

EQUITY RESEARCH

Monthly Stock Monitor
June 10, 2008



HIGHLIGHTS

MARKET COMMENTARY.....”Oil, Oil, Toil & Trouble”
DUKE ENERGY.....Improved earnings and \$1.27 EPS 2008 guidance
NISOURCE.....Profits hurt by rising costs
PLAYBOY ENTERPRISES.....Produced 1Q operating loss
TECO ENERGY.....Recently lowered rating on stock
UNIVERSAL CORP......Timing of shipments lowers profits
VILLAGE BANK & TRUST.....Loan loss provisions penalize earnings

MARKET COMMENT ~ “Oil, Oil, Toil & Trouble”

The past month of May brought a renewed sense of optimism regarding the economy and the US stock market before tailing-off entering June. The month started with investors believing the worst was over for the financial markets regarding sub prime contagion. However, as the calendar progressed towards June another fear eventually worked its way into the lexicon of Wall Street thinking-commodity inflation. Higher oil and commodity prices has been trouble for both the stock market and the US consumer. The prospect of higher inflation has caused investor money to pour into commodity-oriented investments during the past year. Recent economic reports continue to paint a mixed bag of results as "bears" and "bulls" debate the future direction of the economy and stock markets. However, one consumer sentiment report gave hopes for improved stock market performance during the next year based on past performance figures.

Stocks rallied during the first three weeks in May continuing the upward move in equities which began on March 17 following the bail-out of troubled Bear Sterns. However, selling pressure in the equity markets materialized during the last week of May prompted by the resurrection of credit contraction fears in the financial sector. First, Wachovia announced its CEO was retiring, then Standard & Poors cut the credit ratings on Merrill Lynch (MER-\$37.95), Lehman (LEH-\$27.50), and Morgan Stanley (MS-\$39.23) over what they feel are these firms overuse of hybrid securities. Additionally, it was reported Lehman Bros. would do a multi-billion dollar capital raise in order to shore up its balance sheet as the company is expected to report its first quarterly loss since going public. More selling was fueled by the reported ISM May Manufacturing index number of 49.6, where anything under a 50.0 is interpreted as a contraction in US manufacturing. Auto sales continued to decline forcing both Ford (F-\$6.12) and General Motors (GM-\$16.81) to close plants and announce further work force reductions. For the month of May the major averages had divergent results: the DJIA declined 1.4%, while the S&P rose 1.1%, and the NASDAQ was higher by 4.6% as investors seemed to migrate from larger cap stocks towards small caps.

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

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During the past year a large amount of money from hedge funds, private equity funds, and pension fund managers went into commodity-oriented investments. According to a recent study, \$37 billion of new investment dollars moved into these areas during 1Q08. The net result has been to produce an almost turbo-drive effect on commodity prices as they rose at what many consider an alarming rate. Consumers' pocket books have taken a big hit as the price of groceries and gasoline have risen dramatically during the past year with signs of rising inflation creeping its way into the US economy. For example, recently Dow Chemical (DOW-\$39.19) announced a 20% price increase for its products to offset since the rising cost of oil-based chemicals used in their production process.

Much has been made of the rising price of oil by the media after reaching a new high of \$138/barrel. Recently, the stock market's trading pattern has followed a predictable pattern of falling when oil prices increase and rally with falling crude prices. Some bullish contra-indicators suggest, however, the possibility of the US may being near a top in oil prices as American Airlines (AMR-\$6.73), Continental Airlines, and United Airlines announced they were shrinking their flight schedules, and raising air fares, while JetBlue (JBLU-\$3.89) decided to defer the purchase of previously ordered planes. The cable news channel, CNN, recently reported 37% of travelers have cancelled this summer's travel plans due to high fuel prices and the economy. The "Wall Street Journal" reported some municipalities are shifting to a 4-day work week to help employees reduce fuel consumed in daily commutes. Another interesting contra indicator recently appeared as one cable TV network is premiering a brand new program series called, "BLACK GOLD", whose storyline involves drilling for oil.

Evidence suggests US consumers are cutting back on driving and moving towards a conservation measures as reports have shown a 4% decline in gasoline demand. These conservation measures in the US could lead to growing oil/gasoline stockpiles. Upon seeing this, investors w/ large positions in the oil pits could begin to quickly exit positions and place heavy downward pressure on oil prices...leading to a potential rally in the equity markets. Certainly this would be a welcome by consumers and Wall Street "bulls".

The "bulls" rationale believes a stock market rally could ensue with falling oil prices. This rationale believes lower oil prices would give consumers more money to spend on other parts of the economy. Since consumer spending drives two-thirds of the US economy, lower oil prices could boost consumer spending, assuming a coincident stabilization of home prices. Higher consumer spending might push the economy from its current anemic 1Q08 GDP growth rate of 0.9% towards higher levels . One potential "bullish" indicator was last week's consumer confidence reports showing the numbers had sunken to its lowest level in 16 years. According to a recent article, in "BARRON'S", these confidence numbers have been as bad, or worse only 5 times since 1967, and each time the S&P 500 rallied about 15% in the following 6 months & 23% a year after the release of these negative figures.

Falling oil, food, commodity prices, and a signs of a stabilizing US economy, could produce a sustained rally in the stock market. Potential stock sectors which may rally under such a scenario would be auto manufacturers/suppliers, home builders/furnishings, paper/packaging companies, travel providers, airlines, and retailers. These areas are presently shunned by investors during declining markets yet tend to outperform the broad markets during periods of economic recovery. Given the many options available, investors should consult with their Anderson & Strudwick Financial Consultant to see which of these may be appropriate based on investment goals and philosophy.

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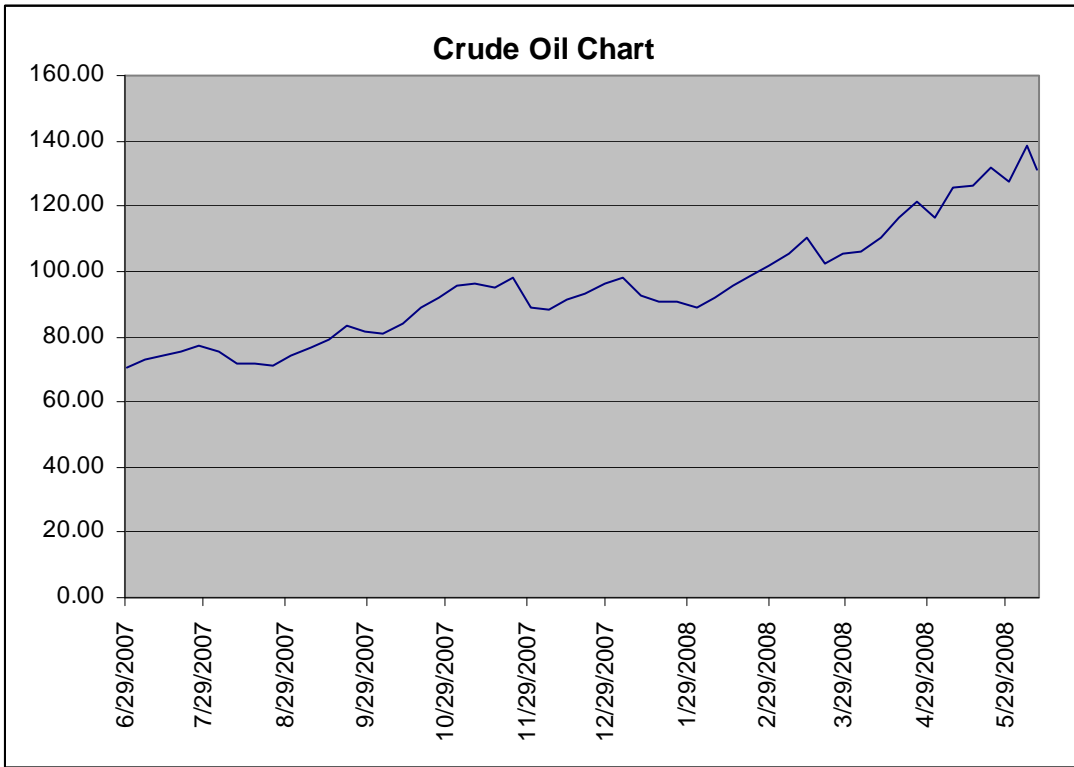
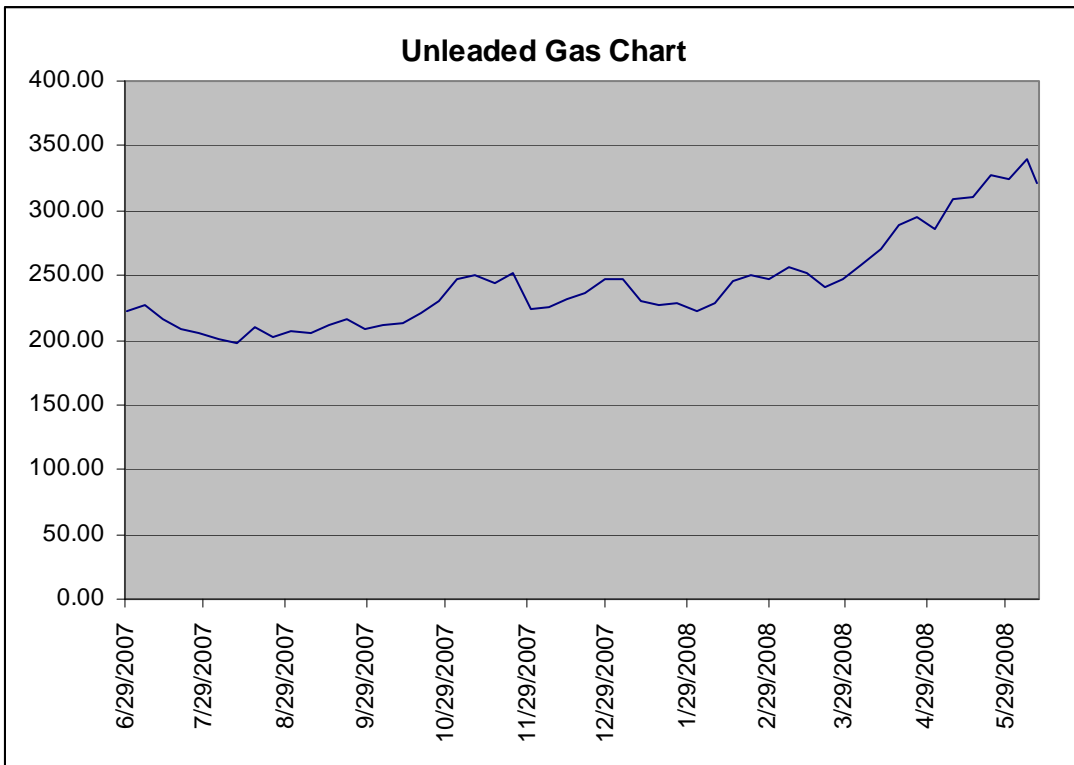


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COMMENTS AND UPDATES

Duke Energy (DUK-\$17.91) announced 1Q08 earnings from continuing operations of \$0.37/share versus \$0.27/share during 1Q08. The improved earnings produced primarily from the company's largest business units; US Franchised Electric & Gas (USFE&G), Commercial Power, and Duke Energy International (DEI). USFE&G provided earnings before interest (EBIT) of \$637 million compared to \$574 million during last year's comparable quarter as results were helped by the conclusion during 3Q07 of North Carolina air amortization, a large completion of rate credits in 2007 related to the Cinergy merger, a higher allowance for funds used during construction, and favorable weather. These positives were partially offset by lower retail sales produced by a NC rate review, a favorable settlement with the Department of Energy related to nuclear fuel issues in 2007, higher depreciation expense, and lower Bulk Power Marketing results. The Commercial Power unit increased EBIT to \$146 million from \$23 million driven by favorable mark-to-market impacts of economic hedges, lower purchase accounting net of expenses, gains on emission allowance sales, and improved results from DUK's Midwest gas powered assets. These offset higher expenses related to higher plant maintenance caused by system outages. DEI's produced EBIT of \$114 million versus \$94 million, benefiting from higher margins at its National Methanol business and favorable currency translations. During the conference call DUK management gave 2008 earnings guidance of \$1.27/share. DUK is rated NEUTRAL.

NiSource (NI-\$17.52) reported non-GAAP earnings of \$0.69/share during 1Q08 vs. \$0.75/share during 1Q07. 1Q08's results were negatively affected non-recoverable purchased power expenses, non-recoverable Midwest Independent System Transmission Operator (MISO) charges related to prior periods, and higher operating/maintenances expenses. These were partially offset by higher net revenues and lower interest expense. NI's Gas Distribution business produced operating earnings of \$255.5 million compared to \$250.9 million as net revenues increased \$15.2 million from increased residential/commercial volumes, regulatory initiatives, and other service programs. These were offset by a \$9.1 million increase in operating expenses from higher employee/administrative costs, expenses related to former gas plant sites, and taxes. The Gas Transmission and Storage business reported profits of \$104.4 million vs. \$107.3 million. The decrease was attributable to higher operating expenses (+\$4.6 million) and higher pipeline integrity management/employee/administrative costs. These were partially offset by higher net revenues from firm capacity reservation fees. NI has filed for a 10% rate increase for its Pennsylvania distribution business and for a 6% increase for its Ohio distribution unit. NI management provided 2008-2010 earnings guidance of \$1.25-\$1.35/share. Given NI's high dividend yield of 5.2%, these shares are rated OUTPERFORM.

Playboy Enterprises Inc. (PLA-\$5.79) reported 1Q08 earnings of (\$0.09)/share compared to \$0.04/share during 1Q07. The lower results came from a decline in segment income from the Entertainment and Publishing units, offsetting improvements in the Licensing and PLA's international businesses. During 1Q08 income from the Entertainment unit declined to \$2.7 million from \$4.3 million as Domestic TV revenues declined 16% due in part to a negative \$2.6 million variance related to cash adjustments during the just completed quarter. Online revenues fell 3% due to a decrease in lower pay site revenues offsetting gains in e-commerce, advertising, and mobile revenues. The Publishing unit reported an operating loss of \$3.2 million versus a \$2.4 million loss during last year's quarter resulting from a 14% revenue decline as circulation/advertising sales at "Playboy" magazine were lower, however, there was an increase its international editions. The Licensing unit's quarterly profits fell 13% to \$6.7 million as revenues were 6% lower and 1Q07's results included \$1.3 million from an original art sale. Factoring out the art sale, this unit's revenues increased 5%. Corporate operating expenses grew 7% to \$6.1 million. PLA is facing the dual challenge of a softening advertising market and shifting consumer viewership habits of moving from linear networks to on-demand platforms. These shares are rated OUTPERFORM on the potential of management being able to orchestrate an operating turnaround based on improvements in advertising revenues and profit growth in its Entertainment unit. (SFM)

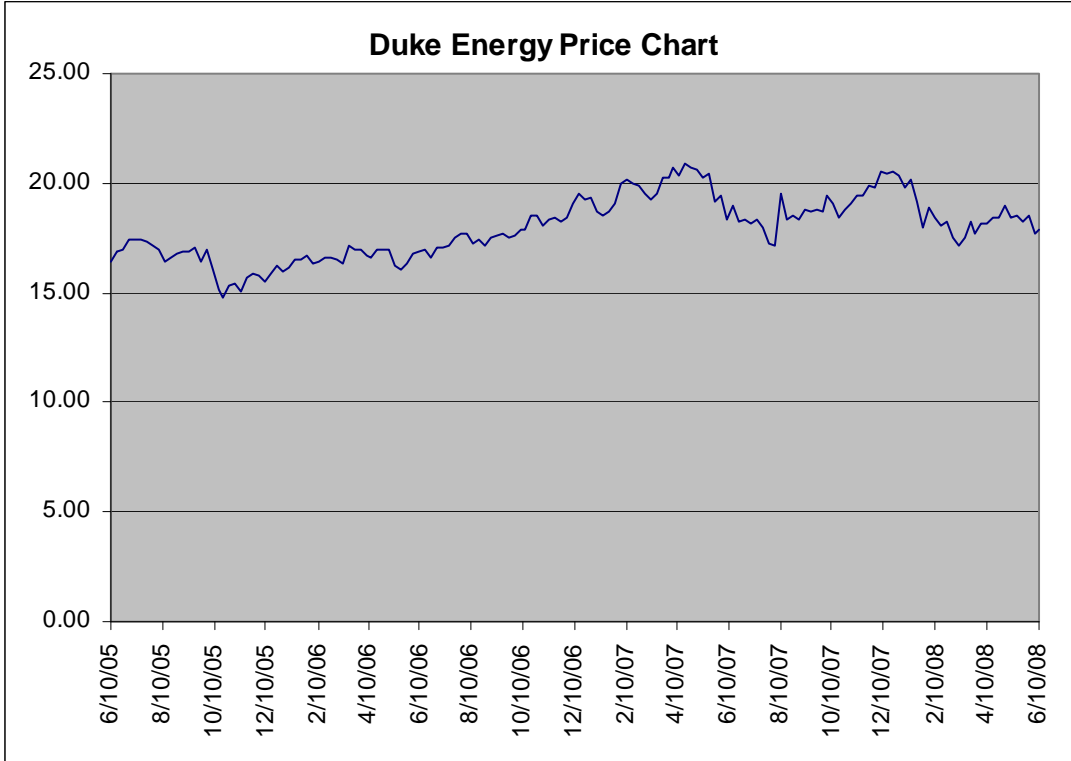
TECO Energy (TE-\$21.23) recently reported 1Q08 earnings of \$0.15/share vs. \$0.35/share during 1Q07. Absent in 1Q08's results were the benefits derived from TE's synthetic fuel production and TECO's Transport unit which added \$6.4 million and \$30.7 million, respectively during 1Q07. 1Q08's results also included a \$0.06/share after-tax charge for adjustments to previously estimated costs associated with the sale of the TECO Transport business. Overall net income was \$30.8 million versus \$72.8 million, and when factoring out synthetic fuel results, net income was \$31.4 million compared to \$43.9 million. When comparing the two quarters, total retail energy sales were lower due to a decrease in residential customers sales occurring from warmer-than-expected temperatures, and a decrease in sales to phosphate customers resulting from phosphate production facility outages. Management, during its earnings conference call, affirmed its 2008 earnings guidance of \$0.95-\$1.10/share anticipating customer growth for the balance of the year will

match the 0.6% rate experienced during 1Q08. Recently TE's stock ran up to our \$19/share target price after a Wall Street investment firm upgraded its rating on the company based on the TECO Coal business. The rationale assumed higher coal prices would benefit this unit's operating results. While this seems a natural extension of commodity pricing one must wonder if the current investor mania associated with energy, and coal stocks, is now filtering its way down towards utility companies. This thought process is reminiscent of the 2000-2001 internet/tech bubble when many investors were attempting to justify higher valuations for companies possessing a subsidiary internet operating unit. While comfortable with the company's 1Q08 earnings results, we lowered our rating on TE from OUTPERFORM to NEUTRAL in a report dated May 15, 2008 for several reasons. 1) TE's shares recently attained our \$19/share price target, 2) At its current price TE is trading at a price/earning ratio of 21x 2008 earnings~above its peer group, 3) TE trades at 2x book value~above its peer group. (SFM)

Universal Corp. (UVV-\$49.01) reported 4Q08 earnings of \$0.23/share vs. \$0.65/share during 4Q07. The timing of shipments was the primary reason for the decline in earnings on a quarter-to-quarter basis as many regions finished their respective annual shipments earlier during UVV's fiscal year. Additionally, 4Q08's results included \$0.21/share in charges related to restructuring expenses from employee separation expense and pension curtailment losses based on specific small defined benefit plans. 4Q07's earnings included a \$0.17/share charge related to UVV's decision to end direct involvement in flue-cured growing projects in Africa. The North America's segment operating income rose 22%, or \$3 million, despite the absence of old crop burley sales which benefited the prior year's quarter. This improvement came from higher volumes shipped and processed during the most recent quarter. The decline in UVV's earnings was anticipated given management's earlier notice of a shift of the company's shipments forward into earlier quarters during fiscal year 2008. On a year-over-year basis, UVV reported income from ongoing operations of \$3.71/share vs. \$2.52/share. Net income for 2008, including discontinued operations, was \$3.70/share vs. \$1.13/share during 2007. These results show the company has been successful in its business strategy of moving out of non-core operations and low-margin ventures. During the past year, UVV sold its lumber and non-tobacco business, and used proceeds to pay down \$164 million of debt during fiscal 2008. Going forward, UVV will have to deal with the challenges of difficult foreign currency translations, rising agricultural prices, and finding sufficient tobacco supplies to meet customer orders. Trading at 16x 2008 earnings we rate UVV NEUTRAL. (SFM)

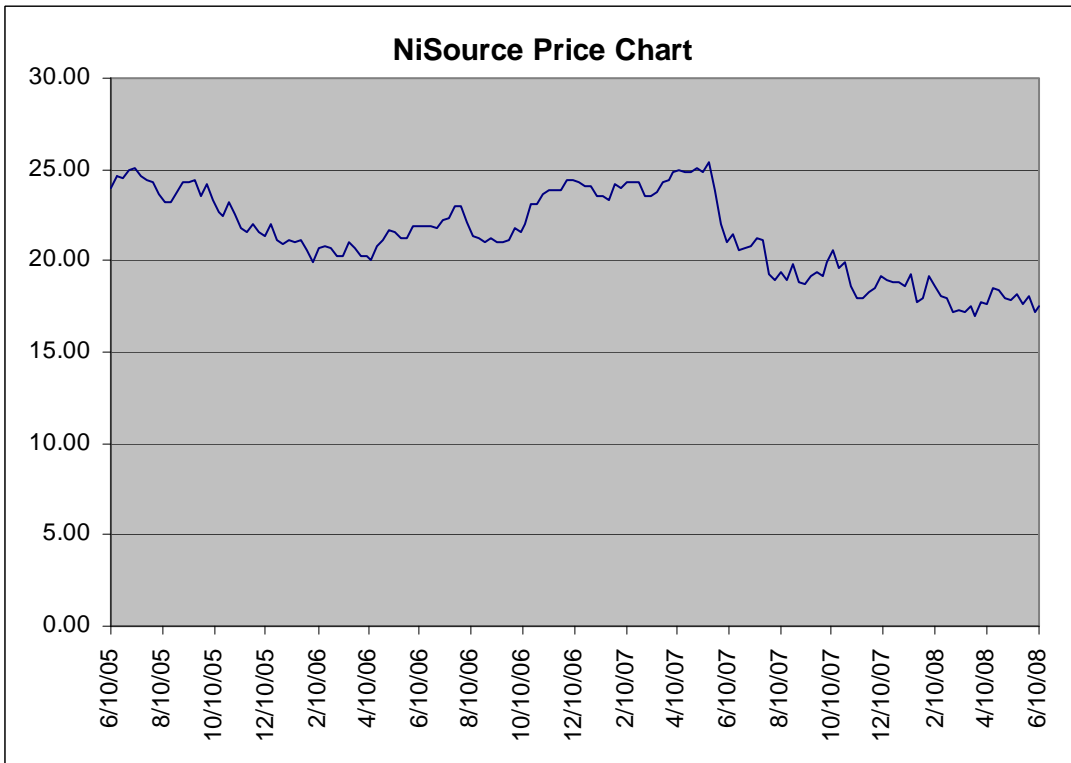
Village Bank & Trust Financial (VBFC-\$9.36) reported 1Q08 earnings of \$0.04/share compared to \$0.13/share during 1Q07. The decline in profitability was due to larger provision for loan losses during 1Q08. On a quarter-to-quarter basis, the provision for loan losses increased to \$249,000 from \$208,000 and nonperforming assets to total assets rose to 1.80% from 0.73%. Interest income grew to \$6.76 million from \$5.64 million and while interest expense increased to \$3.97 million from \$2.92 million. Non-interest income grew to \$758,000 from \$665,000 due to higher gains on loan sales/fees from increased loan production by VBFC's mortgage banking unit. Non-interest expense rose to \$3.15 million from \$2.64 million with the majority of the increase coming from a \$281,000 rise in salaries benefits, higher occupancy costs of \$54,000, accounting expenses of \$61,000, and an FDIC insurance assessment of \$86,000. Total assets improved to \$400.2 million from \$314.5 million. Net loans grew to \$348.7 million from \$259.4 million and deposits were higher at \$344.9 million versus \$276.2 million. The net interest margin fell to 3.09% from 4.01%, return on assets (ROA) declined to 0.10% from 0.49%, and return on equity (ROE) was lower at 1.38% vs. 5.61%. Given the decline in the real estate markets the potential exists for VBFC increasing loan loss provisions moving into the 2H08 which are likely to produce a negative affect on this year's earnings. VBFC is moving forward with its recent acquisition of River City Bank and progressing towards the assimilation of these two companies. Trading below its book value of \$10.49/share, VBFC is rated OUTPERFORM. (SFM)

Chart courtesy of Thomson Baseline



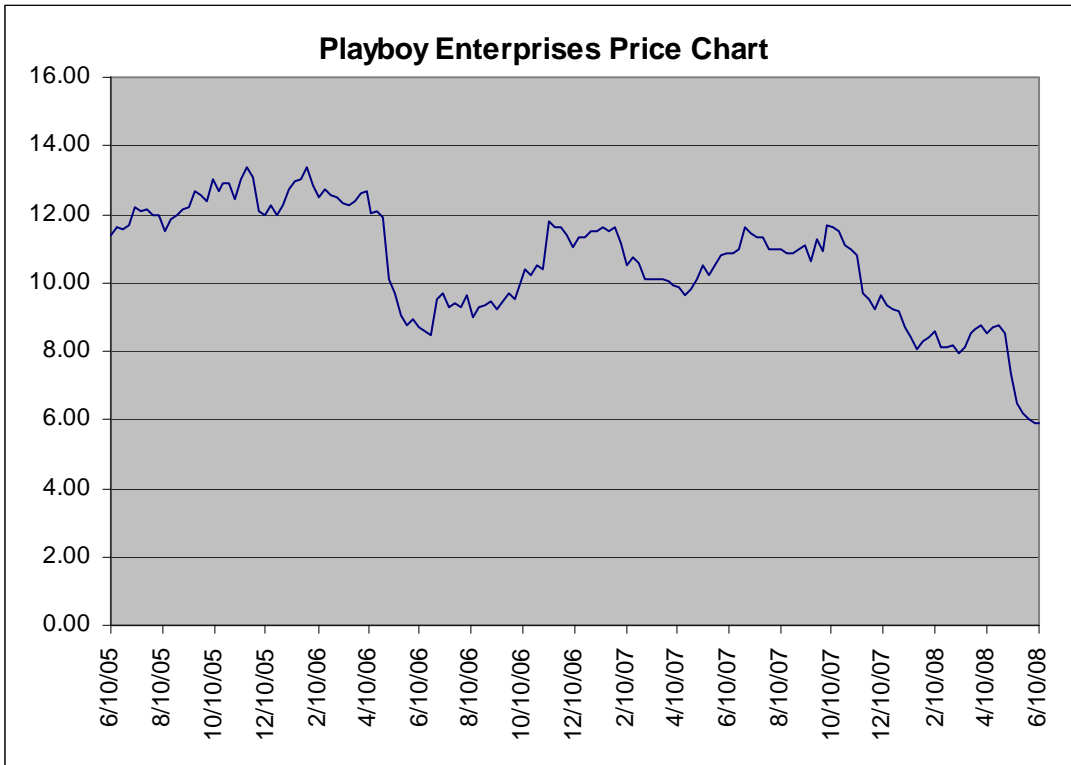
- Duke Energy has been rated NEUTRAL for the entire three year period

Chart courtesy of Thomson Baseline



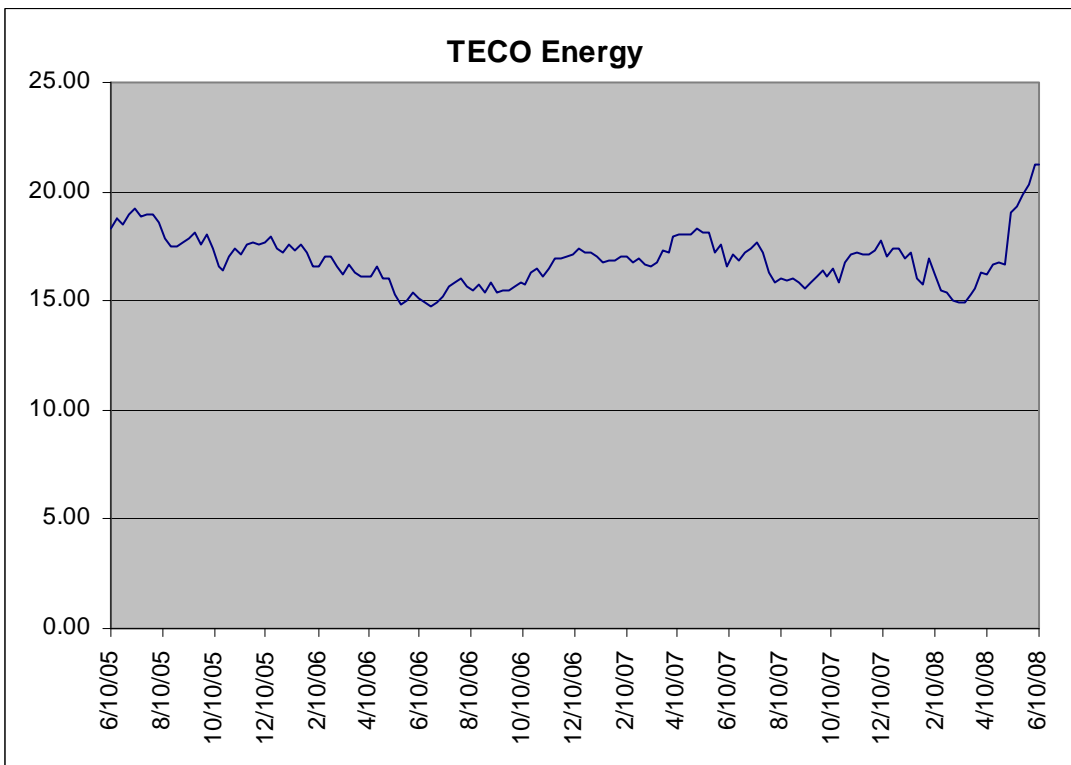
- Initiated OUTPERFORM 05/27/2003 at \$19.93, TP: \$24
- Updated OUTPERFORM 01/05/2006 at \$20.87, TP: \$27

Chart courtesy of Thomson Baseline



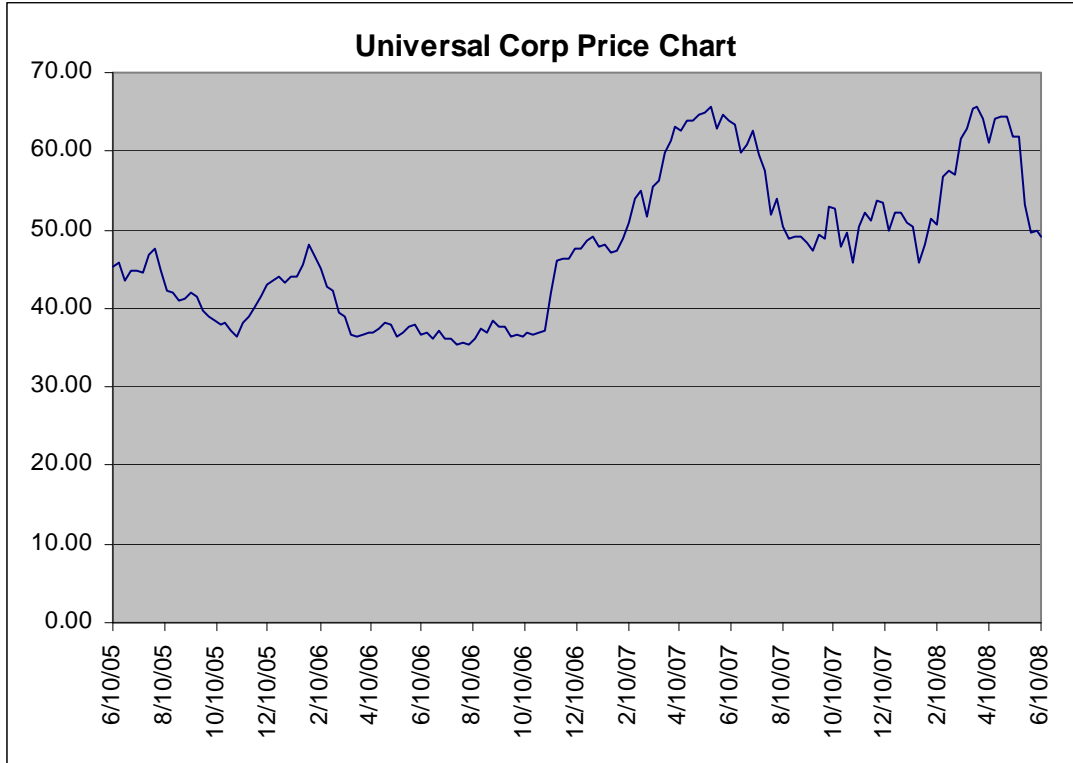
- Playboy Enterprises has been rated OUTPERFORM with a \$16 target price for the entire three year period

Chart courtesy of Thomson Baseline



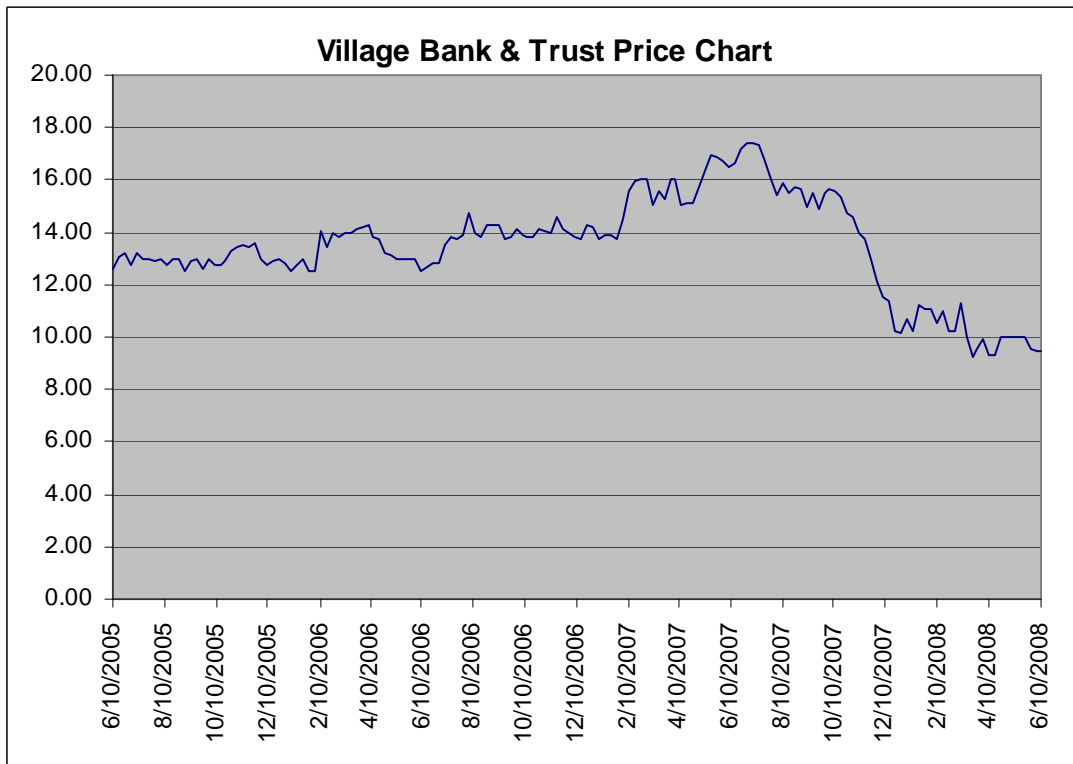
- 12/27/2004 Upgraded to OUTPERFORM, TP: \$19
- 05/15/2008 Downgraded to NEUTRAL

Chart courtesy of Thomson Baseline



- 09/21/2006 Initiate OUTPERFORM at \$36.95, TP: \$58
- 03/20/2007 Downgraded to NEUTRAL

Chart courtesy of Thomson Baseline



- Village Bank & Trust has been rated OUTPERFORM for the entire three year period

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