



**CATALYST INVESTMENT RESEARCH™**  
*Combining Shareholder Activism & Deep Value Company Analysis*

**SPECIAL RESEARCH REPORT – MAY 7, 2010**

**Activist Investing Situations in Small & Microcap Companies**

COMPANY	ACTIVIST INVESTOR(S)	OWNERSHIP	SHARE PRICE
<b>Bitstream, Inc.</b> (Ticker: BITS)	<i>Raging Capital Management</i>	8.5%	\$7.74
<b>Dover Motorsports Inc.</b> (Ticker: DVD)	<i>Marathon Capital</i>	17.49% (dual class stock)	\$2.03
<b>Keweenaw Land Association Ltd.</b> (Ticker: KEWL.PK)	<i>Access Securities</i>	4.3%	\$187.00
<b>P&amp;F Industries Inc.</b> (Ticker: PFIN)	<i>Lawndale Capital</i> <i>Timothy Stabosz</i>	7.4% 6.1%	\$2.35

## MICROCAP ACTIVIST SITUATIONS

This *Special Research Report* is designed to identify and analyze four undervalued microcap companies where activist investors have sizeable investment positions and have been seeking board representation or promoting some other form of fundamental change in an attempt to increase share value.

While many of these companies are neglected by Wall Street analysts due to market size and trading volumes, we believe the activists involvement make for a compelling story and create an interesting investment opportunity worthy of further examination.

## CATALYST SUMMARY

The companies analyzed in this Report range in market capitalization from \$8 million to \$120 million and have trading volumes as low as 437 shares/day and as high as 24,000 shares/day.

The activist investors have been seeking board representation at three of the four companies identified (the fourth company is family-controlled through a preferred share voting structure so seeking board representation without this support would be a futile endeavor).

Each company appears undervalued based on the underlying worth of its assets. However, a gap exists between intrinsic value and market value at each company due to a variety of factors, including (i) dual-class ownership structure (and therefore a “family/control discount” can be attributed), (ii) disproportionate executive compensation payments (on a comparable-basis and on a relative-to-market-value basis), (iii) unregistered securities and therefore limited disclosure and shareholder access to asset valuations, (iv) limited analyst coverage and, correspondingly, minimal institutional investment interest.

## QUICK SUMMARY OF ACTIVIST INVESTOR DEMANDS

COMPANY	ACTIVIST DEMAND(S)
<b>Bitstream, Inc.</b> (Ticker: BITS)	<i>Streamline operations; unlock value potential</i>
<b>Dover Motorsports Inc.</b> (Ticker: DVD)	<i>Collapse dual class ownership structure; examine strategic alternatives</i>
<b>Keweenaw Land Association Ltd.</b> (Ticker: KEWL.PK)	<i>Register securities to begin listing on a major exchange; improve shareholder communications; maximize asset utilization</i>
<b>P&amp;F Industries Inc.</b> (Ticker: PFIN)	<i>Restructure executive compensation; examine a going-private-over-time transaction</i>

## FRAMEWORK TO OUR ANALYSIS

The analysis of these microcap activist situations employs the same rigorous analytical process as our research of larger capitalization companies. We frame the examination around five central questions to help determine if the company’s shares are currently trading at a discount to fundamental value and (if so) whether the dissident group can be instrumental in helping to close the gap.

1. Does the activist investment group have reasonable concerns relating to the company’s operations, its stock price performance, executive remuneration practices, and the overall corporate governance structure?
2. Does the group propose a sound plan for improving the previously mentioned concerns?
3. We then review the company’s shareholder base, previous recommendations made by influential proxy vote advisors, and the quality of the director nominees (if the dissident is seeking board representation) to determine the likelihood that the activist investor will gain additional shareholder support for their campaign.
4. In the event that the dissident is seeking board representation and their nominees are elected, we analyze if they will indeed hold a strong enough position in the boardroom to enact their business improvement plans without excessive resistance from the remainder of the board and management.
5. Irrespective of the activist’s involvement (i.e. in the event the dissident campaign is unsuccessful) we attempt to determine if the company has the ability to improve value and generate longer-term results for shareholders.

## Dover Motorsports, Inc. (DVD)

**Activist Investor:** *Marathon Capital (17.49%; 1.6% Voting Power)*

### COMPANY PROFILE

Previous Close:	2.03
52 -week Range:	1.10 - 2.40
Revenues(TTM):	71M
Market Cap:	74M
Enterprise Value:	118M
Net Cash:	-44M
EBITDA:	8M
EV/EBITDA:	14.7

### BOARD STRUCTURE

Total # of Directors:	8
Activist Representation	0
Classification:	Staggered; 3 Classes

### INVESTOR PROFILES

Activist Investor Ownership:	3,184,590*
Ownership Percentage:	17.49%*
Total Cost Basis per Share:	Not Avail

\* refers to common stock ownership equaling 1.6% of voting power when taking into account dual class voting power.

### CATALYST INVESTMENT SUMMARY

In June 2007 Marathon Capital disclosed a 5.53% ownership stake in Dover Motorsports, Inc. (DVD) and sent a letter to the board of directors suggesting the company be sold by means of a competitive auction. In the letter Marathon cited two main reasons for this: 1. The industry is dominated by two competitive giants - International Speedway (Ticker: ISCA) and Speedway Motorsports (Ticker: TRK), and 2. DVD has extremely limited growth opportunities.

Since 2007 Marathon has increased their ownership to 17.49% of the company's common stock (Note: a small group of insiders – including the Rollins family, own a controlling stake of the company via Class A shares, which carry 10x voting power).

As the largest common stock shareholder, Marathon continues to voice their concerns about the company's governance and operating structure and maintains the belief that the company's underperforming assets, or preferably - the entire business, should be sold. In a letter from the company in September 2009, DVD stated publicly for the first time that they have participated in merger discussions with a consortium consisting of their two largest competitors, Speedway Motorsports and International Speedway, in May 2007 who offered to acquire the company for a five-cent per share premium to market value. At that time DVD was trading at \$5.57 per share, suggesting a buyout value of \$5.62/share – a 265% increase over today's stock value.

On March 1, 2010 Marathon hired H.A. "Humpy" Wheeler, a NASCAR racetrack manager and well-respected industry veteran, to help Marathon address value enhancement opportunities for DVD.

In April 2010 Marathon commissioned a case study which examines a number of reasons why the company may be undervalued. The case study offers some very good insight into the undervalued components of DVD's business and is available for further review here.

[http://www.sec.gov/Archives/edgar/data/1017673/000091957410003007/d1094528\\_13d-a.htm](http://www.sec.gov/Archives/edgar/data/1017673/000091957410003007/d1094528_13d-a.htm)

**Three factors have the potential to drive value at DVD: (1) improved economic conditions and a resulting increase in consumer spending and NASCAR race attendance (which are directly proportional), (2) a collapse of the company's dual-class ownership structure (as a reference, Magna International's (MGA) share value increased 21% on May 6 2010 after announcing the company will transition to a single class ownership structure following activist pressures to do so.), and (3) a sale of the company**

### ACTIVIST INVESTOR CONCERNS AND DEMANDS

- The company eliminated the Q&A portion of its quarterly earnings calls after Q2 2008.
- The board should form an independent committee and hire a strategic advisor to examine a sale.
- Remove the company's poison pill (10% trigger).
- Amend corporate bylaws to allow for the transference of Class A shares to individuals other than Class A shareholders

### ACTIVIST INVESTOR PROFILE

**Marathon Capital** was formed by Mario Cibelli in 1997. Prior to forming Marathon, Cibelli worked as a value-oriented investor with Robotti & Company, Prudential Securities and Gabelli & Company. Other recent activist-oriented investments include Craftmade International (CRFT). On June 15, 2007 Marathon announced their support of CRFT's decision to evaluate strategic alternatives in an attempt to enhance shareholder value. In a disclosure with the SEC, Marathon announced their belief that Craftmade's share price was undervalued and that a competitive auction of the company would be the most attractive alternative among those outlined by the company recently.

### COMPANY PROFILE & FUNDAMENTAL VALUE ASSESSMENT

Dover Motorsports ([www.dovermotorsports.com](http://www.dovermotorsports.com)) is a holding company that currently operates as a leading promoter of motorsports events at four raceways in the US. The company was founded in 1969 as a racetrack operator of Dover Downs further expanding into motorsports and gaming. The company went public on the New York Stock Exchange in 1996. In 2002 the gaming portion of the business spun out as a separate operating company called Dover Downs Gaming & Entertainment, Inc. and began trading under the ticker symbol DDE. Dover Motorsports retained the ticker DVD. Despite the two separately-traded businesses, many of the management team and board of directors continue to overlap today.

During 2009, DVD promoted 2 NASCAR Sprint Cup Series Events, 6 NASCAR Nationwide Series events, 4 NASCAR Camping World Truck Series Events and 2 NHRA events.

In 2009, total revenue fell 15.9% to \$70.9 million, and the company lost \$4.6 million, or \$.13 per share (including a \$2.825 million tax benefit) versus a loss of \$12.1 million or \$.34 per share (including a \$8.442 tax benefit) in 2008. Admission revenue (35% of total revenue) fell 20.3%, and event-related revenue (25% of total revenue) fell 30% in 2009, not all that surprising given the economic climate.

DVD was last profitable in 2007, when the company earned \$3.7 million, on revenue of \$86.1 million. Since then, the stock has slid 67%, and now trades in the \$2.00 range.

However, while the company’s operating performance has not been strong, DVD owns a considerable amount of potentially valuable assets. The crown jewel is the Dover International Speedway in Dover Delaware, which sits on 770 acres of company owned land. The company also owns Gateway International Raceway in Madison Illinois, and 150 acres of the property, leasing an additional 160 acres with options to purchase. Nashville Superspeedway is located on 1400 acres of company owned land. A fourth property, Memphis Motorsports Park, located on 350 acres, is up for sale. Last year, a \$10 million deal for the property fell through.

Given the company’s \$124 million enterprise value, the popularity of NASCAR, assumption that a recovering economy will ultimately put more bodies in the seats, not to mention the aforementioned assets, DVD looks compelling from a value perspective, and might ultimately make an interesting acquisition candidate.



**May 9, 2005 - May 4, 2010**

**5-Year Stock Price Performance:** -36% Decline (\$5.91/sh to \$2.12/sh)

**5-Year Stock Price Performance on a Comparative Basis (DVD vs. ISCA and TRK):** DVD = -36% Decline; ISCA = -58% Decline; TRK = -48%

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## ABOUT HEDGE FUND SOLUTIONS

**Hedge Fund Solutions, LLC (HFS)** provides investment research, strategy and stakeholder communications consulting to companies and investors interested in, or involved with, shareholder activist campaigns. Since 2001 HFS has become the trusted advisor to numerous institutional investors, CEOs and board members worldwide. The firm publishes *The Catalyst Equity Research Report™*, a free weekly report highlighting the companies being targeted by activist investors, and the *Catalyst Investment Research™* report, a fee-based research product that combines company-specific shareholder activism research with deep value investment analysis. In addition, HFS administers *The Official Activist Investing Blog™*, the definitive source for activist shareholder information.

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### Damien Park, Managing Partner

Mr. Park is an expert on shareholder activism. He regularly advises boards of directors, CEOs and institutional investors on these issues and has been a featured commentator on *RealMoney.com* discussing activist investments.



Damien is co-Chairman of The Conference Board's Expert Committee on Shareholder Activism and is co-author of The Shareholder Activism Report and its complementary website The Shareholder Activism Resource Portal™. In addition to speaking at numerous professional events relating to activist investing, Damien is often quoted in publications like *The Wall Street Journal*, *Business Week*, *CFO Magazine*, *The Deal*, *CNN Money*, *The New York Times*, *The Nikkei* and *Newsweek Japan*.

Damien is the past Chairman of the Hedge Fund Activism and Shareholder Value Summit and manages *The Official Activist Investing Blog*.

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### Jonathan Heller, Partner

Mr. Heller, CFA, is a seasoned value investor. He is a Partner at Hedge Fund Solutions, the President of KEJ Financial Advisors and a featured commentator on *RealMoney.com* discussing deep value investments.



Previously, Jon was with SEI Investments after spending 17 years at Bloomberg Financial Markets in various roles which included the management of Bloomberg's Equity Fundamental Research Department and Bloomberg's Equity Data Research Department. Jon was also a senior markets editor of Bloomberg's Publishing Group, a writer for Bloomberg Personal Finance Magazine, and an associate editor and contributor for Bloomberg Markets Magazine.

In addition, Jon manages the blog *Cheap Stocks: Below Net Current Asset Value, Real Estate and other Value Strategies*.

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***“Catalyst Investment Research not only finds where the hidden gems are buried, but also brings along the excavation equipment to help dig up the value.”***

*-Ron Orol, MarketWatch;*

*Author of Extreme Value Hedging: How Activist Investors are Taking on the World*

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