

INVESTLETTER



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Subscriptions at Work

Wall Street:

- DJ 8776
- S&P 500 903
- NASDAQ 1577

This next month we will be making an investing house call. Sometime owning shares in a company is not enough. So, we are taking a little business trip. I will be traveling to Billerica, Massachusetts to attend the CSP, Inc. annual meeting. You have heard repeatedly how we eat our own cooking and our assets are invested roughly as the Investletter Portfolio shows and the same as many of you. (We say roughly because the percentages are rounded.) As you are aware I have already sent a letter to the Board of Directors which was met with what appears a lukewarm reception (lukecold is probably more accurate). Sometimes things are better said face to face.



Stoppin' in at the front desk I will be welcomed as another shareholder taking time to attend the annual meeting.

A company's annual meeting includes a formal business portion including content dealing with the voting outlined in the proxy statement. There is usually a presentation by management detailing the performance and developments in the business and time for questions, comments and answers. Boy do we have comments. A presentation has already been prepared that includes much of the content of my previously mailed letter, updated for recent operations and market changes. While I won't be given the chance to make any formal multimedia presentation, I hope to be allowed to speak long enough to complete my comments.

I already know I will not be the only shareholder speaking. I have talked to the company's largest shareholder and his views mirror my own. Both of us favor bold action to help the share price more closely reflect the value of the company. For management to let the share price linger at the current levels without taking actions that will benefit all of the owners is absolutely outrageous. I am not sure of the demeanor of the other gentleman who will speak or the tone he will take, but I know I will be respectful, but extremely critical. To close my comments I will issue a challenge that will verge on an ultimatum. The message will be take action or expect an attempt to make changes. I have not fully decided what the end game will be, but everything is on the table, including a proxy battle to take board seats and eventually force management to reward the owners or be replaced.

There remains the distinct possibility that management will undertake a course of action that will eliminate the need for further actions. This would be the most desirable outcome. My concern is less with the operation of the business than it is with the allocation of capital. Management has proven this year that excess corporate funds are better off in the hands of shareholders. They have made poor investment decisions and earned horrid returns. Managing the business does not require a slush fund to help management avoid looking bad.

Inside this issue:

Subscription	1
Cont.	2
Needless	3
Investletter Portfolio	4
Performance	5

continued

Eliminating it as a crutch they can prop themselves up on will force management to produce better results operationally, which is the true measure of their performance. The investment income does nothing but cloud the picture, obscuring management's true impact on the profitability of the company.

On the way back out the door I am sure I will leave some with visions of delivering a boot in the kiester dancing in their head.

Our time in Billerica (just outside of Boston) will be short, arriving the evening of February 2nd and leaving late afternoon on the 3rd, but we expect our travel costs to be well spent. If the management team does their best to waste our airfare and hotel costs I can assure you my blood will boil. I firmly believe that CSP, Inc. is a worthy investment and placed it in the Investletter Portfolio signaling to all of you subscribers that it is good enough for my money. The current share price doesn't reflect well on my decision. I refuse to let a management team's abdication of responsibility to the owners of the company stand between the current share price and the true value of the company. If nothing else I will function as a major pain in the ass. I suspect that will be the minimum I am able to accomplish.

After much thought the solution I am in favor of goes something like this. First I would like to see a Dutch auction falling somewhere between the range of \$3.10 to \$3.75. If it went into affect tomorrow I would say \$3.20 to \$3.50. Based on pure speculation lets say that the company announced they will buy back up to 500,000 shares and 400,000 shares are tendered averaging \$3.30. It would cost \$1.3 million to buy up those shares, leaving the company with \$17.2 million in cash and investments left. Next would entail a special dividend on the remaining 3.35 million shares of \$1 per share. The Dutch auction would probably result in the share price rising to somewhere around the \$3.20 range causing a modest increase in value for the owners and the special dividend which would cost \$3.35 million dollars would still leave \$13.8 million dollars remaining. At the same time a new aggressive buyback authorization would be announced to continue to take out cheap shares. After the Dutch auction and the special dividend each share would still be backed by \$4.12 cash. Management would still have an oversized slush fund, shareholders would own a greater portion of the company and receive a nice \$1 per share dividend to tide them over.

Management continuing to buy back shares with over \$4 per share in cash behind them for anything near \$3 per share makes a huge amount of sense. Here is the math. Assume management announced a Dutch auction that instead was to buy up half of the shares of the company's currently rounded 3.8 million shares (you know we like easy math). Lets say they can buy all 1.9 million shares for \$3.30. The total cost would come to \$6.3 million. Currently each of the 3.8 million shares is backed by \$4.94 cash. After buying up 1.9 million share the company would have 1.9 million shares and \$12.2 million in cash. Only it would now cause each share to represent \$6.42 dollars of the company's cash. Those investors who have had enough and want to get out would get to do so at a premium to the current price and those willing to stay would have even more assets backing each share.

Sadly we don't think enough shareholders would tender their shares to allow the company to buy up half of the shares. A Dutch auction at a modest premium to the current share price would benefit the remaining owners the most. My proposed solution was based on my guess as to how many shares a Dutch auction could absorb. I would be glad to hear my projections are low.

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The biggest impediment we see to getting anything close to this done is managements lack of alignment with the owners. The CEO does not own even 3k shares of the company. He has sold more than 100,000 shares over the past six years. He will not receive much benefit by seeing the share price rise or a special dividend paid. As a matter of fact it will reduce the amount of money sloshing around to pay his future salary. When stock option programs are implemented to reward management the assumption is that they will amass an ever greater ownership position in the company. When the shares do well managers will see their wealth rise. When they do poorly and the share price drops, they will see a reduction in their wealth. They have a vested interest in seeing to it that the share price rises because they will benefit. The management team at CSP, Inc. has no interest in seeing the owners rewarded because they are extremely small owners. They have chosen not to align themselves with the owners. They do however get paid hundreds of thousands of dollars and it is helpful when millions are sitting around ensuring that they always have enough to get paid.

The Board of Directors may be more useful. One of the five board members owns 350,000 shares. He would benefit greatly by any of the above actions. Directors also are required to act in a fiduciary role with a legal responsibility to maximize the value of the company. Our comments will be directly aimed at getting him aligned with the thirteen plus percent of shares that will be represented by myself and the largest shareholder. If we determine we can count on the this director, over 21% of the shares will share the same sentiment. This is a very powerful position when it comes to forcing changes.

I hope I can count on all of you in the battle to get what we rightfully deserve. Nothing good comes easy. I hate traveling and I have been spending too much time preparing for this annual meeting. At the same time, all of this is overcome when I think about a management team treating the company like they own it even after they have sold all of the free shares given to them. Add to this a board of directors that has failed to force management to remember who they are working for and we have reached the point were action is less painful than doing nothing. So act I will, for me and you.

Company	December price	November price	Change from November	P/E	52 Week High	52 Week Low	Estimated '09 EPS	Dividend Yield
Alico/ALCO	\$40.99	\$34.34	19.37%	n/a	\$50.32	\$22.34	n/a	2.70%
American Pacific/APFC	\$8.05	\$10.14	-20.61%	7.1	\$18.89	\$7.58	\$0.89	n/a
Arbitron/ARB	\$13.28	\$14.03	-5.35%	9.9	\$51.50	\$9.90	\$1.61	3.00%
Arch Coal/ACI	\$17.75	\$15.38	15.41%	6.7	\$77.40	\$10.43	\$2.42	2.20%
Atrion/ATRI	\$97.10	\$96.20	0.94%	13.3	\$133.88	\$63.00	n/a	1.20%
Consolidate Tomoka/CTO	\$38.19	\$34.35	11.18%	16.4	\$61.00	\$24.00	n/a	1.00%
Culp/CFI	\$1.98	\$2.32	-14.66%	9.9	\$8.30	\$1.30	\$0.20	n/a
EDCI Holdings/EDCI	\$3.60	\$4.00	-10.00%	n/a	\$7.30	\$2.17	\$0.10	n/a
Graham Corp./GHM	\$10.82	\$9.10	18.90%	6.8	\$54.91	\$6.85	\$1.62	0.70%
Landauer, Inc./LDR	\$73.30	\$57.42	27.66%	29.0	\$74.51	\$46.82	\$2.67	3.90%
Mesa Labs/MLAB	\$17.35	\$18.49	-6.17%	13.2	\$26.75	\$15.54	n/a	2.30%
Rayonier/RYN	\$31.35	\$33.40	-6.14%	17.5	\$49.54	\$26.58	\$1.82	6.40%
Servotronics Inc./SVT	\$5.52	\$6.80	-18.82%	4.0	\$22.48	\$5.12	n/a	2.70%
Span America Medial Sys/SPAN	\$9.51	\$10.20	-6.76%	6.0	\$13.52	\$8.03	n/a	3.80%
Torm/TRMD	\$10.87	\$11.72	-7.25%	2.6	\$37.97	\$9.73	\$3.32	n/a
Twin Disc/TWIN	\$6.89	\$6.64	3.77%	3.8	\$35.50	\$4.02	\$1.37	4.10%

The Investletter Portfolio

Our initial foray into EDCI Holdings, Inc. proved illusive. The shares kept rising as we tried to buy. With the company valued between \$25 and \$35 million, we have little trouble chasing shares with their huge \$100 plus million cash balance offset by a \$40 million pension liability. It would be great to pick up all of the shares we want at less than \$4.50, but even at \$4.50 the company is a steal. OMI, Corp., the shipping company we owned several years ago was originally purchase at \$2.90 per share. When they were bought out at \$29 the shares had risen 1,000%. It made no difference if we spent \$2.50 or \$3.50 per share by the time the company was acquired at \$29. Either way it amounted to a big gain in price. There are plenty of instances where chasing shares as the price rises does not make sense. In other situations a company may be so undervalued that a small variation in the price you pay will make little difference by the time you sell. Our hope is that this will be an apt description for EDCI at some point in the future.

The company's new CEO happens to be a large shareholders who joined the Board of Directors and has since been named CEO. His compensation arrangement is unique and beneficial for owners. His salary is \$37,500 per month of which \$18,750 is to be paid in cash and the remaining \$18,750 is to be paid in shares of company stock. Each month his wealth will become more and more dependent on the share price of the company. He is also exploring what to do with the excess cash. The company is actively seeking an acquisition, but if nothing suitable can be found, some cash may be returned to shareholders. An acquisition provides a strong opportunity for the company to take advantage of operating loss carryforwards, reducing the taxes paid on future income. Any decent acquisition should be a huge plus for shareholders.

Date	Security	Symbol	Price	Order Type	Qualifiers	% Portfolio or Position	Outcome
01/09/2009	Constellation Energy	CEG	\$26.50-\$26.65	sell	limit	50%	filled
1/2/2009	EDCI Holdings, Inc.	EDCI	\$3.65-\$4.50	buy	limit	5%	filled
12/30/2008	Rohm & Haas	ROH	\$59.75	sell	limit	6%	filled
12/30/2008	CSP, Inc.	CSPI	\$2.65	buy	limit	2.5%	filled
12/18/2008	QLT, Inc.	QLTI	\$2.32	sell	limit	3%	filled
12/15/2008	QLT, Inc.	QLTI	\$2.09	buy	limit	3%	filled
12/03/2008	Constellation Energy	CEG	\$28.00	sell	limit	50%	filled
11/16/2008	Rohm & Haas	ROH	\$73.00	buy	limit	6%	filled
11/14/2008	Anheuser Busch	BUD	\$68.75	sell	limit	n/a	filled
11/10/2008	Constellation Energy	CEG	\$24.05	buy	limit	6%	filled

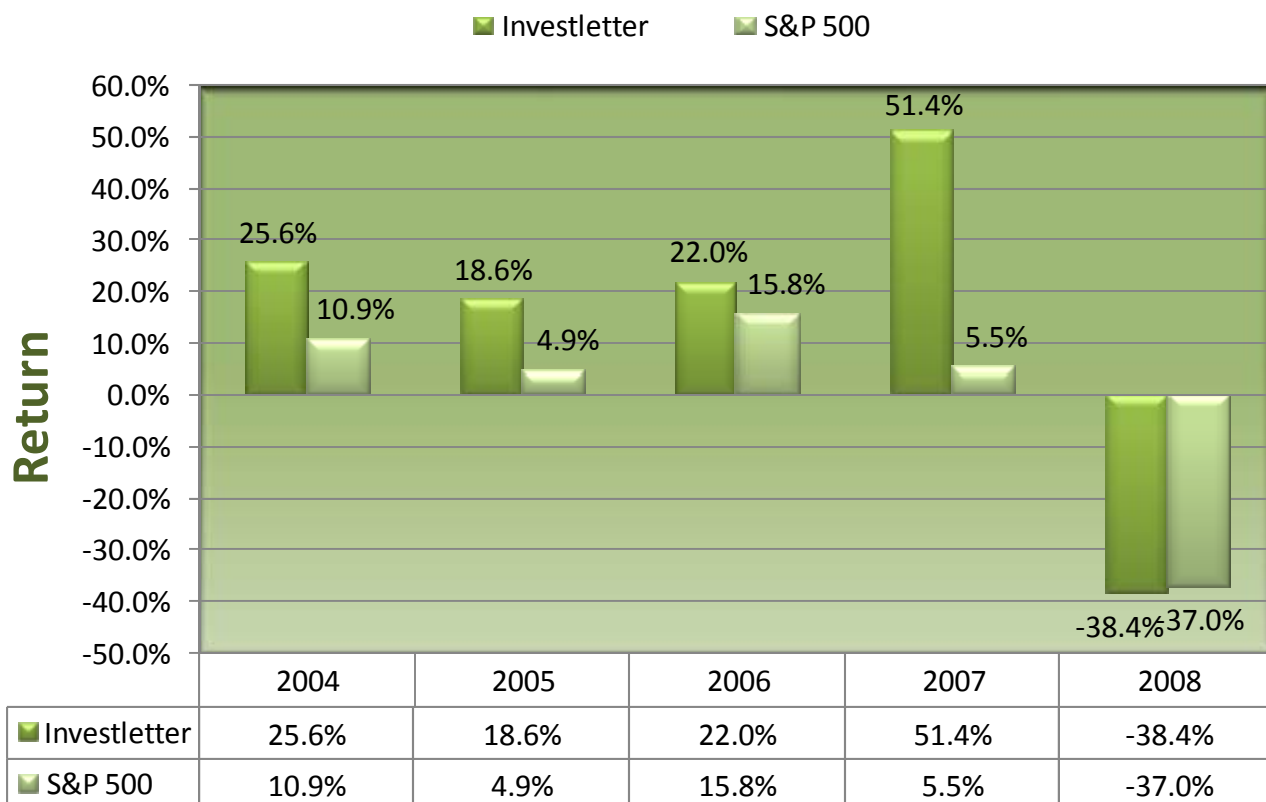
Company	Portfolio Percentage	December price	November Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
American International/AMIN	5.80%	\$1.89	\$2.00	-5.50%	n/a	n/a	n/a
Astronics Corporation/ATRO	14.20%	\$8.90	\$8.10	9.88%	\$8.25	7.6	n/a
Berkshire Hathaway B/BRK.B	7.70%	\$3,214.00	\$3,499.00	-8.15%	\$3,500.00	19.1	n/a
Cash	33.20%	\$1.00	\$1.00	n/a	n/a	n/a	n/a
Chesapeake/CHK	3.90%	\$16.17	\$21.97	-26.40%	\$20.00	5.1	1.70%
Constellation Energy/CEG	3.60%	\$25.09	\$24.47	2.53%	n/a	13.0	7.80%
CSP Inc./CSPI	10.50%	\$2.91	\$2.85	2.11%	\$4.00	5.9	n/a
Gencor/GENC	5.00%	\$6.99	\$7.00	-0.14%	\$6.50	4.6	n/a
K-Tron International/KTII	9.60%	\$79.90	\$71.95	11.05%	\$80.00	8.8	n/a
QEP Corporation/QEPC	6.50%	\$2.81	\$3.03	-7.26%	\$3.50	2.8	n/a

Performance

It was a very disappointing year. Our streak of eight straight years of outperforming the S&P 500 market average has come to a close. In 2008 we fell 1.4 percentage points behind the return of S&P 500 market average. Over the first five years we have published the newsletter our cumulative return is 69.5% far outdistancing the S&P 500's -10.5% return. It still leaves us short of our goal of doubling our money every five years. Our response is going to be a short subscription holiday. We are extending each subscribers subscription by 6 months.

It is our response to tough economic times and investment accounts that have taken a beating. We begin each year with goal of outperforming the market and this year is no different. As in our lead article, we are hitting the road to help bolster our portfolio. A flurry of research activity has yielded a promising new investment in EDCl, Holdings giving us three companies with huge cash and investment holdings in relation to their market value. These actions along with our attempt to rapidly assimilate what we feel is the new economic reality are all aimed at getting us back on track in 2009.

Year End Return vs. S&P 500 (as of 12/31/08)



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