

INVESTLETTER



Volume 7 Number 7

Ramblings

Wall Street:

- DJ 9496
- S&P 500 1021
- NASDAQ 2009

This months issue is going to cover some miscellaneous ramblings covering topics from tax credits and deductions, the SEC shareholder proxy access, the equity markets and the economy in general.

The comment period has closed (although the SEC still accepts comment letters) for the shareholder proxy access proposed rule changes. There has been no outward indication of any action on the proposal and we expect any changes will not be announced until early next year. We see no indications that the SEC is going to knuckle under as they have in the past to the pressure being applied by the business lobby. The tough recent stance the SEC has taken on issues and the active regulatory agenda they have been pursuing this year provides encouragement that things will be different this time. The commission has a strong need to show that they have not become irrelevant.



With our comments just rolling along, they are nothing compared to the nice rebound we are experiencing this year.

If anyone has a home that needs new energy efficient heating, air-conditioning, hot water, alternative energy, replacement windows or doors this is the time to do it. A 30% tax credit is available up to a max of \$1,500 dollars. I am putting in a wood burning stove that will take advantage of all \$1,500. I am paying less for the stove than I would have 10 years ago because of the credit and the installation is also eligible. The two articles below do a good job explaining what is covered. The credit is available for 2009 and 2010.

http://www.webcpa.com/ato_issues/2009_17/-51781-1.html?zkPrintable=true

Guidance from the IRS:

<http://www.irs.gov/pub/irs-news/n-09-53.pdf>

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If your furnace is on its last leg or your tired of that drafty door now is the time to act. The \$1,500 amount is a lifetime amount. Once you use up the total you are not eligible for more. If you were to use all \$1,500 in 2009 you can not claim any more in 2010.

The last tax deduction I want to cover involves the sales tax on a new vehicle purchased in 2009. This is not a credit like the energy credit above, but is deducted from your taxable income. You will end up saving whatever your tax rate is multiplied by the amount of tax. If you paid \$2,000 in tax and are a 25% taxpayer you will save \$500 on your 2009 Federal tax bill. This deduction is available whether or not you itemize on your tax return.

Dogma

Not a huge amount of money, but it is certainly better in your pocket.

The last of my rambling comments deals with the economy. When so much of the viability of our economy rests on nothing other than the faith of its participants, it is nice to see many feeling a bit better about the economy than they did last year this time. We are still stunned at the fragility of the system and it remains at the forefront of any investment we have made since the meltdown. The rapidity with which the entire economic system can utterly collapse is barely comprehensible. Without the large scale interventions by the federal government there is no telling what the financial landscape would look like today, if there was any landscape remaining.

This has made an impression on me personally like the stock market collapse during The Great Depression made on investors back then. Many of the companies we are invested in are so heavily laden with assets that it provides a solid buffer to any collapse. The one drawback is that when some of these companies liquidate we will be left with piles of cash that will need to be re-deployed in a productive fashion. Right now we have no shortage of excellent opportunities. What opportunities are available in 6 months is debatable. More investors may have emerged from their bunkers and have helped drive prices up to more sane levels by that time, limiting our choices.

Everything we have learned since we began investing can be used cumulatively when examining our next investment. All of the analysis, tools, shortcuts and judgment adds up over time and should lead to better decision making in the future. The toolbox expands and we have the ability to use more tools at the same time. The challenge is that some of the rules keep changing. The basics still hold true, but you have to get creative in how they apply to the present situation. So we will try and continue to take what we are given and move with the flow. When net nets are available count us in. When certain assets are being undervalued we want a piece. When strong growth is around the corner we want our share. If the picking remains as easy as it is now we will remain in good shape.

Company	August price	July price	Change from July	P/E	52 Week High	52 Week Low	Estimated '09 EPS	Dividend Yield
American Pacific/APFC	\$7.90	\$8.10	-2.47%	20.4	\$15.89	\$3.90	\$0.19	n/a
Arbitron/ARB	\$17.52	\$17.28	1.39%	12.9	\$50.07	\$9.90	\$1.44	2.30%
Arch Coal/ACI	\$17.32	\$17.41	-0.52%	14.3	\$45.69	\$10.43	\$0.35	2.10%
Astro Med/ALOT	\$6.00	\$5.56	7.91%	33.0	\$10.00	\$3.50	n/a	4.10%
Atrion/ATRI	\$137.00	\$130.19	5.23%	15.5	\$139.99	\$63.00	n/a	1.10%
Consolidate Tomoka/CTO	\$34.94	\$37.28	-6.28%	71.0	\$50.57	\$21.56	n/a	0.60%
Culp/CFI	\$5.85	\$6.59	-11.23%	10.4	\$7.35	\$1.30	\$0.56	n/a
Diamond Mgmt & Technology/DTPI	\$6.26	\$5.36	16.79%	n/a	\$6.45	\$1.96	\$0.13	1.10%
Graham Corp./GHM	\$13.62	\$13.68	-0.44%	8.6	\$39.00	\$6.85	\$0.51	0.60%
Landauer, Inc./LDR	\$55.04	\$66.92	-17.75%	21.6	\$74.51	\$46.08	\$2.69	3.90%
Mesa Labs/MLAB	\$22.02	\$22.00	0.09%	15.0	\$23.96	\$14.50	n/a	1.80%
Rayonier/RYN	\$42.95	\$38.11	12.70%	15.7	\$49.54	\$22.28	\$1.59	4.90%
Servotronics Inc./SVT	\$7.05	\$6.05	16.53%	5.9	\$11.16	\$4.53	n/a	2.10%
Span America Medial Sys/SPAN	\$11.89	\$12.33	-3.57%	7.8	\$13.19	\$7.76	n/a	3.10%
Torm/TRMD	\$9.50	\$10.23	-7.14%	n/a	\$30.19	\$7.50	n/a	n/a

The Investletter Portfolio

Company	Portfolio Percentage	August price	July price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
American International/AMIN	3.70%	\$1.31	\$1.13	15.93%	\$1.10	n/a	n/a
Astronics Corporation/ATRO	15.00%	\$8.73	\$10.95	-20.27%	\$8.25	24.5	n/a
Berkshire Hathaway B/BRK.B	6.70%	\$3,286.00	\$3,181.00	3.30%	\$2,700.00	51.8	n/a
Cash	23.00%	\$1.00	\$1.00	n/a	n/a	n/a	n/a
Chesapeake/CHK	4.60%	\$22.84	\$21.44	6.53%	\$20.00	n/a	1.40%
CSP Inc./CSPI	15.00%	\$3.60	\$3.77	-4.51%	\$4.00	n/a	n/a
EDCI Holdings, Inc./EDCI	11.40%	\$4.99	\$5.82	-14.26%	\$4.70	n/a	n/a
K-Tron International/KTII	9.40%	\$84.22	\$87.98	-4.27%	\$80.00	10.3	n/a
QEP Corporation/QEPC	7.10%	\$3.46	\$3.11	11.25%	\$2.20	n/a	n/a
TSR, Inc./TSRI	4.00%	\$2.25	\$2.15	4.65%	\$2.10	14.1	n/a

Last month we talked about several of the net net investments that we have made. Over the past month, two of them have become likely candidates to dissolve. When a company dissolves they cease to be a corporation and all of the assets are liquidated with the cash being returned to the shareholders. EDCI has announced they plan to liquidate in a press release put out in the middle of September. A more recent holding, Vaxgen (VXGN), that we added during September, has activist investors proposing a competing slate of directors that will liquidate the company if elected.

VXGN has also seen their price swing wildly with the announcement that an aids vaccine that they were formerly developing and retain commercial manufacturing rights on, has achieved a successful endpoint in its clinical trials. We have attempted to exit our recently purchased shares without much success at a price that is likely higher than the liquidation value. If we can't get out at an agreeable price, we may have another shot if the liquidation proceeds and a proposed \$.33 return of capital is made. This should act as a catalyst to drive the share price back higher. If we can't make an early exit, we are prepared to wait until the rest of the company is run off and settle for the remainder of our investment to be returned in this fashion. Either way we should make out with a reasonable profit when it is all wrapped up.

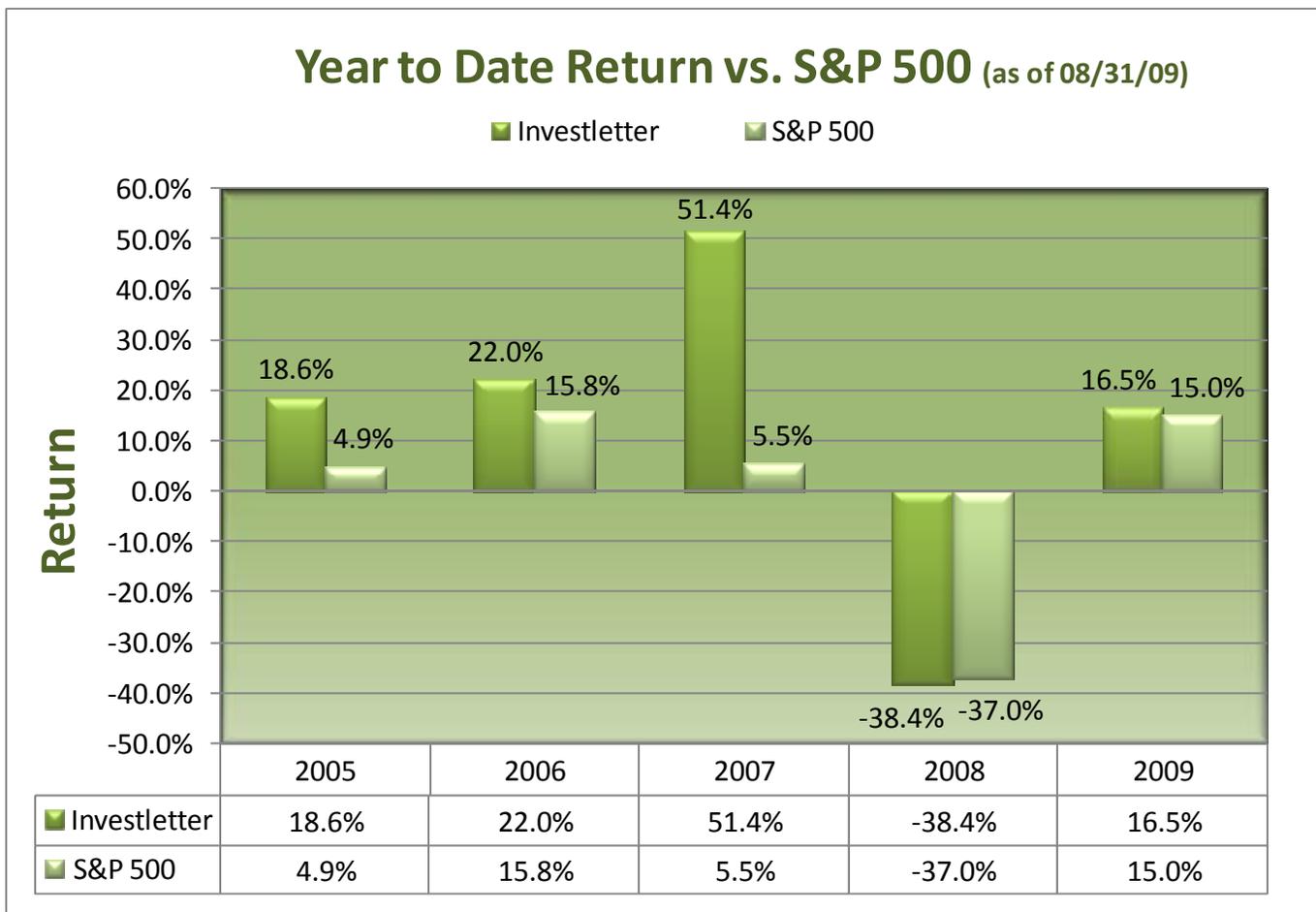
Many of these net net investments involve companies that are candidates for dissolution. These are not monster returns, but they are pretty safe considering the depressed price we are paying for these companies.

Date	Security	Symbol	Price	Order Type	Qualifiers	% of Portfolio	% of Position	Outcome
09/08/2008	Vaxgen, Inc.	VXGN	\$0.61	buy	limit	3%		open
08/13/2009	CSP, Inc.	CSPI	\$3.75	buy	limit	16%		filled
08/10/2008	TSR, Inc.	TSRI	\$2.14	buy	limit	4%		filled
08/07/2009	American International	AMIN	\$1.78	buy	limit	10%		filled
08/07/2009	EDCI Holdings, Inc.	EDCI	\$5.25	buy	limit	10%		filled
08/07/2009	Berkshire Hathaway	BRK/B	\$3,520.00	sell	limit		50%	filled
04/30/2009	Gencor	GENC	\$8.30	sell	limit		100%	filled
01/09/2009	Constellation Energy	CEG	\$26.50-\$26.65	sell	limit		50%	filled
01/02/2009	EDCI Holdings, Inc.	EDCI	\$3.65-\$4.50	buy	limit	5%		filled

Performance

We are maintaining our lead on the S&P 500 average so far this year. This is a decline from the previous months lead, although much of our previous margin was restored in the first few weeks of September. Several of our deep value plays are beginning to pay dividends. EDCI announced that they will dissolve the corporation and that before the end of the year, a return of capital amounting to upwards of \$4.50 per share (\$30 million in total) may be paid to shareholders. It is contingent on several details being ironed out. That is about equal to our investment in EDCI shares, \$4.50 per share.

After the distribution, the corporation would still have near \$40 million in net shareholder assets. That would leave us with a claim to assets in the amount of \$40 million with all of the money for our initial investment having been returned. It amounts to what in effect is a free lunch. We anticipate total distributions to be in the \$7.50 to \$9 per share range. Bon appétit.



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