The Commonsense

INVESTLETTER

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Wall Street

- DJ 10542
- S&P 500 1199
- NASDAQ 2076

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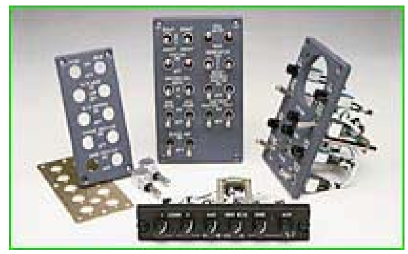
ATRO Update

I spoke with Astronics CFO at last month's annual shareholders meeting. I was interested in whether their recent acquisition of Airborne Electronic Systems (AES) would have any negative goodwill in the consolidation. The price was so low compared to the value of the assets acquired that I thought it was a possibility. Astronics CFO, Dave Burney, was very helpful and seemed to enjoy talking about Astronics and several other topics we covered. It was no surprise he was helpful because that seems to be part of the culture at Astronics. I have attended several of their annual meetings and their Chairman is also very down to earth and extremely easy to talk to and genuinely interested in speaking with shareholders. My time spent speaking with the CFO was very well spent. Here is what I learned.



A few of Astronics cockpit lighting panels.

When negotiating the deal the company was originally one of five bidders. After investigating the financials, Astronics was the only bidder left. Originally they bid $25 million before investigating the company's books. They eventually paid $13mm after they new they were the only bidder left. The CFO mentioned that they felt that the employee(s) negotiating the deal had an ultimatum to get rid of AES. AES had been acquired as part of another company that General Dynamics had bought several years earlier. AES was a small subsidiary of the company that was bought. It was felt that AES was not in General Dynamics long range plans and that this is what led General Dynamics to dispose of them.

With these facts in mind Astronics felt they could play hardball seeing they were the only bidders left. After spending some time talking down the value of the company they threw out what they thought was a real lowball offer and it ended up getting accepted. AES 's parent company (before the acquisition by General Dynamics) was the company that interested General Dynamics.   This made AES expendable. Astronics happened to be in the right place when the right series of events unfolded. In the last earning report the benefits of this acquisition can already be seen. Even better results are expected later in the year.

I even got an answer to my original question. There probably will not be any negative goodwill which also means there will probably be very little goodwill. Astronics could have a small write down of in process research and development in the second quarter (which would reduce earnings in the quarter), but this is not much concern to us.

Overall Astronics appears very well situated for rising profits over the next several years. The recent run up in share price is likely the start of a nice trend. It has been a long wait for the rebound in the aerospace industry and it feels good now that it is here.

Watch List

In the past month we have made several changes to the stocks that we are following. We have removed Gentex, Genentech and CFC International. Gentex is in the automotive industry and has become a mature business. We love the management but have been waiting for years to get a good price and have given up hope. CFC announced that they have been bought for something close to $19 per share. What is unique is that the shares were trading over $24 at the time the deal was announced. You don't see too many deals announced for less than the shares are trading at but it does happen. In this case it was a pretty good deal for their shareholders. Genentech has seen their share price sky-rocket. They are a darling stock on Wall Street currently and probably will be for some time. We will apply our efforts to smaller companies who have not yet had their day in the sun.

We have added two companies. One, Culp (CFI), is a pick straight from the gutter. The company makes furniture upholstery and mattress ticking (the fabric that covers mattresses.) With rising imports and a recent preference for leather and sueded fabrics Culp has seen a sales drop that has caused them to lose money the past year. Management has undertaken an aggressive restructuring and has said that they will do what it takes to return to profitability. We like them because they are selling so cheap that they are worth more dead than alive. If the company were to close and be liquidated we probably would risk losing little money. Another bright note is in the fact that the company will have about $280 mm in sales this year. Buying a company for $45 mm with healthy sales and a sufficient amount of assets puts the odds in our favor. The company should have healthy cash flow numbers next year and we should reap the benefits.

We also are adding Gencor Industries (GNCI) a company that makes asphalt plants. This business is reasonably profitable. What we really like is that the company has an interest in two partnerships that pay out large amount of cash for synthetic fuel production relating to coal which qualifies for IRS alternative energy tax credits. GNCI has received over $30 mm in cash so far this year. The tax credits are set to expire at the end of 2007 which leaves plenty of time to rake in loads of cash. With over $27 mm in cash and securities the company is a bargain selling for $80 mm.

Company	Current price	March price	Change from Mar Month	P/E	52 Week High	52 Week Low	Estimated '05 EPS	Dividend Yield
Altria Group, Inc./MO	$68.00	$64.38	5.62%	13.2	$68.50	$44.50	$5.16	4.23%
Allergan/AGN	$78.16	$70.41	11.01%	24.4	$92.23	$66.78	$3.20	0.49%
Bioanalytical Systems, Inc./BASI	$6.11	$9.40	-35.00%	n/a	$10.37	$3.79	n/a	n/a
Culp /CFI	$4.00	$5.90	-32.20%	n/a	$8.55	$3.83	($0.34)	n/a
Fresh Del Monte Produce/FDP	$29.63	$30.18	-1.82%	12.1	$33.94	$23.45	$2.43	2.70%
Gencor Industries/GNCI.OB	$9.30	$7.40	25.68%	44.3	$10.40	$6.60	n/a	n/a
The St. Joe Co./JOE	$75.26	$67.07	12.21%	45.4	$76.19	$37.16	$1.67	0.73%
Landauer, Inc./LDR	$49.30	$48.22	2.24%	22.8	$50.30	$39.55	$2.13	3.38%
Paychex, Inc./PAYX	$29.55	$32.64	-9.47%	31.1	$38.88	$28.83	$0.95	1.73%
QLT Inc./QLTI	$10.25	$12.53	-18.20%	16.6	$24.08	$10.07	$0.71	n/a
Rayonier/RYN	$53.01	$48.56	9.16%	23.9	$54.29	$40.15	$2.23	4.26%
Sanderson Farms/SAFM	$38.10	$41.77	-8.79%	9.3	$55.18	$30.81	$4.02	2.33%
Tejon Ranch Co./TRC	$50.95	$44.00	15.80%	n/a	$55.90	$32.12	n/a	n/a
USG Corporation/USG	$47.53	$31.80	49.47%	7.1	$47.53	$13.76	$6.16	n/a
The Washington Post Co. /WPO	$838.50	$884.50	-5.20%	22.8	$999.50	$805.00	$36.68	0.86%

The Investletter Portfolio

The chart below shows our investments and the proportion of our portfolio they represent. As you can see we are heavily weighted towards three stocks. This is considered extremely risky by the popular investment community. We feel perfectly comfortable with it. To achieve the same returns we will receive, you can buy all of the stocks we own in roughly the same proportion. After one year of considering how best to invest in the Investletter Portfolio we have decided that it is best to just invest in all of the stocks we recommend immediately without picking and choosing. The buy price can serve as a target to guide you as to how we feel the shares are priced compared to what the company is worth and used in making short term purchasing decisions. Some of the stocks that have traded below our buy price for the past year have been some of our worst performers. So much for being able to predict short term price actions. Long term our accuracy is much better.

This month we continue the theme of making drastic portfolio changes. Selling Consolidated Tomoka has turned out to be a double edged sword. Shares have climbed to a price were we feel they are fully valued. Unfortunately, we missed out on a healthy rise from the level we sold at. On a more encouraging note we have been able to redeploy some of the proceeds in companies with distressed prices that should allow for healthy gains as we move forward. Some of this cash has been used to buy shares of Culp and Gencor who we mentioned on the previous page.

You may also have noticed that the number of positions we have has been growing. We now own eleven companies. This is a reflection of the lack of any sure bet superstar like we had with Consolidated. Shares of recently added Alico come close but the risk that they could be taken private could wreck much of our fun. We do like some of the small companies we have added but they are inherently more risky due to the nature of their business situations.

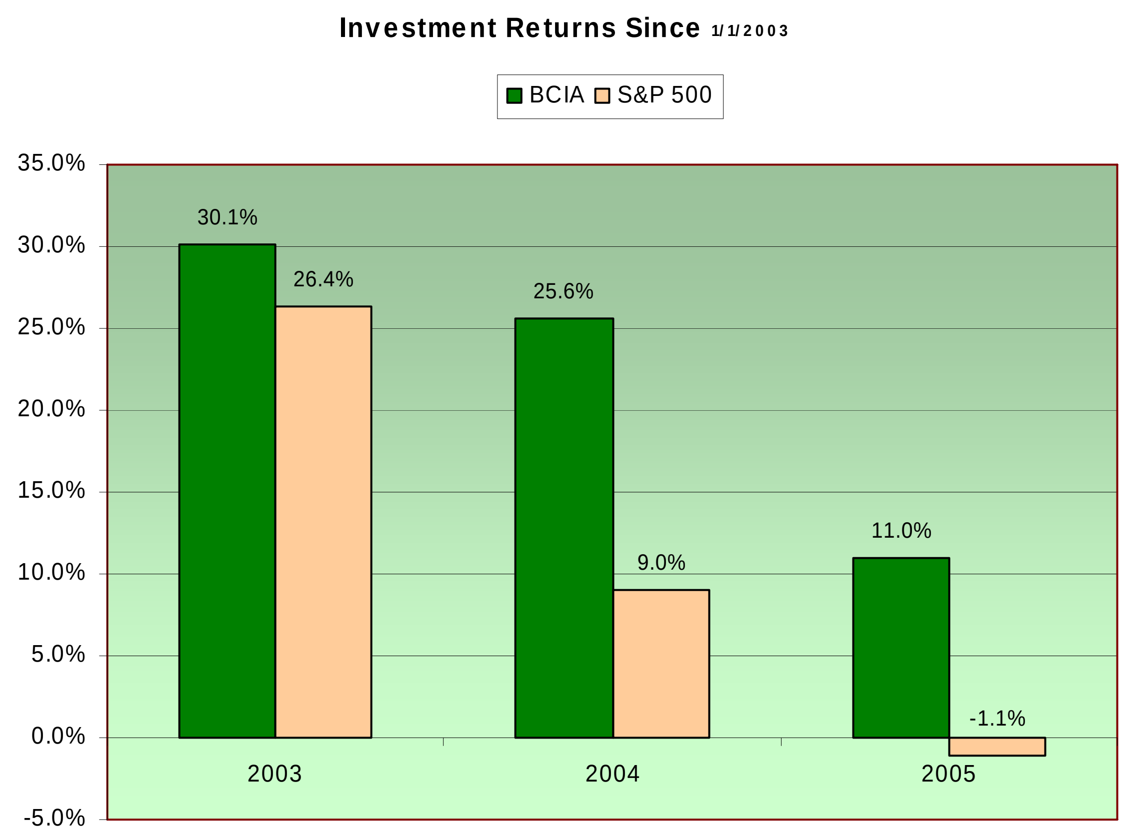
Below you will see that PetroKazakhstan has had their price hammered down some more due to restrictions on their production activity. It is anticipated that it will take at least a year to return back to their recent production levels. Fortunately it appears that the oil sitting in the ground will not lose any of its value over the next year. You will also see that Astronics has continued its recent strength.

Here is our near term plans. We have no problem sitting on are healthy cash level; don't expect it to be reinvested too quickly. With that said we are interested in increasing our ownership in Astronics. We are just waiting for the right price. Hopefully shares can be had for something near $7. Two other companies have caught our interest and we may add shares in the near future.

Company	Porfolio Percentage	Current price	March Price	Percentage Change	Buy Price (less than)	P/E	Dividend Yield
Alico/ALCO	9.90%	$49.93	$52.19	-4.33%	$50.00	61.3	n/a
Amgen/AMGN	4.20%	$62.85	$59.14	6.27%	$60.00	21.8	n/a
Astronics Corporation/ATRO	5.80%	$8.03	$7.20	11.53%	$7.00	n/a	n/a
Berkshire Hathaway B/BRK.B	18.80%	$2,840.00	$2,880.00	-1.39%	$3,050.00	18.4	n/a
Cash	35.30%	$1.00	$1.00	n/a	n/a	n/a	n/a
Cell Genesys, Inc./CEGE	2.80%	$5.88	$5.12	14.84%	$9.00	n/a	n/a
Culp/CFI	1.40%	$4.19	$5.90	-28.98%	$4.15	n/a	n/a
Gencor/GNCI	1.50%	$9.25	$7.40	25.00%	$9.25	43.2	n/a
Kensey Nash	5.40%	$27.17	$27.31	-0.51%	$26.50	24.4	n/a
OMI Corporation/OMM	10.90%	$19.40	$19.19	1.09%	$18.00	6.4	1.60%
PetroKazakhstan	2.70%	$27.62	$38.49	-28.24%	$41.00	4.3	2.53%
Protein Design Labs/PDLI	1.30%	$19.39	$16.75	15.76%	$18.75	n/a	n/a

Newsletter Performance

Over the past almost two and a half years the S&P 500 has had much better results than in the three years preceding this time frame. In the three years prior to the results you see below, the S&P posted negative returns. Money invested in the S&P over the time frame in the graph below would have resulted in a cumulative gain of 36.3 %. Over the same time frame we have performed much better. These numbers offer no guarantee of what the next three years will look like but we can only hope they look similar. It is highly unlikely. Over the time frame shown below we have earned a phenomenal 81.4%. In this short of a time frame, these results are practically meaningless. The only results that will matter are the ones we have not yet achieved (our future results.) Our portfolio has undergone some changes to help put us in position to continue our streak of outperforming the S&P average. We need continued strong performances from some of the battered down stocks we have been buying. In the meantime we will search for those rare companies that are selling for a low price and exhibit near can't miss prospects.



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