

Mossberg's Investor Digest

April 2013

Issue #58

From the Editor...

Like every good Texan, I am a gun owner... my last name is "Mossberg" after all. (Although I'm not aware of any relation)

I just happened to be at Bass Pro Shops on Saturday and thought I would pick up some ammunition. Back in early January, I had tried to buy ammunition and due to the then recent tragedy in Newton, was not really all that surprised to see a nearly empty ammunition isle at the local sporting goods store. However, when I went shopping this past Saturday morning, I was surprised to find that all of the common types of ammunition were out of stock. I asked the clerk when he anticipated more ammunition to be available, and he told me... "it comes in every Tuesday and is usually out of stock after about a half hour". I thought that by now the urge to stock up ammunition and guns would be over, but clearly it is not. Here are a couple of anecdotes...

- Cabela's (NYSE: CAB) same-store sales jumped 24% during the first quarter. Excluding firearms and ammunition, comparable sales grew 9%.
- Background checks related to fire arm purchases were up 31% to 7 million during the first quarter, the highest ever.
- Smith and Wesson (Nasdaq: SWHC) sales were up more than 30% during their most recent quarter. They are operating at full production capacity and are unable to meet demand.

Obviously the hoarding will end at some point, and based on the level of short interest in the gun stocks (approximately 25%), clearly many investors are expecting it to happen soon. However, the situation has created a perception of scarcity, and I think it is equally likely that gun and ammo sales will continue to remain robust for several quarters to come. Good earnings and a potential short squeeze could cause these stocks to go higher this year.

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

Dave Mossberg

April 2013 Issue

Carbonite, Inc. (NASDAQ:CARB) \$10.00, April 17, 2013, Page 3 – Carbonite provides back-up services for PCs, laptops, smartphones, and tablets, as well as servers and databases. Although it is trading near its high, CARB is attractively valued given the expectation for sustainable positive free cash flow, growing market opportunity, expanding margins and a mix of business that will get the Company to sustained profitability more quickly.

Tutor Perini Corporation (NYSE:TPC) \$16.76, April 16, 2013, Page 5 – Tutor Perini is a geographically diversified provider of general contracting, design-build and self-perform construction services. Although the stock has been substantially lower in the last six months, there is increasing evidence and visibility of growth in revenues, and more specifically in margins that justifies a longer-term investment.

GenCorp Inc. (NYSE:GY) \$13.06, April 26, 2013, Page 4 – GenCorp was established in 1915 as General Tire & Rubber. Having divested the tire business, GenCorp now operates in two distinct businesses: aerospace and defense, and real estate. The obscured value of GenCorp's real estate assets in Sacramento's burgeoning market, and the visibility of revenues from its rocket propulsion business make GY an attractive stock to hold.

Steinway Musical Instruments Inc. (NYSE:LVB) - \$24.67, April 26, 2013, Page 6 – Steinway has enormously strong brand name recognition and respect, allowing it to increase pricing and margins with minimal impact on the number of products sold. With expectations of a strong showing in 2013 in both volumes and margins, and with the support of a stock buyback program, the stock offers upside value.

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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 June 2012 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
Spectrum Pharmaceuticals, Inc. (Nasdaq: SPPI)	3-Jun-12	\$11.01	\$7.45	-32.3%	24.6%	-56.9%
Matrix Service Co. (Nasdaq: MTRX)	8-Jun-12	\$10.46	\$15.00	43.4%	20.1%	23.3%
Orbital Sciences Corp.(NYSE: ORB)	13-Jun-12	\$12.02	\$17.63	46.7%	21.4%	25.3%
Landec Corp.(Nasdaq: LNDC)	18-Jun-12	\$7.55	\$13.48	78.5%	18.7%	59.9%
Compass Diversified Holdings (NYSE: CODI)	7-Jul-12	\$14.24	\$16.78	17.8%	17.3%	0.5%
Codexis (NASDAQ:CDXS)	29-Jul-12	\$3.23	\$2.24	-30.7%	15.3%	-45.9%
Silicon Motion Technology Corp. (NASDAQ:SIMO)	29-Jul-12	\$15.33	\$10.91	-28.8%	15.3%	-44.1%
Franklin Covey Co. (NYSE:FC)	29-Jul-12	\$10.27	\$13.30	29.5%	15.3%	14.2%
Deere and Company (NYSE: DE)	13-Aug-12	\$79.31	\$85.49	7.8%	12.6%	-4.8%
Power Solutions International (OTC BB:PSIX)	16-Aug-12	\$16.99	\$26.75	57.4%	12.6%	44.8%
U.S. Concrete, Inc. (NASDAQ: USCR)	26-Aug-12	\$6.24	\$15.89	154.6%	13.2%	141.4%
Ikanos Communications, Inc. (NASDAQ:IKAN)	30-Aug-12	\$0.92	\$1.52	65.2%	14.0%	51.2%
Zale Corporation (ZLC)	17-Sep-12	\$5.87	\$4.44	-24.4%	8.9%	-33.3%
Air Transport Services Group, Inc. (ATSG)	24-Sep-12	\$4.67	\$5.60	19.9%	9.4%	10.5%
Northern Technologies International Corp. (NTIC)	27-Sep-12	\$10.95	\$10.82	-1.2%	10.2%	-11.4%
KEMET Corp. (KEM)	28-Sep-12	\$4.40	\$5.78	31.4%	10.7%	20.7%
GameStop Corp. (NYSE: GME)	4-Oct-12	\$22.16	\$34.62	56.2%	9.2%	47.0%
Sycamore Networks, Inc. (NASDAQ:SCMR)	11-Oct-12	\$0.51	\$0.38	-25.5%	11.3%	-36.8%
RPX Corp. (NASDAQ:RPXC)	25-Oct-12	\$9.69	\$13.16	35.8%	12.8%	23.0%
Prospect Global Resources, Inc. (NASDAQ:PGRX)	31-Oct-12	\$2.76	\$0.27	-90.1%	12.8%	-102.8%
Gaiam Inc. (GAIA)	7-Nov-12	\$2.94	\$4.34	47.6%	14.1%	33.5%
Green Dot Corporation (NASDAQ:GDOT)	26-Nov-12	\$11.71	\$15.92	36.0%	13.1%	22.8%
JTH Holdings, Inc. (NASDAQ:TAX)	27-Nov-12	\$13.92	\$17.14	23.1%	13.7%	9.5%
Elephant Talk Communications, Corp. (NASDAQ:ETAK)	28-Nov-12	\$1.06	\$1.11	4.7%	12.8%	-8.1%
Sealed Air Corporation (NYSE:SEE)	16-Dec-12	\$16.13	\$21.79	35.1%	12.3%	22.8%
Westmoreland Coal Co. (NASDAQ:WLB)	17-Dec-12	\$10.02	\$11.50	14.8%	11.0%	3.7%
Regional Management Corp. (NYSE:RM)	18-Dec-12	\$16.55	\$21.89	32.3%	9.7%	22.5%
Michael Baker Corporation (NYSE:BKR)	30-Dec-12	\$24.45	\$24.13	-1.3%	13.0%	-14.3%
DHX Media Ltd. (TSX:DHX.TO)	12-Jan-13	\$1.86	\$8.61	362.9%	7.5%	355.5%
Mood Media Corporation (TSX:MM.TO)	20-Jan-13	\$1.93	\$0.98	-49.2%	6.4%	-55.6%
MoneyGram International Inc. (NYSE:MGI)	30-Jan-13	\$13.99	\$16.28	16.4%	5.3%	11.1%
GenMark Diagnostics, Inc. (NASDAQ:GNMK)	30-Jan-13	\$11.11	\$15.08	35.7%	5.3%	30.5%
MVC Capital, Inc. (NYSE:MVC)	12-Feb-13	\$12.24	\$12.85	5.0%	3.9%	1.1%
eGain Corporation (Nasdaq:EGAN)	15-Feb-13	\$7.50	\$8.05	7.3%	3.8%	3.5%
DSP Group (NASDAQ:DSPG)	26-Feb-13	\$7.41	\$7.51	1.3%	5.5%	-4.2%
Unitech Corporate Parks (LSE:UCP.L)	28-Feb-13	\$35.25	\$37.00	5.0%	4.3%	0.7%
Palomar Medical Technologies, Inc. (NASDAQ:PMTI)	6-Mar-13	\$11.91	\$13.55	13.8%	2.4%	11.3%
Global Power Equipment Group Inc. (NASDAQ:GLPW)	7-Mar-13	\$16.93	\$15.51	-8.4%	2.2%	-10.6%
NetSol Technologies, Inc. (NASDAQ:NTWK)	16-Mar-13	\$10.84	\$12.20	12.5%	1.0%	11.5%
Kofax, plc (OTC:KFAXF)	22-Mar-13	\$4.47	\$4.69	4.9%	1.3%	3.6%
				25.3%	10.9%	14.4%

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Best Idea Profile:

Carbonite, Inc. (NASDAQ:CARB)

DESCRIPTION:

Founded in 2005 by two seasoned software entrepreneurs, Carbonite provides back-up services for PCs, laptops, smartphones, and tablets, as well as servers and databases. It provides a cloud-based, easy-to-use and inexpensive service that is marketed to anyone who creates or stores important data at home, in a home office or in a small to medium-sized business. Customers pay a flat rate for unlimited storage. With subscribers in more than 100 countries, Carbonite's backup solution runs on both Windows and Mac platforms and backs up more than 300 million files each day. Carbonite became a public company in 2011, is based in Boston and has 400 employees.

KEY INVESTMENT CONSIDERATIONS:

Agility in Growing Market – More than 400 million PCs shipped in 2011, and for the first time, even more smartphones were shipped than computers. As consumers put more data on their various devices that they wouldn't want to lose, the need grows for backing up critical data for consumers.

Leverage of Business Model – Carbonite's ability to scale its business model has positioned it to grow rapidly without additional capital required. This allows it to offer competitively low pricing to millions of customers. And low cost is the key to market leadership. Carbonite is in the enviable position of rapidly decreasing the per unit cost of storage and customer service while revenues are continuing to grow, making it possible to offer unlimited data backup for as little as \$5 per month.

Growth in Small/Medium Business Market – Carbonite has shifted its center of gravity towards the small to medium-sized business market that has higher gross margins, higher retention rates and lower costs than the consumer market. It is estimated that there are six million SMBs in the U.S. and three times that many worldwide. 84% of these back up to on-site storage, providing a huge potential for Carbonite to market to those without back up or those with less secure, more expensive and less flexible on-site backup. In the fourth quarter the company purchased Zmanda, accelerating its growth in SMB sales. The CEO stated that he is "blown away" by the growth in this segment and believes SMBs could account for half of new bookings at the end of 2013.

Revenue Growing – After growing at a CAGR of 130% since 2006, revenue for 2013 is expected to grow more than 25%. Carbonite spent aggressively on capacity and advertising to reach this level of success. It has now achieved sustainable recurring revenue, high customer retention, and brand recognition three times that of its nearest competitor. The business was built around direct marketing but Carbonite now has 2,800 resellers, including Staples, Office Max and Sam's Club. Its strategic channel partners are driving significant bookings at lower costs. Further expansion internationally should fuel growth as well: Carbonite just launched service in China, targeting 25 million SMB customers.

Strong Executive and Board Leadership – The Company was founded by two entrepreneurs with a history of successful software ventures. And the rest of the board brings substantial experience in various software and retail businesses.

VALUATION:

Although it is trading near its high, CARB is attractively valued given the expectation for sustainable positive free cash flow, growing market opportunity, expanding margins and a mix of business that will get the Company to sustained profitability more quickly.

Carbonite, Inc. (NASDAQ:CARB)

Investment Data (as of 4/17/13)

Recent Price	\$10.00
52-Week Range	\$5.75 - \$11.35
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	25.9 M
Average Trading Volume (3 mos)	77k
Market Capitalization	\$259 M
Cash	\$55 M
Long-term Debt	\$0
Enterprise Value (EV)	\$225 M
Book Value	\$0.54
TTM Revenue	\$84.0 M
P/ Revenue	3.3x
TTM EPS	\$(0.74)
P/ EPS	NA
TTM EBITDA	\$(6.8) M
EV/ EBITDA	(33.2)

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Best Idea Profile:

Tutor Perini Corporation (NYSE:TPC)

DESCRIPTION:

Tutor Perini is a geographically diversified provider of general contracting, design-build and self-perform construction services. It has private and public clients with current projects including Alaskan Way Viaduct, Northern California Hospitals, San Bernardino County Courthouse and the Ft. Lauderdale International Airport. The Company's 2012 revenue mix was divided almost equally among three of its four divisions: Building, Civil and Specialty Contractors. A small percentage comes from Management Services, primarily design-build services for overseas U.S. government programs and multi-national corporations. Tutor Perini, founded in 1894, is headquartered near Los Angeles with approximately 11,000 employees worldwide.

KEY INVESTMENT CONSIDERATIONS:

Benefit From Sandy Relief Package – President Obama's \$50.5 billion aid relief will continue to positively impact Tutor Perini's 2013 results as the Company is extremely well positioned (because of size, capabilities, pricing and location) to tackle many of these infrastructure projects as they become funded. This became apparent in last year's fourth quarter when the Company worked on approximately \$60 million of emergency repair services related to Hurricane Sandy. Following a difficult year in 2012, demand for construction is up and therefore, pricing is also improving.

Improved Business Mix – Tutor Perini transitioned away from almost total dependence on its Building business. Prior to 2009, Building was 85% to 90% of all backlog; whereas in 2012 it was approximately 36%. The Company is among a limited number of major U.S. contractors qualified to bid and execute mega-scale civil and building projects. Its electrical and mechanical contracting capacities collectively ranked within the five largest specialty contractors in the U.S.

Civil Segment Excelling – The Civil segment is delivering particularly strong results, more than tripling its backlog, revenue and income from operations. It provides the highest margins in the company because of limited competition and high prequalification requirements for which Tutor Perini is uniquely suited. Management estimates prospective opportunities in its Civil market will be approximately \$19 billion for the projects they bid over the next 12 months.

Integrated Project Approach – The fact that Tutor Perini has service capabilities across all aspects of construction is a competitive advantage providing greater control over schedule and greater visibility into pricing. The Company can leverage its expertise, knowledge and pricing across all of its business groups to maximize cost estimating, and therefore profitability, while reducing risks. For example, Civil and Building segments leverage the Specialty Contractors segment by vertically integrating the Company's owned electrical and mechanical subsidiaries into both the bidding and execution of large-scale projects.

Better Visibility and Guidance – The Company's Building business triggered a big guidance miss last year, but it finished with a strong fourth quarter. Management was intent on more careful analysis prior to giving the 2013 guidance that was issued in early March: Revenue is expected to be nearly \$5 billion and earnings per share between \$1.65 and \$1.90.

VALUATION:

Although the stock has been substantially lower in the last six months, there is increasing evidence and visibility of growth in revenues, and more specifically in margins that justifies a longer-term investment.

Tutor Perini Corporation (NYSE:TPC)

Investment Data (as of 4/16/13)

Recent Price	\$16.76
52-Week Range	\$9.21 - \$19.38
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	47.6 M
Average Trading Volume (3 mos)	326k
Market Capitalization	\$797 M
Cash	\$171 M
Long-term Debt	\$737 M
Enterprise Value (EV)	\$1.42 B
Book Value	\$24.05
TTM Revenue	\$4.1 B
P/ Revenue	0.2x
TTM EPS	\$(5.59)
P/ EPS	NA
TTM EBITDA	\$213.7 M
EV/ EBITDA	6.7x

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Best Idea Profile:

GenCorp Inc. (NYSE:GY)

DESCRIPTION:

GenCorp was established in 1915 as General Tire & Rubber. Having divested the tire business, GenCorp now operates in two distinct businesses: aerospace and defense, and real estate. The aerospace and defense business, under the name Aerojet, develops and manufactures aerospace propulsion systems; precision tactical weapon systems; and armament systems, including warhead and munitions applications. Its market includes military, civil, and commercial space customers. The end user for more than half of Aerojet's revenues in 2012 was the U.S. military. GenCorp's real estate segment owns 12,200 acres of land located along a key growth corridor in Sacramento, and is currently seeking, or has entitlement to 6,000 acres. GenCorp, located in Sacramento, California, employs more than 3,000 people.

KEY INVESTMENT CONSIDERATIONS:

Real Estate is Hidden Gem – GenCorp amassed a huge holding in real estate in the 1950s to accommodate its needs at the time for testing its rocket systems. Of the 12,000 acres it owns in Sacramento, approximately half is in excess of its current operating needs and could be sold or developed. A building and remodeling moratorium was imposed on much of Sacramento because of concerns related to a questionable levee system in many parts of the city. The land toward the eastern foothills of Sacramento (where GenCorp's assets are) is not under thamoratorium and can be developed. Considering that Sacramento has been labeled the second hottest real estate market, GenCorp's land in that area is particularly attractive. Its land could be valued near \$350 million, which is significantly below the value carried on GenCorp's books.

Rocket Business Insulated – Many aspects of military spending are subject to scrutiny because of the U.S. government's expenditure reductions. However, the rocket business is likely to be the last cut from the budget, and therefore less likely to impact GenCorp. In addition, GenCorp sells to other governments worldwide and those in private space exploration. Current backlog provides some assuring visibility into future revenues and margins are good.

Accretive Acquisition – In July 2012 GenCorp announced its intent to acquire Pratt & Whitney Rocketdyne (PWR) from United Technologies for \$550 million. PWR propelled the first humans to the moon and

is currently the leading rocket propulsion company in the U.S. Expected to close by mid-year, the acquisition will approximately double GenCorp's EBITDA. Synergies will come from production efficiencies, spreading research and environmental costs, reduction in infrastructure and additional scale. These synergies will further add to EBITDA and management expects the acquisition will be accretive to earnings within the first year. GenCorp added substantial debt to the balance sheet to fund the PWR acquisition, which is reflected in the negative book value. However, if needed, GenCorp's real estate could provide the financial flexibility to reduce its debt.

Better Investor Exposure – Management has purposely been quiet of late, choosing not to conduct conference calls or extensive meetings. GenCorp's investor relations effort likely will expand after the close of the PWR acquisition.

VALUATION:

The obscured value of GenCorp's real estate assets in Sacramento's burgeoning market, and the visibility of revenues from its rocket propulsion business make GY an attractive stock to hold. The promise of future performance exceeds the unlikely risk of unexpected costs from integration of the PWR acquisition or total meltdown of space flight.

GenCorp Inc. (NYSE:GY)

Investment Data (as of 4/26/13)

Recent Price	\$13.06
52-Week Range	\$5.69 - \$13.87
Fiscal Year End	Nov
Dividend	NA
Yield	NA
Shares Outstanding	60.5 M
Average Trading Volume (3 mos)	984k
Market Capitalization	\$794 M
Cash	\$141 M
Long-term Debt	\$708 M
Enterprise Value (EV)	\$1.3 B
Book Value	\$(6.43)
TTM Revenue	\$1.0 B
P/ Revenue	0.7
TTM EPS	\$(0.32)
P/ EPS	NA
TTM EBITDA	\$67.8 M
EV/ EBITDA	19.46

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Best Idea Profile:

DESCRIPTION:

Steinway Musical Instruments is best known for its high-end grand and upright Steinway & Sons pianos. It also makes mid- and lower-priced Boston and Essex pianos. The Band Instruments segment sells woodwind instruments: flutes, clarinets, and oboes; brass instruments: trumpets, French horns, and trombones; acoustic and percussion instruments: drums, marimbas and chimes; and string instruments. Some of its well known brand names in this segment include Bach Stradivarius, Selmer, Selmer Paris, C.G. Conn, Leblanc, King and Ludwig, and Glaesel. Pianos make up 61% of revenues, with the remainder from the sale of band instruments to professionals and students. The Company also produces and distributes classical music recordings through its online music retailer, ArkivMusic. Steinway is based in Waltham, Massachusetts, and is celebrating the 160th anniversary of the founding of Steinway & Sons in 1853.

KEY INVESTMENT CONSIDERATIONS:

Strong Finish to 2012 – Steinway had improved fourth-quarter sales at both of its segments. Band and Piano revenues were up 6% over the prior year fourth quarter and gross margins were up 250 basis points. Management said it expects revenue will increase approximately 5% in 2013, which is similar to the 2012 increase, with further improvements in gross margins.

Production Ramping Up – Increasing inventories and inventory turnover, particularly in raw materials and work-in-process, confirms management's expectation that piano production will increase. Steinway pianos in particular are perceived by the market to be exceptional; therefore, Steinway has pricing power that allows it to raise prices while maintaining significant market presence. Unit growth in 2013 will be a key contributor to increased gross margins as Steinway has a high fixed cost structure.

Sale of Flagship Building – Constructed in 1925, the building on W. 57th Street will be sold, generating \$43 million in cash and an estimated \$22 million gain. More importantly, this avoids the capital expenditure that keeping the building would have required. The building was in need of much repair and renovation and was ideally suited for up-scale residential. Steinway intends to open a modern showroom in Manhattan. It has 15 showrooms in the U.S. and Europe.

Steinway Musical Instruments Inc. (NYSE:LVB)

Opportunities to Build Value – An excellent balance sheet, with \$73 million of cash on hand, provides opportunities for Steinway to refinance its debt. This cash and the sale of its building also make it likely the company will proceed with its share buyback program that has \$22.5 million in remaining capacity.

Transitioning to Fully Public Company – Shifting from a controlled public company, previously ruled by supervoting Class A shares, to a fully public company will involve several changes that are positive for shareholders. The governance committee is working to create a board consisting of more independent directors that have skills appropriate to the company's business. Additionally, management stated its intent to expand its investor relations efforts through structured meetings and conferences beginning with its June annual meeting.

VALUATION:

Steinway has enormously strong brand name recognition and respect, allowing it to increase pricing and margins with minimal impact on the number of products sold. With expectations of a strong showing in 2013 in both volumes and margins, and with the support of a stock buyback program, the stock offers upside value.

Steinway Musical Instruments (NYSE:LVB)

Investment Data (as of 4/26/13)

Recent Price	\$24.67
52-Week Range	\$20.61 - \$26.70
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	12.5 M
Average Trading Volume (3 mos)	19k
Market Capitalization	\$313 M
Cash	\$73 M
Long-term Debt	\$68 M
Enterprise Value (EV)	\$303 M
Book Value	\$19.41
TTM Revenue	\$354 M
P/ Revenue	0.9
TTM EPS	\$1.08
P/ EPS	23.3
TTM EBITDA	\$38.7 M
EV/ EBITDA	7.83

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