MARQUETTE
UNIVERSITY

Applied Investment Management (AIM) Program

AIM Fund Investment Advisory Board Meeting
November 2, 2006
AIM Equity Fund Presentations

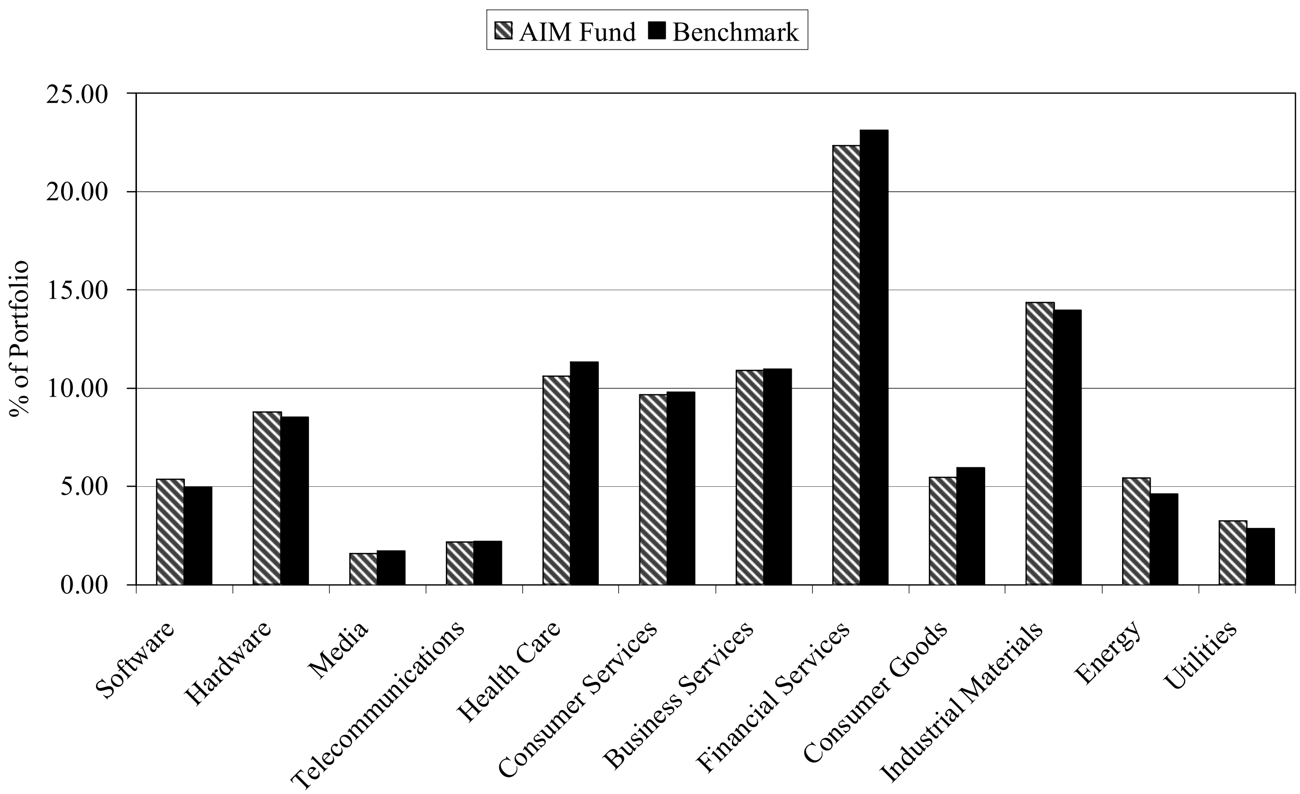
Student Presenter	Company Name	Ticker	Recommended Portfolio Weighting (%)
Timothy Fotsch	Tennant Company	TNC	1.61
Oleg Gurin	First Cash Financial Services, Inc.	FCFS	1.66
Ryan Denton	M/I Homes Inc.	MHO	1.54
Christina Mirarchi	Adeza Biomedical Corporation	ADZA	
Sarah Tobolski	LodgeNet Entertainment Corp.	LNET	0.69
Kristina Cerjak	Primus Guaranty, Ltd.	PRS	1.73

Proposed AIM Equity Fund Transactions (November 2, 2006)

Name	Symbol	Transaction	Shares	Est. Price	Gross Amount
Tennant Company	TNC	Buy	340	$26.81	$9,115
First Cash Financial Services, Inc.	FCFS	Buy	450	$21.00	$9,450
M/I Homes	MHO	Buy	250	$35.19	$8,798
Adeza Biomedical Corporation	ADZA			$13.75	
LodgeNet Entertainment Corp.	LNET	Buy	180	$22.00	$3,960
Primus Guaranty, Ltd.	PRS	Buy	850	$11.59	$9,852
Russell 2000 ETF	IWM	Sell	-125	$74.56	($9,320)
Bank Atlantic	BBX	Sell	-730	$12.91	($9,424)
Jos A Banks	JOSB	Sell	-300	$30.04	($9,012)
Vineyard National Bank	VNBC	Sell	-250	$21.78	($5,445)
Argon ST	STST	Sell	-390	$23.22	($9,056)

Table of Contents

AIM FUND SECTOR MIX VS. RUSSELL 2000



Tennant Company
TNC
Price: $27.53 ($20.68 - 27.99)
Fiscal Year Ends: December 31, 2006

November 2, 2006 — Timothy Fotsch
Russell 2000 Index: 767.51 (623.54 – 784.62) — Industrial Materials Sector

Tennant Company engages in the design, manufacture, and marketing of indoor and outdoor cleaning solutions and specialty floor coatings for maintaining surfaces in nonresidential environments. The company's products include street sweepers, scrubbers, floor coatings, brushes, detergents, carpet cleaning equipment, vacuums, and floor machines. Its products are used to clean factories, office buildings, parking lots and streets, airports, hospitals, schools, warehouses, and shopping centers. The company sells its products through direct sales organizations and distributors primarily to building service contract cleaners, healthcare facilities, and schools, as well as federal, state, and local governments. Tennant Company offers its products principally in North America, Europe, Latin America, the Middle East, Asia, and Australia. Equipment sales are 60% of their revenue with Service, Parts/Consumables and Floor Coatings at 36% and 4% respectively.

Recommendation

The dual focus of expanding international market coverage and lowering cost structure makes Tennant Company an attractive investment opportunity. Tennant's well received new product line and the opening of a new facility in China should boost sales, cut manufacturing costs, and expand operating margins to Tennant's goal of 9.5% by the end of 2008. With their solid fundamentals, strong balance sheet, and global focus, Tennant Company is recommended for inclusion into the AIM Portfolio and has an intrinsic value of $33.50.

Key Statistics	Oct. 27, 2006
Market Cap	$513.17M
Shares Outstanding	18.606M
Average Volume	74,000
Beta v. Russell 2000	0.89
2006 Estimated EPS	$1.46
2007 Estimated EPS	$1.80
P/E	18.85
Cash Flow/Share	$1.30
Debt/Assets	1.24%
ROE	12.49%
Gross Margin	42.48%
Operating Margin	6.3%
Dividend Yield	1.9%
Target Price	$33.50

Investment Thesis

- **"The China Initiative."** Tennant's new manufacturing facility in Shanghai became operational during the 3rd Quarter. The plant was set up in less than a year and all production goals are on or ahead of schedule. This facility will enable Tennant to expand their market coverage in Asia while also reducing operating costs to their goal of 9.5% operating margins by the end of 2008.

- **Expanding Global Presence.** With the opening of the facility in China in the 3rd Quarter, as well as establishing an office in San Paolo, Brazil, Tennant is quickly and aggressively expanding their international markets. Karel Hujiser, former President of GE Asia Pacific, Infrastructure, will lead Tennant's International business. Mr. Hujieser's experience at GE in the Asian Pacific markets will prove to add value and effectively manage Tennant's international growth plan.

- **New Product Innovation.** Tennant is the world leader is designing, manufacturing, and marketer of indoor and outdoor surface cleaning solutions. Throughout 2006, Tennant has introduced multiple new products that have exceeded expectations. The M20, the first single system riding scrubber/sweeper was widely anticipated and surpassed target sales estimates. The T20, a riding scrubbing machine, has been very positively received in test markets. These new products combined with an expanding global presence will buoy sales growth for years to come.

- **Fragmented Competition.** According to Tennant's 10-K they have active competition "in most geographic areas; however, it tends to originate from different sources in each area." Tennant is one of the only solutions company of its kind which should give them an advantage over their competitors due to their expertise and economies of scope.

Valuation

Based on a discounted cash flow model and forward P/E analysis, the intrinsic value of Tennant is approximately $33.50. This is close to a 22% discount to the market price as of October 27, 2006. Analysts have target prices close to $30, but I believe that the value added from the expanding global markets and improved production efficiencies are too conservatively priced into the stock by these analysts.

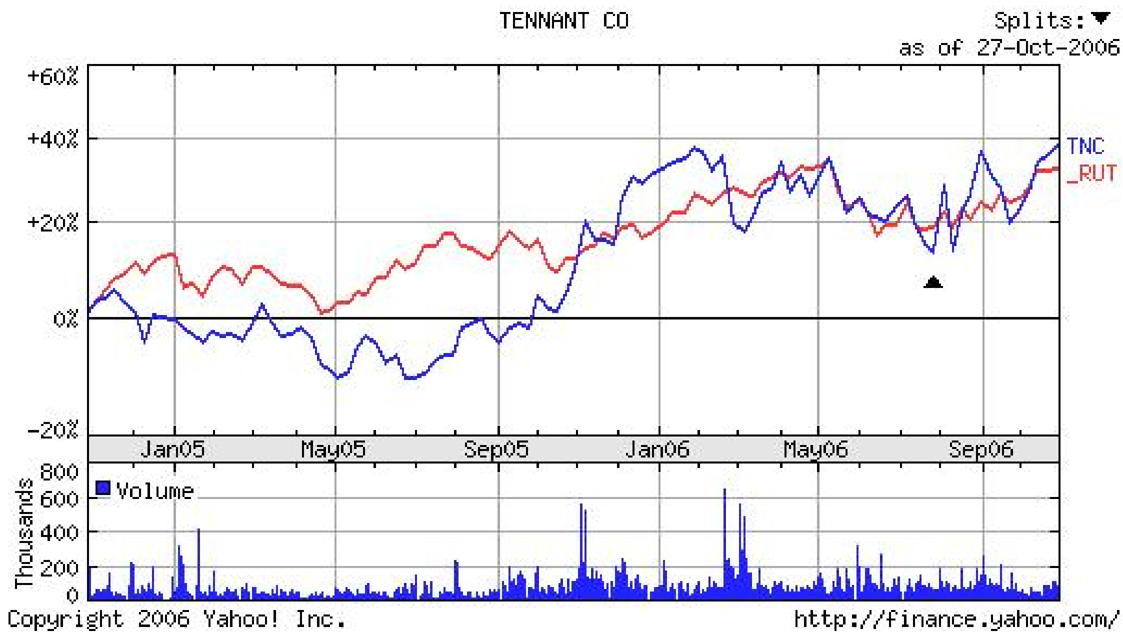
Risks

- **Global Strategy.** Tennant has a rather aggressive global market expansion plan and there are inherent risks to these strategies. Companies, who enter into new markets, let alone international markets, have the risk of underperforming and over investing a large amount of capital.

- **Cyclical Business Environment.** Tennant operates in a highly cyclical industry. Their customer base is comprised of large institutions, such as corporate offices, hospitals, schools, and other governmental bodies. If there is a downturn in the economy or if business and government spending decreases, Tennant's performance will be hurt.

- **Acquisitions.** With Tennant's aggressive growth plan comes the possibility of underperformance of certain acquisitions. These events can lead to integration conflicts with Tennant's business model.

- **Volatile Stock Price.** The stock price of Tennant is quite volatile. Tennant's volume over the last three months is 77,000 shares per day. This can lead to illiquid transactions and sharp movements in price. I decreased the intrinsic value of the stock by 2% to account for the lack of liquidity.



Ownership

% of Shares Held by All Insider and 5% Owners:	5%
% of Shares Held by Institutional & Mutual Fund Owners:	75%

*Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares Held	Percent of Shares Outstanding
Tennant Employee Benefit Plan	2,228,000	11.97%
Royce & Associates	1,094,000	5.87%
Wellington Management	997,182	5.35%
Barclays Global	983,604	5.28%
Cooke & Bieler Inc.	947,182	5.09%

*Source: Bloomberg

First Cash Financial Services, Inc.
FCFS
Price: $22.17 ($22.99 - $12.97)
Fiscal Year Ends: December 31, 2006

November 2, 2006 — Oleg Gurin
Russell 2000 Index: 765.84 (624.03–784.62) — Financial Services Sector

First Cash Financial Services provides specialty consumer finance products such as pawn loans and related retail, short-term/payday advances, and buy-here/pay-here automotive retail and finance. As of September 30, 2006, First Cash had 95 pawn stores, 141 payday advances stores, and 8 buy-here/pay-here dealerships in thirteen U.S. states, as well as 154 pawn stores in eight Mexican states. First Cash has been recognized for five consecutive years by Forbes magazine as one of its "200 Best Small Companies." This annual ranking is based on a combination of profitability and growth performance measures over the most current one and five-year periods.

Recommendation

First Cash Financial Services is a fast growing business that has been maintaining a high EPS growth rate since 2001. The growth has been driven by the combination of organic growth and acquisition. A store expansion rate of 19% in 2006, lays the foundation for robust revenue growth in 2007. We project 2006 and 2007 EPS of $0.97 and $1.29, respectively. Our valuation shows that First Cash is undervalued and we expect the price to appreciate to $27 within the next 12 months. We recommend adding FCFS to the AIM portfolio with a weight of 2%.

Key Statistics	Oct. 27, 2006
Market Cap	$683.21M
Shares Outstanding	30.817 M
Average Volume	330,136
Beta v. Russell 2000	1.33
EPS (TTM)	$0.91
2006 Estimated EPS	$0.97
P/E (TTM)	24.23
WACC	13.35%
Cash Flow/Share (TTM)	$0.96
Debt/Assets	17.40%
ROE	18.10%
Gross Margin Q3-06	70.09%
Operating Margin Q3-06	18.10%
EPS Growth Est. (3 Year)	30.00%
Target Price (12 Months)	$27.00

Investment Thesis

- **Benefit from acquisition of Auto Master.** On August 25, 2006, First Cash acquired Auto Master, an automotive retailer and related finance company. Valued at $33.7 million, the deal was funded through a combination of cash, a credit facility, and notes payables. Auto Master recorded revenues of $44 million in 2005 and expects revenue of $53 to $55 million in 2006.

- **Robust store growth diversified between the U.S. and Mexico.** First Cash opens pawn shops primarily in Mexico and cash advance stores only in the United States. FCFS opened 63 new stores year-to-date with a target of 70 stores for 2006. Also, FCFS anticipates an expansion program in 2007 with a target of 70 to 75 new stores. In addition, the company plans to open 3 to 5 new Auto Master dealerships by the end of 2007.

- **Pawn loan business is counter-cyclical to the economy business cycle.** Adding First Cash to the AIM portfolio contributes to the portfolio diversification within the financial services sector.

- **Same store revenues increased 10% over the comparable prior-year period.** Gross pawn revenue per store has been growing faster in Mexico than in the U.S. As a part of their strategy, First Cash is looking to expand pawn shops in Mexico and payday loan stores in the U.S.

Valuation

Based on the discounted cash flow model, First Cash should be valued at $25.14. Employing relative valuation, based on the PE ratio of FCFS's competitors, a stock value of $23.60 was obtained. The average valuation price for FCFS is $24.37, which translates into the target price of approximately $27 within the next 12 months.

Risks

- **Sovereign and currency risk in Mexico.** Rapidly expanding Mexican pawn operations are vulnerable to possible negative political and economic developments.

- **Declining gold prices.** A sustained drop in gold prices could adversely impact the value of jewelry already held as collateral. Moreover, decreased value of jewelry pledged as collateral may result in smaller loan amounts.

- **Competition.** The payday loan industry has modest capital requirements and no barriers to entry; therefore, competitive pressure might lead to lower fees and decreased margins.

- **Regulatory or liability costs.** Payday loans account for an increasing portion of both revenue and earnings. Certain consumer groups characterize the industry's loans as predatory. Starting in January 2007, potential changes in legislation related to payday lending may be considered in CA, OR, TX, and VA.

Management

J. Alan Barron, 45, served as a COO of the firm from 1994 to 1998 and from 2003 to the present. He has been the CEO since January 2005 and receives compensation of $800,000. He holds 0.64% of outstanding FCFS's shares. R. Douglas Orr, 45, has served as a CFO of the company since 2003 with compensation of $345,000. He holds 0.16% of shares.

Ownership

% of Shares Held by All Insider and 5% Owners:	13.67%
% of Shares Held by Institutional & Mutual Fund Owners:	68.41%

*Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Richard Burke Sr.	2,939,000	9.537%	-50,000
Munder Capital	1,340,000	4.348%	-144,600
Geneva Investment	1,217,000	3.951%	240,795
Delaware Management	1,020,000	3.309%	208,800
Granahan Investment	890,448	2.889%	-47,100

*Source: Bloomberg

M/I Homes, Inc.
MHO
Price: $35.19 ($29.95 - $49.44)
Fiscal Year Ends: December 31, 2006

November 2, 2006
Russell 2000 Index: 765.14 (618.06-784.62)

Ryan Denton
Consumer Services

M/I Homes, Inc. and its subsidiaries engage in the construction and sale of single-family residential property in the United States. The company designs, sells, and builds single-family homes on finished lots in Columbus and Cincinnati, Ohio; Tampa, Orlando, and West Palm Beach, Florida; Charlotte and Raleigh, North Carolina; Indianapolis, Indiana; Delaware; and the Virginia and Maryland suburbs of Washington, D.C. It also purchases undeveloped land to develop into finished lots for future construction of single-family homes and for sale to others. In addition, M/I Homes provides mortgage financing services, and title and insurance brokerage services.

Recommendation

M/I Homes currently is shifting their product mix to higher margin markets in Florida, Washington DC, and North Carolina. This strategy will increase M/I Homes' average selling price, which in turn will drive margin expansion. Moreover, historically low interest rates will dampen the decline in the housing market, which will bottom by the end of 2006. Given these factors I recommend adding M/I Homes to the AIM Portfolio with a 2% weighting.

Key Statistics	Oct. 27, 2006
Market Cap	$502.5M
Shares Outstanding	70.120M
Average Volume	118,300
Beta v. Russell 2000	1.13
EPS (TTM)	$6.93
2006 Estimated EPS	$6.09
P/E (TTM)	5.15
Book Value/Share	$44.43
WACC	7.62%
Cash Flow/Share	$-6.48
Debt/Assets	38.5%
ROE	18.7
Gross Margin	25.2%
Operating Margin	13.0%
EPS Growth Est. (3 Year)	25.00%
Target Price	$43.50

Investment Thesis

- **Higher margin markets.** MHO is decreasing their presence in the Midwest and increasing their presence in Florida, North Carolina, and Washington DC. In FY04, 44% of MHO operating income was generated in Columbus, OH and in FY05 33% of operating income was generated in Columbus. The net result of shifting their product mix to Florida is increasingly higher average selling prices. In 2003, MHO's average selling price was $267,000, as of 3q06 MHO's average selling price was $364,000.

- **Housing market bottoming out.** The housing market is showing signs of stabilizing. Housing starts increased 5.9% in September to an annual rate of 1.722 million, sales of new homes increased in August and inventories declined. Moreover, The National Association of Home Builders/ Wells Fargo Index of builder's confidence increased from 30 to 31 in September.

- **Historically low mortgage rates.** Since the 1980's the average 30-year mortgage rate has declined. In 1980, the average 30-year mortgage rate was 12.71% and by the end of the

1990's it declined to 8.12%. Currently, the 30-year mortgage rate is 6.33%, and applications to buy a new home rose 0.4%.

- **Demographics.** Long-term demographic trends are positive for homebuilders. The Census Bureau estimates that the US population will grow by 92 million people by 2050. Moreover, 2/3 of Baby Boomers report they will relocate when they retire. The wealthiest of these Boomers report that they will buy or build another home.

Valuation

Based on my discounted cash flow model, M/I Homes should be valued at $43.50, and a relative valuation based on the forward PE of the Philadelphia Housing Index, values MHO at $45.53. I believe that a target valuation of $43.50 is reasonable for the stock.

Risks

- **Land option impairment.** M/I Homes has roughly $13 million (1.3% of book value after taxes) of exposure to deposits and letters of credit at the end of 2q06. In 3q06, M/I Homes wrote off $2 million in land impairments and $2.3 million in option abandonment. Total lots under control fell 22% to 22,465 versus the prior year at 28,819 or 6.5 years of lots.

- **Higher cancellation rate and incentives.** As of 3q06, M/I Homes cancellation rate increased to 42% from 22% last year. Moreover, if market conditions deteriorate more than management expects they may have to offer more incentives to clear inventory.

- **Competition from larger competitors.** Many of M/I Homes competitors have an advantage in terms of financial resources, economies of scale, and reputation.

- **General economic slow down.** As a cyclical industry homebuilding would be adversely affected if general economic conditions deteriorate.

Management

M/I Homes senior executives each have 10 or more years of experience. The CEO Irving Schottenstein controls 22.14% of shares outstanding.

Ownership

% of Shares Held by All Insider and 5% Owners:	13%
% of Shares Held by Institutional & Mutual Fund Owners:	95%

*Source: Yahoo! Finance

Top 5 Holders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Irving Schottenstein	3,707,600	22.14	-25,000
Fidelity Management	1,730,300	12.45	-
Basswood Capital Management	1,176,000	8.46	-237,943
Dimensional Fund	1,135,000	8.17	122,500
Barclays Global Investor	1,047,000	7.534	-158,244

*Source: Bloomberg

Adeza Biomedical Corporation
ADZA
Price: $14.40 ($12.61- $23.35)
Fiscal Year Ends: December 31, 2006

November 2, 2006 | Christina Mirarchi
Russell 2000 Index: 765.84 (624.03-784.62) | Health Care Sector

Adeza Biomedical Corporation (ADZA) designs, develops, and manufactures innovative products for women. Adeza's products are used specifically by doctors to predict a preterm birth and also to determine infertility. The Fetal Fibronectin Test is used by doctors to indicate, with a 99.5% probability, that a woman will not have a pre-term birth. The E-tegrity Test is used to help explain the reason for infertility. The company, headquartered in Sunnyvale, California, currently sells its products primarily in the United States, but has begun expanding internationally into Japan and South Korea.

Recommendation
Adeza Biomedical Corporation continues to manufacture innovative medical devices that reduce the cost of healthcare. Research and development has proven to be successful for the company, as Adeza's pre-term birth assessment test it is the only one of its kind to be approved by the FDA. The company is also preparing to grow its international presence in Canada, Japan, and South Korea. Also, to expand its product line, the company is in the process of seeking FDA approval for a drug, Gestiva, that helps to prevent a pre-term pregnancy as well as additional uses for the Fetal Fibronectin Test, including the detection of bladder cancer. We believe that the stock has an intrinsic value of $18.00.

Key Statistics	Oct. 26, 2006
Market Cap	$251.77
Shares Outstanding	17M
Average Volume	255,856
Beta v. Russell 2000	.40
EPS (TTM)	$0.53
2006 Estimated EPS	$0.15
P/E (TTM)	26.87
WACC	9%
Cash Flow/Share	$5.34
Debt/Assets	0.00%
ROE	13.77%
Gross Margin	85.9%
Operating Margin	11.76%
EPS Growth Est (3 Year)	22%
Target Price	$18.00

Investment Thesis

- **Benefit from current trends.** As an increasing number of women have children at an older age, the number of preterm births and cases of infertility has increased by 29% annually since 1992. Also, 85% of all pregnancy-related complications and deaths are caused by pre-term births. As a result of these trends, Adeza is strategically placed in a high growth market

- **Lowering the cost of healthcare.** It is estimated that about $15.5 billion is spent on preterm pregnancies. The average hospital charge for a pre-term infant is $77,000. Adeza's Fetal Fibronectin Test has the ability to identify women at risk of a pre-term birth allowing doctors to appropriately treat the mother before birth. This will help reduce hospital stays and drug treatments. Because Adeza's products have the potential to reduce healthcare costs (by reducing pre-term labor hospital admissions by 40%), they are more appealing to doctors and insurance companies.

- **Expansion opportunities.** While the primary focuses of Adeza offerings are pre-term births and infertility, the company is also developing products that can be used to induce labor and to diagnose bladder cancer. The company believes that the Fetal Fibronectin test can also be used to detect bladder cancer, and in trials it has a 95% detection rate. Besides expanding their product line, Adeza is also marketing their product internationally.

Valuation

Based on our discounted cash flow model, Adeza should be valued at $16.66. After performing a relative valuation model based on the forward P/E of ADZA's competitors, we found that ADZA's common stock should be valued at $20.20. Therefore, we believe that a target share value of $18.00 is reasonable. The company does not pay a dividend.

Risks

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

- **Competition from larger companies.** Adeza is the only company that currently has an FDA approved pre-term birth and infertility assessment products. As this method becomes more appealing to healthcare providers because of its low cost, other companies will begin to move into the market. Larger companies that have more resources than Adeza may pose a threat and find more cost effective or innovative products.

- **Regulatory and legal costs.** ADZA faces many regulatory issues at the federal, state, local and foreign level. If regulation procedures are not followed, substantial penalties may be introduced. These penalties include recalls of products, restrictions on production of products, as well as fines. Also, the process of approval of a product by the FDA is long and costly. It may adversely affect the distribution of products and the ability to conduct clinical trials.

Management

Four of the five members of Adeza Biomedical Corporation's management team have been with the firm since 1998. The management team also has extensive background in the healthcare industry, particularly women's health. The executives of the company currently hold 65 % of the shares outstanding. While this concentrated ownership could be considered negative, it could also be considered positive as it motivates the management to increase share price performance.

Key Executives

Emory Anderson, 52, Chief Executive Officer
Mark D. Fischer-Colbrie, 49, Vice President of Finance and Accounting
Durlin Hickok, MD, MPH., 58, Vice President of Medical Affairs
Robert Hussa, 64, Vice President of Research and Development
Marian Sacco, 52, Vice President of Sales and Marketing

Ownership

% of Shares Held by All Insider and 5% Owners:	56%

*Source: Yahoo! Finance

Top 5 Holders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Credit Suisse	1,662,194	9.51%	06/06
Capital Research and Management Company	1,234,000	7.06%	06/06
Times Square Capital Management	1,102,500	6.31%	06/06
Sovereign Asset Management Corp	1,050,429	6.01%	06/06
Wells Fargo & Company	783,229	6.01%	06/06

LodgeNet Entertainment Corp.
LNET
Price: $22.32 (11.93 – 22.44)
Fiscal Year Ends: December 31, 2006

November 2, 2006 Sarah Tobolski
Russell 2000 Index: 767.15 (623.54 – 784.62) Media Sector

LodgeNet Entertainment supplies entertainment and information services to the lodging industry in the United States and Canada. Their services include satellite cable programming, TV internet, video checkout, room service ordering, interactive video games and on demand movies. Along with their service to North America, they also support an international base through license agreements. They currently have partnerships with large hotel chains like Starwood Hotels and Resorts, Marriott International, and Hilton Hotels Corporation.

Recommendation

Key Statistics	Oct. 26, 2006
Market Cap	$350.9M
Shares Outstanding	18,517M
Average Volume	77,052
Beta v. Russell 2000	0.97
EPS (TTM)	$-0.10
2006 Estimated EPS	$0.10
P/E (TTM)	N/A
WACC	9.34%
Cash Flow/Share	$3.59
Debt/Assets	102.49%
Gross Margin	55.32%
Operating Margin	8.23%
EPS Growth Est. (5 Year)	12.50%
Target Price	$27.00

Although past financials for the company have been weak, recent quarters have begun to show the significant progress made with respect to profitability. Net income for the third quarter increased nearly 400% to $0.12 per share. This can be attributed to solid results produced from their digital conversion initiatives and an improvement in the overall quality of their room base. LNET's business model is also in a period of evolution, and the company has begun to expand past their traditional hotel space. Their recent partnerships with time-share developer, Bluegreen, and travel center installation specialist, IdleAire, indicate potential interest in markets that had previously not been receptive to LNET's offerings. The company's dominant position in this specialized industry, along with organic growth possibilities within their current contracted hotel chains, makes LNET a reasonably priced addition to the AIM fund.

Investment Thesis

- **Expansion into vertical niche markets.** Recently, LNET has endeavored to expand into the healthcare, travel center, and time share markets. They continue to diversify their customer base and tap into new revenue opportunities that require little or no incremental capital investment.

- **Marketing initiative offers long-term growth prospect.** Each year, about three hundred million consumers flow through the guest rooms that LNET serves, which gives their network more than ten times the reach of the nation's largest cable companies. LNET's digital system has the metering and reporting capabilities that many advertisers are seeking as they shift their dollars into new digital media technologies and away from traditional television and radio.

- **Key contracts create significant barriers to entry**. Starwood Hotels & Resorts Worldwide and The Ritz-Carlton Hotel Company recently signed exclusive contracts with LNET. These long-term contracts offer ideal opportunities to increase their presence in the higher end of the lodging industry.

- **Digital room growth.** LNET continues to expand their digital base by installing their digital system in all newly contracted rooms as well as converting some of their older tape-base served rooms. Rooms equipped with their digital technology typically generate higher revenue since their range and availability of services is greater than in rooms equipped with tape based systems.

Valuation

Based on a discounted cash flow model, LNET's intrinsic share price is $28.15, and a relative valuation based on the forward P/E of their competitors, values the stock around $26.27. Given these various valuation methods, I believe that a price target of $27.00 is a reasonable price for the stock.

Risks

- **External dependence on programming content**. LNET's programming content is provided primarily by movie studios, major television networks, and other providers and distributors of entertainment content. These providers may demand higher royalty rates or higher minimum payments than they are currently paying or may defer making their content available to LNET altogether.

- **Significant capital expenditures.** The television-based interactive service industry has always been subject to rapid and significant technological changes which, in turn, require considerable capital expenditures in order to maintain a competitive advantage. LNET's size and large amount of debt make these upgrades harder to finance than larger corporations.

- **Performance is closely correlated to the lodging industry.** The overall travel industry is adversely affected by weaker general economic climates, geopolitical instability, and public health concerns. To help ease the impact of any occupancy reductions, LNET's room base is geographically diversified in order to diminish reliance on a specific region, and their penetration into the more stable healthcare and travel center markets will mitigate any downturns in the lodging industry.

Management

LNET has a strong group of senior executives that have been either within the industry or the company for more than ten years. Scott Peterson is LNET's CEO, president and chairman of the board. He has worked for the company since 1987 and became president and CEO in 1998. Gary Ritondaro is the company's CFO and also serves as the SVP of Finance, Information, and Administration. In August of 2006, LNET hired Scott Young as CMO. Most recently, Young had worked at Best Buy and was part of the leadership team that launched BestBuy.com.

Ownership

% of Shares Held by All Insider and 5% Owners:	1.17%
% Of Shares Held by Institutional & Mutual Fund Owners:	96.6%

*Source: finance.google.com

Top 5 Shareholders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Barclays Global Investors Intl	2,106,935	11.4%	355,489
Reed Conner & Birdwell	1,917,773	10.4%	(432,353)
Wellington Management	1,860,000	10.1%	(326,840)
Par Capital Management, Inc.	1,156,997	6.3%	-
Federated Investors	1,017,271	5.5%	91,900

*Source: finance.google.com

Primus Guaranty, Ltd.
PRS
Price: $11.26 ($8.65-$14.00)
Fiscal Year Ends: December 31, 2006

November 2, 2006 — Kristina Cerjak
Russell 2000 Index: 765.84 (624.03 – 784.62) — Financial Services Sector

Primus Guaranty, Ltd., a Bermuda holding company, sells credit swaps through its subsidiary Primus Financial Products. These credit default swaps help its customers mitigate their exposure to credit risk from bonds, loans and receivables. The firm's asset management subsidiary handles the credit swap business and credit swap portfolios of third parties. Through Primus Re, the company offers credit insurance. In July 2005, PRS Trading Strategies was formed to facilitate buying and selling of credit protection on single names, indices and tranches. PRS caters to commercial and investment banks, credit portfolio managers, and insurance companies across 25 countries. The company was incorporated in 1998 and is headquartered in Hamilton, Bermuda.

Recommendation

Primus Guaranty's year-over-year revenue growth of 169.1% is considerably higher than the Financial Services industry average of 16.2%. In addition, PRS's business model generates strong ROE, Operating Margin, and Free Cash Flows, making it an attractive small-cap investment. Valuation currently shows that PRS is undervalued and we expect the price to appreciate to $15.00 within the holding period. We are recommending that PRS be added to the AIM portfolio with a weight of 2%.

Key Statistics	Oct. 24, 2006
Market Cap	$487.63M
Shares Outstanding	43.31M
Average Volume	105,421
Beta vs. Russell 2000	0.95
EPS (TTM)	$1.64
2006 Estimated EPS	$1.20
P/E (TTM)	6.99
WACC	8.65%
Cash Flow/Share (TTM)	$1.70
Debt/Assets	40.00%
ROE	19.58%
Profit Margin (TTM)	67.30%
Operating Margin (TTM)	67.35%
EPS Growth Est (5 Year)	25.00%
Target Price	$15.00

Investment Thesis

- **Strong credit rating.** PRS, as a swap counterparty, has been rated AAA by S&P and Aaa by Moody's. These ratings reflect opinions of the company's ability to pay a counterparty upon a credit event and are important measures of financial strength and the ability to meet ongoing obligations.

- **Growth strategy.** In November 2005, the company established a subsidiary in London, Primus Guaranty UK, to support expansion of its business in Europe. Currently, North America accounts for 62% of its credit swap portfolio, followed by Europe at 34% and the Pacific region at 3%.

- **Relationships with counterparties.** Primus Guaranty has increased the number of counterparties to whom they sell credit swaps from 31 in 2003 to 42 in 2005. Primus Financial's top counterparty, and top five counterparties, represented 13% and 48% of PRS's credit swap portfolio outstanding as of December 31, 2005. Three counterparties each accounted for more than 10% of consolidated net premium in 2005.

- **Management expertise.** Primus Guaranty's management benefits from years of experience in the credit swap industry which gives them a competitive edge over larger companies.

Valuation

Based on a discounted cash flow model, Primus Guaranty should be valued at $15.15. A valuation based on its relative P/E ratios versus the Russell 2000 Financial Services Index values the stock at approximately $13.75. The average analyst price target for PRS is $16.00—three provide buy ratings and one provides a hold rating. We believe that a target valuation of $15.00 is reasonable for the stock.

Risks

- **Controlled by certain principal shareholders.** Principal shareholders, directors and executive officers and entities affiliated with them own approximately 46% of PRS's outstanding common shares. As a result, these shareholders, collectively, have sufficient voting power over the company.

- **Potential for increased industry regulation.** Periodically, proposals have been made in the U.S. Congress to increase regulation of the credit swap market. If adopted, these restrictions would have a significant impact on PRS's business.

- **Variations in credit swap premiums could cause inconsistent earnings.** Common events that cause credit swap premiums to fluctuate include: changes in national economic conditions; industry cyclicality; credit events within an industry; and credit rating. Wide fluctuations in premium levels received on credit swaps may have a material effect on reported results of operations.

- **The credit swap market is highly competitive.** Primus Guaranty faces competition from providers of similar products and many of these competitors are more established, with greater financial resources.

Management

Thomas W. Jasper has been Chief Executive Officer of Primus Guaranty since March 2001. He joined PRS in October 1999 as a consultant to assist in the company's formation. Prior to joining PRS, Mr. Jasper served for 17 years as a key executive of Salomon Smith Barney Holdings, Inc. In 1982, Mr. Jasper was one of the founders of Salomon's interest rate swap business. Richard Claiden has been Primus Guaranty's Chief Financial Officer since October 2003. He served for seven years as the Head of Operational Risk in the investment banking division of JPMorgan Chase. Overall, the management team has extensive experience in the credit swap industry.

KEY EXECUTIVES	PAY	EXERCISED OPTIONS
Mr. Thomas W. Jasper, 57, CEO	$1.38M	$0
Mr. Richard Claiden, 54, CFO	$672K	$0

Ownership

% of Shares Held by All Insider and 5% Owners:	37.20%
% of Shares Held by Institutional & Mutual Fund Owners:	36.80%

*Source: Yahoo! Finance

Top Shareholders

Holder	Shares	% Out
RADIAN GROUP INC	4,084,506	9.43
CALPERS/PCG CORPORATE PARTNERS, LLC	4,082,585	9.43
UNITED STATES TRUST COMPANY OF NEW YORK	3,255,863	7.52
EXCELSIOR FUNDS INC-VALUE & RESTRUCTURING	2,800,000	6.47
SECOND CURVE CAPITAL, LLC	2,711,300	6.26
TIMES SQUARE CAPITAL MANAGEMENT	2,593,473	5.99
AXA	2,405,800	5.56
UBS GLOBAL ASSET MANAGEMENT	1,942,300	4.49