EQUITY RESEARCH

# Monthly Stock Monitor
**December 4, 2007**

ANDERSON & STRUDWICK
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**HIGHLIGHTS**

**CMS Energy……………………….…………………Turnaround continues, good cash flow growth**
**Duke Energy………………..…..……………………………………………………Profits rise 67%**
**NiSource Inc………………..………………………….Earnings decline & announces MLD spin-off**
**Playboy Enterprises…………………………………………………….Operating income +11%**
**Sirius Satellite Radio……………………………….Loss narrows, awaiting FCC merger decision**
**Smithfield Foods……………………………...…..Higher Corn prices and currency hurt earnings**
**Teco Energy………………..……….……………………………Quarterly earnings improvement**
**Virginia Financial Group…………………………………….Earnings decline on higher expenses**
**Market Commentary…………………………..…………………………A "yo-yo" November**

## COMMENTS AND UPDATES

### CMS Energy (CMS - $17.37)

CMS Energy reported earnings per share of $0.34/share during 3Q07 compared to ($0.47)/share during 3Q06. Results from 3Q07 include the recognition of a $49 million insurance payment regarding a dispute in Argentina. Factoring out impairment charges and the Argentinean insurance payment CMS results on a quarter-to- quarter basis were $0.13/share vs. $0.13/share. While earnings were flat we were encouraged by improvement in CMS's EBITDA and cash flow. CMS has worked hard to reduce expenses, lower debt levels, and exit non-regulated businesses during the past three years to improve its profitability. Evidence of success can be seen given the recent reintroduction of its common stock dividend. Going forward continued operating improvement could allow the company to increase the dividends with EBITDA and cash flow growth. The just completed quarter results showed CMS's EBITDA improving to $194 million from ($27 million) when compared to last year's quarter. Additionally, through the first nine months of the year cash flow increased to $1.25 billion versus $459 million during last year's nine month comparable period. Furthering the argument for a turnaround at CMS, management reaffirmed 2007 and 2008 earnings guidance of $0.80/share and $1.20/share, respectively. We believe a continuation of these positive trends at CMS may allow management to raise its dividend during the next 12 months and potentially increase investor demand for its stock. We rate these shares OUTPERFORM and our price target is $19/share. (SFM)

### Duke Energy (DUK - $19.83)

Duke Energy reported 3Q07 ongoing earnings of $0.48/share compared to $0.29/share during 3Q06. The improvement was due to hotter than normal weather in DUK's service territory as customer used more power to run cooling systems. Additionally, the company's US Franchised Electric and Gas (USFE&G) and Commercial Power units increased EBITDA by $82 million and $64 million, respectively. EBITDA improvement at USFE&G increased due to power

*For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer page 6 of this report.*

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plants ability to meet higher customer demand from warm weather, completion of rate credits related to the Cinergy merger, and additional long-term wholesale contacts. The Commercial Power increased results came from higher retail margins from timing/recovery of fuel and power purchased power costs, higher prices, and favorable weather conditions. DUK continues to establish its own operating identity after last year's spin-off of its large gas holdings known as Spectra Energy (SE-$25.20). During the earnings conference call management reaffirmed 2007 earnings guidance of $1.15/share or better. We rate these shares NEUTRAL. (SFM)

**NiSource Inc. (NI - $18.52)**

NiSource Inc. reported 3Q07 earnings of $0.08/share compared to $0.11/share during 3Q06. Operating earnings on a non-GAAP basis were $132.4 million versus $142.9 million. The decline in operating earnings was attributable to a one-time $16.2 million reserve associated with its NIPSCO subsidiary regulatory settlement. NI's Gas Distribution unit reported an operating loss of $41.9 million compared to a $30.8 million operating loss. The increase in the current quarter's operating loss was due to higher operating expenses. The Gas Transmission/Storage Operations Unit generating operating earnings of $75.4 million compared to $69.4 million as this subsidiary had higher revenues from firm capacity reservation fees. The Electric Operations business reported operating earnings of $102 million compared to $113.1 million due to the one-time regulatory settlement of $16.2 million. NI said it intends to form a master limited partnership with its gas transmission/storage assets. 2007 earnings guidance is $1.35 and management gave 2008-2010 guidance of $1.25-$1.35. NI is rated OUTPERFORM and our price target is $27/share. (SFM)

**Playboy Enterprises (PLA - $9.29)**

Playboy Enterprises reported 3Q07 earnings of $0.08/share versus $0.03/share during 3Q06. Revenues increased to $82.8 million from $82.3 million as a rise in the Licensing unit offset decreases in Publishing and Entertainment. Operating income rose 11% to $4.2 million from $3.7 million following improvements at the company's Entertainment and Licensing businesses. Income from the Entertainment unit grew 24% to $7.2 million from $5.8 million generated by strong European network results and favorable currency exchange rates. The Licensing Group's income increased 37% to $6.3 million as revenues improved by 35% form higher sales of consumer products and royalties from the licensing deal with the Palms Casino Resort in Las Vegas. Publishing operations generated a loss of $1.4 million compared to an $800,000 loss due primarily lower newsstand and subscription revenues. Going into 4Q07 PLA management anticipates income in the licensing unit will improve 25%-30% as positive contributions are derived from the Palms Casino Resort, increased product line sales, and the new store opening in London. The Entertainment Group is expected to experience increased profits from the international TV business and a stabilized domestic TV business, thus generating 4Q07 results similar to those of 4Q06. Going forward, improved results from the Entertainment unit driven by continued growth of International TV, combined with a stable Domestic TV business, and higher profits from the Licensing Group could propel PLA's earnings higher in 2008. These share are rated OUTPERFORM and recommended for aggressive/speculative accounts. Our price target is $16/share. (SFM)

**Sirius Satellite Radio (SIRI - $3.75)**

Sirius Satellite Radio reported a 3Q07 operating loss of ($0.08)/share compared to a ($0.12)/share loss during 3Q06. Strong consumer demand increased subscription growth as net subscribers grew 50% over last year's comparable quarter. New subscribers increased by 524,038 bringing SIRI's total subscribers to 7.7 million. Total revenues grew 45% to $241.8 million from $167.1 million. Subscriber acquisition costs per subscriber decreased to $103/customer from $114/customer produced by lower product costs, partially offset by a higher mix of OEM gross additions. SIRI announced its intention to merge with XM Satellite Radio (XMSR-$14.02) and is awaiting approval from the Federal Communications Commission (FCC). The National Association of Broadcasters has been lobbying against this proposed merger. Wall Street appears split on whether the FCC will approve the merger. In fact, investors betting against the SIRI/XMSR combination have been shorting SIRI's and XMSR's stocks feeling the FCC could rule against the merger and cause both stocks to decline in price. However, this short position in SIRI's stock could present a trading opportunity should the merger gain approval. Recent statistics show 6% of SIRI's total shares have been shorted by Wall Street. Should the shorts cover & investors move into SIRI stock, based on a positive FCC ruling, then SIRI's share price could rally from its current level towards the $4.50-$5.00/share. This could happen quickly offering a short-term trading opportunity for your aggressive/speculative trading accounts. The downside risk-FCC does not give approval to SIRI/XMSR deal and selling wave hits SIRI, potentially pushing shares down to $2.80-$2.50share. These shares are rated OUTPERFORM. (SFM)

**Smithfield Foods (SFD - $29.82)**

SFD reported 2Q08 earnings of $0.13/share compared to $0.40/share during 2Q07. The just completed quarter's results were penalized $0.28/share from $13 million in costs related to the swine virus outbreak in SFD's Romanian operations and a $25 million tax loss due to foreign currency fluctuations. Revenues improved to $3.46 billion from $2.80 billion. Operating profit in the pork segment rose to $62.9 million from $22.7 million resulting from an increase in the packaged meats business as volumes of key packaged meats categories grew 37%. International segments profits grew to $9.2 million from $7.8 million as Groupe Smithfield and SFD's Polish operations contributed to the positive results. Hog production profits declined to $18.6 million from $77.9 million primarily due to declining commodity pricing of hog meat and higher corn prices used to feed herds, and costs associated with swine flu outbreak in SFD's Romanian operations. Beef segment profits fell to $2.8 million from $6.0 million caused by higher feed costs. On the surface SFD's earnings look unfavorable given the quarterly earnings report of $0.13/share versus $0.40/share. However, factoring back in the $0.28/share hit from swine flu costs in Romanian operations and negative currency operations, SFD's earnings would have been $0.41/share. Investors should look favorably upon operating results at the pork segment and international segments. These trends should continue as the packaged meats segment contributes positively towards the pork segment and the international unit benefits from SFD's growing overseas business. While higher corn prices hurt beef and hog production operations, there is hope on the horizon. Given the large amount of US farm acreage being devoted to corn in 2008, a bumper crop could lower maze's price during the next 12 months, potentially decreasing SFD's feed costs. The falling US dollar has hurt SFD's currency translations, thus penalizing the company's earnings. A rally in the US dollar against foreign currencies could reverse the negative effect of $25 million felt by SFD' earnings during 2Q98. SFD's stock appears to be in the lower end of a $28-$34/share trading range. These shares could rally over the short-term to $34/share. We rate SFD OUTPERFORM and our price target is $41.25/share. (SFM)

**Teco Energy (TE - $17.44)**

Teco Energy reported 3Q07 earnings of $0.44/share versus $0.38/share during 3Q06. 3Q07 non-GAAP operating results, including the synthetic fuel business, were $92.2 million compared to $77.3 million. Synthetic fuel results added $0.06/share during the just completed quarter. On an operational basis, the regulated Tampa Electric utility business produced profits of $64.8 million compared to $57.0 million. Tampa Electric's retail energy sales increased 4.8% due to favorable weather patterns. The TECO Transport unit generated net income of $11.0 million versus $3.4 million and TECO Guatemala produced profits of $10.2 million versus $9.3 million. TE Coal income declined to $20.5 million from $21.4 million and the People Gas System's profits fell to $3.8 million from $4.2 million. During its conference call management gave earnings guidance of $0.97-$1.07/share. The earnings turnaround, begun three years ago at TE, continues evidenced by the past year's earnings progression and the company's ability to reduce debt. These shares are rated OUTPERFORM and our price target is $19. (SFM)

**Virginia Financial Group (VFGI - $17.74)**

Virginia Financial Group reported 3Q07 earnings of $0.40/share versus $0.47/share during 3Q06. Earnings were affected by higher deposit costs, lower net interest income, and higher non-interest expenses. Net interest income declined 5.1% and total non-interest income rose 4.7%. Earnings at VFGI were affected by negative fundamentals experienced by many banks: rising deposits costs and declining net interest income. VFGI management believes the bank is properly positioned to grow in the future and hopefully the recent interest rate cuts by the Fed Reserve, along with non-interest income growth from DDA accounts, could produce improved profitability sometime in 2008. Loan growth improved in the just completed quarter due to positive results from the new Richmond loan production office. VFGI's credit quality appears sound with the allowance for loan losses/total loans currently at 1.21%, representing a slight increase from 1.19% during 3Q06. Total non-performing assets/total assets rose to 0.47% from 0.18%. Cost saving synergies could emerge during the next few quarters with the completion of the merger with FNB Corporation recently approved by the Federal Reserve Board. Given potential flat earnings during the next year and the upcoming assimilation of FNB into its operating system, our rating on VFGI is NEUTRAL. (SFM)

## MARKET COMMENT

November provided another rollercoaster type of trading activity in the equity markets as the major averages "yo-yo'ed" as economic views and news were released during the past month. Further concerns arose over the financial effects of the sub-prime market meltdown and its implications on the US economy. Recent reports have stated the US Government is working to add liquidity back to the troubled sub-prime markets and bring stability to declining loan and real estate markets.

The equity indexes were volatile during November before finally ending lower for the month. The Dow Jones Industrial Average (DJIA) started the month at 13,930 but fell on selling pressure to a low of 12,724 on negative financial reports. Pivoting off of its 11/26 low the DJIA rallied during the last few days to end at 13,371 due to the prospect of further lowering of interest rates by the Federal Reserve. For November the DJIA was declined by 4%. The S&P 500 and NASDAQ followed similar trading patterns and finished lower by 4.4% and 6.9%, respectively.

Volatility in the stock markets was generated by the ongoing news of the sub-prime market meltdown's effects on the financial sector. The sub-prime loan market grew dramatically during the past 7 years as lenders lowered credit requirements to allow buyers to pay for escalating US real estate prices. Seeing the growth of the sub-prime market, many financial companies created derivative securities from sub-prime mortgages and other consumer debt obligations. These derivative securities, known as Structured Investment Vehicles (SIV) and Collateral Debt Obligations (CDO), began to collapse this past August as questions arose to their financial validity. The pricing of SIV’s and CDO’s instruments became an issue as Wall Street questioned the market value of these securities. Unable to price SIV’s and CDO’s many financial firms are being forced to write-off the values of their exposure to these securities. Bank of America, Bear Stearns, Morgan Stanley, Merrill Lynch, Citigroup, and Wachovia took billions of dollars worth of write-offs in November causing traders to exit the equity markets. Some indication of market pricing of these instruments developed following the infusion of $2.5 billion of capital into E-Trade in which its asset-backed securities were priced at 27 cents-on-the-dollar.

As concerns have grown over liquidity in the financial markets, the Federal Reserve has indicated it may again lower interest rates. The next FOMC meeting is on 12/11 and should the Fed lower rates at that time it would mark the third lowering since the sub-prime mess began in August. One major Wall Street investment firm speculates the Fed could lower rates to 3% during 2008 given recent economic reports. Some reports have indicated a slowdown in consumer spending and reduced manufacturing levels in the US. The November manufacturing index declined to 50.8% in November, marking the third consecutive monthly decline in this index. Real estate sales continue to slump and recent reports have indicated pricing declines of 10% in Florida and 3% in New York. Meanwhile, the foreclosure rate on real estate has tripled in the US since 2005 rising form 200,000 to 600,000 according to RealtyTrac. These numbers along with an estimated $362 billion of adjustable rate mortgages scheduled to re-set interest rates during the next 12-18 months cause many investors to believe the Federal Reserve will be forced to further lower interest rates. However, potential good news for this battered area recently materialized from the US Government.

The Secretary of Treasury, Henry Paulson, and the US Government is working with banks and finance companies to stabilize the sub-prime mortgage market and return liquidity to this sector. Potentially, this would provide stability to a liquidity-starved sector and attempt to avert a growing foreclosure problem in the real estate sector. As of this printing no details have been given by Treasury Secretary Paulson or the US Government. However this program, if successful, could provide opportunities for investors seeking above average returns in out-of-favor sectors recently hit by the decline in the real estate markets. We suggest you consult with your Anderson & Strudwick consultant on this emerging plan from Secretary Paulson and for ideas which could potentially benefit your portfolio.

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Analyst owns shares of CMS Energy, NiSource and Sirius Satellite Radio. Employees of Anderson & Strudwick or members of their family may own shares in the securities mentioned.

Anderson & Strudwick makes a market in Sirius Satellite Radio
Anderson & Strudwick makes a market in Virginia Financial Group

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