Mossberg's Investor Digest

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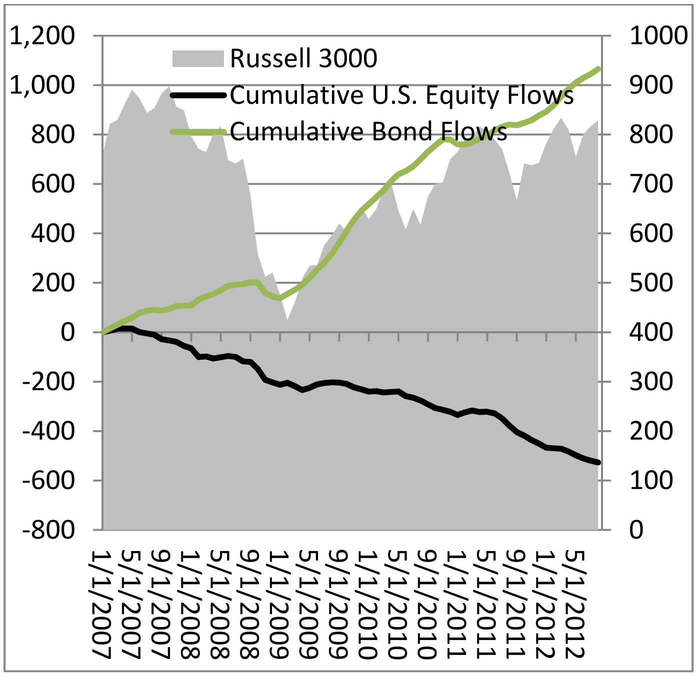
Issue #50

From the Editor...

While the Russell 3000 ended the month up 10% for the year, there remains a negative flow for U.S. equities. Volatility combined with continued uncertainty over the global economy has left equity investors to head for the hills and the relative security of bonds.



In the chart above I compare the cumulative flow of funds since the beginning of 2007 for U.S. Equity mutual funds and bond funds, versus the Russell 3000 index over the same time period. The chart shows that there has been approximately $540 billion withdrawn from U.S. equity mutual funds since the beginning of 2007. Approximately $130 billion was withdrawn during 2011, and $75 billion so far this year. As a contrarian, I see this is a bullish indicator for the market. There is a lot of money getting minimal returns in bonds, or otherwise sitting on the side lines. At some point (hopefully soon), these funds will find their way back into equities.

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

Dave Mossberg

August 2012 Issue

Deere and Company (NYSE: DE) – *$79.76, August 13, 2012, Page 3* - Deere and Company has an integrated portfolio of core agricultural and construction equipment and complementary turf and forestry equipment businesses. While fairly valued when compared with peer stocks in its industry group, there is room for price appreciation, assuming continued fundamental strength. Price momentum is strong and the stock has stayed in line with the S&P 500.

Power Solutions International (OTC BB:PSIX)– *$16.99, August 16, 2012, Page 4* – Power Solutions International is one of the largest North American off-road alternative-fuel engine suppliers. PSI is well positioned to capitalize on environmental and industry trends that favor its core strengths in emission compliance and customization.

U.S. Concrete, Inc. (NASDAQ: USCR) - $6.13, August 26, 2012, Page 5 – U.S. Concrete provides ready-mix concrete products to the construction industry. Companies that survived the sustained downturn of the housing market are in strong position to capitalize upon a recovery with stronger pricing power. At the same time, USCR streamlined its business and improved its operating structure so that any improvement in the market will translate nicely to the bottom line.

Ikanos Communications, Inc. (NASDAQ:IKAN) – *$0.92, August* 30, 2012, Page 6 – The Company has $33 million in cash, and a market cap of $60 million, leaving an enterprise value of just $26 million. This kind of liquid value provides a support base for the stock. As the company gains traction in the VDSL market, incremental revenue should provide a disproportionally larger contribution to earnings. Also, with a market capitalization of $60 million, significant cash and patents, the stock could be a likely target for acquisition at a value significantly above the stock's current price.

Mossberg's Investor Digest Idea Performance

The table below shows the relative change in the value of the ideas published since December 2011 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
Headwaters, Inc. (NYSE: HW)	9-Dec-11	2.74	7.03	156.6%	11.6%	145.0%
3D Systems Corp. (NYSE: DDD)	23-Dec-11	14.95	40.60	171.6%	10.8%	160.8%
Wilbros Group, Inc. (NYSE: WG)	23-Dec-11	3.71	5.41	45.8%	10.8%	35.1%
Antares Energy (ASX: AZZ.AX)	31-Dec-11	0.43	0.47	9.3%	11.6%	-2.3%
Rentech Nitrogen Partners L.P. (NYSE:RNF)	12-Jan-12	19.25	32.97	71.3%	8.0%	63.2%
Points International, Ltd. (NASDAQ:PCOM)	23-Jan-12	7.96	12.60	58.3%	6.3%	52.0%
Conn's Inc. (NASDAQ:CONN)	24-Jan-12	11.95	22.00	84.1%	6.3%	77.8%
Trinity Industries, Inc. (NYSE:TRN)	26-Jan-12	31.30	28.88	-7.7%	5.9%	-13.6%
Top Image Systems (Nasdaq: TISA)	18-Feb-12	2.92	4.46	52.7%	2.3%	50.5%
DGSE Companies (Nasdaq: DGSE)	27-Feb-12	7.72	7.43	-3.8%	2.0%	-5.7%
Doral Financial (NYSE: DRL)	27-Feb-27	1.49	1.06	-28.9%	2.0%	-30.8%
Essex Rental Corporation (Nasdaq: ESSX)	27-Feb-12	3.60	3.78	5.0%	2.0%	3.0%
Plug Power, Inc. (NASDAQ:PLUG)	19-Mar-12	1.77	1.06	-40.1%	-0.9%	-39.2%
Salem Communications (NASDAQ:SALM)	28-Mar-12	4.52	4.87	7.7%	-0.5%	8.3%
21st Century Holding (NASDAQ:TCHC)	29-Mar-12	4.43	5.20	17.4%	-0.4%	17.8%
HFF, Inc. (NYSE: HF)	30-Mar-12	16.47	13.01	-21.0%	-0.7%	-20.3%
Hecla Mining, Inc. (NYSE:HL)	26-Apr-12	4.25	5.37	26.4%	-0.1%	26.4%
The Cash Store Financial Services, Inc. (NYSE:CSF	26-Apr-12	5.37	5.90	9.9%	-0.1%	9.9%
Silicon Image, Inc. (NASDAQ:SIMG)	29-Apr-12	5.95	5.05	-15.1%	-0.4%	-14.7%
GSE Systems Inc. (Amex: GVP)	29-Apr-12	2.87	1.94	-32.4%	-0.4%	-32.0%
GSI Group (Nasdaq: GSIG)	13-May-12	12.36	9.24	-25.2%	3.4%	-28.6%
Standard Parking Corp. (NASDAQ:STAN)	25-May-12	18.42	22.71	23.3%	6.3%	17.0%
Ionnodata Isogen (Nasdaq: INOD)	28-May-12	5.41	3.86	-28.7%	6.3%	-34.9%
Acme United (Amex: ACU)	30-May-12	10.17	10.80	6.2%	6.7%	-0.5%
Spectrum Pharmaceuticals, Inc. (Nasdaq: SPPI)	3-Jun-12	11.01	11.88	7.9%	9.8%	-1.9%
Matrix Service Co. (Nasdaq: MTRX)	8-Jun-12	10.46	10.99	5.1%	5.9%	-0.8%
Orbital Sciences Corp.(NYSE: ORB)	13-Jun-12	12.02	13.51	12.4%	7.0%	5.4%
Landec Corp.(Nasdaq: LNDC)	18-Jun-12	7.55	9.15	21.2%	4.6%	16.6%
Compass Diversified Holdings (NYSE: CODI)	7-Jul-12	14.24	14.52	2.0%	3.4%	-1.4%
Codexis (NASDAQ:CDXS)	29-Jul-12	3.23	2.07	-35.9%	1.6%	-37.5%
Silicon Motion Technology Corp. (NASDAQ:SIMO)	29-Jul-12	15.33	16.60	8.3%	1.6%	6.7%
Franklin Covey Co. (NYSE:FC)	29-Jul-12	10.27	10.49	2.1%	1.6%	0.5%
Deere and Company (NYSE: DE)	13-Aug-12	79.76	75.11	-5.8%	-0.4%	-5.5%
Power Solutions International (OTC BB:PSIX)	16-Aug-12	16.99	16.50	-2.9%	0.6%	-3.5%
U.S. Concrete, Inc. (NASDAQ: USCR)	26-Aug-12	6.13	6.31	2.9%	0.2%	2.7%
Ikanos Communications, Inc. (NASDAQ:IKAN)	30-Aug-12	0.92	0.92	0.0%	0.0%	0.0%
				15.6%	**3.7%**	**11.8%**

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Best Idea Profile: **Deere and Company (NYSE: DE)**

DESCRIPTION:

Deere and Company has an integrated portfolio of businesses. Its core growth businesses include agricultural and construction equipment. Its complementary businesses include turf and forestry equipment. Supporting businesses include financial services, power systems, parts, and technology solutions. Under the John Deere name, the Company manufactures and distributes a full line of agricultural and turf equipment, such as combines, harvesters, shredders, scrapers, and turf mowers, as well as the related service parts. John Deere construction, earthmoving, material handling and forestry equipment includes backhoe loaders, dozers, loaders, excavators, articulated dump trucks, logging machinery, and a variety of attachments. The financial services segment primarily finances sales and leases by John Deere dealers of new and used equipment. Deere's integrated wireless technology optimizes machines, logistics and decision making. Deere was founded in 1837, incorporated in 1958, and is headquartered in Moline, Illinois.

KEY INVESTMENT CONSIDERATIONS:

Beneficiary of Global Growth – Looking long term, Deere expects 50% of its anticipated $50 billion in sales volume to be from outside of the U.S. and Canada in 2018, compared with 39% this past year and 29% five years earlier. Deere is a **great long-term play on the growing need to feed and shelter the world**. The world population is continuing to grow, particularly in Asia and Africa. The world's agricultural output will need to double by 2050, meaning the rate of growth over the next ten years will be greater than the past ten years. And the massive urbanization demands huge infrastructure growth.

Crop Economics Remain Positive – Deere is the largest maker of agricultural equipment. Despite the drought in the Midwest, the prospects for U.S./Canadian demand for agricultural equipment remain positive. Deere's worldwide sales of agriculture and turf equipment are forecast to increase by 15% for 2012.

Construction and Forestry Growth – Deere holds a strong second place to its primary competitor in this arena, Caterpillar (NYSE:CAT). Deere expects this segment (which was 17% of fiscal 2011 sales) will grow 20% with improving fundamentals and market-share advances in emerging countries this year. Revenue is also benefiting from growth in sales to independent rental companies, which are upgrading and replenishing their fleets.

Dividend Yield – Deere pays a dividend of $0.46 per share—a yield of 2.3%.

Strong Financial Condition – The second quarter represented eight consecutive quarters of record earnings and the company has a history of outperforming analysts' profit expectations. Return on equity could exceed 40% this year and cash flow is very strong, exceeding capital expenditures and dividends by a wide margin.

Risk – The primary risk for Deere is the impact of fluctuating commodity prices on the demand for machinery. Global expansion and diversification in the agricultural and construction markets helps to mitigate this risk. Deere's increase in foreign sales may soften the blow of the current U.S. drought as foreign farmers respond to higher global commodity prices by planting more crops and ordering more agricultural equipment.

VALUATION:

While fairly valued when compared with peer stocks in its industry group, there is room for price appreciation, assuming continued fundamental strength. Price momentum is strong and the stock has stayed in line with the S&P 500.

Deere and Company(NYSE: DE)
Investment Data (as of 8/13/12)

Recent Price	**$79.76**
52-Week Range	$59.92 - $89.70
Fiscal Year End	Oct 31
Dividend	$0.46
Yield	2.3%
Shares Outstanding	398 M
Average Trading Volume (3 mos)	3.9 M
Market Capitalization	$32 B
Cash	$2.7 B
Long -term Debt	30 B
Enterprise Value (EV)	$59 B
Book Value	$18.55
TTM Revenue	$33.8 B
P/ Revenue	0.9x
TTM EPS	$7.21
P/ EPS	11.1x
TTM EBITDA	$5.6 B
EV/ EBITDA	10.5x

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Best Idea Profile: **Power Solutions International (OTC BB:PSIX)**

DESCRIPTION:

Power Solutions International is one of the largest North American off-road alternative-fuel engine suppliers. PSI provides integrated turnkey solutions to leading global OEMs. It also provides in-house design, prototyping, engineering and testing for customized clean, high-performance engines that run on a wide variety of fuels, including natural gas, propane, biogas, diesel, gasoline, or hybrid systems, that meet applicable environmental standards. PSI power systems are used worldwide in power generators, forklifts, aerial lifts, and industrial sweepers, as well as in oil and gas, aircraft ground support, agricultural and construction equipment. The Company was founded in 1985 and is headquartered in Wood Dale, Illinois. The Company's reverse capitalization that brought it public occurred in 2011.

KEY INVESTMENT CONSIDERATIONS:

Dynamic Market Opportunity – The worldwide demand for off-road alternative fuel engines is expected to grow significantly faster than conventional engines. Environmental standards continue to evolve, demanding innovative solutions. As emission regulations tighten, diesel users face increased costs, while OEMs face complex certification hurdles. Conventional fuel equipment has been hit hard by increased cost of fuel and emission compliance. PSI is well positioned to capitalize on environmental and industry trends that favor its core strengths in emission compliance and customization.

Easy Choice for OEMs -- Tier 4 emission regulation standards for diesel engines are being phased in between now and 2015. This works in favor of PSI as diesel engines have to undergo costly outfitting to comply, or OEMs have to switch to a natural-gas-powered engine that is already in compliance.

Strong Barriers to Entry – PSI's comprehensive emission expertise creates a barrier to entry for competitors and provides customers with an invaluable service. Complex and costly compliance hurdles drive OEMs to outsource services that PSI provides. PSI's advantages include strong relationships with OEMs that have sole-sourced products, ongoing investment in environmental certifications, competitive cost advantages from its global sourcing and aggregation, and large investments in proprietary engine technology and in-house engineering.

Sales Growth Across Product Lines – PSI's 2011 sales grew 54% over the previous year. This included big gains in organic growth as the Company continues to build business with existing customers. The second quarter 2012 sales increase of 42% represented improvement in all of PSI's major product lines. It is expanding with new engines and new markets, such as its entry into the on-road "big block" engines. To support future growth, during the second quarter, PSI completed new production facilities on time and with no unplanned costs.

Financial Strength – PSI recently reaffirmed its guidance of sales growth of 23-35% for 2012, along with the expectation of gross margin expansion. Management stated its expectation that operating profit will at least keep up with sales growth. The balance sheet is strong and the company has access to $25 million more in its $50 million line of credit to fund growth and development. Removing the impact of the non-cash warrant revaluations that will happen quarterly, the second quarter EPS was $0.21, compared with $0.04 in the comparable quarter last year and $0.19 in the first quarter of 2012.

KEY RISK:

This stock is thinly traded. 53% of shares are held by insiders and 5% owners, with more than 7 million shares held by the Winemaster brothers.

Power Solutions International (OTC BB:PSIX)
Investment Data (as of 8/16/12)

Recent Price	**$16.99**
52-Week Range	$14.00 - $18.49
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	9.1 M
Average Trading Volume (3 m)	3K
Market Capitalization	$154 M
Cash	$577K
Long Term Debt	$25 M
Enterprise Value (EV)	$178 M
Book Value	$1.82
TTM Revenue	$186.5 M
P/ Revenue	0.90
TTM EPS	$0.52
P/ EPS	32.8
TTM EBITDA	$12.3 M
EV/ EBITDA	14.5

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Best Idea Profile: **U.S. Concrete, Inc. (NASDAQ: USCR)**

DESCRIPTION:

Headquartered in Euless, Texas, U.S. Concrete provides ready-mix concrete products to the construction industry. It operates in six major markets: San Francisco Bay, Dallas/Fort Worth, West Texas, Washington D.C., northern New Jersey and metropolitan New York. During 2011 its plant facilities produced approximately 4 million cubic yards of ready-mixed concrete from continuing operations and 3 million tons of aggregates. The company's customers include general contractors, concrete sub-contractors, design engineers, architects, governmental agencies, property owners and developers, and home builders. The company was founded in 1948.

KEY INVESTMENT CONSIDERATIONS:

Residential Housing Demand Rebound – The residential housing market has been depressed for close to four years, yet the population continues to grow. In fact, during the last 52 years, a period during which the U.S. population has nearly doubled, four of the lowest years for new housing starts were 2008, 2009, 2010, and 2011. U.S. residential construction is significantly underbuilt. At some time, supply must equalize with the demand of an increasing population.

More efficient operations with greater pricing power – Companies that survived the sustained downturn of the housing market are in strong position to capitalize upon a recovery with stronger pricing power. At the same time, USCR streamlined its business and improved its operating structure so that any improvement in the market will translate nicely to the bottom line. Also, the headquarters move from Houston to Euless, Texas, was successfully completed in the past quarter. Therefore, those costs are complete and improved efficiencies should become more apparent going forward.

Positive Trends in Reported Results – Second-quarter revenue increased 16.2% over the comparable quarter in 2011. This is the seventh consecutive quarter of year-over-year growth in revenue. Volumes remain strong and USCR has successfully increased average selling prices per cubic yard in all of its major markets.

Divestiture Improves Balance Sheet and Opportunities – The company recently completed the sale of its pre-cast concreted operations, a non-core asset that will yield more than $20 million in cash. The proceeds will help to shore up the balance sheet and provide additional flexibility for the company to pursue strategic acquisitions, organic growth opportunities and debt repayment.

New CEO is motivated to increase shareholder value – As the company emerged from chapter 11 about a year ago, the company hired a new CEO, who brings significant experience in leadership positions form much larger building materials company. When he was hired, he was awarded 750,000 restricted shares that vest over the following three to four years. Forty percent of these shares only vest if certain stock price targets of $16 to $20 are reached over that time frame. Clearly he is incentivized to increase shareholder value.

VALUATION:

In April 2010 USCR filed for chapter 11 (it emerged from bankruptcy in August 2011). As reported in the filing, a midpoint valuation of $194 million was assessed at that time. Versus the current enterprise value of approx. $150 million, there appears to be downside protection at current share price.

U.S. Concrete, Inc. (NASDAQ:USCR)
Investment Data (as of 8/26/12)

Recent Price	**$6.13**
52-Week Range	$1.90 - $6.67
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	13.4 M
Average Trading Volume (3 mos)	7 K
Market Capitalization	$82 M
Cash	$7 M
Long-term Debt	$73 M
Enterprise Value (EV)	$148 M
Book Value	$8.03
TTM Revenue	$552 M
P/ Revenue	0.3x
TTM EPS	$(0.01)
P/ EPS	NA
TTM EBITDA	$15.7 M
EV/ EBITDA	9.4x

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Best Idea Profile: **Ikanos Communications, Inc. (NASDAQ:IKAN)**

DESCRIPTION:

Ikanos Communications provides advanced broadband semiconductor and software products. The Company's broadband DSL, communications processors and other offerings are used in both access infrastructure and customer premises equipment. Its customers include Alcatel-Lucent, DASAN Networks, Gemtek, ZTE, etc. Second quarter revenue breakdown was 59% broadband DSL, 31% communications processing and 10% from other technologies. The Company was formerly known as Velocity Communications and changed its name in December 2000. Ikanos was incorporated in 1999 and is headquartered in Fremont, California.

KEY INVESTMENT CONSIDERATIONS:

Leader in developing low-cost technology that enables carriers to deliver triple play voice, Internet and video – Traditional voice carriers have a difficult choices as they look to add video to their voice and Internet service offerings. In order to meet the higher bandwidth and other requirements for video, carriers are faced with deploying fiber to the curb, which can cost as much as 2x to 6x that of deploying DSL technology. Ikanos has been an early developer and holds foundational patents surrounding a new technology they call node-scale vectoring, which can deliver 50 to 100 Mbps at a fraction of the cost of fiber and offers an attractive solution for carriers.

Foundational patents may provide competitive moat – As of January 1, 2012, Ikanos has a total of 289 issued patents and a larger number of provisional patents and applications pending. The expiration dates range from 2015 through 2030. Despite recent announcements by competitors, management has chosen not to enforce its patents, but clearly could pursue this strategy to get strategic advantage.

Chairman and CEO interests aligned with shareholders – A new CEO was hired in June 2012. Omid Tahernia has over 28 years of experience in leading global high technology organizations and businesses providing systems and semiconductor solutions. He was granted non-qualified stock options to purchase up to 2.1 million shares. The Chairman of Ikanos, Dado Banatao, is a 32% owner through his venture capital firm, and is well connected in the industry. Both their interests are aligned with shareholders.

Risk – Fundamentals have deteriorated since August 2010 with disappointing losses, declining market share, restructuring charges, engineering delays, and management chaos just to name a few. Others have entered the market for VDSL and may make it more difficult for IKAN to ramp revenue from its new technologies.

VALUATION:

The Company has $33 million in cash, and a market cap of $60 million, leaving an enterprise value of just $26 million. This kind of liquid value provides a support base for the stock. As the company gains traction in the VDSL market, incremental revenue should provide a disproportionally larger contribution to earnings. Also, with a market capitalization of $60 million, significant cash and patents, the stock could be a likely target for acquisition at a value significantly above the stock's current price.

Ikanos Communications, Inc. (NASDAQ:IKAN)
Investment Data (as of 8/30/12)

Recent Price	**$0.92**
52-Week Range	$0.64 - $1.12
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	70 M
Average Trading Volume (3 mos)	66 K
Market Capitalization	$64 M
Cash	$33 M
Long Term Debt	0
Enterprise Value (EV)	$30 M
Book Value	$0.80
TTM Revenue	$134 M
P/ Revenue	0.44
TTM EPS	$(0.12)
P/ EPS	NA
TTM EBITDA	$2.7 M
EV/ EBITDA	9.5

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12 Monthly 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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