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Monthly Update

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

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Welcome!

While acknowledging we are in the midst of a heavy earnings season bolstered by volatility and sub-prime fears, we will attempt to recap a number of fundamental developments in our universe and avoid analysis of the credit markets. Included this month are notes on the following:

- **Actuant (ATU):** Interview with the Director of Investor Relations (Favorable)
- **Badger Meter (BMI):** Improved Results with Healthy Long-term Prospects. Copper Exposure Less Significant. (Favorable)
- **Joy Global (JOYG):** Disappointing Pre-release: Lowers Outlook on Domestic Coal and Operational Issues. Stock Under Major Pressure. (Favorable Entry-Point)
- **Ladish (LDSH):** Q2 2007 Results Significantly Improved (Favorable)
- **Ceragon Networks (CRNT):** Strong Quarter and Outlook – Management Lifts 2007 Revenue Guidance to 40% Growth (Favorable)
- **Juniper (JNPR):** Raises Guidance (Not Rated)
- **Ericsson (ERIC):** Continues to Dominate Wireless Infrastructure (Not Rated)
- **Motorola (MOT):** Struggles with Excess RAZR Inventory Still in the Channel (Not Rated)
- **Adtran (ADTN):** Visibility at AT&T Still Constrained (Neutral)
- **AT&T (T):** Spending Increases Unlikely Material Until 2008 (Not Rated)
- **Tellabs (TLAB):** Rumored to be Considering Nokia Siemens Buyout (Neutral)

Actuant (ATU): Interview with the Director of Investor Relations (Favorable)

We recently participated in an interview conference call with Karen Bauer, the Director of Investor Relations at Actuant Corporation (ATU). The meeting didn't invoke a great deal of incrementally new information, but provided a nice review of the company's business which clearly offers upside in the coming years. Below are our notes and key takeaways from the call.

- Targets 4% - 5% organic sales growth annually combined with a very active M&A profile. Prefers to be a leader in niche markets that are about $400 - $500 million in size. Big fish in a small pond mentality. Management has already spent $160m on acquisitions to date in 2007. Target bolt-on opportunities in the $30 - $60m range per acquisition

Electrical business (36% of F2006 sales):

- Any perceived dependency on new homebuilding is likely a misconception as retail / DIY (Lowe's & Home Depot) exposure in North America is for refurbishment types of projects and results in less volatility than new home construction.
- Increasing low-cost manufacturing in China and other low-cost countries, with approximately 60% sourced from Asia.

Industrial business (27% of F2006 sales):

- Highest margin business segment. The joint Integrity business / Hydratight is a beneficiary of oil and gas infrastructure spending including pipeline and oil rig maintenance. Seeing more work on aging infrastructure as integrity of the joints has been neglected and has some high visibility projects due to multiyear agreements.

- Management has seen margin expansion of late with higher volumes and operating efficiencies, but believes there is room to grow margins in this segment.
- Demand from Hydratight's oil & gas and power generation markets remain robust and continued growth will likely come from a combination of more service technicians and more equipment rental sales, as well as an increase in traditional equipment sales.

Actuation business (32% of F2006 sales):

- Grown from $40m in 2000 to $125m now with $100m of that coming from Europe, which remains strong. Driven by three markets in automotive convertible hard-top ($300m market that ATU commands 50% share), RV (largely for motor homes and is a lumpy business), and Heavy Duty Trucks (with European and Asian exposure).
- Recent negative impact and tough yoy comparisons due to diesel emission prebuy activity, but offers more opportunity before the more stringent 2010 standards. Convertible hardtop business remains interesting with potential for elevated presence in North America, a vehicle option that has been available in Europe for some time. Currently on the Volvo platforms, convertible Beetles made in Mexico, Audi, and Chevy Camero, which launches in 2010.

Which segments will lead 2008 growth? Management expects sales growth before acquisitions of 6% to 8% with core growth of 5% for 2008. Core growth will occur across all segments, but notably in industrial (joint integrity) area due to some catch up spending for maintenance in oil rigs. Interestingly, the company has been discussing its increased exposure to Wind Turbines as an exciting growth area.

Sourcing Initiatives: Management is pushing for more low-cost sourcing with 100 dedicated sourcing employees in China. Management estimates 20% of costs ATU's costs are currently sourced from China. Management aims to grow low-cost sourcing and drive acquisitions toward low cost sourcing regions. Thus far, it has been a challenge to find suitable companies in Asia and the negotiation process can be and has been cumbersome. While management will continue its growth strategy in Asia, the company is also targeting opportunities in Eastern Europe and South America as well.

Targets in new markets? Management is unlikely to target something completely outside the industrial / consumable arena. They have discussed larger acquisitions and have looked at safety tools / supplies, but nothing has come to fruition as of yet, largely impacted by heightened valuation. Actuant has found, generally, that the sub – $75m acquisition market demonstrates lower levels of private equity competition, but they still have had to drop out of some deals as a result of pricing. The acquisition pipeline and related opportunities remain good despite valuation on larger transactions increasing from private equity. In terms of geography, ATU would like to grow into Asia and Europe.

Next Diesel emission standards? The 2010 standards are significantly more stringent than those required in 2007 and will likely be more beneficial to Actuant due to a need for combining different technologies to achieve the higher standards.

Badger Meter (BMI): Q207 Improved Results with Healthy Long-term Prospects. Copper Exposure Less Significant. (Favorable)

- Badger picked an appropriate time to conduct its' first ever earnings conference call, which is likely in response to revenue growth prospects, progress with proprietary products, and increased investor attention on water-related opportunities.
- While the quarter came in above expectations and the company is making traction with its products, quarterly results will continue to fluctuate based on lumpy order flows and product uptakes. Management still maintains very limited visibility and we believe it is important for investors to avoid extrapolation of quarterly results to determine growth

trends.

- Primary growth driver has been and will be BMI's proprietary Orion product, providing a more favorable sales mix for the company. Orion sales increased 56% over the prior year while sales of Itron's (Badger resells) product was down 30% over the same period. The shift in product mix, increased volume shipments, and realization of pricing initiatives have all assisted with gross margin levels, which tapped 36.2% in the quarter vs. 35% in the prior year. The company appears to be making progress with price increases implemented last year and will continue to see further realization with another increase announced on July 1st.
- The relatively recent surges in copper, and to a less extent oil (used in plastic resin components), have impacted margins and earnings over the preceding two years. Successful realization of pricing increases remains a significant component to margins and profitability as copper comprises roughly 80% of the meter raw materials cost. Additionally, low-cost manufacturing in a new facility in Mexico should also assist with the adverse effects of the higher copper prices. Importantly for investors, Badger's input costs are more directly tied to the more stable scrap copper index than the virgin copper index.

Chicago Contract and Reduced Copper Exposure;
The recent city of Chicago contract announcement impacts Badger in a positive way for a number of reasons and was a major factor in stock performance. For starters, the Chicago contact is valued at approximately $40m over 3 years, $24m of that is for meters and the remainder is installation, which is contracted out. The rollout is expected to be pretty steady and could smooth revenue recognition. From a market perception standpoint, Chicago's purchase of plastic meters (vs. the more popular Brass) reduces copper exposure and might signify more markets to do the same. Perception of durability is important as plastic meters demonstrate the same life expectancy and accuracy as Brass meters. Historically, Badger has sold only about 7-8% of total units as plastic, but this number is closer to 15% this year. Higher copper prices and even vandalism concerns are pushing the change. While the Chicago contract does not mean the suburbs will follow, it may offer potential to expand in the area. Badger started bidding on the Chicago contract 2 years ago and knew they were a preferred bidder only 6 months ago.

Joy Global (JOYG): Disappointing Pre-release Lowers Outlook on Domestic Coal and Operational Issues. Stock Under Major Pressure (Favorable)

- The company's negative pre-release and resulting share price decline stemming from short-term weakness in U.S. coal provides favorable entry-point for longer term investors. Additionally, Bucyrus (BUCY) shares dipped significantly on the news as well, providing a more intriguing opportunity, in our opinion, due to it's company transforming acquisition of DBT and relatively lower exposure to U.S. coal.
- Joy Global management lowered its 12 month revenue and EPS forecast provided last December (company typically provides rolling 12-month forecasts) due in part to sustained weakness in the U.S. coal market and operational issues. Management now expects revenue for 2007 to be approximately $150m - $200m below the $2.7b - $3.25b range provided in December 2006. Management also lowered EPS expectations by approximately $0.15 to $0.20 below the previous $2.85 - $3.25 range.
- While we continue to believe in the longevity of this mining super cycle and expect significant contributions from strong international markets, the company still must deal with short-term drawbacks associated with its largest market segment in U.S. coal. Demand for parts and services in the U.S. coal market have continued to decline, particularly in the Central Appalachian region, historically the company's largest segment. Conversely, on the most recent earnings conference call, management appeared much more upbeat on a turnaround in U.S. coal than the previous quarters. Recall that aftermarket sales are tied very closely to coal production levels, which appeared to begin tipping the scales in a more favorable direction. However, based on relatively current EIA data, it appears likely that coal stockpiles at utilities, the largest consumer of coal, have risen noticeably on a

YTD basis over levels seen last year. Further, coal futures of Central Appalachian coal are below those levels in 2004, 2005 and the majority of 2006 foreshadowing continued production slowdown in the short term.

- Management is also experiencing operational issues that will affect 2H07 and could roll into fiscal 2008, including a delay in bringing online a major fabrication subcontractor, delivery issues with the supplier of a critical component and permitting issues surrounding a roof support system sold in China. The roof support issues is expected to be resolved this quarter (reports late August), but may reduce the company's operating income in 2H07 by an additional $19m.
- The overall outlook for end markets remains very positive in copper, iron ore, oil sands and international coal, and JOYG continues to add capacity to meet the needs of these markets. While U.S. coal issues drag short-term sales, coal demonstrates an abundant cost-effective solution that will continue to remain a very significant contributor to domestic power generation needs for decades to come.

Ladish (LDSH): Q2 2007 Results Significantly Improved (Favorable)

While we view the current global aerospace cycle very favorably, Ladish has been one of the few names in the space that has been held back. This is a result of several maintenance related production issues experienced earlier in the year. Thankfully for the company, the production issues appear to have abated and the company beat analyst estimates handily on both the top and bottom lines. Revenue of $114m was up 16% sequentially and 26% over the prior year driven by strength across all business segments. Margins positively impacted by favorable product mix and all operating units are back up and running and ahead of last year's rates.

- Gross margin reached 19.3% vs. 14.0% last quarter and 21.3% last year. The lower yoy comparison is partly due to raw materials inflation and some supply chain issues with materials. As Ladish's customers typically choose the materials suppliers, we don't expect timing and quality of materials to negatively impact the company's customer relationships. The company believes some of the disruptions are stemming from an acquired supplier several months ago, which will likely be worked out in the near-future, but this is really impacting the entire industry.
- EPS of $0.74 was well above the $0.66 consensus estimate and up from $0.40 last quarter and $0.60 last year.
- Management estimates $5m of sales was pushed from Q1 to Q2 due to it's equipment issues. The shutdown impacted all three product lines including jet engines, axels for CAT, and landing gear in helicopters. Piece of equipment used regularly and impacted bottom line.

Ceragon Networks (CRNT): Strong Quarter and Outlook – Management Lifts 2007 Revenue Guidance to 40% Growth (Favorable)

As we discussed in our July issue, Ceragon Networks presents a compelling growth story that appears to be gaining a good deal of attention on the Street. Ceragon reported EPS of $0.09 driven by continued strong revenue growth and a gross margin of 36.2% that came in just ahead of the top end of guidance.

- Two 10% customers in the quarter, both OEM partners. The OEM channel business comprised 28% of total revenue vs. 25% in Q1.
- Wireless carriers accounted for approximately 53% of total sales, followed by Fixed line carriers at 26% and Private networks (government, enterprise) at 21%. Geographically, the Asia Pacific region comprised 44% of total sales, followed by EMEA at 34%, North America at 20%, and Latin America at 2%.
- Ongoing cost reduction strategy includes outsourcing of manufacturing and increased supply chain and R&D efficiencies. Corporate headcount was 303 at the end of the quarter with plans to hire on a gradual basis. SG&A will not grow as quickly sequentially in

the September quarter as it did in June.

- Based on strong bookings and record backlog in Q2, Ceragon raised its full year revenue growth target from 30% to about 40% over the 2006 numbers. For the September quarter, management guided to $38 - $40 million revenue (approximately 50% of the business is quick turns). Guidance suggests 2007 revenues will be in the range of $150 - $152 million.
- Ceragon anticipates growing profits faster than revenue for the remainder of the year, albeit from a relatively small base. We estimate 2007 EPS to reach $0.39, which increases to $0.58 in 2008. The company targets a 10% profit margin toward the end of 2008 and anticipates market growth of roughly 25% over the next three to five years.

Juniper (JNPR): Raises Guidance (Not Rated)

- Increased its 2007 revenue guidance from $2.6 - $2.7 billion to $2.73 - $2.76 billion with EPS guidance updated to $0.82 - $0.83 vs. $0.81 consensus. Increased revenue guidance appears to be across the board, thus is largely related to the general theme that carriers are upgrading their networks to support increasing data and video traffic.
- Juniper core routers continue to gain momentum, largely to support the growth in IPTV and multi-play applications.
- Verizon was a 10% customer in the March quarter, but not in the June quarter. The Nokia Siemens Networks reseller partnership represented 18% of revenue, or nearly $120 million, which was up nearly $45 million sequentially and Juniper continues to recognize revenue from their Ericsson, Alcatel-Lucent, and NEC partnerships.
- During the quarter, Juniper repurchased $1.6 billion of stock at $23.47 per share, or 67.9 million shares bringing total shares repurchased year to date to 69.4 million shares (approximately 83% complete under the authorized repurchase program).

Ericsson (ERIC) Continues to Dominate Wireless Infrastructure (Not Rated)

- Ericsson's 40%+ market share in GSM / WCDMA infrastructure actually looks to increase with recent massive contract announcements with China Mobile ($1 billion) and Bharti Airtel ($2 billion). The Bharti award is Ericsson's largest in history.
- In the United States, Ericsson primarily sells equipment to AT&T and T-Mobile, although spending by AT&T likely will remain subdued throughout 2007. Ericsson reiterated previous comments that it believes long run carrier investment in infrastructure will continue to grow along historical trends of mid-to-high single digits. For 2007, Ericsson reiterated expectations that the global GSM/WCDMA infrastructure market will grow in the mid-single digits over 2006.

Motorola (MOT): Struggles with Excess RAZR Inventory Still in the Channel (Not Rated)

- Mobile Devices segment sales fell considerably to $4.3 billion with 35.5 million handsets shipped. Motorola estimates 263 million devices shipped in the global marketplace in the quarter, giving Motorola a 13.5% market share, down from 17.5% in the March quarter and low 20% area in 2006.
- The Connected Home business largely drove Home and Network Mobility sales growth. Motorola experienced strong demand for HD DVR and IPTV devices from both cable and telco customers. The company shipped 4.2 million devices, with 30% for HD DVR and 15% for IPTV. 2.9 million voice and data modems were shipped. Motorola anticipates 2H07 will be softer than 1H07 in the Connected Home business driven by the FCC mandate concerning set top boxes. As a result, an estimated $150 million in revenue was pulled into the first half of 2007 from the 2nd half.
- Longer term, Motorola remains excited about the Connected Home business and believes this market will exhibit tremendous growth as the world views more video.
- The Cellular equipment business continues to be impacted by intense competitive pressures in GSM as Ericsson grows more dominant and increasingly the spending shift by

Sprint Nextel away from iDEN towards CDMA EV-DO and WiMax.
- EPS of $0.02 was in-line with estimates and will likely be repeated in the September quarter. The Mobile Device inventory issue will likely overhang the stock.

Adtran (ADTN): Visibility at AT&T Still Constrained (Neutral)

- Revenue was in line with consensus, increasing 12% sequentially and 1% y/y. Adtran had four 10%+ customers with AT&T leading the way at 24%, although was down from 29% in the March quarter. The slowdown at AT&T continues and has impacted the breadth of Adtran's portfolio. Adtran gave no indication of the timing of resumed spending by AT&T to more "normal" levels. The remaining 10% customers were Verizon (13%), Embarq (11%), and Qwest (11%). International revenue was 7% of total sales. Weakness at AT&T was partially offset by upgrades at other carriers.

AT&T (T): Spending Increases Unlikely Material Until 2008 (Not Rated)

- AT&T has passed 4 million homes for U-verse (Project Lightspeed or FTTN) and continues to target 8 million for the year. U-verse is now available in 23 metro areas with deployment in the first BellSouth market by year end. AT&T intends to communicate its FTTx strategy for the BellSouth region at its investor meeting in December (BellSouth has utilized a FTTC architecture featuring a Tellabs platform. AT&T estimates 10,000 installs per week in the December quarter. The cost to pass a home with FTTN is about $330 in the traditional 13 SBC states. In the BellSouth region, fiber is already deployed deeper in the network (FTTC), which will result in a 10-15% reduction in cost per home passed, although the penetration rate is lower.
- Capex - AT&T noted its operating below budget expectations through the first half, primarily on the wireless side. There were some vendor credits with suppliers that held capex down in 2Q07.
- Now that AT&T has acquired BellSouth and Cingular, the carrier has not broken out capex for additional clarity. AT&T expects capex to be in the mid-teens area as a percentage of revenue in 2007 and 2008. AT&T capex will increase in 2H07, particularly on the 3G side, but a large 2nd half ramp doesn't appear will occur. The AT&T capex comments are largely in line with Ericsson's comments during their earnings calls that a spending rebound may not be visible until 2008.

Tellabs (TLAB): Rumored to be Considering Nokia Siemens Buyout (Neutral)

According to TheStreet.com, Tellabs is reportedly considering an offer from Nokia Siemens for $16 - $17 per share, although a deal "is not imminent." Tellabs shares finished trading Friday (July 20th) at $11.85 and moved to $13.35 before the market opened on Monday, July 23rd. Since the recent market correction shares have dipped back down, but are likely elevated due to the potential buyout offer.

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