

EQUITY RESEARCH

Virginia Quarterly Stock Report February 12, 2008

KMX – Retail	D – Electric Utility	MEG – Media
MEE – Coal	SFD – Food	
UBSH - Banking	UVV - Tobacco	



Entering into the new year of 2008, Virginia has been given several challenging issues on both the financial and on the state budgetary front. These challenges were generated from a softening real estate market and the sub prime contagion negatively affecting both the credit markets and economy. Despite these problems there has been positive news regarding business developments in Virginia.

This past summer saw the negative wave of sub prime contagion hit the financial markets causing problems for both the equity and fixed-income markets. During the past 6 years credit standards for new-home purchases were lowered as individuals flooded towards the real estate market to buy property. As the price of real estate escalated banks and mortgage companies lowered down-payment amounts from 10%-20% to 0%-5% connected to loans which featured balloon payments in 5-7 years. Many new home buyers used these types of loans and produced billions of dollars worth of new mortgages. Financial firms saw the huge growth in these loans as a new way to generate additional income and fees. This was done by taking various tranches of mortgage payments, re-packaging them, and then selling these as a new type of investments called structured investment vehicles (SIV) and collateralized debt obligations (CDO). Wall Street estimates up to \$1.27 billion of these securities were sold to domestic/international bank and insurance companies.

Problems began last July when investors realized the large amount of trouble facing the 1.8 million adjustable-rate mortgages coming due for refinancing in 2008 on which the SIVs and CDOs were based, and the negative implications of falling US real estate prices.

These factors created the sub prime contagion currently working its way through the credit markets as many bank and insurance companies are now writing down the values of SIVs and CDOs held in their portfolios, or for which they may have exposure to through ancillary investments. To date approximately \$100 billion of these investments have been written down and Wall Street analysts estimate another \$150 billion - \$300 billion may face the same fate. This has created negative implications for the broad economy.

First, the softening of the real estate sector was accelerated as banks began to tighten credit standards making it harder for individuals to either make new purchases or get refinancing on existing loans. Moreover, housing prices began to decline in various parts of the US. The US Department of Commerce said new home sales declined 26.4% in the US during 2007 and according to the Virginia Association of Realtors sales fell 15% in the state. Second, concerns over real estate pricing, the glut of property for sale, and inability to refinance coming-due loans caused a slowdown in US consumer spending. Since consumer spending accounts for roughly two-thirds of our economy Wall Street became fearful of a US recession given evidence of slowing retail sales results during the past few months. This slowdown appears to have worked its way into the state coffers as many states now expect declining tax/fee revenues in 2008 due to less commerce activity from both real estate activity and consumer spending. In Virginia, state legislators estimate a potential \$1.3 billion shortfall could materialize during the next two year's for the state budget. This may cause Governor Kaine to propose some type of withdrawal from the state's \$1.2 billion rainy-day fund.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to pages 17-23 of this report.

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Investors should remember "that as day follows night" economic growth will eventually follow economic slowdowns. Eventually, the markets will purge itself of the problems created by the current sub prime contagion and the US economy could once again hit another growth mode. Virginia has several projects and announced corporate relocations which may provide future benefits to the state's economy. In Northern Virginia Volkswagen of America will relocate its headquarters to Fairfax County from Michigan,

Covance Inc. will expand and occupy a former Eli Lilly site in Prince William County, Gridpoint Inc. plans to move its headquarters from Washington DC to Arlington, and UVA, Va. Tech, and the Virginia Community College System entered a partnership with Rolls Royce concerning part of its plans to build a \$100 million jet engine plant in Prince George County. In the Tidewater area, the VA Port Authority is seeking to build its fourth cargo terminal on Craney Island with the assistance of Federal Funding.

Company	Symbol	Current Price	52 Week Hi-Lo	A&S Rating
CarMax	KMX	\$19.78	\$28.67-\$15.81	NEUTRAL
Dominion Resources	D	\$41.95	\$49.38-\$40.03	NEUTRAL
Massey Energy	MEE	\$40.82	\$41.27-\$16.01	NEUTRAL
Media General	MEG	\$17.45	\$43.94-\$15.75	OUTPERFORM
Smithfield Foods	SFD	\$26.63	\$35.79-\$23.75	OUTPERFORM
Union Bankshares	UBSH	\$17.92	\$28.75-\$16.61	OUTPERFORM
Universal Corp	UVV	\$53.12	\$67.03-\$41.23	NEUTRAL

EQUITY RESEARCH

CarMax Inc. (KMX – NYSE)

Rating: NEUTRAL

Price and Trading Data		EPS estimates - diluted*		
Current Price	\$19.78		Feb 07A	Feb 08E
S&P 500	1339.13	1Q	\$0.27	\$0.30A
52-Week Price Range	\$28.67-\$15.81	2Q	\$0.25	\$0.29A
Shares Outstanding (mil.-diluted)	218.37	3Q	\$0.21	\$0.14A
Market Cap (bil.-diluted)	4.35	4Q	\$0.19	\$0.14
Avg. Daily Trading Volume (mil)	3.69		\$0.92	\$0.87
12-month Target Price	N/A			
2Q08 Valuation Data				
Total Debt to Capital	2%			
Book Value	\$7.39			
Price to Book	2.7			
Dividend	N/A			
Current Yield	N/A			

Company Summary

CarMax, Inc., headquartered in Richmond VA, owns and operates used-car stores in the US. The first store, under the ownership of Circuit City (CC-\$5.11), opened in 1993. Additional CarMax stores were opened and KMX's stock was issued in 1997. CC spun off its ownership in KMX in 2002. The company's primary business is buying, reconditioning, and selling used cars and trucks through its 88 stores located in 41 markets. Average annual sales of the US used car market were \$370 billion in 2005, with 1-6 year old cars comprising approximately \$280 billion of this market. KMX offers 1-6 year old vehicles featuring a "no-haggle" pricing system to customers and has a 2% market share in this area. Since 2000, the amount of vehicles sold by KMX has grown from 129,022 to 564,543 (including wholesale) while revenues grew from \$2.20 billion during FY00 to \$7.47 billion in FY07. Revenues are generated from retail used/new vehicle sales and wholesale sales. KMX has a low total debt-to-capital ratio of 2% while earnings from FY00 to FY07 have a compounded annual growth rate of 25%. The Board of Directors declared a 2-for-1 stock split for shareholders in 2007. Currently operating in FY08, KMX reported earnings of \$0.92/share during FY07 versus \$0.63/share during FY06 (both years were restated for the adoption of SFAS 123R).

Business/Recent Developments

The company operates its stores throughout 23 states in the US with three-types of formats: standard (offering 300-500 vehicles), satellite (offering 250-350 vehicles), and mega (800-900 vehicles). KMX's ability to grow its business is based on selling vehicles to customers with underlying support from the company's purchasing/inventory management, reconditioning efforts, and financing. These operating basics, along with new store openings, have allowed the company to grow total revenues during the past seven years to \$7.47 billion. KMX was recently named by "Fortune Magazine" as one of its 2008 "100 Best Companies to Work For", making it the fourth consecutive year the company has made this list moving up from No. 88 in 2007 to No. 44 this year. Warren Buffet's investment vehicle, Berkshire Hathaway (BRK-\$139,950.00) announced it had taken a position of 14 million shares in KMX, or approximately 6% of outstanding common stock.

Recent Earnings

Carmax reported 2Q08 earnings of \$0.14/share during the quarter versus \$0.21/share during last year's comparable period. The earnings decline was due to higher auto financing costs created by the subprime contagion in the credit markets. The subprime contagion in the financial markets has increased costs for the funding of loans in KMX's CarMax Auto Finance (CAF) unit. These increased costs caused a 49% profit decline in CAF's segment to \$16.3 million from \$32.0 million. Comparable same-store sales were flat and total overall sales grew 7% to \$1.89 billion from \$1.77 billion. Wholesale sales increased 4% during the quarter versus 30% during last year's quarter. New vehicle sales fell by 30% due to soft new car sales and the sale of KMX's Orlando Chrysler Jeep Dodge franchise during the 2Q, while other sales/revenues increased 9% due to increase used car revenues. Per car gross profits declined slightly to \$2,723 from \$2,736. Retail used vehicles gross profit margins fell to \$1,886 from \$1,898 and wholesale car gross profits per car increased by \$32 resulting from KMX's auto buying process and strong dealer attendance at the company's auctions.

Our Thoughts

The subprime contagion in the credit markets has caused an increase in rates charged for auto loans. This in turn increased funding costs for KMX resulting in a hit to the company's earnings. We would estimate KMX's auto loan funding costs will not drop until order is restored to the subprime market allowing for a decline in interest rates. KMX could potentially offset the rise in funding costs with an increase in auto sales. However, this would be dependant upon US consumer discretionary spending rising in 2008 which has come into question of late. KMX management affirmed current fiscal year same store sales growth of 2% and reaffirmed a recently lowered fiscal year's guidance of \$0.87-\$0.93/share. Continued problems in the subprime market, and flat auto sales in FY09, could cause headwinds for KMX's earnings. Technically, KMX stock is at a key point attempting to hold the \$19/share support level. A move below \$19/share could push it lower towards the next support level of \$17/share. We rate KMX NEUTRAL and lowered our 4Q08 and FY08 earnings estimate to \$0.14/share and \$0.87/share, respectively.

Risks

KMX's earnings could suffer from a US economic recession, consumer credit contraction, tightening of credit standards, or rising interest rates. Additionally, higher incentives offered by US auto manufacturers could negatively impact KMX profits. There is no guarantee the company's pricing model used in acquiring vehicles, successful in the past, will be so in the future. Negative equity markets could negatively affect KMX's share price. KMX's stock could be adversely impacted by negative equity/credit markets, failure to comply with Sarbanes Oxley guidelines, rising interest rates, or terrorist attacks.

EQUITY RESEARCH

Dominion Resources

(D – NYSE)

Rating: NEUTRAL

Price and Trading Data		EPS estimates -GAAP		
Current Price	\$41.95		Dec 07A	Dec 08E
S&P 500	1339.13	1Q	\$0.75	\$0.91A
52-Week Price Range	\$49.38-\$40.03	2Q	\$0.45	\$0.72
Shares Outstanding (mil.-diluted)	578.1	3Q	\$0.86	\$0.92
Market Cap (bil.)	24.6	4Q	\$0.52	\$0.55
Avg. Daily Trading Volume (mil)	3.02		\$2.58	\$3.10
12-month Target Price	N/A			

2Q07 Valuation Data	
Total Debt to Capital	27%
Book Value	33.61
Price to Book	1.5
Dividend	\$1.80
Current Yield	3.4%

Company Summary

Dominion Resources Inc., headquartered in Richmond VA, is a holding company for Virginia Power, Consolidated Natural Gas Company, Dominion Energy Inc., and has 26,500 megawatt generation capacity. The company provides electricity to 2.1 million electric customers in Virginia and northeastern North Carolina. D's revenues can be categorized as residential (47%), commercial (32%), public authority (11%), industrial (9%), and others (1%). Electrical assets include 6,000 miles of transmission lines in Virginia, West Virginia, and North Carolina and generation plants in 11 states. 2006's electrical generation by fuel type was 46% coal, 43% nuclear, 7% natural gas, 3% hydro-electric, and 1% oil. Natural gas is provided to 1.7 million customers in Pennsylvania, Ohio, and West Virginia. Gas customers consist of residential (73%), commercial (22%), industrial (4%), and others (1%). D's natural gas assets include 7,800 miles of pipelines and 970 billion cubic feet of gas storage. During 4Q07, D reported earnings of \$0.52/share versus \$0.04/share during 4Q06. D had full year 2007 operating GAAP earnings of \$2.56/share versus \$2.53/share for 4Q06. The company's annual dividend was recently increased to \$1.58/share from \$1.42/share.

Business/Recent Developments

D altered its business structure with the sale of the Exploration & Production unit. The E&P unit operated 7 major production basins in the US and Canada with 6.5 trillion cubic feet of natural gas/oil reserves and this business was sold to multiple buyers for a total of approximately \$14 billion. Proceeds from these sales will be used by D to repurchase shares, lower debt and for potential future dividend increases. D's remaining units are in two primary areas; 1) the electric distribution, generation, and transmission businesses and 2) natural gas distribution and transmission business. D maintained some natural gas storage and its 7,800 miles of transmission pipelines. Additionally, the company will keep approximately 1 Bcf of natural gas production area in Appalachia. Because of these sales, management realigned its business structure into Dominion Virginia Power, Dominion Generation, Dominion Energy, and Dominion Resource Services. The Board of Directors raised the quarterly dividend 11% and declared a 2-for-1 stock split this past November. D recently proposed a conversion of the Bremon Power Station to natural gas fuel as part of a plan to build the Virginia City Hybrid Energy Center in Wise VA. The company purchased a 50% interest in the Fowler Ridge Wind Farm, located near Indianapolis IN,

from BP Alternative Energy, adding to D's renewable energy portfolio generating approximately 413 megawatts of power. In another purchase, D agreed to buy a power station development project located in Buckingham County VA from Tenaska, an independent power producer. A sale of D's Dominion Peoples and Dominion Hope natural gas distribution companies was terminated due to a delay in gaining regulatory approvals. On another matter, Federal Regulators approved plans to increase production levels at D's Unit #3 of the Millstone nuclear power plant, potentially raising output to 2,120 megawatts.

Recent Earnings

Dominion Resources reported 4Q07 earnings from continuing operations of \$0.52/share vs. \$0.04/share during 4Q06. Results for 4Q06 include \$0.34/share in charges due mainly from losses involving discontinued operations. The higher earnings results came from improved contributions from the merchant generation business, lower unrecovered Virginia fuel expenses, increased regulated electric sales, declines in interest expense, and accretion due to D's share repurchase program. These were partially offset by higher salaries/wages/benefits expenses, increased outage costs at D's generating units, and lower earnings resulting from the sale of the non-Appalachian exploration & production units. On a quarter-to-quarter basis, GAAP based operating revenues declined to \$3.7 billion from \$3.9 billion. The Dominion Virginia Power unit's profits declined to \$82 million from \$105 million due higher wages/salaries/benefits expenses, increased outside service/reliability and Dominion retail expenses. Dominion Energy's grew to \$113 million from \$91 million benefiting from an increase in regulated gas sales (weather related), improvements in gas transmission operations and production services, and higher gas/oil production and prices. Dominion Generation rose to \$133 million from \$81 million. This unit's results were driven by higher electric sales from weather/customer growth, increased merchant generation margins, sales of emission allowances, ancillary service revenues, lower interest and unrecovered fuel expenses. Overall earnings were helped by D's share repurchase program, thus lowering the amount of outstanding shares and adding \$0.11/share in profits.

Our Thoughts

D's earnings came in pretty much in line with expectations showing quarter over quarter improvement. For the full year 2007 D operating earnings produced profits of \$2.56/share vs. \$2.53/share. 2007 was a transition for D sold the majority of its oil & gas businesses and used the proceeds to reduce debt, buyback shares, and increase its common stock dividend. Given the company's new business structure/focus on segment profitability, good local regulatory environment, and lack of charges from discontinued operations incurred during 2007, there is the potential for earnings growth in 2008/2009. Going forward, management gave 1Q08 earnings guidance of \$0.89-\$0.94/share, \$3.05-\$3.15/share in 2008, and \$3.25-\$3.40/share in 2009. These guidance numbers appear achievable given potential cash flow growth driven by D's business mix and operating model. Cash flow growth could allow the company to increase its dividend further during the next 3 years. Trading at 14x our projected 2008 earnings estimate of \$3.10/shares, and paying a 3.7% dividend yield, D seems fairly valued. We rate D neutral.

Risks

There are no guarantees D will be able to achieve annual earnings growth in the future. Fluctuating commodity prices paid for fueling generating plants, future air emission regulation compliance costs, and/or changing utility regulations could negatively affect earnings. Profits could be adversely impacted by a rising interest rate environment, future plant decommissioning costs, and rising operational expenses. D's stock could be adversely impacted by negative equity markets, failure to comply with Sarbanes Oxley guidelines, or terrorist attacks.

EQUITY RESEARCH

Massey Energy (MEE – NYSE)

Rating: NEUTRAL

Price and Trading Data		EPS estimates - diluted		
Current Price	\$40.82		Dec 07A	Dec 08E
S&P 500	1339.13	1Q	\$0.40	\$0.32
52-Week Price Range	\$41.27 - \$16.01	2Q	\$0.43	\$0.48
Shares Outstanding (mil-diluted)	79.6	3Q	\$0.27	\$0.59
Market Cap (bil-diluted)	3.06	4Q	\$0.06E	\$0.60
Avg. Daily Trading Volume (mil)	2.38		\$1.16	\$1.99
12-month Target Price	NA			
3Q07 Valuation Data				
Debt to Total Capital	58.5%			
Book Value	\$9.88			
Price to Book	3.87			
Dividend	\$0.20			
Current Yield	0.50%			

Company Summary

Massey Energy, headquartered in Richmond, VA is the 4th largest coal production company in the United States. The company extracts and processes coal from its mines located in the Central Appalachia area traversing the states of West Virginia, Kentucky, and Virginia. Revenues come from the mining, processing, and selling of its steam and metallurgical grade coals (aka, low sulfur coal). Other income comes from management of material handling facilities, a synfuel production plant, royalties, rentals, and gas well revenues. In 2007, MEE had revenues of \$2.05 billion, coal sales accounted for \$1.9 billion and the remaining \$310 million were derived from freight/transportation, purchased coal, and other operations, such as royalties, rentals, gas well income, coal handling facilities, and synfuel earnings. The company generated 2007 earnings of \$1.16/share, and had total assets of \$2.86 billion. Debt to total capitalization stood at 58.5% at year-end 2007 and MEE produced 39.9 million tons of coal. The company has 5,517 employees and 3% of its work force is unionized.

Business/Recent Developments

Legal matters have dominated recent news emanating from MEE. M. Shane Harvey, who has served as the company's vice president and assistant general counsel since November 2006, was promoted to the position of general counsel. In another legal matter MEE settled a Clean Water Act lawsuit with the Environmental Protection Agency (EPA). In the settlement, MEE agreed to pay \$20 million and resolves the company's liability exposure regarding this matter. Controversy regarding a recent legal ruling favoring MEE over Harmon Mining Co. has come under fire due to allegations of a conflict of interest with one of the judges involved in the decision which overturned a \$76.3 million judgment against Massey. As a result, the West Virginia Supreme Court unanimously voted to reconsider the reversal of this \$76.3 million judgment. Given the current favorable pricing for coal MEE decided to expand its mining operations to generate more revenues and potential profits. To this end, the company acquired a 50% ownership, and full lease rights, to 35 million tons of West Virginia coal reserves, for \$2.8 million in cash and a long-term lease commitment this past December. MEE also entered into an agreement with Essar Mineral Resources Ltd., a member of Essar Group of India, to assist in evaluating and

developing various projects in India. The Board of Directors recently increased MEE's common stock quarterly dividend to \$0.05/share from \$0.04/share.

Recent Earnings

Massey Energy reported 4Q07 earnings of \$0.06/share vs. \$0.10/share for 4Q06. While net income fell to \$5.1 million from \$8.0 million, some internal operating ratios improved on a quarter-to-quarter comparison. Produced coal revenues rose 5.3% to \$496.6 million from \$471.7 million, as revenues per ton of coal produced was \$51.84 versus \$50.51, and produced coal tons increased 3.2% to 9.6 million from 9.3 million. Improved pricing for coal and recent cost-cutting efforts caused EBITDA to rise 16.15% to \$91.5 million from \$78.8 million. The average operating cash cost per ton declined slightly to \$44.14 from \$44.39, allowing operating cash margins per ton to rise 25.8% to \$7.70. Other revenues during 4Q07 included a \$6.7 million pre-tax gain on the sale of a mineral rights override and a \$7.8 million pre-tax negative adjustment from synfuel operations due to rising oil prices during the just-completed quarter, producing a reduction of the estimated 2007 synfuel tax credit available for use by MEE. Capital expenditures totaled \$73.8 million versus \$59.6 million as management accelerated its expansion of various projects due to recently improved coal pricing. Depreciation, depletion, and amortization rose to \$62.8 million from \$59.0 million. Management gave 2008 coal shipment guidance of 41.5 million - 43.0 million tons with average produced coal prices of \$55-\$56/ton. 2008 coal production cost guidance is \$43-\$45/ton and other income could be \$30 million to \$100 million.

Our Thoughts

MEE's earnings appear to be headed in the right direction with coal prices for 2008 higher than 2007's, and the company's recent cost-cutting efforts producing improved profit margins. This combination should produce higher earnings for 2008. However, we recently lowered our rating on MEE from outperform to neutral based on the potential systemic risk of declining energy commodity prices. Recently, coal prices have been linked to the price movements of oil. During the past year, the price of coal rose as oil prices moved towards \$100/barrel. However, fears of an economic slowdown, both in the US and globally has caused oil prices to move lower. While coal prices have held steady, our fear is Wall Street's belief of an oncoming economic recession may cause a sell-off in energy prices including coal, potentially putting pressure on MEE's shares, as well as its industry brethren. MEE's balance sheet appears well positioned for the next year given 2008's contracted coal sales, improved cash flow from increased EBITDA, and the decline of total debt-to-capitalization from 61.3% to 58.5%. One potential problem for MEE during the next year could be the West Virginia's Supreme Court decision to reconsider the reversal of a \$76.3 million verdict against the company finding in favor of the Harmon Mining Company. These shares are rated NEUTRAL.

Risks

Risks include declining coal prices, falling productivity, litigation risk, and rising labor costs. New mining regulations could increase operating expenses. Loss of large coal contracts and negative equity markets could adversely affect MEE's stock. MEE's stock could be adversely impacted by negative equity markets, failure to comply with Sarbanes Oxley guidelines, rising interest rates, or terrorist attacks.

EQUITY RESEARCH

Media General

(MEG – NYSE)

Rating: OUTPERFORM

Price and Trading Data		EPS estimates - diluted		
Current Price	\$17.45		Dec 07A	Dec 08E
S&P 500	1339.13	1Q	(\$0.27)	(\$0.11)
52-Week Price Range	\$43.94-\$15.75	2Q	\$0.22	\$0.34
Shares Outstanding (mil.-diluted)	22.62	3Q	\$0.11	\$0.77
Market Cap (mil.-diluted)	435.9	4Q	\$0.43	\$0.52
Avg. Daily Trading Volume	425,933		\$0.49	\$1.52
12-month Target Price	\$38			

3Q07 Valuation Data	
Long-Term Debt to Total Capital	50%
Book Value	\$38.83
Price to Book	0.5
Dividend	\$0.92
Current Yield	4.8%

Company Summary

Media General, Inc. is a multi-media company headquartered in Richmond, VA. The company has three primary media units: publishing, broadcasting, and interactive media serving primarily the southeast markets of the United States. The publishing division consists of 25 daily newspapers and over 150 other publications. Newspaper operations are in Alabama, Florida, North Carolina, South Carolina, and Virginia. MEG's two largest newspapers are the Richmond Times-Dispatch and The Tampa Tribune. This division generated the majority of overall company revenues with \$601.1 million in 2006. The Broadcast unit owns/operates 23 network-affiliated TV stations and generated \$361.5 million in revenues in 2006. These TV stations are located in Georgia (4), Florida (3), North Carolina (3), South Carolina (3), Alabama (2), Mississippi (2), Kentucky (1), Louisiana (1), Ohio (1), Rhode Island (1), Tennessee (1), and Virginia (1). The Interactive Media group, consisting of 75 interactive enterprises is used to complement the publishing and broadcasting businesses. MEG also has a one-third ownership interest in SP Newsprint Company, a domestic newsprint manufacturer with over one million annual short tons capacity. The company generated 2007 revenues of \$932.2 million and had \$2.47 billion in total assets. Media General has both "A" and "B" shares. The general public owns the "A" shares and elects 30% of the Board of Directors, while the "B" shares (98% owned by the Bryan family), elects the other 70% of the Board.

Business/Recent Developments

MEG's management has recognized the shifting fundamentals in the media business and has implemented strategies to adapt to a changing operating environment. Emphasis is being placed on greater operating efficiencies and focusing on growth through its internet media business. The company recently reached a \$48 million settlement with its insurance company regarding the July 2007 fire at the Richmond printing facility. MEG announced it was selling its one-third ownership interest in SP Newsprint Company, a domestic newsprint manufacturer with over 1 million annual short tons capacity. On the regulatory front, the Federal Communications Commission (FCC) voted to ease the ban on ownership of newspapers and broadcasters in a single market potentially clearing the way for media asset sales in the future on an industry wide basis. Given the recent

swoon in MEG's share price Harbinger Capital Partners Master Fund I Ltd, has accumulated a 18.4% position in MEG's Class A stock. Harbinger has since sent out a letter to shareholders and management regarding its intention to seek three seats on the board of directors. The group says its intention is to enhance shareholder value. MEG management responded by saying, "Harbinger Capital Partners' short-term perspective and high portfolio turnover rate would be disruptive to the company and adverse to the long-term interests of its shareholders." Investors should note the Bryant family owns 75% of the voting stock and would need to sign-off on any new business strategies taken by MEG.

Recent Earnings

Media General reported 4Q07 earnings of \$0.43/share compared to \$1.33/share during 4Q06. Earnings suffered due to the continuing slowdown in the US economy. When comparing the two quarters, revenues declined 10%. 4Q07's results include a \$15 million asset related write-down prompted by the sale of the company's SP Newsprint unit, a \$2 million after-tax loss produced by plans to divest three TV stations, and a \$1.4 million write-down of an investment associated with the interactive entertainment unit. The just completed quarter included a \$17.6 million pre-tax gain on an insurance settlement related to a June 2007 fire at its Richmond VA printing plant. The slowing real estate market in Florida hurt the company's Tampa newspaper & TV operations and the overall economic malaise throughout the balance of the US caused revenue declines in 2 of MEG's 3 operating

units. The Publishing Division's revenues fell 9%, as the Richmond, Tampa, and Winston-Salem markets experienced decreases of 11%, 42%, and 8% respectively. The Broadcasting Division had a 14% decline due to lower political revenues when compared to last year's comparable quarter and the exclusion of 3 television stations which are being held for sale and considered discontinued operations. Interactive Media's results produced a 36% revenue increase as more viewers were attracted to MEG's website producing a large increase in its advergames business. Overall operating income on a quarter-to-quarter basis declined to \$52.8 million from \$63.6 million, income from continuing operations declined to \$10.4 million from \$31.3 million, and revenues declined 10% to \$243.8 million. Management noted 4Q07 consisted of 13 weeks compared to 14 weeks during 4Q06 and estimates the extra week in last year's quarter added \$18.5 million in revenues and \$2.5 million in net income.

Our Thoughts

Wall Street has priced in a US recession into media stocks and MEG's results confirm this thinking. Going into 2008 our sense is Interactive Media Divisions should continue to improve while the Publishing and Media results suffer until the US economy reverts back to a growth mode. Advertising in MEG's major markets have declined with Florida being hit the hardest due to the sinking housing/condo market and slowing state economy. However, revenues could rise this year as increased political ad spending begins for the US Presidential election and various product companies promote themselves during the Beijing Summer Olympics. While this could help MEG's revenues we sense the stock will not begin to move until Wall Street believes the end of a US economic slowdown is in sight. Before this occurs MEG's stock may continue to trade between \$15-\$22 awaiting signs of improving fundamentals at the company. Longer-term investors should purchase MEG for growth and income. MEG, currently out-of-favor with Wall Street, offers above average appreciation potential with an improving national economy and real estate markets. In the meantime, patient investors will be compensated with a 5% dividend yield. The dividend appears secure given the quarterly payout of \$5.13 million is covered by MEG's 4Q07 EBITDA of \$47.4 million. These shares are rated OUTPERFORM and our long-term price target is \$38.

Risks

There are no guarantees of MEG will increase revenues/profits in the future. As with all newspaper companies, rising commodity pricing of newsprint, ink, or fuel could adversely affect earnings. A slowdown in US consumer spending could reduce advertising revenues for the company. Competition in the newspaper industry, and from internet/TV/radio, could hamper MEG's ability to grow earnings. Higher interest rates, adverse equity markets, corporate governance issues, an economic slowdown, and terrorist attacks could negatively affect MEG's share price.

EQUITY RESEARCH

Smithfield Foods (SFD – NYSE)

Rating: OUTPERFORM

Price and Trading Data		EPS estimates - diluted		
Current Price	\$26.63	Apr 07A	Apr 08E	
S&P 500	1339.13	1Q	\$0.22	\$0.41A
52-Week Price Range	\$35.79-\$23.75	2Q	\$0.40	\$0.13
Shares Outstanding (mil.-diluted)	134.3	3Q	\$0.54	\$0.54
Market Cap (bil.-diluted)	3.62	4Q	\$0.33	\$0.46
Avg. Daily Trading Volume (mil)	1.34		\$1.49	\$1.54
12-month Target Price	\$41.25			

1Q08 Valuation Data	
Debt to Total Capital	54%
Book Value	\$22.79
Price to Book	1.2
Dividend	N/A
Current Yield	N/A

Company Summary

Smithfield Foods, headquartered in Smithfield VA, is the world's largest pork processor and hog producer, and the fifth largest beef processor in the United States. Founded in 1936, the company experienced significant growth in the early 1980's with the acquisition of Gwaltney's of Smithfield, which nearly doubled its sized. In 1992, SFD opened up the world's largest meat processing facility in Tar Heel NC, and in 1995, the company acquired John Morrell & Co., which expanded its reach throughout the Midwestern United States. The company has recently expanded both its domestic and international operations by acquiring Cook's, Butterball, LLC and Sara Lee European meats business in 2006. SFD employs over 52,000 people worldwide and currently owns subsidiaries in France, Poland, Romania, and the United Kingdom with joint ventures/major investments in Mexico, Spain, and China. On an annualized basis, the company had hog production of 13.9 million and produced 1.5 billion pounds of fresh beef. In FY07, SFD produced 3.1 billions pounds of fresh pork while producing 2.9 billion pounds of processed meat. The company is currently operating in FY08.

Business/Recent Developments

SFD is the world's largest pork processor and hog producer, 5th largest beef processor in the world, and offers turkey products. Some of the more recognized brands offered to consumers include "Smithfield", "Gwaltney", "Butterball", "Farmland", "Cumberland Gap", "Armour" and "Patrick/Cudahy". SFD has increased its US share of the beef, pork, and turkey markets through organic growth and acquisitions. During the past few years the operating focus has been to grow revenues, improve its manufacturing processes, lower production costs, and rationalize the operating /manufacturing strategy to eliminate freight and intra-plant movements. Last year, the company completed its purchase of Premium Standard Foods. Most of SFD's business is here in the US, however, during the past 15 years the company has expanded its business into Europe and exports to Japan. Other popular brands include "John Morrel", "Cooks", and "Stefano Foods". Management invested in the continued expansion of hog farms and plant renovation in Romania increasing its presence in the European market. SFD recently formed its "Groupe Smithfield" which combined previously owned French operations with recently purchased Sara Lee

meat business. Recently SFD signed an agreement to provide 60 million pounds of pork to China. ContiGroup Companies Inc, which already owns more than 5% of SFD stock, announced it's intent to buy 1,505,000 shares of Smithfield during the next year, increasing its overall ownership to 6.6%. Standard & Poor's rating agency said it was placing SFD's corporate debt on CreditWatch with negative implications due to its belief the company has not reduced overall debt levels. Given the recent controversy over cloned animal products SFD reiterated earlier statements of its intention not to produce cloned animals. On the legal front, a US Federal Court allowed SFD's legal action to move forward against the United Food & Commercial Workers Union regarding the union's recent action at the Tar Heel, NC plant.

Recent Earnings

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. Earnings from continuing operations were \$0.14/share versus \$0.41/share. Revenues improved to \$3.46 billion from \$2.80 billion. Pork revenues increased to \$2.34 billion from \$1.83 billion, beef's grew to \$722.4 million from \$632.8 million, and international rose to \$274.2 million from \$220.6 million. 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 margins doubled and 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 resulting from higher feed costs. These results reflect operations prior to the 2007 holiday season, normally SFD's busiest quarter. SFD's next earnings release is due at the end of February.

Our Thoughts

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 maize's price during the next 12 months, potentially lowering SFD's feed costs. The falling US dollar has hurt SFD's currency translations, thus penalizing company earnings. A rally in the US dollar against foreign currencies could reverse the negative effect of \$25 million felt by SFD earnings during 2Q08. Additionally, the company's expansion into the European and Asian markets could lead to increasing revenue streams potentially producing accelerated profit growth. SFD's stock appears to be at the lower end of its multi-year trading range of a \$24-\$35/share. We rate SFD OUTPERFORM and our price target is \$41.25/share.

Risks

SFD's profits are very sensitive to changing commodity prices and viral infections of its herds/flocks could negatively affect forward earnings. There are no guarantees SFD will be able to grow future profits. Declining prices of beef, pork, & turkeys could cause a decline in revenues/profitability. Rising operating expenses are a potential threat to net income. SFD has exposure to foreign currency and political risk given its overseas operations/ventures. SFD's stock could be adversely impacted by negative equity markets, failure to comply with Sarbanes Oxley guidelines, rising interest rates, or terrorist attacks.

EQUITY RESEARCH

Union Bankshares (UBSH – NASDAQ)

Rating: OUTPERFORM

Price and Trading Data		EPS estimates - diluted		
Current Price	\$17.92		Dec 07A	Dec 08E
NASDAQ Bank Index	2622.39	1Q	\$0.38	\$0.25
52-Week Price Range	\$28.75-\$16.61	2Q	\$0.42	\$0.27
Shares Outstanding (mil-diluted)	13.44	3Q	\$0.40	\$0.38
Market Cap (mil-diluted)	243.8	4Q	\$0.27E	\$0.40
Avg. Daily Trading Volume	36,887		\$1.47	\$1.40
12-month Target Price	\$31.50			

3Q07 Valuation Data	
Efficiency Ratio	48.48%
Book Value	\$15.82
Price to Book	1.2
ROA	0.64%
ROE	6.80%
Dividend Yield	4.1%

Company Summary

Union Bankshares is the bank holding company for Union Bank & Trust, Northern Neck State Bank, Rappahannock National Bank, and Bay Community Bank. It was formed in the 1993 merger of Union Bank & Trust Company and Northern Neck State Bank in Bowling Green, VA and currently has 58 full service branches, all located in Virginia, and is the third largest bank holding company based in the state. It recently completed its acquisition of Prosperity Bank & Trust Company in April. Prosperity Bank operates three branches in the northern VA area. This acquisition exemplifies UBSH's strategy to grow its footprint in the state of Virginia. Its fifty-one branch offices are located from the Tidewater area to the mountains, and into the Northern VA/Washington DC market. Current ownership of UBSH is 6.67% held by insiders and institutional investors own 19.78% of the shares. The affiliated banks of UBSH provide a variety of deposit and lending products to its clients. Some of these products include checking, savings, certificates of deposit, while also offering loans for commercial, industrial, residential mortgage, and consumer purposes. Additionally, full brokerage services are offered by its Union Investment Services unit. Through its Bay Community Bank, UBSH has a non-controlling interest in Johnson Mortgage Company, LLC. UBSH has total assets of \$2.3 billion, total net loans of \$1.71 billion, and deposits of \$1.55 billion. Book value was \$15.82 per share as of 12/31/07.

Business/Recent Developments

UBSH offers a wide variety of banking services to its customers throughout Virginia. The company initially started in the Hanover-Caroline Counties area and over the years, through new office openings and acquisitions, has expanded its presence across the state of Virginia. UBSH currently has 58 full service branch offices ranging from the Tidewater area to the Appalachian Mountains and from Richmond to Washington DC. Banking products offered to retail/commercial/industrial customers include ATMs, checking, savings, certificates of deposits, loans, and mortgages. Full brokerage services are offered to investors by its Union Investment Services Unit, LLC.

UBSH's interest income from the difference between the spread between interest earned on loans versus the interest paid on deposits and savings accounts. Non-interest income comes from fees earned from ATMs, checking accounts, loans, mortgage, and the brokerage business. Management plans to move forward by creating efficiencies from its existing offices and expanding its footprint throughout the state in order to grow future earnings. This past November, UBSH added Daniel I. Hansen to its Board of Directors.

Recent Earnings

Union Bankshares reported 4Q07 earnings of \$0.27/share vs. \$0.48/share during 4Q06. While net interest income rose to \$19.8 million from \$19.7 million, non-interest expense rose to \$19.9 million from \$17.2 million. The rise in non-interest expense was due to branch acquisitions and new office openings, including UBSH's new operations center in Caroline County. Additional non-interest expense came from new infrastructure costs, a 6.7% rise in salaries/benefits, and a 27% increase in occupancy expenses. Despite the recent rate cuts by the Federal Reserve, CD interest expense rose to \$10.76 million from \$10.14 million and interest bearing deposit costs increase to \$12.26 million from \$11.69 million. UBSH said these increases were attributable to high industry competition for deposits. A decline in UBSH's mortgage operations and an increase in loan loss provisions (\$1.18 million vs. \$154,000) also produced lower profit results. Given these internals ROA declined to 0.64% from 1.22% and ROE fell to 6.80% from 13.00%. Credit quality remained sound as non-performing assets/total outstanding loans moved lower to 0.5% from 0.7% and the allowance for loan losses/total outstanding loans declined to 1.11% from 1.24%. Total assets rose to \$2.3 billion from \$2.1 billion, net loans increased to \$1.71 billion from \$1.55 billion, and deposits were \$1.67 billion versus \$1.65 billion. Book value per share improved to \$15.82 from \$14.99.

Our Thoughts

Higher deposit costs and increased operating expenses penalized UBSH's earnings. Competition amongst banks for deposits, to fund loan growth, is causing a rise in interest expense for deposits despite the Federal Reserve lowering rates. Moreover, between UBSH's purchase of 6 branch offices opening 3 of its own in addition to its new corporate center, non-interest expense climbed while net interest expense was flat. The mortgage unit's results declined in line with a softening real estate market. UBSH's credit quality looks sound, however, its loan growth is being driven by commercial and construction loans. Our concern would be if these two loan areas falter based on weaker credit and economic conditions in 2008. UBSH looks attractively priced trading at 1.2x book and paying a dividend yield of 4.1%. We continue to rate UBSH OUTPERFORM and expect its shares to follow the industry sector as investors surmise the profit picture for this group based on a changing US economic environment. Due to the challenging banking environment we are lowering our price target on UBSH to \$31.50/share representing 2x book value.

Risks

There are no guarantees UBSH's growth strategy will improve earnings. The entire banking industry will have to face the operating challenges of a flat yield curve and a slowing real estate market. Corporate governance issues, rising interest rates, or negative equity markets may negatively affect UBSH shares. UBSH's stock could be adversely impacted by negative equity markets, failure to comply with Sarbanes Oxley guidelines, rising interest rates, or terrorist attacks.

EQUITY RESEARCH

Universal Corporation (UVV – NYSE)

Rating: NEUTRAL

Price and Trading Data		EPS estimates - diluted		
Current Price	\$53.12		Mar 07A	Mar 08E
S&P 500	1331.29	1Q	(\$0.23)	\$0.52A
52-Week Price Range	\$67.03-\$41.23	2Q	\$0.92	\$1.30A
Shares Outstanding (mil.-diluted)	27.30	3Q	\$1.17	\$1.56A
Market Cap (bil.-diluted)	1.30	4Q	\$0.66	\$0.94
Avg. Daily Trading Volume	361,967		\$2.52	\$4.32
12-month Target Price	N/A			

3Q08 Valuation Data	
Debt to Total Capital	27%
Book Value	\$33.61
Price to Book	1.5
Dividend	\$1.80
Current Yield	3.4%

Company Summary

Universal Corp., founded in 1918, is the world's largest leaf tobacco exporter/importer and is headquartered in Richmond VA. UVV's primary business is buying, shipping, processing, packing, storing and selling tobacco to cigar, cigarette, and pipe tobacco manufacturers. The company also provides financing of leaf tobacco operations in foreign countries. Tobacco sales are comprised primarily of burley and flue-cured tobaccos. UVV's largest customers are Philip Morris (MO-\$73.09) and Japan Tobacco, which account for the majority of orders. During fiscal year 2007, UVV generated revenues of \$2.0 billion. For 2007, the North American and the other Regions unit, part of the burley tobacco and flue-cured operations, generated 17% & 68% of revenues, and 19% & 63% of segment operating income; respectively. Other Tobacco operations produced 14% of revenues and 18% of segment operating income. UVV normally purchases 25% - 30% of the annual production of tobaccos in Brazil and 35% - 45% of Africa's. The company does business in over 35 countries and employs approximately 25,000 full and part-time workers. The majority of UVV's operations are located in the United States and Brazil. Other operations are located in Africa, Asia, Canada, Europe, and Argentina. The company recently sold off its non-tobacco operations (lumber/building/agri-business) and has been using the proceeds to reduce debt and for potential share repurchases. UVV shifted its year-end reporting quarter to March and is currently operating in fiscal year 2008.

Business/Recent Developments

Over the past year UVV has changed its mix of business to focus on tobacco operations. Along these lines the company sold two non-tobacco businesses: Barrow, Lane & Bullard & LTD and Deli-Universal. There will be a change in top management in 2008 as Chairman of the Board/CEO, Allen King, will retire on 3/31/08. He will be succeeded by CEO George C. Freeman III. President/CFO Hartwell H. Roper plans to retire on 8/31/08 and David C. Moore will take his position as CFO. Mr. Moore is currently a vice president and chief administrative officer of UVV. This past November the Board of Directors authorized a common share repurchase program of up to \$150 million. Additionally, the Board approved the raising of its quarterly common stock dividend by \$0.01/share to

\$0.45/share. On the credit front, Moody's recently affirmed its rating on UVV's Ba1 corporate debt and changed the outlook to stable from negative.

Recent Earnings

Universal Corp. announced 3Q08 earnings of \$1.56/share versus \$0.79/share during 3Q07. When factoring out 3Q07's charge for discontinued operations (\$0.38/share), earnings for last year's quarter would have been \$1.17/share. The improvement in earnings, when comparing the two quarters, was due to higher profits in the other regions segment of flue-cured and barley operations, as well as increases in other tobacco operations, and lower interest expense. North American segment of the flue-cured and burley operations produced operating income of \$19.4 million being essentially flat when compared to last year's quarter. Increased volumes of current crop tobacco from this segment, combined with higher pricing, offset crop reduction in Canada and the absence of last year's old-crop US burley, allowing revenues to increase 8% to \$133.3 million from \$124.5 million. The Other Regions segment had earnings of \$52.0 million versus \$45.9 million due to improvements in Asia and Europe. African results declined from lower margins on smaller crops, higher farm prices, and a weaker US dollar. Revenues from this segment increased to \$373.7 million from \$344.4 million. Other Tobacco Operations income improved to \$16.2 million from \$14.2 million due to accelerated sales for the Special Services group, as part of these operations are being absorbed into UVV's regional operations. This segment's revenues grew to \$66.1 million from \$43.8 million. Revenues rose 12% to \$573.1 million due to higher volumes in Europe, Asia, Africa, the Special Services group, and currency fluctuations. Most of the volume increases were due to timing of shipments. Selling, general, and administrative expenses fell 24% to \$47.9 million from \$63.0 million due to favorable currency translations and improved operating efficiencies. UVV had no restructuring/impairment costs compared to \$3.52 million during last year's comparable quarter.

Our Thoughts

UVV continues to execute its operating model after exiting its non-tobacco businesses. These efforts were designed to improve efficiency and lower operating costs in an effort to grow earnings. It appears these efforts will produce improved results as the current fiscal year's profits are running ahead of last year's numbers. Through 3Q08 UVV has earned profits of \$3.37/share versus \$0.54/share and we expect 4Q08's results show improvement over 4Q07. During its earnings conference call UVV said the recent accelerated tobacco shipments should cause lower shipments going into 4Q08 and FY09. While the company has done a good job of cutting costs, evidenced by improved quarter-over-quarter operating income (\$79.1 million vs. \$66.8 million), further improvement may be limited by fluctuations in the US dollar, and the timing of future tobacco shipments. Our 4Q08 earnings estimate is \$0.94/share. Technically, UVV's stock is in the middle of a 2-year trading range of \$35-\$65/share. These shares are rated NEUTRAL.

Risks

There are no guarantees UVV will improve future earnings. The company's two largest buyers are Philip Morris and Japan Tobacco. Termination of business with either of these companies would adversely affect UVV's profitability. UVV's profitability is subject to currency swings, timing of tobacco shipments, political events, and changes in foreign governments. UVV's stock could be adversely impacted by negative equity markets, failure to comply with Sarbanes Oxley guidelines, rising interest rates or terrorist attacks.

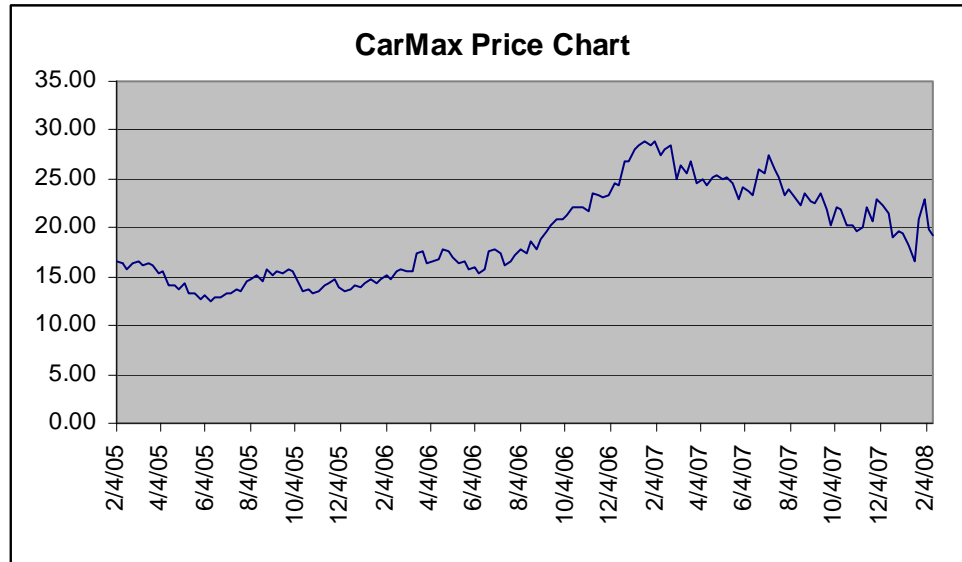
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3/14/07 \$24.62 Initiate NEUTRAL

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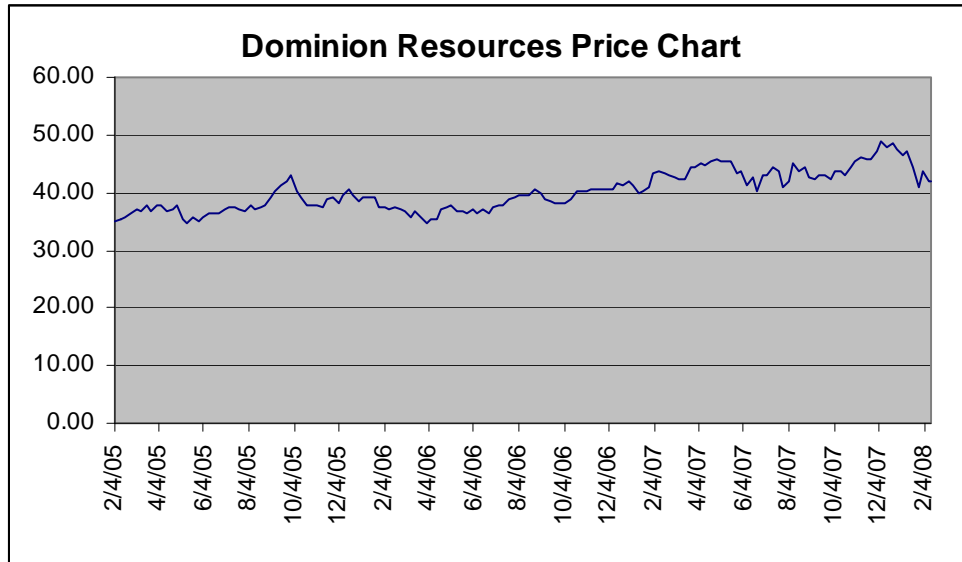
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11/3/04 \$58.16 Initiate NEUTRAL

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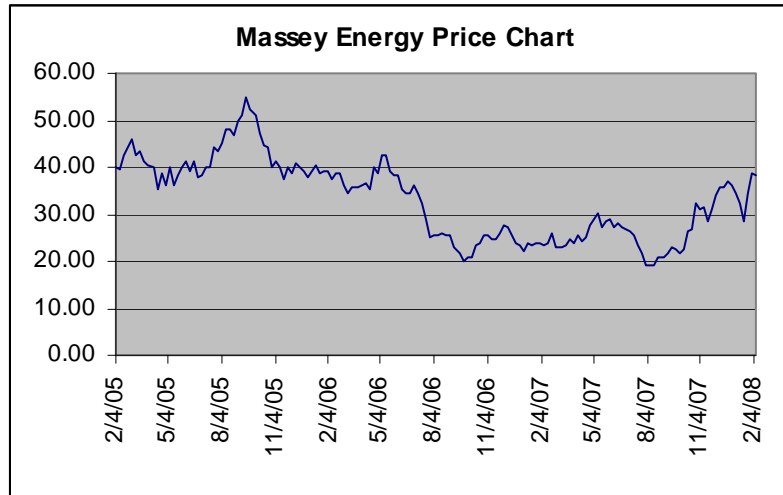
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3/10/06 Initiate OUTPERFORM @ 34.18. Target Price: \$43.00

4/12/07 \$24.42 Lower 12-month Target Price: \$31.00

1/09/08 \$33.23 Lower rating to NEUTRAL from OUTPERFORM

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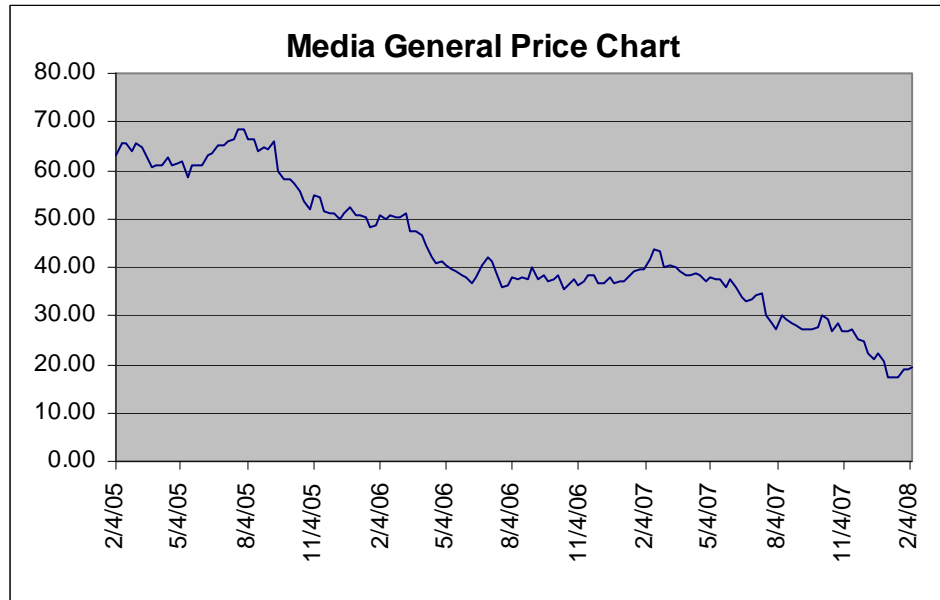
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8/7/07 \$28.17 Initiate OUTPERFORM TP: \$39.25
2/6/07 \$20.08 TP: \$38.00

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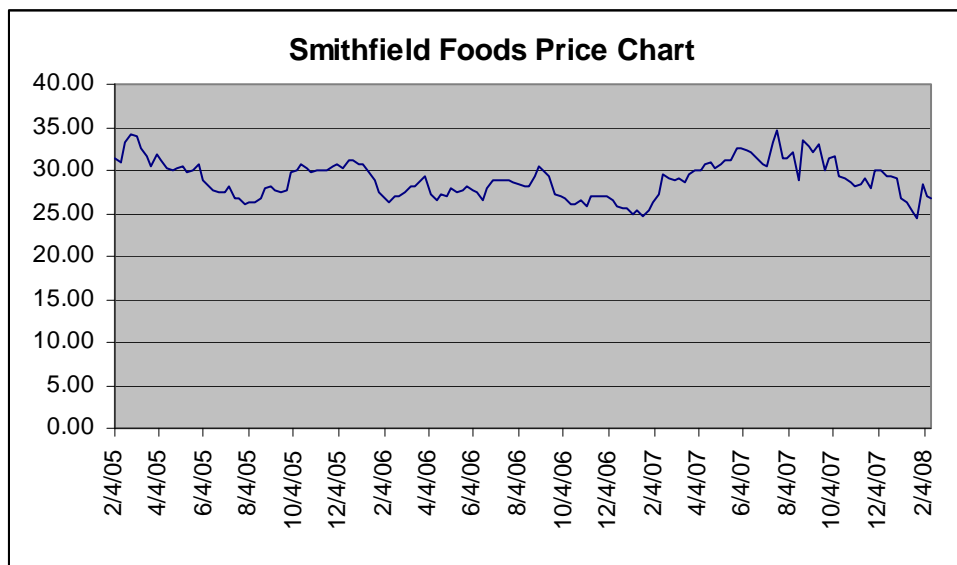
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11/09/04 \$25.70 Initiate OUTPERFORM TP: \$32.00
09/09/05 \$27.57 TP: \$34.00
04/12/07 \$30.48 TP: \$41.25

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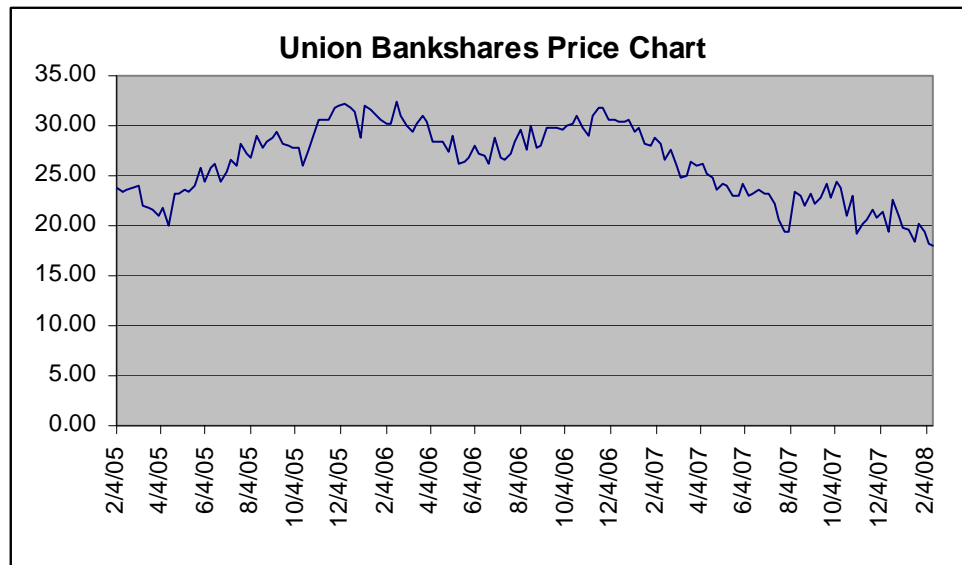
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- Union Bankshares has been rated OUTPERFORM during the entire three-year period

12/09/04 \$24.34 TP: \$40.00
08/09/05 \$27.59 TP: \$43.00
02/21/06 \$30.77 TP: \$48.00
10/27/06 \$29.46 TP: \$44.00
02/11/08 \$17.92 TP: \$31.50

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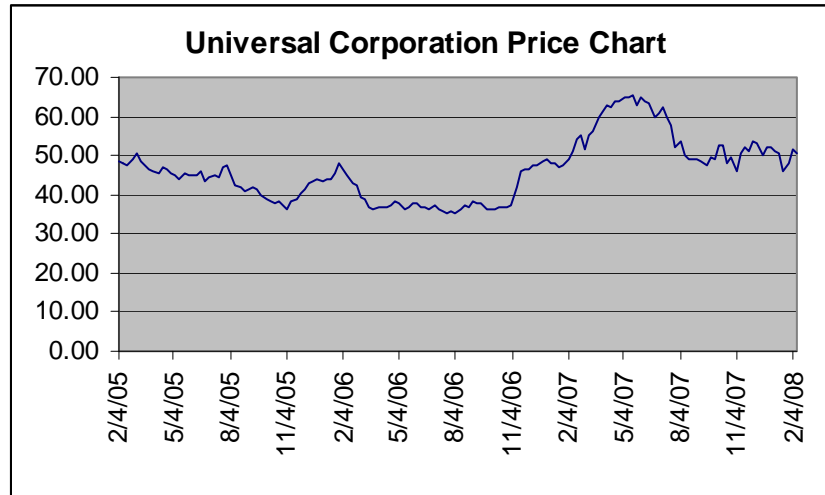
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9/21/06 \$36.95 Initiate OUTPERFORM TP: \$58
3/20/07 \$58.77 Lowered to NEUTRAL

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