



TM

## Value-oriented Equity Investment Ideas for Sophisticated Investors

A Monthly Publication of BeyondProxy LLC \* Subscribe at [manualofideas.com](http://manualofideas.com)

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

### Investing In The Tradition of Graham, Buffett, Klarman

Year IV, Volume VII  
August 1, 2011

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

#### Top Ideas In This Report



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#### About The Manual of Ideas

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 research team has extensive experience in industry and security analysis, equity valuation, and investment management. We bring a "buy side" mindset to the idea generation process, cutting across industries and market capitalization ranges in our search for compelling equity investment opportunities.

# UNDERAPPRECIATED BALANCE SHEET VALUES

- ▶ Screening for companies with strong asset values
  - ▶ 20+ companies profiled by *MOI* research team
- ▶ Proprietary selection of three candidates for investment
  - ▶ Plus: Superinvestor holdings update
  - ▶ Plus: Exclusive interview with the Chanticleer team
- ▶ Exclusive interview with Paul Johnson of Nicusa Capital

*Balance sheet bargains mentioned in this issue include*  
Arbor Realty Trust, A.C. Moore Arts & Crafts, AEGON, Alvarion,  
Agean Marine Petroleum, Alliance One, ARC Wireless, Avatar Holdings,  
Aircastle, Asia Pacific Wire, Asset Acceptance Capital, Books-A-Million,  
BIDZ.com, Bluegreen, Constellation Energy, Chromcraft Revington,  
Coast Distribution, CSS Industries, Catalyst Paper, Crimson Exploration,  
Crexus Investment, Dover Downs Gaming, Ditech Networks, DryShips,  
Deswell Industries, Diana Shipping, Duckwall-ALCO, Dynegy,  
Exceed Company, Eagle Bulk Shipping, Callaway Golf, Excel Maritime,  
Frisch's Restaurants, StealthGas, Gencor Industries, Giga-tronics,  
General Maritime, Genco Shipping, GTSI, Hastings Entertainment, Hardinge,  
Heelys, Hutchinson Technology, Hallwood, Integrated Electrical, InfoSonics,  
Ingram Micro, Imation, Investors Title Company, LJ International, Kimball,  
Coca-Cola FEMSA, Key Tronic, Kobex Minerals, Lakeland Industries,  
Manhattan Bridge, Meade Instruments, MEMC Electronic Materials,  
Myriad Pharma, NeoPhotonics, Northstar Realty, NeuroMetrix,  
Overseas Shipholding, Parlux Fragrances, Penson Worldwide,  
Paragon Shipping, Platinum Underwriters, Radian Group, Republic Airways,  
RELM Wireless, Star Bulk Carriers, SigmaTron, Skechers, SkyWest, Spherix,  
Searchlight Minerals, E.W. Scripps, Taitron Components, TAT Technologies,  
Tandy Brands, Tecumseh Products, Tegal Corp., Tsakos Energy,  
Thomas Properties Group, Tree.com, Torm, TSR, Tuesday Morning,  
Universal Corporation, USEC, Vicon Industries, and more.

(analyzed companies are underlined)

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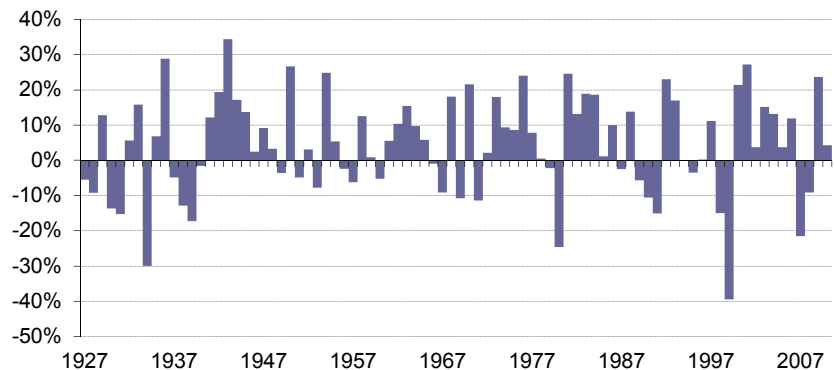
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## Editorial Commentary

This month we focus on companies with large asset value residing on their balance sheets. We profile and analyze twenty stocks trading at a discount to tangible book value. While some of the equities also trade at a discount to net current asset value, i.e., qualify as Ben Graham “net nets,” most of the ideas assume a going-concern valuation scenario rather than a liquidation scenario. Above all, we look for firms with understated balance sheet values as well as significant earning power.

Economists Eugene Fama and Kenneth French have extensively studied the relationship between stock performance and book-to-market ratios. Their seminal paper covered the period from 1963-1990 and included nearly all stocks on the NYSE, Amex and Nasdaq stock markets. The stocks were divided into ten groups (deciles) based on book-to-market and were re-ranked annually. The highest book-to-market stocks outperformed the lowest book-to-market stocks by 21% to 8%, on average, with each descending decile performing worse than the previous. Fama and French also examined the beta of each decile and found that value stocks had lower risk, while growth stocks had the highest risk. The study had a profound impact in part because Fama was a long-time champion of the capital asset pricing model. Updated relative performance of value versus growth stocks is shown below.

### Relative Annual Performance of Value versus Growth Stocks, 1927-2010



Source: Kenneth French, [http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data\\_library.html](http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html)

Several well-known value investors achieved strong investment returns during their careers by following a strategy that involved buying stocks trading at a discount to their readily ascertainable asset values. Ben Graham, Walter Schloss, John Neff and Marty Whitman are just a few names that come to mind. Of course, we note that many of the most successful investors, including Warren Buffett and Joel Greenblatt, have migrated away from balance sheet values toward “good” businesses over time, producing even more impressive returns.

A “holy grail” of value investing might be uncovering opportunities that provide both asset protection on the balance sheet and own businesses with high returns on capital. This combination is virtually impossible to find unless a company has experienced a steep near-term profit decline. In such an instance, a firm may appear to be a low-return business when in fact normalized profitability implies attractive returns on capital. Another potential “holy grail” are companies whose balance sheet assets are partly non-core, i.e., not actually employed in the operating business.

## Superinvestor Holdings Update

We recently profiled the holdings of 50+ top investment managers, based on their Schedule 13F-HR filings with the Securities and Exchange Commission. On this page, we provide an update on the latest disclosed purchase and sale activity by the same group of investors. This information is based primarily on Schedule 13G or 13D filings and Form 3 or 4 filings.

### Increases in Superinvestor Holdings



Latest Trade/ Filing	Filing Type	Investor	Company / Ticker	Market Value (\$mn)	Stock Price (\$)			Shares Owned		Holdings as % of Company
					Latest Date	Filing Date	Δ since Filing	Latest (mn)	Δ since 3/31/11	
7/21/11	13G	Leucadia	INTL FCStone / INTL	458	25.19	25.31	0%	1.6	17%	9%
7/19/11	13G	Southeastern	Texas Industries / TXI	1,120	40.07	40.15	0%	6.5	37%	23%
7/18/11	13G	Lone Pine	VanceInfo / VIT	938	21.05	17.25	22%	4.5	7%	10%
7/15/11	13G	Glenview	Flextronics / FLEX	5,310	7.01	6.14	14%	40.3	46%	5%
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7/8/11	13G	Southeastern	Global Crossing / GLBC	2,350	38.46	40.94	-6%	7.4	new	12%
7/6/11	13G	Bares	Female Health / FHCO	135	4.86	4.99	-3%	2.8	22%	10%
7/5/11	13G	Leucadia	Mueller Industries / MLI	1,730	45.69	40.53	13%	3.7	115%	10%
6/30/11	13G	Baupost	Syneron Medical / ELOS	434	12.42	12.13	2%	3.8	156%	11%
6/29/11	13G	Gates	Interval Leisure / IILG	767	13.35	13.52	-1%	2.9	32%	5%
6/29/11	13G	Tiger Global	HomeAway / AWAY	3,420	42.90	40.21	7%	4.7	new	6%
6/29/11	4	Second Curve	Primus Guarantee / PRS	225	6.01	5.19	16%	6.6	2%	18%
6/20/11	13G	Pennant	Universal Stainless / USAP	341	50.00	40.65	23%	0.5	new	8%
6/17/11	13G	Second Curve	Citizens Republic / CRBC	274	0.69	0.67	3%	21.2	312%	5%
6/14/11	4	Fairfax	AbitibiBowater / ABH	2,140	22.00	22.74	-3%	17.5	3%	18%
6/13/11	4	H Partners	Sealy / ZZ	238	2.43	2.26	8%	14.6	210%	15%
6/9/11	13G	Pershing Square	Family Dollar Stores / FDO	6,560	53.62	52.39	2%	10.9	new	9%
6/8/11	13G	Lone Pine	Wabco Holdings / WBC	4,460	66.14	63.81	4%	4.1	213%	6%
6/7/11	4	Pershing Square	Fortune Brands / FO	9,900	64.21	63.00	2%	17.2	3%	11%
6/2/11	4	Southeastern	Texas Industries / TXI	1,110	39.69	40.80	-3%	5.4	15%	19%
5/27/11	13G	Tiger Global	MakeMyTrip / MMYT	855	23.36	23.07	1%	6.2	50%	17%
5/13/11	13G	Blue Ridge	Level 3 Comms / LVLT	3,900	2.29	1.89	21%	97.8	434%	6%
5/13/11	13G	Scout	Sensata Tech / ST	6,130	35.14	34.63	1%	8.8	7%	5%
5/11/11	13G	IVA	Net 1 / UEPS	368	8.08	8.30	-3%	11.5	24%	25%

Source: SEC filings, The Manual of Ideas compilation and analysis.

## Interview with Mike Pruitt, Matt Miller, Joe Koster

We have had the pleasure of interviewing the trio behind Chanticleer Holdings — Mike Pruitt, Matt Miller and Joe Koster. Chanticleer is a value-oriented firm that trades over the counter (ticker CCLR). For reasons that should become apparent in this interview, Chanticleer’s principals have gained quite a following in the value investing community despite the firm’s relatively small size.

**The Manual of Ideas:** Tell us a little about your backgrounds and the history of Chanticleer Holdings and Chanticleer Advisors. What goals did you have at the outset, and what operating principles have guided you since then?

**Pruitt/Miller/Koster:** We actually started Chanticleer Holdings in 2005 when Mike’s previous business efforts were finishing-up and he was looking to launch a firm that would manage capital and make investments with a value mindset. To help get started, he decided to hire two graduating finance students from his alma mater, Coastal Carolina University, with the help of his former finance professor Dr. Gerald Boyles. Mike certainly has the years of the team! He graduated in 1984 and has been an entrepreneur and fundless sponsor of small private equity and venture capital investments for a number of years. Prior to Chanticleer, Mike was the CEO of an AMEX-traded company called RCG. Joe and Matt graduated in 2005 with high academic honors, having already been bitten by the value investing bug, and joined with Mike in June of that year to launch Chanticleer Holdings.

Chanticleer Holdings, the public company, started out as a business development company and eventually converted to a holding company as we realized that was a better fit for what we wanted to accomplish. Our goal at Chanticleer Holdings is to make investments in or acquisitions of operating businesses with our own capital and to also manage outside capital for other investors via our subsidiary Chanticleer Advisors.

*“We set out to develop a track record under the compensation model of no management fee and an incentive fee of 25% of the profits above a 6% hurdle.”*

Our first effort at managing outside capital at Chanticleer Advisors was the original Hooters investment we structured in 2006. Then on January 1st of 2007 Chanticleer Advisors launched a fund dedicated to public equities that was and still is modeled after the partnership Warren Buffett ran before he was running Berkshire Hathaway. We named the fund Chanticleer Investors II and set out to develop a track record under the compensation model of no management fee and an incentive fee of 25% of the profits above a 6% hurdle. We realized it was going to be a tough hill to climb, but the general environment and our lack of a track record before starting has made the fund raising a little slower than we had hoped. Our results though have been decent and we try to be open and honest in our quarterly letters so that people can really understand how we think and operate. We hope that will eventually lead to additional assets, but in the mean time we focus on simply running the best operation we can.

**MOI:** We read that Mike’s friendship with the late Hooters chairman and fellow Coastal Carolina alumnus Robert Brooks played a key role in your involvement with Hooters. What is Chanticleer’s economic stake in Hooters, and what is your vision for growing that prized asset going forward?

**Chanticleer:** It really goes back to how we got started. Mr. Brooks, who was actually a Clemson graduate, was a big donor to Coastal who lived and worked in Myrtle Beach. He became Mike’s close friend and eventually Mr. Brooks asked Mike if there was anything he could do to help him get the new company

## Interview with Paul Johnson

We are pleased to present an exclusive interview with Paul Johnson, portfolio manager of Nicusa Capital and adjunct professor at Columbia Business School.

**The Manual of Ideas:** Tell us about the background and history of your firm.

**Paul Johnson:** I launched Nicusa Capital Partners on April 1, 2003. My goal was to combine my experience analyzing companies as a sell-side research analyst with my investment philosophy developed while teaching as an adjunct professor to execute a long-term-oriented investment strategy.

From the beginning, we have tried to buy great businesses cheaply. Finding great businesses with attractive valuations takes time and work. We run a concentrated portfolio because not many companies fit our criteria. Because the fund is relatively small we can invest in small- and micro-cap companies, a segment of the market offering great investment opportunities if one is willing to do the work. Our holding period is long by Wall Street standards, which adds to the importance of buying great businesses.

My experience running the fund has reinforced three lessons: investing in high quality businesses is critical to being able to own them long term, our entry price is the key determinant of our return, and our investment thesis almost always takes longer than hoped to unfold.

**MOI:** As adjunct professor of finance at Columbia for nearly two decades, you've probably seen some of your students go on to become great investors. Do the latter share any traits that stood out while they were still your students?

**Johnson:** There will always be a few naturals, but most successful investors are made, not born. For the rest of us, the 10,000-hour rule seems to apply. I believe that investing can be learned, but it takes discipline, focus and a willingness to stick through years of practice.

Interestingly, it is not always the students with the best technical skills in class that ultimately become the best investors. I have found that the students with the greatest desire to acquire all of the necessary skills and to master the discipline seem to become the most successful investors in practice.

**MOI:** When it comes to stock selection, what are the key criteria you look for?

**Johnson:** There are two key criteria to our investment decisions. The first is that we buy businesses with strong underlying fundamentals that we are able to get to know extremely well. To us, a business with strong fundamentals generates lots of free cash, operates with low capital intensity and requires relatively little additional investment to grow cash flow. Quantitatively, we measure these fundamentals through return on invested capital and qualitatively, we look for barriers to entry such as scale and customer captivity. These fundamentals can point to a sustainable competitive advantage and longer cash flow duration. Unless we can research a company deeply enough to understand all aspects of its business, we cannot own its stock for the long term because we could not be confident enough to withstand short-term volatility.

Our second criterion is valuation. We buy cheap stocks because they feature a high cash yield initially and can generate even greater returns if investors reward their strong fundamentals with a higher multiple. Also, a cheap valuation provides a margin of safety in the event some part of our thesis is wrong.

*“My experience running the fund has reinforced three lessons: investing in high quality businesses is critical to being able to own them long term, our entry price is the key determinant of our return, and our investment thesis almost always takes longer than hoped to unfold.”*

## Screening for Underappreciated Asset Values

### Ben Graham "Net Nets"

	Recent Price (\$)	Market Value (\$mn)	Enter. Value (\$mn)	TTM Rev. (\$mn)	NCAV/Market Value	Tang. Book / Market	Selected Items / Total Assets						Total Assets (\$mn)
							Cash	ST Invest.	Accts Receiv.	Inven-tory	Current Assets	Total Liab.	
Paulson Capital / PLCC	1.15	7	(3)	18	259%	259%	2%	45%	46%	-	100%	12%	20
Taitron Components / TAIT	1.14	6	5	7	210%	297%	12%	-	4%	57%	75%	13%	21
Trans World / TWMC	2.08	65	42	627	199%	244%	10%	-	-	77%	90%	44%	284
OrthoLogic / CAPS	0.25	10	(11)		198%	200%	97%	-	-	-	99%	8%	22
Coast Distribution / CRV	2.90	14	33	109	188%	219%	2%	-	33%	53%	93%	49%	60
InfoSonics / IFON	0.78	11	(3)	55	182%	184%	52%	-	36%	5%	99%	23%	27
Tandy Brands / TBAC	2.11	15	34	129	181%	231%	0%	-	26%	49%	83%	46%	73
Meade Instruments / MEAD	4.61	6	2	25	179%	184%	27%	-	18%	44%	93%	23%	15
Chromcraft Revington / CRC	1.37	9	5	55	175%	263%	12%	-	19%	41%	75%	25%	31
Exceed Company / EDS	4.83	123	(17)	618	166%	202%	47%	-	34%	3%	84%	17%	304
Manhattan Bridge / LOAN	1.28	4	5	1	160%	184%	2%	-	88%	-	91%	18%	10
Hallwood / HWG	18.00	28	15	148	159%	235%	10%	8%	23%	30%	76%	24%	85
Tegal Corp. / TGAL	2.70	5	(3)		157%	204%	68%	-	-	-	80%	16%	11
BIDZ.com / BIDZ	0.93	18	14	102	153%	162%	8%	-	4%	76%	96%	37%	47
Asia Pacific Wire / AWRCF	4.63	64	56	486	151%	231%	9%	-	33%	26%	85%	61%	405
Parlux Fragrances / PARL	3.10	64	44	123	144%	151%	18%	-	22%	33%	92%	10%	113
Duckwall-ALCO / DUCK	11.19	43	102	471	142%	238%	3%	-	3%	72%	81%	54%	223
Universal Power / UPG	3.01	15	26	103	141%	150%	0%	-	20%	71%	97%	49%	44
NeuroMetrix / NURO	0.51	12	(3)	13	138%	146%	74%	-	6%	10%	94%	13%	20
ARC Wireless / ARCW	2.80	9	(3)	4	136%	139%	90%	-	3%	3%	97%	3%	13
Integr. Electrical / IESC	3.26	49	23	465	132%	175%	19%	-	53%	13%	87%	54%	193
GTSI / GTSI	5.38	52	13	635	131%	179%	26%	-	49%	4%	83%	39%	153
Deswell Industries / DSWL	2.90	46	9	84	130%	242%	28%	1%	14%	15%	59%	13%	127
TSR / TSRI	4.72	10	3	38	129%	133%	3%	41%	53%	-	98%	21%	16
Gencor Industries / GENC	7.67	73	(11)	45	128%	140%	5%	67%	1%	15%	93%	12%	116
Vicon Industries / VII	4.38	20	6	50	126%	165%	20%	12%	19%	27%	82%	24%	43
Heelys / HLYS	2.21	61	(2)	30	121%	122%	31%	45%	5%	12%	96%	6%	82
SigmaTron / SGMA	4.95	19	41	152	119%	259%	4%	-	24%	44%	74%	52%	103
Hastings Entertain. / HAST	4.61	40	60	516	116%	263%	3%	-	-	64%	75%	55%	231
TAT Technologies / TATT	6.25	55	34	83	116%	158%	23%	2%	23%	27%	79%	27%	123
Spherix / SPEX	2.21	6	(1)	1	116%	119%	86%	-	4%	-	97%	11%	8
Myriad Pharma / MYRX	3.47	90	(19)	0	115%	138%	16%	67%	-	-	84%	4%	130
Kobex Minerals / KXM	0.81	37	(4)		111%	111%	96%	3%	0%	-	100%	0%	42
Alvarion / ALVR	1.49	88	19	200	111%	124%	36%	-	29%	28%	94%	43%	191
PennyMac Mortgage / PMT	16.85	468	(291)	58	110%	110%	1%	89%	4%	-	100%	39%	841
LJ International / JADE	3.20	93	119	157	108%	122%	5%	1%	14%	65%	92%	36%	181
Lakeland Industries / LAKE	8.34	44	55	102	108%	140%	6%	-	15%	46%	73%	29%	109
Imation / IMN	9.13	353	68	1,412	106%	132%	24%	-	19%	18%	66%	35%	1,198
Ditech Networks / DITC	1.10	29	2	19	106%	127%	68%	-	5%	12%	84%	8%	41
Giga-tronics / GIGA	2.31	12	10	21	105%	204%	5%	-	21%	20%	57%	12%	27
Alpha Pro Tech / APT	1.24	28	25	39	105%	127%	8%	-	16%	44%	83%	4%	37
Air T / AIRT	8.98	22	15	83	103%	119%	19%	0%	35%	34%	90%	23%	34
RELM Wireless / RWC	1.22	17	13	26	103%	147%	16%	-	8%	38%	69%	21%	35
Books-A-Million / BAMB	3.34	53	69	482	103%	215%	2%	-	1%	74%	78%	59%	273
A.C. Moore Arts / ACRM	1.98	50	43	445	102%	248%	12%	-	-	51%	68%	45%	225
Key Tronic / KTCC	4.30	45	58	250	102%	149%	1%	-	35%	38%	82%	44%	119
Crexus Investment / CXS	11.22	860	378	25	101%	101%	2%	50%	48%	-	100%	31%	1,259
Ingram Micro / IM	17.80	2,866	2,504	35,217	100%	116%	12%	-	43%	35%	94%	61%	8,662

Screening criteria: ► (Current assets – total liabilities) > market value ► Traded on NYSE, Amex or Nasdaq ► China RTOs excluded

## Large Discounts to Tangible Book Value

	Recent Price (\$)	Δ to Reach 52-Week		Market Value (\$mn)	Enter. Value (\$mn)	Trailing			TTM 5-Yr. EBIT Margin	Tangible Book to Market	Div. Yield	Employees	
		Low	High			Rev.	GP	EBIT					
		to Enterprise Value											
Catalyst Paper / CTLUF	0.13	-38%	300%	53	802	166%	17%	-4%	-25%	-9%	813%	-	1,803
Excel Maritime / EXM	2.73	-1%	143%	232	1,291	47%	32%	19%	40%	39%	680%	-	1,231
Genco Shipping / GNK	6.54	-4%	176%	235	1,710	27%	21%	12%	45%	52%	491%	-	1,313
Paragon Shipping / PRGN	1.83	-2%	136%	108	376	29%	23%	8%	27%	37%	467%	-	270
Delta Petroleum / DPTR	3.70	-8%	259%	106	392	36%	15%	-15%	-72%	-88%	462%	-	39
Eagle Bulk Shipping / EGLE	2.63	-16%	119%	165	1,218	24%	16%	5%	8%	39%	406%	-	800
Phoenix Companies / PNK	2.43	-34%	18%	283	603	337%	41%	90%	-3%	-2%	406%	-	625
Dynegy / DYN	5.69	-51%	22%	693	5,063	39%	16%	-5%	-20%	2%	367%	-	1,519
Star Bulk Carriers / SBLK	1.66	-3%	95%	133	338	36%	24%	10%	28%		366%	12%	31
Torm / TRMD	3.70	-5%	120%	271	2,124	43%	7%	-3%	-14%	20%	363%	-	533
YaSheng / YHGG	1.46	-32%	123%	226	239	367%	46%		12%	11%	354%	-	15,000
StealthGas / GASS	4.64	-11%	90%	98	417	27%	14%	5%	20%	26%	315%	-	620
Bluegreen / BXG	2.81	-10%	68%	92	815	47%	29%	3%	-11%	1%	314%	-	3,825
USEC / USU	3.49	-15%	82%	426	971	213%	15%	1%	1%	5%	314%	-	2,438
Penson Worldwide / PNSN	3.39	-19%	119%	97	n/m	n/m	n/m	n/m	-10%	5%	310%	-	985
Hutchinson Tech / HTCH	3.30	-38%	40%	77	168	169%	4%	-40%	-26%	-12%	292%	-	2,546
K-Sea Transportation / KSP	8.14	-53%	3%	78	442	60%	49%	2%	-18%	5%	280%	-	865
Transport. de Gas / TGS	3.71	-12%	74%	297	396	104%	58%	22%	22%	34%	277%	40%	829
Genworth Financial / GNW	8.93	-15%	80%	4,381	n/m	n/m	n/m	n/m	1%	3%	275%	-	6,500
Central Gold-Trust / GTU	61.82	-28%	3%	356	-578	n/m	n/m	n/m	98%	93%	262%	-	0
Constellation Energy / CEP	3.15	-35%	22%	75	225	45%	31%	-8%	-285%	-18%	248%	-	127
A.C. Moore Arts / ACMR	1.98	-14%	80%	50	43	1046%	431%	-67%	-6%	-3%	248%	-	1,449
Trans World / TWMC	2.08	-29%	5%	65	42	1483%	511%	-39%	-3%	-4%	244%	-	1,800
Baltic Trading / BALT	5.18	-9%	145%	117	216	20%	14%		25%		243%	5%	200
Aventine Renewable / AVRW	10.25	-3%	198%	77	258	206%	10%	-5%	-5%	-13%	239%	-	341
Coca-Cola FEMSA / KOF	97.34	-32%	1%	2,638	3,097	296%	136%	44%	15%	15%	235%	2%	68,449
DryShips / DRYS	3.93	-9%	64%	1,453	3,967	22%	16%	9%	-14%	36%	234%	-	150
Asia Pacific Wire / AWRCF	4.63	-30%	70%	64	56	865%	113%	56%	6%	4%	231%	-	1,704
Tsakos Energy / TNP	9.55	-6%	57%	440	1,574	26%	12%	4%	16%	36%	231%	6%	0
Northstar Realty / NRF	4.11	-25%	49%	385	4,178	12%	8%	1%	-146%	18%	231%	10%	91
CNO Financial / CNO	7.81	-41%	7%	1,964	n/m	n/m	n/m	n/m	8%	3%	224%	-	3,680
Tecumseh Products / TECUA	10.55	-20%	35%	195	202	465%	46%	-9%	-4%	-6%	223%	-	8,600
Searchlight Minerals / SRCH	0.43	-23%	221%	55	48	0%	0%	-17%			222%	-	20
Radian Group / RDN	3.31	-1%	206%	441	1,733	52%	-44%	-41%	-111%	-245%	221%	0%	767
AEGON / AEG	6.19	-18%	30%	11,860	18,236	347%	25%	31%	4%	1%	220%	-	27,000
Overseas Shipholding / OSG	25.32	-4%	69%	771	2,555	41%	7%	-4%	-11%	16%	218%	7%	3,500
iStar Financial / SFI	7.62	-65%	38%	797	n/m	n/m	n/m	n/m	-110%	-32%	217%	-	200
General Maritime / GMR	1.20	-13%	442%	141	1,396	28%	8%	-2%	-39%	14%	216%	-	1,137
Books-A-Million / BAMB	3.34	-13%	108%	53	69	696%	204%	9%	1%	4%	215%	6%	5,300
Republic Airways / RJET	4.40	-5%	118%	212	2,519	107%	32%	6%	6%	15%	212%	-	9,850
Kimball / KBALB	6.58	-27%	20%	180	142	853%	135%	4%	0%	1%	210%	3%	6,187
Cemex / CX	7.50	-4%	43%	7,624	23,980	64%	18%	4%	6%	8%	205%	-	46,533
SkyWest / SKYW	12.66	-5%	36%	670	1,852	162%	94%	9%	6%	9%	205%	1%	17,979
Exceed Company / EDS	4.83	-8%	94%	123	-17	n/m	n/m	n/m	16%		202%	-	2,581
Presidential Life / PLFE	11.76	-29%	3%	348	346	87%	43%		-3%	10%	202%	2%	108
Avatar Holdings / AVTR	15.64	-5%	45%	202	177	35%	-5%	-16%	-58%	-45%	200%	-	243
Kansas City Life / KCLI	30.09	-7%	17%	345	340	127%	67%		9%	6%	197%	4%	446
L.S. Starrett / SCX	12.27	-30%	22%	73	58	412%	132%	13%	3%	1%	195%	3%	1,744
National West. Life / NWLI	175.81	-28%	2%	639	n/m	n/m	n/m	n/m	17%	18%	193%	0%	292
Air France - KLM / AFLYY	14.15	-11%	39%	4,283	13,302	255%	18%	10%	6%	1%	187%	-	102,012



## BUSINESS OVERVIEW

Alliance One is an independent leaf tobacco merchant and processor, serving cigarette manufacturers worldwide.

The company is the product of a merger of Dimon and Standard Commercial completed in 2005.

## INVESTMENT HIGHLIGHTS

- **One of only two global, publicly-held leaf tobacco merchants.** Alliance and rival Universal (UVV) each have substantially similar global market share.
- **Revenue derives from sales of processed tobacco and fees charged for related services** to producers of consumer tobacco products. Alliance One does not manufacture or sell cigarettes.
- **Valuation at ~1.0x tangible book may be an opportunity despite high debt and profit pressure.** The balance sheet is liquid (current assets are ~75% of tangible assets) and most of tobacco inventory (~45% of total assets) is committed to clients. Returns should remain attractive through the cycle as the company's merchant model has staying power.
- **Merchant model likely to survive challenges as it adds value to customers by:** 1) its ability to market entire crops to *many* customers (a cigarette producer may only want specific grades from a crop); 2) efficiently dealing with small farmers (e.g. ~30,000 farmers in Brazil); and 3) providing vital processing infrastructure (unprocessed tobacco is perishable).
- **Grew tangible book value per share at ~10% per year, on average, since 2006** (albeit with high debt). While the model faces challenges, and returns have been inferior to rival Universal, the recent valuation may be too pessimistic regarding future prospects.
- **Remains cash generative, excluding (temporary?) working capital outflows in FY11.** Low cash taxes (due to NOLs) and little capex needs mean that most of EBITDA can go to interest/principal paydown.
- **Mark Kehaya (43), who owns 5%, became chairman and interim CEO** in December 2010.
- **Baupost owns 10%.** Seth Klarman initiated a stake in 4Q07, when shares were trading above \$4/share.

## INVESTMENT RISKS & CONCERNS

- **Industry challenges** including oversupply, partial vertical integration moves by customers (Japan Tobacco, PMI) and constant revenue pressure from falling volumes (albeit offset by price increases).
- **\$1.1 billion of net debt (5.5x adj. trailing EBITDA)** as of March 31. However, 50+% of gross debt is not due until 2017, and the credit facility was renegotiated recently, providing some relief.

## SELECTED OPERATING DATA

FYE March 31	2007	2008	2009	2010	2011
Δ tobacco sold	-12%	-5%	-10%	-2%	-10%
Δ average selling price	6%	7%	25% <sup>1</sup>	5%	1%
Δ revenue	-6%	2%	12%	2%	-9% <sup>2</sup>
Δ EBIT	80%	-18%	118%	9%	-41% <sup>3</sup>
Revenue (\$bn)	2.0	2.0	2.3	2.3	2.1
<i>% of revenue by type:</i>					
Tobacco sales <sup>4</sup>	96%	96%	96%	97%	97%
Processing and other revenue	4%	4%	4%	3%	3%
<i>% of revenue by geography:<sup>5</sup></i>					
U.S.	17%	17%	14%	14%	14%
Belgium <sup>5</sup>	18%	20%	20%	21%	13%
China	2%	4%	7%	6%	8%
Russia	6%	6%	5%	6%	7%
Other	57%	53%	54%	53%	57%
<i>Revenue growth by geography:</i>					
U.S.	-14%	2%	-8%	0%	-6%
Belgium	21%	11%	13%	10%	-44%
China		98%	75%	-12%	29%
Russia	-10%	2%	-3%	15%	16%
Other		-5%	15%	0%	-3%
<i>Selected items as % of revenue:</i>					
Gross profit	15%	12%	16%	17%	13%
Restructuring charges	2%	1%	0%	0%	1%
Inventory write-downs	1%	0%	0%	0%	1%
EBIT <sup>6</sup>	6%	5%	9%	10%	6%
Net income	0%	0%	6%	3%	-3% <sup>7</sup>
Net cash from ops	9%	2%	1%	5%	-9% <sup>8</sup>
D&A	2%	2%	1%	1%	1%
Capex	1%	1%	1%	1%	3%
Kilos of tobacco sold (mn)	585	556	498	490	439
Average price per kilo (\$)	3.26	3.48	4.36	4.58	4.63
Employees, ex seasonal staff (k)	4.7	4.7	4.4	5.0	3.3
Return on tangible equity	-2%	5%	59%	25%	-23%
Tangible equity/assets	10%	11%	13%	17%	17%
Δ shares out (avg)	1%	1%	0%	0%	-1%

<sup>1</sup> Reflects a severe shortage of burley tobacco in Africa, coupled with the higher cost of fertilizer and a weaker U.S. dollar, which drove up the cost of leaf.

<sup>2</sup> Due to the negative volume impact of Japan Tobacco's vertical integration initiative and lower demand by customers (due to reduced cigarette consumption).

<sup>3</sup> Reflects lower volume, inventory writedowns and restructuring charges.

<sup>4</sup> Alliance One mainly deals in flue-cured, burley, and oriental tobaccos.

<sup>5</sup> Based on shipping destination. Belgium represents a customer-owned distribution center, from which product is shipped elsewhere in the world.

<sup>6</sup> Excludes the contribution from unconsolidated affiliates.

<sup>7</sup> Due to abnormally high income tax expense (non-cash).

<sup>8</sup> Due to negative working capital effects and higher capex related to the new processing facility in Brazil (\$44 million).

## MAJOR HOLDERS

CEO Kehaya 5% | Other insiders 1% | Baupost 10% | Fine 8% | BlackRock 8% | T. Rowe 7% | Luxor 6% | Aegis 4%

## RATINGS

**VALUE** Intrinsic value materially higher than market value? ☆☆☆☆

**DOWNSIDE PROTECTION** Low risk of permanent loss? ☆☆☆

**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? ☆☆☆

## THE BOTTOM LINE

Similar to key competitor Universal, Alliance One trades near tangible book due to concerns about industry oversupply (potentially causing inventory writedowns and margin pressure) and recent vertical integration moves by customers such as Japan Tobacco and Philip Morris Int'l. While the balance sheet is levered, investors may underestimate earning power and how liquid and valuable the assets are. The share price has recently dipped below where Baupost initiated its 10% stake.

**ALLIANCE ONE – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS**

(\$ in millions)	Conservative	Base Case	Aggressive
Valuation methodology	1x tangible book	10x estimated normalized EBIT of \$155 million (approximates FY07-11 average)	1x average 5-year revenue
<b>Conservative case valuation:</b>			
Tangible shareholders' equity (3/31/2011) <sup>1</sup>	\$272 million		
Fair value multiple	1x		
Estimated fair value of the equity	\$272 million		
<b>Base case valuation:</b>			
Estimated normalized EBIT <sup>2</sup>		\$155 million	
Fair value multiple		10x	
Estimated enterprise value		\$1,550 million	
<b>Aggressive case valuation:</b>			
Average revenue during FY2007-11 <sup>3</sup>			\$2,150 million
Fair value multiple			1x
Estimated enterprise value			\$2,150 million
Plus: Estimated value of unconsolidated equity affiliates		\$26 million	\$26 million
Minus: Net debt (3/31/2011) <sup>4</sup>		-\$1,073 million	-\$1,073 million
Minus: Net post-retirement liability <sup>5</sup>		-\$108 million	-\$108 million
<b>Estimated fair value of the equity of Alliance One<sup>6</sup></b>	<b>\$272 million \$3.10 per share</b>	<b>\$395 million \$4.50 per share</b>	<b>\$995 million \$11.40 per share</b>
<i>Implied upside/(downside) to recent price (\$3.30 per share)</i>	-6%	36%	245%
<b>Implied valuation metrics based on trailing financials:</b>			
<i>EV to revenue (\$2.1 billion)</i>	0.7x	0.7x	1.0x
<i>EV to gross profit (\$277 million)</i>	5x	6x	8x
<i>EV to EBITDA (\$161 million)</i>	9x	10x	13x
<b>Other implied valuation metrics:</b>			
<i>Price to tangible book (\$272 million)</i>	1.0x	1.5x	3.7x
<i>EV per kilo of leaf tobacco sold in FY11 (439 million kilos)</i>	\$3.30	\$3.50	\$4.90

<sup>1</sup> Tobacco inventories represent ~45% of assets (two thirds of inventories are processed tobacco; most tobacco inventory is committed for sale to customers). Inventories are valued at the lower of cost or market. Net PP&E represents only ~15% of assets. In the five-year period through March 2011, the company has grown tangible book value per share by ~10% per year, on average. Inventory write-downs totaled less than \$35 million during FY07-11 on a cumulative basis.

<sup>2</sup> EBIT averaged ~\$155 million during FY07-11 (~7% margin). EBIT was \$133 million for the year ended March 31, 2011 (down ~40% y-y due to Japan Tobacco's "vertical integration initiative and lower demand by customers as a result of reduced cigarette consumption in some markets"). Excluding restructuring charges, EBIT would have been \$156 million.

<sup>3</sup> Revenue during FY07-11 has been relatively stable, with price increases offsetting the high single-digit, annual volume declines, on average, during the period. Revenue was \$2.1 billion for the year ended March 31, 2011.

<sup>4</sup> More than half of the total debt does not mature until the end of 2016. In June 2011, credit facility lenders agreed to extend the term of the facility to March 2013. Our debt figure includes the \$115 million of 5.5% convertible notes due 2014 (initial conversion price: \$5.03 per share).

<sup>5</sup> The gross pension liability totaled ~\$165 million as of March 31, 2011.

<sup>6</sup> Based on 87 million shares outstanding (excludes potential shares related to \$115 million of 5.5% convert due 2014; initial conversion price: \$5.03 per share).

Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

**ALLIANCE ONE – OWNED FACILITIES**

<b><u>SOUTH AMERICA</u></b>		<b><u>AFRICA</u></b>	
VENANCIO AIRES, BRAZIL	FACTORY/STORAGE	LILONGWE, MALAWI	FACTORY/STORAGE
ARARANGUA, BRAZIL	FACTORY/STORAGE	MOROGORO, TANZANIA	FACTORY/STORAGE
VERA CRUZ, BRAZIL	STORAGE	<b><u>EUROPE</u></b>	
EL CARRIL, ARGENTINA	FACTORY/STORAGE	IZMIR, TURKEY	FACTORY/STORAGE
<b><u>UNITED STATES</u></b>		KARLSRUHE, GERMANY	FACTORY/STORAGE
WILSON, N.C.	FACTORY/STORAGE	<b><u>ASIA</u></b>	
FARMVILLE, N.C.	FACTORY/STORAGE	NGORO, INDONESIA	FACTORY/STORAGE
DANVILLE, VA	STORAGE		

Source: Company 10-K.

## Activist Targets: Potential Sales, Liquidations or Recaps

Companies that may unlock value through a corporate event

	Company	Ticker	Price (\$)	Move To		MV (\$mn)	EV (\$mn)	Price to Tangible Book	Net Cash (% of MV)	NCAV (% of MV)	EV/ Sales	Next FY P/E	Insiders	
				52-Week									% Own.	Buys/ Sells
				Low	High									
1	Exceed Company	EDS	4.83	-8%	94%	123	(17)	.5x	114%	166%	n/m	3x	0%	- / -
2	PennyMac Mortgage	PMT	16.85	-9%	15%	468	(291)	.9x	162%	110%	n/m	7x	3%	16 / -
3	Imation	IMN	9.13	-7%	35%	353	68	.8x	81%	106%	.0x	>99x	22%	15 / 9
4	Crexus Investment	CXS	11.22	-9%	20%	860	378	1.0x	56%	101%	15.0x	9x	0%	2 / -
5	Ingram Micro	IM	17.80	-17%	22%	2,866	2,504	.9x	13%	100%	.1x	8x	1%	12 / 13
6	* Advanced Battery	ABAT	1.50	-47%	190%	115	29	.6x	75%	94%	.3x	-	0%	- / -
7	Xyratex	XRTX	10.07	-15%	76%	305	178	.9x	42%	92%	.1x	7x	0%	- / -
8	Callaway Golf	ELY	6.53	-11%	30%	421	395	.8x	6%	89%	.4x	23x	1%	8 / 4
9	Kimball	KBALB	6.58	-27%	20%	180	142	.5x	21%	87%	.1x	-	1%	3 / 3
10	ModusLink	MLNK	4.46	-6%	67%	195	76	.8x	61%	87%	.1x	-	1%	3 / 1
11	* Flexsteel Industries	FLXS	15.17	-33%	30%	102	90	.8x	12%	87%	.3x	10x	0%	2 / -
12	PC Connection	PCCC	8.02	-25%	24%	216	160	1.0x	26%	86%	.1x	7x	2%	2 / 2
13	Benchmark Electron.	BHE	16.43	-15%	23%	998	675	.9x	32%	86%	.3x	10x	1%	10 / 1
14	Tech Data	TECD	47.90	-26%	13%	2,223	1,899	1.0x	15%	84%	.1x	9x	1%	16 / 15
15	Axcelis Technologies	ACLS	1.73	-23%	118%	184	139	.9x	24%	83%	.4x	7x	1%	7 / 5
16	Rimage	RIMG	15.43	-15%	18%	147	29	1.1x	80%	79%	.3x	21x	1%	9 / 3
17	Force Protection	FRPT	4.76	-19%	26%	338	197	1.0x	42%	79%	.3x	10x	2%	12 / 5
18	Skechers	SKX	14.48	-8%	169%	721	613	.8x	15%	78%	.3x	12x	2%	4 / 3
19	Opnext	OPXT	2.27	-43%	96%	205	150	.9x	27%	78%	.4x	21x	0%	6 / 8
20	Maxygen	MAXY	5.47	-43%	3%	165	59	1.3x	64%	77%	2.3x	-	2%	6 / 1
21	CE Franklin	CFK	9.62	-38%	5%	171	168	1.2x	2%	75%	.3x	-	0%	- / -
22	QLT	QLTI	6.77	-21%	31%	341	135	.9x	60%	75%	3.4x	-	1%	3 / -
23	Tellabs	TLAB	4.33	-8%	89%	1,573	516	1.0x	67%	75%	.3x	>99x	1%	18 / 11
24	Cutera	CUTR	8.49	-18%	17%	117	27	1.3x	76%	73%	.5x	n/m	7%	8 / 3
25	Richardson Electron.	RELL	14.89	-44%	3%	272	49	1.2x	82%	73%	.3x	-	0%	6 / 5
26	* SemiLEDs	LEDS	5.33	-10%	503%	145	61	.9x	58%	72%	1.5x	n/m	0%	2 / -
27	FormFactor	FORM	9.49	-27%	20%	481	147	1.2x	69%	72%	.8x	n/m	0%	5 / 4
28	Movado	MOV	17.26	-45%	4%	429	320	1.2x	25%	70%	.8x	22x	5%	14 / 4
29	BigBand Networks	BBND	2.21	-11%	48%	155	19	1.3x	88%	70%	.2x	n/m	1%	12 / 8
30	CSS Industries	CSS	20.77	-28%	4%	202	152	1.1x	25%	70%	.3x	-	0%	- / -
31	NeoPhotonics	NPTN	7.39	-16%	183%	182	107	1.0x	41%	68%	.5x	18x	0%	8 / -
32	Sycamore Networks	SCMR	21.12	-10%	62%	606	198	1.3x	67%	68%	3.4x	n/m	0%	3 / 3
33	InfoSpace	INSP	9.46	-30%	4%	350	101	1.4x	71%	67%	.4x	22x	1%	7 / 6
34	Gaiam	GAIA	4.84	-13%	64%	113	82	1.0x	28%	67%	.3x	17x	1%	3 / -
35	* ORBCOMM	ORBC	2.93	-40%	32%	125	45	.8x	64%	63%	1.2x	29x	4%	5 / 1
36	Exar	EXAR	6.58	-18%	10%	294	108	1.3x	63%	63%	.7x	20x	1%	3 / 9
37	* FSI International	FSII	3.01	-26%	80%	117	89	1.3x	23%	63%	.9x	7x	0%	1 / -
38	Hardinge	HDNG	11.74	-37%	19%	136	122	.9x	11%	62%	.4x	12x	2%	6 / 3
39	SuperGen	SUPG	3.14	-42%	7%	190	65	1.5x	66%	62%	1.2x	10x	0%	1 / -
40	Oplink Comms	OPLK	18.22	-16%	62%	376	180	1.4x	52%	61%	.9x	13x	2%	8 / 8
41	Comtech Telecomm.	CMTL	28.59	-29%	12%	745	356	1.5x	52%	61%	.5x	26x	2%	3 / -
42	* Bel Fuse	BELFA	22.80	-24%	24%	248	153	1.2x	38%	61%	.5x	-	14%	- / -
43	* Westell Technologies	WSTL	3.04	-49%	29%	211	103	1.2x	51%	60%	.6x	12x	4%	13 / 9
44	* EXFO Electro-Optical	EXFO	7.92	-37%	67%	228	157	1.1x	31%	60%	.6x	-	0%	- / -
45	* Daily Journal	DJCO	72.50	-10%	10%	100	16	1.4x	84%	59%	.4x	-	0%	- / -



Company website

SEC

Y!

Price Charts

Proxy

Y!

\* New additions are highlighted. Criteria: ▶ TBV > 50% of MV ▶ ST assets - liabilities > 50% of MV ▶ MV > \$100mn ▶ China RTOs excl.

## This Month's Top 10 Web Links

*A Selection of Our Favorite Freely Accessible Internet Resources*

- |           |   |   |
|-----------|---|---|
| <b>1</b>  | <b>Jeremy Grantham: "Resource Limitations"</b>                    | <a href="http://bit.ly/nAmcPH">http://bit.ly/nAmcPH</a>           |
| <b>2</b>  | <b>Howard Marks: "Down to the Wire"</b>                           | <a href="http://bit.ly/qcTYmK">http://bit.ly/qcTYmK</a>           |
| <b>3</b>  | [REDACTED]  | [REDACTED]  |
| <b>4</b>  | <b>Steven Romick Interview with Consuelo Mack (video)</b>         | <a href="http://bit.ly/mSrgOs">http://bit.ly/mSrgOs</a>           |
| <b>5</b>  | <b>Ray Dalio Profile in The New Yorker</b>                        | <a href="http://nyr.kr/ofJwLR">http://nyr.kr/ofJwLR</a>           |
| <b>6</b>  | <b>Michael Burry Profile by Bloomberg (video)</b>                 | <a href="http://bloom.bg/n58oKw">http://bloom.bg/n58oKw</a>       |
| <b>7</b>  | [REDACTED]  | [REDACTED]  |
| <b>8</b>  | [REDACTED]  | [REDACTED]  |
| <b>9</b>  | <b>Murray Stahl's Market Commentary</b>                           | <a href="http://bit.ly/ob8H7u">http://bit.ly/ob8H7u</a>           |
| <b>10</b> | <b>U.S. For-Profit Education Stocks: "Magic Formula" Approach</b> | <a href="http://slidesha.re/mPwgT7">http://slidesha.re/mPwgT7</a> |

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