MARQUETTE
UNIVERSITY

Applied Investment Management (AIM) Program

AIM Fund Investment Advisory Board Meeting
December 1, 2006
AIM Equity Fund Presentations

Student Presenter	Company Name	Ticker	Recommended Portfolio Weighting
Amie Brouillard	Pantry Inc.	PTRY	1.63%
Patrick Jesse	Consolidated Water Co. Ltd.	CWCO	0.62%
Jeff Ehman	Chattem Incorporated	CHTT	0.85%
Tom Kruse	Mesabi Trust	MSB	
Matt Rose	DSP Group	DSPG	
Adam Bordner	RC2 Corporation	RCRC	0.74%
Uri Soroka	Komag Inc.	KOMG	

Proposed AIM Equity Fund Transactions (December 1, 2006)

Name	Symbol	Transaction	Shares	Est. Price	Gross Amount
Pantry Inc.	PTRY	Buy	200	$47.35	$9,470
Consolidated Water Co. Ltd.	CWCO	Buy	150	$24.08	$3,612
Chattem Incorporated	CHTT	Buy	100	$49.36	$4,936
Mesabi Trust	MSB	Buy		$24.00	
DSP Group	DSPG	Buy		$21.12	
RC2 Corporation	RCRC	Buy	100	$42.88	$4,288
Komag Inc.	KOMG	Buy		$39.39	
Marlin Business Services	MRLN	Sell	-450	$21.98	($9,891)
Pike Electric	PEC	Sell	-280	$14.96	($4,189)
MIPS Technologies	MIPS	Sell	-400	$8.73	($3,492)
Randgold Resources	GOLD	Sell	-200	$22.47	($4,494)

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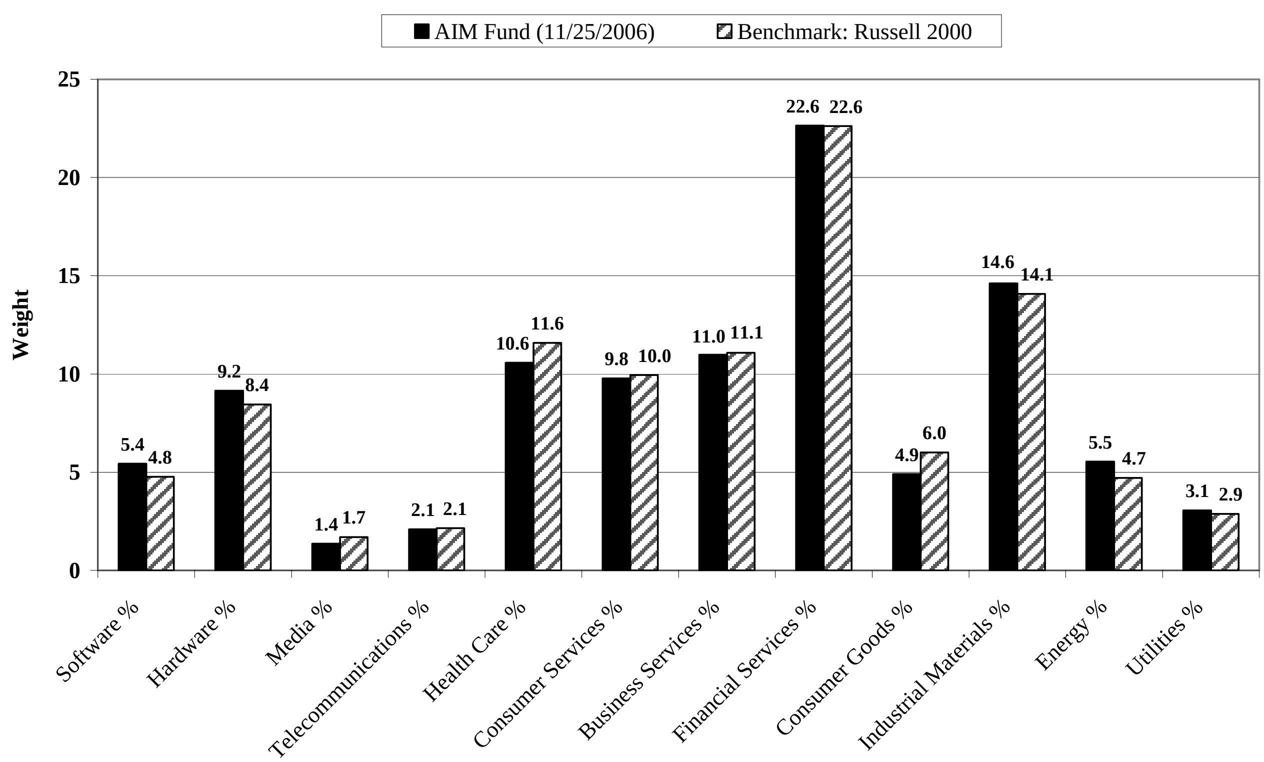
AIM Fund vs. Russell 2000 Sector Weights (as of 11/25/2006)



Pantry Inc.
PTRY
Price: $47.73 ($39.40 - $70.10)
Fiscal Year Ends: September 29, 2007

November 27, 2006 | Amie Brouillard
Russell 2000 Index: 792.28 (666.58 – 794.18) | Consumer Services Sector

Pantry Inc. is the leading independently operated convenience store chain in the southeastern United States. Currently, Pantry has 1,500 stores in 11 states, making it the third largest convenience store chain in the country. Their stores operate under the following banners: Kangaroo Express, Golden Gallon, and Cowboys. Their stores have two segments: merchandise and gasoline. The merchandise segment offers quick service restaurants, car washes, lottery tickets, tobacco products, beers, wines, and other grocery items. The gasoline segment offers different brands of gasoline based on the store's market such as Amoco, BP, Chevron, Citgo, Mobil, Exxon, and Texaco.

Recommendation

Pantry is in the process of re-branding and re-imaging their stores to increase customer traffic. The company's strong acquisition strategy will increase their market share. Pantry has been trading at a discount due to lower gas prices, which reduced Pantry's gas margins. Although lower gas prices are a near term risk, it will not affect the long-term profitability and fundamentals of the company. Therefore, I believe Pantry will appreciate during our holding period to my price target of $57.62.

Key Statistics	Nov 27, 2006
Market Cap	$1.04B
Shares Outstanding	22.69M
Average Volume	416,717
Beta v. Russell 2000	1.20
EPS (TTM)	$3.86
2007 Estimated EPS	$3.07
P/E (TTM)	12.04
WACC	12.92%
FCF/Share	$3.08
Debt/Assets	54.64%
ROE	28.84%
Gross Margin	15.00%
Operating Margin	4.04%
EPS Growth Est (3 Year)	23.42%
Target Price	$57.62

Investment Thesis

- **Acquisition growth strategy.** In fiscal year 2006, Pantry acquired 113 stores and they plan to acquire the same number of stores this fiscal year. Their acquisition strategy is to target convenience stores in their existing markets. PTRY will only acquire stores outside their current markets if there are a minimum number of stores in the chain, the chain has a high volume of sales, and there is an opportunity to increase the stores' profitability.

- **Focus on increasing margins.** Pantry is adding higher margin products such as quick service restaurants and private label products. The private label products provide lower prices to consumers and higher margins to PTRY. Pantry's focus on higher margin products has resulted in an increase in their merchandise margins by 80 basis points to 37% - and is expected to increase to 37.5% in FY 2007.

- **Locations of new stores.** Pantry's stores are located in high traffic areas. Typical locations include highway junctions and costal/resort towns. The highway market targets consumers who need the convenience of an easy access location to refill their gas tanks. The coastal/resort market targets travelers who rely on convenience stores for a one-stop shop to pick up items they forgot to pack or need on their vacation.

- **Re-branding and re-imaging strategy.** Pantry is in the process of converting 200 stores to the Kangaroo Express banner. They are also converting the majority of their proprietary quick service restaurants to Subway or Hardee's. The company believes brand name restaurants will increase their store traffic. Due to these renovations, Pantry is expecting comparable store sales to increase from 5% to 7%.

Valuation
Based on my discounted cash flow model, Pantry has a target price of $57.62. A relative valuation based on the forward PE of Pantry's competitors values the stock at $64.85. Based on my target price, Pantry has a return potential of 20%.

Risks

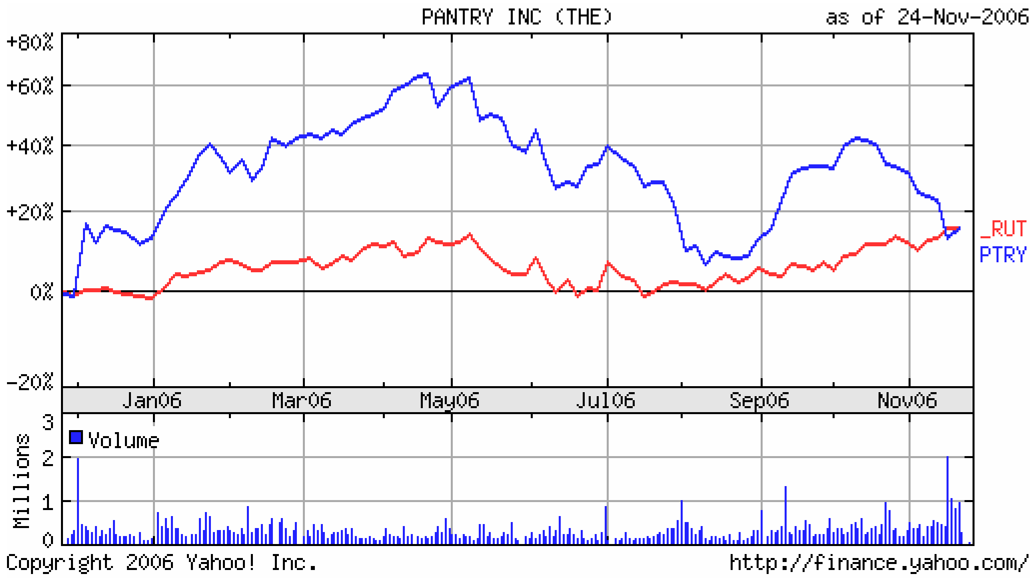
- **Substantial level of debt.** As of June 29, 2006, Pantry had $604.8 million in debt and a debt/asset ratio of 53.3%. It is essential the company generates enough cash flow from operations to meet these debt obligations. This should not pose a problem since Pantry appears capable of generating enough cash flow from operations to meet their liquidity needs over the next 12 months. They also have cash and a credit facility they can use to meet future debt obligations.

- **Gas prices have a strong affect on the firm's margins.** Historically, Pantry has had gas margins of $0.12-0.13 per gallon. However, quarter-to-date gas margins have declined to $0.07 and are expected to be $0.088 at the end of the quarter before returning to normal levels in FY 2007. Pantry's stock price tends to overreact to gas margin declines. For example, on November 16th the stock declined 13% when they announced the decline in gas margins.

- **Intense competition.** The industry and geographic areas which Pantry operates are highly competitive. They compete with other convenient stores, supermarkets, drug stores, discount clubs, gas service stations, and fast food restaurants. PTRY believes their strategic locations, re-branding, and competitive pricing provide an advantage.

- **Strong reliance on a few contracts.** Over 50% of Pantry's general merchandise is supplied by McLane and this contract expires in 2010. BP and Citgo supply approximately 90% of the company's gasoline. Their contract with Citgo expires in 2010 and BP in 2012.

Management
Four out of five of the executive officers have had experience in the grocery industry. More specifically, the CEO has held executive positions for several supermarket chains including Boys Markets and Piggly Wiggly.



Ownership

% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	100%

*Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Chilton Investment Co	4,267,000	18.808%	127,421
T Rowe Price	1,761,000	7.761%	29,500
Barclays Global Investment	1,330,000	5.863%	-97,073
FS Equity Partners	1,132,000	4.988%	-1,403,000
Putnam Investment Mgt.	1,090,000	4.803%	-90,973

*Source: Bloomberg

Consolidated Water Co. Ltd.
CWCO
Price: $26.10 ($18.33 - $31.79)
Fiscal Year Ends: December 31, 2006

December 1, 2006 — Patrick Jesse
Russell 2000 Index: 791.96 (649.92 – 794.18) — Telecom/Utilities Sector

Consolidated Water Co., Ltd. engages in the processing and supply of water to its customers in the Cayman Islands, Belize, Barbados, the British Virgin Islands and the Commonwealth of the Bahamas. CWCO uses reverse osmosis technology to produce freshwater from seawater, as well as distributing water to a range of customers, including public utilities, commercial and tourist properties, residential properties, and government facilities. CWCO's three business segments consist of Retail, Bulk and Service Delivery. The Company's Retail water segment is comprised of businesses that produce potable water from seawater and distribute this water to end-users. The Company's Bulk water segment businesses produce and sell this water to governments and private customers. The Company provides management, engineering and construction services for desalination projects also. The Company employs 62 persons in the Cayman Islands and ten in the United States.

Recommendation

I believe that CWCO is in a strong position in their current business market - and will continue to improve and expand within their market service area. Consolidated Water possesses a low beta and, according to my DCF, is undervalued by approximately 15%. Therefore, I believe CWCO is a good investment which will appreciate to a value of $30.20 during our holding period.

Key Statistics	Dec 1 2006
Market Cap	$310.7M
Shares Outstanding	12.7M
Monthly Volume (in Th)	37.0
Beta v. Russell 2000	0.4
EPS (TTM)	$0.45
2007 Estimated EPS	$0.97
P/E (TTM)	35.83x
WACC	9.50%
P/E (FY '06)	31.8x
FCF/Share (FY '05)	-$0.88
ROE	8%
ROA	5%
Operating Margin	16%
Dividend Yield	1.00%

Investment Thesis

- **Numerous Expansion Efforts.** In the recent earnings call, CWCO executives mentioned several upcoming expansion projects in 2007. In the Cayman Islands, they recently received a contract from the water authority for the expansion of their Northsound desalination plant from 800,000 gallons to 1.5 M gallons per day. Also, the contract for these services will be extended for seven more years, beginning in Q1 of 2007. In the British Virgin Islands, CWCO is awaiting government approval for the construction of a desalination plant on the eastern island of Tortola. In Bermuda, the company has received pre-approval to design, build, and operate a US $10.5M plant. This facility is expected to produce 600,000 gallons of water initially and increase to 1.2 million. In Barbados, CWCO also has a pre-qualified contract to construct a desalination and wastewater reuse plant. All of these are to set to begin sometime early in 2007 and are expected to respond to the rising demand from the growing population and tourist trade as many of these islands switch from traditional water supply methods to seawater desalination.
- **Water as the Next Precious Resource.** Some analysts believe that globally as much as $1.5 trillion in capital spending could flow into the water sector within the next five years, providing a steady stream of opportunities for businesses like CWCO. The residential and industrial water and waste water treatment services sector has been growing by 4-5% annually in developed countries and as much as 15% in underdeveloped countries, according

to Goldman Sachs. Less than 1% of the planet's water is drinkable and demand has been rising steadily. One study estimates that consumption could reach 2,764 billion cubic kilometers by 2025, up from 2,182 billion in 2000. CWCO is well-positioned to be the major player in this sector in the Caribbean.

- **Growth in the Caribbean.** Tourism continues to grow in the Caribbean at 5% annually, according to the World Tourism Organization. Increased tourism will only create more demand for fresh water to be supplied to golf courses and swimming pools. CWCO is certainly positioned to answer this increased demand in the next coming months.

Valuation

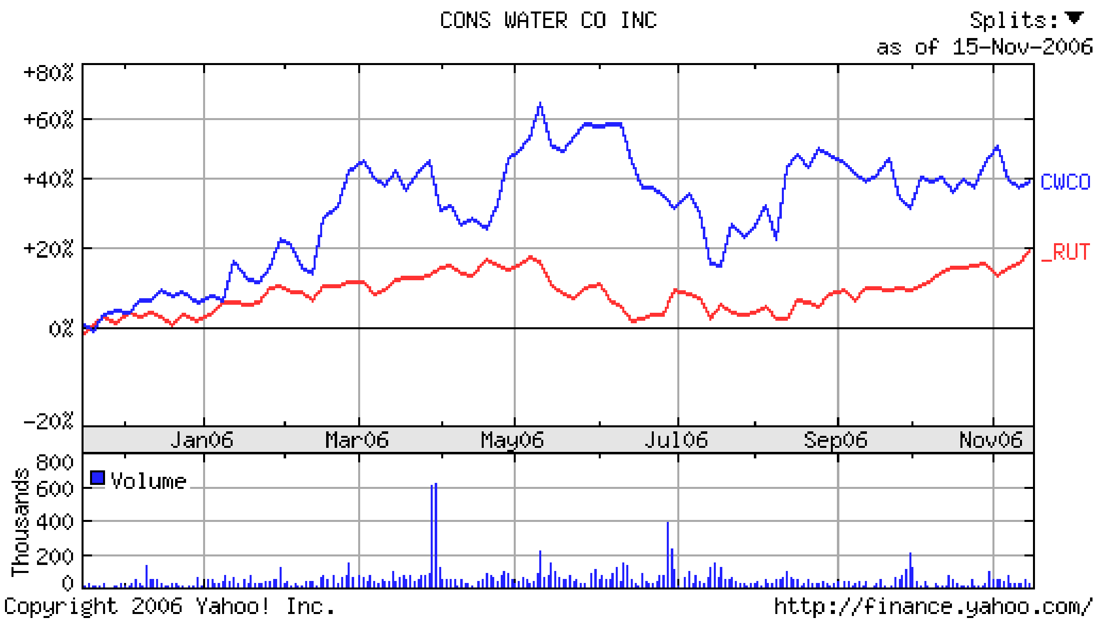
Using a discounted cash flow model, an intrinsic value of $30.20 was computed using a WACC of 9.50% - which indicated that currently the CWCO's stock is undervalued by approximately 15% compared to its computed intrinsic value. CWCO's P/E is approximately 35.83 versus 31.00 for the current market.

Risks

- **Operates in Smaller Market than Competitors.** Although, CWCO has a near monopoly in the Caribbean and in Grand Cayman, they have an exclusive retail license. CWCO's service area is relatively small, however, in terms of population compared to other companies that operate in more populated areas, such as China, which is currently the gem of the desalination market. This could pose a problem if population in the Caribbean decreases due to unfavorable weather or political upheaval.
- **Weather.** The company is also at risk for any of their plants being destroyed by a hurricane or having any of their major customer's properties destroyed. For instance, in 2004 they experience significant damage from Hurricane Ivan, causing revenues to fall.
- **Many Large Projects in the Coming Year.** As mentioned before, CWCO is taking on many large expansions and construction projects in 2007. This could lead the company into some debt problems. Their current debt/equity ratio is 52.5%, which seems low compared to the industry's average of 127.4%. The real test for CWCO will be whether management will stay strong and be able to complete these projects on time and on budget. Recently, they offered 1.5 million in shares in efforts to raise capital and pay off some of their debt. Management forecasts about $37.5 million will be raised from this equity offering with $10M used to pay off debt and the remainder used for capital expenditures.

Management

Mr. Rick McTaggart, who was a non-executive Director from 1998 until he joined the Company's executive staff in October 2000, currently serves as Chief Executive officer since January 2004.



Ownership

% of Shares Held by All Insider and 5% Owners:	17%
% of Shares Held by Institutional & Mutual Fund Owners:	31%

*Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares Held	Percent of Shares Outstanding
Powershares Capital Mngt.	1,052,059	8.50%
Thomson Horstmann & Bryant	516,000	4.17%
Federated Investors, Inc.	258,500	2.09%
Capital Long/Short Fund LP	216,200	1.75%
Duncan-Hurst Capital Mngt.	191,113	1.54%

Chattem Incorporated
CHTT
Price: $49.60 ($27.99 - $49.70)
Fiscal Year Ends: November 30, 2006

November 26, 2006 — Jeff Ehman
Russell 2000 Index: 792.28 (666.58 – 795.17) — Health Care Sector

Chattem Inc. is a leading marketer and manufacturer of a broad portfolio of branded over-the-counter ("OTC") healthcare products, toiletries and dietary supplements, including such categories as topical analgesics, medicated skin care products, medicated dandruff shampoos and conditioner, dietary supplements and other OTC and toiletry products. Their products target niche markets that are often outside the core product areas of larger companies where they believe they can achieve and sustain significant market penetration through innovation and strong advertising.

Recommendation

Chattem Inc. holds a portfolio of niche OTC healthcare products that do not directly compete with larger industry players such as Johnson & Johnson, Pfizer, and Procter & Gamble. In fact, Chattem Inc. is known for buying old products from the large companies, remarketing them and building off the important brand name. Also, many of their items are market leaders in their respective categories. For example, their portfolio of topical analgesic brands and their Gold Bond medicated body powders have leading market shares. The thesis behind this recommendation is that management has been able to sustain a high ROIC and ROA (10-20% for both since 2000) and maintain EBITDA margins above industry peers (25-28% compared to 16-18%) due to low competitive threats and loyal buyers. Therefore, I believe the stock price will appreciate to approximately $55.63.

Key Statistics	Nov 26 2006
Market Cap	$921.37M
Shares Outstanding	18.576M
Average Volume	484,342
Beta v. Russell 2000	0.85
EPS (2005)	$1.77
Price/EBITDA	12.63
P/E (Forward)	26.24
ROA	12.17%
FCF/Share	$2.60
Debt/Assets	46.13%
ROIC	14.71%
Gross Margin	71.31%
Operating Margin	26.98%
EPS Long-Term Growth Est	11.50%
Target Price	$55.63
2007 EPS Est.	$4.74

Investment Thesis

- **Steady Well Known Products.** Holding brand names such as Gold Bond, Icy Hot, Dexatrim, and Selsun Blue, Chattem Inc. allows the company to enjoy a steady and predictable customer base.

- **Significant Presence in Niche Markets.** Chattem Inc. acquires and develops brands that compete in niche markets where they believe they can achieve significant market presence and build brand equity without the competition of large players.

- **Ability to Pay Down Debt.** By acquiring products from large companies in the industry, Chattem usually has to take on a significant amount of debt. The Company has proven to pay down debt with no issues in the past due to stable cash flows.

- **Relatively Recession Proof.** Chattem Inc. showed its resilience to economic downturns through the recession in the early 2000s with revenue growth occurring every year; $198.3M in 2001 to $279.32M in 2005.

- **Increasing Margins.** Operating margins have increased from 16.73% in 2001 to 23.80% in 2005 due to economies of scale in personnel and a rigorous cost cutting program.

- **Ability to Achieve ROA and ROIC Above the Market.** Using a true EBITDA number to measure returns (will cause a difference from table above); Chattem has utilized assets and invested capital (using BV of Equity and all debt) at an increasingly impressive rate. Every year since 2000 ROA has improved going from 12.76% to 21.92% and ROIC has gone from 13.86% to 32.76%.

Valuation

Based on my discounted cash flow model, Chattem should be valued at approximately $54.00. Based on that intrinsic value and a moderate 3% growth rate over a 12 month period our target price is $55.63. According to Thomson Analytics, analyst estimates show a target price of $53.00. Therefore, I believe that our valuation of $55.63 is reasonable for the stock.

Risks

- **Litigation.** Chattem Inc. faced numerous lawsuits related to Dexatrim containing ephedrine. The manufacturing of Dexatrim containing ephedrine was discontinued in 2002 and most lawsuits have been settled with the worst loss coming in 2004 at $15.8M. Other litigations may occur due to the nature of Chattem's products.

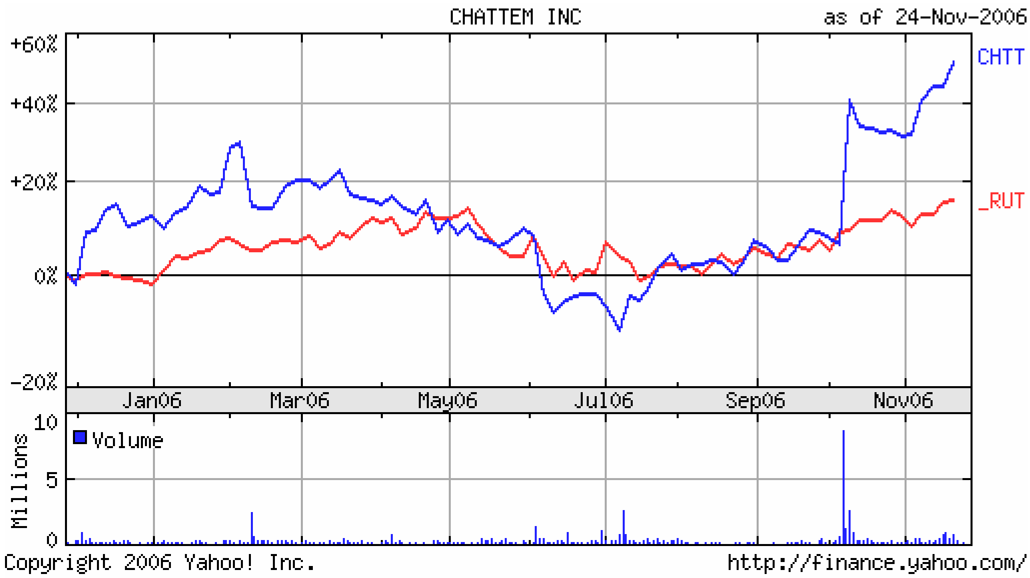
- **Customer Risks.** Chattem Inc. has a concentrated base of customers with the top ten accounting for 70% of sales and 36% of total revenues coming from Wal-Mart. This is a large risk as the retailers could force the Company to lower prices negatively effecting margins.

- **Ability to Execute Quality Acquisitions.** The growth strategy of Chattem revolves around their ability to acquire solid brands at a good price. There is no guarantee that they will be able to execute this strategy in the future.

- **Significant Debt Levels.** Chattem Inc. announced in Mid-November 2006 their plans to acquire 5 new brands (ACT, Unisom, Cortizone, Kaopectate, and Balmex) from Johnson & Johnson and Pfizer due to antitrust monopoly concerns. The acquisition will put $425M of additional debt atop its current $161M.

Management

4 out of 6 of the executive officers have been with the company for over 20 years with the CEO being employed since 1980. The company has proven to be shareholder friendly with the use of debt funding for acquisitions and a history of common stock buybacks. This may not occur in our holding period due to 5 product acquisitions that added a significant debt burden, but these will provide ample returns. Insiders and 5% owners hold 59% of the shares outstanding.



Ownership

% of Shares Held by All Insider and 5% Owners:	59%
% of Shares Held by Institutional & Mutual Fund Owners:	79%

*Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares Held	Percent of Shares Outstanding
Peter Kellogg	2,174,000	11.70%
Columbia Wanger Asset Management	1,010,000	5.44%
Hamico Inc.	938,228	5.05%
Putnam Investment Management	874,894	4.71%
Barclays Global Investors	855,126	4.60%

*Source: Bloomberg

Mesabi Trust
MSB
Price: $22.96 (26.38-16.06)
Fiscal Year Ends: January 31, 2006

November 27, 2006 Thomas Kruse
Russell 2000 Index: 773.51 (666.58 – 795.17) Industrial Materials

Mesabi Trust collects royalties and bonuses from the sale of minerals that are shipped from Northshore Mining's Silver Bay, Minnesota facility. The mining company is a wholly owned subsidiary of Cleveland-Cliffs (CLF), a supplier of iron ore products to the steel industry. Northshore Mining pays royalties to Mesabi Trust based on production and sales of crude iron ore pulled from the trust's property. Independent consultants track production and sales for Mesabi Trust. The company was formed in 1961 to hold the interests formerly owned by Mesabi Iron Company. Mesabi Trust's revenues are generated solely in the form of leasehold royalty income.

Recommendation

Despite the recent appreciation in price over the past three years, Mesabi Trust remains a solid investment and undervalued by approximately 20%. The firm's high dividend yield provides a significant opportunity for income in an uncertain economy. With global demand remaining strong for both steel and its core component, iron ore, Mesabi will continue to see substantial increases in royalties from iron ore sales. In addition, the leasee/operator, Northshore Mining Company, has seen a substantial increase in demand for iron ore, insuring long term viability.

Key Statistics	Nov 27, 2006
Market Cap	$317.50M
Shares Outstanding	13.2 M
Average Volume	41,460
Beta v. Russell 2000	1.10
EPS (TTM)	$1.59
P/E (TTM)	15.22
Profit Margin	96.36%
Dividend Yield	9.50%
Dividend	$2.34
Payout Ratio	96.81%
Qtrly. Revenue Growth (yoy)	13.90%
Qtrly. Earnings Growth (yoy)	14.50%
Target Price	$29.50

Investment Thesis

- **Dividend and Dividend Growth.** With an uncertain economy, Mesabi's large dividend payout provides significant return. Currently, Mesabi has a dividend yield of 9.50% or $2.34 a share. With the exception of a 223% increase in 2004, Mesabi's dividends have steadily increased at rate of 8.20% a year.

- **Capacity Expansion by Northshore Mining Company.** On August 10, 2006 Northshore Mining Company announced that it is reevaluating its plans to restart an idled pellet furnace at the Northshore Mine's pellet facility after deferring plans to repair the plant. CLF estimates that its annual production would increase by approximately 800,000 tons if they were to restart the idle furnace at Northshore. However, CLF has not provided the Trustees with an estimate of its future production plans or anticipated shipments of iron ore pellets.

- **AK Steel and Republic Engineered Products Inc. Alliance.** On November 16, 2006 CLF and AK Steel entered into a multi-year iron ore pellet supply agreement. The seven-year supply agreement, beginning Jan. 1, 2007, will run through the end of 2013. Under the terms of the contract, Cleveland-Cliffs will supply between 0.9 million and 1.4 million tons of pellets annually. In addition, CLF announced a deal with Republic Engineered Products Inc on the same day. The deal will supply Republic with between 400,000 and 800,000 tons of iron ore from October 1, 2006, through December. 31, 2011. Those agreements will increase the demand of iron ore from Mesabi's holdings insuring a steady increase in volume.

- **Mesabi Nugget Project.** Despite suspending efforts with Steel Dynamics to jointly develop a reduced iron ore plant in Minnesota, CCI and Kobe Steel intend to proceed with development of a commercial-scale reduced iron plant, which will convert taconite into nearly pure iron. This project which will be located in Silver Bay, Minnesota, will most likely utilize minerals from the Trust's land.

Valuation

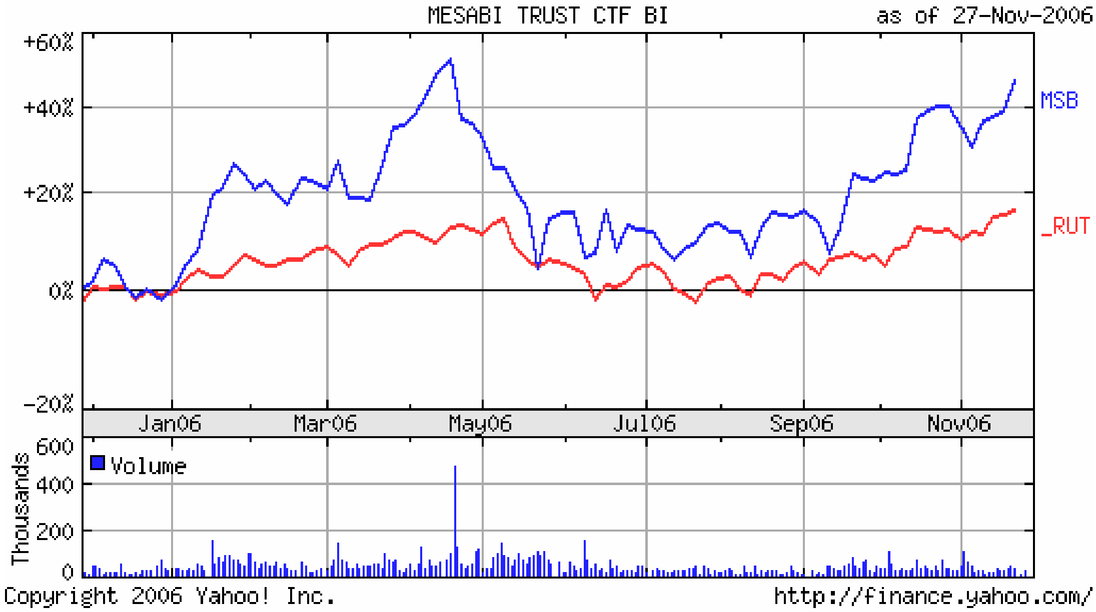
Although the firm's value is highly dependant on the price of iron ore, due to current trends and recent news, I believe that the firm is fairly valued at $29.50. This conclusion was reached by using a DCF model with a 10% discount rate.

Risks

- **Dividend Inconsistency.** Despite yearly dividend growth, the quarterly dividend payments are inconsistent. This inconsistency is due to fluctuations in iron ore prices and the volume of shipments from Mesabi's lands. In addition, due to inclement weather, April dividend payments at times have been forgone due to the closure of shipping lanes on the Great Lakes.
- **Iron Ore Prices.** With 98% of revenues directly tied to the volume and price of iron ore extracted from Mesabi's lease lands, any fluctuation in volume and/or prices will adversely affect the firm's revenue stream.

Management

Mesabi Trust is operated by the Trustees set forth in its charter. The Trustees of Mesabi Trust are Deutsch Bank Trust Company, James A. Ehrenberg, David J. Hoffman, Richard G. Lareau, and Norman F. Sprague. Each member, on average, has 23 years of experience with the Trust.



Ownership

% of Shares Held by All Insider and 5% Owners:	N/A
% Of Shares Held by Institutional & Mutual Fund Owners:	27%

Top 5 Shareholders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Gendell Jeffrey	911,600	6.95%	0
Renaissance Technology	509,900	3.87%	15,600
Beddow Capital Management	282,000	2.15%	29,525
Hodges Capital Management	233,875	1.78%	12,734
Barclays Global Inv. Ltd.	206,098	1.57%	143,775

*Source: Bloomberg

DSP Group
DSPG
Price: $21.12 ($19.74 - $30.80)
Fiscal Year Ends: December 31, 2006

November 27, 2006 — Matthew Rose
Russell 2000 Index: 772.11 (666.58 – 795.17) — Software Sector

DSP Group, Inc. is a semiconductor company that develops and sells integrated system-on-a-chip (SoC) solutions for digital telephony and short range communications devices used in voice, data, and multimedia applications in the residential and small to mid size office market. It sells to original equipment manufacturers (OEM's) and original design manufacturers (ODM's) primarily through independent distributors and representatives throughout the world. The majority of revenues are derived from Japanese, Asian, and European customers, although most of the end users of the products are in the United States. The company is headquartered in Santa Clara, California, but its corporate executives and most of its R&D are located in Herzelia, Israel.

Recommendation

Key Statistics	Nov 27 2006
Market Cap	$613.54M
Shares Outstanding	29.051M
Average Volume	293,517
Beta v. Russell 2000	0.97
EPS (TTM)	$0.88
2007 Estimated EPS	$1.19
P/E (TTM)	24.14
WACC	11.58%
Free Cash Flow/Share	$0.55
ROA	4.43%
ROE	7.30%
Gross Margin	42.11%
Operating Margin	9.44%
Target Price	$27.00

The semiconductor space has underperformed the overall market this year and may be at or near a bottom. DSP Group is a market leader in integrated chips and processors for digital cordless phones and has suffered with the transition cycle from 2.4 GHz to 5.8 GHz chips. It missed analyst forecasts in the 3rd quarter due to the loss of a large customer of its 2.4 GHz chips not transitioning to the 5.8 GHz product line. However, the company has announced that it has been awarded a design win for another large customer that currently uses 5.8 GHz chips from a competitor. As a result guidance was lowered for the 4th quarter, but management reiterated growth forecasts for 2007. DSPG also has a strong product pipeline and expects significant growth in the DECT phone market in Europe as well as positive cash flows from the ramp of its VoIP chips in 2007. Current development of Wi-Fi products is expected to result in design awards in late 2007.

Investment Thesis

- **Convergence.** The convergence theme for technology in the home has been talked about for years, but it is finally a reality. The cordless, Bluetooth, and Wi-Fi devices in the home are coming together and the lines of distinction are starting to blur. DSPG has all of these technologies in its portfolio and is well positioned to take advantage of this trend. As a compliment to DSPG's core business of digital telephony, these opportunities are an entrance into an end market that is just entering the growth phase of the business cycle.

- **Product Transition.** The growth in the US end market for 2.4 GHz phones has been slowing as a result of transition to the newer 5.8 GHz technology. Growth in 2007 will be fueled both by transitioning OEM's to the new product line and the growth of the 2.8 GHz market in foreign markets. Geographic diversification with the DECT product line in Europe will also become more significant.

Valuation

Based on a discounted cash flow model, DSPG has an intrinsic value of 26.89 and is undervalued by about 25%. The 3rd quarter financial statements show that cash and marketable securities represent 52% of the firm's market capitalization. DSPG has begun an aggressive share repurchase program and has bought 995,000 shares in the past five weeks at an average cost of $21.49 per share. It is also in the process of exploring strategic options to enhance its position in an ever competitive marketplace.

Risks

- **Customer Concentration.** DSP Group's main customer is Tomen Electronics of Japan which represents over 70% of DSPG's revenue. Panasonic Mobile Communications accounts for most of these sales and roughly half of DSPG's business. Management recognizes this as a risk and is aggressively pursuing a strategy of customer and product diversification. In the 3rd quarter earning call the company announced the addition of a "major" new customer for its 5.8 GHz chips and hinted that more news on this front will be forthcoming in January.

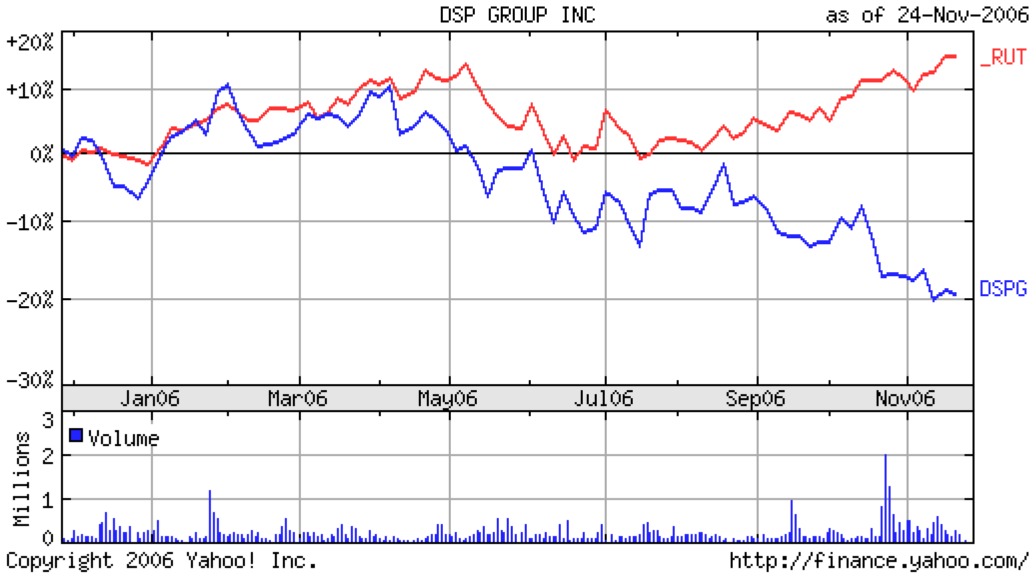
- **Acquisition Integration Risk.** DSP Group has made several acquisitions in its history and has hinted that M&A activity will be part of the growth strategy going forward. The two most notable takeovers were Teleman Media, which makes video compression and decompression chips, and the intellectual property of privately held wireless chip designer Bermai, Inc. These companies' lines of business are complimentary to DSPG's core competency and while they bolster the company's position in the digital home, they also pose additional risk of successful integration.

Management

The management team of DSP Group is highly experienced. Eliyahu Ayalon joined the firm as President and CEO in 1996 and was subsequently named chairman in 2000. He is a member of the Board of Governors of the Technion-Israel Institute of Technology. The core corporate officers have competencies and backgrounds in semiconductor design and the emerging markets in which DSPG is entering.

Key Executives	Pay	Exercised Options
Eliyahu Ayalon	$1.13M	$922.00K
Boaz Edan	$424K	$823.00K
Eli Fogel	$304K	0
Tal Simchony	N/A	N/A
Dror Levy	N/A	N/A

*Source: Yahoo! Finance



Ownership

% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	94%

*Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Fidelity Management & Research Corp	1,970M	6.78%	-260,200
Artisan Partners LP	1,898M	6.53%	45,000
Clearbridge Advisors	1,552M	5.34%	1,410,000
Barclays Global Investors Ltd.	1,433M	4.93%	-70,046
Dalton, Greiner, Hartman, Maher & Co	1,197M	4.120	-333,190

*Source: Bloomberg

RC2 Corporation
RCRC
Price: $44.10 ($30.92 - $46.20)
Fiscal Year Ends: December 31, 2006

December 1, 2006 — Adam Bordner
Russell 2000 Index: 792.28 (666.58 – 795.17) — Consumer Goods Sector

RC2 is a leading designer, producer and marketer of high quality, innovative, branded collectible, hobby, toy and infant products targeted at adults and children. The Company's diverse product offerings include: RC2's Learning Curve Brands and RC2's Collectible Brands. These products are sold under the Company's market-focused brand names, including Ertl®, Learning Curve®, American Muscle, Johnny Lightning®, AMT®, Eden®, JoyRide® and JoyRide Studios®. The Company generally supports its brands and enhances the authenticity of its products by linking them with highly recognized licensed properties from high-profile companies. The Company's products are marketed through multiple channels of distribution, including chain retailers, specialty and hobby wholesalers and retailers, OEM dealers, corporate accounts for promotional purposes and direct to consumer. The Company sells through more than 25,000 retail outlets located in North America, Europe, Australia and Asia Pacific.

Recommendation
RC2 Corporation is a leading manufacturer of die-cast toys and has strong licenses, such as Thomas the Tank Engine, John Deere, and Bob the Builder. What was once a maker of die-cast NASCAR replicas for the mass market a decade ago, management has used strategic acquisitions to fuel growth. RCRC has rounded out its product line in recent years to include products for girls, younger kids and babies. It will continue to use new product introductions and acquisitions to diversify further. I think that RCRC is on track to appreciate to $50.97 within our holding period.

Key Statistics	Nov 26 2006
Market Cap	$923.67M
Shares Outstanding	20.95M
Average Volume	158,775
Beta v. Russell 2000	0.97
EPS (TTM)	$2.49
2007 Estimated EPS	$2.99
P/E (TTM)	17.70
WACC	11.17%
Cash Flow/Share	$2.87
Debt/Assets	8.88%
ROE	12.86%
Gross Margin	47.2%
Operating Margin	17.17%
EPS Growth Est (3 Year)	34.0%
Target Price	$50.97

Investment Thesis

- **Diverse product mix.** RCRC provides a diverse offering of highly detailed, authentic replicas and stylized toys and infant products across three multi-line categories (infant products, children's toys, and collectible products), which provide a broad foundation for growth. The Company has successfully expanded their product offering at varying price points, which currently retail from $0.99 to $599.99.

- **Utilization of multiple distribution channels.** Having a leading position in multiple distribution channels enhances RCRC's ability to secure additional licenses, extends the reach of products to consumers and mitigates the risk of concentration by channel or customer.

- **Significant Acquisitions.** In 2004, RCRC acquired The First Years (infant care/play products; 2003 revenue $136M) for approximately $156.1M in cash and Playing Mantis (vehicle replicas, collectible figures; $28M) for $17.0M in cash and 91,388 shares of the

Company's common stock. Strategic benefits should include a stronger competitive position, increased exposure to the infant category (where RCRC sees growth potential), and further product/distribution diversification (including expanded shelf presence at chain retailers).

Valuation

Based on my discounted cash flow model, RC2 Corporation should be valued at $51.43. The average analyst price target for RCRC is $50.50, with 7 providing buy ratings. I believe that a target valuation of $50.97 is reasonable for the stock.

Risks

- **Competition.** RCRC competes with several large domestic and foreign companies, such as Mattel. Inc. and Hasbro, Inc., on product appeal, ability to capture shelf or rack space, timely distribution, price and quality. Competition is also based on the ability to obtain license agreements for existing and new products.

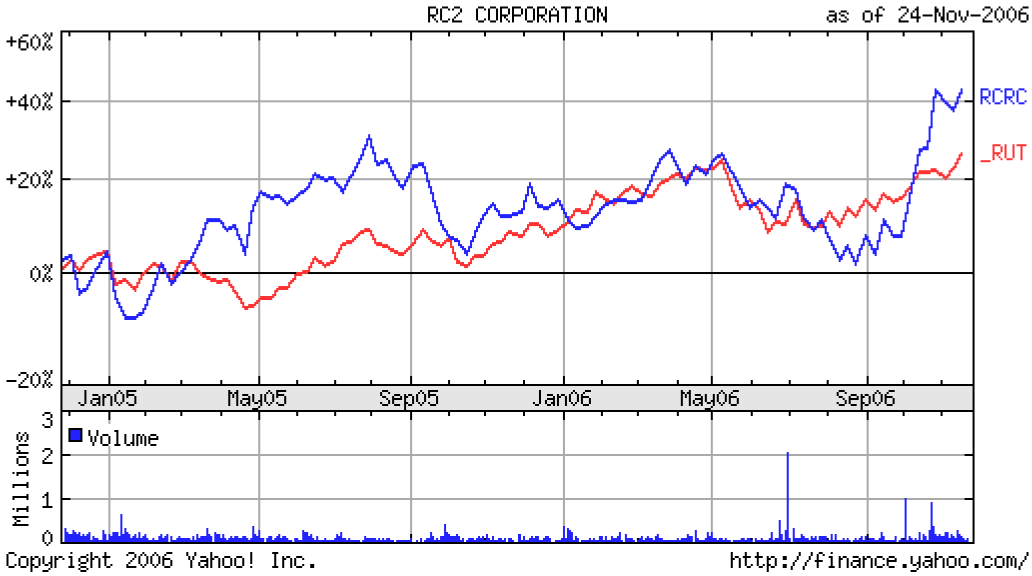
- **Seasonality.** Net sales and profitability have peaked in the third and fourth quarters due to the holiday season buying patterns. Seasonal variations in operating results may cause RCRC to increase debt levels and interest expense in the second and third quarters which may tend to depress stock price during the first and second quarters.

- **Product Innovation.** The ability to continue to conceive, design and market new products and achieve market acceptance of product offerings is critical for the toy industry and RCRC's growth strategy.

- **Acquisition integration.** RCRC intends to pursue acquisitions consistent with their growth strategy. As a result, RCRC faces the risks inherent to the integration of sizable acquisitions. Additionally, to finance strategic acquisitions, RCRC has borrowed funds under their credit facility and may borrow additional funds to complete future acquisitions. This debt leverage could adversely affect profit margins and limit RCRC's ability to capitalize on future business opportunities. A portion of this debt is also subject to fluctuations in interest rates.

Management

CEO Curt Stoelting and President Pete Henseler share the same office, resulting in an exceptional level of information sharing, trust, and effective decision making. They also have nearly identical compensation. Mr. Stoelting came to the company by way of its auditor and rose through the ranks of finance and operations. Mr. Henseler is a "toy guy," with over 25 years of experience in the toy industry, most of it in marketing.



Ownership

% of Shares Held by All Insider and 5% Owners:	6%
% of Shares Held by Institutional & Mutual Fund Owners:	100%

*Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares Held	Percent of Shares Outstanding	Latest Change
Royce & Associates	1,588,000	7.579%	159,000
Barclays Global Investors	1,524,000	7.277%	-26,953
Columbia Wanger	1,500,000	7.161%	-467,600
Fidelity Management	1,421,000	6.784%	75,500
Dimensional Fund Advisors	1,362,000	6.502%	588,492

*Source: Bloomberg

Komag Inc.
KOMG
Price: $39.66 ($30.13 - $54.98)
Fiscal Year Ends: January 1, 2007

November 20, 2006 — Zachary Bloom, Uri Soroka
Russell 2000 Index: 788.47 (666.58 - 794.18) — Hardware Sector

Komag is an independent designer and manufacturer of thin-film media (disks), which are used as the main component in disk drives for desktops, enterprise storage systems and increasingly various consumer electronics. KOMG produces more than 100 million disks annually for all major hard drive manufacturers. The company maintains R&D facilities in San Jose, California and three manufacturing facilities in Malaysia. KOMG is the only U.S. based independent disk manufacturer and its major competitors are internal manufacturing units of KOMG customers and Asian-based Fuji Electric, Hoya, Showa Denko.

Recommendation

Increasing demand for data storage in PC's, enterprise, and consumer electronics creates a favorable situation for thin-film media manufacturers like Komag. KOMG is a leading independent disk manufacturer with solid financial performance, broad customer base and prudent spending policies. With the addition of Samsung as a new customer, progress on qualification for 65mm glass-based media and high plant utilization, we expect KOMG shares to appreciate to our target price of $47.00 within our holding period – a 20% return potential.

Key Statistics	Nov 20, 06
Market Cap	$1.23B
Shares Outstanding	31.02M
Average Volume	1,256,520
Beta v. Russell 2000	1.09
EPS (TTM)	$4.42
2007 Estimated EPS	$5.17
P/E (TTM)	8.97
WACC	15.81%
FCF / Share 2005	$3.10
FCF / Share YTD	$-1.30
Est. FCF / Share FY07	$3.67
Debt/Assets	8.48%
ROE	32.73%
Gross Margin (Q3'06)	25.8%
Operating Margin (Q3'06)	14.6%
Target Price	$47.00

Investment Thesis

- **Gigabytes and Terabytes needed.** Continuing demand for increased storage capacities has spread beyond the desktops into the personal consumer electronics such as Digital Video Recorders and storage servers. In addition, quality improvements in various digital media require higher capacity to store movies, music and photos. KOMG's strong relationships with manufacturers, that produce 90% of the world's hard drive demand, will allow the company to benefit from this trend.

- **High equipment utilization and short lead time to expansion.** KOMG maintains its plant capacity utilization in the high 90% level, thus maintaining solid upper 20% margins - despite price pressures. The company is in a position to increase capacity by a several million units within four weeks and maintains close relationships with customers to forecast future demand.

- **Add glass to the winning mix.** KOMG historically produced mainly aluminum based disks. With significant growth of the notebook hard drive segment (46% in 2005 and 43% in 2Q06) we view positively the decision to move toward qualification for glass-based disks used in notebooks and mobile devices. In addition some similarities in manufacturing technologies should ease the transition of some of the manufacturing capacity to accommodate new product mix.

- **Samsung.** The addition of Samsung as a customer exposes KOMG to almost 100% of the aluminum and 95% of the total HDD market. This is a positive development in light of the recent Seagate-Maxtor merger and the limited amount of HDD producers in the world.

Valuation

We valued the company using a variety of approaches including DCF, EV, and relative PE. Based on our valuation approaches we derived a target price of $47.00, which represents 9x our FY'07 EPS of $5.17.

Risks

- **Maxtor acquisition by Seagate.** Seagate indicated that it plans to produce 85% of the required disk capacity internally. This development makes future demand level from the combined firm uncertain. On a positive note we believe this risk should not materialize until sometime in 2008, as in the short term Seagate closes manufacturing facilities to consolidate its production it will still require KOMG to produce its HDD.

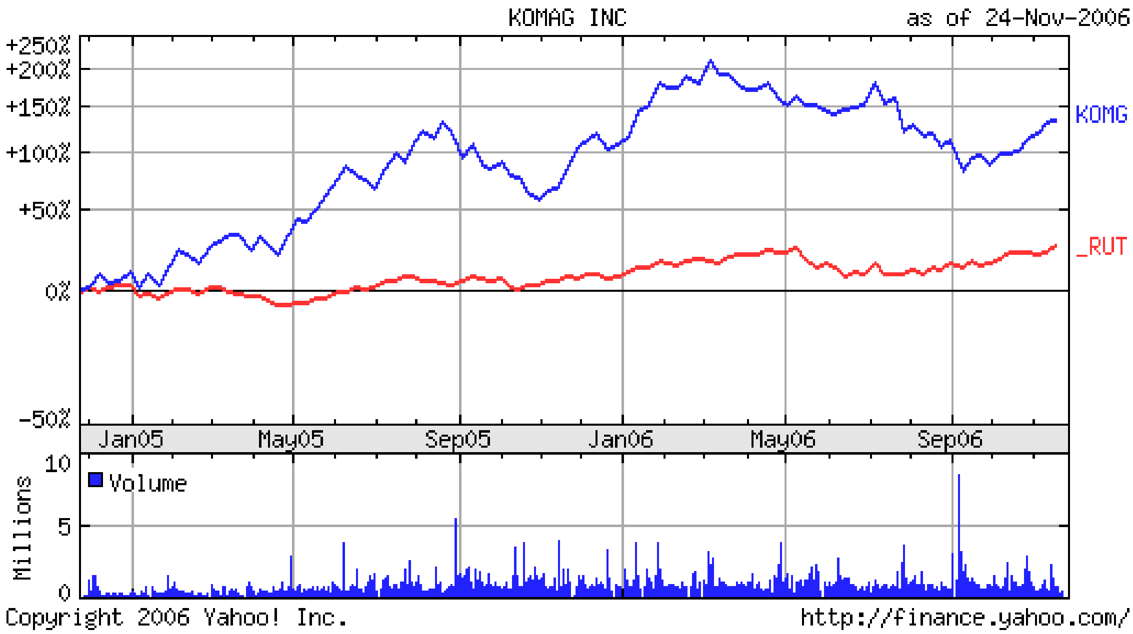
- **Customer concentration.** As of 3Q'06 Seagate (combined with Maxtor) accounted for 38%, Western Digital for 34% and Hitachi for 24% of total sales. Such high customer concentration makes loss of any one customer significant. We believe Samsung will moderate this risk in the future.

- **PMR, glass and new technologies.** KOMG success is heavily dependent on its ability to keep up with the new technologies, such as PMR, and to adjust its product mix to fit the various growth opportunities (i.e. 65mm glass-based products). Failure to do so may significantly affect company's performance.

Management

KOMG management has a lot of experience in the HDD and disk manufacturing industry. Recently the company's CEO retired and the COO assumed the position. While the company has overall good corporate governance rating, it is blemished by the three class director structure that effectively prevents takeovers.

KEY EXECUTIVES	**Pay**	**Exercised**
Ms. Kathleen A. Bayless, 49 Chief Financial Officer, Sr. VP and Sec.	$ 567K	$ 370K
Dr. Michael A. Russak, Ph.D., 59 Chief Technical Officer and Exec. VP	$ 793K	$ 386K
Mr. Ray L. Martin, 62 Exec. VP - Sales and Customer Service	$ 699K	$ 336K
Mr. Peter S. Norris, 54 Exec. VP - Strategic Bus. Development	$ 424K	$ 331K
Mr. Tim Harris, 51 Chief Exec. Officer, Chief Operating Officer, EVP	$525K	N/A



Ownership

% of Shares Held by All Insider and 5% Owners:	19%
% of Shares Held by Institutional & Mutual Fund Owners:	100%

*Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Held	% Outstanding	Latest Change
Fidelity Management	4,445M	14.3	744,292
Barclays Gl Inv Ltd	2,312M	7.4	-378,153
Federated Investors	2,282M	7.3	500,564
Putnam Investment	1,785M	5.7	472,994
Goldman Sachs Grp	1,343M	4.3	-637,589

*Source: Bloomberg