

INVESTLETTER



Volume 6 Number 6

Bored (sic) of Directors

Wall Street:

- DJ 11350
- S&P 500 1280
- NASDAQ 2293

Shareholder activism is one of the ways investors can try and exert pressure on a company to make changes aimed at increasing shareholder value. Theoretically the Board of Directors are the representatives elected by the shareholders to oversee management. In practice it often doesn't work out this way. What recourse do shareholders have? There are three avenues that can be used to address grievances; shareholder resolutions put forth as proposals to the proxy statement, letters and phone calls to management and proposing directors or a slate of directors to replace the current directors or Board of Directors.



Beginning in earnest in the 1980's, shareholder activism has increasingly been a part of corporate oversight. While there are still many restrictions that tilt the balance of power in favor of the companies, slowly individual investors are demanding the playing field be leveled. Regulatory changes like regulation FD that said any material information released to any person needed to be released to all investors. Formerly CFO's could whisper forthcoming financial results to analysts and the SEC would look the other way.

Nice work if you can get it. Each of the CSP, Inc. non employee directors made between \$42,000 and \$47,000 for part time positions.

There has been a groundswell of activity to get more access to the proxy to be able to have opposing candidates put up against management's candidates for election to the Board of Directors. The US is behind much of the world in allowing corporate elections to proceed in this manner. Currently American publicly traded companies have corporate elections that are less democratic than many European countries. As it stands now, management does not have to allow any opposing candidates access to the proxy statement. The only way around this is for opposing candidates to produce their own proxy statement to propose their own slate of directors. This can be accomplished for about \$15,000 to \$20,000 and there is no guarantee of success. The shareholders that are charged with electing the directors have no say in who those candidates are without the willingness to put up the cash necessary to present their own slate. What you are instead presented with is candidates friendly to management running with no opposition. Not exactly democratic.

Due to the large expense, many small investors resort to shareholder proposals and letters and phone calls that cost much less. The big drawback to these two methods is you have no guarantee that you will even get a response to your phone call or letter and shareholder proposals are often defeated by wide margins. The reason are several and we do not plan to delve into them in this article.

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Watch List

After further analysis Schuff International (SHFK) has turned out to be an excellent investment candidate.

With so few shares trading hands, the liquidity issue is concerning. It may make it difficult to take a position in the company due to the liquidity issue. Management has twice tried to take the company private over the past few years, the last time in 2006. Their last attempt was at a bargain price and needless to say it was not successful. The share price is up over 200% since that attempt. Each time they fail the price rises and any future attempt forces management to offer more.

They are a publicly traded company that wishes they were private. Schuff is owned by several members of the Hill family. In 2005 the company delisted from the American Stock exchange and now trades over the counter (OTC). Trading OTC is a signal of enhanced risk. That alone is not enough to scare us off, especially since the company trades at rock bottom prices. This is exactly the type of opportunity we look to uncover.

Without being listed on an exchange the company doesn't have to follow the rigorous accounting and reporting rules that listed companies do. This makes information tough to come by and even lacking. Because of all of these factors buying a position in SHFK is akin to being the minority owner in a private business, a notoriously difficult spot to be in.

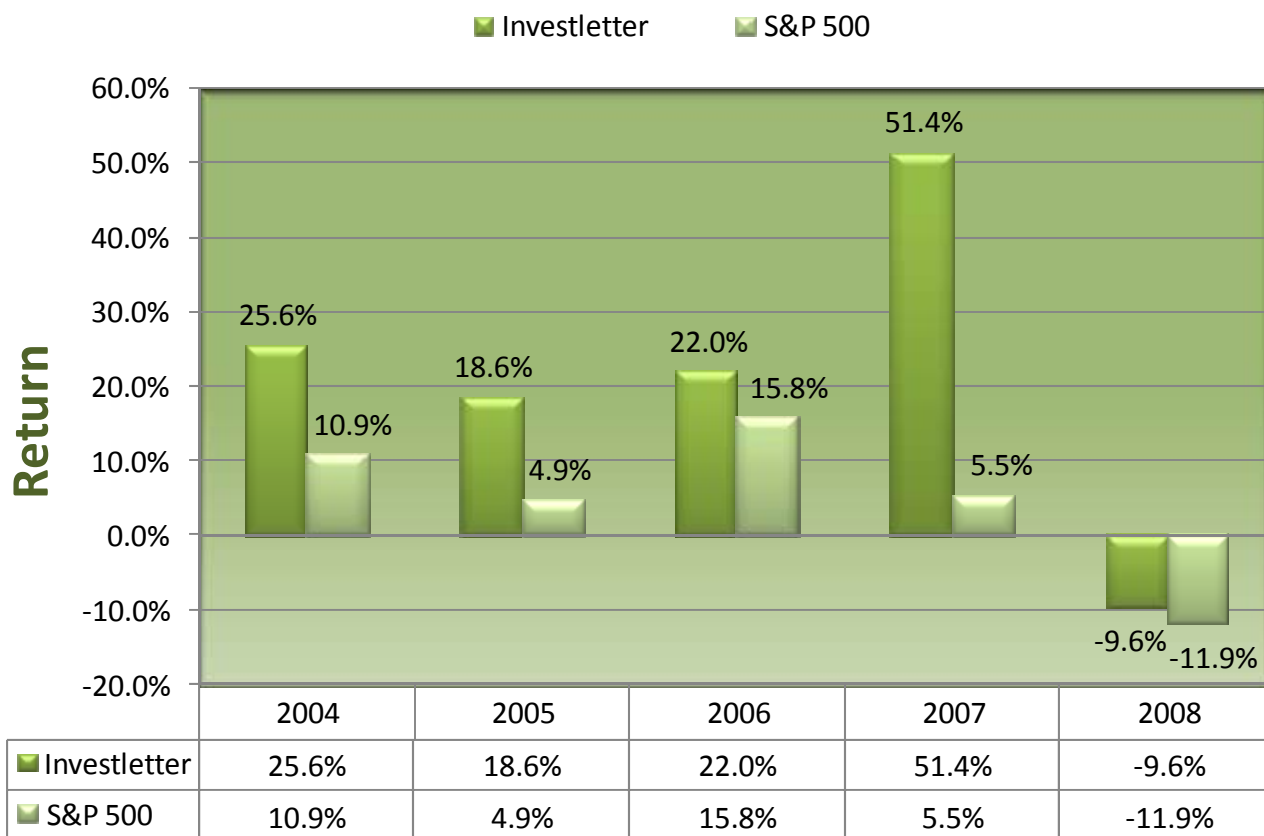
Even though this company meets all of our criteria from a financial standpoint we are not going to make an investment in SHFK at this time. The company is growing so fast that they may change their strategy and decide they again want to operate like a publicly traded company. We would be glad to become owners in the nice little business. Although with over \$600 million in revenues (and big juicy 8% net profit margins) they aren't really that small. They just act like it.

Company	June price	May price	Change from May	P/E	52 Week High	52 Week Low	Estimated '08 EPS	Dividend Yield
Alico/ALCO	\$34.36	\$39.93	-13.95%	n/a	\$55.29	\$33.14	n/a	3.00%
Alliant Techsystems Inc./ATK	\$101.68	\$108.56	-6.34%	15.9	\$120.90	\$95.00	\$7.39	n/a
American Pacific/APFC	\$17.24	\$16.95	1.71%	14.7	\$19.20	\$12.51	\$1.16	n/a
Arch Coal/ACI	\$75.03	\$64.91	15.59%	32.5	\$77.40	\$27.76	\$2.66	0.60%
Culp/CFI	\$7.02	\$7.20	-2.50%	16.0	\$12.19	\$6.12	\$0.51	n/a
Gencor/GENC	\$10.44	\$14.35	-27.25%	6.6	\$32.88	\$8.50	n/a	n/a
Graham Corp./GHM	\$74.11	\$68.44	8.28%	26.0	\$76.50	\$20.33	\$3.37	0.10%
St. Joe Company/JOE	\$34.32	\$38.38	-10.58%	53.0	\$46.82	\$26.70	\$0.82	1.90%
Landauer, Inc./LDR	\$56.24	\$59.81	-5.97%	27.1	\$62.83	\$45.50	\$2.46	3.40%
Mesa Labs/MLAB	\$24.00	\$20.10	19.40%	14.9	\$27.00	\$17.90	n/a	1.90%
Schuff International/SHFK	\$28.90	\$28.00	3.21%	4.0	\$35.00	\$21.00	n/a	n/a
Servotronics Inc./SVT	\$15.00	\$15.89	-5.60%	12.6	\$22.48	\$9.55	n/a	0.90%
Span America Medial Sys/SPAN	\$11.25	\$12.01	-6.33%	10.6	\$27.66	\$9.88	n/a	3.20%
Tejon Ranch Co./TRC	\$36.06	\$39.91	-9.65%	n/a	\$47.72	\$30.26	\$0.49	n/a
Torm/TRMD	\$35.01	\$33.08	5.83%	8.6	\$47.10	\$26.52	n/a	12.70%
Twin Disc/TWIN	\$20.93	\$19.00	10.16%	11.4	\$37.78	\$12.07	n/a	1.30%

The Investletter Portfolio

Company	Portfolio Percentage	June price	May Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
American International/AMIN	6.90%	\$3.89	\$3.71	4.85%	\$3.50	n/a	n/a
Amtech Systems/ASYS	6.80%	\$10.74	\$9.85	9.04%	n/a	33.56	n/a
Asta Funding/ASFI	2.70%	\$9.06	\$8.17	10.89%	\$10.00	4.0	1.90%
Astronics Corporation/ATRO	12.00%	\$13.91	\$17.43	-20.20%	\$13.80	10.9	n/a
Atrion/ATRI	6.20%	\$95.82	\$108.50	-11.69%	\$93.00	13.1	1.00%
Berkshire Hathaway B/BRK.B	6.50%	\$4,012.00	\$4,498.00	-10.80%	\$4,000.00	15.6	n/a
Cash	14.10%	\$1.00	\$1.00	n/a	n/a	n/a	n/a
Chesapeake/CHK	10.80%	\$65.96	\$54.77	20.43%	\$40.00	16.2	0.50%
CSP Inc./CSPI	7.30%	\$5.95	\$5.88	1.19%	\$5.70	8.4	n/a
K-Tron International/KTII	10.60%	\$129.60	\$136.78	-5.25%	\$90.00	16.8	n/a
Protein Design Labs/PDLI	0.40%	\$10.62	\$10.25	3.61%	n/a	14.4	n/a
QEP Corporation/QEPC	7.40%	\$5.62	\$7.35	-23.54%	\$5.60	9.2	n/a
Rayonier/RYN	8.30%	\$42.46	\$47.46	-10.54%	\$41.00	18.7	4.70%

YTD Return vs. S&P 500 (as of 06/30/08)

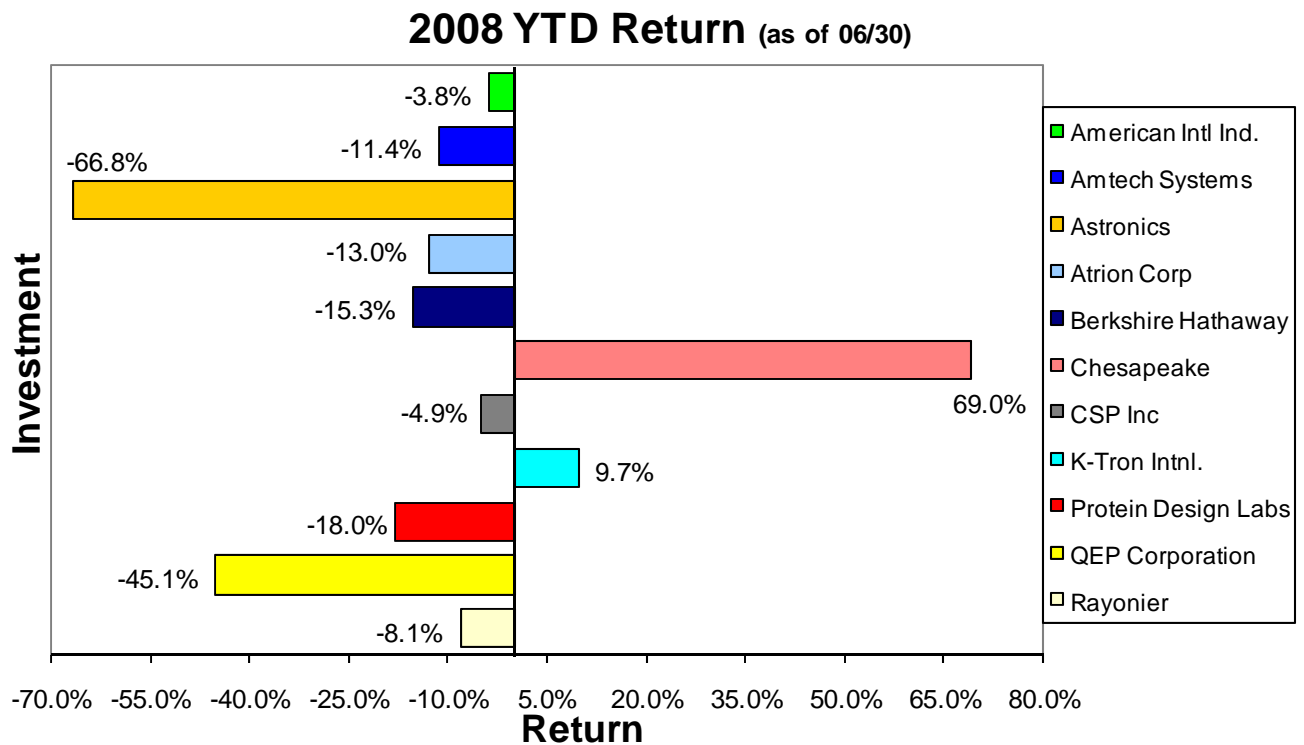


Performance

What is better than a one hit wonder? A two hit wonder. The only thing saving our bacon this year is the performance of Gencor and Chesapeake. Without those two positions our performance would be abysmal instead of poor. At the same time we are keeping ahead of the S&P 500 average by a slim margin. QEP, Co. reported excellent earnings a couple of weeks ago and saw their stock price barely move. Astronics will report soon and has had solid results and seen no slow-down in their orders, yet the share price has been treated as if the company is floundering. It is not uncommon to see small companies have their share price decimated in bear markets.

American International has distributed their 20% stock dividend and the special dividend that they will distribute consisting of shares of their subsidiary is still pending. I expect it to happen in the next month. K-Tron reported awesome earnings and the share price moved up modestly. So outstanding performance is rewarded with lackluster results and average results can be the catalyst to steep price declines. It is nothing we have not seen before.

There are very few companies we own that we are concerned about paying too much for if you were to be a buyer currently. Most are selling at bargain prices. It is the stock markets gift to us to ensure we get plenty of opportunity to buy low. Which we have been, as you can see from our declining cash balance.



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