

Mossberg's Investor Digest

October 2012

October 2012 Issue

Issue #52

From the Editor...

H&R Block is worth a second look....

Back in December of 2008, I wrote up H&R block. The idea has hardly performed well, with a total return of -6% versus a return of >60% for the Russell 3000 (you can't be right all the time).

H&R Block is the largest U.S. tax preparer, handling 16 percent of all returns in 2011 via its 11,000 retail locations and do it yourself tax software. The company also is a bank, which, as recently disclosed, is destined to be sold, or wound down.

The stock reacted negatively to the news this month, as the action will likely have negative affect on near term results. Exiting the bank will cause the company to lose the contribution from credit cards, and banking fees. However, eliminating the bank will give the company greater flexibility and remove the overhang of cumbersome new banking rules and regulatory constraints. It could also free up the possible sale of the company as any likely suitor would be more likely to bid on HRB's assets.

The stock is trading around 10.5x the FY13 estimate (April), among the lowest multiples of its peers in the S&P 500.

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

Dave Mossberg

GameStop Corp. (NYSE: GME) – \$22.37, October 4, 2012, Page 3 – GME's stated intent is to return more than 100% of free cash flow to shareholders through dividends and share repurchases. GameStop generates significant free cash flow and has no debt, which will allow it to return the entire enterprise value to shareholders over the next five years. With the recent stock decline, the net book value of the stock exceeds the market cap. The 5% yield of makes the stock an interesting bet on the positive impact of new consoles on sales, profitability, and quarterly comparisons.

Sycamore Networks, Inc. (NASDAQ:SCMR)– \$14.47, October 11, 2012, Page 4 – Sycamore Networks provides solutions that help telecom carriers manage bandwidth in their wireless and wire line networks. This is a speculative stock, but one with significant downside protection. And, if the IQstream product catches on with customers, the impact to revenue, margins and earnings will reward patient investors.

RPX Corp. (NASDAQ:RPXC) – \$9.68, October 25, 2012, Page 5 – RPX Corp. provides a subscription-based patent risk management solution to help corporations manage their exposure to companies litigating intellectual property rights for financial gain. RPX was slow to deliver on its story, but is now. The Company is fast-growing in an exploding niche industry with recurring revenue and earnings visibility. Yet, the stock continues to trade at low valuations. Comparatively ACTG trades at 9x EV/ EBITDA versus 2x multiple assigned to RPXC.

Prospect Global Resources, Inc. (NASDAQ:PGRX)- \$2.76, October 31, 2012, Page 6 – Prospect Global Resources has approximately 90,000 leased acres, which are estimated to have the largest potash reserves in the United States. The Company is currently building a mine and production facility, which are expected to produce 2 million tonnes annually. Due to the shallow nature of the potash deposit, existing infrastructure, and proximity to year round markets, PRGX is likely to be one of the lowest cost producers as the mine and production come on line.

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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	43.44	190.6%	15.5%	175.1%
Wilbros Group, Inc. (NYSE: WG)	23-Dec-11	3.71	5.05	36.1%	15.5%	20.6%
Antares Energy (ASX: AZZ.AX)	31-Dec-11	0.43	0.55	27.9%	16.3%	11.6%
Rentech Nitrogen Partners L.P. (NYSE:RNF)	12-Jan-12	19.25	38.02	97.5%	12.6%	84.9%
Points International, Ltd. (NASDAQ:PCOM)	23-Jan-12	7.96	9.52	19.6%	10.9%	8.7%
Conn's Inc. (NASDAQ:CONN)	24-Jan-12	11.95	25.17	110.6%	10.8%	99.8%
Trinity Industries, Inc. (NYSE:TRN)	26-Jan-12	31.30	31.60	1.0%	10.4%	-9.5%
Top Image Systems (Nasdaq: TISA)	18-Feb-12	2.92	3.72	27.4%	6.6%	20.8%
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	0.91	-39.3%	6.3%	-45.6%
Essex Rental Corporation (Nasdaq: ESSX)	27-Feb-12	3.60	3.40	-5.6%	6.3%	-11.9%
Plug Power, Inc. (NASDAQ:PLUG)	19-Mar-12	1.77	0.75	-57.6%	3.3%	-60.9%
Salem Communications (NASDAQ: SALM)	28-Mar-12	4.52	5.93	31.2%	3.7%	27.5%
21st Century Holding (NASDAQ: TCHC)	29-Mar-12	4.43	5.97	34.8%	3.9%	30.9%
HFF, Inc. (NYSE: HF)	30-Mar-12	16.47	13.84	-16.0%	3.5%	-19.5%
Hecla Mining, Inc. (NYSE:HL)	26-Apr-12	4.25	6.52	53.4%	4.2%	49.2%
The Cash Store Financial Services, Inc. (NYSE:CSF)	26-Apr-12	5.37	4.90	-8.8%	4.2%	-13.0%
Silicon Image, Inc. (NASDAQ:SIMG)	29-Apr-12	5.95	4.26	-28.4%	3.9%	-32.3%
GSE Systems Inc. (Amex: GVP)	29-Apr-12	2.87	1.90	-33.8%	3.9%	-37.7%
GSI Group (Nasdaq: GSIG)	13-May-12	12.36	7.85	-36.5%	7.8%	-44.3%
Standard Parking Corp. (NASDAQ:STAN)	25-May-12	18.42	22.62	22.8%	10.8%	12.0%
Innodata Isoqen (Nasdaq: INOD)	28-May-12	5.41	3.65	-32.5%	10.8%	-43.3%
Acme United (Amex: ACU)	30-May-12	10.17	11.29	11.0%	11.2%	-0.2%
Spectrum Pharmaceuticals, Inc. (Nasdaq: SPPI)	3-Jun-12	11.01	11.03	0.2%	14.4%	-14.3%
Matrix Service Co. (Nasdaq: MTRX)	8-Jun-12	10.46	10.49	0.3%	10.4%	-10.1%
Orbital Sciences Corp.(NYSE: ORB)	13-Jun-12	12.02	13.37	11.2%	11.5%	-0.3%
Landec Corp.(Nasdaq: LNDC)	18-Jun-12	7.55	10.72	42.0%	9.0%	33.0%
Compass Diversified Holdings (NYSE: CODI)	7-Jul-12	14.24	14.74	3.5%	7.8%	-4.3%
Codexis (NASDAQ:CDXS)	29-Jul-12	3.23	2.65	-18.0%	5.9%	-23.9%
Silicon Motion Technology Corp. (NASDAQ:SIMO)	29-Jul-12	15.33	13.67	-10.8%	5.9%	-16.8%
Franklin Covey Co. (NYSE:FC)	29-Jul-12	10.27	12.08	17.6%	5.9%	11.7%
Ikanos Communications, Inc. (NASDAQ:IKAN)	31-Aug-12	0.93	1.39	49.5%	4.2%	45.3%
Zale Corporation (ZLC)	17-Sep-12	7.02	7.08	0.9%	-3.7%	4.6%
Air Transport Services Group, Inc. (ATSG)	24-Sep-12	3.85	3.83	-0.5%	-3.3%	2.8%
Northern Technologies International Corp. (NTIC)	27-Sep-12	11.30	11.10	-1.8%	-2.6%	0.8%
KEMET Corp. (KEM)	28-Sep-12	4.61	4.57	-0.9%	-2.2%	1.3%
				13.7%	7.0%	6.7%

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Best Idea Profile

GameStop Corp. (NYSE: GME)

DESCRIPTION:

Headquartered in Grapevine, TX, GameStop is the world's largest multichannel video game retailer. GameStop has approximately 6,600 company-operated stores located in 15 countries. In its stores and on its electronic commerce websites, including GameStop.com and ebgames.com, GME sells and trades new and used video game hardware, physical and digital video game software and other related accessories and merchandise. GameStop also publishes *Game Informer* magazine, the third largest physical magazine in the nation and the largest paid digital subscription in the world. It operates a leading browser-based video gaming site and digital PC distribution platforms. GameStop was founded in 1994.

KEY INVESTMENT CONSIDERATIONS:

Impact of game console introductions – Many analysts believe the game console industry is nearing the end of an unusually long cycle and on the verge of multiple new console introductions. As they have in the last three console cycles over the past 15 years, Console introductions in late 2012 or 2013 should accelerate same store sale comparisons and drive accelerated growth in earnings and cash flow. GameStop's market share is roughly double what it was during the last wave of console launches so it is well positioned to benefit.

Positioned to Embrace Technology – GameStop is driving the expansion into downloadable content as it also continues to build on its ability to sell digital content in stores and online. New consoles are likely to still require discs as the density and complexity of the games increase. As technology catches up with the functional requirements of these games, GameStop will be well positioned to adapt.

New businesses continues to ramp – GameStop is aggressively pursuing the mobile business and has stated its goal of \$150-\$200 million in revenue from this segment. Since sequential-quarter sales doubled for this segment in the latest quarter, this target appears achievable. Digital and mobile businesses did not exist for GameStop two years ago and now they represent 10% of sales. Digital sales in the second quarter were up 27% year over year as the company applied its buy/sell/trade heritage to iDevices. Trades of iDevices represent 10% of trades received during the second quarter and have been increasing weekly. GameStop also began to take the most popular 43 Android devices and the Kindle Fire in trade.

Used video games are the key to GameStop's competitive moat – As the largest retailer of used video games, GameStop has a substantial competitive advantage over other video game retailers, one that would be very difficult to duplicate.

PowerUp Rewards program dominates competition – PowerUp Rewards continues to be the primary driver of pre-owned sales and the program recently reached 20 million members. The PowerUp community represents 74% of sales year to date and they continue to transact at a rate roughly five times that of nonmembers. Average transaction frequency is once every 47 days and the collective game library hosted online holds over 334 million games. Global loyalty programs give the company a unique competitive weapon.

VALUATION:

Management's stated intent is to **return more than 100% of free cash flow to shareholders** through dividends and share repurchases. GameStop generates significant free cash flow and has no debt, which will allow it to return the entire enterprise value to shareholders over the next five years. With recent stock declines, the net book value of the stock exceeds the market cap. The 5% yield of makes the stock an interesting bet on the positive impact of new consoles on sales, profitability, and quarterly comparisons.

GameStop Corp. (NYSE: GME) Investment Data (as of 10/04/12)

Recent Price	\$22.37
52-Week Range	15.32 - 26.66
Fiscal Year End	January
Dividend	\$1.00
Yield	4.7%
Shares Outstanding	123 M
Average Trading Volume (3 mos)	3 M
Market Capitalization	2.7 B
Cash	139 M
Long Term Debt	0
Enterprise Value (EV)	2.5 B
LT Debt/ Equity	N/A
BV/ Share	22.4
TTM Revenue	9.1 B
P/ Revenue	0.3x
TTM EPS	2.38
P/ EPS	9.2x
TTM EBITDA	800 M
EV/ TTM EBITDA	3.1x

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Best Idea Profile:

Sycamore Networks, Inc. (NASDAQ:SCMR)

DESCRIPTION:

Headquartered in Chelmsford, Massachusetts, Sycamore Networks provides solutions that help telecom carriers manage bandwidth in their wireless and wire line networks. Customers include Sprint, Verizon, Telstra, China Unicom, and the U.S. Department of Defense. Founded in 1998, SCMR provides 1) Intelligent Bandwidth Management solutions and 2) Mobile Broadband Optimization solution (under the brand name IQstream®). The company is no longer investing in its intelligent bandwidth management business, as this market is in secular decline largely due to the fact that most of the large networks requiring the technology have already been built. Instead, the Company is focusing its efforts on its IQstream® Mobile Broadband Optimization solution. This is an emerging market opportunity that leverages Sycamore's current business. This technology adapts to changing traffic and content patterns to reduce congestion at critical mobile broadband flashpoints and improves the user experience.

KEY INVESTMENT CONSIDERATIONS:

Accelerating worldwide demand for mobile broadband – There is increasing growth and concentration of video that is driving much of the demand for mobile broadband. This is a challenge to the operator as it tries to harness its expenses yet preserve the customer's experience.

Sycamore Networks, Inc. (NASDAQ:SCMR)

Investment Data (as of 10/11/12)

Recent Price	\$14.47
52-Week Range	\$13.02 - \$20.16
Fiscal Year End	July
Dividend	NA
Yield	NA
Shares Outstanding	28.9 M
Average Trading Volume (3 mos)	180k
Market Capitalization	\$421 M
Cash	\$351 M
Long-term Debt	N/A
Enterprise Value (EV)	\$72 M
Book Value	\$15.37
TTM Revenue	\$53.4 M
P/ Revenue	7.93x
TTM EPS	\$(0.49)
P/ EPS	NA
TTM EBITDA	\$(12.6) M
EV/ EBITDA	(5.75)

Positive revenue trends – Fourth-quarter revenue that was reported in September was \$16.8 million, well above street estimates and 29% above the prior-year's final quarter.

IQstream potential is huge – IQstream is a unique and dynamic solution to help carriers manage bandwidth during peak periods of usage. IQstream is still undergoing trials with no real customer acceptance as of yet, but the trials are moving from lab to field trials. Testing continues to validate IQstream's core system functionality and reliability during increased traffic volumes and higher levels of congestion. Sycamore's complex and unique solutions are powerful, and will be significant contributors to the company's success upon customer acceptance.

Cash Distribution and disciplined expense management – Sycamore announced in September that it would distribute \$10 in cash to shareholders (ex-dividend date is October 12). The Company's ongoing operations and disciplined expense management have yielded a strong cash balance \$439.4 million, compared with \$441.4 million at July 31, 2011. On a per share basis the company has \$15.22 in cash prior to the \$10 special dividend and \$5 per share in cash, post dividend.

Risk – Obviously, the greatest risk to investors is that there is no assurance that Sycamore's IQstream will get out of trials and be broadly accepted by customers. Non-acceptance risk is mitigated by Sycamore's current cash position, even after the special distribution of \$10 per share.

VALUATION:

This is a speculative stock, but one with significant downside protection. And, if the IQstream product catches on with customers, the impact to revenue, margins and earnings will reward patient investors. Citrix (Nasdaq: CTX) recently bought Bytemobile (comparable to IQstream) for \$435 million. Post acquisition, Citrix said it expects to recognize \$15 million in Bytemobile related revenue during the fourth quarter. This would imply a \$60 million revenue run rate and approximately 7x multiple of revenue for the purchase price. Should IQstream generate significant revenue, it could garner a similar multiple and significant upside from current levels.

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Best Idea Profile:

RPX Corp. (NASDAQ:RPXC)

DESCRIPTION:

RPX Corp. provides a subscription-based patent risk management solution to help corporations manage their exposure to companies litigating intellectual property rights for financial gain. RPX provides an alternative to traditional litigation by acquiring potential problem patents for the purpose of reducing patent assertions directed at its network of over 120 clients. RPX has invested more than \$490 million in 30,000 patents. The cost of this type of patent litigation has grown rapidly, from \$1 billion in 2005 to almost \$6 billion in 2011, and has expanded from a focus on large corporations to include start-up companies with substantial funding. The number of suits filed from these entities increased 82% from 2010 to 2011. RPX clients include companies that design, make, or sell technology-based products and services, as well as companies that use technology in their businesses. RPX was founded in 2008 and is headquartered in San Francisco. The company went public in 2011.

KEY INVESTMENT CONSIDERATIONS:

Rapid Growth in Patent Acquisitions – RPX acquired more than \$100 million in patent assets in 2011 alone, which is significantly more than its main competitor, Acacia Research Corporation (Nasdaq: ACTG). This brings the total dollars invested to almost half a billion. Rapid patent acquisition is critical to RPX success as it increases the value of an RPX contract to corporations seeking protection from patent assertion litigation and attracts additional clients. Increased subscriptions to RPX services are then available to fund further patent acquisitions.

Impressive and Growing Customer List – RPX has a growing consortium of customers including Best Buy, Google, eBay, Microsoft and Novell, that can collectively benefit from the library of RPX patents by lowering the number of assertions of patent infringement from non-performing entities whose sole business is to make costly patent assertions. RPX has identified 275 near-term client prospects to expand this client network and fund further patent acquisitions through subscription revenue.

Long-term Visibility of Revenue– RPX employs a predictable, subscription-based model and has multi-year contracts with its clients (2.8-years on average) at annual subscription rates that range from \$65,000 to \$6.9 million. The fees are generally paid annually in advance with revenue recognized ratably over the membership year. RPX's growth strategy includes a target to lengthen the duration of existing relationships and deploy complementary risk management services to its existing client base. All of these factors point to predictable revenue.

Strong Balance Sheet and Profitable Growth – RPX has \$220 million in cash, or approximately \$4 per share. Total debt is at \$5 million. Non-GAAP net income grew from \$2.2 million in 2009 to \$37.1 million in 2011. The latest quarter's income of \$15.4 million indicates a continued trend of rapid growth, with earnings per share estimates for 2012 averaging \$0.82.

VALUATION:

RPX was slow to deliver on its story, but is now. The Company is fast-growing in an exploding niche industry with recurring revenue and earnings visibility. Yet, the stock continues to trade at low valuations. Comparatively ACTG trades at 9x EV/ EBITDA versus 2x multiple assigned to RPXC.

RPX Corporation (NASDAQ:RPXC)

Investment Data (as of 10/25/12)

Recent Price	\$9.68
52-Week Range	\$9.31 - \$20.38
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	50.6 M
Average Trading Volume (3 mos)	281k
Market Capitalization	\$468 M
Cash	\$219.9 M
Long-term Debt	0
Enterprise Value (EV)	\$261.8 M
Book Value	\$6.59
TTM Revenue	\$179.9 M
P/ Revenue	2.68
TTM EPS	\$0.69
P/ EPS	13.48
TTM EBITDA	\$133.8 M
EV/ EBITDA	1.96

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Best Idea Profile:

DESCRIPTION:

Headquartered in Denver, Prospect Global Resources Inc. is engaged in the exploration, development and mining of potash in the Holbrook Basin of eastern Arizona. The Company has approximately 90,000 acres of exclusively state and private leases, which are estimated to have the largest potash reserves in the United States. The Company is currently building a mine and production facility, which are expected to produce 2 million tonnes annually. Due to the shallow nature of the potash deposit, existing infrastructure, and proximity to year round markets, the Company is likely to be one of the lowest cost producers as the mine and production come on line.

KEY INVESTMENT CONSIDERATIONS:

Mature market with disciplined, well capitalized players – The top 5 producers represent approximately 2/3 of the market. The major players react rationally to price fluctuations and use their balance sheets to build inventories during periods of weakness.

Demand is likely to outstrip supply in a few years – There are only 25 deposits in the world with large deposits of potash and it's not likely that new large sources will be found soon. Given that global production is expected to grow at just 3.5% and demand is expected to grow at 5%, it's likely that demand will outstrip supply during the next several years.

People still need to eat...secular trends point to long-term growth in agricultural demand – The world's population grows by 80 million people per year. That's 220,000 new mouths to feed each day. They aren't making more land, and in fact the amount of agricultural land is shrinking due to economic development particularly India, Asia and other emerging economies. The only way to boost food production is to increase yields, which requires more fertilizer.

Experienced Leadership – Prospect recently hired Brian Wallas as Chief Operating Officer. Wallas has 28 years of mining and specialty chemical business experience and was most recently President of \$1.2 billion specialty chemical provider Dyno Nobel Americas. Other recent hires have similar experienced backgrounds.

Prospect Global Resources, Inc. (NASDAQ:PGRX)

\$2 billion supply agreement confirms value of the asset – While prospect has yet to deliver revenue and potash, its recent agreement with Sichuan Chemical Industry Holding Co. to supply at least 500,000 metric tons of potash annually over 10 years starting in late 2015, provides significant validity of the Company's deposits. For frame of reference, this deal represents twice last year's U.S. exports of Potash.

It will cost \$1 billion to develop the mine. Prospect Global has spent about \$75 million of the roughly \$1 billion it will cost to develop its mine and production facility. So far the company has plans to issue \$100 million to Private Equity firm Apollo Global and issue at least 30 million new shares.

VALUATION:

According to the recent preliminary prospectus, the net present value of just one of the two ore deposits was valued at \$3.8 billion. The valuation assumed a base case 85% mill recovery rate, a potash selling price of US\$496/tonne (\$450/ton) and a 10% discount rate.

Prospect Global Resources, Inc. (NASDAQ:PGRX)

Investment Data (as of 10/31/12)

Recent Price	\$2.76
52-Week Range	\$1.77 - \$10.50
Fiscal Year End	Mar
Dividend	NA
Yield	NA
Shares Outstanding	55.3 M
Average Trading Volume (3 mos)	80K
Market Capitalization	\$152 M
Cash	\$1.3 M
Long-term Debt	N/A
Enterprise Value (EV)	\$150 M
Book Value	\$0.14
TTM Revenue	N/A
P/ Revenue	N/A
TTM EPS	\$0.08
P/ EPS	N/A
TTM EBITDA	N/A
EV/ EBITDA	N/A

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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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