



Value Line®
Publishing, Inc.

Complete Overview

The Value Line
Investment Survey
Small and Mid-Cap Edition

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CHAPTER

1

GETTING STARTED

ITS PURPOSE

In response to requests from subscribers, Value Line has more than doubled the universe of 1,700 companies it follows in *The Value Line Investment Survey*® by introducing *The Value Line Investment Survey*®—*Small and Mid-Cap Edition*, which covers 1,800 additional stocks. The *Small and Mid-Cap Edition* provides more avenues in your quest for superior returns on capital. It is backed by a disciplined, objective, quantitative approach similar to the analytical methodologies that have proven themselves for decades in *The Value Line Investment Survey*®. There are, however, a few differences. There are no estimates of earnings and dividends. And a more detailed description of the companies replaces the analysts' commentaries. These differences between the coverage of the 1,700 companies in *The Value Line Investment Survey*® and the 1,800 additional companies in the *Small and Mid-Cap Edition* constitute a tradeoff that enables us to provide coverage of many more companies at little incremental cost to you, our subscribers. We are proud to continue to assist you in making your investment decisions.

THE SMALL AND MID-CAP EDITION'S MANY FEATURES

The Value Line Investment Survey®—*Small and Mid-Cap Edition* has a number of features that distinguish it from other investment advisory services.

First—Broader Coverage—Reports cover approximately 1800 stocks. Many small- and medium-cap

equities are included in the *Small and Mid-Cap Edition*. These reports are organized by industry, corresponding to most of the industry groups in *The Value Line Investment Survey*®.

Second—Performance,™ Technical and Safety™ Ranks for all 1,800 Stocks—The Performance™ Rank incorporates most of the elements of the Value Line Timeliness™ Rank and is designed to forecast relative performance during the next six to 12 months. The Technical Rank, which is also used in *The Value Line Investment Survey*®, projects stock price performance relative to the overall market during the next three to six months. It is also a component of the Performance™ Rank—albeit a minor factor. The Safety™ Rank measures the total risk of a stock using the Price Stability index for that stock and the company's Financial Strength rating.

Third—Consensus Earnings Estimates—Consensus mean quarterly earnings estimates (going out three quarters), mean annual earnings estimates for the next two years, and consensus 5-year earnings growth estimates are provided for many companies, *as available*. These consensus estimates are based on a diverse group of Wall Street sources and are not made by Value Line analysts.

Fourth—An Expanded Business Section—This commentary explains what the company is all about. It focuses on the company's business lines and strategy.

Fifth—A New Assets and Liabilities Section—A

complete balance sheet replaces the Current Position and Capital Structure information in the *Value Line Investment Survey*® of 1,700 stocks in order to give you a more comprehensive numerical picture.

Sixth—New Total Return Section—Provides the stock's total return—dividends plus appreciation—over the past three months through the last five years.

Seventh—Important Investment Screens—The *Summary & Index* shows weekly alphabetical listings of all 1,800 stocks with important statistical information about each at a glance. It also provides five weekly screens of stocks grouped according to various criteria, such as stocks ranked 1 for Performance™, another table with rank 2 stocks, stocks to avoid (ranked 5), the best performing stocks during the last 13 weeks and the worst performing stocks during the last 13 weeks.

Eighth—Continual, Current Follow-up—Important company developments appear in *Supplementary Reports* in *Ratings & Reports*. Rank changes are listed in each week's *Summary & Index*.

HOW TO USE THE VALUE LINE INVESTMENT SURVEY—SMALL AND MID-CAP EDITION

The Value Line Investment Survey®—*Small and Mid-Cap Edition* is a unique source of financial information designed to help investors make informed investment decisions that fit their individual goals and levels of risk. It is: (1) a proven forecaster of stock price performance over the next six to 12 months; (2) a source of interpretative analysis of approximately 1,800 individual stocks and approximately 90 industries; and (3) a source of historical information that helps investors spot trends.

If you come across any unfamiliar terms as you read through this guide, please refer to the *Glossary* which is available on our website, www.valueline.com.

PART I - SUMMARY & INDEX

Please start with the *Summary & Index*. The front

cover contains a Table of Contents, three important market statistics, and a list of all the industries we follow in alphabetical order with the relative industry rank to the right of the industry name and the page number of the industry analysis in *Ratings & Reports* listed under PAGE. The market

statistics are found in three boxes. The first box (a) has the median trailing price/earnings ratio of all stocks with earnings in our 3,500-stock universe. This universe consists of the 1,800 companies in *The Value Line Investment Survey*®—*Small and Mid-Cap Edition* and the 1,700 companies in *The Value Line Investment Survey*®. The second box (b) shows the median yield of all dividend-paying stocks in our 3,500-stock universe. The third box (c) contains the average yield of all stocks in our 3,500-stock universe. By studying these statistics, a fairly good picture emerges of how the universe of Value Line stocks is currently being evaluated. *The Value Line universe of approximately 3,500 stocks comprises more than 95% of the market capitalization of all stocks traded in U.S. markets.*

Beginning on page 2, the *Summary & Index* also includes an alphabetical listing of all stocks in the publication with references to their location in Part 2, *Ratings & Reports*. If you are looking for a particular stock, look inside the *Summary & Index* section, which is updated each week to provide the most current data on all companies included in *The Value Line Investment Survey*®—*Small and Mid-Cap Edition*.

To locate a report on an individual company, look for the page number just to the left of the company name. Then turn to that page in Part 3, *Ratings & Reports*, where the number appears in the upper right corner.

In the far left column of *Summary & Index* is a number that refers to recent *Supplementary Reports*, if any, which are included on the back pages of *Ratings & Reports*. If two asterisks (**) appear in this column, it means that there is

Summary & Index

a Supplementary Report in the current Issue.

There are many columns in the *Summary & Index* with more information on each of the approximately 1,800 stocks we cover, including from left to right:

- Page numbers for the latest company report and any recent Supplementary Report (Supplementary Reports are published at the back of *Ratings & Reports*)
- The name of each stock and the exchange on which it is traded
- Each company's stock exchange (ticker) symbol
- The recent stock price (see the top of page 2 in *Summary & Index* under *Index to Stocks* for the specific date)
- Value Line's proprietary *Performance™*, *Safety™* and *Technical™* ranks (See Chapter 3 and the online Glossary for definitions)
- Beta (a measure of volatility)
- Each stock's trailing P/E ratio—based upon the most recent 12 months of earnings
- Each stock's current dividend yield
- Each stock's last 12 months of earnings
- Each stock's current dividend rate—usually quarterly
- Latest earnings and dividend declarations

There is also a wealth of information in the form of stock screens toward the back of the *Summary & Index*. The stock screens are a good place to start for anyone looking for investment ideas or help in forming a strategy. They are also useful for investors who want a list of stocks relevant to specific strategies they may have in mind.

Some examples of our useful screens are:

- Highest-ranked stocks in highest-ranked industries. Industry ranks are derived from our main publica-

tion, *The Value Line Investment Survey®*

- Small and Mid-Cap Edition® Model Portfolio, consisting of 40 stocks primarily suited for more aggressive investors
- Conservative Stocks
- Highest Dividend Yielding Stocks
- Biggest “free flow” Cash Generators
- Widest discounts from Book Value
- Best/Worst Performing Stocks in the Past 13 Weeks
- Stocks Ranked 1, 2, and 5 for Performance
- 25 Largest and Smallest Market-Cap stocks in current issue

PART 2 - RATINGS & REPORTS

Ratings & Reports is the core of *The Value Line Investment Survey®—Small and Mid-Cap Edition* with one-page reports on approximately 1,800 companies and one-page reports on approximately 90 industries. The company reports contain *Performance*, *Safety* and *Technical* ranks, income and balance sheet data, as much as eight years of historical data, and a business description with recent company news. They also contain stock price charts; quarterly sales, earnings, and dividend information; and a variety of other very useful material. Each page in this section is updated every 13 weeks. When unexpected important news occurs during these 13 week intervals, a Supplementary Report (appearing in

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Part 2
Ratings & Reports
November 7, 2008

NEW RANKS & RATES:
Dividend Yield, P/E Ratio, Price/Book Value, Beta, Volatility, and Safety Rank

ESPECIALLY NOTEWORTHY: In this issue 11, we are introducing coverage of the Financial Services (Financial) companies of NYSE, NYSE Am, Nasdaq National Market, OTC Markets Group, Life, Property, Casualty, and Reinsurance (Life) and an Entertainment company (Entertainment Communications Inc.)

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Ratings & Reports

the back section of *Ratings & Reports*) is published. If there is a Supplementary Report, its page number will be shown in the far left hand column of the *Summary & Index*, near the company name (two asterisks — ** — indicate that a Supplementary Report is in this week's Edition).

Every week subscribers receive a new issue of *Ratings & Reports* containing approximately 140 company reports grouped by industry. Over the course of three months, new reports are issued on all of the approximately 1,800 companies and some 90 industries.

2

PLANNING AN INVESTMENT STRATEGY

Creating an investment strategy is not an easy task. It encompasses many facets of your life, from your personality traits to your current life situation. Value Line recommends that most investors diversify their assets so that one's eggs are spread evenly among many baskets. This will help to ensure that dropping one basket will result in as minimal an impact as possible on your overall financial well being.

To that end, we have created an entire workbook that will help you to create an individualized portfolio. You should take a few minutes and go through that document, titled *Value Line's Guide To Planning An Investment Strategy*.

In the end, you should diversify both by asset class (i.e., stocks and bonds) and within asset classes (i.e., owning multiple stocks). So, using a simple example that follows a Wall Street "rule of thumb", you might own both stocks and bonds so that the equity portion of your portfolio is equal to 100% minus your age. If you were 60 years old, that would leave you with a portfolio made up of 40% stocks and 60% bonds.

While this might be too conservative, as you could easily expect to live another 20 to 30 years, or more, from age 60, it is a convenient example of asset allocation. This 40% stock/60% bond portfolio has two broad asset classes—stocks and bonds. If one were performing poorly, the other would be expected to perform better. Note that Value Line suggests you include at least four asset classes in your portfolio, including some foreign stock exposure,

to provide for more diversification, but the goal remains the same.

You could, of course, have a 40% stock/60% bond portfolio and still have only two securities: one stock and one bond. While the asset classes would provide you with some diversification, holding just two securities would limit the benefits diversification offers. It is entirely possible that you could select a stock that happens to be performing poorly at the same time as the bond you chose is performing poorly. At an extreme, you could purchase both types of securities from just one company, which would be even worse from a diversification point of view. As such, it is recommended that you diversify within the asset classes as well.

This can be achieved in multiple ways, from directly purchasing the securities yourself to hiring someone else to purchase them for you (an example of this would be the purchase of a mutual fund). If you intend to purchase securities yourself, Value Line suggests owning at least 10 to 20 securities across 10 or more industries to help ensure proper diversification. In the 40% stock/60% bond portfolio, this would result in between 20 and 40 holdings across the entire portfolio.

At the higher end, keeping track of the portfolio might get difficult. If you decided, instead, to hire someone to invest a portion of your assets (or "outsource") you could bring that number back down to 11 to 21 securities. For example, because of the high costs and trading barriers in many bond markets, you might choose to purchase a

bond fund instead of buying bonds directly. This would result in a much more manageable portfolio consisting of 10 to 20 stocks and one bond fund. Moreover, the bond component would remain diversified because, by their very nature, mutual funds are usually diversified. (Note that this is not always the case, so that care must be taken in understanding the mutual funds you select.)

Again, we have constructed a workbook to help you with the asset allocation portion of your decision process that we strongly suggest you read. The keys are to be diversified across asset classes, within asset classes, and to keep the investing processes manageable and, hopefully, both profitable and enjoyable.

Once you have decided on a broad portfolio structure, be it two asset classes or 20, you will need to start filling in the asset class buckets. How you decide to go about this will depend both on the buckets that you need to fill (for example, the Large Cap Growth category will require a different approach than the Large Cap Value category) and on your personal preferences (for example, a desire for current income would require a different approach than a quest for only capital appreciation). Where do you begin?

With approximately 1,800 stocks in our coverage universe, simply opening the first issue and starting to examine each stock report in search of the 10 to 20 stocks you want to own would be a daunting, if not impossible, task. This is why we have included a number of stock screens in the back of each *Summary & Index* that we believe will provide a good starting point for any investor.

The screens are updated weekly and cover a broad range of investment options, including Timely Stocks in Timely Industries, Conservative Stocks, Highest Yielding Stocks, and the 25 largest and smallest Market-Cap stocks

in the current issue. A description of the screens presented is provided if the title of a screen is not self-explanatory. There are, of course, many more screens than the ones listed here, so you should take a look at the pages in the back of the *Summary & Index* to get a feel for which ones will best fit your specific needs. Regardless of which screens you choose to use, this approach will provide you with a short list of companies to research.

However, for those who want more advice than a static screen, we have also created a model portfolio of 40 stocks. This portfolio is overseen by a Value Line analyst and is updated weekly in the *Selection & Opinion* section. This portfolio offers another convenient starting point for selecting stocks for inclusion in your own portfolio.

CHAPTER

3

VALUE LINE'S RANKING SYSTEMS

The Value Line Investment Survey—Small and Mid-Cap Edition® has a number of unique features that distinguish it from other publications and make it easier for you to have accurate, timely information so that you may keep up to date on all developments affecting your investments.

Probably the most famous are Value Line's time-honored ranking systems for *Performance* and *Safety*, which rank approximately 1,800 stocks relative to each other for price performance during the next six to 12 months. The newer Value Line *Technical Ranking System* is designed to predict short-term stock price movements. In each case, stocks are ranked from 1 to 5, with 1 being the highest ranking.

PERFORMANCE

The *Value Line Performance* rank measures relative probable price performance of the approximately 1,800 stocks during the next six to 12 months on an easy-to-understand scale from 1 (Highest) to 5 (Lowest). The components of the *Performance Ranking System* are the five-year trend of relative earnings and prices, recent earnings and price changes combined with technical ranks. All data are actual and known. A computer program combines these elements into a forecast of the price change of each stock, relative to all other approximately 1,800 stocks for the six to 12 months ahead.

Rank 1 (Highest): These stocks, as a group, are expected to be the best performers relative to the Value Line

universe during the next six to 12 months (100 stocks).

Rank 2 (Above Average): These stocks, as a group, are expected to have better-than-average relative price performance (300 stocks).

Rank 3 (Average): These stocks, as a group, are expected to have relative price performance in line with the Value Line universe (approximately 1,000 stocks).

Rank 4 (Below Average): These stocks, as a group, are expected to have below-average relative price performance (300 stocks).

Rank 5 (Lowest): These stocks, as a group, are expected to have the poorest relative price performance (100 stocks).

Changes in the *Performance* ranks can be caused by:

1. New earnings reports
2. Changes in the price movement of one stock relative to the approximately 1,800 other stocks in the publication
3. Shifts in the relative positions of other stocks

SAFETY

A second investment criterion is the *Safety* rank as-

PERFORMANCE	2	<i>Above Average</i>
Technical	2	<i>Above Average</i>
SAFETY	4	<i>Below Average</i>
BETA	1.20	(1.00 = Market)

Sample Ranks Box

signed by Value Line to each of the approximately 1,800 stocks. The *Value Line Safety* rank measures the total risk of a stock relative to the approximately 1,800 other stocks. It is derived from a stock's Price Stability rank and from the Financial Strength rating of a company, both shown in the upper left-hand corner of each page in *Ratings & Reports*. Safety ranks are also given on a scale from 1 (safest) to 5 (riskiest) as follows:

Rank 1 (Highest): These stocks, as a group, are the safest, most stable, and least risky investments relative to the Value Line universe, which accounts for about 95% of the market capitalization of all stocks in the U.S.

Rank 2 (Above Average): These stocks, as a group, are safer and less risky than most.

Rank 3 (Average): These stocks, as a group, are of average risk and safety.

Rank 4 (Below Average): These stocks, as a group, are riskier and less safe than most.

Rank 5 (Lowest): These stocks, as a group, are the riskiest and least safe.

Stocks with high *Safety* ranks are often associated with large, financially sound companies; these same companies also often have somewhat less than average growth prospects because their primary markets tend to be growing slowly or not at all. Stocks with low *Safety* ranks are often associated with companies which are smaller and/or have weaker-than-average finances; on the other hand, these

smaller companies sometimes have above-average growth prospects because they start with a lower revenue and earnings base.

THE PENALTY AND REWARD OF RISK

A risky stock is one which has low Price Stability and whose price fluctuates widely around its own long-term trend. It may also be a stock of a company with a low Financial Strength rating. One may reasonably assume that the price of a risky stock will go up more than that of a safe stock in a generally strong market. Yet, if in the interim it went down more sharply and you had to sell at an inopportune time, you could suffer a heavier penalty for having bought the high-risk stock instead of the safer one.

High Value Line *Performance* ranks give some protection against a general market decline, but only over a period of six to 12 months. They cannot be relied upon to help protect against a sharp drop in the stock market in every week or month, as a high *Safety* rank may do.

TECHNICAL

The Value Line *Technical* rank uses a proprietary formula to predict short-term (three to six month) future price returns relative to the Value Line universe. It is the result of an analysis which relates 10 price trends of different duration for a stock during the past year to the relative price changes of the same stock expected over the succeeding three to six months. The *Technical* rank is best used as a secondary investment criterion. We do not recommend that it replace the *Performance* rank. As with the other ranks, the *Technical* rank goes from 1 (Highest) to 5 (Lowest.)

INDUSTRY

Value Line also publishes *Industry* ranks which show the *Timeliness* of each industry. These ranks are updated weekly. They appear in the Highest Ranked Stocks in Highest Ranked Industries table beginning on page 26 of the *Summary & Index*. In this table we show the 35 highest-ranked industries. The *Industry* rank is calculated by averaging the *Timeliness* ranks contained in *The Value Line Investment Survey*® of each of the stocks which have been assigned a *Timeliness* rank in a particular industry.

CHAPTER

4

UNDERSTANDING THE VALUE LINE PAGE

To start studying a stock, we suggest that you concentrate on four features found on every *Ratings & Reports* page. We have included a sample page with the welcome package. First, we recommend that you look at the *Performance*, *Safety*, and *Technical* ranks. Then, read the business description and recent news in the bottom half of each report. Next, we suggest you look at our consensus estimates, if available. These estimates are footnoted to say how many analysts contributed to the earnings estimates, both quarterly and annual. Finally, we think you should study the historical financial data appearing in the Statistical Array in the center of the report. There is also a lot of other useful information on each page, but the four features mentioned above provide the best place to begin.

VALUE LINE RANKS

A synopsis of the *Value Line Ranking System* follows.

Performance

The *Performance* rank is Value Line's measure of the expected price performance of a stock for the coming six to 12 months relative to our approximately 1,800 stock universe. Stocks ranked 1 (Highest) and 2 (Above Average) are likely to perform best relative to the others. Stocks ranked 3 are likely to be average performers relative to the Value Line universe. Stocks ranked 4 (Below Average) and 5 (Lowest) are likely to underperform stocks ranked 1 through 3 in Value Line's stock universe.

PERFORMANCE	2	<i>Above Average</i>
Technical	2	<i>Above Average</i>
SAFETY	4	<i>Below Average</i>
BETA 1.20		(1.00 = Market)

Sample Ranks Box

Just one word of caution. Stocks ranked 1 are often volatile and often tend to have smaller market capitalizations (the total value of a company's outstanding shares, calculated by multiplying the number of shares outstanding by the stock's market price per share). Conservative investors may want to select stocks that also have high *Safety* ranks because they are usually more stable issues.

Safety

The *Safety* rank is a measure of the total risk of a stock compared to others in our approximately 1,800 stock universe. As with *Performance*, Value Line ranks stocks from 1 (Highest) to 5 (Lowest). However, unlike *Performance*, the number of stocks in each category from 1 to 5 is not fixed. The *Safety* rank is derived from two measurements (weighted equally) found in the lower right hand corner of each page: a company's Financial Strength and a Stock's Price Stability. Financial Strength is a measure of the company's financial condition, and is reported on a scale of A++ (Highest) to C (Lowest). Larger companies with the strong balance sheets

get the higher scores. A Stock's Price Stability score is based on a ranking of the standard deviation (a measure of volatility) of weekly percent changes in the price of a stock over the last five years, and is reported on a scale of 100 (Highest) to 5 (Lowest) in increments of 5.

Technical

The *Technical* rank is primarily a predictor of short-term (three to six months) relative price change. It is based on a proprietary model which examines 10 short-term price trends for a particular stock over different periods in the past year. The *Technical* ranks also range from 1 (Highest) to 5 (Lowest). At any one time, approximately 100 stocks are ranked 1; 300 ranked 2; 1,000 ranked 3; 300 ranked 4; and 100 ranked 5.

Beta

This is a measure of volatility, as calculated by Value Line. While it is not a rank, we do consider it important. See the online *Glossary* for more detail.

STATISTICAL ARRAY

In the Statistical Array in the center of the report (where most of the numbers are), Value Line provides both historical data and financial projections. All projections are printed in *bold italics*.

Per-Share Basis

Sales per share is an important number. When earnings per share are depressed due to poor margins, a high level of sales per share can provide the potential for an earnings recovery. When sales per share decline along with earnings per share, it may indicate a more serious business problem.

"*Cash flow*" *per share*, as commonly used by analysts, is the sum of reported earnings plus depreciation less preferred dividends, calculated on a per-share basis. It is an indication of a company's internal cash-generating

© VALLE LINE PUBLISHING, INC.	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009/2010
SALES PER SH	9.60	9.71	12.17	17.26	14.31	15.36	22.11	33.26	--	--
CASH FLOW PER SH	.77	1.04	1.27	1.79	1.49	1.57	2.40	3.19	--	--
EARNINGS PER SH	.36	.62	.87	1.33	.99	1.05	1.53	2.18	2.68 ^{A,B}	3.12 ^{C,NA}
DIVS DECL'D PER SH	--	--	--	--	.20	.30	.40	.40	--	--
CAPL SPENDING PER SH	.30	.47	.89	1.37	.67	.46	1.96	3.30	--	--
BOOK VALUE PER SH	6.96	7.59	8.09	9.46	10.42	11.26	14.22	16.10	--	--
COMMON SHS OUTST'G (\$ MILL)	11.88	11.71	11.75	11.60	12.15	12.28	14.12	14.21	--	--
AVG ANNL P/E RATIO	41.8	23.3	16.4	12.5	20.8	22.6	17.0	15.2	7.0	6.0 ^{NA}
RELATIVE P/E RATIO	2.72	1.19	.90	.71	1.10	1.20	.92	.81	--	--
AVG ANNL DIVD YIELD	--	--	--	--	1.0%	1.3%	1.2%	1.2%	--	--
SALES (\$ MILL)	112.1	113.7	142.9	203.7	173.9	188.5	312.2	472.7	--	--
OPERATING MARGIN	9.6%	13.9%	13.7%	14.3%	13.7%	13.0%	13.4%	12.8%	--	--
DEPRECIATION (\$ MILL)	4.8	4.9	4.6	5.3	6.0	6.3	12.5	14.1	--	--
NET PROFIT (\$ MILL)	4.2	7.3	10.3	15.8	12.0	13.0	21.3	31.2	--	--
INCOME TAX RATE	37.5%	35.5%	34.0%	34.0%	34.2%	32.0%	29.9%	33.5%	--	--
NET PROFIT MARGIN	3.7%	6.4%	7.2%	7.8%	6.9%	6.9%	6.8%	6.6%	--	--
WORKING CAPL (\$ MILL)	37.2	46.6	52.3	60.7	75.2	87.1	54.6	57.4	--	--
LONG-TERM DEBT (\$ MILL)	--	--	--	--	--	--	--	--	--	--
SHR EQUITY (\$ MILL)	81.3	88.9	95.0	111.6	126.6	138.3	250.8	228.9	--	--
RETURN ON TOTAL CAPL	5.2%	8.2%	10.9%	14.2%	9.5%	9.4%	10.6%	13.6%	--	--
RETURN ON SHR EQUITY	5.2%	8.2%	10.9%	14.2%	9.5%	9.4%	10.6%	13.6%	--	--
RETAINED TO COM EQ	5.2%	8.2%	10.9%	14.2%	7.6%	6.7%	8.5%	11.1%	--	--
ALL DIVS TO NET PROF	--	--	--	--	20%	28%	20%	18%	--	--

Sample Statistical Array

ability—the amount of cash it earns to expand or replace plant and equipment, to provide working capital and to pay dividends.

Earnings per share are displayed by Value Line as they were reported to stockholders, *excluding nonrecurring items* and adjusted for any subsequent stock splits or stock dividends.

Dividends declared per share are usually highest, relative to earnings, at mature companies. Managements of growth-oriented companies more often than not prefer to pay just token dividends, or none at all, so they can reinvest earnings in the business.

Capital spending per share is a measure of how much a company is investing in new plant and equipment in anticipation of future growth. Over the long pull, steady capital investment is necessary to support sales growth.

Book value per share is theoretically what the investor owns of the company. It includes both tangible assets such as plant and receivables and inventories as well as intangibles, like the value of patents or brand names, known as goodwill. If all assets could be sold at the value stated on the company's books and all liabilities and long-term debt paid and all (if any) preferred stockholders compensated, the book value is what would be left for the stockholders.

The number of *common shares outstanding* is also listed in the statistical array. Sometimes net income rises, but per-share profits do not, because the number of shares has increased. The reasons for this increase may be the issuance of stock to pay for acquisitions or to fund internal growth. Some cash-rich companies may buy back their own shares. This can result in their per-share earnings rising even when net income remains the same.

The *average annual P/E ratio* shows what multiple of earnings investors have paid for a stock in the past.

The *relative P/E ratio* shows how the stock's price-earnings ratio relates to the market as a whole.

The *average annual dividend yield* is of special interest to conservative investors. For many mature companies, the dividend is the primary determinant of the stock price. However, younger growth companies cannot—and presumably *should* not—pay dividends when their capital spending is rapidly growing. Many of the newer companies in the *Small and Mid-Cap Edition* will not pay a cash dividend for the foreseeable future.

Company Basis

Depreciation is the amount by which the company's depreciable assets are written down each year. This should grow at a rate about equal to the rate of growth of sales, indicating that the company has steadily built up capacity to match its business needs. Please note that depreciation is a noncash charge against earnings.

Net profit is the amount the company earned in the year for all its stockholders, preferred and common (excluding nonrecurring gains and losses and the results of discontinued operations). Usually the higher the net, the higher the per-share earnings. Sometimes a company that makes acquisitions will dilute its share earnings by issuing stock for a company whose P/E is higher than that of the acquiring company's stock. In such a case, net income increases, but share earnings do not.

The *income tax rate* will trend higher or lower, indicating varying levels of investment tax credits and also because of tax reform.

Net profit margin should be compared with the operating margin. Usually the two series move together, though not always. Depreciation charges, interest expense, income taxes and other costs are deducted from (and other income added to) operating income in the determination of net profit. When there is a disparity in the trends of the net and operating margins, it may be worth taking a second look.

Working capital (the company's current assets less current liabilities) indicates the liquid assets available for running the business on a day-to-day basis. The higher a

company's sales, the more working capital it typically needs.

Shareholders' equity, also known as net worth, is the total stockholders' interest (preferred and common) in the company after all liabilities have been deducted from the company's total assets. All intangible assets such as goodwill, patents and, sometimes, deferred charges are included in net worth.

Return on total capital measures a company's return on its stockholders' equity and long-term debt obligations. When a company's return on total capital goes up, there should be a greater increase in the return on shareholders' equity. If not, it simply means that the company is borrowing more but is failing to earn more for the stockholders on their equity in the company's assets. Unless a company can earn more than the interest cost of its debt, the borrowing to expand is not worthwhile.

Percent earned on shareholders' equity reveals how much is being earned every year for the stockholders (common and preferred). The higher the figure, the better.

Percent retained to common equity, also known as the "plowback ratio," is net income less all dividends (common and preferred), divided by common stockholders' equity (net worth less the liquidating value of the preferred stock outstanding) and is expressed as a percentage. It is a measure of the extent to which a company is reinvesting in itself in anticipation of future growth. A growing company is expected to retain a greater proportion of income relative to its equity than a mature one. A high plowback ratio and rapidly growing book value are considered positive investment characteristics.

ANNUAL RATES OF CHANGE

At this point, it may be helpful to look at the *Annual Rates* box in the left-hand column. This box shows the compound annual per share growth percentages for sales, "cash flow," earnings, dividends and book value for the past 1 and 5 years.

Trends are important here. Check whether the one-year growth has been increasing or slowing compared with the five-year growth.

CALCULATING ANNUAL RATES OF CHANGE (GROWTH RATES)

In an attempt to eliminate short-term fluctuations that may distort results, Value Line uses a three-year base period and a three-year ending period when calculating the five-year growth rates. Investors often try to calculate a growth rate from one starting year to one ending year, and then can't understand why the number they get is not the same as the one published by Value Line. If they used a three-year base period and three-year ending period, they would get the same results we do.

ANNUAL RATES		
<i>of change (per share)</i>	5 Yrs.	1 Yr.
Sales	17.5%	50.5%
"Cash Flow"	18.5%	33.0%
Earnings	21.0%	42.5%
Dividends	--	33.5%
Book Value	13.0%	13.0%

Sample Annual Rates Box

CHAPTER

5

ANSWERS TO FREQUENTLY ASKED QUESTIONS

Long-term subscribers to The Value Line Investment Survey®—Small and Mid-Cap Edition are often well aware of the basic tenets of investing and the many ways information can be used in The Value Line Investment Survey®—Small and Mid-Cap Edition. However, they and many newer readers often have questions about material in the publication. Below are answers to those questions we receive most frequently.

PERFORMANCE RANKS

How do you determine the *Performance* rank, and what makes it change?

Value Line's *Performance Ranking System* ranks the approximately 1,800 stocks in our universe for relative price performance in the coming six to 12 months. At any one time, 100 stocks are ranked 1; 300 are ranked 2; approximately 1,000 are ranked 3; 300 are ranked 4; and 100 are ranked 5. In simple terms, *Performance* ranks [which go from 1 (Highest) to 5 (Lowest)] are determined by a company's earnings growth and its stock's price

performance over a 10-year period. A rank may change under three circumstances. The first is the release of a company's earnings report. A company that reports earnings that are good relative to those of other companies and good relative to the numbers we had expected may have its stock move up in rank, while a company reporting poor earnings could see its stock's rank drop.

A change in the price of a stock can also cause a stock's rank to change. A change in price carries less weight than a change in earnings, but it is still an important determinant. Generally speaking, strong relative price performance is a plus, while negative relative price performance (relative to all other approximately 1,800 stocks) is a minus.

And finally, there is the "Dynamism of the Ranking System." This phrase means that a stock's rank can change even if a company's earnings and stock price remain the same. That's because a fixed number of stocks are always ranked 1, 2, etc. Every time one stock's *Performance* rank moves up or down, another's must also change. As an example, let's suppose one company reports unusually good earnings, causing its stock's *Performance* rank to rise from 2 to 1. Since there can be only 100 stocks ranked 1, some other stock must fall to a rank of 2, even though there may have been no change in its earnings or price.

I think that *Value Line* should change a certain stock's rank. Will you do it?

We appreciate your interest, but our *Performance* ranks are generated by computer-driven criteria and

PERFORMANCE	2	<i>Above Average</i>
Technical	2	<i>Above Average</i>
SAFETY	4	<i>Below Average</i>
BETA 1.20	(1.00 = Market)	

Sample Ranks Box

historical data, modified for special situations by our senior statisticians. Value Line methodology keeps our System objective and unbiased, because the same criteria apply to all stocks.

Would you tell me the formula you use to calculate ranks?

The details of the formula are proprietary. The components of the *Performance Ranking System*, as mentioned earlier, include the long-term trend of earnings and stock prices, recent company earnings and stock price performance, and a proprietary technical factor. We cannot be more specific than that.

Why do some stocks not have a *Performance* rank?

Our computer-generated *Performance* ranks require at least two years of income statement and stock price history. If a stock has been trading for less than two years, possibly because a company is relatively new or because there was a major spinoff or acquisition, we are unable to assign a rank to it. We also suspend *Performance* rank for unusual developments such as a merger offer or a bankruptcy filing.

TECHNICAL RANK

What exactly is the Technical rank?

The Technical rank uses a stock's price performance over the past year to attempt to predict short-term (three to six month) future returns. The stocks in our approximately 1,800-company universe are ranked in relation to all others on a scale of 1 (Highest) to 5 (Lowest). There are no other factors incorporated into the model. While our Technical rank does contribute to investment decisions, we would like to stress that our primary investment advice is based on our successful time-proven *Performance Ranking System*. The Technical rank is best used as a secondary investment criterion.

EARNINGS

Why does *Value Line* sometimes show different share earnings than those in a company's annual report, or in *The Wall Street Journal*, or in a brokerage house report?

We each calculate earnings differently. In particular, Value Line typically excludes what we consider to be

unusual or one-time gains or charges in order to show what we consider to be "normal" earnings.

Company earnings often contain one-time nonrecurring or unusual items, such as expenses related to the early retirement of debt, a change in accounting principles, restructuring charges, or a gain or loss on the sale of assets. In order to make a reasonable comparison of core operating results from one year to the next—or from one company to another—it is often necessary to exclude these items from reported earnings. Some items are relatively easy to take out because they are explicitly shown in the company's income statement and footnotes. Others, however, must be estimated by our analysts.

OPERATING MARGIN

What is an operating margin?

The operating margin shows operating income (earnings before the deduction of depreciation, amortization, interest, and income taxes) as a percentage of sales or revenues. Operating income is sometimes referred to as EBITDA.

PRICE/EARNINGS RATIO

Why does the Value Line price/earnings ratio often differ from that in *The Wall Street Journal* or brokerage reports?

All price/earnings ratios are calculated by dividing the recent stock price by 12 months of earnings. The different ratios occur because we may use different 12-month earnings figures. Newspapers use 12-month trailing (as reported by the company) earnings. Value Line uses 12-month trailing earnings adjusted for one-time non-recurring or unusual items. Your broker is likely to use a calendar year's earnings. While we think our method is best, none is wrong. Just be sure that when you are comparing two companies' P/E ratios, you are using the same methods.

ABBREVIATIONS

I have trouble understanding some of your abbreviations. Can you help me?

Yes. Most of the frequently used abbreviations are included in the online Glossary which is available at www.valueline.com.

SELECTION & OPINION MODEL PORTFOLIOS

How are stocks chosen for the Model Portfolio in *Selection & Opinion*?

This portfolio is primarily suitable for more aggressive investors. Most stocks selected for this portfolio are Rank 1 stocks chosen from the Highest Ranked Stocks in Highest Ranked Industries table. We also choose some Rank 1 stocks not from that table. To guard against near-term underperformance, the portfolio cannot hold a stock that is ranked below 3 (Average) for *Performance*. *Performance* ranks range from 1 (Highest) to 5 (Lowest).

We attempt to diversify the holdings as much as possible, but note that the *Performance Ranking System* tends to favor high earnings growth and more volatile issues that may cluster in a few industries.

How have the Model Portfolios done?

We have generally outperformed the Russell 2,000 Index since we started the portfolio in 2001.

FINANCIAL STRENGTH

What goes into the Financial Strength rating for each individual company?

Our Financial Strength ratings take into account a lot of the same information used by the major credit rating agencies. Our analysis focuses on net income, cash flow, the amount of debt outstanding, and the outlook for profits, and the stability of the industry and the individual company returns. Other factors also enter into

Financial Strength	B++	:
Price Stability	35	:
Price Growth Persistence	80	:
Earnings Predictability	60	:

Sample Financial Strength/Price/Earnings Indices

the equation. For example, a company that faces the loss of patent protection on a key product might face a

downgrade. The ratings range from A++ (Highest) to C (Lowest), in nine steps, based on the judgment of our senior staff members.

STOCK DECLINES

I bought a stock based on your advice, but it went down. What happened?

As you undoubtedly know, our *Performance Ranking System* has worked extremely well over time. Not all stocks do as we forecast, though, and we have never suggested that they will. What we have strongly recommended is that you diversify your portfolio by purchasing at least six stocks in at least six or more industries. That way, you will protect yourself from unexpected changes in the price of any one stock or any one industry. Also keep in mind that the *Value Line Ranking System* is relative. In declining markets, group 1 and 2 stocks have historically declined less than the general market. On the other hand, stocks ranked 1 and 2 have outperformed the market during periods when stock prices were rising.

SPEAKING TO ANALYSTS

I would like to speak to the Analyst who wrote a report.

Unfortunately, this isn't practical. Our staff of analysts has been hired and trained to analyze stocks and write commentaries for *The Value Line Investment Survey*®—*Small and Mid-Cap Edition* and, to be fair to all subscribers, they do not have time to provide personalized advice or information.

PRETAX INCOME

Where can I find pretax income on a Value Line page?

You can't. We do, however, show net profit after taxes (usually line 14 in the Statistical Array) and the effective tax rate (usually line 15). You can calculate pretax income by dividing net profit by: 1 minus the tax rate. Example: If net profit was \$100 million and the tax rate was 36%, pretax profit would be \$156.25 million.

$$\frac{\$100,000,000}{1.00 - .36} = \$156,250,000$$

ERRORS IN REPORTS

What should I do if I find an error in a report?

If you think you have found an error in any of our publications, we would very much like to hear from you so that we can correct the mistake. Please write or call us. If you call, let the operator know that you want to report an apparent error, and he/she will connect you with an administrative assistant in the Research Department. Please address your written comments to the office of the Research Director, or e-mail us at VLIS@valueline.com.

If you believe you have found an error in an historical price or per-share data item, please read on:

We actually receive very few complaints about our data. Most of those that we do get relate to historical prices and per-share data, and the fact is that our stock prices, earnings, and other data are usually correct. When there appears to be a difference in stock prices or earnings per share, it is usually because of a stock split or a stock dividend. Value Line (and everyone else) retroactively adjusts historical stock prices and share data for stock splits and dividends. Splits and dividends of 10% or more are shown in the *Legends* box in the upper left hand corner of the price chart.

INTERNET (WEB) SITE

Does Value Line have a Web site?

Yes, we do, and access to the site is available to all *Investment Survey*[®] print subscribers at no extra cost. Our address is www.valueline.com. The Web site includes useful features for today's informed investor.

The Web site is designed to help keep you informed about the stock market and the stocks you are interested in. There is a section where you can get recent stock prices and news on companies, and another where you can set up your own portfolios. Three times each day we provide written commentary from our Chief Economist, senior analysts, and senior portfolio managers. Each afternoon we provide the latest analysis from our securities analysts about selective stocks in the news that day. We also archive all issues of *The Value Line Investment Survey*[®]—*Small and Mid-Cap Edition* published in the past three months.

To access some of this data, you must be a subscriber.

To enter the “subscriber-only” section, you must enter your user code (your subscriber number on the label of your weekly envelopes) and password.

COMPANY COVERAGE

Does a company pay to be included in *The Value Line Investment Survey*[®]—*Small and Mid-Cap Edition*?

No. Value Line is not compensated by the companies under our review. This allows us to be totally objective when we analyze companies in the *Small and Mid-Cap Edition*.

Does the roster of stocks covered by *Value Line* change?

Yes. Vacancies constantly occur within our approximately 1,800 stock universe. Sometimes a company's earnings will deteriorate to such a degree that we believe investors have lost interest. If that happens, we will discontinue coverage. More frequently, companies leave our universe when they are acquired by or merged with another firm. Acquired or merged companies will be replaced by others. In choosing replacements, we try to select actively traded stocks with broad investor interest.

Why isn't ABC, Inc., a well-known small-cap company, included?

We do try to include companies with actively traded stocks, which have broad public interest. If ABC fits in this category, we will, in all likelihood, provide coverage in the future.

GROWTH RATES

How are the growth rates calculated in the Annual Rates of Change box?

We use a compound annual rate that reflects the annual change for various items over the entire period being computed. All rates of change are computed from the average figure for a past 3-year period to an average for a future 3-year period.

TIMELINESS OF INFORMATION

When can I expect to receive updates of your information?

Our intention is for every subscriber to receive *The*

Value Line Investment Survey®—*Small and Mid-Cap Edition* in print on Friday. Unfortunately, however, there are occasionally circumstances beyond our control that may cause later delivery.

To guarantee timely dissemination of our information, we now make all the information in the *Small and Mid-Cap Edition* available on the Value Line Web site at 8:00 A.M. Eastern time each Monday. (Other arrangements are made for days when the stock market is closed on Monday.) All subscribers to any version of *The Investment Survey* (print, CD, or Internet) have access to the latest data.

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