

**Monthly
Stock
Monitor**



July 14, 2006

HIGHLIGHTS

National Mercantile BankAnnounces merger agreement
 Massey Energy.....Board Election Controversy
 People's Energy.....Receives takeover bid
 Union Bankshares Corp.....Raises dividend 15%
 Broadway Financial Corp.....Raised rating to **OUTPERFORM** on 6/13/06
 Supertel Hospitality.....Purchasing seven more hotels
 Aladdin Knowledge Systems.....Lowers guidance for second quarter
 Lakeland Industries.....Downgrading to **NEUTRAL**

COMMENTS AND UPDATES

National Mercantile Bank (MBLA--\$13.09)

National Mercantile Bancorp announced a merger agreement with another Southern California based bank, FCB Bancorp (FCBA--\$22.75). The merger is expected to be completed during 4Q06. The new name for the combined companies will be First California Financial Group. The resulting company, with 200 employees, will have 13 branches and 3 loan offices in the Los Angeles metro area and \$1 billion in total assets. During a recent conference call, both management groups said they expect this merger will be accretive to earnings in 2007 produced by cost savings of at least 7% through the elimination of duplicate data processing, compliance, and legal costs. Their best case scenario offers the possibility of generating 12% in cost savings. These savings could translate into 2007 earnings growth for the combined companies. We are maintaining our **OUTPERFORM** rating on MBLA shares and will wait to see what positive benefits arise from the proposed merger. (SFM)

Massey Energy (MEE--\$34.58)

Massey Energy has asked the Delaware Court of Chancery to review the recent and controversial board election results at the Richmond based coal company. During recent voting for its board, the preliminary election results indicated two Third Point LLC nominees, Daniel Loeb and Todd Swanson, were elected to the Massey Board. Third Point LLC is a money management group (owns 5.9% of MEE shares) which believes company management needs to do more to unlock shareholder value at MEE. Massey believes the vote count was done improperly and believes only one of the Third Point nominees should have been elected to the Massey board. This legal issue is likely to persist for a while especially if it finds its way to court. Investors should continue to buy MEE shares based on a potential earnings turnaround in 2007 from its operations and the positive fundamentals in the coal industry. Massey's president and CEO, Don Blankenship, recently said the high price of oil is driving up the contract prices for coal, potentially improving revenue for the coal industry. We rate these shares **OUTPERFORM**. (SFM)

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.

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People's Energy (PGL--\$38.67)

Takeover rumors became fact for **Peoples Energy**. It was announced that WPS Resources (WPS-\$47.98) will acquire Peoples Energy in a stock deal. For every one share of PGL owned, PGL shareholders will receive 0.825 shares of WPS. This equates to roughly \$41.39/share. The deal should close by 1Q07 and WPS will own 57.6% of the combined company and PGL will own 42.4%. WPS management will relocate to Chicago and expects the PGL acquisition to be accretive to earnings in calendar 2008. The new combined company will pay an annual dividend of \$2.64/share. We currently have a NEUTRAL rating on WPS and likewise, given the acquisition announcement where WPS will have controlling interest in the combined company, we are downgrading our rating on PGL to NEUTRAL from OUTPERFORM. (SFM)

Union Bankshares Corp. (UBSH--\$40.21)

Union Bankshares Corp. announced a 15% increase in its common stock dividend. The semi-annual dividend was raised to \$0.40/share from \$0.37/share. Additionally, the Board of Directors stated it has renewed its authorization for UBSH to repurchase up to 150,000 shares of its common stock on the open market, expiring on 5/31/07. This announcement is continuing evidence of UBSH's successful growth in term of profits and size. UBSH should begin to garner the majority of benefits from cost savings generated from the recent acquisition of Guaranty Financial Bank. UBSH, with \$1.9 billion in total assets, now has over 49 locations in Virginia stretching from the Tidewater area to Washington DC, and to the Appalachian mountains. UBSH's business strength is attracting new customers by offering personalized service to individuals as an alternative to the large mega-banks serving the mid-Atlantic area. These shares are rated OUTPERFORM. (SFM)

Broadway Financial Corp. (BYFC--\$10.52)

We have raised our ratings on **Broadway Financial Corp.** to OUTPERFORM from NEUTRAL (report dated 6/13/06). The upgrade is based on a potential earnings turnaround during 2H06 and a low valuation of BYFC's shares, presently trading at 1x book value. BYFC is headquartered in Los Angeles with 4 branches specializing in providing financial services primarily to minorities. The company has over \$209 million in total assets and could be on the cusp of an earnings turnaround during the next 12 months. Net interest margins appear to have bottomed out during 3Q05 at 3.06%. Since that quarter the net interest margin has increased to 3.34%. Additional improvement could occur during the next 12 months as BYFC will re-price \$61.6 million of its hybrid variable rate loans in 2006 and another \$40 million in 2007. These hybrids comprise roughly 70% of BYFC's loan portfolio and should benefit as the Federal Reserve continues to raise interest rates. The other part of improved earnings could come from management's efforts to have its branch systems gather low cost deposits which could be used for higher yielding loans. Based on improved net interest margins and a growing low cost deposit base, we believe BYFC could produce year over year earnings growth of 11% during 2006. Under this scenario, investor demand for BYFC's could increase and push its shares up to 1.5x book, or \$15/share. (SFM)

Supertel Hospitality (SPPR--\$6.78)

Hotel REIT, **Supertel Hospitality** announced an intent to acquire seven Savannah Suites hotels in the Southeastern U.S. for \$33 million. No financing terms were discussed; however, we would expect some sort of equity capital raise will be necessary. We would also expect this deal to be immediately accretive to earnings upon closing. We will update our FFO (funds from operations) estimate once we have more information on the acquisitions. Excluding the inclusion of these new hotels, we are estimating FFO of \$0.82 per share for 2006 and \$0.86 per share in 2007. We reiterate our OUTPERFORM rating on SPPR with our \$7.50 target price, which we believe represents a fairer value to the company. SPPR has a current yield of approximately 6.1%. (BAB)

Aladdin Knowledge Systems (ALDN--\$16.07)

On July 6, 2006, **Aladdin Knowledge Systems** revised its 2Q 2006 revenue and earnings guidance downward. Aladdin stated that it expects revenue in the range of \$20.8 million to \$21.0 million, down from prior guidance of \$21.7 million to \$23.7 million. Earnings to come in at the low end of its previous range of \$0.26 to \$0.29 per share, excluding options expense. The consensus estimate was \$0.28 per share. This downward guidance was due to "softness in select geographical markets during the quarter". While we are a bit disappointed in any downward revision, we are surprised by the sharp reaction in Aladdin's share price. At current levels, Aladdin is now trading at only around 11x 2006 estimated earnings on a cash adjusted basis (ALDN has over \$5 per share in cash with no debt). Aladdin will announce 2Q 2006 results on July 24. We are not changing our OUTPERFORM rating at this time, and we will await more information from the July 24 earnings release and conference call.

On a recent related note: On June 29, EMC Corp agreed to purchase one of Aladdin's "peers", RSA Security for \$28 per share. This price equates to an eye-popping 44x RSA's 2006 estimated earnings. It is not unfounded to expect some merger speculation to surround Aladdin, as this industry may be ripe for more consolidation. (BAB)

Lakeland Industries (LAKE--\$14.60)

We are downgrading our rating on protective clothing manufacturer, **Lakeland Industries** to NEUTRAL from OUTPERFORM. Lakeland has continued to disappoint, with the last three quarters below expectations. We had been expecting homeland security spending on protective clothing to drive the company's earnings; however, this has yet to significantly materialize. While the shares have sold off on the most recent disappointing earnings release, we would not be buyers of the stock at this time. (BAB)

Stocks in the outlined texts are priced as of July 7, 2006.

Changes to the Large Cap Focus List:

Large Cap Focus: Deleted: Ashland Inc.

The SMA

One of the most overlooked areas of investing may well be separately managed accounts, or SMAs in investment industry jargon. The cold reality of being a Financial Advisor today, at any firm, is that an increasing amount of our time is being spent on regulatory issues, rather than research. For years, many advisors have felt that one answer to this time management dilemma was to use mutual funds for their clients. On the whole, the fund industry has done an excellent job for the millions of Americans who have entrusted them with their savings. But as the years have rolled on, the average investor has become increasingly sophisticated.

Enter the SMA. Imagine that you are an investor who prefers individual stocks or bonds to mutual funds. Maybe it's because individual issues allow you to take a more customized approach, or they allow you to be more proactive in shaping your tax liabilities, or maybe it's just because you like the excitement of individual stocks.

Whatever the case, in this example, you prefer individual stocks. However, you can see where having a professional manager is an advantage. Financial Advisors who can truly devote most of their time to research are rare in this industry. Just think about every time that you have called about a missing dividend check, a question on your statement, cost basis information for your taxes, etc. Now multiply that by 100 or so clients. Asset managers don't do that. They just take your money and invest it. Investing is their job. Client service is the job of the Financial Advisor. After all, when was the last time you spoke to one of the managers on any of your mutual funds?

There is a need for professional management, when investing in individual stocks. Think of a mutual fund where you actually own the stocks inside and can see what is being bought or sold on your behalf. That is the SMA. They typically have minimums starting anywhere from \$50,000 to \$250,000.

The role of the Financial Advisor is to help determine if an SMA might be appropriate for you, and if so, which one(s). Like mutual funds, SMAs are available to suit almost any investment objective. Large companies, small companies, really small companies, foreign stocks, bonds, etc. They are all available in an SMA format somewhere.

One of the benefits of the SMA format is that although they can be active with regard to the number of buys and sells within the account, you are not charged commissions on the transactions, or trades. Instead, a quarterly fee is charged to the account. The fee is set by the Financial Advisor (with certain guidelines from the firm) and is expressed as a percentage of total assets in the portfolio, not a set dollar amount. This seemingly small item, has a decidedly beneficial impact on the Advisor-Client relationship. By establishing this agreement, a Financial Advisor is therefore compensated on performance, not just for activity.

Put simply, the more the account goes up, the more *everyone* involved makes. When you compare that to commission-based trading, you can see the difference.

SMAs are, like any other investment, not for everyone. But those looking to own individual stocks, get professional and dedicated management, potentially reduce costs by eliminating commissions and enter a system where everyone benefits for performance would do well to consider asking their Financial Advisor for more information on SMAs.

David Shenton

Director of Managed Accounts

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Baymount Portfolio	1 Year Return	2 Year Return	3 Year Return	4 Year Return	5 Year Return
Small Cap	21.46%	20.96%	42.52%	N/A	N/A
Focused Growth	16.53%	14.79%	23.65%	9.79%	8.61%
Equity Income	16.17%	18.99%	N/A	N/A	N/A
Mid Atlantic Community Bank	22.81%	13.46%	20.42%	20.64%	N/A

S&P 500 Index	11.71%	9.17%	17.21%	4.91%	3.96%
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Annualized returns net of fees through 03.31.06 and assume the reinvestment of all income.



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Large Cap Focus List Credit Suisse First Boston As of 6/28/06		Focus List Recommended		6/26/2006 Price	% Return Relative to S&P	12 Month Target		EPS Estimates		P/E Ratios		Yield %
Ticker	Date	Price	Price			Price	Return	FY1	FY2	FY1	FY2	
<i>Consumer</i>												
Bunge Limited	BG	12/30/2005	56.61	49.00	1.01	70	42.9	3.55	4.96	13.80	9.88	0.0
CVS Corporation	CVS	3/8/2005	28.92	29.83	18.25	37	24.0	1.51	1.93	19.75	15.46	0.9
Kohl's Corporation	KSS	12/30/2005	48.60	58.00	-14.08	68	17.2	2.95	3.75	19.65	15.48	0.0
<i>Energy</i>												
National Oilwell Varco	NOV	3/29/2006	62.90	60.44	-2.88	90	48.9	3.37	4.68	17.91	12.90	0.0
<i>Financials</i>												
Allstate Corporation	ALL	12/30/2005	54.07	53.61	-0.67	63	17.5	6.35	6.05	8.44	8.87	0.0
Capital One Financial	COF	12/30/2005	86.40	85.90	-1.61	100	16.4	7.80	8.45	11.01	10.17	0.1
Hartford Financial Services	HIG	3/29/2006	79.24	82.26	6.64	106	28.9	8.86	9.65	9.28	8.52	1.4
<i>Healthcare</i>												
Eli Lilly	LLY	12/30/2005	56.59	54.39	-3.53	64	17.7	3.18	3.50	17.09	15.56	2.8
<i>Industrials</i>												
Deere & Co.	DE	12/30/2005	68.11	80.70	17.97	103	27.6	6.55	7.75	12.33	10.41	1.4
Paccar Inc.	PCAR	5/4/2006	73.46	78.29	8.06	87	11.1	8.5	7.25	9.21	10.80	3.7
<i>Materials</i>												
Dow Chemical	DOW	12/30/2005	43.82	38.62	-12.16	56	45.0	4.95	5.20	7.80	7.43	3.5
Massey Energy Company	MEE	5/2/2006	39.48	34.27	-10.08	45	31.3	2.24	4.72	15.31	7.26	0.5
<i>Technology</i>												
Ingram Micro	IM	12/30/2005	19.93	17.85	-11.53	23	28.9	1.53	1.69	11.67	10.56	0.0
Motorola	MOT	1/17/2006	24.03	19.95	-13.10	30	50.4	1.31	1.49	15.25	13.41	0.8
Texas Instruments	TXN	12/30/2005	32.07	30.00	-7.37	42	40.0	1.6	1.91	18.51	15.54	0.3

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Bradley Brown owns shares of Supertel Hospitality.
Steven Marascia owns shares of Peoples Energy.

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A&S has performed investment banking for Supertel Hospitality
A&S makes a market in Supertel Hospitality, Aladdin Knowledge, and Lakeland Industries

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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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