

When asked how he became so successful, Buffett answered: "we read hundreds and hundreds of annual reports every year."



Edited by the
**Manual of Ideas
Research Team**

"If our efforts can further the goals of our members by giving them a discernible edge over other market participants, we have succeeded."

Top Five Ideas In This Report

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About Portfolio Manager's Review

Our goal is to bring you investment ideas that are compelling on the basis of value versus price. In our quest for value, we analyze the top holdings of top fund managers. We also use a proprietary methodology to identify stocks that are not widely followed by institutional investors.

Our managing editor John Mihaljevic is a member of Value Investors Club, an exclusive community of money managers, and has won the Club's prize for best investment idea. John is a trained capital allocator, having studied under Yale chief investment officer David Swensen and served as research assistant to Nobel laureate James Tobin. John holds a BA in Economics, *summa cum laude*, from Yale and is a CFA charterholder.

HOLIDAY ISSUE

2009 LOSERS, 2010 WINNERS?

- ▶ Snapshot of 100 underperformers in 2009
- ▶ 18 companies profiled by MOI research team
- ▶ Proprietary selection of Top 5 candidates for investment
 - ▶ Plus: Superinvestor holdings update

Companies mentioned in this issue include

Aceto, AeroVironment, American Caresource, American Oriental, Apollo Group, Arden Group, bebe stores, BIDZ.com, BigBand Networks, Capitol Bancorp, Cardione, Celera, Cephalon, China Digital TV, CIBER, Cogent, Compton Petroleum, Comtech Telecomm., CONN'S, Contango Oil & Gas, Courier, CryoLife, Cubist Pharma, Daxor, Delta Petroleum, Digital Ally, DSP Group, EF Johnson, Emergent BioSolution, EMS Technologies, Endo Pharma, EZchip Semiconductor, Fuel Tech, Genzyme, Global Traffic, Granite Construction, Hot Topic, ICx Technologies, Imation, Immucor, Integrated Electrical, Jacobs Engineering, JAKKS Pacific, Kendle International, Key Technology, KONAMI, L.S. Starrett, Lakes Entertainment, Lawson Products, Leap Wireless, LECG, Lodgian, Luminex, Martek Biosciences, Matrixx Initiatives, MedCath, Medicines, Met-Pro, MetroPCS, Mirant, Monarch Casino, Myriad Genetics, National HealthCare, National Research, NCR, Nokia, Northwest Pipe, NTT DoCoMo, Oil-Dri Corp., Omega Flex, Orbital Sciences, OSI Pharma, Outdoor Channel, Palomar Medical, Pharma Product, Pike Electric, Princeton Review, PURE Bioscience, Questcor Pharma, RadNet, Rostelecom, Seahawk Drilling, Shenandoah Telecom, Stewart Information, Sucampo Pharma, SunPower, Synovis Life Tech, Taser, Thoratec, Town Sports, Tutor Perini, Ulticom, Ultralife, VAALCO Energy, Valero, VASCO Data Security, Verizon, Viad, Winn-Dixie Stores, and more.

(profiled companies are underlined)

Lodgian (LGN) – Owned By Key Colony, Oaktree

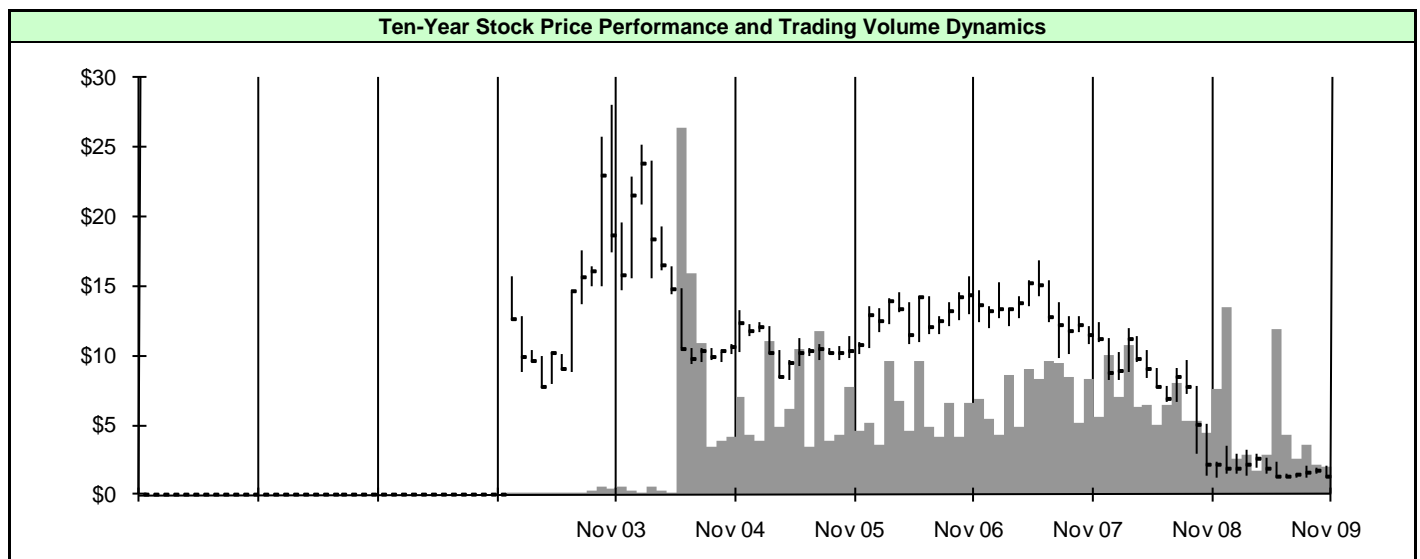
Services: Hotels & Motels

Atlanta, 404-364-9400

www.lodgian.com

Trading Data	Consensus EPS Estimates			Valuation	
Price: \$1.40 (as of 12/24/09)		Month	# of	P/E FYE 12/31/08	n/m
52-week range: \$1.15 - \$3.46		Latest	Ago	P/E FYE 12/31/09	n/m
Market value: \$30 million	This quarter	-\$0.29	-\$0.29	P/E FYE 12/31/10	n/m
Enterprise value: \$317 million	Next quarter	-0.16	-0.16	P/E FYE 12/31/11	n/m
Shares out: 21.7 million	FYE 12/31/09	-2.64	-2.64	EV / LTM revenue	1.5x
	FYE 12/31/10	-0.51	-0.51	EV / LTM EBITDA	63x
	FYE 12/31/11	-0.50	-0.50	EV / LTM EBIT	n/m
	LT EPS growth	n/a	n/a	P / tangible book	0.2x
Ownership Data	Latest Quarterly EPS Surprise			Greenblatt Criteria	
Insider ownership: 12%	Date	Actual	Estimate	LTM EBIT yield	-12%
Insider buys (last six months): 0	11/5/09	-\$1.70	-\$0.24	LTM pre-tax ROC	-9%
Insider sales (last six months): 0					
Institutional ownership: 65%					
# of institutional owners: 70					

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended							LTME	FQE	FQE
	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	9/30/09	9/30/08	9/30/09
Revenue	325	301	217	223	228	243	240	208	61	51
Gross profit	198	183	134	139	144	155	151	127	39	31
EBIT	33	12	18	40	21	14	5	(38)	2	(37)
Net income	2	(39)	(47)	12	(15)	(9)	(12)	(62)	(6)	(36)
Diluted EPS	3.75	(12.58)	(3.10)	0.44	(0.42)	(0.23)	(0.59)	(2.43)	(0.11)	(1.84)
Cash from ops	(6)	15	26	29	36	37	27	26	7	4
Capex	23	35	43	87	36	42	47	31	10	2
Free cash flow	(30)	(20)	(17)	(58)	(0)	(5)	(20)	(5)	(4)	2
Cash & investments	11	11	36	19	48	54	21	25	21	25
Total current assets	63	117	109	93	187	103	93	64	112	64
Intangible assets	0	0	0	0	0	0	0	0	0	0
Total assets	762	709	724	727	699	625	555	478	575	478
Short-term debt	15	17	25	19	47	5	125	103	128	103
Total current liabilities	70	115	102	72	154	48	173	134	186	134
Long-term debt	390	551	393	394	292	356	195	209	195	209
Total liabilities	557	669	497	478	457	404	368	342	381	342
Preferred stock	127	0	0	0	0	0	0	0	0	0
Common equity	79	41	227	249	242	221	187	137	194	137
EBIT/capital employed	5%	2%	3%	7%	4%	3%	1%	-9%	n/m	n/m



BUSINESS OVERVIEW

Lodgian owns and operates franchised hotels in the U.S., under brands including Holiday Inn, Crowne Plaza, Marriott, Hilton, Sheraton, Radisson, and Wyndham.

CONTINUING HOTELS — SELECTED FINANCING DATA ¹

\$ millions	% of Rooms	Net PP&E	Debt	Maturity	Interest Rate	Debt ² Cover
Mortgaged Pool (all non-recourse except Merrill Lynch 4):						
Goldman Sachs	36%	122	130	May-10	L+1.50%	3.0x
Merrill Lynch 1	17%	65	36	Jul-10	6.58%	1.5x
Merrill Lynch 4	18%	80	35	Jul-12	6.58%	1.3x
IXIS	12%	18	21	Mar-10	L+2.95%	1.4x
IXIS	4%	16	18	Dec-09	L+2.90%	1.7x
Wachovia	2%	5	6	Feb-11	6.04%	0.5x
Wachovia	2%	6	3	Jun-10	5.78%	1.5x
Unencumbered:	9%	36	0	n/a	n/a	n/a
Total	100%	348	249	n/a	~ 4%	n/a

¹ Excludes Worcester Crowne Plaza, six hotels from Merrill Lynch Pool 3, and two hotels held for sale (of which one sold in 10/09). L=LIBOR

² Net operating income divided by interest, both LTM through August 2009.

INVESTMENT HIGHLIGHTS

- **Restructuring reduces hotel count from 37 at September-end to 28 on a continuing basis.** Seven hotels are to be given back to lenders to satisfy their mortgage debt, which is non-recourse to Lodgian. Of the remaining two, one was sold for \$3 million in October, while the other is closed pending sale.
- **14 out of 28 remaining hotels are franchised through InterContinental,** including eight Holiday Inn and six Crowne Plaza-branded properties. Eight hotels are franchised via Marriott. Hotels compete in mid- to upscale segments and total 5,360 rooms.
- **Non-recourse mortgages reduce bankruptcy risk.** All of debt in the mortgaged pools is non-recourse to Lodgian except recently extended Merrill Lynch Pool 4. While Lodgian has “no immediate plans to dispose of any additional hotels”, the CFO stated on the 3Q09 call that “we do not intend to let a select few properties drain our corporate resources”.
- **Trades on estimated 5x enterprise value to normalized EBITDA.** Based on recovery to ~\$75 RevPAR achieved in 2007 (from ~\$63 in YTD), and 25% EBITDA margin, normalized EBITDA for the continuing 28 hotels is \$45-50 million (\$26-32 million now, with high-end based on cost saves).
- **Invested ~ \$200 million into hotel upgrades since 2005.** While some capex was for seven hotels being given up, it suggests limited future capex needs. Lodgian guides for capex of \$12-14 million in 2010.
- **Cut over \$5 million of costs in 2009,** of which \$1.5 million is in corporate overheads and \$3.7 million in hotel operations, on an annualized basis.

SELECTED NON-GAAP OPERATING DATA ¹

FYE December 31	2006	2007	2008	YTD 9/30/09
Δ revenue	n/a	7%	-1%	-17%
Revenue (\$mn)	218	233	231	148
<i>Selected items as % of revenue:</i>				
EBIT ²	6%	8%	7%	-1%
Net income	-5%	-2%	-3%	-28%
D&A	12%	12%	14%	17%
Capex (as reported)	16%	18%	20%	13%
<i>Selected operating metrics: ³</i>				
# of properties				34
# of rooms		relevant data		6,402
Occupancy		not provided		65%
ADR (avg daily room rate)		by company		\$98
RevPAR (revenue/available room)				\$63

¹ Reflects pro forma financials based on 34 hotels including six hotels to be returned to Merrill Lynch Mortgage Pool 3, but excluding Worcester Crowne Plaza and two hotels held for sale (one was sold in 10/2009).

² Excludes impairments, net casualty losses, and restructuring expenses.

³ Occupancy, ADR and RevPAR include Worcester Crowne Plaza hotel.

- **Dan Ellis (40) became CEO in June.** Mr. Ellis, who was general counsel since 2002 and a prior Assistant District Attorney for Georgia, has the legal expertise to deal with lenders and franchisors.

INVESTMENT RISKS & CONCERNS

- **Revenue per available room (RevPAR) is down 18% in 3Q09,** reflecting continued weak demand and travel, as well as competitive pressures.
- **70-75% of cash flow is from hotels on mortgages maturing by mid-2010.** While Goldman/IXIS debt can be extended for additional two/one year periods, respectively, this is subject to conditions.
- **Business model negatives.** As a hotel franchisee, Lodgian operates a capital-intensive model in a competitive industry and faces franchisor-imposed restrictions as well as fees. Equity investors often depend on leverage to generate an attractive return.
- **12 million of net debt,** including \$35 million of recourse mortgages (\$214 million is non-recourse).

MAJOR HOLDERS

Insiders 2% | Key Colony 14% | Oaktree 13% | United Capital 10% | Smith & Co. 10% | DFA 9% | Blackstone 6%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆
EXPLOSIVENESS 5%+ probability of 5x upside in one year?	☆☆☆☆☆

THE BOTTOM LINE

The market valuation of Lodgian implies imminent bankruptcy. Based on the non-recourse nature of its hotels' debt, which is split into mortgage pools each backed by different properties, Lodgian can escape bankruptcy and offload unprofitable hotels by giving them back to lenders. This creates an opportunity for investors, as enterprise value is low relative to normalized earnings and asset value. A prerequisite to future value creation, however, is successful extension of debt maturities, mainly related to Goldman Sachs and IXIS. We note a potentially active shareholder base including Oaktree and Blackstone.

...additional insight into Lodgian:

A summary of the Company's long-term debt by debt pool, along with the applicable interest rates and the related carrying values of the property and equipment which collateralize the debt, is as follows:

		9/30/2009		12/31/2008		
	Hotels	PP&E, net	Long-term obligations	Long-term obligations		Interest rates at 9/30/2009
Mortgage Debt						
Goldman Sachs ⁽¹⁾	10	\$121,661	\$ 130,000	\$ 130,000		LIBOR plus 1.50%; capped at 6.50%
Merrill Lynch Fixed Rate Pool 1 ⁽²⁾	4	64,689	36,125	39,372		6.58%
Merrill Lynch Fixed Rate Pool 3 ⁽³⁾	6	46,408	45,500	53,031		6.58%
Merrill Lynch Fixed Rate Pool 4 ⁽⁴⁾	6	80,154	34,868	35,984		6.58%
IXIS ⁽⁵⁾	3	17,966	20,753	20,977		LIBOR plus 2.95%; capped at 7.45%
IXIS — Holiday Inn Hilton Head, SC	1	16,202	18,353	18,530		LIBOR plus 2.90%; capped at 7.90%
Wachovia — Crowne Plaza Worcester, MA	1	9,627	16,270	16,501		6.04%
Wachovia — Holiday Inn Phoenix, AZ ⁽⁶⁾	—	—	—	9,478		n/a
Wachovia — Holiday Inn Express Palm Desert, CA	1	5,404	5,676	5,767		6.04%
Wachovia — SpringHill Suites by Marriott Pinehurst, NC	1	5,701	2,937	2,988		5.78%
Total	33	367,812	310,482	332,628		4.08%⁽⁷⁾
Long-term liabilities — other						
Tax notes issued pursuant to our Joint Plan of Reorganization	—	—	—	42		
Other	—	—	1,067	1,342		
	—	—	1,067	1,384		
Property, plant and equipment — Unencumbered	4	39,726	—	—		
	37	407,538	311,549	334,012		
Held for sale	(2)	(3,723)	—	(14,257)		
Held for use ⁽⁸⁾	35	\$403,815	\$ 311,549	\$ 319,755		

- (1) The hotels that secure this debt are: Crowne Plaza Albany, NY; Holiday Inn BWI Baltimore, MD; Residence Inn Dedham, MA; Hilton Ft. Wayne, IN; Radisson Kenner, LA; Courtyard by Marriott Lafayette, LA; Holiday Inn Meadow Lands Pittsburgh, PA; Holiday Inn Santa Fe, NM; Crowne Plaza Silver Spring, MD; and Courtyard by Marriott Tulsa, OK.
- (2) The hotels that secure this debt are: Courtyard by Marriott Atlanta-Buckhead, GA; Marriott Denver, CO; Four Points by Sheraton Philadelphia, PA; and Holiday Inn Strongsville, OH.
- (3) The hotels that secure this debt are: Courtyard by Marriott Abilene, TX; Courtyard by Marriott Bentonville, AR; Courtyard by Marriott Florence, KY; Holiday Inn Inner Harbor Baltimore, MD; Crowne Plaza Houston, TX; and Fairfield Inn by Marriott Merrimack, NH.
- (4) The hotels that secure this debt are: Hilton Columbia, MD; Wyndham DFW Dallas, TX; Residence Inn by Marriott Little Rock, AR; Holiday Inn Myrtle Beach, SC; Courtyard by Marriott Paducah, KY; and Crowne Plaza West Palm Beach, FL.
- (5) The hotels that secure this debt are: Crowne Plaza Phoenix, AZ; Radisson Phoenix, AZ; and Crowne Plaza Pittsburgh, PA.
- (6) The Company surrendered control of the Holiday Inn Phoenix, AZ in July 2009. All assets and liabilities, including the related debt, were deconsolidated from the Company's balance sheet upon surrender of control.
- (7) The rate represents the annual effective weighted average cost of debt at September 30, 2009.
- (8) Long-term debt obligations at September 30, 2009 and December 31, 2008 include the current portion of \$102.6 million and \$125.0 million, respectively.

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Editor-in-chief: John Mihaljevic, CFA.

Annual subscription price: \$999.

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