



July 18, 2008

Investment Letter

K-Tron International, Inc. (NASDAQ: KTII)

**Executive Summary:** Without K-Tron International's measuring and weighing machines we would find it hard to have the highly predictable, virtually guaranteed, olfactory, sensory, gustatory, and intensely pleasurable and gratifying experience of consuming a Hershey's Milk Chocolate with Almonds (The Hershey Co., NYSE: HSY). (Most of us call this chocolate snack the Hershey bar with almonds.)

**A Story: The writer awakes to the meaning of 'uniform'.**

How the writer, fatigued by freeway driving and New York City traffic congestion and trying to overcome the demon of negative thought, was thrilled to see the Golden Arches where he knows a cheap pick-me-up awaits him. The author makes a quick exit from the highway and finds McDonald's (NYSE:MCD) where he purchases a large cup of strong coffee. As the caffeine works its magic, priming his hypothalamus, his mood is energized and he discovers, as he considers the word 'uniform', that there are many positive attributes to this wonderfully multi-dimensional word.

(The writer avoids Starbucks because he knows he can not correctly pronounce grande, latte, and other basic words that would identify him as a true Starbuckian, and because of these transparent shortcomings, he knows that he would be humiliated by the snooty baristas at this upscale coffee mecca who enjoy one-upping customers in the game of coffee lingo.)

Bronx, New York, Tuesday, March 18, 10:30 A.M.

I am driving in New York City traffic, maneuvering my Hertz rental car north on the FDR drive in Manhattan, heading toward the Triborough Bridge, and then into the Bronx and into Connecticut and Massachusetts, and ultimately to Deerfield Academy in Deerfield, Massachusetts where I was to stay for a couple of days at the Deerfield Inn to escape the noise and congestion of New York. It was spring vacation at the school, there would only be a few hundred people in the town, and I could take long walks and enjoy the peace and quiet of a beautiful one street town before returning to New York City, where I had some business to do, before coming back to Tulsa.

I have gone through the toll gates at the Triborough Bridge and I am now moving slowly through the Bronx, driving on Interstate 278 (the Bruckner Expressway), one of many thoroughfares in New York City that can not make up its mind about whether it ought to be a residential or a commercial or an industrial pathway. Apartment buildings, offices, and factories line up in no particular order with an obvious lack of aesthetics and an aggressive defiance of many conventional building codes, a defiance that, if not peculiar to New York City, is still rare in the United States. (I suppose that as the world becomes more sensitive to carbon emissions and as residential and commercial property owners become more vigilant, there will be tougher enforcement of building codes and less building hodgepodge in cities.)

I shortly came upon a series of Soviet bloc type buildings on both sides of the highway, massive structures planted or situated one after the other. With the placement of the windows and the presence of balconies it was a good guess that these were apartment buildings, but their size and their appearance (dirty brown brick with the face of every floor uniform and stark) suggested an institutional, almost fortress or prison like appearance.

In Manhattan, where I had been driving just twenty minutes ago, huge apartment buildings had lined the west side of the FDR drive but here in the Bronx the buildings were even more massive, and hence more intimidating and formidable. Maybe because there was a greater number of buildings in the Bronx and because they were even closer to each other than they were in Manhattan and, maybe because the Bronx buildings were all at the same angle to the road, it looked as if the Bronx buildings were larger, more formidable, and more of a presence than their Manhattan counterparts.

The massive monotony of the rows and rows of the Bronx buildings disturbed and fascinated me, leading me to guess what really went on in the buildings and who their residents might be. I imagined that if I were to exit the highway, approach one of the buildings, stop the engine, get out of my car and walk up to the front door, I would find myself in an environment that would remind me of George Orwell's *Nineteen Eighty-Four*, an environment of suffocating conformity and pervasive propaganda, where “War is peace, freedom is slavery, and ignorance is strength.” (1)

On every floor a **Big Brother** representative would monitor behavior and thinking, doing everything he or she could to discourage any action or thought that might be considered nonconformist, or could violate the **uniform** thinking that Big Brother encouraged.

Above the entrance to the building, I guessed, would be a sign indicating that the building was **Big Brother Number One**. The pictures of **Big Brother** floor representatives or lieutenants would appear in the lobby directory along with the pictures of all the other residents, with all residents dressed in the required grey **uniforms**. The pictures of all the **Big Brother** lieutenants seemed especially fearsome, with each one looking large and unfriendly, almost as if each one had once played tackle for the **University of Oklahoma** football **Sooners**, and had had their picture taken, at the height of their ferocity, that is just before they were about to make a critical tackle in the **Cotton Bowl** during the annual **Texas- Oklahoma** showdown. (2)

The residents' pictures, I imagined, would suggest that all the residents, once they had moved into the building, might have been thrown into a vat, with any differences in their physical composition homogenized into a smooth docile blend. There would be no dissent, no departure from conventional behavior or thinking. No behavior and no thinking would be tolerated if **Big Brother** had not approved of such. Or to use the soporific language of today's **Big Brother** like bureaucracies, **Big Brother** must **preapprove** all behavior and language.

Footnotes:

(1) *Nineteen Eighty-Four*, A Novel, page 16, First Plume Printing (Centennial Edition, May 2003)

(2) The scene is London, where there has been little new housing since 1950 and where the city-wide slums are called **Victory Mansions** by **Orwell** in his book, *Nineteen Eighty-Four*. **Orwell** captured the physical decline of much of London's postwar housing, but he also had insight into the bureaucratic and **Big-Brother** like **preapproval** system that ruled the repair syndrome.

**Victory Mansions** were old flats, built in 1930 or thereabouts, and were falling to pieces. The plaster flaked constantly from ceilings and walls, the pipes burst in every hard frost, the roof leaked whenever there was snow, the heating system was usually running at half steam when it was not closed down altogether from motives of economy. Repairs, except what you could do for yourself, had to be sanctioned by remote committees which were liable to hold up even the mending of a window pane for two years.

*ibid.* page 21

**Big Brother**, in fact, preferred that all residents be in **uniform** at all times----you could even buy **Big Brother** sleepwear in the building's store, along with **Big Brother** workout clothes and even suits at the in house **Big Brother Bonanza Republic store**.

The **uniforms** that **Big Brother** required the residents to wear, night and day, would have all the trappings of **uniformity** and conformity, including bar codes which, when read, could tell the curious, or the officious, which building each resident lived in, and on what floor, and in which unit., and the longevity of their membership in the **Big Brother Club**.

As I thought about what might go on in the building I faced I realized, as a person who was trained to be skeptical of the value of conventional or conformed behavior and **uniform** thinking, that I was glad that I did not live in this Bronx monolith.

### **K-Tron International, Inc.: Business Summary**

**K-Tron** machines are indispensable in the creation of brand name foods and pharmaceuticals.

**K-Tron** designs, engineers, and manufactures mixing and pouring machines, machines that work either by gravity or by volume. (The company calls these gravimetric or volumetric machines.) Precisely measuring and weighing all ingredients, **K-Tron** machines move ingredients from one container or vessel to another during the manufacturing or production process, doing this work for consumer goods and for pharmaceuticals. **K-Tron** machines assure that the same ingredients, in the same proportion and with the same weight, go into each unit, assuring a product with virtually one hundred per cent consistency, or one of supremely **uniform** character.

**K-Tron** machines play an indispensable role in the creation of high quality **uniform** products, whether this work is done for cereal, aspirin, ibuprofen, tortillas, bread, or for thousands of other consumable goods that manufacturers guarantee to be of high quality, time after time.

It felt good as an escape from the tedium of the expressway to link the Bronx buildings on my right to **George Orwell's Nineteen Eighty-Four** and the enforced conformity (to use today's jargon it would be **rule-based** or **police-based** conformity) that the novel had made famous. (In reality of course the residents of the Bronx buildings enjoy much more freedom than did **Winston Smith**, the hero of **Nineteen Eighty-Four**.)

I could not shake the impact of the word 'uniform.' Perhaps, I wondered, was a recent **Wal-Mart** (NYSE: WMT) experience the reason for my focus on 'uniform'?

### **THE WRITER FINDS HIMSELF IN A WAL-MART SUPERCENTER AND UNDERGOES A SURREALISTIC EXPERIENCE**

I recalled that I had visited a **Wal-Mart Supercenter** in February in Tulsa at Eighty First Street and Lewis Avenue. Once I had negotiated the huge parking lot and had smiled at the greeter, I trudged up the aisles, observing the employees moving down the aisles, energetically loading detergent, paper goods, and cereal onto the shelves, or arranging all the items into aesthetically pleasing rows.

It was, however, the **blue vests** that the employees wore that got my attention, making me silently wonder whether **Wal-Mart** was what **Orwell** had envisioned in his **Nineteen Eighty-Four**. Each jacket bore the inscription or greeting stenciled on the back, "How May I Help You" over a symbol of a **manufactured smile** as if an overzealous plastic surgeon, intent on removing any signs of age or wear

and tear from the smile, had also inadvertently removed any warmth or sincerity that the smile may once have had. “How May I Help You” had become a compulsory corporate expression.

The blue vests seemed to speak ironically. With the message placed on the back of the uniform, the employees seemed to be saying that we do not have time to say hello in the polite way by turning around and facing the customer. We have our backs turned to you, the greeting seems to say, because we are too busy or too indifferent to turn around and show a real smile to you, our guests.

The blue vests seemed to be the essence of the corporate culture. It was not enough that the employees had to wear a uniform, but they also had to surrender their ability to be creative with speech and self-expression by having the corporation script their greeting to them. Wal-Mart was telling their employees what to say and how to smile.

Wal-Mart had usurped a basic means of creativity and self-expression, and had begun to speak for its employees, imposing the style and the words that an employee (according to Wal-Mart employees are associates but I cannot see the difference) must use to say hello or otherwise to interact with the customers (when we are customers at Wal-Mart we are known as guests).

With my thinking becoming unproductively cynical, I knew that I had been up too long and that I was fatigued. In my subconscious I searched for an answer, as Guy Noir, the eccentric detective who appears often on A Prairie Home Companion, says to “life’s persistent questions.” My persistent question, at least at the moment, was simple. What was the cheapest, the fastest, and the least complex answer to fatigue. The answer? Coffee.

Coffee was cheap, easily available, and refreshing, I knew, and it promised immediate impact and reward, as I spotted with great excitement a sign promising the close presence of the Golden Arches. Coffee, especially as McDonald’s brews it---dark and strong--- might change my attitude, might stimulate the hypothalamus.

I got off at the next exit. Less than half a mile away were the Golden Arches. I pulled into the drive through lane and I approached the menu board. Within ten seconds I heard “Welcome to McDonald’s, may I take your order?” I chose coffee (Large), no cream, no sugar. I paid for the coffee, and within a few minutes I was back on the highway, taking advantage of one of the twentieth century’s greatest inventions: the car cup holder, into which I had placed my steaming cup of McDonald’s coffee, with the styrofoam cup warning me that its contents were HOT.

The McDonald’s coffee perked me up, elevated my mood, and gave me enough energy to make me want to examine or question my negative feelings toward certain words, especially ‘uniform’, a word that, earlier in the morning, and without sufficient caffeine, had struck me as one dimensional and negative. Now I was ready for the positive in ‘uniform’, and for the word’s many different dimensions, many of which, I now thought, could be uplifting.

Who could deny, for example, the uniform efficiency of each Wal-Mart store and the uniform efficiency of every aspect of the company’s operations, a uniformity that relentlessly drove down prices and had been an important factor in checking inflation for many years in our economy?

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## K-Tron International, Inc. (NASDAQ: KTII): Investment Thesis Why Uniform is Good

A Hershey chocolate bar with almonds must contain milk chocolate, that is sugar, milk, chocolate, cocoa butter, lactose, milk fat; soy lecithin and PGPR; emulsifiers; vanillin and artificial flavor; and almonds in virtually the exact proportion as the bar that preceded it, and the bar that followed it, along the conveyor belt.

I recall a trip I took to the Hershey factory in Hershey, Pennsylvania. I watched as the almonds fell into the chocolate. If any bar looked markedly different, a man or a woman in a hairnet and gloves would scoop up the bar and discard it. There was no compromise with **uniformity**.

The Hershey bar sold in Cedar Rapids, Iowa must have the same feel in the hand, the same taste, the same look, the same feel in the mouth or **mouthfeel** as the Hershey bar sold in Stuttgart or in London, or in Miami. The bar must conform to one standard and to be **uniform** in every respect.

The same would be true of Kellogg's Corn Flakes (Kellogg Company, NYSE: K) with its reassuringly predictable mixture of corn flakes and sugar, and other ingredients: milled corn, sugar, malt flavoring, high fructose corn syrup, salt, iron, niacinamide, sodium, ascorbate and ascorbic acid (vitamin C), pyridoxine hydrochloride (vitamin B6), riboflavin (vitamin B2) thiamin hydrochloride (vitamin B1), vitamin A palmitate, folic acid, vitamin B12 and vitamin D, and bht, which the company adds to the packaging to keep the contents fresh.

The cereal's many ingredients must be mixed in the same proportion, box after box. It is a complex task to get the amounts of the ingredients correct, as you can see from the ingredients above, especially when you have many boxes in many sizes. To keep every thing exact when hundreds of thousands of packages leave the plant every day is no easy job.

Pharmaceutical companies, whether they are Pfizer (NYSE: PFE), making brand-name products, or Mylan, Inc., (NYSE: MYL) making generics, must make sure each pill which they make is **uniform**, conforming to the formula that the companies' scientists set. To make each pill **uniform** requires precise measurement of each ingredient, with no margin for error in potency, size, or texture. It is a K-Tron machine that assures this impressive and positive **uniformity**.

When our firm had a position in the J.M. Smucker Co. (NYSE: SJM) I went to Orrville, Ohio, the company's headquarters. I enjoyed a tour of the factory, and watched the jars come off the strawberry preserve line. If any label on the jar was slightly off, the jar would not make it to the area where the jars of preserves were put into packages. **Uniformity** ruled and any exceptions to the **uniform** jars were discarded.

I looked at the time and I had been driving for more than three hours. I was now close to Deerfield, and to Deerfield Academy, where I had spent four tough years under teachers who did their best, but were not always successful, in trying to teach me how to think rigorously.

At **Deerfield**, we had to wear a coat and tie at all meals, at all meetings, at all classes, and at all study halls during the day. I loved **Deerfield**, but I probably could have done without the **uniform**, hence some of the feelings in this letter. Nevertheless, I learned valuable skills at **Deerfield**. We were required to be at breakfast at 7:15 a.m. in the dining hall one half mile away six days a week. I learned to get up at 7:05 a.m., be half-dressed, and put on a shirt, tie and jacket all while walking from my dormitory to the dining hall without being late.

.....**End of Letter**.....

**The Fredric E. Russell Investment Management Co. Staff**  
“How May We Help You?”



Left to right: **Jim Carnett**, Senior Portfolio Manager; **Meredith Bohot**, Director: Client Relations; **Fred Russell**, CEO; and **Stephen Shepherd**, Portfolio Manager

Clients, officers, shareholders, and employees of the Fredric E. Russell Investment Management Co. have a position in **K-Tron International, Inc.** a position which consists of **23,826** shares, with a first purchase date of June 21, 2007 and with an average weighted cost of **\$99.27**. The closing price on July 17, 2008 was **\$130.66**. The market value is now **\$3,113,105.16**.

We may liquidate, decrease, or increase these positions at any time, without notice before or after we do so.

The writer of this report, **Fredric E. Russell**, lists his academic and professional background as follows: **B.A.**, Swarthmore College, Swarthmore, PA; **M.B.A.**, and **M.A.**, Washington University, St. Louis, MO. He also holds the **CPA** certificate, and has taught accounting at the university level. He believes his love for writing and his usually correct grammar come from spending four years learning the English language at **Deerfield Academy** in **Deerfield, MA**, and from reading everything well written he can find.

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