

## Extremely Cheap Stocks.....on initial screening; further due diligence warranted

### Sector/Industry: Special Report

The financial turmoil of the past few weeks has created, what we believe to be, an opportunity for investors with long-term investment horizons to acquire stocks at extremely cheap valuations. We decided to run a screen and search for the cheaper than cheap stocks. Here was the criteria:

1. We limited our search to companies that trade on the NYSE, NASDAQ, AMEX, OTC, TSX, or TSX-V exchanges.
2. We required companies to have a P/E of less than 10x earnings.
3. The companies had to trade at a market capitalization that was lower than their cash position less any debt. In other words, all else equal, these are companies one could acquire for less cash than the companies had in the bank AFTER paying their debts.
4. The companies had to have a 3-year revenue growth rate of at least 5%.

The table below presents the results of our screen.

Company	Cash & Equivalents, US\$, LFT	Exchange	Market Cap USD (m)	P/E Normalized, LFT	Revenue Growth % 3 Yr	RIC	Total Debt, US\$, LFT
21st Century Holding Co.	63.79	NASD	40.07	1.89	15.87	1GHC.OQ	9.02
Acom International, Inc. (ADR)	147.53	NYSE	143.34	8.88	40.22	ATV.N	0
AEGON N.V. (ADR)	16,697.38	NYSE	8,559.15	2.6	5.92	AEG.N	0
Ascalade Communications Inc.	13	TSE	0.25	1.64	19.77	ACG.TO	5.56
Asure Software	12.81	NASD	6.72	0.61	36.62	ASUR.OQ	0
BGI, Inc.	2.29	OTC	0.88	0.64	14.55	BGII.PK	0.28
Breakwater Resources Ltd. (USA)	68.5	OTC	39.73	0.28	37.78	BWLR.FK	1.99
Canaccord Capital Inc.	527.81	TSE	275.63	4.47	19.12	CCI.TO	23.77
CDSS Wind Down Inc.	28.05	OTC	0.03	0.01	27.68	CWDW.OB	0
Central Gold-Trust	145.82	AMEX	134.59	4.31	150.25	GTU.A	0
China Expert Technology, Inc.	21.2	OTC	1.3	0.18	126.74	CXTI.PK	2.51
China Technology Global Corp.	0.04	OTC	0.03	0.73	38.62	CTGL.FK	0
Commerce Energy Group, Inc.	10.37	AMEX	7.72	0.8	20.84	ESR.A	0
Coventree Inc.	80.14	TSE	43.22	0.62	215.71	COF.TO	2.72
CSP Inc.	15.79	NASD	14.73	3.81	22.3	CSPI.OQ	0
Eagle Plains Resources Ltd.	5.83	CVE	5.22	8.38	54.89	EPL.V	0
Entrx Corporation	3.16	OTC	1.46	2.11	19.83	ENTX.PK	0.3
Equitable Group Inc.	235.98	TSE	155.52	5.95	38.59	ETC.TO	72.81
Eternal Technologies Group, Inc.	27.98	OTC	4.46	0.61	28.34	ETLT.QOB	0.44
Hauppauge Digital, Inc.	12.23	NASD	10.89	2.12	19.28	HAUP.OQ	0
Hirsch International Corp.	8.37	NASD	5.12	2.46	5.83	HRSH.OQ	0.06
HudBay Minerals Inc.	613.21	TSE	560.38	2.88	356.74	HBM.TO	5.46
InPlay Technologies Inc.	1.74	NASD	1.17	0.76	86.18	NPLA.OQ	0
Interactive Brokers Group, Inc.	5,678.16	NASD	957.41	3.15	48.2	IBKR.OQ	858.42
International Lottery & Totalizator Sys.	5.36	OTC	2.72	0.7	10.45	ITSI.OB	0
Jemtec Inc.	3.17	CVE	1.6	2.92	21	JTC.V	0.1
King George Financial Corporation	4.94	CVE	1.63	6.73	13.05	KGF.V	3.16
Man Sang Holdings, Inc.	74.38	AMEX	12.64	2.59	15.41	MHJ.A	41.19
MEMSIC, INC.	63.26	NASD	44.01	7.34	54.18	MEMS.OQ	0
Merriman Curhan Ford Group, Inc.	10.42	NASD	9	0.95	31.7	MERR.OQ	1.41
Old Stone Corporation	1.77	OTC	0.25	0	2,015.19	OSTN.PK	0
Orvana Minerals Corporation	87.53	TSE	47.54	1.83	42.91	ORV.TO	4.63
Peerless Systems Corp.	55.14	NASD	32.97	3.2	7.22	PRLS.OQ	0
Penson Worldwide, Inc.	2,399.32	NASD	229.42	7.26	51.65	PNSN.OQ	390.6
Petrominerals Corporation	0.41	OTC	0.03	0.17	19.63	PTRO.PK	0
Replidyne, Inc.	40.75	NASD	32.25	4.28	312.58	RDYN.OQ	0
Senetek PLC (ADR)	17.8	OTC	9.25	0.47	51.92	SNKY.OB	0
Spreadtrum Communications, Inc.	68.93	NASD	57.6	2.73	124.04	SPRD.OQ	3.65
Tegal Corporation	18.18	NASD	15.25	0.85	30.29	TGAL.OQ	0.01
Terra Nova Financial Group Inc.	155.49	OTC	24.51	7.61	182.68	TNFG.OB	0
Thomas Group, Inc.	14.43	NASD	13.23	1.91	23	TGIS.OQ	0.22
Trident Microsystems, Inc.	213.3	NASD	119.41	8.8	55.19	TRID.OQ	0
TTI Team Telecom International Ltd.	26.93	NASD	17.44	7.18	6.7	TTL.OQ	0
Universal Insurance Holdings, Inc.	276.63	AMEX	111.6	2.15	186.71	UVE.A	25
Valpey-Fisher Corporation	9.98	AMEX	9.2	7.94	5.14	VFP.A	0
ValueVision Media, Inc.	48.83	NASD	22.5	0.96	7.81	VVTV.OQ	0
Whitney Information Network, Inc.	28.74	OTC	14.09	3.41	35.75	RUSS.PK	3.16
Wintech Digital System Technology Corp.	0.86	OTC	0.17	1.92	15.96	WDSP.PK	0

Source: FRC; Reuters Knowledge

Companies warranting further due diligence

Some things to note:

- We briefly looked at the companies that the screen criteria returned and highlighted certain companies in yellow that signify companies we believe are of interest and warrant further due diligence.
- We determined which companies are of interest by excluding financial industry companies, non-profitable companies, bankrupt companies etc.
- We cannot guarantee the accuracy of the data as we have relied entirely on the data in Reuters Knowledge and have not verified that their figures are current.

However, this exercise has identified 19 companies that appear to trade at a level not warranted by their fundamentals. For example, TTI Team Telecom, could be acquired for \$17.4 million, but they have \$26.9 million cash in the bank and no debt. Furthermore, the company generates \$51.3 million a year in sales and \$3.2 million in profit. The stock trades at 6.7x earnings. Based solely on these numbers, the stock looks undervalued.

The caveat is that more due diligence must be made into each of these companies' industries (a cheap typewriter stock, after all, is still a dog), margins (TTI has seen increasing gross margins since 2003) etc. We caution investors that a highlighted company above is not immediately a "BUY" without further investigation. However, what we have done is given investors a good place to start their due diligence into what we believe to be "extremely cheap" stocks. We will be doing more due diligence on the highlighted companies ourselves and hope to initiate coverage on a few.

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**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

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**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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