

EQUITY RESEARCH

Monthly Stock Monitor
July 8, 2008



HIGHLIGHTS

MARKET COMMENTARY.....”Hoping for improved 2H08 earnings”
CARMAX.....1Q09 earnings hurt by consumer slowdown
DIGITAL ALLY.....Receives additional order and approves share repurchase
DOMINION.....Sells gas distribution business/gets plant ok
MEDIA GENERAL.....Declining May revenues
PENN VIRGINIA RESOURCES.....Purchased coal and timber properties
SIRIUS SATELLITE RADIO.....One step closer to XM merger
SMITHFIELD FOODS.....Selling 5% stake to Chinese government owned firm

MARKET COMMENT ~ “Hoping for improved 2H08 earnings”

The past month of June was not a pretty one for the equity markets as Wall Street dealt with higher oil prices, evidence of a slowing economy, and a pullback in US consumer spending. Meanwhile, the US Federal Reserve continues to deal with the prospects of a slowing economy and increasing inflation. The direction of the equity markets for the rest of the year has created a lot of debate between bears and bulls, yet ultimately stock performance may very well be dictated by what happens to corporate earnings during the second half of 2008.

There is a popular Wall Street saying which goes, "Sell in May & go away", where many times in the past, June has turned out to be a rough month for equities. Certainly this was the case because the selling of equities during May could have saved a investors a lot of grief in June. Fearing the economic effects of higher oil prices (hovering above \$140/bl), renewed fears about sub prime contagion in the financial sector, and evidence of a pullback in spending by US consumers, investors sold off both domestic and international equity markets. During June the Dow Jones Industrial Average declined 10.2%, the S&P 500 fell 8.6%, and the NASDAQ was lower by 9.1%. For the second quarter, the Dow fell 7.4%, S&P 500 was lower by 3.2%, and the NASDAQ rose 0.6%

Higher oil prices continue to plague the US consumer as paying \$4/gallon for gasoline, and experiencing spiraling food costs, is causing a decline of spending in such areas as travel, dining out, home renovations and auto purchases. Recent reports show new and used auto purchases are experiencing a decline in sales as consumers react to shrinking levels of discretionary income. US new auto sales for June declined 18% as SUV and truck sales fell due to buyers shifting towards more fuel-efficient cars. For the month, General Motors (GM-\$10.78) saw a 19% decline, Ford (F-\$4.90) fell 32%, and Chrysler LLC experienced a drop of 36%. While these developments are not good for the US economy there may be hope on the horizon. If prices at the fuel pumps begin to fall, consumers are likely to start spending again, albeit at a cautiously increasing rate. A revival in consumer confidence, potentially leads to a revival of the economy and increasing bullish sentiment in the equity markets.

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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For the Federal Reserve, these results and recent US unemployment figures may help to get them out of a potential conundrum they faced in dealing with the slowing economy and rising inflation. June's unemployment results showed non-farm payrolls decreased 62,000 during the month and past downward revisions show the US labor market has lost 438,000 jobs since January. While negative news for the labor markets these results may have allowed the Federal Reserve to delay raising interest rates. The fear was the Central Bank would be forced to raise interest rates, despite slowing economy, in order to slow down the rising inflationary rate caused by spiraling commodity prices. However, a slowdown in consumer spending, and a weak job market could cause a decline in demand for commodities, potentially popping the existing commodity bubble, and forgo the need to raise interest rates by the Federal Reserve. While this would be a potential positive development for equities, Wall Street bulls envision another scenario for a rebound in stock values in 2008.

The positive scenario envisioned by Wall Street bulls anticipates a recovery in the S&P 500's earnings during the second half of 2008. Following negative declines in earnings during the past three quarters, bulls anticipate profits rebounding 13% during 3Q08 and 59% during 4Q08 when compared to last year's comparable quarters. This scenario assumes heavy losses incurred by the financial sector during the past year coming to an end based on a stabilizing real estate sector and improvement in the credit markets. The earnings of many American companies have held up during the past year from strong overseas orders compensating for a weak domestic business cycle. A continuation of strong overseas orders and a pick-up in the US economy, bulls stipulate, could pave the way for rally in the equity markets.

Additionally, we would add gasoline prices retreating from \$4/gallon would increase US consumer's discretionary spending and potentially improve the current malaise in the US economy. Since consumers drive 70% of the US economy a drop in energy and food prices could go along way towards an economic revival potentially anticipated in advance by a rally in the broad stock markets. Given cost-cutting strategies across the broad spectrum of Corporate America, any up tick in consumer spending could produce sizeable earnings growth for the S&P 500 in the future.

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COMMENTS AND UPDATES

CarMax (KMX-\$13.08) reported 1Q09 earnings of \$0.13/share vs. \$0.30/share during 1Q08. The decrease was caused by higher financing costs at the auto finance unit, accruals related to litigation, and slowing consumer spending. Earnings took a \$0.06/share hit from rising financing costs at the CarMax Auto Finance Unit (CAF) and \$0.02/share decrease from litigation related accruals. Same store unit sales increased 1% assisted by an extra Saturday during the just completed quarter. CAF's income fell to \$9.8 million from \$37.1 million due to tightening credit in the auto finance market. Selling, general, and administrative expenses were 11.0% of revenues versus 10.0%. Overall revenues increased to \$2.21 billion vs. \$2.15 billion. KMX's lower quarterly results reflects the higher funding costs at its CAF unit and slower consumer spending. The tightening of the credit markets has spread to the auto financing business as funding costs for CAF has risen thereby reducing KMX's profits. Furthermore, management noted a decline in credit availability from third-party non-prime lenders. Thus, it appears tightening credit in the auto credit markets and slowing consumer spending will continue to hamper KMX's results going forward. **TECHNICALLY**, KMX's stock is currently testing a key technical support level of \$13/share. We are growing concerned the lack of a 2H08 US economic pick-up may cause KMX to lower this year's earnings guidance and create more selling pressure on its stock. Given the negative operating fundamentals for the automotive industry over the near term, we are maintaining our **NEUTRAL** rating on KMX. (SFM)

Digital Ally (DGLY-\$7.75) During the past few weeks, DGLY received a fourth order from an international law enforcement agency for approximately 1,000 DVM-500 In-Car Digital Video Rearview Mirror Systems and is expected to ship this order by end of 2Q08. The first order from this international law enforcement agency was in late November 2007, and upon completion of this fourth order to them, Digital Ally will have shipped over 2,800 DVM-500s to the customer. The Company has also pre-announced 2Q results and expects to report its ninth consecutive quarter of record revenues. DGLY reiterated for the third time in the last two months, revenues for FY' 08 would be \$40 million and operating margins for the full year should be at least 29% as reported in 1Q08. Also, while management said it is too early for them to issue any specific guidance for 2009, there is optimism that next year will again show strong growth in sales and earnings. DGLY announced its Board of Directors has approved a program authorizing the repurchase of up to \$10 million of the Company's common stock in the open market, or in privately negotiated transactions, through 7/10/2010. We believe that not only have the negative equity markets and recent insider selling hurt DGLY's share price but also there was disappointment management hasn't raised the FY'08 revenue guidance. DGLY remains one of the few small cap growth stocks that has good visibility at an attractive valuation. Rated **OUTPERFORM** and \$12 target price. (STT)

Dominion Resources (D-\$46.85) moved forward in its operating strategy of shifting away from non-essential businesses and towards ventures complimenting its existing electrical generating system. The company sold its Dominion Peoples and Dominion Hope natural gas distribution units to the Babcock & Brown Fund North America for \$910 million. D also sold part of the Marcellus Shale natural gas drilling rights to Antero Resources for approximately \$552 million, which should equate to an after-tax gain of \$325 million. Despite the sale of this property, D will still maintain a 7.5% royalty interest in the Marcellus Shale, located in the Appalachian Basin, and certain drilling rights. Dominion Virginia, was issued the required air permits on 6/30 by the Virginia Department of Environmental Quality (DEQ) for the Virginia City Hybrid Energy Center in Southwest Virginia. D began construction of this 585-megawatt \$1.8 billion coal plant when the DEQ issued these permits and is expected to have a construction period of approximately 4 years. In another announcement, D proposed developing a pipeline project called Dominion Keystone, designed to transport natural gas from the appalachia basin to eastern U.S. markets. Management recently confirmed 2008 and 2009 earnings guidance of \$3.05-\$3.15/share and \$3.25-\$3.40/share, respectively. These shares are rated **NEUTRAL**. (SFM)

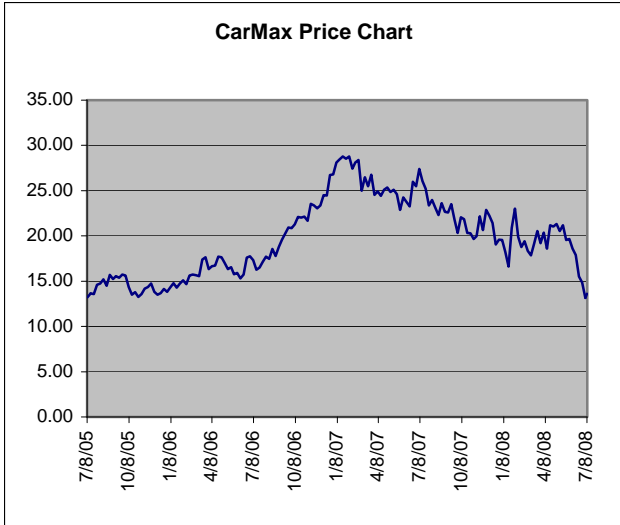
Media General (MEG-\$10.94) announced its May results experienced the continued trend of lower monthly revenues hurt primarily by declining advertising. Total revenues fell to \$64.3 million vs. \$71.3 million during May 2007. The decline came in large part from weakness in the Publishing Divisions' lower advertising hurt primarily by the soft economy's effect on MEG's Tampa operations. The Broadcast Division's increase in Political advertising dollars offset lower National/Local time sales. Meanwhile, the Interactive Media unit experienced a 16.9% increase from higher Local/National/Regional advertising, and DealTaker.com revenues. MEG announced the sale of another of its broadcast TV stations. The WNEG Television station in Toccoa GA was sold to the University of Georgia Research Foundation with expectations of this deal closing during 3Q08 or 4Q08. This marks the fourth of five TV stations MEG wanted to sell in order to improve its operating fundamentals. Management estimates the sale of all five of the proposed TV stations could generate proceeds of \$100 million - \$150 million which will be used to reduce roughly \$60 million - \$65 million of corporate debt. Being cyclical in nature, MEG's share price have fallen since last year as investors anticipated a

slowing economy, and a changing newspaper fundamentals, would adversely affect the company's profitability. Management gave 2008 earnings guidance from continuing operations of \$1.35-\$1.45/share. This stock is out-of-favor with Wall Street and could offer above average appreciation potential should the US economy recover in 2009. MEG's dividend pays a high dividend yield of 8% and offers patient investors current income while awaiting a cyclical turnaround in the media industry. These shares are rated Outperform with a \$38 target price. (SFM)

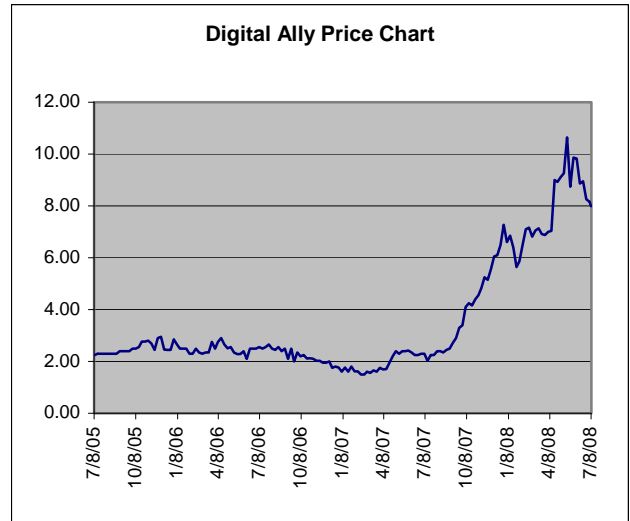
Penn Virginia Resources (PVR-\$24.89) announced it was acquiring approximately 29 million tons of coal reserves and 56 million board feet of hardwood timber located in western Virginia (Lee County) and eastern Kentucky (Harlan County). These were acquired from a private seller for \$24.5 million in cash. In another acquisition, PVR signed a definitive agreement to acquire Lone Star Gathering, LP's gas gathering and transportation assets. The purchase price of this transaction is \$160 million and includes \$80 million in cash, \$65 million worth of common units of Penn Virginia's GP Holding units (PVG-\$), and \$15 million of PVR's newly issued common units. The Lone Star assets are located in the southern portion of the Fort Wayne Basin of north Texas and include 129 miles of gas pipelines in active gas production areas. These assets will generate income for PVR by charging fees for the gathering, compression, and transportation of natural gas. Potentially the company anticipates average daily gathering volumes growing from 40-45 million cubic feet (MMcf) in 2008 to 90-110 MMcf in 2009. Prior to the financing costs for this deal, PVR believes this acquisition could produce cash flow of \$3 million during 2H08, while increasing to \$10 million-\$12 million in 2009, and to \$18 million - \$21 million by 2010. Given its current distribution rate (yield) of 7.2%, PVR offers a less aggressive way to invest in the coal industry. PVR is rated OUTPERFORM with a \$29 target price. (SFM)

Sirius Satellite Radio (SIRI-\$1.98) moved one step closer to its potential merger with XM Satellite Radio (XMSR-\$7.89). Staff members of the Federal Communications Commission (FCC) backed the merger of the two companies. The staff's recommendation now goes forward to the 5-member FCC Board who will vote on the proposed combination of the two companies. This follows earlier merger approval given by the Department of Justice. SIRI management gave some guidance of what a combination of the two companies could produce in the future. Based on SIRI's preliminary analysis management believes cost savings for 2009 could total \$400 million, with adjusted earnings before income taxes and depreciation of \$300 million. Further, SIRI estimates the combined entities could produce positive free cash flow, excluding satellite capital expenditures, for the full year of 2009 and further increases in the coming years. SIRI's stock is recommended for aggressive/speculative investors based on merger approval with XMSR by the FCC and free cash flow growth created by cost synergies on a combined company basis. SIRI is rated OUTPERFORM with an \$8 target price. (SFM)

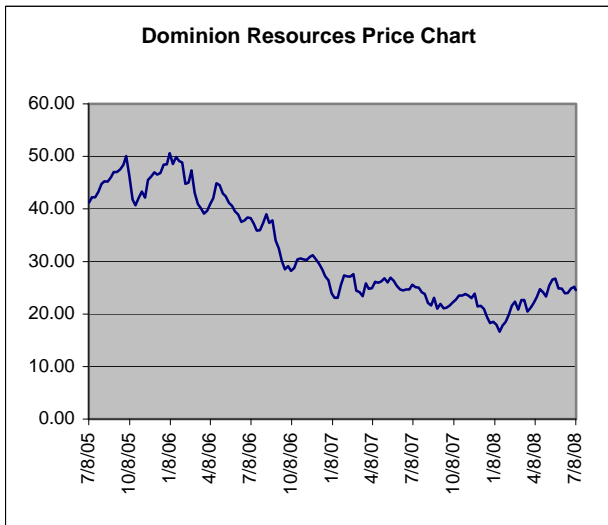
Smithfield Foods (SFD-\$17.68) is selling a 5% stake to a Chinese government owned company known as COFCO Limited, an agricultural trading outfit. In this deal, SFD will issue 7 million shares to COFCO. This will give SFD an infusion of cash needed at this time given the recent decline in earnings hurt primarily by rising feed prices. Both corn and soybean prices, used to feed SFD's herds, have risen dramatically during the past 2 years causing a decline in overall profit margins. On a longer-term basis, this deal with COFCO could aid SFD's efforts to gain additional business in China. Exports of US pork to China have seen huge increases recently due to expected increased demand from its population and the upcoming Olympic Games in Beijing this summer. Additionally, the "Wall Street Journal" reported China lost 3.7 million pigs during the recent earthquake. In other news, SFD announced it was merging its European joint venture with Spain's Campofrio Alimentacion SA in an all-stock deal. SFD's stock has been under recent pressure due to a disappointing earnings report, recent downgrade of its debt by Standard & Poor's, and the COFCO announcement. However the underlying culprit for SFD's share price decline has been rising corn prices, which account for 60% of the company's operating costs. Should the current commodity bubble deflate, corn prices could decline and cause a rally in SFD's shares. Under this scenario, SFD could rally towards \$25-\$30/share. SFD is rated OUTPERFORM with a \$41.25 target price. (SFM)



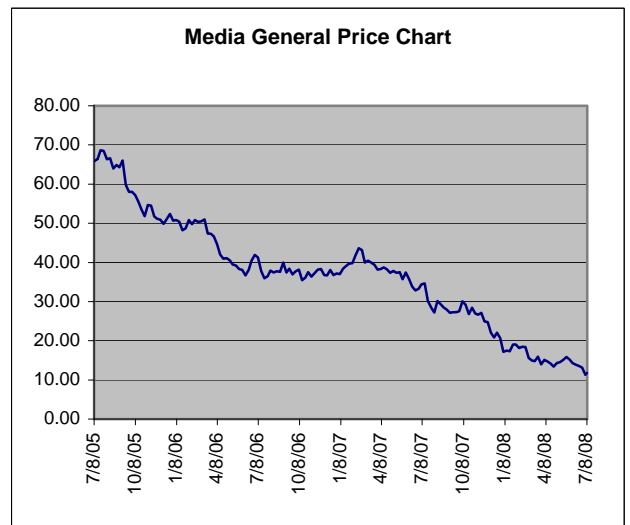
3/14/07 \$24.62 Initiate NEUTRAL



12/18/07 \$6.17 Initiate OUTPERFORM and \$9 price target

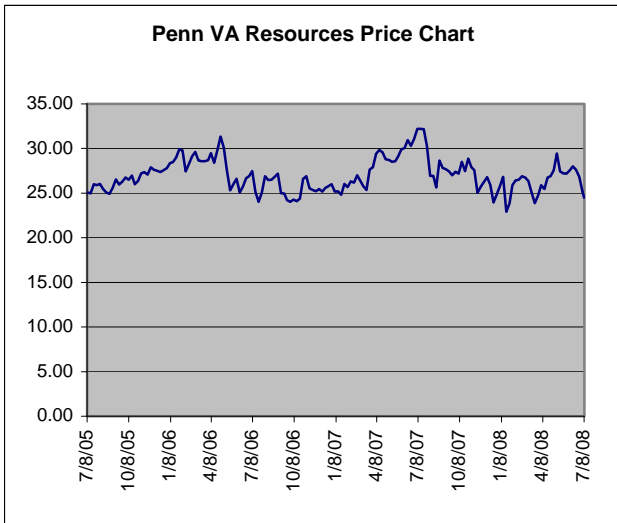


Dominion has been rated NEUTRAL for the entire 3 year period



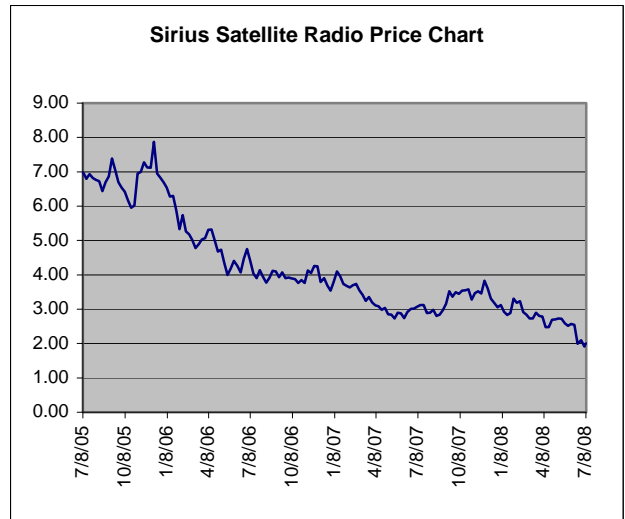
8/7/07 \$28.17 Initiate OUTPERFORM TP: \$39.25

Penn VA Resources Price Chart



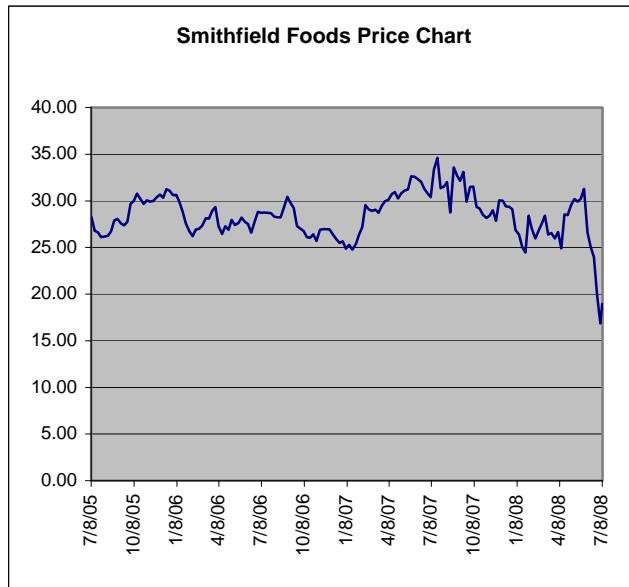
1/7/04 \$34.61 Initiate OUTPERFORM TP: \$40
 9/14/04 \$39.30 TP: \$41
 10/18/04 \$42.50 TP: \$46
 12/9/04 \$49.15 TP: \$58
 2/6/07 \$20.08 TP: \$38
 10/3/07 \$27.31 TP: \$29

Sirius Satellite Radio Price Chart



1/27/06 Initiate OUTPERFORM @ \$5.87. TP: \$8.00

Smithfield Foods Price Chart



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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