

# Mossberg's Investor Digest

January 2011

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Issue #31

## From the Editor...

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I was in New York in Mid-January and had the pleasure to hear Ed Hyman of ISI (International Strategy & Investment) present at the Needham Growth Conference. During his speech, he highlighted three reasons why he is "more excited that he has ever been" regarding equities.

Reason 1 – Move from recovery to expansion – Clearly most recent economic data points have pointed to a recovery and expansion of the U.S. and global economy. For example, initial unemployment claims have declined sharply and first quarter GDP is estimated to exceed pre-recessionary levels.

Reason 2 – Bernanke & Qe2 – As perhaps the foremost authority of the Great Depression and the economy-killing deflation that followed, Bernanke has taken an aggressive stance toward expanding the money supply. Not only has introduced QE and QE2, he has been talking about it a lot, which may be just as important. When was that last time you heard a Fed Governor on 60 Minutes, or in a Washington post op-ed piece

Reason 3 - Obama's move to the center – When President Clinton moved to the center after the Democrats lost control of the congress in the '94 midterm election, Clinton made a strong move to the center and the stock market increased by 30%.

Based on his comments, it looks like 2011 should be a good year for equities.

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

Dave Mossberg

**ENGlobal (Nasdaq:ENG) - \$4.18, January 14, 2011, Page 3** – ENGlobal is an oil service company coming off of a cyclical bottom. With acquisitions and organic growth opportunities, improving utilization and operating leverage, ENG has ability to surprise the current consensus Street estimate of \$0.29 for 2011. At the peak of the last cycle ENG earned \$0.50 to \$0.60 per share and delivered returns in excess of 25%. As the company restores profitability and returns, a multiple of 20x to 30x earnings should be warranted, which would yield a price easily north of \$7 to \$8.

**Intersections (Nasdaq: INTX) – \$9.98, January 16, 2011, Page 4** – Intersections is a leading provider of branded and white label identity theft security solutions. INTX is a strong cash flow generator that has recently demonstrated back to back profitable quarters. Investors have the safety factor of the company's strong cash flow in addition to INTX's improving fundamentals which may create higher multiples of an improving EBITDA.

**Reis (Nasdaq: REIS) - \$6.71, January 24, 2011, Page 5** – Reis Incorporated provides the commercial real estate market information and analytical tools for its customers. Reis maintains a proprietary database containing detailed information on commercial properties in metropolitan markets and neighborhoods throughout the U.S. This database contains information on apartment, office, retail and industrial properties and is used by real estate investors, lenders and other professionals to make informed buying, selling and financing decisions.

**MicroFinancial, Inc. (Nasdaq: MFI) – \$4.11, January 27, 2011, Page 6** – MFI Provides small leases and loans to finance a variety of business equipment for generally less than \$20,000. The Company has a record of strong cash flows and has consistently paid a dividend since 2005. With an improving operating environment affecting both revenue and credit quality, the company has an opportunity to accelerate the growth of cash flow and earnings. The current earnings multiple seems attractive for a growth company with a defensible position in a solid niche, consistent dividend along with improving fundamentals.

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# Mossberg's Investor Digest

## Mossberg's Investor Digest Idea Performance

The table below shows the relative change in the value of the ideas published since August 2010 and the Russell 3000. **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
Reddy Ice Holdings Holdings (NYSE: FRZ)	7-Aug-10	2.91	3.48	19.6%	15.9%	3.7%
FARO Technologies (Nasdaq: FARO)	16-Aug-10	18.83	30.32	61.0%	20.7%	40.3%
BluePhoenix Solutions (Nasdaq: BPHX)	18-Aug-10	1.45	2.29	57.9%	18.9%	39.0%
Apache Corporation (NYSE: APA)	27-Aug-10	89.96	119.36	32.7%	22.0%	10.6%
Imperial Sugar (Nasdaq: IPSU)	10-Sep-10	13.87	11.98	-13.6%	17.2%	-30.8%
ART Technology Group (Nasdaq: ARTG)	24-Sep-10	3.80	5.99	57.6%	12.9%	44.7%
Unifi (NYSE: UFI)	24-Sep-10	13.80	16.63	20.5%	12.9%	7.6%
Safeguard Scientifics (NYSE: SFE)	30-Sep-10	12.53	16.45	31.3%	13.4%	17.9%
Global Traffic Network (Nasdaq: GNET)	8-Oct-10	5.93	10.73	80.9%	11.1%	69.9%
Pure Cycle Corp. (Nasdaq: PCYO)	19-Oct-10	3.34	3.72	11.4%	11.1%	0.3%
Triple-S Management Corp. (NYSE: GTS)	29-Oct-10	16.87	18.46	9.4%	9.2%	0.2%
SureWest Communications (Nasdaq: SURW)	29-Oct-10	7.89	10.96	38.9%	9.2%	29.7%
Arden Group (Nasdaq: ARDNA)	5-Nov-10	93.80	79.23	-15.5%	5.4%	-20.9%
Body Central (Nasdaq: BODY)	5-Nov-10	13.65	17.05	24.9%	5.4%	19.5%
LaserCard (Nasdaq: LCRD)	17-Nov-10	4.56	6.25	37.1%	9.5%	27.6%
Mitek (OTCBB: MITK)	24-Nov-10	3.99	5.55	39.1%	7.3%	31.9%
Luby's (NYSE: LUB)	6-Dec-10	6.59	5.77	-12.4%	4.9%	-17.4%
Datalink (Nasdaq: DTLK)	20-Dec-10	4.50	6.40	42.2%	2.9%	39.3%
Ebix (Nasdaq: EBIX)	30-Dec-10	23.74	22.55	-5.0%	1.9%	-6.9%
Liberator Medical Holdings (OTCBB: LBMH)	31-Dec-10	1.20	1.20	0.0%	2.0%	-2.0%
ENGlobal (Nasdaq: ENG)	14-Jan-11	4.18	4.51	7.9%	-0.7%	8.6%
Intersections (Nasdaq: INTX)	16-Jan-11	9.98	9.86	-1.2%	-0.7%	-0.5%
Reis (Nasdaq: REIS)	24-Jan-11	6.71	6.82	1.6%	-0.2%	1.8%
MicroFinancial (Nasdaq: MFI)	27-Jan-11	4.11	4.11	-0.1%	-1.1%	1.0%
			<b>Average</b>	<b>21.9%</b>	<b>8.8%</b>	<b>13.1%</b>

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## Best Idea Profile:

## ENGlobal Corporation (Nasdaq:ENG)

### DESCRIPTION:

Headquartered in Houston; ENGlobal Corporation is a leading provider of engineering and professional services principally to the energy sector. The company has four reporting segments: Engineering, Construction, Automation and Land. The Engineering segment focuses primarily on providing its services to the upstream, midstream and downstream segments of the oil and gas industry, utilities and alternative energy developers. The Construction segment focuses on energy infrastructure projects in the US by offering personnel and services primarily in the area of inspection, but also in the areas of construction, construction management, process plant turnaround management, plant asset mgmt., commissioning and start-up. The Automation segment provides services related to the design, fabrication, and implementation of process distributed control and analyzer systems, advanced automation, information technology and heat tracing projects. ENG's Land segment provides land management, right-of-way, environmental compliance, legislative affairs support and gov't regulatory compliance services primarily to pipeline, utility and other owner/operators of infrastructure facilities throughout the US and Canada. ENGlobal has 2,300 full-time employees in 17 offices and 496k sq. ft. of office space along with manufacturing fabrication space strategically located in Texas, Louisiana, Oklahoma, Colorado, Alabama, Illinois, and Calgary, Alberta, Canada.

### KEY INVESTMENT CONSIDERATIONS:

**Cyclical Bottom** – ENG has weathered the worst of the recession and is now seeing improvement across several operational metrics such as bi-weekly billable man hours and utilization. These metrics improved during each month of 3Q10. Significantly, the company also reported net income for the first time since 2Q09. Prior to the recession the company delivered 25%+ return on equity, and should be able to return to previous levels as economic conditions improve.

**Account Resolution** - ENG was involved in a dispute with a large Ethanol refit job it had done in Louisiana. In Aug '09 the customer filed for Bankruptcy protection and an additional \$7.2 million adjustment to ENG's bad debt expense was taken during 3Q10. Significantly, \$(0.16) of the \$(0.19) loss for the same quarter was related to the pre-tax charge for bad debt. This should conclude this recession related matter for the company.

**A Proven Operator** – With a combination of organic growth and a series of strategic acquisitions, revenue grew from \$89MM in '02 to \$344MM in '09, a growth rate of approximately 21%. ENG has accomplished this growth by expanding its engineering and professional service capabilities, and geographic presence.

**Company Buyback and Insider Purchases** – During the 3Q10, ENG bought back 651,470 shares at an average price of \$2.40 per share and nearly 1 million shares, or 4% of the total outstanding, since initiating a buyback plan. In addition, insiders have bought stock regularly between \$2 to \$3 per share during the past year.

### VALUATION:

ENGlobal is an oil service company coming off of a cyclical bottom. With acquisitions and organic growth opportunities, improving utilization and operating leverage, the company has ability to surprise the current consensus Street estimate of \$0.29 for 2011. At the peak of the last cycle the company earned \$0.50 to \$0.60 per share and delivered returns in excess of 25%. As the company restores profitability and returns, a multiple of 20x to 30x earnings should be warranted, which would yield a price easily north of \$7 to \$8.

#### (NASDAQ:ENG)

Investment Data (as of 1/14/11)

<b>Recent Price</b>	<b>\$4.18</b>
52-Week Range	2.03 - 4.33
Fiscal Year End	Dec
Shares Outstanding	27MM
Average Trading Volume (3 mos)	79k
Market Capitalization	111MM
Cash & LT Investments	4.7MM
Long Term Debt	12.8MM
Enterprise Value (EV)	119MM
LT Debt/ Equity	0.2x
BV/ Share	\$2.45
TTM Revenue	\$310MM
P/ Revenue	0.3x
2011 EPS (estimate)	0.29
P/ EPS	14
TTM EBITDA	(\$13MM)
EV/ EBITDA	nmf

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## Best Idea Profile

### DESCRIPTION:

Headquartered in Chantilly, Virginia; Intersections is a leading provider of branded and white label identity theft security solutions. INTX provides services to safeguard more than 8 million members, who are primarily acquired through marketing partnerships with major banks along with consumer direct marketing under the brand Identity Guard. Intersections also provides consumer-oriented insurance and membership products through marketing partnerships with major mortgage service providers in the US as well as other financial institutions. INTX has three reportable segments: The Consumer Products and Services segment includes identity theft management tools and other consumer products and services. The Online Brand Protection segment includes corporate brand protection under the subsidiary Net Enforcers. Lastly the Bail Bonds Industry Solutions segment includes software management solutions for the bail bond industry (under the subsidiary Captira Analytical).

### KEY INVESTMENT CONSIDERATIONS:

**A leading franchise addressing a large market -** Intersections is a top player in the industry. The company services some of the largest financial institutions in the US including Bank of America (including MBNA, which was acquired by Bank of America in 2006), Citibank, and Capital One. The company currently partners with 4 of the top 5 US banks and 6 of the top 7 Canadian Banks. According to the Javelin Identity Fraud Survey report (2010) the number of Identity fraud victims reached 11.1 million 2009 with 4.8% of the US population being affected by this type of crime.

**Private Label Program –** Consumers trust their commercial banks for new services. By partnering with large banks on a "White label" basis, Intersections can leverage the trust and customer bases of these institutions for new customers and the increase sell-through with new product offerings. Intersections has developed a strong reputation in this business and has successfully used its white label program as an industry differentiator. This is a profitable business that generates \$40MM in Free Cash Flow.

**Sale of screening business allows focus on core competencies –** In Jul '10, Intersections divested its Background Screening segment for \$15MM in cash plus adjustments for working capital and other items. INTX used the net proceeds of \$11MM to pay down debt. Additionally the sale allows management to more fully focus on other more strategic businesses.

## Intersections Incorporated (NASDAQ:INTX)

**Strong Cash Flow Generator with Solid Balance Sheet –** The Company has generated over \$33MM in cash flow from operations for the first nine mos of FY10 and is on track to generate nearly \$45MM in cash flow for the entire year. With \$33MM in cash and \$25MM in debt, the company has a healthy balance sheet.

**New and Special Dividends/Share repurchase –** Last year, the board authorized management to repurchase \$30 million worth of stock and explore paying special dividends. In addition, the company instituted a regular quarterly cash dividend of \$0.15 cents per share. With \$45 million in cash flow generation in 2010, it is likely that the company will have opportunity to increase the dividend payment, or have other special one-time dividends.

### VALUATION:

Intersections is a strong cash flow generator that has recently demonstrated back to back profitable quarters. Investors have the safety factor of the company's strong cash flow in addition to the company's improving fundamentals which may create higher multiples of an improving EBITDA.

### (NASDAQ:INTX)

Investment Data (as of 1/14/11)

<b>Recent Price</b>	<b>\$9.98</b>
52-Week Range	3.71 - 11.30
Fiscal Year End	Dec
Dividend	\$0.15
Yield	6%
Shares Outstanding	18MM
Average Trading Volume (3 mos)	23k
Market Capitalization	177MM
Cash	\$33MM
Long Term Debt	\$25MM
Enterprise Value (EV)	\$169MM
LT Debt/ Equity	0.2x
BV/ Share	\$6.28
TTM Revenue	\$381MM
P/ Revenue	0.5x
TTM EPS	\$0.61
P/ EPS	16x
TTM EBITDA	\$25MM
EV/ EBITDA	6.7x

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## Best Idea Profile:

## Reis Incorporated (NASDAQ:REIS)

### DESCRIPTION:

Headquartered in New York City, Reis Incorporated provides the commercial real estate market information and analytical tools for its customers. Reis maintains a proprietary database containing detailed information on commercial properties in metropolitan markets and neighborhoods throughout the U.S. This database contains information on apartment, office, retail and industrial properties and is used by real estate investors, lenders and other professionals to make informed buying, selling and financing decisions. In addition, Reis data is used by debt and equity investors to assess, quantify and manage the risks of default and loss associated with individual mortgages, properties, portfolios and real estate backed securities.

### KEY INVESTMENT CONSIDERATIONS:

**Mission Critical Information** – Participants in the U.S. commercial real estate market demand timely and accurate information to support their decision-making. Participants in the asset market, such as property owners, developers and builders, banks and non-bank lenders, and equity investors, require access to information on both the performance and pricing of assets. This information includes detailed data on market transactions, supply, and absorption. The information is critical to all aspects of valuing assets and financing their acquisition, development and construction. Additionally, brokers, operators and lessors require access to detailed information concerning current and historical rents, vacancies, concessions, operating expenses, and other market specific and property specific performance measures. The volatility of commercial real estate in recent years has made timely information and due diligence even more of a concern to all market participants.

**Strong Franchise** – Reis is a leading provider of information on the US real estate market (including transactional data). The company's database contains information on 169 metro areas and 1800 submarkets. Reis provides real estate data to nearly 700 companies.

**Cyclical Bottom** – '08 and '09 were not typical years for the commercial real estate market. For property types that Reis covers, Reis estimates that the value of commercial real estate transactions in the US declined by approx. 35% from '08 to '09. Transaction volume fell by 87% from a peak of \$72B in the 2Q07 to \$9B in 4Q09. Separately, new commercial mortgage backed securities issuances, which totaled over \$230B in '07, tumbled to \$12B in '08. Reis has reported two consecutive increases in service rev. on y-o-y basis.

**Ample Growth Opportunities** – Reis still has a lot of opportunities to move into new areas of data collection and expand distribution in U.S. and international markets. In September, Reis expanded apartment market coverage into 31 markets and announced an agreement to integrate Reis' market data into SNL's Real Estate Unlimited information service.

**Attractive Target for Acquisition** – As a cash rich software target in a niche, Reis may remain a candidate for acquisition by other market participants. In June '08, CoStar made an initial, non-public, unsolicited offer to acquire Reis for \$8.75 per share, which was rejected by Reis. In Aug '08, the Board rejected a second unsolicited proposal by CoStar, which it made public, to acquire Reis for the same \$8.75. In the view of the Board, the price offered by CoStar was inadequate as it was below the long-term value Reis could realize for its stockholders by the pursuit of its business as an independent entity and the continued disposition of its real estate assets, or by an organized sale.

### VALUATION:

Reis is experiencing improvement in both its operating environment and financial results. The MRO showed improvement in subscription revenues, margin and renewal rates. Reis is also in the last stages of a phase out of its real estate's development activities. Improving results and the transition to a "pure play" as a software company should create a valuation transition in the stock price. The cash balance and attractive business also makes Reis an attractive take out candidate.

### (NASDAQ:REIS)

Investment Data (as of 1/24/11)

<b>Recent Price</b>	<b>\$6.71</b>
52-Week Range	5.30 - 7.85
Fiscal Year End	Dec
Shares Outstanding	10.6MM
Average Trading Volume (3 mos)	23k
Market Capitalization	\$71MM
Cash	\$20
Long Term Debt	\$13MM
Enterprise Value (EV)	\$64MM
LT Debt/ Equity	NA
BV/ Share	\$6.99
TTM Revenue	\$28MM
P/ Revenue	2.6x
TTM EPS	\$0.04
P/ EPS	nmf
TTM EBITDA	\$4MM
EV/ EBITDA	16x

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## Best Idea Profile:

## MicroFinancial Incorporated (Nasdaq:MFI)

### DESCRIPTION:

Headquartered in Woburn, MA; MicroFinancial, Inc., provides financing alternatives to a wide range of lessees ranging from start-up to established businesses. The company primarily sources its originations through a nationwide network of independent equipment vendors, sales organizations, brokers and other dealer-based origination networks. MicroFinancial funds its operations through cash provided by operating activities and borrowings under a revolving line of credit. The company finances a wide variety of products with no single product representing more than 20% of the amount financed in its portfolio. MFI leases a wide variety of equipment including advertising and display equipment, security equipment, paging systems, water coolers, restaurant equipment and card-based payment authorization systems. Substantially all the equipment leased by, originated or acquired by MicroFinancial is non-cancelable. MFI generally originates leases on transactions referred to them by a dealer where MFI buys the underlying equipment from the referring dealer upon funding the approved application. Leases are structured with limited recourse to the dealer, with risk of loss in the event of default by the lessee residing with MicroFinancial in most cases. Throughout the term of the lease, they charge late fees, prepayment penalties, loss and damage waiver fees and other service fees, when applicable. MFI performs all the processing, billing and collection functions under its leases.

### KEY INVESTMENT CONSIDERATIONS:

**Proven Franchise** – MFI has more than 24 years of operating experience in the micro ticket leasing industry, originating more than 741,000 contracts. MFI utilizes a large network of thousands of independent vendors and brokers for its business. MicroFinancial offers a multi-tiered pricing model that allows it to offer a broader range of credit approvals than many of its competitors.

**Diverse and Targeted Client Base** – Small businesses continue to be the fastest growing segment of U.S. economy, accounting for more than 75% of all jobs created over the last decade. 7 of 10 small business owners start with less than \$20K, driving the need for alternative financing. MFI's typical client is a small, owner operated business (often with limited business credit history). Typical contract sizes range from \$500 to \$15,000 with an average transaction of approximately \$5,500. Average contract terms are about 44 months. MicroFinancial has a record of proven success that cuts across 15 vertical market segments, which combined represent a \$6 billion market for MFI.

**Proprietary Software** – MFI's TimePayment Direct is an Internet-based application processing, credit approval and dealer information tool that manages critical operational functions. The system includes a multi-tiered underwriting and pricing model along with a collections platform. This system is a competitive differentiator and enables MFI to cheaply process thousands of contracts and evaluate portfolios rapidly.

**Strong Growth** – In 2002, the company had approximately 4,500 total dealers providing leases. By the end of Q3, 2010, MicroFinancial's dealer base was approximately 5,900 with 2,242 active dealers (dealers that had executed a lease before).

**Insider Ownership** – Insiders own nearly 46% of the shares outstanding. Management and shareholder interests should be closely aligned.

### VALUATION:

MFI has a record of strong cash flows and has consistently paid a dividend since 2005. With an improving operating environment affecting both revenue and credit quality, the company has an opportunity to accelerate the growth of cash flow and earnings. The current earnings multiple seems attractive for a growth company with a defensible position in a solid niche, consistent dividend along with improving fundamentals.

#### (Nasdaq:MFI)

Investment Data (as of 1/27/11)

<b>Recent Price</b>	<b>\$4.11</b>
52-Week Range	3.06 - 4.74
Fiscal Year End	Dec
Dividend	0.20
Yield	4.8%
Shares Outstanding	14.3MM
Average Trading Volume (3 mos)	6.6k
Market Capitalization	\$59MM
Cash	\$515K
Long Term Debt	\$60MM
Enterprise Value (EV)	\$119MM
LT Debt/ Equity	.87x
BV/ Share	\$4.82
TTM Revenue	\$23MM
P/ Revenue	2.6x
TTM EPS	\$0.35
P/ EPS	12x
TTM EBITDA	N/A
EV/ EBITDA	N/A

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