

# Mossberg's Investor Digest

August 2013

Issue #62

## From the Editor...

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A Look Back at Antares Energy (ASX: AZZ.AX).

I profiled Antares Energy in December 2011, an Australian E&P company with significant working interest in the Permian Basin area of West Texas. I profiled AZZ after meeting with their CEO, who lives in Dallas/ Fort Worth, our home town.

The performance of the stock has been less than stellar, increasing to \$0.51 from \$0.43, or 18% since I wrote about it 22 months ago. Comparatively, the Russell is up 32% over the same time period.

This past week, Antares announced that it has executed a binding purchase and sale agreement to sell its Permian Basin assets for \$300 million. After tax, the net transaction value should be worth about \$0.80+ per share, which is a significant premium to the closing price on Friday. The discount appears to be coming from limited information that has been released about the transaction and a protracted closing date.

Regardless, the announcement and discount merit a closer look and appear to be an attractive buying opportunity.

By way of disclosure, I personally own shares in AZZ.

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

Dave Mossberg

## August 2013 Issue

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**FelCor Lodging Trust (NYSE:FCH) \$5.95, August 8, 2013, Page 3** – Felcor Lodging Trust is a real estate investment trust with 90% of its portfolio consisting of upper-upscale luxury hotels in major urban and resort markets. The REIT is under the radar of many investors because of dismal operating performance through the recession, suspension of the dividend and a low investor profile. However, the company is halfway through a successful turnaround, which should driver greater investor interest and valuation.

**Hydrogenics Corp. (NASDAQ:HYGS) - \$11.14, August 13, 2013, Page 4** – Hydrogenics uses water electrolysis technology to generate hydrogen. With an expectation of compounded annual growth of 30% or better, Hydrogenics has an impressive outlook over an extended period of time. The stock should continue to reflect the increased interest in renewable energy storage and fuel cell technology.

**BIO-key International, Inc. (OTCQB: BKYI) \$0.33, August 29, 2013, Page 5** – BIO-key develops and delivers advanced identification solutions. Its biometric finger identification technology identifies and authenticates users of wireless and enterprise applications. This high-growth low-market-cap company could benefit greatly from increasing demand for efficient and scalable authentication programs. The less-than-stellar operating results so far do not give an accurate indication of the growth potential of this stock.

**LRAD Corporation (NASDAQ:LRAD) - \$21.26, August 30, 2013, Page 6** – The long range acoustic device (LRAD) was developed following terrorist attacks on a French tanker and the USS Cole for the purpose of enabling security and military forces to broadcast warnings and to determine the intent of potential threats at safe distances. With good cash flow and no debt on the balance sheet, the Company can aggressively pursue its buyback program, which is likely an accretive use of cash and a support to the stock.

# Mossberg's Investor Digest

## Mossberg's Investor Digest Idea Performance

The table below shows the relative change in the value of the ideas published since August 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
Deere and Company (NYSE: DE)	13-Aug-12	\$78.89	\$83.65	6.0%	17.1%	-8.6%
Power Solutions International (OTC BB:PSIX)	16-Aug-12	\$16.99	\$52.20	207.2%	17.1%	192.6%
U.S. Concrete, Inc. (NASDAQ: USCR)	26-Aug-12	\$6.24	\$19.36	210.3%	17.8%	194.6%
Ikanos Communications, Inc. (NASDAQ:IKAN)	30-Aug-12	\$0.92	\$1.21	31.5%	18.6%	15.6%
Zale Corporation (ZLC)	17-Sep-12	\$5.87	\$12.43	111.8%	13.3%	100.3%
Air Transport Services Group, Inc. (ATSG)	24-Sep-12	\$4.67	\$6.54	40.0%	13.8%	28.3%
Northern Technologies International Corp. (NTIC)	27-Sep-12	\$10.95	\$15.00	37.0%	14.6%	24.5%
KEMET Corp. (KEM)	28-Sep-12	\$4.40	\$4.11	-6.6%	15.1%	-19.5%
GameStop Corp. (NYSE: GME)	4-Oct-12	\$21.92	\$50.32	129.6%	13.6%	118.1%
Sycamore Networks, Inc. (NASDAQ:SCMR)	11-Oct-12	\$0.51	\$0.49	-3.9%	15.7%	-17.6%
RPX Corp. (NASDAQ:RPXC)	25-Oct-12	\$9.69	\$15.66	61.6%	17.3%	46.3%
Prospect Global Resources, Inc. (NASDAQ:PGRX)	31-Oct-12	\$2.76	\$0.06	-97.8%	17.3%	-113.2%
Gaia Inc. (GAIA)	7-Nov-12	\$2.94	\$5.09	73.1%	18.7%	56.4%
Green Dot Corporation (NASDAQ:GDOT)	26-Nov-12	\$11.71	\$22.90	95.6%	17.7%	79.5%
JTH Holdings, Inc. (NASDAQ:TAX)	27-Nov-12	\$13.92	\$16.72	20.1%	18.2%	3.4%
Elephant Talk Communications, Corp. (NASDAQ:ETAK)	28-Nov-12	\$1.06	\$0.72	-31.8%	17.3%	-47.6%
Sealed Air Corporation (NYSE:SEE)	16-Dec-12	\$16.03	\$28.43	77.4%	16.8%	62.3%
Westmoreland Coal Co. (NASDAQ:WLB)	17-Dec-12	\$10.02	\$12.68	26.5%	15.5%	12.7%
Regional Management Corp. (NYSE:RM)	18-Dec-12	\$16.55	\$27.75	67.7%	14.1%	55.0%
Michael Baker Corporation (NYSE:BKR)	30-Dec-12	\$24.30	\$40.48	66.6%	17.5%	50.4%
DHX Media Ltd. (TSX:DHX.TO)	12-Jan-13	\$1.86	\$2.87	54.3%	11.8%	43.4%
Mood Media Corporation (TSX:MM.TO)	20-Jan-13	\$1.93	\$1.15	-40.4%	10.6%	-50.1%
MoneyGram International Inc. (NYSE:MGI)	30-Jan-13	\$13.93	\$20.32	45.9%	9.5%	37.6%
GenMark Diagnostics, Inc. (NASDAQ:GNMK)	30-Jan-13	\$11.11	\$11.65	4.9%	9.5%	-3.4%
MVC Capital, Inc. (NYSE:MVC)	12-Feb-13	\$12.11	\$12.49	3.1%	8.0%	-3.9%
eGain Corporation (Nasdaq:EGAN)	15-Feb-13	\$7.50	\$13.50	80.0%	8.0%	72.9%
DSP Group (NASDAQ:DSPG)	26-Feb-13	\$7.41	\$6.38	-13.9%	9.8%	-22.4%
Unitech Corporate Parks (LSE:UCP.L)	28-Feb-13	\$35.25	\$34.75	-1.4%	8.4%	-8.7%
Palomar Medical Technologies, Inc. (NASDAQ:PMTI)	6-Mar-13	\$11.91	\$13.65	14.6%	6.5%	9.2%
Global Power Equipment Group Inc. (NASDAQ:GLPW)	7-Mar-13	\$16.84	\$18.54	10.1%	6.3%	4.9%
NetSol Technologies, Inc. (NASDAQ:NTWK)	16-Mar-13	\$10.84	\$9.81	-9.5%	5.1%	-13.4%
Kofax, plc (OTC:KFAXF)	22-Mar-13	\$4.47	\$5.41	21.0%	5.4%	16.9%
Tutor Perini (NYSE: TPC)	16-Apr-13	\$16.76	\$19.27	15.0%	4.6%	12.0%
Carbonite (Nasdaq: CARB)	17-Apr-13	\$10.00	\$15.17	51.7%	6.2%	47.4%
GenCorp Inc. (NYSE:GY)	26-Apr-13	\$13.06	\$15.08	15.5%	4.0%	12.8%
Steinway Musical Instruments (NYSE:LVB)	26-Apr-13	\$24.67	\$40.26	63.2%	4.0%	60.5%
Axesstel (Nasdaq:AXST)	12-May-13	\$1.30	\$0.56	-56.9%	0.6%	-56.5%
Keweenaw Land Association (OTC: KEWL)	21-May-13	\$76.28	\$89.95	17.9%	-1.5%	20.4%
Guidance Software, Inc. (NASDAQ:GUID)	24-May-13	\$9.23	\$8.40	-9.0%	-0.2%	-7.5%
Micron Technology, Inc. (NASDAQ:MU)	29-May-13	\$11.83	\$13.51	14.2%	-0.1%	15.6%
CafePress Inc.	4-Jun-13	\$6.81	\$5.80	-14.8%	0.9%	-14.4%
Carrols Restaurant Group, Inc.	11-Jun-13	\$5.83	\$6.10	4.6%	1.2%	4.8%
Rackspace Hosting, Inc.	30-Jun-13	\$37.89	\$45.09	19.0%	2.3%	17.9%
Ducommun Inc.	30-Jun-13	21.26	\$26.51	24.7%	2.3%	23.6%
Syneron Medical Ltd. (NASDAQ:ELOS)	17-Jul-13	\$8.60	\$8.27	-3.8%	-2.5%	-0.7%
BGC Partners, Inc. (NASDAQ:BGCP)	22-Jul-13	\$6.44	\$5.61	-12.9%	-3.3%	-9.0%
Calamos Asset Management Inc. (NASDAQ:CLMS)	28-Jul-13	\$10.75	\$10.01	-6.9%	-3.1%	-3.1%
Sunshine Heart, Inc. (NASDAQ:SSH)	29-Jul-13	\$7.37	\$11.15	51.3%	-2.8%	54.8%
				<b>30.5%</b>	<b>9.1%</b>	<b>22.8%</b>

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# Mossberg's Investor Digest

## Best Idea Profile:

## FelCor Lodging Trust (NYSE:FCH)

### DESCRIPTION:

FelCor Lodging Trust is a real estate investment trust with 90% of its portfolio consisting of upper-upscale luxury hotels in major urban and resort markets. The properties have 18,000 rooms in the U.S. Embassy Suites represent 32% of revenue and the Wyndham portfolio is 20%. Eight major urban markets make up two-thirds of the revenues, including New York, San Francisco, Boston, Los Angeles, and Miami. The REIT was founded in 1994 and is based in Irving, Texas.

### KEY INVESTMENT CONSIDERATIONS:

**Industry Strengthening** – The supply/demand profile for the domestic hotel sector is very favorable for owners with attractive properties. Hotel construction declined rapidly during the recent financial crisis, resulting in not enough supply to satisfy either the leisure or quickly recovering business travel. Industry experts expect this disparity to continue for the next few years, which should drive revenues per room upward. FelCor has the highest exposure to the markets identified by industry experts as the most likely to outperform the U.S. industry average revenue per available room.

**Transformation of Asset Profile** – FelCor Lodging Trust suffered significantly when the recession hit, even to the point of near extinction. It is now half-way through a transformation of its assets. It is selling 70% of its hotels in suburban markets and 50% of airport hotels. The assets it is keeping—premium hotels in major markets, upscale resorts and hotels in high-traffic airports—are of significantly higher quality and in better markets with little growth of the supply. So far FelCor has sold 19 of the 39 hotels it has targeted, generating gross proceeds of \$429 million. Of the 11 hotels that FelCor put up for sale this year, it has sold two in the last two months, one is under hard contract, and two more are under contracts that are expected to firm quickly. The positive financing environment should continue to aid FelCor's sales process. FelCor has also renovated much of the portfolio: Holiday Inns were upscaled to Wyndham hotels and the historic Knickerbocker Hotel in New York is being redeveloped as a 4+ star hotel and is on schedule to open in early 2014. Therefore, renovation expenses for FelCor are mostly completed.

**Debt Profile Continuing to Improve** – FelCor is using its asset sale proceeds to reduce debt and renovate. It has decreased interest expense \$45 million since 2010

and expects a total \$70 million reduction by 2015. Interest coverage is expected to double (3.2x) from 2012 to 2015. FelCor reduced average borrowing costs by 100 basis points in 2012 and expects to lower them by 80 additional basis points. This strong balance sheet, post asset sales, provides critical flexibility to seize strategic opportunities.

**Reinstatement of Dividend Expected** – FelCor expects to provide “a meaningful common dividend” by improving operations and generating cash through asset sales. It is possible this dividend could be instituted once the company retires its 2014 debt.

**Competitive Advantage**– FelCor's core portfolio is better located relative to its peers. It has good exposure to favorable markets and, if evaluating only its remaining core assets, FelCor has outperformed its competitors over the last five years.

**Expanding Investor Outreach** – Management stated that enhanced investor relations are one of its five areas of focus. It just completed an extensive investor tour that encompassed meeting with 75 investors.

### VALUATION:

The REIT is under the radar of many investors because of dismal operating performance through the recession, suspension of the dividend and a low investor profile.

#### FelCor Lodging Trust (NYSE:FCH)

Investment Data (as of 8/8/13)

<b>Recent Price</b>	<b>\$5.95</b>
52-Week Range	\$3.90 - \$6.47
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	124 M
Average Trading Volume (3 mos)	831 k
Market Capitalization	\$739 M
Cash	\$66 M
Long-term Debt	\$1.7 B
Enterprise Value (EV)	\$2.9 B
Book Value	\$(1.19)
TTM Revenue	\$933 M
P/ Revenue	0.8 x
TTM EPS	\$(1.58)
P/ EPS	NA
TTM EBITDA	\$169 M
EV/ EBITDA	17.0 x

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## Best Idea Profile:

## Hydrogenics Corp. (NASDAQ:HYGS)

### DESCRIPTION:

Hydrogenics uses water electrolysis technology to generate hydrogen. It operates three businesses, all of which are growing. It is the leading generator of hydrogen and this segment generated 90% of 2012 revenues, representing 35% year-over-year growth. Its second business is fuel cells, or power generation for propulsion and back-up power use. Energy storage represents the biggest potential market. Hydrogenics product applications include hydrogen generators for industrial processes and fueling stations, hydrogen fuel cells for electric vehicles, and fuel cell installations for electrical power plants. It is also pioneering power-to-gas, which is a way to store and transport surplus energy using existing infrastructure. Hydrogenics is headquartered in Ontario with manufacturing facilities in Canada, Germany and Belgium, and service centers in Russia, Europe, U.S. and Canada.

### KEY INVESTMENT CONSIDERATIONS:

**Clean Energy Storage Market Growth** – Global interest in renewable energy is tremendous but remains somewhat stilted by the problem of storing excess energy. The relatively nascent market of hydrogen energy storage is surging. Some countries, such as Germany, are even mandating the use of renewable energy, as are an increasing number of states in the U.S. Unlike other energy storage technologies, Power-to-Gas can both store and transport energy. It converts excess electricity into hydrogen that can be stored in the existing natural gas pipeline network. The stored energy can then be discharged where and when it is needed. Hydrogenics is leading this charge; this past June the largest Power-to-Gas facility in the world went live with the first direct injection of hydrogen into this gas pipeline using Hydrogenics technology. There are 18 storage projects planned in Germany alone, and Hydrogenics has won seven of them. Most projects throughout Europe are in pre-startup or early operation phase.

**Impressive Investors and Operating Partners** – General Motors partnered with Hydrogenics because of its superior fuel cell technology, and now owns 6% of HYGS. Fuel cell business provided only \$4 million in revenue in 2012 but it is growing rapidly. Hydrogenics also gained a strong partner in Commscope, a leading manufacturer of cell tower equipment, when that company purchased a 28% stake in HYGS. Commscope uses Hydrogenics' fuel cells for back-up power in its cellular towers for superior efficiency and its first

commercial order signals activation of a substantial revenue stream.

**Financial Strength** – Hydrogenics is nearing a level of operation—approximately \$50 million in revenue—that will generate profit for the first time. Backlog of \$50 million has increased substantially, and in September the company received the largest single award in its history, although the customer has remained anonymous because of the sensitive nature of the program. The company will use current capital to fund the tremendous growth opportunities in projects across its product lines. Management stated recently “we are to-date stronger as a company than ever before given higher cash levels, a solid balance sheet and improved trading liquidity.”

### VALUATION:

With an expectation of compounded annual growth of 30% or better, Hydrogenics has an impressive outlook over an extended period of time. The stock should continue to reflect the increased interest in renewable energy storage and fuel cell technology.

#### Hydrogenics Corp. (NASDAQ:HYGS)

Investment Data (as of 8/13/13)

<b>Recent Price</b>	<b>\$11.14</b>
52-Week Range	\$4.62 - \$16.75
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	8.5 M
Average Trading Volume (3 mos)	131k
Market Capitalization	\$95 M
Cash	\$12 M
Long-term Debt	0
Enterprise Value (EV)	\$85 M
Book Value	\$0.86
TTM Revenue	\$39.9 M
P/ Revenue	2.4x
TTM EPS	\$(1.56)
P/ EPS	NA
TTM EBITDA	\$(9.9) M
EV/ EBITDA	(8.6)

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## Best Idea Profile:

## BIO-key International Inc. (OTCQB: BKYI)

### DESCRIPTION:

Headquartered in Wall, New Jersey, BIO-key develops and delivers advanced identification solutions. Its biometric finger identification technology identifies and authenticates users of wireless and enterprise applications. Its solutions are used in local embedded OEM products, as well as in some of the world's largest identification deployments, in order to improve security, guarantee identity, and reduce the risk of identity theft.

### KEY INVESTMENT CONSIDERATIONS:

**Increasing Need For Security** – There have been 354 million privacy breaches over the past five years in the United States alone. As the need to protect critical data has increased, so has the difficulty to protect passwords, especially among a more mobile workforce. To address this issue many companies are migrating to risk-based authentication models. Through the translation of a fingerprint image into a mathematical algorithm, BIO-key provides alternative solutions to traditional passwords, PINS and tokens that are easily compromised. This market is expected to grow exponentially, particularly if biometrics is imbedded in more mobile devices.

**Key Partnerships** – BIO-key has compiled an impressive list of partners. For example, it is now certified for the latest IBM security platform solution for Web applications, representing huge market opportunity because of the size of IBM's installed base of accounts. Management specifically stated this will "lead to a measureable increase in business opportunities." BIO-key recently extended its rollout of technology to NCR's retail point-of-sale customers, which includes Burger King and Dunkin Donuts. Additionally, Allscripts has certified the biometric identity management solution for healthcare providers using its system; more than 180,000 physicians use Allscripts' electronic health records management programs to eliminate the use of passwords or other devices used to access electronic health records. Other strategic alliances include Oracle Corporation, Microsoft, Indigo, and CA Technologies.

**Scalable Business** – BIO-key's use on scanners or mobile devices is "hardware and operating-system agnostic." It can gather and process data from multiple sources and, unlike its competitors, the solutions can be applied either in a device or in the cloud. This flexibility to leverage across multiple operating systems, as well as the speed at which it operates, makes this a very scalable business. BIO-key's True User Identification can be used for identification systems of any size and can

perform more than six million fingerprint matches per second.

**Need for Capital** – While an increasing base of revenue should allow the Company to approach break-even cash flow, it is apparent that the current balance sheet will require additional capital infusion to support growth. BIO-key raised approximately \$1 million in funding at \$0.10 in February, and another \$1 million at \$0.30 per share in July. As the Company continues to demonstrate its potential, hopefully future rounds will continue to be at higher valuations and the need for dilutive activities going forward will diminish.

**Apple's Interest in Biometric Authentication** – Apple recently purchased Authentec, which is known for fingerprint readers that are built into computing devices. This suggests that Apple will indeed develop high-tech authentication features for products like iPad and iPhone, as well as for the Mac. Authentec and BIO-key have worked together for many years, and this relationship could be extremely compelling if Apple gets serious about this security application.

### VALUATION:

This high-growth low-market-cap company could benefit greatly from increasing demand for efficient and scalable authentication programs. The less-than-stellar operating results so far do not give an accurate

#### BIO-key International, Inc. (OTCQB: BKYI)

Investment Data (as of 8/29/13)

<b>Recent Price</b>	<b>\$0.33</b>
52-Week Range	\$0.05 - \$0.41
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	87 M
Average Trading Volume (3 mos)	169 K
Market Capitalization	\$31 M
Cash	\$100 K
Long-term Debt	\$497 K
Enterprise Value (EV)	\$30 M
Book Value	\$(0.01)
TTM Revenue	\$3 M
P/ Revenue	9.5x
TTM EPS	\$(0.01)
P/ EPS	NA
TTM EBITDA	\$(339) K
EV/ EBITDA	(89)

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## Best Idea Profile:

## LRAD Corporation (NASDAQ:LRAD)

### DESCRIPTION:

The long range acoustic device was developed following terrorist attacks on a French tanker and the USS *Cole* for the purpose of enabling security and military forces to broadcast warnings and to determine the intent of potential threats at safe distances. This provides the necessary time and distance to employ escalation of force if necessary. LRAD Corporation products use a concentrated beam of sound to broadcast highly intelligible, multilingual voice message or loud deterrent tones that can be heard up to three kilometers away. LRAD systems are implemented in more than 60 countries in applications including: military, maritime security, commercial security, border and port security, critical infrastructure and perimeter security, emergency warning and mass notification, law enforcement, emergency responders, and wildlife preservation and control. LRAD, founded in 1980, is based in San Diego.

### KEY INVESTMENT CONSIDERATIONS:

**Essential and Growing Markets** – LRAD's highest profile market, non-lethal weapons, is forecast to triple in ten years, from \$1.5 billion in 2011 to \$4.4 billion. This growth is being driven by the increasing demand for methods of enforcement that avoid non-combatant casualties. Although U.S. government sequestration has delayed funding of many projects, the demand is still there. LRAD is also heavily targeting mass notification markets, which include systems with uses ranging from tsunami warning systems to mobile communications networks set up in disaster areas.

**Dominance in U.S. Market** – All U.S. Navy contracts are competitively bid; however, LRAD products continue to be the preferred provider, with more than 450 LRAD systems sold to the Navy. LRAD is also aggressively pursuing U.S. Army and international military business.

**International Opportunities are Increasing** – LRAD is strengthening its international distribution network and partners with large defense contractors to include its systems into international products with acoustic hailing device requirements. China is a tremendous growth opportunity, especially for public safety, and LRAD recently signed an agreement with a Chinese-based company to develop Chinese military and public safety markets. Although development will take time to evolve, the relationship puts LRAD in a strong position to pursue this lucrative space. Additionally, earlier in August, LRAD received a \$1 million Asian order for public safety, wildlife control and emergency systems;

and a \$760,000 order from the Middle East for a system to be used for crowd and riot control. They are both scheduled to ship in the fourth quarter.

**Expect Fiscal Fourth Quarter Recovery** – Fiscal third quarter revenue was down in large part because of military delays. However, a \$12 million Navy contract in the works for over a year was recently approved, and LRAD has received more than \$3 million of non-military orders since the end of the third quarter alone. If orders can be shipped as expected in the fourth quarter, it may be the second best quarter in company history. Even more importantly, LRAD believes 2014 looks good without relying on military orders.

**Share Buyback** – In July, shareholders approved a new board of directors, several of whom are buying shares. In addition, the board approved a share buyback program of up to \$3 million of outstanding shares. In light of improved cash flow expected in the fourth quarter, this will be funded by organic growth and no debt.

### VALUATION:

With good cash flow and no debt on the balance sheet, the company can aggressively pursue its buyback program, which is likely an accretive use of cash and a support to the stock.

#### LRAD Corporation (NASDAQ:LRAD)

Investment Data (as of 8/30/13)

<b>Recent Price</b>	<b>\$1.55</b>
52-Week Range	\$0.80 - \$1.66
Fiscal Year End	Sep
Dividend	NA
Yield	NA
Shares Outstanding	32.5 M
Average Trading Volume (3 mos)	190k
Market Capitalization	\$52 M
Cash	\$15 M
Long-term Debt	0
Enterprise Value (EV)	\$30 M
Book Value	\$0.66
TTM Revenue	\$14 M
P/ Revenue	3.7x
TTM EPS	\$(0.02)
P/ EPS	NA
TTM EBITDA	\$(300)K
EV/ EBITDA	N/A

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