

Mossberg's Investor Digest

July 2010

Issue #25

From the Editor...

I've been thinking a lot about the uncertainty that has been overhanging the stock market over the past several months. Investors appear to be finding safe haven in fixed income securities, which has potentially caused a bubble and dried up liquidity in the stock market.

Fixed Income Bubble – According to the Investment Company Institute, cash flow into bond funds total \$375 billion last year and bond fund flows have remained robust so far this year. In comparison, bond-fund inflows were \$423 billion for the previous 10 years combined. With the massive flow of funds, treasury yields have decreased from 6.6% in the '90s to 4.4% during 2001-2008 to 3% today. If there is a bubble in the fixed income market, a lot of money will be lost in fixed income securities over the next several years, especially if there are higher rates of inflation.

Stock Market illiquidity concerns – VC's rely on a strong IPO market to garner a return on their investments. According to a recent survey of 1,000 VC firms, the outlook for IPOs is not good. In the survey, 62% of the executives indicated they were very worried about the uncertain return of exit markets, and the remaining 38% were "worried". Another recent study of market liquidity indicates that market volume is increasingly concentrating in the top 10% of all traded names, thus leaving the broad market less liquid and increasingly at risk of disruption.

Dividend Stocks – Dividend Stocks offer an attractive alternative to fixed income investments. They tend to outperform in inflationary environments and they also tend to be less volatile in uncertain environments such as we are experiencing now. Some good dividend stock ideas are Moody's (NYSE: MCO), H&R Block (NYSE: HRB), CPI Corp. (NYSE: CPY), and Mattel (Nasdaq: MAT).

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

Dave Mossberg

July 2010 Issue

Manitex International, Inc. (Nasdaq: MNTX) - \$1.98, July 9, 2010, Page 3 – Manitex Intl. is a leading provider of boom trucks, sign cranes, rough terrain cranes and material handling products. MNTX trades at an EPS multiple of 16.5x FY10 analysts' estimates. This relatively high multiple is representative of a cyclical industry just coming out of a recessionary trough. However, the stock is only 7.6x FY11 estimates. The company has recently demonstrated an uptick in sales off a leaner cost base. Fundamental earnings growth could be a catalyst for price appreciation in this stock.

S1 Corporation (NASDAQ: SONE) - \$5.88, July 16, 2010, Page 4 – S1 Corporation is a leading global provider of payment and financial services software. As a premier product provider in the sector with strong growth, S1 could command premium valuation. With a \$0.40 estimate for FY10, S1 has a P/E of 15x. Fundamental growth and a consolidation premium could lead to an expanding P/E multiple along with an improving bottom line.

Duoyuan Printing, Inc. (NYSE: DYP) – \$8.14, July 27, 2010, Page 5 – Duoyuan Printing, Inc. is a leading Chinese offset printing equipment supplier. China is the 3rd largest printing market in the world behind the US and Japan. China's printing equipment market grew from approximately \$0.9 billion in 2002 to approximately \$2.5 billion in 2007, representing a CAGR of 23%.

Moody's Corporation (NYSE: MCO) – \$23.55, July 31, 2010, Page 6 – MCO is a dominant and enduring franchise. MCO provides debt ratings around the globe in more than 110 countries and has relationships with nearly 12,000 corporate and 25,000 public finance issuers. MCO monitors nearly 106,000 structured finance obligations and has research analytics relationships with 29,000 clients. These services cannot easily be replicated or replaced by the market. MCO's size and industry reputation are a barrier to entry for new players in the market. Current analysts EPS estimates on Moody's call for \$1.82 and \$2.06 for FY2010 and FY2011. Based on these estimates the company seems cheaply priced for a dominant franchise with a stable dividend and an improving outlook.

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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		Recent		Russell 3000 Change	Relative Perf. vs	
		Price	Price	Change	Since Pub Date	Russell 3000		
I2 Technologies (Nasdaq: ITWO)	9-Jan-09	6.49	20.00	208.2%	23.5%	184.7%		
Cornell Companies (NYSE: CRN)	23-Jan-09	14.67	27.93	90.4%	35.4%	55.0%		
Brinks Home Sec. (NYSE: CFL)	28-Jan-09	22.46	42.50	89.2%	28.7%	60.5%		
SmartPros (Nasdaq: SPRO)	29-Jan-09	2.65	2.55	-3.8%	33.3%	-37.0%		
Diana Shipping (NYSE: DSX)	17-Feb-09	13.81	13.22	-4.3%	42.2%	-46.5%		
DG FastChannel (Nasdaq: DGIT)	20-Feb-09	15.84	38.13	140.7%	46.0%	94.7%		
SAVVIS (Nasdaq: SVVS)	25-Feb-09	5.79	17.63	204.5%	47.2%	157.3%		
Anika Therapeutics (Nasdaq: ANIK)	28-Feb-09	3.42	5.9	72.5%	52.8%	19.7%		
World Acceptance (Nasdaq: WRLD)	13-Mar-09	14.08	41.43	194.2%	48.8%	145.5%		
Integrated Silicon (Nasdaq: ISSI)	20-Mar-09	1.55	8.6	454.8%	46.4%	408.4%		
Intevac (Nasdaq: IVAC)	23-Mar-09	5.34	11	106.0%	37.8%	68.2%		
Carriage Services (NYSE: CSV)	30-Mar-09	1.50	4.66	210.7%	42.7%	167.9%		
Pure Technologies (TSX: PUR)	14-Apr-09	3.26	4.43	35.9%	33.1%	2.8%		
RadioShack (NYSE: RSH)	20-Apr-09	9.68	21.54	122.5%	34.5%	88.1%		
Evolution Petroleum (Amex: EPM)	24-Apr-09	2.68	5.65	110.8%	28.8%	82.0%		
ePlus (Nasdaq: PLUS)	29-Apr-09	12.00	17.91	49.3%	27.5%	21.8%		
Signet Jewellers (NYSE: SIG)	11-May-09	17.76	29.77	67.6%	22.7%	44.9%		
Smart Balance (Nasdaq: SMBL)	15-May-09	7.71	3.82	-50.5%	26.8%	-77.2%		
Virtus (Nasdaq: VRTS)	22-May-09	15.15	25.8	70.3%	26.0%	44.3%		
China 3C (OTCBB: CHCG.OB)	31-May-09	1.08	0.26	-75.9%	21.4%	-97.4%		
Virtusa (Nasdaq: VRTU)	16-Jun-09	7.26	10.66	46.8%	22.4%	24.4%		
MedQuist (Nasdaq: MEDQ)	18-Jun-09	3.84	8.64	125.0%	21.5%	103.5%		
GameStop (NYSE: GME)	26-Jun-09	22.17	20.05	-9.6%	21.3%	-30.8%		
CPI Corp (NYSE: CPY)	29-Jun-09	16.07	24.84	54.6%	20.3%	34.3%		
Mattel (NYSE: MAT)	10-Jul-09	15.19	21.16	39.3%	26.6%	12.7%		
Novavax (Nasdaq: NVAX)	17-Jul-09	3.04	2.23	-26.6%	18.6%	-45.2%		
ABB (NYSE: ABB)	20-Jul-09	15.91	20.18	26.8%	18.6%	8.3%		
Teva Pharma (Nasdaq: TEVA)	21-Jul-09	48.94	48.85	-0.2%	17.1%	-17.3%		
Palm Harbor Homes (Nasdaq: PHHM)	11-Aug-09	2.73	2.25	-17.6%	11.7%	-29.2%		
Adaptac (Nasdaq: ADPT)	25-Aug-09	3.02	3.05	1.0%	8.1%	-7.1%		
TierOne Corp. (Nasdaq: TONE)	31-Aug-09	2.38	0.02	-99.2%	8.0%	-107.2%		
Dover Motorsports (NYSE: DVD)	31-Aug-09	1.49	1.61	8.1%	8.0%	0.1%		
Graphic Packaging (NYSE: GPK)	18-Sep-09	2.29	3.5	52.8%	3.5%	49.3%		
White Electronic Designs (Nasdaq: WEDC)	21-Sep-09	4.52	7.00	54.9%	3.9%	51.0%		
John B Sanfilippo & Son (Nasdaq: JBSS)	30-Sep-09	11.92	14.04	17.8%	4.8%	13.0%		
Hastings Entertainment (Nasdaq: HAST)	30-Sep-09	4.19	7.25	73.0%	4.8%	68.3%		
TurboSonic Technologies (OTCBB: TSTA)	13-Oct-09	1.20	0.34	-71.7%	2.9%	-74.6%		
Verisk Analytics (Nasdaq: VRSK)	23-Oct-09	28.37	29.69	4.7%	2.9%	1.8%		
Iconix Brand Group (Nasdaq: ICON)	30-Oct-09	11.66	16.46	41.2%	7.6%	33.5%		
FTI Consulting (NYSE: FCN)	30-Oct-09	40.81	35.35	-13.4%	7.6%	-21.0%		
Vimicro (Nasdaq: VIMC)	19-Nov-09	4.18	4.49	7.4%	2.0%	5.4%		
Haynes International (Nasdaq: HAYN)	19-Nov-09	26.51	33.66	27.0%	2.0%	25.0%		
TomoTherapy (Nasdaq: TOMO)	27-Nov-09	3.16	3.33	5.4%	2.5%	2.9%		
Abraxas Petroleum (Nasdaq: AXAS)	27-Nov-09	1.99	2.95	48.2%	2.5%	45.8%		
Aeropostale (NYSE: ARO)	18-Dec-09	21.60	28.43	31.6%	0.7%	30.9%		
Alamo Group (NYSE: ALG)	19-Dec-09	15.59	23.43	50.3%	0.7%	49.6%		
inContact (Nasdaq: SAAS)	22-Dec-09	2.73	2.26	-17.2%	-0.8%	-16.4%		
Speedway Motorsports (NYSE: TRK)	24-Dec-09	17.49	13.72	-21.6%	-1.7%	-19.9%		
AspenBio Pharma (Nasdaq: APPY)	22-Jan-10	2.20	0.66	-70.0%	1.3%	-71.3%		
MarineMax (NYSE: HZO)	27-Jan-10	9.53	7.6	-20.3%	0.9%	-21.1%		
Cano Petroleum (Amex: CFW)	27-Jan-10	0.87	0.64	-26.4%	0.9%	-27.3%		
Yuchai International Limited (NYSE: CYD)	31-Jan-10	13.40	18.05	34.7%	3.2%	31.5%		
Geo Group (NYSE: GEO)	12-Feb-10	19.34	21.58	11.6%	2.8%	8.8%		
Rambus (Nasdaq: RMBS)	19-Feb-10	22.45	19.65	-12.5%	-0.4%	-12.1%		
Belo Corporation (NYSE: BLC)	26-Feb-10	6.73	6.05	-10.1%	0.1%	-10.2%		
America Service Group (Nasdaq: ASGR)	26-Feb-10	14.96	17.64	17.9%	0.1%	17.8%		
Dyanamex (Nasdaq: DDMX)	8-Mar-10	15.50	13.46	-13.2%	-3.2%	-9.9%		
Innerworkings (Nasdaq: INWK)	12-Mar-10	5.30	6.92	30.6%	-4.3%	34.9%		
Wet Seal (Nasdaq: WTSLA)	22-Mar-10	4.60	3.38	-26.5%	-5.5%	-21.0%		
Heelys (Nasdaq: HLYS)	24-Mar-10	2.40	2.71	12.9%	-5.7%	18.6%		
American Reprographics (NYSE: ARP)	2-Apr-10	9.00	8.9	-1.1%	-6.4%	5.3%		
Techumsea (Nasdaq: TECUA)	13-Apr-10	13.04	12.94	-0.8%	-8.2%	7.4%		
AstroTech (Nasdaq: ASTC)	16-Apr-10	3.43	1.58	-53.9%	-7.9%	-46.0%		
A. C. Moore Arts & Crafts (Nasdaq: ACMR)	23-Apr-10	4.07	2.46	-39.6%	-10.0%	-29.5%		
Physicians Formula Holdings (Nasdaq: FACE)	1-May-10	3.04	3.7	21.7%	-8.8%	30.5%		
Twin Disc (Nasdaq: TWIN)	7-May-10	12.53	12.92	3.1%	-0.9%	4.0%		
CB Richard Ellis (NYSE:CBG)	19-May-10	15.12	17	12.4%	-1.5%	14.0%		
DJSP Enterprises (Nasdaq:DJSP)	28-May-10	6.38	3.73	-41.5%	0.5%	-42.1%		
AOL (NYSE: AOL)	18-Jun-10	22.74	20.92	-8.0%	-1.7%	-6.3%		
Vantage Drilling (Amex: VTG)	28-Jun-10	1.46	1.33	-8.9%	2.3%	-11.2%		
Broadvision (Nasdaq: BVSN)	28-Jun-10	12.05	10.83	-10.1%	2.3%	-12.5%		
Tuesday Morning (Nasdaq: TUES)	30-Jun-10	3.99	4.36	9.3%	6.8%	2.5%		
Manitex International, Inc (Nasdaq: MNTX)	9-Jul-10	1.98	2.09	5.6%	2.3%	3.3%		
S1 Corporation (NASDAQ: SONE)	16-Jul-10	5.88	5.87	-0.2%	3.9%	-4.1%		
Duoyuan Printing, Inc age (NYSE: DYP)	27-Jul-10	8.14	8.31	2.1%	-1.2%	3.3%		
Moody's Corporation (NYSE: MCO)	31-Jul-10	23.55	23.55	0.0%	0.0%	0.0%		
Average						30.9%	12.0%	18.9%

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Best Idea Profile

Manitex International, Inc. (NASDAQ:MNTX)

DESCRIPTION:

Headquartered in Dallas, Texas; Manitex International is a leading provider of engineered lifting solutions. The Manitex subsidiary markets a comprehensive line of boom trucks and sign cranes. MNTX's boom trucks and crane products are primarily used for industrial projects, energy exploration and infrastructure development. Badger Equip Company, acquired Jul '09, manufactures specialized rough terrain cranes and material handling products. Badger primarily serves the needs of the construction, municipality, and railroad industries. In Dec '09 the company's subsidiary, Manitex Load King, acquired the operating assets of Load King Trailers, a South Dakota-based manufacturer of specialized custom trailers and hauling systems used for transporting heavy equipment. Load King Trailers serves niche markets in the commercial construction, railroad, military, and equipment rental industries through a dealer network.

KEY INVESTMENT CONSIDERATIONS:

Successful Repositioning – In 2006 Manitex made a strategic decision to exit the testing & assembly equipment segment in order to focus managerial and financial resources on the company's lifting equipment segment. Since that time, Manitex has improved profitability and been able to use the recession to its advantage to make strategic acquisitions on favorable terms. These acquisitions include: GT Distribution, Schaeff Lift Truck, Crane & Machinery, Badger Equipment Company, and Load King Trailers. These acquisitions have resulted in a larger and more diversified company which can better compete in the lifting solutions market.

Proven Strategic Focus and Profitability – Manitex has been successful in both changing strategic direction and reducing costs to meet a recessionary environment. Since changing strategic focus in 2006, MNTX has maintained a positive bottom line. This was a particularly strong achievement in FY08 when the company's sales fell below previous recessionary levels.

Benefitting from a diverse client base – MNTX had net revenues of \$22.0 million in 1Q10, a 56% increase over the 1Q09. Approximately half of the increase is attributable to the acquisitions of Badger and Load King in 3Q09 and 4Q09. The remaining half of the increase resulted from strong demand for material handling products from military and international customers. These increases were partially offset by other segments of the business.

Replacement Cycle – The Replacement cycle on boom trucks is typically 7 years. With lower than typical recessionary sales in recent years, Manitex should be in front of some pent up demand as it's customers heavy equipment simply wears out.

Adequate Capital base – The Company has both a U.S. and Canadian revolving credit facility, with a maturity date of April 1, 2012. At March 31, 2010 the Company had approximately \$3.3 million available to borrow under its credit facilities. With over \$14 million in trade receivables this base should be adequate for the foreseeable future.

Strong Recent Results – Manitex reported strong results for 1Q10. The company earned \$0.03 per share vs. \$0.01 for 1Q09. Gross margin increased 210 basis points on a year-over-year basis.

VALUATION:

Manitex trades at an earnings multiple of 16.5x FY2010 analysts' estimates. This relatively high multiple is representative of a cyclical industry just coming out of a recessionary trough. However, the stock is only 7.6x FY11 estimates. The company has recently demonstrated an uptick in sales off a leaner cost base. Fundamental earnings growth could be a catalyst for price appreciation in this stock.

(NASDAQ: MNTX)

Investment Data (as of 7/9/10)

Recent Price	\$1.98
52-Week Range	0.65 - 3.01
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	11.37MM
Average Trading Volume (3 mos)	26,000
Market Capitalization	\$23mm
Cash	455k
Long Term Debt	\$35MM
Enterprise Value (EV)	57MM
LT Debt/ Equity	.85
BV/ Share	\$3.63
TTM Revenue	\$64MM
P/ Revenue	0.4x
TTM EPS	\$0.35
P/ EPS (TTM)	6x
TTM EBITDA	3MM
EV/ EBITDA	19x

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Best Idea Profile

S1 Corporation (NASDAQ:SONE)

DESCRIPTION:

Headquartered in Norcross, Georgia; S1 Corporation is a leading global provider of payment and financial services software. SONE offers payment solutions for ATM, point-of-sale, card management and financial services solutions. S1 products include services for consumers, small businesses, banks, credit unions, retailers and transaction processors. S1 recently acquired PM Systems Corporation, a company that provides internet banking, bill payment and security services to credit unions. The company's long-term goal is to become a leading global provider of payments and financial services software solutions by coupling innovative products with the ability to provide large, complex enterprise-wide solutions for its clients.

KEY INVESTMENT CONSIDERATIONS:

Strong Growth Markets - All three of the company's operating segments: Payments, Large Financial Institutions (Banking) and Community Financial Institutions (Banking) are growth markets and high margin businesses. The company estimates that the Payments business alone has an addressable market estimated at \$1 billion.

Business Drivers - There are a number of factors driving S1 business including new technology, the need for more secure transactions and the replacement cycle for legacy and disparate systems. These factors have resulted in both a robust replacement market and a trend toward outsourcing.

Future Growth and Improved Results - S1 reported 1Q10 revenue of \$51MM vs. \$58MM a year ago and a \$0.02 loss vs. a \$0.16 profit. These results were impacted by declining custom FI business, and a shift in revenue where more revenue is recognized under percentage of completion accounting. Investors should note that increased activity in large multi-year contracts (which requires percentage of completion accounting) is a positive development for the company. While it makes revenue comparisons difficult, these large multi-year contracts ultimately create longer term recurring revenue and added visibility.

Business Unit Turnarounds - The Large Financial Institutions business (Excluding the Custom Project Business) is in the latter stages of an operational turnaround. Also, the Community Banking Group has a new and highly competitive product with 40 migration projects currently occurring.

Proven Management - In FY06, the adjusted EBITDA loss was \$17MM on \$144MM in revenue. New management came on 3 years ago and delivered several years of growth in both revenue and EBITDA. For FY09, SONE reported \$26MM in adjusted EBITDA on \$187MM in rev. Also, S1 has achieved these results while investing in, and creating new products. Furthermore, new management has achieved a credible dialogue with investors while former management routinely missed operating expectations.

Diversified Revenue Base - S1's rev base (excluding State Farm and Custom Projects) is balanced between three operating units with Banking/Community FI at 30%, Payments at 32% and Banking/Large FI at 38%.

VALUATION:

The online banking software sector is ripe for consolidation. A number of companies with consumer banking applications have already been picked up by some core processors, but are still operating on a stand alone basis. As a premier product provider in the sector with strong growth, S1 could command premium valuation. With a \$0.40 estimate for FY10, S1 has a P/E of 15x. Fundamental growth and a consolidation premium could lead to an expanding P/E multiple along with an improving bottom line.

(NASDAQ: SONE)

Investment Data (as of 7/16/10)

Recent Price	\$5.88
52-Week Range	5.45 - 7.43
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	51.78MM
Average Trading Volume (3 mos)	403,150
Market Capitalization	304MM
Cash	50MM
Long Term Debt	6MM
Enterprise Value (EV)	260MM
LT Debt/ Equity	0.2
BV/ Share	\$4.40
TTM Revenue	\$232MM
P/ Revenue	1.3x
TTM EPS	\$0.37
P/ EPS	16x
TTM EBITDA	34MM
EV/ EBITDA	7.6x

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Best Idea Profile

Duoyuan Printing, Inc. (NASDAQ:DYP)

DESCRIPTION:

Headquartered in Beijing; Duoyuan Printing, Inc. is a leading Chinese offset printing equipment supplier. DYP manufactures one product under the pre-press product category (a computer-to-plate system, or CTP system) and fifteen products across four product lines under the press product category (single color small format presses, single color large format presses, multicolor small format presses and multicolor large format presses). The company plans to begin commercial production and sale of certain post-press products, including a cold-set corrugated paper machine, which makes corrugated cardboard paper, by the end of 2010. DYP also plans to begin commercial production and sale of two other post-press products, namely an automatic booklet maker and an automatic paper cutter in 2011. Duoyuan seeks to combine a robust research and development program with low-cost Chinese manufacturing operations for a distinct competitive advantage in international markets in addition to its domestic market position. Currently all of the company's revenues are generated from customers headquartered in the PRC.

KEY INVESTMENT CONSIDERATIONS:

Rapidly Expanding Market – China currently has the fastest growing printing industry in the world. The demand for publication printing needs including newspapers, magazines and books, commercial printing and corporate brochures have increased dramatically. Pira International reports that China is the 3rd largest printing market in the world behind the US and Japan. China's printing equipment market grew from approximately \$0.9 billion in 2002 to approximately \$2.5 billion in 2007, according to the Printing and Printing Equipment Industries Association of China. This growth represents a CAGR of 23%. DYP's target domestic market includes nearly 100,000 licensed printing companies and institutions which are seeking to upgrade to multicolor printing and meeting rising demand. Additionally, DYP feels that it is well positioned to compete in emerging markets.

Leading Market Franchise – Duoyuan is a top three printing equipment manufacturer in the Chinese market. DYP has a large product portfolio and is a turnkey provider for printing equipment needs in its niche. DYP also has built a large and effective distribution network that includes over 85 distributors located in over 65 cities and 28 provinces in China. 75% of the DYP's distributors have been with the company for more than 5 years.

New Market Segment Coming Online – DYP is expanding into the fast growing packaging market segment. DYP is launching a corrugated paper machine using cold set glueing technology. This is a potentially disruptive product due the inherent production efficiencies that this product represents. Packaging represents the fastest growing segment of China's printing industry with \$20 billion in output (2007) representing 32% of the country's print output. With a CAGR of 14% a year from 2003 through 2007, this segment should continue to expand with China's overall economic growth. The rollout of the new product is expected to begin in the latter half of CY10.

Proven Results – DYP has had dynamic growth and strong results in recent years. From FY05 to FY09 the revenue grew from \$26MM to \$107MM for a CAGR of over 41%. DYP grew EPS over the same period from \$0.21 to \$1.30. Cash also expanded during this period from \$294,000 to \$31MM. These results are particularly of note for a company that works in a capital intensive business with an active R&D program.

VALUATION:

DYP has an English speaking CEO and CFO, an unusual investor relations plus for a Chinese company. Analysts estimates for FY11 call for an 18% increase in revenues, \$62MM in cash flow, and \$1.32 EPS. For a company with \$5 per share in working capital and no long-term debt, a forward P/E of just over 6x FY11 EPS represents an unusually compelling value.

(NYSE:DYP)

Investment Data (as of 7/27/10)

Recent Price	\$8.14
52-Week Range	6.61 - 11.23
Fiscal Year End	June
Shares Outstanding	30.6MM
Average Trading Volume (3 mos)	125,000
Market Capitalization	249MM
Cash	91MM
Long Term Debt	0
Enterprise Value (EV)	158MM
LT Debt/ Equity	NA
BV/ Share	\$6.32
TTM Revenue	\$125MM
P/ Revenue	2x
TTM EPS	\$0.93
P/ EPS	8.8x
TTM EBITDA	46MM
EV/ EBITDA	3.4x

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Best Idea Profile

Moody's Corporation (NYSE: MCO)

DESCRIPTION:

Moody's is a leading provider of credit rating services, economic related research, risk management software, quantitative credit risk measures and credit portfolio management solutions. MCO currently reports in two segments: MIS and Moody's Analytics. MIS, the credit rating agency, publishes credit ratings on a wide range of debt obligations and the entities that issue such obligations in markets worldwide, including various corporate and governmental obligations, structured finance securities and commercial paper programs. Revenue is derived from the originators and issuers of such transactions who use MIS ratings to support the distribution of their debt issues to investors. The MA segment develops a wide range of products and services that support the risk management activities of institutional participants in global financial markets. MA distributes investor-oriented research and data developed by MIS as part of its ratings process, including in-depth research on major debt issuers, industry studies, commentary on topical credit related events, economic research and credit data along with analytical tools. MA customers represent more than 4,800 institutions worldwide operating in approximately 115 countries.

KEY INVESTMENT CONSIDERATIONS:

A Dominant Franchise with high barriers to entry – MCO is a dominant and enduring franchise. MCO provides debt ratings around the globe in more than 110 countries and has relationships with nearly 12,000 corporate and 25,000 public finance issuers. MCO monitors nearly 106,000 structured finance obligations and has research analytics relationships with 29,000 clients. These services cannot easily be replicated or replaced by the market. MCO's size and industry reputation are a barrier to entry for new players in the market. Also, many of Moody's clients would not welcome the confusion that new players would bring to the financial markets with additional ratings and standards. Past competitors have not done well or established strong long-term competition to MCO.

Market Misperception - Moody's has an accepted and established track record in bond ratings. Investors have recently become concerned about the impact of the financial and credit crisis on rating agencies. Moody's ratings and services have long been respected in its industry. The company's problems are mainly confined to just one line of the business, Collateralized Debt Obligations (CDO's) with respect to mortgage related securities and derivatives.

Restructuring Complete – In 1Q09 MCO approved a plan to reduce costs in response to weak global economic and market conditions. The 2009 plan primarily consisted of headcount reductions of approximately 150 positions, or 4% of the workforce and the closing of some offices. The 2009 Restructuring Plan was substantially complete by September 30, 2009.

Strong Business Model - The company's business model produces strong operating margins. Moody's currently has an operating margin in the 40% range which it has exceeded in the past. The company continued to produce strong results in 2Q10. Moody's quarterly revenue was \$477.8 million, an increase of 6% on a year-over-year basis. Operating income was \$190.5 million or up 2% over the same period. When excluding legacy taxes and restructuring items the company's earnings per share was \$0.49 which represented a 14% per cent year-over-year increase.

VALUATION:

Current analysts EPS estimates on Moody's call for \$1.82 and \$2.06 for FY2010 and FY2011. Based on these estimates the company seems cheaply priced for a dominant franchise with a stable dividend and an improving outlook.

(NYSE: MCO)

Investment Data (as of 7/30/10)

Recent Price	\$23.55
52-Week Range	18.50 - 31.04
Fiscal Year End	December
Dividend	\$0.42
Yield	1.8%
Shares Outstanding	237MM
Average Trading Volume (3 mos)	4.4MM
Market Capitalization	\$5.5B
Cash	\$504MM
Long Term Debt	\$743MM
Enterprise Value (EV)	\$6.2B
LT Debt/ Equity	NA
BV/ Share	NA
TTM Revenue	\$1.85B
P/ Revenue	3x
TTM EPS	\$1.78
P/ EPS	13.2x
TTM EBITDA	\$805MM
EV/ EBITDA	7.7x

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