Mossberg's Investor Digest

April 2009
Issue #10

From the Editor…

Stocks continued to rally this month. The Dow is up about 25% from its low reached in early March. However, from the small sampling of investors I've spoken with this month, most are calling for the market to retest lows.

Recent insider selling trends also helps support the call for retesting lows. According to Washington Service, a firm that tracks insider trading, insiders from New York Stock Exchange-listed companies sold $8.32 worth of stock for every dollar bought in the first three weeks of April. This is the fastest rate of selling since October 2007 and the smallest amount of insider buying since July 1992.

Thank you for your interest in Mossberg's Investor Digest. I welcome your feedback.

Dave Mossberg

April 2009 Issue

Pure Technologies, Ltd. (TSX: PUR) - $3.26
April 14, 2009 Page 2 – Pure has technologies that use electromagnetic inspection to establish the existing condition of concrete cylinder pipelines. In addition, the company's technologies offer the only non-intrusive way to continuously monitor pipes (water, oil & natural gas) without the need for empting the pipe. These technologies could be in demand as the U.S. government spends money to upgrade infrastructure.

RadioShack (NYSE: RSH) - $9.68
April 20, 2009 Page 3 – About 1/3 of all mobile phone sales are made through non-carrier retailers like RadioShack, Wal-Mart, Best Buy and Circuit City. With the Circuit City bankruptcy, its market share is up for grabs. Verizon, who had operated stores inside Circuit City, is undoubtedly looking for a new retail partner. If RadioShack can add Verizon back as a partner (RadioShack's previous relationship with Verizon ended in 2005), it could be a boon for RadioShack's wireless business.

Evolution Petroleum (AMEX: EPM) - $2.38
April 24, 2009 Page 4 – Unlike many of its independent E&P peers, Evolution has no debt and $7.6 million in working capital. Without a need to service debt, the company has more flexibility to drill fields when the price of natural gas and oil can provide the highest returns. The company is riding the coat tails of Denbury, which is developing a field in Louisiana. EPM interest in this field could be worth $4 to $10 per share alone.

ePlus (Nasdaq: PLUS) - $12.00
April 29, 2009 Page 5 – By any metric this stock appears very cheap. On an asset basis, the company trades at roughly 60% of its tangible book value. On a multiple of earnings, the company trades at 3 EV/ EBITDA and 7x EPS. With $87 million in cash on the balance sheet, there appears to be significant margin of safety.

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Best Idea Profile

Pure Technologies, Ltd. (TSX: PUR.V)

DESCRIPTION:

Headquartered in Calgary, Pure Technologies, Ltd. provides products and services for inspecting and monitoring pipelines, bridges and other structures. The company has technologies that use electromagnetic inspection to establish the existing condition of concrete cylinder pipelines. In addition, the company's technologies offer the only non-intrusive way to continuously monitor pipes (water, oil & natural gas) without the need for empting the pipe. The company's monitoring technologies are also used to continuously monitor suspension cables in bridges and wire strands inside concrete structures. Revenue is defined in four categories 1) equipment sales (approximately 60% of revenue), 2) inspections (15%), 3) consulting (12%), 4) monitoring and support (12%).

KEY INVESTMENT CONSIDERATIONS:

Strong backlog gives visibility – The company has grown revenue at 45% per year for each of the past three years and is poised for growth to continue at a significant pace. Management says the company has a confirmed backlog in excess of $19 million and annual recurring revenues of approximately $3.5 million…significant visibility into future revenue.

(TSX: PUR.V)
Investment Data (as of 4/14/09)

Recent Price	**$3.26**
52-Week Range	2.00 - 4.00
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	32.8 MM
Average Trading Volume (3 mos)	30,000
Market Capitalization	**107 MM**
Cash	20 MM
Long Term Debt	N/A
Enterprise Value (EV)	87 MM
LT Debt/ Equity	N/A
BV/ Share	1.00
TTM Revenue	22.2 MM
P/ Revenue	**4.9x**
TTM EPS	0.07
P/ EPS	**47x**
TTM adjusted EBITDA	6.2 MM
EV/ TTM EBITDA	**14x**

Desperate need for spending on U.S. infrastructure – According to the American Society of Civil Engineers' 2009 Report Card for America's Infrastructure, the nation's bridges and water infrastructure are in bad need of an overhaul. In the report, the ASCE says that one in four of the nation's bridges are either structurally deficient or functionally obsolete. The report also points out that leaking pipes lose an estimated seven billion gallons of clean drinking water a day. While clearly there is a need for spending on updating U.S. infrastructure, there are limited resources available, especially at the state and local levels. These agencies must allocate their limited resources carefully and Pure's technologies help them do that. 1) The technologies typically don't require the pipeline to be empty, which not only eliminates the disruption of water service, but also saves the costs associated with emptying and refilling the pipes. 2) The technologies allow for continuous monitoring, which allows problems to be spotted before they become more costly catastrophic failures.

New technology has growing interest in oil and gas pipeline application - The Company introduced its new leak detection technology called SmartBall® several years ago to detect and accurately pinpoint leaks at an early stage of growth. Early detection enables pipeline operators to take remedial action before more serious damage occurs. The technology was originally developed for water pipelines, but has recently been introduced as a solution for oil and gas pipelines. The SmartBall is a sphere with sensors inside that travels with the water/oil/gas flow down a pipe, detecting leaks as it rolls. The SmartBall can be inserted and retrieved from a pipeline under normal operation. In early March, the company announced its first license agreement with CLH, a major Spanish oil pipeline operator that manages a pipeline network more than 3,800 KM long, one of the most extensive civil pipeline networks in Western Europe.

VALUATION:

With an EV/ EBITDA multiple of 14x, the shares appear to be valued on the potential of the growth of the business. While top line has grown, the margin levels have not, as the company has continued to invest at the operating level to grow sales and bring new products to market. Last year the company produced gross margins in the low 60's and net margin around 10%. As new products gain traction, there should be leverage in the business model that will allow profitability growth to outpace the top line and justify a higher valuation.

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RadioShack (NYSE: RSH)

DESCRIPTION:

Headquartered in Fort Worth, Texas, RadioShack sells consumer electronics products and services through its e-commerce site, www.radioshack.com, and a network of 4,400 company-operated stores, 1,400 dealer outlets, 700 wireless phone kiosks in the United States and 200 company-operated stores in Mexico. The company's revenue mix is 33% wireless, 28% personal and home electronics, 24% electronics accessories, and 15% batteries and battery chargers.

KEY INVESTMENT CONSIDERATIONS:

Sizable store base size offers a significant competitive moat – With more than 5,800 RadioShack stores, there is a location within 5 minutes of more than 90% of the U.S. population. This penetration certainly would be difficult to duplicate and is a key differentiator for consumer electronics manufacturers and wireless/satellite carriers looking to quickly roll out new products and services to a nationwide consumer base. To put the size of the store base in perspective, Wal-mart (NYSE: WMT) has 4,200 U.S. Stores, Target (NYSE: TGT) 1,680 stores, Best Buy (NYSE: BBY) 923, GameStop (NYSE: GME) 4,331, and 7-11 has 5,700. The large store base and trusted brand also gives the company purchasing and pricing power.

Strong balance sheet – The company has $815MM in cash and access to another $325MM through its line of credit, which has not been drawn upon. The company has adequate liquidity to service its $772MM in debt and take advantage of opportunities if they come along. Last year the company generated $275MM in operating cash flow and used $111MM to repurchase 6.1MM shares (average price $18.20). There is another $90MM under the current authorization to repurchase shares.

RISK:

Sprint Relationship – Sprint is a significant partner to RSH's carrier business and RSH has significant receivables due from Sprint. Sprint's 4Q revenue was off 14% and its subscriber base shrank by 8.4% during 2008. Sprint carries significant debt levels and if it cannot turn around its declining subscriber base, it may be put on the auction block or worse.

CATALYST:

Wireless Opportunity – About 1/3 of all mobile phone sales are made through non-carrier retailers like RadioShack, Wal-Mart, Best Buy and Circuit City. With the Circuit City bankruptcy, its market share is up for grabs. Verizon, who had operated stores inside Circuit City, is undoubtedly looking for a new retail partner. If RadioShack can add Verizon back as a partner (RadioShack's previous relationship with Verizon ended in 2005), it could be a boon for RadioShack's wireless business. RadioShack already activates service for both Sprint and AT&T. Adding Verizon (the country's largest wireless service provider) would allow RSH to more effectively compete against Best Buy who already activates phones for the three major wireless carriers. RadioShack has revamped the wireless displays inside its stores and recently it has opened up three test stores dedicated to wireless under the name PointMobl.

VALUATION:

Shares trade at 3X EV to EBITDA, which is a bargain for a market leader that produced an ROE of 24% last year. This value is less than half that of other leading retailers, BBY, WMT, HD which are currently trading at 6x to 8x valuations. Also, the cash balance and strong cash flow generation indicates that the dividend, which yields an attractive 2.6%, is safe.

(NYSE: RSH)
Investment Data (as of 4/20/09)

Recent Price	**$9.68**
52-Week Range	6.47 - 19.90
Fiscal Year End	December
Dividend	0.25
Yield	2.6%
Shares Outstanding	125 MM
Average Trading Volume (3 mos)	3.4 MM
Market Capitalization	**1.2 B**
Cash	815 MM
Long Term Debt	772 MM
Enterprise Value (EV)	1.2 B
LT Debt/ Equity	0.9
BV/ Share	6.50
TTM Revenue	4.2 B
P/ Revenue	**0.3x**
TTM EPS	1.54
P/ EPS	**6.3x**
TTM adjusted EBITDA	424 MM
EV/ TTM EBITDA	**2.8x**

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Evolution Petroleum Corporation (AMEX: EPM)

DESCRIPTION:

Headquartered in Houston, Texas, Evolution Petroleum Corporation is an independent oil and gas exploration and production company. The company specializes in applying engineering and technologies to extract additional oil and gas from mature fields or other fields that my have been bypassed by conventional drilling techniques.

KEY INVESTMENT CONSIDERATION:

Riding the coat tails of Denbury, EPM's Delhi field interest could be worth $4 to $10 per share - In 2006, EPM sold the Delhi Field in North Eastern Louisiana to Denbury Resources (NYSE: DNR) for $50 million (EPM originally paid $2.8 million). The company retained a 7.4% royalty interest and a 25% after-payout working interest in the field. The Delhi field is a mature field that has produced over 200 million barrels of oil in its lifetime. By pumping CO2 under pressure into the field, CO2 moves through the formation, mixes with oil droplets, expanding them and moving them to producing wells. By using this technique, DNR has been able to increase the production of mature fields, like Delhi, by approximately 17%. DNR is investing $72MM in infrastructure for this project. They have essentially completed the pipeline that will bring in CO2 from a source approximately 90 miles away in Mississippi. CO2 injection is expected to begin this summer and production by the end of the year.

(AMEX: EPM)
Investment Data (as of 4/28/09)

Recent Price	**$2.38**
52-Week Range	1.00 - 7.15
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	26.3 MM
Average Trading Volume (3 mos)	41,000
Market Capitalization	**63 MM**
Cash	10 MM
Long Term Debt	0
Enterprise Value (EV)	53MM
LT Debt/ Equity	N/A
BV/ Share	1.24
TTM Revenue	7.0 MM
P/ Revenue	**9.0x**
TTM EPS	-0.04
P/ EPS	**N/A**
TTM adjusted EBITDA	-180K
EV/ TTM EBITDA	**N/A**

Track record of increasing proven reserves – Using horizontal drilling and other modern technologies, EPM has increased the size of its proven reserves by 133% to 4 million barrels. All of the improvement came from the company's Giddings field located in Central Texas. The company has completed 9 wells to date at Giddings, which are producing 240 gross barrels of oil per day at a stable rate. On the Giddings field, there are approximately 25 additional wells sites that the company can drill using the same techniques.

Woodford Shale Project – The company has leased 18,000 acres in Oklahoma that is part of the Woodford gas shale play. The company plans to drill vertical wells at shallow debts that can produce natural gas for as little as $2.00/mmbtu.

Strong financial position – Unlike many of its independent E&P peers, Evolution has no debt and $7.6 million in working capital. Without a need to service debt, the company has more flexibility to drill fields when the price of natural gas and oil can provide the highest returns. Given the decline in oil prices, management had cut their 2009 capital budget in half and used excess capital to buy back shares. During the second half of 2008, the company has used its balance sheet to repurchase approximately 700,000 shares at an average price of $1.10 per share.

RISK:

EPM is not profitable and its ability to generate profit can be affected by several factors outside of management's control including the price of gas and oil, success in profitably extracting the oil and gas from the ground and the ability to bring it to market. The company's Delhi project is being operated by Denbury Resources, which leaves the ultimate success of this project out of management control.

VALUATION:

As of November, the company calculates its intrinsic value at over $9 per share.

Proven reserves - $1.24
+ Working Cap and option/warrant exercise - $0.74
+ Probable Reserves - $0.31
+ Probable Delhi Reserves - $6.69
+ Gas Shale Acreage - $0.49

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ePlus Inc. (Nasdaq: PLUS)

DESCRIPTION:

Headquartered in Herndon, Virginia, ePlus is an IT services company. The company sells, installs and services IT hardware and software solutions. Hewlett Packard and Cisco are the company's two major vendors, accounting for 22% and 38% of sales, respectively. The company also offers lease-financing solutions to its customers. ePlus has 2,500+ mid to large scale enterprise customers, none of which accounts for more than 5% of sales. The company employees 650 people in a network of more than 20 offices nationwide.

KEY INVESTMENT CONSIDERATION:

Strong growth track record – While growth rates have slowed recently, the company has a strong track record of delivering above market growth rates. From 2003 to 2008, revenue grew at a compound annual rate of 23%. In the current recessionary environment, customers are more likely to do business with better capitalized vendors, which should allow ePlus to continue to outperform.

Credit risk from lease business may be misunderstood – More than 60% of the company's investment in leases is financed with non-recourse loans. ePlus introduces the lessee to the financial institution that provides most of the financing and assumes the credit risk for that financing. Upon default, the financial institution has recourse against the lessee only. As the name implies, ePlus is generally not responsible for repayment of a non-recourse loans if the customer does not pay.

Strong balance sheet provides stability and ability to take advantage of acquisitive opportunities – The company has $87 million in cash and no non-recourse debt. This represents a considerable war chest that the company could use to make acquisitions. The company has also used excess cash to repurchase shares. Through the end of December, the company had repurchased approximately 300,000 of a 500,000 share repurchase authorization at an average price of $9.65 per share. The authorization represents about 6% of the company's outstanding shares.

Intellectual Property – In addition to reselling hardware and software from other providers, ePlus has a portfolio of patent-protected intellectual property. This intellectual property competitively differentiates how ePlus goes to market by allowing customers the ability to more effectively manage their IT infrastructure. The company recently sued SAP for patent infringement and won $54 million including a license agreement from SAP.

RISK:

The company has relationships with financial institutions, including GE Capital, which provide financing for the company's leasing business. A continuation or worsening of the current financial crunch could have a material negative affect on ePlus' operations.

VALUATION:

By any metric this stock appears very cheap. On an asset basis, the company trades at roughly 60% of its tangible book value. On a multiple of earnings, the company trades at 3 EV/ EBITDA and 7x EPS. It's also questionable whether or not to include the non-recourse debt as part of enterprise value. With $87 million in cash on the balance sheet, there appears to be significant margin of safety.

(AMEX: PLUS)
Investment Data (as of 4/29/09)

Recent Price	**$12.00**
52-Week Range	7.88 - 14.00
Fiscal Year End	March
Dividend	N/A
Yield	N/A
Shares Outstanding	8.0 MM
Average Trading Volume (3 mos)	12,000
Market Capitalization	**96 MM**
Cash	87 MM
Long Term Debt	143 MM
Enterprise Value (EV)	153 MM
LT Debt/ Equity	0.5
Tangible BV/ Share	19.06
TTM Revenue	752 MM
P/ Revenue	**0.1x**
TTM EPS	1.75
P/ EPS	**6.9x**
TTM adjusted EBITDA	48 MM
EV/ TTM EBITDA	**3.0x**

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The value proposition of the digest is essentially an "Idea Generator". During the course of my 13-year career in capital markets, I've had the chance to meet and work closely with some very smart professional investors who have consistent track records of outperforming the market indexes. Some of these investors, which include mutual fund managers, hedge fund managers, and other professional investors, are kind enough to share their best ideas with me. I conduct my own analysis of their ideas and publish summaries of those ideas I think represent timely investment opportunities. Over time, I trust the majority of these ideas will pan out and help subscribers generate index-beating returns.

The goal of the Best Idea Profiles in this newsletter is to describe all of relevant investment merits and risks of a company in one page. It is not intended to be an exhaustive report including every detail of a company. With limited space available, I am forced to include only those data points that I feel are most important for subscribers to know before they begin their own due diligence. Thank you for your interest in Mossberg's Investor Digest.

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