MARQUETTE UNIVERSITY

Applied Investment Management (AIM) Program

AIM Fund Investment Advisory Board Meeting

November 2, 2005

AIM Fund Portfolio Recommendations

Student Presenter	Company Name	Ticker	Recommended Portfolio Weighting	Recommended Investment	Share Price 10_28_05	# of Shares to be Purchased	Initial Market Value
Holtkamp	Sterling Bancshares Inc.	SBIB	2.0%	$10,000	$14.25	710	$10,118
Holtkamp	Bank Atlantic Bancorp	BBX	2.0%	$10,000	$13.80	730	$10,074
Holtkamp	Vineyard National Bancorp	VNBC	2.0%	$10,000	$28.94	350	$10,129
Jensen	Encore Medical Corp.	ENMC	2.0%	$10,000	$5.00	2,000	$10,000
Jensen	SonoSite, Inc.	SONO	2.0%	$10,000	$28.96	350	$10,136
Rawls	Nice Systems	NICE	1.5%	$7,500	$42.88	175	$7,504
Berg	Toreador Resources Corp.	TRGL	2.0%	$10,000	$26.50	380	$10,070
Toellner	Bluegreen Corporation	BXG	2.0%	$10,000	$15.16	660	$10,006
Trotter	Actel Corp.	ACTL	2.0%	$10,000	$13.64	740	$10,094
Hepp	Astec Industries, Inc.	ASTE	2.0%	$10,000	$27.40	370	$10,138
Hepp	Oregon Steel Mills, Inc.	OS	2.0%	$10,000	$23.85	420	$10,017
Kennedy	Argon ST	STST	2.0%	$10,000	$25.86	390	$10,085
Kennedy	Southwest Water Company	SWWC	1.0%	$5,000	$13.41	375	$5,029
Zandt	Triad Guaranty Inc.	TGIC	2.0%	$10,000	$40.48	250	$10,120
Auth	Nautilus Incorporated	NLS	2.0%	$10,000	$19.00	530	$10,070
Auth	Volcom Incorporated	VLCM	2.0%	$10,000	$26.24	390	$10,234
Wojs	ADVO, Inc	AD	2.0%	$10,000	$24.00	420	$10,080
Wojs	Korn/Ferry International	KFY	1.0%	$5,000	$16.25	310	$5,038
Cunningham	Stratasys Inc	SSYS	2.0%	$10,000	$25.43	400	$10,172
	Sub-Total		**35.5%**	**$177,500**			**$179,112**
	Other Equity		**62.0%**	**$308,500**			
	Cash		2.5%	$14,000			

Table of Contents

Argon ST

STST

Price: $25.86 (22.65 – 38.39)

Fiscal Year Ends: September

October 27, 2005 Scott Kennedy

Russell 2000: 624.03

Argon ST Inc. designs, develops, and manufactures systems that are used by US and other governments, agencies, and defense contractors. The company's products include imaging systems, infra-red sensors, signals intelligence and electronic warfare, and ship protection and communications. These systems are on platforms including ships, submarines, and the growing requests for unmanned vehicles and improvised explosive device countermeasures. Argon ST is headquartered in Fairfax, Virginia and its primary customer is the US Department of Defense.

Key Statistics	Oct. 27, 2005
Portfolio Weight	2%
Market Cap.	540.76M
Dividend Yield	0%
ROE	19.7%
P/E	27.08
EPS '05 est.	$1.05
EPS '06 est.	$1.30
Sector	Ind. Materials

Recommendation

I believe STST will be able to achieve strong revenue growth in the long-term due to robust defense and homeland security spending within the US and its allies. Whereas the total defense budget is expected to increase by only 2-4%, Argon's position is in the high-tech investment account that is expected to grow about 6% to 8% annually through 2009. While some analysts believe that defense spending has hit its peak or is unsustainable much longer at these levels, funding spent on research and development will not be sacrificed. Since the threat of terrorism will exist for at least a generation, and there is no correlation between budget deficits and continued defense spending, companies that have the expertise in the small-cap defense sector will benefit from increased demand, as well as possible consolidation from large cap defense companies. As a result of the sustained increase in worldwide defense spending and Argon's emergence in providing C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance) solutions to a wide range of customers, I have given STST a price target of $37.

Investment Thesis

- **Minimal usage of debt in addition to high earnings and long-term growth prospects.** Argon is a liquid company that has been able to effectively use cash from operations instead of issuing debt for funding. They have a line of credit with Bank of America for a total of $15 million, which expires on February 28, 2006. Its location in Virginia makes it easier to lobby for contracts and have cash on hand rather than depending on debt, which would be a concern for a company engaged in research and development.
- **Technological realignment of US armament.** Defense Secretary Rumsfeld has made it a priority to modernize weapons systems. Argon is a company known for its systems engineering and development capabilities, and its programs are next generation systems that are replacing existing, obsolete systems. The boundary-less battlefield and enemies that practice counterinsurgency have the Defense and Homeland Security Departments offering multiple contracts for greater intelligence, surveillance, and reconnaissance.
- **Defense Spending and Argon ST's position in the Aerospace and Defense sector.** Providing ISR capabilities are growing markets for defense and homeland security. Argon has been able to win contracts for programs such as improvised explosive device countermeasures, contracts to provide sensors, as well as programs that will be used in

unmanned aerial vehicles and other counter-terror applications. They also have a substantial amount of backlog in orders that shows future project demands increasing.

Valuation

Argon ST should achieve 6% to 8% revenue growth over the next five years due to demand from its major customer and certain foreign allies. Earnings growth over the next five years is estimated to be 29.3%, compared to 19.5% for their industry. Earnings per share projections for 2005 are $1.05 and are $1.30 for 2006. I have valued the company's shares at $37.

Risks

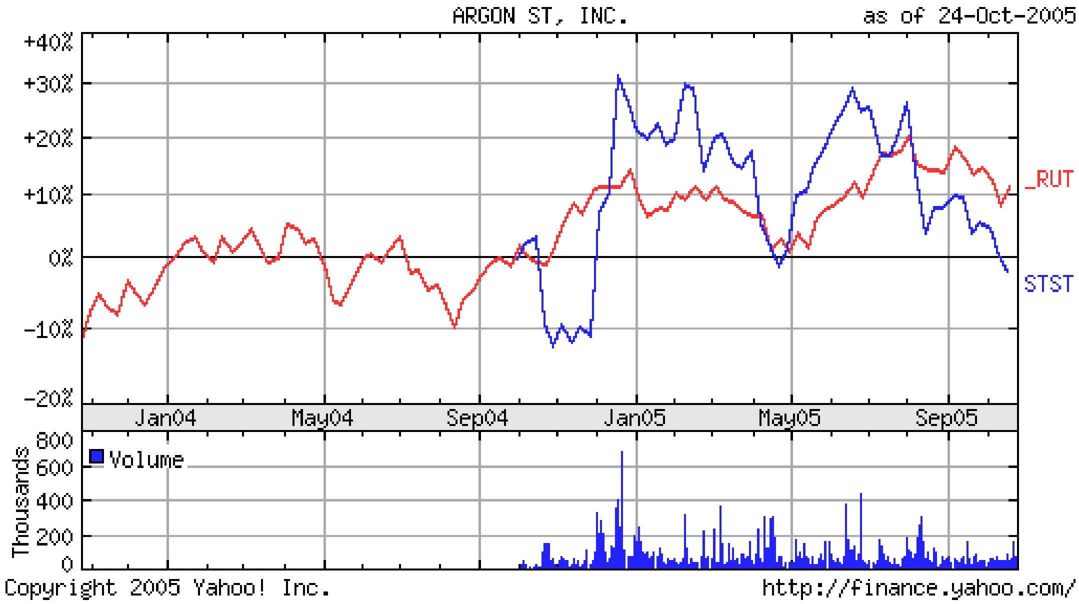
- **Perception of a slowdown in defense spending.** Seasonal concern over program cutbacks is currently holding back the defense sector. Budget decisions will have to be made on certain big budget items such as the FA/22 Raptor and F35 Joint Strike Fighter, but this ignores Argon's impact on intelligence and reconnaissance projects that will be in high demand going forward. Furthermore, defense spending levels are approaching Cold War levels because we are involved in global operations that require constant maintenance and upgrades that will provide further demand for Argon ST.
- **US government contracts may be terminated.** For example, Argon ST's role as one of many subsystem suppliers to Lockheed Martin for the US Army Aerial Common Sensor program will continue to be monitored. The Defense Department recently put a stop-work order on the ACS in order to reevaluate Lockheed's plan for a new Army spy plane. However, this is just to decide if a larger plane is needed, not a different contractor.
- **Competition makes it difficult to win contracts.** Argon ST is in a highly competitive market with companies of varying size and capabilities such as Northrop Grumman, L-3 Communications Holdings, and Raytheon. Similar sized competitors to Argon include: Applied Signal Technologies, DRS, EDO, and Southwest Research Institute. The types of contracts that they pursue utilize highly engineered and sophisticated designs, which will require that Argon retain its employees. The Washington DC and Virginia labor markets are particularly demanding of motivated and technologically capable employees.

Management

As a result of the 2004 merger between privately held Argon Engineering and the public company Sensytech, Terry Collins, the 63 year-old former Chairman/CEO of Argon Engineering took that position at Argon ST, and the Company's board was increased to ten members.

Outlook and Growth Assumptions

- Argon will experience earnings growth of 29%; industry expected to grow 19-20%
- Earnings per share increased 49% from 2003 to 2004
- Earnings expected to rise another 41% in 2005
- Industry-wide international sales are expected to increase $3.7 billion
- 2005 US Defense Budget includes $401.7 billion to the Defense Department
- Spending levels do not include supplemental bills for troops in Afghanistan and Iraq



Major Shareholdings

Shares Outstanding	20.00 Mil
Institutional Ownership (%)	41.40
Top 10 Institutions (%)	27.15
Mutual Fund Ownership (%)	9.73

Top Institutional Holders

Holder	Shares	%	Value	
EVERGREEN GROWTH FUND	230,074	1.15	$7,592,442	31-Mar-05
WASATCH SMALL CAP GROWTH FUND	180,325	.90	$6,401,537	30-Jun-05
STI CLASSIC SMALL CAP GROWTH STOCK FUND	180,000	.90	$5,940,000	31-Mar-05

Sterling Bancshares Inc.
SBIB
Price: $14.24 ($12.84 - $16.04)

Date: 10/27/05
Russell 2000: 624 (558 – 688) **Steven Holtkamp**

Sterling Bancshares, Inc. operates as the holding company for the Sterling Bank, which provides commercial and consumer banking services in the United States. It accepts demand, savings, and time deposits, as well as offers commercial, real estate, and consumer loans; merchant credit card services; letters of credit; and cash and asset management services. In addition, it offers sales of brokerage, mutual fund, alternative financing, and insurance products through third party vendors. As of June 30, 2005, the bank operated 35 banking offices in the greater metropolitan areas of Houston, San Antonio, and Dallas in Texas. The company was founded in 1974 and is headquartered in Houston, Texas.

Recommendation

I believe that Sterling Bancshares will be able to grow at 20% in 2005 and will continue at this rate into 2006. Sterling is located in the fast growing areas of Houston, San Antonio, and Dallas. SBIB is a historically fast grower due mainly to its business model of low cost deposits, and strong loan growth. The company's balance sheet is well poised for future interest rate hikes. Valuation currently shows that the bank is undervalued by roughly **20%**, with a price target of $17. I am recommending that SBIB be added to the AIM portfolio with a weight of 2%.

Key Statistics	MRQ '05
Weighting	2%
Market Cap (M)	666.45
Dividend Yield	1.60%
NIM	4.81%
ROE	10.49%
ROA	0..96%
Efficiency	60.77%
LTG Rate	20%
P/E '05E	19.34x
P/E '06E	15.21x
Morningstar Sector	Financial Services

Investment Thesis

Sterling Bancshares is located in fast growing markets. SBIB currently has 26 offices in the Houston area, 7 in the San Antonio area, and 3 in the Dallas region. The metropolitan areas that SBIB occupies grew 8% faster than the national average 2000-2005 and are predicted continue to outpace the national average at this pace through 2010. Household income in these regions also changed at an average of 20.66% from 2000 to 2005, while the national average for the time period increased 18%. Through 2010 the bank is predicted to outpace the national average income change by 2%.

SBIB actively targets small businesses, are owner operated, with annual revenues less than $25 million. Approximately 27% of business loans are less than $1 million compared with a peer average of 12%. This provides for diversification in the loan portfolio, and a large amount of non-interest bearing accounts, which supplies for a higher net interest margin. There will always be trade-offs in a business model and to be able to implement this strategy SBIB will have higher non-performing assets, and a higher efficiency ratio than peers. Overall, the company is able to grow at higher rates due to this strategy.

Sterling provides an atmosphere for growth. SBIB actively recruits bankers from the large out of state banks, who dominate the market, especially when branching into a new market. The bank looks for locations near big bank branches, to capitalize on their name. For the past 3 years SBIB has been ranked in Fortune's, "100 Best Companies to Work For."

SBIB has a low cost funding structure, and is well poised for interest rate increases. In the MRQ Sterling's funding Structure consisted of 48% demand deposits (25%, non-interest bearing), 24% savings and money markets, and 28% CD's. This leads to a cost of interest bearing liabilities of 1.87%. SBIB's two small bank competitors have costs of funds of 2.06% and 2.36%. In terms of the effect of interest rates on the bank's balance sheet, it could only increase margins. A 100 b.p. increase in interest rates would lead to an increase in net interest income of 3.14%. Approximately 68% of the bank's loan portfolio readjusts with prime.

Asset Quality for SBIB is well maintained. Due to the companies business model there will be more NPA's because there is going to be more loans outstanding. However, non-performing assets/ total assets averaged .45% over the past 4 years, and .21% in the first half of 2005. Net charge-offs/ loans averaged .19% in the past 4 years, and 0% in the first half of the year. Reserves/ NPA's is currently at 319.5%.

Valuation

SBIB is estimated to earn $.76 in 2005, and $.92 in 2006. This represents growth of 30%, and 21% respectively. Due to the company being well-positioned for rising rates, lower cost funds, and asset growth I believe that it will outperform the broader market. Sterling is currently trading at a discount to peers on both an earnings and book basis. Pricing SBIB more in line with their peers at 18.5x earnings, I am setting a target price of $17. This equates to a 2.1x book value, where Texas peers trade at an average P/B of 2.31x.

Management

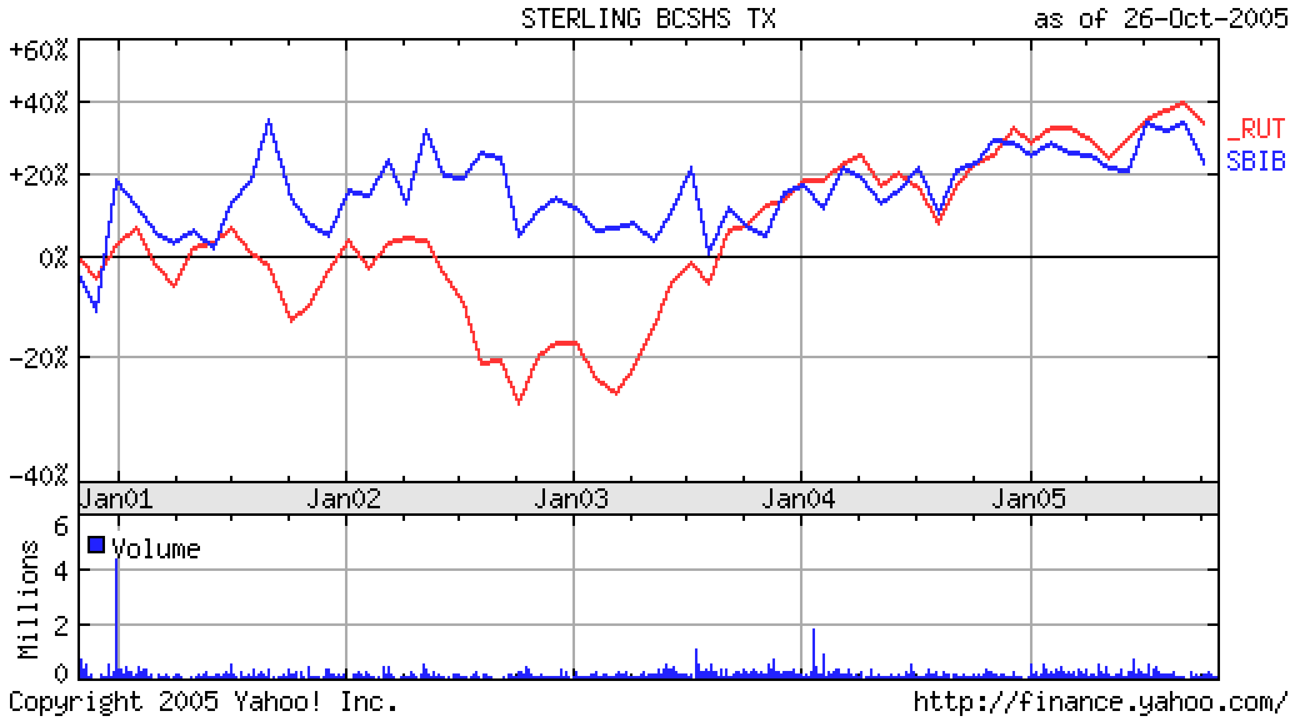
J. Downey Bridgwater. President/CEO. Joined the company in 1997 as president, in 2002 he was made CEO. Salary 400k.

Stephen Raffaele. Executive V.P./ CFO. Before joining Sterling in 1999 as Senior VP/ Treasurer, Mr. Raffaele worked for Coastal Securities as Chief Investment Strategist. Promoted to CFO in 2003.

Risks

Interest Rate Risk. Although further interest rate increases would increase Sterling's NIM, and interest income it slows the economy as a whole. Interest rate hikes into the future may slow the company's loan growth.

General Economic Risk. There has been concern over housing costs in fast growing markets as California, Texas, and Florida. A sudden drop in valuation would surely affect SBIB's ability to grow loans and collect loans outstanding. However, general consensus supports a soft landing scenario.



Major Shareholders

	Shares	%	Value	Date
SMALLCAP WORLD FUND	2,100,000	4.63	$32,676,000	Jun-05
Blackrock Funds-Aurora Portfolio	1,190,941	2.63	$16,911,362	Mar-05
NEUBERGER & BERMAN GENESIS FUND	1,092,162	2.41	$15,508,700	Mar-05
Allegiant Small Cap Value Fd	785,900	1.73	$10,688,240	May-05
PIONEER SMALL CAP VALUE FUND	759,900	1.68	$10,334,640	May-05
EQ ADVISORS TRUST-EQ/LAZARD SMALL CAP VALUE PORTFOLIO	694,700	1.53	$9,864,740	Mar-05
MFS NEW DISCOVERY FUND	568,640	1.25	$7,733,504	May-05
JOHN HANCOCK REGIONAL BANK FD (INVESTORS TR)	434,145	.96	$5,830,567	Apr-05

Astec Industries, Inc.
ASTE
Price: $27.40 (14.07– 35.56)
Fiscal Year Ends: December 31

October 27, 2005 Michael Hepp
Russell 2000 Index: 624.03 (570.03 – 688.51)

Astec Industries designs, engineers, manufactures and markets equipment and components used primarily in road building and related construction activities. The Company's products are used in each phase of road building, from quarrying and crushing the aggregate to testing the mix for application of the road surface. The Company also manufactures certain equipment and components unrelated to road construction, including trenching, auger boring, directional boring, directional drilling and industrial heat transfer equipment.

Recommendation

With the passage of the latest highway bill, the revival of the road construction industry seems imminent after the prolonged drought of federal spending on the nation's highways. Astec Industries will benefit substantially from the new legislation, as its customers will likely see a stream of new projects over the next 6 years. The bill calls for total of $286 billion to be spent on highways and other infrastructure improvements. These funds will supplement the already heavy spending by state and local governments on road construction. With improving margins seen in the first half of 2005 and substantial prospects for growth, earnings per share should at least double that of '04. With an intrinsic value of $35, Astec Industries is a buy recommendation.

Key Statistics	Oct. '05
Portfolio Weighting	2%
S&P Rating	N/A
Market Cap	$559.65M
LT Debt/Equity	13.52%
Dividend Yield	0.0%
ROE LTM	10.62%
P/E Fiscal '05E	21.80
P/E Fiscal '06E	16.65
Morningstar Sector	Ind. Materials

Investment Thesis

- **Passage of the highway bill -** This $286 billion boost to the highway construction industry will drive Astec into a strong growth phase. Funds from the federal government contribute roughly 25-30% of the total highway spending in the U.S, with the remainder coming from state and local governments. The greatest growth in this industry is seen shortly after the passage of the bill, as Astec's customers take on new capital intensive projects.
- **Improving trends in the Company's asphalt division –** Although rising oil prices have shocked asphalt producers throughout the year and have hurt sales at Astec's asphalt equipment division, there are signs that this trend will reverse. With the demand for asphalt remaining strong, many asphalt producers are beginning to purchase new equipment that utilizes recycling technology, since it has finally become economically feasible to recycle old asphalt. The Company will see substantial growth in this division, as well as improving margins.
- **Stabilization of steel prices –** With steel prices coming down from the levels seen in '04, there should be room for margin expansion in the coming years.

Valuation

Based on a free cash flow to equity model, the intrinsic value of Astec Industries is $35 versus a current price of $27.40. This model was built off the assumptions of a 10.6% cost of capital and a 5.5% long term growth rate at maturity. A relative valuation based off a P/E multiple of 21x next year's earnings puts Astec at a slightly higher value of $36. The multiple used in this approach to valuation is somewhat lower than the industry average. This provides a more realistic valuation, since Astec draws most of its business from the highly cyclical road construction industry. Although relative valuation provides an appropriate estimate, the risks associated with future cash flows warrants a lower valuation of $35.

Risks

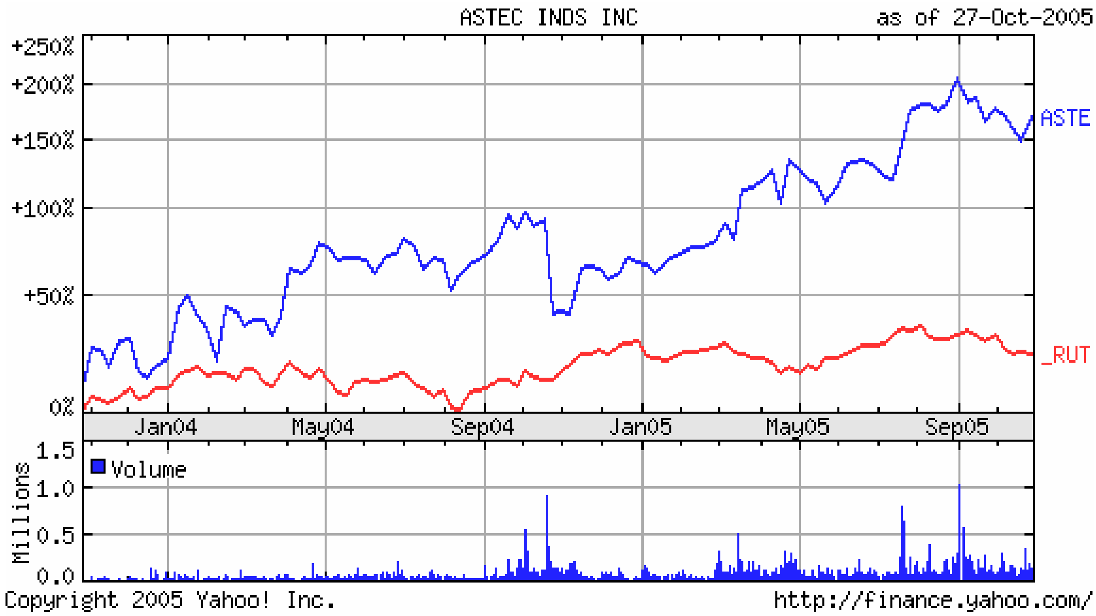
- **Federal highway spending –** Federal highway bills drive the activity of the road construction industry. If the federal government does not continue with its generous highway spending, the industry will likely see another downturn.
- **State and municipal highway spending** – Only about 25-30% of the total spending on highway construction comes from the federal government. The remainder comes from state and local governments, which spearhead most infrastructure improvements. Since federal highway spending is merely a supplement in most cases, any additional highway spending is dependent on the approval by state and local governments.
- **Steel prices -** Astec relies heavily on plate steel, which has seen a substantial amount of price volatility in the last year. Although steel prices have come down slightly, they remain well above historic averages.
- **Oil prices –** About 90% of the nation's roadways use asphalt in their construction. A key input in the manufacturing of asphalt is oil, which has seen an astonishing rise in price during 2005. High oil prices translate into higher asphalt prices, which may result in a greater use of cement. A trend towards the use of cement in the construction of highways may hurt sales in the Company's asphalt division.

Management

Chairman, President and Chief Executive Officer, J. Don Brock is one of the five founders of Astec Industries, which was formed over 30 years ago. All of those founders have remained with the company. Technical knowledge is among the many strengths of the management team, since many customers have unique needs and unique problems. Brock, for example, holds a PH.D. in engineering.

Outlook and Growth Assumptions

- The latest highway bill will provide a great influx of funds to the road construction industry. Further legislation may prolong the growth in the industry.
- Astec sees its best performance in the early phases of the road construction cycle. The Company will see exceptional performance in 2006 and in 2007.
- The consensus EPS for 2005 is $1.26, a 100% improvement over the 2004 EPS of $.62.
- Sales are expected to grow 14% in 2006, which will translate into an EPS of about $1.68, which is roughly a 30% increase over 2005.



Major Holdings				
% of Shares Held by All Insiders:				14.58%
% of Shares Held by Institutional & Mutual Fund Owners:				53%
Number of Institutions Holding Shares:				97
Top Institutional Holders				
Holder	**Shares**	**%**	**Value**	**Reported**
PREMIER VIT – OPCAP PORT	439,000	2.19	$9,679,950	31-Mar-05
FIDELITY SMALL – CAP GROWTH	300,000	1.47	$6,579,000	31-May-05
AIM SMALL CAP GROWTH	171,000	.84	$3,965,495	30-Jun-05
LORD ABBETT SMALL CAP	138,353	.68	$3,223,624	30-Apr-05

Volcom Incorporated
VLCM
Price: $30.15 ($24.40-34.10)
Fiscal Year End: December 31

October 21, 2005
Russell 2000: 628 (565.73-688.51) Ray Auth

Volcom Incorporated designs, markets, and distributes young men and women's clothing and accessories worldwide. They concentrate on products that appeal to teens interested in skateboarding, snowboarding, and surfing. Brands are distributed through core specialty shops, national chains, and internationally through distributors and licensees. They currently operate in 2,900 store locations in over 40 countries. VLCM receives royalties on the sales of Volcom branded products sold by their licensees. VLCM intends to establish their own operations in Europe in December 2006 when the European licensees expire. Volcom is based in the heart of boardsport country, Orange County, California and completed their Initial Public Offering in July.

Recommendation

Volcom Incorporated has established itself as one of the premier boardsport brands amongst teenagers. VLCM should maintain revenue growth of 20% coupled with 25% earnings growth. Earnings estimates are expected to be $0.85 for 2005, $1.02 in 2006, and $1.35 for 2007. Due to the growing popularity of boardsport brands, VLCM is in prime position to grow with the industry. This fall, boardsport brands received 5.9% of all votes for most preferred clothing brand, up 40 basis points from last spring. In addition, VLCM is in the process of developing many of their product lines to become known as a "head-to-toe" outfitter. The company expects to increase their exposure to chain specialty stores such as Pacific Sunwear and Zumiez. VLCM expects the increased exposure to help develop the more complete product line focus.

Key Statistics:	*Oct. 2005*
Weighting:	2%
Market Cap:	$648M
Revenue:	$135M
Gross Margin:	48.57%
Op. Margin:	21.55%
Forward P/E:	25.73
EPS Growth:	25%
OCF:	$11M
Debt/EBITDA	0.01
Debt/Capital	0.86%
Credit Facility:	$10M
Sector:	Consumer Services

Investment Thesis

- **Distribution Expansion:** VLCM is in the process of expanding their distribution to chain customers such as Pacific Sunwear and Zumiez. They also are planning on expanding their presence in Nordstrom through square footage growth. In addition, they are focusing on extending their product lines to each of these stores, which will ideally support revenue growth.
- **European Operations:** Near the end of 2006, VLCM plans to bring their European operations in-house. The intended change will boost margins well above their current 6% royalties on licensed products and closer to their current operating margin of 22%. Bringing operations in-house from Europe should be a catalyst to the bottom line.
- **Brand Recognition:** Volcom regained its position as the most preferred boardsport brand, accounting for 41% of the votes for boardsport brands. In fact, this is the highest amount of votes a boardsport brand has seen since 2002 with Quiksilver. This supports the growing teenage following to Volcom brands.

Valuation

VLCM should experience annual revenue and earnings growth of 20% and 25% respectively for the next five years. This is based on their growing brand awareness along with their distribution increase. Based on these predictions, the discounted cash flow model reveals a fair value price of $37.89. Compared with current prices, this reflects a 26% undervaluation. VLCM's P/E is 25.73 compared to the industry average of 16. Their PEG is 1.34. There are currently five analysts who cover the stock while one has a buy recommendation and two have outperform ratings. Piper Jaffray assesses a fair value of VLCM at $36.00.

Risks

- Competition is always an important factor to monitor in the apparel industry. VLCM faces fierce competition from Quiksilver, Hurley, and Burton. VLCM must continue to produce innovative and stylish products to remain ahead of the competition.
- VLCM must maintain their endorsements from professional boardsport athletes for future marketing possibilities.
- Intellectual property rights must be monitored and closely watched. If intellectual property is revealed, this could have a material adverse effect on revenues and earnings.
- Financial performance could be hindered if tariffs and import quotas are tightened by the United States. Due to the large quantity of imports from China for VLCM, this could have a financial affect on gross margin should it change.

Outlook

- VLCM employs a superior business model compared to their peers. Volcom generates an operating margin of 21.55% compared to the industry average of 9.39%. In addition, VLCM has a gross margin of 48.57% as opposed to 39.9% for the industry.
- VLCM continues to focus on debt control. Debt/EBITDA for VLCM stands at 0.01 compared to the industry average of 1.29 whereas Debt to Capital is 0.86% compared to the industry average of 124.58%.
- According to SGMA International, there are more skateboarders than baseball players and football players in the United States. This creates a unique opportunity for VLCM to continue their growth. Boardsports is an estimated $11 Billion market per year where the bulk of sales are in clothing, footwear, and accessories.
- Volcom now ranks as the most preferred boardsport brand among teenagers.

Holder Name	**Shares Held**	**Percentage**
Richard Woolcott	4.98M	20.60%
Malcolm Trust	4.76M	19.70%
Rene Woolcott	4.52M	18.70%
Douglas Collier	564,324	2.30%
Cordillera Asset Man.	267,500	1.10%

<u>Encore Medical Corp.</u>

ENMC

Price: $5.00 ($3.86 - $7.18)

Fiscal Year Ends: December 31, 2005

October 24, 2005 — Jaclyn Jensen

Russell 2000 Index: 639.45 (558.36 – 688.51) — Health Care Sector

Encore Medical Corp. develops, manufactures, and distributes orthopedic implant devices and rehabilitation products which are used to treat patients with musculoskeletal conditions. Encore's products are intended for use by orthopedic surgeons, physicians, and physical therapists. The company consists of two divisions: Surgical Implant Products, which offers reconstructive joint products such as knee, hip, shoulder, and spinal implants, and Orthopedic Rehabilitative Products, which offers a comprehensive line of products used in rehabilitative procedures, for pain management and soft goods for use before and after surgery. ENMC operates primarily in the United States, but approximately 14% of sales are generated internationally.

Recommendation

Encore Medical Corp has been broadening its product base through both acquisition and innovation, leaving the company in a strengthened competitive position. The company places a large emphasis on research and development and customer relations to ensure success. ENMC has a strong pipeline of products as well as a physician accepted portfolio of products. While the company is smaller than many of its competitors, Encore has made a name for itself with a few niche products and has gained a decent market share in many of the more common products. ENMC is in the process of expanding its sales force, focusing on growing foreign sales in addition to domestic sales, and integrating its recent acquisitions. If the company is successful in these goals and continues to develop new products, ENMC should be fairly priced at $7.00 which provides for a 40% appreciation in stock value.

Key Statistics	24 Oct 2005
Market Cap	$250.470M
Shares Outstanding	51.750M
Average Volume	260,790
Beta	1.61
2004 Actual EPS	$0.12
2005 Estimated EPS	$0.19
P/E (TTM)	25.47
P/Book (Q2:2005)	1.57
WACC	7.09%
Debt/Assets	58.84%
ROE	4.04%
Gross Margin	53.77%
Operating Margin	9.60%
3 yr EPS Growth Est.	20.00%

Investment Thesis

- **Benefit from demographic trends.** The rapid population growth in the 55 and over demographic will provide increased demand for both surgical implant procedures and rehabilitative services. Furthermore, the 35 and over demographic is gravitating towards a more active lifestyle than in the past leading to an increase in injuries, and consequently, the market for ENMC's products. The company will also benefit from the obesity epidemic, as extra weight puts a strain on a person's joints and increases the risk of injury.

- **Comprehensive line of products, including many niche products, gives Encore a foothold among larger competitors.** ENMC offers a range of products that are used before, during, and after surgery, as well as rehabilitative products used to avoid surgical procedures. ENMC is the dominant market provider of Transcutaneous Electrical Nerve Stimulation (TENS), a pain relief therapy that makes up approximately 40% of the company's revenues. TENS revenues will probably be boosted by recent pain medication recalls such as Vioxx.

- **Utilization of multiple distribution channels and relationships with MCOs to increase customer base.** Encore employs a direct sales force in addition to using dealers and national supply chains to reach its customer base, allowing the company to reach a diverse range of customers. The company also endeavors to maintain a close relationship with physicians and therapists for product endorsement purposes. Additionally, ENMC has over 600 MCO contracts granting the company as the preferred provider in many cases.

Valuation

Based on my discounted cash flow model, Encore should be valued at $8.00, which indicates that the stock is currently undervalued by 37%. Using relative valuation based on the forward PE of ENMC's competitors, the stock should trade around $6.83, which represents a 27% undervaluation. The average valuation of the five analysts providing a price target for ENMC is $7.90, with actual price targets ranging from $6 - $9. I believe that a target valuation of $7 is reasonable for the stock.

Risks

- **Substantial level of debt.** Encore has $318 million in long-term debt compared to only $555 million in total assets, $291 million of which is attributed to goodwill. This should not pose an immediate problem as the company since the company currently generates income from operations equal to 1.5 times its interest expense and there are no significant principle repayments in the near future.

- **Failure to effectively integrate recent acquisitions.** Integration of Encore's 2004 acquisition of Empi is a sizable endeavor. The company's ability to achieve EPS targets will be partially dependent on its ability to achieve synergies and revenue growth from both the Empi and Osteoimplant Technology acquisitions. ENMC is not currently looking for additional acquisition targets.

- **Competition from larger competitors.** Encore competes against several large and well known companies. ENMC is at a disadvantage relative to many of its competitors on the basis of financial resources, economies of scale, and reputation.

- **Regulatory or liability costs.** ENMC's products are regulated by the FDA and a delayed or revoked approval would have an adverse affect on the company's revenue. Additionally, a product or patent liability suit could be a significant expense.

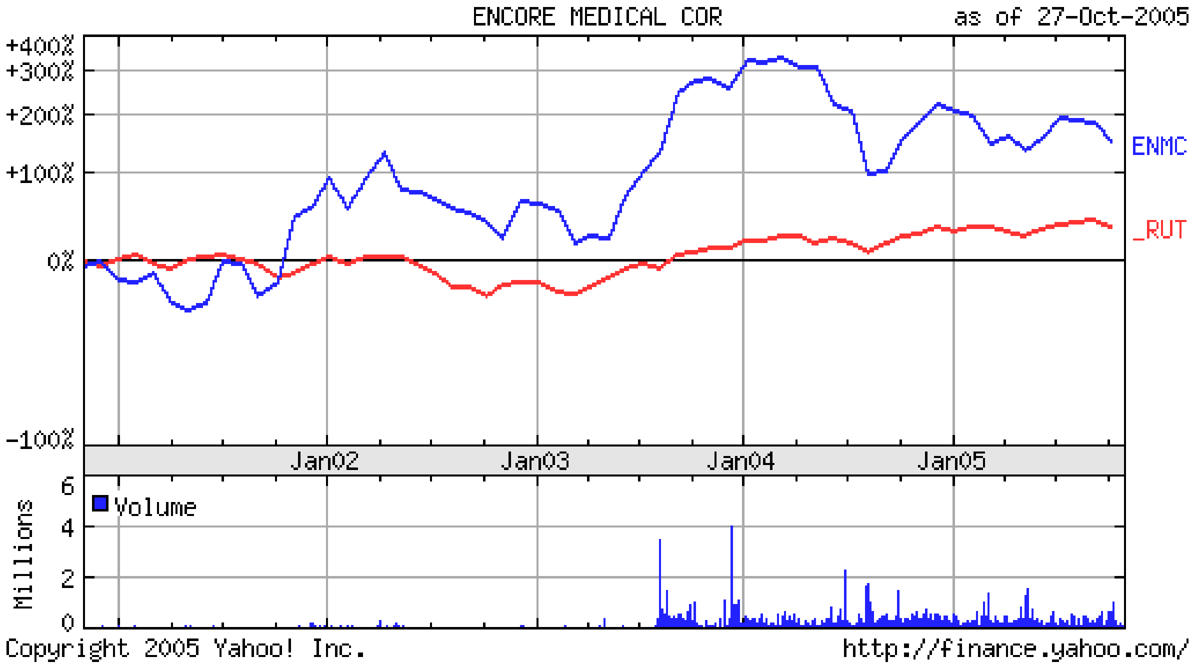
Management

Kenneth Davidson, the CEO of Encore Medical, has worked for several larger medical companies and has a strong track record. The remainder of the executive team possesses strong managerial backgrounds in the industry as well and appears to be stable. The executives of the company currently hold approximately 4.1% of the shares outstanding. Overall the corporate governance of the company seems shareholder friendly.

Other Notable Information

- ENMC will not be as adversely affected as its competitors by pricing pressure in the surgical implant market since the majority of the company's revenue is derived from the orthopedic market.

- The majority of Encore's goodwill balance, $263 million, is attributable to the Empi acquisition. There is little risk of a goodwill write-off in the near future.



Equity Ownership

% of Shares Held by All Insider and 5% Owners:	48%
% of Shares Held by Institutional & Mutual Fund Owners:	44%

Top 10 Holders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Galen Partners	8,714,000	16.839%	-
Carlyle Group	6,400,000	12.366%	-
RS Investment Management	3,165,000	6.117%	1,774,000
US Bancorp	1,995,000	3.856%	-250
Dimensional Fund	1,927,000	3.724%	542,085
William Blair	1,764,000	3.408%	222,250
JP Morgan Chase	1,669,000	3.226%	-26,892
Capital Source	1,284,000	2.481%	-
Barclays Global	1,268,000	2.451%	240,499
Atlas Capital	1,005,000	1.941%	299,475

Nice Systems
NICE
Price $42.88 (20.94 – 48.34)
Fiscal Year End: Dec. 31

October 28, 2005 Greg Rawls
Russell 2000: 624.03

Nice Systems Ltd. was founded in 1986 and is an Israel based company that offers multimedia digital recording solutions. Nice is involved in two major business segments: audio and video. Their audio products are used in call centers around the world to help ensure quality assistance and to help business facilitate a better understanding of their customers. Nice video helps organizations and governments provide a high level of security.

Recommendation

Nice is well positioned to grow in the coming years due to their superior audio and video technology. Nice audio products feature state of the art audio analysis. Nice audio products help ensure companies that their call representatives are assisting the needs of their customers while at the same time gaining insight as to what the needs of their customers are. Nice video technology offers superior video quality, advanced video networking and content analytics. Their video technology has tremendous growth potential as more governments become increasingly concerned about the threat of terrorism.

Key Statistics	October 2005
Portfolio weight	1.5%
Market Cap	$737 million
LT Debt/Total Cap.	0
Dividend Yield	0
ROE	NA
LTG Rate (7 yr)	22%
Thomson Consensus Rating (1=Buy 5=Sell)	2
P/E Fiscal '05E	27.9
P/E Fiscal '06E	25.3
Morningstar Sector	Hardware
EPS 2005	$1.61
EPS 2006	$2.12
EPS 2007	$2.52

Investment Thesis

- **Nice Systems products are proven well established products.**

Nice video products are proven and have helped assist governments in obtaining suspects. Nice video products where considered instrumental in helping to track down those reasonable for the London bombings earlier this year. Nice audio has recently grown due to their successful Nice Perform product. Nice Performs features include word spotting and data mining capabilities.

- **Nice Systems products are in growing markets.**

Audio recording products are a growing market. It is estimated that the call center market alone consists of over 4 billion hours of conversation a year world wide. Currently Nice products are in use in many large firms including 75 of the fortune 100 companies. On the video and security side of the business, Nice has seen increasing sales as the world becomes more cautious with concerns over terrorism.

- **Nice systems has operations world wide.**

Nice is an international company with offices world wide. Having a world presence will help Nice as security concerns grow for countries around the world and business continue to outsource call centers. Nice has sales throughout the world; however, the majority of Nice's sales are to North America.

Valuation

Nice Systems is currently undervalued at $42.92 and should be trading at $51.67 using a free cash flow model. The seven year earnings growth rate for Nice is projected to be 22%. The transitional growth rate is estimated at 6%. The beta of Nice is currently 1.3. The EPS estimates are $1.61 in 2005, $2.12 in 2006 and $2.52 in 2007. Currently, twelve analysts cover Nice Systems with three analysts recommending a strong buy, six analysts recommending a buy, and three analysts recommending a hold position.

Risks

- **Increased competition.**

Audio and video recording is a growing market world wide that could attract increased competition. Nice dose have some protection from competition with patents. They currently have nine patents and are applying for over one hundred more world-wide to help protect their technology.

- **Political risk**.

Nice Systems is headquartered in Israel and this leads to an extremely high amount of political uncertainty that affects them. Nice could be negatively affected by the continual instability of Israel.

- **Exchange rate risk.**

Nice has sales all over the world and could be affected by large changes in currency rates.

Management

Haim Shani joined Nice Systems as President and CEO in 2001. His past experience includes working as General Manager for Applied Materials.

Outlook and Growth Assumptions

- EPS for the second quarter was $.36, which was above the Street's estimates of $.34.

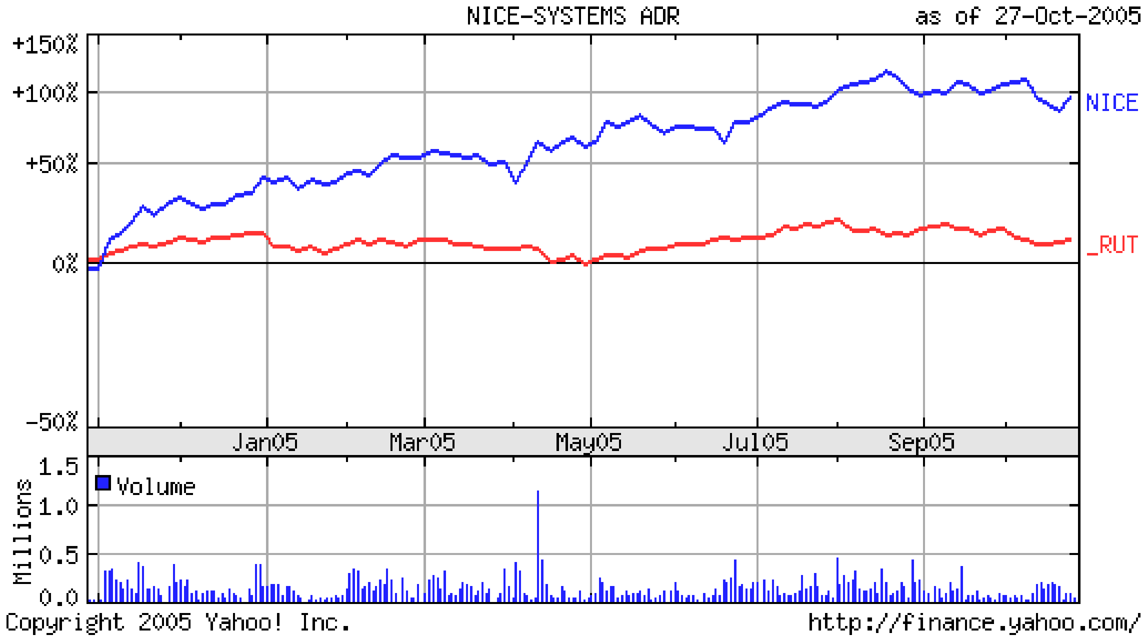
- EPS guidance for the third quarter of 2005 is $.41.

- Average analyst EPS estimates for fiscal 2005 is $.1.61.

Long-term financial goals:

- The seven year growth rate average is 22% and 6% growth for ten transition years.

- Nice Systems operating margin is currently 7.9%.



Equity Ownership

TOP INSTITUTIONAL HOLDERS

Holder	Shares	% Out	Value	Reported
VANGUARD EXPLORER FUND, INC.	335,525	1.85	$11,800,414	30-Apr-05
STI CLASSIC SMALL CAP GROWTH STOCK FUND	245,000	1.35	$7,893,900	31-Mar-05
RS INVESTMENT TRUST-EMERGING GROWTH FUND	195,600	1.08	$6,302,232	31-Mar-05
CONSTELLATION FDS GRP-CLOVER SMALL CAP VALUE FD	172,700	.95	$5,564,394	31-Mar-05
AMERICAN CENTURY INTERNATIONAL DISCOVERY	162,000	.89	$6,394,140	30-Jun-05
RS INVESTMENT TRUST-DIVERSIFIED GROWTH FUND	140,291	.77	$4,520,176	31-Mar-05

INSIDER OWNERSHIP	**SHARES**	**% OUT**
Directors and executive officers	805,387	4.1

Triad Guaranty Inc.

TGIC

Price: $40.48 ($34.99-60.93)

Fiscal Year Ends: December

October 24, 2005 Paul Zandt

S&P 500: 1197.87

Russell 2000: 646.60

Triad Guaranty Inc. provides private mortgage insurance to residential mortgage lenders and investors in the United States. As one of eight private mortgage guarantors, Triad is the youngest in the industry with a history dating back to 1987. Although the company also has the smallest market share among the eight mortgage guarantors, market share is steadily growing – from 0.5% in 1995 to roughly 6% today. Triad is also geographically diverse, providing coverage for lenders in all regions of the United States. The company is also known for its innovative use of technology and its ability to create new products, which has helped to fuel growth. Triad also frequently has the lowest mortgage delinquency rates in the industry.

Recommendation

Triad Guaranty Inc. has been one of the fastest growing private mortgage insurance companies during the past decade. Although it is the newest and smallest mortgage guarantor, the company has already established a proven track record of sustained growth and profitability during its relatively short history. The company has a reputation for its innovative underwriting processes, and its loss rates have been below the industry average for the past ten years. Given its financial strength, profitable history, and relatively high-quality book of business, I believe that Triad Guaranty Inc. is well-positioned for future growth, even as interest rates rise.

Key Statistics	Nov. 2005
Portfolio weighting	2%
Credit rating	AA
Market cap.	$599.83 million
Dividend yield	0%
ROE	13.6%
Total debt to equity	7.3%
GAAP combined ratio	54.20
Price to book ratio	1.24
Trailing P/E	10.11
Forward P/E 12/06	8.31
Estimated 2006 EPS	4.87
Morningstar Sector	Financial Services

Investment Thesis

- **History of solid growth.** Just ten years ago, Triad Guaranty Inc. had only 0.5% of the mortgage insurance market share. That has since increased to 6.0% and continues to grow. Much of that growth has come through innovation. For example, Triad has combated the threat from captive insurance products by creating its own captive reinsurance program, which has lead to an additional source of revenue for the company. Such an innovative mindset will be key as private mortgage insurers are faced with higher interest rates and a possible increase in defaults in the years ahead. Triad seems well-positioned to meet those challenges.

- **High quality book of business.** Triad's loss rates are consistently below the industry average, and its mortgage delinquency-rate is among the best. This can be attributed to its highly disciplined risk-management approach, which includes continuous monitoring of economic conditions in the company's active or potential markets and the use of automated risk evaluation models.

- **Financial Strength.** Triad Guaranty Inc. is a financially-sound company; its Standard & Poor's Credit Rating is AA. In addition, More than 70% of the company's balance sheet is listed in investments or cash, and its equity/premium ratio is greater than 3.0. Triad's GAAP combined ratio has been between 45-55% for the past five years.

Valuation

Triad Guaranty Inc. has had an average revenue growth rate of 17% over the past five years, and its free cash flow to sales ratio has averaged nearly 40%. These growth rates were at least in part due to the real estate boom over the past decade and are not assumed not to be sustainable. My target price of $58.98 assumes a revenue growth rate of 10% over the next five years, and a terminal growth rate of 3%. An average cash flow margin of 16% was used. The current market price is $40.48.

Risks

- **Rising interest rates:** Mortgage interest rates have recently bottomed-out at historic lows and seem destined to rise in the coming years. This will almost certainly lead to a decrease in the level of home purchases and refinancings in the near future. As a result, sustained the current level of sales growth will be difficult for all private mortgage insurance companies.

- **Potential burst of the real estate bubble:** As interest rates rise, there may be an increase in the number of defaults on home mortgages, particularly in markets where home prices have skyrocketed in recent years. Such an increase in defaults would lead to higher loss expenses for private mortgage insurance companies, particularly those with business in those vulnerable markets.

- **Age of insured mortgages in the portfolio:** Triad's relatively new portfolio consists of many mortgages that are about 3 years old. This is the period in which defaults are considered to be the highest. This factor may also lead to an increase in defaults for Triad over the next few years.

Management

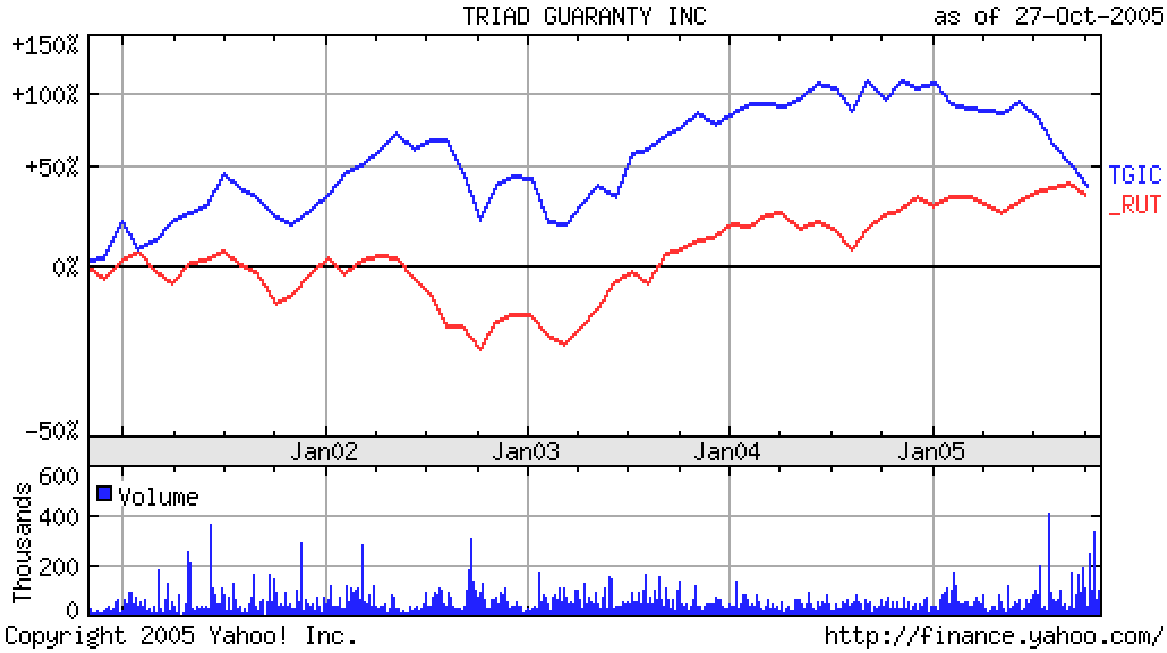
Triad Guaranty Inc. is headquartered in Winston-Salem, North Carolina. The company's long-time CEO and founder, Darryl Thompson, retired in September. His successor is Mark Tonnesen, a former top executive at the Royal Bank of Canada. Directors and executives at Triad collectively own 4% of the firm.

Growth Assumptions

- An earnings growth rate of 12.5% is projected over the next five years.

- Consensus EPS estimates
  - 2005: 4.05
  - 2006: 4.87

- With its strong growth prospects and strong financial condition, TGIC appears to be undervalued and is a buy recommendation for the AIM fund.



Major Shareholders

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	58%
Number of Institutions Holding Shares:	104

ADVO, Inc

AD
Price: $24.00 ($23.06 – $38.72)
Year End: September

November 1, 2005 Tim Wojs
Russell 2000: 638.41 (570.03 – 688.51)

Advo, Inc. is a full-service targeted home delivered print advertising company. They are primarily engaged in seeking and processing printed advertisements from retailers, manufacturers, and service companies. AD offers combined and solo mailing options with a targeted home approach to reach consumer households in both the United States and Canada. Currently, Advo's network reaches 112 million households, with 78 million households being part of its core program, and an addition 34 million belonging to the Advo National Network Extension (ANNE) program. The majority of AD's revenues come from their weekly Shopwise distribution.

Key Statistics	Nov. 2005
Portfolio Weighting	1.7%
S&P Rating	B+
Market Cap	753 mil
Debt/Capital	25.4%
Dividend Yield	1.8%
ROE TTM	29.7%
LT Growth Rate	13%
EPS '05	$1.34
Est. EPS '06	$1.67
Est. EPS '07	
P/E TTM	17.8
Forward P/E	14.1
Current Ratio	2.2
Morningstar Sector	Bus. Serv.

Recommendation: Advo should be valued at $33, pays a dividend yield of 1.8%, and is poised for strong future growth. I am recommending a 1.7% portfolio weighting.

Investment Thesis:

- **Superb network.** Advo has one of, if not the largest, computerized customer list in the country. It contains almost 130 million households, which is nearly every one in the United States. Significant costs and expertise would be needed by one of Advo's customers in order to replicate a list of this size. I believe this gives AD a comfortable economic moat for direct mail printed advertisements. AD's ads currently reach 112 million households in the US and Canada and have a 94% awareness rating.

- **Attractive growth opportunities.** There are two areas for significant growth for AD. The first is in regard to distribution. Currently, Advo only engages in weekly advertisement distributions using their Shopwise product. The ability to increase this distribution to two times weekly will significantly increase their revenues by giving AD a more attractive product to sell to retailers and manufacturers. The idea of twice weekly ads, with one distribution occurring on weekends, could cause customers to allocate more advertising dollars to Shopwise instead of newspapers, who pose the biggest competitive threat to AD. A negotiated service agreement with the USPS would provide AD with lower cost postage and serve as a catalyst to implementing a twice weekly distribution program. The other growth initiative actually involves forming alliances with newspapers for advertising. In these alliances, either the newspaper and AD create an individual weekly mailing, or AD distributes the bundle to non-newspaper customers, and the newspaper distributes the bundle to its current customers. This provides more market exposure for customers while being more cost-effective.

- **Favorable market trends.** Retailers and manufacturers are shifting their focus from traditional newspaper advertisements to a more targeted approach in order to increase and identify their return on investment. This trend poses well for Advo and their target market approach. AD is capable of providing cost effective shared mail distributions (Shopwise), as well as solo mail distributions. AD can also change inserts and advertisements based on zip code zones, zip code programs, and Advo Targeting Zones (ATZs), which are a cluster of about 3,500 households.

Valuation:

Using a discounted cash flow model, I estimate AD's fair value to be about $33. This uses a conservative 12% growth rate and 3.5% terminal rate. Using a P/E that is 21x estimated FY'06 EPS, a price of about $35 is generated. With Advo trading at about $24, the stock is significantly undervalued and is an attractive buying option.

Risks:

- **Postage rate increase.** Postage rates are expected to increase by about 6% in January of '06. This increase, which will largely be passed onto the customer, could have a short-term negative impact on the number of advertisement pieces.

- **Customer shift to lower margin products.** With a lower advertising budget, customers tend to shift their advertisements to the lower paper weight, black and white products, instead of just decreasing the volume of ads. During the past couple of quarters, retail advertising spending has been low across the board and has resulted in an increase in lower paper weight and black and white ads. This trend should revert and the higher margin color and heavier paper ads should see an increase in distribution. AD will continue to experience tight margins if the trend stays the same.

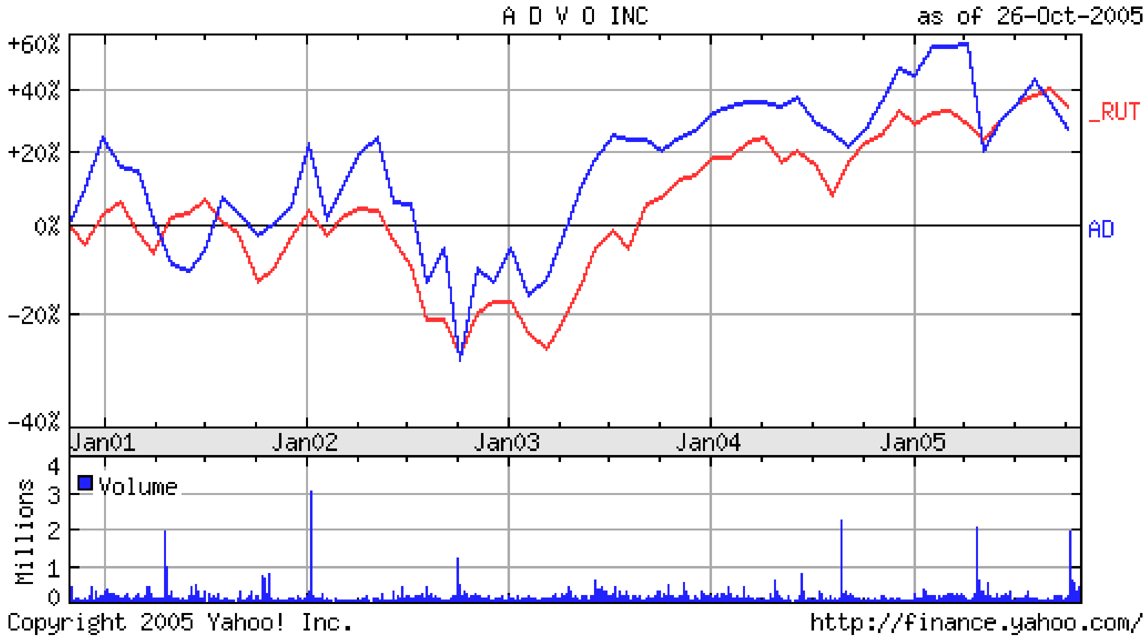
- **Revenue trends follow retail cycle.** Because of AD's large exposure to grocery stores and retailers, ad spending and revenue will fluctuate with the economic cycles of these companies.

Management:

S. Scott Harding is the CEO of Advo and has been in the position since October 2004. Prior to serving as AD's CEO, Harding was the CEO and chairman of Newspaper Services of America (NSA). NSA is the nation's largest print media planning and buy agency. All other members of management have significant previous experience in of sales and marketing.

Outlook:

- Top-line continues to grow with new customers and increased advertising packages.
    - 4Q FY'05 showed impressive top-line revenue growth, including a 7.2% increase in overall revenue, 10.5% increase in advertising packages, and a 1.7% increase in pieces per package.
- Profitability numbers have lagged compared with top-line growth numbers. With a shift from credit customers to more pre-pay, unnecessary bad debt expense will be eliminated. Also, utilizing unused postage is a prime concern of management. Effectively controlling their biggest cost will help profitability numbers.
    - 4Q FY'05 showed shortfalls in profitability, with operating margins decreasing to 5% because bad debt increased $2.1 million, customers shifted to lower margin inserts and lighter weight papers, and losses due to hurricanes.
- Intermediate to long-term revenue and EPS growth should be between 15-20%. With a management focus on controlling costs and increasing profitability, earnings will start to catch up with revenue growth. Until investors see this increased profitability though, I think AD will stay in the mid to lower 20s.



Share Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	98%
Number of Institutions Holding Shares:	136

Top Institutional Holders

Holder	Shares	%	Value	Reported
RS INVESTMENT TRUST-PARTNERS FUND	1,143,490	3.64	$42,823,700	31-Mar-05
PRICE (T.ROWE) NEW HORIZONS FUND	1,125,000	3.58	$35,831,250	30-Jun-05
ARTISAN SMALL CAP VALUE FUND	1,010,000	3.22	$37,824,500	31-Mar-05
EATON VANCE TAX-MANAGED GROWTH PORTFOLIO	750,000	2.39	$23,887,500	30-Jun-05

Toreador Resources Corp.

TRGL
Price: $26.50 ($8.78-$37.25)
Fiscal Year Ends: December 31, 2005

October 27, 2005 — Ryan Berg
Russell 2000 Index: 624.03 (558.36-688.51) — Energy Sector

Toreador Resources Corp.'s principal activities are to explore and produce oil and gas and acquire properties. The Group's operations are conducted through the ownership of perpetual mineral and royalty interests. The Group holds interests in foreign developed and undeveloped oil and gas properties in the Paris Basin, France, the Cendere and Zeynel Fields in Turkey and the Bonasse Field and Southwest Cedros Peninsula License in Trinidad, West Indies. The Group's domestic properties are located in the Texas, Alabama, Mississippi, Louisiana, Arkansas, California, Kansas and Michigan.

Key Statistics	29 Sept 2005
Market Cap	$399.98M
Shares Outstanding	14.331M
Average Volume	258,432
Beta	0.86
EPS(ttm)	$0.53
2005 Estimated EPS	$0.68
Forward P/E	39.40
ROIC	38.19
04' Operating Margin	21.62%

Recommendation

Because of its strong growth prospects, exposure to intriguing international growth opportunities, and experienced management team, Toreador represents an interesting developing growth story in the Exploration and Production industry. Toreador has operations in six countries currently, which represents a good mix of steady income plays and growth opportunities. Given their incredible improvement in financial results last year, it appears they have finally turned the corner, and are beginning to see the results of their international niche strategy. I expect this trend to continue, and given the current oil and gas price environment, Toreador looks like a young company on the rise. Toreador offers an attractive combination of international E&P exposure and an intriguing growth story, and I am placing a buy recommendation on the stock for a 2% portfolio weighting.

Investment Thesis

- **Balanced Portfolio of Exploration Opportunities:** Toreador holds the rights to explore significant blocks of land in the United States, France, Turkey, Romania, Hungary, and Trinidad.. Furthermore, this portfolio of land provides a good balance of known quantities and growth potential. The United States and France blocks are proven sources and provide a steady stream of cash flow, while the other plays are more "wildcat" type plays with greater growth potential. Turkey is an especially interesting growth opportunity as the country continues to increase their use of natural gas as a source of energy and encourages domestic production of energy sources. This combination allows Toreador to enjoy the upside of the higher potential wildcat projects, while still being assured a source of steady cash flow if the wildcat projects are not successful.

- **Extremely Profitable:** Last year represented a breakthrough year for Toreador, as they generated ROIC of 38.19%. This number is well above the ROIC level of the majority of their peers. Furthermore, Toreador posted an operating margin of 21.62%, also significantly above the level generated by most peers. Their numbers over the past three years have showed steady improvement in general, and really took off last year. This trend tells the story of a company with management that knows what they are doing, and is beginning to breakthrough after a period of high exploration and start-up costs and low profitability. This trend bodes extremely well for the near future in light of the current oil and gas price environment.

- **Interesting Niche Strategy:** Toreador's management has a philosophy of going after the highest potential, albeit sometimes more risky, portfolios of land they can get their hands on. They tend to focus on exploiting opportunities that the major oil companies find too small. Furthermore, management embraces the philosophy of looking for oil where oil has been discovered in the past. This strategy appears to be working quite well for them, and represents a unique niche in areas largely dominated by the major integrated oil companies.

- **Experienced Management Team:** The 2001 merger between Madison Oil and Toreador Resources brought together a group of old colleagues from Triton Energy. This group has significant experience and an established track record managing the types of international projects currently making up their portfolio. Collectively, they have worked in 40 countries and have all played roles in substantial oil and gas discoveries.

Valuation

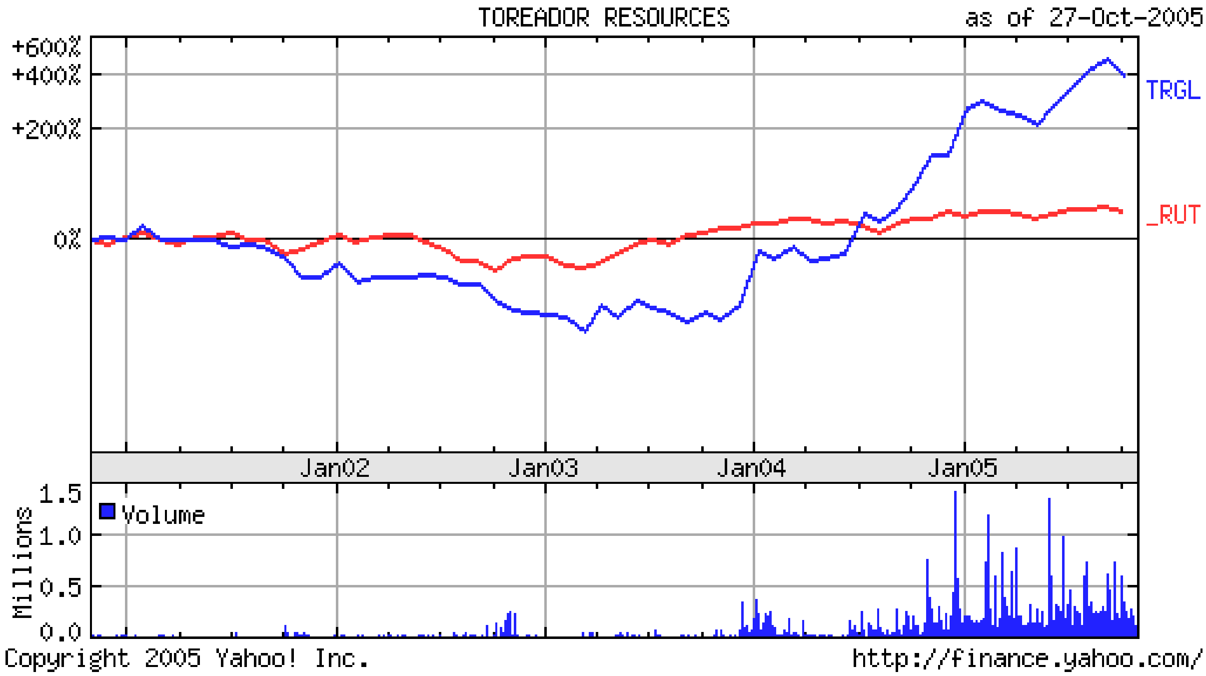
Due to the aforementioned factors, Toreador is deserving of a premium to their peers to reflect strong management and the increasingly bright international growth prospects for the company. As such, they are actually trading at a premium to peers with a forward P/E 39.4 versus an industry average of approximately 16. However, this is compared to a group of E&P firms located primarily in the gulf coast. Thus, given TRGL's exposure to international markets and the fact that they have only just begun to translate their successes into bottom line expansion, I believe this multiple is reasonable and could continue to expand if the firm continues on its current path of strong growth. Furthermore, the three analysts covering the stock appear to agree, as 2 have strong buy ratings on the stock, and one has a buy rating. The average target price among these analysts is $35.00.

Risks

- Investing in the small cap energy space is inherently risky, as stock prices fluctuate greatly due to sensitivity to oil and natural gas prices.

- Toreador operates in several different countries. Possible economic or political risks Toreador might encounter include tariffs, taxation changes, modification of existing contracts, currency fluctuation, nationalization, and international policies of the United States.

- There is significant risk inherent in the business of exploration and production. There is no guarantee that a project will produce results, and abandoned projects translate into substantial sunk costs, which, for a small firm like Toreador, can be difficult to bounce back from.



Insider Ownership: 39%
Institutional Ownership: 38%

TOP 5 INSTITUTIONAL HOLDERS

Holder	Shares	%	Value	Reported
WASATCH SMALL CAP VALUE FUND	432,525	3.02	$10,506,032	30-Jun-05
JOHN HANCOCK MIDCAP GROWTH FD (INV TR III)	268,500	1.87	$4,521,540	30-Apr-05
Wells Fargo Advantage Small Cap Value Fd	240,000	1.67	$6,967,200	31-Jul-05
VANGUARD TOTAL STOCK MARKET INDEX FUND	152,769	1.07	$2,772,757	31-Mar-05
DREYFUS PREMIER OPPORTUNITY FDS-PREMIER ENTERPRISE FUND	128,875	.90	$3,741,241	31-Jul-05

<u>Bluegreen Corporation</u>
BXG
Price: $15.16 ($11.00-$24.75)
Fiscal Year Ends: December

October 24, 2005 Jason Toellner
Russell 2000: 643.34 (565.73-688.51)

Bluegreen Corporation provides vacation and residential lifestyle choices through its resorts and residential community businesses. The company conducts its operations through two segments, Bluegreen Resorts and Bluegreen Communities. The Bluegreen Resorts segment acquires, develops, and markets vacation ownership interests (VOI) in its resorts. This segment also implements its Bluegreen Vacation Club system, which permits its VOI owners to purchase an annual allotment of points that can be redeemed for occupancy rights at Bluegreen-owned and other participating resorts. The Bluegreen Communities segment acquires, develops, and subdivides real estate property, as well as markets residential home sites to retail customers, who seek to build a home in a residential setting. It also provides financing to individual purchasers of VOIs and home sites sold by it. The company was founded in 1966 and is headquartered in Boca Raton, Florida.

<u>Recommendation</u>

Bluegreen Corporation should be able to achieve double digit earnings and revenue growth over the next several years. BXG is well positioned in a growing vacation ownership market within the United States. BXG continues to make investments into desirable vacation destinations in current and growing vacation markets. BXG's business model generates strong ROE, OM, and Free Cash Flows compared to the real estate/land development industry. BXG has an intrinsic value of $20.66; it is a buy recommendation for the portfolio.

Key Statistics	Oct. 2005
Weighting	2%
Market Cap	$505M
LT Debt/Capital	42%
ROE	17.46%
Operating Margin	13.41%
Current P/E	11
EPS 05E	$1.52
Rev 05E	$673M
Free Cash Flow	$82M
Morningstar Category	Financial Services

<u>Investment Thesis</u>

- **Strong vacation ownership growth in United States.** Since 1990 the average annual growth in vacation ownership has been 10.5% comparative to BXG's average of 11% vacation ownership growth. Sixty percent of BXG's customers are within the age range of 40-59 and the baby boomer market will be aging over the next decade. This represents a solid growing market for BXG and that will contribute to solid revenue and EPS growth for BXG.

- **Strong player in vacation ownership market.** BXG is well positioned in the vacation ownership market and has been entrenching themselves within growing vacation destinations such as South Carolina, Georgia, and Tennessee. BXG currently has resorts in prime vacation destinations such as Florida, Hawaii, and the Carolinas. Overall, BXG has reached only a five percent market penetration for those with income over $50000. BXG has a solid capacity for growth in the market and will continue to expand into new markets.

- **Rapidly growing, efficient business model.** BXG has experienced rapid growth within revenues and earnings over the past few years due to the increased demand for vacation ownership combined with expansion of their services into new markets. BXG currently generates solid ROE, Free Cash Flow, and Margins comparative to the industry.

Valuation

Using the discounted cash flow method an intrinsic value of $20.66 was computed using a growth rate of 17.5% for the short term and flattening out towards a 5% long term growth rate. This indicates that the stock is currently undervalued by 26.6% compared to the computed intrinsic value.

Risks

- **Economic conditions.** The entire real estate industry is always exposed to the risks associated with levels of unemployment, discretionary disposable income, consumer confidence, availability of financing, and interest rates. Companies are also exposed to risks associated with natural disasters such as hurricanes that could wipe out resorts at any given time.

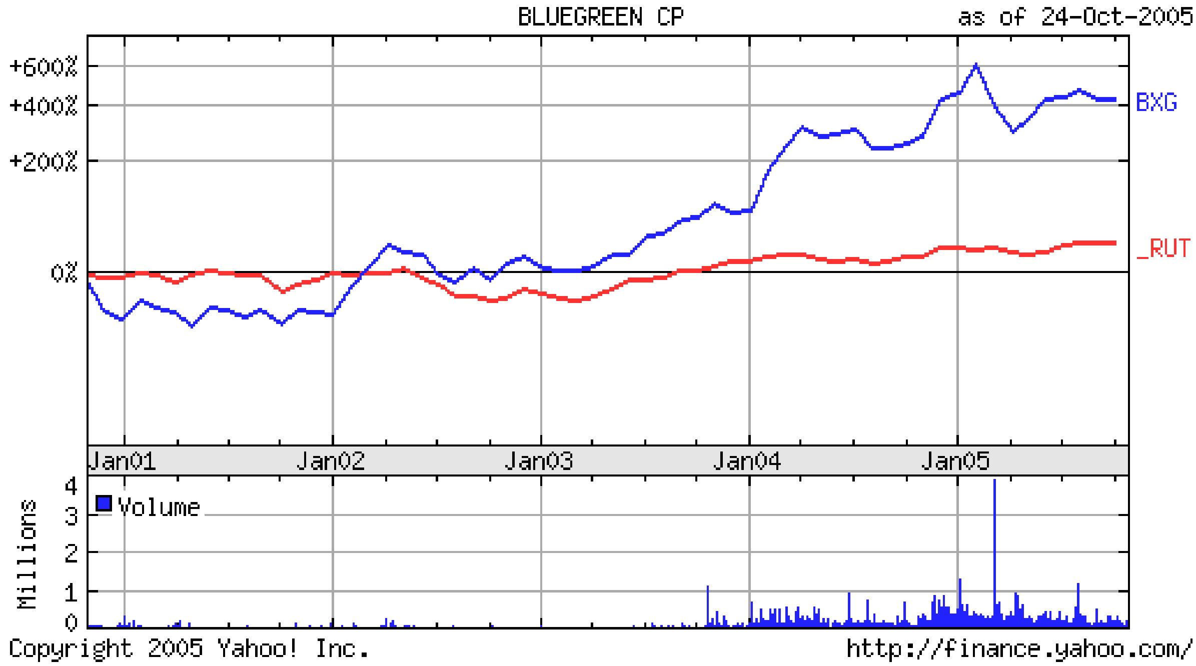
- **Competition and Pricing.** BXG has numerous competitors that could take away customers and sales from BXG. Also with the potential real estate bubble bursting could lead to a disarray in pricing as well as financing for BXG and other companies.

Management

The management at BXG has been an efficient group ever since its inception. Their current CEO, George F. Donovan, has been in that position since 1993 and has done a sufficient job of running the company.

Outlook and Growth Assumptions

Revenue is expected to grow between 8-12% and EPS is expected to grow between 10-15% in the years to come. Current estimates for 2005 include revenues of $673M and EPS of $1.52. With a solid business model and a strong initiative to expand into new markets, BXG is a buy recommendation.



Ownership Breakdown	
% of Shares Held by All Insider and 5% Owners:	36%
% of Shares Held by Institutional & Mutual Fund Owners:	55%
Number of Institutions Holding Shares:	96

Total Institutional Holders

HENNESSY CORNERSTONE GROWTH FUND	952,600	3.13	$16,584,766	30-Jun-05
DFA U.S. SMALL CAP VALUE SERIES	927,398	3.05	$15,635,930	31-May-05
KEELEY SMALL CAP VALUE FUND, INC.	307,500	1.01	$5,424,300	31-Aug-05
LAUDUS TR-LAUDUS/ROSENBERG U.S. SMALL CAPITALIZATION FD	252,300	0.83	$3,242,055	31-Mar-05
LEGG MASON CHARLES ST.-BATTERYMARCH US SMALL CAP EQUITY	235,000	0.77	$3,019,750	31-Mar-05

<u>**Bank Atlantic Bancorp**</u>
BBX
Price: $13.82 ($13.51 - $20.12)

Date: 10/26/05
Russell 2000: 633.15 (558 – 688) **Steven Holtkamp**

BankAtlantic Bancorp, Inc. operates as a financial services holding company that offers consumer and commercial banking, brokerage services, and investment banking. Its principal subsidiaries include BankAtlantic (bank) and RB Holdings, Inc., a holding company of Ryan Beck & Co., Inc. (Ryan Beck). The bank attracts checking and savings deposits; originates commercial real estate and business loans, and consumer and small business loans; purchases wholesale residential loans; and makes other investments in mortgage-backed securities, tax certificates, and other securities. As of March 1, it offered these services through 74 branch locations in Florida and operated approximately 200 ATMs. Ryan Beck engages in underwriting, distribution, and trading of equity and fixed income securities. It also provides general securities brokerage, and consulting and financial advisory services to financial institutions and middle market companies. In addition, Ryan Beck offers equity research in the financial institutions, healthcare, and consumer product sectors. The company was organized under the laws of Florida in 1994 and is headquartered in Ft. Lauderdale, Florida.

<u>**Recommendation**</u>

Key Statistics	MRQ '05
Portfolio Weighting	2%
Market Cap (M)	826.64
Debt/ Equity	2.20
Dividend Yield	1.12%
NIM	3.96%
Efficiency Ratio	84.73%
ROE	12.60%
ROA	0.99%
LTG Rate	12%
P/E '05E	11.63
P/E '06E	14.35

I believe that Bank Atlantic is undervalued by the market roughly 20%. This has been caused by an overreaction by the marketplace on news that affected the bank's short term earnings. The market acted in response to three main items. First, management stated that the record 2Q earnings recorded by Ryan Beck Co. would not be sustainable. Secondly, the bank has slowed loan growth for pricing purposes, and lastly the bank's low cost deposit growth, which is usually at 30%, fell to 20%. I see all these as only a short term hurdle for the company, and I do not see any long term deterioration of franchise value. At current pricing I believe that BBX is undervalued. I am setting a target price of $17 for Bank Atlantic, and recommending a 2% weighting in the portfolio.

<u>**Investment Thesis**</u>

Bank Atlantic goes by the slogan "Florida's Most Convenient Bank," a slogan that describes BBX's growth strategy. In 2002 the company initiated this strategy to attract cheaper deposits. It has been successful in growing these low cost deposits by 30% annually since the strategy's implementation. Going forward lower cost funds will help the expansion of NIM. However, this is a mixed bag since this type of strategy is plagued by higher marketing, and operating expenses. Going forward in 4Q'05, and into 2006 the company is planning on increasing marketing expenses by $5 million each quarter.

Loan growth is merely a reflection of the overall deposit environment. In 2Q'05 management stated that low cost deposit growth would grow at 20%. The St. Louis Fed has reported that overall checkable deposits have gone from a growth of 4.7% in 2004 to a 1.8% decrease in August of 2005. Due to this slower deposit growth, management has slowed loan growth. Pricing would not produce margins which management deemed suitable using more expensive forms of financing such as FHLB borrowings. Loans are currently 124% of deposits. As BBX grows their deposits I see this ratio coming closer to 1:1. The cumulative affects should be very beneficial to the firm in the form of higher NIM, and eventually interest income.

Attracting low cost deposits provides for significant fee income. The mix of Ryan Beck's income, and benefits from checkable deposits has translated into non-interest income as a percent of total revenue in the mid 60% range since 2002. This provides the bank with a base of capital when there are significant pricing pressures. Since the purposeful loan production slowdown, this large amount of non-interest income is comforting.

Valuation

BBX is estimated to earn $1.17 in 2005, and $.94 in 2006. Bank Atlantic is sacrificing short term earnings in favor of long term growth. This was demonstrated by allocating higher marketing expenses in 2006, and slowing loan production due to unfavorable pricing. Market overreaction has provided a buying opportunity. Bank Atlantic trades at 188% of book while its peers trade at a median P/B of 250%. A price more in line with its peers of 240% of book is warranted which sets a price target of $18.

Management

Alan Levan. Chairman/CEO. Salary 481k. Joined Bank Atlantic in 1987 as President. He currently holds 1.2% of outstanding shares.

James White. Exec. VP/CFO. Salary 347k. Joined Bank Atlantic in 2000. Before joining the bank, James held various positions within the banking sector including CFO, and CEO of First National Bank & Trust.

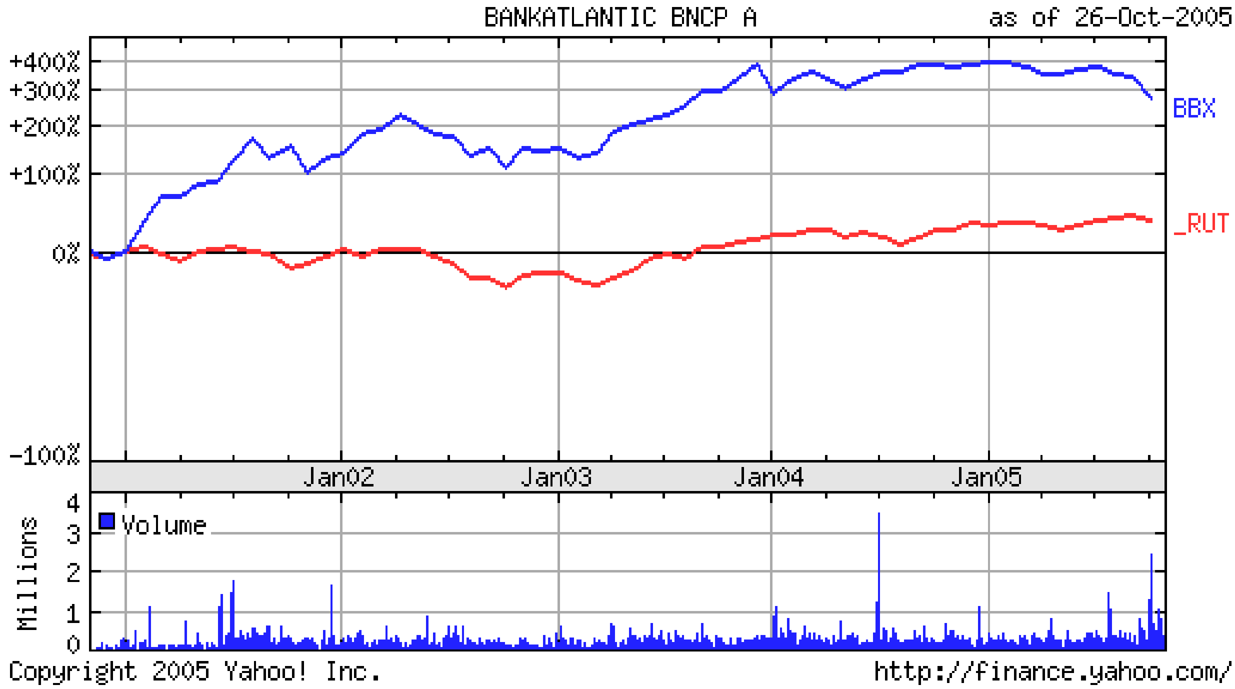
Risks

Interest Rates. Inherent to all financial institutions is the risk that interest rates will move unexpectedly. The bank is positioned well for rising rates into the future, however, rising rates could hurt the banks overall loan production.

Risk in generating deposits. The strategy in which BBX has implemented has the risk of being unsuccessful. Higher marketing expenses could not provide the company with the anticipated results and therefore have been spent erroneously.

Diversification Risk. Bank Atlantic is only exposed to the Florida market. Economic downturns in the area would affect the bank adversely.

Earnings Volatility. Although Ryan Beck's income as a part of the whole is a low 20%, their earnings are volatile, making accurate earnings estimates difficult.



Major Holders

Holder	Shares	% Out	Value	Reported
THIRD AVENUE VALUE FUND, INC.	835,000	1.50	$14,245,100	30-Apr-05
Oppenheimer Quest for Value Fd-Oppenheimer Small & Mid Cap V	750,000	1.35	$12,795,000	30-Apr-05
PUTNAM SMALL CAP VALUE FUND	605,000	1.09	$10,732,700	31-May-05
DREYFUS VARIABLE INVESTMENT-DEVELOPING LEADERS PORTFOLIO	600,000	1.08	$10,764,000	31-Jul-05
PUTNAM VARIABLE TRUST-SMALL CAP VALUE FUND	529,200	.95	$10,028,340	30-Jun-05
EVERGREEN GROWTH FUND	492,700	.88	$8,572,980	31-Mar-05
ARTISAN SMALL CAP FUND	459,700	.82	$7,998,780	31-Mar-05

<u>Korn/Ferry International</u>

KFY

Price: $16.25 ($13.55-$21.86)

Fiscal Year Ends: April

November 1, 2005 Tim Wojs

Russell 2000 Index: 638.41 (558.36-688.51)

Korn/Ferry International is the global leader in executive search and placement services. KFY provides executive, professional, and middle-management recruitment services globally to both large and small companies. They also offer executive strategy and coaching services. With 35 years of experience, KFY has expanded operations to 70 offices worldwide, including position in Europe, Asia, and South America.

Key Statistics	Oct. 2005
S&P Rating	B-
New Portfolio Weighting	**2% ==>3%**
Market Cap	651.26 million
Debt/Capital	20%
Dividend Yield	0%
ROE LTM	17.13%
LT Growth Rate	15%
EPS '05	$0.90
Est. EPS '06	$1.11
Est. EPS '07	$1.26
Average Volume	405,685
Shares Outstanding	39.1 million
Morningstar Category	Business Serv.

Recommendation

I continue to believe that KFY can continue to achieve consistent growth (12-15%) in the next couple of years, although, not at the rates that were seen in fiscal '05. Nevertheless, with its strong balance sheet, extensive global network, and high reputation in its industry, Korn/Ferry is a strong small-cap investment. Its leading position in the executive recruiting industry will drive its growth. The fact that the stock price has fallen considerably since its earnings report on September 7, 2005, but maintains its street fair value estimates of $18-23 makes an investment even more attractive. I think that KFY is undervalued for a company of its stature in its industry. I would like to increase our opening 2% position in Korn/Ferry International by 1% to 3%. I believe that the reason for the recent price decline is not because of a decrease in fundamentals, but because of buy-side fears of a looming recession. When the economy went into a recession back in 2000, KFY's stock fell drastically and hurt a lot of portfolio managers. I think that this event still lingers in investor's minds and was the reason for recent sell-off. In my opinion, the economy is still strong. Because of investor fears and no change in fundamentals, I believe that KFY is an attractive buy and we should increase its weighting to 3%.

Investment Thesis

- **Has some of the strongest financials in the industry.** Compared to the industry and its closet competitor (HSII), Korn/Ferry has sound financials that look extremely attractive. Operating margins for fiscal '05 are 13.8%, compared to HSII's 8.58%, and the industry average of 3.98%. Gross margin has consistently been in mid-30s. KFY's quick ratio is 1.78, implying that current financial liabilities will be met. Free cash flow almost tripled this past year, going from $29million to $80.3million.

- **Experience counts.** Korn/Ferry has been in the executive recruiting business for over 35 years. There are currently 2.9 million executive profiles in KFY's database. Not only does KFY have a superb reputation for finding top quality talent, it also has an extensive global network, which attracts larger firms. According to Morningstar, 47% of KFY's clients are Fortune 500 companies. With a strong reputation and vast global infrastructure, Korn/Ferry can accommodate larger clients more effectively than the smaller players in the industry, making it more attractive to its customers. Most companies in the industry deal with client companies exclusively, so the emphasis on effective recruiting for repeat business is high. New computer software technology, that may not be available with smaller firms, has recently been implemented and makes searches much more efficient as well.

- **Ability to cross-market its products.** KFY has built a reputation of being the leader in executive recruiting services. With more attention being focused on its middle-management (Futurestep product) recruiting services, KFY can take full advantage of past customer relationships. With client companies relying exclusively on one recruiter to fill its positions, KFY's ability to provide not only executive placement, but also middle-management services, makes it appealing to these firms.

- **Long-term industry trends are favorable.** In the next five to twenty years, the baby boomer population will be retiring, creating a void in the work force, especially in the executive and middle-management areas. Client companies will need to be able to fill these positions with experienced talent. Outsourcing this responsibility to more qualified companies like KFY is likely.

Valuation

Due to the high cyclicality of the recruiting industry, drawing on past revenue and earnings growth trends is uninformative for the most part. Because business tends to fall in-line with the overall economic cycle, looking at something like the employment cycle would be more beneficial. August '05's unemployment rate was the lowest in 4 years at 4.9%, showing that the market is still tightening. This translates into what I think will be constant growth for the next year or two. KFY is trading at $15.74, which is a healthy discount from the Morningstar's fair value estimate of $18 and Baird's estimate of $22. The P/E is 16.24, which is below the industry average of 23.23. Street consensus estimates for estimated EPS in '06 and '07 are $1.11 (23.33% yr/yr) and $1.27 (14.4% yr/yr) respectively. A long-term growth rate of 15% is foreseeable.

Risks

- **High cyclicality of recruiting industry.** The recruiting industry is highly cyclical. According to Michael Carney, an employment analyst, "the fundamentals of the sector are relatively slow," but "the stocks move a lot faster." This fast movement is influenced by bad economic news and the release of monthly employment numbers.
- **Low barriers to entry**. There are virtually no barriers to entry if a company wanted to enter the recruiting business. The importance placed on relationships is extremely high, but the cost of entering this industry is relatively low.
- **Increased competition could lead to price pressure.** With increased competition, competing firms may cut prices in order to obtain market share. This could hurt KFY's profitability. But with their extensive global network and resources, KFY offers a superior service to its customers. Reassuring the client companies that better recruiting service will be realized at a slightly higher price is essential.

Management

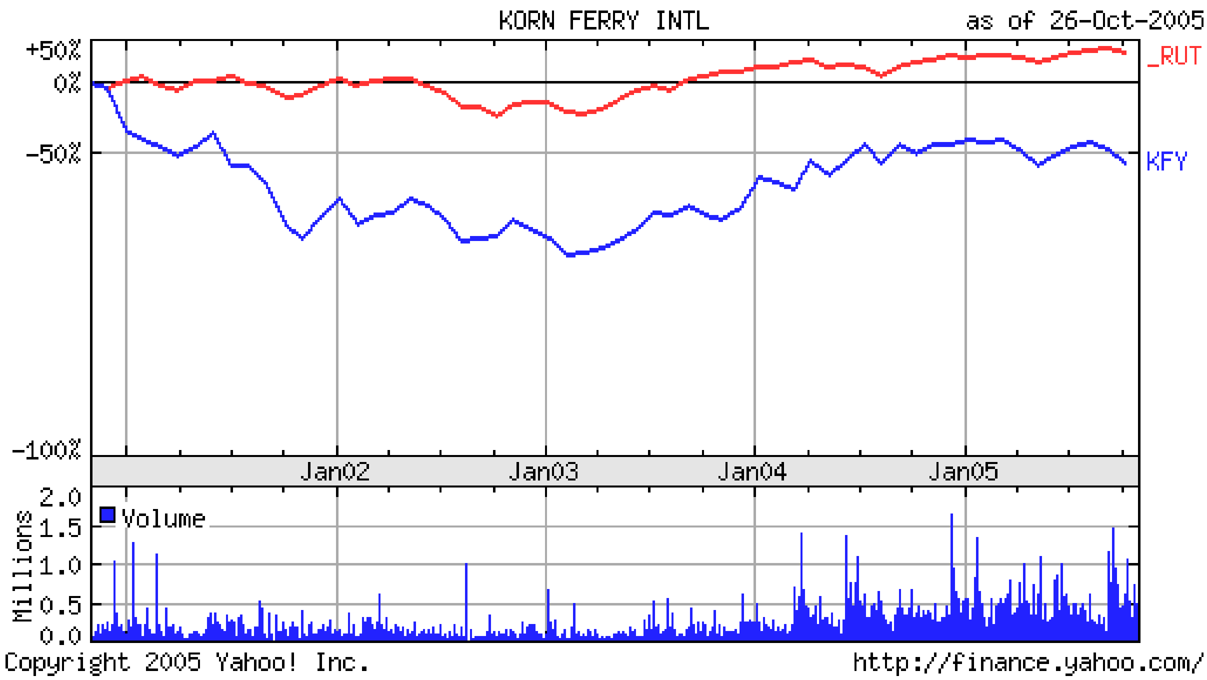
Paul Reilly, former CEO for KPMG International, has been the CEO of Korn/Ferry for a little over four years now. The current management is responsible for the KFY's recent growth and success. The company's executive compensation is one of the highest in the industry, with Reilly receiving a bonus of $1.05million in 2004.

Outlook and Growth Assumptions

- For the first quarter of fiscal '06, KFY's earnings beat consensus estimates by $0.01 ($0.27 reported to $0.26 estimated), which translates into growth of 28.6 yr/yr.
- Revenues were up 19% yr/yr, rising to $122.2 million.
- A softer than expected forecast for the second quarter of fiscal '06, which was due largely to the slower demand for KFY's services during the vacation season of late summer. Executives usually defer their recruiting services until the fall.

Long-term financial goals:

- Growth rate of new clients in the upper-single digit to lower doubled digit range. Revenue growth of 15% long-term is expected.
- Margins should continue to rise above competitors as KFY's new software and economies of scale boost efficiency.



Stock Ownership

Directors and Execs:	
All directors and executive officers as a group (15)	3.77%
Institutional:	
Fidelity Independence Fund	4.22%
Vanguard Explorer Fund	2.15%
Fidelity Advisor Small Cap Fund	2.09%
Price (T.Rowe) New Horizons Fund	1.68%
Mutual Fund	
Barclays Bank PLC	7.79%
Legg Mason	4.05%
Seligman J.W. & Co.	3.95%
SPO Advisory Corp.	3.71%

Actel Corp.
ACTL
Price: $13.64 (13.34 – 18.64)

October 26, 2005 David Trotter
Russell 2000: 642.00 (558.36 – 688.51)

Actel designs, develops, and markets field programmable gate arrays (FPGAs) and supporting products and services. FPGAs are used by manufacturers of automotive, communications, computer, consumer, industrial, military and aerospace, and other electronic systems to differentiate their products and get them to market faster. Actel is the leading supplier of FPGAs based on Flash and antifuse technologies, and are the leading supplier of high reliability FPGAs. Actel's strategy is to offer innovative solutions to markets in which their technologies have a competitive advantage, including the value-based and high-reliability FPGA markets. In support of our FPGAs, Actel offers intellectual property (IP) products; design and development software; programming hardware; debugging tool kits and demonstration boards; a Web-based Resource Center; and system design, online prototyping, and programming services.

Recommendation

Key Statistics	October 2005
Portfolio Weighting	2%
S&P Rating	N/A
Market Cap.	$361 mill
LT Debt/Total Cap.	0%
Dividend Yield	0%
P/E Fiscal '05E	40x
P/E Fiscal '06E	26x
EV/Sales '05E	1.2x
EV/Sales '06E	1.0x

I believe Actel will be able to achieve 10 to 15% sales growth for the next several years due to strong demand for the company's FPGA products. The company has a strong balance sheet with $5.99 of cash a share and no long-term debt. Actel will also start to improve margins as heavy spending in R&D in recent years will begin to take effect in the form of new products. The increase in operating expense as a percentage of sales will be significantly less than it has in the past. Actel is trading at discount to its peers on many valuation metrics. Actel is undervalued considering its deep price discount to its peers and superior market position. I have given it a target price of $20.00 and a lower limit of $11.00.

Investment Thesis

- **Market Leader in Flash FPGAs and Antifuse FPGAs.** Actel's Flash devices are nonvolatile and reprogrammable, unlike other products that are on the market that are either volatile or non-reprogrammable. The company's antifuse FPGAs are leading the market with high performance, low power consumption, and high reliability.
- **Discount to Peers.** Actel is valued at 1.0x '06 EV/Sales, while Xilinx and Altera are valued at 4.9x and 4.3x respectively. From a Price to Book standpoint Actel is trading at 1.3x '06, while Xilinx and Altera are 3.2x and 4.5x respectively.
- **Security Features.** The company's single-chip FPGAs have unbreakable security. Taking apart the devices reveals only the Flash cell, not the contents. The antifuses that form the interconnection within their antifuse FPGAs cannot be electrically probed or visually inspected. Additionally, there are special security fuses that are hidden throughout the fabric of the Flash and antifuse devices.
- **Economic moat.** Approximately 25% of Actel revenue is generated from aerospace and military sales. In order to enter either one of these markets competitors would need to go

through rigorous testing and red tape. Additionally, the cost of switching FPGA suppliers would be difficult for some customers.

Valuation

- **Price to Book.** 1.3x P/BV for both ’05 and ’06.
- **Enterprise Value to Sales.** 1.2x ’05 EV/Sales and 1.0x ’06 EV/Sales.
- **Discounted Cash flow.** Using discounted cash flows, I arrived at a price of $19.71. That assumes a discount rate of 9.5% and a long term growth rate of 10 to 15%, and terminal growth rate of 3.11%.

Risks

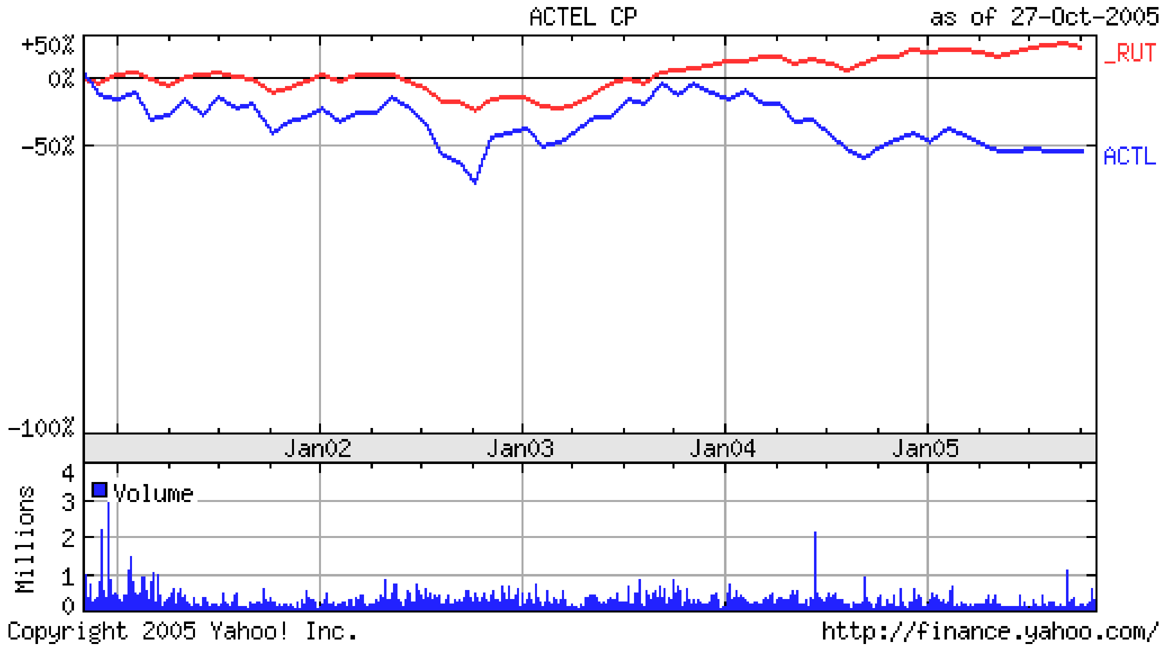
- Booking and shipping uncertainties make quarterly revenues difficult to predict. Adding to the uncertainty is the military and aerospace shipments tend to be large and irregular. Also, the industry is poised for more entrants as FPGAs popularity grows.

Management.

- **John C. East**, 60, President and Chief Executive Officer
- **Esmat Z. Hamdy**, 55, Senior Vice President of Technology & Operations
- **Anthony Farinaro**, 42, Vice President & General Manager of Design Services
- **Paul V. Indaco**, 54, Vice President of Worldwide Sales
- **Dennis G. Kish,** 41, Vice President of Marketing
- **Barbara L. McArthur**, 54, Vice President of Human Resources
- **Fares N. Mubarak,** 43, Vice President of Engineering
- **David L. Van De Hey,** 49, Vice President & General Counsel and Secretary

Outlook and Growth Assumptions:

- **Sales growth.** Assuming sales to grow 11% in 2005 to 184 compared to 166 in 2004. In 2006, I estimate that sales will grow by 15%. I think that sales will continue to grow between 10% and 15% for several years.
- **EPS growth.** I’m assuming that EPS will continue to grow around between 20 and 30% for the next several years. EPS will be driven by many years of research and development that will finally start to produce new products and improving margins.
- **Balance sheet.** Actel has a great balance sheet with more than $152 million in cash and no debt. Historically, Actel has used its cash to invest in new technology to solidify its role as a market leader and to repurchase stock. I think that due to the heavy investment in the most recent years they might consider shifting emphasis to share buy backs if the stock continues to stay undervalued.
- **Actel appears undervalued and a 2% portfolio weighting is recommended.**



Major Holdings

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	98%
Number of Institutions Holding Shares:	110

Top Holders (% of shares outstanding):

- Neuberger & Berman Genesis Fund: 5.54%
- Franklin Strategic Series-Small Cap Growth Fund II: 2.86%
- Managers Special Equity Fund: 2.53%
- Franklin Templeton Var Ins Pr-Frnkln Small-Mid Cap: 2.33%

Stratasys Inc

SSYS

Price $25.43 ($24.52 – $37.50)
Fiscal Year Ends: December

October 25, 2005 — Christopher Cunningham
Russell 2000: $642.73 — Software

Stratasys Inc develops, manufactures, designs, markets, and services its own line of rapid prototyping devices. These devices allow customers, such as engineers, to quickly print 3D models or generate models out of plastic and other materials of products of their own design directly from a computer workstation. This technology allows for more efficient model production and testing for SSYS' clients, which saves time and money in R&D. Such clients include groups in the automotive, industrial, recreational, electronic, aerospace, medical, and consumer products industries. Stratasys gained momentum after CEO Scott Crump patented his Fused Deposition Modeling (FDM) technology in 1989 which has allowed SYSS to offer more options for rapid prototyping to its clientele group. The company is headquartered in Eden Prairie, Minnesota.

Recommendation

Stratasys is a promising company with a profitable history. I feel that investors in the market do not yet fully realize the potential of this company, nor its true value. The impressive growth in the last two years has been a great boon to the stock as well as the company's strong relative cash flow growth. Lately SSYS has enjoyed particularly strong performance and growth, adding value to earnings. Based on a computed value using the discounted cash flow model, I believe the fair market value of this stock to be $33.20.

Key Statistics	October 2005
Weighting	2%
Beta	1.50
Market Cap.	$266.12 mil
Debt/Total Cap	0%
Dividend Yield	N/A
ROE	11.98%
ROA	8.57%
P/E Fiscal '05E	22.55
P/E Fiscal '06E	18.02
S&P Sector	Software

Investment Thesis

- **Great technology that offers a new, more efficient method to consumers.** Stratasys' Fused Deposition Modeling (FDM) and Genisys technologies are the bases of the company's rapid prototyping systems. One of the benefits of this technology the space and facility requirements needed to run them, both of which are minimal. These products are designed to inexpensively offer clients the ability to produce rapid prototypes in an office setting without grandiose facility modification. The group is constantly updating, modifying, and improving previous technologies, such as the Titan system that was updated in December of 2003 that improved build speed by 50%. The company has produced or improved 2 – 3 technologies every year for the last few years running. On October 17th, CEO Scott Crump announced the company's new product, RedEye RPMtm, "the world's largest rapid prototyping and part building service."

- **Strong ethical background.** The company touts strong ethical ties and has never had an issue with stewardship or compliance. A copy of a guide to correct business conduct and ethical practice is readily available on the company's website and though brief, promotes the group's strong desire to abide government laws and regulations and continue ethical business relationships with its clients and investors. Management is not overly compensated for its performance; CEO Scott Crump makes just over $250,000 a year and has a little more than $400,000 in exercisable options.

- **Absolutely no debt on the books.** SSYS has an impressive financial history and has had no material debt accumulated on its balance sheet throughout the last 10 years. This is highly unusual for a company in the Software industry, and it may provide an opportunity for management to take out debt if the need arises to fund future ventures or acquire new technology or businesses.

Valuation

Due to a number of factors, I have decided to be a little more conservative with my stock valuation for this company. Investors historically (especially recently) have been very wary of the slightest movement towards weaker earnings and margins as we saw prominently displayed early on this year. The consensus 5 year growth rate for the company is 25.5%. Using a slightly longer term approach than this, I expect the company will grow at a 7% annual rate for this term. Using these figures and a WACC of 11%, I estimate the company's fair value to exceed $33. This represents a nearly 30% increase in Stratasys' current stock price of $25.

Risks

- **Gross Margin Deterioration**. The company has had fluctuating gross margin growth and decline over the last 10 years and recently has lost some profitability in its margins. If this trend continues it could adversely affect the stock price of SSYS. While this is a concern, revenues have nearly quintupled in growth since 2002, while gross margins have dropped roughly 3%. Because of the immense growth SSYS has experienced and is expected to continue in the near future, I am less concerned with the company's slightly falling margins. If this does continue however I may have to revise my investment recommendation.

- **New product risk.** As with the development of any new technology, there is a certain level of risk assumed in customer acceptance; if consumers do not find as much value added as they desire for the price asked they will not buy it. Assuming management's guidance for this fiscal year's revenues includes expected revenues generated from this new product RedEye RPM^{tm} unveiled last week, SSYS' revenues and consequently stock price would be adversely affected if sales did not reach expected levels.

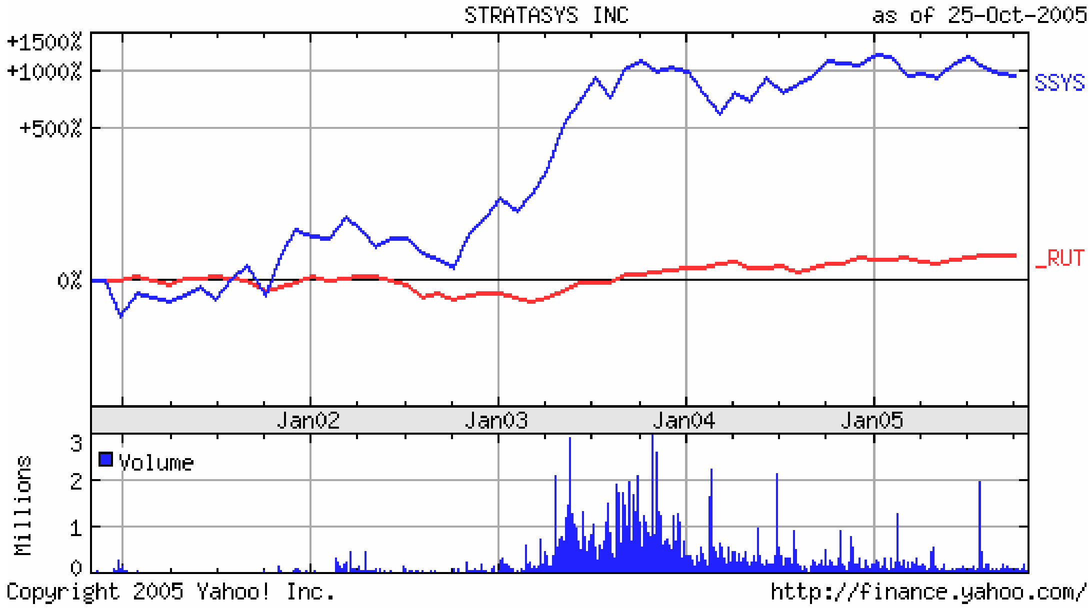
- **Foreign Currency Risk.** SSYS does have some European operations, and fluctuations between the Euro and Dollar may slightly affect earnings before taxes.

Management

CEO Scott Crump founded SYSS in 1988 with the development by him and his wife of the FDM technology. He serves actively on the Board of Directors and is surrounded with a competent, experienced team of managers.

Outlook and Growth Assumptions:

- **Sales Growth**. Total revenue increased by 38.20% in FY '04 and 25% growth is expected this year.
- **EPS Growth**. Estimated EPS growth is 18.9% this year and 25.1% next FY. The majority of earnings growth (roughly 30%) is expected to be realized in the December Quarter.



Shareholder	**%**
Lord Abbett Small Cap Blend Fund	3.35
John Hancock Small Cap Equity Fund	3.30
Merrill Lynch Global Small Cap Fund, Inc.	2.71
Allianz FDS – CCM Emerging Companies FD	2.53
Oppenheimer Discovery Fund	2.22

Major Holdings

% of Shares Held by All Insiders and 5% Owners:	12%
% of Shares Held by Institutional & Mutual Fund Owners:	100%
Number of Institutions Holding Shares:	98

<u>Oregon Steel Mills, Inc.</u>

OS

Price: $23.85 (13.01 – 29.93)

Fiscal Year Ends: December 31

October 27, 2005 Michael Hepp

Russell 2000 Index: 624.03 (570.03 – 688.51)

Oregon Steel Mills and its subsidiaries operates two steel mills and nine finishing facilities in the western United States and Canada. The Company manufactures and markets one of the broadest lines of specialty and commodity steel products of any domestic steel mill company. The Company emphasizes the cost efficient production of higher margin specialty steel products targeted at a diverse customer base located primarily west of the Mississippi River and in western Canada.

<u>Recommendation</u>

Oregon Steel Mills is well positioned in the specialty steel industry. Demand for the Company's large-diameter pipes continues to remain strong. This will be an attractive area for growth, as the Company prepares itself to handle the growing demand and its huge order backlog. Steel prices continue to remain favorable, which will keep margins in line with management's goals. Along with improvement to existing mill and the opening of new mill, revenues are expected to grow by 17% and result in an estimated EPS of $4.60. With an intrinsic value of $30, Oregon Steel Mills is a buy recommendation.

Key Statistics	Oct. '05
Portfolio Weighting	2%
S&P Rating	B+
Market Cap	$839.21M
LT Debt/Equity	65.79%
Dividend Yield	0.0%
ROE LTM	37.28%
P/E Fiscal '05E	7.89
P/E Fiscal '06E	6.09
Morningstar Sector	Ind. Materials

<u>Investment Thesis</u>

- **Pipeline construction –** With the expansion of the Camrose, Alberta mill and the construction of a new mill in Portland, Oregon that are both expected to be finished in early 2006, Oregon Steel Mills is poised to meet the demand for large-diameter high-pressure pipes used in the construction of oil and gas pipelines. The market for these products is in a growth phase that is expected to continue for several years, as energy and utility companies expand pipelines to address the energy needs of the western U.S. and Canada.
- **Margin improvements –** Capital expenditures to improve new and existing mills will hurt income in 2005. These measures to improve production will position the Company to provide a broader line of higher margin products. Also, scrap metal prices are projected to fall in the coming year after reaching a peak in 2Q05.
- **Steel prices remain above their historic averages –** The steel industry saw prices fall to about $200/ton in the late '90s, forcing many steel producers in the U.S. to declare bankruptcy. Due to heightened demand in the U.S. and internationally, the price of steel rose well above the $400 historic average in 2004. Although steel prices have come down since '04, prices will likely remain above their historic averages.

Valuation

Based on a free cash flow to equity model, the intrinsic value of Oregon Steel Mills is $30 versus a current price of $23.85. This model was built off the assumptions of a 9.5% cost of capital and a 5% long term growth rate at maturity. Analysis of P/E ratios provides a similar valuation. Steel stocks have historically traded at low P/E multiples. The average P/E multiple for the major U.S. steel producers is about 6 time earnings. However, the specialty steel stocks have traded at slightly higher multiples. The average P/E for this subgroup is 9.86, with forward P/E's at a similar level. Given Oregon Steel's product mix leaning more towards a mix found in large diversified steel manufacturers, a P/E of 6.5 would be more appropriate in the valuation of the company. Applying this multiple to the 2006 estimated earnings of $3.60 per share provides a value of $30.

Risks

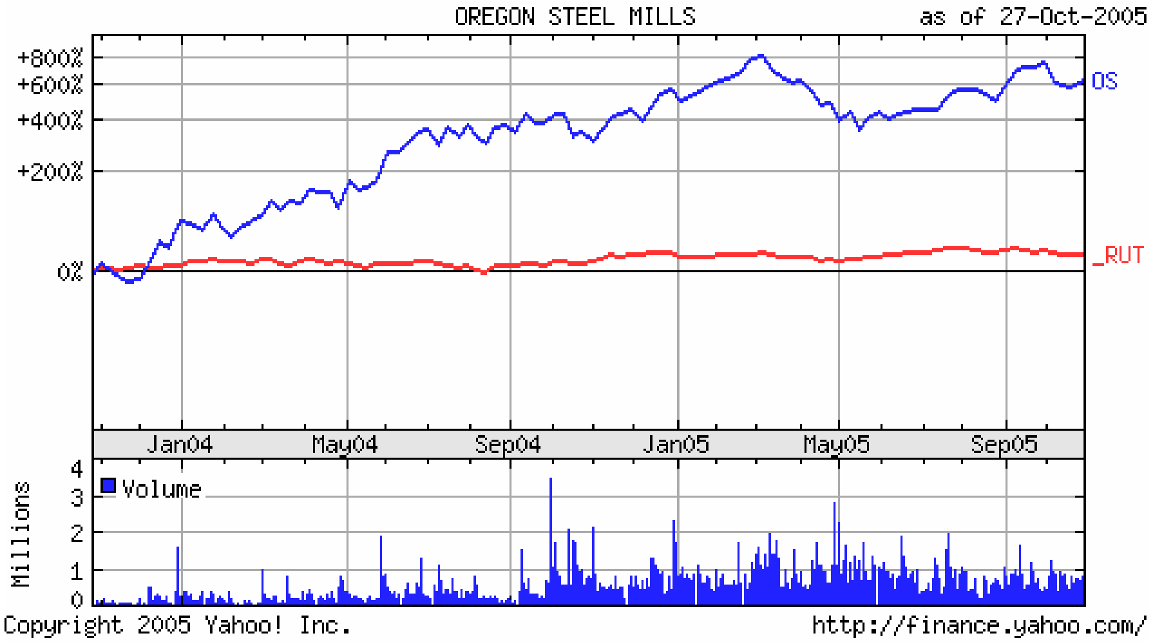
- **Steel prices -** Historical steel prices have not been favorable to U.S. steel producers. Due to excess capacity in the industry, steel prices were significantly lower in the past. In order for steel producers to weather any drops in the demand for steel, they must position themselves in such a way as to cut capacity without significantly eroding margins.
- **Raw material prices –** The cost of scrap and slab metal comprise of 75% of the total cost of the finished product. These prices are highly volatile and greatly affect the margins of the Company.
- **Interest rates –** The Company requires a significant amount of debt financing to expand production. Any significant increase in interest rates may affect future cash flows.
- **Import penetration –** Imports of steel rod greatly increased in the first half of 2005. Imported rod now holds a 40% market share. The Company's steel rod product line has been greatly affected by the imported steel taking market share. This same risk also applies to many products sold by the Company.

Management

President and Chief Executive Officer, James E. Declusin assumed his current positions in August 2003. His annual compensation in 2004 was 1.2 million, and he currently holds .113% of the Company's outstanding stock. Prior to his career at Oregon Steel, James Declusin held various management-level positions at California Steel Industries.

Outlook and Growth Assumptions

- The growth prospects in the market for large-diameter pipes should lessen the affects of a domestic slowdown in the demand for steel. Growth in this area is expected to continue for several years in the future, as oil and gas companies expand the infrastructure in the western U.S. As new production capacity comes online in 2006, Oregon Steel should reap the benefits from heightened demand and continue to benefit from a large order backlog.
- The 2005 estimated earnings per share of $3.88 is somewhat lower than the $4.03 per share seen in 2004. Assuming demand for large-diameter pipes remains strong in 2006, Oregon Steel should realize earnings per share of $4.60.



Major Holdings	
% of Shares Held by All Insiders:	.44%
% of Shares Held by Institutional & Mutual Fund Owners:	91%
Number of Institutions Holding Shares:	97

Top Institutional Holders

Holder	Shares	%	Value	Reported
FIDELITY LOW-PRICED STOCK FUND	1,196,574	3.37	$26,575,908	31-Jul-05
HENNESSEY CORNERSTONE GROWTH	931,000	2.62	$16,022,510	30-Jun-05
ROYCE OPPORTUNITY FUND	500,000	1.41	$8,606,721	30-Jun-05
WM GROUP OF FUNDS – WEST COAST EQUITY FUND	489,430	1.38	$11,000,386	31-Aug-05

SonoSite, Inc.
SONO
Price: $28.96 ($23.36 - $37.10)
Fiscal Year Ends: December 31, 2005

October 27, 2005 — Jaclyn Jensen
Russell 2000 Index: 642.73 (558.36 – 688.51) — Health Care Sector

SonoSite is the world leader in hand-carried ultrasound (HCU) technology. The company offers six types of HCU imaging systems to the medical profession for a range of uses including radiology, cardiology, obstetrics, gynecology, emergency medicine, surgery, critical care, internal medicine, and vascular medicine. Additionally, SONO offers HCU accessories and training to its customers. The product is intended as a replacement or supplement to the considerably larger and more expensive cart-based ultrasound systems currently on the market, in addition to being an innovation in markets where ultrasound systems were not previously used. The patented technology generates revenues both domestically and internationally with approximately 50% of sales originating in the United States.

Recommendation

SonoSite has a competitive advantage as the global market leader in HCU technology. The company's product offerings have been met with increasing success and its most recent system, MicroMaxx, is continuing that trend. Two product upgrades for the MicroMaxx system will be offered in the fourth quarter which will further fuel product demand. There are many potential drivers for near term price appreciation including: increasing sales growth figures, increasing margins, publicity and increasing support for HCU systems in the medical community, and an announcement that the company may be an acquisition target. SonoSite should trade at approximately $36.00, which represents a potential 24% gain on investment. Despite a positive third quarter earnings announcement today, the stock price declined along with the market making the company's current valuation even more attractive.

Key Statistics	27 Oct 2005
Market Cap	$451.540M
Shares Outstanding	15.592M
Average Volume	152,248
Beta	1.35
2004 Actual EPS	$0.25
2005 Estimated EPS	$0.33
P/E (TTM)	20.15
P/Book (Q2:2005)	3.42
Cash Flow/Share	$0.18
WACC	11.24%
Debt/Assets	0.00%
ROE	20.10%
Gross Margin	67.40%
3 yr Growth Estimate	30.00%

Investment Thesis

- **Leader in the HCU market.** Since introducing its first HCU system in 1999, Sonosite has captured over 60% of the global market share.

- **Acquisition Candidate.** The HCU product offerings introduced by SONO's considerably larger competitors have all been met with limited success. Sonosite's impeccable balance sheet, including over $50 million in cash and cash equivalents and no debt, combined with its product line, make it an attractive acquisition target for companies like GE, Phillips, and Siemens.

- **Increasing market for product.** Compared to the traditional cart-based ultrasound system, the HCU system is increasingly cost-effective, mobile, and easy to use. These factors combine to allow HCU sales to cannibalize the traditional ultrasound system sales of SONO's competitors, in addition to opening doors to medical markets that do not currently use ultrasound systems such as emergency medicine and cardiovascular disease management.

- **Higher margin systems.** Sonosite's two newest product offerings, TITAN and MicroMaxx both offer higher profit margins than the company's original product line. As sales of the new products make up an increasing portion of SONO's revenue stream, the company's margins will continue to increase.

Valuation

Based on my discounted cash flow model, SonoSite should be valued at $36.00 which indicates that the stock is currently undervalued by 19%. A relative valuation based on the forward PE of similar companies in the medical equipment industry confirms the discounted cash flow target with a valuation of $35.93 based on 2006 earnings. The average valuation of the six analysts providing a price target for SONO is $38.83, with actual price targets ranging from $37.00-$41.00. I believe that $36.00 is a reasonable one year price target for SonoSite.

Risks

- **Current Litigation.** SonoSite has be the defendant in a patent infringement lawsuit with Neutrino Development Corp since July of 2001. Case mediation was unsuccessful and a jury trial date has been set for the end of 2005. The company believes that the suit will be settled in its favor and therefore has not set up a reserve fund. A verdict against the company would adversely affect profitability.

- **FDA Regulation.** SonoSite's products must be approved by the Food and Drug Administration, a delayed or revoked approval would have a negative effect on revenues.

- **Competition.** SonoSite's competitors are all large, well known companies with substantial financial resources. While the competition has been unsuccessful to date in garnering a significant portion of the market share, they do have the resources to introduce a better product or to undermine SONO's market share by significantly lowering product prices. Changes in the competitive landscape would adversely affect the company's profitability.

- **Unstable historical profitability.** SonoSite has a history of unstable revenues, particularly concerning a skew towards fourth quarter revenues. The company also has a history of net losses, with 2004 being the first profitable year. Additionally, SONO has a tendency towards earnings surprises, many of which have been negative.

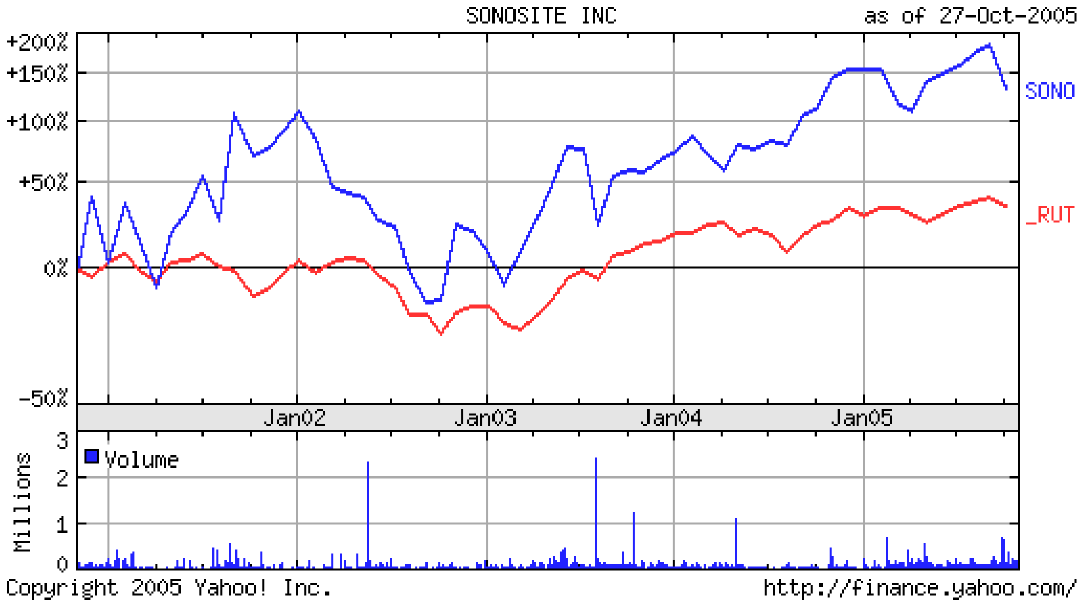
Management

Kevin Goodwin has been the CEO of SonoSite since it was spun off from its parent company ATL Ultrasound in 1998. Goodwin has a significant amount of industry experience including 11 years in management at ATL prior to the spin-off. The company has an experienced management team which was recently improved with the addition of Robert Massa as VP of Corporate Accounts. A former GE sales manager, SONO believes that Massa will be able to improve the effectiveness of the company's US direct sales force. The corporate governance of SONO is ranked better than 92% of Russell 3000 companies by Yahoo indicating that the company is shareholder friendly.

Other Notable Information

- The majority of the 2004 fourth quarter EPS of $1.42 is attributable to a one time tax benefit. On a purely operating basis, fourth quarter EPS was $0.21.

- SONO sells its products through a direct sales force of over 70 representatives in the United States, United Kingdom, France, Germany, Spain, Japan, Australia, China, and Canada. Additionally, SonoSite is developing strategic alliances with distributors to reach a broader customer base.



Equity Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	86%

Top 5 Holders

Holder	Shares Held	Percent of Shares Outstanding
Kopp Investment Advisors	1,496,035	9.59%
Amaranth Advisors	1,350,000	8.66%
Amvescap	1,153,700	7.40%
Brown Investment Advisors & Trust Co.	1,033,259	6.63%
WM Advisors, Inc.	761,188	4.88%

Southwest Water Company

SWWC
Price: $13.41 (9.46 – 14.99)
Fiscal Year Ends: December

October 27, 2005 Scott Kennedy
Russell 2000: 624.03

Southwest Water Company owns and operates rate-regulated public water utilities in California, New Mexico, Oklahoma, and Texas through its Utilities group; as well as owns wastewater facilities in New Mexico, Texas, and Alabama through its Services group. The company was incorporated in 1954, and is headquartered in Los Angeles, California.

Recommendation

I believe SWWC will be able to achieve high single digit annual revenue growth because of its favorable regulatory environment, as well as good growth potential in the area of wastewater services. The water utility industry has favorable long-term growth prospects and SWWC is at the head of the pack when it comes to rate revenue increases, expansion into competitive bidding for government contracts, and generating value for its shareholders. The stock should be valued at $14.50.

Key Statistics	Oct. 27, 2005
Portfolio Weight	1%
Market Cap.	266.7M
Dividend Yield	1.50%
ROA	2.56
ROE	4.57
P/E	34.8
EPS '05 est.	$0.38
EPS '06 est.	$0.43
Sector	Water Utility

Investment Thesis

- **Water regulatory rate hikes and customer growth.** The water utility industry is applying for and being granted revenue rate hikes from regulatory commissions. For example, one benefit from their recent acquisition of Alabama based Novus Utilities will be the 8% annual rate increases for the next 11 years. Southwest Water serves more than 2 million people in 36 states and their acquisition strategy will provide continued strong growth.

- **Expansion into wastewater services.** Wastewater operations are an area of growth potential within the water utility sub-sector. The services group makes up 63% of SWWC's total revenue and operates in a non-regulated competitive contract space to provide services to cities and municipalities. The group experienced a 95% contract renewal rate last year. Their strategic decision to expand into wastewater will continue to pay off especially if they are awarded government contracts for work on military bases.

- **Dividend growth.** Southwest has a history of paying a dividend, currently 1.5%. Last year, they increased it 10.5 percent. Also, the company has a dividend reinvestment plan that will provide additional shares at a 5% discount.

Valuation

Southwest Water Company should achieve annual earnings growth of approximately twelve percent over the next five years due to its success in rate hikes and integrating new acquisitions to their operations. Earnings per share projections are $0.38 for 2005 and $0.43 for 2006. I have valued the company's shares at $14.50.

Risks

- **Non-regulated business segments within the utility industry carry higher contract risk.** The services group offers growth prospects to Southwest's utility portfolio, but also exposes them to contract competitions in which they may not be selected. Some municipalities are uncomfortable with the idea of outsourcing their water operations because of the increased chances of water contamination. Therefore, Southwest will be forced to market itself effectively to show that they can add value, decrease costs and maintain quality.

- **Future rate hikes are not guaranteed.** While the California Public Utility Commission has been helpful recently in granting rate increases, and the acquisitions of Monarch Utilities in Texas and Novus Utilities in Alabama will also provide rate increases, these regulatory bodies are not obligated to continue such favorable recommendations as they are beholden to the public.

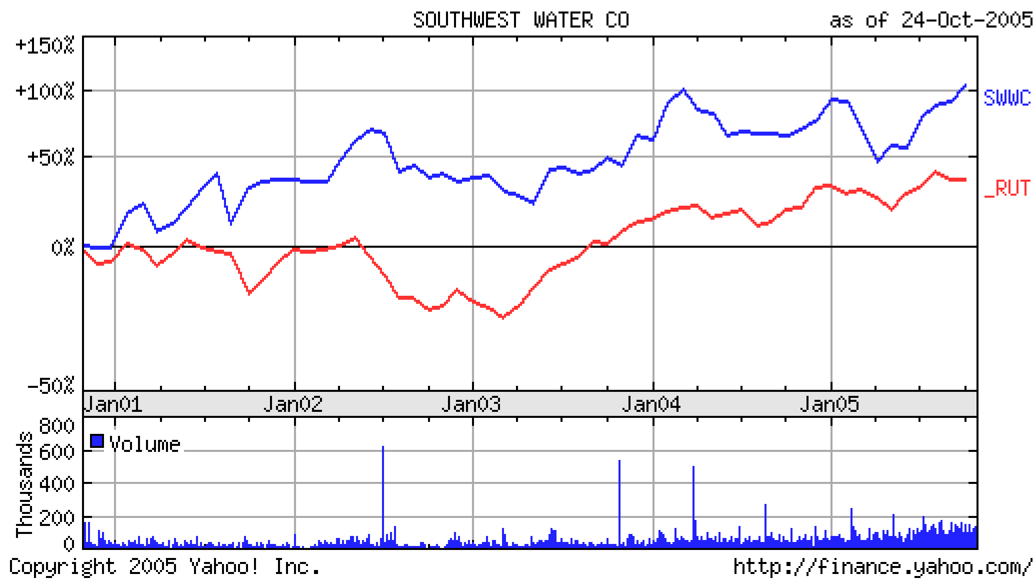
- **Adverse weather conditions.** Dry conditions as well as excess waterfall will have an effect on Southwest's operations. Droughts would lead to water conservation and a decrease in demand, while excess rainfall may hinder their service operations or projects being undertaken to improve infrastructure.

Management

Anton Garnier is the current CEO and Chairman of SWWC's Board. He has more than 30 years of experience in the water utilities industry and issues related to the politics of water supply and production. He has been President and Director of Southwest Water Company in 1968, after serving 2 years as a sergeant in the US Army.

Outlook and Growth Assumptions

- Utility group revenues increased 9%; services group increased 47%
- Having operations in multiple states will spread the impact of state specific events/risks
- Net income from continuing operations of $7.9 million, compared to 4.5 million last year
- Operating revenues have advanced 19% in the first half year over year
- Expected 2005 revenues of $195 million, compared to $188 last year
- Growth from utilities group will make it approximately 42% of the company in 2005
- Dividend payouts will increase
- Project costs and security costs to protect plants from terrorists will solidify rate increases
- EPA projected that $277 billion will be needed over the next 20 years to upgrade and maintain US water infrastructure systems.



Major Shareholdings

Shares Outstanding	20.00 Mil
Institutional Ownership (%)	25.20
Top 10 Institutions (%)	19.34
Mutual Fund Ownership (%)	13.43

Top Institutional Holders

Holder	Shares	%	Value	Reported
PRICE (T.ROWE) SMALL-CAP VALUE FUND	1,224,998	6.21	$14,491,726	30-Jun-05
Premier VIT-OpCap Small Cap Port	138,600	.70	$1,445,598	31-Mar-05
DFA U.S. MICRO CAP PORTFOLIO	133,961	.68	$1,425,345	31-May-05

Vineyard National Bancorp

VNBC

Price: $28.94 ($26.42 - $34.97)

Date: 10/27/05
Russell 2000: 624 (558 – 688) **Steven Holtkamp**

Recommendation

Key Statistics	MRQ
Portfolio Weighting	**2% ==> 4%**
Market Cap (M)	278.74
Debt/ Equity	4.63
Dividend Yield	0.83%
NIM	4.36%
ROE	20.18%
ROA	1.25%
LTG Rate	23%
P/E '05E	14.75
P/E '06E	12.00
Morningstar Sector	Financial Services

Vineyard National Bancorp has a proven track record and I believe that they will be able to grow at 20% - 25% into the immediate future. In line with my earlier recommendation, I have Vineyard undervalued by 20%. I am recommending that VNBC's weighting in the portfolio be increased from 2% to 4%.

Investment Thesis

Since September VNBC stock has performed poorly, down 2.5%. Concern over rising interest rates and housing have likely impacted VNBC's equity performance. Over the long run, however, earnings growth will favorably impact the stock price. I believe that Vineyard National Bancorp will continue to grow earnings in the 20-25% range for the next three years. In the third quarter the company grew earnings by 30%, which was in line with consensus estimates. VNBC has surprised or hit estimates every quarter in which there has been analyst coverage. Management has revised their yearly EPS estimate to $1.98 - $2.03 which would translate to 30% growth for the year.

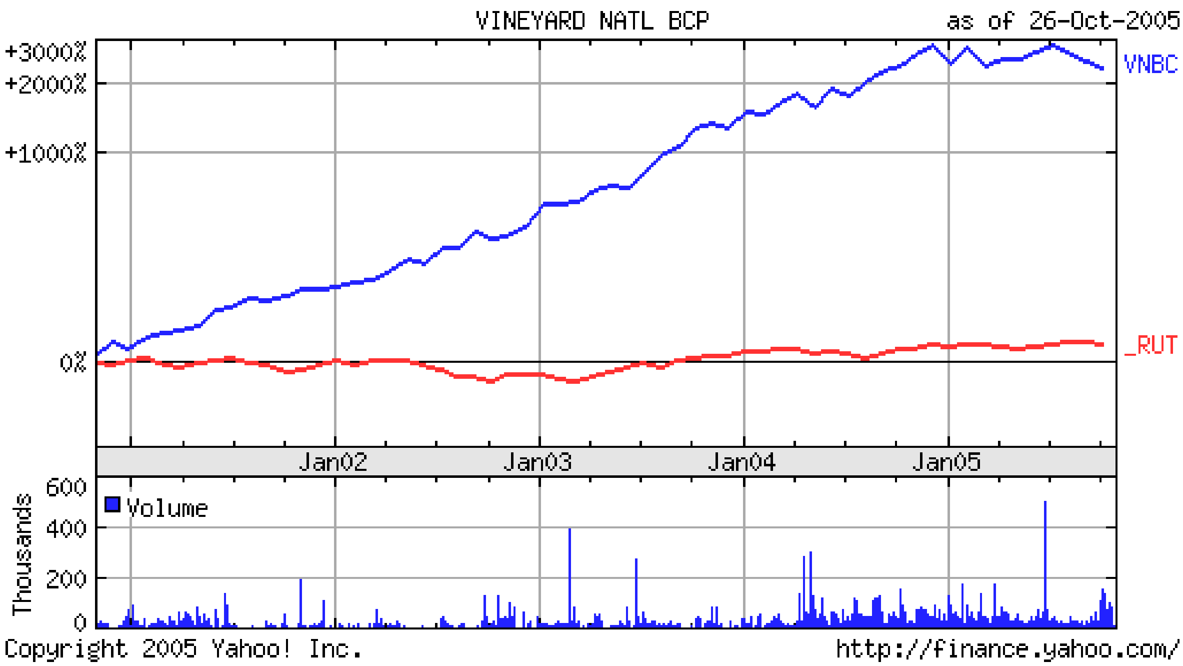
VNBC did everything it said it would do in the third quarter. The company participated out $86.7 million in loans so that deposits would catch up. Deposits grew $86.5 million or 8.4% sequentially, which allowed VNBC to pay down more expensive funding in the form of $46 million in FHLB borrowings. Altogether, this had a positive impact on the company's NIM. VNBC's NIM grew from 4.36% in 2Q'05 to 4.40% in 3Q'05. Into the future, Vineyard has stated that increasing interest rates will have no material affect on their NIM or the products which VNBC offers.

Many investors are concerned about the overvaluation of real estate in the California marketplace. The areas in which Vineyard operates are no exception, although it is some of the most affordable housing supporting the California coast. Many studies have suggested that their will be a correction in real estate valuation; however, most research shows a soft landing scenario and still shows growth in employment and income.

VNBC's asset quality within the quarter has remained pristine, supporting their high credit standards. NPA's/total assets was 0.29% in the MRQ, and the reserves to total loans ratio is a strong 1.10%. Coastal construction lending is perceived as the company's riskiest product; however, the portfolio has remained untarnished from inception.

Valuation

Due to these worries Vineyard trades at a discount to its peers, although in my opinion, unwarranted considering growth quality. Ultimately earnings will drive the stock's price higher. Using a "So Cal discount," I am setting a target price of $38 using a P/E multiple of 16x, suggesting a 30% undervaluation.



Holder	Shares	% Out	Value*	Reported
JOHN HANCOCK BANK AND THRIFT OPPORTUNITY FUND	257,176	2.66	$7,540,400	30-Apr-05
BRIDGEWAY FDS INC-ULTRA SMALL COMPANY MARKET FD	91,940	.95	$2,901,626	30-Jun-05
Mercury Master Tr-Merrill Lynch Master Small Cap Growth Port	66,780	.69	$2,103,570	31-May-05
MASTERS SELECT SMALLER COMPANIES FUND	54,272	.56	$1,712,824	30-Jun-05
MUNDER MICRO-CAP EQUITY FUND	43,800	.45	$1,199,682	31-Mar-05
THRIVENT BALANCED FUND	28,700	.30	$848,085	30-Sep-05
NICHOLAS-APPLEGATE INST FDS-U.S. MINI CAP GROWTH FD	23,500	.24	$643,665	31-Mar-0

Nautilus Incorporated

NLS

Price: $19.01($18.26-29.65)

Fiscal Year End: December 31

October 21, 2005

Russell 2000: 628 (565.73-688.51) Ray Auth

Nautilus Inc. is a marketer, developer, and manufacturer of branded health and fitness products. They currently sell under brand names such as Nautilus, Bowflex, Schwinn, Stairmaster, and Trimline. The company's products include cardiovascular and weight resistance products, such as home gyms, free weight equipment, treadmills, indoor cycling equipment, steppers, elipticals, treadclimbers, and fitness accessories. They also offer nutrition supplements and men and women's apparel. They conduct their business through direct and commercial/retail segments. The direct segment involves all brands involved in marketing to consumers through direct marketing channels. The commercial/retail segment includes all brands and operations that do not involve direct marketing to consumers. NLS is headquartered in Vancouver, Washington.

Recommendation

Nautilus Inc. has the potential for excellent growth in the future with a variety of new products. Revenue growth should be 12% coupled with 15% earnings growth. Earnings estimates are expected to be $1.19 in 2005, $1.48 for 2006, and $1.84 at the end of 2007. NLS continues to roll out innovative technology tailored to the needs of individuals, which cultivates revenue increases. Each fitness channel recorded sales growth of at least 8% during the second quarter of 2005. In addition, NLS is starting to enter into the fitness apparel and footwear industry. They recently finished the acquisition of PEARL iZUMi USA, a provider of fitness apparel and footwear for cyclists, runners, and fitness enthusiasts. Consequently, the new fitness product along with an introduction of apparel to NLS, the company has exciting prospects for the future.

Key Statistics: Oct. 2005	
Weighting:	2%
Market Cap:	629M
Revenue:	579M
Gross Margin:	46.73%
Op. Margin:	8.49%
Forward P/E:	18.67
EPS Growth:	20%
OCF:	$13M
Debt/EBITDA:	.05
Debt/Capital:	0
Credit Facility:	$10M
Sector: Consumer Services	

Investment Thesis

- **Innovative Products:** NLS continues to improve their major product lines such as Nautilus, Bowflex, Schwinn, Stairmaster, and Trimline. In August 2005, NLS introduced their customized treadmill product, Nautilus Sport Series Treadmills. This gives the consumers the opportunity to create treadmills appropriate with their fitness requirements. The new treadmill gives the consumer the ability to choose from three platforms, three electronic displays, and three software packages, resulting in a treadmill suitable to their needs.
- **Introduction to the Apparel Industry:** With the acquisition of PEARL iZUMi USA, NLS is diversifying their product mix and gaining a growing market. Fitness

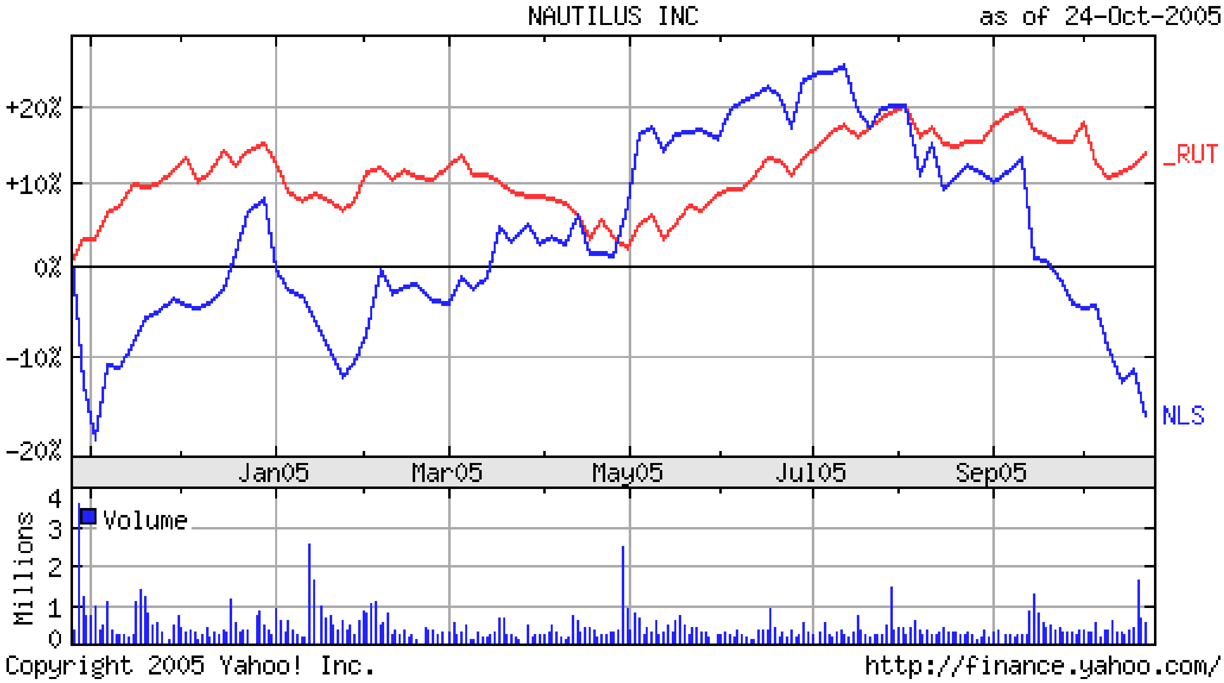
apparel and footwear is expanding every year, which gives NLS the ability to tap into the growth and expand revenues and earnings.

Valuation
NLS should experience annual revenues and earnings growth of 12% and 15%, respectively. This is based on their continuous improvement to their product line along with a growing philosophy. In accordance with these predictions, the discounted cash flow reveals a fair value of $25.02. This portrays an undervaluation of 28%. NLS' P/E is 18.67 compared to the industry average of 16.93. Their PEG is 0.70. Currently there are nine analysts who cover NLS. Six of the analysts have buy recommendations whereas three have hold. Wedbush Morgan Securities assesses a fair value of $37.00, Stanford Group gives a target price of $35.00, and BB&T Capital Markets calculate a price of $30.00.

Risks
- Due to the nature of NLS' business, their products are all affected by discretionary spending. A dramatic decline in consumer confidence could materially affect Nautilus.
- NLS' ability to protect intellectual property is imperative. The technology-based products that are created by NLS gives them their competitive advantage.
- An introduction of lower cost products to the market could affect NLS' bottom line.

Management
The new management team is a highly qualified team with excellent vision for growth in the future. Gregg Hammann arrived at NLS in 2003 with a fragmented business in need of a facelift. Since then, capital expenditures have increased 10% along with R&D expenses up 90%. The authentic management team at NLS should help boost sales and earnings in the future.

Outlook
- NLS is the leading producer of fitness equipment in the industry. They have one main competitor, Cybex Inc., which gives them the opportunity to dominate the industry. NLS has the ability to manufacture innovative products and take control of the entire fitness sector.
- NLS continues to run a sound business model. Their gross margin is 46.73% compared to the industry average of 34.20%. In addition, they have an operating margin of 8.49% whereas the rest of the industry runs at -5.37%.
- Exercise is a key element in men and women's lives. The industry is going to maintain growth due to the devotion to exercise. Many studies have shown that the aging 75 million-person strong baby-boom generation is concerned about deteriorating health, and exercise is a key component to eliminating this concern.
- The company is well positioned in four major fitness equipment categories. NLS should be able to continue to grow these four brands with new products and gain market share. Bowflex is number one in direct-to-consumer fitness equipment with a 25% market share. Management at NLS believes each of the four brands are capable of strong growth in the next five years.



Holder Name	Shares Held	Percentage
Snow Capital Management	2.259M	6.70%
Endowment Management	2.123M	6.40%
Waddell & Reed Financial	1.882M	5.60%
Friess Assoc. Inc.	1.856M	5.50%
Little Paul Financial	1.460M	4.30%
Barclays Global	1.295M	3.70%