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# Monthly Update



An investment publication with a focus on Telecommunications, Technology, Industrial and Small Cap stocks.

By Ted Moreau, CFA

## Welcome!

Welcome to our investor newsletter focusing on Telecommunications, Technology, Industrial and Small-capitalization stocks.

## In this issue, we highlight:

- Update on investor relations clients: TESSCO (TESS) and PCTEL (PCTI).
- Recent conference calls with Joy Global (JOYG) and CommScope (CTV) management teams.
- Quantitative screen highlights (left column pages 1-2).

## Quantitative Smallcap Rankings as of 3/29/07

### Top 20 Smallcap Screens (All Industries)

1. Manitowoc (MTW)
2. Chatterm (CHTT)
3. BE Aerospace (BEAV)
4. Armor Hold. (AH)
5. Reliance Steel (RS)
6. General Cable (BGC)
7. Varian Semi (VSEA)
8. MKS Inst. (MKSI)
9. Steel Dyn. (STLD)
10. Middleby (MIDD)
11. Acuity (AYI)
12. Priceline.com (PCLN)
13. Global Ind. (GLBL)
14. Comtech Tele (CMTL)
15. CommScope (CTV)
16. Ceradyne (CRDN)
17. Trimble (TRMB)
18. Aeropostale (ARO)
19. Pediatrix (PDX)
20. Talx (TALX)

## Investor Relations Meetings: TESSCO Technologies, Inc. (TESS) and PCTEL, Inc. (PCTI)

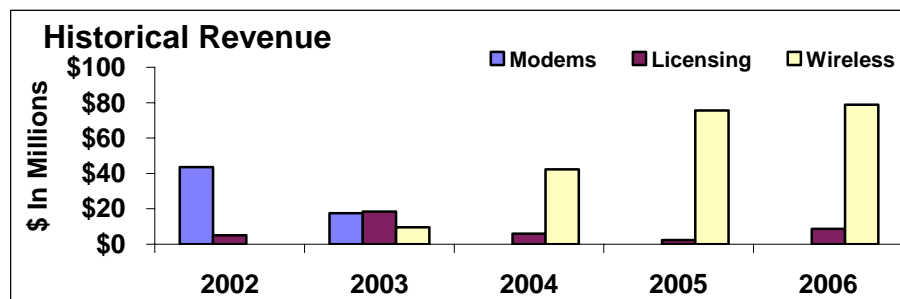
On March 22nd and 23rd The Cardinal Group conducted several investor meetings in Milwaukee and Chicago for two of our investor relations clients. Summaries of the presentations are included below.

## PCTEL, Inc. (PCTI): Investor Relations Client (\$10.17)

PCTEL is a global leader in wireless broadband solutions and is set to benefit from explosive market growth in UMTS (Universal Mobile Telecommunications Service), WiMAX (Worldwide Interoperability for Microwave Access or similar to wide range Wi-Fi), and IMS (IP Multimedia Subsystem) markets. The company's Broadband Technology Group (BTG—85% of total revenue) includes antenna and scanning receiver products. The Mobility Solutions Group (MSG—13% of total revenue) consists of software based products that simplify access to and mobility across 3G, VoIP and Wi-Fi networks. The company's products are sold or licensed to wireless carriers, wireless ISPs, distributors, system integrators, wireless test and measurement companies, wireless network equipment companies, handset manufacturers, and government agencies. PCTEL protects its technology with a strong intellectual property portfolio and broad crosslicensing agreements.

## Why Invest in PCTEL?

- Pure play in wireless broadband.
- Explosive end markets.
- Marquee customer list.
- Broad wireless broadband portfolio, with major investments in WiMAX antennas and improved broadband test tools.
- Strong traction in connectivity & IMS software.
- 2007 eliminates \$5 million in 2006 costs (litigation, factory transition).
- Exceptional balance sheet with \$70 million cash or over \$3 per share.
- Successful transition to higher margin business (see revenue transition below).



**Quantitative  
Technology Rankings  
as of 3/29/07**

**Top 20 Technology  
(All Capitalization)**

1. Oracle (ORCL)
2. Jack Henry (JKHY)
3. Varian Semi. (VSEA)
4. MKS Inst. (MKS)
5. Garmin (GRMN)
6. Flir Systems (FLIR)
7. CommScope (CTV)
8. Comtech Tele (CMTL)
9. Cognos (COGN)
10. Trimble (TRMB)
11. Talx (TALX)
12. KLA-Tencor (KLAC)
13. Cadence Des. (CDNS)
14. Progress (PRGS)
15. McAfee (MFE)
16. Parametric (PMTC)
17. Factset (FDS)
18. Avici Sys. (AVCI)
19. Unisys (UIS)
20. FTI Consult. (FCN)

Since 2001, PCTEL has transformed itself from primarily a modem business to a wireless broadband provider. PCTEL provides the wireless communications equipment and software for connectivity, network monitoring and optimization of wireless networks. Macro growth drivers are the traditional wireless communications demand metrics of growing wireless subscribers, increasing minutes of use, and increased usage of data, voice and video applications. PCTEL also benefits from the new market dynamics of explosive growth in wireless broadband, Wi-Fi and WiMAX networks. PCTEL's operational and financial operating performance have dramatically improved due to the successful resolution of patent litigation that it initiated, integration of acquisitions, product divestiture of the low margin modem business, accelerated outsourcing, improved cash flow and higher product and royalty revenue. PCTEL's valuation metrics remain compelling based on traditional measures as its software product group has outstanding growth potential - both organic and through acquisition. Shareholder value could increase sharply with the anticipated software revenue growth that is correlated with the advent of IMS and the growth in high-speed wireless connectivity and services.

## **TESSCO Technologies (TESS): Investor Relations Client (\$27.19)**

TESSCO is a value-added supplier of the product solutions needed to design, build, run, maintain or use wireless systems. TESSCO is committed to delivering, fast and complete, the product needs of wireless systems operators, program managers, contractors, resellers, and self-maintained utility, transportation, enterprise and government organizations. As Your Total Source® supplier of mobile and fixed-wireless network infrastructure products, mobile devices and accessories, and installation, test and maintenance equipment and supplies, TESSCO assures customers of on-time availability, while streamlining their supply chain process and lowering inventories and total costs.

During recent investor presentations, TESSCO discussed the recently ended quarterly performance and indicated that while revenues are projected to be approximately 30% higher than the same quarter last year, they will be lower than anticipated. As a result, earnings per share for F2007, ended April 1, 2007, will likely be at the low end of the \$1.15 to \$1.22 range previously announced. Importantly, TESSCO also provided initial EPS guidance for F2008 in the range of \$1.35 to \$1.60.

### **Why Invest in TESSCO?**

- Macro growth drivers towards an unwired world provide a compelling investment opportunity in TESSCO.
- Micro growth drivers through increased brand recognition, product breadth and supply chain efficiencies are driving TESSCO's financial performance as the company moves toward its long-term financial objectives.
- TESSCO's financial condition remains strong based on its balance sheet and profitability metrics.
- Operating leverage. TESSCO has capacity to increase sales significantly without any necessary expansion in roofline. This leaves opportunity for margin expansion on a growing revenue base.

### **Products:**

- **Network Infrastructure Equipment:** Antennas & base station systems, transmission line & cable products, broadband radio equipment, network equipment & hardware, tower & site hardware, power systems.
- **Mobile Devices & Accessories (MD&A):** Devices, device accessories, 2-way radios & accessories, antennas, mounts & amplifiers, asset tracking & location systems.
- **Installation, Test & Maintenance Equipment & Supplies:** Test equipment & calibration, branch equipment, tools, shop supplies, safety & apparel, repair components.

## Joy Global (JOYG): Conference Call w/CFO (Long-Term Buy) (\$42.90)

The following are notes from a recent conference call with Don Roof (CFO) of Joy Global (JOYG). We continue to view JOYG shares as an attractive investment opportunity and find value at current levels.

### Overview:

JOYG is about a \$2.5b machinery manufacturer and after market service company that is highly leveraged to the mining cycle. About 60% of revenues are related to the underground mining of coal and 40% leveraged to surface commodities with the largest of that in copper (17%), followed by coal, iron ore (6%) and the oil sands (5%). In putting the two segments together (underground and surface) JOYG is about 70% coal related and split evenly between U.S. and international. The overall commodity mining industry has been on an up-cycle since about 2H03. The only commodity that is experiencing any softness whatsoever is U.S. coal due to unusually mild weather conditions in the U.S. throughout 2006. This led to an actual reduction in electricity demand in the U.S. which has occurred only 5 times in the last 50 years resulting in growing coal stockpiles at utilities and reduction of output from mines. A number of mines, primarily in Central Appalachia, remain idle today. We view the stock as a favorable investment opportunity and believe investors are waiting for resurgence in U.S. coal before more aggressive purchase activity.

International coal markets remain robust and continue to exude signs of a very long cycle. The developing coal markets, particularly the emerging markets of China, Russia and other developing areas are also similarly strong and the company does not see a peak in the cycle at this point in time. Copper and iron ore, which combined provide about 23% of JOYG revenue, are in a situation where the selling prices are significantly in excess of normal project profitability. Further, the oil sands of Northern Canada continue to develop as well. Cycles in the mining industry in the 1990's and 1980's were relatively short at around 3 to 6-year periods. However, in the 1960's and 1970's, as well as post-World War II, those commodity cycles were both at 15 years or more.

### Joy's expected use of cash flow?

Management believes there are few logical acquisitions for the company at this time and will continue to explore smaller strategic transactions similar to the Stamler transaction completed last year. JOYG did institute a dividend back in 2003, which has been increased on 4 occasions by a total of 300% at this point in time. Additionally, JOYG instituted a stock buy-back program, initially at \$300m that was increased to a \$1b authorization. The company has been fairly aggressive in the latter portions of 2006 and Q1 2007 aided by the placement of a \$400m long-term bond offering. As of the end of the Q1, JOYG has completed \$650m of that authorization and anticipates completion of the program well before its expiration at the end of 2008.

### Sales relative to US coal prices?

Regarding U.S. coal, as mines increase production with more normal weather patterns, there most likely will be a positive effect on JOYG's after-market revenues fairly quickly. Additionally, several large U.S. mining operators have restricted future coal production, which means they have a larger percentage of future production unpriced at this point in time than would otherwise be typical. So, if spot prices were to continue to improve, operators might act on more acceptable future contract prices and act on capex requirements. At best, JOYG assumes late third fiscal quarter is when they will actually see OE orders begin to recover from the low rate at which they currently reside.

Management is not concerned as much about copper pricing, unless the supply demand relationship cause prices to fall back below \$1.50, which remains a ways off. Management believes copper cash costs for the majority of customers' mines remain below \$1 per pound. Most of JOYG's customers are justifying new projects in the \$1.10 to \$1.20 area, so higher

copper prices above those levels really only benefit copper mines due to relatively stable production. Most analysts forecast that China is going to absorb an increasing percentage of the world's copper production and that there aren't a significant number of new mines coming online to satisfy the demand, which would result in several years of supply imbalance most likely through 2009. Other analysts have said that at some point in time, the development of India's infrastructure is going to pick up behind China and is just going to continue to extend the longevity of the copper cycle with copper remaining in under supply. A similar situation is occurring in iron ore, and although there have been significant increases in iron ore production in South America and Western Australia, pricing continues to expand.

### **Canadian Oil Sands?**

Remains a good secular growth market and by the end of the next 10 years is expected to be a double-digit portion of JOYG total revenues. So, 10% of a much higher top line figure means it will be a very good market for JOYG. Forecasts are pointing towards market demand of about 125 shovels for that area over the next 10 years and all of those shovels that JOYG contributes will have full lifetime maintenance agreements due to the challenging conditions up there. The realization of 100% of the related aftermarket revenues will also be a very nice secular growth market for JOYG.

### **Coal: Reality vs. Political Issues?**

TXU (a Dallas based energy company) recently canceled a number of coal plants that were scheduled for completion further out in an expansion project, but is still proceeding with the construction of some of the earlier proposed facilities. While this could be politically motivated, it may also be due in part to a short-term transaction with a private equity firm owning a public utility. Additionally and shortly thereafter, TXU announced that they have started the planning process for two integrated gasification combined cycle (IGCC) commercial demonstration plants (clean coal technology with carbon capture) to be located in Texas. Similarly, Wisconsin Energy proposed three coal burning power plants to the public utility commission in Wisconsin about three years ago to use current technology with scrubbers. The public regulators approved the first two with current technology, but denied the third because it was too expensive to the rate payers (utility customers). Regulators in each of the various states are charged with keeping electricity rates low to the taxpayers of that particular state. Joy management believes that we are not realistically going to see any new electricity from hydro electric or nuclear going forward in the next 20 years and the politics of constructing a new nuclear plant would probably be even tougher than that of a coal plant. Additionally, although it is significantly cleaner than even scrub coal plants, natural gas remains more costly than coal. The real question for the industry to answer is can new technologies such as coal gasification with carbon capture become proven out on a large scale and actually be still economically feasible compared to natural gas. Management believes that we don't have much choice other than to burn additional amounts of coal and that the outlook remains very favorable going forward.

## **CommScope (CTV): Conference Call w/CFO (Buy) (\$42.88)**

The following are notes from a recent conference call with Jerald Leonhardt (CFO) of CommScope and Phil Armstrong (Investor Relations). We continue to recommend purchase of CTV shares, but would be mindful of recent share price increases and would exude caution surrounding any significant purchase activity.

**Overview:** CTV is an infrastructure solutions company with an emphasis on "last mile" access technologies, cabling solutions, connectivity and the activity that connects the end-user to the network. The company is divided into three business segments.

**Enterprise Segment:** (about 48% of revenue), The largest and highest margin segment that services mostly Fortune 100 sized companies. Enterprise consists of local area network products and an end-to-end solution for wiring infrastructure needs which include: cables,

connectors, wall panels and patching technology, and even some software. Management believes this segment is still early in a significant upgrade cycle that perhaps will last several years as the enterprise has not had a major IT upgrade since the Y2K time period back in the late 90s. Key drivers include increased bandwidth requirements (video applications), consolidation of corporate data centers and Sarbanes-Oxley. Within this segment, CTV is the leader in the top tier (higher bandwidth) product offering, but also offers lower tier products which can be compared to the Lexus/Toyota strategy. CTV believes there really isn't any company with scale who can offer the breadth of their product line around the world and believes this segment maintains good near-term prospects with above average corporate margins. Enterprise does have some exposure to non-residential construction as new buildings tend to install more advanced wiring infrastructure that are expected to meet both today's needs and bandwidth requirements for a number of years to come. This is where CTV's 10G product offering fits in.

**Broadband** (about 37% of revenue), Legacy business in coaxial cables for cable television companies that has evolved over the years to become the hybrid fiber coaxial network. CTV provides coaxial and fiber optic cables that supply cable companies (MSOs) in the U.S. and around the world. Cable TV has demonstrated some resurgence in demand for CTV products recently as pressures continue to mount from increased competition with the telephone companies (such as Project Lightspeed at AT&T whereby CTV also supplies cabinets (see carrier below)). Although cable companies are not undertaking major rebuilds, they are still forced to tighten up their product offering. This means replacing areas of the network that may not be in tiptop condition sooner than otherwise would have been expected.

**Carrier** (about 16% of revenue), The carrier segment can be divided into two main areas. CTV makes environmentally secure cabinets that house DSL technology and fiber-to-the-node (FTTN) equipment out in the access points of the neighborhood. CTV is a supplier of cabinets for AT&T's Project Lightspeed, but does not supply any of the products for Verizon and the Fiber-to-the-Home (FTTH) initiative. Additionally, CTV produces a cable product for the wireless industry and representative customers include Cingular and Sprint. CTV does not currently supply the BellSouth region (acquired by AT&T), but believes it is likely that they will take on the Lightspeed-type technology over time.

**Updated Guidance:**

Several days prior to the conference call, Q1 revenue guidance was raised from the previous range of \$390m - \$410m to a new range of \$415m - \$425m. Operating margin guidance was raised from the previous range of 10.5% - 11.5% to 12.5% - 13.5% despite rising raw materials costs. Guidance was increased due to strength of the carrier business (AT&T) and broadband. 2007 guidance was not increased, but the company stated that they have not done internal calculations to provide additional guidance, which we believe also points towards inherent lumpy spending patterns at carriers.



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### Theodore J. Moreau, CFA-Principal

Ted Moreau was previously Robert W. Baird's Senior Analyst covering Network Technology (1985-2005). Ted has been nationally recognized by the Wall Street Journal and Institutional Investor Magazine. Ted was named to the Wall Street Journal "All-Star Analysts Team" in 1994, 1996, and 1997. He was honored by Institutional Investor Magazine as a "Home Run Hitter" in 1994. Ted was also named to the Institutional Investor's regional "All-American Team" in 1997. He received a BBA and an MBA from the University of Wisconsin-Madison.

### Charles R. Moreau, Associate

Charles Moreau has over three years experience in the securities industry and is a candidate in the CFA program. He started his career at Robert W. Baird & Co. as part of the Equity Capital Markets Group. Charles has a degree in Finance from the W.P. Carey School of Business at Arizona State University.

### Ted J. Moreau, Jr., Associate

Ted Moreau has over six years experience in the telecom industry. He started his career at Artesyn Technologies, later acquired by Emerson, as a telecom equipment market analyst. Ted has a degree in Finance from the University of Wisconsin-Madison.

## Disclosure

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