

Mossberg's Investor Digest

January 2014

Issue #67

From the Editor...

2013 was clearly a phenomenal year for U.S. equities. We ended the year with the Dow up 29% and the S&P up 32% with dividends. This is the best year in the market since 1995.

With S&P earnings growing by 9% during 2013, two-thirds of the increase in valuation came from multiple expansion. The earnings multiple on the S&P 500 index increased from the lower end of the historical range around 14x to the higher end of the range around 18x.

Last year was a year in which a rising tide helped all stocks. With a positive outlook for continued improvement in global economic activity, it likely we could see continued growth in earnings. Analysts are predicting a 12% increase in S&P earnings next year.

With the earnings multiple approaching the top end of the range, it is unlikely that expansion in the earnings multiple will be as big of a driver for valuations during 2014, which means individual stock selection should be even more important for achieving attractive returns.

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

Dave Mossberg

January 2014 Issue

Spark Networks, Inc. (NYSE MKT:LOV) \$6.07, January 15, 2014, Page 3 – Spark Networks provides online personals services that enable adults to meet online, participate in a community and form relationships. LOV is attractively valued on an enterprise value to sales basis given it is a high growth, sustainable and predictable business model. As investors breathe deep and come back to the stock, they are likely to be rewarded with stock returns driven by high earnings growth.

News Corporation (NASDAQ:NWSA) - \$16.76, January 21, 2014, Page 4 – News Corporation separated its business into two individual companies: 21st Century Fox and the new News Corporation. The premier entertainment and media assets exited with Fox and the less attractive news and information services assets remained with the new News Corporation. News Corporation is a compelling investment with hidden assets, assets that may be wrongly viewed as obsolete, lots of cash, no debt, and a proven leader.

Emmis Communications Corp. (NASDAQ:EMMS) - \$2.98, January 27, 2014, Page 5 – Emmis Communications, based in Indianapolis, Indiana; owns and operates radio and magazine entities in large and medium sized markets throughout the U.S. It is a broadcasting company that owns more than 20 FM and AM radio stations in New York, Los Angeles, St. Louis, Austin, Indianapolis, and Terre Haute. The media industry has been much ignored, but there are pockets of interest in this company (NextRadio launch, regional magazine success) that deserve attention, especially given the low stock price.

Brunswick Corporation (NYSE:BC) - \$41.23, January 30, 2014, Page 6 – Brunswick is a market leader in marine, fitness, and bowling and billiards. Boating represents its biggest segment at 75% of sales. The company bought Mercury Marine in 1961. The stock appears undervalued based on a bottoming out of the boating business and expectations for further growth on a base of finely tuned operations and balance sheet.

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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 October 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
DHX Media Ltd. (TSX:DHX.TO)	12-Jan-13	\$1.86	\$4.71	153.2%	22.7%	133.0%
Mood Media Corporation (TSX:MM.TO)	20-Jan-13	\$1.93	\$0.91	-52.8%	21.5%	-71.8%
MoneyGram International Inc. (NYSE:MGI)	30-Jan-13	\$13.93	\$18.50	32.8%	20.2%	15.4%
GenMark Diagnostics, Inc. (NASDAQ:GNMK)	30-Jan-13	\$11.11	\$12.54	12.9%	20.2%	-4.5%
MVC Capital, Inc. (NYSE:MVC)	12-Feb-13	\$12.11	\$14.25	17.7%	18.6%	1.6%
eGain Corporation (Nasdaq:EGAN)	15-Feb-13	\$7.50	\$9.56	27.5%	18.5%	11.3%
DSP Group (NASDAQ:DSPG)	26-Feb-13	\$7.41	\$8.95	20.8%	20.5%	3.1%
Unitech Corporate Parks (LSE:UCP.L)	28-Feb-13	\$35.25	\$41.40	17.4%	19.1%	1.2%
Palomar Medical Technologies, Inc. (NASDAQ:PMTI)	6-Mar-13	\$11.91	\$13.65	14.6%	17.0%	0.3%
Global Power Equipment Group Inc. (NASDAQ:GLPW)	7-Mar-13	\$16.84	\$18.07	7.3%	16.7%	-6.7%
NetSol Technologies, Inc. (NASDAQ:NTWK)	16-Mar-13	\$10.84	\$5.62	-48.2%	15.4%	-60.9%
Kofax Limited (NASDAQ:KFX)	22-Mar-13	\$4.47	\$7.40	65.5%	15.7%	52.6%
Tutor Perini (NYSE: TPC)	16-Apr-13	\$16.76	\$22.90	36.6%	14.9%	25.0%
Carbonite (Nasdaq: CARB)	17-Apr-13	\$10.00	\$9.95	-0.5%	16.6%	-13.6%
GenCorp Inc. (NYSE:GY)	26-Apr-13	\$13.06	\$16.98	30.0%	14.2%	18.7%
Steinway Musical Instruments (NYSE:LVB)	26-Apr-13	\$24.67	\$40.00	62.1%	14.2%	50.8%
Axesstel (Nasdaq:AXST)	12-May-13	\$1.30	\$0.14	-89.2%	10.5%	-97.2%
Keweenaw Land Association (OTC: KEWL)	21-May-13	\$76.28	\$83.00	8.8%	8.2%	3.0%
Guidance Software, Inc. (NASDAQ:GUID)	24-May-13	\$9.23	\$10.86	17.7%	9.6%	10.8%
Micron Technology, Inc. (NASDAQ:MU)	29-May-13	\$11.83	\$23.36	97.4%	9.6%	90.5%
CafePress Inc. (NASDAQ:PRSS)	4-Jun-13	\$6.81	\$6.40	-6.0%	10.8%	-14.0%
Carrols Restaurant Group, Inc. (NASDAQ:TAST)	11-Jun-13	\$5.83	\$6.30	8.1%	11.1%	-0.2%
Rackspace Hosting, Inc. (NYSE:RAX)	30-Jun-13	\$37.89	\$36.56	-3.5%	12.3%	-13.2%
Ducommun Inc. (NYSE:DCO)	30-Jun-13	\$21.26	\$28.35	33.3%	12.3%	23.7%
Syneron Medical Ltd. (NASDAQ:ELOS)	17-Jul-13	\$8.60	\$12.17	41.5%	7.1%	36.5%
BGC Parnters, Inc. (NASDAQ:BGCP)	22-Jul-13	\$6.44	\$6.43	-0.2%	6.1%	-4.4%
Calamos Asset Management Inc. (NASDAQ:CLMS)	28-Jul-13	\$10.75	\$11.58	7.7%	6.3%	3.4%
Sunshine Heart, Inc. (NASDAQ:SSH)	29-Jul-13	\$7.37	\$10.19	38.3%	6.8%	33.6%
FelCor Lodging Trust (NYSE:FCH)	8-Aug-13	\$5.95	\$8.20	37.7%	5.9%	33.6%
Hydrogenics Corp. (NASDAQ:HYGS)	13-Aug-13	\$11.14	\$23.75	113.2%	6.0%	108.8%
BIO-key International, Inc. (OTCQB: BKYI)	29-Aug-13	\$0.33	\$0.17	-49.1%	9.4%	-57.2%
LRAD Corporation (NASDAQ:LRAD)	30-Aug-13	\$1.52	\$2.21	45.4%	9.9%	36.9%
Famous Dave's (NASDAQ:DAVE)	19-Sep-13	\$16.00	\$16.61	3.8%	4.0%	1.1%
Alteva, Inc. (NYSE:ALTV)	23-Sep-13	\$7.20	\$8.25	14.6%	5.2%	10.5%
Roundy's, Inc. (NYSE:RNDY)	24-Sep-13	\$9.19	\$8.50	-7.5%	5.3%	-11.9%
SMTC Corporation (NASDAQ:SMTX)	26-Sep-13	\$1.97	\$2.16	9.5%	5.2%	5.2%
Blue Earth Inc. (OTCQB:BBLU)	16-Oct-13	\$3.09	\$2.55	-17.5%	3.8%	-20.7%
EveryWare Global, Inc. (NASDAQ:EVRY)	24-Oct-13	\$10.87	\$8.36	-23.1%	1.9%	-24.8%
KapStone Paper & Packaging Corp. (NYSE:KS)	25-Oct-13	\$45.83	\$28.01	-38.9%	1.5%	-40.2%
Qumu Corporation (NASDAQ:QUMU)	29-Oct-13	\$14.09	\$14.88	5.6%	0.9%	5.0%
Winmark Corporation (NASDAQ:WINA)	10-Nov-13	\$74.13	\$81.26	9.6%	1.2%	9.1%
Regional Management Corp. (NYSE:RM)	18-Nov-13	\$32.04	\$33.35	4.1%	0.2%	4.7%
USA Technologies (NASDAQ:USAT)	26-Nov-13	\$1.75	\$2.18	24.6%	-0.5%	25.8%
American Electric Technologies (NASDAQ:AETI)	29-Nov-13	\$9.33	\$9.68	3.8%	-0.8%	5.1%
Power REIT (NYSE:PW)	7-Dec-13	\$8.16	\$9.48	16.2%	-0.7%	17.4%
Aggreko plc (OTC:ARGKF)	7-Dec-13	\$26.45	\$26.30	-0.6%	-0.7%	0.6%
Osage Exploration and Development, Inc. (OTCBB:OED)	9-Dec-13	\$1.07	\$1.20	12.1%	-0.8%	13.5%
Capstone Turbine Corp. (NASDAQ:CPST)	26-Dec-13	\$1.22	\$1.62	32.8%	-2.8%	36.3%
				15.6%	9.4%	8.1%

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Best Idea Profile:

Spark Networks, Inc. (NYSE MKT:LOV)

DESCRIPTION:

Spark Networks provides online personals services that enable adults to meet online, participate in a community and form relationships. Registered users can post a profile and access the database of member profiles for free. In order to initiate communication with another user, members pay an upfront monthly subscription fee of \$17 to \$25 per month, giving them access to real-time chat rooms, instant messaging services and face-to-face singles events. Headquartered in Los Angeles, Spark Networks operates two primary networks and a compilation of other niche focused dating websites, such as BlackSingles.com and SilverSingles.com. Jewish Network is the original flagship service and Christian Network is a growing service with a broad array of assets including ChristianMingle.com, Faith.com, Daily BibleVerse.com, and Believe.com.

KEY INVESTMENT CONSIDERATIONS:

Attractive Business – Online dating no longer has the stigma that was associated with it previously. The percentage of people that meet online doubled in the past decade. U.S. dating services is more than a \$2 billion business and growing, and online dating represents more than half.

Growth Internally Funded – The Jewish Network is a mature business that is generating cash to support the rapid growth of the Christian Network. The Christian market is 30 times the size of the Jewish market making this cash cow arrangement extremely beneficial to growth.

Scalable Model – Advertising expenses are critical in this industry and don't go away. However, these expenses have reached a plateau and this operating leverage means that subscriber growth and average revenue per user only need to grow modestly for dramatic bottom-line results. Because of the upfront monthly payments, the revenues are recurring and very predictable.

Inside Ownership Support – Management and the board own more than 6% of shares outstanding. In fact, since the company's initial public offering in 2006, both shareholders and the company itself have been proactive when the stock weakens. In proof of that fact, in December 2013 the board authorized the repurchase of up to \$5 million in stock on the open market.

Stock Price Pressure – In November 2013 Great Hill Partners, nearly a 20% stockholder, offered 4 million shares of their common stock at a public offering price of \$6.00 per share. This announcement caused immediate pressure on the stock and the share price fell precipitously. Osmium Partners stepped in to take advantage of the opportunity and now owns approximately 16%.

Upcoming Financial Milestone – Management expects net income will turn positive in the fourth quarter of 2014. This is a bit surprising given the fourth quarter is typically a seasonally weak subscriber acquisition quarter, but is further indication of management's optimism.

VALUATION:

LOV is attractively valued on an enterprise value to sales basis given it is a high growth, sustainable and predictable business model. As investors breathe deep and come back to the stock, they are likely to be rewarded with stock returns driven by high earnings growth. The stock buyback now in place will bolster the stocks ability to more accurately the company's value. Two new industry comparable companies will be coming online in 2014, which will give investors more data in order to evaluate what reasonable value should be assigned to Spark.

Spark Networks, Inc. (NYSE MKT:LOV) Investment Data (as of 1/15/14)

Recent Price	\$6.07
52-Week Range	\$5.29 - \$9.27
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	23.9 M
Average Trading Volume (3 mos)	148k
Market Capitalization	\$146 M
Cash	\$17 M
Long-term Debt	N/A
Enterprise Value (EV)	\$131 M
Book Value	\$0.76
TTM Revenue	\$68 M
P/ Revenue	2x
TTM EPS	\$(0.88)
P/ EPS	NA
TTM EBITDA	\$(9) M
EV/ EBITDA	-14x

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Best Idea Profile:

News Corporation (NASDAQ:NWSA)

DESCRIPTION:

In July 2013 the media giant News Corporation separated its business into two individual companies: 21st Century Fox and the new News Corporation. The premier entertainment and media assets exited with Fox and the less attractive news and information services assets remained with the new News Corporation. Its news and information services segment generates the majority of earnings and represents more than three-quarters of revenue. It includes News International (U.K.), News Limited (Australia), Dow Jones (*The Wall Street Journal* and *Barron's*), and The New York Post. Book publishing operates HarperCollins, which is the second largest English language consumer publisher. The television and media segment operates the largest sports broadcaster in Australia. The company is also rapidly growing its digital education business. News Corporation is based in New York City.

KEY INVESTMENT CONSIDERATIONS:

Hidden Assets – In the spin-off, News Corporation received 50% interest in Foxtel, the practically monopolistic pay TV distributor in Australia, offering satellite and cable to customers. It is rapidly growing and taking market share and, most interestingly, is not consolidated into NWSA's financial results.

Underappreciated Spin-off – NWSA is not getting the media and investor attention that 21st Century Fox (NASDAQ:FOX) receives for a variety of reasons. Investors are turned off by what looks like old-school media business. However, only 1/2 of revenue come from non-advertising sales and this percentage will decline as the premium content and iconic brands go more digitized and globalized. Second, NWSA is under the radar because its value metrics based on traditional measures such as P/E are unattractive, yet not particularly relevant. Additionally, NWSA has almost \$4/share sitting in cash. Rupert Murdoch has been in the middle of scandal and controversy, which also scares off investors.

Midas Touch – Ok, so Executive Chairman Rupert Murdoch hasn't turned everything to gold, but he has a well deserved reputation as a value creator. And his involvement in controversy over phone hacking in the U.K. opens the door for investor opportunity. Murdoch is committed, operationally and financially, to the success of News Corp. He is back to his roots in Australia and controls a substantial number of the voting shares. He stated it has "some of the most extraordinary and

brilliant brands in the world" that are "undervalued and...underdeveloped."

Growth – The secular decline in print media forces News Corp. to move increasingly to providing digital multi-platform news. This effort continues and its success will substantially impact its future growth. It is important to note that *The Wall Street Journal* actually grew circulation revenue over the last decade. In Australia, News Corp. is the premier media franchiser with businesses that are growing rapidly. It owns Fox Sports Australia, which dominates the cable sports market in Australia, with little threat of competition or piracy issues. It has almost two-thirds share of REA Group, which is a dominant force in online real estate classifieds in Australia. This business is expanding into Hong Kong and Italy. NWSA's current geographic spread of revenues is 36% in Australia, 41% in U.S. and Canada and 21% in Europe, primarily the U.K.

VALUATION:

News Corporation is a compelling investment with hidden assets, assets that may be wrongly viewed as obsolete, lots of cash, no debt, and a proven leader. And you get all of that for substantially less than book value. Investors may benefit from the market's general view of News Corporation as simply an unattractive print newspaper business.

News Corporation (NASDAQ:NWSA)

Investment Data (as of 1/21/14)

Recent Price	\$16.76
52-Week Range	\$14.39 - \$18.17
Fiscal Year End	Jun 30
Dividend	NA
Yield	NA
Shares Outstanding	579 M
Average Trading Volume (3 mos)	3.8 M
Market Capitalization	\$9.7 B
Cash	\$2.7 B
Long-term Debt	0
Enterprise Value (EV)	\$7.2 B
Book Value per share	\$22.15
TTM Revenue	\$8.8 B
P/ Revenue	1.1 x
TTM EPS	\$1.08
P/ EPS	15.5 x
TTM EBITDA	\$618 M
EV/ EBITDA	11.7 x

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Best Idea Profile:

Emmis Communications Corp. (NASDAQ:EMMS)

DESCRIPTION:

Emmis Communications, based in Indianapolis, Indiana, owns and operates radio and magazine entities in large and medium sized markets throughout the U.S. It is a broadcasting company that owns more than 20 FM and AM radio stations in New York, Los Angeles, St. Louis, Austin, Indianapolis, and Terre Haute. Emmis also publishes magazines focused on specific cities or regions of the country, such as *Indianapolis Monthly*, *Texas Monthly* and *Orange Coast*. Auto, media and healthcare represent its three largest revenue markets. Emmis was founded by its current chairman and chief executive officer, incorporated in 1979, and went public in 1994.

KEY INVESTMENT CONSIDERATIONS:

Improved Financials – After having to work hard to not follow much of its media rivals into bankruptcy during the financial downturn, operating results are improving. Emmis had a good third quarter, which is publishing's most important quarter. Auto revenue was up 17% and was once again the largest category, representing 12% of third quarter revenue.

Potential of New Innovation – Emmis' CEO believes "the major battleground for the American radio industry in the future will be preserving our preeminent place in dashboards." NextRadio is the Emmis solution to this challenge as it is a hybrid radio application that combines FM analog with Internet capability. Several automakers are looking at NextRadio and evaluating its viability in the dashboard as the product able to interact between radio distribution and streaming. Maybe more importantly, NextRadio's smartphone application is attractive for carriers and consumers because it eliminates data charges that are currently necessary for streaming online radio. This saves the consumers money and eases the crowded data network for carriers. The smartphone application represents a huge potential market. Emmis' CEO is leading the regulatory charge to allow this application to be built on an FM chip that would be embedded in smartphones. NextRadio also has the ability to fit a niche that we forget doesn't really exist anymore and that is the portable radio. Walkmans aren't really around anymore and research indicates there is consumer appetite for portable radio.

Hint of Stock Support – Management has indicated that 2014 may bring back dividends or a share buyback; these are "clearly priorities to focus on in the New Year."

Majority of Capital Structure Problems Fixed –

Emmis issued preferred stock in 1999 that had a liquidation preference of \$50 per share. When the stock plummeted during the financial crisis, the company was unable to satisfy this liquidation or the dividends in arrears and has negotiated concessions to save the company from bankruptcy. Although many concessions have been achieved, this is an ongoing issue that hopefully will soon be coming to an end. Investors were expecting resolution through a hearing in January, but this was postponed. The company prevailed in the first round by eliminating the preferred's voting rights and accumulated dividends.

VALUATION:

The issue with the preferred shareholders is not resolved but likely will be soon. Given the tremendously improved operating results, the resolution could create an attractive outcome for shareholders involving some combination of the following: sale of the company, some positive capital restructuring, continuation of operating improvement. The media industry has been much ignored, but there are pockets of interest in this company (NextRadio launch, regional magazine success) that deserve attention, especially given the low stock price.

Emmis Communications Corp. (NASDAQ:EMMS)

Investment Data (as of 1/27/14)

Recent Price	\$2.98
52-Week Range	\$1.43 - \$3.61
Fiscal Year End	Feb 28
Dividend	NA
Yield	NA
Shares Outstanding	42 M
Average Trading Volume (3 mos)	91k
Market Capitalization	\$125 M
Cash	\$5 M
Long-term Debt	\$133 M
Enterprise Value (EV)	\$255 M
Book Value	\$0.06
TTM Revenue	\$201 M
P/ Revenue	0.6 x
TTM EPS	\$0.33
P/ EPS	9 x
TTM EBITDA	\$36 M
EV/ EBITDA	7 x

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Best Idea Profile:

Brunswick Corporation (NYSE:BC)

DESCRIPTION:

Brunswick is a market leader in marine, fitness, and bowling and billiards. Boating represents its biggest segment at 75% of sales. The company bought Mercury Marine in 1961. A partial but extensive list of its brand names serves to describe the company: Mercury and Mariner outboard engines; Mercury MerCruiser sterndrives and inboard engines; MotorGuide trolling motors; Attwood marine parts and accessories; Land 'N' Sea; Bayliner, Boston Whaler, Crestliner, Cypress Cay, Harris FloteBote, Lund, Meridian, Quicksilver, Sea Ray and Uttern boats; Life Fitness fitness equipment; Brunswick bowling centers, equipment and consumer products; Brunswick billiards tables and table tennis. The company was founded in 1845, and has traded on the NYSE for more than 85 years. Headquarters are in Lake Forest, Illinois, and the company employs 16,000.

KEY INVESTMENT CONSIDERATIONS:

Improving Market Conditions – The U.S. market for outboard boat and engine products appears to have bottomed out. The recession in 2007 decimated boat sales, taking them to half of what they were at the peak in the U.S. Therefore, the average age of boats on the water is quite old and likely due for upgrades.

Strong Boat Market– Brunswick is bringing new products to the smaller day boat market. It has stopped making older models of the large fiberglass boat and transitioning to new product which should be reaching the market in the second half of the year. Brunswick's U.S. boat segment was particularly strong in the fourth quarter with an increase of 17% amid strong demand.

Improved Leverage Expands Opportunities – Total debt outstanding has improved by \$112 million, ending 2013 at \$460 million. This is the lowest debt level since 1996, resulting in the lowest annual net interest expense since 2005. This sets up the opportunity to grow organically as well as invest in research and development, marketing, sales, technology and capacity. Management has also stated its intent to "invest in new adjacent business opportunities and explore small acquisitions."

Strong Pipeline – Total pipelines for boats, especially aluminum and fiberglass outboard boats, are higher than they were a year ago. The company has done a good job managing the growth in the overall marine market while maintaining inventories at levels that properly reflect current market demands.

Bowling and Billiards Improved – Although bowling and billiards was down 5% compared with last year's fourth quarter, the segment sales were actually up 1% if excluding the divestiture of its European bowling center portfolio that occurred earlier in the year.

Strong Fourth Quarter – This week Brunswick announced a strong finish to its fiscal year. 2013 revenue was up 5% and gross margin increased 70 basis points year over year. This represents the highest annual gross margin since 2000. It had a 31% increase in adjusted earnings per share. The abnormally severe weather much of the U.S. has experienced so far in 2014 may in fact impact first quarter comparisons but management does not expect any impact to its full year plan. Brunswick expects 2014 to be its fifth consecutive year of strong improvements in earnings with excellent free cash flow and top line growth.

VALUATION:

Brunswick has been beating consensus estimates for quite some time, and the stock reacted positively to this week's fourth quarter earnings report that demonstrated sales growth and margin expansion. The stock appears undervalued based on a bottoming out of the boating business and expectations for further growth on a base of finely tuned operations and balance sheet.

Brunswick Corporation (NYSE:BC)	
Investment Data (as of 1/30/14)	
Recent Price	\$41.23
52-Week Range	\$29.92 - \$47.08
Fiscal Year End	Dec
Dividend	\$0.10
Yield	0.2%
Shares Outstanding	91 M
Average Trading Volume (3 mos)	982 k
Market Capitalization	\$3.8 B
Cash	\$348 M
Long-term Debt	\$464 M
Enterprise Value (EV)	\$3.9 B
Book Value	\$3.19
TTM Revenue	\$3.8 B
P/ Revenue	1.0x
TTM EPS	\$1.21
P/ EPS	34.7 x
TTM EBITDA	\$407 M
EV/ EBITDA	9.5 x

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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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