

# Mossberg's Investor Digest

July 2011

Issue #37

## From the Editor...

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**Lack of financial literacy** - I saw an article regarding financial literacy recently and the lack of it among consumers was shocking. The article quoted a 2009 National financial capability survey. Here were the findings.

**21% incorrectly answered this question** – Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow? More than \$102, exactly \$102, or less than \$102?

**33% incorrectly answered this question** – Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account? More, exactly the same, or less than today?

**70% incorrectly answered this question** – If interest rates rise, what will typically happen to bond prices? Rise, fall, stay the same, or there is no relationship?

**24% incorrectly answered this question** – A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest paid over the life of the loan will be less – True or False?

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

Dave Mossberg

## July 2011 Issue

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**Griffon Corporation (NYSE:GFF)** - \$9.98, July 8, 2011, Page 3 - Value investors should take a hard look at Griffin at current price levels. The company has three operating businesses which include Telephonics Corporation (communications technology for military and commercial use), Home & Building Products (Garage doors and landscaping products) and Clopay Plastic Products Company (Plastic films for hygienic, health-care and industrial applications). Griffin's share price has fallen nearly 23% since April. The stock trades at a Px/Earnings multiple of 12x FY2012 estimates and is now trading at an 11% discount to book value.

**Patriot Transportation (Nasdaq:PATR)** – \$23.17, July 29, 2011, Page 4 – The 1986 Spin-off from Florida Rock Industries, Inc. has left Patriot with some valuable, if disparate assets. Investors carefully evaluating these assets may find that they add up to a compelling value. All three Patriot businesses are established and profitable.. The bottom line is that investors can use a variety of valuation methods that equate to far more than the Company's current market capitalization.

**Mitel Corporation (Nasdaq:MITL)**- \$4.34, July 29, 2011, Page 5 – Excluding \$100 million in divestible non-core businesses, Mitel's current valuation is about 0.7x EV/ revenue, which is a bargain for what essentially is an established software company that is well positioned to take market share and show significant improvement in operating performance.

**Hyperdynamics (NYSE: HDY)** – \$5.30, July 30, 2011, Page 6 – Headquartered in Houston, Texas; Hyperdynamics has contract rights for and engages in the exploration and exploitation of oil and gas in an approximately 9,650 square mile concession off the coast of the Republic of Guinea in West Africa. Proven and unproven reserves leave Hyperdynamics with a potential valuation far beyond its current market capitalization.

# 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 October 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
Global Traffic Network (Nasdaq: GNET)	8-Oct-10	5.93	11.79	98.8%	11.9%	86.9%
Pure Cycle Corp. (Nasdaq: PCYO)	19-Oct-10	3.34	3.10	-7.2%	11.9%	-19.1%
Triple-S Management Corp. (NYSE: GTS)	29-Oct-10	16.87	21.57	27.9%	10.1%	17.8%
SureWest Communications (Nasdaq: SURW)	29-Oct-10	7.89	13.12	66.3%	10.1%	56.2%
Arden Group	5-Nov-10	93.80	88.76	-5.4%	6.2%	-11.6%
Body Central	5-Nov-10	13.65	21.49	57.4%	6.2%	51.2%
LaserCard	17-Nov-10	4.56	6.25	37.1%	10.3%	26.8%
Mitek (OTCBB: MITK)	24-Nov-10	3.99	9.42	136.1%	8.1%	128.0%
Luby's (NYSE: LUB)	6-Dec-10	6.59	5.47	-17.0%	5.7%	-22.7%
Datalink (Nasdaq: DTLK)	20-Dec-10	4.50	10.34	129.8%	3.7%	126.1%
Ebix (Nasdaq: EBIX)	30-Dec-10	23.74	19.69	-17.1%	2.7%	-19.7%
Liberator Medical Holdings (OTCBB: LBMH)	31-Dec-10	1.20	1.39	15.8%	2.8%	13.1%
ENGlobal (Nasdaq: ENG)	14-Jan-11	4.18	4.00	-4.3%	0.1%	-4.4%
Intersections (Nasdaq: INTX)	16-Jan-11	9.98	19.42	94.6%	0.1%	94.5%
Reis (Nasdaq: REIS)	24-Jan-11	6.71	10.60	58.0%	0.6%	57.4%
MicroFinancial (Nasdaq: MFI)	27-Jan-11	4.11	5.97	45.3%	-0.3%	45.6%
Cirrus Logic (Nasdaq: CRUS)	19-Feb-11	24.58	15.18	-38.2%	-3.8%	-34.5%
G-III Apparel (Nasdaq: GIII)	21-Feb-11	37.25	30.87	-17.1%	-1.7%	-15.5%
Harding Incorporated (Nasdaq: HDNG)	28-Feb-11	12.35	10.95	-11.3%	-3.5%	-7.8%
Patient Safety Technologies (OTCBB: PTSX)	28-Feb-11	0.90	1.10	22.2%	-3.5%	25.8%
Six Flags Entertainment (NYSE: SIX)	18-Mar-11	70.22	35.21	0.3%	1.0%	-0.7%
Naturally Advanced Technologies (OTCBB: NAD)	21-Mar-11	1.94	3.34	72.2%	-0.6%	72.7%
Electsys (Nasdaq: ESYS)	25-Mar-11	5.09	5.89	15.7%	-1.8%	17.5%
World Entery Solutions (Nasdaq: XWES)	28-Mar-11	4.40	3.55	-19.3%	-1.5%	-17.8%
Tetraqon Financial Group (Euronext: TFG.AS)	29-Apr-11	7.60	7.75	2.0%	-5.6%	7.6%
AdCare (Amex: ADK)	29-Apr-11	4.97	6.16	23.9%	-5.6%	29.5%
Interphase (Nasdaq: INPH)	29-Apr-11	5.41	4.64	-14.2%	-5.6%	-8.7%
Nokia (NYSE: NOK)	29-Apr-11	9.23	5.80	-37.2%	-5.6%	-31.6%
MGM Resorts International (NYSE: MGM)	23-May-11	14.93	15.11	1.2%	-2.0%	3.2%
Credo Petroleum (Nasdaq: CRED)	25-May-11	10.18	9.80	-3.7%	-2.3%	-1.4%
Syntroleum (Nasdaq: SYNM)	27-May-11	1.81	1.34	-26.0%	-3.3%	-22.7%
Hurco Companies (Nasdaq: HURC)	29-May-11	29.63	29.42	-0.7%	-3.3%	2.6%
Jos. A Bank Clothiers Inc. (Nasdaq: JOSB)	10-Jun-11	45.32	51.31	13.2%	1.6%	11.6%
InterOil Corporation (NYSE: IOC)	30-Jun-11	58.51	62.60	7.0%	-2.4%	9.4%
CVR Energy (NYSE: CVI)	30-Jun-11	24.62	26.85	9.1%	-2.4%	11.4%
Manitex International, Inc (Nasdaq: MNTX)	30-Jun-11	5.52	5.01	-9.2%	-2.4%	-6.8%
Griffon Corporation (NYSE: GFF)	8-Jul-11	9.98	9.45	-5.3%	-4.3%	-1.0%
Patriot Transportation (Nasdaq: PATR)	29-Jul-11	23.17	23.17	0.0%	0.0%	0.0%
Mitel (Nasdaq: MITL)	29-Jul-11	4.45	4.45	0.0%	0.0%	0.0%
Hyperdanamics Corporation (NYSE: HDY)	30-Jul-11	5.30	5.30	0.0%	0.0%	0.0%
				<b>Average</b>	<b>17.5%</b>	<b>16.7%</b>

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Best Idea Profile:

Griffon Corporation (NYSE:GFF)

## DESCRIPTION:

Headquartered in New York City, New York; Griffon Corporation is a diversified manufacturing holding company. The company has three operating businesses which include Telephonics Corporation (communications technology for military and commercial use), Home & Building Products (Garage doors and landscaping products) and Clopay Plastic Products Company (Plastic films for hygienic, health-care and industrial applications). On September 30, 2010, Griffon purchased the parent of ATT holdings for \$542 million in cash. ATT's lawn and garden tool brands hold the number one or number two market positions in their respective major product categories.

## KEY INVESTMENT CONSIDERATIONS:

**Diversification** – Griffon derives its revenue from three distinctly different businesses. The TTM revenue mix includes Home and Lawn Products (48%), Plastics (28%) and Communications (24%). Top customers for the last two categories include Proctor and Gamble and the US Government. Therefore Griffon has a diversified and non-cyclical source of Cash Flow to support opportunistic acquisitions, especially in the home products and lawn equipment businesses.

**Customer Base** – Griffon has a long history with an established customer base of large clients that include names such as Lowe's, The Home Depot, Lockheed Martin and Boeing. Griffon is the predominant supplier to its clients in many of its products.

**Dominating a Niche Market** – The Company's Building Products division (Clopay) is the largest manufacturer of residential garage doors in the United States and maintains a top tier market position in the commercial garage market. ATT is a leading North American manufacturer of non-powered lawn and garden tools with top tier market positions in a number of its products.

**Restructuring** – Griffin has just completed a plant consolidation program in its home products division that will generate approximately \$10 million in annual savings.

**Profitability** – YTD Q2 2011 EBITDA increased 24% due to higher volume, favorable product mix, partially offset by the impact of higher resin costs and foreign exchange. Resin costs remain a risk to the plastics division in a rising price environment.

**Growth Market for Plastics** – Clopay Plastic Products produces many health care related products such as infant diapers, adult incontinence, feminine hygiene, surgical products, patient care and protective apparel. These markets are showing stable growth. Growth in hygiene markets for BRIC/developing countries are at double digit rates, as growth of the middle class and increased usage rates open new markets.

**Cash Flow** – Griffon's operating companies have generated \$247 million of free cash flow (excluding interest, taxes, and non-recurring items) over the past four years during a major economic downturn. With \$208MM of cash on the balance sheet and \$200MM in borrowing capacity Griffin has the financial capacity for growth.

## VALUATION:

Griffin's share price has fallen nearly 23% since April. The stock trades at a Px/Earnings multiple of 12x FY2012 estimates and is now trading at an 11% discount to book value. Griffin should be able to use its financial strength to expand its market position against some financially weaker competitors while acquiring others. Value investors should take a hard look at Griffin at current price levels.

### Griffon Corporation: (NYSE: GFF)

Investment Data (as of 7/8/11)

<b>Recent Price</b>	<b>\$9.98</b>
52-Week Range	\$9.56 - \$14.31
Fiscal Year End	Sep
Dividend	NA
Yield	NA
Shares Outstanding	63MM
Average Trading Volume (3 mos)	200k
Market Capitalization	\$633MM
Cash	\$208MM
Long Term Debt	\$667MM
Enterprise Value (EV)	\$1.1B
BV/ Share	\$11.17
TTM Revenue	\$1.57B
P/ Revenue	0.42x
TTM EPS	\$(0.20)
P/ EPS	NA
TTM EBITDA	\$87MM
EV/ EBITDA	13x

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## Best Idea Profile:

## Patriot Transpiration (NASDAQ:PATR)

### DESCRIPTION:

Headquartered in Jacksonville, Florida; Patriot Transportation Holding, Inc., and its subsidiaries are engaged in the transportation and real estate businesses. The transportation business is conducted through Florida Rock & Tank Lines, Inc. which operates in the Southeastern United States. The Tank Lines unit hauls petroleum, other liquids and dry bulk commodities by tank trailers. Patriot's real estate activities are conducted through two wholly owned subsidiaries: Florida Rock Properties, Inc. and FRP Development Corp. The Company's real estate operations consist of two reportable segments: Mining Royalty and Developed property. Real Estate related operations and investments are conducted primarily in the Southeastern and Mid-Atlantic United States.

### KEY INVESTMENT CONSIDERATIONS:

**Component Parts Equate to Value** – Patriots distinctly different yet valuable business units make the company an interesting value play for investors. Below are brief business unit descriptions and valuations.

**Trucking (Tank lines)** – Patriot's transportation segment hauls petroleum, liquids and dry bulk commodities. The transportation segment primarily serves customers in the petroleum industry in the Southeastern U.S. Tank Lines has from two to six major tank truck competitors in each of its markets. Price, service, and location are the major factors that affect competition in the transportation segment within a given market. During FY2010, the transportation segment's ten largest customers accounted for approximately 57.3% of the transportation segment's revenue. The Company owns and operates a fleet of 388 trucks and 502 trailers plus 9 additional trucks that are prepared for sale.

**Florida Rock Properties** – The Mining royalty land segment owns real estate including construction aggregate royalty sites and parcels held for investment. Nearly all of the companies mining properties are leased to Vulcan Materials Company under long-term mining leases. The Company owns seven locations currently being mined and six locations not being mined. The construction aggregates properties are being carried on the Company's books for just over \$24 million. Mining royalties reported for FY2010 were \$3.5 million for Aggregates (4.4 million tons) and \$577k in Cement (653 tons).

**Florida Rock Properties Development** – The developed property rentals segment acquires, constructs, and leases office/warehouse buildings primarily in the Baltimore/Northern Virginia/Washington area and holds real estate for future development. The Company owns 267 acres in 12 developed parcels of land, all but one of which are in the Mid-Atlantic region of the United States. The company has current building portfolio of 2.92 million square feet and 29 high quality office/warehouse facilities.

### VALUATION:

The 1986 Spin-off from Florida Rock Industries, Inc. has left Patriot with some valuable, if disparate assets. Investors carefully evaluating these assets may find that they add up to a compelling value. All three Patriot businesses are established and profitable. The fuel trucking business is less cyclical than spot trucking. A modest 1.5x sales multiple would value this business at \$69 million. The Aggregate and Cement royalty business revenues come from leased property with little costs associated with them and includes over 449 tons of reserves. Assuming a weighted price per ton of \$20.50 based on FY2010 prices this is a valuable business (and prices are increasing). The Commercial properties have a net book value of \$137 million. The bottom line is that investors can use a variety of valuation methods that equate to far more than the Company's current market capitalization.

### (Patriot Corporation: NASDAQ:PATR)

Investment Data (as of 7/29/11)

<b>Recent Price</b>	<b>\$23.17</b>
52-Week Range	\$19.49 - \$33.12
Fiscal Year End	Sep
Dividend	NA
Yield	NA
Shares Outstanding	9.3MM
Average Trading Volume (3 mos)	13.8k
Market Capitalization	\$215MM
Cash	\$17MM
Long Term Debt	\$65MM
Enterprise Value (EV)	\$268MM
BV/ Share	\$17.25
TTM Revenue	\$113MM
P/ Revenue	1.9x
TTM EPS	\$1.34
P/ EPS	17x
TTM EBITDA	\$27MM
EV/ EBITDA	10x

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## Best Idea Profile:

## Mitel Corporation (NASDAQ:MITL)

### DESCRIPTION:

Headquartered in Ottawa, Canada; 35-year-old Mitel Corporation is an established provider of voice communications solutions for primarily small-to-medium sized businesses (businesses with less than 500 users) and has a growing presence in the larger enterprise market with a portfolio of products which supports up to 65,000 users. Mitel's Internet Protocol, or IP, based communications solutions consist of a combination of IP telephony platforms which are delivered as software appliances and desktop devices along with a suite of unified communications applications that integrate voice, video and data communications with business applications. Mitel also operates as a competitive local exchange carrier (CLEC) in 44 U.S. states, through which it offers network services. Finally, the company also has a small (\$80 million in revenue) IT distribution business for value-added resellers, in which it distributes other technology solutions such as data and video networking equipment.

### KEY INVESTMENT CONSIDERATIONS:

**New Leadership** – In January, Richard McBee was named as CEO. McBee has 20 years of IT and telecom experience and was most recently President of the Communications & Enterprise Group of Danaher Corp. Prior to McBee's arrival, Mitel had yet to fully integrate and make basic post-merger strategic moves following its acquisition of Inter-Tel in 2007. There are several strategic moves, such as a coherent go-to-market strategy and cost efficiencies, that should provide a material improvement in profitability. McBee's experience at Danaher, which is well known for its successful M&A track record, will be helpful to strategy execution at Mitel. The company has already made significant realignment initiatives.

**Leadership position in telephony virtualization... partnership with VMware** – Corporate data centers are increasingly using virtualization technology as a strategy to reduce capital and operating expenses and provide business continuity solutions. Mitel has created a unique partnership with VMware to develop virtualized solutions for IP telephony and unified communications. Data centers can now treat voice like any other business application in a Data center with Mitel's unified communications features running as virtual appliances on VMware vSphere™ 4 virtualization platform.

**Well Positioned to take market share** – Mitel was the first major vendor to fully de-couple its call control software platform from a proprietary hardware solution. As such, Mitel's software can work on standard servers, and can interact with legacy TDM infrastructure and competitive platforms. This allows customers to have a capital-efficient migration to IP telephony and unified communications versus competitive offerings, which require a much more expensive "rip and replace". Mitel's less expensive solutions can be very attractive migration alternative for customers of the larger market players, Avaya (Nortel) and Cisco. While Mitel has a small overall market share of approx. 4%, it is a significant player in pure IP market with roughly 12% of that market. This disparity reflects Mitel's relative strength in the newer IP technology, which is growing at 2-3 times the overall telephony market.

### VALUATION:

Mitel's CLEC services and their VAR distribution business are non-core assets. These are potentially sources of additional capital as the company refocuses and restructures. Combined they are likely worth over \$100 million. Excluding these businesses from the current valuation leaves an EV/ revenue ratio of about 0.7x, which is a bargain for what essentially is an established software company that is well positioned to take market share and show significant improvement in operating performance.

### (Mitel Corporation: NASDAQ) Investment Data (as of 7/29/11)

<b>Recent Price</b>	<b>\$4.34</b>
52-Week Range	\$9.81 - \$3.79
Fiscal Year End	Apr
Shares Outstanding	53MM
Average Trading Volume (3 mos)	46.3K
Market Capitalization	\$230MM
Cash	\$74MM
Long Term Debt	\$323MM
Enterprise Value (EV)	\$479MM
BV/Share	\$0.93
TTM Revenue	\$650MM
P/Revenue	0.3x
TTM EPS	\$1.57
P/EPS	3x
TTM EBITDA	\$70MM
EV/EBITDA	6.8x

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Best Idea Profile:

Hyperdynamics Corp (NYSE:HDY)

## DESCRIPTION:

Headquartered in Houston, Texas; Hyperdynamics is an emerging independent oil and gas exploration company. The Company's wholly-owned subsidiary, SCS Corporation, possesses certain contract rights for and engages in the exploration and exploitation of oil and gas in an approximately 9,650 square mile concession off the coast of the Republic of Guinea in West Africa. The Company's rights in Guinea derive from a hydrocarbon production sharing contract that Hyperdynamics entered into in 2006 with the Republic of Guinea. Under that agreement, Hyperdynamics was granted certain exclusive contractual rights by Guinea to explore and exploit offshore oil and gas reserves, if any, off the coast of Guinea.

## KEY INVESTMENT CONSIDERATIONS:

**World Class Hydrocarbon Play** – Hyperdynamics holds a 77% interest of rights to a 9,650-sq-mi licensed area offshore of the Republic of Guinea in Northwest Africa (the equivalent of 2,500 Gulf of Mexico blocks). The Guinea prospects are centered in a virgin basin among multiple highly prospective trends. The surrounding area has attracted a number of major exploration and production companies such as Anadarko, Chevron, Lukoil, Vanco, Petroci, Sabre, Kosmos and Tullow which are planning multiple new offshore exploration wells in Sierra Leone, Liberia, Ivory Coast, and Ghana, during 2011.

**Positive Data** – Hydrodynamics Geochemical analysis of oil seeps indicates multiple working petroleum systems. The property has direct hydrocarbon indications on both 2D and 3D seismic surveys. Multiple leads and prospects for these properties have been identified with a potential for giant fields in 200-2,500 meter water depths.

**Recent Reserve Estimates** – The Company's Offshore Guinea concession has multiple leads in several different play types. The Prospective estimates for the three play types covered in a current 3D survey from independent third parties is ~2.3 billion Bbls of oil un-risked on just 15% of the concession. Netherland Sewell and Associates has estimated 750 million barrels of oil on a risked basis.

**Recent Offering** – On March 25, 2011 Hyperdynamics announced that its public offering of 25,000,000 shares of its common stock was priced at \$5.00 per share for gross proceeds of approximately \$125,000,000. The total size of the offering was 28,750,000 shares for gross proceeds of approximately \$143,750,000.

**NYSE Listing** – The Company successfully completed listing requirements for the NYSE and began trading there on July 11, 2011.

**Financial Strength** – The Company currently has \$152MM in cash and no debt. Hyperdynamics is fully funded for the current 2 well programs and for some deep water exploration.

**Seasoned Management** – Robert Solberg, the Non-Executive Chairman of the Company is a retired President of Worldwide E&P Development for Texaco, Inc. CEO Ray Leonard was a Division Geologist for West Africa and V.P with Amoco. He also served in executive capacities with YUKOS, MOL, and as Vice President of Kuwait Energy Company.

## VALUATION:

Proven and unproven reserves leave Hyperdynamics with a potential valuation far beyond its current market capitalization. With 2.3 Billion plus barrels on only 15% of its concession and the possibility of vast future reserves, this hydrocarbon play is highly undervalued.

### Hyperdynamics (NYSE:HDY) Investment Data (as of 7/29/11)

<b>Recent Price</b>	<b>\$5.30</b>
52-Week Range	\$1.04 - \$7.78
Fiscal Year End	Jun
Shares Outstanding	156MM
Average Trading Volume (3 mos)	3.4MM
Market Capitalization	\$824MM
Cash	\$152MM
Long Term Debt	NA
Enterprise Value (EV)	\$659MM
BV/ Share	\$1.23
TTM Revenue	NA
P/ Revenue	NA
TTM EPS	NA
P/ EPS	NA
TTM EBITDA	\$(11)MM
EV/ EBITDA	NA

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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.

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