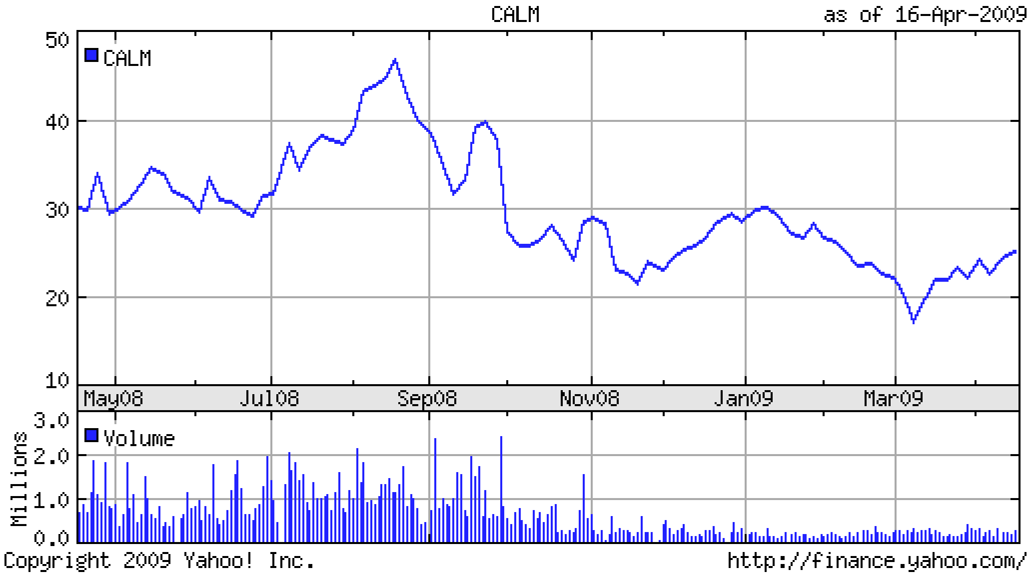
A 5 year DCF valuation was done with a computed WACC of 12.73% and a terminal growth rate of 2%. Regular egg prices were set from USDA/UC-Riverside estimates through FY 2010 and then dropped to a 16.8% premium over 2007 prices levels by 2014. Specialty egg prices were modestly grown in line with consistent historical trends from the past 5 years. Regular egg volume will have a small comeback (9.92%) in FY2010 with the return of retail demand, followed by an expected 2% growth. Specialty egg volume was modestly grown at 12-15% yoy, eventually making up 21.92% of sales in FY 2014. GM was decreased from its 2008 high, but increased from 24.83% to 29.39% from FY 2009 to FY 2014 due to CALM's growing exposure to their higher margin specialty egg segment. Being more expensive to market, specialty eggs will also cause a rise in SG&A from 8.77 – 11.96% from FY 2009 – 2014. This analysis yielded a $37.71 intrinsic value. A sensitivity analysis was done with independent variables of WACC (10.73 - 14.73%) and terminal growth (1.5 –2.5%) and yielded a price range of $30.70 - $48.98. The 5 year smoothed out P/E ratio of 7.29 and a FY2010 EPS of $4.57 yielded a $33.31 intrinsic value. A return to a smoothed out EV/EBITDA 5 year average of 4.275 would yield a $45.21 intrinsic value. Taking these valuations into consideration, a $38.31 is set, which represents as 51.1% upside.

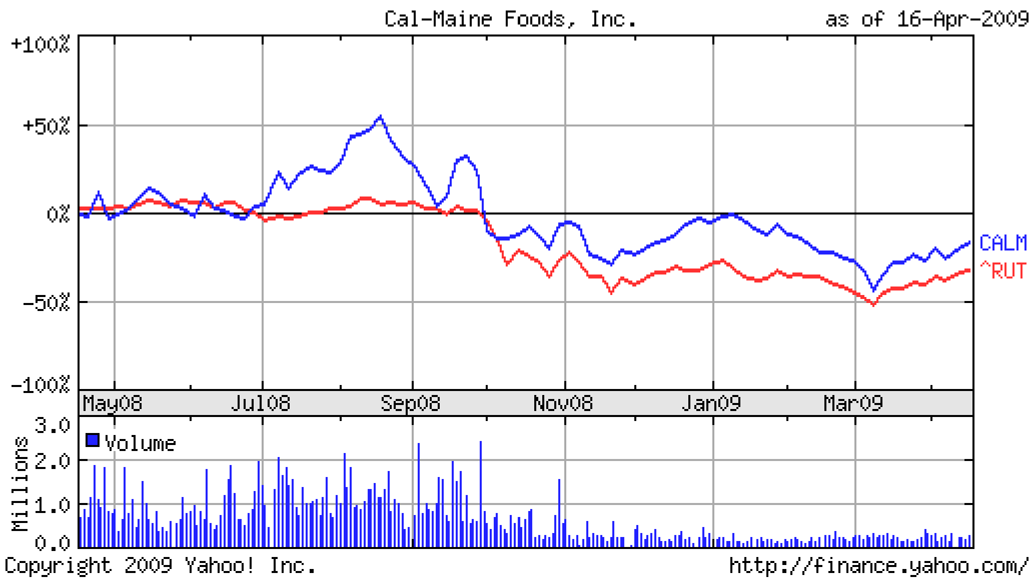
Risks

- **Egg Price Volatility.** Over 90% of eggs sold in the US are priced off of the Urner-Barry Price Index, which tracks supply and demand factors that affect the industry. This price is affected by aspects largely outside of managements' control and consistently fluctuates seasonally.
- **Availability of Credit.** CALM was able to accumulate a 15.8% market share of the shell egg business by buying smaller-readymade egg producers. Continued growth relies on an ability to raise capital to finance further acquisitions.
- **Availability of Acquisition Prospects.** CALM grows by acquiring smaller companies so as not to upset the balance of supply and demand. The availability of these companies is directly tied to CALM's future growth potential.
- **Dividend Yield.** In late 2008 CALM instituted a dividend policy that required 1/3 of net income to be paid out as a dividend. This increased the dividend from 1.3 to 80.7 cents per share. While this is great during moderate and good years, a horrible year could whip the dividend out completely.

Management

Fred Adams Jr. has been the CEO of CALM since the Company's formation in 1969. Mr. Adams has unmatched experience in the industry, serving as Director and Chairman for National Egg Company, United Egg Producers and many others.





Ownership

% of Shares Held by Insiders and 5% Owners:	41%
% of Shares Held by Institutional & Mutual Fund Owners:	69%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Admas, Fred Jr.	5,444,535	22.88%
Suntrust Banks, Inc	1,415,870	6.62%
Acadian Asset Management	926,213	4.33%
Bridgeway Capital Management, Inc	922,200	4.31%
Vanguard Group, Inc (The)	916,355	4.28%

Source: Yahoo! Finance

NorthWestern Corp.
NWE
Price: $21.32 ($16.47-28.50)
Fiscal Year Ends: December 31

April 16, 2009 — Michael O'Carroll
Russell 2000 Index: $473.88 (342.59-764.38) — Utility Sector

NorthWestern Corp. is an electrical (67 % of revenues) and gas (33% of revenues) utility provider that has operations in Montana (332,500 electric customers, 179,200 natural gas customers), South Dakota (60,100 electric customers, 43,000 natural gas customers), and Nebraska (41,500 natural gas customers). The company operates in three segments: regulated and unregulated electric utility, regulated and unregulated natural gas utility, and other (which consist of unregulated natural gas operations). The electric utility segment consists of an electric transmission and distribution network. The natural gas segment consists of a natural gas supply and interstate pipeline transmission and distribution service. NorthWestern Corporation has distributed electricity and natural gas to South Dakota and Nebraska since 1923 and had just recently expanded its electric and natural gas operations to Montana in 2002. NorthWestern is incorporated in Delaware and currently bases its operations out of Sioux Falls, South Dakota.

Recommendation

NWE's strong cash position in the utility sector allowed it to increase its dividend in the first quarter of 2009 by $.005 for an overall dividend yield of 6.2% which is 44% greater than the industry average. NWE currently has a ROE of 8.52% and a ROA of 2.55% which are 10% and 12% greater than industry averages. On March 23, 2009 the firm issued $250M First Mortgage Bonds (6.34% Interest, Semi-annual Payments) to mature April 1, 2019. With the proceeds NWE plans to repay an outstanding balance on Colstrip Lease Holdings LLC (a wholly owned subsidiary) of $100M plus accrued interest, repay the outstanding balance on the company's revolving credit facility, and fund a newly proposed project, the Mill Creek Generation Facility (if approved). NWE also has shown strong intentions of expanding into alternative energy; on April 8, 2009 the company announced that it has been developing plans to build a 500kV transmission line in Midpoint, Idaho. The plan, called the Mountain States Transmission Intertie, will carry power generated from Montana wind farms to markets in the Western Region of the United States. With NWE's strong position in the utility market and the firm's strong dividend yield, I recommend the addition of NWE to the AIM Equity Portfolio with a target price of $35.

Key Statistics	April 16, 2009
Market Cap	$775.15M
Shares Outstanding	35.94M
Ave. Volume (3 month)	361,524
Adjusted Beta	.864
EPS (TTM)	$1.78
2009 Estimated EPS	$1.91
P/E (TTM)	12.21
PEG Ratio	1.12
WACC	7.16%
Debt/Assets	32.59
ROE	8.52%
ROA	2.55%
Gross Margin	41.79%
Operating Margin	15.73%
Analyst Coverage	4
Target Price	$35.00
Dividend Yield	6.20%
Dividend (USD)	$.335

Source: Bloomberg

Investment Thesis

- **Proposed Capital Projects.** NWE has proposed three capital projects, first is an upgrade to their existing 500kV Colstrip Transmission Line running from Montana to the Pacific Northwest, second is a Montana Collector System (wind energy), and third is the Mountain States Intertie (MSTI). The MSTI which is projected to be in service by 2014 would allow NWE to expand its operations into Idaho, Utah, and the Southwest United States. The MSTI will be approximately

400 miles in length and is expected cost $800M to $1B to construct. The MTSI will allow NWE to gain market share as a result of expanding its use of alternative energy.

- **Renewable Energy Expansion.** NWE strongly supports the development of renewable energy in Montana. Currently the firm delivers over 8% of wind and renewable electricity to its Montana customers, which is higher than any other regulated utility in the Pacific Northwest. NWE is currently on target to achieve at least 15% of its electricity coming from renewable resources in Montana by 2015. With NWE prospecting to increase its renewable energy generation the firm will be subject to less risk involved with emission standards while increasing its overall profitability by decreasing input costs.
- **Secured Energy Contracts.** NWE reduced its future risk in regards to the price of commodities by signing a purchase contract with electric utility provider PPL Montana. In 2006, NWE signed a seven-year power purchase agreement with PPL Montana to obtain 13.7 million-megawatt hours at a price $675 million. NWE's current lack of natural gas reserves and electric generation assets within the Montana market became the main driver for this contract.

Valuation

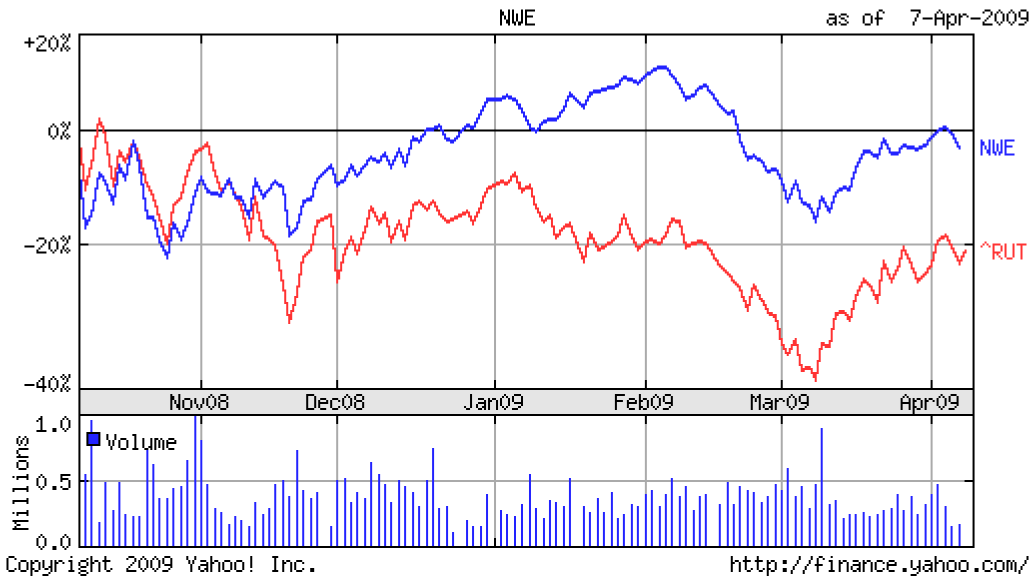
NWE is currently trading at 11.97x TTM EPS of $1.78. Using a conservative industry P/E of 14.56 and a 2009 EPS estimate of $1.91 yields a $27.81 price target. Based on a 10 year DCF analysis with a computed WACC of 7.16% and a terminal growth rate of 3%, an intrinsic value of $35.93 was determined for NWE. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (6.16-8.16%) generates a price range of $29.34-53.47. Based upon the valuation using both the industry P/E and 10 year DCF a target price of $35.00 was determined which would provide a 64% upside.

Risks

- **Regulatory Risk.** The Clean Air Mercury Rule (CAMR) was issued by the EPA in March 2005 and requires the reduction of mercury emissions from coal-fired facilities through a market based cap and trade program. The state of Montana has finalized its ruling stating that NWE is required to have its emission reductions met by 2010. Current costs to meet the program include $1M in capital costs and $3M in annual operating costs. If these emission requirements are not met by 2010 with current capital expenditures, an increase in capital expenditures towards chemical injection technologies will be required at the Colstrip Unit 4 Generation Facility.
- **Future Rate Cases.** NWE expects the proposed Mill Creek Generation Facility, Colstrip Transmission Line upgrade, Montana Collector System, and MTSI to create capital expenditures of $1.2 to $1.6B up through 2014. With NWE engaging in this amount of capital expenditures the firm is subjecting itself to a large amount of risk if the state public utility commissions do not approve favorable rate cases to allow NWE to reacquire the costs through its base rates.
- **Pension Benefit Risk.** NWE has two defined benefit pension plans that cover all employees. Due to current market conditions, without sustained growth in plan assets NWE could be required to fund the plans with large injections of cash. Such injections could have a material impact on NWE's liquidity. NWE had originally expected to incur $17M of cash funding for 2009, as of December 31, 2008 NWE has revised their projections to $47M.

Management

Robert C. Rowe has been the President and Chief Executive Officer and Director of NorthWestern Corp since August 2008. Prior to joining NorthWestern, Mr. Rowe co-founded Balhoff, Rowe, & Williams, LLC in 2005, a specialized national professional services firm that provided financial and regulatory advice to clients in the telecommunications and energy industries. Prior to his career as a consultant Mr. Rowe served as Chairman and Commissioner of the Montana Public Service Commission from 1993 to 2004.



Ownership

% of Shares Held by Insiders:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	99%

Source: Yahoo Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Munder Capital Management Inc.	3,288,932	9.15%
Zimmer Lucas Capital LLC	2,481,455	6.91%
Argyll Research LLC	1,776,182	4.94%
Barclays Global Investors UK	1,689,062	4.70%
AXA	1,566,183	4.36%

Source: Bloomberg

American Science and Engineering Inc.
ASEI
Price: $55.48 ($42.10-$83.22)
Fiscal Year Ends: March 31

April 6, 2009 — Matthew Pruyn
Russell 2000: 453.22 (342.59-764.38) — Business Services Sector

American Science and Engineering Incorporated (ASEI) is the leading worldwide supplier of innovative X-ray inspection systems for homeland security and other targeted markets. ASEI's systems are utilized by government agencies, border authorities, military bases, airports, and corporations worldwide. ASEI's systems protect high-threat facilities and help combat terrorism, trade fraud, weapons smuggling, and illegal immigration. ASEI's products and services can be grouped into six different segments including CargoSearch Inspection Systems (18% FY08 revenues), Z Backscatter systems (25%), ParcelSearch Inspection System and Personnel Inspection (8%), Contract Research and Development (7%) and Service and Support (42%). ASEI was founded in 1958 and is headquartered in Billerica, Massachusetts; AS&E's X-ray inspection systems can now be found in 137 countries around the world.

Recommendation

American Science and Engineering's superior, proprietary technologies have differentiated this company from its competition. In particular, its patented Z backscatter imaging technology continues to gain international recognition as the best-in-class solution for detecting explosive threats and contraband. As a result, ASEI continues to attract clients requiring the most innovative and advanced threat detection technology. ASEI focus on expanding international revenues (43% increase FY08) has reduced its reliance upon the U.S. Government. In addition, ASEI's international expansion demonstrates its ability to capture new customers (57% increase FY 08). The majority of these new bookings were from customers in the international market place. ASEI continues to penetrate new markets in strategic regions, which has led to a more diversified client base. In addition, ASEI pays a dividend of $.80(1.44% yield). Therefore this stock would be a valuable addition to the portfolio because the target price of $68 represents a potential gain of approximately 23%.

Key Statistics	April 6, 2009
Market Cap	$505.25M
Shares Outstanding	9.107M
Ave. Volume (3 month)	219,669
Adjusted Beta	.709
EPS (TTM)	$2.56
2009 Estimated EPS	$3.30
P/E (TTM)	21.77
PEG Ratio	1.13
Dividend Yield	1.40%
WACC	8.1%
Forward P/E	15.63
ROE	10.47%
ROA	7.83%
Gross Margin	38.85%
Operating Margin	15.81%
Analyst Coverage	5
Target Price	$68

Source: Bloomberg

Investment Thesis

- **Z Backscatter Technology.** ASEI's patented Z backscatter technology is a unique X-ray imaging technique that has distinct advantages for the detection of low or atomic materials. Through this technology, ASEI's products provide unparalleled detection capabilities. The Z backscatter technology is a unique feature that distinguishes ASEI's products from competitors. In addition, this superior level of threat detection has made this system a necessity for client's requiring the highest levels of security.
- **International Sales.** ASEI's international sales (36% of sales FY08) have grown substantially and continue to be a high priority for the company as part of its long-term growth strategy. Specifically, ASEI has made substantial sales inroads in key regions around the world, including Africa, South America, Europe and the Middle East. Through the expansion of international

sales, the company has been able to reduce its reliance on the U.S. Government as the main source of income. While 55% of total revenues in FY 08 were derived through contracts with the U.S. Government, this is a drastic improvement from FY 06 (77%). As a result, the company international expansion has mitigated the risks associated with the dependence on the U.S. Government for the majority of revenue.

- **Patented Technology.** The company's patents, proprietary technology and trademarks provide substantial protection for its competitive position. The majority of ASEI's patents have been issued in the past five years, which means the company's technology is protected for a substantial period of time. ASEI's patented technology enables the company to lock out its competitors and helps preserve high profit margins.
- **Cargo Systems Breakthrough.** In FY08, revenues from Cargo systems rose 153% to $29.8 million. With the development of its new Z Gantry multi-view Z backscatter system (announced April 6), ASEI is positioned to further penetrate this market. The fact that the Department of Defense has already ordered this new screening system demonstrates the success of this new product offering.

Valuation

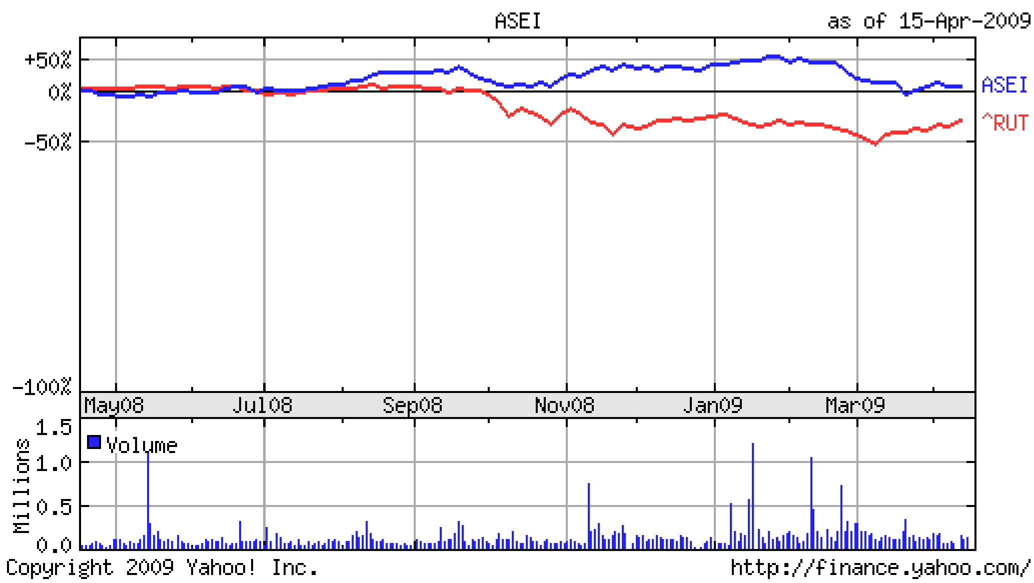
Based on a 10 year DCF model with a computed WACC of 8.51% and a terminal growth rate of 3%, the model yielded an intrinsic value of $68.96. Adjusting for WACC and terminal growth assumptions, a sensitivity analysis yielded a price range of $45.63 -$88.65. Additionally, ASEI is currently trading at 22xTTM EPS of $2.56. A conservative historical P/E ratio of 22 times the 2009 EPS estimate of $3.30 implies in a $72.60 share price. With all metrics taken into account, a target price of $68 has been established, implying a 23% upside.

Risks

- **Reliance upon U.S. Government.** Since 55% of revenues in FY 08 were derived from the U.S. Government, the success of this company is contingent upon its relationship with the government. In addition, some of the contracts provide the U.S. Government with the standard unilateral right to terminate these contracts for convenience. Thus, ASEI's relationship with the U.S. Government is critical to remain successful.
- **Limited Availability of Supply** ASEI relies on a limited number of suppliers to provide material and subsystems for its products. Specifically, the company is reliant on a number of key international supply partners for core technology products. As a result, the process of finding a new supplier would be expensive and a time consuming process.
- **Governmental Policies** ASEI is exposed to the U.S. budget approval and processes, which is beyond its control. Significant changes in defense spending could have long-term consequences for ASEI's size and structure. Furthermore, changes in government priorities or funding could adversely impact operating results and its financial condition.

Management

Anthony Fabiano has been President and CEO of American Science and Engineering since 2002. Prior to joining ASEI, Fabiano served as the President and CEO at Despatch Industries. Since 2005, Ken Galaznik is the CFO and Treasurer of the company. Galaznik first joined ASEI in 2002; previously he served as the Vice President of Finance at Spectro Analytical Instruments.



Ownership

% of Shares Held by Insiders:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	65%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
FMR LLC	571,200	6.27%
Barclays Global Investors UK Holdings Ltd	456,070	5.01%
Friess Associates Incorporated	433,600	4.76%
Thompson, Siegel & Walmsley Incorporated	332,371	3.65%
Vanguard Group Incorporated	296,030	3.25%

Source: Bloomberg

National Health Investors, Inc.
NHI
Price: $28.69 ($17.10-35.00)
Fiscal Year Ends: December 31

April 17, 2008 | Ryan Rusch
Russell 2000 Index: $473.88 (342.59-764.38) | Financial Services Sector

National Health Investors, Inc. is a real estate investment trust (REIT) that invests in income-producing health care properties with an emphasis on the long-term health care sector. NHI derives its revenues from two sources: mortgage notes receivable (15% of net revenue) and rental revenue (85% of net revenue). Of the 123 health care facilities that NHI owns, there are 83 long-term care facilities, 1 acute care hospital, 4 medical office buildings, 14 assisted living facilities, 4 retirement centers and 17 residential projects for the developmentally disabled. The properties are disbursed across 17 states with the majority located in Florida (24%), Tennessee (23%) and Texas (8%). As a REIT, NHI is exempt from federal and state income taxes since it distributes at least 90% of its taxable income to shareholders. NHI was founded in 1991and is based in Murfreesboro, Tennessee

Recommendation

NHI is well positioned to take advantage of the current negative investor sentiment toward the REIT sector. Created by an overexpansion of acquisitions through the use of excess leverage and continuously declining rental rates, the Dow Jones Equity REIT Index is off 68% from its peak in February 2007. In contrast to many of their competitors, NHI has been able to sustain a very favorable balance sheet over that same time period. At the start of 2008, NHI had $100.2M in cash and only $3.9M in debt outstanding. Through a conservative acquisition strategy, NHI is able to sustain its profitability and 7.62% dividend yield while evaluating potential property additions to their portfolio. NHI is also able to build upon their diversified tenant base which only has 7 leases expiring prior to 2013, or just of 20% of annual gross rental revenue. Based on NHI's strong balance sheet, diversified tenant base, consistent dividend and future opportunities for growth through acquisition, it is recommended that NHI be added to the portfolio with a target price of $34.00

Key Statistics	April 14, 2008
Market Cap	$795.42M
Shares Outstanding	27.58M
Ave. Volume (3 month)	132,737
Adjusted Beta	1.02
EPS (TTM)	$1.98
P/E (TTM)	14.57
P/Funds From Operation	12.27
Price/Book	1.85
WACC	11.40%
Debt/Assets	0.87%
ROE	13.13%
Dividend Yield	7.62%
Analyst Coverage	0
Target Price	$34.00

Source: Bloomberg

Investment Thesis

- **Strong Balance Sheet Position.** At the start of 2009, NHI had outstanding debt of $3.9M and a total of $100.2M in cash on their balance sheet. Total debt was decreased from $113.5M at the start of 2007 through the repayment of $100M in outstanding notes payables. Financing for the repayment of the notes was all done through a cash transaction. In a REIT sector that has experienced an extreme amount of volatility since 2008, a conservative use of leverage as compared to their peers leaves NHI with a very strong balance sheet. This extremely low amount of debt positions NHI to take advantage of depressed property prices in the near future through acquisitions of currently undervalued properties.
- **Diversified Tennant Base.** When NHI began operations 1991, 100% of their properties were leased by National HealthCare Corp (NHC). At the beginning of 2009, NHC leased properties accounted for only 19.7% of NHI's total portfolio. NHI currently has 10 property managers who

operate more than 3% of their total real estate investments. Diversifying property operators allows for NHI to minimize the risk of potential payment or interest default that exists with having a concentrated numbering of tenants.

- **Favorable Lease Structures.** Lease structures established by NHI with their tenants have initial lease terms of 10 to 15 years. All of the leases contain an additional option for one or more five-year renewal options. The leases are all triple-net which defers all operating expenses associated with the business operation of the property to the tenant. Over the next three years, NHI has 7 leases expiring that account for 20% of annualized gross rental revenue. This allows NHI a constant and foreseeable future stream of rental revenue for the upcoming three years.

Valuation

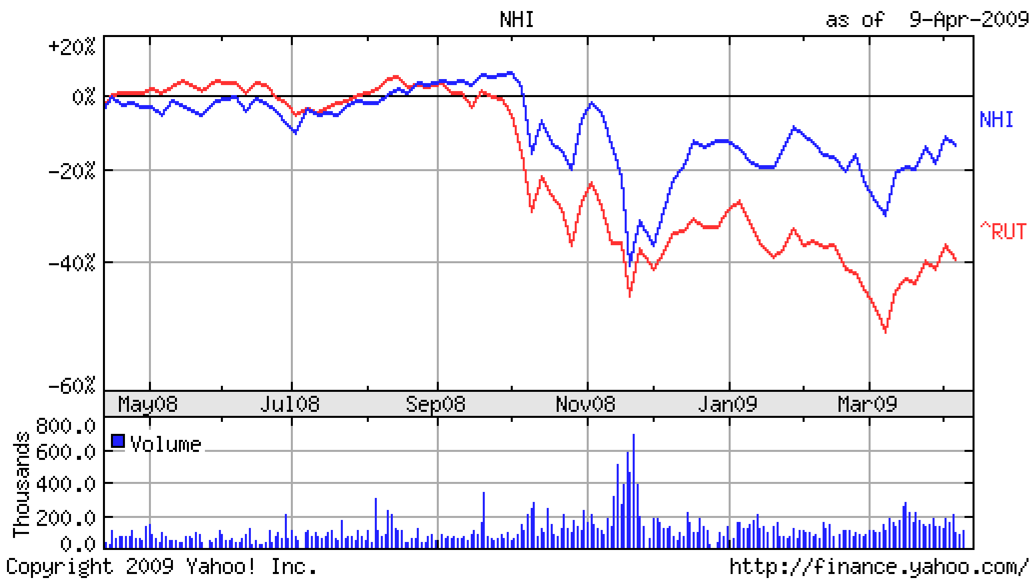
To value NHI, a five year discounted cash flow model was used. With an estimated WACC of 11.4% and a terminal growth rate of 3% an intrinsic value of $34.42, compared to the current market price of $28.69 was determined for NHI. A sensitivity analysis where the WACC varied from 10-12% and the terminal growth rate varied from 2-4% yielded a price range of $28.87-$42.95. In addition, NHI currently yields a strong dividend of 7.6%. Taking into account the opportunity for future expansion through acquisitions, a price target of $34.00 is established. With the stock currently trading around $28, the $34 price target yields a 21% return.

Risks

- **Medicare/Medicaid Funding.** The vast majority of NHI's tenants rely heavily on Medicare and Medicaid reimbursement rates that they receive from federal and state governments as a source of revenue. The continuous increase of payout rates needs to keep pace with inflation for tenants to generate positive operating margins for their long-term care facilities. A rising senior population that is rapidly approaching 35M people in the United States leads to uncertainty as to whether federal and state governments will be able to continue to provide health care coverage for its participants. Without the source of funding that Medicare and Medicaid provide, NHI's tenants will experience declines in revenue.
- **Financial Market Volatility.** Volatile financial markets, as evidence by the 40% rise in REITS over the last six weeks of 2008, which was offset by a 60% decrease after the start of 2009, have forced property owners to continuously revalue their properties and record them at the current market price. If property prices continue to decline, marking assets to market price will result in a non-cash loss in the financial statements. In the near term, the declining property values will lead to negative earnings results and a continued downward decline for REIT prices.
- **Property Management Bankruptcy.** Exposure of NHI's tenants to both market and interest rate risk can create a difficulty in obtaining refinancing on outstanding mortgages. The potential of tenants to default on their payments and file for bankruptcy is even more likely with tight credit markets. As of March, NHI was in negotiations with a tenant who defaulted over a mortgage loan that owed NHI $22.9 million. Not only is full recovery of the mortgage questionable, but several legal expenses are incurred during the process.

Management

W. Andrew Adams currently serves as the CEO and Chairman of the Board of Directors since NHI's inception in 1991. Mr. Adams just recently resigned as President in February of 2009. Prior to his time at NHI, Mr. Adams served as the President, CEO and Chairman of the Board at National HealthCare Corporation (NHC) and National Health Realty, Inc. (NHR). J. Justin Hutchens, current President and COO joined NHI in February 2009 after serving as Executive Vice President and COO at Emeritus Senor Living (ESC) September 2007.



Ownership

% of Shares Held by Insiders:	21%
% of Shares Held by Institutional & Mutual Fund Owners:	39%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
W. Andrew Adams	2,758,515	10.00%
Vanguard Group, Inc.	1,952,612	7.08%
Barclays Global Investors	1,678,205	6.08%
National Health Corporation	1,630,462	5.90%
Renaissance Technologies, LLC	699,700	2.54%

Source: Bloomberg

Merit Medical Systems, Inc.
MMSI
Price: $12.25 ($9.57-21.36)
Fiscal Year Ends: December 31

April 9, 2009 Mike Signore
Russell 2000 Index: $468.20 (342.59-764.38) Healthcare Sector

MMSI engages in the development, manufacture, and marketing of single-use medical devices used in the diagnosis and treatment of disease primarily in the areas of interventional cardiology and radiology. It operates in four segments: stand-alone devices (29% of net revenue), custom kits and procedure trays (29%), inflation devices (30%), and catheters (12%). The company is considered a market leader in inflationary devices and hemostasis valves and is highly regarded for its injection and insert molding skills. Its products are sold through a direct sales force as well as through distributors, OEM partners, and custom packagers to hospitals and clinic-based physicians. MSSI also takes advantage of International markets (32% of net revenues), with the majority of this revenue coming from Europe. The company was founded in 1987 and is headquartered in South Jordan, Utah.

Recommendation

MMSI provides value and stability in a tough macroeconomic environment with an experienced management team that has been with the company since its inception in 1987. Revenues have grown 10% annually for the past five years. Management expects this to continue in 2009 and increase to15% in 2010. Margins have expanded meaningfully in the last year (GM increased 250 bps) and management sees another 80-125 bps expansion on its core business in the next two years. MMSI has little exposure to hospital capital equipment budgets as the majority of its single use products are used in non-elective procedures. Additionally, MSSI is the market leader in inflation devices (50+% market share) and hemostasis valves (40+%) and have also capitalized on the current downturn with their acquisition of Alveolus which provides them with a unique growth opportunity. The company continues to generate positive free cash flow and is working toward their corporate goal of a 50% gross margin. Based on the strong fundamentals of the company, MSSI is recommended for addition to the AIM Equity Fund with a target price of $18.00.

Key Statistics	April 9, 2009
Market Cap	$372.79M
Shares Outstanding	28.09M
Ave. Volume (3 month)	254,914
Adjusted Beta	1.02
EPS (TTM)	$0.73
2009 Estimated EPS	$0.85
P/E (TTM)	17.98
PEG Ratio	0.82
WACC	11.51%
Price/Sales	1.56
ROE	11.56%
ROA	8.91%
Gross Margin	41.06%
Operating Margin	13.56%
Analyst Coverage	8
Target Price	$18.00

Source: Bloomberg

Investment Thesis

- **Strong Product Pipeline.** The company has 15 products that have entered or are expected to enter the market in 2009 and they have received 510(k) approval for their new micro catheter and proprietary inflation system. The demand for their Short Sheaths, which are used in de-clot procedures, is outpacing the company's ability to produce them. The MAK-NV, a vascular access product, is also seeing greater than expected demand. These new products have on average 60% gross margins, significantly higher than the corporate average of 41%.
- **New Market Opportunities**. The recent acquisition of Alveolus Corporation and two products from Biosearch Inc. give the company exposure to the gastroenterology and pulmonary markets. The Alveolus deal brings approximately $10 million in additional revenues and management believes this business can grow 40-50% over the next several years. While the deal is expected to

be non-accretive in 2009, it opens up a $200 million market and an additional $300 million in cross selling opportunities. The products of these companies are also expected to add 80 to 100 bps to gross margin immediately. MMSI also has the resources to market and sell these products worldwide, especially in emerging markets.

- **Diverse Product Portfolio.** The four reporting segments of the company are fairly balanced. While the catheter division represents only 12% of 2008 revenue, it grew 20% year over year. With the addition of the new micro catheter, strong growth (15-20%) should continue. MMSI is also diversified from a geographic standpoint with 32% of revenues coming internationally. Additionally, the company's products are used primarily in non-elective procedures. With conservative hospital spending expected throughout 2009, MMSI should not see much of a slowdown.
- **Solid Liquidity Position.** The balance sheet is strong with $34 million in cash and no short or long term debt. The company has a $30 million line of credit that expires in December 2010 from Bank of America and a $1 million line from Zions National Bank. There are no outstanding borrowings on either of these loans. Inventory is also managed effectively (3.7x turns in Q4 08).

Valuation

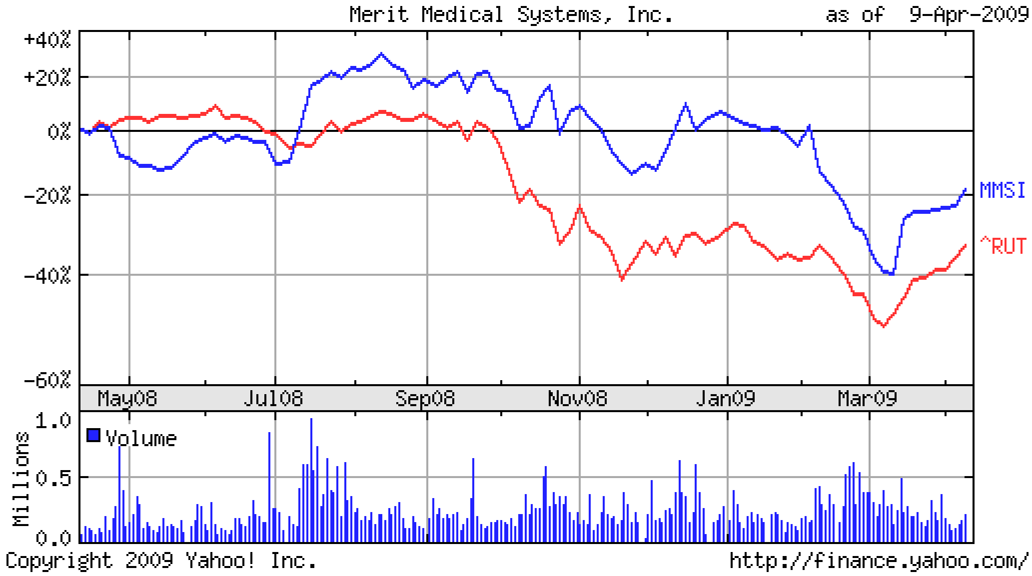
Based on a 10 year DCF analysis, using a computed WACC of 11.51% and a long term growth rate of 3%, an intrinsic value of $18.28 was determined for MMSI. A sensitivity analysis, adjusting both the WACC (10.51-13.01%) and long-term growth rate (2-4%), revealed a price range of $15.41-$23.54. This analysis assumes modest revenue growth of 10% and increased gross margins for the next five years. A P/E multiple approach, using a historical P/E average of 22x and $0.85 EPS in 2009, yields a price of $18.70. Based on these valuations, a target of $18.00 is reasonable. With MSSI trading around $13.00, this would result in an approximate 40% return.

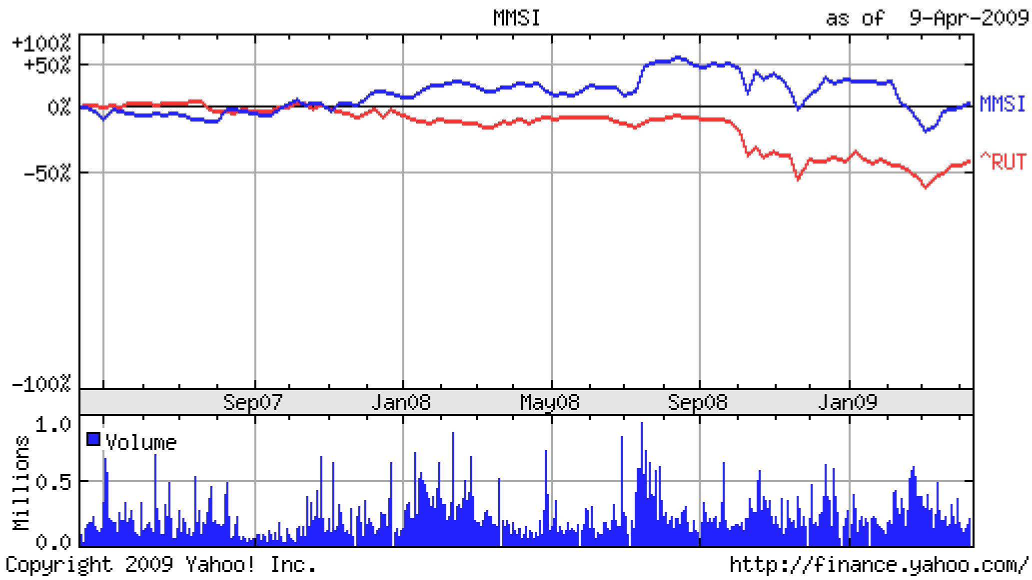
Risks

- **Changing Technology.** Advances in medical technology can limit the market for their products and eventually make some of them obsolete. New drug therapies, for example, could potentially reduce the number of angioplasty procedures performed which, in turn, would harm a core aspect of their business.
- **Dependence on key customers.** A significant portion of the firm's revenues are derived from their inflation devices (30% of net revenues). 6% of these revenues originate from a single OEM customer. Decline in demand for these products or change in supplier preference will negatively impact the firm's financial results.
- **Exchange Rate Fluctuation.** 32% of revenues come from outside the U.S.; approximately 1/3 of this revenue is denominated in Euros and GBP. Changes in these rates affect results reported in U.S. dollars. A strengthening dollar will have a negative impact on revenues. In 2008, the exchange rate resulted in an increase in revenues of $1.3 million and 0.10% in gross margin.
- **Reliance on Suppliers.** The firm relies on certain raw materials, components, and services to be provided by third parties. Some products are also manufactured and assembled by outside parties. Interruptions with these relationships can impact the company's ability to meet customer obligations.

Management

Fred Lampropoulos has been Chairman, President, and CEO since he founded the company in 1987. Formerly, he served as Chairman and President of Utah Medical in Salt Lake City. He is the inventor or co-inventor on more than 100 patents of devices used in the diagnostic and therapeutic treatment of cardiovascular disease. Kent Stanger co-founded the company and has been CFO since 1987. Previously, he served as a controller for Utah Medical and also spent five years as a certified public accountant.





Ownership

% of Shares Held by Insiders:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	81%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investors UK Holdings	1,970,621	7.02%
Rutabaga Capital Management, LLC	1,404,758	5.01%
Vanguard Group, Inc.	1,396,096	4.98%
BlackRock Advisors, LLC	1,354,881	4.83%
Netols Asset Management, Inc.	871,328	3.11%

Source: Yahoo! Finance

Tenaris S.A.
TS
Price: $24.48 ($14.82-75.43)
Fiscal Year Ends: December 31

April 16, 2009 Daniel Widjaja
iShares MSCI EAFE Index: $41.11 (31.56-78.77) International Industrial Materials

Tenaris S.A. is a global manufacturer and supplier of steel pipe products and related services for the energy industry and other industrial applications. The company's main products are casing, tubing, line pipe, mechanical pipes, and structural pipes. Tenaris operates in three business segments: Tubes, Projects, and Others. The Tubes segment involves operations that produce, distribute, and market seamless and welded tubular products and related services mainly for energy and industrial applications. The Projects segment involves operations that produce, distribute, and market welded pipes mainly used in the construction of major pipeline projects. The remaining operations are accounted for as "Others", which includes operations that produce, distribute, and market sucker rods, welded steel pipes for electric conduits, industrial equipment, and raw materials. Tenaris operates worldwide, with the majority of net sales coming from North America (31.74% of sales), South America (23.43%), the Middle East and Africa (20.85%), Europe (17.01%), and East Asia (6.97%). The company was founded in Argentina in 1948 and is currently headquartered in Luxembourg.

Recommendation

Over the past ten years, Tenaris has displayed excellent financial strength. Positive factors include a 5-year debt/assets average of 0.225 (including 35% paydown of debt in 2008), strong free cash flows for the past ten years (5-year average free cash flow of $1.55B), and a dividend yield of 3.40%. Additionally, TS has developed good customer relations with its contracts and unique service agreements. In the United States, 80% of Oil Country Tubular Goods (OCTG) sales are made to alliance and program customers, which provide better outlook on earnings quality and stability. Tenaris also has a 35% market share in premium tubular products, which provides a positive impact on margins (operating margin of 17.27% in 4Q08). In addition, skilled workforce and advanced facilities are required to manufacture the seamless tubes that can tolerate high temperature and pressure. This creates a high barrier to entry for potential competitors. With excellent cash flows and strong position in the market, it is recommended that Tenaris be added to the International AIM Equity Portfolio with a target price of $39.94.

Key Statistics	Apr. 16, 2009
Market Cap	$14.45B
Shares Outstanding	590.27M
Ave. Volume (3 month)	2,648,698
Adjusted Beta	1.317
EPS (TTM)	$3.60
2009 Estimated EPS	$3.21
P/E (TTM)	8.23
PEG Ratio	1.91
WACC	10.00%
Debt/Assets	0.197
ROE	27.99%
ROA	14.00%
Dividend Yield	3.10%
Gross Margin	47.19%
Operating Margin	17.27%
Analyst Coverage	14
Target Price	$39.94

Source: Bloomberg

Investment Thesis

- **Financial Strength.** Tenaris has recently decreased the amount of debt on its balance sheet from $4.02 billion to $2.98 billion. Free cash flow to sales has averaged at 13.81% and 19.99% in the past ten and five years, respectively. The company's gross margins and operating margins of 47.19% and 17.27% are also stronger than the industry peer average of 16.79% and 7.68%. Liquidity (cash, cash equivalents, and current investments) increased by $534.6 million, or 50.9%, to $1.58 billion from $1.05 billion in 2008.

- **Solid Customer Base.** Tenaris has built strong customer relationships over the years with its contracts and just-in-time (JIT) agreements. With JIT, TS adds value as a supplier by providing comprehensive pipe management services to customers on a continuous basis. In Argentina and Venezuela, TS has established long-term supply agreements with significant oil and gas companies such as Repsol YPF and PDVSA. In Mexico, the company has been supplying Pemex, a state-owned oil company, with its products since 1994. The company is also has contractual agreements with major energy companies, which includes Chevron and Shell GTL.
- **Increase in Oil Producing Capacity.** Due to a muted global oil demand, OPEC's crude oil production has declined by 4.9 million b/d, or 16.2% (to about 25.4 million b/d), from a peak of 30.3 million b/d in 2008. This is close to 2004's production level. Due to this sharp contraction, OPEC will be looking to replenish their oil reserves in the near term as new reserves require long lead times to develop. This expected increase in production will be favorable towards Tenaris' bottom line as the company's tubular sales will increase.

Valuation

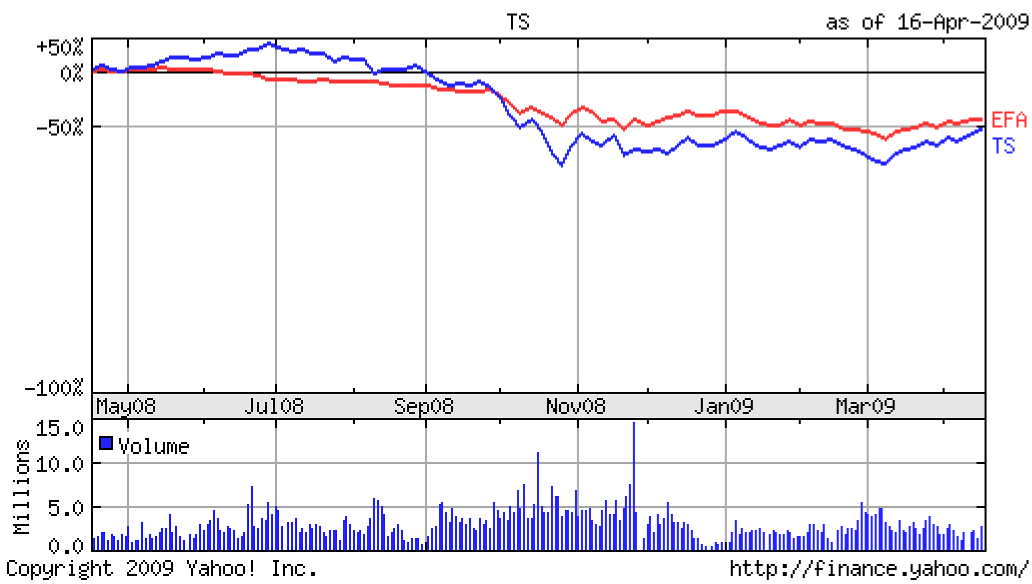
Based on a 10-year DCF analysis with a computed WACC of 10.00% and terminal growth rate of 2.5%, an intrinsic value of $39.94 is obtained. A sensitivity analysis that adjusted both the long term growth rate (1.5-3.5%) and the WACC (8.0-10.5%) generated a price range of $34.98-$63.81. This DCF assumes that TS has a number of growth rates in the next ten years. In Year 1, growth is set to contract sharply by 30% due to the current economic condition. In Year 2 and 3, growth is expected to recover at 6.0%. From Year 4 to 6, the company is expected to grow at 15.0%, lower than their 10-year average growth of 24%. This is due to increased competition and increased investments in alternative energy in the United States. From Year 7 to 10, growth is expected to cool to 6%. With the stock currently trading at $24.48, the $39.94 price target represents a 63.16% upside.

Risks

- **Exposure to the Energy Industry.** 45% of sales in tubular products outside North America are to National Oil Corporations (NOCs). Demand for Tenaris' products depends primarily on the number of oil and gas wells being drilled and completed. The level of these activities depends on global oil and gas prices. Given the current economic situation, NOCs are reducing drilling activities due to muted demand in oil and gas, which adversely affects the company's bottom line.
- **Costs of Raw Materials and Energy.** In recent years, pricing of raw materials used to manufacture both seamless and welded steel pipes have increased significantly. Iron ore increased about 64% in 2008 alone while steel scrap increased by about 59%. TS also mentioned that although it has contracts to buy the raw materials, they are generally not more than one year in duration. Although costs of these raw materials have significantly declined recently, the volatility of input costs negatively impacts earnings quality and stability.
- **Political Factors.** Tenaris has significant operations in countries with unstable political conditions. 13% of sales in 2008 came from Latin America, which consists mainly of Argentina and Venezuela as main markets. 28% of the company's employees are also based in Argentina. TS mentioned that the political developments and government policies in these countries can potentially play a major role in determining the company's revenue.

Management

Paolo Rocca currently serves as chief executive and chairman of the board. He is also on the board of many different companies and serves as the vice-chairman of the International Iron and Steel Institute and member of the International Advisory Committee of the NYSE. Carlos San Martin and Renato Catallini serve as technology director and supply chain director, respectively. Martin was originally the chairman of NKKTubes (Tenaris' subsidiary in Japan), while Catallini has worked in the energy sector for ten years.



Ownership

% of Shares Held by Insiders:	61.0%
% of Shares Held by Institutional & Mutual Fund Owners:	21.4%

Source: MSN Money

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Capital World Investors	32,114,218	5.44%
Aberdeen Asset Management PLC	17,772,093	3.01%
Wentworth, Hauser and Violich	9,973,992	1.69%
Lazard Asset Management LLC	8,333,340	1.41%
Price (T.Rowe) Associates Inc.	3,799,424	0.64%

Source: Bloomberg

Embotelladora Andina S.A.
AKO-A
Price: $12.91 ($7.16-20.45)
Fiscal Year Ends: December 31

April 16, 2008 — Willie Boucher
iShares MSCI EAFE Index: $41.11 (31.56-78.77) — International Consumer Goods Sector

Embotelladora Andina S.A, in conjunction with its subsidiaries, is a leading beverage manufacturer, bottler and distributor in South America. The bottling and distribution of licensed Coca-Cola products accounts for the vast majority (88% of net sales) of the company's operations. AKO-A also is involved in the production and distribution of all kinds of beer, fruit juices, nectars, mineral water, ready-to-drink tea, sports drinks and energy drinks. Its main brands include Coca-Cola, Coca-Cola Light, Sprite, Fanta, Vital, Powerade, Dasani, Bavaria, Dos Equis and Heineken. The firm operates in specific geographic locations inside Chile, Argentina and Brazil, accounting for 32%, 24%, and 44% of sales respectively, according to the 2008 annual report. Embotelladora Andina was founded in 1946 in Santiago, Chile with the license to produce and distribute Coca-Cola products in Chile. Currently, the company maintains upwards of 6,000 employees in its three segments, still headquartered in Santiago. Embotelladora Andina trades on the SAN and the NYSE; 1 ADR represents 6 ordinary shares of AKO-.A.

Recommendation

Embotelladora Andina S.A. is an established player in an ever-growing South American beverage market. Key competitors include Brazilian giant AmBev and Mexican based Coca-Cola FEMSA. AKO-A is greatly positioned to use their dominant market share to capture future growth opportunities. With net sales growth of 22.2% and net income growth of 6.7% in 2008, AKO-A revealed its ability to generate positive business during a period of global economic distress. The recent increased establishment and coordination of their distribution channels has led to greater inventory turnover (12.5) and continual growth in both gross (44.45%) and operating (15.47%) margins. In addition, AKO-A has committed to reducing their long term debt to 14.4% of liabilities while maintaining dividend payouts no less than 30% of period earnings and increasing cash and short term investments as a percentage of total assets. The firm also pays out a quarterly dividend with a current yield of 1.70%. Therefore, because of Embotelladora Andina's prominent position in the growing South American market and its strong financials, I am recommending the addition of AKO-A to the International AIM Equity Portfolio with a target price of $21, yielding a 63% return.

Key Statistics	Apr. 14, 2008
Market Cap	$792.58M
Shares Outstanding	63.356M
Ave. Volume (3 month)	5,174.19
Adjusted Beta	.889
EPS (TTM)	$1.29
2009 Estimated EPS	$1.16
P/E (TTM)	9.98
Dividend Yield	1.70%
WACC	13.02%
Debt/Equity	24.91%
ROE	30.23%
ROA	16.59%
Gross Margin	44.45%
Operating Margin	15.47%
Analyst Coverage	14
Target Price	$21.00

Source: Bloomberg, Yahoo!Finance

Investment Thesis

- **Strong South American Growth.** AKO-A is positioned favorably in an area of rapid population and economic growth amidst a global economic decline. According to the IMF, emerging and developing economies are projected to see GDP growth of 3.5% in 2009, with increases in the future. Chile alone is projected to see population growth of 8.5% in the following 10 years, with the majority of that in urban areas serviced by AKO-A.
- **Power of Coke Brand**. The Coca-Cola Company dominates the South American landscape when it comes to the market for producing and distributing soft drinks. AKO-A holds exclusive rights

to Coke brands in all of their three market segments. According to the NYTimes, in 2007 Coke held an 85% market share in Brazil, which contains the largest number of customers for any of AKO-A's markets with 18.8 million. In all three of AKO-A's segments, Coke holds at least a 50% market share, giving them outstanding sustainability and prospects for growth.

- **Strong Financial Health.** The solid balance sheet of AKO-A gives it considerable leverage and flexibility during all different economic climates. Since 2004, their Debt/Equity has drastically fallen from 65.62% down to 24.91% in 2008. This, combined with the increase in cash and short-term investments (related to overall assets) shows the firm's strength to pursue future investments and deal with unexpected circumstances.

Valuation

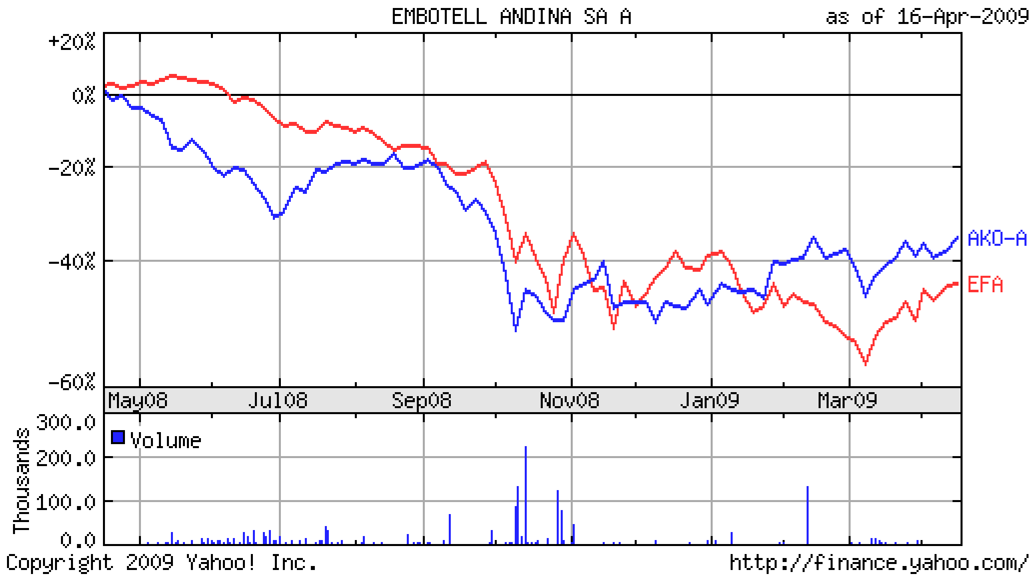
AKO.A is currently trading at 9.98x TTM EPS of $1.29. A conservative historical P/E average of 17.73 times a 2009 EPS estimate of $1.16 yields a $21.56 price target. Using a comparative industry multiple of 19.15 times the 2009 EPS estimate shows a $22.21 fair value. Based on a 10 year DCF analysis with a computed WACC of 13.02% (weighted market risk for different country segments) and a terminal growth rate of 2.5%, an intrinsic value of $21.19 was obtained for AKO-A. A sensitivity analysis that adjusts both the long-term growth rate from 1.5% to 3.5% and the WACC from 11% to 15% generates a feasible price range of $16.93-27.38. This DCF assumes revenue growth of 15% for the first 3 years of valuation, down from its average of over 24% for the past 5 years, with growth slowing down in the following seven. The company also pays out quarterly dividends with a current yield at 1.70%. Therefore, I have set my target price at $21.00. With the stock currently trading around $12.90, the $21 price target would yield a 63% return.

Risks

- **Foreign Government Issues.** Uncertainty in the role of South American governments could play a major role in the operations of AKO-A. In the past, Brazil's government has set price and wage controls specifically on soft drinks, as well as limited imports/exports and imposed currency fees. Argentina poses a greater threat as social and economic trends can lead to nationalistic moves and increased government influence. Chile's upcoming presidential election in Dec. 2009 could usher in policy changes as the center-right party is expected to succeed the current center-left government.
- **Dependence on Coca-Cola Licenses.** The distribution of products bearing a Coca-Trademark account for 95% of the firm's sales. All of the licenses issued by Coke must be renewed every few years, with the supplier controlling much of the negotiation, which could hurt AKO-O's margins. In addition, AKO-A must present yearly business plans to Coca-Cola under their bottling agreements in order to prove financial stability. Any small changes made by Coke could drastically change the firm's business strategy.
- **Commodity Pricing**. AKO-A uses immense amounts of sugar, resin and other raw materials in the production and packaging of its goods. This submits them to price volatility and exchange rate risk, as commodities are often priced in USD. The variations of these inputs across their distinct segments can affect operations and hurt profitability margins.

Management

Mr. Juan Claro Gonzalez, chairman of the board, has been a member of the board of directors since 2004, and has served on the boards of numerous other Chilean and South American companies in his 20+ years of experience. Mr. Abel Bouchon Silva took over as chief executive officer on March 1, 2009, after many years as the general manager of the Chilean operations of the company. Mr. Bouchon brings solid leadership to the company after continued success exceeding target goals within the Chilean operation.



Ownership

% of Shares Held by Insiders:	6%
% of Shares Held by Institutional & Mutual Fund Owners:	2%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Genesis Asset Managers, LLP	428,493	0.68%
Grantham Mayo Van Otterloo & Co.	230,735	0.36%
Renaissance Technologies, LLC	132,200	0.21%
Dimensional Fund Advisors Inc.	77,568	0.12%
Prudential Financial, Inc.	44,500	0.07%

Source: Yahoo! Finance

j2 Global Communications, Inc.
JCOM
Price: $24.52 ($13.03-27.35)
Fiscal Year Ends: December 31

April 16, 2009 — Ross Michler
Russell 2000 Index: $473.88 ($342.59-764.38) — Telecommunications Sector

j2 Global Communications, Inc. is one of the leading providers of outsourced internet-based messaging and communications with services in more than 3,000 cities and 46 countries. JCOM receives 94.8% of revenues from their Direct Inward Dial-based (DID) segment; this segment consists of value-added messaging and communication services, which provide for the delivery of fax, voicemail, emails, and call handling services through the telephone and Internet. JCOM markets themselves to an array of clients, including individuals, small and medium-sized businesses, large corporations and the government. By leveraging the power of the Internet, j2's core application allows users to send and receive faxes and voicemails into their email accounts. With the use of patents, the company has insured future growth and the ability to take market share from major competitors such as Premiere Global Services and EasyLink Services International. Headquartered in Los Angeles, California, JCOM was founded in 1995 under the original name JFAX and was renamed after the acquisition of eFax in 2000.

Recommendation

JCOM is one of the major global players in outsourced messaging and communications, an advantage that will persist going forward because of a portfolio of 57 U.S. and foreign patents. JCOM's emphasis on revenue growth (9.4% YoY) through acquisitions has allowed the firm to expand their customer base and enhance technology to help maintain their competitive strength. In addition, net revenue from the DID segment has increased by 26.7% since 2006, spurred by a 67% increase in subscription and usage fees over this period. These premiums are expected to continue to increase in future periods. Despite a relatively small workforce of 400 employees, JCOM has been able to maintain constant growth since the company's inception. Also, JCOM's ability to finance all operations without debt should continue to aid the firm well into the future. Because of JCOM's financial health and strong growth rates, it is recommended that JCOM be added to the AIM Equity Portfolio with a target price of $31, which is a 26% upside.

Key Statistics	Apr 16, 2009
Market Cap	$1,077.56M
Shares Outstanding	43.946M
Ave. Volume (3 month)	433,384
Adjusted Beta	1.06
EPS (TTM)	$1.59
2009 Estimated EPS	$1.79
P/E (TTM)	15.42x
PEG Ratio	1.26
WACC	10.9%
Debt/Total Assets	0%
ROE	27.25%
ROA	21.58%
Gross Margin	80.85%
Operating Margin	40.55%
Analyst Coverage	8
Target Price	$31

Source: Bloomberg

Investment Thesis

- **Strong Financial Health.** JCOM's ability to operate and expand since 2004 without any long term financing strengthens the company's outlook against their competitors, who have struggled with debt refinancing the past 6 months. With $150M of cash on the balance sheet, management is prepared to make future acquisitions and upgrade technology to expand their network and clientele base. Furthermore, a strong cash balance should allow JCOM to take market share from struggling firms such as Premiere Global, who has $271M in total debt.
- **Fixed Revenue Base**. Over 79% of the firm's revenue stream is fixed which is designated as activation and subscription fees. Because these are prepayments made by the customer, any decline in usage over a certain month or quarter will not have significant adverse effects. With 1.2

million paying subscribers and fixed revenue accounting for an increasing proportion of total revenue (up from 72% in 2006), JCOM's profitability and growth outlook remains strong. Also, the cost of revenues associated with these sales consist of network operations, processing fees, data and voice transmission. These costs can be controlled and have been decreasing (1% YoY as a portion of revenue since 2006) with JCOM's implementation of an enhanced utilization of network capacity which was upgraded in 2006 and 2007.

- **Rising Global Revenue**. In 2008, domestic fees and usage accounted for 84.7% of revenue (at $204M), with the remaining $37M coming from global operations. Since 2006, global revenues have accounted for a greater proportion of total revenues increasing from almost 5% to over 15% during that time period.
- **Expanding Network.** JCOM has been more aggressive over the past year in using acquisitions to grow their customer base. In February 2009 they announced the acquisition of the assets of CallWave, Inc. Four other acquisitions were completed in fiscal year 2008. The acquisition of CallWave, a San Francisco-based provider of Internet and mobile-based communications, gives give j2 a greater presence on the West Coast. Two of the other acquisitions were UK-based providers of messaging services, which will help spur JCOM's international growth. Management has also expressed their commitment to increasing the number of users through marketing arrangements and enhanced brand awareness.

Valuation

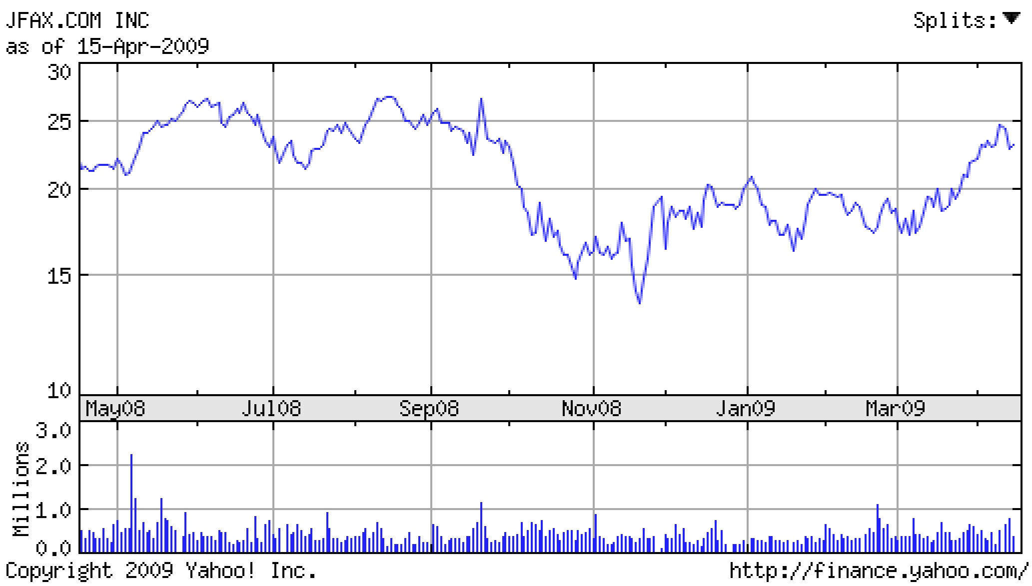
A 5-year DCF analysis with a computed WACC of 10.9% and terminal growth rate of 3%, led to an intrinsic value of $32.41. A sensitivity analysis adjusting for best and worst case scenarios led to an intrinsic value range of $24-$47. Taking the management revenue assumptions and the general outlook for this industry into consideration, a conservative stock price of $31 was set for this stock, which would yield a 26% upside. At this time, the firm pays no dividends.

Risk Factors

- **Customer Dependence.** Certain customers, particularly those with direct ties to credit markets and the global economy, continue to be adversely affected by the recession. As these clients are hurt by the current financial turmoil, their service usage levels will decline, which could lead to a decrease in variable revenue and cause customer retention rates to drop. Furthermore, many customers use credit cards and JCOM has experienced rejected credit payments because of the weakness in the credit markets. If the lending markets do not improve, the firm would be crippled by their customer's inability to obtain financing.
- **Declining Fax Service Demand.** As JCOM is dependent upon revenues from messaging and communication services, fax related traffic accounts for the most significant portion of their network usage. If fax messaging becomes obsolete and the demand for this medium decreases, JCOM will experience a proportionate decrease in subscriptions and usage revenue.
- **Increased Regulation**. In an industry that is heavily monitored and regulated, any unforeseen changes in foreign and domestic laws could open up competition or decrease rates to customers, thereby reducing revenues and earnings. Currently, Congress and the FCC are reviewing whether to alter the contributions paid to Universal Service Fund, which subsidizes U.S. telecomm systems. If this legislation passes, JCOM may be forced to raise the price of their paid services to cover increased payment amounts to the USF. Also, as a multinational corporation JCOM is subject to tax changes in multiple domestic and foreign jurisdictions.

Management

Nehemia Zucker has served as CEO of JCOM since May of 2008, holding other executive titles previously, and has been with the company since 1996. Chairman Richard Ressler has served as director since 1999 and dually held the position of CEO until 2000. Under their guidance j2 Global has experienced over a decade of consecutive revenue and operating earnings growth.



Ownership

% of Shares Held by Insiders:	3.00%
% of Shares Held by Institutional & Mutual Fund Owners:	99.0%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Fidelity Management & Research	5,575,779	12.69%
Barclays Global Investors UK Holdings Ltd	3,009,631	6.83%
William Blair & Co. LLC Inv Management	2,255,963	5.13%
Perkins Investment Management LLC	1,900,518	4.32%
Vanguard Group Inc	1,846,010	4.20%

Source: Bloomberg

Diamond Hill Investment Group, Inc.
DHIL
Price: $42.95 ($28.51-100.00)
Fiscal Year Ends: December 31

April 16, 2009 | Brian Paolo
Russell 2000 Index: 468.05 (342.59-764.38) | Financial Services Sector

DHIL, established in 2000, is a registered investment advisor based in Columbus, Ohio. Diamond Hill Capital Management, a subsidiary, manages seven traditional and alternative equity strategies, available in separately managed accounts (26% of AUM on Dec. 31, 2008), mutual funds (69%) and private investment funds (5%). Portfolio strategies under management include small cap, small-mid cap, large cap, select, long-short, financial long-short, and strategic income. DHIL's client base includes institutions, financial intermediaries and individuals. Assets under management as of March 31, 2009 were $3.9 billion. During 2008, DHIL organized Beacon Hill to provide underwriting, compliance, treasury, and other administrative services to small to mid-sized mutual fund companies.

Recommendation

DHIL has been the fastest growing asset management firm in the Russell 2000 since its founding in 2000. Since Q1 2003 through 2008, DHIL's assets under management (AUM) have increased from $130 million to $4.5 billion (105% annually). Over that same time, their investment team grew 29% annually. As of Dec. 31, 2007, their 5-year revenue growth of 159.3%, along with their 5-year stock performance increase of 79.5%, led the industry. Even through the market downturn in 2008, three funds (small cap, large cap, and select) had Morningstar Ratings of ★★★★ or better as of March 31, 2009. On October 31, 2008, the company paid out a $10.00 dividend per share. Because of DHIL's broad distribution of its products, a diverse body of investors, a full body of funds, the high demand for its products and the anticipated upturn of the equity markets expected later this year, I am recommending the addition of DHIL to the AIM Equity Portfolio with a target price of $51.91.

Key Statistics	Apr. 16, 2009
Market Cap	$112.88M
Shares Outstanding	2.59M
Ave. Volume (3 month)	10,785.5
Adjusted Beta	1.17*
Diluted EPS (TTM)	$1.36
2009 Estimated EPS	$1.39*
P/E (TTM)	31.81
AUM/Assets	10.13K
WACC	13.00%*
Debt/Assets	0.00
ROE	9.42%
ROA	6.70%
Gross Margin	6.97%**
Operating Margin	29.20%**
Analyst Coverage	0
Target Price	$51.91*

Source: Bloomberg; *Internally calculated;
**Source: Yahoo Finance, #s as of 12/31/08

Investment Thesis

- **Growing Demand.** Growing AUM into the future will drive revenue growth for DHIL as investment advisory fees are calculated as a percentage of average net AUM. The company's average advisory fee rate for 2008 was 0.81%, and such fees accounted for 86% of revenue. The firm's ability to raise AUM in 2008 by receiving $1.98 billion in new client assets ($1.3 billion into mutual funds, $800 into institutional separate accounts, $160 million out of private investment funds) net of withdrawals shows a strong demand for the firm's products and services, even in a volatile, declining market. Expect this trend of increasing new net inflows to continue into late 2009 and early 2010 as the market rebounds and investors get back into mutual funds.
- **DHIL's Investment Philosophy.** DHIL models its investment philosophy after the teachings of Benjamin Graham and of Warren Buffet. With a focus on fundamental analysis, DHIL invests in a company when its market price is at a discount to its appraised intrinsic value.
- **Reputation**. All nine portfolio managers are CFAs; three of those nine also have a CPA and five of those nine have an MBA. All sixteen researchers below the portfolio managers either have

their CFAs or have completed at least Level I of the CFA exam. Additionally, Morningstar bestowed DHIL with a Stewardship Grade of A, stating its satisfaction with the firm's fully independent board, compensation that stresses long-term performance, and frank and thorough shareholder communication. The firm's employees are aligned with the goals of the stockholders as employees own 31% of DHIL on a fully diluted basis.

- **Beacon Hill.** In 2008, DHIL invested $1,000,000 to start Beacon Hill, providing more efficient and cost effective custodial and distribution services to Diamond Hill Funds. DHIL realized an opportunity to provide those services not only to its own funds, but to other small mutual fund companies, feeling that they could best help such firms because of their familiarity with the business. In the short-run, DHIL hopes to generate $3-$5M/yr in revenue from Beacon Hill.

Valuation

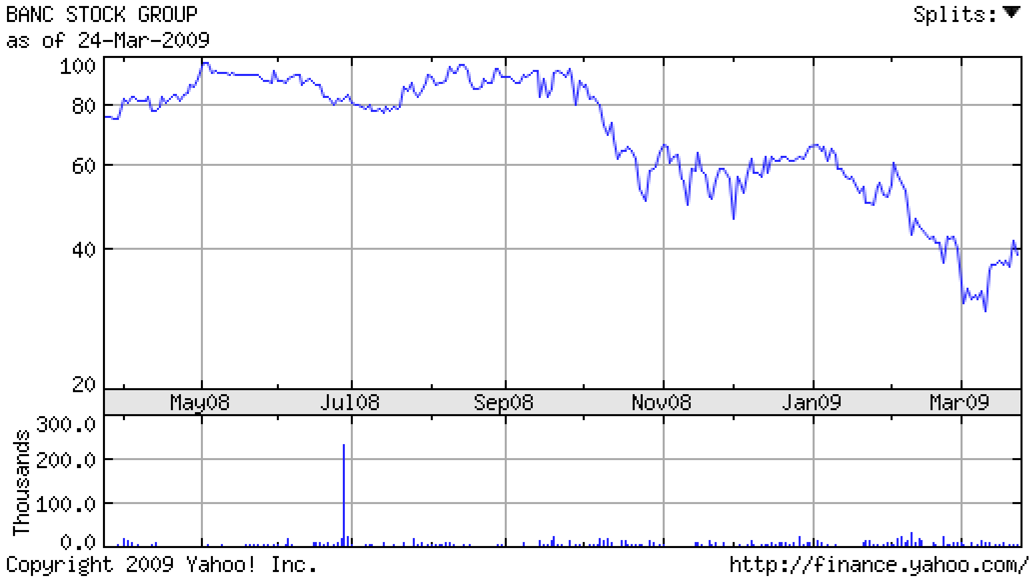
DHIL is currently trading at 31.81x TTM EPS of $1.36. An extremely conservative historical P/E average of 28.25x (based on diluted EPS measures with 50% weighting of stock prices adjusted for dividends and stock splits), and a conservative 2009 EPS estimate of $1.39 yields a price target of $39.27. Based on a 5-year DCF model with a WACC of 13% and a terminal growth rate of 3%, a value of $58.23 was found for DHIL. Due to the conservative nature of both models, a likely recovery of the financial markets within the next few years, and the rapid expansion and growth opportunities for DHIL, taking an average of the two targets with a double weighting on the DCF target yields an overall price target of $51.91. With the stock currently trading at $42.95, the target price of $51.91 would yield a 20.86% return.

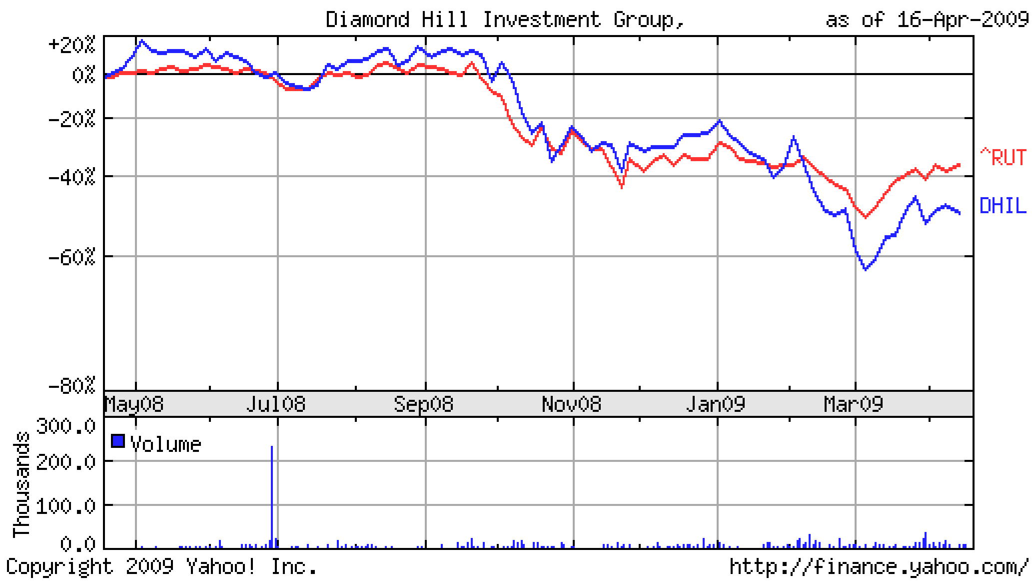
Risks

- **Market fluctuations.** A decline in securities prices or in the sale of investment products or an increase in fund redemptions generally would reduce fee income. Financial market declines or adverse changes in interest rates would generally negatively impact the level of DHIL's AUM and consequently its revenue and net income.
- **Competition.** DHIL faces competition from other asset management firms, mutual fund companies, hedge funds, etc. DHIL may find it hard to compete with more established firms that generate more revenue from higher AUM levels while using long-term performance records and name recognition to steal market share from DHIL. Such companies also have more resources and personnel disposable to their clients and their portfolios.
- **Governmental regulation.** DHIL is subject to significant regulation and oversight by the SEC and FINRA. Changes in legal, regulatory, accounting, tax and compliance requirements could have a significant effect on the company's operations and results, including but not limited to increased expenses.
- **Loss of personnel.** Performance can be negatively affected by the loss of personnel. Not bound by contracts, workers may leave the firm at any time for any reason. Such experienced professionals may be difficult to replace and their loss could affect the firm's performance.

Management

R.H. Dillon, CFA has been the President and CEO of the DHIL since 2000. He is a Director of DHIL and CIO of Diamond Hill Capital Management, Inc., a wholly-owned subsidiary of DHIL. From 1986-2000, he was a portfolio manager at Loomis, Sayles & Co. James F. Laird is CFO, Treasurer and Secretary and President of Diamond Hill Funds. From 1999-2001, Laird served as Senior-VP at Villanova Capital and from 1984 to 1999 held positions of Treasurer, Senior VP and GM of Nationwide Advisory Services, Inc.





Ownership

% of Shares Held by Insiders:	25%
% of Shares Held by Institutional & Mutual Fund Owners:	41%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Ascend Advisory Group, LLC	343,927	13.20%
Roderick H. Dillon, Jr. (President & CEO)	185,673	7.17%
Bares Capital Management Inc.	179,819	6.94%
Arrow Capital Management, LLC	140,498	5.42%
The Banc Funds Company, LLC	101,995	3.94%

Source: Yahoo! Finance

TeleCommunication Systems, Inc.
TSYS
Price: $9.19 ($10.18-3.26)
Fiscal Year Ends: December 31

April 16, 2009 — Corbin Weyer
Russell 2000 Index: 473.88 (764.38-342.59) — Software Sector

TeleCommunication Systems, Inc (TSYS) develops and applies wireless data communication technology in both the U.S. and abroad. TSYS operates in two segments, commercial and government. The commercial segment (46% of '08 revenue) places emphasis on text messaging and location based services (LBS) including enhanced E9-1-1 for wireless carriers and VoIP service providers. Customers include wireless carriers Verizon Wireless and AT&T, in addition to VoIP service providers Vonage and Level 3. The government segment (54% of '08 revenue) provides secure satellite based communication solutions for government customers, including the U.S. Departments of Defense, State, Justice and Homeland Security. TSYS was founded in 1987 and is headquartered in Annapolis, Maryland.

Recommendation

TSYS has strong footholds in both commercial and government segments. The development of patented software and telecommunications has resulted in a revenue CAGR of 15% from '01-'08. Commercial revenue growth (35% YoY) has multiple drivers. These include the high demand for LBS, the FCC's mandate of the adoption of E9-1-1 technology by wireless carriers which benefits TSYS's Xypoint Location Platform (XLP), and the massive growth in text messaging. Commercial gross margins increased from 54.36% FY '07 to 59.43% FY '08 due to a combination of both revenue growth and improved operating efficiencies. Government revenue growth (72% YoY) has been driven by the high demand for wireless communication and location technology for Defense, Intelligence and Homeland Security, as well as the sale and implementation of SwiftLink deployable communication systems. In addition to strong revenue growth, TSYS has consistently surpassed earnings' estimates for the past six quarters. Most recently, TSYS reported pro forma earnings of $0.13 per share Q4 '08 versus the consensus $0.11 per share. Based on a price target of $12.00, yielding a potential 30% upside, I am recommending the addition of TSYS to the AIM Equity Fund.

Key Statistics	April 16, 2009
Market Cap	$417.55M
Shares Outstanding	38.56M
Avg. Volume (3 month)	577,863
Adjusted Beta	0.96
EPS (TTM)	$0.39
2009 Estimated EPS	$0.48
P/E (TTM)	23.56
PEG Ratio	1.51
WACC	11.42%
LT Debt/Assets	6.46%
Dividend Yield	0.00%
ROE	21.65%
ROA	12.97%
Gross Margin	36.91%
Operating Margin	7.78%
Analyst Coverage	6
Target Price	$12.00

Source: Bloomberg

Investment Thesis

- **Surging Volume of Text Messages in the U.S.** TSYS processes and powers 25% of text messages in the U.S., most through its largest commercial customer, Verizon Wireless. The delivery of 250 billion messages in 2008, more than triple those of 2007, propelled TSYS messaging revenue from over $20M in '07 to $45M in '08. As text message volumes are expected to double by 2011 to 2.4 trillion/year, TSYS looks poised to capitalize as a Short Message Service (SMS) vendor as carriers continue to build out and expand their messaging infrastructures to account for these volumes.
- **Opportunities Abroad.** Canadian Radio and Television Commission recently issued a mandate that requires Canadian wireless companies to deploy Phase II E9-1-1 service by February 2010,

providing an opportunity for TSYS to work with Canadian wireless service providers and implement its location-based platforms. Additionally, TSYS recently announced its expansion of LBS offerings into China. The Chinese government is estimated to spend about $25 billion on 3G network expansions this year, nearly half the spending it projects through 2011 to provide high-speed services to the 659 million mobile subscribers.

- **Continued Government Demand.** With the acceleration of government spending on the expansion of telecom systems abroad, TSYS currently has a total government backlog of $354M ($79.7M funded). TSYS is currently one of only six companies awarded a 5-year U.S. Army contract with a ceiling value up to $5B through 2011. By the nature of operating in harm's way with TSYS systems, special operations in both Iraq and Afghanistan continually need the deployable communications system's equipment refurbished and refreshed, allowing for recurring revenues.
- **Patent Portfolio.** TSYS currently owns 70 issued patents and 212 pending patent applications relating to wireless text messaging, GPS data, and emergency public safety data. The culmination of these intellectual property rights assists TSYS in maintaining market share. Current Research and Development investments are focused in cellular location-based and electronic map technology.

Valuation

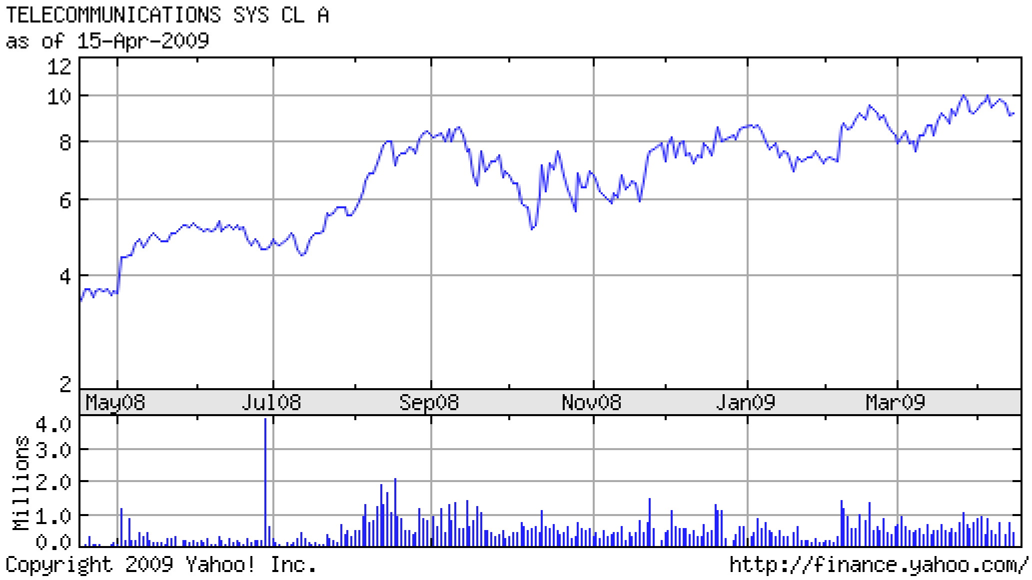
Using a 10-year DCF model, a WACC of 11.42% and a terminal growth rate of 3.50% resulted in a stock price of $12.20 in the base case. A sensitivity analysis adjusting the terminal growth rate (3.0-4.0%) and the WACC (10.50-13.50%) yielded a price range of $9.12-14.63. A forward P/E valuation has TSYS trading at a 32% premium to industry competitors (20.43X versus 15.44X), which is warranted due to a superior business model with future growth opportunities in both operating segments.

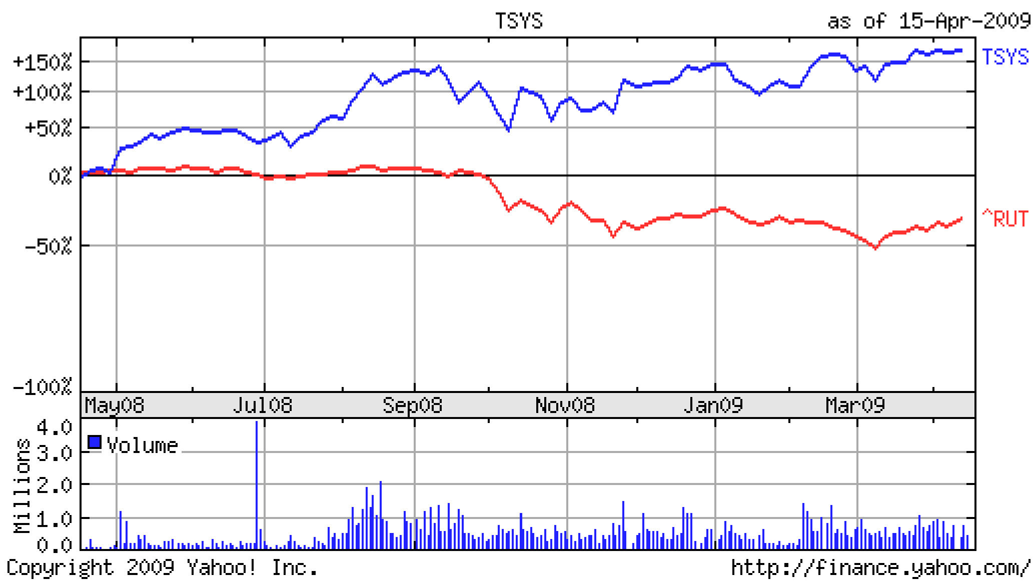
Risks

- **Minimal Pricing Power in Government Contracts.** Although federal agencies have increasingly outsourced many of their network and telecommunication functions to private companies, aggressive bidding on contracts with these agencies is likely to cap a ceiling on profit margins for the government segment. Gross margins decreased to 17.58% in FY '08 from 19.11% in FY '07, which decreased from 29.58% in FY '06 as management cites lower average pricing on the mix of government contracts with costs of revenue increasing with the volume of service.
- **Revenue Concentration.** 2008 revenues were largely derived from the firm's two largest customers, Verizon Wireless (22%) and the U.S. Federal Government (42%). With continued competition in the wireless carrier industry, any decline in market share or innovation for Verizon Wireless will adversely affect TSYS.
- **Sporadic Revenue Streams.** Government funding is not completely appropriated at the time contracts with TSYS are initiated. With this limitation, the firm inherits the risk that not all of the revenue will be realized. On the commercial segment side, revenues for text messaging services are a function of volume. With the inability to correctly predict message volume, revenues could come in either well above or below company expectations.

Management

Management brings years of service in the telecommunications and software industries to TSYS. Since founding the firm in 1987, Maurice Tosé has been President, Chief Executive Officer and Chairman of the Board of Directors. He is currently a Commander in the U.S. Navy Reserves and serves on the Board of Directors of the U.S. Naval Academy Foundation. Tosé holds a large stake in the performance of TSYS, owning all class B outstanding shares, each worth 3 votes.





Ownership

% of Shares Held by Insiders:	8.00%
% of Shares Held by Institutional & Mutual Fund Owners:	69.00%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Shares Outstanding
Renaissance Technologies Corp.	2,050,800	5.32%
Barclays Global Investors	1,960,114	5.08%
Marathon Capital Management	1,930,550	5.01%
Insight Capital Research & Management, Inc.	1,671,465	4.33%
Systematic Financial Management, L.P.	1,449,230	3.76%

Source: Bloomberg