

## Monthly Stock Monitor October 10, 2008



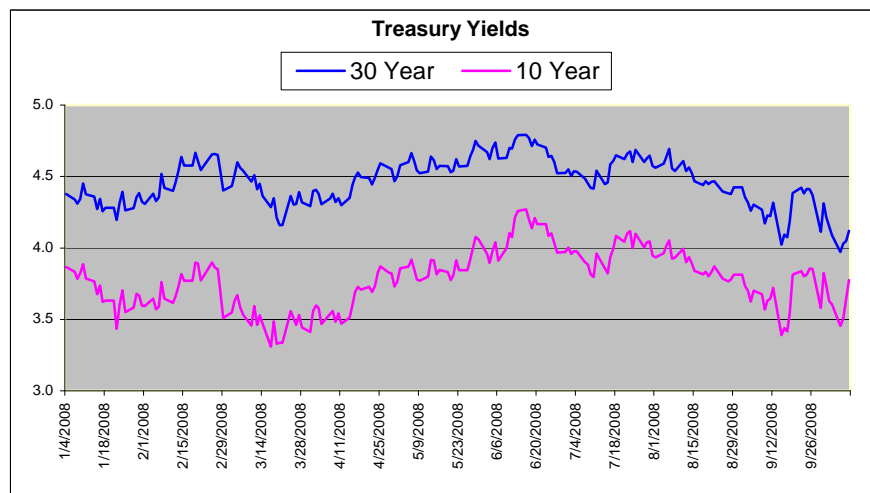
### HIGHLIGHTS

**MARKET COMMENTARY**.....”Leaping One Hurdle....To Face Another”  
**DISNEY**.....Sells land property  
**DOMINION RESOURCES**.....Completes Marcellus deal  
**DUKE ENERGY**.....Taps credit line  
**LIONSGATE ENTERTAINMENT**.....Expanding film production  
**MEDIA GENERAL**.....Dividend reduced  
**SMITHFIELD FOODS**.....Responds to rumors

### MARKET COMMENT ~ “Leaping One Hurdle....To Face Another”

Equities faced another rough month during September as investors fled the stock market over fears of failure to pass the US Government's bail-out and contracting credit markets. While Wall Street traders were focusing on passage of the bail-out bill, another concern arose continuing recent selling pressure. The new concern is over the direction of the US/world economies following various reports gauging domestic and international business conditions. While investors were happy to see passage of the US Government bill, thus clearing one troubling hurdle, a new hurdle was thrown in front of them....a potential recession.

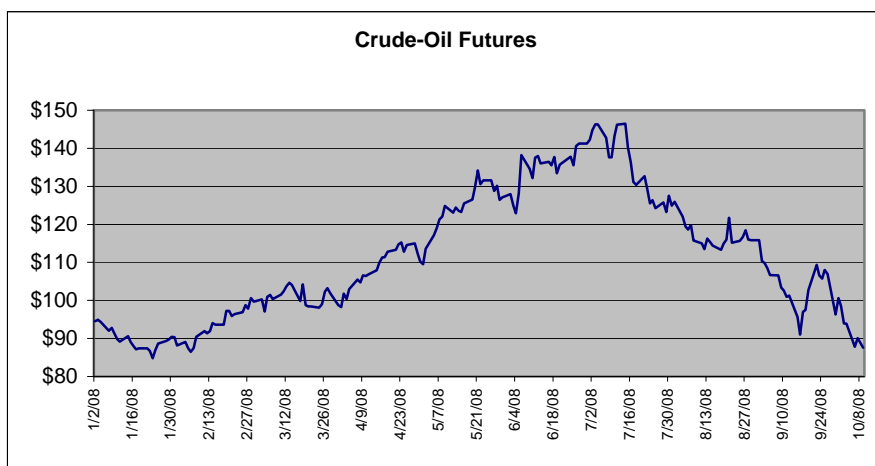
The main focus for the investment markets during September was passage of the US Government bail-out bill designed to provide liquidity for a tightening credit market and hopefully create a floor for real estate/mortgage prices in the US. During the past year many US banks were forced to write off the value of mortgages created by the recent housing bubble. Declines in US housing prices caused defaults on many mortgages associated with these properties, held by various banks. As these mortgages lost value many banks wrote down these values, which hurt these institutions' balance sheets, and threatened mandatory capital requirements. In the end these toxic mortgages caused the US Government to take over Fannie Mae and Freddie Mac, forced Merrill Lynch to sell itself to Bank of America, caused the downfall of Bear Stearns, and pushed Lehman Brothers into bankruptcy. Wachovia Bank, facing balance sheet pressures, is being courted by both Wells Fargo and Citigroup. Overseas credit markets also have contracted as many foreign institutions held similar troubled paper.



*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.*

Continuing problems in the mortgage and credit markets caused many banks to raise interest rates charged for lending to other financial institutions, thus causing a contraction in the credit markets, and placing a strain on the Irish, English, Icelandic, and Denmark banking systems. These mounting pressures convinced the US Congress to pass the bail-out bill leading Wall Street to believe the financial markets had cleared a major hurdle. The US Government bail-out program is designed to set up a warehouse in which banks can deposit problem mortgages, protect bank depositors, and loosen up the tightening credit markets. The contracting credit markets have caused investors to move into US Government bonds seeking safety of principal, causing the 10 year and 30 year US Treasury bond rates to decline by approximately 50 basis points (1/2 percent) since the beginning of 2008 (see chart on page 1).

While the bail-out program was passed by Congress, recent economic reports have led many investors to fear the US, and possibly the world, is heading into a recession, thus creating another hurdle for the financial markets. Corporate lay-offs caused the US economy to lose another 150,000 jobs during the month of September pointing towards an economic slowdown. US consumer credit fell \$7.9 billion in August marking the first decline since January 1998. Another report showed August's manufactured durable good orders fell 4% while Commerce Department figures indicated consumer spending was unchanged during the same month, below consensus expectations of +0.2%. Further concerns regarding a slowdown in the world economy grew after the Baltic Dry Index (tracks world commodity shipments) declined 52% in September, suggesting overseas economies may also experience a slowdown. Previously, market pundits felt the US economy could avoid falling into a recession if overseas economies continued to grow during the next few quarters. Fears over a slowing global economy has pushed oil prices from a recent high of over \$140/bl to under \$90/bl, potentially offering relief to consumers filling up their gas tanks and heating homes this winter.



Current chatter amongst TV pundits is focusing on the potential of a recession in the US over the near term. While 2Q08 Gross Domestic Product was almost 2.5%, the forecast for 3Q08 is for no growth, and negative GDP in 4Q08. Given this scenario, it appears the equity markets are pricing in the potential of a US recession as the equity markets moved lower during the just completed quarter. During 3Q, the Dow Jones Industrial Average fell 4.4%, the S&P 500 declined 9%, and the NASDAQ was lower by 9.2%. There are new hopes a coordinated effort by the Federal Reserve and foreign central banks could help loosen the credit markets, potentially spark a rally in the equity and credit markets.

Given the recent sell-off in stocks, investors are now considering what to invest in assuming a recession materializes in the United States. The growing sentiment is to invest in areas where consumers will buy what is needed versus what they want, in another words, what products will people continue to buy even in times of an economic slowdown or recession? Investors may want to consider food, beverage, tobacco, and consumer staple companies. Individuals should review portfolios, consider risk/time horizons, and consult with their Anderson & Strudwick consultants for help in this area.

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## COMMENTS AND UPDATES

**Disney (DIS-\$23.80)** recently sold 298 acres of land to Four Seasons Hotels which will build an 18-club championship golf course and 445-room hotel to anchor a previously announced upscale development project in Florida. Five Hollywood Studios, including Disney, agreed to a \$1 billion financing deal with Digital Cinema Implementation Partners to upgrade 20,000 US and Canadian cinema screens to digital formats. The other studios providing the financing, along with DIS, are Viacom's Paramount Pictures, News Corps 20th Century Fox, General Electric's Universal Pictures and Lions Gate Entertainment. The slowing business cycle affected DIS as Tokyo Resort operator, Oriental Land Co. Ltd., cancelled plans for a new Disney-themed entertainment facility in one of Japan's large metropolitan cities due to the potential of low investment returns from the project. DIS shares recently fell from the mid-\$30s as concern grew of a global recession would decrease business at the company's theme parks. These shares are rated NEUTRAL. (SFM)

**Dominion Resources (D-\$35.05)** completed its deal to sell the Marcellus Shale selling rights to Antero Resources for approximately \$347 million. The agreement gives drilling rights for over 114,000 acres to Antero and D will receive a 7.5% royalty interest on future natural gas production from this area. In other news, the Federal Energy Regulatory Commission (FERC) re-approved D's Cove Point MD liquefied natural gas expansion project. This ruling follows a decision earlier this year by a Federal Court which suspended FERC's original 2006 expansion approval for the Cove Point project. The Cove Point expansion project's goal is to expand this facilities peak capacity to 1.8 billion cubic feet /day from current levels of 1 billion cubic feet/day. D shares are rated NEUTRAL. (SFM)

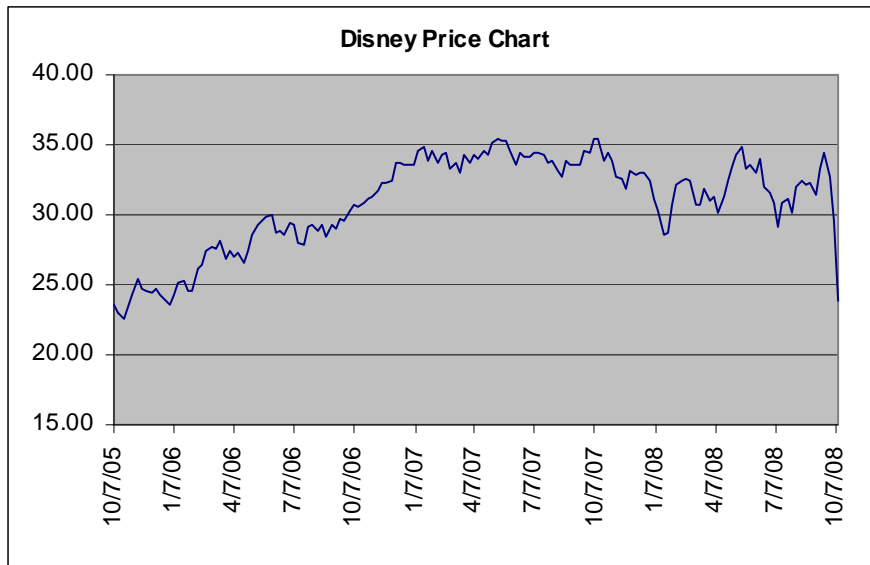
**Duke Energy (DUK-\$15.15)** announced it drew about \$1 billion from its \$3.2 billion Master Credit Agreement due to the volatility in the credit markets. Management expected to have \$2 billion in cash and cash equivalents as of September 30. Meanwhile Standard & Poors Ratings Services revised its outlook on DUK to favorable from stable reflecting the potential for higher returns over the next year based on credit metrics. DUK announced its 846 megawatt Oconee 2 nuclear power plant, located in South Carolina, was back at full power increasing from 87% of capacity. The unit was taken offline to fix an oil leak in the main transformer. In hopes of building a nuclear plant in the future, DUK submitted the first part of a federal energy loan guarantee application with the US Dept. of Energy for the proposed construction the William States Lee III Nuclear Stations. DUK announced a joint venture with French nuclear operator, Areva, to develop green biopower plants in the United States using wood waste to produce electricity. Trading at 1x book and paying an attractive dividend yield of 5.3% these shares are recommended for income/growth investors. Our price target is \$22. (SFM)

**Lions Gate Entertainment (LGF-\$7.00)** announced it was adding a second production wing to its film business as the company announced Alli Shearmur, formerly with Paramount Studios, joined the company as President of Motion Picture Production. This second production unit will create 6-8 movies, assisting LGF's first production unit to bring the company's total annual movie production to its stated goal of 12-16 movies. As mentioned above, LGF joined with 4 other major studios to provide digital projection capabilities to 20,000 movie screens in the US and Canada. After producing improved 1Q09 results, LGF provided guidance for the balance of its fiscal 2009 operations. LGF reported 1Q09 earnings of \$0.06/share vs. (\$0.45)/share during 1Q08. Management expects 2Q09 revenues of \$400 million and raised full year guidance to \$1.6 billion from \$1.5 billion. EBITDA for FY09 is anticipated to be break even and potentially grow above \$50 million in FY10. LGF's shares have moved lower recently due to the broad market sell-off during September potentially offering good entry point for aggressive/speculative investors. The company's operating ratios appear to be turning positive with prospect of positive earnings in 2010. Under this scenario, investor demand could increase for LGF and push its shares towards our price target of \$13-\$14/share. These shares are rated OUTPERFORM. (SFM)

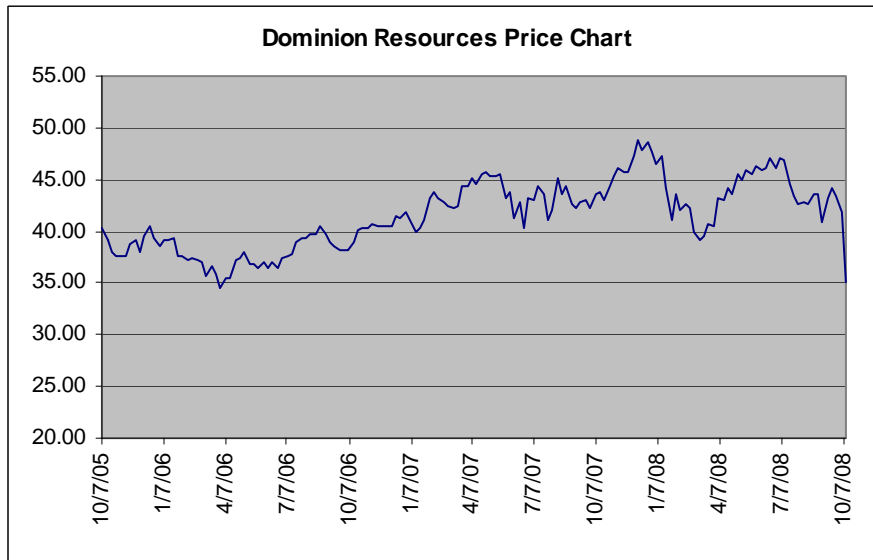
**Media General's (MEG-\$8.91)** Board of Directors reduced the commons stock dividend to \$0.12/share from \$0.23/share. This was done as advertising revenues for the newspaper industry continues to decline due to a slowing economy and competition from internet news/information providers. A Reuters news report stated the idea of reducing MEG's dividend was initially introduced to the Board of Directors by Harbinger Capital Partners, which recently won 3 board seats through a proxy battle. Harbinger owns 20% of MEG's shares while GAMCO, run by Mario Gabelli, owns another 20% of stock. Gabelli stated he was contemplating seeking nominations for

MEG's Board of Directors. MEG announced monthly revenues for August were \$65.7 million compared to last August's total of \$68.8 million. The decline in revenues came from lower advertising due to the slowing US economy. This weakness was partially offset by strong political revenues in several states due to Presidential and local elections and Olympic advertising. The Interactive Media units revenues increased 13.7% and the Publishing unit's revenues declined 16.6% due to weak newspaper advertising. MEG's shares are rated OUTPERFORM as an improvement in the US economy could propel this stock higher towards our \$19/share target price. (SFM)

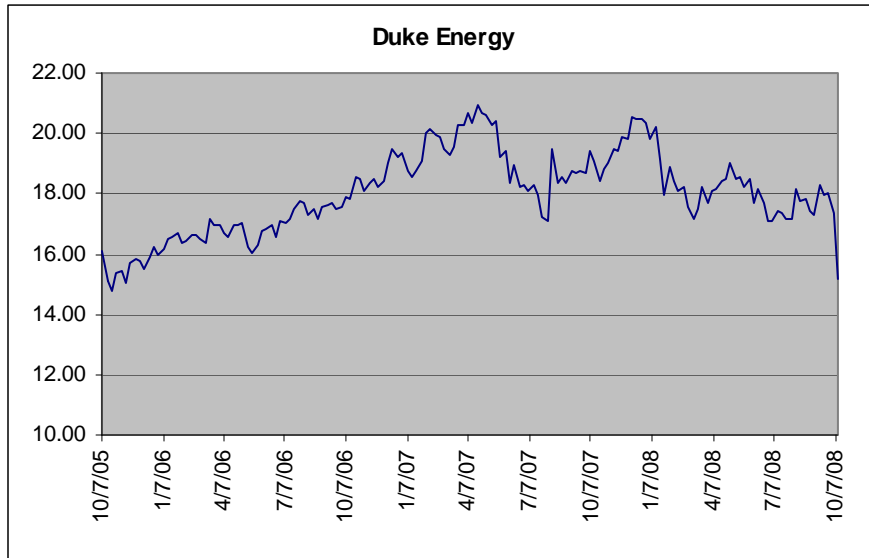
**Smithfield Foods (SFD-\$13.18)** responded to rumors in the financial marketplace questioning the company's ability to pay its debt service. The company reaffirmed its current ability to pay short-term debt obligations and is meeting financial covenant requirements for its revolving credit lines and other major sources of capital. SFD management stated it has over \$500 million in liquidity from committed lines of capital at its disposal and has no major debt payments until 2H09. SFD's shares have come under pressure recently due to concerns arising from a contracting credit market. These concerns overrode good news coming from the decline of corn prices, which have fallen from \$7.50/bushel to \$4.50/bushel during the past month. Since corn comprises almost 60% of SFD's operating expenses, a drop in the price of maize could improve SFD's profit margins. SFD is rated OUTPERFORM. (SFM)



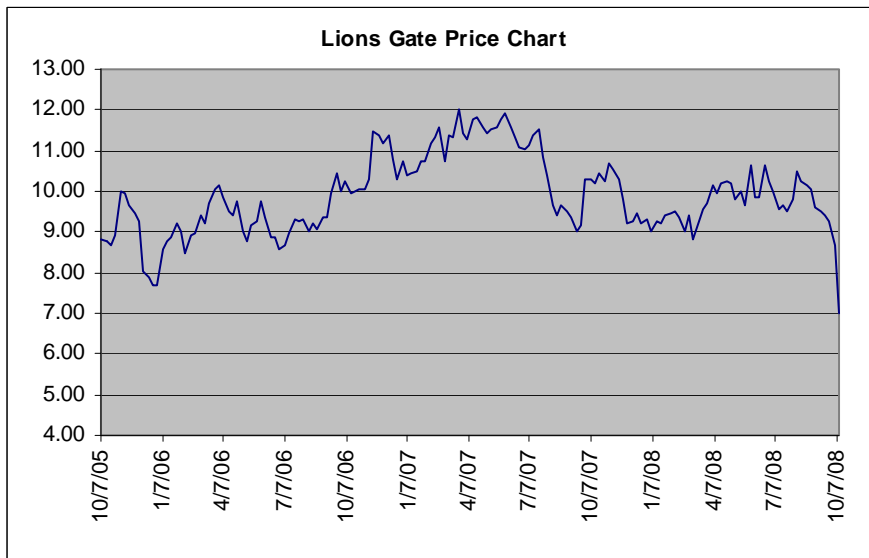
12/09/04 \$26.27 Initiate OUTPERFORM TP: \$34  
 07/12/07 \$34.25 Lower from OUTPERFORM to NEUTRAL



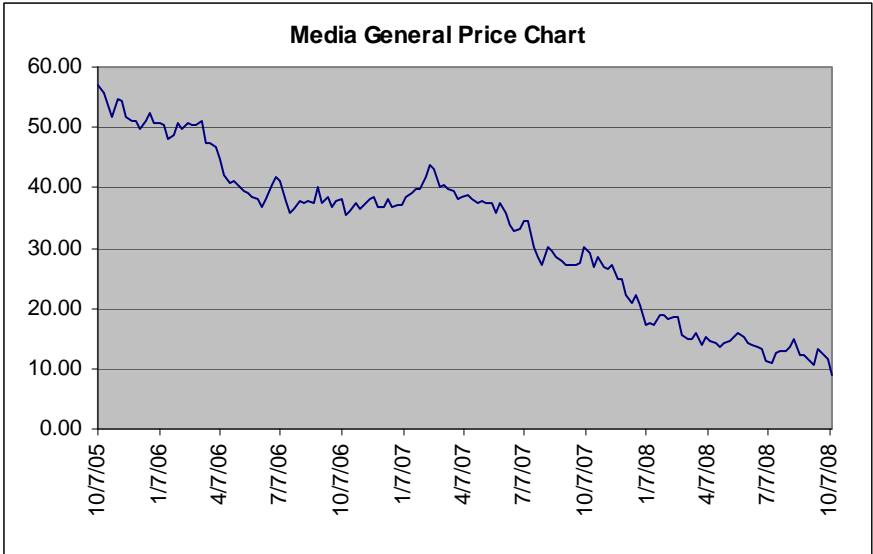
D has been rated NEUTRAL for the entire 3-year period



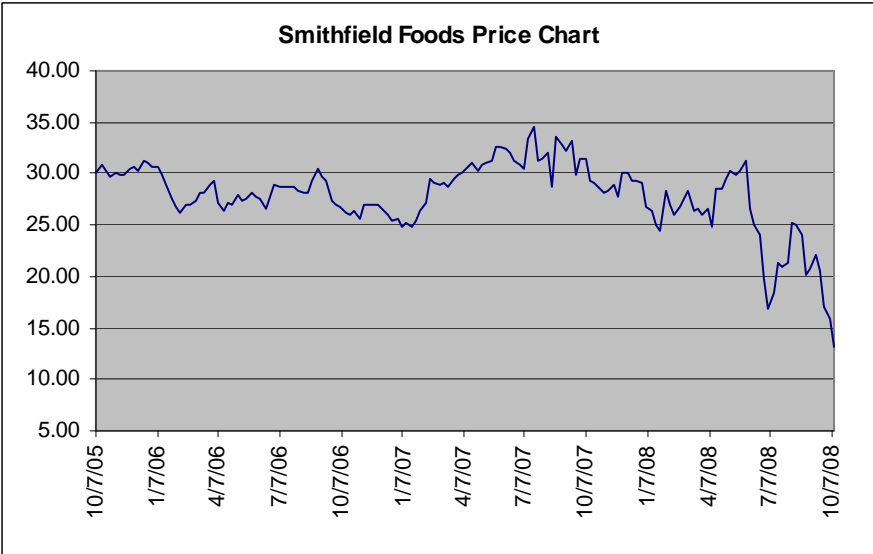
Duke Energy had been rated NEUTRAL for the entire 3-year period  
 07/17/08 \$17.08 Upgraded to OUTPERFORM TP: \$22



06/28/05 \$10.90 Initiated OUTPERFORM TP: \$15.20  
 04/13/06 \$9.49 Lower Target Price to \$13.50



08/07/07 \$28.17 Initiate OUTPERFORM TP: \$39.25  
 02/06/07 \$20.08 TP: \$38.  
 07/31/08 \$13.24 TP: \$19



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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Analyst(s) owns shares of Dominion Resources and Lions Gate Entertainment.

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- (2) Neutral — The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (3) Underperform — The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

The distribution of investment ratings for all companies in our coverage universe is as follows: (1) 41%, (2) 58%, (3) 1%

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