Applied Investment Management (AIM) Program

AIM Fund Investment Advisory Board Meeting
November 7, 2007

AIM Equity Fund Presentations

Student Presenter	Company Name	Ticker	Price
Patrick Ingber	Apogee Enterprises	APOG	$21.96
Luke Junk	Littelfuse Inc.	LFUS	$31.44
Stanley Zurawski	Preferred Bank Los Angeles	PFBC	$27.13
Peter Merkel	Palomar Medical Technologies	PMTI	$24.37
Break			
Nicholas Ihn	InvesTools, Inc	SWIM	$15.05
Christopher Caparelli	Cogent, Inc.	COGT	$12.66
Barrett Willich	Petroleum Development Corp.	PETD	$44.02
Christopher Williams	Arena Pharmaceuticals	ARNA	$9.91
Paul Simenauer	Oil Sands Quest, Inc	BQI	$5.51
Jason Bednar	JAKKS Pacific, Inc.	JAKK	$24.96

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Apogee Enterprises

APOG

Price: \$21.96 (15.81 – 30.30)

Fiscal Year Ends: March 3

November 1, 2007 — Patrick Ingber

Russell 2000 Index: 817.40 (712.17 - 856.48) — Business Services Sector

Apogee Enterprises, Inc., through its subsidiaries, engages in the design and development of glass products, services, and systems. The company operates in two segments, Architectural Products and Services, and Large-Scale Optical Technologies. The Architectural Products and Services segment designs, engineers, fabricates, installs, maintains, and renovates the walls of glass and windows comprising the outside skin of commercial and institutional buildings. The Large-Scale Optical Technologies segment manufactures glass and acrylic products for the custom framing market. It also produces optical thin coatings for consumer electronic displays, such as projection televisions and computer screens; and produces and sells pre-framed reproduction art to retail chains, primarily through trade shows.

Recommendation

Apogee Enterprises is an established provider of high quality window installation to the nonresidential commercial construction market mainly in US markets. APOG has accomplished YoY quarterly earnings improvement of 57% and 200% in its two most recent quarters, respectively. To continue upon its recent success, APOG has implemented a strategy to devote itself to its most successful product lines of value-added architectural glass products and custom picture framing. In light of this focused strategy and the company's capacity to carry out its successful implementation, it is recommended that APOG be added to the portfolio with a price target of \$27.50.

Key Statistics	Nov. 1, 2007
Market Cap	\$639.21M
Shares Outstanding	29.11M
Average Volume	447,947
Beta	1.15
EPS (TTM)	1.49
2008 Estimated EPS	1.51
P/E (TTM)	14.78
PEG	.87
WACC	10.56%
Debt/Equity	9.2%
ROE	17.15%
Gross Margin	21.53%
Operating Margin	7.33%
Target Price	\$27.50

Source: Morningstar, Yahoo!, Bloomberg

Investment Thesis

- **Breadth of value added product and service offerings.** Apogee has been able to expand the breadth of its glass solutions offerings to meet the market's growing needs. These needs include energy efficiency/green solutions, desire for better security for institutional customers, and hurricane and blast protection for buildings and occupants. APOG also plans to increasingly leverage its customer relationships and expertise in engineered windows to increase its sales of standard commercial windows.

- **Free Cash Flow Utilization.** APOG has produced positive FCF for five straight years through improved capital management and prudent capital investments. Management has effectively used this cash flow to reduce its outstanding debt to its lowest level in 5 years and to increase the company's quarterly dividend. Going forward, management expects to utilize the company's FCF to increase the manufacturing capacity of the architectural product segment to meet current backlog demands.

- **Concentration on Strengths.** APOG has recently announced the selling of the auto replacement glass (ARG) segment. This divestiture should allow the company to focus its resources and manufacturing outlets on its most profitable Architectural segment's glass fabrication business, which has seen QoQ revenues increase 21.3% in 2Q08. Growing the company's core architectural segment should also result in better capacity utilization and efficiency, leading to margin expansion.

- **Attractive valuation after recent commercial construction worries.** Apogee's stock price depreciated over 14% in October on fears of reduced commercial construction activity. This sell-off creates a buying opportunity rather than an accurate reflection of a future reduction in earnings as APOG trades at its lowest earnings and FCF multiples.

Valuation

Using a five year discounted cash flow model for Apogee and assuming management's 11-13% target revenue growth for the remainder of fiscal 2008 and 8% through 2010, APOG is valued at $29.24. Applying a constant earnings multiple of 15 to a more conservative estimated FTM earnings of $1.71 - than management's forecasted $1.78 - provides a price of $25.96. Together, these valuations present a target price of $27.50 for APOG and a reasonable buying opportunity.

Risks

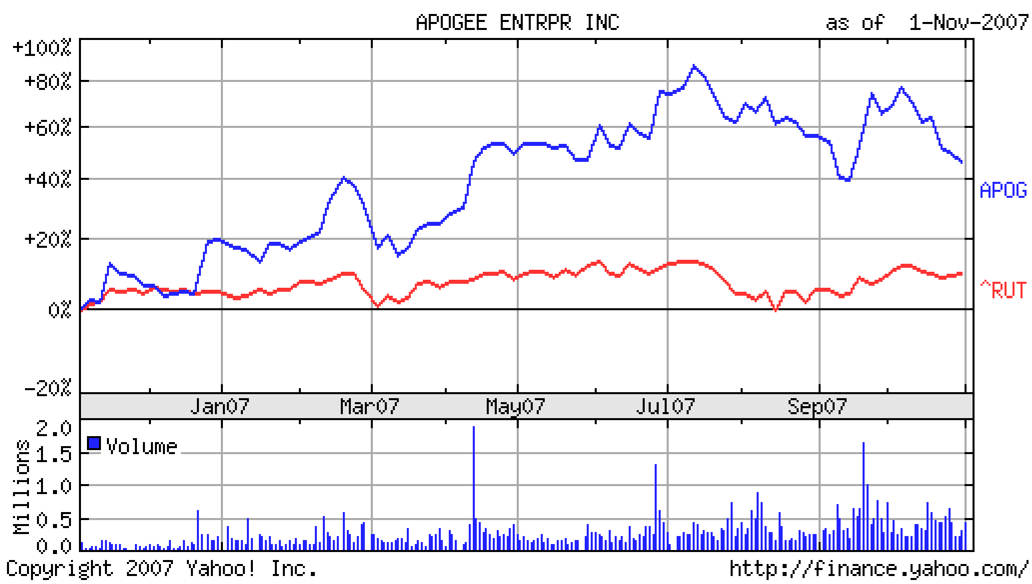
- **Sale of Auto Glass Segment.** APOG is currently in the process of selling its recreational vehicle and bus glass segment. If the company is unable to exit this business in an efficient and timely manner it could have an adverse impact on the results of the company.

- **Capacity Utilization.** The company's growth prospects depend on its ability to fully utilize its capacity at its production facilities, including its newest glass fabrication facility at St. George, Utah. Customers could choose to buy similar products from competitors if the company is not able to meet their needs in a timely manner.

- **Changing Market Conditions in LSO Segment.** The company continues to attempt to drive customers towards its picture framing glass product offerings. Trends that impact the accomplishment of this goal could create excess capacity and reduce the company's operating results.

Management

CEO Russell Huffer has been with the company since 1986 in various positions before being named President in 1996 and eventually being named Chairman and CEO of the company as well in 1999.



Ownership

% of Shares Held by Insiders:	3%
% of Shares Held by Institutional & Mutual Fund Owners:	89%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Franklin Resources, Inc.	2,496,800	8.58%
Westfield Capital Management Company	1,737,750	5.97%
Daruma Asset Management	1,566,400	5.38%
Barclays Global Investors UK Holdings Ltd	1,495,589	5.14%
VANGUARD GROUP, INC. (THE)	1,421,288	4.88%

Source: Yahoo! Finance

Littelfuse, Inc.

LFUS

Price: $31.44 ($28.14 – $44.99)
Fiscal Year Ends: December 31

Date: November 1, 2007 — Luke Junk
Russell 2000 Index: 795.18 (736.00 - 856.48) — Hardware Sector

Littelfuse is a leading supplier of fuses and other circuit protection devices, which make products more reliable and protect against events such as lightning or short circuits. The company is organized into three strategic business segments: auto, electronics, and electrical; these business units serve four end markets: telecom, automotive, consumer, and industrial. Customers include major OEMs and EMS providers throughout the world, with 60% of the company's revenues coming from outside of North America. Littelfuse's products are distributed through a direct sales force and an international network of distributors. The company was founded in 1927, has 6,550 employees, and is based in Des Plaines, Illinois.

Recommendation

Littelfuse features improving fundamentals, dominant market share in its key markets, and above average revenue growth. Its improving fundamentals are the result of a number of significant cost cutting measures, which are expected to deliver 500 bps of operating margin improvement by mid-2009. These improving fundamentals, along with LFUS's above average revenue growth, will fuel meaningful earnings power through 2009. Over that period, EPS (consensus) is expected to grow at a 23% CAGR. Littelfuse's dominant market share position in several markets is another key to the story. The company is the dominant player in the traditional fuse market, with 80% share in North America and 70% share in Europe. The end of the year represents an attractive entry point, as weakness in 2007 will make for easier 2008 comps. The weakness was due to an EMS inventory overhand and delays in telecom infrastructure build out, neither of which will persist into 2008. I am recommending the addition of Littelfuse to the AIM portfolio with a target price of $43.00.

Key Statistics	Nov. 1, 2007
Market Cap	$703M
Shares Outstanding	22.36M
Average Volume	153,400
Beta	1.375*
EPS (TTM)	1.53
2008 Estimated EPS	1.96*
P/E (TTM)	20.5
P/S (TTM)	1.34
WACC	12.26%*
Debt/Assets	5.7%
ROE	8.62%
Gross Margin	31.5%*
Operating Margin	9.11%
Target Price	$43.00

*Source: Yahoo! Finance, Thomson**

Investment Thesis

- **Significant Earnings Power.** Littelfuse will see strong earnings power as the company implements significant cost reduction efforts. Cost reductions are centered on the movement of key operations in the U.S. and Ireland to more favorable labor markets, including China, Mexico, and the Philippines. Management expects to reduce operating expenses by $10 million in 2008 and another $25 million in 2009, delivering over 500 bps of operating margin improvement by mid-2009. These cost savings measures will help to deliver EPS (consensus) growth at a 23% CAGR from 2007-2009.

- **Dominant Market Position.** Littelfuse maintains a dominant position in the auto market, as 90% of all cars worldwide feature the company's circuit protection devices. It also maintains a dominant position in the traditional fuse market, with 80% share in the U.S. and 70% share in Europe.
- **New Product Introductions.** As a result of increased R&D spending over the last 18 months, Littelfuse is prepared to begin ramping up several new products in 2008. Products will launch for all three segments, and are expected to deliver $40 million incremental revenue in 2009 (7.5% of total sales)[1].
- **Rising Automobile Content.** Rising electronics content in automobiles helps to buffer Littelfuse against weak end market demand, as electronic content is expected to grow 8-10% annually over the next few years.[2] This effect was evident in 2Q07, as Littelfuse saw auto related revenues grow 7% year/year compared to a 1% increase in global passenger car builds.
- **Below-Average Valuation.** The stock currently trades at 16x 2008 earnings, well below its historical forward average of 22x earnings. The stock's 2008 EV/Ebitda multiple of 7x is also well below its historical average of 9x forward EV/Ebitda.

Valuation

A scenario analysis of my 10-year DCF model yields an intrinsic value of $45.24. The model assumes two five year growth rates and a WACC of 12.26%. The scenario analysis consists of a bear case (20% probability), base case (65% probability), and bull case (15% probability).

	Year 1-5 rate	Year 5-10 rate	Terminal rate	Intrinsic Value
Bear	4.0%	2.5%	2.0%	$38.22
Base	7.0%	4.0%	2.5%	$45.54
Bull	9.5%	5.5%	3.0%	$53.29

Assuming forward valuation improves only slightly, an 18x multiple of consensus 2009 EPS of $2.45 yields a $44.10 price target. Considering both of these valuation metrics, a $43 price target has been established for Littelfuse.

Risks

- **Raw Material Pricing.** Littelfuse is exposed to pricing for raw material such as copper, copper alloys, zinc, silver, and raw silicon. In the past, Management has taken steps to pass commodity price increases on to customers with some success.
- **Ability to Integrate Acquisitions.** LFUS often seeks to grow through strategic acquisitions, making six in 2006 alone. Their success will depend on the company's ability to integrate the assets and personnel acquired in these acquisitions.

Management

Management consists of lifelong industry professionals, with the heads of the three business segments boasting over 70 years of combined industry experience. Gordon Hunter has served as CEO since 2005, and previously served as the company's COO from 2003-2005. Prior to joining Littelfuse, he headed up business units at Intel and Raychem. CFO Philip Franklin has been with the company since 1998. Prior to Littelfuse, Mr. Franklin helped with the IPO of OmniQuip International, a construction equipment manufacturer.

[1] Merrill Lynch estimate
[2] Ibid

Ownership

% of Shares Held by Insiders:	3.11%
% of Shares Held by Institutional & Mutual Fund Owners:	97.40%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
T. Rowe Price Associates	2,061,840	9.22%
Ariel Capital Management	1,865,785	8.35%
Columbia Wanger Asset Management	1,697,000	7.59%
Barrow, Hanley, Mewhinney & Strauss	1,453,910	6.50%
Barclays Global Investors UK Holdings	1,419,326	6.35%

Source: Yahoo! Finance

Preferred Bank Los Angeles

PFBC

Price: $27.13 ($26.66-$27.51)

Fiscal Year Ends: December 31

November 1, 2007 — Stan Zurawski

Russell 2000 Index: 797.78 (736.00 - 856.48) — Financial Services Sector

Preferred Bank Los Angeles (PFBC) is a regional bank headquartered in Los Angeles, California. Founded in 1991, Preferred has grown to more than $1.5 billion in assets and is one of the largest independent commercial banks in California focusing on the Chinese-American market. The bank operates 11 branches in 3 counties surrounding Los Angeles. Preferred provides personalized deposit services as well as real estate finance, commercial loans and trade finance to small and mid-sized businesses, entrepreneurs, real estate developers, professionals and high net worth individuals. Major competitors of Preferred include Cathay General Bancorp, East West Bancorp, and UCBH Holdings Inc.

Recommendation

Preferred Bank is an excellent franchise with a high ROA (2.06%) and ROE (18.43%). Past records show management's ability to run a profitable bank. An extremely low efficiency ratio (28.33%) is coupled with low non-performers (.02% of assets in 2006) and minimal net charge offs (none in 3Q). The stock price has declined more than 32% in the last three weeks. The decline is primarily attributed to concerns about bank stocks in general, more widespread weakness in residential construction fundamentals in the Los Angeles market, expected margin compression with recent Fed rate cuts, and the announcement prior to the 3Q07 earnings release that Walt Duchanin, the company's long-time Chief Credit Officer is leaving the company to pursue other interest. The market has overreacted and PFBC is presently a good opportunity.

Key Statistics	Nov. 1, 2007
Market Cap	$282M
Shares Outstanding*	10.38M
Average Volume*	69,847
Beta	.716
EPS (TTM)*	$2.56
2007 Estimated EPS**	$2.60
P/E (TTM)*	10.61
P/S (TTM)*	4.21
WACC	9.73%
Tier 1 Ratio**	11.03%
ROE**	18.43%
Net Interest Margin**	5.13%
Efficiency Ratio**	28.33%
Target Price	$35.23

*Source: Thomson, *Yahoo! Finance**SNL Financial*

Nonperforming assets rose to .59% of total assets in the most recent quarter due to one construction loan placed on nonaccrual status; however, no net charge-offs were recorded and the loss potential seems minor. The net interest margin was relatively stable in the third quarter and is expected to be affected by recent rate cuts only in the two subsequent quarters. Duchanin left the company and joined First California Financial Group, Inc. as its CCO because of a family health issue that requires him to be closer to his home. His decision to leave PFBC was not related to any credit or financial issues at the company and PFBC will attract a qualified CCO to replace him within a reasonable period of time. Going forward PFBC will continue to write quality loans and operate an efficient and profitable bank. The stock is currently trading at its two year low and is undervalued.

Investment Thesis

- **Strong Profitability:** Management has constructed a high-quality franchise with industry-leading profitability. ROA and ROE are well above competitor's medians of 1.37% and 13.28%, respectively. Preferred has been able to increase its net interest margin the last three years and is now up to 5.13%, above the peer median of 5.06%. PFBC's efficiency ratio has also shown consistent improvement over the last three years and is much better than the peer median of 57.50%.
- **Niche:** Preferred Bank has found a niche to operate within with its experienced, multi-lingual management team and staff and understanding of Asian markets and cultures. The bank will continue to benefit from the significant migration to Southern California of ethnic Chinese from China and other areas East Asia. The continuing consolidation of banks in the market area and among those serving Chinese-Americans in particular has created an underserved market of small and mid-size businesses.
- **Valuation:** Despite its strong year-over-year EPS growth and solid quarterly results, PFBC's stock price has plummeted since October 12. The bank has traded at higher multiples than its peers in the past; however the current PE of 10.6 is well below the peer median of 12.4. This is unwarranted given the company's strong track record of above-average growth and profitability.

Valuation

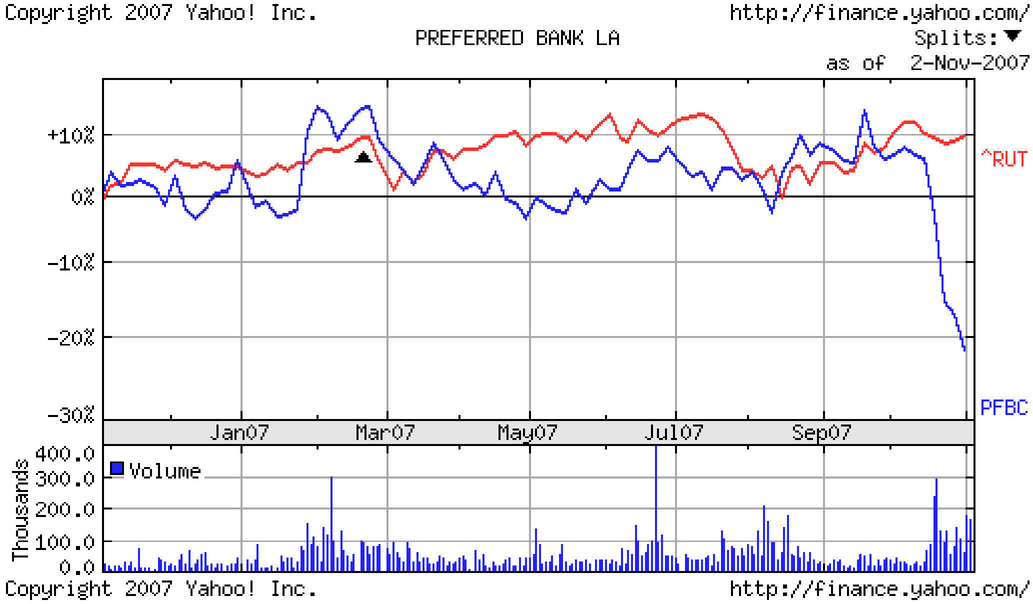
A 10-year discounted cash flow analysis indicates that Preferred Bank's intrinsic value is $32.16. A dividend discount model yields a value of $39.39. The one-year target price, assuming a $2.60 FY08 EPS estimate and the current PE of 10.61, is $27.59. Using these three valuation metrics the target price for PFBC is $35.23; or a 29.85% return. The current dividend yield is 2.50%.

Risks

- **Loan Composition:** As of 3Q07 end, real estate and construction loans made up 71.9% of loans. Due to a slowing in the construction market, earning may suffer in the next few quarters. Strong construction loan growth has driven the strong NIM and profitability numbers. Future deceleration in construction growth may reduce volume for as long as the next 12 months. Construction lending involves higher average loan balances and loans that are more complex to originate and underwrite.
- **Dependent on local economy:** Preferred Bank is depended on the Los Angeles area economy and market for both its source of funds and origination of loans. In the event of a decline in the local economy, profitability could suffer. In particular, Preferred Bank's large Chinese-American base makes up 66% of its non-government deposits and 22% of the loan portfolio.

Management

CEO, Li Yu joined the bank in 1991 becoming CEO in 1993. Prior to joining the bank Mr. Yu served as Chairman of the Board of California Pacific National Bank, which became a part of Bank of America. He has 25 years of banking experience. The CFO, Edward Czajka, has been with the bank since 2006. Before joining Preferred Bank, Mr. Czajka was CFO of Presidio Bank in San Francisco and North Valley Bancorp in Redding, California. The bank is currently looking to replace Chief Credit Officer Walt Duchanin, who left for personal reasons.



Ownership

% of Shares Held by All Insider and 5% Owners:	21.5%
% of Shares Held by Institutional & Mutual Fund Owners:	67.0%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Bestwood Trust	1,032,700	9.94%
T. Rowe Price	1,027,700	9.90%
Li Yu	883,955	8.51%
Goldmann Sachs Group	807,931	7.78%
Renaissance Technologies Corp.	395,550	3.81%

Source: Bloomberg

Palomar Medical Technologies

PMTI

Price: $24.37

Fiscal Year Ends: December 31

Date: November 1, 2007 — Peter Merkel

Russell 2000 Index: $795.18 ($736.00-$856.48) — Healthcare

Palomar Medical Technologies, Inc. PMTI designs, manufactures, markets and sells lasers and other light-based products and related disposable items and accessories for use in medical and cosmetic procedures. It offers a range of products based on its technologies that include, but are not limited to hair removal; removal of vascular lesions, such as rosacea, spider veins, port wine stains and hemangiomas; removal of leg veins; removal of benign pigmented lesions, such as age and sun spots, freckles and melasm; tattoo removal; acne treatment; wrinkle removal; pseudofolliculitis barbae (PFB) treatment; treatment of red pigmentation in hypertrophic and keloid scars; treatment of verrucae, skin tagsand and seborrheic keratosis; skin tightening through soft tissue coagulation; scars, including acne scars, stretch marks and warts, soft tissue coagulation and other skin treatments.

Recommendation

PMTI's competitive advantage comes from the use of a platform approach compared to most competitors using the workstation approach. This allows PMTI to customize its products to fit each customers needs. Customers can expand by purchasing additional hand pieces to add to the platform instead of entire new standalone consoles provided by competitors. Key drivers include increased royalty revenue from successful patent defenses, movement into the non-core professional market and the possible entry into the consumer market by partnering with Gillette (Procter & Gamble). The upside potential of this stock offers an incredible opportunity, while the downside risk is limited by PMTI holding $6.50 cash/share, and royalty payments worth ~$2.25/share, and still ~900,000 shares left in the 1M authorized share repurchase program announced on 8/13/07. A fair price target for PMTI is $32.

Key Statistics	Nov. 1, 2007
Market Cap*	443.29M
Shares Outstanding*	18.38M
Avg. Volume (3m)*	340,302
Beta	1.79
EPS (TTM)*	$1.93
2007 Estimated EPS	$1.13
P/E (TTM)	12.60
P/S (TTM)	3.43
P/B (MRQ)	3.28
ROA (TTM)	21.54%
ROE (TTM)	32.99%
Gross Margin	65.18%
Operating Margin	35.16%
Target Price	$32.00

*Source: Thomson, *Yahoo! Finance, ***

Investment Thesis

- **BS in great shape.** Cash balance of $120M ($6.50/share). Down slightly from $121M in 2Q07. Likely due to PMTI spending > $3M to repurchase 105,000 shares against its announced 1M share repurchase program.
- **Annual outlook looks better than quarter outlook.** Once PMTI restores its understaffed sales force, growth will reaccelerate. PMTI's platform approach is easier to turnaround than competing workstation approach favored by most competitors.

- **Home consumer market.** The partnership with Gillette is expected to launch into the home consumer market in 1H08. Upon completion, PMTI will receive a minimum of \$10M/year in payments.
- **Better insulated from market slowdown.** PMTI's customer base is on the higher end of the consumer and will likely be less effected by a slowdown. Also rapid growing international sales will also help stabilize revenue streams.
- **GM improvement.** In 2Q07, field reps discounted lasers significantly, impacting GM by 600bps. 3Q's better-than-expected GM (65.9%) may suggest better pricing discipline.

Valuation

Based on a sum of parts valuation (cash, royalties, consumer, core products) and using street estimates, Palomar should be valued at \$32. This gives an upside potential upside of ~31%. Based on talking to analysts and a conservative valuation, it seems the downside price would be in the \$21-\$22 range. This presents a downside risk of ~12%. With overreaction from the market about 2Q & 3Q results PMTI presents an attractive time to buy. PTMI pays no dividend.

Risks

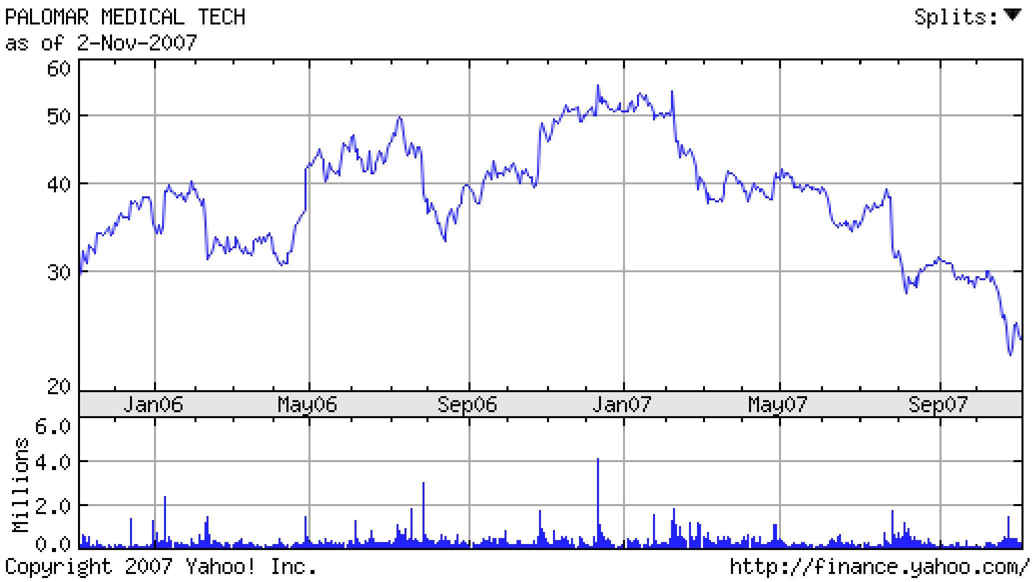
- **Sales force turnover and training issues.** Management attributed sales force turnover and training issues as the primary factor behind weaker-than-expected NA results. With a 9-month turnaround for the successful training of sales reps, and the 50% turnover beginning in 1Q07, slower U.S. rev. growth may continue into 1H08.
- **Rising DSOs and inventory holding days.** DSO +18 days sequentially to 85 days (peak level historically) from 67 days. Largely attributed to greater mix of international sales with more lenient credit terms. Inventory holding days +12 days sequentially to 132 days (peak level historically). Attributable to lingering sales force turnover issues, and weakening demand in domestic market for legacy products. High levels may continue into 2008.
- **Declining North American sales.** GM is below historical levels due to greater % of international sales, as a result of more lenient credit terms.

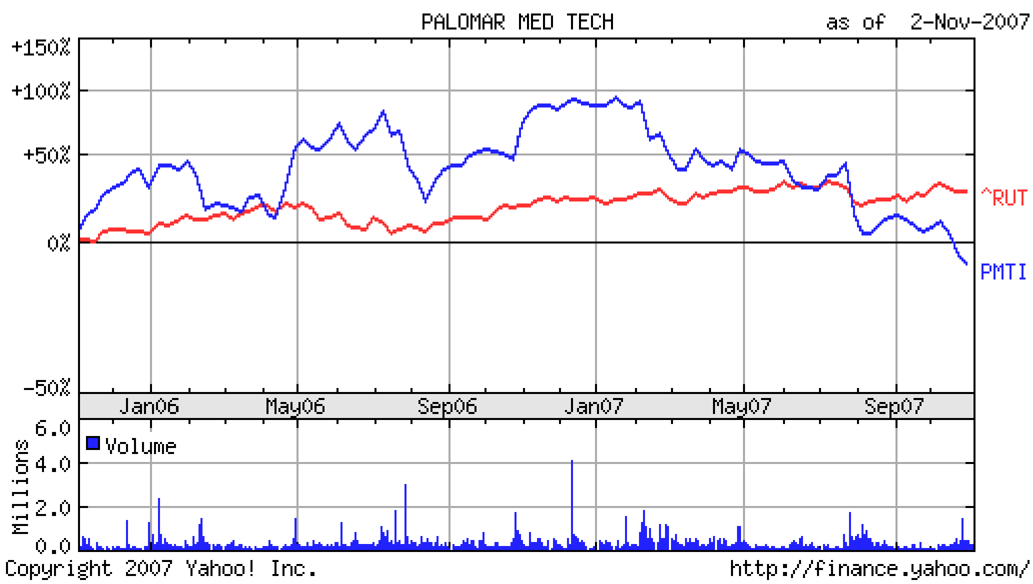
Management

The main focus for management lately has been creating revenue through litigation suits. So far this has been successful with generating royalty revenues in the sum of \$10M per year and possibly growing, depending on the outcome of the Candela lawsuit.

Joseph Caruso is the CEO and President. Since May 2002, Mr. Caruso has served as our CEO and President and is responsible for all aspects of operational controls. In 1992 Mr. Caruso joined PMTI as VP and CFO. From 1981 to 1992, Mr. Caruso was a CFO for a private manufacturing company and a manager with an international public accounting firm.

Paul Weiner joined PMTI in August 1995. Mr. Weiner currently serves as CFO and Treasurer. From 1989 to 1994, Mr. Weiner was the CFO for an environmental consulting company and had previously worked in public accounting. Currently, Mr. Weiner serves as a member of the Financial Executive Institute, the National Investor Relations Institute, the American Institute of Certified Public Accountants and the Massachusetts Society of Certified Public Accountants.





Ownership

% of Shares Held by All Insider and 5% Owners:	10%
% of Shares Held by Institutional & Mutual Fund Owners:	67%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Westfield Capital Management Co.	1,746,275	9.50
Barclays Global Investors	1,006,627	5.48
Brown Capital Management, Inc.	735,020	4.00
Oak Ridge Investments, LLC	729,118	3.97
Goldman Sachs Group Inc.	680,070	3.70

Source: Yahoo! Finance

INVESTools, Inc.

SWIM

Price: $15.05 ($9.29-$17.49)

Fiscal Year Ends: December 31

Date: November 1, 2007 | Nick Ihn

Russell 2000 Index: 797.78 (736.00 – 856.48) | Consumer Services Sector

INVESTools offers investor education and services to self-directed investors to help them improve their performance. Its products and services include teaching basic investing concepts in classroom settings, providing workbooks and training manuals, and one-on-one personal coaching. Its products are offered under the BusinessWeek, CNBC, Success Magazine, and INVESTools brands. The company was founded in 1996 and is headquartered in New York, NY.

Recommendation

INVESTools has been exceeding expectations continually for the past year and this trend shows no signs of stopping. With program enrollment growing at a staggering 78% and record numbers for revenue, net income, and volume in the third quarter of 2007 it seems that the infrastructure is in place for continued growth. Couple this with the cost saving nature of online education, INVESTools will no doubt take advantage of even greater increasing margins as near term growth will incur almost no variable costs. Profile withstanding, due to the recent volatility cause by higher than expected earnings of Q307 ($0.19), it is recommended that SWIM be added to the watch list for the AIM portfolio for future investment opportunities.

Key Statistics	Nov 1, 2007
Market Cap	$987.26M
Shares Outstanding	65.60M
Average Volume	2,224,208
Beta	1.10*
EPS (TTM)	-0.49*
2007 Estimated EPS	.81*
P/E (TTM)	-20.90**
PEG	0.8**
WACC	10.52%
Debt/Assets	0.14%
ROE	-4.77%
Gross Margin	25%
Operating Margin	-10.34%
Target Price	$17.09

*Source: Yahoo! Finance, *Thomson, **Morningstar*

Investment Thesis

- **Increasing Enrollment.** Since 1996 INVESTools has produced nearly 300,000 graduates of its various programs. Currently, over 30,000 clients are enrolled in the program, and this number is continuing to grow. Post graduation, SWIM has seen monthly subscription to their online resources increase greatly in the past year. Currently over 7,000 new users are subscribing to INVESTools online resources every month at a rate of $199/month.
- **Corporate Partnerships Increasing Value.** SWIM has had a very profitable past relationship with CNBC and plans to expand in 2008. Capabilities for CNBC video on demand are being added to INVESTools resource to provide the customer with real time news from trusted sources. SWIM has also agreed to team with Yahoo! Finance and BusinessWeek to provide commentary and current offerings.
- **Potential Growth without Cost.** By taking advantage of online resources, SWIM's growth is only limited by its server's capacities. Management claims that their server is still operating at less than 50% capacity, which allows subscription to double without incurring

much additional cost. This fact shows how SWIM was able to achieve record margin of 25% in Q307. This number is expected to rise as efficiency increases.

- **Decreased Marketing Costs.** Surprisingly**,** marketing expenses decreased in Q307 as enrollment increased. This was achieved due to the impact of the contracts discussed above, which increased INVESTools visibility. Retention of prospective subscribers who attended INVESTools free seminars has also increased. Historically, only 21% of prospects who attended a seminar purchased the software immediately, but that percentage has nearly doubled to 40% in the last year.
- **Attractive Valuation.** The record breaking numbers that INVESTools produced in Q307 cannot be ignored. With revenue up 111% ($84 million), net income of $13 million after a $6 million net loss in Q306, and EBITA of $20 million and increasing margin of 25%, are just highlights of the potential growth of this company.

Valuation

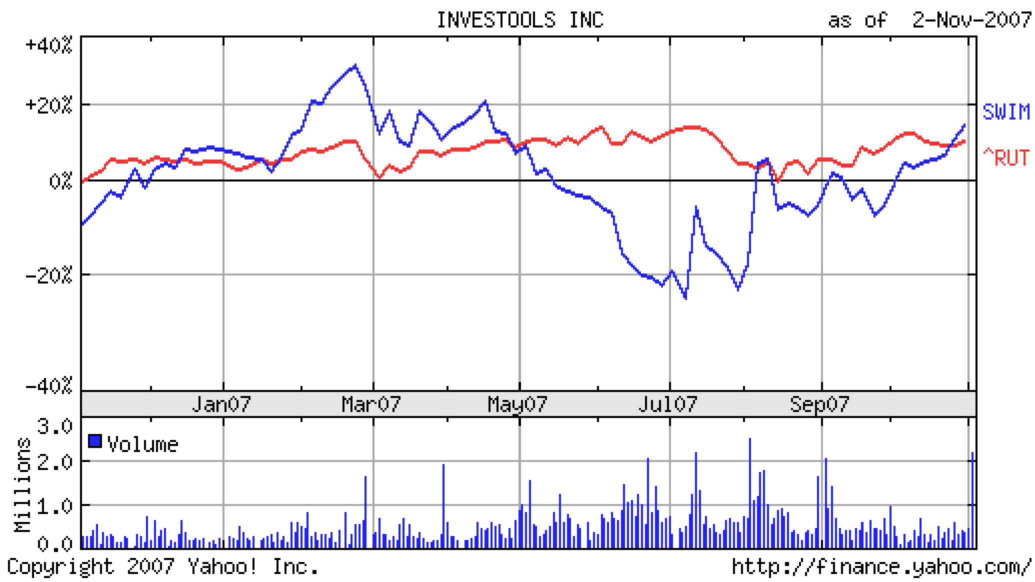
Analyzing on an EV/EBITDA basis, SWIM is trading at 13.2x for 2007. Expansion in valuation multiples should follow the expected margin increase in the coming year due to internal and external factors. Further analysis using discounted cash flow valuation forecasting a “best case” scenario with a predicted growth rate of 15% over the next 5 years reveals an intrinsic value of $19.02. Using a more modest growth rate of 10% in a “realistic case” values SWIM at $17.09.

Risks

- **Decreased Enrollment.** INVESTools profitability is directly contingent on the ability to attract subscribers. As with similar businesses, there is always the risk that INVESTools cannot attract subscribers at their current rate. However, INVESTools enrollment has steadily increased over the past five years despite market volatility and economic change.
- **New Product Entrants to the Market.** With its continued success, it is possible that competitors will begin to tailor their offering to mimic INVESTools. However INVESTools has been able to compete with Fidelity, Schwab, and other large brokerage houses in recent past by playing to their competitive advantage of offering a simplified approach to investing, reducing the intimidation a novice investor feels with a large firm.
- **Market Volatility and Economic Outlook:** As INVESTools is dependent on the willingness of the public to invest, it is possible that if the market remains as volatile as recent past, the uneducated investor may be less willing to enter the market. INVESTools combats this with its educational offering. A subscriber’s comfort level of investing increases proportionally with their knowledge. An expected economic downturn has led some to believe that the American public will be less likely to invest due to less equity and disposable income. Though the aforementioned fact may be true, it may also persuade some novice investors to become more educated before investing, stimulating the need for offerings like INVESTools.

Management

INVESTools CEO, Lee Barba, has held the position since 2001. Prior to this date, he has been the CEO of Telescan and Open Link Financial. Barba has 22 years of experience on Wall Street where he managed global trading and was a senior executive for Bankers Trust Company. The rest of INVESTools management is fairly new (all declared in 2005) but bring impressive experience. Ida Kane, INVESTools CFO formerly was the CFO of Franklin Covey and the CAO of Encubate Holdings LLC. Her accounting background stems from her time as a chief auditor for KPMG.



Ownership

% of Shares Held by All Insider and 5% Owners:	25%
% of Shares Held by Institutional & Mutual Fund Owners:	53%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Springhouse Capital LLP	3,160,018	4.82 %
Nomura Asset Management Company Limited	2,047,300	3.12 %
Gilder, Gagnon, Howe & Co.	2,017,186	3.07 %
JP Morgan Chase & Company	1,868,771	2.85 %
Endeavor Capital Advisors, Inc.	1,806,587	2.75%

Source: Yahoo! Finance

Cogent, Inc.

COGT

Price: $12.66 ($10.17-$17.02)
Fiscal Year Ends: December 31

Date: November 1, 2007 — Christopher Caparelli
Russell 2000 Index: 797.78 (736.00 – 856.48) — Software Sector

Cogent Inc. is a leading provider of Automated Fingerprint Identification Systems (AFIS), enabling customers to electronically capture fingerprint images, encode these images into searchable files, and accurately compare a set of fingerprints to a database of millions in just seconds. Cogent primarily supplies systems to governments, law enforcement agencies and other civil organizations, providing security solutions that offer industry leading accuracy in a cost effective package. Designed to seamlessly integrate with existing data while complying with stringent industry standards, Cogent's End-to-End ID solutions and related services have been deployed in 149 organizations in 44 different countries with great success. Headquartered in South Pasadena, California, Cogent was incorporated in 1990 and has over 250 employees.

Recommendation

Key Statistics	Nov 1, 2007
Market Cap	$1.20 B
Shares Outstanding	94.74M
Average Volume	752,544
Beta	1.17
2007 EPS Estimate	$0.34
2008 EPS Estimate	$0.51
P/E (TTM)	33.58
Forward P/E Est.	26.38
WACC	12.11%
ROA	5.87%
ROE	7.39%
Gross Margin	57.01%
Operating Margin	31.69%
Target Price	$17.50

With the market for Bio-Identification undergoing rapid expansion, Cogent is well positioned to increase market share. Fingerprints have long been the most widely used biometric due to their relatively non-intrusive nature and ease of capture, allowing governments and law enforcement agencies around the globe to build vast databases of fingerprints using a common format. Cogent has developed an End-to-End AFIS for customers worldwide, allowing full integration with existing systems while offering complete scalability. At the heart of Cogent's AFIS is a proprietary search algorithm, accelerating the fingerprint matching process while maintaining high accuracy. When running on Cogent PMA enhanced server boards and paired with state of the art live-scan capturing devices, Cogent's solution can be tailored to fit the needs of customers ranging from the Los Angeles Police Department to the Department of Homeland Security's (DHS) Citizenship and Immigration Services. Relying on years of industry expertise, Cogent has generated a five year revenue CAGR of 50.73% while maintaining operating margins in excess of 30%. As global spending on biometrics is forecast to grow from $3 billion in 2007 to $7.4 billion in 2012, Cogent is solidifying its market leading position through strategic partnerships with firms such as leading commercial biometric authentication provider, Pay By Touch™ and defense contractor Northrop Grumman. Cogent's established track record combined with strong growth prospects leads to a recommendation as an addition to the AIM fund with a target price of $17.50.

Investment Thesis

- **Current ID Systems are Inadequate –** The traditional forms of identifying individuals have proven inadequate in the digital age. Security around the globe has been compromised due to the relative ease of forging a signature, falsifying carried credentials, or stealing a PIN or password. A rapidly expanding global economy requires more stringent security, which can be met through AFIS.

- **Strength of Customer Contracts –** Two of Cogent's largest sources of revenue in recent years have been the National Electoral Council of Venezuela (using Cogent AFIS for national, regional and local elections), and the DHS in the US-VISIT program. The US-VISIT program was designed to strengthen US border management and should continue to provide strong revenue for Cogent as they begin the transition from a 2 finger system to a 10 finger system in 2008.

- **Attractive Valuation –** Delays in contract procurements and incurred legal expenses led to $.04 EPS in Q3 2007 compared to analyst expectations of $.09. Strong revenue projections extending through 2008 coupled with Cogent trading near its 52-week low presents a strong buying opportunity.

Valuation

A five year discounted cash flow model yields an intrinsic value for Cogent of $18.94, assuming a WACC of 12.11% and a revenue CAGR of 44%. A relative P/E valuation yields an intrinsic value of $15.68 representing a respective undervaluation of approximately 50% and 24% for the two models. Both models yielding an undervaluation leads to a recommendation of Cogent as an addition to the AIM fund with a target price of $17.50.

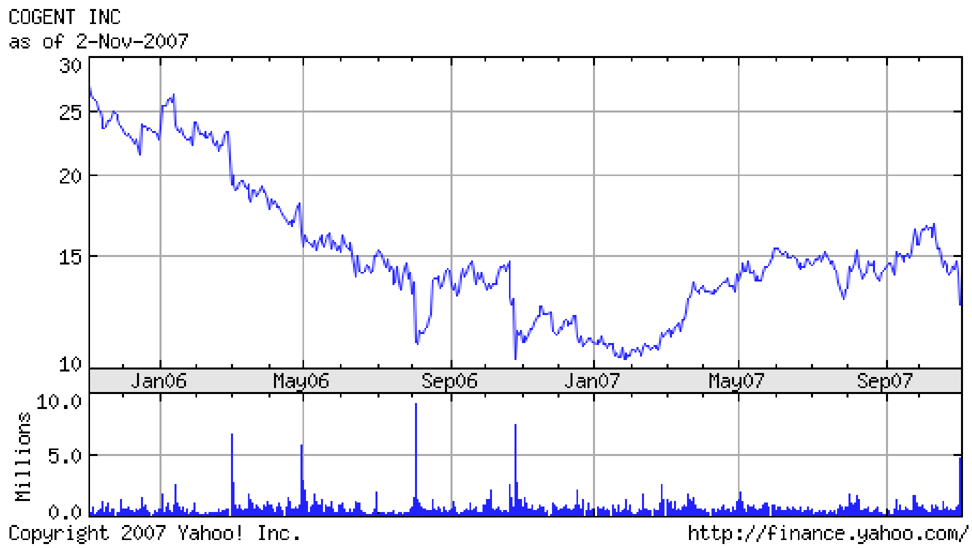
Risks

- **Concentration of Revenues –** In 2006, Cogent derived 48% of revenue from two sources; the National Electoral Council of Venezuela and the DHS. While customer concentration levels have been reducing throughout 2007, should either of these two customers seek AFIS solutions elsewhere, Cogent would realize a substantial loss in revenue.

- **Lack of Revenue Visibility -** Relying heavily on government entities for revenue, Cogent is exposed to revenue streams with high variability. The awarding of government contracts is often difficult to predict with any certainty, and contracts won and lost represent sizeable swings in Cogent's quarterly revenue.

Management

Cogent was founded in1990 by Mr. Ming Hsieh and he has served as the Chief Executive Officer, President and Chariman of the Board of Directors since the company's inception. Mr. Paul Kim has served as the Chief Financial Officer for Cogent since 2004 and came to the company with an extensive industry background. Mr. Hsieh has a 54% ownership of the company representing management's heavy financial stake in the firm's success.



Ownership

% of Shares Held by All Insider and 5% Owners:	54%
% of Shares Held by Institutional & Mutual Fund Owners:	45%

Yahoo! Finance

Top 5 Institutional Holders

Holder Name	Shares Held	Percent of Share Outstanding
T-Rowe Price Associates, Inc.	7,886,675	8.32%
Invesco PLC	3,956,934	4.18%
Fidelity Management & Research Corp.	3,760,100	3.97%
Goldman Sachs Group, Inc.	2,258,329	2.38%
Noonday Asset Management, L.P.	2,123,393	2.24%

Yahoo! Finance

Petroleum Development Corp

PETD

Price: $44.02 ($35.73 - 55.24)

Fiscal Year Ended: December 31

Date: November 1, 2007 — Barrett Willich

Russell 2000 Index: 797.78 (736.00 – 856.48) — Energy Sector

Petroleum Development Corporation (PETD) is an independent oil and gas producer engaging in exploratory and development drilling, acquiring producing properties, and natural gas marketing operations. The company operates approximately 3,100 wells located in the Appalachian basin, Michigan, and the Rocky Mountain Region. End users include industrial end users, utilities, other gas marketers, and other wholesale gas purchasers. PETD was incorporated in 1955, and is headquartered in West Virginia.

Recommendation

PETD is a solid exploration and production firm that has been around for a long time. Past problems with younger inexperienced E&P companies brought about dry hole and dry field risks that hurt the AIM portfolio. Their past success, future plans for growth, and a possible MLP will raise the stock price and unlock shareholder value. The target price for PETD is $61.00 providing a 39% upside.

Key Statistics	Nov 1, 2007
Market Cap	$655.8M
Shares Outstanding	14.89M
Average Volume	163,417
Beta	1.54
EPS (TTM)	1.76
2007 Consensus EPS	1.24
P/E (TTM)	18.3
PEG	25.23
Price/Book	1.73
WACC	10.87%
ROE	86.71%
Operating Margin	15.42%
Target Price	$61.00

Investment Thesis

- **Aggressive Growth Initiative through Acquisitions and Drilling.** 2007Q2 saw an increase of 54% in production year-over-year. Half of the increase was due to acquisitions while the other half was due to an increase in aggressive drilling in the Rockies as CapEx expenditures increased 30% for the year. Their credit line with JPMorgan was increased from $100M to $200M. PETD now has the infrastructure and capital for an aggressive production move. On October 15th, they acquired 47 Bcfe in Appalachia for $53M, and estimate it to increase cash flow by $0.02 per share for the fourth quarter. The company has also acquired 8,000 acres in the Barnett shale in Texas for future oil and natural gas production.

- **Natural Gas Market.** Estimates project the Henry Hub basis to average $7.50/Mcf for the rest of 2007 and $8.00/Mcf during 2008. Mild weather, a supply overhang, and a weak hurricane season kept near-term prices low. Canada accounts for 15% U.S. gas supply. $90.00 oil will cause Canadian energy companies to shift to oil sands and away from natural gas. Demand will grow steadily into the future as consumers demand cleaner energy.

- **MLP Formation in Appalachian and Michigan Basins.** Management announced interest in creating a separate publicly traded upstream master limited partnership (MLP). One estimate calculates at 100 Bcfe and 12 MMcfe/d the legacy assets would be worth $240M, or about $16.00 a share. Other estimates calculated a $5.00 per share value.

- **REX East Pipeline.** The construction of the REX East will increase outgoing capacity to 10 Bcf/d for the region. Construction is scheduled for completion in January 2008. Analysts expect this pipeline to meet capacity demand until summer of 2009, when pricing pressure could start again.

Valuation

The company's target price is $61.00 based on a reserve, probability, and DCF valuation. Management announced at mid-year 2007 that reserves would be 600 Bcfe. Analysts estimate around 700 Bcfe by the end of 2007, due to increased production and acquisitions. Natural Gas futures currently range from $8.00 to $9.00, and assuming a conservative spot price of $7.00 to $7.75, the stock price would be $60.78 based on reserves between 625 Bcfe and 700 Bcfe. Based on probabilities, the expected price was $7.55 and the expected reserves are 655 Bcfe. DCF calculated a value of $63.03 per share with a 12% discount rate and a 7.0x EBITDA terminal multiple.

Risks

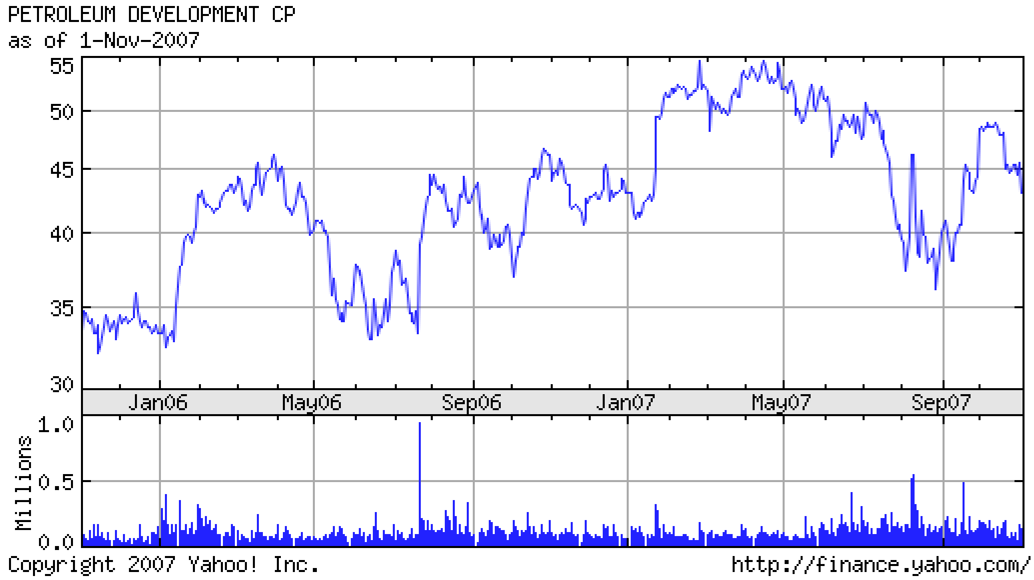
- **Basis exposure in the Rockies.** The fall in Q2 earnings (-79% surprise) was mainly due to a 9% lower realized pricing of Rockies gas. The oversupply in pipelines drove prices down. Currently, about 37% is exposed to Rockies pricing. The aggressive development in the region will increase the exposure. Additional hedging and the REX East pipeline will mitigate some of the risk.

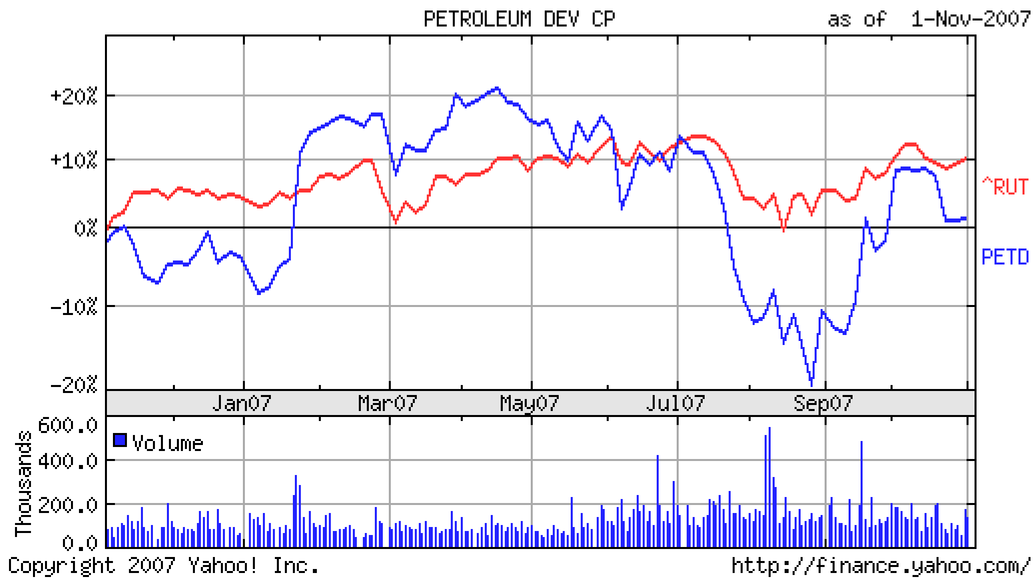
- **Reporting problems.** PETD has had two significant accounting restatements over the past few years, causing trouble with the stock price and investor's confidence. Management replaced KPMG with PricewaterhouseCoopers, who will provide a higher level of service, expertise, and timelier reporting. The internal accounting team was also strengthened as reflected in an increased G&A expense.

- **Industry Risk.** The inherent nature of the E&P industry is very risky because of dry holes, commodity prices, quantifying reserves, and overvalued acquisitions. While many of these forces are market driven, strong management teams with capable experts are the keys to success.

Management

The Chairman and CEO, Steven Williams announced retirement at the end of 2008. Analysts predict that Tom Riley, the current president will take over the position. Riley has 10 years of experience with the company and extensive experience within the industry prior to PETD. Management feels confident that the next should provide enough time for a smooth transition.





Ownership

% of Shares Held by All Insider and 5% Owners:	11.0%
% of Shares Held by Institutional & Mutual Fund Owners:	86.0%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Dimensional Fund Advisors Inc	1,235,409	8.29%
Kane Anderson Rudnick Invest Mngt	971.761	6.52%
Barclays Global Investors	872,842	5.86%
Vanguard Group, Inc.	449,628	3.02%
State Street Corporation	421,843	2.83%

Source: Yahoo! Finance

Arena Pharmaceuticals

ARNA

Price: $9.91 ($8.97-$15.70)
Fiscal Year Ends: December 31

Date: November 1, 2007 Christopher Williams
Russell 2000 Index: 797.78 (736.00- 856.42) Health Care Sector

Arena Pharmaceuticals is a biopharmaceutical company currently holding five clinical stage drugs in diverse fields including obesity, cardiovascular disease, insomnia, and type II diabetes. These drugs focus on targeting orphan G protein-coupled receptors using its drug discovery technologies. The drugs in their pipeline include Lorcaserin hydrochloride, a weight loss drug in phase III clinical trial; APD125, an insomnia drug, which is in Phase II of testing; APD791, a compound used for the treatment of thromboembolic diseases that is currently in preclinical development; APD668, another drug in clinical development used to combat type II diabetes and is currently partnered with Ortho McNeil Pharmaceuticals; and MK-0354, a drug that is partnered with Merck & Co., Inc. designed for treatment for atherosclerosis and related disorders. Arena Pharmaceuticals was incorporated in 1997 and is based out of San Diego, California.

Recommendation

ARNA currently is making advancements with their products in some of the most critical primary care areas looking forward. This upcoming next year will be filled with new developments concerning nearly all of the drugs they are currently harvesting, and the probabilities of favorable outcomes from company news is expected to be high. ARNA's highest developed drugs, Lorcaserin and APD125, are currently are not partnered with any large pharmaceutical company, but partnerships for both drugs should happen in 2008 and at the latest in 2009. This also includes working on global collaboration efforts to market Lorcaserin. These partnerships will most likely include upfront revenues to ARNA, as well as up to 500 million in goal incentives, and royalties for U.S. sales around 20% for each candidate. If either one of these drugs passes all clinical trials and is able to secure a favorable partnership, ARNA will quickly become a one billion dollar plus company. In addition to these two drugs, Merck is expected to renew partnership with ARNA concerning the atherosclerosis drug and help move that into phase I trials. A new drug candidate is also expected to be announced within the next 6 months.

Key Statistics	Nov 1, 2007
Market Cap	$606.49M
Shares Outstanding	61.20M
Average Volume	1,274,370
Beta	1.39
EPS (TTM)	-$2.419
2007 Estimated EPS	-$2.42
P/E (TTM)	N/A
PEG	N/A
WACC	11.21%
Debt/Assets	0%
ROE	-45.35%
Gross Margin	100.00%
Operating Margin	-790.67%
Target Price	$17.21

Investment Thesis

- **10M Share Stock Offering to Fund Clinical Trials.** Arena announced plans to offer 11M shares of common stock in order to head into 2008 with a comfortable cash balance.

Two phase III trials are expected to take place, Lorcaserin for obesity by YE07, and phase III development of APD125 for insomnia in 2H08.

- **Echo Review for Lorcaserin in 1Q08.** The next key event will be the 12-month ESMB (echo safety monitoring board) review for the BLOOM phase III trial for Lorcaserin in 1Q08 which will look for any evidence of drug-related heart valvulopathy. Partnership possibilities for Lorcaserin may potentially begin with a clean 12-month safety review.

- **Product Pipeline.** The review for Lorcaserin is scheduled for 1Q08. The company may also get a review of the APD668 diabetes phase I program from JNJ by YE07. APD125 will be moved into phase III development in 2008 for the treatment of chronic insomnia.

Valuation

The valuation is dependent on estimating earnings per share for ARNA in 2014, discounting it back 6 years by the current WACC, and then multiplying it by industry average P/E of 30. Other assumptions made are that one of the two drugs, Lorcaserin or APD125, will make it to the market by entering in a partnership that would include the terms I listed in the recommendation section. In addition to this, the assumption that is that 2 of the other 4 drugs in their pipeline are continuing the process for consumer approval and will have partnerships with a larger distributor and developers. This method arrives at an intrinsic value of $17.21. ARNA does not pay a dividend.

Risks

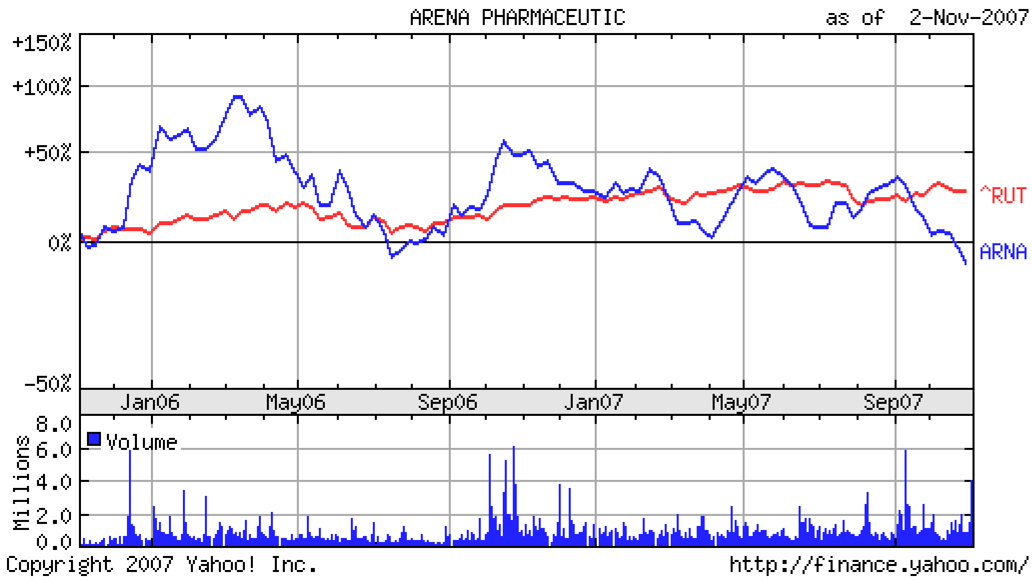
- **Need for Additional Funds.** ARNA just issued an equity offering of close to 11M shares in attempt to bridge that cash to support trials of Lorcaserin until a favorable partner can be found. Additional funding may be necessary down the line and may call for debt or equity offerings.

- **Regulatory Approval.** Success of ARNA's drugs is dependent on approval by the FDA. Any negative findings from the clinical trials will severely hamper the chances of the drug reaching the market and will negatively impact the stock price.

- **Competitors**. There are many other pharmaceutical companies vying for partnership with larger pharmaceutical producers. ARNA may have to settle for partnership agreements not as favorable to shareholders should other drugs with similar treatments enter the market or show significant promise.

Management

ARNA is still lead by its two founders Jack Lief (CEO) and Daminic Behan. Jack has a distinguished career in the biopharmaceutical field working for companies like Alpha Therapeutic, Adventrx, and Abbott Labs.



Ownership

% of Shares Held by All Insider and 5% Owners:	10%
% of Shares Held by Institutional & Mutual Fund Owners:	85%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Mellon Financial Corporation	5,844,615	9.57%
Fidelity MGMT	5,103,303	8.36%
Deerfield Management	4,443,215	7.28%
TCW Group Inc	4,104,799	6.72%
Fidelity ContraFund Inc	3,389,783	5.55%

Source: Yahoo! Finance

Oil Sands Quest, Inc.

BQI

Price: $5.51 ($2.37-$5.93)

Fiscal Year Ends: April 30, 2008

Date: November 1, 2007 | Paul Simenauer
Russell 2000 Index: 736.00 - 856.48 | Energy

Oilsands Quest Inc.is focused on business opportunities in the oil sands and oil shale sectors in western Canada. The Company operates through its primary subsidiary, Oilsands Quest Sask Inc. (OQI Sask). OQI Sask was established as the operating subsidiary of BQI to primarily explore for and develop oil sands deposits in the provinces of Saskatchewan and Alberta.

Recommendation

The long term view of oil prices are above $100/bbl in the near term, as demand and supply conditions for the commodity are highly price inelastic. BRIC countries' demand continues to rise as their use remains inefficient. In addition, geopolitical risk remains mispriced in the energy markets and there are few cheap short-term alternatives to oil currently available at the quantity that satisfy the world's demand. The best way to take advantage of rising oil prices in the AIM portfolio is to own explorers and producers of oil, specifically oil sands companies such as BQI. As oil sands become more cost effective due to rising prices, BQI shares should rally sharply.

Key Statistics	Nov 1, 2007
Market Cap	$1.06B
Shares Outstanding	254M
Average Volume	2.54M
Beta	N/A
EPS (TTM)	-.37
2007 Estimated EPS	-.28
P/B	2.33x
P/E	-20x
Debt/Assets	0
ROE	-22.72%
Gross Margin	0%
Operating Margin	0%
Target Price	$19.00

Investment Thesis

- **Catalysts:** 1) Oil above $100/bbl. Oil is currently trading in the low to mid $90's presently. 2) The stock will obtain TSX listing in 4Q07/1Q08 creating incremental Canadian equity analyst coverage. The stock is presently only covered by two analysts at Blackmont and Genuity, smaller brokerage firms. 3) Closure of Alberta Royalty Situation - if royalties are hiked in Alberta, it will hurt Encana and Suncor, but lead investors to Saskatchewan, where 90% of Oilsands Quest sands and shale are located. 4) SEC inclusion of oil sands and oil shale in reserve valuations will help create better disclosure and more interest among oil and gas companies, allowing for more M&A in the oil sand/shale space. 5) Norwest assessment/audit of reserves should confirm management's estimates.
- **Valuable land holdings in Saskatchewan:** When most analysts think of oil sands/shale in Canada, they think of Alberta. However, BQI and their team of geologists thought that the rock formations in Saskatchewan were also attractive and decided to become the first company to drill in the region, beginning Saskatchewan's oil sands industry. The company currently holds 707,770 acres of oil sands land, mostly in Saskatchewan, with some land overlapping into Alberta, and 1.2m acres of oil shale land in Saskatchewan.

- **Attractive Take-Over Target For Big Oil:** Major integrated oil and gas companies have turned their attention to Canada after Hugo Chavez nationalized the petroleum industry in Venezuela. With ever increasing oil prices and new reserves that become harder to come by every day, BQI represents an attractive way to add to reserves and enter into Saskatchewan.

Valuation

Oil and gas companies should be valued based on proven and probable reserves, and two methods have been used to tie in reserve value for BQI's valuation. First, North American Oil Sands was acquired by Statoil for $.91/bbl recoverable reserves on 4/11/2007. BQI has 10 billion barrels of estimated reserves. Assuming that only 50% is recoverable, the valuation for the company is $4.55B, and with 254mm diluted shares outstanding resulting in a price per share of $17.91. Second, using the 10 billion barrel reserve estimate and assuming each barrel is worth about $.95 (average of management estimates of $.90-$1.00), the bitumen recovery rate is ~69% (average of management estimates of 53%- 84%), with 254 million fully diluted shares outstanding, this amounts to $25.80 per share. Taking an average of the two, it is estimated that BQI may be worth $22/share. Using an extremely conservative case of $75 mid-cycle crude, a depletion rate of 3%, a WACC of 23% to account for the riskiness of this operation, a half life of 22 years, a discount factor of .04, reserve estimates of 5,000 recoverable barrels, and 254 million shares outstanding, an estimated value of $13.26 was found. Taking an average of the three results in BQI valued at $19.00.

Risks

- **Decline in energy prices:** As a high cost produced, BQI's oil sands and shale is not economically viable at lower energy prices.
- **Overstatement of reserves:** Management may be overstating the value of BQI's reserves; however, because of their strong experience in the energy industry and Norwest's assessment and audit of BQI's proven reserves, overstatement is unlikely.
- **Government regulation:** BQI is governed under Saskatchewan province law by the Oil and Gas Conservation Act, Oil Shale Regulations Act, Minerals Act, and Petroleum and Natural Gas Amendment Regulations 2007. In the company's Alberta operations, they are governed under the Oil Sands Conservation Act and Mines and Minerals Acts. All of the above acts either serve as environmental protection or regulate how royalties will be applied. Any unfavorable changes to royalty payments may have an adverse affect on BQI's business.

Management

Murray Wilson, chairman of the board, has served a 25 year investment banking career, leading numerous strategic and financing assignments for energy, mining, utilities, and technology companies, and has been a key advisor to several oil sands companies during their formative years. Mr. Wilson was head of Oil & Gas for TD Securities Inc. in Calgary and worked in M&A at RBC Dominion Securities. Christ Hopkins has served as President, Chief Executive Officer and a director since August 14, 2006. From October 1999 to September 2004, Mr. Hopkins was a founder and the Executive Vice President of Synenco Energy Inc., an oil sands exploration company which is now developing an oil sands mining project. He has 25 years of Canadian and international energy and mining experience.

Ownership

% of Shares Held by All Insider and 5% Owners:	9%
% of Shares Held by Institutional & Mutual Fund Owners:	20%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Wellington Management Company, LLP	10,047,500	5.12%
Goldman Sachs Group Inc	4,968,672	2.53%
Goodman & Company Invest. Counsel	4,106,100	2.09%
Barclays Global Investors	2,702,466	1.38%
Vanguard Group, Inc.	2,702,284	1.38%

Source: Yahoo! Finance

JAKKS Pacific, Inc.

JAKK

Price: $24.96 ($18.19 - $31.42)

Fiscal Year Ends: December 31

Date: November 1, 2007
Russell 2000 Index: 795.18 (736.00 - 856.48)

Jason Bednar
Consumer Goods Sector

JAKKS Pacific is a multi-line, multi-brand toy company that designs, produces, and markets toys, writing instruments, and pet products. The company focuses its business on licensing or acquiring well-known trademarks and brand names with extensive product histories. The toys and accessories usually have a lower price point than other related toys. Products currently in JAKKS' portfolio include: Pokemon, Cabbage Patch Kids, Disney Princesses, Dora the Explorer, Pirates of the Caribbean, Care Bears, Hannah Montana, WWE, and SpongeBob SquarePants.

Recommendation

An investment in JAKKS Pacific offers a great opportunity to capitalize on a firm with an extremely strong product portfolio heading into the 2007 holiday season. The company recently guided full-year results higher on order strength from three main products: Hannah Montana toys, Pokemon toys, and the EyeClops Bionic Eye. Products emerging in the 2008 portfolio include line extensions from the aforementioned products, as well as other products from Discovery Kids, The Chronicles of Narnia, and SpongeBob SquarePants. JAKKS' Craft, Seasonal, and Pet Product segments account for approximately 15% of the company's revenue and income, with the remaining 85% coming from traditional toys. During the past three years, the company has acquired three smaller firms for approximately $100-$150 million each. JAKKS also is involved in joint venture with THQ through which it generates revenue and income from the sale of WWE video games.

Key Statistics	Nov. 1, 2007
Market Cap	$704.8M
Shares Outstanding	28.24M
Average Volume	503,105
WACC	10.49%
EPS (TTM)	2.48
2007 Est. EPS	2.46
P/E (TTM)	10.07
PEG	1.00
ROA	6.75%
ROE	12.70%
Gross Margin	37.6%
Operating Margin	13.1%
Profit Margin	6.75%
Target Price	$32.00

Investment Thesis

- **Strong Product Portfolio for Q4 and FY'08.** Many analysts and publications cite JAKKS as having three of the top selling products heading into the all-important holiday season. All of these products should drive revenue to a year-over-year top line growth of 5%-10%, which is even more impressive given the weaker than normal holiday forecast.

- **Acquisition or Share Buyback.** JAKK historically has utilized its cash position to acquire smaller companies, usually in niche areas. After the most recent earnings release, the company has over $180M in cash, exceeding the average purchase price of its acquisitions in recent years. Another possible utilization of cash could be a large share buyback.

- **Possible Shelf Space Gain in Wake of Toy Recalls.** JAKKS has been immune to the recent wave of toy recalls, making its products more in demand by consumers wanting safe toys and retailers needing to fill vacant shelf space from other recalls.

Valuation

Using a discounted cash flow model with free cash growth ranging from a conservative 3% to a bullish 11%, as well as a percentage likelihood of each occurring as shown below, an intrinsic value of $35.51 was found. A P/E analysis utilizing conservative estimates of $2.60 per share in FY'08 earnings with a forward P/E range of 9-13, a targeted price of $28.60 was found. Equally weighting these two values provides a targeted price of approximately $32 per share, representing more than a 25% upside from the current price.

FCF Growth	Intrinsic Value	% Chance
3%	$27.50	5.00%
5%	$30.69	15.00%
7%	$34.20	40.00%
9%	$38.05	25.00%
11%	$42.27	15.00%

Risks

- **Strong Buyers.** The primary customers of JAKK are Wal-Mart, Target, and Toys R Us. These three retailers alone account for approximately 60% of JAKKS' total sales. As these stores continue to grab more market share, JAKK may gradually concede margins to maintain their relationships.

- **Toy Recall.** An increased scrutiny of all consumer products, particularly toys, could result in a recall for JAKKS at some point in the future. JAKK does contract the manufacture of most of its products to unaffiliated manufacturers in China where nearly all other recalls have originated. The company does, however, maintain stringent testing, through both independent and third-party quality control personnel.

- **Weaker Than Expected Holiday Season.** Since a significant portion of sales (70%) come during the second half of the fiscal year, a soft holiday sales season could potentially hinder JAKKS top and bottom line growth.

Management

Jack Friedman and Stephen Berman co-founded JAKKS Pacific in January 1995, and both men are still with the company. Mr. Friedman has worked in the consumer products industry, particularly at THQ for 19 years, for most of his career. He now serves as Chairman and CEO. Mr. Berman acts as the COO and Secretary for JAKKS and also served in varying positions at THQ for seven years prior to co-founding JAKKS.

Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investors UK Holdings	2,815,348	9.97%
Dimensional Fund Advisors Inc.	2,372,873	8.40%
Fidelity Management & Research Corp.	1,771,063	6.27%
AXA	1,372,802	4.86%
Vanguard Group, Inc.	1,096,699	3.88%

Source: Yahoo! Finance