SEPTEMBER 6, 2010

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

THE FOLLOWING REPORT IS EXCERPTED FROM THE WALL STREET TRANSCRIPT

MONEY MANAGER INTERVIEW

BOBBY EDGERTON

Capital Investment Companies

NOTICE

The Wall Street Transcript does not in any way endorse or guarantee the accuracy or reliability of any of the information, statements or opinions expressed in the reports or comments of other firms or individuals. We take due care to report or transcribe accurately what has been written or said by others but because of the possibility of human or mechanical error, we cannot assume any liability for the correctness of the transcription. We point out further that, of course, all opinions expressed are subject to change without notice. Neither the information or any opinion which may be expressed constitutes a solicitation for the purchase or sale of any securities referred to herein. For further information, contact the individual or investment organization concerned.

CHIEF EXECUTIVE OFFICER FORUMS/INTERVIEWS

Important Note: Wall Street Transcript forums and interviews with Chief Executive Officers are published verbatim as editorial content and include "forward-looking statements" (as such term is defined in the United States Private Securities Litigation Reform Act of 1995). These "forward-looking statements" may be subject to and be made pursuant to the "safe-harbor" provisions Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Since these statements are based on factors that

involve risks and uncertainties, actual results may differ materially from those expressed or implied by such "forward-looking statements". Such factors are often included in the company's filings of reports with the United States Securities and Exchange Commission, including Forms 10-K, 10-Q, 8-K and Proxy Statements; the company's annual and interim reports to shareholders and similar documents. In carrying out our responsibilities to our readers and to the Chief Executive Officers elected for forums or interviews, we are required to offer, and we offer, each Chief Executive Officer an opportunity to back-up the interview and provide our readers and potential investors with specific financial data, including earnings statements, balance sheet statements and other material business and financial data, through the sponsored publication of such reports or highlights therefrom, with meaningful information.

Founded 1963 Published by Wall Street Transcript Corporation 48 West 37th Street, 8th Floor, New York, NY 10018 Copyright 2010 Wall Street Transcript Corporation All Rights Reserved

Investing in Contrarian Value Stocks

BOBBY EDGERTON, CAPITAL INVESTMENT COMPANIES



BOBBY EDGERTON is a Co-Founder of the Capital Investment Companies and has served as an Executive Officer and Principal of the companies since 1984. He is also the firm's Chief Investment Officer and has been in the financial services industry since 1979.

Mr. Edgerton graduated from Wake Forest with a B.A. in business and finance. He enjoys reading, tennis and golf.

SECTOR - GENERAL INVESTING

(ABS505) TWST: Please begin with a history of Capital Investment Companies. Why did you decide to start your own company?

Mr. Edgerton: I was a finance major at Wake Forest and my professors did not teach me a whole lot about stocks; mainly they focused on accounting in money and banking. This major

did give me a base knowledge but nothing specific when it came to the stock market. It was not until I returned home from my service in the Army and began working for my father's shoe business did I develop an interest in stocks and the stock market. I read a book entitled Financial Independence Through Common Stocks, by Robert Merritt, and that is when I began wanting to learn all I could about the stock markets. In the late 1960s/early 1970s, people were living off of the dividends from their stocks and municipal bonds. I noticed that McDonald's (MCD) and other good companies grew larger every year but their stocks were not doing anything, and I concluded that the stocks were probably worth more than they were being priced.

So, I began reading

Barron's and Forbes and The Wall Street Journal and subsequently in more recent years The Wall Street Transcript, and I realized that I had developed a deep fascination with the stock market. For about a 10-year period, I read those publications consistently and I learned a lot about market value, which is the essence of the stock market. Through my research, I got comfortable with the cycles of the stock market and began to see this rhythm as to where stocks would get oversold and some investors would do the opposite of what I

would have advised them to do. Some would elect to sell when they should have been buying, and when the stock went up to an all-time high, these same investors would buy when they should have been selling. I knew that there is no way the net worth of a company like Carrier Air Conditioning fluctuated 300% to 400%. The stock may have gone from \$8 to \$30, but there is no way the business in and of itself fluctuated that much in value. In the late 1970s,

Highlights

Bobby Edgerton looks at the whole picture when it comes to buying a company's stock. He looks at the balance sheet and checks out the cash flow, real estate investments and earning power. If the stock market is not reflecting what he believes is the true value or lists it at a lower value than it is worth, then he will buy shares in that company and hold for the long term. He is a versatile investor because he enjoys custom tailoring a client's portfolio to meet their long-term objectives. He tries to develop a strong platform of solid companies and re-diversifies slowly over time so that in the future the client owns a portfolio of strong companies.

Companies include: <u>EMC (EMC); VMware (VMW);</u> <u>Costco</u> (COST); <u>NVIDIA</u> (NVDA); <u>Activision</u> <u>Blizzard</u> (ATVI). when I began managing money, it was the WD-40s (WDFC) and the ChampionSparkPlugs who can be compared to the Googles (GOOG) and Apples (AAPL) of today. But what I noticed was that sometimes these stocks got numerically so cheap that I believed it was hard to lose a lot of money.

For example, around the time I began my foray into the stock world, Jimmy Carter was President, our country had inflation, big government, hard taxes, and the market did not like that, so stocks like Hardee's went down to around \$2 per share. By reading *Barron's*, I realized how much real estate a lot of these companies had and in many cases the stock market was weighing the company way below what the value of the company's real estate. It just all made sense

to me. So I came up with a five-point program of buying stocks: cash-rich, debt-free, undervalued stock, never spend on a dividend, making my gains long-term gains and systematically saving money and accumulating stocks.

In 1979 I was offered positions in several large firms, but I did not like any of them, so I registered as a one-man band and began managing money for people. I started raising money for people and I was comfortable making around \$45,000 a year

- and in the late 1970s/early 1980s, that was not too bad. In the mid 1980s I met my partner, Richard Bryant. We decided to pair

up and I would manage the money and Richard would run the business. For a while, it was just the two of us, but slowly over time we began to grow the business. Richard is such a smart and energetic guy, and he wanted to build a broker-dealer firm, which he did. I believe we have around 180 reps now across the South. As time has progressed, Richard has also expanded the company into insurance, mutual funds, mortgages and trust services. My hobby is managing money and not playing the stock market but dealing with the stock market and the process, and I also enjoy accumulating as many stocks as I can over my lifespan and managing it. His hobby is

running the business and raising reps. I am 68 now, and I believe that Richard just turned 50. It seems funny that we are a couple of older men in the business now, whereas we were the young bucks when we started out over 25 years ago. I still enjoy diversifying my client base, and I accept accounts of all sizes. One thing I enjoy doing when I get a new client is I always teach him/her the basics of the stock market so that they can take an interest in the companies they have their money invested in.

TWST: What other services do you offer?

Mr. Edgerton: We offer insurance, mutual funds and annuities. Really, my partner Richard and I almost have two separate businesses. He has got his business, and I have got my business. I am not a mutual fund guy or an insurance guy. Richard likes insurance, he like mutual funds, he likes annuities. I guess it is kind of like a marriage —you sometimes go in different directions, but you stay together. He is going to do what he wants to do and I am going to do what I want to do, but we enjoy it and we enjoy working together. We tell people we both do our hobbies — that is what we do, and that is what keeps it fun.

"The average person tends to buy after the stock has moved on the upside. They say they are going to buy low when something is down, but they do not really do that, per say. These investors tend to focus on the negatives as to why the stock is down, so they do not buy, they elect to wait until the stock is up, and that is when they finally decide to buy."

TWST: Richard has described your philosophy as value-oriented and contrarian. Is that accurate?

Mr. Edgerton: I would say so. I think any great investor always buys something when it is cheap, when it is out of favor. Take smart real estate investors — they buy real estate when it is cheap, after the real estate market has dipped to a lower level. Essentially, that is what I do, but in the stock market instead of the real estate market. I look at the whole picture when it comes to buying a company's stock. I look at their balance sheet and check out a company's cash flow, real estate investments, earning power and if the stock market is not reflecting what I believe is their true

value or lists them at a lower value that I believe they are worth, then I will buy shares in that company and hold onto them.

"I look at their balance sheet and check out a company's cash flow, real estate investments, earning power, and if the stock market is not reflecting what I believe is their true value or lists them at a lower value than I believe they are worth, then I will buy shares in that company and hold onto them."



Chart provided by www.BigCharts.com

TWST: Why do so many investors fail? Is it a lack of patience?

Mr. Edgerton: I think that the average person tends to buy after the stock has moved on the upside. They say they are going to buy low when something is down, but they do not really do that, per say. These investors tend to focus on the negatives as to why the stock is down. So they do not buy, they elect to wait until the stock is up, and that is when they finally decide to buy.

I remember years ago, my benchmark stock was in the freight shipping domain. Back in 1980-1981, this company had \$300 million in cash, no debt, all their term loan was paid in full, their plant and equipment were paid for. They were the nation's premier truck shippers, and the company was run, in my opinion, by smart, good guys

who did not allow the unions to run all over them. In 1981, I believe that company was around \$30 a share, and they had 40 million shares outstanding. So the stock market said that the company was worth a \$1.2 billion. They had \$305 million in cash and no debt, and I looked at the value of their land and buildings on the books, and it was around \$191 million, so almost \$500 million, and then the value of their contracts was around \$700 million. The stock market was weighing the whole company and put their cash and real estate at \$1.2 billion. I figured that was pretty cheap and elected to purchase that stock. Sadly, as what happened to **Lehman Brothers**, **Merrill Lynch**, **Fannie** (FNMA.OB) and **Freddie** (FMCC.OB), and all

those other institutions, this freight shipping company got bad leaders in the company who leveraged the company and changed the principles, and a lot of them went broke. It is a sad story, and it is an example that goes against one of the mantra's of Warren Buffett, "Our favorite holding period is forever." I don't mind holding a quality retail company like **Wal-Mart** (WMT) forever, but if it gets overpriced relative to value, or a solid home improvement company, like **Lowe's** (LOW), is down, or even a leader in the gaming industry, such as **NVIDIA** (NVDA), drops down, I might sell some **Wal-Mart** shares and re-diversify the portfolio by adding more shares of another company that is undervalued in the market at that time.

"Costco is an incredible company. The stock market says the company is worth \$25 billion. They have \$11 billion in real estate, properties, land, building, plants and equipment, and they have been buying all of these variables since the 1970s. There is no telling what their real estate is worth."

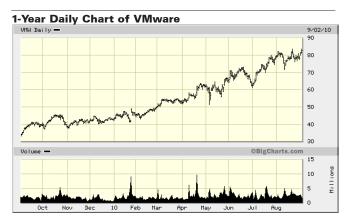


Chart provided by www.BigCharts.com

I believe that patience has something to do with the right time to purchase an undervalued stock, and I also believe that it is all about timing. I enjoy buying a stock when the market undervalues it. I know some people get antsy when a stock they have been watching has dropped significantly. I tell my clients that I imagine that their first instinct is to sell the stock, to get rid of it, but that is where patience comes into play. I encourage them to buy more shares because if it is a strong company with no debt and flushed with cash, I believe that the stock will rebound over time. My main goal is to help my clients diversify their portfolios in relation to their specific tolerance for risk. So every solid company I might want to buy might not meld with a certain client's current risk tolerance or long-term objectives. This is why I get to know my clients' interests and their comfort level when it comes to the stock market.

TWST: With so many options in the stock market, how do you even start to look at companies? How do you select a stock?

Mr. Edgerton: That question brings up an interesting point. I tell my clients that you can make yourself smart in this business if you want to; you don't have to have a master's in finance to be good in the stock market. Probably the first thing, to get back to your question, too, is if you go through *Value Line*. I think it is head-and-shoulders the best publication on specific stocks. At *TWST* you have a great mix, where you interview money managers, two or three members of the industry, CEOs, not too many publications do that these days. I pick the brains of knowledgeable people, and then I wait until the stock market goes down, and I try to buy stocks cheaper than those people I have read.

Barron's also does a great job of interviewing smart people who know their industry. There was a guy talking about health care this past April, and he made his picks. One of his picks was a premiere pharmaceutical company that specializes in developing drugs that combat AIDS. He made a lot of sense and his point was that their primary drug for AIDS treatment didn't expire until about eight years, and he felt that the stock was at a fair price. I did not buy it at the low price he mentioned, I held out for a little longer and ended up buying it \$10 per share cheaper than he recommended. I think I have got a good grasp of the leading companies in the various market caps. But if I need to verify a fact, I believe I can turn to Value

Line and find the answer to my question. Another way I research companies is when I read, if there is a great article on any good company, I cut it out and file it away, so I can come back and use it as a reference. If someone writes an insightful article in *The New York Times* and I think that the stock is undervalued, I will go back and read it or one of my clients can come in and read it. Regarding a specific company, I might have a *Fortune* article, a *Barron's* article and a *Forbes* article in a file. If someone comes in and wants to invest some money, I go to the filing cabinet, and I get the folder for the company I feel is suitable for them. I ask them to take 15-20 minutes and read the information I have collected. If they like the company like I do, then we buy it.

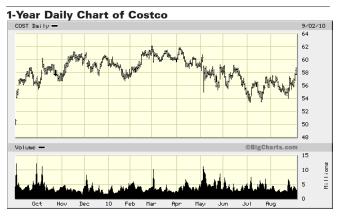


Chart provided by www.BigCharts.com

Essentially, the essence of the stock market is that always companies have two values: one, being precisely to the penny what the stock market thinks the company is worth, and two, the

other figure is something you cannot put your finger on or quantify exactly — what is the company really worth? What is the Coca-Cola (KO) name worth? What is the Toyota (TM) name worth? I think that Cracker Barrel (CBRL) is a classic example of extreme undervaluation. If my memory serves, I believe back when 9/11 occurred, the country froze and Cracker Barrel stock dropped to somewhere around \$10 a share and there were around 50 million shares outstanding. So the stock market said at that time Cracker Barrel was worth around \$500 million. I noticed that Cracker Barrel owned most of their properties along the interstate highways. I decided to call up the company headquarters, and I asked them how much it cost to open up a Cracker Barrel. They told me that to buy the land, build the building and get the store up-andrunning, that it totaled around \$2.6 million. I remember thinking that Cracker Barrel had somewhere around 440 stores, the majority of

them owned out right by the company. If you multiply 442 times \$2.6 million, I figured their real estate properties alone totaled over \$1 billion dollars, which did not match the price the market was weighing the company.

Today I believe that **Costco's** (COST) real estate is probably a huge percentage of the overall makeup of that company, and I believe that **Wal-Mart's** real estate is on the books now at around \$100 billion. Unfortunately, no one ever really hears about the company's infrastructure that has been built up over time. For example, I wonder what **FedEx's** (FDX) infrastructure is worth — all of their terminals, places and technological support. All I seem to hear about these companies I just mentioned is earnings

and cash flows. I know that is part of the bigger picture, but I prefer to see the entire picture, and I prefer to learn about all of a company's assets, which in many cases is like **Google**, which translates to brainpower, which you cannot quantify. I feel the examples I have listed above illustrate all of the facets of a company. And as a money manager, my research into these companies at all angles allows me to form a clearer sense of a company I am interested in as a whole. I try and take all of the factors I can think of into account when I am deciding to purchase stock in a specific company.

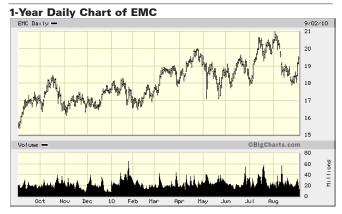


Chart provided by www.BigCharts.com

TWST: How many stocks do you like to have in a portfolio?

Mr. Edgerton: That is totally up to what we work out with the client. If someone comes in here with \$100,000, I say we can buy you \$10,000 worth of 10 stocks. We can buy you 20 stocks that average \$5,000 a piece. If someone likes a specific stock big time and they want to concentrate, depending on their assets, we could put it all in one stock if that is what they want. Ultimately, the stocks in a portfolio of a client of mine all depend on their comfort level with the market, the company I recommend and their tolerance for risk. I feel like I am a versatile investor because I truly enjoy custom tailoring a client's stock portfolio to meet their long-term objectives. To finish answering your question, no, I do not have a set number of stocks that I try and fit into a person's portfolio. What I am trying to do is develop a strong platform of solid companies for a client and re-diversify slowly over time so that in the future, that client will have what I feel is a strong portfolio of strong companies.

"EMC has 2 billion shares outstanding. It has always been the king of network storage. At the end of 2003, EMC bought a company called VMware for a little over \$600 million, and I believe they own 90% of VMware. The market value of VMware now is right at \$33 billion, so EMC owns 90% of \$33 billion, and I believe they have \$27 billion to \$28 billion worth of VMware stock."

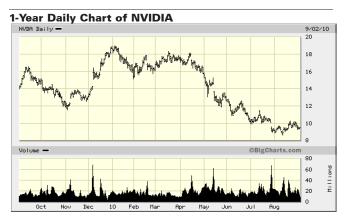


Chart provided by www.BigCharts.com

TWST: So your portfolio strategy differs with each client?

Mr. Edgerton: Yes, absolutely. Everyone is different. People react to risk and tolerance differently. I think once you do the numbers and the metrics, then the portfolio strategy of a certain client is a lot like medicine. It is a gut feeling, an instinct. Doctors do not know exactly what they are going to get into when they go into an operating room. Once they open you up, they have judgment calls to make. I look at the numbers, and I use my gut feeling on my instinct. If I get a market where Nike (NKE) is way up and Procter & Gamble (PG) is down, I might make a move and suggest to my client to make the same move.

TWST: You've given us some examples of stocks you like. What else do you like right now?

Mr. Edgerton: There are so many phenomenal companies - Automatic Data Processing, Inc. (ADP), Emerson Electric (EMR). I think maybe my favorite company is Costco. Costco is an incredible company. The stock market says the company is worth \$25 billion. They have \$11 billion in real estate, properties, land, building, plants and equipment, and they have been buying all of these variables since the 1970s. There is no telling what their real estate is worth. Costco's margins rarely go over 15%. I believe that their average margins or markup is around 11%, where, for example, home improvement chains are in the mid-20s in percentage markups, like Lowe's and Home Depot (HD). Also Costco treats their employees wonderfully, and people who shop at **Costco** love it. It is almost like a treasure hunt because about 40% of what Costco carries is not going to be there the next month or two. Charlie Munger, Warren Buffett's right-hand man, had an old cardinal rule, he would never sit on any company's board, but he changed that because he liked Costco so much.

"NVIDIA is the king of computer graphics. Items like Sony PlayStations run on NVIDIA's graphics. Also a lot of Audi's technology runs on NVIDIA's chips. NVIDIA has \$1.7 billion in cash and no debt. Another company I am watching is Activision Blizzard, which is the king of video games and is now about an \$11 stock. They have \$3.3 billion in cash and no debt."

You can go to Yahoo! Finance and type in **Costco** and see exactly what the stock market values the company. **Costco** is another company, like **Apple**, that is hard for me to sell. However, **Costco** is close to what **Coca-Cola** is now. If **Costco** is 55 and **Coke** is 55, and for some reason **Costco** runs up to 70 and **Coke** goes down to 50, then I have a nice problem: Should I sell **Costco** and buy **Coke**?

EMC (EMC) is another example of an incredible situation as far as liquidity. EMC has 2 billion shares outstanding. It has always been the king of network storage. At the end of 2003, EMC bought a company called VMware (VMW) for a little over \$600 million, and I believe they own 90% of VMware. The market value of VMware now is right at \$33 billion, so EMC owns 90% of \$33 billion, and I believe they have \$27 billion to \$28 billion worth of VMware stock. EMC has \$6 billion in cash. So now you are talking about \$33 billion and VMware's cash is almost \$3 billion — that makes it \$35 billion. And if you back out \$3 billion in debt, you are getting a \$40 billion market cap with about \$32 billion in assets, cash and stock. That is pretty phenomenal. VMware was raving about it the other night. Personally, I like those odds. VMware is a \$20 stock. If you take three great \$20 companies, Intel (INTC), Lowe's and VMware, I assume that these stocks will not stay at these prices

that I feel are low. I like when good, solid companies like the three I just mentioned drop down in price because this is when I like to buy them. Most of these companies have kind of a low that they eventually drop to. I might buy a stock for three to five years and accumulate largely because the company has got plenty of money but they are priced cheap for the time being. I don't care when they move. For my clients, I want to move them on the upside, but I try and get my clients in tune with my way of thinking. A client has to have a better propensity to relate to the overall market, and I feel that that ability stems from the more they know about a wide range of companies. How many companies does a client want to be current on? That is totally up to the individual client. I have tried to lean more and more about a broad spectrum of companies, and the more I learn, the more fascinated I become. And I hope I can relate my findings to my clients in a way that they can understand.

I will give you an example about two other companies I have been watching. **NVIDIA** is the king of computer graphics. Items like **Sony** (SNE) PlayStations run on **NVIDIA's** graphics. Also a lot of Audi's technology runs on **NVIDIA's** chips. **NVIDIA**

has \$1.7 billion in cash and no debt. Another company I am watching is **Activision Blizzard** (ATVI), which is the king of video games and is now about an \$11 stock. They have \$3.3 billion in cash and no debt. So I have given you examples of two stocks that you average and pay maybe \$10 for and that together, these companies have \$5 billion in cash and no debt. These companies are cash rich and debt free — just the opposite of the situation in which our banks, government, and Fannie and Freddie find themselves.

TWST: What general advice would you give investors right now?

Mr. Edgerton: The best advice I can give to my clients or anyone who wants to invest in the stock market is to make yourself smart if you have the time for it. I have some clients reading Barron's; I have taught my clients the basics so they know what to look for when flipping through that publication. My clients rely on me and my knowledge to guide them, but now I feel that they have a better understanding of the market and are not flying blind. I try and give my clients a knowledge base to start out with, and I encourage them — if they have the time and interest — to pick up a Barron's and just read it. I feel that if someone will take the time and read that publication for a year, by the end of that year, most will have a greater grasp on the stock market.

TWST: Thank you. (LMR)

BOBBY EDGERTON

Co-Founder, Executive Officer & Principal Capital Investment Companies 17 Glenwood Avenue Raleigh, NC 27603 (919) 831-2370 www.capital-invest.com

e-mail: capital@capital-invest.com