REPRINTED FROM AUGUST 11, 2008

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

All-Cap Growth Investing

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TWST: Would you please start by telling us about Biondo Investment Advisors and your investment philosophy?

Mr. Biondo: Biondo Investment Advisors is an independent money management firm that is focused on growth strategies that we provide for both institutions and high net worth individuals. The company was founded in 2004. My father, Joe Biondo Sr., has been in the investment business since 1962 and I've been in the business since 1997. We manage a mutual fund, the Biondo Growth Fund (BIONX) and separate account strategies.

TWST: Tell us about the overall investment style that you use.

Mr. Biondo: We are growth managers. We pay a lot of attention to what we are willing to pay for growth and, therefore, some have labeled us as GARP managers. Our flagship strategy is All-Cap Growth. We will own companies of any size — large, medium and small cap; however, historically the strategy has been large cap weighted. All-Cap Growth is our largest and most successful product.

TWST: The mutual fund, the Biondo Growth Fund, is over two years old now. How has it been doing? It started in a good economy and it's now in a poor economy.

Mr. Biondo: We launched the mutual fund in May 2006. Although assets were coming in faster than we could deploy them, our performance, in 2006, was in line with our benchmark, the Russell 3000 Growth Index.

Last year was a significant year of performance; as of December 31, 2007, the Biondo Growth Fund was up 14.3%. This year, the markets have been brutal and we have had a tough time. However, since inception through June 30, 2008, we were still ahead of our benchmark.

We have been underweight in materials and energy this year and those two sectors have been the best place to be. We remain underweight in those sectors, which we think makes sense, as those will most likely fall into the clutches of this bear market at some point.

We are overweight in health care, which failed to pay off during the first half. Our thinking coming into the year was that we were probably headed into a recession. This has made sense in the past, as these businesses are mostly shielded from an economic slowdown. Investors typically will pay up for that sort of reliability, although it didn't work that way earlier this year. We think our exposure in health care is going to help us tremendously through the second half of the year.

TWST: What is your outlook for this back half of the year as far as the growth-oriented stocks that you look for?

Mr. Biondo: We try not to predict price movements over such a short period of time. We feel confident in the companies that we own; nevertheless, we remain flexible in our thinking.

In my opinion, today's environment is more difficult to operate in than 2000-2002. During that period, attention to valuations helped us to avoid most of the downside in our All-Cap Growth Strategy — we lost about 15% cumulatively during that stretch, which was outstanding.

Over the past 10 months, attention to valuations has not protected investors in a similar manner. Stocks aren't going down because they're overvalued. The implosion of the credit bubble has started to infect not just the companies that are involved, but the psychology of investors. As a result, many good companies have been unfairly punished.

Our sense is that equities will work higher over the course of the next year or so, though there will be some rough patches. The day-to-day volatility has a negative effect, but if investors can get through the psychological torture, they will be rewarded.

Because of that pervasive negative psychology, I think there is a more meaningful and lasting bottom here, which did not occur during the January or March lows. I would be guessing if I were to say it will happen over the next six months. I do know that it will end and I know that the markets will get better again, I just can't say when. We are focused on owning good companies that have solid businesses that are going to continue to grow.

We continue to believe that stability in home prices and a cooling off of the rise in commodities would be good catalysts for equities.

TWST: You invest in all-cap stocks, but have you been focusing more on any particular area this past year?

Mr. Biondo: No, we are bottom-up stock pickers and we let our research lead us into the investments we make. That being said, large companies typically lead the markets higher out of severe downturns such as the one that we are currently experiencing. I would understand others having a bias in that direction and our valuation work would confirm that thesis; however, we don't invest money in that fashion.

TWST: Tell us about the investment criteria that you look for specifically in potential holdings, especially your valuation metrics with your PEG analysis?

Mr. Biondo: We start by asking three basic questions about any potential candidate. Is this a business that we want to be in? Do we like this particular company's position within the industry? Are the right people running the company?

We want to find companies that can grow, can be very profitable and protect themselves from competitive threats. We like to find companies that address a large market and find companies that have a unique advantage in serving that market. Finally, we are only interested in management that we believe are true stewards of shareholder value.

What we are really looking for are companies that have solid franchises and the ability to continue to grow those franchises over time and through virtually any market cycle. Over time we have been more interested in secular growth companies versus cyclical growth companies. However, at times cyclical sectors can experience secular trends, like energy today.

Upon completing the fundamental process, a potential holding must get through our valuation process. As far as valuation metrics, we always look at price, earnings and growth rates. We tend to use metrics such as p/e ratios and PEG ratios and we compare those measures to the company's historical valuations, the company's peers, and the overall market.

TWST: What companies have you found over the past 12 months that you feel are representative of your reasonable valuation approach or anything that you feel is representative of your Fund?

Mr. Biondo: We have made several new investments this year. In the energy space, we purchased **Murphy Oil** (MUR), which is an integrated oil company. Many in the United States will know **Murphy Oil** if they get gas at a Wal-Mart, as they sell at Wal-Marts in 20 different states.

Being an integrated oil company, the company participates in all three phases of the industry: upstream, which is exploration and production; refining; and downstream, which is the distribution business. We believe the company is well positioned in all three areas.

The most profitable part of the business, when oil prices are rising, is the upstream. Unlike many integrated companies, **Murphy** is growing their production dramatically. Their production will double this year versus last year. Next year we think they will grow production at over 50%. Other companies in the space are just not growing like that. This is the most important metric for us, as we do not want to predict what will happen to the price of the underlying commodity. If a company is solely relying on price increases in the commodity to grow revenues and earnings, we believe the company will be vulnerable when the price goes lower. **Murphy** is able to hedge that risk for us by actually growing their production.

The refining business reflects another hedge against lower oil prices. In times of rising prices, refining margins are squeezed and this is the least attractive part of the chain. When prices drop, refining margins improve rapidly and act as a buffer to lower upstream margins.

Finally, the downstream business for **Murphy** is attractive, especially in light of the economic outlook. **Wal-Mart** (WMT) has seen traffic dramatically increase over the past year, as consumers have been trading down and are more cost-conscious. **Murphy** is in position to take advantage of this trend during a rough stretch in the economy.

We have been able to find and invest in a company that is well positioned as an integrated oil company and also that is growing its reserves, which is a rare find. We believe that the different aspects of their business offer us decent downside protection and we are invested at less than 10 times this year's earnings with a robust growth profile.

Another company recently added is **Boeing** (BA). So far, this has been a difficult investment because **Boeing** goes lower every time oil prices increase.

Interestingly, we view **Boeing** today as a play on higher oil, as airlines need to invest in more fuel-efficient planes for the long-hauls. The Dreamliner will be a tremendous success in the long run for **Boeing** and they have a long lead time before competition arrives.

They have experienced production delays, as is typically the case, but the stock was severely punished as a result. Recently, we have seen encouraging data that suggest they are now on track to deliver the first planes by the third quarter of next year.

Higher oil prices continue to spook investors out of **Boeing** due to a fear of order cancellations or delays. We have not seen any real evidence of this to date, but it is clearly weighing on the shares.

Over 80% of the orders that have been placed are from foreign companies, mainly Asia and the Middle East. It promises to be the most fuel-efficient plane ever built.

We have reasonable confidence in the earnings picture, as the backlog of orders is the highest in history. You are able to buy **Boeing** today for about 11 times forward earnings, which is a lower valuation than post-9/11.

Obviously, we still have to believe that these orders will hold up. We see no reason to think otherwise currently, and so we exercise patience. In the meantime, it may be a hard stock to own, yet it remains too compelling for us to ignore.

TWST: What about a smaller cap or mid-cap company? I think you have been attracted to them in the last year or so.

Mr. Biondo: We recently initiated a position in **Onyx Pharmaceuticals** (ONXX), a biotechnology company. Their big drug is called Nexavar, which is a cancer drug, and is approved in both liver and kidney cancer. The drug has been very efficacious in overall survival rates. Late last year, it became the first and only approved systemic therapy for what is known as hepatocellular carcinoma, which is the most common form of liver cancer. Liver cancer patients have very limited treatment options if they can't be treated surgically, so the survival rates are very grim. Nexavar has really changed the outlook for those patients.

As stated earlier, Nexavar is also approved in kidney cancer patients around the world as well. They are also currently in studies for lung cancer, melanomas and breast cancer.

The drug is a joint venture with **Bayer** (BAYRY), so they have a well-heeled partner. The company has about $10 a share in cash, which means you can buy the stock for less than 20 times next year's earnings with growth of better than 30% over the next few years.

Another small company that we own in the healthcare space is **Cubist Pharmaceuticals** (CBST). They developed and market Cubicin, which is an infection fighting drug that treats the MRSA bacteria as well as other infections that are developed in the hospital setting.

The company has been growing their share of this large market, which has been dominated by vancomycin. The problem with many of these infections is that they can become resistant to treatments, and so Cubicin has been able to gain share.

This is another company that has been growing better than 30% in terms of earnings, except it is even less expensive on an earnings basis, as it trades at about 12 times next year's earnings.

We believe the reason is that there is a threat of generic competition, which may be an overhang until September. After that, there is little threat, as a generic filed after that date would lose the one-year exclusivity granted to the first generic entrant. The generic threat doesn't disappear, but the attractiveness for a generic company does, so we see the multiple expanding after September.

The other factor that may weigh on multiple expansions is that it is a one-product company, but they do have several drugs in the pipeline that they are currently working on. The growth from Cubicin has been able to fuel further research and development, so they can develop new drugs and therapies for future growth of the company. In the meantime, there is a lot of growth ahead with their existing drug.

TWST: What about the sell process? Do you set price targets?

Mr. Biondo: Our sell discipline is triggered by several factors. If we see deterioration in the quantitative measures such as a slowdown in earnings or lower returns on equity, we may decide to sell. Also, if we see a breakdown in the qualitative measures — a change in management or new competitive threats — we may decide to exit.

We set price targets on the upside, so if a position appreciates to a point where we believe our upside is limited, we may sell or trim our position. As growth managers, our valuation process needs to be fluid, so we are continually fine-tuning our models. Generally speaking, if a company gets to 90% of our price target without a significant improvement in fundamentals, we typically trim or sell the position.

We manage a more concentrated portfolio than many of our peers. We will never own more than 40 securities. A typical new position is 2%-3% at cost; however, as part of our portfolio construction rules, we will not allow a position to represent more than 10%. So when we have great success, we will take a position lower simply to reduce our exposure to any single company.

We recently had this happen with **Intuitive Surgical** (ISRG), which remains our largest position. They developed and market the da Vinci robotic surgical system. We have discussed the company in our prior conversations and have owned it since 2003.

Our first purchase was at $16 and as of June 30, 2008, it was $269.40. We have had to trim that position a few times now.

On the downside, we set initial targets so that if we see a 20% decline from our purchase price, it triggers a serious discussion. Our action is typically decided by our level of conviction — if it is lows we will sell but if it is high, we may give it some more room. At some point, it is smart to admit that you were wrong and it is a fine art to know when that is.

TWST: What do you think gives your firm its edge? What distinguishes your growth approach from that at other peer firms?

Mr. Biondo: From an investment approach, I believe it is a few factors. First, we focus on management. I have said many times that I wouldn't go into business with someone I didn't know, didn't trust or think very highly of. When we make an investment, we need to be good stewards of our clients' capital. In addition, our concentration on fewer companies than a typical manager gives us greater potential to outpace our benchmarks. It also forces us to be patient, wait for the right situation and to really understand the business.

Finally, our family's money is invested alongside our clients' in the strategies that we employ, so we put our money where our mouths are.

From a firm perspective, we have built a strong culture in our organization and have created an environment that allows us to focus on our strengths. That means my father and I are able to spend our time managing money. We have surrounded ourselves with great people who are accountable for all other aspects of running our company.

We are committed to delivering extraordinary service, which is appreciated by both our private and institutional clients. We hear from our institutional clients that when they do business with larger organizations, they often get caught up in the bureaucracy and do not get the service that they want or need. We are proud to be able to provide that service for them.

TWST: Is there anything that you wish to add?

Mr. Biondo: It is a very difficult environment right now, and it is important to keep perspective. Investors need to remain focused on the long term. If you are in the stock market for immediate gratification, you are in the wrong place.

The past 10 months have proven over and over to me that there are many money managers with a short-term focus. This has exacerbated many of these problems. It does, however, make the current environment a great time to invest money if you have the proper time horizon. That is what we are focused on.

TWST: This short-term outlook is really harming the market and all investors.

Mr. Biondo: Yes. It is worst for the investing public. The market fluctuates so widely from day to day that it is hard for Main Street to make sense of it. Human nature dictates that this will keep people away from investing in the markets out of fear and a lack of understanding.

We are at an interesting time in our nation's history when you consider the housing, the financial system, the energy crisis and the pervasive negativity that is spread by the media. It is no wonder that people lack confidence.

Right now we need leadership and it is disconcerting to see so little of it. It is up to us as individuals to hold our leaders more accountable if we truly seek change. That is the beauty of democracy and I believe that many people are fed up to the point that they may actually begin to do something about it. This will go a long way toward healing what currently ails us.

In the meantime, we continue to focus our efforts on managing money in the best interest of our clients, helping them to reach their investment goals and objectives while providing a high level of service.

TWST: Thank you.

Note: Opinions and recommendations are as of 8/1/08.

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