



Fall 2009– Spring 2010

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## "...lessons certainly have been learned."

by Justin Hunter

One of the hallmarks about participation in Roland George is the exclusivity it garners oneself. Not many people, let alone college seniors, can boast of managing millions of dollars in assets. Roland George consistently attracts young men and women looking to distinguish themselves; this past year, I, along with my teammates Stacey Hudson, Ryan Jungk and Jordan Slingo, had the opportunity to distinguish ourselves within our fraternity of fellow Roland George participants. Stetson, along with other Florida universities, was invited to participate in Florida's first annual CFA Investment Research Challenge.

The Florida Challenge is part of a much larger competition, the CFA Global Investment Research Challenge. The GIRC consolidates all of the winners of various Challenges around the world, with winners of each congregating in four continent tournaments, and the winners of those progressing to an international round. Schools from around the world compete to be the best at analyzing a public company, and are required to write a research report and give a ten minute presentation to a group of real-world judges. Needless to say, we were all ready to prove that Stetson is the best in the area.

In late-October, when Dr. Ma asked for volunteers, none of us could have known what the next months would hold. On November 3<sup>rd</sup>, we were confirmed as the team and the schedule was laid out as follows: a ten page report was due December 24<sup>th</sup>, and a ten

*continued on page 11*

## editor's note

by Jordan Slingo



What a ride the past year has been for investors! From the lows of last March to the highs of this April, we've seen the market climb more than 80% only to fall back into correction territory in the following weeks. For the students in the Roland George Investments Program (RGIP), the volatility of the past year and the uncertainty about the future have created some amazing learning opportunities. We've witnessed, and thanks to the George program, actually participated firsthand in, to borrow one of President Obama's favorite buzzwords, an *unprecedented* period in the history of U.S. financial markets.

Naturally, being finance and accounting majors, we have engaged in numerous interactive lectures, debates, and conversations over the past year in trying to navigate the abundance of questions, facts, and conjecture surrounding the economy and the markets. It's easy to voice an opinion, but unlike most of our peers, the students in the George program have actually had the opportunity to back up our beliefs and our research with real money in real investments. Armed with some of the finance industry's best research tools (Bloomberg, Thomson Baseline, Reuters Bridge) and copious amounts of caffeine, we have been pushed by our faculty members to dig through mountains of data, to defend our personal and collective forecasts, to collaborate, and to apply our classroom knowledge to finding what we believe will be some of the most attractive

*continued on page 4*

### what's inside

analyst reports	4, 6, 11, 12, 13, 14, 15	editor's note	1
column	1	portfolio managers' reports	2
director's update	5	purchase recommendations	2
		sell recommendations	7



## equity fall 2009

by Kaley Smothers

With a prestigious reputation on the line, the pressure was on for the incoming Roland George Investments Program class of Fall 2009. We collectively approached our new venture by setting our investment policy statement for our equity portfolio. By taking into account the current economic conditions and predictions for the coming year, the class decided to dedicate the semester to maximizing the fund's total return over the next twelve months.

As a class, constraints were discussed for the fund. These included focusing on making the style of the equity fund primarily small cap and de-emphasizing housing, utilities, and healthcare sectors. The class decided that unlike the previous class, we wanted to keep the number of stocks in our portfolio to a minimum. By doing this, our chances of outperforming the market greatly improved. Therefore, we decided to keep the number of stocks in our portfolio to around 18.

The class began the semester with a cash balance of \$31,656 and an account value of \$1,293,966, as of September 18<sup>th</sup>, 2009. After initially liquidating almost 2/3 of our original portfolio for the year, we ended the fall semester with six swaps and five outright buys. As of December 31<sup>st</sup>, 2009, the cash balance of the equity portfolio was \$11,266.31 and investments in securities of \$1,402,475.87 for a total value of \$1,413,742.18. The year-to-date return for the portfolio was .39 percent, which was ahead of the year-to-date -3.8 percent benchmark return of the Standard and Poor's 500 (SPX).



## fixed income spring 2010

by Stacey Hudson



The Roland George Investments Program has a rich history of success with its fixed income portfolio. We approached this semester with the single goal of perpetuating that success. After placing second last year, the program regained its position as national champion in the fixed income category at the Redefining Investment Strategy Education (RISE) Symposium at the University of Dayton in March 2010. The total return for the fixed income portfolio was an impressive 12 percent for 2009.

The 2010 fixed income class began in the early stage of economic recovery. The Federal Reserve had announced its intentions to keep the Federal Funds Rate at a historically low level for the foreseeable future. Meanwhile, developing concerns regarding sovereign debt, particularly that of Greece, was a focus of credit market news throughout the semester. The class forecasted stable interest rates (movement of plus/minus 50 basis points), as well as stability in rate volatility and the yield spread. Because we believed rates would eventually begin to rise, we lowered our target duration to 5 to 7 years from the 8 to 12 year target duration of the previous class. We lowered our minimum credit rating to BB to take advantage of opportunities to generate return by assuming more credit risk.

The class began the semester with a large cash balance of over \$350,000 in the fixed income portfolio. After completing four bond swaps and three outright purchases, the portfolio today is almost fully invested. As of May 12, the fixed income portfolio has a cash balance of \$36,508 and investments in securities of \$1,130,145 for a total value of \$1,166,653. The year-to-date return for the portfolio is 2.06 percent, which is slightly lagging the year-to-date 2.40 percent benchmark return of the U.S. Aggregate Short-Term Bond Index (USSBX).

*Generally speaking, one would not expect this in DeLand. FL.*

*9:00 a.m., 27 degrees,  
early February, 2010.  
Photo by Lynn Thompson*

**ROLAND GEORGE INVESTMENTS PROGRAM  
FALL 2009 – EQUITY POLICY STATEMENTS**

**GOAL:** Maximize Total Return

**WORKOUT PERIOD:** 12 months

**CONSTRAINTS:**

1. Style: Small Cap (< \$1 Billion) Growth
2. Sectors:
  - De-emphasize
    - Healthcare (insurance, service provider)
    - Housing
    - Utilities
  - Guidelines for Growth:
    - Valuations –
      - P/E > 17
      - or P/B > 2.5
      - or P/S > 1.5
      - or P/CF > 10
    - and Earnings Growth Rates > 9–11 %
3. Suggested Liquidity Guidelines:
  - Price  $\geq$  \$5
  - Daily Trade Volume  $\geq$  50,000 Shares
  - # of Analysts < 5

The total number of stocks in our portfolio should be no more than 18. If we want to accept more than seven new stocks (approximately one or two per session), we can choose to get rid of the 11 stocks we chose to hold at the beginning of the semester. Each new position is \$60,000.00.

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**ROLAND GEORGE INVESTMENTS PROGRAM  
SPRING 2010 – FIXED INCOME  
POLICY STATEMENTS**

**OBJECTIVE:** Maximize total return within a 12 to 18-month workout period.

**CONSTRAINTS:**

1. The average portfolio duration is 5–7 years.
2. No bond should be lower than BB rating.
3. At least \$50,000 total coupon income.

Additional notes:

The class expects interest rates to remain stable (+/- 50 bps). The class also expects the yield spread and volatility to be stable.

**purchase recommendations  
growth fund**

**A–Power Energy Generations System (APWR)** See full write-up on page 12.

**Balchem Corp.** (BCPS) See full write-up on page 12.

**Calgon Carbon Corp.** (CCC) is a member of the NYSE and operates in the Synthetics industry, providing services, products and solutions for purifying air and water in the US as well as internationally. Currently Calgon is the world's largest manufacturer of granular activated carbon. The company has continued general upward sloping growth since mid-2009. The firm is backed by improving financials and has been presented with a multitude of solid growth opportunities both domestically and abroad. We expect Calgon will be a key asset to our portfolio.

**China Transinfo Technology (CTFO)** See full write-up on page 4.

**Diamond Foods, Inc.** (DMND) See full write-up on page 6.

**Edwards Lifesciences (EW)** See full write-up on page 14.

**Interactive Intelligence, Inc.** (ININ) See full write-up on page 15.

**I–Shares TR Russell 2000 (IWM)** The I–Shares Russell 2000 Index Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the small capitalization sector of the U.S. equity market as represented by the Russell 2000 Index. The index represents the approximately 2,000 smallest companies in the Russell 3000 Index. It was felt we could benefit from returns on I–Shares by investing a portion of the remaining cash in our portfolio.

**National Presto Industries, Inc.** (NPK) See full write-up on page 11.

**Panhandle Oil & Gas, Inc.** (PHX) Despite large decreases and fluctuations in oil prices over the past five years, Panhandle Oil still managed to raise their dividends each year. A non–operating oil and gas company, PHX has ongoing drilling prospects scattered over 250,000 acres in 5 states. PHX uses their mineral acreage ownership to participate in a working interest with other independent oil and natural gas

*continued on page 7*

## CHINA TRANSINFO CORPORATION



by Luis Fermin

China Transinfo Corporation is the leading provider of public transportation information systems technology and comprehensive solutions in China. Through their subsidiaries, China Transinfo is involved in developing applications in transportation, digital city, land and resource filling systems based on Geographic Information System (GIS) technologies. Geographic Information System technology is a more complex geographical tool than global positioning system (GPS). GIS is an application that allows users to capture, record, survey, analyze and manage geographic information based on the basics behind GPS. With its advanced products and services, China Transinfo Corp. is involved in developing and providing a more efficient and effective means of transportation in China. Their highly demanded products and services are transforming the way traveling occurs in China. China Transinfo's goal is to become the largest transportation information product and comprehensive solutions provider, as well as the largest integrated transportation information platform and commuter traffic platform builder and operator in China.

The company has an impressive business model, targeting an industry with a huge demand for their products and services. The industry that CTFO targets is China's transportation infrastructure industry. China is going full steam ahead in the construction of expressways, first and second-grade motor roads, and improvements to transportation information technology. These high demands for improvements in China's transportation infrastructure industry are coming from the government and public sectors, which

are seeking advanced transportation information products and services to support more effective and efficient transportation networks in China.

China has the second longest highway network in the world (53,800 kilometers) as of 2008 and approximately 70% of the world's toll highways. By 2020, China is expected to reach 85,000 kilometers with an additional RMB 100 billion to be invested annually from 2010 to 2020. Along with the increased demand and amount of devotion the government and public sector is putting into this industry, we can see that this industry has a lot of potential for high earnings and growth in the future.

China Transinfo's core business is developing information technology systems in the transportation sector of China utilizing GIS application software and technologies. Their diverse products and services include, but are not limited to: transportation planning information systems, pavement maintenance systems, electronic toll collection, taxi security monitoring systems, intelligent parking systems, red light violation snapshot system, and intelligent highway monitoring system. Competition is very fragmented in this industry, which consists of very limited foreign and domestic companies. China Transinfo Corp.'s competitive advantages include: providing technology to meet the growing demand in advanced transportation information technology, pioneering real-time traffic reporting technology, developing national technological standards, and maintaining strong customer relationships with local government transportation agencies. Outlook for 2010 is extremely promising for China Transinfo Corp., making it a perfect asset in the Roland George Investments Program portfolio.

## editor's note

*continued from page 1*

investments for the coming year. We'd be lying if we said the past year has been easy, but looking back, I think we all agree that the late nights in the lab, the presentations, and all the other challenges along the way were more than worth it for the experience we've gained as we enter the workforce.

The George program, despite the challenging workload, is certainly not without its perks. One of the highlights of the 2009-10 George class was the resurrection of the class trip to New York City after a year sabbatical. We had a great time seeing the sights around Wall Street and elsewhere in the Big Apple and visiting the NASDAQ market site for the closing bell. We were also graciously hosted by financial professionals at Bank of America Securities and hedge fund Harbinger Capital, where we got a glimpse of corporate life in the world's financial hub.

The Roland George Investments Program continued its competitive legacy as well this year with a national champion title at RISE in the fixed income category, our eighth first place title at the competition in the last ten years. This year also marked what we hope will be the beginning of a new RGIP tradition, as four students, including myself, had the opportunity to compete against business schools across the state in the CFA Institute's first Florida regional Investment Research Challenge. Each team researched, wrote, and presented a sell-side research report on a small-cap public company for evaluation by a panel of distinguished CFA judges. The Stetson team beat out schools like UF and USF to place second in the state, which we believe is a testament to the high quality of instruction we've received in the George program. The IRC was a

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This year marked a period of new things as well as more of the same in the Roland George Investments Program. Unfortunately, part of the “more of the same” was the performance of the economy. The economy stayed sour despite some encouraging signs. Early in the year there was talk of “green shoots” emerging from the economic winter we have been in. Congress appropriated a huge stimulus bill and the President confidently predicted that unemployment would begin to fall. As the year wound down to a close, however, the stimulus funds had only been partly employed with little discernible effect. The job losses continued, and the unemployment rate remained stubbornly high. The health care reform bill was signed into law, hopefully providing new opportunities for companies in the health care sector. Investor confidence waxed and waned, depending on the current news. Fears about deficits began to appear, and the markets responded negatively. So the past year saw a lot of volatility. Bonds became more attractive and so prices were bid up and yields down. At one point the Treasury Bill yield was near zero. Everywhere you looked, nothing seemed to make sense.

In the midst of economic conditions that I had not seen in my own lifetime, this year’s class of RGIP students was given the task of trying to

find attractive companies. They had to do their usual policy statements, research, and presentations. It seemed that every week some news came out that made the markets gyrate wildly. Certainly this was not the most investor-friendly environment to operate in. But in the midst of all of this, they did what they usually do: they found good companies that were attractively priced and that had growth potential. This is just another example of two things that are pedagogical strengths of the program: fiduciary responsibility and experiential learning. Experiential learning is usually defined as “learning by doing”, but in this case I would re-classify it as learning as you experience what is going on around you. This might be construed as “shift on the fly”, but in the economic environment that we are in this somehow seems prudent. The fiduciary part was even more important in the midst of this. Because of the fact that they were dealing with someone else’s money and that markets were so haywire most of the time, it required even more care in the selection of stocks and bonds than usual.

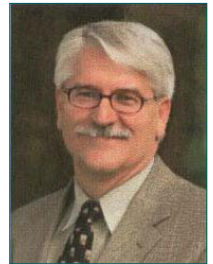
Their skill manifested itself in a number of ways. First, they made some good recommendations to add to the

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great experience and incredible learning opportunity, and we expect strong performance from future George classes in the competition as well.

We’ve learned that emotional markets often hold the best investing opportunities for disciplined investors. Well, the markets over the past year have certainly had no shortage of emotion, and as a result we’ve been able to discover what we believe to be some unusually promising investments around which to build this year’s George portfolio. I hope you enjoy this issue of the *George Investments View*, which highlights some of our new portfolio additions as well as insights and experiences from this year’s George students. I hope you continue to stay up to date on the accomplishments of the George program, and I invite you to contact us with any questions or comments regarding the Roland George Investments Program. (See last page for contact info.)

## director’s *update* by Dr. Larry Belcher



portfolio. Second, they were recognized by outside individuals — twice this year — for their performance. As Justin Hunter chronicles very well in his story on the CFA challenge, the students participated in this first ever event in Florida, finishing second. The second place was somewhat disappointing until you listened to the feedback from the judges on their report and their presentations. It was excellent. And mind you, the company chosen was not an easy one to analyze. Their ownership and compensation structures were out of the ordinary and the history of the company was convoluted, at best. So the work that they did was really outstanding, and the judges told them so. We also made our usual trek to Dayton, Ohio for the annual RISE Symposium. For once, the weather every day was absolutely gorgeous. I was able to catch up and have dinner with a high school friend who is a commodities trader in Columbus, Ohio. The students went with us and we had fun listening to his war stories of how to make (and lose) money in the commodities business. I missed the best part, though. Due to my EMBA teaching schedule, I was in the airport waiting for a plane when I got the news from KC that we had won another Fixed Income title in the portfolio competition. This was the second outside commentary on our students’ work. It was just another validation that experiential learning really does work!



by Greg Mullins

San Francisco based Diamond Foods, Inc., specializes in the processing, marketing and distributing of four different lines of nut and snack products. The company sells its products in over 60,000 United States locations as well as in over 100 countries. The first product line is the company's "culinary" goods. These are nuts sold under the Diamond of California brand to grocery stores and mass merchandisers and are marketed toward individuals preparing meals at home. The second product line is their "snack" goods which are various snack items sold under the Emerald and Pop Secret brands. These products include roasted, glazed, and flavored nuts, trail mixes, seeds, dried fruit and popcorn. The third product line is their "in-shell" goods which are sold under the Diamond of California brand. The final product line is the "ingredient/food service" goods which are also sold under the Diamond of California brand. These products are marketed toward food processors, restaurants, bakeries and food service companies and their suppliers.

In September of 2008 Diamond Foods expanded their "snack" product line by purchasing the Pop Secret microwave popcorn line from General Mills, Inc. for just over \$190 million. This is a significant expansion as Pop Secret holds a market share of 25%. The addition of Pop Secret was a key

contributor to Diamond Food's "snack" product line's increase in sales of 113% in fiscal year 2009 compared to 2008. Diamond Foods is also significantly increasing their marketing efforts going forward. For example, in October 2009 the company launched their first ever marketing initiative that integrates all three brands (Diamond, Emerald, and Pop Secret). This campaign is called "Feed Your Fingers" and it provides consumers with innovative finger food concepts. In addition to this they announced that they would be airing a new commercial during the Super Bowl on February 7, 2010. Diamond Foods also recently announced that they will be launching their newest addition to the Pop Secret product line, jumbo popping corn kernels, in early 2010.

Fiscal 2009 was a record year for Diamond Foods as net income increased by 61% over 2008 (\$14,756,000 to \$23,743,000). Earnings per share for the year were \$1.45. What attracted the interest of the George Program was the fact that it still has tremendous potential to grow even after remarkable growth over the past year. Michael J. Mendes, the President and CEO of Diamond Foods, was recently quoted as saying, "We achieved significant retail sales, margin and profitability improvements in fiscal 2009 that position us for continued growth as we head into fiscal 2010. Today we are increasing full-year fiscal 2010 guidance that projects earnings will expand 18-25 percent over fiscal 2009." Currently earnings per share estimates for 2010 are set at between \$1.72 and \$1.82.

This stock meets the criteria set forth in this year's Investment Policy Statement. We are looking to maximize return with small-cap growth stocks as the economy slowly comes out of the recession. However, this stock has a lower beta than most of the stocks recommended so will help to hedge our risk if the economy were to see slower than expected growth or experience a double dip.

*An integral part of the investments program is class presentations in a boardroom setting.*



*continued from page 3*

companies. Being undervalued but with high growth rate expectations, Panhandle Oil was added to our portfolio.

**ZAGG, Inc.** (ZAGG) See full write-up on page 13.

## **purchase recommendations income fund**

**Alcoa, Inc.** (AA) is one of the world's largest companies involved in the production and management of primary aluminum, fabricated aluminum and alumina combined. Because Alcoa is well diversified in seven different market segments, it reduces the negative impact on the company if any one of these segments does poorly. With the Alcoa bond undervalued and exhibiting more convexity, this bond will perform better than a Treasury.

**Fortune Brands** (FO), a member of the S&P 500, is a leading manufacturer, producer and distributor of distilled spirits, home and security products, and golf products. The reduced price of this bond reduces the average duration of the portfolio, which is beneficial in case interest rates rise over the next 12 to 18 months. In order to fulfill the policy objective to maximize total return, this bond has been added to the Roland George income fund.

**Hospitality Properties Trust Company** (HPT), is a real estate investment trust that engages in buying, managing and leasing hotels. The hotels are managed by independent operating companies or leased to third parties. The trust requires the operating companies to provide minimum security deposits (amounting to roughly 50% of its revenues) to ensure that cash is flowing in, with or without an economic downturn. Through the recent recession, it managed to maintain its credit rating of BBB.

**Morgan Stanley** (MS) is a financial holding company that provides financial services to individuals, corporations, government and financial institutions. It operates under three segments: global wealth management, institutional securities and investment/asset management. Profit margins and revenues for Morgan Stanley have both increased while debt to asset has slightly decreased during this recession. Their total assets are sufficient enough to cover total debt. Analysts have forecasted substantial growth for year ending 2010. Morgan Stanley's financials have shown huge improvements from 2008 and beginning 2009 lows and it is felt that this improvement will continue.

## **portfolio performance**

**R. R. Donnelley & Sons (RRD)** is an integrated communications provider specializing in commercial print outsourcing in the United States and Canada. This bond exhibits all the characteristics of a superb investment. It matches our portfolio constraints and objectives and currently gives an excellent 415 basis point pickup over the Treasury benchmark.

**Reynolds American** (RAI) was created by combining R. J. Reynolds Tobacco Company and Brown & Williamson Tobacco Corp., the second and third largest tobacco companies in the United States at the time. Currently, the Reynolds bond is undervalued and provides a substantially higher return at 6.7% than a Treasury, or worse, just cash.

**Sempra Energy** (SRE) was formed in 1998 with the merger of two utility companies. Today, it is a Fortune 500 energy company based in California with operations in the U.S. representing 92 percent of revenues and operations in Mexico and parts of South America contributing 8 percent of revenues. Given the potential return pickup and the significant improvement in income, it is recommended that the Roland George Investments Program sell its Treasury Inflation Index Security and purchase the Sempra Energy 9.8% corporate bond. The Federal Reserve is not concerned about inflation in the short-term time horizon, so there is no strong argument for maintaining this defensive position in the TIP. If rates rise as expected, the total return for the Sempra Energy bond will be much better than that of the TIP. The Sempra Energy bond is unlikely to be called or downgraded within our workout period and represents a great opportunity to improve the overall position of our portfolio.

## **sell recommendations growth fund**

**Abbot Laboratories** (ABT), although still undervalued, is subject to many risks in order to carry on operations, particularly cost containment from the government, research and development that meet the demand of the future, new products and technology from competitors, as well as lawsuits. Abbott is a mature, large-cap, defensive healthcare stock which no longer meets the Equity policy statements. It was decided to sell all shares.

## portfolio performance

**Amedisys, Inc.** (AMED) is part of Healthcare services, which we decided to deemphasize in our policy statement. Amedisys no longer fits our criteria and a concentration in healthcare is not good for our portfolio. Although Amedisys has outperformed the S&P 500 for the past five years, it has underperformed in its industry by 109% for the same period. With a negative net working capital for Amedisys and expectations that it will continue to lag behind its industry, we opted to sell.

**Berkshire Hathaway** (BRK.B) is a huge and well diversified company with good long-term growth prospects. However, they are simply overvalued. They are almost certainly riding a price rise due to a large amount of investors wanting to buy the prestigious Berkshire Hathaway name now that it no longer trades as four digits. The surging price is just not in line with the growth prospects over our workout period. All shares have been liquidated.

**Boeing Company** (BA) Given the macroeconomic environment going forward, the changes in the defense industry and government contracts in particular, along with company specific risks, labor issues, cost overruns, etc., Boeing faces significant risks going forward. The company is severely overvalued by the market, with models placing the fair value of the stock higher than it should be. In light of this, Boeing no longer fits our investment policy and all holdings have been sold.

**Campbell Soup Company** (CBP) As a large-cap growth company, Campbell's was an excellent choice for our portfolio during such turbulent economic times. Despite economic problems, Campbell's has been a relatively stable stock to hold. However, the growth prospects for the company are modest at best. The company is continuing to focus on its core products and strategies; however, there are no plans for aggressive growth, as the company is focused on simply differentiating themselves from their main competitors — Heinz and General Mills. We liquidated our holdings in Campbell's and purchased stock in a smaller company with higher growth and return potential for our portfolio.

**Canadian PAC Railway** (CP) operates a transcontinental railway in Canada and the United States, offering rail and intermodal freight transportation throughout both regions. Canadian Pacific has increased sales and revenues in 2009; however, they have operated under a weakening operating ratio over the course of 2009. If the operating ratio continues to weaken, the company will have a hard time posting higher earnings because of poor margins. Along with that, as well

as being a large-cap stock, it no longer fits our portfolio objectives and all shares have been sold.

**Colgate-Palmolive Company** (CL) has shown growth in the past year, reaching its five-year high, usually a feat that is not sustainable for very long, and is followed by a drastic drop in price. Being a defensive, non-cyclical company, it appears Colgate Palmolive will continue to underperform in its industry. It was decided to sell all shares and not risk lower returns.

**Comfort Systems USA, Inc.** (FIX) provides heating, ventilation and air conditioning (HVAC) services to a primarily commercial market including office buildings, government buildings and manufacturing plants, among others. They also provide maintenance, repair and replacement services for their customers. Based on research and evaluation, today Comfort Systems is an overvalued stock and no longer fits our investment strategy. For that reason, all shares have been sold.

**Devry, Inc.** (DV) was purchased for its growth potential within an industry that was posting positive returns during the financial crisis. Since that time, the performance of the Education Services industry has been disappointing, and it has significantly underperformed the S&P 500. Despite its record-high revenues and new acquisitions, DeVry has mimicked its industry and performed dismally. The stock is currently overvalued and the price does not seem to have much upward potential based on valuations for a fair target price. All shares have been sold.

**Diageo PLC** (DEO) Although Diageo is a well diversified firm with many product lines covering a wide range of market share, there is limited growth potential in its future. As a consumer staple, we cannot expect to see high volatility in the firm's performance, thus we cannot expect particularly attractive growth. In addition, while the firm continues to make strong use of acquisitions and stake holdings, it simply does not have the economic backing or the assurance of economic prosperity to see strong growth from them. Using reasonable growth rates, reflective of the firm's defensive industry, it is clear that the firm is currently overvalued and no longer meets our investment criteria. Therefore, all shares have been sold.

**Dun & Bradstreet** (DNB) The current climate in the Research and Consulting industry is a worrying one. Without



## portfolio performance

a steady recovery in capital spending, Dun and Bradstreet, along with its competitors, will struggle to maintain the growth rates they experienced prior to the market downturn of 2008. With so many companies looking to cut costs, putting money into the highest quality research and consulting on the market is often out of the question. The average fair price based on several valuation models shows that the security is currently overvalued. All shares have been liquidated.

**Eagle Bulk Shipping, Inc.** (EGLE) was originally purchased at an undervalued price and has remained below this value for the majority of the time it has been held in the portfolio. However, Eagle has been and is expected to remain unprofitable in the future. It is currently overvalued based on its expected earnings per share. Even though the shipping industry has seen gains this year, Eagle has not. As long as the economy remains in a recession, Eagle Bulk Shipping will continue to have decreased earnings and revenue. Holdings in our portfolio have been liquidated.

**Edwards Lifesciences** (EW) has received significant attention from analysts and investors in the past several months. Additionally, the P/E ratio of the company has risen 32% since the purchase date, compared to an increase in the industry average P/E ratio of 8%. As a result, the stock is no longer undervalued and does not meet our Equity Policy statement which also calls for de-emphasizing the holdings in healthcare. All shares have been sold.

**Heinz Company** (HNZ) is most famous for their condiments, canned goods and other processed foods. The company operates a number of licenses and brands through three main operating segments: condiments, meals & snacks, and infant/nutrition. Although Heinz is a well-diversified company as well as a great defensive, large-cap stock, it does have a high price-to-earnings ratio and no longer fits into our portfolio style. Therefore, all shares have been sold so we can invest the proceeds according to our policy statement.

**Huron Consulting Group** (HURN) is a firm based in Chicago, IL, whose main goals are “to improve performance, comply with complex regulations, resolve disputes, recover from distress, leverage technology, and stimulate growth.” Huron Consulting Group was a leading competitor in the REACO industry, but since the release of their false financial statements as a result of lawsuits, the company’s stock value has significantly dropped. We have sold all shares.

**I-Shares TR Russell 2000** (IWM) While the returns on our I-Shares have been quite favorable, as we expected, we determined it would be best to free up some funds in order to complete some other investments for our portfolio.

**Marvel Entertainment, Inc.** (MVL) As a business, Marvel was showing high future growth expectations provided it sustained the high quality in its entertainment offerings that helped set it apart from competitors over the years. However, shortly before the Disney acquisition announcement, Marvel was selling at a much higher premium and was clearly overvalued. The fact that it will cease to exist as an independent entity once the acquisition is completed provided strong incentive for the George Program to sell at a very attractive price.

**Monsanto Company** (MON) The growth rates that were expected of the company when the George Program bought Monsanto stock never came to fruition and instead have gone in the reverse direction. With the company looking at slow growth rates, possibly even a negative growth rate, combined with the fact that it is quite overvalued, it was time to eliminate any more risk for the portfolio.

**MWI Veterinary Supply** (MWI) is the largest distributor of animal health products in the United States. Although MWI has shown price and revenue gain for 2009, this was attributed in part to the company’s frequent acquisitions over the past couple of years which carries over price and revenue gains. A concern is whether the company can manage and integrate these acquisitions skillfully and maintain a strong leadership from management. The company is overvalued now and no longer meets our investment criteria.

**Nustar Energy LP** (NS) Although not performing poorly, Nustar Energy does not fit many of our investment objectives. Therefore, all shares have been liquidated.

**Panhandle Oil and Gas, Inc.** (PHX), based on several valuation models, is overpriced because of emotional buyer inflation. Oil is a needed commodity and the prices for these companies fluctuate on a regular basis. Buyers are forcing the stock price to be higher than it should be because of the future growth prospects it holds. However, it is not wise for the George Program to have such an inflated stock in our portfolio at this time. All shares have been sold in order to acquire stocks that better suit our objectives.

**Petmed Express, Inc.** (PETS) has been outperformed by the S&P 500 and other companies within its sector since the beginning of 2009. The company falls into the consumer discretionary sector and was hit hard by the economic downturn. The risks that PetMed faces are too great and could cripple the company. We invested the funds from this sale into a stock that has more potential for a higher return.

**Seaspan Corp.** (SSW) Since the purchase of Seaspan stock, the price has dropped and has not returned to the highs first experienced when it became public in 2005. Recent dividend cuts make Seaspan even less desirable, especially since large growth opportunities are not guaranteed. A contracted recovering economy, high oil prices, and rising costs of labor will play major roles in the company's future. While there may be a slim opening for large growth, too many factors outweigh the benefit and we have sold our shares to make room for stocks that show much better signs for future growth.

**Seracase Life Sciences** (SRLS) is a small company that is just now starting to get over a long time of negative earnings and revenue. They are expected to mirror the market and show no real growth opportunities, as well as being overvalued. It is in the best interest of the Growth fund to sell all shares.

**Silicon Motion Technologies** (SIMO), a semiconductor company that designs, develops, markets, and supplies solutions for the multimedia consumer electronics market has not met the anticipated growth in the flash memory card and USB flash drive markets. Many acquisitions SIMO has made over the past several years have not turned the expected profit, in turn reducing their revenues and subsequently adding too much risk to our portfolio. All 9,200 shares were liquidated.

**Snap-On Tools, Inc.** (SNA) Being in the consumer discretion sector, Snap-on Tools has experienced a profound impact on their revenue with sales of higher-priced items being down as a result of the recession. They were underperforming the S&P 500 in spite of being awarded a Department of Defense contract to one of their subsidiaries to supply artillery maintenance ship tool sets to the U. S. Army. Although Snap-on Tools is projected to regain strength within a year or two, the Program is not designed to hold stocks that will not rebound sooner than later. All shares have been sold.

**Ultra Clean Holdings, Inc.** (UCTT) operates four wholly owned subsidiaries that are engaged in the design and manufacturing of gas and liquid delivery systems used in the production of semiconductors. Currently UCTT is in a perilous position. Despite an industry that looks poised for solid growth in three to five years, it is doubtful that UCTT can weather the storm until then. With just \$30M in cash and cash equivalent, along with negative operating profit, it is only a matter of time before insolvency strikes. We have liquidated the entirety of our holding.

**Waste Connections, Inc.** (WCN) Throughout their history, WCN has experienced growth in the form of organic growth and through acquisitions of companies in high growth markets in adjacent segments of the industry. However, they are currently underperforming the market and the industry returns. With an increased debt-to-equity ratio and a decrease in their revenues and gross profit margin, there is an increase in the risk of volatility in an already volatile market. While underperforming in the industry and the market, indications are that WCN stock is currently overvalued, does not meet our criteria and has been sold.

## sell recommendations income fund

**Coca-Cola Enterprises** (CCE) no longer meets the policy statements of the George Program in that it has a lower coupon and a longer duration. Also, Coca-Cola is currently trading rich relative to its fair value. This is a great opportunity to take advantage of the premium that CCE's bond has as a result of investors' interest.

**Florida Power & Light Group** (FPL) bonds are currently overvalued compared to similar bonds in the utilities industry. With a lower rate of return, it will not help to maximize the portfolio.

**U. S. Treasury "TIPs"** (2% 01/15/26) The Fed expects inflation to remain at very low levels for the immediate future. As evidence of this, the cost of living did not change during the month of February. With inflation expected to be negligible during the 12-18 month workout period, there is no strong argument for maintaining a position in a defensive TIP.

**Verizon Communications, Inc.** (VZ) was sold while it is still trading rich and close to its maturity date, thereby freeing up cash for other investments that would better fit the policy statement and maximize returns for the portfolio.

## "...lessons certainly have been learned."

by Justin Hunter

*continued from page 1*

minute presentation was to be given in Naples in mid-January. The company was National Beverage Company (FIZZ), a second-tier soft drink manufacturer and distributor. Ever heard of La Croix? Rip It? Shasta? Fay-Go? These are just some of the products in FIZZ's portfolio that all of the teams in the Florida Challenge would become familiar with. Over the next two and a half months, my team would become my family, as we spent far too much time in the George Lab (look at the clocks on the data wall top-to-bottom; now do it bottom-to-top. Yeah, we spent a lot of time in there). Nearly six hundred e-mails later, countless nights spent looking at company financials and too many late night phone calls, we had what has been called (not by us) the best report by a Roland George student. Ever! It is something that I can look at and be proud. I feel the same about our presentation. Not a haphazard PowerPoint, thrown together the night before, we put together a Keynote presentation and drilled ourselves to death; not only did we all know our own parts, but we can also recite everyone else's.

As we neared the January presentation deadline and spent night after night drilling our presentation and making changes, our confidence grew. We traveled down to Naples ready to prove once again that Stetson is the preeminent institution in Florida for those aspiring to careers in Finance. After a perfect first-round presentation, we had a final round showdown with the University of North Florida's Osprey Financial Group. OFG vs. RGIP. Graduate students (save for one of their five) vs. Undergrads. Public vs. Private. Yet again, we executed perfectly. Our presentation went off without a hitch. But a technical question from one of the judges tripped me up, and saw us lose by a mere four points out of two hundred. Needless to say, after all of the hard work and late nights, we were devastated.

However, lessons have certainly been learned. Would I do it all over again? Yes, without qualification. Would I answer that question differently? Yes, without qualification. But do I regret how things have turned out? Not really. North Florida got to go to New York in March, losing in the first round to MIT. Do I wish that was me? Sure. You can't be the best without testing against the best. I know that the good from competing far outweighs the bad. Stetson has a new respect amongst area professionals. We have a new avenue to compete, one respected the world over. And best of all, we have the experience of last year. To whoever decides that late nights and even later phone calls are for them, call me. I've got some tips for you.



by Erich Holland

National Presto Industries, Inc., was founded in 1905 and is based in Eau Claire, Wisconsin. Presto operates in three distinct segments: housewares and small appliances, defense products, and absorbent products. The houseware and small appliance segment designs, develops, and distributes mainly electric kitchen appliances as well as other small household appliances. The defense product segment manufactures precision mechanical and electro-mechanical products for the United States Department of Defense and its prime contractors. The absorbent products segment includes private label adult incontinent products and diapers. As evidenced by the wide array of products in each of the three segments, Presto's products could not be more dissimilar. However, the company has been able to effectively integrate distinctive businesses and gain economies of scale and market leadership in each segment.

The company is currently valued at about \$638 million in market capitalization with no short-term or long-term debt and \$146 million in cash and marketable securities. The company maintains such a large cash position for acquisitions, which is how it has grown so rapidly in the past. Presto's balance sheet is pristine, evidenced by industry-leading quick and current ratios of 3.97 and 5.78, respectively. In looking at the 2008 income statement, Presto benefited from a net profit margin of over 10% with a gross margin of 17.9% while SG&A expenses were only about 3.79% of sales.

Presto is running a very lean business with a minimal amount of wasted expenses and efficient cost structure, a distinguishing characteristic of this 105 year-old company that gives Presto a clear competitive advantage in this industry. Further advantages are seen in the fact that the defense and absorbent sectors of the business hold long-term supply contracts with the government and private label customers, respectively. At the time the stock was proposed, Presto was trading around \$90; it currently sits at about \$97. Future outlook remains promising and there is no doubt that the stock will continue to have a strong positive impact on the Roland George Investments Program portfolio.



## A–Power Energy Generation Systems

by Jan Anguel

China has the world's fastest growing wind energy market. According to the Global Wind Energy Council, China's installed wind capacity could be 122GW by 2020 compared to 12GW in 2009. As the demand for energy among earth's 6.7 billion inhabitants is constantly growing along with population size, the opportunities for alternative energy companies seem to be tremendous.

In 2007 China Energy Technology Limited went public and was formed into A–Power Energy Generation Systems (NASDAQ: APWR) in January 2008. A–Power, through its subsidiaries, is engaged in providing onsite distributed power generation systems and micro power grids for industrial companies. The company is largely engaged in the utilization of alternative energies, such as wind energy. APWR is headquartered in Shenyang, China, and has recently added the production of wind turbines, which are licensed by Furhlander, one of Germany's leading wind turbine companies, and Norwin, a Danish company. APWR designs projects according to customer's needs, subcontracts construction and installation to its subsidiaries, and maintains oversight of projects.

As China's demand for clean energy is constantly increasing, APWR is attractively positioned to take advantage of both global and industry trends and to expand internationally. Mr. Jinxian Lu, APWR's CEO, is currently trying to integrate solar tech into A–Power's business model, which could further stimulate future growth for the company.

The George Program unanimously accepted a swap recommendation of APWR for Heinz and purchased shares of the company at a price of \$10.90 in late October. Recent gains in the stock's price are predominantly the result of A–Power's recent \$1.5 billion deal for a wind power plant in Texas.

If this small company is able to deliver on its large contracts, it will have a good chance of breaking through the \$20 mark and doubling the program's invested capital. The company's production capacity, technological competencies, and position in the market all indicate strong potential for delivery of its pending contracts and continued growth both in China and internationally.



by Tyler Ward

## Balchem Corporation

ON TARGET TO DELIVER



The company also operates through three wholly owned European subsidiaries:

- Balchem BV
- Balchem Trading BV
- Balchem Italia

Incorporated in 1967, Balchem Corporation is involved in the development, manufacturing, distribution and marketing of specialty performance ingredients and products for the food, nutritional, pharmaceutical, animal health, and medical device sterilization industries internationally. The company operates under four wholly owned domestic subsidiaries:

- ❖ BCP Ingredients Inc.
- ❖ Balchem Minerals Corporation
- ❖ BCP Saint Gabriel Inc.
- ❖ Chelated Minerals Corporation

Balchem consists of three operating segments. ARC Specialty Products packages and distributes hazardous chemicals primarily for the healthcare industry. The Food, Pharma & Nutrition segment is one of the world's leading suppliers of microencapsulated, granulated, and agglomerated ingredient solutions, which are added to ingredients to enhance the nutritional fortification and shelf life of consumption products.

Lastly, the Animal Nutrition and Health segment provides specialty nutritional products derived from the company's encapsulation and chelation technologies, predominantly for dairy cows, to boost health and milk production. Balchem has a market capitalization of roughly \$600 million and employs over 300 people worldwide.



*by Chad McVeigh*

## ZEALOUS ABOUT GREAT GADGETS

**Z**AGG, or Zealous About Great Gadgets, is a specialty consumer product company based in Salt Lake City, Utah. The company is small and was just recently listed on the NASDAQ exchange. The company's key product is its "InvisibleSHIELD," an invisible, scratchproof cover for many electronic devices from iPhones to laptops to GPS units. The InvisibleSHIELD was originally intended to protect watch faces from scratches, and the InvisibleSHIELD film was developed as protection for military helicopter blades. The product's invisibility allows the user to protect his or her device while retaining its aesthetically pleasing qualities.

ZAGG is 100% equity financed, with 31.5% of shares held by the CEO, Robert Pederson. At a recent Apple conference, ZAGG executives found that of the 2,000 iPhone employees, 1,300 were using a ZAGG product to protect their iPhone. ZAGG's recent growth has been driven essentially by this one core product, which is distributed almost exclusively through the company's website.

The InvisibleSHIELD is applied using a moisture lock technique that allows it to adhere to any electronic device and is in the process of being patented by ZAGG. The company currently offers over 3,000 different pre-cut designs of the InvisibleSHIELD, which is only two millimeters thick, compatible with touch screens, and scratch proof with a lifetime warranty.

The company's newest product, ZAGGskins, allows users the benefits of an InvisibleSHIELD and the ability to fully customize their electronic device. Consumers will now be able to cover their electronic device with photos of their family, the logo of their favorite sports team, or virtually any other graphic. ZAGGskins can be customized for professional use as well, as multiple firms have expressed an interest in

placing large orders for ZAGGskins bearing their corporate logos. The company's management sees this opportunity as the beginning of a new generation of marketing and advertising that it refers to as "Pocket Advertising" or "Miniature Billboards." The company envisions itself at the forefront of this trend, as ZAGG currently has no close competitors.

ZAGG products are currently sold in over 1,000 Best Buy stores, where the firm has its own display areas that are specifically devoted to ZAGG products. The only other company with this kind of presence in Best Buy is Apple. ZAGG also has retailing agreements with RadioShack, and it just recently gained a foothold in 300 Cricket Wireless stores.

Internationally, ZAGG is available in 13,000 stores across Europe, including 400 Media Market stores in Germany and Carphone Warehouse, the European equivalent of Best Buy. International sales make up 15% of ZAGG's total sales, but it plans to increase its foreign market share by expanding into Japan, the world's second largest consumer electronic market, over the next two to three years. ZAGG also recently added Mr. Shu Ueyama, a former Sony executive and the mastermind behind the Sony Walkman, to its board of directors. Mr. Ueyama says he views ZAGG as a young Sony.

Much of ZAGG's recent growth has occurred without the support of large retailers, and it is significant to note that this consumer discretionary good provider experienced tremendous growth during a recessionary period. With increasing exposure to new clients and a growing product line, we expect ZAGG to continue to provide substantial returns for the Roland George Investments Program portfolio in the future.



by Ryan Jungk



Edwards Lifesciences

October, 2009 – Buy Recommendation

Edwards Lifesciences is a healthcare equipment provider with a focus on the treatment of cardiovascular diseases. The Irvine, California-based firm boasted \$1.24 billion in global sales in 2008 as it was able to sell its medical technologies in over 100 countries worldwide. The three primary focuses for the company are heart valve disease, peripheral vascular disease, and critical care technologies. Edwards Lifesciences is the world leader in the science of heart valves and invests more in the research and development of advanced treatment of cardiovascular diseases.

The company's stock represents an attractive opportunity for the Roland George Investments Program for several reasons. Demographic trends indicate that America is growing older and getting wider. As a result, cardiovascular diseases have been on the rise: more than 80 million Americans are afflicted with heart disease, the number one cause of death in the US. The size of the market for the

company has been steadily rising. Combining this trend with the company's diversified product line and strong reputation in the medical community, the stock demonstrates clear growth potential.

In addition, Edwards Lifesciences has been generating noise with its Sapien heart valve. This is a transcatheter valve, which means it is implanted through the use of an injection, not open heart surgery, which is too risky for many obese patients. Already selling strongly in the EU, the company has been going through clinical trials with the FDA to gain approval to sell the product in America. Two years ahead of the closest competitor, Medtronic, in this technology, an approval for the Sapien valve would give Edwards a monopoly in the new market. The competitive advantage here makes the company an attractive takeover target in an industry where acquisitions occur frequently. All of these factors make Edwards Lifesciences an attractive investment opportunity, and the stock should be a strong asset in the Roland George Investments portfolio.

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February, 2010 – Sell Recommendation

In 2009, the majority of the revenues for Edwards Lifesciences were attained from sales in heart valve therapy (54%), while critical care technologies (34%), cardiovascular surgery (7%), and vascular products (5%) each added significantly to the top line growth. Over the past year, the stock has returned 43%, and since the purchase date, the stock is up almost 253%. Growing its earnings by 17% year over year in 2009, EW has surprised investors and analysts alike.

Investors have been paying attention to Edwards Lifesciences for several reasons, and apparently, they have liked what they have seen. The company posted record earnings in 2009, above almost all expectations at the beginning of the year. In the past year alone, six new analysts have initiated coverage on the stock, bringing the total number of analysts to 20. The company has received press coverage in the New York Times and the Wall Street Journal,

as well as several articles on popular financial websites. Such positive publicity of the growing company attributes to the spike in the P/E ratio of the company, which is currently 28% higher than its five-year average and 81% higher than the industry average.

The healthcare equipment industry is reliant on the advance of technology. Companies must continually develop new products that comply with federal regulations and provide measurable health benefits and do so before a competitor can patent that same product. Each year, products are left obsolete as competitors are continually developing new products. If EW fails to expand upon its product line, a competitor could render one of its core products useless. Recently, the company underwent a divestiture with its product LifeStent because it could not afford to pursue multiple large scale products at once.

*continued on next page*

Creating and promoting new healthcare equipment products is a time and money consuming task. For example, the company spent years creating its Sapien transcatheter heart valve and it still has yet to achieve FDA approval.

Edwards Lifesciences also faces large product liability risks as a result of the nature of its products. Several lawsuits are filed against the company each year, and with the introduction of several new products in the market, the risk of product failure has increased. If one of their products is shown to have a defect either in the FDA trials or in its existing markets, it could be banned from sale and the company could face liability lawsuits.

Finally, the general economy has an effect on the outlook for the company. With unemployment rates still at high levels, there is a large contingent of the population that cannot afford health insurance. This is one reason that the company supported health care reform; however, such reform does pose a slight risk to the company. If the bill is reintroduced with stricter regulations over the medical equipment industry (which was not part of the original reform bill), investors will avoid this company.

Although Edwards Lifesciences represents an attractive company with a great potential for future growth, the market has priced the stock at a level of growth that I believe is unlikely. Increased coverage of the stock has caused the price to rise well above its fair value. In the four months that the program has held the stock it has achieved a 25% return. The remaining upside potential is limited relative to the downside risks. As a result, I strongly recommended that the Roland George Investments Program sell all shares of Edwards Lifesciences.



INTERACTIVE INTELLIGENCE

*by Randy Snell*

Due to the debate over whether the economy will experience a “double dip” or continue to rise within the next 12–18 months, the George students sought small growth stocks that would prosper in a growing economy but behave defensively if the economy were to double dip. We believe that Interactive Intelligence is one of those companies.

Interactive Intelligence, Inc. (ININ) was founded in 1994 in Indianapolis, Indiana but has various regional headquarters and offices around the world. The company and its subsidiaries provide software application suites for Voice over Internet Protocol (VoIP) business communications to enterprises. VoIP enables the use of the Internet as a medium for telephone calls. This has become an increasingly popular option among consumers because of the cost advantage it holds over traditional telephone networks. ININ also provides hardware to support their product, although hardware is not the main source of revenue.

The firm does business with many large, high-profile customers such as Microsoft, BMW, and Harvard University. It currently has a global network of more than 300 value added resellers (VARs), including IBM and AT&T, who provide Interactive’s products to customers in 21 languages and in over 80 countries. To ensure continued sales growth, ININ commits about 30% of its workforce to its marketing department, which focuses on making sales of VoIP products to VARs and, occasionally, directly to end users.

Interactive Intelligence receives most of its product revenue from licensing and most of its service revenue from support and renewal fees. Even in a double dip recession scenario, the company should be protected because its product is considered a cost saving measure to which companies can turn in the face of budget cuts. ININ’s steady increase in sales over the past five years, even during the recession, is further evidence to support this theory. If the economy booms over our holding period, new companies will have the funds to move to VoIP and the company will continue to grow. Regardless of the economic outlook over the next year, ININ seems to be able to hold its own in the market, which is the primary attribute that attracted the George Program’s interest.



thegeorgeinvestmentsview

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The *George Investment View* is intended to be an educational document. Investment views belong to the authors and not Stetson University.

The Roland George Investments Program was created in 1980 by Sarah George to provide a unique experience for future investment professionals. This bequest was intended to honor her husband, Roland, who, after completing his education, began to ply his trade and promptly lost money. Mr. George decided that serious flaws were evident in the traditional educational process for future investors since by over-coming his formal education he was able to master investing and in short, accumulate wealth.

From this start, Mr. George formed the ideas of creating an investment curriculum that combined academic theory with real world experience. This dream came true when Sarah George funded the Roland George Investments Program. This program provides support for the applied investments program at Stetson University where students manage a portfolio valued at over \$2.5 million dollars. Insights are gained through contact with professionals such as Robert Stovall, CFA, of Wood Asset Management, Inc., Sarasota, FL.

For information on the Roland George Investments Program contact Dr. Larry Belcher at 386-822-7442.