

June 15, 2009

Small Cap S E A R C H

Crystal Equity Research

Small Cap Events

- * July 7, 2009 - "EEMEA Best Ideas Conference," Credit Suisse, New York
- * July 27-31, 2009 - "Investor Trip: Russia Metals & Mining," BofA Merrill Lynch
- * July 29-30, 2009 - "3rd Annual Small Cap Investor Conference," CapStone Investments, Milwaukee

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Another Chapter in the Short Sale Saga

After five years of seemingly endless debate and commentary on Regulation SHO, the SEC has again proposed new short selling rules for public comment. The SEC head, Mary Shapiro, is making short sale regulations a priority after abusive short-selling exacerbated the downward spire of Lehman Brothers and Bear Stearns.

The SEC proposes two approaches to short selling restrictions. One is a price test that would apply market wide. The other is a "circuit breaker" that would apply to individual stocks experiencing severe market declines. Two tests are proposed for each of the two proposed approaches.

The two tests proposed for the market wide restriction are most likely to draw criticism. One test would be

based on a national best bid and the second on the last sale price.

Hundreds of comments have already been posted to the SEC web site, mostly from individuals calling for the reinstatement of the so-called "uptick rule." The uptick rule prevented a short-sale after a decrease in the stock price, thereby preventing short-sellers from driving down the stock price. The rule was eliminated in June 2008, and many believe the extraordinary volatility that was experienced beginning in July 2008, can be attributed to unfettered short-selling.

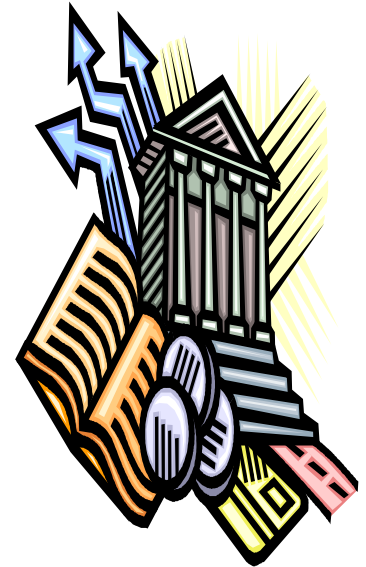
We may not get the uptick rule back, but it is more likely than not that short-selling will be curtailed in some manner before the end of 2009.

Governance Dilemma

Foreign companies choosing to become a U.S. domiciled public companies have to take a big gulp before signing on the dotted line. U.S. public companies are subject to myriad rules and regulations of their conduct from U.S. GAAP to SEC rules on governance and ethics.

Board of director qualification is one of the hurdles that have been tripping up the Chinese companies joining the U.S. public company crowd. Directors

qualifying as independent are not that hard to find for any public company, but the person meeting the standards imposed by Sarbanes-Oxley with regard to accounting and finance presents a particular challenge for Chinese companies. Individuals knowledgeable in U.S. GAAP accounting are easy enough to find, but how many are also fluent enough in Mandarin or Cantonese to participate in a board meeting?



In this Issue:

If China is an investment that has to be made, agriculture has to be one of the prime sectors. Food production is a high priority in the Central Government's most recent Five Year Plan. There is plenty of local demand so the sector is not dependent upon recovery of consumer demand in export markets. This issue features four China agriculture sector ideas. All are growing operations with the benefit of strong demand drivers fill the sales of their respective ships. Food production entails an element of risk from inadvertent contamination. Some investors could be concerned about short-cuts some chosen by a few Chinese food producers. Our four picks have excellent track records.

HIGHLIGHTS

This little piggie went to market.. As one of China's fastest growing **meat and food processing and distribution** companies, Zhongpin is sending thousands of pigs to market. The Company operating a dozen processing plants in the Hunan, Hebei, Jialin and Sichuan Provinces and Tianjin City. Production capacity is 579,760 metric tons per year for chilled and frozen pork and prepared meats. The Company is also able to process 30,000 metric tons of fruits and vegetables. Construction is already underway to expand capacity by another 172,000 metric tons. Completion is expected in late 2009 with a ramp to full utilization by early 2010.

Zhongpin, Inc

HOGS: Nasdaq

"Man should worry about fame just as pigs about being fat."

Chinese Proverb

Revenue in the twelve months ending March 2009 totaled \$584.9 million, representing a 100.7% growth over sales in the year 2007. Price pressure due to the economic downturn has pinched profit margins to 5.8% in the recent twelve month period compared to 6.3% in 2007. The availability of expanded production capacity is expected to keep growth bubbling despite recent weakness in demand due consumer concerns about swine flu. Frozen and chilled pork and prepared meats represent 97% of total production tonnage and vegetables and fruits the remaining 3%. However, from a revenue standpoint, meat products represent 99% of total sales.

The Company has financed growth through leverage. Total debt is \$140.7 million, including \$27.4 million in long-term debt and \$113.3 million in bank and other short-term notes. The Company also raised capital through the issuance of convertible preferred stock that is valued at \$2.1 million on the balance sheet.

The food production industry is highly fragmented with numerous players. Accordingly, Zhongpin is a price taker. The Company differentiates itself from **competitors** through its brand name "Zhongpin" and its reputation for quality and taste. Retail outlets and supermarkets represent approximately 44% of total sales, followed by school, factory and military cafeterias with 30%. International and domestic fast food companies account for the remaining 26% of total sales. Exports account for less than 1% of total sales.

The **consensus estimates** are for \$1.55 EPS on \$773.7 million in total sales in 2009, followed by \$1.85 EPS on \$931.0 million in 2010. Zhongpin missed estimates in the December 2009 quarter as analysts apparently underestimated the speed and depth of the economic downturn. The **consensus recommendation** is accumulate, although we note that coverage remains somewhat shallow with only three contributors to the consensus. The two have contributed price targets of \$13.00 and \$17.00. The mean price target of \$15.00 implies a forward multiple of 9.7 against the 2009 EPS estimate. We have a considerably more aggressive view on valuation than represented by the consensus. In our view, HOGS is fairly valued at 12.5 times forward earnings, implying a value of \$19.38. We set our price target at \$19.00 and suggest investors accumulate shares up to the \$16.00 price level.

Watch for announcements related to the capacity expansion projects. Construction is underway, but setbacks could lead to a reduction in estimates.

CAPITALIZATION

Shares Outstanding	27.6 ml.
Recent Price	\$12.45
Market Capitalization	\$343.6 ml.
+ Debt	140.7 ml.
+ Preferred Stock	2.1 ml.
- Cash	48.0 ml.
Enterprise Value	\$438.4 ml.
Book Value	\$200.6 ml.
Working Capital	\$ 11.1 ml.
Debt-to-Equity Ratio	0.70

VALUATION

Price/Sales	0.6 X
Price/Cash Flow	18.4 X
Price/EPS	10.9 X
Price/Book Value	1.7 X
Consensus EPS 2009	\$1.55
Forward PE	8.0 X
Consensus EPS 2010	\$1.85
Forward PE	6.7 X

Per share figures trailing 12 months ending 3/31/09

MARKET DATA

Recent Price	\$12.45
52 week High / Low::	\$13.48 - \$6.50
Shares Outstanding:	27.6 ml.
Inside Ownership:	27.5%
Institutional Ownership:	30%
Estimated Flotation:	20.1 ml.
Average Daily Volume:	263 K
Short Interest (% of float):	4.3%
Beta	1.18
Dividend Yield:	Nil

OPERATING PERFORMANCE

	2007	2008	3 Mo 08	3 Mo 09
Sales	\$291.4	\$539.8	\$108.7	\$153.8
Op Inc	\$ 21.9	\$ 36.8	\$ 7.8	\$ 11.7
Mgn.	7.5%	6.8%	7.2%	7.6%
Net Inc	\$ 18.5	\$ 31.4	\$ 9.7	\$ 33.8
Mgn.	6.3%	5.8%	8.9%	22.0%
CFO	\$ 0.5	\$ 61.0	\$ 23.4	(\$18.9)
EPS	\$0.80	\$1.05	\$0.24	\$0.33
ROA	5.6%	8.4%		
ROE	9.7%	15.7%		

GAAP results; millions except EPS. Fiscal year ends Dec.



Chart Courtesy StockCharts.com

Target: \$19.00

Take Profits:
>\$20.00

Hold: \$16.00 -
\$19.00

Add: \$10.00 to
\$15.00

Buy: : <\$10.00

Support /
Resistance Level

The SEARCH List

Agria Corporation

GRO: NYSE Amex

Agria is a self-described agriculture research and development company. Its principal product areas are corn seeds, sheep breeding products including sheep sperm, and tree seedlings. Customers include local and regional distributors of agriculture products, veterinary stations, and large sheep farms.

CAPITALIZATION		VALUATION		MARKET DATA	
Shares Outstanding	63.2 ml.	Price/Sales	3.7 X	Recent Price	\$2.99
Recent Price	\$2.99	Price/Cash Flow	5.3 X	52 week High / Low:	\$7.15 - \$0.75
Market Capitalization	\$189.0 ml.	Price/EPS	Neg	Shares Outstanding:	63.2 ml.
+ Debt	-0 ml.	Price/Book Value	0.7 X	Inside Ownership:	56%
- Cash	<u>175.3 ml.</u>	Consensus EPS 2009	NA	Institutional Ownership:	12%
Enterprise Value	\$ 13.7 ml.	Forward PE	NA	Estimated Flotation:	27.9 ml.
Book Value	\$270.7 ml.	Consensus EPS 2010	NA	Average Daily Volume:	461 K
Working Capital	\$209.7 ml.	Forward PE	NA	Short Interest (% of float):	<1%
Debt-to-Equity Ratio	0.00			Beta	3.00
				Dividend Yield:	Nil
<i>Balance sheet figures as of 9/30/08</i>		<i>Per share figures trailing 12 months ending 9/30/08</i>			

Origin Agritech Ltd.

SEED: Nasdaq

Crop seeds are the business of Origin Agritech. The product line includes corn, rice, cotton and canola. The Company relies on an extensive distribution network throughout China to reach farmers in twenty-nine out of thirty-one of China's provinces. The Company pursuing seeds with insect resistance, nitrogen efficiency, and drought stress tolerance.

CAPITALIZATION		VALUATION		MARKET DATA	
Shares Outstanding	22.5 ml.	Price/Sales	2.1 X	Recent Price	\$7.16
Recent Price	\$7.16	Price/Cash Flow	19.2 X	52 week High / Low:	\$7.34 - \$1.70
Market Capitalization	\$161.1 ml.	Price/EPS	Neg	Shares Outstanding:	22.5 ml.
+ Debt	15.2 ml.	Price/Book Value	4.1 X	Inside Ownership:	38.2%
- Cash	<u>15.1 ml.</u>	Consensus EPS FY09	NA	Institutional Ownership:	24%
Enterprise Value	\$161.1 ml.	Forward PE	NA	Estimated Flotation:	13.9 ml.
Book Value	\$38.9 ml.	Consensus EPS FY10	NA	Average Daily Volume:	301 K
Working Capital	\$11.5 ml.	Forward PE	NA	Short Interest (% of float):	3.4%
Debt-to-Equity Ratio	0.39			Beta	1.85
				Dividend Yield:	Nil
<i>Balance sheet figures as of 9/30/08</i>		<i>Per share figures trailing 12 months ending 9/30/08</i>			

AgFeed Industries, Inc.

FEED: Nasdaq

IN May 2009, AgFeed Industries raised \$10 million through the sale of 2.3 million shares of its common stock. The proceeds will be used to grow the Company's animal feed business. Its primary product, Premix, is an animal feed additive for commercial hog production. AgFeed is also engaged in hog breeding and production.

CAPITALIZATION		VALUATION		MARKET DATA	
Shares Outstanding	38.3 ml.	Price/Sales	1.3 X	Recent Price	\$5.67
Recent Price	\$5.67	Price/Cash Flow	12.5 X	52 week High / Low:	\$15.40 - \$0.90
Market Capitalization	\$217.2 ml.	Price/EPS	18.9 X	Shares Outstanding:	38.3 ml.
+ Debt	3.3 ml.	Price/Book Value	1.8 X	Inside Ownership:	39%
- Cash	<u>20.3 ml.</u>	Consensus EPS 2009	\$0.41	Institutional Ownership:	7%
Enterprise Value	\$200.2 ml.	Forward PE	13.8 X	Estimated Flotation:	23.4 ml.
Book Value	\$123.9 ml.	Consensus EPS 2010	\$0.55	Average Daily Volume:	3.1 ml.
Working Capital	\$ 47.7 ml.	Forward PE	10.3 X	Short Interest (% of float):	17.9%
Debt-to-Equity Ratio	0.03			Beta	3.60
				Dividend Yield:	Nil
<i>Balance sheet figures as of 3/31/09</i>		<i>Per share figures trailing 12 months ending 3/31/09</i>			

UPDATES

Winners.....

Although we would not characterize the U.S. equity market as having recovered entirely, we are seeing enough glimmers of light to suggest the end of the tunnel is in sight. Accordingly, we are returning to our old format of first listing winning stocks in the SEARCH portfolio.

SmartHeat, Inc. (HEAT: Nasdaq) \$7.64 - has met our price target within just four months. This could be due in part to an unduly conservative view on the company's prospects. We also had not anticipated the recent acquisition of a plate heat exchanger factory that propels SmartHeat to a leading position in China's energy plant and heating sector. The deal is strongly accretive to earnings. We are removing HEAT from the SEARCH group, but suggest investors continue to follow the company and maintain at least partial positions in order to participate further in the company's growth.

Two of our most recent picks **Plug Power, Inc. (PLUG: Nasdaq) \$1.04** - and **TESSCO Technologies, Inc. (TESS: Nasdaq) \$11.30** - have performed well in the last two months. We have observed new interest among institutional investors for both stocks. Plug Power's annual meeting was adjourned for a month to allow investors additional time to vote. The company is closely held and has several items up for shareholder vote, including election of directors, ratification of the auditors, and approval of the stock option plan. The company's CEO is up for re-election.

Dividend plays....

The three remaining dividend plays in the SEARCH group, **Alaska Communications Systems Group, Inc. (ALSK: Nasdaq) \$6.92**, **Enbridge Energy Partners, LP (EEP: NYSE) \$40.83** and **Hickory Tech (HTCO: Nasdaq) \$7.50** - have recovered well in terms of price. While the dividend yields have consequently gone down, investors should have had a chance to build good positions at during the period of depressed valuations. All three companies remain strong fundamentally and we suggest investors look for intermediate pull-backs in price to build positions.

Laggards.....

The balance of the SEARCH group are the survivors of the storm so-to-speak. We have been reluctant to take losses in otherwise strong operations. Our strategy has been working as the group has recovered from the deep losses observed in early 2009.

We are not surprised there is no news from **Micronetics, Inc. (NOIZ: Nasdaq) \$3.86** - a company that toots its own horn only when the most significant contracts are won. The quarter has gone well enough for its wireless communications products and we remain confident Micronetics is a recession survivor.

We are not quite so sanguine about **Flexible Solutions International (FSI: NYSE Amex) \$1.40**. The company's balance sheet is strong enough for a small company, but we believe the extended downturn is a particular challenge for very small operations. Meticulous attention to cost controls should keep the doors open as the company's products have proven marketable.

Shares of **Pure Cycle, Inc. (PCYO: Nasdaq) \$2.89** - have been under some pressure in recent weeks. The lack of news is particularly frustrating for shareholders. In our view, this is a stock to own as a long play only.

iRobot, Inc. (IRBT: Nasdaq) \$13.29 - held an analyst day in late May 2009. It was a successful event and provided some reassurance that the diverse product line of household, industrial and military robots have legs (no pun intended). The stock had made a strong move upward leading up to the event and has maintained the \$12.00 level ever since. We believe there is still some goodwill left over from management's presentation and expect another upward leg as the second quarter closes out.

GP Strategies, Inc. (GPX: NYSE) \$5.01 - has recovered nicely since the end of March 2009. We believe there is a level of support, albeit soft, at the \$4.00 price level. A new marketing partnership with Baker Communications is giving the company a boost and we expect some evidence of a broader global reach in the second half of 2009 sales.

We are encouraged that **comScore, Inc. (SCOR: Nasdaq) \$12.91** - has kept of the pace with announcements of Internet usage and on-line commercial activity. A couple of slip-ups last year had attracted a short-selling frenzy. We note that short positions are down to just over 6% of the float. This is still a high figure for a small company. However, a strong fundamental development could serve as a catalyst for investor interest. Any upward revaluation of the stock could get some added momentum from covering short sales.

A.D.A.M., Inc. (ADAM: Nasdaq) \$2.38 - presented at an investor conference in recent weeks. The stock is still off from the year-ago high of \$7.80. We still view the on-line health care and insurance information space as an exciting sector particularly in light of the on-going debate over health care reform. The political give and take may change one provision or another of the health care reform legislation, but it appears quite certain that information platforms like that of ADAM will be a part of any program. There is considerable competition in the space and we expect some consolidation. We view the company as in a good position to capture market share as spending resumes and an offer from a larger consolidator is not an unreasonable assumption.

UPDATES cont.

The only news from **Vision-Sciences, Inc. (VSCI: Nasdaq) \$1.04** - is the resignation of a director. We do not expect any further developments until the company reports the June quarter results. With no near-term catalysts we are concerned about stock price movement. The less patient investors may choose to close out positions in this laggard stock. However, we are not yet ready to take the loss.

DepoMed, Inc. (DEPO: Nasdaq) \$2.70 - appears to be putting the hard press on investors with a string of conferences and presentations. Nonetheless, we note the company is making progress with clinical trials and we believe management has real fundamental progress to report.

We believe the June quarter is proceeding nicely for **Orion Energy Systems, Inc. (OESX: Nasdaq) \$3.62**. The need to reduce energy consumption is a long-term growth driver. Enterprise and industry may be cautious now with spending, but recovery appears possible in the coming quarters at which time we would expect sales to grow. In the meantime, the company is demonstrating the resilience of its business model.

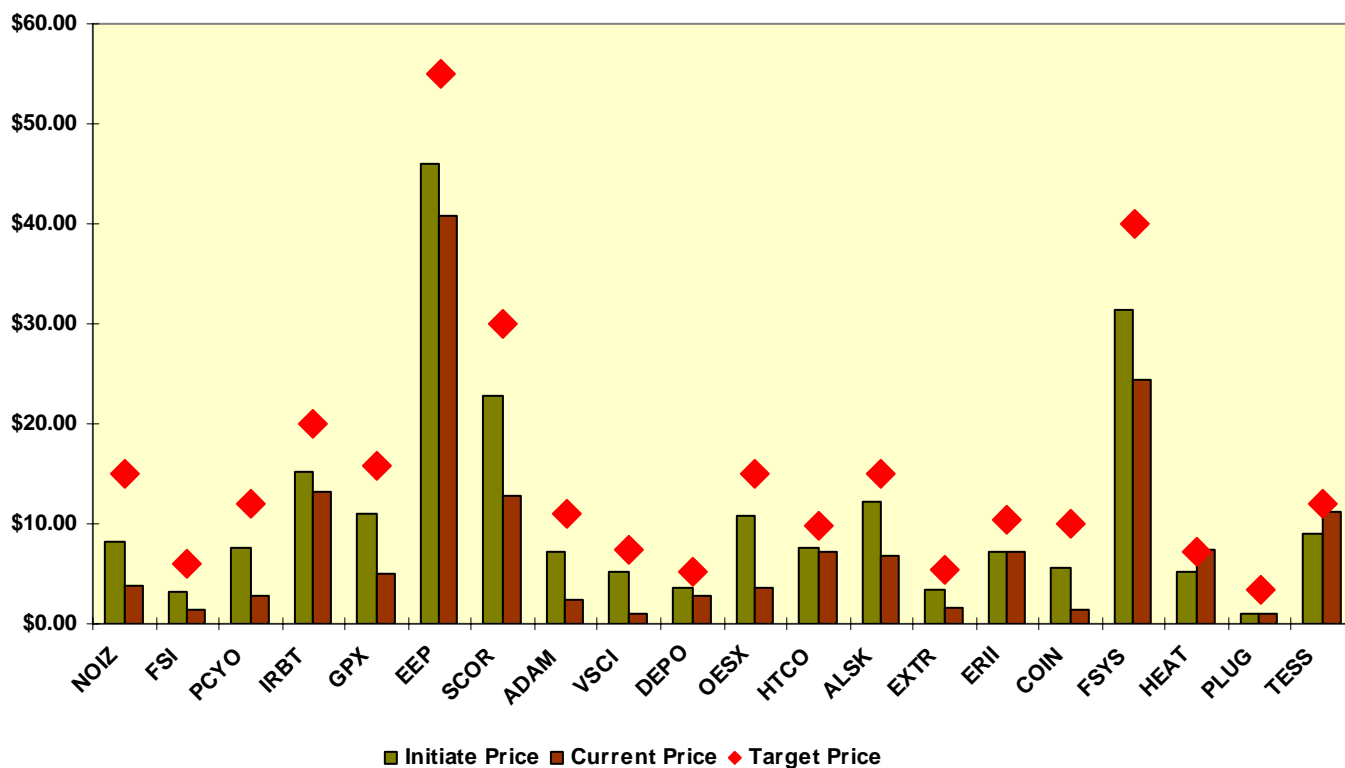
Extreme Networks, Inc. (EXTR: Nasdaq) \$1.74 - appears to be building brand recognition in the healthcare information technology space. The company was recently named among one-hundred "interesting healthcare information" companies by Healthcare Informatics. Inclusion on such lists typically generate leads as potential customers use trade publication reviews as a pre-screening step among potential vendors.

Economic woes around the world have not slowed down **Energy Recovery, Inc. (ERII: Nasdaq) \$7.16** - as much as we had expected. The company continues to win new contracts, the most recent for a ship-based desalination plant.

Fundamental news for **Converted Organics, Inc. (COIN: Nasdaq) \$1.49** - has been good, but the string of production accomplishments, new relationships and even a new licensing agreement has failed to ignite investor interest. We have some concern that recent capital raising efforts have not won the approval of investors. It is our view that the effort to de-leverage the balance sheet will be a plus in the long-run.

Fuel Systems Solutions, Inc. (FSYS: Nasdaq) \$24.47 - acquired certain assets of FuelMaker Corporation, including a residential refueling appliance. The stock has responded well to announcement of the \$7.0 million deal in early May. We expect to see more "tuck-in" acquisitions like this as the company takes advantage of private sector innovation. We believe there is considerable technology under development in garages and industrial parks around the country and that sale to larger, more established public players like Fuel Systems is an appealing path to commercialize the technology. In our view, investors are discounting the ability of the company's management to executive on the growth strategy. The company is profitable, has low leverage and solid cash flows.

PERFORMANCE



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