

# Mossberg's Investor Digest

August 2010

Issue #26

## From the Editor...

As I wrote in last month's letter, there has been a lot of uncertainty about the economy and the stock market lately. John Chambers, CEO of Cisco, said in his earnings call a couple weeks ago, there has been an "unusual level of customer uncertainty" when describing a drop off in sales in the last few months and lowered expectations for growth.

Based on the conversations I've had with investors this month, it is hard to find someone with a positive outlook regarding the market. Here are a couple of anecdotes.

**Equity Fund withdrawals** – \$51 billion has been withdrawn from U.S. stock funds this year, according to EPFR Global. In its latest weekly reporting period, EPFR says that U.S. equity funds surrendered \$5.4 billion. By comparison, bond funds tracked by EPFR had inflows of \$258 billion.

**401k Withdrawals** – According to Fidelity, a record number of workers made hardship withdrawals from their retirement accounts and the number of workers borrowing from their accounts reached a 10-year high.

**Fixed Income Bubble** – I am about to refinance my house at 4.25% for 30 years...unbelievable! So many investors are seeking safe haven in the bond market, they are driving bond yields to what has to be unsustainable levels. For example, Norfolk Southern is issuing 100-year bonds at 6%.

In my contrarian point of view, these are the types of data points that typically happen at the bottom of the market. While the market could go lower from here, I think it is time to start sharpening your pencil.

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

Dave Mossberg

## August 2010 Issue

**Reddy Ice Holdings (NYSE: FRZ) - \$2.91, August 7, 2010, Page 3** – Shares of Reddy Ice have just experienced a drop due to a decline in profits for the second quarter of FY10. Yet the company experienced both revenue growth and progress on its efficiency initiatives. The current valuation of the stock is also being depressed by unresolved DOJ issued involving the prepackaged ice industry. As these issues are resolved, and the company continues to improve its operations, patient investors should be rewarded with growth in earnings and the valuation multiple.

**Faro Technologies Corporation (NASDAQ: FARO) - \$18.83, August 16, 2010, Page 4** – Manufacturers are keen on getting quick ROI in the current economic environment and FARO's tools reduce costs of scrap and rework in the manufacturing process. A \$20,000 to \$120,000 measurement tool from Faro can have a 5 to 6 month payback for customers... a compelling value proposition. When Faro's large \$107 million cash balance is subtracted from its market capitalization the company has a PE ratio of just 10.3x.

**Blue Phoenix Solutions (Nasdaq: BPHX) – \$1.45, August 18, 2010, Page 5** – IT infrastructures have evolved from mainframes, to client servers to internet applications over the last 40 years. Since the capital costs were so large and some of the applications were mission critical, many systems were not replaced. This has led to a situation where many disparate systems are layered on top of one another, even when they were not intended for that purpose. This problem is known in the industry as "The legacy dilemma". Blue Phoenix solves this problem.

**Apache Corporation (NYSE:APA) – \$89.96, August 27, 2010, Page 6** – Apache is a proven E&P company that has increased reserves 22 out of the last 24 years and increased production 29 out of the past 31 years. Also, the company has a history of being able to buy properties from the major oil companies and adding value to underworked assets. The development of additional opportunities from the recent purchase of a portion of BP's assets, along with strong long-term trends for may bode well for this proven diversified energy producer.

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

# Mossberg's Investor Digest

## 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%	19.2%	188.9%
Cornell Companies (NYSE: CRN)	23-Jan-09	14.67	35.00	138.6%	30.7%	107.9%
Brinks Home Security (NYSE: CFL)	28-Jan-09	22.46	42.50	89.2%	24.3%	64.9%
SmartPros (Nasdaq: SPRO)	29-Jan-09	2.65	2.32	-12.5%	28.7%	-41.1%
Diana Shipping (NYSE: DSX)	17-Feb-09	13.81	12.00	-13.1%	37.3%	-50.4%
DG FastChannel (Nasdaq: DGIT)	20-Feb-09	15.84	24.54	54.9%	41.0%	13.9%
SAVVIS (Nasdaq: SVVS)	25-Feb-09	5.79	18.07	212.1%	42.1%	170.0%
Anika Therapeutics (Nasdaq: ANIK)	28-Feb-09	3.42	5.04	47.4%	47.6%	-0.2%
World Acceptance (Nasdaq: WRLD)	13-Mar-09	14.08	40.16	185.2%	43.6%	141.6%
Integrated Silicon Solution (Nasdaq: ISSI)	20-Mar-09	1.55	7.36	374.8%	41.4%	333.4%
Intevac (Nasdaq: IVAC)	23-Mar-09	5.34	9.81	83.7%	33.0%	50.7%
Carriage Services (NYSE: CSV)	30-Mar-09	1.50	4.57	204.7%	37.8%	166.9%
Pure Technologies (TSX: PUR)	14-Apr-09	3.26	4.34	33.1%	28.5%	4.6%
RadioShack (NYSE: RSH)	20-Apr-09	9.55	18.70	95.8%	29.8%	66.0%
Evolution Petroleum (Amex: EPM)	24-Apr-09	2.68	4.53	69.0%	24.4%	44.6%
ePlus (Nasdaq: PLUS)	29-Apr-09	12.00	18.08	50.7%	23.1%	27.6%
Signet Jewellers (NYSE: SIG)	11-May-09	17.76	28.62	61.1%	18.5%	42.7%
Smart Balance (Nasdaq: SMLB)	15-May-09	7.71	3.84	-50.2%	22.4%	-72.6%
Virtus (Nasdaq: VRTS)	22-May-09	15.15	27.01	78.3%	21.7%	56.6%
China 3C (OTCBB: CHCG.OB)	31-May-09	1.08	0.25	-76.9%	17.3%	-94.1%
Virtusa (Nasdaq: VRTU)	16-Jun-09	7.26	9.00	24.0%	18.2%	5.8%
MedQuist (Nasdaq: MEDQ)	18-Jun-09	4.34	7.56	74.2%	17.3%	56.9%
GameStop (NYSE: GME)	26-Jun-09	22.17	18.33	-17.3%	17.1%	-34.4%
CPI Corp (NYSE: CPY)	29-Jun-09	15.93	20.20	26.8%	16.2%	10.6%
Mattel (NYSE: MAT)	10-Jul-09	14.63	21.27	45.4%	22.2%	23.2%
Novavax (Nasdaq: NVAX)	17-Jul-09	3.04	2.08	-31.6%	14.5%	-46.1%
ABB (NYSE: ABB)	20-Jul-09	15.89	19.30	21.5%	14.5%	7.0%
Teva Pharmaceutical (Nasdaq: TEVA)	21-Jul-09	48.78	50.35	3.2%	13.1%	-9.9%
Palm Harbor Holmes (Nasdaq: PHHM)	11-Aug-09	2.73	1.69	-38.1%	7.8%	-45.9%
Adapteco	25-Aug-09	3.02	2.91	-3.6%	4.4%	-8.0%
TierOne Corp. (Nasdaq: TONEQ.PK)	31-Aug-09	1.20	0.32	-73.8%	4.3%	-78.0%
Dover Motorsports (NYSE: DVD)	31-Aug-09	1.49	1.73	16.1%	4.3%	11.8%
Graphic Packaging (NYSE: GPK)	18-Sep-09	2.29	3.22	40.6%	0.0%	40.6%
White Electronic Designs (Nasdaq: WEDC)	21-Sep-09	4.52	7.00	54.9%	0.3%	54.6%
John B Sanfilippo & Son (Nasdaq: JBSS)	30-Sep-09	11.92	12.51	4.9%	1.2%	3.8%
Hastings Entertainment (Nasdaq: HAST)	30-Sep-09	4.19	7.38	76.1%	1.2%	75.0%
TurboSonic Technologies (OTCBB: TSTA.OB)	13-Oct-09	1.20	0.32	-73.8%	-0.6%	-73.1%
Verisk Analytics (Nasdaq: VRSK)	23-Oct-09	28.37	27.92	-1.6%	-0.7%	-0.9%
Iconix Brand Group (Nasdaq: ICON)	30-Oct-09	11.66	15.56	33.4%	3.9%	29.5%
FTI Consulting (NYSE: FCN)	30-Oct-09	40.81	33.37	-18.2%	3.9%	-22.2%
Vimicro (Nasdaq: VIMC)	19-Nov-09	4.18	3.46	-17.2%	-1.5%	-15.7%
Haynes International (Nasdaq: HAYN)	19-Nov-09	25.96	30.11	16.0%	-1.5%	17.5%
TomoTherapy (Nasdaq: TOMO)	27-Nov-09	3.16	3.40	7.6%	-1.1%	8.7%
Abraxas Petroleum (Nasdaq: AXAS)	27-Nov-09	1.99	2.50	25.6%	-1.1%	26.7%
Aeropostale (NYSE: ARO)	18-Dec-09	21.60	22.79	5.5%	-2.8%	8.3%
Alamo Group (NYSE: ALG)	19-Dec-09	15.45	20.62	33.5%	-2.8%	36.2%
inContact (Nasdaq: SAAS)	22-Dec-09	2.73	2.24	-17.9%	-4.2%	-13.7%
Speedway Motorsports (NYSE: TRK)	24-Dec-09	17.28	13.33	-22.9%	-5.1%	-17.8%
AspenBio Pharma (Nasdaq: APFY)	22-Jan-10	2.20	0.60	-72.7%	-2.1%	-70.6%
MarineMax (NYSE: HZO)	27-Jan-10	9.53	6.78	-28.9%	-2.6%	-26.3%
Cano Petroleum (Amex: CFW)	27-Jan-10	0.87	0.83	-4.6%	-2.6%	-2.0%
Yuchai International Limited (NYSE: CYD)	31-Jan-10	13.18	16.71	26.8%	-0.3%	27.1%
Geo Group (NYSE: GEO)	12-Feb-10	19.34	21.73	12.4%	-0.8%	13.1%
Rambus (Nasdaq: RMBS)	19-Feb-10	22.45	18.40	-18.0%	-3.8%	-14.2%
Belo Corporation (NYSE: BLC)	26-Feb-10	6.73	5.51	-18.1%	-3.4%	-14.8%
America Service Group (Nasdaq: ASGR)	26-Feb-10	14.86	14.05	-5.5%	-3.4%	-2.1%
Dyanamex (Nasdaq: DDMX)	8-Mar-10	15.50	12.61	-18.6%	-6.6%	-12.1%
Innerworkings (Nasdaq: INWK)	12-Mar-10	5.30	5.90	11.3%	-7.6%	18.9%
Wet Seal (Nasdaq: WTSLSA)	22-Mar-10	4.60	3.05	-33.7%	-8.8%	-24.9%
Heelys (Nasdaq: HLYS)	24-Mar-10	2.40	2.35	-2.1%	-8.9%	6.9%
American Reprographics (NYSE: ARP)	2-Apr-10	9.00	6.97	-22.6%	-9.7%	-12.9%
Techumsea (Nasdaq: TECUA)	13-Apr-10	13.04	12.09	-7.3%	-11.3%	4.1%
AstroTech (Nasdaq: ASTC)	16-Apr-10	3.43	1.27	-63.0%	-11.1%	-51.9%
A. C. Moore Arts & Crafts (Nasdaq: ACMR)	23-Apr-10	4.07	1.78	-56.3%	-13.1%	-43.1%
Physicians Formula Holdings (Nasdaq: FACE)	1-May-10	3.04	3.50	15.1%	-12.0%	27.1%
Twin Disc (Nasdaq: TWIN)	7-May-10	12.40	12.32	-0.6%	-4.3%	3.6%
CB Richard Ellis (NYSE: CBG)	19-May-10	15.12	16.49	9.1%	-4.9%	14.0%
DJSP Enterprises (Nasdaq: DJSP)	28-May-10	6.38	3.26	-48.9%	-2.9%	-46.0%
AOL (NYSE: AOL)	18-Jun-10	22.74	22.76	0.1%	-5.1%	5.2%
Vantage Drilling (Amex: VTG)	28-Jun-10	1.46	1.34	-8.2%	-1.2%	-7.0%
Broadvision (Nasdaq: BVSN)	28-Jun-10	12.05	10.05	-16.6%	-1.2%	-15.4%
Tuesday Morning (Nasdaq: TUES)	30-Jun-10	3.99	3.85	-3.5%	3.1%	-6.6%
Manitex International, Inc (Nasdaq: MNTX)	9-Jul-10	1.98	2.30	16.2%	-1.2%	17.4%
S1 Corporation (NASDAQ: SONE)	16-Jul-10	5.88	5.04	-14.3%	0.3%	-14.6%
Duoyuan Printing, Inc age (NYSE: DYP)	27-Jul-10	8.14	7.60	-6.6%	-4.6%	-2.1%
Moody's Corporation (NYSE: MCO)	31-Jul-10	23.55	21.44	-9.0%	-3.4%	-5.5%
Reddy Ice Holdings Holdings (NYSE: FRZ)	7-Aug-10	2.91	2.22	-23.7%	-5.0%	-18.7%
FARO Technologies (Nasdaq: FARO)	16-Aug-10	18.83	19.49	3.5%	-1.1%	4.6%
BluePhoenix Solutions (Nasdaq: BPHX)	18-Aug-10	1.45	1.55	6.9%	-2.6%	9.5%
Apache Corporation (NYSE: APA)	27-Aug-10	89.96	89.96	0.0%	0.0%	0.0%
<b>Average</b>				<b>20.6%</b>	<b>7.7%</b>	<b>12.9%</b>

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

# Mossberg's Investor Digest

## Best Idea Profile

## Reddy Ice Holdings, Inc. (NYSE:FRZ)

### DESCRIPTION:

Headquartered in Dallas, Texas; Reddy Ice Holdings, Inc. is the largest manufacturer and distributor of packaged ice in the United States. FRZ serves a variety of customers in 33 states and the District of Columbia under the Reddy Ice brand name. Reddy Ice's principal product is ice packaged in 6 to 50 pound bags, which is sold to a highly diversified customer base, including supermarkets, mass merchants and convenience stores. The company also produces ice in cube, half-moon, cylindrical and crushed forms (collectively referred to as "cubed ice") as well as block forms. Reddy Ice has long-standing relationships with customers across all major retail channels including prominent supermarkets, mass merchants and convenience stores such as Albertson's, Circle-K, ExxonMobil, Food Lion, Kroger, Safeway, 7-Eleven and Wal-Mart. The company is also focused on expanding into non-retail sales channels, including sales to construction, airline, sporting and other special events and agricultural customers. Reddy Ice owns or operates 56 ice manufacturing facilities, 73 distribution centers and approximately 3,500 ISB machines with a manufacturing capacity of approximately 18,000 tons. Reddy Ice continues to be a consolidator in its market with 9 acquisitions during the first 6 months of FY10.

### KEY INVESTMENT CONSIDERATIONS:

**Dominant Player in a fragmented market** – The annual wholesale market demand for packaged ice in the United States and Canada, including packaged ice resold through retail channels and packaged ice utilized in non-retail applications, is estimated to be approximately \$2.3 billion. At roughly \$300 million in annual revenue, FRZ is the largest player and represents just 13% of the market. The industry is highly fragmented and includes Reddy Ice, one other multi-regional operator, one multi-state operator and numerous local and regional companies of varying size and resources. Most ice manufacturers have annual revenues of less than \$2MM. FRZ is an established consolidator in the marketplace with far greater resources than many competitors.

**Successful market consolidator** – During 2Q10 FRZ completed six acquisitions for an aggregate purchase price of \$8.4 million. Year-to-date the company has made 9 acquisitions for an aggregate purchase price of \$9.2 million. These acquisitions are highly profitable and represent an associated \$7.1 million in annual revenues with \$2.4 million in adjusted EBITDA. Reddy Ice sees many more acquisition opportunities in the current marketplace.

**Improving outlook and efficiencies** – Volume growth has resumed in recent quarters. For 2Q10 Reddy Ice reported growth of 4.3% with all three months showing increases. FRZ has now shown growth in 4 out of the last 8 months. The company has been shrinking the number of facilities and is now focusing on internal efficiencies in both manufacturing and distribution. The efficiencies range from 'best practices' implementation to technology enhancement and robotics. The current efficiencies program is expected to save \$8MM on an annualized basis of which 30% was recognized during the 1H10.

**New Markets** – The company is just starting to pioneer non-traditional customers and activities such as dollar stores and ice vending equipment leasing, which have good potential for additional revenue.

### VALUATION:

Shares of Reddy Ice have just experienced a 15% drop due to a decline in profits for the second quarter of FY10. Yet the company experienced both revenue growth and progress on its efficiency initiatives. The current valuation of the stock is also being depressed by unresolved DOJ issued involving the prepackaged ice industry. As these issues are resolved, and the company continues to improve its operations, patient investors should be rewarded with growth in earnings and the valuation multiple.

### (NYSE: FRZ)

Investment Data (as of 8/07/10)

<b>Recent Price</b>	<b>\$2.91</b>
52-Week Range	2.36 - 6.30
Fiscal Year End	December
Shares Outstanding	23MM
Average Trading Volume (3 mos)	87,000
Market Capitalization	\$66MM
Cash	\$47MM
Long Term Debt	\$451MM
Enterprise Value (EV)	\$470MM
LT Debt/ Equity	NA
BV/ Share	NA
TTM Revenue	\$306MM
P/ Revenue	0.2x
TTM EPS	-0.28
P/ EPS	N/A
TTM EBITDA	\$58MM
EV/ EBITDA	8x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

# Mossberg's Investor Digest

## Best Idea Profile

## FARO Technologies, Inc. (NASDAQ:FARO)

### DESCRIPTION:

Headquartered in Dallas; Faro Technologies Corporation designs, manufactures and markets software driven, 3-D measurement and imaging systems used in a broad range of manufacturing, industrial and building construction applications. FARO's products scan and measure for a variety of applications and along with their companion CAM2 software provide for Computer-Aided Design, or CAD, based inspection and/or factory-level statistical process control and high-density surveying. Together, these products integrate the measurement, quality inspection, and reverse engineering functions with CAD software to improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process. FARO uses the acronym "CAM2" for this process, which stands for computer-aided measurement. Faro is a Global company with three reportable segments based upon geographic regions: Americas, Europe/Africa and Asia Pacific. The Company develops, manufactures, markets and supports CAD-based quality assurance products integrated with CAD-based inspection and statistical process control software in each of these regions.

### KEY INVESTMENT CONSIDERATIONS:

**Secular Growth of CAD** – CAD has grown rapidly and changed manufacturing processes since the 1980's. CAD software was developed to automate the design process, providing manufacturers with computerized 3-D design capability and shorten developmental time between design changes. Most manufacturers use some form of CAD software to create designs and engineering specifications for new products and to quantify and modify designs and specifications for existing products. Faro products help companies satisfy today's more stringent standards for precise measurement in matching actual measurements to CAD design plans.

**Globalization Drives CAD Use** - In today's Global environment many product designs are done as CAD designs in Western Countries such as the US and manufactured in developing countries such as China. Faro products are a critical link in this process and the need for measurement tools should continue to grow.

**ROI Efficiencies Create a Growth Market** – Manufacturers are keen on getting quick ROI in the current economic environment and FARO's tools reduce costs of scrap and rework in the manufacturing process. A \$20,000 to \$120,000 measurement tool from Faro can have a 5 to 6 month payback for customers... a compelling value proposition.

**Leading player in a Mature Market** – The leading players in the market place, Faro and Hexigon, control nearly 70% of the market.

**Diverse Customer Base** – Faro's client base is highly diversified by industry, geography and size. It's products have been purchased by approx. 10,000 customers worldwide, ranging from small machine shops to major manufacturing and industrial companies such as Audi, Boeing, Bombadier, FORD, General Electric, General Motors, Honda, Johnson Controls, Komatsu America International and Lockheed Martin.

**Growth out of a Recessionary Bottom** – Faro has had 30% revenue growth for the last three quarters and recently returned to profitability. Management has seen "vast improvement" in the overall environment for the first half of FY2010 and the pipeline appears solid at this time. For the second quarter of FY10, FARO reported a 24% year-over-year increase in net new bookings.

### VALUATION:

Analysts estimates for FY11 are currently \$1.19. That gives Faro a current PE ratio of 15.8x, well below the company's current revenue growth rate. Investors should also note that when Faro's large \$107 million cash balance is subtracted from its market capitalization the company has a PE ratio of 10.3x.

### (NASDAQ: FARO)

Investment Data (as of 8/16/10)

<b>Recent Price</b>	<b>\$18.83</b>
52-Week Range	14.68 - 29.40
Fiscal Year End	DEC
Shares Outstanding	16.2MM
Average Trading Volume (3 mos)	95,000
Market Capitalization	305MM
Cash	107MM
Long Term Debt	NA
Enterprise Value (EV)	198MM
LT Debt/ Equity	NA
Tangible BV/ Share	\$10.91
TTM Revenue	\$170MM
P/ Revenue	1.8x
2011 EPS estimate	\$1.19
P/ EPS	15.8x
TTM EBITDA	\$15.8MM
EV/ EBITDA	12.5x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

# Mossberg's Investor Digest

## Best Idea Profile:

## Blue Phoenix Solutions Ltd. (NASDAQ:BPHX)

### DESCRIPTION:

Headquartered in Israel; Blue Phoenix Solutions is a leading developer of enterprise legacy IT modernization solutions, provides professional services to selected customers and sells knowledge management solutions. BPHX's IT legacy modernization solutions enable customers to automate the process of modernizing and upgrading mainframe and distributed IT infrastructure to more effectively compete. BPHX has a combination of comprehensive tools and services, along with a unique methodology, which provides customers an efficient and cost-effective process for extending the return on investment of existing enterprise IT assets. BPHX's solutions allow companies to fully leverage their current systems and applications and speed up and reduce the cost of the renewal process. This allows customers to effectively update their systems in order to be more agile when having to adapt to new business demands. BPHX supports companies from a variety of vertical markets such financial services, insurance, automotive, manufacturing, and retail. Customers include Aflac, DaimlerChrysler, Danish Commerce Agency, Europe Assistance, Lawson Products, LA County Employees Retirement Association, Merrill Lynch and Rothschild Bank.

### KEY INVESTMENT CONSIDERATIONS:

**Solving the "Legacy Dilemma"** – IT infrastructures have evolved from mainframes, to client servers to internet applications over the last 40 years. Since the capital costs were so large and some of the applications were mission critical, many systems were not replaced. This has led to a situation where many disparate systems are layered on top of one another, even when they were not intended for that purpose. This problem is known in the industry as "The legacy dilemma". Blue Phoenix solves this problem.

**Proven Service Provider** – BPHX has over 20 years of experience in legacy applications. The company currently has a core competency in major legacy systems for applications, databases, platforms and data (including VSAM, COBOL and Mainframes). BPHX also has domain expertise in the recent IT applications such as Oracle, Java and .Net (and many more). BPHX has the technical knowhow to work with any legacy issue.

**Recently Improved Results** – 2Q10 results showed marked improvement. Though revenue declined year-over-year, the company cut its losses in half to \$1 million by implementing cost reduction programs.

**Bringing ROI Efficiencies to Market** – Solving IT legacy problems can include anything from users experience enhancement to a total rewrite for a new infrastructure. The ROI (Return on Investment) or "payback" on these investments can run from 6 months to 5 years. Blue Phoenix is focusing on modernizing architectures and databases. These projects have ROI's of 1.5 to 2 years. This area of work provides a major enhancement to companies and organizations IT infrastructure and offers a quick payback.

**Intellectual Property** – Blue Phoenix has had a very active research and development program, and along with acquisitions, has built a base of intellectual property that has become a significant asset to the company. The company has over \$52.4 million in goodwill and \$14.4 million in intangible assets on the balance sheet. These assets include Intellectual Property of high value to many other IT companies.

### VALUATION:

BPHX has \$19.3 million in cash and \$10 million in long term debt. BPHX has made significant strides in costs cutting since the recessionary trough and had some major contract wins including a recent \$6.2 million win with a tier 1 banking institution in Europe. Trading at just 4.8x EV to EBITDA, shares appear attractive at the current valuation.

#### (NASDAQ: BPHX)

Investment Data (as of 8/18/10)

<b>Recent Price</b>	<b>\$1.45</b>
52-Week Range	1.16 - 3.97
Fiscal Year End	DEC
Shares Outstanding	23.6MM
Average Trading Volume (3 mos)	100,000
Market Capitalization	33MM
Cash	19MM
Long Term Debt	10MM
Enterprise Value (EV)	24MM
LT Debt/ Equity	0.1
BV/ Share	\$12.23
TTM Revenue	\$72MM
P/ Revenue	0.5x
2011 EPS Estimate	\$0.11
P/ EPS	13.2x
TTM EBITDA	\$5MM
EV/ EBITDA	4.8x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

# Mossberg's Investor Digest

## Best Idea Profile:

## Apache Corporation (NYSE:APA)

### DESCRIPTION:

Headquartered in Houston; Apache Corporation is an independent energy company. APA explores and produces natural gas, crude oil and natural gas liquids. In North America. APA's exploration and production interests are focused in the Gulf of Mexico, the Gulf Coast, East Texas, the Permian Basin, the Anadarko Basin and the Western Canada. Outside of North America, Apache has E&P interests in Egypt, Western Australia, the U.K, the North Sea and Argentina. The company also has exploration interests in Chile located adjacent to its' Argentine operations on the Chilean side of the island of Tierra del Fuego. Apache's mission is to grow a profitable upstream oil and gas company with competitive investment rates of return.

### KEY INVESTMENT CONSIDERATIONS:

**Proven Operators** – Apache has increased reserves 22 out of the last 24 years and increased production 29 out of the past 31 years. Also, the company has a history of being able to buy properties from the major oil companies and adding value to underworked assets.

**Assets** – At the end of FY09, Apache had total estimated proved reserves of 1,067 MMbbls of crude oil, condensate and NGLs and 7.8 Tcf of natural gas. APA's proved developed reserves totaled 1,636 MMboe, and estimated PUD reserves totaled 731 MMboe, or approximately 31% of worldwide total proved reserves. The Company also had total estimated proved undeveloped reserves of 731 MMboe. During the year, Apache converted 39 MMboe of proved undeveloped reserves to proved developed reserves through development drilling activity.

**BP Asset Acquisition** – APA has recently announced a \$7 billion asset purchase from BP. This purchase creates expansion opportunities in three core Apache regions; the Permian Basin in the US, Canada and the Western Desert of Egypt. This acquisition includes full business units and long-lived legacy properties, assets for drilling, large potential new plays, midstream assets and experienced staff. The purchase will increase Apache's reserves from 2589 MMBOE to 2974 MMBOE. 1H production will also increase from 686 MOBE/D to 769 MBOE/D in the post merger Apache. All of these assets purchased from BP are strategically located in areas where Apache is already operating and has established core competencies. With this acquisition the company also builds more scale and size for efficiency. Apache has announced another acquisition of Mariner Energy, which is expected to close during 3Q10.

**Diversified Operations** – The post BP purchase Apache will have combined production, which will be about 50% liquids. The company owns properties worldwide. The new Apache will have 22% of its production in Egypt, 17% in the Gulf of Mexico and 15% in Canada. The remainder of production is distributed among 6 other areas.

**Strong Quarterly Results** – For the 2Q10, APA reported net income grew to \$860 million, or \$2.53 per share from \$443 million, or \$1.31 per share on a year-over-year basis. For the same period, Apache reported that production of BOE (barrels of oil equivalent) increased 10% with liquid hydrocarbon up 19% and natural gas up 1%. The company experienced increased production in a number of areas including Australia, Egypt, the Gulf of Mexico and Oklahoma.

### VALUATION:

Shares of Apache have been rebounding off their July 1<sup>st</sup> lows, as the market has more confidence in the story due to the recent financings. The development of additional opportunities from the BP purchase along with strong long-term trends for may bode well for this proven diversified energy producer.

#### (NYSE: APA)

Investment Data (as of 8/2/10)

<b>Recent Price</b>	<b>\$89.96</b>
52-Week Range	111 - 81.94
Fiscal Year End	DEC
Dividend	0.60
Yield	0.7%
Shares Outstanding	364MM
Average Trading Volume (3 mos)	5.1MM
Market Capitalization	33B
Cash	1.8B
Long Term Debt	5.0B
Enterprise Value (EV)	36B
LT Debt/ Equity	0.3
BV/ Share	\$52.33
TTM Revenue	\$10.5B
P/ Revenue	3x
TTM EPS	\$7.66
P/ EPS	12x
TTM EBITDA	\$4.75B
EV/ EBITDA	7x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

# Mossberg's Investor Digest

## Subscription Information

Subscribe to Mossberg's Investor Digest at [www.mossbergid.com/subscribe.html](http://www.mossbergid.com/subscribe.html)

### Immediate Access Annual Subscription: \$245/ year

**12 Monthly Compilation Issues** – At the end of each month, Mossberg's Investor Digest compiles all Best Idea Profiles generated that month into a single compilation issue.

**Access to Past Compilation Issues** – Password protected access to all previous compilation issues.

**Immediate Access to Best Idea Profiles** - Approximately two to three times per month, Immediate Access Annual Subscribers receive Best Idea Profiles as soon as they are published.

### Annual Subscription: \$195/ year

**12 Monthly Compilation Issues**

**Access to Past Compilation Issues**

## About Mossberg's Investor Digest

The value proposition of the digest is essentially an "Idea Generator". During the course of my 15-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.

## Disclosures

**Not Investment Advice:** Investors should consult a financial advisor before investing in any securities highlighted in the Digest or subscribing to any newsletter service. We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea Profiles highlighted in Mossberg's Investor Digest are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Mossberg's Investor Digest is not suitable for people seeking low to moderate risk investments.

It is the policy of the publisher to follow the CFA Institute's "Standards of Practice" regarding disclosure of potential conflicts of interest. The publisher's policy is to avoid conflicts of interest when possible. However, when potential conflicts are unavoidable, the publisher's policy is to disclose material business relationships between it and issuers of securities highlighted in the letter. In addition, the publisher's ownership in securities highlighted in the letter is disclosed. By disclosing potential conflicts of interest, subscribers and prospective subscribers will have additional information to evaluate the objectivity of ideas highlighted in the newsletter.

\*There are no material business relationships between the publisher and the securities highlighted in this issue.

\*The publisher owns shares in AXAS, HLYS, TSTA.OB, and VRTS.

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

[www.mossbergid.com](http://www.mossbergid.com)