SOUTHERNSUN ASSET MANAGEMENT, #4321619
SOUTHERNSUN ASSET MANAGEMENT - SECOND QUARTER 2010
CONFERENCE CALL
July 21, 2010, 11:00 AM ET
Chairperson: Michael Cook (CEO/CIO)

Operator: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the SouthernSun Asset Management Second Quarter 2010 conference call. At this time, participants are in a listen-only mode. If anyone has any difficulties hearing the conference, please press star followed by zero for operator assistance at any time. I would like to remind everyone that this conference call is being recorded today, Wednesday, July 21st, 2010 at 10:00 am Central Standard Time.

I will now turn the conference over to Mr. Michael Cook, Founder, Chief Executive Officer, and Chief Investment Officer. Please go ahead.

Michael Cook: Thank you very much, and welcome, everyone, this morning for the Second Quarter 2010 SouthernSun conference call. I will begin our time by talking a bit about the business in general, giving you an update on the business. I'll be followed by Mike Cross, who will talk specifically about trends with our portfolio companies and then some issues of concern that we have with respect to both business specific and broader concerns. He will be followed by Phillip Cook, who is our Director of Research; he will provide a performance update and also highlight our top contributors and detractors for the quarter. Phillip will be followed finally by Mr. Elliot Cunningham, one of our analysts, who will discuss a brand new position in our portfolio, Centene Corporation.

As you'll notice from the packet that hopefully you received by way of business overview, we ended the second quarter with about $1.3 billion in total assets under management. The pie chart confirms the breakdown of those assets. I will mention that as of this morning, we are somewhat above the $1.3 billion level as we speak. If you look at the next page, I want to spend just a few minutes on the pending ownership restructuring. Most of you on the call are already aware that we have proposed a letter of intent and it has been agreed to by our outside majority shareholders here at SouthernSun.

Before we get any further down the line, I would just like to say a word of thank you to all of you who have already returned your consent letters, and for those of you with whom we've been working very closely to get those in in very short order. For those of you who are not aware of the details, currently our firm is owned 65% by external shareholders, 35% internally, of which I am the bulk of that 35%. Post the transaction, the firm will be owned in the majority by internal employees of the firm; approximately 51% being owned internally and up to 49% being owned by our new equity partners.

The transaction is scheduled to close on the 31st of August. We have been pushing everyone to try to target July 30th as our proposed close date. We do have a bit of slack between then and the end of August, but we typically know how things go in the month of August with people going on holiday and being out of pocket, so it's our intention to have all of our consent forms back by at least the end of July, even if we have some final details to wrap up with respect to the closing. This will result, as I'd mentioned, in the firm's employee base being the majority shareholders of the firm's stock. I will continue to own the majority of those internal shares, but we'll also have some new owners in the employee ranks: Phillip Cook, Michael Cross and William Halliday, will all initially be shareholders of SouthernSun at the close of the transaction.

Just a word about our new equity partner, with whom we're very excited. And many of you already know these folks: Rosemont Investment Partners out of Philadelphia, Pennsylvania. They will take up to a 49% stake upon the initial close. Much of the real, I think, intriguing part of the relationship that we have with them is that we were able to, on the front end, negotiate what we have really been working towards for a very, very long time, and that is the opportunity to bring back in 100% of the equity of SouthernSun into the hands of the employees here at the firm. That is already agreed upon in this particular transaction and should occur on or about the fourth anniversary. After the closing, we'll have the opportunity to bring all of the balance of the shares back into the firm.

As I'd mentioned, because this transaction may be deemed a change of control, although there are technically no changes of any personnel, or the management of the firm, it still can technically be deemed a change of control. And for that reason, the close is contingent on our receiving consent from greater than 90% of the separately managed account fees by the end of July. So, once again, I want to thank all of you who have already, which is a great number, responded, and we appreciate the cooperation of everyone else.

Mutual fund shareholders will be contacted via proxy. I think that's important to note as some of you on the call may well be mutual fund shareholders, and that process is a little different.

We move on next to our organizational chart. I would like to highlight first of all Lydia Martin has joined the firm as my executive assistant. She's been with us for about a month now, and is just doing a phenomenal job. I would encourage each and every one of you who have not had the opportunity to speak with her, to make yourself known to her and get to know her, as she is bringing a lot of benefit to my office and to the firm in general. Specifically, she's been tested to the max, as I've been out of the country, I think, all but about three or four days that she's been here. So I've been in China and in Europe for a large portion of the time that she's been here and she's just done a magnificent job.

Many of you are also aware that we're in the process of adding a real estate investment fund and we're working very hard to ramp up that first fund.

I'll now turn the call over to Mike Cross to talk about some general economic issues and concerns as well as to discuss some company specific insights that we've been getting as of late as we've visited our businesses.

Michael Cross: Thank you, Michael. We're now going to move on to slide 5 in your presentation.

I'm sure that each person on this call stays abreast of economic and market issues on a regular basis, and of course we do as well, and we do that through the general media, through specific industry reports and through some really outstanding sources for global, political and economic news. But the most relevant and important information about the outlook for our portfolio comes from when we're meeting with the management teams of the companies that we own. As most of you know, our investment process is very detail oriented and the process involves spending a lot of time in the field and on the phone with our companies. Each quarter, we like to tell you what we're hearing from the management teams of our portfolio companies.

Just as a reminder, in the last quarter's call, we told you that many of our companies were beginning to see renewed strength and demand for their products and services, and that they were predicting favorable operating leverage and profitability if their sales were to increase as they expected. While most of our businesses delivered on those projections for the top line, most of our companies reported strong sales and improved profitability in their first quarter results. And a few have reinforced that the second quarter continued to be relatively strong.

Our investment team has reviewed what we're hearing from all of our companies, and here are a few themes. First, the companies that have delivered the strongest growth are those that continue to invest in new products throughout the downturn. And now, they're reaping the rewards of taking new products to market and growing their marketshare. Second, our companies that have exposure to the Asia-Pacific region have seen strong growth. And finally, those companies with sales in the advanced technology industry have seen significant increases in orders as well.

Let me give you some real life examples.

Columbia Sportswear recently reported a 10% increase in their first quarter sales and a 19% increase in their backlog for the fall. The 19% increase is not because clothing retailers as a group are projecting substantial increases in sales. Columbia's strong growth in their fall backlog is more likely because the company's introduced a number of new innovative and technology based products. Because Columbia was debt-free going into the downturn, they were able to continue to invest in new products. This is a great example of a company that has a strong balance sheet, industry leading products and a management team that's stayed on the offense during tough times.

Another example is Polaris Industries, which much like Columbia Sportswear, also had a strong balance sheet going into the downturn. And that allowed them to continue to invest in new products as well. They have an excellent new product introduction process; it's based on clear customer input and a fast cycle time approach to getting products to market. And even though the overall market for their products is expected to shrink by around 10% this year, Polaris is committed to making growth happen. Earlier this week, they took their guidance up to reflect a full year outlook of 17-20% sales growth and a projection of record profitability.

Nordson, our company that makes adhesive dispensing products and advanced technology equipment that prepares chips for manufacturing, had a 33% increase in sales. And orders in their advanced technology division were up 88%, and sales in the Asia-Pacific region more than doubled. As a reminder, Nordson has dominant market share in the specialized market of designing, manufacturing and supporting equipment that dispenses adhesives. Their largest customers are Procter & Gamble and Kimberly-Clark. And these customers use Nordson equipment to manufacture baby diapers, and a variety of other products in the personal hygiene space and for medical applications. And as Procter & Gamble and Kimberly-Clark expand into emerging markets, Nordson is pulled right along with them.

Michael Cook: And, Mike, I might want to jump in and just add that, on my visit to China, it's very, very obvious that the themes that we have focused in on with respect to the emerging middle-class and how we've seen that defined so uniquely in the emerging markets, in particular, in China, with the huge volume of opportunities, is clear and obvious as one spends time talking to manufacturers, both in the east and the south and the west.

Michael Cross: And Nordson can clearly benefit from that. Now, having said that, not all of our companies have seen this kind of growth. Revenues for URS, which is a big player in infrastructure projects, reported a 13% drop in sales for the first quarter. Revenues related to infrastructure and environmental projects were down 7%; energy and construction related sales were down 25%. But federal spending was up 7%. And despite the weak Q1 sales, URS has guided for moderate growth for the full year 2010.

And, as Phillip will explain in more detail a little later, AGCO has also continued to receive sluggish sales. Their North American sales in the first quarter were down 28%; European sales were down 32%, and, as far as they're concerned, Eastern Europe and Russia markets are still dead. The bright spot for AGCO was

South America, where their sales were up 68%, due to the extension of a government program that supports agricultural equipment markets.

So, to sum up what we're hearing and seeing with regards to demand for our companies' goods and services: in general, first quarter sales were up nicely. These companies -- the companies that have executed very well, especially on the new product front, are outperforming their peers and winning, despite a less than robust recovery. Sales in the tech sector were particularly strong and sales in Asia-Pacific were very good. One of our CEOs summed it up nicely when he said that for his company the first quarter felt like a "V" shaped economic recovery, but the economic data just does not suggest that order strength of this magnitude will continue. And we would agree. While we're pleased to see strength in our companies' reported results, we think that their strength is driven by their solid execution and their market position in their respective niches as well as a return to slow economic growth.

In terms of margins, we're seeing just as we expected. Because so many of our companies reduced fixed cost and SG&A expenses in 2009, a small rebound in sales generates a relatively larger improvement in profitability. Many of our companies reconfigured production lines in 2009 while volumes were down, and, as a result, they can now produce higher volumes without adding as many people. Several are continuing to focus on margin improvement efforts. Jo-Ann Stores, for example, has continued to improve their gross margins by focusing on their sourcing activities. By taking out the intermediaries for their offshore sourced material, they're able to reduce their costs significantly. They're also reconfiguring stores to improve their sales mix and margin performance.

And while there's still significant uncertainties regarding the strength of this economic recovery, a few of our companies have announced that they're going to make big investments to improve their profitability. Polaris announced a significant manufacturing strategy change in May. They're going to open a new plant in Monterrey, Mexico in 2011, and they expect to save $30 million a year in cost as a result. We're expecting flat to improving margins in light of some top line strength and relatively stable input costs. For example, feed cost for hog farmers are likely to remain low, as corn crops look very good. Oil costs have been fairly stable and natural gas remains, prices remain pretty low.

From a cash flow generation standpoint, we see a few competing drivers. On the one hand, our businesses generate more cash from profits; and on the other hand, growth in sales consumes cash as working capital is rebuilt and accounts receivable grow.

We're also seeing a willingness to make acquisitions. Earlier in the year, Koppers purchased Cindu Chemicals, which is a coal tar distillation company in the Netherlands, and this helped Koppers with their European market share and with sales and earnings growth already this year. Timken, which is one of our SMID Cap holdings, is also announcing that they're buying QM Bearings and Power.

URS has acquired the Scott Wilson Group in the UK to expand their presence outside of the US. And Smithfield is in the process of buying the other 51% of Butterball. And on the other side of the coin, Arch Chemicals has been able to divest their non-core and less profitable industrial coatings business.

Michael Cook: And that's been something that they've been looking to do for several years now. We think they took the right strategy. As a matter of fact, they were in our office, what, it was a year and a half or so ago here, and we were discussing that specific business, and they were very keen to suggest that that business was well under control. Although it was not a long term core business. So they clearly were looking for the proper buyer at the proper time. And given the conditions that we were in 2009, we think they used a lot of patience, judgment, wisdom in not pulling the trigger when the cash could have looked very, very attractive last year, particularly early to mid year last year. Because they did the other things necessary it allowed them to be patient and make the sale at this point in time. So, we're very, very pleased not only with the sale, but we're pleased with the processes and discipline that the management team used, because those were the sorts of things that give us an indication and an idea about how they're going to behave in the future.

Michael Cross: And we like the fact that now they're really focused on their core strengths, which is the buy-side part of their business.

So, just kind of wrapping up there, in general, I'd say our CEOs are feeling pretty good about 2010, but they have a lot of concerns about 2011 and how the weakness of this recovery and government actions and the tax and regulatory arena will affect their businesses going forward.

Moving on to the next slide, I'll share some of our investment team's concerns and observations relative to the general economy.

Unfortunately, there's not a lot for us to get excited about with regards to the macroeconomic outlook. We remain very concerned about the outlook for jobs. Overall economic growth could end up being so anemic that there will not be many jobs added, and we believe that most companies are still cautious about adding people to their payrolls without a more robust economic outlook. Consumers are proving to be wary of returning to their pre-downturn spending patterns. As you have certainly seen, both the Michigan Consumer Sentiment survey and the Conference Board's Confidence surveys dropped fairly dramatically in the last month, and without strong consumers the recovery will be weak.

The housing market continues in the doldrums, and with the end of the housing stimulus program and the drop in pending home sales, we don't see too many bright spots on the horizon. In fact, housing starts are down two thirds from their peak, and that means that there are a lot of people that are still out of work in the construction segment and related parts of the market.

In addition, we're concerned about quality issues with respect to banks collective loan portfolios, including commercial real estate problems, but also low quality corporate debt that needs to be refinanced.

Michael Cook: Like, I think, we saw last weekend, where a $1.8 billion portfolio of commercial real estate mortgages was purchased at $0.59 on the dollar, and we've not really seen any of that come to the fore. I think to some degree the notion that originally was pontificated was that stimulus would in turn lead to a more rapid economic recovery and therefore allow for pricing so the banks could move properties off of their books. Unfortunately, the opposite has happened in a lot of ways. Even if the growth is out there, it's in specific areas, it's very narrow, and it's certainly not generating the types of opportunities that banks would see as reasonable with respect to the capital ratios they're now having to keep under new financial guidelines.

Michael Cross: Thanks, Michael. And I think, you know, we look at that as the banks have been pretty good at the extend and pretend sort of game, but that can't go on forever. And these problems in loan portfolios, and also the incentives that the Federal Reserve still has in place to encourage holding reserves, means that banks will not be lending aggressively in the near term.

Michael Cook: And I think we also mentioned last quarter, but it's probably worth mentioning again the fact that farm credit loans are still out there where there's no reappraisals going on on properties. And we continue to think, and my observation has been with respect to discussions I've had with farmers about farmland and rents, at this point in time, you know, frankly they're not anywhere near where they need to be in order for those valuations to be acceptable.

Michael Cross: And, you know, of course we're still concerned a bit about what's going on in Europe with the credit issues there. The real only bright spots from our companies with respect to Europe had been those companies that export a lot to Asia-Pacific.

Michael Cook: Yes.

Michael Cross: So when you add up the impacts of high unemployment, wary consumers, a weak housing market and banks with problems, on top of a general concern over an aggressive governmental regulatory agenda and a probability of higher taxes, it's really hard for us to get too bullish about the economy.

Now the good things that we see, and there are a few good things, are the business inventories remain fairly low. We don't see any need for further downward adjustments there. Real demand is clearly up, and there are favorable trends in power consumption, which bodes well for coal companies. We like the fact that many of our companies are well positioned in emerging markets, like Nordson's support of Procter & Gamble and Kimberly Clark. And as mentioned before, we love the fact that many of our companies have stayed on offense developing new products, growing market share and acquiring companies to further grow their share. We really believe we're in an environment in which picking the right stocks matters. Investors can't count on a robust economic recovery and a rising market in which all stocks will do well, and, really, quite to the contrary, the winners are going to be those companies that will do well regardless of whether the economy is growing at a rapid clip, and then when the economy does rebound, those companies will do even better.

I'm now going to hand the call over to Phillip who'll talk a bit about performance in the portfolio and then some specific on stocks that did real well or didn't.

Phillip Cook: Thanks, Mike. Slide 7 shows our small cap composite performance.

After first quarter earnings calls were out of the way, the market and the portfolio drifted down fairly severely. And we were down 10.8% for the quarter, slightly underperforming both indices. However, as of yesterday, we are up 5.3% year-to-date, and beating the Russell 2000 by nearly 500 basis points for the year. We continue to outperform both indices on a 1, 3, 5 and 10 year basis and since inception.

Moving on to slide number 8, we look at the SMID cap composite performance, and just like the second quarter for the small cap, the SMID portfolio struggled in May and June and ended the quarter down 11.5%. However, we are up 6.4% year-to-date as of the close yesterday and outperforming the Russell 2500 by nearly 450 basis points. In addition, the SMID strategy continues to beat both indices on a one year, three year, five year, ten year and since inception gross annualized basis.

Moving on to the next slide, we are trying to provide you with some helpful information in this presentation regarding the overall performance, but in a portfolio of our size performance is hugely driven by a few stocks, either in a positive or a negative way.

Slide 9 lists the companies in our top five and bottom five for the quarter. As usual, we'll be providing written summaries of the top five contributors and the top five detractors for all of you, so we won't go into all these details here today. However, I would like to provide you with some color on the two largest contributors and two largest detractors for the quarter.

First, looking at Polaris. Polaris sales were up 16% during the first quarter, which exceeded both management guidance and street expectations. The company believes that they are growing market share in all areas, with the exception of snowmobiles, and they have begun to hire people in some of their factories in order to support this higher demand. With the international sales growing a robust 41% and sales increasing in North America as well, the cost reduction initiatives that management have undertaken have helped operating margins improve by 280 basis points during the last quarter. Management has done a good job managing the balance sheet. As compared to the previous year, dealer inventory was down 29%, and factory inventory was down 27%. In addition, over the past 12 months, net debt has decreased by $151 million, and now totals approximately $76 million. We are very pleased that Polaris has consistently improved their operating metrics, their balance sheet and their market share during this recessionary period.

Michael Cook: Phillip, can I just also point out that with respect to that large number that is in the international sales category, one thing that's probably worth mentioning is that we've been watching for some time how this is a small market segment for them at this point, but growing very rapidly. And a lot of that has to do with the different usages of on and off road in the ATV market in Europe that are distinctly different from those in the United States. So we really clearly believe that Polaris, even though the European economy may not look attractive in general, Polaris has an enormous upside in the near term even before we see any improvement on a general economic basis over there.

Phillip Cook: Absolutely. And I think we saw that when we were at the Agritechnica event in November of last year, we were able to meet with some Polaris dealers in Germany, and it is a new market for them. They have some really top notch dealers and there's a lot of excitement about the use, the different usages of Polaris ATVs and side-by-sides on farms in particular in the European region. So that's certainly something to look for in the future for Polaris.

During the quarter, Mike visited with their CEO, Scott Wine, about their plans to open the new manufacturing operations in Mexico, and while we have concerns over the magnitude of the operational changes that they're undertaking, we have confidence in their long term Chief Operating Officer and his ability to execute this strategy. In addition, Mike will be attending the company's annual dealer meeting in Orlando next week, and this event is just a great opportunity to interact with all levels of management from CEO to product engineers to local dealers from all over the country. And we look forward to what might come out of that visit.

Moving on to Cascade Corporation. Cascade shares were up during the quarter after they reported 24% increase in sales and a profit of $5.7 million versus a loss of 12 million in the same quarter last year. In addition, versus the fourth quarter of 2009, sales were up 14% in North America and 14% in Europe. We saw China and Asia-Pacific sales increasing more than 30% during the quarter, which was immensely encouraging for a business that's been struggling. Margins improved in all regions due to higher sales and fixed cost reductions that were implemented last year when sales were off so dramatically. Results improved in Europe where they have closed plants in the Netherlands, Germany and France. And we believe that they will likely meet their objectives of sustained profitability in Europe; although it will potentially take several more months to get there. In June, Michael met with their CEO, Bob Warren, and Mike and Rebecca met with their

COO, Andy Anderson, in their Portland headquarters, and we're pleased with the progress that Cascade management has made with regards to European restructuring and also with their ability to manage through a difficult period of depressed demand. With an estimated 40-50% of the global lift truck market, we are confident that they are positioned well for economic recovery in North America, Europe and Asia.

Now turning to slide 11 for a few comments on our top detractors for the second quarter: Smithfield and AGCO. Although the company continues to operate at a loss because it is running off of old contracts, comparative operating results for Smithfield improved in every segment during their fourth fiscal quarter. Consolidated operating profit improved $131 million or 143% versus a year ago. The pork segment has realized strong operating profit growth and it has reaped the benefit of a substantially improved cost structure and improved product mix. We continue to be encouraged that management is not satisfied simply with an improving top line environment, but remains focused on cost savings, operating efficiencies and improving their competitive position in various markets. They're willing to invest in the long term despite short term challenges and have managed through everything the industry has faced these last two years. One of the major focuses of the company had been the balance sheet. The CFO, Bo Manly, has done a wonderful job in navigating the short term while staying focused on the long term, despite some Wall Street criticism. Liquidity has improved dramatically, and in the past year the debt to cap ratio net of cash declined from 52% to 48% and management is committed to paying down debt by a billion dollars over the next three years. Finally, Smithfield announced that it had made an offer to purchase its joint venture partners' 51% ownership in Butterball, LLC, and its partners related turkey production asset for approximately $200 million, which yet again exemplifies the improved balance sheet.

Michael Cook: Phillip, I also would add that as we've talked about on numerous previous calls, even through the H1N1 debacle, at a very difficult time financially globally, Smithfield was able to manage through that difficult environment and continues to stay strong in Asia. I think one of the key points that is being missed in a lot of ways, but I had an opportunity to really verify specifically on the ground while in China, was that while China clearly has a game plan and an interest in improving its food security internally, specifically by improving the size and the productivity of hog herds, the country for at least as long as we can see going forward will have high demand from US pork. So it's still going to be an enormous component and a lot of that has to do with the regulatory environment, which I won't go into. But the fact of the matter is, is that the bottom line, let's say, for instance, you were going to have a 4,000 hectare farm that you want to really recreate a more US-like hog operation, it would require you to because of the way that land laws work, it would actually require you to go out and talk to 8,000 farmers in order to accumulate that 4,000 hectares. And, you would have to agree to employ all 8,000 of those farmers, when that 4,000 hectare farm in the United States would probably require something like on the order of 100 farmers.

So there are huge difficulties and hurdles that the Chinese have even though there's a strong push to get there. Then we've talked also about the commercialization issues of getting hogs from the farm to the slaughterhouse and then to the distribution centers and into the stores and into the hands of retail customers. So there are huge challenges that they still have to overcome, particularly in the west and agricultural areas. And I really believe that Smithfield is poised to continue to be a strong hog provider into the Asian market, even though they would argue that generally speaking year in and year out they don't count on those export sales as they look at their internal budgets. I would also point out that even as recently as last week, at the European Agricultural Outlook Conference, that the director of Crop Life Asia made a statement, that I think we've been touting for some time, and that is, "All Asian economies are moving to meat over rice." And even if that is just partially true, it is an enormous dynamic that is not going to be completely fed by South America. That's something.

Phillip Cook: Absolutely.

Finally, I'm going to wrap up with a few points on AGCO. As Mike mentioned earlier, AGCO continues to see a weak top line market for them, particularly in Western Europe, with dealer destocking resulting in significant sales declines in the EAME regions, and dealer destocking initiatives. We continue to see weakness in the dairy and livestock sectors in North America and that has hurt the top line across the company. On the other hand, strong farm fundamentals and the extension of favorable government financing programs in Brazil, combined with improved conditions in Argentina, have resulted in a 68% increase in South American sales in the first quarter compared to the same period in 2009. As we've talked about for at least a year now, tier four emission standards continue to impact the short term profitability, as additional engineering costs run through the books, particularly in Europe, as we head towards the deadline of December 31st of this year. The balance sheet remains strong, with over $400 million in cash and total debt of $635 million, allowing management to continue to invest in long term organic growth initiatives. After years of running the business as a holding company, where more than 30 brands had been acquired over the company's history, management has taken one more positive step towards turning the business into an operating company by reducing the brands in North America to two: Massey Ferguson and Challenger. This strategy, along with the continued implementation of the AGCO production system around the globe, is resulting in lower cost, improved efficiencies and a streamlined supply chain.

Now, I will turn the call over to Elliot to discuss a new position that was added to the portfolio during the quarter, Centene Corporation.

Elliot Cunningham: Thanks, Phillip. Now, let's see -- turning to slide 12 --

As we all know, there's been a cloud hanging over all of healthcare due to regulatory reform. While we do not necessarily condone the last bill passage, our job is to seek attractive returns while minimizing risk. So we decided to dig a little further into the healthcare sector to see if we might be able to uncover any interesting investment opportunities. We came across one in particular, Centene, a multi-line managed care provider. Centene, however, is not just your typical HMO.

Centene is a Medicaid provider and has very little Medicare exposure. Medicare is what is in the cross-hairs of the recently passed bill. Medicare is coming under increased scrutiny due to the higher profitability and questionable pricing practices that have been employed. Also, both sides of the aisle have differing opinions on Medicare's merits. Medicare cuts are expected to be $500 billion over the next decade, so the opportunity there seems limited, in our view. Medicaid, on the other hand, is expanding, and the use of managed care is being encouraged. Medicaid, particularly managed care, has proven to be cost effective with better outcomes and lower cost; plus, it has bipartisan support. Currently there are approximately 47 million lives enrolled in Medicaid. The new reform bill extends Medicaid benefits to 16 million additional lives by raising the coverage limits to 133% of the federal poverty level. That makes Centene particularly well positioned to capitalize on the changing legislation.

Regardless, we believe Centene is well positioned and significantly undervalued independent of the new healthcare law. The company has great cash generating capabilities and a great strategy in place to grow the value of the business. The new legislation only enhances our thesis for the long term opportunity for Centene. Centene also has several offerings and specialty services which further distinguish them from their competitors. Centene is the only national managed care provider that has a program for foster children. They started the program in Texas and are currently marketing it to other states.

Another offering unique to Centene is their exchange presence. Exchanges are programs set up to provide insurance for the working poor. Once again, Centene is the only national managed care provider with these exchange capabilities.

The last distinguisher I'd like to highlight is the company's specialty services, which include the full range of a patient's total care. Examples include vision, psychiatric and pharmaceutical care. All these characteristics differentiate Centene by helping states save money and provide better care.

As you can see, Centene fully meets our niche dominant investment criteria in terms of its focus on Medicaid, to things like foster care, exchanges and specialty services. From a financial strength perspective, the second leg of our investment approach, Centene has nearly $1 billion in cash and investments on their balance sheet, with only $230 million of long term debt. The company has grown their top and bottom line while producing discretionary cash flow well in excess of net income.

Finally, from a management adaptability perspective, the final piece of our investment criteria, CEO, Michael Neidorff describes the company as one that "forecasts versus one that reacts". This has been proven by the way the company has acted strategically over the last several years. Everything they have done has a strategic fit. The company has heavily invested in new technologies over the last few years, which have helped Centene better monitor patients and spot trends. For example, last year these capabilities led to a successful navigation of the H1N1 flu scare, which you've heard us talk about on more than one occasion. Additionally, Centene acquired a company actively involved in the exchange program, which I mentioned earlier, as a potential benefit of their platform and its capabilities. Finally, management have often made investments in establishing specialty companies which have grown from nothing to $1 billion of revenue in just six years. All these examples display the forward-looking long term nature of management, which we like to see in all of our portfolio holdings. Needless to say, we believe Centene is increasing the value of their business and generating cash everyday. This should result in attractive returns for our clients over time.

With that, I will pass the call back over to Michael.

Michael Cook: Thank you, Elliot. Thank you, Phillip. Thank you, Mike. Thank you, all, for being on the call. We hope that this time was helpful to you. We know that you will take advantage of calling and asking any questions that may be on your minds. We're happy to help you in any way we can. And we look forward to reporting back to you in the third quarter post the close of our transaction, and with hopefully, a little bit better performance news at the forefront. So, thank you, once again for your trust and confidence in us. We encourage you to get those consent forms signed and sent back. We greatly appreciate that and we appreciate each one of you. Thank you.

Operator: Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.

END

Key Thoughts on Small Cap Holdings

The following represents some of our key thoughts for the second quarter 2010 with respect to our Small Cap Composite:

Top Contributors by Impact on Portfolio

Polaris Industries Inc. (PII)

- Sales were up 16% in the first quarter, which exceeded management's prior expectations. Polaris believes that they are growing market share in all areas with the exception of snow mobiles, and they have begun to hire people in their facilities in order to support the higher demand.

- While sales increased in all regions (including North America), international sales grew at a very robust 41%.
- Operating margin was up 280 bps due to the strong sales, improved mix, and cost reductions. We are very pleased that Polaris has improved their operating metrics, balance sheet and market share during the recessionary period.
- Management has done a good job managing the balance sheet. As compared to the previous year, dealer inventory was down 29%, and factory inventory was down 27%. Over the past 12 months, net debt has decreased by $151 million and now totals approximately $76 million.
- Polaris also announced that they will be realigning their manufacturing operations in 2010 and 2011. They will be opening a new facility near Monterrey, Mexico, in order to improve their competitiveness and to position the Company for global growth.
- Shortly after the announcement, Mike Cross visited with their CEO, Scott Wine, about their plans. While we have concerns over the magnitude of the operational changes that they are undertaking, we have confidence in Bennett Morgan, their long-time Chief Operating Officer, and his ability to execute.
- In addition, Mike will be attending the annual dealer meeting in July and will have the opportunity to meet with senior management, as well as engineers, product designers, and dealers.

<u>Cascade Corp. (CASC)</u>

- Cascade shares were up during the quarter after they reported 24% higher sales and a profit of $5.7 million vs. a loss of $12.1 million in the same quarter last year.
- Sales were up sequentially 14% in North America and 14% in Europe, while sales in Asia-Pacific and China were both up more than 30%.
- Margins improved in all regions due to a stronger top line, as well as fixed cost reductions that were implemented last year when volumes were off dramatically.
- Results improved in Europe where they have closed plants in the Netherlands, Germany and France, and we believe that management will meet their objectives of sustained profitability in Europe in the coming quarters.
- In June, Michael Cook met with their CEO, Bob Warren, and Mike and Rebecca Smith met with their COO, Andy Anderson, in their Portland headquarters. We are pleased with the progress that Cascade's management has made with regard to European restructuring and also with their ability to manage through a very difficult period of depressed demand.
- With an estimated 50-60% of the global lift truck attachment market, we are confident that the Company is positioned well for an economic recovery in North America, Europe and Asia.

<u>Tractor Supply Co. (TSCO)</u>

- Tractor Supply had a record first quarter with sales of $711 million, up 9.3% year over year. Additionally, the Company raised 2010 guidance.
- Management continues to drive improvements and efficiencies by implementing lean initiatives.
    - The Company reported lower in-store inventory for the tenth consecutive quarter.
    - Gross margins increased to 32.2% of sales, up from 30.9% of sales year over year.
- Tractor Supply opened 19 stores during the quarter and plans to open between 70 and 80 stores for the year. As of the end of the first quarter, there were 948 stores, leaving plenty of room for growth with a long-term goal of 1800 stores nationwide.

- Tractor ended the quarter with $138 million in cash and practically no long-term debt.
- Management plans to continue to carry a meaningful cash balance as they navigate a difficult retail environment, but due to their strong cash flow generating capabilities, the Company pays a dividend, has a buyback program in place, and continues to open new stores.
- Since the end of the quarter, Tractor Supply has pre-released positive second quarter results and again raised guidance for the full year.

James River Coal Co. (JRCC)

- James River reported strong first quarter results with adjusted EBITDA of $48.1M and over $30M of discretionary cash flow.
- During the quarter, JRCC was named to the Forbes 2010 list of "The 100 Most Trustworthy Companies."
- Management continues to face uncertainty due to regulatory issues including mine permitting.
- Management's latest public commentary indicated met coal production would be online beginning in May and increase throughout the back half of the year as a favorable met coal pricing environment continues due to strong steel demand.
- Global coal demand trends continue to be positive, as utility inventories are coming down and emerging markets, specifically China and India, continue to demand more and more coal.
- We spoke with Peter Socha, James River's CEO, during the quarter to discuss the Company's operations and the current coal environment. Strategically, management is looking into hedging certain input costs and also looking at possibilities to export coal overseas, particularly Western Europe.
- Elliot Cunningham attended McCloskey's Coal USA Conference at the end of June and spent time with Peter Socha and other coal executives and industry experts.

Centene Corp. (CNC)

- Please see description in New Position section below.

Bottom Contributors by Impact on Portfolio

Smithfield Foods Inc. (SFD)

- Although the Company continues to operate at a loss because it is running off of old contracts, comparative operating results in every segment improved; consolidated operating profit improved $131.2 million, or 143% versus a year ago.
- The Pork segment has realized strong operating profit growth, as it has reaped the benefits of a substantially improved cost structure and improved product mix.
- We continue to be encouraged that management is not satisfied simply with an improving top line environment but remains focused on cost savings, operating efficiencies and improving their competitive position in all core markets. They are willing to invest in the long-term, despite short-term challenges and have managed through everything the industry has faced these last few years.
- CEO, Larry Pope, recently said, “"The last two years were by far the most challenging in over 30 years. The contributing factors - global recessionary conditions, unfounded fears about A(H1N1) and the resultant closures of some key export markets, spiking grain prices and extended low hog prices tied to a significant oversupply of live hogs - are all well documented. These factors, combined with the extremely slow pace of herd liquidation in spite of mounting industry losses, all

conspired to make for one of the longest and deepest downturns ever in live hog production."

- In the past 12 months, the debt to capitalization ratio, net of cash, declined from 52% to 48% and management is committed to paying down debt by $1 billion over the next three years.
- Smithfield announced during the quarter that it has made an offer to purchase its joint venture partner's 51% ownership interest in Butterball and its partner's related turkey production assets for approximately $200 million.

AGCO Corp. (AGCO)

- Weak market conditions in Western Europe and dealer destocking resulted in significant sales declines in the EAME region, while dealer destocking initiatives and continued weakness in the dairy and livestock sectors produced lower NA sales. On the other hand, strong farm fundamentals and the extension of favorable government financing programs in Brazil combined with improved conditions in Argentina resulted in a 68% increase in South American sales in the first quarter compared to the same period in 2009.
- In addition, Tier 4 emissions standards continue to impact short-term profitability as additional engineering costs run through the books, particularly in Europe.
- The balance sheet remains strong with over $400 million in cash and total debt of $635 million, allowing management to continue to invest in long-term organic growth initiatives.
- After years of running the business more as a holding company with more than 30 brands, which had been acquired over the Company's history, management took one more positive step toward turning the business into an operating company by reducing the brands in North America to two, Massey Ferguson and Challenger.
- Management continues to implement the AGCO Production System around the globe, thereby cutting costs, improving efficiencies and streamlining the supply chain.
- Management expects global industry sales to be flat in 2010 with strong demand in South America being offset by weakness in Europe.

Affiliated Managers Group Inc. (AMG)

- AMG reported first quarter cash net income of $50.8 million compared to $37.7 million in the first quarter last year.
- Assets under management have grown 66% year over year to $257 billion due to acquisitions and strong affiliate performance.
- Management has seen a pickup in global search activity and funding, suggesting a reallocation by institutional investors to return-oriented assets away from cash and other government backed securities.
- AMG continues to see an interest by investors into global equities and alternative investments.
- Management made three acquisitions in the last seven months, two of which closed in the first quarter, and the other closed during the second quarter. Even after these acquisitions, the Company will have $300 million liquidity plus quarterly cash generations available for continued investment in affiliates.
- AMG's unique combination of managers, which are made up of equity, fixed income, domestic, international, public, private, traditional, and alternative, is capable of generating healthy amounts of cash going forward. While AMG is not immune from a market downturn, management has positioned the Company well to handle market volatility and has continued to focus on growing the business long-term.

URS Corp. (URS)

- Although revenue and operating income were down year over year, both the backlog and book of business grew during the first quarter, showing some signs of life particularly in the infrastructure and environment business and the industrial and commercial business which has been particularly weak the last couple of years.
- Management is expecting significant growth in their Federal and Infrastructure segments for the full year behind demand for services from the DoD, DoE, Homeland Security, NASA and the UK Nuclear Decommissioning Authority.
- Federal spending continues to grow, with the Fiscal 2011 budgets for the DoD and DoE growing significantly faster than the overall economy. URS is positioned extremely well to benefit from this increased spending.
- Although several sectors including Power and Industrial continue to be weak and are not expected to come out of cyclical downturns in the coming quarters, we believe these sectors will return with strength and URS has long-term relationships and expertise in a number of areas that position them well for long-term profitability in these areas.
- It is important to note that URS continues to generate cash in each segment, despite significant declines in the top lines of certain businesses and is a testimony to management's cost control mentality and customer relationships in the niches in which they participate.
- Finally, the balance sheet remains strong and the Company continues to look for ways to return value to shareholders using discretionary cash flows to make strategic bolt-on acquisitions, stock repurchases, and paying down debt among others.

Chicago Bridge & Iron (CBI)

- In April, CB&I announced positive first quarter results. While sales dipped compared to the prior year, an exceptional gross profit margin of 14.1% and overhead cost containment led to $89 million of first quarter EBITDA.
- During the quarter, CB&I announced the initiation of a stock repurchase program. This has given CB&I the flexibility to opportunistically buy shares.
- CB&I announced some notable achievements during in the second quarter:
    - In a joint venture with Toyo Engineering Corporation, the Company completed the engineering, procurement and construction of an ethylene cracker in Singapore. This project also included the licensing of proprietary CB&I technology.
    - CB&I also announced the successful start-up of PERU LNG—the first LNG liquefaction plant in South America. They are the engineering, procurement and construction contractor for the full scope of the project. The plant has a 4.5 million metric ton per year capacity (equivalent to approximately 224 billion cubic feet per year). Hunt Oil Company is a 50% owner and the operator of PERU LNG.
- CB&I also received the following new awards during the second quarter:
    - Shell awarded CB&I an engineering contract for the full-field development of the Kashagan oil field in Kazakhstan. The work includes onshore and offshore facilities and pipelines.
    - CB&I announced TAIK-NK OAO (Russian oil refiner) had purchased the license and engineering services for a gasoline treatment unit at a refinery upgrade. The treatment unit will reduce the sulfur content in gasoline to meet clean fuel regulations.
    - CB&I was hired by OJSC NOVATEK, Russia's largest independent natural gas producer, to perform concept development of Yamal LNG. This project is located in Northwestern Siberia.

  - Occidental awarded CB&I the engineering, procurement, and construction contract of a 200 million foot per day gas processing plant in California.
  - Ning Bo Heyuan Chemical Company awarded CB&I a contract for the license and basic engineering of two petrochemical conversion units in Ning Bo, China.
  - Daewoo Engineering and Construction awarded CB&I the propylene storage tanks for the Ruwais Refinery expansion project in Abu Dhabi.

New Position Established During 2Q10

Centene Corp. (CNC)

- Centene is a multi-line managed care organization providing Medicaid and other related services through government subsidized programs.
- Idea Generation
  - We were looking for ideas due to our high cash position and noticed how health care stocks seemed to be inexpensive. After further research and due diligence, Centene stood out.
- Investment Thesis
  - Centene has a great set of unique businesses within managed care. They are positioned well with a differentiated product offering through their exchange capabilities and specialty services platform.
  - Additionally, long-term they are well positioned to benefit from Medicaid expansion due to health care reform.
- Business Segments
  - The Company drives revenue from two segments, Medicaid Managed Care and Specialty Services. Medicaid Managed Care revenue is 78%, and Specialty Services revenue is 22%. The managed care revenue comes from the government, as CNC receives a fee per member per month. Specialty services distinguish Centene from most of their competition. Centene offers a unique combination of specialty companies which can operate in tandem or independently of CNC's traditional Medicaid business.
- Niche Dominant
  - CNC is one of the top Medicaid managed care providers in the country. They currently have operations in 9 states, soon to be 11, and cover roughly 1.5M lives.
  - CNC also offers a very unique set of ancillary businesses and service offerings that truly differentiate their business from any of their nearest competitors (Specialty Services, Foster Care, Exchange).
- Financial Strength (numbers as of 12/31/09)
  - Revenue growth – five year CAGR of 28.5%.
  - Discretionary cash flow growth- five year CAGR of approximately 31%.
  - Cash generation consistently greater than net income.
  - Strong balance sheet with nearly $1 billion in cash and investments.
  - High ROIC and ROE
- Management Adaptability
  - Management has positioned the Company well and has been forward looking and strategic toward the long-term. They have become much more than the typical Medicaid company by establishing viable businesses in related care. Management has demonstrated prudence in their capital allocation and has left revenue on the table for the benefit of the business as a whole.

Key Thoughts on SMID Cap Holdings

The following represents some of our key thoughts for the second quarter 2010 with respect to our SMID Cap Composite:

Top Contributors by Impact on Portfolio

Polaris Industries Inc. (PII)

- Sales were up 16% in the first quarter, which exceeded management's prior expectations. Polaris believes that they are growing market share in all areas with the exception of snow mobiles, and they have begun to hire people in their facilities in order to support the higher demand.
- While sales increased in all regions (including North America), international sales grew at a very robust 41%.
- Operating margin was up 280 bps due to the strong sales, improved mix, and cost reductions. We are very pleased that Polaris has improved their operating metrics, balance sheet and market share during the recessionary period.
- Management has done a good job managing the balance sheet. As compared to the previous year, dealer inventory was down 29%, and factory inventory was down 27%. Over the past 12 months, net debt has decreased by $151 million and now totals approximately $76 million.
- Polaris also announced that they will be realigning their manufacturing operations in 2010 and 2011. They will be opening a new facility near Monterrey, Mexico, in order to improve their competitiveness and to position the Company for global growth.
- Shortly after the announcement, Mike Cross visited with their CEO, Scott Wine, about their plans. While we have concerns over the magnitude of the operational changes that they are undertaking, we have confidence in Bennett Morgan, their long-time Chief Operating Officer, and his ability to execute.
- In addition, Mike will be attending the annual dealer meeting in July and will have the opportunity to meet with senior management, as well as engineers, product designers, and dealers.

Tractor Supply Co. (TSCO)

- Tractor Supply had a record first quarter with sales of $711 million, up 9.3% year over year. Additionally, the Company raised 2010 guidance.
- Management continues to drive improvements and efficiencies by implementing lean initiatives.
  - The Company reported lower in-store inventory for the tenth consecutive quarter.
  - Gross margins increased to 32.2% of sales, up from 30.9% of sales year over year.
- Tractor Supply opened 19 stores during the quarter and plans to open between 70 and 80 stores for the year. As of the end of the first quarter, there were 948 stores, leaving plenty of room for growth with a long-term goal of 1800 stores nationwide.
- Tractor ended the quarter with $138 million in cash and practically no long-term debt.
- Management plans to continue to carry a meaningful cash balance as they navigate a difficult retail environment, but due to their strong cash flow generating capabilities, the Company pays a dividend, has a buyback program in place, and continues to open new stores.

- Since the end of the quarter, Tractor Supply has pre-released positive second quarter results and again raised guidance for the full year.

Del Monte Foods Co. (DLM)

- In June, Del Monte announced results for its fiscal year ending May 2 (fiscal 2010). While sales increased 3.1% during the year, gross profit margin expanded from 27.7% to 32.9%. The gross profit margin benefitted from price increases during fiscal 2009 as well as stable input costs during fiscal 2010.
- Despite unpredictable input costs (packaging, logistics, raw products), Del Monte's profitability should be sustainable. The Company has a proven ability to adjust its overhead when gross profit margin fluctuates.
- At the end of June, Del Monte announced the repurchase of approximately 6.2 million shares of its common stock in connection with an accelerated buyback. The Company is purchasing these shares with cash on hand as part of a three-year, $350 million share repurchase program announced at the beginning of June.
- Del Monte is returning money to shareholders through dividends as well as share repurchases. In June, the Company increased its next quarterly dividend to $.09 per share from $.05 per share. The new dividend equates to a dividend yield of 2.5%, given a stock price between $14 and $15.

OGE Energy Corp. (OGE)

- During May, OGE Energy announced first quarter earnings of $24 million. Excluding a charge related to the new healthcare law, net income would have been $36 million.
  - At the electric utility OG&E, first quarter earnings were $1.2 million after the healthcare charge and $8.2 million before the charge. First quarter 2009 generated $1.3 million in earnings—so we can see by comparison the effect of 2009 rate increases. Earnings at the utility were also higher than expected during the first quarter due to cooler than expected weather.
  - At Enogex, earnings were $27.4 million after the healthcare charge and $29.4 million before the charge. During the first quarter of 2009, Enogex generated $15.4 million in earnings. The increase in profitability came from the natural gas gathering and processing businesses and, more specifically, from active drillers and high natural gas liquids prices.
- OG&E has a constructive and proven relationship with its regulators, electric rates which are 35% below the national average, and a slate of unique growth prospects. These characteristics should allow OG&E to grow earnings and, more importantly, its operating cash flow and capacity to increase its dividend.

Newfield Exploration Co. (NFX)

- Newfield had a strong first quarter with sales of $458 million and production of 67Bcfe.
- Management is shifting their capital budget to focus more on oil producing plays. They now expect to spend $700 million on oil projects representing 45% of the total budget and 60% of expected 2010 revenues.
- Oil production is expected to increase 20% in 2010, driven by drilling in the Rocky Mountains and offshore Malaysia.
- Management remains forward looking as they continue to selectively add to their hedged positions. Due to capital strength and successful drilling, management is not forced to drill due to held-by-production leases. This ultimately gives Newfield the flexibility to selectively allocate capital and invest opportunistically.

- BP's oil spill in the gulf has cast a cloud over the industry, but we believe Newfield's diverse portfolio of resources allows them the needed flexibility to shift their capital deployment based on an ever changing regulatory environment.

Bottom Contributors by Impact on Portfolio

Smithfield Foods Inc. (SFD)

- Although the Company continues to operate at a loss because it is running off of old contracts, comparative operating results in every segment improved; consolidated operating profit improved $131.2 million, or 143% versus a year ago.
- The Pork segment has realized strong operating profit growth, as it has reaped the benefits of a substantially improved cost structure and improved product mix.
- We continue to be encouraged that management is not satisfied simply with an improving top line environment but remains focused on cost savings, operating efficiencies and improving their competitive position in all core markets. They are willing to invest in the long-term despite short-term challenges and have managed through everything the industry has faced these last few years.
- CEO, Larry Pope, recently said, “"The last two years were by far the most challenging in over 30 years. The contributing factors - global recessionary conditions, unfounded fears about A(H1N1) and the resultant closures of some key export markets, spiking grain prices and extended low hog prices tied to a significant oversupply of live hogs - are all well documented. These factors, combined with the extremely slow pace of herd liquidation in spite of mounting industry losses, all conspired to make for one of the longest and deepest downturns ever in live hog production."
- In the past 12 months, the debt to capitalization ratio, net of cash, declined from 52% to 48% and management is committed to paying down debt by $1 billion over the next three years.
- Smithfield announced during the quarter that it has made an offer to purchase its joint venture partner's 51% ownership interest in Butterball and its partner's related turkey production assets for approximately $200 million.

AGCO Corp. (AGCO)

- Weak market conditions in Western Europe and dealer destocking resulted in significant sales declines in the EAME region, while dealer destocking initiatives and continued weakness in the dairy and livestock sectors produced lower NA sales. On the other hand, strong farm fundamentals and the extension of favorable government financing programs in Brazil combined with improved conditions in Argentina resulted in a 68% increase in South American sales in the first quarter compared to the same period in 2009.
- In addition, Tier 4 emissions standards continue to impact short-term profitability as additional engineering costs run through the books, particularly in Europe.
- The balance sheet remains strong with over $400 million in cash and total debt of $635 million, allowing management to continue to invest in long-term organic growth initiatives.
- After years of running the business more as a holding company with more than 30 brands, which had been acquired over the Company's history, management took one more positive step toward turning the business into an operating company by reducing the brands in North America to two, Massey Ferguson and Challenger.

- Management continues to implement the AGCO Production System around the globe, thereby cutting costs, improving efficiencies and streamlining the supply chain.
- Management expects global industry sales to be flat in 2010 with strong demand in South America being offset by weakness in Europe.

Flowserve Corp. (FLS)

- In May, Flowserve reported positive first quarter results. Backlog expanded as Flowserve's bookings of $1.07 billion exceeded sales of $959 million. The Company generated $121 million in EBIT (12.6% EBIT margin) which included $19 million in foreign currency losses.
- Margins during the quarter remained stable despite pricing and volume headwinds. Gross profit margin was 35.4% compared to 35.9% last year and 34.1% during the fourth quarter of 2009.
- We currently anticipate 2010 net income of $350 to $400 million, including ongoing realignment charges of $20 million(pre-tax) and $14 million of charges from Venezuela (no tax benefit).
- Flowserve ended the first quarter with $468 million in cash, resulting in net debt of roughly $98 million. Flowserve's strong balance sheet enabled it to finance $332 million in seasonal working capital needs with cash during the first quarter.
- Flowserve continues to find strong demand from the BRIC nations and the Middle East. Energy was also a source of strong demand for Flowserve as 42% of first quarter bookings came from oil and gas, compared to 32% during first quarter 2009. Flowserve has a concentrated exposure in downstream oil and gas—transportation and processing—and little exposure to upstream drilling.

Affiliated Managers Group Inc. (AMG)

- AMG reported first quarter cash net income of $50.8 million compared to $37.7 million in the first quarter last year.
- Assets under management have grown 66% year over year to $257 billion due to acquisitions and strong affiliate performance.
- Management has seen a pickup in global search activity and funding, suggesting a reallocation by institutional investors to return-oriented assets away from cash and other government backed securities.
- AMG continues to see an interest by investors into global equities and alternative investments.
- Management made three acquisitions in the last seven months, two of which closed in the first quarter, and the other closed during the second quarter. Even after these acquisitions, the Company will have $300 million liquidity plus quarterly cash generations available for continued investment in affiliates.
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URS Corp. (URS)

- Although revenue and operating income were down year over year, both the backlog and book of business grew during the first quarter, showing some signs of life particularly in the infrastructure and environment business and the industrial and commercial business which has been particularly weak the last couple of years.

- Management is expecting significant growth in their Federal and Infrastructure segments for the full year behind demand for services from the DoD, DoE, Homeland Security, NASA and the UK Nuclear Decommissioning Authority.
- Federal spending continues to grow with the Fiscal 2011 budgets for the DoD and DoE growing significantly faster than the overall economy. URS is positioned extremely well to benefit from this increased spending.
- Although several sectors including Power and Industrial continue to be weak and are not expected to come out of cyclical downturns in the coming quarters, we believe these sectors will return with strength and URS has long-term relationships and expertise in a number of areas that position them well for long-term profitability in these areas.
- It is important to note that URS continues to generate cash in each segment, despite significant declines in the top lines of certain businesses and is a testimony to management's cost control mentality and customer relationships in the niches in which they participate.
- Finally, the balance sheet remains strong and the Company continues to look for ways to return value to shareholders using discretionary cash flows to make strategic bolt-on acquisitions, stock repurchases, and paying down debt among others.

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