

Mossberg's Investor Digest

August 2011

August 2011 Issue

Issue #38

From the Editor...

"It is time to start making a list." In the past week I've heard this phrase, or some derivative of it, several times from professional investors. Values of several stocks are getting attractive here and it appears the market is already priced for a recession.

The S&P is off 6.4% year to date and trades at 11.7X the forward 12 month consensus earnings estimate. That's pretty close to the historic low at a time when many corporations are reporting record earnings. Don't forget, **the S&P yields 2.3%... better than the 10 year treasury.**

If there is a recession, it appears the market has already priced for it, and it should be milder than the last one. **The economy has already been rationalized.** Bankruptcies and other business closures during the past recession helped reduced excess capacity. Corporate cash balances are at record highs and companies have been very cautious about inventory levels.

Insiders are buying – According to the University of Michigan, during August, nearly twice as many shares were bought by insiders as were sold, a very bullish sign.

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

Dave Mossberg

John Bean Technologies (NYSE:JBT) – \$14.85, August 11, 2011, Page 3 – JBT Corporation is a leading supplier of customized industrial food processing services and solutions. With a forward Px/EPS of only 9.8x the company represents a value play in a business with an expanding market. A PE ratio of just 12x next year's estimates would equate to a stock price of \$19.

White Mountains Insurance (NYSE:WTM) - \$410, August 17, 2011, Page 4 - White Mountains Insurance Group is a property and casualty insurance and reinsurance company. The Company is a strong and cash rich diversified franchise. A cyclical turn in the reinsurance business, improvement in other businesses and the Company's investment portfolio make it a classic value play. A better business climate along with some operating improvement should help the company move to a more normalized valuation of 2x book value, versus its current 11% discount to book.

Hallmark Financial (Nasdaq:HALL) - \$6.68, August 26, 2011, Page 5 - Hallmark Financial is a diversified property/casualty insurance group that serves businesses and individuals in specialty and niche markets. Hallmark Financial currently trades for \$6.68 per share which equates to a 41% discount to book value. As the Company reports more normalized returns the stock should experience a narrowing discount to book value.

TranSwitch Corp (Nasdaq:TXCC) - \$2.53, August 26, 2011, Page 6 - TranSwitch has undergone significant change over the past several years and has spent significant effort and resources to develop new connectivity solutions that address much larger and faster growing markets in consumer electronics. As such, analysts estimate that TranSwitch revenues will grow 40% next year from \$33 million to \$46 million in 2012. The company has communicated that it expects to reach breakeven at approximately \$10 million in quarterly revenue. If analysts' projections are correct, we should see that sometime next year, which would be a definite positive for the stock.

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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 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	13.94	135.1%	1.1%	134.0%
Pure Cycle Corp. (Nasdaq: PCYO)	19-Oct-10	3.34	3.06	-8.4%	1.1%	-9.5%
Triple-S Management Corp. (NYSE: GTS)	29-Oct-10	16.87	16.38	-2.9%	-0.6%	-2.3%
SureWest Communications (Nasdaq: SURW)	29-Oct-10	7.89	12.26	55.4%	-0.6%	55.9%
Arden Group	5-Nov-10	93.80	80.87	-13.8%	-4.1%	-9.7%
Body Central	5-Nov-10	13.65	17.88	31.0%	-4.1%	35.1%
LaserCard	17-Nov-10	4.56	6.25	37.1%	-0.4%	37.4%
Mitek (OTCBB: MITK)	24-Nov-10	3.99	8.82	121.1%	-2.4%	123.4%
Luby's (NYSE: LUB)	6-Dec-10	6.59	4.51	-31.6%	-4.5%	-27.1%
Datalink (Nasdaq: DTLK)	20-Dec-10	4.50	8.60	91.1%	-6.3%	97.4%
Ebix (Nasdaq: EBIX)	30-Dec-10	23.74	15.67	-34.0%	-7.3%	-26.7%
Liberator Medical Holdings (OTCBB: LBMH)	31-Dec-10	1.20	1.02	-15.0%	-7.2%	-7.8%
ENGglobal (Nasdaq: ENG)	14-Jan-11	4.18	3.24	-22.5%	-9.6%	-12.9%
Intersections (Nasdaq: INTX)	16-Jan-11	9.98	14.48	45.1%	-9.6%	54.7%
Reis (Nasdaq: REIS)	24-Jan-11	6.71	9.17	36.7%	-9.2%	45.8%
MicroFinancial (Nasdaq: MFI)	27-Jan-11	4.11	5.55	35.0%	-10.0%	45.0%
Cirrus Logic (Nasdaq: CRUS)	19-Feb-11	24.58	14.45	-41.2%	-13.1%	-28.1%
G-III Apparel (Nasdaq: GIII)	21-Feb-11	37.25	25.48	-31.6%	-11.2%	-20.4%
Harding Incorporated (Nasdaq: HDNG)	28-Feb-11	12.35	9.49	-23.2%	-12.9%	-10.3%
Patient Safety Technologies (OTCBB: PTSX)	28-Feb-11	0.90	0.80	-11.1%	-12.9%	1.8%
Six Flags Entertainment (NYSE: SIX)	18-Mar-11	70.22	33.77	-3.8%	-8.7%	4.9%
Naturally Advanced Technologies (OTCBB: NAD)	21-Mar-11	1.94	2.78	43.3%	-10.2%	53.5%
Electsys (Nasdaq: ESYS)	25-Mar-11	5.09	5.10	0.2%	-11.3%	11.5%
World Entery Solutions (Nasdaq: XWES)	28-Mar-11	4.40	3.12	-29.1%	-11.0%	-18.1%
Tetragon Financial Group (Euronext: TFG.AS)	29-Apr-11	7.60	6.42	-15.5%	-14.7%	-0.8%
AdCare (Amex: ADK)	29-Apr-11	4.97	4.96	-0.2%	-14.7%	14.5%
Interphase (Nasdaq: INPH)	29-Apr-11	5.41	4.37	-19.2%	-14.7%	-4.5%
Nokia (NYSE: NOK)	29-Apr-11	9.23	5.92	-35.9%	-14.7%	-21.1%
MGM Resorts International (NYSE: MGM)	23-May-11	14.93	10.28	-31.1%	-11.5%	-19.6%
Credo Petroleum (Nasdaq: CRED)	25-May-11	10.18	8.73	-14.2%	-11.8%	-2.5%
Syntroleum (Nasdaq: SYNM)	27-May-11	1.81	1.16	-35.9%	-12.6%	-23.3%
Hurco Companies (Nasdaq: HURC)	29-May-11	29.63	25.10	-15.3%	-12.6%	-2.7%
Jos. A Bank Clothiers Inc. (Nasdaq: JOSB)	10-Jun-11	45.32	45.16	-0.4%	-8.2%	7.9%
InterOil Corporation (NYSE: IOC)	30-Jun-11	58.51	58.63	0.2%	-11.8%	12.0%
CVR Energy (NYSE: CVI)	30-Jun-11	24.62	27.10	10.1%	-11.8%	21.9%
Manitex International, Inc (Nasdaq: MNTX)	30-Jun-11	5.52	3.87	-29.9%	-11.8%	-18.1%
Griffon Corporation (NYSE: GFF)	8-Jul-11	9.98	7.80	-21.8%	-13.5%	-8.3%
Patriot Transportation (Nasdaq: PATR)	29-Jul-11	23.17	22.00	-5.0%	-9.7%	4.6%
Mitel (Nasdaq: MITL)	29-Jul-11	4.45	3.00	-32.6%	-9.7%	-22.9%
Hyperdanamics Corporation (NYSE: HDY)	30-Jul-11	5.30	4.23	-20.2%	-9.7%	-10.5%
John Bean Technologies (Nasdaq: JBT)	11-Aug-11	14.85	14.84	-0.1%	0.1%	-0.2%
White Mountains Insurance (NYSE: WTM)	17-Aug-11	410.00	394.81	-3.7%	-1.6%	-2.2%
TransSwitch Corp. (Nasdaq: TXCC)	26-Aug-11	2.53	2.53	0.0%	0.0%	0.0%
Halmark Financial (Nasdaq: HALL)	26-Aug-11	6.68	6.68	0.0%	0.0%	0.0%
			Average	2.1%	-8.2%	10.3%

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Best Idea Profile:

John Bean Technologies (NYSE:JBT)

DESCRIPTION:

Headquartered in Chicago, Illinois; JBT Corporation is a leading supplier of customized industrial food processing services and solutions. The company designs, manufactures and services technologically sophisticated food processing systems for the preparation of ready-to-eat meals, shelf stable packaged foods, meat, seafood, poultry products, and bakery products, along with other fruit, vegetable and dairy products. The JBT FoodTech division markets its solutions and services to multi-national and regional industrial food processing companies. The JBT AeroTech division markets its solutions and services to domestic and international airport authorities, passenger airlines, airfreight and ground handling companies and military forces.

KEY INVESTMENT CONSIDERATIONS:

Leading Franchise – JBT is a market leader. The company provides new and established food processing technologies to a blue chip customer base. JBT systems sterilize over 50% of the world's shelf stable canned goods and freeze over 50% of commercial foods frozen worldwide. The Company's FoodTech division's client base includes names such as Heinz, Tyson, Del Monte and Campbell's. JBT Aerotech has a client base that includes names such as British Airways, United and Fedex. The Company has a global footprint with operation on 6 continents.

Diversification – Nearly 60% of the Company's revenues base is from JBT FoodTech (food processing) with the other 40% from JBT Aerotech (airline and military). The Company's operating profits are also balanced with 66% coming from JBT FoodTech. The Revenue mix is has geographic diversification with over 25% of revenues coming from emerging markets.

Dominating Niche Markets – Both JBT divisions dominate four key niche markets. JBT FoodTech has a number one or two market positions in freezing and chilling, protein processing, fruit processing, and in-container processing. JBT Aerotech is has top 2 market positions in gate equipment, ground support, airport services and automated systems.

Recurring Revenue – JBT has a sizeable stream of recurring revenues. Approximately 43% of total company revenues are from recurring sources.

Margin Expansion – Operating Margins have expanded from just over 8% in 2005 to 12%-13% through leveraging top-line growth and cost management.

Return on Investment – JBT has been providing investors with an ROI in excess of 20%.

Future Growth Opportunities – The Company is expanding sales and looking for acquisitions in high growth markets such as China, Latin America and Eastern Europe. These markets lag more developed markets in convenience foods and modern food processing and represent strong growth opportunities.

Valuation

JBT is experiencing strong growth. The Company's second quarter results showed a revenue increase of 21% on a year-over-year basis. The company also reported double digit increases in inbound orders (17%). With a forward Px/EPS of only 9.8x the company represents a value play in a business with an expanding market. A PE ratio of just 12x next year's estimates would equate to a stock price of \$19.

(John Bean Technologies: NYSE:JBT) Investment Data (as of 8/11/11)

Recent Price	\$14.85
52-Week Range	\$13.67 - \$21.19
Fiscal Year End	Dec
Dividend	0.28
Yield	1.8%
Shares Outstanding	28.7MM
Average Trading Volume (3 mos)	150k
Market Capitalization	\$425MM
Cash	\$7.8MM
Long Term Debt	\$145MM
Enterprise Value (EV)	\$562MM
BV/ Share	\$17.25
TTM Revenue	\$957
P/ Revenue	0.4x
TTM EPS	\$1.37
P/ EPS	10.8x
TTM EBITDA	\$94MM
EV/ EBITDA	6.0x

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Best Idea Profile:

White Mountains Insurance (NYSE:WTM)

DESCRIPTION:

Headquartered in Hanover, New Hampshire; White Mountains Insurance Group is a property and casualty insurance and reinsurance company. White Mountain operates through four separate entities which include OneBeacon, White Mountains Re, Esurance and Other (a number of subsidiaries and an investment management company). Insurance activities include property and casualty, accident and health and reinsurance. White Mountains Re's reinsurance protection primarily consists of pro-rata and excess of loss protections to cover aviation, trade credit, and certain property exposures.

KEY INVESTMENT CONSIDERATIONS:

Financial Strength – White Mountain has \$14.2 billion in assets. The company has over \$2 billion in excess assets than can be redeployed for additional operations.

Esurance Sale – During Q2FY2011 White Mountain signed a definitive agreement to sell its Esurance and Answer financial business to Allstate. Esurance was #3 in the Property and Casualty market behind Geico and Progressive. White Mountain was able to sell the business for approximately \$1 billion in cash.

OneBeacon Ownership – OneBeacon Insurance Group, Ltd. is an exempted Bermuda limited liability company that owns a family of U.S. based property and casualty insurance companies. OneBeacon has a long-term history of successful underwriting and offers a wide range of insurance products. White Mountain currently owns a 76% interest in OneBeacon Ltd.'s outstanding common shares. OneBeacon is currently trading at 1x book value.

Equity Stakes – White Mountain has equity investments in a number of affiliates, some of which trade as low as 1x book value. These investment interests include Tuckerman Fund I (94%), Tuckerman Fund II (48%) Prospector Fund (62% partnership interest), Symetra (15%) and Pentelia (33%)

Opportunity in Japan – The recent Tsunami and Nuclear disasters in Japan are putting upward pressure on reinsurance rates. New premiums are being written with prices that are 40%-50% higher than many pre-disaster policies.

Market Cycle – The reinsurance business appears to be ending an unusually long non-catastrophic cycle that left rates very low and valuations in at historically low levels (1x book value range).

Insider Buying – The Company experienced significant insider buying from a number of officers and directors during the second quarter. Most notably the CEO, Raymond Barrette purchased over \$1mm worth of stock @\$402 per share. Also, two other officers had combined purchases in excess of \$1mm.

VALUATION:

White Mountain is a strong and cash rich diversified franchise. A cyclical turn in the reinsurance business, improvement in other businesses and the Company's investment portfolio make it a classic value play. A better business climate along with some operating improvement should help the company move to a more normalized valuation of 2x book value. The Company currently trades at an 11% discount to book value. A valuation of 1.5x book value would equate to a stock price of \$682.

(White Mountains, Insurance Ltd.: NYSE:WTM) Investment Data (as of 8/16/11)

Recent Price	\$410
52-Week Range	\$295 - \$438
Fiscal Year End	Dec
Dividend	\$1.00
Yield	0.20%
Shares Outstanding	8MM
Average Trading Volume (3 mos)	13.8k
Market Capitalization	\$3.3B
Cash	\$951MM
Long Term Debt	\$669MM
Enterprise Value (EV)	\$3BMM
BV/ Share	\$455
TTM Revenue	\$3.2B
P/ Revenue	1x
TTM EPS	\$13.12
P/ EPS	31
TTM EBITDA	NA
EV/ EBITDA	NA

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Best Idea Profile:

Hallmark Financial Services (NYSE:HALL)

DESCRIPTION:

Headquartered in Fort Worth, Texas; Hallmark Financial is a diversified property/casualty insurance group that serves businesses and individuals in specialty and niche markets. The Company offers standard commercial insurance, specialty commercial insurance and personal insurance in selected market subcategories that are characteristically low-severity and short-tailed risks. Hallmark focuses on marketing, distributing, underwriting and servicing property/casualty insurance products that require specialized underwriting expertise or market knowledge. The insurance policies Hallmark produces are written by its five insurance company subsidiaries as well as unaffiliated insurers.

KEY INVESTMENT CONSIDERATIONS:

Proven Track Record – Started as a “Texas only” mono-line insurer in 1990, Hallmark Financial has a proven platform and a successful track record of operating results and expansion. Since 2004 the Company has expanded into 4 to 5 states per year and has added a number of new business lines. Hallmark has consistency run an efficient and disciplined organization with efficiency ratios in the low 20's and a 5 year growth rate of book value of 15%.

ROE – Hallmark has a record of delivering a strong ROE for investors. From 2006 through 2010 the Company had an average ROE of 10.4%.

Opportunistic Entry Point – Hallmarks performance has been severely impacted by the Company's 2009 entrance into the Florida personal lines market. Losses increased in FY2010 due to lower production and widespread claim fraud. For the Q1FY2011 Hallmark reported an \$11.2 million net loss. Hallmark reported that \$9.7 million of this loss was a result of adverse prior year loss reserve development in the Personal Lines Segment in Florida. Hallmark has addressed the problems in Florida by hiring additional senior claim managers and increasing premiums. The Company also hired Paul Harrison, former president of Imperial Fire and Casualty Insurance Company as its Personal Lines business unit Chief Operating Officer. Also, Hallmark's Florida exposure should be dramatically reduced. Hallmark reports that out of the net premiums written in Florida, just \$3.5 million remained in unearned premium reserves as of March 31, 2011, and Hallmark expects this remainder to run-off by the end of this year. During Q2FY2011 Hallmark suspended all new business in Florida.

Share Buyback Program – Hallmark repurchased 875,712 shares or 4.5% of its outstanding common stock for a total cost of \$6.4 million during the second quarter to date, including shares purchased subsequent to quarter end. Since inception of the company's buyback program, total shares repurchased are 1.6 million or 8% of outstanding common stock. The total cost of shares repurchased to date is \$11.7 million or \$7.17 per share, equivalent to 64% of Hallmarks second quarter book value per share of \$11.23. There are approximately 2.4 million shares remaining authorized under the company's current stock buyback program.

Growth Opportunities – With the exception of its Florida problems, Hallmark has strong metrics and has delivered strong results for its investors. The company's high efficiency niche product line platform has demonstrated merit and the company has opportunities to grow with new products lines in a number of new states.

VALUATION

Hallmark Financial currently trades for \$6.68 per share which equates to a 41% discount to book value. As the Company reports more normalized returns the stock should experience a narrowing discount to book value.

(Hallmark Financial : NASDAQ:HALL)

Investment Data (as of 8/26/11)

Recent Price	\$6.68
52-Week Range	\$6.32 - \$9.64
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	19MM
Average Trading Volume (3 mos)	55.4k
Market Capitalization	\$129MM
Cash	\$51MM
Long Term Debt	\$59MM
Enterprise Value (EV)	\$137MM
BV/ Share	\$11.23
TTM Revenue	\$311MM
P/ Revenue	\$0.4x
TTM EPS	\$(0.49)
P/ EPS	NA
TTM EBITDA	NA
EV/ EBITDA	NA

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Best Idea Profile:

TranSwitch Corp (NASDAQ:TXCC)

DESCRIPTION:

Headquartered in Shelton, Connecticut; for more than 20 years TranSwitch has provided semiconductor and other intellectual property (IP) solutions for use in communications infrastructure (approximately 60% of revenue) and customer premises equipment (approx. 20% of revenue) and High Speed Interconnect (approx. 20 % of revenue). The Company's intellectual property (IP) products are compliant with global industry standards such as HDMI and DisplayPort and also feature its proprietary HDP™ and AnyCable™ technologies. TranSwitch has over 100 active customers which includes leading global telecom semiconductor and consumer product companies.

KEY INVESTMENT CONSIDERATIONS:

New Products Expand Addressable Market –

TranSwitch is strategically positioning its operations to address three fast growing segments of the High Definition video connectivity market in 2012. The three areas are HD display IT products, the smartphone tablet and video interconnect market and the TV and Flat screen high speed interface market. The Company estimates that these three areas represent an addressable market of \$1.1 billion available to the Company's products in 2012.

Telecom Market Strengthening – The Telecom business has slowed in recent years after the Global recession occurred. However, TranSwitch is seeing signs of stabilization. In addition its legacy products have long life cycles and generate strong cash flows.

HD and Displayport Products – These products are currently in the sampling phase. TranSwitch has continuing engagements with customers on a global basis. The target market includes televisions, video monitors, projectors, audio, receivers and digital switching equipment. In addition to end customers TranSwitch is working with reference design partners that have a strong end user channel. These products should contribute a significant amount of revenue to the company in FY2012.

Mobile Products – The Company's first video connectivity product for smartphones and tablets is under development. TranSwitch is working closely with top-tier OEM companies and the product is targeted for a second half FY2012 launch.

Recurring Revenues – Q2FY2011 net service revenues were \$3 million vs. \$2.2 million on a year-over year basis. The Company's model includes a significant recurring revenue component.

Gross Margin Improvement – Q2FY2011 Gross Margins were 67% vs. 56% on a year-over year basis. Additional royalties and higher margin sales could lead to continued improvement in margins.

Geographic Diversification – TranSwitch is a global company. The geographic revenue breakdown for the most recently reported quarter was Asia-Pac 34%, Americas 34% and Europe 33%

VALUATION:

The company has undergone significant change over the past several years and has spent significant effort and resources to develop new connectivity solutions that address much larger and faster growing markets in consumer electronics. As such, analysts estimate that TranSwitch revenues will grow 40% next year from \$33 million to \$46 million in 2012. The company has communicated that it expects to reach breakeven at approximately \$10 million in quarterly revenue. If analysts' projections are correct, we should see that sometime next year, which would be a definite positive for the stock.

TranSwitch Corporation: (Nasdaq: TXCC) Investment Data (as of 8/26/11)

Recent Price	\$2.53
52-Week Range	\$1.94 - \$5.50
Fiscal Year End	Dec
Shares Outstanding	30MM
Average Trading Volume (3 mos)	165k
Market Capitalization	\$77MM
Cash	\$16MM
Long Term Debt	\$10MM
Enterprise Value (EV)	\$60MM
BV/ Share	\$0.93
TTM Revenue	\$38MM
P/ Revenue	2.0x
TTM EPS	NA
P/ EPS	NA
TTM EBITDA	NA
EV/ EBITDA	NA

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12 Monthly Compilation Issues

Access to Past Compilation Issues

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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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