



Friday, April 08, 2011

*Registered Investment Adviser
Division of Kevin Hart Kornfield & Co. Inc.
Originally Established 1986*

Dear Investors,

Many thanks to clients who attended our first annual special topics seminar. This year we covered the geological and business development aspects of the gas play known as the Marcellus shale formation. The presentations far exceeded my expectations. Helen Delano from the Pennsylvania Geologic Survey presented a brief history of energy regimens (i.e. power produced via water retention for milling) in Pennsylvania. She noted risks from some of these methods. Recent technologies have made it possible to reach the Marcellus shale that can be one (1) mile down. There is the Utica shale layer that is far below Marcellus. Does the Utica formation have much more gas waiting as future drilling technologies extends our reach?

We were fortunate to hear some fascinating observations from Bradley Hall who is the president of UGI's non-regulated initiatives (UGI Energy Services). Brad explained that the Marcellus gas field, which sweeps north from West Virginia through Western Pennsylvania and into New York, is the second largest natural gas field in the world. The largest is in Iran. If we extract just 10% of estimated gas reserves from Marcellus, at current USA usage levels, it could supply about 20 years of natural gas to the entire USA. Among other things, he explained how the pipelines are full – as in there are no rooms at the inn. Traditionally, natural gas pipelines travel north out of the Gulf of Mexico and turn east around the PA / NY border. Over the years natural gas producers in PA simply connected to these old pipelines and the gas continued to travel east for good selling prices in the NJ and NY City markets. UGI is busy developing new pipeline connectors via their central geographic position in the Marcellus region. Several years ago, just before technology made Marcellus productive, UGI purchased natural gas storage and infrastructure facilities from PPL. These assets are located in key locations for the Marcellus play in north central PA. Mr. Hall wondered aloud how many times PPL must be head-slapping themselves over selling such valuable assets to UGI.

During the quarter we added Fuel Solutions Systems (FSYS) which is a small company producing equipment to convert vehicles to use compressed natural gas instead of or in addition to traditional gasoline. The USA in general and Pennsylvania in particular has so much natural gas that, with or without government sponsorship, I think we will see natural gas as a transportation fuel sooner than later. There are only three stocks that are primary candidates to buy for natural gas transportation growth and FSYS is the only one that has any current earnings while demand for their products expands over the next few years. Later this year the USA will probably see passage of federal legislation to expand the use of natural gas as a transportation fuel.

Recently we took profits on Emerson (EMR). Originally EMR was added to portfolios in anticipation of electrical grid updates to accommodate alternative energy producers like wind and solar. There has been limited implementation of alternative energy projects due to the shortage of government funds for grants and loans. Nevertheless, Emerson did very nicely from general economic recovery. Over the past several years there have been rather dramatic increases in efficiency. Examples include non-hybrid autos getting 35 and maybe 40 mpg and efficient computer equipment at the residential and commercial levels. Nasdaq (NDAQ) stock market is making a bid for the New York Stock Exchange. We sold NDAQ shares because it is hard for me to understand how Nasdaq will benefit due to such an expensive bid. And, there are international politics and technological competition that collide with such an expensive merger. Many of our client accounts continue to hold Nasdaq convertible bonds for income and potential for modest appreciation.

As always, thanks so much for your continued business and referrals.

A handwritten signature in blue ink, appearing to be "Kevin", is written over the bottom right portion of the letter.