POLESTAR INVESTMENT RESEARCH LLC

*Stock picks for the discerning Portfolio Manager*

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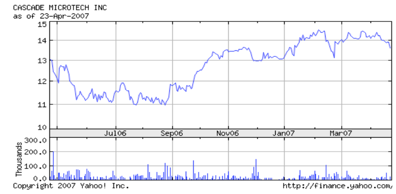


# Cascade Microtech, Inc. (CSCD; $13.30) - Buy; Q1 beats Street by a penny; Closed acquisition expected to be accretive by 2H-07 and bump up Gross margins. Reiterate Buy.

**April 25th, 2007**

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|---|---|---|---|
| *Price* | $13.30 | *Rev '06* | $84.9M |
| *52 wk Hi-Lo* | $10.80-$14.63 | *Rev '07* | $101M |
| *Shares O/S* | 12.2M | *EPS '07* | $0.62 |
| *Mkt Cap* | $162M | *EPS '08* | $1.31 |
| *Net Cash* | $46M | *EV/E '07* | 15.3x |
| *EV* | $9.50 per share | *EV/E '08* | 7.3x |

- **Q1 Beats Street-** Cascade Microtech announced Q1 revenue of $22.5, up 14% y-o-y and flat sequentially. Revenue was in-line with previous guidance of $21.5-23.5M. Q1 diluted EPS came in at $0.09, beating the Street by a penny. EPS was up 50% y-o-y, 13% sequentially, and in-line with previous guidance of $0.06-0.11.

  The difference between our estimates and actual results was due predominantly to improved gross margins. Gross margin was 45.7% in Q1, up 2.3% due to product mix improvement in the Engineering Products Division.

  Revenue for the Engineering Products Division increased 13% y-o-y to $18.4M in Q1 and was up 4% sequentially. The Production Products Division grew 19% y-o-y to $4.1M but was down 19% sequentially as expected. Cascade built backlog in Production Probes and continued to invest by adding capacity. In fact an order from Peregrine was the largest probe card order ever booked and is a multi-million dollar order. Overall book-to-bill ratio in Q1 was below one, the increased backlog in Production Probes was more than offset by the use of backlog in Engineering Products.

- **Flat Q2 Guidance** – Q2-07 revenues were guided to a $21.5M - $23.5M range, and diluted EPS of $0.06-$0.11, both flat sequentially. Consensus was $24.6M and $0.12 respectively. Guidance excludes the Gryphics acquisition, which closed April 3rd of this year. Gryphics has a $7.7M run rate, higher gross margins and is expected to be accretive in H2-07. Gryphics, with no international presence, is expected to benefit from Cascade's sales channel. FY07 guidance was not provided, but sequential growth is expected in each quarter.

  Revenue for the Engineering Products Division is expected to be flat sequentially in Q2, whereas the Production Probe Division is expected to be ramping up so revenue is expected to increase.

- **Reiterate Buy** – Cascade continues to invest in the business to increase capacity for probe cards with capital expenditures expected to be $8m for the rest of FY07. Capex spending coupled with capacity constraints held back growth and margins during 2006. We expect the company to leverage the increased capacity and the acquisition of Gryphics to expand market share and improve margins starting in the second half of 2007 and continuing into 2008. Cascade is trading at a compelling price of 15.3x FY07 earnings, net of cash, and 7.3x our FY08 earnings estimate. We reiterate our Buy rating.