

Monthly
Stock
Monitor

February 21, 2006



HIGHLIGHTS

| | |
|-----------------------------|---|
| Disney..... | Buying Pixar and Selling Radio Stations |
| Dominion Resources..... | Beats Street Consensus Estimates |
| EFJohnson Inc. | Initiating Coverage |
| NiSource..... | Earnings Release and 2006 Guidance |
| Pfizer..... | Finally, Good News |
| Rush Enterprises..... | Strong Earnings Handily Beat Estimates |
| Sirius Satellite Radio..... | Initiating Coverage |
| Village Bank and Trust..... | Continued Earnings Growth |
| World Acceptance..... | Terminating Coverage |

COMMENTS AND UPDATES

Disney (DIS—\$27.16) has been in the news frequently during the past few weeks. The company announced it was buying Pixar (PIXR-\$60.85) for \$7 billion. Disney then sold 22 of its ABC radio stations to Citadel Broadcasting (CDL-\$11.48) for \$2.7 billion. Also, quarterly earnings were released with Disney reporting profits of \$0.37/share during 1Q06 vs. \$0.33/share during 1Q05. These numbers beat street consensus expectations of \$0.30/share. The improvement in earnings was driven primarily by DIS's theme park business and its ABC TV network, offsetting disappointing results from the film division. Management stated its belief that the company will deliver double-digit earnings growth in fiscal 2006 and is accelerating its \$5 billion share repurchase program during the next 18 months. We expect continued earnings improvement during the next two years, driven by increases in cash flow and exiting unprofitable/low return businesses. Our 2006 earnings estimate is \$1.50/share. These shares are rated OUTPERFORM for long-term value investors and our price target is \$34. (SFM)

Dominion Resources (D--\$75.67) reported 4Q05 earnings of \$0.74/share vs. \$0.67/share during 4Q05. The current quarter results beat street consensus expectations of \$0.70/share. On a quarter-to-quarter basis, net income was \$257 million versus \$224 million, and revenue rose to \$5.095 billion from \$3.765 billion. The company noted its natural gas production levels are running low compared to past quarters due to the disruptions caused by Hurricane Katrina. However, management said 2006 gas production should rise back towards normal levels as off-line production comes back on-line. D raised its quarterly dividend 3% or \$0.02/share. Management gave 2006 earnings guidance of \$5.05/share to \$5.25/share. Despite the positive earnings report, D shares have come under selling pressure. Our belief is that the selling of D shares has likely come from over-optimistic investors, disappointed that 2006 numbers were not higher. Our 2006 earnings estimate is \$5.20/share. We rate D NEUTRAL. (SFM)

EFJohnson Inc. (EFJI--\$11.90), headquartered in Irving TX, is a provider of private wireless and secured communication systems/products for EMS, fire fighters, law enforcement, homeland security, and the military. On a global basis, its products help customers secure analog wireless radio systems prohibited from switching to digital due to high costs. EFJI's product line, through its Transcript subsidiary, also includes encryption products for wireless radio systems and secured communications products.

For important disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the back page of this report.

The company has several potential growth drivers during the next few years. Following the 9/11 terrorist attacks, and the lack of first emergency responders ability to communicate with each other, thus hampering rescue operations at the World Trade Center, the US government mandated all federal agencies shift towards the Project 25 (P25) platform. The P25 platform mandate requires all federal government agencies to move their land mobile radio systems onto a common network so EMS, firefighters, and law enforcement can have open and active communications with one another while responding to emergencies. To this end, the US government allocated \$7 billion towards this realignment. Also, towards the effort to secure local inter-agency communications the US government has designated the 800 MHz spectrum to be used for local and homeland security purposes, providing another potential revenue source for EFJI as the company is marketing its products for this transition. On the international front, many governments are seeking to establish secure communications systems in order to fight terrorism.

Many of Transcrypts products can be used for these markets and along these business lines EFJI recently received a \$5.9 million order from the Middle East. Given the above referenced areas of improving state/local communications, homeland security efforts (& the large US government spending commitment), and international opportunities there lies significant revenue/growth potential for EFJI. Revenues have increased from \$40.8 million in FY02 to a projected \$95 million-\$100 million in 2005. During this time earnings have grown from \$0.11/share to \$0.60-\$0.63/share (management's guidance). EFJI has no balance sheet debt and continued revenue/earnings growth could increase investor appetite for this stock. These shares are recommended for aggressive/speculative investors seeking above average growth potential. Initiating Coverage, Rating: OUTPERFORM, Target Price: \$14 (SFM)

NiSource (NI--\$20.98) reported 2005 earnings of \$1.38/share versus '05 estimate of \$1.54/share. The \$1.38/share exceeded earlier company guidance of \$1.32-\$1.37/share. Going forward, NI management gave 2006 guidance of \$1.45-\$1.55/share for 2006. The company noted that a recent decline in natural gas prices has led to an uptick in customer demand, which is good for NI. Book value per share rose to \$18.09 from \$17.69. Thus, NI shares now trade at 1.13x book value making it an attractive takeover candidate given it owns the 4th largest gas pipeline in the US (16,000 miles) and the 3rd largest natural gas distribution system. NI owns Columbia Gas. These shares are rated OUTPERFORM and are recommended for investors seeking high income and above average appreciation potential. Our target is \$27/share and NI pays an attractive dividend yield of 4.4%. (SFM)

Pfizer (PFE--\$25.64) after months of bad press, we have seen the development of recent positive news. The company reported 4Q05 earnings of \$0.37/share vs. \$0.38/share during 4Q04. However, if you factor out the special charges assigned to the current quarter's results, PFE would have earned \$0.51/share exceeding consensus estimates of \$0.42/share. While 2005 earnings results exceeded expectations, the CEO said "investors should be aware that the factors driving PFE's performance may differ materially in 2006." The Board of Directors increased the quarterly dividend 26% to \$0.24/share, or \$0.96/share per year. On the product front, PFE received a favorable ruling from a Federal judge who said Ranbaxy Laboratories' generic imitation of Lipitor was an infringement on PFE's drug patent. Lipitor generates \$12 billion in annual revenues for PFE. Pfizer recently bought the Sanofi-Aventis worldwide rights to an inhalable insulin treatment drug called Exubera, which was just approved by the Food and Drug Administration. Meanwhile, the European Commission granted marketing authorization for PFE's Macugen product, which treats age, related macular degeneration. These shares are rated OUTPERFORM for long-term investors. (SFM)

Rush Enterprises (RUSHA & RUSHB--\$18.35(A)), which operates the largest network of heavy-duty and medium-duty truck dealerships in North America announced results for the fourth quarter and year ended December 31, 2005. Earnings for the 4Q2005 were \$0.50 per share, versus consensus estimate of \$0.41 per share. Earnings per share for the quarter were 92% higher than in 2004. For the full year, Rush reported earnings of \$1.79 per share, up 75% from 2004. Once again, Rush continues to amaze us with its strong string of upside earnings. That being said, we feel that the "story is out" on Rush and that the market will not reward the shares with a multiple much higher than 10x peak earnings. Peak earnings should be this year, with the street estimating Rush to deliver 2006 EPS of around \$2.00 per share. In 2007, earnings should face a significant drop off as the rush to buy trucks before the new 2007 emission deadline begins to dwindle. Industry expectations are for the new 2007 engines to add \$6,000 to \$8,000 to the cost of a new truck and increase operating and maintenance costs as well. Trucking fleets have been buying ahead of this over the past couple of years to avoid this price hike. This headwind for Rush is our main concern for owning the stock at current levels. Maintain NEUTRAL rating. (BAB)

Sirius Satellite Radio (SIRI--\$5.18), headquartered in New York City, NY, is one of two companies involved in the new entertainment medium known as satellite radio. Satellite radio is currently in its infancy as cable television was back in the early 1970s. This new entertainment sector is seen as an alternative to today's AM/FM radio program many view as offering bland content. Consumers pay a monthly fee to listen to over 120 channels offered by SIRI for a variety of different content featuring channels offering talk, music, comedy, news, and sports programming. Some of the more popular offerings include NFL/NBA/NHL/ESPN sports programming, various music genres (classical, R&B, hip-hop, rock, jazz, bluegrass, & country), CNN/FOX/CNBC news and Bloomberg Radio broadcasts, and popular talk shows like Martha Stewart and Howard Stern. The appeal of pay-radio appears to be growing given the increase of SIRI's subscriber base from 600,000 (12/31/04) to 3.3 million (12/31/05). During 4Q05 the number of subscribers grew from 2.1 million to 3.3 million due primarily to Howard Stern recently joining the SIRI broadcast line-up. The recent increase in subscribers has been called, "The Howard Stern Effect" by Wall Street. Potentially, Stern could draw more subscribers given he had approximately 10 million listeners when he was syndicated on FM radio during the past 10 years. SIRI is a two-part story. First, the company needs to grow its subscriber base, from the 3.3 million current level, to 10-15 million. SIRI management has given 2006 guidance of 6 million subscribers. Second, while the company is expected to generate negative earnings through at least 2008, SIRI must prove it can eventually generate operating profits. Given SIRI's impressive content on its network, we believe the company could continue to attract/add subscribers, reduce operating losses, and eventually generate positive earnings per share in a few years. These shares are recommended for aggressive/speculative investors seeking above average appreciation potential in a new and emerging entertainment industry. Initiating Coverage, Rating: OUTPERFORM, Target Price: \$8 (SFM)

Village Bank and Trust (VBFC--\$13.75), formerly known as Southern Community Bank, reported 4Q05 earnings of \$0.18/share vs. \$0.24/share during 4Q04, which included \$0.11/share worth of one-time gains. Factoring out the 4Q04 gains, earnings were \$0.13/share. Net income on a quarter-to-quarter comparison rose to \$2.21 million from \$1.41 million due to additional interest income from an increase in total loans. VBFC's mortgage company reported improved operating results producing profits of \$31,000 compared to a loss of \$80,000 during last year's quarter. Return on assets and return on equity, excluding one time non-recurring items that added \$221,000 to 4Q04 income, were 0.68% vs. 0.62% and 8.63% vs. 6.56%, respectively. Net interest margin rose to 4.15% from 3.88% and VBFC's efficiency ratio declined to 80.84% from 84.53%. Earnings for FY2005 were \$0.61/share vs. \$0.45 during FY2004. The loan/deposit ratio declined to 92.35% from 96.89%, while book value per share rose to \$9.25 from \$8.51. VBFC appears poised to continue its growth going into 2006 based on its ability to attract assets through its branch offices. This bank, as with all of its industry brethren, may have to face the potential challenges of operating with an inverted yield curve and a softening real estate market in 2006. Trading at 1.38x book value and offering continued earnings growth in 2006 we rate VBFC OUTPERFORM. Our price target is \$15. (SFM)

Consumer loan company, World Acceptance (WRLD--\$26.54) reported earnings that came in shy of expectations for the 3Q2005 (December 31). Per share earnings came in at \$0.30, \$0.03 lower than the \$0.33 estimate. Earnings for the quarter were only up 7% from last year, which is the third straight quarter of single digit year-over-year growth in earnings. It appears that the days of 20-30% earnings growth are over, as is bound to happen for all companies. Management has done an exceptional job in growing the company over the past five years. However, we do not believe that World's stock price offers the value that it once did, and believe that at current levels, the shares are fairly valued for a company in the sub-prime lending arena. The steady selling of insiders over the past two years probably indicates that we are not alone in our belief. We are terminating our coverage of the company. Our final rating is NEUTRAL. (BAB)

Stocks in the outlined text are priced as of February 21, 2005.

Changes to the Large Cap Focus & Special Situations Lists:

Large Cap Focus: Added: Capital One, Kohl's, and Motorola. Deleted: Citigroup, Disney, and Qualcomm.
Special Situations: Added: Aladdin Knowledge Systems. Deleted: World Acceptance.

| Large Cap Focus List | | Focus List Recommended | | 2/13/06 Price | % Return Relative to S&P | 12 Month Target | | EPS Estimates | | P/E Ratios | | Yield % |
|----------------------------------|--------|------------------------|---------------|---------------|--------------------------|-----------------------|-------|---------------|------|------------|--------|---------|
| Credit Suisse First Boston | | Date | Price | | | Price | Price | Return % | FY1 | FY2 | FY1 | |
| Consumer | | | | | | | | | | | | |
| Bunge Limited | BG | 12/30/05 | 56.61 | 55.55 | -2.99 | 70 | 26 | 4.21 | 4.40 | 13.19 | 12.63 | 0.7 |
| Kohl's Corporation | KSS | 12/30/05 | 48.60 | 45.15 | -8.48 | 58 | 28.5 | 2.42 | 2.85 | 18.64 | 15.84 | 0.0 |
| Financials | | | | | | | | | | | | |
| Allstate Corporation | ALL | 12/30/05 | 54.07 | 52.64 | -4.03 | 63 | 19.7 | 5.80 | 5.60 | 9.08 | 9.40 | 0.0 |
| Capital One Financial | COF | 12/30/05 | 86.40 | 85.99 | -1.82 | 104 | 20.9 | 7.70 | 8.65 | 11.17 | 9.94 | 0.0 |
| Healthcare | | | | | | | | | | | | |
| Aetna, Inc. | AET | 12/30/05 | 94.31 | 49.75 | 4.12 | 115 | 15.6 | 4.62 | 5.51 | 10.77 | 9.03 | 0.0 |
| Eli Lilly | LLY | 12/30/05 | 56.59 | 55.35 | -2.87 | 64 | 15.6 | 2.87 | 3.18 | 19.29 | 17.40 | 2.6 |
| Neurocrine Biosciences Inc. | NBIX | 12/30/05 | 62.73 | 60.59 | -4.79 | 73 | 20.5 | -0.60 | 0.56 | NA | 108.20 | 0.0 |
| Watson Pharmaceuticals | WPI | 12/30/05 | 32.51 | 32.12 | -2.58 | 39 | 21.4 | 1.29 | 1.46 | 24.96 | 21.99 | 0.0 |
| Industrials | | | | | | | | | | | | |
| Aviall, Inc. | AVL | 12/30/05 | 28.80 | 37.05 | 27.26 | 45 | 21.5 | 1.62 | 1.97 | 22.89 | 18.83 | 0.0 |
| Deere & Co. | DE | 12/30/05 | 68.11 | 73.80 | 6.97 | 90 | 22.0 | 6.85 | NA | 10.77 | NA | 1.5 |
| Materials | | | | | | | | | | | | |
| Dow Chemical | DOW | 12/30/05 | 43.82 | 42.08 | -5.35 | 56 | 33.1 | 4.37 | 5.00 | 9.62 | 8.42 | 3.2 |
| Technology | | | | | | | | | | | | |
| Ingram Micro | IM | 12/30/05 | 19.93 | 19.91 | -1.48 | 23 | 15.5 | 1.32 | 1.5 | 15.08 | 13.27 | 0.0 |
| Motorola | MOT | 1/17/06 | 24.03 | 21.64 | -6.57 | 30 | 38.6 | 1.13 | 1.28 | 19.07 | 16.91 | 0.7 |
| Texas Instruments | TXN | 12/30/05 | 32.07 | 30.48 | -6.25 | 40 | 31.2 | 1.28 | 1.46 | 23.78 | 20.86 | 0.3 |
| Special Situations | | | | | | | | | | | | |
| Ticker | Rating | | 2/13/06 Price | | | 12 Month Target Price | | EPS Estimates | | P/E Ratios | | Yield % |
| | | | | | | | | F05 | F06 | F05 | F06 | |
| Cyc/Svc | | | | | | | | | | | | |
| Lakeland Industries n (Jan) | LAKE | 1 | 19.34 | | | 25.00 | | 1.30 | 1.60 | 14.9 | 12.1 | 0.0 |
| Metretek | MEK | 1 | 9.83 | | | 15.00 | | 0.19 | 0.75 | 51.7 | 13.1 | 0.0 |
| Noble International n | NOBL | 1 | 15.40 | | | 24.00 | | 1.02 | 1.15 | 15.1 | 13.4 | 1.6 |
| Penn Virginia Resource | PVR | 1 | 52.95 | | | 58.00 | | 2.87 A | 3.10 | 18.4 | 17.1 | 4.9 |
| Suburban Propane (Sept) | SPH | 1 | 28.96 | | | 39.00 | | 0.70 A | 0.77 | 41.4 | 37.6 | 8.5 |
| Veri-Tek International a | VCC | 1 | 3.80 | | | NA | | -0.09 | 0.35 | NA | 10.9 | 0.0 |
| Consumer | | | | | | | | | | | | |
| Lions Gate Entertainment (MAR) | LGF | 1 | 8.50 | | | 15.00 | | 0.23 A | 0.28 | 37.0 | 30.4 | 0.0 |
| Playboy Enterprises | PLA | 1 | 14.00 | | | 16.00 | | -0.03 | 0.68 | -466.7 | 20.6 | 0.0 |
| Smithfield Foods (Apr) | SFD | 1 | 26.12 | | | 32.00 | | 2.66 A | 2.30 | 9.8 | 11.4 | 0.0 |
| Walt Disney (SEP) | DIS | 1 | 26.41 | | | 34.00 | | 1.28 A | 1.47 | 20.6 | 18.0 | 1.0 |
| Utility | | | | | | | | | | | | |
| AGL Resources | ATG | 2 | 35.40 | | | | | 2.48 A | 2.60 | 14.3 | 13.6 | 4.2 |
| Chesapeake Utilities | CPK | 2 | 31.16 | | | | | 1.72 | 1.84 | 18.1 | 16.9 | 3.7 |
| CMS Energy | CMS | 1 | 14.15 | | | 22.00 | | 0.95 | 1.10 | 14.9 | 12.9 | 0.0 |
| Calpine | CPNLQ | 3 | 0.22 | | | | | -1.30 | UR | -0.2 | NA | 0.0 |
| Dominion Resources | D | 2 | 73.90 | | | | | 4.53 A | 5.15 | 16.3 | 14.3 | 3.7 |
| Great Plains Energy | GXP | 1 | 28.41 | | | 34.00 | | 2.23 A | 2.34 | 12.7 | 12.1 | 5.8 |
| MGE Energy | MGEE | 2 | 32.76 | | | | | 1.65 | 1.78 | 19.9 | 18.4 | 4.1 |
| NISource | NI | 1 | 20.50 | | | 27.00 | | 1.42 A | 1.45 | 14.4 | 14.1 | 4.4 |
| Peoples Energy (SEP) | PGL | 1 | 35.99 | | | 46.00 | | 2.26 A | 2.28 | 15.9 | 15.8 | 5.9 |
| Pepco Holdings | POM | 2 | 23.23 | | | | | 1.50 | 1.48 | 15.5 | 15.7 | 4.4 |
| Piedmont Natural Gas (OCT) | PNY | 2 | 23.62 | | | | | 1.32 A | 1.39 | 17.9 | 17.0 | 3.8 |
| Progress Energy | PGN | 1 | 44.18 | | | 48.00 | | 3.29 A | 2.70 | 13.4 | 16.4 | 5.4 |
| Public Service Enterprise Group | PEG | 2 | 68.01 | | | | | 3.67 A | 3.82 | 18.5 | 17.8 | 3.3 |
| RGC Resources (SEP) | RGCO | 2 | 25.12 | | | | | 1.68 A | 1.76 | 15.0 | 14.3 | 4.7 |
| SEMCO Energy | SEN | 2 | 5.61 | | | | | 0.30 | 0.33 | 18.7 | 17.0 | 0.0 |
| TECO Energy | TE | 1 | 16.65 | | | 19.00 | | 1.22 A | 1.31 | 13.6 | 12.7 | 4.5 |
| WGL Holdings (SEP) | WGL | 2 | 30.24 | | | | | 2.09 A | 2.19 | 14.5 | 13.8 | 4.3 |
| WPS Resources | WPS | 2 | 52.40 | | | | | 4.10 A | 4.35 | 12.8 | 12.0 | 4.3 |
| Financial | | | | | | | | | | | | |
| Albemarle First Bank n a | AFBK | 2 | 14.93 | | | | | 0.20 | UR | 74.7 | NA | 0.0 |
| Broadway Financial | BYFC | 2 | 11.08 | | | | | 0.99 A | 1.03 | 11.2 | 10.8 | 1.9 |
| Center Financial n | CLFC | 2 | 22.25 | | | | | 1.48 A | 1.66 | 15.0 | 13.4 | 0.7 |
| Commonwealth Bankshares n z a | CWBS | 2 | 27.40 | | | | | 1.62 A | 1.78 | 16.9 | 15.4 | 0.9 |
| First Community Bank | FCBP | 2 | 59.01 | | | | | 2.97 A | 3.06 | 19.9 | 19.3 | 1.7 |
| First Regional Bancorp | FRGB | 1 | 78.88 | | | 82.00 | | 6.18 A | 7.10 | 12.8 | 11.1 | 0.0 |
| FNB Financial n | FNBF | 1 | 15.50 | | | 24.00 | | 1.33 A | 1.20 | 11.7 | 12.9 | 3.0 |
| Hanmi Financial n | HAFC | 2 | 17.35 | | | | | 1.17 A | 1.38 | 14.8 | 12.6 | 1.2 |
| National Mercantile Bancorp n | MBLA | 1 | 17.74 | | | 20.00 | | 0.97 A | 1.16 | 18.3 | 15.3 | 0.0 |
| Northern States Financial | NSFC | 1 | 21.95 | | | 35.00 | | 0.49 A | 0.52 | 44.8 | 42.2 | 0.6 |
| Pacific Mercantile Bank n | PMBC | 1 | 18.28 | | | 21.00 | | 0.52 | 0.70 | 35.2 | 26.1 | 0.0 |
| Village Bank & Trust Financial n | VBFC | 1 | 12.95 | | | 15.00 | | 0.61 A | 0.70 | 21.2 | 18.5 | 0.0 |
| Union Bankshares n | UBSH | 1 | 45.18 | | | 48.00 | | 2.81 A | 3.07 | 16.1 | 14.7 | 1.9 |
| Media & Telecom | | | | | | | | | | | | |
| Paxson Communications | PAX | 2 | 0.90 | | | | | UR | UR | NA | NA | 0.0 |
| Technology | | | | | | | | | | | | |
| Aladdin Knowledge Systems | ALDN | 1 | 18.94 | | | 23.00 | | 0.97 A | 1.12 | 19.5 | 16.9 | 0.0 |
| Transportation | | | | | | | | | | | | |
| Rush Enterprises n | RUSHA | 2 | 17.00 | | | | | 1.79 A | 2.00 | 9.5 | 8.5 | 0.0 |
| REITS | | | | | | | | | | | | |
| Highland Hospitality v | HIH | 1 | 12.13 | | | 13.00 | | 0.75 A | 1.05 | 16.2 | 11.6 | 4.4 |
| Supertel Hospitality v a n | SPPR | 1 | 4.70 | | | 6.50 | | 0.82 A | 0.75 | 5.7 | 6.3 | 5.9 |
| Monmouth Real Estate v n | MNRTA | 2 | 8.06 | | | | | 0.60 A | 0.60 | 13.4 | 13.4 | 7.3 |
| W. P. Carey v | WPC | 2 | 26.24 | | | | | 2.55 | NA | 10.3 | NA | 6.8 |

n Anderson & Strudwick makes a market in this security

a A&S has performed investment banking services within the last twelve months

U Covered by CSFB

E Estimated Earnings

V Data refers to fiscal year ending one year later than column heading

A Actual

Z A&S employee/employees serve on Board of Directors

v Funds from operations used for EPS

UR Under Review

NA Not Applicable

1 - Outperform

2 - Neutral

3 - Underperform

Economic Commentary

Many are now becoming fixated upon the yield curve. The Treasury Department just completed its first 30-year auction in five years. It was met with great success as many institutions are attempting to quantify their cashflows. Perhaps the demand for the old benchmark is the result of the lack of AAA rated paper at this long maturity. Or is it suggesting something else?

The yield curve-or the difference between the various maturities-is inverted from six months through thirty years. As we have penned many times an inverted yield curve has a 100% correlation to a slowing economy and has preceded the last four recessions. We think the data suggests that there is little momentum going into the first quarter as the dual impact of higher oil prices and greater short-term interest rates are negatively affecting the economy.

Many believe that the overnight rate will soon be increased to 5.0% because of January's employment data. We are not in that camp as we think the economy has changed dramatically and old benchmarks are no longer relevant.

The Federal Reserve stated that it is concerned with "Resource Utilization" and elevated energy prices. We have written extensively that we think oil prices are at current levels because of geopolitical issues-Iran and Nigeria-and is ripe to decline further.

Prices are down about seven dollars as inventories are at levels that have not been seen in recent memory. As hedge fund and momentum monies quickly exit this market, prices could fall further.

Last August we correctly anticipated that gasoline inventories would surge given the huge refining margins. We were correct in this assumption as gasoline prices plunged about 11% last week. At the time of this writing refining margins are now at the lowest level since June 2003 as refineries are getting killed as oil prices fall. Ultimately, demand and supply laws do reign supreme.

Will the new Fed Chairman touch on this during his first monetary Congressional Testimony later in February? Probably not, as at the conclusion of the last FOMC meeting two weeks ago elevated energy prices were a major concern.

What about increased "Resource Utilization? Capacity Utilization and Industrial Production is released this week. Traditionally, when Capacity Utilization reaches the 81%-83% range it is inflationary. Consensus is suggesting an 80.8% rate.

Similar to the employment data we think this benchmark requires revision given the changing nature of the economy. What is the proper utilization rate? Do we know it given the advent of technology?

All must remember the Federal Reserve's primary objective is price stability. If the Central Bank declared that inflation is no longer a factor the bond market would get killed because it wouldn't give that statement any credence. Or are there other factors?

Many are fearful that Asian/global investors and the like will soon sell their treasury holdings for a myriad of reasons. We also don't subscribe to this view for the simple reason that there is no alternative. The American treasury is the primary choice, the default choice and the only choice. What instrument would the monies gravitate towards?

Or are low long-term yields a function of too much liquidity in the financial system partially the result of an overly accommodative Federal Reserve and the plethora of non-financial actors?

We think low long-term rates are the result of all of the above including the fear of a Federal Reserve-induced slowdown, fighting yesterday's battle.

We would briefly like to gravitate to Iraq, oil, NSA-gate and correlate them back to the 1970s. Briefly--there is not a correlation. Iraq is not Viet Nam for a number of reasons. Simply and specifically Iraq has not directly touched many Americans. There is not a draft nor have there been 67,000 Americans killed and another 200,000 wounded.

Oil has "only doubled" in two years rebounding from suppressed levels as compared to a 500% increase in 18 months when shipments were cut off from the Middle East. Moreover, there are no gas lines.

NSA-gate is a far cry from Watergate.

We think those who make these correlations are only attempting to grab headlines.

How does this affect the markets? The markets are the reflection of all events and variables of society. If society is pessimistic, gains are difficult. Even though the common perception is that "society is worse off today than yesterday" this is not the accurate belief when asked individually. There is a disconnect from reality. Is this a function of the many 24-hour news channels? Perhaps.

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Our research reports, stock monitors and daily market commentary are available at: www.AndersonStrudwick.com

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- (1) Outperform – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (2) Neutral – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (3) Under perform – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 53%, (2) 46%, (3) 1%

The distribution of investment ratings used for companies whom we have performed banking services in the last 12 months are: (1) 50%, (2) 50%, (3) 0%

For regulatory purposes, our ratings of Outperform, Neutral and Underperform most closely correspond to Buy, Hold and Sell, respectively.

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