

Invest

High Current Income from the Tobacco Industry

Reynolds American Dividend Yield 9.1%

(Ticker Symbol: RAI)

Greetings from LFS

Dear Clients and Friends:



Invest is a quarterly newsletter created and distributed by LFS. Its purpose is to offer:

- An investment idea that will perform regardless of market conditions.
- Insight into an industry including trends, opportunities and challenges.

I welcome any questions, comments or suggestions.

Sincerely,

Douglas Ruth

Invest

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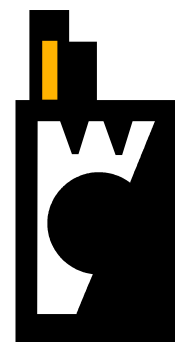
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Reynolds American (RAI) is the second-largest producer of cigarettes in the United States. The company's brands include five of the nation's 10 best-selling cigarettes.

The company's brands include:

- *Camel.*
- *Doral.*
- *Winston.*
- *Kool.*
- *Pall Mall.*



Cornwood Company LLC is the nation's second-largest manufacturer of smokeless tobacco products. Its leading brands include:

- *Kodiak.*
- *Grizzly.*
- *Levi Garrett.*

Cornwood also distributes a variety of products manufactured by Lane, Limited, including:

- *Winchester* and *Captain Black* little cigars.
- *Bugler* roll-your-own tobacco.

The Company at a Glance:

R.J. Reynolds has approximately 28 percent of U.S. cigarette sales. The company offers products in all segments of the market and makes many of the nation's best-selling cigarette brands, including: *Camel, Doral, Winston, Kool, Pall Mall, and Salem.*

Brands and Market Share

National Ranking by Share	R.J. Reynolds' Brand	Share of U.S. Sales	Type of Brand
#3	Camel	7.66%	Premium
#5	Doral	3.60%	Savings
#6	Winston	3.43%	Premium
#7	Kool	2.95%	Premium/Menthol
#8	Pall Mall	2.89%	Savings
#12	Salem	1.78%	Premium/Menthol

Source: IRI Capstone

Marketing:

Tobacco companies are finding it more challenging to market their products. They must make sure that they comply with all legal requirements. The following examples illustrate these strict requirements:

- Billboards cannot be located too close to public schools.
- Restrictions prevent tobacco companies from advertising in magazines appealing to minors.
- The colorful cigarette displays in prominent end row locations are now banned. Cigarettes are kept in locked cases and purchasers must request them.

As a result of such restrictions, legal advertising is more expensive than it used to be. RAI approaches the marketing of its products by dividing them into two categories.

Brand Portfolio

Growth Brands	Support Brands
Camel	Winston
Pall Mall	Doral
	Kool
	Capri
	Misty
	Salem

RAI spends more money on advertising its growth brands and smaller sums on its support products.

Growth Brands:

R.J. Reynolds is successfully increasing sales and profits of *Camel* and *Pall Mall* cigarettes.



Camel:

Camel has enjoyed nearly a century of outstanding success. Introduced in 1913, *Camel* became R.J. Reynolds' first major cigarette brand and the country's first nationally marketed cigarette.



Pall Mall:

Pall Mall was introduced in 1899 as one of the world's first premium cigarettes. In 1939, *Pall Mall* launched the first "king-size" (85 millimeter) cigarette; in 1966 the brand launched the first 100-millimeter cigarette. In 2001, the brand was re-launched nationally as the "new filtered" *Pall Mall*.

Net Sales
Domestic Shipment Volume in Billions of Units¹
 (All Dates for the 12 Months Ending 12-31 Each Year)

	2003	2004	2005	2006	2007	2008
Camel ²	20.0	21.6	22.0	23.5	24.2	23.3
Pall Mall	0	2.5	5.8	6.4	7.1	8.6
Total	20.0	24.1	27.8	29.9	31.3	31.8

1. Numbers are slightly off due to rounding.
 2. Excluding non-filter.

RIA Brands' Market Share
As a Percentage of Total U.S. Sales¹
 (All Dates for the 12 Months Ending 12-31 Each Year)

	2003	2004	2005	2006	2007	2008
Camel ²	5.9%	6.3%	6.7%	7.4%	7.8%	8.0%
Pall Mall	1.2%	1.5%	1.6%	1.9%	2.1%	2.6%
Total	7.1%	7.8%	8.3%	9.3%	9.9%	10.7%

1. Numbers are slightly off due to rounding.
 2. Excluding non-filter.

Support Brands

In addition to the growth brands, the company puts limited marketing support behind the following brands:

- *Winston.*
- *Salem.*
- *Doral.*
- *Kool.*
- *Misty.*



Employees:

R.J. Reynolds has about 4,800 employees.

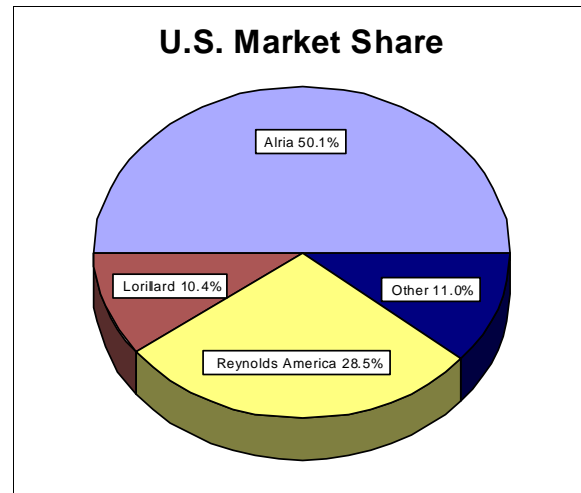
The Tobacco Industry Today:

Worldwide, there are a small number of publicly traded tobacco companies.

U.S. Cigarette Companies:

The U.S. cigarette business is controlled by three large companies and a hodge-podge of small entities. The three main companies include:

- Altria (MO).
- Lorillard.
- Reynolds America (RAI).



Source: Thomson Financial, Bloomberg Company Reports

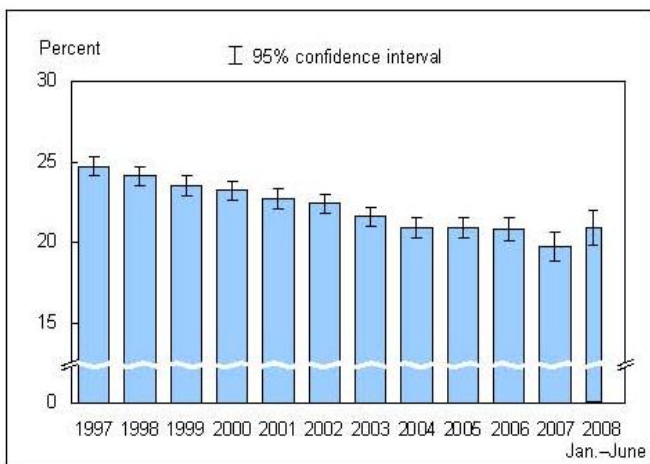
Characteristics of the U.S. Cigarette Business:

The current situation in the U.S. cigarette industry suggests that industry consolidation will continue. Since 1981, industry sales have decreased a bit each year.



In 1997, 24.7 percent of U.S. adults smoked. By 2007, the rate had declined to 19.7 percent

Prevalence of Current Smoking Among Adults 18 and Over U.S. 1997 – June 2008



Source: CDC (Data source: Sample adult core component of the 1997 – June 2008 NHIS. Data are based on household interviews of a sample of the civilian noninstitutionalized population.

Tobacco Sales Decrease

2006	2007	2008
2.4%	5.0%	3.3%

Lorillard: When industry sales decrease, often profits can be increased by combining two or more companies in the same industry. Lorillard, the maker of *Newport* is the smallest public entity in America.

In a March 23, 2009, article in *Barron's*, David Adelman, a Morgan Stanley securities analyst, noted that Lorillard has the highest operating profit per pack of cigarettes in the entire U.S. industry.

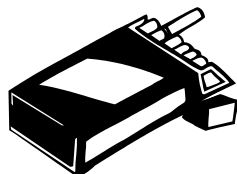
Operating Profit per Cigarette Pack¹

Company	Per Pack Profit
Altria (Philip Morris USA)	\$0.59
Reynolds America	\$0.45
Lorillard	\$0.76

1. Source: *Barron's* article written by Andrew Bary, March 23, 2009.

Lorillard's sales volume increased by 3 percent in 2008.

Menthol segment growth: It is interesting to note that even in a declining market, some segments will grow. The menthol cigarette segment is growing and currently accounts for about 30 percent of the U.S. industry sales.



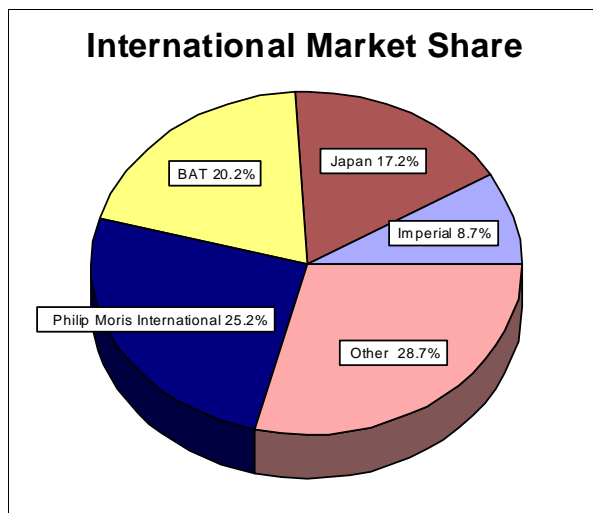
Roughly 17 percent of new smokers purchase *Newport*.

Newport: The *Newport* brand is number two in the American market. *Newport* has 34 percent of the menthol category. In 2002, *Newport* had a 28-percent market share.

International Cigarette Companies:

The international cigarette business is slightly more fragmented. Some of the companies include:

- Philip Morris International (PM)
- BAT
- Imperial Tobacco (ITY)
- Japan



An Oligopoly:

Currently, the U.S. tobacco industry is controlled by a few suppliers. LFS believes that the industry could change into a duopoly. Altria would control about 50 percent of the U.S. market and Reynolds America between 35 and 40%. The economics suggests that Reynolds might possibly buy Lorillard for the following reasons:

- Altria possibly would not be allowed to acquire any other significant U.S. producers because that could allow the company to become too powerful.
- While an international company might offer to buy Lorillard, economics suggest that they would not enjoy cost savings.

- A combination of Reynolds America and Lorillard might save \$400 million per year according to Nik Modi, a tobacco analyst from the investment firm UBS.

The U.S. beer market is also a duopoly. Anheuser Busch controls about 50 percent of the U.S. market; Molson Coors controls about 30%.

Headquarters and Facilities

The company is based in Winston-Salem, N.C. The largest plant – Tobaccoville, a two-million-square-foot facility constructed in 1986 – is located in the town of Tobaccoville, near Winston-Salem. The company's Whitaker Park plant, located in Winston-Salem, was built in 1961 and is about 1 million square feet. The company also has tobacco sheet-manufacturing operations and a significant research-and-development facility in Winston-Salem.



The Smokeless Tobacco Industry:

The smokeless tobacco business is growing. The industry is small when compared to the cigarette business:

Sales (In \$Billions)	
Industry	Sales
Smokeless tobacco	\$3
Cigarettes	\$70

According to the Federal Trade Commission, sales of moist snuff increased from about \$545 million in 1986 to \$2.2 billion in 2005.

In 2008, U.S. moist snuff volume grew by 7 percent. The average annual growth rate has been 6 percent over the last four years. Additionally, margins on moist snuff products are generally higher than on cigarettes.

Statistics:

Following are some statistics about smokeless tobacco.

In the United States:

- It has been estimated that about 7.8 million people, 12 years and older currently use smokeless tobacco regularly.
- An estimated 3 percent of adults are current smokeless tobacco users (6 percent males vs. 0.3 percent females).



On April 25, 2006, Reynolds America purchased the Conwood Company, LLC. Conwood is the second largest smokeless tobacco manufacturer in the United

Revenue:

The percentage of total revenue generated from smokeless moist snuff is becoming a larger percentage of Conwood's sales.

Percentage of Revenue Generated From Smokeless Moist Snuff

	2007	2008
Smokeless moist snuff	60%	66%
Other	40%	34%
Total	100%	100%

Source: Management Science Associates, Inc.

History of Conwood:



The Conwood Company, LLC has been providing smokeless tobacco products for over 200 years. The company's roots predate the formation of the United States. Captain John Garrett of the Sixth Delaware Militia came home from fighting the British in the Revolutionary War and, in 1782, established a snuff mill on

Red Clay Creek in Delaware. One of these dry snuff products displays a trademark that is the oldest U.S. trademark in continuous use. This mark was one of the first ten recorded on October 25, 1870, the first day the U.S. Patent Office began granting trademarks

Company products are organized into eight categories, six of which are smokeless tobacco. In

addition, Conwood produces little cigars and pipe tobacco.

The moist snuff category is divided into two subcategories:



Premium brands.



Price value.

The majority of Conwood's sales come from its Grizzly brand, which is marketed under the price-value segment.

The industry-wide trend has been that consumers are trading down – giving up premium brands for price-value products.

Conwood's revenue is increasing but its operating income decreased in 2008.

Conwood Revenue
(In \$Millions)

	2006	2007	2008
Total revenue	\$409	\$670	\$723
Operating income	\$181	\$312	\$232

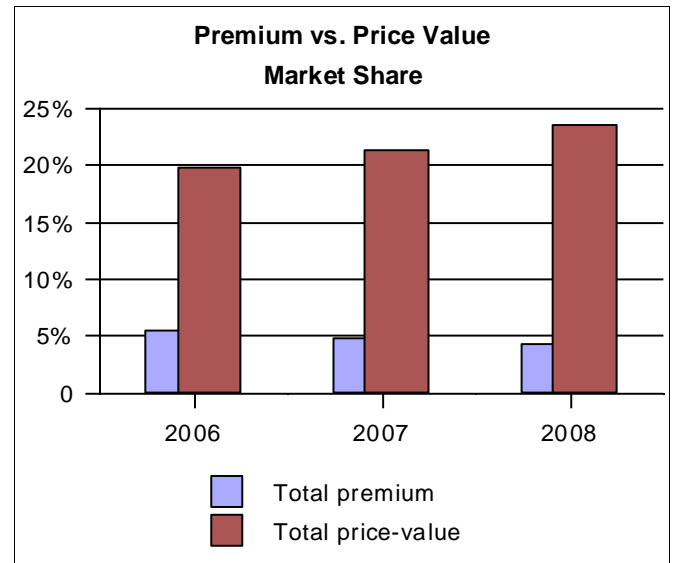
Conwood Volume and Share of Shipments

As of 12-31 each year	2006	2007	2008
Unit Volume in Millions of Cans:			
Kodiak	56.7	53.2	51.0
Other premium	3.5	3.2	2.8
Total premium	60.2	56.4	53.8
Grizzly	202.1	237.0	279.6
Other price-value	3.1	2.2	1.7
Total price-value	205.2	239.2	281.3
Total moist snuff cans	265.4	295.6	335.2
Share of Shipments:			
Kodiak	5.1%	4.4%	4.0%
Total premium	5.4%	4.7%	4.3%
Grizzly	19.4%	21.1%	23.3%
Total price-value	19.7%	21.3%	23.4%
Total Conwood	25.1%	26.0%	27.7%

Conwood Snuff Market Share

Category	2006	2007	2008
Total premium	5.4%	4.7%	4.3%
Total price-value	19.7%	21.3%	23.4%
Total Conwood	25.1%	26.0%	27.7%

Source: Management Science Associates, Inc.



Employees:

Conwood employs 1,100 workers.

Why Buy Stock in Reynolds America?

1. Increasing Revenue and Profits:

The characteristics of the industry make it a desirable investment. Historically, the industry consistently increases revenue and profits.

RAI Net Sales and Income¹
(In \$Billions)

	2004	2005	2006	2007	2008
Net sales	\$6.4	\$8.3	\$8.5	\$9.0	\$8.8
Income ¹	\$0.6	\$1.0	\$1.1	\$1.3	\$1.3

1. Before extraordinary items.

2. Dividends:

People who want a company that has a history of both paying and increasing the dividend.

Dividend per Share

2004	2005	2006	2007	2008
\$1.90	\$2.10	\$2.75	\$3.20	\$3.40

Reynolds America's dividend policy is to pay out 75 percent of its earnings. This suggests that the company should be able to continue to increase its dividend over a period of time.

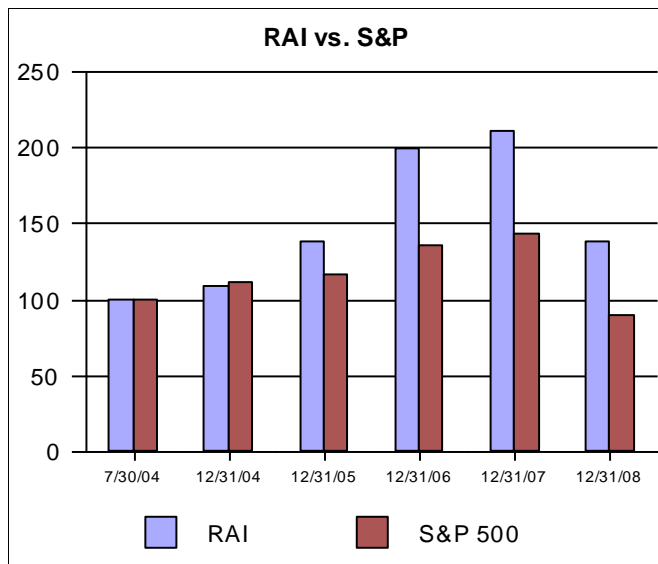
3. Industry Certainty:

Over the last five years, tobacco stocks have out-performed the Standard & Poor (S&P) stock index.

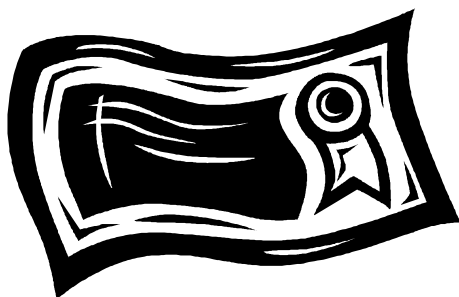
RAI vs. S&P

Date	RAI	S&P
07-30 2004 ¹	\$100.00	\$100.00
As of 12-31 each year		
2004	\$108.49	\$110.86
2005	\$138.18	\$116.31
2006	\$198.80	\$134.68
2007	\$210.52	\$142.08
2008	\$137.48	\$89.51

1. RAI began trading on August 2, 2004.

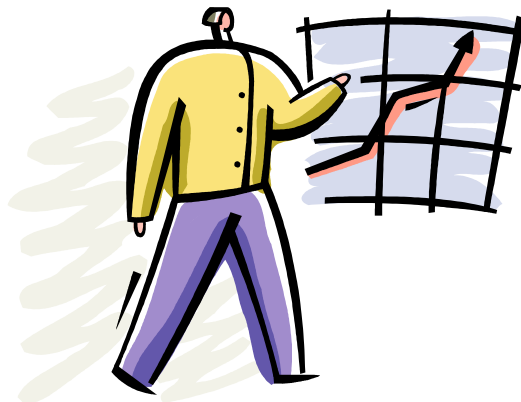


4. Increased Bond Ratings:



In May 2008:

- The consistency of the revenue and earnings stream allowed Standard & Poor to raise Reynolds America's bond rating from BB+ (non-investment grade rating) and a positive outlook to BBB- (an investment grade rating and a stable outlook).



- Also, Moody's raised the rating of Reynolds America to investment grade.

Conclusion:

LFS believes that the time is right to consider an investment in Reynolds America. In April 2009, the stock is trading at approximately a six-year low.

RAI High and Low Stock Prices

	2004	2005	2006	2007	2008	2009 ¹
High	\$40.30	\$51.20	\$67.10	\$71.70	\$72.00	\$37.78
Low	\$26.70	\$38.20	\$47.50	\$58.60	\$37.20	N/A

1. Current price.

If investors bought RAI at \$37.78, they would earn a dividend yield of 9 percent.

Dividend	\$3.40	= 9%	Dividend yield
Share price	\$37.78		

During challenging economic times, LFS has put increased emphasis on encouraging investors to purchase stocks that pay dividends. RAI is a stock that fits this profile.





I would like information on the following:

- Autographics, Inc. (AUGR)
- Buckeye Technologies, Inc. (BKI)
- China BAK Battery Company (CBAK)
- CCA Industries, Inc. (CAW)
- Delphax Technologies, Inc. (DLPX)
- Deswell Industries Incorporated (DSWL)
- Fremont Insurance (FMMH)
- Jinpan International Limited (JST)
- Park-Ohio Holdings (PKOH)
- Qiao Xing Mobile Communication Co., Ltd (QXM)
- Reynolds America (RAI)
- R. G. Barry (DFZ)
- West Marine (WMAR)

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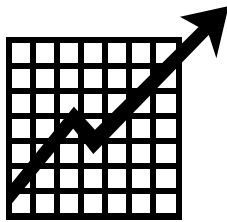
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- U.S. Patriot Act.
- Complaint Inquiries.
- Information on FINRA.
- Information on Securities Investor Protection Corporation (SIPC).
- SEC Rule 605 (formerly SEC 11Ac1-3) Payment For Order Flow.
- SEC Rule 606 (formerly SEC 11Ac1-6) Disclosure of Order Routing Practices.

If you would like us to send to you a copy of our advisory *Disclosure Brochure (Form ADV Part II with Schedule F)*, please contact us at 815-485-5559; fax 815-485-9130; e-mail lenoxfin@aol.com; or visit our web site www.lenoxfinancialservices.com and a copy will be sent to you free of charge.

Dated: April 2009.



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What this means for you: When you open an account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

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We feel confident that we will have a mutually satisfying business relationship with all of our clients, as we have for many years. If, however, you feel the need to register a complaint, it should be directed to:

Douglas Ruth, President
322 Alana Drive, New Lenox, IL 60451
(815) 485-5559
lenoxfin@aol.com

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Public Disclosure Hotline

For assistance with checking the background of a broker, call the Public Disclosure Hotline at (800) 289-9999.

Information on the FINRA Public Disclosure Program

FINRA has created a brochure for investors that provides different resources available to perform an online background check of a broker, brokerage firm, investment adviser or other investment professionals. That brochure is available on the FINRA web site or by contacting the Public Disclosure Hotline.

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SIPC Brochure

SIPC has prepared an informative brochure which provides an understanding of the Securities Investor Protection Corporation (SIPC), its role and how it protects you. The brochure can be obtained by contacting SIPC at (202) 371-8300.

SIPC Web Site and Telephone Number

The SIPC maintains a web site that is designed to provide investors with knowledge about the mission and function of SIPC. The web site address is www.sipc.org. The telephone number for SIPC is (202) 371-8300.

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SEC Rule 606 (formerly SEC 11Ac1-6)
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