

Inside ALPHA Investment Club

Weekly Alert

Message sent on November 6, 2007 after
market close

Trades to be executed at tomorrow Wednesday's open

WE ARE CLOSING THE TIE TRADE AND STARTING A NEW POSITION IN GEOI

Inside ALPHA Conservative model portfolio

- Sell all Titanium Metals Corporation (TIE) shares at the open
- Buy 1,000 shares of GeoResources Incorporated (GEOI) at the open, or the equivalent of 1/26th of today's closing account balance (rounding up)

Inside ALPHA Leveraged model portfolio

- Sell all Titanium Metals Corporation (TIE) shares at the open
- Buy 1,500 shares of GeoResources Incorporated (GEOI) at the open, or the equivalent of 1/13th of today's closing account balance (rounding down)

Weekly Commentary: Is Edward Mattar's tragic suicide a prelude to something bigger?

INTRODUCTION

A Rocky Mountain News story informs that former BestBank owner Edward Mattar, facing 14 years in prison and the forfeiture of millions of dollars at his fraud sentencing Friday, chose instead to leap from a 27th-story window. The Denver coroner's office identified Mattar's body through fingerprints and ruled the death a suicide late Friday.

At 3:40 a.m, Mattar, 68, smashed a window with a hammer at his home at the Apartments at Denver Place, 1880 Arapahoe Street. He then jumped, landing in the courtyard in front of the building.

Janus McSwain, 28, of San Bernardino, California, was at the Greyhound Bus Terminal, waiting for a bus, when he heard a crash and went outside. McSwain said he saw a man lying face-down in the dirt. "He broke a tree", McSwain said Friday afternoon, pointing to a small tree where a 2-inch-wide branch was severed.

THE CREDIT CARD FRAUD

The banker's 2 p.m. hearing in U.S. District Court in Denver was cancelled, and prosecutors eventually will dismiss the charges. "Suicide is a terrible thing, whenever it happens", Assistant U.S. Attorney John Haried said. "That's all you can say about it". Mattar was not married. A former colleague recalls that Mattar had a brother and sister in his hometown of Buffalo, New York.

Boulder-based BestBank collapsed in 1998 under the strain of a \$200 million portfolio of high-risk credit card accounts. The bank, once labelled as one of America's most profitable small banks, paid high rates of interest to attract deposits, then turned around and issued more than 500,000 credit cards to credit-challenged borrowers.

As losses mounted, Mattar and fellow defendants hid the numbers from regulators while receiving performance bonuses. Mattar and two former executives, Thomas Alan Boyd and Jack Grace Junior, were convicted in February on 15 of the 90 counts they faced.

PROSECUTORS WANT \$140 MILLION BACK

Boyd and Grace were sentenced to 90 months and 72 months, respectively, in August. Each man received a \$15,000 fine, and the two forfeited \$4.74 million and \$92,643, respectively.

Two other men, Douglas Baetz and Glenn Gallant, also were convicted in the case. They were the co-owners of Fort Lauderdale, Florida-based Century Financial, which partnered with BestBank. Baetz and Gallant were each sentenced to 10 years in prison in August. In early August, Mattar pleaded guilty to not paying taxes.

Prosecutors were asking for a sentence of 14 years, forfeiture of \$4.7 million in ill-gotten gains and restitution of \$134 million stemming from the bank's collapse. Haried acknowledged that Mattar did not have that kind of money.

FROM PERPETRATOR TO VICTIM

Defense attorneys were "asking the court to exercise its sound judgment as to what it thought was the proper sentence", defense attorney Peter Bornstein said. He declined

further comment. Daniel Sears, who represented Grace, said the letters Mattar and Boyd wrote to the judge before his client's sentencing showed another side of them.

Mattar "certainly had a tendency to be gruff. He was blunt, and he had a tendency to be obstinate, and I can see how these things resulted in the difficulties he faced", he said. "I saw another side of him he did not readily expose to others. I saw a man who was warm, generous and compassionate. I am devastated".

Richard Fulkerson, the Colorado bank commissioner who closed BestBank, said, "Nobody wants to see anything like this happen; this is just a tragedy". Fulkerson testified in the trials and attended previous sentencings. "The whole BestBank fraud was a tragedy. He's gone from being the perpetrator to another victim of the fraud".

A HISTORY OF FAILURE

Mattar was born March 15, 1939, in Buffalo, the son of a Lebanese peddler. He earned a law degree from the University of Baltimore, worked for New York Governor Nelson Rockefeller and ran unsuccessfully for Congress as a Republican in upstate New York.

He eventually started a management-consulting firm with a focus on educational institutions. In 1977, he was hired as a management consultant to help close Worcester College in Massachusetts. Instead, he became president, renamed it Central New England College and attempted a turnaround. In 1988, he was forced to resign after an audit uncovered financial irregularities in the school's books.

That was one incident in a string of lawsuits and judgments that started with a 1983 health club failure in which customers got stiffed and continued through the 1990s with several foreclosures on a home and businesses.

THE RIGHT TIMING

Mattar bought BestBank in 1989 at a time when Colorado was coping with numerous failed banks and savings and loans because of the real estate bust. While the state's Division of Banking would have conducted a criminal check on Mattar, it wouldn't have found the civil actions over the failed health club.

Ralph Mires, Colorado's banking commissioner when Mattar applied for his charter, told the Rocky Mountain News in 1998 that the health club problems would have been enough to deny his application to buy the bank.

Harrison Greene worked for Mattar at Central New England College for more than three years as director of admissions and then dean of institutional relations. He then worked at Mattar's for-profit Nasson College.

MANAGEMENT THROUGH INTIMIDATION

"He was one of those guys, 20 percent of the things he taught me were lifelong business lessons I've continued to use", Greene said Friday. "The other 80 percent, I wish I'd never heard".

Greene said Mattar "managed people through intimidation", once giving him an illustration of a dying apple tree with just one piece of fruit left. The caption was "the tree with the best apples gets the worst beating". He expressed surprise Friday that Mattar killed himself. "He had a tremendous fear of death".

While the facts that led to Mattar's suicide are almost ten years old, I couldn't help but notice the similarities with today's most pressing issues in the markets:

- The main problem comes from lending money to people who didn't have the financial solidity to take the loans
- The loans were repackaged in some sleazy, if not dishonest way
- The insiders' bonuses depended on volume, not doing profitable business
- The people involved had a history of sleaziness or dishonesty
- The victims will never get a penny back

CONCLUSION

To end this comment on a lighter note, a tip of the hat to blogger and hedge fund manager Jeffrey Matthews, who found out what Stan O'Neal, Merrill Lynch's former CEO and Chairman of the Board, was doing while his company was facing its worst crisis of the decade.

Thanks to the wonders of the Internet, anyone can see that Mr O'Neal played golf twenty times between August 12, 2007 and September 30, 2007. That's about three times a week, although in all fairness only three rounds were played on weekdays.

Maybe I'm just more old-fashioned than this 56 year old ex-CEO, but when you get to leave a company with a \$160 million package for helping your shareholders lose \$8.4 billion, you could at least try to work for your company, not only on all of the weekdays, but also on a few weekends...

This week's research: Pay \$9 for GeoResources & get \$18 of proved reserves per share

INTRODUCTION

First of all, on a side note: you've probably noticed that Crocs (CROX) had an "Uh-oh!" moment last week and lost 47% in just three days (so far). And while we had initiated our short way too early (about five months), at least now we're profitable on the position. I expect the same to happen soon with others, including DryShips.

Since the CROX short is now in the green, and since my old comfortable slippers had too many holes in them, I gave in to my wife's pressure and got a pair of Crocs, which in my mind will really be paid by those who went long the stock; so I'd like to extend a big thanks to them.

We'll sell the Titanium Metals positions, despite Harold Simmons's purchases, as the company has missed its third quarter results by 25%, which might be an indication that the situation is not as perfect as I had anticipated it. This has been all for nothing, as a 4% gain in about a year is nothing to brag about.

INSIDERS HOLDING 60% OF GEOI

So despite a nice week, the pressure is still on to make a lot of money on new positions, while taking as little risk as possible. So this Wednesday we'll buy an \$18 note for just \$9, a company called GeoResources Incorporated (NASDAQ: GEOI).

On April 17, 2007, pursuant to the terms of an agreement and plan of merger, GeoResources, a Colorado corporation, acquired Southern Bay Oil & Gas, a Texas limited partnership, PICA Energy, a Colorado limited liability company, and certain Colorado oil and gas properties ("Yuma Properties") in exchange for 10,690,000 shares of common stock.

As a result of the merger, the former Southern Bay partners now own approximately 57% of GeoResources Incorporated's outstanding common stock, and thus voting control of the Company. The results of operations for the three months ended June 30, 2007 don't tell the whole story. The Q3 official results should be out in the coming days or weeks, certainly before the end of the month.

LOSSES FOR Q2

GeoResources operates a single business segment involved in the acquisition, development and production of, and exploration for, crude oil, natural gas and related products primarily in Texas, Louisiana, North Dakota, Montana and Colorado.

On October 16, 2007, GEOI bought AROC Energy, including oil and gas properties located in Louisiana, the Gulf Coast, South Texas, the Permian Basin and the Black Warrior Basin. This means that, while the third quarter results will give us a better idea of the situation, it won't reveal it all; we'll have to wait until March for the Q4 results to integrate this latest development.

For the second quarter of the year, GEOI said that it had produced about 911 barrels of oil and four million cubic feet of natural gas per day. The average selling prices were \$55.95 per barrel of oil and \$6.91 per thousand cubic feet of gas. The net result was a loss of nine cents per share.

\$3 OF CASH FLOW PER SHARE IN '08?

But thanks to the latest acquisition, the fourth quarter daily average, including the latest acquired properties, is closer to 2,000 barrels of oil per day and 9.5 million cubic feet of natural gas per day.

GeoResources sold 77% of its expected 2008 production for \$80.19 per barrel of oil, and put a floor of \$7 per thousand cubic foot of natural gas. So let's imagine that, for the first quarter of 2008, GEOI gets an average price of \$85 per barrel of oil, and only \$7.50 per Mcf of NG, for the sake of an argument.

We would be talking about \$22 million of quarterly total revenues, which might mean 25 cents of net profit per share for the quarter, maybe more. The group's current reserves, discounted at 10% per year, are worth \$275 million as we speak, while there are less than fifteen million shares out, each worth nine dollars or less, for a total market capitalization of less than \$130 million.

HOW MUCH NEW RESERVES WILL THE NEW INVESTMENTS GENERATE?

But the company has no intention to stop here. As early as next year, the quarterly cash flow could be as high as \$8 million, and thus GeoResources has a \$32 million capital budget for next year, which could be covered by the cash generated from operations. The idea is to obtain a balanced growth from a combination of long life and high impact reserves.

There is some smart money invested in the structure, like GE Energy Financial Services' money. With \$14 billion in assets and 300 experts, the company invests globally with a long-term view, backed by the best of General Electric's technical know-how and financial strength, across the capital spectrum and the energy and water industries.

Needless to say, the corporate insiders have been buying around \$7.19 per share already. Robert Anderson, in charge of Business Development, Acquisition and Divestitures bought 2,000 shares on July 26; CFO Howard Ehler acquired 6,500 the same month.

ENOUGH INSIDERS SEEM CONVINCED

Chief Operating Officer Francis Mury got his hands on 10,906 more shares, while Director Jay Joliat (a former Wall Street man) increased his position by 50,00 shares. Finally, Christopher Hunt, age 39, founder and president of Knightsbridge Capital, decided to buy his first 35,000 shares, also in July.

So here's my road map for this stock. Either we're lucky, and the fourth quarter numbers, which will be released in more than three months, will already give us a better idea of just how profitable a quarter this company can now have.

Or we're not so lucky and we'll have to wait a bit longer, meaning that we'll have a slightly longer horizon than the usual six months. Either way, this company should prove, in a first step, that its real share price is closer to \$20. From then on, it will be a question of profitability and reserve growth.

CONCLUSION

This has been a fairly short and straightforward analysis of the company, for a change. On one side, there's not much more to tell because the official filings with the most interesting details shouldn't even be available this month with the Q3 filings, but only at some point in March of 2008 with the fourth quarter and full year reports.

From a risk point of view, I sure hope that the lowest price reached in the last seven months, \$5.60, will not be hit again. A more realistic low, should oil and gas (or the markets) tank, would be somewhere above \$6, which still leaves a 30 to 35% downside.

On the upside, I think it's really worth it to wait for a double; the timing of this is very uncertain. As we have seen, the markets understood the Crocs situation five months later than I anticipated, so why should it be any different, or even why shouldn't it be worse, in the case of GeoResources?

This is one of those situations where it's best to leave the trade some breathing room, so we'll probably give it until the end of June at the latest, or up to eight months, to realize its full potential, unless the fundamentals change dramatically.

Thanks for reading!

Warm regards,

Marc