

# Winslow Environmental News

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## Supreme Court Upholds EPA Authority: Besides the Environment, Who Wins?

BY ELLEN PFEIFER

An end-run around the Environmental Protection Agency? "Offside," cried the Supreme Court, icing efforts by polluters to evade clean air mandates. As a result, people may one day breathe easier. What's more, manufacturers of pollution control devices and alternative energy technology may soon be socking away the green.

In rulings issued in February and March, the high court upheld the EPA's authority to set clean air standards. It affirmed an EPA regulation requiring Midwestern states to reduce air pollution that drifts into the Northeast. And it struck down litigants' claims that public health benefits must be balanced against implementation costs.

### The EPA Gets Tough; Industry Digs in Its Heels

Under the Clean Air Act, the EPA has steadily raised the bar for a variety of pollutants. In 1997, it added more stringent regulations for particulate matter. It also targeted nitrogen oxides (NOx) and sulfur dioxide (SO2) pollution, produced mainly by coal-burning power plants. Many of the affected utilities, state governments, and industry associations sued. The Court, however, was having none of it.

So now what? The polluters will have to clean up their act.

Please see SUPREME COURT page 4

FEATURED COMPANY

## SurModics: Medical Coatings Deliver Drugs Right Where They're Needed

BY HARRY (SKIP) WELLS

In early March, Vice President Dick Cheney suffered an all-too-common side effect of cardiac angioplasty. After having a stent

**SurModics** implanted to prop open a blocked artery, he experienced reblockage, known as restenosis. Although he underwent a second angioplasty, he remains at risk — 40% within the next six months — of another obstruction.

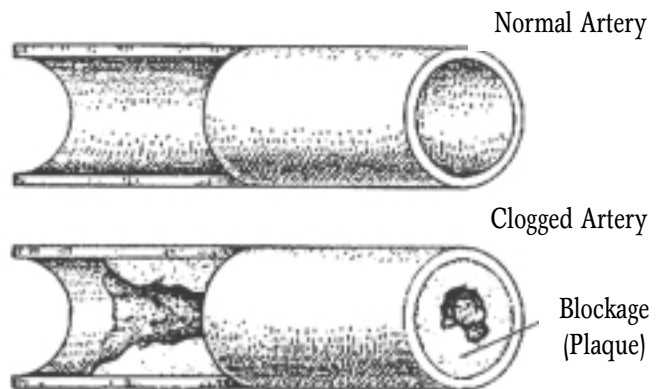
Restenosis is the downside of angioplasty. New blockages occur in 40-50% of patients who have angioplasty alone and in 20-30% who have angioplasty with a stent.

This is because the procedures traumatize heart tissue. The resulting blood clotting or scar tissue can cause new blockages as can the underlying atherosclerosis that caused the original narrowing of the artery.

But what if the stent were coated with a drug that would prevent new obstructions from forming? And what if that stent were coupled with slippery guide wires that allowed physicians to slide angioplasty devices through arteries with minimal damage? Doctors believe such

equipment would lower even further the occurrence of restenosis, allowing heart patients a quicker, longer-lasting recovery.

Fortunately for heart patients like Cheney, coated coronary stents and guide wires are in the development pipeline. They will soon join a growing catalogue of implantable medical devices modified with customized surface treatments.



### An Early Mover in a Hot Field

One of the first companies launched in this new field of specialized coatings is SurModics Inc. (NASDAQ: SRDX). The Minneapolis-based firm has developed a patented PhotoLink technology that allows manufacturers to modify the surfaces of their medical instruments through a light-activated process. The vener-

Please see SURMODICS page 3

# Growth Stocks — The Only Way is Up

JACKSON W. ROBINSON

Is it time to buy growth stocks?

This is the big question facing Wall Street today. And because most "green" companies are growth companies, it is a subject of great importance to environmentally sensitive investors.

## The NASDAQ Roller Coaster

Consider the tumultuous recent history of the NASDAQ index (a proxy for large capitalization growth stocks, including such successful giants as Intel and Microsoft). After climbing to a record-setting peak of 5,048 on March 10, 2000, the index declined -67.5% to 1,638 on

April 4, 2001. This included a first quarter decline of -25.5%, the worst first quarter in NASDAQ's history.

After such a plunge, one could argue that things can't get any worse. Therefore, they have to get better. One Wall Street guru certainly thinks so.

## The First New Bull

Jonathan Joseph, a semiconductor analyst at Solomon Smith Barney, made this case on April 11, 2001 when he raised ratings on his sector from "neutral" to "outperform", which, when translated, means "buy". Yes, the

Philadelphia Semiconductor Index, which charts the sector, had plummeted -75% in less than a year. So why not be the first to turn bullish?

The statistical odds over the short term tend to support Joseph's heroic stance. But even more compelling justification can be found by analyzing the long-term comparative data.

## Growth vs. Value?

Institutional financial advisors segregate stocks into two primary categories of money management styles: "growth" and "value". Balance sheet characteristics are the defining factor. Despite their differences, however, each style produces similar positive returns over long time periods, according to data we obtained from consultants at Barra and Standard & Poor's,

To more readily track "growth" and "value" styles, Frank Russell Associates of Tacoma, Washington divided its index of 3,000 American companies into "growth" and "value" segments on August 1, 2000. Using relative market price to book value (assets -liabilities/shares

*Please see MARKETBEAT page 3*

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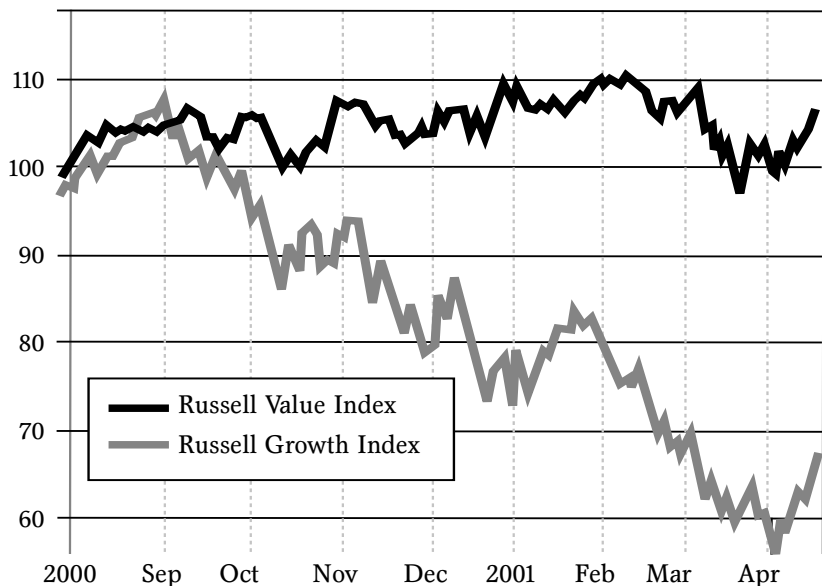
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## Russell Value Index vs. Russell Growth Index



*MARKETBEAT Continued from page 2*

outstanding) with those having the lowest ratio representing "value", we are now able to track the performance of these two categories on a daily basis.

While the new Russell indexes are less than a year old, the recent divergence in the two categories (see chart) is huge. Since September 1, 2000, and as of April 4, 2001, the Russell Value Index (RAV) was flat while the Russell Growth Index (RAG) had declined -45%. Given that growth and value stocks tend to produce similar long-term returns, the current divergence suggests that early April was indeed a good time to be buying growth stocks.

While it is interesting to speculate on future macro economic trends such as earnings, interest rates, and tax cuts, we believe it makes sense to listen to the marketplace where patterns tend to repeat themselves. Whether you subscribe to the Jonathan Joseph's short-term view of absolute values or our consultants' longer-term relative valuation models, it is now clear for both camps that there is great value in growth stocks today. 

### **What are the Growth and Value Indexes?**

Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. These companies are also members of either the Russell 1000 Growth or the Russell 2000 Growth indexes.

Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. These companies are also members of either the Russell 1000 Value or the Russell 2000 Value indexes.

*SURMODICS Continued from page 1*

like coatings can make a heart catheter extra slippery. They will soon build in blood compatibility to minimize clotting. Eventually, they will incorporate antimicrobial drugs to lessen the risk of infection. Because they are site-specific, they might even be used one day to deliver anti-cancer drugs right to a tumor. And, yes, SurModics coatings will soon be available on cardiac stents through a joint research and development project with Johnson & Johnson's Cordis division.

#### **High Magnification Focus**

Founded in 1979 as BSI Corporation, SurModics was created to develop medical, pharmaceutical, and diagnostic products. In 1987, the firm shifted its focus to commercialization of the PhotoLink process. In 1997, it changed its name to SurModics to reflect its concentration on "surface modification." The company went public in 1998, raising \$15.5 million in its Initial Public Offering.

A factor that makes the company attractive to investors is its sharply defined mission. The company does not produce medical devices, but partners with larger manufacturers, supplying custom tailored coatings that the manufacturers apply to their devices in their own facilities. This means that SurModics does not have to build its own production plants. Revenues are generated through licensing of the technology, high-margin royalties on clients' sales of devices, sales of reagent chemicals used in the coating process, and contract development fees for customizing the coatings.

Currently the company has licenses with 49 companies representing more than 100 device applications.

#### **Largely Untapped Market**

Even more appealing is the apparently wide-open market for SurModics' product. According to CEO Dale Olseth, "less than 5% of medical devices sold each year utilize surface modification technology. But someday all applicable devices in this \$50 billion market will be coated." Of the company's current

business, seventy percent is centered on super slippery coatings. But there is clearly a huge potential market for all kinds of surface modifications including cardiac stent coatings.

Under its nonexclusive deal with Johnson & Johnson, SurModics will receive slightly less than 2% royalties on every stent sold when the product enters the market. (J & J will charge approximately \$2500 to \$3200 per stent). According to Olseth, the cardiac stents are close to receiving official approval in Europe and will likely be fast-tracked through the American FDA approval process by the end of 2002. The company could realize even higher margins in other partnerships it might negotiate.

#### **Other Frontiers Under Exploration**

Because the PhotoLink process is so versatile, SurModics has been able to develop a whole range of applications. For example, with Medtronic Arterial Vascular Engineering (AVE), it has produced the GFX2 coronary stent delivery system that contains a lubricious coating.

*Please see SURMODICS page 5*

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*SUPREME COURT Continued from page 1*

How will they do that? They can choose from a wide range of pollution control equipment or clean fuel alternatives.

Here are some of the pollution problems, available solutions, and businesses that can supply the products and expertise:

### **NOx Control**

NOx is the collective term for volatile gases (compounds of nitrogen and oxygen) that promote the formation of ozone and acidic particulate matter. Most manmade NOx is created by high-temperature combustion processes such as those occurring in automobiles and power plants. Exposure to NOx can result in diminished lung function in humans and is a component of acid rain, which adversely affects the ph

### **Get to Know Winslow on Our New Website**

If you would like more information about Winslow Management Company, our products, history, and staff, you can log on to our new, improved website ([Winslowgreen.com](http://Winslowgreen.com)).

Thanks to our invaluable webmaster Leigh Ann Steele, the new Internet site is more visually attractive, more user-friendly, easier to navigate, and more informative than ever before. There is a section where you can learn how to invest in, obtain a Prospectus for, and follow the progress of our new Green Growth Fund. You can see a list of our top picks among environmentally responsible businesses. You can read about our Green Team of experts and, as always, you can call up our bimonthly newsletter. There is also an improved "Contact Us" page should you wish to offer comments and questions.

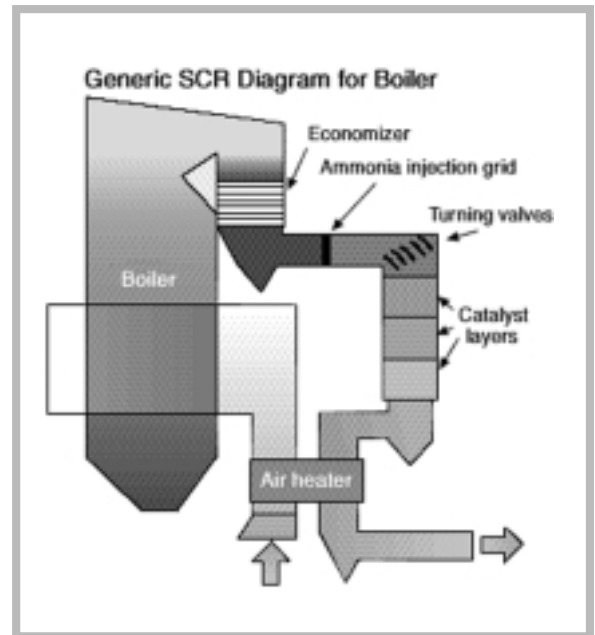
levels of soil, streams, lakes and rivers.

According to the EPA, coal-fired generators are the source of 25% of the NOx emissions in the United States annually. Because nitrogen cannot be readily extracted from coal before it is burned, current pollution control mechanisms must operate during or after combustion. These include:

- *Low NOx burners and reburners.* These optimize the mixing of fuel and air, maximize the combustion process, and limit NOx formation. Companies producing Low-NOx burners include ABB Combustion Engineering, the Babcock & Wilcox Company, Foster Wheeler Corp, and ALSTOM Power Company, Inc.
- *Selective Catalytic Reduction (SCR).* In this post-combustion process, an injector introduces ammonia into flue gases. The resulting chemical reaction converts NOx into harmless nitrogen and water vapor. Use of SCR equipment can result in reductions of NOx by up to 80%. Companies that produce SCR systems include Siemens AG, W.S. Hinton & Associates, Huntington Environmental Systems, and Wheelabrator Air Pollution Control, Inc.
- *Selective Non-Catalytic Reduction (SNCR).* Another post-combustion process, this one injects urea or ammonia into the boiler furnace or convective cavities. There the chemical reacts with NOx to form harmless byproducts without the aid of a catalyst. Resulting NOx reductions range between 45-80%. Companies that supply SNCRs include Exxon and NoxTech Inc, a division of Cummins Power Generation, Inc.

### **Sulfur Dioxide Reduction**

Sulfur dioxide shares many of the unpleasant characteristics of NOx. Human exposure adversely affects respiratory and cardiovascular diseases. Along with NOx, SO2 is one of the two precursors of acid rain and small particulate matter. Coal-powered utility plants, according to the EPA, produce about 64% of all SO2 emissions.



Most anti-pollution strategies applied to SO2 fall into the category of "scrubbers." These systems remove SO2 and acid gases from boilers through wet systems, spray dryer systems, and dry injection systems combined with fabric filters.

Among companies offering SO2 removal services and products are Wheelabrator Air Pollution Control Inc., Advanced Air Technology, Inc., AirPol Inc., and Huntington Environmental Systems Inc, both subsidiaries of MPM Technologies Inc.

### **Particulate Matter**

Particulate matter (PM) is the mixture of solid particles and liquid droplets that results when NOx and SO2 gases and Volatile Organic Compounds (VOC) interact with other com-

*Please see SUPREME COURT page 5*

*SUPREME COURT Continued from page 4*

pounds in the air. PM is particularly prevalent in areas close to electric generating plants and it can have a devastating effect on human health, shortening the life of 30,000 US residents every year, according to the Boston-based Clean Air Task Force.

Most of the technologies aimed at controlling NOx and SO2 are also applicable to PM because those gases are components of PM.

**Alternative Energy**

Some coal-burning facilities will seek to convert to natural

gas, which is cleaner but has its own problems of emissions, supply and price. Some may work to reduce dependence on fossil fuels and replace them with green energy. Not all renewables are appropriate to all geographic areas, and some emerging energy technologies are only beginning to be commercially viable. Still, there are attractive alternatives. They include:

- *Wind Power.* Giant turbines capture the earth's winds to generate electricity. This is the cheapest, fastest-growing area. (Representative companies are Vestas and NEG Micon).
- *Solar Power or Photovoltaics.* Semi-conductors and thermal panels generate electricity or warm water through solar radiation. (Astropower Inc. and Siemens Solar).
- *Turbines.* Modeled after the jet engine, small turbines can store and then deploy power in grid-parallel or stand-alone applications. (Capstone Turbine Company).
- *Fuel Cells.* These high efficiency, low emis-

sions devices convert the chemical energy of a fuel and oxidant mixture into electricity. (Ballard Power, FuelCell Energy, Plug Power)

- *Geothermal power.* Electricity is generated by capturing the steam or hot water that lies below the surface of the earth. (Sunteq/Enviroteq).

**The Costs of Pollution Control**

The cost to polluters of cleaning up after themselves will undoubtedly be high. Litigants in the case against the EPA argued that businesses would have to... uhm... cough


up \$50 billion a year to comply with clean air standards. On the other hand, as the EPA countered, clean air will save lives and billions of dollars in health costs. It sounds like a trade-off people can live with.

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*SURMODICS Continued from page 4*

In another project, the company has created an advanced slippery coating for guide wires that will allow doctors to more easily navigate arteries during catheterization.

And, entering the field of genomics, it has joined forces with Motorola's BioChip Systems to produce the 3D-Link Activated Slide, a coated glass slide that makes DNA strands stand up in microarrays that allow for easier analysis and diagnosis.

For the future, the company will be concentrating on new generations of PhotoLink that can transport a drug payload with pinpoint accuracy. As Olseth puts it, "the idea is to deliver the drug to the specific spot and then deliver the drug over time — whether all at once, all in a week, or all in a month." 

**The Tour de Sol**

From May 19 to May 26, The Great American Green Transportation Festival will celebrate the Tour de Sol, traveling from Waterbury, CT, to Pittsfield, MA, to Albany, NY, and ending in Boston, MA. Organized by the Northeast Sustainable Energy Association (NESEA), this event will feature electric and renewable fuel vehicles. For more information, visit the NESEA website at [www.nesea.org](http://www.nesea.org).



**Winslow's New Mutual Fund**

Winslow is pleased to announce the launch of our first mutual fund, the Winslow Green Growth Fund. The Fund is an aggressive growth equity portfolio seeking above-average performance and long-term capital appreciation through environmentally effective investing.

To learn more about the Winslow Green Growth Fund, including fees and expenses, please visit our website at [www.winslowgreen.com](http://www.winslowgreen.com) or call 1-888-314-9049 to request a prospectus.

Read the prospectus carefully before you invest. Forum Fund Services, LLC, Distributor.



# PORTFOLIO UPDATE

## Vestas Wind Systems

(Copenhagen Stock Exchange: VWS)

RINGKOBING, DENMARK - Vestas Wind Systems, already the world's largest wind turbine manufacturer, can look forward to contracts in the United Kingdom after the Crown Estate authority recently awarded prequalification status to several wind farm developers. One of those developers, Powergen Renewables Offshore Wind, will use turbines from Vestas for a proposed offshore project.

Vestas now enjoys a 17.9% share of the world market in terms of megawatts sold in 2000. That figure does not include Vestas' 40% stake in another large wind turbine producer, the Spanish company Gamesa. Gamesa has recently received a contract for 50 wind turbines in Spain in a deal worth approximately \$70 million.

According to wind energy think-tank BTM Consult, the world market for wind power will grow by 17.6% annually until 2005. Total sales will reach \$32 billion over the course of the next five years.

## Conceptus, Inc. (NASDAQ: CPTS)

SAN CARLOS, CA - Conceptus, Inc. designs and develops minimally invasive devices for reproductive medical applications. The company is currently focusing on its STOP non-surgical permanent contraception device for women.

STOP is intended to be a safer, cheaper alternative to the surgical sterilization procedure known as tubal ligation. The device

prevents conception by generating a tissue response that closes the fallopian tubes. Insertion of a STOP micro-coil into each fallopian tube takes only 20 minutes and requires neither general anesthesia nor an incision.

So far, clinical data from Phase II and III trials have shown positive results. Researchers have monitored effectiveness, safety, and overall satisfaction over 3000 women-months (combined number of months for all women in the study). There have been no reported pregnancies. They are currently working on shortening procedure time, enhancing successful placement rates and reducing complications.

## FuelCell Energy (NASDAQ: FCEL)

DANBURY, CT - If the Bush budget plan is a potential disaster for the planet (one environmentalist calls it a "blueprint for increasing global warming."), it may also have a negative effect on the bottom line of emerging energy companies. The proposed federal budget slashes over \$450 million in Department of Energy (DOE) funding, including significant cuts in programs that support research and development in alternative fuels.

One of the companies that could feel the pinch is FuelCell Energy. DOE contract revenue as a percentage of the company's total revenues could drop from 72% in the year 2000 to 11% in 2002 if the Bush budget is approved.

However, despite the negative impact on near-term revenues, we do not believe DOE budget cuts will imperil the company's long-

term commercialization strategies. FuelCell Energy's products will be supported by market demand, and possibly by tax credits. Tax credits, if they became available, would offer additional incentives to individual consumers and businesses to purchase stationary fuel cell generators either for back-up or grid-independent power.

Despite the lack of support from the US government for the Kyoto Protocol, there is still high projected growth in both domestic and global markets for low emission, high efficiency technologies such as fuel cells.

## SLI, Inc. (NYSE: SLI)

CANTON, MA - In its efforts to reduce debt by \$100 million, SLI has sold off certain assets of its subsidiary, SLI Lighting Solutions. The company has also sold its remaining 40% interest in Schott-Fostec.

Chairman and CEO, Frank Ward, explained: "We have completed the shutdown of magnetic ballast manufacturing and . . . we continue to divest ourselves of under-performing assets." SLI is phasing out the magnetic ballasts in order to concentrate on its new electronic ballast technology. Magnetic ballasts have been deteriorating in value because they are mature, price-sensitive products that cannot match electronic varieties for efficiency. Operating at a higher frequency than their older magnetic counterparts, electronic ballasts can power lamps longer using less energy.

Besides ballasts, SLI also makes several lines of energy efficient bulbs including fluorescent, metal halide and light emitting diodes. These generate up to 75% - 80% of SLI's revenue in the category of energy efficient lighting systems.

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