

# Mossberg's Investor Digest

May 2011

Issue #35

## From the Editor...

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A second look at Tecumseh (Nasdaq: TECUA)

I wanted to take a quick look back at Tecumseh Products Company, a stock, which has declined 24% since I profiled it in the newsletter a little over a year ago. The stock now trades at \$9.92 per share.

While still posting losses, the size of the loss has been substantially reduced. During 2010, revenue increased 27%. The increased revenue run rate and greater efficiencies helped to cut losses in half last year, however, stiff pricing pressure in certain commodities (i.e. 40%+ year-over-year increase in copper during 1Q11) have made it difficult to return to profitability.

Also, after just a few years on the job, the company recently announced it will be replacing its CEO.

All of the bad news aside, there is tremendous value in this business and the stock is worth a second look. In terms of book value, it is \$23.50 per share and on a price-to-revenue basis it is only 0.2x revenue. Also, two of the directors and the head of sales bought a small amount of stock in the month of March.

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

Dave Mossberg

## May 2011 Issue

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**MGM Resorts International (NYSE:MGM)- \$14.93, May 23, 2011, Page 3** - MGM has tremendous leverage in its business model both in terms of fixed cost leverage as well as financial leverage. The company has reduced financial risk by extending the majority of its long-term debt last year. As a significant debtor, MGM stands to benefit from potential inflation. In addition, a weak dollar could bring foreign tourists to Vegas. As the economic cycle continues to improve, we should see the 15%-20% returns on equity that the company experienced prior to the recession. This equates to over \$1.20 per share in earnings power over the next couple of years and with a reasonable multiple, significant upside for a long-term investor. .

**Credo Petroleum (Nasdaq:CRED) – \$10.18, May 25, 2011, Page 4** – Credo has assets that have long-term value in excess of the company's current market cap. At 11,000 per acre the company's 6000 net acres in Bakken alone are worth 65% of the Credos market cap. The company currently has no active Wall Street research coverage. Both improving fundamentals and more attention from investors may lead to higher share prices.

**Syntroleum (NASDAQ:SYNM)- \$1.81, May 27, 2011, Page 5** – Syntroleum commercializes technologies to produce synthetic liquid hydrocarbons. The monetization process for SYNM's technologies has just started. SYNM is receiving credible interest from new partners and its Geismar plant was running at only 67% of capacity during 1Q11. Either additional plant rev. or a new contract could lead to a higher share price.

**Hurco Companies (Nasdaq: HURC) – \$29.63, May 29, 2011, Page 6** – Hurco is benefitting from a major turnaround in the machine tool automation markets. At the peak of the next cycle the company is capable of returning 25%+ returns on capital and net margins in the 10% to 12% range. As demand continues to improve and revenue returns to pre-recessionary levels, HURC has more than \$3.00 in earnings power. With a reasonable multiple of 15x to 18x, the stock would have 50% to 80% upside over the next couple of years.

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## 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	3.02	3.8%	20.7%	-17.0%
FARO Technologies (Nasdaq: FARO)	16-Aug-10	18.83	44.14	134.4%	25.7%	108.7%
BluePhoenix Solutions (Nasdaq: BPHX)	18-Aug-10	1.45	1.35	-6.9%	23.9%	-30.8%
Apache Corporation (NYSE: APA)	27-Aug-10	89.96	123.25	37.0%	27.1%	9.9%
Imperial Sugar (Nasdaq: IPSU)	10-Sep-10	13.87	17.95	29.4%	22.1%	7.3%
ART Technology Group (Nasdaq: ARTG)	24-Sep-10	3.80	5.99	57.6%	17.6%	40.0%
Unifi (NYSE: UFI)	24-Sep-10	13.80	13.87	0.5%	17.6%	-17.1%
Safeguard Scientifics (NYSE: SFE)	30-Sep-10	12.53	18.85	50.4%	18.1%	32.3%
Global Traffic Network (Nasdaq: GNET)	8-Oct-10	5.93	10.99	85.3%	15.7%	69.6%
Pure Cycle Corp. (Nasdaq: PCYO)	19-Oct-10	3.34	3.50	4.8%	15.7%	-10.9%
Triple-S Management Corp. (NYSE: GTS)	29-Oct-10	16.87	20.79	23.2%	13.8%	9.4%
SureWest Communications (Nasdaq: SURW)	29-Oct-10	7.89	14.95	89.5%	13.8%	75.7%
Arden Group	5-Nov-10	93.80	83.92	-10.5%	9.8%	-20.3%
Body Central	5-Nov-10	13.65	25.03	83.4%	9.8%	73.6%
LaserCard	17-Nov-10	4.56	6.25	37.1%	14.0%	23.0%
Mitek (OTCBB: MITK)	24-Nov-10	3.99	7.07	77.2%	11.7%	65.4%
Luby's (NYSE: LUB)	6-Dec-10	6.59	5.04	-23.5%	9.3%	-32.8%
Datalink (Nasdaq: DTLK)	20-Dec-10	4.50	7.00	55.6%	7.2%	48.3%
Ebix (Nasdaq: EBIX)	30-Dec-10	23.74	19.58	-17.5%	6.1%	-23.6%
Liberator Medical Holdings (OTCBB: LBMH)	31-Dec-10	1.20	1.42	18.3%	6.3%	12.1%
ENGlobal (Nasdaq: ENG)	14-Jan-11	4.18	3.85	-7.9%	3.4%	-11.3%
Intersections (Nasdaq: INTX)	16-Jan-11	9.98	15.35	53.8%	3.4%	50.4%
Reis (Nasdaq: REIS)	24-Jan-11	6.71	9.66	44.0%	4.0%	40.0%
MicroFinancial (Nasdaq: MFI)	27-Jan-11	4.11	5.66	37.7%	3.1%	34.7%
Cirrus Logic (Nasdaq: CRUS)	19-Feb-11	24.58	16.22	-34.0%	-0.5%	-33.5%
G-III Apparel (Nasdaq: GIII)	21-Feb-11	37.25	42.42	13.9%	1.7%	12.2%
Harding Incorporated (Nasdaq: HDNG)	28-Feb-11	12.35	11.25	-8.9%	-0.3%	-8.6%
Patient Safety Technologies (OTCBB: PTSX)	28-Feb-11	0.90	1.15	27.8%	-0.3%	28.1%
Six Flags Entertainment (NYSE: SIX)	18-Mar-11	70.22	76.55	9.0%	4.5%	4.6%
Naturally Advanced Technologies (OTCBB: NAD)	21-Mar-11	1.94	3.10	59.8%	2.8%	57.0%
Electsys (Nasdaq: ESYS)	25-Mar-11	5.09	5.47	7.5%	1.6%	5.9%
World Entry Solutions (Nasdaq: XWES)	28-Mar-11	4.40	4.55	3.4%	1.9%	1.5%
Tetraon Financial Group (Euronext: TFG.AS)	29-Apr-11	7.60	8.11	6.7%	-2.4%	9.1%
AdCare (Amex: ADK)	29-Apr-11	4.97	5.65	13.7%	-2.4%	16.1%
Interphase (Nasdaq: INPH)	29-Apr-11	5.41	4.21	-22.2%	-2.4%	-19.8%
Nokia (NYSE: NOK)	29-Apr-11	9.23	8.20	-11.2%	-2.4%	-8.8%
MGM Resorts International (NYSE: MGM)	23-May-11	14.93	15.40	3.1%	1.3%	1.8%
Credo Petroleum (Nasdaq: CRED)	25-May-11	10.18	10.53	3.4%	1.0%	2.5%
Syntroleum (Nasdaq: SYNM)	27-May-11	1.81	1.81	0.0%	0.0%	0.0%
Hurco Companies (Nasdaq: HURC)	29-May-11	29.63	29.63	0.0%	0.0%	0.0%
			<b>Average</b>	<b>23.2%</b>	<b>8.1%</b>	<b>15.1%</b>

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## Best Idea Profile:

## MGM Resorts International (NYSE:MGM)

### DESCRIPTION:

Headquartered in Las Vegas, Nevada; MGM Resorts International owns and operates casino resorts that include activities such as gaming, hotel, dining, entertainment, retail and other resort amenities. Over half of the company's revenue is derived from non-gaming activities. The company uses a portfolio approach and selectively acquires, invests in and develops resorts in markets with a stable regulatory environment. MGM targets markets with growth potential and invests in both gaming and non-gaming resorts. MGM is an international franchise with a strong position in the Las Vegas market (nearly 80% of 2010 EBITDA comes from Vegas). According to the Las Vegas Convention and Visitors Authority, there were approximately 149,000 guestrooms in Las Vegas at the end of 2010. MGM operated approximately 28% of these guestrooms. The number of visitors in Las Vegas last year was 37.3 million a 3% increase from the 36.4 million reported for 2009.

### KEY INVESTMENT CONSIDERATIONS:

**Convention Base Focus** – MGM's focus on building its convention business is having a positive impact on results. The company saw a 5% YOY increase in convention bookings for the first quarter of FY2011 with convention rooms representing 20% of the company's room occupancy mix. The convention business helped drive YOY increases in RevPar (Las Vegas Strip RevPar up 16%), and all of the company's retail segments such as Food and Beverage revenues (up 7%) and Entertainment/Retail/other revenues (up 4%). Convention bookings have continued to remain positive during the second quarter.

**Cyclical recovery** – MGM is benefiting from the cyclical recovery. Q1FY2011 RevPar (Revenue per available room) was up 3% on a YOY basis. MGM is currently experiencing a stronger event calendar at its properties than seen in recent years. Retail activity continues to increase at the company core Las Vegas properties. Q1FY2011 EBITDA increased 40% on a YOY basis. Event bookings to date have nearly doubled this year at the Mandalay and MGM Garden properties vs. 2010. These events will drive additional spending at these company properties.

**A weak U.S. dollar is good for Vegas** – As a significant debtor, MGM stands to benefit from potential inflation. In addition, a weak dollar could bring foreign tourists to Vegas.

**New Loyalty Program** – MGM rolled out a new loyalty/reward program called M-Life over the last 18 months. MGM has enrolled over 1 million customers in the program and is seeing double digit increases in both program activation and trips from higher reward levels. This program is also driving strategic marketing relationships with other companies such as Avis Budget and Dover Downs.

**Operating Leverage** – MGM has significant operating leverage in its business model. First quarter margins increased 160 basis points to 38% despite a lower than normal table games hold percentage.

**Risks** – MGM is highly leveraged with \$12.3 billion of indebtedness which includes \$2.6 billion of borrowings outstanding under its senior credit facility. It currently has borrowing capacity under a senior credit facility of \$826 million. However, current cash flow trends and asset sales are mitigating much of this risk.

### VALUATION:

MGM has tremendous leverage in its business model both in terms of fixed cost leverage as well as financial leverage. The company has reduced financial risk by extending the majority of its long-term debt last year. As the economic cycle continues to improve, we should see the 15%-20% returns on equity that the company experienced prior to the recession. This equates to over \$1.20 per share in earnings power over the next couple of years and with a reasonable multiple, significant upside for a long-term investor.

#### (MGM Resorts - NYSE: MGM)

Investment Data (as of 5/23/11)

<b>Recent Price</b>	<b>\$14.93</b>
52-Week Range	\$8.92 - \$16.94
Fiscal Year End	Dec
Shares Outstanding	489MM
Average Trading Volume (3 mos)	21MM
Market Capitalization	\$7B
Cash	\$431MM
Long Term Debt	\$2B
Enterprise Value (EV)	\$19B
BV/ Share	\$5.98
TTM Revenue	\$6B
P/ Revenue	1.24x
TTM EPS	\$(3.09)
P/ EPS	NA
TTM EBITDA	\$1B
EV/ EBITDA	19x

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## Best Idea Profile:

### DESCRIPTION:

Headquartered in Denver, Colorado; Credo and its wholly owned subsidiaries, SECO Energy Corporation and United Oil Corporation are Denver-based independent oil and gas companies which engage primarily in oil and gas exploration, development and production activities. The company has operating activities in nine states including Kansas, Wyoming, Colorado, Oklahoma and Texas. Credo is focused on adding oil and gas reserves through drilling and by the use of the company's patented fluid lift technology known as the Calliope Gas Recovery System™.

### KEY INVESTMENT CONSIDERATIONS:

**Significant Reserves** – Credo is a seasoned operator with significant reserves. The company is currently carrying over \$87 million in evaluated and \$9.9 million (at cost) in unevaluated, oil and gas reserves on its balance sheet.

**Bakken Shale** - Credo has assembled nearly 8,000 gross (6,000 net) acres of Bakken shale acreage. The property is located in the core of this energy play in what is now the largest oil deposit in North America. The property is primarily on the Fort Berthold Reservation in North Dakota and consists of 50 initial well spacing units. An unrelated transaction in the Bakken area last year would equate to a valuation of \$11,000 per acre for Credo's properties. The company's current estimates of Net Reserves in this area include 4.2 Million Bbls and 3.6 Bcf for the Bakken holdings.

**Strategic Positioning** – Credo, which had primarily been a natural gas producer, decided to reposition the company's focus in 2008 by building oil reserves and oil production. The timing of this decision and timely reserve purchases have strategically positioned the company to benefit from higher oil prices. Wellhead oil prices for Credo increased 38% in FY2010.

**Calliope** – Credo has developed a patented in-house recovery method for natural gas known as "Calliope". This proprietary technology has proven economic viability and gives the company a competitive edge to enhance natural gas production, especially from older properties.

**Revenue Growth and Cash Flow** – Oil and gas revenues are increasing. Q1FY2011 revenues were \$3,250,000 compared to \$3,142,000 during the same period last year. Q1 results also produced \$2.3 million in cash flow from operations.

## Credo Petroleum Corporation (Nasdaq:CRED)

**Diversification** – Credo continues to strategically pursue oil reserves and production. During FY2010 oil reserves increased 9% and account for 29% of the company's total reserves. The revenue mix for Q1FY2011 was 69% oil and 31% gas. The development of the company's oil reserves will continue to drive revenues in an environment of upward price trends for oil. The "Calliope" gas recovery method gives Credo a distinct price advantage in natural gas recovery activities. Low natural gas prices may result in more mature properties on the market that Credo can acquire at favorable prices for long term development.

**Inflection Point** – Credo has experienced 2 years of strategic transition and a 27% drop in realized natural gas revenues in FY2010. Yet the company has returned to profitability and reported \$0.22 in FY2010 vs. \$(1.40) loss in FY2009 (\$0.06 after adjusting for an impairment charge). The company is clearly at an inflection point.

### VALUATION:

Credo has assets that have long-term value in excess of the company's current market cap. At 11,000 per acre the company's 6000 net acres in Bakken alone are worth 65% of the Credos market cap. The company currently has no active Wall Street research coverage. Both improving fundamentals and more attention from investors may lead to higher share prices.

#### Credo Petroleum Corp (Nasdaq: CRED)

Investment Data (as of 4/25/11)

<b>Recent Price</b>	<b>\$10.18</b>
52-Week Range	\$7.02 - \$14.95
Fiscal Year End	Oct
Dividend	NA
Yield	NA
Shares Outstanding	10 MM
Average Trading Volume (3 mos)	26k
Market Capitalization	\$102MM
Cash	\$9MM
Long Term Debt	NA
Enterprise Value (EV)	\$95MM
BV/ Share	\$4.64
TTM Revenue	\$12MM
P/ Revenue	9x
TTM EPS	\$0.18
P/ EPS	57x
TTM EBITDA	\$5.9B
EV/ EBITDA	16x

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## Best Idea Profile:

## Syntroleum Corporation (NASDAQ:SYNM)

### DESCRIPTION:

Headquartered in Tulsa, Oklahoma; Syntroleum Corporation commercializes technologies to produce synthetic liquid hydrocarbons. Operations are currently focused on the commercialization of proprietary processes to convert carbonaceous material (biomass, coal, natural gas and petroleum coke) into synthetic liquid hydrocarbons. Synthetic hydrocarbons produced by the Syntroleum® Process can be further processed using the Syntroleum Synfining® process into high quality liquid fuels, such as diesel, jet fuel (subject to certification), kerosene, naphtha, propane and other renewable chemical products.

### KEY INVESTMENT CONSIDERATIONS:

**Proprietary Advantage** – The Syntroleum® Process produces synthetic liquid hydrocarbons that are substantially free of contaminants normally found in refined products made from crude oil. This gives the company a proprietary production edge over the competition.

**Shale Gas Potential** – A combination of high energy prices and shale gas developments are creating a sizeable and unique opportunity for Syntroleum. Talisman Energy recently sold Sasol Ltd a 50% working interest in a portion of its Montney shale play in N.E. British Columbia for total consideration of C\$1.05 billion. Sasol is currently operating gas-to-liquid (GTL) plants in both South Africa and Qatar. Sasol and Talisman plan to fund a feasibility study for a GTL facility in Western Canada, using joint venture lands as a secure feedstock of natural gas for a 48,000 barrel per day facility. Syntroleum is one of only 3 companies in the world that can build such a plant. Syntroleum is well positioned to benefit from any shale gas development-especially in North America.

**Compelling Economics** – Current energy prices are creating interest in Syntroleum's technologies from established potential partners. The GTL process creates 10-11 mcf gas per barrel of liquids. Feedstock costs are in the \$40-\$45 per barrel range vs. recent costs to refiners of nearly \$100 per barrel. Refiners generally have \$10-\$20 per barrel margins. Syntroleum can significantly expand gross margins for refiners which creates a compelling business proposition.

**Financial Position and Assets** – The company has \$10.4 million in cash and no debt. It also has \$41.4 million in investments and loans to Dynamics Fuels LLC, its joint venture with Tyson.

**Bio-Synfining** – The Company's Bio-Synfined™ fuel products can be used as finished products vs. additional blending that its competitors need while using traditional bio-diesel methods. Syntroleum also has a joint venture with Tyson foods, the largest producer of target grease and fat feedstock's in the world to construct multiple facilities in the U.S. for Bio-Synfining.

**Geismar Plant** – Dynamic Fuels LLC, Syntroleum's joint venture with Tyson, has built the only large scale biofuels plant in the U.S. (5,000 bpd) in Geismar, LA. The rail access, river access and proximity to refineries for companies like BP, Shell and Marathon make the location very advantageous. The plant is coming out of the commissioning phase now should be increasing production in the latter half of FY2011. This plant has additional acreage and access to energy industry employees which also make it an ideal location to add a GTL plant.

### VALUATION:

The monetization process for Syntroleum's technologies has just started. The company is receiving credible interest from new partners and its Geismar plant was running at only 67% of capacity during Q1FY2011. Either additional plant revenues or the announcement of a new contract could lead to a higher share price.

#### (Syntroleum Corporation: NASDAQ)

Investment Data (as of 5/27/11)

<b>Recent Price</b>	<b>\$1.81</b>
52-Week Range	\$1.48 - \$2.45
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	82MM
Average Trading Volume (3 mos)	500k
Market Capitalization	\$148MM
Cash	\$11MM
Long Term Debt	NA
Enterprise Value (EV)	\$137MM
BV/ Share	\$0.36
TTM Revenue	\$5MM
P/ Revenue	30x
TTM EPS	(\$0.18)
P/ EPS	NA
TTM EBITDA	(\$5MM)
EV/ EBITDA	NA

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## Best Idea Profile:

## Hurco Companies, Inc. (NASDAQ:HURC)

### DESCRIPTION:

Headquartered in Indianapolis, Indiana; Hurco Companies, Inc. is an industrial technology company. The company designs, manufactures and sells computerized machine tools, consisting primarily of vertical machining centers (mills) and turning centers (lathes), to companies in the metal working industry through a worldwide sales, service and distribution network. Although the company's computer control systems and software products are proprietary, they predominantly use industry standard personal computer components and are sold as integral components of our computerized machine tool products

### KEY INVESTMENT CONSIDERATIONS:

**Market Build-Out** – Demand for Hurco's products is driven by advances in industrial technology and the related demand for automated process improvements. The metal machining industry needs to continuously improve productivity and shorten cycle times. In addition to competitive needs there is pent up demand as retrofits were delayed for several years during the recession and an aging machine base requires retrofits units to stay competitive. Also, there are new facilities being built out in emerging markets which are looking for state of the art processes to maximize returns.

**Increases in Demand** – Hurco experienced strong demand for its technologically advanced products, and expansion into new markets between the beginning of fiscal 2003 and the end of fiscal 2008. Since the beginning of fiscal 2009, that growth trend reversed sharply due to the impact of the recent global recession. The company is now experiencing improvement each consecutive quarter as market conditions start to recover. Revenue for Q1FY2011 nearly doubled and were up 92% on year-over-year basis. Hurco's unit shipments for the first quarter of FY2011 were strong across the board with North America up 139%, Europe up 68% and the Asia Pacific region up 55%.

**Geographic Diversification** – Hurco is geographically diversified and has exposure to new, high growth Asian markets. For FY2010 the company had net sales and service fees of 26.3% in the North America, 62% in Europe and 11.7% in the Asia Pacific region (up from 5.7% in FY2009). Service fees comprised about 17% of revenues for the same period, a significant recurring revenue component within the business model.

**Industry Leader** – Hurco has been a leader in the introduction of interactive computer control systems that automate manufacturing processes and has over 40 years of experience. The company's computer control systems can be operated by both skilled and unskilled machine tool operators.

**Operating Leverage** - Hurco is a proven company experiencing a significant turnaround. Over the last five years the company has seen peak gross and operating margins of 37.8% and 16.5% respectively vs. 29% and 7% for Q1FY2011. This implies significant leverage in the company's model as the machine tool market strengthens.

**Financial Position** – Hurco has \$502 million in cash, no debt and generated \$2.4 million in CFFO during Q1FY2011.

### VALUATION:

Hurco is benefitting from a major turnaround in the machine tool automation markets. At the peak of the next cycle the company is capable of returning 25%+ returns on capital and net margins in the 10% to 12% range. As demand continues to improve and revenue returns to pre-recessionary levels, HURC has more than \$3.00 in earnings power. With a reasonable multiple of 15x to 18x, the stock would have 50% to 80% upside over the next couple of years.

### Hurco Companies (NASDAQ:HURC)

Investment Data (as of 5/27/11)

<b>Recent Price</b>	<b>\$29.63</b>
52-Week Range	\$14.5 - \$32.82
Fiscal Year End	Oct 31
Dividend	NA
Yield	NA
Shares Outstanding	6.4MM
Average Trading Volume (3 mos)	26k
Market Capitalization	\$191MM
Cash	\$50MM
Long Term Debt	NA
Enterprise Value (EV)	\$141MM
BV/ Share	\$18.29
TTM Revenue	\$125MM
P/ Revenue	1.5x
TTM EPS	(\$0.36)
P/ EPS	NA
TTM EBITDA	(\$0.289MM)
EV/ EBITDA	NA

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