Following is a paper by Turner Investments, a United States Investment House which provides leading edge research. It describes the characteristics that Turner looks for to assess whether smaller companies can be expected to grow turnover and profits at well above average rates. To assist readers key areas of the article have been highlighted in yellow.

It is expected LEADERS AND FUTURE LEADERS MAY GAIN IMPORTANT INSIGHTS INTO THINGS THEY CAN DO TO ACHIEVE SUCCESS AND TO IMPRESS INVESTORS AND GAIN ACCESS TO CAPITAL.

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In search of Davids who can slay Goliaths

A position paper by Bill McVail, senior portfolio manager/global security analyst; Robb Parlanti, senior portfolio manager/global security analyst; Frank Sustersic, senior portfolio manager/global security analyst; Bob Turner, chairman and chief investment officer; and Mark Turner, president and senior portfolio manager

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Our position in brief

We like smaller growth companies -- corporate Davids that can grow into Goliaths -- because of their high-return potential. As we see it, Davids have these characteristics: they are innovative, compete in fast-growing markets and have leading shares in those markets, make savvy acquisitions, generate above-average free cash flow, rank high in certain financial metrics, and diversify their revenue base. We identify 17 Davids in the five broad market sectors that we think could pose a competitive threat to Goliaths.

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Raindrops on roses are great, and so are whiskers on kittens. But with apologies to Rodgers and Hammerstein's *The Sound of Music*, we're growth investors, and our favorite things are smaller companies that generate above-average earnings growth and can become leaders in their industries. In short, we relish smaller growth companies that pose a competitive threat to larger corporate rivals.

Our fondness for smaller growth companies is based on this investing phenomenon: smaller companies -- companies with stock-market capitalizations ranging from about $600 million to $14 billion -- have been best able to generate four- or five-digit percentage gains historically that can help growth-stock portfolios to soar. If we can identify up-and-coming companies early enough, the investment rewards can be extraordinarily lucrative. (Of course, the flip side of this phenomenon is that small-cap stocks are the most volatile of any capitalization segment. If a portfolio contains too many small-cap stocks that are plummeting in price, its performance can be, conversely, extraordinarily poor.)

A classic example of how a small-cap stock can produce stellar returns for an extended stretch is Apple, a long-time market darling. Apple's market capitalization has soared over the years, rising in status from a small-cap in the 1990s to a mid-cap in the 2000s to a large-cap now. During the 10-year period ended December 31, 2010, Apple blossomed into a consumer-electronics colossus and produced a cumulative total return of 4,235%. For balance's sake, it should be noted that for every Apple there's (at the risk of pushing a fruit analogy to its limit) a Lemon -- a chronically underperforming stock that destroys wealth. But the point is that Apple's caliber of stock-market performance underscores to us the merit of finding growth companies when they are relatively *small* growth companies.

Davids have advantages, too

To use a biblical metaphor, we search for corporate Davids who have the potential to supplant the Goliaths in their industries over time. To be sure, being a Goliath has certain advantages, such as a large scale and ample resources. But being a David can have advantages, too -- in many respects, superior advantages, in our estimation.

Above all, in qualitative terms, Davids tend to be nimble and non-bureaucratic, which can be lethal competitive stones to hurl at Goliaths, particularly in today's fiercely contested, revved-up global business battleground, where changes in the fates of companies -- especially the biggest companies -- can be shockingly swift and brutal. In 1960, for instance, the *Fortune 500* list of the largest companies was so stable that it took 20 years for about 33% of those companies to lose their places in the rankings. Now it takes only *four* years for 33% of the companies to be displaced.

In the past, being nimble and non-bureaucratic helped a David of a regional bank known as North Carolina National Bank to ultimately acquire Bank of America and Merrill Lynch. It helped a David of a semiconductor fabricator, Intel, founded by a group of ex-Fairchild Semiconductor employees, to establish itself as the industry leader. And it helped a David of a discount outlet, Wal-Mart Stores, to become the world's largest retailer.

Just as the political pollsters can declare winners of presidential primaries before the votes have even been counted, we think you can identify smaller companies that are potential Goliaths early on -- smaller companies with competitive advantages that are the hallmarks of future industry leaders. We seek to do precisely that in our daily investment activities, in analyzing companies and picking stocks for our growth portfolios. We believe corporate Davids tend to share most, if not all, of the following seven characteristics and we highlight seven such companies in the table below and others subsequently in this paper).

We think seven characteristics distinguish smaller companies that are competitive threats to bigger rivals. Here are seven up-and-coming companies that are current exemplars of each characteristic

CHARACTERISTIC	COMPANY	COMMENT
1. A sense of innovation	WMS Industries	Has more than 1,200 patents and patents pending; has introduced new gaming machines each year.
2. Compete in fast-growing markets	Green Dot	Transactions in prepaid cash cards by Green Dot and others may soar from $8.7 billion in 2008 to $119 billion in 2012, according to Macquarie Research.
3. A leading market share	Tempur-Pedic International	Holds a leading market share in premium (above $1,000) mattresses, which represents about 50% of the market, estimates Standard & Poor's.
4. Make complementary acquisitions	Acme Packet	Acquired Convergence, a company with session-border-control technologies for Internet networks, to bolster its core product line.
5. Generate above-average free cash flow	Signature Bank	Recorded cash flow per share of $1.30 in 2009 -- an amount equal to the bank's earnings per share.
6. Rank well in key financial metrics	Steel Dynamics	Consistently achieves among the highest return on assets and revenue per ton of manufactured steel in the industry.
7. Master the four Ds -- destination, diversified revenue, distribution, and depth of management	The Cooper Companies	Has diversified its revenue by more than doubling its number of products -- contact lenses and medical devices used by gynecologists and obstetricians – over the past 10 years.

Innovative, not inventive

First, and perhaps most important, they have a sense of innovation but -- a vital distinction -- they aren't necessarily inventive. A popular stereotype is that *all* smaller companies are paragons of innovation. And indeed, our research indicates that smaller companies produce more patents and more innovations per employee than large companies do.

But not all up-and-coming companies necessarily have the most innovative products and services. There are many forms of innovation, and smaller companies can be innovative in their own ways. In each case, innovation boils down to exploiting certain critical aspects of a business that deliver a competitive advantage, such as marketing prowess, operating efficiency, customer service, superior productivity, technical talent, proprietary technologies and processes, and -- yes -- innovative products and services.

For instance, when Deere and MetLife were corporate small fry, they differentiated their products from competitors by developing extensive networks of equipment dealers and insurance agents that were marketing-oriented and responsive to customer needs. And when Starbucks was a start-up, it focused on providing top-quality, fresh-roasted coffee in an environment that has been described variously as an extension of people's homes and the equivalent of a convivial English pub (but that offers different beverages from a pub, to be sure).

For Davids that do provide innovative products and services, a source of their innovation is their propensity to spend a greater percentage of their revenue on research and development than larger companies do, in our judgment. According to the National Science Foundation and the Census Bureau, U.S. companies with fewer than 500 employees accounted for *11%* of total corporate revenue worldwide but *19%* of R&D spending.

Growth markets vital
Second, they are competing in markets that are fast growing. Historically, the greatest investment harvests have been reaped typically in either new, growing markets that weren't yet mainstream or in established growth markets that continue to be showered with innovation. For instance, in the 1950s and 1960s Xerox created a huge new market for copiers. And IBM capitalized on the explosive growth of mainframe computers to prevail in a crowded market against the likes of Burroughs, NCR, Control Data, and Honeywell International. Likewise, today a small company stands a better chance of becoming the new Xerox or IBM if it's in a growing market such as data networking, wireless communications, or biotechnology, in our view.

Third, they have leading market shares -- one of the best indications of competitive advantage that we know of. As a rule, only a few companies tend to ultimately succeed in any industry. The leaders get stronger and the rest settle into mediocrity, get gobbled up, or dissolve in the business ether like wisps of smoke in a vast prairie sky. In almost any stock-market industry segment, just a tiny percentage of the players -- the industry leaders -- have typically accounted for most of the wealth, our research shows.

Fourth, when they choose to grow through acquisition, they have a knack for buying companies that complement their existing businesses. They then integrate those acquisitions smoothly into their operations. That's something easier said than done. Studies indicate that fewer than half of all acquisitions add economic value for the acquirer. But smaller companies that are able to make acquisitions that enhance their bottom lines can be great growth machines.

To grow organically
Fifth, they generate above-average free cash flow (money earned from operations, minus capital expenditures). As we see it, free cash flow is a sign that a company is growing "organically" -- growth delivered by its core business, instead of by mergers and acquisitions and accounting legerdemain. In our analysis, a company that has ample free cash flow is better able to enhance shareholder equity.

Sixth, they tend to rank well in these financial metrics: low relative price/earnings ratios (at least initially), an attractive ratio of price/free cash flow, positive earnings revisions, stock-price momentum, and above-average returns on equity.

Seventh, they are mastering what we call the four Ds that can contribute to sustained growth:

• *Destination.* They are progressing or have progressed from small regional businesses to national and even international firms.

• *Diversified revenue* They are broadening their revenue base by adding products and services to what often had been a single flagship product or service.

• *Distribution* They are expanding their distribution channels, often via outsourcing arrangements, joint ventures, alliances, and partnerships.

• *Depth of management.* They have management teams that, like vintage cheddar cheese, are acquiring maturity -- good judgment, expertise in key staff and operating functions, experience in dealing successfully with the pressures and demands of a growing business, and most importantly, skill at executing a corporate strategy. In our estimation, *devising* a corporate strategy is secondary to *executing* that strategy. Often, there's no one "right" strategy; any number of strategies can work. What's critical is to implement that strategy well.

So, in our estimation, what current Davids do we think can overcome the Goliaths in their industries and become Goliaths themselves? Following is a sampling of Davids that we think possess The Right Stuff in the five broad market sectors:

Consumer sectors
• **Tempur-Pedic International** (headquarters: Lexington, Kentucky; market capitalization: about $2.4 billion) has a competitive advantage in its proprietary Tempur memory-foam mattress technology, which is shaking up the industry. Traditionally, mattress companies sold variations of the same innerspring products, differentiating them through marketing and sales distribution. But Tempur-Pedic dominates a new market segment, memory-foam mattresses, the fastest growing segment in the industry (and one that commands

premium product prices). As a result the company's sales growth exceeds the industry average, including that of competitors Sealy and Serta.

• **Ulta Salon, Cosmetics & Fragrance** (headquarters: Bolingbrook, Illinois; market capitalization: about $1.9 billion) is disrupting the mass market for cosmetics. The company offers most of the same brands that department stores like Nordstrom and drug stores like Walgreens do. But Ulta also provides what we believe is a convenient, satisfying shopping experience -- that is, one-stop shopping for cosmetics (more than 21,000 products, including its own private-label brands) and full-service beauty salons located in strip malls. The company caters to women of all ages and income levels who like to shop for beauty products easily and who often choose to get their hair done at the same time.

• **WMS Industries** (headquarters: Waukegan, Illinois; market capitalization: about $2.6 billion) has a "ship-share rate" (the percentage of new unit shipments) of casino games exceeding 30%, in our analysis. WMS' games not only have the highest win rate per day in casinos but offer the best gambling experience, according to polls of gamblers. Gamblers say they like WMS games' high-resolution screens, compelling graphics, and many betting options. The company holds more than 1,200 patents and patents pending for its machines and typically spends on R&D an amount equaling about 15% of revenue. We think that sometime in this decade WMS may overtake the industry leader, International Game Technology, in market share.

Cyclical sectors

• **Celanese** (headquarters: Dallas, market capitalization: about $6.2 billion), a specialty chemical company, has developed a technology for processing coal and natural gas to make ethanol, a fuel used increasingly in industrial applications and gasoline. About 7 billion gallons of ethanol were produced and consumed in the U.S. in 2007, and *The New York Times* projects production could reach 15 billion gallons by 2015. We think Celanese's technology has the potential to gain market share from ethanol made from corn and sugarcane, representing a competitive threat to Archer Daniels Midland and Bunge Limited.

• **Core Laboratories** (headquarters: Amsterdam, market capitalization: about $4 billion) has developed an HTD Blast perforating system that maximizes oil and natural-gas production in horizontally drilled wells. The system deploys multiple hydraulic fracturing processes that enable more oil and natural gas to flow freely in wells. We think this technology could enable Core Laboratories to gain a competitive edge over Weatherford International and Schlumberger. Core Laboratories works in about 1,000 of the 4,000 major oilfields operating today, and we think its roster of projects and earnings could rise by a double-digit rate in the years ahead.

• **Steel Dynamics** (headquarters: Fort Wayne, Indiana; market capitalization: about $3.7 billion) is the nation's fifth largest producer of carbon-steel products. We think its market share may increase as its new Mesabi Nugget plant in Hoyt Lakes, Minnesota, with a 500,000-ton annual capacity, ramps up production. Mesabi Nugget's sophisticated technologies result in the manufacture of iron pellets, a raw material in steel making, that are about 95% pure. In comparison, iron pellets made the traditional way are only about 65% pure. The plant could help Steel Dynamics to process iron ore more efficiently, thus lowering its costs and swelling its profit margins, at the expense of larger steel manufacturers like Nucor and ArcelorMittal.

Financial-services sector

• **Green Dot** (headquarters: Monrovia, California; market capitalization: about $2.1 billion), with its prepaid cash cards, has an exceptional opportunity to take market share away from bank-debit card issuers like Wells Fargo and Bank of America, in our estimation. Green Dot's cash cards serve in effect as portable checking accounts that consumers replenish with deposits at retail outlets. Prime customers for the cards are "unbanked" or "underbanked" consumers, numbering as many as 60 million in the U.S., who have marginal or no relationships with a traditional bank. We conservatively estimate that the number of Green Dot's prepaid cards could increase by at least 15% annually between now and 2015.

• **Signature Bank** (headquarters: New York, market capitalization: about $2 billion) has seized a lucrative market niche: mid-sized private businesses and commercial real-estate developers in the New York metropolitan area. This niche has generally been underserved by the region's larger banks, such as JPMorgan Chase and Citigroup. Most customers are served by a Private Client Group, composed mainly of bankers that Signature has recruited from larger competitors. These newly hired bankers have brought with them sizable books of loans, which have helped to boost Signature's loan volume by at least 14% annually over the past two years.

Health-care sector

• **Amarin** (headquarters: Dublin, Ireland; market capitalization: about $630 million) has a promising drug in Phase III clinical trials, AMR101, that lowers triglycerides, or "bad" cholesterol, in high-risk patients. These patients are vulnerable to heart attacks, strokes, and other cardiovascular problems, which are the leading cause of death and disability in the U.S. and Europe. We anticipate the company will seek approval of AMR101 from the Food and Drug Administration in 2011, a year earlier than originally planned. We think AMR101 could make inroads on GlaxoSmithKline's Lovaza, a drug with $1 billion in annual sales and the only medication currently approved by the FDA for treating triglyceride problems.

• **The Cooper Companies** (headquarters: Pleasanton, California; market capitalization: about $2.7 billion) markets silicon hydro-gel contact lenses made with a proprietary technology. These products offer improved oxygen permeability, which makes them more comfortable to wear, especially by people with dry eyes who are the most inclined to stop wearing contact lenses. Another competitive advantage enjoyed by Cooper: it makes more contact lenses for both common and rare visual problems with more materials than any competitor does. The company is gaining market share from Johnson & Johnson and Novartis International.

• **Pharmasset** (headquarters: Princeton, New Jersey; market capitalization: about $1.6 billion) is creating drugs for the treatment of hepatitis C and other viral infections. About 180 million people worldwide are infected with hepatitis C. We think Pharmasset's drugs have the potential to meet a need for safer, oral medications that combat viral infections. The company is acknowledged in the industry as a leader in nucleosides, which are antiviral or anticancer agents. The company is developing three nucleoside compounds that may become commercially available in 2012, to the prospective detriment of drug companies like Merck, Roche Group, and Vertex Pharmaceuticals.

Technology sector

In our judgment, cloud computing -- the connecting of digital systems via an Internet network to achieve lower costs, greater flexibility, and higher performance -- should transform computing during this decade. Most significantly, so-called public clouds, used by both companies and consumers, are likely to be the dominant technology platform in the future.

As it evolves, cloud computing is helping to foster a growing market for five relatively small companies that make networking products, which help manage cloud-based network traffic and perform such functions as encrypting transmissions and screening traffic for security threats. Indeed, we think the market for networking products, now $36 billion, could surpass the market for computer servers, now $41 billion, over the next five years.

Specifically, we like the prospects of these five up-and-comers, which pose a distinct competitive threat to networking leader Cisco Systems in various market segments:

• **Acme Packet** (headquarters: Bedford, Massachusetts; market capitalization: about $3.4 billion);

• **Aruba Networks** (headquarters: Sunnyvale, California; market capitalization: about $2.2 billion);

• **F5 Networks** (headquarters: Seattle, market capitalization: about $10.6 billion);

• **Juniper Networks** (headquarters: Sunnyvale, California; market capitalization: about $18.9 billion); and

• **Riverbed Technology** (headquarters: San Francisco, market capitalization: about $5 billion).

• Separately, we think **SuccessFactors**, the fastest growing public software company (headquarters: San Mateo, California; market capitalization: about $2.3 billion), is breathing down the corporate necks of rivals SAP and Oracle. SuccessFactors is coming on strong by developing and marketing what CNNMoney.com describes as "a suite of simple Web-based tools that automate important but previously paper-driven management chores -- performance reviews, succession planning, and compensation." For instance, SuccessFactors' Business Execution Software helps companies of all sizes to link employee performance to corporate results.

So, those 17 Davids in the five broad market sectors are among the smaller companies that we think are competitive threats to Goliaths and offer superior return potential. We trust that years from now such enterprises will continue to rank above raindrops on roses and whiskers on kittens as our favorite things. For us, smaller growth companies are the real sound of music.

Turner Investments, founded in 1990, is an investment firm based in Berwyn, Pennsylvania. As of December 31, 2010, we managed more than $17 billion in stocks in separately managed accounts and mutual funds for institutions and individuals.

You can get free copies of other Turner position papers by calling us at 484.329.2329; e-mailing us at marketingteam@turnerinvestments.com; or faxing us at 610.578.0824.

As of December 31, 2010, Turner held in client accounts 1.3 million shares of WMS Industries, 371,730 shares of Green Dot, 1.4 million shares of Tempur-Pedic International, 1.4 million shares of Acme Packet, 201,190 shares of Signature Bank, 243,080 shares of Steel Dynamics, 514,280 shares of The Cooper Companies, 47,090 shares of Sealy, 1.1 million shares of Nordstrom, 1.8 million shares of Celanese, 4.4 million shares of Archer Daniels Midland, 160,370 shares of Core Laboratories, 72,150 shares of Weatherford International, 247,050 shares of Schlumberger, 81,970 shares of Wells Fargo, 8,670 shares of Bank of America, 4,580 shares of JPMorgan Chase, 25.8 million shares of Citigroup, 1.7 million shares of Amarin, 471,060 shares of Pharmasset, 5,640 shares of Roche Group, 4.6 million shares of Aruba Networks, 1.6 million shares of Riverbed Technology, 2.7 million shares of SuccessFactors, and 6.0 million shares of Oracle. Turner held no shares of Walgreen, International Game Technology, Bunge Limited, Nucor, ArcelorMittal, GlaxoSmithKline, Johnson & Johnson, Novartis International, Merck, Vertex Pharmaceuticals, Cisco Systems, and SAP.