

Mossberg's Investor Digest

September 2012

September 2012 Issue Issue #51

From the Editor...

Here are a few of my favorite quotes about investing....

"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful." Warren Buffett

"Most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble... to give way to hope, fear and greed." Benjamin Graham

"Wide diversification is only required when investors do not understand what they are doing." Warren Buffett

"Why not invest your assets in the companies you really like? As Mae West said, "Too much of a good thing can be wonderful". Warren Buffett

"In this business if you're good, you're right six times out of ten. You're never going to be right nine times out of ten." Peter Lynch

"Go for a business that any idiot can run - because sooner or later, any idiot probably is going to run it." Peter Lynch

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

Dave Mossberg

Zale Corporation (NYSE: ZLC) – \$5.87, September 17, 2012, Page 3 - Zale Corporation is a leading specialty retailer of fine jewelry in North America, operating 1,163 fine jewelry stores located primarily in shopping malls throughout the United States, Canada and Puerto Rico. With the successful negotiation of a new credit facility and lower interest costs, shares have already responded to the reduction in financing risk and are trading near 52-week highs. As the Company continues to execute on its plan, net margins should be able to return to historic levels of 3% to 5%, implying well over \$1.50 per share in earnings power.

Air Transport Services Group, Inc. (NASDAQ:ATSG) – \$4.67, September 24, 2012, Page 4 – Valuation of ATSG stock still lags its air transport peers. Given the growth in its adjusted EBITDA, expansion of its 767 fleet, and reduced leverage, the stock should close in on its peers' valuations. Many of the risks of the industry are well known and already reflected in the price of the air transport stocks.

Northern Technologies Intl Corp (NASDAQ:NTIC) - \$10.95, September 27, 2012, Page 5 – Northern Technologies is the global leader in corrosion protection for the worldwide automotive industry. The stock has been drifting downward over the past six month despite a positive outlook for its businesses. For the fiscal year ending August 31, 2012, NTIC provided guidance that it expects to recognize net income of \$0.87 to \$0.94 per diluted share, making this stock an attractive value.

KEMET Corp. (NYSE:KEM) – \$4.55, September 28, 2012, Page 6 – KEMET Laboratories was founded by Union Carbide in 1919 and has been headquartered in Greenville, South Carolina since 1963. It is a global manufacturer of tantalum, ceramic, film, aluminum, electrolytic, and paper capacitors. The stock is trading below its tangible book value and at the bottom of its 52-week range. Stock was decimated in the spring after falling short of estimates, but this is a company that has made great strides on the cost side while it waits for economic conditions to help strengthen end-market demand.

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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 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
3D Systems Corp. (NYSE: DDD)	23-Dec-11	14.95	36.93	147.0%	15.5%	131.5%
Wilbros Group, Inc. (NYSE: WG)	23-Dec-11	3.71	5.67	52.8%	15.5%	37.3%
Antares Energy (ASX: AZZ.AX)	31-Dec-11	0.43	0.48	11.6%	16.3%	-4.7%
Rentech Nitrogen Partners L.P. (NYSE: RNF)	12-Jan-12	19.25	37.62	95.4%	12.6%	82.8%
Points International, Ltd. (NASDAQ: PCOM)	23-Jan-12	7.96	11.87	49.1%	10.9%	38.3%
Conn's Inc. (NASDAQ: CONN)	24-Jan-12	11.95	23.88	99.8%	10.8%	89.0%
Trinity Industries, Inc. (NYSE: TRN)	26-Jan-12	31.30	32.74	4.6%	10.4%	-5.8%
Top Image Systems (Nasdaq: TISA)	18-Feb-12	2.92	4.23	44.9%	6.6%	38.2%
DGSE Companies (Nasdaq: DGSE)	27-Feb-12	7.72	7.43	-3.8%	6.3%	-10.1%
Doral Financial (NYSE: DRL)	27-Feb-27	1.49	1.14	-23.5%	6.3%	-29.8%
Essex Rental Corporation (Nasdaq: ESSX)	27-Feb-12	3.60	3.62	0.6%	6.3%	-5.8%
Plug Power, Inc. (NASDAQ: PLUG)	19-Mar-12	1.77	0.86	-51.4%	3.3%	-54.7%
Salem Communications (NASDAQ: SALM)	28-Mar-12	4.52	5.18	14.6%	3.7%	10.9%
21st Century Holding (NASDAQ: TCHC)	29-Mar-12	4.43	5.75	29.8%	3.9%	25.9%
HFF, Inc. (NYSE: HF)	30-Mar-12	16.47	15.95	-3.2%	3.5%	-6.7%
Hecla Mining, Inc. (NYSE: HL)	26-Apr-12	4.25	6.57	54.6%	4.2%	50.4%
The Cash Store Financial Services, Inc. (NYSE: CSF)	26-Apr-12	5.37	5.90	9.9%	4.2%	5.7%
Silicon Image, Inc. (NASDAQ: SIMG)	29-Apr-12	5.95	4.90	-17.6%	3.9%	-21.5%
GSE Systems Inc. (Amex: GVP)	29-Apr-12	2.87	1.99	-30.6%	3.9%	-34.5%
GSI Group (Nasdaq: GSIG)	13-May-12	12.36	9.00	-27.2%	7.8%	-35.0%
Standard Parking Corp. (NASDAQ: STAN)	25-May-12	18.42	23.64	28.3%	10.8%	17.5%
Ionndata Isoqen (Nasdaq: INOD)	28-May-12	5.41	3.95	-27.0%	10.8%	-37.8%
Acme United (Amex: ACU)	30-May-12	10.17	11.00	8.2%	11.2%	-3.1%
Spectrum Pharmaceuticals, Inc. (Nasdaq: SPPI)	3-Jun-12	11.01	12.65	14.9%	14.4%	0.4%
Matrix Service Co. (Nasdaq: MTRX)	8-Jun-12	10.46	11.00	5.2%	10.4%	-5.2%
Orbital Sciences Corp. (NYSE: ORB)	13-Jun-12	12.02	14.77	22.9%	11.5%	11.3%
Landec Corp. (Nasdaq: LNDC)	18-Jun-12	7.55	11.14	47.5%	9.0%	38.5%
Compass Diversified Holdings (NYSE: CODI)	7-Jul-12	14.24	14.80	3.9%	7.8%	-3.9%
Codexis (NASDAQ: CDXS)	29-Jul-12	3.23	3.01	-6.8%	5.9%	-12.7%
Silicon Motion Technology Corp. (NASDAQ: SIMO)	29-Jul-12	15.33	15.75	2.7%	5.9%	-3.2%
Franklin Covey Co. (NYSE: FC)	29-Jul-12	10.27	12.18	18.6%	5.9%	12.7%
Ikanos Communications, Inc. (NASDAQ: IKAN)	31-Aug-12	0.93	1.21	30.1%	4.2%	25.9%
				18.9%	8.2%	10.7%

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Best Idea Profile:

Zale Corporation (NYSE: ZLC)

DESCRIPTION:

Zale Corporation is a leading specialty retailer of fine jewelry in North America, operating 1,163 fine jewelry stores located primarily in shopping malls throughout the United States, Canada and Puerto Rico. Zale Corporation's portfolio of fine jewelry brands includes Zales Jewelers (primarily diamond jewelry in the bridal and fashion segments), Zales Outlet, Gordon's Jewelers, Peoples Jewellers and Mappins Jewellers of Canada. Zales also operates in 666 jewelry kiosks through its Piercing Pagoda and other brands. Zale also operates online.

KEY INVESTMENT CONSIDERATIONS:

Fundamentals on Upward Curve – Zale just reported its seventh straight quarter of same-store sales gains: fiscal year 2012 same-store sales were up 6.9% compared with the prior year, and 2011 same-store sales were up 8.1% over the prior year. Fiscal 2012 was the first full year of operating earnings since 2008. Management expects positive net earnings for fiscal year 2013.

Debt Refinancing Boosts Balance Sheet – The new \$665 million credit facility announced in July 2012 is expected to result in annual pre-tax savings of \$17 million. At current interest rates, the average borrowing cost is cut in half from about 8% to 4%. Besides the savings, the refinancing creates more operating flexibility for the company to pursue its goals of improved merchandise assortment in 2013, increasing promotion and marketing effectiveness, and enhancing organizational effectiveness. All of these goals will help the company navigate through economic conditions that remain uncertain.

Short Seller Covering – Short sellers have been heavy players in ZLC with 2.5 million shares shorted. Shares shorted are approximately 9% of the float. As the company continues to deliver on its fundamentals, and analysts start looking more favorably on the stock and raising their estimates, short selling coverage should provide good support for the stock.

Streamlined and Focused – With its increased operational flexibility, the Company intends to fine tune its core assortment of merchandise and expand its proprietary branded collections in bridal and fashion. It is increasing its reach into social media channels and taking steps to grow its brand momentum. eCommerce sales were up 16% in fiscal 2012 and up 40% over the

past two years. Zale appears to be doing a good job of rethinking its businesses as is indicated by the growth in comparable store sales. Management indicated that the number of store closures for fiscal 2013 should be comparable to 2012.

Key Player in Fragmented Industry – The economy has been tough on jewelry retailers and many have been weeded out or, like Zale Corporation, have restructured. Industry growth is not predicted to be stellar, but focus on high-value pieces, like diamond engagement rings, will drive industry growth. The U.S. jewelry retail industry is highly fragmented with about 20,000 companies with combined annual revenue of \$30 billion. Zale will continue to benefit from all-important name recognition for purchases requiring such high-involvement and emotional purchases.

VALUATION:

With the successful negotiation of a new credit facility and lower interest costs, shares have already responded to the reduction in financing risk and are trading near 52-week highs. As the Company continues to execute on its plan, net margins should be able to return to historic levels of 3% to 5%, implying well over \$1.50 per share in earnings power.

Zale Corporation (NYSE: ZLC)

Investment Data (as of 9/17/12)

Recent Price	\$5.87
52-Week Range	\$2.06 - \$6.18
Fiscal Year End	Jul 30
Dividend	NA
Yield	NA
Shares Outstanding	32.2 M
Average Trading Volume (3 mos)	570 K
Market Capitalization	\$189 M
Cash	\$25 M
Long Term Debt	\$453 M
Enterprise Value (EV)	\$616 M
Book Value	\$5.55
TTM Revenue	\$1.87 B
P/ Revenue	0.1x
TTM EPS	\$(0.85)
P/ EPS	NA
TTM EBITDA	\$57 M
EV/ EBITDA	10.8

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Best Idea Profile:

DESCRIPTION:

Air Transport Services Group, Inc. is the leader in providing medium wide-body air cargo transportation to domestic and foreign air carriers and other companies that outsource their air cargo business. Their primary customers are the cargo transportation and package delivery industries. ATSG provides air cargo lift, aircraft leasing, aircraft maintenance services, airport ground services, fuel management, specialized transportation management, and air charter brokerage services. ATSG's business model is to purchase Boeing 767s at prices that are consistent with ROI expectations, modify them from passenger to cargo vehicles, and deploy them to customers with cargo transport needs. Founded in 1980, ATSG has been in business for thirty years but spent the first two-thirds of that as a wholly owned subsidiary of Airborne, Inc. ATSG is headquartered in Wilmington, Ohio, and went public in August of 2003.

KEY INVESTMENT CONSIDERATIONS:

Positive Rebound From Customer Loss – Year-over-year comparisons for ATSG have been tough since the loss of the company's second largest customer due to its own business restructuring. However, block hours from other customers have increased, which is a good sign for future results. Also ATSG merged its two carriers to combine the remaining business volumes after the loss of Shenker's business and expects \$4.5 million in annualized expense savings in 2013 from the synergies of the merger. ATSG's relationship with DHL, its largest customer, remains strong and business continues to expand and grow at a double-digit pace.

International Opportunities– The market for 767 freight conversions is good. Nine of the twelve international air cargo markets are good targets for the medium-sized 767, with only three markets that will require bigger planes and are not targets for ATSG. Also benefiting ATSG is the fact that retail and business-to-business companies are increasingly turning to air cargo for their shipment needs, especially for products sourced overseas.

Exclusive Military Market Opportunities – ATSG just won an exclusive award for its combi cargo services—a cargo plane in front that can carry passengers in the back.

Air Transport Services Group, Inc. (NASDAQ:ATSG)

Incremental Return Driven by Complementary Services – The Company targets an ROI of up to 11% on the conversion of 767 passenger planes to cargo planes. However, the potential exists for incremental returns of up to 13.5% when the company can also secure complementary services such as maintenance agreements and crew.

Clean Balance Sheet and Modern Fleet – Despite significant capital invested in the growth of its 767 aircraft fleet, the company is not highly levered. The 2012 capital expenditures budget is approximately \$190 million. Debt at the end of 2012 is expected to be 2.1 times adjusted EBITDA.

Risk – Air cargo volumes are uncertain and dependent on the overall global economic environment. However, the risk is primarily for the marginal players who may be forced out of the market.

VALUATION:

Valuation of ATSG stock still lags its air transport peers. Given the growth in its adjusted EBITDA, expansion of its 767 fleet, and reduced leverage, the stock should close in on its peers' valuations. Many of the risks of the industry are well known and already reflected in the price of the air transport stocks.

Air Transport Services Group, Inc. (NASDAQ:ATSG) Investment Data (as of 9/24/12)

Recent Price	\$4.67
52-Week Range	\$3.86 - \$6.88
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	64.2 M
Average Trading Volume (3 mos)	243k
Market Capitalization	\$300 M
Cash	\$48 M
Long Term Debt	\$367 M
Enterprise Value (EV)	\$616 M
Book Value	\$4.53
TTM Revenue	\$661 M
P/ Revenue	0.45
TTM EPS	\$0.40
P/ EPS	11.8x
TTM EBITDA	\$174 M
EV/ EBITDA	3.6x

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Best Idea Profile:

Northern Technologies International Corporation (NASDAQ:NTIC)

DESCRIPTION:

Northern Technologies is the global leader in environmentally beneficial technologies including corrosion protection. The company's core business, Zerust, is the dominant player in the worldwide automotive industry and has extended its technologies into the oil and gas industry. The company markets to industrial customers directly in North and South America, and indirectly in 55 countries through a network of joint ventures. The Company's rust and corrosion inhibiting products include liquids and coatings, rust removers and cleaners, and diffusers. Corrosion damage costs the oil and gas industry \$127 billion annually. The Company's Natur-Tec takes commercially available compostable bioplastic resins and mechanically and chemically improves their performance to make finished products stronger, easier to manufacture and less expensive. These biodegradable and/or biobased plastics are used for flexible packaging, injection molding and engineered articles. The company was founded in 1970 and is headquartered in Circle Pines, Minnesota.

KEY INVESTMENT CONSIDERATIONS:

Track Record of EPS Growth – The 10-year compound annual growth rate for earnings per share is 26% with CAGR for worldwide sales for the same period of 13%.

Northern Technologies Intl Corp (NASDAQ:NTIC) Investment Data (as of 9/27/12)

Recent Price	\$10.95
52-Week Range	\$9.60 - \$16.48
Fiscal Year End	Aug 31
Dividend	NA
Yield	NA
Shares Outstanding	4.4 M
Average Trading Volume (3 mos)	5k
Market Capitalization	\$48 M
Cash	\$4.5 M
Long Term Debt	1.0 M
Enterprise Value (EV)	\$40.6 M
Book Value	\$8.15
TTM Revenue	\$23.2 M
P/ Revenue	1.9
TTM EPS	\$0.91
P/ EPS	12.1
TTM EBITDA	\$3.9M
EV/ EBITDA	10.5x

Increasing Global Demand – There is growing demand for environmentally responsible technologies, especially ones that can reduce expenses. Northern Technologies Vapor Corrosion Inhibiting technology replaces less environmentally responsible alternatives, which is increasingly important to corporations and individuals.

Compelling Core Business – Northern Technologies has a profitable and growing core business plus two commercialized technologies positioned to exploit dynamic new growth opportunities. The market for its core business is expected to grow 5-10% with opportunities to expand NTIC's technologies to other industries, including agriculture equipment, marine, and military operations.

Higher Growth in Oil and Gas and Natur-Tec Businesses – The oil and gas application of the Company's technologies will grow at least 10% and the recent announcement of a new phase of NTIC's contract with Petrobras finally puts installations of Zerust products across all Petrobras' offshore business units. More importantly, it validates the Zerust technology and will strengthen the Company's efforts to sell Zerust solutions to additional oil and gas companies in other parts of the world. The estimated market growth for its NaturTec business is over 20%. Several factors are driving this growth: major companies wishing to reduce their carbon footprint, favorable regulatory environment, increased consumer awareness of the environment, and petroleum prices reducing the cost disparity versus traditional plastics. For instance, in Italy non-biodegradable shopping bags have been banned since 2011 and it consumes about 20% of the market in Europe. NTIC has entered an agreement with a major player in Italy to promote use of its Natur-Tec bags.

VALUATION:

The stock has been drifting downward over the past six month despite a positive outlook for its businesses. For the fiscal year ending August 31, 2012, NTIC provided guidance that it expects to recognize net income of \$0.87 to \$0.94 per diluted share, making this stock an attractive value.

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Best Idea Profile:

KEMET Corp. (NYSE:KEM)

DESCRIPTION:

KEMET Laboratories was founded by Union Carbide in 1919 and has been headquartered in Greenville, South Carolina since 1963. It is a global manufacturer of tantalum, ceramic, film, aluminum, electrolytic, and paper capacitors. KEMET manufactures products in 23 locations in 10 countries, and employs 10,000 people.

In the automotive industry KEMET products are used in adaptive cruise controls, rearview camera systems, audio systems, tire pressure monitoring systems, airbag systems, hybrid and electric drive vehicles, security systems, and more. The company provides products for the business equipment industry for use in copiers, point-of-sale terminals, and fax machines; and cellular phones, telephones, switching equipment, and wireless infrastructure in the telecommunications industry. It also provides capacitors for use in personal computers, workstations, mainframes, computer peripheral equipment, power supplies, disk drives, printers, and local area networks in the computer-related industry. It serves the industrial sector, the consumer sector, the military/aerospace sector, and the alternative energy sector.

KEY INVESTMENT CONSIDERATIONS:

Vertical Integration Saves Money and Increases Reliability – KEMET continues to stabilize its supply chain through a strategy of vertical integration. It bought a tantalum powder manufacturing facility in Carson City, Nevada. This facility, plus the agreement to secure tantalum ore from the Democratic Republic of Congo, and an exclusive arrangement with Tantalum Resources in Johannesburg, South Africa, completed the Company's closed-pipe conflict-free vertically integrated tantalum supply chain. The completion of these plans makes KEMET the largest vertically integrated tantalum capacitor manufacturer in the world. It also makes it the most reliable and, hence, deserving of its recognition as the "Easy-to-Buy-From" company. This vertical integration will result in a reduction in raw material costs of \$10 million in fiscal 2013 and \$40 million in fiscal 2014.

Major Acquisition Waiting Final Approval – KEMET has agreed to acquire 34% economic interest (51% voting rights) of NEC TOKIN, a wholly owned subsidiary of NEC Corporation. The combined enterprise is targeting annual revenues of \$2 billion with projected EBITDA of \$300-\$400 million. This partnership improves access to NEC TOKIN's customers and provides critical

opportunities for capability sharing for KEMET. This is actually the first of three steps that will result in the acquisition of 100% of NEC TOKIN.

Restructuring in Europe Means Big Savings – Restructuring and low-cost manufacturing in Europe will translate into savings of \$16 million per year. Some softness in end-market demand, especially in Europe is impacting top-line growth but management is adamant that it is not relying on economic recovery. It has aggressively cut F&E, the majority of which is complete and on schedule.

Impressive Social Responsibility – KEMET is close to completing construction of a much-needed hospital and a new school in a village in the Congo. The company is very proud of its ability to change the lives of the 10,000 people in this village through its "Making Africa Work" initiative. This program is centered around sourcing of Conflict-Free Tantalum from the Katanga Province of the Democratic Republic of Congo.

VALUATION:

The stock is trading below its tangible book value and at the bottom of its 52-week range. Stock was decimated in the spring after falling short of estimates, but this is a company that has made great strides on the cost side while it waits for economic conditions to help strengthen end-market demand.

KEMET Corp. (NYSE:KEM)

Investment Data (as of 9/28/12)

Recent Price	\$4.55
52-Week Range	\$4.22 - \$10.85
Fiscal Year End	Mar 31
Dividend	NA
Yield	NA
Shares Outstanding	44.9 M
Average Trading Volume (3 mos)	316k
Market Capitalization	\$203 M
Cash	\$188 M
Long-term Debt	\$361 M
Enterprise Value (EV)	\$374 M
Book Value	\$7.45
TTM Revenue	\$919 M
P/ Revenue	0.22
TTM EPS	\$(0.97)
P/ EPS	NA
TTM EBITDA	\$68 M
EV/ EBITDA	5.5x

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