

Mossberg's Investor Digest

May 2013

Issue #59

From the Editor...

Free Cash Flow Yield is a great metric that I often use in valuing stocks. Simply put, Free Cash flow Yield is how much Free Cash Flow (FCF) is generated relative the value of the company (Enterprise Value, EV).

$FCF / EV = \text{Free Cash Flow Yield (FCF Yield)}$

Free Cash flow is defined as cash that is generated after subtracting all cash expenses (operating cash flow) and capital expenditures. In other words, this is the "Free" cash left over for shareholders (in the form of dividends/share repurchase), or for the company to reinvest (acquisitions, new investments)

Enterprise Value is defined as the market capitalization of the company plus its debt and minus its cash. Think of EV as how much it would take to buy all of the shares of the company at today's share price and pay off all of its net debt (debt-cash)

In addition to relative valuation, FCF Yield can be used in comparison with the yield on a treasury, or a corporate bond, to tell an investor if there is enough additional yield to justify the additional risk.

As with any valuation metric FCF Yield is not infallible. Several factors, such as bloated inventory and receivables balances, can distort cash flows from year to year and must be taken into account in order to calculate the yield. In addition, it is often not possible to use the metric (without modification) to analyze small companies that are investing heavily to grow their businesses.

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

Dave Mossberg

May 2013 Issue

Axesstel Inc. (OTCQB:AXST) \$1.30, May 12, 2013, Page 4 – Axesstel is a survival and turnaround story. Importantly, the turnaround was delivered without diluting shareholder value. Timing may be excellent for investors as Axesstel is introducing its new security product line, which significantly expands its addressable market.

Keweenaw Land Association, Limited (KEWL:OTC) \$76.28, May 21, 2013, Page 3 – Keweenaw is an asset play: one of those rare opportunities where income is generated by the sale of assets, yet the value of the remaining assets continues to grow and appreciate. The company's asset value far exceeds the market capitalization; the timber and land recently appraised at \$140 million and the market cap is \$99 million.

Guidance Software, Inc. (NASDAQ:GUID) \$9.23, May 24, 2013, Page 5 – Guidance Software's transition into the security software business will make it easier for investors to make comparisons with comparable companies and should enhance the multiples afforded the company. The stock took a heavy hit earlier this year. The positive financial comparisons expected later this year should lift the stock.

Micron (NYSE:MU) - \$11.78, May 29, 2013, Page 6 – After decades of hyper competition and undisciplined pricing, the memory market has matured and three players have emerged as oligopoly providers. Growth in smartphone and tablet markets, as well as rekindled notebook growth, will fuel profound shortages for memory over the next several years, which should yield improvement in earnings and pricing multiples for Micron's shares.

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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	\$10.86	\$8.28	-23.8%	30.3%	-52.5%
Matrix Service Co. (Nasdaq: MTRX)	8-Jun-12	\$10.46	\$16.99	62.4%	25.6%	38.3%
Orbital Sciences Corp. (NYSE: ORB)	13-Jun-12	\$12.02	\$18.35	52.7%	27.0%	27.5%
Landec Corp. (Nasdaq: LNDC)	18-Jun-12	\$7.55	\$14.09	86.6%	24.1%	64.2%
Compass Diversified Holdings (NYSE: CODI)	7-Jul-12	\$12.82	\$17.26	34.6%	22.7%	13.0%
Codexis (NASDAQ:CDXS)	29-Jul-12	\$3.23	\$2.23	-31.0%	20.6%	-50.0%
Silicon Motion Technology Corp. (NASDAQ:SIMO)	29-Jul-12	\$14.96	\$11.09	-25.9%	20.6%	-44.9%
Franklin Covey Co. (NYSE:FC)	29-Jul-12	\$10.27	\$13.92	35.5%	20.6%	16.5%
Deere and Company (NYSE: DE)	13-Aug-12	\$78.89	\$87.41	10.8%	17.8%	-5.8%
Power Solutions International (OTC BB:PSIX)	16-Aug-12	\$16.99	\$37.15	118.7%	17.8%	102.0%
U.S. Concrete, Inc. (NASDAQ: USCR)	26-Aug-12	\$6.24	\$16.10	158.0%	18.4%	140.3%
Ikanos Communications, Inc. (NASDAQ:IKAN)	30-Aug-12	\$0.92	\$1.34	45.7%	19.2%	27.7%
Zale Corporation (ZLC)	17-Sep-12	\$5.87	\$7.47	27.3%	14.0%	13.8%
Air Transport Services Group, Inc. (ATSG)	24-Sep-12	\$4.67	\$6.23	33.4%	14.4%	19.7%
Northern Technologies International Corp. (NTIC)	27-Sep-12	\$10.95	\$10.70	-2.3%	15.3%	-16.7%
KEMET Corp. (KEM)	28-Sep-12	\$4.40	\$4.71	7.0%	15.8%	-7.8%
GameStop Corp. (NYSE: GME)	4-Oct-12	\$21.92	\$33.50	52.8%	14.2%	39.4%
Sycamore Networks, Inc. (NASDAQ:SCMR)	11-Oct-12	\$0.51	\$0.41	-19.6%	16.4%	-35.2%
RPX Corp. (NASDAQ:RPXC)	25-Oct-12	\$9.69	\$15.15	56.3%	18.0%	39.0%
Prospect Global Resources, Inc. (NASDAQ:PGRX)	31-Oct-12	\$2.76	\$0.22	-92.0%	17.9%	-109.4%
Gaiam Inc. (GAIA)	7-Nov-12	\$2.94	\$4.10	39.5%	19.3%	20.6%
Green Dot Corporation (NASDAQ:GDOT)	26-Nov-12	\$11.71	\$18.35	56.7%	18.3%	38.6%
JTH Holdings, Inc. (NASDAQ:TAX)	27-Nov-12	\$13.92	\$16.38	17.7%	18.9%	-1.0%
Elephant Talk Communications, Corp. (NASDAQ:ETAK)	28-Nov-12	\$1.06	\$0.76	-28.8%	18.0%	-46.6%
Sealed Air Corporation (NYSE:SEE)	16-Dec-12	\$16.03	\$24.24	51.2%	17.5%	34.2%
Westmoreland Coal Co. (NASDAQ:WLB)	17-Dec-12	\$10.02	\$12.07	20.5%	16.1%	4.6%
Regional Management Corp. (NYSE:RM)	18-Dec-12	\$16.55	\$23.95	44.7%	14.8%	30.1%
Michael Baker Corporation (NYSE:BKR)	30-Dec-12	\$24.30	\$26.55	9.3%	18.2%	-8.9%
DHX Media Ltd. (TSX:DHX.TO)	12-Jan-13	\$1.86	\$2.95	58.6%	12.4%	45.8%
Mood Media Corporation (TSX:M.M.TO)	20-Jan-13	\$1.93	\$1.06	-45.1%	11.3%	-56.7%
MoneyGram International Inc. (NYSE:MGI)	30-Jan-13	\$13.93	\$20.00	43.6%	10.1%	33.4%
GenMark Diagnostics, Inc. (NASDAQ:GNMK)	30-Jan-13	\$11.11	\$15.00	35.0%	10.1%	24.9%
MVC Capital, Inc. (NYSE:MVC)	12-Feb-13	\$12.11	\$12.87	6.3%	8.6%	-2.7%
eGain Corporation (Nasdaq:EGAN)	15-Feb-13	\$7.50	\$7.93	5.7%	8.6%	-3.3%
DSP Group (NASDAQ:DSPG)	26-Feb-13	\$7.41	\$8.24	11.2%	10.4%	0.8%
Unitech Corporate Parks (LSE:UCP.L)	28-Feb-13	\$35.25	\$38.00	7.8%	9.1%	-1.3%
Palomar Medical Technologies, Inc. (NASDAQ:PMTI)	6-Mar-13	\$11.91	\$13.57	13.9%	7.1%	6.7%
Global Power Equipment Group Inc. (NASDAQ:GLPW)	7-Mar-13	\$16.84	\$16.19	-3.9%	6.9%	-10.9%
NetSol Technologies, Inc. (NASDAQ:NTWK)	16-Mar-13	\$10.84	\$10.10	-6.8%	5.7%	-12.6%
Kofax, plc (OTC:KFAXF)	22-Mar-13	\$4.47	\$4.85	8.5%	6.0%	2.6%
Tutor Perini (NYSE: TPC)	16-Apr-13	\$16.76	\$18.65	11.3%	5.2%	6.6%
Carbonite (Nasdaq: CARB)	17-Apr-13	\$10.00	\$10.67	6.7%	6.8%	0.6%
GenCorp Inc. (NYSE:GY)	26-Apr-13	\$13.06	\$13.89	6.4%	4.6%	1.9%
Steinway Musical Instruments (NYSE:LVB)	26-Apr-13	\$24.67	\$27.80	12.7%	4.6%	8.2%
Axessstel (Nasdaq:AXST)	12-May-13	\$1.30	\$1.26	-3.1%	1.2%	-4.3%
Keweenaw Land Association (OTC: KEWL)	21-May-13	\$76.28	\$81.78	7.2%	-0.9%	8.0%
Guidance Software, Inc. (NASDAQ:GUID)	24-May-13	\$9.23	\$9.40	1.8%	0.4%	1.6%
Micron Technology, Inc. (NASDAQ:MU)	29-May-13	11.83	11.89	0.5%	0.4%	0.2%
				20.3%	13.8%	7.1%

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Best Idea Profile:

Axesstel Inc. (OTCQB:AXST)

DESCRIPTION:

Axesstel provides wireless voice, broadband access and connected home solutions products. Its products include phones, wire-line replacement terminals, security alert systems, and 3G and 4G broadband gateway. The gateway devices provide half of the Company's revenue and are targeted to rural markets, bringing high speed internet capability into residential and business locations, with the biggest customers in Poland and Scandinavia. Axesstel products, all of which are cellular based, are used for voice calling, high-speed data access, and connected home management services, and are sold to leading telecommunications operators and distributors in over 50 countries worldwide. Axesstel is headquartered in San Diego, California.

KEY INVESTMENT CONSIDERATIONS:

Transforming – The Company's first transformation was completed in 2011 by management that came on board in 2008. Axesstel stemmed its financial decline and restructured past due payables into short-term, interest-free debt. It is paying 6.7% in interest, compared with up to 24% a short time ago. The second transformation is currently underway as Axesstel adds a recurring revenue security alarm business to its traditional sales of telecom devices.

High Expectations for Security Alert Devices – Axesstel is the first company to come to market with a cellular-based security alarm product. Management predicts the new alert system will be "disruptive to the securities alarm industry." Approximately 24% of U.S. households have security alarms, with only half of these using their systems daily because of difficulty of use, annoyance or fear of false alarm fines. Axesstel believes it can further penetrate this market by decreasing the cost through the use of cellular and tying its products to triggered events, which would increase value to the customer. For example, the motion sensor on a device could be inactive until a child gets home from school. Then the device would turn on and send a message to the parent notifying them of their arrival. It would also allow self-monitoring so customers can choose who is notified in a breach. Both of these features make security less expensive, as well as more flexible than existing systems.

Creates Recurring Revenue – Telecom carriers aren't in the security alarm business, but are looking for ways to further hook their customers and expand their vertical reach. The goal for Axesstel is to provide these

products and their multitude of accessories, and generate attractive recurring service fees. Axesstel shipped its first products to Africa, resulting in \$3.5 million in sales in the fourth quarter. Axesstel believes Boost (the prepaid arm of Sprint) will be the first U.S. customer to buy in real volume.

Growing Revenue and Profitability – Axesstel completed 2012 with six consecutive profitable quarters. Management has predicted positive working capital in 2013. Revenue is expected to increase 10 to 15% year over year, which on such a leveraged operating model, will in large part fall to the bottom line. Management is targeting \$100 million in revenue.

Strong Legacy Business – Axesstel's legacy business continues to grow and has significant barriers to entry. More than half of revenue is 3G and 4G gateways targeted at rural markets. The regulatory environment should be favorable for wireless as governments are removing many requirements to offer fixed lines to all markets.

VALUATION:

Axesstel is a survival and turnaround story. Importantly, the turnaround was delivered without diluting shareholder value. Timing may be excellent for investors as Axesstel debuts its new security product line in Las Vegas in latter May.

Axesstel Inc. (OTCQB:AXST) Investment Data (as of 5/12/13)

Recent Price	\$1.30
52-Week Range	\$0.51 - \$1.95
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	24.1 M
Average Trading Volume (3 mos)	26k
Market Capitalization	\$31.4 M
Cash	\$1.9 M
Long-term Debt	\$10.4 M
Enterprise Value (EV)	\$39.9 M
Book Value	\$(0.29)
TTM Revenue	\$59.7 M
P/ Revenue	0.5 x
TTM EPS	\$0.16
P/ EPS	8.1 x
TTM EBITDA	\$4.9 M
EV/ EBITDA	8.1

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Best Idea Profile:

DESCRIPTION:

Keweenaw is a forest products and land management company. Keweenaw has land holdings of approximately 162,000 surface acres and over 400,000 acres of mineral rights, located predominantly in the western Upper Peninsula of Michigan. Timber products include veneer logs and sawlogs for customers to mill hardwood products such as paneling, furniture, and flooring; and softwoods for pallets and other purposes. Additionally, the company owns more than 400,000 acres of both severed and attached mineral rights that it offers out to lease. Keweenaw also owns acreage suitable for commercial and/or residential development: four miles of inland lake frontage, four miles along Lake Superior and approximately 30 miles of frontage along major rivers. Although it reorganized as a Michigan company in 1999, the company traces its origins to the period immediately following the Civil War. Keweenaw is headquartered in Ironwood, Michigan, and has 17 full-time employees.

KEY INVESTMENT CONSIDERATIONS:

Heightened Interest in Mineral Exploration –

Keweenaw is promoting the development of mineral ownership through leasing to qualified exploration and mining companies. The company has leases that generate annual income of more than \$220,000 per year but has a major lease that was signed in 2008 on a property that will begin mining in 2014. Leases generate annual rental fees plus sliding scale net royalties. In December Keweenaw entered into a mineral lease agreement with Keweenaw Copper Co., encompassing approximately 6,400 acres with a primary term of ten years which may be extended. These leases have the potential to add significantly more revenue to the mineral business segment.

Growing Per Acre Valuations –

The lumber market bottomed out in 2009 but has been slowly recovering. A recent appraisal indicates that Keweenaw's standing timber values are up 14% from 2009, despite the economic uncertainty. Keweenaw's assets are well stocked timberlands, consisting of 88% hardwoods. Hard maple, which accounts for half of its hardwoods, sells for 150% more than softwoods. Additionally, the increase in timber revenue in 2012 was generated while actually harvesting less volume, demonstrating the efficiency of the timber operations.

Keweenaw Land Association, Limited (KEWL:OTC)

Non-timber Land Opportunities – Management seeks to monetize its non-strategic holdings through sale or development. Approximately 8,000 acres on commercial, recreational and urban properties have been identified as good targets for rural residential users, conservation buyers and recreational and hunt club sales. Keweenaw is currently marketing six developments.

Strong Financials in 2012 – Keweenaw generated \$1 million in cash flow in 2012, has \$3.9 million in available total cash resources, and less than \$750,000 in debt. Earnings per share more than doubled over 2011, as did the return on capital. The company is in a good position to continue to buy attractive timberland with value that can be maximized through careful management.

VALUATION:

Keweenaw is an asset play: one of those rare opportunities where income is generated by the sale of assets, yet the value of the remaining assets continues to grow and appreciate. The company's asset value far exceeds the market capitalization; the timber and land recently appraised at \$140 million and the market cap is \$99 million.

Keweenaw Land Association, Limited (KEWL:OTC)

Investment Data (as of 5/21/13)

Recent Price	\$76.28
52-Week Range	\$68.25 - \$88.75
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	1.3 M
Average Trading Volume (3 mos)	905
Market Capitalization	\$99 M
Cash	\$1.2 M
Long-term Debt	\$0.8 M
Enterprise Value (EV)	\$101.7 M
Book Value	\$12.22
TTM Revenue	\$10.8 M
P/ Revenue	9.2 x
TTM EPS	\$0.67
P/ EPS	114 x
TTM EBITDA	\$1.8 M
EV/ EBITDA	56 x

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Best Idea Profile:

Guidance Software, Inc. (NASDAQ:GUID)

DESCRIPTION:

Guidance Software provides digital investigative solutions for e-discovery, computer forensics and data security. Forensics includes internal investigations, fraud, human resources and compliance applications. E-discovery applications include litigation, regulatory inquiries and government matters. Cybersecurity deals with system integrity and sensitive data to help safeguard an organization's business by mitigating the costs and risks of an intrusion. Nearly two-thirds of Fortune 100 companies use the EnCase Enterprise platform and 40% use EnCase eDiscovery. Other customers include global governmental agencies, such as Internal Revenue Service, Federal Bureau of Investigation, Department of Justice, EU Council and NATO.

KEY INVESTMENT CONSIDERATIONS:

Market Growing Rapidly – Guidance serves a multi-billion market that is growing up to 10% per year. Organizations and corporations have an increasing need to search, collect and preserve electronic data in a timely and cost effective manner. Guidance continues to build its sales force in anticipation of growth. It is expanding its distribution opportunities through building new partnerships. Currently, the company generates only 30% of their business through partners, but has a goal of 70%.

Recovery from Poor Quarter– Guidance reported a disappointing first quarter. However, it was mostly explainable and was NOT a result of weakness in its competitive position. First of all, this business is seasonal and the first half is slower. Beyond this, however, a significant amount of deals slipped into future quarters as customers were hesitant to spend. The company has a strong \$43 million of deferred revenue and is not seeing pricing pressure. Also impacting the quarter was the federal sequestration and development costs of a product unveiled just last week. Management has revised guidance to assume some of this weakness has continued in the second quarter but the revised trend in year-over-year growth is still upward.

Excitement About New Product – EnCase Analytics was introduced on May 20. It is a complete security intelligence solution that provides organizations unprecedented visibility and situational awareness of security risks and exposure to unknown threats. It focuses on end-user devices and servers enterprise-wide that are used in "big data" organizations. Big data

security analytics has historically been hard to achieve, but EnCase Analytics' unique approach makes it more effective. This approach looks at all endpoints of the network and generates a data and process map that provides a holistic view of what is going on in a network, rather than relying on signatures and behaviors that are easily identified and evolved. Additionally, this security software business better positions Guidance to compete in markets outside of the U.S.

Federal Sequestration Impact Will Fade – Approximately 20% of revenues come from the federal government. The federal sequestration impacted purchases by government agencies in the first quarter and may continue for the rest of the first half. However, this market should strengthen again in the typically stronger second half.

Financial Strength – Guidance has \$26 million in cash and no debt.

VALUATION:

Guidance Software's transition into the security software business will make it easier for investors to make comparisons with comparable companies and should enhance the multiples afforded the company. The stock took a heavy hit earlier this year. The positive financial comparisons expected later this year should lift the stock.

Guidance Software, Inc. (NASDAQ:GUID) Investment Data (as of 5/24/13)

Recent Price	\$9.23
52-Week Range	\$7.50 - \$13.08
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	28.2 M
Average Trading Volume (3 mos)	87k
Market Capitalization	\$260 M
Cash	\$26 M
Long-term Debt	\$0.4 M
Enterprise Value (EV)	\$234 M
Book Value	\$1.21
TTM Revenue	\$130.4 M
P/ Revenue	2.0x
TTM EPS	\$(0.20)
P/ EPS	NA
TTM EBITDA	\$2.1 M
EV/ EBITDA	109

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Best Idea Profile:

Micron Technology, Inc. (NASDAQ:MU)

DESCRIPTION:

Micron Technology is an advanced memory and semiconductor technology company. Its DRAM components, NAND Flash and NOR Flash memory products are used in everything from computing, networking, and server equipment; to consumer, mobile, automotive, and industrial applications. Founded in 1978, the company has operations in North America, Central America, Europe, Middle East, and Asia. It is headquartered in Boise, Idaho, and employs approximately 20,000 people.

KEY INVESTMENT CONSIDERATIONS:

Upcoming Acquisition – Micron stands to reap big benefits from its upcoming acquisition of Elpida Memory, Inc., a previous competitor in Japan that went bankrupt last year. There are still some roadblocks, or more likely, curves in the road, to getting this acquisition completed. When it receives final approval there will be immediate impacts to Micron. The company will gain operating efficiency, as it moves capacities around for a better mix of DRAM and NAND. It will produce back-end efficiencies as the strong operations at Micron are adapted to the outsourced and expensive Elpida operations. Lastly, this will benefit the capital intensity required to grow. Through this acquisition Micron is buying good facilities for cents on the dollar, resulting in upgrades that cost much less than a greenfield addition.

Industry Consolidation – After 15 years of consolidation and extreme competition, the market has been reduced from 20 players to only three: Samsung, Hynix and Micron. In part this has resulted from fewer governmental subsidies. For instance, the recent bankruptcies of Japanese players would probably not have happened in the past because the Japanese government would subsidize the companies. These subsidies have stopped.

Industry Growth – Growth in smartphone and tablet markets, as well as rekindled notebook growth, will fuel profound shortages for memory. Including all cell phones (smartphones and lower end phones), the amount of DRAM in each is increasing from 420 mb to 750 mb next year. Tablets' use of memory is growing exponentially as well. People in less developed countries are now finding the disposable income to buy devices that connect them to the internet. This worldwide trend will drive mobile memory demand for at least three to five years.

Smarter About Building Capacity – With the memory industry essentially now an oligopoly, Micron is well situated. Management states that it is in a different scenario now. "We don't have the arms race going on anymore," meaning the competitive environment of the past four decades has changed. There is no longer a new country lining up to add memory capacity with irrational capital. The remaining competitors can defend their market share without sacrificing profitability. The positive price environment for memory is particularly surprising during what is seasonally a slow sales period. Historically, high demand and a positive price environment have resulted in overbuilding of capacity. This is not expected this time around given the changed environment, the increased difficulty to add capacity, and the mentality of the remaining competitors.

VALUATION:

Street estimates for earnings are likely to rise when the Elpida acquisition closes as the added capacity ramps up analysts' earnings models. Over the next three to five years, with increasing pricing power and greater efficiencies of scale, Micro has \$1 to \$2 of earnings power. Stock is trading near its 12-month high but has room to increase as the company completes the acquisition and market dynamics continue to improve.

Micron Technology, Inc. (NASDAQ:MU)

Investment Data (as of 5/29/13)

Recent Price	\$11.78
52-Week Range	\$5.16 - \$11.88
Fiscal Year End	Aug 29
Dividend	NA
Yield	NA
Shares Outstanding	1.0 B
Average Trading Volume (3 mos)	32 M
Market Capitalization	\$12.2 B
Cash	\$2.2 B
Long-term Debt	\$3.7 B
Enterprise Value (EV)	\$13.4 B
Book Value	\$7.04
TTM Revenue	\$8.1 B
P/ Revenue	1.5x
TTM EPS	\$(1.12)
P/ EPS	NA
TTM EBITDA	\$1.5 B
EV/ EBITDA	8.9x

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