THE DARDEN CAPITAL MANAGEMENT ADVISOR

May 2005

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Darden Capital Management Fund Managers

Darden Fund	Jefferson Fund	Monticello Fund
Baily Dent, '06	Guido DeAscanis III, '06	B.T. Remmert, '06
Greg Faulkner, CFA '06	Jonathan England '06	Raymond Chung, CFA '06
James Fessel, CFA '06	Carlton Getz '06	Anthony Costello '06
Chris Kenny JD/MBA '07	Ed Weklar '06	Blake Lipscomb '06

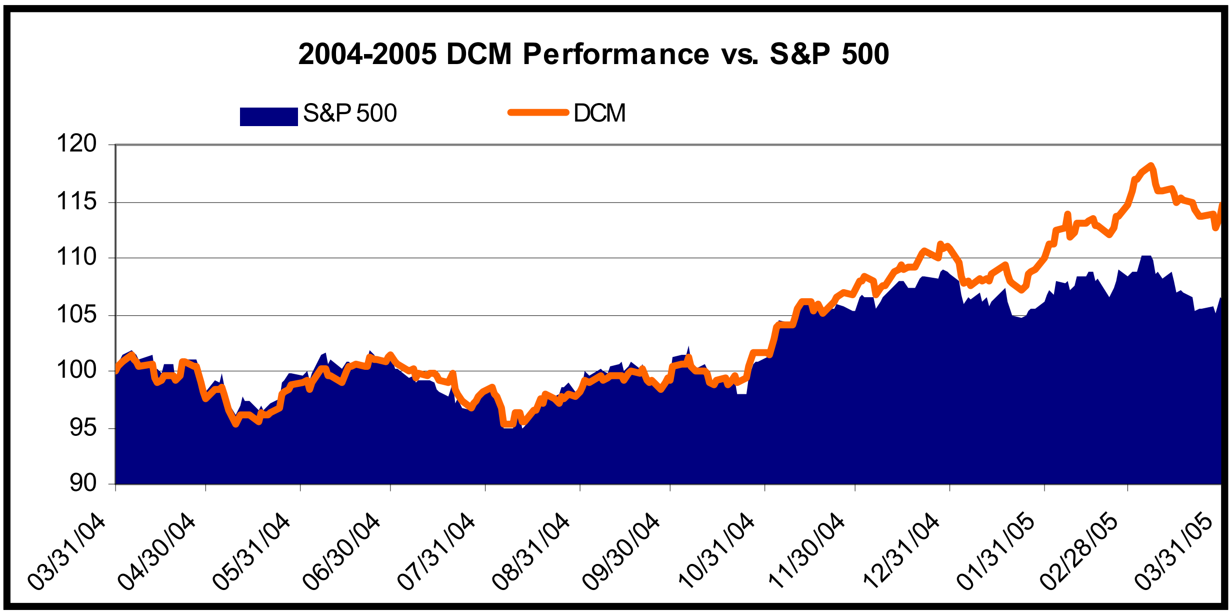
To be placed on our mailing list please send an e-mail to FesselJ06@Darden.Virginia.edu. For additional information about Darden Capital Management visit our website, http://student.darden.virginia.edu/dcm.

Darden Capital Management Funds Post Another Year Of Outstanding Returns

By James Fessel, CFA

On April 14th, 2005, the Darden Capital Management Club was proud to present to the Board of Trustees of the Darden School Foundation that each of the three DCM Funds outperformed its respective benchmark. In aggregate, the three funds posted a total return of 12.1% during the year, well-above the S&P 500 return of 6.3%. The decision by the Trustees to provide a $700,000 cash infusion during 2004, equally distributed among the Darden, Jefferson, and Monticello Funds, was indeed rewarded by another year of outstanding returns from all three funds.

Due to the significant increase in funds under management after the appreciation of the portfolios during the year, the percentage of assets managed by the Darden Capital Management Club had exceeded the 1.5% cap. As a reassurance of confidence in the ability of Darden Capital Management Club, the Board of Trustees of the Darden School Foundation decided to raise the cap on the percentage of assets managed by the Darden Capital Management Club from 1.5% to 2.0%. Finally, the transition process to newly elected Fund Managers for the next fiscal year ending March 31, 2006 was well underway. Strong interest from first year students led to a very selective process and yielded group of a bright and dedicated students, many of which with previous asset management experience, to take over management of the three funds.



April 2004 - March 2005	Darden Capital Management Total
Beginning Portfolio Balance	**$2,385,206**
Cash Infusion	**660,698**
Ending Portfolio Balance	**3,415,461**
Ending - (Beginning + Capital Infusion)	**369,557**
DCM Actual Total Return	**12.1%**
S&P 500	6.3%

The Darden Fund, managed by Blair Farinholt ('05), Tyler Jayroe ('05), Antonio Martins ('05) and Jake Rothman, CPA ('05), yielded an Actual Total Return of 15.4%, well above the Benchmark Total Return of 9.1% (Table 1). The fund's success was primarily attributed to stock selection, rather than sector bets or asset allocation. The best performing stocks in the fund included United Defense Industries (UDI), which returned 131.3%, OMI Corp (OMM), which returned 78.2% and Yellow Roadway Corp (YELL), which returned 73.7%. The fund's equity portfolio outperformed its benchmark by 7.6%, with all but 2 basis points of excess return generated during the second half of the group's tenure as managers. The total one-year 19.7% return would rank the equity portion of Darden Fund among the top 1% of actively managed "small-cap core" mutual funds, as measured by the Wall Street Journal. The Darden Fund managers were also successful in the planned transition from a large cap to small cap portfolio. The incoming managers to the Darden Fund are Baily Dent ('06), Greg Faulkner, CFA ('06), James Fessel, CFA ('06), and Chris Kenny (JD/MBA '07).

The Jefferson Fund, managed by Jonathan Right (JD/MBA '07), Joseph Burkhart ('05), Ben Monson ('05) and Ryan Walsh ('05), yielded an Actual Total Return of 11.9%, well above the Benchmark Total Return of 5.8% (Table 1). The fund's investment philosophy focused on undervalued/underappreciated companies, a REIT allocation to improve the risk/return profile through low correlation with the broader market, and an average duration within the fixed income portfolio below the benchmark to protect against a steepening yield curve. The fund's success was also primarily attributed to stock selection, rather than asset allocation. The best performing stocks in the fund included International Steel Group (ISG), which returned 43.4%, Oshkosh Truck (OSK), which returned 42.1%, and SunGard Data Systems (SDS), which returned 41.0%. The fund's equity portfolio generated a 17.9% total return, well above the 7.2% return of the Russell 1000 Benchmark. The incoming managers to the Jefferson Fund are Guido DeAscanis III ('06), Jonathan England ('06), Carlton Getz ('06), and Ed Weklar ('06).

The Monticello Fund, managed by Steve Majocha ('05), Charles Hill, CFA ('05), David Khitikian ('05) and Brian Maguire ('05), yielded an Actual Total Return of 9.5%%, well above the Benchmark Total Return of 5.8% (Table 1). The fund's investment philosophy focused on bottoms-up stock selection, including significant research on competitive analysis, valuation, and free cash flow. Also, the fund maintained an underweight fixed income position in anticipation of rising interest rates. Distinct from the other funds, the strong performance of the Monticello Fund was driven by an active overweighting of the energy sector. The best performing stocks in the fund included Devon Energy (DVN), which returned 66.2%, Chicago Bridge & Iron (CBI), which returned 58.2%, and LaFarge (LAF), which returned 39.2%. The fund's equity portfolio generated a 12.3% total return, well above the 7.3% return of the Russell 1000 Benchmark. The incoming managers to the Monticello Fund are B.T. Remmert ('06), Raymond Chung, CFA ('06), Anthony Costello ('06), and Blake Lipscomb ('06).

TABLE 1: TOTAL RETURN - FY Ending March '05

	Darden Fund	**Benchmark**	**+/-**
Equity	19.7%	12.1%	7.6%
Fixed-Income	0.9%	0.9%	0.0%
Cash	0.8%	0.8%	0.0%
Total	**15.4%**	**9.1%**	**6.4%**
	Jefferson Fund	**Benchmark**	**+/-**
Equity	17.9%	7.2%	10.7%
REIT	11.5%	8.3%	3.2%
Fixed-Income	-1.0%	0.9%	-0.1%
Total	**11.9%**	**5.8%**	**6.1%**
	Monticello Fund	**Benchmark**	**+/-**
Equity	12.3%	7.2%	5.0%
Fixed-Income	1.7%	0.1%	1.6%
Total	**9.5%**	**5.8%**	**3.6%**

TABLE 2: SHARPE RATIO - FY Ending March '05

	Darden Fund	**Benchmark**	**+/-**
Equity	0.30	0.19	0.11
Fixed-Income	(0.07)	(0.07)	0.00
Cash	0.00	0.00	0.00
Total	**0.32**	**0.18**	**0.15**
	Jefferson Fund	**Benchmark**	**+/-**
Equity	0.33	0.12	0.22
REIT	0.15	0.10	0.06
Fixed-Income	(0.15)	(0.27)	0.12
Total	**0.26**	**0.06**	**0.20**
	Monticello Fund	**Benchmark**	**+/-**
Equity	1.06	0.67	0.40
Fixed-Income	0.27	(0.16)	0.44
Total	**1.10**	**0.72**	**0.39**

Announcing the 1st Annual Darden Capital Management Stock Pitch Competition

On Saturday October 1st, 2005 we will hold the 1st Annual Darden Capital Management Stock Pitch Competition. The pitch competition will have cash prizes for the top three pitches based on: quality of idea, analysis, knowledge, and presentation. The judging will be conducted by a panel of DCM managers, alumni, asset management professionals, and faculty. The competition will be open to Darden students and McIntire School of Commerce Students, based on space availability.

The competition is designed to increase the level of awareness of Darden Capital Management at Darden and the community. We view Darden Capital Management not only as a terrific experience for Darden students, but as a competitive advantage over other MBA programs. Our plan is to start small this year with only students from the greater UVA community. In the future we would like to grow the competition into a national investment conference with the pitch competition as a part of the weekend activities. This will provide us the ability to showcase Darden and Darden Capital Management.

Additionally, we view the competition as a learning opportunity for students to listen to alumni as they evaluate pitches and gain more insight on the professional investment process. The DCM fund managers will use the competition to take advantage of good investment opportunities and evaluate future DCM fund managers.

In an effort to make the playing field as level as possible, we are going to hold a pitch training session, prior to the competition, on September 20th. During the training session, we will present the format, content, and information sources for preparing a pitch. This will give participants the ability to understand what goes into a good pitch and the basic information that is required for all pitches: industry outlook, valuation, price targets, recommendation, etc. The presentation will be available online for all students and alumni via the DCM webpage during the fall.

Calling Interested Alumni!

We are currently seeking alumni who are interested in participating in the competition as judges. We would like to have the judges participate in a Q&A session on asset management. We are also accepting contributions to the prize pool for the DCM Pitch Competition. If you are interested in either participating or contributing, then please contact:

Chris Kenny
JD/MBA, Class of 2007
KennyC06@darden.virginia.edu
434.409.8830 (c)

DCM Fund Managers Visit Omaha for Berkshire Hathaway Annual Shareholder Meeting

By Raymond Chung, CFA ('06) and James Fessel, CFA ('06)

On Saturday, April 30th, eight members of the Darden Capital Management Club attended Berkshire Hathaway's 2005 Annual Meeting in Omaha, Nebraska. The group included four second years, Brian Maguire, Antonio Martins, Ben Monson, and Jake Rothman, and four first years, Raymond Chung, James Fessel, Carlton Getz, and Chris Kenny. This marked the second consecutive year that members of DCM visited Omaha. This trip was made possible by host Bruce Lauritzen, Chairman of First National Bank of Omaha, Trustee and Darden Alumnus, Class of '67.

The day before the meeting, Bruce hosted DCM members for lunch. The members were invited to the top of the tallest building in Omaha. There we learned that Omaha is home to five Fortune 500 companies including Union Pacific and ConAgra, and that Bruce is a sixth generation Chairman at the First National Bank of Omaha. That evening, John Macfarlane, COO of Tudor Investment Corporation, Trustee and Darden Alumnus, Class of '79, entertained DCM members at the Passport Restaurant. The DCM members enjoyed hearing John's stories of working side by side with Warren, when Buffet was interim Chairman and CEO of Salomon Brothers in the early 1990's.

The Darden Capital Management members joined more than 15,000 shareholders at the Omaha Convention Center the next day, where Warren Buffet and Charlie Munger, his right hand man, entertained investor questions for approximately six hours. The meeting began with the annual Berkshire Hathaway movie and the unveiling of "Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger", the most purchased book at the meeting. This year's movie was a cartoon titled "The Wizard of Omaha." Warren played Dorothy, Charlie played The Tin Man, Bill Gates played The Scarecrow, and a voice mimicking Arnold Schwarzenegger was The Cowardly Lion. The Wizard was played by a voice mimicking Alan Greenspan. Charlie's book was widely anticipated as few books have been written about the man considered to be today's reincarnation of Benjamin Franklin.

During the Shareholders' Meeting, Buffet and Munger reaffirmed many of their business philosophies, discussed the possibility of a future dividend, assured investors of future succession plans, and even hinted toward plans for a future acquisition. In addition, Bill Gates officially joined Berkshire's Board of Directors upon shareholder vote, after he had been appointed in December to fill the vacancy left by the death of Buffet's wife, Susan. As usual, shareholders were able to ask both Buffet and Munger about a number of pressing issues facing the economy and the world, and the pair had no problems providing thoughtful observations and profound commentary.

A number of investors questioned whether Buffet would consider paying a dividend, given that Berkshire has struggled to find attractive acquisitions in recent years and had $43 billion in cash and equivalents at the end of 2004. A dividend payment would be a significant change from Buffet's previous resistance to dividend payouts due to the double taxation on dividends and his confidence that he can find attractive investment opportunities that will generate shareholders a greater return than dividends. However, now that the dividend tax rate has been reduced, Buffet acknowledged that "the burden of proof will shift to us if within a few years we can't use a lot of our money intelligently." Berkshire Hathaway may pay a dividend if the company can't generate enough returns from its pile of cash over the next few years. The issue of a future dividend will be discussed at an upcoming Berkshire directors' meeting, he added.

Although Buffet swayed away from questions regarding future investments under consideration, he did say that Berkshire will soon announce an acquisition of about $1 billion in the insurance field, and that the acquisition will almost certainly be announced within the next few weeks. Buffet also mentioned that he plans to make a number of acquisitions this year and that he'd like to acquire companies worth at least $1 billion in value, although hasn't found many good opportunities lately. As far as succession plans, Buffet, 74, said the Board is considering three candidates to potentially replace him. Buffet assured investors that since Berkshire has a decentralized, diverse group of subsidiaries, the way the holding company is run is relatively simple, which means any new leader will be able to run the company the same way.

Although questioned about the details of current reinsurance investigations associated with the potential misuse of products known as finite reinsurance, and the implications on Berkshire insurance subsidiaries National Indemnity and General Re, Buffet could not comment because it could compromise the integrity of the investigation. Interestingly, when asked about the moves by the New York Stock Exchange and the NASDAQ Stock Market to transform from mutually-owned organizations into for-profit corporations as a result of the acquisitions of Archipelago and Instinet, respectively, Buffet sharply criticized the privatization of these exchanges because the exchanges will be under more pressure to boost profits by either encouraging more trading activity or charging more commissions. To this, Munger added, "I don't think you want to turn the stock exchange of the country into an even larger casino than it already is."

Thanks to Bruce, John, Ann Taylor, Executive Director of the Darden School Foundation and Brenda Duncan, Managing Director of Development at Darden for help making this event possible. The DCM club is grateful and looks forward to future trips.

May 2005 Investment Ideas

Anheuser-Busch Companies (BUD – $46.87)

Ed Weklar, '06
WeklarE06@darden.virginia.edu

Target Price: $55.00
Market Capitalization: $36.4 Billion

Description: Anheuser-Busch Companies, Inc. is comprised of five principal business segments: domestic beer, international beer, packaging, entertainment, and other. In 2004, domestic beer contributed 76%, international beer contributed 5.4%, packaging contributed 9.4%, entertainment contributed 6.6%, and other unallocated corporate sales contributed 2.6% to consolidated net sales.

Positive Considerations: BUD is the most efficient operator in the industry and has margins significantly higher than those of other alcoholic beverage makers. BUD's EBITDA margins are 28.1% vs. an average EBITDA margin of 18.1% for comparable companies. BUD is a leader in the US beer market, having well known brands such as Budweiser, Bud Light, Michelob, O'Doul's and King Cobra. BUD has significant room for growth as international sales represent only 5.4% of sales. The firm has a conservative capital structure, with total debt of only 2x EBITDA. Berkshire Hathaway became a "significant shareholder" in April 2005.

Risks: Lower sales volume, as beer volume remains flat, compared to wine and spirits volume, which has been increasing 3-4% annually. A difficult pricing environment for beer is expected to continue. Higher packaging costs due to increased oil and energy prices. In its effort to continue to expand internationally, BUD may enter bidding wars to acquire assets.

Valuation: BUD trades at an EBITDA/EV multiple that is comparable to that of the average of other alcoholic beverage makers, but at a slight premium to other beer breweries, yet it has EBITDA margins well in excess of that of other alcoholic beverage makers. BUD is trading at a discount to its five-year average PE ratio.

ChevronTexaco Corp. (CVX—$53.87)

Guido DeAscanis III, '06
DeAscanisG06@darden.virginia.edu

Target Price Range: $60-63
Market Capitalization: $113.3 Billion

Description: ChevronTexaco's operations include exploring for, developing and producing crude oil and natural gas; refining crude oil into finished petroleum products; marketing crude oil, natural gas and the many products derived from petroleum, and transporting crude oil, natural gas and petroleum products by pipeline, marine vessel, motor equipment and rail car. The firm conducts operations in more than 180 countries.

Positive Considerations: Our investment thesis for CVX is based primarily on the premise that the firm is currently severely discounted by the market relative to its competitors, due to skepticism towards the Unocal acquisition. At $10.50/BOE and EV/EBITDA of 6.85, we believe that the acquisition price was not excessive. We also believe that the move provides the firm with increased reserves to meet short- to mid-term demand, in addition to highly coveted assets located in Asia. We also believe that sustained economic growth globally will maintain strong demand for oil and natural gas, which will keep energy prices high. Given the pervasive impact energy prices have had on the overall stock market, we feel that CVX is an attractive investment in what is a richly valued sector.

Risks: Failure to successfully integrate the acquisition of Unocal, disruptions in operations due to civil unrest or natural disasters, a significant decline in energy prices or a downturn in the overall stock market.

Valuation: Based on analysts' average expected 2006 earnings of $5.28 and P/E multiple expansion to industry average of 12x, we expect the price of CVX to reach somewhere in the range of $60-63 with even more upward potential.

Digitas, Inc. (DTAS—$9.93)
James J. Fessel, CFA, '06
FesselJ06@darden.virginia.edu

Target Price: $14
Market Capitalization: $895 Million

Description: Digitas is a multi-channel direct marketing services company offering strategy consulting, marketing agency, and technology infrastructure services. The firm creates interactive and traditional direct marketing solutions to help its clients leverage the power of their brands and enhance the value of their customer relationships. The company's core clients include Allstate, American Express, AOL, Time Warner, Best Buy, Delta Air Lines, General Motors, and Microsoft.

Positive Considerations: Digitas is well positioned to benefit from planned increases in marketing and advertising budgets at its key clients, as well as the flow of marketing dollars away from mass marketing channels into areas of interactive advertising and direct marketing. While industry-wide advertising spending is projected to grow 3-7% over the next three-to-five years, Digitas is positioned within two of the fastest growing segments in the industry: direct marketing and interactive advertising. Direct mail provides a steady stream of revenue that less vulnerable to client budget cuts due to its highly measurable ROI, while online/interactive advertising, which accounts for ~50% of total sales, grew more than 30% within Digitas during 2004, twice the industry-wide growth rate of 15% according to TNS Media/CMR.

Risks: The primary risks include operational challenges associated with the acquisition of Modem Media, increased attrition levels, an overall slowdown in advertising spending, and/or budget cuts by the company's major clients.

Valuation: Digitas is trading at 18x the 2006 consensus EPS estimate of $0.56, a hefty 30-35% discount to comparable companies. Our 12-month target price of $14 is based on a multiple of 25x our 2006 EPS estimate of $0.56, a 10-15% premium over the peer group. We believe such a premium is justified given Digitas' multi-channel approach to marketing and superior position in the marketplace.

FPIC Insurance Group, Inc. (FPIC—$29.04)
Carlton A. Getz, '06
GetzC06@darden.virginia.edu

Market Capitalization: $294 Million

Description: FPIC Insurance Group, though it's insurance and management subsidiaries, is one of the largest medical malpractice insurers in the United States. The company is the market share leader in Florida and provides management services for the second largest insurer in New York.

Positive Considerations: The departure of major competitors in the company's core Florida market (third largest in the U.S.) during the worst years of medical malpractice development (1999-2001) have resulted in the ability to quickly raise premiums while maintaining retention and being more selective on book of business. Despite recent increases (including an 8% increase effective March 2005), the company's retention remains over 90%. Claims experience and severity have fallen substantially from 1999-2001 levels and continue to develop favorably. Persistent concerns about the company's ability to effectively reserve against future losses after requiring additional reserves in 1999-2001 has continued to hold down valuations despite loss reserves at the top end of the range of independent actuarial estimates. The company carries a large associated short interest (15% of shares outstanding) despite more than 20% of the shares being held by institutions and insiders.

Risks: A material reversal in loss experience on malpractice claims would impact earnings per share and increase reserve requirements.

Valuation: The company trades at relatively low multiples of price to book (1.4) and price to earnings (10.5), reflecting a discount to peers due to past reserving issues. Based on long-term estimated earnings growth over the next five years in the range of 12%-15%, and virtually all of the company's profits dropping directly to tangible equity, we expect the shares to appreciate in line with earnings growth even assuming no closure of the valuation gap as confidence is slowly restored.

FTI Consulting Inc. (FCN—$22.49)
James J Fessel, CFA, '06
FesselJ06@darden.virginia.edu

Target Price: $30.00
Market Capitalization: $970 Million

Description: FTI Consulting operates in three business segments. The Corporate Finance/ Restructuring Practice, provides restructuring, turnaround, and bankruptcy services to both debtors and creditors, and accounts for about 36% of revenues. Its Forensic and Litigation Consulting Practice and Economic Consulting Practice generate the remaining 64% of revenues.

Positive Considerations: FTI Consulting provides investors with exposure to the counter-cyclical bankruptcy consulting industry, which helps to hedge against a downturn in the economy, and improves the risk profile of an equity portfolio. In addition, FTI has continued to opportunistically rotate staff from restructuring into other practice areas, such as forensic accounting projects and other assignments that utilize similar skill sets. Regulatory changes such as the Sarbanes-Oxley Act, the separation of Big 4 consulting practices, and the rise in securities litigation have contributed to growth in forensic accounting and litigation consulting. Finally, high-yield bond issuance, a leading indicator of default rates 3 to 4 years down the road, spiked to $30 billion during the first quarter of 2003. This record amount of junk debt comes due from 2006 through 2007, which may offer FTI plenty of business.

Risks: Integration problems with recently acquired businesses. Further employee turnover in the senior ranks could lead to even greater deterioration in the multiple. A continued decline in corporate default rates, bankruptcies, and litigation, which reduce demand for the company's services.

Valuation: FTI Consulting trades at 17x the 2006 consensus EPS estimate of $1.34, which is near the low-end of its historical trading range on forward EPS and in line with the market multiple. Our 12-month price target of $30 represents a multiple of 22x forward EPS, a slight premium over our 20% annual growth forecast.

INVESTools (IED—$3.84)
Chris Kenny, JD/MBA, '07
KennyC06@darden.virginia.edu

Target Price: $7.00
Market Capitalization: $173 Million

Description: INVESTools is a provider of educational services for investors. They provide a range of products from one-day seminars to long-term powerful tools and one-on-one coaching. These services have a range of price points from $495 - $35,000.

Positive Considerations:

Strong Cash Flow
INVESTools continues to show strong cash flow capability as it moves customers to higher margin products. While Net Income is negative due to front loading costs associated with customer acquisition, Deferred Revenue continues to be the source of cash leading to strong CFFO.

New Products
INVESTools rolled out its new Program of High Distinction (PhD) product in 4Q04 to unexpectedly high demand and rave reviews. INVESTools expects to roll out additional new products over the next year.

Risks:
- Increased competition in investor education
- Low conversion of customers to up-ladder products
- Sustained market downturn could make investors seek professional managers
- Decreased flow of students from co-branding and co-marketing partners

Valuation: Compared to other public miscellaneous financial services companies (EDGR, NYFXE, TSCM, VALU) and recent transactions (CBS Marketwatch), IED is undervalued on a Price/Sales and EV/FCF basis.

Jacuzzi Brands ($9.15)
Blake Lipscomb '06
LipscombJ06@darden.virginia.edu

Target Price: $12
Market Capitalization: $702 Million

Description: Jacuzzi Brands is a producer of branded bath and plumbing products for the residential, commercial and institutional markets. Bath products include whirlpool baths, spas, showers, sinks, toilets, and bathtubs for the construction and remodeling markets. Plumbing products include professional grade drainage, water control, commercial brass and PEX piping products for the commercial and institutional construction and renovation markets.

Positive Considerations: Jacuzzi (JJZ) was spun off from Hanson plc in 1995, and since 1998 it has been engaged in a restructuring program that is nearing completion. It recently announced the sale of 70% of Rexair (maker of Rainbow vacuums) for $145 million, which it will used to reduce debt. As the company narrows the focus of its operations and reduces costs through consolidating its manufacturing facilities in lower cost regions, JJZ should experience margin expansion in the coming years. In addition, Jacuzzi and Zurn have considerable brand equity in their respective businesses.

Risks: The spa business, JJZ's largest revenue generator, has been slow to recover, and recent disappointment in the U.K. resulted in reduced earnings guidance for 2005. Since our original investment evaluation, management announced that, given its relative size, it is uncertain of its ability to compete effectively and has hired Lazard to consider strategic alternatives. While this has led many investors to believe that a sale of the company is imminent, the retention of its 30% stake in Rexair seems to conflict with this strategy, leaving some investors puzzled.

Valuation: JJZ trades at discount to its peers on both a P/E and P/CF basis. Based on DCF and comparable company analyses, JJZ is currently worth at least $12.

Kanbay International (KBAY—$16.55)
James J Fessel, CFA, '06
FesselJ06@darden.virginia.edu

Target Price: $30.00
Market Capitalization: $562 Million

Description: Kanbay is a global IT services firm focused on the financial services industry. The firm uses a global delivery model to provide application development, maintenance and support, software implementation and integration services. With nearly 4,000 associates, Kanbay offers its services primarily to banks, credit card, insurance, and capital markets firms. Kanbay is CMM Level 5 assessed, based in Illinois, with offices in the US, Canada, UK, Australia, Hong Kong, Japan, Singapore and India.

Positive Considerations: Kanbay's offshore outsourcing capabilities provide faster, cheaper, and better software development services to multinational clients. The single most important driver of offshore outsourcing is cost savings. Through labor arbitrage - bill rates in India are about a third of the bill rates in the U.S., companies can reduce costs up to 40-50% on application management and development work. Also, by going offshore, companies also get round-the-clock service due to the nine-and-a-half-hour time difference between the United States and India. The result is minimal downtime and higher productivity levels for clients. Finally,- clients have experienced superior quality, with projects completed on-time and under budget, particularly compared to the services of U.S. IT services vendors.

Risks: Client Concentration: Household Financial accounts for 55% of revenue. Kanbay's top 10 clients account for 85-90% of revenue. Other key risks include Visa limitations, attrition, pricing pressure, and political backlash against offshore outsourcing.

Valuation: Kanbay is now trading at 14x forward EPS, a significant discount to its peers despite very similar business models. Our target price of $30 is based on 26x the consensus 2006 EPS estimate of $1.15, more in line with its peer group.

Marlin Business Services (MRLN—$17.37)
Chris Kenny, JD/MBA, '07
KennyC06@darden.virginia.edu

Target Price: $21.00
Market Capitalization: $208 Million

Description: Marlin Business Services is a leasing company specializing in small ticket items for small businesses.

Positive Considerations:

Steady Growth
Marlin has grown its lease portfolio approximately $20MM each of the last eight quarters. This steady growth brings in interest revenue, while not exposing Marlin to poor credit worthy customers.

Product and Geographic Diversity
Marlin's lease portfolio is highly diversified, with the largest customer and the largest lease source accounting for 0.06% and 1.6% of the lease portfolio, respectively. CA and FL are the two largest states with 12% and 9% of the lease portfolio.

Increasing Credit Ratings
Fitch recently upgraded two of Marlin's securitizations, which indicate to lenders Marlin's creditworthiness and lead to cheaper sources of funds for future growth.

Risks:
- Decreased spending by small businesses
- Spike in credit losses
- Increased competition from firms with cheaper access to capital

Valuation: Marlin is undervalued relative to other leasing and financing companies (AXP, CIT, R, CSE, GMT, FIF) on a P/E and PEG basis. Expect P/E expansion over the next year as Marlin continues to grow and demonstrate its lending discipline.

Norfolk Southern Corporation (NSC—$31.49)
Carlton A. Getz, '06
GetzC06@darden.virginia.edu

Market Capitalization: $12.73 Billion

Description: Norfolk Southern Corporation provides rail transport and related interconnection and intermodal services primarily east of the Mississippi River.

Positive Considerations: Norfolk Southern is widely considered the standard in rail operations with superior track speeds, cargo loadings, and scheduling operations. Revenue is diversified across agriculture, automotive, coal, chemicals, construction, forestry products, general merchandise, and intermodal shipments. High fuel prices will continue to drive additional freight from trucks to more efficient railroads. Railroads are less sensitive to rising fuel prices and have increasingly been able to renew transit contracts with fuel adjustment clauses. In April 2005, air cargo loadings were down slightly, precipitating concern about overall shipments and a decline in many transportation securities. However, given the strength of the economy as a whole, short-term concerns are outweighed by long-term strength. The company generates $600 million in free cash annually which has been used to reduce debt.

Risks: Earnings would be materially impacted by a decline in freight loadings caused by a general economic slowdown. Given roughly 12% of revenue is related to autos, the company is subject to slowing shipments out of Detroit and other Midwestern locations.

Valuation: Despite being an industry leader, the company is trading at roughly 12 times forward earnings. A continuing emphasis on operational efficiency and debt reduction should help drive annual earnings growth over the next five years to the 10%-15% range. As a result, the shares should at least track earnings with the potential for further appreciation as the valuation gap between the company and its less efficient peers closes, especially if free cash is used to repurchase shares as debt reductions subside.

Piedmont Natural Gas Company (PNY—$24.20)

James J. Fessel, CFA, '06
FesselJ06@darden.virginia.edu

Target Price: $27
Market Capitalization: $1.85 Billion

Description: Piedmont Natural Gas Company, Inc. is primarily engaged in the distribution of natural gas to 960,000 residential, commercial and industrial customers in portions of North Carolina, South Carolina and Tennessee, including 60,000 customers served by municipalities. It has two business segments: Regulated utility and Non-utility activities. Operations of the Non-utility activities segment are comprised of joint ventures.

Positive Considerations: Piedmont Natural Gas provides the Darden Fund with exposure to the utility industry, which we are currently 5% underweight. PNY is a low risk stock that offers moderate capital appreciation potential in addition to an increasing dividend stream, along with meaningful growth potential from its non-utility operations. Industry analysts project natural gas will continue its upward trend in capturing market share in the United States as an energy source. Natural gas burns more cleanly, is more efficient, and is a safer product than other fossil fuels, oil and coal. Moreover, drilling for natural gas is much more friendly to the environment than drilling for oil or mining for coal. The company has increased its dividend annually each year for the past 26 years. The current yield is 3.8%

Risks: Financial results may be adversely affected by changes in weather, customer demand, supply/storage levels, gas price volatility, customer growth/retention, regulation, and accounting treatment.

Valuation: Our dividend discount model yields a value of $27, based on next year's projected $0.95 dividend, a discount rate of 9.5%, and a long-term growth rate of 6%. We are using a 20x P/E multiple on FY2006 consensus EPS to value Piedmont. This premium multiple in the LDC industry group is warranted due to the firm's lower-risk profile and ability to continue its shareholder-friendly policy of steady dividend payout and earnings growth.

Symantec Corporation (SYMC—$21.70)

BT Remmert, '06
RemmertB06@darden.virginia.edu

Target Price: $27
Market Capitalization: $15.4 Billion

Description: Symantec is a global leader in information security software, hardware appliances, and services. The firm's Norton brand of security products is one of the strongest brands in the computing world. Symantec provides content and network security products to individuals, small and medium-sized businesses, and large enterprise customers, with offices in more than 38 countries and 6000 employees.

Positive Considerations: CIO spending surveys consistently rank security in general, and antivirus (AV) in particular, as a top spending priority. Symantec is the undisputed leader in the consumer segment. With the acquisition of Veritas, we believe the integrated security and availability offering will position Symantec as a key infrastructure software player in the enterprise segment. Symantec hopes to close the Veritas acquisition during 2Q05. The merger would combine the market leader in desktop AV security with the market leader in server backup and recovery. The motivation for SYMC's proposed acquisition is the belief that 1) backup and recovery and security should be integrated across the corporate network; and 2) that security management, systems management, network and storage management are converging.

Risks: The acquisition of Veritas will carry integration challenges. Microsoft presents a number of risks to SYMC, the most material being an improvement in the quality of its Internet Explorer and Outlook products, reducing the need for third-party tools. Microsoft will enter the AV market during 2H05 and compete with SYMC in its core market. We would expect MSFT to gain traction in the consumer market.

Valuation: Through a DCF analysis, we calculated a target price of $24 using a WACC of 11.9%, an exit multiple of 13x and a revenue growth rate of 8%.

THQ, Inc (THQI—$28.94)
Baily Dent, '06
DentF06@darden.virginia.edu

Target Price: $36.00
Market Capitalization: $1.14 Billion

Description: THQ Inc. is a developer and publisher of interactive entertainment software that is playable on the platforms, including home video game consoles, such as Sony PlayStation and Sony PlayStation 2, Microsoft Xbox and Nintendo GameCube, handheld platforms, such as Nintendo Game Boy Advance, PCs, and wireless devices.

Positive Considerations:

Solid long-term license base: THQ's three largest licenses (WWE, Pixar, and Nickelodeon) are all signed through at least 2010. These games and themes are well established but require a license fee which limits THQ's revenue on big hits. THQ is working on building its own intellectual property portfolio. THQ will release 60-65 games in 2005.

Ability to improve margins: THQ's operating margins are below its peers due to its smaller size and high concentration of licensed games. It should be able to improve its margin through an increase in platinum titles, international diversification and more IP owned games.

Strong handheld share: THQ has 15% market share in this segment, and is the leading publisher for Nintendo's GBA handheld system. This expertise should help THQ develop for Sony's new handheld PSP, which has been a big seller.

Risks: Revenue concentration, WWE contract risk, exposure to a limited number of retailers, earnings volatility, and an ongoing SEC Investigation into accounting policies.

Valuation: Compared to its larger competitors, THQ trades at a discount on a P/E and EBITDA basis. However, THQ is in its growth stage and as it matures and diversifies its revenue base it should experience multiple expansion. Our $36 price target is derived by using a 20x FY2007 EPS, well within the five-year historical range (12x-29x), and is appropriate given potential margin expansion and product diversification.

The Steak n Shake Co (SNS—$20.20)
Jacob T. Rothman, CPA, '05
RothmanJ05@darden.virginia.edu

Target Price: $22.00
Market Capitalization: $558 Million

Description: The Steak n Shake Company is engaged primarily in the ownership, operation and franchising of Steak n Shake restaurants. As of September 29, 2004, it had 365 Company-owned restaurants and 60 franchised restaurants, located in 19 Midwestern and Southern states.

Positive Considerations: Management is working on a plan to enable faster new restaurant growth while increasing same store economics, which makes opening stores easier. Plenty of room for geographic expansion should accommodate growth for many years to come. In the mean time, management is taking a cautious approach to growth, making sure not to jeopardize the image of the company.

Risks: Failure to develop faster growth according to plan, change in competitive landscape or consumer trends, weather conditions.

Valuation: SNS trades at a discount to its peers based on trailing-twelve-month P/E (19.48 vs. 20.48 industry). SNS has a much better gross margin and a better operating margin than its competitors and even growth projections. This, combined with the cautious approach toward growth and the plans for future accelerated growth, makes SNS a good buy for a cautious investor looking for a low volatility restaurant stock. An industry P/E puts the price around $22.00.