

THE  
FLIPPIN, BRUCE & PORTER  
FUNDS

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Dear Shareholders,

Stock indexes advanced by approximately 5% in the fourth quarter, capping off an extremely volatile, albeit successful year in a relatively benign manner. It was the first quarter since September 2008 with single digit returns—positive or negative. Stocks rebounded sharply following the market bottom in March, with the broad market indexes returning 20%-plus for the twelve-month period despite fears that were present early in the year. Your Funds fully participated in this recovery, with the FBP Balanced Fund returning 28.7% and the FBP Value Fund returning 36.1%.

2009 punctuated a decade that ranks among the worst in history for equity investors, with the S&P 500 producing negative returns over the full period. At the start of the decade the technology bubble was fully inflated and, with the S&P trading at nearly 30 times earnings, valuations were stretched. That bubble burst in 2000 and was followed a few years later by excesses in housing, commodities and most anything that could be leveraged to produce higher returns. The deflating of this most recent bubble produced the difficult bear market of 2008-2009 and contributed to the very poor results for the 10-year period. Contrasted with the beginning of the last decade, this new decade begins with valuation levels much more reasonable, at around 15 times 2010 earnings estimates. This should allow for future returns to be more in line with the long term growth of earnings, which have averaged approximately 7% historically. Add in dividends and the next decade should be much more rewarding than the last.

What lies ahead for stocks in the coming year? Will the bear rear its ugly head again or will the rally continue? Obviously, there are concerns. Unemployment remains at 25-year highs. Commercial real estate loans are beginning to show some stress. Economic growth is relatively muted given that we are emerging from a recession. A major challenge for the Fed will be the gradual removal of the economic stimulus without damaging the underlying economy. This is crucial, as low interest rates and expanding government debt loads must eventually be unwound. While we expect tax rates to move higher, we believe increased taxes alone will be insufficient to pay down government debt. GDP growth will be required over time to generate higher tax revenues capable of lowering the national debt. But back to the question of what lies ahead: virtually every leading indicator is signaling that the economic environment will continue to improve. With the Fed likely to remain accommodative for the foreseeable future, we expect GDP growth around 3.5% for this year. Corporate profits could potentially surprise on the upside in 2010 due to the significant cost cutting by corporations during the recession. And it appears that large amounts of investable assets—upwards of \$3.3 trillion—remain on the sidelines in money market funds. At some point, given the low absolute yields available in these funds, we expect many of these dollars will return to the equity markets providing fuel for further advances in stock prices. These factors, along with the reasonable valuation levels mentioned above, paint a positive picture for the equity markets for 2010.

The bond market experienced its own dislocations during the year. U.S. Treasury bonds held up better than corporate bonds during late 2008 and early 2009, and yield spreads widened to historically high levels of more than 500 basis points for quality bonds. As it became clear that the economic situation was stabilizing in mid-2009, corporate bonds began to outperform governments and yield spreads narrowed.

For the year, corporates provided positive returns while governments were negative. Thus, due to lower government bond exposure, the Balanced Fund's fixed income performance was generally above the benchmarks. With an improving economy and the need by the Fed to withdraw liquidity at some point in 2010, we expect interest rates to work higher over the course of the year. Therefore, to protect the principal value of the fixed income assets, we will continue to maintain a bias towards shorter maturities.

Our equity returns in both the Balanced Fund and Value Fund also compare favorably to the markets for the year. Stock selection was especially additive to relative performance for the year, specifically in the Energy, Consumer Discretionary and Industrials sectors, and our overweighting in the Information Technology sector helped as well. Holding back returns were our overweighting in Consumer Staples and stock selection in the Materials sector. Overall, we are pleased that our investment disciplines delivered strong results during a difficult year for investors. As we have mentioned in the past, adherence to disciplines during periods of poor performance is not an easy task, but is paramount for success, and has helped us to deliver solid returns over longer market cycles.

While we expect a positive year for equities in 2010, we believe the likelihood of continued market volatility is high. The equities in both Funds portfolio continues to sell at an attractive discount to our expected value as we have reduced or sold stocks that have reached our full value target levels and repositioned some of those proceeds into more attractive names. Additionally, to enhance each Fund's return potential, we continue our quest for attractive, large capitalization companies exhibiting strong cash flow, above-average dividend yields and inexpensive valuations.

We thank you for your confidence and support.

Sincerely,

A handwritten signature in cursive script that reads "John T. Bruce". The signature is written in black ink and is positioned above the printed name and title.

John T. Bruce, CFA  
President & Portfolio Manager

**This commentary seeks to provide our current view of the market and to highlight selected activity of the Funds. Any discussion of specific securities or sectors should not be regarded as a recommendation of any security or market sector.**

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<b>Performance through 12/31/2009</b>	<b>Quarter (%)</b>	<b>YTD (%)</b>	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>
FBP Balanced Fund <i>Gross Expense ratio = 1.06%</i> <i>Net Expense Ratio = 1.00%</i>	4.29	28.72	28.72	.69	2.96
FBP Value Fund <i>Gross Expense ratio = 1.18%</i> <i>Net Expense Ratio = 1.07%</i>	4.98	36.09	36.09	-1.88	1.29
S&P 500 Index*	6.04	26.46	26.46	.42	-.95
Russell 1000 Value Index**	4.22	19.69	19.69	-.25	2.47

The Adviser currently, at their sole discretion, intends to waive Management fees to the extent necessary to limit total Annual Fund Operating Expenses (excluding Acquired Fund Fees and Expenses) of the Value Fund and Balanced Fund to 1.07% and 1.00%, respectively, of average net assets.

***The performance data quoted above represents past performance and is not a guarantee of future results. Current performance may be higher or lower than performance quoted above. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data current to the most recent month end is available by calling the Fund toll free at 1-866-738-1127.***

\*S&P 500 Index is widely recognized, unmanaged index of prices of 500 U.S. common stocks.

\*\*Russell 1000 Value Index measures the performance of the large cap value segment of the U.S. equity universe which includes those companies with lower price-to-book ratios and lower expected growth values.