

Mossberg's Investor Digest

June 2010

Issue #24

From the Editor...

Microcap stocks could produce alpha in a recovering market

With the amount of uncertainty and volatility in the market, it is no wonder that investors are seeking safe haven in fixed income securities. However, at some point, investors will look at equities to drive greater returns, and there will be a flow of funds back into the equity markets.

When the tide rises is should lift all ships – I recently met with a microcap fund manager who suggested there has been increasing interest in microcap stocks from pension funds and the consultants that help institutions select money management firms. These funds have been underperforming their assumed returns over the last couple of years, and in some cases, are underfunded. They are invested heavily in bonds, which have provided safety from the uncertainty, but have produced very low levels of returns. These funds have trillions in assets. If collectively even a small portion, say \$50 billion, is allocated to microcap stocks, it could have significant impact on valuations and liquidity of microcap stocks.

Investible universe of microcaps is only about \$200 billion – This seems like a big number, but it is only about 60% of the value of Exxon. If you consider that management/ insiders own about 1/3 of these stocks, the universe is even smaller.

Is the sell side starting to pay attention to microcaps? I recently spoke with two sell side firms, Sidoti & Company and Craig-Hallum, which have both recently launched coverage of several microcap names. Historically, broker/ dealers have had a difficult time justifying coverage of microcap names, due to their size and limited trading volume. I was in New York last week at Sidoti's investor conference, which was well attended by institutional investors. Sidoti launched coverage of 25 microcap stocks at the conference and plans to launch coverage of more than 100.

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

Dave Mossberg

June 2010 Issue

AOL (NYSE: AOL) - \$22.74, May 1, 2010, Page 3 – At less than one times sales and an EV/EBITDA multiple of just over 2x, AOL is a cheap technology stock by anyone's standards. This is no doubt due to uncertainty of the new company's future. Most of the bad news appears to be out, and AOL may well be at, or near, a low point in terms of financial performance. The company could trade at substantially higher share prices later in 2010.

Broadvision (Nasdaq: BVSN) - \$12.05, June 28, 2010, Page 4 – Broadvision is a classic contrarian deep value story. Right now the company has \$62.8 million in cash with a market cap of \$54 million. Hence the company trades at a 14% discount to the cash on the balance sheet and is at a deep discount book value. Investors have the unusual opportunity to buy cash at a discount and pick up the business at no cost.

Vantage Drilling (Amex:VTG) – \$1.46, June 28, 2010, Page 5 – Over the last year, VTG has transitioned from a development stage company with no revenue, to a full operating company with revenue and earnings. The company's valuation should expand as revenue and earnings growth will be very rapid over the next couple of years. The company says its net asset value is \$3.53, which includes the four jackups, interest in a drillship, and discounted cash flows from construction and management contracts. If shares were to trade inline with the company's peers, the stock would be worth \$3.20.

Tuesday Morning (Nasdaq:TUES) – \$3.99, June 30, 2010, Page 6 – TUES has a proven business model with a history of profitability. Other than a small loss in FY09, TUES has had years of profitability. The value proposition for customers should make for a retail model more suited to an environment with slow economic growth than that of full price retailers. Based on a \$0.39 FY11 estimate, TUES has a forward multiple of 12. With the company's same store sales trending up and some significant store redeployments out of the way, TUES seems reasonably priced.

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Mossberg's Investor Digest Idea Performance

The table shows the relative increase (decrease) in the value of the ideas published since Jan 2009. For comparison purposes, the relative change in the Russell 3000 Index is shown. **Performance data quoted represents past performance and does not guarantee future results.** Current performance of ideas may be lower or higher than the performance quoted.

Company	Pub Date	Original Price	Recent Price	Change	Russell 3000 Change Since Pub Date	Relative Perf. vs Russell 3000
I2 Technologies (Nasdaq: ITWO)	9-Jan-09	6.49	20.00	208.2%	15.6%	192.6%
Cornell Companies (NYSE: CRN)	23-Jan-09	14.67	26.87	83.2%	26.8%	56.4%
Brinks Home Sec. (NYSE: CFL)	28-Jan-09	22.46	42.50	89.2%	20.5%	68.7%
SmartPros (Nasdaq: SPRO)	29-Jan-09	2.65	2.85	7.5%	24.7%	-17.2%
Diana Shipping (NYSE: DSX)	17-Feb-09	13.81	11.26	-18.5%	33.1%	-51.6%
DG FastChannel (Nasdaq: DGIT)	20-Feb-09	15.84	32.58	105.7%	36.7%	69.0%
SAVVIS (Nasdaq: SVVS)	25-Feb-09	5.79	14.75	154.7%	37.8%	116.9%
Anika Therapeutics (Nasdaq: ANIK)	28-Feb-09	3.42	5.89	72.2%	43.1%	29.1%
World Acceptance (Nasdaq: WRLD)	13-Mar-09	14.08	38.31	172.1%	39.3%	132.8%
Integrated Silicon (Nasdaq: ISSI)	20-Mar-09	1.55	7.54	386.5%	37.1%	349.4%
Intevac (Nasdaq: IVAC)	23-Mar-09	5.34	10.67	99.8%	29.0%	70.8%
Carriage Services (NYSE: CSV)	30-Mar-09	1.50	4.66	210.7%	33.6%	177.1%
Pure Technologies (TSX: PUR)	14-Apr-09	3.26	4.03	23.6%	24.6%	-1.0%
RadioShack (NYSE: RSH)	20-Apr-09	9.68	19.51	101.5%	25.9%	75.7%
Evolution Petroleum (Amex: EPM)	24-Apr-09	2.68	5.01	86.9%	20.6%	66.3%
ePlus (Nasdaq: PLUS)	29-Apr-09	12.00	17.50	45.8%	19.3%	26.5%
Signet Jewellers (NYSE: SIG)	11-May-09	17.76	27.50	54.8%	14.9%	40.0%
Smart Balance (Nasdaq: SMBL)	15-May-09	7.71	4.09	-47.0%	18.7%	-65.6%
Virtus (Nasdaq: VRTS)	22-May-09	15.15	18.72	23.6%	18.0%	5.6%
China 3C (OTCBB: CHCG.OB)	31-May-09	1.08	0.30	-72.1%	13.7%	-85.8%
Virtusa (Nasdaq: VRTU)	16-Jun-09	7.26	9.33	28.5%	14.6%	13.9%
MedQuist (Nasdaq MEDQ)	18-Jun-09	3.84	7.91	106.0%	13.7%	92.2%
GameStop (NYSE: GME)	26-Jun-09	22.17	18.79	-15.2%	13.5%	-28.8%
CPI Corp (NYSE: CPY)	29-Jun-09	16.07	22.42	39.5%	12.6%	26.9%
Mattel (NYSE: MAT)	10-Jul-09	15.19	21.16	39.3%	18.5%	20.8%
Novavax (Nasdaq: NVAX)	17-Jul-09	3.04	2.17	-28.6%	11.0%	-39.6%
ABB (NYSE: ABB)	20-Jul-09	15.91	17.28	8.6%	11.0%	-2.4%
Teva Pharma (Nasdaq: TEVA)	21-Jul-09	48.94	51.99	6.2%	9.7%	-3.4%
Palm Harbor Homes (Nasdaq: PHHM)	11-Aug-09	2.73	1.78	-34.8%	4.5%	-39.3%
Adaptec (Nasdaq: ADPT)	25-Aug-09	3.02	2.89	-4.3%	1.2%	-5.5%
TierOne Corp. (Nasdaq: TONE)	31-Aug-09	2.38	0.07	-97.1%	1.1%	-98.2%
Dover Motorsports (NYSE: DVD)	31-Aug-09	1.49	1.82	22.1%	1.1%	21.0%
Graphic Packaging (NYSE: GPK)	18-Sep-09	2.29	3.15	37.6%	-3.1%	40.6%
White Electronic Designs (Nasdaq: WEDC)	21-Sep-09	4.52	7.00	54.9%	-2.8%	57.6%
John B Sanfilippo & Son (Nasdaq: JBSS)	30-Sep-09	11.92	14.47	21.4%	-1.9%	23.3%
Hastings Entertainment (Nasdaq: HAST)	30-Sep-09	4.19	7.66	82.8%	-1.9%	84.7%
TurboSonic Technologies (OTCBB: TSTA)	13-Oct-09	1.20	0.40	-66.7%	-3.7%	-63.0%
Verisk Analytics (Nasdaq: VRSK)	23-Oct-09	28.37	29.90	5.4%	-3.7%	9.1%
Iconix Brand Group (Nasdaq: ICON)	30-Oct-09	11.66	14.37	23.2%	0.8%	22.5%
FTI Consulting (NYSE: FCN)	30-Oct-09	40.81	43.59	6.8%	0.8%	6.0%
Vimicro (Nasdaq: VIMC)	19-Nov-09	4.18	4.56	9.1%	-4.5%	13.6%
Haynes International (Nasdaq: HAYN)	19-Nov-09	26.51	30.83	16.3%	-4.5%	20.8%
TomoTherapy (Nasdaq: TOMO)	27-Nov-09	3.16	3.18	0.6%	-4.1%	4.7%
Abraxas Petroleum (Nasdaq: AXAS)	27-Nov-09	1.99	2.80	40.7%	-4.1%	44.8%
Aeropostale (NYSE: ARO)	18-Dec-09	21.60	28.64	32.6%	-5.7%	38.3%
Alamo Group (NYSE: ALG)	19-Dec-09	15.59	21.70	39.2%	-5.7%	44.9%
inContact (Nasdaq: SAAS)	22-Dec-09	2.73	2.45	-10.3%	-7.1%	-3.1%
Speedway Motorsports (NYSE: TRK)	24-Dec-09	17.49	13.56	-22.5%	-8.0%	-14.5%
AspenBio Pharma (Nasdaq: APPY)	22-Jan-10	2.20	0.98	-55.5%	-5.1%	-50.3%
MarineMax (NYSE: HZO)	27-Jan-10	9.53	6.94	-27.2%	-5.6%	-21.6%
Cano Petroleum (Amex: CFW)	27-Jan-10	0.87	0.77	-12.1%	-5.6%	-6.5%
Yuchai International Limited (NYSE: CYD)	31-Jan-10	13.40	15.41	15.0%	-3.3%	18.3%
Geo Group (NYSE: GEO)	12-Feb-10	19.34	20.75	7.3%	-3.8%	11.1%
Rambus (Nasdaq: RMBS)	19-Feb-10	22.45	17.52	-22.0%	-6.7%	-15.2%
Belo Corporation (NYSE: BLC)	26-Feb-10	6.73	5.69	-15.5%	-6.3%	-9.1%
America Service Group (Nasdaq: ASGR)	26-Feb-10	14.96	17.20	15.0%	-6.3%	21.3%
Dyanamex (Nasdaq: DDMX)	8-Mar-10	15.50	12.20	-21.3%	-9.4%	-11.9%
Innerworkings (Nasdaq: INWK)	12-Mar-10	5.30	6.83	28.9%	-10.4%	39.3%
Wet Seal (Nasdaq: WTSLA)	22-Mar-10	4.60	3.65	-20.7%	-11.6%	-9.1%
Heelys (Nasdaq: HLYS)	24-Mar-10	2.40	2.46	2.5%	-11.7%	14.2%
American Reprographics (NYSE: ARP)	2-Apr-10	9.00	8.73	-3.0%	-12.4%	9.4%
Techumsea (Nasdaq: TECUA)	13-Apr-10	13.04	11.12	-14.7%	-14.0%	-0.7%
AstroTech (Nasdaq: ASTC)	16-Apr-10	3.43	1.24	-63.8%	-13.8%	-50.0%
A. C. Moore Arts & Crafts (Nasdaq: ACMR)	23-Apr-10	4.07	2.27	-44.2%	-15.8%	-28.4%
Physicians Formula Holdings (Nasdaq: FACE)	1-May-10	3.04	3.26	7.2%	-14.6%	21.9%
Twin Disc (Nasdaq: TWIN)	7-May-10	12.53	11.36	-9.3%	-7.2%	-2.1%
CB Richard Ellis (NYSE: CBG)	19-May-10	15.12	13.61	-10.0%	-7.8%	-2.2%
DJSP Enterprises (Nasdaq: DJSP)	28-May-10	6.38	5.67	-11.1%	-5.9%	-5.2%
AOL (NYSE: AOL)	18-Jun-10	22.74	20.79	-8.6%	-8.0%	-0.6%
Vantage Drilling (Amex: VTG)	28-Jun-10	1.46	1.35	-7.5%	-4.2%	-3.3%
Broadvision (Nasdaq: BVSN)	28-Jun-10	12.05	11.90	-1.2%	-4.2%	3.0%
Tuesday Morning (Nasdaq: TUES)	30-Jun-10	3.99	3.99	0.0%	0.0%	0.0%
			Average	25.8%	5.5%	20.4%

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Best Idea Profile

AOL, Inc. (NYSE:AOL)

DESCRIPTION:

Headquartered in New York, AOL was spun off from Time Warner in December '09. Widely known for its dial-up internet business, over the years AOL has assembled a large portfolio of content and online advertising businesses and become a leading global web services company. AOL is currently undergoing a long-term restructuring to focus on its new strategic vision as a highly innovative provider of online content delivery and advertising services. AOL has a portfolio of businesses that collectively give it a leading footprint in the online content and advertising marketplace. As of Jan '10, AOL had the largest advertising network in the US in terms of online consumer reach. The size, scale and position of the AOL franchise gives it a strong platform from which to market new and existing services.

KEY INVESTMENT CONSIDERATIONS:

New Management - AOL has recently assembled a strong management team with a lot of depth in online media and advertising. CEO Tim Armstrong was previously the President of Americas Operations of Google. Mr. Armstrong joined Google in 2000 as VP Advertising Sales. CFO Arthur Minson previously served as EVP and Deputy CFO at Time Warner Cable. AOL has recently added a number of seasoned online media professionals, many of which are from Google.

(NYSE: AOL)

Investment Data (as of 6/18/10)

Recent Price	\$22.74
52-Week Range	29.45 - 19.61
Fiscal Year End	Dec
Shares Outstanding	106.7MM
Average Trading Volume (3 mos)	1.5MM
Market Capitalization	2.4B
Cash	260MM
Long Term Debt	70MM
Enterprise Value (EV)	2.2B
LT Debt/ Equity	0.02
BV/ Share	\$28.96
TTM Revenue	\$3B
P/ Revenue	0.74x
TTM EPS	\$1.89
P/ EPS	11x
TTM EBITDA	974 MM
EV/ EBITDA	2.3x

New Strategic Vision - In 2006, AOL changed its focus to attracting and engaging internet consumers and generating advertising revenues. The new management team has staked out a detailed plan to shrink the expense base, acquire and sell the appropriate companies and maximize AOL's broad digital media footprint. The first phase of this new plan (expense reduction) is nearly complete. AOL's first quarter operating expenses were down \$139 million from the prior year. AOL also exited from a number of unprofitable international markets and product offerings. AOL is now poised to enhance the consumer experience and scale the platform. AOL's new management team is rapidly moving on all fronts to create a highly competitive company in the digital media marketplace. The company has recently rolled out a sophisticated ad measurement tool (Ad tech) and an innovative integration for its users with Facebook. It's Lifestream messaging platform allows users to connect with Facebook, You Tube, Digg, Flickr and other sites. AOL also sold, or contracted to sell, Buy.ad and ICQ during 1Q. AOL recently acquired StudioNow and has made investments including Patch during 1Q. It appears that by the end of 2010 AOL will be a very different company with a more competitive and innovative platform.

Operational Reorganization - AOL has made significant progress in reorganizing its platform, product portfolio and sales force. The IT platform was upgraded from a system that was nearly 10 years old. AOL has also tested a new content management system, and realigned the sales force. AOL has stated that current revenue streams are being reduced due to the reorganization, and are not due to market conditions. The reorganization impact on revenue should last for at least two more quarters as they position the company for the future.

VALUATION:

AOL has \$123 million in cash from continuing operations and \$125 million in free cash flow during the most recent quarter. AOL has over \$262 million in cash on the balance sheet. At less than one times sales and an EV/EBITDA multiple of just over 2x, AOL is a cheap technology stock by anyone's standards. This is no doubt due to uncertainty of the new company's future. Most of the bad news appears to be out, and AOL may well be at, or near, a low point in terms of financial performance. The company could trade at substantially higher share prices later in 2010.

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Best Idea Profile

Broadvision, Inc. (NASDAQ:BVSN)

DESCRIPTION:

Headquartered in Redwood City, California; Broadvision is an innovative e-business solutions company. Broadvision delivers a combination of technologies and services that enable customers of all sizes to power mission-critical web initiatives. These initiatives deliver superior usability along with cost effectiveness to a clients bottom line. Broadvision offerings consist of toolsets that create e-commerce, portal solutions, and Enterprise Social Networks. The company has licensed its products to more than 500 companies - including Audible.com, Baker Hughes, BioRad Laboratories and BNP Paribas. Broadvision has been managing a downsizing trend for a number of years and is currently moving its research and development as well as its sales efforts to support cloud based hosted solutions.

KEY INVESTMENT CONSIDERATIONS:

New Product for Strategic Repositioning – The software industry is rapidly moving to the Software as a Service (SaaS) model in a Cloud hosted environment for many applications. This change has been detrimental to Broadvision and has helped to pressure the company's subscriber base, which is currently shrinking. In 2009, the company released its Clearvale Enterprise Social Network product. Though there is much more knowledge needed with regards to testing and implementation, the company finally has a new product with which to take advantage of a prevailing trend in its industry.

Industry Niche Experience – BroadVision has direct experience in delivering value added e-business solutions via its legacy products. This knowledge may translate into a new pipeline of cloud based hosted product offerings. Many of the company's applications are still deeply embedded in some of its client's infrastructures which may be helpful for new sales of Clearvale.

Open Architecture/Object Oriented – BroadVision solutions are built on object-oriented code written in J2EE programming environments. The open architecture allows quick deployment and easy integration with third-party or legacy applications. Object oriented computing is a specialized type of database that can meet the most rigorous requirements for scale and speed of operation.

Diversified Client Base – BVSN software is deployed in a variety of major industry groups, including financial services, government, healthcare, manufacturing, retail and telecommunications. The company has significant sales in North America, Europe and Asia/Pacific. Only one client accounted for over 10% of the company's business last year.

Lease Obligations Shrinking – The company dramatically downsized after FY2000, yet results continued to be negatively affected for years by large long-term lease obligations. Many of these have expired or been renegotiated. The company should now have less management distraction and lower losses related to this situation.

Strong Cash Position – Broadvision has \$62 million in cash, and had positive cash flow from operations in the most recent quarter.

VALUATION:

Broadvision is a classic contrarian deep value story. Right now the company has \$62.8 million in cash with a market cap of \$54 million. Hence the company trades at a 14% discount to the cash on the balance sheet and is at a deep discount book value. Investors have the unusual opportunity to buy cash at a discount and pick up the business at no cost.

(NASDAQ: BVSN)	
Investment Data (as of 6/28/10)	
Recent Price	\$11.95
52-Week Range	11.61 - 18.00
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	4.55MM
Average Trading Volume (3 mos)	5.3k
Market Capitalization	54MM
Cash	62MM
Long Term Debt	NA
Enterprise Value (EV)	(9.13)MM
LT Debt/ Equity	NA
BV/ Share	\$12.06
TTM Revenue	\$29MM
P/ Revenue	1.86x
TTM EPS	\$0.47
P/ EPS	25.48x
TTM EBITDA	868k
EV/ EBITDA	10.8x

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Best Idea Profile

Vantage Drilling (Amex: VTG)

DESCRIPTION:

Two-and-one-half-year-old Vantage Drilling provides offshore drilling services to oil and natural gas E&P companies. The company owns 4 jackups (drilling up to a depth of approx. 375 feet of water) and has 45% operating interest in ultra-deepwater drillship (drilling up to approx. 12,000 feet). The drillship is contracted for delivery in this year. VTG is also paid to manage the construction and eventual operations of two other drillships and two semi-submersibles (drilling up to approx. 10,000 feet), which are scheduled for completion in 2011 and 2012.

KEY INVESTMENT CONSIDERATIONS:

Deepwater (4,500 ft.+) rig market is very resilient

– Despite the economic downturn, deepwater rates have remained relatively unchanged at approximately \$500k/day and industry-wide utilization remains near 100%. It appears the demand for deepwater drillers will continue to exceed supply as national oil companies are eager to replace reserves. For example, oil revenues funded 38% of Mexico's government budget last year. With a 5% decrease in expected production during 2010, Mexico (and many other countries) must drill in deep water to replace reserves.

New rigs are more efficient and in greater demand

– With 73% of today's jackup fleet 25 years old or older, Vantage will be in good position with the youngest fleet in the industry. Not only are younger rigs in greater demand and can generate greater day rates, they also require lower maintenance costs. Less downtime for repairs also helps drives utilization, which is key in producing returns from a high fixed cost asset. In addition, older rigs are the first to be retired during a downturn, which reduces the chances the company's rigs will sit idle.

Betting on the Jockeys – Vantage came public as a

Special Purpose Acquisition Company (SPAC) and in so doing, assembled a very experienced management team, including Paul Bragg, who was CEO at Pride International (NYSE: PDE). While Pride's performance was lackluster under the last few years of his leadership and Bragg's departure was heated (Pride and Bragg are suing each other over the terms of his separation), his early efforts at that company helped build Pride from a small domestic land-based servicing company to one of the world's largest international drilling contractors. At Vantage, he has assembled a team of experienced professionals. The other 8 members of the senior management team have over 25 years of experience, including years spent at Pride, Transocean and other well-know drilling companies.

(Nasdaq: VTG)

Investment Data (as of 6/28/10)

Recent Price	\$1.46
52-Week Range	1.29 - 2.10
Fiscal Year End	December
Shares Outstanding	224 MM
Average Trading Volume (3 mos)	1.1 MM
Market Capitalization	220 MM
Cash	66 MM
Long Term Debt	250 MM
Enterprise Value (EV)	404 MM
LT Debt/ Equity	0.26
BV/ Share	5.90
TTM Revenue	47 MM
P/ Revenue	4.7x
TTM EPS	-0.56
P/ EPS	nmf
TTM EBITDA	2.3 MM
EV/ EBITDA	Nmf

VALUATION:

Over the last year, VTG has transitioned from a development stage company with no revenue, to a full operating company with revenue and earnings. The company's valuation should expand as revenue and earnings growth will be very rapid over the next couple of years. Using fairly conservative assumptions, the four jackups and participating interest in the drillship could generate more than \$300 million in annual revenue and \$150 million in EBITDA when fully utilized. With the drillship scheduled for delivery in 1Q 2011, full utilization could be as soon as 15 months from now. The company says its net asset value is \$3.53, which includes the four jackups, interest in the drillship, and discounted cash flows from construction and management contracts. If shares were to trade inline with the company's peers, the stock would be worth \$3.20.

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Best Idea Profile

Tuesday Morning Corporation (NASDAQ:TUES)

DESCRIPTION:

Headquartered in Dallas, Texas; Tuesday Morning Corp. is leading closeout retailer of upscale home furnishings, housewares, gifts and related items sold in the United States. The company operates 857 stores in 45 states, which are generally open seven days a week and focus on periodic "sales events," that occur in each month except January and July. Tuesday Morning purchases quality, brand name merchandise at closeout pricing and sells it at prices significantly below those generally charged by department stores and specialty and catalog retailers. The company's customer base is primarily women from middle to upper-income households who are brand savvy, value-conscious customers seeking quality products at discount pricing. Tuesday morning customers are generally attracted to its stores by advertising and direct, or electronic mail programs (instead of location) that emphasize the limited quantities of brand name merchandise. This merchandise is then offered at attractive prices. This sales model has allowed the company to open stores in secondary locations of major suburban markets such as strip malls, near middle and upper-income customers in a no frills format with favorable leasing terms.

KEY INVESTMENT CONSIDERATIONS:

Proven Franchise – TUES has a proven business model with a history of profitability. Other than a small loss in FY09, TUES has had years of profitability. Investors should note that the company actually paid dividends in the calendar years 2005, 2006 and 2007, which ranged from \$0.65 per share to \$0.80 per share. The value proposition for customers should make for a retail model more suited to an environment with slow economic growth than that of full price retailers.

Unique Event Based Format – TUES has a different marketing approach from other retailers that is not as location driven. Tuesday Morning employs a unique "event-based" selling strategy by creating consumer awareness from multiple "grand openings" and "closeout sales" each year. Merchandise is available in limited quantities and specific items are generally not replenished during a sales event, however stores continue to receive new merchandise throughout any sales events. Limited quantities of specific items intensify customers' sense of urgency to buy the company's merchandise. This leaves the company free to open stores in secondary locations with a minimum of leasehold improvements at low cost. Leases are also obtained on favorable lower-cost terms.

Store Reorganization – TUES is currently implementing a redeployment of its stores for more favorable results. During 3Q10 (March), the company opened three new stores, relocated thirteen and closed fourteen. These store redeployments should offer similar or increased sales and in some cases lower costs.

Improving Same Store Sales – The company is experiencing an upward trend in same store sales. The company reported that comparable same stores sales increased 1.6% in the MRQ, and 1% for the last nine months. These increases were offset by lower ticket prices, which may improve over time as industry wide inventories shrink with the economic recovery.

Strong Financial Position – Tuesday Morning has \$26.6 million in cash and no long-term debt. The company also has an asset-based, five-year senior secured revolving credit facility in the amount of up to \$180.0 million (amended) with provisions for increases. Third quarter results showed no outstanding amounts under the revolving credit facility, \$9.3 million of outstanding letters of credit and availability of \$112.9 million under the revolving credit facility.

VALUATION:

Based on a \$0.39 FY11 estimate, TUES has a forward multiple of 10. With the company's same store sales trending up and some significant store redeployments out of the way, TUES seems reasonable priced.

(NASDAQ: TUES)

Investment Data (as of 6/30/10)

Recent Price	\$3.99
52-Week Range	2.10 - 8.80
Fiscal Year End	Jun
Shares Outstanding	42.14MM
Average Trading Volume (3 mos)	681,769
Market Capitalization	168MM
Cash	27MM
Long Term Debt	NA
Enterprise Value (EV)	140MM
LT Debt/ Equity	NA
BV/ Share	\$5.83
TTM Revenue	\$816MM
P/ Revenue	0.2
TTM EPS	\$0.22
P/ EPS	18x
TTM EBITDA	31MM
EV/ EBITDA	4.5x

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