



From the Editor...

Redemptions at record levels - In September, 2008 U.S. mutual funds faced \$75 billion worth of redemptions, which was three times the monthly record set in 2001. It appears that October is on pace to beat that. Hedge funds are also facing client redemptions. There is a great article in *The Economist* [*The Incredible Shrinking Funds – October 23, 2008*](#), which describes how hedge fund investors are withdrawing massive amounts from this asset class...\$40 billion in September alone.

Based on record redemption levels, in addition to margin calls and other non-fundamental reasons, investors have been forced to sell their stocks, no matter what the price. In this environment many stocks are not trading at valuations based on their underlying fundamentals. Some companies, like Telular (Nasdaq: WRLS) and Optimal Group (Nasdaq: OPMR), are actually trading at or near their cash per share, despite being profitable and having attractive ongoing franchises.

If redemptions continue through the rest of the year, it's possible we could retest the lows. However, with a longer term horizon, investors are bound to find some bargains that will appreciate as fundamental valuation comes back into play.

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Dave Mossberg

October 2008 Issue

TransAct Technologies (Nasdaq: TACT)

October 3, 2008 Page 2 – TransAct Technologies manufactures and markets specialized printers for banks, point-of-sale locations, casinos and other market-specific applications. The company recently displaced its major competitor at International Gaming Machines as the default printer. Penetrating this customer's installed base provides a growth driver, regardless of weakness in the casino business.

Telular (Nasdaq: WRLS)

October 16, 2008 Page 3 – Telular is the dominant player in the market for monitoring security alarms through the cellular telephone network. The company is a mobile virtual network operator (MVNO), which means that they do not own their own cellular network infrastructure, but rather purchase airtime on a wholesale basis, mark it up and sell it to home security companies. This is a good business, which requires no capital outlay and produces a 50% gross margin with a predictable recurring revenue stream.

Liquidity Services (Nasdaq: LQDT)

October 23, 2008 Page 4 – Liquidity Services runs online auction marketplaces that help corporations and government agencies liquidate surplus goods. The company's unique business model generates "negative working capital" by collecting from customers faster than they have to pay their suppliers. With this model, the faster the company grows the more cash it generates.

CPI Aerostructures (AMEX: CVU)

October 27, 2008 Page 5 – In a market environment where most companies have no idea what revenue will look like in 2009, CPI Aerostructures has revenue visibility through 2011. The company has recently won several multi-million contracts to supply structural aircraft for military and commercial aircraft.



Mossberg's Investor Digest Idea Profile

TransAct Technologies (Nasdaq: TACT)

DESCRIPTION:

Headquartered in Hamden, CT; TransAct Technologies manufactures and markets specialized printers for banks, point-of-sale locations, casinos and other market-specific applications.

KEY INVESTMENT CONSIDERATION:

Recurring revenue is approximately 25% of total – With an installed base of over 2 million printers, TransAct generates approximately 25% of its revenue from selling spare parts and services to fix and maintain its existing base.

TACT is the new default printer for the largest gaming machine manufacturer – International Gaming Machines (NYSE: IGT), the world's leading manufacturer of gaming machines made TransAct its default printer vendor in April. TACT will eventually penetrate from approximately 20% of IGT machines to as much as 70% over the next couple of years. This was a major competitive coup for TACT, as they replaced Futurelogic as the default supplier. Despite weakness in the domestic casino business, the IGT deal will allow TACT to grow. Casino printer sales increased 19% in the latest quarter.

Secular growth in lottery industry is likely in the coming years – State and local governments are in desperate financial condition and revenue from lotteries makes an attractive alternative to raising taxes. No matter who wins the next presidential election, it's likely that federal taxes will increase. With increased tax payments at the federal level, combined with the weak economy and difficulties in the credit market, it is likely that state and local government entities will have fiscal difficulties and/or have a difficult time funding new projects. GTECH the world's largest provider of lottery terminals and is TACT's largest customer.

CATALYSTS:

Win with McDonald's – TransAct will provide printers to support the rollout of premium coffee bars in 14,000 McDonald's stores over the next year. When it was recently reported that McDonald's might not be able to get financing to support the roll-out, TACT's stock price took a dive, possibly in response to the news. McDonald's has subsequently said its plans are on track and it's likely that the market has overreacted to this news.

KEY RISKS:

Financial company exposure – A significant percentage of TACT's sales are generated by banks, credit unions and other financial institutions. The financials crises will likely put pressure on the company's ability to grow revenue in this area.

GTECH is a big customer and can have lumpy orders patterns – GTECH has represented 12% and 17% of revenue during 2007 and 2006, respectively. Revenue from this customer can swing significantly from year to year.

VALUATION:

The lone analyst's EPS estimate for FY09 is \$0.58. This implies a ROE of north of 20% in the next 18 months. Assuming this level of return is delivered, the stock should trade at EPS multiples closer to 20x FY09 EPS in the next 18 months (\$12 per share).

(Nasdaq: TACT)	
Investment Data (as of 10/3/08)	
Recent Price	\$6.99
52-Week Range	3.58 - 13.75
Fiscal Year End	Dec
Dividend	N/A
Yield	N/A
Shares Outstanding	9.4 MM
Average Trading Volume (3 mos)	114,000
Market Capitalization	66 MM
Cash	2.5 MM
Long Term Debt	0
Enterprise Value (EV)	63 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	2.10
TTM Revenue	54 MM
P/ Revenue	1.2x
TTM EPS	-0.29
P/ EPS	N/A
TTM EBITDA	3.5 MM
EV/ TTM EBITDA	18x

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Idea Profile

Telular (Nasdaq: WRLS)

DESCRIPTION:

Headquartered in Chicago, Telular Corporation designs, and markets devices and services that enable a standard telephone, fax, computer, security alarm or remote monitoring system to operate wirelessly over the cellular network for either primary or back-up communications. The company has three main lines of business 1) The company's TelGard wireless alarm business (2/3 of revenue) provides systems and subscription services that allow data from security and fire systems to be transmitted to central stations using the nationwide GSM digital cellular network. The company has approximately 425,000+ subscribers and is the dominant player (more than 50% market share) in this market. 2) The company also sells terminals, primarily into Latin America, that give small businesses and other users phone, fax and internet access, where landline connectivity is not available. For the first nine months of the fiscal year, business outside the U.S. (primarily Latin America) grew 37% and represented 15% of revenue. 3) Recently the company acquired SupplyNet, which provides tank monitoring solutions for petroleum logistics and chemical companies.

KEY INVESTMENT CONSIDERATION:

Growing base of recurring profitable revenue – Telular already dominates the wireless event monitoring market for security monitoring applications. The company's 425,000+ subscribers provide an annual revenue stream of about \$20 to \$25 million, with significant profitability and predictability. WRLS is a mobile virtual network operator (MVNO), which means that they do not own their own cellular network infrastructure, but rather purchase airtime on a wholesale basis, mark it up and sell it to home security companies. This is a good business, which requires no capital outlay and produces a 50% gross margin. The company has a goal of growing the recurring revenue base from 1/3 of revenue to 2/3 of revenue.

SupplyNet acquisition adds to recurring revenue base and provides entrance into new event monitoring market – SupplyNet currently monitors 13,000 tanks for companies such as BASF, Cargill, US Filter and many other leading petrochemical companies. The company is expected to generate \$6 million in revenue during 2009. The acquisition diversifies WRLS' revenue stream, adds a new rapidly growing vertical market, and allows the company to leverage its technology investment and service expertise.

Solid balance sheet with excess liquidity – After subtracting the \$3 million in cash paid for SupplyNet, and adding back cash flow generated during the quarter, the company has approximately \$1.00 in cash per share and no debt.

KEY RISKS:

Customer Concentration – During the first nine months of its fiscal year, the company derived approximately 55% of its revenue from two customers in the U.S. and one in Latin American. During the September 2008 quarter, orders from ADT, one of its significant U.S. customers, slowed causing results to come in below expectations.

VALUATION:

Like many other micro cap stocks, WRLS stock is not trading based on fundamentals. It's possible that there are some holders that are being forced to sell due to redemptions, margin calls, or other non-fundamental reasons, which means shares could go lower. However, with the stock trading near its cash value, and a \$5 million buyback in place, the downside should be limited and longer term holders should be rewarded when fundamentals come back into play.

The SupplyNet acquisition was valued somewhere between 0.5x and 1.0x revenue. If we apply this conservative range to Telular's 4Q revenue run rate of \$50 million (includes \$6 million of SupplyNet revenue), we come up with a value of \$1.30 to \$2.60 per share. Add the cash and the stock is valued somewhere between 2x to 3x its current valuation. This is a base case scenario and valuing the company based on discounting cash flows could yield much higher valuations.

(Nasdaq: WRLS)	
Investment Data (as of 10/16/08)	
Recent Price	\$1.28
52-Week Range	1.09 - 8.59
Fiscal Year End	September
Dividend	N/A
Yield	N/A
Shares Outstanding	19.3 MM
Average Trading Volume (3 mos)	74,000
Market Capitalization	25 MM
Cash	19 MM
Long Term Debt	0
Enterprise Value (EV)	6 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	1.98
TTM Revenue	81 MM
P/ Revenue	0.3x
TTM EPS	-0.03
P/ EPS	N/A
TTM EBITDA	9.6 MM
EV/ TTM EBITDA	0.8x

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Idea Profile

Liquidity Services (Nasdaq: LQDT)

DESCRIPTION:

Liquidity Services runs online auction marketplaces that help corporations and government agencies liquidate surplus goods. LQDT procures product from many top 10 retailers, online retailers, and the U.S. government. After taking possession of the goods at one of its 9 warehouse facilities, the company sorts, barcodes, and palletizes common items. The items are then auctioned on one of its auction sites to EBay power users, thrift shops and back alley liquidators. The company just reached a milestone of 1 million registered users of its websites liquidation.com, govliquidation.com, govdeals.com and liquibiz.com.

KEY INVESTMENT CONSIDERATION:

Effectively, the faster LQDT grows the more cash that it generates – The company generated \$20 million in free cash flow over the past 12 months while growing its revenue base by more than 30%. For most other companies, 30% revenue growth would have required cash to finance receivables and inventory. Instead, LQDT's unique business model can actually generate "negative working capital". This happens because auction winners pay faster than LQDT has to pay for the entire consideration (inventory purchase plus profit sharing distribution) of the product. LQDT has three pricing models.

1. Consignment(38% of revenue) – Under the consignment model, there is no cash outlay for the merchandise sold at auction. Payment is received by LQDT and remits funds to the seller after a few days.

2. Profit Share(42% of revenue) – Under this model, LQDT pays a nominal amount (less than 1% of acquisition value) to the seller, then remits a portion of the profits generated on the sale of the merchandise after selling and other expenses are deducted.

3. Purchase(15% of revenue) – LQDT agrees to a purchase price per item, and sometimes receives terms from the seller that can be as much as 120-180 days. In most cases this is twice as long as it takes LQDT to sell and receive payment for the item.

As a result of this model, LQDT can finance growth without issuing new shares and diluting shareholders. Excess cash can be used to repurchase stock or make acquisitions that further expand the scope and scale. It's also conceivable that LQDT could pay a dividend at some point in the future.

Weak economy could help business – In a trade group survey of more than 200 resale and thrift shops, nearly 2/3 of businesses reported higher sales in 2008...the average increase was 35%. The two largest charitable resellers, The Salvation Army and Goodwill Industries, reported year-to-date increases of 6% and 15% respectively.

Critical mass and infrastructure create strong value proposition and barriers to entry – In the auction business, the larger the efficiencies of scale and scope the more valuable the auction is to sellers and buyers. The company has 500 product categories and over 1.7 million annual auction participants. In addition, the company has built infrastructure to support a \$1B business. Its 9 warehouse facilities with over one million sqft. of usable space, systems, and knowledge base would be significant barriers for any new entrant to duplicate.

VALUATION:

LQDT is currently trading at an enterprise value of 7.6x trailing twelve months EBITDA. This is a bargain for a company that is already generating a ROE of 13% and has multiple recurring revenue streams. Following the DoD surplus contract reset through FY09, profitability should grow faster than the top line as LQDT leverages the investments made in infrastructure, which is currently operating at less than 60% of capacity. Based on a targeted contribution margin of 12% to 14% (up from approximately 9% currently), LQDT could generate 20% to 25% ROE. As these returns are realized, valuation multiples should expand significantly from current levels.

(Nasdaq: LQDT)

Investment Data (as of 10/23/08)

Recent Price	\$7.52
52-Week Range	6.73 - 15.18
Fiscal Year End	September
Shares Outstanding	28 MM
Average Trading Volume (3 mos)	174,000
Market Capitalization	210 MM
Cash	51 MM
Long Term Debt	0
Enterprise Value (EV)	159 MM
LT Debt/ Equity	0%
Tangible BV/ Share	1.85
TTM Revenue	245 MM
P/ Revenue	0.9x
TTM EPS	0.43
P/ EPS	17.5x
TTM EBITDA	21 MM
EV/ TTM EBITDA	7.6x

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Idea Profile

CPI Aerostructures (Amex: CVU)

DESCRIPTION:

Founded in 1980 and headquartered in Edgewood, New York, CPI Aerostructures builds structural aircraft parts for the military and commercial aircraft to the U.S. armed forces and leading aerospace contractors, such as Boeing, Lockheed Martin, Sikorsky, Northrop Grumman and others. Parts include skin panels, leading edges, flight control surfaces, engine components, wing tips, cowl doors, inlet assemblies, aprons, engine mounts and other complex flight structures. More notable programs the C-5A Galaxy cargo jet, the T-38 Talon jet trainer, the UH-6 Black Hawk, the A-10 Thunderbolt attack jet, the E-3 Sentry AWACS jet. The company also provides engineering technical and program management services.

KEY INVESTMENT CONSIDERATION:

Focus on subcontract business increases the scope of business opportunities – Since 2004 when the company put more emphasis on cultivating its subcontractor business, subcontracting orders have grown from \$1.8 million annually to \$38.5 million in 2008 (89% of total awards). Winning and executing on bids with large contractors such as Sikorsky, and Boeing allows CPI to bid for additional contracts. In most cases CPI is being asked to bid on these contracts. The company now has \$231 million outstanding, un-awarded solicitations.

CPI has significant visibility in '09 and into 2011 – The company has given revenue guidance for 2009 of \$42 to \$45 million, which is a 24% increase from 2008 guidance. Management has also guided revenue to grow at a compound annual growth rate of 30% to 35% from 2008 to 2011. Giving confidence in these expectations, the company has announced several large multi-year contract wins including:

- **Boeing A-10 Thunderbolt** - \$70 million contract to provide 242 enhanced wings.
- **Unnamed global aerospace and defense company** - \$98 million contract to provide structural kits for an in-production aircraft.
- **Gulfstream G650 Business Jet**
- **Sikorsky Aircraft** - \$12.5 million for Infra Red Reduction System module assemblies and \$10 million for structural assembly kits for S-92 civil helicopters.
- **T-38 Talon Jet** – Prime contract win to supply \$61 million worth of structural inlets for the propulsion system.

Bottom line should grow faster than the top line - Net income is expected to grow at a CAGR is 50% to 60% through 2011. The company recently began several multi-year programs which tend to be less profitable in the early stages. In the initial stages of a multi-year contract there are significant planning and engineering costs to build initial units for customer approval before volume production can begin. As units move into regular production, the company should gain significant operating leverage.

(Amex: CVU)

Investment Data (as of 10/27/08)

Recent Price	\$5.30
52-Week Range	4.62 - 9.00
Fiscal Year End	Dec
Dividend	N/A
Yield	N/A
Shares Outstanding	6 MM
Average Trading Volume (3 mos)	20,000
Market Capitalization	32 MM
Cash	0.2 MM
Long Term Debt	0.6 MM
Enterprise Value (EV)	32 MM
LT Debt/ Equity	2%
Tangible BV/ Share	5.39
TTM Revenue	32 MM
P/ Revenue	1.0x
TTM EPS	0.30
P/ EPS	18x
TTM EBITDA	3.1 MM
EV/ TTM EBITDA	10x

KEY RISKS:

Government contracts represent over 90% of the company's business – Revenue and profitability could be significantly affected if programs are cancelled or spending is reduced.

VALUATION:

For 2008, management has given guidance of approximately \$0.43 per share, up from \$0.31 earned during 2007. Currently shares are trading at 12x the forward number, a considerable discount considering the company's strong visibility and attractive growth rate. If the company continues to execute its plans, EPS could grow to \$1.50 per share by 2011 (applying the lower end of the expected 50% to 60% earnings growth rate), which should justify a price at least 2x its current levels.

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