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SAMPLE PORTFOLIO INVESTMENT RESEARCH

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WILLIAMS CONTROLS (WMCO) RESEARCH REPORT – CLASS EXAMPLE

1) Statistical Overview

Price and Volume		Valuation		Other	
Latest Price (10/14/11)	$11.12	NTM Rev (000s)	$59,247	Market Cap (000s)	$81,202
52-week Low	$9.10	NTM EPS	$0.66	Cash, (p/s)	$1.0M, ($0.14)
52-week High	$12.50	NTM P/E	16.8x	Debt, (p/s)	$0.9M, ($0.12)
FD Shares Out (000s)	8,140	NTM EV/FCF	15.1x	Enterprise Value	$81,077
Avg. Daily Volume	4,167	NTM EV/Rev	1.1x	LTM FCF	-$1,465
Shares Short (% of float)	0%	Tang. Book Value p/s	$2.35	NTM FCF	$5,353
LTM Dividend	$0.24	NTM ROIC	16.8%	NTM Cash Yield	6.6%

2) Investment Theme: Long

Williams Controls (WMCO) is the leading global producer of electronic throttle control (ETC) devices for the heavy vehicle (trucks, buses, off-road vehicles) market. The Company is not well followed by the Street and is out of favor following a severe decline in heavy vehicle demand and production. However, the firm has a very strong competitive position and truck production is rebounding. WMCO has an extremely attractive business with the following characteristics:

- Dominant market position with high barriers to entry
- Capable management team with good capital allocation skills and solid insider ownership
- Growth opportunities within its core business

3) Catalysts & Risks

Catalysts: There are two primary catalysts for WMCO. The most immediate source of financial improvement (1-2 years) will be a rebound in North America class 5-8 truck production. Production is currently coming off cyclical lows and should rebound in the coming years due to a combination of an aging truck fleet, strong truck resale values, and potentially an expansion in truck tonnage. A second potential catalyst is an expanding sales presence in China and India. The Company has established production in both countries as well as a sales foothold, and pending emissions regulations necessitating the use of ETCs could accelerate demand for WMCO's products.

Risks: The primary risks to the WMCO thesis map to these catalysts. First, a continuing downturn in North American and European commercial vehicle production would delay a rebound in WMCO's

financial results. Though WMCO has right-sized its cost base and remains cash flow positive at today's production volumes, a substantial drop in truck tonnage stemming from recession would enable trucking firms to delay equipment replacement and prolong the recovery in production. Second, growth in ETC demand in India and China represents an opportunity not only for WMCO to capture the market, but also for a domestic firm to enter and reach scale. WMCO has been proactive in establishing production as well as sole-source supplier relationships in both countries, mitigating this risk.

4) Company Background

Company Snapshot: WMCO primarily produces and sells ETC devices for use in heavy vehicles (trucks, buses, off-road vehicles) with electronically controlled engines. The ETC device contains an electronic sensor that sends a message to the engine to adjust the speed of the vehicle. Electronically controlled engines produce fewer emissions, and the share of these engines is increasing worldwide due to more stringent emission standards. WMCO's major customers are Volvo, Paccar, Freightliner, Navistar and Caterpillar. WMCO works closely with customers to customize the ETC device to the exact specification of the customer. WMCO owns a manufacturing plant in Portland, Oregon and leases a manufacturing plant in Suzhou, China. In addition, the Company has recently opened a production facility in Pune, India.

While the Company has historically focused on ETC devices for North American and European heavy commercial trucks, WMCO's business has expanded substantially over the last decade. While continuing its dominance in NA and European class 8 vehicles (where it enjoys 95%+ market share), the Company has expanded its share in certain segments of classes 5-7, reaching 90%+ market share today. The Company has also expanded its presence in off-road vehicles, which represent heavy equipment for the construction, agriculture, and mining. While precise numbers are not available, discussions with management suggest this portion of the business has doubled over the past 5-8 years.

Finally, the Company has expanded the market for its core product geographically. There is a real opportunity for the Company in India and China, where combined heavy vehicle production is approximately 3x that of North America. Currently only a small percentage of trucks produced in India and China are electronically controlled. As planned emission standards are phased in over the coming years, the number of electronically controlled trucks, all of which will require an ETC device, will increase significantly. In India, WMCO has established sole source relationships with the two largest Indian truck manufacturers, Ashok Leyland and Tata, and recently completed a production facility in Pune to serve them. Similarly in China, WMCO has forged sole sourcing relationships with two of the three largest Chinese truck manufacturers, including China National. Although the timeline for emission standards implementation is unknowable, as deadlines have been repeatedly extended, India and China represent critical strategic markets for WMCO. The large potential ETC demand will either allow WMCO to consolidate its global leadership or enable a domestic player to reach scale.

5) Competitive Analysis

At first glance, one might assume that ETC devices are a commodity truck component. However, research indicates that WMCO has an attractive business protected by several competitive advantages. The firm's impressive ROIC is evidence of these advantages in action.

High switching costs: As truck manufacturers continuously alter their engines and emission requirements change, ETC devices have to be constantly customized to the evolving engine which ensures they will not become a commodity. Unlike ETC devices in cars, heavy vehicle ETC devices are not assembly line products. WMCO customizes its ETC devices to each of its clients' various engine types. This customization process raises the barrier to entry for another manufacturer as they must win business one specification at a time. WMCO's ability to quickly and reliably tailor a product enables it to create the next iteration at substantially less expense than an entrant.

Search costs: The ETC device is a critical truck component. The average truck lasts more than 500K miles before changing owners and the ETC device must operate equally as long. Any new entrant would have to convince the truck manufacturer that their device could provide that level of endurance, as customers are very sensitive to reliability. Displacing WMCO would require customers to trust an unproven entrant and disrupt their engineering process as they work with the entrant to customize the product. Even then, the results would not be clear until the trucks had been on the road for several years, providing a slow feed-back loop for the entrant to improve their product and address issues. For a $200 part in a $100k+ vehicle, there is little incentive to undergo such a risky process in order to save a few dollars.

Economies of scale: We believe WMCO has greater than 90% share of the North America class 5-8 ETC market. WMCO also has a dominant share in Europe. As a result of its market position, WMCO has economies of scale in design and manufacturing, which prevents other players from competing on price.

6) Management Background & Compensation

Top Management Profiles:

- ***CEO/Director Pat Cavanaugh:*** Joined the Company as CEO in 2004. Prior to WMCO, he was the General Manager of Woodward Controls, a subsidiary of Woodward Governor Company, a manufacturer of engine control systems for industrial engines and turbines. In this capacity, he was responsible for Sales, Engineering and Manufacturing operations in Niles, Illinois and Suzhou, China. From 1992 to 2003, he was a Corporate Vice President of Knowles Electronics and general manager of its automotive components group, a producer of sophisticated engine control systems and sensors for the automotive, heavy truck and industrial markets. Mr. Cavanagh serves on the Board of Directors of the Heavy Duty Manufacturers Association and privately−held Defiance Metal Products. Mr. Cavanagh has a Bachelor of Science in Mechanical Engineering Technology from the Milwaukee School of Engineering.

- ***CFO/Director Dennis Bunday:*** Joined the Company as CFO in 2001. Prior to joining the Company, he served as CFO from 1998 to 2001 of Babler Bros., a manufacturer of pre−cast concrete products. From 1996 until 1998, he held the same positions with Quality Veneer & Lumber and its predecessor, the Morgan Company, a producer of forest products. Prior to 1996, he was Financial Controller and Treasurer of Pope & Talbot, Inc., which at the time was listed on the New York Stock Exchange. Mr. Bunday received a BA in Accounting from

Washington State University. He is a member of the Board of Directors of Southwall Technologies.

Compensation & Stock Ownership: Management is appropriately compensated (details below).

	Year	Salary	Other Compensation	Total Compensation
Pat Cavanagh, CEO	2010	$252,861	$581,409	$834,270
	2009	$243,385	$376,043	$619,428
	2008	$260,000	$172,714	$432,714
Dennis Bunday, CFO	2010	$184,922	$276,612	$461,534
	2009	$177,577	$143,591	$321,168
	2008	$165,000	$231,207	$396,207

Both the CEO and CFO have meaningful holdings in the Company's shares, with 180k and 120k shares respectively. This likely represents a considerable portion of their net worth. Many of the shares were purchased in the open market, and both have been buying over the past few years with no selling. It is nice to see a management team putting their money where their mouth is.

Capital Allocation: In conversations with management, they have stated an interest in potential tuck-in acquisitions over the past several years, but have not found any that met their valuation criteria. It is reassuring that the Company has had the discipline to abstain from overpriced (potentially even fully valued) acquisitions, even in an instance when significant time and money had been spent on a transaction that nearly occurred. Rather, the Company has smartly invested near its core business, such as taking production of electronic sensors in-house, developing off-road ETCs and joysticks, and building production facilities in China and India. In addition, the Company initiated a regular dividend this year. As further evidence of management's shareholder-friendly orientation, the Company paid out a special dividend of $1 per share to return excess cash to shareholders in 2010.

7) Macro Exposure

Commercial vehicle production is cyclical and tied to the broader economy. WMCO's dominance in class 5-8 ETC production is irrelevant if there are no commercial vehicles being produced. This is essentially what happened in 2009-2010:

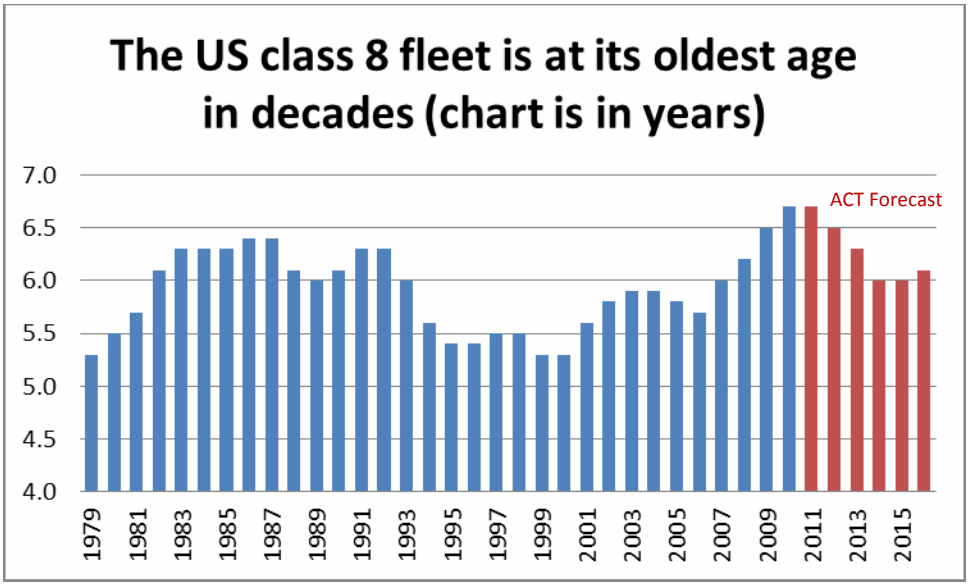
NA Classes 5-7 & Class 8 Production

	2004	2005	2006	2007	2008	2009	2010	2011E
Classes 5-7	235	253	275	206	158	98	118	169
Class 8	238	245	262	219	167	108	120	157
Total	**473**	**498**	**537**	**425**	**325**	**206**	**238**	**326**

Source: ACT Research

Demand for class 5-8 trucks is driven by several factors: trucking freight tonnage, fleet replacement, equipment trade-in values, and emission regulation pre-buys. Several of these combined to make

2006 a banner year in truck production. Flush with cash and feeling confident about the future (at the top of what turned out to be a massive bubble in construction material delivery), trucking firms made substantial pre-buys in advance of emission regulations affecting the 2007 model year. When the recession hit, trucking companies ran this newer equipment and parked their older vehicles, enabling them to defer replacement until tonnage returned. This led to the severe decline in truck production in 2009 and 2010. Today, freight tonnage is growing and the class 8 truck fleet is at its oldest average age in decades.



If further recession occurs, the accompanying drop in freight tonnage will likely enable trucking firms to put off some vehicle replacement. Barring a dramatic decline, however, much of today's equipment is reaching the point where truckload and less-than-truckload carriers must replace it due to heightened maintenance costs and eroding reliability. The force of pent up replacement demand will bring production volumes in line with long-term averages (or potentially beyond) over the coming years.

8) Recent Headlines

Release Date	Headline
7/14/2011	Williams Controls Announces Two New Indian Business Awards
06/03/11	Williams Controls Announces Increased International Demand
05/17/11	Williams Controls Promotes Ken Hendrickson to VP Manufacturing
04/06/11	Williams Controls, Inc. to Present at Taglich Brothers 8th Annual Small Cap Equity Conference
02/24/11	Williams Controls Announces Quarterly Cash Dividend Policy and Declares Cash Dividend
01/11/11	Williams Controls Inaugurates New India Manufacturing Plant
11/09/10	Williams Controls Pedal Named "Best Engineered Product" by SEMA
11/08/10	Williams Controls to Supply Leading Indian Truck Manufacturer With Electronic Throttle Controls

9) Analyst Coverage

WMCO is only covered by Sidoti and Taglich Brothers (buy).

10) Major Holders

Holder Name	Position	% O/S	Report Date	Source
Dolphin Management Inc.	1,813,485	24.840 %	01/13/11	Proxy
Lane Five Capital Management, LP	667,325	9.140 %	06/30/11	13F
Nicusa Investment Advisors, LLC	425,833	5.830 %	02/15/11	13G
Wellington Management Company, LLP	226,451	3.100 %	06/30/11	13F
Cavanagh (Patrick W)	182,325	2.500 %	09/27/11	Insider Update
Royce & Associates, LLC	162,499	2.230 %	06/30/11	13F
Goodson (R Eugene)	156,506	2.140 %	01/13/11	Proxy
Bunday (Dennis Earl)	119,764	1.640 %	09/27/11	Insider Update
Eubel Brady & Suttman Asset Management, Inc.	108,438	1.490 %	06/30/11	13F
Hailey (Douglas E)	94,626	1.300 %	01/13/11	Proxy
Dimensional Fund Advisors, LP	88,092	1.210 %	06/30/11	13F
Ironwood Investment Management, LLC	73,977	1.010 %	06/30/11	13F

11) 1 & 5 Year Stock Charts

1 Year:

5 Year:


US;WMCO
20
18
16
14
12
10
8
6
4
07 Apr Jul Oct 08 Apr Jul Oct 09 Apr Jul Oct 10 Apr Jul Oct 11 Apr Jul Oct
US;WMCO Volume
1.2
0.8
0.4
0
Millions
07 Apr Jul Oct 08 Apr Jul Oct 09 Apr Jul Oct 10 Apr Jul Oct 11 Apr Jul Oct

12) Primary Research

Contact	Key insights
Senior Project Engineer (Trucking) Paccar	- Has worked with WMCO for many years and will probably always work with them. The ETC device is a key component but not a costly component and "we probably spend on average $100-200 per truck so we would not consider trying to save a few dolllars by using any competitor" -He could not even name a competitor of WMCO (*I liked that)* -We have a huge variety of trucks and each type of engine is subtly different so we work closely with the reps from Williams to get the customization right and are impressed with 'the ability of William's to always adapt to our engine changes' - I do not know for sure but I do not believe Asia is a huge opportunity for Paccar as Asian countries have their own manufacturers entrenched already. I have acted as a reference for Williams (specifically for Greg, a lead engineer) in speaking to one major Chinese truck manufacturer (I *had thought that if the current Western major customers of WMCO went to China WMCO would benefit enormously but this seems unlikely)*
Finance Controller, WMCO China	- Seems like a very honest guy - middle management and had no reason to be promotional - Exact heavy vehicle data in China difficult to get but research suggests 700-800K trucks produced in China annually and less than 5% are electronically controlled. We believe we have more than 50% of the market. We have 'a great relationship with the biggest player which is China National and are the exclusive supplier although we don't say that and that will not necessarily last forever'. Unlike the US, pricing is tougher and margins are lower but hard to give ASPs as really depends on volumes and requirements but 'your estimate *(of $50-100 per truck)* does not sound unreasonable" - EURO-III standards are being phased in although the speed of the impact is not clear as rule changes can be different in every region and it is difficult to understand exactly how it will impact truck production in the near term. My current understanding is that the rules will take greater effect in 2011 but not sure what that means in terms of production. Regardless, we are well positioned to grow the China business in the coming few years as the standards are implemented and more electronic vehicles are produced. - *He is clearly a believer and enthusiastic about the opportunity*
Project Manager Tata Motors	-Can confirm that William's is a partner in the World Truck project and we are working with them on this although this project is only in its early stages and cannot comment further (although he said there are lots of videos and info online about the World Truck project) - There is no competitor of WMCO working with us (WMCO is sole supplier) but I do not know that the relationship is necessarily exclusive
Production Manager WMCO Portland	-We have spent many years getting our production streamlined and we now have a really good process in which we work with our customers - The device is somewhat complicated to get it right for all the different engines so there is no way it is a commodity like it arguably might be for car manufacturers. Customers expect our device to last >1 million miles so we have to ensure it is top quality and lasts accordingly - Not sure of exact market share but we have all the large heavy vehicle manufacturers so we are clearly the largest in the market. Any customers you don't have but would like? Mercedes we are not involved in as they do their stuff in-house and work with Hella in Europe I believe. - As to increasing presence in light commerical vehicles *(I questioned about the Teleflex non-compete expiration)* , it is something that we are looking at closely and there are some nice opportunities but no further comment
Director, Finance Truck Operations Navistar	- He had no comments on WMCO as does not talk about supplier relationships but discussed the trucking business and cycles and he explained that there are many types of trucks and engines but he thinks typically 800-1000K miles is a reasonable life on average although there are differences across the fleet in terms of vehicle life. - These are tough times for truck manufacturers but for him this is normal to the extent that this business is always more cyclical than people think and this is just a bigger temporary downturn than usual due to the credit crunch so customers are pushing off capital spending as much as possible. - Thinks customers had a greater number of unused trucks in inventory due to the sudden decline in tonnage but over time this will disappear and volumes will come back as trucks do always wear out. - Lots of opinion on mileage of the fleet - probably similar average to always even though the fleet might be older so replacement cycle should be normal assuming tonnage does not decline further.
VP Commercial Vehicle Sector ACT Research	- ACT Research is the most well known research firm on compiling heavy vehicle sales and production volumes and also forecasting the industry. - Mostly discussed how he compiles all the data and does forecasting. ACT's forecasting seems mostly based on surveying the big producers as to what their volumes will be. Provided limited insight on percent of the current fleet that would need replacement in the next 2-3 years but from his experience of past downturns. In his opinion, as soon as there is stabilization, orders return quickly as there is little worse than a company not benefiting from an upturn in demand for their products due to lack of vehicles to get the job done.
Manager Production Program Volvo Trucks North America	- WMCO is a production partner and the main reason we would not likely work with another vendor is that it would be a major disruption to our production process as it takes a long time to get each aspect of the production process right. - If we had problems with WMCO's product, or their service and response time was less good than it currently is then we might look for an alternative but we do not see this being the case as Pat (CEO) employs top engineers. - Unlike major components that we outsource that are often multi-sourced, we would not obviously benefit from dual suppliers for this component given the joint engineering work required in the process and the small cost involved per truck