April 1, 2011

Dear clients and colleagues,

Q1 2011 saw the best returns for equity markets since 1999. The risk trade continues strong and small cap continued to outperform. Reasons given for the strength of the market range from a fast improving US economy and massive liquidity, from QE2 to asset mix shifts out of bonds. The US Fed can say mission accomplished. QE2 favorably impacted the stock market and a survey of US CEOs showed a very high level of optimism; therefore, maybe the recovery will be self-sustaining.

However, as we start this new quarter, we are more cautious than we have been in the last two years. Why?

Oil prices are above $100 and are starting to hurt margins. The gasoline price in the US, as we approach summer driving season, is now $3.61. To put it in perspective, it was $3.29 March 31st 2008, before shooting up to an all time high of $4.11 in July of that year. Anyone watching US television will realize that this is dominating local news. Add still declining home values to the mix, and we can understand why US consumer confidence had an important decline in March.

The Euro zone sovereign debt problem is still very present and unresolved. Ireland voted in a new government that wants to renegotiate their bailout. Protests in Greece have started again. Credit agencies have recently downgraded the debt of PIGS. The UK is in a recession. And the political pressures on France and Germany are very high; both leaders have recently lost local elections.

Despite massive liquidity injected by central banks in the last few years, the consumer's balance sheet is still in bad shape, with Canadians now having the title of most indebted consumer, ahead of US and UK consumers. Governments at every level, National, State or Local, also have poor balance sheets. Critics of TARP (Troubled Asset Relief Program) in the US, point to the fact that the only beneficiaries of the program have been the financial institutions, the main culprits for the crisis in the first place.

And we talked about the impact of the Japan earthquake a few weeks ago; we now believe it will have a negative impact on global growth for a few quarters.

And emerging markets, facing runaway inflation, are trying to cool down their economies with a variety of tightening measures.

So, what now? QE2 will end in three months. QE1 finished at the end of Q1 2010; world markets peaked two weeks later and from April 15 to July 1 2010 went down 15.9%. Oil went from $85 to $73. So we are very cautious. In that scenario, our portfolio is well positioned due to its lower risk profile, more predictable growth, stronger margins, better balance sheet, and the possibility of M&A opportunities.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS ®) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

Clients often ask us about our portfolio exposure to emerging market growth. Our answer is that it is one of the themes in the portfolio and we have profiled many companies that have an exposure to what is one of the most exciting long-term growth drivers: almost 1 billion new middle-class consumers in those countries.

We read recently that KFC is opening a new restaurant every 18 hours in China. An investor may think, what does that involve? For sure, if you supply cooking equipment and KFC is your client, you will experience strong growth. And it is true for all the other suppliers.

The company we profile this week is a new addition to the portfolio, Radiant Systems (RADS - US $17.75) http://www.radiantsystems.com

Business overview and history

Founded in 1985, Alpharetta, Georgia Radiant delivers restaurant and hospitality management software, including point-of-sale, self-service kiosks, mobile ordering and payment devices, back-office systems and site management technology to more than 100,000 restaurants, retail stores, cinemas, amusement park, stadiums, convenience stores, etc. Radiant has offices around the world and international sales now represent over 25% of revenues and is a big opportunity for the company.

The market, investment theme and catalysts

The restaurant market in the US alone is a $6B market for POS and software vendors with over 579,000 locations. The global market is more than $20 B annually and growing faster.

In the restaurant industry, where profit margins are between 5% and 8%, and the failure rate for new restaurant openings is about 60% within the first five years of operation, IT systems are critical.

According to management 16% of installed systems are eight years and older and 49% greater than five years, thus providing a replacement cycle opportunity. Another dynamic at work within the industry is the move away from legacy, proprietary electronic cash registers that represent approximately 66% of total installed systems. Upgrade of legacy systems offers Radiant bundling opportunities with its expanded product and services offerings.

Competitive advantages and competition

Radiant competes in a fragmented market where competitive factors are product features such as:

Speed of service - how quickly and accurately you can serve patrons;

Speed to act - how quickly can you transform ideas, such as loyalty programs, into revenues; and

The ability to maintain effective controls and integrate into corporate systems.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS ®) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

Micro System is the market leader with about 18%-22% of US market share, followed by Radiant which has approximately 7%-8% of market share. The next seven companies have 28% market share with most in the 2%-4% range. Other competitors are Retalix LTD, Quest, Intuit, Retail Pro and Cam Commerce.

Growth strategy

The company's strategy is a distribution strategy. Win new clients, expand with existing clients and grow internationally. Radiant has developed strong relationships with customers such as Buffalo Wild Wings Grill & Bar, Noodles & Company, Chipotle Mexican Grill, Firehouse Steak and should experience growth as these restaurants expand their global footprint.

Management

Top management has been in place since 1996 and insiders own 15% of shares outstanding.

Risks

A global recession would affect the whole industry.

Company data

Market cap: US$703M, net cash $60M, Sales (10): $346M, P/E (11) 17.8x, EV/EBITDA (11) 10.7x, R&D 8% of sales, Gross margin: 46%, net profit margin: 6.3%.

Valuation

Using a DCF model with a growth rate of 20% for the next 7 years (24% in the last 7) and 7% at maturity, a discount rate of 8%, our target price is $39. The catalyst to achieve that price will be faster sales growth than the market is anticipating and the operational leverage which will drive earnings growth ever faster.

Have a good weekend.

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS ®) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.