Mossberg's Investor Digest

March 2009

Issue #9

From the Editor…

Another round of hedge fund redemptions – This month, Deutsche Bank published a survey of 1,000 investors that collectively manage $1.1 trillion in hedge fund assets. In the survey Deutsche Bank point out that over 75% of funds expect there to be net outflows from the industry in 2009. Thirty percent think these outflows will be over $200 billion. By way of comparison, there was $155 billion pulled out of hedge funds in 2008, the first net withdrawal year since 1994.

Stocks with Negative enterprise value – Based on record redemption levels, in addition to margin calls and other non-fundamental reasons, investors have been forced to sell their stocks, no matter what the price. In this environment many stocks are not trading at valuations based on their underlying fundamentals. Some companies, like Integrated Silicon Solutions (Nasdaq: ISSI) and Intevac (Nasdaq: IVAC), are actually trading near or even below cash per share, despite being cash flow positive and having attractive ongoing franchises.

If redemptions continue through the rest of the year, it's possible we could retest the lows. However, with a longer term horizon, investors are bound to find some bargains that will appreciate as fundamental valuation comes back into play.

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

Dave Mossberg

March 2009 Issue

World Acceptance Corp. (Nasdaq: WRLD) - $14.08
March 13, 2009 Page 2 – World Acceptance Corp. provides small consumer loans and ancillary products to individuals with limited access to consumer credit. The annualized rate of return on an average loan is approximately 50% (Interest & fees/ Average gross loans receivable). The company has used excess cash flows to repurchase shares of stock. Since 1996 the company has purchased over 8.4 million shares or approximately 1/3 of shares outstanding.

Integrated Silicon Solutions (Nasdaq: ISSI) - $1.55
March 20, 2009 Page 3 – With a negative enterprise value, you could buy the whole company for free and get paid $6 million for your trouble. This is an extremely pessimistic valuation that basically assumes that the company, its goodwill, future cash flows, etc., are worth nothing and that the management team will be destroying value. I don't think this is the case. In fact, the company is expected to be cash flow neutral this year, and based on performance over the past few years is positioned to create significant value for shareholders in the long run.

Intevac (Nasdaq: IVAC) - $5.34
March 27, 2009 Page 4 – Trading 30% below its tangible book value, Intevac has no debt, $39 million in cash, and $66 million in auction rate securities (AAA-rated student loans – backed by the federal government). Combined, cash and investments are worth nearly the entire market value.

Carriage Services (NYSE: CSV) - $1.50
March 30, 2009 Page 5 – Death is a part of life and death rates are not going to change significantly because the economy is bad. Carriage Services' revenue reflects the stability of the death care business. Despite a challenging economy this past year, the company's revenue increased 6% in 2008. Shares trade at just 4x EPS and 6.5x EV/EBITDA.

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Best Idea Profile

World Acceptance Corp. (Nasdaq: WRLD)

DESCRIPTION:

Founded in 1962, World Acceptance Corp. provides small consumer loans and ancillary products to individuals with limited access to consumer credit. The company operates 923 branches located in 11 states and Mexico. The company is a "relationship lender", and operates mostly in small rural towns where branch managers are more likely to know and do repeat business with customers. Loans are generally less than $3,000 and have a maturity of less than 24 months. The company is headquartered in Greenville, South Carolina.

KEY INVESTMENT CONSIDERATION:

Attractive branch level economics – The annualized rate of return on an average loan is approximately 50% (Interest & fees/ Average gross loans receivable). Combined with ancillary revenues, the average revenue per branch is approximately $450,000/ year. With 3.5 employees and rent of approximately $1,200 per month, each branch carries limited overhead...approximately $150,000 per year. That leaves about $300,000 per year to cover write offs and corporate overhead. Charge-off rates as a percentage of average net loans increased from the normalized rate of 14.5% to 19.6% in the most recent quarter ended in December. Even at the higher charge-off rate, the average branch is producing more than $150,000 in annual contribution… that is close to a 15 - 20% return on assets at the branch level.

Leverageable business – In each of the past 8 years, the company has shown incremental improvement in operating expenses as the branches become more efficient and corporate overhead is spread over a larger store base. As a percentage of revenue, general and administrative costs have declined from 52.6% in FY07 to 51.8% in FY08. During the first nine months of the current fiscal year, this metric has improved by 60 basis points.

Share and debt repurchase – The company has used excess cash flows to repurchase shares of stock. Since 1996 the company has purchased over 8.4 million shares or approximately 1/3 of shares outstanding. In December, the company repurchased $5 million in convertible notes at a significant discount to face value, recording a $2 million net gain.

RISK:

A new bill has been introduced recently that would focus on payday lenders and may include a 36% cap on interest rates. While WRLD is not a payday lender, the cap on interest rates, if passed as part of the legislation, could affect interest income and the ability to extend credit to higher risk customers. A number of states are also considering tightening rules on making loans to the credit challenged, which could also affect the company's business.

VALUATION:

The current price reflects a valuation of just 5x EV/ EBITDA and 4x earnings. This is an attractive valuation for a company that has consistently delivered a return on equity in excess of 20% for each of the last several years. The stock also trades 8% below tangible book value.

(Nasdaq: WRLD)
Investment Data (as of 3/13/09)

Recent Price	**$14.08**
52-Week Range	10.31 - 45.99
Fiscal Year End	March
Dividend	N/A
Yield	N/A
Shares Outstanding	16.2 MM
Average Trading Volume (3 mos)	209,000
Market Capitalization	**228 MM**
Cash	7 MM
Long Term Debt	290 MM
Enterprise Value (EV)	511 MM
LT Debt/ Equity	1.1
Tangible BV/ Share	15.35
TTM Revenue	381 MM
P/ Revenue	**0.6x**
TTM EPS (non-GAAP)	3.43
P/ EPS	**4.1x**
TTM EBITDA	108 MM
EV/ TTM EBITDA	**4.7x**

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Idea Profile

Integrated Silicon Solutions (Nasdaq: ISSI)

DESCRIPTION:

Founded in 1988, Integrated Silicon Solutions designs and markets a broad range of memory chips and smart cards for use in automotive, industrial telecom, mobile and consumer applications. About 65 (30%) of its employees are located in the company's headquarter facility in San Jose California, most of the remaining 70% of employees are located in offices in Taiwan and Shanghai.

KEY INVESTMENT CONSIDERATION:

Focus on higher margin products –The company focuses on high-value added products with long life cycles that can produce higher overall margins. They do not provide memory chips for the computer market, which is a more competitive, commodity-like market with thinner margins. Over the past several years the company has been strategically focused on growing its non-commodity business. Even though the top line has not shown significant growth, non-commodity product revenue grew at an annual rate of 18% over each of the past two years and now represents 90% of the company's overall revenue. This is a pace that is faster than the overall market and indicates the company's success in taking market share from competitors. The increase in higher margin revenue significantly impacted the company's profitability. Gross margin increased from 13.4% during FY06 to 22.6% during FY08. Excluding non-cash goodwill write off during the fourth quarter, the company produced an annual operating profit for the first time in 8 years.

(Nasdaq: ISSI)
Investment Data (as of 3/20/09)

Recent Price	**$1.55**
52-Week Range	1.31 - 6.34
Fiscal Year End	September
Shares Outstanding	25.6 MM
Average Trading Volume (3 mos)	73,000
Market Capitalization	**40 MM**
Cash	46 MM
Long Term Debt	N/A
Enterprise Value (EV)	-6 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	$4.85
TTM Revenue	210 MM
P/ Revenue	**0.2x**
TTM non-GAAP EPS	0.01
P/ EPS	**N/A**
TTM EBITDA (ex-goodwill write off)	25 MM
EV/ TTM EBITDA	**N/A**

Long product lifecycles create strong recurring revenue streams – The company targets long lifecycle applications that require legacy support. The lifecycle is typically 2-3 years and in some cases, as long as 20 years. Long product life cycles create recurring and predictable revenue streams.

Fabless operations give ability to weather the economic downturn – Clearly, volumes are being affected by the weakness in the global economy. Revenue guidance for the quarter ending in March is $27 million to $33 million, this compares to $37 million in the December quarter, and $55 million in September quarter. However, as a fabless semiconductor company, the company outsources its manufacturing, assembly and test operations. This means that 98% to 99% of production costs are variable. As a result, gross margin is expected to fall in line with recent performance. During the December quarter, gross margin was 20.5% and is expected to be 20% to 24% in the March quarter.

Introduced products that have expanded the addressable market – Recently introduced products, DDR and DDR2, expand the company's addressable market from $5 billion to $9 billion. With FY08 sales of $235 million, the company has lots of room to grow.

KEY RISKS:

The economic downturn is putting pressure on both volume and pricing. While the company is well positioned to weather an extended period of weak demand, the pricing environment could put pressure on margins. For those competitors that own their own facilities, it's possible that they will be willing to accept very thin margins in order to maintain plant utilization.

VALUATION:

With a negative enterprise value, you could buy the whole company for free and get paid $6 million for your trouble. This is an extremely pessimistic valuation that basically assumes that the company, its goodwill, future cash flows, etc., are worth nothing and that the management team will be destroying value. I don't think this is the case. In fact, the company is expected to be cash flow neutral this year, and based on performance over the past few years is positioned to create significant value for shareholders in the long run. Regardless, at these levels the stock offers an attractive risk/ reward ratio. Apparently, management and the board agree. About a year ago, the company repurchased 11 million shares, or about 1/3 of the total outstanding, and have authorized to buy back an additional 10 million shares, of which 3 million have been repurchased.

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Best Idea Profile

Intevac (Nasdaq: IVAC)

DESCRIPTION:

Headquartered in Santa Clara, CA, Intevac operates two business segments: Equipment (80% of revenue) and Imaging (20% of revenue). With 60% market share, the equipment segment is the world's leading supplier of equipment used to make hard disk drives. The Imaging segment provides extreme low light imaging sensors, cameras and systems, for use in night vision goggles, targeting systems, and other military, law enforcement, industrial and scientific applications. Customers include Seagate Technology, Fuji Electric, Hitachi Global Storage Technologies and Showa Denko.

KEY INVESTMENT CONSIDERATION:

Demand for storage will continue to grow – Since IVAC makes machines that make hard drives, ultimately it's revenue is driven by demand for devices that use hard disk drives. While the near term outlook for demand is uncertain, it is almost certain that there will be demand for more digital storage in the future. Growth drivers for hard disk drives include increasingly popular consumer applications, such as video recorders and video game consoles, as well as PCs in developing countries, and storage solutions for large companies, among others.

Newly developed Lean Etch product will double the addressable market in next three to five years – The next generation of storage technology, called perpendicular recording, greatly increases the amount of information that can be stored on a hard drive. The hard disk drive market is very competitive, and in order to remain competitive, IVAC's customers must invest in this technology. Not only will IVAC benefit from this upgrade cycle, the new technology requires twice as much equipment, effectively doubling the size of IVAC's addressable market. Major manufactures are expected to begin to transition their R&D efforts into pilot production soon, which should require spending beginning in the second half of 2009.

Imaging business products ramp – During a tough economic environment, the imaging business grew 19% during 2008. Continued development of products in this area can provide growth in 2009 and beyond. The company recently received a production order for a U.S. military application of a digital camera. This application is estimated to bring $25 million in revenue over the next seven years. In the fourth quarter, the company received a $20 million development contract to provide a digital cameral module for an existing avionics application. The company is also participating in a couple of night vision programs that are each worth $150 million over a number of years, and several other programs with estimated value of $100 million.

KEY RISKS:

Management has made cost cuts that will allow the company to have breakeven cash flow at revenue levels of $115 million/year. However, guidance calls for first quarter revenue of $9 million to $12 million, which is just 35% to 40% of the breakeven levels. The lone analyst's revenue estimates for 2009 and 2010 are $98 million and $167 million, respectively. Therefore, it's likely that the company will burn additional cash until revenue levels approach breakeven, and/or additional cost cuts are made. An extended downturn in capital spending by the company's customers could lead to significant cash burn. Management has already made significant cuts. Additional cuts to improve profitability, in the R&D area in particular, could make the company less competitive coming out of the bottom of the cycle.

VALUATION:

Because the company is operating at a loss, it's not possible to value the company based on a muliple earnings or EBITDA. However, looking at the balance sheet, it appears there is limited downside for the stock that is trading near its 52-week low. Trading 30% below its tangible book value, the company has no debt, $39 million in cash, and $66 million in auction rate securities (AAA-rated student loans – backed by the federal government). Combined, cash and investments are worth nearly the entire market value.

(Nasdaq: IVAC)
Investment Data (as of 3/27/09)

Recent Price	**$5.34**
52-Week Range	3.35 - 17.73
Fiscal Year End	Dec
Dividend	N/A
Yield	N/A
Shares Outstanding	21.9 MM
Average Trading Volume (3 mos)	118,000
Market Capitalization	**113 MM**
Cash & Investments	106 MM
Long Term Debt	N/A
Enterprise Value (EV)	7 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	7.35
TTM Revenue	110 MM
P/ Revenue	**1.0x**
TTM non-GAAP EPS	-0.19
P/ EPS	**N/A**
TTM EBITDA	-14.6 MM
EV/ TTM EBITDA	**N/A**

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Carriage Services, Inc. (NYSE: CSV)

DESCRIPTION:

Headquartered in Houston, TX, Carriage Services operates 136 funeral homes in 25 states and 32 cemeteries in 11 states. The company provides death care services and merchandise including funerals, cremation, caskets, etc.

KEY INVESTMENT CONSIDERATION:

Death & Taxes – Death is a part of life and death rates are not going to change significantly because the economy is bad. Death care is not a discretionary spend, it's a stable business in all types of economic conditions. According to the National Center for Health Statistics, there were 2.4 million deaths during 2007. After four decades of a declining death rate, the baby boomer generation (currently 45 to 63) is expected to drive an increase in the death rate over the next 30 years. According to the National Funeral Directors Association, the death rate will climb from 8 people per thousand to 9.3 people in 2020 and 10.9 people in 2040. Carriage Services revenue reflects the stability of this business. Despite a challenging economy this past year, the company's revenue increased 6% in 2008.

High margin, leverageable business – According to the National Funeral Directors Association, the average family spends more than $6,000 on a funeral (not including cemetery costs)…one of the most expensive spending event that families make. On it's cemetery and funeral business combined, CSV generates EBITDA margins of about 35% at the field level. Once corporate overhead is added, EBITDA margin ranges from 20 to 25%. The 10 to 15 percentage points of corporate overhead are very leverageable. Management can gain back these margin points by choosing to scale back growth and optimize the cost structure, or grow through acquisition, adding efficiencies of scale and scope. Either way, capturing the additional margin points should allow profits to grow faster than the top line.

Buying back shares – A $5 million share repurchase authorization was completed in October 2008, representing 1.3 million shares (7% of outstanding shares) at an average cost of $3.71. A new $5 million authorization was put in place in November. Through January 2009, the company has bought back an addition half million shares at an average price of $2.05, which leaves $4 million left.

RISK:

Highly leveraged balance sheet – While the company does not have any long term debt coming due for at least another 6 years, it does carry significant leverage. A violation of a debt covenant, while unlikely, could cause interest payments to increase or make it difficult for the company to refinance its obligations.

VALUATION:

Most investors are staying far away from debt laden companies and CSV shares are priced like they a going concern is an issue. However, CSV has no near term debt maturity and they have ample stable cash flows to make required interest and principal payments. The company's long term debt is split into two categories. 1) $130 million in senior notes that pay a low fixed rate of 7.875% and are not due until 2015. 2) $93 million in junior debt that pays 7% fixed and isn't due until 2029. In a pinch, the company can defer interest payments for up to 20 consecutive quarters on its subordinated debt. The company also has a $35 million revolving line to draw on if necessary. While interest expense is sizable, about $18 million/ year, the company generated more than enough cash to cover interest and generated more than $13 million in free cash flow in 2008. Cash flow generation should remain relatively stable. Shares trade at just 4x EPS and 6.5x EV/EBITDA.

(NYSE: CSV)
Investment Data (as of 3/27/09)

Recent Price	**$1.50**
52-Week Range	1.10 - 9.25
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	17.9 MM
Average Trading Volume (3 mos)	60,000
Market Capitalization	**27 MM**
Cash	5 MM
Long Term Debt	231 MM
Enterprise Value (EV)	253 MM
LT Debt/ Equity	N/A
BV/ Share	5.80
TTM Revenue	177 MM
P/ Revenue	**0.2 x**
2009 EPS Guidance	0.36 - $0.40
P/ EPS	**3.9x**
2009 EBITDA Guidance	37 MM – 41 MM
EV/ EBITDA	**6.5x**

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The value proposition of the digest is essentially an "Idea Generator". During the course of my 13-year career in capital markets, I've had the chance to meet and work closely with some very smart professional investors who have consistent track records of outperforming the market indexes. Some of these investors, which include mutual fund managers, hedge fund managers, and other professional investors, are kind enough to share their best ideas with me. I conduct my own analysis of their ideas and publish summaries of those ideas I think represent timely investment opportunities. Over time, I trust the majority of these ideas will pan out and help subscribers generate index-beating returns.

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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